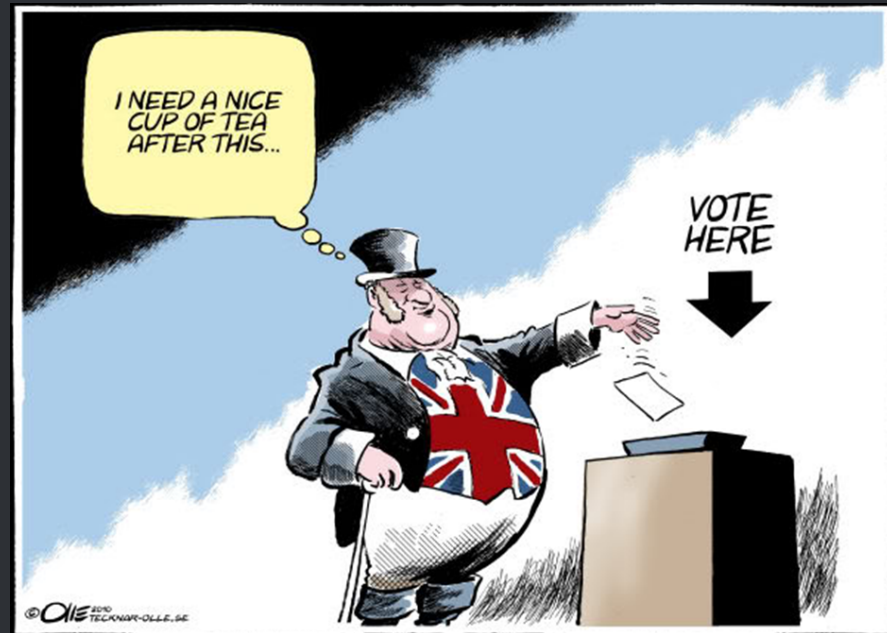


The economic Impact of EU membership on the UK

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Economic Impact of EU membership on UK?

Costs and benefits of EU membership

Trade & Investment → Jobs

Regulation

Immigration

Fiscal consequences – the EU budget

Case Study: UK Auto Industry

Sources

- ▶ *UK in a Changing Europe* website
- ▶ House of Commons Library Reports
- ▶ Various research reports
- ▶ BBC News and ITV News
- ▶ SMMT
- ▶ OECD, IMF, NIESR, IFS, Treasury Report...

1 Costs and benefits of EU membership

- ▶ *Remain:* “The CBI says that all the trade, investment, jobs and lower prices that come from our economic partnership with Europe is worth £3000 per year to every household”.
- ▶ *Leave:* “The EU costs the average UK household as much as £9,265 a year.”
- ▶ Which is correct? (NB the ‘household’ figure is pretty meaningless anyway)

£3000 a year benefit?

- ▶ Jonathan Portes (UK in a Changing Europe): not credible.
- ▶ Adding up different studies answering different questions doesn't work
- ▶ Based on a selection of studies produced at different times (some date back over a decade), with different methodologies, and designed to answer different questions.
- ▶ Some looked at the economic impact of EU membership to date, and some at the future impact of a vote to leave. Some are not even specific to the UK.

£9,265 a year cost?

- ▶ It argues that EU membership reduces the value of the UK economy, measured in GDP, by about 13%.
- ▶ Assumes that on leaving the EU, the UK would remove *all* barriers to trade with the rest of world, and abolish *all* EU regulations (eg environment and labour market).
- ▶ Again, Portes: this doesn't stack up.
- ▶ This may well not happen, and even if it did, savings may not be this high
- ▶ The calculation also includes some arbitrary and unsubstantiated “gains”... claim that UK contributions to bailing out eurozone countries have, or possibly will, cost us 2% of GDP.

So what can we say?

- ▶ *UK in a Changing Europe*: EU membership so far has made the UK's economy more open and bigger
- ▶ *Bank of England*: EU membership has seen increased openness to flows of trade, investment and labour.
- ▶ (→ helps economic growth and improves living standards, although UK more exposed to economic and financial shocks from overseas).
- ▶ Nick Crafts: *past* EU membership has increased UK productivity – and so GDP – by about 10%.
- ▶ BUT any precise number about the future will be wrong...
- ▶ *If* economists right that EU membership boosted UK growth *in the past*, no guarantee it would do so *in the future*.

Impact of a Leave vote?

- ▶ The impact of a vote to leave would depend crucially on two things:
 - ▶ 1. Trading arrangements between the UK and remaining EU countries. These would have to be negotiated after the referendum.
 - ▶ 2. Economic policies adopted by the UK government after we leave.
- ▶ → a range of possible outcomes... but most economists think that leaving would come at *some* economic cost

Economists' views on Brexit

- ▶ FT survey of 100 economists: three-quarters thought that leaving would reduce the size of the economy in the medium term compared to staying in. Less than one in ten thought it would improve growth prospects.
- ▶ Three recently published studies:
 - ▶ Centre for Economic Performance (LSE)
 - ▶ Price Waterhouse Coopers for the CBI
 - ▶ Oxford Economics

Economists' views on Brexit

- ▶ All 3: leaving would have some negative impact on the UK economy compared to staying in.
- ▶ Impact is smaller the closer any new arrangement are to our current economic relationship with the EU.
- ▶ Estimates range: from close to zero in one model (if we continue to be part of the Single Market, keep allowing free movement of labour from the EU, and so on) to significantly *negative* if leaving results in substantial new barriers to trade.
- ▶ Treasury Study: 6% smaller by 2030. OECD, IMF
- ▶ NIESR: GDP could be 1.5-7.8% lower by 2030 + “substantial loss of export trade” → IFS extended austerity?

2 Trade, Investment → Jobs?

- ▶ EU is the UK's major trading partner: 45% UK exports & 53% UK imports of goods & services in 2014
- ▶ EU is the largest source of inward investment in UK. In 2013, EU countries accounted for £453bn worth of the stock of inward FDI, or 46% of the total.
- ▶ Over £4bn worth of exports sold by UK to EU each week
- ▶ UK accounts for 16% of EU exports (US 15%, China 8%)
- ▶ UK trade with EU accounts for 12% of UK GDP; EU trade with UK accounts for 2% of EU GDP.

Trade Risk?

- ▶ Uncertainty
- ▶ Around 50% of trade is at stake
- ▶ No guarantee of what post exit trade deals would look like
- ▶ Trade deficits with countries like China, Norway, Japan and Canada could actually get worse
- ▶ Certain sectors especially at risk (auto, financial services)
- ▶ Power to cut trade deals with rest of world stronger by being part of EU? President Obama: *“our focus is negotiating on a trade deal with a big bloc like the EU”*
- ▶ IMF warning

Trading options outside the EU?

- ▶ Norway. UK joins EEA, giving access to single market in return for a 'price': a financial contribution plus acceptance of EU regulations if we want to sell into EU.
- ▶ Switzerland. UK negotiates trade deals on a sector by sector basis. Free Trade Agreement with EU with better access for financial services?
- ▶ Turkey. UK enters customs union with EU, allowing access to free market in manufactured goods.
- ▶ Unilateral approach: UK relies on membership of WTO.

→ Jobs?

- ▶ Claims over jobs should come with a health warning...
- ▶ *Leave*: jobs boom as firms are freed from EU regulations and red tape with small-and medium-sized companies who don't trade with the EU benefiting the most.
- ▶ *Remain*: Millions of jobs would be lost as global manufacturers moved to EU countries. Car industry and financial services especially at risk?
- ▶ *"The success of the UK financial services industry is to a large extent built on EU Internal Market legislation. To abandon this for some untried, unknown and unpredictable alternative would carry very significant risks,"* (Clifford Chance in a report by think tank TheCityUK).

→ Jobs?

- ▶ Are 3 million jobs at risk if we leave? Number of jobs related to trade with EU not the same as saying 3m jobs are dependent on EU membership
- ▶ Opportunity to deregulate the economy? Majority of laws would probably stay the same. UK has gone further in some areas, such as on environmental policy. + *UN Climate Change Treaty signed in Paris yesterday.*

3 Regulation

- ▶ EU has power to regulate in a number of areas that affect *business*: Product specifications; Competition; Employment terms; Health and Safety; Consumer Protection.
- ▶ BCC (2010): annual cost to business of **£7.6bn** but this is NOT the same as the economic cost to the UK as there are offsetting benefits; eg for employees and consumers
- ▶ Open Europe: Benefit-cost ratio of EU regs is 1.02 (UK regs 2.35)
- ▶ EEA members accept vast bulk of EU regulations
- ▶ Swiss Model?
- ▶ Trade off between national sovereignty and the sort of integration and harmonisation necessary to achieve free trade

4 Immigration

- ▶ *Leave*: Britain would regain control of its borders. UKIP wants to see a work permit system introduced, so that EU nationals would face the same visa restrictions as those from outside the EU, which it says would reduce migration numbers.
- ▶ *Remain*: Britain may have to allow free movement of EU migrants as the price of being allowed access to the Single Market. Immigration from the rest of the EU has been good for Britain's economy. The UK's growth forecasts are based, in part, on continued levels of net migration.

5 Fiscal consequences – the EU budget

- ▶ *Leave*: UK would save £billions in membership fees, and end "hidden tariff" paid by UK taxpayers when goods are exported to the EU, caused by red tape, waste, fraud and other factors.
- ▶ *Remain*: UK's contribution to the EU budget is a drop in the ocean compared with the benefits to business of being in the single market.

5 Fiscal consequences – the EU budget



5 Fiscal consequences – the EU budget

- ▶ *Leave*: cost to UK of EU contributions is **£350m a week**
- ▶ This is the gross figure of contributions, or **£18bn a year**
- ▶ BUT need to add in rebate (£5bn) and receipts (£4.5bn)
- ▶ That gives a net cost of **£8.5bn or £160m a week**
- ▶ Norway and Switzerland both pay around 1/3rd per capita figure the UK does just to maintain access to the Single Market.
- ▶ UK would have to do so as well?
- ▶ *The NAO uses a different formula (includes EU money paid directly to private sector companies and universities to fund research): over the EU's financial year, puts UK's net contribution for 2014 at £5.7bn.*

Case Study: UK Auto

- ▶ Single Market
- ▶ Shaping Regulations
- ▶ International Trade Deals
- ▶ Accessing skilled workers
- ▶ R&D funding

Leave's Big Asks...

- ▶ A Free Trade Agreement for Goods and Services
- ▶ A Free Trade Agreement for Capital
- ▶ Restrictions on Labour Migration
- ▶ No EU budget payment
- ▶ Free from EU regulation on goods, labour and capital...

Thanks for listening

- ▶ Comments and questions welcome
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