

Baimbridge, M. (2016) The economic costs of membership; in Hickson, K. & Miles, J. (eds.) "The Labour case for Brexit", Labour Leave, London, 17-21.

Economic Costs of Membership

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1. Introduction

The Left's relationship with the European Union (EU) has long been the focus of debate. At the time of the 1975 Referendum leading members of the Labour Party campaigned on both the 'Yes' and 'No' sides, while as recently as 1987 the official policy of the British Labour movement supported withdrawal. Thus, there has been a periodic oscillation of position held by the Left, varying from a 'progressive' critique of Britain's role within European integration to wholehearted support for the creation of a 'social' Europe¹. This has been most recently exemplified by the position of the Leader of the Labour Party, Jeremy Corbyn, who voted to leave in 1975, but now argues that is "possible to be critical and still be convinced we need to remain a member".

More recently, the Left's support for European integration has been viewed as a bulwark against globalisation; however, the belief that the EU provides the potential for realising a progressive social and economic policy is problematic. Considerable faith has been placed in the European Social Model (ESM), yet this remains patchy in both coverage and generosity². Moreover, the neo-liberal framework associated with Economic and Monetary Union (EMU) requires the separate formulation of monetary policy by the independent European Central Bank (ECB) from nationally determined fiscal policy, itself constrained by the Stability and Growth Pact and Fiscal Compact, leading to a lack of policy coordination prejudicial to the construction of a progressive economic framework³.

2. The threat to democratic socialism of EU neoliberalism [498]

The British Left has been increasingly identified as one of the most fervent supporters of the 'European project' where its failure would gravely undermine a sizeable proportion of contemporary social democratic strategy. This is in sharp contrast to the former preference for a national focus for democratic socialist organisation and policy programmes where the EU was distrusted due to a perceived bias in favour of 'big business'.

One of the most notable arguments proffered to explain social democratic support for European integration relates to the oft repeated claim that globalisation has created a new environment within which progressive forces need to adapt traditional programmes and arrest a perceived decline in the efficiency of their preferred policy instruments. The implications from this perspective for democratic socialist strategy are catastrophic, since there remains no room for manoeuvre for discretionary Keynesian policy, with governments compelled to revise policy to conform to the dictates of international financial markets. Thus, 'luxuries' such as full employment, redistribution and the development of a universalistic welfare state may no longer be afforded due to greater economic constraints. However, such a perception of globalisation constitutes a gross exaggeration since nation states retain considerable autonomy in national economic policy as witnessed by Britain's economic performance after exiting the ERM in 1992⁴.

A second significant attraction for the Left concerns the existence of what is often described 'Social Europe' that essentially refers to the combination of a successful, competitive market economy with generous welfare provision and labour protection. Nevertheless, it is the vision that proves attractive

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and not the realisation of democratic socialist aspirations. For example, the current form of social dimension being constructed across the EU, while it has had an impact in less regulated EU member states (such as the UK), remains a minimalist version of a fully-fledged system of social protection of the kind idealised in discussion of the ESM⁵.

Hence, a key reason for questioning the Left's enthusiasm for EU integration concerns the existence of pressure within the EU for reforms intended to create a model more attuned to the neo-liberal precepts of the EU's economic framework. Moreover, this neo-liberal approach is reflected in the attitude of the EU Commission that increasingly views social policy as a means of promoting adaptability and flexibility across the EU economy that is synonymous with weakening collectivised labour and social protection⁶.

A further key aspect that has been embraced by large sections of the Left is EMU; however, its critics point to the combination of substantial initial transfer costs and the danger of being trapped within a permanently fixed exchange rate system, magnified by the deflationary impact of the monetarist-inspired creation of the ECB whose sole objective is control of inflation through a 'one size fits all' interest rate policy. Additionally, the constraints imposed upon national fiscal policy ensure that this deflationary approach will be maintained by the more intensive 'reform' of welfare provision than has already occurred and restriction of counter-cyclical economic strategy⁷.

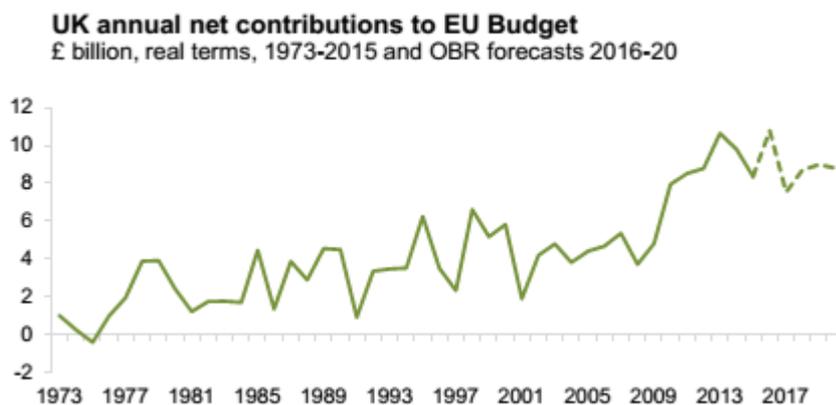
3. The economic costs of EU membership⁸

The relationship between the UK and the EU has always proved to be difficult, where a reason for this scepticism arises from a vague understanding that membership has not delivered the benefits that proponents predicted, while the loss of areas of sovereignty and autonomy of democratic decision making have appeared more profound.

Since the abolition of the Corn Laws in 1846, Britain's policy was to allow free entry to the lowest cost foodstuffs, which benefited industry because workers obtained their food at competitive prices. Additionally the British public possessed more income to spend on other goods, while the countries from which the UK imported food spent on commodities produced in Britain. This beneficial cumulative process was destroyed by the Common Agricultural Policy (CAP) that not only raises the British cost of living, but encourages an inefficient transfer of resources into agricultural output. Moreover, because the UK has traditionally been a net importer of foodstuffs, higher food prices represented deterioration in the UK's terms of trade, whilst the inflationary impact upon UK exports damaged the balance of payments. Estimates of these impacts suggest that UK food prices are up to 20% above world prices, costing the average British family more than £40 per week such that withdrawal from the CAP would benefit the UK economy by between 1-1.5% of GDP. Similarly, the Common Fisheries Policy (CFP) constitutes an example of how the UK gave away control of its resources due to EU accession where accepting fish to be 'a common European resource' contributed to the decline of the UK fishing industry. Additionally, the CFP has been an unmitigated disaster for UK consumers who faced price rises due to restricted supply and lower utilisation of vessel capacity.

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The EU budget is structured so that the UK consistently contributes a greater proportion of finances than it receives in return, or than is warranted, by its relative national income. The four revenue mechanisms were biased against members (like the UK) whose historically higher-than-average consumption rates caused overpayment to the EU in comparison to the GDP per capita calculation. Although the UK has benefitted from a rebate on its contributions since 1985 certain elements from the Budget are excluded from the deduction; in particular, non-agricultural expenditure in new member states, that largely accounts for the sharp increase in the UK's net contribution since 2009. In monetary terms the net remittance to Brussels, and thus the direct cost to UK taxpayers, is currently around £8.5 billion per annum.



The Single Internal Market (SIM) removed all formal trade barriers, while ensuring the free movement of capital, people, goods and services; where estimates suggested that across the EU it would increase GDP by 7% and create 5 million new jobs⁹. For Britain's political and business establishment the belief that it generates such enormous benefits has become an unqualified article of faith; however, rounds of global trade liberalisation suggest that the UK would now not join the EU for trade reasons where the net balance of trade is important for the prosperity and future development potential of an economy. For example, in 2014, the EU accounted for 44.8% of total UK exports while imports from the EU were 52.8% of the total, generating a trade deficit of £59 billion; in contrast, the UK generated a trade surplus of £24 billion with non-EU countries. Thus, experience to date provides no support for the belief that the SIM provides significant benefits for the UK.

Such a substantial volume of resources, drained from the British economy, will have contributed to lower economic growth, leading to fewer jobs (particularly in manufacturing industry) than would otherwise have been the case. Consequently, it has been estimated that a net cost for the UK economy, arising from trade-related matters could be as much as 2.5% of GDP. Furthermore, successive governments have stated that over three million jobs are linked, directly or indirectly, to exports to the EU. However, this is not the number of jobs linked with membership per se since trade with EU countries would still take place if the UK were to leave and would be in the overwhelming interest of EU exporters for it to do so.

An additional pernicious aspect of the SIM is the over-regulation it imposes on firms in that restricts the autonomy of investors, producers and employers, thereby increasing costs, causing inflationary pressure and restraining potential economic growth rates; where estimates suggest such costs being

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2-6% of GDP. Furthermore, such EU regulation has been criticised because it is designed and applied at super-national level; thus, it has not been democratically determined and may be better left to individual nation states.

In addition to these continual hindrances, EU membership included one of the most disastrous economic experiments inflicted upon the UK economy through its ill-fated ERM membership of 1990–92 that resulted in GDP shrinking by 3.8% and unemployment rising by 1.2 million thereby cumulatively costing the UK economy over £67 billion or 11.3% of 1992 GDP in terms of lost potential output¹⁰.

Finally, one of the greatest milestones of European economic integration has been EMU; however, as the events of 2010 onwards indicate this undertaking has not been without risks, particularly given the absence of any EU government or budget mechanism. Indeed, without traditional means of macroeconomic management success of the eurozone largely relies on improving labour market 'flexibility' that frequently results in a 'race to the bottom' of wages and social welfare. Second, the loss of national fiscal and exchange rate policy tools combined with hawkish ECB monetary policy suggests that lower than potential growth rates will become entrenched. Although (thankfully) not a eurozone member, the UK will inevitably be negatively affected by these developments in terms of weaker trade and investment opportunities.

4. Conclusion

The UK's membership of the EU has proved to be disappointing to the advocates of European integration, where the majority of costs exert an annual burden that will continue indefinitely and may even intensify over time. For example, the EU Commission has frequently raised the possibility of eliminating the UK's budget rebate, while agricultural protectionism will remain costly to the UK economy and consumer for the foreseeable future. Moreover, the devastating experience of ERM participation fatally cast doubt upon EMU membership since a forced exit from this scheme would bear a considerably greater cost. Indeed, even the SIM, the one area where most commentators have assumed the UK to be a net beneficiary produces conflicting evidence.

Despite the arguments and evidence presented, many the UK political elite including those on the Left continue to assert that no viable alternatives exist to further European integration. This is a perverse response to the available evidence and it makes little sense to allow a nation's democratic self-determination to be undermined through participation in initiatives leading towards deeper economic and political integration without first considering a range of alternatives. Consequently, either the Left redoubles its efforts in a struggle within the EU to realise a fundamental reform of its institutions and policy framework, or else considers other, more globally orientated, alternatives.

Notes

¹ Baimbridge, M., Whyman, P.B. and Mullen, A. (2007) *The 1975 Referendum on Europe: current analysis and lessons for the future*, Imprint Academic, Exeter.

Baimbridge, M. (2016) The economic costs of membership; in Hickson, K. & Miles, J. (eds.) "The Labour case for Brexit", Labour Leave, London, 17-21.

² Whyman, P.B., Baimbridge, M. and Mullen, A. (2012) *The political economy of the European Social Model*, Routledge, London.

³ Baimbridge, M. and Whyman, P.B. (2015) *Crisis in the eurozone: causes, dilemmas and solutions*, Palgrave Macmillan, London.

⁴ Whyman, P.B., Baimbridge, M. and Mullen, A. (2014) Revisiting the European Social Model(s) debate: challenges and prospects, *Journal of Studies on European Integration and Federalism*, 372 (2) 8-32.

⁵ Whyman, P.B. (2007) *The Nature of Globalisation and its Impact on the UK Economy*; in House of Commons Treasury Select Committee, Globalisation: Prospects and Policy Responses, No. 137, The Stationary Office Ltd, London.

⁶ Vaughan-Whitehead, D.C. (2003) *EU Enlargement versus Social Europe? The Uncertain Future of the European Social Model*, Edward Elgar, Cheltenham.

⁷ Baimbridge, M., Whyman, P.B. and Burkitt, B. (2007) Beyond EU neoliberalisation: a progressive strategy for the British left, *Capital and Class*, 93, 67-91.

⁸ This section draws upon data from Webb, D. and Keep, M. (2016) *In brief: UK-EU economic relations*, Briefing paper 06091, House of Commons Library, London and extracts from Baimbridge, M., Whyman, P.B. and Burkitt, B. (2012) *Moored to the Continent? Future Options for Britain and the EU*, Imprint Academic, Exeter and Baimbridge, M., Burkitt, B. and Whyman, P.B. (2006) Alternative relationships between Britain and the EU: new ways forward?, *The Political Quarterly*, 77 (3) 402-412.

⁹ Cecchini, P. (1988) *The European Challenge - the benefits of a single market*, Wildwood House, Aldershot.

¹⁰ Baimbridge, M. and Whyman, P.B. (2008) *Britain, the euro and beyond*, Ashgate, Aldershot.