



## Treasury Committee

### Oral evidence: [The economic and financial costs and benefits of UK membership of the EU](#), HC 499

Wednesday 11 May 2016

Ordered by the House of Commons to be published on 11 May 2016

[Watch the meeting](#)

Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, Chris Philp, Mr Jacob Rees-Mogg, Rachel Reeves, Wes Streeting, John Mann

Questions 1901 -2063

#### **Examination of Witnesses**

*Witnesses:* **The Rt Hon George Osborne MP**, Chancellor of the Exchequer and **Mark Bowman**, Director General, International and EU, HM Treasury.

Q1901 **Chair:** Thank you very much for coming in to see us this afternoon, and there is a particular thanks from the Committee because you are now appearing for a second time to give evidence. We have made quite a number of demands of you at relatively short notice to give evidence, and you have acceded to those and we are grateful. Coming immediately after that friendly opening word, I would also like to secure a commitment from you for the day that you are going to publish your next paper, because it is now clear that you are going to publish a paper on the short-term effects of Brexit. When are you going to publish that? Can we have a date please?

**Mr Osborne:** First of all, thank you for welcoming me back to this Committee. I cannot give you a date today, Mr Tyrie, but I can assure you that it will happen before the purdah period begins and I think we have agreed that the Chief Secretary to the Treasury, if you wish, will come and answer questions on the paper we are going to produce on the short-term impact of a vote to leave.

Q1902 **Chair:** We might invite the chief economist along as well or someone else to accompany him.

**Mr Osborne:** I am sure that Sir David will be more than happy to come along.

Q1903 **Chair:** You will be unavailable at that time. The reason I am pressing this point is because we need an interval between the publication of that document and any consideration of it, and we want that consideration to take place before the purdah period.

**Mr Osborne:** I can give you a reasonable assurance that you will have some time. I am not sure I can promise you the four days.

Q1904 **Chair:** Can I move you towards several days?

**Mr Osborne:** I am happy to discuss with you privately when we are likely to publish this document, so that you can arrange around that.

Q1905 **Chair:** This matter has been discussed by the Committee as a matter of considerable concern. That is why I am raising it with you now.

**Mr Osborne:** Of course I understand. I should also just introduce Mark Bowman, who is the Director for the International section of the Treasury.

Q1906 **Chair:** You were probably the key hand in writing this paper. Is that right, Mr Bowman?

**Mark Bowman:** With my colleagues, yes.

Q1907 **Chair:** I am sure everything is done with your colleagues. Of course it is all really written by the Chancellor in the dead of night, since it carries his name. The Cabinet Office paper, “The Best of Both Worlds”, says—and this may seem a relatively detailed point, but I do not think it is—if the UK believes that the principles behind the mechanism seeking to protect Britain’s position on our ability to run our own policy on financial stability are not being respected we, the UK, “can unilaterally take the UK’s concerns to the Heads of State or Government in the European Council”. That is not correct, is it, Chancellor?

**Mr Osborne:** That is correct. The Cabinet Office paper was signed off by Government lawyers, but I have also followed the debate that you have had with Sir Jon Cunliffe about this at the Committee. If I just set out very briefly what we have achieved here with this negotiation, first of all, we have principles that protect the UK’s interest.

Q1908 **Chair:** I just want to concentrate on this one very detailed point. Can we unilaterally force this issue on to the agenda at the European Council? That is what this Cabinet Office document says.

**Mr Osborne:** First of all, these principles are subject to legal protection. That is the first and, I would say, most important safeguard. Second, we have a right to elevate a discussion to the appropriate council, which would probably be the Ecofin Council in this case.

**Chair:** That is not in discussion. Sorry for interrupting.

**Mr Osborne:** If you will allow me to finish, I will get to the final point you are making, which is the elevation to the European Council.

**Chair:** That is what we are discussing. That is the only issue.

**Mr Osborne:** First of all, the principles are legally binding and will be enshrined in the treaty. Secondly, there will be a legal commitment to elevate to the Ecofin, and an obligation on the President of the Ecofin Council and an obligation on other member states to try to settle the issue there. Then we can request elevation to the European Council but, as Sir Jon Cunliffe, who was our UKREP representative and has had many years of dealings with the European Union over his career, has pointed out, it is inconceivable that the European Council would not then discuss the issue.

Q1909 **Chair:** This is a request, is it not?

**Mr Osborne:** That is how it is set out in the document that we published and was agreed.

Q1910 **Chair:** It is described as something that we can decide “unilaterally”, but it is not something that we can decide unilaterally.

**Mr Osborne:** In the text of the agreement that we published, and that everyone has scrutinised, it makes clear that it is a request, but it has also been clear from the very credible witnesses that you have listened to that that is not a request that could be turned down, in practice.

Q1911 **Chair:** This reading here in your Cabinet Office paper looks like a legal right, but it is not a legal right, is it?

**Mr Osborne:** As I said, the wording is correct. The lawyers signed off that Cabinet Office document, but I have explained the process and the very substantial new protections, of which, by the way, I would say the most important is the first part of that chain, which is the fact that these principles will be enshrined in the Treaty of Rome.

Q1912 **Chair:** That may not be the case. In the interests of time, I am only homing in on this one point, because it does look, to any reasonable observer, as if you have overegged it. You have quoted Jon Cunliffe; he himself has confirmed in writing to us that the UK has no legal right of access to the European Council and we will be at the mercy of whoever is the President. He says that, in his experience, in his time, a request would not be denied, but that is a long way from saying that this is something that we can unilaterally decide to have discussed.

The reason I raise this is not because I am desperately concerned about this issue, although I think it is an important one. It is because it comes on top of a raft of claims that, taken together, can look like hyperbole and overegging the pudding. We have had, in the last few days and weeks, tens and thousands of jobs that are going to go in the City and every household worse off—we will come back to that one shortly, I expect—interest rates going up and house prices going to slump. We have been told there will be an increase in the terror threat to the UK, and this has all culminated in what looks like a heavy briefing to newspapers, because it is not in the text of the Prime Minister’s speech, but led to the headline, “Brexit could lead to war”. This does seem a bit overdone and I am just wondering whether you are really strengthening or weakening your argument, on its own terms, by going in for all this stuff.

**Mr Osborne:** I completely reject what you have said, because the claims on the impact to the economy have been supported by the Bank of England, the OECD, the Director of the IMF and every major credible institution in the world. The claims on security that have been made were supported, just a couple of days ago, by the two people who ran MI6 and MI5 and have kept this country safe for many years. The arguments about the broader stability of Europe are ones that every other country in Europe would echo.

I would say that what we have done, on the side of those arguing to remain in the European Union, is set out credible propositions about the very serious consequences for this country, our economy, our security and our place in the world, were we to leave. Every credible international financial institution has supported the overall claims we have made and every one of our allies in the world has supported the arguments we have made about our security. I would say there is a vast gulf of difference between those claims and the completely specious claims over things like the savings we might get if we left the EU, on which people like Sir Andrew Dilnot of the UK Statistics Authority has again written to the leave campaigns saying that they are potentially misleading. I do not think you should equate the two.

**Chair:** It is for other Committees to examine peace and war, and the terrorist threat.

**Mr Osborne:** They do have an impact on the Treasury, some of those things.

**Chair:** There are some here that are very much in our bailiwick, and those ones we should examine carefully this afternoon. With that in mind, I am bringing in Stephen Hammond.

Q1913 **Stephen Hammond:** Chancellor, good afternoon. Can I take you back to your *Times* article of 18 April, where you say, “Put simply: over many years, are you better or worse off if we leave the EU? The answer is: Britain will be worse off, permanently so, and to the tune of £4,300 a year for every household”. Can you tell the Committee exactly what you mean by £4,300 a year?

**Mr Osborne:** That is the central estimate of a range we have published of the impact on GDP per household of leaving the European Union. The range is provided by the potential different options that the UK may seek to exercise were it to leave, whether it becomes a member of the EEA, whether it has a free trade agreement or whether it relies on the WTO rules. The range is provided by that. The £4,300 per household is the central number in the range but it is, as I have said at the time and is very clearly spelt out in the document, in the middle of a range.

Q1914 **Stephen Hammond:** The £4,300 is GDP per household. Of course, many people reading that number would have thought that that is the amount that the household might have more to spend each year. This is not what you are saying, is it?

**Mr Osborne:** That is an impact both on the income that the household has, but also on the public services that they consume. That is all part of the estimate of the impact on a household. It does not actually look at some of the wealth effects. The Chairman mentioned things like house prices. House prices, in our judgment, would fall and that is a judgment shared by major mortgage lenders like Virgin Money, Halifax and so on. There would be other impacts on a household. For any individual households, there could be different impacts. Someone might lose their job and, of course, the impact would therefore be worse.

Q1915 **Stephen Hammond:** The £4,300 is the GDP impact, which is disposable income plus. Has the Treasury done an estimate of the disposal income impact? It would presumably be less than the £4,300. Has the Treasury done an estimate of that?

**Mr Osborne:** As part of the short-term document that we were speaking about earlier, we are looking at the impact on wages. As and when we produce that work, we will be asked about that.

Q1916 **Stephen Hammond:** Mr Bowman, can I just ask you about the Treasury document, again this £4,300 number and the set of judgments that are behind that number? Could you spell out for the Committee exactly what those judgments are? There is a huge dispute about the probability of some of those judgments actually coming to pass.

**Mark Bowman:** As the Chancellor has explained, what we have done in this Treasury analysis is we have set out a range of estimates. The £4,300 number is the central point in the range. We have created the range of estimates by looking at different alternative models for the relationship that the UK could have outside the EU, and we have also taken very realistic and reasonable assumptions. For example, we have looked at different ranges for the impact of different alternative models on trade or on investment, different relationships for the impact of trade and investment on GDP and productivity, so as to generate a range of plausible estimates.

I think you will find, if you look at the external work and external research that has taken a similar approach of looking at the broad impacts on trade and productivity, that you get very similar results. The consensus among economists is that all the alternative models would result in a GDP hit to the UK.

Q1917 **Stephen Hammond:** I will come back to that in a minute. Might it be possible for you to provide the Committee with some of the sensitivity analysis behind those judgments?

**Mark Bowman:** We have set that out in the document in the annex that details the modelling. If you want to understand the approach we are talking to the model, the diagram on page 154 explains the general approach of modelling the determinants of trade and investment, and then uses a range of estimates of how trade and investment then impacts on the economy, putting this into a macroeconomic model. In this annex, which sets out the modelling, we have clearly specified the assumptions we are making, the cautious assumptions and the reasons why we are using a range of different assumptions for these effects, in order to generate the final results.

Q1918 **Stephen Hammond:** I did look at that, but I did not think you had the precise numbers behind it. I will have another look at that. You made the point that there seems to be a consensus around the number that you are quoting but, if you are a layperson at the moment, what you see is one of the leave campaigns talking about a benefit to every household of £3,000 and you are saying that there is going to be a hit of £4,300. The public sees quite a range of numbers here, so there is not actually a consensus, is there?

**Mr Osborne:** If I may take that on, with respect to the Committee, this may actually be a role for the Treasury Committee here, in the work you are doing and the report you are preparing. It is important in this debate to look at the weight of the evidence. Of course there is going to be claim and counterclaim. When it comes to the economic cost of leaving the EU versus the potential benefits, you have to weigh up that, while you have a small number of individuals long associated with the campaign to leave the EU on one side of the argument, you have on the other side of the argument the vast bulk of economic opinion in this country, every major financial institution in this country, every international financial organisation and a host of external observers of the British economy.

I know, in the interests of balance, sometimes equal airtime is given to both arguments but, if you look at the sheer weight of opinion, it is overwhelmingly the case that the people who look at the case for leaving the EU come to the conclusion it would make the country poorer and it would make individuals in the country poorer too. I hope that is something, and perhaps the Treasury Committee will be able to contribute to that discussion, that the public comes to see and understand, in the way that the facts in this referendum debate are presented.

**Stephen Hammond:** Chancellor, you have probably guessed exactly what we intend to do in our report. Thank you.

Q1919 **Chair:** Chancellor, you would agree that regulation, whether it brings benefits or costs, immigration and the trade relationship, particularly with non-EU countries, are right at the heart of this debate, would you not?

**Mr Osborne:** Yes, I would.

Q1920 **Chair:** Mr Bowman, you have just told us that there is no sensitivity analysis in the document, and referred Stephen Hammond to an annex. I think I am right in saying that there is no sensitivity analysis on the regulatory framework, on immigration or on the non-EU trade relationship. As the Chancellor has just agreed, are they not three of the most central issues in the whole debate?

**Mark Bowman:** If you take trade with non-EU countries as an example, in the analysis we have made a very cautious assumption. We know that, if we were to leave the EU, all of the trade deals that we currently rely on through the EU would fall. We would have to renegotiate them. First of all, it would take a long time. Secondly, there is no guarantee at all that we would be able to secure the same level of access to markets.

Q1921 **Chair:** I was only on the narrow point about sensitivity analysis, Mr Bowman. There is no sensitivity analysis in there, is there?

**Mark Bowman:** No. We have made cautious neutral assumptions.

Q1922 **Chair:** You have made cautious assumptions—well, at least what in your view are cautious assumptions. I am not challenging that at the moment. I am only looking at the issue of whether there is sensitivity analysis with respect to those three issues.

**Mark Bowman:** On those issues, we have made cautious neutral assumptions.

Q1923 **Chair:** But you have not provided any sensitivity analysis.

**Mark Bowman:** We have made cautious neutral assumptions, yes.

Q1924 **Chair:** I heard that phrase. I am just listening for the word “yes” or “no” to my question. I did not quite spot it. Can we have another go? Have you got any sensitivity analysis in this document on the regulatory framework, immigration or the non-EU trade relationship?

**Mark Bowman:** We have not done sensitivity analysis on these. We have provided a cautious neutral assumption and we have explained very clearly in the document why and the basis for making those assumptions.

**Chair:** I understand where you are coming from and think it is a very interesting document that you have produced, but it is important that we are very clear to elucidate both its strengths and its limitations, and I think that is one of its limitations.

**Mr Osborne:** Could I make a point about that, Chair?

**Chair:** Briefly, if you would, because I want to bring others in.

**Mr Osborne:** What you have described as limitations are because we have made assumptions about immigration policy or regulation policy that would be neutral, because we have had absolutely nothing from the leave campaign about what the immigration policy would be, what regulations they would get rid of or indeed what trade deals they would have. I would say that it is incumbent on the Treasury to provide sensitivity analysis on what the alternatives might be in those spaces. On the trading relationships, we have looked at every known combination of trading arrangements that have existed for European states. That is one of the reasons we have a range of numbers there.

**Chair:** You have made your point in your own way and I think I have put mine across too.

**Mr Rees-Mogg:** Thank you, Chairman, and thank you, Chancellor and Mr Bowman, for coming in, and a particular thank you to the Chancellor, because you may have known that Vote Leave was rather difficult to persuade to get in. You have been very good at coming in, so I am grateful that you have shown a better response to Parliament than my own friends do.

**Rachel Reeves:** The Chancellor is your friend as well.

**Mr Rees-Mogg:** He is my right honourable friend.

**Mr Osborne:** These are strange days.



Q1925 **Mr Rees-Mogg:** I wonder if I can come, Chancellor, to the heart of the assumptions made behind the gravity analysis that has been done. The command paper says that “The key transmission channel through to the economy in the long term comes from the impact of reduced openness, both from trade and foreign direct investment, on productivity. This is the main driver of the estimates of the long-term effects of EU membership on the economy.” What that is saying is that openness leads to productivity enhancements, which lead to higher standards of living. Therefore, you would assume that being a member of the European Union would lead to improved productivity. Can you therefore explain why, in the 10 years prior to 1973, UK productivity grew by 3.8% per annum but, from 1973 to 1982, the following 10 years, grew at under half that rate, at 1.8% per annum?

**Mr Osborne:** In that period, the UK was hit, as indeed other economies were, by a balance of payments crisis, a quadrupling of the oil price, stagflation and a visit to the IMF. There were other things at work, and indeed appalling industrial relations, all of which were having an impact on productivity. If you look at the work, not just that we have done but also that the Bank of England has done independently of us, they have come to the conclusion that membership of the European Community, as it then was, has both increased Britain’s trade more than it would have done and that that has led to an improvement in our productivity growth off the baseline number, off the alternative.

Q1926 **Mr Rees-Mogg:** Interestingly, productivity picks up in the following decade, when we are benefiting from domestic reforms. It seems to me that you are wanting to say that we get productivity benefits and then attribute them to the UK. Are you mistaking result and cause, and assuming causal relationships where there are not actually any?

**Mr Osborne:** No, I do not think I am. I would be the first to say that there are many things we need to do domestically to continue to grow our productivity. There are domestic reforms we can make and we have talked about them before at this Committee, but one of the drivers of productivity and, in the economic literature, one of the most clearly understood drivers of productivity growth, is greater trade. Some of the other drivers of productivity growth are something of a mystery. Trade is well established, over many decades in the economic literature, as a driver of productivity growth. Clearly, being a member of the European Union and being a member of the single market, you do more trade with your partners than would be the case if there were tariff barriers or customs barriers, let alone different standards. We can get on to the single market. That increases productivity. Actually, the productivity assumptions in this paper are more cautious than those used by the London School of Economics, for example.

Q1927 **Mr Rees-Mogg:** This is assuming trade leads to more productivity, other things being equal, and they are not equal. It is quite interesting that EU-wide productivity post-1992, when the single market countries, actually

declined from previous rates. Why did more openness not increase productivity in the European Union as a whole?

**Mr Osborne:** What you see with the European Union and the European Community before it are productivity cycles, a bit like you see in domestic economies, not just ours but the United States. Major acts of European reform, like the creation of the single market, did lead to an increase in productivity growth in other European countries, as well as our own. All European countries now have weaker productivity growth. It is one of the pressing reasons why we should complete the single market, complete the single market in digital services, energy and the like. You will get another boost to productivity growth, not just in our economy, but in other European economies too.

**Mr Rees-Mogg:** There has been weaker productivity growth in the European Union since 1992, so for over 20 years. That is quite a long cycle.

**Mr Osborne:** The UK has had strong productivity growth for the earlier part of that period. It is only since the financial crisis that our productivity growth has been particularly impaired. I think there are domestic reasons for that, associated with the particularly large impact of the financial crisis on a large financial centre like the UK.

Q1928 **Mr Rees-Mogg:** If the UK's productivity growth is improving, but the rest of the European Union's is not, that would imply that it is not the European Union per se that is improving productivity.

**Mr Osborne:** I would say that it is one of the components. I have not claimed that it is the only component. I have said that the other components are things like our education system, the competitiveness of our taxes and the like. The productivity challenges faced in Europe are echoed by productivity challenges faced in the United States. I know the flavour of today is that we are going to have the American model if we leave. We have gone from the Albanian model to the American model. Even if one looks at the United States of America, there has been weak productivity growth in recent years and it is as much a debate there as it is here.

Q1929 **Mr Rees-Mogg:** There may have been recently, but since 2000, the euro area has run at about half the productivity growth of other OECD countries, so it seems to be a particularly European problem.

**Mr Osborne:** If you are telling me that European economies need to do even more to make themselves productive, I completely agree, but do I think that separating ourselves off from our largest export market is going to help our productivity growth? No, I do not.

Q1930 **Mr Rees-Mogg:** I just wonder whether you are ignoring one of the crucial other things that happened in 1992, with the single market. It led to a very rapid increase in the acquis and therefore the level of regulation across the European Union. Therefore, the benefits of trade have been countervailed upon by the disadvantages of regulation, the reduction in which your report takes no account of.

**Mr Osborne:** I am the first to say that the European Union should deregulate. Indeed, one of the major commitments we have secured is that there should be deregulation, especially for small and medium-sized enterprises. When I look at what the leave campaign claims are the European regulations that they think are costly, they are regulations around things like holiday pay, maternity rights, low-carbon energy commitments, financial regulation and capital requirements on banks.

I accept there may be some people who want to get rid of things domestically, even if we are not in the European Union, but actually I notice that the British House of Commons, under different Governments, has gold-plated maternity regulations, so we give more maternity rights in this country than the European Union requires, and gold-plated holiday requirements, so we give more holiday rights than the European Union requires. We have led the European debate on climate change. It might not be what everyone in the Parliament agrees with, but it is what the majority has agreed with. When it comes to banking regulation, our implementation of capital requirements stemming from the Basel agreement went beyond what the European Union required. Those are four examples of things that the leave campaign says they will scrap. Well, be my guest to go and explain to the working women of this country that you are going to get rid of maternity rights, and to the children of this country that we are going to pollute the environment for their future.

Q1931 **Mr Rees-Mogg:** I do not think that the leave campaign has said anything of the kind and you know that perfectly well.

**Mr Osborne:** The only thing I would say is that this number, which was being used by prominent leave campaigners again today, about how much regulation is imposed on the British economy includes financial regulation, environmental regulation and maternity rights, in all of which we go further than the European Union requirements.

Q1932 **Mr Rees-Mogg:** It is a question of cost and then choices that we may make. We are not here to examine the leave campaign at the moment; we are here to ask you questions about your report.

**Mr Osborne:** You are asking me whether I should have assumed that there would be less regulation if we left the European Union. Unless you are prepared to get rid of some very major Acts of what I would regard as progressive regulation that both the Conservative and Labour Parties have supported—

**Chair:** We have got that point, Chancellor.

Q1933 **Mr Rees-Mogg:** I was asking you a very simple question on whether the acquis' increase coincided with a decline in productivity across the European Union. You were saying that the European Union adds to productivity, but the empirical historic evidence is against that. Productivity has declined.

**Mr Osborne:** That is not where the weight of the independent economic observers of the economic benefits of the European Union come down.

Q1934 **Mr Rees-Mogg:** The figures are there: the EU has not seen productivity grow since 1992. It has been a declining rate of productivity growth.

**Mr Osborne:** It has been growing.

Q1935 **Mr Rees-Mogg:** It has been growing, but at a declining rate.

**Mr Osborne:** The United States has faced a similar challenge.

Q1936 **Mr Rees-Mogg:** But it has been doing better at it than the EU.

**Mr Osborne:** Is the United States economy more dynamic? Yes, it is. Do I therefore want us to have competitive low tax rates, better universities and better transport infrastructure? Yes, I do.

Q1937 **Mr Rees-Mogg:** Let us move on beyond motherhood and apple pie to gravity models. Do you know of Andrew Rose, an economist at UC Berkeley, who did a gravity model on what would happen if the UK joined the euro? He predicted that there would be a 300% increase in our trade if we joined the euro, which he then reduced a bit later to 100%. Do you accept that models are models, and are inherently inaccurate?

**Mr Osborne:** I would accept that, with any model, you are having to make some assumptions. Therefore, the sensible thing to do is look at where the weight of the different models come out. Whether you look at our analysis, the OECD's analysis or the London School of Economics' analysis, they all come to a similar conclusion: that you would be worse off as a country and the people in the country would be worse off if we left.

I would also take as supporting evidence the judgments of major companies that said they will not invest at the same rate if we left the EU. I would also look at some of the forestalling activity that is happening at the moment. Why are people delaying decisions

on investment at the moment? They want to see the outcome, and it is pretty clear, if you listen to them, that they want to see the outcome because they want to make sure we remain in. If we leave the EU, some of the capital investment, potentially a very large amount of it, would be cancelled.

Q1938 **Mr Rees-Mogg:** You were not so keen on the IMF when it said that you got your economic policy hopelessly wrong and needed to change it. Indeed, you ignored them, quite rightly.

**Mr Osborne:** In that case, first of all, there was a very robust debate. There was a whole range of economists and other financial institutions, and organisations like the OECD, which actually disagreed with the IMF. Here the balance is overwhelming in supporting the conclusions that a whole range of banks, international institutions and the Treasury have come up with.

Q1939 **Mr Rees-Mogg:** It seems slightly selective that you like the IMF when it agrees with you and not when it does not. The OECD was in favour of us joining the euro. It does not have a great record. Can I come back to your booklet? I wonder if we could have a look at the chart on page 19. I just wonder how important this chart is to the assumptions underlying the model.

**Mr Osborne:** It helps inform the model.

Q1940 **Mr Rees-Mogg:** It helps inform the model. Are you aware that, as manufactured goods prices fall relative to services, this chart would look similar for any country, over any extended time period, which did almost any trade?

**Mr Osborne:** First of all, the data in this chart the Bank of England themselves have highlighted and think is significant. In fact, it is explained in footnote 23.

**Mr Rees-Mogg:** The footnote is very important.

**Mr Osborne:** It explains where the data comes from and points out that these are done in real GDP 2012 reference prices. Even if it was done in nominal prices, it would show an increase.

Q1941 **Mr Rees-Mogg:** It does indeed show an increase, but a much lesser one. It is very important.

**Mr Osborne:** It is not significant. It is a little shallower.

Q1942 **Mr Rees-Mogg:** I have the chart somewhere here. It is a very different picture. The important thing is that this is a fundamentally misleading chart because, as manufacturing prices fall over a period, if you adjust them back to current prices, you will inevitably see that they are a smaller part of the traded goods, as you go backwards. If you look at this on the actual values, you will see that the main changes in our trade come in the devaluations in the late 1940s, the devaluations in the late 1960s and so on. Yes, there has been a general upward trend throughout that period, but not this extraordinary transformation that you seem to attribute to the EU. I am just concerned that highly selective charts are being used in this way, when the underlying chart is much more realistic, because you want to know what the percentage of trade was in 1945 in 1945 terms and not in 2012 terms.

**Mr Osborne:** First of all, as is clearly set out, this is Bank of England data and the Office for National Statistics. You end up dismissing Bank of England data and the Office for National Statistics. I think these are all pretty credible institutions that are providing this data. As I say, if you use normal prices, it is still quite a steep graph, though not as steep. Again, you have to step back and say if it is the case that Britain's trade in goods and services with the European Union has increased since we became a member of it and indeed since Margaret Thatcher promoted the single market. The answer is clearly yes and you do not need a graph to tell you that. You can go to almost any small, medium-sized or large business in this country that exports to the European Union or provides services into the European Union, and they will agree with you.

Q1943 **Chair:** We may not need the graph. Perhaps it might be helpful, rather than passing something across the Committee as an exhibit, if you, Chancellor, could provide us with that graph in nominal prices.

**Mr Osborne:** I would be very happy to, yes.

Q1944 **Chair:** I would just like to clarify one other point, which is this £4,300 figure by which households are going to be worse off. That is the central point about which a lot of noise was made. You pre-briefed it, which I think was regrettable, and of course a number of newspapers led with it as some hard fact when in fact, you have explained today—and it is important that we have this report—that this is the product of modelling. Modelling is inherently imprecise. If there is anything in that that you disagree with, then do say so. You are publishing a range that reflects the lack of precision and you are not setting great store by this single figure, are you, Chancellor?

**Mr Osborne:** The figure is what I described it as at the time, which is the central figure in a range. It enables people to understand the scale of the loss that they would face as a family and our country would face. It is echoed by similar ranges provided by the OECD

and the London School of Economics and, as far as I can see, no one has credibly undermined the range that we have provided or, indeed, that central estimate. I think it helps the public understand just what is at stake on 23 June.

Q1945 **Chair:** The range does, but does the figure?

**Mr Osborne:** It is perfectly reasonable to provide a central number, so that people can understand it. In this document, on the very first page in the executive summary, there are the ranges. It is not as if these things have been concealed.

**Chair:** I take the point. It is just that the prominence given as a result of the pre-briefing changes the terms of trades, if I could describe a little about this number, which gives me personally some source of concern anyway. Jacob wants to come in very briefly with one more point, but it really must be quick.

**Mr Rees-Mogg:** I have one for Mr Bowman and one finally for the Chancellor.

**Chair:** They must be wonderfully compressed questions.

Q1946 **Mr Rees-Mogg:** I am sure they will be brilliantly short in their answers too. Mr Bowman, it is surprising, is it not, that the assumptions made if we were to leave the European Union include us applying tariffs to imports from the European Union. Surely, as a free trading nation, if we were outside the customs union we would be open to the world. We would be in favour of free trade.

**Mark Bowman:** Is that in terms of the WTO model?

**Mr Rees-Mogg:** It is in terms of the ones that you are using if we leave the European Union, the WTO one that we would apply tariffs on dairy products to the European Union.

**Mark Bowman:** If we are in the WTO model, our exports to Europe would face tariffs.

Q1947 **Mr Rees-Mogg:** We would have no obligation to place tariffs on imports.

**Mark Bowman:** We would have no obligation, but we would be bound by the WTO's most-favoured-nation rules. If we decided not to impose tariffs on imports from the EU, we would have to give the same treatment to every other country.

Q1948 **Mr Rees-Mogg:** That is right, but why on earth do you assume that we would apply tariffs to the European Union? The UK has a long history as a free trading nation and it fundamentally changes the result.

**Mr Osborne:** It has been quite striking, Mr Rees-Mogg, and I do not put you in this category, that the leave campaign immediately started to assert that public expenditure would be higher if we left and we could impose new tariff barriers to protect certain industries in the UK.

Q1949 **Mr Rees-Mogg:** Chancellor, this is your report with your name on it, and therefore they are your assumptions.

**Mr Osborne:** Mr Rees-Mogg, you are asking if it would be the case that there would be no tariff barriers against Europe. If we had no tariff barriers against Europe, we would have to apply under the WTO rules, so no tariff barriers against the rest of the world. Within a few days of this case being made, prominent allies of yours in this campaign came out and said, “Actually, we would impose new tariff barriers against, for example, steel”. The whole “We are going to be this super low-tax low-spending low-tariff economy if we leave the EU” has been somewhat exposed by the nature of the campaign that is being waged at the moment.

Q1950 **Mr Rees-Mogg:** I am about to finish. It leaves the suspicion that the report has taken absolutely the best it can for remaining and the worst for leaving. Chancellor, if I may remind you of a speech you made on 17 May 2010 when you set up the Office for Budget Responsibility. You said, “I am the first Chancellor to remove the temptation to fiddle the figures by giving up control over the economic and fiscal forecast”. Have you taken back control so that you can fiddle the figures?

**Mr Osborne:** No, not at all. We are presenting scenarios here. You can go and get independent figures from the OECD. Of course, the IMF will be doing an article for the study of the UK economy before the referendum. You can look at the LSE’s numbers. There are a whole range of scenarios out there. They all come to one conclusion, which is that the country would be poorer and the people in this country would be worse off. I would say that, if we are going to have a straight debate on this issue of European Union membership, that you can make claims about some other advantages that you would argue would accrue to the country if we left the European Union, but let us not pretend that we would be economically better off.

Q1951 **Chair:** We are not going to persist with this any longer. It was going to be a very brief question and a very brief reply. You would have to agree, Jacob, that you have had a reasonable innings. I just want to delve a little deeper into one area, which concerns foreign direct investment. I think you would agree,



would you not, Chancellor, that membership makes it more attractive for firms outside the EU to invest in the UK?

*Mr Osborne:* Yes.

Q1952 **Chair:** In which case, Mr Bowman, why is it that your model concludes that there is no benefit, as far as I can tell? If you turn to page 172, where you have set out the estimates of the effects of FDI, and we look at the second line, the origin of non-EU member and destination EU member—that is us in this case—in fact there is a minus sign and the number provided is of negligible value. Your own model seems to suggest that the benefits of FDI from non-EU countries are negligible.

*Mark Bowman:* There is a very strong argument that EU membership promotes FDI. We know that a number of countries invest in the UK and invest in the European Union to get access to the single market.

Q1953 **Chair:** It does not show up in your model, does it?

*Mark Bowman:* In terms of the modelling here, we did not come up with a statistically significant result.

Q1954 **Chair:** In fact, it is negative, is it not? We would be better off out.

*Mark Bowman:* It is not statistically significant, so it does not matter whether it is positive or negative.

**Chair:** I agree with that.

*Mark Bowman:* The reasons for this is limitations with the data and a very short series of available data.

Q1955 **Chair:** There are limitations with the data and the modelling. I would like to hear the answer from the guy who actually did this piece of work.

*Mark Bowman:* On FDI from the rest of the world, we had a limited series of data. That meant that the model did not produce statistically significant results, and we think that is down to data limitations.

Q1956 **Chair:** The reason I raise this is that, if you look at part 2 of this section of the report, the heap of econometrics here always gives one that arbitrary

air of precision, which is very rarely merited in economic analysis generally. It reinforces the point that I have been trying to make from the start: that we need to be pretty cautious about the credibility of any precision, with respect to the outcome of this model. I think you would agree with that, would you not? We need to be very cautious.

**Mark Bowman:** That is why we have presented ranges of estimates with different assumptions.

Q1957 **Chair:** This is why we need to be very careful with single numbers, Chancellor.

**Mr Osborne:** I also think it is the job of the Finance Minister of the country to communicate to people the consequences of the decision they may undertake. That requires me to find language that people will understand. Therefore, it is perfectly reasonable to set out, upfront and centre, and in the public remarks I made, that there was a range and then explain to people what the central estimate was. If I had taken a higher estimate, then you might reasonably have said I was exaggerating the case and picking a number that was not fair, which might superficially have helped my cause, but I did not. I took the central estimate. The fact that it is very similar to the central estimate of the OECD and the London School of Economics is telling.

Q1958 **Chair:** You have made that point, but we are using a model that throws up intuitively implausible results, like the one that we would get a marginal increase in FDI from non-EU countries if we left. That is what your model is suggesting, is it not?

**Mark Bowman:** I am explaining that, because of limitations in the data, we were not able to find a statistically significant result. All intuition suggests that you would.

**Chair:** It is not that I think this document is completely worthless. I do not think it is completely worthless. It has some value, but it is important that we bear in mind that there are considerable limitations to this kind of work, whoever may do it, whether it is the OECD or the Treasury. I think it is time to bring in another one of your newfound very close friends, Rachel Reeves.

Q1959 **Rachel Reeves:** Thank you very much, my friend, Chairman. Chancellor, last month when you were at the IMF, you said that “the overwhelming view of the experts here in Washington is that if Britain leaves the EU, prices would go up and there would be instability in financial markets. That means it’s likely that mortgage rates would go up, families would pay the price of Britain leaving the EU.” I just want to unpick that a bit, Chancellor. This weekend, economists taking part in a poll conducted by Reuters said that the MPC

would probably cut rates in the event of a Brexit, in order to offset the negative shock to the economy. You say that mortgage rates would go up, but do you not see that, as a possible course of action, interest rates would fall on the event of leaving the EU?

**Mr Osborne:** There are two things that drive a mortgage rate. One is the policy rate of the Bank of England. The second is the credit conditions in the economy. On the policy rate, obviously the Monetary Policy Committee is independent and they would essentially have a trade-off to make, but it is for them to explain that, between loosening monetary policy to stimulate the economy as it weakened on exit and, at the same time, dealing with the inflationary consequences of the likely devaluation. That would be a difficult trade-off that we empower them to make.

At the same time, it is generally accepted that there would be tighter credit conditions in the economy, in this environment. That would feed its way through to higher mortgage rates. That is why it is not just myself who has said this, but most of the major mortgage lenders have made this observation and, indeed, the Governor of the Bank has himself alluded to this as well in his public comments.

Q1960 **Rachel Reeves:** Essentially there are three transition mechanisms in which interest rates would be affected. You have credit conditions tightening, which is likely to push up rates; sterling falling is likely to push up rates. However, on the other side you have a weaker economy, which would potentially push down interest rates. Last month, the Bank of England Governor said that raising rates at a time when the economy is slowing would reinforce the slowdown. Would you at least agree that, in the short run, the bank rate might fall on the event of leaving the European Union?

**Mr Osborne:** Look, I need to be careful speaking about the Governor of the Bank.

**Rachel Reeves:** You have spoken about interest rates, Chancellor.

**Mr Osborne:** The Governor of the Bank of England has an inflation report tomorrow and Monetary Policy Committee minutes are being published, but I would make the observation that it is generally accepted that they would face quite a difficult trade-off between tackling rising inflation and weaker output. What their decision would be would be for them, but what we know or can assume is that credit conditions in the markets would be tighter. There would be tighter financial conditions. An example of that has been some of the contingency work that the Bank of England has publicly undertaken, such as providing additional liquidity auctions around 23 June.

Q1961 **Rachel Reeves:** The *Sunday Times* reported at the weekend that the Bank of England Governor has been sounding out UK banks to determine whether their balance sheets can absorb a rate reduction. It is fair to acknowledge that, when you say that leaving the EU is likely to mean that mortgage rates would go

up, there would also be some pressures that suggest that interest rates, at least in the short run, might fall in the event of leaving the EU.

**Mr Osborne:** It would be a very challenging time for monetary policy, because you would have the two things pulling in opposite directions.

Q1962 **Rachel Reeves:** In your interview with Robert Peston at the weekend, you also said that there would be a significant shock to the housing market and that that would hit the value of people's homes. Can you tell me how you would envisage that playing out?

**Mr Osborne:** First of all, there will be work that the Treasury is doing on house prices in this document that is coming out in the next couple of weeks. In the interview I gave, I was resting on internal analysis but also the external commentary of people like Jayne-Anne Gadhia, who runs Virgin Money, from the Halifax and from others. What is also clear is that there would be an impact on house prices, because people would start to make rational assumptions. There would be rational expectations about people's future incomes and that would have an impact on asset prices.

Q1963 **Rachel Reeves:** You have just mentioned a couple from Virgin Money and the Halifax. One suggested figure of a fall in house prices came from eMove. They suggested that house prices might fall by around 5% in the event of exit. I do not know whether the Treasury has done any analysis yet on that impact. Obviously you spoke about it at the weekend. Do you think that that 5% sounds about a reasonable ballpark?

**Mr Osborne:** We are working on providing a figure, but we do not have the figure today. We will be able to answer your question, but in the next couple of weeks.

Q1964 **Rachel Reeves:** I will look forward to the answer. Just going back to the way in which house prices would fall, there has obviously been a big increase in demand for UK property from foreign investors. Do you see that as one of the transmission mechanisms by which prices might fall?

**Mr Osborne:** No. If anything, sterling would have depreciated, which makes it more affordable to foreign investors and less affordable to domestic purchasers, because their incomes have also taken a hit. As I said, the main transmission mechanism for most of the country would be the fact that people are poorer and businesses are poorer.

Q1965 **Rachel Reeves:** Still on the theme of interest rates, obviously we still have a large net financing requirement. The Debt Management Office in 2016-17 forecast the need to raise £129 billion. If you are right, Chancellor, that

interest rates go up, what impact do you think that Brexit would have on our public finances?

**Mr Osborne:** It is quite difficult to predict the gilt rate, although I am happy to go away and look at that. What is absolutely clear from the work we have done, and indeed from other external observers of this, is that our public finances would take a significant hit, because the economy would be weaker, people's incomes would be less than they would otherwise be and businesses would not be as profitable. We provide again a central estimate, without returning to all the debates we have just had, that our public finances would be around £36 billion worse off. That would be the net impact on tax receipts, and that is from a range that goes from £20 billion to £45 billion. By the way, that more than dwarves any supposed money that we would get by not making a contribution to the EU. We would be very significantly worse off, in terms of our public finances, and that would have an impact on public services like the National Health Service.

Q1966 **Rachel Reeves:** The most recent auction of Government debt was very well covered but, back in January, the auction was not well covered. I think it was the most difficult auction since 2009 for Government debt. At the time, some commentators suggested that was because of some of the uncertainty about the EU. We do not know and the most recent auction was a lot better, partly because of the changes in the DMO rules. If you are right that interest rates are likely to go up in the event of leaving the EU, you would expect, would you not, not just the impact on the wider economy and then the secondary impact that would have on public finance? You would expect financing Government debt to become harder or at least more expensive, would you not?

**Mr Osborne:** There would be very significant financial volatility around the vote to leave. The Bank of England and the Treasury are doing quite a serious amount of contingency planning for the impact on financial stability in the immediate aftermath of a vote to leave. I do not think it is appropriate to go into too much detail on that, but we have made public various things, like the fact that we would have additional liquidity auctions. We have not commented on the financing of the deficit.

Q1967 **Rachel Reeves:** Have you asked the Debt Management Office to look at this? Obviously I referred back to the auctions of 2009. At that stage, the then Chancellor and Bank of England Governor decided to step in with quantitative easing and now the Bank of England or the Government own about a third of all the Government debt. Has the DMO or the Treasury looked at the possibility of having to go back in for QE or any worries about financing our still large budget deficit?

**Mr Osborne:** I have to be a little bit careful here. We are undertaking a lot of contingency planning for the immediate financial stability consequences, if the country were to vote to leave. That would have a number of impacts on our financial system. It would be for the Monetary Policy Committee to make its decisions on both the bank rate and also things

like quantitative easing. I have set out a remit, which is in fact identical to the remit that Alistair Darling provided for the Monetary Policy Committee. Really those are perfectly legitimate questions you are asking, but they are more properly directed at the Bank Governor.

Q1968 **Rachel Reeves:** Just to end, if you are right, Chancellor, that interest rates would go up in the event of leaving the EU, that would obviously have an impact on the housing market, but you would also agree that it would have an impact on borrowing and the cost of financing our deficit. It cannot impact on one, without impacting on the other, Chancellor.

**Mr Osborne:** It is certainly clear that, if we vote to leave, the deficit will rise because we will have to borrow more. That is clear because of the impact on tax receipts. There would be serious implications for financial stability, which of course we put in place contingency planning to try to mitigate. I stress the word 'mitigate' rather than alleviate. It is also the case, and this is the view of market participants and others, that credit conditions would tighten and that would impact on mortgage costs and on business borrowing costs. All of that becomes quite a cycle that is one of the reasons why our country would be poorer.

Q1969 **Rachel Reeves:** It is also Government borrowing costs. You cannot have it both ways, Chancellor, I do not think. If interest rates go up for businesses and households because of Brexit, surely the borrowing costs go up for Government as well.

**Mr Osborne:** I am just being careful not to comment directly on gilt rates.

**Chair:** You do not want a big shift in the bond markets unnecessarily.

**Mr Osborne:** It is generally best avoided.

Q1970 **Chair:** I do think that there is one aspect of Rachel's question that you have not fully addressed. You have said that this is a matter for the FPC and, for the most part, it is, but the DMO plays a crucial role here. They answer to you, although you give them a wide measure of autonomy and discretion in the way that they go about their job. It is just worth getting a response from you on whether you are in discussions with the DMO and what advice you are able to tell us you have received.

**Mr Osborne:** What is already publicly known is that the DMO has changed the calendar of the gilt auctions around the date of the referendum.

**Chair:** I can hear your circumspection.

Q1971 **Mr Baker:** Chancellor, good afternoon. I just want to go through some of the assumptions in the report. The Treasury assumes that the UK would make no changes to the regulatory environment, so no removal of the bonus cap, no repeal of the Working Time Directive and no changes to the rules for agency workers. Would it not have been wise for the report to at least test some of the policy changes that you have been associated with in the past?

**Mr Osborne:** If you take all three of those things, in some cases, for example the bonus cap, I made it pretty clear that I did not support the bonus cap. It was the case that the official opposition did support it. I am taking a wild guess that the Scottish National Party supported it, and in the House of Commons there is a small majority and no majority in the House of Lords. I do not think you can assume that that would be something we could easily repeal, frankly. If you take the other two areas, when it comes to the Working Time Directive, in this country—and the Government are certainly not proposing to change this—we actually provide more free days' holiday than the Working Time Directive requires us to do.

I am making the observation that, whilst there is a perfectly legitimate view, which I suspect you hold, that we should have much lighter employment regulation, environmental regulation or maybe even financial services regulation—although I think you probably take the view that we are probably a bit lax in allowing fractional reserve banking—those are perfectly legitimate views, but I do not think the debate on environmental or employment legislation in this country is restricted by our membership of the European Union. This is contested between the different political parties and the different ideologies of the country. In almost all cases, we are exceeding what the minimum requirement of the EU is.

Q1972 **Mr Baker:** I am not going to allow you to tease me into giving my views on monetary policy, but I would like to invite you to attend the IEA's Hayek lecture to listen to George Selgin give his. In the 2010 manifesto, and presumably you put it in there, you said that “a Conservative Government will negotiate for three specific guarantees—on the Charter of Fundamental Rights, on criminal justice and on social and employment legislation—with our European partners to return powers that we believe should reside with the UK, not the EU. We seek a mandate to negotiate the return of these powers from the EU to the UK.” To what end did you put that in the manifesto, if not to have lighter regulation in those areas?

**Mr Osborne:** Maybe we will come on and discuss the social and employment legislation, but I think we have achieved significant reforms to the European Union that allow us to have different welfare rules and so on. I am sure we will come on to that. When it comes to the Working Time Directive, it was and has been quite striking that British industry has taken the view, as has been clearly expressed by a number of business organisations, that they did not particularly want to reopen the Working Time Directive. Actually, some of the British protections that had been secured by previous Governments were sufficient. As I say, there are plenty of things we can focus on domestically.

**Mr Baker:** I am going to take that to mean that we have had to abandon the 2010 policy proposals.

**Mr Osborne:** That is not what I said.

Q1973 **Mr Baker:** On the trade side, the report assumes that the UK's trade relations with non-EU countries in 2030 would be essentially identical to those it presently enjoys as part of the EU. Do you not think you should have at least tested the possibility of making additional progress?

**Mr Osborne:** I actually think that that is a reasonably optimistic assumption. If you look at how long it has taken us to negotiate trade deals with countries like Canada or the United States, to assume that, within 15 years, we could get the kind of access we get at the moment in terms of for our goods and our services to European markets, having left the European Union, is quite cautious and optimistic. Since this paper has been produced, the official leave campaign has made it absolutely clear that they want to leave the whole single market. That was not clear when we produced this document. If anything, we are probably at the worse end of the range of these estimates, because we would be closer to the WTO model.

Q1974 **Mr Baker:** Just to go through each of those options, under the EEA option, the Treasury has assumed, for reasons that you have just given, that we would use our new-found powers to secure exactly no deals. Are you asking us to believe that, if you were the Chancellor saddled with such an arrangement as the EEA, which I am not advocating but you have put it in your report, as a person who has charged around the world seeking better trade relations, even within the framework of the EU's common commercial policy, it would be your policy to sit back and make no effort to secure additional trade relations within that period.

**Mark Bowman:** The assumption we have made in the modelling is that, if we were to leave the EU, all of the trade deals that we currently have through our EU membership would fall. We would have to renegotiate all of those trade deals. That would be an enormous task. It would take years to do. We have made what I think is an optimistic assumption that, after 15 years, we have regained the same level of access. There is no guarantee that we would be able to regain that same level of access, because we would not be negotiating with the weight of the EU.

Q1975 **Mr Baker:** The assumption is a lack of self-confidence about what the British Government can achieve, as the fifth largest economy in the world.



**Mr Osborne:** We would have to make the best of a very bad job. Let us not pretend it would not be a pretty difficult situation for the UK. Trying to negotiate 50 trade deals around the world in the space of a couple of years is a little bit optimistic.

Q1976 **Chair:** 15 years is a very long time.

**Mr Osborne:** 15 years to negotiate trading arrangements that we currently have as a member of the EU, with other EU member states, 15 years to negotiate with 50 other countries in the world the kind of trading arrangements we have, given our power and weight as a member of the European Union, I think is actually rather optimistic.

Q1977 **Mr Baker:** Do you accept that if you assume away all the benefits of leaving, because you think they are too difficult to achieve, you have by construction set up the report to deliver the results that you were hoping for, as part of the campaign to remain?

**Mr Osborne:** I do not accept that, because the assumptions we have made are perfectly reasonable. We have included things like the fact that we would not be making a net contribution to the EU in the assumptions. It is striking that, first of all, independent analysis has come to similar conclusions that we have and that, when pressed on these alternatives, the lighter regulations that we are supposedly going to have, we have had no examples of that from the leave campaign. When it comes to the trade deals, the first reaction from the leave campaign was to say we have higher tariffs.

Q1978 **Mr Baker:** Let us not talk about the leave campaign.

**Mr Osborne:** I am just saying that they are not unrealistic assumptions as a result.

**Mr Baker:** I am happy to come and sit there and give evidence, but it would require us to change our jobs, which would at least result in a Budget review.

**Mr Osborne:** It has been very convincing from the leave campaign so far.

Q1979 **Mr Baker:** I want to take you through an article by the pro-remain journalist Fraser Nelson, who published an excoriating analysis of the report, some of which is un-parliamentary. I will navigate that delicately, if I can. He pointed out that you said we would be permanently poorer, when indeed you are talking about the difference between the economy growing by 29% and it growing by 37%. Do you accept that the most you can claim is that, as Fraser Nelson put it, that people will not be “as much better off as they would otherwise be”?

**Mr Osborne:** Of the world we are currently occupying and the trajectory we are on, we would be poorer.

Q1980 **Mr Baker:** Let us be absolutely clear about that. Are you saying that we would be poorer than we are now or are you saying that people would be not quite as much better off as they might have been?

**Mr Osborne:** We would be poorer off than where we would expect to be. It is also fair to say—and this is not modelled in here—that we could face a very difficult situation that could make us very significantly poorer than we are today. We could have a balance of payments crisis. That is a scenario that others in the world have talked about. There are potential downsides to the financial stability situation. Let us take the financial crisis that happened eight years ago.

Q1981 **Mr Baker:** I am sorry, no, Chancellor, because the time is extremely limited. The second point is that you have divided GDP per household. If we divide current GDP by household, it is about £68,000, which is nothing like the average disposal income of £18,600 per head or £45,400 per household. Do you accept that it is misleading to suggest that this is in fact a bill that the public needs to pay, which is what you said in one of your speeches?

**Mr Osborne:** The GDP of a country is, broadly speaking, the incomes and profits of the country aggregated. You cannot pretend that, somehow, the economic fortunes of the people in the country are detached from the economic fortunes of the country. If the GDP is lower, then the incomes of the families are lower and the benefits of the services they receive and the like are lower too.

Q1982 **Mr Baker:** The number of households will increase by 2030, due to immigration, which you accept. The DCLG projection is to go up to 31 million from 27 million now, and yet you divide the numbers by the current number of households. Do you accept that, even on your own terms, on your own analysis, if you accepted the increase in the number of households your figure would be £3,700, not the £4,300 you are using?

**Mr Osborne:** First of all, it is perfectly reasonable that, again in order to make it intelligible, we have used 2015 numbers. The OECD have used 2030 numbers, made projections on employment and come up with quite similar conclusions. You are assuming that, somehow, there would be a big drop in migration. As far as I can see, the leave campaign is going around telling the Bangladeshi community and the Indian community that more people would be allowed to come in, if we left the EU. I do not think you can make an assumption that migration would be lower if we voted to leave, judging by the campaign being run at the moment by those who are advocating that we do.

Q1983 **Mr Baker:** I would just observe that that stands at odds to what the OECD has said and they are on your side of the argument. Also on your side of the argument, Fraser Nelson writes, “So having established 1) a means of dressing up an increase as a decrease and 2) a bogus conflation of GDP with household income and 3) a way of covering up the immigration-driven surge in households Osborne comes up with his”—he says, “grand deception”, I am afraid. What answer will you give Fraser Nelson to that critique of the report that you have brought forward?

**Mr Osborne:** Not for the first time, I do not agree with Fraser, much as I admire his journalism.

Q1984 **Chris Philp:** Good afternoon, Chancellor. Was there any particular reason why this analysis was prepared by the Treasury, rather than the OBR, given the importance of the forecasts to the debate?

**Mr Osborne:** This is a subject we have debated quite often, both in this Committee and in particular with Mr Tyrie. The OBR is not allowed by law to model alternative policy scenarios.

Q1985 **Chair:** I did try to persuade you.

**Mr Osborne:** Mr Tyrie, you certainly did.

**Chair:** I worked hard over several months to persuade you to permit the OBR that flexibility and maybe you regret it finally.

**Mr Osborne:** I am very happy with the OBR doing its job.

Q1986 **Chris Philp:** I do not sense a huge amount of regret on this point. On the question of trade briefly, before I move on to immigration, we have discussed the thesis that the European Union or membership of the single market has facilitated a significant growth in trade, which is of course true. Is it not also true that, over the last 10 or so years, we actually had a trade deficit with the European Union, which has grown fairly significantly from £35 billion in 2004 up to about £60 billion in 2014? The benefit of trade with the single market has favoured the rest of Europe rather more than us, has it not?

**Mr Osborne:** In key areas of strength like financial services and professional services, I do not think all of our services exports are captured in that number. Actually, I would come back to the argument that Mr Rees-Mogg was advancing, a very classic English argument about free trade, which is that even if you have a trade deficit with a country it is good for your economy that you have no trade barriers.

Q1987 **Chair:** It is an argument with which I am sure you agree.

**Mr Osborne:** I do, yes.

**Mr Rees-Mogg:** We agree on many things.

Q1988 **Chris Philp:** I am delighted to have helped provoke a rare outburst of unity amongst colleagues. When it comes to the question of promoting trade, again it has been suggested that single market membership has helped trade grow but, if I compare the growth of trade between ourselves and the European Union versus ourselves and the United States—where of course we do not even have a free trade agreement at the moment, still less anything like the single market—I notice that in total growth in trade over that 11-year period, 2004 to 2014, we grew our trade with the US by more, by 61%, than we did with the European Union. It grew by 44% over that period. Does that not prove that you can enjoy strongly growing trade, even if you are not a part of a free trade agreement, still less a full single market?

**Mr Osborne:** I have two observations to make. First of all, that period included a particularly difficult period for the European economy in 2012, 2013 and 2014. The second thing I would say is that you cannot disaggregate the benefits that the UK has from being a member of the European Union for US firms trading and exporting services and goods to the UK. There are very substantial US companies based in the UK, in part because they are based in a country that is in the European single market. That has been pretty clear. If you look at companies like IBM, which are big employers in the UK, they have made it clear that membership of the European Union is very important when it comes to making decisions to put jobs and investment into this country.

Q1989 **Chris Philp:** I accept that point but, nonetheless, in terms of our exports externally, which is a slightly different point from the one you have made, we have managed to grow our exports to the US very significantly, despite the fact that we do not have a free trade agreement. That goes to show that it can be done, notwithstanding the other points that you made.

**Mr Osborne:** I am all for increasing trade with the rest of the world, but let us start with the fact that half of our exports go to our nearest neighbours, as you might expect. That would be similar if you went to the United States and looked at the trade with Canada and Mexico. That would be similar.

Q1990 **Chris Philp:** On the question of immigration, the analysis in the document uses ONS forecasts for immigration from a couple of years' time

onwards, of 175,000 a year. Why was there not any sensitivity analysis done as to what might happen if that number either goes up or down? For example, some Brexiteers argue that we could tighten our controls over EU immigration to reduce it, and the various scenarios did not analyse that, which some people might say is a bit of an omission.

**Mr Osborne:** I have not seen credible alternative scenarios presented by the leave campaign for migration. As far as I can see, the messages they are giving out at the moment to particular communities in this country are actually that there will be more immigration.

Q1991 **Chris Philp:** Migration Watch has suggested that, were we to leave the European Union and adopt a similar approach to EU migration as we currently do to non-EU migration, so the Tier 2 visas and so on, then net EU migration might drop by about 100,000.

**Mr Osborne:** There is an assumption there that one could have the kind of access our businesses and the people who work for those businesses need to European markets without accepting any free movement of people, and that is not an arrangement that any other European country has arrived at—Switzerland or Norway. It has been very clear from the German Finance Minister and the French Economy Minister that that arrangement would not be on offer. Indeed, there is a broader point here that there is an argument made that somehow Britain could get a better deal from the European Union than France or Germany gets. In other words, we could have all the benefits without any of the costs. Why on earth would any other European member state give us that?

Q1992 **Chris Philp:** I do not think any credible person has seriously suggested we could, for the reasons you mention, although Michael Gove said a few days ago that he would be prepared to sacrifice single market access. Sorry, I was not suggesting he was not credible. Just to be completely clear, I was not suggesting Michael Gove lacked credibility on this or on any other issue.

**Mr Osborne:** I am a very good friend of Michael Gove, so I am not going to get involved in that.

Q1993 **Chris Philp:** I think Helen was deliberately misunderstanding what I was saying. It is not the first time that has happened. I am sure it will not be the last either. Michael Gove was arguing that he would happily sacrifice single market access, presumably in order to reduce immigration in the way that I was describing. Therefore, if he were to sacrifice single market access, he might be able to get lower migration numbers.

**Mr Osborne:** Without personalising it, the leave campaign has now got themselves into this mess, where they are now saying they would leave the single market. That was not a position they were taking just a few weeks ago, because all these people have come out and pointed out that they would have to contribute to the European budget or accept free movement of people. At the same time, they are saying that they think the country would be better off. There is really no one credible who thinks that, if we pull out of the single market and do not even attempt something like the arrangement the EEA has, we would be better off. Essentially, they have been caught in their own contradictions. They should just come clean and say, “Yes, the country would be worse off, poorer, but it is a price worth paying for these other benefits that we would argue that the country would have from being outside the EU.”

Q1994 **Chris Philp:** Moving swiftly on to the question we have touched on earlier, which is to consider what would happen if we were to vote to remain on 23 June, one of the commitments you have referred to already in the renegotiation is that the European Commission has said every year that it would bring forward plans to, first, identify areas where powers can be returned to sovereign nations, and, secondly, it would try to identify areas where regulations could be stripped away in order to make all of Europe, not just the UK, more competitive. I would like to first ask if you have any specific ideas, as the UK Chancellor, as to where we might push in those areas.

**Mr Osborne:** We think that there is more we could do to deregulate, particularly to help small and medium-sized businesses. To be fair to the Commission, they have reduced the amount of regulation coming out by 80%, so there is already very substantial progress there.

Q1995 **Chris Philp:** We had a discussion on this previously. They have certainly reduced the new regulation coming out. What they do not yet appear to have done is repeal existing regulation. Do you have optimism or confidence even that we might be able to make progress in that area?

**Mr Osborne:** I know this is an area that Mr Tyrie has taken a close interest in. There is a proposal here for a subsidiarity mechanism that requires the Commission to look at the existing corpus of European law and see whether it is appropriate and whether competences are being exercised at the appropriate level. That would be established and it would have to report annually. Mr Tyrie, without putting words into your mouth, thought that that body should be independent, but as the Prime Minister explained at the Liaison Committee, we think you have to try to change the bureaucracy from within and that is what we are certainly trying to do here in Whitehall.

Q1996 **Chris Philp:** Clearly we are relying on the Commission to bring forward a report each year. Eurocrats being what they are, they may not be quite as ambitious as we might wish. Were we to remain, do you plan to set up any machinery-of-government mechanisms, from the UK point of view, to proactively

come up with ideas to put to them and then, via diplomatic channels and otherwise, try to actively lobby to get whatever it is that we want? Do you think you could employ some sort of formal mechanism for the UK Government to do this?

**Mr Osborne:** The short answer is yes, because we would very much want to make use of this subsidiarity mechanism and make sure that the Treasury, the Business Department, the Foreign Office and so on were equipped to provide good information, push this mechanism and take advantage of it, having secured it.

Q1997 **Chris Philp:** Do you think that one area we could push would be to say that for UK or any member state businesses that are not exporters to the rest of the European Union, which is the majority of businesses by number, should be exempt from various, if not all, European Union regulations? If the whole point of the European Union is to facilitate the single market, if a particular company is not exporting to Europe, there is no single market rationale for it to be bound by any EU regulations. Is that an area on which you think we could make progress?

**Mr Osborne:** I am always happy to look at new ideas. Off the top of my head, I would say that the risk there is you might create a barrier to becoming an exporter to Europe. The very first thing you solved would require you suddenly to comply with the single market standards. Also, I suspect you would get into issues around supply chains, but I am happy to consider the idea.

Q1998 **Chair:** Of course I was pleased to find some trace of the proposal that I had put to the Government myself that we need a reverse ratchet to the remorseless one-way street on regulation. Unfortunately, what is in the treaty is very weak. It lacks independence and that was a point I was raising with the Prime Minister. Not only that, it does not have a public independent voice and it is asking the Commission to mark its own homework, when what is needed is a staff, probably on secondment from national Governments that have a different perspective on life, probably national treasuries and Finance Ministers mainly, to drive the case and the argument for a reverse ratchet to the regulation. Are the Government going to persist with attempting to get a more substantive proposal in this area?

**Mr Osborne:** We feel we have got a substantive proposal. As the Prime Minister explained to you at the Liaison Committee, we thought that having a completely independent organisation was not the right approach, but the idea that you have proposed of a subsidiarity mechanism is now there, although not entirely in the form you wanted it to be. It is absolutely in our national interest to make sure that that is as effective as possible and as well staffed as possible. You allude to British civil servants being more involved in European machinery. That is something we very much want to see.

Q1999 **Chair:** Do you not agree that the treaty change envisaged in the Five Presidents' Report on the bolstering of the euro and the eurozone is inevitably going to result in another renegotiation for everybody in a few years' time, and that that will be an opportunity to bring these, among other issues, on to the table? In other words, this idea that we have a final settlement to our relationship with the EU is quite forced, whatever side of the debate one is on. This is a continuum, whether we are inside or outside the EU. We will continue to negotiate with this large bureaucracy.

**Mr Osborne:** I would draw a distinction. If we vote to leave, we are out. That is a one-way door. We are not going to be sitting around the table debating inter-governmental conferences.

Q2000 **Chair:** We just agreed that, for the next 15 years, we are going to be negotiating trade agreements.

**Mr Osborne:** We will be trying to negotiate trade deals bilaterally. What you were discussing was whether there was going to be future treaty change and therefore whether the opportunity for further reform exists. Of course it does, in the sense that we will always want to be making improvements to the European Union machinery, but you can only do that from within. Let us be clear: if we leave, we will not have influence on this organisation, even though it will be right on our doorstep, control half our export market and occupy most of the continent that we are on. That is yet another reason for remaining in. Even for those who quite honourably want to make much more far-reaching reforms to the European Union, it can only be done from within, not from without.

Q2001 **Chair:** I just want to get clarity on immigration as well. The analysis assumes that migration will be unchanged if we leave. Is that really a credible assumption? Your own report is suggesting that GDP will fall and, therefore, it is highly likely that demand for immigration will fall and therefore the level of migration will fall. You are saying that there are parts of the leave campaign saying the opposite. I do not want to get into a study of exactly what is going on there, but most people would agree that, if you are going to take back controls of EU immigration, it can only be for the purpose of reducing the overall number coming in.

**Mr Osborne:** As I say, I have seen no proposals and the leave campaign is actually going around saying they would increase immigration for certain communities in this country. The argument you are putting to me is that one way to reduce migration is to crash your economy.

**Chair:** I am not putting that point at all.



**Mr Osborne:** I do not think it is a very compelling argument.

Q2002 **Chair:** It is very kind of you to put those words in my mouth, but that is not at all what I am suggesting. What I am asking you to consider, in thinking through what the consequences of Brexit might be, is what effect there would be on migration, given that you think GDP will fall, against what it would be were we to remain in the EU. You have made that clear in your report.

**Mr Osborne:** There are a number of variables there. What is the immigration policy that would exist for EU migrants? What happens to other European economies as the UK exits and becomes weaker? What happens to financial conditions on the European continent as a major economy undergoes an economic shock? There are a number of variables there.

Q2003 **Chair:** Do you think that the current level of migration we have confers a net economic benefit to the UK?

**Mr Osborne:** We would like to see and I would like to see migration in the tens of thousands. That is our ambition.

Q2004 **Chair:** I know what we would like to see, but I am asking not about what you would like to see with respect to migration, but what the economic effects of the current level are. Do you think that the current level of migration that we have confers a net economic benefit on the UK?

**Mr Osborne:** I think migration confers a net economic benefit provided it is controlled. I believe the controls we have, on non-EU migration, through the fact we are not in the Schengen area and through the changes we have secured in this agreement, provide that control.

Q2005 **Chair:** That is a control that would take us down towards your target of tens of thousands. Is that your view?

**Mr Osborne:** We believe it will. Even the ONS forecasts that do not take into the agreement have a reduction in migration.

Q2006 **Chair:** When that gets reduced down towards these tens of thousands, will that result in a net increase or a reduction in GDP per capita?

**Mr Osborne:** As I say, I think our economy is stronger for having controlled migration, so I think we can have a strong economy with migration in the tens of thousands.

Q2007 **Chair:** I am going to ask the same question again: is that going to result in a net increase or decrease in GDP per capita?

*Mr Osborne:* I think we can have as strong an economy as we have today, if we have migration controlled with numbers in the tens of thousands.

Q2008 **Chair:** If the economy is going to be as strong as it is today and there are fewer people in the UK, there will be a net increase in GDP per capita.

*Mr Osborne:* Well, GDP per capita.

Q2009 **Chair:** You are saying that, by reducing migration, we will increase GDP per capita.

*Mr Osborne:* If you reduce migration and you make sure that you are bringing into the country the people you want—in other words, people who are going to make a net contribution to the economy—then you will see your GDP secured and your GDP per capita.

Q2010 **Chair:** We are not at the Goldilocks point, are we, where migration is neither too high nor too low from the point of view of the economy? You are saying that the economy will be stronger with fewer people.

*Mr Osborne:* The ideal socioeconomic mix is the ambition set out by the Conservative Government.

**Chair:** That is a new phrase that is in play now, this socioeconomic mix, which we will have to unpack on another occasion.

Q2011 **Helen Goodman:** Good afternoon, Chancellor. Migration is quite a concern among my constituents. Those people who are unenthusiastic about staying in Europe raise this with me a lot. Last week, I noticed that they were expressing concerns about Albania, Serbia, Ukraine and Turkey joining the EU and, in their words, hundreds of millions of more people being able to come. Could you just bring us up to date on where negotiations are with those four countries? How big a risk do you think this is? This is obviously a worry to many people.

*Mr Osborne:* They are all many years off. Indeed, some are very many, many years off, if at all. The Prime Minister made it clear in relation to Turkey, not that he was asked about Ukraine, but I am sure the same would apply to Ukraine. When it comes to the Balkan countries, they are part of accession programmes, but there are still many years to go with those. Of course, we have a veto on any country joining the EU and we have made it

absolutely clear that we would not accept free movement of people from new accession states unless the GDPs of those countries had risen to the kinds of levels we see in Western Europe.

Q2012 **Helen Goodman:** I think that is very helpful, but not very many people know that that is the position of the Government. Another thing that surprised me last week was a conversation I had with a Tory county councillor who was unaware of the changes to the welfare rules for migrants, which the Prime Minister had negotiated. I began to wonder whether that was because the negotiation was perhaps not quite as successful as the Prime Minister had hoped, because we got a safeguard mechanism, which will restrict in-work benefits to people until they have been here for four years, but these restrictions are triggered by the European Commission. What discussion have you had with the European Commission about the circumstances that would enable them to bring that safeguard mechanism into effect?

**Mr Osborne:** The very important agreement we got from the European Commission in February is that they would trigger the mechanism now. That is in annex 6, I think. There is a declaration from the Commission that they would trigger the mechanism now.

Q2013 **Helen Goodman:** What do you mean “now”? Why has it not been triggered?

**Mr Osborne:** They make it clear that the country has to vote to remain. That is an interesting feature, by the way. If the country votes to leave, this will not be triggered and we will still have two years trying to negotiate our exit, during which time there will be none of these restrictions on welfare or movement of people. We have the Commission’s clear commitment that it would trigger the mechanism, and so that would be activated after we voted to remain.

**Helen Goodman:** You think there is nothing further that the Government would need to do and this could potentially be triggered in July.

**Mr Osborne:** Yes, I think it could essentially be triggered immediately after the vote to remain.

Q2014 **Helen Goodman:** Does the agreement mean that people who come to this country from the European Union looking for work, who did not have a job when they got here, could not apply for Jobseeker’s Allowance?

**Mr Osborne:** There are two different benefits here. The current rules for Jobseeker’s Allowance, strengthened by this Government, are that you have to be looking for work for

three months before you can claim in. Now, the new achievement of the Government is that, after six months, if you are still looking for work and have no prospects of finding it, then you have to leave. That is Jobseeker's Allowance. As we move to Universal Credit, we can withhold.

Q2015 **Helen Goodman:** Sorry, after six months you have to leave, so it is not possible for anybody to look a job for a longer period of time, say 12 months. How are you going to make those people leave at six months?

**Mr Osborne:** If they are in the country as jobseekers seeking social assistance, then we can ask them to leave and ensure they do. That is a new agreement we have, but Universal Credit changes all of this landscape, because Jobseeker's Allowance is subsumed into Universal Credit and we will not have to provide the job-seeking component of Universal Credit to any EU migrant looking for work.

Q2016 **Helen Goodman:** Is that for a period of four years?

**Mr Osborne:** No, it is for any period. The component of Universal Credit that will be the equivalent of Jobseeker's Allowance we will not have to provide to EU nationals seeking work.

Q2017 **Helen Goodman:** Will people will be entitled to the component for those people in work that is replacing tax credits from day one or after four years?

**Mr Osborne:** They will only receive the full amount after four years.

Q2018 **Helen Goodman:** Have you set out what the gradation of increased entitlement to that element of Universal Credit will be, within the four-year period?

**Mr Osborne:** We have not set that out.

Q2019 **Helen Goodman:** When are you planning to set that out?

**Mr Osborne:** That will be set out once we have legislated for it, after the vote to remain.

Q2020 **Helen Goodman:** I see. What would happen is we would vote to remain, then the European Commission would trigger their thingy and then you would be in a position to take legislation, and then the rules would come in.

*Mr Osborne:* Yes.

Q2021 **Helen Goodman:** It would not be immediate; it might take six months.

*Mr Osborne:* It depends on how quickly we collectively want to act. If the country had voted to remain—

**Chair:** There would be a mood to get on with it.

*Mr Osborne:* There would be a mood in the House of Commons to get on with it and certainly that would be the Government's intention, very rapidly.

Q2022 **Helen Goodman:** That is helpful. I had not realised it would need domestic legislation as well. Would the same legislation include the changes to child benefit entitlements?

*Mr Osborne:* Yes, it would.

Q2023 **Helen Goodman:** Would that apply to existing claimants or just to new claimants of child benefit?

*Mr Osborne:* It would apply to existing claimants after a period. There is a transition period, which was negotiated with European partners.

Q2024 **Helen Goodman:** I see. What savings do you think that these changes would produce for the DWP budget?

*Mr Osborne:* We had a May Day forecast of the public expenditure savings, because the OBR does our public expenditure forecasts and they will only forecast the savings when they have the policy agreed. The policy is not agreed until we vote to remain.

Q2025 **Helen Goodman:** We do not even have a ballpark figure.

*Mr Osborne:* We think there would be significant savings, but we do not have specific costings.

Q2026 **Helen Goodman:** How many fewer people do you think will come to the UK as a result of these changes that the Prime Minister has negotiated?

**Mr Osborne:** Again, we have not forecast that. The OBR, with the ONS, makes population forecasts, and of course it would depend on other variables, like the strength of the European economy, so we have not made that forecast. We believe it would lead to a significant reduction.

Q2027 **Helen Goodman:** On a previous occasion, you had quoted Open Europe, which thought that the reduction might be 10%. Do you still think that is the right zone?

**Mr Osborne:** As I say, I would rather wait for the official forecasts.

Q2028 **Helen Goodman:** Why do you think that the changes in benefits will have some impact, but that your introduction of the national living wage will not have an impact as a pull factor, on people from the other European countries?

**Mr Osborne:** First of all, the national living wage is a good thing in its own right and boosts incomes of British workers. It will also help increase productivity to come back to the previous line of questioning. The reasons why it will not be a pull on migration are really twofold. One is that it is actually quite similar to the level of the new German minimum wage and below the French minimum wage. Secondly, 40% of EU migrants are under the age of 25 and so they are not eligible for the national living wage.

Q2029 **Helen Goodman:** Do you think in the public mind there is greater concern about the benefits than about the national living wage because, in addition to the impact on migration, people feel that there is what you might call a process justice issue. People should have contributed before they take out and, with the national living wage, that argument does not apply, but with the benefits it does.

**Mr Osborne:** I am certainly not going to speak for all Britons, but I think the mainstream bulk of British people accept immigration provided immigrants make a net contribution to the British economy. What they object to is the something-for-nothing kind of immigration, if you like. Therefore, addressing the welfare payments that people receive from day one, whether they are Jobseeker's Allowance, tax credits or Universal Credit goes to the heart of the public concerns. Of course, there are some British people who do not want any migrants to come into the country at all, but I do not think that is where the majority are. We are going to the heart of the issue, which is about the economic contribution that someone makes when they arrive. What is the net contribution?

Q2030 **Helen Goodman:** Finally, at one point the Government were proposing to restrict EU migrants' access to social housing, but instead the Government have decided to change the statutory guidance so that, in order to be entitled to social housing, people must have lived in the locality for four years, not two years. Do you not feel that the fact that this will apply to people who are

British citizens who are moving into a locality as well as EU migrants might seem to those people that that is not quite what they felt they were being promised by the Government, on the housing front?

**Mr Osborne:** That was not part of the deal with the European Union. We are addressing two public concerns with one measure—first, the newly arrived migrant’s claim to social housing over the local family who has been waiting for it, and equally the newly arrived person from some other part of the country who claims for social housing over the local family who has been patiently waiting for it. With that measure, we are addressing both concerns with the same policy.

Q2031 **George Kerevan:** Chancellor, the Treasury’s impact analysis has three scenarios: staying in the EU as it grows and develops positively over the next 15 years; a free trade agreement with the EU after leaving the EU; and a default of the WTO. As far as I can see in the Treasury analysis, you are assuming that the WTO fails, over the next 15 years, to make any impact on a global level in introducing more free trade and reducing barriers to trade at all levels. Am I to take it from the impact analysis that the position of HM Government is to write off the ability of WTO to have any impact on global trade arrangements for the next 15 years?

**Mr Osborne:** No, you certainly should not assume that, in the sense that we very much want the WTO to succeed. The current Director of the WTO has himself said that bilateral trade arrangements are broadly going to make it easier, although that is relative, than the global WTO agreement. Indeed, the former Director of the WTO wrote in a newspaper recently that relying on the WTO arrangements would be a very bad outcome for the UK.

Q2032 **George Kerevan:** In testing the impact analysis of the Treasury, it seems to me that there is an asymmetry in testing an unknown quality of EU growth over 15 years against a static WTO. Surely it would have been better and fairer to have had a range of possibilities, including a second WTO variant, where the WTO had some impact on deregulation of trade barriers, even if was influencing free trade or area agreements.

**Mr Osborne:** The base case here is actually a static model for the EU, even though we point out that, with the agreement we have to deepen the single market and conclude further trade deals, there is a big positive upside to the EU case, which is not the baseline here. I guess we have been symmetrical in that respect for the WTO. Were the WTO to conclude a new Doha Round or whatever, it would move to being a bit closer to the FTA model as well.

One of the reasons we gave a range is precisely because, within that range, there is everything from the Norwegian arrangement to the Swiss deal, the Turkish arrangement, the Albanian arrangement and the Canadian arrangement to the straightforward WTO rules, as they exist for China. We have given the whole range, a point that we have already debated.

Q2033 **George Kerevan:** Moving on then, this is possibly a question for Mr Bowman. What is the prognosis, how complicated and what is the timespan for agreeing with the other participant members of WTO an update of the UK's schedules of commitment? If we simply go to WTO rules, presumably, even though we are a member, we are still obliged to talk to the individual WTO members to reconfirm and reaffirm our schedule of commitments. Where does that fit in?

**Mark Bowman:** There are a number important points here. First of all, we are a member of the WTO whether we are in the EU or not. If the WTO makes progress with multilateral liberalisation, then that is a good thing, whatever model we are in. The point in our modelling is to show that, if we leave the EU and have no new trade arrangement with our European partners, then we would have to rely on WTO rules for trading with the EU. That would be a significant hit to trade with our European partners. Also, in terms of trade with the rest of the world, we will have to renegotiate all the EU trade deals that we are currently a part of. Your question about WTO schedule is correct. We are an existing member of the WTO but, if we leave the EU, we will have to update our schedule. I do not have a detailed answer as to how long that will take.

Q2034 **George Kerevan:** Has the Treasury done any kind of assessment of that?

**Mark Bowman:** The challenge, in terms of our trading relations, if we rely on WTO membership, will be agreeing trade deals with the rest of the world. We currently have these trade deals through our membership of the EU. The challenge will not be updating the terms of our schedule with the WTO.

Q2035 **George Kerevan:** I appreciate that. We come out as a WTO member; we have no free trade agreement with the EU. We are now going through the process of bilateral negotiations. Is it your opinion, therefore, that we default instantly to a baseline WTO? At the moment, the UK's relationship with the WTO is through the agreements and the most-favoured-nation clause, etc, of the EU. I am trying to work out what exactly the rules of the WTO are once we have Brexit.

**Mark Bowman:** As I have said, if we left the EU and decided not to have a free trade arrangement with the EU, then we would rely on WTO rules for our trading relationship with Europe. The assumption we have made in our modelling and the initial impact of leaving the EU would be that all of our trading deals that we get through Europe would fall and we would have to renegotiate those. As we have discussed earlier, the assumption we have made in our modelling is that, over that 15-year period, we have managed and been successful in replicating the same level of access to global markets that we currently have.



Q2036 **George Kerevan:** In the disastrous situation that the UK has voted to come out of the EU, we implement Article 50. The one thing that I could not see in HM Government's document on the process of withdrawing from the EU was any reference to where this Parliament is consulted. For instance, does the withdrawal agreement that has been negotiated under Article 50 come to Parliament for ratification?

**Mr Osborne:** To be honest, we have not done a load of contingency planning for leaving the EU beyond the immediate issues around financial stability that I spoke to Ms Reeves about.

**George Kerevan:** If you read the document, it does not mention it.

**Mr Osborne:** We have made it very clear that, if we vote to leave the European Union, the House of Commons is going to be doing nothing else for many, many years. We are going to be having to disentangle our relationship with the European Union and that is all we will be doing in British politics for very many years. Will Parliament be involved throughout that process? Yes, it will. I cannot imagine, although we have not set this out, that we would not want to keep Parliament fully involved, consulted and whatever as we went about it.

Let us be clear: although the House of Commons, by my calculation, roughly splits 500 for remaining in and 150 for leaving, the majority in the House of Commons would have to accept the view of the British people, which was that they wanted to leave the European Union. If you want to leave the European Union, there is only one legal way to do it. Indeed, and this is crucially important, the one way the European Union itself has a legal basis to negotiate our exit is to trigger Article 50. Article 50 would be triggered immediately and that process would begin. It is fanciful for people to believe that we can delay that process. The British people will have wanted to leave. It is very important they understand that when you vote to leave, you leave.

Q2037 **George Kerevan:** I accept that, but if it is coming to this Parliament as part of the procedure, then that raises the broad question of legislative consent from the devolved administrations. It particularly raises the constitutional issue if the electorate of those devolved administrations have voted differently from other parts of the UK. We could be in a situation where Scotland, for instance, has voted to stay in the EU and the majority of the rest of the UK has voted to come out. What I am pursuing—it is a genuine enquiry—is your reaction to the Scottish Parliament withholding legislative consent, because the Scottish people have not voted to come out of the EU. I am trying to help you.

**Mr Osborne:** Indeed, the SNP has made their intentions clear, should that scenario arise. I would say this: this is a UK-wide referendum. The Scotland Act and the devolution arrangements make very clear that our relationship with the European Union is a matter for the UK Parliament and the UK Government. Article 50 would be triggered. Can I suggest, since we are both on the same side of the argument, that the best way to answer

these questions is to campaign very hard between now and 23 June to make sure that we do not have to face all these decisions?

**Q2038 George Kerevan:** This is my final question, Chair. Assuming again the disastrous outcome of a Brexit, if we have gone through the Article 50 procedures and the withdrawal agreement is covering a wider range of issues that trigger references to the other 27 member states giving their agreement, where does that leave the UK? If we have got to that stage and the other 27 member nations are consulting their parliaments and holding referendums in order to approve our exit agreement, do the people of the UK collectively get another chance to approve the exit agreement?

**Mr Osborne:** The answer is no. There will be no second referendum. This is very important, because some people are going around pretending there could be two referendums. There will be no two referendums. If we vote to leave, the Article 50 procedure is very clear. It is triggered. We have two years to leave. It can only be extended with the consent of the other member states, and you are completely right to say that some member states might feel they have to put that to their own peoples with a referendum.

**Q2039 George Kerevan:** If we vote to come out, the only country of the 28 that does not have a say in the final withdrawal agreement will be the United Kingdom.

**Mr Osborne:** In this situation, Mr Kerevan, unfortunately, the British people would have had their say and will force the rest of Europe to negotiate the exit. The fact that some countries will have to put this to their own peoples also totally destroys the idea that, somehow, Britain could strong-arm everyone else and demand terms that are not even on offer to members of the European Union.

**Chair:** I have three more colleagues who are wanting to come in. I apologise for the fact that we might be overrunning slightly. We have been going nearly two hours, particularly since you have been, for the most part—if I have to put that rider in—answering questions pretty succinctly and very directly.

**Mr Osborne:** I have my daughter's school play to get to, but it is alright. I have more than enough time to take three more.

**Chair:** I particularly apologise for that. I hope that does not put too much pressure on Wes Streeting.

**Q2040 Wes Streeting:** I feel really terrible. Thank you, Chancellor and Mr Bowman, for still being here. Let us try to rattle through this quickly. On a similarly pessimistic tone, in the event of a Brexit vote, the Prime Minister said to

the House on 22 February in relation to Article 50 that “the British people would rightly expect that to start straight away”. Is it still the Government’s firm intention that we would trigger Article 50 immediately in the event of a referendum decision to exit?

**Mr Osborne:** Yes, it is. When you actually think about it, the idea that the British Government could say, “The country has voted to leave, but we are not going to begin the leaving process now”, is not plausible.

**Q2041 Wes Streeting:** Jon Cunliffe has previously said that the right time to trigger an Article 50 would be “when one knew what one wanted”. I know you said that there was not a great deal of contingency planning and the Government have rightly focused on securing the vote to remain, given the consequences, but do you have a sense of what the Government would be looking for in terms of an arrangement with the EU after Brexit?

**Mr Osborne:** We would be trying to make the best of a very bad job, but we have not done a lot of contingency planning about the arrangements we would be seeking. It is not what myself, the Prime Minister and the great majority of the Government support.

**Q2042 Wes Streeting:** Do you have a clear understanding of what sorts of arrangements those who have spent so much time campaigning to leave would be asking for? Clearly Parliament would have a voice; there are 150 or so Members who have a view.

**Mr Osborne:** I have absolutely no idea is the short answer to that question as well. We have had the same people propose the Canadian model, the American model, the Albanian model, the Norwegian model and the Swiss model. They are all different. They all involve different costs and obligations. Some of them involve free movement of people; some of them involve contributions to the EU budget, both of which the campaigners say they do not want to make. Just getting some kind of agreement amongst people about what the alternative model would be I suspect would be very difficult.

**Q2043 Wes Streeting:** One of the things we are seeing now, as we approach polling day, is a number of boards of businesses have perfectly reasonably said that they are not going to state a view one way or another. Often when you speak to those same companies privately, they have a clear sense of what sort of impact a vote to leave would have on where they would base their business, on jobs and on inward investment. Even if those companies do not express a view about how people should vote one way or another, do you not agree that it is important that those businesses do at least give the British people a clear understanding of what the consequences would be for things like jobs and inward investment, before they make their mind up?

**Mr Osborne:** I certainly think companies, large and small, should speak up in this debate, because what we do know is that the public wants to hear. They want to hear people's opinions. They want to hear business opinions. They want to hear what the facts are. It has been very helpful that some companies have chosen to write to their workforces, making it perfectly clear that, for individual employees, it is a matter for them how they vote, of course, but to give their employees what the company view is. BMW has done that. Santander has done that. IBM has done that. Airbus has done that. I think all employers should think about that.

**Q2044 Wes Streeting:** Finally, in the event of Brexit or indeed in the event of a remain vote, there are still a number of things that the Government would need to do to see the economy succeed as best as possible and to maintain a competitive edge. That particularly concerns infrastructure. Over the course of the referendum, I do not think it is controversial to say that we have seen the impact that a difficult party-political situation has had on the national interest. Given what Heathrow has said today about their response to the Airport Commission's recommendations, when can we get a decision on Heathrow and when are we going to see national interest trump party interest?

**Mr Osborne:** I would only note that there are some prominent Labour figures who are not entirely excited about airport expansion. We are going to make a decision. We have received the Davies report. We are doing additional work on air quality, which everyone now understands is a real issue in London, and we will come forward with our conclusions in due course.

**Q2045 Wes Streeting:** Finally, on a similar issue of national interest, the security issue plays a part in the referendum. There is a clear consequence for the Treasury in terms of renewal of the Trident programme and the decision that the Government really ought to be taking sooner rather than later. Can we have a commitment, or at least can you take a clear steer back, that on an issue as important as this, there are plenty of Members around the House who are willing to vote in the national interest, but we could do with less party politics around that sort of issue as well?

**Chair:** There is friendship breaking out everywhere.

**Mr Osborne:** There was a time, in fact when I first became a Member of Parliament, that I voted with Tony Blair and Gordon Brown to begin the programme of renewing Trident. There was a broad cross-party consensus. I look forward, not with a huge amount of expectation, to seeing that broad cross-party consensus that potentially even involves the leadership of all the major parties.

**Wes Streeting:** That depends if the leaders are still there, I guess.

**Chair:** We are trying to avoid too much party politics this afternoon.

**Q2046 John Mann:** Do not take this the wrong way, Chancellor, but the only thing that surprised me from what you said is when you were answering Mr

Kerevan you talked about what “we” would do if it was an exit. This could affect how some people vote. Should it be an exit, you are intending to stay on in your position, are you?

**Mr Osborne:** Obviously I hold my position at the pleasure of the Prime Minister and he has made it clear that he would want to stay on.

**John Mann:** The only reason for asking is that some people on the left are saying that this is a good way to get rid of your good self and I would not want them to be under any—

**Chair:** There really is a lot of friendship in the room.

**Mr Osborne:** The point I would make is that one of the challenges we all have is to make people clear of the scale of the decision that they face. This is going to be a decision that goes way beyond any single politician’s career and the lifetime of any one Government. This is a decision that affects many generations to come and is, in my view, a more important decision than a general election.

Q2047 **John Mann:** You are very clear on that. There are a couple of things that some people are suggesting. Some people are saying that we cannot properly help the steel industry because of the European Union. There is my little campaign on health charges and the fact that we have a £650 million deficit to EU countries on charges for health. Some people are saying that this is the fault of the European Union. Are they right on those two?

**Mr Osborne:** No, I do not think they are. On steel, I would say that the European Union is part of the solution to our problems, not the problem. It is only through the EU that we can have the clout in the world to erect barriers.

Q2048 **John Mann:** That is very clear. My final question is that some people are suggesting that the Governor of the Bank of England is making political commentary, as opposed to doing what I perceive to be his job in economic commentary on the information and advice that he is giving. It is my understanding that, if the Governor of the Bank of England were to enter into the political fray, that would be a breach of contract in essence. I wondered what your impression of that was. Is he in a position either to speak his own political mind or do what you tell him to do as a politician, or is he required by his contract to give impartial economic advice on this and other issues?

**Mr Osborne:** First of all, he can speak for himself, but the idea that he, in any way, can be pressurised by me or anyone else is nonsense. He is appointed by Parliament for the full term and he is therefore protected from such interference. He takes the view, but you can ask him, that he is the country’s central bank governor. He is charged by all of us collectively with very serious responsibilities around financial stability, economic growth and inflation. He will give his views on what the impact of leaving the EU will be on

those things, but it is very much up to the citizens of the country to make their own decision.

**Chair:** He will be coming in, in a fortnight, when we can no doubt put that question to him, although we have already asked it of him on a number of occasions. Of course, his independence is protected by this Committee. If we have any doubts about it, you will be hearing about it from us. Right at the end, I will be giving you an opportunity, as I have all witnesses, certainly all political witnesses, to give us a view in summary of your case for the position that you have been trying to put today, in as long or short time as you want to. You have another commitment, so it might be a very brief few sentences. I should perhaps have mentioned that at the beginning, as I did for a number of other witnesses, but I will give you that opportunity.

Q2049 **Mark Garnier:** Chancellor, good afternoon. If I may, I would just like to sweep up with a few unrelated questions on some random, different subjects. The first one is the Deutsche Börse/LSE merger. This is in the spirit of the new PMQs, where constituents are asking me questions and, to a certain extent, I am passing them on. A number of my constituents have come to me and said that they are slightly worried that “the Germans are taking over the City of London”. There has not really been much comment from the Government about this. Are you concerned that this is 1944 by stealth?

**Mr Osborne:** No, I am not. One of the remarkable things about the UK and its membership of the European Union is that we have benefited enormously from the single market in financial services. Some very large German companies and indeed French companies, like Deutsche Bank, base their big investment banking operations in the UK, rather than in Frankfurt. There is obviously a potential merger underway with the Stock Exchange and Deutsche Börse, but the company itself has said that the topco would be located in the UK. Britain’s strength has always been as a centre of European, as well as global, finance. We trade as many euros through London as they do on the continent, every day. We benefit enormously and there are lots of German, French and other businesses that base themselves in London, and not just in London, of course, but across the UK.

Q2050 **Mark Garnier:** My second question is about this £350 million a week we are notionally, apparently, paying into the EU by way of our membership. As I understand it, this is based on the £17.8 billion, which is the 2015 contribution that the UK paid. I just want to rehearse these figures with you to see your point of view. These are questions I have asked of the out campaigners. Of the £17.8 billion, £4.9 billion comes back, either immediately or subsequently, by way of the rebate. £4.4 billion comes back by way of CAP payments and regional payments, and we have £1.4 billion of direct grants. In your opinion, and I suppose the answer is probably going to be yes, is it fair to say that the actual monetary value of the cost to the UK is £7.1 billion, which is a non-returnable subscription fee, if you like, for our membership of the single market.

**Mr Osborne:** That is the net contribution. We receive many economic benefits from that that bring in more tax receipts as a result and strengthen our public finances. This number that the leave campaign is using is wilfully misleading and I say that because they have been warned now that it is misleading, by the UK Statistics Authority, on two occasions. Indeed, a letter was sent to the campaign yesterday. We want the British people to be in possession of the facts.

**Chair:** You can leave it to us to do that work.

**Mr Osborne:** There has been an independent voice here speaking about the facts, when it comes to the contributions.

Q2051 **Mark Garnier:** That is really helpful. The other side of this is the single market. At the moment, just on the trade of goods, we have total trade of £374 billion—£148 billion out and £226 billion back. From what I can understand, the best possible trade deal we are likely to get would be the WTO model. That is 2.4% tariffs on goods only. Apply that to £374 billion of goods transactions and that is £9 billion in tariffs. Is it fair to say that, whilst that £7.1 billion net contribution is a Government contribution, that £9 billion of tariffs—now half of it could be paid by Europeans and half of it by British—is an effect on the economy directly? It could potentially have an inflationary effect on what people buy that has been imported from Europe. We buy a car and it has 2.4% tariffs, so it is going to cost 2.4% more. Potentially if you are exporting to Europe, the exporter may have to mitigate some of that extra cost by reducing the cost, so potentially this is actually £9 billion, in the best case scenario, as a direct cost to consumers and manufacturers, and our economy overall. Is that a fair argument?

**Mr Osborne:** There is no doubt that the burden of tariffs and other trade costs would be borne by consumers. We have not really discussed it at this hearing, but consumers have benefited enormously from things like European agreements on mobile phone charges, air travel and the like. The cost of flying and the cost of mobile phones when you go abroad would all increase. As you say, things we buy that are imported from abroad would become more expensive and, because our economy would be less productive, things we make at home would be more expensive too.

Q2052 **Mark Garnier:** I am just moving on to a few other unrelated questions, but I am hoping they will be relatively quick answers. One thing that comes up when people stop me in the street, but actually has not really come up in this debate since we really started going into this, is this age-old thing in the fact that the European Union has not signed off its accounts in 27 years or whatever it is. One of the questions people are asking me is why we are trying to stay in an organisation that has not even got the integrity to be able to sign off its accounts and has not done so for quarter of a century.

**Mr Osborne:** I would say that the European Union is not a perfect organisation, but with imperfect organisations you can either fight from inside to improve it or you can wash

your hands of it and leave. I can tell you that the impact on the accounts of the United Kingdom if we did would be very severe. I would say let us go on for fighting for improvements in the way the European Union is run from within. If you look at the history of this country, we have never been people who have shied away from getting involved in the world and trying to improve it. I do not see why, at this juncture in our history, we should do that now.

Q2053 **Mark Garnier:** On Article 50 timing, you said we would go into it straightaway. Just to be clear, what does that mean? Is it 24 June, by the end of June or by the end of the year?

*Mr Osborne:* I think it will be in the days—maybe a week or two.

Q2054 **Mark Garnier:** Does it need Parliament to pass this or can it automatically be triggered as a result?

*Mr Osborne:* The UK Government are given that responsibility, but I am sure we would want to speak to Parliament about it.

Q2055 **Mark Garnier:** That is fine. Just to reclassify, is there no possibility of a second vote if we vote for exit.

*Mr Osborne:* Absolutely not.

Q2056 **Mark Garnier:** Were we to change our minds, let us say in a year or two years down the line, we would be negotiating as a completely new entrant, would we not?

*Mr Osborne:* If we vote to leave, we are leaving as a country. There is no coming back. It is a one-way door. Even people who are very unhappy with the way the European Union is at the moment should work to improve that organisation and change that organisation from inside, rather than walking out and having no influence on the continent upon which world geography requires us to live.

Q2057 **Mark Garnier:** I just have a couple of last questions and then you can probably get to your daughter. Regarding the grandfathering rights on people who are living in this country and British people who are living in Europe, have you had any thoughts about this? Presumably as part of Article 50, we look at the grandfathering rights of whether people can stay if they live overseas.



**Mr Osborne:** We have not looked at this at all, but it is difficult to conceive that we would be able to deny residency rights to European citizens without those European countries denying residency rights to British citizens.

Q2058 **Mark Garnier:** My final question, which again people keep asking me—and then we can let you go—is that we have a system of representative democracy here. Were we to have a vote in Parliament on our membership of the EU, the in-ers would probably have a 250 or 300 majority on that sort of vote. It is pretty clear that Parliament thinks we should stay in, yet people are asking why, on something that is so incredibly important, we are putting this to a plebiscite or referendum when it is a very difficult thing to understand. In this particular case, this is a perfect example of where Parliament, which spends an awful lot of time studying this, is in a better place to make that decision.

**Mr Osborne:** This is rightly an issue where the British people must make the decision in a referendum, but I am sure the British people will want to listen to the various pieces of advice they are receiving. One thing they might note is that not only is an overwhelming majority of Members of Parliament in favour of us remaining in the EU, but the leaderships of the Conservative Party, the Labour Party, the Scottish National Party, the Liberal Democrats, the Green Party and others are all recommending that the country remains in. The breadth of the coalition of the people who want to remain in the European Union is very considerable, and that is not something that can be said for those who want to leave.

Q2059 **Chair:** I have just a few further points of clarification. You pointed out that the £7 billion figure was the one that you thought was the reasonable figure crossing from us to the EU. I think there is overwhelming agreement that it is certainly not the figure before the rebate, since the rebate never even leaves the UK, which is a figure that has been put into the debate by the leave campaign. That frankly, in my view personally, is very misleading. Are you sure that it is that net contribution, the £7 billion figure, that really counts? Is it not the gross contribution after the rebate that matters? After all, is it not agreed by everybody that a large proportion of the amount of money spent within the UK at the moment, from the EU, would not be spent in that way? It would not be spent at all and, therefore, the figure is higher than the £7 billion that we would make as savings.

**Mr Osborne:** That would assume that we would not spend money on support for our farmers, that we would not be giving money to universities for research and that we would not be supporting the poorer regions of our country. Every person who I have seen who is advocating that we leave the EU is busily telling the people of Cornwall, the farming community and every university that they can find that they will be getting the same amount of money.

Q2060 **Chair:** That is the politics of it, but I am asking you about the reality.

**Mr Osborne:** The reality is that the net contribution is £7 billion, equivalent to 1p in every £1 we raise in taxes. It is not the number that the leave campaign is knowingly using as a misleading number. They owe it to the British people to come straight on that.

Q2061 **Chair:** You have several times referred to the fact that there is some contingency planning going on for Brexit beyond the work that is needed, in any case, in the Bank of England with respect to financial stability, about which I am sure they are keeping you closely informed. Can you say a little bit about the nature of that contingency planning? What type of contingency planning is it? How long has it been going on? Who is conducting it? Is it interdepartmental?

**Mr Osborne:** The contingency planning is only around issues of financial stability. We are not doing contingency planning for the trade deal we might have to strike or whatever. The responsibilities for financial stability are shared by the Bank of England and the Treasury, and I meet regularly with the Governor to discuss this. Broadly speaking, the Financial Policy Committee of the Bank of England—and, by the way, they have commented on this—has responsibility for the stability of the financial system, and the Treasury steps in if taxpayer support were ever to be required in that situation. We had those discussions. As is now publicly known, we had those discussions at the time of the Scottish referendum, and you can already see some public manifestations of that in the additional liquidity auctions that the Bank of England is providing and the change in the schedule of the gilt auctions, which the DMO has set out.

Q2062 **Chair:** Just to be clear, beyond the area of financial stability, no ministerially authorised contingency work is taking place whatsoever.

**Mr Osborne:** Not to my knowledge, no.

Q2063 **Chair:** That is very helpful. You may feel that I bounced this on you slightly, and therefore you may decide to decline, but the floor is yours, as it has been for several other witnesses, just to encapsulate why it is that you are so clear in your mind that we should remain.

**Mr Osborne:** I have always described myself as a Eurosceptic, someone who thinks that the European Union can be improved as an organisation, but you do that from within the European Union, not by leaving. You cannot overstate the importance of this decision for the British people. It affects our prosperity; it affects our security; it affects our place in the world. In my judgment, and the judgment of almost all the credible independent observers of this referendum, we would be poorer if we left; we would be less secure if we left; and Britain's role in the world would be diminished. When all your friends and allies

are giving you that advice, we should pay attention. We have a real opportunity now to reform the European Union, improve it, make it more prosperous, make ourselves more secure and make Britain stronger in it. That is the Britain that I love, a Britain that goes out there and shapes the world, and does not retreat from it.

**Chair:** We are very grateful to you for giving evidence. I told you that I could not promise that we would finish by 4.00, but I could virtually promise that we would finish by 4.30. It is 4.29 and we have managed it. Thank you very much indeed for giving evidence this afternoon.