Accountancy Age debate on the motion

'Leaving the EU would damage the UK economy'

- Held on the *Accountancy Age* website between 25th and 28th March 2013

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FORMAT OF THE DEBATE

Accountancy Age and *Financial Director* are delighted to present our second 'Debate'. Following our hugely successful debate on the issue of tax avoidance, we now consider whether leaving the EU would damage the UK economy. Taking on the debate are some of the most important and influential commentators on Europe.

On one side is Business for New Europe (BNE) director Phillip Souta. The BNE is chaired by Roland Rudd, and boasts a plethora of senior business and political figures on its advisory council, including: Lord Brittan; Sir Roger Carr; Sir Philip Hampton; Sir Mike Rake; and Sir Martin Sorrell. Opposing Souta is UKIP economist Tim Congdon. Last year he produced UKIP's report 'How much does the European Union cost Britain?', and the party is riding high in the polls, with some putting them ahead of the Conservatives. Our guest speaker is Ernst & Young chief economist Mark Gregory. He has over 25 years' experience in more than 40 countries as an advisor to the Governments and industry on economics, policy and regulation.

And don't forget the vital role that you play in the debate, as your votes and comments add to the discussion during the course of the week. The debate is an interactive forum where the audience can discuss important topical issues, using an 'Oxford-style' debate, across the course of a week. There are five main protagonists:

1. The Proposer: In this debate, BNE director Phillip Souta proposes that leaving the EU would damage the UK economy.
2. The Opposer: In this debate, UKIP's Tim Congdon opposes Souta's view.
3. The Guest: Our expert 'guest', Ernst & Young's Mark Gregory, gives his opinion - independent of the proposer and opposer - on the second day of the debate.
4. The Moderator: *Accountancy Age* editor Kevin Reed will act as moderator for the debate, providing further thoughts and background to the issue being discussed, as it progresses.
5. You: The audience can interact with the debate at every stage. As the debate progresses day-by-day - which will include further statements from Souta and Congdon - a live online comment section will appear for you to give your opinion and discuss the debate with other audience members. You can vote at any point when the debate is live to determine an overall 'winner' - and you can change your mind as many times as you want until the debate closes.

The debate begins on Monday 25 March, and runs until Thursday 28 March. The whole debate will remain archived on the site to view.

Accountancy Age debate on the motion

'Leaving the EU would damage the UK economy'

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OPENING STATEMENTS

For the motion

Phillip Souta
Director at Business for New Europe

LEAVING THE EU - the UK's biggest trading partner - would be damaging for our economy. The UK is home to large numbers of foreign companies seeking access to the EU market. If we left, many of those companies would leave too. Leaving would also jeopardise the 49% of foreign direct investment in the UK that comes from other EU countries, worth £351bn a year. British goods would incur significant import taxes (55% in the case of dairy produce) to reach the EU market, making them less competitive. According to TheCityUK, 50% of corporation tax revenue from financial services would be at risk, and the possibility of the EU erecting non-tariff barriers to the free movement of services would jeopardise London's place as a global financial centre.

This is reflected in business leader sentiment, with a recent House of Lords European Union Committee finding that 78% of business leaders believe the Single Market is helpful for commerce.

The UK economy also benefits in other ways from being part of the largest trading bloc in the world. As part of the EU, our government has considerably more leverage in securing trade agreements, such as that signed between the EU and South Korea which eliminates virtually all tariffs while benefiting the EU economy to the tune of £500m per year. Similar deals with Japan and the USA are in the pipeline.

Exiting the EU would necessitate the signing of many bilateral agreements, stifling exports to our largest trading partner in the medium term as those were negotiated. The EU is the foundation of our shared economic future and leaving would damage the UK economy for many years to come.

Against the motion

Timothy Congdon
Economics spokesman of the UK Independence Party

BRITAIN SHOULD LEAVE the European Union for a simple reason, that membership makes us worse-off. It makes us worse-off financially, economically and politically. Let me take each of these three aspects in turn.

Financially, the British government pays large sums of money to EU institutions, and further adverse transfers are made by our private sector as a result of the EU treaties. Admittedly some of the money comes back, and any analysis needs to differentiate between the gross and net contributions. In 2012 the gross contribution was £15bn, about 1% of our national output, and the net contribution was £6.9bn.

But the money returned is under the control of the EU, not the British government. Cross-party parliamentary committees and other experts agree that this returned money is badly spent. So the direct financial cost to us of our membership should be seen as about 1% of what we produce as a nation, equivalent to roughly £750 per household each year.

Economically, the damage is far greater than the direct payments to EU institutions. Businesses have to comply with the directives and regulations in the 120,000 pages of the EU's *acquis communautaire*. In my 2012 study *How much does the European Union cost Britain?*, prepared for the UK Independence Party (http://www.imr-ltd.com/graphics/recentresearch/article63.pdf), I surveyed a range of reports and papers, and concluded that the cost of meeting the EU's regulatory burden was 5% of our national output.

Of course, that burden falls on all EU member states and is one of the main reasons for the end of economic growth in the EU. To talk about ‘the end of economic growth' may seem far-fetched, but data from the International Monetary Fund show that the level of output in the EU nations in 2012 was lower than in 2007, while no one is expecting this year or next to see much improvement.

Finally, we are worse-off politically because our nation is no longer in control of its own destiny. British democracy is dying. The great majority of the new ‘laws' that affect our daily lives are directives and regulations passed not by our own democratically-elected Parliament, but by the EU's Council of Ministers. The Council meets in secret and no record is published of its discussions, and it acts at the behest of an unaccountable bureaucracy in the European Commission.

Editorial comment

Kevin Reed
Editor, Accountancy Age/Financial Director

WHETHER AN ACCOUNTANT in practice, advising clients on their next step; or as an accountant in business - using financial and commercial risk skills to help their company grow, entering into new territories is a tempting but daunting prospect in volatile economic times.

So where does that leave us with the EU? Some may say it is free-market - and Europe is geographically close, and as such it is the obvious place to launch into when the UK is not enough. But does the EU construct help a UK business do business? Or does it just add a layer of bureaucracy? Do the pros and cons cancel each other out?

With Eurozone nations in such turmoil, do we need to hang tough, or simply abandon it and look to offer our wares in regions with better growth prospects?

Whether an adviser or finance director, accountants will be at the sharp end of whatever decision the public makes after the referendum. So if the profession wants to influence the debate, then read the thoughts of our main protagonists: Business for New Europe; UKIP; Ernst & Young; and, indeed, this Debate's audience. You have the opportunity to add your comments, and vote, over the next four days.

GUEST SPEAKER

Mark Gregory
Chief economist at Ernst & Young

THE UK'S DECISION on EU membership should be based on the analysis of the potential future states. A "steady as she goes scenario" is unrealistic as all the main UK political parties accept the need for some changes to the current arrangements but consequences of EU withdrawal are highly uncertain as no other state (with the part exception of Greenland) has ever pursued such a course. However, Norway and Switzerland provide some guide as to what sort of relationship might emerge.

If the UK was to leave the EU and be subject to punitive conditions for future access to the Single Market then the economic and financial case for leaving would be very weak. However, the UK is the EU's biggest trading partner, and vice versa, and hence the potential trade benefits to both sides mean that some either a deal around withdrawal possibly to associate membership on the lines of Norway or Switzerland - or a renegotiation of current terms - both ought to be possible.

The decision should be based on expectations as to how the balance of costs and benefits or renegotiation versus withdrawal play out in the key areas described below.

We would expect withdrawal would secure the UK greater freedom on policy and lower costs of membership whereas renegotiation would provide more influence and more favourable market access. The areas in which these effects would be found are listed below:

Net, the economic benefits of either successful renegotiation or withdrawal include:

- The potential to reduce regulation on business and the City
- Reduce paying subsidies (e.g., in agriculture) and some likely positive impact on consumer prices (e.g., for food and energy);
- Reduced budget contributions;

- More control over tax and other incentives to attract investors and stimulate business with high growth economies.

The economic risks of exit include:

- Reduced inward investment, which may negatively impact on export performance and lead to capital flight. A loss in investor confidence may risk currency depreciation alongside higher inflation and interest rate rises;

- In financial services, whilst the exit of the UK from the EU would bring the benefit of being able to adopt an offshore banking model with looser regulation, but this might risk the City losing its role as chief financial centre in Europe. If withdrawal was other than benign we would expect the remaining EU members to challenge the UK's finance sector;

- The UK could be seeking to weaken its relationship with the EU at exactly the time the EU economy starts to move forward The UK may therefore it would be difficult to participate fully in any liberalisation of the market from outside the EU;

- Withdrawal would reduce Britain's influence in shaping EU wide policy and regulation especially as they affect trade.

As long as access to the single market is seen as important, the scenarios are likely to be closer than might first be assumed as the issue of access will drive the value both sides perceive in any negotiations.

REBUTTALS

For the motion

Phillip Souta
Director at Business for New Europe

IN HIS OPENING STATEMENT, Timothy Congdon argued that remaining in the EU would make us worse-off financially, economically and politically. I would like to address each of these points in turn.

Firstly, while it is true that the UK is a net contributor to the EU (equivalent to roughly £750 per household each year), it is wrong to claim that this makes us worse-off financially. This contribution gives us access to £11 trillion worth of economic activity and free trade which according to the Department for Business, Innovation and Skills, has generated around £3,300 per British household per year over the last 30 years. If we were to leave, we would no longer have unfettered access to the largest market in the world, and one that is on our doorstep.

Secondly, EU competition and consumer rights regulations have driven down prices, opened up markets for smaller businesses and boosted consumer protections. The UK's economy in the 1970s, before we joined the then EEC, was in dire straits and the economic boom of the 1980s went hand in hand with trade liberalisation led by the UK in Europe. For example, regulations on mobile phone roaming costs have fallen by up to 75% since 2007, while completing the Digital Single Market would increase the EU's GDP by 4.1% by 2020, equalling €500bn (i.e. €1000 per person). All of this is good for the UK economy.

Finally, British democracy is not dying. While UKIP accuses the EU of producing 70-80% of the laws made in the UK, the House of Commons library estimates that the figure is closer to 10%. Staying in the EU will give us the power to influence even these laws. The UK - or indeed France or Germany - are no less democratic for their membership of the EU.

Meanwhile, in his capacity as guest speaker, Mark Gregory attempts to show that Norway and Switzerland can provide some guide as to what sort of relationship might emerge were the UK to leave the EU. Norway has been obliged to adopt over 75% of EU legislation, it contributes around €340m per year to the EU budget (80% per person of what the UK does) and doesn't have any say in how the rules are made.

The Swiss model would be even worse. Since 1992, Switzerland has signed 120 separate bilateral agreements, which the EU - including Britain - largely dictates the terms of. They contribute to the EU budget and have no say in EU decision-making. Perhaps most importantly, this option is unlikely to be available to Switzerland for much longer, let alone to Britain, as the EU (including the UK again) doesn't consider there's any way of reliably monitoring those 120 agreements.

Against the motion

Timothy Congdon
Economics spokesman of the UK Independence Party

BRITAIN BENEFITS from trade with other European nations, but such trade does not depend on membership of the European Union. Repeat, we do not need to belong to the EU in order to trade with EU member states. This is easy to demonstrate from international trade statistics.

Last year the EU imported from nations outside the EU goods to the value of €1,700bn, a sum not much less than the UK's entire national product. China exports more to the EU than the UK does to the other 26 member states, while Switzerland's exports to the EU per head of population are four times as large as the UK's. But neither China nor Switzerland belong to the EU. Of course no one has ever suggested that China should join the EU and its people have shown no sign of wanting to do so. By contrast, Switzerland is geographically in the heart of Europe. It has stayed out because its government, unlike the British, has conducted careful analyses of costs and benefits, and these showed that the costs were many times higher than the benefits.

We are told that ‘the UK is home to large numbers of foreign companies seeking access to the EU market' and that, ‘if we left, many of those companies would leave too'. No, because membership of the EU is not a condition of trading with the EU. Our trade with the EU as a non-member would be much the same as it is today as a member. If the EU can import from outside the EU goods to the value of €1,700bn, the EU would be open to exports from the UK if it too were outside the EU.

Let me emphasize that it is UK Independence Party policy to seek a free trade agreement with the EU once we have left. As Business for New Europe remarks in its comment (without apparently seeing the concession they have made to the case for withdrawal from the EU), the EU has recently agreed a FTA with South Korea. In fact, it has long-standing FTAs with Israel and Mexico, and is seeking FTAs with the USA, Japan and Canada. It would surely want one with us if we did not belong to the EU.

The claim that, outside the EU, the UK would be subject to ‘significant import taxes' is therefore rubbish. The customs duties paid on the EU's imports is less than 1% of their value. The European Commission's website says that "free trade among its members was one of the founding principles of the EU, and it is committed to liberalising world trade for the benefit of rich and poor countries alike".

Yes, there is the exception of the Common Agricultural Policy, with - for example - its 55 % tariff for dairy produce. But it is fantastic for supporters of EU membership to cite the CAP as a benefit to the UK. The distortions and inefficiencies of the CAP are notorious, and have long made food more expensive to British households than it would be if - like most of the world's countries - we did not belong to the EU.

Editorial comment

Kevin Reed
Editor, Accountancy Age/Financial Director

THE TWO main protagonists in our Debate have again had their say, trying to pick holes in each others' arguments. Perhaps they could be likened to the holes in Swiss cheese, what with both UKIP and Business for New Europe (BNE) using Switzerland as a pivot for their rebuttals.

UKIP claims that Switzerland has benefited from the autonomy of not being within the EU, while enjoying a close relationship with EU member states. However, BNE claims that Switzerland has suffered as a result of its arms-length relationship, while Norway has had to take on a raft of EU legislation to maintain its relationship with the union.

For UKIP, arms-length EU deals work - BNE says they're not so marevllous. Have their latest arguments changed your vote?

CLOSING STATEMENTS

For the motion

Phillip Souta
Director at Business for New Europe

In this debate, I have argued why I believe leaving the EU would damage the UK economy.

First, let me reiterate that neither the Norwegian nor Swiss models could plausibly be adopted by the UK. Norway has a population of around 4.5 million and a GDP of around £320 billion. It also has a sovereign wealth fund presently worth in the region of £400 billion, rising to over £650 billion by 2020. It has this through vast reserves of oil and gas. This is the equivalent of the UK having a wealth fund 25 per cent greater than our GDP - which we do not. Therefore, Britain needs the EU more than Norway does.

Switzerland, for its part, is a unique case, politically and economically. It has taken two decades for Switzerland to sign around 120 bilateral agreements. The UK economy cannot be made to suffer while politicians hash out individual deals. Similarly, Tim Congdon's proposition that the UK will leave the EU and then sign a free trade agreement, with no effect on our economy, is misguided in the extreme. It would be many years before the UK is at a point where it could come to such an arrangement. The EU/US free trade agreement, for example, had been discussed for over a decade before both parties even entered formal discussions.

Meanwhile, Britain's trading partnership with other large economies such as China and India will not prevent economic degradation. Both offer great opportunities, and while our current trade with these countries is large, it is much less than that which exists between Germany and China. Even France and Italy export more to India than the UK. Our trading prospects with these economies is therefore greatly bolstered by coordinating with other EU members, and our negotiating position in any free trade talks is strengthened.

Leaving the EU would mean the UK does not contribute to any of the decisions which affect the Single Market, despite our interaction with it. British business recognises this. Yes, there was an accurate calculation made that being outside the Eurozone would not affect our economy, but such a calculation cannot be made when it comes to the Single Market. Each and every arrangement that would be necessary to access it would have to be painfully negotiated over many years. We would not be allowed leave the EU while enjoying the benefits it offers.

The UK would be cast adrift from future developments in the EU, the largest, most effective trading bloc in history. Why would we go it alone when countries in regions across the world are banding together. Trading blocs such as ASEAN in Asia, MERCOSUR and UNASUR in South America are bringing benefits to member nations.
Britain's relationship with the EU has not always been an easy one, but membership is intrinsic to our economic well-being. Leaving would most certainly damage the UK economy.

Against the motion

Timothy Congdon
Economics spokesman of the UK Independence Party

So much is wrong with Business for New Europe's rebuttal of my remarks that I hardly know where to start.

BNE does not dispute that the cost each year, in terms of the direct payments made to EU institutions, amount to £750 for the average British household. But the payments are supposed to be justified because this money - the equivalent of a package holiday for a small family - ‘gives us access to £11 trillion worth of economic activity and free trade'. This is baloney.

Through its membership of the World Trade Organization the UK has access to the £50 trillion worth of economic activity that constitutes global output, and that costs the average British household a few pence each year (i.e., our contribution to the WTO's expenses, which are trivial, a few million pounds, divided by the 26 or so million households in our country). Further, and much more fundamentally, every country in the world has access to the EU market, because the EU is a member of the WTO. China exports more to the EU than the UK, but China is not an EU member state. To repeat my point in my second comment, membership of the EU is not a condition of trade with EU member nations.

The reference to mobile phone charges is off-beam, to say the least. The price of mobile telephony has come down because of improvements in technology, as a result of private sector initiative and competition. The great benefits of mobile telephony are to be found across the entire globe and are not restricted within the borders of the EU. Sure, the EU does interfere extensively in some areas of private sector economic activity, notably farming and fisheries. If BNE is impressed by the results, heaven help us.

Both Norway and Switzerland are richer than all EU member states apart from Luxembourg, which is in any case a rather unusual sort of ‘nation'. But the more basic point is that the world is split between the 27 countries that are EU members and the great majority (over 160 of them) that are not. The EU members cannot make up their minds whether they should be ruled from the national capitals or from Brussels. ‘Government' is becoming increasingly schizophrenic, expensive, inefficient and dysfunctional.

These weaknesses stem largely from the absence of the powerful checks on the abuse of power by the executive that are found in modern parliamentary democracies of the traditional type. The EU is falling behind the world's other 160 countries, in both its standards of living and the quality of public life. (Is anyone impressed by how the rest of Europe is currently behaving towards Cyprus?)

We should leave the EU as soon as possible.

Editorial comment

Kevin Reed
Editor, Accountancy Age/Financial Director

It's patently obvious that whether the UK is within the EU or not, neither option is perfect.

The arguments outlined by Business for Europe (BNE) director Phillip Souta this week have centred on the difficulty the UK would face in trading with the EU from the outside. Untangling from the EU would in itself be complex - but not as complex as trying to rebuild trading platforms, which through a series of agreements would probably take tens of years, Souta has argued.

Tim Congdon, representing the UK Independence Party (UKIP), has described the EU as dysfunctional and costly for the UK to operate within. He has also bemoaned its legislative influence, while downplaying the benefits that being in the EU affords.

Both parties have cited Switzerland and Norway as examples that back up their own arguments.

With our poll set to end at 15.00 today, you now have to make up your mind on which way you wish to vote.

FINAL VOTING

This debate is now over. Votes are closed.

28%

Agreed with Phillip Souta

72%

Agreed with Timothy Congdon

AT A GLANCE

day 1

39%
61%

day 2

25%
75%

day 3

28%
72%

day 4

28%
72%