Discussion of Broadbent et al. ‘The Brexit Vote’

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Overview

1. What this paper does
2. What I liked
3. Suggestions
4. In Summary
What this paper does

- Constructs a dataset on the tradable and nontradable sectors for the UK
- Narrates stylised description of how these series have behaved since Brexit
- Bayesian estimate of parameters of a structural open-economy model, assuming all shocks before Brexit were unanticipated
- Hit the model with a calibrated tradable productivity shock after referendum, fully anticipated
- Eyeball the IRFs
- Variance decompositions of UK business cycles
What I liked

- New dataset should be applicable to many questions
- Model avoids the productivity - real exchange rate anomaly
- Credible answer to an important question
I think the right question is:
’what set of (possibly Brexit-related shocks) most probably explains the recent behaviour of the UK economy?

This paper does not currently answer this question

‘Consistent with’ is the not the same as ’most likely to be explained by’

Two ways to improve:
1. Consider a broader set of shocks
2. Compare data with simulations more carefully
Several alternative or additional shocks seem *a priori* quite likely

- migration
- (future) trade barriers
- animal spirits (see e.g. Levchenko and Pandalai-Nayar (2018) - TFP news shocks don’t matter when they are included)
- uncertainty
- current productivity
The shock decomp depends crucially on what shocks are in the model.

Figure 17: Historical decomposition of total hours

Notes. The black line is the actual realization of the variable over time. The bars denote the contribution of each shock to the movements in the variable over time. Business cycle fluctuations are driven by disturbances to non-tradable TFP growth ($g_{Ni}$), tradable TFP growth ($g_{Ti}$), government expenditure ($s_t$), risk-premium ($\nu_t$), foreign price ($\xi_t$), temporary non-tradable TFP ($a_{Ni}$) and temporary tradable TFP ($a_{Ti}$).
Migration

Brexit has already affected labour supply

Source: Office for National Statistics - Long-Term International Migration
Current productivity

Firms have spent considerable sums preparing for Brexit, with immediate effects on productivity

Brexit-related spending over the past three years, by Brexit uncertainty
Comparison of shocks with data

Paper could do more here

- Plot data and simulations on the same chart
- With more shocks on the table
  - allow for a combination to have driven the recent past
  - or consider a more formal criterion - e.g. Bayes factor - if choosing just one
In Summary

- Great data and model
- Plausible story
- Need more than one horse in the race to meaningfully declare a winner