A Successful Brexit: Four Economic Tests
Contents

Introduction .................... page 3
Test 1 – the economy and public finance................ page 7
Test 2 – fairness ................ page 11
Test 3 – openness .............. page 15
Test 4 – control ................ page 19
Conclusion .................... page 23

The UK in a Changing Europe is an impartial and independent organisation created to make the findings of the best academic research easily available to the widest possible audience. This report was written by the initiative’s director Anand Menon and senior fellows Angus Armstrong, Catherine Barnard, Iain Begg and Jonathan Portes.
INTRODUCTION

In less than three months, the Government will formally notify the European Union of the UK’s intention to withdraw from membership of the EU.

Theresa May has already said that “we’re going to make a success of it” and has called for “a Brexit that works for Britain”. More specifically, in her Lancaster House speech, she stressed that Brexit means regaining national control over our laws and our borders. At the same time, however, she expects Brexit to result in Britain being prosperous as well as fairer and more outward looking than ever before.

But how will we know if the government’s plan sets out a coherent strategy for a successful Brexit? How should we judge the terms of any eventual deal and our disengagement from the EU? Over the long term, how will we know if Brexit is really “working for Britain”?

In order to answer these questions, we need to move beyond platitudes to focus on likely outcomes for individuals, families, businesses and the country as a whole. To find out whether we are headed for a successful Brexit, we need to know not just what Brexit means, but what constitutes “success” and what “works”. For this, we need an agreed set of “tests” against which we can evaluate the government’s plan, the EU’s position, and what emerges during the negotiations.

These tests need to be, as far as possible, objective and to reflect a consensus across the UK – civil society, its nations and regions, and across the political spectrum, including as far as possible the majority of those who voted either for Leave or Remain. They are not about re-running the referendum or re-assessing the questions explored during the referendum campaign about the costs and benefits of Brexit.

These tests must reflect the impact of Brexit on the economy and society of the UK. The economy was an important battleground during the referendum on Britain’s EU membership. The Remain campaign built its case largely around the claim that leaving the EU would cause serious economic harm, while Leave argued that the downsides were exaggerated – “Project fear” – and that outside the EU the UK would be free to pursue new economic opportunities. Meanwhile, the Leave campaign argued that the UK could only “take back control” over our economy, not least restricting immigration from the EU and saving significant budgetary contributions, by leaving the EU.

It will not be enough simply to look at the impact of Brexit on economic output, important though that will be, because the referendum was about much more. Although the two sides disagreed vehemently about whether we should remain in the EU, there was considerable common ground about what we, as a country, should be seeking to achieve by either Remaining or Leaving. Generally, both sides argued that Britain should remain an open, outward-looking country (immigration policy notwithstanding); that both economic growth and social cohesion mattered; that we should invest in, and improve, our public services; and that we need to maintain Britain’s international influence, while preserving democratic control of our own destiny. Any tests of the success of Brexit must reflect this broad range of goals.
A Successful Brexit: There is no single “correct” test; but that does not prevent us from trying to come up with a series of tests that can command widespread agreement. We are not aiming to be comprehensive; we have, for example, not set out tests for national security or UK political influence on the global stage. Instead we have concentrated on the key socio-economic dimensions. Brexit will be a success if, looked at in the round, it passes the following tests:

1. The economy and the public finances - will it make the country better-off? Will Britain, as Theresa May stated, be prosperous? The economic costs and benefits of Brexit were hotly contested during the campaign. But this debate generated at least as much heat as light and, given the huge uncertainty about what Brexit would actually mean for the UK economy, and hence the uncertainty attached to any analysis of the impacts, this was perhaps inevitable. But any assessment of the actual Brexit deal and its impacts must focus squarely on the economy. As the Chancellor put it, nobody voted for (or indeed against) Brexit to make us poorer. A successful Brexit will be one that makes us better-off overall.

2. Fairness - the distributional consequences of Brexit also matter and have been central to the Prime Minister’s message. Economic integration creates winners and losers; will Brexit help some of those individuals and communities who have not benefited from growth over the last 30 years? The referendum campaign crystallised a view that many people had been “left behind” by the relative success of the UK economy since we joined the European Union. This reflected not just EU membership but also globalisation more generally, technological and social change, and domestic policy decisions. A successful Brexit will be one that helps those who have done worst and promotes opportunity and social mobility for all across the UK, but particularly for the most disadvantaged.

3. Openness - will Brexit preserve and extend the UK’s openness as an economy (to trade, investment, ideas and people)? The Prime Minister has stressed that a Global Britain will be outward looking, a ‘great, global trading nation’. While openness is not an end in itself, the UK has a long and well-established consensus, across the political spectrum, in favour of free trade and open markets as a means to greater prosperity. Openness also has consequences for fairness. Different Brexits imply different degrees of economic integration with the rest of the EU. And although the public clearly supports greater restrictions on immigration, both campaigns argued that the UK should remain open to the “brightest and best”, including skilled workers and foreign students. A successful Brexit will be one that maintains and enhances the UK’s position as an open economy and society.

4. Control - will Brexit enhance the democratic control the British people exercise over their own socio-economic destiny? The notion of control was central to the leave argument during the referendum campaign and has been a core part of the Prime Minister’s message subsequently. Yet complex modern societies delegate many important political and economic decisions such as economic regulation, environmental control and even security decisions to bodies that seem remote and unaccountable – with the EU being the ultimate manifestation of this phenomenon for many. Control is not just about the formal
sovereignty of Westminster, but more broadly about whether individuals and communities feel that they have a genuine say in the decisions that affect them. A successful Brexit will be one that genuinely increases citizens’ control over their own lives.

THE TESTS: WHAT THEY ARE AND WHAT THEY ARE NOT

We have deliberately chosen not to frame the tests around the key policy choices that are likely to be the subject of the negotiations between the UK and the EU over the terms of our withdrawal and our future relationship - trade, migration, regulation and so on. Each of those will affect our tests in some way, but we think it is important to focus on outcomes rather than specific policy areas.

Setting out the tests themselves is the easy bit. To know if they are likely to be, or have been met, we need a framework: a set of questions, and indicators, both quantitative and qualitative, by which we can judge success. This is a complex endeavour, for a number of reasons.

First, Brexit will be a process not an event, and one whose implications will become clear only over a period of several years. This makes tracking cause and effect highly problematic.

Second, Brexit is only one of many factors shaping our economic prospects. The outcome, and consequent change of government, have already had an impact on domestic economic policy; fiscal consolidation is no longer as high a priority, and “industrial policy” is back on the national agenda. Factors ranging from the prospects for the Eurozone, the reality of a Trump Presidency in the US, or a possible hard-landing in China will all affect the global economy. Teasing out the impact of different phenomena and distinguishing them from the effects of Brexit is bound to be analytically challenging.

Third, because of trade-offs between the tests, deciding how to balance the different aspects will depend on individual and collective preferences, which can only be determined by the political process. We are not trying to pre-empt that judgement - but rather to identify the crucial choices.

Finally, and both a problem and perhaps the key reason for attempting this project, all sides in the Brexit debate will attempt to put their own spin on the course of the negotiations and on the emerging economic data. Having an agreed set of criteria in advance will make it easier to assess developments in an objective fashion. Developing such a framework now, in advance both of the negotiations and of Brexit itself, will minimise the temptation to move the goalposts later.

We do not have a view on whether the tests are likely to be met, or what Brexit would have to look like to meet them. We are setting out a framework intended to be, as far as possible, neutral and objective, which will allow for such an assessment in the future. In the next sections, we expand on each of our four tests, looking at key themes, the indicators that might shed light on them, and how ‘success’ might ultimately be measured and tracked. Our conclusion explains where we might go from here.
WHY THIS MATTERS

A fundamental question in the referendum campaign was whether the UK economy would be stronger inside or outside the EU, and therefore whether living standards would be higher or lower. Particular attention was paid to whether leaving the EU would allow the money currently ‘sent to Brussels’ to be spent on our own priorities, notably the NHS.

The economic competence of governments is most often assessed using a small number of key macroeconomic indicators, particularly the size and growth rate of the economy (usually measured as gross domestic product - GDP), the unemployment rate and the inflation rate. The determinants of each of these headline variables are complex. GDP was badly hit by the financial crisis in 2008-9 and took a long time to return to its pre-crisis level, but the UK has since enjoyed reasonably good economic performance. Unemployment and inflation have both remained low, although the productivity record has been disappointing. A number of the most important recent trends - very low inflation and interest rates, sluggish growth, and poor productivity performance - are common to most advanced economies, both within and outside the EU, suggesting that wider global factors are at work.

But over the longer-term, growth is influenced by trends in productivity, which are determined by the capacity of the economy to innovate, the size and competitiveness of markets and a host of other factors. These, in turn, are affected by the institutional context, including access to markets, new ideas and the stability of the financial system. Membership of bodies such as the EU play an important part, for good or ill, because they shape our trade and investment regime, our regulatory environment, our framework for industrial policy and the cost of doing business.

The health and sustainability of the UK’s public finances are, as a rule, closely linked to economic growth. Tax revenues grow with the size of economy, while a stagnating economy leads to more demands on public expenditure. Consequently, any assessment of the effects of whatever new arrangement is concluded between the UK and the EU has to take account not just of the direct gains from cutting the money ‘sent to Brussels’, but also of the knock-on effects on the performance of the economy and hence on tax revenue.

HOW EU MEMBERSHIP HAS AFFECTED PROSPERITY

The direct cost of EU membership for richer countries like the UK is the amount of tax-payer money the UK pays into the EU budget, less the spending from EU programmes accruing to the UK (although EU spending does not necessarily reflect UK priorities). Britain (along with Germany) has always been a net contributor to the EU, mainly because it receives relatively little money from one of the most costly EU programmes - the Common Agricultural Policy. A disproportionate share of EU spending goes to the
relatively poorer Member States in central, eastern and southern Europe, much of it to support economic development.

While ending this direct budgetary cost would benefit UK taxpayers, both the public finances and UK prosperity more generally are affected in a variety of indirect ways. First, the UK government will need to consider whether it replaces spending by the EU on the poorer regions of the UK and whether it compensates industries and businesses that have been direct beneficiaries of EU policies, e.g. in agriculture.

Second, by far the most significant indirect effects of EU membership are on the productive potential of the economy. At the heart of the EU is the single market, the largest free trade area in the world, which aims to make it as easy to trade between London and Paris as it is between Marseilles and Paris. The underlying logic is that openness to competition and the absence of barriers to the movement of goods, services, capital and labour – the ‘four freedoms’ of the EU – result in better opportunities for specialisation in what each country does best, enables common standards and regulations and prevents anti-competitive practices through which companies inhibit consumer choice. Much the same argument is used to justify free trade at the global level. On balance, economic research suggests that EU membership has benefited the UK economy over the last forty years. However, this does not necessarily mean Brexit will damage the economy. Estimating future impacts depends on a raft of assumptions and a clear specification of what would have happened otherwise. Brexit can be expected to affect domestic policies in a number of ways, both directly and indirectly – for example via the increased focus on “industrial policy”. Alternative assumptions about the path of future policies will result in very different estimates.

However, prior to the referendum, most credible estimates suggested that Brexit would lead to a lower level of output over the longer term, as a direct consequence of likely reductions in trade and investment with the rest of the EU. In addition, some analyses suggested that – because of the indirect impacts of trade, investment and competition on productivity growth – the underlying rate of growth would also be reduced. Such estimates also implied that the knock-on impacts on the public finances would more than offset reduced contributions to the EU budget. The Leave campaign argued that such assessments ignored other potential benefits of leaving: the ability to conclude trade and investment deals with third countries without being locked-in to the inevitable compromises needed to reach a common position among twenty-eight countries. In parallel, regulation and industrial policy could be better tailored to UK interests.

WHAT WOULD CONSTITUTE AN ECONOMICALLY ADVANTAGEOUS BREXIT AND HOW WOULD WE TELL?

An economically successful Brexit:

• Would result in levels of GDP and real household income at least as high as would otherwise have been the case, over both the short and long term.

• Would ensure that the public finances were sustainable, while allowing the government to allocate more spending to policies favoured by the electorate, such as health and social care.

• Would allow a more balanced path of economic growth across industries and regions to allow such growth to be more sustainable and resilient to unexpected economic events.
An assessment of any putative Brexit deal would, therefore, need to cover the following areas:

**Q1 PRODUCTIVITY AND COMPETITIVENESS**
The weak productivity performance in recent years is damaging to the long-run growth and competitiveness of the UK economy and means real wages and hence living standards are lower than they would otherwise be. Although there are many possible explanations for this, there is by no means a consensus on what the solution is. However, skills, rates of innovation, the quality of infrastructure and the business environment are among the key factors. The question is whether Brexit facilitates or hinders productivity growth. This will be affected by post-Brexit policies not just on trade, but also on investment, industrial policy, regulation and immigration.

**Q2. PRICES**
The most obvious direct benefit of trade – and economic integration more broadly – is that which flows from being able to specialise in what we do best. This in turns reduces prices for goods and services, improving our living standards. Will Brexit reduce or increase domestic prices, from food and drink to cars to digital services? Will Brexit-related changes in the exchange rate improve the UK’s trading performance or simply reduce the purchasing power of households?

**Q3. UK SPECIALISATION**
Brexit will bring about a fundamental reorientation of our international economic relationships, with very different possible consequences for different sectors and the Euro exchange rate. How would the most successful sectors in the economy - including automobile and pharmaceutical manufacturers, the creative industries, and financial and business services - be affected? Will Brexit stimulate or inhibit the emergence of new industries?

**Q4. MACROECONOMIC IMBALANCES**
The UK economy has long suffered from a number of macroeconomic imbalances. There is a persistent deficit on the current account, the housing market is a recurrent source of instability and there are long-standing regional and sectoral differences in economic performance. Would Brexit help reduce the current account deficit in an orderly and sustainable fashion? Would it enable better matching of supply and demand - at affordable prices, especially for lower and middle income households - in the housing market? Would it allow the economy to be rebalanced away from excessive dependence on London and the South East, and on the financial sector, but without damaging the growth, prosperity and tax revenues that they generate? Will exiting the EU make any difference to the UK’s ability to ensure its economic security, particularly against future financial crises?

**Q5. THE PUBLIC FINANCES**
Ending the net UK payment into the EU budget would generate a direct windfall gain for the UK public finances. However, if Brexit has negative effects on tax revenue because of lower growth, or induces higher spending to alleviate the consequences of leaving the EU, then the windfall gain could be offset. Will there be new needs for public spending, for example to police our borders more thoroughly or to undertake work currently done by EU institutions, via the setting up of agencies and licensing arrangements? Moreover, any Brexit deal may incorporate some continued UK payments to the EU to ensure market access or participation in programmes that support UK growth, as with Norway. Will Brexit yield a net benefit to the UK public finances, taking into account both the direct and indirect effects?
A Successful Brexit:

Image Lincoln, copyright: iStock
TEST 2:

FAIRNESS

WILL BREXIT MAKE BRITAIN FAIRER?

WHY THIS MATTERS

One of the key drivers of the Brexit vote was a perception that EU membership – and perhaps the broadly pro-globalisation, liberal domestic economic policies of successive governments since the mid-1970s - had benefited some segments of society within the UK far more than others. Although the causal links are complex, it is the case that:

• Inequality of income and wealth has risen considerably (although for income this increase occurred largely before 1995, and in the most recent years may even have come down somewhat).

• The relative disadvantage of lower skilled and less educated people in the UK labour market has increased;

• Regional imbalances have grown; many regions and areas (largely but not exclusively in the North), formerly dependent on heavy industry, have struggled to replace the associated jobs, while London and the South-East have boomed, especially since the late 1980s.

• Social mobility (while a highly contested term) may have decreased, at least for the young, with little sign of improvement for other age groups. The importance of inheritance has increased, which benefits younger people from higher income families.

• House prices and rents have risen very sharply, benefiting better-off homeowners, especially in London and the South-East, at the expense of the young who cannot afford to buy.

Mirroring these trends, the Brexit vote reflected regional, income, generational, and class divisions. A key test is therefore whether Brexit can redress these inequalities.

HOW EU MEMBERSHIP AFFECTS “FAIRNESS”:

While the causes of the changes noted above are complex, and EU membership is by no means the only or main driver, there is no doubt that it matters.

• Liberalising trade and migration policy will increase overall output; but the gains will be unequally distributed, and under most plausible scenarios there will be some losers. EU membership, and the associated “four freedoms” of movement of goods, services, labour and capital, have consequences for the distribution of income and opportunity within the UK economy;

• Skills are not equally distributed across the country and being part of a regional economic bloc centred to our east and (in economic terms at least) mostly to our south has arguably shifted some economic activity linked to trade to the south-east of the UK. Perhaps more importantly,
EU membership has enabled the UK to become Europe’s dominant financial centre, again advantaging London and the South East, albeit with lesser gains for regional financial centres across the UK;

• EU law and policy also constrain UK economic policy in ways which may make it harder to implement policies designed to make Britain “fairer”. For example, regional policies to attract new industries to less prosperous parts of the UK - or to retain those industries that are currently there - may infringe EU competition policy rules. On the other hand, EU Structural Funds currently provide funding which underpins public investment (much of it for improving the skills of less well-qualified people) into relatively deprived areas of the UK, especially Northern Ireland, West Wales and the Valleys and Cornwall and the Isles of Scilly.

• EU membership has relatively little direct impact on the provision of public services in the UK; and even less on housing supply. However, changes in migration policy, and to the legal entitlements of EU citizens resident in the UK, might reduce pressures on services (in particular health and education) and demand for housing in some areas. Equally, reduced tax revenues paid by migrant workers from the EU (who have been shown to be net contributors to the public finances) could mean less money is available, while EU migrants are an important part of the public sector workforce and the agriculture and construction sectors.

• EU membership has extended and entrenched a number of social and economic rights, from equal pay to guaranteed paid holiday. Although many of these rights would in all likelihood have been implemented in some form by the UK government even without membership, their origin and formal legislative underpinning relates in large part to EU membership.

SO WHAT WOULD A “FAIR” BREXIT LOOK LIKE? AND HOW WOULD WE TELL?

The referendum outcome, and the consequent change of government, has focused attention on these issues, with a renewed emphasis on “industrial policy” and the Prime Minister’s stated wish to help “just about managing” families. A fair Brexit:

- Would increase the incomes and employment prospects of those for whom these are lowest at present - especially among the younger generation
- Would expand opportunity beyond those who have done best over the last three decades - the better educated, those living in London and so on
- Would reduce regional inequalities and would improve public services, especially in areas where they are currently under greatest pressure
- Would protect the rights of citizens and workers

How would we know if a Brexit deal was likely to deliver this? Any assessment must cover the following areas:

Q1: MIGRATION

Brexit is likely to lead to significant changes in migration policy. This will affect both the number of migrants coming to the UK and their characteristics – skills, qualifications, whether they are
coming to work, study, or for other reasons. This will affect the employment prospects and wages of current UK residents; these impacts will differ by income, education, sector and region. What will the impact of changes to migration policy be on jobs and incomes, particularly of the low-paid and those currently out of work? How will those impacts be distributed regionally? What are the ramifications for UK citizens currently working or retired in other EU countries or may wish to do so in future?

Q2: TRADE

Brexit will change the UK’s trading and investment arrangements, both with the EU and, the rest of the world; it is expected, as signalled in the Prime Minister’s Lancaster House speech, to lead to the UK leaving the Customs Union and the Single Market and may make it possible for the UK to conclude its own trade and investment deals with countries outside the EU. There will also be important issues for specific sectors, ranging from agriculture and fisheries to higher education and research. This will affect jobs, wages and regional economies. What will the impact of changes in trade policy be on job opportunities and wages? How will those impacts differ between regions and sectors?

Q3: INDUSTRIAL AND REGIONAL POLICY

Leaving the EU could allow the UK to pursue a more vigorous industrial and regional policy supporting economic development outside London and the South-East. However, government will need to consider whether it guarantees or replaces existing funding currently provided via the Structural Funds. What new levers for regional policy, designed to reduce the current dominance of London and the South-East, might Brexit open up? How effective are such levers likely to be?

Q4. PUBLIC SERVICES AND HOUSING

What will be the net effects of changes to both the supply and demand for public services, taking into account impacts on tax revenues, benefit payments, demand for services, and the public sector workforce? How will they be distributed regionally, and who will lose or gain? What policies will government adopt to improve the quality of education in areas where it is currently lacking, and how will Brexit affect the likely success of such policies? What impact will Brexit have on the demand for, and supply of, housing, particularly in areas where affordability (of rents and for those wishing to buy) is a serious constraint?
A Successful Brexit:
WHY THIS MATTERS

The precise benefits of ‘openness’ are contested, but for at least the last quarter century there has been a broad consensus that the UK benefits from having an open economy. This means much more than being ‘open for trade’. It means having UK firms invest abroad and vice-versa; it means capital and labour being free to move to seek the highest returns available; and it means sharing research and development opportunities across national boundaries.

Trade allows us to consume more and a wider variety of products, and gives businesses new opportunities abroad as well as an incentive to be more efficient. Similarly, migration increases the economy’s productive capacity and brings new and different skills, while capital mobility allows foreign companies to bring technology and know-how to the UK. The ability to invest abroad benefits UK savers and investors. These are key drivers of productivity and hence our long term economic performance.

The UK is a very open for a major economy, with its exports of goods and services accounting for about 28 percent of economic output. The UK is the third largest recipient nation of foreign direct investment in the world (behind the US and China), bringing new technologies, jobs and income. And more than one in six of our working age population was born abroad.

‘Openness’ is not a good in itself, but rather a means to an end. To the extent that it stimulates productivity, it increases the size of the national economic pie. Some individuals, families, industries and communities may lose from trade, immigration or capital mobility. It is not possible to enjoy the gains from openness without significant distributional consequences; addressing those consequences is likely to require domestic policy measures, especially in respect of housing and other public services.

HOW EU MEMBERSHIP AFFECTS OPENNESS

The terms of the UK’s trade and investment arrangements with other nations – both inside and outside the EU – are mostly determined by its membership of the EU. Membership of the EU confers membership of the Single Market and its Customs Union. Being part of the Customs Union means that members must accept a Common Commercial Policy (CCP) towards all non-EU countries. This means the EU has the exclusive power to negotiate trade and investment agreements - covering goods, services, intellectual property and foreign direct investment- with countries outside of the Union.

Various Articles of the Treaties require the free movement of goods, services, capital and labour. These have come to be known as the ‘four freedoms’. The supposed indivisibility of the freedoms is a political more than an economic commitment. For countries that share a single currency, the free movement of
capital and labour is extremely important to facilitate adjustments to economic imbalances, but for countries such as the UK with its own currency, while the four freedoms may be complementary, they are not inseparable.

Brexit means establishing a new trade and investment regime with the rest of the EU and, by extension, the rest of the world. It will thus fundamentally affect how open the UK is to trade, capital and migration flows from abroad. This is not simply an issue of ‘access to export markets’. Modern international trade is facilitated by agreements on standards, regulations and procedures. It is about connectivity to international partners through global value chains where products and services are compiled across national borders. Such cooperation across national boundaries also helps the sharing of ideas and new technologies.

**SO WHAT WOULD AN “OPEN BREXIT” LOOK LIKE? AND HOW WOULD WE TELL?**

For some, Brexit is an opportunity to keep the best parts of the single market, while opening-up new trade and investment opportunities around the world. For others, it is essential to preserve as far as possible the current degree of economic integration between the UK and the EU. Corresponding to this, there are a range of possibilities. At one end of the spectrum, remaining in the European Economic Area (EEA) - or some closely analogous arrangement - and/or the Customs Union would mean relatively little change to existing arrangements. At the same time it would constrain, if not eliminate, our ability to strike trade deals with non-EU countries. At the other end of the spectrum, Brexit with limited special trading arrangements with the EU would inevitably mean barriers to trade, especially in services, and reduced migration flows, but greater possibilities for free trade with other non-EU nations.

Two trade-offs are clear. First, all Brexit options other than remaining in the Customs Union create an opportunity for greater openness with non-EU nations. If we are able to take advantage of this opportunity – and this depends on reaching agreements with the non-EU countries – the cost is likely to be new barriers to trade with the EU. Second, outside the EEA, the Brexit options offer greater possibility for more restrictive or selective immigration policies. However, the cost is likely to be more restrictions on services trade with the EU, as we would be outside of the regulatory perimeter of the EEA.

**An open Brexit would be one which:**

- preserved the current degree of economic integration with the rest of the EU, with few or no new barriers to trade in goods and services, at the same time as making it easier to trade with important current or future trading partners outside the EU.

- enabled UK firms to establish business in the EU to sell their wares and for EU firms to set-up in the UK. This means airlines, retailers, suppliers and financial services firms are as free to set-up businesses as they are currently and enforce their rights.

- facilitated the flow of knowledge, and preserves and extends the gains from the UK’s links with foreign universities and research institutions, in particular through institutionalised cooperation in research.

- maintained and enhanced a relatively liberal, flexible approach to immigration, particularly for skilled workers, students and others who contribute to the dynamism of the UK economy and labour market.
An assessment of any putative Brexit deal would, therefore, need to cover the key dimensions of openness.

**Q1: TRADE IN GOODS**

In the EU we have free movement of goods as well as common regulatory standards. How will any changes to the current position affect trade with the EU? And to what extent will this be offset by reduced trade barriers with the rest of the world? How will those new rights be enforced? How will the impacts differ between sectors?

**Q2: TRADE IN SERVICES**

Measuring openness in trade in services is more difficult, since trade barriers generally take the form of non-tariff barriers, which are much harder to quantify. Even within the EU, the Single Market in services is far from complete, while there are few formal restrictions on exporting services outside the EU. Will Brexit mean that the UK services sector, particularly financial services, finds it much more difficult to sell its products in the rest of the EU?

**Q3: INVESTMENT**

The UK is open to foreign investment from both inside and outside the EU; and this in turn facilitates our exports of goods and services to the rest of the EU. Will this change with Brexit, and if so how? Will the UK become more or less attractive to foreign investors once it is outside the EU? In the case of disputes, what will be the legal recourse once the UK is no longer part of the EU?

**Q4: MOVEMENT OF PEOPLE**

Would a post-Brexit immigration system preserve some degree of preference for EU citizens vis-a-vis third country citizens (including British citizens travelling to the EU)? Will we liberalise rules for skilled migrants from outside the EU to compensate for any new restrictions on EU citizens? What will be the practical impact on firms in different sectors looking to recruit workers at a variety of skill levels?
WHY THIS MATTERS

“Take back control” was Vote Leave’s most prominent and successful slogan; and post-referendum polling evidence suggested that “sovereignty” was the single most important reason offered for voting Leave. When Vote Leave talked about “sovereignty”, in its narrow sense, they referred to restoring the final say of the Westminster Parliament, directly elected by UK voters, over rules that apply in the UK; and restoring to the ‘British’ courts, not the European Court of Justice, the final say on the interpretation of and adjudication of rules which apply in the UK.

But sovereignty was only one aspect of the ideas wrapped up into ‘take back control’. More specifically, it related to control over particular, and highly politically salient, aspects of UK economic and social policy, in particular trade and immigration policy, where the EU currently plays a major role; and of that portion of UK revenues that are “sent to Brussels” to help finance the EU budget.

The Remain campaign, however, pointed out that leaving the EU would not necessarily mean more “control” from the point of view of UK citizens and businesses. Ending freedom of movement would mean restrictions on UK nationals who wished to live elsewhere in the EU; while businesses which currently export to the EU might face new tariff or non-tariff barriers, and if trading with EU countries will have to comply with EU regulations that in future will be made with no UK input.

More broadly, the referendum campaign showed concerns about “control” - or rather lack of it - ranged much wider, to other policy issues not directly affected by EU membership. The high turnout for the referendum - particularly in areas and among groups where general election turnouts are often low - can also be seen as a desire to “take [back] control” from not just the EU, but the broader UK political class, viewed as remote, London-centric, and distant from the concerns of many ordinary people.

HOW EU MEMBERSHIP AFFECTS ISSUES ABOUT SOVEREIGNTY AND CONTROL

EU law is made in Brussels and Strasbourg. Generally speaking, rules are proposed by the European Commission and then adopted by the Council of Ministers in Brussels and the European Parliament in Strasbourg. Once adopted, those rules can be interpreted by the Court of Justice sitting in Luxembourg.

None of this means there is no UK input: until the completion of the Article 50 negotiations there will be a UK Commissioner, the Council of Ministers has direct political representation from the UK government, and we have directly elected our MEPs. But it is a key principle of EU law that if there is a conflict between national
law and EU law, EU law prevails and can be enforced in the British courts and sometimes before the European Court of Justice.

At present the Westminster parliament must implement EU Directives, one form of EU legislation, into UK law. So it has, for example, implemented the Working Time Directive in the Working Time Regulations. Often it copies out the precise words of the Directive. Generally, the Westminster parliament cannot legislate in a different way to the Directive, nor repeal the Regulations so long as the Directive is in force. However, some Directives, like the Working Time Directive, set only minimum standards upon which the UK can improve.

A further constraint on UK parliamentary sovereignty is that there are certain areas of policy – in particular relating to international trade - over which the EU has ‘exclusive competence’. This means that the UK parliament cannot legislate in these areas at all. One example is the Customs Union. As we saw above, this means it is the EU, not individual Member States, that negotiates trade and investment agreements with non-Member countries.

Freedom of movement, which is both a principle of the Treaties and covered by several Directives, is another area where the UK is significantly constrained. Economically active EU citizens can move to, work and reside in another Member State. This means that a nationals of one Member State can move to other Member States to work as an employed person, a self-employed person or provide services; they can also move as students or persons of independent means, provided they have sufficient resources and sufficient medical insurance. These provisions of EU law have enabled about 3 million citizens of other EU countries to come and live in the UK and more than a million UK nationals to live in other Member States.

**SO WHAT WOULD A BREXIT WHICH TOOK BACK CONTROL LOOK LIKE? AND HOW WOULD WE TELL?**

It would:

Increase democratic control – at all levels – of UK legislation and policy and reduce the perceived “democratic deficit” whereby decisions are taken in Brussels without sufficient input by democratically elected UK politicians

Ensure that UK politicians were responsible, and accountable for, decisions that affect the lives of British people

Ensure that, on particularly salient economic and social policy issues – such as immigration and trade – people felt that their votes and preferences made a difference

And how would we know if a Brexit deal was likely to deliver this? An assessment could cover the following areas:

**Q1: PARLIAMENTARY SOVEREIGNTY**

Brexit means leaving the EU, but that does not mean that post-Brexit arrangements might not involve the UK accepting some limitations on Parliamentary sovereignty, particularly in the economic sphere – as, for example, both Switzerland and Norway do. Does Brexit mean that the UK is no longer automatically bound by EU rules; that is, that Parliament can and does legislate without constraint by the EU? Does the European Court of Justice (or any other supranational body, such as the European Free Trade Area Court) have the final say on the interpretation and enforcement of rules? And which judicial system will be used to settle future trade disputes with non-Member countries?

**Q2: IMMIGRATION AND TRADE**

There are a range of possibilities for post-Brexit trade and migration
Four Economic Tests

arrangements between the UK and the remaining EU. At one end of the spectrum, remaining in the European Economic Area - or some closely analogous arrangement - would mean the UK would have only limited control over migration by EU nationals (and equally UK nationals would retain rights to move elsewhere in the EU) and much EU regulation would continue to apply. As we have seen, remaining in the Customs Union would severely constrain, if not completely eliminate, our ability to conclude trade deals with third countries.

At the other end of the spectrum, a Brexit with only limited provisions for special trading arrangements between the UK and the remaining EU would mean the UK would largely be in control. And there are a variety of intermediate options. However, as long as we remain part of the global trading system underpinned by the WTO, and cooperate in international organisations like the UN, we will continue to accept some supranational control. And if we seek deeper trading arrangements, in particular covering services, with countries like the US, Australia or Canada, that will inevitably mean sacrificing some autonomy - and outside the EU our bargaining position may be weaker.

So the test here will be whether any post-Brexit arrangement restores meaningful control over immigration and trade policy. Can the UK government control the numbers and attributes of migrants to the UK? What constraints on domestic policy are implied by our future trading arrangements with the EU and with third countries? What is the impact on British nationals living in other EU Member States and on those wishing to do so after Brexit?

Q3: NATIONAL AND LOCAL DEMOCRACY

Brexit will mean the repatriation of some powers to the UK. But will that make meaningful difference to perceptions of democratic control over how those powers are exercised? Will voters, particularly those who feel disenfranchised by the current system have any greater say - both in perception and reality - over key economic and social policy decisions that affect them? And will Brexit increase or constrain democratic control at other levels of government within the UK: Scotland, Wales, Northern Ireland, and local government? Which level of government will do what in future and will it make matters better or worse?

Q4: CITIZENS’ RIGHTS

Control also means the ability of citizens and communities to manage their own lives and destinies. Will Brexit mean individuals have more or less personal freedom and autonomy - in areas ranging from decisions on where they live, work and study, to their rights of redress against governments and business, to their protections under equality and human rights legislation, to issues relating to crime and security?

Q5: THE EU BUDGET

Post-Brexit, will we continue to make contributions to the EU budget? If so, for what purposes, and to what extent will we have control over how the money is spent? If not, will Brexit lead to an increase or decrease in the resources available for domestic priorities, and who will have “control” over the allocation of those resources?
CONCLUSION

We have set out a framework for assessing and evaluating Brexit that we think can command support across the spectrum - from the government and the opposition parties and from those who voted Leave or Remain - because it is based on a widely shared set of objectives. Of course there will be deep and sincere differences on how we achieve them, but we hope that there is a consensus that they are broadly the right objectives.

So how do we test whether those four objectives are deliverable? We have only set out the framework for the tests - we have not sought to specify in detail the necessary measures or indicators, let alone assess whether they are likely to be met (and, as we have explained, the fact that we do not know the answers yet is precisely the point). Moving forward, there needs to be some clear, evidence-based and, as far as possible, objective mechanism for assessment.

We are not starting from scratch. There is a huge body of existing analysis of many of these topics - albeit mostly not directly addressing the details of Brexit - there is a huge body of existing academic analysis. There are also numerous independent bodies whose job it is to produce analysis in relevant areas - the Office of Budget Responsibility, the Migration Advisory Committee, the Bank of England, the Low Pay Commission, and so on. But, we argue that this work needs to be drawn together and made accessible and relevant to the tests. There are a number of (not mutually exclusive) possibilities as to how this could be done:

• the government could commit to producing reports based on these tests at regular intervals. These would inevitably be political documents, but would at least subject government arguments to scrutiny and debate, in Parliament and the country.
• Alternatively, the Government could, as with the 5 Economic Tests devised to assess the costs and benefits of Euro entry, commit to commissioning independent analysis to inform its – and our - judgement.
• Parliament could, via the select committee mechanism (and perhaps the National Audit Office), choose to produce its own assessments.
• Civil society organisations (for example, the major charitable foundations) could (perhaps in consortium, for greater impact) coordinate such an assessment, perhaps with a high-profile Commission of recognised, independent experts.

There are a variety of models. Whatever method is chosen, what is important is that the credibility of both the tests and the process are established in the minds of the public at large.

We are entering a period when the choices we make, collectively, will determine our future for decades - the significance of Brexit to the UK, economically and socially, cannot be overstated. We all have a stake in making a success of Brexit. But to do that we need to have a shared vision of what success means. This is our contribution.
A Successful Brexit:

The UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is funded by the Economic and Social Research Council and based at King's College London.

020 7848 2630   I   ukandeu@kcl.ac.uk   I   www.UKandEU.ac.uk   I        @UKandEU