eurofacts

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The Independence Dividend is worth £30 billion a year

All the main political parties claim that Britain benefits economically from EU membership but Anthony Scholefield suggests that the figures tell a different story

If Britain were to leave the European Union following a parting of the political ways would it be worse or better off financially, and by how much?

At present all three main parties profess to believe that Britain obtains substantial benefits from membership - despite the absence of any studies that demonstrate this. On the basis of calculations and assumptions below we believe that the Independence Dividend - the net saving that could be achieved through Britain's withdrawal from the EU - could amount to £30 billion a year, or £82 million a day (i.e. a gain of £2000 per annum for a family of four). This sum exceeds the combined revenue raised by Inheritance Tax, Capital Gains Tax, and Council Tax. .

Reclaiming independence would not only achieve substnatial economic gains for the UK, but would also have the advantage of protecting the UK from future wealth destroying measures. These could be more srious than the present damage to Britain s wealth.

Some of the costs and benefits of independence are easily quantifiable, such as the savings of the EU Budget. Other savings are substantial but more difficult to quantify, but it is surely time for some serious attempt to estimate the costs and benefits of membership in their totality.

The Institute of Directors

The IOD policy paper, 'EU membership; What's the Bottom Line?' of March 2000 summarised the position as follows:

'The aggregate impact of the EU budget, CAP, Customs Union, Single Market, EU Social Welfare Model and EU related Foreign Direct Investment is negative for the UK economy. Adding together all the current costs and benefits suggests there is a minimum net cost of £15 billion per annum to UK membership of the EU.

Under an alternative scenario whereby FDI (Foreign Direct Investment) increased because of a lower cost and regulatory burden in the UK, the annual net saving could increase towards £25 billion in the future. If the UK were to join the euro and engage in simultaneous monetary and fiscal policy harmonisation, tax harmonisation alone could double the net cost, even before the effects of lost output attributable to an inappropriate monetary policy.'

The EU Budget - Britain's Contribution

£ millions at current prices

	1999	2000	2001
Contributions by Britain to EU	10524	10719	9557
Abatement	(3176)	(2084)	(4560)
Gross Contribution to EU	**7348**	**8635**	**4997**
Receipts by Britain from EU			
Agricultural support	(2747)	(2916)	(2830)
Regional & social support	(719)	(1865)	(1438)
Net Contribution to EU	**3882**	**3854**	**729**

Britain's Budget Contribution

This is the most easily calculated of all the benefits Britain would gain from leaving the EU. The most important figures are the gross contributions, minus the rebate (itself under threat). Substantial funds are received back from Brussels under the CAP [Common Agricultural Policy] but have to be spent as Brussels decides and some are used for such wasteful schemes as 'set aside'. Other EU funds go to regional and social development but with two major strings. The first is that they are for projects not normally financed by the British tax payer and the second is that they usually must be matched by British funds. These projects are of low utility and the matching fund concept encourages pork barrel politics. The gross contribution, less abatement, is therefore approximately 1 per cent of U K GDP, which was £988 billion 2001.

Common Agricultural Policy

The British elector pays for the CAP in two different ways. First, as a tax payer he pays as part of the British contribution to the budget. Second, as

Continued on P.2

Continued from P. 1

Independence Dividend would be worth £30 bn

a consumer, he pays by being forced to buy EU produced food at higher than world prices. Estimating the cost of the second burden is problematic. Many of the figures quoted do not include the total agricultural cost burden. Global Britain has estimated the cost at £125 per person or £7.5 billion. The OECD estimated the cost of the CAP to the consumer at £9 billion or one per cent of GDP.

Reduced Regulation

An unnecessary burden of regulation reduces profits and employment. Britain also suffers because while EU regulations theoretically apply throughout the EU, in practice they are often ignored or enforced lightly in other EU countries.

The poor unemployment rates in many EU countries were found by the EU Commission (*Financial Times*, 8th November 1996) to be linked to labour market rigidities. The current difficulties of the German economy are also ascribed - not least by German commentators - to labour market rigidities, coupled with euro-induced monetary policy. The current British Labour government has stepped up regulations in this area. Some of them are home-grown, others enforce EU directives such as The Working Time Directive, the European Works Directive, The Parental and Family Leave Directive. Over 2400 EU directives and regulations were issued yearly between 1995 and 1999.

In addition to employment regulations, there is also a huge raft of product standards regulations, trade regulations, etc., to enforce the Single Market.

The IOD concluded *'We have conservatively estimated that the annual cost to the UK economy of the EU social welfare model is 1 per cent of GDP'* [£9 billion].

The Unified Market

One of the little-commented aspects of EU activity is the continuing levy of 'anti-dumping' duties. In many areas these are significant and actually are disadvantageous to being part of a larger market. This is because industries in the EU but outside Britain lobby for them. This results in a straight transfer of wealth from British consumers to firms in other EU countries. Once again the costs rarely fall on the multinationals trading with the EU. In fact, they are the ones lobbying for *'anti-dumping'* duties.

Patrick Minford considered they could add up to 0.5% GDP [£5 billion] (*Daily Telegraph* 30th December 2002).

The Single Market itself has been disappointing. The Grant Thornton European Business Survey of 3rd March 1997 showed that 61 per cent of EU respondents (71 per cent in the UK) said the Single Market had not reduced their costs. 59 per cent (68 per cent in the UK) said that expanding their business in the EU had not become any easier.

The IOD paper concluded in 2000 that there were no net gains to the British economy from the Single Market, and Mario Monti, the EU Commissioner, said in 1996 *'The Single Market has not developed as we had hoped at the macro-economic level.'*

Foreign Direct Investment

Britain in Europe also stated that 'Foreign firms investing in Britain do so to serve the whole European market - not just the British market'. In most cases this is not true.

In March 2000, Global Britain estimated that 70 per cent of inward investment goes into services, banking, etc. Additionally there is large FDI in the oil sector. All these are unrelated to the EU. Global Britain estimates that only 4 percent of FDI is influenced by access to the EU Single Market. Indeed the Japanese FDI often quoted is only 3.5 per cent of total FDI to the UK.

The IEA study, '*Better Off Out*' more conservatively estimates that about 10 percent (£4 billion) of FDI would be lost annually if Britain left the EU. However, this is not a total loss since investors expect to earn profits and remit them at a later date. The correct figure to focus on is that for the productivity losses resulting from this reduction in FDI. This is likely to be negligible, especially when offset by withdrawal of the substantial and secretive British government funding of FDI usually related to Single Market influenced investment.

The IEA study consequently concluded that *'There is no reason that FDI will cease as a consequence of withdrawal'*. The cost of withdrawal is therefore likely to be much less than 1 per cent of GDP - and may in fact be the source of a benefit'

Tax Harmonisation

There is continuous pressure from higher tax EU members to harmonise business taxes to prevent 'unfair tax competition'. At present the British government is trying to prevent harmonised withholding taxes.

The IOD estimates that if tax harmonisation alone halved the tax gap with our EU partners *'the* [tax] *share in GDP would need to rise by 3 per cent, around £25 billion per annum'*

Pension Liabilities

The huge unfunded pension liabilities of most EU states also have implications for the UK. Even if the UK escapes the burden of actually paying for the pensioners of other EU countries, the UK will be affected by tax rates in other EU countries being pushed higher by their pension requirements or by higher euro borrowing costs. The EU Commission's Report for 2002 estimates that health and pensions expenditure would have to increase by nine per cent of GDP over the next 50 years creating higher tax rates in the EU.

The Single Currency

The IOD is not alone in suggesting that as regards the single currency, *'entry would be damaging to the UK economy for the foreseeable future'*. The Bank of England (reported in the

Continued on P.4

Continued from P.2

Independence Dividend would be £30 bn

Financial Times on 17 December 1999) suggested that the economy could suffer a permanent loss of at least one per cent of GDP through loss of control of monetary policy.

Enlargement

The December 2002 agreement for ten countries to join the EU looks a very bad bargain for the new members. The immediate cost to Britain of an enlargement is likely to be very small - about £500 million over three years.

However, after the transitional period, the cost of agricultural support in Eastern Europe will mean that either the CAP will have to be drastically reduced in cost or there will have to be a large increase in EU expenditure. There will also be great pressure for increased structural and social spending in Eastern Europe from new members with further costs to the EU budget. The economic advantages for Britain are minimal - the ten new entrants will add only 4 per cent to EU GDP and their forecast population losses and especially labour force losses are much worse than the existing EU.

Enlargement appears to have a low initial cost for Britain but is storing up huge potential liabilities after the transitional period.

Future of the Rebate

At present Britain does not have to pay its full Budget Contribution million following the Fontainebleau deal agreed by Mrs Thatcher in the 1980's. The rebate comes up for review in 2006 and the French government has already stated it should go.

The Eastern European countries are likely to reinforce this pressure. On 2001 figures, loss of abatement would cost £4560 million.

Shrinkage of the EU

The European Commission's own Economic Review for 2002 pointed out that, from 1970 to 2000, the EU's share of world output had fallen from 25 percent to 18 percent. By 2050 it estimates that it would fall further to 10 per cent (8 per cent excluding the UK). Meanwhile the US share of world output is forecast to remain steady at 26 per cent. Being part of the EU and tied to this rapidly declining area of the world in a single market will inevitably incur huge costs for the UK in such areas as downsizing agricultural output, further regional and social support of declining areas, re-orientation of export activities to growing areas of the world, etc.

Summary

Independence would make Britain much better off and would also remove several future threats to British prosperity.

The Institute of Directors summarised the gains and losses as follows, not taking account of future developments:

	Costs	Benefits	Net Cost
£bn	27.17	9.9	17.3

In 2001 GDP was £988 billion so in that year the figures would result in the following costs and benefits:

% GDP per annum

	Costs	Benefits
EU Budget	0.75	-
CAP	1.00	-
Customs Union	-	0.5
Single Market	-	-
Social Model	1.00	-
FDI	-	0.5
Total	**2.75**	**1.0**

My view is that the benefits the IOD study sees in FDI and the customs Union do not exist and this is supported by the IEA paper.

The reclamation of British fishing rights would re-establish a business worth £1.25 billion per annum but an independent Britain might decide that it should make provision for agricultural support. For the sake of argument it is assumed that it would continue at the same rate as EU support at present i.e. £2.7 billion in 1999.

The Independence Dividend should therefore be calculated in the following way:

		£ Billion
IOD Net Benefits of leaving the EU		17.3
<u>Add</u>	No net benefits of FDI & the Customs Union	9.9
	Re-establishment of British Fishing Industrry	1.0
	Removal of tariffs (anti-dumping duties)	5.0
		33.2
<u>Less</u>	Cost of support to British agriculture at the same rate as EU funding	2.7
Net gain to UK economy		**30.52**

'Let the People Speak'

In our last issue the final line was inadvertently dropped from the article headed, 'Let the People Speak.' This argued that eurosceptics should unite in order to press for a referendum on the European constitution (*eurofacts*, page 1 and 2, 14th February 2003). In its entirety, the final paragraph should have read: "*There is a new slogan around which a large number of those from differing persuasions and allegiances might unite. It is, Let the People Speak.'* We apologise to our readers for this error. For letters on this topic see p.6.