

## Written evidence submitted by Dr Marek Laskiewicz (FRE)150

### Introduction

No-deal is regarded by some as a disaster. The economic predictions<sup>1</sup> and media statements by politicians<sup>2</sup> and business organisations<sup>3</sup> are very negative. The paper agrees with No-deal being not the best option but ipso facto only worse to degree, not a bad option in itself; rather it asserts that No deal is simply not the best outcome.

Thus No deal should not be regarded as a mere fall back or a zero option if all else fails; instead it should be seen as an option in its own right. Once this step is taken, it is clear that No deal offers some advantages: it is not a disaster and should not be so regarded; indeed every Deal should be measured against it.

Thus this paper counters some of the overly negative opinions expressed about a No deal Brexit. These advantages should now be taken into account in future economic predictions and media statements by politicians and business organisations.

### Analysis

No deal Brexit has some advantages for the UK, though there are attendant problems. Given this analysis, there are some immediate corollaries. Nonetheless there other pressing issues, which are economically just as important as Brexit, whatever its eventual shape.

#### No deal Advantages

There are four economic advantages to No-deal as opposed to a continuing state of Non-deal, ie. a continuation of the negotiations for post-Brexit UK-EU relations.<sup>4</sup> There are of course many other aspects such as the UK regaining control of its borders or new non-EU trade agreements, which are not considered here because the economic case is not relevant or unclear.

The first and most important is that No-deal will finally bring to an end the long three year period of uncertainty with its associated economic costs because of a continuing state of Non-deal, in particular a continuation of the trade negotiations for post-Brexit UK-EU economic relations. This is estimated at 2% of the GNP p.a.,<sup>5</sup> hence £40bn p.a. as the UK economy is roughly £2tn,<sup>6</sup> though initially officially forecast at 0.7% for 2017 and now appraised at 2% overall,<sup>7</sup> hence at roughly £13bn p.a.

The second and more obvious is that the UK will not have to pay any more contributions, currently running at £9.1bn p.a. over the last three years and £9.442bn in 2019.<sup>8</sup> This is a direct cost to the UK and so a direct, obvious saving when they cease.

Another hidden advantage is that the UK's overall Balance of Trade [BoT] may well improve because it is running at a loss with respect to EU, £73.2bn in 2019, and indeed has been running at deficit for decades, notably recently £69.6bn p.a. 2016-19.<sup>9</sup> This is an indirect cost for the UK. If the volume of trade decreases under No deal, this surplus will presumably also decrease to some extent; moreover this improvement will be helped if the pound slides

down, as expected by this paper. This deficit is tantamount to an indirect contribution by the UK to the EU and so will be an indirect, hidden saving for it.

The final advantage is that whilst the EU is indeed huge market,<sup>10</sup> it is not business orientated, whence its over-regulating.<sup>11</sup> So the UK's economy would grow as a result of more unhampered business activity; this consequence is hard to quantify, but is estimated at 2% p.a., hence £40bn p.a.<sup>12</sup>

The effect of these advantages is to give the UK roughly an extra £120bn p.a., ie.

National saving = uncertainty end + contributions end + BoT deficit end

= £40bn p.a. + £9.1bn p.a. + £69.6bn p.a.

= £118.7bn p.a. = £120bn p.a. (2 s.f.).

Of course the official uncertainty end estimate is lower, and the volume of trade with the EU might not fall to zero; then again the end to over-regulation will be if some benefit, so this overall national saving of £120bn p.a. stands.

### No deal Problems

This paper does not question that there may be much trade disruption, notably in supply chains for supermarkets and manufacturing, especially any just-in-time operations – indeed there may well be chaos.<sup>13</sup> However if such companies plan for Brexit, this disruption should be minimised, potentially even minimal.<sup>14</sup>

Likewise any disruption and in particular chaos may cause the pound not so much to slide as to crash down. However again even in this nightmare scenario the pound will recover to some degree in the medium term as the any disruption is coped with, hence it will eventually turn out to be a slide overall. Indeed it will eventually recover in the long term from even the slide because of the above advantages; thus the the overall long-term effect will eventually turn out to be neutral, not a crash for ever and ever – and may indeed even rise as these advantages are fully realised.

In any case owing to the new strain of Covid-19, the UK is about to have a taste of the No deal disruption as France cuts off trade with the UK.<sup>15</sup> Interestingly no one, not even the populist media, has commented that this Coronavirus embargo will occasion just-in-time or supply chains chaos, which supports this paper's analysis that any No deal disruption will be short term and minimal.

Therefore any change-over problems will only be short-term, so trade and the pound will recover somewhat with medium-term effect being that of a slide overall. So although the trade with the EU will presumably be diminished as a result of a No-deal, it will not be zero, the other advantages thereafter starting to have a beneficial effect hence improving the long-term prospects for the UK.

Moreover the forex prediction of a slide or a crash is only ceteris paribus; for if this paper were to be noted, the pound might well only drop a little, if at all, once the forex market realises that the existence of the above long-term advantages of a No-deal as opposed to the ongoing stagnation of a Non-deal.

Furthermore although there will probably be a rise in unemployment as the volume of trade falls, this will be offset by import substitution; it will also be diminished by the extra money available to the UK as a result of the above advantages for tax cuts or investment in the UK. This whilst the actual effect in detail will not be simple,<sup>16</sup> of a certainty it will not be necessarily all bad.

The effect of these problems is to dramatically reduce any benefit to the economy of a No deal in the short term, though less so in the medium term. However there will still be some saving for the UK; moreover in the long term the prognostications are unclear as the problems might be entirely overcome. Consequently there would presumably be some negative effect, though not necessarily substantial or even actually occurring. Thus it would be better to state that the UK has potential savings of *up to* £120bn p.a.

Therefore whilst some short-term disruption upon a No deal implementation will presumably occur, it will pass by the medium term – indeed with a modicum of business and engineering planning, it might be greatly reduced, possibly to zero to all intents and purposes. In addition although a good Deal is unquestionably the best option, hence a No deal is sub-optimal, it is probably unattainable in the present circumstances. Therefore the problems of a No deal must be noted of course, yet should be neither harped on nor obsessively focussed on; for they are but passing by nature.

#### Corollaries

Although the national savings are only up to £120bn p.a., even so they will exist at some level. Consequently there are three corollaries to this No deal advantages analysis. Quia corollaries they are by definition of secondary importance, nevertheless they do exist and are worth presenting.

The first one is a regret. It follows that as there are these advantages for No-Deal, it would have been better to have left before, ideally three years ago.<sup>17</sup> There have consequently been three years of wasted growth, whose cost dwarfs the advantages of any deal.

The second corollary is the most important. It follows that the UK should not seek a Deal at any price. Indeed although a Deal is better than a No-deal, this is valid only if it is a good Deal; for not only is a No-deal better than a Non-deal, as stated above, it is also better than a mediocre Deal - indeed even a Non-deal is better than a bad Deal. So any Deal should in principle be costed and rejected if it is worse than a No-deal; in other words, every Deal should be economically compared with a No deal. It is underlined that this paper presents No deal as a positive option hence any Deal must be superior to it in order to be worth agreeing to; for as repeated, No deal is not a negative option, pace its innumerable critics. Thus it is imperative that the government is not stampeded by anti-No-deal doomsayers into signing up to any Deal going, which is what happened to a degree when the UK entered the EU in 1973.<sup>18</sup>

The third is that the EU in the long term may well become more amenable to a Deal as its economy suffers without the UK's direct and indirect contributions; for its economy over time without the UK contribution and balance of trade surplus, which is a hidden contribution, will not be as strong as it appears right now.<sup>19</sup> This does not mean, though,

that the EU needs a Deal or indeed the UK more than the UK needs it, as Brexiteers have claimed.<sup>20</sup> Instead it is simply asserted that this effect implies that there is a strong possibility of an eventual Deal once the UK has left and the curtain finally brought down on the seemingly-interminable negotiations; for there is undoubtedly a possible Deal out there to be made – albeit that compromise will be needed on both sides to make it happen.

Finally it should be emphasised that even if the national savings are only up to £120bn p.a., these are still attractive at whatever level they settle out at. Arguably this is a fourth corollary; if so, it is the most important one of all.

### Other issues

Of course it is true that few voted for a No-deal.<sup>21</sup> Nevertheless the current situation is what it is and so must be coped with somehow.

Actually a far bigger threat here and now to the economy is Covid-19.<sup>22</sup> And just as important a threat in the very long run is the environmental degradation.

### **Discussion**

The main finding of this study is that No deal is an option in its own right. It will not be a disaster as has been widely suggested. Instead it is a positive option in itself, superior to a Non deal or a bad Deal, though inferior to a good Deal.

Once new idea of No deal being a reasonable option is accepted or at least understood, there are policy implications in how to prepare for this if need be. The national approach should be a positive one instead of the current view of No deal being an appalling failure.

The limitations of this study are that it did not consider possible good Deals. However this paper does not negate the advantages of a good Deal, if one were to be struck. Nevertheless it asserts that a No-deal will not be the end of the UK, nor anything like as bad in the medium term as some warn, let alone in the long term.

### **Conclusion**

As a No deal is likely, the UK should prepare for this – and without trepidation but rather treating it as a reasonable option. After all, not losing out on up to £120bn p.a. is not without its attraction.

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### **References**

- 1) See *One month to Brexit: Counting the cost of 'No deal'*, Fraser, D., BBC News, 29-11-2020, and the recent LSE economics model predictions, see *No-deal Brexit could cost UK more than Covid, report finds*, O'Carroll, L., The Guardian, 23-09-2020.
- 2) These warnings are not new: the former Chancellor Philip Hammond has for years warned of extreme No-deal costs, often claiming it would cost £90bn p.a., see *No-deal*

*Brexit would mean £30bn-a-year hit to UK public finances, says OBR*, Giles, C., Financial Times, 18-07-2019.

3). See *Johnson warned by business on 'hugely damaging' no-deal Brexit*, Thomas, D., Financial Times, 01-07-2020.

4) *'Non-deal' Brexit is the most damaging of all*, Laskiewicz, M., letter, Financial Times, p.8, 22-07-2019; the term Non-deal was coined by the author for this letter.

5) Analysis of data sourced from the World Bank suggests it was 2% as the UK GNP now GNI has overall flatlined 2016-19 at \$2.8tn, see <a href='https://www.macrotrends.net/countries/GBR/united-kingdom/gnp-gross-national-product'>U.K. GNP 1970-2020</a>. [www.macrotrends.net](https://www.macrotrends.net) Retrieved 2020-12-19, instead of growing at the average of 2.2% GDP during 1980-2014, see *Trends in the UK economy*, Office for National Statistics, 27-02-2015, though GDP is not precisely GNP, hence the estimate is conservatively rounded down to 2%.

6) £2.17bn in 2019, see *Gross Domestic Product: chained volume measures: Seasonally adjusted £m*, Office for National Statistics, 12-11-2020.

7) See p.11, *Uncertainty, the economy and policy*, Carney, M., Bank of England, 30-06-2016. Subsequently the BoE has estimated the Brexit process, ie Non deal, to have cost the UK 2%, see *Carney sees silver lining after Brexit hit to UK economy*, Schomberg, W., Galloni, A. & Pattanaik, S., Reuters, 15-02-2020.

8) See *The UK's contribution to the EU budget*, Keep, M., Research Briefing, House of Commons Library, 11-08-2020; it was £10.763bn in 2015.

9) The UK has had a negative BoT with the EU every year from 1999 to 2019, see p.18, *Statistics on UK-EU trade*, Briefing Paper #7851, House of Commons Library, 10-11-2020.

10) GNI \$15.6tn in 2019, World Bank.

11) The regulations have partially annulled the benefits of having a common market, see *Counting the Cost of EU Regulation to Business*, Ambier, T., Chittenden, F. & Bashir, A., Eurochambres, Brussels, 2009.

12) There is no reference for this; it is the author's own estimate; it might as be too low because over-regulating has a double effect of directly banning certain activities and indirectly putting off permitted ones since they become so time-consuming to activate.

13) See *Could Brexit spell the end for 'just-in-time' production?*, McCann, P. & Argiles, R., UK in a Changing Europe, 20-04-2018. The author of this paper, being a Chartered Production Engineer (IProdE), now amalgamated into the IET, doubts that any short-term problems can annul forever the benefits of just-in-time because of its huge working capital saving.

14) There is of course much information published by the UK Government under Brexit Transition, including on its website [www.gov.uk](http://www.gov.uk)

15) At the time of writing, see p.4. *UK put into isolation by Europe*, Binns, D., Metro, 21-12-2020.

16) See *Does the EU need us more than we need them?*, Walker, A., BBC News, 23-12-2018.

17) The author would have had the UK leave the EU as soon as possible after the referendum result; for knowing the EU negotiates on the basis of linkage, hence his letter proposing a part-Deal was unlikely to succeed, see *A compromise on May's deal can avoid disaster*, Laskiewicz, M., Financial Times, p.12, 29-08-19, he was never sanguine about the possibility of a quick successful Deal with it.

18) In particular the UK surrendered its fishing in order to join the EU in 1973, see *Fishing: The Great Betrayal*, McCallion, R., Briefings for Britain, 04-10-2020.

19) As stated in the author's lecture *Brexit: Consequences and Opportunities* at The Polish University [PUNO], 31-01-2020.

20) See Brexit warning: *EU needs trade deal MORE than UK – nothing to gain from hanging on*, Withers, P., Express, 06-03-2020.

21) See *Nobody voted for no deal in the 2016 referendum*, Peat, J., The London Economic, 14-05-2019.

22) As the Chancellor Rishi Sunak recently said, though the BoE governor stated otherwise, see *No-deal Brexit to cost more than Covid, Bank of England governor says*, Partington, R., The Guardian, 23-11-2020 – a possible approach to mitigate to the economic problems occasioned by Covid-19 was proposed by the author, see *Written Evidence (Emp0067)*, Laskiewicz, M., Employment and Covid-19 Inquiry, House of Lords Economic Affairs Committee, 08-12-2020.

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