**Brexit is a magic money tree, Chancellor**

1200  words approx.

By Patrick Minford

Broadly speaking, Conservative economic policy is set on the right path. The Chancellor has pronounced the death rites over austerity and announced big spending increases for public services and infrastructure. The Prime Minister has floated cuts in personal taxation across the board. And the Brexit deal struck with the EU paves the way for rising living standards for every section of society.

But – and there is a but – one thing has yet to change. The Treasury has yet to get the message. The prime architects of Project Fear – remember its apocalyptic forecast of an immediate recession and up to 800,000 job losses if we had the temerity to vote to Leave – have not shifted one inch from their assessment that the economy will take a big hit if we return a Conservative government and implement Boris’s Brexit deal.

This is a pretty extraordinary state of affairs. The sepulchral figure of Philip Hammond may have departed the corridors of power, but his baleful influence lingers on. It continues to predict that Brexit (in any form and including the latest deal) will damage the economy – to the tune of a hit to national output of nearly 5 per cent under a Canada Plus free trade exit and nearly 7 per cent under a World Trade Organisation departure (erroneously but persistently referred to as No Deal).

It has not modelled Boris’s deal (because the trade part is yet to be negotiated) but the assumption has to be that the Treasury brackets such an arrangement as akin to the 5 per cent (or £100 billion in cash terms) price tag on a Canada Plus FTA.

You can see the problem that starts to emerge. The Prime Minister and Chancellor are committed to  a radical and highly expansionary economic policy over the next five years – rightly so in my view – while at the same time their army of so-called experts are predicting that they will not have anything like the money to meet their promises. In his spending review in September, Chancellor Javid announced an extra £13.8 billion in public spending next year, a 4.1 per cent rise in day-to-day spending, the biggest in 15 years, on top of which can be added as yet unspecified cuts in higher rate income tax and national insurance.

In short, the Government’s failure to overhaul the Treasury and produce new assessments of the impact of the differing options – Remain, a WTO Brexit and the Boris deal – leave it vulnerable to critics of its wider policy of fiscal expansion to get the economy moving. Where is the money coming from?

Of course, it is not just the Treasury. Vast swathes of the economic profession are in thrall to Brussels. They seem culturally and intellectually incapable of seeing the huge material advantages of cutting free from the protectionist and bureaucratic EU apron strings and operating an independent economic policy in the national interest. Only last week, the National Institute of Economic and Social Research was at it again, predicting that national output would be 3.5 per cent smaller under the Boris deal than if we remained an EU member.

Their assessments are in line with such Remainer-dominated bodies such as the London School of Economics’s Centre for Economic Performance, the Institute of Fiscal Studies and the King’s College economists running the UK in a Changing Europe think-tank.

What the Government has yet to appreciate is that all these forecasts are deeply flawed. They rest on assumptions about the future trajectory of the UK economy that are not borne out by the facts.

Free trade agreements with non-EU countries have the capacity to sweep away high levels of EU protection, estimated generally at around 20 per cent on food and manufacturing. When abolition on this scale is simulated in the GTAP model now being used by the Treasury, it raises UK GDP by 4 per cent.

The mechanism by which it does so is to lower UK consumer prices and exert competitive pressure on home industries, forcing them to raise productivity.

Now turn to the criticism based on the supposed barriers that spring up on the UK-EU border if we leave the customs union and single market.

These are a myth of the windiest sort. The EU’s trade with non-EU countries, which we will join, actually thrives. In the past few decades, its growth rate has been nearly double that of the EU’s intra trade.

There are good reasons for this, in that this trade is protected by WTO rules that are embedded in EU law. These rules outlaw discrimination in product standards and enforce ‘seamless’ customs procedures, under which 98 per cent of goods are pre-cleared by computer declaration and not inspected physically in port.

Essentially this disposes of the two big critical arguments from policy assumptions. We can see that free trade with non-EU countries, contrary to criticism no 1, does indeed bring big gains and these will not cause job losses overall in the economy.

We can also see that, contrary to criticism No 2, new border barriers between the UK and EU will, under an EU-UK FTA,  be a big fat zero.

When these revised assumptions are put into the models these critical groups use, instead of giving large negative effects on the economy, they produce large positives.

When one turns from trade to regulation and immigration, again the assumptions of the critics are at variance with a reasonable interpretation of intended policy.

UK policy’s stated intention on regulation is to follow the advice of experts in the relevant sectors, such as cancer scientists over cancer regulation, and City experts over City regulation, to ensure regulation assists innovation and prosperity.

It is hard to quarrel with such an approach; and there is much evidence that this has not been followed by the EU in setting the regulations we currently labour under.

Finally, on immigration the Johnson government’s stated policy is to have a points-based system that prioritises skilled immigration, and ends the taxpayer costs created by uncontrolled unskilled EU  immigration.

Again, it is hard to see what can be quarrelled with on this; yet, amazingly, the Treasury itself posited among its negative assumptions that net migration from EEA countries would be totally stopped.

Factor in these correct assumptions, as we have done at Cardiff Business School, and a very different picture emerges.

Brexit under a Canada Plus deal (essentially the Boris deal) would boost GDP by 4 per cent or £80 billion – under No Deal the uplift is 2.6 per cent or about £50 billion.

As the election campaign unfolds and the Chancellor and the Prime Minister come under pressure to explain their arithmetic, let’s hope they have these figures to hand.

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