

The economics of Brexit: what is at stake?

The impending British exit (Brexit) from the European Union creates some of the greatest economic challenges—and opportunities—of our time for the United Kingdom. Brexit triggers an array of questions on economic policy across a wide set of areas. The issues are heavily contested and understandably highly politicized. This issue of the *Oxford Review of Economic Policy* brings economic analysis to bear on the main issues, with the aim of identifying the principal questions and some of the possible effects, rather than providing any definitive conclusions at this extremely early stage of what is likely to be a very long process.

Many of the economic analyses and forecasts published in the run-up to the 23 June 2016 EU referendum were subject to heavy attack, as indeed were experts more generally (Mance, 2016). With only several exceptions (e.g. the Economists for Brexit group¹), economic forecasts anticipated negative short- and long-run impacts if Britain were to leave the EU (Dhingra *et al.*, 2016; Kierzenkowski *et al.*, 2016; IMF, 2016). Economic forecasts from HM Treasury (HM Treasury, 2016) attracted particularly strident critique, and were subsequently ridiculed when no recession emerged following the vote to leave (Tapsfield and Dathan, 2016). Nevertheless, one prediction came to pass: sterling fell to 30-year lows after the vote.

However, Treasury forecasts were based upon the assumption—following Prime Minister David Cameron’s repeated suggestions during the campaign—that the process for departure of the EU set out under Article 50 (see Barnard, 2017, in this issue) would be triggered immediately after the referendum (BBC, 2016). As it turns out, the new Prime Minister, Theresa May, has indicated that Article 50 will be triggered in March 2017 at the earliest. The Prime Minister announced on 17 January 2017 that she wanted to impose tighter controls on EU migration and leave the jurisdiction of the European Court of Justice. In return, she is prepared to give up membership of the European Single Market in the hope of a ‘new, comprehensive, bold and ambitious free-trade agreement’ with the EU (Blitz, 2017).² The formal Brexit process will take 2 years from that date, unless special provisions are made with the agreement of all 27 members of the EU. The full economic effects of Brexit, for good or for ill, will only be felt many years after Britain finally withdraws from the EU. In short, the impacts are all to come.

¹ See a list of publications here: <http://www.economistsforbrexit.co.uk/>

² Various commentators have concluded that the Prime Minister’s demands implied an unprecedented ‘hybrid’ customs union arrangement with the EU (Beesley, 2017).
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And, in large measure, they are a function of a large number of policy choices that will need to be made under intense time pressure.

Brexit is particularly hard to model for economists for at least four major reasons. First, there is very little history to draw upon for this sort of event. For instance, while the economics of trade integration is reasonably well understood and well modelled, such processes tend to be (i) gradual and (ii) in the direction of reducing rather than increasing barriers. In contrast, a relatively sudden, economy-wide increase in tariffs of the sort potentially implied by Brexit represents a ‘structural break’ (Hendry and Mizon, 2000) that is difficult to model quantitatively. Second, the variety of different effects to account for—as this issue demonstrates—is mind-boggling. Brexit potentially involves simultaneous policy shocks on trade, migration, macroeconomic policy, financial services, education, productivity, regional aid, competition arrangements and market structure, industrial strategy, energy, agriculture, and climate change, to name the subset of areas that are covered in this special issue. Third, the time lines are very long—the full impacts will play out over decades, not months. Fourth, there are a large number of other economic events and factors that make pinning any particular outcome on Brexit rather difficult. The complexity of the divorce from the EU, not to mention the effects of similar ‘exit pressures’ elsewhere in the EU, means that many currently ‘unknown unknowns’ will emerge over time.

Given the importance, significance, and uncertainty of the events that are yet to play out and decisions that are yet to be made, the *Oxford Review of Economic Policy* has brought together experts—yes, experts—in each of these major policy domains. They bring economic concepts and analysis to bear on their specialist areas, identifying the key issues and possible outcomes, rather than forecasting the future. In advance of the triggering of Article 50, and the 2 years of negotiations ahead of formal exit, our aim is to provide government and the interested parties with a better understanding of what is at stake.

The editors

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