# The EU stops the UK government doing what it wants. Business should like that

blogs.lse.ac.uk/brexit/2016/02/16/the-eu-stops-the-uk-government-doing-what-it-wants-business-should-like-that/

16/02/2016

*Without the state aid restrictions put in place by the EU, argues **Giles Wilkes**, ministers would follow their political instincts – pass legislation favouring certain industries and invest according to their priorities. The European Commission's vigilance in ensuring Member States follow these rules ensures that business is not subject to political whim and bias – and firms ought to be grateful for that.*

"No, minister, that's not allowed", stammers the civil servant. "Why on earth not?" fumes the minister, while her special adviser glares meaningfully across the table. "Err, well, the EU would never let us. State Aid."

In various forms this scene is regularly repeated in Whitehall. Politicians fight their way into power having promised to do things, and what this means for those with an economic brief is the exercise of their will over the economy. Many profess some loyalty to laissez-faire in opposition, but none really feel it when finally able to do something. Were they unconstrained, they would: pass laws in favour of "good" industries or businesses, give out special tax bungs, throw investment in a certain direction, lean on suppliers or banks to keep some struggling firms alive – in short, act exactly as you would expect them to.

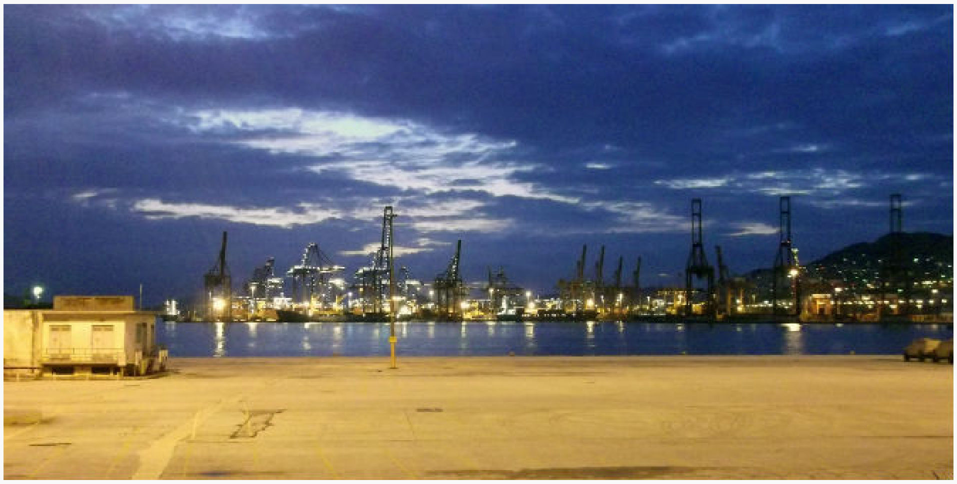
All of which would be ruinous to the operation of a free market, like that operated by the European Union, which is meant to allow the free play of competition. Broadening the market is meant to shift production towards where its cost is lowest, and since the days of Adam Smith we have understood that this is to the general benefit of all. Like the United States over centuries, and the UK itself during its long spell pioneering free trade, the EU is a successful example of this working. Our consumers benefit from being able to choose freely between goods and (mostly) services provided across a large area, and businesses can plan on the basis of a much larger market for their wares.

## 'How much do you think I care about Hull?'

But politicians struggle with the disruption wrought by production shifting around. The gain to economic efficiency and consumer welfare from a wide and level playing field is diffuse, whereas the pain to those areas losing out is apparent and politically potent. When working as special adviser to Vince Cable in the Department of Business, Innovation and Skills, I once found myself arguing with an MP about an industrial grant. He was lobbying BIS in order to encourage a company to shift its manufacturing to his northern constituency. When I pointed out how this would only shift jobs to his patch from another constituency in Hull, there was a moment of incredulous silence at the other end of the line. Then, "Hull? Hull? How much do you think I care about Hull?"

Well, precisely. Economics argues for a free and undistorted market, politics lobbies for its own interests, and the two seldom coincide. Without rules restricting the provision of subsidy or other advantages to specific politically-favoured businesses, the single market becomes a travesty. The market no longer shifts towards the genuinely lowest-cost producer. Businesses are not encouraged to innovate and become more efficient, but lobby for bungs and other de facto protection from the state. The costs are twofold: consumers pay more, and the general taxpayer stumps up.

EU state aid rules are put in place precisely in order to stop this kind of market distortion. From an insider's point of view, they are undoubtedly a pain. Subsidy does not always come plastered with a great big sticker saying "bung", but can be hidden within all sorts of other rules, often inadvertently. Look at the list of state aid infringement cases. Case No 2012/4155 seems pretty blatant: "Commission asks GREECE to stop discriminatory taxation for ships flying foreign flags". But how about case 2010/2144, "Commission requests IRELAND to amend its car tax legislation as regards leasing and rental vehicle"? No doubt the Commission is right, but it is hard to imagine what sneaky industrial policy motive Ireland might have for messing with car rental costs.



The port of Piraeus in Greece. Photo: Threepenny-photos via a Creative Commons 2.0 licence

More generally, any aspect of business policy might confer a specific advantage on a businesses – in other words, allow government somehow to pick out a winner – and so policy development must painstakingly eliminate biases. This is trickier than it sounds. Environmental policy, for example, is inherently biased – it aims to favour companies behaving one way, over those behaving another. While there are exemptions from the rules for some environmental protection, the Commission is still careful to check they are not used as a cover for old-school industrial protection.

## A future without state aid rules

It is not surprising, then, that when politicians and their advisers try to imagine what being "unshackled from the EU" might mean, they picture a world without state aid constraints, one in which they can nurture the industries of the future without the interference of Brussels. But this is precisely why business itself should be discomfited at the prospect. The rules that Europe has imposed within the British state squarely improve our business policy. Alongside others like the obligation to consult, the regulatory impact assessments and value-for-money tests imposed on policy, state aid rules force government to behave fairly and with consideration of the consequences. They make otherwise autarkic individuals act as if they believe in economic forces, whether they do or not.

A return to the ad hoc-ery of the 1970s is not what most Eurosceptics claim to want, but without state aid constraints it might happen. More to the point, though, no one can be sure what would follow Britain leaving the EU, in terms of restraints on state aid. Presumably, if Europe were to allow UK companies to sell freely into its giant market, it would want some reassurance that they are not gaining an unfair advantage through state subsidy or similar – in which case, the same restraints would somehow be made effective in some other, as yet unspecified way.

We do not know. But I am fairly sure it would be a mess: an economy bound by the rules of a market while having no formal representation there for shaping those rules or their implementation. Contrary to the saloon-bar myth, membership of the EU has improved Britain's business climate. Business should want this to continue.

*This post represents the views of the author and not those of BrexitVote, nor the LSE.*

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