

## Julian Jessop - IEA



# **Brexit, Labour, and Markets**

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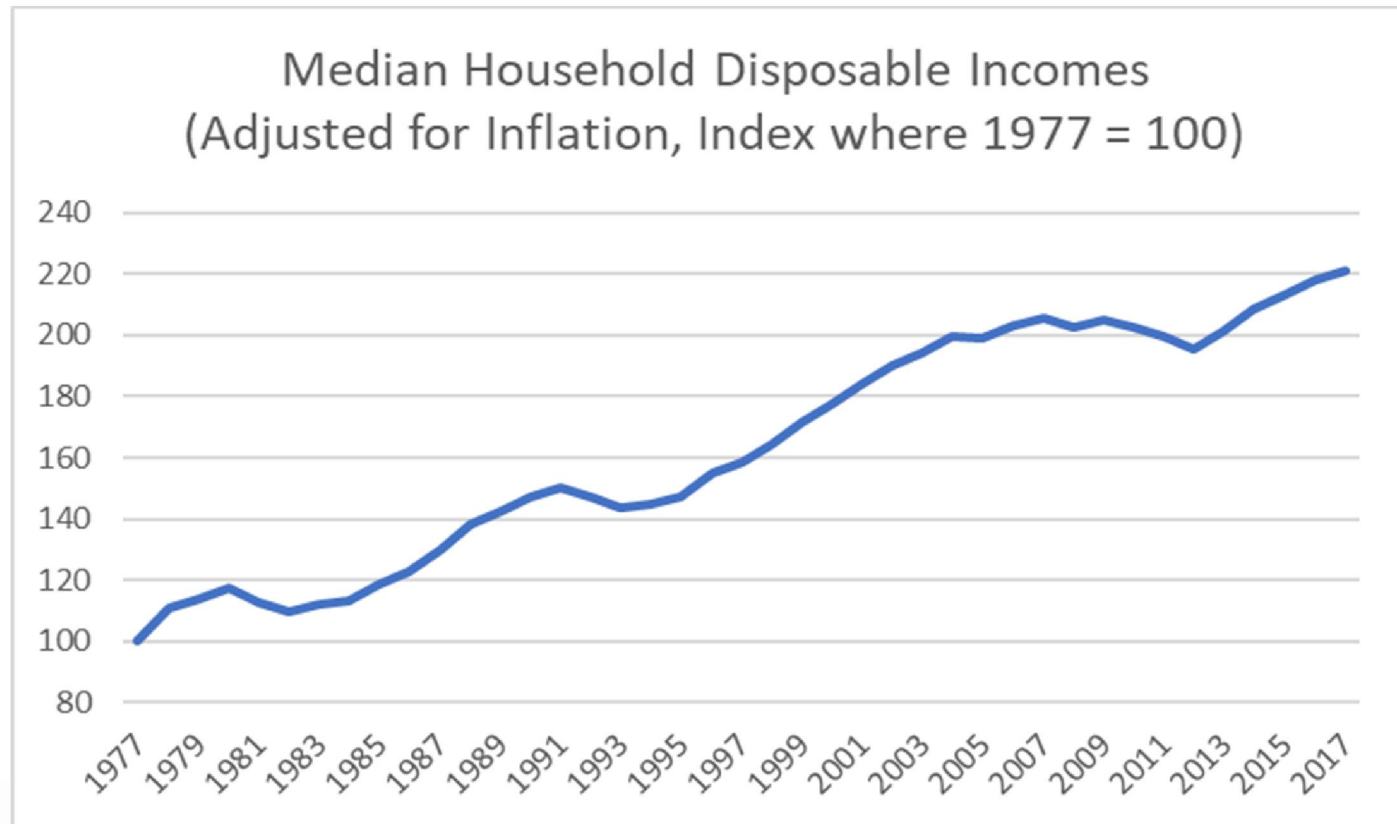


## Agenda

- Snapshot of economy
- Where are we on Brexit?
- The economics of Mr Corbyn
- Market risks

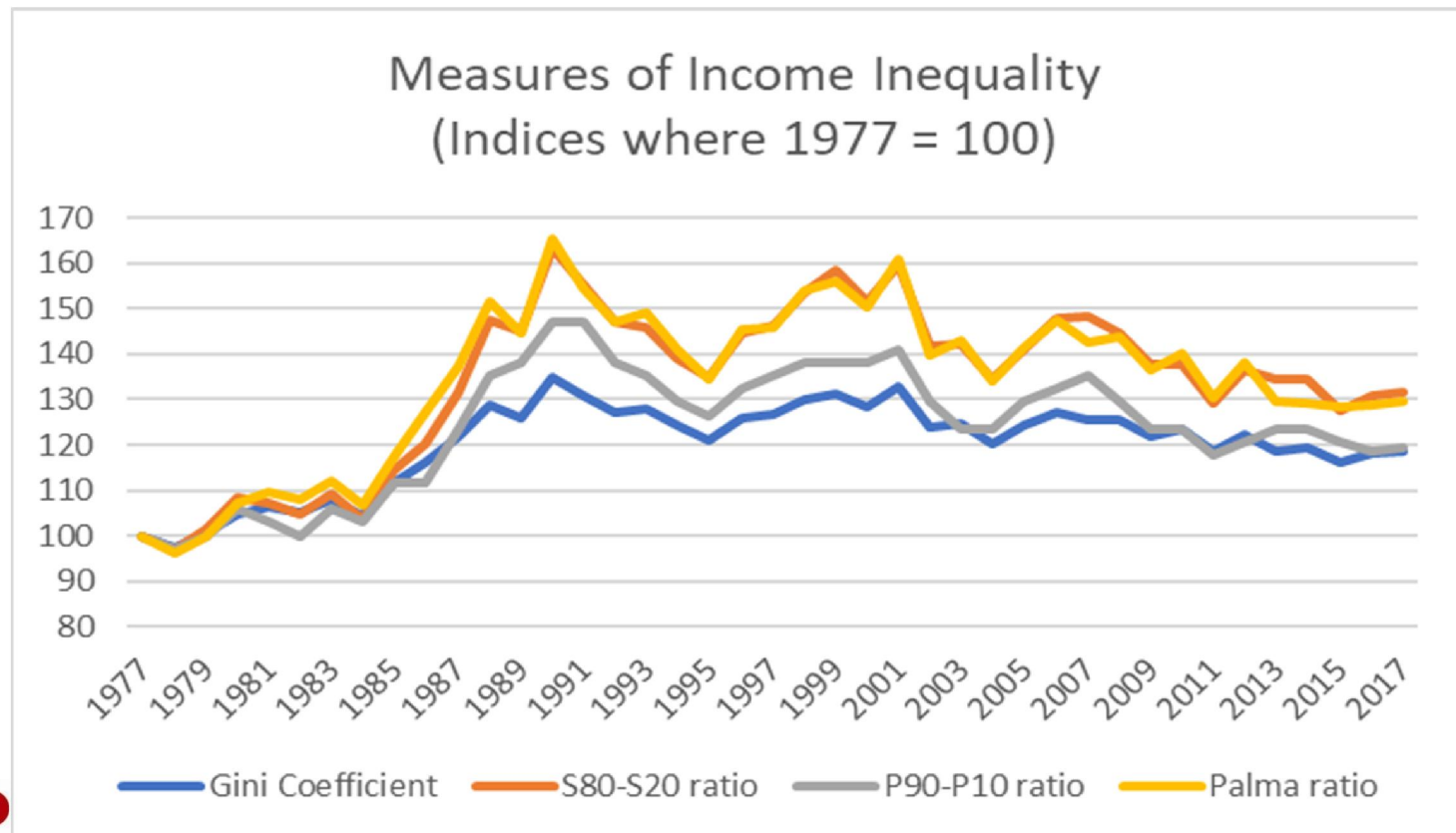


## What's happened to living standards?

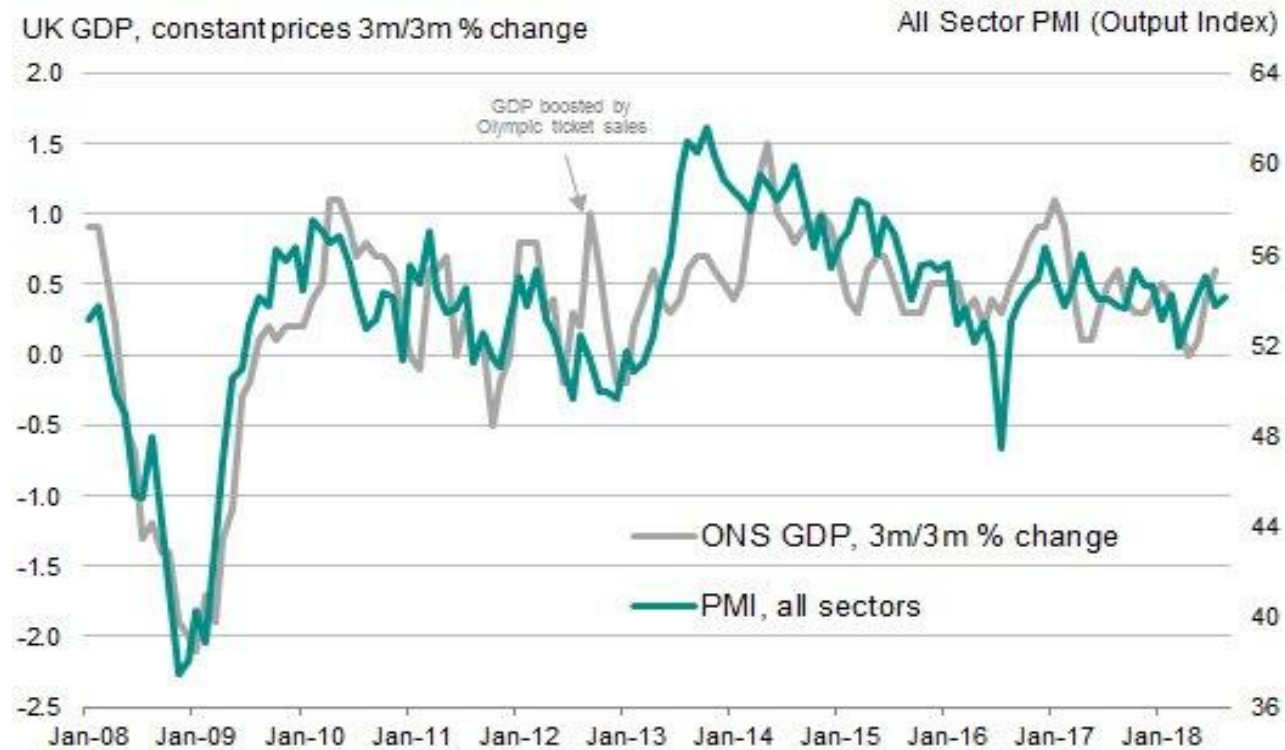


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## What's happened to income inequality?



## What's happened to economic activity?



Sources: IHS Markit, CIPS, ONS.



## What's happened since the vote?

- Real incomes squeezed by fall in the pound
- Increased uncertainty has held back investment
- Limited impact on external trade



## Negative impact on GDP of vote to leave

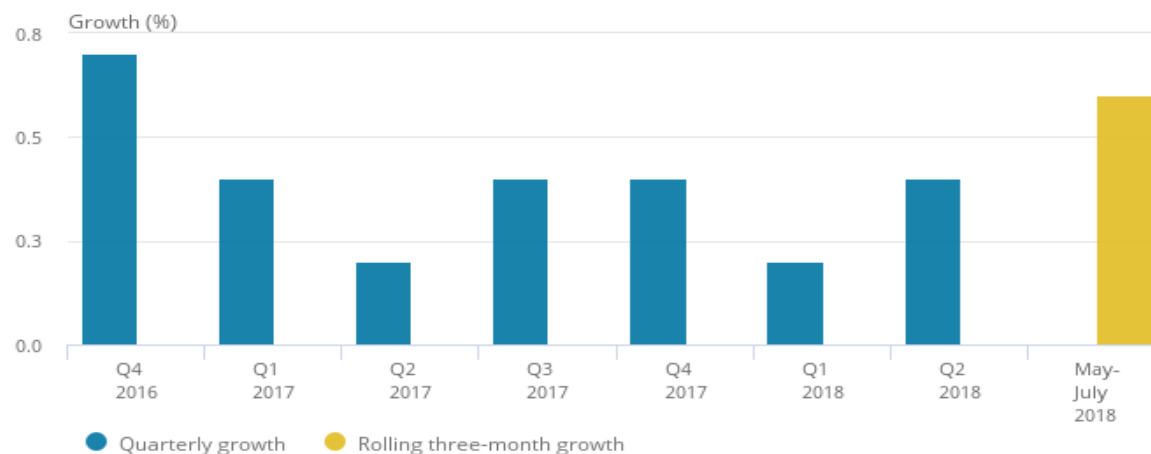
- Mark Carney: 'up to 2%'
- Julian Jessop: 'about 1%' (partly temporary)
- HMT's pre-referendum analysis: '3.6% to 6.0%' (peak impact over 2 years)



# Economy slowed in 2017 but picking up again

Figure 1: Rolling three-month growth picked up from growth of 0.4% in Quarter 2 (Apr to June) 2018

UK GDP growth, Quarter 4 (Oct to Dec) 2016 until May to July 2018



## Brexit means ...

“The agreement we reach with the EU must respect the referendum. It was a vote to take control of our borders, laws and money.”

(Theresa May, 2<sup>nd</sup> March 2018)



## The EU's two economic pillars

- Customs Union
  - no internal tariffs
  - common external tariffs & other trade barriers
- Single Market
  - four freedoms of movement (goods, services, capital, people)
  - regulations that apply to whole economy

## Where we are now

- EU has offered the UK either:
- i) a free trade agreement for GB only, with NI remaining in the Customs Union; or
- ii) associate membership of the Single Market and the Customs Union for the whole UK ('EFTA + CU');
- UK has responded with the Chequers Plan...

## The Chequers Plan

- Facilitated Customs Arrangement
  - UK runs two customs systems at its borders
  - Allows divergence on tariffs
  - Expensive, cumbersome, unacceptable to EU?
- Common Rule Book (for goods)
  - Default is that UK accepts EU regulations
  - Allows divergence, but with “consequences”
  - Severely limits scope for independent trade?

## Salzburg dead end



  
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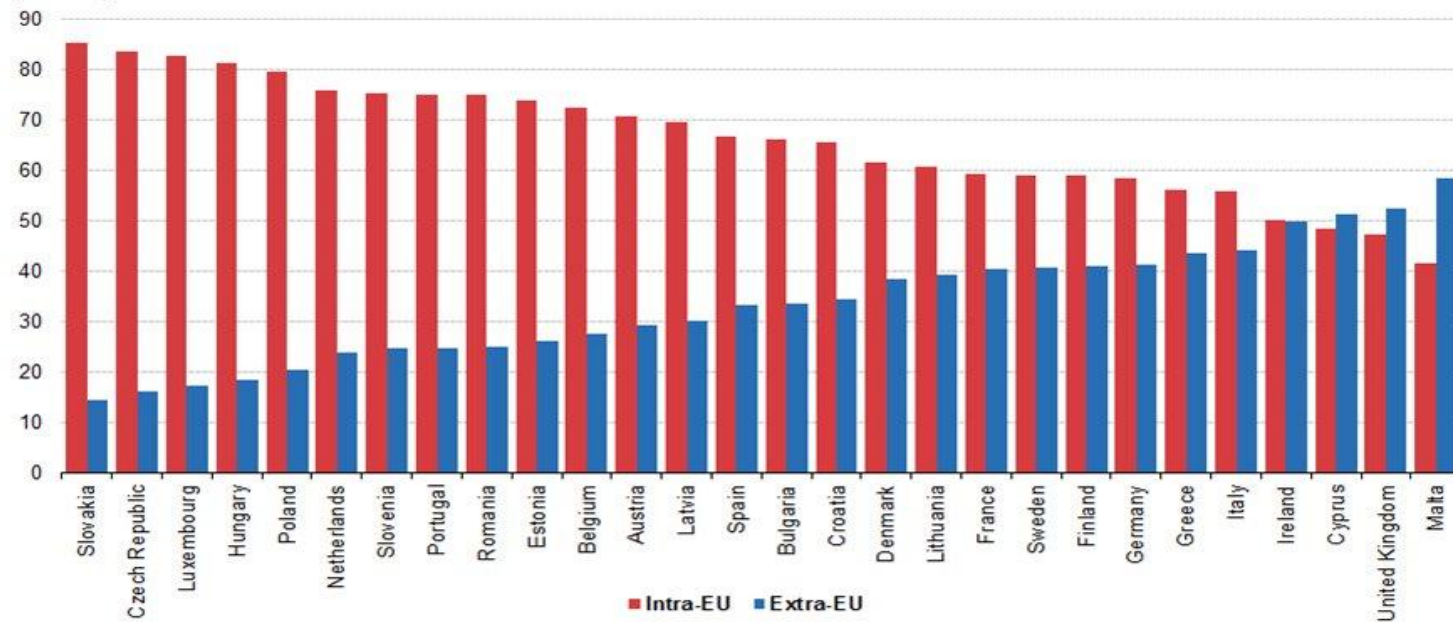


## **The alternative plan**

- Irish Border solvable, if will is there
- Canada ++ Free Trade Agreement
- No tariffs
- Streamlined customs
- Mutual recognition in areas like financial services
- Transition period
- Look outward, e.g. US/UK Free Trade Agreement

# UK should look outward

Intra EU exports of goods compared with Extra EU exports of goods by Member State, 2016  
(share %)



Source: Eurostat, Comext table DS-063319





## **‘No Deal’**

- UK will starve by August
- Planes won't fly
- Food prices will surge – as tariffs imposed, sterling collapses, and lorries queue at customs
- NHS will collapse
- £80bn of spending cuts



## **‘No Deal’**

- ‘No deal’ doesn’t necessarily mean no new agreements at all, on anything...
- Doesn’t have to be acrimonious
- Legal obligations of EU
- Economic interests of EU
- UK has own regulators and rulebooks
- Lots of things the UK can do unilaterally

## Conclusions on Brexit

- It's about getting the trade-offs right
- Maximising benefits from freer trade with rest of world and liberalising domestic economy ...
- ... while minimising costs (where significant) of looser relationship with EU
- 'No deal' far from ideal, but preferable (in my view) to 'Brexit in name only'

## The economics of Mr Corbyn

- Borrow only to invest, so increases in current spending (e.g. student finance, NHS, welfare) are financed by increases in taxes (on higher incomes, wealth, and “companies”);
- Renationalisation (utilities, rail, and Royal Mail...);
- Big increase in regulation, e.g. restrictions on ZHCs, ‘workers’ (actually, Trade Union reps) on boards;
- Much more intervention in wage and price setting.



## **Market risks (chaotic Brexit and/or Labour gov't)**

- Renewed sterling weakness
- Interest rates to rise further and faster
- Large companies to outperform smaller
- Overseas assets to outperform UK assets
- ... but a lot of bad (Brexit) news already priced in?



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