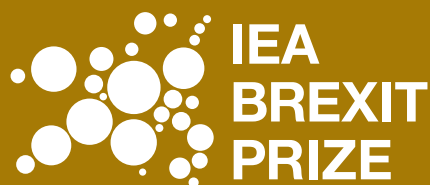


# IEA Brexit Prize: The plan to leave the European Union by 2020

by Daniel. C. Pycock





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## Executive Summary

The proposals contained henceforth in this paper will be based on two provisos. The first is that this issue shall be put in a **binding** referendum, and the result of the said referendum shall indicate that a majority of voters would prefer to **withdraw from the European Union** as opposed to **remaining in a reformed European Union**. The second is that a majority in the House of Commons shall vote accordingly (by statute or convention) the necessary legislative measures as laid out in this paper .

The UK's withdrawal from the European Union will cause considerable complications across every government department, and it is the objective of this paper to address: i) how – and in what manner – the UK should leave the European Union; and ii) what policies the UK government should pursue following the UK's departure from the European Union.

This paper shall henceforth propose the negotiation of a Treaty of London, which should be ratified between the 2017 referendum and a similar date in 2018. The negotiations for the said treaty would have to be undertaken in multiple stages, but should conclude by 2018. The treaty shall contain four sections (heretofore “articles”) which could, for the purposes of negotiation or simplicity, be separated into four treaties. These articles shall respectively deal with<sup>i</sup>:

- I) allowing or permitting the United Kingdom to withdraw from the European Union.
- II) amending past European Union treaties by removing references to the UK from them (and withdrawing the UK from the EU's less popular institutions).
- III) implementing transitional arrangements for UK and EU citizens between 2017 and 2020.
- IV) retaining the status quo ante regarding free-trade by negotiating membership of EFTA and a good will treaty allowing access for UK services without unduly protectionist regulation<sup>ii</sup>.

This paper furthermore proposes that the United Kingdom's withdrawal from the European Union is preferable to not doing so; that retaining

the *status quo ante* regarding free-trade is desirable but not entirely necessary, and that the UK should guarantee its membership of EFTA before withdrawing. This post-brexite predicament would resemble the position of Norway, Switzerland and pre-accession Estonia; permitting the UK to trade as normal with the European Union whilst negotiating bilateral trade agreements necessary to advance the United Kingdom's interests (for example: signing FTA's with faster growing trading-blocs and continents, such as NAFTA, BRIC, and the Commonwealth). The United Kingdom must proceed with caution, however<sup>iii</sup>. The City of London, for example, does depend (in the short to medium term) on the continuation of trade and goodwill from the EU .

This paper shall, moreover, tackle considerations including: what happens to 1,400,000 UK citizens living abroad in the European Union? What rights, if any, shall continue to be extended to 407,000 EU nationals claiming some form of UK welfare? Will the UK be able to guarantee that its citizens will not be unduly delayed at EU borders? Will the UK still be liable for approximately £6bn in the European Financial Stability Fund (despite saving £10bn in direct contribution)? What immigration policy should the UK pursue? All of these issues, and more, shall be addressed by this paper.

## The Proposal

**How should Britain leave the European Union, and what should Britain do after leaving the European Union? The BREXIT proposal to leave the EU by 2020...**

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- 1 There is also the assumption that Scotland will vote to remain in the United Kingdom, and that the EU will remain in its current form following the UK's withdrawal.
  - 2 There is a plethora of literature, from the University of Kent, the City of London, KPMG, Goldman Sachs, and JP Morgan & Chase, that suggests the UK's financial services depends on EU membership (unless, of course, the right protections are in place upon withdrawal). See the relevant studies in Endnote III.
  - 3 "David Cameron to curb EU migrants' rights to UK Benefits", The Daily Telegraph. Last Accessed: 10/09/13. <http://www.telegraph.co.uk/news/uknews/immigration/10290427/David-Cameron-to-curb-EU-migrants-rights-to-UK-benefits.html>.

# I: The Constitutional and Legislative Processes to Undertake

The first step to withdrawing from the European Union is conducting pre-withdrawal negotiations between the European Union and the Government of the United Kingdom. The first stage of said negotiations, if it has not been undertaken already, should take place until the General Election of 2015. This stage of negotiations would discuss what benefits would be forthcoming to the United Kingdom for continuing its membership of the European Union<sup>4</sup>. The FCO would then compile the concessions agreed upon by at least 75% of EU member states into a realistic and achievable offer, and then the choice between the said offer and leaving the European Union should be put in the referendum currently scheduled for 2017<sup>iv</sup>. The referendum should be binding, and should have a minimum participation requirement of between 20% and 25% of eligible voters<sup>v</sup>.

The second stage of negotiations should take place between the General Election of 2015, and the referendum scheduled for 2017. This stage of negotiations should discuss ground-work for the United Kingdom's withdrawal from the European Union. In his analysis of TEU: Article 50 provisions, Adam Lazowski considered the possibility of three treaties being negotiated – *“one allowing the departing state to withdraw; another to amend European Union treaties by removing references to the departing state and possibly a third to join EFTA and remain in the*

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4 The UK's objectives could include increasing the rebate to pre-2005 levels (an increase of 25%), reforming the EU Common Fisheries and Agricultural Policies; the freedom to trade bilaterally outwith the European Union, and being guaranteed as exempt from punitive EU directives on Financial Services and Labour Market Regulation.

5 See Endnote(s) i and ii; *ibid.* Lazowski, Adam.

*European Economic Area*<sup>5</sup>. This paper proposes a similar process, with the exception of EEA membership. This proposal advises that there should be a negotiation of a Treaty of London, which would be ratified in 2017 (effective thenceforth) and shall consist of four articles specifically dealing with:

- I) Getting permission for the United Kingdom to withdraw from the European Union
- II) Amending the appropriate EU treaties by removing references to the UK from them; and withdrawing the United Kingdom from the ECJ, ECHR, and EAW.
- III) Implementing transitional arrangements for UK and EU citizens, and
- IV) Retaining the status quo ante regarding free trade by negotiating a modified version of EFTA membership (heretofore EFTA+)<sup>6</sup>.

The first article, which would be negotiated between now and 2015 with EU member-states, the European Commission and the European Council<sup>vi</sup>, shall permit the United Kingdom to leave the European Union three years after submitting a notification (that the UK intends to withdraw) to the European Council. This process shall mean that, following the referendum in 2017, the Parliament of the United Kingdom could vote to repeal the European Communities Act (1972) and – following the requisite twenty one days of sitting – ratify the proposed Treaty of London<sup>vii</sup>. The UK could, therefore, leave the European Union effective in 2020.

The second article, which would be negotiated between the General Election of 2015 and the referendum scheduled for 2017, would amend the appropriate treaties of the European Union by removing references to the United Kingdom<sup>7</sup>. The article should further exclude the United Kingdom from the jurisdictions of the European Courts of Justice, the European Court of Human Rights, and the European Arrest Warrant with

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6 See Appendix 1 for a timetable of negotiation periods, results, and periods of implementation.

7 This means amending the Single European Act, and Treaties of Maastricht, Amsterdam, Nice and Lisbon.

8 See Appendix 2 for details of specific cases.

immediate effect. The EAW, introduced in 2004, is – according to Fair Trials International – “*more objectionable on civil liberties grounds than the much derided US-UK extradition treaty*”<sup>viii</sup>, while the other courts of the European Union have been responsible for anti-democratic rulings against the United Kingdom<sup>8</sup>.

The third article, which would be negotiated between the General Election in 2015, and the referendum scheduled for 2017, would codify transitional arrangements for the 1,400,000 citizens of the UK living abroad (and vice-versa for 2,344,000 citizens of the EU living in the UK)<sup>9</sup>. The treaty would, in all probability, clarify a three year grace period during in which if a member-state extended benefits to UK citizens, the UK would reciprocate in kind. Those affected would have three years to apply for naturalisation or citizenship in their country of residence, remain a citizen of their country of birth *ex patria*, or repatriate to their country of birth. Each individual would have to make their decision based on their circumstances, and to what extent the withdrawal of reciprocal social security arrangements might deleteriously affect them. This article would be applicable between 2017 and 2020<sup>10</sup>.

The final article, which would be negotiated as a consequence of the EU's obligations to a departing member-state, and ratified as soon as the Free Trade Agreement is negotiated – would guarantee the bilateral free exchange of goods and services between the European Union and the United Kingdom by negotiating the United Kingdom's membership of EFTA (the European Free Trade Association). This arrangement would see any exporter from the UK to the EU observing the European Union's regulations, but otherwise, the UK would be free to regulate its internal market as it wished. There is also a planned influx of financial industry regulations for 2019 where EEA membership would not just be advantageous, but crucial for securing access for the UK's services sector to the European Union's markets.

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9 This is according to Eurostat: [http://epp.eurostat.ec.europa.eu/statistics\\_explained/images/d/d8/Foreign\\_and\\_foreign\\_born\\_population\\_by\\_group\\_of\\_citizenship\\_and\\_country\\_of\\_birth\\_2012.png](http://epp.eurostat.ec.europa.eu/statistics_explained/images/d/d8/Foreign_and_foreign_born_population_by_group_of_citizenship_and_country_of_birth_2012.png)

10 This article would apply to the period of time elapsing between 2017 and 2020 only. This paper also recognises that this will place a considerable strain on HM Border Services. HM Government should, in preparation for the influxes of applications, plan measures to deal with them.



The Norwegian Model of EEA membership<sup>x</sup> would not be advantageous primarily because it would expose the United Kingdom to a greater amount of unaccountable EU regulations and legislation, whilst giving the UK infinitesimal influence over making and amending said laws<sup>x</sup>. This paper, therefore, proposes EFTA+ which shall guarantee the United Kingdom access to the European Union's markets from EFTA (rather than the EEA). This agreement would at least guarantee access and goodwill for the UK's financial services to trade in the European Union without either spillover protectionism or discrimination in the application of present or future EU regulations. If possible, this paper would also negotiate the conditions for the UK retaining its EU passport in this area (so that the UK's financial services would trade as if it were in a member-state).

This might well mean that EU financial regulations become more punitive (especially with a lack of UK coalition-building as a roadblock), but it at least guarantees that there would not be a capital flight from the City of London by firms located in London for the EU passport<sup>xi</sup>. The FCO might – alongside these negotiations – wish to open up dialogues with other FTA (Free Trade Agreement) candidates, such as 66% of the Commonwealth with which the UK currently has no agreement, the signatory states of the North American Free Trade Agreement, and the BRIC nations. The new trading position of the UK would – in part – resemble that of Switzerland (EFTA) and of Norway (EEA).

## II: The Impact of BREXIT on the United Kingdom's Future Trade Position

Britain's position following the implementation of the final article (in the proposed Treaty of London) would resemble Norway, Switzerland, and pre-accession Estonia. As the MEP for South East England Daniel Hannan describes<sup>xii</sup> "EFTA usually replicates any EU free-trade agreement clause by clause... when EFTA feels the EU is being unduly protectionist, EFTA has freedom to go further". The United Kingdom's membership of EFTA would, additionally, be complemented by an EU passport for the trade of services (especially financial industry related services). For the United Kingdom, the opportunities in EFTA are thus greater than for current members, because a higher percentage of our trade is with non-EU states (56% as opposed to 26% for Switzerland). This might be why, for instance, 33% of businesses in the UK favour withdrawing from the EU and negotiating the UK's membership of EFTA<sup>xiii</sup>.

While EFTA has signed FTAs with Singapore, South Korea, Hong Kong, Turkey (with limits on agricultural goods) and the Gulf States; the European Union has struggled beyond negotiating SAA's (Stabilisation/ Association Agreements) and CUs (Customs Unions) with<sup>11</sup> economic powerhouses. European Union FTAs currently include 25% of the non-

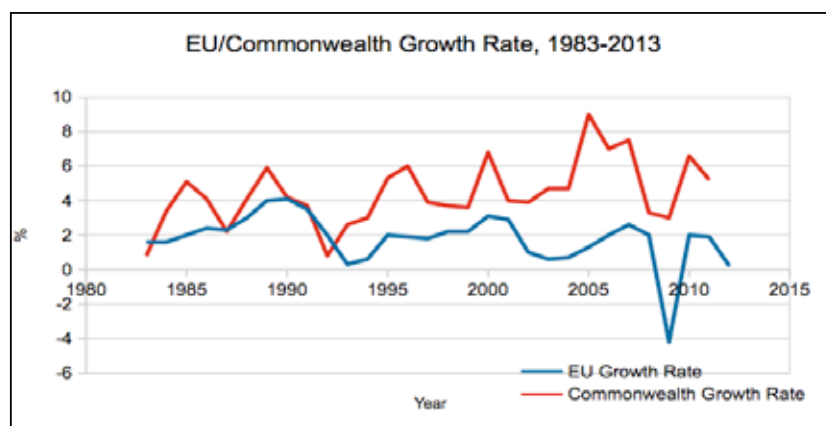
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11 The European Union has only recently negotiated a Free Trade Agreement with China. This could have been achieved a lot sooner if the UK had bilateral trade negotiation powers. The deal is worth £1.3bn to the UK economy per-year, with a 29% increase in exports expected. See:<https://www.gov.uk/government/news/government-welcomes-historic-eu-canada-free-trade-agreement>

EU states of the G8, 33% of the non-EU states of the G20, less than 33% of the Commonwealth, and 0% of the BRIC (Brazil, Russia, India and China) state<sup>12</sup>. The European Union remains an

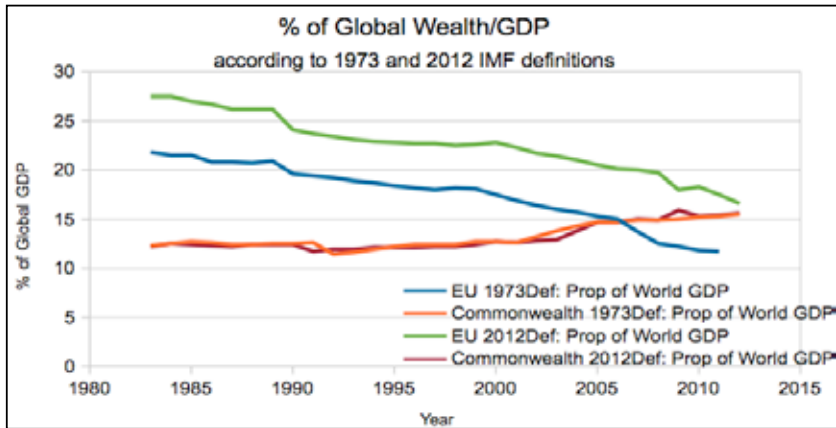
important trading partner of the United Kingdom, but it is also – proportionally speaking – a declining one. The share of UK exports going to the European Union has declined in only 6 years from 54% to 46%<sup>xiv</sup>, as the UK currently runs a Balance of Payments deficit of £39bn with the European Union.

There is, therefore, no reason for the European Union to apply counter-productive, punitive sanctions on UK-EU trade, despite scaremongering over a) tariffs applied to trade-surplus goods<sup>xv</sup>, b) jeopardising the US-EU Trans-Atlantic Trading & Investment Partnership<sup>xvi</sup> and c) the apparent dangers to the United Kingdom's Financial Services Industry<sup>13</sup>. Even the simplest of analysis of EU and UK current-account positions (as well as future forecasts for the global distribution of wealth and trade) would imply that it is not in the European Union's interests to obstruct or inhibit trade with the United Kingdom. The graphs below respectively show the comparative growth-rates (and 30-year trend) of the Commonwealth and the European Union, and the share of global GDP said blocs represent (according to the IMF):

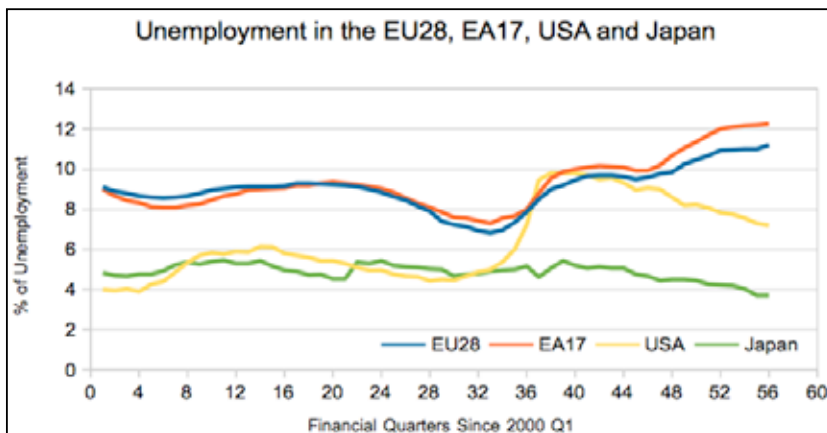


12 The European Union's current Free Trade Agreements encompass Chile, Colombia, Mexico, Nicaragua, Norway, Panama, Peru, South Africa, South Korea, Switzerland, and – at a stretch because there remain some opt-outs – Turkey. Negotiations are ongoing with the Gulf Cooperation Council, India, Russia, Japan and the Mercosur trading-bloc of Argentina, Brazil, Paraguay, Uruguay and Venezuela. FTAs that haven't been implemented yet, but which have been agreed in principle, are with Canada and Singapore.

13 Ibid Endnote X. Persson, Mars.

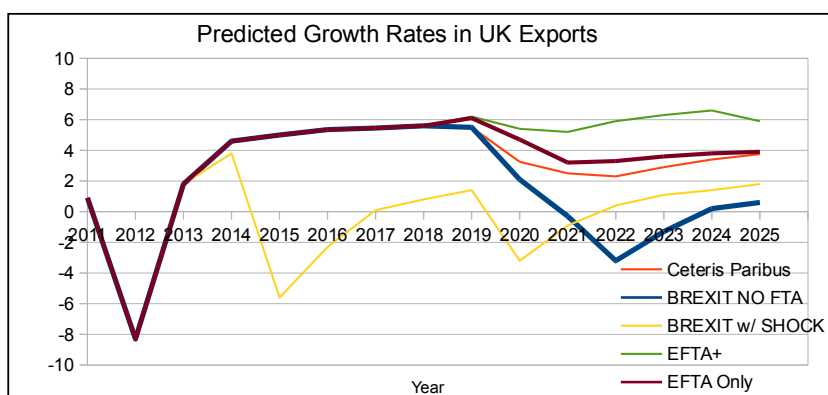


Moreover, while the United Kingdom has between 2.5 and 4 million jobs dependent upon EU trade<sup>xvii</sup>, the European Union has at least double that figure dependent upon trading with the United Kingdom. The graph below (from Eurostat) shows unemployment rates from the year 2000 until the last financial quarter in the EU-28, EA-17, USA and Japan. The word 'decimation' is often misused, but in this context it is entirely adequate: approximately one-tenth of the Eurozone's human-capital is unable to secure employment. EU unemployment is hovering around 11% while in the Eurozone unemployment is reaching 12%. It cannot be argued with any seriousness that a trading-bloc this mired in unemployment would be self-harming and refuse trade with the United Kingdom, which would risk between 6-8 million jobs (the equivalent of adding between 2.46 and 3.27% on to the EU28's unemployment)<sup>14</sup>.



14 See: [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-31102013-BP/EN/3-31102013-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31102013-BP/EN/3-31102013-BP-EN.PDF)

Even if the European Union applied trade barriers (to its detriment) however, the average external tariff (trade-weighted) is around 1% and falling<sup>15</sup>. Based on these statistics (among others), this proposal has modelled future trade projections for the United Kingdom<sup>16</sup>. The likelihood of greater standard deviation increases with the longevity of the projection, partly because of economic assumptions and partly because of unforeseeable changes in policy. There are, however, some thought-provoking conclusions. The difference, for instance, between joining EFTA and leaving without a functioning trade agreement is (approx) £26bn per-annum in exports between 2019 and 2022<sup>17</sup>, while leaving with EFTA, but not EFTA+, could cost (approx) £10 billion per-year on average between 2019 and 2022.



Outwith refusing to explain why the UK cannot join EFTA+ or EFTA, or why an average 1% tariff is apocalyptic for the UK's export outlook; critics of withdrawal also forget how poorly represented the UK's trading interests are as one twenty-eighth of an EU delegation. While India, Canada, and the US are negotiating with trade representatives from the EU; nations including Brazil, China and 66% of the Commonwealth are not. The European Union has a trade agreement with less than 33% of the Commonwealth, and yet according to the South East England MEP

15 Ibid Niebohr. See Endnote XVI.

16 See: Appendix 3

17 Ibid. This is probably an over-estimate: one has to offset the loss of business confidence (and the loss of financial trading with the European Continent while UK firms set-up subsidiaries within the EU under strict regulations), with the growth in exports to BRIC, NAFTA, and other Non-EU countries. Leaving without a functioning EU-UK trade agreement is not a long-term disaster, and could even be a net-advantage, if the necessary FTAs could be negotiated, signed and implemented quickly. All figures in Appendix 3 adjusted for PPP based on thirty-year trends in monetary policy and inflation.

Daniel Hannan<sup>xviii</sup>: “the IMF... nations within the Eurozone will grow at an average of 2.7% over the next five years, while the Commonwealth surges ahead at 7.3%”. When it was measured last, the Eurozone grew at 0.3% and 0.1% for consecutive financial quarters.

The UK’s withdrawal from the European Union should not compromise trade with Europe, but shall facilitate trading opportunities with the Commonwealth, NAFTA, BRIC nations and trading partners more aligned to the UK’s trading priorities (in addition to the EU, assuming that a workable trade-agreement is signed and implemented). The UK should seek longer-term growth and future trade in the technological sector but as yet the European Union has no agreements with industry leaders such as the USA, Japan and Singapore<sup>18</sup>, while it also took years for an agreement with South Korea to materialise. The removal of trade barriers between the USA and the UK<sup>xix</sup>, for instance, could increase UK GDP by between £4bn and £10bn per-annum.

The UK economy also has a comparative advantage in financial services, yet according to Open Europe: “*the EU’s lack of domestic liberalisation in cross-border services limits the enthusiasm of the member-states to prioritise and push these issues with third countries*”<sup>xx</sup>.

The UK’s financial industry is hindered by pooling sovereignty over the negotiation of trade agreements – and it is important to remember that the proposal in this paper includes some treaty-provisions to protect the UK’s financial services industry. It is, furthermore, important to remember that there is still extraordinary growth forecasted for UK exports to countries outside of the European Union<sup>xxi</sup>. The growth of exports is expected to be 6% year-on-year for goods between 2016 and 2020, according to HSBC, and in the medium term, exports of goods to China are expected to exceed 10%pa between 2016 and 2030, and other exports to Vietnam, India, Malaysia and Hong Kong are expected to increase by around 8%pa from 2016 to 2030. The UK is currently negotiating *de facto* trade

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18 Negotiations are ongoing with Japan and Singapore (respectively). [http://europa.eu/rapid/press-release MEMO-13-572\\_en.htm](http://europa.eu/rapid/press-release-MEMO-13-572_en.htm) and <http://ec.europa.eu/trade/policy/countries-and-regions/countries/singapore/>

liberalisation with China, but is unable to sign a bilateral Free Trade Agreement without European Union participation<sup>19</sup>.

In the longer-term, the governments of the United Kingdom will also have to consider their trading position with a number of other non-European Countries, including Mexico, Turkey, Indonesia and Nigeria (the MINT countries<sup>20</sup>). These countries have the most encouraging demographic projections for growing economies, and are touted as future economic giants.

The issues surrounding the UK's financial services shall be tackled in more detail in the next section.

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19 Mr Cameron seeks a trade partnership with China. A UK-China FTA could be worth £1.8bn to the UK Economy every year, but the UK is currently not allowed to sign an FTA because of European Union Membership. <http://www.bbc.co.uk/news/uk-25176613>. Even without a FTA, however, the UK's exports to China have grown by 22% between 2010 and 11, and 13.7% between 2011 and 12. This demonstrates the importance of UK-China Trade. (Scott, Edward. House of Lords Library Note LLN2013/031 "that this house takes note of the recent developments in the relationship between the UK and China", 2013)

20 See, for example, <http://www.bbc.co.uk/news/magazine-25548060>. O'Neill, Jim. "The Mint Countries: Next Economic Giants?" The BBC News Magazine, published 05/12/14.

### III: Financial Services, the City of London and Regulation

The City of London contributes about £80bn (or 5%) to the United Kingdom's GDP, and yet we have neither protected it from EU directives (i.e EU Directive 2009/0064) nor prevented the control of its markets being removed to the European Union in Paris<sup>xxii</sup>. Furthermore, the UK's financial services are worth about 12% of GDP and responsible 11.6% of total UK tax receipts and 15% of income-tax receipts<sup>xxiii</sup>. The UK's financial services are, therefore, vital to the UK economy, while the UK's financial services are also of importance to the European Union. The United Kingdom accounts for 35% of the European Union's wholesale finance industry, as well as 61% of the European Union's net-exports of international transactions in financial services. Throughout the 1990s and 2000s, the benefit of EU financial regulation to the UK relied on two premises:

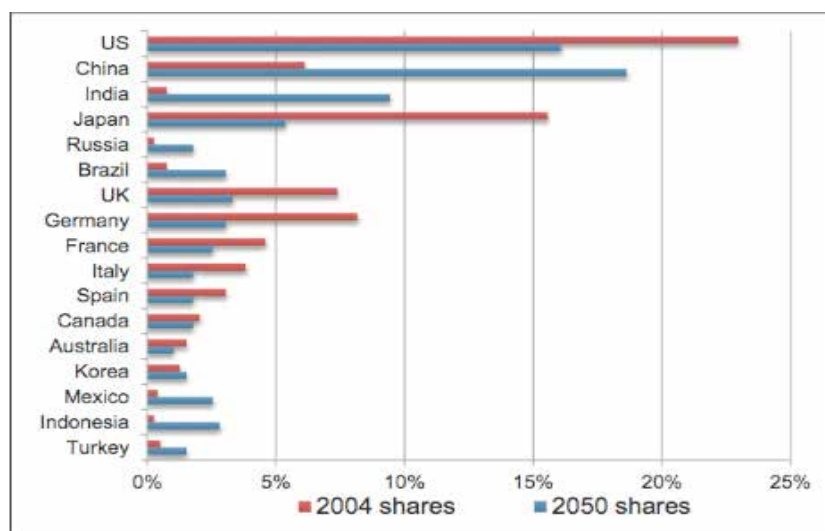
- V) that while EU-wide financial rules often increased compliance costs, in general they allowed the UK to influence regulation across Europe in line with UK priorities: such as reducing barriers to trade, and creating opportunities for UK firms, **and**
- VI) London was, and still is, seen as an entry-point (passport) to the EU's single-market in financial services – a market which experienced significant in the 2000s with trade liberalisation, and the development of innovative financial service products.

The United Kingdom and the European Union no longer inhabit those conditions. Crises in the Eurozone and European Banking have meant



that EU decision-making is now in much more alignment with Eurozone interests, than Britain's. The UK is increasingly witnessing a loss in influence over new EU financial regulation, and this is reinforced by EU voting rules which under-represent Britain relative to the size of its financial services industry. Another important thing to consider is that, over the next decade, growth opportunities for financial services within the EU are likely to be more limited than everywhere else in the world. A lot of European Countries are likely to experience stagnating growth and deleveraging, Texas Ratios in Spain and the current threat of deflation notwithstanding.

In 2005, the five largest EU economies accounted for 27% of global banking assets. By the year 2050, projections forecast this to decrease to 12.5%. Simultaneously, the BRIC countries' share of global banking assets will increase from 7.5% in 2005, to 32.9% in 2050. The benefits – therefore – to London being a gateway to the Single Market are diminishing, and the need to exploit emerging markets elsewhere is becoming a more pressing issue. Some BREXIT proponents might argue that UK financial services are proportionally unimportant – that the services trade with the EU represents only 2.06-2.20% of GDP, and that leaving the EU more than offsets this. This proposal however wishes to minimise every loss, maximise every gain, and offer solutions to optimise the UK's post-withdrawal position.



The graph (above) demonstrates the aforementioned shift in nation-by-nation shares of the world's banking assets between 2005/04 and 2050

according to PwC<sup>xxiv</sup>. The Commission has recently considered (among other things) a European Financial Transaction Tax, more protectionism and leverage limits in the AIFM Directive, and (in addition to MiFiD II) – there are currently 38 financial-industry related directives under discussion at EU level<sup>xxv</sup>. The implications of this are that from 2019 onwards<sup>21</sup>, non-EEA providers will only be able to provide a limited plethora of services with the condition that they register with ESMA (European Securities and Markets Authority). The ambition of Article Four of the Treaty of London will be to acquire the market-access of an EEA member without the deleterious restrictions or impediments currently planned for full EEA members.

It is, furthermore, worth highlighting that in his House of Commons Research Paper, Miller concludes that “...to withdraw from the EU, the UK might be in the position of participating in setting the new rules and negotiating a position to operate outside them. This would give the UK a different perspective from that of the Swiss, and given London’s enormous financial market, possibly a greater degree of ‘clout’”<sup>xxvi</sup>. When doing comprehensive cost-benefit analyses regarding the EU, one should also take into account the economic effects of the red-tape, regulation, and bureaucracy that one has to undergo merely to participate in the European Common Market. Estimates for the economic cost of regulations vary.

According to Professor Tim Congdon, the cost of EU regulation approaches £75bn a year<sup>xxvii</sup>, while the EU commission estimates that costs exceed benefits by a factor of 2-3% of GDP – a net cost of £45bn<sup>xxviii</sup>. A study of 2,500 Impact Assessments (since 1998) by Open Europe estimated an annual cost of regulations stemming from EU legislation in 2009 was £19.3bn and that the cumulative cost since 1998 had been £124bn<sup>xxix</sup>. Using a similar approach, but looking at a smaller sample of regulations with the largest associated costs, the BCC said the annual estimated cost was £7.6bn, and the cumulative cost since 1998 was £60.8bn<sup>xxx</sup>. The range between £7.6bn and £75bn per-year leaves quite a large margin for error, and I suppose only goes to prove that calculating the burden of EU regulation is complicated and often subject to the political allegiance of the person performing those calculations.

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21 The requirements for ESMA registration will, according to KPMG, be “strict and difficult to fulfil” (“Provision of services by financial intermediaries from third countries in EU financial markets regulation” by KPMG); See also the written evidence to the Parliamentary Commission on Banking Standards submitted by JP Morgan and Goldman Sachs; Miller, Vaughne. “Leaving the EU”, House of Commons Library, Research Paper 13/42.

The costs to business of compliance with EU regulations are not the same as the economic impact because of, in theory, offsetting benefits to employees and consumers<sup>xxx</sup>. The think-tank Open Europe has conducted analysis on benefit-cost ratios for sources of regulation, and found that – at 1.02 – EU regulation costs considerably more than UK regulation which comes in at 2.35. There are disputes<sup>xxxii</sup> as regards using impact assessments as a general authority with which to calculate the economic impact of regulations, but there are certainly some that have been pinpointed. These include<sup>xxxiii</sup>:

- The Working Time Directive (which costs the UK economy between £3.5bn and £3.9bn)
- The Large Combustion Plant Directive (Energy/Climate Change measures costs £3.4bn)
- The Temporary Agency Workers Directive (which costs £2bn per-year)
- The Alternative Investment Fund Managers Directive (which will cost £1.5bn per-year)

These regulations should be the first to be considered for repeal when the United Kingdom withdraws from the European Union. This paper has already proposed, in addition, that the UK repeal legislation pertaining to the European Arrest Warrant. There is also employment legislation (including that mentioned above<sup>22</sup>) which has been gold-plated into statute law<sup>xxxiv</sup>, that should be reviewed or repealed. The Human Rights Act, the UK statute implementation of the European Convention on Human Rights, costs the UK anywhere between 1.5 and 9 billion pounds per-year<sup>xxxv</sup>. The European Units of Measurement Directives have imposed on the UK an unnecessary amount of regulation on domestic sales<sup>23</sup>, while standardising units for the purposes of the UK exporting goods to the EU<sup>24</sup>.

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22 as well as The Parental Leave Directive, European Works Council Directive and Collective Redundancies Directive.

23 For example in 1979 one European Union Directive ruled that Carrots should be termed as Fruits. In 1988 the European Union ruled that top of the range cucumbers must bend by only 10mm per 10cm (directive designed to aid packaging and transport). In 1994, the EU passed a similar directive as regards bananas but that they should not curve too much.

24 Exporters, regardless of the UK's participation in the EU, would have to comply with EU standards in any FTA with the EU. This does not mean however that British Businesses should not be able to sell whatever produce/products, in whatever units are desirable to consumers or other importers.

Legislation sourced from the EU that is deemed undesirable should be repealed in a great bill of repeal, to which undesirable laws could be added in perpetuity by convention. There will be a lot of legislation, gold-plated or otherwise, to go through and with a UK withdrawal from the ECHR, the ECJ, the CAP, the CFP, the Common External Tariff and a host of other measures enshrined in Statute Law, a lot of legislation will have to be actively repealed, or superseded by future legislation under the legal principle of implied repeal. Those areas of legislation sourced from the EU deemed desirable shall be allowed to remain on the statute books – such as health and safety regulations regarding exposure to asbestos.

It is important to note, at this point, however – that whatever figure is agreed-upon as being the ballpark figure for EU regulation costs, the UK will not be able to save itself from 100% of that negative impact or perhaps even 50%. Miller's House of Commons Research Paper concludes that – initially – the UK would have a short-term inherited regulatory system from the EU that, after a period of time, would give way to parliamentary scrutiny of EU-sourced statute law, which would be reformed or repealed. Miller furthermore says that *“because the Government would undoubtedly decide to retain the substance of at least some EU law and because the costs of EU regulations are (at least partially) offset by benefits, the costs of ... regulation estimated by Open Europe and the BC of C is emphatically not equivalent to the economic benefit of withdrawal [through deregulation]”*.

This proposal would – moreover – like to highlight the ideal regulatory structure for financial institutions in the United Kingdom following withdrawal from the EU. The editorial opinion of this paper is that there should be two classifications of bank; the first being commercial high street operations (who lend and hold deposits for individuals and small businesses) which should receive a certain degree of protection (by deposit guarantee) from the Government; the second being investment banks, hedge funds, and asset managers (who lend and trade for HNWI's, institutions, etc) which should, in return for light-touch regulation, receive little to no degree of protection or guarantee from the Government. This would mimic, with perhaps a little more of a carrot-and-stick approach, the 1933 Glass-Steagall legislation of the USA.

There should be no compliance issues since all existing institutions would have to do (If it is indeed applicable to them) is legally separate their 'investment' assets from their 'high street' assets; there would be nothing preventing the separated entities being held by, for example,

the same holding company as separate parts of a portfolio. The UK's competition rules will, moreover, be strictly enforced as regards both the energy<sup>25</sup> and the banking sector, through an increase in punitive sanctions for "collusively sharing information, fixing prices, tendering collectively and sharing markets out" in accordance with the Competition Act 1998<sup>26</sup>. Those sanctions currently stand at fines leviable up to 10% of UK turnover per-year (for maximum of three years), and for banking institutions especially, such sanctions should be reviewed.

There is, furthermore, one more policy this paper wishes to highlight before moving on from financial services and regulation. For reasons which would be digressory to explain, but which have adequately been explained elsewhere by others<sup>27xxxvi</sup>, the Government "Help To Buy" scheme should be reconsidered – given the lessons of the private-debt crises in both Spain and Ireland from 2008 onwards. As announced in the Chancellor's Autumn Statement (as well as by the Bank of England), interest rates will remain low only for as long as the UK unemployment rate remains above 7%. When the threshold is undercut, the UK will pursue a less expansionist monetary policy, which would have implications for those whose debts/ mortgages are only subsidised for two years.

The UK should not, bearing in mind these conditions, encourage people to purchase homes that they can ill-afford in the long-term, and encourage banks to lend to individuals without a proper assessment of their creditworthiness. This paper doubts that the UK will return to the entirely irresponsible days of 125% mortgages, but – as consequences of the Communities Reinvestment Act (1973) in the USA will attest – encouraging lending regardless of peoples' creditworthiness is an unqualified and irresponsible thing to do. The UK government should instead pursue policies to encourage an expansion in house building and renovation, whilst considering limits on non-essential immigration, and implementing competition/contingency reforms that encourage banks to pay attention to better warning signals (which includes the longer-term trend of capital gains and interest rates in the debt/net worth ratio; and a further consideration of the actual debt-ratio compared to the optimal debt-ratio<sup>28</sup>).

25 See Later in the Paper: Chapter (X) on the Energy Industry.

26 The prohibitions listed are those of Chapter 1 of the Competition Act. Chapter 2 includes "predatory pricing, refusal to supply, excessive prices, and price-discrimination to maximise profit, gain competitive advantage or otherwise restrict competition". Included in this review of Competition Rules should be the Enterprise Act of 2002.

27 Stein, Jerome. "The Diversity of Debt Crises in Europe" The Cato Journal (Vol 31, No 2). <http://object.cato.org/sites/cato.org/files/serials/files/cato-journal/2011/5/cj31n2-2.pdf>

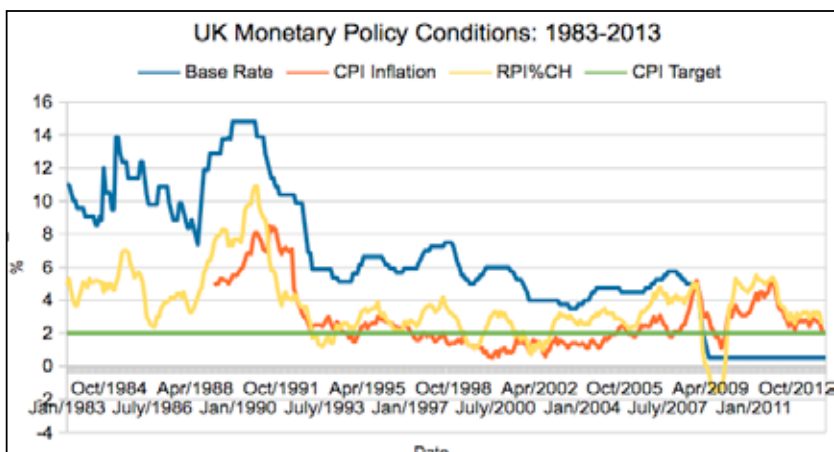
28 Ibid.

## IV: Monetary Policy, Exchange Rates and Inflation<sup>xxxvii</sup>...

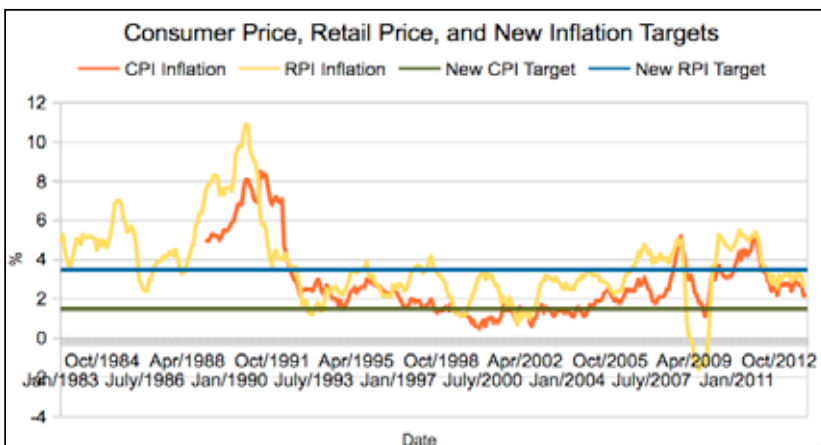
The tightrope of monetary policy can be used to target a number of things: rates of inflation, the encouragement of savings, and even the exchange rate. The Bank of England policy<sup>xxxviii</sup> regarding interest rates thus far is to hold them at the current rate (0.5%), with a theoretical trigger-point for increasing the base-rate being unemployment dipping below 7%. The Bank of England base-rate has traditionally been the primary policy instrument in limiting inflation to 2% (the Bank of England's Consumer Prices Index target). This has been combined with de facto expansionist money-supply, to attempt to inflate away the structural deficit – as well as the consequent debt-burden – which has accumulated under successive governments since the national debt (from about 1982) started to oscillate between 50% and 25% of GDP.

This paper proposes that an adjustment should be made in the UK's monetary policy targets in order to achieve the realignment of the UK's economic policies with longer-term economic objectives.

The graph (opposite) shows the monetary conditions (and inflation target) under which the UK has been operating since 1983<sup>xxxix</sup>. Inflation has averaged between 2.80% (CPI) and 3.72% (RPI), and thus this paper recommends that the Bank of England's inflation target should be within a range of 1.5% to 3.5% (with CPI tending towards the former and RPI tending to the latter). This would alleviate the UK's current predicament as regards stagnating salaries and wages compared to whichever inflation rate one wishes to choose, and it would allow those who have saved



the opportunity to store their capital without a combination of inflation and monetary mismanagement depreciating those savings by between 5-7% per-annum on average<sup>29</sup>.



In addition to the aforementioned inflation target; this paper believes that there should be a tighter monetary policy in terms of interest-rates and money-supply. Where inflation should have a target of between 1.5% and 3.5%, there should also be a target for interest-rates of between 3% and 5%. This would, outwith proposals laid-out later in this section, incentivise savings over spending, and provide a contingency plan should other monetary reforms be rejected by either branch of the UK's bicameral legislature. The graph below compares the interest-rate targets proposed with interest rates for the last thirty years:

<sup>29</sup> The average rate of depreciation is 3.57% per-annum, and inflation is between 2.1% and 2.6%.

The “other monetary reforms” mentioned earlier involves reforming the UK’s money-supply policy. The GBP (Pound Sterling) has halved in value between 1991 and 2001, is projected to halve again between 2011 and 2025, and at that rate would halve again by 2034, though one suspects QE has accelerated these predictions. The UK money-supply has grown from £31bn in 1971 to over £1700bn (in 2011); magnitudes faster than the growth-rate of the UK economy over the equivalent thirty-year period<sup>xl</sup>. There should thus be a nominal limit on the growth of the money-supply, with only a few exceptions (such as the Swiss situation – where the capital flooding in destabilised the exchange-rate). This nominal limit could be enforced through direct regulation and limitations on inter-institutional lending (see Section III), or increased capital reserve requirements (as per the Basel III accords<sup>xli</sup>).



This paper would propose a system, however, that provides accountability and oversight of the authorities responsible for monetary policy – namely, the UK Government and the Bank of England’s Monetary Policy Committee. Instead of binding M4 growth to the UK economic growth-rate, or M3 growth to an equivalent arbitrary measurement; this paper would take its inspiration from a “Ten Minute Rule” Bill proposed by Douglas Carswell MP in 2011. His bill proposed that at the very least, depositors should be able to store their savings in the form of competitive currencies<sup>30</sup>, and that to implement this, all that is necessary is to amend the Currencies and Banknotes Act of 1954. HNWI’s (and corporations) already benefit from the ability to store assets and liquid wealth (in the most competitive tax jurisdictions with secure currencies) abroad, and it is time to extend this ability to individual savers as well.

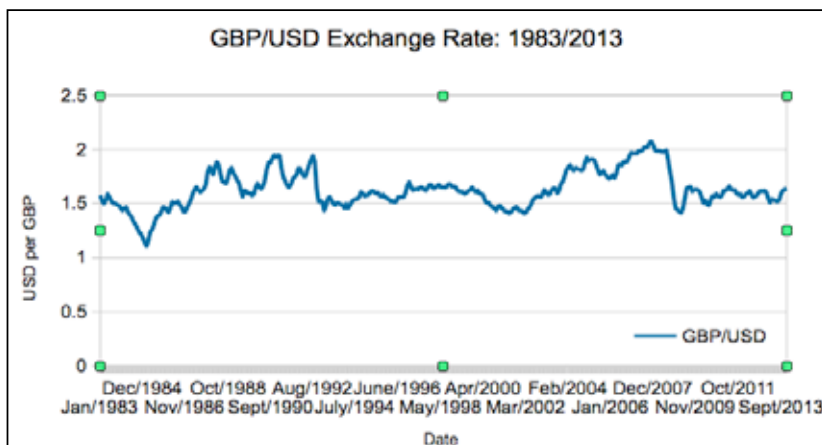


There are fiscal measures, which shall be discussed in the next section, that might also be used to target inflation, and one beneficial consequence of having a competitive currency is that the UK Government would have to go further in justifying expenditures, fiscal decisions and accounting methods. The credit balloon inflated by hitherto malfeasant money-printing, low interest-rates and credit-market deregulation and socialisation, meant that government could inflate away its debt-burden at the expense of individual savings, pensions, and ever-increasing household debt-levels. The UK Government might even be motivated to reform its accounting methods, from those that would barely constitute GAAP (Generally Accepted Accounting Principles) to a more stringent method that should prevent overspends (by – for example – including inflation and required reinvestment levels in spending calculations)<sup>xlii</sup>.

There has, on a more digressionary note, recently been a suggestion from Roger Bootle as regards the UK considering a cap on the Pound Sterling<sup>31</sup> (similar to that which Switzerland sensibly implemented in response to capital inflows flooding from the Eurozone). This shall theoretically help the UK to rebalance its economy away from a reliance on consumption or imports, and towards exports and inward investment. The cap would decrease the prices of exports, increase the prices of imports, and would, therefore, give a competitive advantage to “domestic production at the expense of foreign”<sup>32</sup>. This paper would argue, however, that firstly; there is not a long-term trend linking the exchange-rate to the UK’s competitiveness, and secondly; that the policy would have unacceptable ramifications for monetary policy as regards an expansionist money-supply discouraging the accumulation of savings.

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- 30 The 2011 Ten Minute Rule Bill can be found in Hansard here: <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110906/debtext/110906-0001.htm#11090649000001>, and on Youtube here: <http://www.youtube.com/watch?v=UBvKhqD4Y>. Forerunners to the proposal include a 1989 Treasury Proposal (as an alternative to joining the ERM: <http://www.cobdencentre.org/2010/11/1989-competing-currencies-proposed-for-europe-by-the-uk-treasury/>) and a 1975 Institute of Economic Affairs proposal by F A Hayek (see here: <http://www.iea.org.uk/sites/default/files/publications/files/upldbook409.pdf>)
- 31 Bootle, Roger. “An Informal Cap On The Pound Is The Only Way To Rebalance Our Economy” The Daily Telegraph. Published on 08/12/13; Last Accessed on 30/12/13. <http://www.telegraph.co.uk/finance/comment/10504550/An-informal-cap-on-the-pound-is-the-only-way-to-rebalance-our-economy.html>
- 32 Warner, Jeremy. “For heaven’s sake don’t start interfering with the exchange rate; let the market decide what the Pound is worth” The Daily Telegraph Blogs. Published on 09/12/13; Last Accessed on 30/12/13. <http://blogs.telegraph.co.uk/finance/jeremywarner/100026209/for-heavens-sake-dont-start-interfering-with-the-exchange-rate-let-the-market-decide-what-the-pound-is-worth/>

If one looks to the graph (on the next page), the Pound Sterling has, as a rule, depreciated against other currencies (in this case, the global-reserve US Dollar), and this has done little to arrest the UK's decline in competitiveness. The closure of uncompetitive industries in the 1980s, while taking place during a period of high exchange-rates, reflected the loss-making industrial sector which had "lost the plot" regarding competition from international rivals and the efficient allocation of capital and labour. It would seem, therefore, that "one – a weaker exchange-rate – seemed merely to be the reflection of the other – declining manufacturing prowess"<sup>33</sup>. The chain of causation, therefore, is that performance and production affects exchange-rates, not vice versa.



Whilst exchange rates should not be a determinant of interest-rates, they should at least be a consideration of the Bank of England's Monetary Policy Committee. As a rule of thumb – monetary expansion leads to a lower exchange-rate, and tighter money leads to a stronger one. This correlation notwithstanding; the Bank of England's money-printing since 2007/08 has artificially boosted consumption without boosting the UK's export competitiveness, and thus it would stand to reason that the UK should not emulate countries like Singapore<sup>34</sup>. The exchange-rate cap

<http://blogs.telegraph.co.uk/finance/jeremywarner/100026209/for-heavens-sake-dont-start-interfering-with-the-exchange-rate-let-the-market-decide-what-the-pound-is-worth/>

<sup>33</sup> Ibid.

<sup>34</sup> The target of Singapore's monetary policy is mainly a gently appreciating exchange-rate, which seems only to be achievable, and thus available as a policy option, in small, surplus economies.

that is proposed would do nothing to expand the UK's export markets in high-end manufacturing or (especially financial) services, which are mostly unresponsive to prices. If the UK's ambition is to expand its industrial sector, the UK should pursue supply-side reforms, targeted tax-cuts and labour-market reforms – rather than the manipulation of the UK's exchange-rates.

## V: Fiscal Policy – Spending Priorities and Tax Reforms<sup>35</sup>

The most immediate and obvious capability the UK government would repatriate in the area of fiscal policy is Value Added Tax; the ad valorem sales tax where a minimum level of 15% is enforced by the European Union. The tax is, however, worth over £100bn to the Treasury and therefore there is no short-term possibility of reducing the rate even infinitesimally – let alone by more than 5% to levels undercutting the EU-enforced minimum. There could, in a longer-term timeframe (20-30 years), be an option to decrease VAT to 15%, and thenceforth to 10% within a slightly shorter timeframe (10-20 years). The rise in VAT from 17.5% to 20% in 2011 allegedly adds about £13bn to the revenue collected in 2014/15<sup>36</sup>, so implementing a VAT cut might be done at 1% for every year that CPI exceeds its 1.5-3.5% target by 0.5%, and 2% for every year that CPI exceeds its target by 1.5%.

The long-term reduction (and potentially, abolition or reform) of VAT could prove to be useful in countering high-levels of projected cost-push CPI inflation – though every decrease of 1% in the rate of VAT would cost the UK Treasury upwards of £5.2bn per-annum. Post-BREXIT VAT suggestions have also included replacing VAT with a Local Sales Tax<sup>xliii</sup> (from which the UK's local authorities would finance themselves). The competition between tax jurisdictions would keep rates down, make local government spending more accountable, and reduce a local government

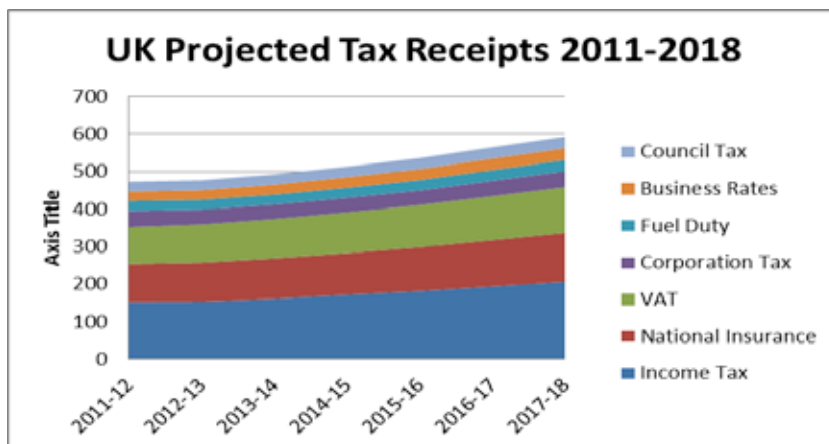
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<sup>35</sup> See Appendix 4 for Fiscal Policy Graphics.

<sup>36</sup> According to the Chancellor, George Osborne, the rise of VAT by 2.5% was projected to bring in approximately £13bn to the UK Treasury:  
<http://www.bbc.co.uk/news/business-12099638> (published: 04/01/2011; last accessed on 21st January 2014).

reliance upon central government funding (which has decreased by 2.9% as VAT has increased to 20%<sup>xliv</sup>). This paper, if it had to make a judgement between the two proposals, would prefer to implement nationwide reductions in Value Added Tax. The United Kingdom should also continue on its current trajectory as regards Corporation Tax.

The UK's current plan as regards Corporation Tax is to reduce the main rate of Corporation Tax by 2% between 2013 and 2014, and 1% in 2015. This would mean that, since a period of fiscal and monetary moderation (1992-2008) concluded, the United Kingdom's main rate of Corporation Tax will successfully have been reduced from 30% in 2007 to 20% in 2015<sup>37</sup>. This reduction in Corporation Tax has been achieved with only infinitesimal reductions in the revenues collected. The 1% reduction between 2012 and 2013, for example, correlated with only a £2.7bn (6%) reduction in revenues – and as HMRC's briefing concludes, Corporation Tax Revenues only decreased through a 48% reduction in North Sea Oil receipts (from £9.2 to £4.8bn) in that year<sup>xlv</sup>. The reduction<sup>xlvi</sup> of Corporation Tax is, therefore, necessary<sup>xlvii</sup>, and it needn't necessarily impact deleteriously on revenues<sup>xlviii</sup>.



This paper advises that the United Kingdom would continue on its current trajectory until the General Election of 2015, and thenceforth, that the United Kingdom should continue across-the-board Corporation Tax Cuts to 10% by 2030 (to be implemented incrementally). It is this paper's

37 This can be seen from HMRC's published history of the last three decades of tax rates: [http://webarchive.nationalarchives.gov.uk/20101006134222/http://www.hmrc.gov.uk/stats/corporate\\_tax/rates-of-tax.pdf](http://webarchive.nationalarchives.gov.uk/20101006134222/http://www.hmrc.gov.uk/stats/corporate_tax/rates-of-tax.pdf), compared with the UK's current rates: <http://www.hmrc.gov.uk/rates/corp.htm>

opinion that such a programme could be achieved without compromising the United Kingdom's projected Corporation Tax Revenues. The United Kingdom should undertake the restructuring of individual taxation as well; this includes Income Tax and National Insurance, as well as Capital Gains Tax. The effect of National Insurance (similarly<sup>xlix</sup>, one might add, to National Minimum Wage) is effectively to expropriate from workers the right to negotiate employment terms below a marginal cost equalling their Salary/Wage plus Employers' NI Contributions.

National Insurance, as structured currently, is effectively an employment tax, and one which should be scrapped if the UK wishes to reduce unemployment and widen its tax-base. The Income Tax system should also be simplified, with – as most politicians would publicly state – the 'broadest shoulders' bearing the greatest burden. This does not, however, mean that the UK should set moralistic tax-rates that discourage compliance – precisely the opposite; the UK should set evidence-based tax-rates that encourage the wealthiest to pay a greater proportion of collected revenues. There are multiple examples of where this has happened, including the Income Tax Cut of Chancellor Nigel Lawson. This paper proposes that there should be an increase in the personal allowance to £12875.20 (the equivalent of a 40-hour week on the NMW as a pro-rate salary<sup>38</sup>).

There should then be a tax rate of 15% for those between pro-rate National Minimum Wage (£12875.20) and pro-rate Living Wage (£15912.00), a 20% rate for those between a pro-rate Living Wage (£15912.00) and the UK median salary (approx. £26,500 c. 2012), a 25% rate for those earning between £26,500 and £37,500, and thereafter a flat 30% rate to apply to those earning over £37,500. If the effect of Chancellor Nigel Lawson's Income Tax Cut is at all replicated, then the UK will have far-healthier long-term prospects for tax-revenues and economic performance. This would mean, however, taking a period of short-term stagnation in tax-revenues centring around £160-180bn for the next five years, and if simplification is achieved, then a period of stagnation for Income Tax and NI at around £260-300bn<sup>39</sup>.

The proposals over taxation contained thus far have been predicated on a healthy balance between revenue maximisation and supply-side stimulus; but there are other ways in which fiscal policy might be used on

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38 This paper would advise that the National Minimum Wage were either abolished or localised, but judges such actions as being unpopular, and impossible in a democracy such as the United Kingdom. The use of the National Minimum Wage and Living Wage does not at all imply that this paper supports said measures.

39 The UK's Income Tax Receipts can be found here: <http://www.hmrc.gov.uk/statistics/tax-statistics/receipts.pdf>. For fiscal projections, see Appendix 4.

Share of Total Income Tax Liability	1987-1979	1981-1982	1986-1987	1999-2000	2008-2009
<b>Top 1%</b>	11%	11%	14%	21%	23%
<b>Top 5%</b>	24%	25%	29%	40%	42%
<b>Top 10%</b>	35%	35%	39%	50%	53%
<b>Next 40%</b>	47%	46%	42%		
<b>Lower 50%</b>	18%	19%	16%	12%	12%
<b>Top Rate of Tax</b>	83%	60%	60%	40%	40%

\* Chancellor Nigel Lawson's Tax Cut shifted the distribution of income tax incidence much further towards the wealthiest than any other measure in modern memory<sup>40</sup>.

a reactionary basis – for example, by reducing Value Added Tax to target Consumer Price Index Inflation; by reducing fuel-duty to target underlying cost-push inflation; or even by increasing non-domicile Capital Gains Tax<sup>i</sup> to target inflation that is caused in large part by the overheating housing market in and around London<sup>ii</sup>. There is more tax reform available as an option to Her Majesty's Government, and this will especially be the case following the UK's withdrawal from the European Union and the liberalisation of trade thereafter. There is, however, an obverse to the fiscal policy coin, where government spending should go through a rigorous review.

The history of UK government spending projects is a chronicle of over-budget post-deadline deliveries where estimates forgot to include basic things such as inflation over the period of the project, the amount of additional investment required for maintenance – and moreover – the capital necessary to maintain the project's competitive position. If corporations allocated capital and accounted like the UK Government does (unlikely assuming oversight by share-holding owners); they would likely face bankruptcy, prosecution and punitive regulation. The UK Government, however, is barely audited (via General Election) twice-a-

40 These figures are from the Spectator (and HMRC): <http://blogs.spectator.co.uk/coffeehouse/2013/03/celebrating-the-25th-anniversary-of-nigel-lawsons-tax-cutting-budget/> Nelson, Fraser "How do you get more tax from the rich? Cut their tax rates. Lessons from Lawson 25 years on" The Spectator (13/03/13)

decade by tribal, disinterested and ill-informed electorates. There should thus be some kind of accountability applied to government spending – perhaps by creating an auditor not dissimilar to the OBR (an organisation formed by George Osborne to audit the UK's budget).

The government, as a bare minimum, should submit to audits in accordance with Generally Accepted Accounting Principles (GAAP)<sup>iii</sup>, but ideally; this paper would like the Government to adopt more stringent accounting, of the kind used by Berkshire Hathaway. This method of accounting is provided in more detail elsewhere, but the Government should include things like future reinvestment costs, inflation, reserves in case of an exogenous economic shock. If the UK Government wishes to spend money on infrastructure, capital spending projects or anything else; that expenditure should be submitted to cost-benefit analysis by independent auditors, and the money spent should be justified as a figure on the national debt (or as the extraordinary tax-rise) – rather than as a figure to be inflated and eroded away over a period of malfeasant money-supply management.

The UK Government's planned departmental spending cuts are welcomed by this paper but – when the UK is in as bad a fiscal position as it is in – there should not be any 'ring-fenced' spending considered too sacrosanct to dispose of. This paper would aim – for example – to merge DfID with the FCO. This would potentially reduce the UK's aid budget by somewhere between 33% and 70%. This would not affect the UK's capacity to assist in the aftermath of humanitarian/natural disasters, but it would mean that the UK could relinquish responsibility for the unintended consequences of its misguided aid policy in places like the Horn of Africa or the Asian Subcontinent and Afghanistan (where aid is frequently lost to institutionalised corruption, or to insurgents/terrorists who expropriate the aid and use it to perpetuate wars and conflicts which make aid 'necessary' in the first place)<sup>iii</sup>. It would also prevent the EU spending £1.4bn in aid on the United Kingdom's behalf.

The UK's foreign-aid target is currently 0.7% of GNI; that target should be abandoned – and the UK's expenditures should be audited department-by-department. The Department<sup>41</sup> for Work and Pensions spends the most – approximately 24% of total government spending in 2011/12. Of that £168.98bn, £74.22bn is taken up by state pensions. This expenditure is not sacrosanct by any means, but that fact is worth bearing in-mind.

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41 The following figures were sourced from the Guardian's Data Blog of 2011-2012: <http://www.theguardian.com/news/datablog/2012/dec/04/government-spending-department-2011-12>



In the longer-term, pension commitments will have to be footed more surely<sup>42</sup> (and away from its current existence as a Ponzi Scheme), and thus the UK Government should not rule-out retirement age increases, larger contributions or real-terms pension freezes. This paper broadly supports the intention of the Department for Work and Pensions reforms, and would only make recommendations beyond those measures should long-term claimant count figures prove especially resistant.

The UK Government – whilst saving £16bn directly through repatriating EU contributions and EFSF liabilities – should also not commit to ring-fencing the National Health Service or, at least in the short-term, Education. This paper proposes that the National Health Service should, over the next three decades, evolve to more closely resemble the Singapore Health Accounts system – whilst reducing costs in provision, and treatment commitments available under the NHS. This would mean, in essence, that all life-saving treatment and preventative healthcare (for under-18's) would be paid for through general taxation, that all services from diagnostics to treatment thereafter would be paid for out of individual taxation contributions, health insurance and government contributions, and that there will have to be consideration of how, precisely, the UK will provide elderly care for the UK's ageing population. The NHS, under its current funding structure, has been evidently failing for some time<sup>liv</sup>.

In addition to these spending cuts, this paper pushes that there should be a comprehensive Strategic Defence Spending Review more in-line with the UK's *actual* commitments. Whilst this paper proposes no position regarding the morality or effectiveness of nuclear weapons, the UK's Vanguard Submarines (carrying soon-to-be renewed Trident Missiles), originally a Cold War insurance-policy, are clearly no longer necessary in an era of counter-insurgency boots-on-the-ground interventions, and stationed deterrent forces that protect UK dominions from the Falkland Islands in the South Atlantic, to Gibraltar in the Mediterranean. This paper therefore proposes that the UK could – if it wished – pursue unilateral nuclear disarmament, and that the savings could be re-allocated (perhaps towards paying down the national debt, the interest payments on which alone cost £48.2bn in 2011/12)<sup>iv</sup>.

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42 The Total UK Pensions Deficit reached an astonishing £312.1bn in the Second Quarter of 2012: <http://www.independent.co.uk/news/business/news/deficit-in-uk-pension-schemes-widens-to-a-record-3121-billion-7845086.html>. Whilst the Private Sector owes something like £2 trillion in pension liabilities; the State owes almost £5 trillion, according to the Office of National Statistics. The firm Grant-Thornton advise that contributions to pension schemes should increase - as opposed to lower pay-outs. <http://www.ftadviser.com/2012/04/30/pensions/personal-pensions/uk-pension-liability-exceeds-trn-ons-says-M9sPH5Fo2uqymObJvxSY7K/article.html>

## VI: Immigration & Infrastructure: Energy, Public Goods and Demographics

### VI.I – Energy and Climate Change

The first thing to consider in this debate, inconvenient though it may be for the Department of Energy and Climate Change, is whether it is appropriate for the United Kingdom, which is responsible for between 1.5 and 1.8%<sup>lvi</sup> of Anthropogenic Carbon Emissions, to unilaterally apply to itself the most stringent carbon reduction targets while economies like China offset our reductions with year-on-year industrial expansion. This paper would submit, without at all passing comment on scientific matters which its writer is ill-qualified to pronounce upon, that this is a rather inappropriate thing to do. The Climate Change Act (2008), which – at the time – official government figures estimated would arrest economic growth to the tune of 18-18.5 billion pounds until 2050<sup>lvii</sup>, has hitherto:

- Increased energy cost to the point that 23% of household electricity bills will be constituted by Climate Change Act imposed costs by 2020<sup>lviii</sup>
- Expropriated from the average UK taxpayer between £4,700 and £5,300 per-year (2008-2020<sup>lix</sup>, and
- Done absolutely nothing to arrest the global emissions of carbon dioxide<sup>43</sup>.

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43 According to the BP Statistical Review of World Energy, global energy consumption grew by 2.5% in 2011 in line with long-term trends. Global coal production also increased by half a billion tonnes, a 6% increase in a single year that tops the annual average growth rate of 4.6% over the last decade; Glover, P. C. "Irony of Ironies: Europe Switches to Coal as US Gas Glut Reduces Emissions"

Until other nations signal an investment in this direction, it is a ridiculous position for the UK to limit its economic growth while other nations continue to expand, to (allegedly) increase a damaging level of carbon dioxide ppm in the atmosphere, and to punitively tax its population on the basis of an unproven, unsettled scientific hypothesis. The United Kingdom currently<sup>lx</sup> subsidises wind farms to the extent of £1bn, with a majority of said subsidies going to larger foreign energy providers and landowners. According to the Renewal Energy Foundation<sup>lxi</sup>, if cuts of 10% to onshore and 5% to offshore subsidies are implemented, the total subsidy by 2030 will still have been £100bn (since 2008). In the United Kingdom, Wind Energy can – at its very peak – produce nearly 14% of the UK's energy<sup>lxii</sup>; however, Wind can also produce as little as 0.5% at any one time. Wind Energy averages between 2.5% and 3.3% of the United Kingdom's total energy supply.

Given these facts; there is a case for abolishing wind farm subsidies altogether which would contribute considerably to lowering household and business energy bills. The case is similar to Solar Panels – the subsidies for which were halved in 2012<sup>lxiii</sup> – and to other inefficient but renewable energies. If there is a renewable energy that is deserving of further consideration – it is probably tidal/hydroelectric; the UK has some of the strongest tides in the World, and it would seem improper not to consider tidal barrages in the Shetland Islands and Western Isles, Estuaries from the Severn and the Thames to the Mersey, the Humber and the Tyne, subject to ecological, environmental, and economic studies. Barrages across the UK's West Coast alone could produce something like 10% of the UK's energy needs on a predictable<sup>lxiv</sup> and consistent basis, although initial estimates of £25-30bn for the Severn Barrage are not signs of encouragement<sup>lxv</sup>.

The UK's withdrawal from the European Union would have the additional benefit of withdrawing the United Kingdom from one of the areas in which the European Union does the most damage: Environmental Policies. There is – for example – the EU "Large Combustion Plant Directive", which is closing down perfectly efficient coal-fired power stations (including those such as Didcot 'A' and Kingsnorth (in addition

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44 See, for example, the press releases of Renewables UK, and compare them to the Department for Energy and Climate Change Figures for 2012-13.

45 See here for instance: <http://www.reuters.com/article/2011/10/31/us-britain-solar-cuts-idUSTRE79U2HW20111031>

46 This is the given reason for then Energy Secretary Chris Huhne's decision to scrap the Severn Barrage - <http://www.bbc.co.uk/news/uk-england-somerset-11564284>

to the Nuclear Plants scheduled for closure in the next decade) which risk power shortages in the UK. The slow-motion decommissioning of the UK's coal power-generating capacity would have removed 91.8 Terra-Watt-Hrs (TWh) from the UK's energy supply (according to the DECC for Jan-Sep, 2013). Moreover, thanks to the Emissions Trading Scheme – in 2011 and 2012; Coal was the most profitable source of power generation (one which we've denied ourselves whilst emissions from the continent have increased by 3.3%).

Moreover, in global terms, coal consumption has grown by half-a-billion tonnes (or 6%), on top of the 4.6% per-annum over the last decade – and despite environmental policies that allegedly discourage its use, coal is set to surpass oil as the world's most important energy commodity in 2013/14. In contrast, for instance, to the United States, Europe's burning of a much cleaner fuel, natural gas, fell by 2.1% in 2012 as gas-fired plants became increasingly uncompetitive in the carbon permits trading system (prices for pollution declined by almost a fifth to €8 per-tonne). This means that, despite an alleged target of reducing the emissions of carbon dioxide from Europe whilst promoting energy security; EU environmental policies have achieved the reliance upon Coal from foreign sources, whilst making uncompetitive a more environmentally friendly fuel such as Natural Gas.

On this subject, one might think that natural gas would be the way forward; however, even though hydraulic fracturing (fracking) has been proven to be safe, the environmental/green movement refuses to countenance it. This is despite “fracking” contributing to a 15 percent decrease in the price of U.S. electricity generation<sup>47</sup>, a 50% decrease in household energy prices, and an average 8% decrease in U.S carbon emissions. With the depreciation and decreases in price of U.S equipment, UK Shale Deposits will be extractable within the next five to ten years. The U.S Energy Information Administration (EIA) estimated last year that the U.K's “technically recoverable shale resources” stretched for 26 trillion cubic feet (TCF), while the British Geological Survey has been quoted as offering offshore reserves at 1000 trillion cubic feet in total. These figures compare rather favourably when the UK's current annual gas consumption is about 3 trillion cubic feet<sup>lxiii</sup>.

The UK could, feasibly, achieve a considerable reduction in carbon emissions without the economic harm of intervention and regulations,

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47 Ibid. Glover, P. C. “Irony of Ironies: Europe Switches to Coal as US Gas Glut Reduces Emissions”.

as long as the Shale Gas industry remains unmolested in the U.K. This, combined with a significant investment in Nuclear Power, (not necessarily along the lines of Hinckley Point C, but similar) would allow the United Kingdom to expand its energy supply (and thus capacity to grow economically) whilst also achieving an allegedly necessary aim of reducing carbon emissions. The UK's energy security would also be in a better place than importing fossil-fuels from Russia or the USA, and/or nuclear from France and China. Hinckley Point C will create 26 TWh per-year, which is estimated to be equal to around 7% of the UK's electricity consumption in 2025, and is enough power to service 6 million homes<sup>bxiv</sup>.

There should, in addition, be more stringent competition rules applied to domestic suppliers of electricity and gas, to ensure that any of the decreases in per-unit energy production are, at least in part, passed on to consumers.

## **VI.II – Immigration and Infrastructure**

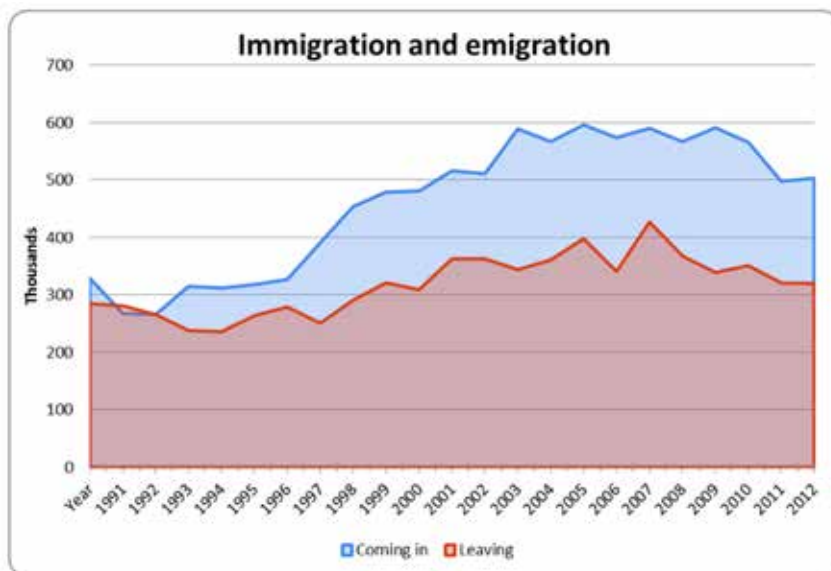
The main challenges for the UK's infrastructure will come in transport capacity and the provision of public services (such as Schools, Hospitals and Social Housing). The UK's transport policies should be subjected to a review; this paper would build a third runway at Heathrow (in addition to expansion at other London airports) and, in addition, would probably abolish Air Passenger Duties, given the proportion of the price of a plane ticket that the said duties constitute. This paper is sceptical of the alleged benefits of HS2, and would settle for more electrification along main-line routes (London to Aberdeen; London to Manchester; Glasgow to Manchester; etc), in addition to an overhaul of the crony-corporatist train system. Whilst this paper would not go as far to suggest re-nationalisation, there should perhaps be stricter punishments available when train companies fail to provide a good service – and a higher expected standard of service against which said companies should be assessed.

Other transport-related measures would also be welcome such as an improvement in the maintenance of roads and motorways, as well as other infrastructure projects which might include underground systems in urban areas. The United Kingdom also needs to build more urban areas in the form of housing to accommodate an expanding population (due mainly to immigration rather than birth-rates). It is estimated that the United Kingdom needs to build at least 1 million more homes. There is a

brownfield capacity for 300,000 homes in and around London alone, while a relaxation of greenbelt regulations<sup>48</sup> even for a mile would be enough to satisfy the demand for 1 million new homes. This proposal posits that these lands should be allocated for house building, with additional house-building dispersed amongst the towns and cities according to size and need.

Furthermore, any remaining housing stock that is in state hands but that is in a dilapidated condition (such as in a pilot test in Liverpool) should be offered to potential tenants/buyers for a minimal price on the understanding<sup>48</sup> that they reside in the property for at least three years, and are responsible thenceforth for update, development and maintenance costs (as well as Council Tax). Other proposals have included taxing a) the proprietors of brown-field sites (to encourage development) and b) enforcing non-domicile capital gains tax on London properties (to encourage lower prices, rent and a permanent population of expensive areas) – both of which have their pros and cons. There have, moreover, been limitations placed on Housing Benefit (which is sensible) and an easing of planning regulations on a more localist basis. This paper is not averse to advocating tax, but in these cases, such proposals would be mistaken.

Whilst the taxation of brown-field site owners is fine in theory, such taxes are easily avoided by for example claiming development is (or has been)



48 See here for Liverpool's newest regeneration idea <http://www.telegraph.co.uk/property/property-picturegalleries/9883749/Pound-land-derelict-houses-in-Liverpool-to-be-sold-for-just-one-pound.html>

taking place, or by transferring land to multiple ultimate owners- which therefore makes enforcing the tax<sup>49</sup> more expensive than revenues raised by the taxation. Similarly, taxing non-domiciles on London residences is, in theory, a good idea for freeing-up housing, but non-domiciles can still purchase residences and avoid the tax by merely receiving a rental yield on the property instead (or by, of course, claiming that a property is their primary residence). The proposed taxes, therefore, are not a panacea for the UK's housing troubles – which really reflect a lack of supply-side reforms for housing provision. This paper shall also briefly consider the public services required based on current net-migration trends (from which future migration shows no sign of deviating).

Net Migration figures in the United Kingdom are often unreliable due primarily to inadequate methods for counting emigration. There have, however, been noticeable increases in the UK population – a majority of which is due to immigration, a higher-average birth-rate in the said immigrant cultures and communities and of course, an ageing population that is living longer with advances in healthcare. This means that, according to the Office of National Statistics – and its projections – the UK's population will probably reach 70 million people between 2026 and 2028. The government's current target, from what one can conclude as regards policies stated (or not) in the past, is to reduce net migration "from the hundreds of thousands to the tens of thousands". It is therefore reasonable to assume that the UK government currently wishes to reduce net migration to below 100,000 (methods of calculation notwithstanding).

If current net-migration trends (see graph p.38) continue, then to remain in the same real-terms position per-capita for public services would require: an additional spend of £1.35bn<sup>50</sup> per-year by 2027 in the National Health Service (at current per-capita levels); housing<sup>51</sup> that would potentially accommodate 426,125 people per-annum (on current projections), as well as spending on school places (subsequently explained). According to the

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50 The figure of £1979 per-head, as given by the NHS Confederation, multiplied by the amount of additional citizens of the United Kingdom in 2027. A majority, though not all, of this spending would be assumed by migrants since the UK birth-rate (1.89) before immigration could not replace the existing population. The birth-rate of non-UK born mothers, according to the ONS, is 2.28: <http://www.ons.gov.uk/ons/rel/fertility-analysis/childbearing-of-uk-and-non-uk-born-women-living-in-the-uk/2011/index.html>

51 Nickell, S. "Too many people in Britain? Immigrants and the Housing Problem" Papers Presented to the London School of Economics (June, 2011) (Nuffield College, Oxford) estimates that at least 270,000 homes would need to be built per-annum to stabilise the house-price to income ratio, even if net migration to the United Kingdom were absolute zero.

BBC, education spending on schools per-place averages<sup>lxvi</sup> around £6,500 per-head in secondary schools and £5,500 per-head in primary schools. This paper shall assume, for the sake of brevity, that a majority of immigrants will settle in school areas with higher per-place funding (for example: the secondary schools in London in receipt of deprivation funding will receive something like £7,207-8,508 per-place), but that this shall be offset by free schools and academies (not included in the state school funding picture).

Therefore, calculating the necessary future commitments of school funding will not prove to be inaccurate (assuming reasonable margin for error) if one uses the average figures. While child dependents born in the UK are unlikely to cost more than the average to educate, child dependents born outside the UK are likely to require remedial language lessons in addition to other measures which would facilitate their learning. With these factors in mind, education spending would have to increase by a figure in the region of £600 million per-annum (including both primary and secondary) to accommodate a swelling of school-aged children in the demographics of the United Kingdom. There is, however, another aspect of immigration that is worth mentioning aside from an instantaneous cost-benefit analysis of public-spending vs. taxes paid and GDP generation<sup>52</sup> – and that is the effect of immigration on public-sector net-debt, a constituent of which are pensions liabilities.

The graph opposite is of the UK's net-debt predictions based on the amount of immigration it permits following the UK's withdrawal from Europe. The Office for Budget Responsibility, in its annual report of 2012<sup>53</sup>, published the graph on the long-term sustainability of the public finances whilst considering the scenarios of "high migration", "central migration" and "zero net migration". The OBR's projections found that – under a high net migration scenario (e.g. annual net migration over 260,000) – public sector net debt would fall over the next decade to around 60-65% of GDP, and thereafter to 43% of GDP in 2048/49. Under a net migration of zero, the UK's net debt would rise to over 100% of GDP by 2045/46, and thereafter on to 187% by 2061<sup>lxvii</sup>.

The debate on immigration, at least economically, is seemingly between two tenable – but ultimately undesirable positions: that the UK should run a net-debt suppressing, reasonably high immigration economy that

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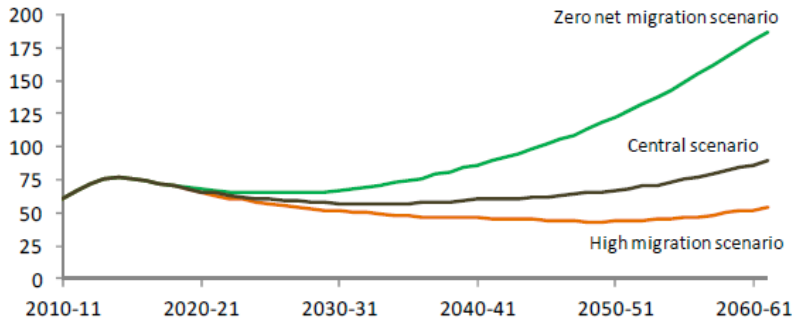
52 As exemplified amply by The University of Oxford Migration Observatory's "The Fiscal Impact of Immigration in the UK" (February, 2013)

53 Based on Office for Budget Responsibility, *Fiscal Sustainability Report*, July 2012, chart 3.13.



### Public sector net debt forecasts using different demographic assumptions

% of GDP



Source: OBR, Fiscal Sustainability report, July 2012, chart 3.13

seemingly prolongs the inevitable; or that the UK should run a limited immigration economy in accordance with the UK's broadly democratic wishes, but which harms the UK's medium-term fiscal position. So what is the best of these options? If the paper of M. A. Clemens<sup>54</sup> is correct in stating that global GDP could be increased by 67-147.3% by removing barriers to migration; then this writer would advocate high immigration on a net-debt and GDP basis. However, whilst the UK runs an economy with the National Minimum Wage, and a Welfare State; perhaps immigration targets should be between about 75,000 and 175,000. There is, at present, no right or wrong answer to this conundrum

## VII – Conclusions and Considerations

The UK's withdrawal from the European Union will cause considerable complications across almost every government department. This paper has highlighted those faced, for example, by the Department of Work and Pensions (which would have to honour reciprocal social security arrangements on a potentially bilateral basis until the UK's withdrawal in 2020/21); the UK Treasury (which would have to guide the UK economy through fluctuations in confidence, different trading circumstances, and fluctuations in the amounts raised and spent under fiscal policy); The Home Office (as regards some repatriated powers to control immigration – as well as the repatriated responsibility to calculate and allow in optimal amounts of immigration) and the Department for Energy and Climate Change (which will have to prevent the decommissioning of the existing power stations, and exploit new technologies in a more market-friendly way).

This paper, in chapter I, has described the constitutional processes required, as well as the arrangements possible, whilst leaving the European Union, and in Chapter II, has described the advantageous trade position that the UK needs to exploit. Through its remaining chapters, this paper has described how monetary management should continue, how fiscal policy should be overhauled, and how the UK's financial services might be protected outside of the European Union. This paper has also suggested the regulations ripest for repeal, that the level of immigration desirable in the post-Brexit UK economy is not as easy to calculate as one might think, and that – although not everything can be objectively modelled – the UK would (on the balance of probability) be better off out of the European Union.

The process would require lots of courage from an incumbent government, as well as a willingness to ignore the warnings of the establishment politicians and businessmen who benefit from their favourable arrangements with the European Union.

It is, however, neither a political nor an economic impossibility. The United Kingdom would survive perfectly well outside of the European Union, benefitting from bilateral (as well as Lisbon Treaty enforced) free trading whilst experiencing the liberation of the UK's legal codices from European Union interference. The UK economy could, as a consequence, disburden itself of regulation, disburden itself of growth-stifling rates of indirect taxation, and pursue its own interests as regards trade without having to go through a cumbersome 27-country process; energy security by building power plants without running the gauntlet of carbon trading schemes and the decommissioning of coal power plants, and immigration without uncontrolled migration from Europe or the subjugation of UK law to the European Courts of Justice or Human Rights.

There will be complications along the way – of this there is no doubt – but the UK will be freer, fairer, and more prosperous as a result of leaving the European Union rather than staying in it.

I would like to thank you sincerely for reading and considering the propositions that I have included in this paper, and bid you adieu.

Daniel C. E. Pycock, MA.

# Appendices and References

## Appendix One

The contents of this Appendix herein shall describe the timetable of the United Kingdom's proposed withdrawal from the European Union. This includes periods of negotiation, and the necessary timetable of legislative processes to withdraw the UK by 2020. This could, if problems arise, be stretched out to ensure all of the necessary conditions and caveats for withdrawal are agreed. The target year for withdrawal, however, is ratification by 2017/18, and implementation by 2020/21.

2013:

The Foreign & Commonwealth Office will begin negotiations to gain concessions from the European Union in return for the UK's continued membership.

2014:

The Foreign & Commonwealth Office will procure guarantees, and compile any concessions agreed to by 75% or more member-states into the alternative 'reform' deal of the EU Referendum in 2017.

The UK Parliament will pass the EU Referendum Bill, which shall include details of what is offered by each side, and shall dictate the voting system to be used (a form of PR for a three-way choice between an unreformed EU membership; a reformed EU membership, and discontinuing the UK's membership of the EU – and FPTP for a binary referendum). This bill shall make the referendum binding, and shall set a minimum participation requirement that is proportional to participation rates from other elections.

2015:

The UK General Election will take place, and the party with whatever policy will have a mandate to do as it wishes. If the Conservatives are elected, then the EU Referendum Bill is likely to go ahead, since it is a manifesto promise. Labour and the Liberal Democrats are more ambiguous over their policies towards the EU. Assuming, however, that a party friendly to the policy of having an EU Referendum is elected:

The Foreign & Commonwealth Office will initiate talks and begin negotiations that, if the UK withdraws, will be the groundwork for withdrawal. These talks will include I) allowing the UK to withdraw, II) amending EU treaties should the UK withdraw, III) transitional measures between 2017 and 2020 should the UK vote to withdraw, and IV) retaining the right to the free movement of goods and services – as can be procured through membership of the EEA and EFTA.

2017:

The EU Referendum Campaigns will officially be allowed to campaign for one month preceding the 2017 EU Referendum. This shall most likely be held in the first week of May or June; and assuming that the UK votes to withdraw from the European Union:

The UK Parliament shall give the European Council notification of the UK's intention to withdraw from the European Union, effective on 1st January, 2020. Following 21 sitting-days of Parliament, the UK Parliament will then vote on repealing (or not) the European Communities Act of 1972. The UK government can, if necessary, force the repealing legislation through the Houses of Parliament (in a similar way to the House of Commons being able to override the House of Lords in ultimately passing legislation against the Lords' advice). The UK shall immediately withdraw from the jurisdictions of European Legal Institutions, and transitional measures for UK and EU citizens will begin (again, for the period of three years until 1st January, 2020).

2019:

Specific negotiations will be undertaken by the Foreign & Commonwealth Office that ensure MiFID II proposals and regulations to be implemented then will not harm the UK's financial industry. The Foreign & Commonwealth Office will produce a final-draft of the proposed Treaty of London, including articles guaranteeing free-trade and goodwill towards the UK, as well as those necessary to amend the appropriate constitutions.

2020:

The Treaty of London will be ratified by the EU member-states, and negotiations will continue on any issues which the member-states would not agree to. The UK will, as of 1st January, have left the European Union – and the UK government would be free to pursue policy-interests, and assert its superiority as the UK's supreme legislator.

## Appendix 2

This appendix shall describe in detail the cases mentioned in Footnote 8 on page 7 of this proposal.

Firstly, the primary criticism of the European Arrest Warrant has been that it has resulted in detentions which have been unjust. The best known case for this has been that of Andrew Symeou, who languished in a Greek Prison for a crime he did not commit. His MEP, Daniel Hannan, wrote about it in *The Guardian*<sup>55</sup>.

Secondly, the European Courts of Justice are responsible, among other things, for two bad precedents and rulings in particular. One ECJ ruling, for example, has meant that female drivers are paying (on average) €5000 more in premiums over a nine-year period<sup>56</sup>. In the *Factortame* Judgement, the ECJ ruled that the legislation of the United Kingdom “*shall have effect subject to directly applicable European Community law*”<sup>57</sup>.

Finally, the European Court of Human Rights previously adjudged (and still does) in the case of *Hirst vs United Kingdom*<sup>58</sup> that Section 3 of the Representation of the People Act (1983) violated Protocol 1, Article 3, of the European Convention on Human Rights<sup>59</sup>. It is for decisions such

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55 See Endnote VII

56 This was the result of a landmark European Courts of Justice ruling that insurance companies could not charge different premiums to males and females. The European Courts of Justice decision can be found here: <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-236/09> and the Open Europe briefing can be found here: <http://www.openeurope.org.uk/Content/Documents/PDFs/ECJgenderdirective.pdf>.

57 The judgement in *Factortame vs UK* is here: <http://www.bailii.org/eu/cases/EUECJ/1990/C21389.html> and an example of its influence can be found here: [http://www.monckton.com/areas\\_of\\_law/landmark\\_case.php?id=68](http://www.monckton.com/areas_of_law/landmark_case.php?id=68)

58 The judgement in *Hirst vs UK* can be found here: <http://www.bailii.org/eu/cases/ECHR/2005/681.html>

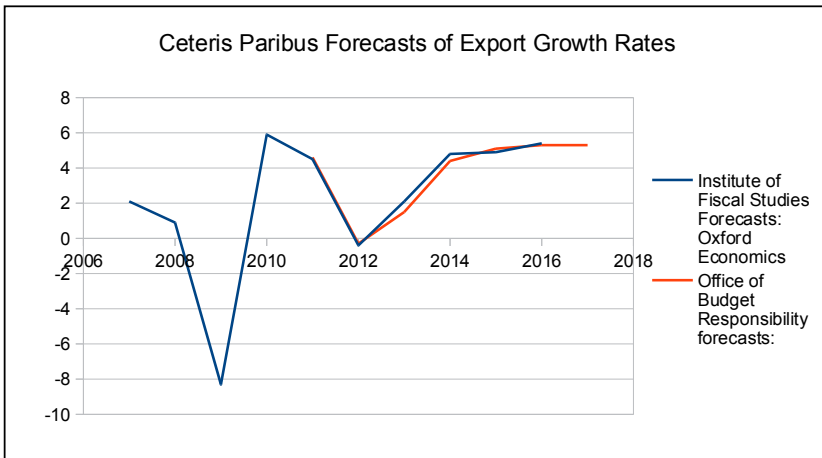
59 This decision obliged the UK Government to pursue legislation extending the franchise to convicted criminals, and Parliament rejected it. The Voting Eligibility Draft Bill (2012) can be found at the Ministry of Justice website here: <http://www.justice.gov.uk/downloads/legislation/bills-acts/voting-eligibility-prisoners/voting-eligibility-prisoners-command-paper.pdf>

as this, that the ECHR has been criticised by Lord Jonathan Sumption (a supreme court law lord)<sup>60</sup>.

It is important that the UK, given these precedents (in addition to others too numerous to mention), signs an agreement withdrawing the UK from the jurisdiction of the ECJ, ECHR, and EAW with immediate effect in 2017.

### Appendix 3: Forecasts in Trade

There are two forecasts for UK exports: that of the Office of Budget Responsibility and that of the Institute of Fiscal Studies, which say largely the same thing (see graph below<sup>61</sup>).



There are papers which describe in greater detail than this one the method of calculating a country's exports. The modelling used herein uses the following "export function", which is:

$$X = b \left( \frac{Pd}{PfE} \right)^n Z^e$$

60 See: Sumption, Jonathan. "The Limits of Law", Lord Sumption gives the 27th Sultan Azlan Shah Lecture, Kuala Lumpur, 20th November 2013. <http://www.supremecourt.gov.uk/docs/speech-131120.pdf>

61 Pre-2013 figures can be sourced from the OECD ([http://www.oecd-ilibrary.org/economics/country-statistical-profile-united-kingdom\\_20752288-table-gbr](http://www.oecd-ilibrary.org/economics/country-statistical-profile-united-kingdom_20752288-table-gbr)), the OBR (<https://www.gov.uk/government/collections/data-forecasts>) and the Institute for Fiscal Studies' *The UK Economic Outlook* (2013) p.47

where  $X$  is Total Exports,  $(P_d/P_fE)$  is equal to domestic prices divided by foreign prices that are multiplied by the price of acquiring foreign currency,  $n$  is equal to the price elasticity of exports,  $Z$  is equal to the GDP of recipient nations and  $e$  is equal to the income elasticity of exports. This can, according to Thirlwall<sup>62</sup> (and as elucidated later by others), be simplified in economies where currencies are constant, to:

$$X = \hat{b}Z^e$$

where Exports are wholly reliant on the income of recipient nations (and income elasticity). Based on this method, the differences between leaving the European Union with no trade-agreement, with EFTA membership, and with EFTA+ membership are considerable.

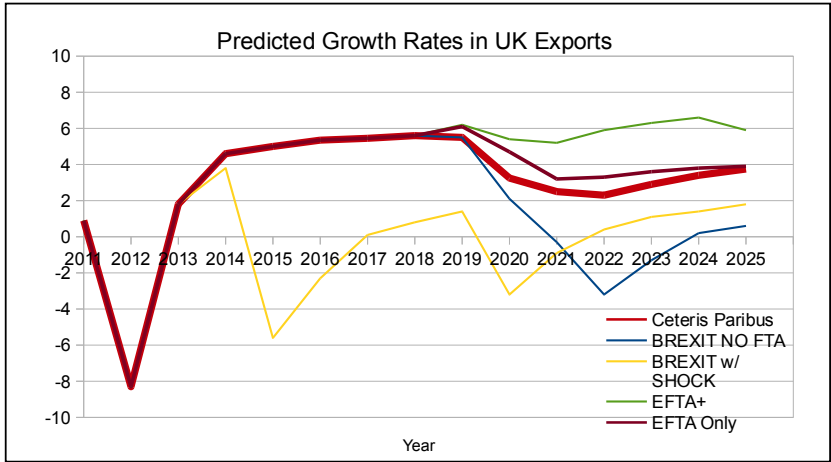
If one assumes that the United Kingdom would sign a considerable number of beneficial FTAs (with the USA, Canada, Australia, China, India, and others) following its withdrawal from the European Union; the difference between the UK withdrawing from the EU without a functioning trade-agreement, and with one, could be as much as £25.7bn per-year from 2019-2023<sup>63</sup>. The difference between EFTA+ (with the EU passport) and just EFTA is, by the same measure, £10.3bn per-year over the same period. However, in the long run, leaving without a trade-agreement is still preferable to remaining within the European Union and an exclusive trade-bloc. The United Kingdom's predicted export growth-rate, based on foreseeable arrangements and circumstances, is produced (P48)<sup>lxviii</sup>:

The *Ceteris Paribus* forecast is based on the average of the IFS and OBR forecasts<sup>lxix</sup>. The blue BREXIT line denotes the UK's withdrawal with no trade-agreement with the European Union, and the yellow BREXIT line displays what would happen if there were an external shock in demand from the Eurozone (such as a break-up of the Eurozone, which has

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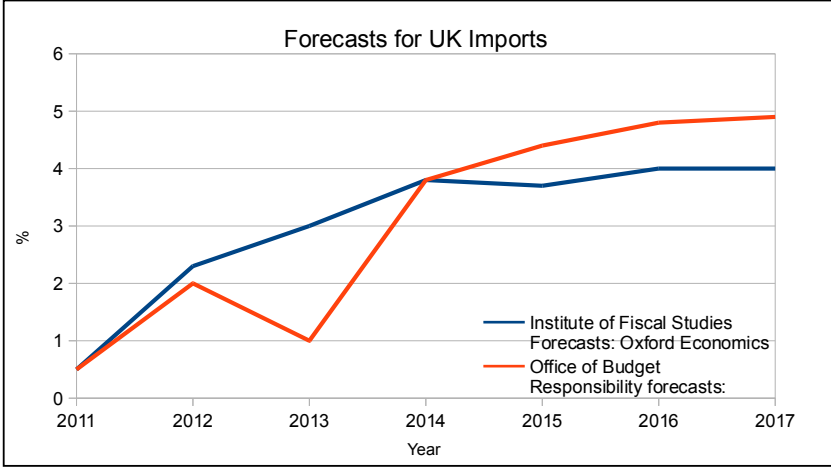
62 Lin, J.Y.F & Li, Y "Export and Economic Growth in China: A Demand-Oriented Analysis" (Peking, Hong Kong) <http://www.cerdi.org/uploads/sfCmsContent/html/197/JustinLi.pdf>

63 This is an average figure, and is because of the incoming financial regulations of 2019, and a capital flight from the City of London. The removal of the EU passport for firms in the City of London would be terrible in the short-term, but recoverable in the long-term. There is moreover the factor of tariffs applied to trade-surplus goods for the UK, which are higher than the average 1% tariff of the European Union. In the long-run even leaving the European Union without a trade-agreement would be profitable due to higher growth in other continents and economies, the decline of the European Union's economies, and to Free Trade Agreements signed with more prosperous and growing nations. The figures have, to the best of my ability, been checked using the i-simulator beta from the World Bank.



been given a 15% chance of happening). The green line denotes UK exports inside of EFTA, but outside of a financial services agreement for when 2019 regulations hit – whereas a purple line denotes the ideal withdrawal scenario for the United Kingdom, with EFTA membership and financial service agreements maximising the reorientation of the UK economy towards exports, and away – to an extent – from a reliance on consumer consumption.

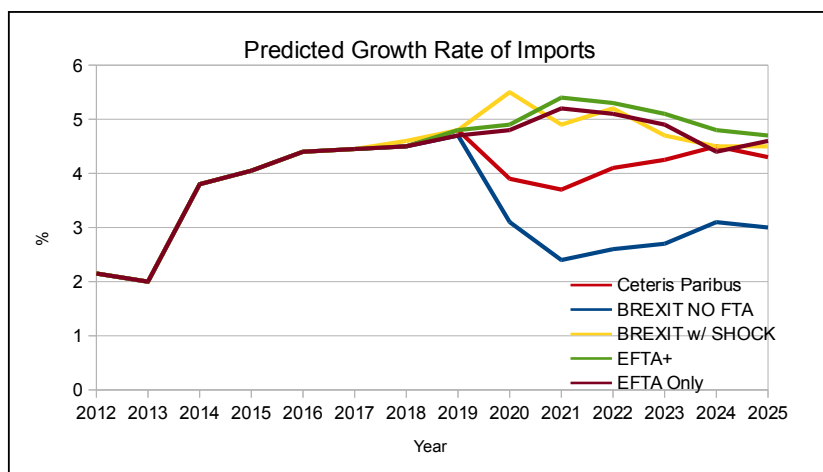
Imports tend to be modelled as a function of domestic absorption (a) and the real exchange rate (b) and, like exports, tend to treat oil markets and other goods separately. I have used the same two forecasting organisations as for exports, and their definitive forecasts can be found below for imports:



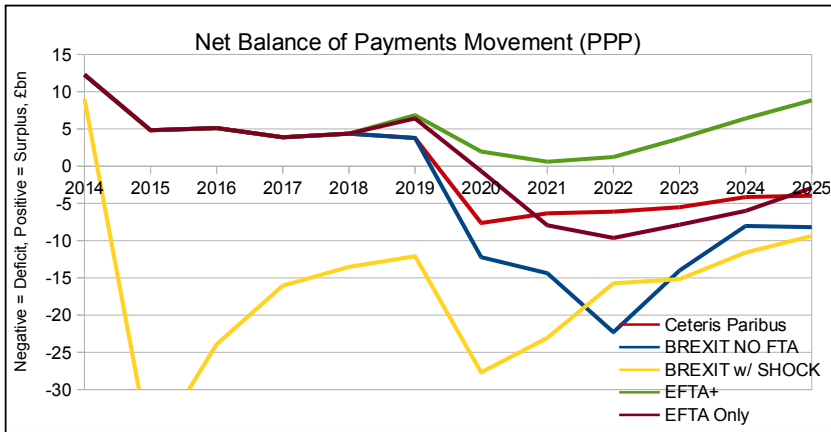


The difference between projected imports for various scenarios is infinitesimal compared to exports. The difference between imports with an EFTA+ agreement, and merely EFTA, is £1.7bn per-year between 2013 and 2025. UK imports would – predictably – rise should the EU suffer an economic shock, whereby poorer Eurozone nations would suddenly find themselves able to devalue their way to competitiveness. Imports would conversely fall – because of tariffs, quotas and other protectionist measures – should the UK withdraw from the European Union without a trade agreement. The difference between the UK staying in the European Union on current terms and leaving without a trade agreement is £9.8bn per-year between 2013 and 2025, while the difference between staying in on current terms and leaving in EFTA+ is £8.6bn per-year between 2013 and 2025 in imports.

The projections for UK imports, based on differing scenarios, can be found below. These forecasts, combined with export forecasts, feed into balance of payments projections.

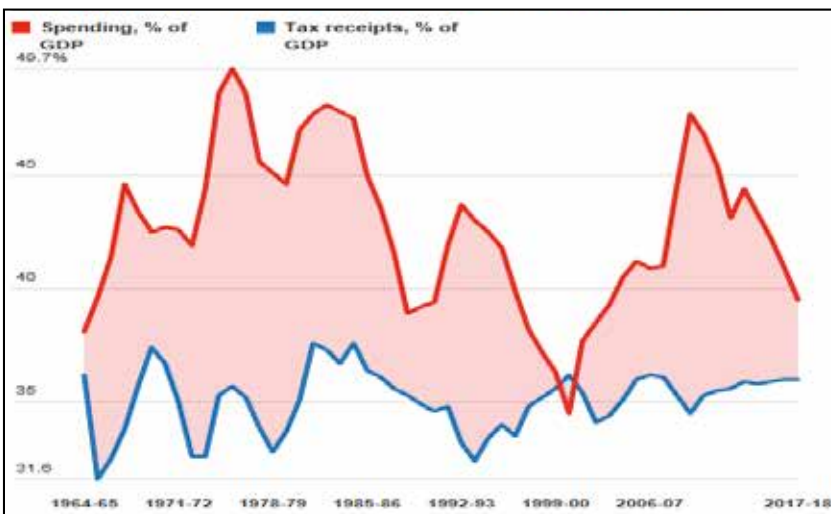


Based on these various scenarios, the UK would see the greatest benefit to its balance of payments position leaving in EFTA+ or EFTA, and the least benefit/greatest disadvantage from remaining within the European Union in the long-term.



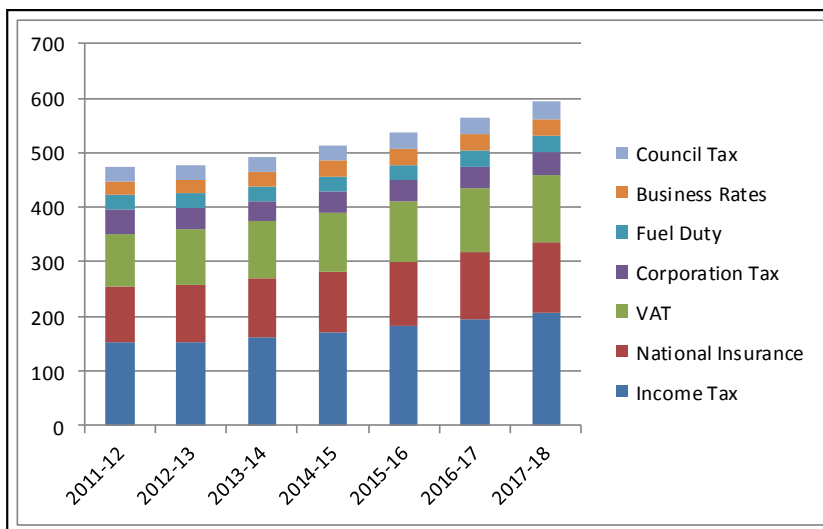
## Appendix 4 – Fiscal Policy Charts and Revenue Projections

The purpose of this appendix is to show fiscal policy trends and projections in graph format. The first graph (below), for example, shows the long-term trend of the United Kingdom's fiscal position (with reference to GDP) between 1963 and 2013.



Even during the supposedly austere premiership of Margaret Thatcher, the United Kingdom has consistently spent more than it has been able to collect in taxation, at times spending almost 1.5 times the tax-take. The projections for taxation, spending (and GDP) are shown on this projection of the UK's fiscal position until 2017-18, and for a closer look

at the taxation figures for 2011-18, please see the graph below:



- i. Lazowski, Adam. "How to withdraw from the European Union? Confronting hard reality" *CEPS Commentary*. Published on: (16/01/13)
- ii. Miller, Vaughne. "Leaving the EU" *House of Commons Library Research Paper* 13/42, pp 11. Published: 01/07/13
- iii. "Provision of Services by Financial Intermediaries from Third Countries in EU Financial Markets Regulation" (KPMG); "Written Evidence to the Parliamentary Commission on Banking Standards" (JPMorganChase&Co and GoldmanSachs International); and "Switzerland's Approach to EU Engagement", for the City of London Corporation by *The University of Kent Centre for Swiss Politics*, p5.
- iv. Wharton, James. Proposed the EU Referendum Bill, as per here: <http://services.parliament.uk/bills/2013-14/europeanunionreferendum.html>. The Conservative Party Manifesto Commitment to it (thus far) can be found here: [http://www.conservatives.com/policy/issues/europe\\_bill.aspx](http://www.conservatives.com/policy/issues/europe_bill.aspx) (last accessed: 05/11/13).
- v. The Average Election Turnout Figures can be found here: <http://www.theguardian.com/news/datablog/2012/nov/16/uk-election-turnouts-historic>. Since 1983, the average turnout at EU elections has been 33.72%; at General Elections it has been 69%, and in all elections/referenda over the period, has been 46.43%. A minimum turnout of 25% would thus not be unreasonable, and would be an adequate safeguard for the integrity of the referendum.
- vi. Ibid. Miller. pp 10. "*the decision to leave the European Union does not require the endorsement or formal agreement from other member-states... notifying the European Council of the UK's intention to withdraw*".
- vii. Ibid. Miller. pp 13. "*the withdrawal agreement would not be subject to constitutional safeguards as detailed in the EU Act (2011), but, following the usual procedures for ratification, would have to be laid before Parliament with a Government Explanatory Memorandum for 21 sitting-days... If the commons resolved against ratification, the treaty can still be ratified if the Government lays a statement explaining why the treaty should nonetheless be ratified and the House of Commons does not resolve against ratification a second time within 21 days (this process can be repeated *ad infinitum*)*." The second-half of the legislative process described above is the enactment of the Ponsonby Rule of the Constitutional Governance and Reform Act (2010).
- viii. Hannan, Daniel. "Worse than Gary Mckinnon", *The Guardian*. Published: (12/09/10) <http://www.theguardian.com/commentisfree/libertycentral/2010/sep/12/gary-mckinnon-andrew-symeou>
- ix. This was, without much thought or consideration one would presume, advocated by: Harvey, Oliver. "I see all the problems in the EU and think 'Glad I live in Norway'... our way could work for Britain"; "Sun Writer Oliver Harvey visits Norway: the country mocked by Euro President Jose Barroso", *The Sun*. Published (17/07/12). <http://www.thesun.co.uk/sol/homepage/features/4433136/Sun-writer-Oliver-Harvey-visits-Norway-the-country-mocked-by-Euro-president-Jose-Barroso.html>
- x. Persson, Mats. "Brixit: Why the Norwegian Model simply wouldn't work for the UK", *The Daily Telegraph*. Post Published: (07/01/13) and Last Accessed: (14/11/13): "*despite being party to 75% of the EU's laws, Oslo has exceptionally [sic] limited ability to influence them... should Britain become like Norway, bizarrely, it would be home to 36% of Europe's wholesale finance market, but with no votes on huge swathes of regulation governing that market. It would have to accept EU employment law – currently costing employers £8.6bn a year – but, again, with no votes on these laws*" - <http://blogs.telegraph.co.uk/finance/matpersson/100022087/brixit-why-the-norwegian-model-simply-wouldnt-work-for-the-uk/>
- xi. Persson, Mats. "What would leaving the EU mean for the UK's Financial Services?", *The Daily Telegraph*. Post Published: (09/08/13) and Last Accessed: (20/11/13). <http://blogs.telegraph.co.uk/finance/matpersson/100025320/what-would-leaving-the-eu-mean-for-the-uks-services-sector/>

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- xii. Hannan, Daniel. "The Case for EFTA", *The Bruges Group*. Paper Last Accessed: (24/11/13) <http://www.brugesgroup.com/eu/the-case-for-efta.htm?xp=paper>
  - xiii. Vina, G. "Almost One in Five UK Companies Favour Leaving The European Union" *Bloomberg* (Last accessed 15/09/13): "Of the 4,387 companies surveyed (by the BCC) in February-March 2013, they found that 33 per cent of businesses were in favour of withdrawal and negotiating a free-trade deal". Htt p://www.businessweek.com/news/2013-04-14/almost-one-in-five-u-dot-k-dot-companies-favor-leaving-eu
  - xiv. This figure, from Niebohr, J. "The Four Lies about leaving the European Union", is adjusted for what is known as the Rotterdam/Antwerp effect – goods shipped to EU ports, but which are destined for Non-EU countries.
  - xv. Ibid Miller. "For instance, without a trade agreement, the UK might be subject to a tariff of 4.1% on Liquefied Natural Gas exports, a tariff of 12.8% on wheat and meslin, and a tariff of 6% to unwrought aluminium"
  - xvi. Borger, Julian. "EU Exit would put US trade deal at risk, Britain warned", *The Guardian*. Published: (27/05/13) and Last Accessed: (24/12/13). <http://www.theguardian.com/business/2013/may/27/eu-exit-risks-us-trade-deal>
  - xvii. Lea, R. Global Vision Perspective *House of Commons Library Data*, April 2008; Niebohr, J. "The Four Lies about leaving the European Union", *The Bruges Group*, January 2013.
  - xviii. Hannan, Daniel. "Look at these Graphs: any possible argument for remaining in the EU has been blown away", *The Daily Telegraph*. Published on (07/06/12) and Last Accessed on (15/09/13) <http://blogs.telegraph.co.uk/news/danielhannan/100163336/look-at-these-graphs-any-possible-argument-for-remaining-in-the-eu-has-been-blown-away/>
  - xix. "Estimating the Economic Impact on the UK of a TTIP Agreement between the European Union and the United States (Final Report)" *Centre for Economic Policy Research*, March 2013, (London).
  - xx. "Trading Places: Is EU Membership still the best option for UK trade?", *Open Europe*, 2012 (London).
  - xxi. "HSBC Global Connections Report", October 2013. <https://globalconnections.hsbc.com/global/en/tools-data/trade-forecasts/gb>
  - xxii. Niebohr, J. *The Four Lies about Leaving the European Union*, Bruges Group 2013, p.10; AIFM Directive: [http://ec.europa.eu/internal\\_market/investment/alternative\\_investments/index\\_en.htm#maincontentSec7](http://ec.europa.eu/internal_market/investment/alternative_investments/index_en.htm#maincontentSec7)
  - xxiii. "The Total Tax Contribution of UK Financial Services", Fifth Edition, PwC, (December, 2012): [http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2012/Total\\_tax\\_Contribution\\_OnlineVersion\\_PDF.pdf](http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2012/Total_tax_Contribution_OnlineVersion_PDF.pdf); and the total income tax intake percentage can be found here: <http://www.betteroffout.net/the-case/10-eu-myths-about-withdrawl/>
  - xxiv. "Banking in 2050: How big will the emerging markets get?" PwC (2007), baseline projection scenarios can be found at <http://www.pwc.com/gx/en/banking-capital-markets/banking-in-2050-how-big-will-emerging-markets-get.html>; "Is EU membership still the best option for UK trade?" *Open Europe* (2012), full report – page 20: [http://www.openeurope.org.uk/Content/Documents/2012EUTrade\\_new.pdf](http://www.openeurope.org.uk/Content/Documents/2012EUTrade_new.pdf)
  - xxv. The European Union (or better, European Commission's) Financial Transaction Tax proposal is here: [http://ec.europa.eu/taxation\\_customs/taxation/other\\_taxes/financial\\_sector/](http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/)
  - xxvi. Howarth, C. and Booth, S. "Trading Places: Is EU Membership still the best option for UK Trade?" (Open Europe, 2012); "Switzerland's Approach to EU Engagement: A Financial Services Perspective" (University of Kent, 2013) [http://www.cityoflondon.gov.uk/business/economic-research-and-information/research\\_publications/Documents/research-2013/Switzerlands-approach-to-EU-engagement.pdf](http://www.cityoflondon.gov.uk/business/economic-research-and-information/research_publications/Documents/research-2013/Switzerlands-approach-to-EU-engagement.pdf); and Ibid. Miller.

- xxvii. "How much does the European Union cost Britain?", Congdon, Prof. T (September, 2012)
- xxviii. "The Single Market: a vision for the 21st Century", Statement by EU Commissioner for Enterprise and Industry 2006 (January, 2007)
- xxix. "Still out of control? Measuring eleven years of EU regulation", Open Europe (2010)
- xxx. "The Burdens Barometer", British Chambers of Commerce (2010).
- xxxi. Ibid. "Still out of control? Measuring eleven years of EU regulation", Open Europe (2010)
- xxxii. See, for example, "What is the true cost of Britain's EU membership?", Public Service Europe (2013), and "Secretly trading away our independence", The New American (2013).
- xxxiii. Clark, R. <http://www.express.co.uk/comment/expresscomment/438402/EU-laws-that-cost-the-UK-a-fortune-and-achieve-nothing>
- xxxiv. <http://www.iod.com/influencing/press-office/press-releases/gold-plating>
- xxxv. <http://www.thesun.co.uk/sol/homepage/news/3546323/Human-rights-law-costs-UK-9bn-a-year.html> and <http://www.dailymail.co.uk/news/article-1336330/Human-rights-laws-cost-Britain-42-bn-rulings-payouts.html>
- xxxvi. Warner, Jeremy. "It is high time we raised interest rates and returned to normality", *The Daily Telegraph*; Published on 02/01/14 and Last Accessed 03/01/14: <http://www.telegraph.co.uk/comment/10547281/It-is-high-time-we-raised-interest-rates-and-returned-to-normality.html>
- xxxvii. Most of the data sets pertaining to Interest Rates or Inflation can be found on the Guardian's Data Blog here: <http://www.theguardian.com/news/datablog/2011/jan/13/interest-rates-uk-since-1694> and <http://www.theguardian.com/news/datablog/2009/mar/09/inflation-economics>
- xxxviii. "*In particular, the MPC intends not to raise the Bank Rate from its current level of 0.5% at least until the Labour Force Survey headline measure of the unemployment rate has fallen to a threshold of 7%... until the unemployment threshold is reached, and subject to the conditions below, the MPC intends not to reduce the stock of asset purchases financed by the issuance of central bank reserves...*", The Bank of England: <http://www.bankofengland.co.uk/monetarypolicy/Pages/forwardguidance.aspx>
- xxxix. Figures pertaining to Interest Rates and Inflation can all be found on The Guardian's Data Blog. For interest-rates, see: <http://www.theguardian.com/news/datablog/2011/jan/13/interest-rates-uk-since-1694> and for inflation rates, see: <http://www.theguardian.com/news/datablog/2009/mar/09/inflation-economics>
- xl. See Cooper, Oliver. "Save the Pound: Denationalise It" *The Commentator*. Published: (07/09/11) and Last Accessed: (29/12/13) [http://www.thecommentator.com/article/417/save\\_the\\_pound\\_denationalise\\_it](http://www.thecommentator.com/article/417/save_the_pound_denationalise_it); and Carswell, Douglas "Currency and Banknotes (Amendment)" *Hansard* (Column 173, 06/09/11), available in text here: <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110906/debtext/110906-0001.htm#11090649000001> and in video here: <http://www.youtube.com/watch?v=UBvKhzqDt4Y>
- xli. Basel III dictates that there shall be minimum capital requirements implemented in 2014 and 2015. There is an on-going debate as regards the impact of Basel III, with the Adam Smith Institute citing the negative effect on SME's as a reason to consider ignoring Basel III in the UK: <http://www.adamsmith.org/research/reports/how-basel-iii-threaten-small-businesses> (Published: 27/07/11 and Last Accessed: 29/12/13).
- The OECD has, furthermore, calculated that Basel III could cost between 0.05% and 0.15% of Global GDP (and future growth) – Slovik, P. & Cournéde, B. "Macroeconomic Impact of Basel III", OECD Economics Department Working Papers, (2011). For further reading on Basel III, please consult the following studies: "*Basel III: no Achilles' Spear*", Economic Research Department of BNP Paribas; Co-Pierre, Georg. "*Basel III and Systemic Risk Regulation – What*

- Way Forward?*", Global Financial Markets (January, 2011); "*Thinking Beyond Basel III*", *OECD Journal of Financial Market Trends*; and "*The Banks Battle Back: A Behind-The-Scenes Brawl Over New Capital And Liquidity Rules*", *The Economist* (Published on: 27/05/10 and Last Accessed: 29/12/13) <http://www.economist.com/node/16231434>
- xl. Buffett, Warren. (ed. Cunningham, Lawrence.) *The Essays of Warren Buffett: Lessons for Corporate America* (Third Edition), Introduction: Valuation and Accounting; (February, 1998)
- xl. See, for example: Hannan, Daniel "There is nothing regressive about VAT" *The Daily Telegraph* (published on 22/ 06/2010; last accessed on 21/01/2014) <http://blogs.telegraph.co.uk/news/danielhannan/100044489/there-is-nothing-regressive-about-vat/>, or Carswell, Douglas. "Direct Democracy: An Agenda For A New Model Party" *direct-democracy.co.uk*, published 13/06/2005.
- xl. Marsh, Sarah. "Local Government Finance Settlement 2014-15" *The Guardian* (published on 18/12/2013, and last accessed on 21/01/2014); <http://www.theguardian.com/local-government-network/2013/dec/18/local-government-finance-settlement-2014-15-council-cuts>
- xl. See "Corporation Tax Statistics (published by Her Majesty's Revenue & Customs)" *HMRC* (published on 31/10/2013 and last accessed on 21/01/2014); Section 2, pp8. (Statisticians: Undre, Taha. And Patel, Vijay) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/256870/corporation-tax-statistics.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/256870/corporation-tax-statistics.pdf)
- xl. See Siebert, W. S. "Unemployment and the Minimum Wage" *The Institute of Economic Affairs Blog* (published on 13/09/2013, and last accessed on 21/01/2014): <http://www.iea.org.uk/blog/unemployment-and-the-minimum-wage>. A spectrum of studies (Stewart, Dolton, Swaffield, Dickens, Riley, Wilkinson, et al.) between 2002 and 2012 in the UK have generally found no negative employment effects in the UK, but have seen minor increases in claimant unemployment as well as poorer job security; A spectrum of studies from abroad, and particularly in the USA, however, have concluded that the Minimum Wage, in terms of youth and female unemployment, can reduce employment by between 1.5 and 2.5%.
- xl. Some tax practitioners also advise that Corporation Tax (in whatever form) should be abolished (perhaps in return for raising taxes elsewhere). See: Kotlikoff, L. J "Abolish The Corporate Income Tax" *The New York Times*, [http://www.nytimes.com/2014/01/06/opinion/abolish-the-corporate-income-tax.html?\\_r=0](http://www.nytimes.com/2014/01/06/opinion/abolish-the-corporate-income-tax.html?_r=0)
- xl. Something to remember about Corporation Tax is the uncertain incidence– who pays? Businesses do (in name), but does corporation tax result in inflation, lower wages, lower profits, or even an unholy alliance of the three? There is no consensus in economics in the consumers vs labour vs capital debate regarding who pays (see: Bartlett, Bruce. "Who Pays The Corporate Income Tax?", *The New York Times*, <http://economix.blogs.nytimes.com/2013/02/19/who-pays-the-corporate-income-tax/>), but given its reputation as one of the most damaging and inefficient (alongside Stamp Duty - <http://www.accountancyage.com/aa/news/2199777/-abolish-stamp-duty-pwc-tells-osborne>) taxes around, there is no reason why it could not be abolished in return for taxes elsewhere (see above: Endnote XLVI). The damaging 32% supplementary charge for Oil and Gas, as well as a 30% main-rate, should also be significantly reduced, given the recent decreases in revenue mentioned by HMRC. (See: <http://www.pwc.co.uk/budget/2011-budget-corporate-business-tax.jhtml>). Another study to consult might be Warwick University's corporate tax incidence study; Arulampalam, W, Devereux, M. P, & Maffini, G. "The Direct Incidence of Corporate Income Tax on Wages" (Warwick, February 2012) [http://www2.warwick.ac.uk/fac/soc/economics/staff/academic/arulampalam/publications/ADM\\_march2012.pdf](http://www2.warwick.ac.uk/fac/soc/economics/staff/academic/arulampalam/publications/ADM_march2012.pdf)



- xlix. Statistically speaking, modelling tax-rates produces a similar curve to that which denotes a Normal Distribution (e.g. The Bell Curve). The Laffer Curve, for instance, models revenues based on a main tax rate (to which taxpayers are subjected) and the amount of compliance that each tax rate is likely to encourage. Moreover, the longer the period of time over which the Laffer Curve is applied, the more a revenue maximising tax-rate tends towards a lower tax-rate (and vice-versa). It is this paper's proposition that the United Kingdom has set its tax rates (in the immediate as well as the longer-term) to the revenue diminishing aspect of being too high in terms of direct taxation, and to the growth diminishing aspect of too high in terms of indirect taxation (customs, tariffs, value added tax, etc).
- i. This was announced in December, 2013 by the Rt. Hon. George Osborne in the Chancellor's Autumn Statement: <https://www.gov.uk/government/news/autumn-statement-5-december-2013>. There is, however, scepticism from many quarters over whether this will merely encourage foreign owners to accumulate property and then to extract rental yield from them instead of selling; Others point out, however, that although investors might feel double-crossed by HMRC – and inward investment might as a result suffer – such CGT reforms might in the long run prove fruitful if it quells the political calls for a more draconian “mansion tax”. See, for example: Warwick-Ching, Lucy. “Experts react to Osborne’s Speech” *The Financial Times* <http://www.ft.com/cms/s/0/61edd9f6-5d9d-11e3-95bd-00144feabdc0.html?siteedition=uk#axzz2qxKS9cHS>
  - ii. As recognised (above), there are dissenting opinions as regards the effectiveness of the non-resident capital gains tax reform. The lesson to be learnt from Switzerland, however, is that when HMRC pursued British accounts under the Anglo-Swiss tax treaty, the capital pursued fled to Singapore and other such places with whom the United Kingdom has no agreement in place. See Pycock, Daniel “A Swiss Miss On Taxes”, *The Adam Smith Institute Blog* (<http://www.adamsmith.org/blog/tax-and-economy/a-swiss-miss-on-taxes>) and the proof of the pudding later, when HMRC announced it had barely collected one-tenth of its target revenue: <http://www.thetimes.co.uk/tto/money/tax/article3907120.ece>
  - iii. Cunningham, L. A. & Buffett, W. “The Essays of Warren Buffett: Lessons for Corporate America” (1998) p.24-25. “It is common... to value businesses using a calculation of cash flows equal to (a) operating earnings plus (b) depreciation expense and other non-cash charges’... after taking (a) operating earnings and adding back (b) non-cash charges; Buffett argues you should subtract something else: (c) required reinvestment in the business. Buffett defines (c) as “the average amount of capitalised expenditures for plant and equipment (etc) that the business requires to fully maintain its long-term competitive position and its unit volume”. This is a similar difference to GAAP, as currently used by HM Government, and a kind of GAAP+, I suppose, that this paper is calling for (which includes, for example, adequate reserves for unforeseeable future expenditures of up to 10%).
  - liii. “Most historical evidence shows that developing world aid recipients are more debt-laden, inflation-prone and likely to experience conflict and corruption... peaceful economic exchange is much better than paying dictators and war-lords to oppress their own people” Pycock, Daniel. “Africa needs our help, not our aid” *The Adam Smith Institute Blog* (published on 26/08/2011; last accessed on 21/01/2014). See also Polman, Linda “War Games: The Story of Aid and War in Modern Times”, and the case studies provided of Afghanistan, Malawi, Rwanda, Congo, Ethiopia and Somalia, as well as – more recently – India.
  - liv. See the Keogh Report, here: <http://www.nhs.uk/NHSEngland/bruce-keogh-review/Documents/outcomes/keogh-review-final-report.pdf> into Quality and Care in 14 Selected Trusts, the Francis Reports into the Mid-Staffordshire NHS performance, as well as Pycock, Daniel. “The NHS is failing us” *Adam Smith Institute Blog* <http://www.adamsmith.org/blog/health/the-nhs-is-failing-us>



- (published on 09/09/2011, last accessed on 21/01/2014)
- lv. Unilateral Nuclear Disarmament would save the United Kingdom £2bn per-year, over the 20-year lifetime of this Trident Renewal (thus £40bn, outwith inflation). There seems to be no strategic reason to keep Trident. Even if the distant threat of the unstable nations (N. Korea, Iran, etc) acquiring nuclear weapons were reality (Pakistan notwithstanding), the likelihood is that the threatened region (or the United States) would take action and wield the deterrent. Britain's involvement would be inconsequential.
  - lvi. Davies, D. T. C. *Hansard* (House of Commons Questions on the Climate Change Act), 10/09/13. Transcript also available here: <http://www.thegwpf.org/mps-attack-impact-climate-change-act-families-industry/>
  - lvii. Booker, Christopher. "MPs have no idea what the Climate Change Act means", *The Daily Telegraph*, (published 21/07/12, last accessed on 31/01/14) <http://www.telegraph.co.uk/comment/9416805/MPs-have-no-idea-what-the-Climate-Change-Act-means.html>. See also "Climate Change Act has the biggest bill ever" <http://www.telegraph.co.uk/comment/columnists/christopherbooker/7550164/Climate-Change-Act-has-the-biggest-ever-bill.html>
  - lviii. Ibid Davies, D. T. C, and for a more detailed calculation of energy costs as a consequence of the climate change act, see the following Department for Energy and Climate Change Blog: Kyriacou, C. "The True Cost of Energy and Climate Change Policies on Bills" (28/07/11): <http://blog.decc.gov.uk/2011/07/28/the-true-cost-of-energy-and-climate-change-policies-on-bills/>
  - lix. Ibid Davies, D. T. C
  - lx. Hennessy, P; Malnick, E and Mendick, R. "Wind Farm Subsidies to top £1bn this year" *The Daily Telegraph*, published 14/07/12; last accessed 31/01/14. <http://www.telegraph.co.uk/earth/energy/windpower/9400147/Wind-farm-subsidies-to-top-1bn-this-year.html>
  - lxi. Ibid.
  - lxii. According to the Natural Environment Research Council, tidal barrages on the West Coast of the UK could produce up to 10% of the UK's energy requirements on a predictable basis: <http://planetearth.nerc.ac.uk/news/story.aspx?id=380&cookieConsent=A>
  - lxiii. See, for example, <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/9209946/UK-could-become-one-of-worlds-biggest-shale-gas-producers.html>; Gosden, Emily "Shale could fuel UK for 10 years, say experts", *The Daily Telegraph*, published: 10/06/13 and last accessed 31/01/14, <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/10111793/Shale-could-fuel-UK-for-10-years-say-experts.html> ; For more comprehensive figures, see the British Geological Survey's Bowland Shale Gas Study here: <https://www.gov.uk/government/publications/bowland-shale-gas-study> and the Department for Energy and Climate Change's report "The Unconventional Hydrocarbon Resources of Britain's Onshore Basins – Shale Gas" here: [https://www.og.decc.gov.uk/UKpromote/onshore\\_paper/UK\\_onshore\\_shalegas.pdf](https://www.og.decc.gov.uk/UKpromote/onshore_paper/UK_onshore_shalegas.pdf) . The BGS puts Shale Gas in a range between 822 trillion cubic feet and 2281 cubic feet (average: 1329) here: <http://www.bgs.ac.uk/shalegas/#ad-image-0>
  - lxiv. Department for Energy and Climate Change Infographic published by Heaven, W. "Nuclear power vs wind farms: the infographic the Government doesn't want you to see", *The Daily Telegraph*, (published 25/10/13; last accessed 31/01/14). <http://blogs.telegraph.co.uk/news/willheaven/100243023/nuclear-power-vs-wind-farms-the-infographic-the-government-doesnt-want-you-to-see/>
  - lxv. Morton, Alex "Why Aren't We Building Enough Attractive Homes? Myths, Misunderstandings and Solutions", *Policy Exchange*, published September 2012: <http://www.policyexchange.org.uk/images/publications/why%20arent%20we%20building%20enough%20attractive%20homes.pdf>
  - lxvi. BBC News – "What does the schools spending data show?": <http://www.bbc.co.uk/news/education-12175480>. According to the BBC, funding averages

between £4,000 and £9,000 per-place for secondaries, and £3,000 and £8,000 for primaries (absolute ranges are 1,500 and 33,000 - and 1,000 and 17,000 respectively). This picture does not include academies (and hence, free schools) since they're independent of local authority control. The existing schools funding formula allocates higher levels of money to areas with higher deprivation. The median range of funding for schools outside of London is £5,021 - £6,849 per-place depend-ing on the levels of deprivation. There are also regional variations to consider. Schools with deprivation and London weighting can receive £7,207 - £8,058 per-place, whereas the lowest funded schools in Merseyside, Solihull and Swindon are funded to the tune of £3,790, £4,445 and £4,563 per-place respectively. At primary level, the Isle of Scilly, City of London, and Tower Hamlets receives £8,736, £7,401 and £5,967 respectively whilst South Gloucestershire, Central Bedfordshire, and Solihull receive £3,328, £3,354 and £3,432 per place respectively. If a local authority has a lot of academies, it may spend more on its schools per-place than the raw data suggests. See also figures from the Institute for Fiscal Studies: <http://www.ifs.org.uk/bns/bn71.pdf> from 2005/06.

- lxvii. It should be noted, as with previous projections published and/or carried-out by this paper, that long-term projections are extremely uncertain – since small changes in underlying assumptions can have massive implications over the long-term. The OBR moreover states that it is the assumption of working age that favours immigration in these projections, and that when said migrants retire (without reform), they will push-up government spending via welfare and pensions. Inward migration, therefore, could be viewed as delaying rather than avoiding the impact of the fiscal challenges of an ageing population.
- “The migration scenarios illustrate that higher net migration reduces upward pressure on debt over our projection horizon. Inward migrants are assumed in the ONS projections to be more concentrated in working age than the population in general. So higher inward migration would tend to increase tax receipts and not add much to age-related spending pressures, even whilst allowing for an increase in GDP from extra employment. However, it should be borne in mind that when the inward migrants retire from the workforce, those that remain in the UK will push up spending more than they increase revenues, and even if they leave the UK most will still be entitled to UK state pension payments. So higher migration could be seen as delaying some of the fiscal challenges of an ageing population rather than a way of avoiding them”*
- lxviii. The point should be made, and made well, that economic forecasting is not a science that is exact, but a prediction of what might happen – ceteris paribus (all things being equal) – if one changes an economic factor/fundamental. This could include, for example, the problems faced by the financial sector following a flood of regulations in 2019, the deregulation that shall follow from the UK withdrawing from the European Union, and other such things. This ceteris paribus condition is a universal get-out clause for economists (see, for instance, Paul Krugman’s excuse in the face of criticism from Niall Ferguson), and likewise is the assumption that human behaviour is consistent. There are thus limitations as regards statistical accuracy when using economic modelling that incorporates the complicated, fluid, data-set that is the UK economy. The longer the forecast, in general the greater the likelihood of a larger standard deviation.
- lxix. Goodwin, Andrew. “The UK Economic Outlook: The IFS Green Budget 2013”, *Institute For Fiscal Studies and Oxford Economics*; Chote, Robert. Nickell, Steve. and Parker, Graham “Economic and Fiscal Outlook: March 2013” The Office for Budget Responsibility. (Forecasts until 2017/18).



