



Britain and EU Membership: to be or not to be?

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The recent global financial crisis has had profound implications for many countries, not least those in the EU. The crisis has stirred-up economic, political and social tensions across Europe, particularly in relation to sovereign debt risk, mobility of labour, political alignments, etc.

Consequently, many people in the UK are demanding that changes to the EU treaties must be made to deal with such tensions. Others go even further and view the EU as an unnecessary burden on the UK. But is this really the case?

The Prime Minister, David Cameron, has promised that British citizens will have the right to decide on the UK's EU membership on the basis of a referendum, to be held on 23 June 2016. This has generated heated debate across the political spectrum and media. This article provides a platform for a more informed debate about the costs and benefits of EU membership and to help voters address the question: **should we stay or should we go?**

The Referendum Question

There has been unease even about the precise wording of the referendum question. Words can be manipulated and can all too easily be used to influence voters. Look what happened, for example, with the referendum held in 2015 when the Greek people were asked whether or not they were willing to accept the austerity reforms imposed on them by the EU – to which the majority firmly voted 'No'. It has been speculated that if the question had been about whether or not Greece should stay in the EU, the majority would probably have voted affirmatively.

In the case of the UK-EU referendum, the Electoral Commission has recommended that the question is: "Should the UK remain a member of the European Union or leave the European Union?". This wording provides a stark contrast between staying or leaving.

How would you vote?

FIXIT – stay in and "fix" the EU and negotiate reforms;

BREXIT – leave the EU altogether and go it alone!



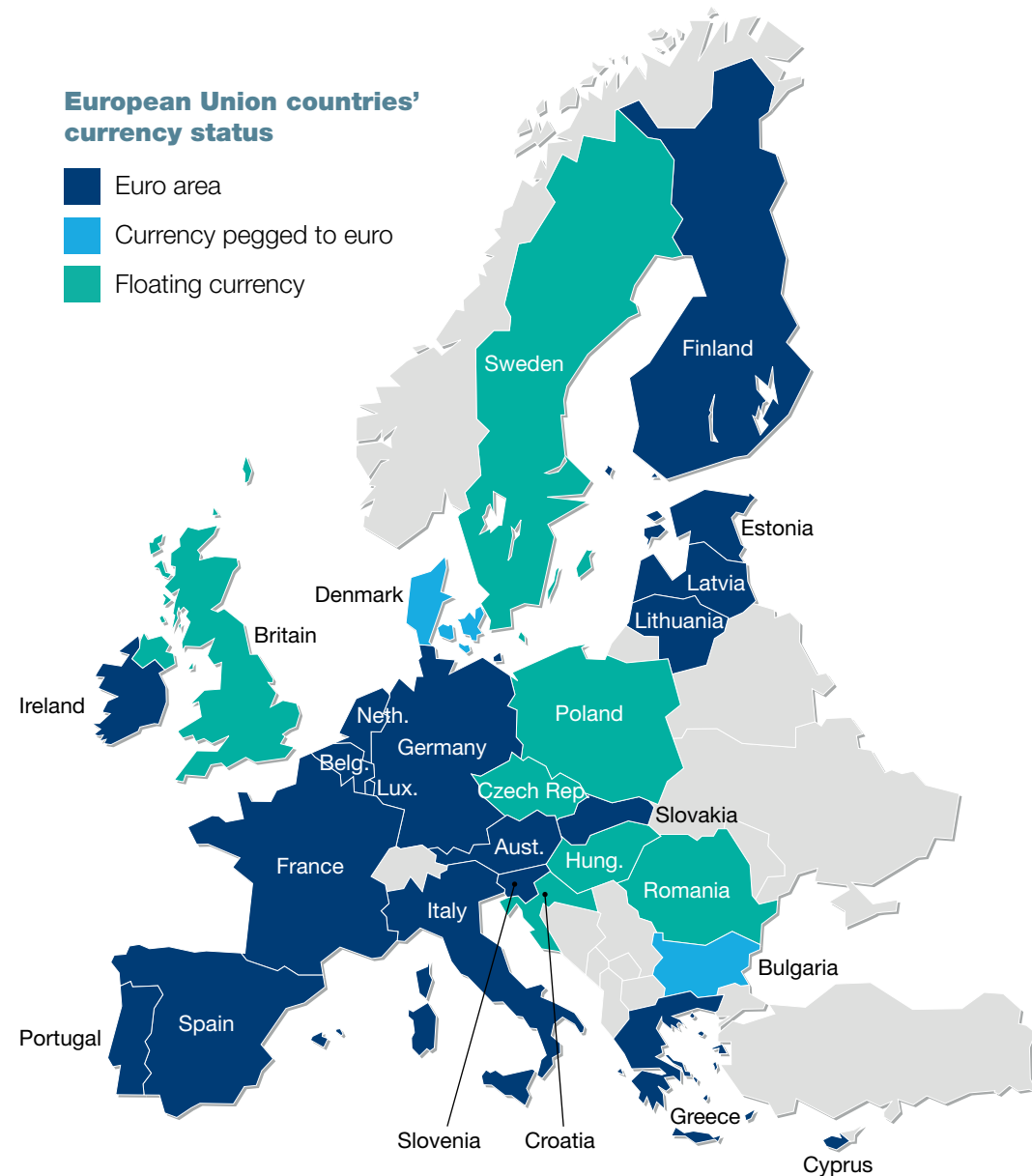
The EU: its members and currency status

Having previously applied twice for membership to the then so-called European Economic Community (EEC), the UK finally joined 1973, under a Conservative government. Denmark and Ireland joined at the same time. It was only two years later that under a Labour government, a referendum was held on whether or not the UK should leave the EEC (more than 67% of the electorate voted 'Yes' to stay in).

After successive phases of enlargement of the EU, the Union currently has 28 members, covering a population of more than half a billion people. Currently, 19 members share the same currency – the euro. Two members – Denmark and Bulgaria - have pegged their currencies to the euro. The remaining seven EU members continue to use their own floating currencies - sterling is one of them.

European Union countries' currency status

- Euro area
- Currency pegged to euro
- Floating currency



So what are the key questions confronting voters in the future referendum?

Better off: In or Out?

At the outset, it is important to appreciate that there are many conflicting views concerning this historically important question. No member country has yet left the EU and hence there is no indisputable empirical evidence upon which to base arguments. Voters will have to form their personal views regarding the implications of leaving the EU in relation to a number of critical dimensions.

So, what are the positive and negative implications for the UK of staying in or leaving the EU with respect to:

- The long-term impact on economic growth and prosperity?
- Employment prospects?
- International trade and investment?
- Tax policies and tax burdens?
- The free flow of goods, services, people and capital within the Single European Market?
- The future of Britain's legal systems, democratic institutions and law-making processes?

If the UK votes to leave the EU, it remains to be seen whether this can happen in an "amicable" way and what the nature of any new relationship with the remaining EU members will be. And of course the outcome of the referendum may well have far-reaching implications for the future unity of the countries that make up the UK – will there still be a United Kingdom if voters opt out of the EU?

What have the Europeans ever done for us?

The EU is by far the UK's largest trading partner, accounting for 45% all exports and 53% of imports of goods and services. Over £4 billion worth of exports are sold by Britain to the other EU countries each week. Based on official statistics, the USA and the rest of the world each account for roughly 27% of the value of exports and imports. It is also estimated that between 3 and 3.5 million jobs in the UK are related to our trade with the EU – of course many of these jobs may not be affected if we leave, since trade will continue in some form.

The EU is a major source of inward UK investment, accounting for half the stock of foreign direct investment. An exit from the EU will undoubtedly have implications for these investment flows, although it is impossible to ascertain whether or not there will be a net increase or decrease in values.

What would life look like outside the EU?

There is no clarity as yet about Britain's position in the international arena if it should leave the EU. It is speculated that Britain is likely to adopt one the following four stances:

The Norwegian model

Britain as a member of the European Economic Area (EEA), with access to the Single European Market, subject to the single market legislation, but free from many but not all EU rules (Norway, for example, is free of rules governing agriculture, fisheries, fiscal and monetary policies, etc)



The Swiss model

Britain as an independent country and member of the European Free Trade Area (EFTA) with access to the Single Market but not bound by its legislation and free to negotiate new trade treaties on a sector-by-sector basis with the EU



The Turkish model

Britain as a tariff-free partner with the EU in goods, with a common external tariff (a Customs Union) but not part of the Single Market in services; not part of EU global trade relationships and without the need to apply all EU laws



A Unilateral Approach

Britain "goes it alone" as an independent country, trading with the rest of the world on the basis of its membership of the World Trade Organisation and any other bilateral arrangements negotiated with others



Arguments for staying in the EU

The supporters of continued EU membership highlight the following points:

- There is a danger that some multinationals could reconsider their investment strategies into Britain in the case of Brexit
- If the UK votes to leave the EU and adopt one of the models noted above, it may still have to accept many EU rules concerning international trade and some financial costs (as in the case of Norway) – but without having any say in EU policies
- Departure from the EU will increase Britain's exposure to global competition, particularly from many of the new emerging low-cost economies
- British businesses would have to bear the burden of adjustment to many new laws after exit
- Britain could face a skills shortage if there are restrictions on the free movement of labour within the EU.

What do business leaders who support Brexit think?

"Waste will go up. Non-value added will go up. If it takes one extra form to be filled in, or one day's delay, that is something our customers will not pay for... We will be less competitive... If after an exit from the EU, economic conditions in Britain were less favourable for business than in other parts of Europe, or beyond – would Airbus reconsider future investment in the UK? Yes absolutely."

Paul Khan, Head of Airbus UK

"If anything has to change, we [would] need to reconsider our strategy and our investments for the future."

Carlos Ghosn, Chief Executive of Nissan

"Britain is a very good place to do business... It is good for the British economy to be a member. It is very important."

Kaoru Yano, Chairman of NEC



Arguments for leaving the EU

Those who support the exit option tend to stress particular benefits:

- Freedom to negotiate new trade deals with the EU and other countries in the world, including emerging markets, such as China, India, etc
- Freedom from many of the EU's rules and regulations, which are regarded by many observers as unnecessarily complex and expensive
- Reduction in contributions to the EU budget
- Reduction in food prices and freedom from costs associated with the Common Agricultural Policy
- Greater control over fiscal policy, in particular VAT
- Freedom from EU rules governing labour markets, competition and environmental policies.

What do business leaders who support Brexit think?

"There has been far too much scaremongering about things like jobs. I don't think it's in anyone's interest to stop trade. I don't think we or Brussels will put up trade barriers"

Graeme MacDonald, Chief Executive of JCB

"We are now the fifth biggest economy in the world. Our economy is booming because of the British people and what they are doing despite of the EU... If we were not in the EU I think we could do an awful lot more."

Alan Halsall, Entrepreneur

"Whatever jobs are linked to trade with Europe are linked with trade to Europe, not with the EU. It is perfectly feasible, in fact, perfectly likely that the UK will be able to enter into a very good trade agreement with the EU."

Carl Chambers, Chairman of CNG Ltd

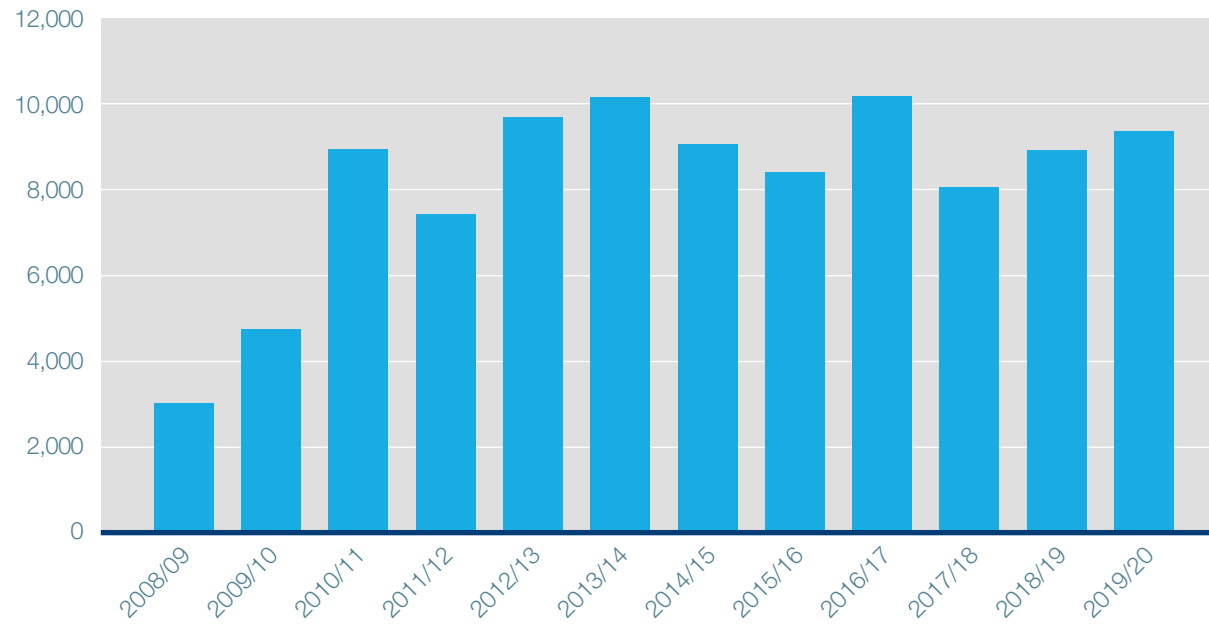


Regardless of the outcome of the referendum, it must be in the long-term interests of the UK for the EU itself to succeed.

Supporters of EU membership point out that that the net UK contribution to the EU budget will be between £8bn and £10bn per year over the next five year.

This represents less than 0.5% of the UK's GDP (currently, about £1.8 trillion in the last financial year).

Net UK contributions to EU budget - 2008/09 to 2019/20 (in £m)



Source: Statista (2016)

Forecasted Values

Evaluating the arguments for and against EU membership is fraught with difficulties. For example, while many jobs are indeed related to UK exports to the EU, trade will still take place even in the event of a Brexit. In addition, while Brexit will create an opportunity to reform the UK economy in a different way to fit the 21st century, there will still be a need for laws to govern business and society – many commentators are of the view that the majority of laws and regulations would in fact remain the same. In some respects, the UK government already adopts rules that are even more stringent than those imposed by the EU (for example, concerning environmental protection).

Regardless of the outcome of the referendum, it must be in the long-term interests of the UK for the EU itself to succeed. The extent of the UK's dependency on other countries – especially the other 27 members of the EU – dictates that the UK does not have the luxury to behave as an island economy in the context of a rapidly changing and volatile global

environment. The Global Financial Crisis has taught us this harsh lesson.

The Fixit vs Brexit debate should be welcomed by all members of the EU because it is now inevitable that there will have to be reforms of the EU as a consequence. There can be no return to the status quo, particularly given the migration and financial crises that have exploded in recent times. The flow of people both into and within the EU has brought to the surface many long-standing political and social tensions.

Summarily, migration has four key long-term effects on:

- the labour market, via an increase in labour supply resulting in downward pressure on wages;
- government finances, as inward migration puts pressure on public sector spending with the possibility of increased tax revenues stemming from a growing workforce;

- the demand-side of the economy, since an increase in population size is likely to cause a rise in demand for public sector services with implications for house prices and rents;
- the supply-side of the economy because an increase in human capital can be expected to stimulate new ideas and products, new businesses and generally knowledge spillovers.

At the same time, the sovereign debt crisis faced by some EU members has strained relationships to breaking point in terms of who should carry the burden of repayment and reforms that are required to avoid a repeat of the crisis.

Given the difficulty of quantifying the costs and benefits of Fixit vs Brexit and the wide range of estimates, guesses and opinions that are bandied about, emotions on the day of the referendum are likely to decide the outcome! It is hoped that the analysis presented here will help to shed some light on this critical debate. **MF**