BRIEFINGS FOR BRITAIN

The economic impact of no-deal: A more balanced assessment

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Executive Summary

- Exiting the Brexit transition period with a balanced UK-EU Free Trade Agreement (FTA) in place would be preferable to a 'no-deal' exit, in which the UK trades with the EU on WTO terms. However, most modelling of the economic impact of the latter is far too pessimistic. **In terms of both short-term and long-term economic impact, the difference between an FTA-based Brexit or no-deal is relatively small.**

- Taking a no-deal option off the table would also significantly weaken the UK's bargaining position and reduce the chances of getting a good deal. Furthermore, restraints imposed by an overly-restrictive EU FTA could dampen the benefits of increased future trade agreements with third party nations.

- Studies suggesting that a switch to trading with the EU on WTO terms would result in a huge long-term hit to GDP are fundamentally flawed – for five main reasons:

  i. They **exaggerate the costs** of Brexit. Predictions of a collapse in UK-EU trade are based on implausible assumptions on both the costs of non-tariff barriers, and the sensitivity of trade to an increase in these costs. This is compounded by implausible assumptions about the knock-on effects on productivity, and the impact on migration.

  ii. They **under-estimate the benefits** of Brexit, including the gains from lowering trade barriers with the rest of the world and better regulation at home.

  iii. The costs in point (i) are further exaggerated by comparing WTO terms with a **rosy view of what would have happened in the future if the UK had remained a full member of the EU.** Such counterfactuals assume that significant reductions in intra-EU barriers to trade will take place in the future, and count the 'loss' of these hypothetical future gains as a 'cost' of Brexit.

  iv. The baseline as described in (iii) is not only fictitious, it is **no longer relevant**. The UK remaining in the EU is no longer an option. The only relevant baseline against which no-deal should now be considered is a UK-EU FTA.

  v. Finally, the **extrapolation of costs is unrealistic**. Most studies simply extrapolate the results over a period as long as 15 years, when almost anything could happen. This ignores, for example, the likelihood that technological progress will reduce the costs of non-tariff barriers over time, or the possibility of concluding a new FTA with the EU within a few years even if the transition period ends without one.

- Similar points apply to the many pessimistic assessments of the short-term economic impact of no-deal. There is history here: the 2016 Treasury analysis grossly exaggerated the immediate costs of a vote to leave the EU. There is still more than a whiff of 'Project Fear' about warnings on such issues as the impact of no-deal on the supply of medicines, the risk of severe disruption at ports, and the impact on the cost of food.
- Recent attempts to compare the long-term impacts of no-deal and Covid-19 are misleading. If anything, the impact of the pandemic strengthens the case for retaining no-deal as an option, both by reducing some of the potential costs and increasing some of the benefits.

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Introduction

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What does 'no-deal' mean?

The UK has, of course, already left the EU. But it remains a member of the EU's single market and customs union, and is still bound by EU rules, during a Brexit 'transition period' which will end on 31 December 2020. This period is meant to provide time for the two sides to negotiate a new long-term relationship, covering issues such as trade and security cooperation, and to make the necessary preparations to implement the new arrangements.

The Withdrawal Agreement (WA) allowed the UK and the EU to extend the transition period by up to two years, as long as this was agreed before 1 July 2020. That deadline has now passed. The UK will therefore finally be leaving the economic institutions and jurisdiction of the EU at the end of this year, either with a new long-term agreement in place, or with no deal.

There is a separate debate over the terms of the WA itself and whether these can still be modified or overwritten by UK law. But the default position is that the WA will apply even in the event of no-deal, including the provisions on citizens' rights, the financial settlement (aka the 'divorce bill'), and the Northern Ireland Protocol, which governs trade in goods between Northern Ireland and the EU.

The Internal Market Bill currently going through Parliament gives powers to UK ministers to override aspects of the NI Protocol to guarantee unfettered trade between NI and GB and to prevent EU state-aid rules reaching over into GB. The next Finance Bill may further override additional aspects of the Protocol covering trade from GB to NI.

The main difference in a no-deal scenario as far as the rest of the UK is concerned is that trade with the EU would be governed by WTO rules rather than by a negotiated UK-EU Free Trade Agreement (FTA). In short, **no-deal now means 'no trade deal'**. Side deals on such issues as access for hauliers and aircraft landing rights are separate, but are being negotiated and still look likely to go ahead.

The focus of this briefing

This briefing focuses on the economic impacts of no-deal, in both the short- and long-term, relative to the alternative of agreeing an FTA on terms likely to be acceptable to the EU. This is the only relevant benchmark now, not comparisons with a stay-in-the-EU world.

No-deal would involve some additional costs in terms of increased frictions in UK-EU trade. However, it has been claimed that the leaving with no-deal would be so damaging that this outcome must be avoided at any price – even if this means accepting a bad deal.

We will show why this is wrong, both because the costs of no-deal have been exaggerated, and because taking this option off the table would fatally undermine the UK's bargaining position.

There have been a large number of Brexit impact studies. We will focus mainly on the work done by the Treasury and are not attempting a complete review of the field, or endorsing any particular alternative set of projections. Rather, our key message is that there is a wide range of different methodologies that might be used. But most importantly, **the more pessimistic assessments of no-deal are based on such extreme assumptions as to render them implausible.**

It has also been claimed that the devastating economic and social impact of the coronavirus pandemic has made it all the more important to conclude a deal. We will argue instead that the pandemic may actually reduce some of the potential costs of no-deal, as well as increase some of the benefits.

Moreover, claims that a no-deal Brexit is set to hit the UK 'three times as hard' as coronavirus are unhelpful and misleading.

Methodological approaches

A large number of studies by academics, official bodies and consultancies have attempted to estimate the potential impact of Brexit. These typically modelled a range of different forms of Brexit, including no-deal scenarios in which the UK trades with the EU on WTO terms.

They use a variety of approaches – including so-called 'gravity models', in which volumes of trade between countries are related to the size of their economies, geographical distance between them, and other factors including common languages, tariffs and non-tariff barriers.

Other studies have used more theoretical, black-box, 'general equilibrium' models, while consultants generally employ more empirically-based 'econometric' models in which the future is estimated using past data on a range of macro-economic relationships.

HM Treasury's Brexit studies

We concentrate here on the estimates reported in a series of studies by HM Treasury (HMT). HMT has consistently predicted that the level of GDP would be about 8% lower than otherwise over the longer term (i.e. by 2030) if the UK traded with the EU on WTO terms, rather than remaining a full member of the EU.

This was first set out in the pre-referendum briefing, 'The long-term economic impact of EU membership and the alternatives' (April 2016), which predicted that GDP would be between 5.4% and 9.5% lower in fifteen years if the UK left on WTO terms, compared to the status quo.

In January 2018 this analysis was updated for the 'EU Exit Analysis Cross Whitehall Briefing'. This was originally drafted for internal Whitehall use but was leaked in the same month, and only officially released in March 2018.

Already the ground was shifting. The 'Cross Whitehall Briefing' saw the Treasury abandon its 'gravity model' approach, which had also been used by the OECD, IMF and others to come up with very negative assessments of the impact of trading on WTO terms.

The gravity-model approach had been heavily criticised by a number of independent economists, including Gudgin, Coutts, Gibson and Buchanan, 'Defying Gravity' (June 2017) and Patrick Minford 'The Treasury Report on Brexit: A Critique' (August 2017).

The Treasury ignored these criticisms and refused to engage. Remarkably, their new 2018 analysis, based instead on the (more opaque) general equilibrium model, managed to come up with almost exactly the same numbers as the previous, flawed 2016 report. The final Treasury publication before the Johnson administration barred the Treasury from publishing further estimates, 'EU Exit. Long-term Economic Analysis' (November 2018), predicted that GDP would be around 8% lower in the long-term than it would have been if the UK had remained in the EU.

Lack of an updated study

These numbers are often described as the 'government's own analysis'. However, it would be more accurate to describe them as the work of civil servants, completed under previous Prime Ministers (David Cameron and Theresa May) and Chancellors (George Osborne and Philip Hammond).

It is disappointing that the analysis has not been redone to reflect the criticism of their work. The Treasury estimates have not been formally disowned by the current government, but the current and previous Chancellors have indicated that the Treasury will not be permitted to issue any further reports on the impact of Brexit. Work is however continuing at DIT using a similar general equilibrium model and this seems likely to include more realistic assumptions at least in reference to new free-trade agreements.

An implausible claim

HMT's claim that a WTO Brexit would result in an 8% fall in GDP in the long-term fails to pass even a basic test of plausibility, as discussed in Western, 'The Treasury claims a no-deal Brexit will cut UK GDP by 8% – just how silly is this?' (November 2018). A hit to GDP of 8% would be more than double the estimated long-term impact from the 1930s Great Depression (the most severe shock to hit the UK economy in the last century). Yet the Depression tariff shock alone (excluding all the financial effects) was double the equivalent shock the UK would suffer from moving to trading with the EU on WTO terms.

The modelling used by HMT (and many others) has generated such large negative results due to a combination of exaggerating the costs and underestimating the benefits.

Overstating the costs

The Treasury's April 2016 analysis estimated the **gains to UK exports to the EU** from UK membership of the EU. It then assumed that most or all of these gains would be lost simply by the act of leaving the EU, along with a further loss of inward investment from the EU.

It also added a huge reduction in productivity as a knock-on effect of reduced trade with the EU. This is responsible for a large chunk of HMT's result, yet its empirical foundation is exceedingly weak, as explained by Western, 'Brexit and Productivity: A house built on sand' (October 2018).

A crucial flaw in the Treasury analysis was that, in calculating the gains to intra-EU trade from EU membership, it took an average across all EU member states rather than specifically for the UK. This is important since the UK is virtually the only EU state to conduct more trade outside the EU than inside.

Looking directly at UK experience, rather than an average of all EU members, led to a conclusion that the Treasury had overestimated the gains from EU membership by fourfold, as explained by Gudgin, Coutts et al, 'The role of gravity models in estimating the economic impact of Brexit' (June 2017) and 'How the economics profession got it wrong on Brexit' (January 2018)

The cost of trading frictions was also overestimated, despite direct evidence that such costs should be modest. In the 'Cross Whitehall Briefing', HMT estimated the size of 'non-tariff barriers' to trade that UK exporters to the EU would face outside the EU customs union and single market at up to 30% of trade values.

This is an absurdly large estimate: up to ten times higher than the 3-8% range of estimates seen in a study by two World Bank economists Kee & Nicita (2017) and other recent model-based work by economists at NIESR.

It is worth noting too that estimates based on industry-level studies where the actual costs of various bits of paperwork are studied often find even lower numbers than this.

The results were made worse by the assumption that the UK would choose to impose substantial tariffs on all imports from the EU. However, the government has since announced a more liberal tariff regime in the event of no-deal.

The UK was assumed to drop out of all **the EU's third-country FTAs**, and so tariffs would be placed on all that trade too. This has already been shown to be wrong, as most of that trade is now already subject to rolled-over or expanded FTAs (such as the recent deal with Japan).

The latest (November 2018) HMT report used estimates of non-tariff barriers which were much too high, and used estimates of trade elasticities (i.e. the coefficients used to convert extra costs into impacts on trade) built into to the American model it adapted.

Underestimating the benefits

HMT's 2018 assessment assumes that only 0.2% of GDP would be gained from **free-trade agreements (FTAs)** with the rest of the world. But the EU's own estimates for such deals suggest long-term gains of 1-2% of EU GDP, up to ten times higher than the Cross-Whitehall briefing.

In part this is because HMT and others assume big negative effects on productivity from leaving the EU trade arrangements, but ignore or deny any productivity gains from liberalising trade with other economies (an obvious asymmetry).

HMT seriously underestimates the gains from **better regulation** through taking back control from the EU. Some other reports ignore them completely. Yet other studies have shown that the worst EU regulations cost the EU up to 4-6% of GDP.

Assumptions are key

Other organisations such as NIESR have come up with similarly pessimistic assessments of the long-term economic impact of no-deal. However, this is no surprise, as they have used similar models and – crucially – similar assumptions.

Criticism of the assumptions that are fed into a model can of course be made of any set of model results – including those that come up with a much more favourable assessment of a no-deal Brexit on WTO terms. **But it is important to note that the assumptions in the Treasury's analyses, and those by others that have generated similar results, are pessimistic.**

More credible central estimates of the trade elasticities, for example, can be found in modelling by Ciuriak et al, 'Brexit Trade Impacts: Alternative Scenarios' (June 2017), and work by Gabriel Felbermayr at the Kiel Institute for the World Economy (IfW), 'Brexit: A Hard-but-Smart Strategy and Its Consequences' (2019).

The short-term impact of leaving without a deal

There have been numerous attempts to model the short-term impact of Brexit. The tone was again set by the Treasury before the referendum, with its now infamous assessment of 'The immediate economic impact of leaving the EU' (2016).

This predicted a slump into recession and surge in unemployment even before the UK actually left the EU, both of which failed to materialise - see Western, 'A new prime minister must end the Treasury's anti-Brexit propaganda campaign' (June 2019).

The economics profession has continued to attempt to show that the UK economy has been damaged even before Brexit was achieved. Graham Gudgin and Harry Western show that these attempts are based on flawed analyses.

Recycled claims

Other (pre-pandemic) studies have been only marginally less pessimistic in their assessments of the short-term impact of a no-deal Brexit, including the IFS/Citi 2019 Green Budget and the OBR's 2019 Fiscal Risks Report. However, the modelling for the Green Budget analysis was done by Citi (a significant donor to the Remain campaign), while the OBR analysis was based on work in the IMF's April 2019 World Economic Outlook (and therefore not new).

The OBR analysis mentioned above was a typical example of modelling generated by one organisation being 'recycled' by another. But the media typically reports them as if they were independent studies, giving a **false impression of the evidence base** for the adverse economic impact of no-deal.

The IMF's no-deal modelling

In the IMF's April 2019 World Economic Outlook, IMF economists modelled two no-deal scenarios: A and B. Scenario B assumed significant disruption at borders and a severe tightening in financial conditions. In the worst case, the level of GDP is around 3.5% lower than otherwise within a couple of years. Given the anaemic growth rates in the baseline, this implied full-year recessions in both 2019 and 2020.

Of course, like any such study, the results depend on the assumptions made. Most of the presumed damage came from an **implausibly large increase in the cost of non-tariff barriers (NTBs)**: a huge 14% for additional NTBs in both scenarios, on top of the 10% already assumed in the IMF's baseline (where the UK leaves the EU's single market and customs union but secures a comprehensive free trade agreement).

Such large numbers are hard to square with the experience of real businesses trading with the rest of the world, let alone with most academic surveys. This is partly because the IMF assumes both a) that EU membership has delivered big reductions in the costs of NTBs, and, at least as importantly, b) that all these benefits would soon be lost simply by the act of leaving, even though UK and EU regulations would initially be identical. **These are worst-worst case assumptions**.

Other assumptions should also be challenged. For example, the IMF assumed that (i) the UK's planned unilateral tariff cuts in a no-deal scenario only last a year; (ii) it takes two years to replicate the existing EU trade deals with third countries; and (iii) no new trade deals (e.g. with the US) are done over the forecast horizon.

In its long-run analysis, the IMF also assumed a further hit to GDP from a reduction in net migration to the UK. But that would depend on policy choices still to be made by the UK government, or a future one.

Finally, in common with almost all these studies, the IMF assumed that no-deal would be permanent. However, leaving on WTO terms could actually be an opportunity to reboot talks with a new UK negotiating team, resulting in a better deal further down the line ('no deal for now'). That may look like a forlorn hope today and would certainly require a lot of work to patch up relations. But taking this option off the table completely would surely undermine the UK's bargaining position even further.

The Bank of England's no-deal 'scenarios'

The IMF's numbers for the short-term impact of no-deal are at least more credible than those initially published by the Bank of England in November 2018. The Bank also assessed two no-deal scenarios, with GDP projected to be as much as 7.75% lower by end-2023, relative to the November 2018 Inflation Report projection, and up to 10.5% lower than the May 2016 trend. Even Brexit-sceptic Nobel-prize winning economist Paul Krugman thought these numbers were completely over the top.

However, in the words of the Bank itself, "this analysis includes scenarios not forecasts". Bank economists deliberately chose extreme assumptions to produce worst-case numbers, mainly for the purpose of stress testing the banking system. **These numbers should never have been interpreted as the Bank's view of what is actually likely to happen.**

While leaving without a deal would be an economic shock, there are good reasons to believe the impact would be limited and short-lived. Even a hit of one percent to GDP spread over a year or two would be far from the disaster that no-deal Project Fear is predicting.

'No deal' and Covid-19

It has been suggested that the Covid-19 pandemic further tips the balance against no-deal. Indeed, there has been speculation that the UK has softened its position after Boris Johnson was *'shocked by a London School of Economics report suggesting that no deal would cost Britain up to three times more than coronavirus pandemic'*.

The source for the claim about the relative costs is a calculation by Thomas Sampson, an Associate Professor at the LSE, which appeared in a blog in August. These were then included in the latest iteration of a briefing paper, What would no deal mean?, published by UK in a Changing Europe (a 'knowledge hub' funded by the ESRC).

In the words of this briefing, *'our modelling with LSE of the impact of a no-deal Brexit suggests that the total cost to the UK economy over the longer term will be two to three times as large as that implied by the Bank of England's forecast for the impact of Covid-19.'*

So, what should we make of this?

While the authors deserve kudos for their PR skills (the suggestion that a no-deal Brexit could be several times worse than the unprecedented Covid-led economic slump is bound to grab the headlines), **the underlying analysis is in fact nothing new**. In a nutshell, the authors have simply extrapolated the Bank of England's three-year (not long-term) forecasts for the economic impact of Covid, and then

compared them (in present value terms) to existing projections for the long-term economic impact of a no-deal Brexit over a horizon as long as 15 years.

This methodology is more than a little dubious – comparing apples and oranges over a long period when the impacts will be increasingly uncertain. The real-world difference between a hit to GDP spread over 2-3 years (Covid-19), and the same hit spread over 10-15 years (no-deal), is enormous. Similarly, an outright fall in GDP (Covid-19) is experienced completely differently to 'smaller increases than might otherwise have happened' (no-deal).

The costs of no-deal are also exaggerated by comparing them to a counterfactual of a rosy view of what would have happened in the future if the UK had remained a full member of the EU. This hypothetical counterfactual assumes that significant reductions in intra-EU barriers to trade will take place in the future, and counts the 'loss' of these hypothetical future gains as a 'cost' of Brexit. This baseline is not only fictitious, it is no longer relevant. The UK remaining in the EU is no longer an option. The only relevant baseline against which no-deal should now be considered is a UK-EU FTA.

Such counterfactuals assume that significant reductions in intra-EU barriers to trade will take place in the future, and count the 'loss' of these hypothetical future gains as a 'cost' of Brexit.

Moreover, the modelled 'cost' of a WTO Brexit obviously depends on the assumptions made. The UK in a Changing Europe briefing took its numbers for the long-term impact of a no-deal Brexit from work the group itself had published last year ('The economic impact of Boris Johnson's Brexit proposals', October 2019).

In his August blog, Dr Sampson used the figures from the cross-Whitehall 'Long-term economic analysis' of EU Exit, published nearly two years ago (November 2018, when Philip Hammond was Chancellor).

The results are therefore subject to the same criticisms as detailed earlier. Another useful summary is contained in 'Brexit delayed is Brexit denied' (May 2020), published by the Centre for Brexit Policy.

The numbers in the UK in a Changing Europe report should also be challenged. In particular, the presumed hit to GDP of *'up to 8% over a decade, compared to EU membership*' relies on the assumption that the damage from a slump in UK-EU trade would be magnified by large knock-on effects on productivity. It also assumes that the government would adopt and (just as importantly) persist with immigration policies that are economically damaging.

The report assumes too that the UK would miss out on future reductions in intra-EU trade costs, achieved through deeper integration within the single market. This is also highly speculative, as well as reflecting a distinctly optimistic assessment of where the EU is heading.

Trade barriers and trade-offs

It would naturally be better – other things being equal – to have lower trade barriers than higher ones. But a trade deal could come with so many strings that other things are not equal, and the benefits of lower trade barriers are offset by other costs. The real issue is whether a no-deal Brexit would be so damaging that it must be avoided at all costs – either by accepting any deal that the EU would be willing to offer, or by extending the transition period even further.

The views of those who are more optimistic about Brexit are also often misrepresented when it comes to the implications of the pandemic. The key point here is not that the costs of a no-deal Brexit would be dwarfed by the impact of Covid (though in the short-term this is clearly true). Instead, it is that **the pandemic itself would reduce some of these costs, and potentially increase some of the benefits**.

For example, the introduction of any new border controls would be less disruptive if a slump in economic activity, more home working and a preference for 'staycations' has reduced the volume of international trade and the numbers of tourists and business travellers.

There may also be additional benefits from finally ending the uncertainty about what the new arrangements might be. Many businesses will be rebuilding supply chains that have been disrupted by Covid and already incurring costs in doing so. Knowing what is coming should avoid the need to rebuild these supply chains twice.

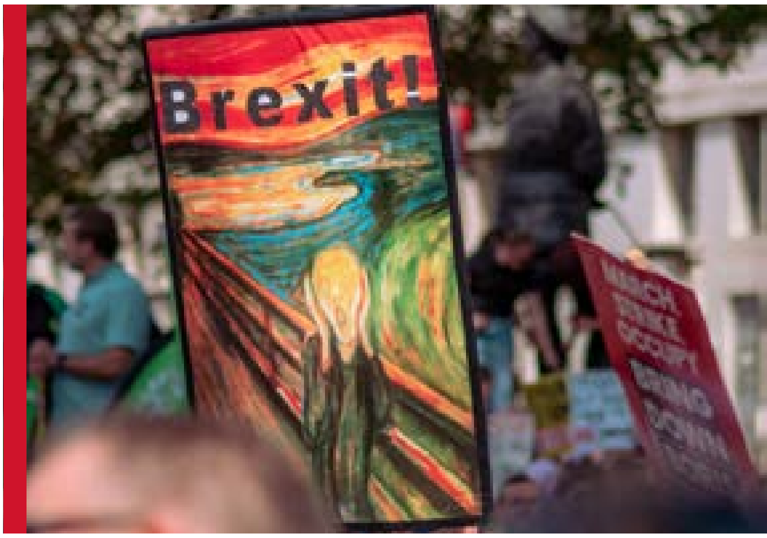
Remaining tied to the rules of the EU could also reduce flexibility (including on state aid) in ways that would be especially unwelcome in a Covid world.

Wildly exaggerated stories about the potential economic and social costs of no-deal abound. Tackling them has often felt like a never-ending game of 'whack-a-mole'. Many of them start from the assumption that there would be huge increases in costs and delays at the border, which would in turn disrupt the supply of everything from food to essential medicines.

Customs costs

However, the ground is shifting here too. The head of HMRC, Jon Thomson, originally claimed in evidence to the Treasury Select Committee hearing (May 2018) that leaving the EU customs union would cost UK firms £20 billion per year, or 1% of GDP. That has since been revised down to £7.5 billion, but even this seems far too high.

As explained by Gudgin and Mills in 'Customs Costs Post-Brexit' (May 2018), and Singham, 'The True Cost of Customs' (July 2020), HMRC's estimates do not take account of the fact that firms would most likely consolidate their goods into larger consignments to minimise customs costs, and that many of these declarations can be repeated quickly and easily with essentially the same details many times.



A reasonable estimate for the cost of customs administration is around 1% of the value of consignments – a figure suggested by numerous real world studies. Applying the figure of 1% to the total value of UK goods trade with the EU (imports plus exports) would give a total cost of £3.6 billion. However, if firms are already submitting invoices and VAT returns for trade with the EU, then in practice the additional burden will only be a proportion of this. **A more realistic estimate for the total costs is therefore around £2 billion.**

For another estimate of customs costs see Singham (2020). Singham argues that the true costs may be half those estimated by HMRC.

‘Chaos’ at ports?

These financial costs aside, it is often claimed that a no-deal Brexit would cause chaos at UK ports, with long delays at critical bottlenecks such as Dover and motorways turned into vast lorry parks.

There are some potentially valid concerns about the non-tariff barriers (NTBs) that would be erected if the UK exits the transition period without a deal. These include logistical barriers, such as delays caused by physical customs and regulatory checks, and additional administrative hurdles, including the need to comply with ‘rules of origin’ and new licensing requirements for vehicles and drivers.

These risks obviously need to be taken seriously – and the government has already beefed up contingency plans just in case. Nonetheless, fears that no-deal would result in substantial disruption at ports (or Eurotunnel) are exaggerated. The key point is that they assume a significant proportion of lorries crossing the Channel would be subject straightaway to the same checks as those from non-EU countries. This is very unlikely, for three reasons.

The first is legal. Remember that exports from both sides will still be made to the same standards immediately after the end of the transition period. Even if additional checks are required, these could be limited. There is certainly no legal requirement to inspect every vehicle, or to carry out every check at the border itself. It is also not as if there are currently no checks at all. See Gudgin (2019).

The second is economic. Even French officials have stressed that it would be in their country’s own economic interests to minimise any additional delays. In particular, they have dismissed fears of a Calais ‘go-slow’ and suggested that as few as 1% of UK lorries would be subject to a physical check.

The third reason is practical, and may well be decisive. Put simply, neither the UK nor the EU has the physical infrastructure, or enough officials, to check every vehicle anyway, or even a significant proportion.

The key point here is **such low levels of checks are normal for other non-EU** trade too. In fact, trying to check at a much higher rate would be logistically impossible and probably disrupt all trade using the ports. This is why risk- or intelligence-based low-level sampling is normally used.

Pragmatic alternatives

Even in the absence of a comprehensive FTA, **side deals** (on such issues as access for hauliers and aircraft landing rights) could still be agreed, or extended, to minimise the disruption of trade from which both parties derive large economic benefits.

If the ports continue to run fairly smoothly (and especially if traffic flows are reduced anyway by the lingering impact of the pandemic), many of the concerns about the impact on the availability and price of medicines, fresh food, and so on, simply fall away.

Moreover, **plenty of alternative solutions are available.** For example, in the unlikely event that essential medicines cannot be fast-tracked through southern UK ports, they could be rerouted to less busy northern ports, or flown into airports which would undoubtedly welcome the additional traffic.

Pessimistic studies of the impact of higher tariffs on food imports from the EU also typically make the implausible assumption that the UK would continue to import the same amount despite higher prices – a point discussed further by McBride, 'Busting the food price myth in a no-deal Brexit' (September 2020).

We are left with the assumption that a further sharp fall in the pound would push up import prices further. As it happens, many UK exporters and those competing with foreign imports would actually welcome a lower exchange rate. But it would be unwise to base any decision as important as the nature of our departure from the EU on a short-term currency forecast, especially when sterling may already have factored in a lot of bad news.