



Tim Congdon's latest e-mail



[Notice: This e-mail is sent to you because I have been informed - or have good reason to believe - that you would like to receive occasional e-mails from me on why the UK must leave the European Union.

If you do not want to receive e-mails from me, I apologise and perhaps you would let me know so that I can take your e-mail address off the list.]

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Dear fellow members of UKIP (and others concerned about the UK's relationship with the EU),

For the first time in my life I was contacted some days ago by a political opinion pollster. I was asked whether, in the event of a general election, I would vote for the Conservatives, Labour the LibDems or another party. I told the idiot at the other end of the line that I voted for UKIP and slammed the phone down.

One has to wonder how some of these organizations will try to fiddle the polling ahead of the EU referendum which seems certain to be held between September 2016 and the end of 2017. (Cameron says the timing depends on the renegotiation process, but no commentators expect that process to be over much before mid-2016, while the EU Referendum Act says that the vote must be held before end-2017.)

As UKIP's Economics Spokesman between 2010 and 2014, I produced an annual assessment of the cost of the EU to the UK. (Press [link](#) if you would like to see the 2014 edition.) Although I now hold no official party position, I intend to do something similar ahead of the referendum debate. I may try to publish it as a quality 'trade book' for the general public debate, as well as a pamphlet under UKIP party colours. I am also updating the numbers and some of the text in a 2015 edition. Attached is the first chapter, on the 'direct' fiscal cost to the UK of its EU membership. As I constantly emphasize, this direct cost is only a small part of the economic damage attributable to EU membership. Far worse, and much larger, are the costs due to excessive regulation, EU protectionism and such follies as the Common Fisheries Policy, as well as the social impacts of immigration on jobs, 'benefit tourism', 'health tourism' and so on.

The main findings last year were that

1. The *net* direct fiscal cost (i.e., the cost of our payments to EU institutions minus the rebate and EU expenditure in the UK) had risen sharply compared with, say, a decade ago. Roughly speaking, the net cost had been about 0.3% or so of gross domestic product in the early years of the 21st century. But the figure now is 0.7%/0.8% of GDP, depending on how the relevant statistics are presented.
2. Although Blair's December 2005 surrender of part of the rebate was part of the explanation for the extra cost, much of the deterioration had in fact occurred under the Conservative/LibDem coalition government. According to the Treasury, net contributions to the EU Budget were £4.3 billion in 2009, but £10.5 billion in 2013. Shockingly, this huge increase had been almost entirely overlooked in the public debate.
3. The poor 2013 outcome arose partly from a failure of expenditure control. In July 2012 White Paper the Treasury expected the net cost in the 2012/13 financial year to be £7.0 billion; in its November 2013 successor the figure had climbed to £9.7 billion. The £2.7 billion overshoot suggested considerable tension between the Westminster and Brussels bureaucracies, as well as some incompetence in UK officialdom.
4. The whole subject was a mess, with conflicts between data produced by the Office for National Statistics for the UK's balance-of-payments statistics and the Treasury for purposes of public expenditure management. (I attach something I wrote for *Standpoint* magazine in May 2014 on the various problems.)

It has to be admitted that in 2014

1. The net cost of EU membership was somewhat lower than in 2013, by about £1 billion. (Using the ONS balance-of-payments data, the figure was £11.4 billion, compared with GDP – measured cautiously, in terms of gross value added – of just under £1,600 billion. So the net cost was heading towards ¾% of national output.)
2. The Treasury (and the government as a whole) did a better job of expenditure control last year than they did in late 2012 and 2013, but they reversed only a small part of the surge in the cost of the EU that had taken place in the previous five years.

In my view UKIP should emphasize that

1. The net direct cost of EU membership more than doubled between 2009 and 2013, a period in which practically all other kinds of public spending were being cut or restrained.

2. Cameron and Osborne have been poor managers, and in 2013 allowed the UK net contribution to exceed the planned level by almost £3 billion, an appalling failure.

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You are free to let me know if you want the 2015 version of the *How much does the European Union cost Britain?* publication, but I do not plan this year to take responsibility for distribution. (The party may or may not be willing to distribute the publication. I am not sure at this stage, although I would help the party finance printing and distribution if there were interest.) The publication will appear on my website www.timcongdon4ukip.com. Late next month you will be able to print off the PDF version from there.

With best wishes,

A handwritten signature in black ink that reads "Tim Congdon". The signature is written in a cursive style with a large, looping 'h' at the end.

Tim Congdon

Runner-up in the 2010 UKIP leadership election

1. The direct fiscal cost

As explained in the introduction, membership of the European Union imposes two kinds of cost on the UK. By far the most important and damaging are those which might be categorised as ‘indirect’, in that they do not involve direct payments from the UK to EU institutions. The 2012 and 2013 editions of this publication analysed them under five headings, with the costs of EU-related regulation and resource misallocation being by far the most substantial. For the current 2015 edition of the publication they are discussed more briefly in the second chapter. They remain dominant, making the UK over a tenth of national output worse-off than if it had never joined the EEC/EU.

The present chapter concentrates instead on the ‘direct cost’. This arises because its EU membership requires the UK government to make certain payments to EU institutions, and entitles it to a number of receipts. The payments exceed the receipts. How much are these payments and receipts, and what is the precise net position? That may seem like a simple question which can be answered with a single number or set of numbers. Surely, when the government spends £100 million, it spends £100 million, and it does so without fuss or ambiguity. In fact, a range of complexities mean that no one figure for many EU financial concepts is exactly ‘right’.

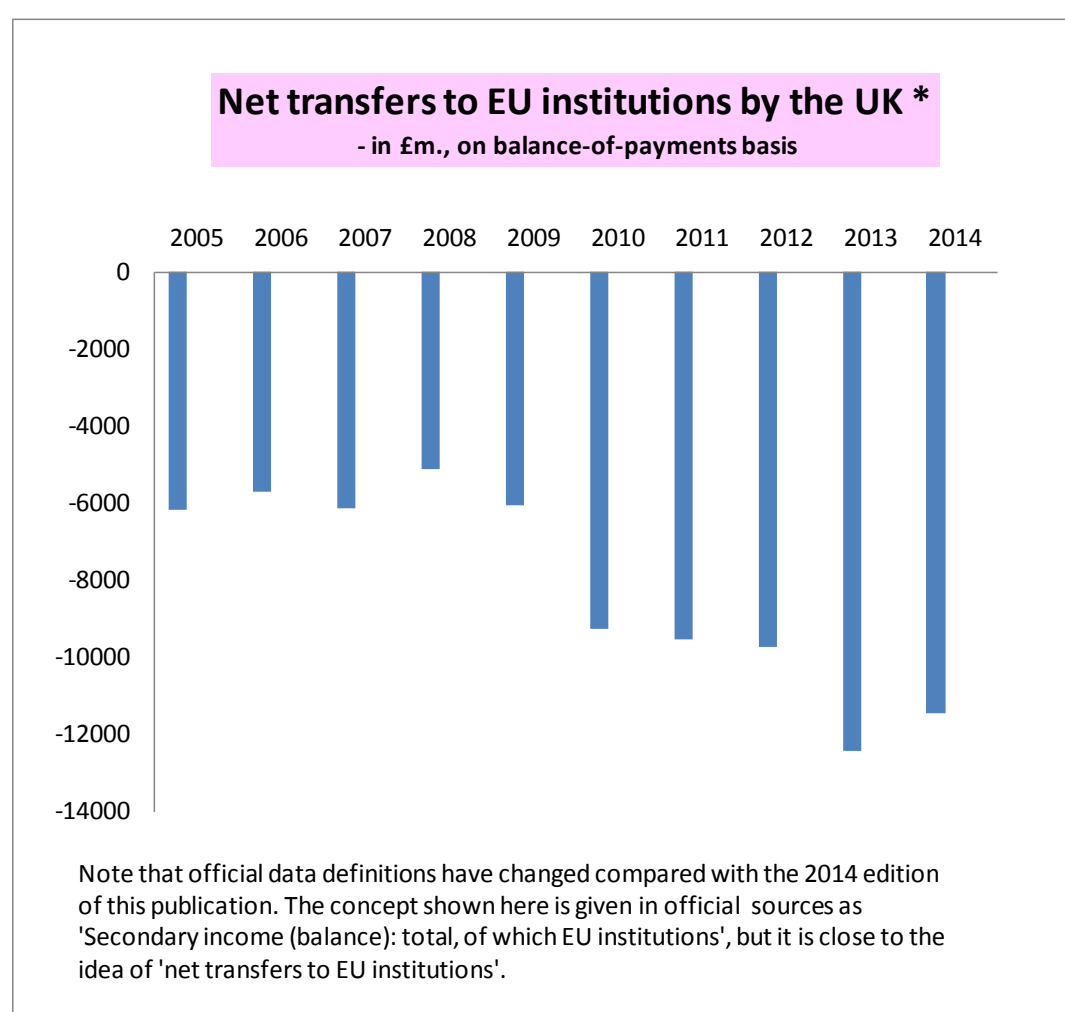
The UK’s financial contribution to the EU causes many squabbles, including squabbles about its size. One such squabble took place in the television debates between Nigel Farage, leader of the UK Independence Party, and Nick Clegg, leader of the Liberal Democrats, in March 2014. Farage reiterated an approximate number, of ‘£55 million a day’ as the cost of EU membership, which had been in UKIP publicity material for a few years. Clegg challenged it, on the grounds that it overlooked the money that comes back to the UK. The analysis below reviews the evidence and concludes that Farage was largely right. However, it has to be said that different people can select different numbers to suit their purpose.

As it turns out, the discrepancies between the various sources are substantial for the last two calendar years, 2013 and 2014. Arguably, a major tidying-up job is needed within the UK government machine so that the data become consistent, clear and easy to interpret. However, an important consistent message is that in late 2012 UK government control of its EU expenditure collapsed, with very serious effects on the 2013 outcomes. Although the UK government has subsequently tried to curb a clear tendency on the part of EU institutions to breach agreed limits, tensions over expenditure control between the Whitehall and Brussels bureaucracies undoubtedly continue. The net direct cost of EU membership in the 2012/13 financial year was dramatically higher, by about £3 billion, than intended in mid-2012. In a year of much-reported ‘austerity’ in public expenditure, this was a scandal that deserved far more media and political scrutiny than it in fact received. The situation in 2014 was a bit better, but only a bit. The cost was reduced by about £1 billion, while the outturn was nearer plan. But in its last full year the Conservative/LibDem coalition government failed to reverse most of the surge in the net direct cost of EU membership that had occurred between 2008 and 2013.

The cost summarized: no single number is right

The first analytical difficulty is that definite figures relate only to the past, after accounts have been prepared and finalized. If the object is to find out how much the UK is paying at present or will be paying in the next few years, estimates are needed. But these may prove unreliable in the end, because of – for example – the vagaries of the weather, which affect Common Agricultural Policy spending.ⁱ Another problem is that statistics can refer to different notions of ‘the UK’. This may seem strange, but the UK could sensibly in this context be viewed as ‘the UK government’ or ‘the UK as a whole’. If ‘the UK as a whole’ is taken to be the more relevant, allowance has to be made for private sector receipts and outgoings that arise from the EU treaties. Further, even when the time period has been decided, and the meaning of ‘the UK’ pinned down, interpretation can be confused by the existence of several alternative sources of information.

Anyhow we have to start somewhere. The chart below shows the UK's net contribution to the EU, according to balance-of-payment data prepared by the Office of National Statistics, and published in the latest quarterly balance-of-payments press release. (In most years the official annual *Pink Book* of balance-of-payments data is available by now [August], but in 2014 it was published at the end of October and that again is the position in 2015.) The data remain subject to revision since new details may still be found, but they give the best available official view from the information now at hand. The numbers include transactions between the UK private sector and EU institutions, although they are dominated by government payments in and out. Another complication is that the presentation of the UK's balance-of-payments data changes from time to time, and a major overhaul has occurred recently. The result is that the chart in the current 2015 issue of *How Much Does the European Union Cost Britain?* is on a somewhat different basis from the comparable chart in the preceding three issues of this publication. (The difference, which amounts to a few hundred million pounds a year, has little effect on interpretation.)



As remarked in the 2014 edition of *How Much Does the European Union Cost Britain?*, the chart is a shocker. The information shown here should have generated more publicity and comment, as well as causing anger and dismay. In 2009 the UK paid the EU institutions a net amount of just over £6.0 billion, under ½% of gross domestic product. In 2011 the figure had risen to £9.5 billion and in 2012 to £9.7 billion. If someone wanted a single number *for the direct cost to the UK of its EU membership*, '£10 billion' (slightly under 0.7% of gross domestic product) was a good and perfectly reasonable one to choose. But in 2013 the figure jumped by over 25% to £12.4 billion, not far off a full 1% of GDP. The 2014 figure was somewhat less, at £11.4 billion.

As explained, this was an official statistic, about which ministers and top civil servants must have been fully aware. But the government brought no one's attention to the big increase in the cost of EU membership to our country. On the contrary, David Cameron's government put around stories that Britain was being robust in financial negotiations with other EU nations. In February 2013 even *The Daily Express* was conned into believing that supposedly 'tough-talking' Cameron had, for the first time, secured a meaningful reduction in the five-year EU Budget.ⁱⁱ The truth dawned a few weeks later when it turned out that EU finance ministers had agreed a £6.2 billion rise in spending, above previously agreed plans, in one year! That decision, which the UK did not have enough votes to stop, implied an extra £770 million on its 2013 payments to the EU.ⁱⁱⁱ In December 2013 the five-year Budget was changed again, adding an extra £10 billion to the UK's commitment until 2018.^{iv} Still worse was to follow. In March 2014 EU Budget commissioner, Janusz Lewandowski, said that EU institutions had overspent their budget allocations by £20 billion in 2013!^v

2013's leap in payments to the EU was undoubtedly not foreseen by the British government. A key issue was by how much the outcome diverged from official plans, while corrective action by the Treasury and government ought to have led to an improvement in 2014. Every year since 1980 the Treasury has published a *Statement on the Budget of the EU*, for submission to Parliament, and a subsequent document on *European Union Finances*. Last year's *How Much Does the European Union Cost Britain?* mentioned the November 2013 issue of this document (Cmnd. 8740), with its numbers for the UK's net and gross contributions to the EU budget, and reproduced them in its Table 1.1. The same table is given below.

Table 1.1 UK government gross and net payments to the EU, 2007 to 2017/18

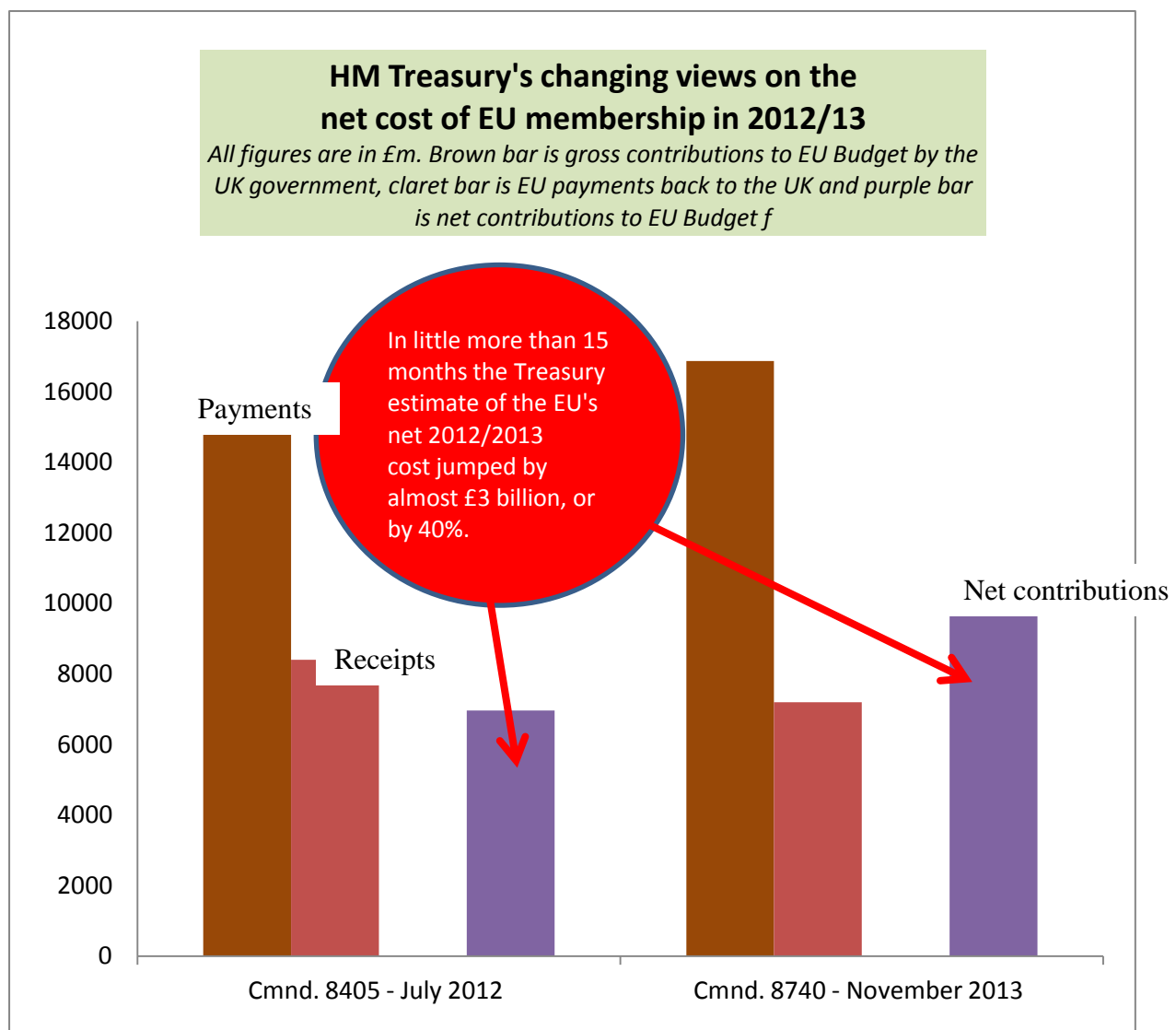
| | | £m. | | % of GDP | |
|---------|---------|---|---|---|---|
| | | Gross payments by the UK government to the EU | Net contributions by the UK government to the EU Budget | Gross payments by the UK government to the EU | Net contributions by the UK government to the EU Budget |
| Outturn | 2007 | 12,456 | 4,601 | 0.9 | 0.3 |
| | 2008 | 12,653 | 3,294 | 0.9 | 0.2 |
| | 2009 | 14,129 | 4,336 | 1.0 | 0.3 |
| | 2010 | 15,197 | 7,382 | 1.0 | 0.5 |
| | 2011 | 15,357 | 8,082 | 1.0 | 0.5 |
| | 2012 | 15,746 | 8,468 | 1.0 | 0.5 |
| | 2013 | 17,184 | 8,624 | 1.1 | 0.5 |
| Plans | 2013/14 | 16,653 | 8,313 | 1.0 | 0.5 |
| | 2014/15 | 16,687 | 7,444 | 1.0 | 0.4 |
| | 2015/16 | 16,968 | 8,067 | 1.0 | 0.5 |
| | 2016/17 | 16,979 | 8,139 | 0.9 | 0.4 |
| | 2017/18 | 17,248 | 7,962 | 0.9 | 0.4 |

Source: H M Treasury *European Union Finances 2013*, p. 14 and p. 17, and IMF.

IMF data have been used as the divisor in the ratio calculations.

A comparison of the numbers in this table with the chart on the previous page is unsettling. The table's number for the calendar year 2013 of a net contribution of £8.6 billion is much less than the chart's figure of over £12.4 billion. Admittedly, the two numbers are on a somewhat different basis. The table relates to *government expenditure and receipts as such*, unlike the chart which is *about the UK as a nation*. However, sharp questions had been raised about the reliability of the figures – the figures, let it be said, from Her Majesty's Treasury – in Cmnd. 8740. To any observant outsider it seemed all too likely that the 2013 figure – of £8.6 billion for the outturn – was wrong.^{vi}

More insight is gained by looking successive White Papers. Let us contrast, more specifically, views on the 2012/13 financial year in Cmnd. 8405 (published in July 2012) with those in Cmnd. 8740. In July 2012 the Treasury expected gross payments by the UK government to the EU in 2012/13 to be **£15,358 million**, while the UK government's net contribution to the EU Budget was put at **£6,959 million**. The White Paper published in November 2013 gave a figure for gross payments in 2012/13 of **£16,871 million** and a net contribution of **£9,679 million**. The difference in the net contribution **for this particular year between successive White Papers was therefore no less than £2,720 million or almost 40% of the original estimate**. Alarm has to be expressed that this gap was between two supposedly authoritative official documents, which were prepared by the UK's premier department of state within 16 months of each other. Even more remarkable is that the July 2012 number, a number that was to turn out 40% wrong, was prepared when three months of the 2012/13 financial year had already passed.



The latest *European Finances* White Paper – that for 2014 – finally appeared in December 2014, well behind the usual schedule.^{vii} The 2014 White Paper showed that the net UK contribution to the EU Budget in 2013 was in fact £10.5 billion. (See Table 1.2 below.) The government’s net contribution to the EU Budget in 2013 was originally meant to be under £8½ billion and, as noted above, as late as November 2013 the official view was that it would be £8.6 billion. So the over-spend, relative to the original plan, on this measurement was at least £2 billion.^{viii}

| Table 1.2: UK government gross and net payments to the EU, 2008 - 2018/19 | | | | | |
|--|---|---|---|---|--|
| | £m. | | % of GDP | | |
| | Gross payments by the UK government to the EU | Net contributions by the UK government to the EU Budget | Gross payments by the UK government to the EU | Net contributions by the UK government to the EU Budget | |
| Outturn | | | | | |
| 2008 | 12,653 | 3,294 | 0.9 | 0.2 | |
| 2009 | 14,129 | 4,336 | 1.1 | 0.3 | |
| 2010 | 15,197 | 7,382 | 1.1 | 0.5 | |
| 2011 | 15,357 | 8,082 | 1.1 | 0.6 | |
| 2012 | 15,746 | 8,467 | 1.1 | 0.6 | |
| 2013 | 18,135 | 10,465 | 1.2 | 0.7 | |
| 2014 | 19,234 | 9,807 | 1.2 | 0.6 | |
| Forecast | | | | | |
| 2014/15 | 18,821 | 9,054 | 1.2 | 0.6 | |
| 2015/16 | 17,862 | 8,385 | 1.1 | 0.5 | |
| 2016/17 | 19,228 | 10,178 | 1.1 | 0.6 | |
| 2017/18 | 17,902 | 8,049 | 1.0 | 0.5 | |
| 2018/19 | 18,858 | 8,908 | 1.0 | 0.5 | |
| Source: H M Treasury <i>European Union Finances 2014</i> , p. 14 and p. 18, and ONS. | | | | | |
| Office for National Statistics' (ONS) concept of gross national income has been used as the divisor in the ratio calculations. | | | | | |

The review of the official data is now complete. Significant differences remain between the balance-of-payments data and the numbers in the annual White Paper, and even the most well-intentioned analyst would have problems in reconciling these key information sources. Even worse, the Treasury seems to find difficulty in keeping its actual payments to the EU Budget in line with plan. At any rate, a fair assessment has to be that the annual net cost – meaning the direct fiscal cost – to the UK of its EU membership lies in the vicinity of £10 billion to £12 billion. With gross national income in the UK running at under £1,600 billion in 2014, the net cost is heading towards ¾% of GDP.^{ix}

Assessing the gross and net cost

The White Paper analyses at least have one virtue, that they present data on gross payments to the EU as well as the net contribution. The difference between the two reflects the EU's various payments to the UK. These have been and still are of two kinds, a rebate (which is returned to the UK government for its own discretionary expenditure) and expenditure in the UK under EU control. Detailed and precise numbers for the previous years (2013 and earlier) are given in the annual 2014 *Pink Book*, but at the time of writing the 2015 *Pink Book* was not available to enlighten us about 2014.

In last year's *How Much Does the European Union Cost Britain?*, some detective work on the latest balance-of-payments data was reported to argue that the UK's gross payments in 2013 climbed towards £20 billion. Divided by 365, that gives a daily amount of £55 million, in line with Nigel Farage's claim in his TV debate with Nicholas Clegg. Sure enough, about £3½ billion of the gross amount came back to the UK in the form of the rebate. But that would still leave the annual figure at £16½ billion and the daily figure at £45 million, which would be bad enough.^x Figure 1.2 above has forecasts for both the gross payments and the net contribution out to 2017/18, and these forecasts suggest that these payments will not change greatly over the next few years. But the analysis in this document has identified enormous differences between plans and outturns in the EU part of public expenditure in 2013. The scale of such differences does not give much reassurance about the British government's ability to confront the EU over poor budgetary control.

A clear message of the discussion is that the direct fiscal cost of EU membership has been going up. It has been rising in the last few years, surged dramatically in 2013, and levelled out (or even fell slightly) in 2014. Broadly speaking, the cost from now on will be about ½% of GDP higher than it was before the end of the Blair premiership in 2007. Unfortunately, the future prospect is quite murky, quite a lot murkier in fact than the apparently neat-and-tidy numbers in Table 1.2. Despite the complexities, a fair summary of the facts is that the UK is a net contributor *as a nation* to EU institutions of between £10 billion to £12 billion a year and a gross contributor of between £17 billion and £20 billion. UK GDP in 2013 was rather more than £1,500 billion and in 2014 almost £1,600 billion, using the gross value added concept of GDP. Figures in the middle of the ranges are respectively 0.7% and about 1¼% of our national output. (The UK *government* pays less, but – to repeat – it is *the nation* that matters.) The next section will consider whether the gross or the net concept is the more indicative of the burden falling on the UK, and hence the more valid and useful in debates on this subject.^{xi}

Which figure is right? Gross or net?

Many people are confused by the wide range of different possible estimates. It would be nice if it were at least possible to say whether the UK's gross or net contribution to EU institutions was the more meaningful. The answer depends on assessing the benefit that the UK receives from the money that is sent, to both our government and private sector, by the EU. That, of course, depends in turn on whether the money is spent well or not. One point must be reiterated and stressed. Apart from the rebate, EU expenditure in the UK is controlled by the EU bureaucracy, not the British government. According to successive *European Union Finances* White Papers, the UK public sector receipts are mainly from the FEAGA ('Fonds europeen agricole de garantie'), the EAFRD ('European Agricultural Fund for Rural Development') and the Social and Regional Development Funds. Together these amounted to almost £4 billion in 2013/14, but they are expected to return to the previous level (of roughly £4½ billion to £5 billion) in 2014/15 and later years. In 2014 another £800 million was paid directly to the UK's private sector by the EU.^{xiii} In other words, the sums of money that the EU spends 'for the UK's benefit in the UK itself' are concentrated in two areas, regional aid and farming. How worthwhile are the EU expenditures in these two areas?

The great bulk of the EU's regional development spend takes place in the poorer member states, such as Poland and other East European countries. Only a small part of it is allocated to the richer member states, of which the UK is one. The UK is often regarded as having a relatively competent and honest government machine, with its ministries answerable to parliament for tight expenditure control. By contrast, the European Commission does not have a strong reputation for administrative efficiency. Perhaps not surprisingly, concern has been expressed at the highest level in the UK that the EU's regional development expenditure in the UK is ineffective and wasteful, and that a better outcome could be achieved if responsibility for the expenditure were returned to the British government. In England the only part of the country to receive significant amounts of EU regional money is Cornwall. A parliamentary enquiry into the European Regional Development Fund in 2012 judged that so far the ERDF expenditure in the 2007 – 13 period could not be said to have had 'a significant impact' in Cornwall or the Scilly Isles. In fact, 'It is not even possible to conclude that the 2000 - 06 ERDF round has done so, because of the lack of robust evidence.'^{xiii}

More crudely, the EU's regional development spend had done little obvious good. The consensus on this subject in UK parliamentary circles has been strong and well-defined for many years, and both Conservative and Labour governments have tried to repatriate regional expenditure. As long ago as 2003 the then Chancellor of the Exchequer, Gordon Brown, said that the time was ripe 'to bring regional policy back to Britain'. Even the Commission has conceded that the whole process of structural aid for Europe's poorer regions creates 'considerable administrative and opportunity costs'.^{xiv} A reasonable conclusion is that – because the EU is bad at spending regional aid money in the UK – the benefits are less than implied by the many billions that over the years have appeared under this category of EU expenditure. By extension, the true cost to the UK of its EU membership is closer to the gross cost than the net cost.

The same sort of conclusion is almost certainly also justified by the second head of expenditure here, namely agriculture and farm support, although less emphatically. At the start of European integration in the 1960s, farm expenditure dominated expenditure by the European Economic Community. It was intended to encourage production, not least because of painful memories of food shortages following the Second World War. The prices received by European farmers were well above the prices prevailing in world markets. By the late 1980s the resulting increases in output were impressive in absolute terms. But they were also out of line with market forces, and huge stockpiles of grain, butter, wine and so on had emerged. It was widely accepted that the over-production was a poor advertisement for the wider cause of European integration. So in 1988 the EEC introduced set-aside payments, in which farmers were paid for not producing grain on a certain proportion of their land. (In other words, they were being incentivised to do nothing! This was discussed in more detail in chapter 5, pp. 44 – 45, of the 2013 edition of *How much does the European Union cost Britain?*.) From the McSharry reforms of 1992 onwards EU policy towards farming changed direction, with the new aim being to protect rural communities and the environment. Today the Common Agricultural Policy has two so-called 'pillars', direct farm payments which continue to be related to production and rural development.

What, exactly, is 'rural development'? No doubt the phrase has many potential meanings. 'A cleaner and safer countryside', 'a sustainable environment', 'the preservation of traditional ways of life in the rural context', 'respect for the vernacular in local culture', and so on, are good things in their way. No doubt. However, the truth is that money is being paid to tens of thousands of people for no clear benefit economically to the 65 million people who constitute the nation as a whole. So here is another example of EU spending that has a definite cost to the taxpayers of the UK, but a benefit which is limited to only a handful of people and is in fact associated with the conscious restriction of output. Again, this must mean that the true cost to the UK of its EU membership is closer to the gross figure (i.e., 1¼% of national output) than the net one.

The UK's contribution to the EU Budget set in context

The discussion so far has acknowledged numerous complications and difficulties in calculating the direct fiscal cost of EU membership. Nevertheless, it has identified two straightforward and easy-to-remember conclusions. First, the net fiscal cost is currently running at about £10 billion to £12 billion a year, not much less than $\frac{3}{4}\%$ of GDP. Second, the gross cost of 1% - $1\frac{1}{4}\%$ of GDP (which is between £17 billion and £20 billion) is probably a better measure of the burden to the British people than the net cost. The reason that the gross cost deserves to be highlighted is the abundant evidence that so much of the money which 'comes back to the UK' is badly spent.

The 2012 edition of this publication translated numbers like this into a 'per household cost'. It took the then estimate of the gross UK government payments to the EU in 2013/14, which was expected to be £17.6 billion, and added in some private sector costs to arrive at a total gross cost of £20 billion. This £20 billion was divided by the number of households in the UK, thought to be 26.7 million. The result was that the cost per UK household of EU membership was, more or less, £750 a year. It was also surmised that further eastward expansion of the EU, by for example allowing Turkey to join, could push that number up towards £1,000 a year. This would be equivalent to the cost of an annual holiday for a small family, something for which many less well-off households have to make a conscious decision to save during the rest of the year. In other words, the cost to the British people of EU membership – in terms of the direct fiscal cost – is not crushing, but neither is it trivial. Three years later that assessment still looks about right.

The UK's contribution to the EU Budget may seem small relative to our national production and wealth. At about 1% of GDP, the UK's gross contributions are of course heavily outweighed by the 99% of our output which 'belongs to us'. Most of what we produce we can spend as we wish, whatever the treaties say, and regardless of the activities of bureaucrats and politicians from other European nations. But so it should be. The world includes other free-trading arrangements between nations, often referred to as 'customs unions'. Typically, the only supra-national administrative structure needed is a panel (of judges, usually) to settle disputes in the interpretation of the treaties establishing the customs union. The cost of such panels, and even of the supporting bureaucracy, is trivial, less than a thousandth of 1% of GDP.

When the UK first engaged in 'the European construction' (to use the phrase often favoured by EU bureaucrats), the British public's understanding was that we were 'joining the Common Market'. In other words, the objective was economic, to participate in a free trading area and to enjoy the higher rates of output growth that had been seen in the Common Market nations in the 1960s. The British people did not want to help the building of a European super-state in which their independence would be weakened and lost. Unfortunately, by the early 1970s many top British policy-makers were afraid that the UK would be 'left behind' its economically dynamic European neighbours. To them membership of the Common Market seemed absolutely essential and they were prepared to pay a price for joining it. They were prepared to pay a price, even though all that the UK wanted was European free trade and – as has explained – the cost of administering customs unions ought to be tiny. But the Heath government that negotiated Common Market accession in 1973 knew that the membership fee could not be too much, as that would alienate British public opinion.

The result was therefore a membership fee – in terms of the direct fiscal cost – which was neither enormous nor trivial relative to GDP. The cost was large compared with most other EEC/EU states, in that for most of the last 40 years the UK has paid more than any other member state apart from Germany. Of course Germany's motives for the large sums that it has committed to European integration have always been totally different from the UK's. Germany not only lost the Second World War, but also did so after horrific breaches of civilised standards in its treatment of racial minorities and subjugated territories in the early 1940s. German public opinion has seen European integration as a means both of compensating its neighbours for past wrongs and of seeking wider geopolitical reinstatement.

The 2012 and 2013 editions of this study argued that the direct fiscal cost is, in fact, only part of the cost of EU membership to the UK. Far more important nowadays are the costs of regulation and waste, which were not even considered in the original negotiations. It is important to remember that the UK's status as a net contributor to EU funds goes back to the disappointments and resentments of the original applications back in the 1960s and early 1970s. From a wider historical perspective, the UK – unlike the other big consistent contributor, namely Germany – has no reason to be ashamed of its past or to offer 'blood money' to its neighbours. The British interest in Europe has always been commercial and economic, while a customs union or free trade area can operate successfully with a disputes panel with a cost that is negligible compared with the current direct fiscal cost of the UK's EU membership.

ⁱ The Common Agricultural Policy was discussed and explained in chapters 3 (pp. 29 -30) and 5 (pp. 44 – 45) in the 2013 edition of this publication.

ⁱⁱ Macer Hall 'Tough-talking David Cameron forces through first ever EU budget cut', *Daily Express*, 9th February 2013. To quote from the story, 'David Cameron was celebrating a spectacular and historic diplomatic triumph last night after forcing the European Union's first ever budget cut.'

ⁱⁱⁱ Matt Chorley 'Britain loses EU budget battle', *Daily Mail*, 15th May 2013.

^{iv} Matthew Holehouse 'Britain's EU contribution to jump by £10bn as taxpayers carry burden of ailing eurozone', *The Daily Telegraph*, 5th December 2013.

^v Matt Chorley 'Anger as Europe demands an extra £2.5 billion from Britain to plug another blackhole in the EU's budget', *Daily Mail*, 4th March 2014.

^{vi} The author had a letter in the *Financial Times* of 27th October 2014, under the heading 'Our net contribution to EU budget may be well over £8.6 bn.'. He said that the 2013 would be nearer £10½ billion or even £11 billion, and he was right.

^{vii} Until 2012 the publication had come out in July. In 2013 it emerged in November. Was the Civil Service having trouble meeting deadlines? It seems so.

^{viii} In the 2010 *European Union Finances* White Paper (Cmnd. 7978) the plans were for net contributions to the EU Budget to be £7.8 billion in 2012/13 and £8.5 billion in 2013/14.

^{ix} Gross national income here is the gross value added concept, rather than 'the GDP at market prices' idea which by convention is behind the phrase 'money GDP'. The GVA concept seems more appropriate, as the size of the burden of net EU transfers is not affected by changes in UK indirect taxation.

^x The Office for Budget Responsibility put its name to this figure, according to Anthony Reuben, head of statistics at BBC News, in his analysis of the Clegg vs. Farage debate in March 2014.

^{xi} The 2012 edition of this publication had a long discussion (pp. 12 – 14) of how events had determined the UK's EU membership fee. It has been deleted for space reasons, but the material is available from the website www.timcongdon4ukip.com.

^{xii} Cmnd. 8974 *European Union Finances 2014* (London: Stationery Office, 2014), p. 14.

^{xiii} Department for Communities and Local Government *Government Response to the House of Commons Communities and Local Government Committee Second Report of Session 2012/13* (Cmnd. 8389 [London: Stationery Office, 2012), box to clause 4.

^{xiv} *Off Target: the case for bringing regional policy back home* (London: Open Europe, 2012), p. 3.