

# THE ECONOMIC IMPLICATIONS OF BREXIT FOR THE UK .... AND FOR THE REST OF THE EU

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# A CONTINENT IN CRISIS (?)

- Continuing problems of euro governance
  - Inability to agree sequencing of next steps
- Discord on dealing with refugees/migrants
  - Indirect challenge to internal mobility (Schengen)
- Terror threats
- Social/political consequences of stagnation
  - Rise of populist parties
- And now, dealing with those difficult Brits



# BREXIT CHALLENGES

- Many unknowns and uncertainties: 'it depends'
- Implausibility of UK switch to emerging markets
  - UK exports more, today, to Ireland than to China
  - More to Sweden than Brazil or India
- Reconciling national interest & voters wishes
  - The 'JAMs' as new target group

'The biggest mistake would be to interpret it as a purely British issue. It is also an EU issue' – *Charles Wyplosz*

# OVERVIEW OF ECONOMIC ARGUMENTS

- Most studies point to GDP loss, contingent on:
  - Trade model (single market, Canada, WTO)
  - Investment assumptions
- If GDP is lower, jobs are likely to be lost
- The public finances will deteriorate
  - Offset, though, by no longer contributing to EU budget
- Short-term risks may have been exaggerated
  - Effects of uncertainty in deterring investment
  - Bank of England warnings on financial instability
- But disagreement on duration

# THE STORY SINCE JUNE

- The UK economy has proved resilient ... so far
  - Projections of lower growth in next 2 years
  - Fall in pound will feed into higher inflation
    - Eroding real incomes
  - Estimate of £12 billion annual public finance cost
    - Exceeds today's net cost of EU membership
- EU economies also at risk
  - Uncertainty effects undermining confidence
  - Some possible gains from relocation from UK
    - Offset by competition from rest of world

FALLING  
OFF THE  
CLIFF?



# TRILEMMA OF WHAT UK WANTS

SINGLE MARKET  
ACCESS

REDUCTION OF  
BUDGET COSTS

CURBS ON FREE  
MOVEMENT

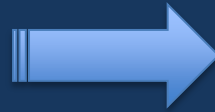


# IS €60 BILLION TO DIVORCE CREDIBLE?

- Annual commitments under the MFF
  - €20b gross, €15b after rebate
  - But offset by UK spending in UK of €6-7 b
- The infamous *reste à liquider* (RAL)
  - Hard to predict, but headline total of €218b in 2015
  - UK share might be 12% > €26b
- Pensions: UK staff now 4%, pensioners 8%
- Loan guarantees? ...even the ETS
- Pay or renege? So sue us ...

# A BUDGETARY 'QUADRILEMMA'

PROMISES MADE TO  
UK VOTERS:  
£350 MILLION PER  
WEEK FOR NHS



LOSS OF UK  
CONTRIBUTION TO  
EU BUDGET

...BREAKING A PROMISE  
ALREADY EXAGGERATED

...UNLESS UK  
STILL PAYS A  
BIT ...

SOMEONE ELSE HAS TO PAY,  
OR SPENDING HAS TO FALL

INDIRECT BREXIT  
EFFECTS ON TAX  
REVENUES FROM  
GDP CHANGES

NEGOTIATION OF  
NEXT EU MULTI-  
ANNUAL FINANCIAL  
FRAMEWORK

MAKES TOXIC MIX WORSE

EVEN TOUGHER THAN USUAL

# THREE AWKWARD IMPLICATIONS

- Inability to conclude deal quickly
  - Disruption of UK specialisations
  - Investment is deterred
- Brexit economic promises cannot be delivered
  - Political backlash with unpredictable economic effects
- Significant risk: Brexit has 'lose-lose' outcome
  - Economic activity drawn to other global regions
  - Renewed financial instability
  - Reluctance to take hard decisions

“There are decades where nothing happens and there are weeks where decades happen”

The last word from VI Lenin

<http://ukandeu.ac.uk/>

<http://blogs.lse.ac.uk/brexit/>

# YOUR VERDICTS ON BREXIT

## Vote yes or no

- Will the UK lose economically?
- After the Italian result, will it be bad for EU?
- Will it damage your personal prosperity?