IN OR OUT?

The EU Referendum - a special report

Introduction

Depending on when you read this article, there's a month – or less – to go until the UK votes in the EU Referendum. The exact question, proposed by the Electoral Commission and accepted by the Government in September 2015, will be:

Should the UK remain a member of the European Union or leave the European Union?

As we all know from the newspapers headlines, the two camps – Remain and Leave – have been fiercely debating it ever since. The tone of that debate has become increasingly divisive, increasingly hostile and – in our view – not always terribly well informed.

So, in this report, we've tried to take a step back from the rhetoric and the "sound and fury" and present the arguments on both sides as dispassionately as possible. Please don't take this article as indicating support for either side in the debate: in the 2,000 words that follow we're seeking to inform, not to persuade.

The History

In May 1950, the French foreign minister, Robert Schuman, proposed the setting up of the European Coal and Steel Community as a way to prevent further war between France and Germany. His declared aim was to make war "not only unthinkable but materially impossible." The ECSC was formally established in 1951, with the Treaty of Paris signed by France, Germany, Italy, Belgium, the Netherlands and Luxembourg.

By 1973, the ECSC had become the European Economic Community or, as it was more popularly known, the Common Market. The UK, under the leadership of Edward Heath, joined the EEC in 1973 along with Ireland and Denmark. A referendum on our continued membership was held in June 1975, with the 'Yes' campaign winning by roughly two votes to one.

Over the 41 years since then, the European Union – as it now is – has steadily expanded to 28 countries with Croatia the most recent member, joining in July 2013.

The 2016 Referendum and the Personalities

David Cameron made a referendum on our continued membership of the EU a central part of the Conservative party's 2015 election manifesto. He duly began a series of meetings with other European heads of state, aimed at re-negotiating the terms of our membership of the EU. Finally – in the middle of February – Cameron secured a deal: he claimed victory in his negotiations with Europe, fired the starting gun for the referendum campaign and pledged to fight "with all my heart and soul" to keep Britain in the EU.

Our increasingly partisan media weren't slow to take sides…

Cameron's deal not worth the paper it's printed on

No. 10 claims MEPs backing for Europe deal

Why Cameron got it so wrong on renegotiation

Europe: a great deal for Britain says PM

…and the politicians quickly did the same. The Prime Minister's chief ally is his Chancellor, with George Osborne well aware that his chances of succeeding Cameron hinge on a victory for the status quo. The two chief 'defectors' to the Leave camp have been Michael Gove and the de-facto leader of the campaign, Boris Johnson (equally aware that *his* chances of succeeding Cameron hinge on a defeat for the status quo.)

The battle has raged across the media – but as we said above, sometimes with very little substance. So let's take a more considered look at the main economic issues…

The Economic Factors

Britain's contribution to the EU

This has been the subject of so much debate, giving rise to the 'EU costs £350m a week' headlines. Last year, Britain paid the EU £13bn, but it also received £4.5bn of spending, making the net contribution £8.5bn. That's a lot of money but to put it in perspective, it's around 7% of what the Government spends on the NHS in a year.

What's much harder to determine is whether the economic benefits of EU membership – such as free trade and inward investment – outweigh these upfront costs. Even the House of Commons library admits, "There is no definitive study of the economic impact of the UK's EU membership or the costs and benefits of withdrawal."

Trade

The European Union is what's known as a single market so no tariffs are imposed on imports and exports between member states. Around 50% of UK exports – possibly slightly more, depending on whose stats you believe – go to the EU, and being a member clearly allows the UK to have an input as trading rules are drawn up.

The UK also benefits from the EU's trade deals with other trading blocs. The EU is currently negotiating with the US to create the world's biggest free trade area, something which, according to the BBC, "would be hugely beneficial to British business."

Critics would point out that 'currently negotiating' are the key words there: trade deals take a notoriously long time to negotiate. Should Britain leave the EU, it would be free to negotiate its own trade deals – for example with countries like China and India – but again, that wouldn't happen instantly.

The Example of Norway

Much debate has centred on Norway's relationship with the EU, with many Brexit supporters suggesting Britain could follow Norway's lead. It has access to the free market, but is not bound by European laws in areas such as agriculture, justice and home affairs. They also point out that the Human Development Index (which ranks countries for life expectancy, education and standard of living) has Norway as the best country in the world to live – compared to the UK at 14th on the list.

The counter-argument is that an 'amicable divorce' from the EU may not be possible. "If Britain were to join the Norwegian club," argued the *Economist*, "it would remain bound by virtually all EU regulations, including the working time directive."

The Numbers

A point frequently made by Eurosceptics is that the vast majority of small and medium sized businesses don't trade with the EU but are still held back by the rules, regulations and red tape imposed by Brussels. So what would be the effect of leaving the EU on our Gross Domestic Product?

A study by the think tank Open Europe (which wants to see the EU radically reformed) found that the worst-case Leave scenario is that the UK loses 2.2% of total GDP by 2030 (the recession of 2008/9 reduced UK GDP by about 6%.) In comparison, the best case would see GDP rise by 1.6% if the UK were able to negotiate a free trade deal with Europe and pursued 'very ambitious' deregulation.

The $64,000 question – or €64,000 question – is whether other EU member states would offer the UK such generous terms if we chose to leave. Pro-Brexit campaigners argue that trade is actually not between countries, but between companies within those countries. Supporters of Remain argue that there would be an element of 'punishing' the UK for breaking up the European club: France, for example, has already muttered darkly of 'consequences.'

Investment

Inward investment is likely to slow down in the run up to the EU referendum (as happened in Scotland prior to the vote on independence) and there's plenty of anecdotal evidence around the country that this is the case.

In the longer term, there are different views – as you'd expect. Pro-Europeans argue that the UK's status as one of the world's biggest financial centres would be diminished if we voted to leave, and many banking jobs would be relocated to Paris and Frankfurt (cynics might argue that a large swathe of bankers leaving the country isn't a bad idea!). Tax revenues could possibly drop as many companies move their headquarters abroad.

Those supporting the Leave campaign argue that Britain could re-invent itself as 'the Singapore of Europe.' They also point to Barclays' 'worst-case' scenario, where the UK's departure triggers a collapse of the European project: in that case they argue that the UK would become a 'safe haven,' attracting inward investment, boosting the pound and reducing the risk that Scotland would depart the safety of the union for the suddenly-risky EU.

What about car-making in the UK? Would that be scaled back or even ended if UK vehicles could no longer be exported tax-free to Europe? BMW has already reminded UK employees (who make the Mini and Rolls-Royce) of the 'significant benefits' of EU membership.

The Effect on Jobs

The effect on jobs if the UK were to leave the EU is one of the most difficult subjects to quantify in the whole debate: it will be determined by a complex interaction of factors including trade, investment, immigration and the general state of the world economy.

Those supporting Remain argue that 'up to 3 million' jobs could be lost if we leave the EU. The organisation Full Fact – which aims to be impartial – says that around 3 million jobs *are* linked to trade with the EU, but they are not necessarily dependent on the UK being a member of the EU. Clearly, if trade and investment fell following an exit from the EU then jobs would be lost: but if trade and investment rose, jobs would be created. And that brings us back to immigration: if it fell post-EU exit then there would be more jobs (and presumably higher wages) for those that remained.

Would a vote to leave reduce the pool of employment? Writing for the London School of Economics, Professor Adrian Favell says limiting freedom of movement would deter 'the brightest and best' from coming to Britain – as well as restricting job opportunities for Britons looking to work elsewhere in Europe.

Supposing we did vote to leave the EU?

It would be complicated – 'the most complicated divorce in history' as it has been dubbed. No nation state has ever left the EU, but Greenland – one of Denmark's overseas territories – held a referendum in 1982 and voted by 52% to 48% to leave – which it duly did after a period of negotiation.

Britain's exit, however, would be far more complex. Vote Leave say that 'we should negotiate a new UK-EU deal based on free trade and friendly co-operation.' But as we've seen above, negotiating trade deals takes a lot of time and 'friendly co-operation' can't be taken for granted. We wouldn't negotiate a new deal with the EU overnight – or with China or India.

Article 50 of the EU constitution lays down a two year negotiation period with the other 27 member states if a nation opts to leave the EU. If full agreement on the terms of leaving haven't been reached within two years then the period can be extended – but only with the unanimous agreement of the other member states. If that's not forthcoming then the UK could – in theory – be unceremoniously thrown out of 'the club'.

Some Brexit supporters have argued that in the event of a Leave vote then we could start informal discussions with Europe – without formally invoking Article 50 and the two year period. In truth, with no nation having left the EU, we simply don't know if this is possible or not: our Prime Minister seems to think it isn't.

So what does all this mean for my Pensions, Savings and Investments?

As we've written many times, the only thing stock markets (and hence your investments) value above all things is certainty. There's no doubt at all that a victory for Leave would create short term uncertainty.

This fear of uncertainty was echoed recently by former New York mayor Michael Bloomberg. Writing in the *Times* – and claiming to echo the views of many multinationals – Bloomberg said:

I have carefully evaluated the question of Brexit and concluded the risks involved are troubling. In my conversations with CEOs of banks and other industry leaders, they see Brexit as a serious complication that could see some jobs shift to the continent over time.

If Leave win then, the stock market will almost certainly be down the next day. Sterling is likely to fall against other major currencies. How long this would last is anyone's guess – and there are plenty of instances in the past where the predicted 'doom and gloom' has not materialised.

Conversely, a win for Remain will almost certainly see a short term rise for both the stock market and sterling. Remember though, that any such rise is likely to be factored in to the stock market by the time of the vote: presumably, we'll see the opinion polls giving a clearer indication of the likely result by that time.

Longer term, the short answer is that we simply don't know. Even if we stay in the EU then, as George Osborne so frequently reminds us, the UK is vulnerable to what goes on in the rest of the world. A Leave vote might usher in an era of low investment, lost jobs and falling trade – with the inevitable result for the stock market. Conversely, it might see the UK follow the path of Norway or Singapore, becoming a magnet for inward investment, jobs and trade as Europe fragments under the strain of increasing immigration and the consequent rise of nationalism.

Conclusions

It would be hugely tempting to produce a list of questions on the EU referendum and a facile answer: mostly A's and you should vote Remain: mostly B's and you vote to Leave. But as we've seen above, the debate is complicated, with so much resting on an unknown – the state of the UK economy if it were to leave the EU.

It's very difficult to make a convincing, watertight economic case either way. Ultimately, many people will make up their minds based on one single factor – be that jobs, trade, sovereignty, immigration, Britain's place in the world or simple optimism.

Many of those areas of the debate don't fall within the remit of this Report. Rightly though, they will weigh heavily in many people's eventual decision. Given the difficulty of making a clear economic case, such areas may well turn out to have been the defining factors when the votes are counted.

What's undeniable is that the EU Referendum vote will have far reaching consequences whichever way it goes – and not just for pensions, savings and investments. Rest assured that we will, as always, keep you up to date on all relevant developments and their possible consequences. It goes without saying that if you have any questions at any time, or on what we've written above, then please don't hesitate to get in touch with us.