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**The benefits of Brentry**

**Eurosceptics may be hugely underestimating the value of membership of the European Union**

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THIS week the Institute for Economic Affairs, a British think-tank, awarded a prize of €100,000 ($138,000) for the most compelling plan for a British withdrawal from the European Union. The winner, a British diplomat named Iain Mansfield, reckoned that “Brexit” would probably lift the British economy by 0.1%. It could enjoy a boost to GDP as big as 1.1%, he argued, provided it succeeding in maintaining access to the European market, swept away a few of the EU’s regulatory impositions and took the opportunity to embark on a slate of unrelated reforms. But, he warns, a meaningful deterioration in Britain’s link to the European economy would cost the country dearly, slashing British output by 2.6%.

That may sound like only a tepid endorsement of Brexit. But new research, presented at the annual conference of the Royal Economic Society in Manchester this week, suggests it still massively underestimates the costs involved. The paper uses a novel method—in essence, creating an alternate version of economic history—to generate a more precise estimate of the benefits of European integration than economists have hitherto managed. Incomes in Britain, it concludes, would have been a fifth smaller in 2008 had it never joined.

Economics provides many reasons why closer ties within Europe ought to have boosted growth. Low barriers to trade allow economies to specialise in the industries to which they are best suited, delivering a boost to productivity. A bigger domestic market enables firms to operate at greater scale, encouraging more capital accumulation. And speeding the circulation of ideas and technology around the union should pep up growth rates in the long
run. The march of European integration, from the 1951 treaty establishing a common market in coal and steel to the 1992 accord in Maastricht which laid the groundwork for currency union, steadily broke down obstacles to the flow of people, goods and money. Bouts of enlargement (roughly one round a decade) added to the size of the market within the EU’s borders.

Yet nailing down the effect of EU membership is maddeningly hard because of the absence of a counterfactual: an alternate Europe in which the EU never formed. The first decades of European integration coincided with a “Golden Age” of European growth. But much of that growth would probably have occurred with or without a move towards ever closer union, thanks to recovery from depression and war. Without the baseline for comparison provided by a counterfactual, frustrated economists must hazard guesses as to what caused what.

Past efforts to estimate the benefits of membership have therefore been imprecise. In a 1996 paper Richard Baldwin and Elena Seghezza of the Graduate Institute in Geneva surveyed prior studies of the connection between trade and investment in Europe. Those studies pointed to a “rough correlation” between an economy’s productivity growth and the openness of its market. In a 2008 paper Andrea Boltho of Oxford University and Barry Eichengreen of the University of California, Berkeley moved a step closer to using counterfactuals. Yet their approach was more narrative than statistical: they discuss in detail what might have happened at critical moments of history had the union not moved forward. They conclude with a rough quantitative judgment: that members’ GDP is perhaps 5% higher thanks to integration.

In the new paper Nauro Campos of Brunel University, Fabrizio Coricelli of the Paris School of Economics and Luigi Moretti of the University of Padua reckon that these approaches, though useful, can be improved upon. They concoct what they call a “synthetic counterfactual”, meaning a projection of how EU members’ economies would have performed had they not joined the EU, by substituting data from non-member countries with similar economies. To ensure a good match, they do not use data from just one similar country, but instead use a weighted blend of the data from several countries. Thus their non-EU Britain, for instance, is 91% New Zealand and 9% Argentina (an amalgam Eurosceptics will no doubt pounce on). The macroeconomic statistics of those countries, weighted in those proportions, closely track those of Britain before it joined the EU.

The paper then compares the performance of the synthetic substitutes to their real counterparts after accession. This clever device is not without problems, but the authors reckon it may underestimate the benefits of EU membership. Synthetic Lithuania, for instance, is 42% Ukraine. But proximity to the EU may have brought some benefits to Ukraine, which
in turn boost the projected performance of synthetic Lithuania. That makes the gain to the real Lithuania from joining look smaller than it really is.

Closer union, higher incomes

In fact, the authors find a strong and persistent return to joining the EU in almost all cases—Greece being a dramatic exception (see chart above). Real GDP per person in Portugal, adjusted for differences in prices among the countries studied, is 21% higher as a result of accession, they reckon. In Ireland the gain is 43%. Each round of enlargement delivered a hefty rise in GDP and productivity growth, relative to the counterfactual. In most cases, the gains mount over time rather than petering out. That suggests that membership is improving members’ underlying growth capacity and not just delivering a one-off jolt to incomes. The paper provides the best evidence to date that economists’ intuition—that integration has made Europe vastly better off—is correct.

The end-date for the study, 2008, flatters the EU. Yet for most members (Greece, again, excepted) the drop in real output per head since the crisis looks modest relative to prior gains. Membership boosted British incomes by 25% through 2008. Britain surely remains a net beneficiary even after the economic upheaval of recent years. These figures will not stop Euroskeptics from arguing for Brexit. But they suggest that from an economic standpoint the EU has been a remarkably good club to be in.

From the print edition: Finance and economics