{ EU EXIT }

JEREMY WARNER

No one knows whether Britain would be financially better off if it left the EU

While the eurozone continues to wrestle with the aftermath of the worst economic crisis since World War II, and now has to deal with the looming threat of price deflation to boot, Britain has moved on.

The economy is recovering, unemployment is falling, service industries are booming anew and the deficit is eroding. That leaves the field pretty much clear for Britain to return to a favourite pastime – bashing the EU. David Cameron has promised a referendum on British membership soon after the next election. Even if not re-elected, it seems unlikely that other political parties will be able to resist pressure for the issue to be put to a popular vote.

At root, the EU is as much a political project as an economic one, and it is basically these political aspirations that Britons tend to object to most. The UK would be quite happy with an EU that is no more than a jumped-up free-trade zone; yet for much of the rest of Europe it is about so much more.

Even so, the economics of being in or out are bound to be a large part of the debate.

For the moment, as a filing in the House of Commons library recently put it: "There is no definitive study of the economic impact of the UK's EU membership, or equivalently, the costs and benefits of withdrawal. Framing the aggregate impact in terms of a single number, or even irrefutably demonstrating that the net effects are positive or negative, is a formidably difficult exercise."

That hasn't stopped people from trying. In a pamphlet for the vehemently anti-EU UK Independence Party, the economist Tim Congdon puts the costs of EU membership at a jaw-dropping £170bn per annum, or around 11% of GDP.

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This is not just a back-of-the-envelope stab in the dark. Professor Congdon backs his claim with some relatively serious analysis of the costs to the UK of EU regulation, the common agricultural policy, the direct fiscal costs and so on.

But he also skirts the issues of trade, inward investment and the net benefits of labour migration, all of which might be damaged by exiting the EU.

A much more positive view is taken, naturally enough, by the pro-EU Confederation of British Industry (CBI), which 'conservatively' calculates that membership of the EU provides a net benefit to the UK of between £62bn and £78bn, or 4%-5% of GDP annually.

This guesstimate is equally problematic. There is no convincing explanation of how these numbers are arrived at, and what is more, the CBI fails to acknowledge that many of the supposed trading benefits of EU membership are likely to persist even after an exit. And this is rather the nature of the problem. We just don't know what kind of a relationship Britain would enjoy with the rest of the EU after it had left. Given that the rest of Europe runs a substantial trade surplus with the UK, it is reasonable to assume that, actually, trade wouldn't be affected very much. The potential damage to inward investment may also be much exaggerated. Some big companies have warned that exit would adversely affect their investment decisions, but it is hard to see the logic of this argument. Non-membership of the EU doesn't seem to have affected their appetite for investment in Asia, for instance.

On the other hand, full access to the internal market on equal terms would probably mean – like Norway – accepting many, if not all, the rules and regulations that come out of Brussels, so the potential deregulatory dividend from leaving would be, at best, marginal.

For all these reasons, it seems unlikely that the argument will be won or lost on the economics alone. The costs and/or benefits of exiting the EU are frankly anyone's guess. No amount of economic modelling is going to come up with an uncontested answer.

Jeremy Warner is assistant editor of ***The Daily Telegraph*** and one of Britain's leading business and economics commentators