

CHECK AGAINST DELIVERY

Speech by Lord Mandelson

Report launch of the CER Commission on the UK and the EU Single Market

'The economic consequences of leaving the EU'

11 June 2014, 08:30 for 09:00-11:30

British Academy, 10-11 Carlton House Terrace, London SW1Y 5AH

Europe: in or alongside?

- Today we are going to debate a report about the economics of Britain and the EU. This is the most conscientious, detailed and convincing study I have ever seen. I want to kick off the day by saying something about how the economics and the politics of this debate fit together. Or how they should fit together.
- The politics of Europe have changed dramatically. My parents' generation voted for Europe in order to "secure peace". Later on, when I was growing up, "uniting against communism" and the Soviet threat was a driving force.
- Now – and Tony Blair articulated this well in his speech to the CBI last week – it is more about collective weight and Europe's clout in the world. Power rather than peace.
- I agree with this but I also feel we have to go beyond "Europeans must hang together in the global age or we'll hang separately."
- It is as much about the core beliefs, moral standards and ethics of government that unite us. Our ability to project these values, and protect our interests as Europeans, both at home and in the rest of the world.

- Of course, those who oppose Britain's membership of the EU want to make the issue of Europe a question of identity, of 'who runs Britain?' or "why can't we just be ourselves?"

- That is the Nigel Farage line. The economic facts are not his priority. That's why we need to keep confronting him with them – because these are about people's jobs, livelihoods and their children's future.
- But let me address head on the questions of identity and 'who rules?' because identity and a sense of control over our political lives are important and cannot just be brushed aside.
- My point about UKIP is that they ask these identity questions with a very narrow sense of 'Britishness' in mind. You can dress it up as honesty and straight talking but I don't buy it.
- They make Britishness an exclusive and insular concept rather than an open and multi-dimensional one, with a very anachronistic idea of the realities of a global economy and globalised society. It reduces our interests to our identity and our identity to a caricature of ourselves.
- I don't see why the Eurosceptics should have the privilege of defining identity for all of us. More importantly, identity politics that becomes uncoupled from practical realities puts people in boxes. And it misses the most important thing about politics, which is learning to live with and work with people who aren't exactly like you.
- We need a sense of our own identity that's big enough to take in the fundamental economic realities of our interconnected lives and our interests in an interconnected world and how we make our living in it. Otherwise all we'll be left with is our identity, and it will be a pretty poor, bargain basement identity at that.

- And fundamentally for that reason I do not think we can separate our interests in Europe from economics. That is why I was pleased to be involved in this work and why I think it matters.
- Groups like the CBI and Business for New Europe have done excellent work on the costs and benefits of EU membership for business. What is good for business is on the whole good for all of us. But we need to assess the direct impact of EU membership on our ordinary, day to day economic lives.
- This report does a good job of quantifying the benefits of our trade with the single market and we can debate its judgements today, but I just wanted to pick out what to seem to me to be a few key political themes.

The difference between in and alongside

- First, there is a big difference - in value, influence and return - between being in something like the EU and merely being alongside it.
- We need to think about our economic relationship with the EU in dynamic, not static terms. Should we quit, things won't remain as they are. The Eurosceptic argument is often that much of what benefits us about the EU could be recreated from the outside with a free trade agreement, on our terms. This is an illusion.
- As the report notes, about half of UK exports go to the EU while only about a tenth of EU exports come to the UK. In other words, we need them more than they need us in straight trading

terms, and this would directly impact our negotiating strength when it comes to securing access for the UK.

- But even if we negotiated as equals the result will miss something fundamental about our economic integration with Europe. Which is that it is not about paying tariffs on finished products at borders. More and more trade is in components and parts of finished products and I am not saying, outside the EU, we would face a wall of European tariffs.
- The issue is regulation, standards, licensing, authorisations, professional qualifications - all the individually small but cumulatively big obstacles between us and our European customers and suppliers that the Single Market has stripped away by merging them into a single European framework.
- It is that framework that enables British business - big, medium and small - to have predictable and unhindered European supply chains and distribution networks. It is that framework which makes this country such an attractive base to locate and then trade onwards into the Single Market.
- Most importantly, that framework is a living political agreement. It evolves all the time, as regulation does, and at the moment we have a strong say in every change, every permutation. The decision-making benefits of Europe are fundamentally different when you are in, as opposed to simply alongside (ask the Norwegians and the Swiss if you have any doubt).

- When you think about it for a moment this is exactly what we are trying to tackle in a very limited way in the TTIP negotiation with the United States. Because of the regulatory barriers to trade that exist on both sides of the pond, it is a heck of a challenge to reduce, eliminate or harmonise them but that is what we are trying to do.
- Believe me, trying to align the ways two or more interdependent markets regulate is the toughest problem in trade policy. And Europe, internally, has actually cracked it. Leaving the EU would recreate that problem for Britain big time. It would also remove the leverage that the EU gives us to tackle that problem in third countries.

Regulation in perspective

- And while on the subject of regulation, do not get carried away with the idea that Europe is a regulatory burden on us. Regulatory convergence in Europe, and the smooth access it gives us to the single market, has delivered infinitely more for British economic interests than European regulatory burdens have ever taken away.
- Significantly, European regulation has also given us paid holiday entitlements, maternity and paternity leave and other employment protections that are as much about European values as free trade and open markets.
- Of course, European regulation can be good and bad. The EU could almost certainly regulate less and it could certainly regulate better. But one rule is generally better than 28. And a rule you have a say in devising is always better than one you don't, which is what the reality of trading with the single market from outside the EU would look like for the UK.

- And let's not imagine that it's the others, not Britain, always demanding the new regulation. We have for many years been pushing for more ambition on climate change and more recently have taken a tougher approach in many areas of financial regulation.
- And let's also bear in mind that, EU or no EU, the UK is amongst the most deregulated markets in. Only the Netherlands has more deregulated product markets, and they are in the EU too. We can debate the virtues of that but being in the EU does not remove at a stroke our freedom of choice in these matters.
- This brings me to the argument that, if only we separated ourselves from Europe, we could have a bonfire of red tape and with one bound we would be free to grow as we wish.

Launching pad and leverage

- But this argument misses something very fundamental about business growth and that is about scale. A large and easy-to-access market matters for more than just its spending power on our doorstep. It matters because it is a platform for scale. Big domestic markets allow their companies to grow quickly and take a strong global position. Big in Europe, big in the world.
- The tech/digital sector is an interesting case study. It's a fact that very few of the new tech/digital giants have a European base. Most innovation occurs in the US and US companies are dominant in many fields. In many cases the fiercest competition they face is increasingly coming from China.

- What do the US and China have in common ? The scale of their home markets is their launching pad. Our version of that growth model – our home market - is Europe, but only if we are in it rather than bobbing around outside it.
- Indeed, Europe needs to go further in breaking down its market barriers, most clearly in services and e-commerce. Both sectors are growth areas globally and are important for the UK. And the answer is not to assume that we can do better in isolation but to grow in Europe in order to become bigger in the world.
- It's hard, given the tenor of the recent debate, not to say something about migration. This sentiment comes from the public but the sense you sometimes have from UKIP is that even if European exit were to be an economic act of self-harm, it would at least reassert our control over EU migration.
- Well, that's true it would. And one of the clearest arguments in this report is that if the UK used that reasserted control to block European migration it would also be an act of self-harm.
- Migration within the EU is driven by employment opportunities and income differences. This is people responding to market signals. It is similar in effect to other forms of trade. It is odd for free traders to oppose migration.
- The report assesses the available evidence on the impact of A8 – eastern and central European - migration on British workers' wages and concludes there has been little discernable impact. The report also concludes that the more highly-skilled

immigration from non-A8 EU countries are likely to have slightly increased the productivity and wages of British workers.

- This is an area we cannot ignore and where there has to be legislative protection for people if their terms and conditions are being systematically undercut.
- But let's remember EU immigrants are net contributors to public finances because they tend to be younger than average and are more likely to be in employment. They contributed a third more in taxes than they received in benefits between 2001 and 2014.
- And needless to say, 1.8m Britons live elsewhere in the EU, with 400,000 in Spain alone and 150,000 in Germany. So terminating migration would cut off our noses to spite our faces.

The costs of disengagement

- This goes to the heart of why 'reasserting' British control is so misguided if all we were doing is controlling better a more impoverished nation. Take the further example of Europe's banking union. Is this a threat to the City? Well, yes in some respects, but not because it will impose costs on London.
- It is a threat because it is an enormous jurisdiction with huge economies of scale in both commercial and regulatory terms, and it is both strong and attractive as a place to base a financial services business. And we're not in it.
- And if we're not going to be in it we need to be absolutely sure we are focused on making it as easy as possible to trade there, something that would be hard to negotiate if we were not in the

EU at all. When you put it like this the risks of insularity and isolation become very stark. And the idea that turning Britain into a kind of ultra-deregulated entrepot for rootless, rule-averse business is not the answer.

- So let me conclude with politics again. It seems to me that the mountain of evidence in this report points unequivocally to the advantages of membership and the illusory benefits of exit from the EU.
- Does being in the EU mean economic compromise for Britain? No, not in any meaningful sense. In fact this report emphasises that the opposite is the case.
- Does being in the EU mean political compromise? Yes it does. But that compromise is the price of opportunity, scale and strength. We recognise this every time we share in political decision making, even if it means blurring our social and political identities a little – just as we do within the United Kingdom or even in the regions of England.
- Is that compromise at the EU level, in which we can and should play such an influential part, an affront to our national dignity or our national democracy? Well maybe this is a question that doesn't bear rational argument.
- I would argue that there are things about the EU that damage its democratic legitimacy in general. There is a serious argument over what should be done at the EU level and what should not - the issue of subsidiarity. But we won't fix this by leaving the EU and we won't actually serve our own wider interests by doing so either.

Burning and building bridges

- Powerful forces in our politics are burning bridges at the moment when what we really need to be doing is building them.
- We need to build a new bridge between Britain and the EU, in particular between us and the Eurozone, because so much of our financial services trade is done there.
- I also think it is imperative for us that bridges are built between the northern member states and those in the south because we need greater economic convergence for growth to be sustained.
- And at home we cannot defang the Eurosceptic temper without understanding what stokes the anger and anxiety that it seems to provoke. We need somehow to build a political bridge for those millions of voters who have started to conflate Europe with the fall out from global economic change, the changing social face of Britain, every frustration of government or regulation.
- The EU is a useful whipping post for populists but the truth is, the problems of ‘new Britain’ as opposed to ‘old Britain’ would still be with us in large part, in or out of the EU.
- Along with the tests of democracy and legitimacy and accountability and – yes – identity - the economics have to be part of this wider debate. Not least because they are the most important check on our sliding into a version of Europolitics in Britain in which nostalgia and anachronism trump common

sense, engagement, practical commitment to reform, and the bigger picture.

- To paraphrase Margaret Thatcher – although in a way she would have hated - I believe the facts of our economic lives in Britain are European. The report will help bring this home.

- End