Research Paper

Robin Niblett
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Britain, the EU and the Sovereignty Myth

CHATHAM HOUSE
The Royal Institute of International Affairs

Summary

- The question of sovereignty lies at the heart of the UK's upcoming EU referendum. Many in Britain believe that the process of EU decision-making has undermined British parliamentary democracy, and that leaving the EU is the only way for the British people to regain control of their sovereignty.
- This ignores the fact that successive British governments have chosen to pool aspects of the country's sovereign power in the EU in order to achieve national objectives that they could not have achieved on their own, such as creating the single market, enlarging the EU, constraining Iran's nuclear programme, and helping to design an ambitious EU climate change strategy.
- Apart from EU immigration, the British government still determines the vast majority of policy over every issue of greatest concern to British voters – including health, education, pensions, welfare, monetary policy, defence and border security. The arguments for leaving also ignore the fact that the UK controls more than 98 per cent of its public expenditure.
- The British economy has prospered in the EU. The UK boasts higher economic growth and lower unemployment than most major developed economies. It attracts the most foreign direct investment in the EU, and is ranked among the most open places to do business in the developed world. British economic weaknesses, such as low growth in productivity, are self-inflicted.
- However, a successful economy and free-movement rules have led to high levels of immigration from the EU. Overall, this has been positive for the UK economy, but it has exacerbated pre-existing pressures on public services, may have restricted wage growth in some sectors, and is a source of widespread public concern.
- Is it time, therefore, to return economic and political sovereign power entirely to Westminster? The risks of doing so are extensive. For example, the UK would be excluded from the process of EU rule-writing, making it a less attractive location for foreign investment. The UK is unlikely to strike better trade deals alone than it has currently through the EU. And the UK would have no say in the design of more open EU markets for digital, financial and other services. Leaving would also have a destabilizing effect on the rest of the EU, which will remain Britain's largest market.
- In contrast, the main risks to the UK of remaining are political. High levels of immigration from the EU would persist. However, it is inconceivable that the EU will enlarge to include Turkey in the foreseeable future, and the UK and other EU states retain a veto over this decision.
- Nor should the UK fear the emergence of a more integrated eurozone, which will continue to feature profound differences in national outlook and is unlikely to enlarge quickly. EU decision-making overall is also becoming more intergovernmental rather than centralized.
- Continuing to pool its sovereign power selectively in the EU would enable the UK to help design integrated EU responses to many challenges that it cannot resolve on its own. These include the challenges of energy security and efficiency; environmental sustainability; internet governance; managing a more assertive Russia; and the fight against terrorism.
- In a world that is more interdependent today than it was when the UK joined the European Economic Community in 1973, the notion of 'absolute' British sovereignty is illusory. It is also worthless if it limits the ability of future British governments to ensure the security and prosperity of their citizens. Judging from the UK's experience and its future prospects, the opportunities from remaining in the EU far outweigh the risks of doing so, and the risks of leaving far outweigh the opportunities.

Introduction

On 23 June 2016, voters in the United Kingdom will take one of the most momentous decisions in their recent history – whether Britain should remain in or leave the European Union (EU). As a member state of the EU, Britain currently boasts one of the fastest-growing major economies in Europe and is one of the world's most influential countries. Although there are uncertainties for the UK in remaining in the EU, the near-term economic costs of leaving would be serious, while the long-term alternatives to EU membership offer no clear pathway to greater economic success and all carry a large amount of political risk. A UK departure would also weaken the EU, thereby adding to the economic and geopolitical uncertainty for the UK. Why then is Britain holding this referendum in the first place? What is the problem that leaving would potentially solve?

The problem boils down to the question of sovereignty. Britons have enjoyed a long and proud history of sovereign, democratic self-government. The referendum reflects an often emotive national debate about whether the country should reclaim the right to make sovereign decisions over those policy areas that it has transferred to the EU. Over the course of British membership since 1973, the list of areas subject to EU laws has grown – partly reflecting the desires of successive British governments. Decision-making has also become more complex, as EU enlargement has brought the number of member states to 28 and as the role of the European Parliament has become more significant. Behind these EU-specific concerns lies broader popular disquiet with the negative effects of globalization. However, the British referendum is an important reminder that the EU is still made up of its constituent sovereign states, any one of which can choose to break its existing institutional commitments and leave, as the UK is debating doing on 23 June.

This paper seeks to contribute to the debate by asking, first, what does sovereignty mean in today's world? Second, how have successive UK governments sought to balance the desire to retain sovereign power wherever possible with the need to pool that power on occasion within the EU in order to improve the country's security and prosperity? Third, how has the UK fared under this balance? And, fourth, where might the UK stand after the referendum? Would leaving the EU in order to reassert sovereign control strengthen British prosperity and security? Would remaining help or hinder Britain in achieving its national objectives?

What is sovereignty?

At its most basic level, sovereignty is the legal status that all states possess when they are recognized by their peers through the United Nations, reflecting their jurisdiction over a territory and the permanent population living there.[1] The governments of sovereign states have the legitimate right to use force in self-defence and to maintain security within their territories; to enter into agreements with other states in the conduct of their international relations; and to write the laws by which their countries are governed.

Sovereignty is not the same as having effective power or the ability to control the forces that can affect a country's security and prosperity. A sovereign state can be destabilized or invaded by a neighbour if it does not possess the military strength or alliances to help protect it, even if such actions contravene international law. A sovereign government can be overthrown by a revolution or insurgency, and

[1] See, for example, Crawford, J. (2012), *Brownlie's Principles of Public International Law*, 8th Edition, Oxford: Oxford University Press, pp. 447–48.

its state can be broken into pieces by separatist movements. It is for these reasons that Britain has chosen to join the NATO alliance, whose members pledge to support each other's security; and to sign up to treaties, such as the UN Convention on the Law of the Sea, that govern territorial rights and create mechanisms to settle disputes. In each case, Britain has chosen to limit its sovereignty in a literal sense in order to improve its security and thereby protect its sovereignty in a practical sense. Almost all states have made such decisions, to a greater or lesser degree, thereby accepting that 'absolute' sovereignty is not in their interests.

Britain and other states have created an ever more elaborate web of agreements that seek to balance their desire to preserve maximum sovereignty with their need for formal structures of economic cooperation.

The deepening of economic globalization has also exposed the growing limits on the ability of sovereign governments, on their own, to deliver prosperity to their peoples. Fundamentally, the pursuit of free markets and the concept of absolute economic sovereignty are in constant tension. As a result, Britain and other states have created an ever more elaborate web of agreements that seek to balance their desire to preserve maximum sovereignty with their need for formal structures of economic cooperation. Thus, as a member of the World Trade Organization (WTO), Britain not only forgoes the sovereign right to impose tariffs on imports from other countries, it also agrees to abide by the decisions of the WTO Dispute Settlement Mechanism. As a member of the Bank for International Settlements, Britain agrees to impose capital adequacy ratios on its banks so as to prevent financial crises. And as a member of the World Health Organization, it agrees to implement the International Health Regulations so that a potential epidemic can be contained before it spreads across borders. Britain has signed up to all of these arrangements voluntarily, constraining its economic sovereignty to various degrees, but improving its economic prospects in the process.

The cross-border nature of global challenges such as climate change and terrorism means that voluntary constraints on national sovereignty will only increase in the future. And yet the idea of absolute sovereignty resonates powerfully in Britain. The Westminster system of parliamentary democracy gives the elected majority of members of parliament the right to create a government that dictates the domestic political agenda. Parliament can pass any law it chooses, and repeal the laws of any previous parliament. The British people then have the right to dismiss that majority in the next election if they are dissatisfied with its performance. This explains why membership of the EU has become the focus for such an emotive debate about British political sovereignty. Compared with obligations under other supranational bodies, membership of the EU impinges on the broadest range of policy areas with the most formal decision-making and legal structures to ensure that members abide by its rules. Wherever it has been agreed, EU law takes precedence over national law.

Many people in the UK support this arrangement, given the benefits they perceive the country receives in return. Others believe that it has crossed a tipping point in undermining the principle of parliamentary sovereignty within the British tradition. In their view, the fact that a substantial proportion of UK law comes from the EU creates an unacceptable democratic deficit between the British people and the members of parliament in Westminster who are meant to represent them.[2]

[2] A report by the House of Commons Library estimates that 13.2 per cent of UK law was EU-related between 1992 and 2004.

The logical conclusion is that the potential economic and security benefits of EU membership no longer justify this dilution of national political sovereignty.[3] How should one weigh up this choice?

Pooling power

Since the UK joined the European Economic Community (EEC), the forerunner to today's EU, in 1973, successive governments have pooled important aspects of their sovereign power within a supranational European framework. The process is often described as 'pooling' because no new central sovereign EU government has replaced the British and other national governments. Instead, the British government now exercises elements of its sovereign authority within a process of constant negotiation with the other 27 EU member states and EU institutions.

These negotiations take place in the Council of Ministers, which serves as the principal legislative branch of the EU. The Council decides upon proposals that have been developed by the European Commission, which is the EU's executive bureaucracy, although individual commissioners are selected by national governments. The European Parliament serves as the EU's second legislative chamber. Its members, also elected nationally, have the power to negotiate to amend EU laws, the EU budget and trade agreements. For their part, national parliaments of member states have the right to scrutinize their governments' EU policy positions as well as EU laws, although few do so to any meaningful degree. Despite these connections between the EU and national political systems, pooling sovereign power has imposed real limits on the UK system of parliamentary democracy. None the less, British governments have taken the view that developing shared rules and policy positions in four areas as part of an EU of 500 million people delivers greater benefits for Britain than would keeping exclusive sovereign power over a state of 65 million.

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First, being part of the EU means being a member of a customs union. EU states have removed almost all formal barriers to the trade of goods and services between them, and have replaced these with a single external EU border. The UK and its EU partners decide the terms of the EU's collective trade policy first, and then give the European Commission the right to negotiate agreements covering the entire EU market. However, national parliaments still ratify agreements covering issues over which member states have authority, such as services and investment protection.[4]

Second, ever since the implementation of the single market in 1993 – an idea strongly championed by Britain – EU member states agree common standards and regulations for many products and services. These products and services can then be traded across the EU without the friction of each EU member state applying its own, distinct 'behind-the-border' rules on market access. So a car made in Britain for export to the EU, for example, need not carry the added expense of having to meet different emissions standards for Germany, France and 25 other EU countries.

[3] See, for example, BBC (2016), interview with Boris Johnson MP on the Andrew Marr Show, 6 March 2016, http://www.bbc.co.uk/programmes/b073gj26 (accessed 28 Mar. 2016); Ross, T. (2016), 'Liam Fox calls for Britain to leave EU and become "an independent sovereign nation" again', *Telegraph*, 23 January 2016, http://bit.ly/1Pqe42f (accessed 18 Feb. 2016); Vote Leave (2016), 'Gisela Stuart exposes the risks of staying in the EU', Keynote speech, 13 April 2016, http://bit.ly/1Pqe42f (accessed 17 Apr. 2016).
[4] European Union (2007), 'Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community', Articles 28 and 29, OJ C 306, 13 December 2007.

Third, being a member of the EU means negotiating and then applying common EU rules on certain important parts of the economy, including competition policy and state aid, agricultural and fisheries policies, and some aspects of employment law. In each case, common rules have been designed to prevent beggar-thy-neighbour policies that would give one EU member an unfair competitive advantage over others within the single market – for example, if a country subsidized power plants to reduce the cost of energy for its domestic manufacturers, or blocked a takeover to protect a particular company, or denied workers certain rights (on length of holidays or conditions for temporary workers) so as to keep down the cost of labour. The idea of these rules is to create a level playing field on which all EU members can compete equally.

In each of these three areas, the UK and other EU governments generally come to agreement through consensus. When this fails, decisions are taken by a process of qualified majority voting. Under this system, voting weight is linked to population size, and because the UK is among the largest EU states, with a 12.7 per cent share of the vote, it can form a blocking minority with the support of three other states providing that together they represent 35 per cent of the EU's population.[5] Elected British representatives also hold 9 per cent of the seats in the European Parliament, which must approve most decisions taken by governments within the Council of Ministers.[6]

All EU governments accept that the laws that they have agreed to make the EU function supersede prior national laws in those specific areas. If national courts are unable or unwilling to implement particular laws, the European Court of Justice (ECJ) then adjudicates to ensure that EU member states and the EU institutions abide by the rules they have collectively agreed. To do otherwise would render the EU's common rules meaningless, as they could not be enforced and would in effect just be guidelines, which governments and businesses could not rely on for planning policies and investments.

The fourth area of policy over which EU member states have ceded power is the ability to control the number of other EU citizens who can come to work in their country. This is an important concession of political sovereign power. However, the free movement of workers exists to enable a fair and efficient balance between the relative competitiveness of EU members in the single market across the four 'freedoms': the free movement of goods (where Germany excels, for example), services (where the UK excels), capital (where the UK also excels), and labour (where central and southern EU states have a cost advantage). The result has been major waves of intra-EU migration from weaker to stronger European economies, and from those with lower wages to those offering better prospects. By 2015, for example, Germany and the UK were both hosting roughly 2 million workers from other EU countries, with the total number of EU nationals living in the UK at just under 2.7 million.[7] There are also around 1.2 million British citizens working and/or living in other parts of the EU.[8]

[5] Each government has a set number of votes according to its population size. There are two further requirements for a decision to be taken by majority vote: (1) 55 per cent of member states must vote in favour of the proposal (i.e. 16 out of 28 member states); and (2) those member states voting in favour must represent at least 65 per cent of the EU's total population. A proposal can be blocked by a 'blocking minority' of at least four member states representing at least 35 per cent of the EU's total population. In policy areas deemed 'sensitive', unanimity voting applies. See Council of the European Union (2016), 'Qualified Majority', http://www.consilium.europa.eu/en/council-eu/voting-system/qualified-majority/ (accessed 12 Apr. 2016).

[6] Germany, France, Italy and the UK each have a voting weight of 29 in the Council. Germany has the largest number of Members of the European Parliament (MEPs) (96), followed by France (74), the UK (73) and Italy (73). See European Parliament (2016), 'MEPs', http://www.europarl.europa.eu/meps/en/search.html?country=GB (accessed 12 Apr. 2016); Council of the European Union (2016), 'Voting calculator', http://www.consilium.europa.eu/en/council-eu/voting-system/voting-calculator/ (accessed 12 Apr. 2016).

[7] Office for National Statistics (2016), 'UK Labour Market: April 2016', Statistical bulletin, 20 April 2016, http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2016 (accessed 21 Apr. 2016); Eurostat (2016), 'Employment by sex, age and citizenship (1 000)', 19 April 2016, http://bit.ly/1SESbuu (accessed 21 Apr. 2016).

[8] Hawkins, O. (2016), 'Migration Statistics', Briefing Paper SN06077, London: House of Commons Library, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06077 (accessed 25 Feb. 2016).

Still largely sovereign

To what extent have these decisions by British governments diluted or undercut the system of British parliamentary sovereignty? A first and crucial point is that, apart from immigration from the EU, the British government and devolved administrations determine the vast majority of policy over the issues of greatest concern to British voters[9] – either because the EU has no right to act or because decisions are taken by unanimity. These areas include healthcare provision and the National Health Service (NHS); income, capital gains and corporation tax; education; pensions, welfare and other benefits; and defence and foreign policy (see Table 1).

Table 1: UK and EU – where is policy determined?

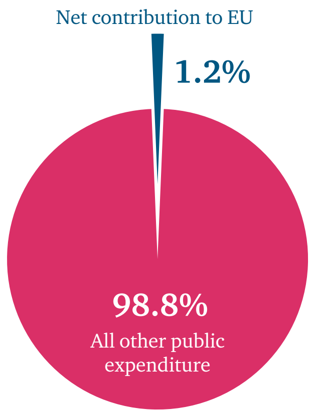
Determined at EU level with UK	Split between EU and UK	Broadly or exclusively determined by UK
• Trade policies, including tariffs and other trade measures • Rules and standards for the EU Single Market • Competition rules and state aid • Intra-EU migration • Fisheries	• Ratifying trade agreements • Energy and climate policies • Environmental standards • Agriculture • Employment policies • Consumer protection and transport • European cooperation on criminal matters • Asylum policy • VAT • Cooperation on foreign policy	• Health policy • Education • Fiscal policy and public expenditure • Monetary policy • Income tax, corporation tax and capital gains tax • Non-EU immigration • Border control and security • Pensions • Welfare • Foreign policy decisions • Defence • Intelligence • Development cooperation and humanitarian aid • Local government • National policing and criminal justice • Media regulation

Sources: Treaty of the European Union, Treaty of the Functioning of the European Union, and HM Government Balance of Competences review. Author's interpretation.

Another way of assessing the extent of parliamentary sovereignty over UK policy-making is to look at the cost of the UK's contribution to the EU budget as a proportion of all government spending. In the 2014/15 financial year, the UK's net contribution to the EU budget was £8.8 billion, or just 1.2 per cent of total public expenditure of £735 billion (see Figure 1). Even if one adds back those elements spent in the UK but decided in Brussels, such as agricultural subsidies, the British parliament (together with local government and the devolved administrations) still decides how to deploy more than 98 per cent of public spending.[10]

[9] See, for example, *The Economist*/Ipsos MORI April 2016 Issues Index, https://www.ipsos-mori.com/researchpublications/researcharchive/3726/Economist-Ipsos-MORI-April-2016-Issues-Index.aspx (accessed 5 May 2016).
[10] HM Treasury (2015), 'European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement', Cm9167, London: HM Treasury, December 2015, http://bit.ly/1Oe5r5e (accessed 2 May 2016); Institute for Fiscal Studies (2015), 'Total UK public spending', 28 September 2015, http://www.ifs.org.uk/tools_and_resources/fiscal_facts/public_spending_survey/total_public_spending (accessed 21 Apr. 2016).

Figure 1: UK's net contribution to the EU's budget as a share of public spending, 2014/15



Sources: HM Treasury and Institute for Fiscal Studies.

Thanks to the decisions of previous Labour and Conservative governments to remain outside the euro, the UK also retains sovereignty over its monetary policy. And, having decided not to join the Schengen zone, it exercises sovereign supervision of its borders, including the right to deny entry to non-EU citizens arriving from the EU's Schengen area and to EU citizens if they pose a threat to 'public policy, public health or public security'.[11] While some argue that this threshold to block EU migrants is too high, the home secretary, Theresa May, argues that EU membership supports the UK's efforts to fight crime and terrorism.[12] The UK also retains opt-outs from aspects of the EU's common asylum policy, within the international legal constraints that it has accepted as a signatory to the Geneva Conventions and the European Convention on Human Rights, both of which predate the EU.

In addition, the UK retains sovereignty over domestic policing and the bulk of its criminal justice system. The few exceptions where the UK has 'opted into' EU legal agreements – such as the European Arrest Warrant and the Schengen Information System – correspond to areas in which the government and police chiefs strongly believe this is to Britain's advantage.[13]

Nor has EU membership impinged on British sovereignty over its foreign and security policy. EU decisions in these fundamental areas operate on the basis of unanimity. The UK has been free to participate in military operations in Afghanistan, Iraq and Libya, despite deep divisions between EU members over their wisdom. It continues to serve as a permanent member of the UN Security Council and to play a leading role in NATO.

The deal that the British government secured on 19 February 2016, following its negotiations in preparation for the referendum, seeks to clarify or protect existing British economic and political

[11] European Union (2004), 'Limitations on the movement and residence which are justified on grounds of public policy', EUR-Lex, 28 July 2004, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Al23010 (accessed 20 Apr. 2016).
[12] May, T. (2016), 'Theresa May's speech on Brexit: full text', 25 April 2016, http://www.conservativehome.com/parliament/2016/04/theresa-mays-speech-on-brexit-full-text.html (accessed 25 Apr. 2016). For a different point of view, see Graham, C. (2016), 'Revealed: 1.6 million migrants moved to Britain from EU in nine years', *Telegraph*, 30 March 2016, http://www.telegraph.co.uk/news/2016/03/30/revealed-16-million-migrants-moved-to-britain-from-eu-in-nine-ye/ (accessed 25 Apr. 2016).
[13] House of Lords, European Union Committee (2013), 'UK's 2014 Opt-out Decision ('Protocol 36'): Follow-up Evidence', Oral and Written Evidence, http://www.parliament.uk/documents/lords-committees/eu-sub-com-f/Protocol36OptOut/p36followup/p36followupevidence281013.pdf (accessed 20 Jan. 2016); House of Lords, European Union Committee (2013), 'EU police and criminal justice measures: The UK's 2014 opt-out decision', 13th Report, 16 April 2013, http://www.publications.parliament.uk/pa/ld201213/ldselect/ldeucom/159/15902.htm (accessed 20 Jan. 2016).

sovereignty in important areas.[14] It addresses the UK's concerns about the expected deepening of eurozone integration. In addition to preventing discrimination against countries, such as the UK, outside the single currency, the deal explicitly limits the European Central Bank's jurisdiction to eurozone institutions, thereby ensuring the primacy of the Bank of England in those areas in which it is responsible for financial supervision.

The deal also states unambiguously that the ECJ cannot use the EU's stated aim of creating 'an ever closer union among the peoples of Europe' as a means to extend the EU's powers.[15] This means that the UK cannot be forced into deeper integration, except through a revision of the EU treaties. And the European Union Act of 2011 requires the British people to decide by referendum whether to accept or veto such revisions.[16]

In addition, there is now a stronger mechanism for national parliaments to block new EU laws. If the equivalent of 55 per cent of national parliaments come together to block a draft piece of EU legislation, then member governments cannot consider it until it has been amended. This new requirement recognizes that national sovereignty resides not just with national EU governments, but also with national parliaments. Although the 55 per cent threshold may be hard to reach, national parliaments have the ability to play a more active scrutiny role on behalf of their electorates, increasing national democratic accountability.

Finally, the February 2016 deal will allow the British government to deny in-work benefits to EU migrants for a limited period, so as to prevent Britain's non-contributory welfare system from serving as another incentive for EU citizens to try to take up work in the UK. But there can be no dressing up the fact that as a full participant in the single market, the UK does not have the sovereign right to prevent the free movement of labour by EU citizens.

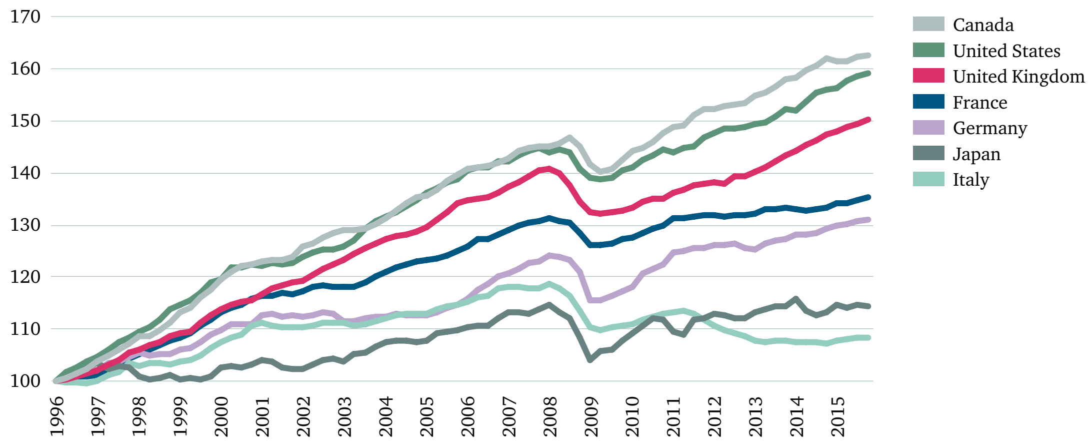
Taking stock of 40 years of EU membership

How has Britain fared by pooling its sovereign powers in these ways? Having been one of Europe's economic laggards in the 1970s and early 1980s, the British economy has prospered. Today, the UK has one of the lowest unemployment rates in the developed world and has enjoyed higher recent rates of growth than most major developed economies (see Figures 2 and 3).[17] It also attracts more foreign direct investment than any other EU member state.[18] These achievements are not simply a direct result of the UK being in the EU, but membership has certainly helped.[19] The OECD ranks the UK as having one of the most flexible labour markets in the world and the second most competition-friendly environment for products. The World Bank rates the UK as being one of the easiest places in

[14] European Council, General Secretariat of the Council (2016), 'European Council meeting (18 and 19 February 2016) – Conclusions', EUCO 1/16, 19 February 2016, http://www.consilium.europa.eu/en/meetings/european-council/2016/02/EUCO-Conclusions_pdf (accessed 20 Apr. 2016).
[15] Section C on Sovereignty in the Council conclusions of 18 and 19 February 2016 states that '[…] the references to ever closer union do not apply to the United Kingdom. The references in the Treaties and their preambles to the process of creating an ever closer union among the peoples of Europe do not offer a legal basis for extending the scope of any provision of the Treaties or of EU secondary legislation. They should not be used either to support an extensive interpretation of the competences of the Union or of the powers of its institutions as set out in the Treaties'. See European Council, General Secretariat of the Council, (2016), 'European Council meeting (18 and 19 February 2016)'.
[16] European Union Act 2011, http://www.legislation.gov.uk/ukpga/2011/12/contents (accessed 2 May 2016).
[17] Office for National Statistics (2016), 'UK Labour Market: April 2016', Statistical bulletin.
[18] UNCTAD (2015), *World Investment Report 2015*, 'Annex Tables', 24 June 2015, http://unctad.org/en/Pages/DIAE/World%20Investment%20 Report Annex-Tables.aspx, (accessed 17 Mar. 2016).
[19] See Ernst & Young (2015), 'EY's attractiveness survey. UK 2015. Another great year – but time to reflect on how the UK can stay ahead of the pack', AU3304, London: Ernst & Young, http://bit.ly/1SnrX0Q (accessed 28 Mar. 2016).

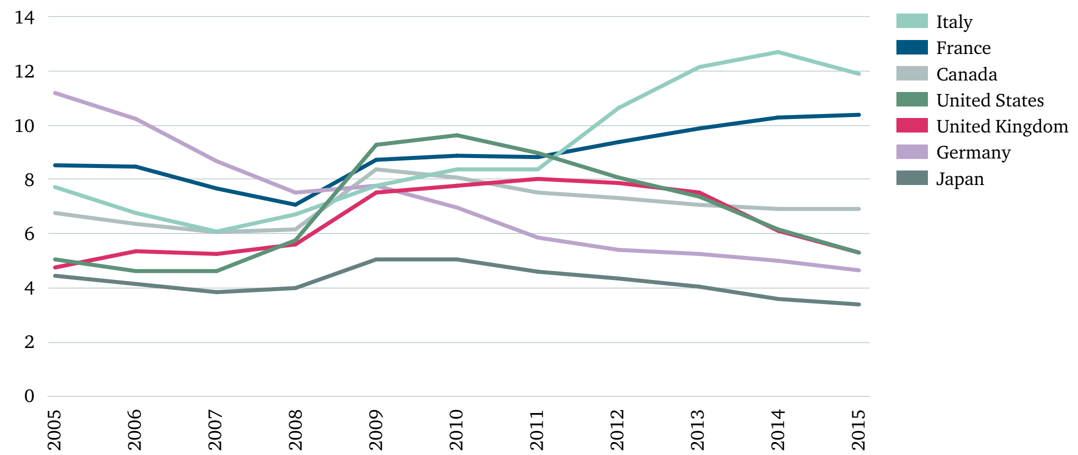
the world to do business – easier even than the United States[20] (see Tables 2 and 3). As a result, Britain has been able to leverage the competitive benefits of its domestic economic reforms within the positive dynamics of a large, gradually liberalizing EU market.[21] In sum, the UK economy has performed better within the EU than it would have done by remaining outside it.

Figure 2: Indexed growth in G7 economies, 1996–2015 (Q1 1996=100)



Source: OECD.

Figure 3: Unemployment in the G7, 2005–15 (% of total workforce)



Source: OECD.

[20] World Bank Group (2015), 'Doing Business. Measuring Business Regulations', Databank, http://www.doingbusiness.org/rankings (accessed 26 Apr. 2016); OECD (2016), 'Indicators of Product Market Regulation Homepage', http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm (accessed 26 Apr. 2016); OECD (2016), 'Indicators of Employment Protection', http://www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm (accessed 26 Apr. 2016); OECD (2010), *United Kingdom: Policies for a Sustainable Recovery*, July 2010, https://www.oecd.org/unitedkingdom/45642018.pdf (accessed 11 Apr. 2016).

[21] House of Commons (2016), 'Bank of England questioned on UK's EU membership', evidence given at the House of Commons Treasury Committee on 3 March 2016, London: House of Commons, http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news-parliament-2015/uks-eu-evidence-15-16/ (accessed 2 Apr. 2016); Carney, M. (2016), letter to Rt Hon Andrew Tyrie MP, written evidence, 7 March 2016, http://www.parliament.uk/documents/commons-committees/treasury/Written_Evidence/Letter-from-Mark-Carney-to-Andrew-Tyrie-7-3-16.pdf (accessed 2 Apr. 2016).

Table 2: World Bank ease of doing business rankings, 2015

Economy	Rank
Singapore	1
New Zealand	2
Denmark	3
South Korea	4
Hong Kong	5
United Kingdom	6
United States	7
Sweden	8
Norway	9
Finland	10
Taiwan	11
Macedonia, FYR	12
Australia	13
Canada	14
Germany	15
Estonia	16
Ireland	17
Malaysia	18
Iceland	19
Lithuania	20

Source: World Bank.

Table 3: Product market regulation rankings in OECD countries, 2013

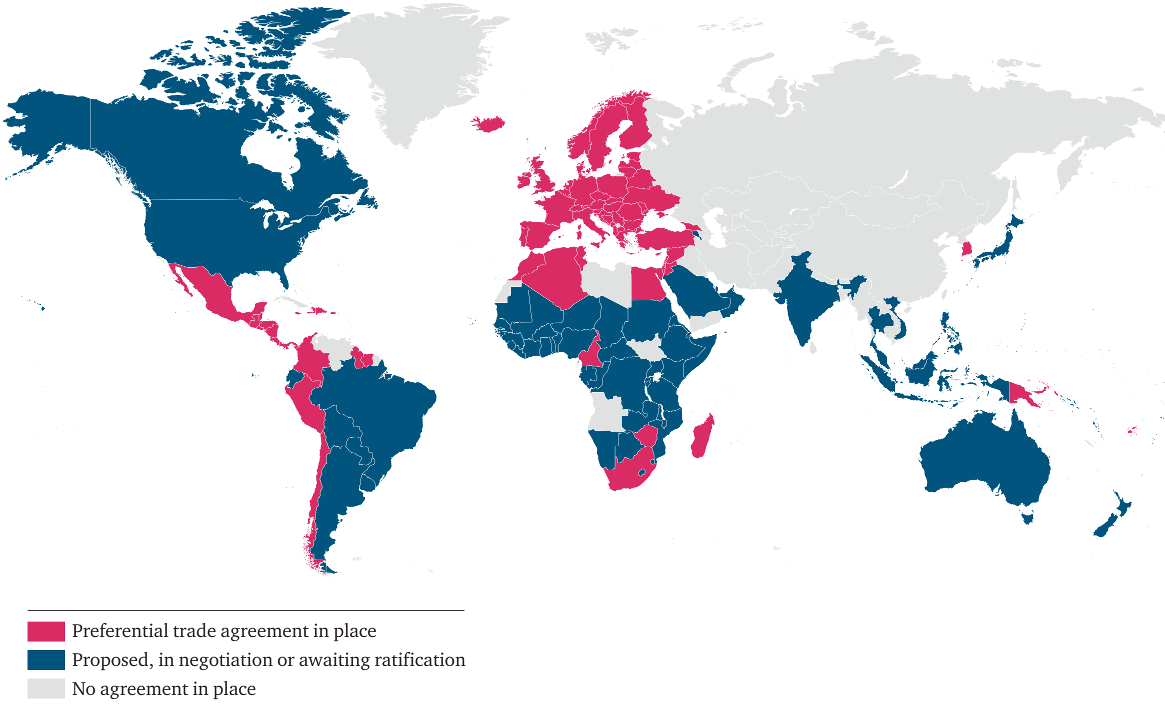
Country	Index of regulation (lower = less regulated)
Netherlands	0.92
United Kingdom	1.08
Austria	1.19
Denmark	1.22
New Zealand	1.26
Italy	1.26
Slovakia	1.29
Australia	1.29
Estonia	1.29
Finland	1.29

Source: OECD.

Conversely, British economic weaknesses, such as low growth in productivity, are mostly self-inflicted. It is not the EU that has stunted British primary and secondary education; failed to invest in energy or transport infrastructure; fed financial short-termism; or imposed restrictive planning laws. And being outside the euro did not prevent the UK from exposing itself to the full impact of excessive credit creation and the subsequent financial crisis of 2008–09.

Similarly, the UK's trade deficit is not a result of pooling power over trade policy. The refrain that Britain is a 'proud trading nation' overly focused on a declining EU ignores the fact that some of the world's most successful trading nations, such as Germany and the Netherlands, are also members of the EU. The EU may be a slow trade negotiator, but it has signed trade agreements with over 50 countries, which accounted for 12 per cent (around £60 billion) of the UK's exports in goods and services in 2014 (see Figures 4 and 5).[22] In comparison, the United States has signed 20 free-trade agreements and Canada 15.[23] Moreover, the difficulties the EU has had in striking agreements to open up services markets, in which UK companies are especially competitive, reflect the prevailing global reality that services are among the most protected sectors in any country. Nevertheless, EU membership has not held the UK back from becoming the second-largest exporter of services in the world after the United States, and the highest per capita.[24]

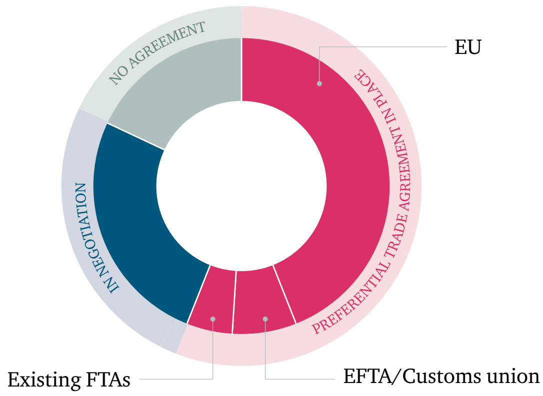
Figure 4: EU trade agreements and negotiations



Source: European Commission, Directorate-General for Trade 2016.

[22] HM Government (2016), *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives*, CM 9250, London: HM Government, April 2016, p. 44, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf (accessed 21 Apr. 2016).
[23] HM Treasury calculation (2016) based on Office for National Statistics (2015), 'United Kingdom Balance of Payments – The Pink Book: 2015', 30 October 2015, http://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/compendium/unitedkingdombalanceofpaymentsthepinkbook/2015-10-30 (accessed 3 Apr. 2016).
[24] Ernst & Young (2014), 'EY ITEM Club: Special report on services exports', London: Ernst & Young, June 2014, http://www.ey.com/Publication/vwLUAssets/EY_ITEM_Club_special_report_on_services_exports_-_full_report/$FILE/EY%20ITEM%20Club%20special%20Report%20on%20Services%20Exports_FINAL.pdf (accessed 25 Apr. 2016).

Figure 5: Proportion of UK trade covered by existing or proposed EU trade deals, 2014



Source: HM Treasury.

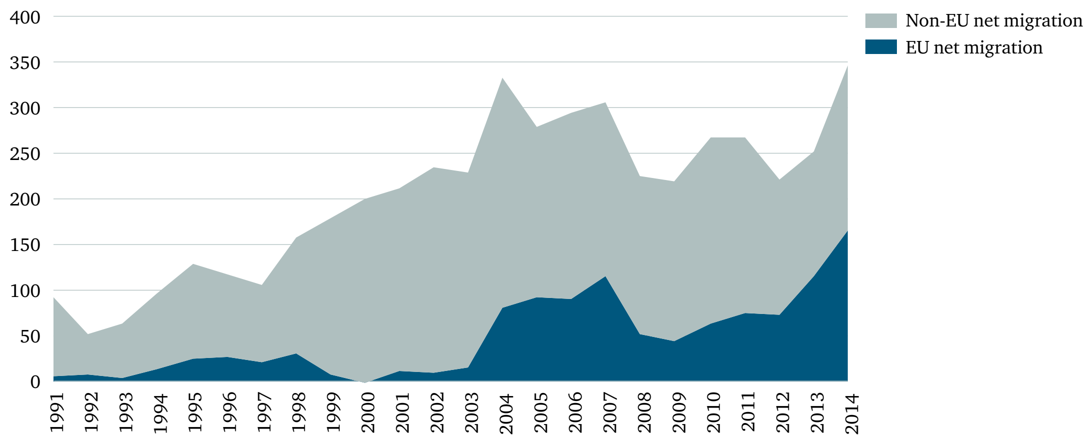
A further important consideration is that pooling sovereign power in the EU has enhanced the British government's ability to pursue its national interests in ways that retaining narrow national sovereignty could not. For example, the UK was successful in driving forward the creation of the single market between 1985 and 1992, the enlargement of the EU after the end of the Cold War, and the design of an ambitious EU-wide strategy to respond to climate change. The UK has also been able to leverage the EU's economic and political weight to pursue its national interest in constraining Iran's nuclear programme and confronting Russia over its military incursions into Ukraine.

A study of 330 qualified majority votes between 2009 and 2015 found that the UK was the fourth most successful country at producing an overall outcome that either reflected or was favourable to what it was negotiating; and the second most successful at securing favourable outcomes in policy areas it cares deeply about.[25] Furthermore, the UK, like most member states, has rarely been outvoted in the Council of Ministers. During this period, it was on the winning side 87 per cent of the time, despite its insistence on taking decisions in the Council to a vote even on those few occasions when it knew it would be outvoted.[26]

Whereas pooling sovereign power over trade policy, product standards and competition enforcement has rarely been a source of widespread popular concern in the UK, the same cannot be said for the devolution of sovereignty over the freedom of movement for EU workers. This concern came to the fore only after the EU's 2004 enlargement to central and eastern Europe, which led to an unexpectedly high level of immigration for work by citizens of the new member states. Slow or negative growth in parts of continental Europe following the financial crisis has led to another surge in EU citizens coming to work in the UK, with the annual net inflow rising from 65,000 in 2012 to 172,000 in the year ending September 2015 (see Figure 6).[27] Poles are now the most common non-British nationals in the UK.

[25] Policy outcomes which have been closest to initial UK positions have addressed tax, social affairs, justice and home affairs, transport, fisheries and migration. Areas in which final EU outcomes have differed from initial UK positions include financial services, the Common Agricultural Policy and certain trade negotiations. Hix, S. (2016), 'Is the UK Marginalised in the EU?', *The UK in a Changing Europe*, http://ukandeu.ac.uk/explainers/is-the-uk-marginalised-in-the-eu-2/ (accessed 18 Apr. 2016).
[26] Hix (2016), 'Is the UK Marginalised in the EU?'; Hix, S. and Hagemann, S. (2015), 'Is the UK a winner or loser in the EU Council?', *Guardian*, 2 November 2015, http://www.theguardian.com/world/datablog/2015/nov/02/is-uk-winner-or-loser-european-council (accessed 17 Apr. 2016).
[27] Office for National Statistics (2016), 'UK Labour Market: April 2016'; Hawkins (2016), 'Migration Statistics', Briefing Paper SN06077.

Figure 6: EU and non-EU net migration to the UK, 1991–2014



Source: Office for National Statistics.

EU migrants have contributed to the strong growth in UK GDP and are net contributors to the Exchequer.[28] Moreover, given the inability of the domestic labour market to satisfy demand for workers at British businesses, farms and public-sector agencies such as the NHS, lower levels of immigration from the EU would probably have led to higher levels of immigration by workers from non-EU countries. Nevertheless, the rapid recent growth in immigration by EU citizens has exacerbated pre-existing pressures on public services and shortages of affordable housing in certain localities, and may have contributed to holding wages down in some sectors of the British economy.[29]

The trade-off

As outlined above, the evidence demonstrates that the decision to pool sovereign power in the EU has helped strengthen the UK's economic position and prospects. The UK has succeeded in limiting the areas of pooled sovereignty to those that support its economic or political priorities. And the main socio-economic problems facing the UK, including stalled productivity, a persistent trade deficit, growing income inequalities and regional disparities in economic growth, are the result of British government policies and business decisions, not of shared EU policies or rules. That said, the UK's economic success relative to its major EU partners since 2011 has led to growing popular concern about the significant increase in work-related migration from the rest of the EU.

The referendum offers the British people the chance to decide whether they are satisfied with the trade-off their governments have made so far between the sovereign powers they have retained and those they have pooled. Although the current government has never presented it in such terms, it clearly believes that this trade-off has been to the UK's benefit.

Those arguing that Britain should leave the EU also avoid explaining the true nature of the trade-off. They point to the fact that Britain is less sovereign in a literal sense inside the EU than it would be outside. They highlight the fact that the British government can be outvoted in the Council of

[28] Dustmann, C. and Frattini, T. (2014), 'The Fiscal Effects of Immigration to the UK', *The Economic Journal*, 124 (580): pp. 593–643, doi: 10.1111/ecoj.12181 (accessed 23 Apr. 2016).
[29] Ruhs, M. and Vargas-Silva, C. (2015), 'The Labour Market Effects of Immigration', Migration Observatory briefing, COMPAS, Oxford: University of Oxford, 22 May 2015, http://bit.ly/21cPZxM (accessed 23 Apr. 2016).

Ministers and that the European Parliament is incapable of compensating for this loss of democratic accountability for a host of reasons, including its physical detachment from the lives of British citizens and the consequent low turnout for EU elections. But they are unwilling to concede that EU membership has brought Britain net economic benefits and has amplified its foreign policy choices. In calling for a return of sovereign powers to Westminster, they also ignore the many important areas in which parliament remains sovereign and the other institutions and agreements to which the UK has devolved sovereign power.

Would the UK be better off out in the future?

Britain's EU debate is not only about how one interprets the recent past. It is as much about what is best for the UK in the future. Would leaving the EU in an effort to recover absolute sovereign control over all areas of policy be worth the economic and political trade-offs? If the country were to remain in the EU, could it sustain the sort of beneficial balance that it has struck to date between the amount of sovereign power it has retained and the amount it has pooled as an EU member state?

> EU membership has brought Britain net economic benefits and has amplified its foreign policy choices.

The EU faces the most difficult period in its history. The eurozone crisis and the recent unprecedented inflow of refugees and migrants have carved new political fissures between member states and weakened established political parties. At the same time, there are wide divergences between rates of annual GDP growth across the EU, youth unemployment is over 40 per cent in parts of the EU's south, and welfare systems are under stress throughout.[30] This situation is driven by a combination of factors, including the impacts of ageing populations, underdeveloped capital markets and technological change, as well as by the EU's emphasis on imposing supply-side reforms and deficit reduction on the weakest economies without a compensatory increase in demand in the strongest. These are real and pressing problems. But does it then follow that the UK would be better off leaving the EU?

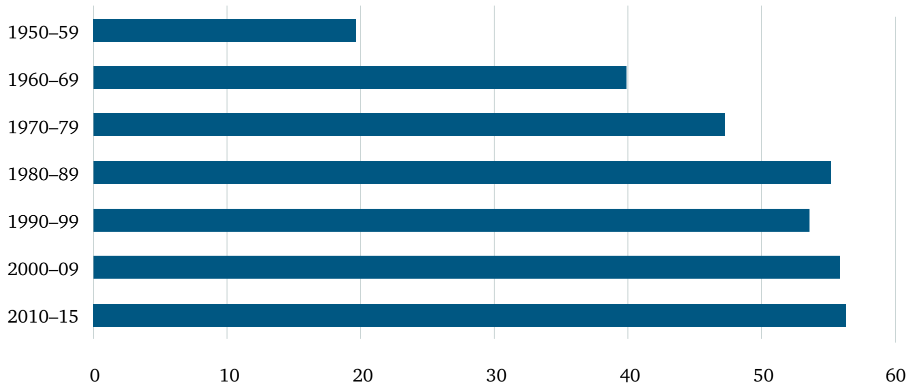
A diminished UK–EU economic relationship

Far from the hyperbole of Britain being 'shackled' to a 'corpse',[31] the EU is the world's second-largest single market after the United States measured in US dollar terms, with a combined GDP in 2015 of \$16.2 trillion.[32] Even modest average growth of 1.5 to 2 per cent in a market this size in an era of near-zero inflation and static population growth offers significant economic opportunities for its members and external trading partners for decades to come.

[30] For more information on welfare in Europe, see Begg, I., Mushövel, F. and Niblett, R. (2015), *The Welfare State in Europe: Visions for Reform*, Research Paper, London: Royal Institute of International Affairs, https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150917WelfareStateEuropeNiblettBeggMushovel.pdf (accessed 19 Jan. 2016).
[31] Hannan, D. (2012), 'Diary', *Spectator*, 7 April 2012, http://www.spectator.co.uk/2012/04/diary-447/.
[32] IMF (2016), World Economic Outlook Database, April 2016, http://www.imf.org/external/pubs/ft/weo/2016/01/weodata/weorept.aspx?sy=2010&ey=2016&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=65&pr1.y=6&c=998&s=NGDPD&grp=1&a=1 (accessed 26 Apr. 2016).

The EU also contains eight of the 20 most competitive economies in the world.[33] EU companies have built some of the best global brands, and some of the most advanced industrial and service technologies. These are now attracting foreign investment not only from developed economies such as the United States (see Figure 7) and Japan, but also from emerging economies such as China and India, whose companies are looking to trade with and invest in the large, wealthy and highly integrated EU market.[34]

Figure 7: US investment flows into Europe, 1950–2015 (% of total US flows)



Source: US Bureau of Economic Analysis, Hamilton, 2016.

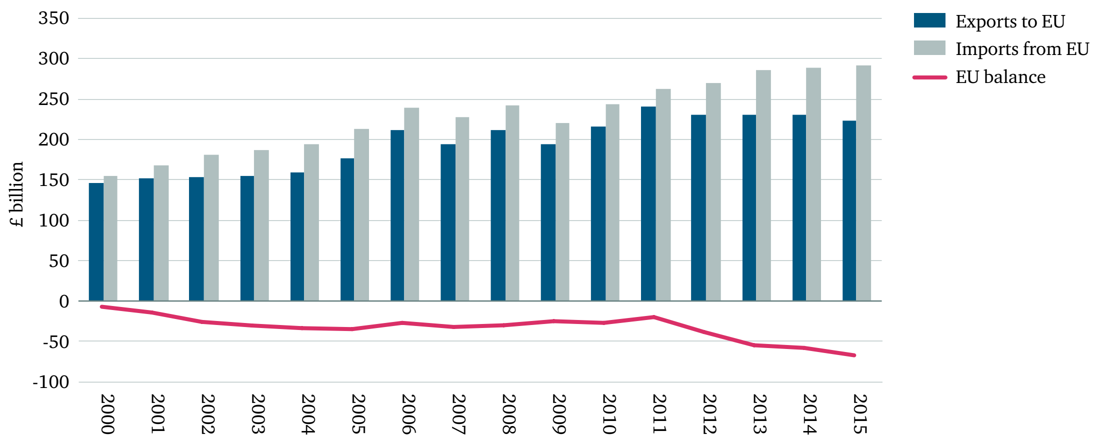
What might leaving the EU mean in this context? There would, of course, be the uncertainty associated with negotiating new terms of access to the EU market and to the more than 50 countries to which the UK currently has access through EU trade deals. Most independent estimates of the costs to the British economy are in the range of 1 to 2 per cent of GDP in the near term, and some rise to over 6 per cent of GDP by 2030.[35] The inevitable near-term economic dislocation and accompanying trade friction are not reasons in themselves for the UK to remain in the EU, but Britain cannot be confident of striking a better deal for itself in the long term on the outside.

Two important facts illustrate the power dynamics likely to inform any negotiations over a new relationship. On the one hand, Britain is the largest single export market for the rest of the EU. In 2015 it absorbed £291 billion in imports of goods and services from the EU (see Figure 8).[36] The scale of the relationship suggests that both sides would have strong incentives to avoid imposing barriers to a continuation of bilateral trade, and that a post-‘Brexit’ arrangement would likely be *sui generis* rather than a copy of the Norwegian, Swiss or Canadian models. There might also be flexibility over

[33] Schwab, K. (2015), ‘The Global Competitiveness Report 2015–2016’, Insight Report, Geneva: World Economic Forum, http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf (accessed 25 Apr. 2016).
[34] Ernst & Young (2014), ‘EY ITEM Club: Special report on services exports’, London: Ernst & Young, June 2014, http://www.ey.com/Publication/vwLUAssets/EY_ITEM_Club_special_report_on_services_exports_-_full_report/$FILE/EY%20ITEM%20Club%20special%20Report%20on%20Services%20Exports_FINAL.pdf (accessed 25 Apr. 2016).
[35] Kierzenkowski, R. et al. (2016), ‘The Economic Consequences of Brexit: A Taxing Decision’, OECD Economic Policy Paper no. 16, Paris: OECD, 27 April 2016, http://www.oecd.org/eco/The-Economic-consequences-of-Brexit-27-april-2016.pdf (accessed 2 May 2016); Punhani, S. and Hill, N. (2016), ‘Brexit: Breaking up is never easy, or cheap’, Credit Suisse, Global Markets Research, 25 January 2016, https://doc.research-and-analytics.csfb.com/docView?language=ENG&format=PDF&document_id=806936650&source_id=emrna&serialid=lPu6YfMSDd9toXKa9EPxf5HiNBEoWX2fYou5bZ6jJhA%3D (accessed 13 Feb. 2016); Ottaviano, G. I. P., Pessoa, J. P., Sampson, T. and Van Reenen, J. (2014), ‘Brexit or Fixit? The Trade and Welfare Effects of Leaving the European Union’, CEP Policy Analysis Papers, London, May 2014.
[36] Webb, D. and Keep, M. (2016), ‘In brief: UK-EU economic relations’, Briefing Paper, 06091, London: House of Commons Library, 13 April 2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06091 (accessed 21 Apr. 2016); European Commission, Directorate-General for Trade (2016), ‘Top Trading Partners – Trade Statistics’, 12 February 2016, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf (accessed 12 Apr. 2016).

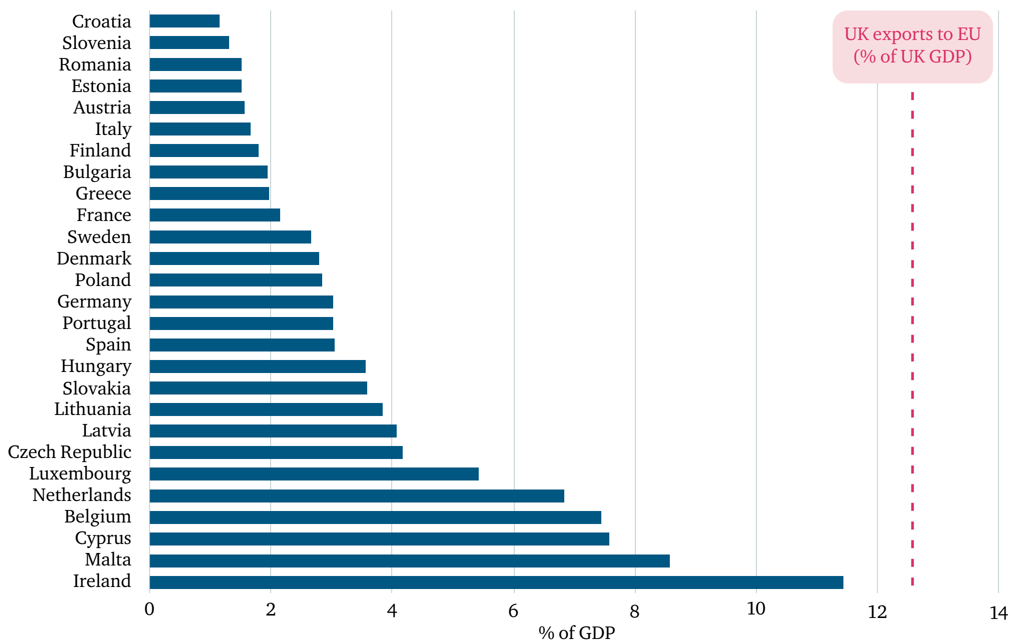
the types of demands that remaining EU members would make of the UK in return for access to their markets, including over the size of British financial contributions to the EU budget and the sorts of rights that EU citizens would have to work in the UK.

Figure 8: UK–EU trade, 2000–15



Source: Office for National Statistics.

Figure 9: Exports from EU countries to UK, 2014 (% of member state GDP)



Source: Office for National Statistics and Eurostat.

On the other hand, the UK's economic leverage is limited by the fact that its imports from major EU trading partners like France, Germany and Italy account for only 2 to 3 per cent of their GDP (see Figure 9). In contrast, British exports to the EU are worth some 12.5 per cent of British GDP. Overall, the UK is far more dependent on EU demand for its own exports – the rest of the EU was the destination for 44 per cent of UK exports last year, while the UK accounted for only 8 per cent of total EU exports.[37] EU members would not, therefore, have much incentive to grant the UK special consideration in terms of the central benefit of belonging to that market – namely, participation in the drafting of the regulations and standards that any goods and services must meet in order to be traded freely within the EU. Even if they decided not to punish the UK for leaving the EU, the remaining member states would not want to help the UK to benefit from doing so.

For the UK to retain the same level of access to the single market, therefore, British exporters would still have to abide by EU rules when selling in the EU – yet without the British government having the say that it does today in their definition. The result would be the UK parliament regaining sovereign power to set standards for British products and services in these and other sectors *de jure* and then promptly abandoning this right *de facto*. In effect, the UK would be less sovereign than when it had pooled sovereign power as a member of the EU. Alternatively, the British government could force UK-based companies to switch between British and EU rules for the same products and services depending on which market they were being sold in. Affected sectors would include cars, energy-efficient home appliances, chemicals, agricultural produce and financial services.

Either change would not just be cosmetic. The UK would undoubtedly continue to retain and attract foreign investors interested in its large domestic market.[38] But, excluded from the process of EU rule-writing, it would risk losing many other foreign investments. An example is the car industry, which has benefited from using the UK as a competitive base from which to access the rest of the EU while knowing that the British government has a strong voice in defining EU standards. Similarly, investment banks and asset managers in the UK, which can currently take advantage of a 'passport' arrangement to provide financial services to any other EU country, would lose this privilege outside the EU unless the UK adopted relevant EU laws wholesale. London would also lose its voice in setting future EU financial regulations, which might then be tailored to favour continental European approaches to banking, at the UK's expense.

It is far-fetched to believe that a UK outside the EU could compensate in any meaningful way for this uncertainty by freeing its economy from all burdensome EU regulations, say over environmental standards or rights for temporary workers. Given the UK's track record of 'gold-plating' EU regulations to exceed minimum requirements when incorporated into UK law, and majority British public and political support for existing environmental, health and safety protections, most EU regulations would likely be reimposed nationally rather than diluted. Britons could hold parliament in Westminster accountable for their regulations, but they might simply come to resent Whitehall mandarins in the future as much as they do Brussels 'Eurocrats' today.

Fewer options in international trade

What, then, of the promise of a sovereign trade policy? Could the UK make up for a decline in the level or growth of its trade with the EU by striking trade deals with other major economies? There is nothing to indicate that this is likely. The US president and his trade representative have both stated

[37] Office for National Statistics (2015), 'United Kingdom Balance of Payments – The Pink Book: 2015', 30 October 2015, http://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/compendium/unitedkingdombalanceofpaymentsthepinkbook/2015-10-30 (accessed 5 May 2016); Eurostat (2016), 'National Accounts and GDP', http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP (accessed 5 May 2016); HM Government (2016), *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives*, CM 9250.
[38] See Ernst & Young (2015), 'EY's attractiveness survey. UK 2015. Another great year – but time to reflect on how the UK can stay ahead of the pack'.

that the United States would not place a deal with the UK at the top of its trade agenda.[39] While this may have been in part a warning shot to discourage 'Brexit', the United States and most other major trading nations are prioritizing trade deals that are geographically wide in scope. Examples include the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership (TTIP), the Japan–EU Economic Cooperation Agreement and the China–EU Bilateral Investment Treaty. It is more likely that the UK would need to append itself to these mega-agreements than be able to define its own ones.

Those arguing that a sovereign UK trade policy could instead more easily expand British access to third-country markets for financial, legal and other services ignore the risk that opening up these service markets could prove even harder from outside the EU than from inside it. They also ignore the fact that emerging markets have entered a particularly turbulent economic phase as they struggle to break through the middle-income trap, and to move from export- and investment-focused growth to economic models driven more by consumption and innovation. China, Brazil, Turkey and India are all facing significant obstacles in attempting this transition and are often adopting protectionist stances towards domestic sectors in order to manage the politics of structural change. In part reflecting this shift, trade has reversed its role as an engine for growth in the global economy, and is now growing more slowly than global GDP.[40]

The British government would also find its economic sovereignty curtailed in a number of practical ways if the UK left the EU. For example, the UK would need to ensure that each future trade deal with a non-EU partner met EU rules of origin if British-based companies wanted to incorporate products from that third country into UK exports to the EU. Similarly, regaining the right to impose anti-dumping duties on unfairly traded products, such as Chinese steel, would be a hollow victory if Britain felt compelled to shy away from actually applying them in case it provoked policy retaliation on its own exports to the much larger Chinese market. The UK would have a far better chance of influencing Chinese trade policy as part of the EU, which, taken as a whole, is China's biggest export market.

It would be ironic if the UK were to leave the EU just as the prize of a more open EU services market came to pass.

There would also be an important opportunity cost from re-establishing sovereignty over trade policy. The UK currently has a surplus on its trade in services with the rest of the EU. The biggest trade deal available to the UK in the future would be to complete the opening of the EU services market, a goal that is far closer to realization in 2016 than ever before. Many EU members are looking for new ways to kick-start growth, and the European Commission has put creation of a digital services market and a capital markets union at the top of its agenda.[41] Completing the European Digital Single Market could add €415 billion per year to the EU's economy and could increase British household income by 4 per cent in aggregate.[42] It would be ironic if the UK were to leave the EU just as the prize of a more

[39] Donnan, S. (2015), 'Top US trade official warns on Brexit', *Financial Times*, 28 October 2015, https://next.ft.com/content/9c6135b8-7dbe-11e5-98fb-5a6d4728f74e (accessed 12 Apr. 2016); Donnan, S. and Dyer, G. (2016), 'US says Britain's EU referendum threatens transatlantic pact', *Financial Times*, 21 April 2016, https://next.ft.com/content/bc52b646-077d-11e6-96e5-f85cb08b0730 (accessed 22 Apr. 2016); Parker, G. and Pickard, J. (2016), 'Obama gives powerful warning against Brexit', *Financial Times*, 22 April 2016, http://www.ft.com/cms/s/0/ba4fd8a4-089c-11e6-b6d3-746f8e9cdd33.html#axzz46ekgPuOU (accessed 23 Apr. 2016).
[40] Wheatley, J. and Kynge, J. (2015), 'Emerging markets: Trading blow', *Financial Times*, 10 June 2015, http://www.ft.com/cms/s/2/2a6c3d6a-0f62-11e5-897e-00144feabdc0.html#axzz46ekgPuOU (accessed 23 Apr. 2016).
[41] European Commission (2016), 'Digital Single Market', 25 February 2016, https://ec.europa.eu/digital-single-market/en/digital-single-market (accessed 5 Apr. 2016).
[42] HM Government, Department for Business, Innovation and Skills (2015), *UK non-paper: Deepening the single market in goods and services*, July 2015; HM Government (2016), *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives*.

open EU services market came to pass. Outside the EU, British companies would have to adopt new EU rules on services, potentially designed to favour domestic EU companies and over which the British government had no say, in order to access their most important market.[43]

The international economic context points to an important additional danger from 'Brexit'. The UK runs a current-account deficit that has widened from 1.7 per cent of GDP in 2011 to 5.2 per cent of GDP in 2015, reflecting a persistent trade deficit and declining returns on its overseas investments.[44] Financing the current-account deficit requires the UK to borrow more money from the rest of the world. The UK also still has a high budget deficit, which despite the government's efforts was £74 billion, equivalent to 4 per cent of GDP, in the financial year 2015/16.[45] The budget deficit is also a source of exposure to foreign creditors, notwithstanding the fact that a large share of government debt is held domestically. Should the UK leave the EU while continuing to run these deficits, foreign lenders might doubt the ability of the UK government to repay its debts in the future. This could force the Bank of England to raise interest rates in order to continue attracting foreign funding, potentially dampening growth in the real economy.

Britain alongside a weaker EU

It is very difficult to assess how the EU would evolve should the UK leave. The EU would be subject to 'centripetal' and 'centrifugal' forces simultaneously, some pushing for greater integration and others driving members apart. Both outcomes would be unattractive from a UK perspective.

On the one hand, 'Brexit' could drive EU members closer together, lest the British decision set off a chain reaction of popular referendums in other countries on specific EU policies (such as the recent Dutch referendum on the EU's association agreement with Ukraine), or on leaving the eurozone or the EU altogether.[46] Efforts to deepen cooperation would likely centre on the eurozone, where pressure has been building since the financial crisis to sustain the pace of economic and financial integration.[47]

Whatever such integration might look like, the one thing the UK could be certain of would be an even more inward-looking EU. Establishing a true economic and monetary union would need to bridge entrenched differences between euro area creditors and debtors, big and small EU states, more competitive northern and struggling southern economies, and France and Germany. Under this sort of pressure and in Britain's absence, the balance in the Council of Ministers between those open to trade and sceptical of state intervention in the economy and those with more protectionist and nationalist instincts could easily tilt towards the latter (see Figure 10). Any consequent delays in economic reforms and market-opening initiatives would reduce business opportunities for UK companies, whatever bilateral trade deal were signed.

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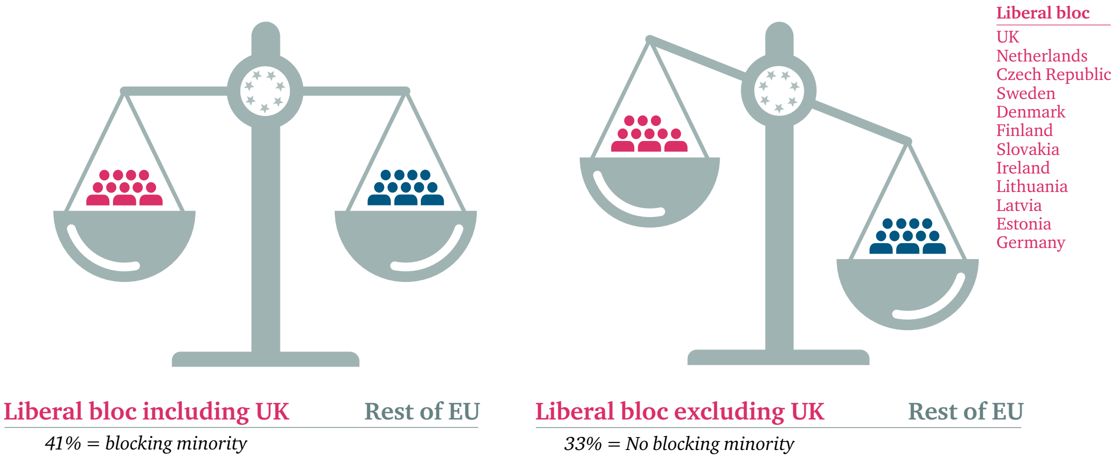
[43] For information on the influence that rule-setting by the EU and other trading blocs has had on the British economy, see HM Government (2014), *Review of the Balance of Competences between the United Kingdom and the European Union: Trade and Investment*, February 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/279322/bis_14_591_balance_of_competences_review_Trade_and_investment_government_response_to_the_call_for_evidence.pdf (accessed 20 Apr. 2016).
[44] Office for National Statistics (2016), Statistical Bulletin, 'Balance of Payments: Oct to Dec and annual 2015', 31 March 2016, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/balanceofpayments/octtodecandannual2015/pdf (accessed 25 Ap. 2016).
[45] Office for National Statistics (2016), Statistical Bulletin, 'Public sector finances: March 2016', 31 March 2016, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance (accessed 25 Apr. 2016).
[46] See Lichfield, J. (2016), 'EU referendum: Marine Le Pen to campaign for Brexit on UK visit', *Independent*, 20 April 2016, http://ind.pn/1NtM11c (accessed 24 Apr. 2016); Bloomberg (2016), 'Geert Wilders: Hope Britain Leaves European Union', interview on Bloomberg, 15 January 2016, http://www.bloomberg.com/news/videos/2016-01-15/geert-wilders-hope-britain-leaves-european-union (accessed 25 Apr. 2016).
[47] Juncker, J.-C. et al. (2015), *The Five President's [sic] Report: Completing Europe's Economic and Monetary Union*, Brussels: European Commission, 22 June 2015, https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf (accessed 2 May 2016).

Figure 10: Brexit could tip the balance of power within the EU



Source: Global Counsel 2015.

Continuing slow growth in the EU would leave the UK exposed to one of the very forces that 'Brexit' was intended to reduce. If the UK were to leave the EU, the 2.7 million EU citizens legally residing and working in the UK would still have the right to remain. In addition, during the two or more years it would take to negotiate the UK's new non-member relationship with the EU, EU citizens would continue to have the right to move to the UK to work, and an even greater number might try to do so ahead of the UK's departure. Even afterwards, high levels of migration from the EU would likely continue, given the needs of the UK labour market. It is true that the British government would have the right to decide whether to treat prospective workers from the EU in the same way as those from the rest of the world – whether from Australia, Nigeria or India, for example. However, it is questionable how much of an impact this would have. The government's struggle to reduce numbers of non-EU immigrants, who account for about half the total, given family ties, labour market demands and education visas, illustrates the challenge it would have were it to try to apply the same constraints to EU immigration.

Alternatively, without the UK, the EU could become more divided than it is already. With the loss of one of the EU's 'big three' members, many EU governments and citizens would fear a further increase in German dominance of the EU, given its forceful role in managing the eurozone and migration crises.

> A Britain outside the EU would need to spend more political and diplomatic time and effort monitoring and negotiating with the EU than it does today.

A more divided EU would be bad for Britain on multiple levels. A revanchist Russia that fears the spread of democracy, open markets and the rule of law would be emboldened to exacerbate these new divisions, adding to its support of populist parties and voices in European media. The EU is one of the few collections of states working to strengthen the rule of law at a time when many around the world are struggling to sustain what rules they have, or are battling with debilitating cronyism and corruption at the heart of government and business. But EU states and societies are also vulnerable to these forces, and would be even more susceptible if EU institutions and solidarity were weakened as a result of internal divisions.

A more fractious EU would also continue to struggle to halt the waves of refugees and migrants fleeing to Europe from chaos in the Middle East and poverty and violence in much of Africa. And, unless the rest of the EU is able to stem the flow and integrate those arriving, an ever greater number would try to make the UK their ultimate destination.

Finally, under either the 'greater integration' or 'greater division' scenario, the EU would remain Britain's largest trading partner by far and also a principal potential transmitter of political and economic risk into the UK. A second irony, therefore, is that a Britain outside the EU would need to spend more political and diplomatic time and effort monitoring and negotiating with the EU than it does today. Rather than escaping the EU's embrace, British decision-makers would be even more obsessed by developments in Brussels than at present, when the government can deploy a large share of its diplomatic resources and sovereign power to focus on opportunities and risks in the wider world.

Risks and opportunities from remaining

If the UK were to remain in the EU, a principal challenge for the government would be to manage the same trade-off as it has in the past – that is, between using its EU membership to strengthen UK prosperity and security, and the possibility of continued high levels of EU immigration into the UK. It is worth remembering, however, that the free movement of labour is a two-way street. The rest of the EU would continue to be open to British workers in the future, including if the British economy performs less well than its EU counterparts, as it has done in the past.[48] Leaving the EU would deny other British citizens the same right in the future.

An additional, related uncertainty would concern the long-term fate of the refugees from Syria, Iraq and other unstable countries arriving in Schengen nations, such as Germany and Sweden. If they were eventually to acquire EU nationality, they could in theory then try to seek work in the UK. But in all EU states there is a very significant difference between gaining refugee status and qualifying for citizenship. It currently takes eight years on average to acquire citizenship in Germany, and not all applicants succeed.[49] Moreover, for naturalized refugees to want to emigrate to the UK, the British economy would need to be outperforming those countries like Germany where the refugees had initially settled.

Another question concerns the future of EU enlargement to countries such as Serbia and Albania. If these states were to join, the UK could delay worker migration for up to seven years under current EU rules. Delays thereafter would be difficult to secure, although the numbers of potential migrants would be much smaller than from the previous enlargements, given these countries' small populations. And it is possible that other EU governments would join Britain in looking for ways to discourage them.[50]

In contrast, the idea of Turkey with its population of 75 million-plus joining the EU is currently inconceivable regardless of renewed negotiations over accession, given the trajectory of its domestic politics and the views of most EU member governments and parliaments. Not only the UK, but any individual EU member state, including those historically opposed to the Turkish negotiations, such as France and Austria, could veto Turkey's membership. In the meantime, the EU's offer of visa-free

[48] Murray, R. et al. (2012), 'Emigration from the UK', Second edition, London: Home Office, November 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/116025/horr68-report.pdf (accessed 26 Apr. 2016).
[49] Auswärtiges Amt [German Federal Foreign Office] (2016), 'Law on Nationality', 20 December 2013, http://www.auswaertiges-amt.de/EN/EinreiseUndAufenthalt/Staatsangehoerigkeitsrecht_node.html (accessed 20 Apr. 2016).
[50] Wagstyl, S. (2016), 'Germany plans 5-year benefit ban for jobless migrants', *Financial Times*, 28 April 2016, https://next.ft.com/content/25bec884-0d52-11e6-9cd4-2be898308be3 (accessed 2 May 2016).

travel for Turks does not give them the right to immigrate for work. And the UK, being outside the Schengen Agreement, is in any case not obliged to offer them the same visa-free access as other EU states.

A British agenda for the EU

In the end, the best way to lower current levels of high net EU immigration into the UK is for currently weak EU economies to achieve higher rates of growth and employment, and to make more forceful efforts to integrate immigrants into work and society. These outcomes are far more likely if the rest of the EU becomes more competitive, with more flexible and open markets.

The question, then, is whether the EU will move in this direction should the UK choose to remain. There can be no guarantees. If the UK remains in the EU, the eurozone would continue its fitful moves towards greater economic integration. But the likelihood of the UK being left in a minority of one or two on the edge of an EU organized around a eurozone core is receding. The Greek experience and the rise of more nationalist parties in new EU member states (as well as in existing eurozone members) already make eurozone expansion and deepening more difficult than before. In this context, having the UK inside the EU but outside the eurozone might further delay eurozone expansion, despite the commitments new members have made to join once they meet the necessary criteria.[51]

At the same time, it is clear that the current European Commission is the most liberal in EU history. In addition to pushing forward market-opening initiatives that Britain has long championed, its commissioners have issued 80 per cent fewer regulations covering new standards than under the last Commission, and have set in train a process of reviewing existing regulations in order to begin repealing those that are redundant or unnecessary.[52]

The Commission's new focus on deregulation parallels its declining influence as the driving force of EU integration. As the EU has enlarged and faces more complex challenges, decision-making has become more intergovernmental, with greater executive control vested in the European Council composed of the heads of government of EU members and now with its own president. For better or worse, this creates scope for the most determined and powerful EU countries to help drive the agenda according to their sovereign interests, as Germany has done in managing the eurozone crisis. If the UK were to remain, it would be in a strong position to influence the direction of the deregulation agenda as well as the details of those trade and investment negotiations that are nearing completion, from TTIP to agreements with Japan and China.

But an increasingly interdependent world poses challenges for Britain that go beyond questions of migration and economic competitiveness. Pooling sovereign economic or political power in the EU is not the only way for an internationally networked country like the UK to advance its interests in such a world. But the integrated EU approach can be more effective in addressing certain global policy challenges than the intergovernmental approach of the United Nations, G7 or G20.

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[51] Protocol No. 15 exempted the UK from joining the European Monetary Union (EMU). In the absence of a similar protocol, Article 139 of the Treaty of the Functioning of the European Union states that all states joining the European Union will become members of the EMU once they meet the convergence criteria. European Union (2007), 'Treaty of Lisbon Amending the Treaty on European Union and the Treaty Establishing the European Community', Article 139.

[52] BBC News (2016), 'EU should 'interfere' less – Commission boss Juncker', 19 April 2016, http://www.bbc.co.uk/news/world-europe-36087022 (accessed 22 Apr. 2016).

Four examples illustrate the point. The first is climate change, which the UK is powerless to counter alone. By making legally binding commitments to cut carbon emissions and upgrade the energy efficiency of transport, buildings and consumer products, the EU, with a strong lead from the UK, has created economies of scale that have dramatically increased the use and reduced the cost of renewables. And by continuing to act together, the UK and the EU have the best chance to meet the commitments they made at the 2015 Paris summit on climate change.

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The second is energy security. The UK is now a major importer of oil, gas and coal. It also imports electricity from the European continent. It is more likely to secure the best prices if it joins other EU states in designing and implementing common rules as part of the EU's Energy Union on improved pipeline and grid interconnections, storage capacity, and ownership structures for energy supply and power generation. Strengthening the EU energy market is especially important when Russia, Europe's principal supplier, sees energy as an instrument of its security as well as its economic policy.[53]

The third is internet governance. By agreeing EU-wide rules on privacy protection, the EU has begun to improve data protection standards across Europe as well as in the United States, where much of the data reside. For example, the new US–EU 'Privacy Shield' will tighten rules over how US companies manage the data of EU citizens. The creation of an EU Digital Single Market based upon common rules and standards promises to give an additional spur to European digital innovation and to tech start-ups, where the UK is in the vanguard.

A fourth example is the fight against terrorism. The attacks in Paris in November 2015 and Brussels in March 2016 have confirmed the extent to which violent Islamist extremists see Europe as a single theatre of operations. If national police and intelligence services are to confront the common threat more effectively, they will need to share information and cooperate on law enforcement more proactively. This requires agreeing legally enforceable common rules on how to share passenger names and combat identity fraud. It will also require common judicial standards for pursuing and prosecuting anti-terrorism investigations across European borders.

Pooling its sovereign power inside the EU, the UK can play a leading role in defining the parameters of common EU responses to the challenges of an interdependent world, with a much better chance to influence outcomes in the interests of its citizens. Outside the EU, the UK would nominally have the sovereign authority to manage its policy in each of these areas, as well as those discussed earlier in this paper, but it would be less well placed to develop meaningful and effective responses.

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[53] Raines, T. and Tomlinson, S. (2016), *Europe's Energy Union: Foreign Policy Implications for Energy Security, Climate and Competitiveness*, Research Paper, London: Royal Institute of International Affairs, March 2016, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-03-31-europe-energy-union-raines-tomlinson.pdf (accessed 24 Apr. 2016); Bailey, R. and Tomlinson, S. (2016), *Post-Paris: Taking Forward the Global Climate Change Deal*, Briefing, London: Royal Institute of International Affairs, April 2016, https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-04-21-post-paris-bailey-tomlinson.pdf (accessed 24 Apr. 2016).

Conclusion

The question of British sovereignty is far more complex than the current referendum debate implies. Reviewing the prospects for Britain inside or outside the EU reveals the illusory notion of absolute British sovereignty in a world that is more interdependent today than it was when the UK joined the EEC in 1973.

Three points stand out, in particular. One is that the UK government remains politically sovereign, and the British parliament democratically accountable, in the vast majority of policy areas. British governments have agreed to pool their sovereign power only in areas where doing so has offered more advantages than disadvantages, and where it has the potential to remain beneficial in the future. In addition, the EU is now moving in a direction that British governments have long advocated: becoming more open economically and flexible institutionally, with different tiers of membership and with a larger voice for its member governments in setting the EU policy agenda.

The principal trade-off for these benefits is the loss of sovereign control over the flow of workers from the rest of the EU into the UK. This has caused great public concern and is a principal driver of support for the campaign to leave the EU. There is no escaping this trade-off, as it is a key requirement of EU membership. However, free movement of labour is a benefit for the UK economy in the aggregate, and a valuable right for British citizens who wish to take up employment in other EU countries.

The next point is that sovereignty in international affairs in the 21st century is about securing outcomes, not about preserving autonomy.[54] By pooling its sovereign powers through EU membership, the UK gains a platform from which to shape its international affairs that would not be available to it outside the EU. Britain can use the leverage that comes from being a large and influential member of a club of like-minded states with one of the biggest combined economies in the world. By leaving the EU, the UK would lose that leverage and thereby weaken its sovereign power, while destabilizing the very institution that can most help it improve its economic prospects and enhance the stability of its region.

> By pooling its sovereign powers through EU membership, the UK gains a platform from which to shape its international affairs that would not be available to it outside the EU. Britain can use the leverage that comes from being a large and influential member of a club of like-minded states with one of the biggest combined economies in the world.

Lastly, sovereignty is not synonymous with security in today's hyper-connected world. Political instability, populism and nationalism are on the rise across the globe, from North Africa to the Gulf, from Brazil to China, and from Russia to the United States. Despite its own internal challenges from terrorism and growing political radicalism, the EU remains so far a relative island of stability, governed by the rule of law, supportive of human rights and protective of liberal institutions among its members. As a member, the UK can enhance its security by helping the EU remain true to these principles.

[54] This point was made by Prime Minister David Cameron in an interview on the BBC's Andrew Marr Show, 21 February 2016, http://www.bbc.co.uk/programmes/b0725k6v (accessed 2 Mar. 2016). See also Wolf, M. (2016), 'Brexit: sovereignty is not the same as power', *Financial Times*, 3 May 2016, https://next.ft.com/content/fece7238-1071-11e6-91da-096d89bd2173 (accessed 4 May 2016).

The fundamental question before the British electorate, therefore, is not whether it is time for Britain 'to take back control' from the EU. This is a worthless proposition if it does not address Britain's actual ability to ensure the prosperity and security of its citizens. The question should be whether Britons are content with the trade-off that accompanies EU membership: that is, that Britain can best enhance its security and its economic prospects if it accepts being part of a single market for workers as well as for goods, services and capital.

In my opinion, the choice is clear. For Britain, the opportunities that will come from remaining in the EU far outweigh the risks, and the risks of leaving far outweigh the opportunities. Britain's effective sovereignty will be strengthened, therefore, if it remains a member of the EU.

About the author

Robin Niblett became the director of Chatham House in January 2007. Before joining Chatham House, between 2001 and 2006, he was the executive vice-president and chief operating officer of the Center for Strategic and International Studies (CSIS) in Washington, DC. During his last two years at CSIS, he also served as director of the CSIS Europe Program and its Initiative for a Renewed Transatlantic Partnership.

He served as chairman of the World Economic Forum's Global Agenda Council on Europe (2012) and chairman of the NATO Policy Experts Group ahead of the NATO Wales Summit (2014). He has written extensively on UK and European foreign policy, and has given evidence on a number of occasions to the UK's House of Commons Defence Select Committee and Foreign Affairs Committee, as well as to the US Senate and House of Representatives committees on European affairs. He received his BA, MPhil and DPhil from New College, Oxford.

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The Royal Institute of International Affairs
Chatham House
10 St James's Square, London SW1Y 4LE
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
contact@chathamhouse.org www.chathamhouse.org

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