Institut der deutschen Wirtschaft Köln
Cologne Institute for Economic Research

Speech by

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Jürgen,

Thank you and the Cologne Institute for Economic Research for the invitation to join you this morning and of course for the work undertaken by the Institute. Your report – Brexit – the Economic Impact – a Meta Study is a thorough and detailed analysis of the potential economic consequences of the UK leaving the European Union – consequences of course both for the UK and the other 27 member states.

Before I respond to Jürgen and the report let me say firstly that I do feel enormous sympathy for my fellow countrymen who will have to decide on this momentous once in a lifetime issue on the 23rd June.

We are being assailed by a blizzard of often contradictory information dressed up as economic fact and the sometimes vile misinterpretation of issues concerning migration, security, and welfare as being linked to our membership of the EU. It is a fevered and unpleasant and at times quite farcical debate which I fear can only get worse as we approach the 23rd June.

So to the report and some thoughts of the consequences of Brexit.

The clear theme emerging from the report is one of uncertainty – after 43 years of membership an exit would be traumatic. Whether that trauma would be the pain of terminal decline or the rebirth of Britain's economic fortunes is the central issue.

Estimates of the potential economic consequences of Brexit vary from a benefit of plus 12% of GDP to minus 20% - they are incredible and I simply discount them.

I do give credence to mainstream studies by the Centre for Economic and Business Research and others that a permanent reduction of between 1% and 3% of GDP is possible – that is serious but perhaps not, in the view of one senior German economist, unmanageable.

Let me try and offer a view as to what Brexit may mean through the day to day prism of the British people – the so called man or woman in the street.

Firstly Investment

Britain is the leading recipient of Foreign Direct Investment in the EU and measurably outstrips even the larger German economy and our near neighbour France.

A net FDI inflow of £28bn contributed to British private sector investment of £169bn in 2014 and in turn helps drive research and development, innovation, productivity and industrial output. I suspect also that some of the other £141bn of investment is linked to overseas companies headquartered in the UK to, in part, access the wider EU market.

It is hard to accept that some of that FDI is not directly linked to the UK's membership of the EU and access to the tariff free and open market of 500m people which is the commercial target of many of the global businesses who have their European Headquarters in the UK.

The other key benefit of FDI through its link to investment and innovation is of course jobs. I do not believe some claims that 3m jobs, might go if we leave. I do firmly accept however that there is a link between FDI and jobs. The figure that my own organisation has used publicly is one million plus – an exit would therefore result in job losses and I fear that many of them would be high quality jobs.

I conclude therefore that Brexit would lead, at least in the short term, to a reduction in investment, a slowdown in technological innovation and a loss of jobs. The old adage that 'Uncertainty is the enemy of Investment' could surely not be truer in this regard. The exact level of loss is unknown – but it would amount to an economic shock to our system. And that is always unwelcome.

Trade

The second issue I wish to raise is trade.
Britain is a trading nation and along with the Dutch, international trade is deeply-rooted in British history and culture – it is one of the principles of Britain's relatively open and free market which coincidentally causes us so much difficulty with many of the more centrally planned and interventionist countries of the EU.

Let us be clear - Britain's trade with the EU and the rest of the world will not stop if Britain were to leave but it is very likely to stutter at least or be in deep shock for a considerable period of time at worst.

There are significant unknowns here as to how long or how severe that shock could be.

Trading arrangements would have to be put in place with the rest of the EU and through it to the 50 or so other countries covered by an EU trade agreement. As this report highlights those countries account for 85% of Britain's total trade.

Other factors affecting trade include uncertainty over the value of sterling, the level of inflation, interest rates, Britain's credit rating and monetary flows – all unknowns at this stage.

A strong implication exists however that trade flows would be impacted with resultant decline in output, productivity and GDP. With this comes again the potential danger of loss of living standards and general well-being for the people of the UK.

Arguments also exist over how long it would take for the United Kingdom to agree a trade deal with the EU and other countries or economic blocs.

It is inconceivable in my view that this could be achieved in the 2 year period of negotiation referred to in Article 50 of the Treaty. The time period therefore before meaningful structures could be put in place could be lengthy with the potential impact of a loss of trade and/or Britain having to face tariff barriers to export its products. The UK's annual trade deficit in goods of circa £80bn with the rest of the EU leads some commentators to conclude that a favourable trade deal could be agreed quickly. There is merit in this argument of course but there is absolutely no historical track record or precedence of any trade agreement being concluded speedily.

Purchasing power and consumer well-being

Not only is Britain a trading nation it is a nation of travellers, holiday makers and overseas residents. Much is reported of migrants coming to work in the UK. Very little is said of the 750,000 British people living in Spain or the 400,000 in France or indeed of those who like to travel to former British colonies such as Cyprus and Malta. Unlike the vast majority of migrants coming to the UK, the British living in the warmer climates of southern Europe tend to be older and retired. They are not economically active and are a greater burden on those countries social and health services. Many of them are also dependent on UK pensions paid to them in local currencies – a point I will return to.

The UK economy is on the other hand heavily reliant on economically active migrant labour. Not only is our service sector heavily dependent on them, my own industrial sector is currently made up of 10% of EU nationals without whom it would not function.

There are currently 900,000 Poles living and working in the UK. There are also some 200,000 plus French people in London – making London one of the largest cities in France.

I referred some moments ago to the issue of the value of sterling. The Governor of the Bank of England referred recently at a House of Commons Select Committee to a potential devaluation of the Pound – some investment banks in London have indicated that there would be a 20% devaluation.

Devaluation if it were to occur following an exit could drive up consumer prices through inflation and require monetary policy adjustment in the form of higher interest rates.

Ladies and gentlemen this matters because the British are also a nation of house buyers and borrowers. Access therefore to cheap finance is important not only to support house purchase - which is an extremely emotive issue in the UK - but also to support businesses, particularly SMEs who are so dependent on affordable access to finance and credit.

This uncertainty has potential knock on effects on bond and stock markets. Britain's public sector debt is 88% of GDP. Any increase in interest rates would have a material impact on servicing this debt thus limiting our Government's ability to invest in infrastructure, our science base and other growth related activities. A sharp stock market correction which would also see billions wiped off the value of British and indeed non-British listed companies which could only add to the sense of a loss of value and well-being.

Leadership

Finally, let me say something about leadership. As a member of the EU Britain has a duty to demonstrate leadership at all levels be it political, economic or social.

We have not always as a country given enough attention to our leadership role in Brussels … too often finding it convenient to blame the EU (often inaccurately) for any number of domestic problems.

If , and I hope we remain part of the EU after June, we must address what has felt like a leadership vacuum in our relationships with Europe and re-energise our membership for the benefit of Britain and I trust the EU.

Ladies and Gentlemen I stated in my introduction that the theme of this report is one of uncertainty. My own comments this morning have only, I suspect, strengthened that theme in that we simply do not know what a Brexit would lead to.

It is difficult however not to conclude, as this report does, that an exit would lead to a serious economic downturn with resultant hardship for many people in Britain.

My own member companies in EEF, by a very clear majority of 9 to 1, wish to remain in membership and I support them in that aim.

Thank you.

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