Brexit Referendum: Five reasons the UK should stay

From the impact on London as a financial hub to the impact on wages, the economic implications of leaving the EU are serious.

BY:
MIRANDA XAFA

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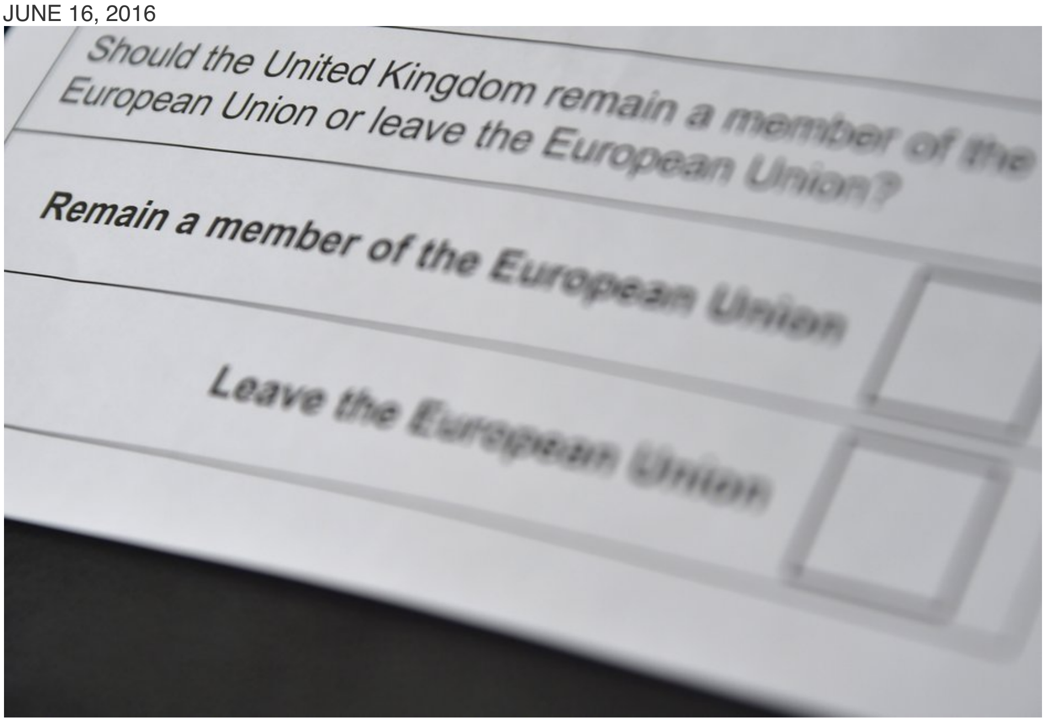

Detail of a postal vote ballot paper for the forthcoming EU referendum is seen in London, Britain, June 7, 2016. REUTERS/Toby Melville

As the Brexit debate rages on, the two sides agree on one thing: there are enormous economic, political and social implications of next week's vote that will weigh on the future of the UK.

Former Prime Minister Tony Blair has called the June 23 vote "the most important decision for Britain since 1945" and warned about a "long, agonizing process of disengagement" that would result from an Out vote, with "seismic" economic implications. The Leave campaign also regards the vote as a defining moment in the UK's relationship with Europe — as a once-in-a-lifetime opportunity to escape "supra national authority" and obtain "a better deal for the UK." The battle lines are drawn.

The problem with the Leave campaign is that it is long on words and short on specifics. While several independent observers have tried to quantify the impact of Brexit on the UK economy and financial markets, the Leave campaign just offers a leap into the unknown. Brexit would entail a long period of uncertainty that would adversely affect investment and growth. Here's why the UK should indeed stay within the EU:

1. The EU accounts for half of UK trade.

A decision to exit would be followed by protracted negotiations to agree on the terms of UK withdrawal, including access to the single European market for goods, services, labour and capital. Losing duty-free access to the EU market would adversely affect output, jobs and economic efficiency, both directly and indirectly through the loss of its prime location for foreign direct investment targeting the EU market. Estimates of the output loss range from one percent to 10 percent of the UK's current GDP, depending on the UK's future trade and financial relationship with Europe and the rest of the world. Uncertainty would linger on how long it would take for the UK to negotiate bilaterally the EU's existing preferential trade deals with some 100 countries. Also at risk would be the UK's ability to replicate bilaterally the important free trade agreements the EU is currently negotiating with the U.S., Japan, India, Australia and New Zealand once they are concluded. In his recent visit to London, U.S. President Barack Obama gave his answer: if the UK left the EU, the UK would go "to the back of the queue" in seeking a trade deal with Washington.

The Leave camp has failed to present a specific agenda for how it would address the trade policy implications of secession. It has proposed various countries as possible models for a post-Brexit trade relationship with the EU, including Canada, Norway, Switzerland and even low-income Albania. But none of these models would offer the open borders and free trade that the EU now offers. The Leave rhetoric is about continuing to have access to the EU market and making better and faster free trade deals with the rest of the world, but this sounds like wishful thinking.

2. A vote to leave the EU can have devastating economic consequences.

A large number of studies from prominent institutions (the Bank of England, UK Treasury, London School of Economics, IMF, OECD) point to the adverse macroeconomic impact of secession both in the short run and the long run. In particular, the IMF has warned that the UK's record-high current account deficit and consequent reliance on external financing exacerbates the Brexit risks. An adverse market reaction would depress asset prices and raise interest rates, further contributing to output contraction. This would lead to losses in tax revenue that could easily offset the gain from eliminating the UK's net contribution to the EU budget. The OECD estimated that by 2020 GDP would be more than three percent down on what it would have been if Britain had remained in the EU — the equivalent of £2,200 (CAD$4,000) per household at today's prices. Also at risk would be London's status as a financial centre. All the major commercial and investment banks have their European headquarters in London – a status the UK is unlikely to retain if it loses its "passporting" rights that enable UK-based firms to provide financial services throughout Europe. The consequence would be significant loss of economic activity and employment in the City of London – the largest contributor to the UK's service sector.

The prospects of near-term instability and longer-term decline in living standards are therefore real. Although the consequences of Brexit will fall mainly on the UK, G7 leaders warned from Japan last month that a decision to exit would seriously threaten the world economy due to spillover risks to European and global markets. The Leave campaigners do not address these objections, nor do they offer a roadmap for Britain's future outside the EU. In the words of former London mayor Boris Johnson, a leading Leave campaigner, on the risks to the economy and the City of London: "though those risks cannot be entirely dismissed, I think they are likely to be exaggerated."

3. The UK already has adequate independence from the EU.

The Eurosceptics of the Leave campaign stress the loss of sovereignty and the perceived erosion of democracy that EU membership entails. They view the referendum as a rare opportunity to vote for real change in Britain's relations with Europe and avoid membership in "an ever closer union." But the UK does not need to leave to avoid finding itself in an ever closer union: it already has won significant concessions from the EU, including a permanent opt-out from the Schengen passport-free area and from euro adoption, safeguards to protect the euro "outs" from the euro "ins," a budget rebate, and firm commitments on EU deregulation and competition. Most of these concessions pre-dated Prime Minister Cameron's renegotiation of Britain's place in the EU, which culminated in an agreement reached at the EU Summit in February. While the agreement was widely seen as marginal, it nevertheless permitted Cameron to campaign forcefully for the Remain side, arguing that the UK will be stronger and better off in a reformed EU.

4. Brexit will lower the path of wages and employment.

A recent report by the Trades Union Congress (TUC) presents 'the working people's case' for remaining in the EU. The report warns that the economic impact of Brexit could lower average weekly wages by £38 (CAD$70) by 2030. According to the report, EU membership also protects workers' rights on equal pay, maternity rights, tougher health and safety laws, stronger anti-discrimination protections, limits on working time and guaranteed paid holidays.

Remaining in the EU also would boost employment, according to a report by the Centre for Economics and Business Research (CEBR) which predicts that Britain's continued membership of the EU single market could create more than 100,000 jobs in the manufacturing sector by 2030, which would be jeopardized by a vote for Brexit. In response, employers' organizations and Leave campaigners say that jobs that do not yet exist cannot be at risk, and stress that UK businesses are concerned about EU "red tape and regulations…constraining their ability to innovate and create jobs." However, this criticism disregards the agreement concluded between the UK and the EU in February to reduce red tape.

5. An Out vote threatens disintegration of the UK.

A vote to leave the EU carries the risk of renewed tensions between England and Scotland. The referendum for Scottish independence in 2014 was partly based on the argument that England would no longer be able to impose decisions on Scotland. An English-led withdrawal of the UK from the EU could trigger another Scottish referendum calling for independence from the UK so that Scotland can remain in the EU. The British government would then need to simultaneously negotiate the UK's exit from the EU and Scotland's withdrawal from the UK. The Leave side dismisses these concerns in a hand-waiving fashion, claiming that the Scots are likely to vote on roughly the same lines as the English. Such optimism is not borne out by the opinion polls: there is much stronger support for the Remain side in Scotland (75 percent) versus England (less than 50 percent), so the probability of another Scottish independence referendum is pretty high.