Independence would hit Scottish economy 2 to 3 times harder than Brexit

Brexit and independence together to shrink Scottish economy by 6% to 9%

Rejoining the EU would not offset the costs of independence

The combination of independence and Brexit would reduce Scotland’s income per capita by between 6.3 per cent and 8.7 per cent in the long-run, a new study from the London School of Economics and Political Science shows.

The economic hit from the two events is equivalent to an income loss of between £2,000 and £2,800 per person every year, economists estimate. The study *Disunited Kingdom? Brexit, Trade and Scottish Independence* published today by the LSE’s Centre for Economic Performance, analyses the impact on Scotland’s economy of potential changes in trade barriers resulting from Brexit and Scottish independence.

It finds that the economic costs of independence are two to three times greater than the impact of Brexit. And the report concludes that the loses from independence are similar regardless of whether an independent Scotland rejoins the EU or maintains a common economic market with the UK.

Authors Hanwei Huang, Thomas Sampson and Patrick Schneider find that independence would hit the Scottish economy harder than Brexit because Scotland’s trade with the rest of the UK is about four times larger than its trade with the EU. This large difference means that creating a border within the UK would be more costly than the increase in UK-EU trade costs due to Brexit.

The report also shows that there is around six times more trade between Scotland and the rest of the UK than predicted by the standard gravity model of international trade, highlighting the trade benefits from being part of a United Kingdom.

Hanwei Huang, assistant professor at the City University of Hong Kong, said: “This analysis shows that, at least from a trade perspective, independence would leave Scotland considerably poorer than staying in the United Kingdom. While many considerations will play a role in shaping the outcome of a second referendum, voters need to know what the likely costs and benefits of each course will be. This briefing contributes to that knowledge.”

Thomas Sampson, associate professor of economics at LSE, said: “We find that the costs of independence to the Scottish economy are likely to be two to three times greater than the costs of Brexit. Moreover, rejoining the EU
following independence would do little to mitigate these costs, and in the short run would probably lead to greater economic losses than maintaining a common economic market with the rest of the UK.”

Patrick Schneider, a PhD student at LSE, said: “We show that rejoining the EU will only support the Scottish economy in the long-run if a costly condition is met – that the move to independence reduces trade with the rest of the UK by so much that the EU becomes Scotland's largest trading partner.”

The estimates reflect the long-run effects of Brexit and independence, and it could take a generation or more for the full effects to materialise. The report focuses on trade costs and does not study other economic consequences of independence, such as changes in fiscal arrangements or Scotland’s currency.

The full paper is available here: Disunited Kingdom? Brexit, Trade and Scottish Independence

Notes to editors

1. The Centre for Economic Performance (CEP) is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world. www.cep.lse.ac.uk

2. The CEP Brexit analysis series provides evidence-based briefings on the economic and social policy issues arising from United Kingdom’s exit from the European Union.

3. The Centre for Economic Performance is part-funded by the Economic and Social Research Council, part of UK Research and Innovation (UKRI) https://esrc.ukri.org/ https://www.ukri.org/

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