

## Global Vision Perspective

57 Tufton Street, London SW1P 3QL, Tel 020 7233 3121, Fax 020 7222 4388  
info@global-vision.net

### Moored to the Continent?

By Dr Mark Baimbridge, Dr Brian Burkitt  
and Professor Philip B. Whyman

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In the first of two papers for Global Vision, economists Mark Baimbridge, Brian Burkitt and Philip Whyman argue that the economic evidence available suggests that, for the UK, the costs of EU membership outweigh the benefits. Yet despite this, the British political elite continue to assert that no viable alternatives to deeper European integration exist. Baimbridge, Burkitt and Whyman dispute this opinion by investigating a number of possible approaches to the relationship between Britain and the EU. They suggest that analysis of these options will forever explode the claim that there is no alternative for Britain.

## Introduction

The relationship between the UK and the European Union (EU) has always proved to be difficult, juxtaposed between periodic elite-level enthusiasm for closer European economic (if not political) integration and a general lack of enthusiasm for such measures on behalf of a majority of the electorate, as indicated by successive opinion polls. This trend has been marked, and consistent, since Britain left the European Exchange Rate Mechanism in September 1992. Opinion polls have regularly revealed an approximately two-thirds majority against euro membership and signing the EU Draft Reform Treaty. Although successive governments have avoided producing an official cost-benefit analysis of EU membership, a number of independent studies have generated sufficient evidence for policy conclusions to be reached:

- The Common Agricultural Policy (CAP) has caused food prices to rise by up to 20% above world prices (Burkitt *et al.*, 1996; Pain and Young, 2004), hence unilateral withdrawal from the CAP is estimated to benefit the UK economy by between 1-1.5% of UK GDP (Hindley and Howe, 1996; Milne, 2004; Minford *et al.*, 2005).
- Deva (2002) calculates that approximately 40% of all legislation that affects Britain arises from the EU, whereby the costs of regulation and harmonisation have a significant net cost for companies and organisations of between 2-6% UK GDP (Milne, 2004; Minford *et al.*, 2005).
- ERM membership (1990-92) resulted in GDP shrinking by 3.8%, unemployment rising by 1.2 million, thereby cumulatively costing the UK economy over £67 billion or 11.3% of 1992 UK GDP in terms of lost potential output (Burkitt *et al.*, 1996).
- The UK has suffered a total accumulated trading deficit of over £90 billion with the EU, whereas during the same period it has enjoyed a trading surplus of over £70 billion with the rest of the world. Consequently, Milne (2004) and Minford *et al.* (2005) estimate a net cost for the UK economy, arising from trade-related matters, varying between 0.1% and 2.5% of UK GDP.

Despite this brief overview of the principal economic cost-benefit issues, the UK political elite continue to assert that no viable alternatives exist to the transition towards 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 further initiatives leading towards deeper economic and political integration without first considering a range of alternatives that exist for the UK. Consequently, this *Global Vision Perspective* seeks to outline a number of these options.

## The status quo position

It constitutes the obvious short-term position, whereby the UK retains EU membership, but relies upon its opt-out from Economic and Monetary Union (EMU) and refuses to participate in further economic and political integration. There are a number of precedents where individual member states have pursued their national interests even if this threatened to hamper the effectiveness of the EU institutions. Although the extension of Qualified Majority Voting (QMV) has weakened the potency of this tactic,

a determined effort to resist Britain being pulled deeper into economic and political integration might win both support from other member states (e.g. Czech Republic, Denmark, Poland, and Sweden), and compromises. The key question is whether we can retain the status quo if the rest of Europe continues to progress integration, or whether it depends on persuading the rest of Europe to stand still or even roll back existing powers?

A second issue relates to Britain's ability to establish a bilateral trade agreement with a third party, as it would appear that such actions are not compatible with current EU rules. Although Denmark possesses an agreement with fellow Nordic states, this precedent may not apply to the establishment of new unilateral trade agreements after EU membership. Consequently, the benefits arising from closer co-operation with other trade blocs might cause difficulties within the constraints of EU membership.

The status quo strategy generates a number of, albeit limited, advantages. The most significant of these relates to the fact that Britain retains access to the Single Internal Market (SIM) and is able to determine, jointly, harmonisation definitions and other trade-related rules. Additionally, it avoids further costs associated with adopting the single currency, negates future initiatives to move towards a common defence and foreign policy, and avoids the further extension of QMV.

This strategy is, however, problematic. Although further integration measures can be vetoed, Britain remains committed to those that already exist. Apart from the obvious direct costs of budgetary contributions, agricultural protectionism and a long-term trade deficit with other EU member states, disadvantages also include the fact that, whilst the UK has an opt-out only from the final stage of EMU, it remains committed to the requirement to meet the convergence criteria established in the Treaty on European Union.

### **Renegotiation of EU membership obligations**

A second option available to the UK is to press for renegotiation of the obligations posed by EU membership. It would involve withdrawal from some or all of the EU's burdens upon the British economy, whilst remaining within the organisation. Thus targets for renegotiation could include the reconstitution of the CAP and the Common Fisheries Policy (CFP) and appraisal of the UK's budgetary contribution, together with opt-outs from specific policy initiatives (e.g. the single currency, European foreign and defence policy, any EU-wide judicial system, etc).

Such a strategy enjoys a number of precedents, including negotiation of an opt-out from the final stage of EMU, together with the budget rebate in 1984. One obvious source of negotiating strength derives from the fact that the UK is a net budget contributor and would probably remain so even after further contribution rebates and/or opt-outs, whilst the other member states enjoy the benefit of a large trade surplus with the UK.

This strategy would not necessarily isolate Britain from other member states; dropping of the ceaseless pursuit of increasing integration could form the basis for the creation of a coalition for reform. Thus renegotiation could be pursued in isolation or as part of an attempt to redesign the format of the EU at a more fundamental level.

However, problems with this policy include its reliance upon the maintenance of bargaining strength to secure concessions within already agreed international treaties. Implicit to the renegotiation approach, made more difficult by enlargement and the resulting increased pressures on the EU budget, is the achievement of a compromise. It will inevitably entail that some costs are removed from British citizens to the detriment of enshrining others more deeply in any new arrangements.

### **Negotiating a new relationship in an Associated European Area (AEA)**

One proposal that Britain could pursue as part of a larger renegotiation of its relationship with the EU involves changing the EU's rules to facilitate the creation of an Associated European Area (AEA) (Cash, 2001). It would provide a distinctive choice for member states of the type of European supranational collaboration they desire, whether the pursuit of ever-deeper integration via an inner core group of EU member states, or a looser, co-operative arrangement. The former could pursue their goal of creating a United States of Europe, complete with a single currency, one central bank and convergence of economic policy, together with other trappings of a nation state. Simultaneously, members of the AEA could continue their co-operation with member countries in trade and environmental areas, but retain national control over other areas of policy (i.e. macroeconomic, currency, social, labour market, foreign and security policy).

Furthermore, it would remove the requirement that each member of the EU has to accept in full the *acquis communautaire* upon membership. It would also restore authority to national parliaments by removing the requirement of QMV from those areas of EU business where it currently applies. Such a strategy might prove feasible, because it would simultaneously release the impediments to a group of countries accelerating their integrationist agendas, whilst offering the looser arrangement that others prefer. Indeed, EU enlargement could facilitate this process.

However, in-so-far as the intention is to release Britain from most of the burdens by EU membership, whilst retaining membership of a trade-bloc through the SIM, it might be more easily achieved through membership of the already-existing European Free Trade Agreement (EFTA) and European Economic Area (EEA), rather than creating new institutional arrangements.

**Negotiating a new relationship based on the EEA** The UK would be eligible for membership of the EEA, which is an agreement made between EFTA (less Switzerland) to extend the internal market of the EU, creating the world's largest and most comprehensive multinational trading area. Under the agreement, free movement of people, goods, services and capital exists across the entire area. Exceptions to coverage include agriculture and fisheries, whilst the EEA has no common external tariff and therefore requires the identification of the country of origin for all goods and services.

As a member of the EEA, the UK would possess full access to the SIM and retain some influence over the rules that affect trade with EU nations. Moreover, the EEA ensures free trade without the discrimination against external nations created by a customs

union. The terms of the EEA stipulate that the UK business sector would operate under the same general conditions as its EU competitors, whilst ensuring that EEA member states negotiate relevant legislation jointly, without the EU imposing standards arbitrarily.

Furthermore, the EEA provides member states with the right to oppose and veto EU law if they feel that it operates against their national interest. Although a net transfer of income to the EU budget is part of the requirement for EEA membership, it would be significantly lower than the budgetary burden imposed by full EU participation. Membership of the EEA releases the UK from pressure to participate in the ERM and in eventual EMU.

A potential disadvantage of the EEA compared to full EU membership is the power imbalance between EU states and EEA members. However, this may be partly resolved if the UK reduced its membership to that of EEA status, as the UK and Norway would jointly provide a far more credible counter-balance to the EU in future negotiations.

## **Conclusion**

Britain's current relationship with the EU has imposed considerable costs upon the domestic economy. Consumers pay higher prices due to the interaction of agricultural subsidies and budgetary mismanagement, whilst businesses pay the cost of over-complicated regulation (Burkitt, *et al.*, 1996; Baimbridge, *et al.*, 2005). Future costs relate to a low growth environment via the deflationary economic policy infrastructure surrounding EMU, together with uncertain initiatives relating to the development of a social market, regulated labour relations and aspects facilitating political unification (such as defence, foreign policy and immigration controls).

In response to these problematic aspects of membership, this *Perspective* outlines a number of potential alternative approaches to the relationship between Britain and the EU. It has examined the case for the status quo (facilitating a multi-speed Europe), together with the renegotiation of Britain's membership terms and conditions with the EU (thereby potentially lowering future direct costs associated with membership).

The existence, and analysis, of these alternatives explode forever the establishment claim that 'there is no alternative' to membership of an increasingly centralised, integrated EU. For the UK, a multiplicity of more attractive potential futures is possible, if the political will exists to pursue them.

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### **Notes on the authors:**

**Dr. Mark Baimbridge** (University of Bradford) - his principal areas of research are: monetary integration; the UK-EU relationship; applied microeconomic aspects; political integration. He is the author/editor of: *The impact of the euro* (Macmillan, 2000), *Economic and monetary union in Europe* (Edward Elgar, 2003 & 2005), *Fiscal federalism and European economic integration* (Routledge, 2004), *Current economic issues in EU integration* (Palgrave, 2004), *Implications of the euro* (Routledge, 2006), *Analysing the 1975 referendum: lessons for the future?* (Imprint Academic, 2007) and *Analysing the 1975 referendum: reflections on the 1975 referendum* (Imprint Academic, 2007), together with a number of forthcoming texts: *Britain, the euro and beyond* (Ashgate), *Current issues in EU enlargement* (Palgrave), *EU enlargement: challenges and prospects* (Copenhagen Business School Press), *Social Europe* (Routledge) and a three volume series analysing *The EU at 50* (Palgrave).

**Dr. Brian Burkitt** (University of Bradford) - his principal research areas are the UK-EU relationship; monetary union; social policy. He wrote two widely quoted reports, *Britain and the European Economic Community: an economic re-appraisal*, and *Britain and the European Economic Community: a political re-appraisal* at the time of the 1975 Referendum on EEC membership. He is also author/editor of: *Trade unions and wages* (Crosby Lockwood Staples, 1975 & 1980), *Trade unions and the economy* (Macmillan, 1979), *Radical political economy* (Harvester Wheatsheaf, 1984), *The political economy of social credit and guild socialism* (Routledge, 1997), *The impact of the euro* (Macmillan, 2000) and *Implications of the euro* (Routledge, 2006).

**Professor Philip B. Whyman** (University of Central Lancashire) - his research interests include the impact of European integration upon labour markets; fiscal federalism; international monetary developments; the UK's future relationship with the EU. He is the author/editor of: *The impact of the euro* (Macmillan, 2000), *Economic and monetary union in Europe* (Elgar, 2003 & 2005), *Sweden and the 'Third Way'* (Ashgate, 2003), *Fiscal federalism and European economic integration* (Routledge, 2004), *An analysis of the economic democracy reforms in Sweden* (Mellen Press, 2004), *'Third way' economics* (Palgrave, 2005), *Implications of the euro* (Routledge, 2006) and *Analysing the 1975 referendum: lessons for the future?* (Imprint Academic, 2007), together with the forthcoming texts: *Britain, the euro and beyond* (Ashgate) and *Social Europe* (Routledge).

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Global Vision is a new campaign group backed by economists and business leaders that argues for a looser British relationship with the EU, based on free trade and mutually beneficial cooperation, whilst opting out of economic and political union. Global Vision believes that this is the right relationship for Britain in the 21<sup>st</sup> century's rapidly changing world. For more details on Global Vision please visit our website: [www.global-vision.net](http://www.global-vision.net).