



Pointmaker

REMAIN OR LEAVE

WEIGHING THE RISKS

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Andrew Tyrie delivered this speech at the Centre for Policy Studies on Monday 13 June 2016.

1. INTRODUCTION

Opportunities and risks come with both staying in and leaving the EU. On 23 June, the electorate will be asked to do a difficult job: to weigh those opportunities and risks. The leavers have the simplest points. But the remainers have the better of the argument. What follows is an attempt to explain why.

2. WHAT THE REFERENDUM IS NOT ABOUT

It is important to be clear what the referendum is not about.

First, the referendum is not a litmus test of who is a good patriot. There are patriotic people, and patriotic arguments on both sides.

And both deserve respect.

Secondly, it is not, nor should it be, a test of who is a good member of a political party. The Conservatives, Labour, the SNP and the Liberal Democrats will all diminish themselves if they make a stance taken in this referendum a test of party purity.

Thirdly, this is not – in spite of the rather breathless hype – the most important decision faced by the UK since the Second World War.

The decision deeply to engage with the construction of the Western alliance, and the decision not to participate in the creation of the EEC, both outrank it. Arguably, the Scottish referendum does, too.

Nonetheless, the referendum matters, and matters in particular to the younger generation, because unlike a general election, the decision will not be revisited every five years.

All of us have a particular responsibility to think about their futures; and the young have a particular interest in voting.

Fourthly, it is not the case, as the Prime Minister and others used to suggest, that the referendum will provide a lasting resolution of Britain's relations with the EU.

If the UK votes to stay, our often dyspeptic relations with many of Europe's institutions will continue – particularly with their supranational



elements – as will the enduring task of protecting our interests as a non-participant in the Euro.

But if we vote to leave, relations with our neighbours will be at least as controversial, albeit in a different way.

It is likely that there would be at least a three way split over the country's direction, a split which, although at its clearest on the Right of British politics, is to be found across the political spectrum.

There would be a nationalist, sometimes Powellite, strand keen to minimise foreign entanglements.

Some might want to try to construct an "Anglosphere".

And there would be a third group, perhaps the largest, who still see Britain's future as inextricably tied up with the Continent, whether they like it or not, and who would seek to reconstruct that relationship as best they could.

Fifthly, the referendum is not about – or certainly should not be about – what the Treasury Committee concluded were confusing, and on occasion misleading, claims made by both sides in the debate.

The electorate are thoroughly fed up with having to listen to some of this.

The Treasury Committee set out its concerns in detail.

By far the worst is the Vote Leave campaign's central claim. This is that Brexit would lead to a £350 million a week fiscal windfall.

This is simply untrue.

It is particularly reprehensible that this money is being allocated for 'spending' by the Leave campaign, and several times over, on the NHS, schools, roads, regional airports, tax cuts and submarines, to name but a few, if Britain left the EU.

This is nonsense politics.

It is a form of electoral bribery. It is an order of magnitude worse than usually encountered in general elections.

£350m a week, or £50m a day, is a false prospectus. It has some of the same corrosive characteristics of Tony Blair's claims on Iraq.

I very much regret that the electorate is being expected to wade through this mountain of nonsense to find grains of truth.

3. SO WHAT IS THE REFERENDUM ABOUT?

Overview

Despite the complexity of some of the issues involved in the referendum, they can be boiled down to three: the economy, identity and security.

In sum, on the economic impact, most experts – among them Brexit supporters – have concluded that a short term economic shock would almost certainly accompany leaving the EU, bringing a reduction of GDP growth. In practical terms that is likely to mean somewhat lower living standards than would otherwise be the case.

Most experts have concluded that there will also be a long run cost, although this is much less certain.

There are economic risks to staying and leaving; but the risks are greater to leaving.

Secondly, the electorate must decide whether the economic costs of Brexit are, as Arron Banks, founder of Leave.eu, put it, a "price worth paying" to secure demonstrable Westminster control over a number of economic decisions currently taken collectively.

My own view is that much of the control gained would be illusory. Britain would still have to negotiate with the EU, whether in or out.



Thirdly, the electorate must also judge whether the EU makes Britain more or less safe. In a nutshell, my view is that the EEC and now EU have both made an enormous contribution to the stability of Europe, most recently by helping absorb Europe's eastern half into the family of western nations after the collapse of Communism.

I feel the emotional pull of leaving, but the remorseless logic of the arguments in favour of remaining are stronger.

These are the three core questions for the electorate.

Economy

The weight of evidence seen by the Treasury Committee overwhelmingly supports the view that withdrawal from the EU carries an economic cost. But how big?

Estimates of the impact of the short-term shock on GDP range from 1 per cent to over 5 per cent. The leading applied economist for the Brexiteers, Gerard Lyons, agreed with this consensus when he wrote that "Leaving the EU would be an economic shock. Most, if not all, economic shocks depress economic activity".

How short is the short term?

This is very difficult to tell. How long the downturn lasts, and the extent to which some or all of the loss in output could be recaptured in later years, depends on a range of assumptions.

Among them are the speed with which arrangements governing trade, investment, UK access to EU migrants, or a substitute for them in the global labour market, can be put in place.

How long would this take? No-one knows. But if I was pressed, I would tentatively argue for several years.

After all, what is required is a redirection of trade and investment; possibly a substantial adjustment to the labour market; and a clarity about arrangements for trade in services, where

cross-border trade has been facilitated by the EU's efforts to tackle non-tariff barriers.

Leading members of the Leave campaign have said that the UK will have "access to" the single market but not be "part of it".

This is pretty disingenuous talk.

It could create the misunderstanding among the wider public that, somehow, we can have full access to EU markets but set aside its rules.

I am confident that that would not be possible.

The crucial question is not whether or not the UK has access to the single market after Brexit, but how much access it has.

This is one of the uncertainties that may well, in itself, reduce output somewhat.

And it seems improbable that the EU would be prepared to negotiate anything resembling the current high level of access to the single market without the retention of a substantial degree of free movement of labour.

In the long run, the economy would adjust, whatever the arrangements put in place.

Would this also carry an economic cost?

Here the evidence that we took also suggests that there will be a loss of GDP, but it is more circumspect, and with wider margins of error.

Depending on the assumptions underpinning the analyses, and the models used, the balance of evidence shows a fan tail of possibilities, ranging from a modest upside to a somewhat larger downside.

This is scarcely surprising. The Treasury reduced the long-run effect to a single number in their paper published in April.

There is an arbitrary precision about this. Talk of a range is better. The Treasury have at least set out the assumptions behind it clearly, and with frankness. The Treasury clearly engaged in a great deal of legwork to get to a number.



But there is a simpler point.

When trade relationships are disturbed or curtailed, even in the short run, there will be a fall in output from the trend it would otherwise achieve.

And over the longer term, it is reasonable to conclude that Brexit would lead to a loss of GDP because leaving the EU would result in less access to the single market.

Behind the cacophony of claim and counter-claim lies this irreducible point.

And it is for this reason that the forecasts examined by the Treasury Committee, while offering a range of possible outcomes, largely predicted a negative effect.

Though it is rarely considered in such analyses, it is also likely that restrictions on free movement between the UK and the rest of the EU would have negative effects.

It seems implausible that reducing access for firms to the EU labour market would leave economic performance unchanged.

To suggest that this could be wholly replaced by labour from outside the EU might be correct, although it would take time.

But it is scarcely any comfort to those concerned by the level of migration.

Leaving might create the opportunity for an upside on trade with third countries. But this is more speculative territory.

Perhaps the UK could negotiate open trade agreements with third countries of considerable benefit. Perhaps not.

The EU has sometimes been cumbersome in its approach to international trade negotiations. But it has been far from useless.

It obtained comprehensive trade deals with countries such as Canada and South Korea. The EU has become steadily more open over time.

Perhaps the UK could be more nimble in catering for its own specific interests. But it might feel the lack of the negotiating leverage of the access provided by a market of 500 million consumers.

Inward investment might also fall, a point on which the Treasury Committee took a good deal of evidence.

Patrick Minford is the chief exponent of another post-Brexit trade strategy. His is the proposal of a Peelite: unilaterally to open the British economy by eliminating all tariffs on imports to the UK.

In principle, this has some sound economics behind it. But it may prove very difficult to implement.

It would not be at all straightforward to explain to thousands of employees in the motor industry that they might face high tariffs on their manufacture of exports to the EU, but that no tariffs would be levied on imports from car manufacturers into the UK.

So it is clear that there are economic risks both to the short term and the long term from leaving the EU.

It is true that staying in the EU is by no means risk free, either. The EU's protectionist instincts could reassert themselves. And further risks could flow from the creation of banking union, notwithstanding the Bank of England's confidence that the safeguards negotiated provide adequate protection.

Overall, both staying and leaving carry risks and opportunities, requiring management. But the economic risks of staying and leaving are not symmetrical.

Leaving carries bigger risks.

The weight of evidence taken by the Committee was pretty robust on this point.



Identity

I have lingered on the economic aspects of Brexit – perhaps partly because I chair the Treasury Committee.

But many will feel that the need to restore control of affairs back to Westminster (as they see it), or the threat of erosion of Britain's sense of national identity, are stronger arguments for leaving.

They were encapsulated in the evidence to the Committee by Arron Banks, when he said that £4,300 per household was “a price worth paying to get back our own democracy”, and in Dominic Cummings' interesting remark that leaving could provide an opportunity for national renewal.

It is true that the EU bolsters the self-confidence of a number of Member States.

Since the war, the Germans have only ever felt comfortable expressing their national identity as part of a wider European identity.

For much of southern Europe, the European identity secured domestic transformation from dictatorship to democracy, and from managed to open economies. And for the countries of central and eastern Europe, joining the EU has itself been an expression of national identity, and of a new found independence after decades of Soviet domination.

None of these forces has touched the UK.

But neither – although this is unprovable – does it appear that the UK's self-confidence has been eroded by membership.

If anything, the opposite is true.

Our self-confidence as a nation has indeed derived from a capacity for self-renewal since the 1980s, following decline in the 1960s and a collapse into ungovernability in the 1970s.

Put bluntly, we got ourselves into a mess, and we got ourselves out of it.

Membership of the EU had scarcely any influence on these events, for better or for worse.

And much of that holds true for the UK's main economic challenges today.

These almost all lie on the supply side, are largely home-grown, and are of very long-standing:

- A housing shortage
- Poor quality transport, and some other infrastructure equally poor
- Very mixed-quality maths and science performance in schools
- A vast and increasingly ineffective and distortive tax system

This is not an exhaustive list.

Membership is not crucial to these issues, nor for the most part does the EU stand in the way of addressing any of them.

All the same, the historical evidence does not fully answer the claim that another bout of national renewal could be available after Brexit.

Perhaps it could, but while renewal is one possibility, isolation is another.

Overall, I find the argument based on identity – that membership makes Britain less of a country – intriguing but unconvincing.

It implies a lack of self-confidence about ourselves as a country for which I find scarcely any evidence, particularly among the younger generation.

Nonetheless, the supranational character of the EU has certainly distanced decision-making from the electorate.

Coupled with the accretion of power at the EU level, it has contributed to a crisis of legitimacy and appears to be fuelling a nationalist resurgence in many parts of Europe.

It is another aspect of the wider crisis afflicting the EU, triggered by the Eurozone, and by the pressures of migration on the Schengen deal.



Notwithstanding protestations to the contrary, legitimacy flows, and will continue to flow, from national institutions.

In a crisis, and there is one, the evidence is overwhelming that most of the peoples of Europe look to their national institutions for safety.

They will continue to do so. Measures to strengthen the role of national governments, and the parliaments to which they are answerable, should be central to debate over the next round of treaty change.

Some Leave campaigners argue that there is no point in continuing as a member because the UK's influence is illusory.

A thought experiment might help illustrate this claim, and its limitations.

Were Britain three times its current size, the UK could, to a large degree, negotiate on more or less equal terms with the EU.

Perhaps at one point in the 1950s, immediately prior to the EEC's inception, the UK could have achieved that degree of influence. But not now.

Were the UK a third of its current size, we would probably be largely ignored.

As it is, we cannot decide, but we can influence.

This is modern international relations. It is complex and messy. But for a middle power, it is not easily avoided.

And the influence obtained – much derided by Brexiteers – is meaningful. Both the single market and enlargement were to a significant degree British initiatives. When the single market was developing, there was a widespread concern that a fortress Europe would emerge – internal liberalisation accompanied by high external barriers.

But the EU has become less protectionist, not more. In the mid-1990s its external tariffs far exceeded those prevailing in the US and other

advanced economies. It has reached a position where now its tariffs are in line with those of other western countries.

Although impossible to prove, it is plausible to argue that this has, at least partly, been the result of British pressure and arguments from within for less protection.

Those who claim that this influence is itself illusory must also explain the UK's exemption from the Eurozone, Schengen, the migrant quota system, banking union, among much else.

The UK cannot dictate.

And the EU can be a very frustrating place to do business. But Britain's influence is certainly not negligible.

Whether in or out the UK will continue to seek to influence the EU in the national interest.

Some Brexiteers have argued that another Eurozone crisis is inevitable, and that the UK should escape now from the collapsing European building.

There is a superficial attraction to the argument, but the metaphor is a poor one. In or out, the EU will remain our biggest trading partner for years if not decades to come.

If the building goes down, the UK will be hit by much of the falling masonry regardless. In any case, in the aftermath of any crisis, there will be a major task of rescue and renewal to be undertaken.

The UK's ability to shape that, to argue effectively and influentially for a *Europe des patries* will be greater if we are demonstrably committed to European stability.

Our reservations about the Euro and supranationalism would probably carry particular force at that time. The consequences of a collapse of the euro would be bad for everyone. But if it did happen, by remaining, the UK might well establish a leadership role in such circumstances.



We would have been on the right side of the argument about the euro, and about institutional reform, but still committed to close relations with our neighbours from within the EU.

That is not a clinching argument for staying.

But it is a strong counter to the falling masonry case for leaving.

Security

On 9 May 2016, David Cameron said that “if you want to keep [the UK] strong in the world, and keep our people safe, our membership of the EU is one of the tools that helps us to do these things”. He can’t prove it, but I think he’s right.

The EU is an important part of the architecture that forms what has come to be called ‘the West’ (although it incorporates many countries outside the western hemisphere).

The EU’s threefold role at its inception was: to provide a framework for Franco-German co-operation after the war; to facilitate economic reconstruction, and to do so without a return to inter-war protectionism; and to create an economic counterpart to NATO.

For a while, victory in the Cold War appeared to expunge a major reason for the Europeans to stick together.

Now President Putin is perhaps resuscitating it. Russia has recently invaded two countries, and challenged the right of others to participate with the EU and NATO.

Albeit in much attenuated form, at least one of the original core objectives of the EU is certainly relevant for us again.

I was struck by the conclusion of the Foreign Affairs Committee report that “Brexit could [...] allow the EU’s common defence policy to develop in a way which could undermine the cohesion of NATO.”

This was immediately qualified with the suggestion that “it could also improve Europe’s overall collective defence”.

But the report contains some pretty robust evidence supporting the view that Brexit could weaken NATO.

No doubt this has weighed with the US administration – or with President Obama – when he concluded that “cooperation – from intelligence sharing and counterterrorism to forging agreements to create jobs and economic growth – will be far more effective if it extends across Europe. Now is a time for friends and allies to stick together.”

Incidentally, the idea that the US President is “doing David Cameron a favour” is implausible. The US foreign policy establishment is ruthless in the projection of the national interest.

It has been so throughout the post-war period, often to the UK’s considerable detriment. President Obama’s intervention, and that of the US foreign policy establishment, is best seen in that light.

4. CONCLUSIONS

In or out, our relations with the EU will remain bumpy.

There will not be any easy resolution to them.

In part, that is because the EU’s institutions are – to put it mildly – highly imperfect.

The waste, and periodic misdirection of economic resources, and the tortuous decision-making structures, are sometimes enough to test anyone’s patience.

Still, it’s worth pointing out that many other international institutions scarcely fare any better.

Very few people suggest that we should withdraw from the UN’s many bodies, some of which make the EU look straightforward.



It's also worth pointing out that some of our domestic institutions have been demonstrable failures.

In our relations with Europe, Britain will continue to appear at odds with some of the decisions and the decision-making structures.

The UK's pragmatic approach, often based on cost-benefit analysis, sits uneasily with the motivations of many other countries.

Some of those derive from the searing experience of dictatorship, military occupation, or Soviet domination. We are fortunate that we avoided all of those.

I feel the emotional draw of British exceptionalism, and the effect of the EU's intrusiveness. But, as I said earlier, I also recognise the risk that exceptionalism can transmogrify into isolationism.

I note the lack of agreement among Leave advocates of what future relationships with the EU and rest of the world will look like.

That lack of agreement is understandable.

It's part of a deep controversy about the UK's relationships with the rest of the world that has

been going on at least since the Second World War.

I have no illusions about the EU and its shortcomings.

My conclusions derive merely from an attempt dispassionately to identify the national interest.

If withdrawal were to remove one problem that has been at the heart of British politics for half a century, it would be likely to replace it with another.

Advocates of leaving underestimate the need to engage deeply with the EU in pursuit of British interests, whether in or out,

They also underestimate Britain's capacity as a member state to influence outcomes for the better.

As I said at the start, the leavers have the simplest points.

But the remainers have the better of the argument.

My vote will be to Remain.

THE AUTHOR

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