

Executive Summary

This publication provides an overview of the background to and impact of Brexit, with a main focus on the economic dimension. It looks at who voted for Brexit and why, in whose interest Brexit would be, at the impact of the Leave vote to date, at the likely economic impacts of Brexit and in particular of a no-deal Brexit, and at our trading relationships.

1. Whose choice, and in whose interest?

The ‘Leaver’ camp comprises three distinct groups – (a) the “free trade and deregulation” camp and its many business lobbyists, (b) the majority for whom ‘Leave’ was an expression of nationalism and reaction to the impacts of globalisation and Europeanisation, and (c) the Lexiters who see a future outside a neoliberal EU as offering the UK its best chance of achieving socialism.

A majority of those polled at the time of the Referendum thought the UK would be better off economically if we remained in the EU. Other reasons were more important for most Leavers.

We look at the demography of the Referendum vote – which age and social groups etc. voted to Leave or Remain. An analysis of the demography of the Referendum vote does not of itself help answer what type of Brexit (if any), and what type of future we should be seeking. But it does tell us that there is social dissatisfaction on a scale that governments ignore at their peril.

2. The European Union – a force for good or ill?

While many Leavers see the EU in wholly negative terms, the Remain camp have too often failed to make the positive case for being a member of the Union, and have limited the debate almost wholly to the economic sphere.

This section summarises many of the principal achievements of the European Union, while noting its weaknesses which the left should acknowledge, e.g. the perverse fiscal

rules, and excessive liberalisation of public services. If the UK stays in the EU, a strong Europe-wide “Remain and Reform” campaign is essential.

3. How well has the UK economy performed as a member of the EU?

On any reasonable comparative basis, since 1973 the UK has done better, while a member of the European Union, than most other ‘advanced economies’ (and including most comparable EU member states), at least in conventional terms of Gross Domestic Product, and GDP per head of population.

However, the period since 2010, of austerity and supposed post-crisis recovery, has been worse, with the average rate of increase of GDP per head falling below the EU average.

4. The economic impact of the Brexit decision to date

We conclude from recent GDP data that the slowdown of business investment offers the most probable and clear evidence of a negative Brexit-related impact. Compared to a post-crisis average path of increase of 4% a year, we calculate a cumulative shortfall of business investment connected to the Brexit decision of some £35 billion.

We also look briefly, for comparison, at the impact of continued government austerity since 2015, and compare actual government spending with a path of real growth of 2% per year.

We have also compared the performance in terms of GDP of the UK economy with a group of 8 comparators for the period 2015 to 2019; this supports the conclusion that there has to date been a significant Brexit-related impact on UK GDP, but not as severe as many had forecast.

We conclude that the UK economy will be some 1 to 1.5% smaller in 2019 than it might have been if the Brexit decision had not been taken, and business investment in particular had proceeded at its normal post-crisis rate of increase.

5. The longer-term impact of Brexit

There is a large literature on the economic consequences of Brexit coming from many economists. Their studies generally assess the longer-term economic impact of a UK/EU Free Trade Agreement, or of moving to “WTO terms”, as a shortfall of GDP against a baseline “Remain in EU” assumption.

With two exceptions (see Section 6 below) who promote large-scale deregulation, there is no forecast Brexit scenario from any of the analysts in which the UK is

economically better off by leaving the EU. The main factor by far is the disruption of existing trade patterns, and creation of new tariff and non-tariff barriers.

Several studies forecast a short-term recession, even without a disorderly no-deal Brexit

While many supporters of Brexit have discounted forecasts showing the economic disadvantages of Brexit, as More of the Same (“Project Fear”), there are strong grounds this time as to why a recession of some depth and duration is likely in a no-deal Brexit, due to a combined demand and supply shock of exceptional scope and character.

6. Brexit and the deregulation agenda

Among the studies we have noted on the economic impacts of Brexit, there were two outliers which predicted either greater ‘growth’, after Brexit, or at least hardly any negative impact, compared to remaining in the EU. (From Economists for Free Trade and Open Europe).

Both bodies promote a major agenda of deregulation and ‘full competition’ free trade, in which environmental and workers’ protections are cast aside.

In conclusion, we can be sure that – if Brexit goes ahead – the argument about the scope for deregulation will quickly become louder, and more pressing, with the right-wing of the business community sensing that this is their golden opportunity.

7. The UK’s evolving trade patterns – but EU remains our main partner

Trade with the EU seen as an entity, which forms 48% of our total trade, remains far greater and more important than with any non-EU country or trading bloc. The only other country or bloc that bears any comparison is the USA. But total trade with the USA is only one third of total trade with the EU. Trade with China has increased many times since 1999, but is still over seven times smaller than that with our major EU trading partners.

Of our ten largest trading partners, seven are EU member states, and another is Switzerland.

While we can expand useful and sustainable trade with non-EU countries, to do so at severe risk of reducing actual trade with one’s nearest neighbours and biggest trading partners, by creating new tariff and non-tariff barriers with them, is perverse.

8. The public finance consequences of Brexit

A no-deal Brexit will act as a combined demand shock (as businesses and consumers rein in) with a supply shock (as new barriers to trade, both tariff and non-tariff barriers, suddenly appear).

We foresee and would propose a limited response of monetary policy, as the space for more substantial action by the Bank of England is not there. That leaves the necessary heavy lifting to be done by fiscal policy.

But if the government is to provide support to demand and protection to citizens, it will have to cast aside its existing fiscal rules and increase both the deficit and debt level very substantially.

The UK government will continue funding post-Brexit for similar programmes to those till now funded via the EU, including in particular support to farmers. It seems unlikely that much if any of our current net financial contribution to the EU (£8 billion) will remain to “recycle” post-Brexit into other services.

9. Wrenching the UK out of the EU, into the US system

Given the likely economic consequences of Brexit, there can be only one real economic agenda for the right-wing Brexit camp – to wrench the UK by political force out of its vast complex network of EU links, and to hardwire it into the US economy, in a way that irrevocably connects the UK politically as well as economically into the American system. This brings perceived benefits to both the ‘free trade and deregulation’ wing, and to the hard right Brexit base, who see Trump as a symbolic figure to admire.

10. A brief conclusion

From an economic standpoint, there is no serious Brexit scenario in which the UK benefits economically. If there had been, or were to be, a Brexit which kept the UK in the single market or customs union of some nature, then the direct economic damage may have been relatively modest.

The consequences of a no-deal Brexit, however, seem certain to be severe, especially in the first years.

Far from protecting those who voted for Brexit as a form of national protection against the excesses of economic liberalisation and the inequality it has engendered, the Johnson government, if it survives, will lead us rapidly down the path of deregulation and a race to the bottom.