

Global Vision Perspective

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UK-EU TRADE CREATES FAR FEWER JOBS IN THE UK THAN IN THE REST OF THE EU

By Ruth Lea

Introduction

There is little doubt that UK-EU trade is beneficial – not least of all because it creates jobs in the UK and in the rest of the EU. Exports generate jobs both directly, in the exporting industries and their supplying industries, and indirectly as a result of the expenditure on domestic goods and services from the incomes of the exporting industries.

UK jobs created

One oft-quoted economic study on UK jobs created is by Ardy, Begg and Hodson.¹ They concluded that nearly 3.5 million British jobs were dependent on exports to the EU.

The methodology was as follows:

- Data of the industrial breakdown of exports of goods and services, for 1997, was used as the foundation for the estimates.
- These exports data were multiplied by the reciprocal of labour productivity for each industry to obtain the direct employment effect, which was estimated to be 2.5 million (rounded).
- The income generated in the export industries, leading to further demand for UK goods and services, was estimated at 0.3 times the total amount of exports to the EU. This indirect demand was then distributed according to each industry's share of GDP.
- These indirect effects were estimated to create a further 0.9 million jobs (rounded). In other words, the indirect effects were substantial at over a third of the direct effects.
- The direct and indirect effects were added together, giving a total of 3.445 million British jobs which depended upon exports to the EU in 1997.

This methodology is perfectly valid, even though it does relate to 1997 and the numbers are very out-of-date. But it gives, of course, only one side of the story concerning the job creation effects of UK-EU trade within the UK. It does not deal with the number of UK jobs that are arguably “displaced” by imports from the EU. The analysis, therefore, gives no estimate of the number of “net” jobs that are created in the UK by UK-EU trade. For this reason, if for no other, the overall analysis must be regarded as incomplete at best and, arguably, highly misleading at worst.

This shortcoming is all the more significant because the UK runs a very large trade deficit with the rest of the EU. As the table below shows, Britain imported 21% more goods and services from the EU than it exported to the EU in 2007.

The equivalent figure for goods was 32%! Given the UK's trade deficit with the EU, the "net" jobs creation figure is currently likely to be negative.

UK trade in goods and services with the rest of the EU (£bn)

	2006	2007
Exports of goods	152.4	127.9
Imports of goods	184.4	168.3
Visible trade balance	-32.1	-40.4
Exports of services	52.1	54.0
Imports of services	51.4	52.5
Balance on services	0.7	1.5
Exports of goods & services	204.4	181.9
Imports of goods & services	235.8	220.7
Balance on goods & services	-31.4	-38.9
Import/export ratios:		
Goods	1.21	1.32
Services	0.99	0.97
Goods & services	1.15	1.21

Source, ONS, "Balance of Payments, First Release", 2007 Q4 and 2007, 28 March 2008.

Another study on UK jobs created by UK-EU trade that is frequently quoted is by Pain and Young, which also relates to 1997 data.² They estimated that approximately 2.7 million jobs in the UK can be linked directly to exports of goods and services to the EU – a similar figure to Ardy *et al*'s figure quoted above.

The study by Pain and Young specifically considered the scenario where the UK left the EU rather than negotiated a new relationship based on trade and cooperation but they concluded, interestingly, that:

"Although we find that a large number of jobs are now associated with exports for the EU, there is no a priori reason to suppose that many of these, if any, would be lost permanently if Britain was (sic) to leave the European Union"

Jobs created in the rest of the EU

The other side of the job-creating coin is, of course, the number of jobs that are created in the EU by their trade with the UK. Unfortunately, no such economic study seems to be readily available. But, making the bold assumption that the jobs to exports ratio and the indirect effects of exporting (as discussed above) in

the rest of the EU are similar to the UK's, very approximate calculations can be made. If, for the sake of argument, we take the totemic 3-3½ million as the gross figure for the number of jobs created in the UK in 2007, the equivalent number of jobs created in the rest of the EU could be around 3½-4 million.

These numbers can be, at best, only crude rules of thumb unless and/or until in-depth economic studies become readily available. But they serve to remind us that trade is a two-way street. And the rest of the EU benefits more than the UK does. It can be fairly claimed that the rest of the EU needs us more than we need them.³

A statistical approach

In the absence of full economic studies, another approach to estimate job creation is to:

- Calculate the “exports to the UK to GDP” ratios for each Member State (excluding the UK of course).
- Estimate the number of jobs dependent on exports to the UK, by calculating the product of the “exports to the UK to GDP” ratio and total employment. If, for example, any Member State has an “exports to GDP” ratio of 10% and total employment of 10 million, then the number of jobs dependent on exports to the UK would be 1 million.

The advantage of this approach is that the data are very readily available and the calculations are very straightforward. But it has major disadvantages. One disadvantage is that it does not accommodate the probability that Germany's export industries (for example) are less labour intensive than for the German economy as a whole. (German exports are concentrated in manufactures which are less labour intensive than services.) The number of jobs dependent on exports is, therefore, likely to be over-estimated. In the case of a country like Cyprus, where exports are dominated by services, this would be less of an issue.

Another disadvantage is that no allowance is made for the indirect effects. This would result in under-estimates of the number of dependent jobs, which could possibly offset (or even more than offset) the tendency to over-estimate the jobs numbers because export industries are likely to be less labour intensive than the economy as a whole. As stated above, Ardy *et al* estimated that the indirect effects for the UK were substantial and amounted to over a third of the direct effects.

The following table shows the key results, covering totals and the 10 EU countries which do the most exporting to the UK, for EU jobs dependent on trade with the UK, using this alternative statistical approach. Detailed and more comprehensive figures and data sources are shown in the annex.

Estimated number of EU jobs dependent on exports of goods and services to the UK, thousands, 2006

	Estimated dependent employment (thousands)
Germany	1,184.0
France	816.7
Spain	706.6
Netherlands	613.6
Italy	402.9
Poland	372.7
Belgium	351.3
Portugal	244.2
Ireland	236.8
Greece	198.2
Total	6,394.2
Memorandum	Estimated employment dependent on trade with the EU (thousands)
UK trade with the EU	4,462.3

At face value, these figures suggest that nearly 6½ million EU jobs depend on their trade with the UK, whilst just 4½ million British jobs depend on its trade with the rest of the EU. Again at face value, and bearing in mind all the qualifications made above, about 1 million German jobs, 800,000 French jobs and 700,000 Spanish jobs may depend on their trade with Britain.

Even allowing for the qualifications, these numbers suggest that their exports to Britain are of major economic significance to many other EU countries. They would surely not seek to jeopardize the benefits they enjoy by threatening the UK with protectionist behaviour. Quite simply, it would not be in their interests.

References

1. Brian Ardy, Iain Begg and Dermot Hodson, "UK jobs dependent on the EU", Britain in Europe, 2000.
2. Nigel Pain and Garry Young, *Continent Cut Off? The Macroeconomic Impact of British Withdrawal from the EU*, NIESR, February 2000. This report was prepared at the request of Britain in Europe.
3. Ruth Lea, "A new trading relationship for Britain with the EU", Global Vision, March 2008, available from www.global-vision.net. This paper discusses this issue further.

Annex

Table 1: Estimated number of EU jobs dependent on exports of goods and services to the UK, 2006

	Exports to the UK (£bn)	GDP m.p. (£bn)	Exports to the UK as a % of GDP	Total employment (millions)	Estimated employment dependent on trade with the UK (actual)
Austria	3.799	175.871	2.16	3.928	84,853 (17)
Belgium	17.086	216.141	8.24	4.264	351,274 (7)
Cyprus	3.071	9.899	31.02	0.357	110,849 (16)
Czech Republic	3.113	77.490	4.02	4.828	193,960 (11)
Denmark	7.363	150.078	4.91	2.805	137,636 (15)
Estonia	0.820	9.021	9.09	0.646	58,749 (19)
Finland	3.231	114.115	2.83	2.443	69,184 (18)
France	40.315	1,222.645	3.30	24.769	816,749 (2)
Germany	50.165	1,583.695	3.17	37.378	1,184,011 (1)
Greece	2.877	64.623	4.45	4.452	198,215 (10)
Hungary	2.371	61.309	3.87	3.930	151,985 (13)
Ireland	13.862	119.358	11.61	2.039	236,760 (9)
Italy	17.643	1,006.635	1.75	22.988	402,907 (5)
Latvia	1.418	10.987	12.91	1.087	140,307 (14)
Lithuania	0.354	16.172	2.19	1.499	32,813 (21)
Luxembourg	3.283	23.074	14.23	0.195	27,788 (22)
Malta	0.532	3.420	15.55	0.152	23,704 (23)
Netherlands	27.055	364.229	7.43	8.261	613,621 (4)
Poland	4.731	185.266	2.55	14.594	372,665 (6)
Portugal	5.006	105.747	4.73	5.160	244,247 (8)
Slovakia	0.708	29.985	2.36	2.302	54,362 (20)
Slovenia	0.339	20.335	1.67	0.961	16,024 (24)
Spain	23.926	668.680	3.58	19.748	706,591 (3)
Sweden	7.767	208.5666	3.72	4.429	164,951 (12)
Total					6,394,207

Table 2: Estimated number of UK jobs dependent on exports of goods and services to the EU, 2006

	UK exports to the EU (£bn)	UK GDP at market prices (£bn)	UK exports to the EU as a % of GDP	Total UK employment (millions)	Estimated employment dependent on trade with the EU (actual)
UK	205.036	1,302.056	15.75	28.337	4,462,270

Original sources of data for both tables:

- (i) Exports of goods and services: ONS, *UK Balance of Payments, The Pink Book, 2007*.
- (ii) GDP (current market prices): OECD, *Main Economic Indicators, Volume 2007/10* (October 2007).
- (iii) Employment: Eurostat database.

These specific calculations were provided by a Conservative MP who had obtained them from the House of Commons library for a speech he gave to the Institute of Economic Affairs on 29 February 2008.

Note on the author:

Ruth Lea is currently Director of Global Vision and Non-Executive Director and Economic Adviser to Arbuthnot Banking Group. She is the author of many papers on economic matters and writes regularly for the press. Ruth was Director of the Centre for Policy Studies from 2004-2007. She was also Head of the Policy Unit at the Institute of Directors (IoD) between 1995 and 2003, before which she was the Economics Editor at ITN, Chief Economist at Mitsubishi Bank and Chief UK Economist at Lehman Brothers. She also spent 16 years in the Civil Service in the Treasury, the Department of Trade and Industry and the Central Statistical Office. She has served on the Council of the Royal Economic Society, the National Consumer Council, the Nurses' Pay Review Body, the ONS Statistics Advisory Committee, the ESRC Research Priorities Board and the Retail Prices Advisory Committee.

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 21st century's rapidly changing world. For more details on Global Vision please visit our website: www.global-vision.net.