

# 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

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## **[A reply to the Minister on the World at One](#)**

The Minister defending the government's line said on the World at One that Conservative MPs who planned to vote against the Agreement did not understand it and had not thought it through.

Let me reassure him that I and my colleagues have read and thought about it in great detail, and have thought through the ramifications of signing this

dreadful deal, and of not signing. It is not a good idea to pretend that we have idly decided to vote against a government we usually support. That will not make us want to vote for it. It is the absence of detailed government explanations and answers to our deep reservations that lead us to vote against. I do not make these remarks personal to the Minister, as I assume he was asked to take this line.

The Minister also wanted to know if they got some kind of tweak to the Irish backstop if then we would vote for the Agreement. It appears the Minister does not understand the reasons I and some others have given repeatedly and in public for rejecting this deal. Of course we would not suddenly support if there was a tweak to the backstop. Let me repeat for the Minister's benefit I oppose

1. Signing away more than £39bn of our money for nothing in return
2. Signing a Withdrawal Agreement without having a legally binding text of a Future Partnership Agreement, despite the Manifesto promise that the two would be progressed together
3. Putting our country into a very weak bargaining position for 21 months or much longer, to try to get a future trade deal, having given away most of what the EU wants in advance!
- 4 Making us accept all existing and new rules from the EU for an indeterminate period, as they could then legislate without us present and do us harm if they wish

Any tweak to the Political declaration is irrelevant. What is needed is a dropping or complete re write of the legally binding Withdrawal Agreement.

The Minister also said I and my friends had to set out the detail of how our trade would work if we vote no. I suggest he reads the WTO rules and especially the 2017 WTO Agreement on non tariff barriers, and my submission to the Department of International Trade on the a customs schedule we should set with lower tariffs than the current EU one. In particular they should make it clear the UK will not impose any tariffs on components coming into UK factories. He might also like to tell me when under the government's approach he thinks they might be able to tell us how we will trade with the EU after the end of the so called Transition period, as of course the Political declaration is both vague and contradictory on these matters.

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## Wokingham Town Centre

I was pleased to see yesterday when I went to Wokingham to shop that the town centre was looking much better with more shoppers and an active street market again. It was also good to see the new Waterstones open for business. I do hope many of you will come into the town centre to see what is on offer in the shops before Christmas and to enjoy a coffee or a meal at one of the restaurants, cafes and bars that now offer us considerable choice of food and

drink.

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## **“Conservative MPs have to tell the whips this morning how they will vote” – BBC**

That's news to me. More fake news?

In case Mrs May is in any doubt, I will be voting against the Withdrawal Agreement!

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## **It is Mrs May's Agreement that would create the uncertainty**

Mrs May's surrender Agreement is not a deal. It is a requirement for us to enter months and months of possibly fruitless talks, with the UK's future on hold and uncertainty maximised. Just leaving on 29 March as she originally promised would end the uncertainty and allow us to get on with our lives freed of all this argument and needless scare stories.