

{ BREXIT }

JEREMY WARNER

An effective case for a UK exit from Europe has yet to be made

> The EU has made a terrible mess of its affairs in recent years; both economically and politically, it has created a crisis of epic proportions.

A fragmented, and in many cases inappropriate, response to the mass movement of migrants from the Middle East and Africa gives little reason to believe things are about to get better.

Whether any of this is good cause for Britain to leave the EU, as it threatens to with a referendum pending within the next two years, is another matter. And yet, recent polls have suggested a closer race than previously thought. The 'remain in' campaign may have a tougher fight on its hands than anticipated.

Much of the debate is going to revolve around immigration, control of borders, laws, relations with foreign powers and other matters affecting national sovereignty. These are issues to do with political sentiment, and there is no predicting how voters will respond to them. The danger for the 'in' campaigners is that the relatively strong economic and geopolitical arguments for staying in will be drowned out by these more emotive arguments.

To the extent that it exists at all, the economic case for leaving is based around three interlinked arguments: that it would free the UK



economy from the burden of European regulation; that it would yield big savings in budgetary contributions; and that it would allow trade arrangements outside the EU on terms that would be more favourable to British interests than the ones collectively negotiated by Europe as a whole.

The last of these assertions is pretty much fantasy. Most modern trade theory revolves around the idea of 'gravity', or that countries are more likely to trade the closer they are to one another and the more similar they are economically. Admittedly, this may not have been the case when European countries still had empires, but times have changed; underdeveloped nations in faraway places can no

longer be prevailed upon to take the mother ship's goods and services.

> In any case, it is a matter of fact that trade is at its most intense within sovereign nations, where common laws, language and proximity support interaction. The idea of Europe's 'internal market' is to recreate this level of intensity at an international level. The consequent degree of economic integration requires some ceding of national sovereignty. The UK Treasury estimates that the single market has boosted trade between EU member states by 38% of GDP, though its impact on Britain is estimated to be a much smaller 7%. This, nonetheless, would be a big chunk of output to see go up in flames, and could not easily be replaced by expanding trade with more remote others.

As for release from European regulation, this,

too, is a far from compelling argument. Already one of the least-regulated economies in the Organisation for Economic Co-operation and Development, the UK would still need some regulation, and in any case would have to comply with most EU standards in order to keep trading with its neighbours. The same argument holds true on budgetary contributions. Much of what goes to the EU would have to be replicated in domestic spending, though obviously not all, because Britain is a big net contributor. The EU would, all the same, likely demand a tariff for continued participation in the single market, much as it does with Norway.

The British economy wouldn't collapse outside the EU, but it would certainly face multiple new challenges on numerous fronts. It would also struggle to sustain its financial services industry, which dominates European finance, on anything like the scale that currently exists.

A British exit would be an enormously destabilising event for Europe at a time when the EU can ill afford further turmoil. The economic arguments against such an event have to be heard more loudly. ♡

SHUTTERSTOCK

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