The economics of leaving on March 29, 2019 with no Withdrawal Agreement

The economic gains and problems with 29 March 2019 departure from the EU

Gains:
Fiscal stimulus
Positive second round effects of affordable tax cuts
Advantages from extra public spending
Lower tariffs on non EU trade
Confidence boost from ending Brexit uncertainty
Substitution effect for home production as a result of tariffs on EU sales into UK

Losses:
Friction at borders?
Non co-operation by some continental authorities?
Loss of confidence?

Why several scare stories are untrue

- Planes will fly
- EU companies will still be exporting food and medicines to the UK
- UK port authorities do not need to create new checks and delays
- Where paperwork is incomplete trade will continue – as with the EU's failure to lodge a compliant schedule with the WTO

Fiscal stimulus

- Spend most of the £39bn cost of the Withdrawal Agreement in the first two years
- This will provide a 1.8% stimulus to GDP, or 0.9% a year

Second round effect of tax cuts

- Take VED back to pre 2017 levels and drop special diesel taxes. This should lead to a 15% gain in car sales and domestic output.
- Take Stamp Duties where currently higher back to pre 2016 levels. This should provide a stimulus to transactions in the housing market.
- Cut Income Tax to 18%, providing a general boost to take home pay and consumption.
- Estimated second round effects 0.2% of GDP

Public service improvement

- Extra recruitment into NHS, education and police
- Additional investment money into transport

Estimated little additional boost above fiscal stimulus counted above

Tariffs

If we adopted the EU tariff schedule for all EU as well as non EU items we would collect an additional £13bn of annual revenue. This should be given back as tax cuts for the consumers.

Better to cut the average EU tariff when imposing it as our tariff on the whole world.

1. Remove all tariffs from intermediate goods needed for UK manufacturing
2. Remove all tariffs that collect little revenue, or are at low rates
3. Cut or remove all food tariffs on food items we cannot grow for ourselves
4. Reduce food tariffs on non EU food that we can grow to a more realistic level when imposing it globally

Confidence effects

Business claims the uncertainty over what our future trading arrangements and tariffs will look like is holding back investment.

Early resolution should bring forward delayed investment. The extent of this has been exaggerated, but let us estimate a modest 0.2% gain to GDP from this source.

Trade friction on imports

- Imports are two thirds of our EU trade
- Trucks arrive at Dover full of goods – about half of these make the return crossing to Calais empty
- There is no need to place new inspections or complex customs arrangements on our borders in our ports, as we control these entrances to the UK.
- In the first instance, the UK can continue importing EU products as today, with an inspection regime at the factory or packing house of the originator, and inspection at the customer facility on arrival
- If the UK does want more port inspection in due course, this can be introduced with sufficient capacity to avoid long extra delays
- Cross channel traffic by ferry or tunnel could have new inspections in transit on board the train or ferry
- Exporters to the UK are not threatening to cancel supply on 30 March
- Most have contractual obligations to continue supplying after 29 March which are legally enforceable. It is difficult to see why this should cause extra costs to the UK.

JIT Delays

- JIT systems regularly deal with delays or long journey times
- Were transit times to go up the supplier would just be told to send it earlier
- There need to be no extra delays at UK ports importing the goods
- JIT is more susceptible to disruption through strikes / bad weather / crashes on main motorways / disruption to ferries or trains. This hits trade from within the EU as well as from outside whether we are members of the EU or not.

Export friction or loss

• The base case is continental customers will want UK exports on 30 March as on 29 March, and many are contracted to carry on buying them
• Tariffs will make mainly UK food and cars dearer, but they will make EU cars and food dearer into the UK
• Over half our EU trade will be tariff free on the EU's schedule
• The high food tariff and car tariff is likely to reduce imports more than exports given the large imbalance in trade in these two categories
• It will lead to more domestic production for the home market
• On a worse case there could be loss of 0.6% per annum of GDP from less exports, partially compensated by a gain of say 0.3% of GDP from more home substitution for imports

Sterling

• The pound fell against the dollar and the Euro in the eighteen months before the referendum, and was marked down on the result
• Its future from here will be more determined by relative money policy and interest rates than by Brexit news. It has been relatively stable in the last few weeks when the odds of no Withdrawal Agreement have risen.
• The UK still has a competitive advantage from the lower values of the pound since 2015.
• The balance of payments will get a good boost from ending EU contributions which will help the pound.

Summary of Effects

Annual as a percentage of GDP, years 1 and 2 after Brexit on 29 March 2019

Fiscal stimulus +0.9
Secondary benefits of tax cuts +0.2
Confidence effects from ending uncertainty +0.2%
Worst case export loss -0.6%
Import substitution offset +0.3%

Total net gains +1.0% per annum