

## To save us all time and money, we should walk away from the EU now

[PATRICK MINFORD](#)

4 AUGUST 2016 • 7:12PM

In the referendum debate, Remain claimed that not only would [the economy go into recession if voters foolishly chose to Leave](#), but also that even economic activity in the second quarter of the year would be hit by polls showing a good chance of Brexit. Today, now that the second quarter has in fact shown a 50 per cent rise in growth on the first quarter, this latter prediction is conveniently forgotten by the doom-mongers.

So far, the second quarter is the only hard data we have on “Brexit uncertainty effects”. We will not have any hard data on the third post-Brexit quarter until the autumn. All we have are surveys which so far suggest that actual output and orders remain on their previous track, but that “confidence” has taken a hit. Experience with past surveys when the media are full of gloom and doom is that there is a disconnect between “confidence” about the general economy and what people do in reaction to their own circumstances. And Project Fear went far beyond the usual gloom and doom.

The reality is that the situation of ordinary households today has never been better: real disposable incomes are rising at more than 3 per cent and employment levels are at a record. Credit is easily available; and the Bank of England yesterday made that easier still. The pound has dropped around 15 per cent, as it usually does when the UK hits a bump in the road, and this represents a far bigger monetary stimulus than [the Bank’s 0.25 per cent cut in interest rates](#).

There should be no need for Philip Hammond to deviate from fiscal prudence in the autumn. If he can afford cuts in tax such as corporation tax, good. However, he should avoid any whiff of Keynesian panic.

The British economy will certainly survive any short-term bumpiness; most forecasts have become more optimistic already. The real focus of debate should be on where Theresa May’s government is taking our trade and other economic policies in the long term. She and her ministers have made some good noises about free trade and pro-business regulation, admittedly larded with some talk about less attractive intervention in corporate affairs. The fact that the Prime Minister yesterday met small business leaders to discuss Brexit opportunities highlights the key fact that smaller firms are currently less able to carry the heavy costs of social regulation so favoured by the EU Single Market. For these small businesses, a UK-run regulative system is much to be desired. Large businesses can lobby and have the staff resources to cope with endless “compliance”. But in Britain more than half of our employment is in small businesses; this too is the most dynamic and innovative part of our economy.

At the heart of the matter is our future trade framework; on it depends how far the UK can pursue the road of self-government – the control of laws and borders demanded by the Brexit majority. It is good to see Liam Fox getting off to a strong start negotiating draft free trade agreements, FTAs, with countries around the world. These countries will then lower their tariffs and trade barriers against us, and we ours against them.

Contrary to what is generally thought, however, the gain that we get from this does not come from their lowering their barriers against us. No, the gain we get from these FTAs is that we lift our tariffs and other trade barriers on them; this means that our consumers pay less and so enjoy a rise in their standard of living.

Once these high-visibility trade agreements are signed we should make sure that we trade freely with all the rest of the world, however we can arrange it. Our ultimate aim should be to achieve unilateral free trade with all countries of the world. As this implies, we could actually short circuit all these FTAs and simply go at once to unilateral free trade, as has been done by countries such as New Zealand and Singapore; even China has unilaterally brought down its tariffs to aid its development.

It is this that lies at the heart of our EU trade relationship. The EU single market is highly protectionist, which of course is why there has been so much fuss about being outside it. This protectionism raises the prices of both food and manufactures by around 20 per cent to UK consumers, implying an 8 per cent rise in their overall cost of living. While this is nice for farmers and manufacturing firms, who make higher profits, the losses of consumers are far greater. When we leave the EU, protected prices will be replaced by world prices. This generates healthy competition which pushes up productivity, forcing firms to go “up the value chain” towards more hi-tech methods. We can also help our manufacturers enter the EU single market at zero cost by refunding them EU tariffs, which average some 2 per cent and cost some £2 billion.

The gain in GDP and living standards according to my standard world trade model is about 4 per cent; on top of that there are the gains from replacing EU regulation with our own and from regaining control of mass unskilled immigration, which is costly to the economy and politically toxic.

As for the City, it too will gain greatly from having its regulations made in free-market London instead of a Brussels hostile to “Anglo-Saxon finance”. The City fears EU protectionism but it need not worry. Suppose Brussels withdraws “passporting” and the ECB declares that euro-bonds must be cleared in Frankfurt – the result will be that, just as with an FTA, the City will sell less in the EU and more elsewhere.

The implication of all this is that the main remaining task of Brexit policy is for the Ministry of Brexit under David Davis to withdraw us from the single market and take us to unilateral free trade, to reap these huge gains from eliminating EU protectionism and regulation. Mr Davis would like to sign some broader FTA with the EU; I would like to wish him luck but the bald truth is that, as David Cameron found out, the EU has virtually no flexibility when each of 27 countries wields a veto. Mr Davis, and ultimately Theresa May, should save us all time and policy delays by simply walking away from the EU, lock, stock and barrel.

*Patrick Minford was an economic adviser to Margaret Thatcher and is now Professor of Applied Economics at Cardiff University*

