Are Brexit's Transaction Costs levelling down UK's global super league position?

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The Transaction Cost Economy

In May 2015, I was on a Brexit discussion panel with a Conservative local councillor and a former Cabinet Minister. It was not the most edifying experience given the audience was dominated by Leave.EU supporters who on being informed that Brexit would lead to increased transaction costs derisively responded: "Wot's Dat?" This response showed a more profound problem that went beyond the 2016 Referendum campaign. That is, the general lack of understanding of how modern economies work, that appears to afflict not only large numbers of the public but many of their political representatives and media commentators.

It is rumoured that former British Prime Minister Harold Macmillan responded to the question of the biggest challenges to government by saying "events dear boy

events". In the same vein, it could be argued that the response to challenges of Brexit and its impacts on different places should be "transactions costs dear people transactions costs".

Transactions Costs Economics (TCE) is closely associated with the work of the economist, Oliver Williamson, who defined transactions costs broadly as the costs of running the economic system of firms. For the Nobel prize winning economist, Kenneth Arrow, transaction costs are the "costs of doing business." A simple example is that after 31st January the European Health Insurance Certificate (EHIC) is no longer available to UK citizens travelling in EU countries. Applying for its free replacement Global Health Insurance Certificate (GHIC) is a transaction cost.

(NIP)ping threats in the bud?

The most recent famous (or infamous) post-Brexit example of increased transaction costs is the impact on Great Britain (GB) – Northern Ireland (NI) trade because of the Northern Ireland Protocol (NIP) of the EU Withdrawal Act (EUWA). The NIP is the best of a bad job of a poorly thought through contract that is the EUWA, ostensibly produced to avoid weakening the Good Friday Agreement, by placing a border down the Irish Sea. Consequently, the Northern Ireland economy has become a hybrid one in which trade between GB and NI is asymmetrical. These issues along with new customs declarations, disrupted supply chains, empty shelves in shops and diverted transportation of goods via Republic of Ireland ports have been well documented with consequent increases in transaction costs.

The political fall-out from potential legal disputes with the EU and violent reaction to the perceived threat to Unionism in NI also significantly increased transaction costs that cannot be reduced with a bit of sandpapering and buffing of the present regulations. Whether these are short-term "teething problems" is an open question. It does suggest, however, that the new Global Britain is unlikely to rule the international economic waves, at least in the short to medium term.

If the NIP was the only source of increased post-Brexit transactions costs, then some of these difficulties could be ameliorated. But it seems that every day there is news of another teething problem following the EUWA, including *inter alia*:

- Volatility of monthly trade flows between UK and the EU in first quarter of 2021;
- Delays in some UK-based automotive manufacturers receiving parts their EU-based plants leading to delivery delays and potentially lower UK sales;
- Threat of legal action by fishing firms against UK government for over EU ban on UK shellfish exports as the UK is now a Third country for the EU;
- Increased costs to online business and consumers trading between the EU and UK due to Value-Added Tax (VAT) changes and other compliance costs;
- A five-fold rise interchange fees charged by a number of credit card providers to European merchants selling into the UK markets.

Not only do all these outcomes have sectoral implications but also regional ones in that levelling down is more likely than levelling up in the current context.

Global Britain's super-league membership?

The present global conjuncture of the Covid-19, notwithstanding, the trajectory of the Global Britain strategy appears to be faltering due to rising transaction costs following the EUWA. It seems analogous to the public declaration of a new European football super league and its rapid denouement a few days later: a classic case of "transactions costs dear people transactions costs". A related example is the reported bizarre comments by allies of Liz Truss, the UK Secretary of State for International Trade about the Australian Trade Minister, Dan Tehan ahead of trade negotiations by both countries. For extra gains from the current total trade flows of £28bn (compared to £668bn with EU in 2019), upping the transaction costs of a prospective new deal appears inexplicable if you want to get promoted to the Global economic super league.

In both cases, returning to transactions cost economic theory may provide some insight. The theory suggests that each type of transaction produces coordination costs of monitoring, controlling, and managing transactions. These costs should be distinguished from production costs so that decision-makers can choose the appropriate firm or market structure market by comparing transaction costs with internal production costs. Overall, the theory posits that minimising the costs of exchange achieves economic efficiency. The lesson seems to be that If you want a European football super-league of a Global Britain economy based upon achieving economic efficiency, overlooking or ignoring transactions costs is likely to get you relegated.