

New BfB report shows costs of no-deal have been seriously exaggerated

Cl B-affiliated organisation Briefings for Britain has published an important new report showing that the costs of a no-deal Brexit have been seriously exaggerated. The BfB economists describe claims that a no-deal Brexit would hit the UK three times as hard as coronavirus as both inaccurate and misleading.

The report focuses on analyses previously conducted by the Treasury and other organisations such as the IMF. It finds that their assessments of no-deal scenarios, where the UK does not conclude a trade deal with the EU and trades with the bloc on WTO terms, are based on such extreme assumptions as to render them implausible. The authors urge the Government not to be rushed into a bad deal, which could prove more costly in the long-term than a WTO-based exit.

One of the report's co-authors is Dr Graham Gudgin of the University of Cambridge. Cl B members will recall Dr Gudgin's excellent speech at our annual rally in 2018, where he talked about founding Briefings for Britain with historian Prof. Robert Tombs, to provide a forum for pro-Brexit academics to counter the idea that intelligent people support remaining in the EU. Commenting on the publication of this new report, Dr Gudgin said:

'his report by Briefings for Britain provides a corrective to some of the extreme assumptions previously used to model the impact of a no-deal Brexit. It outlines some of the more egregious exaggerations about the economic impact of no-deal especially from HM Treasury which is no longer permitted to produce new reports on Brexit.'

'We hope that the report will set the agenda for a more balanced, evidence-based approach towards modelling the economic impact of Brexit.'

The report can be downloaded in PDF format from the Briefings for Britain website [here](#).

The main findings are as follows:

- Exiting the Brexit transition period with a balanced UK-EU Free Trade Agreement (FTA) in place would be preferable to a no-deal exit, in which the UK trades with the EU on WTO terms. However, most modelling of the economic impact of the latter is far too pessimistic. **In terms of both short-term and long-term economic impact, the difference between an FTA-based Brexit or no-deal is relatively small.**
- Taking a no-deal option off the table would also significantly weaken the UK's bargaining position and reduce the chances of getting a good deal. Furthermore, restraints imposed by an overly-restrictive EU FTA could dampen the benefits of increased future trade agreements with third party nations.
- Studies suggesting that a switch to trading with the EU on WTO terms would result in a huge long-term hit to GDP are fundamentally flawed for five main reasons:
 1. They **exaggerate the costs** of Brexit. Predictions of a collapse in UK-EU trade are based on implausible assumptions on both the costs of non-tariff barriers, and the sensitivity of trade to an increase in these costs. This is compounded by implausible assumptions about the knock-on effects on productivity, and the impact on migration.
 2. They **under-estimate the benefits** of Brexit, including the gains from lowering trade barriers with the rest of the world and better regulation at home.

- The costs in point (i) are further exaggerated by comparing WTO terms with **a rosy view of what would have happened in the future if the UK had remained a full member of the EU**. Such counterfactuals assume that significant reductions in intra-EU barriers to trade will take place in the future, and count the loss of these hypothetical future gains as a cost of Brexit.
1. The baseline as described in (iii) is not only fictitious, it is **no longer relevant**. The UK remaining in the EU is no longer an option. The only relevant baseline against which no-deal should now be considered is a UK-EU FTA.
 2. Finally, the **extrapolation of costs is unrealistic**. Most studies simply extrapolate the results over a period as long as 15 years, when almost anything could happen. This ignores, for example, the likelihood that technological progress will reduce the costs of non-tariff barriers over time, or the possibility of concluding a new FTA with the EU within a few years even if the transition period ends without one.
- Similar points apply to the many pessimistic assessments of the *short-term* economic impact of no-deal. There is history here: the 2016 Treasury analysis grossly exaggerated the immediate costs of a vote to leave the EU. There is still more than a whiff of Project Fear about warnings on such issues as the impact of no-deal on the supply of medicines, the risk of severe disruption at ports, and the impact on the cost of food.
 - Recent attempts to compare the long-term impacts of no-deal and Covid-19 are misleading. If anything, the impact of the pandemic strengthens the case for retaining no-deal as an option, both by reducing some of the potential costs and increasing some of the benefits.