

IEA Brexit Prize: Britain outside the European Union

by Ben Clements



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Summary

The issue of EU membership transcends mere political debate to omnipresence in contemporary public discourse. In consequence of alterations in public sentiment, the prospect of Britain leaving the EU is growing increasingly. A prominent survey estimated that 51% of the British population were in favour of leaving the EU in June 2013.¹ This can be seen to reflect the dichotomy or chasm in the opinions held by the public regarding Britain's membership of the EU, and one can also deduce that Britons, on the whole, desire a fundamental reassessment of Britain's relationship with the EU. Furthermore, in view of the Prime Minister David Cameron's pledge to hold a referendum in 2017 regarding Britain's membership of the EU, determining the consequences of leaving the EU and the necessary measures that Britain must undertake in promoting a free, prosperous economy is imperative.

Moreover, whilst David Cameron has pledged to renegotiate British membership of the EU and hold a referendum on the conclusion of those negotiations, the principal difficulty with this approach is that it quixotically presupposes that a markedly superior agreement is obtainable without leaving the EU. Nevertheless, the British people are unable to have their ideal relationship with the EU. As underlined by a poll conducted in 2012, if presented "...a more detached relationship [with the EU] that is little more than a free trade agreement", merely 26% of those who partook in the survey would still favour withdrawal.² However, leaders in the EU are evidently disinclined to bestow Britain complete access to the single market exclusive of the prohibitive financial costs. Thus, any possible alterations to the relationship between Britain and the EU will ostensibly be inconsequential; notwithstanding, the economic advantages of Britain leaving the EU can be seen to offset any detriment.

With reference to secession, the Treaty of Lisbon (2009) facilitates through Article 50 the voluntary withdrawal of a member state from the EU. However, a member state's secession from the EU would involve intricate,

1 A survey by Survation, for Sky News in June 2013, reveals the degree to which opinions on Britain's EU membership are subject to alteration: 61% of the individuals who voted 'OUT' would reconsider if certain policy areas were renegotiated, whereas 80% of those who voted to remain 'IN' the EU would favour withdrawal if further EU amalgamation were to occur. See: <http://survation.com/wp-content/uploads/2013/06/Europe-Poll-Data-Tables.pdf>, accessed 24 July 2013.

2 46%, the largest category of respondents, would accept that looser, more trade-orientated relationship. See YouGov for comprehensive information on this matter: <http://yougov.co.uk/news/2012/11/26/cameron-and-eu-budget/>, accessed 10 August 2013.

protracted negotiations concerning the UK's future relationship with the EU, and therefore the matter of withdrawal is neither uncomplicated nor clear-cut. There are, however, several alternatives to the UK's present membership of the EU. The UK could once again become a member of the European Free Trade Area (EFTA) and continue to take part in the European Economic Area (EEA) in an effort to retain single market access. Alternatively, the UK could, as this essay will propose, pursue a looser arrangement with the EU, similar to Switzerland's relationship with the EU. Switzerland, as a member of the EFTA but not the EEA, has arranged bilateral agreements with the EU. It is nevertheless evident that whichever arrangement the UK forms with the EU, there will almost certainly be an exchange between the degree to which the UK can access the single market, be free from a certain degree of EU product regulations, evade legislation pertaining to employment and social matters, and the effect on the UK's budgetary contributions to all EU organisations.³

On account of membership of the EU, the UK is connected to a number of Treaties with third parties, by and large concerning trade. It should also be borne in mind that such Treaties would have to once again be negotiated to factor in the UK's withdrawal from the EU.⁴ The consequences of a UK-exit would also be noteworthy in terms of agriculture, trade and employment amongst other matters. The overall consequence economically of the UK's secession from the EU is problematic to calculate. This is largely because the advantages and disadvantages of EU membership are contentious, many postulations would have to be made concerning the conditions on which the UK would leave the EU, and the manner in which the UK Government would set about resolving the policy areas, over which the EU before withdrawal would have competence, which would be affected by a UK-exit of the EU.

3 The matter of financing of the EU has been arranged assuming the UK's continued membership of the EU, and lengthy negotiations would have to be undertaken to resolve this matter.

4 There would be certain consequences for Scotland, consequences which are rendered even more problematic considering the matter of whether Scotland votes to stay within the UK, Wales and Northern Ireland, primarily concerning EU regional funding.

1 Introduction

This essay is a proposal for Britain designed to address the following scenario:

A referendum has resulted in an “Out” vote and Her Majesty’s Government has triggered Article 50 of the Lisbon Treaty. What measures does the United Kingdom need to take in the following two years, domestically (within the UK), vis-à-vis the remaining EU and internationally, in order to promote a free and prosperous economy?

Accordingly, each of the main sections of this essay addresses the scenario proposed above, and many of the sub-sections conclude with an enumeration of proposed actions.

Britain’s relationship with the European Union (EU) is a highly discussed and polarising issue in contemporary British society and politics. The EU is an economic and political institution of 28 member states that principally are situated in Europe. The EU functions through a structure consisting of supranational individual institutions and intergovernmental collaborated resolutions by the member states. The EU has constructed a single market through a homogenised arrangement of laws that are valid in every member state. The most recent fundamental modification to the constitutional foundation of the EU was the Treaty of Lisbon (2009); it was signed in 2007 and came into effect in 2009. The euro area, a monetary unification, was instituted in 1999 and was fully implemented in 2002; it presently consists of 17 member states.

Britain enlisted in the European Economic Community (EEC) in 1973, and the legal and constitutional process of secession from an institution that has contributed to Britain’s laws for 40 years will be neither straightforward nor clear-cut and will, indeed, be a significant geo-political and economic event. Although no member state has ever withdrawn from the Union, the Treaty of Lisbon (2009) includes a clause handling secession from the EU. Moreover, it is often argued that the decision for the UK to secede from the EU would largely be based on political reasons; however, this essay aims to illustrate that the need for the UK to secede from the EU is as much, if not more, for the economic potential this would facilitate compared with the political reasons which are noteworthy notwithstanding. Therefore, this essay will function as a practical guide outlining how the UK can secede from the EU, and sets out a coherent and structured set of government policy responses to this historic, geo-political event after the referendum result in 2017.

Furthermore, a consequence of not seceding from the EU is arguably the possibility of further isolation in an increasingly amalgamated political union centred on a disintegrating monetary unification. The economic predicament for the EU, and mainly the euro-zone, is that certain members have high prices and costs compared with others, and certainly beyond the EU, thus precipitating a deficiency of competitiveness. Inadequate competitiveness is exacerbated by substantial debt, and euro-zone members mainly are enduring an unremitting deficiency of aggregate demand, which has caused pervasive unemployment. The euro-zone's lack of competitiveness and debt encumbrance is such that mere austerity would be largely unsuccessful. Hacking public deficits will lessen demand in euro-zone members, and yet if the subsequent descending pressure on prices and earnings precipitate an enhancement in competitiveness, for many nations this, perhaps, could take decades to achieve. In some cases, reducing the real value of the debt through contriving more inflation might be possible; a reduced exchange rate could also lessen the relative amount of debt to earnings, taxation or profitability. However, in using inflation as an approach to resolving euro-zone countries' debt, the necessity of enhanced competitiveness discounts this. Therefore, substantial indebtedness could ruinously have to ultimately be handled through a selected degree of default.

Fundamentally, the quandary of EU membership is both economic and self-governmental. Whereas most countries are self-governing nation states, numerous European countries arguably have relinquished national autonomy, and the abovementioned predicament for the EU is an accurate portrayal of the problems facing many countries which is partly contributing to the UK's increasing desire to secede. Nevertheless, in terms of practicality, withdrawal from the EU raises two distinctive but imperative issues: Firstly, the legal and constitutional process needed for the UK to secede from the EU and the necessary government policy responses after the UK has withdrawn from the EU. Secondly, the matter of negotiations regarding the UK's place upon leaving the EU to reconcile the UK's relations with the enduring EU and the rest of the world concerning a range of issues. Moreover, whereas there is public anxiety over the changing nature of EU membership, in contrast public apprehension concerning the unknown of leaving the EU is equally omnipresent. Thus, this essay aims to correct the pervasive anxieties of a UK withdrawal from the EU and devise a plan of how the UK can be incorporated into a new geo-political and economic setting.

2 The legal and constitutional process for the UK to leave the EU

This section, which provides the legal and constitutional framework, discusses how the UK can effectively secede from the EU. It comprises an indicative timetable regarding the precise mechanism and procedure for the UK to secede from the EU. Moreover, this section of the essay also includes an analysis of the possibility of the worst case scenario in terms of the UK's secession from the EU, and addresses this possible state of affairs on two levels:

- (i) during the process of the UK's secession from the EU; and
- (ii) after the UK has seceded from the EU.

2.1 Indicative timetable for secession period

This section of the essay provides the proposed indicative timetable for Britain to secede from the EU from 2017 to 2019, and would aim to complete two fundamental issues: The specified period would aim to conclude the secession agreement and any resulting amendments to the EU Treaties.¹¹ The proposed indicative timetable relative to the practical steps that have to be taken in order for Britain to secede from the EU are essential in mitigating the possibility of varied pernicious predicaments from arising during this period, and in ensuring that Britain has the greatest prospects of achieving a free and prosperous economy after seceding from the EU.¹²

The notion of a member state leaving the EU was introduced through Article 50 of the Treaty of Lisbon (2009) which replaced the Constitutional

11 This essay does, in addition to assessing the political, economic and social consequences of a UK secession from the EU, present situations, principally regarding the negotiation phase, which can be seen as speculative, considering that it is impossible to forecast and frame the entire, actual repercussions of the UK seceding from the EU. It is also accurate that the UK's secession from the EU would certainly lead to a number of repercussions that are problematic to estimate or predict.

12 It should be pointed out that the UK's approach to disentangling in excess of forty years of primarily political and economic integration by the EU, which can be seen to have its roots ever since the year 1950, is a task of such scale which has not been attempted nor does history provide any directly applicable, relevant examples of how such a secession could be conducted.

Treaty (TCE).¹³ Article 50 overtly facilitates the voluntary withdrawal of a member state from the EU (Smits, 2005, p.464). The withdrawal clause stipulates that a member state must notify the European Council of their preference to leave the EU; the Council will accordingly construct parameters regarding the foundation of which a withdrawal settlement is to be agreed with the member state in question.¹⁴ The Council, operating through a qualified majority and after acquiring the approval of the EU, will then compile the settlement for the EU.¹⁵

The point in time when the UK would secede from the EU, including its institutions as well as agencies, and once again become an independent sovereign nation would be precisely two years after the result of the referendum in favour of a UK withdrawal from the EU.¹⁶ This timetable arrangement for Britain to secede from the EU is in keeping with the stipulations contained within the Treaty of Lisbon (2009).¹⁷ This stipulation will be activated after notification of a nation state's decision to secede from the EU, in which there will be a two year period which constitutionally obligates the EU to negotiate a free trade agreement (FTA) with a withdrawing member state, and arrange the terms of such an agreement and the specific features of the arrangement in preparation for the member state after the two year period. This official notification of the UK's intention to secede from the EU should also be supplied to Britain's economic and geo-political partner nations and organisations, such as Britain's partners in the Commonwealth; the President of the United States; the Heads of State and Government of European countries and other nations; and to the Secretaries-General of the United Nations (UN), the North Atlantic Treaty Organisation (NATO), the World Trade Organisation (WTO), the International Monetary Fund (IMF), and the World Bank amongst others.

13 Article 3 and Article 8 of the TEU are also Articles in the Treaty of Lisbon (2009) that would assist the UK in negotiating a new relationship with the EU rooted in free trade.

14 The intention and pursuit of secession from the EU does not necessitate the endorsement or official consent of the other member states of the EU.

15 See Appendix A1 for more information on the legal and constitutional process of leaving the EU.

16 As a matter of clarity, it would be helpful from the UK's perspective, and all parties involved, to comprehensively ascertain what the UK is seceding from; thus, it would be advantageous during the negotiation phase to establish early on what the EU, in fact, is in unambiguous legal terms.

17 This official notification of the UK's intention to leave the EU should be carried out in a bipartisan manner, involving the principal political parties in the UK in 2017, and Her Majesty the Queen, or the monarch in 2017, in her capacity as Head of State of the United Kingdom, Australia, Canada, as well as New Zealand amongst other countries, and additionally as the Head of the Commonwealth.

One of the areas which would be affected during the implementation of the practical steps necessary for the UK to secede from the EU can be seen to be the conflict between EU and British Law and the matter of legal certainty.¹⁸ It is necessary at the point of notification to the EU of the UK's democratically-expressed decision to secede from the EU by the British people, to inform the EU that the UK will no longer be liable to EU law, regulation and case law after the two-year negotiation period.¹⁹ Moreover, it will also be important to point out that, from the day after notification of the UK's intention to leave the EU, only courts throughout the UK, comprising the UK Supreme Court and the House of Lords both as the highest courts in the UK, will construe and apply EU law, with no regard of the European Court of Justice (ECJ).

Therefore, the day after notification of Her Majesty's (HM) Government's intention to secede from the EU, judgements rendered by the ECJ covering and affecting a full range of matters, such as corporations, the individuals of Britain and HM Government will no longer have effect throughout the UK, but instead be consulted in both the House of Lords and the Supreme Courts of the UK. In addition, both EU Directives and Regulations formed and concurred before the notification of HM Government's intention to leave the EU, and invoking Article 50 of the Treaty of Lisbon (2009), which have not yet been implemented into British Law should accordingly not be applied.²⁰

Moreover, during the two year period until the UK secedes from the EU, contradictory rulings rendered by the ECJ and UK courts will subsequently be resolved by the convention international dispute settlement procedure.

18 With further reference to legal matters, it should be noted that because the Treaty of Lisbon (2009) was accepted by former UK Prime Minister Gordon Brown and the UK Labour government from 2005 to 2010, this can be seen to have rendered alternative approaches to seceding from the EU, other than activating Article 50, to be legally problematic.

19 The two-year negotiation period should be sufficient in handling the lenience of the British people regarding potentially protracted withdrawal negotiations with the EU. To preserve the support of the British people, who would have voted in favour of the UK's withdrawal from the EU by a majority in the 2017 referendum, both a clear and efficient approach to the Article 50 negotiations will be necessary.

20 There have been arguments from those in favour of the UK pursuing unilateral withdrawal from the EU, by repealing the ECA (1972) that using the Article 50 approach to seceding from the EU would denote that Britain accepts its legitimacy. The potential risk in this course of action is that if the UK accepts the legitimacy of Article 50 before Britain activates the Article, the EU could potentially seek to increase the specified two year negotiation period before a member state has the capacity to secede from the EU. However, one would argue that considering that this would involve altering the Treaty over which member states can veto, the threat of this taking place is highly improbable provided the referendum does genuinely take place in 2017.

This would incorporate arbitration, for determining any legal inconsistencies between jurisdictions of independent sovereign nations. Moreover, during the two year negotiation period stipulated in the Treaty of Lisbon (2009), and upon Britain's withdrawal from the EU, EU Directives and Regulations applied to the law in Britain will remain applicable. Thus, EU Directives and Regulations will be imposed solely by courts in Britain with no reference to the ECJ, with only the exception of EU Directives and Regulations being repudiated upon the decision of the UK Parliament.²¹

With reference to handling the transition phase for the UK's secession from 2017 to 2019, it is necessary to adopt the idea proposed by Ian Milne (2011) that a British ministry should be established in order to manage Britain's transition in seceding from the EU. The proposal argues that there should be a Ministry of EU Transitional Arrangements, META, led by a member of the Government's cabinet in 2017, with the duty of administering over and settling the transitional procedure. This additional ministry, META, should also include a senior Opposition shadow minister who would adopt the role as the ministry's deputy minister.²²

As also identified by Ian Milne (2011), ministries, such as HM Treasury, the Foreign and Commonwealth Office (FCO), Agriculture and Fisheries, Business and Defence amongst others, should report to META regarding any matter concerning Britain's two-year transition period in seceding from the EU. Moreover, META should be run by senior executives from the British private sector, from business, transport, energy, farming, fishing, the military and legal circles. These individuals from the private sector will be of assistance in guaranteeing the efficient and not detrimental completion of the transition procedure. In addition, this ministry ought to, as well as completing the majority of its work by the end of the two-year negotiation, transition period, continue in this capacity for a further two years, to assist in resolving any residual matters since the conclusion of the transition period.²³

21 Such a decision can also be reached by the devolved Parliaments and Assemblies in Edinburgh, Cardiff and Belfast.

22 The proposed approach to handling the matter of secession from the EU would provide greater certainty to British citizens, overseas governments and further relevant parties of the UK Government's sincerity and general plan concerning how to leave the EU. Moreover, in view of the increasingly globalised world economy, which arguably renders long-term economic arrangements and forecasting to be progressively more problematic, this approach will provide greater clarity to handling such a process which it should be noted, despite however much planning, will be somewhat uncertain notwithstanding.

23 This ministry would therefore be in operation for four years after the day of the referendum result, indicating Britain's democratically-expressed intention to secede from the EU, and the notification to the EU of this decision reached by the British people which will accordingly be put into practice by HM Government.

It would also be necessary for the UK Government, in response to the result of the 2017 referendum on EU membership, and to the scale of undertaking this transition with its accompanying political as well as economic consequences, to employ a further separate Advisory Council.²⁴ This should also be accompanied with the provision for specialist sub-commissions to counsel the Advisory Council on the process of negotiation. One would argue that such further measures to handle the matter of withdrawal from the EU should be in existence only for the specified two-year negotiation period, provided the negotiations conducted formally with the EU by the proposed ministry go as planned.²⁵ In addition, one would urge that this Advisory Council ought to function in a wholly transparent manner, prompting discussion and debate as well as conducting research papers at all levels, as it works with both the proposed Ministry and the UK Parliament in achieving effective and speedy withdrawal negotiations with the EU.

One would additionally recommend that this Advisory Council, unlike the proposed Ministry, should also examine global organisations which deal with standards-setting functioning within the structure of the WTO. The necessity of this task can principally be seen in view of the fact that the construction of legislation at both regional and national levels, arguably has rendered the distinction between the EU and various global organisations to be indistinct. To cite but one example amongst many, a great deal of regulation, particularly financial regulation from the EU, is applying quasi legislation including the Basel III agreement. The necessary elements of such pieces of regulation are settled at a global level by the UK government prior to its submission to the EU for further development into functional regulation. Therefore, this is noteworthy

24 In view of the scale of the undertaking that seceding from the EU involves, during the transitional period, EU law should continue to apply and the UK would also be subject to the jurisdiction of the Court of Justice during the specified two year period. After the two year period, however, the UK Government in 2019 should apply EU law into British law en masse before reviewing, and with discrimination, repudiating certain pieces of legislation on a case-by-case basis. This is outlined comprehensively in section 5.10 of this essay.

25 However, if after the two-year negotiation period there is still a large number of matters concerning the UK's withdrawal from the EU and the consequent trading arrangement the UK would have with the EU, the proposed Advisory Council, and additional sub-commissions, could be kept in place alongside the proposed Ministry to assist in resolving such matters.

because, even after the UK has withdrawn from the EU, the UK will seemingly still be assuming quasi legislation.²⁶

Regarding the European Parliament, British MEPs will carry on standing for their constituents in the European Parliament until the conclusion of the two-year negotiation period until withdrawal. However, British MEPs should not partake nor vote on legislation on any matter handled in the parliament, from the referendum result to the end of the two-year negotiation period. Accordingly, in view of this transition period, the salaries and allowances of MEPs should be progressively decreased during the two-year negotiation period in response to their diminished role and workload. In addition, British MEPs will resign from their positions after Britain has successfully seceded from the EU and become a sovereign nation state once again; thus, British MEPs will subsequently no longer partake in the activities of the European parliament or the EU, in general.

With reference to the EU budget and Britain's contributions to the EU along with EU institutions as a whole, the UK's gross contributions both to and from the EU Budget each month should be progressively decreased until the completion of the two-year negotiation period. Accordingly, the UK's gross contributions to and receipts from the EU Budget should be reduced by a similar amount every month from the day after the result of the referendum as well as the notification to the EU of the UK's intention to secede from the EU, up until the UK has successfully seceded from the EU. Considering that this essay is proposing a relationship with the EU comparable to that of Switzerland, one proposes that upon the execution of this arrangement the UK's annual contributions to the EU budget, which is a more quantifiable cost of the UK's membership of the EU, could be either a 1/6th, as assessed by Lea and Binley (2012), or a 60% per capita reduction as estimated by Research Paper 13/42, the House of Commons Library (2013), of its present yearly contribution.²⁷

26 This would indicate that after the UK's secession from the EU, the UK might witness virtually no alteration in its regulatory code. This, however, would be of assistance during the two-year negotiation period from 2017 to 2019 and afterwards, because it would supply the UK Government with international regulatory information, with particular reference to the EU. After the UK has successfully seceded from the EU, one would argue that, if effective, the proposed Advisory Council could continue in this capacity after 2019.

27 Norway, through EEA membership, made financial contributions of approximately £106 per capita in 2011, whereas Switzerland made contributions of approximately £53 per capita. These contributions are 17% and 60% less, respectively, compared with the UK's per capita financial contribution of £128 in 2011.

Moreover, in order to illustrate the UK's progressive renunciation of EU member state status towards a relationship similar to that of Switzerland and the EU, the relative monthly contribution financially the UK provides to the EU should be reduced monthly by 1/24th of the difference between the financial contributions Switzerland makes to the EU compared with the UK, from the beginning of negotiations in 2017 to the conclusion of the negotiations in 2019. This will therefore be indicative of the UK's increasing separation from the EU and towards the EFTA over the specified period of time.

In terms of trade, after Britain has seceded from the EU, the UK will no longer be connected to the EU customs union and UK trade will no longer be regulated by the EU. The UK will also resume its own individual seat and vote in its own right at the WTO. Therefore, trade between the UK and the EU as well as between the UK and the rest of the world will be carried out as already covered by the WTO, NATO, UN, OECD and alternative multilateral settlements and treaties, in addition to pertinent declarations of the Commonwealth (Ian Milne, 2011, p.20). Moreover, British officials and employees of the Council, Commission and all EU institutions and agencies as a whole will settle the timetable and stipulations concerning Britain's secession with the applicable authorities of the EU. UK representation at COREPER and at all EU institutions and agencies should be progressively decreased over the two-year negotiation period, in cooperation with the applicable EU institutions and all member states of the EU from 2017 to 2019.

Once Britain has seceded from the EU, after the two-year negotiation period, the UK should discontinue all engagement with the EMU, as well as the ECB, and both the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP). In addition, after withdrawing from the EU, the UK will no longer be obligated to engage in matters relating to EU immigration and asylum; thus, the UK will regain complete command over its borders in 2019, two years after the commencement of the negotiation period.²⁸

After leaving the EU in 2019, the UK should also discontinue all engagement in international aid programmes organised by the EU. Thus, after seceding from the EU, UK government aid should be supplied directly to beneficiary nations or by means of multilateral organisations, for instance the UN. As well as the various policy areas advocated in this section of the essay overall, the UK should, after withdrawal, discontinue all engagement in each and every area of EU policy other than those

necessary to achieve the Switzerland model in its relations with the EU after withdrawal. Accordingly, in order to implement the aforementioned proposals, a Bill giving effect to such measures should be presented and addressed in the House of Commons within days of the UK's secession from the EU after the two-year negotiation period.²⁹ In addition, to complete the outlined withdrawal process, the UK Government in 2019 should repudiate the ECA (1972), by means of a repealing act, to denote the discontinuation of the UK as a member state of the EU.

28 Section 4.6 of this essay addresses immigration and the ways in which the UK should address this matter after seceding from the EU.

29 In terms of further such practical steps necessary upon the withdrawal of the UK from the EU, it might be necessary for three treaties to be negotiated: one treaty enabling the UK to secede from the EU; a further treaty to modify the EU Treaties to no longer refer to the UK which would be seceding from the EU; and potentially another treaty which would enable the UK to join the EFTA upon its secession from the EU.

Proposals

The most effective way to secede from the EU is to:

- At the outset, activate Article 50 of the Treaty of Lisbon (2009) and officially notify the European Council of the UK's intention to secede from the EU based on the result of the referendum on EU membership in 2017.
- Complete a FTA with the EU during the two-year negotiation period and ensure that it is in place for the UK's proposed withdrawal date in 2019, as outlined in the Treaty of Lisbon (2009).
- Establish a Ministry in Britain to manage Britain's transition from EU member state status to EFTA, non-EU member state status. An advisory council should also be established.
- Commence FTA negotiations with countries and economic trading entities outside of the EU from 2017.
- After the completion of the two-year negotiation period, UK MEPs should resign and the UK's EU Trade Commissioner should step down. This should be implemented alongside progressive reductions in the UK's annual contributions to the EU budget.
- To complete the UK's secession from the EU, the UK government in 2019 should repudiate the ECA (1972).

2.2 Analysis of the consequences of a UK-exit of the EU: EU-exit without a negotiated agreement (worst case scenario) and an EU-exit under a negotiated agreement

It is necessary to assess the possibility of the worst case scenario, or the possibility of other such inauspicious incidences arising, during the UK's secession from the EU after the result of the referendum in 2017.

³⁰ The proposed 2017 date for a referendum on EU membership is also appropriate considering the UK will take a sixth-month rotating presidency of the EU Council of Ministers in the latter half of 2017. This would provide the UK government in 2017 with many opportunities to form summits with the EU concerning this matter.

Therefore, this section of the essay will analyse the manner in which the UK should respond to procrastination, obstruction and a lack of co-operation amongst other possible impediments to the UK's orderly and calamity-free secession from the EU starting in 2017.³⁰

First of all, while wide-spread opposition and disapproval is often assumed to occur if the UK attempts to leave the EU, such arguments can be seen as inaccurate and vastly exaggerated. The argument that Britain would become politically isolated, through leaving the EU, is inaccurate. The UK would remain a member of NATO and the United Nations Security Council.³¹ Nevertheless, the most compelling argument for seceding from the EU is that it would enable Britain to pursue independent trade deals with burgeoning economies such as China, India, and South America along with commanding liberal-democracies such as America and Japan³² (Milne, 2004a, p.2).³³ This approach, which would not consign the UK largely to the EU, would ensure that, after seceding from the EU, the UK would not be seen as an isolationist country, but rather a country that has an increasingly global outlook.

Moreover, in an effort to illustrate the implausibility of such problems arising during the UK's secession from the EU, it is conceivable and plausible that certain member states of the EU, and the EU hierarchy, could either potentially desire or be indifferent to the UK's withdrawal from the EU. The reason for this is that after the UK secedes from the EU, this would enable the EU to embark upon its underlying drive towards integrating Europe further into a political union, devoid of Britain which in comparison is and has been particularly sceptical of the further integration

31 Like the WTO, the UN and NATO are multilateral institutions. Britain would, after leaving the EU, regain its seat and vote (both of which were renounced to the EU after joining the Common Market in 1973). Britain would also, after leaving the EU, have sufficient influence in global affairs, through remaining the sixth largest economy in the world as of 2013, having a permanent seat at the UN Security Council, and considering that Queen Elizabeth II is the Head of the Commonwealth.

32 Matters related to this are explained further in Appendices A2 and A3.

33 Countries such as America, Japan and Australia have advocated the importance of EU membership to Britain. However, in the case of America, leading American politicians, such as President Barack Obama and Philip Gordon, arguably desire for Britain to remain in the EU as this would mitigate some of the anti-American sentiment held by some EU members. Thus, the proposed relationship between the EU and the UK, and the UK leaving the EU, in general, could have the consequence of inciting the indignation of the UK's trading partners, although these trading partners are assessing the UK's EU membership for merely their economic and geo-political interests.

of EU member states either politically or economically.³⁴ Moreover, if either the EU overall or certain member states of the EU were to obstruct, interrupt or otherwise create barriers to trade between the EU and the UK, it ultimately would further exacerbate the already disintegrating economies of numerous member states of the EU. Therefore, in view of these realities, and the protection relating to trade that would be offered by the WTO and NATO, one would argue that the likelihood of such obstructions occurring are highly improbable.³⁵

Additionally, it is often argued that if the UK attempted to secede from the EU, member states of the EU and the hierarchy of the EU would use the most effective efforts to delay, procrastinate and ultimately obstruct Britain's withdrawal from the EU. If such efforts were to arise, with regards to timetabling, the UK should nevertheless fully facilitate sufficient negotiators, and the instigation, conduct and extension of all the negotiators and general efforts to negotiate throughout the entire two-year negotiation period relentlessly.

It would also be necessary for the UK to point out to the EU, concerning attempts to thwart the withdrawal of the UK from the EU in line with the parameters outlined by the EU in Article 50 of the Treaty of Lisbon (2009), that the smooth process and successful completion of the UK's secession from the UK is in the mutual interests of both parties. However, it is possible that if the UK activates Article 50 of the Treaty of Lisbon (2009), the EU could potentially not take much of an interest in the negotiations and, after two years in 2019, leave the UK withdrawing from the EU without any such agreement.³⁶ Moreover, it is unlikely that either the EU as a whole or EU member states would construct any ominous, protectionist barriers to trade with the UK because of the EU's trade surplus in its

34 Arguably the main aspect of the UK no longer being a member state of the EU that the EU would seriously wish for would be the UK's inordinate share of the annual financial contributions to the EU budget.

35 Taking into account the disintegration of the euro currency and the precarious nature of the EU, the EU conceivably would desire to make the UK's withdrawal from the EU as unproblematic and straightforward as possible. Otherwise, the hierarchy of the EU would be concerned that they could be perceived globally as a hostile, insincere and democratically redundant organisation which would, in turn, exacerbate the EU's present state of disintegration and potentially lead to other member states desiring withdrawal.

36 It should be emphasised that it is improbable that the UK would be unable to negotiate a settlement with the EU. This can primarily be seen for two reasons: Firstly, this would disrupt the EU's trade with Britain in which Britain operates a large trade deficit every year with the EU. Secondly, the rest of the world would not be contented with such uncertainty and disruption because they, similar to both the EU and Britain, have an interest in the EU and Britain resolving their differences.

trade with the UK and the numerous economic associations involving Britain and the EU in addition to the WTO's regulatory structure which connects its members to reasonably stringent constraints against trade barriers and discrimination. Nevertheless, because of this possibility, it is necessary for Britain to have a strategy in case this happens and Britain is left without a Treaty agreed with the EU.³⁷

This essay advocates forthcoming relations with the EU, and its member state regarding trade, after the UK has seceded from the EU. However, in the event of the UK being presented with the realistic apprehension of the EU practising discriminatory policies relating to trade against Britain after 2017, the UK could subsequently become part of NAFTA (the North America Free Trade Agreement), an arrangement which is otherwise advocated in this essay at any rate, which could possibly be used to mediate if trade disputes were to arise. NAFTA enables all its members to engage in its respective trade outline, provided it enables the other members of NAFTA free access to such arranged areas of trade. Thus, this arrangement with NAFTA can be seen as in keeping with the UK's policy in favour of free trade, especially after seceding from the EU in 2019.

It is also appropriate in this section of the essay to analyse further such negative consequences of seceding from the EU. One does not consider the matter of deterring Trans-national corporations (TNCs) to be either likely or credible if the UK seceded from the EU. The presence of TNCs in the UK would remain, and both Norway and Switzerland can be viewed as evidence to negate this argument concerning the detrimental implications of the UK's secession from the EU. This essay argues that, after seceding from the EU, Britain would, indeed, be well situated to attract a higher proportion of inward investment, and therefore facilitate job creation, in comparison with the increasingly restrictive legislative outline of the EU in relation to the UK's pre-referendum arrangement with the EU.

³⁷ Such a strategy could come in the form of either a unilateral declaration to secede from the EU, through repudiating the ECA (1972) or in the absence of a withdrawal agreement, as outlined in Article 50 of the Treaty of Lisbon (2009), that after notification of a member state's intention to secede from the EU, EU membership will cease to be in effect for the member state in question when automatically the EU Treaties no longer apply two years after the member state's notification of its intention to withdraw. Therefore, after notification, and in the event of the absence of a withdrawal agreement, the UK could conceivably after two years automatically exit the EU.

The effects of seceding from the EU without a FTA

After seceding from the EU, the UK's trading arrangement with the EU will be largely dependent upon the result of the negotiations. Numerous arrangements could happen potentially, but analytically it is necessary to analyse the effects of the UK not being able to arrange preferential market access to the EU.

Tariff barriers

The conditions stipulated through membership of the WTO can be seen to restrict the array of consequences that could arise from the UK's withdrawal from the EU. The matter of non-discrimination necessitates members of the WTO to not treat any member in a discriminatory manner compared with any other member.³⁸

After the UK has seceded from the UK, this would accordingly prohibit any such castigatory or discriminatory tariffs being imposed by either the UK or the EU. The highest tariff would be that relevant to the MFN. It should be noted that the EU's MFN tariff has decreased over a number of years; thus, this advantage of membership has faded. However, in view of the fact that MFN tariffs would be applied to approximately 90% of the UK's goods exports to the EU by value, it would result in many exporters becoming less competitive in terms of price, to altering extents, than those working in the EU, as well as those countries with which the EU has favoured relations in terms of trade.³⁹ This would result in higher prices being faced by consumers purchasing imports from EU member states and those nations with which the EU has formed trade agreements, as analysed by Research Paper 13/42, the House of Commons Library (2013).

Therefore, the consequences of shifting to an MFN trading arrangement for exporters and domestic consumers would differ markedly from one sector to another. For instance, devoid of a trade agreement, a 4.1% tariff would be imposed on liquefied natural gas exports from the UK to EU member states; a 12.8% tariff on such foodstuffs as wheat; and a 6% tariff on unwrought aluminium (Research Paper 13/42, the House of Commons Library, 2013). The aforementioned items are those that the UK at present operates a trade surplus with the EU. UK consumers would

38 There is a certain degree of immunity for regional free trade areas and customs unions such as the EU, but non-discrimination denotes that the tariff that pertains to the 'most-favoured nation' (MFN) has to likewise be applicable to all members.

39 Considering that the UK has negotiated from within the EU at the WTO, it would probably take on the EU's tariff regime upon withdrawal, or as a minimum at the outset.

therefore meet higher prices, even though the specific effects would largely rely on how the Government from 2017 onwards modified the structure of tariffs it assumed after seceding from the EU.⁴⁰ In addition, with regards to non-tariff barriers, if the UK were to secede from the EU and the single market, it is plausible that only exporters would undergo the saddling effect of being bound by the product standards of the EU; this arrangement would therefore allow other companies to be free to run in the UK.

Services Trade

Devoid of an agreement from the negotiation period, the trade in services of the UK with EU member states would be managed by the WTO General Agreement on Trade in Services (GATS). Under such an agreement, member states of the EU have selected the sectors to liberalise. Similar to trade in goods, GATS likewise runs on non-discrimination, which denotes that beyond favoured agreements, restrictions on access to the market have to be imposed homogeneously throughout all countries.

Barriers to services frequently arise through non-tariff barriers, for instance domestic laws and regulations. On the whole, services markets are regulated to a greater extent compared with the market for goods.⁴¹ Member states of the EU maintain a great deal of discretion concerning services regulation and administration. Therefore, similar to how there is not a universal, homogenised arrangement in services trade in the EU, exporters beyond the EU are confronted with differing levels of market access in certain member states (Mustilli and Pelkmans, 2013). Nevertheless, the degree to which market access can be facilitated would often be considerably more limited for UK exporters under the GATS arrangement compared with the current arrangement for numerous reasons:

- Numerous constraints that are prohibited in the EU are nonetheless relevant to businesses beyond the EU because member states have not made any assurances under the GATS agendas in those areas;

40 Without any such alterations, however, a tariff of 32% would be applied to wine imports, and a 9.8% tariff on motor vehicles.

41 Regulations are frequently aimed at meeting social objectives, or to rectify failures in supply, as opposed to directly restraining foreign suppliers, but this can have restrictive consequences for foreign businesses at times.

- The free movement of labour significantly makes available trade in services provided by means of the existence of individuals in another country's economy;
- The right of commercial establishment is permitted under EU treaties, which greatly makes available trade in services provided through the commercial presence of an overseas business;
- EU competition policy thwarts, to a certain degree, barriers to services trade occurring from present businesses which benefit from an inordinate share of market ascendancy;
- The Treaty rights concerning the free movement of services, freedom of establishment, and free movement of labour are put into effect on a supranational basis by the ECJ, supported by a great deal of case law on services exchange. Under GATS, an independent board can be selected to deal with disputes, but there is no apparent right of market access; the assignment of the board can essentially be seen to be evaluating whether the barrier under consideration is non-discriminatory.

The effects of seceding from the EU under a negotiated agreement

In addition to the implications of the MFN arrangement, there are a number of favoured trade arrangements between the EU and the UK that might be negotiated; however, there will almost certainly be an exchange between the degree of single market access through being exempt from tariffs and the abolition of non-tariff barriers to trade, and a lack of restrictions from EU product regulations, social and employment legislation, and budgetary contributions. Therefore, through either the EEA model or the Switzerland model, provided that such an agreement was able to be arranged, the constraints on trade would be radically reduced. Membership of the EEA essentially has complete access devoid of tariffs to the single market, and the 'four freedoms' of the EU through the movement of goods, services, capital and labour. This arrangement applies uniformly to Norway, Liechtenstein and Iceland in such a way as full membership of the EU would involve.

Nevertheless, there are numerous constraints on trade which would continue to be applicable under either an EEA or Switzerland model arrangement with the EU. The EU's common external tariff means that

whenever goods enter from outside of the EU, those goods can move without restraint in the EU after the payment of the tariff. However, when goods enter the EU through the EEA or through other nations with which the EU has arranged either a free or preferential trading relation, such countries are not burdened by the EU's common external tariff.⁴²

Restrictions on trade in services

Norway, as an EEA country, and thus partaking in the EU's single market, can carry out trade in services similar to member states of the EU. Nevertheless, Norway and the other countries participating in this capacity do not have any form of direct influence concerning the regulation of services in the EU. Unlike Norway, however, this lack of influence can be viewed as potentially even more detrimental to the UK economy, considering that the UK operates a trade in services surplus with the EU and in view of the UK's relative advantage in numerous sectors compared with EU countries.⁴³

If the UK were to secede from the EU, leaving both the EU and the EEA, through the negotiation of a trading relationship with the EU, the UK might potentially be confronted with some difficulties. The primary difficulties involve maintaining continued access to services markets, and guarantying the gains which can be derived from greater liberalisation of trade in services in the EU.⁴⁴ Moreover, considering that the EU has arranged numerous favoured trade agreements with third parties, upon secession from the EU, similar to its trade with the EU, the UK would, in order to preserve market access to such countries, have to negotiate such matters with all of those countries. If this could not be achieved, however, the UK would be confronted with the imposition of MFN tariffs

42 The determination of the origin of a good, and therefore whether it ought to have tariffs imposed on it, is carried out by the EU's Rules of Origin. Owing to the size of the EU, and more specifically the number of favoured trading relations the EU has, this at times can be problematic and protracted. This imposition to a certain extent would be applied to UK businesses in terms of administrative and compliance costs.

43 Influence over the regulations that affect the financial services sector is often cited in this regard. However, the UK's failed attempts to secure concessions over its financial services sector are indicative of the UK's clear lack of influence over the EU's agenda even from within the EU. This is evidenced by the December 2011 Council summit at which the UK ultimately exercised opposition through a 'veto'.

44 There is still no clear and all-inclusive agreement concerning the free movement of services between Switzerland and the EU. Financial services trade nevertheless can be seen as the part of the UK economy which could be most affected by such an arrangement potentially.

being levied by such countries.⁴⁵ Consequently, an agreement which the UK is able to form with the EU could necessitate the UK to preserve consistency in its trade with countries not within the EU; thus, this could restrict the scale and self-determination of its trade policy after secession from the EU.

In summary, it is instructive to note that a high proportion of the UK's imports of goods and service are services, approximately 25% in 2010, on which no tariffs apply.⁴⁶ Taking this into account, the average tariff on trade in goods and service would decrease increasingly to less than 1%.⁴⁷ No tariffs would also apply to the other two components, income and transfers, of the current account. Therefore, on account of vastly reduced EU tariffs and the WTO, in future years and decades FTAs will facilitate greater prosperity compared with the EU's obsolete, antiquated customs union.⁴⁸

2.3 The practical issues

Having outlined the legal and constitutional process for the UK to leave the EU and the indicative timetable for that secession to take place, the remainder of this document will function as a guide concerning the course of action that the UK Government should undertake largely from 2019 onwards.

In the following parts of this essay, there will be an assessment of the ways in which the UK Government, in order to achieve a free and prosperous economy after seceding from the EU in 2019, needs to:

45 If such an arrangement could not be reached, however; the EU could potentially have to pay compensation to the countries which would be affected, because of the effect this would have in terms of reducing the size of the market compared with what was initially arranged with the inclusion of the UK.

46 Indeed, any pernicious effect such tariffs would have on the UK economy, and therefore the revenue amassed by the exchequer, could, albeit impossible to quantify, be made up for sufficiently by the reductions in the UK's net contributions to the EU alone, after achieving a relationship with the EU comparable to that of the Switzerland model.

47 If a certain amount of export trade from the UK to the EU were to be hindered in the near-term after the UK withdraws from the EU, arguably such losses in trade would rapidly be compensated for by enhanced trade with burgeoning economies outside of the EU.

48 While leaving the EU's customs union would denote that countries outside of the EU would have to satisfy the product specifications of countries in the EU if a country desires to trade with those countries; however, considering that a significant amount of such regulations are arranged internationally, this seemingly would be an insignificant burden on UK trade with EU countries.

- Manage the UK's transition after having seceded from the EU: what the UK's geo-political position after seceding from the EU should be; the alternative options to EU membership; the relationship with the remaining EU and with the rest of the world, including an awareness of the possible effects on trade patterns.
- Implement the outlined areas of government policy: how to alter the UK's trade policy; how to handle immigration; how to handle regulation, with regards to altering UK laws and regulations more broadly in relation to the EU, and more specifically labour market and financial services regulations; how to manage the impact that leaving the EU could have on the UK's foreign policy; how to address banking and fiscal policy; and how the energy policy, and environmental regulation, of the UK should change.

3 Alternative options to membership of the EU

The UK's withdrawal from the EU would open up the alternative European free trade arrangements: the European Free Trade Area (EFTA) and the European Economic Area (EEA).⁴⁹ Essentially, after seceding from the EU, the UK could opt for either the relationship with the EU that Norway has pursued, along with Iceland and Liechtenstein, through the EEA, or alternatively the arrangement, which will be advocated in this essay, that Switzerland has formed through the EFTA. Ian Milne (2011) points out that while both of these arrangements preserve ties with the EU, from outside of the EU, such arrangements nevertheless enable countries to circumvent principal EU policies, for instance the CAP and EMU.

The manner in which Britain should rebuild its relationship with the EU after leaving is a contentious issue. The terms of leaving the EU are freely negotiable; this denotes that the economic ramifications will largely depend on those withdrawal conditions. This essay advocates a

49 Britain was the architect of the EFTA and was a founder member in 1960 and left in 1973 to become part of the EEC; this approach at the time largely had bipartisan support by all the main political parties in the UK. Considering that most of the previous EFTA states are currently in the EU, and with some countries still considering participating in the EU, it has been argued that if the UK were to leave the EU to once again partake in the EFTA, this could be seen as an arbitrary and retrograde alteration in its relationship with the EU and Europe as a whole.

50 It can be seen that attempts to negotiate a repatriation of powers are unworkable.

relationship between the EU and the UK rooted in trade and cooperation, comparable to Switzerland's bilateral relationship with the EU, instead of the present relationship involving an ever-increasing political, rather than economic, union. In addition, it should also be noted that arguments in favour of reforming the EU from within, such arguments which arguably have been made since 1973, are irrational and have failed repeatedly.⁵⁰ Thus, a relationship with the EU comparable to that of Switzerland, outside of both the customs union of the EU and, indeed, the EU itself, is advocated in this essay for the intra-European relations of Britain. Moreover, regarding extra-European relations, a Commonwealth free trade area and efforts to join NAFTA should both be pursued, after Britain has seceded from the EU, as part of the UK's policy of freer trade and closer economic ties with growing economies around the world.⁵¹

50 It can be seen that attempts to negotiate a repatriation of powers are unworkable.

51 However, this essay advocates that, in the event of a Commonwealth free trade area proving to be unworkable, the UK should alternatively seek specific FTAs with Commonwealth countries to extend and increase Britain's economic influence in such areas of the world. Alternatively, a Commonwealth free trade area could function as an opt-in trading bloc in which Commonwealth countries can either opt-in or opt-out of the trading bloc when desired.

3.1 European Free Trade Agreement (EFTA)

Switzerland, Norway, Iceland and Lichtenstein are members of the EFTA. The initial 1960 agreement was agreed between countries in Europe that sought after trading with the EEC without the prohibitive costs of overall membership.⁵² The EEA Agreement succeeded in all of those EFTA countries, other than Switzerland.⁵³ The EFTA consists of three intergovernmental organisations: a Secretariat, a Surveillance Authority and the EFTA Court. In addition, it is important to distinguish that the EFTA is a free trade area, as opposed to a customs union which the EU operates within concerning trade.⁵⁴ The members partaking in the free trade area, by contrast, can reach independent FTAs with and settle their own tariffs against third parties; whereas in a customs union, such countries cannot (Research Paper 13/42, the House of Commons Library, 2013).⁵⁵

EFTA countries have full control over their own agriculture, fisheries, home affairs, and justice amongst other matters. To cite but one example, Norway is an EFTA and EEA member and is subject to merely 350 new regulations every year whereas the UK, a member of the EU and EEA is subject to the imposition of approximately 1,000 new regulations each year. A reduced number of regulations over time would provide much needed relief to UK businesses from the regulatory imposition that EU membership entails, and the effects of diminishing costs and helping such companies increase their competitiveness in world markets would be vastly beneficial.⁵⁶ With specific regards to EFTA agreements, the EFTA has numerous FTAs and cooperates as well as negotiates with other nations, such as Canada, Mexico, Singapore, the Republic of Korea, Chile, Turkey and South Africa. Moreover, it should also be taken into account that while the EU has not had their accounts signed off by auditors for in excess of 18 years, the EFTA, by contrast, has had their accounts signed off every year.

52 Countries initially partaking in the EFTA at first lowered trade barriers amongst themselves, and subsequently have signed bilateral FTAs with the EEC since 1973.

53 Many countries that are presently member states of the EU were previously members of the EFTA. In fact, the UK was an initial founder of the EFTA, alongside Norway, Sweden, Denmark, Austria, Switzerland and Portugal.

54 EFTA membership is comparable to the arrangement both the Republic of Korea and Mexico have with the EU which is simply an FTA. However, if an arrangement involving mutually advantageous bilateral agreements, the Switzerland model, can be achieved, even if it involves the UK contributing financially to the EU budget, this option should be pursued. The reason for this is that, in essence, it will nevertheless be necessary for the UK to retain strong relations with Europe after the UK secedes from the EU.

55 FTAs do nevertheless involve a certain degree of discrimination against countries outside a specific FTA

In terms of unemployment, such EFTA members as Norway and Switzerland have remarkably low levels of unemployment, 3.4% and 3.1%, respectively. This can arguably be attributed to the more economic freedom enjoyed by EFTA members and the protection it brings against intervention and increasing integration by the EU. By contrast, the following is a list of a number of EU countries, and the rates of unemployment at the time of writing in those countries: France 10.9%, Germany 5.2%, Greece 27.4%, Ireland 12.5%, Italy 12.5%, Netherlands 8.5%, Poland 13%, Portugal 15.6%, Spain 25.98%, Sweden 7.5%, and the euro area's unemployment rate, in general, of 12.1%. Therefore, the disparity in terms of the rates of unemployment between EU countries and EFTA countries is both revealing and axiomatic. In addition, in view of the rate of unemployment in the UK of 7.6%, seeking a relationship with the EU from the EFTA would evidently assist in decreasing the rate of unemployment in the UK by having a more detached relationship with the EU.⁵⁷

With further reference to the benefits of EFTA membership, in terms of bureaucracy and the number of employees of the EFTA compared with the EU, whereas the EU has in excess of 20,000 employees, the EFTA, by contrast, has only about 90 employees (Hugo Van Randwyck, 2011, p.13). This is indicative of the EFTA's lower levels of bureaucracy and less intervention in the countries partaking in this form of trading composition. Furthermore, if Britain were to seek this alternative relationship to its current, full-EU membership, Britain would also importantly be a member of the NATO security alliance, similar to the way in which Norway is. EFTA membership, in practical terms, would nevertheless be moderately similar to EU membership. Such members of the EFTA as Norway still attend many of the same meetings that the UK attends at present; thus, British representatives would continue in their current capacity. In addition, Britain would carry on discussions with partners of the EU regarding events and ideas.

The notion of the UK seceding from the EU, and establishing a different relationship with the EU is often met with arguments concerning Britain's resulting place in the world. One would argue that Britain's relationship with the EU, after leaving the EU, in the form of either the proposed EFTA membership with access to the single market through bilateral trade agreements, or an

⁵⁷ See the following for the rates of unemployment for the aforementioned countries in the EU and EFTA: <http://www.tradingeconomics.com/country-list/unemployment-rate>, accessed 12 December 2013.

alternative form of association with the EU, would be comparable to such free and prosperous countries as Canada, Switzerland, Norway and Australia. In addition, members of the EFTA frequently harmonise their foreign policies with EU statements and partake in a number of the Common Security and Defence Policy (CSDP) operations.

Essentially, with reference to the EU and member states of the EU, a relationship with the EU, similar to that of Switzerland, rooted in free trade and mutually advantageous bilateral agreements would be the most auspicious alternative relationship. Thus, as opposed to EEA membership, or the 'Norway option', Britain should reinstate her association with the EFTA. Moreover, with reference to countries outside of the EU and Europe, enhanced trading relations with the Commonwealth, the USA and certain other nations could more easily be achieved devoid of EU membership. Therefore, such arrangements could involve the initiation of a Commonwealth free trade area and additionally Britain seeking membership of NAFTA.⁵⁸ British membership of NAFTA could subsequently result in the establishment of the *North Atlantic Free Trade Agreement*.⁵⁹ Consequently, through negotiating such alterations in Britain's trading relationships globally, one would argue that Britain would be situated in an immeasurably superior global trading position, in which Britain could realign its trade patterns and trading relations with rapidly growing economies. This would therefore provide Britain with a radically more auspicious and sustainable economic position globally, which would consequently stimulate further economic activity in the UK. In addition, forming mutually advantageous free trade relations with the EU, the Commonwealth and NAFTA would denote that, in place of isolationism, Britain would benefit from improved international trading networks, in particular with the growing economies of the world, as opposed to those of the EU.⁶⁰

58 It should be noted that the Commonwealth has conventionally not participated in trade negotiations as an entity; this therefore could potentially be problematic during the negotiation phase of the proposed formation of a Commonwealth free trade area.

59 NAFTA is widely considered a success because of the noteworthy increase in trade between the three nations since 1993. The notion of the UK forming a trade agreement across the north Atlantic area had existed for a considerable period of time prior to the creation of NAFTA. In fact, the UK considered such an approach as opposed to partaking in the EEC in the early 1970s; this prospect ultimately did not materialise because America seemingly would have been an excessively pre-eminent member in such an arrangement and because consecutive American Presidents preferred that the UK join and partake in the EEC.

60 It should be noted that unlike membership of the EU, attempts to form trade agreements and trade relations, in general, with NAFTA and the Commonwealth would of course be less advantageous geographically.

Additionally, in response to the argument concerning the impracticality of the proposal of EFTA membership for the UK, one would propose that rather than Britain's incompatibility with such EFTA members as Switzerland and Norway, Norway's economy, in actuality, is more alike that of the UK, and Switzerland's economy is as well, when the features that the Swiss, Norwegian and the UK economies have in common with one another are analysed: (See Table 1). However, both Switzerland and Norway, nevertheless, have EFTA membership in common. This therefore illustrates the credibility of the proposal of EFTA membership for the British economy.⁶¹

The Schengen Agreement: border-free area

Controls relating to borders and passports have been abolished in EU member states that have approved the Schengen agreement, with the outcome that external borders only will be controlled. Furthermore, the network of collaboration among the judicial and police agencies has been enhanced.⁶²

Norway, Liechtenstein, Iceland and Switzerland collectively all partake in Schengen co-operation, even though those countries are not member states of the EU.⁶³ As outlined by Research Paper 13/42, the House of Commons Library (2013), partaking in Schengen for the abovementioned countries entails:

- Partaking in the area devoid of checks at internal borders;
- Putting into operation the provisions of the Schengen *acquis* and each and every text that pertains to Schengen taken on pursuant of it;
- Being incorporated in decisions pertaining to texts that relate to Schengen, but nonetheless lacking the right to vote.

61 Rather than this arrangement not suiting the UK, given the size of the UK economy, international networks and negotiating capacity compared with Switzerland, and other non-EU countries such as Norway, such an arrangement with the EU could arguably be taken advantage of by the UK to an even greater extent.

62 A key element is the Schengen Information System; this is a data bank that supplies information concerning wanted individuals and goods, in which the UK currently partakes in.

63 Countries that are part of the EEA as well as Schengen have pledged to take on approximately two thirds of the EU's *acquis communautaire*.

Table 1

An economic comparison between the UK and such EFTA countries as Norway and Switzerland

Area	UK	Norway	Switzerland
Agriculture	Yes	Yes	
Fisheries	Yes	Yes	
Oil and Gas	Yes	Yes	
Engineering	Yes		Yes
Finance	Yes		Yes
Pharmaceuticals	Yes		Yes
Chemicals	Yes		Yes
Agreement	EU/EEA	EFTA/EEA	EFTA/Bi-lateral
Unemployment	8%	3%	3%

Note. Adapted from *The European Free Trade Association and the European Economic Area: The Viable Alternatives to EU Membership*, by The Bruges Group, p. 3.

Therefore, the following can be seen as a number of the advantages of entering the EFTA:

- The ability to form and ratify FTAs as an independent trading nations with economically diverse countries throughout the world; this would benefit the UK significantly compared with the EU's protracted and complex ratification process with third parties;
- The UK Government would gain control and have the capacity to set its own level of value added taxation (VAT);
- A significantly reduced annual budgetary contribution from the UK to the EU, and the UK would no longer partake in the CAP amongst other wide-ranging EU policies;
- Trade and cooperation with the EU through bilateral trade agreement would regenerate more democratic accountability and sovereignty in the UK.

By contrast, the following can be seen as an enumeration of a number of the challenges in joining the EFTA:

- Becoming a member of the EFTA might involve a problematic application process which could potentially be vetoed from the members of the EFTA at the time;
- It is conceivable that the dynamics of the UK as a country intending to join the EFTA might not adequately correspond with the members at the time. Considering that the EFTA consists of a lot fewer countries compared with the EU, the differences between such countries with regards to the countries' economies, size and trading tendencies could potentially cause joining the EFTA to be problematic.

3.2 European Economic Area (EEA)

The EEA was signed in 1992 and was effective from 1994; the EEA Agreement expands into the EU single market⁶⁴ This agreement consists of the free movement of goods, services, people and capital, along with laws in such areas as consumer protection, employment, environmental policy and competition.⁶⁵ Moreover, the imposition of EEA membership does not extend to taxation, and therefore Britain, as a member of the EEA would not be affected by EU taxes. A further key example of the difference in membership is that the EEA acts in force are 4,600, whereas EU acts in force are approximately 15,000. Members of the EEA nevertheless are affected by most of the EU regulations which are often considered onerous to businesses throughout Europe. Thus, the Working Time Directive amongst others would continue to be present in the UK if the UK were to secede from the EU but remained a member of the EEA (Research Paper 13/42, the House of Commons Library, 2013); the estimated cost of EU regulations, according to the leaflet conducted by the Bruges Group, differs from between 3% to 5% of GDP.⁶⁶

64 This includes Norway, Liechtenstein, Iceland, but not Switzerland.

65 <http://www.efta.int/eea>, accessed 29 December 2013.

66 With regards to regulations, as pointed out by the Bruges Group, the EEA has only 350 new regulations imposed on its members each year, whereas the EU has in excess of 1000 new regulations enforced: <http://www.brugesgroup.com/EftaEEALeaflet.pdf>, accessed 4 December 2013. Furthermore, with reference to total regulations, the EEA has 4,600 regulations regulating the members of this trading set-up, whereas the EU has approximately 15,000 regulations regulating and stifling the economies of the respective members of the EU.

As for influence over EEA regulations and the often over-exaggerated argument regarding a lack of influence, which is often considered the most significant disadvantage of this alternative to EU membership, if Britain seceded from the EU; Britain would nevertheless be engaged in the consultation procedure and construction, but not however the voting.⁶⁷ Nevertheless, Britain, as one of 28 member states of the EU at present, has negligible influence in the EU, approximately 8% influence. One disagrees with the argument of Britain having influence through EU membership, as otherwise Britain would have been able to prevent the system of fishing quota, leading to the unnecessary disposing of fish, if the amassed fish do not correspond to the arbitrarily constructed requirements and specifications of fish included in the quota. Accordingly, this, as an example of the benefits of EFTA membership, would mean that the UK would have complete control of UK fishing and ensure that fish caught could both be landed and sold.⁶⁸ In terms of quantifiable estimates, only a few estimates concerning the effect on the UK of no longer partaking in the CFP have taken place; however, UKIP estimate that an annual return of £2.5 billion in fish sales would be restored to the UK economy.⁶⁹

Similar to the EFTA, the EEA Agreement is not a customs union; it is a regional free trade agreement.⁷⁰ The EEA Agreement assures equal rights and compulsions in the internal market for EEA citizens and economic operators. It should be taken into account that the EEA countries that are not part of the EU additionally contribute financially to the EU in exchange for access to the single market. Furthermore, the EEA Agreement handles the collaboration in terms of research and development, the environment, social policy, education, consumer protection, tourism and culture. It does not, as assessed by Research Paper 13/42, the House of Commons Library (2013), cover such EU policies as:

68 A considerable amount of financial resources are allocated within the EU to profligacy and bureaucracy, and the CAP is a key example of this. For example, in 2006, 45% of EU spending was allocated to the CAP; to illuminate the extent of the profligacy and misallocation of financial resources within the EU, this 45% of EU spending, which is almost half of EU spending, is allocated to an industry that merely employs 5% of EU citizens and produces 1.6% of GDP. Thus, whereas France is a chief beneficiary of this profligacy within the EU, other EU nation states with an insignificant agricultural sector, do not benefit from this arrangement, but nonetheless such countries continue to disproportionately fund this policy.

69 <http://www.ukip.org/issues/policy-pages/fishing>, accessed 11 January, 2014.

70 The EEA Agreement facilitates equal circumstances for businesses throughout the single market, through state aid rules and competition. It additionally incorporates "horizontal provisions" applicable to the four freedoms, and collaboration outside the four freedoms.

- Customs Union;
- Common Agriculture and Fisheries Policy;
- Common Trade Policy;
- Common Foreign and Security Policy;
- Justice and Home Affairs⁷¹; or
- Monetary union (EMU).

In spite of the fact that the collaboration between the EEA and the EU does not extend to the CAP and CFP, a certain degree of market access in other respects is facilitated.⁷² It should nonetheless be noted that Liechtenstein, Norway and Iceland are not represented in a single institution of the EU and thus possess influence indirectly in the form of consultation concerning EU matters that have an effect on such countries.

Furthermore, with reference to the advantages of the EEA agreement, similar to the form of membership Norway has with the EU, it is necessary to contrast these advantages with the proposed EFTA and bilateral trade arrangement alternative, Switzerland has achieved.⁷³ The foremost advantage of EEA membership, which is an alternative to the UK's current membership of the EU, but is nevertheless not advocated in this essay, is that because the UK is currently in the EEA through EU membership, changing to this form of membership arguably could be facilitated more effortlessly and within a short period of time after the result of the referendum. This option therefore could be easily achieved during the process of withdrawal from the EU, the two-year negotiation

71 The EFTA countries are, however, part of the Schengen Area.

72 An arrangement was achieved which enables Iceland to access EU markets devoid of the imposition of tariffs concerning the majority of its marine exports, and some access to EU waters in exchange for a quota of the caught fish by EU fishing vessels throughout Icelandic waters. Additionally, Norway accepts the EU fisheries conversions measures as well as the quota system.

73 The 'Swiss-style' alternative to EU membership is rooted in both free trade and mutually advantageous bilateral agreements. Switzerland, as the fourth EFTA country, in spite of not having full access to the single market is incidentally more incorporated in the EU with reference to trade than many EU countries, and arguably even more so than the UK. This can be seen to negate the arguments that, outside of the EU, it would either become increasingly problematic for the UK to trade with the EU or simply that the EU would accordingly become disinclined to trade with the UK. Such arguments seemingly do not take into account the substantial trade surplus that many EU member states have with the UK, and that the UK, in general, is a sizeable and flourishing market for the products of EU member states.

period, as proposed in this essay. This can be seen as noteworthy in view of the fact that Switzerland arranged a bilateral agreement with the EU, from 1992 to 2002, a period of ten years. Therefore, this is also particularly pertinent to the matter of secession from the EU, as outlined in Article 50 of the Treaty of Lisbon (2009), considering that the UK necessitates EFTA advantages as soon as possible after the result of the 2017 referendum in favour of withdrawal from the EU.

It is also noteworthy that it is not achievable to be part of the EEA Agreement without partaking in either the EFTA or the EU; thus, the UK seemingly would have to once again become a member of the EFTA upon secession to preserve access to the EEA Agreement if the UK Government in 2017 so desired. Moreover, if the UK were to stay in the EEA, UK nationals would have the capacity to work in the EU agencies, of which there are approximately 36, but would not have the capacity to work within the principal organisations of the EU.

The 'Norway option'

Norway, Switzerland, Iceland and Liechtenstein are all members of the EFTA of which the UK was a founding member. Dissimilar to the EU, the EFTA does not function as a customs union.⁷⁵ It should be noted that the EFTA, unlike the EU, is more in keeping with the proposals in this essay of considerably less bureaucracy and a smaller state, as is evidenced by the facts that in 2010 the EFTA's secretariat had only ninety employees and a yearly budget of £15 million.⁷⁶ Therefore, the distinction between the EU and EFTA is that three out of the four members of the EFTA, Norway, Liechtenstein, and Iceland, excluding Switzerland, are within the 30 members of the EEA at present.⁷⁷

The EEA, an international treaty implemented in 1994, facilitates an Internal Market between its members. This enables the 'four freedoms' and provisions in such matters as labour law, health and safety as

74 Alterations would not take place instantaneously, and recruitment would need to be carried on during such a negotiation period; posts, however, should perhaps be on a contracted as opposed to a permanent basis.

75 The respective members carry out their own policies concerning trade and both sit and vote at the WTO. No member has therefore ceded any legislative power to institutions of either the EFTA or EEA.

76 See the following internet-based source which provides comprehensive information concerning the EFTA, in general, and EFTA membership: <http://www.efta.int/>, accessed 10 December 2013.

77 This is not including Croatia which will become a member of the EEA after its accession agreement is ratified by all countries partaking in the EEA.

well as consumer protection. The three non-EU members of the EEA are constitutionally incapable of undertaking direct decisions by the EU Commission and the ECJ, but partake in forming original legislation pertaining to the EEA, and after ratification, in the process of its enforcement through combined organisations with the EU. The three members of the EEA moreover provide a financial contribution to programmes of both the EEA and EU.⁷⁸ In addition, it should be noted, once again, that the three members of the EEA do not partake in:⁷⁹

- The Common Agricultural Policy (CAP);
- The Common Fisheries Policy (CFP);
- EU monetary union (EMU);
- EU justice and home affairs policies; or
- EU foreign and defence policies.

Furthermore, as specified in the EEA treaty, a member state that secedes from the EU cannot be forced out of the EEA. Thus, after seceding from the EU, whether the UK decides or not to once again become a member of EFTA, the default arrangement after withdrawal from the EU of the UK would seemingly be that the UK would retain a free trading relationship with all of the members of the EU and its EFTA partners. This is particularly noteworthy because, although this essay proposes that the UK rejoins the EFTA during the specified two-year negotiation phase in the Treaty of Lisbon (2009), at least upon the secession of the UK from the EU, the UK would have a FTA with the EU in place *pro tem*, without the compulsion of even having to negotiate it. Thus, although such an arrangement would certainly have its benefits and some drawbacks for the UK economy, it can, despite not being proposed in this essay, be viewed to discredit arguments concerning the ominous nature of secession from the EU.

It is clear that an analysis of the alternative forms of association with the EU indicates that either the EFTA or EEA options are working alternatives for the

78 The financial contributions provided to the EEA and EU by these three members is significantly less compared with the gross contributions of the UK to the EU. For example, in 2009 the gross contribution of the UK to the EU was as much as seven times more, per capita, than the contributions of those three members of the EEA.

79 All other policies which are not specifically provided for in the EEA treaty are circumvented by the three non-EU members of the EEA.

UK. Either of these options would be a considerably superior arrangement compared with the UK's pre-referendum relationship with the EU, especially in terms of offering the UK an alternative to facilitating easier job creation and the likelihood of either option's implementation is workable, although the EEA alternative is arguably the easiest alternative to implement. Moreover, it can also be seen that joining the EFTA and remaining within the EEA, which facilitates the free movement of goods, services, persons and capital would be the alternative that would gain the most support from UK businesses. However, it can be argued that this approach would nonetheless tie the UK excessively to the EU after withdrawing from the EU in 2019.

3.3 The Switzerland example: EFTA and bilateral FTAs

Switzerland is in the Schengen Agreement and is a member of the EFTA, but nevertheless remains outside of both the EEA and the EU.⁸⁰ Through this relationship, Switzerland formed a FTA in industrial goods with the EU in 1972, and has arranged approximately 72 bilateral treaties with the EU from the 1950s onwards. Furthermore, after referendums in 2002, 2005 and 2010 in which the electorate of Switzerland supported its approval, Switzerland has arranged approximately 120 sector-specific bilateral agreements between Switzerland and the EU, facilitating mutually beneficial free trade amongst the respective parties.

The seven bilateral agreements I of 1999 were predominately agreements that freed and opened markets between the respective parties:⁸¹

- The free movement of persons;⁸²

80 If Britain were to rejoin the EFTA after the two-year negotiation period outlined in Article 50 of the Treaty of Lisbon (2009), it is necessary to identify that neither the composition nor the role of the EFTA should be seen as static. Britain's admission to the EFTA moreover could potentially have the largely unpredictable effect of encouraging other member states to pursue the same course of action, not necessarily immediately after the UK's admission but sometime after it. There can be no doubt that the UK's admission to the EFTA once again would, owing to the size of the UK economy and the UK's influence internationally compared with the other EFTA members, fundamentally alter the organisation as a whole. This might ultimately result in the further expansion of the EFTA into an expanded FTA incorporating each and every member of the EEA.

81 The nine bilateral agreements II were agreed in 2004, and reinforced collaboration economically and broadened cooperation.

- The abolition of technical barriers to trade;
- Agriculture;
- Public procurement markets;
- Research;
- Overland transport;
- Civil aviation.

A foremost difference between the EU and EEA Directive and the bilateral agreements is the chronological nature of the latter. Whereas EU law is not rigid and changes frequently through case-law and amendment, the agreements are static in comparison. New protocols have to be negotiated occasionally to adequately modify such protocols. A further dissimilarity is that there is not an enforcement system in the bilateral agreements.⁸³ The Agreement on the Free Movement of Persons does mean, however, that it has to implement corresponding legislation relating to employment, such as the Working Time Directive, to that operational within the EU.⁸⁴

Switzerland therefore preserves complete sovereignty regarding the areas addressed in the FTAs between Switzerland and the EU. Conclusions reached in mutual committees are taken with harmony because both parties retain their capacity to veto legislation. Moreover, the aforementioned FTAs can be discontinued whenever if necessary, and from Switzerland's perspective this does not include the relocation of legislative authority to a supranational organisation.⁸⁵ In addition, based on the result of a referendum, Switzerland began partaking in the Schengen Agreement in 2008 which facilitates the free movement of persons.

The principal FTAs between Switzerland and the EU deal with a number of matters, as outlined by Ian Milne (2011):

82 <http://www.efta.int/eea>, accessed 29 December 2013.

83 Other than civil aviation, Switzerland's relationship with the EU denotes that it is not constrained by horizontal policies, for instance those pertaining to competition or the environment as such policies that cover over one sector or area of policy.

84 More information on Switzerland's relations with the EU can be accessed on the European Commission website. See:<http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/>, accessed 29 December 2013.

85 Excluding civil aviation, not one of the bilateral FTAs obligates Switzerland to take on the necessary part of the *acquis communautaire*.

- Trade in goods.
- Free Movement of Persons.
- Technical barriers to trade.
- Reciprocal opening of trade in agricultural products.
- Public procurement contracts.
- Cooperation in matters relating to justice, police, asylum and migration.
- Taxation and savings.
- Intra-EU road and rail tariff on territory in Switzerland.

3.4 The option of the ‘Anglosphere’

This section of the essay is important in view of the fact that, after the UK has seceded from the EU, closer association with English-speaking nations could bring vast advantages in a geo-political and economic capacity. This essay proposes both a Commonwealth free trade area and for the UK to join NAFTA which would not only include such countries as the USA, Canada, Australia and New Zealand, but also a broader collection of countries consisting of India, the Caribbean and even the Pacific Islands in addition to as many Commonwealth countries as possible.⁸⁶

In terms of practicality, it should be taken into account that Anglosphere nations have been expanding collaborative organisations from the time of World War One (James C Bennett, 2001), and one would argue that such

86 Although the ‘Anglosphere’ and the Commonwealth are two separate entities, this essay will include the Commonwealth in this section of the paper considering that it is proposed elsewhere in this essay, and because the Commonwealth, in certain respects, can be seen as in keeping with this essay’s broader approach towards further free trade and cooperation with English-speaking countries and with countries which the UK trades and cooperates with at present and has traded with in the past.

closer ties, through the common language of English and connections in terms of values and culture, should cover:⁸⁷

- Trade;
- Defence;⁸⁸
- Scientific collaboration;
- Free movement of Persons.

While Britain has for decades excessively focused on its trading relations with Europe, successive governments in the UK can be seen to have disregarded the UK's trade with English-speaking countries and the Commonwealth.⁸⁹ This is particularly disconcerting considering that the Commonwealth will witness considerable GDP growth in future decades and thus there will be growth in the propensity to import. In place of the EU, which will decrease in percentage terms relative to global GDP in future decades, the Commonwealth will have a more ideal economic future which could assist UK businesses in benefiting from its strengths, concentrating on exporting to as well as investing in, such markets of vast economic growth. Therefore, the UK should, after withdrawing from the EU, make the Commonwealth and English-speaking countries the core focus of its international trading policy: (See Table 2).⁹⁰

87 As opposed to a centralised federation, similar to the EU, the proposed Commonwealth free trade area should involve strengthened collaborative organisations. This would accordingly aim to primarily secure and preserve the common values of such English-speaking countries from external influences.

88 One would argue, however, that the formalisation of an Anglosphere foreign policy is seemingly impracticable.

89 The UK is the founder and headquarters of the Commonwealth of Nations, of which Queen Elizabeth II is Head. Established in its present form in 1949, the Commonwealth encompasses the majority of the former British colonies. The common language is English, and such principles as education, finance, politics, law and accountancy of most members derived from the British example.

90 The Commonwealth, which will make up 38% of the world's workforce by 2050, has 53 members. By contrast, the EU, which by 2050 will constitute merely 5% of the world's workforce, has 28 member states (including the UK).

90 The Commonwealth, which will make up 38% of the world's workforce by 2050, has 53 members. By contrast, the EU, which by 2050 will constitute merely 5% of the world's workforce, has 28 member states (including the UK).

Table 2

British Export Markets: Commonwealth (excluding the UK) Versus EU (excluding the UK): Labour Forces.

Table 5: British Export Markets: Commonwealth (excl. the UK) Versus EU (excl. UK): Labour Forces 1					
millions	2010	%	2050	%	Change
C-54 ₂	1341	29.6	2163	39.6	+822
EU-26 ₃	293	6.5	236	4.0	(57)
Rest of World	2890	63.9	3467	59.1	+577
World	4529	100.0	5866	100.0	+577
C-54/EU – 26	4.6 times		9.2 times		
1 Working-age (15 – 64) population 2 The 54 Commonwealth members (excl. the UK) as at 2010 3 The 26 EU members (excl. the UK) as at 2010					

Note. Adapted from Global Britain Briefing Note No. 58 (2010): The Commonwealth & British Export Growth 2010-2050, by Global Britain, 2010, p.5.

The above table is indicative of the future, long-term economic potential of the Commonwealth for Britain and British trade. With regards to British exporters and investors, considering that the workforce of the rest of the Commonwealth (C-54) will have increased from 2010 to 2050 by 822 million workers, whereas the workforce of the rest of the EU (EU-26) will decrease by 57 million workers, a shift of 879 million workers which will occur in total, presents the UK with new global opportunities economically. Therefore, this changing global economic trend is clearly noteworthy from the perspective of Britain's future trading relations globally.

In the event of the UK seceding from the EU, amongst the additional trading partners the UK will have to arrange trade agreements with, the Commonwealth arguably encompasses a number of the most important trading partners for the UK. The EU is restraining the UK from centring trade on transatlantic relations, as well as emerging and established markets, such as those in the Commonwealth and other English-speaking countries, respectively; this contrasts markedly with the UK's current partners in the EU which have stagnated economically. Therefore, an attractive feature of seceding from the EU is the possibility of forming a network consisting of a number of English-speaking, Anglophone countries, specifically the UK, America, Canada, Australia and New Zealand.⁹¹

It is, however, necessary to point out a number of potential problems with further trade with the Commonwealth, in particular. The Commonwealth has in recent years endured unrelenting problems, for instance a lack of funds, intermittent controversies arising from the human rights records of certain members, and general ambiguity regarding its underlying *raison d'être*. Last year, such problems ultimately led to the leaders of Canada, India and Mauritius boycotting the Commonwealth's summit in Sri Lanka in November 2013 because of the host member's alleged war crimes.⁹² A further problem with the proposal of arranging a Commonwealth free trade area, in addition to the fact that this would have to occur either during or after the UK leaves the EU, is also that both Malta and Cyprus are both, like the UK at present, members of the EU and of the Commonwealth. Therefore, one would argue that from 2017 to 2019, if Malta and Cyprus are still members of the EU, and there is no reason to suggest that those countries will not be, the UK should accordingly try to arrange a Commonwealth free trade area excluding Malta and Cyprus.

The main problem with the UK's current trading relationship with the EU is the disconcertingly substantial trade deficits the UK has with the EU. For example, according to the ONS, with specific reference to UK trade in August 2013, whereas UK exports to countries outside of the EU increased by £0.7 billion to £12.3 billion, by contrast, exports to countries inside of the EU decreased by £0.4 billion over exactly the same period of time to £12.8 billion.⁹³ To cite but one further example amongst many, the deficit between the UK and Germany has ominously increased from £3.7 billion in 2000 to £16.8 billion in 2010.⁹⁴ This propensity has occurred

91 There is already a significant agreement regarding sharing intelligence between the UK, the USA, Canada, Australia and New Zealand. Therefore, with regards to military liaison, the aforementioned countries have had an exceedingly close association.

92 Such problems involved in further Commonwealth trade have been identified in such online articles as *Could Britain move away from EU and toward the Commonwealth?*. See: <http://www.csmonitor.com/World/Europe/2013/0117/Could-Britain-move-away-from-EU-and-toward-the-Commonwealth>, accessed 5 December 2013.

93 <http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/august-2013/stb-uk-trade-august-2013.html>, accessed 11 December 2013.

94 This article by the Commentator, *The Commonwealth – a route to prosperity*, identifies many of the disconcerting features of the UK's present trading relationship with the EU, such as trade deficits, and the manner in which the Commonwealth can function as a solution to this economic problem of a deficiency of trade internationally which the UK is enduring. See: http://www.thecommentator.com/article/1813/the-commonwealth_a_route_to_prosperity, accessed 2 December 2013.

in spite of the fact that Germany was the UK's second largest trading relation behind the USA. Thus, UK trade is evidently not balanced at present and is hindering the UK's future efforts to achieve prosperity.

However, in proposing enhanced trade with the Commonwealth and seceding from the EU, one is not promoting that Britain leave a restricted economic union simply to partake in another one. Britain should seek to form economic relations with any nation or alliance deemed appropriate. However, if forming a Commonwealth free trade area proves to be unworkable, one would argue that the UK should nevertheless join NAFTA, which could be renamed to the *North Atlantic Free Trade Agreement*.⁹⁵ Britain should additionally reinstate her membership of the EFTA, and create trading alliances with as many Commonwealth nations as possible, but principally India and Singapore in addition to numerous Anglo-African nations and the Caribbean. This outline concerning the future direction of the UK's trading relationships throughout the world is vastly more advantageous than that of the redundant customs union of the EU, which hinders Britain's capacity to form trade deals as this function is transferred to the EU Trade Commission. In addition, Britain is presently suppressed in a global economic capacity by the EU-imposed tariff barrier to trade; this approach to trade not only embodies protectionist implications, but also hinders Britain's goods from competing most effectively throughout the world.

It has also been assessed by Lea and Binley (2012) that business costs are approximately 10% to 15% lower amongst Commonwealth countries trading with one another compared with when Commonwealth nations trade with other non-Commonwealth nations of a comparable size and GDP. Thus, upon achieving a Commonwealth free trade area, this would provide nations partaking in this FTA with a clear advantage internationally, which is indicative of a shared history and the commodities of language, business practice and law. Thus, this would function as a foremost incentive to intra-Commonwealth trade.

⁹⁵ NAFTA, which comprises the USA, Canada and Mexico, is a larger trading association in comparison with the EU, and is widely considered to have more favourable growth and demographic prospects. NAFTA is a free trade organisation which was instituted in January 1994, and the members within this organisation are committed to the progressive abolition of tariff barriers between the relevant countries over a certain period of time; agricultural tariffs were progressively eliminated in 2008.

Such gains from trade with the Commonwealth and/or English-speaking countries diametrically differ from trade with the EU. UK interests are inadequately represented in EU trade negotiations, and the access to the services market of the EU indicates such economic inadequacy. Time zone, language and structural elements of the UK economy provide the UK with a comparative advantage in cross-border services trade; however, the EU's deficiency of domestic liberalisation in services trade restricts the eagerness of member states to advocate such issues with third parties, as discussed by Booth and Howarth (2012) for Open Europe.

Furthermore, despite the UK's excessive focus on the EU and trading with EU member states, the trade between the UK and the Commonwealth is already noteworthy. In 2011, almost one tenth of the UK's overall exports of both goods and services were directed towards the significant countries of the Commonwealth. In addition to the clear importance of the current size of the trade the UK already undertakes with the Commonwealth, the UK importantly has an auspicious, GDP-improving trade surplus with Britain's partners in the Commonwealth. In fact, in 2011, the largest trading surplus nation of the UK, after the USA, was Australia. However, through seceding from the EU, and trading increasingly with the Commonwealth, the UK could stimulate trade with the burgeoning and established markets in the Commonwealth and in English-speaking countries, respectively.⁹⁶

In addition, after seceding from the EU, the UK must essentially form a mutually advantageous free trade area with nations of the Commonwealth, as well as the USA. Therefore, the UK's future economic prosperity is partly reliant upon forging trading relations with nations that, unlike the EU, have a clear and unequivocally positive future economically. The fact that the UK is incapable of unilaterally pursuing optimal trade policies solely because of Britain's prohibitive membership of the EU's customs union is exacerbated further by the EU's current lack of trading agreements with either Australia or New Zealand or with the USA. Therefore, these proposed alterations in the UK's trading relations globally would ensure that the UK would be well situated to take advantage of the inexorable changes in the global economy in the upcoming decades.

96 The encouraging nature of the UK's current trade with Commonwealth countries, in particular Australia, is identified in Ruth Lea's article in the Mail Online: <http://leablog.dailymail.co.uk/2012/10/the-commonwealth-should-play-a-much-bigger-role-of-britains-future-an-interesting-snippet-of-news-slipped-out-recently-th.html>, accessed 28 November 2013.

The aforementioned alternatives can only be achieved if the UK is to once again function as a self-governing international trading nation state. It is also important to point out that alternative economic associations, for instance both the Association of Southeast Asian Nations (ASEAN) and NAFTA amongst other associations, do not restrain members to that specific trading bloc. Therefore, the UK must both liberate itself from the superseded European customs union and resume its economic sovereignty.⁹⁷ The UK, by expanding the Commonwealth into an unsurpassed international trading nucleus, can both uphold itself and grow economically at a later point, in a post-EU capacity. The necessity of implementing this outline without delay after 2017 cannot be overstated, as otherwise the UK could potentially be left behind and shut out of the areas of economic growth in this contemporary globalised world economy.⁹⁸

97 In view of the fact that tariffs are currently low, international trade is carried out within the parameters of the WTO, trade between non-EU and EU countries continues, and Europe, as a continent as a whole, is in progressive degeneration, and EU membership is becoming less necessary. Therefore, in contrast with when the UK became a member of the EEC in 1973, when tariffs were excessively high and therefore there arguably were net benefits of EU membership, the benefits of EU membership have been in constant decline for decades.

98 This resource, by Ruth Lea, outlines a number of the economically advantageous features of shifting the UK's current approach to trade towards a trade policy centred on a free trade relationship with the EU, similar to that of Switzerland's relationship with the EU, in addition to further trade and co-operation with North America and the Commonwealth. See:<http://www.conservativehome.com/thecolumnists/2012/01/ruth-lea-britain-should-aim-for-a-swiss-style-free-trade-relationship-with-the-eu-the-commonwealth-a.html>, accessed 5 December 2013.

4 The UK's position after seceding from the European Union

This section of the essay focuses on locating Britain in a new geo-political and economic position. The UK's new position should constitute a relationship with the EU that largely centres on trade, whilst also liberating Britain to implement independent trading arrangements with the rest of the world.⁹⁹ Thus, the alternative to the current relationship between the EU and the UK is for the UK to make a clean break with EU membership. Britain should accordingly, under the stipulations of the WTO, move towards a relationship with the EU and non-EU countries in accordance with the proposals included in the sections of this part of the essay.

Any country leaving the EU would have to address several central areas concerning the relocation of the country in a new geo-political and economic setting:

- (i) the country's relationship with the remaining EU after secession;
- (ii) the country's relationship with the rest of the world; and
- (iii) an analysis of the effects of changes in trade patterns internationally.

4.1 The proposed UK relationship with the remaining EU

After seceding from the EU, Britain should once again become a member of the EFTA. Membership of the EFTA, as opposed to the EU, would denote that the EU would no longer have influence over the policies of fisheries, agriculture, home affairs and justice in the UK. In addition to this reduced influence from the EU through membership of the EFTA in the form of the Switzerland model of bilateral trade agreements with the EU, as opposed to EU membership, the UK would be able to freely negotiate FTAs with numerous economically diverse countries outside of the EU.

⁹⁹ As stipulated in Articles 3, 8 and 50 of the Treaty of Lisbon (2009), the EU is obligated constitutionally to negotiate with non-EU nations and nations that have decided to secede from the EU "free and fair trade" agreements. This reassurance, along with the WTO's anti-discrimination rules, would circumvent the possibility of Britain undergoing discrimination.

However, it should be pointed out that the UK's trading relationship with the EU at present is inadequate. Arguments that leaving the EU would severely risk Britain's trading arrangements with the EU, considering that the EU is nevertheless Britain's largest trading partner, as underlined by Booth and Howarth (2012), run counter to evidence underlining the antithesis.¹⁰⁰ This evidence substantiates the standpoint that trading relations with the EU would remain at similar levels after withdrawal.¹⁰¹ Additionally, although pro-EU British advocates overlook stipulations by the WTO, anti-discrimination rules would assist in mitigating any political or trading isolation that could arise.¹⁰²

Nevertheless, the overriding reason to leave the EU is economic. Essentially, this essay proposes that Britain pursue the model Switzerland has achieved, which is based on bilateral trade agreements with the EU rather than EEA membership or any alternative option.¹⁰³ Switzerland's relationship with the EU can be viewed as evidence to substantiate that Britain does not have to partake in the single market to have a successful trading relationship with the EU.¹⁰⁴ The changing nature of the EU is also an economic argument for withdrawal from the EU. The increasing regulations, bureaucracy, undemocratic demeanour, pervasive unemployment and the beleaguered EMU have had detrimental effects on the economies of EU member states. The UK is also becoming increasingly segregated from the EU as the euro-zone amalgamates further, seemingly into a political union.¹⁰⁵ For instance, the banking union and the financial transactions tax are two clear instances of an amalgamation that is axiomatically proceeding devoid of British involvement.

100 The EU is the largest destination for British trade and goods. In terms of services, the EU is still the UK's largest trading partner, making up 39.7% of UK services exports in 2012. It can, however, be argued that the UK is increasingly less reliant on the EU single market compared with other EU members.

101 See Section 2.2 for further information concerning the improbability of the UK economy undergoing a significant reduction in trade after seceding from the EU.

102 It is claimed that Britain's global influence is more forceful when partaking in the EU single market than if Britain were to be independent and negotiating on its own behalf at WTO councils. However, this argument importantly does not take into account the fact that Britain's business-related and geo-strategic concerns run counter to those of many other EU member states.

103 For a more in-depth analysis of Switzerland's relations with the EU, see Appendix A2.

104 Switzerland, despite not having membership of the EU, had in the year of 2010 a greater proportion of its visible exports going to EU27 countries (58.5%), compared with the UK (53.5%). This undermines the argument that through leaving the EU, trading with the EU would be problematic.

105 The EU's anthem (Ode to Joy), flag and impending EU army HQ plans are indicative of the rapidly changing nature of the EU towards a political union.

The alterations in terms of global trade are already becoming apparent in the UK's current trading relations. The UK's ability to export to the rest of the world, and in particular to emerging markets with potential for future economic growth is restrained by membership of the EU. Trade between the UK and China as well as India has more than doubled from 2006 onwards, whilst the share of exports to the EU has declined from 54% to 46%. It should be noted, however, that even without EU membership, the configuration of the UK economy will almost certainly place a number of restrictions on its ability to adjust its trade, in particular in the medium-term. It is also noteworthy that the EU has not obtained any such favoured trade arrangements with countries such as Brazil, India and China amongst others, and one contends that the UK's negotiation capacity and effectiveness in terms of trade would be greater after seceding from the EU.¹⁰⁶ Thus, in terms of global trade, the proposed UK relationship with the EU will differ markedly in this respect.

The bilateral trade agreement option of Switzerland and EFTA membership would mean that the UK would not be obligated to adopt EU regulations to trade with the EU, and would pay only 1/6th in terms of net budgetary contributions¹⁰⁷ through EFTA membership as opposed to membership of the EU.¹⁰⁸ Although this arguably would compromise the moderately insignificant influence the UK currently has over the EU single market, EFTA membership in the form of a Switzerland-style bilateral trade agreement simply would enable the UK to access the single market.¹⁰⁹

Overall, an economic advantage of leaving the EU, which can also be seen as a key change in the UK's relations with the EU, is the benefits of increased global trading opportunities and the retention of trading

106 There has been a tendency, however, for the countries that have joined the EFTA to follow, to a certain extent, the EU in terms of the negotiation of FTAs.

Nevertheless, one would contend that the size and role of the UK economy in terms of global trade, compared with the other members of EFTA, would mean that the UK could conclude trading arrangements more effortlessly outside of the EU, especially when the contrasting interests of EU member states that are involved whenever the EU negotiates as a trading entity are taken into consideration.

107 In the financial year of 2010, this would have meant that the UK could have saved almost £7 billion and made a net contribution of only £1.3 billion.

108 The costs to Britain of customs union membership, particularly the opportunity costs of not being able to negotiate the UK's respective free trade arrangements, are nevertheless considerable. Such costs will probably become increasingly considerable, considering the comparative degeneration of the EU as an economic bloc and the economic growth that will increasingly be witnessed in such areas as the Commonwealth.

109 In practice, it would probably be of assistance to the UK Government, after the UK has seceded from the EU, to retain the majority of the EU-enforced Basel agreements.

relations with the EU. As assessed in Global Britain Briefing Note No 62 (2011a), the proposed economic model would pursue bilateral trade agreements, similar to those of Switzerland, and the primary reason for not proposing EEA membership is the excessive regulation that accompanies membership of the EEA. Global Britain (2011e) highlights that, as for the argument of the UK not having a voice in the EU which would nevertheless trade considerably with the UK, the arrangement, since the early 2000s, in which the UK pays substantial financial contributions to the EU budget and has insignificant representation operating in the periphery of an amalgamated monetary union, Britain does not partake in, negates this argument.¹¹⁰

The CFP is a further example of the way in which the EU inhibits the UK economy in several respects, and the difference between the proposed UK relations with the EU compared with the present relations.¹¹¹ Essentially, this policy, which is widely considered to have been unsuccessful, promotes excessive fishing, enables other countries to fish in Britain, artificially increases the price of fish and squanders tonnes of suitable stock through quota-imposed discarding.¹¹² Therefore, the proposed relationship with the EU would involve the removal of the UK from the CFP; the UK government should accordingly prohibit foreign involvement in its efforts to take on the responsibility for fisheries in the UK once again.¹¹³

110 British influence in EU matters has lowered to a level of only 8%. This percentage covers Britain's vote in EU institutions, such as the Council of Ministers.

This renders the argument of enhanced British influence in global matters, by EU membership, to appear tenuous and unsubstantiated.

111 Withdrawal from the EU could denote that the UK might continue to be connected to EU fish trade rules, devoid of the capacity to influence such rules and tariff barriers could also be raised between the UK's trade with the EU in this regard.

The latter could therefore obstruct the exportation of fish products to the EU.

112 Civitas provides comprehensive information concerning how the EU impedes economic growth in the UK: <http://www.civitas.org.uk/pdf/EUGrowthImpediment.pdf>, accessed 5 September 2013.

113 After leaving the EU, the UK Government should unequivocally elucidate that only the UK has access to the fisheries source; UK fishermen could potentially no longer be included in areas not in the UK; the UK from this point on would unilaterally decide its own rules regarding fishing; and the UK could after withdrawal make arrangements with third parties concerning the distribution of mutual fish supply.

114 Withdrawal from the EU would necessitate meticulously arranged transitional plans to guarantee that the lack of certainty of future incomes would not result in problems with lending and matters related to ownership amongst others, in addition to less competitiveness throughout Europe.

Similarly, leaving the EU, in general, and the proposed UK relationship with the EU would also enable Britain to no longer partake in the CAP as well as its schedules regarding regulations and subsidies.¹¹⁴ According to Open Europe (2012), from 2007 to 2013 Britain will have contributed €41.1 billion (£33.7 billion) to the CAP, and retrieved €32.5 billion (£26.6 billion) in return; this denotes that Britain will have given a net total of €8.7 billion (£7.1 billion). Such a change would have a significantly beneficial effect on the UK economy; the CAP comprises nearly 40% of the overall EU budget as well as the highest part of the UK's costs incurred from partaking in the EU.¹¹⁵ The economy-wide benefits this would have for the UK can be realised through the UK being liberated and able to arrange bilateral trading agreements at the WTO and with countries which are growing economically, not within the EU; this would mean that the UK and third parties would have a greater degree of flexibility in terms of pricing.¹¹⁶

Crucially, EFTA membership and the Switzerland model consisting of bilateral trade agreements, similar to EEA membership, would enable Britain to run her own fisheries, agriculture, justice and home affairs. In addition, EFTA membership would enable Britain to have her own seat at international organisations that are increasingly setting regulations. This is noteworthy because EFTA membership, as opposed to EU membership, would arguably provide Britain with more international influence, considering EU member states renounce their positions to representatives from the European Commission.

In summary, the proposed relationship between the UK and the EU is arguably comparable to the kind of relationship between the UK and the EU that the British electorate paradoxically thought they were voting in favour of in the referendum concerning EU membership in 1975. This essay therefore proposes a relationship rooted in trade and co-operation that is considered mutually advantageous to both parties.

115 The CAP provides direct financial support to farmers in the UK and therefore no longer partaking in the scheme could result in the reduction of farm incomes. The CAP is an area of government policy that would require a transitional arrangement until the implementation of an alternative system; withdrawing from the CAP instantaneously would clearly cause much disruption for farmers throughout Britain. Further such problems would also have to be addressed with the use of transitional arrangements, for instance mutual ventures and projects, especially regarding such matters as research, which receive EU funding and are a long-term agenda.

116 The advantages that the UK could gain can be seen to be reliant upon the conditions on which the UK joined the EFTA, or an alternative trade area.

Proposals

- Join the EFTA upon the UK's secession from the EU after the two-year negotiation period in 2019.
- Form a FTA with the EU by means of membership of the EFTA, in addition to shaping a number of sector-specific treaty agreements and bilateral trade agreements, which would be in the mutual interests of both parties.

4.2 The proposed UK relationship with the rest of the world

This section of the essay addresses the implementation of independent trading relationships with the rest of the world. After leaving the EU, Britain should pursue linking WTO-attuned arrangements of FTAs, and undertake the aforementioned proposal of transforming the Commonwealth for trading reasons into an accessible international trading institution (Global Britain Briefing Note No 58, 2010a)¹¹⁷

It is essential to identify that in order for the UK to be free and prosperous, it cannot be constrained by EU membership; thus, Britain, outside of the EU, would not only have a more outward-looking economy, but also would have an economy that is more in keeping with the economic advances of the 21st Century. Britain, as one of the foremost global trading nations¹¹⁸, ran a large current account trade deficit with the EU in 2010, in excess of £52 billion, and also traded in surplus, by approximately £16 billion, with non-EU countries. Accordingly, this present arrangement is indubitably unsustainable and has led to an increasing number of jobs being created in other EU countries compared with the UK because of UK-EU trade.

The modification of economic might from developed countries to emerging economies cannot be denied. Countries such as China, India and Brazil are growing notably while Europe countries are in constant decline. China, in particular, has witnessed tremendous rates of economic growth;

117 For further in-depth analysis of the potential of the Commonwealth economically, see Appendix A3.

118 Britain is the fifth largest trading nation after the USA, Mainland China, Germany and Japan. According to the World Bank, the UK was also the 6th largest economy in nominal terms in 2010 and 7th in PPP terms.

China's share of global GDP, as pointed out by Lea and Binley (2012), is expected to increase from 2% in 1980 to at least 18% by 2017. By contrast, the previous 27 member states of the EU will only make up 17% of global GDP by 2017, as opposed to 30% in 1980.

This essay promotes that the UK should shift its global economic focus to the Commonwealth.¹¹⁹ Britain, as a member of the Commonwealth, which as an economic community or trading bloc is seldom discussed in the UK, has several principal features in common with Commonwealth countries which are applicable to trade, as identified by Lea and Binley (2012).¹²⁰ Principally, on account of the shared history and commonalities of language along with business practice law amongst others, it has been estimated that when Commonwealth countries trade with one another, those countries experience business costs which are 10% to 15% lower in comparison with comparable trade dealings with non-Commonwealth nations of a similar size and GDP. Furthermore, the modern Commonwealth crosses five continents and comprised a promising collection of developed, emerging and developing nations. Thus, the diversity of the Commonwealth clearly encapsulates the make-up of the 21st Century globalised economy, and markets that the UK should attempt to trade increasingly with in the future.¹²¹

The potential of a Commonwealth free trade area is evidenced by the UK's already considerable trade with the Commonwealth as a whole. In 2010, total goods and services exports to principal Commonwealth countries were approximately £37 billion, at least 8% of the UK's total. Importantly, Britain overall presided over a noteworthy trade surplus with the principal countries of the Commonwealth, in addition to such other countries as the USA, in comparison with a significant current account trade deficit with the 27 member states of the EU in 2010.

119 The 53 members of the Commonwealth collaborate on mutual objectives of democracy and development. The Commonwealth is often typified in terms of informal networks as well as associations that have developed over time, as opposed to formal institutions. Controlling such networks will be necessary in terms of improving intra-Commonwealth trade and investment.

120 Ruth Lea's speech to the Bruges Group, Britain and Europe: A New Relationship, provides an all-encompassing analysis of the benefits and compatibility of the prospect of the UK trading with members of the Commonwealth. See: <http://www.brugesgroup.com/SpeechbyRuthLea.pdf>, accessed 5 December 2013.

121 The Commonwealth comprises in excess of 2 billion people and accounts for about 15% of world GNI in PPP terms.

Table 3

UK trade, £bn, selected Commonwealth countries, 2010

	Goods & services			Income	Transfers	Current account
	Exports	Imports	Balance	Balance	Balance	Balance
Commonwealth, major 8:						
Canada	7.0	7.3	-0.2	2.2	-0.2	1.8
India	6.1	8.1	-2.0	1.6	-1.0	-1.3
Pakistan	0.8	1.3	-0.5	0.2	-0.3	-0.6
Malaysia	2.0	2.1	-0.1	0.6	0	0.4
Singapore	7.1	5.9	1.2	1.7	-0.1	2.7
Australia	8.4	4.5	3.9	6.6	-0.2	10.2
New Zealand	0.9	1.2	-0.3	0.4	-0.1	0
South Africa	4.6	5.5	-0.9	1.2	-0.4	-0.1
Total	36.9	35.9	1.1	14.5	-2.3	13.1
Other:						
USA	72.2	46.2	26.0	-5.1	-0.5	20.4
EU27	210.1	242.8	-32.7	-9.7	-10.0	-52.4
World	436.8	476.5	-39.7	23.0	-20.1	-36.7

Note. Adapted from Britain and Europe: a new relationship, by Ruth Lea and Brian Binley MP, 2012, p.13.

Furthermore, there fundamentally are auspicious demographics and growth prospects for the Commonwealth as a whole. The Commonwealth encompasses a working population which is expected to significantly increase up to 2050 and the economic growth will be relative to the growth in the working population.¹²² With further reference to demographic changes, the UN (2011) estimates that between 2010 and 2050, Australia, Canada and India's working populations will increase by 23%, 9% and 45%, respectively.¹²³ In complete contrast, Germany, Italy and Spain's

122 Incidentally the Commonwealth's demographics compare very auspiciously in comparison with several foremost European countries, where working populations will both progressively decrease and age in future decades.

123 The UK, devoid of EU membership, should seek to be one of the countries that will succeed in the 21st Century; such countries will be those that are most capable of responding both ably and flexibly to the altering state of affairs in global trade.

working populations are estimated to decrease by 25%, 21% and 14%, respectively.¹²⁴ In addition to the other specified benefits of increased trade with the Commonwealth, the Commonwealth also benefits from having congenial, cordial countries in which many possess profound reserves of key natural resources. Therefore, the Commonwealth clearly comprises many growth markets of the future, and the UK Government should redirect economic focus in the UK away from Europe and towards the Commonwealth and such other commanding economies as China and America through NAFTA membership, in the case of free trade with North America.¹²⁵ Thus, it is clear that in the event of the UK seceding from the EU, the UK must speedily negotiate and construct a Commonwealth free trade area.¹²⁶

A foremost cost of EU membership is Britain's gross contribution to the EU, which in 2012 was about £20 billion. While this merely reflects the nominal amount, and is not indicative of the actual overall financial cost of EU membership to the UK, it is noteworthy that if the UK were to have a Switzerland-style association with the EU, it is calculated by Lea and Binley (2012) that, similar to the current year of 2013, in the financial year of 2010 the net contributions of the UK to the EU would most probably have been at most a 1/6th or a 1/5th of the nominal net contributions of the UK to the EU in that fiscal year. Thus, the UK potentially, under a Switzerland-style association with the EU, would have only contributed £1.3 billion to the EU, as opposed to £8.1 billion, and saved as much as £7 billion in net financial contributions.

One should also note that the costs of Britain's membership of the customs union of the EU, specifically the opportunity costs regarding the inability of Britain to negotiate FTAs are considerable, albeit problematic

124 The UK and France's working populations are, incidentally, estimated to increase by approximately 5% and 2%, respectively. Moreover, the USA's working population is expected to increase by 16%.

125 The feasibility of the UK joining NAFTA is clear in view of the fact that the US Senate's Finance Committee has previously invited the UK to seek membership of NAFTA, and such a trade agreement would also be in keeping with this essay's broader approach to supplying the UK with further access to larger and predominately Anglophone markets with which UK companies could effortlessly export to. See the following analysis of the prospect of UK membership of NAFTA: <http://www.telegraph.co.uk/news/1399694/The-alternatives.html>, accessed 11 January, 2014.

126 Whereas this essay proposes that the UK pursue the Switzerland model in terms of its post-EU withdrawal agreement with the EU, the UK, unlike Switzerland however, owing to the increased size of its economy, will be in a more effective negotiating position in the sense of arranging FTAs with individual countries and, in particular, transforming the Commonwealth into an economic bloc.

to quantify. Evidently, the negative implications of this will also become increasingly considerable, considering that the EU will progressively become a decreasing share of global productivity over future decades. Accordingly, it is evident that the present arrangement in the EU where the Commission negotiates on the behalf of the UK for the overall interests of the respective member states of the EU is inadequate, and acts as an impediment to future economic prosperity in the UK.

Proposals

- The UK should join the EFTA and arrange a trading relationship with the EU through bilateral trade agreements.
- The UK should seek membership of NAFTA, and change this trading entity into the *North Atlantic Free Trade Agreement*.
- The UK should construct a Commonwealth free trade area.

4.3 The effects of changes in trade patterns internationally

Despite the presumed economic advantages of the single market, according to Global Britain Briefing Note No 68 (2011d) British exports to the rest of the world, compared with the EU, have been growing at a faster rate at 37% since 2000 onwards.¹²⁷ Statistics such as these undermine arguments emphasising the importance of the EU single market to the UK economically, and underline that EU markets are declining, unlike other manifestly growing markets around the world. Arduous single market regulation can also be seen as a cause for economic weakness in the EU; this has, according to Global Britain Briefing Note No 43 (2006), been deliberated in such EU member states as France.¹²⁸ One would also assume that for an EU member state, such as Britain, membership of the single market would facilitate easier importation. However, as Appendix A3 illustrates, the UK's imports from the rest of the world are expanding conspicuously; in fact, 18% more rapidly over the 10 year period from

¹²⁷ See Appendix A3.

¹²⁸ Whilst arduous single market regulation might not explain the majority of the economic weakness in the EU, reports to the French Prime Minister, such as Conseil d'Analyse Economique, suggest that such regulations are a foremost reason behind the economic shortcomings of the EU and member states of the EU.

1999 to 2009, than Britain's imports from the EU.¹²⁹ In addition, in 2011, the UK traded in substantial deficit with the EU, over £46 billion worth of trade as exemplified in Table 5 of Appendix A3, and such trade patterns are negatively affecting the UK economy.¹³⁰ Therefore, this renders analysing the effects on UK trade patterns of a UK secession from the EU to be problematic.

Regarding future trade patterns, it is noteworthy that the EU is in an inevitable state of decline as a world economic power. While this is largely driven by the demographic factors, elucidated in section 3.3 of this essay, the prospects for China, India, Brazil, Russia, Australia, the USA and Canada, by contrast, are considerably more auspicious. Therefore, to improve Britain's trade patterns, Britain must realign its trade towards burgeoning economies to stimulate economic growth. Thus, through leaving the EU, and the EU's customs union more specifically, the UK would be able to, without restriction, develop FTAs with preferred trading partners.

Britain's exportation trade with the EU underlines the UK's tenuous economic relationship with the EU. As analysed in Appendix A3, Britain's exports to the EU forms less than 10% of Britain's economic output. More specifically, amongst the approximately 90% of exports that are not engaged in trade with the EU, 80% of which is predicted to be generated by British citizens trading with one another, and a further 10% in exportation to the world. In addition, this predicament is compounded further when yet for the 10% traded with the EU; the enduring 90% notwithstanding must undergo the detrimental effects of having EU single market regulations enforced upon their trade (Milne, 2004b, p.17).

Trade patterns with the EU and internationally are significant, and assessing the potential effect seceding from the EU would have on the UK's trade patterns internationally is necessary. The argument that leaving the EU will result in radical reductions in the UK's trading patterns and net trading levels is misleading and inaccurate. By contrast, it can be argued that the most effective way for UK trading partners to increase is through withdrawal from the EU. In the event of the UK seceding

129 Such statistics concerning UK imports corroborates the deduction that considering Europe, overall, will decline proportionately in terms of global GDP over future decades, whilst other parts of the rest of the world will undergo the antithesis of this global economic trend, the prospect of Britain trading more with the rest of the world compared with the EU is only likely to increase at any rate.

130 Appendix A3 calculates that Britain's exports to the EU, which are already less than 50%, are falling in percentage terms.

from the EU single market, this essay assesses that there would almost certainly be minimal disruption to the trading relationship between the UK and member states of the EU, because such disruption would not, in fact, be in the interests of those member states of the EU which are presiding over sizeable trade surpluses with the UK. In addition, it can also be seen that it is improbable that Foreign Direct Investment (FDI) flows to the UK would be disrupted to a noteworthy extent through the UK's secession from the EU, especially if the UK secured membership of the EFTA.

EU proponents often contend that on account of the UK's access to the single market, this arrangement causes the UK to appear as a more appealing place to invest in, in the sense that trade with the UK facilitates access to the single market and to each and every member state of the EU. However, ascertaining the degree to which the EU has a bearing on the high levels of inward FDI the UK receives¹³¹, and the repercussions on this through a UK withdrawal from the EU, is problematic to quantify.¹³² Thus, whereas membership of the EU single market can be viewed as a key factor of FDI, the UK could, free from the EU single market, construct a regulatory environment that could potentially outweigh any prohibitive effects of withdrawal from the EU, and attract higher numbers of international investors.¹³³

131 The UK had the second largest amount of inward FDI throughout the world in 2011, second only to the USA.

132 Various dynamics of the UK and the UK economy more specifically, can be seen to have an effect of the inward FDI the UK receives, for instance the accessibility of certain skills as well as services, the UK legal system and the prominence of the English language.

133 After leaving the EU, the UK would have the capacity to arrange international agreements concerning FDI with countries outside of the EU; the UK has not been able to form any such arrangement since the implementation of the Treaty of Lisbon (2009).

5 Policy responses to areas of government policy and the overall political economy which would be affected by a UK exit of the EU

The government policy responses to the UK's withdrawal from the EU will be essential in ensuring that the political economy of the UK is stabilised and not damaged in the process of creating a free and prosperous economy after the UK has seceded from the EU.¹³⁴

5.1 Trade policy

Establishing the trade policy of the UK, in relation to the UK's secession from the EU, can be seen as both intrinsically connected to the matter of withdrawal from the EU, and is arguably the most indispensable matter that the UK must address during and after the outlined withdrawal phase from the EU from 2017 to 2019.¹³⁵

One would argue that trade is not a function of EU membership, or, at least, it is increasingly less so at present compared with when the UK joined the EEC in 1973. Indeed, as evidenced by Appendix A3 of this essay, both Norway and Switzerland trade very successfully with the EU, arguably even more so compared with the UK's current trading arrangement with the EU, and especially when analysed on a per capita basis. Therefore, after leaving the EU, provided the UK secures EFTA membership, which this essay argues is achievable, the UK, through its trade policy, could in addition to seceding from the EU

134 Concerning the devolved legislatures in the UK, devolution is administered by a UK statutory structure: both the devolved structures and devolved competences would not be impinged on through a UK withdrawal from the EU. Secession from the EU would, however, have a number of consequences. For example, the effect withdrawal would have on EU regional funding which often disproportionately is allocated to Wales, Scotland and Northern Ireland compared with England. However, through withdrawal, the devolved legislatures, to a greater extent, would be capable of forming policies with more focus on their state of affairs. Secession from the EU would nonetheless not have an effect on alternative international compulsions which restrict the function of devolved competence, for instance Europe human rights law, the UK's compulsions under treaties that have not derived from the EU, and international law, in general.

135 See Section 2.2 of this essay for further information concerning UK trade policy and/or the matter of the UK's trade relations with the EU at present. This section also analyses the implications of a UK withdrawal from the EU both with and without a negotiated, free trade agreement and assesses the independence over UK trade policy that withdrawal from the EU would bring.

and significantly reducing its annual financial contributions to the EU budget, maintain successful trading relations with the EU and growing markets internationally. Moreover, with specific reference to the EU and the matter of trade, the EU can not only be seen to not prioritise trade, but it can also be seen to have never actually centred on matters relating to trade. The EU is, indeed, a form of government which is both centralised and increasingly federal, and was constructed after the Second World War to create a political union in Europe and accordingly diminish the possibility of future wars within the European continent. Thus, it should be noted that trade arguably was never central to the EU.

However, current trade relations in the EU operate through EU member states being part of a customs union, without any tariffs on goods from any of the member states, and a common tariff which applies to goods coming into the EU from outside of the EU. Accordingly, member states are not able to run their own, independent trade policies, for example through arranging bilateral free trade agreements with countries outside of the EU. Any external trading relations are managed by the EU by means of the Common Commercial Policy (CCP). Thus, rather than pursuing independent trade deals, the EU Trade Commissioner conducts the negotiations concerning multilateral or bilateral trade.¹³⁶

Free trade in services is protected by EU Treaties amongst the member states of the EU. Nevertheless, in actual fact, legal, administrative and regulatory amongst other barriers remain which causes trade in services throughout the EU to be more constrained and problematic in comparison with trade in goods. The primary mechanism to achieve regulatory standardisation and liberating other services trade occurs through the EU in the form of the Services Directive (2006/123/EC), approved in 2006 (Research Paper 13/42, the House of Commons Library, 2013). Moreover, implementing this has, however, been unsuccessful; the UK economy, with its relative advantages in a number of services sectors, has stressed the need for the complete implementation of the Services Directive. Overall, resolving matters relating to barriers to trade between EU member states, such as those pertaining to services, is incomplete.

With reference to the UK's trade policy after withdrawal, treaties with third parties, of which there are approximately 800 recorded with the

¹³⁶ The Council and European Parliament also make a number of official decisions concerning when such negotiations can begin and permitting certain negotiations, and consenting to the final result.

EU, are a further area of vast difficulty for a nation that secedes from the EU.¹³⁷ Through membership of the EU, the UK does, indeed, benefit from such agreements in which most are considerable in scale. Consequently, after seceding from the EU, the UK would be kept out of such treaties; therefore, the UK would after 2017 have to analyse such treaties and, with discrimination, seek new treaties between the UK and the applicable countries. This would accordingly include wide-ranging negotiations, with alternative treaties settled and ratified before the UK secedes from the EU.¹³⁸

In view of the importance of the UK services sector to the overall UK economy, it is necessary to analyse the effects that seceding from the EU would have on this sector, and how this relates to improving the UK economy after withdrawal. The services sector of the UK economy makes up 75% of UK GDP.¹³⁹ The UK economy will categorically be an economy which will be largely based on services for future decades, and this is further substantiated by the fact that the UK's trade deficit with the EU is the consequence of a substantial deficit with regards to goods, whereas the UK is a net exporter of services.¹⁴⁰ Moreover, the economic advantages of seceding from the EU, gaining control over both the regulatory and taxation structures that affect the UK services sector cannot be overstated. This sector of the UK economy is particularly pertinent at present, and will be increasingly so in the future, because whereas enterprise in China is presently purchasing advanced manufacturing goods from countries, such as Germany amongst others; in future decades, in accordance with the continued development and betterment of the Chinese economy as well as increase in the number of bourgeoisie in China, Chinese enterprise will in all probability increasingly shift their focus towards such services-based economies as the UK

137 A number of these 800 treaties are simply records of accords and understandings between the relevant parties and others have expired.

138 Practically, the UK would have to conduct a considerable number of negotiations within a moderately short period of time; this would additionally extend the diplomatic resources of the UK which could, in turn, potentially hold-up and become an impediment to the indicative timetable for secession outlined in this essay.

139 Any of the modest economic growth since the coalition government was formed after the result of the 2010 referendum in Britain, has largely derived from the services sector of the UK economy.

140 Open Europe has analysed the importance of the UK services sector to the overall UK economy and the manner in which this sector of the UK economy would be affected by the withdrawal of the UK from the EU: <http://openeuropeblog.blogspot.co.uk/2013/08/what-would-leaving-eu-mean-for-uks.html>, accessed 7 December 2013.

economy, and will trade increasingly with the UK concerning such matters as financial services and education resources amongst others. Thus, not restricting the services sector of the UK economy largely to Europe, and causing this sector of the UK economy to be as appealing to foreign trade in future decades as possible, devoid of the increasing imposition to trade from the EU, will be economically gratifying.

5.2 Banking and fiscal policy

Although EU proponents frequently argue that if Britain were to secede from the EU it would weaken the City of London as an international financial centre, this section of the essay dismantles this argument and reveals that inward investment and the position of the City of London would, indeed, be strengthened and saved from further pending regulations from the EU. The area of banking, in respect to the proposition of Britain seceding from the EU, is critical for numerous reasons. The proposed EU banking union, the EU's current regulatory imposition on the UK's financial services sector and the impending further regulatory imposition of the EU are all reasons for Britain to secede from the EU and move towards an increasingly free market approach in terms of money and finance through free banking after 2019.

Britain's financial services sector paid an estimated £63 billion in total taxes in 2012 (The City of London Corporation, PWC, 2012).¹⁴¹ London's financial centre, similar to its function before EU participation, could prosper as an offshore hub for loan-making and deposit-taking in US Dollars after 2019. After seceding from the EU, Britain's financial services sector could advertise itself as a non-interventionist centre for emerging market finance (Buchan, 2012).¹⁴² This would therefore enhance the

141 The financial services sector paid a calculated amount of total taxes, comprising both taxes borne and taxes collected, of around £63 billion, or 11% of total UK government tax revenue in 2012. Approximately 1.1 million individuals, 3.8% of the British workforce, are employed by the financial services sector. This therefore underlines that, after withdrawing from the EU, Britain should, unlike Switzerland, attempt to arrange a bilateral agreement in order to ensure that financial services in the UK can access the single market which, in turn, would mitigate the potential detriment inflicted from reduced business for the UK financial services sector from EU member states, and will provide the UK with a chance to circumvent the proposed EU financial transactions tax amongst other proposals.

142 For a more in-depth analysis of the financial services sector in the UK compared with Switzerland's and the proposed alterations in the event that Britain secedes from the EU, see Appendix A2.

UK's prospects of carrying out financial services trade with economically emerging, burgeoning countries such as China over future decades.

A significant amount of financial services regulation originates from the EU, especially since the 2008 financial crisis which the EU has used as a catalyst to embark upon increasing its control over the financial services industries of EU member states which will have a disproportionately pernicious effect on the UK's financial services industry.¹⁴³ It is therefore probable that most of this legislation would be carried out after the UK has seceded from the EU, although such legislation might not remain in the same form or to the same degree. There are presently 38 outstanding directives or regulations which are under discussion in the EU; all of which would have a disproportionate effect on the UK.

The approach to financial services which Switzerland has pursued would be more problematic for the UK. At present, financial services providers on non-EEA countries have to frequently institute a subsidiary or subdivision in the EU in an attempt to supply cross-border services. The specific conditions are presently a matter for national regulators in respective member states, but expansion in financial regulation at the EU, is probable to make the provision of financial services to the EU not from within the EEA progressively more problematic.

After the UK secedes from the EU, the UK could partake in straightening out the new rules, and negotiating a new position to function outside such rules (Research Paper 13/42, the House of Commons Library, 2013). This differs markedly from the approach Switzerland has pursued in this regard, and taking into account London's vast financial market globally, this would also potentially supply the UK with more influence. Therefore, unlike Switzerland's relationship with the EU in virtually all other areas, this essay proposes that Switzerland's relationship with the EU in terms of financial services is not ideal for the UK economically, and such an approach should not at first attempt to be replicated by the UK Government, as discussed by The Centre for Swiss Politics, University of Kent (2013). However, if such an arrangement does not

143 The EU has established three administrative agencies: the European Banking Authority (EBA) in London, a European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt and a European Securities and Markets Authority (ESMA) in Paris. Such efforts towards centralisation in this regard in the EU, as well as the proposed taxes by the EU on the financial services sectors of EU member states, will have a disproportionately negative effect in the UK compared with the financial services industries of other countries partaking in the EU single market.

materialise and taking into account the greater degree of control in a regulatory or a supervisory sense that the EU is seeking to have over the financial services industries of countries partaking in the single market, the UK, to preserve the ascendancy of this sector of the UK economy, would seemingly have to give up on seeking EU single market access in financial services.¹⁴⁴

Proposals

- Initially, after the UK secedes from the EU, the UK could partake in straightening out the new rules, and then attempt to negotiate a new position to function beyond such rules.
- If such an arrangement proves unworkable and taking into account the regulatory and supervisory imposition of the EU, the UK, to maintain the ascendancy of this sector of the UK economy, should give up on seeking EU single market access in financial services.
- Appendix A7 of this essay outlines how the UK Government, after the UK has seceded from the EU, should reform the financial services industry in the UK to preserve its international pre-eminence.

5.3 Employment

Withdrawing from the EU could have implications to UK employment law, a significant amount of which derives from the EU, and could signal changes to UK employment law. Successive UK governments have over several decades followed differing policies concerning EU employment law. The 1970s, which saw the commencement of a European social policy, can be seen as the point where the EEC started engaging in employment law. However, the 1990s witnessed a broader approach to social policy,¹⁴⁵ such plans were stipulations in the 1992 Maastricht Treaty.¹⁴⁶

144 Appendix A7 of this essay outlines how the UK Government, after the UK has seceded from the EU, should reform the financial services industry in the UK to preserve its pre-eminence.

145 Such proposals were, however, taken out of the Treaty and put in the Social Chapter which at the time was not relevant to the UK. The UK agreed to sign the Social Chapter after the Labour Government was elected in 1997.

146 http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_maastricht_en.htm, accessed 30 December 2013.

After seceding from the EU, the UK Government should repudiate the Working Time Regulations (1998) and Agency Worker Regulations (2010). Secession from the EU would enable the UK Government to alter such areas of employment law:¹⁴⁷ annual leave, part-time worker rights, agency worker rights, collective redundancy, fixed-term worker rights, paternity, maternity and parental leave, protection of employment upon the transfer of a business and anti-discrimination legislation.¹⁴⁸ Therefore, after leaving the EU, the UK Government could severely deregulate, as much as possible, the 90% of the UK economy that is not engaged in trade with the EU, and this would amongst other changes create an economic environment in the UK that easily facilitates employment.

The argument of possible reductions in employment, and that supposedly three million jobs depend on UK exports to the EU, is highly misleading. Whereas such studies as the study carried out by Ardy, Begg and Hodson (2000), which estimates that approximately 3.5 million jobs in the UK depend on exports to the EU, it is instructive to note that such studies do not take into account the number of UK jobs which can be considered to have been displaced through imports from the EU. Moreover, as Lea and Binley (2012) point out, an estimated 6.5 million EU jobs were dependent on the EU's trade with the UK in 2006, and given the economic predicament for many EU countries, this suggests that such countries should preserve strong trading relations with the UK as it is even more so in the interests of such EU countries. In addition, such estimations of job losses in the UK are dismantled further by Tim Congdon (2013) who reveals the misleading notion of the potential loss of three million jobs through a UK withdrawal from the EU.¹⁴⁹

147 Many of these areas of employment law largely arise from the EU.

148 <http://www.londonchamber.co.uk/DocImages/1154.pdf>, accessed 30 December 2013.

149 This resource, carried out by Tim Congdon, also discusses the effects on jobs in the UK through initially joining the common market in 1973 and the effects which the expansion of the EU in 2004 has had on jobs throughout the UK.

Proposals

- The UK Government should repudiate such regulations and legislation as the Working Time Regulations (1998) and Agency Worker Regulations (2010); secession from the EU would enable the UK Government to alter such areas of employment law to improve the global competitiveness of the UK economy further.
- After leaving the EU, the UK Government could make noteworthy efforts towards deregulating the 90% of the UK economy that is not engaged in trade with the EU.
- The UK will almost certainly not undergo the effect of losing approximately three million jobs through withdrawal from the EU.

5.4 Immigration

The 'free movement of labour' is one of the four founding principles of the EU and the construction of the single market, of goods, capital, services and labour, enabling citizens of the member states of the EU to reside and work throughout the EU. This right additionally is relevant to the citizens of the member states of the EEA that are not members of the EU, and Switzerland. The importance of the UK Government having a clear approach to immigration after the UK has seceded from the EU cannot be overstated. The reason for this is primarily that 1.4 million non-UK EU citizens work in the UK; this equates to 5% of overall employment in the UK (29.6 million).¹⁵⁰

This essay proposes that the UK, following the example of Switzerland, continues the Free Movement of Persons. The reasons for this are the rancorous economic effects this otherwise would have on the UK economy if it were not to adopt such an agreement, as well as an effort to mitigate the perception of the UK being an isolationist country, and, first and foremost, because it can be argued that without taking on this founding and essential principle of the EU, the UK simply might not be able to form the economically advantageous model with the EU that Switzerland currently has.¹⁵¹ Fundamentally, the free movement rules

150 Data from ONS, Labour Market Statistics Data Tables, June 2013, table EMP06.

151 This can, to a certain degree, be seen as an exchange between what is feasible and achievable in terms of the overall picture of the UK's secession from the EU and relationship with the EU after withdrawal.

are rooted in liberal economic theory: if a worker can earn more money in a different country, it is better for the worker and the foreign employer for immigration to be unimpeded (John Springford, 2013).

The incapacity of the UK through adopting this approach, likewise through membership of the EEA, to apply limits on immigration will remain contentious. Immigration and the ability to control Britain's borders is a leading reason for many Britons to desire withdrawal from the EU. Socio-economic transformations such as immigration, especially since the expansion of the EU from 2004 onwards, have arguably become a motif for the changing nature of the EU, and leaving the EU would enable Britain to regain command over its own borders.¹⁵² The Migration Observatory (2012) estimated that this constituted a migration imbalance of 122,000 more EU migrants migrating to the UK compared with UK citizens migrating to reside elsewhere in EU countries in 2010: (See Figure 1).¹⁵³

152 Reducing immigration could potentially enhance the quality of life in the UK since the strain on public services, employment prospects, earnings and infrastructure would be partially alleviated.

153 In 2010, 156,000 EU immigrants migrated to Britain, whereas 34,000 Britons migrated to EU countries. Figure 1 shows that from the early 1990s to the early 2000s, the quantity of EU residents, excluding UK citizens, coming to Britain was similar to UK residents relocating to other EU nations; this pattern changed after eight Eastern European countries joined the EU in 2004. See the survey conducted by The Migration Observatory: <http://www.migrationobservatory.ox.ac.uk/britains-70-million-debate/5-british-and-other-eu-migration>, accessed 5 September 2013.

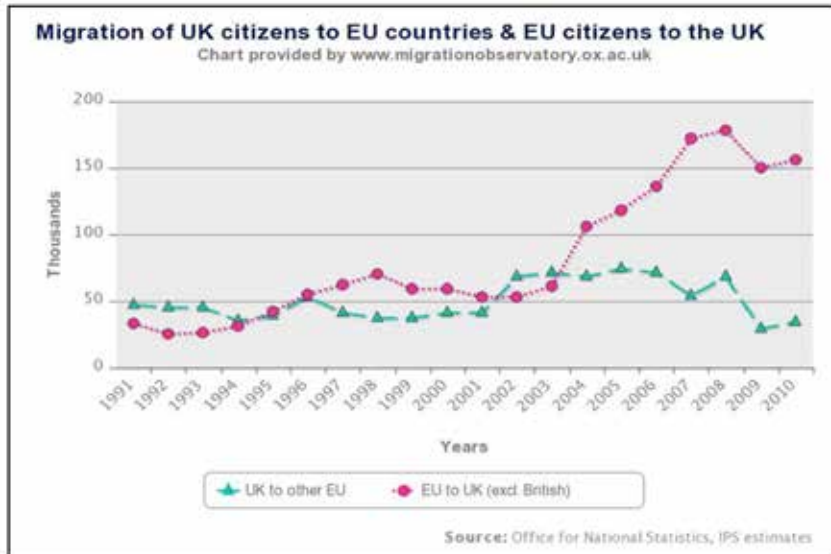


Figure 1. Migration of UK citizens to EU countries and EU citizens to the UK. From *British and other EU migration*, by The Migration Observatory, 2010, Retrieved September 5, 2013, from <http://www.migrationobservatory.ox.ac.uk/britains-70-million-debate/5-british-and-other-eu-migration>

The economic ramifications of immigration are also controversial. If the UK were to remain in the single market but not seek membership of the EEA, similar to Switzerland's arrangement, the UK would almost certainly be forced to accept a number of EU rules in return. Technically, whether this would involve the free movement of people is dependent upon the result of the negotiation period between the EU and the UK from 2017 to 2019, as specified. To cite but one example, and arguably the most probable example, it is wholly plausible that the EU could force the UK to assume the principle of the free movement of people in exchange for access to the single market.¹⁵⁴

¹⁵⁴ The UK could, nevertheless, not prescribe to the principle of the free movement of people, and would accordingly be able to apply controls to both EU and EEA immigration, similar to the way in which the UK currently does with non-EU and non-EEA citizens. This could be used to therefore restrict migration to only immigrants who are highly-skilled through a points-based visa scheme and work permits; this would also decrease the number of immigrants who work in low-skilled jobs throughout the UK after the UK has seceded from the EU.

The aforementioned government policy towards immigration from the EU after the UK's secession from the EU would mitigate the likelihood of labour shortages and other such repercussions that would otherwise occur from not adopting the free movement of people principle. This approach will raise output in the UK and would mitigate the impact on certain sectors throughout the UK economy, principally those that employ a higher proportion of EU immigrants in their labour force.¹⁵⁵ This would accordingly prevent an economically disadvantageous impact on sectors, such as accommodation and food services, manufacturing, and business administration.¹⁵⁶ In addition, the increased revenue through the higher output this will lead to, which will happen provided every migrant worker does not displace a British worker, will facilitate either lower levels of taxation or increased government spending.¹⁵⁷

Moreover, a fundamental change in the UK's approach to EU immigration would not be welcome by UK businesses, especially those that hire foreign workers.¹⁵⁸ Complying with such frequent alterations in terms of immigration from the EU would also place an administrative imposition on many UK businesses, potentially with the greatest imposition on SMEs throughout the UK that are less capable of tracking and dealing with alterations pertaining to compliance. Additionally, as John Springford (2013) identifies, high-skilled migrants are, on the whole, complementary to, and not replacements for, workers throughout the UK, and are therefore expected to increase their wages. Therefore, after the UK secedes from the EU, immigrants, who are highly-skilled, will continue to be able to bring both their knowledge and proficiency that will, in turn, enable workers throughout the UK to become increasingly productive. On average, immigrants are net contributors to the UK exchequer as, especially in the case of migrant workers who are highly-skilled, immigrants are likely to be in employment, pay taxes and accordingly receive less welfare assistance.

155 This approach would therefore circumvent a large scale exodus of EU workers from the UK which would cause a great deal of disruption to the businesses that employ those workers.

156 The impact of otherwise not adopting the free movement of people principle would differ geographically, with such areas as London, with high levels of EU workers, being affected more in comparison with areas with lower levels of EU workers.

157 The gains from immigration can often be rarely considered, and it is frequently perceived, at times, incorrectly that employment gained by migrants in the UK results in a corresponding loss of jobs for British nationals.

158 International corporations operating throughout the UK often bring in workers from overseas in intra-business transfers to a greater extent than elsewhere in the EU.

The economic effect of immigration, in general and from the EU, and the overall impact of immigration on living standards is problematic to determine. The most accurate form of assessing the effects of immigration on wages and employment can essentially be seen to be the degree to which immigration labour either replaces, or adds to, existing employment.¹⁵⁹ The consequences of immigration can also be felt more acutely depending on time; in particular migrants will have a different effect on both employment and wages during times of less economic growth, and economic decline in general, as opposed to times of economic expansion.¹⁶⁰ Nevertheless, demand for both high and low skilled workers has been increasing in the UK, and although it is problematic to anticipate the patterns of demand for skills, it is improbable that this demand for immigrant labour will vary (John Springford, 2013).

After seceding from the EU, the UK should, like Switzerland, join the Schengen passport-free no borders area. This would help to mitigate the possible consequence of a substantial in surge of 1.4 million British nationals from the EU, back to Britain. In addition, police that would otherwise have been regulating the border should alternatively be redirected towards additional enforcement visits to prevent the possibility of migrants working illegally in the UK after withdrawal. Moreover, Britain should also focus more on Commonwealth countries which will endure future economic growth. Thus, Britain should make efforts towards arranging a bilateral Free Labour Mobility Zone with such countries as Australia, New Zealand and Canada, which would be in keeping with the Anglosphere proposals in section 3.4 of this essay. This would accordingly assist in the creation of a Commonwealth free trade area.

Furthermore, the UK Government should also make efforts towards discovering illegal immigration and returning such individuals to their respective country of origin. After withdrawal, the UK Government should additionally, as a general rule, with only a few exemptions in certain

159 The greater extent to which immigrant workers are a direct replacement for workers in the UK, or any other country, the greater degree to which such migrant workers affect the downward pressure on wages for such jobs. By contrast, if an immigrant labourer adds to the existing workers, provided such workers possess the relevant skills, for instance, there will most probably be a greater degree of upward pressure on wages for existing workers.

160 The impact of immigration from a short-term perspective, where markets are not able to adequately respond to the increase in the labour supply, might vary compared with a longer period of time. This is often the result on an increase in demand for both goods and services from migrants leading to increased hiring and investment.

situations, ensure that there is not any amnesty for illegal immigrants. In addition, the UK Government should repeal and remove itself from the European Convention on Refugees and the European Convention on Human Rights (ECHR). This would therefore enable the UK Government after withdrawal from the EU to extradite criminals from overseas and terrorist suspects when necessary.¹⁶¹

However, the continuation of such levels of immigration from the EU will increase demand for housing in the UK in future years and decades and could increase housing costs further.¹⁶² Therefore, the policy that the UK Government should follow after leaving the EU is to make use of migration from the EU through arranging a bilateral Free Movement of Persons agreement with the EU and liberalise legislation pertaining to housing to help housing demand be met with increased housing supply.¹⁶³

Proposals

- Continue the Free Movement of Persons agreement after the UK has seceded from the EU.
- The UK Government should take into account the need to facilitate the creation of higher levels of housing throughout the UK to ensure that the increasing demand for housing is met with increased housing supply.
- A bilateral Free Labour Mobility Zone with such countries as Australia, New Zealand and Canada should be arranged by the UK Government after withdrawal from the EU to assist the progression of Anglosphere proposals and the construction of the Commonwealth free trade area.

161 The UK Government after secession should allow legitimate asylum requests in keeping with the UK's obligations globally.

162 It is problematic to calculate whether the effect of this will be larger compared with the gains in productivity that derives from immigration from the EU. However, it is conceivable that unless this is addressed, the increase in housing costs could negate the gains from immigration over time, in the event of housing supply not matching the corresponding rise in demand.

163 The additional revenue derived from migrants, who raise output throughout the UK as well as are more likely to be in employment and thus paying taxes, could in part be directed towards producing more school places, for example.

5.5 Environmental regulation and energy policy

Energy policy is indicative of the EU's bureaucracy and profligacy. Britain could achieve less expensive power through liberating Britain to establish a less demanding objective for green-power production compared with the targets outlined in the EU's Renewables Directive (2009). Booker's (2012) article signifies that EU renewable energy rules are predicted to double electricity prices by 2020. Seceding from the EU would also enable Britain to discontinue the fruitless experiment of wind power energy, as examined by Ruth Lea (2012).¹⁶⁴ This has moreover caused the UK to concentrate on renewables to such an extent in the UK through such targets outlined by the EU; however the degree to which such targets would change if they were eliminated through the UK's secession from the EU is problematic to analyse.

The UK has adopted the EU's climate change and energy policies, for instance the Emissions Trading System (ETS) and the Renewables Directive (2009). After seceding from the EU, if the UK Government desired to engage in its GHG emissions reductions objectives, it would have the capacity to discontinue the ETS and the objectives stipulated concerning Renewable forms of energy.¹⁶⁵ The UK Government, after leaving the EU, could establish a clear-cut carbon tax to encourage the use of and investment in low carbon technologies and the promotion of gas-fired as well as nuclear-generated electricity, which, in turn, would discontinue expensive and unreliable wind-turbines (Lea and Binley, 2012). A UK withdrawal from the EU would not nonetheless eliminate the legally binding UK climate objectives outlined in the Climate Change Act (2008); however a UK withdrawal could enable the UK Government to concentrate further on elements of renewable and the domestic production of energy in the UK.

However, because environmental matters over many years have become a further area of competence for the EU, through the Single European Act (1986) and the Treaty of Lisbon (2009), the environment is an area in which UK and EU law have become interwoven. The consequences of an EU withdrawal would be affected by whether or not the UK chose to lower, raise or preserve the present conditions relating to environmental

164 All green taxes and wind turbine funding should be abolished, and more focus should be allocated to nuclear power to liberate Britain from its reliance on oil and gas from overseas.

165 However, the UK, after withdrawal from the EU, should make no efforts to partake in the UK's aim to construct the single market in energy.

matters. After leaving the EU, the UK Government should reverse the ineffective EU standards; it is nevertheless clear that the UK would possess a much greater degree of flexibility in altering environmental targets throughout the UK. In addition, there would be a judicial process that would be considerably less comprehensive in imposing the execution of environmental policy and dispute its interpretation.

Proposals

- Britain should establish a less demanding objective for green-power production compared with the targets outlined in the EU's Renewables Directive (2009).
- Withdrawing from the EU would enable Britain to discontinue the fruitless experiment of wind power energy
- After leaving the EU, if the UK Government desired to engage in its GHG emissions reductions objectives, it could discontinue the ETS and the objectives stipulated concerning Renewable forms of energy
- The UK Government could establish a carbon tax to encourage both the use of and investment in low carbon technologies and the promotion of gas-fired along with nuclear-generated electricity, which accordingly would discontinue expensive and unreliable wind-turbines

5.6 Taxation

Compared with other areas of government policy, the effects of a withdrawal from the EU would not greatly affect the matter of taxation. The only significant effect that leaving the EU would have on taxation would largely be concerning VAT and indirect taxation.¹⁶⁶

Therefore, after seceding from the EU, the UK could free itself from the effects of the EU's mutual competence in indirect taxation; the UK could therefore potentially set rates of VAT on respective goods and services

¹⁶⁶ There is a significant body of EU law which outlines common rules throughout member states of the EU concerning VAT, and exercise duties would also, to a lesser degree, be affected.

as opposed to the current arrangement in which the UK has inadequate discretion. However, after leaving the EU, the UK should, owing to the comparative significance of VAT in terms of the revenue it generates for the UK exchequer, replace VAT with a Local Sales Tax, which would have a VAT structure. Directly replacing the partly EU-enforced VAT with a form of sales tax, a Local Sales Tax, at either the same rate of 20% or the rate of VAT upon withdrawal, would mean that such a change in UK taxation would be revenue-neutral.

However, this proposed tax change should be structured in such a way as to ensure that a share of approximately 50% of the collected revenue should be paid to local councils, ensuring that they control a minimum of half of their income, instead of approximately a quarter as is the current arrangement. Therefore, local councils could use this arrangement more appropriately to increase economic competitiveness in their respective areas of the country, for example decreasing local business rates or facilitating other incentives to local enterprises. The main purpose of such a tax change is to enable the UK government to have greater control over taxation, particularly indirect taxes, in the UK, and in order for at least 50% of the revenue that will be amassed from this tax change to be spent and appropriated in a local government capacity. This is accordingly in keeping with this essay's broader proposals for a greater redistribution of political power to local governments through the UK.

After leaving the EU, the UK Government should initially simplify the tax system and eventually reform it into two separate broad-based flat rates of taxation on two levels of income.¹⁶⁷ There should be a two phase approach to taxation reform in the UK: First, the system of taxation in the UK should be simplified and moved towards lowering the rate and reforming the tax system in the direction of a flat rate of tax, in keeping with the proposals of the 2020 Tax Commission carried out by the Taxpayers' Alliance (2012). Secondly, after the implementation of the initial phase of taxation reform in the UK, which would have broadened the tax base, lowered rates of taxation and simplified the tax code over a nominal time period of five years¹⁶⁸, a low-rate, broad-based flat rate

167 See Appendix A6.

168 This five year time period for the implementation should be considered a purely nominal period of time before implementing flat rates of taxation in the UK. This would accordingly provide the relevant Government with more flexibility in fundamentally reforming the system of taxation in the UK.

of taxation should be implemented on corporate net sales and personal, unadjusted gross income.¹⁶⁹ With specific reference to the second phase of taxation reform in the UK, the UK Government should implement the aforementioned flat rate of taxation on two levels of income after 2022: One is an optional 15% flat rate of taxation on personal, unadjusted gross income; the other is a flat rate of taxation on corporate net sales, or value added, at 12%.

There is a significant body of case law in which the ECJ has judged that respective provisions of a member state's tax code have fallen short of this assessment. It should also be borne in mind that a member state's capacity to act relative to taxation has to additionally be wielded according to State aid rules. There are also numerous EU instruments pertaining to administrative collaboration to trade information and in resolving tax evasion. It would be advantageous, after withdrawing from the EU, for the UK and the EU to mutually aim to preserve a form of bilateral agreement resembling such provisions (Research Paper 13/42, the House of Commons Library, 2013).¹⁷⁰

Proposals

- After seceding from the EU, the UK should replace VAT with a Local Sales Tax, which would have a VAT structure at the rate of VAT upon withdrawal; this would ensure that such a tax change would be revenue-neutral.
- Firstly, the tax system in the UK should be simplified and reformed in line with the proposals of the 2020 Tax Commission.
- The UK government should implement a low-rate, broad-based flat rate of taxation on two levels of income after 2022: One is an optional 15% flat rate of taxation on personal, unadjusted gross income; the other is a flat rate of taxation on corporate net sales, or value added, at 12%.

170 This will be necessary in view of the increasingly uniform agreement at present to attempt to tackle tax avoidance and the important global element to effectively taxing transnational corporations.

5.7 Foreign Policy

This section of the essay will centre on a fundamental area which, despite having often been overlooked in the debate concerning Britain's withdrawal from the EU, would significantly affect the UK globally if the UK were to withdraw from the EU notwithstanding. Addressing what precisely the UK's foreign policy after leaving the EU should be, will also aim to negate the inaccurate and nebulous arguments often wielded concerning this matter, for instance that because of globalisation the UK is enriched by EU membership through participation in matters on a more continental, global scale that could not otherwise have been achieved if the UK was a more independent country, and that the UK would be rendered a mere diplomatic outcast after leaving the EU. Thus, this area of the essay aims to illuminate what precisely Britain's role in the world should be after seceding from the EU.¹⁷¹

After leaving the EU, the UK should, regarding both defence and foreign policy, no longer partake in EU defence arrangements and operations. After the two-year negotiation period and secession from the EU, the operation of the UK's armed forces in defending the continent of Europe will be performed by means of NATO. Furthermore, once Britain has regained its status as an independent sovereign nation no longer partaking in the EU, the UK should discontinue all forms of direct EU foreign policy participation. From this time onwards, the UK should carry out its own foreign policy, by means of the UN and in collaboration with regional organisations as well as individual states, comprising both the EU as a whole and EU member states.

After seceding from the EU, the UK's foreign policy, with relation to the EU, should be directed towards a relationship centred on both shared co-operation and trade. However, the UK's foreign policy would not be restricted by the EU's federalist treaties, and would once more reinstate a self-governing foreign policy to the UK, including control over its own criminal justice system, borders policy and the degree to which the UK engages in international efforts on certain topics amongst other matters. Moreover, this approach to UK foreign policy, with further relation to

172 As pointed out in other areas of this essay, after leaving the EU, the UK's annual budgetary contributions to the EU, and EU institutions, would ultimately be reduced to perhaps either a 1/5th or a 1/6th of the UK's current budgetary contributions to the EU; in 2013, the UK's gross contribution was £20 billion to the EU and EU organisations as a whole.

the remaining EU, would enable the UK to vastly reduce its annual budgetary contributions to the EU, and extract the UK from the financial commitments of the EU treaties.¹⁷² In addition, the UK would resume control of its fishing grounds and waters which would be imperative to the UK because of the damage caused to its fisheries industry over many years.

However, the UK's foreign policy, after withdrawal, would nevertheless look to cooperate with the EU, and look to form coalitions with the EU on areas of mutual interest. Additionally, from a practical standpoint, the UK would be required to reconstruct an entire series of embassies and diplomats globally, devoid of the UK being reliant upon numerous EU embassies to represent the UK.¹⁷³ Thus, after leaving the EU, any mutual defence obligations which involve either member states of the EU or the EU as a whole, would be dealt with by NATO.¹⁷⁴ It should also be noted that there will still be a 'special relationship' between the UK and the USA; however, the USA does value the UK's involvement in the EU in terms of defence, and a UK withdrawal from the EU would significantly diminish the EU's defence capability. The UK is nevertheless not reliant upon the EU for matters relating to security as much as the UK otherwise could be, and the UK accordingly does not have a connection with the EU with regards to protection.¹⁷⁵

With regards to the Middle East, a UK exit could be seen to damage the authority of the EU's foreign policy in that area. The EU's influence regarding the Middle East, devoid of the UK's foreign policy expertise and defence capabilities would be reduced. A UK exit from the EU could also result in the increased likelihood of the EU assuming policies contrary to those assumed by the USA. However, the UK's secession from the EU would, in all likelihood, not affect the UK's efforts in the Middle East and other regions.

173 This would additionally liberate the UK from its share of the mutual expenditure involved in operating the diplomatic service of the UK.

174 Facilitating this change in the UK's foreign policy in anticipation for the UK's withdrawal from the EU, should be the undertaking of the UK's FCO in particular during the negotiation period from 2017 to 2019, but also up until 2017 in the event of the referendum result in 2017 resulting in favour of the UK's secession from the EU.

175 In spite of the fact that the initial objectives of the European community project was related to assisting security in a regional sense, considering trade and co-operation in the EU has been comprehensively instituted, the UK is no longer needed within the union to maintain peace. Thus, peace within the continent of Europe no longer has any connection with the EU, and is no longer the underlying purpose of the EU.

In spite of the fact that the direction of the EU and the EU's foreign policy after the UK secedes from the EU is not as important as the precise measures the UK should undertake in relation to its foreign policy after withdrawal, this should nonetheless be analysed. One would argue that after the withdrawal of the UK, arguably the most sceptical member state of the EU and the one most frequently opposed to the direction of the EU towards amalgamation, the EU could seek to more effortlessly move towards further integration politically and economically.¹⁷⁶ This could entail the euro-zone becoming the undeniable nucleus of the EU, creating an increasing political and economic union. Moreover, the foreign, defence and security collaboration, despite the withdrawal of the UK which would nevertheless be a noteworthy loss, would allow these aspects of EU and European integration to expand further.¹⁷⁷

In summary, this essay proposes that the UK's foreign policy after leaving the EU would, indeed, be renewed in terms of self-determination and therefore not subverted. While British withdrawal from the EU could result in further EU integration without the UK's presence, although further EU integration is seemingly likely to take place at any rate, Britain would nevertheless be able to determine the scope and extent of its role in the world after secession from the EU; moreover, arguments to the contrary more often than not vastly exaggerate the influence the UK gains through EU membership and such influence is incidentally often in the interests of other countries, principally the USA, rather than in Britain's interest.

Proposals

- After seceding from the EU, the UK's foreign policy, with relation to the EU, should be directed towards a relationship centred on shared co-operation and trade; the UK Government would not lose influence in the world through secession from the EU.

176 Most notably, in view of the fact that the UK, through leaving the EU, would lose its veto, the Euro could possibly become steadier and further EU integration could progress more effortlessly. It could also, however, be argued that further EU integration is taking place at any rate.

177 If the UK were to secede from the EU, the aforementioned seemingly more effortless path for further EU integration both politically and economically, from the perspective of the EU, could realise the principal desire of those who have unyieldingly been in favour of further EU integration into a coherent EU foreign policy. This could result in EU representation at such global organisations as the UN Security Council amongst others.

- The UK Government would regain control over its own criminal justice system, borders policy and the degree to which the UK engages in international efforts on certain topics amongst other matters.
- British withdrawal from the EU could result in further EU integration without the UK's presence; however, further EU integration is taking place at any rate.

5.8 Alterations to UK laws and regulations

This section handles the wide-ranging matter of changes to UK laws and regulations. After leaving the EU, Britain would regain more control over its own laws and regulations which could be amended to match Britain's economy more suitably, unlike the arrangement in which potentially as much as 84% of law in EU member states derives from the EU, as discussed in Global Britain Briefing Note No 72 (2011e).¹⁷⁸ However, it is necessary to elucidate the legal relationship EU law has with British law, and the effect EU law has on Britain. EU law is supreme to UK law, and EU law is intrinsically interwoven into legislation and is therefore problematic to disentangle; the ECA (1972) rendered the supremacy of EU law over UK law.¹⁷⁹ However, national sovereignty guarantees the rule of UK law, and repudiating the ECA (1972) would, along with discontinuing Britain's EU membership, return supremacy to UK law.¹⁸⁰

With specific relation to UK laws, the repudiation of treaties would not impinge on EU legislation which has been transposed into UK law.¹⁸¹ Therefore, in order to clarify some of the disagreement and debate amongst judges, politicians and others concerning the ensuing legal

178 In spite of the EU having a parliament, a single nation state's opposition to a new piece of legislation would not have any effect provided the other 27 nation states favoured the piece of legislation. Moreover, nation states no longer have the opportunity to veto new laws; new legislation is ratified either through consensus amongst the members, or alternatively by a qualified majority voting system.

179 See Zhang's research conducted in 2012 concerning the supremacy of EU law over UK law:
<http://www.acsu.buffalo.edu/~nnp/Paper%20Submissions/Zhang,%20Aisi%20%20Supremacy%20of%20EU%20Law.pdf>, accessed 23 August 2013.

180 See Appendix A4 for further information regarding parliamentary sovereignty and EU law.

181 This is the case regardless of whether the legislation is either in the form of Acts or alternatively Statutory Instruments.

ramifications of repudiating treaties, the repudiation of the ECA (1972) would not affect the legitimacy of formerly shaped Statutory Instruments. However, regulation that derives from the EU has direct effect and obtains its authority from the ECA (1972). Thus, accompanying the repudiation of the ECA (1972), to complete the UK's withdrawal from the EU, those pieces of regulation which have not been transposed into UK law would accordingly no longer have effect.

Additionally, Britain should release itself from the European Arrest Warrant 2004 (EAW) and the Human Rights Act 1998 (HRA); the repudiation of such regulations and directives, or possibly causing such regulations and directives to cease to apply through discontinuation of the UK's membership of the EU, would discontinue mistreatment by convicted criminals and illegal immigrants.¹⁸² Accordingly, the UK Government should assume the responsibility involved in the EAW (2004) and HRA (1998).

Moreover, proponents of the UK's continued membership of the EU often contend that, upon withdrawal from the EU, only UK exporters will carry on monitoring regulations of EU origin; however, for others, such regulations will no longer be applicable. This argument is, in fact, inaccurate; EU regulation, as is often the case, has substituted domestic law in the UK.¹⁸³ In addition, it should also be noted that repealing EU regulations would cause certain sections of the UK economy to be unregulated, and reversion to preceding law can be seen as unworkable.

This patchy approach to regulation, with some originating from either British law and, with some British laws, having been replaced by EU law, would have to be addressed comprehensively after the UK secedes from the EU. To cite but one example of the harm such regulations have caused, the complete body of food hygiene regulation pertaining to Britain, including obligations for food premises, are presently outlined in EU regulation. Thus, if the aforementioned regulations were repudiated, this would precipitate the subtraction of enforceable controls covering the production of commercial food.¹⁸⁴

182 Arguably no longer partaking in the EAW (2004) could lead to delays for Britain regarding the extradition of suspects from other European nations. Also, after leaving the EU, Britain should repeal the HRA (1998) and settle its own human rights issues independently.

183 This is largely the process frequently followed with the improvement of regulatory codes.

184 In this area of regulation, there are seemingly no longer any regulations of UK origin covering the example of food production.

Moreover, considering that the majority of CFP and CAP regulation is employed through EU regulation, repudiating such regulation would result in substantial breaks in policy areas which are economically important. Furthermore, in view of the two-year negotiation period, which this essay advocates executing, replacing EU regulation within this two year period would be problematic, protracted and perhaps entirely unworkable.¹⁸⁵ Consequently, this paper proposes that the UK Government should once again ratify the complete corpus of law, adapting it into UK law all at once.¹⁸⁶ Indeed, after leaving the EU, this could take years, if not over a decade to carry out. In consequence, this repatriation procedure would accordingly enable the UK Government, in the UK Parliament of 2015 to 2019 or 2020, depending on the length of that Parliament, and subsequent UK governments, to undertake the discriminatory repudiation and modification of the ratified laws over a number of years in line with the UK's political economy following the UK's withdrawal from the EU.¹⁸⁷ This would moreover result in such significant policies as the CAP and CFP being ratified once again, up to the point where adequate alternative policies were formulated and employed. Thus, taking into account the legislative, procedural and social intricacies of employing such policies, this process would undoubtedly take a number of years to complete.¹⁸⁸

A significant number of provisions of EU law form individual rights which are directly enforceable in national courts. These primarily cover such areas as free movement of workers, free movement of goods and the freedom of establishment. Thus, if any EU rights have the capacity to be enforced after the UK's secession from the EU, it almost certainly will include these EU rights. Therefore, it is instructive to note that the UK Government could certainly carry on acting in accordance with the changes in technical standards as approved in such international organisations as the United Nations Economic Commission for Europe (UNECE) along with the Codex Alimentarius Commission (CAC). The UK additionally could, if it so desired, act in accordance with the decisions formed under the UN Framework Convention concerning Climate Change (UNFCCC) and successive protocols as well as other such international agreements (Research Paper 13/42, the House of Commons Library, 2013).

185 The reach of EU law is tremendous, and simply in practice could not be repudiated all at once, not least in view of the fact that each and every UK law, not only with regards to the implementation of legislations, at present has to be interpreted in view of EU law.

186 This should be carried out legislatively in a manner comparable to that of the ECA (1972).

Additionally, it is necessary to clarify the aforementioned proposals concerning the approach to addressing EU law, as opposed to opting for a transitional agreement. Essentially, the argument against a transitional agreement is that even the most comprehensive transitional agreement will almost certainly be patchy and erratic. Moreover, for practical reasons, the UK will, in all probability, end up retaining many laws of EU origin. For example, non-EU exporters are often reliant upon sales from the EU market, for which those exporters have to satisfy regulatory stipulations. There are also such other examples of anti-terrorism, extradition and counterfeiting which can be viewed to necessitate bilateral collaboration.

After seceding from the EU, Britain should repeal the Working Time Directive (2003/88/EC), and the Temporary and Agency Workers Directive (2008/104/EC) amongst other rules concerning employee rights which are excessively rigid. This would liberate British businesses from excessive government intervention.¹⁸⁹ The abovementioned directives should be seen as indicative of the sorts of EU regulations and directives that ought to be repealed after the UK's withdrawal. The primary reason for this is that, as Ruth Lea and Brian Binley (2012) have analysed, the vast majority of UK GDP, at least 85%, is either entirely generated domestically or generated through trade with countries outside of the EU. Therefore, considering that all of the British economy has to undergo the burdensome effects and costs of having EU regulations enforced on it, repealing a great deal of such regulations would liberate the British economy as it seeks further trade with burgeoning economies throughout the world.

Moreover, once Britain's SMEs are freed from regulations, one would propose that in Britain there would be a substantial increase in jobs and employment.¹⁹⁰ According to Global Britain Briefing Note No 67 (2011c), over 90% of the British economy is not involved in trade with the EU, whilst being encumbered by EU rules. Thus, after leaving the EU, Britain could, with its own labour laws and regulations, more flexibly arrange

189 Product regulations are a different situation to labour laws. It would often be the case that Britain would have to abide by Europe's product regulations, or align Britain's own regulations to those of the EU, to export there. However, Britain, in many cases, does this in order to trade with a number of countries and thus the effect of this alteration can be seen as overemphasised.

190 A clean break from the EU would denote that Britain's exports would be subject to EU export tariffs and would have to meet EU production standards. It can be presupposed that, even without either EEA or EFTA membership, there would be no opposition to free trade with the EU. Considering the predicament of the EU in recent years, and especially since 2008, clearly no EU country would benefit from the UK undergoing a devastating reduction in trade.

FTAs with varying countries throughout the world. This is particularly important as Britain, arguably unlike when it joined the EEC in 1973, currently trades in an increasingly global economy, and the political and economic approach of much of the EU and many EU nations can be viewed as antithetical to the paradigm of Britain's political economy.

The burden of EU red tape and unnecessary regulations cost UK businesses billions annually (Little, 2013). The proposed model would facilitate economic recovery and more governmental prudence financially. For instance, this official audit of EU membership reveals that the 400 laws that have been ratified by the European Parliament since the coalition government was formed in 2010 have cost companies £676 million yearly. To cite but one example amongst many, obeying a solitary law imposed by the EU concerning equal rights for temporary workers ruinously costs businesses approximately £1.9 billion annually (Lea and Binley, 2012). Furthermore, Britain's gross annual financial contribution to the EU in 2013, having increased by 13% in one year from 2012, was £20 billion (Peev, 2013).¹⁹¹

Indeed, Vaughne Miller's (2010) resource for Research Paper 10/62 for the House of Commons Library includes Lord Triesman's assessment in 2006, when he was a FCO Minister, that about 50% of all UK legislation which has an effect on business, charities and the voluntary sector either derived from the EU or has its origin in EU legislation. The UK Government, in effect, can do virtually nothing about half of the legislation that affects the UK economy whilst the UK remains a member of the EU. This arrangement is unsustainable and can also be viewed as antithetical to the democratic principles involved in achieving a free and prosperous economy.

On the whole, Open Europe's (2010) calculations, derived from government Impact Assessments, propose that EU regulations cost Britain £19.35 billion in 2009.¹⁹² If Britain were to secede from the EU,

191 Along with the net contribution of UK taxpayers to the EU having increased by 13% in one year, the chasm between the financial amount given from Britain to the EU and the financial amount Britain will receive from the EU has increased to £12.2 billion in 2012, compared with £10.8 billion in 2011. Britain received £7.78 billion from the EU, which is the lowest return in a decade and, overall, the UK's contribution to the EU has doubled since the beginning of the Great Recession in 2007.

192 Open Europe also estimated that the cumulative cost of regulations implemented over the previous decade in the UK, and which either derived partly or in full from the EU, could have been as much as £106.6 billion. Additionally, Open Europe's updates revealed that such regulations from 1998 to 2009, based on in excess of 2,300 of the Government's own Impact Assessments, have cost the British economy an overall £176 billion by 2009. Based on such calculations, £124 billion worth (71%) of those regulations had its origin in legislation derived from the EU.

Britain could alleviate much of this imposition; however, Britain would not necessarily save the entire £19.35 billion amount which such EU regulations are estimated to currently be costing the UK economy every year. The reason for this is that some of the regulations which derive from the EU would have to replace a number of regulations through the national UK parliament, and the degree to which Britain could evade this imposition would depend on the amount of regulation the UK government decides to repeal over many years after secession from the EU.¹⁹³ Nevertheless, seceding from the EU would ensure that Britain would circumvent the expected regulatory imposition of the EU in future years.

It should be noted that while there have certainly been some advantageous features of single market participation; the costs appear to comprehensively outweigh the benefits of the single market. The EU Commission has revealed that the regulations imposed by the EU are prohibitive. The present relationship the UK has with the EU, in which approximately half of the legislation which has an effect on UK businesses is EU-sourced and is incapable of being altered or repudiated while the UK remains a member state of the EU single market, is highly unattractive and economically detrimental. In addition, this arrangement further exacerbates the state of the British economy because all EU regulation has to inflexibly be applied to the entire British economy, while no more than 15% of UK GDP genuinely trades with the EU.

Proposals

- The UK Government should once again ratify the complete corpus of law, adapting it into UK law all at once.
- The UK should observe the changes in technical standards as approved in international organisations, such as the UN Economic Commission for Europe (UNECE) and the Codex Alimentarius Commission (CAC).
- The UK Government could also act in accordance with the decisions formed under the UN Framework Convention concerning Climate Change (UNFCCC) and successive protocols as well as

¹⁹³ It is problematic in this essay to decide the overall amount of regulation or what kind of regulations should be repudiated after the UK's withdrawal from the EU considering that the amount of EU regulations which will be imposed on the UK economy up until 2017 is inherently unknowable.

other such international agreements.

- The UK Government should repeal the Working Time Directive (2003/88/EC), and the Temporary and Agency Workers Directive (2008/104/EC) amongst other rules concerning employee rights which are economically onerous.

6 Conclusion

This essay's analysis indicates that a UK secession from the EU is clearly practicable, and would also be economically advantageous provided the conditions are negotiated with adroitness and prescience. Moreover, this historic, geo-political event could be the first step for Britain in achieving radical economic reforms and restoring sovereignty along with regionalised democratic legitimacy throughout the UK. This blue-print for leaving the EU, and the proposed government policies to be implemented after the UK has seceded from the EU, would ensure long-term economic prosperity and stability in the UK.

Compared with when Britain joined the EEC in 1973, the function of the EU has changed profoundly. The EU increasingly resembles a political union, with a beleaguered monetary experiment, and while Britain becomes increasingly ostracised in a progressively more amalgamated EU, Britain's economy is meanwhile being stifled by EU membership. Essentially, Britain is enduring the worst of both worlds with EU membership; Britain's trading relations with the EU are not only inadequate and repressed by incessant laws, regulations and prohibitive financial costs, but also Britain is deprived of the urgent opportunities to establish long-term economic and trading relationships with varying economies because of Britain's rigid membership of the EU. Therefore, the UK's secession from the EU should not be seen as the UK's rejection of the EU, and the EU member states per se, but rather a facilitation of the fundamental reform of the UK's relations with the EU and the rest of the world.

This inadequate predicament can be resolved through an alternative relationship with the EU, comparable to the relationship which Switzerland has arranged, which one would contend is achievable. Therefore, along with Britain returning to direct democracy and self-government through this marked change in the UK's relationship with the EU, this liberation can be matched with radical reforms domestically. Reformation of the

UK domestically is nevertheless imperative as otherwise the UK could leave the EU, and remain a country without an effective, functioning democracy. Upon regaining powers from the EU, the retrieved powers ought to fundamentally be transferred in a bottom-up reallocation to the populace and local councils. Fundamentally, restoring representative government and liberty would restore the importance of elections anew after the UK's withdrawal.

A1 Further information on the legal and constitutional process of seceding from the European Union

Before the Treaty of Lisbon (2009), the process of leaving the EU was vague and had never been formally addressed; no stipulation in EU treaties or laws referred to the capacity of a state to secede from the EU voluntarily. The deficiency of such a stipulation rendered leaving the EU to be theoretically problematic. However, since the inclusion of the exit clause stipulation in the Treaty of Lisbon (2009), invoking Article 50 of this treaty appears to be the only way in which Britain can achieve meaningful negotiations regarding Britain's membership of the EU.

The foremost problem for politicians seeking renegotiation, whilst maintaining their desire for Britain to stay within the EU, is that noteworthy renegotiation between EU countries regarding any one country's fundamental relationship with the EU can only take place once invoking the exit clause of the Treaty of Lisbon (2009). However, through invoking this treaty's clause, a country thereby must also declare their intention to secede from the EU. Nevertheless, in order to secede from the EU, Britain could only realistically approach this matter through invoking Article 50 and thus declaring Britain's intention to leave the EU. Therefore, the Prime Minister David Cameron and other leading politicians are seemingly being intellectually disingenuous regarding the renegotiation of Britain and the EU's fundamental relationship.¹⁹⁴

There are several axiomatic signals that the withdrawal clause exemplifies an independent right of secession. This includes the indication in Article

194 If David Cameron, or whoever is the Prime Minister of the UK at the time of the proposed EU referendum in 2017, attempts to renegotiate Britain's relationship with the EU without invoking Article 50 of the Treaty of Lisbon (2009), the outcome of any such negotiations seemingly would be insignificant, similar to former Prime Minister Harold Wilson's negligible renegotiation efforts for the 1975 referendum on the UK's membership of the EU.

50 of the Treaty of Lisbon (2009) that a member state can secede in line with its own constitutional arrangements:

A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with the State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament. (pp. 43-44)

Secondly, the entitlement to secede from the EU is not related to the acceptance of a constitutional change that a member state cannot accept, but introduced exclusive of such restrictions; it stipulates that a member state's secession from the EU is not dependant upon the fabrication of the withdrawal settlement, because a member state can leave the EU even in the event that arbitrations with the Council are unproductive, provided the two year period has passed since the council was notified of the member state's decision to withdraw from the EU.¹⁹⁵ In addition, the member state leaving the EU would no longer be attached to treaties from the specified date in the secession settlement or, alternatively, two years after the initial declaration of the member state's decision to leave the EU.¹⁹⁶ Other than invoking Article 50, any alternative to achieving consequential negotiations remains unclear.

The negotiation period would occur in line with Article 218(3) of the Treaty on the Functioning of the European Union (TFEU). The European Commission, accounting for the parameters outlined by the European Council, will offer approval to the Council, which takes on the decision sanctioning the commencement of negotiations and nominates the Union negotiator or alternatively who will serve as the head of the negotiating team of the EU.

195 This would be the case provided that the European Council, consonant with the member state in question, unanimously decides to prolong this period.

196 As outlined in Article 50(5), if a member state that has seceded from the EU desires to once again become a member of the EU, its application must be subject to the procedure referred to in Article 49 of the Treaty of Lisbon (2009). Essentially, this means that the member state that has seceded will be addressed as if it were seeking membership of the EU for the first time, without any automatic right to once again join the EU and without any singular or particular advantages.

The Council of Ministers, following the attainment of consent from the European Parliament (EP), will conclude the arrangement, functioning as a Qualified Majority Vote (QMV).¹⁹⁷ During the negotiation period, the member state that is in the process of seceding from the EU can continue to partake in EU matters; however, it would not partake in Council or European Council discussions and decisions concerning the matter of its own secession from the EU. In addition, the member state leaving the EU would be freed from its obligations specified in the Treaties following the secession agreement having been put into effect, or alternatively two years from the time of the member state's notification to the European Council.¹⁹⁸

Moreover, it should also be noted that while Article 50 TEU of the Treaty of Lisbon (2009) is not the Treaty base for a negotiation of any member state of the EU's conditions of membership, it could plausibly function as the foundation upon which the negotiation of a different relationship between the UK and the EU could be achieved after the UK has seceded from the EU.

However, unlike EU member states partaking in the EMU, the prospect of Britain withdrawing from the EU can be seen as a more conceivable notion. Britain, theoretically, could credibly withdraw unilaterally without even negotiating its withdrawal with the EU after the two year period has passed, although this essay certainly does not propose this course of action; whereas members of the euro-zone would have to negotiate their withdrawal, as a minimum from the EMU. Thus, non-EMU members of the EU clearly benefit from the seemingly more lenient withdrawal conditions, and Britain could, taking into account the EU's constitutional stipulation regarding trade agreements and WTO anti-discrimination rules, achieve meaningful negotiations regarding the enduring trading relationship between Britain and the EU during the two year negotiation phase and before Britain secedes from the EU.¹⁹⁹

197 QMV works out at approximately two-thirds of a vote.

198 This phase in the withdrawal process of a member state can be extended through unanimous agreement.

199 The WTO has numerous policies and trade rules addressing discrimination. Under WTO agreements, such as Most-favoured-nation (MFN): treating other people equally, nations are unable to discriminate between their trading partners. Thus, when granting one nation a particular favour, such as a reduced customs duty rate for a certain product, this must also apply to every member of the WTO. This is considered of such importance that it is the foremost article of the 'General Agreement on Tariffs and Trade' (GATT), governing trade in goods. MFN is similarly a main concern in the 'General Agreement on Trade in Services' (GATS) [Article 2] and the 'Agreement on Trade-Related Aspects of Intellectual Property Rights' (TRIPS). In each of these agreements the principle of trade without discrimination is handled in a moderately different manner.

Despite the introduction of this withdrawal clause and the increased clarity regarding the matter of seceding from the EU, it nevertheless evokes a response of ambiguity and concern.²⁰⁰ Whilst the treaty clause distinguishes a unilateral right of withdrawal, it nonetheless does not illuminate the possibility of more than two member states withdrawing from the EU simultaneously. In addition, arguably more disconcertingly, the treaty does not consist of a single provision concerning the withdrawal of member states that are also members of the EMU.²⁰¹

Additionally, in terms of the withdrawal process in the UK, it should be taken into account that there is no reference in Article 50 TEU of ratification of the secession arrangement by member states, but this can be seen to be required under international legal standards. Without a secession agreement, EU Treaty modifications would be required in response to the UK's secession from the EU two or more years after official notification. Such EU Treaty amendments would necessitate ratification by the EU member states either before or after the UK's secession from the EU, excluding the UK in the event of the UK having already seceded from the EU.

The withdrawal agreement would moreover have to be put into practice through an Act, or a number of Acts, of Parliament in the UK. The ECA (1972) will also have to be repudiated, or at least modified, and alternative primary legislation putting into practice EU law must be repudiated in the event of the UK Government not desiring it to become part of national law. In terms of secondary legislation, which derives power from Section 2(2) of the ECA (1972) must be supplied with a new enabling power in the event of the UK Government choosing for it to remain in effect; if the UK Government were to choose otherwise, such legislation would not have legal effect upon the repudiation of Section 2(2) of the ECA (1972).

In summary, the most effective approach to seceding from the EU would be to firstly, invoke Article 50 of the Treaty of Lisbon (2009) in 2017 following the result of the referendum, notify the EU of the UK's intention to secede from the EU, and comprehensively negotiate an all-encompassing range of matters with the EU in order for the UK to efficiently transition from being a EU member state to withdrawing from the EU. Subsequently, if the British electorate in 2017 vote for Britain to secede from the EU in a referendum, Britain can then leave the EU in a methodical, undisruptive

200 It ought to nevertheless be taken into account that Article 50 of the Treaty of Lisbon (2009) has never been activated, and therefore it is untested in practice.

201 This arguably can be seen to subvert the validity of this process to a certain extent.

and planned manner. At any rate, after seceding from the EU, Britain can undertake the implementation of laws and regulations vastly more attuned to its own socio-economic requirements whilst simultaneously repudiating the ECA (1972) and the HRA (1998).

A2 Switzerland's economic model and their relationship with the European Union

This appendix assesses Switzerland's relationship with the EU, and the manner in which the UK could greatly benefit from an alternative relationship with the EU largely similar to Switzerland's relationship. In addition to Switzerland's economic advantages from not partaking in the EU, this appendix will additionally analyse Switzerland's greater degree of self-governance and domestic policies.

Unlike EU member states, Switzerland's economy is more globally balanced. Switzerland, as part of the EFTA, has arranged approximately 72 bilateral treaties with the EU, and this is seen as a more detached relationship with the EU compared with the EEA.²⁰² Thus, Switzerland, unlike the other members of the EFTA, is not a member of the EEA: (See Figure 2 for a graphical illustration of the EEA, EFTA and EUFTA, EU and customs union nations in Europe).²⁰³ This means that Switzerland's relationship with the EU is bilateral as opposed to supranational. The Swiss-EU bilateral arrangement does however mean that Switzerland cannot contribute to deliberations and decision-making discussions addressed directly within the EU, at least to the extent EEA members have the capacity to contribute. However, this influence that Britain currently has in the EU, or the influence Britain would have through an EEA arrangement with the EU, can be viewed as vastly overstated. Nevertheless, after seceding from the EU, Britain, like Switzerland, could

202 The EEA, instituted in 1992, supplies a member with complete participation in the single market without any of the political structures. The EEA was only ever established with the intention that nations that partake in it would ultimately become EU members; this is the reason Norway is obligated to implement EU regulations covering employment, the environment and social matters along with financially contributing to the EU budget. Switzerland rejected EEA membership in a 1992 referendum. Subsequently, Switzerland has arranged bilateral agreements with the EU on areas of common concern.

203 The EFTA includes Switzerland, Norway, Iceland and Lichtenstein. Switzerland, like Norway and Iceland, through EFTA membership, partakes in the EU's Schengen Agreement concerning border controls.

negotiate more liberal trade settlements with countries outside Europe than is workable under the Common External Tariff.²⁰⁴

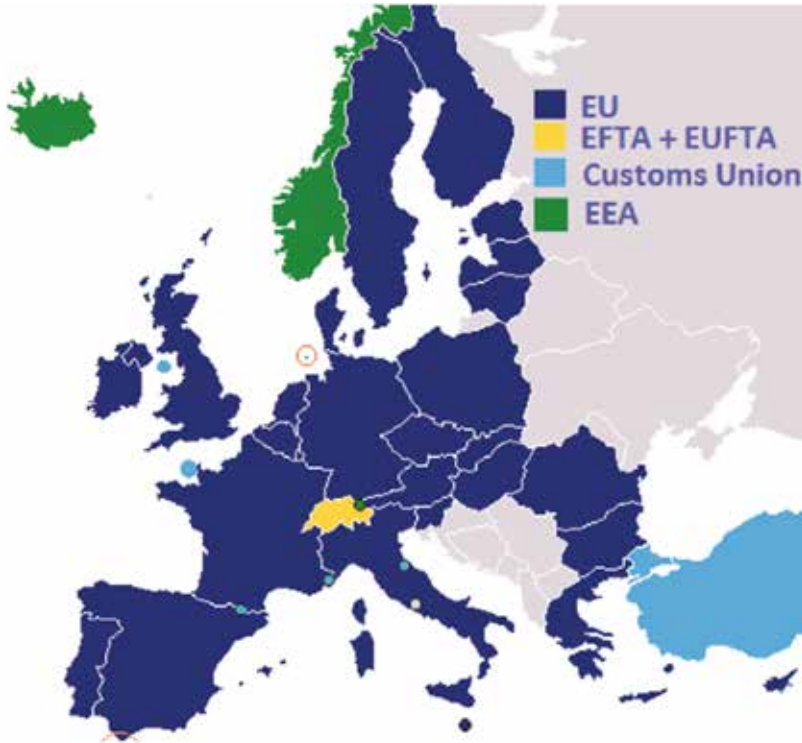


Figure 2. Different economic relations with the European Union. From *Trading Places: is EU membership still the best option for UK trade?*, by Open Europe, 2012, Retrieved September 4, 2013, http://www.openeurope.org.uk/Content/Documents/2012EUTrade_new.pdf²⁰⁵

Switzerland conducts most of their external trading arrangements with other nations through the EFTA, which has arranged numerous FTAs

204 In 1968, the EEC established a Common External Tariff. This tariff denotes that every member must abide by the same tariff rates on imports coming into the EEC from other areas of the world. When established, this was considered an integral part of constructing the single market, and was implemented along with the abolition of internal tariffs simultaneously. Tariffs, such as those tariffs implemented by the EU, can however be seen as detrimental. It is arguably unjustifiable for the EU to use tariffs and subsidies to protect its own market considering that this obstructs developing nations from selling their goods on equal terms.

205 Turkey, Andorra, San Marino, the Channel islands, the SBAs in Cyprus and the Isle of Man are all in the customs union. Several territories abroad or parts of EU member states are not within the customs union, for instance Gibraltar and Heligoland.

along with partnership agreements with many countries throughout the world. The management of the arrangements is embarked upon in Switzerland by 'joint committees', where the two parties have to reach decisions on a unanimous basis.²⁰⁶ In addition, bilateral agreements are only able to be modified through joint Swiss-EU agreement and thus are not subject to natural modification;²⁰⁷ therefore, laws in Switzerland must often be brought up to date to sustain trading admission to the single market.²⁰⁸

Furthermore, when the EU takes on new laws which are not dealt with in the bilateral agreement, businesses in Switzerland can no longer have access to the EU single market because new trade barriers would be raised. However, as a general note, in view of the fact that many countries around the world successfully trade with the EU, many even more so than the UK does, for example Switzerland, the USA and China, this essay suggests that this issue would not be excessively problematic for the UK if it were to secede from the EU. Thus, along with WTO anti-discrimination rules, evidence of Switzerland and Norway's successful trading relations with the EU from outside of the EU, and the fact that many EU countries depend on a free trading relationship with the UK, the possible consequence of the UK undergoing vast reductions in trading levels and trade with the EU is highly improbable.

In general, Switzerland benefits greatly from a more idiosyncratic form of government compared with Britain and other EU member states in terms of greater democratic accountability. This system largely consists of the utmost distribution of power and on holding habitual referendums. Essentially, in sheer contrast with the governmental functioning of EU member states and particularly the EU as a whole, Switzerland's system

206 There are 18 joint EU-Swiss committees supervising many sectoral agreements, and these can be utilised in order to examine new legislation.

207 A possible drawback in the proposed relationship between the EU and the UK could be that the arrangement Switzerland have with the EU is very idiosyncratic and complex. Thus, the proposal of negotiating an alternative relationship comparable to Switzerland's relationship, after invoking Article 50 of the Treaty of Lisbon (2009) could be exceedingly protracted and could, unlike other options, potentially extend beyond the proposed two-year negotiation period. However, one would argue that in view of the fact that there is this alternative relationship with the EU, the politicians negotiating this potential relationship with the EU could utilise this existing relationship as a model and attune certain areas to Britain and the British economy more fittingly.

208 Switzerland obtains reciprocal advantage within the EU internal market on the grounds that regulation in Switzerland equates to that of the EU. An approximate quantity of €1 billion worth of goods are moved daily through Swiss-EU borders, and similarly 260,000 citizens in EU countries cross into Switzerland on a daily basis in order to work there.

ensures that the state remains limited as well as the economy free and prosperous. The people of Switzerland therefore reject closer involvement with the EU as otherwise their successful form of direct democracy would certainly be encroached.²⁰⁹ In addition, in order for a majority of the UK electorate to vote to leave the EU, politicians in favour of withdrawing from the EU must argue compellingly to the British electorate, as the electorate in Switzerland are aware, that the re-establishment of direct democracy in the UK is critical and is largely unworkable whilst remaining an EU member state.

The financial markets legislation of the EU does not apply to Switzerland since it does not partake in the EEA. There is a solitary bilateral arrangement between Switzerland and the EU regarding financial services; this is problematic for Switzerland in terms of financial services in Switzerland not possessing the capacity to access the single market in financial services.²¹⁰ Politicians in Switzerland have accordingly attempted to achieve improved EU market access through aiming to henceforth make certain that Switzerland's regulatory structure satisfies the conditions of the EU.²¹¹ Nonetheless, Switzerland seemingly remains largely distant from financial regulations from Brussels, and this could benefit the UK considering the ominous regulatory imposition planned by the EU, which will disproportionately affect the UK in this regard.

There are principally two reasons why Switzerland has not pursued an agreement concerning financial services with the EU. Firstly, Switzerland does have a reliance on their major financial customers, and an agreement with the EU could potentially precipitate a disagreement between the two parties. Moreover, Switzerland's larger banks currently receive subsidies, enabling those banks to conduct business throughout the EU. A further reason is arguably that Switzerland would, through arranging such an

209 This aim of reinstalling direct democracy would also involve much greater accountability throughout the governmental functioning of the UK. Therefore, powers brought back to the UK from the EU must, similar to the overwhelming number of government agencies in the UK, be brought under the accountability of Ministers and the departments of Secretaries of State in Britain.

210 Although Switzerland has no accord with the EU regarding financial services, there has been an agreement concerning non-life insurance since 1989. Two of Switzerland's larger banks, UBS and Credit Suisse, have an important role in the EU financial market, and both do receive subsidies within the EU rather than their headquarters in both Zurich and Basel, respectively.

211 Alternative options for Switzerland have included voluntarily bringing into line national law with EU law and reinitiating deliberations between Switzerland and the EU regarding a financial services arrangement between both parties; this did however prove to be unsuccessful in 2003.

agreement with the EU, attract additional pressure on the confidentiality of their banks.

However, Britain, during the two-year negotiation period, should attempt to arrange an agreement regarding financial services with the EU. Whereas Switzerland does not have an agreement for financial services, Britain would not have any apprehension concerning the confidentiality of its banks, and not seeking an agreement could ruinously result in British financial services companies not having the capacity to conduct all business operations in the EU from London. Moreover, if after Britain seceded from the EU, banks were incapable of selling financial services throughout the EU from the UK, banks would almost certainly leave the UK, harming Britain's most lucrative service sector. Thus, in order to mitigate the possibility of any reductions in the turnover or in the employment rate of the UK's exemplary banking sector, an agreement should be prioritised during the negotiation phase after invoking Article 50 of the Treaty of Lisbon (2009).²¹²

Despite not directly contributing to the EU budget, Switzerland has contributed financially to the EU on such matters as road and rail networks in Europe and on certain EU policies. To cite but one example, from 2004 to 2007, Switzerland guaranteed the financial support of 1.3 billion Swiss Francs (€1 billion) over five years to member states partaking in the EU. At any rate, a comparable arrangement would provide the UK with vastly greater control over its finances, and the UK would be able to save billions annually.²¹³ Moreover, Switzerland also benefits from four additional areas of freedom of the single market to enrich their economy, such areas of freedom include: the free movement of goods, services, people and capital.

212 The EU's devising of a banking union between the euro-zone countries might lead to future problems that will disproportionately affect financial services in the UK, such as determining the necessary regulations and policies to preserve a single market in financial services, and consequently often updating bilateral financial services agreements with third parties. This problem arguably will confront the UK whether it is a member or not a member of the EU and Britain's supposed influence through EU membership will seemingly not affect the progression of such proposals.

213 Britain would almost certainly be expected to contribute financially, albeit a reduced financial contribution, to the EU to maintain single market access and to partake in the EFTA. This would cover EU cohesion and aid programmes, similar to the arrangement Switzerland and Norway have. Even if after leaving the EU, Britain's financial contribution to the EU was in the range of several billion pounds annually, this can nonetheless be seen as a vast improvement compared with remaining in the EU, and the financial contributions involved through continued EU membership.

Conversely, arguably the two most appealing elements of the relationship with the EU that Switzerland has pursued are the capacity to arrange FTAs with countries outside of the EU and Switzerland's retention of direct democracy in their relations with the EU; this differs notably from EU member states and even EEA members. One can also perceive that, with regards to FTAs, such agreements Switzerland has the capacity to form are considerably more attuned to their economic requirements compared with any of the EU's sweeping treaty deals that take years to form.

Moreover, nations partaking in the EEA are obligated to put into practice each and every piece of EU internal market legislation, such as those elements that regulate labour markets through the Agency Workers Directive and the Working Time Directive. By contrast, Switzerland has no such obligation and merely has to put in practice comparable legislation to that of the EU as encompassed in the bilateral arrangement. Therefore, considering that Switzerland is not obligated to put into practice such sweeping regulations as the EU's social and employment regulations, this enables the country to address its own economy more fittingly with employment laws and regulations that are more attuned to the specific economic, social and cultural environment in question.

In summary, it is clear that Britain could benefit immeasurably from adopting a relationship with the EU that resembles Switzerland's more detached relationship through EFTA membership. Switzerland's economic environment, devoid of EU hegemony, would not only play a significant role in resolving the problems that are burdening the British economy, but also would restore independence and self-government to British politics and society. Therefore, whilst this appendix has highlighted that, reasonably, Switzerland's particular relationship with the EU might not be faultless, one can nevertheless conclusively determine that it is vastly superior to Britain's membership of the EU.

A3 The inadequacy of the UK's current trading relations with the European Union

This appendix covers the cost of EU membership to the UK, in both monetary and global trading terms, and the inadequate trading relations between the EU and the UK. Furthermore, considering the necessity of the UK's future trading relationships with economically developing nations

around the world, this appendix will also analyse the vast economic potential of the Commonwealth.

The UK's trading relationship with the EU is perplexing considering a nation does not have to partake in the single market to successfully export to the single market. Although the importance of the single market is often manipulated by EU proponents to justify Britain's relationship with the EU, countries such as China and America, not EU member states, with no representation in the EU Council of Ministers, with perceptibly no MEPs, no judicial representation at the ECJ, no Commissioners, and no civil servants employed at EU institutions, exporting with the EU over the EU tariff barrier, respectively sell even more goods to the EU compared with the UK, despite Britain's EU membership.²¹⁴ Moreover, such countries, unlike Britain, pay nothing into Brussels nor have any EU regulation enforced on their respective economies. In addition, in Europe, both Norway and Switzerland, not EU member states, export a markedly higher number of goods proportionate to their respective GDPs compared with Britain to the EU: Norway exports approximately five times worth more goods per capita compared with Britain, and Switzerland approximately three times worth more goods per capita compared with Britain.²¹⁵

214 Arguably one of the most effective arguments against withdrawal, wielded by EU proponents who are senior political figures, is that leaving the EU would be detrimental for Britain, in the sense that Britain would not be included in certain international deals, which, in turn, would result in fewer jobs and higher prices in retailers. An example presented by EU proponents, such as Kenneth Clarke, a former Chancellor of the Exchequer from 1993 to 1997, is the potential for squandering the recently launched deliberations between the EU and America over the most substantial free trade deal in history, as reported by the BBC. See: <http://www.bbc.co.uk/news/uk-politics-23306253>, accessed 9 September 2013. However, such international deals through the EU are problematic, and deals such as the aforesaid ones involving the USA and China are protracted; thus frequently take years to achieve. Arguably the UK would have had FTAs with both of these nations, particularly the USA, years ago devoid of EU membership.

215 Switzerland and Norway are not members of the EU, but both countries do partake in the EFTA, and Norway, unlike Switzerland, has procured membership of the EEA. Despite these arrangements, Norway and Switzerland have the highest GDP per capita in Europe, and both countries more relevantly export more, proportionately, to the EU than Britain does, in spite of Britain's membership of the EU. MEP Daniel Hannan has assessed Switzerland and Norway's more lucrative trading relations with the EU in an article in The Telegraph. See: <http://blogs.telegraph.co.uk/news/danielhannan/100194407/outside-the-eu-we-should-aim-to-copy-switzerland-not-norway/>, accessed 8 September, 2013.

Britain's exports to the EU are a clear indication of the UK's inadequate trading relations with the EU. In 2010, 44% of British exports went to the EU; the quantity of British worldwide exportation to the EU is also diminishing. (See Table 4).

Table 4

UK exports (Goods, Services, Income, Transfers) 2006 to 2011 (£bn)

Table 1: UK exports (Goods, Services, Income, Transfers) 2006 to 2011 £bn						
	2006	2007	2008	2009	2010	2011
Exports to EU-26	317	319	345	285	278	311
Exports to Rest of World	333	370	372	309	348	388
Exports to Whole World	650	689	717	594	626	699
<i>Proportion EU-26/World#</i>	<i>49%</i>	<i>46%</i>	<i>48%</i>	<i>48%</i>	<i>44%</i>	<i>44%</i>
<i># Not adjusted for the Rotterdam-Antwerp Effect or the Netherlands Distortion (see Global Britain Briefing Note No. 64).²¹⁶ The "real" proportion is lower than given here.</i>						

Note. Adapted from Global Britain Briefing Note No 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 2.

Regarding EU trade in 2010, the UK ran an overall current account deficit of £52.4 billion; there were such deficits in goods (£43.8 billion), income (£9.7 billion) and transfers (£10 billion). However, the UK did preside over a services surplus worth £11.1 billion. Therefore, the argument that the UK is enriched through single market participation is not supported by the abovementioned figures; however the UK's trading counterparts in the EU do appear to be benefiting more so compared with the UK through participation in the single market.²¹⁷

In 2011, the UK's trade deficit with the EU was over £46 billion worth of trade. The UK's trade deficit with the EU additionally indicates the improbability of Britain enduring any trade discrimination from EU countries upon withdrawal. Moreover, the quantity of Britain's exports to the EU, already below 50%, is decreasing in percentage terms. Although approximately 40% of British exports are exported to the EU, the faster growth rate of British exports to the rest of the world, by, perhaps, 2020, will end up with two-thirds being exported to the rest of the world, and thus one-third to the EU. This prediction further substantiates the argument that outside of the EU, Britain would benefit from greater independence

²¹⁷ The UK has in recent years been trading in surplus with such countries as Austria, the USA and Switzerland; this therefore indicates that the UK's most gainful trading relations currently are predominately outside of the EU, and such trading relations are often with countries which have common features with the UK both in terms of language and culture.

to arrange enduring, long-term economic trading arrangements with non-EU countries. (See Table 5).

Table 5

UK current account balance with the EU and the rest of world (£bn)

Table 2: UK Current Account Balance With EU-26 & Rest Of World							£bn
Year	2006	2007	2008	2009	2010	2011	
Balance UK/EU-26	(33.3)	(38.0)	(4.7)	(20.8)	(47.4)	(46.1)	
Balance UK/Rest of World	(5.8)	+ 5.8	(9.7)	+ 3.1	+ 10.1	+ 17.1	
Balance UK/Whole World	(39.1)	(32.2)	(14.4)	(17.7)	(37.3)	(29.0)	

Note. Adapted from Global Britain Briefing Note No 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 2.

There is, however, the contrary view that there are reasons for the UK's relatively unsatisfactory trading relationship with the EU. The first reason is that, similar to Britain's trading relations with the rest of the world, Britain, despite having a notable manufacturing sector²¹⁸, simply does not competitively manufacture a sufficient amount of objects and items desired by the EU or the rest of the world. Moreover, another argument is that trade deficits are exaggerated by politicians, and trade deficits, as opposed to trade surpluses, carry accompanying connotations.²¹⁹ However, considering the cost of EU membership and the evidence that trading relations with the EU, the UK's largest trading partner, would remain comparable to levels in such years as 2013 even after leaving the EU, the yearly trade deficits that the UK runs with the EU are, indeed, problematic. In addition, in response to the first argument, resolving this aspect of the British economy could be achieved more easily after leaving the EU as the UK would regain more control over its economy and the regulations negatively affecting many sectors of the UK economy and the UK's global trading relations.

Over the past several years, however, the disconcerting deficit in goods trade has been progressively compensated by a surplus in services, primarily in financial and business services. In 2012, the UK had a services trade surplus of £13 billion with the member states of the EU.

218 Britain's manufacturing sector is the eighth largest in the world.

219 This argument stresses the economic theory of specialisation and that even if a country has a trade deficit, it is largely irrelevant and misunderstands international trade which can be seen as a reorganisation of assets from certain countries to other countries; this arrangement supposedly can be viewed to both satisfy and resolve the respective countries' needs and deficiencies.

However, it should be borne in mind that the UK's services exports to the EU, at 39% of the world as a whole, are nonetheless proportionately lower than goods exports.

In general, the UK's trading relationship with the EU is degenerating partly because of the pervasive economic problems within the EU, and in particular the EMU. Amongst the peripheral countries that are member states of the EU, the issue is principally competitiveness and debt; this has happened because such countries' costs and prices have increased significantly since partaking in the Euro currency. Whereas previously, such countries could through having an independent currency, which would fall to restore competitiveness, resolve such economic matters; however, as part of the Euro currency, resolving such matters is not possible. Therefore, primarily the peripheral countries in the EU have been consigned to an economic environment of virtually no economic growth for years and seemingly for years, if not decades, in the future.

Moreover, the current efforts to resolve such economic problems, a combination of austerity to deal with the escalating national debts of such countries and deflation to restore the economic competitiveness of such countries, are arguably ineffective. In actuality, such an approach will merely weaken aggregate demand, and deflationary pressures will exacerbate the saddling effects that high levels of national debt will have on such countries' economies. Thus, this approach to resolving the aforementioned economic problems of the peripheral countries in the EU can be seen as no credible solution whatsoever, and will consign such countries to economic deprivation for many years at least.

By contrast, for other EU countries, principally such countries amongst the northern countries of the euro-zone, the economic predicament differs markedly. Such countries have largely been competitive, and the competitive position of such countries in relation to the euro-zone has been enriched further by the widening economic chasm between the Northern and Southern countries of the euro-zone. Such countries within the north of the euro-zone have, on the whole, benefited from and undergone a moderately strong exportation feature to their economic activity with high export surpluses with numerous countries. However, within the antiquated and rigid customs union of the EU, every surplus a country has with another country in the EU must logically account for another countries' deficit in trade with other members of both the euro-zone and the EU as a whole. Therefore, northern countries of the euro-zone, principally Germany, has meanwhile benefited economically from

the trade deficits run by the southern countries of the euro-zone and the broader EU, including the UK.

Nevertheless, the increasingly conspicuous failure of the euro-zone has also revealed that even consumers in such northern countries of the euro-zone as Germany, are disadvantaged economically. Such consumers have been destabilised through simply not earning or spending a sufficient amount in the imbalanced economic environment in Europe, and this inclination can be seen to reveal that Germany has only prospered economically from the higher relative levels of aggregate demand in other countries. Therefore, essentially one would argue that considering the exceptionally high likelihood of the euro-zone, and the EU more broadly, being held up in economic degradation for future years, and perhaps decades, with all of the political consequences such an inclination will accompany, the necessity of shifting the UK's global trade relations has never been more critical.

In 2011, the British exportation of goods²²⁰ comprised 43% of all British exports globally. By contrast, "Invisibles"²²¹ constituted 57% of all British exports globally: (See Table 6).²²²

Table 6

Table 3: UK Current Account in 2011: £ bn					
	Goods	Services	Income	Transfers	Total
Exports:-					
To EU-26	159	75	68	9	311
To Rest of World	140	119	121	8	388
Exports to World	299	194	189	17	699
<i>Exports to World as percentage</i>	43	28	27	2	100
Imports:-					
From EU-26	202	59	76	20	357
From Rest of World	197	58	96	20	371
Imports from World	399	117	172	40	728
<i>Imports from World as percentage</i>	55	16	24	5	100
Balance:-					
With EU-26	(43)	16	(8)	(11)	(46)
With Rest of World	(57)	60	25	(11)	17
With World	(100)	76	17	(22)	(29)

Note. Adapted from Global Britain Briefing Note No 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 3.

220 Regarding Table 6, goods can also be considered as "visibles" and thus contrast with "invisibles".

221 This consists of Services, Income and Transfers.

222 Upon further analysis, from Britain's standpoint, the exported quantity of "invisibles" is 33%, 57 divided by 43, larger in comparison with the exportation value of "visibles".

Table 7 indicates that Britain has a structural surplus regarding its trade with the USA. In 2011, Britain's surplus remained in excess of £20 billion. By contrast, Britain is enduring a trade deficit with European countries and the EU, in general: (See Table 7). Thus, after leaving the EU, the UK with the capacity to form FTAs with countries could expand its trading relations with countries outside of the EU.

Table 7

Table 4: Balances – largest UK surpluses and deficits in 2011: £bn		
<i>Surpluses</i>	USA	22
	Australia	10
	Switzerland	8
	Luxembourg	8
	Netherlands	8
<i>Deficits</i>	Germany	(22)
	China + Hong Kong	(22)
	Norway	(21)
	EU Institutions	(11)
	Spain	(11)

Note. Adapted from Global Britain Briefing Note No 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 3.

To conclude, Britain's economic relationship with the EU is restrictive and derisory. Considering that Norway and Switzerland trade more successfully with the EU compared with Britain, notwithstanding Britain's membership of the EU, inordinate financial contributions yearly to the EU budget and the UK's endurance of the EU's prodigious regulatory imposition, Britain's relationship with the EU is categorically insufficient and arguably will become increasingly so in future years. Thus, taking into account the amalgamation of EU member states towards an ostensible political union centred on a stressed and inadequately implemented monetary unification, a relationship with the EU that is reduced to simply a bilateral free trade arrangement with reduced financial contributions that supplies Britain with more economic flexibility on a global scale would axiomatically be more gainful.

A4 Parliamentary Sovereignty and European Union law

Appendix A4 addresses the matter of UK parliamentary sovereignty and the fundamental relationship it has to EU law. This matter is clearly contentious and evokes varying responses from politicians, judges and citizens.

The supremacy of Parliament was instituted during the 17th Century. The Bill of Rights, in 1689, was ratified and rendered Parliament to be the supreme law-making institution. Parliamentary sovereignty also denotes that the power of Parliament is unlimited and it has the capacity to ratify legislation regarding whichever matter. Furthermore, in addition to the legitimacy of parliamentary law not being able to be questioned by any institution, such as the church, monarchy or courts, no single Parliament is able to restrict the legislative or governmental authority of any succeeding Parliament.²²³

Britain enlisted in the EEC in 1973; the Treaty of Rome (1957) and succeeding amendment treaties were given effect in Britain by the ECA (1972). The consequence of the ECA (1972) is that each and every stipulation of EU law is provided the force of law within Britain. Moreover, Section 2(4) renders UK Acts of Parliament to be conditional on EU law that is directly relevant.²²⁴ Thus, arguably from the time of the ratification of the ECA (1972), Parliament ceased its function as the supreme legislative institution in Britain. If a disagreement involving an Act of Parliament and EU law was to arise, EU law would succeed. Indeed, Section 2(1) enables directly effective EU law to be routinely put into effect in UK courts. In view of the fact that Parliament has the capacity to repudiate the ECA (1972), which would result in Britain leaving the EU, or at least ceasing membership of the EU, this can be seen to attest that parliamentary sovereignty is undamaged.²²⁵

Nevertheless, the ECA (1972) can be considered to be restraining parliamentary sovereignty by each and every source of EU law. Until the UK Parliament reaches the decision for the UK to secede from the EU, through repudiating the ECA (1972), more legislation will be ratified to

223 It is not possible for a single Parliament to ratify an eternal law, or to install an Act of Parliament.

224 <http://www.legislation.gov.uk/ukpga/1972/68/contents>, accessed 2 September 2013.

225 If the ECA (1972) was repudiated, whether EU law would nonetheless remain supreme to UK law is debatable. However, upon the repudiation of the ECA (1972), henceforward UK courts would seemingly give effect to Parliament and render the discontinuation of the supremacy of EU law.

satisfy Britain's EU membership requirements. This can therefore be seen to be encroaching on UK parliamentary sovereignty, since Parliament is merely ratifying legislation because of the fact that the EU forces it to do so. It can alternatively be seen that the UK Parliament has renounced its sovereignty to EU institutions until it changes this arrangement. However, because of the doctrine of UK parliamentary sovereignty, the ECA (1972) is capable of being repudiated, since no Act of Parliament can be embedded. European Law has had primacy over UK law simply on account of the ECA (1972); thus, only in the event that Parliament was incapable of repudiating the ECA (1972) would sovereignty be restricted. This is an important distinction to be made considering that the ECA (1972), crucially, penetrates UK law with the doctrine of the supremacy of EU law.²²⁶

However, approval of the ECA (1972) causes the difficulty for the UK of incompatibility. The lawful principle of parliamentary sovereignty is fundamentally that Parliament is the supreme lawful power to form or terminate any law within the UK. On the whole, courts in the UK do not have the capacity to take precedence over Parliament legislation, and Parliament is incapable of ratifying laws that successive Parliaments would be incapable of altering. Conversely, the ECA (1972) constructed a compulsion to interpret all state legislation in such a way that is compatible with the absolutely effective conditions of EU law. The rational complexity of this matter nevertheless persists because the ECA (1972) is itself, like other acts, simply an Act of Parliament. Therefore, stipulations in the ECA (1972) could, in theory, be repudiated by any successive Act of Parliament.

Furthermore, the supremacy of EU law over national law in Britain is understood exclusively when EU law has competence over the legal system in the UK. For that reason, in the event of the UK Parliament ratifying new legislation that runs counter to EU law, the national courts

226 The supremacy of EU law can be seen to be completely reconcilable with parliamentary sovereignty because it endures only so long as Parliament allows it.

227 A possible disadvantage with proposing that the UK join the EFTA, and create an association with the EU comparable to Switzerland's relationship with the EU, is the inability to resolve disputes that arise not within the EU-Swiss agreement through any legal procedures. This problem exists because of the EU's rejection to recognise any supranational judicial or quasi-judicial authority other than its own institutions of the European Commission as well as the ECJ, and because of Switzerland's similar rejection to acknowledge any supranational or judicial authority. Thus, disagreements can often be unsettled, and Britain could endure this problem under the proposed relationship with the EU contained within this essay, or indeed under any relationship with the EU other than full EU membership.

have the capacity in certain instances to permit a provisional injunction to prevent authorities in the UK from putting into effect that individual piece of legislation.²²⁷ Moreover, the HRA (1998) has also affected parliamentary sovereignty. Before the HRA (1998), rights of residents in Britain were protected by the European Convention on Human Rights 1950 (ECHR), which was a global treaty formed by the Council of Europe. The underlying *raison d'être* of the ECHR (1950) was arguably to preclude the acts of violence experienced by European inhabitants during the World Wars from recurring.²²⁸

The HRA (1998) integrated the ECHR (1950) into UK domestic law. The principle stipulation of the HRA (1998), with regards to parliamentary sovereignty, is that the HRA (1998) necessitates each and every piece of legislation ratified by Parliament to be interpreted and given effect to the degree that is feasible to satisfy the Convention rights.²²⁹ Therefore, the effect of the HRA (1998) on parliamentary sovereignty is restricted. Essentially, courts have the authority to proclaim that domestic law does not comply with the HRA (1998), but do not have the authority to announce the domestic law void. Thus, in this respect, this seems suggestive of the continuation of parliamentary sovereignty in the UK.

A5 The cost of membership of the European Union to the United Kingdom

This appendix will address the cost to Britain of membership of the EU. In view of Britain's yearly budget deficits and escalating national debt, especially since the beginning of the Great Recession in 2007, the necessity of understanding the cost of EU membership to Britain, especially if one is to reach the conclusion that the UK's trading relationship with the EU is inadequate, cannot be overstated.

228 The ECHR (1950) centres on the protection of human rights and primary freedoms; the UK signed this convention in 1950.

229 Section 19 of the Act obliges a Government Minister to announce before a bill is given its second reading whether or not it is attuned to the HRA (1998). If a disagreement concerning existing legislation arises, the courts have the capacity to nullify or reject to apply subordinate legislation, and could make a pronouncement of disagreement relating to an Act of Parliament. This causes the Government Minister to implement a remedial order modifying the legislation in order for it to comply with Convention rights.

The overall cost of Britain's membership of the EU is unclear; however, the cost of EU membership and the degree to which the UK's annual budgetary contributions to the EU would be reduced can both be seen as more quantifiable estimates when analysing membership of the EU and the implications of the UK leaving the EU. Evidently, Britain, after seceding from the EU, could save at least tens of billions of pounds in only a few years and, as Global Britain (2011b) discusses,²³⁰ substantially alleviate Britain's budget deficit problem increasingly.²³¹ A study, conducted by Tim Congdon (2012), extrapolates that the overall outlay to Britain of EU membership could have been as much as 10% of UK GDP, or £150 billion, in 2012.²³² This arrangement is exacerbated by the fact that since Britain joined the EEC in 1973; Britain has presided over a trade surplus with all continents around the world excluding Europe (Global Britain Briefing Note No 80, 2012). Moreover, as calculated by Global Britain Briefing Note No 60 (2010b), from 2005 to 2009, 88% of Britain's trade deficit with the world has been formed by the EU. Moreover, it is thought that this trade deficit has perniciously resulted in the loss of approximately two million jobs, most of which were highly-skilled, to France and Germany amongst other EU member states (Lea, 2008).

With reference to cost-benefit analyses (CBAs) of EU membership, it can be seen that there is not a single study that adequately quantifies and assesses the effects economically of the UK's EU membership nor the advantages and disadvantages of the UK's secession from the EU. Evidencing the cumulative consequences of such matters through a number or simply illustrating that conclusively the net consequences of the aforementioned subject matters are either positive or negative, is highly problematic. This can largely be seen as the result of a number of the advantages and disadvantages of EU membership being, in many

230 Over eight authoritative cost-benefit analyses (CBAs) on EU membership have been conducted in the UK, Switzerland, France and the USA, and not one of those CBAs has concluded that the advantages of EU membership are even close to offsetting the costs. While all conclude that the net costs of EU membership are consequential, such CBAs range from 4% to 10% of UK GDP.

231 The UK's budget deficit problem, the yearly amount the government has to borrow to equal the shortcoming between current receipts through taxation and government spending, according to the ONS, in the financial year from 2012 to 2013, was £120.6 billion. This was £0.3 billion lower when compared with the net borrowing in the financial year from 2011 to 2012. See: <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/march-2013/stb---march-2013.html>, accessed 5 September, 2013.

232 Tim Congdon's study covers the cost of EU membership for the UK in numerous respects: the direct fiscal cost, the costs of regulations, the costs of resource misallocation, the cost of lost jobs, the costs of waste, fraud and corruption, as well as the potential costs from contingent liabilities.

ways, subjective or indefinable; in part also because many postulations would have to be formed concerning the conditions upon which the UK would secede from the EU, and the way in which the UK Government would or should set about resolving the areas of emptiness in terms of policy where the EU, before a UK-exit of the EU, would have competence. Thus, any assessment and calculation of the repercussions of secession from the EU will be susceptible to such suppositions.

Many of the CBAs undertaken have concluded that there is a noteworthy net cost to the UK of EU membership; such analyses generally take a static approach, quantifying the various effects in a regulatory, fiscal and trade-orientated sense amongst other such measurements. The studies that look forward, in general, estimate that the continuation of integration within the EU will worsen the identified costs in the static analysis. Moreover, the studies that calculate a net benefit to the UK of EU membership can be seen to have a more long term view of the UK's membership of the EU as opposed to such other features as the more restricted trading agreement, with benefits accumulating annually in terms of increased flows of trade and FDI which, in turn, will counterbalance the nominal, gross fiscal cost.²³³

Aside from whether the UK would gain economically from withdrawal from the EU, it should be noted that leaving the EU would nevertheless have notable effects on specific sectors. To cite but one example, in view of the subsidies the UK receives from the CAP, farming would be affected. Furthermore, in certain areas that receive disproportionately higher levels of regional funding from the EU budget, such as West Wales, would evidently be affected by the UK's withdrawal from the EU.²³⁴ Consequently, the manner in which the UK Government will set about resolving the certain chasms that will form following the UK's secession from the EU in terms of economic policy will have a significant relevance to its implications.

However, in terms of fiscal costs, according to Table 8, Global Britain (2012) estimated that the UK's gross contribution to EU organisations reached a

233 There has not been a study, especially in recent years, that has adequately examined the susceptibility of its conclusions to other suppositions, or made efforts to assess the impact of other policy situations or relationships in terms of trade after the UK's secession from the EU.

234 West Wales at present, in the year 2013/2014, receives the highest level of regional funding in the UK from the EU budget.

235 The desertion, by Prime Minister Tony Blair, of elements of the Fontainebleau Abatement from 17th December 2005 onwards has cost Britain billions of pounds yearly from 2005 up to the present year of 2014.

new level of £19.2 billion in 2011. Both the UK's gross and net contributions to the EU started increasing conspicuously from 2010 to 2013 because of the desertion of part of the Fontainebleau Abatement: (See Table 8)²³⁵

Table 8

Table 4: Balances – largest UK surpluses and deficits in 2011: £bn		
<i>Surpluses</i>	USA	22
	Australia	10
	Switzerland	8
	Luxembourg	8
	Netherlands	8
<i>Deficits</i>	Germany	(22)
	China + Hong Kong	(22)
	Norway	(21)
	EU Institutions	(11)
	Spain	(11)

Note. From Global Britain Briefing Note No. 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 4.

Like Table 8, the following graph shows that, subsequent to the alterations to the rebate, and the escalation in flows to the new member states of the EU following the enlargement of the EU, the UK's gross as well as net contributions to the EU budget have progressively enlarged: (See Figure 3).²³⁶

235 The desertion, by Prime Minister Tony Blair, of elements of the Fontainebleau Abatement from 17th December 2005 onwards has cost Britain billions of pounds yearly from 2005 up to the present year of 2014.

236 Margaret Thatcher obtained a rebate in 1984 in response to the UK's clearly unbalanced net contribution to the CAP compared with other members. By contrast, in 2005, Tony Blair settled on renouncing a section of the rebate in response to an assurance of further reformation to the CAP; any such further reformation to the CAP, however, has not materialised.

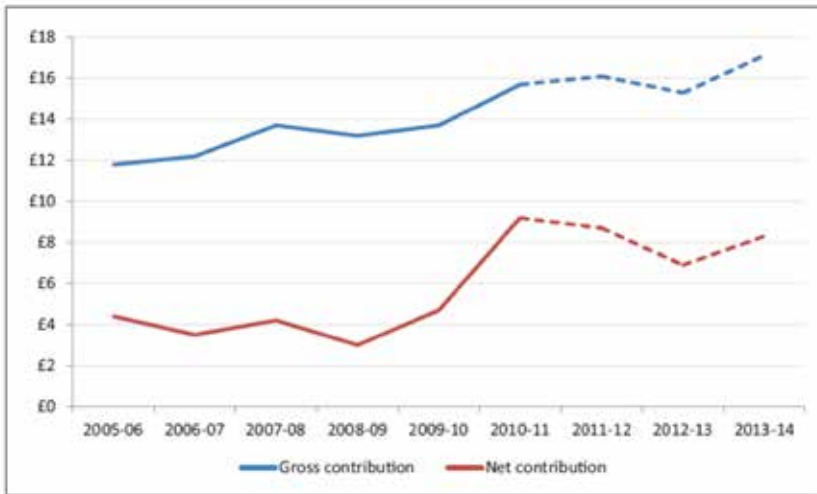


Figure 3. UK contributions to the EU 2006 to 2014 (£bn). From *Seizing the moment: Aligning the EU budget with Europe's economic needs*, by Open Europe, 2012, Retrieved September 6, 2013, from http://www.openeurope.org.uk/Content/Documents/2012EUBudget_new.pdf

The following table, Table 9, similarly illustrates how Britain's gross contribution to EU organisations sustained is unjustifiable and has inexorably increased; this has cost the British taxpayer approximately £53 million daily since 2011: (See Table 9).

Table 9

UK's financial contributions to and receipts from "Brussels" in 2011.

Table 6: UK Cash Contributions to & Receipts from "Brussels" in 2011		
	£ m in year	£ m per day
Gross Contributions	(19,188)	(53)
Receipts from "Brussels"	8,408	23
UK Net Contribution	(10,780)	(30)

Note. Adapted from Global Britain Briefing Note No. 80 (2012): UK trade in 2011: healthy surplus outside the EU, massive deficit with the EU, by Global Britain, 2012, p. 4.

Moreover, in 2013 the cost of EU membership for Britain increased further to £20 billion; this represented a 13% increase in British contributions to the EU. The primary reason for this is that the EU is demanding increased contributions from EU member states because of the disintegrating euro-zone. Thus, the chasm in the amount of financial contributions

Britain gives to the EU and receives in return has increased to the unprecedented amount of £12.2 billion in 2012, compared with £10.8 billion in 2011.²³⁷ In addition, Figures 4 and 5 are indicative of the UK's financially unsustainable and economically disadvantageous relationship with the EU.

Both Figures 4 and 5 illustrate that the UK is evidently not benefiting financially from membership of the EU. The increase in the number of member states of the EU over many years has increased the EU's total expenditure. Moreover, this clear attempt by the EU to redistribute wealth from more economically developed member states to either impoverished or less economically developed member states of the EU is simply impoverishing all member states in general. Therefore, whilst the more economically developed nations contribute more to the EU exchequer annually; those countries are increasingly becoming indebted to unprecedented levels and are experiencing insignificant levels of economic growth every year.

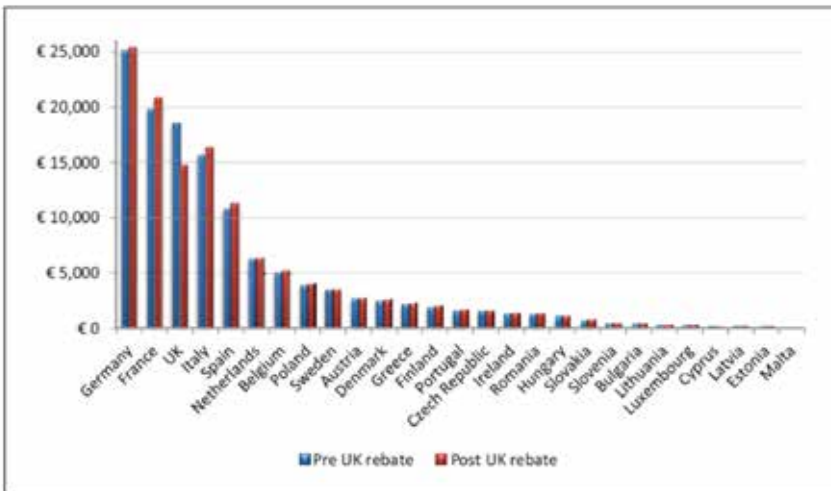


Figure 4. Gross Contributions to the EU budget in 2012 (€m). From *Seizing the moment: Aligning the EU budget with Europe's economic needs*, by Open Europe, 2012, Retrieved September 6, 2013, from http://www.openeurope.org.uk/Content/Documents/2012EUbudget_new.pdf

237 Britain merely received £7.78 billion from the EU, which is, relative to the amount given to the EU, the lowest return in a decade, as reported in the Express: <http://www.express.co.uk/news/uk/418953/Another-1-4bn-reasons-for-us-to-leave-the-EU>, accessed 3 September 2013. In addition, the UK's contribution to the EU has doubled from the time of the Great Recession from 2007 to 2008.

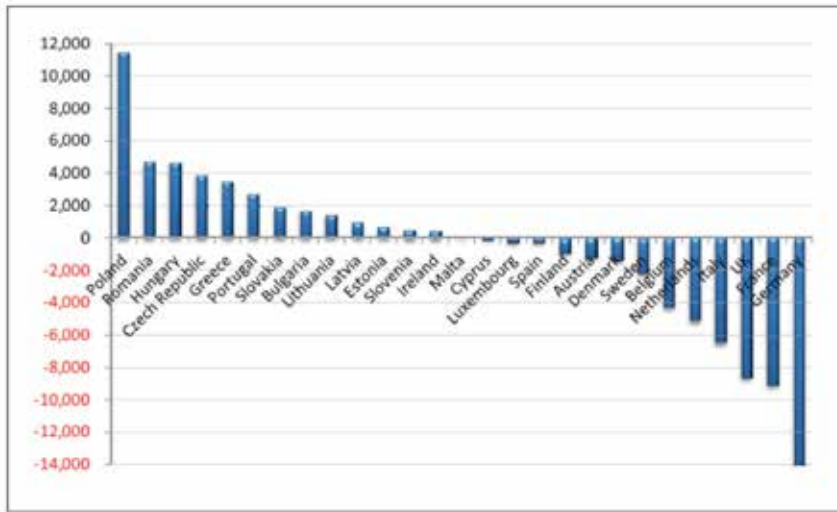


Figure 5. Net receipts from the EU budget in 2012 (€m). From *Seizing the moment: Aligning the EU budget with Europe's economic needs*, by Open Europe, 2012, Retrieved September 6, 2013, from http://www.openeurope.org.uk/Content/Documents/2012EUbudget_new.pdf

Furthermore, in addition to the nominal fiscal costs of EU membership, there are numerous other costs and drawbacks to EU membership, such as the Common External Tariff amongst others. The Common External Tariff denotes that Britain must abide by the same tariff rates on imports coming into the Community from other areas of the world. This also, however, means Britain is not able to negotiate bilateral trade agreements with third parties; Britain is merely able to partake in EU bilateral negotiations. The advantages of this arrangement are overstated, as a potential EU trade partner must endure prolonged negotiations with all member states along with the central authority. Thus, regarding international trade, the EU can be accused of having protectionist propensities.

Switzerland and the EEA's financial contributions to the EU

From 1994 onwards the EEA and EFTA members have contributed to the EU financially on two levels. Such members supply financial contributions to the EU's regional policy objectives through supplying funding in an effort to diminish the socio-economic dichotomises in the EEA.²⁴² More specifically, €1.79 billion has been directed to such schemes for the planned period from 2009 to 2014; Norway supplies 97% of the full amount.²⁴³

EU programmes often receive financial contributions from EEA countries under the EEA Agreement; the contributions are calculated in relation to the countries' respective proportion of EU GDP. Nevertheless, Norway, based on its comparative size, supplies most of the contributions by the EEA, providing £524 million in 2011, or £106 per capita. By contrast, the UK's net budgetary contribution in 2011 was £8.1 billion, which on a per capita basis works out at £128. Therefore, if the UK were to secede from the EU, and contribute to the EU budget on a comparable basis to that of Norway, the UK's contributions would decrease by approximately 17%.²⁴⁴

Switzerland, similar to EEA countries, supplies financial contributions to enlargement costs as well as the EU list of proposals in which Switzerland partakes in as outlined in the various bilateral agreements. The enlargement contributions for Switzerland are supplied in a structure over a number of years; there was an agreement covering the five year period to 2012. If the UK were to secede from the EU and adopt a relationship with the EU similar to that of Switzerland's relationship, the UK's contributions, provided that the UK were to supply such funds in the same capacity to that of Switzerland, would decrease by approximately

242 From the time of the 2004 enlargement, funding has been supplied under two systems: 'EEA Grants' and 'Norway Grants'. Unlike the former, in which Iceland, Norway and Liechtenstein collectively partake in, the latter solely involves the contributions that Norway makes which are directed towards the 12 new member states of the EU.

243 The foundation of such contributions are outlined in Articles 115-117 of the EEA Agreement; the complete details for the 2009 to 2014 period are contained in the Agreement between the EU and Norway concerning a Norwegian Financial Mechanism for that period, in addition to Protocol 38 B of the EEA Agreement.

244 See the EU budget section of The economic impact of EU membership on the UK: http://www.google.co.uk/moreurl?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CDMQFjAA&url=http%3A%2F%2Fwww.parliament.uk%2Fbriefing-papers%2Fsn06730.pdf&ei=9ta8UqSMFYKGhQeP_xYHoAg&usg=AFQjCjNGmdDYcdv30t1innqj5AarN1y8bvg&sig2=KUZHAq54kiL_C5H9wx1DYw, accessed 27 December 2013. [url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CDMQFjAA&url=http%3A%2F%2Fwww.parliamentuk%2Fbriefing-papers%2Fsn06730.pdf&ei=9ta8UqSMFYKGhQeP_xYHoAg&usg=AFQjCjNGmdDYcdv30t1innqj5AarN1y8bvg&sig2=KUZHAq54kiL_C5H9wx1DYw](http://www.parliament.uk%2Fbriefing-papers%2Fsn06730.pdf&ei=9ta8UqSMFYKGhQeP_xYHoAg&usg=AFQjCjNGmdDYcdv30t1innqj5AarN1y8bvg&sig2=KUZHAq54kiL_C5H9wx1DYw), accessed 27 December 2013.

60%. Switzerland's financial contributions in previous years have been in the region of £420 million annually, which on a per capita basis is £53.²⁴⁵

In summary, it is clear that even the benefits of the UK's membership of the EU single market are outweighed by the overall cost of EU membership. It is also evident that perpetuating the predicament is simply going to exacerbate the solvency problems of all EU member states, especially those that are supposedly more economically developed and thus have a disproportionately higher share of the burden in terms of contributions to the annual EU budget. This essay would also argue that the cost of EU membership to the UK is not solely fiscal, and unless Britain secedes from the EU, it might be unfeasible for Britain to seriously address the structural imbalances in the British economy and resolve Britain's ominously high levels of national debt.

A6 Further information concerning the reform of the system of taxation in the UK after the UK's withdrawal from the EU

This appendix contains further information on the proposed changes to the tax system in the UK and addresses the quantifiable estimates of such proposals. While the matter of taxation is not an obvious area of government policy that will be directly affected by a UK withdrawal from the EU, taxation can nonetheless be viewed as part of the overall political economy that would be affected by a UK withdrawal. Thus, reforming taxation to assist the UK economy during the process of withdrawal and after withdrawal is critical.

A radical approach to taxation should be implemented in such a way that would not escalate Britain's national debt, which will reach more than £1.4

245 To access such information, see: <http://www.europa.admin.ch/themen/00500/index.html?lang=en>, accessed 27 December 2013.

246 Government agencies cost Britain billions monthly, despite the fact that the majority are unnecessary and prohibitive, and reductions in foreign aid should be implemented as part of the UK Government's undertaking of vast reductions in public spending.

247 Although the coalition government has lowered corporation tax to a moderately low level, the main rate of corporation tax will fall to 20% after 1 April 2015, compared with other EU members, reducing the rate to match the Republic of Ireland's 12.5% rate for trading income would, after leaving the EU, make Britain's economy conspicuously more appealing for international investment and corporations in an attempt to increase economic activity and create a significant number of jobs throughout Britain.

trillion by the 2015 national election. A reformed, simplified tax system should be matched with noteworthy reductions in public spending.²⁴⁶ In addition, in growing the UK economy and facilitating job creation in Britain, taxation should be reduced on small and medium enterprises (SMEs) and larger, multinational corporations alongside more emphasis on free trade.²⁴⁷ Discontinuation of the EU's VAT and substituting this with a Local Sales Tax to sustain local government finance would also be effective.

In Britain, the necessity of reduced rates of taxation and ultimately a simpler, low-rate and broad-based flat system of taxation is evident. Since the beginning of the Great Recession in 2007, the UK's tax system largely has not encouraged economic growth. This is imperative because the UK's national debt cannot be reduced devoid of economic growth; the UK's national debt in 2015 will ruinously increase by a further 50% because of obstinately high levels of government borrowing compared with when the coalition formed the current UK Government in 2010: (See Figure 6).²⁴⁸ Moreover, Public sector net debt as a share of GDP is forecast to reach 85.6% of GDP in the year 2016 to 2017.²⁴⁹

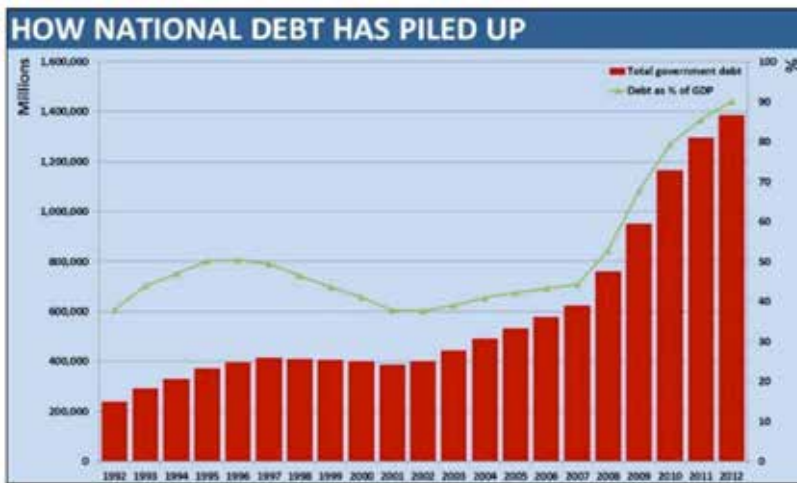


Figure 6. How national debt has piled up. From *Mail Online: Gross national debt has risen dramatically since the financial crash in 2007, new figures from the Office for National Statistics show*, by the Mail Online, 2013, Retrieved September 5, 2013, from <http://www.dailymail.co.uk/news/article-2303345/Britains-debt-mountain-reaches-1-39TRILLION-equivalent-90-entire-economy-ONS-reveals.html>

248 The UK's national debt is increasing by approximately 10% yearly.

249 See the HM Treasury's 2013 Budget Report published in March 2013: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221885/budget2013_complete.pdf, accessed 3 September 2013.

The main reason reforming the tax system in the UK is necessary is because if after seceding from the EU, Britain does not reform its tax system, Britain will be less likely to achieve a free, prosperous economy. Therefore, this attempt to achieve an increase in the global economic competitiveness of the UK can largely be seen as an attempt to mitigate the possibility of any negative effects of the UK no longer being a member state of the EU. The initial phase of taxation reform would focus on reforming Britain's tax system to make it simpler and more efficient. In line with the majority of the proposals by the 2020 Tax Commission, it is necessary to reduce the top rate of income tax²⁵⁰ and taxes should be reduced to 33% of national income, and marginal rates of taxation should not surpass 30%.²⁵¹ Along with all transaction, wealth and inheritance forms of taxation progressively being brought to an end, any taxes on capital and labour income concealed as business taxes should also be discontinued and substituted with a tax on distributed income. In addition, local authorities should also attempt to raise at least 50% of their spending power through local taxes.

The practicality of the aforementioned proposals, the majority of such proposals are largely in line with the 2020 Tax Commission, would include such policies as:

- Executing a single tax on labour and capital income: abolition of Employees' and Employers' National Insurance contributions, and combining such contributions into a single tax on labour income at 30%.²⁵² The gradual abolition of Capital Gains Tax should also be addressed, and substituted with a single tax on capital income, including dividends, rental fees and interest, at 30%.

250 The top rate of income tax on salaries of in excess of £150,000 was reduced from 50p to 45p in the 2013 UK budget. In the first month of this reduction in the top rate of income tax to 45p, the Treasury raised an additional £1.3 billion in April 2013; this represented a 10% increase compared with the previous year

251 During the initial phase of reforming the tax system in the UK, the personal allowance should remain at £10,000.

252 The UK tax code, as presently compiled, includes a basic rate, a higher rate and an additional rate of tax on income, with varying rates for dividends and a further rate for savings. Moreover, there is National Insurance, with varying thresholds and rates for each, and separate rates pertaining to fishermen, self-employed individuals and overseas development workers amongst others. The proposals in this essay are designed to undo virtually all of the complexity concerning taxation in Britain.

- The relative amount of public spending and taxation should be reduced to 33% of national income, supported by alterations in spending objectives.
- Abolition of Stamp Duty Land Tax, Inheritance Tax and stamp taxes on shares should also be implemented, or implemented progressively with incremental reductions until abolition or up until the introduction of the second proposed phase of tax reform after 2022.
- Obliging local authorities to raise at least 50% of their spending locally, this would involve cutting contribution funding for local authorities and implementing a Local Sales Tax, to directly replace the partly EU-enforced VAT at present, should be implemented with a VAT-structure similar to the current form of VAT in the UK.²⁵⁴

Moreover, the implementation of the 2020 Tax Commission's proposals would mean that GDP would be increased by an estimated 9.3% by 2030 and the predicted rise in the rate of growth would be approximately 0.4% of GDP higher a year than it otherwise would be but for its implementation.²⁵⁵ In addition to the initial phase of this proposal to reform the system of taxation in Britain, this proposal would establish a target for taxation and spending, as a share of national income, to be set at 33%. This devised proposal by the 2020 Tax Commission identifies that there is a constraint on the taxable capacity of the UK economy at about 40% of national income. Thus, once government spending relative to GDP goes beyond 38%, any additional increase in the percentage of government spending results in increased borrowing; see Figure 7 for an illustration of the inefficiency of the public sector relative to increases in its share of national income.²⁵⁶

254 This proposal would therefore be revenue-neutral upon the UK's withdrawal from the EU, and the main purpose of such a tax change is to enable the UK Government to have greater control over taxation in the UK in this regard, and in order for at least 50% of the revenue that will be amassed from this tax change to be spent and appropriated in a local government capacity. This is accordingly in keeping with this essay's broader proposals for a greater redistribution of political power to local governments throughout the UK. This was proposed as part of UKIP's policies towards small businesses in 2010, see: <http://www.ukip.org/component/content/article/49-policy/2010-policy-documents/539-small-business-2010>, accessed 30 December 2013.

255 The rise in GDP after 15 years would be 8.4%, this rise would have equated to a further £5,000 per household from 2012 to 2013.

256 See the 2020 Tax Commission's Report Summary: <http://2020tax.org/2020summary.pdf>, accessed 4 September 2013.

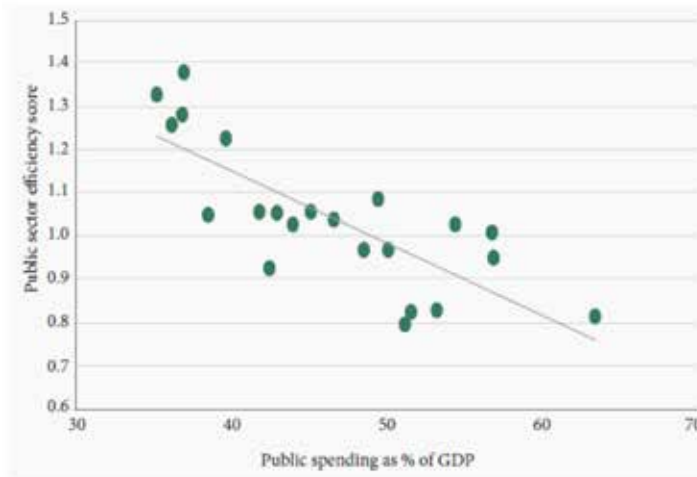


Figure 7. Public sector efficiency and public spending as a share of national income. From 2020 Tax Commission: The Single Income Tax, Summary Tax Commission final report of the 2020, by Allister Heath, Retrieved September 1, 2013, from <http://2020tax.org/2020summary.pdf>

Income tax, as recommended in this essay, should maintain a tax free allowance at £10,000 annually in order to provide working individuals with the opportunity to retain a significant amount of the money they earn before reforming this into an entirely broad-based, low-rate optional flat rate of taxation on income.²⁵⁷ The proposed flat rate of 30%, during the initial phase of tax reform, encourages individuals to work as long and diligently as possible without a prohibitive amount of their money going to taxation.

This plan would precipitate significant reductions in taxation for households throughout the income distribution of Britain. To cite but one example, a household with two earners, with an income of around £28,000 a year²⁵⁸, would receive a reduction in taxation of approximately £3,400. While this would be a vast improvement when compared with the current tax system

257 UK citizens after 2022 would either be taxed according to the proposals outlined concerning the initial phase of tax reform in the UK, or such individuals could alternatively opt into the optional flat rate of tax on personal, unadjusted gross income of 15%.

258 The average annual earnings of full-time workers in the UK rose by 1.4% to £26,500 in the year to April 2012, according to the ONS: http://www.ons.gov.uk/ons/dcp171778_286243.pdf, accessed 5 September 2013.

in the UK, one would aim to eventually reduce taxation further once significant reductions in public spending have taken place, the UK economy has stabilised after leaving the EU, and economic growth has resumed.

Lower taxation and spending in the UK would liberate Britons to spend more of their own money in a more efficient manner. The efficiency of government is also increased when public spending is a reduced share of national income, and therefore taxpayers would be able to spend increased quantities of their own income in the efficient market sector and would gain enhanced value for money from the residual amount of lower public spending: (See Figure 8).

Regarding marginal rates of taxation not going beyond 30%, this would reduce marginal tax rates throughout the income distribution of the UK economy to 30%, and the implementation of a single proportionate income tax would be more suitable. Thus, not only does higher taxes burden taxpayers but also causes individuals to be increasingly arduous in avoiding paying such high rates of taxation.²⁵⁹ Therefore, it is clear that income tax should be greatly reformed. The UK Government in 2017 should maintain a tax free allowance at £10,000 annually in order to continue to provide working individuals with the opportunity to retain a significant amount of the money they earn. The proposed flat rate of 30% provides the incentive for individuals to work as diligently as possible without an exorbitant amount of the money those individuals earn being taxed.

The economic ramifications of taxation reform would be notable; such reforms will be especially noteworthy in five to 15 years time. Moreover, the factor cost measure of national output can be seen as the most effective way of quantifying the resource costs included. The following Figure illustrates the relative share of UK factor cost GDP represented by both the public and private sectors from the year of 1870. (See Figure 8).

259 See the National Audit Office, along with HM Revenue and Customs, report concerning tax avoidance in the UK: <http://www.nao.org.uk/wp-content/uploads/2012/11/1213730.pdf>, accessed 3 September 2013. Tax avoidance which arguably is precipitated by imposing excessive rates of tax can, in turn, often reduce the amount of revenue a government receives. This is detrimental to the British economy as increasingly UK revenues of taxation are becoming dependent upon a narrow tax base consisting of the decreasing number of high earning individuals, who are enduring higher rates of taxation.

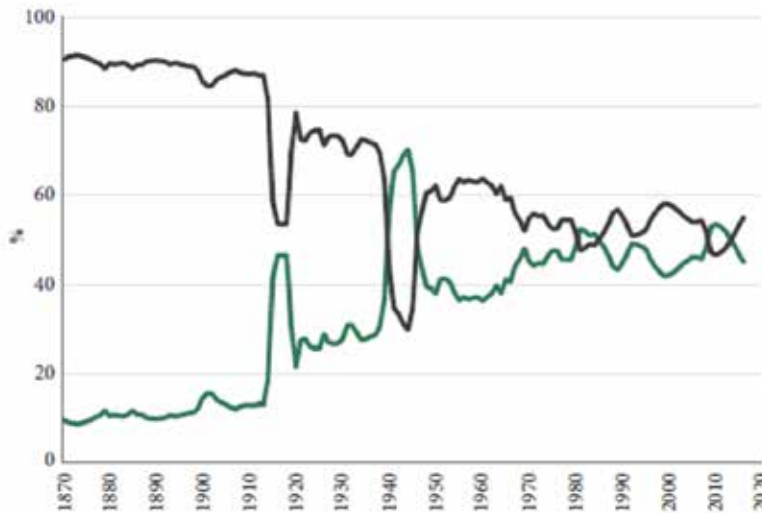


Figure 8. Ratio of UK general government expenditure and private expenditure to UK GDP at factor cost with implied March 2012 Budget forecasts for 2012 to 2016. From *2020 Tax Commission: The Single Income Tax, Summary Tax Commission final report of the 2020*, by Allister Heath, Retrieved September 1, 2013, from <http://2020tax.org/2020summary.pdf>

With reference to the second phase of tax reform in the UK from 2022 onwards, considering that the UK cannot tax its economy into prosperity or solvency, taxation should eventually be simplified into a broad-based flat tax system.²⁶⁰ This reformation of the tax system in the UK should be implemented alongside significant reductions in public spending, and a review of the role of the state in contemporary British society.

It should be noted that employment and wealth are created by those individuals who are taxed, not the government who levies the taxation on individuals; thus, to reduce the pernicious effects taxes have on an economy, the most effective approach to the collection of tax revenue is a broad-based, low-rate flat tax. This overhaul of the system of taxation in Britain would ensure that individuals and corporations have the fewest incentives to circumvent or otherwise not report taxable income, and vastly fewer places where those individuals and businesses can evade taxation.

²⁶⁰ A broad-based flat tax would be non-discriminatory and easier to administer. This greatly differs from progressive tax rates which regress incentives, and are administratively problematic.

The relationship between marginal rates of taxation and economic growth can be seen to present an axiomatic substantiation of the necessity of radical taxation reform to precipitate significant economic growth in Britain. For example, Hong Kong, which has witnessed vast economic growth over a number of decades and has had a rapidly growing economy, has exceptionally low marginal rates of taxation on both capital and labour. Thus, Hong Kong has one of the most straightforward rate schedules globally, and accordingly has a tax structure that has both a broad-base as well as a low-rate.

One of the proposed two tax bases in the second phase of taxation reform, from 2022 onwards, would be an optional flat rate of taxation at 15% on personal, unadjusted gross income from all sources. This proposal would provide individuals living, working and paying taxation in the UK with a greater degree of flexibility with regards to paying taxation, and individuals could opt into this proposed alternative as opposed to the reformed tax system as outlined in this paper for the first stage of tax reform in the UK.²⁶¹ This single rate of taxation would apply throughout the income distribution, from the first pound earned to the last pound earned by an individual. Moreover, there would only be a few deductions within the proposed flat tax option for individuals: interest payments, charitable contributions, and for rent on one's main residence.

The second tax base would be the net sales, or value added, of corporations at a rate of 12%.²⁶² This tax would apply to the difference between sales and the costs of production, which is equivalent to Britain's gross domestic product when aggregated throughout Britain. This essay argues that the proposed low rate of 12% would, consequently, diminish the incentive to circumvent earning taxable income in the UK as opposed

261 This would provide individuals with the more flexible option of either a 15% flat tax on personal, unadjusted gross income or the tax rates outlined in this essay for the initial stage of proposed tax reform in the UK. The reason for rendering this tax proposal to be optional is that it would not therefore deter or negatively affect working people in Britain, and because fully imposing it could otherwise have ramifications which are highly problematic to quantify in advance.

262 This rate of corporation tax would, in contrast with present corporation tax rates in 263, denote that Britain would have either one of the most or the most competitive and attractive rates of corporation tax to foreign investors and foreign investment.

263 Such proposals would also address the problem of much of the public in Britain fundamentally not understanding how the UK tax system functions, which accordingly, amongst other implications, has a negative effect on individuals who have innovative commercial ideas from engaging in entrepreneurship. Over time, this has the effect of diminishing opportunities and bringing about the creation of fewer jobs than there otherwise would have been.

to other countries in this increasingly global economy, and additionally the resultant broader-base would decrease the number of ways and places where individuals would have the capacity to conceal their income in order to circumvent paying taxation.²⁶³

This essay proposes that regarding both the proposed optional 15% flat tax on income and the proposed 12% flat tax, comparable to Ireland's corporation tax rate of 12.5%, on corporate net sales, both of these proposed taxes have been implemented elsewhere overseas and the accompanying successful results are clear. Hong Kong, which has witnessed the positive effects of an optional 15% flat income tax on individuals ever since 1947, has been transformed economically because of such free market economic changes as a simple, low-rate tax system, causing Hong Kong to be one of the most prosperous cities in the world. The 12.5% rate of corporation tax, implemented in the Republic of Ireland has been immeasurably effective in attracting economic activity and foreign investment. Therefore, the proposed 12% flat rate on corporate net sales in the UK would direct further foreign investment to the UK from investors throughout the world, and would also render Britain to appear as arguably the most appealing and economically competitive developed country in the world after its implementation in 2022.

While this essay proposes that Britain after a nominal five year period, from the time of the result of the referendum in 2017, implement two broad-based, low-rate flat taxes, it is necessary to address the opposition and disapproval of such a system of taxation. Opponents of proposals regarding flat taxes make the case that this form of taxation would have a negative and punitive effect on lower-income taxpayers whilst additionally being unsuccessful in terms of accumulating sufficient levels of revenue for government spending. Such arguments, however, overlook the increasingly urgent necessity for a radical overhaul of the current system of taxation, with two distinct separate flat taxes in Britain. A reform of the tax system of this scale would stimulate a significant regeneration of economic investment and activity whilst maintaining the sufficient revenues that the British Government will necessitate. This would contrast markedly with the corporations, entrepreneurs, revenues of taxation and investments that have left Britain, deterred by an increasingly unconstructive economic, and anti-economic growth environment in the UK, partly also driven by the unattractive features of EU membership, in favour of other countries over the past couple of decades.

There would be numerous economic advantages of applying flat taxes

in the UK. One economic advantage would be the substantial alleviation of the imposition of taxation on SMEs throughout Britain. The benefits of such a change of taxation would be endured positively by SMEs as compliance with taxation is a foremost expense for such businesses; the effect of reducing this imposition would have a positive cascading effect throughout the British economy as SMEs principally drive job creation in an economy. In addition, another key advantage economically of implementing flat tax rates is that it would denote that the tax base has been broadened; this accordingly would have the consequence of diminishing incentives to circumvent paying taxation.

Furthermore, a further foremost positive, albeit slightly more unclear, advantage of implementing flat taxes in the UK would be the behavioural alterations in the economy. An example of the economically propitious effect that implementing flat rates of taxation would have in the UK, can be seen in the way in which Britain's specialists in both the accounting along with legal vocations would positively be redirected towards constructing novel enterprise and economic innovation as opposed to unproductively circumventing taxation.

An example of the behavioural effects that increasing rates of taxation on higher income earners can have can be seen in the 50 per cent additional rate of income tax levied in 2010.²⁶⁴ According to a report undertaken by HM Revenue and Customs (2012) concerning the effect on the UK Exchequer of this tax change, this tax increase precipitated significant behavioural changes which, in turn, negatively impacted the UK economy and resulted in less revenue and economic activity in the following years. The report illuminates the noteworthy degree to which there was a behavioural response to the rate change, comprising a significant amount of forestalling: it is estimated that approximately £16 billion to £18 billion of income was advanced to the financial year from 2009 to 2010, creating a great deal of revenue volatility, to circumvent the implementation of the increased rate of taxation. In addition, the modelling, for analysing the corresponding behaviour change, used in this report assesses that the behavioural

264 The 50 per cent additional rate of income tax was put into practice on 6 April 2010. This example of the effects of raising taxes is particularly credible in view of the fact that this was the first increase in the highest rate of taxation in Britain for over 30 years; this increase was expected to yield approximately £2.5 billion. However, this report details how the introduction of an additional rate could have perniciously affected the UK economy beyond simply the direct impacts on the UK Exchequer. Essentially, high tax rates in Britain make its system of taxation increasingly less competitive and evidently cause the UK to become a less appealing country to initiate, finance and grow a business.

response was even more profound than assessed in either the Budget of 2009 or in the March Budget 2010; this accordingly diminished the pre-behavioural yield by at least 83 per cent.²⁶⁵

The report reveals that in the tax year from 2009 to 2010, over 16,000 people declared an annual income of over £1 million to HMRC. The number of such individuals decreased to less than 6,000 in response to the incumbent Labour Party's implementation of the additional 50p top rate of income tax before the UK General Election in 2010. Moreover, instead of raising additional revenues to the UK Exchequer, this report estimates that the implemented tax change could have cost the UK as much as £7 billion in lost tax revenue. The following figure illustrates the disproportionate share of the income tax revenue paid by higher income earners, £150,000 and above: (See Figure 9).²⁶⁶

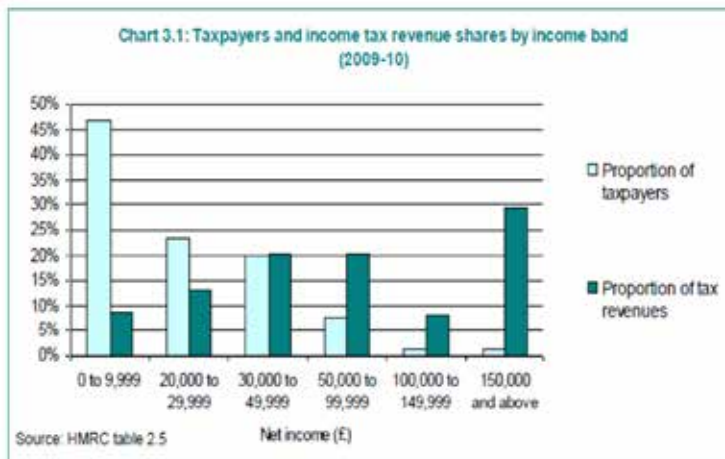


Figure 9. Taxpayers and income tax revenue shares by income band (2009-10). From *The Exchequer effect of the 50 per cent additional rate of income tax*, by HM Revenue & Customs, 2012, Retrieved December 7, 2013 from <http://www.hmrc.gov.uk/budget2012/excheq-income-tax-2042.pdf>

²⁶⁵ Increased rates on higher income earners overlooks the fact that international labour mobility has significantly increased over the past couple of decades as both legal impediments as well as general migration costs have decreased. This, in turn, means that this can have an adverse effect on high rates of personal taxation concerning both inward and outward migration to Britain.

²⁶⁶ The additional rate was expected to have an effect on approximately 300,000 individuals, which at the time was approximately 1 per cent of UK taxpayers. This income bracket contributes disproportionately to the share of tax revenue collected by the UK Government, for example this income bracket contributed approximately 30 per cent of income tax revenue in 2009 to 2010. Such a tax change is also pernicious in view of the fact that, as the report elucidates; the top percentile share of taxation in the UK has steadily increased over time, from approximately 15 per cent in 1991, to slightly over an estimated 27 per cent from 2011 to 2012.

Thus, the implementation of a higher rate of taxation on such a narrow base clearly is economically illiterate considering that the UK is part of an increasingly globalised economy, where the individuals concerned can move their capital overseas, shift the various types of income that those individuals earn, defer earned income or simply cease trading or retire in response to such tax changes which clearly exacerbates a nation's global competitiveness.²⁶⁷

The implementation of a flat tax would also resolve much of the inefficiency of the present system of collecting taxes from individuals and businesses in Britain. The proposed broad-based, low-rate flat taxes would significantly lessen the further expenses encountered in collecting taxes in Britain. The reason why a single, low-rate flat tax should be implemented after the initial phase of tax reform, involving the simplification of the tax code and efforts towards both lowering tax rates and broadening the tax base in the UK, is the possibility that it would not be revenue-neutral.²⁶⁸ Thus, after initially simplifying the system of taxation in Britain, vastly reducing government spending, and then implementing the proposed flat taxes alongside either a balanced-budget amendment or a similar measure to contain government spending, would prevent British governments in the future from profligacy through unsustainable government spending and restore fiscal realism to Britain.

In spite of the fact that there is not a faultless method of determining the aggregate effect of marginal rates of taxation on a consistent basis, there is explicit evidence that low marginal rates of taxation encourage economic growth. This contrasts significantly with progressive structures of taxation which denotes that the most productive British citizens and

267 In fact, by November 2012, in response to the announcement in the 2012 Budget by George Osborne MP, the Chancellor of the Exchequer, that the 50p top rate of income taxation will be decreased to 45p from the following April, the proportion of individuals declaring annual incomes of over £1 million has increased to 10,000 already. This is nevertheless lower than the number of such income earners prior to the Great Recession from 2007 to 2008. It was previously thought, in general, that such a response to tax changes, namely the behavioural effect, would take a while to have any notable effect; however, the evident behavioural changes can clearly be seen as indicative of the increasingly globalised economy which the UK competes in.

268 Critics of flat taxes might contend that this configuration of taxation would be insufficient in raising revenues. However, it can be argued, in direct response, that a sweeping generalisation or assessment of the problems in the British economy largely would illuminate that such problems have not resulted from governments under-taxing, but rather overspending. Thus, there should be a general effort towards reducing the size and role of government to correspond with the size of revenue, and to not constantly make efforts towards raising revenues to keep up with the ever-increasing size of government.

organisations, the principal employers of other individuals, end up being taxed the most on the margin.

However, the primary contention for the implementation of a flat tax in the UK is the subsequent promotion of economic growth, which the British economy has been largely devoid of since the Great Recession which started in 2007. The deficiency of a system of taxation that encourages economic growth has been overtly illuminated since the Great Recession, and the lack of economic growth which, in turn, has led to insufficient levels of production, output and employment has rendered controlling and reducing the budget deficit to be increasingly problematic and impenetrable. Furthermore, this overhaul of the system of taxation in the UK would, unlike the frequently proposed argument of solely benefiting the wealthy members of British society, assist middle and working class, salaried individuals who are by comparison considerably less able at navigating the complicated system of taxation in the UK. This can be viewed as a primary reason why those aforementioned individuals arguably are enduring one of the most substandard economic environments in the UK for years and perhaps even decades.

While Britain has benefited from having a moderately low level of corporation tax compared with other economically developed countries, an even lower rate with a broader base would lead to even more prosperity henceforth. One would argue that international capital flows would be increasingly in Britain's favour if Britain's corporation tax was reformed further in order to enhance Britain's international competitiveness. This broad-based, low-rate approach to corporation tax in Britain would precipitate a vast and substantial increase in new investment and a swift repatriation of British finances held overseas. Thus, it can also be seen that in order for a tax code to be successful and most effective, achieving this necessitates pervasive voluntary conformity from those who pay taxation; those individuals, in turn, have to perceive the tax code as both just and economical.

A further foremost advantage that flat rates of taxation in Britain would bring would be the radical simplification and increased efficiency which it would facilitate. It is clear that the UK's 2014 tax code is indicative of the number of special interest groups over many years which have resulted in increasing the complexity of tax rules in the UK and an increasingly unbalanced tax code. It is evident that discontinuing every form of preference for certain individuals who pay tax, in support of a reduced, easily-obtainable tax system in Britain would result in significant

economic advantages overall. Indeed, the complexity of the UK tax code is such that at 8,300 pages the UK has the second longest tax code of any measured country, and the longest among nations with a developed economy; the UK tax code has increased significantly since 1997.²⁶⁹

Moreover, it should be noted that the proposed of flat rates of taxation is not simply for an arbitrary ideological motive, but rather to radically simplify the system of taxation in Britain. A growing economy accomplished with broad-based, low-rate flat taxes in combination with a pro-growth safety net is the most effective approach to increasing the incomes of those most socially-disenfranchised in Britain. This can also be seen to relate to the fact that excessive rates of taxation diminish equal-opportunity, badly affecting capital and labour, those individuals in society who are wealthy and those who are socially-disenfranchised, as well as retired workers and those entering the workforce. Moreover, a number of people will infringe the law and be unsuccessful in accounting taxable income; certain other individuals will make use of legal alternatives, such as tax deductions and credits, to lessen the amount of taxation that those individuals pay. In addition, ultimately if an unsuccessful system of taxation is perpetuated, foreign investors and those who account for much of the employment and output in an economy will move overseas. By contrast, the UK, especially after seceding from the EU, necessitates a system of taxation that would precipitate a reallocation of both labour and capital more productively. Thus, in order to retain and attract foreign investors, and in order for those individuals to remain in Britain, increase production, output and employment, as well as contribute to British society in the form of taxation, the necessity of flat rates of taxation are evident.²⁷⁰

It should also be noted that progressive systems of taxation amplify the instability of tax-revenue. Essentially, during periods of economic growth and often once implemented, progressive rates of taxation lead to further increases in the tax revenues the government receives. This instability can primarily be seen to take place because the additional revenue derived from progressive rates of taxation on high-earning individuals becomes excessively dependent upon by the government.

269 <http://www.cps.org.uk/blog/q/date/2013/09/16/tax-simplifier-26-world-comparisons-of-tax-complexity/>, accessed 24 December, 2013.

270 The necessity of this two-stage approach to reforming the UK tax system can also be seen in view of the fact that whenever foreign investors move overseas, frequently with their labour and capital, this has the economically pernicious effect of shifting the imposition of taxation further towards lower-wage working people, in addition to property and generational inheritance.

Thus, this primarily occurs because those individuals, who pay increased and disproportionate amounts in a progressive system of taxation, undergo vast and abrupt fluctuations in terms of income during a period of economic downturn. In addition, this predisposition has long-term, highly pernicious effects on economies because the state frequently will increase government spending during the economic boom, then, in response, create scaling deficits, add to the national debt and, accordingly, raise taxes to resolve this matter during a time of economic downturn, which impairs economic competitiveness in future years.

Therefore, to further impose financial prudence, this essay additionally proposes the discontinuation of progressive income taxation. This would accordingly discontinue the inclination over many years consisting of politicians encouraging policies to groups of the electorate to be funded by other groups of the electorate. This would therefore ensure that those individuals who vote for increased government spending would consequently be conscious of the reality that they would endure the increased taxation imposition themselves. In addition, as Carswell (2012) amongst others supportive of the abolition of progressive forms of taxation have indicated, the establishment of progressive forms of taxation approximately a century ago resulted in the creation of an engorged state. Thus, with regards to the UK's political economy after withdrawal from the EU, it is seemingly logical, in this case, that the disentanglement of progressive rates of taxation towards two low-rate, broad-based flat rates of taxation would result in political demands to contain and cut back on the size of the state.

With further reference to flat rates of taxation, implementation of a single, low-rate flat tax would also result in a rise in economic activity in Britain. This primarily would arise because the after-taxation rate or return for carrying out business in Britain would rise, from both the deterioration in rates of taxation and from the abolition of innumerable costs that infringe output. The real result of the implementation of this form of taxation would be an increased number of businesses moving into Britain, fewer leaving Britain, and an increase in the amount of economic activity coming out from the underground economy. Enforcing a flat tax would cause an escalation of economic growth in the British economy, yielding increased revenues of taxation, which accordingly would diminish the budget deficit. Thus, it is noteworthy that broad-based, low-rate flat taxes would enhance economic stability in Britain, and ensure that the revenue flow into the British economy is increasingly stable on a yearly basis.

These proposed changes to the UK tax system would, importantly, also assist in creating a freer and more prosperous economic environment for SMEs.²⁷¹ In 2012, there were 4.8 million businesses in Britain, and 4.6 million, equivalent to 96%, of such businesses were micro-businesses.²⁷² Also, it should be noted that in excess of 99% of such UK companies were SMEs, employing below 250 workers:²⁷³ (See Figure 10).²⁷⁴

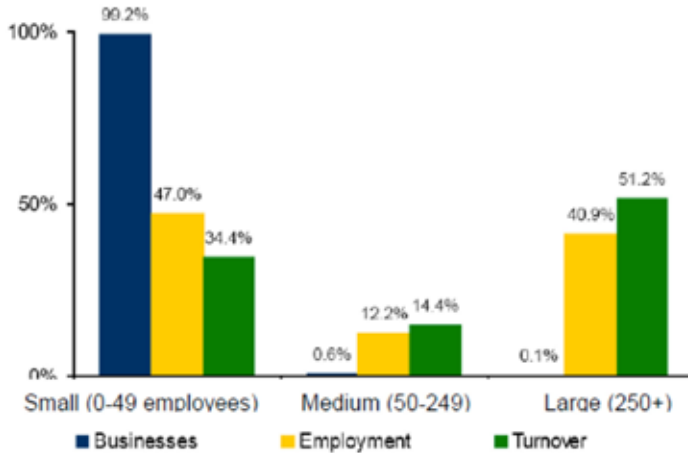


Figure 10. Share of businesses in the UK private sector and their associated employment and turnover, by size of business, start of 2012. From *Statistical Release: Business Population Estimates for the UK and Regions 2012*, by Department for Business, Innovation & Skills, 2012, Retrieved September 5, 2013 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80247/bpe-2012-stats-release-4.pdf

271 Regarding SMEs, clearly any attempt to tax salaries can be seen to result in a “shifting” practice. Whenever taxes are imposed on pay, the salary must increase to restore the purchasing power of the employee. This imposition throughout an economy is detrimental to employment as an employer is forced to stretch the finances of the business further and the incentive of employing people is lessened. Accordingly, the outcome is inflationary as the costs, regardless of however theoretical it is, feature in the revised price structure. Thus, once a flat tax or reforms towards a flatter and broader tax system is implemented, this propensity would increasingly be alleviated.

272 Micro-businesses are businesses that employ 0 to 9 individuals.

273 Figure 10 illustrates that while most businesses in Britain employ no more than 10 workers, this category of business represents 32% of employment and 20% of turnover; however, large businesses, which employ in excess of 250 workers, represented no more than 0.1% of businesses but 41% of employment as well as 51% of turnover.

274 The proposed tax system would undo the present system in which the earnings of those employed are taxed further through the PAYE system. Taxation under PAYE is extrapolated by reference to “gross pay”. Thus, the worker’s actual income is the net pay and that quantity of “deducted” tax is the employer’s accountability, to be remitted by the employer to the HMRC monthly.

Alleviating the regulatory strain on SMEs would enable such enterprises to decrease their expenditure on employing accountants and legal representatives who ensure that SMEs satisfy regulations. This alteration would accordingly enable SMEs to allocate such finances in a more productive, profitable manner. Moreover, in view of the delayed investments, redundancy, reduced competitiveness of UK enterprises and decreased profitability that derives from the UK's complicated regulatory structure, making it vastly simpler can be seen as the solitary approach to liberating SMEs from the unequal regulatory fulfilment costs.

Even-handedness with regards to taxation denotes that both individuals and companies equally have comparable tax impositions. Unlike progressive rates of taxation which diminish incentives and create impediments to prosperity and self-reliance, flat rates of tax, by contrast, on either individuals or organisations sufficiently achieves fairness.²⁷⁵ Under recent British governments, there has been an inclination to tax a number of high-income earners at excessively high rates and virtually not taxing other individuals who earn income whatsoever; this shift is entirely inequitable. Consequently, as Dr. Arthur Laffer (2012) has underlined, this approach to taxation is unquestionably an anathema to prosperity.

Other than taxation, a further solution to lessen the strain on SMEs in the UK is to render the process of both firing and hiring employees to be easier and more flexible. Employment legislation has hindered the capacity of SMEs to develop and expand. Also, the complexity of dismissing unsatisfactory employees and the general apprehension concerning hearings in contemporary Britain's increasingly litigious society has rendered the prospect of employing more workers, from the perspective of the owners of SMEs, to be perilous. Accordingly, amending and reducing the number of employment laws will assist SMEs in hiring an increased number of employees than the enterprises otherwise would have done, and this will additionally increase flexibility in the UK labour-market.

Furthermore, this essay recommends substituting VAT, partly enforced by the EU, with a form of sales tax, a Local Sales Tax, at the same rate of 20% or the rate of VAT upon the UK's withdrawal from the EU.

275 An individual who earns 10 times the amount which another individual earns should, indeed, pay 10 times more in terms of taxes. However, it is understandable that it is unjust to tax certain individuals' income twice, three times or to an even greater extent after it has been amassed, which can be seen with such forms of taxation as inheritance tax.

However, this proposal elucidates that a share of about 50% should be paid to local councils, ensuring that they control a minimum of half of their income, instead of a quarter as is the present arrangement. Thus, local councils could use this arrangement more fittingly to increase economic competitiveness in their respective areas of the country, for instance through reducing local business rates or facilitating other incentives to local enterprises.

Therefore, in terms of addressing how the UK can be free and prosperous after leaving the EU, reforming the tax system in the UK is clearly imperative. Reform of this scale would not only significantly benefit the British economy and businesses in Britain, but would also overtly distinguish Britain from the beleaguered member states enduring EU membership and would indubitably attract increased FDI.

In summary, the reforms to the tax system in the UK, which have been proposed in this section of the essay, through the outlined two stages of reform, involves initially simplifying the system of taxation and broadening the tax base as well as lowering tax rates. In the second phase of tax reform, ultimately creating two low-rate, broad-based single flat taxes on income and business net sales would be a substantial advance in facilitating and restoring long-term economic prosperity and financial prudence to the British economy.

Proposals

- Initially simplifying the system of taxation in the UK over a nominal five year period, from 2017 to 2022, adopting many of the proposals in the 2020 Tax Commission Report.
- Reducing the rate of corporation tax in the UK to 12.5% for a five year period, from 2017 to 2022, after the result of the referendum on EU membership in 2017 to increase the competitiveness of the UK on a global trading scale.
- After the initial phase of taxation reform in the UK, a nominal five year period, an optional 15% flat rate of income tax should be implemented.
- Corporation tax should be further reformed from 2022 onwards, after a five year period from 2017 to 2022, in conjunction with the optional 15% flat rate of income tax, to a flat rate of taxation on the net sales of corporations at 12%.

- Replacing VAT with a Local Sales Tax to fund local government at the rate of 20% or the rate of VAT upon the UK's secession from the EU.

A7 Reform of the banking industry and financial services sector in the UK through a free banking approach

The financial services sector is a sector of the UK economy that would be significantly affected by a UK withdrawal from the EU, and includes areas of government policy that would be affected by the UK's secession; therefore, it is necessary to propose a direction for UK financial services after the UK's secession. This appendix will propose a free banking approach to financial services. The proposal of free banking is not a novel concept; it has a clearly successful, robust past performance historically which is frequently overlooked by contemporary economists. The features of excessive financial regulation, central banks as well as inconvertible paper currency are contributing to the economic problems endured by all member states of the EU, including Britain, and are not mitigating the problems within the financial services sectors of the economies of the respective member states of the EU.

Britain is enduring economic problems, also endured by EU member states and the USA, with regards to banking, which has been created over decades and has led to banks which are 'too big to fail'. After seceding from the EU, a number of aspects concerning financial services in the UK must change, such alterations principally include: encouraging multiple note issuers and significantly higher levels of competition as well as innovation. Critically, currency issues were exchangeable, frequently into the commodity of gold, and were accordingly broadly acknowledged and enduring. Moreover, a central bank system, with high levels of government intervention, a bailout system that rewards banks that are under-capitalised and act irresponsibly, has historically not been characteristic of banking and fiscal policy in numerous countries.

Under this alternative, free market approach to banking, banks were sounder and banking calamities were infrequent. This more free market approach to banking ensured that when a problem within the banking sector happened, such a problem was characteristically rooted in either one or a moderately small number of banks, and instances of runs

on banks posed a very inconsequential risk to the overall banking system in a country. In addition, this approach to banking ensured that whenever a problem within the banking sector was excessive, a number of inadequate banks were revealed and would accordingly lose their place within the banking sector; their share would accordingly be acquired by its more responsible, robust competitors in the banking sector. Essentially, in contrast with the present configuration of banking systems in Europe and in many other economically developed countries, this system characteristically was convertible, economically prosperous and vastly sounder.²⁷⁶

In essence, this successful and historically tried and tested, free market approach to banking has ominously been replaced with a system of state-control and central banking. This shift in banking in the UK, similar to other economically developed nations around the world, is not as stable and has a propensity to increase inflation principally because of interventionism by the state and central bank in the economy.²⁷⁷

Forrest Capie and Geoffrey Wood (2013) have analysed that with reference to the banking sector in the UK, failure must be possible and the UK banking configuration ought to be designed, and ought to be perceived to be designed, to facilitate this economic environment. The key features in a free banking system should be the discontinuation of central banks, excessive financial regulations, laws pertaining to legal tender²⁷⁸, and each and every form of state support or assurance, for instance state deposit insurance, lender of last resort, and any bailout measures. As Kevin Dowd (2013) has pointed out, each and every form of state support to the UK financial system should, indeed, be explicitly

276 The approach to banking, advocated in this essay, generally has been discontinued for several reasons: a number of countries eradicated the competitiveness of note issue and accordingly created a monopoly or oligopoly in the banking sector in order to extort seigniorage revenues from the system of banking. In other countries, free banking was discontinued by an alternative crisis, for instance frequently a currency crisis precipitated by a war, which, in turn, caused governments to render the inconvertibility of currency. In addition, in other countries, principally Scotland, Canada and Australia, it was discontinued through a flawed ideological propensity towards an imprudent belief in the theoretical pre-eminence of central banking systems.

277 Paradoxically, this historic free market monetary and banking system was substituted by an inferior state-led system which unconstructively is broadly accepted in contemporary economics.

278 Legal tender laws conventionally have been used to compel individuals into accepting currency that they might otherwise be disinclined to adopt. Historical evidence, however, demonstrates that people freely will adopt currency they have faith in.

prohibited. Thus, this essay clearly proposes that there should be no monetary policy whatsoever, and simply the free market. Accordingly, there would not be a central bank to manage the banking system, arbitrarily deciding monetary policy, setting interest rates, affecting the price level or credit conditions or otherwise obstructing the economy.²⁷⁹ Crucially also, discontinuing monetary policy would no longer allow the state to use monetary policy to monetise its debt, and thus the UK would no longer have any advantaged right of entry to debt markets.

Therefore, after Britain withdraws from the EU, banks in the UK would, unlike their competitors overseas, have the capacity to issue any form of currency subject only to the regulation of the market functioning under the rule of law. The people of Britain would be liberated to use any currency they decide upon.²⁸⁰ Furthermore, in the event of a bank getting into difficulty in the UK, there should be no state support to help such a bank and accordingly it would either survive or fail in the proposed free market system. Exposing banks to the ubiquitous potential peril of bank threats, through disposing of deposit insurance and a lender of last resort, would also be economically advantageous. This free market change would have the positive behaviour-altering effect of rendering the public to be more attentive to the fact that their note currency as well as deposits are potentially at risk; the public would accordingly take a significantly greater interest in their banks as a result which would penetrate the pervasive inertia with regards to banking in the UK at present.

In view of the fact that considering a run on a bank can ruin a bank permanently, the individuals who work in banks would for that reason react with increasingly credible measures to restore the confidence of their depositors. Specifically, people who work in banks would be more moderate, conservative with relation to risk-taking and work on significantly lower leverage ratios. Consequently, this free market transformation of banking in the UK would infiltrate banks in the UK and the acute threat of a run would cause banks to both self-regulate and have a sound, credible underpinning to the operations of such banks.

279 This essay advises that the gradual discontinuation of the UK central bank, and the eventual elimination of the position of Governor of the Bank of England, should happen in stages over a nominal five year period after the UK has seceded from the EU, to ensure that there is a smooth transition in facilitating a less centralised and an increasingly free market approach to banking in the UK.

280 The autonomy to select their own currency would additionally be extended to the autonomy to utilise foreign currencies as well as new currencies.

This essay puts forward that this free, prosperous and considerably less regulated approach to banking in the UK would ensure that a problem with one bank would be significantly less likely to pose universal peril to the overall banking system in the UK. In fact, once implemented, this approach to banking would over a number of years progressively reinforce the financial services sector in the UK through exposing the inadequate, vulnerable banks, and would additionally elucidate the necessity of running a bank in a sustainable, financially credible manner. Furthermore, as opposed to implementing financial regulations, the only regulations that should be implemented in this free market approach to banking after the UK's withdrawal from the EU would be provided through the law in the UK. For instance, both the law of contract in addition to laws governing remedy would be particularly necessary in this alternative banking configuration.²⁸¹ In addition, capital regulation would also become unnecessary, because market forces would fundamentally ensure and preserve the strength of the financial services sector and banks would be liberated to establish independent reserve ratios. Consequently, the free market would, indeed, restore discipline to the functioning of banks throughout Britain after Britain has seceded from the EU.

The outlined alterations to the banking sector, and fiscal reform in general, in the UK would, after seceding from the EU, ensure that the British economy would have a markedly improved, sustainable banking system. However, it is noteworthy that the problems witnessed in the banking sector in recent years are not because of any intrinsic deficiency or inadequacy of either capitalism or free markets per se; but more accurately, the main deficiency within banking has been the liability of the entire banking system as well as a nation's legal tender to predation by the state.²⁸² In view of the need to resolve this most important problem of achieving a free, prosperous banking system in the UK after the UK's withdrawal, the UK should also undertake long-term constitutional and fiscal reform measures, such as a number of those advocated by Kevin Dowd (2013), to defend the banking system from internal ruin by the state.

281 A prudential regulatory body, for instance the FSA, would be unnecessary, and essentially competition for market share would guarantee both quality of service as well as basic standards.

282 This predation can take place in a number of different forms, for instance the state pressuring the banking sector to subsidise loans, which distorts the free market in finance, as well as through either contriving excessive inflation or debasing a nation's currency. The state, especially in relatively modern economic history, has had a propensity to embark upon such pernicious courses of action; inflation and debasing a nation's currency can be seen as simply a detrimental type of hidden taxation.

In summary, the abovementioned proposed changes to the banking industry and the financial services sector as a whole in the UK, are necessary in ensuring that the overall UK economy can be both free and prosperous after the UK has seceded from the EU.

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