Patrick Minford

Trading Places

Consumers v Producers in the New Brexit Economy

POLITEIA

A FORUM FOR SOCIAL AND ECONOMIC THINKING

POLITEIA

A Forum for Social and Economic Thinking

Politeia commissions and publishes discussions by specialists about social and economic ideas and policies. It aims to encourage public discussion on the relationship between the state and the people. Its aim is not to influence people to support any given political party, candidates for election, or position in a referendum, but to inform public discussion of policy.

The forum is independently funded, and the publications do not express a corporate opinion, but the views of their individual authors.

www.politeia.co.uk

Trading Places

Consumers v Producers in the New Brexit Economy

Patrick Minford

POLITEIA

2016

First published in 2016
by
Politeia
14a Eccleston Street
London SW1W 9LT
Tel. 0207 799 5034

E-mail: info@politeia.co.uk
Website: www.politeia.co.uk

ISBN: 978-0-9926340-9-4

Cover design by John Marenbon

Politeia gratefully acknowledges support for this publication from

Foundation for Social and Economic Thinking (FSET)

Printed in Great Britain by:
Plan – IT Reprographics
Atlas House
Cambridge Place
Hills Road
Cambridge CB2 1NS

THE AUTHOR

Patrick Minford is a macroeconomist who holds the chair of Applied Economics at Cardiff University. Before academic life he was an economic adviser to Her Majesty's Treasury's External Division and editor of the National Institute Review. His economic interests include monetary economics, macroeconomic modelling, trade economics and Labour market economics. Recent publications include: *Breaking Up is Hard to Do: Britain and Europe's Dysfunctional Relationship* (IEA, 2016) *and Should Britain leave the EU? An economic analysis of a troubled relationship*, (with S. Gupta, V. Mahambare, V. Le and Y. Xu) Edward Elgar, second edition, (2015).

CONTENTS

	Introduction and Summary	1

Part 1
Brexit, the Single Market and the Economic Battlefront

I.	The Brexit Vote and its Economic Message	6
II.	Government, Producer Lobbies and the Single Market: How to Honour the Vote, How to Implement Brexit	10

Part 2
EU Membership: Calculating the Costs

III.	EU Membership: How to Calculate the Costs	18
IV.	The Costs of Protection	25
V.	More Costs: The Cost of Regulation and 'Free' Labour Movement	31
VI.	EU Membership: The Bill, the Battle and the Pitfalls of Political Forecasts	34

Part 3
Unilateral Free Trade, Next Steps

VII.	The Economic Fallacies: Trade Agreements, Passporting and the WTO	46
VIII.	Next Steps: How to Implement Brexit WTO and Unilateral Free Trade	54
IX.	Conclusion	57

Introduction and Summary

The Brexit referendum can be understood as a battle between UK producers and UK consumers (that is, all UK households). This is because the main effect of the EU is to raise prices through protection and regulation to benefit groups of producers. Their consumers pay these higher prices. Moreover producers also benefit at the expense of consumers by the taxes levied to subsidise unskilled immigration as well as by the taxes levied to pay directly into the EU budget. On the one side the producers were the farmers and the manufacturers who gained directly from the protection as well as particular groups such as universities, regional assemblies and some City firms such as big banks with large EU business who had a direct interest in EU funding. On the other side were the general householders who did not belong to any of these groups who paid the higher prices or the extra taxation.

The producers cast their argument as 'needing to be in the Single Market' which sounds grand and deserving. But the Single Market is simply the geographic area within which EU regulation creates ease of doing business and around which the EU creates a protective trade barrier as well as mandating free migration. Thus to be 'in' it requires that one submits to the regulation, the protection and the free migration.

Or one can by contrast leave the Single Market and sell into it from the outside as other non-EU countries do; then you have your own regulation, you choose your own trade barriers and you control migration from the EU as from everywhere else. In both cases you benefit from the fact that the Single Market exists as an area within which barriers to trade are largely eliminated; but there is a difference in the terms on which you deal with the EU's consumers and businesses.

The calculations in this article show that being in the Single Market is damaging to us compared with the best policy we can follow which is to be outside with no trade barriers against the rest of the world (‘unilateral free trade’), our own regulation and our own migration controls. This is because of the costs of EU protection, EU regulation and of the unskilled migration permitted by the EU. The gains from this best policy take the form of much lower prices and taxation paid by consumers which in the long term give rise to higher output and living standards. Essentially what happened in the Brexit referendum was that for once those consumers were able to examine the whole EU package. This showed that they were being exploited by the producers who dominate politics in normal times through the power of their ‘lobbying’ activities which amount to a form of political bribery, one permitted them in the interests of paying more cheaply for our politics.

Since the referendum, the producers have continued to fight back, now that the vote is over and normal politics has resumed. The line they are arguing is that somehow we can do a ‘deal’ with the EU that allows us to be ‘in’ the Single market while also ‘leaving’ the EU. What could such a deal possibly be? It turns out that such ‘deals’ are exemplified by the ‘Norway’ or European Economic Area treaties; but these on inspection are hardly different from our current EU membership except that we lose any say over the EU regulations imposed on us. There is still free migration, virtually all the EU regulation and all the same EU protection; rightly the Remain side denounced these options during the campaign as amounting to little more than ‘the EU via fax’ and said we would be better off simply remaining.

It is argued that the Canada-EU deal is close to this: but this has not been ratified by the EU and has now to be agreed by all regional and national Parliaments of the EU countries. The difference too between the UK and Canada is that Eastern European countries and others such as Ireland do not have free migratory access to Canada as they do to the UK and which they are determined not to lose; they could veto any such agreement even if some countries such as Germany with close UK trade ties might want it. Any such ‘deal’ has essentially to be agreed by a large majority of EU countries if not unanimously and it is hard to see how that agreement could be achieved. We saw how difficult it was for David Cameron to get any change at all agreed in his pre-referendum negotiations. The fundamental difficulty is that whereas the EU Commission and other EU institutions such as the Court have huge powers to implement detailed policies that lie within the scope of the EU Treaties, they have virtually no power to compel EU countries to agree to arrangements with outsiders that are additional to the Treaties. You may say: 'Well, why not try to get such a deal anyway?' But the problem with this is that we may waste much time trying and get nowhere, at great cost to the economy in policy drift.

But there is a further clinching argument for not wasting time on any such 'deal': it will not make us better off than simply leaving for unilateral free trade (with all including the EU), our own regulations and migration controls, with no deal at all - call it a 'full Brexit'. The reason is that the effect of lower tariffs on us by the EU will simply divert more of our output to the EU at the expense of other suppliers of these products; but there will be no effect on the *total* world demand for these products and so none on their world prices. But it is these world prices that determine how much in total we produce. So we produce the same output in total and sell less elsewhere at the same prices. Irrelevant to us! The same argument applies to any trade agreements we sign around the world; no effect once we have abolished *our* tariffs and other trade barriers. This also applies to all those City financial products for which the EU might give or deny us preferential access: we argue here that such preferences such as passporting are in practice of small importance and that any EU protection of financial services unlikely. But the point is that they are irrelevant to the UK's national interests and total output; they only affect the size of our EU market relative to our non-EU market. As much as particular firms such as banks with large EU markets may want to keep those markets unchanged in size, this has only to do with *their* narrow interests and not with the *national* interest. What the City should also remember in its lobbying tactics is that it, like other service industries in the UK, will gain massively from the lower cost base created by a full Brexit through lower prices and taxation; getting a ‘deal’ for the Single Market at the expense of a full Brexit with no deal would cost them dearly.

So, in sum, the only action that guarantees we meet what consumers voted for in the Brexit referendum, which was control of our borders and our laws, is that we leave the EU cleanly; and the optimal way for us to do that economically is to go to unilateral free trade with all countries including the EU. We do this by invoking Article 50 and using the European Communities Act 1972 to amend existing EU law as needed, in the manner explained by Martin Howe in his accompanying Politeia article. No need for any trade agreements; no effects of any protectionist actions taken against us by any parties, including the EU. We simply ‘walk away’ into a trading world governed by WTO rules, with a UK governed by our own democratic laws.

Part I

Brexit, the Single Market and the Economic Battlefront

I
The Brexit Vote and its Economic Message

The challenge to the EU and its powers - goods and services

The EU referendum had a vital economic aspect. It challenged producer power, the power of many big businesses and vested interest lobbies to maintain their own interests at the expense of the consumer. Although producers lost the referendum, they have launched a fight back, trying to push Theresa May's government into keeping the status quo in the form of an EEA settlement with the EU.

What is that *status quo*, how has it evolved and what powers does the EU have which these interest groups want to retain?

The main powers exercised by the EU are (i) the control of trade barriers for goods - food and manufactures - via its customs union and (ii) the control of regulations within the area of the customs union, known as the Single Market. But a start has also been made in regulating trade in *services* within the EU, known as the 'Single Market in services'. This, however, is largely ineffective since the vast bulk of service regulation is done by national governments and EU actions have barely changed this so far. It is difficult to know exactly how the regulation of services will develop. As a result there are sharp divisions of opinion within the City of London about the merits of staying in the EU. The main developments, so far, have been first the imposition of a variety of new regulations on the City, such as bonus caps, the proposed Financial Transactions Tax, and general regulation of finance under the Markets in Financial Instruments Directive (Directive 2004/39/EC) (MIFID), the effects of which on the economy will be dealt with in the discussion of regulation (p. 31). Second, the introduction of 'passporting' for financial services within the Single Market has been introduced. Inside the EU, firms can get a derogation from national interventions on the sale of financial services across internal EU borders; whereas, outside the EU the same firms cannot access this derogation and are forced to sell at prices raised by full national interventions. So this is in effect a Customs Union in EU financial services, which may in time spread to other services. However this protectionism in financial services is substantially mitigated by the conceding of passporting to financial firms operating in wholesale markets (basically banks and large investment funds) from other countries with 'equivalent' regulative regimes; this is due to the emphasis in the Maastricht Treaty on freedom of capital both inside the EU and with the outside world. Given also that other retail financial firms (i.e. those selling to the general public like stockbrokers) usually have local offices and do not rely on passporting, it is probably fair to say that so far there is no real protectionism or Customs Union in financial services, the assumption on which the analysis which follows will be developed. The picture then of the Customs Union and the Single Market in goods, ie agriculture and manufacture, is of a protectionist organisation with respect to the outside world. This protectionism raises prices within the Single Market area by around 20 per cent on food according to OECD estimates and by about the same on manufactures according to estimates based on price comparisons.

The consequences of EU Customs Union protectionism

It is pretty obvious from the passions aroused by the idea of leaving the EU that the scale of protectionism is substantial, and that in manufactures it mainly comes from non-tariff barriers, which are elusive ways of making it difficult for outside competitors from cheap-labour sources to sell their output - mainly probably through the difficulty of satisfying regulations inside the EU. After all, suppose that in manufacturing it was merely tariffs at stake, which average around 2 - 4 per cent depending on how they are weighted, it would be surprising to see much of a fuss. What alarms UK manufacturing producers about leaving the Single Market is that they will lose protection that keeps prices up substantially; if the estimates above are correct UK firms will face prices 20 per cent lower in their home UK market.

UK farmers are relatively small in number and many of them highly efficient and rich, so that they are making little noise. Small scale farmers can and will be helped directly as they were before the UK joined the CAP. Even if we do have an EEA agreement it seems likely that we will not stay in the CAP. So the farmer lobby is fairly quiet.

UK financial service firms, notably banks, are making a fuss. But as we have seen there is not much basis for this with protectionism kept at bay by the needs of capital mobility and the euro.

The biggest producer fuss is in manufacturing. That is baffling to some extent, with manufacturers having managed to make their cause something akin to the Holy Grail. Among the political classes on all sides of the Houses of Parliament it is routine to pay obeisance to ‘rebalancing’, ‘protecting our manufacturing base’ and such phrases that are code for maintaining manufacturing; I was pilloried by the last Prime Minister in PMQs for saying that the elimination of protection would in turn eliminate low-value manufacturing (i.e. metal-bashing done much more cheaply in the Far East). Just as the big inefficient aristocratic farms were largely destroyed over the decades succeeding the abolition of the Corn Laws (1846) which allowed imports of cheap American cereals, so today what remains of manufacturing of the low-value variety will not survive competition from China, Vietnam and other such producers in the decades to come. During the referendum campaign ordinary citizens were unfazed by the idea that manufacturing would have to contract and would only survive by going ‘up the value chain’ and so raising productivity.

Today only 8 per cent of employment is in manufacturing and around 10 per cent of total output. This contrasts with the 1970 figures of an employment share of 35 per cent and an output share of 32 per cent. So competition has, over nearly 50 years, driven much of our manufacturing out of existence and ensured that the manufacturing that is left is massively more productive. The renaissance of UK productivity growth that occurred in the 1980s was unleashed by the Thatcher government reforms and the competition they created. Many of the older voters in the referendum who themselves had been once employed in manufacturing (or came from parents who were), may well have felt that the competition they and their parents experienced, which led to the UK economy's enrichment, could reasonably be extended to today's manufacturing firms and workers.

By leaving the EU Customs Union and Single Market in manufacturing voters stood to gain a substantial fall in prices, while this would also provide the spur of additional competition to manufacturing producers with further indirect gains coming via productivity. Those voters among the 8 per cent employed in manufacturing who might lose their jobs could be reassured by a fully employed economy in which they would find jobs elsewhere. According to the World Trade model I set up to calculate the effects of Brexit, UK consumer prices fall by around 8 per cent and the overall GDP gain is 4 per cent.

So the Brexit vote can be clearly seen as a vote by consumers in favour of higher living standards against producers wishing to hang onto their existing markets.

Matters, however, did not end there. The Single Market had two further ramifications. It created regulation in all aspects of UK industrial life and it mandated free movement of labour around the EU. Both of these levy substantial costs on UK consumers as we will explain in detail below.

II
Government, Producer Lobbies, and the Single Market: How to Honour the Vote, How to Implement Brexit

An EU 'deal' – How likely?

How can Brexit be best achieved to honour what consumers voted for in the referendum? How would this contrast with the effects of the EEA-type agreement that the government, spurred by producer power and EU pressure, may mistakenly be tempted to pursue?

Before proceeding, it should be noted that governments when not pushed directly by voter power, will inevitably succumb to producer power. That is because producers lobby them and promise them indirectly all sorts of rewards. They pay for their political campaigns, they provide jobs after political retirement or ejection, they can facilitate private activities like expensive holidays or travel, and so forth. This is not banned as corrupt activity; rather we accept that our politics must somehow be paid for and this method is allowable subject to rules of 'interest declaration' and such like. We should not therefore be surprised or shocked that now 'normal politics' has resumed post referendum, the producer lobbies are back in business and that policy is reflecting this. The Remain camp is still in full voice, its latest effort being to paint the post-Brexit economy as dominated by a terrible 'Brexit shock'; as is shown in the Chapter V, the best estimate of the Brexit shock is in fact slightly positive!

Nevertheless to resist the effects of these producer lobbies, political and policy debate play a central role. Through argument, debate and a free press, politicians may be encouraged (or shamed) into doing what they should, in spite of producer lobbying.

Such lobbying can be reinforced by the interests of many national governments in pursuing matters of trade, regulation, protection, migration and the Single Market. These are of enormous sensitivity within the EU, as David Cameron found when he tried to negotiate some changes to the UK's EU relationship before the referendum. A good example of this sensitivity is the TTIP with the USA and the CETA with Canada. TTIP is opposed widely in the EU by groups who dislike the idea of the new 'corporate courts' where governments can be sued; it has now been pronounced dead by Germany's SPD. CETA, after taking seven years to negotiate, also includes these corporate courts and is strongly opposed by Germany's left wing; it has now run into controversy across the EU and has been declared a 'mixed' agreement that requires ratification in all member countries, including regional parliaments. Its prospects look as bleak as for the TTIP. One must conclude from this that any agreement between the UK and the rest of the EU is vulnerable to holdup from many sides.

For example any attempt to block unskilled migration into the UK within the Single Market is unlikely to be permitted by countries like Poland, Bulgaria or Romania. Yet under Article 50 any agreement between the UK and the EU would need unanimity on the EU side unless it were very simple and limited; even then it would require agreement by Qualified Majority Vote and it is extremely likely that the many countries concerned to maintain free migration could assemble a blocking minority (a dozen countries). A complex EEA-style deal, like the EEA Agreement itself, would need to be agreed and ratified by each individual Member State as well as by the EU itself. If no agreement can be concluded within two years, then the UK leaves anyway without agreement. Frankly, if one looks at the many diverse interests of the 27 countries making up the rest of the EU, almost any agreement on anything other than the basic matters of rights for existing citizens, visa requirements and other routine inter-state matters look quite intractable. This, to repeat, is what David Cameron found: the only 'negotiation' to be had was effectively to stick to the existing treaties.

Until the EU next tries to revise these Treaties comprehensively and throw all the cards in the air for general horse-trading, there seems to be no chance of change. It is an extraordinary irony that the EU has great powers to make directives via its existing institutions and virtually none to negotiate inter-country relationships. This was illustrated by the euro-crisis when getting joint action to help the embattled countries of the South relied totally on Germany's willingness to make transfers and to allow the ECB to lend almost unlimited amounts for which it might in the end be liable; Germany only agreed to this to save the euro. It would hardly do anything similar to save a deal with the UK. Just like its Cameron predecessor, the May government could be doomed to discover these facts all over again. It is not that countries like Germany would refuse to do some 'deals' with the UK over trade; they would love to do so. The problem would be to take every country along with this, if the accompanying request is to weaken free migration. There is simply no likelihood that the major countries probably wanting a deal could persuade or would bribe the others to go along.

For this reason the only safe assumption for any UK proposal for Brexit on these matters must be that it requires NO agreement by the rest of the EU. In the rest of this section such a proposition is considered. How would no agreement compare with the EEA-type proposals currently circulating under which effectively the UK would 'negotiate' the status quo.

It so happens that the UK's very best economic interests lie in total exit from all EU institutions and in relations with the EU at arm's length from the outside. This seems to be such a heresy in today's UK consensus that it needs careful examining and explaining.

The key reason it is a heresy is that the consensus holds being in the Single Market is a vital UK interest. So to tackle this question properly we need to examine what the Single Market is and how it affects us.

Trading with the Single Market – from inside to outside the EU

To understand the SM consider the UK's equivalent. In the UK anyone can set up a business and sell anywhere in the country, letting premises, hiring people, issuing invoices, knowing that the law protects them against any interference from local authorities, or from the local hygiene inspectors, or anyone else. All it must do is conform to the usual commercial, tax and other law of the country.

Now compare what it was like to do business in some part of Italy if you were a French firm. The problem would be getting a licence to set up the business from the Italian authorities; these are at several levels of government, national, regional and local. Then you would have to satisfy rules for corporate behaviour laid down at these various levels; such rules could vary unexpectedly because of politics at these levels. These all amount to substantial costs of doing business and could be regarded as forms of protectionism by local, regional and national authorities. Because European countries were formed mostly out of local communities, and only became 'states' in the relatively recent past, these sorts of barriers to internal European trade were widespread before the Single Market was introduced in the late 1980s. Even if countries had broken down their own internal barriers there were still barriers between countries. These barriers were nothing to do with tariffs but were 'non-tariff' barriers to doing business.

Originally, as proposed by the UK and the Commission under M. Delors in the 1980s the SM was to consist of 'mutual recognition' of national regulative systems. Thus each country was supposed to have a clear set of rules for doing business (like that of the UK for example) but these could differ across the SM space. The idea was that states could then compete on their systems and this would ensure that there was not excessive regulation. This idea was however abandoned soon by M. Delors and the SM regulative system was made uniform across the EU. In addition a ‘Social Agenda’ was introduced, whereby the SM regulations would also implement social objectives, especially in the labour market. The SM now regulates economic activity widely and is extended routinely by judgements of the European Court of Justice as well as directives, which are initially drafted and proposed by the Commission and then amended by the Council of Ministers and the European Parliament.

The main advantage to a business of the SM is that it can do business under these common rules anywhere in the EU. However notice that for a UK firm the alternative outside the EU is UK regulation of its home market, which was already well advanced and effective before the advent of the SM. There was no equivalent of the regional, local or national non-tariff barriers to trade either for UK firms or for foreign firms set up in the UK or importing into the UK. Under UK common law there was a clear set of business regulations. It was rather different from that since adopted by the EU for its SM, as is rather obvious from the Brexit debate. The difference arises from the extent of the intrusiveness of SM regulation compared with UK regulation. This may well arise from the difference in legal systems: the UK common law is based partly on statute, partly on precedent and practice. Continental law is entirely based on statute and is therefore highly prescriptive.

It is clear that the SM creates great advantages for businesses operating in the EU: without it we would be back to the multi-layered national protectionisms. But it does not follow that the UK should be ‘inside’ the SM like other EU members.

There is an analogy here with the euro. Many EU economists claim that being in the euro reduces business costs of currency uncertainty; this may well be true for EU member countries which trade overwhelmingly with each other. It is also helpful to foreign countries trading with European countries to deal only in one European currency.

However when a foreign country does only a limited amount of trade with the EU it does not at all follow that it should join the euro! Plainly the US would not wish to join the euro! Nor would or do other smaller economies worldwide. As it happens the UK also did not wish to join the euro for rather similar reasons - that its trade is mainly with non-EU countries.

In the case of the euro it is useful for the UK that the EU countries closely linked by trade all use the euro, but it makes no sense for the UK to join the euro. Analogously it is useful for EU countries to have the SM and for the UK outside trading with the EU it is useful that its products can be sold anywhere under the SM. But it does not follow that the UK should be inside the SM, any more than it should join the euro.

Thus it is plain that the regulative system in the UK is comparable with, and satisfies, the same general standards of conduct as other regulative systems in developed countries, such as the US, Canada and Australia. Under WTO rules there is no basis for trade in goods to be treated in a discriminative way as compared with these countries, all of which export into the EU and sell their goods within it under the SM system. The UK can clearly therefore export to the EU in the same way that these countries do; in so doing it benefits as an external user from the SM but is not regulated by it. Of course this is precisely why the EU in the first place set up the SM: it benefits their citizens by enabling them more easily to access not just the fruits of their own production but also that of the rest of the world.

In summary the SM is a benefit to the internal trade of the EU; and this benefit extends to foreign countries selling within the EU just as it does to EU countries selling within the EU. But to enjoy this benefit these foreign countries do not need to ‘join the SM’ and be regulated by it. They also have good reasons to want to have their own regulative systems. So indeed does the UK - as evidenced by the Brexit referendum which highlighted the majority demand for domestic control of laws and borders.

Part 2

EU Membership: Calculating The Costs

III
EU Membership: How to Calculate the Costs

Having examined exactly what the SM is and seen that it conveys benefits in facilitating trade inside the EU that non-members also enjoy, let us examine the net benefits for the UK of leaving the EU, getting rid of the EU's protectionist regime, and trading both with the EU and the rest of the world under unilateral free trade.

Assumptions and models

The main point of economic activity is the welfare of our citizens and we measure this by their consumption or 'living standard'. An economy has finite resources and the aim of economic policy is to maximise their consumption potential from these resources. Sometimes you hear commentators talking about investment as an aim of policy but this is nonsense! Investment is a cost; it is consumption deferred whose only justification is a return in higher future consumption. We take account of the need to invest when we measure consumption benefits; because these are only included after deducting the costs of necessary investment and maintenance.

Trade contributes to this consumer welfare aim by increasing the value of what can be consumed from what is produced by exchanging it in trade with other countries. In much of the discussion of Brexit from the Remain side the emphasis was on the problems of producers, notably how important to them was the Single Market. Remarkably none was focused on the problems of consumers in accessing best value from the rest of the world.

Yet the key fact about the EU is its promotion of protectionism via its customs union barriers against the non-EU world. It is odd that the EU should be protectionist externally when it aims to increase competition and free trade internally. The reasons for this take us too far back into the origins of the EU in the thought of economists like Jean Monnet: essentially something akin to mercantilism, the theory popular in the 18th century that an economy's strength depends on how large its exports are, seems to have prevailed in this thinking, that the EU's best interests were promoted by protecting its own industries and fostering its exports, while using imports as a source of scarce revenue for the infant state and to help pay for measures like the Single Market.

The most well-known, indeed egregious, example of the EU's protectionism is in food, where the Common Agricultural Policy creates a system of variable tariffs and export subsidies designed to keep the internal price of food at target levels. The latest estimate of the average tariff-equivalent for food from the OECD is around 20 per cent.

Less well-known is the protection of manufactures, mainly via non-tariff barriers. The average of the tariffs on manufactures, depending on how you weight them, is between 2 and 4 per cent. But comparisons of EU prices with lowest world prices suggest that non-tariff barriers make up another 16-18 per cent; it could be much more if we use crude estimates of Chinese prices. However these are not well researched and if we base our estimates solely on OECD prices which have been gathered with great thoroughness we obtain a price discrepancy at the border or factory level of around 20 per cent. The big fuss made by UK producers over being inside the Single Market largely reflects the fear of losing such protection and having to sell into the EU from outside the Customs Union; if the Customs Union protection around the SM was negligible it would be of little consequence. Those who criticise our estimates as too high have still come up with big estimates of the effects on our exports of being excluded from the SM!

To calculate the effects of EU membership on goods trade we assume that the UK leaves the EU Customs Union and its associated single

Market entirely, and substitutes unilateral free trade, thus sweeping away the EU protectionist arrangements in favour of free entry for foreign products under standard UK regulations for product standards in the UK market. We review this using a standard world trade model in which trade is determined by comparative advantage under full competition. In this model all markets for goods and services 'clear', in the sense that prices move to equate demand and supply; this final situation or 'general equilibrium' is discovered by computer methods and hence the model is known as a Computable General Equilibrium (CGE) model. We chose this model for two reasons.

First, it corresponds to the realities of the long run behaviour in which we are interested for the analysis of a long run change in trade regime like leaving the EU. Those who trade in world markets are well informed about the qualities of the products they buy for onward sale to distribution chains in each country. Little 'imperfection' can survive this knowledge. Different types of laptop or luxury car or refrigerator are ruthlessly evaluated by their characteristics and each characteristic is priced. Besides good information there is ample competition, with traders from many countries selling into many countries. Under these conditions the products a country will sell depends on the resources that it has within its borders. We can assume that capital flows freely between countries because in the modern world there are few controls left on how savers invest around the world. But a country's supplies of unskilled and skilled labour depend on how its training and education system has developed over time, while its supply of natural resources is essentially God-given. It is these last three resource supplies that govern what it will produce according to 'comparative advantage'.

Second, this model does well in analysing trends in world markets over time. The biggest trend in recent decades has been the emergence of globalisation, with manufacturing production shifting in large quantities to the 'emerging market' economies. At the same time we have seen big changes in wages and employment in developed countries, with rising inequality and unemployment. Another factor in the mix was the progress of computerisation of manufacturing production. In a major piece of work (Minford, Nowell and Riley, 1997) we used this world trade model to examine these changes and whether they could be accounted for. We found that an equally-weighted combination of globalisation and computerisation could give a good empirical account of all these changes.

These two factors, theoretical and empirical, gave us reasonable confidence in using this model for the major trade regime change for the UK of leaving the EU, with its implications for our trade not just with the EU, with which just over 40 per cent of our trade takes place, but with the rest of the world for the other 60 per cent.

The Cost of Goods: World prices, tariffs and a country's prices - Calculating the Brexit effect

We now turn to our CGE model of trade to obtain measures of the cost to the UK and the EU of this protectionist policy. First we explain in more detail just what this CGE model is, before going on to explain how the model works in outline.

A CGE model of international trade, as used here, is intended to contain the relevant relationships that will hold in economic theory across economies and will determine the pattern of trade and the prices at which it takes place. These relationships are numerical so that we can extract meaningful estimates of the quantitative effects of changing trade policies in the long run. For this purpose we cannot aspire to any 'exact realism' but we do want to obtain estimates that a) are consistent with good uncontroversial economic theory b) give a reasonable idea of potential orders of magnitude for the long run. The way it is done is to construct a 'base line' set of estimates that correspond to the actual known facts; the model is set up so that it fits these facts. Then the alternative set of policies is injected into the model to find out what the alternative facts would look like. We are concerned about long run effects for the obvious reason that these policy changes stay in effect for very long periods, indeed can often be permanent; thus joining the EU occurred more than forty years ago and if we leave the move will undoubtedly not be reversed in a hurry. Experience shows that large-scale changes in trade arrangements have quite radical effects on the shape of economies; therefore we need a model that can work out what these effects might be. The Table shows the CGE model estimates of being in the EU, in terms of the percentage effects on a wide range of economic variables.

In this particular CGE model there is full competition in all products with free entry. There are world markets for the three traded goods, agriculture, manufactures and services; world supply and demand fix the relative prices of these goods, hence two relative prices - of agriculture/manufactures and services/manufactures. Tariffs (or equivalent measures) raise home prices in the country, raising them above their world price. For an individual country therefore, prices of traded goods are set in world markets plus the effect of its own tariffs. In each country there is also a non-traded good, produced under full competition at its long-run average cost.

We now consider what happens in each country to its supplies and costs. Because of competition all prices equal long-run costs; hence prices of skilled and unskilled labour and land, the domestic production inputs entering each commodity, are driven to levels that satisfy this equality, that is they are priced so that they are competitive given the traded goods prices set in the world market. There are three traded goods and three prices of factors of production that are set in the country. The price of capital is set worldwide and capital circulates at this price to wherever it is needed. For simplicity we set this price as fixed at a constant world real interest rate times a fixed world price of production in manufacturing (of 1). Effectively we are assuming that in the long run (the focus of the model) savings are always made available as required at a fixed rate of interest. The wage and land costs, once fixed by traded goods prices, then determine non-traded goods prices.

Table: Effects of UK tariff of 10 per cent on Agriculture and Manufacturing - per cent changes from Base

per cent changes	UK	EU	NAFTA	ROW
y	-3.99	0.04	0.04	0.03
y_A	0.00	0.00	0.00	0.00
y_M	113.01	-2.17	-2.97	-1.97
y_S	-32.07	1.19	1.13	1.33
y_D	-3.90	0.04	0.04	0.03
E_A	-12.04	0.05	0.09	0.15
E_M	-0.61	0.01	0.01	0.04
E_S	-5.37	0.05	0.05	0.01
w	14.37	-0.19	-0.19	-0.19
h	-11.05	0.66	0.66	0.66
l	47.18	0.11	0.11	0.11
N	1.35	-0.02	-0.02	-0.02
H	-2.48	0.08	0.08	0.08
L	-28.14	0.00	0.01	-0.01
K	6.79	0.07	0.08	0.06
CPI	7.51	0.13	0.13	0.12
P_A	10.07	0.07	0.07	0.07
P_M	10.00	0.00	0.00	0.00
P_S	0.31	0.31	0.31	0.31
Pw_A	0.07	0.07	0.07	0.07
Pw_S	0.31	0.31	0.31	0.31
Welfare	-3.3	-0.00	0.01	-0.01

Glossary: y= output; E=expenditure; w= wages of unskilled; h=wages of skilled; l= rent on land; N=unskilled labour; H= skilled labour; L= land; K= capital; CPI=consumer prices; P=price of commodity; suffixes: A=agriculture; M=manufacturing; S=services; W=world

With all prices set in this way by world prices, tariffs and production technology, we go on to determine how much is produced of each type of good. This is fixed by available supplies of factors of production - assumed to be unskilled and skilled labour. Land we assume is provided freely as needed by planners subject to a restriction placed on agricultural land, such that agricultural production is controlled to a fixed amount. Non-traded production has to be equal to non-traded demand, which depends on total GDP and relative non-traded prices. With these restrictions on agriculture and non-traded output we can work out the size of each sector that will exactly exhaust available supplies of the two sorts of labour. Then from that we can work out how much capital and land is needed by each sector.

So to summarise, world prices (determined by world demand and supply by all countries, as resulting from their country solutions) plus tariffs fix country prices and so costs of labour and land. Given these costs and each sector's resulting demands for these factors per unit of output, the sizes of each sector adjust so that the available supplies of the two types of labour are equal to sectoral demands.

IV
The Costs of Protection

The preceding analysis would suggest that in the case of manufacturing, a tariff on manufactures for example acts to raise a country's price of manufactures. Then because manufactures use a lot of unskilled labour its expansion drives up unskilled wages. In order to force other industries to economise on the unskilled labour manufacturing needs for its expansion, the other traded sectors contract. The non-traded sector's size moves close to proportionally with the whole economy as demand for non-traded goods is related proportionally to total income, apart from any effect of its changing relative costs brought about by the tariff. The rise in tariff raises consumer prices so that consumers are less well off than they would have been buying the manufactures more cheaply from abroad.

In reaching our estimates for the long run effects of Brexit under the WTO free trade assumption we assume that over the next decade or so (our 'long run') the existing 20 per cent protection gradually gets whittled down to 10 per cent by general international pressure - much as can be observed in previous decades. We therefore apply a tariff - equivalent rate of 10 per cent to the CGE model.

It might seem on the face of it that 10 per cent protection in agriculture and manufacturing is not a very large or significant amount. It raises prices in these two sectors by 10 per cent over the world price, while leaving service prices at world levels. For those used to macro models of short to medium run behaviour relative price movements of different sectors of this order occur regularly; for example world raw material prices can double or triple and greatly affect retail prices of sectors using those materials. Yet we do not observe huge sectoral output swings in the economy.

The difference here is that we are computing the long run effect of permanent relative price changes of these sectors. The sectors with higher prices pay higher wages, both skilled and unskilled, for the workers they need; they pay more for land and they use more capital whose price is fixed in world markets. What our CGE model shows in the Table is that resources are heavily attracted out of the service sector into agriculture and manufacturing. In fact we assume that output in agriculture is capped (effectively by control on the land that can be used in this sector) in our model by government policy; so that the attraction into this sector is frustrated by rising land prices. However for manufacturing no such limit is placed and the result is a substantial boost to manufacturing at the expense of services.

The Table goes on to show that the effect of raising prices for these two sectors by 10 per cent is first a substantial, 7.5 per cent, rise in the cost of living. Wages of unskilled workers go up more than this, 14 per cent, because they are disproportionately used in manufacturing. But skilled workers' wages fall by 11 per cent, being disproportionately used in service industries. Landowners do well, with land prices soaring 47 per cent. We see in these figures how the politics of vested interests works; unions representing unskilled workers, farmers and other landowners, as well as manufacturing businesses, will clearly support being inside the EU.

Yet the effect of shifting output into sectors where their productivity is less than the price paid by consumers is an overall loss of welfare for UK citizens; these citizens would value more the output lost in services whose production contracts 32 per cent. The loss of welfare, measured by the loss of potential consumption by UK households, is 3.3 per cent. This potential consumption change is measured as the change in the value of all output deflated by its consumer price cost (i.e. the change in [nominal GDP/CPI]), minus the change in the value of resources used to generate it). In other words the welfare effect is the percentage change in the resources available for consumption to UK households.

This cost is computed as if the protective measure is a tariff. However the customs union acts as a tariff in its effect on outputs and consumption; but the equivalent of the 'tariff revenue' (i.e. the extra cost of imports due to the protection) is disposed of differently. There is revenue on imports from outside the EU; this revenue (paid by UK consumers) accrues to the EU itself but it is already counted in the UK's net contribution (after rebate and EU spending on UK projects). There is also 'revenue' accruing to EU businesses that sell protected goods to the UK because they can charge higher prices: this revenue is not counted elsewhere and is a cost to UK consumers. Our businesses also gain more from other EU consumers on their exports; so the 'net revenue' paid by UK consumers to EU consumers is the tariff times the net imports by the UK. For manufacturing where we have large net imports (about 8 per cent of GDP) this net revenue transfer amounts to 0.8 per cent of GDP on the 10 per cent tariff-equivalent we have assumed. This amount is not included in our Table calculation and so has to be added to it. For agriculture the workings of the CAP on transfers between countries for agriculture are complex and are already counted in the net UK contribution. So in sum the total cost to the UK of the protection of agriculture and manufacturing is 4.1 per cent of GDP.

Some politicians attach totemic significance to manufacturing; we have heard quite a few arguments since the 2010 election that the economy should be 'rebalanced' towards manufacturing. One can see why the vested interests listed above would want this; it is no doubt to appeal to these interests that politicians make these arguments. But there is no economic case for encouraging output in sectors which market forces would contract. For such a case there would have to be some disparity between social and market values; yet there is no such disparity.

Similar arguments were made two centuries ago for preserving agriculture with a similar lack of basis.

Leaving the EU and eliminating this protection would, according to these figures, raise service output and greatly reduce manufacturing as narrowly defined here in the long run. The reason for this is fairly simple: as the UK has developed in the decades since the economy began to be liberalised in 1979, there has been a big rise in the share of skilled labour in the workforce. By now approximately 50 per cent of university-age people go to some form of higher education or equivalent. This has favoured the expansion of skill-intensive industries of which the service industries are the principal examples. We can also include in these industries the design or hi-tech element of manufacturing, which is a service industry; 'manufacturing' in the national accounts includes this, inside the manufacturing firms it comprises. So the hi-tech service activity currently included in manufacturing (on some measures it may be as high as one third) would not be reduced but just reclassified. These workers are engaged in jobs that require the use of their brainpower and associated skills. The actual making of things, manufacturing in the original sense of 'metal-bashing', has contracted hugely in the UK. What the CGE model tells us is that in the absence of EU protection this type of manufacturing would largely disappear, leaving only the hi-tech manufacturing that uses skilled labour intensively.

This result should not be regarded as very shocking. The strongly declining share of manufacturing in GDP has been an unremitting trend feature of the UK since the 1980s; it would be intensified by leaving the EU, and eventually we would be left only with those parts of manufacturing that involve design and hi-tech skills, as one would expect in a relatively small country heavily endowed with skilled and educated labour.

We can note that there is a good demand for unskilled workers in the non-traded service sector (distribution, construction, utilities and so on) which cannot be substituted for by bringing in cheaper substitutes from abroad. As this non-traded sector is around half of the economy, one can see that if roughly half the labour force is unskilled it will be fully employed in the non-traded sector and there will be little of it left over for the manufacturing sector. Plainly EU protection, as we have seen, raises the wages of unskilled workers; but if there was a case for redistribution to these workers because they were poor, then this would already be done by public redistribution policy. This policy area is extremely active in the UK, as evidenced by the high progressivity of the tax-benefit system. There is no case for using protection to help carry out this policy since it is clumsily directed at the issue and so, as we have seen, creates a big cost for the economy as a whole.

It turns out that the costs to EU citizens of the EU tariff on agriculture and manufacturing are roughly the same as those for the UK. Thus when the 10 per cent tariff is levied EU-wide including in the UK, the UK effects shown below are more or less replicated in the rest of the EU. The only difference for the rest of the EU is that there is a small net revenue gain due to the net revenue transfer from UK to Rest of EU (RoEU) consumers; but as a percentage of the much larger RoEU GDP total it is only 0.15 per cent of their GDP. Thus the total welfare cost to RoEU is just under 3 per cent of GDP. What we see here is that the dominant ideology of the EU is corporatist and mercantilist, aiming to benefit producers of manufactures and food at the expense of consumers.

If we take this analysis and apply it to Brexit under the WTO free trade option we can see that these costs are eliminated as compared with the status quo and therefore with the EEA-status quo option now being touted by Remainers and the old establishment consensus. In summary the gains from trade given by our full Brexit comes to 4 per cent of GDP.

On top of that come the gains from substituting UK for EU regulation and from introducing a Green Card immigration system that would stop any unskilled immigration that did not pay for itself via taxes.

V
More Costs: The Cost of Regulation and 'Free' Labour Movement

The Cost of Regulation

Measuring the effects of this EU regulation is not easy. However, it is interesting to note that the Blairite section of the Labour party and the unions strongly supported EU membership on the grounds that it brought in more stringent labour market regulation than the UK democratic process itself would bring in. Note also that the CBI supports EU regulation; one aspect of this regulation is that large businesses, which dominate the CBI, are effective in lobbying Brussels in its regulative decisions. In my recent book's second edition (Minford et al, 2015) I used the Liverpool Model to calculate the macroeconomic costs of regulative measures; these are quite different from the usual estimates of the cost of implementation. Macroeconomic effects are those on employment and GDP from loss of competitiveness in world markets because of raised costs; regulation can be thought of as being like a business tax that raises UK costs so that there is more import penetration and less export sales. This worsening of the long-run balance of payments constraint on the UK economy must be resolved by a combination of a falling GDP and falling real wages (which also shows up as a fall in the 'real exchange rate', the relative price of UK goods versus foreign prices when measured in the same currency); the overall effect on UK living standards can be measured from these.

Minford et al (2015) came to the conclusion that EU regulative intervention - which has ranged widely, to include not merely the direct setting of industrial standards but also labour market intervention, the imposition of controls on 'Anglo-Saxon' finance such as bonus caps and the proposed financial transactions tax, and heavy-handed energy and climate change directives - had reduced UK GDP by some 6 per cent so far but that it had the potential in future to lower it much more if the social objectives prevalent in the majority of European countries went unchecked. Large employers, that already have departments devoted to ‘compliance’, are happy to let such regulations prevail because it acts as an entry barrier for small firms who cannot afford to implement them. Again, as with protection, ultimately the consumer pays through lower living standards.

The Cost of Free Labour Movement

But a more explosive aspect of EU intervention comes through free migration. Producers love this because it allows them to import unskilled labour from poor areas of the EU into rich areas where labour is expensive. The EU takes a high moral tone about this ‘fourth freedom’ that the EU has given to the world. However it acts as a powerful producer privilege at the expense of the consumers in the labour-importing country. The reason is that unskilled workers on low wages pay little tax and in the UK receive tax credits if they have accompanying dependents; in addition these workers and their families receive free education and health services and get their housing costs paid. This implies that there is a net cost for existing UK residents; the wages paid by the employer are matched by the productivity of the worker so the employing firm is not out of pocket. But the net welfare costs have to be met by UK taxpayers; each adult unskilled immigrant on average costs about £3500 a year, with the total cost running currently at around £3.5 billion (0.2 per cent of GDP) and rising rapidly. In a further twist the taxpayers involved are mainly the local community because there is no mechanism to compensate the community for the extra demands on health and education services. In a final insult to these communities there is evidence that local unskilled wages are depressed by the rise in unskilled immigration (Ashton, MacKinnon and Minford, 2016); while this is not a general net social cost to the economy it contributes to the net social cost for the poor communities hosting migrant unskilled labour.

Notice that there is no problem with skilled labour migration because these migrants pay enough taxes to offset any welfare costs they levy. Hence a Green Card system would solve the migration problem while admitting any number of skilled migrants whose presence is economically justified and in no way politically controversial. Again, we see that it is the economic costs levied by producers on consumers via the welfare costs of unskilled migrants that create the problem. With breath-taking insouciance Remain campaigners quoted average net costs across *all* migrants to support the case for *unskilled* immigration!

Overall EU costs to consumers levied by UK producers

To summarise the argument so far:

Consumers lose substantially to producers because of the EU Customs Union and its accompanying Single Market. They do so because

a. protection raises prices and lowers productivity;
b. because regulation raises costs and lowers living standards; and
c. because free unskilled migration creates a net cost welfare burden that they must shoulder through higher taxes, with poorer consumers having to shoulder a disproportionate share of these.

By removing the UK totally from the EU we eliminate other potential costs, on growth, on bailout transfers, and on the threat of sometime joining the euro. These aspects are reviewed in more detail in Minford et al (2015). In sum there are massive gains to be made by removing the UK totally from the EU: they amount in effect to a second supply-side revolution.

Remain's 'economic consensus' – the economic and political logic

As is well-known, other modellers came up with negative effects of leaving the EU and this was heavily publicised by the Remain side as a 'consensus', even an 'economic fact'. How did this arise? During the referendum, I found two major reasons for such a consensus. First, prominent modelling groups, notably the Treasury, the IMF and LSE, used a 'gravity' model which created a strong bias against leaving the EU owing to the way it was estimated and used: essentially a gravity model assumes that current trading patterns are hard to alter because 'gravity' (interpreted as geographic closeness) determines trade patterns. But other groups such as Oxford and PWC for the CBI, used a model closer to ours and still found a negative effect: the reason for this, it emerged from an NIESR conference in late May, was that they assumed the UK would continue to maintain high EU-style protection after Brexit. This was then the second reason why modellers found a negative effect of Brexit; this factor also caused the gravity modellers to find an even more negative effect, so it was the most general factor for a negative. More details of these points can be found in Minford (2016a and b), Blake (2016) and Dowd (2016).

When challenged on why they made this Brexit protectionism assumption modellers said that 'unilateral free trade is politically impossible'. In the context of a referendum where voters were being presented with analysis to make up their minds, this was a strange decision: economics can present all options and allow voters to decide. More practically, in a referendum the vast majority of voters who were *not* protected producers should naturally favour the elimination of protection and the resulting lower prices. However it is plain that modellers did not question the normal political assumption of producer dominance. In effect they looked forward to a post-referendum government decision in which producer lobbies would push successfully for continued protection and thwart the democratic will of the consumer-voter.

What this discussion shows is that the Remain economics consensus was derived from models and more importantly assumptions that favoured producer interests. Ours on the other hand and that of a small handful of others including Open Europe considered the effects of the consumer-led free trade option for a Brexit in which voters' wishes for the best outcome would actually be implemented.

Remain was guilty of producer-dominance determinism. Effectively it was saying that even if Brexit happened policy would be dominated by producers who would frustrate its benefits. Therefore its consequences would be malign and voters should avoid it. This position amounts to denying the possibility of democratic choice by voters of their general interests. Yet if we do believe in democracy this is not merely pessimistic; it is also highly misleading for the voters making a democratic choice.

Now that Brexit has been voted for, Remainers are still arguing in favour of producer interests, for an EEA-style agreement that will frustrate voters' best interests by maintaining the status quo!

Remain's Last Stand: Après Brexit le deluge

Since the Brexit referendum win there has been a strong attempt by the Remain camp to argue against the result. We have seen that the preferred option of this camp is now the EEA-status quo option. To strengthen opinion in favour of this effective denial of the referendum result these people have argued that there will be short run chaos due to the strong negative short run Brexit shock. Many forecasters, most of whom opposed Brexit, have rallied enthusiastically to this viewpoint adopted by the Treasury, the IMF, the Bank of England and others in the anti-Brexit consensus, and produced gloomy forecasts based on a large negative Brexit shock. How are we to evaluate this effort? In what follows I look at how accepted macroeconomic theory deals with these matters and show that there is no real case for this Brexit shock.

The theory of expectations and how it treats unexpected 'regime change'

As is widely appreciated among practitioners if not politicians the accepted way of dealing with expectations is Rational Expectations. This approach assumes that people who make decisions appreciate the objective possibilities for policy that confront the economy and know how these will impact on the economy. There are two relevant elements in these possibilities that affect economic decisions: the ‘average’ expectation (or ‘the’ expectation, for short) and the ‘dispersion’ of the possibilities (or the ‘uncertainty’). The first is calculated as the average (weighted by probability) of the various policy choices and their effects; the second measures how wide is the gap between highest and lowest. Modellers can calculate both by simulating their models under the various possible policies.

Applying this theory to Brexit, we should have seen changing expectations and uncertainty in the run-up to the referendum since the probability of Brexit became and remained high, if still less than 50 per cent most of the time. Of course it was still not too clear what exactly the Brexit policy choices could be but as the campaign went on these choices became clearer: the EEA model or the WTO model either with continued protection (Remain assumption) or with unilateral free trade (Economists for Brexit- Efb- assumption). So pre-referendum the expectation would have been say 33 per cent EEA-status quo + 33 per cent WTO-protection + 33 per cent WTO-free trade. The uncertainty spread would be from worst WTO-protection to best WTO-free trade.

After Brexit this changed. Now the policy choices narrowed to EEA or WTO under free trade as per Efb. Also the probability of some form of Brexit was 100 per cent. So now we get the expectation as say 50 per cent EEA-status quo + 50 per cent WTO-free trade. The uncertainty spread narrows a bit: worst is EEA-status quo to best WTO-free trade.

As far as the effects of pure uncertainty on behaviour are concerned, the standard theory of ‘expected utility’ (used generally in conjunction with rational expectations) says that people discount the better end of the spectrum most because when times are good you get less extra utility than you lose when times are bad; so this would make people act as if expected outcomes were a bit worse than 'the expectation'.

But as you can see from the above uncertainty was worst before the referendum! In addition the expectation could have been for a worse average since it included the WTO-protection outcome which by general agreement was bad. So we should have seen more negative reaction in the pre-referendum period than we will see after.

This makes perfect sense. During the campaign Remain conjured up all sorts of dreadful possibilities. After it everyone had to calm down and it became clear that the possibilities had narrowed to the status quo versus the more radical move to unilateral free trade.

There was a brief period when there was no new government and some general chaos therefore. But as it happened this was over rather quickly. Since the advent of the May government it has become rather easy to read the possibilities.

Why are many forecasters projecting a bad Brexit shock?

Forecasters divide into two main camps: those who keep models and do research ('modellers') and those (usually working in the corporate sector) who do not but use available information, including the output of modellers, to forecast and comment on the economy ('commentators'). When a shock like Brexit occurs, modellers try to use their models to work out what is likely to happen while commentators generally follow their lead until there is some sort of data to go on. Meanwhile markets of every sort react, reflecting a diverse array of information and of course opinion.

There is a branch of economics devoted to studying this situation, known as 'signal extraction'. People are looking at a situation full of 'noise' (i.e. uninformed reactions) and trying to locate the 'signal' (i.e.

the true nature of the shock). Under rational expectations people make an estimate of the signal based on what they know the economy is like and as a result this estimate is related in an unbiased way to the true shock though clearly with a wide margin of error.

Hence in the case of Brexit this estimate will be related to the true long-term effect of the two policies that could happen, EEA-status quo and WTO-free trade, in the way we have already described. Expectations of the long term will be equal to these as above; expectations of what exactly is happening to the current economy will then consist of this plus the best guess on what current economic data may be like.

Good modeller forecasters will work out correctly what these long term effects are and so locate the expectation of the long term correctly; they will then work out a best estimate of how current events could be panning out subject to this.

Unfortunately in the case of Brexit this does not appear to have happened. Brexit has underlined the existence of some strong prejudices in the UK economics profession. I and others noted (Minford, 2016a and b; Blake, 2016, Dowd, 2016, available www.economistsforbrexit.co.uk) how the Treasury used a particular modelling approach to Brexit which gave misleading results; I also noted that the consensus made a highly damaging assumption about Brexit, namely that it would be WTO-protection. Since the referendum the modelling fraternity seem not to have changed this assumption, even though it should be quite clear from the appointments of free market ministers to the Brexit portfolios that it cannot occur. Hence most modeller forecasters have made wrong assumptions about long term policy, and violated rational expectations in their forecasts.

Their mistakes have not stopped there. In computing the 'signal extraction' solution (by which is meant deciding what the underlying shock or 'signal' is that is driving events, the 'noise') and how it affects the economy it is necessary to assume that the ‘noise’ comes from people wrongly estimating what the current shocks to the economy are. But these errors must be related to the economy’s true shocks, consistently with the economy’s workings. They cannot be any old thing; in particular they cannot be negative shocks of arbitrary size, as in practice chosen by most of these forecasters. Yet in adding ‘shocks’ into the current economy due to ‘noise’, modellers have used quite arbitrary assumptions. For example many have used regressions of data on past ‘bad crisis’ situations to estimate what the Brexit shocks might be. But this violates rational expectations because Brexit is an event defined by a unique policy change, with the possibilities we discussed above. The ‘noise’ comes from other, normal shocks to the economy interacting with this unique shock. But the behaviour of these normal shocks is well known from much past behaviour; and this normal behaviour constrains what the ‘Brexit noise’ can be.

As for the Brexit noise we know that in the very short term ideas about what is happening can drive asset prices sharply. Clearly the Brexit vote was a big surprise ‘regime change’ and reactions to it factored in ‘doom and gloom’ forecasts that were widely being made as we have seen. When such a shock hits an economy the market reaction is to sell the currency and this is also an optimal economic stabiliser, boosting demand for exports and home production at the expense of foreign goods. On balance therefore it is a positive, not negative, shock. It seems likely that the negative forecasts and the political chaos together drove the pound down sharply in the very short term. With the new government moving ahead steadily with its Brexit policies and the economy normalising, it is likely to recover towards the warranted long term decline of around 5 per cent over a number of years. Meanwhile the panic associated with the initial shock has quickly disappeared as politics has settled down and hard data has appeared.

So modeller forecasters have made two key errors in analysing the Brexit shock: first they have made a wrong assumption about long term policy and second they have inserted quite arbitrarily negative short term disturbances into their forecasts. They have violated rational expectations on both counts.

These mistakes will ‘come out in the wash’, as events pan out over time and hard data arrives. Like politicians’ efforts to persuade people to change their minds through Project Fear, they will have no effect except on current media. We can also notice that if rational expectations holds, general expectations will not coincide with these modellers’ forecasts. Sometimes ordinary people get things right that clever experts get wrong; UK economic history offers quite a few examples.

What if expectations are not rational but ‘behavioural’?

A minority of modellers adhere to the view that expectations are ‘behavioural’. The most popular version of this theory holds that people are influenced by ‘herd instincts’; therefore if they think others are reacting badly to events they too will react badly, regardless of whether there is any basis for it.

Tests of behavioural expectations on economies’ actual data and behaviour are damning; the theory simply does not fit (Liu and Minford, 2015). Tests on surveys of business confidence have come out better (Hatcher and Minford, 2016). One can interpret this as follows. When asked by interviewers about their views of future business, people reflect current opinions being aired in the media: they like to look in tune with general opinion. But when they actually carry out business decisions they default to rational behaviour: in particular they are most influenced by their direct economic experience and how they perceive the environment impacting on their own firm or sector.

If this interpretation is correct, then Project Fear Mark 2 could affect media perceptions and so feed into confidence indicators. But it would not affect economic behaviour itself.

The most likely Brexit shock: slightly positive

We have seen that it is rational to analyse the Brexit effect into that of its two main possibilities: the EEA-status quo and the WTO-free trade, each having about a 50 per cent probability say. It is obvious that the status quo effect is zero.

This leaves some probability of the WTO-free trade effect which is positive in the long run. In the short run the effect will be negative on existing industries facing more competition - viz farming and manufacturing - which will contract, and positive on other industries - viz the rest of the economy - which will expand. Since in the long run the positive effects outweigh the negative, the natural assumption is that that will be true in the short run too as these industries move gradually in the new direction.

It is possible that there is some negative asymmetry in the short run, with once-protected industries' fall in investment greater than that of the rest of the economy's rise in investment. However, as the rest of the economy is nine times the size of the once-protected sector, and this last is expanding more than the former is contracting, there is no reason to believe this. In addition to investment effects too there are consumption effects, as consumption will be expanding along its new long term path.

Overall, the most likely short term effect is a slight expansion, starting along the long run expansionary path. As we have seen, this will be accompanied by negative 'confidence' effects as people echo the warnings of the establishment of the Deluge to come. Much the same happened when the economy embarked on monetarism, when it exited the Exchange Rate Mechanism and when the 'austerity programme' was set up. 'Confidence' responds to the establishment groupthink of the time, and this has often turned out to be wrong.

Interpreting the latest UK data

In the referendum debate Remain claimed that not only would the economy go into recession if voters foolishly chose Brexit but even the second quarter would be hit by the polls showing a good chance of Brexit. This last is now conveniently forgotten by Remainers, now that the second quarter has shown a 50 per cent rise in growth on the first quarter.

What this remarkable rise in second quarter growth implies is that business decisions cannot have been much affected downwards by worse expectations and uncertainty due to Brexit.

As we have seen in fact since the referendum result expectations and uncertainty should have improved! Hence we should expect even less effect on business behaviour!

This second quarter is the first hard data on 'Brexit uncertainty effects' till now. We will not have an estimate of the third, post-Brexit, quarter's GDP until the autumn. However we already have clear indications from data on retail sales for July, purchasing managers; indices, car sales, and money/credit growth for August, besides strong employment trends, that the economy is running quite well in the third quarter, consistently with a continued growth in the 2-3 per cent range. The Deluge has not appeared; indeed quite the opposite after an understandably nervous start.

For politicians, politically motivated forecasters and for media, there are some risks in participating in Project Fear Mark 2. If the economy proceeds as normal, people will rumble more lies; they will also punish actions that seemed designed to harm the economy by ‘talking it down’. My advice to officials and media is to avoid this Project. Heed the fate of so many of the perpetrators of Project Fear Mark 1.

Part III

Unilateral Free Trade, Next Steps and How to Implement Brexit

VII
The Economic Fallacies: Trade Agreements, Passporting and the WTO

It might be thought that the estimates given in preceding chapters are all very well but that if we left the EU there would be a quite separate problem of being ‘outside’ the EU ‘market’ as well as ‘excluded’ from other markets with which the EU has signed free trade agreements (FTAs). The IEA-prize-winning paper on Brexit (Mansfield 2014) recommended that the first activity to be undertaken after Brexit should be a general negotiation of FTAs with Uncle Tom Cobleigh and All. What are we to make of such arguments? Is it true that there are gains in trade terms from leaving the EU and yet that we are vulnerable to problems of ‘access’ to all such markets?

Replacing Old Markets with New: Why trade agreements are irrelevant

What we need to understand is that if some other countries set up barriers against our trade, it would have no implications for the world prices of the types of products we produce. Those prices are set in all the markets of the world. If our producers faced some extra tariffs in some markets this would have no effect on the world price of the goods we produce. The UK produces a small fraction of world exports in virtually all product markets. These UK exports will be more expensive in the markets with extra tariffs but the impact on the overall demand for these products will be zero or negligible.

When a country sets up a tariff on a UK product, total demand for the product does not change; all that happens is that demand shifts from the UK product to the rival foreign products. Because there is no change in total demand for the product its world price also does not alter.

We can pursue the matter in more detail. What will happen to the UK supplies that are not demanded in this market? Other countries will now be supplying more to this market. But as world prices are unaltered all countries including the UK are producing the same total output as before. It is plain that there will be a general diversion of trade between markets: the UK sells less in the protecting market, and sells more elsewhere, while the other countries sell more in the protecting market and less elsewhere.

This apparently paradoxical result comes from the workings of 'general equilibrium', that is the final situation after all effects have been worked out. Often commentators focus on the immediate effects of a policy; this is known as 'partial equilibrium'.

It might seem difficult to assume that each country's total output of this commodity will remain the same. Could not the UK be forced to produce less given that this one market has demanded less of this product? But this would violate the industry's responses! If world prices are the same and it has willing workers and capital supplying this original amount of output, a fall in demand triggers a search for new markets to sell the profitable unsold output. This search is rewarded by finding the extra unsatisfied demand in the other markets where other suppliers no longer can supply so much.

Some might argue that particular firms have invested in the now-protected market and will find it difficult to switch to new markets. This might be so; the interests of firms are always to keep their existing markets because for them and their contacts they can make more money there than in new markets. If the industry supplies new markets the benefits might well accrue to other firms. However from the UK's national viewpoint this is not our concern. This reveals that trade policy as seen by firms with their own interests and markets is not the same thing as trade policy seen from the nation's viewpoint. This is important to realise because of the stridency with which these firms may enter the policy debate to protect their own vested interests.

The effects of trade policy must not be confused with the effects of general issues for the economy. We generally keep these effects separate and assume the economy is in equilibrium with respect to other issues when trade policy changes occur. For example if the UK is suffering from high unemployment, then it needs a set of policies that focus on raising aggregate demand and on removing any supply-side impediments to employment. It would be stupid to use trade policy to do this, since this has in general little if any effect on either aspect. So the way to compute the best available policies is to assume the economy is in a reasonable equilibrium with respect to these general aspects and then see what trade policy can do to improve that through its own idiosyncratic effects.

These are not easy ideas to grasp for those not used to international trade theory. Most people think in terms of 'market access' and the bilateral bargaining between producers and the country to which they are selling. But this is not how world trade works - except in the very short run which is soon over and so not relevant to a long-term shift like leaving the EU.

This illustrates what is known in international trade theory as the 'importance of being unimportant'; a small supplier in world markets such as the UK, faced with a tariff from country X, would simply divert supply to another market and so keep its price unchanged, passing the tariff on to the consumers in country X. The UK is too small to affect the world price of any product it sells - hence it is 'unimportant' at the world level. By implication no protectionist actions by other countries affect the prices of UK products because these are world prices which such protectionism does not affect.

This powerful argument implies that the calculation of the UK's net trade gains is immune to what third countries decide to do with their trade barriers on UK products, and is explicitly based on the assumption that the EU indeed raises its usual Most Favoured Nation (mfn) barriers on UK products so that UK export prices in the EU market revert to world prices.

This point applies by obvious extension to the whole range of potential trade agreements.

Thus the trade agreements the EU has concluded with a wide range of (mostly small) third countries can continue if the countries involved are willing. If they are not they can lapse. In either case these countries will sell to the UK barrier-free.

Or consider trade agreements with the US and China. By the same argument above, although these countries are large any tariff they reduce on UK products would simply divert demand to other suppliers and not affect the world price of these products. There would be no effect on UK output or exports, simply trade diversion.

EU Protectionism against the UK and Diverting to other Markets – no long term effect

Consider EU protectionism against the UK post-departure. Under WTO rules the EU must levy the same barriers against the UK as against other non-EU countries such as Japan and the US. The WTO outlaws discrimination. In our calculations above we assume precisely this situation under which UK producers no longer receive the 'preference' over world suppliers generally: as a result the UK producers receive the world price like these others. We showed above that though these producers lose profits, consumers gain far more in lower prices.

But suppose that after Brexit, the EU creates some new trade barrier specifically targeted at the UK. Plainly this is illegal under WTO rules, as being discriminatory. There is no evidence that the EU would act illegally in this way. It would be extremely bad for UK-EU relations for the UK to have to take the EU to court in the WTO justice system; plainly the UK would win and the EU would have to conform to WTO rules. Such a scenario is plainly unlikely and perhaps ridiculous.

However, notice that the long run damage of such an action, as long as it is undertaken, is only to the EU itself, because it raises prices of UK goods or services to EU citizens, diverting demand to other country sources. Yet from the UK's viewpoint this diversion, as we have seen above, is not damaging in the long run. World prices of these products remain the same and we sell more elsewhere, just as others sell more in the EU. One can think of this as an additional reason to illegality why the EU would not do anything so silly.

It is true that such stupid actions do cause some short run costs of transition, both for us and for EU firms, because of the unnecessary redeployment of sales forces etc. But again this added cost to both sides simply reinforces the case that such discriminatory action will not be taken by the EU.

An extreme example of total protection against the UK has been suggested by North (2016) and similar arguments have been advanced by Tyrie (2016). North argues that the WTO option is dangerous because the EU could deny the UK the piece of paper certifying that UK products satisfy EU product rules (Mutual Recognition Agreements), even though it does supply this to other countries like Japan, the US and China. This would amount to an absolute denial of market access by the EU to UK products! Clearly outside the EU the UK would reach an agreement on mutual recognition of standards just like these other countries. Any refusal by the EU to reach such an agreement while doing so with all these other countries would be, as above, discriminatory under WTO rules and therefore justiciable in the WTO courts like any other discriminatory actions. The UK would of course take the EU to court at once if there were any such denial; and the courts would decide rapidly against the EU since plainly it is a huge and outrageous discrimination.

Again this would be an act of gross self-harm by the EU since it would absolutely deny their consumers access to UK goods and services at any price! Again too in the long run it would not harm the UK because of the same trade diversion argument. But plainly both sides would suffer large short run costs of disruption to existing sales channels etc. Even to consider such behaviour by the EU seems wrong, suggesting absurdly that the EU could behave quite irrationally at huge cost to itself, putting itself beyond the pale in international relations.

The City and Financial Services and the Irrelevance of EU Protectionism

A number of City firms are concerned about what the EU might do in the way of financial protectionism, which is not so actively policed by the WTO. Euro-bond clearing has been mentioned as something that might be denied to the City. Then we have ‘passporting’ and ‘equivalence’, where it is argued that the EU might deny UK retail firms the financial passport and argue that there was not UK ‘equivalence’ of regulations so that wholesale firms too could not sell into EU financial centres.

All these actions are discriminative policies with respect to financial trade which operates no differently in theory from any other sort of trade! All the arguments about EU protection as self-harm with no long run effect on UK output of these financial services apply here too just as above to goods trade. Again there would be some short run transition costs all round to UK and EU firms which add to the discouragement to the EU to undertake such actions. But the long run (and hence the key and dominant) costs are for the EU and nil for the UK.

There is however more to the matter in this case from the EU's viewpoint which should discourage it from going down this route. The EU generally prizes capital mobility into and out of the EU: as an objective it is enshrined in the Maastricht Treaty. The reason lies in the management of monetary union. The gains from monetary union come from the reduction in currency and financial barriers to trade and investment. Plainly capital mobility makes these as low as possible. This is an additional reason we are unlikely to see such financial protectionism.

We see from this that all the vigorous City pushing of these issues as reasons for staying with the EEA-status quo option is simply the prosecution of vested interests; it has nothing to do with the UK's national interest. We may also note in passing that the City, like other service industries in the UK, will gain massively from the lower cost base created by a full Brexit through lower prices and taxation; getting a 'deal' for the Single Market at the expense of a full Brexit with no deal would cost them dearly.

Yet a further reason is that such behaviour against the conduct expected of members of the Basel club of central bankers, the Bank for International Settlements, which is the issuer of international regulations that central banks are supposed to follow uniformly. Each central bank and associated financial regulator is supposed to adhere to a 'level playing field' across the main world markets. The reason for this is that if financial crisis hits, central banks have to cooperate over banks' cross-border assets and liabilities. Protectionism of one country's banks interferes with this cooperation. Therefore the ideal of free capital mobility and common non-discriminatory regulations is striven for. In effect the BIS acts as an adjunct of the WTO for financial affairs- and indeed the Governor of the Bank of England, Mark Carney is chair of the Financial Stability Board, the arm of the BIS charged with overseeing actions by the world's central banks to promote financial stability.

However, suppose that after all some EU protection against the City did occur and that had the effects in diverting financial product demand away from City firms to their competitors in the EU, would they affect UK financial product output? No! By the same arguments as above for goods, there would simply be a redistribution of UK exports from the EU to the rest of the world where they would replace EU exports.

One could go on with more examples. The essential point is that in countries doing it protectionism is self-harm arising either from intellectual confusion (associated with 'mercantilist' ideas) or from the lobbying of vested interest.

VIII
Next Steps: How to Implement Brexit WTO and Unilateral Free Trade

Let us now assume that our current government accepts the need to move as rapidly as possible to the full Brexit WTO option of unilateral free trade (henceforth just plain 'Brexit'), so reaping the massive gain we have talked about. How does it go about it in practice? As everyone knows it is one thing setting out an economically advantageous policy and it can be quite another getting it implemented in practice given all the constraints and hazards of the political process. We learnt this from Mrs. Thatcher's governments which devoted much ingenuity and energy to bringing people, including all the major vested interests, along with the policy process.

The first thing to notice is that the EU itself now becomes the least part of the problem. There is no need for agreement on trade or regulation or immigration, as we will have left. The mechanics of how we leave has been masterfully explained by Martin Howe (2016) in this series: we use the 1972 European Communities Act to sort out the immediate regulative framework after Brexit, then abolish it, meanwhile having triggered Article 50. Under Article 50 we need to reach agreement with our EU ex-partners, all of them on any remaining issues (i.e. other than trade, regulation and immigration on which no agreement is necessary). These are uncontroversial: they include the rights of existing foreign residents (which must be respected under all civilised norms), inter-country cooperation on terrorism and foreign policy, no-visa agreements and a miscellany of other matters. Agreement on these should be swift.

The main political action to be taken is internal: the reasonable compensation of producers who lose out from Brexit.

(i) Producer interests damaged by the Brexit consumer revolution.

- Farmers: A new regime is needed for farmers, which recognises that many largescale farmers can manage perfectly well but that there will need to be direct help for smaller and more vulnerable farmers, given our environmental aims as a country.
- Manufacturers: Our manufacturers are losing their protection and will need to adjust to more competition from the rest of the world in their home market: this is a reasonable requirement to which they must respond with higher productivity as the majority who sell on world markets already do. After all they have been rather lucky to be protected by the EU for so long, quite against the intentions of the Thatcher supply–side reforms of the 1980s. They are vociferous about the costs they will now face of selling into the SM from outside and they could be compensated for this. As it happens it is not very large, around £2-3 billion being the tariff costs they will face. There will be no way the EU can deny they meet product regulations by refusing pieces of authorisation or other tricks , unless it wants to be defenestrated rapidly in the WTO courts.

These two sets of actions deal with the major producer interests damaged by the Brexit consumer revolution.

- Other Groups: There are numerous other groups that benefited from the channelling of UK money into the EU and back: various regions of the UK received special EU grants and universities benefited from EU funds for research. Universities also band together with EU and other counterparts to collaborate in research: this activity will not cease on Brexit as this collaboration can continue.

(ii) A Committee of Compensation for loss of EU funds should be set up to deal with the many demands arising from losing these EU funds.

The basic principle can be ‘complete but efficient compensation’. Our contribution to the EU is usually measured by netting out these ‘receipts’ so by compensating these recipients there is no loss of net EU receipts. An element of saving can be achieved by allowing for the inefficiency usually involved in these grants: there are complex rules surrounding how they are spent which can reduce their practical value to recipients substantially.

Conclusion
The Single Market: Access Not Membership
The Benefits for British Consumers

In this paper I have argued that the only way to achieve the objectives that were voted for in the Brexit referendum is for the UK to go for a clean break with the EU and trade with the EU outside the Single Market under WTO rules and unilateral free trade. This break can be achieved rapidly by using the 1972 European Communities Act to tidy up the post-Brexit regulative order, then abolishing it; at the same time invoking Article 50 swiftly and settling uncontroversial non-trade issues quickly.

Producer interests, powerful again now that normal politics has been resumed, are pushing for the status quo in the form of an EEA agreement. Siren voices have suggested that some form of agreement can be negotiated that allows the UK to stay in the Single Market and yet control its laws and borders; however any such agreement could be vetoed by any of our 27 EU ex-partners, and there is no likelihood that countries such as Romania, Bulgaria and Poland could ever compromise on free migration, or that countries like France or Germany could compromise on our obeying the Single Market regulations as now. Hence any agreement on trade would involve traducing the key elements of the Brexit referendum vote; the only alternative to such an EEA-status quo agreement is clean departure under the WTO option.

Such a clean departure would also be optimal economically. UK voters would enjoy the consumer gains that come from a great increase in free trade. The resulting rise in competition, the improvement in regulation and the introduction of a Green Card immigration system would usher in a second UK supply-side revolution, comparable in effects to the first one led by Mrs. Thatcher’s governments in the 1980s.

References

Ashton, Paul, Neil MacKinnon and Patrick Minford (2016) 'The economics of unskilled immigration to the UK economy', downloadable www.economistsforbrexit.co.uk.

Blake, David (2016) 'Measurement without Theory: On the extraordinary abuse of economic models in the EU Referendum debate', downloadable www.economistsforbrexit.co.uk.

Dowd, Kevin (2016) 'Lies, Damn Lies and the Treasury's Brexit Reports', downloadable www.economistsforbrexit.co.uk.

Hatcher, Michael, and Minford, Patrick (2016) 'Stabilisation policy, rational expectations and price-level versus inflation targeting: a survey', Journal of Economic Surveys, 2016, vol. 30, issue 2, pages 327-355.

Howe, Martin (2016) 'How to exit the EU', Politeia, this publication.

Liu, Chungping, and Minford, Patrick (2014) 'Comparing behavioural and rational expectations for the US post-war economy', Economic Modelling, 2014, vol. 43, issue C, pages 407-415.

Mansfield, Iain (2014) 'A blueprint for Britain- Openness, not isolation', IEA, London, downloadable www.iea.org.uk.

Minford, Patrick (2016a) 'The Treasury Report on Brexit: a Critique', downloadable www.economistsforbrexit.co.uk

Minford, Patrick (2016b) The Brexit Consensus Bug, downloadable www.economistsforbrexit.co.uk

Minford, Patrick, Eric Nowell and Jonathan Riley (1997) 'Trade, Technology and Labour Markets in the World Economy, 1970-90: A Computable General Equilibrium Analysis, The Journal of Development Studies, Vol. 34, No. 2 December 1997, pp.1-34.

Minford, Patrick, with Sakshi Gupta, Vo Phuong Mai Le, Vidya Mahambare and Yongdeng Xu (2015) Should Britain leave the EU? An economic analysis of a troubled relationship, second edition, December 2015, pp. 200, Edward Elgar.

North, Richard (2016) 'Flexcit- a plan for leaving the European Union', The Leave Alliance, version 8, downloadable at www.eureferendum.com/documents/flexcit.pdf.

Tyrie, Andrew (2016) 'Giving meaning to Brexit', Open Europe, downloadable at www.openeurope.org.uk.

Subscribe to Politeia's Publications!

For £35 a year (£30 standing order) you will receive an electronic copy of each of our publications, plus hard copies of two new publications on request, and, if you wish, free hard copies of your choice from our back catalogue. You will also receive advance notice and invitations to Politeia's conferences and flagship events, with guest speakers from the UK and overseas.

More information can be found on our website: www.politeia.co.uk. Or, write to the Secretary, Politeia,14a Eccleston Street, London, SW1W 9LT or at info@politeia.co.uk

A Selection of Recent and Related Publications

How to Leave the EU: Legal and Trade Priorities for the New Britain
Martin Howe

Ruling the Ruler: Parliament, the People and Britain's Political Identity
Sheila Lawlor

Joining the World: Britain Outside the EU
Nigel Lawson

Banking on Recovery: Towards an accountable, stable banking sector
J. McFall, S. Kamall, G. Lyons, F. Capie and others

Dumbing Down the Law – The SRA's Proposals for Legal Education
Anthony Bradney

The British Bill of Rights: Protecting Freedom Under the Law
Jonathan Fisher

Paying for the Future: Working Systems for Healthcare and Pensions
Ludger Schuknecht, Matthias Dauns, Werner Ebert

Working Welfare: Contributory Benefits, the Moral Economy and the New Politics
Frank Field

History in the Making: The New Curriculum, Right or Wrong
David Abulafia, Jonathan Clark, Robert Tombs

Nuclear Options: Powering the Future
Roger Cashmore, David Mowat, Simon Taylor

The government is now preparing to leave the EU and to honour the decision by voters. To do so, says the distinguished economist, Patrick Minford, Britain should leave the Single Market. Politicians must resist the pressure by producer lobbies – some big business, manufacturing, and other groups protected by the EU's tariff and regulatory wall around goods. That wall around the Single Market prevents cheaper competitors from outside the EU selling goods to those within: it protects producers' higher costs while consumers, prevented from access to cheaper competitors in world markets, pay the bills. By contrast 'services' including financial services are open to competition given the arrangements for non-EU countries with 'equivalent' rules to sell to the EU.

Professor Minford's detailed economic modelling, which has not been challenged by 'remain' economists, calculates the cost of goods to UK consumers. He explains that any deal with the EU would not honour what voters chose (from border control to economic and political freedom), since 27 member states would have to agree. The government should therefore go for unilateral free trade under the WTO. It should focus on preparing free trade deals with the rest of the world, and a commission should calculate compensation to be paid by the government to the producers (manufacturer, smaller farmers, and other groups such as universities) who will suffer in the short term from the withdrawal of EU protective pricing.

£8

POLITEIA