

Letter to friends: this is why I will vote Remain in the referendum

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The LSE's **Nicholas Barr** explains why he will be voting to Remain in the EU referendum – citing a wide range of arguments about sovereignty, migration, international influence, regulation, democracy, trade and the single market to make his case. He concludes the economic and foreign policy costs of leaving are large, and the gains in sovereignty in today's connected world are limited.



This article, written for many friends who have asked for a reasoned view of why I will vote Remain, summarises a [longer article](#) which sets out the supporting arguments more fully. I include links to evidence from credible sources, none (with the essential exception of the *Financial Times*) behind a paywall.

Before setting out, some caveats.

- We can't predict the future with certainty. The world faces major uncertainties – economic (another economic crisis?), political (instability in the Middle East), environmental (climate change), societal (population ageing) and technical (nuclear safety). Thus this note does not claim to be 'right', but rather to set out arguments based on respectable theory and evidence.
- The EU hasn't got it all right – far from it. But that on its own is not an argument for leaving. As William Hague ([Telegraph, 22 December 2015](#)) puts it,

'I haven't changed my view on the EU: I have often denounced how it works but never advocated withdrawal from it. This is one of many situations in life where finding many faults with something is different from thinking it best to leave it.'

Background facts

UK opt-outs. The UK has a series of important opt-outs: from 'ever closer union'; from the Euro; from the border-free Schengen Agreement; and from policies on asylum, migration, justice and internal security.

Trade. Figure 1 shows that British trade with the EU is much larger than with anyone else. Trade with China is growing more rapidly but is still very small (2.9%). In round numbers, about 45% of UK trade is with the EU, 18% with the USA and 7.3% with the BRICS countries (Brazil, Russia, India, China, South Africa).

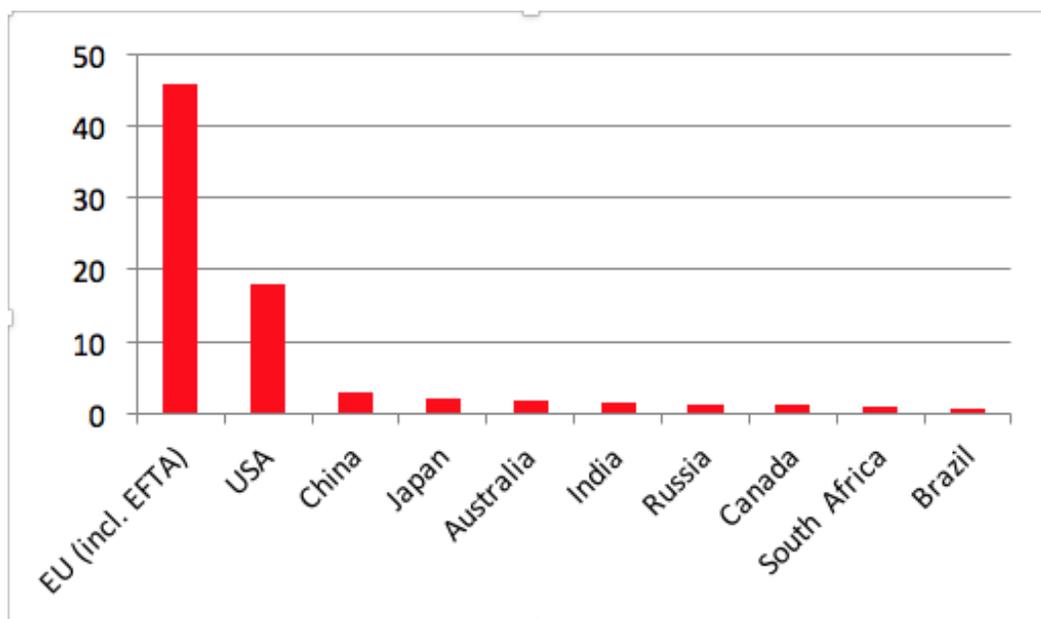
Trade matters greatly. There is near-universal agreement among economists that trade contributes to higher living standards, and that reducing restrictions on trade generally increases the gains.

The Single European Market. Free-trade agreements are mostly about goods (cars, chemicals) rather than services (insurance). The Single European Market is about both and therefore has harmonised regulations to avoid non-tariff barriers (e.g. different or incompatible regulations designed to make it hard to break into a domestic market). If the UK is not in the single market, trade in services will be damaged. That matters because only 10% of UK output is in manufacturing.

Members of the European Economic Area like Norway have access to the single market without being members of

the EU. However, [as a former foreign minister of Norway explains](#), Norway must (a) accept free migration of EU citizens, (b) contribute to the EU budget, and (c) comply with all EU rules but with no say in making those rules.

Figure 1: Percentage of UK exports to other countries, 2014



Source: [UK Pink Book 2015](#), Table 9.1.

Economic effects of leaving

A short [Financial Times video](#) gives an excellent summary.

There is little dispute that leaving would create short-term losses. A Treasury report ([BBC 23 May 2016](#)) on the short-run effects suggests a recession, a view confirmed by the respected independent [Institute for Fiscal Studies](#) who point to the resulting increase in the budget deficit and argue that 'It is unlikely that government would respond with bigger spending cuts and tax rises in the short run. More likely "austerity" would be extended by another year (optimistic scenario) or another two years.'

There is also widespread agreement among economists that leaving would reduce economic growth over a longer time horizon, and that the loss could be large.

How large a loss depends critically on which trade regime is in place after we leave. [The Treasury's medium-term assessment](#) models three options: 'Norway'(remain in the single market); 'Canada' (a bilateral agreement with the EU); or based on World Trade Organisation (WTO) rules without any specific agreement with the EU.

'Britain would face an invidious choice The EU would insist that in return for full access to the single market, the UK must continue to sign up to EU laws, pay budget contributions and accept the free movement of people. As Britain would have voted to escape these perceived burdens, higher barriers to trade with the EU are all but certain. The higher the barriers, the greater the damage to the British economy' (Centre for European Reform, 21 April 2016).

The losses will not fall evenly, but on particular regions (e.g. Cornwall), particular sectors (farming), on particular parts of the country (e.g. where foreign-owned car plants are sited), and on tax-financed public services such as the

NHS if lower growth adds to fiscal pressures.

The argument that the UK will be able to negotiate good trade deals quickly is implausible.

- The EU is more important to the UK than vice versa, so our bargaining power is limited.
- Brexit risks a chain reaction, given rising nationalism across the EU (on which more below). Thus the EU's rational response is to make a horrible example of the UK.
- For non-EU countries (e.g. USA, China), negotiating with the EU offers access to a market of 500 million. The UK is much less of a magnet.

Thus,

'The claim that the outcome will be fine because Britain is the fifth-largest economy in the world is technically wrong, a non sequitur and a fundamental misreading of history. It is hard to think of a worse argument' (Chris Giles, Economics Editor, [Financial Times](#), 4 May 2016).

Do we really send £350 million per week to Brussels?

The claim that membership costs £350 million per week, i.e. £18bn per year, is plain wrong.

'First, the rebate [negotiated by Margaret Thatcher] on Britain's contributions means the annual contribution is expected to be £13bn in 2015. Of that money, another £4.5bn comes back to the UK as farming subsidies and regional development funds. Another £1.4bn comes back in grants to the private sector. These adjustments reduce the £350m a week to £136m ([Financial Times](#), 1 April 2016).

'Claims that we would have an additional £350 million a week to spend are wrong. They imply that following a UK exit other EU countries would continue to pay a rebate to the UK on contributions it was not making. Such claims also imply we would simply stop all existing EU subsidies to farming and poorer regions (such as Cornwall and west Wales)' ([Institute for Fiscal Studies](#) 25 May 2016).

In everyday terms, the cost of EU membership is less than 30p per person per day, roughly the cost of a cheap mobile phone contract. The reduction in the government's tax revenues from even a small reduction in growth rates after leaving would dwarf any saving in our net EU contribution.

Potential international effects

For a summary, see William Hague's articles in *The Telegraph*, [22 December 2015](#), [18 April](#) and [9 May 2016](#)).

Someone misspoke on the radio, asking 'Will you vote to stay in the UK?' – but was right. A vote to leave risks destabilising the UK through the possibility of a second Scottish referendum. There are also ramifications for the Irish peace process ([Financial Times](#), [28 April 2016](#)), which depends crucially on both UK and Irish Republic being members of the EU, with no border for people, goods or services.

Leaving also risks destabilising the EU economically and politically. Marine Le Pen is already calling for a Frexit referendum, with a risk that populist parties in other countries, including Germany, the Netherlands and Denmark, could follow ([Financial Times, 26 February 2016](#)).

If the UK and EU are weaker, the US is weaker. These pressures enact what has been Soviet or Russian foreign policy for sixty years – divide Western Europe and destabilise and weaken the EU – see the powerful article by Garry Kasparov, [Guardian 13 May 2016](#).

Kevin Featherstone [summarises](#) some of the findings of the [LSE Commission on Britain's Future in Europe](#).

'A "no" vote ... will greatly extend the crises that the EU is already trying to manage. Geopolitically, a Brexit will weaken Europe's ability to stand up to Putin's aggression and the challenges of jihadism. The EU would lose a member that has one of its biggest military and diplomatic capacities, its main advocate of interventionism, and the strongest link with Washington. Brexit will threaten the global role of both the UK and the EU. Internally, a Brexit will rejuvenate fears of Germany hegemony, with France alone unable to be the counter-balance, with concerns revived in Europe's east and south.'

Sovereignty

For some, the economic and international costs of leaving might be a price worth paying if it restored UK sovereignty.

Economic sovereignty. The Westminster government has less sovereignty than in the past. First, globalisation has reduced the independence of all countries. For example, the internet makes national boundaries more porous (music downloads, Netflix), making competition global and reducing the freedom of any country to have taxes and regulations too different from competing countries. That said, the UK retains significant sovereignty over fiscal policy (taxes and government spending) because of the opt-out from the Euro.

In addition, the UK shares sovereignty with the UN, NATO, the World Trade Organisation, etc. (the UK has signed 14,000 treaties ([Financial Times, 3 May 2016](#))); and within the UK, central government has devolved significant powers to regions and cities.

International reach. Though there is room for disagreement about how strong the effect would be, it hard to see how the UK becomes a more powerful global actor by separating itself from its own continent.

Migration. For many, this issue is the crux. The question is not whether the issue is real (it is) but the choice of policies to address it.

In 2015, 'Net migration of EU citizens was estimated to be 184,000 (compared with 174,000 in YE December 2014; change not statistically significant). Non-EU net migration was 188,000 a similar level compared with the previous year (194,000)' ([Office for National Statistics 26 May 2016](#)).

Historically there have been great benefits from waves of immigration, from the Huguenots to today's NHS workers. The best available evidence shows that current immigrants are net fiscal contributors and '[t]he contributions of those who stay in Britain may well increase. It is a new form of foreign direct investment' ([Economist, 8 November 2014](#)).

Research by [LSE's Centre for Economic Performance](#) (see [Independent, 12 May 2016](#)) finds that immigration from the EU does not harm wages, jobs or public services. The view that there is a fixed number of jobs, and hence that

immigration reduces the number of jobs for Brits, is widely believed but mistaken (what economists call the 'lump of labour' fallacy). Immigrants to the UK add to domestic demand for goods and services which helps to generate employment.

Those findings, however, do not rule out local problems if numbers increase rapidly. The case for targeted action is strong; it does not follow that leaving the EU is a good answer.

Even if the UK were outside the EU, reducing immigration would not be easy.

'Migrationwatch has estimated that applying the current non-EU migration rules to EU nationals would reduce the current 323,000 net migration total by about 100,000' (National Institute Economic Review, May 2016, p. 20, quoted in the Guardian, 10 May 2016).

Finally, **the flip side of 'gaining control of our borders' is reducing the right of younger Brits to live and work in other EU countries and of older Brits to retire there.**

'A lot would depend on the kind of deal the UK agreed with the EU after exit.... If the government opted to impose work permit restrictions, as UKIP wants, then other countries could reciprocate, meaning Britons would have to apply for visas to work' (BBC, 12 May 2016).

Security. The argument that free movement allows criminals to enter the UK should not be overstated. Driving from Brussels to Amsterdam, the only evidence of a border is the sign 'Nederland', like 'Welcome to Somerset'. Such borders offer no security against terrorists or criminals. But the UK has an opt-out on the border-free Schengen agreement and thus has passport control at its borders. Failures of security are largely domestic, including self-inflicted cuts to Border Agency staff.

Democracy. The argument about 'unelected bureaucrats' is spurious. We never get to vote for Treasury or Home Office officials. The real questions are:

- Is there a democratic deficit in the EU, i.e. does the European Parliament exert sufficiently powerful democratic oversight over the activities of EU officials? There are legitimate doubts whether that is so.
- How likely is it that the problem will be addressed? There are grounds for optimism: the problem is recognised and other member states share UK concerns, so that pressure for change will come from multiple sources.
- Is this issue a reason for leaving? Clearly views can differ. Mine is the same as William Hague's in the quote at the start of this article.

For what it is worth, there are 55,000 EU civil servants; the UK has 393,000 (BBC, 13 May 2016).

Regulation. It is argued that the EU imposes heavy and unhelpful regulation.

- OECD studies show that the UK has the second least-regulated product markets among industrial countries and the least-regulated labour markets in the EU.
- Regulation has benefits. Co-ordination (for example, common safety standards for electrical products) is a necessary part of a single market, making it easier to trade. It also provides consumer protection, e.g. cheaper air fares, lower roaming charges, cleaner beaches.
- What many regard as the most burdensome regulations – planning – are self-inflicted.

Leaving the EU would not reduce regulation substantially. The issue is not regulation as a whole, but removing or revising the bad regulations that undoubtedly exist. That is a highly worthwhile task, but not a reason for leaving.

In sum. The UK remains a sovereign country in the sense that we can at any time decide to leave the EU. However, we cannot as easily decide to rejoin. The opt-outs described earlier were negotiated when the UK was a member state, hence with veto power. Were the UK to leave and later to reapply, the opt outs would no longer be on offer.

Benefits of EU membership

The argument is not only about the costs of leaving but also about the benefits of membership.

- Peace should not be underestimated because so few people are left who can remember the Second World War. The EU has also helped to consolidate democracy in Southern European countries formerly under military dictatorships and in former communist countries in Central and Eastern Europe.
- Membership of the world's largest economy creates considerable economic benefits.
- Membership gives greater control of the international environment (climate change, control of multinationals, action on tax havens).
- Free movement benefits the large numbers of Brits who live and work in other EU countries, something of particular relevance to younger people who live and work in other EU countries for part of their career and older people who retire to warmer climes.

Conclusion

For different mixes of these reasons,

'Best friends from Washington to Wellington, Ottawa to Canberra and Tokyo to Delhi are unanimous that their relationships are tied to Britain's place in Europe. Nato, the ultimate guarantor of British security, thinks the country would be disarming itself by quitting' ([Financial Times, 19 May 2016](#)).

Comparing costs and benefits is not as exciting as a rousing political speech, but is the right way to approach a hugely important decision. For me the balance of arguments is clear: the economic and foreign policy costs of leaving are large, and on my reading the gains in sovereignty in today's connected world are limited. The issue is not about the older generation's past but about our children's and grandchildren's future. For those reasons, I shall vote Remain.



A minimal reading list

On factual matters, see the BBC reality check, www.bbc.co.uk/realitycheck

On economics, see the short [video](#) by Martin Wolf, chief economics commentator of the *Financial Times*.

On international aspects, see the articles by William Hague in *The Telegraph*, [22 December 2015](#), [18 April](#) and [9 May 2016](#)

On sovereignty, see Martin Wolf, *Financial Times*, [3 May 2016](#).

[LSE Commission on Britain's Future in Europe](#)

[LSE Centre for Economic Performance](#)

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Also by Nicholas Barr: [EU membership is not the only way to foster labour mobility. But it is the best](#)

This post represents the views of the author and not those of the BrexitVote blog, nor the LSE.

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