

The economics of Brexit and Covid: a beginner's guide

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1. Why economics?

- The study of how people decide what to do with **scarce resources**, and the roles of **markets**, companies and governments in influencing these decisions
- Scarce resources include **time** (work or leisure?) and **money** (save or spend, and spend on what?)
- Good economics is about improving **people's welfare**
- Great for **all-rounders** (not just about maths!)
- Wide variety of **career options**
- Lots of **practical applications**

2. Agenda

- The benefits of free trade
- What Brexit is about
- The impact to date
- Longer-term costs and benefits
- The economics of Covid
- Q&A

3. What is 'free trade'?

- 'Free trade' happens when people and businesses can buy goods and services from whomever and wherever they like, including from abroad, without obstruction from governments
- In practice, trade barriers are common, including
 - tariffs (taxes on imports)
 - non-tariff barriers (such as red tape, quotas, and outright bans on trade)

4. Why free trade is a good thing

- Allows people, businesses and countries to **specialise** in what they do best (economists refer here to '**comparative advantage**' and '**economies of scale**')
 - more competition forces domestic producers to become more efficient
 - access to larger pool of capital for investment
 - sharing of skills and knowledge
- Consumers benefit from lower **prices** and more **choice**

5. Repeal of the Corn Laws

- 19th century tariffs and other restrictions on **imported grains**
- These were good for rich farmers and landowners, bad for everyone else
- Repealed under Robert Peel in 1846
- Resulted (eventually) in lower food prices and more efficient production
- Modern day example of gains from free trade: liberalisation of **New Zealand** agriculture in mid-1980s



6. Why is free trade still controversial?

- Despite this, many still argue that we need to be saved from 'cheap foreign imports'
- In part this is because trade barriers typically provide a large benefit to a small number of people who find it easier to form lobby groups and attract public sympathy
- It is difficult for politicians to resist calls that 'something must be done' to protect small farmers, or steelworkers – even though far more people would benefit from lower prices

7. Brexit: it's not just about the economics...

“I've never met anyone who's said...

I'd be in favour of Brexit if I thought the impact on GDP would be less than 2%, but I'll be in favour of Remain if I thought it was more than 5%

It's the issues of **identity** and **culture** and **politics** that are motivating people.”

Mervyn King, 2019
(Former Bank of England Governor)



8. Why the UK might be 'different'



- Closer **political ties** with the US, Asia and the rest of the world, including the Commonwealth
- Does a relatively large share of its **trade** with the rest of the world rather than the EU
- Strong **services sector** – especially the City of London (largely 'Brexit-proof')
- Global use of **English**

9. The EU's two main economic pillars

- Single Market
 - four **freedoms of movement** (goods, services, capital, people)
 - **regulations** that apply to whole economy
- Customs Union
 - no internal '**tariffs**' (taxes on imports)
 - common external tariffs
 - little scope for independent trade policy



10. Brexit means 'taking back control' of...

1. 'Borders': end free movement of people from the EU
2. 'Laws': leave the EU's Single Market and end jurisdiction of European courts
3. 'Money': stop paying into the EU budget



And we should add...

4. 'Trade policy': leave the EU's Customs Union
5. 'Fish'

11. The costs of Brexit uncertainty

- Even before Brexit itself, the 2016 vote to leave the EU had some significant impacts on the UK economy:
 1. The value of the **pound** fell, making imports more expensive and leading to an increase in inflation (only partly offset by a boost to exports)
 2. Business **investment** stalled
 3. Some business was lost from the **City**
 4. Net **migration** from the EU slowed (only partly offset by an increase from the rest of the world)

12. Brexit long-term economic costs and benefits

- Potential costs
 - new tariffs and non-tariff barriers for **trade** with EU
 - knock-on effects on investment and **productivity**
- Potential benefits
 - lower barriers to trade with **rest of world**
 - freedom to determine own **regulations** and **taxes**
 - savings on contributions to EU budget
- Could go either way
 - greater control of **immigration**
 - Impact on **real wages**

13. The economics of migration

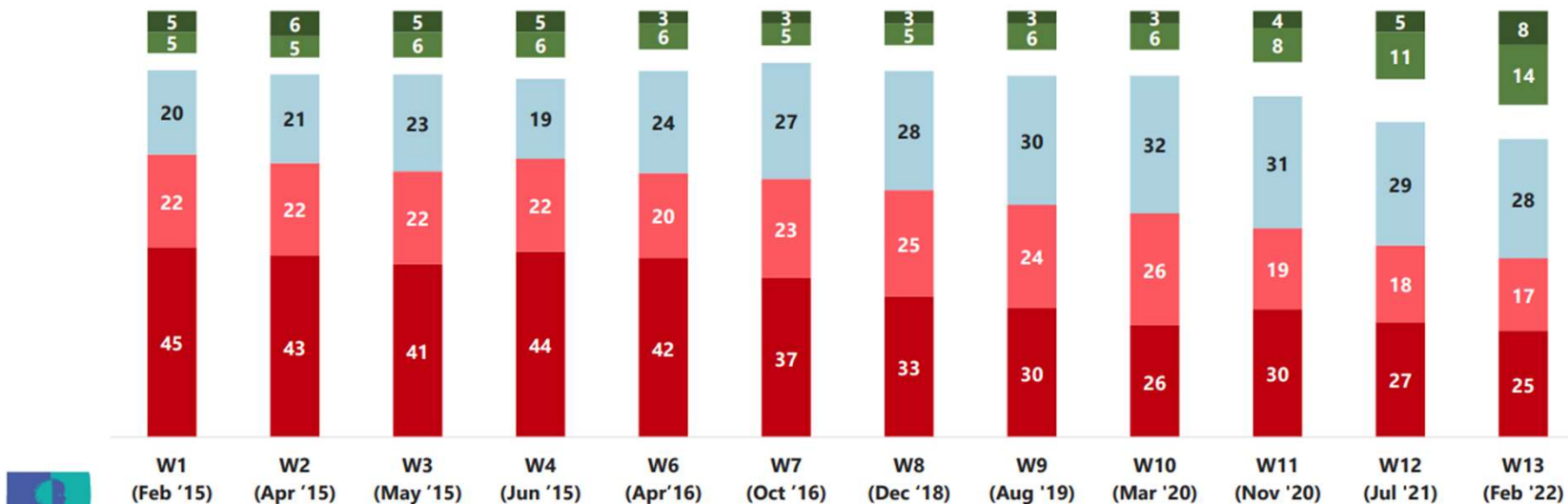
- Not much evidence that immigration has a significant impact on the **wages** of local workers – either way
- Migrants may ‘take’ some **jobs**, but they create others
- Migrants often have higher **productivity**, and contribute more both to the economy and the public finances
- ‘Low-skilled’ vs. ‘high-skilled’ distinction is questionable
- But people have voted for more **control** of migration, and a points-based system is a reasonable way to do it

14. Opposition to immigration is fading

The proportion of people wanting to see immigration reduced continues to decrease over time to its lowest point in the series (42%). Those wanting to see an increase have risen to 22%.

Q Do you think the number of immigrants coming to Britain nowadays should be increased a lot, increased a little, remain the same as it is, reduced a little, or reduced a lot?

■ % Reduced a lot ■ % Reduced a little ■ % Remain the same as it is ■ % Increased a little ■ % Increased a lot



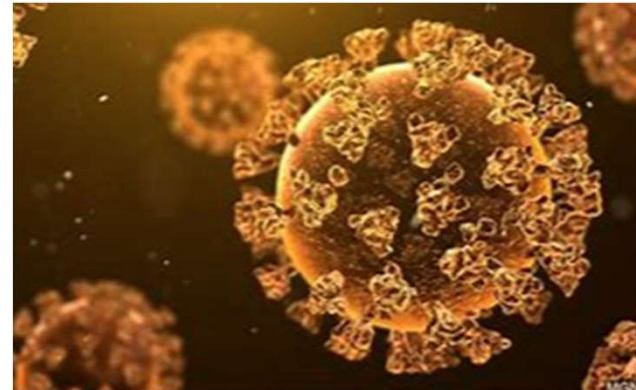
Base: All respondents (W1: 4574; W2: 3770; W3:3023; W4:2698; W6: 4002; W7: 4071; W8: 2520; W9: 2006; W10: 2100; W11: 2532; W12: 4000; W13: 3206);
Fieldwork dates: 28 January to 10 February 2022

15. Some conclusions on Brexit

- Costs of Brexit always likely to be more visible and immediate, benefits more broadly spread and will take longer. But **uncertainty** at least is now clearing.
- In the long run, the economics **could go either way**: will the gains from independent policies on global trade, tax and regulations be enough to offset increased frictions in trade with the EU?
- Jury still out on how committed this government is to free trade and open markets
- Brexit not yet '**done**' either!

16. The economics of Covid

- Why state intervention can be justified
- Putting a price on a human life
- Cost-benefit analysis of lockdowns
- Health vs. economy?



17. Covid 'market failures'

- Vaccines have wider social benefits on top of whatever a private company could charge for (protection from a deadly virus is a 'public good')
- Spreading a virus is a negative 'externality' (little incentive to avoid putting strangers at risk)
- Almost impossible to get private insurance against a national lockdown
- Large transactions costs involved in closing and restarting businesses, or firing and then rehiring

18. Should we put a price on a human life?

- Health economists often put a monetary value on people's lives based on the number of years they have left, and the quality of that life ('**QALYs**'). This is simply about using **limited resources** in the fairest way.

1. Suppose it would cost **£1 billion** to prevent just *one* premature death. Would this be worth it?

2. Imagine you are allocating the last seat on a lifeboat as the **Titanic** sinks, and have a choice between rescuing a healthy child or a sickly old man. Whom would you save, and why?



19. Benefits of lockdowns

Most visible:

- the reduction in illnesses and deaths from **Covid** itself

But also

- The prevention of **other deaths** and harms (to young and old) if the NHS is overwhelmed with Covid patients
- Reduction in other communicable diseases, e.g. **flu**
- Fewer deaths from traffic **accidents**, **pollution**, and so on
- A **stronger economic recovery** in the longer term from getting on top of Covid more quickly

20. Costs of lockdowns

Most visible:

- The collapse in **economic activity**, including business closures, job losses and lost income
- The impact on the **public finances**

But also:

- Harms done to people with other conditions (e.g. **cancer patients**) not receiving the care they need
- Costs to **mental health** and wellbeing
- Harm to **education** and **job opportunities**
- Damage to **civil liberties** and confidence in government

21. Conclusions on Covid: “health vs. economy”?

- There is some **trade-off** between preventing premature deaths and protecting the economy
- But if the virus is not controlled, people might choose to stay at home, and the economy would be hit anyway
- Locking down harder and sooner may increase the hit in the **short term**, but reduce it in the **long term**
- Equally, people may change their behaviour without being forced to do so by the government (which is why a lot of the SAGE modelling has been too pessimistic)
- The **vaccines** are a game-changer

Any questions?

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