

BRIEFING

A SERIES OF POST-REFERENDUM BRIEFINGS

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LEAVING THE EU

It is not just about future trading arrangements

The Ashcroft Poll

According to Lord Ashcroft's poll of 12,369 voters on 24th June:

“Nearly half (49%) of Leave voters said the biggest single reason for wanting to leave the EU was ‘the principle that decisions about the UK should be taken in the UK’. One third (33%) said the main reason was that leaving ‘offered the best chance for the UK to regain control over immigration and its own borders’. Just over one in eight (13%) said remaining would mean having no choice ‘about how the EU expanded its membership or its powers in the years ahead’. Only just over one in twenty (6%) said their main reason was that ‘when it comes to trade and the economy, the UK would benefit more from being outside the EU than from being part of it’.”

Therefore the breakdown in principal reasons to leave is:

63% want a return to national self-government.

33% want the UK to regain control over immigration and borders.

6% believe the UK would benefit more in trade and economic matters from being outside the EU.

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The Basic Decision

In order to implement the main motivation of the electorate's decision to leave the European Union, and to return to national self-government, it is necessary for the UK to leave the political, judicial and monetary structure of the European Union.

EU membership and Single Market membership are two different matters. In the Market Solution, which was part of the Leave Alliance/CIB referendum campaign and was based on the Flexcit plan hosted on www.eureferendum.com, the UK would stay in the Single Market by retaining its membership of the European Economic Area (EEA) and would propose to re-join EFTA – of which it was a member until 1972 – pending further changes. This is essentially implementing the 'No' campaign proposals of 1975 in an updated way.

The UK would take up approximately the well tested and proven position of the free democracies of Norway and Iceland, which are both voluntarily part of the Single Market. Of course, the UK will remain friends with the EU countries, participating intergovernmentally in some EU activities such as university research as well as no doubt making contributions to Eastern Europe's development.

There are basic political advantages in this course of action:

- 1) Business will not be affected by Brexit. Trade, jobs and investment will carry on as before.
- 2) There is a huge job to formulate and carry forward the British government's stance on the issues contained within departure from the political, judicial and monetary structure of the European Union. These need full attention and narrowing the front of activity enables proper action to be taken on essentials.
It is worth noting that 80% of EU legislation relates to matters outside the Single Market.
- 3) Remaining in the Single Market will be attractive to lukewarm Leave voters and also with many Remain voters. It is a position around which the electorate can coalesce. It is uniting not dividing.
- 4) The proposal for the UK to remain in the EEA will be attractive to the rest of the EU and will also give the UK a negotiating advantage. It reverses the burden of responsibility for causing a breakdown in negotiations should this happen.
- 5) It has been widely reported that many Leave politicians believe they can negotiate Free Trade Agreements with countries outside the EU/EEA. There is nothing to stop this taking place, indeed EFTA countries have done precisely that.
- 6) It is perfectly reasonable to take a negative view of the UK's participation in the Single Market as an ideal trading arrangement but no debate on this has taken place. Moreover, such a view was clearly a minor factor in the referendum decision.

The purpose of this short paper is to point out that there is a danger of the government concentrating too much on ideal future trading arrangements and neglecting major areas of negotiation.

Since June 23rd

Once the result of the referendum was known there has been a great deal of discussion about future trading arrangements although this was a very minor motivation in the electorate's decision. It is reasonable to say UK business opinion is swinging heavily behind the Market solution and Flexcit. The alternative options of a specially negotiated trade deal with the EU or a break with the Single Market and reliance on trading under World Trade Organisation (WTO) arrangements have been losing ground.

However, some leading Brexit politicians are taking refuge behind the mantra of 'access to the Single Market', a meaningless phrase. You do not have to be in the Single Market to trade with the Single Market but the implication that some form of participation in the Single Market ('access') other than membership could be available is quite wrong. Some form of free trade agreement might well be negotiated but it is not 'access' to the Single Market.

In this process, there has been a very heavy input by business leaders, financial journalists and economic commentators. These people have taken control of the exit debate which has focussed on ideal future trading arrangements and migration.

But we are leaving the European Union

Future trading arrangements are certainly important, indeed critical, but leaving the European Union involves also a whole range of other financial and economic consequences and also many political changes outside the financial and economic areas.

These financial, political and economic areas have hardly had any attention with the exception of free movement which is itself a Single Market requirement, although this may be negotiated away.

Free Movement

One third of Leave voters considered the most important motivator for leaving the EU was because *"it offered the best chance for the UK to regain control over immigration and its own borders"*.

It would be politically sensible to attend to that motivation, although it is well known that approximately half of net inward migration comes from outside the EU/EEA.

It is asserted that regaining control of EU migration is impossible while remaining an EEA member.

This is incorrect.

Some points to note are as follows:

- Free movement in the EEA refers to 'workers', not all migrants, as in the EU.
- Articles 112/3 allow of right and without any permission from the EU or anybody else for any EEA/EFTA state to apply migration controls as safeguard measures.

Sometime ago I wrote a paper demonstrating that the UK had ample facts and figures to show it was in an exceptional position regarding EU migration. An update and analysis is needed.

- Such action does not allow reciprocal counter action by other parties, such as the EU.
- The Liechtenstein situation whereby this country has taken itself out of free movement by introducing quotas is worth examining in detail. The historical and legal background of this has been covered on www.eureferendum.com (Monographs 1 and 10) with an authoritative analysis by Richard North.
- Such negotiations take place in the EEA structure not with the EU. As Richard North points out, the EEA agreements are continually being amended, unlike the Treaty upheaval involved in EU changes.

In other words, migration from the EU can be restricted while remaining in the EEA.

What are we definitely leaving outside the financial and economic area and is it not time these consequences are addressed?

Business leaders and financial journalists are not particularly interested in the exit from other parts of European Union membership. Their focus has always been on trading arrangements. We now need to also consider much wider horizons. Here I only list the main non-economic consequences.

Leave involves:

- Leaving the Common Foreign and Security Policy;
- Leaving the Common Policy on Justice and Home Affairs;
- Leaving the Charter of Fundamental Rights;
- (Presumably) repatriating the existing EU acquis into UK law; setting up arrangements to discard in the future what is not wanted by the UK;
- Repatriating the Common Agricultural Policy and reforming it;
- Repatriating the Common Fisheries Policy and reforming it;
- Winding up the role of the European Commission and the European Court of Justice in UK affairs.
- Repatriating environment policy.

Up to the time of writing, there has been almost no discussion of these important matters.

There are, of course, hundreds of subsidiary matters to do with employees, pensions, existent legal rights, financial commitments and a host of other matters.

There are also huge changes in the financial/economic area apart from future trading arrangements

These include:

- Leaving the Economic and Monetary Union (Stages 1 and 2);
- Exiting from the UK shareholding in the European Central Bank;

- The timing and consequences of the UK ceasing to make contributions to the EU budget except for possible contributions to EU policies in which the UK takes part and also help for Eastern Europe. This would be set up outside the EU budget and would be time limited;
- Interacting with the EU to discuss 'aid' policy.
- The timing and consequences of the UK withdrawing from joint and several liability for EU debts;
- The timing and consequences of the UK withdrawing financial guarantees and shareholdings relating to specific EU institutions such as the European Investment Bank. (Note: the EFTA countries have no exposure to the debts of the EU or its institutions.)
- Proper consideration of the real and enormous costs of existing EU immigrants. In order to illustrate the scale of the problem, I use figures from an analysis carried out eight years ago. [\[Warning: Immigration Can Seriously Damage Your Wealth, Social Affairs Unit, 2007\]](#) In 2004 I calculated that the total stock of assets in the UK was £141,000 per worker while the capital additions supplied by a worker or his employer were £2235 per annum. Plainly this means that immigrants have to be supplied with enormous amounts of capital by natives and, therefore, the amount of capital per head of natives is reduced. (This excludes foreign remittances – a big item.)
If 2 million EU migrants have come to the UK since 2004 this means that £280 billion of capital has had to be allocated, in principle, to equip such migrants to the level of the average of the UK native. No wonder native incomes which depend on increased capitalisation are static or falling. It is not just 'public services' which are at risk but the whole capital structure of the economy.
- Immigration (unless of superior skills, capital and cultural endowment) is impoverishing for the recipient country essentially because the stock of assets does not increase in line with the increase of people. The process of wealth and capital adjustment is clearly spelt out by economists such as the National Research Council of the USA. Falls in native wages are necessary to fund the capital requirements of immigrants.
- There are savings to be made by reducing EU budget contributions, by reducing food prices after withdrawing from the EU and by ceasing to import migrants - but they have to be carefully worked out and incorporated into policy.
- Profitability of Trade Revenue. When considering future trade arrangements, it is also necessary to consider the hierarchy of profits in trade activities. Trading is not an undifferentiated item. Some trading is more profitable than other trading.

The Political Decision

When all the consequences of Brexit are considered, it is clear that there are massive negotiating tasks outside the sphere of future trading arrangements.

But the debate over future policy action on Brexit has been taken over by business leaders, financial journalists and some politicians, concentrating on this one item and

sketching out ideas on regulation dismantling and free trade agreements, which would be massive administrative tasks and have considerable political risks. It is a 43 year old edifice that has to be dismantled. Often these ideas are based on long held principles of free markets and the benefits of gross trade which are no longer seen as uncontentious. Nor are the intellectual underpinnings as universally supported in an era of disruptive trade, clear income dispersal and the arrival of ideas of value added trade

They are discussing matters far from the motivations of those who voted to Leave.

Therefore, political action is necessary to simplify the tasks and 'park' areas that do not need immediate attention.

This course of action would also be of political benefit to the government which will need to be seen reasonably soon to have taken action on the main motivation of the Leave voters – a return to national self-government.

It is necessary to 'park' some matters or the complexities of withdrawal will become overwhelming. If EFTA was a satisfactory 'park' for the 'No' campaign in 1972, it is difficult to see why EEA/EFTA is not a satisfactory 'park' now.

EEA membership can be terminated on one year's notice should a future debate on the utility of EEA membership conclude in the negative.