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Economists for Rational Economic Policies

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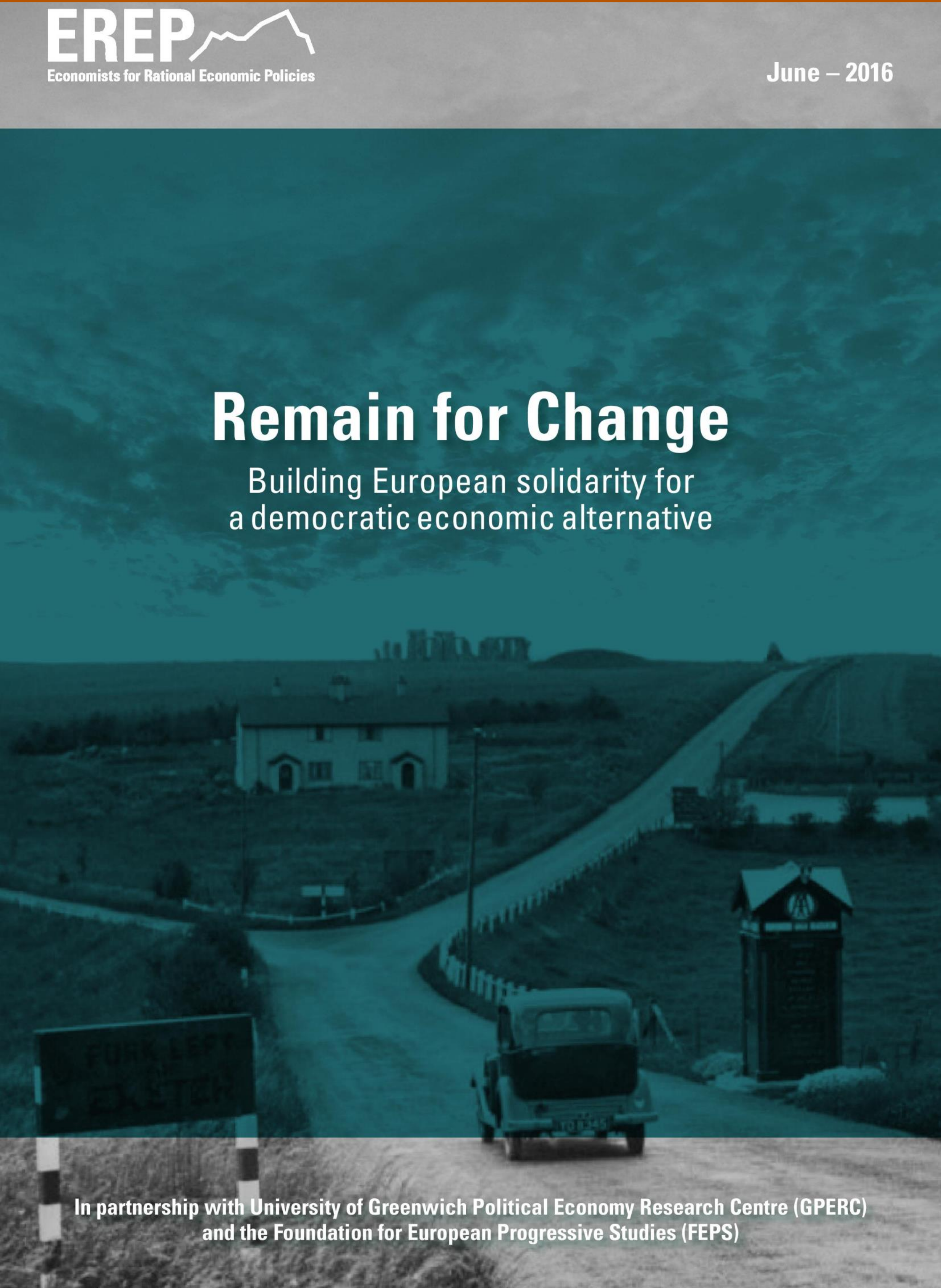

Remain for Change

Building European solidarity for a democratic economic alternative

In partnership with University of Greenwich Political Economy Research Centre (GPERC) and the Foundation for European Progressive Studies (FEPS)

Remain for Change:

Building European solidarity for a democratic economic alternative

By Economists for Rational Economic Policies

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Foreword

The economic arguments over the UK's EU Referendum have generally followed the Conservative government's own philosophical lines of deregulation and freedom for globalised finance, in which the only true imperatives are the removal of all barriers to trade and capital flows, and the weakening of social and employment protection. This has been the main thrust of the economic arguments put forward by the Conservative "Remain" campaign, in particular the Treasury's two reports on the long-term and immediate impacts of Brexit

Since much of the leadership of the "Leave" campaign shares the same economic philosophy, but wishes to deregulate still further (save on the issue of immigration), the choice often resembles that between tweedledum and tweedledee. In consequence, many who believe in a more managed economy which looks after the interests of working people and offers decent social protection, and who instinctively consider themselves to be European and internationalist, have felt excluded from the debate.

And alas, the European Union itself has in recent years adopted disastrous economic policies, in particular in relation to the single currency and Eurozone, which have severely damaged working people across much of the continent. Unemployment in the Eurozone has been above 10% since mid-2009, save for one solitary month. Worse, these policies are legally embedded in the EU's Treaties, making democratic choice for change extremely difficult.

So the natural supporters of the European Union from a politically progressive perspective find themselves faced with a difficult dilemma, notably in relation to economic policy.

Economists for Rational Economic Policies (EREP) has therefore put together this series of articles which, in different ways and from differing perspectives, unite in arguing that for the UK to vote to leave the EU would be a serious mistake – both in economic and political terms. It would tend strengthen right-wing forces both in the UK and across Europe, and weaken the rights of working people. It risks a fragmentation of Europe along nationalist grounds which could even ultimately threaten the peaceful cooperation we have enjoyed across most of our continent for 70 years.

We need a strong EU for the future on a wide range of issues – not least climate change. But we also need to work in solidarity with all those across Europe who can see that Europe has to change the basis of its economic ideology and strategy if it is to fulfil its Treaty commitment to the peoples of Europe to work for "full employment and social progress.. a high level of protection and improvement of the quality of the environment".

George Osborne's Treasury Estimates of Brexit and what it tells us about the Tory Party

By John Weeks, Professor Emeritus, School of Oriental & African Studies, University of London

The Chancellor's Dubious Defence

As a committed supporter of EU membership I watched with some dismay Chancellor George Osborne's high-profile defence on 18th April of British membership in the European Union. The alleged crushing monetary cost of Brexit constituted the central message delivered in his performance in Bristol at the National Composite Centre. For progressives – and any open-minded voter - the problems with Mr Osborne's championing of the EU cause were 1) the Treasury cost estimates are dubious to the point of absurd, 2) the Osborne argument seeks to inspire fear by appealing to narrow self-interest, and 3) for reactionary political reasons, the central benefits of the EU were ignored.

The Treasury's Futurology

Several times during his speech, and in the party-line presentations by Cabinet colleagues Elizabeth Truss and Stephen Crabb, we heard that after Brexit "in the long run GDP would be over 6% smaller and Britain would be worse off by £4,300 per household". Obviously intended to scare the UK population, his cost estimate suffers from myriad failings that place it in the same category as tooth fairies, worldly visitations of Christian saints and compassionate Conservatism.

First and foremost, the Treasury's Brexit estimation qualifies as an exercise in the impossible. The Treasury uses an econometric model to generate the cost estimates through 2030. By necessity this means using past data to generate parameters that the modellers then employ to crunch out projections over the coming fourteen years. No competent statistician believes that parameters based on historic data would remain stable over a decade and a half even in the absence of political, institutional and policy changes.

Attempting to make projections through 2030 when the exercise itself investigates the impact of an event certain to dramatically alter the context of Britain's external economic relations goes beyond absurd, to politically-motivated foolishness. There can be little doubt that exiting the European Union would involve a *short term* cost to the UK economy, which the Treasury model does not attempt to estimate [a later report purports to address this]. Whether that short-term cost would be small, medium, large or catastrophic is impossible to assess rigorously. As for the long-term impact, that is unknowable.

Estimates for fear & loathing

Public debate should have as its purpose to aid people to make an informed decision. Yet the political purpose of these estimates of the cost of leaving the European Union is to frighten the electorate, not to inform.

This technique has served the Conservative Party well, invoked for the independence referendum in Scotland and the UK general election of 2015. In both cases the central message of from the Tories was a negative one – voting for Scottish independence and the Labour Party would have disastrous consequences on individual finances. This crass appeal to personal self-interest in itself narrows and degrades political debate.

Even worse is its effect when purely negative and designed to instil fear and anxiety. The 'personal economic disaster' argument is the Remain equivalent of the anti-immigrant xenophobia of the Leavers. Each plays on fear – "stay in the EU or disaster will strike you and your family" say the Remainers; "leave the EU or disaster will strike you and your family" say the Leavers.

The voter is left to decide which he or she fears more, and assess the likelihood of each occurring. Since none can provide a reliable probability for either outcome, the referendum debate becomes a propaganda contest in which each side seeks to generate the greater fear among the public. That is no way to run a democratic election in a country of educated voters.

Barriers to Waging a Positive Campaign

People do have self-interests but they are not slaves to them. It is quite reasonable for voters to reflect on the likely impact on their material welfare of leaving the EU. It is also relevant for them to consider the effect of immigration on pay, housing and public services. The degradation of public discussion and the democratic process itself results when short term self-interest crowds out all other issues.

Assessing one's self-interest should be derivative from first considering the central issue – should the people of Britain be part of a project of trans-European cooperation and solidarity? Or, does a better future lie in leaving a project so flawed in its present form? Answering this question requires Remainers, myself included, making a *positive* case for membership in the European Union.

Once we consider positive arguments, the question immediately presents itself – why do David Cameron and his Chancellor focus relentlessly on fear and negativity? The answer is quite simple. The Conservative Party and especially its leadership oppose all the aspects of the European Union that serve the interests of the 99%.

At the Bristol event the supporting comments by the Secretary of State for Work and Pensions (Stephen Crabb) showed clearly the class interests of the government's defence of EU membership. The literally-minded might expect Mr Crabb to speak on his putative speciality, work and pensions. Instead, he began this talk by telling his audience "I want to talk to you about global trade" and never deviated from that pledge.

At no point did he make any reference to the most important EU measures affecting "work and pensions", the Social Chapter, that guarantees the basic rights of the working people in all member countries. There is an obvious reason that no Tory politician would cite the Social Chapter as a reason for the British electorate to vote to remain in the EU.

The Conservative government would dump it if it could, evidenced by David Cameron in July 2015 demanding (unsuccessfully) the right to "opt-out" from the Chapter as part of his faux renegotiation of UK membership. It is the TUC that makes the "stay in" case on the basis of protection of worker rights, never the Conservative government (nor to my knowledge any Conservative MP).

Accounting for Nonsense

Given a free hand, the Conservative government would remain in the European Union and declare the Social Chapter null-and-void. The original, shockingly authoritarian version of the Trade Union Bill was a major step in that direction, clearly violating the EU's Charter of Fundamental Rights and the Council of Europe's Social Charter, as well as ILO Conventions, while the revised version (now an Act) still retains infringements (listen to my radio interview with Matt Wrack head of the Fire Brigades Union, and also with Silkie Cragg of the TUC).

We should have no illusions about the current political ideology of the European Union itself, as evidenced in the work of its executive the European Commission. Today, that ideology is no less flagrantly pro-business than the Tory government. Given their unstinting support for sustained eurozone austerity, despite its economic failure, it would seem that the Commission and perhaps a majority of the member governments would be happy to roll back these long-standing legal bulwarks against the suppression of worker rights if they could. This is a case in which the Byzantine labyrinth of EU Treaties serves the interest of the majority of Europeans.

Why did Mr Osborne stand before a gathering of knowledgeable people and talk nonsense, peddling statistical snake oil that he could never hope to defend for its technical credibility? He did so to send a clear message, that his government would faithfully serve the interests of business and especially finance capital, in its support of EU membership and its opposition to the rights of labour. The Tory government seeks an EU in which capital dominates and protection of worker rights is non-existent.

If export markets are the most important issue facing the British population in the Brexit debate, then the referendum degenerates into a bicker among various factions of the UK business elite. Arguments over individual self-interest obscure the true interests involved, the interests of capital.

There are positive arguments in the interest of the 99% for membership, protection of human rights, support for the rights of working people, and, most important, reconstructing a social democratic solidarity in Europe that can confront xenophobia, revanchism and racism.

An earlier version of this contribution appeared in OpenDemocracy (25th April 2016)

The working people of the UK are stronger in Europe

By Özlem Onaran, Director of Greenwich Political Economy Research Centre, and Professor of Economics, University of Greenwich

The working people in the UK have good reasons to vote to stay in the European Union, but not for the same reasons as the government or the reports from the financial sector and neoliberal think tanks suggest. Business reports, even when they endorse a "yes" vote, claim that Britain is better off without the EU directives which protect workers' rights, such as the Working Time Directive or directives for paid leave, equal pay, and paternity leave. When they say "Britain is better off" without these regulations, they mean that the employers are better off and the workers are worse off. The TUC has demonstrated clearly the risks of Brexit for the rights of working women and men.

It is, however, also true that despite these rights secured by the European trade union movement in the last decades, the labour market policies in the EU Member States (MS) offer a far from rosy picture. Why should working people nevertheless vote to stay in? Because we have more chances of achieving a change towards 'high road' labour market policies if we work together with the other progressive movements in the EU, rather than in isolation in the UK. There is a rigorous macroeconomic rationale behind this argument, which we explain in the rest of this article.

Individual EU Member States and the European Commission (EC) have long encouraged wage moderation, explicitly recommending real wage growth below productivity growth to increase the international competitiveness of the countries. This policy has resulted in three decades of increasing inequality, declining share of wages in national income, and the emergence of a new class of super-rich, but without generating a sustainable growth model for Europe. However, let us be clear: these policies have not been imposed on the UK by the EC; the UK has been the leader of anti-labour 'low road' labour market policies, and has used globalisation as a pretext to implement them and to claim that there is no alternative.

Our research shows that this rise in inequality and the decline in the wage share have been associated with a weaker and more volatile growth performance (Onaran and Obst, 2015). In the UK and the vast majority of the EU MS, a fall in the wage share leads to lower growth; this is what we call a wage-led growth economy.

In the UK, households increased their debt to maintain consumption levels in the absence of decent wage increases. The crisis of 2007-9, and the subsequent Great Recession have proven the fragility of this model. The recovery in Britain is built once again on the shaky ground of household debt instead of a healthy wage growth.

Stimulating wages would not only improve economic performance and employment, but would also help tackle unsustainable growth that is driven by debt. Higher wage and pro-labour policies can be implemented unilaterally in a large country with a substantial domestic market such as the UK, even if the rest of Europe or the world do not reverse their low road policies, because the UK is a wage-led economy. Would that not increase the trade deficit problem further? Not significantly; the effect of a rise in the wage share on the trade deficit is minor; we estimate that a 1%-point increase in the wage share increases the trade deficit as a ratio to GDP by only 0.19%-point. Furthermore trade imbalance is a structural problem, and it has to be tackled accordingly through industrial policy rather than being posed as a barrier to egalitarian policies.

Finally, what if our trade partners continue their aggressive wage competition policies via further decreases in the wage share, while they free-ride on the rise in the wage share and wage growth in the UK? The answer is that there would be still an area of manoeuvre left in a wage-led economy like the UK, even in the presence of 'beggar thy neighbour' policies elsewhere. However, this area of manoeuvre will be significantly narrower in the case of a continued race to the bottom, and if good pro-labour policies cannot be extended to the rest of Europe. This is a reason why the UK should stay in the EU and work to expand the high road policies to the rest of labour.

On a positive note, the effects of the pro-labour policies would be a lot stronger if implemented at the European level. A 1%-point increase in the wage share in the EU as a whole increases the GDP in the UK by 0.2%; this is almost double the increase that could be achieved if the UK were to implement these policies alone (Onaran and Obst, 2015). Private investment also increases along with wage increases thanks to positive demand effects. The negative impact on the trade balance is also more negligible when our trade partners allow their wages and demand to increase.

Therefore we should see *EU membership as an opportunity to increase our area of manoeuvre, use every chance to improve cooperation among pro-labour forces, and lead 'high road' labour market policies in the EU as opposed to its current position of promoting 'low road' policies.*

The UK is a large country with substantial capacity to influence Europe, and in 2008 after the global financial crisis it used its influence to steer Europe and G20 to act together to prevent the repeat of a global Great Depression. However, since 2010 the UK has been the leader of damaging austerity, low wage and precarious employment in the name of flexibility. It is now time to remember that a progressive change in the UK can make a big difference for Europe and the world.

We have strong empirical evidence to reject the myth that we cannot have pro-labour policies in Europe in the age of globalisation. The EU as a whole is strong enough to pursue an egalitarian growth strategy and would benefit from a coordinated boost to the wage share. As such, the UK and Europe could, and should, take a step forward in terms of radically reversing the fall in the wage share globally.

The fall in the wage share has been a deliberate outcome of policies that led to the fall in the bargaining power of labour, welfare state retrenchment, and financialisation. The combination of these policies in the UK and Europe has led to the vicious circle of rising inequality, financialisation, chronically low demand, slow-down in accumulation and productivity, low growth, and fewer or bad quality jobs (Tori and Onaran, 2015; Onaran and

Obst, 2015). The empirical evidence shows that to break this vicious circle we need alternative economic policies based on a coordinated policy mix of equality-led development and public investment.

The strategy of wage-led development requires labour market policies aiming at pre-distribution as well as redistribution (Onaran and Stockhammer, 2016). These include strengthening the bargaining power of labour, ensuring higher collective bargaining coverage, increasing the statutory minimum wage to the level of a living wage, enforcing gender equality, introducing and enforcing pay ratios to moderate wage inequality, restoring the progressivity of the tax system, and ending public sector pay freezes.

Furthermore, income distribution policies need to be embedded into a broader macroeconomic and industrial policy mix, targeting equality, full employment, and ecological sustainability. This requires regulating finance and implementing a public investment programme centred on substantial public investment in green physical infrastructure in renewable energy, public transport and housing and social infrastructure in care, education, and health.

Labour market policy is not the only issue where working people in the UK are better off in the EU then outside the EU. As part of the EU we can work for financial regulation, tax coordination, and ecological sustainability and implement a coordinated public investment policy far better than we could on our own.

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TUC 2016. UK Employment Rights and the EU

Immigration brings both benefits and costs – but no reason to leave

By Jo Michell, senior lecturer in economics at the University of the West of England

If UK voters decide to leave the European Union, it will be for one reason above all. From the outset, nationalism bordering on xenophobia has been a defining feature of the Leave campaign. Having lost the argument on broader economic issues, it looks likely the Leave camp will fight the final month of the campaign on immigration. The scapegoating of migrants for the UK's economic problems will become increasingly unrestrained as the referendum date approaches.

It is not difficult to understand why the Leave camp has chosen to focus on immigration: it is the issue which matters most to those likely to vote for Brexit. Fear that immigration undermines living standards and increases precarity is strong. The anti-European political right has harnessed this fear in a cynical attempt to exploit the insecurity of working class voters in the era of globalisation.

It is countered by Remain campaign statements emphasising that immigration is good for the economy: there are fiscal benefits, immigrants bring much-needed skills and – because migrants are mostly of working age – immigration offsets the effects of an ageing population.

These claims are well-founded. But immigration has both positive and negative effects. Like other facets of globalisation, the impact of immigration is felt unevenly.

At its simplest, the pro-immigration argument is that migrants find work without displacing native workers, thus increasing the size of the economy. This argument is a valid way to dispel the 'lump of labour' fallacy and counter naive arguments that immigration automatically costs jobs. But it does not prove immigration is necessarily positive: an increasing population also puts pressure on housing, the environment and public services.

A stronger position is taken by those who claim that immigration increases GDP per capita – migrants raise labour productivity. It is difficult to interpret the evidence on this, since productivity is simultaneously determined by many factors. But even those who argue that the evidence supports this position find the effect to be very weak. Positive effects on productivity are likely to due to skilled migrants being hired as a result of the UK 'skills gap'.

But not all – or even most – immigrants are in highly skilled work. Despite being well-educated, many come looking for whatever work they can find and are willing to work for low wages. A third of EU nationals in the UK are employed in 'elementary and processing occupations'. What is the effect of an increasing pool of cheap labour looking for low-skilled work? The evidence suggests there is little effect on employment rates over the long run. There may, however, be displacement effects in the short run. In particular, when the labour market is slack – during recessions – the job prospects of low-paid and unskilled workers may be damaged by migrant inflows.

The evidence on wages likewise suggests effects are small, but again there appears to be some impact of immigration on the wages of low-skilled workers. There is also evidence of labour market segmentation: migrants are disproportionately represented in the seasonal, temporary and 'flexible' (i.e. precarious) workforce.

Further, much of the evidence on employment and wages comes from a period of high growth and strong economic performance. This may not be a reliable guide to the future. It is possible that more significant negative effects could emerge, particularly if the economy remains weak.

Economists on the Remain side downplay the negative effects of immigration, presenting it as unequivocally good for the UK economy. It is undoubtedly difficult to present a nuanced argument in the short space available for a media sound-bite. But it is possible that the line taken by the Remain camp plays into the hands of the Leave campaign.

Aside from the skills they bring – around a quarter of NHS doctors are foreign nationals – the main benefit of immigration is the effect on demographics. Without inward migration, the UK working age population would have already peaked. But ageing cannot be postponed indefinitely.

Rapid population growth leads to pressures on public services, housing and infrastructure unless there are on-going programmes of investment, upgrading of infrastructure and house building. Careful planning is required to ensure that public services are available before migrants arrive - otherwise there will be a period while services are under pressure before more capacity is added.

Long-run investment in public services, infrastructure and housing is exactly what the UK has not been doing. Instead, we are more than five years into an unnecessary austerity programme. Our infrastructure is ageing and suffers from lack of capacity. Wages have yet to recover to pre-crisis levels. Government services continue to be cut, even as the population increases.

Those who face pressure on their standard of life from weak wage growth and rising housing costs will understandably find it difficult to disentangle the causes of their problems. For many, immigration will not be the reason – but it will be more visible and tangible than austerity, lack of aggregate demand and weak labour bargaining power.

The root of the problem is that the UK is increasingly a low-wage, low-skill economy. There is a shortage of affordable housing and public services are facing the deepest cuts in decades. None of these problems would be solved by the reorganised Conservative government that would take power immediately following a vote to leave the EU. Instead, it is clear that much of the Leave camp favours a Thatcherite programme of further cuts and deregulation.

Campaigners for Leave will continue to use immigration as a way to take Britain out of the EU. They are wrong. This is cynical exploitation of genuine problems and fears faced by many low-wage workers. Immigration is not a reason to leave the European Union.
But the status quo of high immigration alongside cuts to public services and wage stagnation cannot continue indefinitely. If high levels of migration are to continue, as looks likely, the UK government must consider how to accommodate the rapidly increasing population. Government services must keep pace with population increases. Pressures will be particularly acute in London and the South East.

We must also be more open in admitting that immigration has both costs and benefits – it does not affect the population evenly. Liberal commentators should acknowledge the concerns of those facing the negative effects of immigration. In doing so, they may lessen the chances that voters fall for the false promises of the Leave campaign.

The impact of EU membership on wages in the UK

By Howard Reed, Landman Economics

A key issue in the upcoming EU referendum is whether being a member of the EU is a positive thing for British workers, and especially for workers on low wages. This article examines the evidence on this issue, focusing in particular on two aspects. Firstly, I examine the empirical evidence on whether increased migration from other EU countries in the past 15 years has had any negative impact on wages. Secondly, I assess the overall impact of EU membership on economic performance, looking at the effect on wages indirectly.

The impact of migration from other EU countries on average wages in the UK

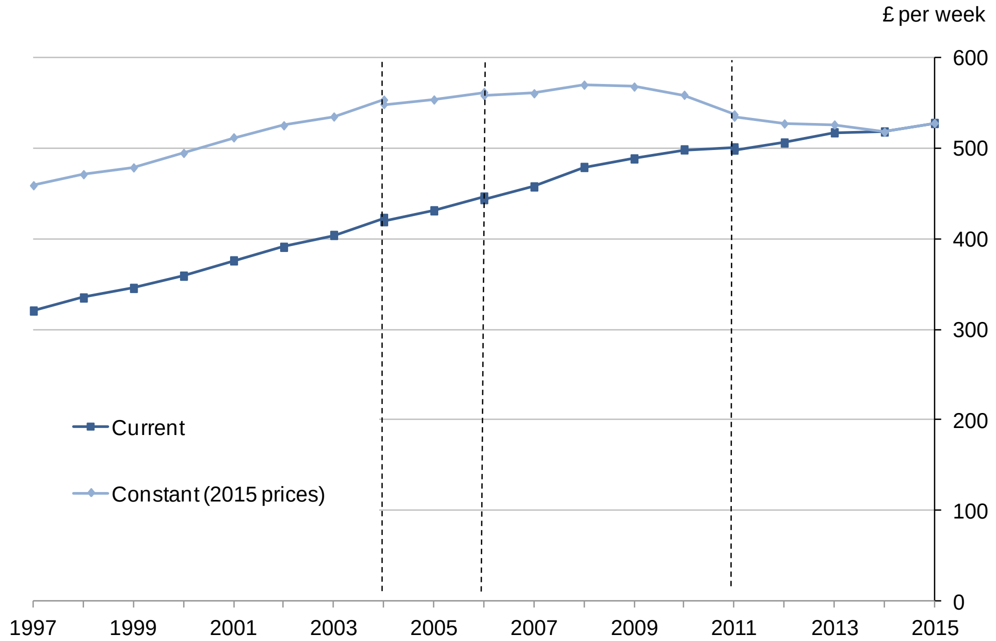
Freedom of movement of labour was a founding principle of the EEC (as it was originally known) and citizens from other member countries have been able to work in the UK since it joined the EEC in 1973. However, large-scale concern about the impact of EU membership on wages first began to be voiced in the UK media when eight countries from central and eastern Europe (known as the "A8" countries) joined the EU in 2004[1]. Wage levels were much lower in these countries than in the UK and it was feared in some quarters that a large inflow of cheap labour from the A8 countries would result in lower wages for British workers.

But what actually happened after 2004? Looking at the data on average wages in the UK (as shown in Figure 1), it's hard to see any impact of the A8 entry to the EU. Average wages in real terms (the "constant (2015 prices)" line in Figure 1) were rising between 1997 and 2008 and then fell between 2008 and 2014, until by 2014 they were back down to levels last seen in 2001. The timing of the fall in average wages doesn't match the timing of the expansion of the EU.

Instead, the fall in wages appears to be a consequence of the severe economic recession of 2008-09 that followed the US subprime mortgage crisis and the resulting crisis in the global financial sector. Furthermore, when workers from two more new entrant countries, Bulgaria and Romania, were allowed full access to the UK labour market in 2015, this coincided with wages beginning to rise again – the opposite of the effect one might expect if increased migration from EU countries was decreasing wages.

[1] The A8 countries are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. Cyprus and Malta also joined the EU in 2004.

Figure 1. Median full-time gross weekly earnings in current and constant (2015) prices, UK, April 1997 to 2015



Source: UK Office for National Statistics, Annual Survey of Hours and Earnings

The impact of EU migration on those on low incomes

Just looking at average wages is a simplistic approach which does not control for other features of the UK economy which might have been changing over the last two decades[2]. Fortunately, there are a number of more sophisticated empirical studies of the effects of migration which use survey or administrative data to measure the impacts in more detail. Most of these studies focus on the overall effects of immigration (rather than just the EU) but as migration from other EU countries is a large component of overall immigration over the last 15 years, the results are still relevant.

Recent research suggests that increased immigration has had no measurable impact on average wages in the UK even when controlling for other factors[3]. At the bottom of the

[2] Note that in addition to increased immigration there have been many other changes in the UK labour market in recent decades which may have affected wages – in particular reduced trade union density, lower coverage of collective bargaining agreements, legislative changes (such as the National Minimum Wage) and changes to the industrial and occupational structure of the UK. For more on long-term trends in wages see Howard Reed and Stewart Lansley, *How To Boost The Wage Share*, TUC Touchstone Pamphlet No 13, London: Trades Union Congress.

[3] see Swati Dhingra, Gianmarco Ottaviano, John Van Reenen and Jonathan Wadsworth, "Brexit and the impact of immigration on the UK", LSE Centre for Economic Performance, CEP Brexit Analysis No 5, May 2016, in particular Figure 9.

wage distribution, there is also no obvious impact on the wages of low-paid workers born in the UK at the bottom of the distribution. However there does seem to be a negative impact on the wages of low-paid workers born outside the UK, i.e. earlier waves of migrant workers, although this is mitigated by the National Minimum Wage, which has set a floor for wages since its introduction in 1999[4]. Evidence also suggests that increased immigration is associated with increased wages at the top of the wage distribution[5].

The impact of EU membership on the UK's overall economic performance

In the long run, the UK's overall economic performance is a key determinant of wage growth. Therefore, in considering the impact of the UK's membership on wages, it is important to consider the impact of EU membership on the country's economic performance. Most (although not all) economists believe that the UK has benefited from membership of the EU in terms of increased opportunities for trade and lower barriers to export markets, and inward migration from highly talented European workers. By the same token, most economists believe that 'Brexit' would be bad for the UK's economic prospects. In the *Financial Times*'s annual poll of more than 100 leading economic thinkers, around three-quarters of respondents thought leaving the EU would damage the country's medium term outlook, while less than one in ten respondents thought the UK would benefit from leaving[6].

The most important negative predicted consequences if Britain leaves the EU are reduced inward investment into the UK economy and reduced inward migration of talented workers. Reduced inward investment would almost certainly damage UK productivity (and hence wage levels)[7]. Reduced inward migration could lead to skill shortages which might increase wages for certain occupations in the short run but would also be likely to have a negative impact on productivity through impairing business efficiency[8]. There is also empirical evidence that increased migration increases innovation activity in the country migrated to (e.g. patent applications)[9], suggesting that reduced immigration could reduce innovation and hence growth. This would also be bad for UK productivity (and hence for wages).

Conclusion

This article has shown that there is no evidence that increased immigration from other EU countries has had a negative impact on average wages in the UK, although there is some evidence of a small negative impact for low-earning migrant workers already present in the UK. In this regard, increasing the National Minimum Wage (now called the National Living

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[4] For more detail on the impact of migration on wages at the bottom of the wage distribution see Swati Dhingra, Gianmarco Ottaviano, John Van Reenen and Jonathan Wadsworth, "Brexit and the impact of immigration on the UK", LSE Centre for Economic Performance, CEP Brexit Analysis No 5, May 2016 (in particular Figure 11).
[5] See Dr Martin Ruhs and Dr Carlos Vargas-Silva, "The Labour Market Effects of Immigration", Briefing Paper, Migration Observatory at the University of Oxford, May 2015.
[6] Chris Giles and Emily Cadman, "Economists' forecasts: Brexit would damage growth", *Financial Times*, 3 January 2016. [paywalled]
[7] While the precise relationship between wages and productivity is complex, most economists agree that in the long run wage increases are paid for out of productivity increases, and hence a reduction in business productivity is likely to reduce wages.
[8] See for example, J Portes (2015), "Immigration and the Productivity Challenge", written evidence to UK Parliamentary Select Committee on Home Affairs,
[9] For more detailed evidence on this issue see the briefing paper "What do we know about migration? Informing the debate" by the Centre for Research and Analysis of Migration (CReAM) at University College London.

Wage for workers aged 25 and over) is a good thing. Meanwhile, the overall consensus among economists is that the UK benefits substantially from EU membership in terms of improved economic performance and greater innovation. To the extent that 'Brexit' harmed the economy, this would be likely to cause a negative impact on wages.

Imagine the fate of a global climate treaty without the EU

By Andrew Simms, author, co-founder of the New Weather Institute, fellow of the New Economics Foundation

Seven months and counting

In 1972 the law was passed that allowed the UK to join what was then called the European Economic Community (EEC). Despite Europe's current crises, its unchanging, fundamental challenge was expressed that year by Sicco Mansholt, then president of the European Commission, probably better than by any of the current voices in the referendum campaign, whether for or against UK remaining in.

> "Will the EEC become a powerful agent for improving living standards and opportunity in solidarity with less fortunate countries?" asked Mansholt,
>
> "Or will it remain a select inward-looking club of some of the world's richest nations? Will it continue to produce 'bigger, faster and more' for 'some' to the detriment of the global environment and the welfare of the 'rest'?"

Leap forward 20 years to the Rio Earth Summit where Europe lobbied hard, and Germany and France floated the idea of a World Environment Organisation to counterbalance the World Trade Organisation, and Commission president, Jacques Delors, said Europe would lose credibility if

> "These agreements signed in Rio remain a dead letter and do not give birth to ambitious policies that respond to the scale of the challenge that faces us."

In the near half century since Mansholt framed Europe's challenge, rather than working to resolve such tensions, however, two contradictory dynamics have taken hold.

Named after the cities where they were set, they became known as the Lisbon and Gothenburg agendas. The Lisbon agenda, following a summit in 2000, focused on Europe's growth and competitiveness, meant to deliver jobs and social cohesion. Gothenburg came a year later when it was clear that the explicit environmental objectives written into the Maastricht treaty underpinning Europe were marginalised by Lisbon's expansive economic focus, and likely to suffer. Gothenburg's strategy pushed environmental priorities again and called on the economic, social, and environmental effects of all policies to be jointly assessed and coordinated.

Since then, Lisbon's objectives were undermined by the sheer economic inflexibility of having a single interest rate across an already very unequal European single currency zone. Yet these still take priority, for example in negotiations for the proposed Transatlantic Trade and Investment Partnership with the United States, over Europe's more progressive environmental ambitions, threatening to leave them as Delors' 'dead letters.'

Such lifeless letters are incapable of matching the speed and scale of the Paris climate accord that wishes to halt overall warming by at least 2C, and move to the lower figure of 1.5C above pre-industrial levels. Arguments in favour of old-style economic expansion dominate the campaign to remain in Europe, side-lining and selling short the progressive case to build the architecture of international cooperation to address the crises of climate change, inequality and the unaccountable powers of finance.

There remains considerable denial about the tension between a neo-liberal growth agenda, and the kind of economy that can effectively support a social and environmental Europe. Just as there remains some tenacious and occasionally flippant denial about climate change itself. When the free London newspaper Metro reported potentially record high temperatures for a day in May, instead of registering even faint concern about what it might indicate as part of a long-term trend, it encouraged readers to celebrate the good news by treating yourself "to a long lunch break."

In fact, new figures from Nasa were about to show that, globally, the preceding month, April, was the seventh month in a row to break temperature records, and the third month in a row in which the records had been broken by margins that were themselves records as well. In the midst of this, reflect on whether, imperfect and contradictory as Europe's machinery is, it would be easier or harder to coordinate climate action without common institutions and the negotiation of joint, principled action? The history of the often recalcitrant roles played by the United States, Canada and Australia, let alone other major petro-states, suggests not.

With some irony, the campaign for the UK to remain in the EU has ignored more obvious popular appeals, such as to Britain's annual and permanent 'solar migrants' enjoying either holidays, retirement or long-term relocation to warmer parts of Europe – taking with them, unquestioningly, health insurance and a wide range of benefits guaranteed by EU membership. It's often not just about the weather either, but cashing in the difference in value between typical UK house values, pensions and savings for a higher standard of living in lower income European states – a sort of reverse economic migration – again, unquestioned, and another irony.

The urgently-needed rapid transition from 'bigger, faster, more' for a few, to an economy of 'better, not bigger' for the many, and on a timescale to avoid irreversible climatic upheaval, will take us all into largely uncharted territory. In this new place for civilisation, the ability to cooperate and coordinate will mean the difference between looking forward with hope to the future, or being trapped in an endless battle against the impact and consequences of irreversible climate change.

Our societies also have an extensive, historical back catalogue of making rapid transitions happen, pushed at different times by everything from conflict to technological opportunity, politics, environmental change and economic collapse. But we don't need to feel that all we can do is react to changes happening out of our control.

A new, evolving initiative, involving a wide range of people and organisations is beginning to explore what can be learned from moments of rapid transition. From them, adapting lessons for today, we may identify the special circumstances and social, economic and political chemistry in which rapid, low carbon, economically successful and socially progressive transition becomes possible.

The EU began as a positive experiment – even if one in conflict with itself – to both rebuild nations and prevent the catastrophe of future conflict. I'd like to think that we can still change it and put it to good use without playing out the old joke: Question: How many revolutionaries does it take to change a light bulb? Answer: You don't change it, you smash it!

This article was first published in The Guardian on 18 May 2016

No alternative in Europe to a long, hard struggle

By John Grahl, Professor of European Integration, Middlesex University

Don't be conned by those determined to free Britain from EU "red tape" – their catch-all term for employment rights, consumer protection and environmental regulation.

There is indeed a strong "progressive" case against the EU, such as that recently argued by Enrico Tortolano of 'Trade Unionists against the EU' in Open Democracy (7 April 2016). We are not only confronted by extreme neoliberal strategies but by the attempt to perpetuate these strategies and to give them quasi-constitutional status through a complex of treaties, directives and policies imposed by creditors on crisis-struck debtor countries. If these violations of democracy are not reversed then the electoral process and the alternation of parties in office will lose a great deal of their meaning.

More questionable is his assessment of the politics of departure from the EU in general, and of Brexit in particular. Dismantling the EU, or radically reducing its powers in favour of those of member states, is an objective of a few left-wing groupings and a small minority of trade unions across Europe.

It is also the objective of right-wing forces, xenophobic or even fascist, across the continent: Fidesz and Jobbik in Hungary, the Kaczynski regime in Poland, Golden Dawn in Greece, the Front National in France, Alternativ für Deutschland - which recently made big advances in Germany - and right-wing "populists" in Scandinavia, Austria and elsewhere.

A break-up of the EU, given the present balance of forces, would represent a move to the right in many countries. It would immediately compromise the position of migrant workers (both from inside and outside the EU), permit a thoroughgoing elimination of workers' rights, and further undermine human rights and the rule of law across much of eastern Europe in particular, but also in western Europe. The recent reassertion of an absolute ban on abortion in Poland is a token of what women might have to expect in a break-up carried out from the right.

Of course, it is the policies and structures of the EU which have brought about this situation. Anger and frustration with austerity and neoliberalism may in some cases lead to a search for rational alternatives on the radical left, but in many others to an embittered nationalism. Nevertheless we have to take this difference into account. The social discontents behind both choices may be very similar but their outcomes are completely opposite. If the forces which are hostile to the existing EU were united around socialist values and an internationalist agenda then a break-up of the EU might not be such an alarming prospect. But in such conditions a progressive re-foundation of the EU would also be possible. That is not where we are.

Real opportunity to say no?

Similar considerations apply to Britain. Enrico Tortolano writes,

> "The opportunity of the referendum on continuing EU membership offers a real opportunity to say no to austerity and the domination of the banks and to escape the clutches of the most anti-democratic super-state in the world."

This would require that a majority for Brexit were seen as a triumph for the labour movement. In reality it would represent the victory of the two reactionary forces which dominate the Leave campaign: on the one hand the anti-immigrant populists of UKIP; and on the other the radical Thatcherite wing of the Tory party – those, such as Michael Gove, John Redwood or Iain Duncan Smith who regard the Thatcherite revolution as incomplete and are determined to free Britain from EU "red tape" – their catch-all term for employment rights, consumer protection and environmental regulation.

These two forces would find a compromise in an attack on immigrant labour (a disaster for the British labour movement) combined with radical deregulation and an economic strategy centred on globalisation and attracting MNC investment with tax reductions and a bonfire of regulations.

It would be good if the British unions were united and strong enough to block such an outcome. But if they are not united or strong enough, then it is simply wishful thinking to base a political strategy on what might be achieved in an imaginary world.

The fact is that the left in Britain, very correctly, is opposing Brexit to avoid the dangers discussed above: the position of the Labour Party, now articulated, perhaps reluctantly, by Jeremy Corbyn will be influential; Scottish and Welsh national parties are taking a pro-EU position, as are the Greens and most of the non-Labour left. This is not going to change between now and June 23. In any case all of these forces are pretty marginal in the present debate which is dominated by a clash of right-wing groups and, in the first instance, it will be the realignment of right-wing forces after the referendum which impacts on policy.

Sovereignty hot air

When I voted for British withdrawal in the referendum of 1975, it was in the context of a clear political project which commanded very significant support – including Tony Benn who was one of the most important figures associated with the radical programme formulated at that time. In the event that programme was never implemented – it fell by the wayside after Labour's defeat in 1983. I do not know whether the programme would have been successful, but even if it had failed it would have been much better than Thatcherism. There is no such programme today. A Corbyn-led Labour government could achieve a great deal – but the structures and policies of the EU would not be the first or the most important challenge it would face in an attempt at tax justice or in the introduction of civilised welfare policies.

Democracy implies popular sovereignty, but how much sovereignty is available to even medium-sized countries today? Can issues such as international tax evasion, or financial reform or global warming be effectively addressed by individual countries? It is true that there is no democracy in the EU, but can meaningful popular sovereignty be restored at the level of an individual state such as Britain? The radical right pushing for Brexit can talk about sovereignty but that is because they do not regard social control over economic life as a state function. For the left that issue of social control is primary and it is hard to imagine how it could be exercised without strong supranational institutions.

Is there a clear progressive project which we could associate with the rejection of Brexit? The difficulties are immense because of the stubborn way in which social democratic parties are clinging to neoliberal strategies.

It would be a herculean task either to change that orientation or to replace those parties with radical ones. But is there an alternative alternative? The departure of one or more of the crisis-bound southern member states might not imperil the EU, but could reinforce the position of Germany and its Mitteleuropa neighbours.

The situation in the EU, however, is not static. The erosion of its already weak legitimacy both to the right and to the left is preparing an institutional crisis; the increasing popular awareness of inequality and economic failure is undermining acceptance of current strategies. Clearly the battle for a reconstructed EU will be long and hard and offers no guarantee of success. But to turn aside from that struggle in the hope of a rapid escape might be to pursue a mirage.

This is an amended version of an article first published in OpenDemocracy on 25th April 2016

An economic case for voting to Remain in the EU

By Ann Pettifor, Director of Policy Research in Macroeconomics (PRIME)

The case for Britain to Remain within the EU is to my mind, largely a political case. The political forces pressing for a rupture with the Union are not on the whole progressive, although there are many sincere Leave campaigners on the Left of the spectrum. 'Brexiters' are mostly insular, nationalistic and sometimes racist, especially in relation to immigrants and refugees.

With few exceptions the Brexit leaders are market fundamentalists, anxious to blame foreigners for the state of our economy; to attack European ordoliberalism rather than the – if anything more damaging - Anglo-Saxon Osbornomics. Their approach is particularly ironic, given that today's European Union is today much more like Britain than it was before, as Jan-Werner Müller[1] argues in the latest edition of the London Review of Books. European populist discontent owes much to the impact of Anglo-Saxon economic policies for the liberalisation of finance and the privatisation of public assets.

There are politically progressive arguments made by some on the Leave side against membership of a political Union which has hollowed out democratic institutions across Europe, and transferred power to unelected technocrats. One in which right-wing politicians actively use state intervention and the rhetoric of the Social Model to reshape Europe into what José Palma defines as "a major facilitator of the ever-increasing rent-seeking practices of oligopolistic capital."[2]

These liberal finance principles have led to high levels of private debt, bankruptcies, unemployment and public humiliation in many European states. It is clear to many Europeans that the workings of the self-regulating market *system* threatens to destroy their societies. And so they are engaged in what Karl Polanyi defined as "the self-preserving actions of communities" to interfere with the system's free functioning by turning for "social protection' to the strong leaders of right-wing, and even fascist parties.

At this critical turning-point in Europe's history I believe it would be wrong to walk away from the fight against authoritarianism, and to spurn European partnerships in managing the market system, and curtailing the rent-seeking practices of oligopolistic capital. Above all, after a catastrophic world war still fresh in European memories: one in which at least sixty million people died worldwide, it would be wrong for Britons to exacerbate inter-European tensions and divergences with a Brexit. It would be wrong to shun the yearning for peace, stability and neighbourliness common to most European societies.

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[1] Jan-Werner Muller, *Europe's Sullen Child*, London Review of Books, 2 June, 2016.

[2] José Gabriel Palma: *The Revenge of the Market on the Rentiers: Why neo-liberal Reports of the end of history turned out to be premature*. June, 2009. Cambridge Working Papers in Economics (CWPE) 0927.

The economic case for remaining a European partner

There are two points to be made in support of the economic case for membership of the European Union.

The first has to do with the evolution of geopolitical forces. As American power wanes and in the process becomes more dangerous, it is paralleled by the rise of a powerful, autocratic Chinese state. Given these developments, I believe it important for Britain to be part of strengthening and upholding a third bloc: one built on long-established European struggles for protection of fundamental human and democratic rights of citizens, and for security and justice. A genuinely Social Europe whose struggles, values, culture, traditions and institutions are distinct from those of both the Americans and the Chinese.

The importance of strengthening such a unified third bloc is made clear as we face three great challenges that do not recognise national borders. The first is the grave threat of climate change, when infinite expansion hits the buffer of finite natural resources. Global warming knows no boundaries, so European-wide cooperation will be vital in adapting to it. Second, the wars, catastrophes and poverty of the Middle East have triggered mass migrations of refugees which can best be managed in a co-ordinated, co-operative and (hopefully) humanitarian Union.

Third, given the global interconnectedness of an out-of-control finance sector, we face another financial crisis. It is extraordinary that almost nine years after inter-bank lending froze on the 9th August, 2007, we as an international community have failed to re-structure or reform the current system, and are stumbling mindlessly towards the next grave global calamity.

Tackling the first of these two crises as a small island state will be nigh impossible. But alone, we have no chance of dealing with the aftermath of the next global financial crisis.

While there has been much tinkering with the complexity of global finance by the Basel Committee on Banking Supervision, little has been done to re-structure the international financial architecture and system to restore stability. On the contrary: unrestrained, finance capitalism has expanded further into shadow banking, aided and abetted by government guarantees, and the European Central Bank's largesse. This has enabled the finance sector to engage in immensely lucrative debt-creation and other rent-seeking activities – without public oversight, and without the immediate fear of failure or losses. Business for this sector, backed as it is by European taxpayers, is better-than-usual, even as it becomes mired in tax evasion scandals, fraud and corruption.

There's fear too in the eyes of global technocrats, conscious that they are driving blind, having lost control of the financial system. They lack up-to-date information and data about the activities of anarchic finance; and they have used up the monetary tools at their disposal during the last crisis. To compound their fears, social democratic politicians in Europe and the US remain fixated by neoliberal dogma, unable to pull the levers of government spending that would stimulate demand, lift their economies out from under mountains of debt, and halt stagnation and decline.

As this goes to press, the IMF, in a paper titled *Neoliberalism. Oversold?* has released a belated *mea culpa* regarding the destructive effects of neoliberalism, and arrived at

> "three disquieting conclusions:
>
> - The benefits (of neoliberalism) in terms of increased growth seem fairly difficult to establish when looking at a broad group of countries.
>
> - The costs in terms of increased inequality are prominent. Such costs epitomize the trade-off between the growth and equity effects of some aspects of the neoliberal agenda.
>
> - Increased inequality in turn hurts the level and sustainability of growth. Even if growth is the sole or main purpose of the neoliberal agenda, advocates of that agenda still need to pay attention to the distributional effects."[3]

This climb-down comes too late to reverse the economic and social destruction wreaked by neoliberalism over many decades. Nor will it alter the direction of events. A crisis is now unavoidable. When that day arrives, it will be necessary for progressive forces to combine across the continent. First, to amend the Union's treaties and their embedded orthodox economic policies. Second, to fight to restore democracy, security and justice to European countries and institutions; to replace anarchy with stability and order; and to subordinate mobile global capital markets to the interests of democratic societies.

That will only be achieved by international co-ordination and co-operation of progressive forces across borders. It cannot be achieved in isolation.

[3] Jonathan D. Ostry, Prakash Loungani, and Davide Furceri. *Neoliberalism: Oversold?* *IMF Finance and Development*, June, 2016.

Why the left should vote remain

By Professor Engelbert Stockhammer, Director of Research, School of Economics, Politics and History, Kingston University, London

The British left is facing an awkward question on 23 June. Much of the argument of the official Remain campaign replicates liberal economic theses about the EU as generating welfare gains and jobs via free trade, the Brexit campaign want goods to move freely, but restrain humans, and parts of the radical left are advocating a 'left Brexit', highlighting the EU's despicable treatment of Greece. Indeed, the EU has since the 1980s served as vehicle for neoliberalism for many European countries, but British neoliberalism is more advanced than in its continental cousin.

Ironically, for Britain EU regulations are still an improvement, in particular as regards financial regulation and labour laws. I will advocate a vote for remain because a Brexit vote would strengthen the xenophobic right in Britain (and in Europe) and the left must strengthen its efforts to build European networks.

Political struggles are to a large extent still fought at the national level. The question of EU membership and Euro membership must thus be posed in the context of national power relations. Let us be clear that in the past decades, European Unification has been a means for implementing neoliberal reforms, for many countries. The Common Market, the Stability and Growth Pact, the EU's competition policy are all heavily shaped by the neoliberal vision of efficient, self-stabilising markets and are restricting governments' ability to intervene in the economy.

Worse, the economic policy regime in the Euro area subscribes to balanced budget dogma, and advocates wage dumping in the name of competitiveness. During the Euro crisis the Troika has imposed austerity and labour market deregulation on countries in a severe economic crisis. That is not just bad economics that have trapped Greece and Portugal in a depression; it is a barely disguised distributional policy in favour of capital.

Since the global financial crisis the EU has become significantly more neoliberal. In the Greek case, progressives have made a case for a Euro exit in order to escape the EU's fiscal rules and get control of its central bank. Whether such a policy would have worked is a different question, and I'm somewhat sceptical, but it is clear that for the Greek left a Euro exit would have addressed some of their problems (while creating a whole new set of problems). Those on the left who argue for a Brexit based on the Greek experience, however, are mistaken. An EU exit would not solve the British left's problems and it would strengthen the xenophobic right. British neoliberalism simply does not rely on EU integration.

Britain is one of the leading countries of neoliberalism. Britain has been there first and it has gone further than most continental European countries. Britain has attacked labour unions and collective bargaining arrangements well before the EU; it has deregulated financial markets earlier and more thoroughly. Neither university fees nor the stealth privatisation of the NHS nor the bedroom tax were imposed on Britain by the EU. Austerity was home made. EU membership in Britain does not have much of an impact on neoliberalisation. If anything - in terms of regulating the City and labour laws - EU rules moderate (but do not fundamentally change) neoliberalism.

What Brexit would change is the situation of immigrants. The official Brexit campaign is either an argument about sovereignty that exaggerates the role of the EU in law-making, or it is outright xenophobic. The only area where an EU exit would make an immediate impact is regulation of immigration and it is hard to see a Conservative government not making use of that. This is a strategy of blaming the miserable state of public infrastructure, a crumbling NHS and a shrinking welfare state on immigrants instead of domestic policy choices.

What is on offer is a discourse of racial (or religious or ethnic) superiority instead of real economic improvements. It is divide and conquer, where poor Brits are pitted against the newly arriving future working classes. British workers are given a new underclass to look down on, rather than a pay rise.

British neoliberalism is home grown. Real wages today are below what they were before the crisis. Union laws are being tightened. There is chronic underinvestment in public infrastructure. The health and education system are being privatised. None of these is because of the EU, but because the left has not developed an effective domestic political strategy.

Economically, British neoliberalism has given rise to a debt-driven growth model that has relied on property bubbles and credit booms, and it has a dangerously oversized financial industry. It is also a highly fragile growth model. Different from most other debt-driven growth models, the real estate bubble in Britain has never really burst and in the last years household debt has started growing again. Britain needs a wage-led growth strategy, better public infrastructure, a green investment plan. It needs to regulate its banks and make sure that the rich pay taxes.

But does EU membership not potentially restrict a progressive government in Britain? Hasn't the treatment of Greece demonstrated that there can't be a progressive policy in the EU? The EU undoubtedly could constrain progressive policies, but the analogy with Greece is misleading.

First, Britain is not part of the Euro system; it has its own central bank, and it is not as easily blackmailed as countries without their own. Second, the EU's large countries are more equal than small ones, and do take liberties with the application of treaties to themselves. No Troika was imposed on Spain despite the fact that it needed EU help to save its banks. Germany and France have in the past repeatedly violated budget deficit limits, with little effect. A progressive government would have to explore the boundaries of that.

But the underlying issue is a deeper one: in today's globalised economy any economic strategy that relies on autarky is doomed. Transnational corporations, international capital markets and an increasingly assertive Germany are reality that the left has to face and to do that it will need state structures on a larger scale than current nation states. The EU may be an unlikely candidate for that, but it is the only candidate.

The British left has to confront the challenges of Britain today, not those of Greece last year. Today the option is a small England Brexit or a neoliberal EU. Not a pleasant choice, but the latter is the lesser evil. The left needs to develop strategies for transforming Europe, not illusions that it can withdraw from it.

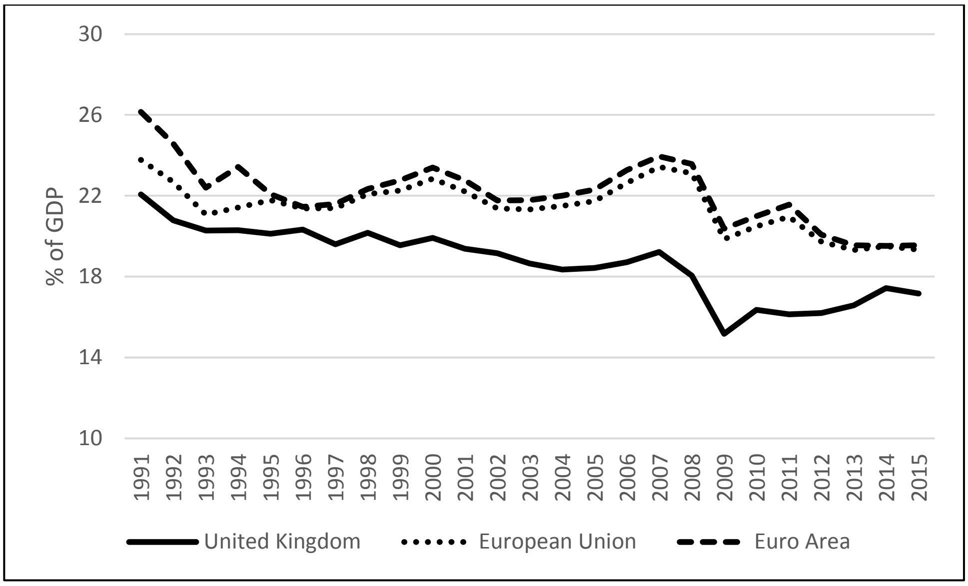
Towards a common European strategy for investment

By Dr Giovanni Cozzi, Greenwich Political Economy Research Centre, University of Greenwich

Underinvestment in Britain

In Britain an already low level of investment has fallen further since the beginning of the financial crisis. From 2007 to 2009 total investment to GDP fell from 19% to 15%, though it subsequently increased to approximately 17% in 2015 (figure 1).

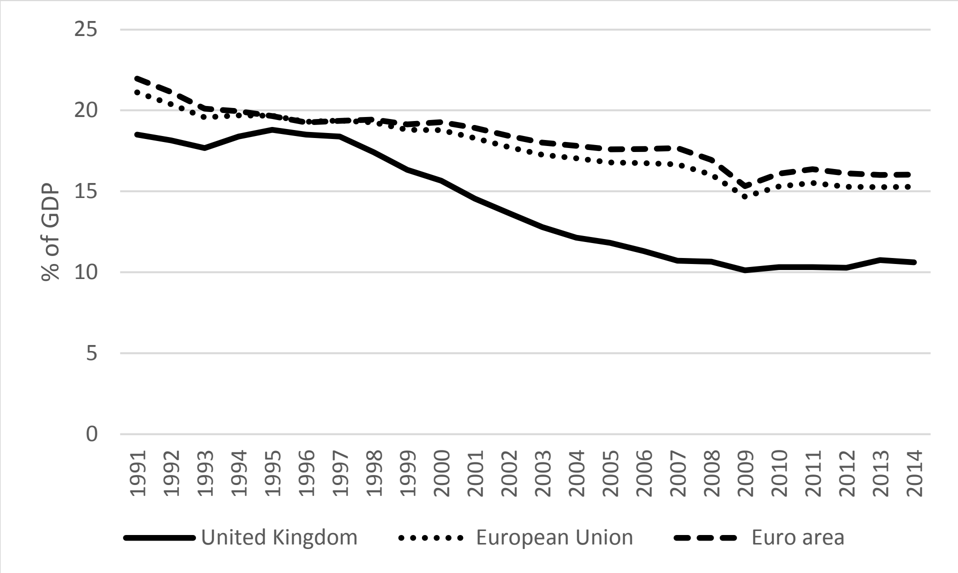
Figure 1, Total Investment (% of GDP)



Whilst this negative trend has characterised the whole of Europe, it has been particularly dramatic in Britain (figure 1). A very low level of investment (both public and private) compared to other mature economies is particularly worrisome when we acknowledge that an investment ratio of 19-21% can be considered normal for an economy with some industrial strength (Klär 2014).

Another remarkable and disquieting trend that has accompanied this poor performance in Britain has been a process of de-industrialization that has taken place since the early 1990s. In 2014 the share of industry in GDP was 10.6%, or 21% including construction activities. This is down from 18.5% (31%) in 1991 (figure 2).

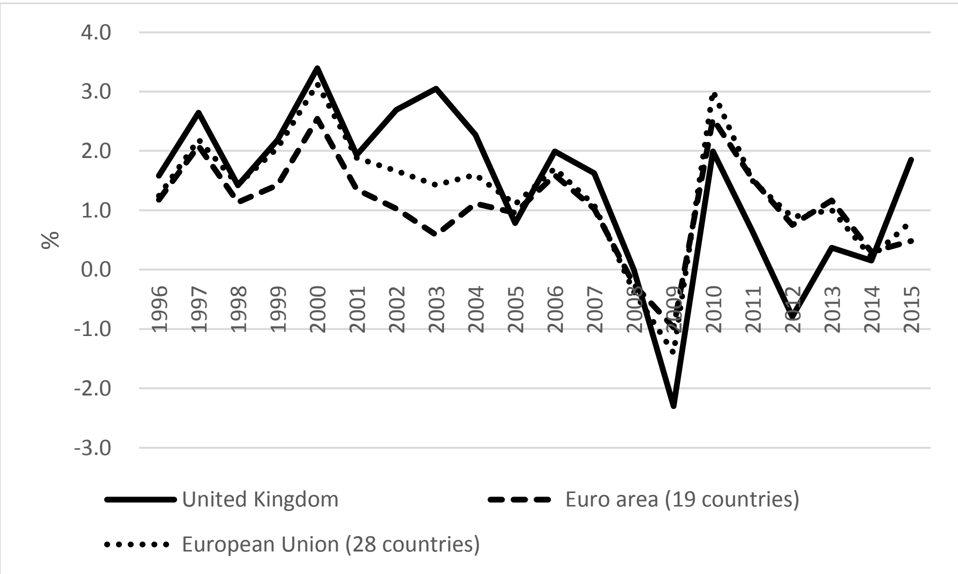
Figure 2, Share of Industry in GDP, manufacturing value added (% of GDP)



Source: Eurostat

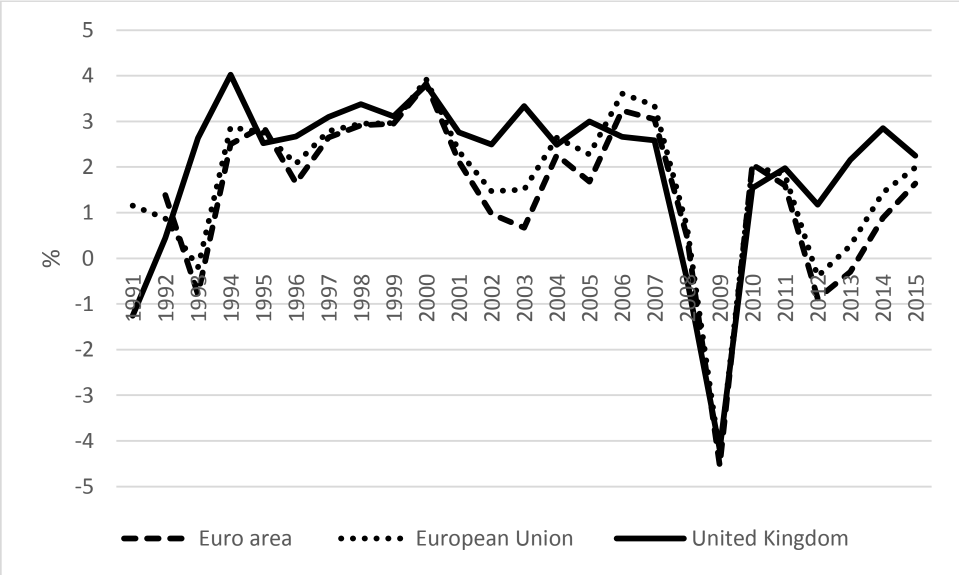
To complete this disturbing picture productivity growth has been extremely low, averaging just 0.4% per year in Britain in the period 2011-2014 (0.8% in the Euro area and 0.9% in the European Union over the same period – Figure 3).

Figure 3, Output per hour worked (% change)



Low investment has been dragging down growth and industrial development across Europe. Even in countries like Britain where GDP growth is currently above 2% (figure 3) it is questionable whether a recovery not based on the expansion of investment, especially on innovation and technological transformation, is going to be sustainable in the medium run (Griffith-Jones and Cozzi 2016).

Figure 4, GDP growth



Source: IMF World Economic Outlook (updated April 2016)

Britain has adopted a growth strategy that tries to circumvent this crucial problem of low investment, and instead it has sought to revive demand largely by increasing consumer debt. The Office of National Statistics (ONS) reports that during the period July 2012- June 2014 aggregate mortgage debt in Britain stood at £1,057bn, up from £960bn in the period July 2006 – June 2008. Further, ONS reports that the median amounts outstanding for household non-mortgage borrowing increased from £2,900 in the period July 2006 – June 2008 to £3,700 in the period July 2012 – June 2014.

To reverse these worrying trends powerful action will be needed. The key to recovery and positive structural transformation in Britain is a significant increase in investment, particularly if linked to innovation and transformation towards a greener and more caring economy. Sustained investment is necessary to incorporate innovative technologies and reignite productivity growth. In a world with growing globalization and increasing competition, de-industrialization and sustainable growth can only be reversed through higher investment and increased cooperation and coordination at European level (Griffith-Jones and Cozzi 2016).

The current policy framework

The current policy framework in Britain (but also across Europe) has been characterised by the orthodox economic view that fiscal austerity leads to an expansion of economic output. As a result a series of harsh cuts to government spending have taken place in Britain since the outset of the global financial crisis.

The justification for this approach rests on the idea that public investment does not boost demand because it merely crowds out private investment, as government borrowing leads to higher interest rates and taxation (Griffith-Jones and Cozzi 2016). However, in an environment of low private investment and interest rates at record low levels, the case for "crowding out" is particularly weak.

Indeed, Stiglitz (2012) argues that public investment, particularly in infrastructure, is likely to 'crowd in' private investment and that Infrastructure investment, such as in energy, transportation and telecommunication, creates demand in the short term for a wide range of goods and services in constructions and installation supply chains, and in the medium term it stimulated growth through an expanded stock of physical capital and greater efficiency.

In parallel to cuts in government spending – in particular on welfare and other crucial social infrastructure investment (i.e. in those assets that are focused on improving human capabilities and quality of life, such as investment in nurseries, community housing, and other public services providing care, health, education and training) the British government has made a small attempt to increase investment in infrastructure in order to revive the British economy.

A significant part of this small attempt to increase investment in Britain comes from the European Investment Bank (EIB) which, as a result of the European Fund for Strategic Investment Initiative (EFSI), has increased lending for investment to Britain by £735 million in 2015 – equal to one-third of all EFSI supported lending in 2015 (HM Treasury 2015).

In total only in 2015 the EIB lent to the UK approximately £5.8bn for infrastructure projects such as the upgrading of existing lines and station of London underground system, support to Rolls Royce for the development of new aero engines, campus investment and expansion at Oxford University, constructions of a new children's hospital in Edinburgh, and various energy efficient projects through the UK for a value of £380 million. Overall, investment in Britain accounted for over 11% to total EIB lending in 2015 (and the total contribution from Britain in terms of called up capital in the EIB is equal to 3.4 bn Euros).

This is a positive although very small step to revive investment in Britain. A greater investment plan, accompanied by strong and effective industrial policies are needed both at national and European level to bring the British economy towards sustainable growth and to revive a declining industrial sector. However, it is clear that Britain also needs European resources to support its economy and stimulate investment and that a vote to leave the European Union (EU) might lead to a significant reduction in the support that Britain receives from European institutions to stimulate investment.

If Britain left the EU, although current EIB projects would continue it would be very likely that the scale of investment in Britain from the EIB would significantly reduce. This is because outside the European Union the EIB predominantly lends to developing countries rather than other developed countries. In addition, an exit vote might lead to increased uncertainty which could negatively affect private investment. Britain needs an alternative strategy for achieving sustainable economic recovery, but not one which brings Britain outside the European Union.

An alternative proposal for sustainable recovery

In order to achieve a sustainable economic recovery, Europe and Britain need a major boost in investment in both physical and social infrastructure. This translates to the need for additional investment measures to those already existing at EU and national level (such as for example the Investment Plan for Europe) and to the recognition that public investment is essential in order to crowd in private investment.

Higher investment in Britain, and across Europe, could be achieved by an expansion of lending by the European Investment Bank, based on an increase in its paid-in capital provided by EU members, including Britain. The EIB's ability to leverage its own financing to attract private co-investment enables a significant economic impact to be achieved from fairly limited public resources (Griffith-Jones and Cozzi 2016).

Since 2013 the EU has doubled the EIB's paid-in capital. This has led to a significant increase in lending both in Britain and across Europe. Assuming a leverage ratio of eight, as accepted by the rating agencies to maintain the bank's triple-A status, an extra 10 billion Euro of paid-in capital would allow the EIB to expand its lending by up to 80 billion. Given that the EIB-funded projects are typically 50% co-financed by the private sector or by national development banks, this might result in additional investment of around 160 billion Euros across Europe (approximately £120 billion). On the basis of the current geographical distribution of the stock of loans of the EIB Britain could then see its investment increase by approximately 13 billion Euros (approximately £10 billion) as a result of such a further increase in EIB paid-in capital.

In addition, the British government should create a national development bank in order to support domestic investment and technological transformation and to complement the lending of the EIB. There are several cases of successful national development banks that have supported the development of domestic infrastructure and the transformation towards a more sustainable and greener economy. In Germany, for instance, the national development bank KfW lends approximately 50 billion Euros per annum for domestic purposed and for innovative projects. A similar state bank could be set up in the UK to support investment in innovation, renewable energies and environmental technologies, physical and social infrastructure, and Small and Medium Enterprises (SMEs).

With regards to the financing of such a state bank in Britain, Skidelski et al. (2011) argues that the British government could either issue gilts to be bought by the market and/or the Bank of England, or it could use the profits from selling its equity stake in commercial banks such as RBS and Lloyds.

Further, in a world with growing globalization and increasing competition, sustainable growth can only be achieved through higher investment in social and physical infrastructure and by making Europe become a much more coherent and coordinated economic (and political) area. In this respect, Mazzucato (2016: 117) highlights the importance for Europeans to learn to cooperate, "to rely on each other and to allow a certain division of labour" between European countries:

> "We should let Greece do solar panels, Germany machine tools, Italy art, the UK science - not exclusively but to some extent, with this division of labour, Europe could become a competitive hub" (Mazzucato 2016: 117).

Thus, we should all think how European can work together using and complementing our national capacities, capabilities and tools. Only by a common and coordinated European strategy will we be able to bring Britain and Europe onto a more sustainable economic trajectory.

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The Treasury and the economic consequences of Brexit

By Jeremy Smith, Co-director, Policy Research in Macroeconomics (PRIME)

"The UK's principled position is that social policy should primarily be a national responsibility, and it has used its influence as an EU member to reduce the impact of EU labour market regulation on the UK"
HM Treasury analysis, para. 1.101
The long-term economic impact of EU membership and the alternatives

Summary

This article argues that the Treasury's reports on the long-term and short-term impact of Brexit are misleading in the way their assessments – which are little more than guesstimates – are presented. They notably fail to make explicit the baseline for GDP against which the alternatives are assessed. The long-term report concentrates on trade and FDI as if these were the only key economic factors, ignoring the essential role of demand and overall investment. Having one of the world's most deregulated labour markets, with least employment protection, is seen as a desirable economic policy goal.

But while we simply cannot sensibly quantify how things will work out 15 years from now, it is hard to see how a post-Brexit UK's economic performance, including trade, would be any better if the same broad cluster of neoliberal policies is pursued by post-Brexit governments. On the contrary, it is likely that it would be somewhat worse. In the short term, the only way of preventing or limiting a recession due to Brexit uncertainty would be an aggressive use of fiscal and monetary policy, which is however politically unlikely.

The EU has delivered many gains for working people, but its economic policies – notably in relation to the eurozone - have failed. The existing Treaties prevent democratic economic alternatives to neoliberalism, and we need to work with partners across the EU to change them. For the UK to "walk away" now from the EU, with a government dedicated to a mix of ultra-free trade dogma, unregulated capital and right-wing nationalism would change matters only for the worse.

Statistics and suspicion

Both the Leave and Remain camps suffer from deep public suspicion that they are dealing in propaganda rather than truth. The Leave camp have been tarnished by the false claim that, once EU membership ceases, the UK government would save some £350 million per week (£18 billion per year, or about 1% of GDP) which could be redirected in its entirety to other uses. The likely net "saving" is in fact about half this.

But there is almost as much distrust (not without cause) over the Treasury's estimate of the likely "hit" to the economy that it claims – according to its own models – would flow from

Brexit. What has caused particular concern is the Treasury's claim to quantify the economic disadvantages it identifies – and the misuse by government "Remain" ministers of those statistics. A key problem is that the Treasury fails to set out the baseline assumption as to how GDP would develop if we remain in the EU. Instead, it set out statistics to make it look as though, for example, GDP in 14 years' time would actually be 3.8% or 7.5% lower than now – which is not what the numbers mean.

The Treasury, to recall, has published two reports on Brexit. The first, published on 18th April, looked at the alleged long-term consequences from trade and FDI effects. The second, on the "immediate" economic impact, was published on 23rd May.

The Treasury's long-term impact report

The Treasury's model claims to calculate the outcomes of three possible future trade-relationship options in case of Brexit, and the report summarises them as follows:

Annual impact of leaving the EU on the UK after 15 years (difference from being in the EU)

	EEA	Negotiated bilateral agreement	WTO
GDP level (%) – central	–3.8	–6.2	–7.5
GDP level (%)	–3.4 to –4.3	–4.6 to –7.8	–5.4 to –9.5
GDP per capita – central[a]	–£1,100	–£1,800	–£2,100
GDP per capita[a]	–£1,000 to –£1,200	–£1,300 to –£2,200	–£1,500 to –£2,700
GDP per household – central[a]	–£2,600	–£4,300	–£5,200
GDP per household[a]	–£2,400 to –£2,900	–£3,200 to –£5,400	–£3,700 to –£6,600
Net impact on receipts	–£20 billion	–£36 billion	–£45 billion

[a] Expressed in terms of 2015 GDP in 2015 prices, rounded to the nearest £100.

But what do the numbers mean? The heading here does say, "difference from being in the EU", but this is a very coy way of expressing what has been done, especially since the baseline scenario (Remain in EU) is not set out anywhere for straightforward comparison. For example, -£4,300 from what?

This is an egregious failing, since (a) it seems highly likely to mislead the ordinary reader, and (b) it is quite implausible that the Brexit "loss" would be of the same order against a baseline of average GDP rises of say 1% per year, as against 3% a year. Of course, the report's failings in presentation have been compounded by the public misuse of these statistics by government ministers, in particular in implying that the "differences" in GDP per capita (which mean lower increases) were actual losses in household income.

We may assume that the Treasury "baseline" assumption is of average real GDP "growth", over the next 15 years, is 2.1% or 2.2% per year. For comparison, the average annual change in real GDP over 43 years of the UK's membership of the EEC/EU is 2.2%, while the increase in GDP per head of population is lower, at 1.8% per year.

But over recent years, which also cover the period of the great financial crisis, performance has been worse:

- In the 21st century, the average annual change in GDP is 1.9%
- In the 21st century, the average annual change in GDP per head is 1.25%

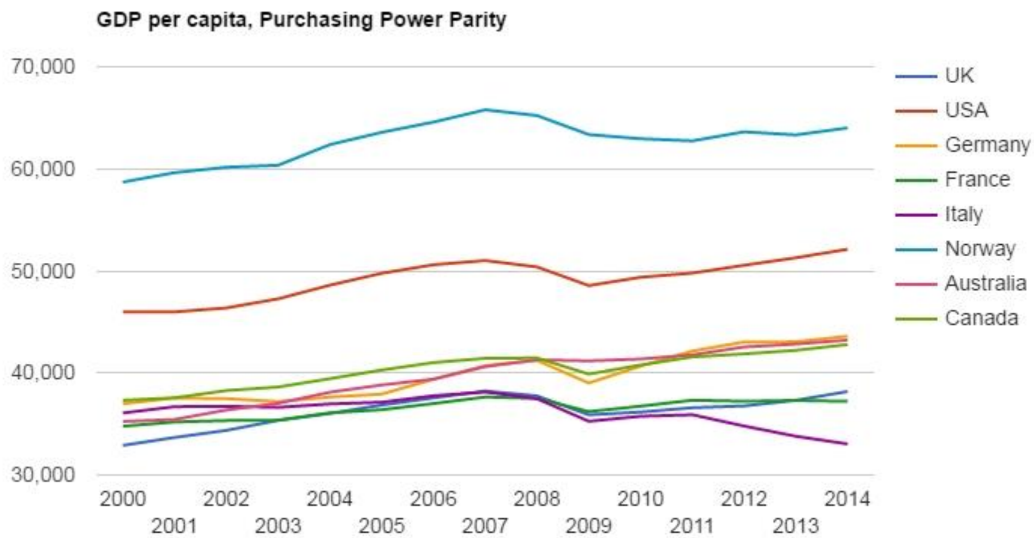
On Europe Day (10th May) I published a long (over-long!) article Don't swallow the Treasury line, but it's still better to remain which raised three main concerns with the long-term Treasury report.

- The absence of an explicit baseline "Remain" scenario (even expressed as a range)
- The unbalanced concentration on trade and foreign direct investment (FDI) to the virtual exclusion of other dimensions that substantially affect the economy, and in particular
- The paper says almost nothing about aggregate demand, which is key to the future. It assumes that "free trade", foreign investment and supply-side issues are the only ones that are important, and that only by increasing 'trade' can you increase wellbeing.

Moreover, as the passage quoted at the head of this article shows, the Treasury report underlines the government's commitment to reduce any social policy or employment protection provided at European level to an absolute minimum.

The role of trade and FDI

The Treasury's central argument is that the EU single market and trade regime has been of particular advantage to the UK, which it would lose out on if it left. In fact, this is difficult to establish statistically, as it would requires an assessment of progress of countries inside and outside the EU, also allowing for other factors. Thus, for example, the development of UK GDP per head of population (in purchasing power parity) has run in close parallel with France (till 2012), and at similar rates to non-EU countries such as Australia, Canada or the US.



Source: TheGlobalEconomy.com, World Bank

In terms of real GDP alone (ignoring population change) since the 1980s the UK has tended to increase at a faster average rate than other major EU states, but less than Australia or Canada in recent years. Overall, the EU as a whole has under-performed other advanced economies in recent years, largely due to the failings of the single currency.

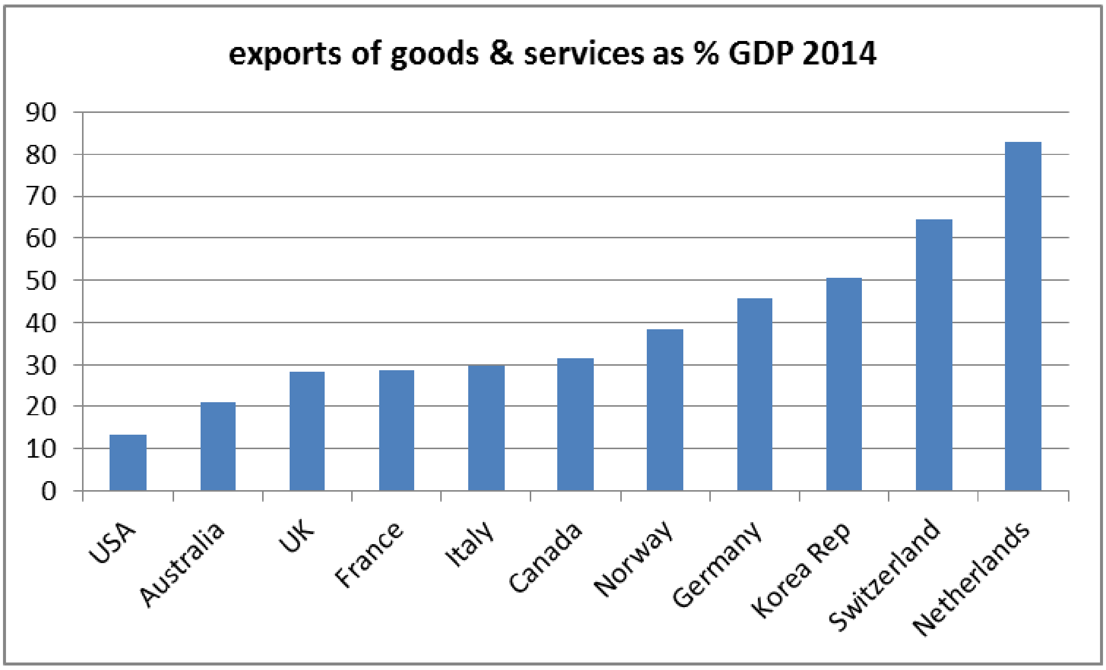
Thus, it is actually difficult – when one looks at actual data rather than models – to quantify the GDP advantages of membership of the EU (which is not to say there are none).

The Treasury document argues

> "In the long term, greater openness to trade and investment boosts the productive potential of the economy. Openness increases competition among firms, allows access to finance from abroad, improves the quality of production inputs, and creates incentives to innovate and adopt new technologies. The HM Treasury analysis estimates the impact on trade and FDI and what this means for productivity and GDP under EU membership and the alternatives. Higher productivity means better quality jobs which lead to higher real wages and household incomes."

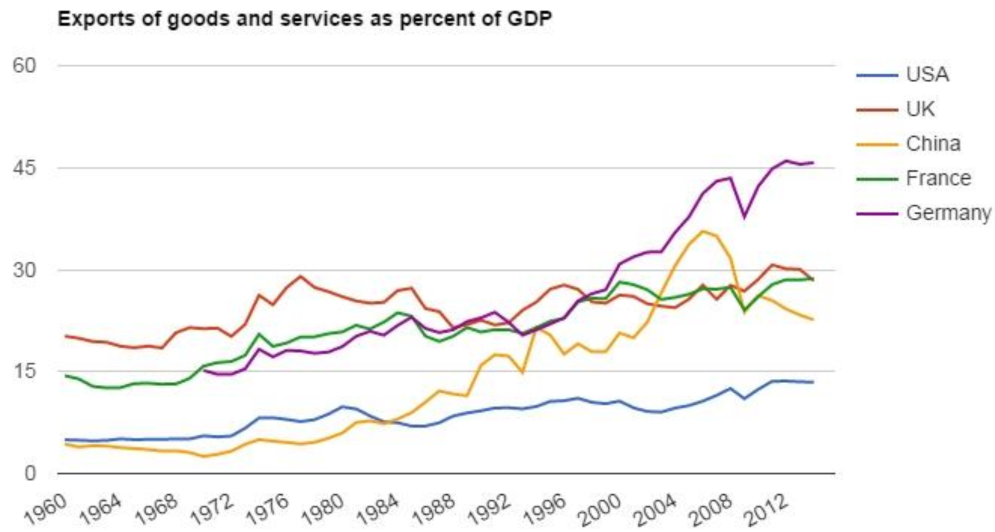
It is not my purpose to deny that much trade brings benefits to citizens and in the productive capacity of a country. Likewise with productive inward investment that is committed for the long-term. But once again, the modelled benefits are hard to quantify clearly when one examines the real-life GDP data. The "free trade" dogma assumes that increasing all kinds of trade is always and everywhere positive - which we increasingly understand is not the case.

In reality, different countries have achieved different balances in terms of trade and other economic drivers. Here is a snapshot (2014) of the widely differing position of exports as a percentage of GDP in a set of "advanced" economies (imports are broadly similar, allowing for trade deficits and surpluses). Now it is natural that the US – with its vast internal market – would have a much smaller share of GDP attributable to trade, but generally, there is little correlation between the trade density of each, and the actual economic outcomes (compare e.g. UK and Italy). There is a greater (but far from strong) correlation between size of population and trade density.

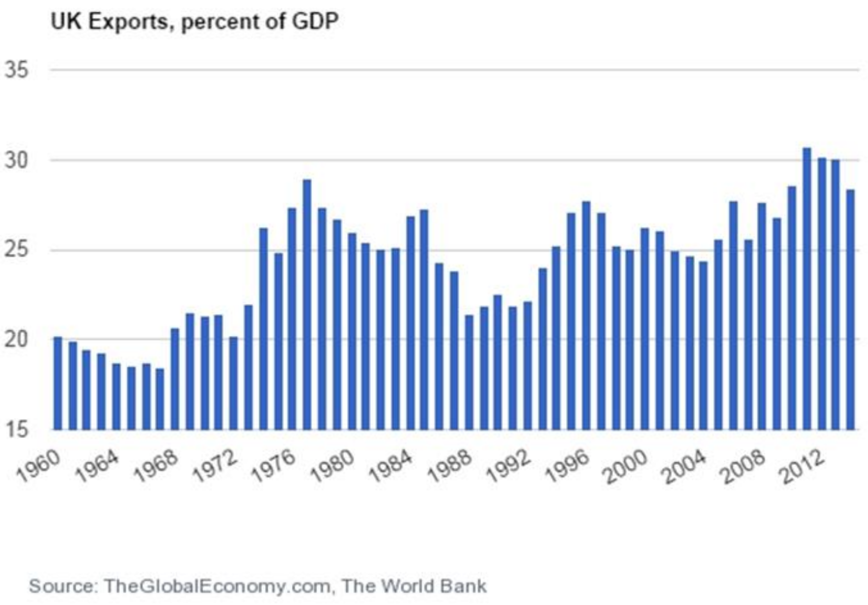


The next two charts show the development of UK exports from 1960 onwards, as a percentage of GDP. The first shows the UK compared to some other major economies, the second is the UK alone. It is evident from this that soon after the UK's entry to the EEC/EU, exports started to play a more important role in the UK economy, rising from around 18-20% GDP earlier to 25-30% thereafter.

However, the average real annual GDP "growth rate" did not rise during the post-EEC entry period compared to the pre-entry period. While there is clearly some relationship between the development of trade and of GDP, there is a far from a close correlation over time.



Source: TheGlobalEconomy.com, World Bank



The fluctuations bear some relation to economic activity, but for example we see a lower trade share in the late 1980s to early 1990s – a period which saw both the Lawson boom and recession. By contrast, exports as a % of GDP fell much less during the 2008-09 crisis but then rose sharply at a time that GDP did not.

Yet the Treasury report simply says this about the benefits of trade as a member of the EU:

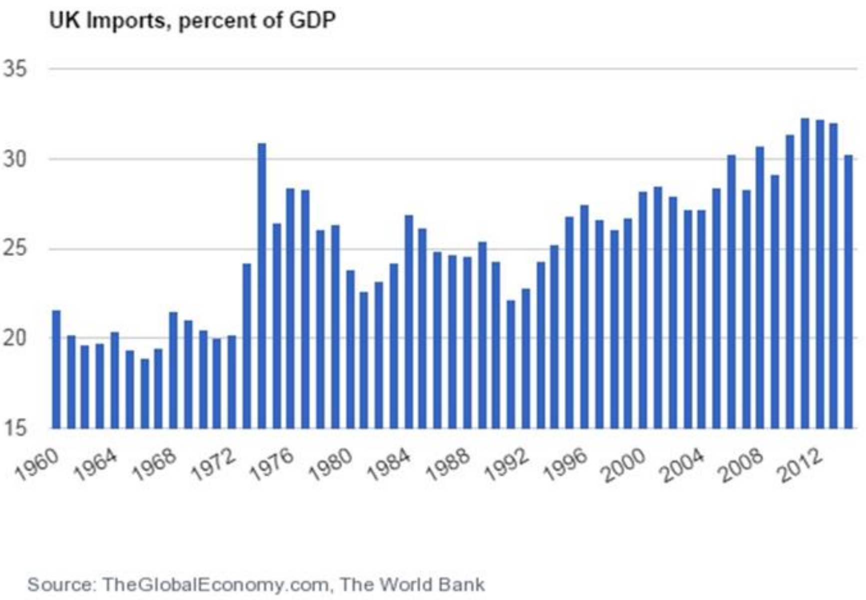
> "Membership of the EU has made it easier to trade both with the EU and the wider world. Trade as a share of national income has risen to over 60% in the past decade, compared to under 30% in the years before the UK joined the EU. The HM Treasury analysis, which is in line with academic research, shows that EU membership increases trade with EU members by around three quarters."[1]

They do not argue here – but see below - that increased trade leads directly to stronger GDP. The issue leads us into complex issues of causation. The Treasury instead argues that there is a more general correlation of "openness" and economic success, since causation is elusive. If this is correct, at least in the way globalisation has unfolded to date, the point underlines further the problems of quantifying precise ranges of losses of GDP if the UK leaves the EU.

The issue for the UK is not just the level of trade but the *balance* of trade. If exports fell slightly but imports fell further, then (all else being equal) GDP would increase. Our trade deficit is currently around 2-3% of GDP. In the imports chart below, we see however that

[1] The Treasury report uses a different basis of showing trade/GDP from those we have used from the World Bank. We show exports and imports as a percentage of GDP year by year, while the Treasury state "the trade-to-GDP ratio is the sum of real exports and imports divided by real GDP in 2012 reference prices. The latter methodology shows a relatively seamless upward trend from the 1970s until the 2008/09 crisis, when it flattens.

imports have exceeded 30% of GDP in 8 years, and recently by significant margins, while exports have only recently – and modestly – reached that level.



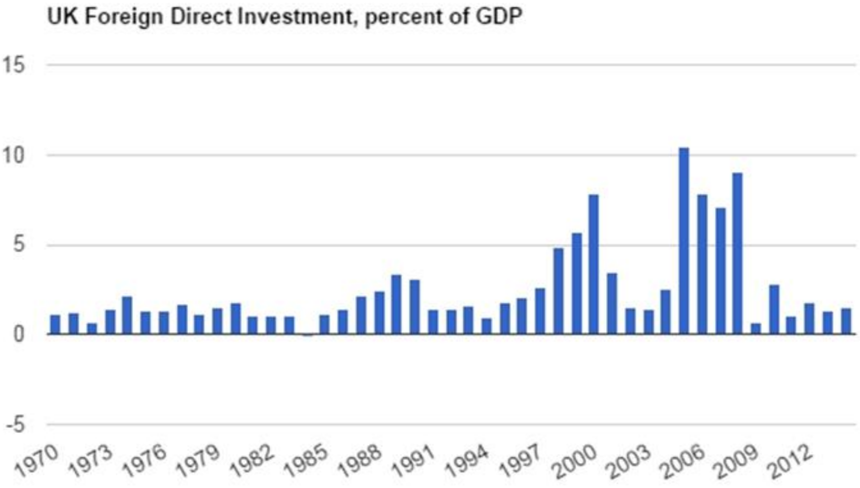
Foreign direct investment

The Treasury report says:

> EU membership has also made the UK an attractive place to invest and one of the top global destinations for FDI. Almost three quarters of foreign investors cite access to the European market as a reason for their investment in the UK.

This may be factually true. But again, it does not help us draw conclusions about the quantitative impact of leaving the EU, since there is no clear way of calculating how far inward FDI actually tends to increase GDP, or how much would be lost if we were to leave the EU.

The next chart shows that for most of the period of our EU membership, annual FDI has been in the region of 2.5% of GDP per year – the two exceptions are the late 1990s, and the period just before the great financial crisis. Both these periods are in fact "boom" periods, followed by the dotcom crash first, and the GFC disaster in the second. There is no reason to believe that these boom-related FDI surges have long-term GDP benefits. Since 2008, we have returned to the earlier more modest percentages.



Source: TheGlobalEconomy.com, The World Bank

According to the Treasury report:

> "The total stock of inward FDI to EU countries, which includes FDI from other EU countries, was $8.8 trillion in 2013, of which $1.6 trillion (18%) was invested in the UK. This made the UK the largest recipient of FDI in the EU, ahead of Germany and France (with inward FDI stocks of approximately $1 trillion each)."

A very recent OECD paper ("FDI in Figures", April 2016) tells us that globally

> "FDI increases by 25% in 2015, with corporate and financial restructuring playing a large role… OECD FDI inflows almost doubled in 2015 (to USD 1 063 billion) compared to 2014, reaching their highest level since the beginning of the financial crisis. However, they remain 19% below their peak level in 2007… The increase in the first half of the year was largely due to record levels of FDI inflows into the United States… due to some large cross-border deals."

All this should make us suspicious of any causal link – globally or nationally - between surges in FDI and GDP. 2015, we may note, was a year in which global GDP advanced only very modestly (3.1%).

The scale of FDI into the UK, compared to other EU countries seen as economically "open", is not matched by any evident ongoing superiority of economic performance.

The Treasury report also seeks to make a link with increased productivity (1.77):

> "There is strong evidence that UK trade and investment has been higher as a result of this access to the Single Market. This has increased productivity in the UK. Higher productivity means better quality jobs, and higher real wages and household incomes."

The problem with this statement is that productivity in the UK lags far behind most other high-income EU and OECD countries and in recent years has not been growing rapidly, over a time when FDI has been increasing and the stock is far greater than elsewhere except the USA. Either the increases in FDI have not had the claimed impact on productivity, or the rest of the economy is indeed in the direst condition.

Per hour worked, UK productivity is far worse than France's, even though GDP has risen faster than France's. France's trade, we may note, is similar in scale to the UK's, while her FDI is somewhat smaller.

Can we quantify the benefits of trade and FDI?

When it comes to assessing the GDP benefits of trade and FDI, the Treasury report is notably thin on evidence from actual data, and they fall back on academic modelling of results.

The clearest claims are these:

> "Frankel and Rose (2000) estimate that a 1 percentage point increase in the trade to GDP ratio increases GDP per capita by 0.17% to 0.33%".
>
> Feyrer (2009) uses the relative cost of transporting goods via air following changes in transportation technology as a proxy for trade costs, estimating that a 1% increase in the growth rate of exports is associated with a 0.5% to 0.75% increase in the growth rate of GDP per capita."

Taking the first, we may note that the increase in trade since joining the Common Market is some 20 percentage points, and we can assume that GDP per head has grown at roughly the same rate as GDP. So according to Frankel and Rose, GDP per head should be some 4-7% greater than if trade had not increased. But already by 1976, trade already formed around 56% of GDP compared with just over 60% today - which would mean that the increase in volume of trade since 1976 has had virtually no impact on GDP or GDP per head!

The second study (Feyrer) is more difficult to assess. What the author actually claims - working solely from air freight stats - is this:

> "An increase in the volume of trade of 10 percent will raise per capita income by over 5 percent."

Therefore, an increase in trade *volume* of 20% will raise per capita income by over 10%. Once again, this is extremely hard to reconcile with actual UK GDP per head data and trends over time, though he argues that Frankel and Rose's conclusion is too high. Feyrer also raises the causation issue, positing that trade may be a proxy for a set of economic integration factors rather than a causal factor in its own right.

As a simple exercise, I have looked at the trade and GDP data for the UK, France, Germany, USA and Denmark, taking 1990 and 2014 as the two dates. I have calculated the percentage changes in trade and GDP (including GDP per head) and then looked at the ratios that flow. Since this depends on the specific years selected, I do not claim it has scientific force, but it does cover a 25 year period during which the EU single market has largely been operative. The curious result is that the UK is the economy in which trade increases appear to have had the lowest relative impact![2]

	% change 1990 to 2014	Germany	UK	France	USA	Denmark
1	Exports as share of GDP	100	22	38	44	50
2	Exports in $	337	243	206	310	268
3	GDP per capita	38	42	27	41	28
4	GDP per capita at PPP	38	47	27	40	29
5	Real GDP Const $	41	65	43	80	41
6	Ratio row 3 to 2	8.9	5.8	7.6	7.6	9.2
7	*Ratio row 3 to 1*	*2.6*	*0.5*	*1.4*	*1.1*	*1.8*
8	*Ratio row 5 to 2*	*8.2*	*3.7*	*4.8*	*3.9*	*6.5*
9	*Ratio row 5 to 1*	*2.4*	*0.3*	*0.9*	*0.6*	*1.2*

Again, none of this is to argue that much trade and FDI is not of great value, but trade and FDI have to be situated in an overall context of strengths and weaknesses in an economy, and notably the state of demand and overall investment. There is no magic link between growth in trade and increase in GDP.

Demand in the economy

The report's analysis is narrow in its focus. Above all, and true to its commitment to self-defeating austerity, the Treasury does not consider the issue of demand in the economy, nor

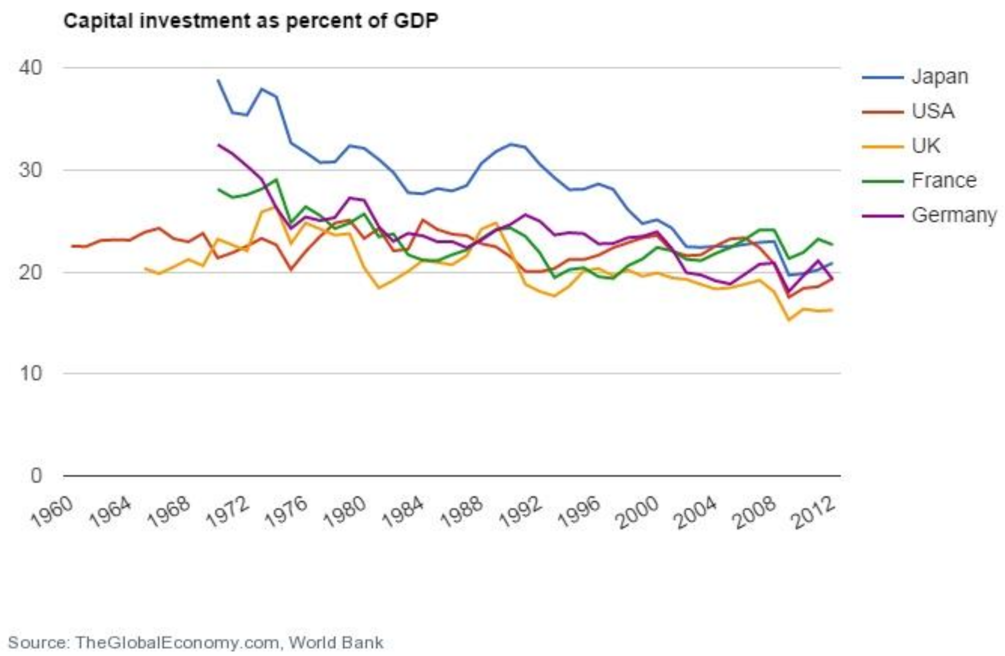
[2] For example, the ratio '% change in GDP per capita : % change in exports in $' is 5.8 for the UK, but 7.6 for France and the US, and 8.9 for Germany. The UK had the biggest percentage increase in GDP per head, but the second smallest percentage increase in exports.

other possible developments in the UK economy that could raise national income and develop wider economic activity.

Over a long period, the key weakness of the UK economy has been the low level of investment. Whether in or out of the EU, increasing capital investment as a proportion of the economy is necessary and the most reliable way of maintaining strong economic activity.

The chart below shows just how far we lag behind all comparator countries. The issue is the *overall* level of useful investment, public and private, not just (or mainly) foreign investment. The Treasury report at one point implicitly accepts that it is overall investment that is the key to productivity, but fails to draw a wider conclusion:

> "Access to the Single Market affects the incentives of businesses to invest in the UK, both for domestic firms and foreign firms. This matters because *investment in the economy* is a key determinant of economic output and productivity growth." (My emphasis).



It is of course true that specifically foreign investment can have some advantages, as the Treasury report says:

> "Evidence suggests that FDI can increase local productivity by influencing the composition of the economy and through positive knowledge spillover to domestically-owned firms."

But this does not affect the fact that domestic investment is even more important. If FDI per year is 2.5% of GDP, and overall investment is say 18%, that leaves 15.5% that is not FDI!

The failure of the Treasury report to focus on demand reflects its ideological bias towards austerity, but it is still a remarkable lacuna. After all, the same bodies (IMF, OECD for example) that have voiced support for the UK Remain case have been pressing the case for more active fiscal policy, notably investment.

As Narayana Kocherlakota, till recently President of the Federal Reserve Bank of Minneapolis, put it in a Bloomberg article on 21st April:

> "A disease - persistently low demand for goods and services - has afflicted the world economy... It's puzzling and deeply disturbing that fiscal policy makers aren't doing what they can to cure the global economy's disease."

A post-Brexit government could in theory change course and undertake a large-scale public investment programme (though given its likely political direction, this seems a most unlikely outcome). The Treasury does not even consider this possibility.

The Treasury report – the short-term impact

On 23rd May, the Treasury released its second report, on the "immediate" impact of a Brexit vote. The report summarises the position:

> "A vote to leave would cause an immediate and profound economic shock creating instability and uncertainty which would be compounded by the complex and interdependent negotiations that would follow. The central conclusion of the analysis is that the effect of this profound shock would be to push the UK into recession and lead to a sharp rise in unemployment."

They claim to quantify two possibilities – a "shock" scenario, and a "severe shock" one. These are summarised in a similar chart to that included in the long-term report. This time, the heading at least refers to the "% difference" from base level, though again without being explicit as to that level:

Immediate impact of a vote to leave the EU on the UK (% difference from base level unless specified otherwise)

	Shock scenario[a]	Severe shock scenario[a]
GDP	-3.6%	-6.0%
CPI inflation rate (percentage points)	+2.3	+2.7
Unemployment rate (percentage points)	+1.6	+2.4
Unemployment (level)	+520,000	+820,000
Average real wages	-2.8%	-4.0%
House prices	-10%	-18%
Sterling exchange rate index	-12%	-15%
Public sector net borrowing (£ billion)[b]	+£24 billion	+£39 billion

[a] Peak impact over two years. Unemployment level rounded to the nearest 10,000. [b] Fiscal year 2017-18.

The OBR March 2016 forecast is for GDP to rise 2% in 2016, 2.2% in 2017 and 2.1% in 2018. Here is the Treasury's assumption of how such "shocks" might follow through:

Table 2.C: Quarter-on-quarter GDP growth (%)

	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
OBR Budget 2016	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5
Shock scenario	-0.1	-0.1	-0.1	-0.1	0.2	0.2	0.2	0.2
Severe shock scenario	-1.0	-0.4	-0.4	-0.4	0.0	0.0	0.1	0.1

The OBR assumption for CPI inflation in 2017 is 1.7% - add on 2.3 % points and we get to 4%, which would be a huge sudden increase indeed, and this becomes inflation of 4.4% under the "severe" scenario. The projected falls in the exchange rate and in house prices would in themselves be capable of being advantages, but the likely increase in unemployment flowing from any recession is a major concern – even if the Treasury's numbers here are again open to question, and little more than model-generated guesstimates.

Conclusions

Back on 10th May, weeks before seeing the Treasury's short-term impact, I wrote this, linking the long-term report with my thoughts on the immediate impact:

> "In the end, I share just a little of the Treasury's perspective, though I do not share their economic philosophy nor propagandistic approach. It is hard to see how and why Brexit - assuming the same free-trade philosophy of the successor government as of the present government - should lead to any better outcome in terms of trade, at least for quite a long time, and some good reason to believe that the situation would be worse. It is not as if the UK is heavily regulated in terms of labour protection. On the contrary, the OECD tells us that we are... in the bottom 3 most deregulated countries in the world as regards employment protection.
>
> Moreover, a "Leave" vote would assuredly lead to a period of uncertainty in terms of FDI and of domestic private investment. The negotiation inside the EU will last for at least 2 years, to be followed by any residual uncertainty about what is to happen. This would need to be countered by a large-scale public investment programme - but it is hard to see that the new right-wing Brexit-negotiating government would have this on its agenda. It is likely to be even more economically orthodox and deficit conscious than the Cameron-Osborne government...
>
> So if we have a fall in private investment which is not matched and indeed surpassed by an increase in public investment, a tough recession seems likely. A government committed to a more "autarkic" policy might be able to deal with the situation, but that is not what we will have. I do not think that the current slowdown in the UK economy is caused by the Referendum campaign's shadow, but it does seem that a decision to Leave would coincide with an already difficult situation."

This remains my view. Moreover, the slowdown in the UK economy over the last year would provide a particularly difficult moment for a new "Leave" government, and make a Brexit recession more likely. All this might not matter so much if it were not for the trade and current account deficits. We have to consider that the pound would rapidly and significantly fall in value, and that the trade gap could become even larger if this sucks in imports faster than exports grow. And the willingness of foreign investors to fund the current account deficit without a large premium has to be considered.

In the short term, the only way to combat recession would be an aggressive use of combined fiscal and monetary policy, including a sustained major public investment programme. But do we really envisage a right-wing government driven by the leading Brexiteers to do the biggest policy U-turn in political memory, overturning austerity and deficit fetishism?

Looking to the long-term, we simply cannot foresee how things will work out 15 years from now, though as indicated, it is indeed hard to see why economic (including trade) performance outside the EU would be any better if the same broad cluster of deregulating neoliberal policies is pursued by post-Brexit governments.

The European Union is at a dangerous point – some of it (but far from all) self-inflicted by its economic errors. If the UK pulls out at this juncture, the winners in the UK will be the even-more-ultra-free-trade pro-deregulation wing of the Conservative Party – allied de facto to the right-wing nationalism of UKIP. And if the UK votes to leave at this juncture, it will invigorate all the ultra-nationalist forces across the continent, and could even start a process leading to the disintegration of the Union led by right-wing nationalist forces. If this happens, we cannot guarantee that the EU's biggest achievement – long-standing peace on most of our continent – will endure.

The EU has delivered big gains for working people in the past. Women's rights, workers' rights, environmental and consumer protection, climate change, international development, help for poorer EU regions – a big yes in many respects. These remain relevant and significant. But seriously, the policies of the Eurozone have not delivered prosperity or social justice for working people. It is unacceptable to have unemployment above 10% for year after year. The Eurozone economic policies and means of enforcement have been a disgrace and greatly damaged economic activity.

We have to get the balance right, if the EU is to remain viable for the future. And that means the long hard slog of forging the solidarity and pressure to change the damaging economic policy straitjacket of the Treaties, which impose an odd mix of neo- and ordo-liberal dogma, and block democratic economic choices. But for Britain to walk away now into its own quagmire of deregulated free trade dogma and right-wing nationalism will change matters only for the worse.

But – Labour Party members please note - the "Remain" camp within the present Conservative government are absolutely committed to preventing any positive gains from the EU on social policy and workers' rights. Their vision of Europe is of deregulated globalisation, with finance capital unleashed.

So yes, I will vote Remain in the referendum in June, but not based on the arguments or exaggerated presentations of the Conservative "Remain".

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