Britain’s economy would not be liberated by ‘Brexit’, finds expert group

The Centre for European Reform (CER) has hosted a commission, comprising leading economists, business people and politicians, on the economic consequences of leaving the EU. The commission’s final report is published today. It clarifies the choices that Britain would face in negotiations with the EU after a vote to leave.

After such a vote, the UK would have two years to settle a trade agreement with the EU. It would face a dilemma: minimise the damage to its economy by sticking with EU rules and maintaining unimpeded access to European markets; or escape the rules, but lose market access.

The EU’s single market is the world’s most comprehensive free trade agreement (FTA). There are no tariffs, and trade costs are further reduced by common rules and standards. Membership of the EU has been a boon to Britain’s economy in several ways:

- According to the CER’s trade model, it has raised Britain’s goods trade with the rest of the EU by 55 per cent.
- It has brought in foreign direct investment (FDI): in 1997, other EU member-states accounted for 30 per cent of a growing stock of FDI in Britain; this proportion had risen to 50 per cent in 2012.
- It has helped to make the City of London the EU’s – and the eurozone’s – largest financial centre. In 2012, the City’s lending to the eurozone was 70 per cent higher than its lending to the US, despite the smaller size of the eurozone economy.

Britain could reduce this economic damage by signing up to EU rules: in effect, staying in the single market, while leaving the EU. The UK could join Norway, Iceland and Liechtenstein in the European Economic Area, which requires members to sign up to EU rules over which they have very little influence. But Britain would have less power over regulation than it has now, which would be politically intolerable.

Alternatively, it could sign a free trade agreement guaranteeing tariff-free trade in goods. But British exporters would still have to make goods that met EU standards. And Britain would find it difficult to secure access to services markets; such an agreement would be very unlikely to give the City of London the same market access it now has; and the UK would have little power to stop the EU from making rules that favour its own exporters. The burden of regulation that British exporters face would therefore rise, not fall, after a British exit.

In other areas, the commission found little evidence that Brexit would boost the British economy:

- A bonfire of EU rules would not significantly boost British output: according to OECD data, the UK has among the least regulated product and labour markets in the world, despite its EU membership.

Notes for editors:
1. For media enquiries, please contact John Springford on either +44 (0)20 7976 3428, or at john@cer.org.uk.
2. A copy of the embargoed final report of the CER commission on the UK and the EU single market, ‘The economic consequences of leaving the EU,’ can be found here.
3. The commission was supported by BT, Diageo, IBM and TheCityUK.
★ Trade costs with non-European markets would rise after Brexit: the EU’s FTAs would no longer be in force, and Britain would have to negotiate new ones, which would take several years. Those new FTAs may not be as comprehensive as the EU’s, as the UK is a smaller and more open economy, and would therefore have less bargaining power than it has as an EU member.

★ As European immigration is a major reason for British hostility to the EU, the UK would almost certainly cut it upon exit. Since immigrants are large net contributors to the Treasury, and rejuvenate Britain’s ageing population, this would require higher taxes or lower spending than would otherwise be the case. And over 1.8 million Britons live elsewhere in the EU; their status would be threatened by a British exit.

★ The UK as a whole is a net contributor to the EU budget, but it would face pressure to replace EU regional funding and agricultural subsidies with domestic spending.

★ And if Britain sought privileged access to EU markets, it would have to pay budget contributions. If Britain paid into the EU budget on the same basis as Norway, its net contribution would fall by 9 per cent, and as Switzerland, by 55 per cent.

The members of the CER’s single market commission are:

Kate Barker, Former Member, Monetary Policy Committee, Bank of England
Sir Brian Bender, Former Permanent Secretary, UK Department of Business, Innovation and Skills
Wendy Carlin, Professor of Economics, University College London
Nicholas Crafts, Professor of Economics and Economic History, Warwick University
Paul De Grauwe, John Paulson Professor of European Political Economy, London School of Economics
Gérard Errera, Chairman, Blackstone Group France and former Secretary-General of the French Foreign Ministry
Martin Hatfull, Director of Government Relations, Diageo and former UK Ambassador to Indonesia
Sony Kapoor, Director, Re-Define
Sir Richard Lambert, Former Director, Confederation of British Industry and former Editor, Financial Times
Lord Mandelson, Former European Commissioner for Trade, and former Secretary of State for Business, Innovation and Skills
Mariana Mazzucato, RM Phillips Professor of Science and Technology, Sussex University
Lord Monks, Former General Secretary, Trades Union Congress
Kevin O’Rourke, Chichele Professor of Economic History, Oxford University
Andrew Oswald, Professor of Economics, Warwick University
Christopher Padilla, Vice-President, Governmental Programs, IBM and former Under-Secretary of Trade in the US Department of Commerce
Press release

Jonathan Portes, Director, National Institute of Economic and Social Research
Sir Michael Rake, Chairman, BT and President, Confederation of British Industry
André Sapir, Senior Fellow, Bruegel and Professor of Economics, Université Libre de Bruxelles
Simon Walker, Director, Institute of Directors
Sir Nigel Wicks, Chairman, British Bankers’ Association and former Chairman, EU Monetary Committee
André Villeneuve, Advisory Council Member, TheCityUK
Martin Wolf, Chief Economics Commentator, Financial Times

ENDS