

Should Britain leave the EU? Modelling trade

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The problem of EU protectionism

- Agriculture: current tariff-equivalent c 20%
- Manufacturing : similar, c 20%.
- Mainly non-tariff barriers
- Effects: raises UK prices to consumers, distorts production

Leaving EU for free trade, WTO

- Consumer prices fall 8%
- Manufacturing, food prices fall 10%
- Services prices fall 2%
- Manufacturing (ex-hi-tech) contracts, rest expands
- GDP, consumer welfare rise by 4%

How do Treasury et al get results?

- Gravity equations etc
- Past associations; Lucas Critique; selection bias
- Assumption: Protection remains
- (Optimal: move to free trade)
- Result: damage to currently protected without gains from new structure and lower prices

Short term from long term

- Main driver of sht term is long term via RE
- Volatility effects dubious: once new regime known uncertainty goes
- Main source of uncertainty is government!

UK and competition

- Competition from 80s boosted growth
- Protecting manufacturing: Infant industry?
- Open up to world competition boosts growth
- Reduce regulative burden on SMEs
- Keep City regulated by UK authorities

Worries about free trade

- No need for trade agreement with EU. UK can 'walk away', repeal 1972 EC Act.
- Or- in practice EU will want an agreement for some EU industries?
- Keep existing set-up for some industries for transition period ?

Importance of unimportance

- No small country affects world price of X by tariffs/subsidies.
- Hence no point in any trade agreements by UK with small countries post Brexit.
- Only effect: trade diversion.

Conclusions

- Brexit= free trade plus deregulation plus policy independence
- Consensus based on false assumptions and poor models
- Government, friends and relations ganging up to prevent disruptive supply-side reform