

# The CER commission on the UK and the single market

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## Overview

Over the last year, speculation has grown about Britain leaving the EU. In December 2011, British prime minister David Cameron vetoed the EU's fiscal treaty. In October 2012, his government announced that Britain intended to opt out of European justice and home affairs co-operation. In November 2012, EU budget talks collapsed, with Britain having staked out the most hawkish position (a budget freeze). And in January 2013, Cameron offered the British public a referendum on EU membership in the next parliament, if the Conservatives win the 2015 general election. Surveys show a majority of Britons would like to leave the EU, and support for the UK Independence Party has risen sharply.

Membership of the EU cannot be weighed solely in pounds and pence. But in a period of economic stagnation, any decision about membership will be shaped by the pecuniary costs and benefits. Unfortunately, the British debate has lacked objective analysis of these, with both eurosceptics and europhiles using evidence selectively to make their case. As the UK is not a member of the eurozone, and is unlikely to join, an appraisal of EU membership should centre on the single

market. (It has greater ramifications for Britain's economy than the EU budget, for example.)

The CER has brought together politicians, policymakers and business people to form a commission on the UK and the single market. The commission will examine the case for the UK's membership of single market, given the needs of Britain's labour market; the changing patterns of trade in goods and services; and the role of the City in the EU after the financial crisis. There will be four private commission meetings – a commission launch, providing economic and political context, and then one for each subject. Before each meeting, the CER will provide a short introductory briefing on the evidence of the costs and benefits of integration in that area. Two experts will then give presentations on each topic, which will be followed by a discussion. The commissioners' ideas will be combined with further CER research and published as a report. This will be launched at an event in London in early 2014. The commission's findings will be fed into the Government's review of the balance of EU competences, which will run until the autumn of 2014.

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## Aim and structure

The commission will not aim to come up with a neat figure for the cost or benefit of UK membership of the single market; many of its benefits are not directly quantifiable. It will resist the temptation to put a figure on the cost to the UK economy of exit.

Instead, the commissioners will hear wide-ranging evidence on the UK's past integration with the rest of the EU. They will consider whether the UK has managed to wring as many benefits out of the single market as other member-states – and if not, why not. They will examine

the trends in trade, finance and migration, to see if the single market will provide the markets and economic resources Britain needs.

### i) Commission launch

In an introductory session, the commissioners will discuss the economic case for or against Britain's membership of EU, and how the debate is likely to unfold in the British general election campaign and after. They will discuss how the eurozone is likely to integrate, whether that

integration will affect the single market, and how Britain should respond. They will offer some initial thoughts on which areas of the single market most need reform. Finally, they will be asked to offer comments on the structure and content of the commission itself.

## ii) The impact of the EU on Britain's labour market

The commission will evaluate the two main areas of the single market that have an impact on Britain's workforce: employment and social law and the free movement of labour. Many claim that both have been bad for the British economy.

The EU's social and employment rules, especially its restrictions on working hours and guarantees of employment rights to temporary workers, have been highly controversial. In 2007, David Cameron said he would like the UK to opt out of the social chapter of the Maastricht treaty, and many hope that Britain can opt out of the employment directives. The CER will offer evidence of the costs and benefits of EU employment legislation to the commission.

According to the 2011 census, two million people who were born elsewhere in the EU live in England and Wales. Over 500,000 of these are Polish people, who came in large numbers after 2004. Migration from Central and Eastern Europe has also proved controversial, as many workers have low and medium levels of skill: it has become commonplace to argue that their presence is damaging to the employment prospects of poorer British people. The CER will present evidence of the costs and benefits of EU migration for the UK, in terms of wages and jobs, and the extent to which it strains public finances and services.

## iii) British trade and the single market

The commission will assess the single market's contribution to British trade and investment in manufacturing. When the single market was launched, the UK already had an open economy. Its tariffs on imports were low; it had few restrictions on foreign direct investment; and it had fewer product and labour market regulations than other European economies. This may have reduced Britain's gains from the single market for goods compared to other countries in the EU.

Would leaving the single market reduce the UK's revenues from goods exports? Tariffs have come down quickly across the world; and if the UK left, the EU may agree to a free trade agreement to replace full membership (it would be in both parties' interest). But would foreign investors prefer countries with a seat at the EU's table? Would pan-EU supply chains, critical for British exports to Europe and elsewhere, be interrupted? And would British firms end up using EU product standards anyway, as it would ease trade both with Europe and the rest of the world (where they are increasingly used)?

Britain may have gained from membership of the single market for services, a sector which constitutes almost half of UK exports. And as a proportion of all services exports, financial and related business services make up over 50 per cent. The growth of the City of London after the 'Big Bang' liberalisation of 1986 drove much of this growth. Yet Britain exports more services to the rest of the world than to the EU, despite attempts to remove regulatory barriers. And now the boom in finance is over, what is the outlook for financial and business services exports to the EU?

To answer these questions, the commission will be presented with evidence on the expected future sources of overseas demand for UK exports. In what sectors, and to which countries, are exports likely to grow? What measures are needed to break down trade barriers for those exporters that have the best growth prospects? The commissioners will also discuss whether financial services exports to emerging markets can replace stagnant exports to the EU; whether the UK is destined for years of slow growth in its services exports; or whether British exit from the EU would undermine the growth of non-finance services exports.

## iv) Eurozone integration and the City of London

The commission will consider whether a more integrated eurozone and the City of London can live with each other, and the costs and benefits of Britain's financial integration with the rest of the EU since the 1980s.

Can the eurozone integrate and allow the City to remain its financial centre? A banking union is probably needed to save the single currency. In December 2012, the eurozone took the first step towards such a union by agreeing to set up a single supervisor for the largest banks. Britain won protections for the single market: a majority of non-euro members will have to agree to new financial rules, preventing the euro members from dominating. However, it is likely that the banking union will take on more responsibilities over time: the banking union will probably need to take over the bailing out and winding up of banks, if the single currency is to run smoothly. More countries are planning to join the banking union and the euro. If these things were to happen, what would be the implications for the City?

Has European financial integration been good for Britain's economic growth? The City, as the largest European wholesale market, made handsome profits from eurozone financial integration. Commissioners will consider whether these profits would have been as large had Britain not been a member of the EU. Retail finance has integrated much more slowly than wholesale markets: the 'Big Four' banks continue to dominate British lending, although Santander is growing. British gains from the single market for retail finance may therefore have been small. Does this evidence suggest that British financial services would lose out if the UK left the EU?

## v) Launch event

The report will be launched at a public event in central London in spring 2014. The event will be a panel discussion between leading proponents on either side of the

argument, followed by a Q&A. The audience will be senior politicians, policymakers, business people, journalists, and non-governmental organisations with an interest in trade and the single market.

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## The commissioners

### **Kate Barker**

Former member, Monetary Policy Committee

### **Sir Brian Bender**

Former permanent secretary, UK Department of Business, Innovation and Skills

### **Prof Wendy Carlin**

University College London

### **Prof Nicholas Crafts**

Warwick University

### **Prof Paul De Grauwe**

London School of Economics

### **G rard Errera**

Blackstone Group, former French ambassador to the UK

### **Martin Hatfull**

Diageo and former UK ambassador to Indonesia

### **Sony Kapoor**

Re-Define

### **Sir Richard Lambert**

Former director, Confederation of British Industry and former editor, Financial Times

### **Lord Mandelson**

Former trade commissioner, European Commission

### **Prof Mariana Mazzucato**

Sussex University

### **Lord Monks**

Former director, Trades Union Congress

### **Prof Kevin O'Rourke**

Oxford University

### **Prof Andrew Oswald**

Warwick University

### **Christopher Padilla**

IBM and former under-secretary of trade in the US commerce department

### **Jonathan Portes**

Director, National Institute of Economic and Social Research

### **Sir Michael Rake**

Chairman, BT and Confederation of British Industry

### **Prof Andr  Sapir**

Bruegel and Universit  Libre de Bruxelles

### **Simon Walker**

Director, Institute of Directors

### **Sir Nigel Wicks**

Chairman, British Bankers' Association

### **Andr  Villeneuve**

The City UK

### **Martin Wolf**

Financial Times

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## Dates of commission meetings

**Launch event:** 5 June 2013

**Labour markets discussion:** 10 July 2013

**Trade discussion:** 16 October 2013

**The City and the eurozone:** 3 December 2013

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## About the commission secretary

John Springford is a research fellow, working on economics, for the Centre for European Reform. He is the author of 'How to build European services markets', published by the CER in October 2012. He has contributed opinion pieces to various newspapers, including the *Financial Times*, the *Wall Street Journal*, the *Guardian* and the *Daily Telegraph*. He comments regularly on economic issues for the broadcast and print media.

Between 2010 and 2012, he worked at the Social Market Foundation, where he wrote two lengthy reports: one on Britain's skills problems, 'Britain's got talent: unlocking the demand for skills', and one on financial services, trust and market failure, 'A confidence crisis?

Trust in financial services'. Between 2008 and 2010, he worked on international aspects of the financial crisis at CentreForum. His paper on eurobonds was cited by *The Economist* and featured in the *Wall Street Journal*. Observer columnist Will Hutton praised his report on the deficit-cutting experience in Canada, Sweden and elsewhere, and he wrote about it in the *Financial Times* with David Herle, former advisor to Canadian prime minister Paul Martin. Before moving into public policy, he undertook doctoral study in the economic history of empire at Oxford University. He also has degrees in the history of international relations and economic history from LSE and Glasgow University.

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## About the CER

The Centre for European Reform is a think-tank devoted to making the European Union work better and strengthening its role in the world. The CER is pro-European but not uncritical. We regard European integration as largely beneficial but recognise that in many respects the Union does not work well. We also think that the EU should take on more responsibilities globally, on issues ranging from climate change to security. The CER aims to promote an open, outward-looking and effective European Union.

Through our meetings, seminars and conferences, we bring together people from the worlds of politics and

business, as well as other opinion-formers. Most of our events are by invitation only and off the record, to ensure a high level of debate.

The conclusions of our research and seminars are reflected in our publications, as well as in the private papers and briefings that senior officials, ministers and commissioners ask us to provide.

The CER is an independent, private not-for-profit organisation. We are not affiliated with any government, political party or European institution.

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