**Notes to the slides.**

**Slide 2** **My four points.** Given the necessary uncertainties of the attempts to quantify the macroeconomic impact of Brexit, it may be useful to have a complementary, rough, top-down approach. I am offering more a logical framework than a tool to reach precise estimates. I want to make four main points, which I will shortly present one by one. In making my four points I am necessarily concentrating on first order considerations. I think that more complex considerations would qualify but do not contradict the four points I am trying to make.

I try and concentrate on a medium and long-term horizon. My sense is that any agreement other than an European Economic Area (Norway) participation would have relevant welfare effects. Just to be a little more precise, I regard effects of lower growth by 0.2 per cent per year on a sustained basis as relevant for an advanced economy like the UK whose potential rate of growth is about 2 per cent.

In a post for Bruegel (<http://bruegel.org/2018/05/the-effects-of-brexit-on-uk-growth-and-inflation/>) I tried to detect the incipient signs of the longer term effects, in particular lower growth and higher inflation in the UK than in the € area, as a sign of a worsened inflation-growth trade-off because of Brexit.

**Slide 3** **Borders are bad for the economy** since:

* Trade over borders is lower than trade within borders. Trade gravity models, whereby trade between two areas depends on distance and the economic mass of the two countries, are affected by borders.
* Global optimal allocation of capital depends on the absence of borders impeding its free flow. In addition investment across borders reduces risk through international diversification.
* The optimal allocation of labour also requires the absence of borders, but of course, when we have to do with human beings matters are much more complex and non economic factors have to be taken duly into account

**Slide 4** **Reducing the negative effect of borders has been a long and complex endeavour that has engaged the EU for decades.** Just remember the terms we have used over the decades to denominate the endeavour:

* Common Market
* European Economic Community
* Abolition of capital controls
* Customs Union (External tariffs)
* Single Market (Trade without borders- Single market for goods, single market for services, digital single market, minimum harmonization, standardization, CE Marking, public procurement)
* Banking Union
* Capital Market Union
* Monetary Union

The UK has been an active member and proponent of all these initiatives, with two exceptions so far: Monetary Union and Banking Union.

Remember also the complex recognition of education and professional achievements. Recall also the very numerous European agencies: EIOPA, EBA, ESMA, ESRB, Frontex, Europol, Weather organisation, EFSA (European Food Safety Authority), EMA (medicine), EMSA (European Maritime Safety Agency), EASA (European Aviation Safety Agency), ESA (Space), EEA (Environment), ECHA (Chemicals) that have been created to abolish the border in their sectors. Remember also, of course, the two biggest “Agencies” of all: the European Court of Justice and the European Central Bank.

And after all this efforts, the negative effects of borders have not been completely eliminated as yet.

**Slide 5** **Brexit means that all the efforts to eliminate/reduce borders are jeopardized and a wall between the UK and the 27 is reinstated**, its height depending on the actual arrangement following exit.

**Slide 6** **The relative damage for the UK and for the EU 27 will follow the economic size of the UK relative to that of EU 27**. Since the EU 27 economy is 6 to 8 times larger than the UK economy, we can guess that the economic damage will be that much larger for the UK than for the EU-27. It would be interesting to check my guess that this proportion more or less corresponds to the relative frequency with which the term Brexit appears in UK and in EU-27 newspapers, TV and other media.