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Outside the EU, Britain may be small but more perfectly formed



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Switzerland, one of few countries like Britain to have avoided dictators or invasion, welcomes Britain as a potential trade partner but is wary of the competition this country will give outside the EU CREDIT: ALAMY

Now that the process of leaving the EU has formally begun, I have been musing on the links between government and economic performance and the implications for the future of the EU and the UK. We have decided to leave the EU primarily for

reasons of governance, that is to say, the desire to “take back control”. Nevertheless, this can potentially have decided economic effects.

Most Brexiteers do not believe they will be negative. On the contrary. Yet it seems that many European politicians and officials confidently believe that the UK has acted profoundly against its economic self-interest. Sometimes, they even seem to believe that, isolated and impoverished, the UK will barely manage to stay afloat at all. So they see Brexit as a futile but costly political gesture.

Our Remoaner MPs seem to believe something similar. It is amusing, although also troubling, to hear many of them on the Left, who have spent a lifetime trying to make things more difficult for British business, and whose closest brush with the harsh realities of finance is filling in their own expense forms, bewailing Britain’s fate if we don’t have “full access” to the single market – whatever they think that means.

But why are both domestic Remoaners and continental opponents of Brexit so pessimistic about our prospects? I think the answer is largely to do with their conception of the government/economy nexus. Many seem genuinely to believe that prosperity flows from the fountain pens of the politicians, officials and diplomats who make laws and sign agreements.

They fear that without a favourable deal with the EU, and finding it difficult, without the EU’s clout, to sign trade agreements with other countries, the UK will see its trade shrivel.

They believe this despite the fact that an enormous amount of trade takes place between countries that do not have trade agreements. Indeed, we don’t have one with our largest single export market, namely the US.

The doomsters also apparently put a substantial premium on size. Although the UK is still the world’s fifth or sixth-largest economy, compared to the EU, it is a relatively small economic entity. Once we have left the safety of the mothership, they fear that we will be all at sea in a hostile world.

Yet, as I have pointed out before, there are umpteen examples of small countries that have done exceptionally well. And I have an idea why. When a country is comparatively small it simply cannot afford gross mistakes of governance. Competitive forces push it to run public policy in an efficient manner conducive to the country’s prosperity. (Admittedly, though, sometimes small countries end up like North Korea. After all, North Korea has.)

The flipside to this is that large countries can actually afford to conduct their economic governance badly. And they often do.

This, I think, is the story of the EU. It has been falling in relative importance in the world for a long time. But until recently at least, there were few signs of crisis. The fact that just about all European countries were heading in the same direction – that is to say, the wrong direction – on regulation, tax, the size of the social security budget and much more, meant that for any individual EU member country, even as it slid down the global rankings, in relation to its near neighbours, the consequences of bad decisions would be almost zero.

Governments cannot create prosperity. But they can create the conditions for it. And they most assuredly can squash it. Unless Brexit and the other challenges that it

faces propel the EU to radical reform, history suggests that it will continue to be badly governed and therefore to make decisions inimical to its economic success. By contrast, although it is possible that the UK will make a mess of Brexit, this does not look likely. Precisely because we will be small(ish) and on our own we will feel under pressure to compete.

We can debate how far this move will go, but surely Brexit will result in less intrusive regulation across a broad swathe of activity. Similarly, tax policy will probably be geared towards making the UK attractive. Indeed, only last week, Ueli Maurer, the Swiss finance minister, while welcoming Britain as a potential partner outside the EU, suggested that Switzerland needed to beware of British competition. So at least someone gets the message.



Last week, Swiss finance minister Ueli Maurer suggested that Switzerland needed to beware of British competition CREDIT: AP

While it has been common for British politicians on the Left to over-estimate the positive contribution that governments and membership of a large political entity can make to economic growth, they have tended to under-estimate Britain's unique attributes in relation to successful democratic government. Given the EU's fundamentally undemocratic nature, and given our own remarkable national story, it never ceases to amaze me how readily so many people accepted the transfer of sovereignty to Brussels and the emasculation of our precious legal system. I sometimes fear that Britishness has been wasted on the British.

Over the last 80 years, there have been only six countries in the whole of Europe that have escaped invasion or government by dictatorship – Switzerland, Sweden, Ireland, Malta, Cyprus and the UK. It is striking that the first three of these countries were neutral during the war while the fourth and fifth were part of the British empire. They weren't under dictatorship but neither were they normal democracies.

This history of recent political and national trauma explains why many European countries have been unperturbed by the cession of so much sovereignty to Brussels. Their own political cultures are riddled with the consequences of their troubled past. We stand out as not suffering from this problem.

As we are about to recover our independence, we now have the opportunity both to breathe new life into our own democracy and, through better governance, to improve the performance of our economy. I don't see much sign of either of these things developing across the Channel.

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