



The **UK** in a **Changing Europe**

The long-term impact of Brexit

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Political economy of the vote to Leave..

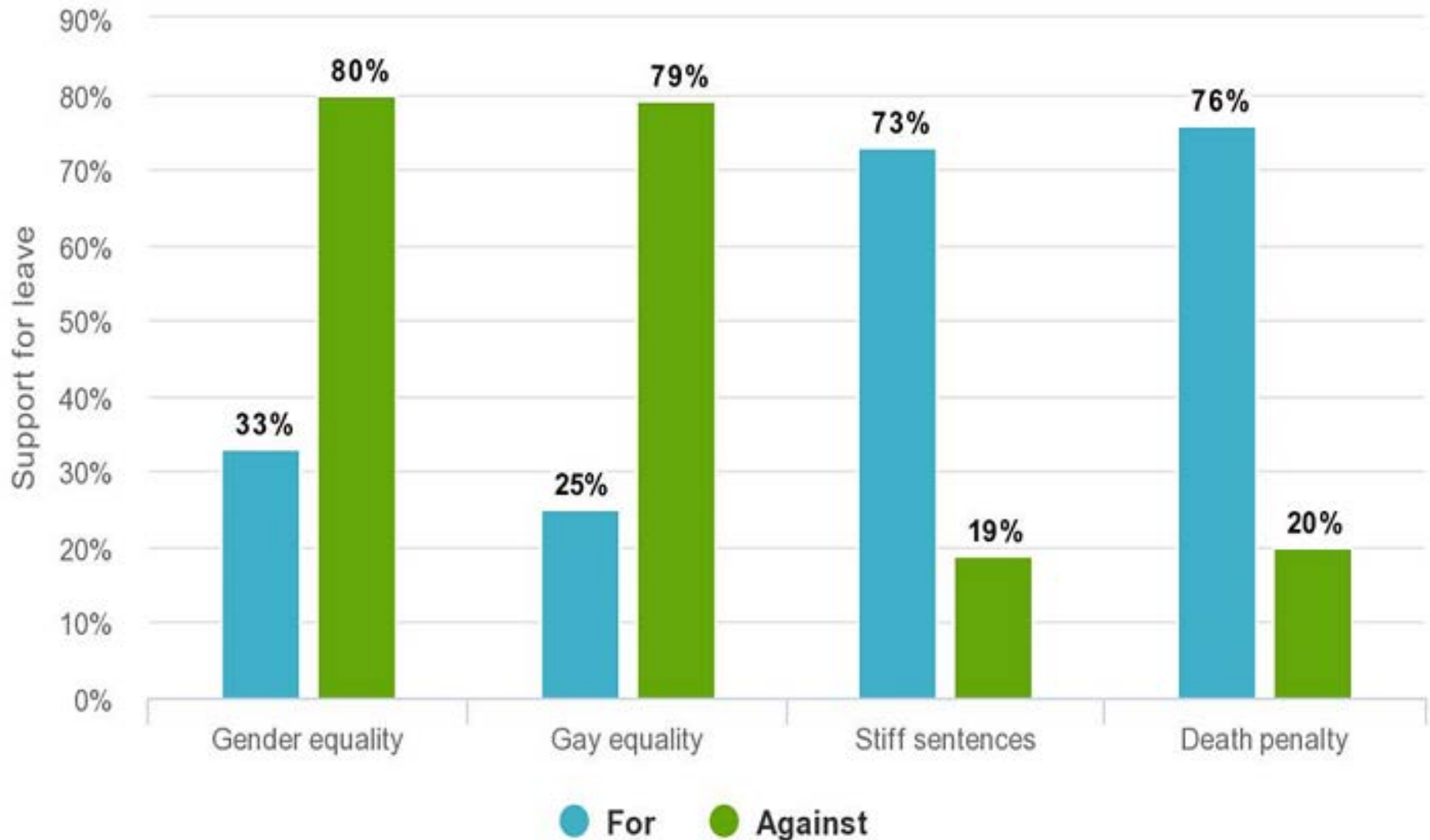
Key correlates of voting Leave:

- Low income, educational attainment
- Age (but no gender gap)
- Place (those in areas with lower skill levels/"left-behind")
- White (but not overwhelming)

But role of individual characteristics strongly mediated via values and national identity..

Opposition to “social liberalism” highly correlated with voting Leave

Source: British Election Study (EU Referendum Study) Internet Panel Wave 8. N = 29,000.



Implications..

- Values trump economics (even if latter partially cause former)
- Pro-Brexit coalition unlikely to be swayed by damage to London, Scotland, high-skilled service sector (HE, City, etc)
- PM largely boxed in to key red lines on free movement, “sovereignty”
- EU MS equally boxed in..
- Prospect for either Brexit reversal or “soft” Brexit” look bleak.
- Likely outcome: hard(ish) or messy to chaotic



SO
FAR
SO
GOOD

Lynch

EU membership was good for the UK

- UK underperformed France and Germany up to 1973; outperformed 1973 to 2008
- Estimates EU membership boosted UK GDP/GDP per capita by 8 to 10% (Crafts, 2016; Campos, Coricelli & Moretti, 2014)
- Why? Expansion of trade increased competition; boosted inward investment; growth of pan-European supply chains
- Likely to have been complementary with Thatcher reforms
- But fact joining EU benefited UK doesn't mean leaving will be bad for UK

Long-term impacts: key variables

- Trade regime with EU
 - Single Market/"EEA-" ruled out
 - WTO, FTA, or "comprehensive & deep"?
- Trade deals with other countries
 - US by far most important
 - CANZUK feasible but impact small
 - China, India unlikely
- Immigration
 - Free movement ruled out
 - European preference?
 - Liberal vs. restrictive regime

Ex ante estimates focused on trade regime with EU

Table 14. Comparison of recent studies on the impact of Brexit on the United Kingdom

	OECD	LSE/CEP	HM Treasury			NIESR			NIESR
	WTO/FTA	EEA/FTA	EEA	FTA	WTO	EEA	FTA	WTO	WTO+
			Brexit Modelling						
Reduction in total trade (%)	-10 to -20	-12.6	-9	-14 to -19	-17 to -24	-11 to -16	-13 to -18	-21 to -29	-22
Reduction in FDI (%)	-10 to -45	none	-10	-15 to -20	-18 to -26	-10	-17	-24	-24
EU budget savings, % of GDP	0.3 to 0.4	0.0	0.4	0.4	0.4	0.0	0.3	0.3	0.3
Method	NiGEM	Estimated trade elast- icities (*)	NiGEM			NiGEM			NiGEM
			Results						
GDP, % change									
Central estimate (%)	-5.1	-7.9	-3.8	-6.2	-7.5	-1.8	-2.1	-3.2	-7.8
Range (%)	-2.7 to -7.7	6.3 - 9.5	-3.4 to 4.3	-4.6 to 7.8	-5.4 to 9.5	-1.5 to -2.1	-1.9 to -2.3	-2.7 to -3.7	-7.8

Third country trade deals

Table 2b: Increases in total UK trade from signing specific FTAs

	Goods	Services
WTO rules --> FTA with China	2% - 5%	0%
WTO rules --> FTA with USA	3% - 8%	0%
WTO rules --> FTA with Australia	0.2% - 0.5%	0%
WTO rules --> FTAs with entire non-EEA world	11% - 29%	0%

Immigration

- Free movement led to very large rises (500%) in migration flows to UK
- Ending FMOW not just about reducing low-skilled migration. Also means workplace-level controls, removal of ancillary rights (family, access to services, etc). Medium & high skill migration will also fall
- Some return migration likely (even if EU citizens granted residence rights)
- Forte & Portes forecast very sharp fall in net EU migration (50-80%)

GDP & wage impacts of reductions in migration

Table 1: Cumulative effects to 2030 (% fall; increase for wages)

	Scenario	GDP (%)	GDP per capita (%)	Wages (%)
Model 1	Central	2.73	0.92	0.51
	Extreme	4.35	1.53	0.82
Model 2	Central	5.19	3.38	0.51
	Extreme	8.18	5.36	0.82

Key uncertainties

- Asymmetry and path dependence of EU impacts: leaving \Leftrightarrow joining
- Political and economic dynamics in the EU-27
- Potential for “chaotic”/“train-crash” Brexit
- Domestic policy: education/skills/training, industrial strategy, etc

Concluding thoughts

- Brexit need not be disaster for UK economy either short or long-term
- But political economy of both UK & EU makes positive outcome implausible.
- Transition path matters
- But on almost all plausible scenarios UK will be less open economy (to trade & migration) over medium to long term



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