



The economic advantages of EU membership

A question comes in through the website: “Genuinely, I want to embrace the EU, but I don't trust it. I'm a capitalist, I'm proud of the UK, I'm not a socialist and I think that far too much money is wasted on the agricultural CAP in the EU. What's in it for me?”

There is lots of material available that discusses the range of benefits that Britain gets from membership of the EU. These include peace, environmental protection, and cooperation in the fight against organised crime and international terrorism, for example. This article looks specifically at the economic benefits of EU membership, including the role of the EU in world trade, and the role of the EU budget in boosting the economy.

The benefits of the single market

A central feature of the European Union is its single market. The forerunner of the EU, the European Coal and Steel Community, was explicitly a project of economic integration, and economic issues have remained at the heart of the EU ever since. The single market, which is intended to ensure that a company in one member state can trade with a company in any other member state without the interference of national borders, is now the world's largest trading area, with a population of 500 million people and a GDP of over €12 trillion. Being part of the European single market has brought great benefits to the British economy and to anyone who works, shops or trades in it.

The effect of EU membership can be seen in the trade statistics. Britain joined the then EEC in 1973, since when its trade with the other member states has grown at an annual rate of 3.3 per cent (after adjusting for inflation). Its trade with countries outside the EU has, by contrast, grown at an annual rate of only 1.3 per cent.

A recent study published by the European Commission reported the following benefits as a result:

Increased prosperity: over the last 15 years the single market has increased the EU's GDP by 2.15 per cent. In 2006 alone this meant an overall increase in GDP of €240 billion - or €518 for every EU citizen - compared to a situation without the single market. Between 300,000 and 900,000 jobs have been created thanks to the single market.

Wider choice of products and services: 73 per cent of EU citizens think the single market has contributed positively to the range of products on offer, while the establishment of common standards has led to safer and environmentally friendlier products, such as food, cars and medicines.

Lower prices: the opening up of national markets and the resultant increase in competition has driven down prices of, for example, internet access, air travel and telephone calls (the latter having been reduced on average by 40 per cent over the period 2000-2006). Delivery costs have been reduced by 15 per cent.

Less red tape: rather than adding to red tape, single market rules often replace a large number of complex and different national laws with a single framework, reducing bureaucracy for citizens, and compliance costs for businesses, who pass those savings on to consumers. It has also become easier to start or buy a business: the average cost for setting up a new company in the former EU-15 has fallen from €813 in 2002 to €554 in 2007, and the time needed to register a company administratively was reduced from 24 days in 2002 to about 12 days today. 60 million customs forms have been scrapped as they are no longer applied to cross-border trade within the single market.

It is worth a couple of paragraphs to explain how this has happened. A central objective of the EU, and in fact what turns 27 national markets into the European single market, is the abolition of tariff and non-tariff barriers. A tariff is a tax on trade, levied on goods or services that cross a border, while a non-tariff barrier is any other kind of law or rule that, in practice, makes cross-border trade harder. This can take the form of a quota, or a complex and cumbersome customs procedure, or a domestic law that has the effect of discriminating against imports. For example, the German law that required beer to be made solely of three specified ingredients – water, barley, and hops – had the effect of excluding from the German market foreign beers made with other ingredients. In effect, this was protectionism. A ruling of the European Court of Justice forced a change in the law so that consumers in Germany can have a wider choice of beers, including ones from abroad. The traditional beers are still available, of course, for those people that prefer them.

Some non-tariff barriers can still be retained where there is an overriding reason of some other kind, such as public health. A major task for the European Commission and the European Court is to distinguish between the good reasons for retaining non-tariff barriers and the bad. Industry lobby groups often try to protect their own interests by arguing in favour of retaining particular non-tariff barriers from which they benefit, but the overall trend in Europe has been to reduce and eliminate them. The result of reducing and eliminating these non-tariff barriers has been to increase trade between the different European countries, creating jobs and increasing prosperity.

It is often the case that, while also serving as non-tariff barriers, national rules also perform a valuable function, for example protecting health and safety or consumer rights. The answer in these cases is to replace the myriad sets of national rules with a single set of European rules instead. That way, the EU can get the benefits that the national rules provided – consumers remain protected, for example – but without the obstructions to trade that non-tariff barriers might provide.

In fact, because the EU is the world's largest economic block and the world's largest trader, the rules that the EU adopts for its own single market tend to be copied by other countries around the world. Partly this is because companies that wish to export into the EU market have to conform to EU rules for their export production; and partly this is because other countries, when drawing up rules of their own, often choose to copy EU standards because they are already the most widely used and so are likely to pose the fewest difficulties in being

adopted. To be a member of the EU, therefore, gives a country influence over the setting of commercial rules that it would, in any case, be likely to follow even if not in the EU.

The role of the EU budget

Discussion of the EU budget often centres on the EU's expenditure on the Common Agricultural Policy. However, the latest figures on the budget show this to be a declining aspect of EU activity and expenditure.

Every recent reform of the EU budget has reduced the proportion of the EU's expenditure that is spent on agriculture, and in 2008, CAP spending fell to only 37% of the total. 25 years ago, that proportion was 70%. One might say that it is still too high, perhaps, but it is clearly incorrect to treat the EU as though it were the eurosceptic caricature of greedy farmers, idle bureaucrats and corrupt politicians.

Furthermore, in the same year, EU spending on measures linked directly to jobs, growth and competitiveness rose to a record 40% of the budget, or €46.6 billion, including a 9% increase in spending on research. Note that this is more than is spent on agriculture.

The EU budget increasingly reflects the priorities of an organisation determined to boost its competitiveness and productivity in the modern economy, rather than the agriculture-dominated priorities of the past. If you think that competitiveness and growth should be the priorities in the future, then you can be confident that the EU is representing your interests properly.

Conclusion

Even eurosceptic free market economists agree that a single market of 500 million consumers is likely to offer lower prices, more choice, and more prosperity than a single market of only 60 million. The European single market has simplified rules and cut red tape, to the benefit of companies, employees and consumers alike.

Furthermore, the EU's commercial agenda is increasingly matched by its budgetary priorities. It is moving towards the agenda of competitiveness and growth, and away from the agenda of agricultural protection. This means that more than ever the EU is echoing the economic priorities that most people in Britain wish to see. It is a pity if a lack of information about Europe means that they do not know this, for Europe is where their prosperity lies.

RACL
18.11.09