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**Research: Quantifying the Cost of Brexit Uncertainty**

CEOs in the UK have been spending more than an hour and a half a week on Brexit planning, according to a recent study. CFOs have spent more than two hours. Together, UK executives in those two roles are devoting a combined 200 hours a year, on average, to Brexit preparation. For CEOs, that represents about a week and a half of Brexit planning in a year. But it’s still not clear what, exactly, they’re supposed to be planning for.

More than three years after the referendum, businesses still don’t know what the outcome of Brexit negotiations will be – which means they’re bracing for an impossibly wide range of possibilities, on everything from terms of trade with Europe to immigration rules to domestic regulation.

Economic theory predicts that when firms face a highly uncertain future, they have an incentive to delay investment and hiring and put off other decisions. And two new studies suggest that this is exactly what’s been happening in the UK over the past three years, resulting in substantial harm to its economy.

To measure the impact Brexit has had on the UK economy so far, economists from Stanford, the Bank of England, the University of Nottingham, and the London School of Economics asked more than 7,000 UK-based executives how Brexit has affected their companies. The survey included questions about how much time executives were spending preparing for Brexit, generating the estimates above. The researchers also asked executives how much uncertainty the Brexit vote had created for their businesses. They tallied the percentage of respondents that ranked Brexit as one of their top three sources of business uncertainty and used that figure to create a “Brexit uncertainty index.” In a previous analysis, they demonstrated that over the past three years Brexit uncertainty has only increased, not abated.

Their most recent working paper, published in August, links these survey answers to data on companies’ performance. The higher executives ranked Brexit as a source of uncertainty, the less their business had grown since the referendum. By comparing firm growth pre- and post-referendum, the researchers were able to estimate Brexit’s effects on firms, which are sizable, and use them to estimate the total impact the Brexit vote has had on the UK economy.

“Anticipation of Brexit is estimated to have gradually reduced investment by about 11% over the three years following the June 2016 vote,” the researchers write. They also estimate that productivity in the UK has decreased by between 2% and 5%. (They estimate that Brexit has had a negative effect on employment, too, but this effect was not statistically significant.)

These figures align with recent headlines. In late 2018, The Guardian reported that business investment in the UK was at its lowest point since the Great Recession and the economy shrank in the second quarter of 2019, which The Financial Times attributes partly to Brexit and its effect on investment.

Is political uncertainty truly to blame for all this? Or is it that leaving the EU will be so bad for the UK that businesses are pulling back in anticipation of it? Distinguishing between these two ideas is hard, both in theory and in practice. But one interesting attempt to do so comes from a study analyzing earnings call transcripts, which found that uncertainty has played the bigger role.

In forthcoming research, economist Tarek Hassan of Boston University and his colleagues looked at transcripts of 85,000 earnings calls from publicly listed companies between 2015 and 2019, to see how they were talking about Brexit. Mentions of Brexit on the calls were associated with lower sales, investment, employment, and profitability during that year. But this negative effect was particularly strong when mentions of Brexit were accompanied by words synonymous with risk and uncertainty, suggesting that the damage was caused not just by the prospect of less trade but also by the uncertainty itself.

Taken together, these studies show how policy uncertainty can significantly harm companies and economies. That has implications beyond Europe. Policy uncertainty has been rising globally according to the Economic Policy Uncertainty index, which tracks uncertainty using newspaper reports. That increase is driven by several factors, most notably the ongoing U.S.-China trade dispute, which is shaking up trade relationships around the world. In this sense, Brexit is “the canary in the coal mine for anti-trade movements,” says economist Nicholas Bloom, of Stanford University, and co-author on the first study.

It’s an important takeaway for both businesses and politicians. While pulling back from global trade can cause significant economic harm, including lower productivity and less immigration, the way this is carried out matters, too. If anti-trade movements run a chaotic and unpredictable process, the effects will be even worse.

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