

LABOUR EURO-SAFEGUARDS CAMPAIGN

BULLETIN

JULY 2013

QUESTIONS AND ANSWERS ON THE COSTS TO

THE UK OF OUR EU MEMBERSHIP

1. **What is happening to the true costs of Britain's EU Membership.**

The cost of the UK's membership of the EU has always been high. We have made a substantial net budgetary contribution every year except one since we joined, now totalling just over £400bn gross in current 2013 money and just under £240bn net of receipts and the budget rebate. The one exception was 1975, which was the year when the last membership referendum was held. We have had a cumulative balance of payments deficit with the other EU members of almost £500bn. We have been inundated with regulations from Brussels, with heavy net costs to our economy. We have lost more and more powers as they have been transferred from Westminster to Brussels. These are familiar problems, however, to which the public has become – albeit reluctantly – largely inured. Nor is the situation getting any better. On the contrary, the costs to the UK of our UK membership are still on a steep upward curve.

2. **What are the relatively easy to identify net transfer costs?**

The costs which ought always to have been easiest to identify are our net budget contributions. It has, however, never been easy to get a firm grip on what these are and governments of all persuasions – no doubt embarrassed by what they would show - have done nothing to help to clarify the position. Payment statistics between Britain and the EU have been notoriously difficult to disentangle. ONS summary tables, however, present an extremely alarming picture. It appears that our net contributions on all counts may have already reached a much as £12bn per annum, still on a strongly rising trend. These big increases are caused by a number of factors, of which the partial phasing out of the abatement agreed by Mrs

Thatcher in 1984 and rising EU expenditures are particularly important contributors. Further increases may be on the way as pressure to get rid of our remaining rebate mounts and EU budgets continue to increase. Some estimates have put the net total budget transfer costs as high as £14bn by 2015. All this net sum has to be raised in taxes in the UK and all the net benefit goes to people in other countries in the EU

3. **What are the costs of EU policies on Agriculture and Fisheries?**

Although their costs overlap to some extent with our net budget contribution, it is also relatively easy to identify the direct costs to the British economy – and particularly the consumer – of two pernicious EU policies, neither of which has any significant support in the UK. The Common Agricultural Policy, which still consumes nearly 40% of the EU budget, raises food prices by some £20 a week for every family of four in the country compared to what they would be if there were not sky high tariffs to keep out food imports. The Common Fisheries Policy, although smaller, is arguably even worse. It has allowed our rich fishing stocks to be decimated by over-fishing, bad management and corruption, in what is very widely recognised to be an ecological disaster. Both policies also have heavy costs on the Third World, more than offsetting all the aid programmes which the EU runs supposedly to help them.

4. **What are the costs of government from Brussels?**

The costs of government from Brussels are not, however, just these budgetary charges. Much of the activities of the EU involve other costs. Excessive regulation certainly counts among these. Of course not all regulations come from Brussels but a lot do and the net cost of all regulations in the UK – i.e. with the costs subtracted from the benefits – come to at least 2% of our national income – i.e. about £30bn per annum. Some of these rules, such as the one which regulates the amount of hours which trainee doctors can work, have had particularly serious effects. It is not only generally excessive regulations which hit the UK, however, but also a number of initiatives which have a much more serious impact on the UK than they do on the rest of the EU, particularly those to do with unhelpful and burdensome regulations on financial services which few people think will help to avoid another financial melt down.

5. **What risks does Britain now face from bailing out the crisis in the Eurozone?**

Much the biggest new cost threat from the EU stems from developments in the Eurozone. While Britain very wisely stayed out of the Single Currency, the problems in Greece, Ireland and Portugal, Cyprus and Slovenia have already involved Britain acting as guarantor for large sums which are going to be at risk if

there are defaults in the eurozone. Some of these contingent liabilities have arisen because of our involvement in the European Financial Stabilisation Mechanism, which was set up by Qualified Majority Voting – entirely improperly as the clause used to authorise this development in the Lisbon Treaty was not intended for this purpose. Others have materialised as a result of our commitments to the International Monetary Fund, which in turn has offered guarantees to eurozone countries. We have also provided a large unilateral guarantee to Ireland. Britain's total exposure under all these headings is at least £12bn, and may well increase if lack of confidence continues to spread to Spain, Italy and possibly Belgium or even France. In addition, British banks are at risk of losing substantial further sums if eurozone countries, particularly Ireland and Spain, devalue their currencies. British banks lent large sums to help finance property booms in both these countries, leaving themselves exposed to risks both of devaluation of the currencies in which the loans were made and losses as a result of insolvencies among developers.

6. **Are there additional risks on top of these direct costs?**

Unfortunately, the impact on the UK – and the rest of Europe and indeed the world economy – of the Eurozone collapsing – if this happens - are all too likely to stretch well beyond the costs of the guarantees which will then crystallise and the debts which will not get repaid, at least not in full. Potentially much more serious is the slump into which Europe is likely to be plunged if there are really wide scale defaults. This is because the scale of the financial losses in prospect may be so large that they leave EU governments with insufficient creditworthiness to enable them to stop major banks becoming insolvent. At the moment, the EU authorities are buying time by extending more and loans to the weaker economies in the hope that they will recover sufficient creditworthiness to be able to stop needing further support. It seems increasingly unlikely that this policy will work, but the consequence, if it fails to do so, will be more and more guarantees falling in or the accumulation of more and more huge loans which are never going to get repaid. Some reports suggest that the total sum involved in underwriting the eurozone may already be as high as €1,000bn. The really big costs to the UK from the EU would then come from the financial crisis which would engulf Europe if the EU fails to come to grips soon enough with the scale of the eurozone problems. At the moment, there is little sign of EU leaders recognising that the only long term solution is a radical restructuring of the Single Currency, allowing countries which are now hopelessly uncompetitive, to devalue. This process would no doubt be expensive and very disruptive in the short term but would provide hope for much more favourable long term prospects. By refusing to contemplate this kind of action and by remaining in a condition of denial as bigger and bigger loans and guarantees stave off the need for immediate action, EU leaders run a heavy risk of facing eventually defaults on such a scale that they would be unmanageable, as the sums of money became so large that they became too big for even sovereign EU governments to underwrite.

7. **What are the longer term economic prospects for the EU?**

There might, perhaps, be more of a case for putting up with all these problems resulting from our EU Membership if the longer term prospects of the EU as a bloc were favourable. Unfortunately, this is a long way from being the position. On the contrary, mainly as a result of extremely adverse demographic factors – not shared to anything like the same extent by the UK – most of the economies in the EU are projected to become more and more unbalanced over the coming decades as the ratio between those of working age and those who are retired continues to fall. The consequences are bound to be slower growth and all projections show a steep fall in the significance of the EU in the world economy over the coming years. Does it really make sense for the UK to tie itself more and more closely to one of the least dynamic economic blocs when the prospects are so much better in most other parts of the world?

8. **What is it costing Britain to be pulled in so many directions in which we do not want to go?**

Britain's role in the EU has been fraught with problems for a long time. Tensions over the big gap between the aspirations of most continental political leaders and those of UK politicians have had a baleful influence on the British political environment ever since we joined what was then the Common Market in 1973. The reality is that the vast majority of the British people and their elected representatives do not share the aspirations for closer and closer integration which motivates so many politicians on the continent. Britain has always paid a heavy net cost for our EU membership and as the way the EU is developing becomes less and less in tune with what most people in Britain want, support for our membership is steadily dwindling. Erosion of support has certainly been exacerbated by a rash of poor EU decisions and leadership in recent years, particularly over the Single Currency, the handling of the proposed EU Constitution which morphed into being the Lisbon Treaty, the EU democratic deficit and much too little accountability shading into fraud and corruption. We therefore need to take stock of the position and to decide whether we really want to continue to be part of the EU as it is now developing. Perhaps there is still a majority in favour of doing this, but surely the time has now come when we need to test public opinion to see whether this is now the settled view of the British electorate. We need an "in-out referendum" to see whether all the costs of Britain's membership are really worth the rapidly rising price we are now paying. Are our political leaders going to allow this to happen?