

Alice in Chequers-Land: The Government's latest "analysis" of EU exit

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Today, the UK Government published its long-term economic analysis of EU exit (HM Government, 2018a). Billed as the long-awaited "impact assessments" of how the UK's proposed exit will affect the regions and nations of the UK, it is hoped that the document and accompanying technical paper (HM Government, 2018b) will help rally the country behind the proposed Withdrawal Agreement and accompanying political declaration.

The Government has been roundly criticised as the documents suggest that any variant of leaving the EU will leave the UK poorer (Elgot, 2018). However, in many regards this is unfair: the overwhelming majority of academic economic evidence has long suggested this to be true (see, e.g., Bailey & De Propris, 2017; Born, Müller, Schularick, & Sedláček, 2017; Dhingra, Ottaviano, Sampson, & Reenen, 2016; Dhingra, Ottaviano, Sampson, & Van Reenen, 2016; HM Treasury, 2016). As such, the argument that the Government is minimising these economic costs whilst carrying out the political imperative of leaving the EU (as per the 2016 referendum) is not unreasonable.

Our critique of the analysis is rather more fundamental: it doesn't actually analyse the consequences of the Withdrawal Agreement. Specifically, the analysis compares 4 scenarios:

1. 'No deal' – a default to WTO status, leaving all EU agencies and facing similar tariff and non-tariff barriers to other members without a trade deal.
2. A 'normal' Free Trade Agreement – this would entail an agreement similar to most FTAs, removing all tariffs and reducing non-tariff barriers. This might be similar to that agreed with Canada, for example.

3. Remaining a member of the European Economic Area – this is most similar to Norway and is seen as not fulfilling the political desire to end the free movement of people.
4. The Government's Preferred arrangement.

Crucially, however, the 4th of these is not based on the legally-binding Withdrawal Agreement, but rather uses “trade cost estimates based on policy assumptions set out in the Government's July 2018 White Paper” (HM Government, 2018a, p. 17). As eagle-eyed readers may recall, this is not the Withdrawal Agreement negotiated but rather the Government's original “Chequers” proposals. These go well beyond the scope of the negotiated agreement in important ways.

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Firstly, the so-called “Chequers” plan assumes “continued **frictionless access at the border to each other's markets for goods.**” (HM Government, 2018c). The Withdrawal Agreement is silent on this – apart from Northern Ireland, which would continue to follow EU legislation in relevant areas. Indeed, although the so-called ‘backstop’ does imply membership of a customs union with the EU, this is not sufficient to guarantee zero frictions at the border as the example of Turkey amply demonstrates (Merrick, 2017; Srivastava & Barker, 2017).

In addition, the latest economic assessments imply that the UK would be able to simultaneously avoid any non-tariff barriers with the EU *and* diverge from EU regulations *and* sign “ambitious” new free trade agreements with third parties (as well as maintaining all the benefits of existing ones). It is impossible to see how this is likely to be possible with existing technologies and the EU has already ruled them out during negotiations, in addition to which they don't respect the EU's ‘red line’ over the indivisibility of the so-called “four freedoms”.

The remainder of the assumptions are based, not upon the concrete legal framework set out in the Withdrawal Agreement but rather the Government's aspirations for what a future relationship might look like. Quite frankly, although the technical analysis is very good, such assumptions mean that the assessment bears as much relation to reality as Lewis Carroll's “Alice in Wonderland” bears to the Encyclopaedia Britannica.

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