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ARE PRIDE AND VANITY THE FALL OF BRITAIN?

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The interpretations and conclusions made in this article belong solely to the author and do not reflect IPC's official position.



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Introduction

Ever since the UK joined the EU in the 1970s, questions have been asked whether it is in Britain's best interest to further integrate itself within the European Union. Decade after decade the costs and benefits of such a union have been debated and have been fraught with tensions within the political parties themselves as well as the general public. As with any project that is to survive the test of time, the objectives and methods of the EU have had to adjust and change. The calls of those who are opposed to membership of the EU have also changed. In the 1970s the reasons against joining the EU were based mostly on protectionist values, whereas now the calls from Eurosceptics are for freer trade.

While the EU is in essence a customs union of a single market, steps have been made for an "ever closer union," and a process of political integration has been underway for some time. The very creation of the EU was a political endeavor, the purpose being to prevent further wars. As stated by Minford, Mahambare, and Nowell, "There is no doubt, given the ferocious history of our continent in the twentieth century, that this is a crucial aim. The expansion of the EU to include the ex-Soviet countries of Eastern Europe is a major contributor to this aim."[1]

This concept of political integration is where the UK has always differed from its continental counterparts. Many Britons hold the belief that the UK has not been invaded since 1066. This has lead to an exceptional belief in Britain's security and prosperity as a lone actor. Moreover, the fact that the UK does not have any connecting borders to its neighbors has resulted in a very different approach and level of acceptance towards the EU. The UK has a more "transactional" relationship with the EU, whereas other member states tend to take an ideological approach based on identity. The UK is less anchored in the European project as it merely "aims at enlarging the Single Market and regards the EU as a purely economic project, whereas continental Europe does have a political and ideological approach, where the EU does not solely represent an economic achievement but is also shaped by political and ideological accomplishments."[2]

This aspect is perhaps what the British forget when discussing the costs and benefits of the UK's membership to the EU. While the economic aspects are certainly of prime importance to its membership, political integration is not necessarily a negative aspect that should be rejected outright. The problem with this is that political objectives and advantages of a political union are entirely personal and intangible in nature. Thus, when looking at cost benefit analyses, it is not feasible or practical to project future relations that the UK would have with the EU or the wider world. However, the sentiment expressed by Margret Thatcher in 1988 still holds true today, that "Britain does not dream of some cosy, isolated existence on the fringes of the European Community,"[3] which is a possible outcome if the British choose to leave the EU.

While there have been historic tendencies to question the benefits of the UK's membership in the EU, the wake of the financial crisis and the resulting austerity measures have driven a more forceful Euroscepticism in many member states, based more on the costs of our European relationships than on the benefits. There has been a steady rise in Euroscepticism across Europe. One only need look at two of the key member states to see the rise of the *Front Nationale* (FN) in France or the *Alternative für Deutschland* (AfD) in Germany, while the rise of the UK Independence Party (UKIP)

in the UK has been much steeper over a shorter period of time. Yet, for Britain, "there is no doubt that the UK tabloid press exerts an influence over how the EU is framed, which is unrivalled compared to that in other EU nations."[4] There are two main causes for this: first is that at the public level of dissemination of information, there are many more tabloid publications and subscriptions than there are intellectual news outlets; second is the amount of pressure exerted on the Government itself. At the Levenson inquiry in 2012, Former Conservative Prime Minister John Major made this clear by declaring, "Mr. Murdoch said… he wished me to change our European policies. If we couldn't change our European policies, his papers could not and would not support the Conservative government."[5] It was not only the Conservatives who succumbed to the press over the topic of the EU. Lance Price, a former communications advisor to Tony Blair, in 1998 said, "We've promised News International we won't make any changes to our Europe policy without informing them."[6] Even with the stranglehold grip of the tabloid press on EU policy within British politics and the prominence of tabloid journalism, there is a further problem, which is that in the UK "knowledge of the EU is the lowest of all member states."[7] This clearly makes a bad situation worse, whereby a sceptical media can present fearful and damaging representations of the EU to an ignorant population. Yet, it is a failure within British politics to explain the importance of the EU in relation to Britain's interests. British MEP campaigns are run on purely domestic issues; thus, the British public are unaware of the purpose of MEPs in relation to either themselves or to Britain as a whole. This is an institutional failure that begs the question that has often been raised, "why does the UK need to be a member of the EU?"

While the desire for an EU referendum in the UK has been rising for some time, only now has there been a real possibility of a separation from the UK's European partners since the 1975 referendum. Cameron's acquiescence to party politics in an effort to maintain leadership and stave off threats of a rebellion has plunged the UK into a difficult choice of staying with the status quo or voting for the unknown with no plan of action other than a blind belief that the UK is too important in the world to be ignored or allowed to fail if it chooses to leave the EU. While Cameron's package of reforms may quell the few who are dismayed with the UK-EU relationship, for many the reforms are not ambitious enough and do not give the UK the ability to properly pursue its interests. While Cameron's reform package has been dissected and analyzed to a great extent, the EU referendum is not based on this package of renegotiating Britain's position within the EU. The question is simply whether the UK is better inside Europe or outside it. Over the course of the build-up to the referendum, there are common points that are consistently brought up for assessment, some of which are part of the package that Cameron had secured in Brussels and are fundamental in determining whether the costs of Britain's EU membership outweigh the benefits.

Competitiveness and Sovereignty

Frequently the argument by Eurosceptics is that membership of the European Union has eroded British sovereignty. This phrase has been repeated time and again by those who believe Britain is more capable of governing and leading itself than as a member of a collective group. Yet, the definition of sovereignty is also a widely encompassing term. Many use the term to imply parliamentary sovereignty, which is representative of how the British Parliament is in control of its own laws that are created solely by British elected officials. Yet, others believe that this goes further into economic sovereignty and the ability of the UK to set its own

laws regarding "legal regulations, state intervention and the commodification of everyday life."[8]

As stated earlier, the British press has a penchant for Eurosceptic headlines. Frequently it portrays events in Brussels regarding European policy or legislation that affect Britain as something that the UK is neither in a position to influence nor participate in. This certainly is not true: as Besslich states, "when analysing the decision-making process of the EU, it becomes clear that national governments and parliaments remain involved in the process."[9] The EU is not centralized. The European Commission proposes legislation, which is then in turn debated and either passed, amended, or rejected by MEPs and government ministers in the European Parliament and the Council. The Council consists of high-ranking officials from member states, while the European Parliament is composed entirely of national governments' representatives, all of whom have a say and degree of control over what does and does not pass into European law. There are also varying degrees of EU Legislation. Regulations are direct laws, which are applicable to all member states. Directives are binding in terms of the result to be achieved, but the method in which the directive is to take shape is entirely in the control of the member state. In some instances the member states impose more restrictive measures than necessary to achieve the result. The UK has many examples of this practice, which is known as "gold-plating." For instance, an "EU Directive gives women protection by requiring that employers allow at least 14 weeks' maternity leave paid at sick pay rates. The UK goes further, by requiring 90% of full pay for 6 weeks, then lower statutory pay for 33 weeks."[10] The UK has also "introduced a far more ambitious system of carbon pricing than that countenanced by the EU as a whole."[11]

While the British press often declares that sovereignty has been eroded and moved from the British people to the bureaucrats in Brussels, many other Eurosceptics also use the illusion that elected British officials do not have a say in the outcomes of European legislation. An Open Europe paper by Stephen Booth et al. declares that the EU's role "not only restricts national policy making but reduces democratic accountability to the British Electorate."[12] Yet, when representatives voted for by the British public are voting to implement such measures this cannot be the case. That is not to say that there are elements that are not desirable, but a lack of democratic accountability is not entirely true. It is true that British sovereignty is "constrained by con-federal institutional arrangements."[13] There are certain disadvantages of the loss of some sovereignty over the capacity to quickly and decisively pursue its interests. It is true that the ability to reach a consensus with 27 other member states to formulate policies is often a slow process of decision making.

That being said, the *Review of the balance of competences* between the UK and the EU was intended to create an outline of what powers the UK Government should attempt to recover from the EU. The final review concluded that the balance of powers was about right as is:

> [The] key benefits included: increased impact from acting in concert with 27 other countries; greater influence with non-EU powers, derived from our position as a leading EU country; the international weight of the EU's single market, including its power to deliver commercially beneficial trade agreements; the reach and magnitude of EU financial instruments, such as for development and economic partnerships; the range and versatility of the EU's tools, as compared with other international

organisations; and the EU's perceived political neutrality, which enables it to act in some cases where other countries or international organisations might not.[14]

Eurosceptics are loath to admit intangible benefits, yet they are clearly present.

The real problem with British representatives in Brussels is not that they are not involved or do not have a say. It is true that since 2009, "the UK is the most outvoted Member State in the EU Council … [and that] they have been less likely to be on the winning side than the MEPs from any other member state."[15] However, the cause for this is not that Brussels does what it wants and ignores British representatives: it is that British MEPs are willfully ignorant of how the EU system works. As is clear from the 2016 VoteWatchEurope report, the influence of British MEPs has rapidly declined since 2009. The primary cause of this should be evident from the UK's decision to remove itself from the European People's Party (EPP) in 2009. This move is significant, because it symbolizes a limited understanding of how to affect change in the EU. In the European Parliament, three parties (ALDE, EPP, and S&D) usually win over 90% of the votes.[16] While European parties will have differing views between themselves, there is a strong tendency to vote along party lines, which is effective in achieving personal goals. The fact that the UK has 73 MEPs but only 21 of them are members of one of these three parties means that to a large extent 52 British MEPs have a self-imposed limited capacity to influence the EU on behalf of the British people. However, this could easily be corrected if British MEPs were willing to play their part in the system in Brussels. As for the UK's decline in the EU Council, this is also symbolic of the lack of will to work within the system as it is the failure of high-ranking UK officials to attend all meetings, which in and of itself makes it difficult to achieve the desired outcome. Perhaps this is further evidence of the inherent belief of British exceptionalism regarding its place in the EU, which clearly has to change if Brussels is to work for the benefit of Britain. Thus, while Eurosceptics lament the failure of Brussels, it is the British representatives who are largely at fault for preventing the EU from helping Britain with its desired interests.

Regulations are consistently cited as one of the many downfalls of British membership in the EU. However, a "study conducted by the House of Commons showed that 6.8% of UK primary legislation and 14.1% of UK secondary legislation had a role in implementing EU law, in marked contrast to allegations made in various political speeches citing figures as high as 75% – without referencing any serious source."[17] Boris Johnson, one of the political heavyweights backing a Brexit, has himself said that the EU is making 60% of UK laws.[18]

Another favorite argument of Eurosceptics is to say that the costs of EU regulations are very high and that Britain would not have any of these costs if it were to leave the EU. A March 2015 study by Open Europe, studying 100 of the most expensive EU regulations, found that these regulations cost the UK 46.7 billion EUR a year.[19] While it is true that there are directives and regulations that impose more costs than benefits, such as the "agency workers directive" or the "waste electrical and electronic equipment directive," it is difficult to apply the costs of a few against the benefits of the many. Indeed, while Open Europe estimated the large cost of some of the most burdensome regulations, Open Europe found that "the EU rules lead to marginally more benefits for the British economy than costs."[20] In order to sufficiently debate the costs and benefits of EU regulations

on the British economy, there are three steps that should be taken: first, the reasons for why such a regulation is in place must be established; second, it must be established what actual effects the regulation has on the British economy; third, it must be assessed whether the costs associated with the regulation would disappear if Britain were not a member of the EU or whether Britain would impose its own regulation with similar costs if the UK were to leave.[21]

In essence, this method of assessment would negate the belief that many hold that if the UK were to leave the European Union, "deregulation could be achieved thorough a 'Great Repeal Bill', based on the principles of the Public Bodies Act (2011), to which regulation deemed unnecessary or too costly can be added once voted upon."[22] Perhaps some legislation can be repealed in this manner, but there are "around 1,400 internal directives, which are implemented by national legislation and therefore would not automatically be repealed since they are of British jurisdiction."[23] Even if it were feasible, the reality of this creates an absurd scenario whereby there would be an enormous void in legislation, which would cause severe economic downturn with a lack of certainty for businesses and the rule of law in general. It is not reasonable to suggest the dissolution of all EU legislation at once, and it is likely that the UK would keep it for quite some time if Britain were to leave the EU. This is one of the problems so far with the Brexit and Bremain Campaigns. Those for Brexit look at the issue from a largely emotional point of view, whereas those for Bremain look at the issue from a purely intellectual point of view. Both campaigns have their own merits. Certainly they are not mutually exclusive— one can be both emotional and rational. There are reasons for regulations, and while some are ineffective and costly, there are valid reasons for their existence. As Springford states, "Markets are not perfect: they sometimes fail, producing sub-optimal outcomes."[24] As such, regulations are there to address these failures, for instance to protect against monopolies or to provide a public service such as rules to control levels of pollution. The UK would need to protect its economy from such issues regardless of whether it was a member of the EU. However, on issues such as these, one can see that there is an advantage to working collectively with other countries rather than solely domestically. Although some of these regulations may be costly and cause administrative burdens, it does not mean the UK should do away with them.

In 2013 there was the horsemeat scandal, whereby beef had been replaced by horsemeat in many food products. This was an issue that affected many EU countries and emphasizes the benefits of having EU regulations that are properly enforced. It is also evidence of the fact that while there are calls for less EU regulation, "whenever there a serious problem arises in the area of food safety the call is invariably to strengthen EU rules and/or their implementation."[25] The benefits to Britain of EU legislation can be further emphasized in the aftermath of the "mad-cow disease" crisis, when EU legislation, along with the help of the European Court of Justice, compelled member states to accept British beef again.

Many of the Brexiteers believe that membership in the EU is not necessary to have access to the single market. They believe Britain would be able to negotiate either the same or similar access to the market, and this would not cost Britain as much as being a member of the EU does. The ability and likely outcomes of Britain negotiating access to the single market will be discussed at a later stage in this paper. It must first be understood what the regulations are and why they exist. It is true that regulations impose burdens and costs on

companies and households. While clearly there are costs associated with regulations, there are valid reasons for why the markets must have regulations as "unregulated markets can fail or lead to sub-optimal outcomes such as negative spill-overs."[26] The Union and its single market consist of 28 member states, each of whom regulate their own markets. As a streamlining measure, the EU has introduced many regulations to prevent the use of conflicting regulatory burdens by member states that would act as barriers to trade and create a common minimum standard, which is one of the fundamental principles of the single market. This promotes effective trade between the members. Even one of the most outspoken Tory Eurosceptics, Chris Grayling, has voiced the importance of the single market in order "to avoid umpteen different varieties of lawnmowers"[27] all with different standards and specifications. Under EU regulations, "a Lawnmower made in the UK can be sold in Germany without having to be manufactured according to German specifications."[28] There has been a recent initiative by the EU to cut down on unnecessary red tape, which is a direct result of British demands and influence.[29] The Commission has agreed to "continue its efforts to make EU law simpler to reduce regulatory burden for EU business operators [...] by applying the 2015 Better Regulation Agenda, including in particular the Commission's Regulatory Fitness and Performance Programme (REFIT). Cutting red tape for entrepreneurship, in particular small and medium size enterprises, remains an overarching goal for all of us in delivering growth and jobs."[30] Since 2014 there has been a reduction in the number of programs being proposed by over 80%.[31] Hence, while complaints about EU red tape and burdens are being stressed by Eurosceptics, Brussels is being proactive. Clearly this argument may carry very little weight in the years to come, while a Brexit may happen this year.

Even if Britain were to leave the EU, many of the benefits or constraints on the British economy are the consequence of British domestic policy. This is a fact that many Eurosceptics seem to ignore or forget. While the EU promulgates regulations, member states maintain some element of control. How else would it be possible for the UK to have "one of the most lightly regulated economies in the OECD."[32] According to Springford, Tilford, and Whyte, "Britain has the second least regulated product markets in the developed world, after the Netherlands ...[and] similar levels of labour market regulation to the US, Canada and Australia - and far lower than continental European Countries."[33] Both Belgium and France have much more burdensome labor markets than the UK.[34] Thus, it should be evident that the UK has some control over its own economy. Although obliged to adopt the same regulations that are imposed on other EU member states, the variations in degrees of burdensome legislation are the result of domestic implementation.

Jonathan Portes of the National Institute of Economic and Social Research has stated that "[A]t present, the rules that inflict most damage on the British Economy are planning laws, a wholly domestic affair."[35] The OECD seems to agree with him as it has been "critical of Britain's rigid planning rules and its restrictions on making land available for development. These rules help explain why, despite rapid growth in the population, housing construction is running at half the level of the 1960s; why the average size of new homes built is smaller than anywhere else in the EU; why office rents are the highest in the EU; and why Britain's transport infrastructure is so congested and expensive to build."[36] These are results of domestic implementation, which is further evidence of the UK being able to pursue its own legislative policies.

Leaving the EU does not mean that the UK would have no regulations at all. In fact, even in the case of a vote to leave the EU, many of the EU regulations regarding labor "[are] virtually the same as the many conventions of the International Labour Organisation (ILO), so little would be changed."[37]

The UK is one of the most lightly regulated countries in the world. This statement alone should indicate that the possibility of removing costly legislation imposed by the EU is a falsehood. The UK is not only one of the least regulated economies in the EU but also in the world, and it is "also freer than in any of the developed liberal economies in the English-speaking world (Australia, Canada, Ireland, New Zealand, and the US)."[38] Thus, the fact that these countries are not restricted by EU regulations should negate the argument that the EU is burdening businesses and the economy in the UK.

Brexit supporters want Britain to leave the EU while still retaining access to the single market. They argue that by leaving the EU, the UK would escape having to comply with costly and burdensome regulations. This cannot be justified. For access to the single market, UK exporters would have to abide by EU standards and regulations, which would be different from those for domestic sale but would significantly increase costs. Further, it has been proposed that UK companies who do not export to the EU should not be required to comply with EU regulations. One can understand the premise of this proposal, but on a fundamental level this suggestion would not be feasible. Although some companies may choose to not export products or services to the EU, they are still part of the single market. Accordingly, "they compete for British customers with firms from elsewhere in the EU."[39] Moreover, while there are such companies that do not export directly, they may be part of the chain by providing parts to companies that do and thus "by exempting non-exporters from EU rules, the UK would effectively be withdrawing from the single market."[40] Although selling products and goods to the UK and even to the larger EU would not be permitted without following EU regulations, businesses are not hindered from pursuing markets outside of the EU with different standards. Leaving the EU would not benefit those businesses that prefer not to concentrate on the EU market: "[I]nside the EU, product standards are voluntary rather than mandatory, such that if enterprises wished to aim predominantly at eternal markets there is nothing in the regulatory regime preventing them from producing goods according to the client country's standards."[41]

If Britain were to leave the EU but still had access to the single market in scenarios such as being a member of the EEA or through a Free Trade Agreement, then there would certainly be a loss of sovereignty as the UK would still have to comply with EU rules and standards but would not be at the negotiating table as a full EU member to influence what regulations should be in place:

> The regulatory sovereignty that would supposedly flow from leaving would, in short, be largely illusory: in order to maintain access to EU financial markets, the UK would have to align its regulations with the EU. It would have no influence on the design of those rules, so it might even lose regulatory sovereignty upon leaving, since the EU makes third countries sign up to EU rules in exchange for market access.[42]

Without Britain as a full member, it is most likely that the EU will press on with further political and economic integration that will result in further EU legislation and will eventually be an economic competitor to the UK. The problem is that without Britain taking part there is no possibility of either

forming regulations that are in the UK's interest, or preventing those that are not. Outlined by George Osborne, Chancellor of the Exchequer, as a full member of the EU, the UK can influence the EU in the following ways:

- The UK has veto rights in the European Council when heads of state or government meet to make the most important decisions on the direction of the EU.
- In the Council of Ministers, under weighted voting rules determined by population size, the UK has one of the three largest voting shares when legislation is decided, alongside Germany and France. Individually the UK has over a tenth of the total votes. On crucial issues like tax, where decisions are taken by unanimity, the UK can use its veto when proposals are not in the UK's national interest.
- In the European Parliament, the UK has 73 national members – the third highest of the 28 member states.
- The UK has a Commissioner in the College of Commissioners which makes proposals for new EU rules – currently the Commissioner for Financial Stability, Financial Services and Capital Markets Union.
- The UK has a judge in the European Court of Justice, and UK nationals are represented in the EU Institutions.[43]

While political sovereignty is often questioned, it is not possible to maintain that Britain would be better situated if it left the EU. The cost of political sovereignty does not outweigh the benefits of having access to the single market. Furthermore, if Britain were to leave the EU, it would not entirely be in control of its own economic rules. The world today is a global world, no longer broken into small regional factions.

Migration

Immigration in the UK has for a long time been an issue that has driven the public against the EU. Eurosceptics, along with the tight grip of the tabloid media in presenting information to the British public, have convinced many Britons that EU migrants are not working and causing a massive drain on UK welfare services paid for by British taxpayers. In addition, the Eurosceptics argue that the migrants with jobs are employed at the expense of British workers who are now losing work opportunities. This has given rise to a new "UK attitude towards European integration [which] has shifted from one of sceptical, but relatively benign neglect, to one of officially defensive hostility."[44] Blame is being directed towards one of the fundamental pillars of the EU project, the freedom of movement.

Many of those who think the UK should leave the EU believe that the UK would be better off if it was able to control its own immigration policies. There is a belief that many immigrants are coming to the UK for so-called "welfare tourism," and that they come to the UK to take advantage of the social and healthcare benefits for the unemployed. Brexit supporters say that migrants are essentially abusing the right of free movement and are becoming a burden upon the state. Firstly, it must be made clear that the UK has an opt-out from the Schengen Agreement and the UK has the right to control its borders and those who enter. However, as a member of the EU it must allow the freedom of movement for EU nationals to enter the UK. The debate has centered on EU migrants coming to the UK. However, the fear of Britain being flooded with EU migrants adding even more pressures to social services is not entirely well-founded. As a matter of irony, the presence of migrants in the UK can "help to improve the supply of public services as much as it raises demand for them. The NHS makes heavy use of skilled immigrant labour, for example."[45]

Looking at the changing demographics of the UK, the overall growth due to immigration of EU migrants is quite low:

> The UK has experienced a significant increase in population in the last 40 years, of about 15%. A natural increase in the population has accounted for 40% of population growth over this period. Another 40% of this increase can be attributed to non-EU migration, with the remaining 20% being accounted for by EU migration. Therefore, migration under EU free movement laws has accounted for an increase in the UK's population of about 3% since 1973.[46]

Even if an extra 3% of the population were claiming maximum benefits, it can hardly be asserted that the UK would be massively better off or that it would reduce the benefits enjoyed by UK citizens. Furthermore, according to the Department for Work and Pensions, of the 5 million people claiming social benefits in the UK, 114,000 are from the EU, which is only 2.2%.[47] Given that there were a little over 3 million EU migrants in the UK in the first quarter of 2015 and 1.9 million of them were employed,[48] the fact that only 114,000 of the total 1.1 million unemployed according to these figures clearly suggests that migrants are not in the UK to primarily seek benefits.

However, public opinion is still very much against EU migrants' ability to move to the UK, and this seems to be a growing trend. This can be evidenced by "a YouGov recording that nearly half the population was against the principle in 2013 from a position of two-thirds in favour in 2005."[49] Yet, when the debate on migration to the UK is presented, most often it is only discussed on one side of the issue. The freedom of movement also applies to UK nationals who, too, take advantage of this freedom and have settled elsewhere in Europe. According to Springford, Tilford, and Whyte, "[T]he EU offers a much larger choice of jobs than the UK labour market alone, which leads to higher incomes and a better quality of life."[50] Further, to illustrate the number of UK nationals abroad, "The UN estimates that, in mid-2015 there were over 1.3 million UK citizens living elsewhere in the EU – 309,000 of which lived in Spain, 255,000 in Ireland and 185,000 in France."[51]

The unsubstantiated fears of EU migrants swarming Britain and becoming a burden on the state are still overpowering. Yet, it must be mentioned that there are over 400,000 British retirees living in other EU member states.[52] It should be considered that retirees are the group most likely to prove a burden on the state. They provide no economic productivity to the economy from employment but are the group most likely to require substantial healthcare. Currently, "free migration is more costly for France, Germany, Spain and Ireland than it is for Britain."[53] A related point is that "UK residents made 44 million trips to the EU in 2014"[54] for business and leisure or for visiting friends and family. The right to do so would be lost without the extensive and invasive procedure of applying for visas. Perhaps a visa-free program could be worked out with the EU, but that would take a very long time before it came into effect given that the UK would have much more pressing matters to handle first before negotiating Britons' rights to travel where they wish.

It is true that there has been a rise in EU migrants coming to the UK. Part of the reason for this is the failure of the UK Government to place restrictions on migration, which many other member states had done, prior to the EU enlargement that occurred in 2004. Thus, since 2004 the "inflow of EU nationals into the UK has more than doubled."[55] This is why migration was one of the major points sought in Prime Minister Cameron's Reform Package in February 2016. In a bid to persuade the UK that it

is better off in the EU, Cameron pursued changes that would allow the UK to prevent such easy access to UK social benefits for EU migrants. One of the reforms sought was that those "coming to Britain from the EU must live here and contribute for four years before they qualify for in-work benefits or social housing."[56] However, Britain, as an example of receiving more special treatment from a willing EU, has been granted the right to impose an "emergency break" for in-work benefits for potentially seven years if the UK remains a member of the EU.

The freedom of movement is not necessarily a negative effect of being a member of the EU. According to Springford, Tilford, and Whyte, "The EU's free movement rules are based on liberal economic theory: if a worker can earn more money in another country, it is better for the worker and the foreign employer for migration to be unhindered."[57] Most EU migrants coming to the UK are doing so for work, not for benefits. According to the UK's Office of National Statistics, 60% of EU migrants already have a job offer prior to their arrival.[58] The office of National Statistics also states that migrants from the new EU member states "have an employment rate of 81%, while those from the older EU countries have an employment rate of 75%...and non EU migrants just 66.5%."[59] This indicates that EU migrants are more beneficial to the UK economy than non-EU migrants.

The freedom of movement of labor for EU citizens "has the potential to boost growth and competitiveness in both the UK and Europe and many companies based in the UK see the ability to draw on a wide talent pool as a major advantage."[60] EU migrants tend to be young. In 2011 the average age of an EU worker in the UK was 32.3 years, whereas for a UK national the age was 40.8 years,[61] which indicates that migrants will tend to be net contributors to the economy until at least the age of 45 since they are unlikely to require much support for healthcare and very unlikely to be receiving a pension.

EU migrants are important to the UK economy as they increase the supply of the workforce from a larger talent pool of workers, resulting in a higher economic output. EU migrants account "for around 6% of the total working population."[62]

Businesses in Britain seem to agree with the assessment that EU migrants are beneficial to the UK economy as the "City of London mounted a robust defence of intra-EU migration, noting that the average EU migrant pays around £23,000 per year in taxes while spending significantly on UK goods and services to the benefit of the wider economy, while being less likely to draw on public services such as the National Health Service."[63] Christian Dustmann and Tommaso Frattini of University College London found that EU migrants contributed 34 percent more in taxes than they received in benefits between 2001 and 2011.[64]

As EU migrants are generally not creating a drain on the welfare systems of the UK, the only other negative effect that could be caused by their presence in Britain would be if they were replacing UK workers and taking jobs away from them.

Even the Balance of Competences Review argues that there is no convincing evidence to suggest negative effects from EU migrants towards EU workers.[65] Other studies also confirm that there are no negative effects on British workers from EU migrants.[66] Thus, while there are claims that migrants are taking jobs from Britons, this is not strictly true. While EU migrants have a higher rate of employment than either UK nationals or non-EU migrants, "there is little evidence to date indicating a statistically significant displacement of UK-born workers."[67]

The Centre for European Reform (CER) did an analysis of other studies, notably those by Portes and French (2005), Gilpin et al. (2006), Lemos and Portes (2008), Lemos (2010), and the Migration Advisory Committee (2012). The analysis stated, "the majority of these studies also found that immigration in total had only small effects on native employment and on average wages."[68]

There are differences between the EU migrants coming to the UK depending on the migrant's nationality. Western European migrants are often found to be working in higher skilled jobs, whereas those from the new EU states from the recent enlargement (A8) often find themselves working in skilled trades or low-skilled work, even though they are more educated than the average Brit.[69] In terms of migration flow, "Unlike A8 immigrants, the inflow of western Europeans has been slow and steady, with an average annual net immigration rate of 23,000 between 1991 and 2013. This has endowed the British economy with a slowly growing stock of highly skilled workers."[70] Thus, with an increased workforce of highly skilled workers bringing with them extra expertise, productivity and output is increased, which clearly represents a benefit to the UK economy.

The UK will soon need an influx of migrant workers. The baby boom generation is close to retiring, and this will, in turn, result in a massive void of jobs as the work force set to replace them is much smaller in terms of population. Thus, to continue Britain's economic growth and avoid a reduction in productivity, migrants will have to fill positions for which there are not enough British people to fill them. According to Springford, Tilford, and Whyte, "[D]emand for workers to replace retirees will be strong in low-skilled administration and services, in manufacturing, and in skilled trades, occupations in which A8 nationals are over-represented."[71]

Yet, there will also be many positions where it would be beneficial to have Western Europeans working: "The UK commission on Employment and Skills estimates that 1.5 million jobs are going to be created by 2020 in management, business, science and technology, and in the public services – occupations in which western Europeans are highly represented."[72]

If British workers are not being displaced, then migrants must be complimentary and doing work that British workers do not want to do or cannot do. This will result in a more productive workforce either through the presentation of new ideas or by permitting British workers to specialize. Both sets of workers would benefit from higher levels of productivity as well as higher wages.

Even in the scenario where Britain leaves the EU, this does not necessarily mean that the UK would tighten the borders and controls on immigration, nor is it even a good idea to do so. As discussed above, there will in the near future be a shortage of workers for the UK that British workers will not be able to fill due to the large number of expectant retirees. The necessity clearly displays that restricting immigration is not going to benefit the UK or workers economically. The fact that the government is able to tax more people who are employed inevitably allows for either more public spending or lower taxation rates and a rise in GDP. This is beneficial to all. The Office of Budget Responsibility (OBR), projects that debt would be 40 percent higher in 2062 if net migration is reduced to zero from 140,000 per year."[73]

With the large number of Britons abroad, it would be callous to believe that the UK can refuse migration of EU members but that UK citizens abroad would not receive similar treatment from their new host nations.

If the Eurosceptics prevent the influx of migrants, the best method of prevention would not be to make stricter rules for entry to the country or access to benefits but to actually raise the quality of life in the countries migrants are leaving. Even with stricter measures towards welfare benefits and in-work benefits, the truth of the matter is that most migrants come because the wages in the UK are much higher than in their native countries. For the A8, per capita income is around one-third of that in Britain.[74] This is what makes the UK so appealing—even without access to any benefits the situation of migrants is still vastly improved by a working life in the UK. Thus, if one really wanted to stem the flow of migration towards the UK, the heart of the problem must be solved rather than taking mild measures to treat the symptoms. The best method to produce such results would be to work in unison with the EU as a full member and incorporate the newer A8 countries into the fold towards better economic prosperity.

Budget

The EU budget has been a major source of contention for British Eurosceptics since its inception. The very idea of making a financial contribution to the EU in an effort to promote the effective functioning of the Union is not palatable to many. The commonly held attitude is expressed in questions such as "why should we have to pay to support their mistakes or misfortune?" This is already a fundamental failure in comprehension of the EU's goals along with a certain lack of humanity towards others. The idea of the European Union was to create stability and a bloc of common values and levels of integration whereby the continent can never fall back into the conflicts and wars that have ravaged it for close to a millennia. Many could argue that the contribution that the UK pays is not such a bad price for assured security to pursue its own interests in relative safety compared to historical examples. However, the Eurosceptics either believe that it is too high a price to pay or that the EU project has achieved this goal with such success that it can never go back to the way it was before, and hence, the contributions are no longer necessary for Europe's stability or survival.

As part of being a member of the EU, all member states make a contribution to the EU budget. For example, "From 2010 to 2015, the UK's average annual gross contribution to the EU amounted to around £16.8 billion."[75] Yet, even with the EU budget, Britain receives special treatment in the form of a rebate. The British rebate was obtained in 1984 under the leadership of Margret Thatcher. The European Council had come to the conclusion that "any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time."[76] In essence, Britain receives "a reimbursement of two thirds of the difference between the UK's contribution and what it receives from the budget. Calculation is based on GNI and VAT and is calculated in year in arrears."[77] This substantial rebate is "guarded by its treaty status (i.e. it can only be changed by unanimous decision, and therefore with UK acquiescence)."[78]

To many, the perception is that the UK pays a large sum to the EU who then shares the funds with other member states who need it for programs of development or in solving other crises that are not related to the UK. Yet, while the European Commission is responsible for EU funds, "in practice around 80% of EU funds are managed by national governments or regional managing authorities."[79] The UK itself receives back much of its contribution in return such as in structural funds, much like the Common Agricultural Policy and the Common

Fishing Policy, but the UK also receives funds from the EU for rural and regional developments as well as science research and funding for universities.

According to the UK government, when the rebate and funds from EU program are taken into account, "the UK's net contribution has averaged around £7.1 billion per annum in recent years (2010-2014). For every £1 paid in tax, a little over 1p goes to the EU."[80]

The UK receives a large proportion of research funding when compared to other member states: "Researchers in the UK received 16 per cent of EU R&D funding, and 20 per cent of its grants for scientific research in the last budget period – the country contributed 11 per cent of the EU's total budget."[81]

Those advocating that the UK leave the EU believe that one of the most fundamental failures and excesses of the EU is the protectionist measures taken to support the agricultural industry. The Common Agricultural Policy (CAP) has been a program of the EU from very early on, having started in the 1960s. Upon its creation, CAP was intended to stabilize the common food market and prevent any shortage of the food supply. CAP is a protectionist measure and achieves its aims through supplying subsidies directly back to farmers of member states as well as providing price support for agricultural products. The subsidies are funded directly from the contributions of member states to the EU budget.

Another commonly held belief by Eurosceptics is that the UK's contribution to the EU budget is largely propping up France's failing agricultural sector. While France is the one of largest beneficiaries of CAP funding, Eurosceptics and those in favor of leaving the EU present statistics such as that "in 2001 France received the largest amount of CAP funding, claiming 22.2 per cent of the total budget of €41.53 billion."[82] The method in which these statistics are phrased makes it seem as though France received 22.2% of the total EU budget only for its agricultural subsidies. This would be astounding and of serious concern to any Brit if that were true. However, the 22.2% was for total structural funds and other measures taken, not purely to assist inefficient and failing French farmers. Yet it is true that France receives much higher subsidies than other member states and that the UK is a net contributor to the EU budget, meaning that the UK pays more to the budget than it receives in funding. However, France is also a net contributor, and in a matter of irony, since British Eurosceptics are complaining that they are tired of paying for French farmers, "France contributed €1.2bn to Britain's rebate" in the year 2013.[83]

Those advocating to leave the EU are of the belief that the UK would no longer have to contribute to the EU budget once it has renounced its membership. Some believe the UK can still have access to the single market with only a modest contribution, which would inherently be preferable to the status quo as a full member. Yet, for access to the single market, there will of course be a price to pay. As already discussed, this may be in the form of adhering to regulations, depending on the form of access Britain is able to negotiate upon its departure from the EU. However, even if the UK were able to avoid the so-called burdensome or undesired regulations and rules, it would most certainly have to contribute financially to the EU. Furthermore, Britain would have to redirect the funds that it would save from leaving the EU to provide for programs and subsidies that the EU currently provides for the UK. Wales and Northern Ireland are hugely reliant on structural funds from the EU. Furthermore, apart from development programs within the UK, there are also other

international efforts to which the UK currently is financially committed. For example, "almost £1 billion of British money given to the EU is spent on international aid. That spending is counted towards the UK Government's target of spending 0.7 per cent of Gross Domestic Product on aid."[84]

Once again, it becomes a question of the UK's ability to influence from within, encouraging reform or accepting the rules and burdens without the ability to influence their creation. The UK has already played an important part in securing a reduction for the future EU budget for the period of 2014-2020. The deal on the Multiannual Financial Framework (MFF) has stemmed the trend of increasing yearly budgets for the EU. For the first time there has been a real reduction in the budget, which is now "£80 billion lower over the 7 year period than originally proposed by the Commission."[85] This supports the conclusion that the UK can mold the EU reform itself in a responsible manner to the interests of the UK and more. Without the UK's influence, there is a high risk that the EU would continue to be less than efficient and more costly than is necessary, which as a result of being outside the EU would cost the UK dearly not being a member of the EU and still wishing to have access to the single market. Furthermore, "the MFF saw the EU make commitments to reducing staff numbers in the institutions by 5%, and to increase the retirement age for EU civil servants from 65 to 66 years."[86]

Trade

Trade with the EU is paramount to the UK's prosperity. According to a Commons Briefing Paper, "In 2014, the UK exported £230 billion of goods and services to other EU member states. This is equivalent to 44.8% of total UK exports."[87] Close to half of the British economy is reliant on profitable trade relations with the EU. This is why even those advocating a Brexit argue that the UK will still be able to trade with the EU even if it rescinds its membership. While this is true, it is terribly misleading.

Currently, as a member of the EU, the UK is able to export goods within the EU tariff-free. However, it is estimated that in a Brexit scenario trade costs with the EU would increase. There are three reasons for this belief. First, it would be expected for there to be higher tariff barriers between the EU and the UK. Second, non-tariff barriers (NTBs) to trade would increase: these would generally be in the form of border controls and other administrative costs. Third, the UK would no longer be involved in the EU as a member and thus would not be included in further steps of integration and the reduction of NTBs.[88]

If Britain does leave the EU, then it can be expected that—regardless of any scenario possible in negotiating trade—there will be an increase in tariffs. That is unless the UK is willing to maintain access to the single market by adhering to EU rules such as the freedom of movement, regulations, and paying into the EU Budget, which are currently some of the main reasons Britons think they should leave the EU. The resulting higher tariffs would mean that UK exporters to the single market would invariably be at a disadvantage regarding price when selling their products within the EU and thus less competitive. This would have larger implications for the UK than purely pricing:

> Declining cross-border trade activities also have a negative impact on a country's productivity growth: If the pressure from international competition weakens, domestic companies have less need to improve their competitiveness through investments and innovation. Therefore, productivity growth falls. According to studies that estimate the influence of decreasing trade open ness on the long-term real GDP (Freyer

2009 and Felber-mayr/Gröschl 2013), a Brexit could lead to a long-term drop in the UK's real GDP per capita ranging from 2 per-cent ("soft exit") to 14 percent ("isolation of the UK") compared to remaining in the EU.[89]

One of the main advantages of being in the single market is that NTBs have been reduced within the EU through standardized regulations for products and the passporting regime for financial services. This reduces the cost of trade by having one set of rules and standards rather than individual standards for each member. However, in the event of a Brexit, it is plausible to assume that the UK would attempt to remove some EU regulations, which would result in UK companies complying with a different set of regulations. This in turn would lead to an increase in NTBs and an increase in trade costs. Ottaviano et al. estimate that the increase of NTBs in EU-UK trade would equate to a reduction of GDP between 0.4% and 0.9%.[90] However, this would be dependent on the UK receiving a favorable trade deal with the EU. With the creation of trade borders, Ciuriak et al. consider that the additional border costs alone would equate to 1.2% of GDP[91] if the UK is not able to negotiate a favorable trade deal; and with other NTBs to be considered, the number could be much higher. Delays at borders can be even more costly to businesses. According to the Treasury's analysis, "Separate evidence from time-sensitive industries in countries acceding to the EU suggests that every 1 hour of customs delay adds 0.8 percentage points to the ad valorem trade-cost rate and leads to 5% less trade."[92] If Britain were to leave the EU, it would lose the advantage of the fact that "intra EU NTBs have been falling over time, and that the rate which they are falling is 40% faster than in other OECD countries.[93] This would lead to a 10% fall in trade costs.[94] If the future falls in NTBs were to affect the services industry, then that would be particularly disadvantageous for the UK. Ciuriak et al. estimated this lost opportunity would cost Britain between -1.3% and -2.6% GDP even if the UK were to gain a favorable trade deal with the EU.[95]

Yet, Brexiteers believe that due to the UK's trade deficit with the EU, the UK can still achieve a good trade deal if Britain does leave the EU. The UK does have a trade deficit with the EU, whereby the UK imports more from the EU than it exports to the EU. The UK has in fact run a trade deficit with the EU for the last 15 years.[96] In 2014, the trade deficit was £59 billion, whereby the UK imported goods and services worth £289 billion but exported £230 billion.[97] The Brexit campaigners believe that if the EU were to impose trade barriers between the UK and the EU, the EU would lose more than the UK would. Although it is true that the UK does have a trade deficit with the EU, it is naïve and simplistic to present it as a reason the UK would be able to negotiate a favorable trade deal in the event of a Brexit. This is because while the EU buys close to half of the UK's exports, the UK only represents 10% of exports from the rest of the EU.[98] This is not a strong negotiating position. Furthermore, Germany and the Netherlands account for half of the EU's trade surplus with the UK, whereas most EU member states do not have a trade surplus with the UK.[99] This would make it incredibly difficult to negotiate a favorable trade deal involving all 27 remaining member states whereby it is only effectively profitable for two of them.

The UK has a surplus regarding trade in services, accounting for around 10 billion GBP with the EU, which is a result of the UK's 20 billion GBP surplus in trade of financial and insurance services.[100] According to the Treasury's analysis, "As a proportion of GDP the UK exports more services than any other G7 country."[101] Thus, any deal with the EU regarding trade would need to be favorable for services, especially granting companies in

Britain the right to carry out transactions in the EU from the UK.[102] Without this, a Brexit would cause massive loss to finance and insurance providers in the UK. Further, given the importance of trade in services to the UK, it would be much better to remain as a member with the power to influence decisions taken by the EU in order to liberalize the market for services.

The UK is at the moment in a good position to achieve this as "the UK has a Commissioner in the College of Commissioners which makes proposals for new EU rule – currently the Commissioner for Financial Stability, Financial Services and Capital Markets Union."[103] However, if Britain were to leave, then there would be no possibility of influencing such decisions at a high level as the UK currently is able to do.

The EU is accused by many Eurosceptics of being too protectionist with policies like CAP and its imposition of high tariffs and non-tariff barriers for non-EU imports. The expectation that the EU would offer preferential treatment to the UK in terms of trade as a third country is inherently illogical.

Brexiteers negate arguments on trade by arguing that the very concept of attempting to speculate what effects will occur to British trade if the UK leaves the EU are bereft of purpose. With the several possibilities that are available to the UK in terms of re-establishing a trading relation with the EU while not being a member, it becomes futile to speculate. This is further exacerbated by the presence of the Rotterdam-Antwerp effect. The ONS has described the effect:

> The Rotterdam effect is the theory that trade in goods with the Netherlands is artificially inflated by those goods dispatched from or arriving in Rotterdam despite the ultimate destination or country of origin being located elsewhere.
>
> Some commentators feel that the Rotterdam effect distorts the UK's trade relationship with EU and non-EU countries. For example, oil exported from Saudi Arabia to Rotterdam and re-exported to the UK (possibly without processing) may be counted as an EU import rather than a non-EU import.Conversely, a product exported by the UK to Rotterdam and subsequently transited to a non-EU country may be counted as an export to the EU rather than the rest of the world.[104]

As the ONS has stated "that the scale of this effect is unknown," and given that the Netherlands is one of the biggest destinations for UK exports, no one can reliably predict what effect a Brexit would have on UK trade.

Yet even if one were to exclude the Netherlands entirely from any evaluation on the effect of British trade with the EU, the EU would still account for close to 40% of UK trade.[105]

Services/FDI

The UK's pre-eminence as the financial center of Europe is undoubted. The UK, in particular, is the primary recipient of Foreign Direct Investment (FDI). In 2013, "the total stock of inward FDI to EU countries, which includes FDI from other EU countries, was $8.8 trillion... of which $1.6 trillion (18%) was invested in the UK. This made the UK the largest recipient of FDI in the EU, ahead of Germany and France (with inward FDI stocks of approximately $1 trillion each)."[106] The importance of EU inward FDI to the UK is further emphasized when one considers "in 1997 EU countries accounted for 30 per cent of the accumulated stock of investment, but this proportion rose to 50 per cent in 2012... Over this period, the share accounted for by the US fell from 45 per cent to 28

per cent, and that of the rest of the world from 19 per cent to 14 per cent."[107] Many of the Brexiteers cite that the UK can continue to prosper without being a member of the EU. However, it is clear that the EU is a very important factor when considering the UK's pre-eminence as a global financial center. Those wishing to leave the EU also claim that the UK can rely on other global players such as the United States to make up any loss that the UK would suffer as a result of a Brexit. Yet, companies from countries outside of the EU, including those in the United States, choose to locate themselves in the UK primarily because they can gain access to the single market.[108] There is empirical evidence proving that FDI in the UK is directly related to its access to the single market. If Britain loses this access, it is unsuitable to suggest that entities from third countries will continue to invest in the UK at the same level, as the prime motivation will no longer exist. The threat of this already exists as "several global banks have announced they could move operations out of the UK in the case of a Brexit."[109]

Given that negotiations on the UK's access to the single market could potentially take decades, the UK could decide to go alone and remove itself from the market entirely. If the UK does decide to remove itself, then this could be the death-knell for the pre-eminence of London as the financial center. The EU is currently tightening rules on third country access. In order for the UK to comply with the new Markets in Financial Instruments Directive (MIFID II), companies outside of the EU would have to open a branch within EU borders in order to sell services to EU consumers.[110] This is also one of the main reasons the UK has the largest center of foreign branches within the EU.

One of the possible exit scenarios for Britain is to obtain the same status as Switzerland, which will be discussed below; however, Switzerland has been unable to gain access to the market for services. Thus, as a third country, Switzerland has a large amount of financial services FDI in the UK. According to the Treasury's analysis, "In 2014, 26.4% of European investment in UK financial services came from Switzerland."[111] Hence, if the UK were to become a third country outside of the EU, it is quite plausible that there would be an exodus of foreign investment, as well as UK investment, moving to be within the EU borders.

The necessity of a branch within EU borders inevitably becomes administratively burdensome and cost prohibitive compared to relocating entirely for foreign investors. The advantage of services is that it is not as capital intensive as manufacturing and not as costly with lower communication costs. Relocating the service industry would not be as problematic as it would be for the manufacturing industry, e.g. car manufacturing, whereby it would be incredibly costly to relocate factories with all the necessary machinery. The services industry is more reliant on office space and talented workers, which are much less complicated and less costly to relocate. It is quite possible to argue that it would be more profitable and cost efficient to relocate investment and financial services to a locale that is not surrounded by uncertainty for such a long time. Uncertainty is not something that financial institutions accommodate.

Brexiteers stress that the UK has gained its pre-eminence as the financial center of Europe for numerous reasons such as the predictability of the legal system, the international status of the English language, the accommodating regulatory environment, and the market infrastructure to support high levels of financial activity.[112] While all of this along with many more reasons may be true, it would be an incredibly risky and

unconvincing gamble to suggest that Britain as a third country would maintain the levels of FDI and its pre-eminence in the financial sector with the requirements given by MIFID II.

However, for the UK almost half of inward FDI is from EU investors, and this number has doubled over the last decade.[113]

In 2004, the National Institute for Economic and Social Research (NIESR) conducted a study that concluded, "UK GDP would decline by 2.25% permanently after withdrawal, primarily because of lower Foreign Direct Investment (FDI)."[114] However, establishing the connection between FDI and EU membership is challenging, as there are multiple reasons for any decision of investment. That said, there has already been a decline in anticipation of the UK referendum. Jamie Pope, the executive director of London capital markets at CBRE, stated, "we are already seeing some buyers hold off on deals until they know the result of June's EU vote, so we expect to see the second quarter's transaction volumes dip, before bouncing back in the second half of the year, provided Britain stays in the EU."[115]

The City of London arguably benefits more from EU membership than it would once out of the EU. JP Morgan Chase and Goldman Sachs both noted the importance of EU membership in separate statements in 2013:

> We believe that a key risk to London's retaining its status as a financial hub is an exit by the UK from the European Union. In common with financial institutions across the City our ability to provide services to clients and engage in investment activities throughout Europe is dependent on the passport that London-based firms enjoy to operate on a cross-border basis within the Union. If the UK leaves, it is likely that the passport will no longer be available, thereby forcing firms that wish to access EU markets to move their operations to within those markets (Goldman Sachs International).
>
> We value the flexibility London offers as a platform for access to the single market in a variety of formats. Our trading activity in London benefits from an EU passport across the EU (JP Morgan Chase & Co).[116]

As discussed previously regarding EU regulations, even if the UK does decide to leave the EU it does not necessarily mean the UK has total sovereignty to control its own destiny. Many forces that shape markets and relations between them are controlled or regulated by international standards and norms. This also applies to the UK's financial services sector. Since the financial crisis, there has been a tightening on control mechanisms towards the financial and banking sector. Thus, even with a choice to leave the EU, the UK will not be able to freely regulate as it wishes regarding the financial sector. Additionally, it is worth noting that since the financial crisis, "the UK has tightened [financial] regulation to a greater degree than other EU member states."[117]

Mechanics of the British Exit

In the case that the UK does decide to leave the EU, there has been much debate and conflicting information on how long it would take for the UK to eliminate its ties to the EU and start removing all the costly and negative rules and regulations that being a member state involves. The current concept is that the UK would have to invoke Article 50 of the Lisbon Treaty. This would trigger negotiations with the EU that could last up to two years. The agreement on Britain's exit would then have to

be "approved by the Council, acting by qualified majority, after obtaining consent of the European Parliament."[118]

However, there is the possibility of extending the length of negotiations provided that the remaining 27 member states give unanimous consent to do so. Contrary to assertions by those proposing a Brexit, there are multiple reasons that it is likely the remaining member states would not permit the UK to extend the negotiations. Firstly, the fact that the UK has decided to leave would pose a threat to the overall idea of Europeanness. For its own survival, the EU would have to take a tough stance against the exit of any member and provide incentive for the remaining states to not consider their own withdrawal—or else this could result in a domino effect of succeeding members and the disintegration of the EU. The dissatisfaction with Brussels and the EU project has led to the rise of populism across Europe. Countries such as Italy, France, and the Netherlands will be intensely interested in the outcome of the UK referendum, while "the EU will be desperate to show that a decision to leave does not have a painless outcome.[119]

Secondly, the EU has on many occasions bent over backwards to accommodate the UK's special relationship within the EU, notably with the many opt-outs and the rebate from the budget. Most recently, the UK received special treatment with Cameron's negotiated package in February 2016 after the EU came together and to the best of its ability agreed to the UK's demands. Although in real terms this may not have achieved very much for the UK's interests, it still required a large amount of pressured negotiations and concessions from other member states. Given that even after all of this the UK ultimately refused to accept the best efforts and goodwill that the EU had begrudgingly given to keep the UK within the EU, it is unlikely that the EU would proceed with the exit negotiations with anything other than hostility. Furthermore, even without involving personal and political factors, "the dynamics of Article 50 are inherently biased against the country leaving."[120]

This poses real problems for the UK in the event of an exit. Never mind the fact that the negotiations would be extremely complex and concern numerous issues of vital importance such as "the unraveling of budgetary, financial, commercial, political and legal obligations."[121] Even if a new UK-EU trading relationship could be simple, there has never been a trade deal in history that has taken only two years to complete. It took Switzerland roughly 10 years to establish its agreements with the EU, "the US deal with Australia took over three years to complete and Switzerland's deal with China took almost four years."[122] The free trade agreement with South Korea took four years before it came into force. Even a recent Cabinet Office paper presents the idea that in practice it may take up to 10 years for the UK to negotiate an exit from the EU.[123] Until an agreement has been reached, or until the time limit of two years has been exhausted, EU laws would still apply to Britain, but the UK would be removed from Council discussions and decisions. The withdrawal from the EU would not be immediate. Hence it is quite possible that while Leave campaigners are advocating that Britain will be better off outside the EU, a decade of lost influence on EU policy, while also still having to adhere to EU laws, could very well result in a calamitous outcome for Britain when it does finally achieve its independent status.

The most common criticism of the EU by the pro-Brexit camp is that the EU is slow and inefficient. When leveling this with the above criticism, how is it possible to believe that the EU will act quickly to negotiate relations with the UK after leaving?

Under this method of rationalization, surely the UK's exit is more of a hindrance than anything else on the EU's agenda, making it slower and more inefficient.

Britain and the Single Market

The EU's single market is the largest trading bloc in the world, "with almost 29% of global output, a population of over 500 million people, 15% of global merchandise trade, and 24% of global commercial services trade in 2010."[124] Yet, Brexiteers are under the illusion that the UK can achieve more as an independent nation. This is counter-intuitive as well as counterfactual. The global trend is moving towards trade deals that encompass blocs of countries, such as Mercosur, APEC, and the EU, along with NAFTA. According to the Treasury's analysis, "Two of the most advanced agreements in the world are the Trans-Pacific Partnership between 12 countries of the Pacific Rim and the TTIP currently being negotiated between the US and the 28 member states of the EU."[125] A scenario whereby the UK is able to negotiate favorable access to either the single market or to other large trading blocs and third countries on a comparative level is not a reasonable expectation. The UK certainly has much less leverage to strike favorable deals with other markets purely on the size and scope of reciprocation and benefits to both parties. The United States has already indicated that this may be a reality that the UK would have to face in the case of a Brexit. President Obama has said that the UK would be at the back of the queue in terms of priorities in concluding deals if it were not part of the EU.

The Leave Campaign has espoused the concept that the UK would be freer if it were not part of the EU. In truth, it cannot be understood how this belief can be maintained. The UK "would struggle to negotiate comprehensive international investment agreements for the same reason that it would struggle to broker favourable bilateral trade deals: the UK is already very open to foreign capital, so it would enjoy little leverage when it came to such negotiations."[126] However, even more juxtaposed with this concept espoused by Brexiteers is the fact that "there is no evidence that EU membership has prevented the UK trading with other nations."[127] Although the EU has tariff-free trade between its members, it does impose tariffs on imports from third countries. This does not mean that the UK would be able to create better deals with third countries if it were no longer part of the EU. These two issues are not the same thing. The whole referendum is based on the premise that the UK would be better off outside the EU and not only that it can survive without the EU. Springford, Tilford, and Whyte expand on this point:

> The only good way to evaluate the worth of the single market is to measure UK trade with countries inside the EU and outside, and then control for economic size and other factors that affect trade, such as geographic distance. It is then possible to assess whether British trade with other EU member-states is higher than one would expect, given the size of their economies and their proximity... The CER constructed such an economic model. It shows that Britain's EU membership has boosted its trade in goods with other member states by 55 per cent. In 2013, Britain's goods trade with the EU was £364 billion, so this 'EU effect' amounted to around £130 billion.2 By comparison, the value of Britain's bilateral trade with China was £43 billion that year.[128]

To emphasize the fact that the UK is better off as a member of the EU for trade, on February 22, 2016 the Chinese foreign ministry issued a statement

declaring that China would prefer the UK to remain in a strong EU.[129] This demonstrates that the UK loses leverage and appeal when it is not a member of the EU. Furthermore, although proponents of Brexit are eager to champion the lucrative possibilities of deals with emerging markets such as China and India, the UK "exports more to Ireland, for example, than to China and Hong Kong combined."[130] Thus, while it may be important in the future to develop the UK's involvement in such markets, for the current state of the UK's economy, concentrating on trade with the EU is more beneficial.

There is little evidence to support the statement that the UK would be able to conclude favorable deals swiftly when one considers that for the last 40 years the EU has for the most part negotiated deals on behalf of the UK. According to a report by the Centre for European Policy Studies, "The UK government at present has no adequate team of experienced trade negotiators."[131] This is compounded by the fact that the UK's negotiators would have to work overtime to achieve even close to the level of trade deals the EU has provided the UK, let alone the fact that the deals are unlikely to be as favorable. According to Busch and Matthes, "[T]he negotiation capacity of the British government would come under strain if it had to deal with up to 30 bilateral and regional trade agreements (with over 50 countries) simultaneously."[132] The reality of the matter is that it would take years if not decades to renegotiate as many deals as the EU has, and from a much weaker position it is highly unlikely that the terms would be better than what the EU has negotiated on the UK's behalf. This would put the UK in a distinct period of uncertainty that would persist for many years. In April 2016, the IMF stated that the UK leaving the EU "could do severe regional and global damage by disrupting established trading relationships" and that "negotiations on postexit arrangements would likely be protracted, resulting in an extended period of heightened uncertainty that could weigh heavily on confidence and investment, all the while increasing financial market volatility."[133] This lack of certainty resulting in a lack of investment and market instability would result in the UK having "a greater incentive to agree a new deal quickly than the remaining EU,"[134] resulting in a much weaker negotiating position for the UK.

Different Exit Scenarios

If Britain does decide to leave the EU, there is much contention over what form any future trading arrangements would take. In most analyses, there are four commonly held ideas on what would be suitable choices for the UK. However, in all scenarios whereby the UK contributes to the EU budget, the UK would be paying but receiving no return in funding for subsidy programs or structural funding as it currently does. This would radically increase the negative aspects of choosing any of these options.

1. The European Economic Area

The EEA is an agreement between the EU and the European Free Trade Association consisting of Norway, Iceland, and Lichtenstein.[135] Members of the EEA, are not full members of the EU and do not have access to the Customs Union but do have access to the single market. This provides members with tariff-free trade on most goods with the exclusion of agriculture and fisheries; however, since the EEA is not within the Customs Union, this means companies exporting to the EU will still face administrative costs such as requirements on Rules of Origin that can affect multiple sectors. These NTBs can increase trade costs by 4% to 15%.[136] Furthermore, EEA members are

not included in trade deals between the EU and third countries,[137] although they are free to conduct their own trade deals with third countries.

However, access to the single market comes with certain costs. Primarily this entails following the "four freedoms" (goods, services, capital, and people). Adherence to the four freedoms would certainly require compliance with a large amount of EU regulations. In addition to the imposition of following EU legislation, which is the prime motivator in the case for Britain to exit the EU entirely, EEA members are also required to pay into the EU budget. For example, "Norway is the ninth highest net contributor to the EU Budget,"[138] paying the equivalent of 83%[139] of the UK's contribution to the EU budget, while also not receiving any rebates or financial returns.

In essence the economic results of changing the UK's relationship from a full member of the EU to a member of the EEA are not fundamentally different.[140] Rather, the UK would lose the ability to influence decisions while still being bound by them. EEA members have no veto in the European Council, no MEPs or votes in the European Parliament, no judges or staff at the European Court of Justice, no votes in the Council of Ministers, nor a European Commissioner or European Commission staff.[141] The UK would experience "regulation without representation."[142] If the UK were to fail to adhere to EU regulations, the EU would be able to suspend its access to the single market.[143]

Thus, while Norway is not part of CAP and pays a smaller amount into the EU Budget, the loss of sovereignty, the loss of decision making ability while being bound by EU rules, and the fact that the UK will still have to accept EU migration make the option of the UK becoming an EEA member highly unlikely and undesirable given the much more beneficial status quo as a full EU member.

2. The Swiss Model

The idea of emulating the trade relations between the EU and Switzerland has often been present in discussions of a future UK-EU relationship. Switzerland is part of the EFTA but not a member of the EEA. Thus, Switzerland's relationship with the EU does consist "of a free trade area with bilateral intergovernmental agreements."[144] However, this involves "over 20 major and 100 minor bilateral agreements with the EU."[145] As such, Switzerland has not gained unrestricted access to the single market but has negotiated access to each individual sector it wishes to participate in.[146] Thus, unlike the sacrifice of sovereignty that being a member of the EEA includes, by instituting bilateral agreements and equivalent legislation, there has been "no transfer of decision-making to a supranational authority and there is no enforcement mechanism for the bilateral accords."[147] While Switzerland is under no obligation to keep up to date with EU laws while EEA members are, failure to do so would result in reduced access to the single market. However, the limited scope of access has not resulted in an agreement for the freedom of movement for services, which would be incredibly important for Britain to obtain in any exit scenario. Besslich concludes, "Switzerland is hampered by the lack of an accord with the EU on financial services and by the lack of representation in Brussels. In the broader fight against protectionism and financial over-regulation in Europe, it relies on an informal alliance with another country that also has a big financial-services industry, as well as a valuable seat at the negotiating table: Britain."[148] Furthermore, Switzerland still has to make contributions to the EU budget, although the amount Switzerland pays is significantly smaller, 41% of Britain's contribution.[149]

The EU has made attempts to change its relationship with Switzerland into a more

manageable one such as its relationship with the EEA.[150] This has resulted in Switzerland having to comply with "EU legislation, without offering Switzerland the right to be involved in the decision-making process."[151] Switzerland is also required to allow free movement of people from the EU. According to Booth, Howarth, Persson, Ruparel, and Swidlicki, "Switzerland currently accepts far more EU migrants per head than the UK. In 2013, net EU immigration was just over four times higher in Switzerland than in the UK, proportionate to their populations."[152] In 2014, Switzerland voted to introduce measures that would limit the number of EU migrants. The EU has refused to compromise on this issue and "has suspended negotiations on further Swiss access to the Single Market, and noted the existence of the so-called "Guillotine clause" which means a number of connected agreements could fall if the free movement bilateral agreement is violated."[153]

While Switzerland is free to negotiate trade deals with third countries, not being a member of the EU does not mean that it will negotiate favorable ones. For instance, the Swiss FTA with China is highly preferential for the Chinese but not the Swiss. Chinese imports to Switzerland are tariff-free; however, China has only agreed to reduce tariffs for some Swiss products over a five to fifteen year period. This means "tariffs on Swiss wrist watches will be gradually reduced from the current rate of 11 per cent to a preferential rate of 4.4% over ten years. The Chinese insisted that there be a review of the agreement every two years, which would allow them to change the terms of the deal."[154]

The arrangement with Swiss-EU trade relations "is criticized within the EU for its cherry-picking, complex nature; it is therefore unlikely that the EU would be willing to replicate it for the UK."[155] Currently "both sides have questioned the viability of this model,"[156] with Switzerland scheduled to hold a referendum in 2016 on the arrangement. Further, the Swiss model has developed as a special case over a number of years catered for the exclusive intention of gradually integrating Switzerland into the EU. Thus it would be unlikely to be applicable to the UK upon exit; moreover, it would be highly undesirable given the reasons for leaving the EU in the first place.

For these reasons, both the EEA and Swiss model have been deemed unsuitable models for the UK should it decide to leave the EU. The Foreign Affairs Committee report on the Government's Policy (2013) on Europe concludes the following:

> We agree with the Government that the current arrangements for relations with the EU which are maintained by Norway, as a member of the European Economic Area, or Switzerland, would not be appropriate for the UK if it were to leave the EU. In both cases, the non-EU country is obliged to adopt some or all of the body of EU Single Market law with no effective power to shape it. If it is in the UK's interest to remain in the Single Market, the UK should either remain in the EU, or launch an effort for radical institutional change in Europe to give decision-making rights in the Single Market to all its participating states.[157]

3. WTO Scenario

Brexiteers have tirelessly argued that even if the UK were to fail to negotiate preferred access to the single market, Britain would merely fall into conducting trade with the EU and other countries under the World Trade Organization (WTO) rules. Ruth Lea, an advisor to Arbuthnot Securities, has said that leaving the EU would not be a major cause for concern as "Trade with World Trade Organisation

rules is not disastrous."[158] This encompasses the deficiency of most arguments supporting a Brexit: the proposition of an alternative scenario without consideration for whether it would actually be a better deal for the UK, much less a good deal. The fact that Britain can continue to survive without the EU is not the premise of the UK referendum; it is a question of what is the best state of affairs to proceed with in pursuing the interests of the UK. There is a fundamental lack of trust towards Brussels, and this has resulted in an almost do-or-die attitude in rejecting the EU outright without proper consideration of what the best-case scenario may be. According to the Treasury's analysis, "Relying solely on the WTO rules would result in a significant reduction in the openness of the UK economy to the outside world. It would be the alternative with the most negative long-term impact… After 15 years, the UK is estimated to be between 5.4% and 9.5% of GDP better off inside the EU than adopting WTO rules."[159] This personifies the strong emotional distrust and lack of desire by many to even consider that the EU is good for Britain.

More specifically, under this option, the UK would not immediately be able to trade under WTO rules. As the UK has previously operated in the WTO under the aegis of the EU, the UK would have to revise its WTO membership. This would require all other WTO members to agree on how "the UK will take on rights and obligations which it has formerly taken as part of the EU."[160] Until this has been resolved, it is entirely unclear what access the UK would have to other WTO members' markets and the UK's ability to insist on such access.

The level of uncertainty surrounding the UK's departure from the EU would most certainly drive down GDP. In terms of a WTO scenario and the necessary steps that would need to be completed in order to operate under the WTO rules, there would remain a vast amount of uncertainty. The uncertainty surrounding the ability of UK businesses to export and import could take up to nine years.[161] Due to this large period of uncertainty, there is an expected fall in investment in the UK, which is estimated to be over 25% by 2020.[162] The prospects are remarkably gloomy for the UK's future prosperity.

While one of the major benefits of relying on WTO rules is that the UK would not have to comply with EU regulations, trade would no longer be tariff-free and would be subject to the EU's Common External Tariff, where "food imports are subject to an EU tariff of 15 per cent, while car imports face a 10 per cent tariff, and car components, five per cent."[163] This would have a detrimental impact on UK manufactured exports. Furthermore, with regained control over the UK's regulatory regime, it can be expected that this would lead to a divergence of regulations between the UK and the EU, which would drive up trade costs through the increase of NTBs by 75%[164] compared to trade costs with third countries.

Reliance on WTO rules for Britain's services industry would have more serious consequences. According to Springford, Tilford, and Whyte, "The WTO has made little progress in freeing up trade in services, so British firms access to the EU's services market would be limited."[165] The UK services industry would be under the WTO General Agreement on Trade in Services (GATS). While GATS does function under the premise of non-discrimination, it would still lead to much more reduced access than the UK currently has as an EU member.

The UK would be free to engage in trade agreements with other countries. However, as the UK would no longer be a member of the EU, its bargaining power would be drastically reduced, and its ability

to successfully negotiate better deals than the EU is doubtful.[166]

Under WTO rules, the UK would be free to implement its own migration policies. If the UK were to impose tougher rules on migration, then the resulting effect on GDP would be 1% to 1.6% lower with labor supply, falling by 1.4% by 2030.[167] This would be due to the reduction in numbers of low-skilled workers and the resulting impact on multiple sectors from the reduction of employment.

In summary, the WTO option is the worst alternative for Britain if it leaves the EU. The UK does gain control over the areas much coveted by Eurosceptics such as regulation and migration. However, the price the UK would be paying could very well be the start of the economic decline of the UK as well as the end of its reputation as an important actor in global politics.

4. Free Trade Agreement (FTA)

By and far the best case scenario upon a British exit from the EU would be to negotiate a free trade agreement with the EU and bilateral trade agreements with other countries. Yet, even in this scenario, there is uncertainty surrounding the UK's future. Although such an agreement would be quite short, it would still result in a drop in GDP of 3% by 2020.[168]

However, perhaps the UK would be able to negotiate a free trade agreement with the EU "given the importance of the UK market to the Eurozone."[169] Most likely this would result in tariff-free trade on goods, but the UK would find it very difficult to negotiate an agreement on services given that the UK has a large surplus in services to the EU.

While the UK would be free to control its own regulations, it would need to comply with standardized regulations of the EU in order to export to the single market. Furthermore, if the UK were to negotiate a deep FTA with the EU, there would possibly have to be some form of compromise on the "four freedoms" and even a contribution to the budget depending on the form and level of agreement reached.[170]

If the UK were to attempt to copy the agreements already reached for FTAs by the EU with third countries after an exit, this would require the UK to keep many more regulations than those advocating for a Brexit would consider acceptable. Thus, while this scenario is possible it would take much longer than envisaged by Brexiteers.

In terms of migration, the UK would experience the same reduction of low-skilled workers as in the WTO scenario; however, it is expected that there would be an increase of high-skilled workers and thus a more favorable outcome for labor supply in the UK—although labor supply would still fall by 0.7% by 2030 compared to staying in the EU.

The best-case scenario in an FTA is that the UK is able to enjoy the same level of access as it already currently has. The main difference would be that the UK would no longer be in a position to influence decisions or push for reform on services. However, while in control of migration and trade with others, EU regulations would still apply. The UK may also have to contribute to the EU budget and accept some form of the "four freedoms." This is all while the UK would lose the ability to influence decisions and also have to pay higher costs for trade with the EU. The price that the UK would end up paying cannot be rationalized as being better than remaining as an EU member state.

Conclusion

On June 23, the citizens of the UK will decide whether to remain in the European Union or leave. Those on the side of a Brexit have been passionate in arguing against the EU on principle. Although it may be principled to applaud the return of sovereignty and democracy, the possible economic, political, and geostrategic consequences of leaving the EU would have far more meaning for the lives and well-being of the UK's citizens.

The Brexit debate is not about the return of democracy and sovereignty to the UK but about nationalism. As we have seen with the rise of populist parties throughout Europe, the rise in nationalism correlates to the financial crisis. When there is an economic downturn, the public becomes more worried for their own financial circumstances, while general appreciation and respect for the European project decline. Jean Claude Juncker recently stated that people are "stepping away" from the EU and that the EU has "lost a part of its attractiveness." Juncker claimed, "people want more national things at the expense of European principles and ... find themselves defenseless."[171] The will to work together for a common goal has been eroded to one of self-interest and preservation that ultimately is to the detriment of Europe and its individual member states.

This is currently happening in Britain amid its possible exit from the EU. With the rise of nationalistic sentiment, the UK finds itself in a remarkable and unimaginable position. As David Milliband stated, "no nation in human peacetime history has voluntarily given up as much political power as [the UK is] being invited to throw away on 23 June." [172]

The referendum does not question the immediate future for Britain. As we have seen, many economic forecasts and reports speculate into the next few decades on the impact of the UK's choice to remain in the EU or leave. This is the overarching problem that needs to be addressed prior to the referendum taking place. Do we believe that the era of economic austerity and populist attitudes will continue long into the future, or are we able to be more optimistic and accept that the markets will recover from the financial crisis? If we are to accept that the financial crisis has changed everything and that the woes of the economic downturn are to continue in perpetuity, then perhaps a Brexit would make sense. However, this is incredibly unlikely when regarding historical patterns after such events as the Great Depression and the aftermath of World War II. History has taught us that prosperity is cyclical and will return. When that happens, does Britain really want to be an isolated island alone on the periphery of the EU with few allies and a lack of influence on the global stage?

The best-case scenario for Brexiteers is that economically there would be little difference in the long term. However, the period of transition would result in "uncertainty and political disruption [that] could make a difference."[173] If Britain were to vote to leave the EU, potentially this would give rise to a leadership crisis. Cameron would most likely step down, and the Conservative Party would be in turmoil with a period of in-fighting over its next leader—especially as Jeremy Corbyn is already perceived as unelectable by many within his own party. The timing of the UK's leadership would be crucial as Britain would need a strong and decisive leader to guide it through a period of uncertainty, economic downturn, and extensive negotiations of the UK's access to world markets.

Furthermore, as expressed by German Finance Minister Wolfgang Schaeuble, the uncertainty that Britain will experience would not only affect the UK.

According to Schaeuble, "For years we [Germany] would have such insecurity it would be a poison to the economy in the UK, the European continent and the global economy as well."[174]

The fact of the matter is that the debate on Brexit has amounted to a loss of two years in which Britain could have influenced the EU in a more positive direction for UK interests. If the UK could put as much effort into reforming the EU as it has in opposing it, this would result in a much more favorable outcome for all.

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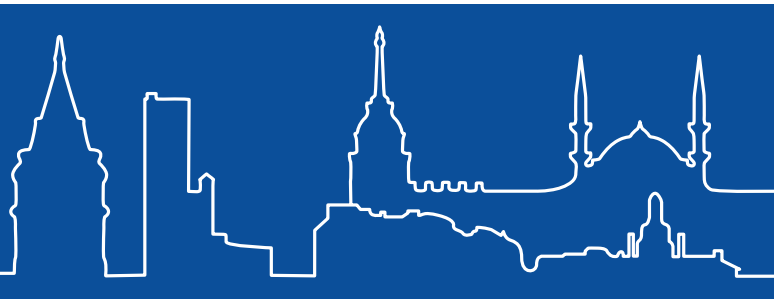
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