Towards a Meta Cost-Benefit Analysis of Brexit

Dr. Aurelien Portuese
Senior Lecturer in Law
Leicester De Montfort University
King’s College London
Introduction

- ‘The British should know this, they know this already, that it will not be at a discount or at zero cost. The British must respect commitments they were involved in making. So the bill will be, to put it a bit crudely, very hefty’ said Jean-Paul Juncker

- Brexit, an unprecedented nation’s decision for an unmeasurable economic consequences

- What does Brexit mean? Which options available? Which costs & benefits for each available options?
Article 50 procedure

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.
Outcome of 2 year-negotiation period?

- Financial Times’s verdict is that ‘with clear and easily specified economic risks in the short and medium-term, Brexit does not easily pass any cost-benefit analysis’

- Legal uncertainties due to costs of possible legal divergence or possible legal status quo

- Financial uncertainties due to Brexit Bill and other financial contributions still required

- Economic uncertainties due to unknown economic choices from the negotiations
So, no CBA of Brexit?

- Hard but not impossible to provide CBA estimates of Brexit
- CBAs of Brexit is about discussing possible ‘worst cases’ scenarii with ‘best cases’ scenarii...
Current studies either speculate on the CBA of the different options available after Brexit... => Speculative CBA, or ‘SCBAs’)

...or assess the current benefits of EU membership and consequently its loss in GDP => Pragmatic CBA, or ‘PCBAs’
Available options for the UK after Brexit

- The Norwegian option of membership to European Economic Area (‘EEA’) option;

- The Swiss option of tailor-made bilateral agreements with the EU;

- The Turkish option of customs union with the EU;

- The World Trade Organization (‘WTO’) option as a default option where no deal is secured with the EU and the UK.

  - ... no optimal options

  - Need for a tailor-made bilateral trade agreement for UK
Review of SCBAs

- SCBAS are forward looking studies which are contestable since ‘there is no universally accepted forward looking method of estimation available to integrate all of these specific effects in a comprehensive way’ (Busch and Matthes 2016:76).

- Baker et al. (2016) assessed that the short-term GDP impact on the UK economy would be -1.9% for an EEA option, a -2.1% for a Swiss option, and a loss of GDP of -2.9% for the WTO option. In the long term, the losses would respectively be -1.8%, -2.1%, and -3.2%.

- The OECD (2016) considered Brexit as a ‘taxing decision’ which could cost the UK economy averagely 3.30% of GDP in the near term and 5.51% of GDP in the long run.
Review of SCBAs 'ed

- The HM Treasury (2016) carried out a SCBAs which concluded that Brexit, in the long run, could cost from 3.8% of GDP for the EEA option, 6.2% of GDP for a Swiss option, up to 7.5% of GDP for the WTO option.

- Dhingra et al. (2016) have estimated that the impact of Brexit on the UK economy would range from -1.3% of GDP in the near term to -7.9% in the long run with a Swiss option.

- PwC (2016) concluded its study by stating the Brexit would approximately cost the UK economy 3% to 5.4% of GDP for the Swiss option or the WTO option, respectively.

- Oxford Economics (2016) considered that, according to its own calculus, Brexit would cost 0.1% of UK GDP in best-case scenario up until 3.9% of UK GDP in the worst- (or ‘populist’) case scenario.

- Booth et al. (2015) considered that Brexit could impact the UK economy, in the ‘politically realistic range’, from -0.8% of GDP up to +0.6% of GDP.

- Ottaviano et al (2014a; 2014b) predict that Brexit will cost only 1.1% of GDP in a short-term, best-case scenario; but up to 3.1% of GDP in a long-term, worst-case scenario.

=> Most studies conclude that best scenarii would lead the UK economy to suffer very lightly (around 1% GDP) or even experience net gains (see Booth et al. 2015) while the worst-case scenario envisage ‘only’ a 8% loss of GDP (see HM Treasury 2016).
Review of PCBAs

- Because of the numerous spill-overs effects of a membership of a regional integration, these attempts ignore the triple-down benefits being part of the regional integration on a long-term basis.

- These benefits are numerous and tend to exponentially increase with time within the regional club.

- Omitted benefits in SCBAs with the increased level of competition of firms part of a regional market and the level of (productive, transactional and dynamic) efficiencies thereof.

- Capital mobility as well as labour mobility improve the efficiencies of the capital markets (minimisation of risks, maximisation of returns) and of the labour markets (minimisation of employment, maximisation of labour welfare), respectively.

- The question for SCBAs was ‘what would be the costs and gains for the UK from Brexit?’

- The question for PCBAs is now ‘what are the opportunity costs for the UK to give up the gains of EU membership with Brexit?’
Review of PCBAs ‘ed

- Lee & Leach (2016) reviewed 14 CBAs of Brexit and concluded that the UK gains from 4% to 5% of GDP each year thanks to its EU membership, and that Brexit would therefore cost approximately the same impact to the UK economy.

- Busch and Matthes (2016) conclude that the risk of GDP loss for the UK economy due to Brexit is in the range of 10% GDP or more in the long run.
Towards a Meta CBA of Brexit?

- PCBAs more superior than SCBAs
- From 4% to 10% UK GDP loss due to Brexit

- 2 remaining issues:
  - Epistemological issues
  - Brexit Bill
1. Epistemological issues

- Time issue
- Political uncertainties
- Legal uncertainties
- Financial uncertainty

⇒ Too many uncertainties to provide a comprehensive CBA of Brexit

⇒ CBAs normally for regulatory issue, Brexit is a nation-wide issue
2. Brexit Bill

- Cost of civil servants’ pensions
- Cost of on-going EU programmes where UK has liabilities
- EU citizens’ acquired rights
- Etc....
- Estimates from EU perspective:

  Approximately £51 billion
  (€60 billion)
Conclusion

- A Meta-CBA of Brexit possible but only from a backward-looking approach (PCBA)

- Cost:
  - Between 4% and 10% UK GDP annually
  - €60 billion ‘Brexit Bill’

- Many unknowns and uncertainties remain yet
Thank you for your attention

Dr. Aurelien Portuese

Aurelien.portuese@dmu.ac.uk

Aurelien.portuese@kcl.ac.uk