The 2014 edition of How much does the European Union cost Britain?, is the seventh of the UK Independence Party research series started by Gerard Batten in 2006.
How much does the European Union cost Britain?

Tim Congdon

With a foreword by Gerard Batten MEP

2014 Edition
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Some basic arithmetic

In this study frequent reference is made to the costs of EU membership ‘as a % of the UK’s gross domestic product (or GDP)’.

For non-economists, GDP means the same thing as ‘the UK’s national output’ or ‘what we produce as a nation’. This is also the sum of all our incomes our ‘the UK’s national income’. (This is not the same concept as ‘how much we consume as a nation’, because part of our incomes is saved and part of our output is invested.)

In 2013 the UK’s GDP is estimated by the Office for National Statistics to have been £1,612,828 million. (Strictly, this figure refers to ‘GDP at market prices in current price terms’. The full explanation of the meaning of this phrase is technical.)

A ‘billion pounds’ is ‘a thousand million pounds’.

So in 2013

- the UK’s GDP was just over £1,600 billion, roughly, and
- 1% of GDP was about £16 billion, and
- a figure somewhat more than £1.5 billion was 0.1% of GDP.

The numbers for 2014 will differ a bit, but – if we think of ‘1% of GDP’ as ‘a bit more than £16 billion’, we are close enough for the purposes of public debate.

The total cost of the UK’s EU membership is estimated in this publication as ‘about 11½% of GDP’, which is roughly £185 billion. (The figures change as the years go by, which explains why this publication needs to appear on an annual basis.)
How much does the European Union cost Britain?

Key points of the UK Independence Party’s research on How much does membership of the European Union cost Britain?

The UK is roughly 11½% of GDP – about £185 billion a year – worse-off because it is a member of the EU instead of being a fully-independent sovereign nation.

The main reason for this heavy cost is the damage that excessive and misguided regulation is doing to British business, particularly to small-and-medium-sized businesses that cannot cope with the paperwork and restrictions.

The breakdown of the 11½% of GDP is shown in the box below.

<table>
<thead>
<tr>
<th>Nature of cost</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct fiscal cost</td>
<td>1¼</td>
</tr>
<tr>
<td>Costs of regulation</td>
<td>6</td>
</tr>
<tr>
<td>Costs of resource misallocation</td>
<td>3¼</td>
</tr>
<tr>
<td>Cost of lost jobs</td>
<td>¾</td>
</tr>
<tr>
<td>Costs of waste, fraud and corruption</td>
<td>¾</td>
</tr>
<tr>
<td>Potential costs of contingent liabilities</td>
<td>¼</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td><strong>11½</strong></td>
</tr>
</tbody>
</table>

For a more detailed justification of these numbers, see the following two chapters and the analysis in the 2012 and 2013 editions of this publication.

The EU has free trade agreements with Canada, Mexico and Israel, and is seeking one with the USA and Japan. Norway, Switzerland and Turkey are ‘in the European orbit’ and have access to the EU’s single market, but are not members of the EU. The UK can leave the EU, and retain strong and vibrant trade links with the EU. Outside the EU, we can put in place a free trade agreement with our European partners, which is all that most people in Britain wanted when we joined the then ‘Common Market’ in 1973.

In 2012/13 the UK government gave an advance estimate that the net cost of EU membership (i.e., the direct cost alone) that year would be under £7 billion. In fact, the latest estimate is a net cost of almost £10 billion and even that may be exceeded. In an era of fiscal austerity, the government has reduced spending on UK programmes and increased it on the EU. It has failed to keep the wasteful Brussels bureaucracy under control.
How much does the European Union cost Britain?
Forward by Gerard Batten MEP

Once again Professor Congdon has produced a masterly study of the cost of EU membership on the UK economy. He quite rightly differentiates between the direct fiscal costs of membership of the ‘EU club’, and the indirect costs on the economy as the consequence of its ever expanding power over domestic policy making and the never ending avalanche of legislation.

The direct costs are bad enough, and forever rising, but as Professor Congdon points out, HM Treasury seems completely at sea in their inability to understand or forecast the actual amount of money we are committed to spending on membership. Indeed the whole subject is approached incompetently and dishonestly by the Government.

As Professor Congdon points out, the Treasury underestimated our net contribution to the 2012/13 budget by 40%; and in February 2013 Prime Minister David Cameron crowed about another great ‘diplomatic triumph’ (in a long line of such ‘triumphs’) when he announced that for the first time a reduction had been negotiated in the EU budget. It later emerged that in fact EU finance ministers had agreed an increase of £6.2 billion in one year.

If this is not bad enough, the indirect costs on the economy are much worse. These include the old favourites of the Common Agricultural Policy and over-regulation, to name just two. Professor Congdon calculates the total direct and indirect costs on the economy at an incredible and scandalous 11½% of GDP, or a staggering £185 billion per annum.

These studies on the costs of EU membership are vitally important. They establish that there is no economic benefit to membership, and remove the arguments, such as they are, of those who would have us stay in. They are a major contribution to the debate on why Britain should leave the EU.

But the arguments for leaving the EU are predominantly political rather than economic. Our Parliament is now just a rubber stamp for enacting EU Directives. Our MPs now resemble a troop of monkeys chattering and gamboling in a ruined temple, the true purpose of which is long forgotten. The British people are coming to understand the democratic and economic costs of EU membership and when they do we can clear out the monkeys and restore the temple to its true purpose.

Gerard Batten MEP
9th September, 2014
How much does the European Union cost Britain?

Author’s introduction

In the 2012 and 2013 editions of How Much Does the European Union Cost Britain? I set out the analysis behind the conclusion that our EU membership cost Britain about a tenth of its national output, with the cost rising steadily year by year. The 2014 edition is shorter than the last two and is more limited in focus, with only two chapters. The first chapter discusses the latest information on the direct costs of the UK’s membership of the EU; the second chapter meets criticisms of the claim, in the 2012 and 2013 editions, that the indirect costs of membership were much larger than, indeed a multiple of, the direct costs. This introductory section explains with some care the distinction between the direct and indirect costs, as it may not be immediately obvious and seems to cause confusion. I am also concerned in the introduction to answer unfriendly remarks about How Much Does the European Union cost Britain? from other participants in the debate, including the Centre for European Reform.

The distinction between the direct and indirect costs needs to be spelt out and elucidated. Under the terms of the various EU treaties the UK pays money to EU institutions, and receives some money back. The notion of ‘the UK’ includes both the government and the private sector, but the overwhelming majority of the payments are conducted via government and its agencies. The UK’s direct payments to the EU exceed its receipts, resulting in a net cost which undoubtedly means that the UK is worse-off than it would otherwise have been. But EU membership damages the UK in other ways,

- Regulation imposed by the EU – meaning the body of directives and regulations that constitute the *acquis communautaire* – has the effect of reducing output and employment beneath what they would otherwise be,
- Trade protection arising from EU membership – notably because of the Common Agricultural Policy, but also because of trade restrictions in other products, including high-tech manufactured products – lowers the value of what the UK can buy in the world market with its national output,
- Immigration from other EU countries undermines job availability for the long-term British (i.e., those of UK birth, residence and citizenship), which is a harm for them,
- Rules and regulations of EU origin lead to unnecessary effort and expense, or even outright waste, as with the Common Fisheries Policy, so that some of the UK’s output serves no useful purpose whatsoever, and
EU membership obliges the UK to make provision for welfare and health expenditure (‘benefit tourism’, ‘health tourism’), as well as possible fines due to non-compliance with EU rules, so that part of UK output is paid not to the long-term British, but to foreign individuals and agencies.

It is clear that these indirect costs are diverse and miscellaneous, as well as sometimes being harder to conceptualize than the direct costs. An argument could be made that a total that includes both types of cost mixes up apples and pears. It might also be alleged that the total is misleading because the indirect costs do not result in any money payments to the EU. Indeed, given the range of different categories involved, the total could be seen as blending oranges, lemons and cherries as well as apples and pears! I reject this sort of criticism. A nation is worse-off if regulations reduce its production, if trade barriers prevent it buying imports at the lowest price in world markets (or selling exports at the best prices), if some of its output is wasted outright, if its people find it more difficult to obtain work and if a proportion of its public expenditure is spent on non-citizens. Of course it is worse-off in all these cases. Far more misleading is to concentrate exclusively on the direct costs, as if the regulations, protectionism, lost jobs and so on did not matter.

It might be claimed that my approach exaggerates the net costs, because I spend no time on the benefits. The reason for ignoring benefits is simple. In my view, there are no benefits that merit extended treatment. I concede that, back in the 1970s, the EU was an oasis of free trade in industrial products (not in agricultural, of course!) in a more or less global desert of protectionism. (The USA was another oasis.) When the UK joined the then Common Market, access to the large industrial free market on its doorstep was worth having, and did lead to worthwhile gains in economic efficiency and resource allocation. In other words, in the early 1970s a valid economic case could be made for ‘joining the Common Market’. (For clarity, I have always been opposed to the UK’s involvement in ‘the European construction’, but at the beginning my worries were only about the implied constitutional upheaval. I thought the economic arguments were more or less balanced.)

But nowadays most nations have seen the advantages of trade liberalization, even unilateral trade liberalization, and virtually all serious nations have very low tariffs for industrial product imports. Further, the EU has signed free trade agreements with many non-EU countries, including Canada. If the EU can sign a free trade agreement with Canada and respect Canada’s independence, it can sign a free trade with the UK outside the EU and respect the UK’s independence also. Sure, some adjustments would have to made afterwards. Once the UK had left the EU’s ‘single market’, its
companies would have to export into and import from other European nations under the terms of the new free trade agreement. Would those adjustments imply some radical loss of benefit to the UK? I don’t think so. But we would save the direct and indirect costs, the costs that amount to over a tenth of our national output, which I describe in this document.

For many of today’s Europeans, particularly for Germans (still, almost 70 years after the Second World War) and for people living in Eastern Europe, the ‘European project’ receives their support because its aims are political. They are prepared to suffer the economic costs because of the desirability of European political union, as they see the matter. They regard the EU as a stepping-stone to a fully-fledged United States of Europe on the Monnet model, and that is what they support. (My article ‘What sort of Europe does Cameron want?’ in the September 2014 issue of Standpoint magazine distinguished between the Monnet vision of Europe governed by a supranational bureaucracy and the Gaullist conception of l’Europe des patries in which national parliaments would be the sources of democratic authority and legitimacy.)

But very few people in Britain favour a United States of Europe, with the UK reduced to a status similar to that of Illinois or Missouri in the USA. The overwhelming majority of the British people do not want their country to be absorbed into a European super-state, and their identity, traditions and culture to be banished to the history books. Deep down, that is why Britain must leave the EU.

The 2012 edition of this publication received little comment in the media or elsewhere. The 2013 edition did provoke a handful of comments and criticisms from pro-EU publications and think tanks. Most of the response did not amount to much, but I want here to reply to a reference to the 2013 edition in a report from the Centre for European Reform and to discuss a remark on UKIP by the Financial Times columnist, Janan Ganesh. (Quite a lot of space is given in the second chapter to rebut an important point [about the so-called ‘problem of the counterfactual’] made by Matthew Parris, the well-known columnist in The Times.)

When I started work on the 2012 edition (in April 2012, if the reader is interested) I had an open mind about the eventual cost-benefit calculation. Of course, I expected it to be negative for the UK, as Gerard Batten had argued in the 2010 edition. But I really did not know what my own answer would be. My answer – 10% of 2012 GDP or £150 billion – was more than Gerard’s (£85.3 billion gross or £77 billion net, or somewhat less than 6%
of 2010 GDP of under £1,500 billion), for two main reasons. I included Minford’s estimate of the cost of EU-related trade protectionism and resource misallocation (of over 3% of GDP), which Gerard had overlooked, and I somewhat raised Gerard’s view on the cost of regulation. When I began the exercise, I had not read the trade protection work in much detail or done any serious research on the detailed cost of regulation. (Minford’s estimate of the resource misallocation cost was the one immediately to hand, but in fact several others have been done, with a similar message.) Virtually all the material I dug up was new to me, at least in specifics. As I said in the introduction to the 2012 study, I was ‘very genuinely’, on ‘a research mission’. Further, I made it a rule – as I do all in my work – to avoid giving my own opinion, but to use other people’s expertise and to cite other sources. With some exceptions (which I made clear in the text), every number was not mine, but that of another authority or individual. 94 footnotes were provided to show who these authorities and individuals were.

My approach to the 2013 publication was the same, but I had another year’s collection of news cuttings (many from The Daily Mail, which I find is the best newspaper in exposing the EU’s various delinquencies), and that sent me scurrying off on another set of Google searches, PDF downloads and printing of documents. Again, I followed the principle of not giving my own opinion, but – as far as possible – using other people’s expertise and citing other sources. Virtually all these sources were non-UKIP, as I am afraid UKIP is a very new political party with an evolving infrastructure and does not produce as much research as it might. For example, I referred to papers from Open Europe, a think tank that is in favour of the UK staying inside the EU. Page 24 of my 2013 report broke down the costs of regulation (which I again identified as the most serious kind of damage that the EU does to the UK) into four, with large blocks of text and thousands of words justifying each of the components of the total burden.

But this is how the Centre for European Reform described my work in a June 2014 report on The Economic Consequences of Leaving the EU. I was said to be pursuing a ‘crude method’ of assigning ‘largely arbitrary, but invariably inflated, costs to regulations’, and then implying ‘that the UK would face none of these costs if it quit the EU’. The method the CER attributed to me was said ‘to be designed to produce conclusions that [had] been determined before the exercise [was] carried out’. The CER’s comments are politely described as a travesty. Let me repeat what I said earlier, that when I set out on the two exercises in early 2012 and 2013 I did not know in detail what I would find. The majority of the sources cited in the 241 footnotes of the two reports were ‘dug up’ in internet searches during the summer months.
of 2012 and 2013. (And I have many other things to do with my time!)

Even more misguided and inept was a comment by Janan Ganesh in a feature article in the Financial Times on 8th October last year. Mr. Ganesh asserted that Eurosceptics are ‘masters of rote learning’, but ‘never engage in cold cost-benefit analysis’. On the contrary, the UK Independence Party in particular, and I suppose Eurosceptics in general, are keen that careful and rigorous cost-benefit analyses be prepared. In November 2006 Lord Pearson of Rannoch tabled the European Union (Implications of Withdrawal) Bill which called for an official cost/benefit analysis of our EU membership. As leader of UKIP in 2009 and 2010, Pearson renewed that call in House of Lords debates. Gerard Batten, in earlier editions of the present publication, also urged the preparation of in-depth cost/benefit analysis of EU membership. And, of course, this document is an attempt at ‘cold cost/benefit analysis’.

Curiously, the Financial Times came closer to the truth about the EU and regulation in its companies section, also on 8th October 2013, in an article by Guy Chazan on ‘Sabic eyes investing in US petrochemicals’. (Sabic stands for ‘Saudi Arabian Basic Industries Corp. It is the world’s largest producers of petrochemicals, by market value.) Sabic’s chief executive contrasted production opportunities in the USA favourably compared with those in the EU. Sabic was cutting jobs and closing plants in the EU, while expanding them in the USA. To quote, ‘The Sabic chief executive called on European governments to help the continent’s chemicals industry by reducing regulation, reforming labour markets and removing restrictions on the exploitation of indigenous reserves of shale gas.’ Which part of the Financial Times of 8th October 2013 are we to believe? Mr. Ganesh on the features page or Mr. Chazan in the companies section?

Professor Tim Congdon CBE
4th September, 2014
1. The direct fiscal cost

As explained in the introduction, membership of the European Union imposes two kinds of cost on the UK. By far the most important and damaging are those which might be categorised as ‘indirect’, in that they do not involve direct payments from the UK to EU institutions. The 2012 and 2013 editions of this publication analysed them under five headings, with the costs of EU-related regulation and resource misallocation being by far the most substantial. For the current 2014 edition of the publication they are discussed more briefly in the second chapter. They remain dominant, making the UK about a tenth of national output worse-off than if it had never joined the EEC/EU.

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

Like love, the UK’s financial contribution to the EU is a ‘many-splendored thing’. Again like love, it causes squabbles. One such squabble took place in the television debates between Nigel Farage, leader of the UK Independence Party, and Nick Clegg, leader of the Liberal Democrats, in March 2014. Farage reiterated an approximate number, of ‘£55 million a day’ as the cost of EU membership, which had been in UKIP publicity material for a few years. Clegg challenged it, on the grounds that it overlooked the money that comes back to the UK. The analysis below reviews the evidence and concludes that Farage was largely right. However, it has to be said that different people can select different numbers to suit their purpose. If love is a many-splendored thing, beauty also lies in the eye of the beholder. Beholders of EU statistics can to some extent take their pick.

As it turns out, the discrepancies between the various sources are substantial for the latest calendar year, 2013. Arguably, a major tidying-up job is needed within the UK government machine so that the data become consistent, clear and easy to interpret. However, by far the most important message is that last year UK government control of its EU expenditure collapsed. The net direct cost of EU membership in the 2012/13 financial year was dramatically higher, perhaps by over £3 billion, than intended at the end of 2012. In a year of much-reported ‘austerity’ in public expenditure, this was a scandal that deserves far more media and political scrutiny than it has had so far.
The cost summarized: no single number is right

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

Anyhow we have to start somewhere. The chart opposite shows the UK’s net contribution to the EU, according to balance-of-payment data prepared by the Office of National Statistics, and published in the latest quarterly balance-of-payments press release. (In most years the official annual Pink Book of balance-of-payments data is available by now [August], but in 2014 it will be published at the end of October.) The data remain subject to revision since new details may still be found, but they give the best available official view from the information now at hand. The numbers include transactions between the UK private sector and EU institutions, although they are dominated by government payments in and out.

The chart is a shocker. Frankly, the information shown here should have generated more publicity and comment than has so far been the case, as well as causing anger and dismay. In 2011 the UK paid the EU a net figure of £9.3 billion to the EU and in 2012 £10.0 billion. If someone wanted a single number for the direct cost to the UK of its EU membership, ‘£10 billion’ (slightly under 0.7% of gross domestic product) was a good and perfectly reasonable one to choose. But in 2013 the figure jumped by 30% to about £13 billion, not far off a full 1% of GDP. As explained, this was an official statistic, about which ministers and top civil servants must have been fully aware. But the government brought no one’s attention to the big increase in the cost of EU membership to our country. On the contrary, David Cameron’s government put around stories that Britain was being robust in financial negotiations with other EU nations. In February 2013 even The Daily Express was conned into believing that supposedly ‘tough-talking’ Cameron had, for the first time, secured a meaningful reduction in the five-year EU Budget. The truth dawned
a few weeks later when it turned out that EU finance ministers had endorsed a £6.2 billion rise in spending, above previously agreed plans, in one year! That decision, which the UK did not have enough votes to stop, implied an extra £770 million on its 2013 payments to the EU. In December 2013 the five-year Budget was changed again, adding an extra £10 billion to the UK’s commitment until 2018. Still worse was to follow. In March 2014 EU Budget commissioner, Janusz Lewandowski, said that EU institutions had overspent their budget allocations by £20 billion in 2013!

Clearly, last year’s leap in payments to the EU was not foreseen by the British government. A key issue is by how much the outcome diverged from official plans. Every year since 1980 the Treasury has published a Statement on the Budget of the EU, for submission to Parliament, and a subsequent document on European Union Finances. The latest such document (Cmnd. 8740) was published in November 2013 and gave certain numbers for the UK’s net and gross contributions to the EU budget. A comparison of the numbers in Table 1.1 on page 16, with the chart above is unsettling. The table’s number for the calendar year 2013 of a net contribution of £8.6 billion is much less than the chart’s figure of almost £12.9 billion. Admittedly, the two numbers are on a somewhat different basis. The table relates to government expenditure and receipts as such, unlike the chart which is about the UK as a nation. However, sharp questions must be raised about the reliability of the figures – the figures, let it be said, from Her Majesty’s Treasury – in Cmnd. 8740. It is all too possible...
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that the 2013 figure is wrong. Part of the explanation may be that the disturbing announcements in December 2013 and March 2014, of large increases in the EU Budget to 2018 and massive overspending in 2013 itself, came after Cmd. 8740 was published.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross payments by the UK government to the EU</th>
<th>Net contributions by the UK government to the EU Budget</th>
<th>% of GDP</th>
<th>Net contributions by the UK government to the EU Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outturn</td>
<td>2007</td>
<td>12,456</td>
<td>4,601</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>12,653</td>
<td>3,294</td>
<td>0.9</td>
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<td></td>
<td>2009</td>
<td>14,129</td>
<td>4,336</td>
<td>1.0</td>
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<td></td>
<td>2010</td>
<td>15,197</td>
<td>7,382</td>
<td>1.0</td>
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<td></td>
<td>2011</td>
<td>15,357</td>
<td>8,082</td>
<td>1.0</td>
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<tr>
<td></td>
<td>2012</td>
<td>15,746</td>
<td>8,468</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>17,184</td>
<td>8,624</td>
<td>1.1</td>
</tr>
<tr>
<td>Plans</td>
<td>2013/14</td>
<td>16,653</td>
<td>8,313</td>
<td>1.0</td>
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<td></td>
<td>2014/15</td>
<td>16,687</td>
<td>7,444</td>
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<td></td>
<td>2015/16</td>
<td>16,968</td>
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<td>2016/17</td>
<td>16,979</td>
<td>8,139</td>
<td>0.9</td>
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<td>2017/18</td>
<td>17,248</td>
<td>7,962</td>
<td>0.9</td>
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Source: H M Treasury European Union Finances 2013, p. 14 and p. 17, and IMF.
IMF data have been used as the divisor in the ratio calculations.

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

**HM Treasury’s changing views on the net cost of EU membership in 2012/13**

*All figures are in £m.*

- **Gross contributions to EU Budget by the UK government**
- **EU payments back to the UK**
- **UK net contributions to EU Budget**

In little more than 15 months the Treasury estimate of the EU’s net 2013 cost jumped by almost £3 billion, or by 40%.
But that is not the end of the horror story. The £9,679 million number for the 2012/13 net cost of EU membership was described in Cmnd. 8740 as an ‘estimated outturn’; it was not a final figure. As noted above, the balance-of-payments data – with their net calendar year 2013 cost of almost £13 billion – argue that even in November 2013 the Treasury was behind events. A plausible case can be made that at least a few hundred millions and perhaps £1 billion, should be added to the Treasury’s £9,679 million number for 2012/13. The government’s net contribution to the EU Budget in 2012/13 was meant to be under £7 billion. Ultimately it could be over £10 billion, implying that the original estimate was wrong by more than £3 billion or about 50%. What is an analyst to say? At any rate, a fair assessment has to be that the annual net cost – meaning the direct fiscal cost – to the UK of its EU membership lies in the vicinity of £10 billion to £13 billion, roughly ¾% of GDP.

Assessing the gross and net cost

The White Paper table at least had one virtue, that it presented data on gross payments to the EU as well as the net contribution. The difference between the two reflected the EU’s various payments to the UK. These were and still are of two kinds, a rebate (which is returned to the UK government for its own discretionary expenditure) and expenditure in the UK under EU control. Detailed and precise numbers for the previous years (2012 and earlier) are given in the annual 2013 *Pink Book*, but at the time of writing the 2014 *Pink Book* was not available to enlighten us about 2013. However, some detective work with the latest balance-of-payments data identifies the rebate (also called ‘the Fontainebleau abatement’) right up the first quarter of 2014. In 2013 the rebate was £3.6 billion, significantly higher than in 2012 when it was £3.1 billion. What does that tell us about the UK’s gross payments to the EU in 2013?

We know that the net balance became more adverse last year, moving out from minus £10.0 billion to minus £12.9 billion. We also know that the rebate rose by about £0.5 billion. In 2012 the UK’s gross payments to EU institutions were £16.4 billion, according to the 2013 Pink Book. The implication must be that the UK’s gross payments in 2013 climbed towards £20 billion. Divided by 365, that gives a daily amount of £55 million, in line with Nigel Farage’s claim in his TV debate with Nicholas Clegg. Sure enough, £3.6 billion of the gross amount came back to the UK. But that would still leave the annual figure at £16½ billion and the daily figure at £45 million, which would be bad enough. Figure 1.1 above has forecasts for both the gross payments and the net contribution out to 2017/18, and these forecasts suggest that these
payments will not change greatly over the next few years. But the current analysis has identified enormous differences between plans and outturns in this part of public expenditure even in the latest year. Such differences do not give much reassurance about the British government’s ability to confront the EU over poor budgetary control. Further, the large increases in the EU Budget agreed in December 2013 (and mentioned earlier) came after the November 2013 publication date for Cmnd. 8740.

A clear message of the discussion is that the direct fiscal cost of EU membership has been going up. It has been rising in the last few years and surged dramatically in 2013. Broadly speaking, the cost from now on will be about ½% of GDP higher than it was before the end of the Blair premiership in 2007. Unfortunately, the future prospect is quite murky, quite a lot murkier in fact than the apparently neat-and-tidy numbers in Table 1.1. Despite the complexities, a fair summary of the facts is that the UK is a net contributor as a nation to EU institutions of between £10 billion to £13 billion a year and a gross contributor of between £18 billion and £21 billion. UK GDP in 2013 was rather more than £1,600 billion. Figures in the middle of the ranges are respectively 0.7% and about 1¼% of our national output. (The UK government pays less, but – to repeat – it is the nation that matters.) The next section will consider whether the gross or the net concept is the more indicative of the burden falling on the UK, and hence the more valid and useful in debates on this subject.¹⁰

Which figure is right? Gross or net?

Many people are confused by the wide range of different possible estimates. It would be nice if it were at least possible to say whether the UK’s gross or net contribution to EU institutions was the more meaningful. The answer depends on assessing the benefit that the UK receives from the money that is sent, to both our government and private sector, by the EU. That, of course, depends in turn on whether the money is spent well or not. One point must be reiterated and stressed. Apart from the rebate, EU expenditure in the UK is controlled by the EU bureaucracy, not the British government. According to the European Union Finances 2013 report, the UK public sector receipts are mainly from the FEAGA (‘Fonds européen agricole de garantie’), the EAFRD (‘European Agricultural Fund for Rural Development’) and the Social and Regional Development Funds. Together these amounted to about £4 billion in 2012/13, but they are expected to return to the previous level (of roughly £5 billion) in 2013/14 and 2014/15. In 2013 another £925 million was paid directly to the UK’s private sector by the EU.¹¹ In other words,
the sums of money that the EU spends ‘for the UK’s benefit in the UK itself’ are concentrated in two areas, regional aid and farming. How worthwhile are the EU expenditures in these two areas?

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

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

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

What, exactly, is ‘rural development’? No doubt the phrase has many potential meanings. ‘A cleaner and safer countryside’, ‘a sustainable environment’, ‘the preservation of traditional ways of life in the rural context’, ‘respect for the vernacular in local culture’, and so on, are good things in their way. No doubt. However, the truth is that money is being paid to tens of thousands of people for no clear benefit economically to the 63 million people who constitute the nation as a whole. So here is another example of EU spending that has a definite cost to the taxpayers of the UK, but a benefit which is limited to only a handful of people and is in fact associated with the conscious restriction of output. Again, this must mean that the true cost to the UK of its EU membership is closer to the gross figure (i.e., 1¼% of national output) than the net one.

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

The discussion so far has acknowledged numerous complications and difficulties in calculating the direct fiscal cost of EU membership. Nevertheless, it has identified two straightforward and easy-to-remember conclusions. First, the net fiscal cost is currently running at about £10 billion to £13 billion a year, not much less than ¾% of GDP. Second, the gross cost of 1% – 1¼% of GDP (which is between £16½ billion and £21 billion) is probably a better measure of the burden to the British people than the net cost. The reason that the gross cost deserves to be highlighted is the abundant evidence that so much of the money which ‘comes back to the UK’ is badly spent.
It took the then estimate of the gross UK government payments to the EU in 2013/14, which was expected to be £17.6 billion, and added in some private sector costs to arrive at a total gross cost of £20 billion. This £20 billion was divided by the number of households in the UK, thought to be 26.7 million. The result was that the cost per UK household of EU membership was, more or less, £750 a year. It was also surmised that further eastward expansion of the EU, by for example allowing Turkey to join, could push that number up towards £1,000 a year. This would be equivalent to the cost of an annual holiday for a small family, something for which many less well-off households have to make a conscious decision to save during the rest of the year. In other words, the cost to the British people of EU membership – in terms of the direct fiscal cost – is not crushing, but neither is it trivial. Two years later that assessment still looks about right, although the bill has been rising.

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

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

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

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

1. The Common Agricultural Policy was discussed and explained in chapters three (pp. 29-30) and five (pp. 44-45) in the 2013 edition of this publication.

2. To be precise, the 2013 figure was £12,910 million.

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


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

6. Matt Chorley ‘Anger as Europe demands an extra £2.5 billion from Britain to plug another black hole in the EU’s budget’, *Daily Mail*, 4th March 2014.

7. The 2014 edition of the document was not available at the time of writing.

8. The phrase is a reference to the Fontainebleau summit of June 1984 where Margaret Thatcher’s tough negotiating tactics secured the rebate from other EEC/EU member states.

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

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


2. The indirect costs

A key message of the 2012 and 2013 editions of this publication was that the indirect costs of the UK’s membership of the EU were a multiple of the direct costs. The indirect costs were analysed under five headings, with the costs of EU-related regulation and resource misallocation being by far the most substantial. Each category received fairly detailed treatment in a chapter. For the current 2014 edition of the publication they are discussed more briefly in a much shorter synoptic chapter. It must be emphasized that the indirect costs remain dominant, making the UK about a tenth of national output worse-off than if it had never joined the EEC/EU.

Table 2.1: Summary of the costs to the UK of its EU membership

<table>
<thead>
<tr>
<th>Nature of cost</th>
<th>% of GDP</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct fiscal cost</td>
<td>1¼</td>
<td>Relatively easy to quantify from official publications and balance-of-payments data; concept is of gross payments to EU institutions over which UK government has no further control.</td>
</tr>
<tr>
<td>Costs of regulation</td>
<td>6</td>
<td>Reduced employment due to ‘Social Chapter’–type legislation, cost of renewables agenda and financial regulation, businesses closed because of substance and procedure regulations.</td>
</tr>
<tr>
<td>Costs of resource misallocation</td>
<td>3¼</td>
<td>CAP long recognised to cause large resource misallocation. This may now be only ½% – 1% of GDP, but other EU protectionism estimated by Messerlin 2001, Bouet, 2002, Minford 2005 to cost at least 2½% of GDP.</td>
</tr>
<tr>
<td>Cost of lost jobs</td>
<td>3½</td>
<td>Open UK labour market from 2004 allowed in 700,000 Eastern Europeans, taking away jobs of over 100,000 UK-born people; labour market open in 2014 to Bulgaria and Romania.</td>
</tr>
<tr>
<td>Costs of waste, fraud and corruption</td>
<td>¾</td>
<td>CFP involves fish discard and effective ‘gift’ to other nations of fishing rights in UK territorial waters, but cost under 0.1% of GDP; waste under pillar 2 of CAP; waste of over-prescriptive water standards; abuse of UK student loan system</td>
</tr>
<tr>
<td>Contingent liabilities</td>
<td>¼</td>
<td>Costs of ‘health tourism’ and ‘benefits tourism’, plus some allowance for possible recapitalization of EU institutions</td>
</tr>
<tr>
<td>Total</td>
<td>11½</td>
<td>Conclusion: the UK is about 11½% of GDP worse-off because of its membership of the EU.</td>
</tr>
</tbody>
</table>

Table 2.1 above, draws on Tables 2.3 and 7.1 in the 2013 edition of *How much does the European Union cost Britain?*, and updates the figures. Chapter 1 argued that the direct fiscal cost has been rising, but the 2013
How much does the European Union cost Britain?

The ever-growing regulatory burden

The other elements in the cost calculation have been left unchanged from the 2013 edition. This is not because of a lack of material. The tentacles of the EU bureaucratic monster keep on spreading, as the ever-ballooning acquis testifies. The burden of EU interventions has become increasingly irritating and expensive, and is much resented. Numerous examples could be given. Many of them are small-scale, but the cumulative impact is substantial. New rules are being introduced to curb the power and energy consumption of domestic vacuum cleaners; households will be forced to separate their rubbish into six bins because of EU regulations on recycling; the flooding of the Somerset levels in spring 2014 has been attributed, at least in part, to the impact of EU environmental directives; and so on.1

The 2012 and 2013 editions of this publication made one unique contribution to the debate. This was the analysis of the marked disparity in labour market experience between the UK-born and foreign-born over the last decade or so. It was shown that jobs in the hands of foreign-born workers have risen dramatically since 2004. That was the year when the Blair government opened the UK labour market to workers from Eastern Europe nations, as these nations became EU member states. By contrast, the UK-born lost jobs during the Great Recession and found new work only with difficulty afterwards. (The much-publicised surge in self-employment has led to a fall in recorded unemployment, but it also demonstrates employers’ reluctance to take on staff.)

Happily, people of UK birth have found more jobs since mid-2013. Official data show that employment of the UK-born advanced by half a million between
April-June 2013 and April-June 2014, from 25.3 million to 25.8 million, or by just under 2%.3 (See the chart above.) But in the same period employment of foreign-born moved up from 4.4 million to 4.7 million, or by 7½%.4 Extra jobs for people from Eastern European countries accounted for about half of the increase in foreign-born employment. Anger about the competition for work from immigrants, including immigrants from other EU countries such as Bulgaria and Romania, remains intense and is fully justified.

Not only has EU membership done more damage in innumerable ways to Britain’s economy and society, but also extra research has been published cataloguing and analysing the various harms. Again, many illustrations could
The Fresh Start group of MPs has backed a report on the cost of the Working Time Directive to the National Health Service and cited the Royal College of Surgeons as estimating that 400,000 hours a month are being wasted; Lakshmi Mittal has written an article in the Financial Times protesting that the EU-backed drive to reduce CO₂ emissions is blocking the re-industrialization of Europe; Open Europe, the London think tank in favour of the UK remaining in the EU, has published market research showing that a majority of both Britons and Germans want more power returned to national parliaments; etc. It would have been easy enough for the author again to have written five chapters and 25,000 words on the EU’s iniquities, nuisances and follies. However, quantifying the costs and benefits would probably not have produced an answer all that different from last year. To avoid giving hostages to fortune in the debate with the EU’s supporters, the simplest approach has been to leave the 2013 estimates unchanged.

The rest of the chapter instead covers somewhat different ground. First, comment is needed on the suggestion that this publication’s cost/benefit analysis of the indirect costs of EU membership depends on an implicit but unrealistic ‘counterfactual’. (No one has disputed that the direct costs are due to EU membership and would not apply if we had stayed outside the EEC/EU.) Secondly, it is emphasized that ‘the single market’ and the acquis communautaire come to much the same thing. It is a fallacy to imagine that by renegotiating with other EU states the acquis can be ditched and access to the single market retained. Finally, crucial in substantiating the thesis being made here is that not just the UK, but the EU as a whole, should be losing ground – in terms of output and income per head – to other high-income nations. When the evidence is examined, that is exactly what is happening. Some space is therefore devoted to the relative growth performance of the EU within the high-income world.

The problem of the counterfactual

On 29th May the author attended a conference in London, organized by the events company, Continental Drift. The conference was unusual for bringing together in one room a mix of Europhiles, Eurorealists and Eurosceptics, so that sharp differences in view came out into the open. The author’s presentation borrowed heavily from the 2013 issue of this publication. The key point – that about half the true economic cost of membership was due to the EU’s regulatory burden – was criticized by Matthew Parris, another conference attendee and a columnist for The Times. He highlighted the problem of the counterfactual. To quote, ‘…what [Tim Congdon] cannot do, because nobody
can, is to give a figure for the cost of British-made regulation that might or might not replace Brussels-made regulation’, in the event that the UK left the EU. He asked, very fairly, whether an ‘unshackled’ UK parliament would want ‘rights of parental leave’, ‘control of chemical food additives’ and so on. In other words, would a UK outside the EU be free from the regulatory burden of the acquis or not? Might the UK Parliament impose a similar or heavier burden?

Parris’ critique was fundamental. In fact, it was so fundamental that the 2013 edition of How much does the European Union cost Britain? had already devoted almost a full page to its discussion. The section was introduced by an explicit acknowledgement that the costs of regulation might be overstated. This was because

the counterfactual – the situation in which the UK has left the EU – has not been adequately spelt out and explained. Specifically, as regards the cost of regulation, UK departure from the EU would not mean that the UK’s industries were totally unregulated and estimates of the cost of EU membership depend on the assumptions made about the severity of the UK’s domestic regulatory regimes if we were outside the EU. Cynics might suggest that the UK would have ferociously tight regulation, which would hurt British industry and finance even more than EU regulation.

It then proposed that, outside the EU, the UK would seek less regulation, and a renewed commitment to the free market economy, the freedom of the individual and a non-discriminatory rule of law. It buttressed this proposal, admittedly a debatable one, by saying that Britain’s ‘enduring “public philosophy”’ lay in these commitments. After all, they had been much emphasized in Sir Winston Churchill’s writings and speeches, and almost everyone agrees that Churchill was the greatest Englishman of the 20th century. In his words, ‘The essential aspects of democracy are the freedom of the individual within the framework of laws passed by Parliament, to order his life as he pleases, and the uniform enforcement of tribunals independent of the Executive.’

Was that enough? Quotes from Churchill have their force, but they are rhetoric rather than evidence. A more effective answer might be to review the main aspects of the regulatory burden, and to see whether it arises – specifically and necessarily – from the UK’s membership of the EU. Of course, if it arises specifically and necessarily from that membership, it need not apply once the UK had left. The 2013 edition of this publication identified four main elements in the regulatory burden and presented a table with an estimate of
## Table 2.2: Summary of the costs of the *acquis communautaire* to the UK economy

<table>
<thead>
<tr>
<th>Costs at present, as % of GDP</th>
<th>Tendency of costs over time</th>
<th>Eventual cost impact, as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Renewables agenda</strong></td>
<td>Capital cost being incurred now</td>
<td>1¾ - 2¼</td>
</tr>
<tr>
<td>‘Social Chapter’, etc.</td>
<td>Rising</td>
<td>?</td>
</tr>
<tr>
<td><strong>Financial regulation</strong></td>
<td>Rising rapidly</td>
<td>?</td>
</tr>
<tr>
<td><strong>Substances &amp; processes</strong></td>
<td>Rising slowly</td>
<td>?</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Rising by ½% to 1% of GDP a year</td>
<td>?</td>
</tr>
</tbody>
</table>

Their cost, which is reproduced and updated above. Each of these four deserves comment. The vital question is, ‘if the UK were outside the EU (or indeed if it had never joined), would the relevant set of regulations still exist?’

The renewables agenda comes first. There is little question that it has been designed by the European Commission, and is being implemented and enforced across the EU as the result of EU directives. In this sense the particular agenda now in place arises specifically from the UK’s membership of the EU. But would the UK have a similar or identical renewables agenda if it left the EU? The answer is, of course, that no one knows with certainty. So much would depend on the attitudes of the British electorate and the politicians they elected to take the key decisions.

However, once the UK were outside the EU the place of renewables in economic and social policy could be debated with the UK’s own priorities, rather the EU’s, given proper attention. Yes, UK policy-makers have to be mindful of the global context, but they have also to think about household electricity bills and the competitiveness of the UK’s energy-intensive industries. The two big countries closest to the UK, in terms of culture, law and so on, are Canada and Australia. Canada withdrew from the Kyoto agreement (to curb greenhouse gases, in order to tackle global warming) in December 2011, perhaps because
of its government’s concern to promote carbon-emitting tar sands production of oil and gas. More recently Australia’s prime minister, Tony Abbott, has indicated that his country may water down, or abandon altogether, the ‘renewable energy target’ that had arisen from involvement with Kyoto. The conclusion must be that, outside the EU, the UK could go down the same path as Canada and Australia. It could pursue an energy policy that minimised costs, and had the deliberate intention of putting UK interests first.

What about the ‘Social Chapter’, with all its laws on workers’ rights, holiday entitlements, pension arrangements and the like? The topic was discussed at some length in the 2013 edition of How much does the European Union cost Britain?, and the argument there should be sufficient to settle the matter. For some years the British government – namely the Conservative government under John Major – was 100% confident that the Social Chapter did not need to be adopted by the UK, even while it was an EU member state. This confidence was based on an unquestioned historical fact. At the 1992 negotiations on the Maastricht Treaty, the British government said it would veto any treaty of EU reform that included the Social Chapter. In his memoirs Major was lucid on the subject. ‘I pointed to the excellence of our record of job creation: we were creating more new employment in Britain than in all our [European] partners put together.’9 As a result, the Maastricht Treaty included a protocol which exempted the UK from the chapter’s provisions. If the UK could for some years avoid the application of the Social Charter while it was in the EU, it could undoubtedly pursue its own light-regulation, employment-friendly policies if it were outside the EU.

Financial regulation can be dealt with summarily and in the same fashion. Until the Lisbon Treaty of 2009 financial regulation in the UK was predominantly a responsibility of UK agencies, particularly the Bank of England and the Financial Services Authority. Further, when disputes arose between the UK regulatory agencies and regulated businesses, both sides would have to comply with British law.10 It is only since 2011 that the provisions of the Lisbon Treaty have been put into practice. As a result, regulatory infrastructure has left London, and instead been shared with Brussels, Frankfurt and Paris.11 So the same argument applies as with the Social Chapter. If quite recently the UK could determine a particular branch of policy within its own borders even as an EU member state, it could certainly do so when outside the EU. True enough, during and since Mervyn King’s period as its Governor, the Bank of England has become an institution actively unsympathetic to the international competitiveness of the City of London.12 However, this may be a passing phase. In the long run the UK’s legal and regulatory framework has promoted
its international financial services industries. That situation could be restored once the UK had left the EU.

What, finally, is to be said about the *acquis*’ proliferation of rules and regulations that forbid the use of certain substances and production processes? Historically, the British notion of freedom has been that people can do as they wish with their time, energies and property, as long as they obey the law. The state does not identify the right course of action for its citizens; it leaves them alone as long as they do nothing wrong. Concepts of the ideal relationship between the citizen and the state differ between other European countries, and all generalizations are risky. Nevertheless, a fair comment is that in continental European traditions the happiness of the individual is not seen as an end in itself. Individuals are instead to serve the interests of the community at large. The state may therefore prescribe certain methods, procedures, materials, and so on. The state does identify the right course of action for the citizens; it interferes with them even if they are not doing anything wrong.

The lexicon of the EU project gives the game away. EU legislation is stated in terms of ‘directives’ and ‘regulations’. So people are being directed and regulated; they are told what can or even must be done; they are not respected as autonomous and self-interested agents who are free under the law. National and local governments, and the body of citizens, are guided along certain paths that a central authority (read: the European Commission) deems desirable. It speaks volumes that continental European nations have no meaningful modern tradition of ‘common law’, of a body of law that grows by judge-made precedent without interference from a centralized agency of the state. By contrast, the common law lies at the heart of the practice of law in English-speaking nations.¹³

Would the UK have a body of home-grown rules and regulations such as the *acquis communautaire* if over the last 40 years it had been outside the EEC/EU? The simplest way of asserting ‘no’ as the answer to that question is to look at the experience of other English-speaking nations across the world, particularly nations that inherited the UK’s legal and constitutional legacy. Of course, the USA, Canada, Australia and so on do have rules and regulations, but they have nothing as interventionist, meddlesome and costly as the *acquis*. Multinational companies, with operations in every continent, now express open dismay at the complexity of the EU regulatory burden. Outside the EU the UK could tailor the regulatory framework, in all industries, to minimize costs, and to attract skills and investment.

To summarize, the UK Parliament would not have passed the legislation
embodying the *acquis* if the UK had been outside the EU since 1973. The discussion shows that, in all four areas where the EU regulatory burden is most obvious, the UK could drop the burden more or less altogether once it was outside the EU. Most of the world’s countries have laws, regulations and so on, but they nothing on the scale of the *acquis*. They do not have the EU’s renewables agenda, they do not have its employment legislation, they do not discourage certain types of transaction in the financial sector, and they do not ban harmless substances and safe processes. The Matthew Parris critique in *The Times* has been refuted. The cost of regulation identified in the 2012 and 2013 editions of this publication was correctly seen as the cost of EU membership. Yes, the problem of the counterfactual does need to be recognised. All the same, once outside the EU, the UK could cut back on a vast body of unnecessary and expensive EU regulatory intervention.

### The delusion of ‘the single market’

Over the historical long run Britain has been a champion of free trade. To their credit most Westminster politicians are today in favour of free trade between Britain and the European Union’s member states, and see this as the vital part of the larger relationship with our neighbours. But that admirable belief has made these politicians vulnerable to a trick of words and led them into a serious misunderstanding.

The phrase ‘the single market’ has been part of the lexicon of European integration since the 1980s. Indeed, the Single European Act of 1986 was marketed to the then Prime Minister (Margaret Thatcher) and her supporters on the basis that it facilitated ‘the single market’. The phrase had and retains an attractive connotation. A nation that belongs to and fulfils the conditions of the EU ‘single market’ thereby achieves free trade with other EU member states. The argument then runs that EU membership would be desirable if both the ‘single market’ could be maintained and the many acknowledged disadvantages of membership could be somehow jettisoned. The disadvantages are understood to include the burdensome *acquis communautaire* and the jurisdiction of the European courts. It is this analysis, with its distinction between ‘the single market’ and the *acquis*, which justifies the case for renegotiating our membership of the EU, as put forward – for example – by David Cameron in his Bloomberg speech. In short, the advocates of renegotiation want Britain to trade in ‘the single market’, but without being subject to the *acquis*, and hence to foreigners’ laws and foreign courts.

They must wake up. They have not been alert to the actual meaning of the
words and phrases in the European debate. (Let it be said Thatcher had the same trouble in 1986. She came later to regret being duped by Foreign Office civil servants about the true purposes of the Single European Act.) The point is that ‘the single market’ and the acquis communautaire are not two separate items on a menu that can be chosen according to taste; the single market and the acquis are one and the same dish, and must be digested together. A nation cannot remain in the EU unless it swallows the acquis whole.

Strictly, the word acquis is a noun translated as ‘that which has been acquired’. The larger significance of using this word, rather than, say, ‘law’ or ‘constitution’, is that its 170,000 pages of directives and regulations have accreted and become fixed over 60 years of European integration. (Or is it 200,000 pages? Or 225,000 pages?) They are the product of the negotiating, compromising, bickering, arguing and reconciling, agreeing and disagreeing, backscratching, lobbying and general politicking of that 60-year process. If the acquis can be re-examined and renegotiated by one nation, it would cease to be ‘that which has been acquired’. The acquis would no longer be permanent and unalterable. The meaning of EU membership would therefore be up for grabs by every member state. If so, the EU would be dead.

Unfortunately for the coalition government, and for the renegotiation camp more generally, it is the acquis that specifies the conditions that must be met by all member states if they are to participate in the single market. The rules and regulations that damage labour market efficiency and destroy jobs – such as the Working Time Directive, the Part-Time Work Directive and the Directive on Temporary Agency Work – are integral to ‘the single market’; the environmental directives (the Nitrate Directive, the Integrated Pollution and Prevention Control Directive, etc.) take effect in the UK because of the treaties that empower ‘the single market’; the 20-20-20 drive towards renewable energy (under the 2009 Renewables Directive and related instruments) owes its force to being enforceable as part of ‘the single market’. The acquis – with all its burdens and costs – is indistinguishable from ‘the single market’, where that three-word phrase means ‘the single market that is available to EU member states as a result of their membership’.

The EU’s loss of competitiveness and its economic decline

The analysis so far hints at a puzzle. Why do any nations belong to the EU? The same kind of calculations done in this study for the UK can be done for all the member states. Given the force of the analysis, in most cases the economic case for withdrawal is likely to be clear-cut. No doubt much of the explana-
tion is to be sought in institutional inertia and popular apathy in virtually all the member states, and – for Germany and the East European countries – EU membership can perhaps be justified by geopolitics and history. (‘They are “too close” to Russia’, ‘Germany must atone for its past’, etc.) But also relevant is that the cost of EU membership has been rising slowly and unobtrusively over the decades. Commentators have taken time to appreciate the damage being done. Only in the last few years have the EU’s image and reputation deteriorated significantly.

The proliferation of regulations began with the 1986 Single European Act. The Single European Act was the first major transfer of competences to EU institutions since the founding treaties, as the then president of the Commission, Jacques Delors, was fully aware. The transfer of competences, and the proliferation of regulations, received further momentum in a sequence of further treaties, notably the Maastricht Treaty of 1992, the Amsterdam Treaty of 1997 and the Nice Treaty of 2000, with the process culminating in the Lisbon Treaty of 2009. In the early 1980s, the era of so-called ‘eurosclerosis’, most key government decisions on the European continent were taken in national capitals, and the different nations had distinctive legal and regulatory structures. Today the situation has been transformed. So many competences are now in the hands of EU institutions that most top policy decisions in the ‘domestic’ area (i.e., apart from foreign policy, diplomatic and military decisions) are reached in Brussels. Meanwhile the EU purports to have in the acquis communautaire a regulatory and legal framework for virtually the entire continent, with no regard for national boundaries.

This study has identified the burden of the regulatory acquis as the biggest single cost to the UK of its EU membership. That message is clear from Tables 2.1 and 2.2 above. By implication, the drift of power to the Brussels bureaucracy since 1986 has been a disaster. If it has been a disaster for the UK, it ought also to have been a disaster for the rest of the EU. If our argument is correct, the cost of EU membership has been rising for all of the member states and not just the UK. What sort of evidence would confirm that assessment? If slower growth of productivity (i.e., output per head) were observed in the EU than in other developed countries, that would not prove beyond doubt that the entire EU suffers from a disproportionate and unnecessary regulatory burden. But the fact would be suggestive. The table below gives the relevant numbers, according to the OECD. As conjectured, the EU does have a productivity problem. Over the last decade output per worker hour has risen ½% – ¾% a year less than in the developed countries’ group. That may not sound large, but over a 80-year lifetime it would cause European living standards to fall by 40% - 50% relative to other wealthy nations.
How much does the European Union cost Britain?

Table 2.3: The EU’s weakness in productivity growth

<table>
<thead>
<tr>
<th></th>
<th>2001 – 07</th>
<th>2007 – 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area</td>
<td>1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>OECD in total</td>
<td>1.8</td>
<td>0.9</td>
</tr>
<tr>
<td>OECD, excluding Euro area</td>
<td>2.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>

A different kind of insight is given by a smaller and more specific example. The EU seized financial regulation from the UK shortly after the passage of the 2009 Lisbon Treaty. One of its earliest actions was to impose a cap on bonuses paid to top bankers, on the grounds that the bonuses were excessive and encouraged undue risk-taking. The effects on the competitiveness of Britain’s banking industry have undoubtedly been adverse. The largest bank headquartered in the UK is HSBC, although most (about 80%) of its operations are outside the EU. Because it is UK-based, it has to apply the bonus cap to all its operations around the world, a development about which it has been openly angry and hostile. Of course, one way of side-stepping the new EU regulation would be to relocate the headquarters from London to, for example, Hong Kong, where in fact the bulk of the profit is earned. As Norman Lamont, a former Chancellor of the Exchequer, remarked in an article in *The Daily Telegraph* on 26th February 2013, government interventions in pay create ‘distortions, as companies find ways of circumventing them. If implemented, the new pay restrictions would lead to an exodus of bankers and traders to Switzerland and the Far East.’

Nowadays opinion surveys routinely find that such Asian city states as Hong Kong and Singapore have a more business-friendly and light-regulation environment than EU nations. Hong Kong and Singapore also have economies more heavily reliant on international business services than the UK. When Hong Kong returned to Chinese control in 1997, its income per head – as measured by the International Monetary Fund ‘and on a so-called ‘purchasing power parity’ basis in terms of current dollars [i.e., dollars of the year in question] – was much the same as in the UK, with Singapore somewhat higher. The chart below shows that in the last 10 years both city state have moved far ahead of the UK. The hallmark of Hong Kong and Singapore as business locations is that they have adopted English law, accountancy and
professional standards, and can offer the same kind of back-up service facilities to international companies as London. But London, hampered by the EU regulatory burden, is losing ground to them as a business location.

UK should seek free trade with the EU, not ‘the single market’

For over 200 years Britain has been Europe’s foremost champion of free trade. It should remain Europe’s foremost champion of free trade, but outside the EU. Since EU accession in 1973 the majority of British people have valued the ability of their fellow citizens to trade, with some freedom and on an amicable basis, with the citizens of other EU nations. That is all we want. We do not want or need the EU’s disastrous acquis communautaire, with all the associated commissioners, bureaucrats, judges and miscellaneous foreign bossy-boots. If we want to drop the acquis, we must leave the EU. Goodbye to all that.
Once we are outside we can negotiate a free trade agreement with the EU, as have several other countries. Over 160 non-EU countries in the world buy and sell goods and services with the EU, on a sufficiently free basis under the auspices of the World Trade Organization. When we have left, we can recover our sovereignty in full, make our parliament the source of all our laws and our own Supreme Court the highest court in our land. The restoration of independence would enable us to lower taxes, to lighten the regulatory burden, and to pass employment-friendly legislation geared to the creation of more businesses and more jobs. We are more likely to travel to that promised land by first clarifying our vocabulary and then using words with care. The phrase ‘single market’ has misled Britain’s politicians for over 30 years. We do not want ‘the single market’, with its inescapable accompaniment of the loathsome *acquis communautaire*, inside the European Union; we want free trade, from outside the EU, with both our European neighbours and the world as a whole.
How much does the European Union cost Britain?

1 Open Europe Just how big is the acquis communautaire?, briefing note, 2006.
2 Bojan Pancevski and Mark Hookham ‘EU sucks the power out of your vacuum’, The Sunday Times, 3rd November 2013; Ben Spencer ‘Now you may need six bins’, The Daily Mail, 14th August 2014; Christopher Booker ‘Flooding: Somerset Levels disaster is being driven by EU policy’, The Sunday Telegraph, 8th February 2014.
3 Note that many of these would have been ‘self-employed’ rather than ‘employed’.
4 The data are available in the section on the ‘Labour market’ in the Office for National Statistics website. At the time of writing the relevant series mnemonics were JF6F and JF6G.
6 Matthew Parris ‘In or out, your Euro-nightmare begins here’, The Times, 31st May 2014.
8 See the frontispiece to the 1946 abridged edition of Friedrich Hayek The Road to Serfdom (London: George Routledge & Sons, 1946).
10 This in practice almost always meant English law rather than Scottish.
11 The subject is covered in the author’s 2014 pamphlet The City of London in Retreat for the Bruges Group, which at the time of publication is available in hard copy from timcongdon@btinternet.com.
12 On this topic, see the author’s ‘Banker bashing may lead to an exodus from the City’, Economic Affairs (London: Institute of Economic Affairs), 2010, vol. 30, issue 3, pages 93-93, and his ‘Marketplace’ columns in Standpoint magazine (London: Social Affairs Unit), March 2012 and June 2012. The UK’s exports of financial services fell from £54.8 billion in 2008 to £49.9 billion in 2013, according to official data from the Office for National Statistics.
13 This may sound remote from day-to-day business realities. But see Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer ‘The economic consequences of legal origins’, Journal of Economic Literature, 2008, vol. 46, no. 2, pp. 285 -332. The authors compared nations with common law traditions (i.e., the English-speaking nations) and civil law traditions (continental European), and suggested (p. 327) that in market-friendly conditions ‘the common law approach to social control of economic life performs better than the civil law approach’.
14 This section borrows heavily from the author’s 18th January 2013 blog, ‘Britain’s relations with the EU: how loose is loose?’, for the Politeia think tank.
16 The productivity numbers for the Euro area and the OECD in total are taken from the OECD database. The figures for the OECD excluding the Euro area are based on the assumption that the Euro area accounted for 27.9% of OECD area output.
in the period. The 27.9% ratio was derived from the IMF’s estimate on its website that the Euro area represented 29.0% of advanced country output in 2001 and 26.8% in 2012.

17 On 24th April 2014 HSBC put its global headquarters building, in Canary Wharf, London, up for sale. HSBC has denied that it intends to change the location of its fiscal and regulatory headquarters from London.

18 Norman Lamont ‘A cap on bankers’ bonuses would be lunacy’, *The Daily Telegraph*, 26th February 2013.
Does Britain win or lose economically from its membership of the European Union? And how do any benefits compare with the costs? Is there in fact a net cost to us from belonging to the so-called ‘European club’? And, if there is a net cost, how large is it and what does that mean for the UK’s membership of the EU in future?

In this study Tim Congdon, runner-up in UKIP’s 2010 leadership election, reviews the costs of EU membership to our country. These include the direct fiscal cost, the costs of regulation, the costs of resource misallocation, the cost in lost jobs, the costs of waste, fraud and corruption, and the potential costs from the possible failure of EU institutions and ‘benefits tourism’. His verdict is that the costs total 11½% of our national output. (This is 11½% of national output higher than his estimate in the 2013 edition of How Much Does the European Union Cost Britain?, reflecting the ever-increasing burden of EU Regulation.)

This study is the seventh in a series started by Gerard Batten MEP in 2006. Tim Congdon is a well-known and influential economist, who was a member of the Treasury Panel of Independent Forecasters (‘the wise men’) between 1992 and 1997, and advised the then Conservative government in a successful period for economic policy-making. Gerard – who supported Tim in his 2010 UKIP leadership bid – was first elected to the European Parliament as MEP for London in 2004 and was re-elected in 2009. He uses his position as an MEP to campaign for Britain’s unconditional withdrawal from the EU.