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

...BREAKING A PROMISE ALREADY EXAGGERATED

INDIRECT BREXIT EFFECTS ON TAX REVENUES FROM GDP CHANGES

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

LOSS OF UK CONTRIBUTION TO EU BUDGET

SOMEONE ELSE HAS TO PAY, OR SPENDING HAS TO FALL

NEGOTIATION OF NEXT EU MULTI-ANNUAL FINANCIAL FRAMEWORK

EVEN TOUGHER THAN USUAL

MAKES TOXIC MIX WORSE
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?