

Some questions for the long term forecasters

I find it difficult to believe some in the media are taking these latest economic forecasts for 15 years outside the EU seriously. They have all the hallmarks of the approach that the Treasury used to get the short term forecast for the aftermath of a Brexit vote so hopelessly wrong.

The first thing to stress is the forecasts which state the UK as a whole will lose 2% of GDP if we stay in the single market, 5% if we leave with a trade deal, and 8% if we leave without a trade deal are not saying we will be 2%-8% worse off in 15 years time. This is an estimate of slower growth, not an absolute decline. If we carry on growing on average at 2% per annum over the 15 years we will be 34.6% better off at the end of the period. These forecasts suggest that might only be 32.6% or on a worst case 26.6% better off. The 2% figure over fifteen years is little more than 0.1% per annum, or a rounding error.

The second thing to stress is that to forecast this accurately over 15 years they have to forecast two unknowns – how well would we do if we stayed in the EU, and how well will we do as we are leaving? Why do they assume that staying in is a risk free positive option? What assumptions should they make about tax levels and costs of regulation in the future? Will there be new taxes that hit UK economic activity? Will there be something like the ERM again that triggers a major recession? How much longer will the EU continue austerity policies?

The third thing to point out is there are many more issues which will have a far bigger impact on growth than Brexit. How have they modelled the risks of a Corbyn style government? What do they assume about the adoption of new technology? What will Artificial Intelligence do to UK professional business services? Will the US still be pursuing pro growth low tax policies in fifteen years time?

The fourth question to ask is why should there be any loss were we stay in the single market, compared to staying in the single market as an EU member? If, as they seem to think, the single market is the good bit of the EU, surely staying in it means no loss?

The fifth question is why have they not included a good positive gain for the UK from spending our own money at home instead of taking the strain of £12 bn going out across our balance of payments every year to be spent elsewhere? How have they modelled future increased outgoing to the EU if we stayed in?

I could go on, but feel I have asked enough to show why I think these forecasts are a nonsense. Most 15 year forecasts are likely to be wildly wrong. The longer the period of the forecast the more other things can happen that may have a big impact. In fifteen years time we might have a more integrated United States of Europe from the Eurozone, or the zone might have

broken up altogether. That will be determined by voters in a range of countries, and by events and markets.