

ECONOMIC IMPACT OF LEAVING THE EUROPEAN UNION: Response from the RSE

Introduction

The RSE welcomes the opportunity to submit evidence to the inquiry being undertaken by the Scottish Parliament's Economy, Jobs and Fair Work Committee into the Economic Impact of Leaving the European Union.

In advance of the referendum on the UK's membership of the EU the RSE held a series of events addressing the major issues around the decision. Due to the terms of the call for evidence requesting responses of no more than two A4 pages, this response is necessarily brief. For more extensive information we would draw the attention of the Committee to the position papers and event reports from the *Enlightening the European Debate* series, which can be found on the RSE website.ⁱ

This paper was drawn together using information from the following position papers and Advice Papers:

- > *Some (Macro) Economic Aspects of the European Referendum*ⁱⁱ
- > *The European Referendum – Labour Markets, Migration and Benefits*ⁱⁱⁱ
- > *European Union Immigration*^{iv}
- > *Scotland and Europe*^v

Scotland's Exporters

Access to the Single Market will be one of the most significant issues in discussions between the UK and the EU. Trade with the EU represents 44.6% of UK exports and 53.2% of UK imports, according to the Office for National Statistics (ONS).^{vi}

Failure to reach an agreement on access to the Single Market could leave key areas of the Scottish economy under pressure. For example, 40% of Scotch whisky exports (by volume) are to EU countries. If tariffs are introduced on alcohol exports this could significantly impact exports in this field.

It is estimated that Scotland operates an overall trade surplus with the EU, although it is difficult to reach a precise figure on this. The Scottish Government reports that exports from Scotland to the EU totalled £11.6 billion in 2014; around 46% of international exports.^{vii} The EU is the single most important non-domestic market to Scottish and UK exporters. Any outcome which adversely affects their competitiveness in selling to this market will be a significant blow.

More than half of the world's largest financial firms have their headquarters in the UK. Scotland hosts a number of internationally important financial institutions including RBS, Aberdeen Asset Management and Standard Life as well as the headquarters of Tesco and Sainsbury's banks. The financial services sector accounts for 7.2% of Scotland's GVA^{viii} and employs around 85,000 people directly in Scotland (and a further 70,000 are reported to be employed in Scotland in associated professional services).^{ix} Failure to negotiate a continuation of passporting rights – which allow financial institutions with a 'home' in the UK to provide services within EU Member States – would significantly harm the export of financial services from the UK and could incentivise firms to relocate, taking business and jobs with them.

Remaining a member of the EU would have allowed Scotland to continue benefitting from the Single Market, but it would also continue to pay more for non-EU imports than may have otherwise been the case had the UK negotiated its own free trade agreements (FTAs). It can be argued that this is negative for both firms and consumers, although it should be noted that tariffs are on the whole relatively low. Outside of the EU it may be possible to adopt a unilateral free trade policy which would make UK imports cheaper and encourage firms to be more productive and innovative in order to compete internationally. However, this may be costly, especially in the short term, as firms adjust to finding new international trading partners.

Upon leaving the European Union the UK will be free to negotiate FTAs and other trade deals with any country or bloc, including the EU. The UK could negotiate some form of access to the EU Single Market, but may have to pay costs to the EU and accept regulations, over which it would have little or no say.

Labour Market Issues and Migration

The power to decisively affect immigration from the EU is only really possible from outside the union. While there is little evidence that immigration has substantially affected average wages across the UK, it has been argued that it may have had an adverse impact on wages in lower-skilled occupations.^x It is also possible that reduced immigration from the EU could alleviate some infrastructure pressures faced by the UK, although data on this is not readily available.

However, being able to prohibit EU immigration implies a commitment not to be a member of the European Economic Area (EEA), and so probably makes access to the Single Market impossible. It should also be noted that immigration from non-EU countries – policy over which the UK Government does have control – continues to be higher than immigration from within the European Union.^{xi}

One of the benefits of trade is that the jobs created are often highly skilled, boosting overall productivity. Skilled migrants coming into the UK are addressing a skills gap which might otherwise not be filled. Indeed, 58% of EU nationals moving to the UK in 2015 did so with a definite job offer in place.^{xii} The consequences of stopping these migrants entering the UK workforce could be to create significant labour shortages, and adversely affect UK output and productivity. Furthermore, studies suggest that immigrants from the EU are net contributors to the UK public finances.^{xiii}

Worker Rights

While some facets of EU law served to entrench aspects of UK law which already granted rights to workers, others, such as limitations on working time, were adopted in order to comply with obligations. Upon leaving the EU, the UK would no longer have the same duty to guarantee these rights and so may

choose to amend or remove them. The RSE would be concerned by any action that erodes the existing rights of workers in Scotland.^{xiv}

Additional Information

Any enquiries about this response should be addressed to Craig Denham, Policy Advice Officer (cdenham@therse.org.uk).

This Advice paper has been approved by the General Secretary of the RSE. All responses are published on the RSE website (www.rse.org.uk).

Appendix

The RSE's event series *Enlightening the European Debate* took place between February and June 2016. The series of events aimed to provide balanced information to the public in order to help inform the debate around the referendum on the UK's membership of the European Union. Further information on the series, including all event reports and position papers, can be found on the Events and Policy sections of the RSE website.

Enlightening the European Debate Series

Event: *Understanding European Challenges* (16 February 2016)^{xv}

Speaker: Brigid Laffan

Event: *The UK in Europe. In or Out?* (22 March 2016)^{xvi}

Speakers: Prof Michael Keating, Prof Justin Greenwood, Prof Paul Beaumont, Prof Claire Wallace

Event: *The Economics of the Choice* (23 May 2016)^{xvii}

Speakers: Prof Anton Muscatelli, Prof Ronald MacDonald, Prof Charles Nolan

Event: *The UK in Europe. In or Out?* (31 May 2016)^{xviii}

Speakers: Prof Paul Beaumont, Prof Laura Cram, Dr Malcolm Harvey, Prof Michael Keating

Event: *Living and Working in Europe* (1 June 2016)^{xix}

Speakers: Prof David Bell, Richard Brodie, Prof Christina Boswell

Event: *Constitutional Options* (7 June 2016)^{xx}

Speakers: Prof Neil Walker, Prof Michael Keating, Prof Iain McLean, Dr Tobias Lock

Enlightening the European Debate Position Papers

Paper: *Some (Macro) Economic Aspects of the European Referendum*

Authors: Prof Anton Muscatelli and Prof Charles Nolan

Paper: *Trade and the 2016 European Referendum*^{xxi}

Author: Prof Ronald MacDonald

Paper: *In, Out or In-Between? Britain's Uncertain Place in Europe after the European Referendum*^{xxii}

Author: Prof Neil Walker

Paper: *The European Referendum: Agriculture, Food and Rural Policy Issues*^{xxiii}

Author: Dr Alan Greer

Paper: *Social Policy in the European Union*^{xxiv}

Authors: Dr Ingela Naumann and Richard Brodie

Paper: *European Union Immigration*

Author: Prof Christina Boswell

Paper: *Environment, Energy and Climate*^{xxv}

Authors: Prof Pete Smith, Prof Rebecca Lunn and Dr Jennifer Roberts

Paper: *The European Union, the Nations and the Regions*^{xxvi}

Authors: Prof Charlie Jeffery, Prof Michael Keating and Prof Iain McLean

Paper: *The EU and Human Rights*^{xxvii}

Author: Dr Tobias Lock

Paper: *The European Referendum – Labour Markets, Migration and Benefits*

Authors: Prof David Bell and Prof Robert Elliot

References

- i** <https://www.rse.org.uk/>
- ii** <https://www.rse.org.uk/wp-content/uploads/2016/11/Paper-1-FINAL-Some-Macro-Economic-Aspects-of-the-European-Referendum.pdf>
- iii** <https://www.rse.org.uk/wp-content/uploads/2016/11/Paper-4-FINAL-Labour-Markets-Migration-and-Benefits.pdf>
- iv** <https://www.rse.org.uk/wp-content/uploads/2016/11/Paper-6-FINAL-European-Union-Immigration.pdf>
- v** https://www.rse.org.uk/wp-content/uploads/2016/09/API6_20.pdf
- vi** <http://webarchive.nationalarchives.gov.uk/20160105160709/>
<http://www.ons.gov.uk/ons/rel/international-transactions/outward-foreign-affiliates-statistics/how-important-is-the-european-union-to-uk-trade-and-investment-/sty-eu.html>
- vii** <http://www.gov.scot/topics/statistics/browse/economy/exports/esspublication>
- viii** <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193>
- ix** https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf
- x** <http://www.bankofengland.co.uk/research/Documents/workingpapers/2015/swp574.pdf>
- xi** <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/may2016#immigration-to-the-uk>
- xii** <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/may2016>
- xiii** <https://www.ucl.ac.uk/news/news-articles/1114/051114-economic-impact-EU-immigration>
- xiv** <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7732>
- xv** <http://www.rse.org.uk/event/understanding-european-challenges/>
- xvi** <http://www.rse.org.uk/event/the-uk-in-europe-in-or-out/>
- xvii** <http://www.rse.org.uk/event/eu-referendum-debate-the-economics-of-the-choice/>
- xviii** <http://www.rse.org.uk/event/the-uk-in-europe-in-or-out-2/>
- xix** <http://www.rse.org.uk/event/living-working-in-europe/>
- xx** <http://www.rse.org.uk/event/11952/>
- xxi** <https://www.rse.org.uk/advice-papers/trade-2016-european-referendum/>
- xxii** <https://www.rse.org.uk/advice-papers/britains-uncertain-place-europe-european-referendum/>
- xxiii** <https://www.rse.org.uk/advice-papers/the-european-referendum-agriculture-food-and-rural-policy-issues/>
- xxiv** <https://www.rse.org.uk/advice-papers/social-policy-in-the-european-union/>
- xxv** <https://www.rse.org.uk/advice-papers/environment-energy-and-climate/>
- xxvi** <https://www.rse.org.uk/advice-papers/the-european-union-the-nations-and-the-regions/>
- xxvii** <https://www.rse.org.uk/advice-papers/eu-human-rights/>