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Failed Forecasting

How Treasury distorts Brexit figures

The Treasury's breach of political neutrality in the EU referendum campaign struck many as ill advised. Far worse, however, is its breach of economic fundamentals.

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As **Professor Patrick Minford** explains in *Flawed Forecasts, the Treasury, the EU and Britain's future*, not only do the Treasury's methods fail to stand up to academic scrutiny, but the public has been deceived by it costing a damaging worst case option in their imagined post Brexit scenario. Indeed in mimicking the establishment 'consensus', the Treasury neglects the true options, the true benefits and the true costs. These, explains Professor Minford, would be considerable.

In particular: The Treasury gets exaggeratedly bad results because the report:

- Is based on inadequate methods and models. They make no attempt to use an underlying CGE model (micro-founded). Using gravity equations/past associations makes the analysis vulnerable to serious problems – both of economic modelling and estimation.
- Ignores the optimal form of Brexit, deceptively costing the most damaging WTO option – one bound to give bad results plucked out from an unlikely, imagined scenario.
- Fails to acknowledge the preferences and needs of people in the UK. The people of Britain want free trade which benefits growth and living standards, and they want policies to help the sectors subjected to global competition - farmers on social grounds, manufacturers who have to move towards hi-tech (already a third of UK manufacturing).

By contrast, the standard trade model Minford and colleagues use to analyse the effects of Brexit brings results totally at variance with the Treasury's. According to this model, Brexit would have a 'major beneficial effect' on the British economy.

It would lower consumer prices and therefore have an impact on wages and competitiveness throughout the economy. Overall productivity would rise as the structure of production shifted towards non-protected sectors.

- All this gives a net gain to consumer welfare and GDP of 4 per cent, by contrast with the Treasury calculation of a 4 per cent loss.
- Furthermore, the WTO option allows the UK to abandon all EU regulation within the Single Market. This in turn brings further gains to GDP.
- Politically, it gives us full freedom from the EU in every respect.

* **Professor Patrick Minford** is Professor of Applied Economics at Cardiff University. He has been an economic adviser to Her Majesty's Treasury's External Division and editor at the National Institute of Economic and Social Research.