

ECONOMICS

Politics aside, economists have been on the money



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For those in despair with Britain's political class, I bring good news. Its top economists, those without a political axe to grind, made excellent Brexit forecasts both before and shortly after the June 2016 referendum. Politics might be in meltdown, but economics (this time) has been on the money.

A few days before the vote, three of the UK's most reputable economic institutions — the National Institute of Economic and Social Research, the Institute for Fiscal Studies and the Centre for Economic Performance at the London School of Economics wrote a short joint statement under the heading: "Leaving the EU would almost certainly damage our economic prospects".

In it, they predicted the economy would be between 1 per cent and 3 per cent smaller by 2020 than if the UK stayed in the bloc. Further hits would come thereafter, they said, with the severity depending on the type of Brexit chosen. The pound would fall, real

wages would be lower, public borrowing would therefore be higher and unemployment would rise.

Apart from predicting an unemployment rise — its absence is part of a longer UK puzzle of disappointing productivity growth amid strong employment gains — the outlook was remarkably accurate. The economy is now 1.5 per cent smaller than the Bank of England forecast in May 2016 while the world economy has been stronger than expected. Compared with similar advanced economies, studies estimate the UK Brexit hit to be 2.3 per cent.

After the referendum, mainstream forecasters were even more accurate. The Office for Budget Responsibility got the size of the economy at the end of 2018 almost spot on. Its error was within 0.1 per cent. In contrast, the pro-Brexit lobby group, Economists for Free Trade, was far too optimistic and George Osborne's Treasury short-term shock scenario was much too pessimistic. They made opposite errors some 25 times larger than the OBR.

The lesson is simple: listen to economists, but not to those pedalling a political line. With such a good record over the first two-and-a-half years of the Brexit saga, it is not surprising the mainstream is still singing a similar tune about the long-term Brexit effects as they were three years ago. It will hurt, they say, potentially quite a lot.

We need to think clearly about the nature of the pain. Rather than making us poorer than in the past, Brexit is a deliberate decision to miss out on economic progress. It is not empty shelves and huge job losses, but a slow drip of lost opportunities, activity moved elsewhere and income disappointments. The correct analogy is Britain's slow, 30-year, relative decline from victor in the second world war to the sick man of Europe, not the immediate pain of a recession or a financial crisis.

A no-deal Brexit could impose an additional short, sharp, shock, and its severity would be entirely in the gift of Brussels. With the

ability to control transport and financial services, the EU27 will be able to choose how tight to turn the screw. In any negotiated and smooth Brexit, NIESR concluded in a recent study that “the losses . . . are larger the more distant the relationship with the EU that is established”. No deal is the worst outcome; staying in the EU is best. Putting magnitudes on these general predictions, NIESR estimates the UK would miss out on a further 2.8 per cent of national income with a close relationship, rising to 5.5 per cent in a reasonably orderly no-deal scenario. These are noticeable losses.

Good economics cannot tell us the right decision for Britain in these febrile times. But it has demonstrated that the vote to leave was bad for living standards. It predicts more of the same once Brexit happens. No one need follow the advice of economists, but we do need to face facts. Michael Gove was wrong, the experts were right and we should never get tired of listening to them.

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