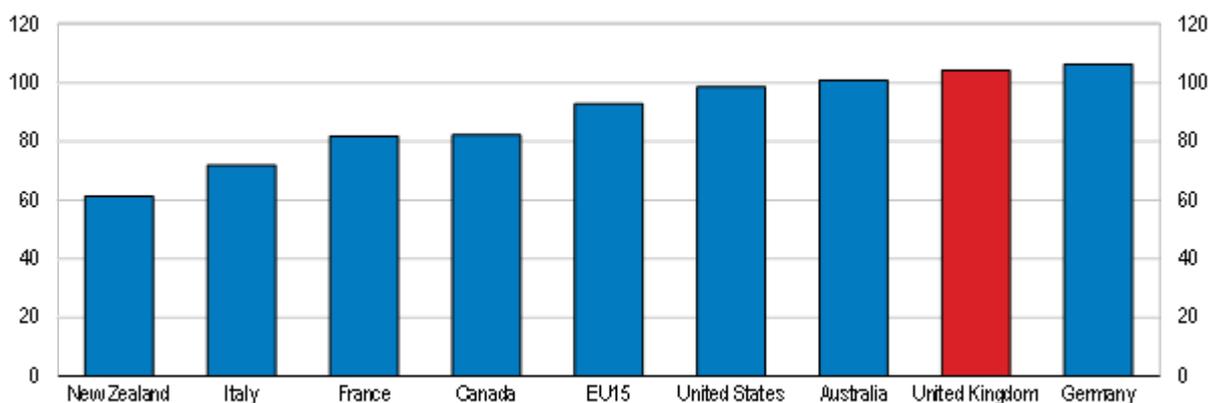


The UK's heart is wobbling but there are good reasons to Remain in the Union

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Membership of the European Union contributes to the economic prosperity of the United Kingdom. Real GDP per capita has doubled since the United Kingdom joined the European Union in 1973, to almost 40,000 pounds now. The United Kingdom has outperformed other English-speaking countries that are not EU members over time, but also most other longstanding EU members (EU15) (Figure 1). EU membership has played an important role in this, reinforcing the gains from sound domestic policy settings. Membership expands the markets available to UK businesses, enhances the wellbeing of its citizens and strengthens the influence of the United Kingdom in the global economy.

Figure 1. Since EU membership in 1973, UK living standards have risen more than in peers
Real GDP¹ per capita, percentage change between 1973 and 2015



1. In constant purchasing power parities.

Source: OECD (2016), *OECD National Accounts Statistics* (database), June.

The United Kingdom is a trading nation, with nearly 45% of its exports destined for the EU market and 3 million of its jobs associated with trade with the European Union. Development of

the EU single market has benefitted UK exporters, and there is more to come as the European Union undertakes new initiatives to reduce remaining internal barriers to services, benefitting the large UK services sector. Membership has also helped to develop UK trade relationships beyond the EU market. The United Kingdom gains from a large network of EU trade treaties with 53 non-member countries. Another 67 new free trade agreements are being negotiated, including with the United States, India and Japan. Collectively, the EU economies account for 12.5% of global trade, enhancing the bargaining power and influence of the United Kingdom, which accounts for only 2% of world trade. This ensures that new trade deals favourable for the UK economy can be struck.

EU membership has also added to the attractiveness of the United Kingdom as a location for foreign companies and investors. Access to the EU Single Market is a key consideration for many of these investors. The United Kingdom receives far more foreign direct investment than other EU member states, gaining over one-fifth of all new investments in the European Union over the past decade. These investments originate from not only from the United States and Japan, but half of them also from other EU countries. Such investment boosts UK exports and ensures strong integration with value chains in Europe and beyond, for instance in the car sector. Foreign-owned firms support jobs, with around 3.5 million people employed in foreign multinationals in the United Kingdom in 2012. They also support productivity and wages by undertaking a substantial share of research and development and other capital investments, and by introducing cutting edge managerial practices. These in turn diffuse to other UK companies.

The UK economy benefits from one of the lowest regulatory burdens in the major economies, both on businesses and labour markets, suggesting that EU membership is not a significant constraint to growth and job creation. Indeed, the UK

employment rate is now at almost 75%, a record high. Further reforms are possible of course, but the remaining obstacles are largely home grown, for instance in the post and road sectors. Greater regulatory convergence in the rest of the EU, championed by the UK, would also generate positive spillovers to the UK economy.

The survey of the British Chamber of Commerce released in May shows that businesses of all sizes continue to support EU membership, even those where the burden of regulations is often the most challenging. The Small Business Act for Europe, launched in 2008, is the EU's key policy initiative to support SMEs. The UK government has implemented the vast majority of its recommendations to reduce administrative burdens, improve access to finance and strengthen the innovative potential of small businesses. Access to bank finance has been an important constraint for UK SMEs. EU financing programmes for SMEs are channelled indirectly through different government levels and financial intermediaries. The EU also introduced legislation to shorten payment delays, a key challenge for many SMEs.

A major policy challenge facing the UK is to upgrade infrastructure to lift productivity and to make society more inclusive. The European Investment Bank, the EU bank, is helping to support this. Between 2011 and 2015, the Bank provided over 20 billion pounds of support to the UK economy, with 50% on transport, water and telecommunications, 30% on energy, and 10% on education and health. Projects it supports include one of the largest UK infrastructure investments to raise transport capacity in London, Crossrail, the development of the port of Liverpool, the construction of energy-efficient social housing in the UK, the roll-out of more than 7 million smart meters in homes across Great Britain, and the expansion of research and teaching facilities at Oxford University.

EU competition and single market policies benefit UK consumers by raising their protection and their rights. There are EU rules on passenger rights in air travel. Last year, UK

residents made over 65 million visits abroad and many benefited from EU initiatives to reduce international mobile roaming charges in Europe. Indeed, these will be eliminated from mid-2017. The EU also plans to end unjustified geo-blocking, enhancing the benefits of online commerce. The creation of the digital single market would yield further gains.

After 43 years of EU membership, the sizeable doubts that have emerged about staying in the EU suggest that the UK may be prone to a mid-life crisis. Yet there is strong evidence that EU membership has magnified the underlying strengths of the UK economy and that it can deliver more benefits in the future. Acting together, as part of the EU, makes the UK stronger than standing alone to confront global challenges, such as climate change and profit shifting.

See also: Blog: The Economic Consequences of Brexit: A Taxing Decision

References:

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