

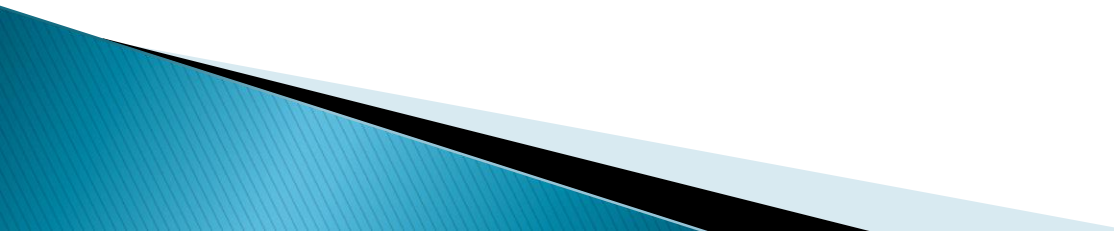
Evaluating the Economic Impact of Brexit: ‘Fear-mongering’ or Just a Matter of Degree?

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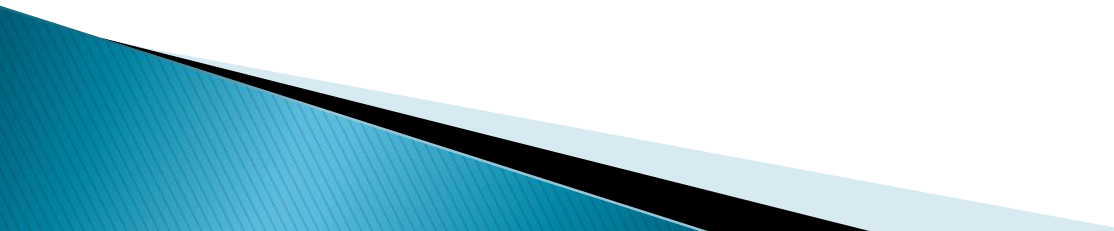
Perspectives

‘Voters did not vote to make themselves poorer’

Philip Hammond, Chancellor of Exchequer

- ▶ Watershed event for the UK economy
 - ▶ Research on the effect on the UK almost unanimous in reporting negative effects
 - ▶ Much of this research was publicly vilified by leading members of the UK government and the pro-Brexit media
 - ▶ In large part, the input of economists has been marginalised in the Brexit debate
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Outline

- ▶ Background on UK ties with the EU
 - ▶ Review recent assessments of impact on UK economy
 - ▶ Reference to potential impact on UK food and agricultural sector
 - ▶ Some concluding comments on why economists largely marginalised in the debate
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UK and the Importance of the EU

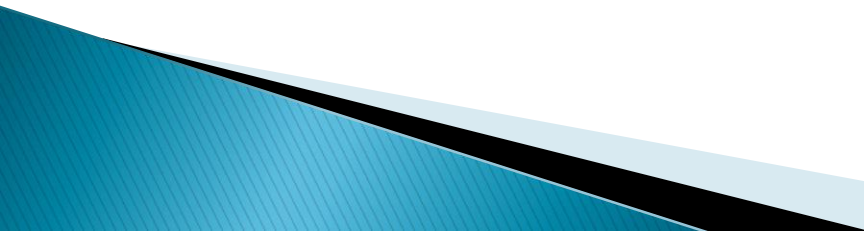
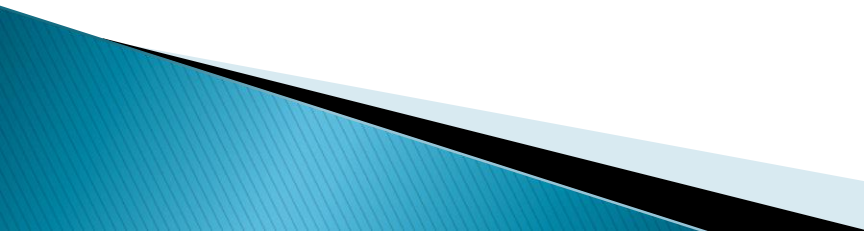
- ▶ The EU is the UK's major trading partner
 - ▶ Trade has increased substantially due to membership of EU
 - ▶ Baier *et al.* –intra–EU trade increased by 92%
 - ▶ UK Treasury–trade increased by between 68–85%
 - ▶ ‘Deep’ integration agreements increase trade by more than ‘shallow’ agreements (Mulabdic *et al.*)
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Table 1: UK Trade with the EU as a Percentage of Total Trade (2015)

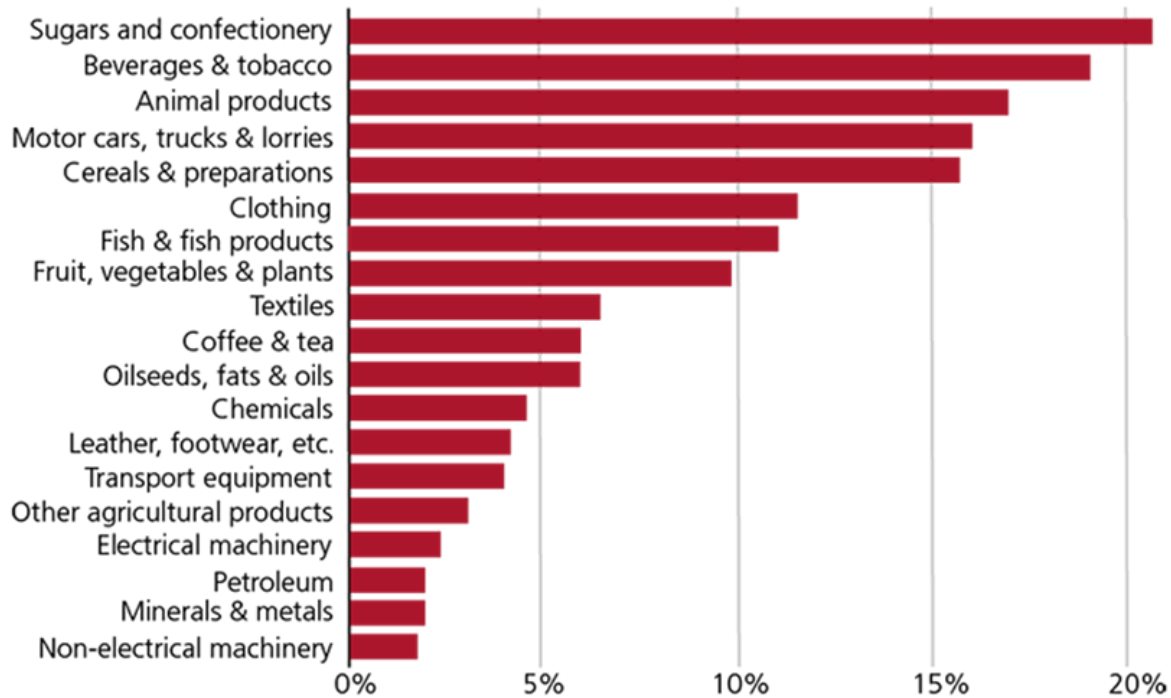
Industry	% of UK Total Exports to EU	% of UK Total Imports from EU
Food and Live Animals	69	65
Beverages	37	70
Mineral Fuels	62	5
Animal & Vegetable Oils	77	63
Chemical and Related Products	44	64
Manufactured Goods	47	51
Machinery and Transport	39	56
Misc Manufactured Goods	42	36

Source: UN COMTRADE. Data is at the SITC 1 Digit Level.

Brexit Issues

- ▶ Tariffs are relatively low
 - ▶ Non-tariff barriers are relatively high
 - ▶ (Note that these are higher for the food and agricultural sectors)
 - ▶ What trade deals will the UK have with the EU and other countries?
 - ▶ Access to the EU Single Market tied with issues relating to the free movement of labour
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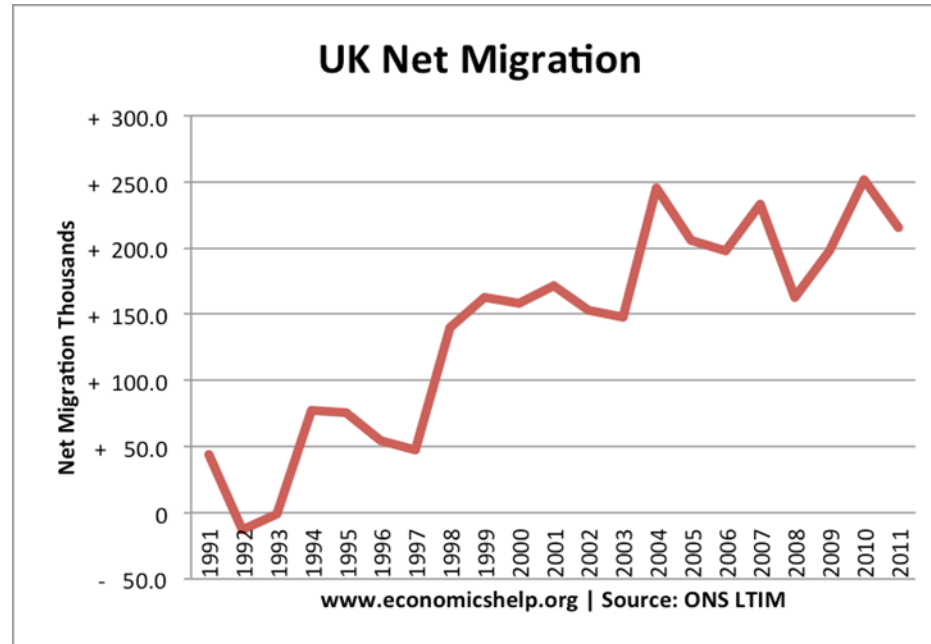
EU Average Final Applied Tariffs by Industry



Comparison of the Tariff (*Ad Valorem*) Equivalent Effects of Non-Tariff Measures in EU

Industry	Egger <i>et al.</i> (2015)	Industry	Berden <i>et al.</i> (2009)
Primary Agriculture	25	Food, beverages & Tobacco	57
Processed Food	48		
Beverages and Tobacco	42		
Chemicals, pharmaceuticals	21	Chemicals & Chemical Products	24
Fabricated Metals	38	Basic & Fabricated Metals	12
Motor Vehicles	20	Transport Equipment	22
Electrical Machinery	19	Electrical & Optical Equipment	7
Goods Average	13	Overall Weighted Average (All Sectors)	20

Migration




Wage Effects? If they exist, they are not large though more likely to affect either low wage groups or previous immigrants

Brexit Options

- ▶ 'Soft' Brexit
 - e.g. 'Norway' type of arrangement
 - retain access to Single Market
 - but free movement of labour
 - still raise costs of trade with EU
 - and exclusions still apply
- ▶ Other 'soft' options: bespoke free trade agreement e.g. CETA/'Swiss' agreements
- ▶ 'Hard' Brexit
 - revert to mfn tariffs but would leave issues about non-tariff barriers to be resolved
- ▶ 'Hard' Brexit with unilateral liberalisation

Assessments

- ▶ UK Treasury long-term assessment of Brexit
 - ▶ Based on gravity model/determine impact on trade and FDI
 - ▶ Long term effects based on elasticity of growth w.r.t trade/other aspects included
 - ▶ This approach also reported in Dhingra *et al.* (2016)
 - ▶ Other long-term assessments e.g. OECD
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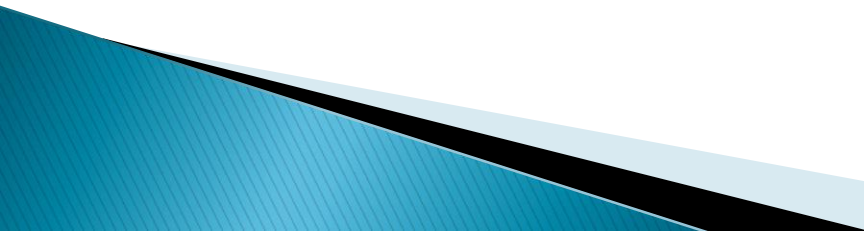
UK Treasury and Other Long Term Estimates of the Effect of Brexit on the UK

	UK Treasury		Dinghra <i>et al.</i> (forthcoming)	OECD (2016)
	'Soft' Brexit	'Hard' Brexit		
Change in GDP	-3.8 to -6.2%	-7.5%	-6.3 to 9.5%	-5.1%
GDP cost per household	-£2,600 to -£4,300	-£5,200	-£4,200 to -£6,400	-£3,200

Reactions to Assessments (particularly the UK Treasury report)

- ▶ *Economists for Free Trade* (formerly known as *Economists for Brexit*) labelled the report as ‘Project Fear’
- ▶ Pro-Brexit media accused economists as ‘Fear-mongering’
- ▶ Senior Conservative politicians including members of UK government cabinet:
 - ▶ Lord Lawson: “political propaganda and scaremongering”
 - ▶ Liam Fox: ‘disreputable, shabby and misleading’
 - ▶ Andrea Leedsom: “unfair and biased”
 - ▶ John Redwood: “absurd”

Assessments continued

- ▶ Dhingra *et al.* (forthcoming)–focus is on static trade effects
 - ▶ Trade effects based on structural GE model
 - ▶ Allows for greater levels of disaggregation across sectors and countries
 - ▶ Can directly account for tariff and NTB issues
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Dhingra *et al.* Assessment of Brexit:

Comparison of the Trade Effects of Brexit (Percentage Change)

	Total Exports	Exports to EU	Total Imports	Imports from EU
'Soft' Brexit	-9	-25	-8	-22
'Hard' Brexit	-16	-43	-16	-38

Source: Dhingra *et al.* (forthcoming).

Dhingra *et al.* Assessment:

Impact of Brexit: Welfare Change and Composition

	'Soft' Brexit	'Hard' Brexit
Welfare Impact:		
Total Change in Welfare	-1.34%	-2.66%
Household Effect	-£893	-£1,773
Composition of Welfare Changes:		
Rise in UK-EU Tariffs		-0.13%
Rise in UK-EU Non-Tariff Barriers	-0.53%	-1.31%
Foregone Impact of Further EU Integration	-0.90%	-1.61%

Source: Dhingra *et al.* (forthcoming)

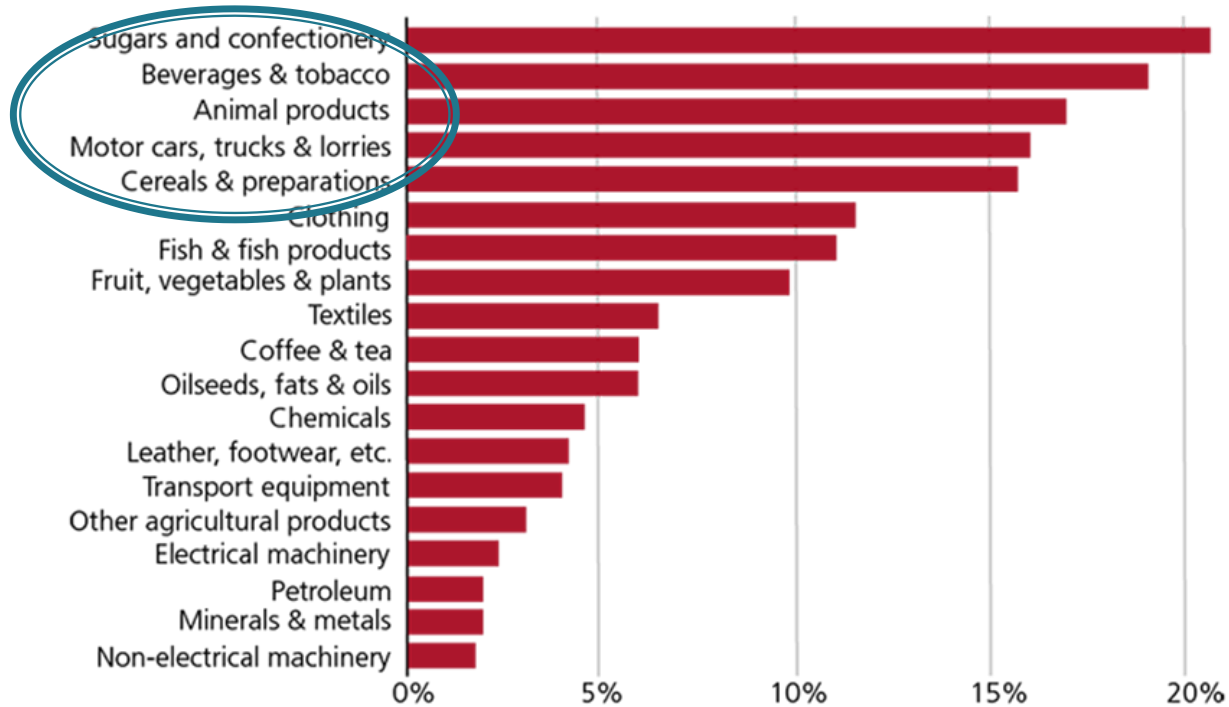
Brexit and UK Food and Agricultural Sectors: Context

- ▶ No clear political consensus that Brexit would be desirable
 - ▶ Differentiate between interests relating to agriculture and the food sector
 - ▶ UK around 60% self-sufficient in food products
 - ▶ Food manufacturing is largest sector in UK manufacturing
 - ▶ Most of UK trade is with the EU
 - ▶ Tariff and non-tariff barriers considerably higher in these sectors
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UK Trade with EU in Food and Agricultural Products as Proportion of Total Trade (2015)

Industry	% of UK Total Exports to EU	% of UK Total Imports from EU
Meat & Meat Prep.	80	75
Dairy Products	69	92
Cereal & Cereal Prep.	64	73
Vegetables & Fruit	70	57
Sugar & Sugar Prep.	70	54

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Potential Issues

- ▶ Agriculture and food is one of the main sectors to have benefitted substantially from EU (Egger *et al*)
 - ▶ Disentangling from EU WTO commitments w.r.t protection in agriculture will be complex (e.g. tariff rate quotas)
 - ▶ What will replace the CAP?
 - ▶ Food safety standards and other aspects of regulation in the food sector
 - ▶ Options outlined above for trade more generally have often applied exclusions related to agriculture
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Potential Impacts

- ▶ Food prices may rise (have already risen due to the effect of Brexit on the exchange rate)
- ▶ Evidence on this:
 - ▶ DEFRA: Import prices rise by 11% and retail prices by 3%
 - ▶ Dhingra *et al.*: ‘soft’ Brexit raises food prices by 4%; ‘Hard’ Brexit food prices rise by 8%

- ▶ Reducing immigration will also have a significant effect on the UK food and agricultural sectors

- In agriculture, 20% of employees are from EU

- 90% of seasonal workers are from EU

- In food processing, 40% of workforce are from EU

Reflections on Economists Lack of Impact on Brexit Issues

- ▶ The vote for Brexit was essentially about wider issues
 - ▶ No strong evidence base for the benefits of the EU
 - ▶ Media bias and media balance
 - ▶ The view of 'experts' was publicly dismissed
 - ▶ How should economists communicate?
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