

Brexit: what have we learnt? what can we expect?

#LSEBrexit

Catherine Barnard

Professor in European Union Law and Employment Law,
University of Cambridge

Jill Rutter

Programme Director for Brexit, Institute for Government

Sir Charles Bean

Professor of Economics, Department of Economics, LSE and
former Deputy Governor, Bank of England

Chair: Kevin Featherstone

Professor in European Politics and Director of the Hellenic Observatory,
European Institute, LSE

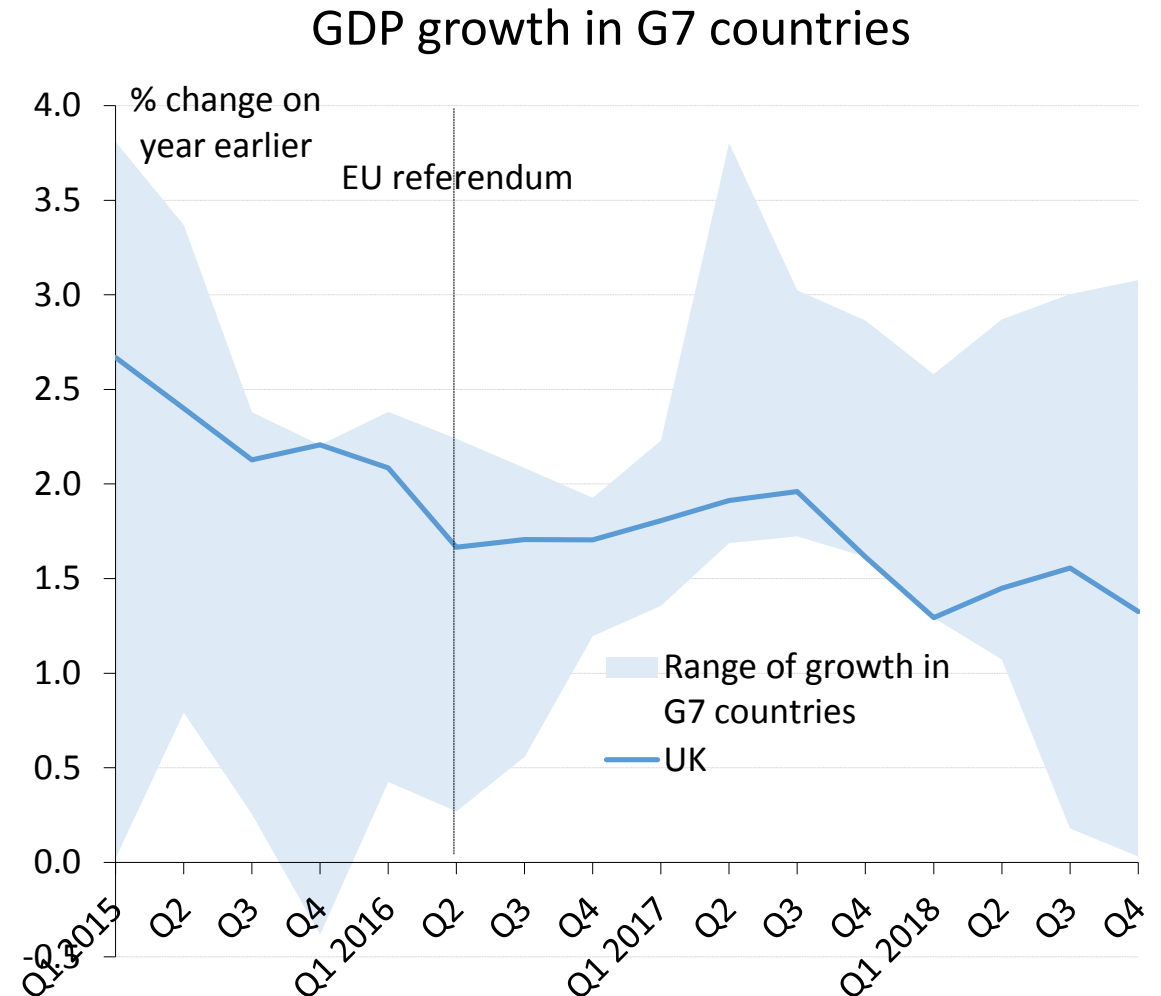
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Brexit: What have we learnt? What can we expect?

**Charles Bean
LSE, 28 March 2019**

Economic performance since the referendum

- Osborne/HMT: Forecast immediate recession – No!
- ...but GDP growth *has* been about 2pp weaker than elsewhere
- Consumption held up...
- ...but uncertainty has weighed on investment...
- ...and lower pound has done little to boost exports
- Employment strong, productivity correspondingly awful!

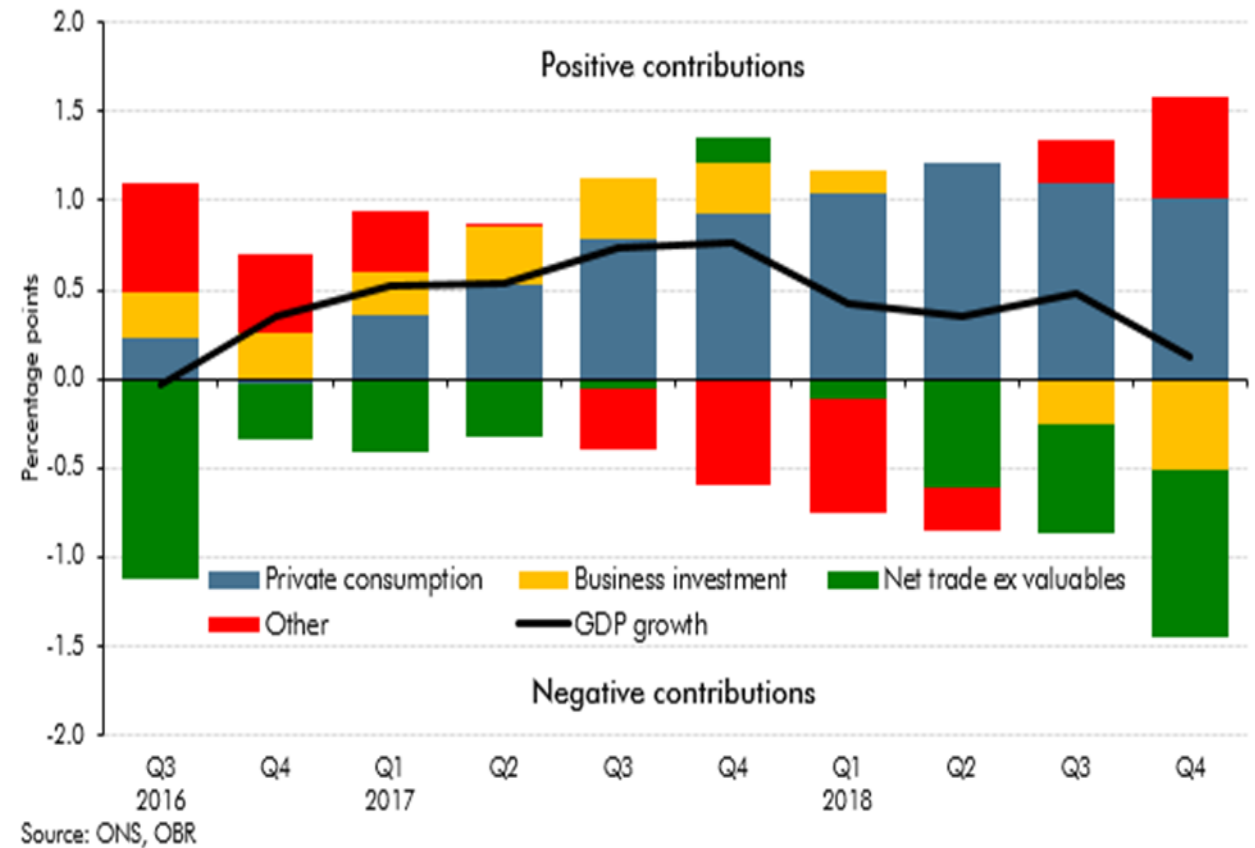


Source: OECD, ONS

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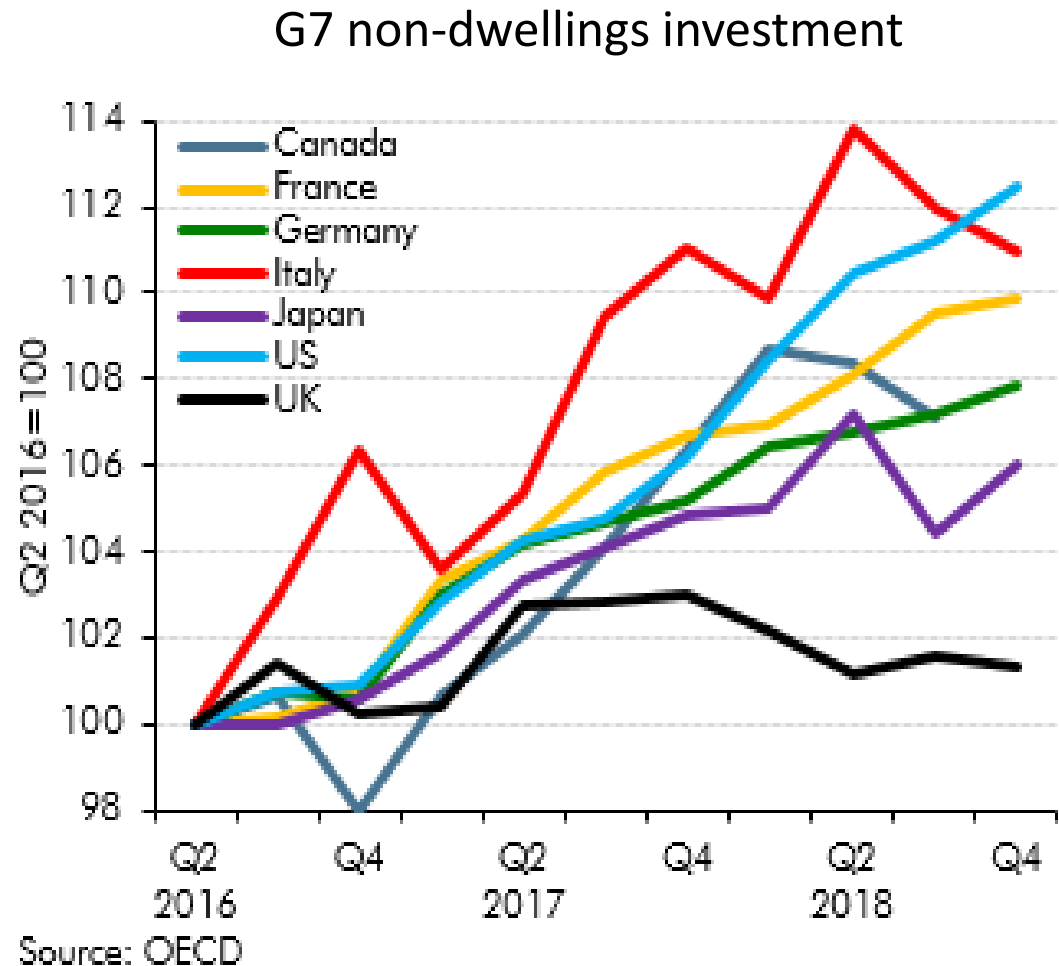
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Contributions to cumulative forecast errors for real GDP growth in November 2016 OBR forecast



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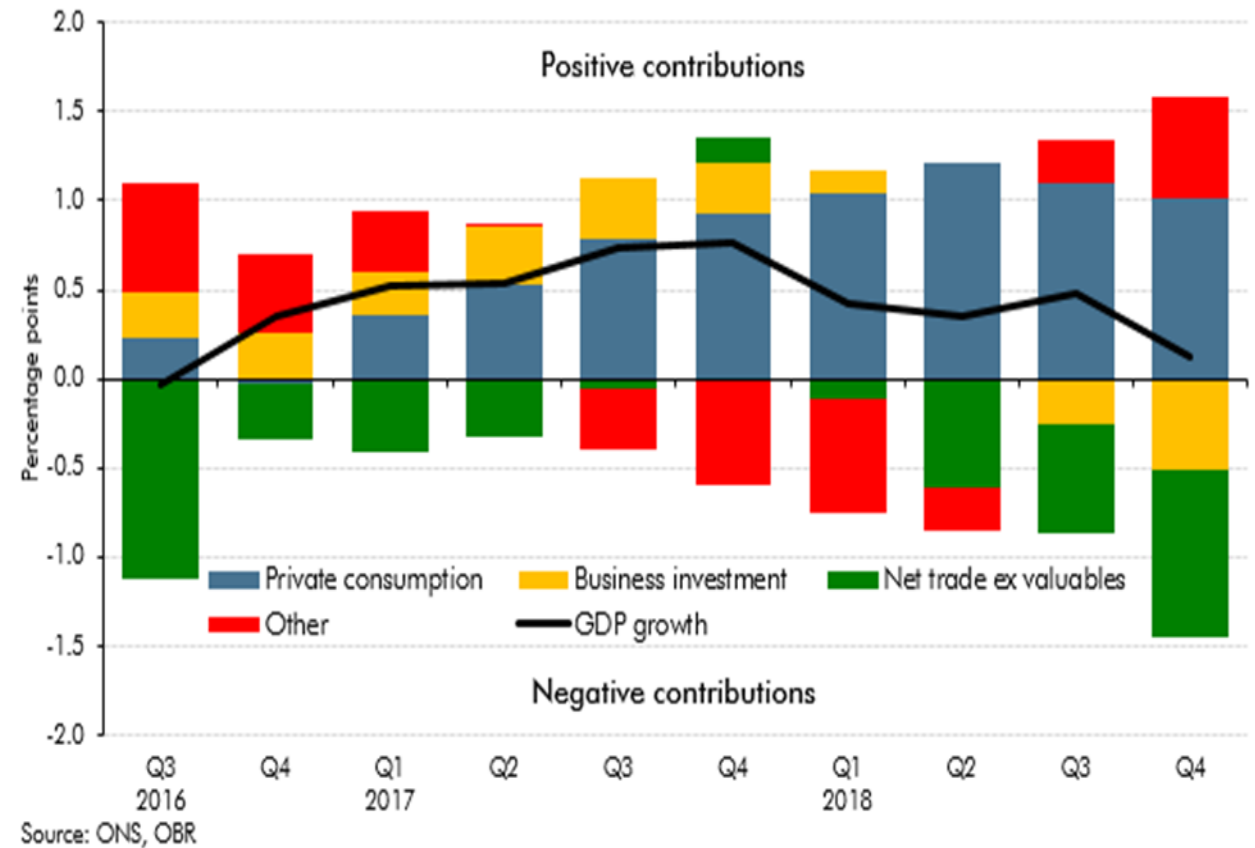
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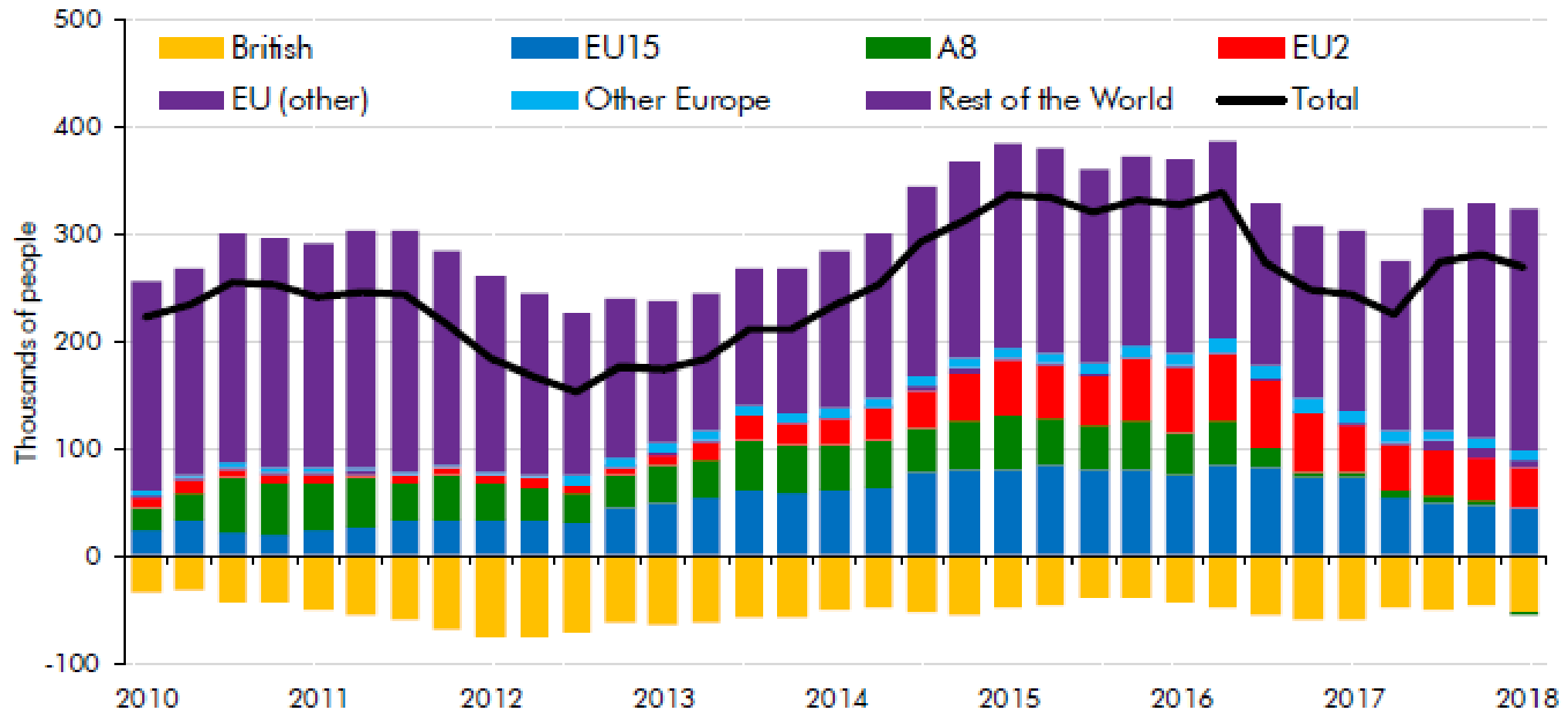
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EU immigration down but non-EU immigration up



Note: EU2 is Bulgaria and Romania, EU (other) is Malta, Cyprus and Croatia, and EU15 is the remaining 15 other EU member states (excluding the A8 and Britain).

Source: ONS

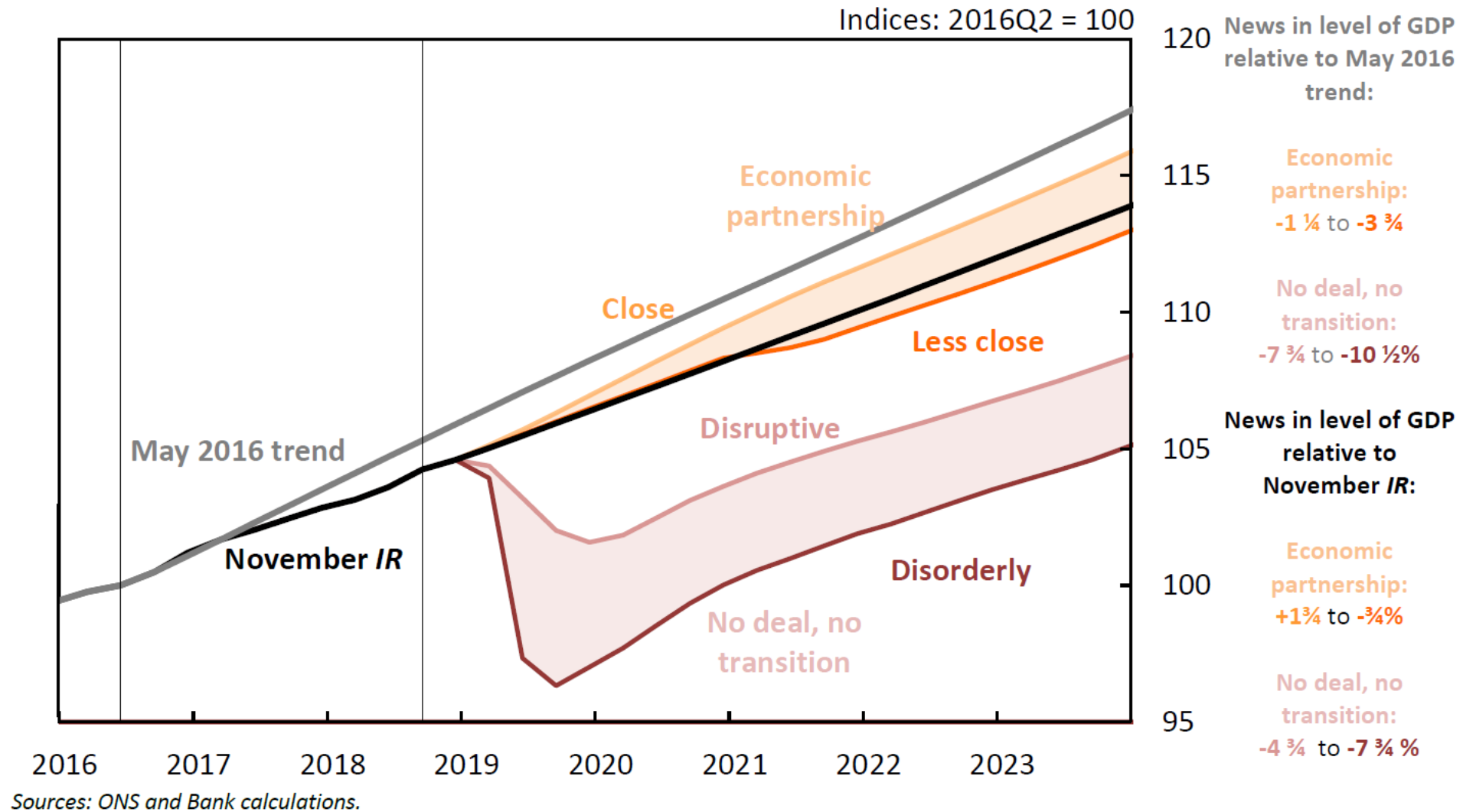
Brexit: Where next?

- Financial settlement (MFF + RAL + other liabilities) $\approx$ £38bn
- Possible end states:
 - Existing WA & PD $\Rightarrow$ transition to 'Canada+' FTA *or* Backstop (UK-wide CU + some regulatory alignment for NI)
 - Existing WA & tweaked PD $\Rightarrow$ CU *or* EEA/EFTA ('Pay, obey, no say')
 - No deal $\Rightarrow$ immediate trading on WTO rules
 - Unilateral revocation of Art.50 $\Rightarrow$ return to *status quo ante*
- Have learnt little about long-run economic consequences since 2016 (though harder to secure FTAs with other countries than Brexiteers envisaged)

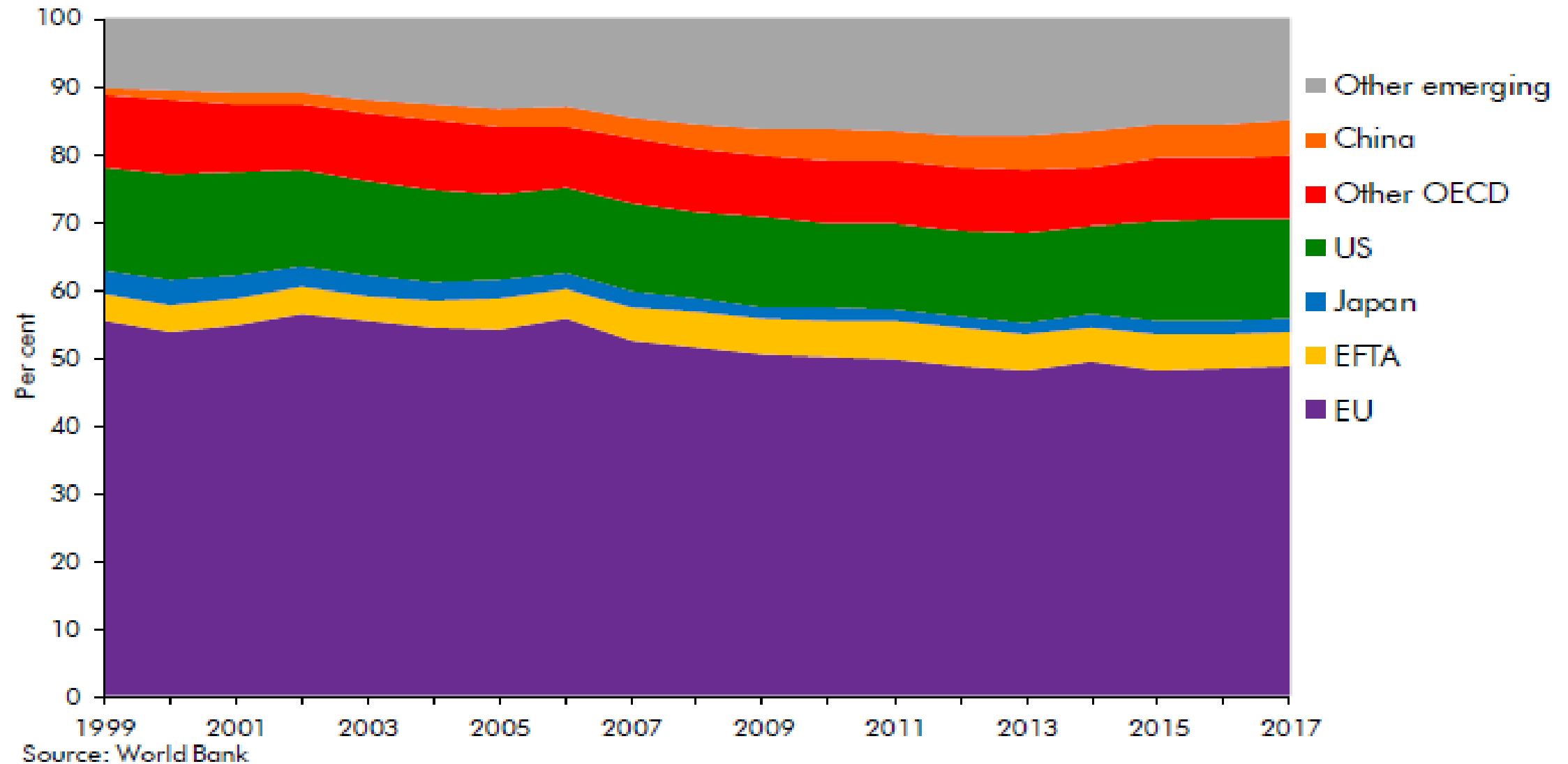
Impact on GDP of additional trade barriers with EU

Organisation	Model	Assumptions	Per cent		
			WTO	FTA	EEA
Economists for Free Trade	CGE	Assume zero NTBs ¹	0.0 ²	0.0	
Jafari & Britz	CGE	IRS (Melitz) & CRS ³	-1.1		
PWC	CGE	IRS (Krugman)	-2.1	-0.5	
Felbermayr <i>et al</i> (2017)	CGE	CRS	-2.3		-0.6
Dhingra <i>et al</i>	NQTM	CRS	-2.7		-1.3
Giuriak <i>et al</i>	CGE	CRS	-2.8		-1.0
Banque de France	NQTM	CRS	-2.9	-2.4	
Felbermayr <i>et al</i> (2018)	NQTM	CRS	-3.2	-1.8	
IMF	CGE	IRS (Krugman)	-4.0	-2.5	
Netherlands CPB	CGE	IRS (Krugman)	-4.1	-3.4	
Centre for Economic Studies	CGE	CRS	-4.5		-1.2
Whitehall Study	CGE	Not specified	-6.5	-4.5	-1.5
OECD	NIGEM	Dynamic productivity	-7.7	-2.7	
Netherlands CPB	CGE	Dynamic productivity	-8.7	-5.9	
Dhingra <i>et al</i>	Gravity	Dynamic productivity	-9.4		-6.3
Rabobank	NIGEM	TFP model ⁴	-18.0	-12.5	-10.0
Average (excluding largest and smallest estimates)			-4.4	-3.0	-2.3

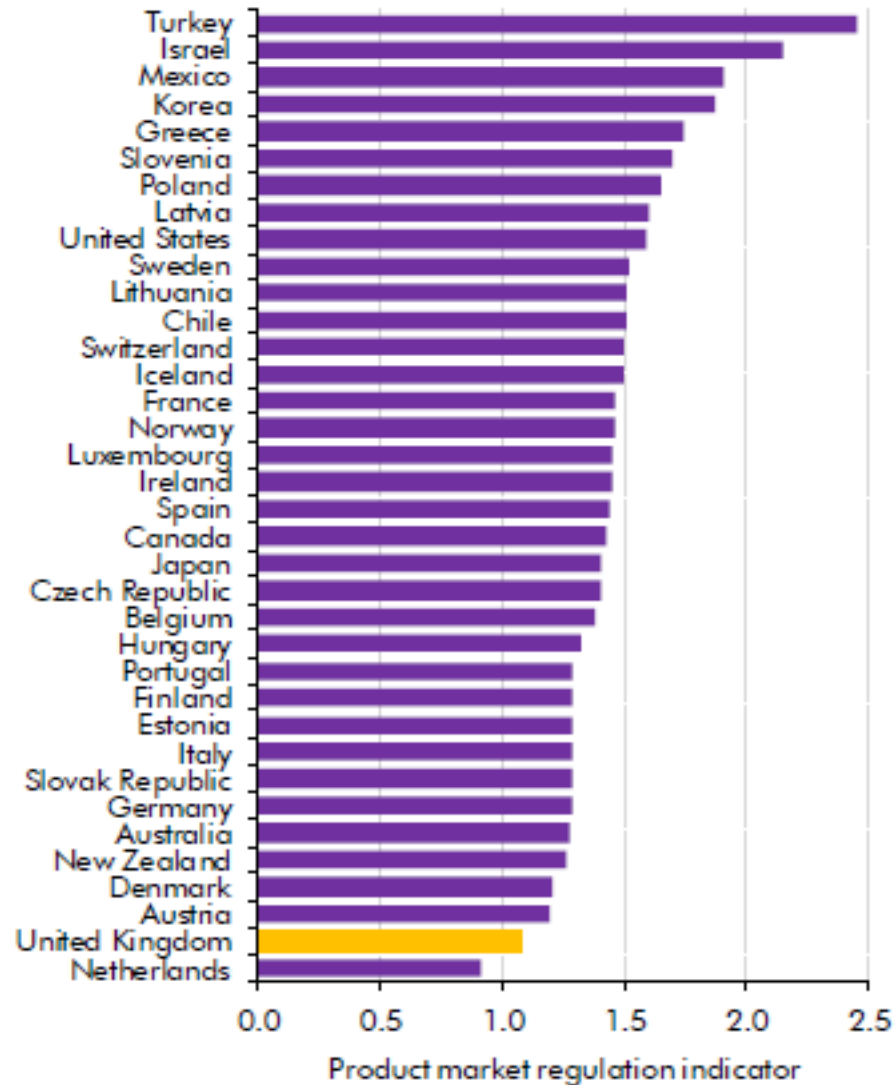
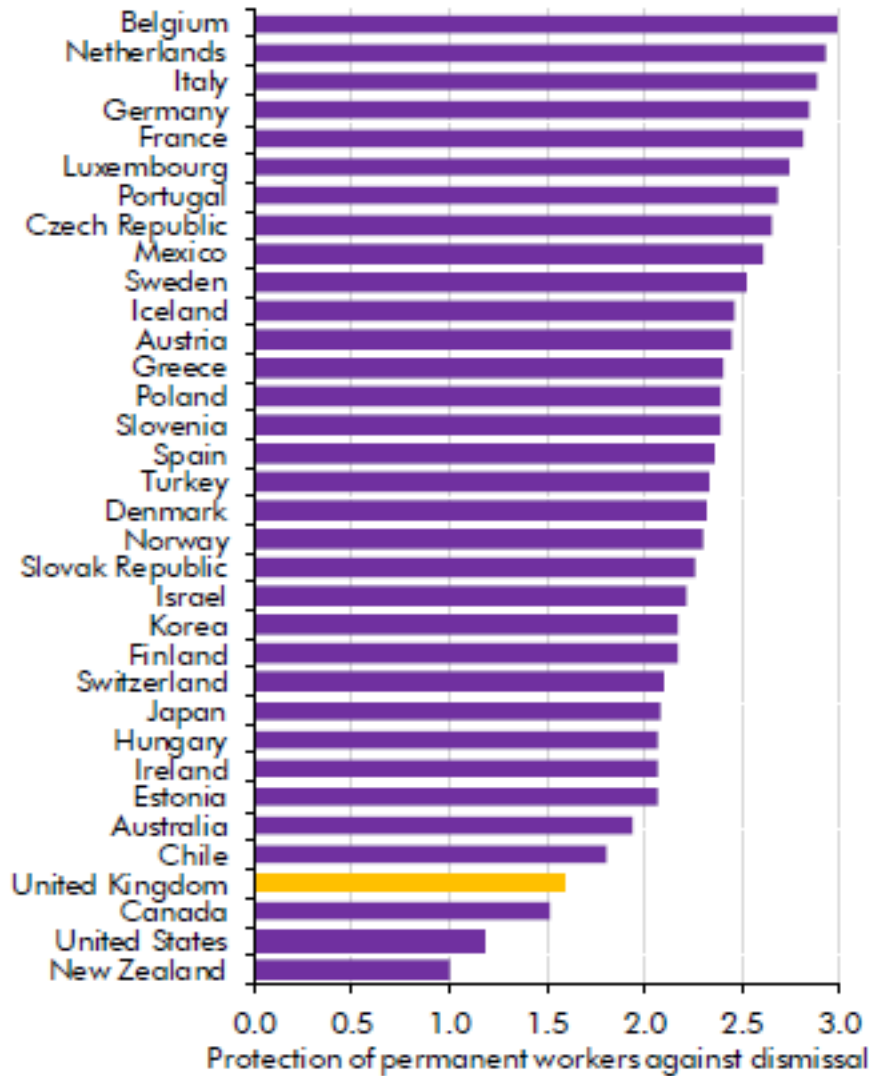
Bank of England estimates of various Brexit outcomes



Can other FTAs compensate? UK trade by destination/source



What scope for de-regulation?



Source: OECD

Some final thoughts

- Long-run effects of an orderly Brexit are likely to be small compared to post-GFC productivity shortfall and manifest only over many years
⇒ will probably be difficult to identify effects of Brexit *ex post*
- What about No Deal?
 - Worst effects mitigated (planes, financial contracts) and larger firms have taken precautionary measures...
 - ...but many SMEs unprepared and its the 'unknown unknowns' that matter (hoarding, interconnections, etc)
 - Uncertainty would weigh on investment...
 - ...and longer-term scope for FTA with EU may be damaged (especially if UK withholds financial settlement)