CENTRE FOR EUROPEAN REFORM

Leaving the EU will not set Britain's economy free

by Philip Whyte

EU membership, British eurosceptics are fond of asserting, has become the principal obstacle to the country's prosperity. The regulatory and other costs of membership have ratcheted relentlessly upwards, just as the economic benefits of trading with an ageing and sclerotic region have fallen. Britain, to use a term now very much in vogue, has "shackled itself to a corpse". If the UK loosened its relations with the EU – or perhaps left the club altogether – it would free itself of the irksome regulatory burden that cripples British business and could focus on developing trading relations with faster-growing economies outside the EU.

It is not hard to see why such a narrative appeals to many British minds. At a sentimental level, it harks back to a bygone age when the country was a globe-trotting, island nation largely unencumbered by European entanglements. And at a rational level, it rests on claims that are at least partly valid. It is true that the EU is, to an important degree, in the business of regulation, and that most EU countries have a greater appetite for regulating markets than Britain. It is also true that in certain areas of policy, common minimum EU standards are set at higher levels than the UK might have chosen, had it been left to its own devices.

Nevertheless, the overall thrust of the story is deeply misleading. Contrary to popular belief, the EU is not an iron cage that imposes rigid uniformity on its members. Despite the alleged shackles of EU membership, the UK's product and labour markets are among the freest and least regulated in the developed world. Most of Britain's supply-side deficiencies originate at home, not in Brussels. And while there is little evidence to suggest that EU membership hampers the development of trading links outside Europe, the flow of goods, services and people across British borders would probably be less free if the country left the EU.

Start with regulation. If EU membership really entailed everything that the eurosceptics like to imply, one would expect two things. First, the EU would have a strong levelling effect on its member-states: because of 'harmonisation' at EU level, markets for goods, services and labour would look much the same in Italy and Greece as they do in Ireland and Britain. That they do not is so obvious it barely needs stating. What the EU mostly does is set the common minimum standards that are necessary for mutual recognition – the animating principle of the single market – to operate. EU countries, however, retain plenty of freedom.

Second, if eurosceptics were right, one would expect Britain to look less 'Anglo-Saxon' than, say, Canada or the US. Since the EU supposedly interferes so much, and the continental influence on its rules is reputedly so strong, Britain's markets would be more regulated than elsewhere in the liberal English-speaking world. Yet there is no evidence that they are. According to indices of regulation compiled by the serious-minded and impartial OECD, the UK's product markets are the least regulated in the developed world, and its labour markets are only marginally more regulated than in the US or Canada.

Equally wide of the mark is the assiduous insinuation that the main long-term constraints on the British economy stem from EU membership. Most serious studies of the supply-side shortcomings of the British economy identify some combination of the following factors: poor infrastructure, notably in transport; skills shortages, reflecting high drop-out rates from secondary education and weak vocational training; rigid planning laws that distort land use, push up commercial rents, and limit economies of scale; and a complex, costly and inequitable tax system. All these deficiencies are home-grown; none originate in Brussels.

Nor is there much evidence to support the repeated assertion that the vitality of Britain's trade and investment relationship with the rest of the world is sapped by its continental entanglements. German exports to Asia have thrived over the past decade despite the purportedly crippling handicaps of EU membership. As for the UK, a chunk of the foreign direct investment (FDI) it attracts depends on the country's membership of the EU. This is not true of all FDI, of course, and much would stay in the UK if the country left the EU. But note the asymmetry: it is doubtful that leaving the EU would make the UK more attractive to foreign investors.

Would Britain be freer and more open outside the EU? It is doubtful. The oft-repeated claim that Britain could, like Norway, free itself of EU rules but still participate in the single market is particularly mystifying. It betrays ignorance of how the single market differs from a free trade area, as well as the terms on which Norway participates. It is precisely because Norway implements EU rules that it participates in the single market. The difference between the UK and Norway is not that one complies with EU rules while the other does not. It is that one (the UK) influences the design of the rules, while the other (Norway) does not.

To free itself of any obligation to transpose EU rules, the UK would have to leave the single market as well as the EU. At that point, its trade with the EU would be subject to tariffs and other barriers that do not currently exist. Britain would have to conclude trade deals with its largest trading partners (arguably with less negotiating clout than it has within the EU). And the expected fall in the regulatory burden would be modest. Not only would British exporters still have to meet EU standards to sell there, but many domestic regulations would replace EU ones: climate change will not stop just because Britain leaves the EU.

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In one policy area at least – immigration – there are good reasons to think that Britain would take steps to make its borders less open than they are at present. Net migration to Britain has risen strongly over the past decade – a trend many voters blame on EU membership. The government has responded by calling into question the free movement of workers (a fundamental principle of the single market); and by making it harder for foreigners to come to the UK (potentially hurting export industries like higher education and tourism). Left to its own devices outside the EU, the UK would probably pull the drawbridge higher.

In short, eurosceptic attempts to cast Britain as a country whose globalising ambitions are frustrated by the bureaucratic and protectionist instincts of continental Europeans are deeply misleading. Leaving the EU would not be an economic liberation. It would resolve none of the domestic failings that are the main constraints on Britain's long-term growth. It would do little to lighten the regulatory burden on British business. And it might well leave the UK more closed to the outside world, not less.

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