ECONOMISTS *for* FREE TRADE

16 February 2017

Agenda

1. **Roger Bootle**
   - Introduction to Economists for Free Trade.
   - Overview of new economists and Advisory Group.
   - Summary of new paper from EFT.

2. **The Impact of global free trade on certain industries:**
   - **John Longworth** on the implications for manufacturing.
   - **The Rt Hon Owen Paterson MP** on agriculture and CAP.
   - **The Rt Hon Lord Flight** on the financial services industry.

3. **Professor Patrick Minford**
   - UK WTO Trade Strategy in a Non-Cooperative Continent.

4. **Q&A**

Introduction

Roger Bootle

Original Economist Members

- **Professor David Blake –** Professor of economics, Cass Business School and Director of the Pensions Institute.
- **Roger Bootle —** Chairman of Capital Economics and special adviser to the House of Commons Treasury Select Committee.
- **Professor Tim Congdon —** Previously a member of the Treasury Panel of Independent Forecasters and one of the "Wise Men" between 1992 and 1997.
- **Professor Kevin Dowd –** Professor of Finance and Economics at Durham University Business School and a partner in Cobden Partners.
- **Martin Howe QC —** Leading expert on EU constitution and barrister at 8 New Square specialising in Intellectual Property and EU law.
- **Professor Graeme Leach –** CEO & Chief Economist of Macronomics, a macroeconomic, geopolitical and future megatrends consultancy.
- **Warwick Lightfoot —** Former economics editor of The European and special adviser to the Chancellor of the Exchequer between 1989 and 1992.
- **Neil MacKinnon—** Global macro-strategist at VTB Capital. He has spent 20 years as an economist and strategic adviser to leading financial institutions
- **Professor Kent Matthews —** Professor of banking and finance at Cardiff University.
- **Professor Patrick Minford —** Professor of Economics at Cardiff University, formerly director and founder of Liverpool Research Group.

Economists for Free Trade

New Name

- **Economists for Free Trade** to reflect evolved focus as a lobby group and recognition that 'Free Trade' is now the key driver in exiting from the EU.

New Economists

- Group increased to **15 members** and includes **six former economic advisers to government** and **eight university professors**. New members:
  - **Professor Vudayagi Balasubramanyam –** Professor of Development Economics at Lancaster University.
  - **John Greenwood** – Chief Economist at Invesco.
  - **Liam Halligan** – Economist, broadcaster and award winning columnist at the Sunday Telegraph.
  - **Professor David Paton –** Professor of Industrial Economics at Nottingham University.
  - **Dr John Whittaker** – Former MEP and Senior teaching fellow at Lancaster University.

New Advisory Group

Businessmen	Parliamentarians	Media Opinion Formers
• **Sir James Dyson**, Founder Dyson Ltd • **Sir John Craven**, Former Board Member Deutsche Bank, Chairman/CEO Morgan Grenfell • **Mr John Longworth**, Former Director British Chambers of Commerce, Co-Chairman Leave Means Leave • **Sir David Ord**, Co-Owner of Bristol Ports, Vice Chair Open Europe	• **Lord Flight**, Member of the House of Lords, Chairman Flight & Partners, Chairman EIS Association • **Mr Jacob Rees-Mogg MP**, Member Treasury Select Committee, Director Somerset Capital • **Rt Hon Owen Paterson MP**, Former Secretary of State Environment, Food, and Rural Affairs, former Secretary of State Northern Ireland	• **Viscount Ridley**, Science and Technology Committee (House of Lords), Columnist *The Times*.

Aims to secure economic success

- **Free trade in a global market with zero trade barriers for goods and services coming into the UK**:
    - Additional GDP gain of 4% and fall of 8% in consumer prices compared to remaining in the Single Market (Cardiff University macroeconomics research group).
    - Other economic groups have almost universally not modelled a free trade outcome.

- **UK-based laws/regulations in place of those from the Single Market:**
    - Currently, 100% of the UK economy must conform to all EU regulations despite only 8% of UK businesses exporting to EU countries, representing only 12% of GDP.
    - Releasing regulatory burden can lead to an additional 2% increase in GDP (Minford et al, 2015) — making a 6% increase in total from leaving.

- **Control of unskilled immigration and promotion of skilled immigration:**
    - Each unskilled migrant in the UK costs taxpayer around £3,500 per year net as result of welfare and other support not covered by tax contributions (Ashton, MacKinnon and Minford, 2016).
    - Skilled migration is a strong positive contributor to the economy and exchequer.

Manufacturing and Global Free Trade

John Longworth

Manufacturing

- **Fallacy to assume EU has been good for manufacturing or staying in the EU will preserve current statu**s:
  - Manufacturing been in decline in UK and other EU countries for decades.
  - Since joining Single Market, UK manufacturing employment fallen from around 35% to 8% of total UK employment .

- **Macroeconomic analysis shows that manufacturing has nothing to fear from Brexit:**
  - In short to medium-term, post-Brexit fall in Sterling more than compensates for more competitive home market and impact of any EU import tariffs and provides useful transition period in which to raise productivity.
  - In long-term, if Sterling returns to pre-referendum levels, manufacturing can maintain profitability by achieving easily attainable productivity improvements.

- **Detailed analysis of auto manufacturing sector confirms conclusion of macroeconomic analysis:**
  - Sterling's devaluation shields industry from immediate impact.
  - Long-term – even if Sterling returns to pre-referendum levels – attainable productivity improvements and better sourcing of components from ROW suppliers increases profitability.

- **Manufacturing will prosper by continuing its long-term trend of moving up the value-added chain to a more hi-tech industry.**

Agriculture and CAP

The Rt Hon Owen Paterson MP

Agriculture & the Impact of CAP

- **The full benefits of the UK's withdrawal from the EU can only be enjoyed if we leave the Customs Union and embrace tariff free trade:**
  - CAP raises farmers' prices by 20% .
  - Increases consumer food prices by about 7%, as well as land prices.
  - Reduction in the cost of food represents a saving of £8.2 billion per year.

- **Ability to embrace new technology:**
  - Food producers should embrace innovation to become self-sufficient and react to market drivers.
  - Opportunity to implement new technology to improve productivity, which the EU continues to resist.
  - The Government's Agri-tech Strategy, along with its investment in scientific research, must be maintained and expanded.

- **Removing CAP and introducing a tailored strategy to meet specific needs of UK farming:**
  - Farm support policies can be reformed and better targeted – eg, support for
    - Less prosperous hill farmers.
    - Maintaining countryside (per Swiss policy) supporting tourist industry.

Financial Services
Outside the Single Market

The Rt Hon Lord Flight

The UK as a World Financial Centre

- **Despite much fear-mongering, City's vulnerability is quite limited:**
  - Possible loss of passporting has immaterial impact – only about 9% of revenue truly at risk.
  - High likelihood of "Enhanced Equivalence" concept being agreed.

- **Fundamental constraints counter potential EU punitive actions:**
  - Free movement of capital under Maastricht Treaty and Bank for International Settlements policies.
  - Equivalence schemes agreed with US, Japan, Singapore, Switzerland, Canada, Mexico.
  - City is Europe's investment banker — more inbound passports than outbound.
  - Financial institutions prize London's enormous strengths.
  - Long history of competing in world markets and overcoming hurdles.

- **Better UK regulation will exploit City's strengths as main source of UK's comparative advantage.**

City should embrace its future as a World Financial with its own regulatory regime attuned to global financial markets

UK WTO Trade Strategy in a Non-Cooperative Continent

Professor Patrick Minford

Gains From Free Trade

- **The lessons of Cobden & Bright**
  - Lower UK tariffs reduce consumer prices, raise welfare and reshape industrial structure
  - Other countries' tariffs raise THEIR prices, lower THEIR welfare
  - **Tariffs** demanded by producer interests **= self-harm** via harm to consumers

- **Mercantilist fallacy: 'exports good, imports bad'**
  - Actually, imports good and the cheaper they are, the more competitive your exports
  - Gains from higher share of other markets from lower ROW tariffs only short-term
  - UK resources limited, output diverted in long term from other markets

- **The prize from UK achieving free trade**
  - 4% increase in GDP/consumer welfare compared to staying in EU
  - 8% decrease in consumer prices
  - 7.3% increase in government revenue

Decisions for the Government

1. Retaliation against EU if no FTA agreed ('tit-for-tat')?

2. Pursuit of global free trade via UFT or negotiating FTAs?

3. Policy toward CAP and tariffs on food?

Note: UK will leave EU under WTO rules no matter what happens with EU FTA negotiation

WTO Options vs Status Quo

	Welfare%	CPI%	HMRC%
1. **Free Trade** with EU and ROW	+4	−8	+7.3
2. **Free Trade w ROW except EU**	+2	−7.5	+5.2
3. UK maintains **mfg tariffs only**	0	−7	+2.5
4. UK maintains **mfg+agric tariffs**	−4	−1	−2.2

UFT vs FTAs

- **Two ways to get to free trade**
  - Unilateral Free Trade (UFT), as with Corn Laws repeal
  - Via negotiations of FTA with (a) EU and (b) ROW

- **Standard negotiations take producer view**

- **Politics of UFT difficult – but modern examples include NZ end-80s, Singapore, China, and…**
  - Simpler
  - Quicker
  - Brexit politics: cut in CPI from free trade promised

- **And FTAs risk being stalled or derailed**

FTA Risks Along the Forking Road

- **Risk 1– no acceptable agreement with EU**
  - IF UK levies tariffs on EU (+ROW) in tit-for-tat
  - Costs up to 4% of GDP
  - Prevents reducing tariffs with ROW except through FTAs

- **Risk 2– FTAs with ROW run into difficulty due to UK/ROW producer demands:**
  - ROW asks for 'too much' from us
  - UK ask ROW countries for 'too much'

Hence no or indefinitely delayed FTAs

How to deal with these risks?

Risk-Avoidance Strategies

- **Risk 1: If no EU agreement, UK should not impose tariffs on EU**
  - Enables zero MFN tariffs for ROW
  - Negotiate FTAs with ROW on aspects other than goods tariffs: services, agriculture access, investment, property rights…

  But if tit-for-tat strategy instead and no FTAs= 4% loss

- **Risk 2: ROW FTA talks result in little long-term gain**
  - Quickly concede full tariff cuts
  - Key FTA is US: world best supplier of virtually all food and most manufacturing goods
  - **Approximate universal FTA gain =2%**
  - **Then, cut MFN tariff gradually to 0** over next decade so all other ROW and EU also face no barriers**= full 4% gain**

Conclusions

- **Long term gains to economy come from free trade (UK imposes no trade barriers on others)**
- **Reducing other countries' barriers brings at best short term gains in total sales**
- **Unilateral Free Trade is fastest and lowest risk route to free trade gains**
- **Optimal strategy is to announce simultaneously**
  - Unilateral free trade on goods tariffs
  - Negotiation to reduce/eliminate non-tariff barriers and other trade distortions with like-minded countries (the real prize)
- **Otherwise**
  - **Either** abolish tariffs if EU talks fail **or** do FTAs with ROW quickly/simply (especially with US)
  - **And** cut WTO MFN tariff to zero as quickly as possible

ECONOMISTS
for FREE TRADE

www.economistsforfreetrade.com

press@economistsforfreetrade.com