

# Why the UK will still be talking about a Brexit at the end of the next parliament

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*Britain's EU membership has been a key issue in the UK's general election campaign, with David Cameron proposing to hold an in/out referendum before the end of 2017 should he remain Prime Minister. Against the backdrop of the election, **Nauro F Campos** writes on the extent to which the UK has benefitted from EU membership, and what the likely effects would be if the country were to leave during the next parliament.*



Whether a Labour or Conservative government emerges victorious from the 2015 UK general election on Thursday, it is abundantly clear that the European question will not go away. A Conservative-led government is likely to deliver an in/out referendum by 2017. A Labour-led government will have to count on popular support to rebuild the UK-EU relationship. Scholars still lack a solid understating of the magnitudes, drivers and dynamics of the benefits and costs of EU membership. Demand for such inputs is unlikely to fade during the next parliament.

Although the term may now be widely understood, a 'Brexit' refers to the possible exit of the United Kingdom from the European Union. This was unthinkable a few years ago. It is an event without precedent: no country has ever left the EU. Current commentary is still attempting to grasp a number of issues surrounding what a Brexit would mean in practice and many aspects of this debate remain difficult to understand. Two questions seem of particular relevance: how would the UK's situation be different from the status quo if the country had never joined the EU, and what is likely to happen if the UK does decide to leave the EU in the near future?

## What if the UK had never joined?

Consider for a minute that the UK had not joined the European Integration project in 1973. What would have been the economic and political consequences of such a decision? Would the UK be **richer or poorer** today? Would the share of Europe in the UK's trade be smaller or larger? Would the UK be receiving less or more foreign investment? How would migration flows into the UK differ in terms of absolute numbers or in terms of average skills?

There are three main issues that make these very important questions rather difficult to answer. They are the nature of European integration, the **uniqueness** of the UK's economic performance after the War, and the particularly bad timing for joining. Eurosceptics like to claim that the UK only signed up for an economic union rather than a political union: that is, just for the Common (later Single) Market. This is not the case. The Treaty of Rome is the outcome of a battle of models, namely a free trade area versus a customs union. Although the technical difference is simple (a common external tariff), setting such a common tariff requires institutions, processes and procedures, and thus entails a very large political step.

This has been clear since at least 1961, when Bela Balassa published his work on **the theory of economic integration**. The Treaty of Rome enshrined a customs union as the dominant model, as opposed to a free trade area. The UK, favouring the latter approach, founded an alternative organisation to champion this model (**EFTA**) but applied to join the customs union model (EC) twice before succeeding at the third attempt in 1973. European integration has therefore been deep from the outset: it is an economic and political process and this makes it inherently difficult to answer the 'what if' question as to the economic benefits, economic costs, political benefits, and political costs. Complicating matters further is the recognition that politics and economics interact: sometimes **complementing** each other, but at other times doing the opposite.

A second reason why it is difficult to assess what would have occurred if the UK had decided not to join is the unique nature of the country's economic performance in the post-war period. Indeed, it is almost impossible to find a single meaningful experience or country to compare the UK with during this time. It was one of only a handful of economies that actually grew during the war, to the extent that in 1945 the UK was once again one of the richest countries in Europe. In 1946 GDP per capita in the UK was 70 per cent higher than the average GDP per capita in the six founding EU members.

By 1961, however, this had declined to 20 per cent and when the UK joined in 1973 it was **9 per cent lower** than the average in the six founding members. While we are used to speaking of something being beneficial if it leads to improvements, in this case the main benefit is that the deterioration stopped and the country's situation stabilised.

Another important difficulty in assessing how the UK's fortunes would have changed outside the EU is the timing of the accession. It is perhaps stating the obvious, but 1973 was not a great year from an economic perspective. The collapse of the Bretton Woods system and the first oil shock heralded a period of economic and political instability. It could be argued that by then all of the low hanging fruit from integration had already been harvested, with those aspects left (for instance the Common Agricultural Policy) not being quite as tasteful. This makes it even more important to recognise the benefits of accession for what they were: the real contribution of joining was not an increase in growth, but that membership helped to freeze the gap between the UK and other European countries, which prior to 1973 had been growing.

### **How would a Brexit affect the UK today?**

The other important issue concerning a Brexit is what the likely effects would be if the UK pursued this course of action today. This is deeply uncertain, but an obvious prerequisite is to know under which terms and conditions a Brexit would be likely to take place. Given the lack of precedent, it is misguided to expect the EU to offer generous terms. Current discussions over the so called '**Norwegian option**' tend to ignore that, in general, EFTA membership does not automatically yield EEA membership (the latter meaning access to the Single Market without the need to participate in the EU's political integration project). Moreover, such discussions also ignore the fact that Norway's deal was both unexpected and unique – and hence unlikely to be on offer again.



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The two other dimensions above are also likely to be crucial. Whereas the UK's original entry into the EEC took place against the backdrop of a successful European economy, the current Brexit discussion is occurring in the context of economic turmoil. However if the worst of the crisis has passed and Europe starts growing again will a Brexit still look attractive? Nobody can know at this point what will happen, but with a new government about to enter office demand will no doubt increase for better and more robust evidence on the costs and benefits of EU membership.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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