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**Final Paper in Economics:
What are the economic consequences of Brexit for the United Kingdom?**

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Introduction to Economics

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Introduction:

The European Union was created in 1951 by Belgium, France, Germany, Italy, Luxembourg, and the Netherlands with the goal to “promote peace and economic recovery” as the EU itself announces on its website (<https://european-union.europa.eu>). It was first called the European Coal and Steel Community (ECSC) then in 1958 it became the European Economic Community (EEC) and in 1992 it finally changed its name to the European Union (EU). This union is a supranational political and economic alliance of, as of 2022, 27 members.

The economic alliance of the EU is essential and brings many benefits to its members. They are part of a community which promotes democracy and stability which gives the countries time to focus on growing their economy. In fact, they account for 23% of nominal global GDP. Furthermore, they have free movement of labour, goods, services and capital and a free access to 450 million of customers. This means they do not pay taxes at the borders and can export more easily at a lesser cost. It allows the EU to compete with the giants which are the United States of America and China. The countries members of the EU have harmonized their economic laws to share for example a common trade policy and an agricultural policy and for 19 members a common currency: the euro. But the EU economic policy are not always what the countries need or wish for.

The United Kingdom (UK) joined the EU on January 1, 1973 and was the first and only country to ever leave the EU at 23:00 GMT on January 31, 2020. The Brexit or British Exit from the EU was voted by a referendum on June 23, 2016, in which 51.89 percent of the population voted in favor of leaving the EU and 48.11 percent voted against. Following were four years of negotiation between the UK and the EU and once an agreement was reached came an 11 eleven period of transition where the UK was still subjected to the EU laws but not part of any political decisions nor institutions. Nowadays, the UK is entirely separated from the EU.

This paper will discuss the positive consequences on the economy of the departure of the UK from the EU. Then compare and contrast with the negative consequences on the economy of its exit. Finally, it will show the economic situation of the UK and the consequences of Brexit on its situation while the world goes through a pandemic.

The positive consequences of Brexit on the United Kingdom:

Many economists are not in favor of the Brexit which they have proven through numerous research and models to show their protest. But some economists who are in favor called those researches the “project fear” because they believe it will lead to an economic regression for the UK in the future. Few economists have tried to expose the positive aspects of Brexit, but one, Patrick Minford has done so. Patrick Minford is a professor of economics at Cardiff University, and he was a founder and former director of Liverpool Research Group. Minford was a prominent member of “the Economists for Free Trade”, also known as “Economists for Brexit”. It is a group of economists who agree with the Brexit plan. This is one of the few organizations predicting a positive economic impact from Brexit.

In the article “Will Brexit boost or hurt the economy? Patrick Minford and Molly Scott Cato” published in the newspaper “The Guardian” in 2017, he demonstrates that, “the gains from a full Brexit will be £135bn – around a 7% boost to GDP, with the reforms also raising the longer-term growth rate”. The same article informs us that Patrick Minford is convinced that the pound devaluation can support the trade balance because it will promote the export of British goods and services worldwide. This economist believes that foreign trade will increase the UK economy “The recession simply has not happened: indeed, the economy has had robust growth and now, due to the large Brexit devaluation, is experiencing a strong “rebalancing” towards net exports away from consumption”.

Indeed, other sources concur with that opinion, a recent article from 2022 “Un an de Brexit: la City recrute à tour de bras, les échanges commerciaux avec l'UE au ralenti” from the French newspaper “La Tribune” establishes that the UK world wild exportations are increasing: “Cet optimisme vaut pour tous les marchés principaux de l'industrie britannique: 40% des entreprises s'attendent à voir leurs exportations augmenter vers les Etats-Unis”. Moreover, “Un quart des entreprises entrevoient des exportations en hausse vers l'Asie et un cinquième vers le Moyen-Orient”. Patrick Minford exposed to The Guardian another argument in favor of free trade: “the gravity model (a model from the economists who aligned themselves with “project fear”) does not fit the UK’s trade history

at all well: it cannot account for the surge in our service exports all around the world, or our huge trade with anglophone countries, or indeed the steady decline in the share of our trade with the EU. Our classical model, based on comparative advantage, by contrast fits these facts well. Our trade gain estimates are therefore based on the best model of UK trade". In other words, the economic model of the European market, based on trade with close neighbors, did not fit the UK because the country is historically bound by distant countries.

Moreover, according to the supporters of Brexit, the UK will have more sovereignty. Britain will have more control over its own legislation and regulation, without the risk of having counter-intuitive EU policies imposed on it. Indeed, the economist Minford states that the UK has "a government committed to free trade". In this way, the government can apply its free trade policy on a global scale and not only on the EU scale.

Brexit could have a positive impact on the budget and on the state finance because, according to Thomas Sampson's article "The Economics of International Disintegration" from The Journal of Economic Perspectives: "Open Europe (2015) lists 57 regulations based on EU legislation for which economic impact assessments by the UK government found higher costs than benefits. The net annual cost of these regulations is 0.9 percent of UK GDP". Therefore, according to the supporters of Brexit, the UK can reallocate the billions of pounds in EU membership fees to issues that matter more to British citizens.

Furthermore, Business and Employment seem to be positively affected by Brexit. According to those in favor of Brexit, better international trade agreements and more selective immigration have a positive effect on the British labor market. The EU was subjecting Britain to a slow and inflexible bureaucracy, which was a drag on smaller, more innovative businesses. "Faisant fi de la pandémie et de la sortie de l'UE, les banques britanniques ont embauché à un niveau record en 2021, doublant le nombre d'emplois disponibles, selon une étude de la société de conseil en recrutement Morgan McKinley", moreover, "Pour les trois mois achevés fin novembre, le taux de chômage a reculé à 4,1% contre 4,2% fin octobre." (2021) according to the article "Un an de Brexit : la City recrute à tour de bras, les échanges commerciaux avec l'UE au ralenti" by "La Tribune".

Supporters of Brexit don't believe immigration is good for the economy and Brexit will reduce the immigration rate. Economist Patrick Minford supports that "the cost to the

taxpayer of subsidizing unskilled EU immigrants has been estimated at £3500 per adult". They note "Immigration to the United Kingdom from EU countries increased rapidly from the late 1990s onwards" according to Thomas Sampson's article "The Economics of International Disintegration" from "The Journal of Economic Perspectives". Some supporters of the U.K.'s withdrawal felt that Britain's national security could benefit from full border controls, which it hopes to obtain outside the EU.

According to Brexit's supporters, Brexit allowed the United Kingdom to improve its economy by promoting free trade with countries around the world, mostly anglophone countries. They also assure that the pound devaluation will support the trade balance because it will promote the export of British goods and services worldwide. The United Kingdom could be free from several regulations that would help to develop British business and increase the investments in the country. Therefore, the country will have a decrease in the unemployment rate thanks to Brexit. For the supporters, immigration is an expensive cost, and the return of the country's borders will limit this cost.

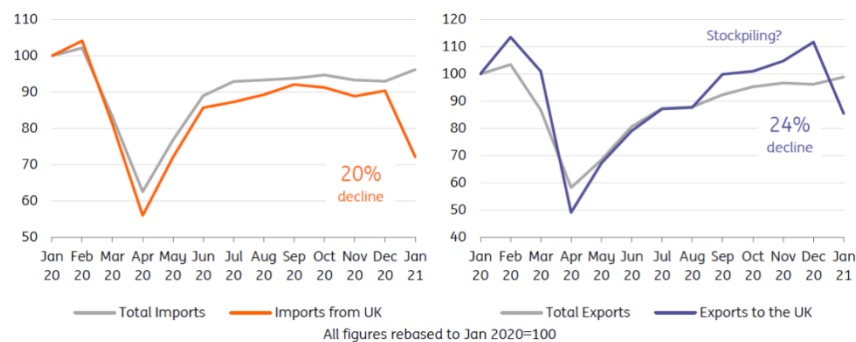
The negatives consequences of the Brexit on the United Kingdom:

By leaving the European Union, the United Kingdom has seen a lot of negative economic consequences such as the decrease of its Gross Domestic Product (GDP) and new barriers to trade.

At first, Brexit was characterized by two scenarios. First, there was the "soft" Brexit and then, the "hard" one which differed on how the relation with UE's Single Market is. The closer they are with it, the "softer" the Brexit will be and vice versa. Being in a "soft" Brexit would help with the economic shock even if they will still have to pay a contribution to the UE's Single Market, however, it will interfere with the independent trade policy the UK was trying to reach. In other words, if the UK enters on a "soft" Brexit, it will rely on the European Free Trade Association (EFTA) whereas in a "hard" Brexit scenario, it will rely on the World Trade Organization (WTO) in the harder case of "hard" Brexit (Anand Menon and Brigid Fowler, 2016). After a long debate, the question turned around whether making a "deal or not at all" between UK and UE trades. By the end, in 2020, they decided to enter a provisional free trade agreement where additional tariffs or quotas are inexistent.

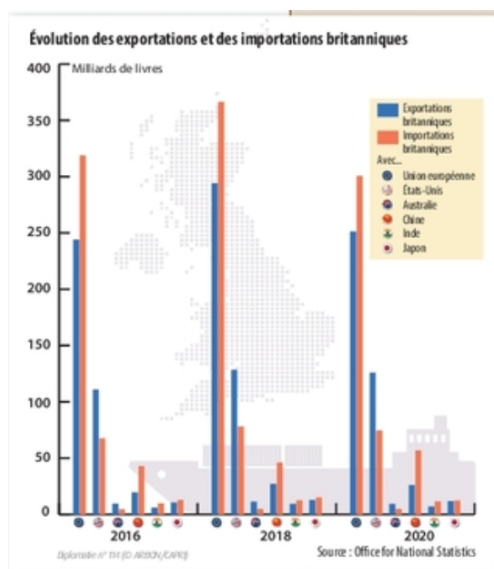
Furthermore, EU services had helped the UK trades which had increased between 212 billion£ and 400 billion£ a year, meaning that without the EU's services, arose large negative effects on the areas on which the services operate (Dhingra et al., 2017). On top of that, as Thomas Sampson demonstrated, the UE accounted for 53% of the UK's imports and 44% of its exports, in fact, those exports counted for 12% of the UK's GDP. Indeed, 60% of the UK's trades is either from the EU or a country that already has a free trade agreement with the UE meaning that quitting the EFTA is simply reducing the UK's total trade even with the succeeding of negotiating new trade agreements.

French trade data shows a clear 'Brexit effect' in January



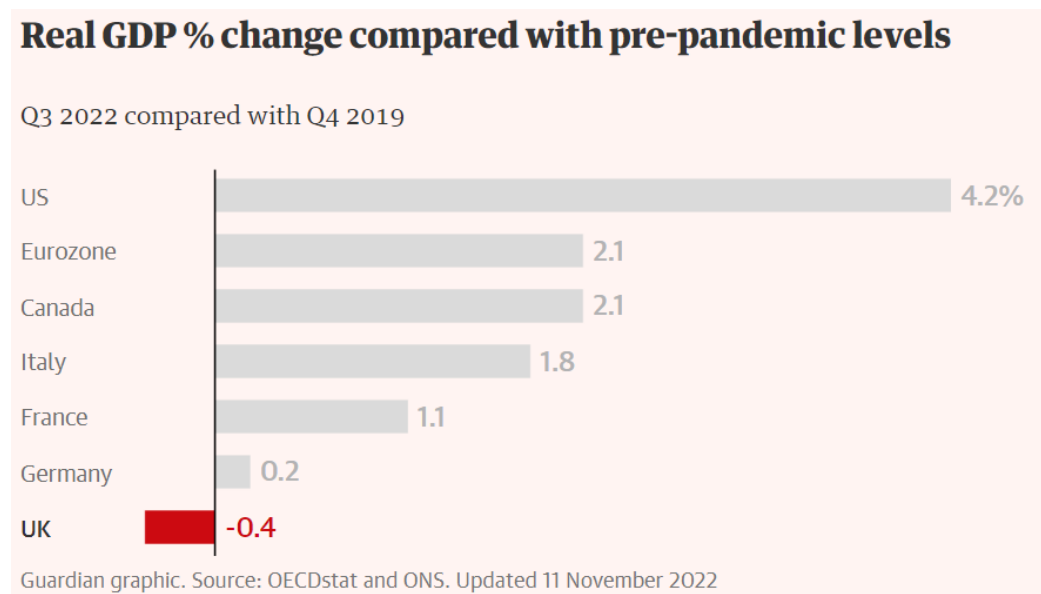
Source: Macrobond, ING

Furthermore, those two graphics represent the Brexit's effects over the imports from the UK and exports to the UK, in 2020, by French data. They put forward the idea presented before by showing a 20% decline in imports and a 24% decline in exports.



To continue, Fourton. C (2022) states that the Office for Budget Responsibility maintains that imports and exports are decreasing by 15% at the macroeconomic level because of the independence of the United Kingdom, a decrease that we can analyse in the graph above. Bilateral trade between the United Kingdom and the European Union has therefore decreased by 3.5% according to (Invest Monitor). Nevertheless, according to David. N (2022), imports from outside the European Union are increasing, with 23.2 billion dollars of imports from third countries. However, the total value of exports is still down with a decrease of 0.7%. In conclusion British imports and exports are currently only decreasing.

Moreover, leaving the EU will create a reduction in the foreign investment and immigration sectors. As Head and Mayer (2015) proved, with the example of the car industry, the trades costs will increase which will reduce production in the UK by 12%. Furthermore, Bruno, Campos, Estrin and Tian (2016) explained that there will be a reduction in the flow of foreign direct investments into the UK by approximately 22% due to the leaving of the Single Market. In other words, those two examples forecast the decline of the UK's output and standard of living (Dhingra, Ottaviano, Sampson and Van Reenan 2016).



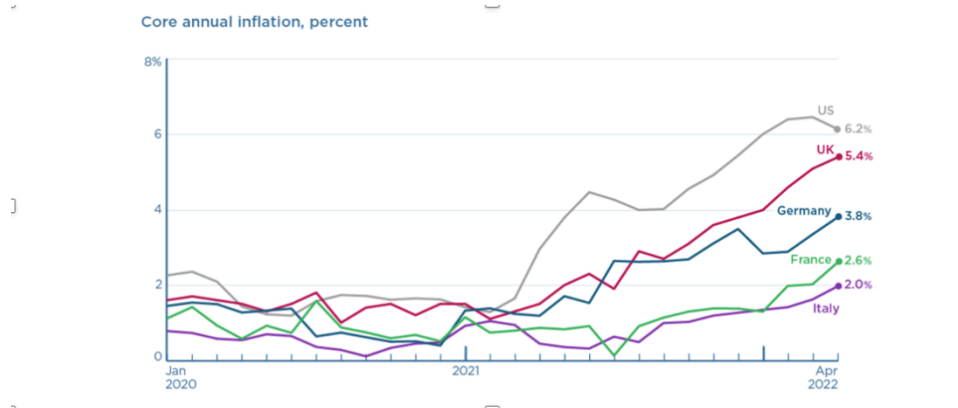
As a matter of fact, those predictions were not too far off from the current events. The UK's Gross Domestic Product (GDP) decreased by 0,4% whereas other countries increased with, for instance, the US by 4,2%. To continue, those economics activities create

a slowdown in the economic growth in the UK, also called a recession. In effect, Britain's output lowered by 0,2% between September and December 2019, said the Organization for Economic Co-Operation and Development (OECD). In opposition, France's output grew by 0,2% during the same period of time (Anna Isaac, November 2022). To put it forward, Samuel Tombs, chief UK economist at Pantheon Macroeconomics, said: "We expect the UK to be first to enter a recession, and the last one to pull out,".

Overall, leaving the European Union made the United Kingdom poorer by creating new barriers towards trades, a higher cost of production but also a decrease in the GDP. Therefore, the UK's output and standard of living declined and entailed a recession. It is also important to note that those data can be influenced by the pandemic of Covid-19 and that it is hard to differentiate if it is the Brexit impact or the Covid-19.

The economy of the United Kingdom after the Brexit as the world has undergone a pandemic:

Inflation compared to other countries. The global economy has recently been impacted by the COVID-19 pandemic and the problems caused by the war between Ukraine and Russia. Every country's economy has taken a hit and had to endure a recession during COVID-19 and then inflation followed. However according to Adam S. Posen and Lucas Rengifo-Keller (2022) the United Kingdom has a higher inflation rate than other countries. The economic difference that is emerging between the United Kingdom and other countries could be explained above all by Brexit, which would be the main reason for the high and growing inflation in the United Kingdom.

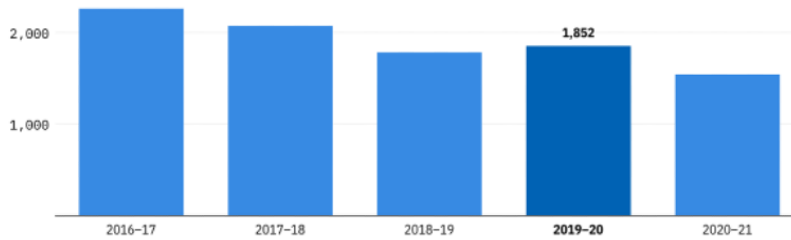


The UK is living through a cost-of-living crisis for British households. On this graphic, if we compare the inflation rate, we note that it is 1.6% higher than in Germany, 3% higher than in France, and more than 3% higher than in Italy. Furthermore, core inflation, meaning the change of price for the goods and services, in the UK catches up with core inflation in the US, with an increase of 6,5% in October 2022 for the UK. We also note that the inflation is increasing and is reaching its peak in the present time by going from less than 2% to 5.4%. According to Davies. N (2022) the GDP fell by 0.4% in February 2020, but while, according to OECD figures it increased by 14.3% between the second and third quarters of 2021, this growth rate is lower than the major economies of the European Union. Measured from 2016 to 2020, Germany prospered with a growth of 25.6%, while the GDP of France increased with 23% and Italy 16.3%. From Albert. E (2022) the economy of the United Kingdom did not stagnate, but still developed less than that of the European Union and other countries. More recently the United Kingdom GDP should have increased by 0.9% in November 2021, however today in November 2022 is estimated to have fallen by 1,5 since.

One of the main reasons for United Kingdom's inflation is mainly import and export as said in the previous part. Gallarco. C (2022) argues that the growth envisaged by the Office for Budget Responsibility in March 2020 had been higher than existing growth, Disadvantages such as lower consumption levels but especially a slowdown in the global economy due to COVID-19 and the conflict between Ukraine and Russia. The Office for Budget Responsibility now supports a possible decrease in commercial volumes to 8.3% for the last quarter of next year. This public finance association also predicts that migration will decrease from the current 224,000 per year in 2023 to 205,000 per year in 2026, which will result in a significant economic impact, high inflation. However, the total value of exports is still down with a decrease of 0.7%. In addition, the graph below shows a gradual decline in foreign direct investment (FDI). It is in 2020 and 2021 the numbers of FDI projects are the lowest.

UK FDI fell by 17% in 2020–21

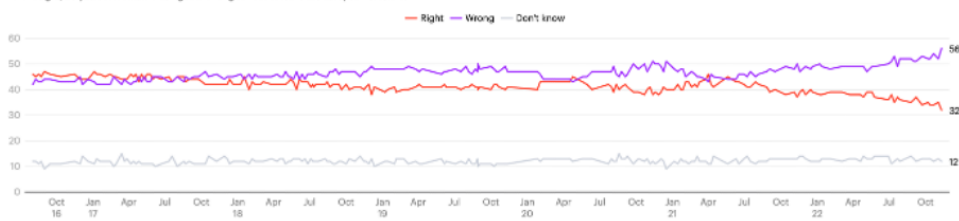
Number of FDI projects into the UK (2016–17 to 2020–21)



The current opinion of the population. In view of the inflation caused by Brexit it is interesting to ask what choices it must increase its economy and what the future looks like for the United Kingdom. Several surveys offer different views, the opinion survey analyzed by Roche, M. et Al. (2022) shows that less than 20% of those who opted to remain in the European Union would vote in favor of the departure again. Indeed, its independence would still have brought advantages such as opportunities to sign trade agreements with emerging countries under the Global Britain framework. In addition, Raven. P (2022) supports that one in five people who voted for Brexit regret their decisions. Following the 2017 elections, the percentage of people who thought voting for Brexit was a good decision dropped from 90% to 80%. Later, in June 2021, that percentage went from 88% to 70%, while those who thought it was a bad idea went from 4% to 18%. Currently, 56% of the British population voted that Brexit was a wrong decision, while 32% of the British population voted that it was the right decision.

Britons think it was the wrong decision to vote to leave the European Union by 56% to 32%

In hindsight, do you think Britain was right or wrong to vote to leave the European Union? %



One in five who voted for Brexit now think it was the wrong decision

In hindsight, do you think Britain was right or wrong to vote to leave the European Union? % of Leave voters



However, even though the voting percentage has tended to fall, it has remained at a high 80% to 90% since 2016. If the vote was to be redone the answers would be biased but there would be a decrease towards voting in favor of the Brexit, but nothing ensures a complete cancellation of the Brexit.

Conclusion:

The departure of the United Kingdom from the European Union has left a huge precedent for every Eurosceptic country and political party. For example, Poland is now talking about a “Polexit” which, like Brexit, means Poland Exit and while Poland’s decisions stand more on political ground, the country knows that economically it would not be better off leaving the EU. In fact, while the UK had high expectations for its economy after the Brexit such as more exports increasing its GDP because of the pound devaluation, more money to spend to dynamize the economy and the creation of more jobs. The UK also wants to lower the immigration rate because they would regain their national security as immigration was costing too much money. But as it turns out the economic consequences of Brexit were more negative than ideal in the UK.

In fact, its exports have only decreased since the Brexit as the EU’s free trade agreement made up 12% of the UK’s GDP. The country was also less subject to receiving foreign investments to stimulate its activity which led to a recession in its economy.

In 2019, the world lived through a pandemic which caused every country’s economy to go into recession but because of Brexit, the UK’s economy was worse off than that of France or Germany. The inflation is higher in Britain and as experts studied will take longer to go back to normal and the country also has a cost-of-living households crisis to deal with in this economy. Furthermore, if Brexit was put to a vote again 1 in 5 who voted in favor would not vote in favor again. And with the fine margin with which Brexit was voted it could be wondered what the issue of the vote would be.

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