

Business investment hurt by Brexit

By [Magali Dauvin](#)

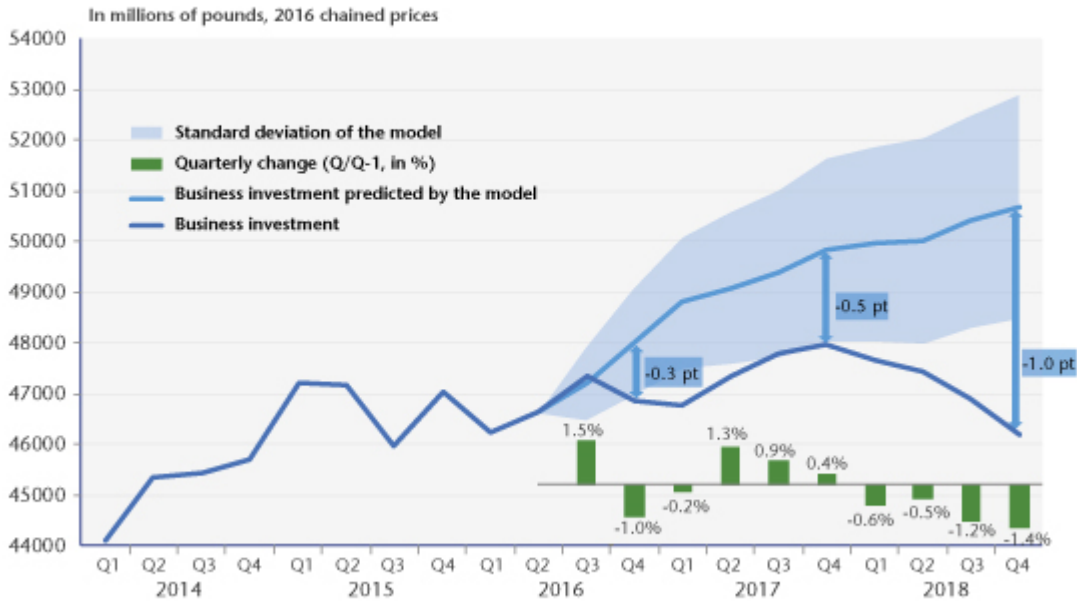
At a time when the outlook for world trade outlook remains glum [\[1\]](#), British domestic demand is struggling to remain dynamic: household consumption has run out of steam at the end of the year, while investment fell by 1.4 points in 2018.

This latest fall can be attributed almost entirely to the investment of non-financial corporations [\[2\]](#) (55% of GFCF in volume), which fell consecutively during the four quarters of the year (Figure 1), for a total fall of -3.7% in 2018.

Investment can be predicted by an error-correction model [\[3\]](#), and the one used for the investment forecasts of non-financial firms in the United Kingdom benefits from an adjustment that can be considered “correct” in terms of its explanatory power (86%) over the pre-referendum period (1987Q2 – 2016Q2). If we simulate the trajectory of investment following the 2016 referendum (in light blue), we can see that it deviates systematically from the investment data reported by the ONS (dark blue) [\[4\]](#).

This result is consistent with the results found in the recent literature, which also show that the models have consistently tended to overestimate the investment rate of UK firms since 2016 [\[5\]](#). The gap has steadily risen in 2018, from 0.5 percentage point of GDP in 2017, to almost one point of GDP in the last quarter.

Figure. Evolution and simulation of investment by non-financial corporations in the United Kingdom



Source: ONS, OFCE calculations.

What explains the gap? We interpret this deviation as the effect of the uncertainty arising from Brexit, particularly that on the future trade arrangements between the UK and the EU. Nearly half of Britain's foreign trade comes from or goes to the single market. Although the inclusion of an uncertainty indicator (Economic Policy Uncertainty – EPU, see Bloom et al., 2007) in the investment equation failed to identify it clearly, several studies on data from UK firms point in this direction. First, periods of heightened uncertainty moved in line with significantly lower investment after the 2008 crisis (Smietbanka, Bloom and Mizen, 2018). In a scenario without a referendum (no Brexit), the transition to a regime with renegotiated customs tariffs would have had the effect of:

- Reducing the number of companies entering the European market and increasing the number exiting (Crowley, Exton and Han, 2019);
- Weighing on business investment with the prospect of tariffs similar to those prevailing under WTO rules (Gornicka, 2018).

The reduction in investment “cost” 0.3 percentage points of GDP in 2018, and this cost could rise as second-round effects

are taken into account (which is not the case here). If the uncertainties do not rise, the “Brexiternity” – an expression used to characterize the relationship between the United Kingdom and the European Union, that is to say, inextricable – could have a much more depressing effect on Britain’s future growth and its citizens’ standard of living.

[\[1\] The WTO composite indicator has stayed below \(96.3\) its long-term trend \(100\) since mid-2018.](#)

[\[2\]](#) Reported by the Office of National Statistics (ONS) as Business Investment. Non-financial corporations partially or wholly owned by the government are included in this field, but they account for less than 4% of the total. This measure of investment does not include spending on housing, land, existing buildings or the costs related to the transfer of ownership of non-produced assets.

[\[3\]](#) See the article by Ducoudré, Plane and Villemot (2015) in the *Revue de l’OFCE*, for more information on the strategy adopted.

[\[4\]](#) A slight gap can be seen from 2015, when the law on the referendum was adopted.

[\[5\]](#) In particular the work of Gornicka (2018).

Climate justice and the social-ecological transition

By [Éloi Laurent](#)

There is something deeply reassuring about seeing the growing scale of climate markets in numerous countries around the

globe. A section of the youth are becoming aware of the injustice they will suffer as a result of choices over which they do not (yet) have a say. But the recognition of this *inter*-generational inequality is running up against the wall of *intra*-generational inequality: it will not be possible to implement a real ecological transition without dealing with the social question here and now, and in particular the imperative to reduce inequality. In other words, the ecological transition will be social-ecological – or it will not be. This is the case in France, where the national ecological strategy, currently 90% ineffective, needs to be thoroughly overhauled, as proposed in the new [OFCE Policy Brief \(no. 52, 21 February 2019\)](#).

This is also true in the United States, where a new generation of red-green politicians is taking part in one of the most decisive political struggles in the country's history against the ecological obscurantism of a President who is a natural disaster in his own right. In a [concise text](#), which is remarkable for its precision, analytical clarity and political lucidity, the Democrat Alexandria Ocasio-Cortez has just proposed a "Green New Deal" to her fellow citizens.

The title may seem ill-chosen: the "New Deal" carried out by Franklin Delano Roosevelt from 1933 was aimed at reviving an economy devastated by the Great Depression. But isn't the American economy flourishing today? If we rely on the economic indicators of the twentieth century (growth rate, finance, profit), there's no doubt. But if we go beyond appearances, we can discern the recession in well-being that has been undermining the country for thirty years and which will only get worse with the ecological crisis (life expectancy is now structurally declining in the United States). Hence the first lever of the ecological transition: to break with growth and count on what really matters to improve people's well-being today and tomorrow.

The second lever: coordinating the approach to social

realities and ecological challenges. The New Green Deal identifies as the root cause of America's malaise "systemic inequalities", both social and ecological. Accordingly, it intends to implement a "fair and equitable transition" that will benefit in priority "frontline and vulnerable communities", which one could call "ecological sentinels" (children, elderly people, the energy insecure). These are people who prefigure our common future if we allow the ecological crisis for which we bear responsibility to deteriorate further. It is this coordination between the social and ecological that lies at the heart of the proposal by several thousand economists to introduce "[carbon dividends](#)" (an idea [originally proposed by James Boyce](#), one of the world's leading specialists in the political economy of the environment).

Which brings us to the third lever: to gain citizens' interest instead of terrorizing them. In this respect, the [detailed report](#) published by the Data for Progress think tank deploys an extremely effective argumentative sequence: the new ecological deal is necessary to preserve humanity's well-being; it will create jobs, it is desired by the community of citizens, and it will reduce social inequalities; and the country has the financial means to implement it. It's concrete, coherent, convincing.

In 1933, Europe and France were half a century ahead of the United States in terms of the "new deal". It was in Europe and France that the institutions of social justice were invented, developed and defended. It is in the United States that the social-ecological transition is being invented today. We should not wait too long to get hold of it.