

The Economics of Exit

Jonathan Portes

April 2014

www.niesr.ac.uk/blog

Twitter: @jdportes



Very well, alone..



"VERY WELL, ALONE"

Scottish independence: two key issues

- Public debt
- Choice of currency
- Work done by my colleagues Angus Armstrong and Monique Ebell at NIESR



Debt

	UK 2011-12	UK 2015-16	RUK 2015-16	I. Scotland 2015-16
PSND £	1,096	1,451	1,329	122
PSND % GDP	72%	82%	91%	70%
Gross debt £	1,312	1,683	1,542	141
Gross debt % GDP	86%	95%	105%	81%
WGA £	1347	NA	NA	NA



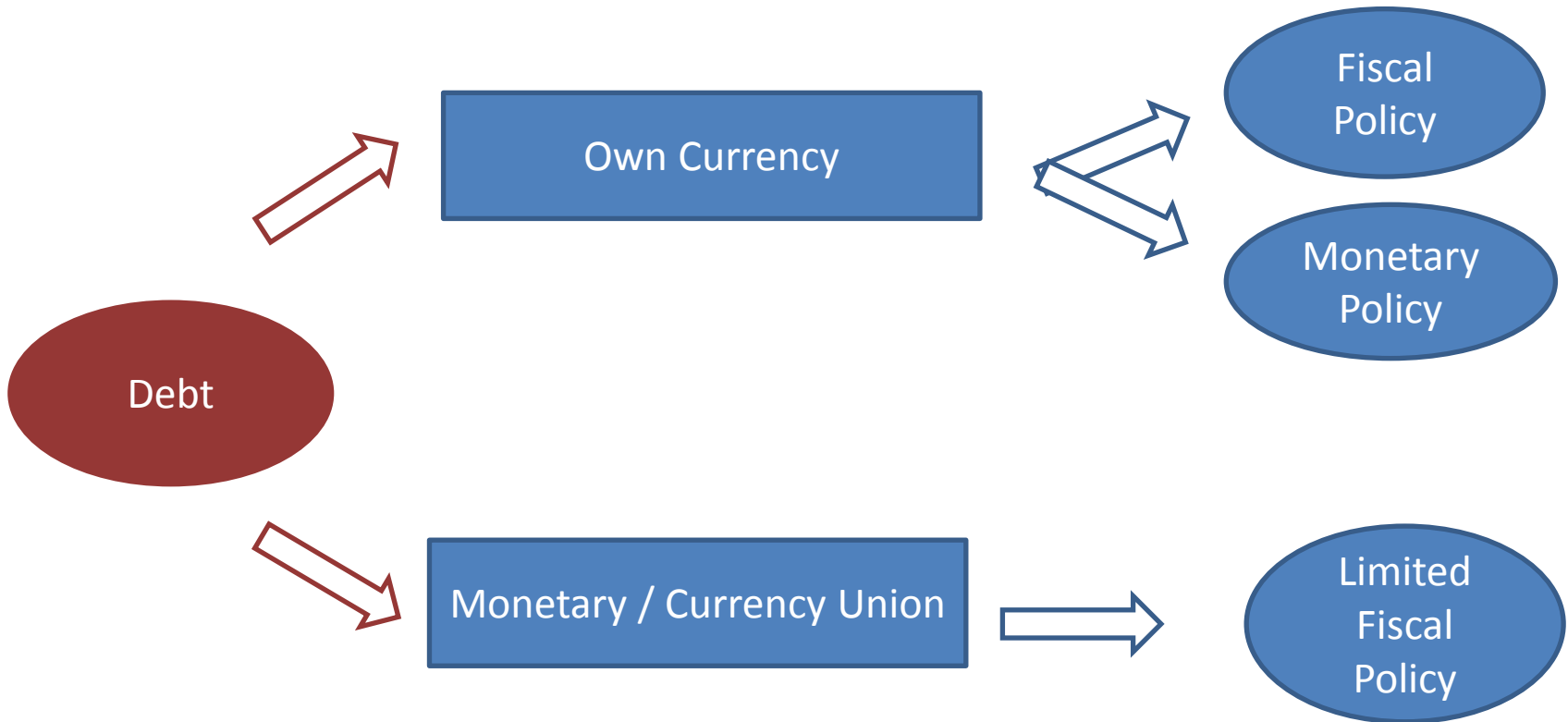
How to share a currency?

Two main possibilities:

- **Monetary union:** share the central bank
- **Currency union:** unilaterally 'dollarize' or use the other currency without sharing the central bank



Debt is Key Part of Currency Choice



Markets

“International monetary regimes have been born at a conference table and laid to rest in foreign exchange markets”

Prof. Michael Dooley



Stability of monetary or currency union

- Regardless of whether a monetary or currency union, Scotland would be effectively ceding control over monetary policy
- Fiscal policy would be constrained explicitly in a monetary union
- The greater the debt, the stricter the implicit fiscal policy limits from markets in a currency union
- Markets need to be convinced of credibility of currency union, because a sovereign Scotland could always change its currency arrangements

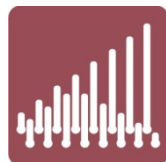


“Brexit”: the role of economic analysis

Not just an economic issue: but economics will be central

Relatively little recent work: last broad macro assessment Pain & Young (NIESR 2004)

Multiple issues, multiple counterfactuals



6 key economic issues

Trade

Regulation

Investment

Labour mobility

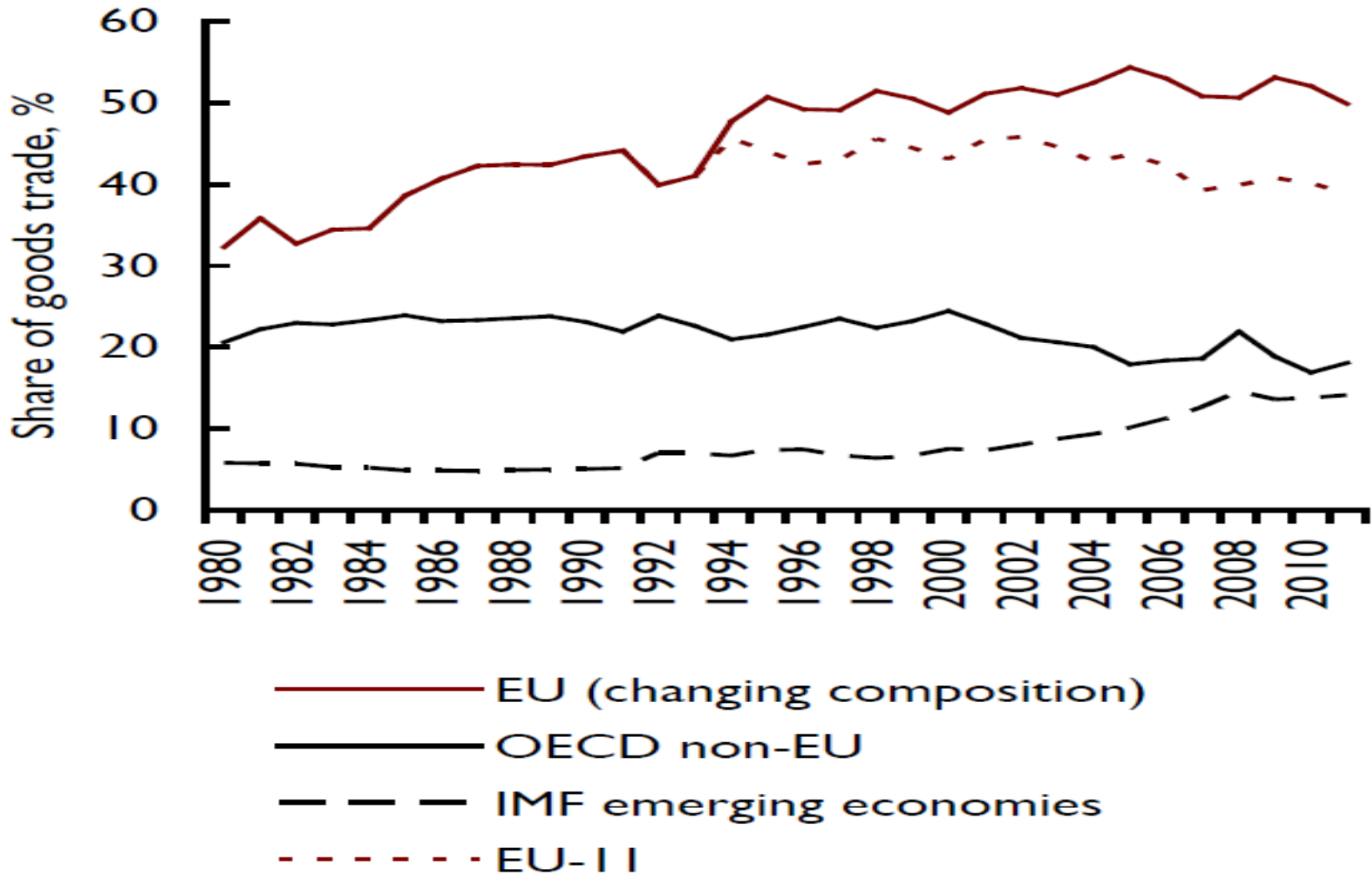
Financial services

EU budget/agriculture

[..and a couple of red herrings..]

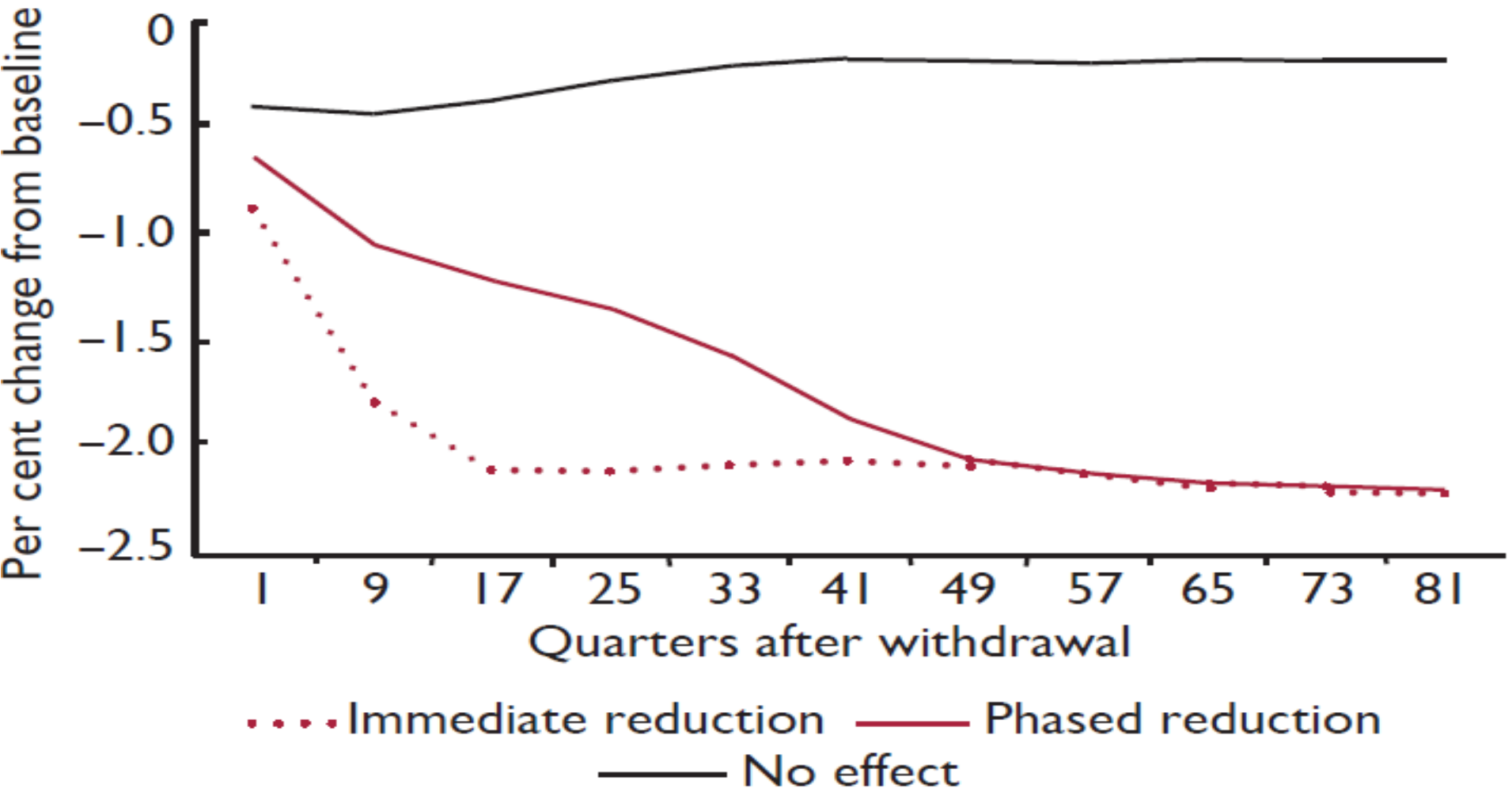


Figure 1. Trends in UK total trade with the EU and the rest of the world



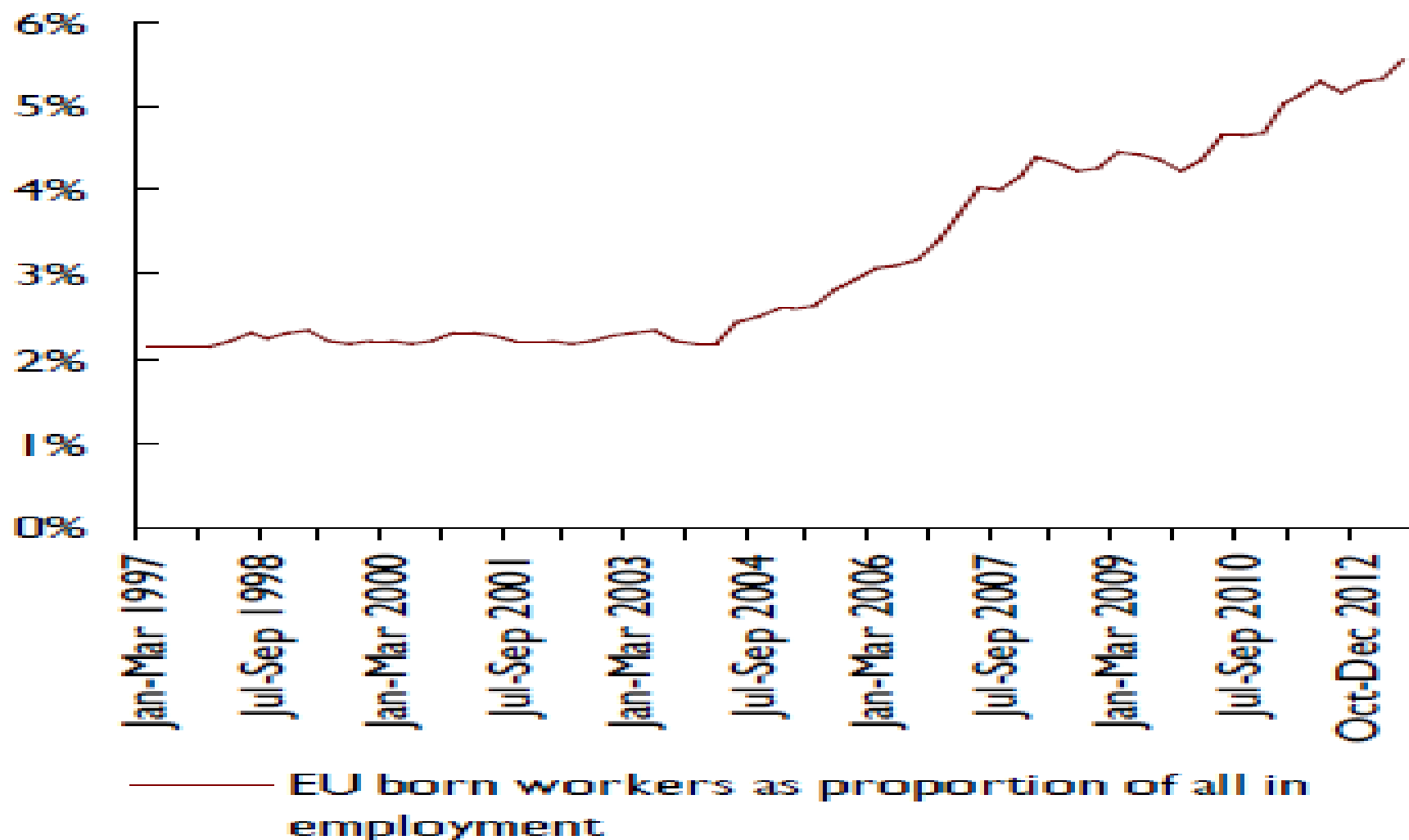
Source: Centre for European Reform, based on IMF Direction of Trade Statistics.

Figure 2. The impact on real GDP of different FDI assumptions (per cent)



Source: Pain and Young (2004).

Figure 3. EU-born workers as proportion of all in employment



Source: ONS Labour Market Statistics, table EMP6, August 2013. 'EU-born workers' refers to non-UK born, and includes 2004 Accession countries from May 2004, and Bulgaria and Romania from 2007.

The Economics of Exit

Jonathan Portes

April 2014

www.niesr.ac.uk/blog

Twitter: @jdportes

