

Should Britain Leave the EU?

Dedicated to the memory of Sir Julian Hodge (1904–2004)

Should Britain Leave the EU?

An Economic Analysis of a Troubled
Relationship

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Preface

Europe – that is, the EEC or Common Market at first, most recently to become the European Union – has been a major issue of British political discussion since the Second World War, and since UK accession to the EEC in 1973 it has become arguably the dominant issue. For the first two decades of membership the basic assumption of most British politicians was that it was overall a good thing, even if particular elements in it (such as notoriously the Common Agricultural Policy) gave trouble. In the last decade, as the Franco-German programme for European integration has been pushed forward relentlessly, that basic assumption has come to be widely questioned. That questioning and with it the awareness of the difficulties created by membership was intensified by the debate over whether Britain should join the euro; though that debate was narrowly confined to the effects of euro membership, and for practical purposes took for granted that EU membership itself was beneficial, the arguments over the euro inevitably overlapped with wider issues – for example, those of harmonisation and budgetary discipline (especially pensions). In this book my co-authors and I have reviewed earlier work on the euro, harmonisation and budgetary issues, much of it by now familiar to informed British readers; but our main focus has been on trade, where the assumption of net benefit has been barely questioned and little serious work has taken place. That is the reason why, even though many of the worst problems for Britain in its European relationships lie in the areas of harmonisation, budgets and monetary affairs including the euro, the preponderance of material in this book is on trade. It has been startling to us to discover, as we worked on it, how little we or others have previously known or understood about this murky and complex area.

This book would not have been possible without the moral and

financial support provided by Sir Julian Hodge, who died a few months ago in his hundredth year and to whose memory it is most warmly dedicated. With his support Cardiff University, its Business School and I set up the Julian Hodge Institute of Applied Macroeconomics in 1998; one of its key objectives was to examine the economics of Britain's relationship with the rest of Europe. Earlier work within the Institute covered the euro, harmonisation and budgetary issues; this latest book extends it to include trade. I am also grateful to Jonathan Hodge, Sir Julian's son, and to Eric Hammonds, for a long time chairman of the Julian Hodge Bank, for their enthusiastic and robust personal support of the Institute's efforts.

Edward Elgar and his staff, who are publishing this book in association with the IEA, have shown their usual efficiency and goodwill in seeing this project through. Bruce Webb typeset the book in L^AT_EX to his usual high standards. He and David Meenagh at the Institute also kindly assisted us with the tables, figures and also the simulations of the Liverpool Model. My co-authors and I are grateful to them all.

Patrick Minford
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List of Abbreviations

ABARE	Australian Bureau of Agriculture and Research Economics
AD	Anti-dumping
AFTA	ASEAN Free Trade Area
ALM	Active labour market measures
AMS	Aggregate measure of support
ASEAN	Association of South East Asian Nations
AVE	Ad valorem equivalent
BOP	Balance of Payments
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Countries
CGE	Computational general equilibrium
CITAC	Consuming Industries Trade Action Coalition
CMO	Common Market Organisation
CSE	Consumer subsidy equivalent
CV	Countervailing
DEFRA	Department for the Environment, Farming and Rural Affairs
EC	European Commission
EEP	Export enhancement programme
EFTA	European Free Trade Area
EIU	Economist Intelligence Unit
EMU	European Monetary Union EU European Union
FATS	Foreign Affiliates Trade in Services
FDI	Foreign Direct Investment
FOB	Free-on-Board
FSA	Financial Services Agreement
FSAP	Financial Services Action Plan
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade

GDP	Gross domestic product
GE	General equilibrium
GMO	Genetically modified organism
GTAP	Global trade analysis project
ICT	Information and communication technologies
IMF	International Monetary Fund
M&A	Mergers and acquisitions
MPA	Multi-Fibre Agreement
MFN	Most favoured nation
MMPT	Michigan Model of World Production and Trade
NAFTA	North American Free Trade Area
NATO	North American Treaty Organisation
NIESR	National Institute of Economic and Social Research
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing power parity
PSE	Producer support estimate
QR	Quantitative restrictions
REU	Rest of the European Union
ROW	Rest of the world
SMP	Single Market Action Plan
SMPS	Single Market Programme in Services
SPS	Sanitary and phytosanitary standards
SSG	Special safeguard regime (WTO)
TMNP	Temporary movement of natural persons
TRIPS	Trade Related Aspects of International Property Rights
TRQ	Tariff-rate quota
TSE	Total support estimate
TUPE	Transfer of Undertakings (Protection of Unemployment) Regulations
UN	United Nations
USITC	United States International Trade Commission
VER	Voluntary export restraint
WTO	World Trade Organisation