

# Industrial and Regional Analysis in Britain's Brexit debate

This paper was first drafted in the period between chaotic scenes in the UK Parliament from December 2018 and the legislated date for the UK to leave the European Union in March 2019, and this extended summary written during April 29.

Watching the television, sometimes into the small hours, I was fixated, amused, ashamed and angry. Sometimes I was quite impressed, even by people I don't agree with and consider myself radiologically opposed to.

In the current climate of political debate in the United Kingdom it is very difficult to be dispassionate about the issues, a matter which is address in a box included in this paper. To do so would be likely to make the paper much less readable, so for presentation purposes I will not even make the attempt in this version. Time enough for measured language in later editing and in preparation for formal publication.

The chaotic scenes shown on television included the first time a Government has been held in contempt of Parliament, and the heaviest parliamentary defeat a Government has suffered in the democratic era. Now the decision period has been extended, but the issue is by no means resolved. We will see where things stand at the time of the conference.

Brexit, if it actually occurs, will be the most abrupt large-scale deliberate rebirthing of trade relationships in peacetime. A nation priding itself on naturally conceiving the first Industrial Revolution, is committing to unplanned Caesarean section for another.

This paper examines aspects of debate and analysis in and out of Parliament likely to be of interest to IIOA members. A bare dozen studies of the economic impact of Brexit have been published. Only one was positive, and that with heroic prescriptions. Others were promptly dismissed by pro-Brexit factions as prejudiced

Parliament showed, alongside rhetoric, ideology and rowdiness, the manifest concern of almost all Members to reflect the interests and beliefs of their constituencies, which vary widely across the country. Evidence and measurement were almost absent, and industrial matters were discussed almost entirely in terms of representations made by constituency businesses, lobbying by national businesses and associations, and TV news cameos.

After discussing some aspects of the argument, the first part of the paper reviews the studies, their sectoral content where it exists and is accessible, and the relationship of the models they use to input output, computable general equilibrium, social accounting and the like..

The second part summarises our own studies, which are ongoing and will be brought up-to-date immediately before the Conference. We use DREAM®, a very

detailed regional economic accounting model of the UK and the Republic of Ireland. DREAM® models > 150 products/industries in >150 localities, and has developed through more than 200 applications over the past twenty years.

## Structure of the argument

The argument: both in parliament and the community, has tended to be political not economic. It has been about power and process, after both the Conservative and Labour Parties made promises at the last UK general election that they would 'implement' the results of the 2016 national referendum to an attempt to change the British constitution by means of party manifesto.

Standing here, it is a curiosity that at the time of the election these undertakings had very little impact in Scotland. This no doubt both because Scotland voted by a large margin to remain in the European Union, and because the two larger UK parties had very few sitting members of parliament, and few known media face. The Scottish National party easily dominated, even more than it does now.

The balance in Scotland has meant that a key feature of the Westminster debates has been the prominence of the SNP, which even from a population base of only 9% of the UK is the third largest party in Parliament.

Where the debate has been economic it has, as may be considered normal, focused on the macroeconomics, and on relatively gross macroeconomic measures. This is partly because the detail of what has been done has not been presented even by the analysts, and what has been displayed may not have penetrated very far into the minds and mouths of decision makers.

## Studies to date

About 15 studies of weight have been published, most well summarised in a paper by the Institute for Government. Only one of them suggests that Brexit will have a positive impact on the United Kingdom economy.

This adopts the longest time horizon, (30 years) and an ideological position about the functioning of markets. In particular it determines that Britain's competitive advantage lies in the service sector, and that world markets will function relatively effectively and without friction, so that comparative advantage shapes the economy.

Its scenario therefore is that the agricultural sector, in which the UK is relatively uncompetitive, all but closes down, and so does manufacturing. Britain's international trade is based entirely on services, although it appears there would be some internal production of food and goods. Although on this time horizon this would be to the benefit of the Next Generation it would be surprising if many in the current generation, even the most ardent Brexiteers, would be comfortable if the implications were fully set out.

The other 14 cases show variations from a small negative to a sizeable negative effect.

They were almost all dismissed by Brexiteers as the product of their authors' prejudices rather than dispassionate analysis. The view of the Institute for government is that the analysis across the range tends to produce similar results, so that the difference between those results is primarily a consequence of the assumptions used in. The present author, who was an economic forecaster 40 years ago and has and observed the modelling industry since, can certainly discern that those assumptions represent the political, ideological and methodological positions of the various groups, and their economic interests.

This means that the official forecasts can probably be viewed as the most neutral of all. They too were heavily castigated by Brexiteers. For example the Governor of the Bank of England was attacked by some on the right, even though on his appointment in 20XXX, Mark Carney was seen by some as an apologist for right wing capitalism.

The sectoral detail in the text available is very limited, and, as most of the forecasts are based on macro economic models where at best a handful of sectors are represented, mostly in response to the pattern of demand produced by a Keynesian demand-driven model.

Since Parliament is geographically concentrated then sectoral issues are frequently seen as local, but any detailed analysis is converted to regional and local terms, to reflect the constituency structure of an MP's mandate.

In some commentary this is stretched to generate regional differentials in the forecast, for example to suggest that models showing a good future for the service sector will benefit London and the Southeast, whereas those suggesting better prospects for manufacturing will benefit the north in relative terms.

Only in one forecast is there significant regional and sectoral disaggregation. It had some surprising conclusions, for example that Aberdeen would be the third most affected city.

It is the XXX forecast by the London School of Economics. This draws on the regional/locality model from XXXX, which is driven by the U.K.'s national and regional accounts.

Unfortunately that conclusion almost certainly arose because the localisation model had hit a terrible pitfall, unbeknownst to its authors, due to difficulties with input output data.

In the years following the millennium the UK had a well functioning system of national accounts. The system was identified by Karen Wilson of Statistics Canada for the NBER as of the system in the world that most conformed with UN SNA standards. That all fell apart as a result of Government cost-cutting over the next decade which had three ruinous effects.

Firstly the annual survey into industrial purchases was suspended "for a-year". It still has not been effectively reinstated 13 years later.

Secondly the government imposed a 200 km office relocation from London to Newport on the department that produced the input output and supply and use

tables, the key element in balancing the national accounts at the detailed level. This detailed balancing as the key operational aspect of Stone's legacy to economic accounting.

The head of the IO/SUTS branch was moved to another position, and the entire Branch resigned one-by-one. Many had domestic and personal ties to London, and at the time the labour market for highly competent quantitative economists in the capital was very strong indeed. If you don't want to move, and your wife and children are reluctant to, and a considerable salary increase and apparently much better prospects are available by moving your office less than a mile, then you are perhaps unlikely to take a job on the edge of rural Wales.

Thus there was almost 100% skill loss at the core of national accounting and in the ability to link to other economic monitors, such as the Bank of England and the key city institutions.

Thirdly, the skills loss spread further, as the new establishment in Wales found difficulty in managing the conversion from the earlier standard industrial classification (SIC03 in the UK) to the new classification SIC07, which is a dialect of the European NACE. The first work on the new SIC published, and used, suggested that a mere classification change had actually altered the level of GVA in the economy.

The consequence was that many internal transactions were seriously corrupted, but this was not apparent at two removes when geographic analysis of BREXIT was attempted.

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