

Blazing trails in a post-Brexit Europe

Wednesday Briefing No. 7

The Wednesday Briefing is a weekly free-market commentary on topical economic issues by our Head of Research, Diego Zuluaga. You can subscribe to the Wednesday Briefing by e-mailing Greta Gietz at greta.gietz@epicenternetwork.eu.

Tomorrow, the British electorate will decide on a question which, more than any other, has divided voters and the political class in the last quarter-century: the country's membership of the European Union. A referendum of this import can never be opportune, as the magnitude of the potential consequences is always bound to bring instability to markets in the short run, and macroeconomic uncertainty in the longer term. At the same time, it is hard to see how the vote could have been postponed much further, given growing popular discontent with politics in general and the EU in particular. Furthermore, both the UK and the EU have changed considerably since 1973, when Britain joined the bloc. It arguably makes sense to ask today's Britons whether they wish to continue to be a part of today's EU.

From “sick man of Europe” to the EU's leading economy

There can be little doubt that EU membership has been a boon for Britain. Back in 1973, the UK was the “sick man of Europe,” seemingly condemned to permanent decline and bogged down by an exceptional level of state involvement in the economy. Many Britons looked across the Channel in awe and envy at the much higher levels of growth and human flourishing achieved by Germany, France and Italy in the postwar period.

Four decades later, the UK is one of the most dynamic economies in Europe. Following a radical change in the direction of economic policy towards freer markets and privatisation, the country experienced dramatic economic transformation in the 1980s. This swiftly altered Britain's prospects: over the last forty years, average rates of GDP growth in the UK have surpassed Germany's, France's and Italy's. Real disposable incomes per head have more than doubled since 1973, and employment levels have reached all-time highs whilst unemployment, at five per cent, is close to pre-crisis lows. What is more, thanks to a growing population and comparably high rates of growth, the UK is expected to overtake Germany as Europe's leading economy by 2040.

The benefits of EU membership to the UK

There are various ways in which being part of the EU has aided Britain's recent economic performance. Half of the UK's trade is with the Single Market, whilst half of foreign direct investment (FDI) into Britain comes from other EU countries. Furthermore, EU membership makes Britain more attractive as an investment destination for third-country firms looking to do business across Europe – not least international financial institutions, half of whom have a London office which in many cases also serves as their EU headquarters.

The EU's free movement of people, whilst much maligned by Eurosceptics, is disproportionately beneficial to the UK, for three reasons. The first is that English is the most widely spoken foreign language among Europeans, so moving to Britain to work poses less of a hurdle than moving to, say, Germany or Sweden. The second is that the British economy's international orientation means greater demand for international talent and a highly skilled workforce, which domestic labour markets cannot always meet. The third reason is that Britain's booming construction and retail sectors, and its ageing population, require more workers at the lower end of the scale. These jobs often pay below-average wages, especially for less experienced staff, and so are not favoured by native workers. But they are nonetheless critically important to the well-being of many Britons.

The economic impact of immigration is very positive. [University College London researchers](#) estimated in 2014 that the UK's 2.9 million resident EU citizens contributed £20bn annually in tax receipts alone. EU immigrants are paying for the UK's public services – not the other way around. EU citizens also create jobs for UK individuals in their role as consumers of goods and services in the UK.

The benefits of UK membership to the EU

British membership has also unambiguously benefitted the EU. As a typically more market-oriented, pro-innovation economy, the UK has consistently advocated for a more open and competitive EU. It has been a fierce proponent of TTIP, at least until the debate became overwhelmed by [outrageous claims](#) from both Left and Right over the impact of the deal

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on the National Health Service. Recently, the British government [co-wrote a letter](#) with Nordic and Eastern Member States urging the Commission to prioritise innovation and openness over regulation in its Digital Single Market proposals.

Indeed, contrary to the view expounded by Brexiteers, the UK has been and continues to be tremendously influential at a European level. The EU would not have its strict rules against state aid and anti-competitive government policies had it not been for the efforts of Thatcherite Commissioner Leon Brittan. The reduction of regulatory barriers to cross-border trade has been a consistent and important British contribution, too. Britain's soft power in Europe is illustrated by the fact that the UK is [the second best-represented nationality](#) among top officials in the European Commission and Parliament. Some of the EU's most capable and experienced civil servants, such as Jonathan Faull and Robert Madelin, hail from the UK. Spend some time in Brussels' EU quarter and you will quickly realise that a disproportionate number of NGO workers, think-tankers, lobbyists and journalists are British. That is real influence.

The challenge of Brexit

As an Anglophile free-market pro-European, I ardently hope for the UK to vote to Remain in the EU on 23 June. Moreover, it is hard to believe how a cold analysis of the facts could suggest that EU membership has been anything but a win-win arrangement over the past forty years, let alone that voting to Leave would on balance offer a greater likelihood of a prosperous future.

However, with [polls increasingly showing](#) Leave in the lead, it is worth pondering the policy implications of a Brexit vote for the rest of the EU. There can be no mistake that a British departure would be the greatest blow to the European project since its inception, more than the 2010-2013 sovereign debt crisis. A Brexit will challenge the intellectual foundations of European integration and require meaningful change from EU authorities and the Member States.

Heeding (part of) the Eurosceptic critique

Unlike anti-European movements in other EU countries, which are primarily driven by xenophobia, anti-globalism, or both, a sizable portion of the British Eurosceptic critique comes from a liberal-democratic perspective and thus cannot be dismissed as primitive populist demagoguery. There is nothing populist or authoritarian in lambasting bureaucratic inefficiency. It is perfectly legitimate to criticise the EU's policy inertia and the difficulty of changing direction. It is similarly acceptable and fair to raise concerns over the lack of oversight in the spending of structural and development funds, and over the distance – geographical and economic – between those deciding on policy and those facing the consequences on the ground.

These problems have been plaguing the EU since its birth, and growing in importance as European integration expanded in scope and scale. A Brexit vote would illustrate the ultimate consequences of letting these issues carry on unaddressed. It should therefore be seen not as a wake-up call, but rather as a last-chance saloon for the European project: the EU must do less, it must do it better and more transparently, and it must be willing to decentralise policy development and action in accordance with the subsidiarity principle. The 'less is more' agenda spearheaded by Commission VP Timmermans is reason for hope, but not for complacency. More is needed in this regard.

The phrase "Never let a serious crisis go to waste" has been attributed to Churchill and, more recently, to Chicago mayor Rahm Emanuel. And Jean Monnet famously wrote that Europe would be "forged in crises." A Brexit vote will likely open a constitutional crisis of unprecedented proportion. But the old EU remedy – more centralisation – will not do in this case. We are travelling treacherous waters, but this crisis will forge the EU for decades to come.

Further reading:

Reho, Federico O. ["Did we get it wrong? The true meaning of European federalism."](#) *European View* Vol. 14 Issue 1 (June 2015): 85-92.

Rohac, Dalibor. ["Towards an imperfect union: a conservative case for the EU."](#) Rowman & Littlefield, 2016.

Zuluaga, Diego. ["Why we must remain in the EU."](#) IEA blog, 22 April 2016.