



THE BREXIT VOTE, PRODUCTIVITY GROWTH  
AND MACRO ADJUSTMENTS IN THE UK

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## Main Thesis

- Brexit adjustment for UK, 2016–2020:
  - Fall in relative prices of nontradable goods
  - Shift to production of tradables
  - Slowdown in GDP growth
- Looks like predictions of model with:
  - Future decline in tradable TFP growth



## Effectively Model a Wedge

- Claim: lower UK tradable TFP growth is like
  - Higher trade barriers;
  - Reduced capital flows; *and*
  - Lower labor mobility.
- But, no equivalence theorems are provided



# Numerical Experiments in McGrattan-Waddle

- Experimented with higher trade and FDI costs
- Found transitional predictions depend on
  - Policies of *both* UK and EU
  - Outside opportunities for trade and FDI
- BDDHT model silent on outside policies/opportunities



# Numerical Experiments in BDDHT

- Claim:
  - Model does well matching “broad contours” of data
- Evidence:
  - Not properly displayed

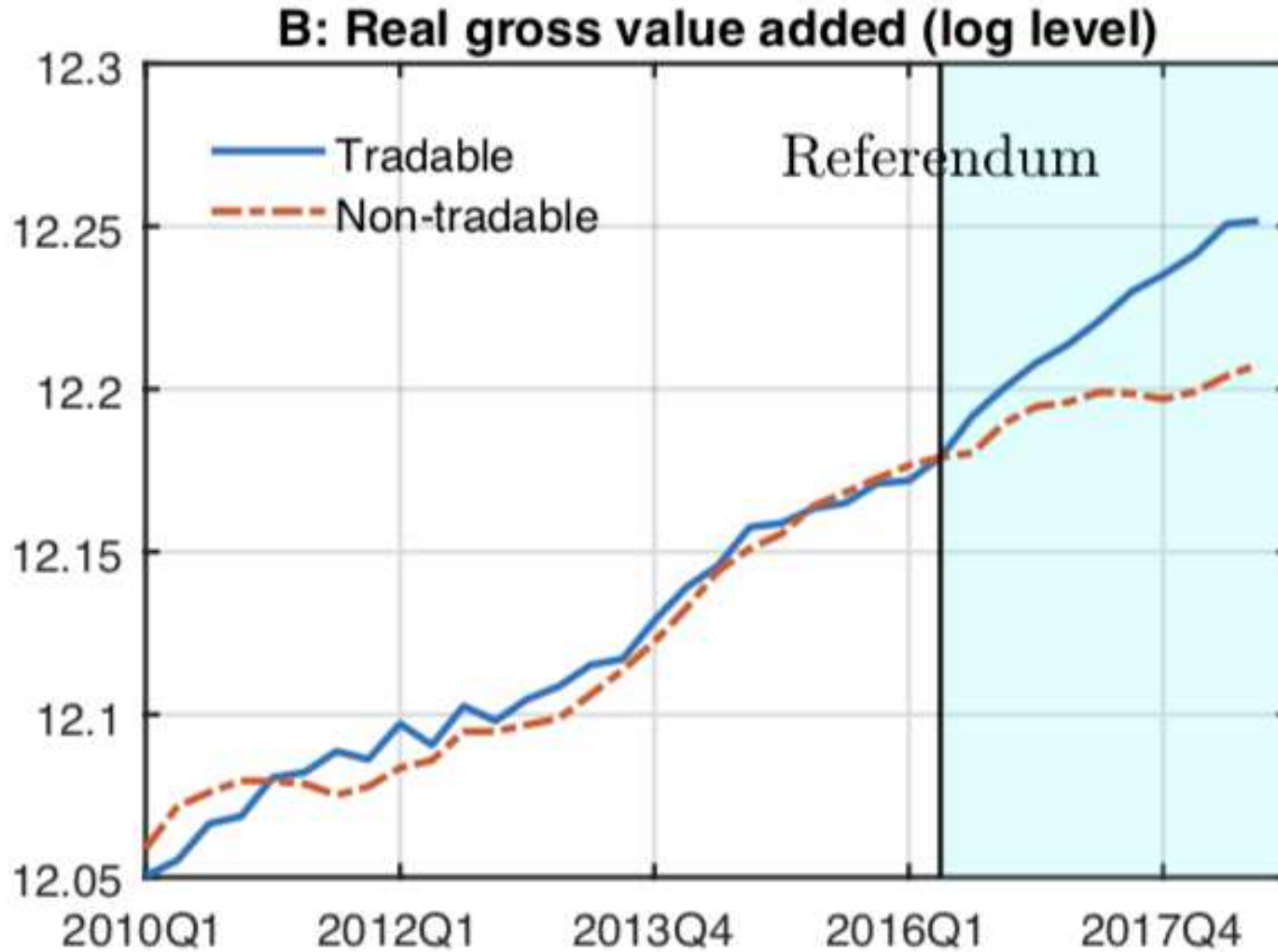


# Numerical Experiments in BDDHT

- Claim:
  - Model does well matching “broad contours” of data
- Evidence:
  - Not properly displayed
- Let’s consider some examples...

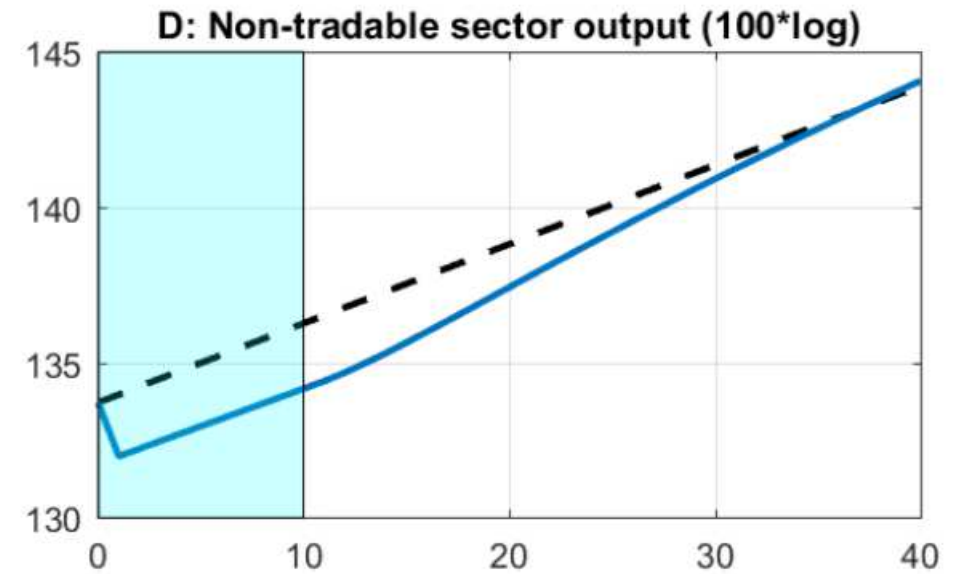
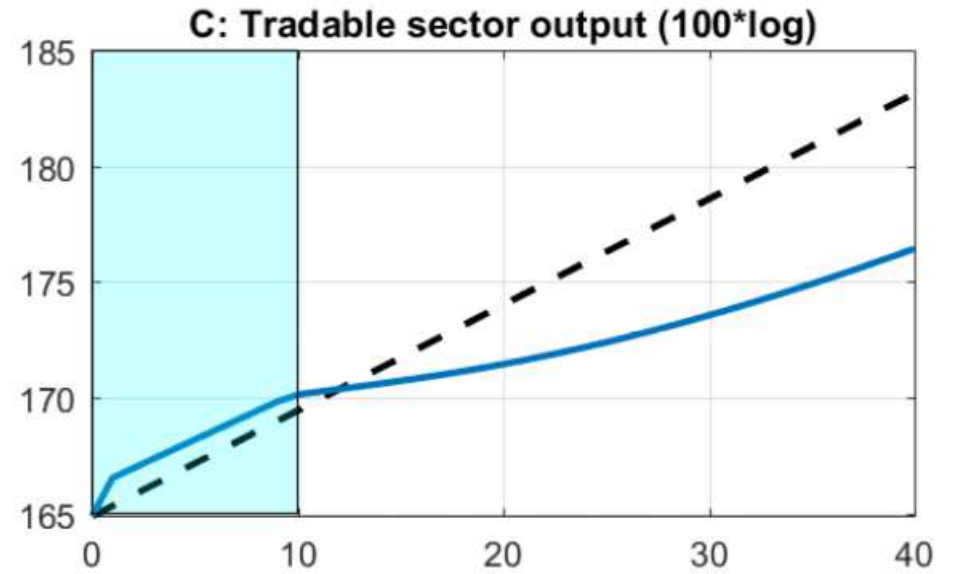
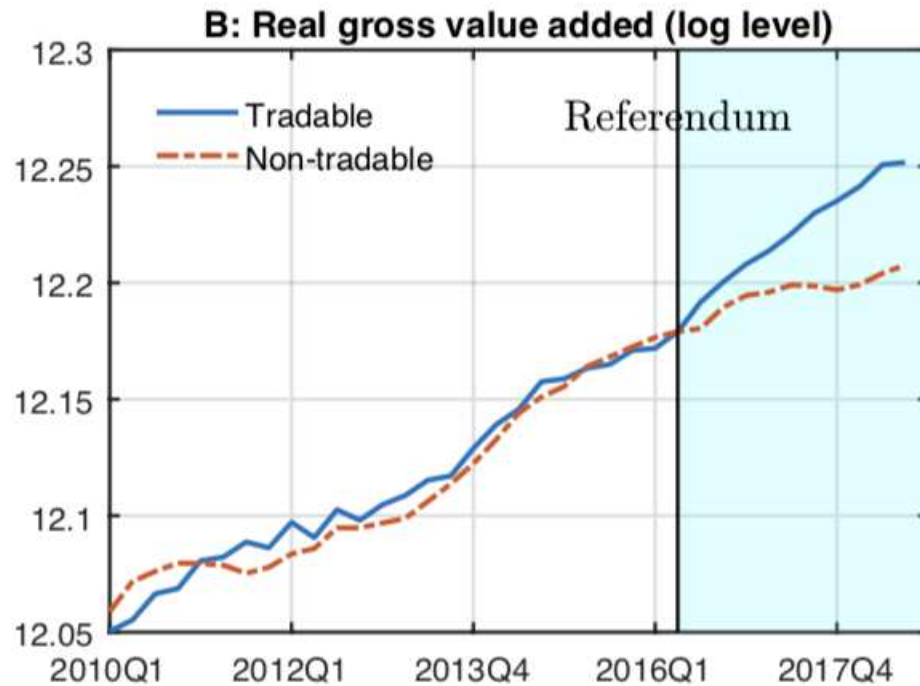


# Tradable vs. Nontradable Output: Data





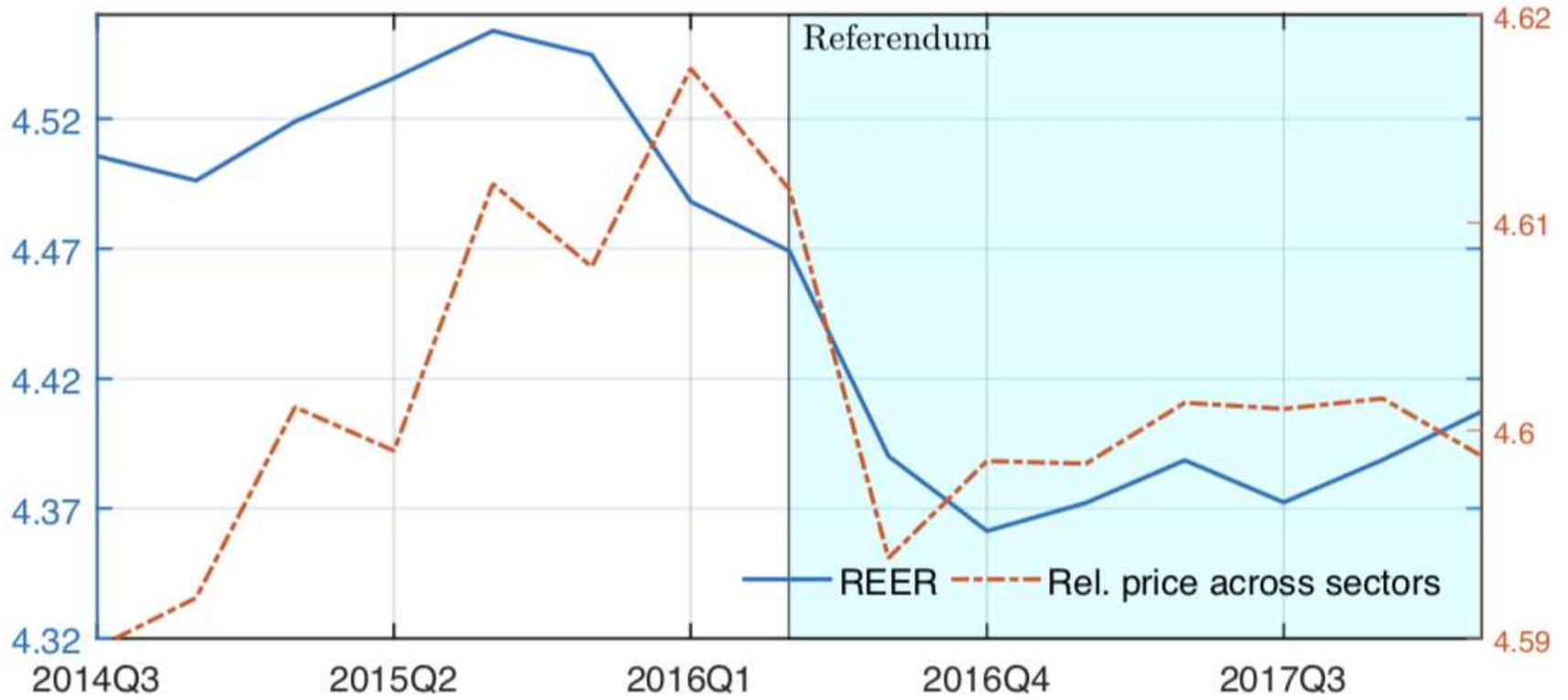
# Tradable vs. Nontradable Output: Data vs. Model





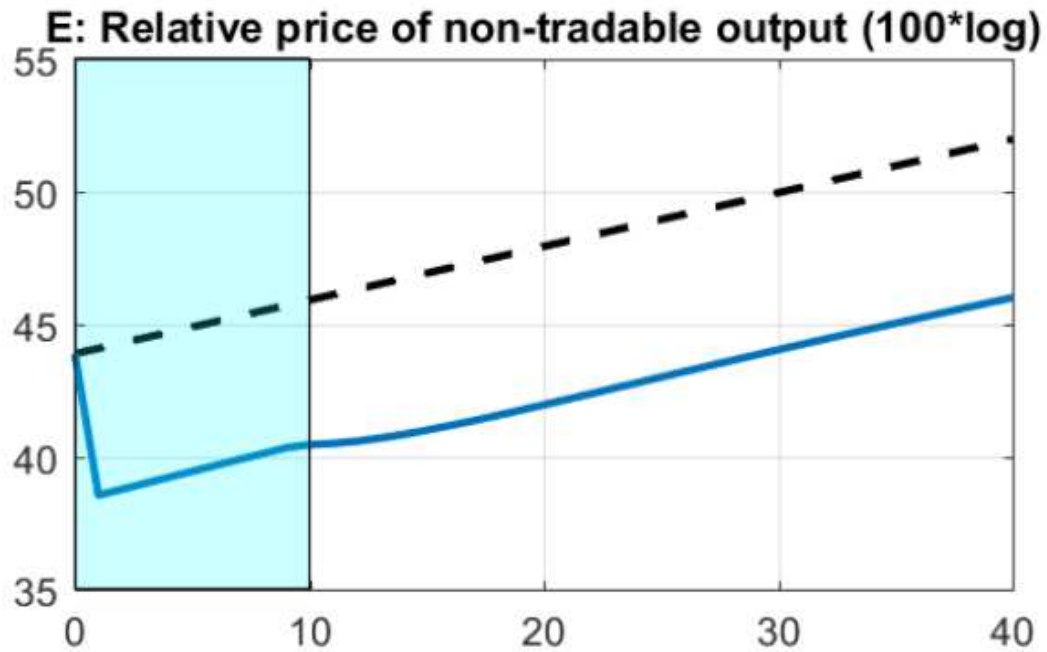
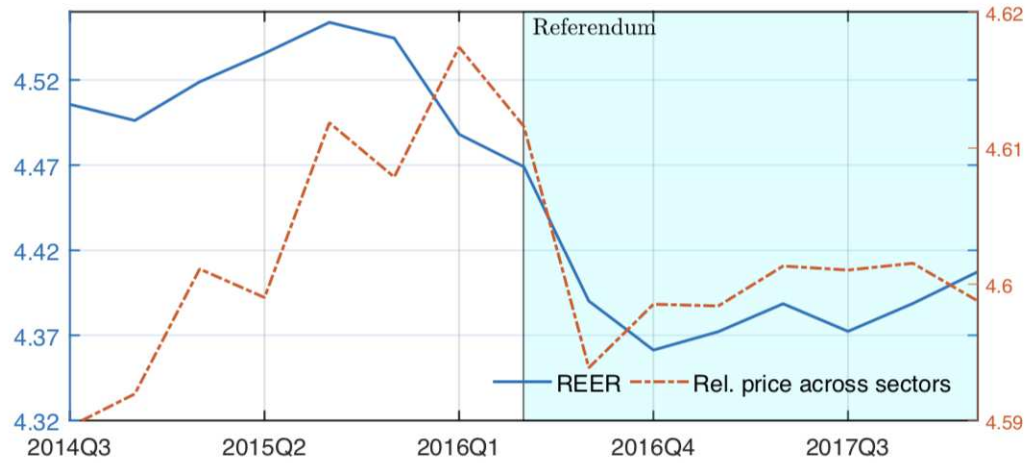


# Relative Prices: Data





# Relative Prices: Data vs. Model





## Would Also Like to See...

- Data and model in same figure:
  - Components of GDP/GNP
  - Sectoral hours
  - Wages and interest rates
  - FDI and trade flows

⇒ for UK, EU, and major trade/FDI partners



# Benefit of Hindsight



## Benefit of Hindsight

- Why not take advantage of hindsight?
- Which activities were most impacted?
  - in UK?
  - in EU?
- Which theories are most promising?



## Recommendations

- Formalize equivalence claims for TFP wedge
- Plot model and data on same graphs (with sensible units)
- Provide more details on Brexit adjustment