



Check the forecast before you go

PROFESSOR KOSTAS I. NIKOLOPOULOS and DIMITRIOS D. THOMAKOS consider the implications of failing to carry out forecasting when it comes to Brexit.

In our forecasting think tank, we have always been advocates of the quintessential role of forecasts when taking informed decisions. This becomes even more important for efficient and effective governance. Every decision should be based on the impact and consequences of all the various outcomes and scenarios. So, how can we apply this to Brexit?

We are not trying to take a position for or against Brexit, but we would like to be certain that all parties have done their forecasting exercise so that whatever decision is taken, it will be one informed by rational forecasts. We believe neither in the doomsday scenario of Brexit advocated by Remainers, nor in the ecstatic views of the Brexiteers that the economy will fly high under free trade.

BANKING ON EMOTION?

Emotion-based 'reasoning' excludes discussion about the real problems, so the issues of liberty and freedom (of movement of capital and labour) are not tackled, and questions about entrepreneurship and high taxation are confused. Looking at the issue of Brexit completely from an emotional perspective also ignores the support that the European project has provided to many underprivileged areas and people in the UK.

And, of course, when it comes to Brexit, there are many political biases at play that are clouding people's judgement. Effective forecasting shouldn't be influenced by political leanings, preconceptions or indeed patriotism. These preconditioned opinions and beliefs result in skewed forecasts as they are not based on logic, fact and previous experience.

WHAT CAN WE LEARN FROM GREECE?

'Grexit' was a term first coined back in 2012 to describe what might have become Greece's exit from the EU. This, of course, never actually took place, but many of the issues from six years ago have resurfaced in the aftermath of the UK's referendum on EU membership. It would appear that the two situations might be connected – but are they?

There is no doubt that they are connected, but not in the sense of continuity, in that one might trigger pressures for the other. They are connected by the emotion-based arguments made by proponents of 'exiting' the European Union (and, for Greece, the common currency). These are made without the slightest understanding – or forecasts per se – of the disruption and misery that the effects of such an 'exit' could and are likely to bring.

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TAKING A STEP BACK

Away from the various agendas surrounding the EU and the UK's impending withdrawal in March 2019, there are a number of critical questions to be considered in forecasting, irrespective of who's conducting it. For example, there stands to be an impact on employment in the UK. We've already seen a number of financial services organisations move their operations to other EU countries in anticipation of this. Has the banking sector done enough to address a potential skills shortage in 2019 and beyond?

The UK economy, like many others around the world, hasn't been thriving since the financial crisis of 2008. It's not good enough for both sides to say the country will prosper one way or the other. How long will it actually take for the economy to recalibrate or even grow after all the details of Brexit are known and come to terms with? Where are the lessons to be learnt and factored into forecasting?

The remedies put in place to help the UK recover from 2008 have been well documented. But will fiscal profligacy become in vogue again after Brexit? Beyond the political posturing around the issue, what do we really know about the impact Brexit could have on SMEs that do business

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with the EU? What about the impact on individual living standards? These are not the 'headline' topics of immigration and the customs union, but they are extremely important nonetheless.

We would feel more reassured if for every one of these questions (and more), a scientific forecast had been produced by all parties, so that any discussion could be based on that, rather than on dogma or political manoeuvring. And even if the answer is 'freedom – however it is defined – comes at a cost', it's in everyone's best interests to know this cost beforehand.

FAIL TO PREPARE...

Regardless of what the government, the opposition and the supporters of Leave and Remain claim, some detailed forecasts have been done. These, however, have been kept behind closed doors as they are deemed to be not necessarily favourable to the agenda that needs to be pushed by one side or the other. What both camps ignore is that similar

forecasting exercises are being done every day in banks, large companies and SMEs. Even individuals are doing their own assessments so that once (or if) the plug is pulled, they will be ready, based on their forecasts, to stay in or leave.

Finally, some impartial academic advice to all parties involved: do the math. Prepare your forecasts properly and answer all the questions beforehand in an informed way.

This is not a drill. ☹

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