Birmingham Brief - What has the EU ever done for us...?

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Counterfactual analysis, the art of assessing how the world might look if something had not happened, is notoriously difficult and highly sensitive to the assumptions one makes about the alternative scenarios. Forecasting the impact of a major policy reversal is fraught with similar difficulties. Thus, assessing what the world might look like had the UK not joined the EU in 1973 or what it might look like in the future were we to leave, is great intellectual fun, but it would be a brave person who would bet their house on the outcome.

While the benefits of joining a free trade customs union was one of the central arguments for the UK joining the European Community in 1973, Eurosceptic analysis tends to attach a relatively low or zero weight to these benefits on the grounds that the world economy has significantly globalised over the last four decades. Thus, they would argue, while economists may have been able to identify significant gains due to the removal of internal tariffs in the 1970s, this is no longer relevant in the modern era where the average industrial tariff is less than 2%, and many nations have negotiated bilateral free-trade deals with the EU.

Why would the EU, in its own self-interest, not afford the UK the same terms and membership of the European Economic Area as, say, Switzerland? This inevitably leads these critics to focus on the costs of membership, as exemplified by the net costs of the Common Agricultural Policy and the UK budgetary contribution, and the costs of regulation. As a relatively wealthy, predominantly non-agricultural country, the first two of these are inevitably negative, and in the absence of off-setting benefits withdrawal would appear to be a no-brainer. Regulation in Eurosceptic analysis is similarly portrayed as a cost to business, without any attempt to assess the benefits, either to manufacturers or consumers of such regulation.

Regulations and Directives come in all shapes and sizes. Some enable manufacturers to cut costs on average, knowing that they can manufacture to a standard specification for the world’s wealthiest single market, with a single approval process which covers all member countries. Other regulations, such as increased safety or pollution-reduction requirements for cars and aircraft, do increase costs, but there is a trade-off between the benefits to consumer and society and the increased cost of the goods or service.

It would be naive to argue that all EU regulation is perfectly tuned, balancing costs and benefits, however, simply, quantifying compliance costs and representing them as a gross cost of EU membership is clearly wrong. Additionally, these regulations represent a cost of doing business in the EU which all firms face either directly or indirectly, whether they are EU members or not. The UK can only avoid them by exporting to elsewhere. However, trading in any other markets will have similar compliance costs to one degree or another, the only difference is that inside the EU, we get a say on our perception of the cost and benefits of the regulations we jointly agree.

But perhaps the most contentious part of the EU argument, is the suggestion that being in or out will have no effect on either the UK economy overall, or on our exports to the EU in particular. The analysis which focuses on current low level of average industrial tariffs is really only weighing the static gains which lower tariffs as a consequence of membership of the EU might yield the UK over the alternative.

The European Single Market, however, has had a significantly greater impact than simply the removal of internal tariffs. The harmonisation of standards and streamlined regulatory processes (relative to pre-1992) have enabled European (and UK) firms to compete in a large single market, and thereby capture the economies of scale and scope which were previously only afforded to US and Japanese firms by virtue of their, then, comparatively larger home markets. This competition has resulted in a more streamlined and competitive European business sector (both competing within Europe and the rest of the world), an increase in niche and specialised products and services, and wider variety of goods and services at more competitive prices for both consumers and business.

Critics might argue that the benefits of this increased competiveness (estimated to be 2.2.% of GDP) has now been realised, and that we can now leave the EU and go it alone. Perhaps, but this strategy may have other risks. The UK is one of the largest recipients of FDI in the world, precisely because it is in the EU (and hence manufactures and services produced here for the European market face no additional compliance or import costs). So the UK is seen to be an attractive platform for international business, and for a whole array of reasons, currently gets more than its fair share of EU inward investment.

This investment brings other benefits as well. The technical and management expertise associated with FDI can bring beneficial spill-over effects on domestic firms in the same sector, as well as on other sectors, and the skills levels of workers more generally. With the increasing competition within the EU itself for FDI, it is doubtful we would do ourselves any favours by withdrawing.

So there are a wide variety of scenarios which can be envisaged if we were to leave the EU, the challenge is to evaluate the most likely scenario, not the one which our political beliefs might lead us to prefer. Ensuring that the public would actually vote on this reality in a referendum, and not simply use it as a popularity poll on the incumbent government, is an entirely different matter.

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