

# CITY A.M.

## Britain's economic success is not reliant on EU membership

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How far has EU membership benefited the UK economy since 1973? A pro-EU colleague emailed me last week: “we’re the fifth largest economy in the world, but in the 1970s, before we joined the EU, we were the sick man of Europe – strike-bound, socialist, ungovernable, poor and getting poor.”

The not-so-subtle implication of the tone (though my colleague is too intelligent to explicitly conflate correlation with causation) is that Britain’s improved performance has been “a result of” EU membership. Yet many Brexiteers believe that Britain’s economic progress has occurred “despite” membership.

Indeed, these counterfactual histories explain a lot about the pro-Brexit and anti-Brexit tribes today, and highlight a discrepancy in the anti-Brexit argument.

Britain did see a significant relative decline in the period prior to becoming an EEC member. In the 40 years after joining, GDP per capita here grew faster, such that Britain became more prosperous than the average of Germany, France and Italy in 2013 for the first time since 1965. An increasing openness to trade and investment at an EU-level, the gradual liberalisation of markets across the EU, and restrictions on state-aid and government favouritism could all have contributed to this.

The mere fact though that one event precedes another does not tell us anything about whether the event caused the change in direction.

It doesn’t take much time to realise that there is a rather large confounding factor. During that same period, Britain underwent a paradigm shift in domestic economic policy, following Margaret Thatcher’s election in 1979.

State-owned industries were privatised. Marginal tax rates were lowered. The growth of government spending was suppressed. Product and (later) labour markets were liberalised, including the curbing of trade union power.

All of these, we’d imagine, would increase productivity. Cumulatively, they represented a significant supply-side reform package.

If it were the EU, rather than Britain's domestic policy agenda, that generated the improvement in performance, why did some EU economies that did not reform really struggle?

Some might blame the euro more recently, but it's becoming increasingly clear that the euro crisis merely exposed bad domestic policies in economies such as Greece, Portugal and Spain. The latter in particular has begun to grow robustly following significant domestic labour market reforms.

It therefore should not surprise us that those who were most optimistic about Brexit are often those who were part – or are modern-day disciples – of the Thatcher revolution. For us, while the EU has on net played a liberalising role across Europe, it is domestic policy that matters far more for success.

We do not think Britain will abandon the “good bits” of EU law, and in many areas, such as tariffs, regulatory policy and agricultural protectionism, Brexit presents opportunities to move in a more pro-market direction.

Indeed, the history we see is an EU that since the 1990s has sought to entrench more rights, regulations, environmental standards and financial regulations on Britain, preventing us from fulfilling the next stage of the economic liberal revolution.

One might disagree with this outlook. The rise of Jeremy Corbyn has been a bracing reminder that few battles in politics are final victories.

But the counterfactual historical interpretations above do highlight a major discrepancy in the Remainer arguments.

When Brexiteers bemoan the erosion of sovereignty owing to EU centralisation, Remainers are quick to point out how much consequential economic policy still remains within our own hands. Yet this does not square with their belief that we are necessarily doomed to fail economically outside.

Even if one thinks our trading conditions might be worsened as a result of leaving the Single Market, there are plenty of other supply-side levers to pull, as the 1980s showed us. This is the key reason why I believe much of the economics profession has been so misguided on the long term consequences of Brexit.

Whether Brexit is a success or failure in the long term will ultimately depend on the policies adopted through the domestic political process. Economists have no specialist knowledge on this, just as they had no idea of the neoliberal revolution that would have occurred from the late 1970s. Of course, even now economists disagree on the virtues of lots of the policies implemented in the Thatcher-Blair era. Some debates will never be settled.

Just as it is disputed whether Britain's relative success from 1973 onwards was due to EU membership or the Thatcher revolution, so Britain's future success or failure will be judged "as a result of" or "despite" Brexit.

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