The Great Brexit Wrench:

An Economic Analysis of UK Membership of the EU

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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.

Wrench:

1. To pull and twist something suddenly or violently away from its position:
2. To twist part of your body badly, such as your arm or leg, and injure it:
3. To suddenly take someone from people they love, causing them great unhappiness:

[From The Cambridge Dictionary]

Introduction

As I have been writing this short publication on the economic and political dimension of Brexit, the UK's constitutional and political foundations have been shaking; each day adds its new drama. For the first time in my lifetime, the UK has a significant organised hard right nationalistic political force, including a strong (neo-)fascist component, using Brexit as its battering ram against the country's protective institutions[1]. Strange and dangerous times.

It appeared evident, when he became Prime Minister thanks to the votes of the mainly hard-line, elderly Conservative Party membership, that Mr Johnson was seeking a 'no deal' Brexit outcome, setting his "do or die" 31st October deadline, proclaiming a wish to achieve a deal while not putting forward any proposals that might actually lead to one. Confronted however with a choice between actually doing a deal, obeying the new Act of Parliament obliging him to seek an extension of Article 50, or disobeying the law, or some other outcome chosen or imposed, it is not yet clear - as I write – which scenario will unfold in the next very few weeks. After all, the truth and Mr Johnson are such uneasy companions that we may not truly know till the very last moment.

If (despite the vanishingly short time available) a new backstop-amended variant of the Withdrawal Agreement is put to Parliament, and if Parliament this time approves it, then we would at least have a transition period, and maybe longer if so agreed, in which we would retain much of the status quo for a year. That would avoid the 'no deal' cliff edge, and the worst economic impacts of Brexit, at least for now. It would move the

[1] For avoidance of doubt, I in no way believe that most Brexit supporters are (neo-)fascists; but that there is such an element is now beyond all doubt.

hard decisions, about what kind of post-Brexit future we seek, down the line. Uncertainty will remain for a long time.

But if, absent any Agreement, the government obeys the law and seeks a further Article 50 extension to January, this may only be for the purpose of holding a General Election, and potentially a Referendum. And who can predict the outcome of that with any confidence? And if, by flouting the new law, or if the EU Council do not agree an extension, we leave on 31st October without a deal, then we can foresee an extremely difficult period economically, whatever the political fall-out.

And so it comes as no surprise that the Trump administration seeks to take advantage of our growing political disunity and chaos to pursue its strategic agenda of damaging and breaking the European Union, which it sees as not sufficiently kowtowing to its own 'America First' political line. Back in April, President Trump was already targeting the EU:

"Too bad that the European Union is being so tough on the United Kingdom and Brexit. The E.U. is likewise a brutal trading partner with the United States, which will change." (11 April, Twitter)

At the G7 Summit in Biarritz in August, Trump spoke of doing, with the Johnson government, "a very big trade deal… At some point, they won't have the anchor around their ankle…" The deal could be done "pretty quickly". It will be "fantastic" (Prime Minister Johnson's word), even if there are just a few "obstacles" to clear out of the way. These little obstacles, as we will see, include access to British markets for US farmers, and the "low price" the NHS pays for drugs – US Big Pharma is seeking to control the UK market.

More recently still, Vice-President Pence paid a visit to PM Johnson, and, referring also to the "very warm and personal relationship that you have forged with President Trump", stated that:

"We truly believe that a free trade agreement between the United States and the UK could increase trade between our countries by three or four times. We're anxious to do that."

That assertion by the Vice-President surely stretches everyone's powers of credulity to breaking point – yet it was tweeted (with little US and UK flags) without qualification by the Permanent Secretary of the Department for International Trade, as if having a potential basis in reality. Another small sign of the decay of our public governance. Another sign of this Conservative government's re-orientation of our alliances away from Europe (which for all its faults maintains many progressive and socially beneficial policies and standards) to the hardest-right political elements of the United States.

1. Brexit — whose choice, and in whose interest?

There were and are three main strands of "philosophy" among those who support Brexit. The first we may call the "free trade and deregulation" camp, supported by an important section of the UK business elite and establishment. In making the arguments around the alleged future economic benefits of Brexit, it is this group and their lobbyists who have sought to make the running. The group includes the True Believers in economic ultra-liberalism, in which the UK economy (and society) is to be opened up to the unconstrained forces of global competition. The Economists for Free Trade group articulate these views in their more extreme form, and alone among economists, claim to believe that a hard Brexit will bring major economic gains.

This first group also includes many business leaders whose financial interests lie not in Europe but in the United States or the rest of the world. The lobby group Open Europe (which on the surface is "neutral" over Brexit) has put forward firm proposals for a post-Brexit bonfire of regulations, on workers' rights, climate change and the environment, and consumer protection. In their "What if…" report of 2015, they describe the most deregulatory option as their "best case" scenario. The report also lists at the end 23 CEO 'supporters' from high finance and industry, "the women and men who place their trust in Open Europe" (they show 22 men and one woman).

The second group are made up of the vast majority of Brexit voters. The debate has gone on for three years as to how much the Leave vote was caused by factors such as industrial change and community neglect, the effects of austerity and insecurity etc., or whether it was more simply a vote against immigration, and for some proportion of the vote, based on racism. These are hard to disentangle with precision, but below, we look at some of the findings of Lord Ashcroft's major polling of voters at the time of the Referendum.

Of one thing we can be sure – the vote of most Leavers was an expression more of nationalism (I use the term generally, not pejoratively) than of belief in a deregulated global economic system. To some extent, it was surely a reaction to the impacts of globalisation including “Europeanisation”, in which market forces and rapid industrial change have swept through the ‘advanced economies’, to the benefit of some, and the detriment of many others. In short, the Brexit vote represents, to a significant degree, a reaction to the excesses of economic liberalism of the kind the economic historian Karl Polanyi has described. In a lecture he gave in 1940, he summarised it in this way:

“If international division of labour is effected by competition and consequent elimination of the less efficient, then much will depend upon the rate at which the change proceeds as well as upon the dimensions of the units involved.... if whole countrysides, countries or continents compete, the elimination of the less efficient may involve the ruin and destruction of whole communities....

The more intense international cooperation was and the more close the interdependence of the various parts of the world grew, the more essential became the only effective organizational unit of an industrial society on the present level of technique: - the nation. Modern nationalism is a protective reaction against the dangers inherent in an interdependent world.”

For Polanyi, this did not necessarily involve a progressive reaction – on the contrary, he was talking about the risk of a move to fascism or other authoritarian government, though he saw Roosevelt’s USA (which had tamed Wall Street) as offering hope for a progressive democratic turn. As the Brexit debate has rolled on, we see more signs of a move in the UK to a more authoritarian form of government, which Brexit seems likely to reinforce.

The narrow vote in the EU Referendum to leave the EU was, on the surface, a vote that asserted a willingness to be economically worse off. Other reasons were more important. That is why the mainstream Remain campaign’s relentless focus on the risks of economic damage, to the exclusion of positive arguments about the other benefits and opportunities, ultimately failed. Membership of the EU is only partly an economic issue – it is also, and perhaps more so, a matter of politics and political choices. Yet the political case for remaining was hardly touched on.

The third ‘philosophical’ group in favour of Leave were the Lexiters – the “left exiters” who see a future offering the UK its best chance of achieving socialism, or at least a different and better economic strategy, outside a European Union seen as irredeemably embedding neoliberalism. For more on this choice, see the section on “The Good and the Bad of the European Union”.

The views of Leave voters

At the time of the Referendum, Lord Ashcroft carried out the most thorough, detailed and interesting opinion survey, of over 12,000 voters. Those polled were asked to give their view as between the following two statements:

"The decision we make…may make us a bit better or worse off as a country but there probably isn't much in it either way", or "The decision we make…could have disastrous consequences for us as a country if we get it wrong"

Overall, only 43% supported the first – there won't be much in it either way – while 57% felt there might be "disastrous consequences" if it went wrong. Leavers were, of course more strongly of the first view (69:31) – there's not much in it - while Remainers took the second (by 77:23). But that still shows that nearly one third of Leavers were apparently willing to take the risk of disaster on the economic front.

The answer to several other questions reinforces the view that many Leavers - the diehards - were (and indeed apparently still are) prepared to see a significantly worse economic future for our country, for the sake of other Brexit-aided goals.

Those polled were asked the general question whether, taking the economy as a whole, it would be better if the UK were to remain. A narrow majority answered yes – 52% felt that the UK's economy would be better staying in the EU. This view was held, for example, by 10% of Conservative Leavers, and 12% of Labour Leavers.

Another question was whether, looking at the future cost of living, we would be better off remaining in the EU (or not). By a large margin of 55:45, voters thought we'd be better off remaining. 15% of Leavers, and 97% of Remainers, thought that we would be better off in the EU, from a cost of living perspective. The only age group which disagreed was the over 65s (47:53).

Regarding future job prospects, once more a majority thought that – from this angle – we would be better off staying in the EU. The margin here was a little smaller, 51% to 49%. Among Leavers, 9% thought job prospects would be better if we remained in the EU. In this case, there was a stark divide between the under 45 age groups - who by a large margin thought prospects were better in the EU - and the over 45s, and especially the over 65s, who took the opposite view.

On the proposition that, for "economic security for you and your family" it was better to remain in the EU, once again, there was majority support, by 52:48. Of Leavers, 9% agreed with this. And asked about "opportunities for children growing up today", 51% felt it better to remain, including 8% of Leave voters.

Finally on the economic questions, when asked if – regarding investment in the UK by international companies – we would be better remaining, an overwhelming 60% thought we would be, of which 25% of Leavers.

A *majority thought we would be better off economically remaining in the* EU

The overall conclusion is clear – a clear majority of voters considered that, from a purely economic point of view, the UK and its people would be better off remaining in the UK. The economy as a whole, economic security, cost of living, job opportunities, opportunities for our children, foreign investment… on all these as individual issues, Remain was seen as the better option. Leavers were divided between those (a majority) who thought Leave was the better option on economic issues, and a strong minority (some 10-25% of Leavers depending on the issue) who with eyes open, were willing to vote Leave despite accepting the economic disadvantages this might bring.

Even on the broader question of whether, regarding "the UK's influence in the world" it would be better to remain in the EU or to leave, there was a majority of 56:44 for "better to remain", including 14% of Leave voters.

But other issues swayed the vote to leave

What "trumped" the economic issues included these:

- "the ability to control our own laws" – from this perspective, better to Leave led by 78:22
- "the immigration system" and "border controls" – better to Leave 70:30
- "Fairness in the welfare system" – better to Leave 57:43
- "The NHS" – better to Leave 56:44. In this case, Leavers were almost unanimous in thinking that, taking the NHS, we would be better outside the EU – but 12% of Remain voters also took this view.

In conclusion, on this point, there is here little evidence of a belief in sweeping globalisation and deregulation. The 'take back control' mantra, for all its implausibility in practice, was more powerful. While 'Globalisation' was not overall seen as a force for ill, 69% of those who did see it as a force for ill voted Leave.

The demography of Leave and Remain

So given that economic well-being issues were not the determining ones, at least for a decisive section of Leave voters, who voted which way?

A huge age difference – the young voted to Remain, the old to Leave

As is well known, the Leave vote was heavily an older persons' vote. A large majority of those under 45 voted to Remain; but a large majority of those aged 45 or older voted to Leave. Over 65s voted 60:40 to Leave. A majority of those with younger children voted to Remain.

No gender difference

Overall, 48% of men and of women voted to Remain, and 52% of each gender to Leave.

A majority of social groups C2,D and E voted Leave

In "social group" terms, ABs (higher managerial, professional etc.) voted by a substantial majority to Remain (57:43), while C2s and DEs (skilled and unskilled manual workers, retired people living on state pension) voted by around 2 to 1 to Leave. C1s (administrative and junior professionals) were almost evenly split. With economic and societal changes, the proportion of C2DEs in the population is much less than it used to be (45% in 2008, compared to 59% in 1988), and they are over-represented in the older age groups.

A majority of those who have had no higher education voted Leave

A similar division appears in relation to levels of education and educational qualification – the 'higher', the more likely to vote Remain. Of those who went to secondary school but not beyond, 64% vote to Leave. Of those who went to university, 57% voted Remain (and even greater for 'higher university degree').

A majority of those in work voted Remain

A clear majority of those in work - full-time or part-time - voted Remain, while most of those not working voted to Leave, which is consistent with the age profile of voters. More than half of those retired on a private pension voted Leave, as did two thirds of those retired on a state pension. A majority of private renters backed Remain, while a sizeable majority of social housing renters supported Leave.

A majority voted Leave in Wales and every English region save London; a majority of Scots and Northern Irish to Remain

As is well known, the people of Scotland (62%) and Northern Ireland (52%) voted to remain, while the people of England in every region save London (56% remain) voted leave. The strongest "leave" regions were Eastern and East Midlands (both 57% leave), while the people of Wales voted 56% to leave.

Socially conservative people were more likely to vote Leave

The Leave vote was also in part (though not wholly) a socially conservative choice. Voters were asked whether they agreed that certain "issues" represented a force for good, or a force for ill. These included: Multiculturalism, Social liberalism, Feminism, The Green Movement, Globalisation, The Internet, Capitalism, Immigration.

As may be expected, there is some correlation between voting Leave, and viewing many of these issues more negatively. On several issues, the most 'conservative' positions were those of the over 65s. Though they formed 24% of the whole sample, the over 65s formed 33% of those who saw Social Liberalism, and 38% of those who saw The Green Movement, as "a force for ill" (we should also note that overall, the 65+ cohort was still positive to both, but by less than other age groups).

The strongest difference of all was around "Immigration", with 80% of those seeing it as a force for ill voting Leave, and 79% of those seeing it as a force for good voting Remain.

A majority of 2015 Conservative voters backed Leave; of Labour & Lib Dem voters, Remain

Looking at party voting allegiance, of those who voted Conservative in the 2015 General Election, 58% voted Leave, while 63% of 2015 Labour voters, and 70% of Liberal Democrat voters, voted Remain.

Finally, in this section, we should note that Leave was more often the choice of those who have a generally pessimistic view about the future.

Those polled were asked to say whether they agreed with the 'better' or 'worse view in this statement:

"For most children growing up in Britain today, life will be [better] [worse] than it was for their parents".

39% of Leavers opted for 'better' compared to 52% of Remainers. Conservative voters were generally more optimistic than those of other parties (55% said 'better', compared to Labour 42%, Greens 35% and UKIP voters 30%).

Some reflections on the demography of Leave

Supporters of Brexit often claim that the vote to Leave represents largely a vote of the working class, expressing opposition to an establishment elite. While there is some basis for seeing the Leave vote as representing the majority position of the poorer sections of the community, the overall position is far less clear.

The most striking divisions are seen on age, education and social groups. Yet the vote was also that of the 'not working' class, since a majority of those working voted to remain. Sadly, it was in part a vote of the old deciding on the future of the young, in opposition to the views of the large majority of the young.

It was a vote of those who tend to see the future in more pessimistic terms, and with a bias to more conservative views on social issues. It was also a vote in which a large minority of those in social groups AB, likely to be the better-off, also voted Leave – and Leave would not have won without their support.

In short, it would be wrong to ignore the class basis of the Leave vote, which clearly expresses a strong sense of dissatisfaction from the less well-off. But the Leave and Remain votes cross over boundaries of age, class and social attitudes. What an analysis of the demography of the Leave and Remain vote does not help us with at all is answering what type of Brexit, 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, and which is surely related both to the longer term changes in our economy and society, but also to the experience of the last decade, the age of austerity.

In summary:

Remainers were more likely to:

- live in London, Scotland, Northern Ireland
- be in work
- be young
- have higher education
- be from social groups AB
- vote Labour or Lib Dem

Leavers were more likely to:

- live in Wales, East Midlands and East of England
- be older, and pensioners
- be from social groups C2, D or E
- vote Conservative
- be socially conservative
- be more pessimistic about the future

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

We can take it as given that for many Leave voters, the EU is seen as a force for ill, for all the reasons so relentlessly, and often untruthfully, portrayed in our mass media – and notably the newspapers owned by pro-Brexit billionaires. The Court of Justice, free movement, excessive and intrusive regulation, perceived lack of democracy… we know the arguments, and the counter-arguments.

In the UK, the case for the UK being a member of the EU, and the case for the EU itself, are often conflated or confused. The argument for remaining in the EU was largely 'sold' on the grounds that it is better to fight for our interests from the inside than to be outside; that we can have a stronger voice and influence for economic liberalism from within. That line of reasoning makes no positive case for the European Union, and reduces the issues almost wholly to the economic sphere, and not from a progressive perspective.

Yet the achievements of the European Union are more marked in the political and social spheres than in the economic, in which it has not been hugely successful, and for which it has created an often perverse set of rules and policies.

So just to recall some of its successes, or relative successes: The EU has been a space since its founding in 1957 in which no war has taken place – its existence is surely an important foundation for securing this. True, some of its member states have acted in ways that have helped cause or exacerbate terrible wars, including in the Balkan region, but the EU itself has not. And since the end of the Balkan war, the EU has helped to promote reconstruction. The central point is that there has been no war between member states throughout its existence, in stark contrast to earlier centuries.

The EU has been a leader in environmental, renewable energy and climate change policy and action. It has strongly developed women's rights. It has created important new workers' rights and protections. It has supported collective bargaining. It has created new rights for consumers, such as on telecom roaming charges. It has developed new protections against overmighty corporations, including in data protection, and it has challenged anti-competitive activities by private monopolies such as Microsoft and Google. It has helped poorer regions and countries to develop through social and physical infrastructure. In international organisations, it has for the most part espoused more progressive positions than, for example, the United States. It has done everything on a European budget of less than 1% of EU GDP.

For me, the Single Market is not so high on the list of achievements. Its potential was oversold at the outset, and whereas the economists at the time forecast that it would have a major positive economic impact, it is quite hard to detect that, when one compares rates of GDP increase before and after. (In 2013, Deutsche Bank researchers estimated that after its first 20 years, the increase in GDP attributable to the internal market was just 2%).

As mentioned in an earlier section, there has been one group of Brexit supporters – the Lexiters - who are broadly on the left of the political spectrum, but who have argued and voted to leave, on the grounds that the European Union is irredeemably, unreformably neoliberal, and through its Treaties, prevents socialism or even progressive policies being implemented. For Lexiters, the "remain and reform" movement is seeking the impossible.

It is an important case to consider, because it is not devoid of some justification. The Treaty of Rome of 1957, following on the European Coal and Steel Community of 1951, was largely the creation of Christian Democrat politicians (with some Social Democrats) who were strongly influenced by the (mainly German) pre-war ordoliberal economic theories, under which the state sets and enforces the bounds within which 'free' economic competition is to take place, and which provides for action against anti-competitive activity. The Treaty of Rome certainly implements some of these ideas, including liberalisation, competition and state aid rules, and the Treaty of Maastricht, with its fiscal rules for the coming single currency, took this further. (To over-simplify, I take ordoliberalism as being similar to neoliberalism, but with a stronger role for the state in setting and enforcing the embedded rules).

The historian Quinn Slobodian, in his book "The Globalists – the end of Empire and the Birth of Neoliberalism", points out that neoliberals were from the outset divided on whether the new EEC was a good means of progressing their project on a big regional scale; some saw it as getting in the way of the goal of a worldwide free market system.

In practice, the EU has been a far more complex mix of progressive and more reactionary policies. I have given above some of the positives. On the downside, the EU's fiscal rules are wrong and perverse, as Professor John Weeks and I argued in our

2017 e-publication "Bringing democratic choice to Europe's economic governance" which sets out precise proposals for some key changes to the Treaties. We also propose, an idea gradually gaining wider traction, that the mandate of the European Central Bank should be broadened from its narrow focus on inflation to include promotion of full employment and other economic goals. Some of our key proposals for Treaty amendments are set out in the Annex to this paper; these could form the basis of a "Remain and reform" strategy for those who wish to see a more economically progressive European Union.

But from the UK's perspective, much of this downside is not so directly relevant to us, in that we have had Treaty opt-outs (a) from the general obligation to work towards joining the single currency, and (b) from the enforcement of the Treaty rules on "excessive deficits".

The areas that – besides the economic and fiscal rules - are otherwise of most concern to left critics of the EU are:

- The impact of state aid rules
- The pro-liberalisation policy bias
- The unqualified free trade policy bias, as if all trade is a good thing
- The rules on not impeding capital mobility

The example of rail liberalisation is often debated – European-level legislation (rather than the Treaty itself) now requires that national (but not regional) rail passenger services must be competitively tendered and awarded, and state aid must not be provided (though a subsidy for good cause may be, if available on the same terms for whoever wins). So it is correct that, as EU law stands, one cannot run a wholly state-provided rail service without key services being tendered. Defenders of the EU point out that many of Europe's rail services are indeed run by state-owned enterprises, and successfully (indeed, they run much of the UK network!).

It is true too that the Treaties include a strong bias towards liberalisation, in general terms, which reflects their ordoliberal origin and should (in the writer's view) be changed. The ideological content comes across even more strongly in the French version, which uses the term "libération" rather than the equally available French word "libéralisation". So even in 1957, the Treaty spoke of the "liberation" of capital, as if controlling capital movements in the public interest was somehow improper. The Treaties form a sort of Constitutional framework, and should absolutely not lay down neoliberal policies of this kind.

The history of the Labour Party tells us that there has always been a debate about the policies of the EU, and about our membership. But in politics and life, timing is everything. The call for a Referendum came mainly (though not solely) from within the

Conservative Party, and was intended to resolve that party's internal difficulties. By the time the Referendum came along, UKIP had been functioning for years and leading the anti-EU movement from a position on the hard right – mixing anti-immigrant racism with general xenophobic populism, and laced with economic ultra-liberalism for those who read the small print. It should have been clear to all that a vote for Brexit risked empowering the hard right in British politics; it was most unlikely to offer a golden opportunity for a new autonomous left economic policy, let alone to build socialism in one country.

And within six months of the Referendum we were confronted with the reality of President Trump and Trumpism, adding to the ever-growing panoply of authoritarian male leaders around the world. Trump and the ever more right-wing Republican Party have been working constantly to embed their own domination beyond the reach of democratic control. This is done through a mix of electoral gerrymandering and appointment of reactionary judges who can be relied on to protect right-wing policies and the interests of the billionaire class - not for one or two terms of office of a President, but for generations to come. The Supreme Court is the great political prize.

This is the global context within which the implementation (or not) of Brexit has to be seen. If or when the UK leaves the EU, it has to make alliances, for trade, security and otherwise. We cannot go it alone. If Johnson ties us in to Trump's America, the deal will not only be painful – it risks being permanent, since we will have exchanged the EU's Treaties for the complex detail of a Free Trade Agreement, from which it will be even harder to Take Back Control.

So yes, there are many problems with the European Union which the left should acknowledge. But the EU is not only a set of somewhat ordoliberal Treaties. It is also a space in which policies are made, and transnational alliances and movements forged between political allies across a continent. It is a setting which, in current times, is more progressive, or at least far less reactionary, than President Trump's administration.

Lexit, as a policy for these times, is a serious political error of judgment. It plays into the hands of the UK hard right which includes a growing (neo-)fascist element. Changing the European Treaties may be a tough ask and an even tougher task. But wrenching back control of our destiny, should Prime Minister Johnson (and the hard right) win the coming General Election, and bind us in to President Trump's America, will be a far harder task.

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

On any reasonable comparative basis, the UK has done better, while a member of the European Union, than most other 'advanced economies', at least in terms of Gross Domestic Product. (Author's note: of course, we know GDP is a flawed indicator – it's the commonly used proxy for size of and trends in the economy over time, but misses much that matters. This review of the evidence does not, e.g., explore inequality within the UK).

Over the whole period of the UK's membership of the European Union since 1973, the average annual change in our 'real' GDP is 2.2% - greater than Italy (1.7%), Denmark (1.8%), Germany (1.9%) or France (2%) over this long run, and just a point less than the Netherlands (2.3%). For the EU Single Market era from 1993, the UK comes out with the highest average GDP (also 2.2%, with NL next on 2.1%).

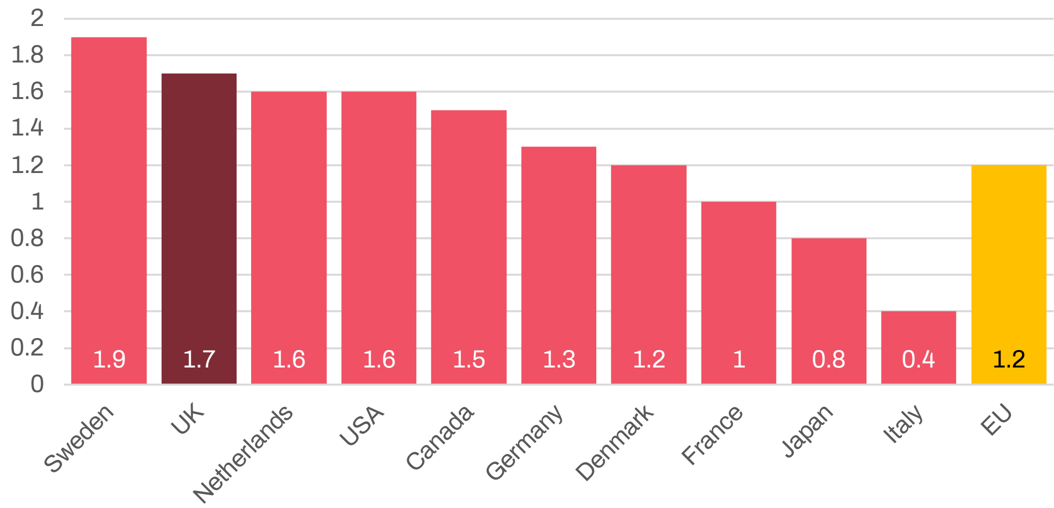
To take account of population changes, we need to look at 'GDP per head of population' (though it too says nothing about policies or patterns of distribution or inequality). Here, the UK average rate of change over the whole period from 1973 is 1.9%.

We may divide this between the "pre-Single Market" period up to 1992, and the "Single Market" era from 1993. For the earlier two decades, the average annual increase in GDP per head was 2%, whilst for the Single Market era to 2017, it has been 1.7%. That of course includes the Global Financial Crisis and its recession of 2007-09. For the pre-crisis period 1993 to 2007, the average annual rate of increase was far higher, at 2.7%.

But even at 1.7%, the UK has had a higher rate of 'growth' – within the EU and its Single Market – than most other mature 'developed' economies, as this chart shows:

GDP per head in 10 'developed' economies
1993–2017 average annual % change

Source: OECD

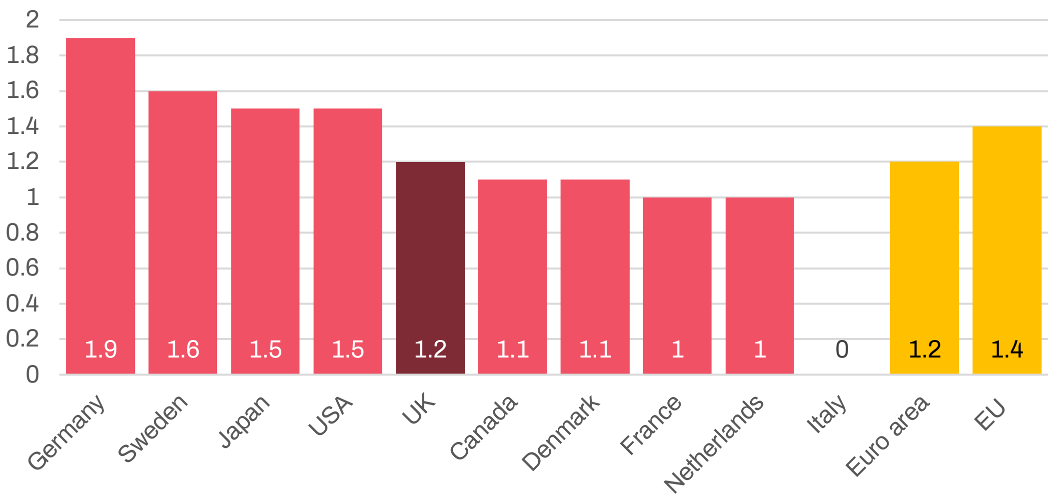


For the record, this picture remains true, even if one cuts off the data at 2015, i.e. prior to the UK's Referendum. Over a period of some 25 years, the UK has grown more (in GDP per head) than most 'advanced economy' member states.

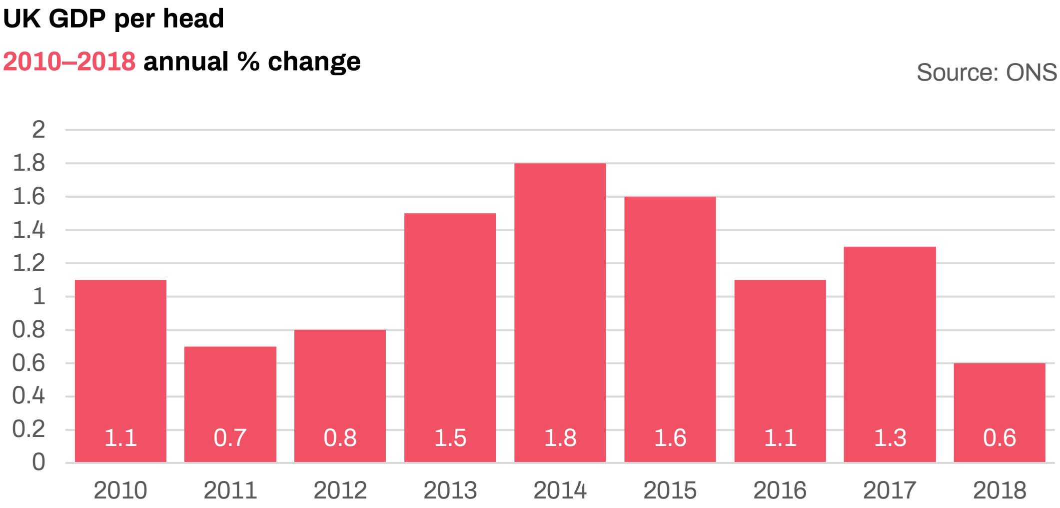
However, the period since 2010, of austerity and supposed recovery after the crisis, has been far worse than in earlier periods, with the average annual rate of increase of GDP per head falling to 1.2%, below even Japan, and well below the unexceptional EU average of 1.4%:

GDP per head in 10 'developed' economies
2010–2018 average annual % change

Source: OECD



Even this modest average performance of the UK economy from 2010 is flattered by higher growth in a pre-election year (2014):



We can therefore see that the UK has done markedly worse in this regard since 2014, partly at least due to uncertainty caused by the Brexit decision, and its handling by the Conservative government (see below).

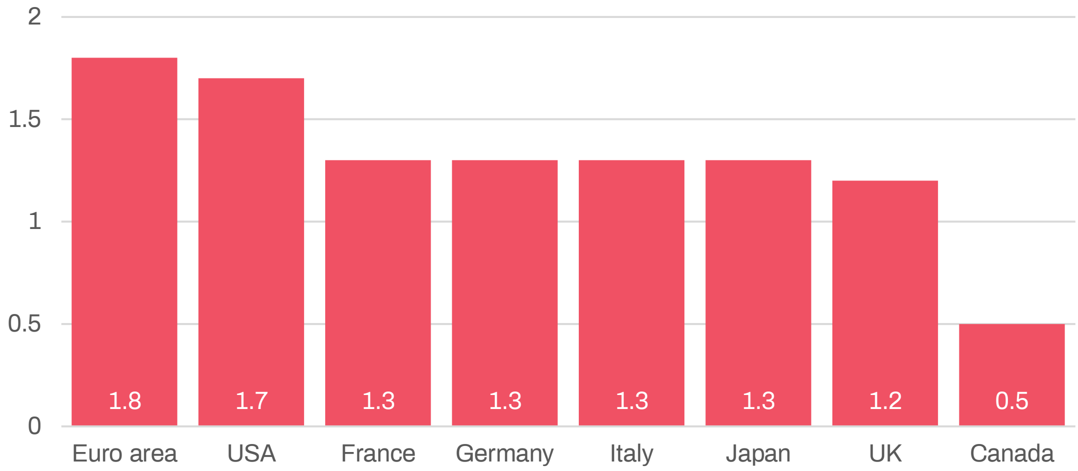
Of course, the Eurozone suffered its own, largely self-imposed, crisis which severely hurt many of its members' economic development for several years, notably 2012 and 2013. Within this, the treatment of Greece was particularly appalling, both in form (the quasi-colonial Troika of the European Commission, European Central Bank and IMF, but with the German government largely pulling the strings) and in substance, with both real and nominal GDP falling by some 28%, deeper proportionately than the US economy suffered in the Great Depression. Strict austerity policies led to severe downturns and recession in "northern" states like Finland and the Netherlands, as well as southern states such as Spain, Italy and Portugal.

The Eurozone economy has over the last five years gradually recovered, at least until recently. Indeed, during the last four full years, 2015 to 2018, the UK economy performed worse (in GDP per head) than the Eurozone, and all G7 members - even Italy – with the exception of Canada, as shown in the next chart:

Annual average % change in GDP per head

2015–2018

Source: World Bank, ONS



The current year, 2019, looks likely to be another difficult one of low "growth" for the UK, and more likely to under- than overshoot this most recent four year average of 1.2%.

Conclusion

Until the global financial crisis, the UK was one of the fastest growing economies, in terms of GDP per head, among the EU Member States. It was less successful, on this basis, from 2009 onwards, but still grew faster than several comparators. In the last few years, and notably since the Brexit decision in the Referendum, its economy has fared generally rather worse than most comparators by this criterion.

4. The economic impact of the Brexit decision to date

Prior to the Referendum, many economists sought to forecast the short term impact of a vote to leave. In some cases, this failed to take sufficient account of the likely time lag between the vote itself and the actual leaving date, which was likely to be at least 2 to 3 years, even if the Article 50 notice period were not extended.

The UK Treasury dedicated a paper to the short-term "immediate" impact, published in May 2016. In his Introduction to it, then Chancellor George Osborne wrote:

> *"The analysis in this document comes to a clear central conclusion: a vote to leave would represent an immediate and profound shock to our economy."*

The Treasury sought to analyse the 'uncertainty effect':

> *"The extent and duration of the uncertainty created would depend on the progress made in negotiations with the EU and other international partners which would be inherently uncertain."*

It set out four processes that would need to be completed: the withdrawal agreement under Article 50; the new trading relationship with the EU; the new trading relationships with the rest of the world requiring many individual agreements; and changing the EU's domestic legislative and regulatory framework. The Treasury concluded that:

> *Each of these four processes would be complicated in their own right, but conducting them all at the same time, on any terms that would be acceptable to the UK and within the specified two-year period for leaving the EU would almost certainly be impossible. If these processes were more protracted, the uncertainty would be larger and… could last up to a decade or more"*

The Treasury were at least right on this – it was indeed impossible. After three years, none of the above "processes" had been completed. There was never a prospect of "conducting them all at the same time".

The Treasury offered this forecast (alongside an even more downside scenario):

> *"In the shock scenario, a vote to leave would result in a recession, a spike in inflation and a rise in unemployment. The analysis shows that the economy would fall into recession with four quarters of negative growth. After two years, GDP would be around 3.6% lower in the shock scenario compared with a vote to remain. In this scenario, the analysis shows that the fall in the value of the pound would be around 12%, and unemployment would increase by around 500,000, with all regions experiencing a rise in the number of people out of work. The exchange-rate-driven increase in the price of imports would lead to a material increase in prices, with the CPI inflation rate higher by 2.3 percentage points after a year."*

Others also forecast a strongly negative short-term impact of a Leave vote (in addition to the longer-term impact), though the Treasury's was at the upper end.

What has actually happened since June 2016

The fall in the pound and the rise in inflation

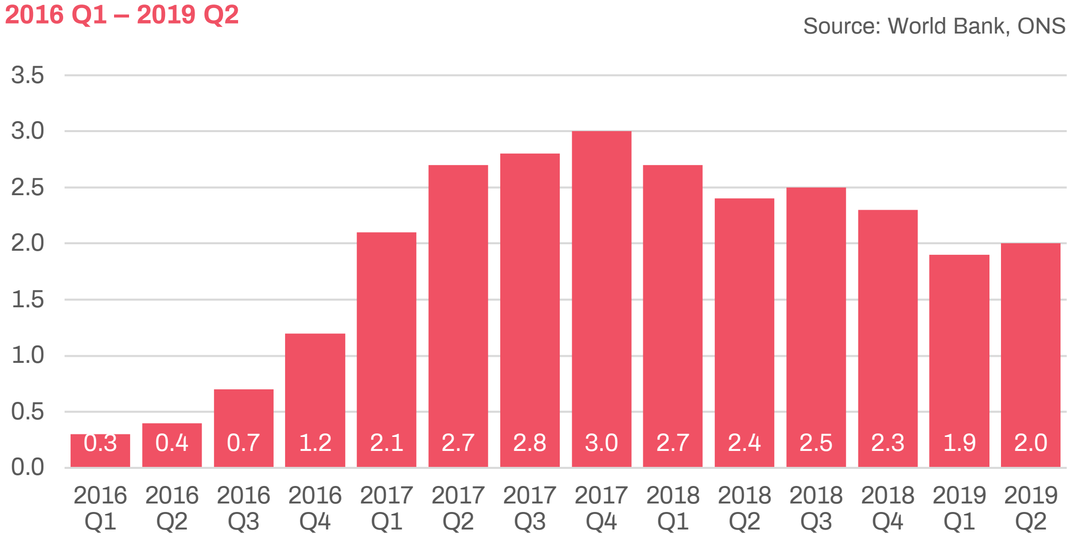
The Treasury, whose forecast was characterised as 'Project Fear', were at least right about the fall in value of the pound. The £/US$ exchange rate slid from around £1.45 on the eve of the Referendum to around 1.30 and then below, a fall of well over 10%. This was also mirrored in the £ to € rate.

This fall in the value of the pound, and consequent rise in import costs, was seen to some extent in the CPI inflation index. The problem here is to distinguish between what was in the pipeline in any event, as the effect of rising oil prices fed through from the very low levels of 2014 and 2015. By the fourth quarter of 2017, inflation had risen by 2.4% from Q2 2016 – but the Treasury forecast was for inflation to be 2.3% points above the (unspecified) "vote to remain" scenario, which clearly did not happen. The Treasury were in reality forecasting an inflation rate of around 5% for 2017 (say, 2.7% plus the additional 2.3% points).

See the chart for the quarterly path of consumer inflation, from ONS data:

UK annual % CPI rate per quarter

2016 Q1 – 2019 Q2



The Office for Budget Responsibility (OBR) publish an Economic and Fiscal Outlook report twice yearly, normally in March and November. In November 2016, they amended their (pre-Referendum) March assumptions by including, for the period through 2019, a higher annual increase in inflation than before, but far lower than the Treasury's estimate. The actual outcome for CPI inflation in 2017 and 2018 were 2.7% and 2.5%. The OBR got it more or less right for those two years, but may have overestimated the rate for 2019.

Real wages

This increase in inflation due to the fall in the pound's value has undoubtedly had a negative impact on workers' real wages across the economy. Since – in a highly deregulated labour market – labour is in a weak bargaining position generally, real wages (i.e. after allowing for inflation) have remained low, and are still (September 2019) below levels achieved over 12 years ago. They have recently started to rise, as nominal pay rises faster than inflation, but this would have occurred earlier and faster if the higher inflation caused by the pound's fall had been avoided. The ONS monthly data for average total real wages give an average annual rise of 1.4% for 2016, a fall of 0.2% for 2017, and a rise of 0.6% for 2018. For the first seven months of 2019, the average rate of increase is at 1.7%.

Thus an additional (Referendum-related) increase in inflation of around 0.6% per year over two years (2017 and 2018) is likely to have had a substantial negative real-wage impact of up to that amount, even if the precise level is hard to tie down.

If we take a close-to-average wage of £30,000, then a real wage fall of (for example) 0.4% comes to a real-terms loss of earning-power of around £120 per worker per year, or £240 over the two years. For some 30 million workers, this amounts to a total loss over two years of some £7 billion in real wages. If the real wage 'hit' is 0.6% per year, then the total loss comes to over £10 billion).[2]

Unemployment and labour productivity

The Treasury forecast of a sharp rise in unemployment, by some 500,000, has also proved unfounded. In the event, as we know, employment has continued to rise, and unemployment to fall – to a recent decade low of 3.9%. According to ONS, those in full-time employment are up 4% in summer 2019 compared to 2016, and part-time self-employed by over 8%. The number of unemployed has fallen by 373,000 over the period.

While (as we shall see shortly) business investment has stagnated or fallen, employers have been willing to employ labour rather than invest capital. The falls and low increases in real wages have been a major benefit to employers in recent years. This shifting of the balance between investment (less) and employment (more) can be seen in the labour productivity statistics, which – e.g. in the index of output per hour worked – shows only minimal improvement over recent years, moving from 99.5 in 2015 to just 101.2 in the first quarter of 2019.

GDP and its components

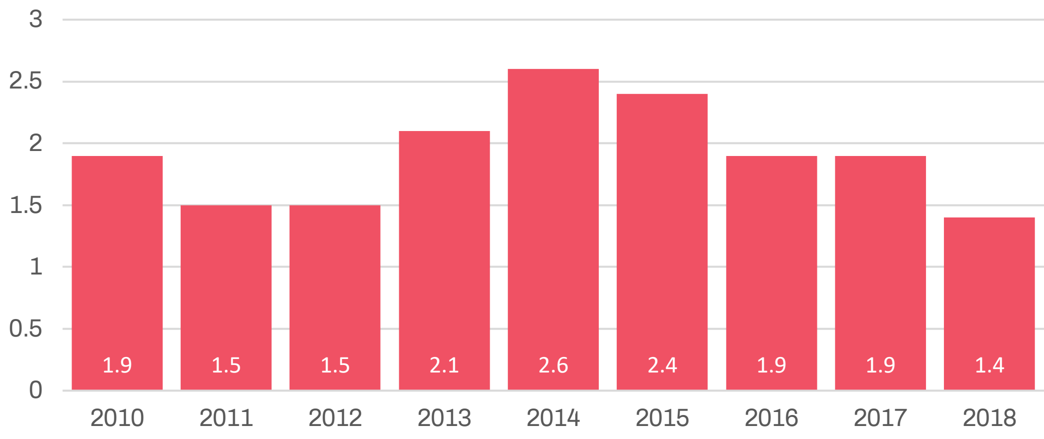
But what has happened to overall GDP since 2016? The Treasury forecast in early 2016 that "after two years, GDP would be around 3.6% lower…compared with a vote to remain". We assume (it is not clearly stated) that the baseline assumption was for real GDP to rise in a Remain scenario by around 2.1% per year, or 4.2% after 2 years, which is close to the long-run (but not the more recent) average. This means that in the event of a Brexit vote – on the Treasury's prediction - GDP would after 2 years of the Referendum have risen by about 0.6% over the 2 year period (total of 4.2% baseline increase minus 3.6%), i.e. near-stagnation.

The actual GDP annual figures per year since 2010 – which show an average increase of 1.9% - are set out in the next chart:

[2] For a study which argues that the total real wage loss is considerably more, see "The Brexit Vote, Inflation and UK Living Standards" from the Centre for Economic Performance. In this author's view, this study overstates the loss.

UK real GDP
2010-2018 annual % change

Source: ONS



It seems unlikely that 2019 will be better. The first quarter saw a quarter on quarter increase of 0.6%, which seems to have been in part due to stockpiling preparations for an end of March Brexit. The second quarter saw a fall of 0.2%. But let's assume the 2019 increase is again 1.4%, to enable us to calculate the approximate loss of GDP which may be due to the Leave vote.

I have looked at the different components of GDP, as set out in ONS reports, to see which have increased more or less than one would have expected after 2016. Compared with a trend increase of around 5.5% from 2016 (index 100) to Q2 2019, one can see from ONS data (averaging results from Q1 and Q2) that:

- The Production group of industries has under-performed (increased +1.6%), with manufacturing doing little better (+2.6%)
- Construction has over-performed (+8%)
- Services have risen by 5.3% from 2016. looking at the sub-sectors, financial and real estate have under-performed, especially financial (-3.6%), while professional, scientific etc. services have surged (+10%), as have transport, storage and communications (+11.5%) and wholesale and retail (+8%). Public services were below par – covering public administration (3.5%), education (3.9%) and health and social work (3.8%)

On the expenditure side, household spending has continued to rise in real terms, but the rate of increase has been gradually declining (3.8% in 2016, 2.3% 2017, 1.6% 2018). The continued (if slowing) rise is partly due to the continued rise in overall employment, and partly because the household savings ratio has fallen below 5%, lower than at any time since the 1960s.

Looking at trade, in real terms exports rose 2.7% in 2016, but jumped 6.1% in 2017 before falling in 2018 by 0.9%. Imports increased by 4.4% in 2016, 3.5% in 2017, and 0.7% in 2018. (2019 trade has been too volatile to judge, due to imports surging in the first quarter as firms stockpiled). The negative trade gap in the first half of 2019 is over £33 billion, compared to £13 billion in the first half of 2018.

Business investment

Overall investment (Gross Fixed Capital Formation) had continued to hold up reasonably until 2017, when the rate of annual increase slipped to 1.6% of GDP, and 2018, when it actually fell by 0.1% year on year. Of this, business investment (which constitutes over half of all investment) has also been falling back. The rate of increase has fallen each year since 2015, and turned negative (it fell) in 2018. The first half for 2019 is below the first half level in 2018. Almost all the studies about the impact of Brexit refer to business uncertainty as one of the most likely and strongest causes of any downturn in economic activity, especially until any 'withdrawal agreement' and likely future trading relationship with the EU are sorted out.

Comparing actual business investment with if it had continued to rise at around 4% per year in real terms (the average increase from 2010 to 2015 was actually higher than that, at 4.5%) gives an estimate of the level of estimated shortfall of investment that can be attributed to the Leave vote and pre-Brexit uncertainty:

Year	**Actual business investment (£bn)**	**Annual % change on previous year**	**Business investment rising 4% p.a. from 2015 (£bn)**	**Shortfall of investment (£bn)**
2015	187.9	7.2	187.9	0
2016	196.0	4.3	195.4	0
2017	201.7	2.9	203.2	1.5
2018	198.5	-1.6	211.3	12.8
2019 (est. from Q1 & 2)	199.0	0	219.8	20.8
			Total shortfall:	**35.1**

This estimated cumulative shortfall of business investment of £35.1 billion includes for 2018 a shortfall of around 0.6% of GDP, and of 1% for 2019 (the 2019 estimate is reached by doubling the figures for the first two quarters).

Government services and austerity

Since government services also showed a low level of increase since 2016, we can also, for comparison, look at what would have happened if government consumption had risen in real terms by 2% per year from 2015 on – in other words, if we had had a government committed to reversing the worst of the austerity policy it has pursued since 2010[3]. As we can see from this table, after some increase in the election year of 2015, government consumption spending rose only marginally over the following three years, despite a rising population. However, there has been an increase in the first half of 2019. (The long-run average real increase from 1973 to 2009 was 1.8% per year, but since 2010, just 0.9%). The 'shortfall' in government consumption amounts over the 4 years to £44.3 billion, which is 2% of annual GDP.

Year	Actual general govt consumption (£bn)	Annual % change on previous year	General govt consumption rising 2% p.a. from 2015 (£bn)	Shortfall of general govt consumption (£bn)
2015	377.9	1.8	377.9	0
2016	381.5	1.0	385.5	4.0
2017	382.5	0.3	393.2	10.7
2018	385.0	0.6	401.1	16.1
2019 (est. from Q1 & Q2)	*395.6*	*3.4*	*409.1*	*13.5*
Source: ONS			**Total shortfall:**	**44.3**

[3] Of course, the "price" paid by the British people for the government's austerity policies since 2010 is far greater. For a similar methodology to mine, but assuming a 3% per year increase in real terms government spending rather than 2%, see this web article by Progressive Economy Forum co-ordinator John Weeks, who calculates the cumulative shortfall for the whole period at £200 billion, or around 9% of GDP: https://progressiveeconomyforum.com/blog/a-keynesian-calculation-of-the-macroeconomic-impact-of-austerity/

We can therefore imagine a "counter-factual" UK in which we had not lost business investment totalling (over the period) £35 billion, thanks to Brexit, and had been injecting much-needed resources back into our public services to start repairing the grave damage austerity has inflicted. This would have acted as a stimulus to a still-weak economy, with a multiplier impact.

The slowing rate of annual increase in household expenditure, noted above, is an additional factor in the lower level of GDP since the Referendum.

Its approach to Brexit and austerity represent the twin poles of egregious government policy failure over the last decade. Together, they have damaged not only our economy, but our social fabric and cohesion.

Comparison with other advanced economies

We have earlier looked at the relative success of the UK economy, compared to other 'advanced economies', in terms of GDP per head of population. In order to assess the economic impact of Brexit to date, it is also helpful to compare overall GDP over the last few years, with a set of comparator economies that have tended broadly to follow similar paths, unless there are major issues affecting one or other. The following table gives data from 2015 to 2019 for eight countries, with 2019 figures based on estimates from the European Commission and IMF:

All figures in %	**2015**	**2016**	**2017**	**2018**	**2019 est.**	**Average 2016-19**	**Average 2017-19**
Italy	0.9	1.1	1.7	0.9	0.1	**0.9**	**0.9**
UK	2.4	1.9	1.9	1.4	1.3	**1.6**	**1.5**
Germany	1.7	1.4	2.2	1.4	0.5	**1.4**	**1.4**
Denmark	2.3	2.4	2.3	1.5	1.7	**2.0**	**1.8**
France	1.1	1.1	2.3	1.7	1.3	**1.6**	**1.8**
Canada	0.7	1.1	3.0	1.9	1.5	**1.9**	**2.1**
Netherlands	2.0	2.2	2.9	2.6	1.6	**2.3**	**2.4**
USA	2.9	1.6	2.2	2.9	2.6	**2.3**	**2.6**

We see that in 2015, the UK's GDP growth rate was second, in 2016 third, but in 2017 seventh, and in 2018 sixth equal with Germany's (which for different reasons is suffering a significant slowdown). For 2019, if it goes in line with estimates, the UK will be fifth equal.

In the last two columns, we have taken two averages, the first including and the second excluding 2016, the year of the Referendum. Including 2016, the UK is fifth equal out of 8. If one starts in 2017, the UK is sixth out of eight.

The ONS has also (30^{th} September) recently published a comparison table showing, by quarter since Q1 2017, how the UK compares with EU and G7 countries. Compared to the G7, the EU and the Euro Area, the UK has had lower GDP growth rates in 7 out of the last 10 quarters.

Conclusion on the impact to date

In the author's view, this comparison bears out the conclusion reached when looking at the UK data alone, that there has to date been an impact on UK GDP. However, the data indicates that the impact to date is not as far-reaching as the Treasury and many others had forecast. The cumulative 'shortfall' on GDP to date since 2016 is at least £35 billion, and 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.

Postscript: since writing the above, the Institute for Fiscal Studies have published their own assessment of the impact of the Referendum decision to date in their '2019 Green Budget', which also includes an international comparison. They estimate that:

> *"GDP is roughly 2.5–3.0% (£55–£66 billion) below where we think it would have been without Brexit. …[W]e suspect the UK has missed out almost entirely on a bout of global growth, which would normally have boosted exports and investment."*

This is a bit higher than my above estimate; in my view it somewhat over-states the Brexit-related element of the UK's under-performance against some comparator countries.

5. The longer-term impact of Brexit

It is of course more important, and more complicated, to understand what the long-term consequences of Brexit are likely to be. There is a large literature coming from many economists aiming to give their estimate, often based on their specific economic modelling.

The complications are several – what kind of Brexit? What model or assumptions or data to use to estimate both what is likely to happen, and how this differs from the "counterfactual" of remaining in the EU, over e.g. a fifteen year period?

When embarking on this task of trying to give a view on what will happen over such a timespan faced with many uncertainties, it is worth holding in mind J. M. Keynes' words of caution:

> *"The state of long-term expectation, upon which our decisions are based, does not solely depend, therefore, on the most probable forecast we can make. It also depends on the confidence with which we make this forecast—on how highly we rate the likelihood of our best forecast turning out quite wrong." (Chapter 12, The General Theory)*

At the time of writing, one can rule out some of the scenarios that have been included in many of the studies, as being for now political non-starters. These include EEA membership ("Norway option") and the "Swiss option", both of which would hold the UK closer to the single market rules than seems politically acceptable. Few studies provide estimates for the "customs union" option that the Labour leadership has promoted; generally, the impacts for this option are seen as slightly negative, but less so than the options we now look at.

This leaves us, at present, to consider variants of (a) an orderly exit agreement, with or without a transition period, followed by a Free Trade Agreement with the EU, or (b) leaving without any agreement, with the possibility of this being more or less disorderly or chaotic.

Under (a), some of those who have made their estimates have assumed a transition agreement, while others have assumed none, but that e.g. a Free Trade Agreement (FTA) with the EU would be entered into within around 2 or 3 years. Others assume a longer period for the FTA negotiations. But generally speaking, most of the 'studies' consider the following two broad options –

(1) leaving by agreement with an FTA with the EU in place, or soon afterwards finalised, or

(2) leaving with no agreement in place, with the UK's post-Brexit trade being on 'WTO terms'. The latter is explained as follows:

> *"This means import duties and various controls will be imposed on trade between the UK and the EU, with impacts concentrated in agriculture and industries that depend on products which repeatedly cross between the UK and the rest of the EU, such as components to make cars or ingredients for processing food.*
>
> *On top of that, the UK would lose the benefit of free trade agreements it now has with countries … as a member of the EU. Therefore, more British imports and exports would face tariffs." (Peter Ungphakorn, "What would 'trading on WTO terms' mean for the UK?" p.10)*

However, the more extreme free marketeers want the UK, upon leaving, to impose no tariffs on goods from any other country, while other countries may impose tariffs on the UK. The influential group Open Europe, representing many UK business leaders, favours this unilateral approach.

A helpful paper from the Institute for Government, "Understanding the Economic Impact of Brexit" by Gemma Tetlow and Alex Stojanovic (2018) cites and links to many of the studies, and sets out what are seen by the authors as the main economic factors and issues. It is for example important to understand that EU tariffs are generally high for agricultural imports, but lower for many other goods. There is also a useful assessment of the broad impact of non-tariff barriers (NTBs) which may affect trade between countries in services as well as goods, in the absence of a trade agreement. They indicate that these NTBs may in practice provide a higher level of 'barrier' than many formal tariffs on goods. However, the examples used by many trade experts of what constitutes a "non-tariff barrier" may be broader than we might agree. Tetlow and Stojanovic explain this:

> *"Non-tariff barriers are typically harder to reduce than tariffs. Many of the barriers stem from regulations which cannot just be removed, since they serve some domestic policy purpose: for example, protecting*

> *consumers or the environment. Modern trade agreements seek to reduce these barriers by, for example, aligning regulatory approaches where countries are interested in achieving similar ends, mutually recognising professional qualifications, or removing restrictions on foreign companies' rights to set up business.*
>
> *However, there are some things that make trade with another country inherently harder than trading with someone in your own country, which may be impossible to eliminate completely. For example, some of what economists refer to as 'non-tariff barriers' reflect differences in culture, history or voter preferences that are very difficult to change quickly – if at all."*

They also take an orthodox and simplistic Ricardian "comparative advantage" view in favour of 'free trade', which indeed underpins almost all of the studies:

> *"Economists have long argued that trade can improve living standards for all countries involved. By focusing on producing those goods and services for which each country has a 'comparative advantage', all countries collectively can produce, and therefore consume, more."*

Without seeking to challenge the view that much trade between countries is positive and necessary, it is far from clear, as climate change moves up the international and domestic agenda, that promoting ever-greater volumes of trade – irrespective of its character or impact – is necessarily for the public good. Yet this is the logic behind all the studies, which do not address sustainability or climate impact.

The different studies generally consider the 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 – it is also assumed that if we had remained (or were to remain), GDP would grow by the long-run average of 2.2 or 2.1% per year, throughout the following 10 or 15 years (depending what period is chosen).

To exemplify this, I have taken a simplified hypothetical case in which the Remain baseline assumes an annual increase in GDP of 2.1% per year, for 15 years. I have then taken a hypothetical "WTO terms" example under which in year one and year two, the economy has a recession with GDP falling from 100 to 98 for that period, and then increases by 1.8% per year. The comparison is shown in this table:

Year	Index: Remain assumed 2.1% per year	Index: WTO terms – 2 year recession then 1.8% per year	WTO terms % shortfall from Remain level
0	100	100	
1	102.1	98	
2	104.2	98	
3	106.4	99.8	
4	108.7	101.6	
5	*111.0*	*103.4*	*-6.8*
10	*123.1*	*113.0*	*-8.2*
15	*136.6*	*123.6*	*-9.5*

Thus, after 5 years, the WTO terms economy is 6.8% smaller than it would have been under Remain (with 103.4 being 6.8% smaller than 111.0).

Here are some examples of the range of predictions covering the main options from several reports – I have given here the central assumption or average, though these are often also given as ranges, and the numbers are % shortfalls (or gains) against the Remain assumption:

Study	UK EU FTA – % difference from Remain	WTO terms To 2030 unless stated	Unilateral Free Trade / high deregulation	Comment
Rabobank (2017)	-12.5	-18		Difference due to using different methodology from others
UK Treasury (2016)	-6.2	-7.5		15 years
UK Government (Nov 2018)	-4.9	-7.7		15 years. Also gives May Withdrawal Agreement estimate, -0.7%
Rand Europe (2017)	-1.9	-4.9		After 10 yrs
Oxford Economics (2016)	-1.8	-2.7		
PwC (for CBI) (2016)	-1.2	-3.5		
Open Europe (2015)	-0.8	-2.2	+1.6	Gain assumes extreme deregulation
Economists for Free Trade (2018)			+6.8	Major assumed deregulation gain

From all the above, with the exception of the last two who seek a huge programme of deregulation of standards (to which I return below), we see that there is no forecast scenario in which the UK is economically better off by leaving the EU. The main factor by far is the disruption of existing trade patterns, settled over the last 40 years or more, within a tariff free area and a relatively integrated internal market.

There are of course many factors that inter-connect and which modelling, however sophisticated, may not get right, including the impact of different options on the value of the pound, therefore on inflation, on investment, on nominal and real wages, on migration, and on levels of employment.

One of the lowest estimated impacts is by the UK government (November 2018) in relation to the draft Withdrawal Agreement, which includes in effect the UK remaining for a transitional period in a form of customs union. We may assume that this is likely to be similar to the impact of the Customs Union arrangement proposed by the Labour Party, i.e. at a relatively low level of economic disadvantage.

What is the (Remain) baseline assumption?

In order to calculate the loss of GDP against the Remain baseline, we need to make an assumption as to what would have happened under Remain. My hypothetical example above uses an annual increase of 2.1%.

Tetlow and Stojanovic draw the conclusion from the studies that:

> *"These predictions do not sound catastrophic. Even in the most pessimistic scenarios considered, all the models suggest that UK residents would still be better off in future than today. For example, the Government's projection for a WTO scenario implies that GDP per person would be about 10% higher in real terms in 15 years' time than it is today."*

However, in a footnote they point out:

> *"This statement relies on an assumption about what happens in the 'Remain' counterfactual scenario. The latest government analysis was explicit about this – stating that GDP was predicted to grow by 25% over the next 15 years in the 'Remain' scenario. This was based on extrapolating the latest five-year economic forecast from the Office for Budget Responsibility. However, none of the other studies provide an explicit forecast for the 'Remain' counterfactual." [In fact Rabobank do – see below].*

Now, to grow by 25% over 15 years implies a lower annual figure than the long-run average - around 1.7% on my calculation, as against around 2.2%. If one scenario leaves GDP 7% lower at the end of the period, it is surely important to know if this is against an assumption of 2.2% growth, or 1.7%, or less. So there are weaknesses to be noted in the presentation of the studies.

A disruptive or chaotic no deal

While many of these studies have looked at the UK "falling back on WTO terms" or reaching no agreement, none of those cited above looks specifically at a disorderly and confrontational "no-deal". As I write, it is far from clear if there will be another Article 50 extension, or whether (by plan or even mishap) the UK leaves without a deal, and if so, what the immediate consequences will be. But an early "no deal" Brexit looks likely to be a pretty disorderly, undiplomatic affair.

Some of the studies have factored in a probable recession at the point the UK leaves the EU, especially if there is no agreement, due to the high level of uncertainty that will be caused, plus any practical constraints on supply. The clearest statement here is from Rabobank, which overall estimates the largest negative impacts:

> *"In all three Brexit scenarios, the UK ends up in a two-year recession right after Brexit has materialised in 2019. The magnitude of the recession varies considerably in the scenarios, with a GDP decline over two years of -2.4% in a hard Brexit scenario, -1.1% in the FTA scenario and -0.3% in a soft Brexit."*

While a "no deal" recession is indeed a probable matter, I do not presently think a full recession is likely if there is (but not now likely) a Withdrawal Agreement with transition, which is broadly the FTA scenario.

IMF, OBR and Bank of England on 'no deal' recession

In their Spring 2019 World Economic Outlook, the IMF set out their view of the shorter term impact of 'no deal' Brexit. It gave two possible scenarios, but did not allow for a high level of 'disorderliness'. Their scenarios have been adopted by the UK's Office for Budget Responsibility in its Fiscal Risks Report of July 2019. This is interpreted by the OBR as potentially involving a recession with GDP falling 1.4% in 2020; overall, it shows GDP 4% lower than they have assumed in their March 2019 forecast.

We have also had the Bank of England (BoE) doing its own 'stress test', whose results were published in November 2018. This included a 'worst case scenario' which the Bank has emphasized was not a prediction. It showed a "maximum fall from starting-point" in GDP of 8%, unemployment rising to 7.5%, and inflation to 6.5%, with house prices falling 30%, and so on.

Very recently, in a letter dated 3rd September 2019 from the BoE Governor to the Chair of the Treasury Select Committee, the BoE have changed their assumptions on the "worst case scenario", due they say to progress made on several matters. As a result, their now-assumed worst case, "updated disorderly" Brexit, shows:

GDP falls by 5.5%, unemployment rises to 7%, CPI inflation rises to 5.25%.

'No deal' recession – strong probability or just more Project Fear?

Many supporters of Brexit have discounted the latest batch of forecasts or assumptions, showing the economic disadvantages of Brexit, as More of the Same – the establishment crying wolf. They recall (forgetting the Leave campaign's sins against truth) the propagandist use by George Osborne of the Treasury short-term forecast, "Project Fear". The doubters were partly right about the short-term, so would they be right again, in the event of a no-deal Brexit with no transition period? The answer is surely No.

By definition, at the point the UK leaves the EU, there will be no trade deal with the EU, so almost certainly tariff and non-tariff barriers are immediately raised. Some or many lorries will not be allowed to cross the Channel because 'paperwork' is not in order. Supply chains will be disrupted from the start; for some this may be a temporary matter, but for others, the lack of clarity about the UK's relationship with the EU will lead to ongoing falls in production and trade.

This will involve factories either laying off staff as a precautionary measure, or putting them on shorter time. We have seen that, for many months now business investment has reduced; it is virtually certain that this caution will continue. Investment will probably decline, at least until greater clarity emerges as to the UK's future economic direction.

And if as is likely, consumers (who have been spending, though more slowly, by "de-saving") start to cut back even a little, faced with all of these impacts, then we have all the necessary ingredients for a recession due to a combined demand and supply shock of such unusual scope and character.

True, government spending is due to rise a little next financial year, but probably not in time, and not enough to provide sufficient stimulus, and while some short term monetary and fiscal measures can be taken (discarding the government's fiscal rules along the way), they will not be sufficient to counter all of the above.

We can also envisage a further 10% fall in the value of the pound, at least for a while, and thus a further inflationary effect, which will again hurt real wages, and will disproportionately affect lower income households. The reaction of the financial markets to a disorderly or disorganised no-deal Brexit, if such occurs, remains to be seen.

In short, even if in many areas solid preparatory progress has been made in dealing with the Yellowhammer paper issues, there will be enormous real world problems to confront.

How deep, in such a scenario, can we expect a recession to be, and how long to last? This is very hard to predict. The Bank of England has recently not predicted but explored the idea of an overall 5.5% fall in GDP. This is at the higher end of estimates, and I do not believe it will be as severe as that, unless the political situation became unstable, or unless it forms part of a wider crisis.

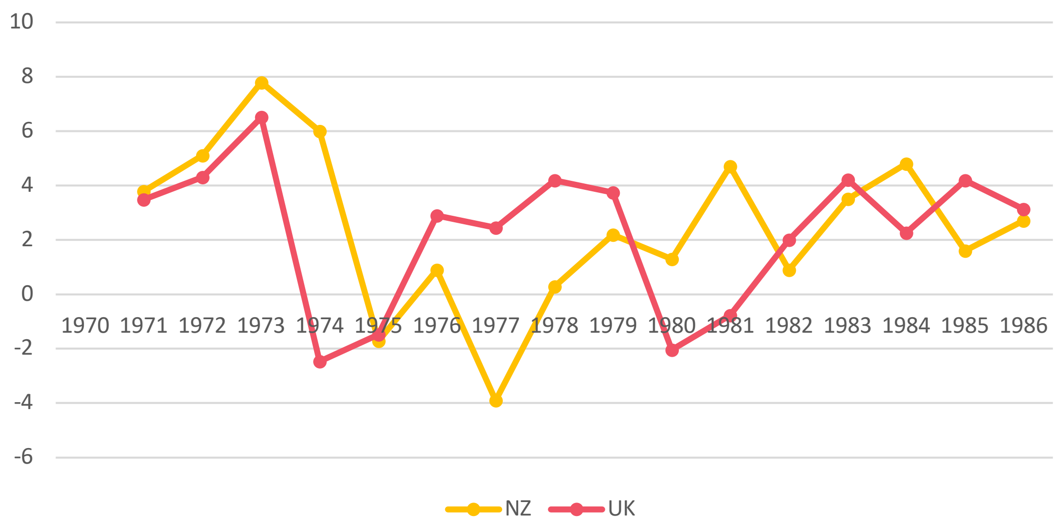
In its very recent 2019 Green Budget (published since the rest of this section was written) the Institute for Fiscal Studies also foresees a recession in the event of a no-deal Brexit:

> *"[W]e suspect a no-deal exit would imply a near-term recession. A no-deal Brexit would leave the UK economy 2.6% or £57.7 billion (in 2019 prices) smaller in 2022 than it would have been under our baseline scenario."*

In order to seek out some international basis of reasonable comparison, I have looked at how New Zealand's economy performed at the time the UK joined the EEC, meaning that NZ's traditional trading ties were sundered, and new economic ties had to be found. The era of the 1970s was of course not directly comparable, but it shows the effect of a shock of somewhat similar nature. This chart plots the performance of New Zealand and the UK economies over 15 years at the time of this huge change for both countries:

NZ and UK: annual % change in GDP 1971-86

Source: OECD



As this shows, the New Zealand economy fell into deep recession between 1974 and 1979, before doing somewhat better in the early 1980s (and not experiencing the Thatcher-induced UK recession of 1980-81). In the worst year, 1975, GDP fell by 3.9%. New Zealand was perhaps more exposed at the time, as a small economy, than the UK today, but the severe impact on NZ of the economic demand and supply shock from a sudden change in trade linkages is a stark precedent.

So yes, taking all the factors into account, we can be reasonably sure that a disruptive no-deal exit from the EU, without a transition period, will lead to a recession, which we can estimate as likely to last for one to two years, and of some depth at its peak.

The impact of Brexit on jobs and wages

It is evident that there will be an impact on employment and on wages if the economy slows noticeably, and of course far more so if we fall into recession. We should note that the UK government's November 2018 paper concluded that real wages will be lower, compared to "today's arrangements" (which means Remain) - and in the two most likely scenarios, lower by very substantial amounts.

This is set out in Table 4.4. headed "Summary of trade only impacts on GDP and real wages compared to today's arrangements" (p.56) which predicts:

- For a "modelled no deal", real wages will be 10% lower.
- For a "modelled average FTA" with the EU, real wages will be 4.9% lower.
- For an EEA or Withdrawal Agreement basis, real wages will be lower, by between 2.7% and 0.9%.

We can reasonably go further than this, if there is a no-deal exit leading (as is highly probable) to higher inflation, recession, and a rise in unemployment (from today's quite low level). In this case, it is probable that real wages will once again fall in absolute terms, and not simply rise less that if we had "remained". Thus if inflation hits say 4% in 2020, due to the pound's value falling further, while nominal wages rise by 3%, real wages will fall by 1%.

Looking at the most recent (July 2019) ONS statistics for average real total earnings (at 2015 prices), current weekly pay is £502. This was first achieved in June 2007, while peak real pay was reached in February 2008 (£525). A year ago, in July 2018, the figure was £491, while in July 2010, at the start of the Conservative-Liberal Democrat coalition government, it was £493. So over the last year, real pay has grown more than for over a decade – but this improvement will swiftly be reversed if a no deal Brexit takes place, causing a rapid economic downturn.

One feature of recent years has been the fact that – unlike in the past – falling or stagnant real wages have co-existed with rising employment, and unemployment now below 4%. Given that the progress of the economy, measured in GDP, has been modest, the result has been a very slow increase in labour productivity (output per hour worked) – far slower than in past decades. All this makes it more difficult to estimate the likely level of unemployment in a severe downturn, but a rise in a recession to around 6 to 7% may be envisaged compared with the most recent peak unemployment of 8.5% in 2011.

6. Brexit and the deregulation agenda

Among the studies we have noted on the economic impacts of Brexit, there were two outliers which predicted actual 'growth', after Brexit, or at least hardly any negative impact, compared to remaining in the EU.

One is from Economists for Free Trade (EFT), whose leading light is Patrick Minford. In their September 2017 report, "From Project Fear to Project Prosperity", he claims, uniquely and without supporting argumentation, that a hard Brexit will deliver 6.8% greater GDP:

> *"[A] 'hard' Brexit would eliminate this protection and regulation in favour of free trade and full competition and would remove taxpayer subsidy from unskilled migration. These moves benefit UK consumers, lowering the cost of living by 8% on our estimates and by so introducing competition raising productivity across the economy - with a total gain in UK welfare and GDP of around 4% from free trade and another 2% from improved regulation, a total gain to GDP of 6%. On top of this there are gains from regaining our net EU budget contribution (0.6% of GDP) and removing the taxpayer subsidy to unskilled Immigration (0.2% of GDP)."*

Apart from the obnoxious and intellectually dishonest reference to "unskilled immigration" (which sees it only in terms of "subsidy"), we note that Professor Minford sees an increase in GDP of 2% arising from "deregulation", though its content is not specified by him. He advocates unilateral free trade, under which the UK imposes no tariffs on imports, leaving all sectors of the UK's economy open to competition from anywhere in the world, while exports face tariffs from others. UK farmers will thus be exposed to world prices on all markets, in one go. He then goes on to say that the UK government could still support UK farmers, but without stating the obvious, that this would involve using the 0.6% "gain" from no longer paying a net contribution to the EU.

In the same EFT paper, Professor Tim Congdon gives some examples of what he would wish to deregulate in the course of Brexit – starting with cutting rules that aim to protect us against climate change, that protect workers and women workers, in particular, and that regulate the finance sector, including bankers' pay:

> *"European governments have been more emphatic than the global average about the dangers of global warming. The EU has therefore adopted the renewables agenda with greater zeal than most of the world's nations and forced member states to replace low-cost by high-cost energy sources. Coal-fired power stations have been closed down, offshore wind farms built and so on…*
>
> *Second, the EU has pressed for social legislation (such as the 2003 Working Time Directive and the 2004 Gender Equality Directive) that adds to companies' costs and reduces employment. Open Europe, a think tank that regards itself as neutral in the debate on EU membership, estimated in 2011 that EU social legislation by itself made the UK worse off by £15 billion, about 1 per cent of national output."*

This brings us to Open Europe (OE), a big business lobby organisation positioning itself as think-tank, with many of the UK's great corporate leaders among its supporters. On the surface, it is a more serious body than the EFT. In 2015, OE published a report entitled "What if...? The Consequences, challenges & opportunities facing Britain outside EU".

It concluded that in economic terms, leaving the EU is likely to lead to the UK being very modestly worse off. However, it argues that with a major programme of deregulation, that could be reversed:

> *"[T]he biggest obstacle to an ambitious deregulation drive is likely to be domestic politics, with major deregulation requiring a major change of heart on matters ranging from climate change through to consumer protection. Any ambitious attempt to cut regulations would run into significant opposition in Parliament, from trade unions and a range of lobby groups at a time when parties espousing a range of anti-liberal views appear to be on the rise. It is also far from clear that a majority of voters would support radical deregulation.*
>
> *Based on a case-by-case analysis of the 100 most expensive EU-derived regulations to the UK economy, we look at two potential deregulatory scenarios post-Brexit…*

First:

> *"an ambitious yet politically feasible deregulatory drive including the scrapping of several regulations and targeted amendments to others." And second, "an extremely ambitious deregulatory drive pursued by a very economically liberal government including the outright scrapping of a substantial number of politically sensitive regulations. This would deliver savings of £24.4bn (1.3% of GDP)."*

Annex 3 to their report sets out the target areas. First target, protection of workers:

> *"EU social and employment laws come with a significant cost to the UK economy – 22 of the 100 costliest EU-derived regulations fall into this category - and they are particularly burdensome for small business. We envisage that under both our deregulatory scenarios the UK government will seek to cut costs in this area including by scrapping the Agency Workers Directive entirely (£2.1bn saving) and reining in the costs of the Working Time Directive… We envisage that under the politically feasible scenario, WTD costs would be cut by 50% (£2.1bn), and by 75% (£3.1bn) under the extremely liberal scenario. The latter scenario would also see additional savings achieved by cutting the cost of EU-derived health and safety legislation."*

Second target, the environment and climate change:

> *"The EU's environmental and climate change laws come with a substantial cost to the UK economy and this is arguably the area in which a post-Brexit UK government could make the greatest savings for both consumers and businesses, whilst boosting the country's overall competitiveness…*
>
> *We envisage that, under the politically feasible scenario, the UK would keep the bulk of climate change legislation in place and retain its ambition to cut emissions, but it would be free to pursue an alternative strategy and abandon the EU mandated renewables target – a total saving of £5.4bn. Under the extremely liberal scenario, we envisage that the UK would go even further and scrap climate change laws entirely, saving £8.5bn."*

Other targets – financial regulation, consumer protection, product standards.

At the start of their report, OE describe their "best case scenario":

> *"In a best case scenario, where the UK strikes a Free Trade Agreement (FTA) with the EU, pursues very ambitious deregulation of its economy*

> *and opens up almost fully to trade with the rest of the world, UK GDP would be 1.6% higher than if it had stayed within the EU."*

In other words, the most extreme economic deregulation is the "best case" for Open Europe and its backers.

What passed as the limits of "politically feasible" in 2015 may be very different today. Given the Conservative Party's rightward lurch in recent times, OE's "very ambitious" and "best case" scenario, backed by a large section of British business, may no longer be seen as unachievable politically. The unpublished draft report by civil servants in early 2018 was certainly rather dismissive of OE's approach:

> *"more generally, aspects of the OE estimate are outdated, partial, or have methodological issues".*

But we really cannot be sure that, in the Cummings-infected Whitehall atmosphere today, this would still be openly articulated if the line from the top becomes to "deregulate at all costs".

UK business is however not united around the wilder deregulatory agenda. In its 2016 report, "Leaving the EU: Implications for the UK Economy", carried out for Confederation of British Industry (CBI), PwC used Open Europe's work on deregulation as part of their modelling, but conclude that leaving the EU could "create some scope for deregulation and a potential reduction in regulatory costs", but in effect cautioned that this scope may be relatively modest.

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

The UK's trade relationships have evolved considerably over the last 20 years, and more so since the Global Financial Crisis of 2007 to 2009. Trade with countries outside the EU has increased more quickly than with partner countries within the EU. At one level, that is not so surprising, since the trade relationships within the EU are mainly long-standing and tariff-free, so that trade gains have already been made. On the other hand, as Professor John Weeks has pointed out, since 2010 the internal market has not worked as theory would have predicted, in that trade between EU members with the rest of the world has increased at a faster rate than trade between members. So the experience of the UK is not an exception, but follows the trend of EU countries. (See Weeks J., "The Minor Mystery of the Euro's Trade Effect", PRIME, June 2019).

But notwithstanding this shift, one thing leaps out from the statistics – trade with the EU as an entity 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 United State of America. But total trade with the USA is only around one third of total trade with the EU.

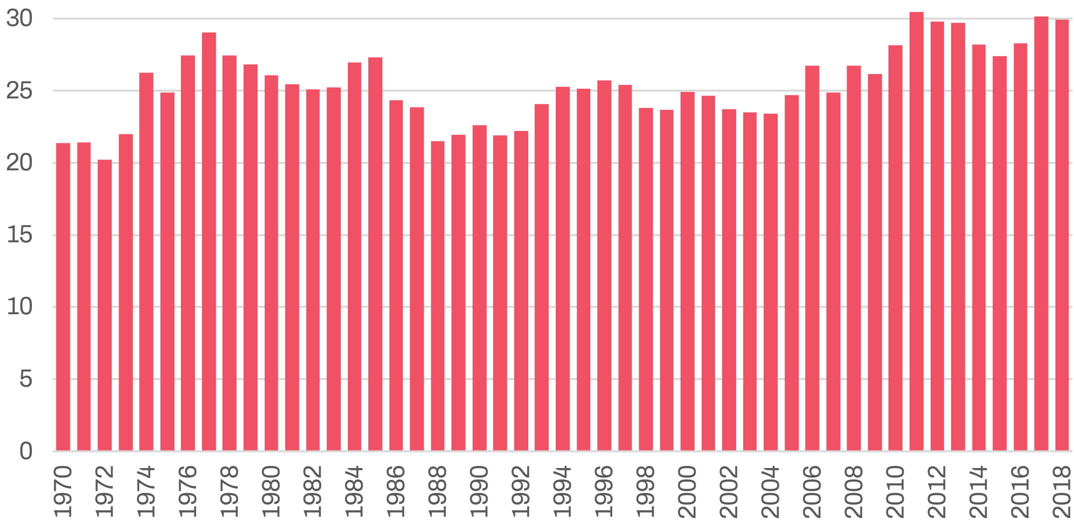
A few charts and tables to illustrate our trading patterns. First, trade's overall size relative to the size of the economy. This chart shows UK exports as a % share of GDP since 1907, currently around 30% of annual GDP; it is slightly exceeded by imports, which follow a very similar pattern, so that overall trade (exports plus imports) amounts to around 60% of GDP.

This means that quite a lot of the internal UK economy depends on maintaining or expanding existing trade relationships – and any sudden loss due to new "frictions" or interruptions of existing trade links will be bound to affect UK production (of goods or services).

UK exports as % GDP

1970-2018

Source: World Bank



We see here that, with the UK economy having slowed in the post-2009 "age of austerity", the share of trade in the economy has been generally higher than before (though not so much greater, as a share, than in the 1970s).

The next two tables look at the UK's top twenty export destination countries, and top twenty import sources, in 2018. They cover trade in goods and services. Trade in goods forms about 65% of our total trade, with trade in services about 35%. I have compared these with the trade volumes in 1999 with the same countries, and show what multiple the 2018 figure is of 1999. The numbers are in current prices, not in 'real terms', but show the relative changes in our trade in relation to the different partners.

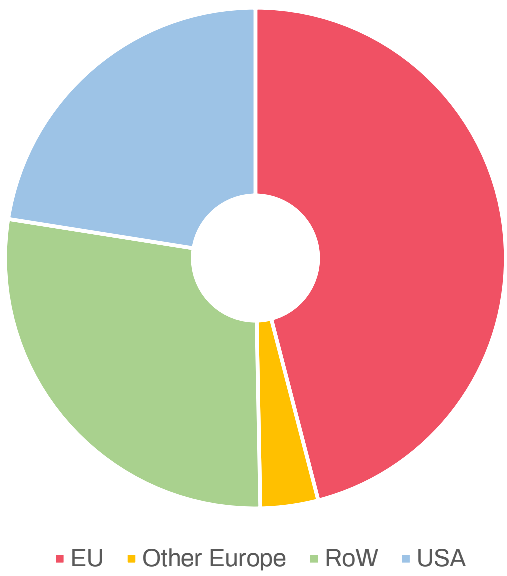
Exports – UK's top twenty

Ranking 2018		Exports 1999 £m	Exports 2018 £m	change in position	multiplier 1999 to 2018	EU member
1	USA	42702	118152	0	2.8	
2	Germany	26348	55401	0	2.1	Yes
3	Netherlands	17556	43992	1	2.5	Yes
4	France	21939	42079	-1	1.9	Yes
5	Ireland	14169	38304	0	2.7	Yes
6	China	1866	23108	New	12.4	
7	Italy	14169	19717	0	1.4	Yes
8	Switzerland	5288	19565	3	3.7	
9	Belgium	10919	19433	-3	1.8	Yes
10	Spain	9712	17638	-2	1.8	Yes
11	Japan	6770	14290	-1	2.1	
12	Hong Kong	3596	11139	2	3.1	
13	UAE	2025	10610	New	5.2	
14	Australia	3960	10497	-2	2.7	
15	Sweden	5543	10484	-5	1.9	Yes
16	Canada	3960	10150	-3	2.6	
17	S. Korea	1312	9782	New	7.5	
18	Singapore	3089	8453	0	2.7	
19	India	2221	7965	New	3.6	
20	Poland	1578	7292	New	4.6	Yes

This shows that the USA remains our biggest single country export market by far, as it was in 1999. Second is Germany, while France and The Netherlands have swapped places, and Ireland remains in fifth place. The top five UK export countries (of which four are EU members) are each far ahead, in value terms, of all other countries. Trade with the top 4 EU countries combined far exceeds that with the USA. The highest value multipliers (comparing the nominal trade values in 1999 and 2018) relate to trade with China, then South Korea, the United Arab Emirates and Poland.

This pie chart shows the regional distribution of the above 'destinations' (RoW = Rest of World):

Share of UK exports 2018
(from top 20 export destinations) £m



The next table looks at the top 20 sources of the UK's imports:

Imports – UK's top twenty

Ranking 2018		Imports 1999 £m	Imports 2018 £m	change in position	multiplier 1999 to 2018	EU member
1	Germany	30583	77335	1	2.5	Yes
2	USA	34976	72363	-1	2.1	
3	Netherlands	15895	49083	1	3.1	Yes
4	China	4241	45423	10	10.7	
5	France	25972	42811	-2	1.6	Yes
6	Spain	14861	32290	-1	2.2	Yes
7	Belgium	11104	29118	0	2.6	Yes
8	Italy	12334	24812	-2	2.0	Yes
9	Ireland	11103	21879	-1	2.0	Yes
10	Norway	4308	21706	3	5.0	EEA
11	Japan	10742	15198	-2	1.4	
12	Poland	884	13343	New	15.1	Yes
13	India	2455	12509	New	5.1	
14	Turkey	2510	11260	New	4.5	
15	Switzerland	6735	10927	-5	1.6	
16	Sweden	5311	10440	-4	2.0	Yes
17	Hong Kong	5565	9466	-6	1.7	
18	Russia	1395	9299	New	6.7	
19	Canada	3795	8124	-4	2.1	
20	Denmark	2736	7856	-1	2.9	Yes

Here, we see that Germany has overtaken the United States as the largest source of our imports, followed by the Netherlands and China. Indeed, the United States and China are the only non-EU or EEA states in the top 10. By far the largest multiplier for imports (comparing 1999 and 2018 values) is Poland, followed by China, Russia, India and Norway.

And finally, the total shares of EU exports and imports to and from the EU and the rest of the world:

UK Exports

£m

Year	EU	Non-EU	Total	EU %	Non-EU %
1999	133342	110927	244269	54.6	45.4
2006	213370	178342	391712	54.5	45.5
2012	235417	269325	504732	46.6	53.4
2018	288918	345144	634062	45.6	54.4

Here we can see that in 1999 and 2006, nearly 55% of UK exports were to the rest of the EU, but by 2012 and 2018 that had fallen back to nearly 47 and 46%. In recent years, however, the shares have hardly changed.

For imports, there has also been some shift, with more imports from non-EU countries, but still over half of UK imports are from EU members, with Germany in the van. The big factor in the growth of non-EU imports is of course the big increase from China.

UK Imports

£m

Year	EU	Non-EU	Total	EU%	Non-EU %
1999	145185	113914	259099	56.0	44.0
2006	241951	184120	426071	56.8	43.2
2012	271438	258900	530338	51.2	48.8
2018	312065	312065	665031	53.1	46.9

The grand total for all exports and imports for 2018 was £1258 billion, of which £601 billion was with EU states, and £657 with all other countries.

Next, we have looked at the top 10 countries for total trade, i.e. adding exports and imports:

	Total trade 2018 (exports + imports, £m)
USA	190520
Germany	132736
Netherlands	93075
France	84890
China	68531
Ireland	60183
Spain	49928
Belgium	48551
Italy	44529
Switzerland	30492

But when we treat EU countries as a single entity for trade, the above table translates into this:

	Total trade 2018 (exports + imports, £m)
EU states in top 10	513892
USA	190520
China	68531
Switzerland	30492

This shows that, in terms of our major trading partners, the EU grouping here is by far the largest. Trade with China has increased many times over since 1999, but is still less than a seventh of that with our major EU trading partners.

Our EU and future Free Trade Agreements

In January 2019, George Hollingbery, Minister of State for International Trade told the House of Commons that

> *"As a member of the European Union, the UK currently participates in around 40 free trade agreements with more than 70 countries. These free trade agreements cover a wide variety of relationships, including economic partnership agreements with developing nations; association agreements, which cover broader economic and political co-operation; and trade agreements with countries that are closely aligned with the EU, such as Turkey and Switzerland. Of course, more conventional free trade agreements are also part of the package."*

At present, the UK has signed "roll-over" agreements with the following, to take effect upon leaving the EU: Andean countries; CARIFORUM trade bloc; Central America; Chile; Eastern and Southern Africa (ESA) trade bloc; Faroe Islands; Iceland and Norway; Israel; Lebanon; Liechtenstein; Pacific states; Palestinian Authority; South Korea; Switzerland.

The government's website informs that "A trade agreement with the Southern Africa Customs Union and Mozambique trade bloc has been agreed in principle. We expect to sign the agreement shortly".

This means that, at the point of leaving the EU, the UK will have a trade agreement in place with only three countries (Norway, South Korea and Switzerland) that form part of its top 20 trading partners for either exports or imports. It will however cease to have a trading agreement with all of its EU partners, ten of which are in the top 20 lists at present.

Where does our trading future lie?

The argument from many Brexit supporters is that Britain's future lies not with Europe but the rest of the world, since it is trade outside the UK that is increasing, and the opportunities are there to greatly expand trade, if only we were released from the constraints of the EU. In fact, over the last 5 years from 2013 to 2018, the increase in the volume of UK exports to the EU slightly exceeded the increase to the rest of the world (by £57 bn to £54 bn).

And while there are no doubt grounds to believe one 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 seems, in principle, perverse and bizarre.

Those who stand to gain from Brexit are, first, those with specific major business interests in large non-EU markets, but few or no interests in the EU. But they are simply a special interest group, whose self-interest is understandable but should not be allowed to dominate. There are then the pure free trade ideologues, who are willing to break away from the largest internal market zone in the hope that one day, the whole world will accept the logic of absolute competition for everything that moves or can be digitised, and especially a race to the bottom in pay and conditions for workers.

We hear too of the call to renew and strengthen our ties by forming a new trading bloc with our Commonwealth partner countries, as an alternative to Europe. Again, there is absolutely no objection to working with them to increase useful, sustainable, beneficial trade. But as an alternative to our present status and links within the EU? It is foolish nonsense. Let us just look at the numbers for our current level of exports to Australia, Canada, India, New Zealand, South Africa, and Singapore – among the largest Commonwealth trade partners. Then let us imagine that, via various FTAs, we can within 12 years miraculously multiply exports to each in real terms by 3:

	UK exports 2018 (£m)	Imagined UK exports with FTAs 2030 (£m 2018 prices)
Australia	10497	31491
Canada	10150	30450
India	7965	23895
New Zealand	1444	4332
Nigeria	2674	8022
Singapore	8453	25359
South Africa	4257	12771
Total	**45440**	**136320**

Even on this utopian basis, none of these countries would be in the top 5 export market countries today – all would be well behind four EU countries – Germany, Netherlands, France and Ireland. And the notional total of this 'Commonwealth' group of seven countries, even if multiplied thrice to £136 billion, is still far behind the total of actual UK exports in 2018 to the four EU states, which comes to over £169 billion. The 'Commonwealth trade bloc' is not a strategy for our country's future as an alternative to the EU; it is a fantasy or political smokescreen, no more.

8. The public finance consequences of Brexit

This section looks briefly at the consequences of Brexit for the public finances. Coincidentally, the Resolution Foundation have recently published a useful Briefing on "Dealing with No Deal" whose proposals are similar to those set out here. They also foresee a no deal Brexit as combining a demand shock (as businesses and consumers rein in) with a supply shock (as new barriers to trade, in the form of tariffs and non-tariff barriers, suddenly appear). Finally, they envisage "the permanent supply shock that comes to the size and structure of our economy once 'no deal' is replaced with a permanent relationship with the EU."

We foresee a limited response of monetary policy – simply because the space for more substantial action is not there, and when overall demand is low, as will particularly be the case in a no-deal Brexit, a resort to more QE is unlikely to prove effective. That leaves the heavy lifting to be done by fiscal policy. We can assume that the pre-autumn (pre-election) handout by new Chancellor Sajid Javid of £13.4 billion for next financial year, which is about 0.6% of GDP, means that the Conservative government is already at (if not beyond) the limit of its present self-imposed fiscal rules, which mandate it:

- to reduce cyclically-adjusted public sector net borrowing to below 2% of GDP by 2020-21
- to have public sector net debt as a percentage of GDP falling in 2020-21

But if the government is to provide support to demand, and protection to citizens, during a recession, it will have to cast aside the current fiscal rules and increase both the deficit and debt level substantially (the new Chancellor has promised new rule which we await). Since interest rates globally are still low, this change in policy should not of itself be a major problem in financing the deficit. The options include to reduce VAT for a temporary period, which encourages consumers and would benefit lower-earners, and/or to increase government spending including government investment.

A decrease in VAT to 17.5%, targeted at 0.7% of GDP would reduce government income by around £16 billion. At the same time, government spending will automatically increase as unemployment rises, but further planned spending increases of around £40 billion – divided between government programmes and benefit rises - would provide a significant stimulus to ease some of the most painful impacts of recession, with a positive multiplier effect into future years. This additional expenditure, plus the loss of VAT income (which is however a gain to the consumer), amounts to 2.5% of GDP, to which one must add the loss of tax income due to the recession itself, and other direct Brexit-related expenditure e.g. short-term support to businesses that are adversely affected.

It is worth recalling that in and after the early 1990s recession, the Conservative government of the time ran sizeable annual budget deficits from 1992/3 to 1995/6 of 6.4%, 6.6%, 5.4% and 4.1%.

We estimate that, in particular in the event of a no-deal Brexit, the government deficit would rise to around 5 to 6% of GDP in the first year. This comes from taking the OBR's (September 2019) estimates for 2020/21 and (a) adding £53 billion to expenditure (the new Chancellor's £13bn package, plus our suggested additional £40 bn), and (b) reduced government income from VAT reduction and other income effects of recession, by £35 billion, making the overall deficit in year one at least £105 billion. This does not allow for other fiscal measures in relation to Brexit or otherwise.

This stimulus programme will need to continue into year 2 (2021/22), after which the VAT reduction will cease. However, there is a strong case to continue the rest of additional expenditure on services as a way of rebuilding public services after the destruction wrought by austerity. As we know, women tend to use public services to a greater extent than men, and everyone's social wage has diminished as services have been cut. It is time to reverse that trend, even when faced with a Brexit-induced economic slowdown.

As we have seen, almost all the projections of the economic outcomes of Brexit – of whichever kind - show the economy doing less well than under the 'Remain' scenario, which implies a longer term slowdown in tax receipts. But the bigger the decline at the outset, the greater the future loss of tax base. And a no-deal, contentious Brexit is certain to do most damage to our future tax base. On top of which, Mr Johnson promises further big cuts in corporation tax for business and for high income individuals.

And those 'savings' on our EU budget contributions?

It seems a long time since we were told by Vote Leave that Brexit would release £350 million a week for recycling into the NHS. If true, which it never was, that would be around £18 billion a year. In fact, the UK's gross annual contribution – before counting what we get back – is £15.5 billion (taking into account the agreed budget rebate). The Office for National Statistics (ONS) has just published a helpful little guide to our EU contributions. They point out first that:

> *"In 2018 the government spent £864.9 billion on all aspects of public spending."*

That means our gross contribution to the EU forms just 1.8% of all UK public spending. But ONS reports that the UK public sector got back £4.5 billion in credits in 2018: "This included £2.2 billion that came through the Agricultural Guarantee Fund and £0.7 billion that came back through the European Regional Development Fund." This represents support to UK farmers and to our more deprived regions.

That also means the government's net payment is some £11 billion, or 1.3% of public spending. That however does not cover all the monies received and spent back into the UK economy, as it does not include grants and payments to private bodies such as universities. Once all these non-public sector benefits are taken into account, the UK's net final contribution figure is around £8 billion a year.

The government's own net £11 billion contribution forms 0.6% of annual GDP. The whole of the EU's budget is around 1% of the EU's GDP. Though the sums are significant seen on their own, they constitute a very small part of the whole European or UK economies. The largest areas of spending in the EU budget relate to agriculture (from which UK farmers benefit, though not as much as some others) and cohesion and regional development funding. The whole purpose of cohesion funding is to help poorer EU countries and regions to develop their economies, which benefits all EU countries in due course. The countries that joined the EU from 2004 on have indeed been developing fairly rapidly, and over time this feeds through to our mutual benefit as trade expands. We have seen that trade with Poland – the largest of the new joiners – has expanded enormously since 1999, so that it now forms one of our important trading partners.

The UK government has undertaken, at least for the next year, to continue funding post-Brexit similar programmes to those till now funded via the EU, including in particular support to farmers. Unless the government chooses to unleash the full force of global "free market" competition on to UK farmers, bankrupting many in the process, and cut other important programmes, it seems unlikely that much, if any, of our current net contribution will remain to "recycle" in future post Brexit years into other public services.

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

We have seen that our trade with the USA, though far smaller in value than with the EU, is far greater than with any other non-EU country. If non-EU trade is to expand to make up for some of the loss of EU trade, it is clear that a right-wing UK government will look across the Atlantic for support.

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, deregulating business wing, and to the socially conservative, hard right Brexit base, who see Trump as a symbolic figure to admire.

This process of wrenching the UK out of the EU and tying it to America is in line with the Trumpian mission. The Trump-Pence agenda is a dual one – to weaken the European Union economically and politically, and to ‘capture’ the UK, economically and politically.

An FTA with the United States is the first goal, and the Conservative government is already looking for this. But the UK, adrift from the European Union and with only a handful of inherited roll-over FTAs, that represent but a tiny fraction of our trade, will be in a terribly weak position in negotiating an FTA with the United States.

Back in October 2018, the Trump Administration notified Congress of the intention to negotiate a trade agreement with the UK, in accordance with the terms of the US’s Trade Priorities and Accountability Act of 2015. This Congressional Act sets out the overall negotiating objectives, including those for trade in goods, services, agriculture and investment. As you may imagine, they are quite tough.

The terms in relation to services will be crucial, as we can be sure that access to providing health services in relation to the NHS and other public services will be high on the list. Here is one major objective set out in the Act:

> *"to expand competitive market opportunities for United States services and to obtain fairer and more open conditions of trade, including through utilization of global value chains, by reducing or eliminating barriers to international trade in services, such as regulatory and other barriers that deny national treatment and market access or unreasonably restrict the establishment or operations of service suppliers."*

For agriculture, one objective is to secure:

> *"more open and equitable market access through robust rules on sanitary and phytosanitary measures that encourage the adoption of international standards and require a science-based justification be provided for a sanitary or phytosanitary measure if the measure is more restrictive than the applicable international standard".*

Or translated, make way for chlorinated chickens.

Trump has given some hints that he will employ a "slice and dice" approach to the negotiations, to pick off the UK through sectoral deals. At Biarritz in August for the G7, Reuters reported that, as Johnson said London and Washington would do a "fantastic deal", Trump interrupted to say:

> *"lots of fantastic mini-deals, we're talking about many different deals but we're having a good time."*

Mr Johnson has of course said, in his first speech to the House of Commons as Prime Minister on 25th July, that "under no circumstances will we agree to any free trade deal that puts the NHS on the table. It is not for sale." But that is an easy promise to keep, since not even President Trump is seeking (probably) to buy the NHS as such. What is of interest to US big business, in relation to the NHS, is:

(a) to be able to provide an ever bigger proportion of health services to the residual NHS purchaser, and

(b) to ensure that the NHS pays a much higher price for the drugs it purchases.

Back in 2018, Trump accused other countries of "freeloading" when it came to the cost of drugs for health services. The Daily Telegraph (14 May 2018) reports him as saying:

> *"America will not be cheated any longer, and especially will not be cheated by foreign countries."*
>
> *"In some cases, medicine that costs a few dollars in a foreign country costs hundreds of dollars in America for the same pill, with the same ingredients, in the same package, made in the same plant. That is unacceptable.*
>
> *It's unfair. It's ridiculous. It's not going to happen any longer. It's time to end the global freeloading once and for all."*

And the Telegraph correspondent pointed out:

> *The pharmaceutical companies in the US are among the biggest corporate political donors and Democrats accused the US president of looking after the industry rather than patients.*
>
> *Lowering drug prices was one of Donald Trump's key campaign promises and he hopes to achieve this by making other countries pay more.*

Moreover, Trump's Health and Human Services Secretary, Alex Azar, told CNBC:

> *"Washington will use its muscle to push up drug prices abroad, to lower the cost paid by patients in the United States. On the foreign side, we need to, through our trade negotiations and agreements, pressure them."*

In June this year, the US Ambassador to London, emphasized that in a trade negotiation, the whole economy is up for negotiation. And asked if that includes healthcare, he answered "I would think so".

We can, therefore, begin to see the future if Brexit proceeds, and if Mr Johnson remains in office. We leave the European Union with no FTA in sight, and few if any allies. The UK is alone. A stream of deregulation policies are brought forward by Prime Minister Johnson. President Trump offers a series of mini-FTAs, as part of his scene-setting for the November 2020 Presidential election. Big business on both sides of the Atlantic applauds. A statue of David Ricardo, advocate of free trade and comparative advantage, who made his fortune by speculating on the outcome of the Battle of Waterloo, is placed on a plinth in Trafalgar Square.

The Great Brexit Wrench has worked…

Unless, of course, history decides otherwise.

10. A conclusion

From an economic standpoint, there is no Brexit scenario in which the UK benefits. If there had been, or were to be, a Brexit which kept the UK in the single market or customs union of some nature, if to that end, negotiations had been conducted in a diplomatically skilled and amicable manner, and with an agreed transition period, then the economic damage may have been relatively modest.

On the international political front, the UK was bound to be damaged by any form of Brexit. In international organisations, it will be and be seen as weaker and less influential once outside the EU. And even if there were a close new relationship with the EU, the UK would forever be a rule-taker, and not a strong partner in the making of the rules.

Much more probable, as I write, is the painful wrench of a no-deal Brexit, by design or otherwise, in which case the economic consequences seem certain to be severe, particularly over the first years. The sudden rupture of existing trading relationships and patterns is bound to create a combined demand and supply shock of some considerable depth. There will have to be a fiscal response of some scale, which will be necessary, and which will make a mockery of the post-2010 government rhetoric about austerity and deficits.

In such circumstances, negotiating a Free Trade Agreement with the EU (and other trade partners) will be a long and difficult task, in which the UK will hold few cards. Goodwill seems likely to be in short supply, especially if the "divorce bill" remains in contention. In the meantime, President Trump and the Republican establishment will aim to lure the UK into trade deals that serve US corporate interests, and into a long-term economic and political subservience to the hard right-wing of US capital.

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 – and those who now applaud him - rapidly down the path of deregulation and a race to the bottom.

We must not go gently into that night. Not rage, but act, against the dying of the light.

11. Postscript

22nd October 2019

The main text of my paper was completed in mid-October. The Prime Ministers of the UK and Ireland had their "seeing a pathway" discussion on 10th October. Since then we have seen publication of (a) an amended Withdrawal Agreement, (b) an amended draft Political Declaration, and (c) a new European Union (Withdrawal Agreement) Bill. In this short postscript, I try to distil some of the key points from these.

The Withdrawal Agreement

The draft Withdrawal Agreement negotiated by Theresa May's government, and presented in November 2018, consisted of 185 Articles. The new Johnson government Withdrawal Agreement consists of 185 Articles. Only two Articles have been changed – Article 184 on "Negotiations on the future relationship" in which the date of the political declaration is now given as 17 October 2019; and Article 185, which deals with the date(s) of the coming into force of the Withdrawal Agreement.

There will be a transition period (wrongly called "implementation period" on the UK side) which still expires on 31 December 2020, unless extended for either one or two years by agreement, which must be decided (if at all) by the end of July 2020. During this period, in effect nothing much changes – EU law still fully applies – apart from the fact that the UK loses all seats at the table in all EU decision-making or advisory bodies.

The provisions on protecting EU citizen's rights remain, as do the detailed provisions setting out the basis of the UK's payments (the estimated £39 billion) to be made as the "divorce agreement". (It is extraordinary how silent the pro-Brexit camp have become over the payment terms, given the earlier expressions of outrage!)

The only substantive change comes in the 'Protocol on Ireland/Northern Ireland', which comes into effect at the end of the transition period. In the earlier agreement, the Protocol only came into effect in the absence of other arrangements being agreed

– hence “the backstop”. Now, the provisions come into effect automatically at the end of the transition period (thus nicknamed “the frontstop”).

The Protocol is complex and extremely coyly expressed, but in effect means that while Northern Ireland will still form part of the UK’s “internal market”, it will also for most purposes follow the EU’s legal rules on trade, and many regulatory rules of the EU’s internal market. The Institute for Government helpfully summarises the position:

> *“For Northern Ireland–Republic of Ireland trade, the EU’s Union Customs Code (customs rules) apply and there would be no tariffs or restrictions.*
>
> *Goods moving directly from Great Britain to Northern Ireland won’t be subject to a tariff unless the good is “at risk” of being moved into the EU afterwards. Likewise, goods from third countries entering Northern Ireland will be subject to the UK tariff, unless they are at risk of being moved to the EU. For goods deemed “at risk”, the EU tariff will be applied...*
>
> *The Joint Committee will establish further conditions under which goods coming into Northern Ireland from Great Britain would have to pay the EU tariff.*
>
> *Northern Ireland…will have to stick to the rules of the EU’s Single Market, in areas such as technical regulation of goods, agricultural and environmental production and regulation, state aid and other areas of north–south co-operation between Northern Ireland and the Republic of Ireland.”*

Remarkably, the Protocol even gives direct effect to some EU Treaty provisions – thus Article 5.5 of the Protocol:

> *“Articles 30 and 110 TFEU shall apply to and in the United Kingdom in respect of Northern Ireland”.*

The one significant concession of principle on the EU side, was to allow for the possibility that these arrangements may come to an end by vote within Northern Ireland – something the earlier backstop was designed to prevent. The Protocol cross-refers to a unilateral Declaration by the UK government setting out the arrangements for voting.

In brief, the Protocol’s provisions apply for 4 years from the end of the transition period, and will then be voted on. If Stormont is sitting, in the Assembly; if not, via a vote of NI Assembly members organised by the UK government. If it is voted by a simple majority, the terms are extended for a further 4 years. If the vote is with cross-community support, it lasts a further 8 years before the next vote. But there can be a vote ending the arrangements – in which case, the provisions cease to apply after a further 2 years.

The Political Declaration

Again, the new Political Declaration draws mainly on that agreed between Theresa May's government and the EU, but there are some significant changes within it. These ensure that the future trade relationship with the EU (if it follows this Declaration) will probably be more distant than the closer customs alignment then foreseen. Thus, May's Paragraph 20 stated:

> *The Parties envisage having a trading relationship on goods that is as close as possible, with a view to facilitating the ease of legitimate trade.*

Under Johnson, this has become (my italics):

> *The Parties envisage having an ambitious trading relationship on goods on the basis of a Free Trade Agreement, with a view to facilitating the ease of legitimate trade.*

On tariffs, May's Declaration stated:

> *The economic partnership should ensure no tariffs, fees, charges or quantitative restrictions across all sectors, with ambitious customs arrangements that…build and improve on the single customs territory provided for in the Withdrawal Agreement which obviates the need for checks on rules of origin.*

Under Johnson, the "single customs territory" has disappeared, replaced by the vaguer aspiration:

> *The economic partnership should through a Free Trade Agreement ensure no tariffs, fees, charges or quantitative restrictions across all sectors with appropriate and modern accompanying rules of origin, and with ambitious customs arrangements that are in line with the Parties' objectives and principles above.*

The most interesting changes – in terms of trying to understand where the Johnson government may aim to go, is in new Paragraph 77 (formerly 79), on the "level playing field for open and fair competition". May's Declaration referred to 'building on' the provisions then – but no longer – in the Withdrawal Agreement. Johnson's Declaration is longer, and appears to pledge his government to "robust commitments" to "uphold the common high standards applicable" in the EU and UK at the end of the transition period, in the areas of state aid, competition, social and employment standards, environment, climate change, and relevant tax matters.

One senses the firm insistence of Michal Barnier at work in much of this language – but the real question is whether the UK government really intends to take this seriously, or whether any actually-negotiated FTA with the EU will turn out to be less "ambitious" than currently, but indistinctly, promised. In short, will the "arch-deregulators" really be willing, downstream, to accept all this?

Article 184 of the Withdrawal Agreement commits both sides to "use their best endeavours, in good faith and in full respect of their respective legal orders, to take the necessary steps to negotiate expeditiously the agreements governing their future relationship referred to in the Political Declaration of 17 October 2019… with a view to ensuring that those agreements apply, to the extent possible, as from the end of the transition period."

A "best endeavours" commitment offers no guarantees, especially since a General Election, bringing a different Parliament, is to be expected before those endeavours may fall to be tested.

The European Union (Withdrawal Agreement) Bill 2019

The Bill, published on 21st October, is the form through which the Withdrawal Agreement takes effect in the UK. It contains in Clause 1 a rather remarkable provision:

> *"The European Communities Act 1972, as it has effect in domestic law or the law of a relevant territory immediately before exit day, continues to have effect in domestic law…on and after exit day so far as provided by subsections (3) to (5)".*

So more than 3 years after the Referendum, the 1972 Act is given a fresh lease of legislative life! That lasts, however, only until IP completion date, which means the end of the transition period. Under Clause 2, and later clauses, after final "exit day", the legal status quo applies, unless and until changed.

Clause 5 is also notable, in that it in effect incorporates much of the Withdrawal Agreement directly into UK law:

> *"(a) all such rights, powers, liabilities, obligations and restrictions from time to time created or arising by or under the withdrawal agreement, and (b) all such remedies and procedures from time to time provided for by or under the withdrawal agreement, as in accordance with the withdrawal agreement are without further enactment to be given legal effect or used in the United Kingdom."*

Clause 20 authorises the government to pay the "divorce bill".

Clauses 30 and 31 are important for the future. Clause 30 requires a statement in parliament from the government (or revised statement) on objectives for the future relationship with the EU. Such a statement must:

> *"be consistent with the political declaration of 17 October 2019 referred to in Article 184 of the withdrawal agreement (negotiations on the future relationship)".*

In Schedule 4, a new set of procedural requirements is inserted concerning workers' rights; these have no substantive effect and seem to be included more to give an impression of concern.

The economic impact of Johnson's proposed deal

For the short term – assuming agreement now or after a short extension of the Article 50 period – Johnson's deal (if passed) means that we remain for the transition period as a quasi-member of the EU, in legal and trading terms, till the end of 2020. The odds are that this transition period will not be extended, unless there is a change of government. We can on this basis expect a slight uptick in the UK economy, with a slight improvement in investment and some renewed consumer confidence. Government is spending at a higher level, in a pre-election surge. However, the global economy is in a poor state, and this will have an adverse impact.

For the longer term, we can assume (on the balance of probabilities) an FTA of some kind with the EU, but unlikely to be before December 2020 other than a short-term bridging arrangement. It will be less close than the May government had apparently sought. New frictions will inevitably be created in our existing EU trading patterns. The only non-EU trading partner of major (but not equal) scale is the USA, but any FTA with the US will prove politically and economically complex and probably damaging to significant sections of the UK economy. If a Conservative government were returned to office, it would almost certainly be more right-wing on economic matters and seek to pursue and impose a more deregulatory government than the current Political Declaration envisages

Taking all these into account, we may conclude that the development of the UK economy, in terms of GDP, will be significantly lower than a “remain” or very close customs union path would deliver, other things being equal, over the next decade. Whether a recession or near recession would occur as a result of post-transition Brexit will again depend on whether there is a hard exit (i.e. with no or minimal deal for the post-exit period) from the transition period.

ANNEX

In this Annex are some specific ideas for EU Treaty text reforms for better economic governance, as examples of what a “Remain and Reform” progressive economic strategy might seek to achieve. These and other proposals for change are set out in the 2017 report by Jeremy Smith and John Weeks, “Bringing democratic choice to Europe’s economic governance - the EU Treaty changes we need, and why we need them”. All of the following relate to amending provisions of the Treaty on the Functioning of the European Union (TFEU).

1. EU fiscal rules

The rules are set out in Article 126 TFEU, which at present provide that

“1. Member States shall avoid excessive government deficits.

2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:

> (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:
>
> - either the ratio has declined substantially and continuously and reached a level that comes close to the reference value,
> - or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;

(b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace."

[The "reference values" (3% of GDP for deficits, 60% for debt) are set out in the 'Protocol on the excessive deficit procedure' annexed to the Treaties.]

Our proposal (amendments and additions in bold) is to replace the inappropriate focus on government deficits alone (and the "reference values") with a broader set of economic indicators, e.g.

1. Member States shall **ensure that the government's and public finances are effectively managed. They shall endeavour in particular, and having regard to all the circumstances and in particular to the present and foreseen state of the economy at national, EU and international levels, to**
    - **(a) develop budgetary policies that promote the achievement of the Union's economic objectives, including full employment;**
    - **(b) avoid excessive government surpluses or deficits, taking into account public investment;**
    - **(c) redress excessive surpluses or deficits on their current account;**
    - **(d) prevent the build-up of excessive private debt or net government debt;**
    - **(e) The Member States shall report promptly and regularly to the Commission on the statistics and proposed policies and measures in relation to the above factors**

2. The Commission shall monitor the development of the budgetary situation in the Member States**, having regard to the matters set out in paragraph 1 above,** with a view to identifying gross errors **and to identifying factors in respect of any Member State's budgetary policies which risk jeopardising the proper functioning of economic and monetary union.**

2. The European Central Bank's role and mandate

The existing Treaty text provides

> "1. The primary objective of the European System of Central Banks, hereinafter referred to as "ESCB", shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.
>
> 2. The basic tasks to be carried out through the ESCB shall be:
> - to define and implement the monetary policy of the Union,
> - to conduct foreign-exchange operations consistent with the provisions of Article 219;
> - to hold and manage the official foreign reserves of the Member States,
> - to promote the smooth operation of payment system"

Our proposed amendments, to expand the mandate and role, are as follows:

> "1. **In relation to monetary policy**, the primary **objectives** of the European System of Central Banks, hereinafter referred to as "ESCB", shall be to **promote balanced economic growth and full employment, and to** maintain **reasonable** price stability. Without prejudice to **these objectives**, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.
>
> 2. The basic tasks to be carried out through the ESCB shall be:
> - to define and implement the monetary policy of the Union,
> - to conduct foreign-exchange operations consistent with the provisions of Article 219;
> - to hold and manage the official foreign reserves of the Member States,
> - to promote the smooth operation of payment system
> - **to enhance and contribute to the protection of the stability of the financial system**
> - **in the event of severe financial or economic crisis, to act if required as "lender of last resort**

In order to further the achievement of its objectives and perform its above tasks, the ESCB may inter alia purchase and sell government bonds of member states on the secondary market."

3. Ensuring that trade is beneficial

The Treaties currently assume that all trade is beneficial. We propose to qualify this, e.g. Article 32, TFEU.

Existing text

> "In carrying out the tasks entrusted to it under this chapter the Commission shall be guided by:
>
> (a) the need to promote trade between Member States and third countries; ..."

Proposed changes

> "In carrying out the tasks entrusted to it under this chapter the Commission shall be guided by:
>
> (a) the need to promote trade**, where this is beneficial,** between Member States and third countries**, while ensuring that environmental, social and health-related standards are maintained;"**

4. State Aid

We propose that the existing rules be eased to enable member states to provide time-limited aid (we suggest 5 years maximum) in case of major industrial change etc., drawing by analogy on an existing provision for the benefit of areas of Germany affected by its division.

Article 107 TFEU

Existing text

> "1. Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.
>
> 2. The following shall be compatible with the internal market:
>
> > (a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;
> >
> > (b) aid to make good the damage caused by natural disasters or exceptional occurrences;
> >
> > (c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division. Five years after the entry into force of the Treaty of Lisbon, the Council, acting on a proposal from the Commission, may adopt a decision repealing this point."

Proposed change

> "2. The following shall be compatible with the internal market:
>
> > (a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;
> >
> > (b) aid to make good the damage caused by natural disasters or exceptional occurrences;
> >
> > (c) aid granted to the economy of certain areas of **a Member State**, in so far as such aid is required in order to compensate for **severe economic**

disadvantages or impacts caused by industrial, sectoral or other major structural change or by sharp economic fluctuations or disturbances (including those resulting from any impact of trade with third countries). Any aid under this paragraph must be proportionate to the economic disadvantages or impacts confronted, and may not continue for more than [five] years."

5. Industrial strategy

The Treaties have only one substantive article on industry, which we propose be strengthened. We also propose to extend the role of the European Investment Bank [amendments not included here].

Existing text, Article 173 TFEU

> "1. The Union and the Member States shall ensure that the conditions necessary for the
>
> competitiveness of the Union's industry exist.
>
> For that purpose, in accordance with a system of open and competitive markets, their action shall be aimed at:
> - speeding up the adjustment of industry to structural changes,
> - encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings,
> - encouraging an environment favourable to cooperation between undertakings,
> - fostering better exploitation of the industrial potential of policies of innovation, research and technological development.
>
> …."

Proposed amendment

> "1. The Union and the Member States **recognize that a strong industrial base is an essential foundation for a prosperous European society and economy. They** shall ensure that the conditions necessary for the **sustainable success and** competitiveness of the Union's industry exist.
>
> For that purpose, **[...]** their action shall be aimed at:
> - **helping** the adjustment of industry to structural changes,
> - encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings,
> - encouraging an environment favourable to cooperation between undertakings,

- fostering better exploitation of the industrial potential of policies of innovation, research and technological development,
- **developing the skills and capacities of the present and potential industrial workforce**
- **encouraging the development and implementation of 'green' technologies that contribute to the transition to a non-fossil fuel intensive European economy**
- **promoting the productivity of Europe's industry."**

Progressive Economy Forum

About PEF

The Progressive Economy Forum (PEF) was founded and launched in May 2018. It brings together a Council of distinguished economists and academics to develop a progressive and sustainable macroeconomic programme and to foster wider public engagement with economics. It opposes and seeks to replace the current dominant economic narrative based on austerity.

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