Why we are better off Remaining In the European Union


What the EU has achieved, and could achieve

Amidst all the doom and gloom about the European Union from Brexiteers, I’d like to remind the audience of what it is that we are deciding in this historic vote.

Over the 60 years of its existence, the EU has been an incredible success in getting 28 nations who spent most of the previous millennia beating holy crap out of each other to live together in peace, democracy and freedom.

We so easily forget, but in the 1980s the EU brought in Southern European countries who had been under military dictatorships in the 1970s. And in the 2000s we brought in nations who had suffered under the heel of communist autocracy for half a century.

The prospect of joining the EU and the reality of being a member of it, has helped cement in the rule of law and liberal democracy in our troubled continent.

At the heart of this project is the economic prosperity built on the largest Single Market on planet earth composed of half a billion people.

The Single Market is much more than a Free Trade area. Yes, there is complete removal of all tariffs barriers which is great for trade. And yes, the free movement of labour is particularly important for services. But another key part of the Single Market is common sets of rules so we can export and import under one set of regulations instead of 28 sets of them.

This can be annoying as we’d prefer if everyone had the same regulations as us. But being in a club means playing by the same rules so we can get access to other members’ markets as easily as they can to ours.

The Single Market has helped the prosperity of the bloc. GDP per person grew fast in the EU-15 in the 35 years since the UK joined in 1973 (See Table 1) by a healthy 2.3% a year. This is a much better performance than the US, which is frequently held up as a favourable model by the Brexite camp. The US grew at only 1.9% per annum over the same period.

All countries have struggled since the global crisis struck in 2008. A primary cause was the poorly regulated financial system in America and the UK. The Eurozone crisis exacerbated this causing a larger hit to EU growth than other rich blocks. But it isn’t true to say the UK performed spectacularly well after the crisis. We had an 8 to 10% fall in real wages in the six years following the crisis. This is closely tied to the fat that British productivity growth since 2008 has been worse than France, Germany’s and the US – we have now 30% less GDP per hour than our three main peers.
OK, you might say, that’s in the past. We all know that the EU is doomed in the future and we need to Brexit in order to avoid being “shackled to an economic corpse” in their oft repeated phrase.

Well, that’s certainly not the view of forecasters (see Tale 2). In the absence of a Brexit the forecasts of GDP per capita growth over the next decade for Europe are actually slightly higher than for the US – and a lot higher than for the other major mature economy of Japan.

The Single Market is a work in progress and needs deepening above all in services. This is happening – for example in energy, in digital and finance. But it must happen more quickly. Britain has always been in the vanguard of reforms to deepen the Single Market and we must continue to lead this noble agenda.

The new reality of the EU is one of “variable geometry”. Some Eurozone nations rightly want greater political integration. Alongside another 9 EU members outside the Eurozone do not. We might go further in co-operation in other areas, such as defence, for example. This is a healthy state of affairs ad a viable approach to “ever closer” political union.

**The Economic Impact of Brexit**

The alternative to this engaged, brave, outward facing European Britain, fighting for deepening the Single Market is Brexit. What would this be like?

The economics of Brexit are pretty simple really. It is going to make us poorer than if we remain and the only real question is how much poorer?

The main benefit of leaving is that we save our entry fee to the Single Market. Andy Bagnall has already dealt with Leave’s lies over the zombie statistic of the “£350m sent to Brussels each week.” The true number is half of this - about a third of a penny of national income.

If we leave we get an immediate spike in uncertainty and financial turmoil. Even Gerard and Andrew admit this will be highly damaging.

But the truth is that the long-term effects will be even worse. Leaving means increasing trade costs with the EU as sure as night follows day. Higher trade costs means less trade and less foreign investment. And less trade and investment will make us poorer.

Countless empirical studies looking the EU and Single Market have shown a major positive effect on trade.
How much poorer?

Well one option is to join the European Economic Area like Norway. This is the least bad option from an economic point of view. We will have some increase in trade costs, and like Norway we will still have to pay into the EU and implement the rules of the Single Market, except perhaps in areas that are pretty small beer like Fisheries. So we Pay and Obey with No Say. So this is less democracy, not more.

It is possible that if enough economic and political turmoil engulfs us after a Brexit vote, we’ll stay in this purgatory for a long time. But Norway and even Switzerland (which has scores of bilateral deals with the EU) have to allow all EU immigration. So given this is the main issue in the referendum it is likely at some point we will crash out and have to trade under World Trade Organization rules.

This will mean more substantial increases in trade costs from tariff and non-tariff barriers.

Maybe we’ll strike some kind of deal with the EU that limits the damage, along the lines of the EU-Canada deal if we’re lucky. Still no access for services and increasingly high non-tariff barriers.

Our work at the Centre for Economic Performance estimates the overall hit will be around 6% to 9% of GDP per person. This hurts those on middle incomes the hardest, though no income or demographic group is spared. The Treasury come in at about a 6% loss with more cautious assumptions.

What could mitigate the economic poison of Brexit? The bonfire of regulations promised by Leave won’t heat a warm cup of tea. The identified savings are around 0.9% of GDP and far less than the cost of lost trade. And I don’t see huge appetite by the British people to abolish the job protection and environmental rules that the free market Brexiteers want. And even where they to do so, the UK already has one of the most lightly regulated labour markets in the developed world according to the OECD, so scrapping more workers rights would not do much to the economic pie.

Andrew Lillico tried to put a brave face on this. He argues gamely for some small long-term benefits but admits that these are more than swamped by the short term costs.

He’s prepared to pay these costs because he dislikes the EU for political reasons. I respect this position – a grand or so a year may be enough to pay if you dislike EU migrants enough. But when the bill goes up to £4,000 or more? Most people are really going to think twice.
What I find hard to treat seriously are economists who claim – with no evidence – that we’d be a lot better off after leaving.

There will be no miraculous deal with EU. Boris can swagger over to Brussels with Chancellor Lyons and demand he gets tariff free access without paying a penny, adopting any regulations at home and banning as many EU migrants as he likes.

He won’t get it. Why should France give a better deal to a Brexited UK than it gives to Germany?

Since half of our trade is with Europe when less than 10% of their trade is with us, we need them more a lot more than they need us. Rationally, the EU be tough with us to discourage others leaving. And this assumes everyone is nice and rational which rarely happens in messy divorces.

With non-EU countries, the question is whether we will get better trade deals in the future than we get currently get through the deals the EU the ones it’s negotiating with Canada, the US and Japan. Sure, we can probably get a deal a bit quicker because we don’t have to compromise with fellow Europeans. But we are under a fifth of the size of the SM. We will get much worse deal. It’s like trying to get a date when the other guy is 5 times more attractive. You might get the date, but chances are you’re going home alone.

We have to remember there is nothing stopping us trying a lot harder to trade with the growing markets of the world. The Germans certainly do it well. But to do so we need to tackle policy problems that are born in Britain, not imported from Brussels. We need to improve our dismal productivity by increasing skills. We need to get our creaking transport infrastructure in shape so we can fly to these growing areas and export services where we have comparative advantage. The blame is not with immigrants and the EU. We need to start tackling our real problems, right here, and right now at home.

The Leave Campaign’s relentless negative focus on immigrants appals me. The evidence is overwhelming that free movement has benefited real wages by allowing the development of the Single Market. But it is also important that immigrants have helped improve our public services since they pay more in tax than they take out in benefits, where the British born do the opposite, And I hope we have time to also discuss the demolition of the untruths we’re constantly told about their negative impact on jobs and wages.

**The Big Danger**

To sum up, even under cautious assumptions the long-run impact will likely be to depress middle income households by at least 6%.
There is no credible way to neutralise this economic poison.

My biggest fear is more political. By detonating an economic device in the heart of Europe, Brexit could lead to the fragmentation of the Single Market. Many Leavers want to use Brexit explicitly as a tool to destroy the EU, which has as I argued been a great force for peace and prosperity.

I still see the unravelling if the Single Market as very unlikely after a UK Leave. But certainly more of a possibility than the fantasyland economics of the happy fools who think the UK will be better off after Brexit than Remain.

Table 1 - Average Annual Growth in GDP per capita

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<tr>
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<td>2.0%</td>
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<td>1.5%</td>
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<tr>
<td>EU14*</td>
<td>2.3%</td>
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<td>0.0%</td>
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<tr>
<td>Japan</td>
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<td>1.0%</td>
<td>0.4%</td>
<td>0.8%</td>
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<tr>
<td>United States</td>
<td>1.9%</td>
<td>1.9%</td>
<td>0.4%</td>
<td>1.4%</td>
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Source: OECD; EU14: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden.

Table 2 - GDP Growth Rates (Percent Change)

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Sources: The Conference Board Global Economic Outlook 2016 and The Conference Board Total Economy Database™, May 2016 update. Europe includes all 28 members of the European Union, as well as Iceland, Switzerland and Norway.