Trade and Development: why a “no deal” Brexit would be an economic catastrophe

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What I am talking about

Trade
• International (vs. intraregional e.g. East of England ↔ Greater London)
• Commercial exchange of goods and services in legally-bounded markets

Economic development
• Progress in an economy, as measured qualitatively & the adoption of new technologies

Economic catastrophe
• Hyperinflation (Germany 1923, Venezuela, 2018)
• 1929- Great Depression, 2009- Great Recession
• New Zealand after 1973, when UK joined the EEC
Impact on the UK and EU27 Economies

• Brexit impacts include: New barriers to trade and disrupted supply chains
  Reduced employment in the UK
  Export of jobs and activity to EU27
  Reduced benefits from migration
  Additional bureaucracy and costs
  Impaired ability to compete in world markets

• Long-run economic impact of proposed deal estimated at 3.9% GDP
  – cost of £80 billion a year (£1.6 billion/week)
• For comparison, government (November 2018) assessed mid-range long-run annual GDP losses to be:
  1.4% for EEA-style agreement (loss of GDP of £0.5 billion per week)
  4.9% for FTA-style agreement (£2.0 billion per week)
  7.7% for WTO option (£3.0 billion per week)

• Employment effects of government’s November [2018] estimates equivalent to job losses of:
  EEA – 0.4 million
  FTA – 1.6 million
  WTO – 2.5 million

• Benefits of potential new trade deals with other countries are small, uncertain and long-term as are benefits from reduced regulation
• For EU27, Brexit will, overall, have minor economic impact but some regions could suffer a big impact, notably Ireland

Source: https://brexitfactbase.com/15-summary/
Long-run (c15 years from exit) impact on the UK

Figure E.1: Summary of total impacts on GDP compared to today’s arrangements for the illustrative no change to migration arrangements and zero net inflows of EEA workers scenarios.

<table>
<thead>
<tr>
<th></th>
<th>No change to migration arrangements</th>
<th>Zero net inflows of EEA workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Modelled average Modelled EEA-type</td>
<td>Modelled White Paper</td>
</tr>
<tr>
<td>Modelled no deal</td>
<td>-1.3% to -0.1%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>FTA</td>
<td>-2.4% to -0.9%</td>
<td>-3.1% to -1.9%</td>
</tr>
</tbody>
</table>

no-deal Brexit is much worse than a deal

Central estimates and ranges. Under the illustrative zero net inflows of EEA workers scenario, migration impacts do not apply to a modelled EEA-type scenario. As such, they are not shown on the right hand side of the chart above. This considers trade, migration and regulatory flexibility effects.

Source: HM Treasury November 2018
Long-run (c15 years from exit) impact on the UK

Figure E.3: Decomposition of total impacts on GDP compared to today's arrangements for the illustrative no change to migration arrangements and zero net inflows of EEA workers scenarios.

no-deal Brexit is much worse than a deal

Central estimates only. *NTB estimates for the modelled no deal and modelled average FTA scenarios are derived from econometric modelling, which does not isolate individual NTB components. Customs costs for these scenarios are shown illustratively in line with the modelled EEA-type scenario estimates.

This considers trade, migration and regulatory flexibility effects.

Source: HM Treasury November 2018
Economic catastrophe: disorderly brexit + weakened UK long-run productivity growth

NZ after 1973
- 1973: 30% exports to UK
- FTA with Australia in 1965
- Recession 1974 and low growth to 1980s

UK “no-deal” + later FTA
- Recession 2019
- Long-run damage to growth and development
Why would no-deal damage long-run productivity growth and UK development? an outline of the rest of the seminar

• Critical to the argument: “economies of scale”
• International trade theory: “new economics” implies that economies of scale from the Single Market underlie UK development since the 1970s
• Effects of Single Market: higher export shares, more intra-industry trade, more intra-EU trade
• How a no-deal Brexit affects trade in manufactures (gravity equations) & services (barriers)
• Effects of no-deal on
  • Productivity growth
  • Regional development
  • Inequality
Economies of scale

- Intrinsic to production
- Pervasive in the economy
- Dynamically linked with technological change
- Defined to include economies of specialisation

Types of economies of scale

- Physical: surface area grows less than capacity
- More specialisation (Adam Smith)
- Standardisation: requires laws and agreements
- More rapid production, repetition and duplication
- Share of fixed costs decreasing (networks, households)
- Internal and external to firm (Alfred Marshall)
- Green economies of scale: supporting low-GHG technology
Economies of scale in mining

Copper mine costs by size of mine
Source: Rio Tinto

Copper production by mine size, in million tonnes ore/year.
Source: Humphreys (2001)

Sources: Rio Tinto Fig. 6 in Humphreys, D. Miner Econ (2013) 26: 1. https://doi.org/10.1007/s13563-013-0033-5
Humphreys D (2001) Sustainable development: can the mining industry afford it? Resources Policy 27
Economies of scale in medicine

Number of human genome base pairs sequenced per US$

The number of human genome DNA base pairs which can be sequenced for one US$.

Source: NHGRI Genome Sequencing Program (GSP)
Economies of scale in banking

Economies of scale in solar power

Solar PV module prices vs. cumulative capacity, 1976 to 2016

Solar photovoltaic (PV) module prices (measured in 2016 US$ per watt-peak) versus cumulative installed capacity (measured in megawatts-peak, MWp). This represents the 'learning curve' for solar PV and approximates a 22% reduction in price for every doubling of cumulative capacity.

Source: Lafond et al. (2017); IRENA; SolarServer

https://ourworldindata.org/energy-production-and-changing-energy-sources

an example of green economies of scale
Economies of scale in energy-efficiency retrofitting dwellings in the Netherlands and Nottingham

an example of green economies of scale

£capital cost

£100,000

capital costs in NL

projected costs in UK

Source: https://www.green-alliance.org.uk/reinventing_retrofit.php
Theoretical approaches to the issue

**Theory:**

<table>
<thead>
<tr>
<th>Neoclassical (Krugman)</th>
<th>New Economics (Barker)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• prices adjusted for taxes</td>
<td>• trade, advertising, prices, rationing ...</td>
</tr>
</tbody>
</table>

Market clearing by:

- Price
- Trade
- Advertising
- Rationing
- Wastage

There are many ways in which markets clear, depending on the good or service, location, time constraints and institutional regulations, e.g. by wholesalers can re-distribute surpluses & fill deficits across the market, depending on logistics and size of market.
# Theoretical approaches to the issue

<table>
<thead>
<tr>
<th>Theory:</th>
<th>Neoclassical (Krugman)</th>
<th>New Economics (Barker)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market clearing by:</td>
<td>• prices adjusted for taxes</td>
<td>• trade, advertising, prices, rationing ...</td>
</tr>
<tr>
<td>Barriers to trade:</td>
<td>• distance, tariffs, transaction costs</td>
<td>• distance, tariffs, regulations, size of market</td>
</tr>
<tr>
<td>Long-run issue are:</td>
<td>• CU becomes FTA, falling £, loss 2-4%GDP</td>
<td>• CU+SEM $\rightarrow$ FTA, lower economies of scale, falling £, lower LT growth</td>
</tr>
</tbody>
</table>

If “economies of scale” are dominant in trade and productivity growth (not factor costs), then changes in the size of the “home” market become critical.
“Even countries which are exactly alike in respect of all environmental conditions, the density of their population, etc., can derive great benefit from trading with each other if thereby they are enabled to “pool their markets” and specialise upon a small number of different commodities.”
Nicholas Kaldor, *The New Statesman and Nation*, July 15, 1933, p. 71. [emphasis added]
Differences in Economies

**UK**
- Unwritten rules, traditional, pragmatic
- 66 million population
- €2078 billion GDP in 2017
- 68% of UK trade is with EU27+EU FTAs

**EU27**
- Rule-based multinational agreement, inflexible
- 447 million population
- €13252 billion GDP in 2017
- 8% of EU27 country exports go to the UK

**Institutions**

**Population**

**GDP in 2017**

**Dependence**
## How important is the EU market for the UK economy?

<table>
<thead>
<tr>
<th>Five sector groups (^{79})</th>
<th>GVA (^{80}) (sector group's proportion of UK total GVA, 2017)</th>
<th>UK-EU trade (^{81}) (£ billion, 2016)</th>
<th>Proportion of UK trade for the sector group that is with the EU (^{82}) (2016)</th>
<th>Eleven modelled sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured Goods</td>
<td>9 per cent</td>
<td>138</td>
<td>49 per cent</td>
<td>Chemicals, pharmaceuticals, rubber and plastic</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Machinery, electronics and aerospace</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Motor vehicles and parts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Other manufacturing</td>
</tr>
<tr>
<td>Agri-food (including fisheries)</td>
<td>2 per cent</td>
<td>17</td>
<td>74 per cent</td>
<td>Agri-food (including fisheries)</td>
</tr>
<tr>
<td>Services</td>
<td>60 per cent</td>
<td>265</td>
<td>51 per cent</td>
<td>Business services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Construction</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Public administration, defence, education and health</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Other services</td>
</tr>
<tr>
<td>Financial Services</td>
<td>7 per cent</td>
<td>35</td>
<td>38 per cent</td>
<td>Financial services</td>
</tr>
<tr>
<td>Networks</td>
<td>8 per cent</td>
<td>68</td>
<td>49 per cent</td>
<td>Networks</td>
</tr>
<tr>
<td>Dwellings (^{83})</td>
<td>14 per cent</td>
<td>Largely not traded</td>
<td>Largely not traded</td>
<td>Not reported</td>
</tr>
</tbody>
</table>

Source: HM Treasury November 2018
Intra-EU exports of goods continues to rise (monthly)
The UK has high intra-industry trade in manufactures (more integrated into EU)

This index takes the minimum value of zero when there are no products in the same class that are both imported and exported, and the maximum value of 100 when all trade is intra-industry.

The measurement of intra-industry trade

Intra-industry trade flows are conventionally defined as the two-way exchange of goods within standard industrial classifications. The extent of intra-industry trade is commonly measured by Grubel-Lloyd indexes based on commodity group transactions. Thus, for any particular product class $i$, an index of the extent of intra-industry trade in the product class $i$ between countries A and B is given by the following ratio:

$$IIT_{i,AB} = \frac{\left(\frac{X_i + M_i}{X_i + M_i}\right) - \left|\frac{X_i - M_i}{X_i + M_i}\right|}{\left(\frac{X_i + M_i}{X_i + M_i}\right)} \cdot 100$$  \[1\]

This index takes the minimum value of zero when there are no products in the same class that are both imported and exported, and the maximum value of 100 when all trade is intra-industry (in this case $X_i$ is equal to $M_i$). Bilateral indices of intra-industry trade in the product class $i$ between country A and all its trading partners are obtained as a weighted average of the bilateral indices [1] for each partner country B, using as weights the share of total trade of A accounted for by trade with $B$. Bilateral indices of intra-industry trade between country A and country B for total manufacturing are the weighted average of the indexes in [1] for all product classes $i$, with weights given by the share of total trade of $i$ over total manufacturing trade:

$$IIT_{AB} = \sum_i \left(\frac{\left(\frac{X_i + M_i}{X_i + M_i}\right) - \left|\frac{X_i - M_i}{X_i + M_i}\right|}{\left(\frac{X_i + M_i}{X_i + M_i}\right)} \cdot \left(\frac{\frac{X_i + M_i}{X_i + M_i}}{\sum_i \left(\frac{X_i + M_i}{X_i + M_i}\right)}\right) \right) \cdot 100$$ \[2\]

A degree of caution must be used when comparing and interpreting intra-industry indices because their measurement crucially depends on the level of disaggregation chosen for the analysis. In assessing the importance of the division of the production process across countries, it should be recognised that, as well as measuring trade in intermediate goods at various stages of production, much intra-industry trade is trade in similar, but often highly differentiated, finished products.

The limitations of the intra-industry trade indicators are presented in OECD (2005), Chapter 5, Section 5.3.5.


DOI: https://doi.org/10.1787/9789264084360-85-en
Gravity equations for global trade in manufactures

The coefficients for trade agreements suggest that UK manufactured exports to the rest of the EU (and to other countries with FTAs with the EU) is 45% larger due to the EU Single Market and CU.

RTA: Regional Trade Agreements are positive, significant and increasing in size.

Gravity equation for UK trade in goods

The coefficient for EU members suggests that UK goods trade to the rest of the EU has increased by 55% due to the EU CU and Single Market.

Therefore, the CER has used a ‘fixed effects’ model. We took panel data from 181 countries between 1980 and 2010. Using data for the same countries over many years, it is possible to control for the variables that affect trade that are not observable.

The equation for the model is:

\[ \ln(X_{ijt}) = \beta_1 \ln(Y_{jt}) + \beta_2 \ln(R_{jt}) + \beta_6 EU_j + \beta_7 TT_j + u_{jt} + \varepsilon_{ij} \]

Where \( X \) is bilateral total trade in deflated US$ between the UK and country \( j \),
\( Y \) is country \( j \)'s GDP measured in constant 2005 US$,
\( R \) is the nominal exchange rate of country \( j \)'s deviation from purchasing power parity,
\( EU \) is a dummy variable for EU members, with new members coded as 1 the year they joined,
\( TT \) is a dummy variable for the UK's 30 largest non-EU trade partners,
\( u \) signifies time-varying country-specific fixed effects,
\( \varepsilon \) is an error term.
Gravity equations for global trade in services

The coefficients for trade agreements suggest that UK service exports to the rest of the EU (and to other countries with FTAs with the EU) is 14-30% larger due to the EU Single Market.

PTA: Preferential Trade Agreements
EC25: European Countries. Both are positive and significant.

https://www.wto.org/english/res_e/reser_e/gtdw_e/wkshop09_e/marchetti_e.pdf
EU non-tariff barriers to non-EU trade have increased.
How would a “no-deal” on WTO terms affect services?

A recent OECD study concludes that new data on EEA service sectors “reveal that services trade restrictiveness within the Single Market is considerably lower than the applied MFN [Most Favoured Nation] regime of those EEA members. Moreover, they show that EEA members have achieved significant regulatory harmonisation through their integration process.” (Benz and Gonzales, 2019) (emphasis added)

The Political Declaration, accompanying the Withdrawal Agreement of November 2018, declares that

‘36. The UK and the EU will also cooperate on regulation, in a way that preserves regulatory flexibility for the UK, which is important for the UK’s services-based economy.

‘37. In line with best practice in FTAs, the UK and the EU will agree arrangements on their respective regulatory approaches that aim to prevent the introduction of unnecessary regulatory barriers. …..

∴ UK services will be out of the Single Market after the transition period under the deal, and MFN terms will apply
Intra-EEA Service Sector Regulatory Profiles

Intra-EEA STRI average, minimum and maximum scores by sector, 2018

Note: The indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the intra-EEA STRI regulatory database.

GBR would face many more restrictions under MFN terms.

For example, the index of restrictions (all=1) shows that GBR would face many more restrictions under MFN terms compared to the average for EEA countries.

Note: The indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the intra-EEA STRI regulatory database.
Estimated effects of Brexit on UK exports of services

Table 1: Relative liberalisation of services supply by mode under single market and FTA provisions

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Cross-border supply of service (mode 1)</th>
<th>Commercial presence (mode 3)</th>
<th>Temporary movement of natural persons (mode 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single Market</td>
<td>FTA</td>
<td>Single Market</td>
</tr>
<tr>
<td>Banking and other financial services (excluding insurance)</td>
<td>Green</td>
<td>Red</td>
<td>Amber</td>
</tr>
<tr>
<td>Insurance services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting and book-keeping services (excluding auditing)</td>
<td>Orange</td>
<td>Green</td>
<td>Red</td>
</tr>
</tbody>
</table>

Red: constrained  Amber: notable constraints  Green: few constraints

Table 2: Estimated impact on UK services exports to EU (mode 1, 2 and 4) under an FTA

<table>
<thead>
<tr>
<th></th>
<th>Transport services</th>
<th>Insurance &amp; pension services</th>
<th>Financial services</th>
<th>Telecommunication, computer &amp; information services</th>
<th>Other business services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total UK exports to the EU (£bn, 2015)</td>
<td>11.5</td>
<td>4.0</td>
<td>23.6</td>
<td>7.6</td>
<td>22.2</td>
</tr>
<tr>
<td>Total UK exports to the EU under an FTA (£bn, 2015)</td>
<td>9.7</td>
<td>3.3</td>
<td>9.8</td>
<td>7.9</td>
<td>20.0</td>
</tr>
<tr>
<td>Total change (£bn, 2015)</td>
<td>-1.8</td>
<td>-0.7</td>
<td>-13.8</td>
<td>0.2</td>
<td>-2.2</td>
</tr>
<tr>
<td>Percentage change</td>
<td>-15%</td>
<td>-19%</td>
<td>-59%</td>
<td>3%</td>
<td>-10%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations, ONS Pink Book.

How markets clear

• Market clearing is by
  – Price
  – Trade
  – Advertising
  – Rationing
  – Wastage

  wholesalers can re-distribute surpluses & fill deficits across the market, depending on logistics and size of market

• Leaving the single market will
  – raise UK transaction costs
  – reduce the size of the markets for UK products
  – increase discrimination against UK services
Long-run effects of no-deal or FTA Brexit on regulation & “free trade”

Less regulation: niche opportunities after Brexit, however...

- 4514 out of 34,105 UK laws were influenced by EU laws, 72 of these were opposed by UK governments e.g. the ban on livestock growth hormones

- “According to the OECD, Britain has the second least regulated product markets in the developed world, after the Netherlands. Both are EU members.

OECD’s labour market protection index shows that Britain has similar levels of labour market regulation to the US, Canada or Australia – and far lower than continental European countries. EU employment rules therefore do little to inhibit Britain’s flexible labour market.”

Free trade, however...

- UK alone is in a weaker position negotiating FTAs
Long-run effects of no-deal or FTA Brexit on productivity growth

“The most advanced national firms in some economies have productivity levels close to the global frontier, but their impact on aggregate productivity is muted, to the extent that they are undersized.” (OECD, 2015)

Brexit will reduce UK exports, therefore firms’ size, and therefore their productivity growth

“A key finding from the economic research on international trade is that openness supports productivity, raising economic output and improving living standards.

“This occurs in various ways:
(ii) Greater specialisation, exploiting cross-country returns to scale and scope.
(iii) Better matching of capital and labour within an economy, improving the allocation of resources.”

(Bank of England Nov. 2018)
Dips in UK productivity growth since 18thC

Total factor productivity, Year 0=100

UK firm level productivity percentiles

Source: ONS; Bank calculations. Notes: This chart plots various percentiles of the distribution of labour productivity (real GVA per employee) across Great Britain. This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

Source: A. Haldane, James Meade Lecture, University of Cambridge March 1, 2017
The UK’s ‘long tail’ of unproductive companies is chiefly composed of small businesses serving local markets.

Exporters do much more innovation

Exogenous exports: + shocks lead to innovation

So will the shock of Brexit reduce innovation?

Figure 1: The share of innovators jumps at the top of the export distribution

Notes: Centiles of exports are computed each year from 1995 to 2012 separately and then pooled together. For each centile, we compute the share of innovators. Each centile contains the same number of firms, except for centile 0 that contains all the firms with no export. Manufacturing firms only.

Positive effects of exporting

<table>
<thead>
<tr>
<th>Panel 1: Premium for being an exporter (among all manufacturers)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>Obs.</th>
<th>Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>log Employment</td>
<td>0.854</td>
<td>0.767</td>
<td></td>
<td>937,050</td>
<td>91,563</td>
</tr>
<tr>
<td>log Sales</td>
<td>1.616</td>
<td>1.478</td>
<td>0.417</td>
<td>979,413</td>
<td>104,368</td>
</tr>
<tr>
<td>log Wage</td>
<td>0.132</td>
<td>0.097</td>
<td>0.109</td>
<td>935,489</td>
<td>91,525</td>
</tr>
<tr>
<td>log Value Added Per Worker</td>
<td>0.217</td>
<td>0.171</td>
<td>0.175</td>
<td>923,535</td>
<td>90,876</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel 2: Premium for being an innovator (among all exporting manufacturers)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>Obs.</th>
<th>Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>log Employment</td>
<td>1.043</td>
<td>0.997</td>
<td></td>
<td>645,522</td>
<td>58,121</td>
</tr>
<tr>
<td>log Sales</td>
<td>1.284</td>
<td>1.239</td>
<td>0.197</td>
<td>656,218</td>
<td>58,803</td>
</tr>
<tr>
<td>log Wage</td>
<td>0.125</td>
<td>0.095</td>
<td>0.109</td>
<td>644,533</td>
<td>58,104</td>
</tr>
<tr>
<td>log Value Added Per Worker</td>
<td>0.203</td>
<td>0.173</td>
<td>0.179</td>
<td>635,144</td>
<td>57,720</td>
</tr>
<tr>
<td>log Export Sales (Current period exporters)</td>
<td>2.018</td>
<td>1.911</td>
<td>0.806</td>
<td>433,456</td>
<td>56,509</td>
</tr>
<tr>
<td>Number of destination countries</td>
<td>13</td>
<td>11</td>
<td>7</td>
<td>663,004</td>
<td>58,936</td>
</tr>
</tbody>
</table>

Notes: This table presents results from an OLS regression of firm characteristics (rows) on a dummy variable for exporting (upper table) or patenting (lower table) from 1994 to 2012. Column 1 uses no additional covariate, column 2 adds a 3-digit sector fixed effect, column 3 adds a control for the log of employment to column 2. All firm characteristic variables are taken in logs. All results are significant at the 1 percent level. Upper table uses all manufacturing firms whereas lower table focuses on exporting manufacturing firms.

Why leaving the Single Market will reduce green economies of scale

- EU regulations and targets improve energy efficiency and encourage low-GHG technologies (e.g. energy efficiency and renewables targets, EU Emission Trading Scheme)
- Outside the SEM, UK regulations will diverge from EU ones and green economies will be reduced if the UK adopts less stringent environmental laws and regulations
- The size of the home market for UK green technologies and green products will be much smaller, so substantial economies of scale will be lost
Long-run effects of no-deal or FTA Brexit on regional development

Northern regions are more exposed to Brexit effects:
• potential loss of EU structural funds
• trade effects on manufacturing & associated services
• reduction in EU FDI
• risk of future public expenditure cuts

“... the key defining feature of modern globalization ... is with neighbouring, not distant, countries, and this reflects the experience of more than 90% of the UK's regions.”

Figure 1. Relationship between the NUTS-2 regional votes for leave and the regional gross domestic product (GDP) share due to consumption and investment demand in the other European Union countries, 2010. Note: $R^2=0.31$.

Source: Bart Los, Philip McCann, John Springford & Mark Thissen (2017) The mismatch between local voting and the local economic consequences of Brexit, Regional Studies, 51:5, 786-799
Long-run effects of no-deal or FTA Brexit on regional development

Figure 4.6: Summary of trade policy impacts on UK nations and English regions compared to today's arrangements.

Central estimates only. The benefits of new trade deals with countries outside of the EU are captured in these estimates. This does not include migration and regulatory flexibility effects.

Source: HM Treasury November 2018
Long-run effects of no-deal or FTA Brexit on inequality

- The £ exchange rate will fall to offset the lower exports, increasing import prices, especially fuel and foodstuff, and those on low incomes will pay relatively more (plus any MFN tariffs on some agri-foods)

- Cambridge Econometrics (2018) “no-deal” scenario (small productivity effect)
  - higher tariff and non-tariff barriers will drive a 3% increase in the level of average consumer prices years by 2030
  - The estimated average impact on prices for low-income households is equivalent to a £480 increase in the cost living
  - By 2030, real wages for those employed in low-skilled occupations will be around 1% lower than in the baseline

- These effects are magnified and will persist with lower productivity growth
Thank you