# Exactly why is big business so in favour of the EU?

- ROGER BOOTLE

For many of the key magnitudes that should feature in any assessment of the likely gains and losses from Brexit, it is impossible to come up with hard and fast numbers. Accordingly, it will be extremely difficult for the ordinary voter to make up their mind. In these circumstances, influential specialists may have a major impact on debate.

Although business as a whole is divided, it seems as though a majority of the leaders of big business are inclined towards the “Remain” camp, and many are prepared to say so publicly. This might well persuade a few waiverers that the economic case does indeed stack up in favour of staying in. But they should beware. There is a key reason why the verdict of big business is likely to be misleading.

Let’s say the economic costs and benefits of Brexit exactly balance out to zero. Nevertheless, there would still be winners and losers. It is important to understand who these would be.

The prime factors responsible for different entities’ gains or losses from Brexit are: exposure to the possibility of having to pay the common external tariff on exports to the EU; not having to pay the tariff on imports from the rest of the world; the ability to buy food at world prices rather than Common Agricultural Policy prices; exposure to whatever the Government does with the £10bn or so that it would not have to pay to the European budget; and the ability to benefit from the relaxation of EU regulations.

Companies that might lose from Brexit would be primarily those that export heavily into the European Union, do not import that much from the rest of the world and do not do that much business in the UK. To continue to sell into the European single market, they would have to comply with European regulations, even if those regulations were rescinded by the UK.

The gainers from Brexit would be consumers – with lower tariff-free and CAP-free prices for food and other goods – and a whole raft of businesses that don’t do any exporting to the EU, most likely small and medium-sized enterprises. Neither of these groups will figure in the deliberations of big business leaders.

Former M&S boss Lord Stuart Rose heads the Remain campaign CREDIT: DAVID ROSE

There is another element to this apparent opposition between business and consumer interests, which surfaced last week. Lord Rose, leader of the “Remain” Campaign, conceded under questioning in the House of Commons Treasury Committee, that if we were to leave the EU and effectively to tighten immigration controls, the fact that the labour force would thereby be smaller would tend to raise real wages. Again, businesses could readily see themselves as losing from the increase in wage costs brought about by reduced immigration, while most ordinary workers’ interests would be exactly the opposite.

In the short term at least, leaders of big businesses may be correct that their firms will be better off if Britain stays. But they cannot justifiably speak on the overall balance of economic gains and losses, including the effects on non-exporting businesses, consumers and the public sector. They are not qualified to do so. They have no special insight into the economy overall. The things they see so clearly for their own businesses are just a fraction of the total issue, and an unrepresentative fraction at that.

On the overall economic effect, one aspect that has surfaced recently – and caused some alarm – is the notion that Britain could suffer major economic loss as a result of a sharp fall of the pound. It has already fallen, on average, by about 8pc. The drop may well go much further.

Yet, far from being a problem, the weakness of the pound is a blessing – and not even in disguise. Britain has been running a current account deficit of about 5pc of GDP, pretty much a peacetime record. This is both undesirable and unsustainable. It is reducing our growth rate, hobbling our manufacturers, inhibiting investment and eroding our wealth

This deficit has occurred for several reasons, some deep-seated and some more recent and more malleable. But the outstanding feature of the past few years is the way in which, having fallen dramatically in 2008-09, the pound subsequently rose strongly, taking it back almost to where it had been before the financial crisis.

No one in Government or the Bank of England chose this. It just happened. Evidently, the world’s wealth holders have found British assets attractive, partly because they view the UK as some sort of safe haven. If you like, one of the things that the UK has been producing and providing for the world is security. But we have been charging hardly anything for this product. More than that, its production has inhibited the sale of more normal goods and services.

Bigger falls in the pound would bring bigger gains

The pound’s recent fall has helped to put this into reverse and to encourage exports and import substitutes. Imagine all those exporters worried about the potential impact of 5pc European tariffs being imposed on their exports to the EU. Exporters’ average price gains as a result of the pound’s fall already extend to about 8pc. Bigger falls in the pound would bring bigger gains. Here’s hoping!

Moreover, the pound’s weakness could hardly come at a better time. There is next to no inflation, so any plausible rise in the general price level brought about by Brexit worries should hold no terrors for the Bank of England.

The really important policy question for the authorities to ponder, while there is still time, is not whether or how to stop the pound from falling, but rather how on earth to keep it at its new lower, more competitive, level – whichever way the country votes in June.

*Roger Bootle is executive chairman of Capital Economics*

*roger.bootle@capitaleconomics.com*