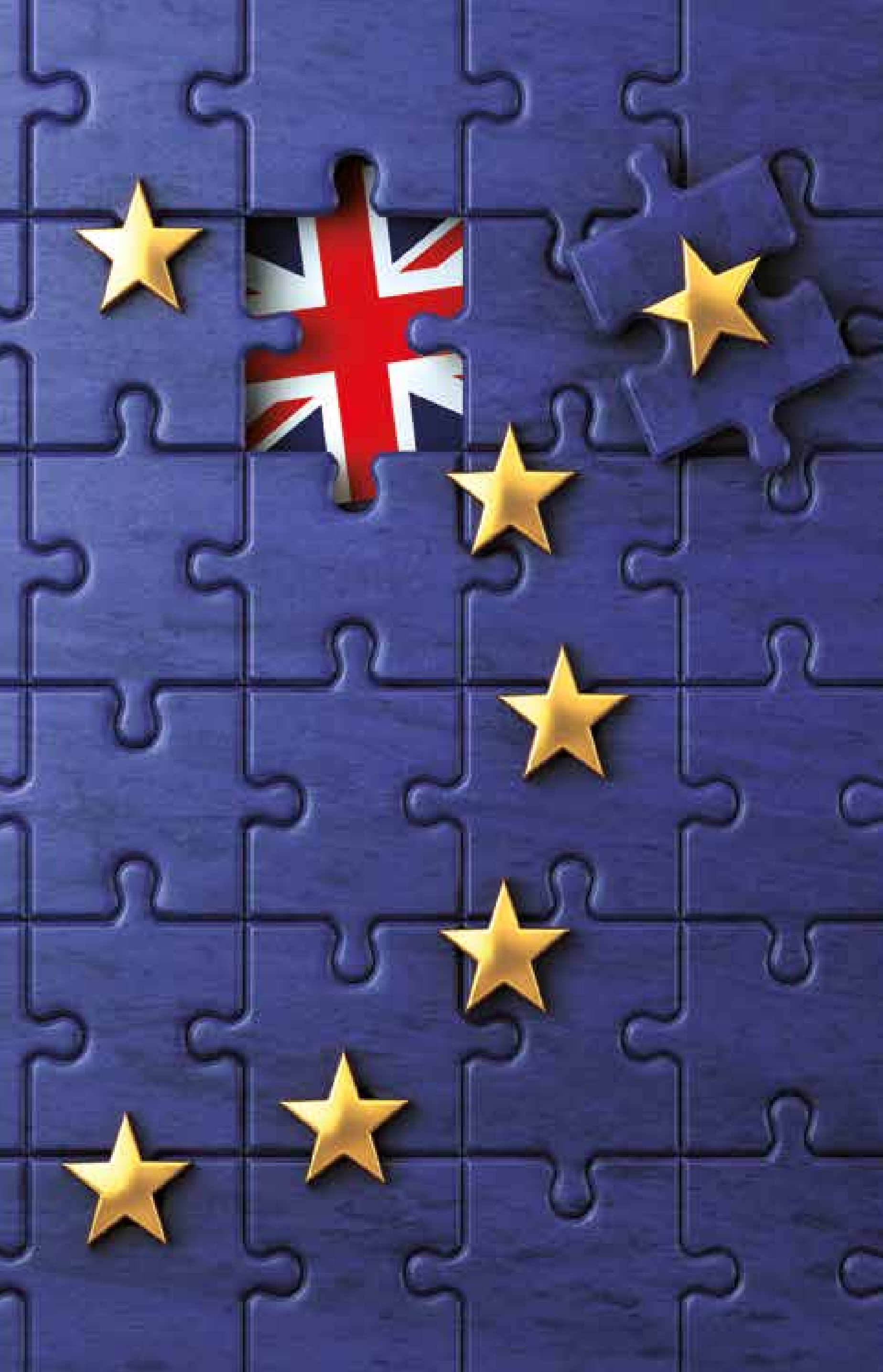


The Brexit scorecard

The UK in a Changing Europe

FOREWORD

A week is a long time in British politics, as they say. But amidst the fevered speculation about the Conservative leadership election and yet another looming Brexit deadline, we risk losing sight of the bigger picture.

In 2017, the UK in a Changing Europe set out a series of tests against which to judge the impact of Brexit on our country. Two years on, with the UK still a member state of the EU, we've decided to see what the evidence tells us about where we've got so far, and where we are going. In what follows, we provide an objective and impartial analysis both of the impact of Brexit to date and of what, given what we know now, the future holds. Clearly, it is too soon to come to a definitive judgement but, three years on from the referendum, it is certainly time to take stock.

As ever, this report has relied on the hard work of a large number of individuals. It was written by Meredith Crowley, David Bailey, Raquel Ortega-Argilés, Thomas Sampson, Charlotte O'Brien, Iain Begg, Catherine Barnard, Holger Breinlich, Alan Renwick, Steve Peers, Phil McCann and Nigel Driffield. Any errors and omissions are, however, the responsibility of the editors. We hope they are as pleased as we are with the outcome, and that you find what follows useful in assessing the Brexit balance sheet.

Anand Menon, Jonathan Portes & Matthew Bevington, co-editors

Hyperlinks to cited material can be found online at www.UKandEU.ac.uk

24 June 2019

The UK in a Changing Europe

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.

CONTENTS

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.

INTRODUCTION

Zhou Enlai famously (albeit apocryphally) declared in 1972 that it was 'too early to say' what the impact of the French Revolution had been. It might, then, appear somewhat premature to raise the question as to whether Brexit has been a success. After all, the UK has not left the European Union yet, and there is a plausible chance that it may not do so.

On the other hand, Brexit is a process, not an event. Whatever scenario plays out over the next few months and years—deal, no deal or no Brexit—it is certain that it will continue to dominate UK politics and economics for the foreseeable future. Even if, three years on from the referendum, none of us expected to be in the current state of limbo, it seems like a good time to take stock. Has the Brexit process, so far, been good or bad for the UK, and what can we say about its likely future impacts? And what does success look like?

To answer this question in February 2017 we set out four 'tests' for Brexit. We argued that the referendum campaign, while dividing the country—as Brexit continues to do more than ever—had also revealed some key themes and issues that underlay the British political debate, whichever way you voted and whatever form Brexit takes.

Although the two sides disagreed vehemently about whether we should remain in the EU, there was considerable common ground about what we should be seeking to achieve as a country by either remaining or leaving. Generally, both sides argued that the UK should remain an open, outward-looking country; that both economic growth and social cohesion mattered; that we should invest in, and improve, our public services; and that we needed to maintain the UK's international influence, especially over security matters, while preserving democratic control of our own destiny.

Our tests, therefore, reflected this broad consensus. They were the following:

The economy and the public finances: Would Brexit make the country better off? The economic costs and benefits of Brexit were hotly contested during the campaign. This debate generated at least as much heat as light. But any assessment of the actual Brexit deal and its impacts must of course focus squarely on the economy. As the Chancellor Philip Hammond put it, nobody voted for (or indeed against) Brexit to make us poorer. We argued, uncontroversially at the time, that a successful Brexit would be one that made us better off overall.

Fairness: Within the aggregate story of what happens to the economy, the distributional consequences of Brexit also matter enormously. Economic integration creates winners and losers. Would Brexit help some of those individuals and communities who have not benefited from growth over the past 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 EU. This reflected, of course, not just EU membership but also globalisation more generally, and both technological and social change. A successful Brexit would be one that helped those who had done worst and that promoted opportunity and social mobility for all but particularly for the most disadvantaged. Again, since we drew up the tests, this narrative has been emphasised across the political divides.

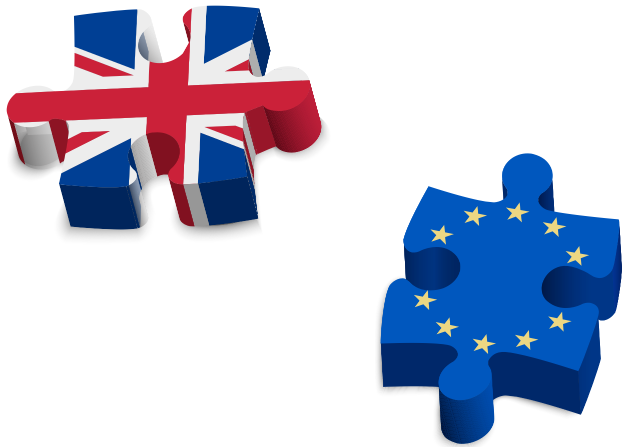
Openness: The UK has a long and well-established consensus, across the political spectrum, in favour of free trade and open markets as a means to greater prosperity. But openness also has consequences for fairness. Different forms of Brexit imply different degrees of economic integration with the EU. 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 would be one that maintained and enhanced the UK's position as an open economy and society.

Control: Would Brexit enhance the democratic control the British people exercise over their own economic destiny? It is a defining feature of complex modern societies that we delegate many important political and economic decisions such as economic regulation, environmental control and even security decisions to bodies that may seem remote and unaccountable. The EU is perhaps the ultimate manifestation of this phenomenon for many. But control is not just about the formal sovereignty of Westminster, but more broadly whether individuals and communities feel that they have a genuine say in the decisions that affect them. A successful Brexit would be one that genuinely increased citizens' control over their own lives.

We deliberately chose not to frame the tests around the key issues 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, such as trade, migration and regulation. We believed that it was important to focus on outcomes—what we as a country actually care about.

Three years, numerous European Council summits, who knows how many negotiating sessions and three meaningful votes on, our approach has been vindicated. While the timing and form of Brexit is, if anything, even less clear now than it was in 2017, the themes above—growth, fairness, openness and control—continue to frame the debate. And this means that, despite the political fog, it is still feasible to evaluate where we are, how far we have come and where we might be going.

In this report, we do just that. For each of our four tests, we set out a number of specific questions: How might Brexit affect productivity, immigration, and national and local democracy? In order to be as objective as possible, we present, for each question, a set of indicators, and the results so far. However, an element of judgement is also required, so we also set out our own qualitative assessment, both of what has happened so far and, more speculatively, future prospects given what we now know.



This is not, and is not intended to be, a definitive judgement. Brexit is a work in progress. But we think it is the most comprehensive and objective 'report card' to date.

The economy and public finances

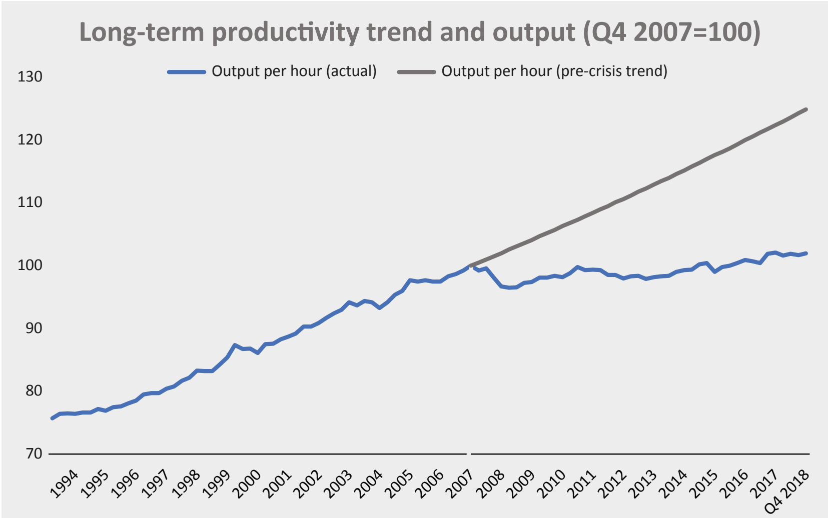
Question 1: Productivity and competitiveness

'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.'

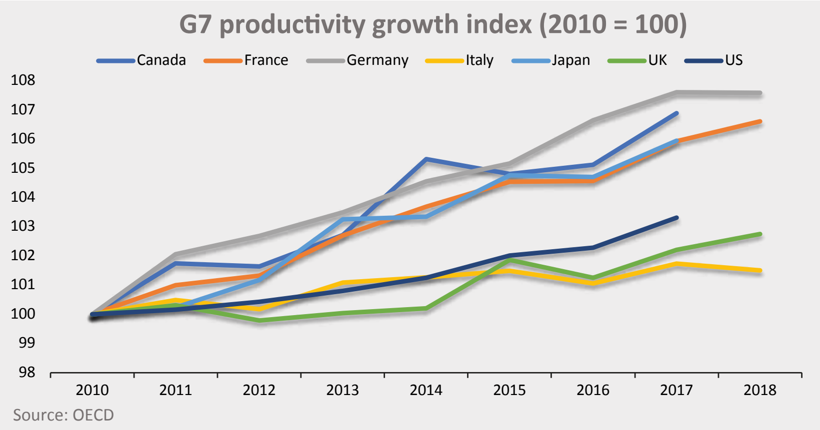
Assessment to date

Productivity is the most important driver of improved living standards over the long term, enabling companies to pay higher wages, as they can produce higher revenues with the same or fewer resources. As Paul Krugman once famously put it: 'Productivity isn't everything, but, in the long run, it is almost everything.' From the 1980s through to the early 2000s, UK productivity grew at about 2% per year, comparing well to our major competitors: there is some evidence that this was driven, at least in part, by EU membership. But since then, productivity growth has been dismal. The UK's poor record since the financial crisis stands in contrast to its recovery from previous downturns, when productivity initially fell but subsequently recovered to the previous growth trend.

The UK does have high-performing and high productivity firms in sectors such as pharmaceuticals, the automotive sector and the creative industries, all of which are heavily dependent on EU trade. It also has some high-performing cities and regions, notably London. But the overall picture is one of weakness. Investment, both public and private, is low. The UK's dysfunctional housing market inhibits labour mobility. There are structural deficiencies in education, training and skills provision for much of the population, which will be exacerbated as the economy enters the Fourth Industrial Revolution of economic digitisation. There is an over-reliance on the financial sector and there has been weak management, with a large number of low-performing firms, along with lower levels of advanced capital, R&D and skills training.



The overall impact of Brexit on the UK economy will therefore depend primarily on what happens to productivity. So far, there is little sign of any improvement: output per hour actually fell in the first quarter of 2019. Nor is there much evidence that the persistent weaknesses described above are being addressed in any meaningful way. Business investment, an important driver of productivity over the longer run, fell in 2018 [See Question 3 of the Openness section for more], due at least in part to Brexit uncertainty.



Future prospects

Economists' estimates of the long-term direct impact of Brexit on UK productivity—via effects on trade and foreign direct investment (FDI) as trade costs rise and EU market access falls—range from an adverse effect on the level of GDP per worker of 4% to 8%. This is because the traded sector typically has higher productivity than the non-traded sector, and Brexit is likely to result in an overall increase in barriers to trade. There is also some evidence that inward FDI leads to the transfer of technology and management skills (as, for instance, in the car industry) so that any reduction in FDI will reduce productivity growth. The impacts will depend on the form of Brexit, with 'softer' versions leading to smaller negative effects on productivity. Changes to migration flows may also have an effect, which will depend on both the volume and the skill mix of immigration after Brexit. So there is considerably uncertainty.

Nevertheless, the clear consensus is that the direct impact of Brexit will make relative UK productivity performance worse not better.

A broader perspective also leads to the same conclusion. On many of the indicators that are directly influenced by Brexit, such as trade barriers and FDI, the UK currently fares better than non-EU comparators such as Switzerland and Norway. Of the 112 individual indicators that make up its Global Competitiveness Index, the World Economic Forum (WEF) suggests that 14 could be directly negatively impacted by Brexit, while three (and potentially six) have the potential to be positively impacted

Could these direct impacts be compensated for by other post-Brexit policy changes? Brexit will give the UK scope to vary regulations that are currently constrained by EU membership, for example with respect to environmental and labour law, or financial services. However, there is little to no evidence that EU regulations generate a major drag on productivity growth. Moreover, there does not appear to be much appetite for substantial deregulation in politically sensitive areas.

Looking more widely, Brexit will do nothing directly to improve the key failings identified above: the education system, training and infrastructure, for example. The key question is whether Brexit might provide the opportunity for a 'reset moment' that could enable policymakers to begin to address the underlying issues of the UK's various productivity puzzles. So far, however, Brexit has had the reverse effect, paralysing the political system and meaning that we are, if anything, even further away from addressing these underlying issues than we were three years ago. Perhaps, after Brexit has been resolved (whatever that might mean), this will change, and policymakers will pivot to these issues—but at present it is hard to be optimistic.

Question 2: 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?'

Assessment to date

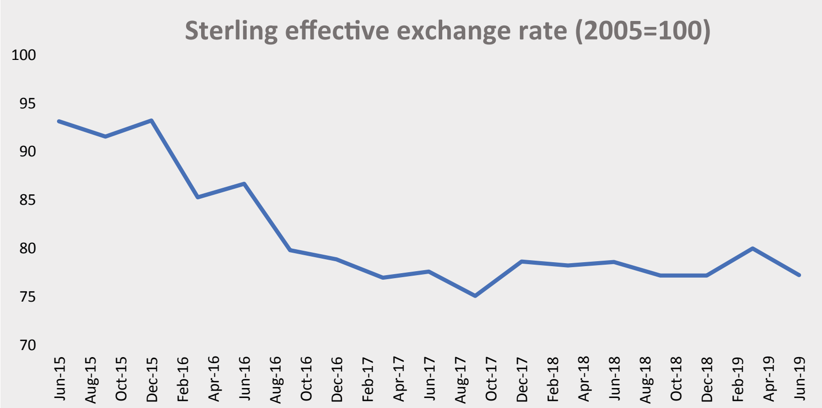
Voting to leave the EU resulted in a significant depreciation of sterling, which has raised the cost of living, making UK households worse off. Between 23 and 27 June 2016, sterling depreciated by 11% against the US dollar and by 8% against the euro. It has remained around 10% below its pre-referendum value ever since.

A fall in the pound increases the cost of imports into the UK. More expensive imports drive up the cost of living. Consumer Price Index (CPI) inflation rose dramatically following the referendum, from 0.5% in June 2016 to peak at 3.1% in November 2017, before declining to around 2% by early 2019.

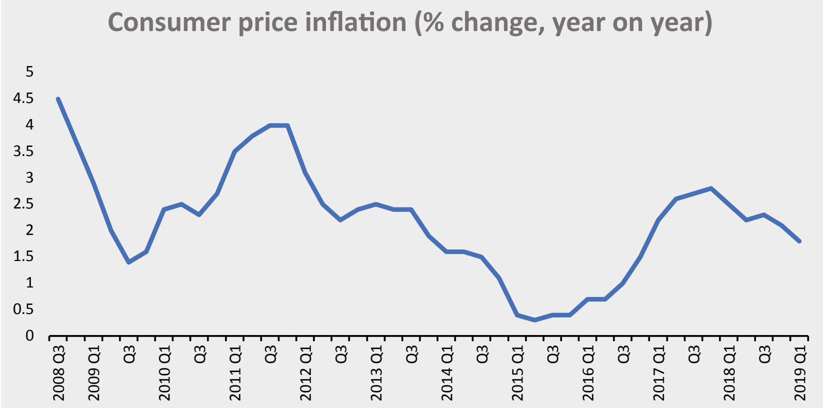
But it would be a mistake to attribute all changes in inflation to Brexit. We need to disentangle the referendum effect from other factors that affect inflation, such as oil price movements and cost increases resulting from faster growth in the global economy. To isolate the referendum effect, we can study how price changes since the vote depend upon the share of imports in consumer expenditure. For example, tradeable goods such as fruit, wine and clothing have high import shares, while services like restaurants and hotels depend less on imports.

If the Brexit-induced decline in the pound is responsible for higher inflation, we would expect products with larger import shares to experience bigger price rises. And this is exactly what the data show. Following the referendum, the increase in inflation was bigger for products with higher import shares.

Using this approach, researchers at LSE's Centre for Economic Performance estimate the Brexit vote increased consumer prices by 2.9 percentage points in the two years after the referendum. This means that, by June 2018, higher consumer prices were costing the average UK household £870 per year. It would be wise to

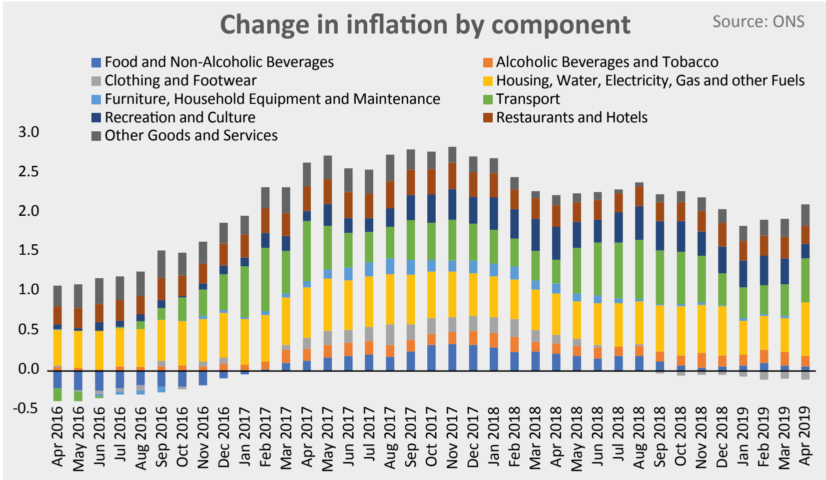


Source: Bank of England



Source: ONS

view the precise magnitude of this effect with some caution, but there is no doubt the rise in consumer prices has been substantial.



Of course, higher prices do not make consumers worse off if accompanied by higher incomes. But there is no evidence that the referendum has increased nominal incomes. Indeed, higher inflation has led to a decline in real wages and a fall in living standards.

Interestingly, not all households have been affected in the same way by the rise in prices. Those that buy a lot of imported goods have faced bigger price rises than those that mostly purchase products produced in the UK. Comparing different types of households shows that the referendum increased inflation by approximately the same amount for poor, middle income and rich households, meaning that the costs of voting for Brexit have been evenly shared throughout the income distribution.

However, there are stark regional differences. London was the least affected region, with a rise in inflation that was 0.7 percentage points below the UK average. Northern Ireland, Scotland and Wales were the worst hit regions because households in these areas spend relatively more on products such as food and drink, clothing and fuel, which have high import shares.

Future prospects

Looking forward, the future price effects of Brexit will depend upon what form it takes. There are two main channels to consider: exchange-rate movements and tariff changes.

Any policy that causes a depreciation of the pound will raise import costs and prices, exactly as occurred after June 2016. News that increases the likelihood of a no deal Brexit has typically led to a decline in sterling, reflecting financial market expectations that this would result in both a weaker UK economy and poorer trade performance. This suggests that a no deal outcome would cause a further fall in the value of the pound and an increase in inflation.

These impacts would be exacerbated if a no deal Brexit disrupted UK imports, perhaps because of congestion at major ports. If trade disruption led to shortages of some products, it could result in sharp price increases, although such impacts would only be temporary. By contrast, a softer Brexit (or, even more so, the reversal of Brexit) would lead to a stronger pound and lower inflation.

Whether these impacts are sustained will depend on whether financial market expectations about the impact of changes to the UK's trading relationship with the EU (and the rest of the world) prove to be accurate. For example, if pessimistic forecasts about the impact of no deal did not materialise, it is possible the pound might recover somewhat.

How alternative forms of Brexit will affect tariffs is less certain. If the UK has a customs union or a free trade agreement with the EU, tariffs will be unaffected.

But if trade reverts to World Trade Organisation (WTO) terms, the UK will have to charge the same tariffs on imports from the EU as it does on trade with other WTO members such as the US and China.

This means the UK will face a choice: impose tariffs on the EU, which means raising the cost of EU imports, or reduce tariffs on trade with all WTO members, which means lowering the cost of imports from the rest of the world. The government has set out proposals for tariff policy after a no deal Brexit, which would reduce tariffs on most goods, while keeping them on a variety of 'sensitive' products. Nevertheless, given the importance of EU trade, it still seems likely the overall impact would be to push up prices. In any case, in the event of no deal, the inflationary effects of a fall in sterling would likely outweigh any price reductions from tariff cuts.

Question 3: 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?'

Assessment to date

Immediately after the Brexit vote, sterling fell sharply. It fell further after the Prime Minister's speech to the Conservative Party conference in October 2016. Since then, the currency has fluctuated, often according to the progress of Brexit talks, but within a relatively narrow range.

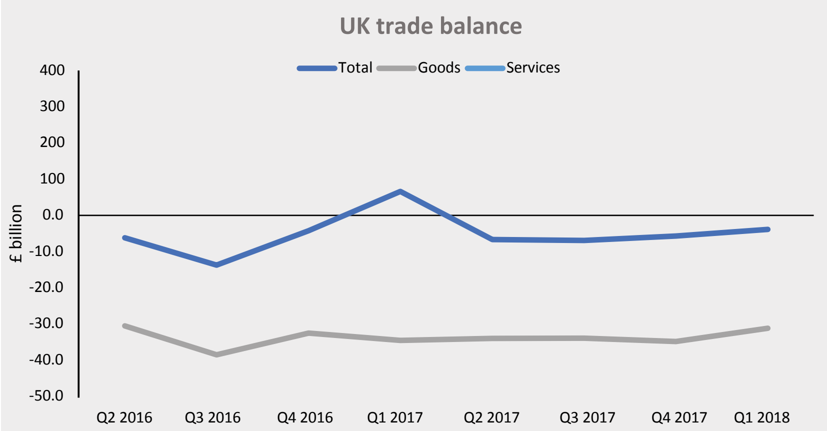
The weaker pound has made UK exports more competitive (and imports less competitive), and may have given a modest boost to some manufacturing exports. However, there is little evidence that it has improved the UK's export performance overall to any significant extent, which remains very poor by historical standards. The UK remains, therefore, heavily reliant on capital inflows to finance the deficit.

While the fall in the exchange rate is useful as an adjustment mechanism, it cannot in itself compensate for underlying structural weaknesses. Recent research suggests that Brexit has made exporting less attractive for UK firms (presumably because of the lack of certainty around future trading arrangements), which may have counteracted any gains in competitiveness from the exchange-rate depreciation. More recently, stockpiling in the run-up to a possible no deal may have driven a sharp rise in imports from the EU.

Similarly, there is little evidence of regional or sectoral rebalancing. Growth continues to be driven by the service sector and by consumer spending. Manufacturing output and business investment have been weak, particularly in the past year. While it seems likely that Brexit has meant slower growth in the financial sector than would otherwise have occurred, it remains dominant in London. However, house price growth has slowed sharply, particularly in London and the South east, where prices in some areas now appear to be falling. This has boosted affordability for those on lower and middle incomes, and for first-time buyers, although sustained progress will require action on the supply side of the market.

Future prospects

In the short term, some unwinding of stockpiling may reduce imports and improve the trade balance. However, continued uncertainty is likely to weigh on exports, especially to the EU. Recent developments in the car and steel industry, although by no means driven only by Brexit, do not suggest that a resurgence of UK-based manufacturing is imminent. To the extent that manufacturers are dependent on pan-European supply chains, the prospect of new frictions at borders is likely to continue to inhibit investment by both domestic and foreign firms.



Source: ONS

Over the long term, prospects for rebalancing will depend on the form of Brexit. If a no deal Brexit results in the imposition of tariffs and customs barriers then manufacturing, particularly in sectors which rely on pan-European supply chains, is likely to be severely affected. However, if the UK enters a de facto customs union with the EU, supported by very close regulatory alignment for goods and agri-food, as envisaged in the Withdrawal Agreement and the Political Declaration, it is possible to imagine that manufacturing will not in practice see significant disruption.

By contrast, leaving the single market would mean substantial new barriers to services exports. This would be exacerbated by curbs on EU migration and labour mobility. This could over time improve the relative position of manufacturing and less prosperous regions, while disadvantaging London, the South east, and the financial and business services sectors. However, the latter's access to a large pool of skilled and flexible labour, and superior infrastructure and connectivity, may mean that it is more resilient to any Brexit shock.

In any case, it seems clear that sustainable rebalancing, both regional and sectoral, will require proactive policies, in particular on skills, housing supply and infrastructure. The government's current Brexit-induced paralysis, as well as the continuing overhang of austerity, mean that so far there is little sign that these are in prospect.

Question 4: 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?'

Assessment to date

Because the UK is a net contributor to the EU budget, it seems obvious that leaving the EU will release resources to be spent on other UK priorities: obvious, but not necessarily correct. The reason is that a number of other flows, both direct and indirect, have to be taken into account in assessing the effects of Brexit on the UK's public finances.

The UK continues to pay its EU contributions like any other member state, so to date the Brexit vote has had little direct effect on the public finances. Savings have certainly not yet materialised. However, there have been some significant costs, in particular one-off costs associated with the Brexit negotiations and the preparations for life outside the EU. These encompass the salaries of the additional civil servants hired to assist in the disentangling and to set up new administrative structures, the costs of stockpiling of supplies (such as medicines) in the event of a no deal exit, payments to consultants and the need for new infrastructure, for instance related to border control. There are no firm figures for these additional costs, but based on various indications—for example, from the Institute for Government—they could be in the range of £4 billion.

Moreover, the uncertainty resulting from the Brexit vote has already reduced economic growth and hence tax revenues. Estimates by John Springford at the Centre for European Reform suggest the direct Brexit effect on GDP has been to reduce it by 2.5 percentage points compared with what might have happened if the UK had not voted to leave. According to Springford, the resulting hit to the public finances is already some £19 billion per year.

Future prospects

The latest HM Treasury report, published in June 2019, states that the UK's annual gross payment to the EU (after deducting the UK rebate in order to arrive at the amount 'sent' to Brussels) is a substantial sum of money, averaging some £13.7 billion per year over the last five years. However, some of the money returns through the public sector accounts in the form of subsidies to the farming and fishing industries, as well as grants for local economic development. According to the Treasury, these countervailing flows over the same five years added up to £4 billion per year, making the net amount about £9.6 billion, or (for those who, for whatever reason, are interested in the weekly amount) about £185 million a week. The Treasury also estimates that some £2.3 billion flowed back directly to the private sector in 2016, and if this is taken into account, the potential direct gain of ending UK contributions to the UK budget would be around £7.3 billion per year.

A first offset to these gains is costs associated with the transition out of the EU. The UK 'divorce bill' is expected to be around £40 billion, spread over several years, but with the bulk of it likely to be due in the period 2020-2022. In these three fiscal years, the average cost could be of the order of £9-11 billion. There have been suggestions from some politicians that, in the event of no deal, the UK would not have to pay some of the costs included in the calculation or could even renege entirely. However, the legal position is ambiguous and the economic and political costs could be substantial, since under any scenario the EU will remain the UK's most important trading partner. In any case any savings would certainly be far outweighed by the fiscal costs of a disruptive no deal.

There are also likely to be some permanent increases in administrative costs to the extent that the UK has to maintain stronger customs checks or duplicate work currently shared with the EU, for example in testing and certification of products. On the other hand, the UK may be able to reduce some regulatory costs by using more streamlined processes. The UK may also choose to revise the subsidies to the fishing and farming sectors or for local economic development after Brexit. At this point, there have been no clear statements of whether this would raise or lower public expenditure

Longer term, the critical question—which no-one can answer today—is whether growth will be affected by Brexit. This in turn will depend on the form of Brexit. If growth falls, Brexit will have a negative impact on the public finances and vice versa. In round numbers, UK GDP is approximately £2 trillion and the tax take is 37% of GDP, so a one-percentage-point difference in GDP as a result of Brexit would translate into a difference of £7.4 billion in the tax take. Changes in GDP can also induce some automatic shifts in public expenditure if, for example, they result in higher benefit payments. However, given the resilience of the UK labour market, this might matter less. It follows that if the consensus amongst economists that Brexit will reduce growth is correct, the long-term impact on the public finances, even after taking account of the direct savings above, would be negative. For example, the government's analysis estimates a long-term fiscal cost of up to about 2.5% of GDP per year, depending on the form of the UK's future trading relationship with the EU.

Summary: The economy and public finances

There is little doubt that the impact of the Brexit vote on the UK economy has been negative. The sharp fall in sterling pushed up prices without doing much to boost exports, and uncertainty has reduced business investment. The UK is clearly poorer as a result. Both growth and tax revenue appear lower than they might otherwise have been, although the labour market has remained resilient. Nor is there much sign of any reduction in macroeconomic imbalances. While far from disastrous, and far from the apocalyptic predictions of some in the Remain campaign, the overall direction is clear.

A Brexit deal would reduce uncertainty and strengthen the pound, and it might result in a short-term boost to growth. But the overwhelming consensus among economists, both independent and within government, remains that leaving the single market, as envisaged under the current Withdrawal Agreement and Political Declaration, will have a significant and negative impact on UK trade with the EU. The impact of a no deal—even leaving aside the unquantifiable potential short-term disruption to trade and the wider economy—would be even greater. Nor, given the current geopolitical environment and US trade policy, does it seem plausible that trade deals with third countries will provide much compensation. Even if the UK were to reverse course and remain in the EU, there would still be some lasting damage to our international reputation for political and economic stability. While huge uncertainties remain about the long-term economic impacts of Brexit, it seems highly unlikely to be positive. The question is how large the damage will be.

Grades	
Assessment to date	Negative
Future prospects	Negative

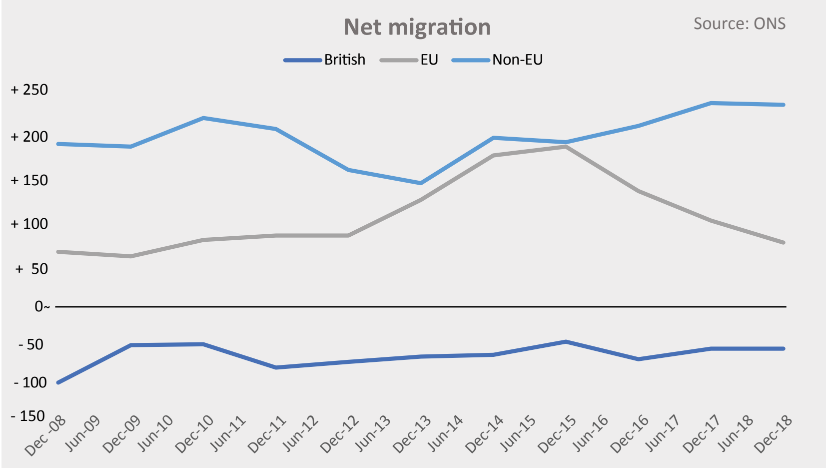
Fairness

Question 1: 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, and 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?'

Assessment to date

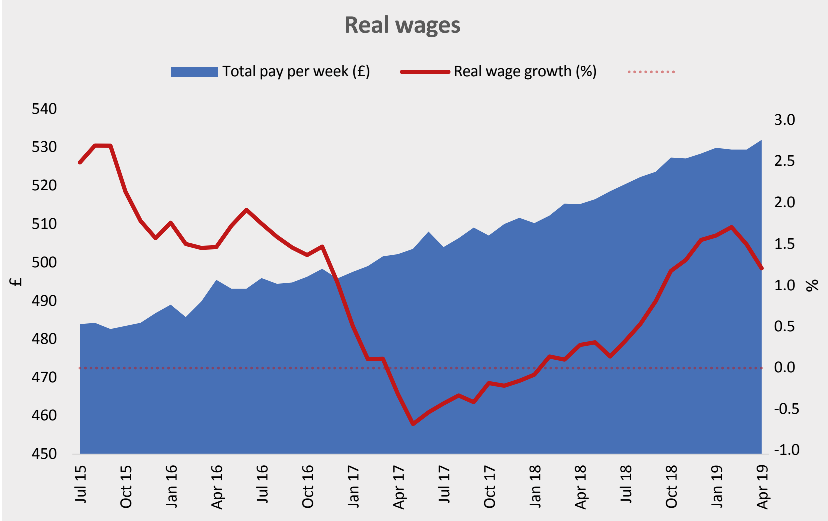
Perhaps the most dramatic impact of the Brexit vote so far on the UK's economy and society has been the sharp fall in EU migration, partly offset by some increase in non-EU migration. From a record high of nearly 200,000 in the year leading up to the referendum, it has fallen by more than two-thirds. While the net inflow remains positive, and the number of EU-origin workers is slightly higher than three years ago, this still represents a dramatic change. Even before any change in immigration law or policy, the UK has seen a significant reduction and rebalancing of migration, especially migration of EU workers, very much as promised by the Leave campaign.



In parallel, employment rates for UK-born workers have risen, while unemployment is at its lowest since the 1970s. However, this largely reflects the continuation of trends that were already well established before the referendum—employment growth was also high at the time when EU migration was at its peak—so it is not yet possible to attribute these benign trends to falling migration.

There is also considerable anecdotal evidence that this tightening of the labour market, at least in part due to the fall in migration from the EU, has led to labour and skill shortages in some sectors, for example construction and hospitality, which might be expected to put upward pressure on wages, at least in nominal terms (before accounting for inflation). In other sectors, particularly those where funding comes directly or indirectly from the public sector, and therefore remains heavily constrained by austerity, the impact has been staff shortages and (further) reductions in service quality, most notably of course in the NHS and care sectors.

However, despite the tightening of the labour market, real wage growth has continued to disappoint. It fell sharply in the immediate aftermath of the vote, as the fall in the exchange rate pushed up inflation without doing the same to nominal wages. While real wage growth has recovered somewhat in the past year, it remains low by historical standards: real wages are barely 1 percent higher than they were in June 2016, and the latest data have been disappointing. Nor is there any evidence that those on low wages are benefiting, although those on the National Minimum Wage have gained from recent large increases. Across the rest of the pay distribution, the largest increases have gone to the highest earners.



Source: ONS

Future prospects

While continued reductions in EU migration might be expected to boost nominal pay in the most affected sectors, sustainable rises in real wages require increases in productivity, and there is no reason to believe that this will be the consequence of reductions in migration. Migration is, in fact, associated with increases rather than reductions in productivity, and there is no evidence that it has reduced training for British workers. Additional policies on skills, training and investment are likely to be required to generate wage growth for low-paid workers. The paralysis resulting from Brexit means that there is, as yet, little sign of serious action on these fronts. However, it is notable that the government has continued to increase the National Minimum Wage substantially in real terms, and intends to continue to extend this policy, for which there is a broad cross-party consensus.

The government's proposals for future immigration policy (see Question 4 on Openness) might, if implemented, lead to a rebalancing of migration from lower to higher paid migrants. This, in turn, might be expected to benefit lower paid British workers. However, the government also proposes a system of temporary work visas for lower paid migrants, who would have fewer rights than EU nationals do at present. This might increase the potential for abuse by unscrupulous employers (including the undercutting of resident workers), as well as the level of population 'churn' and any associated social costs.

Question 2: 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?'

Assessment to date

Since the UK continues to be an EU member state, Brexit has had little direct impact on sectoral patterns of trade as yet (see Questions 1 and 2 on Openness).

However, as explained in Question 2 in the section on the economy, the fall in the exchange rate, as well as reducing real wages overall, also had some distributional consequences, with consumers in Scotland, Wales and Northern Ireland suffering considerably greater losses than those in London. There are also implications for intergenerational equity—a fall in real wages hits workers, but not those on inflation-indexed pensions. These impacts would be exacerbated if the pound fell further as a result of a no deal Brexit.

Future prospects

To the extent that Brexit reduces the UK's openness to trade with the EU, it will disadvantage workers and firms in those sectors heavily dependent on such trade, while potentially boosting those in sectors which compete with EU imports, although the nature of modern supply chains complicates the picture considerably. However, the ultimate impact will also depend crucially on domestic policy.

In agriculture, for example, it might seem obvious that producers of lamb and sheep—heavily dependent on exports to the EU—are at considerable risk, while producers of wine and cheese, where the penetration of EU imports is high, could well benefit. But what happens in practice will depend very much on domestic policies on agricultural subsidy and support, as well as future trade policies towards third countries. The situation is perhaps even more complex with fishing (a sector where the view that EU membership has led to unfair outcomes is widely held).

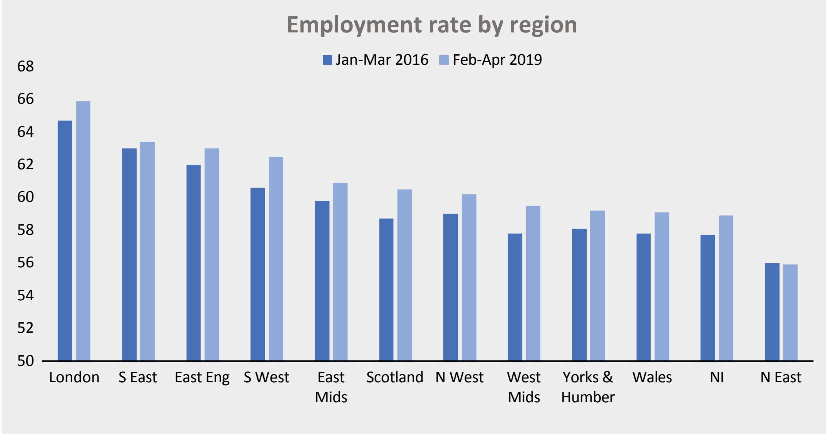
Changes to tariffs and other trade barriers will also affect consumers in different ways, depending on their patterns of consumption. Research has shown that import tariffs are a regressive tax that have the largest negative effect on those who spend the largest share of their income on necessities like food and clothes. At the moment, UK imports from the EU are free of tariffs, while the UK applies the EU's Common External Tariff, which is generally fairly low, albeit high on some agricultural products. If the UK were to reduce agricultural tariffs across the board after Brexit, this might benefit poorer consumers, although the potential benefits have been grossly exaggerated by some Leave campaigners. Equally, if Brexit—particularly a no deal Brexit—leads to increases in tariffs on EU products without corresponding reductions in trade barriers to the rest of the world, then poorer consumers are likely to be the hardest hit.

Another 'fairness' issue is UK trade policy towards developing countries. Some in the Leave campaign argued that EU trade policy disadvantages developing countries, either directly through high tariffs, or indirectly by encouraging the export of primary products only. A number of these claims—for example, that African countries can export coffee beans tariff free to the EU, but processed coffee attracts high tariffs—are wholly or largely false. Under the Everything but Arms initiative and other agreements, the EU now has a relatively liberal tariff regime towards most developing countries, although non-tariff barriers remain an important issue. The UK has a good record in promoting liberal policies towards developed countries, and it will have further opportunities to do so after Brexit, but it is again too early to tell what this might mean in practice.

Question 3: 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?'

Assessment to date



There is little evidence that, as yet, Brexit has had much direct effect on regional disparities within the UK, although, as noted above, the impact of the fall in the exchange rate on inflation appears to have been more negative for some regions than others. Regional statistics are produced only with a lag, but in 2017 London saw the fastest growth in both real gross value added (GVA) and GVA per capita; the slowest growth was in the South West. Even in the labour market, where overall performance has been strong, there is little evidence of significant rebalancing, with the North East falling even farther behind the national average.

Nor has the government, as yet, responded to the concerns raised by the Brexit vote with a more vigorous regional policy. There has been considerable political discussion about the High Speed 2 (HS2) rail line—whether it represents value for money, and whether it would be better to refocus transport and other infrastructure spending on less well-connected regions in the north—but no substantive policy change. The government did offer a 'Stronger Towns Fund', amounting to perhaps £300 million per year, in an effort to induce MPs in northern constituencies to vote for the Withdrawal Agreement, but this appears to have backfired politically and its current status is unclear.

Future prospects

The majority of available evidence suggests that the regions which voted to leave the EU are those most likely to be negatively affected. Overall, it is the UK's economically weaker regions which are most dependent on European markets because they are more dependent on manufacturing exports. The impact of decreased access to these markets is likely to be especially marked in the midlands and the north of England, whereas many Remain-voting regions such as London, the M4 corridor and Scotland are likely to be amongst the least affected areas. London and the south east, in particular, with their strong orientation towards higher-value services, are considerably less dependent on exports to the EU than other regions.

However, there are other factors that may push in the opposite direction. If something along the lines of the proposals in the Withdrawal Agreement the Political Declaration is eventually agreed, then the UK will be part of a de facto customs union with the EU for an indefinite period, which, combined with a degree of regulatory alignment, will minimise (although not eliminate) new barriers to trade in goods and agricultural products. By contrast, the UK will be outside the single market for services. This might mitigate the impact on manufacturing regions, while concentrating it on London.

Another factor will be the new immigration system after Brexit. London is considerably more dependent on immigration than the rest of the country, with 40% or more of new immigrants moving there. However, if a salary threshold is applied to work-related migration, this will be significantly less of a constraint in London, where average salaries are considerably higher. London might therefore be expected to capture a greater share of a reduced number of migrants; the regional impacts will depend on the detailed design, and also on whether the government makes any concessions to Scotland and Wales, whose governments would like more control over migration policy in order to boost their economies and populations.

Finally, some specific areas are highly dependent on particular agricultural or food production: for example, sheep farmers in Wales and some areas of England, and fishing in Grimsby and the east coast of Scotland. Given their high dependence on exports to the EU, these localities will be vulnerable in the absence of an agreement that ensures continued market access.

More broadly, as noted above, there has been little or no progress in reorienting domestic policy to boost less prosperous regions. Even when it comes to replacing EU Structural Funds, which currently provide significant funding to deprived areas, the shape of future policy is unclear. The nature, scale and workings of the future 'Shared Prosperity Fund' are as yet unknown, and central government appears to be pushing for a highly centralised and top-down approach. A recent analysis suggested that this could lead to substantial redistribution, with some areas, in particular Wales and the South West, losing out. But in the absence of a clear policy, this is highly speculative.

Question 4: 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?'

Assessment to date

It is hard to separate the effects of Brexit on current public service resourcing from pre-existing commitments to reduce public spending. HM Treasury figures show a reduction in the share of GDP devoted to public services from 2015-16 to 2017-18, down by 1.2 percentage points of GDP, which includes reductions in health, education and social protection. The Centre for European Reform estimates that the Brexit vote has reduced UK GDP by approximately 2.5 percentage points compared to what would otherwise have occurred. This, in turn, implies a fiscal cost of just over £300 million a week. These estimates are highly uncertain, and cannot be translated directly into reduced spending on public services. But there is certainly no sense in which, to date, Brexit has eased already exceptionally tight spending constraints.

Falls in EU migration since the vote have also had a direct impact on public service delivery, particularly in the NHS. The Royal College of Nursing reported in 2018 that there had been a 91% fall in new EU27 registrations to the Nursing and Midwifery Council since the referendum. They also reported a rise in departures: 7,000 established EU nationals left the register in the two years following the referendum, compared to just over 4,000 who left in the three preceding years.

The most immediate effect when it comes to housing has been the impact on the construction sector. A 2018 survey by the Construction Industry Training Board found that 32% of respondents had felt the impacts of Brexit already, including increased costs and staff shortages. A University of Sheffield report claims that the impacts of Brexit upon social housing supply chains 'were felt as early as the day after the vote', and the Homes For Londoners Board also finds that Brexit is already affecting the homebuilding sector in London.

Future prospects

The most direct way that Brexit is likely to affect public services and housing is in shaping the public finances. The nature and magnitude of such an impact will depend upon the type of Brexit pursued. Changes to the UK's trading relationship with the EU will affect output and hence tax revenues. If, as both the government's own and credible independent analyses suggest, the impact on growth is negative, then tax revenues will fall. Our earlier analysis suggested that the net cost might be in the region of 1% of GDP, or £20 billion, per year even after taking account of reduced EU contributions. Modelling contained in the government's Immigration White Paper suggested that the government's proposals for a post-Brexit immigration system would also have a negative impact on growth and hence on the public finances as well.

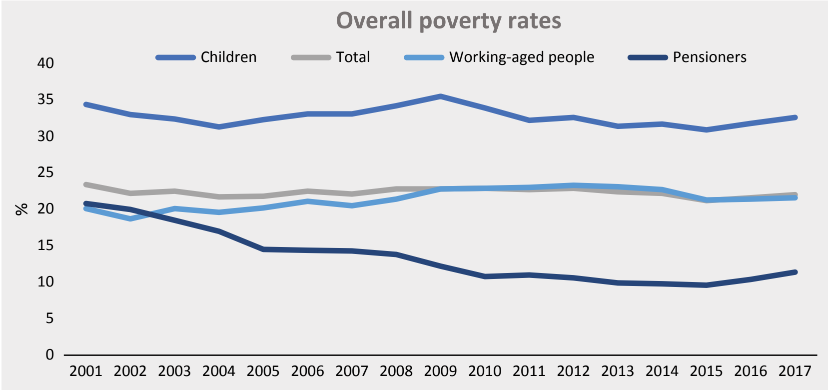
Ending free movement will also reduce the demand for services. However, the independent Migration Advisory Committee found that EU migrants are net contributors, and will be in the future. Analysing a wide range of evidence, a 2019 LSE study also found that 'the weight of evidence strongly suggests that EEA migrants pay more in taxes than they receive in benefits'. While ending free movement would reduce pressures on the NHS, the study concludes that the impact on healthcare delivery is set to be 'much clearer and more dramatic than that expected … with serious concern that reductions in EU migration will exacerbate existing staff shortages in the NHS'. A study in *The Lancet* also points to negative impacts upon the workforce, financing and medical supplies.

Theresa May suggested in 2018 that schools would benefit from a 'Brexit dividend', but the Office for Budget Responsibility has reported that there will be no boost for public spending 'under any Brexit scenario'. Turning to housing, the Migration Observatory found in 2017 that the impacts of migration upon social housing depended upon the responsiveness of supply to demand and varied across regions. A reduction in EEA migration would reduce demand but would also affect supply; restrictions on the movement of materials and workers across borders would affect construction and repairs. The Homes for Londoners Board also suggests the slowdown in housing price growth (as reported by the ONS) and sales since 2016 will affect the delivery of affordable homes, due to the 'cross-subsidy from private market sales'. This is in the context of a persistent failure to build enough new houses.

Overall, the direct impact of Brexit on public services is likely to be negative, as a result of lower growth, despite the saving on our EU contributions. While reductions in EU migration, resulting from the ending of free movement, will reduce demand, this is likely to be outweighed by lower tax revenues. In principle, the government could mitigate these impacts in a variety of ways, but as yet there are no coherent plans to do so. Indeed, Brexit has already led to the effective postponement of the government's Spending Review, which sets out future public spending plans, meaning public services will continue to suffer from a Brexit-induced 'planning blight' for some time yet.

Summary: Fairness

Not only has there been no end to austerity, despite some rhetorical gestures, but pressures on public services, in particular social care, education and policing, have intensified. While Brexit is not the main driver here, it has certainly not helped. Cuts to benefits mean that inequality and child poverty are rising, albeit only marginally, mitigated to some extent by large rises in the National Minimum Wage. Although real wage growth has recovered somewhat, there is little evidence that reduced EU migration is boosting pay growth at the bottom end. More broadly, there is no sign of substantial new policies to address the 'left behind' areas and communities that some argue drove the Brexit vote. Indeed, the preoccupation of the government, media and political system as a whole with Brexit has meant that policy development in areas from social care to regional policy has largely stalled.



Source: Social Metrics Commission

Unfortunately, there is little prospect of this changing in the short to medium term. Most forms of Brexit will worsen the government's fiscal position, probably significantly, reducing the space for new policy initiatives; furthermore, the planned Spending Review is likely to be postponed. Although this highly uncertain, the impacts of Brexit on regions and sectors are, if anything, likely to disadvantage those which are already lagging behind, although it is possible that targeted migration policy—joined up with continued rises in the National Minimum Age and action on education and skills—might over the medium term help the lower paid and less skilled. More broadly, under any scenario, Brexit and the UK's future relationship will continue to dominate British politics, and this will inevitably continue to distract the political system from the changes to domestic policies that would be needed to make the UK genuinely fairer.

Grades	
Assessment to date	Negative
Future prospects	Too early to tell

Image Belfast, copyright: Leonid Andronov/Shutterstock

Openness

Question 1: 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?'

Assessment to date

To date, there has been no change in the UK's market access for goods sold to EU or non-EU destinations because it remains an EU member state. The tariffs, quotas and regulatory barriers UK merchandise faces in foreign markets are essentially unchanged. Indeed, since the Brexit vote, new EU free trade deals with Japan and Canada have come into force. However, the continued uncertainty over the future UK-EU trading relationship, with the possibility that trade barriers could rise in the event of a no deal Brexit, has been a drag on trade growth.

Future prospects

The future status of the UK's trade relations with the rest of the world is up in the air. 'Rollover' agreements to maintain the current status of the UK's trade relationship with non-EU trade partners have been struck with a number of countries, including Switzerland and South Korea. However, in some cases, like that of the EU-Japan Economic Partnership Agreement, which came into force in February 2019, they are unlikely to be rolled over. This in itself would represent a reduction in openness. The government has indicated that both a new bilateral agreement as well as entry into the Comprehensive and Progressive Trans-Pacific Partnership are being considered, but either will take time and be subject to the constraints described below.

Beyond this, the first step for the UK must be to establish a plan for its relationship with the EU because other trading partners cannot begin to negotiate long-term deals with the UK without first knowing if the UK will form a customs union or free trade agreement with the EU. The main issue is that the various options for the future UK-EU agreement for trade in goods—a customs union, a free trade agreement or a free trade agreement with extensive regulatory alignment—place different constraints on and offer different opportunities for what could be achieved in a bilateral trade agreement with a non-EU country. Under a no deal scenario, the UK would immediately face new tariffs and other barriers to trade with the EU. For goods coming to the UK, the government has set out proposals for a tariff policy in the event of a no deal Brexit, which would reduce tariffs on most goods while keeping them on a variety of 'sensitive' products. Nevertheless, given the importance of EU trade, and that other countries are unlikely to reciprocate unilateral tariffs cuts undertaken by the UK as an emergency measure, it still seems likely that the overall impact would be to make the UK less open.

A UK-EU customs union, i.e. establishing a common external tariff with the EU, limits the extent to which the UK can offer greater market access to a foreign trading partner in a potential deal. Free trade agreements over goods would be off the table, although agreements for services would still be possible. If the UK establishes a free trade agreement with the EU, it would, in principle, be free to go forward and negotiate trade deals with other countries over goods. However, even if the UK negotiates a free trade agreement with the EU, its freedom to negotiate with other countries could be constrained by the content of the EU-UK agreement.

For example, if the UK agrees to maintain a broad regulatory alignment with EU health and safety standards this might limit the attractiveness of a trade deal with the UK for external partners. A specific case involving the US highlights this: the US would like to export beef treated with growth hormones to the UK, but the EU prohibits the importation of this product on (controversial) evidence that it can be harmful to human health. Another issue that has recently arisen is that bilateral and regional trade agreements are increasingly including clauses that restrict both sides in their future trade agreements. The Canada-EU trade agreement (CETA) requires of both parties that any future trade agreements that offer greater tariff reductions or more market access to third countries must extend this favourable treatment to the CETA members. Similarly, the US-Mexico-Canada Agreement (USMCA) requires that all parties must be notified before any party begins trade agreement negotiations with a non-market economy (such as China). While these two types of clauses both have different implications for openness, the key point is that they restrict the policy negotiation space of the UK's trading partners, potentially making it difficult for the UK to strike new trade deals with them.

So the UK faces a set of trade-offs. The more it attempts to maintain the current degree of openness with respect to the EU, the more difficult it will be to reduce barriers to trade with third countries. The net impact will depend on future choices. Nevertheless, given how important the EU is to UK trade, and the political difficulty of concluding substantive trade deals with major trading partners like the US and China, it is difficult to see that the UK will become overall more open to trade in the short to medium term.

Question 2: 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?'

Assessment to date

As with goods trade, there has been no change in the UK's market access for services sold to the EU or non-EU destinations because it remains an EU member state. Similarly, there is no change in market access into the UK for EU firms. While the single market is less complete for services trade than for trade in goods, recent analysis nevertheless suggests barriers to trade in services within the EU are much smaller than those for other countries.

Future prospects

The UK's Withdrawal Agreement with the EU, which was rejected by Parliament, included provisions which would have allowed the UK continued access to the EU services market until the end of a transition period. Important for many UK financial firms was a provision that they would continue to enjoy passporting rights—the ability to provide services into an EU member state without setting up a foreign subsidiary. In exchange for continued access to the EU services market, the Withdrawal Agreement stipulated that the UK would accept EU rules and policies for the affected sectors during the transition period. If the UK withdraws from the EU without a deal in October 2019, the loss of market access in services could be particularly damaging because almost 40% of the UK's services exports in 2017—£62.5 billion—were sold to the EU.

The fallback position of the UK, if it leaves the EU without a deal over trade in services, is laid out in the General Agreement on Trade in Services (GATS), a World Trade Organisation (WTO) agreement. Unfortunately for the UK, the commitments that countries make for services trade under GATS are more varied and complicated than their commitments for goods trade. Countries offer different levels of market access in different sectors and they are not obligated to extend even basic commitments, such as non-discriminatory treatment of foreign service providers, in order to participate in the GATS. Even if the Withdrawal Agreement is ratified, the accompanying Political Declaration does not include much detail on future trade in services, suggesting that the UK will be treated as a third country by the EU, perhaps on the lines of the Canada-EU trade agreement, which has only limited provision for services trade. For example, passporting for financial services would be replaced by the EU's 'equivalence' regime, which provides more limited access and can be withdrawn unilaterally.

In leaving the EU, the UK would forego the potential benefits of services agreements the EU has signed, but it will be free to negotiate services agreements with other countries. Foregone future benefits will include participation in the EU-Japan Economic Partnership Agreement. This agreement, which came into effect in February 2019, includes some improved market access for EU firms providing services to Japan. At the same time, it does not obligate any EU member state to open up any public services markets—for example, both health care and education can be kept closed to foreign service providers.

The UK has indicated that it would like to negotiate a bilateral trade agreement with the US. According to experimental statistics from the ONS, UK services exports to the US account for over 20% of total UK services exports, suggesting that the US could be a valuable partner in a future services agreement. However, the reliability of the US as a negotiating partner has been called into question by the US president's trade policy decisions with respect to both Mexico and China. Furthermore, as President Trump has recently made clear, the US (under any president) is unlikely to contemplate liberalising access for UK service exports without major concessions from the UK on agricultural products, pharmaceutical pricing and access to NHS contracts, none of which are likely to be politically acceptable in the UK.

As with goods trade, the UK faces a number of trade-offs, but these are perhaps even more stark for services. Under even 'softer' Brexit scenarios, the UK is likely to face considerable new barriers to its services exports to the EU, while the prospect of offsetting gains through greater access to other markets, such as the US and China, is currently distant at best and faces major political obstacles.

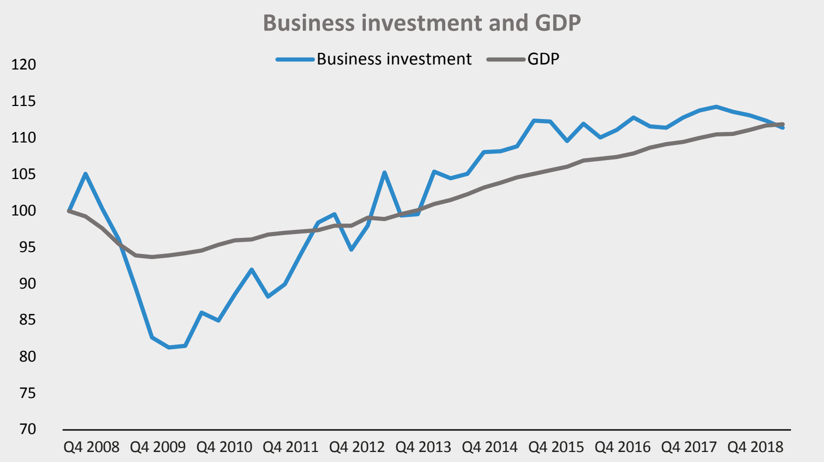
Question 3: Investment

'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?'

Assessment to date

The level of business investment in the UK has been persistently low, and lower than our major competitors, over the last few decades. However, it is difficult to attribute this to EU membership: indeed, the creation of the EU single market had a large positive impact on inward investment in the UK. This was because it became easier for firms to conduct business across national borders. For example, automotive and engine assemblers such as GM, BMW and

Ford all import sizeable numbers of components to the UK from their other EU operations and from the broader supply chain. Trade of this sort is characterised by fine grained cross-border value chains, where the end-product incorporates inputs from multiple origins. These value chains need to be 'frictionless' in terms of non-tariff barriers (regulations and standards), as well as tariffs.



Source: ONS

Business investment held up reasonably well in the immediate aftermath of the 2016 referendum, although it remained weaker than in other countries and when compared with previous economic expansions in the UK. There was little evidence of any immediate 'Brexit effect'. However, this changed markedly in 2018, with ONS figures showing business investment falling in every quarter. This is the worst performance since the global financial crisis and, outside of recessions, the longest decline on record. Ben Broadbent, a deputy governor of the Bank of England, noted that this 'is remarkable at a time when the economy has been growing.'

Interestingly, firms have been reducing investment while creating jobs, with employment growing strongly during 2018. But, as investment today helps to boost productivity in the future, there is concern that declining investment could dent future productivity and growth prospects (as noted elsewhere in this report).

As regards foreign direct investment (FDI), the UK remains one of the most open countries in the world. According to the latest UN World Investment Report, it is the third-largest recipient of FDI and the fifth-largest investor, with an inward and outward FDI stock in 2017 of around $1.5 trillion each. However, there are signs that the Brexit vote has started to negatively affect the attractiveness of the UK as an investment destination and it might have influenced the outward investment behaviour of British firms as well. Evidence from the UK Trade Policy Observatory suggests that since the referendum, inflows of FDI to the UK have seen the longest continuous decline since the beginning of its data series in 2003. Its analysis suggests that the Brexit vote may have reduced the number of foreign investment projects to the UK by 16-20 percent. For services FDI, the fall is even greater: investment may be some 25 percent lower than if the UK had voted to remain in the EU. There has been a decline in investment in high value-added sectors such as software publishing, investment management and retail banking, which puts high-skilled jobs at risk.

Investment has declined even more markedly in certain industries such as automotive (down by 80% since 2016) as assemblers and suppliers postpone investment decisions, awaiting clarification on the form of Brexit and the UK's future trading relationship with the EU. With major model replacement decisions looming, this raises the risk of automotive assembly shifting elsewhere if uncertainty continues. There also seems to be emerging evidence from manufacturing surveys that overseas customers are switching their supply chains away from the UK, in turn impacting on investment intentions.

Overall, Brexit uncertainty is making the UK a less attractive place for businesses to invest, both for domestic and foreign investors.

Future prospects

How long-lasting can we expect these changes to be? This depends on the reason why firms are not investing and what the future trade relationship with the EU will be. An optimistic view would be that if the negative impacts to date are the result primarily of increased uncertainty, then resolving that uncertainty in whatever fashion—whether via the proposed Withdrawal Agreement, some other version of Brexit or indeed remaining in the EU—will provide firms with the certainty that they need to plan. Some will implement delayed investment plans, while others will undertake new investment to meet their needs, given the future relationship. Outward FDI to the EU would fall back again.

However, the fall in investment observed to date is unlikely to be solely the result of uncertainty. To the extent that the future relationship significantly increases trade barriers between the UK and the EU, and reduces market access, we would expect permanent negative impacts on investment, both domestic and inward FDI. How large this impact would be, and on which sectors, will depend on the form of the future relationship. Under the proposed Withdrawal Agreement and Political Declaration, the UK would stay in a de facto customs union with the EU for at least some years, which might mitigate the impacts on manufacturing, while there would be substantial new barriers to services trade. A no deal or WTO Brexit, however, would significantly disrupt pan-European supply chains and would likely lead to a sharp fall in inward FDI in this sector.

In any case, uncertainty is likely to continue under most plausible scenarios. Even if Parliament supports a version of the Withdrawal Agreement, the transition period offers only short term clarification on trading on existing terms. In the longer term, a new trading arrangement needs to be agreed, again raising issues of uncertainty for sectors heavily dependent on trade with the EU or with pan-European supply chains such as the automotive sector.

This does not mean that ending uncertainty by going for a no deal is a sensible option. Many business investment plans that have been put on hold given Brexit uncertainty would probably be scrapped altogether should the UK leave without a deal, paving the way for weaker economic growth in the future.

Three years on from the referendum, there remains considerable uncertainty over the nature of the UK's trading relationship with the EU. That uncertainty will continue to act as a drag on investment in the UK. Longer term, how attractive the UK will be depends on the form of the trading relationship that the UK has with the EU.

Question 4: Movement of people

'Would a post-Brexit immigration system preserve some degree of preference for EU citizens vis-à-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?'

Assessment to date

While EU migration has fallen sharply (see Question 1 on Fairness), this does not reflect any significant change in law or policy. Free movement continues. Despite recent falls in inflows, the UK's labour market remains open to, and in many sectors dependent on, EU workers. However, there has clearly been a major change in how the UK is perceived by potential migrants to the UK. While the Withdrawal Agreement provides for EU citizens currently resident to retain most, if not all, of their free movement rights, the protracted debate over the details—and well-publicised issues around the treatment of EU nationals by the Home Office—has had a significant reputational impact. The UK is seen as a more hostile and less welcoming place for Europeans. There are fears, justified or otherwise, that the 'hostile environment' policy currently applied to non-EU migrants whose status is uncertain or unclear could in future be extended to EU citizens.

Future prospects

The government's white paper, 'The UK's future skills-based immigration system', set out proposals under which EU and non-EU nationals seeking to migrate to the UK for work would be treated similarly (with the exception of Irish citizens, who would continue to benefit from free movement). In most cases, this would require potential migrants to have a job offer with a salary of (provisionally) £30,000 or more.

This would represent a radical change from the current system. For EU nationals, who currently benefit from free movement, it would be a far more restrictive system, since those earning under the threshold would not be eligible at all, while those earning more would have to apply for a work visa and pay various fees and charges. For those from outside the EU, it would represent a degree of liberalisation, since the current skills threshold would be significantly reduced and the current quota on 'Tier 2' visas would be abolished. If implemented as planned, the proposals would make the UK less open to immigration overall. Both the white paper and independent estimates suggest that they could cause a potential fall in net migration of approximately 50,000 per year.

However, large uncertainties remain. Even if the white paper remains (broadly) government policy, the new system will not be implemented until 2021, and possibly not until after then. Moreover, a number of key questions and issues are open to consultation, unanswered or will depend crucially on how the policy is implemented in practice:

- The level of the salary threshold: While the white paper suggests setting this at £30,000, there were disagreements within the Cabinet on this point, and it remains the subject of debate. Business will lobby hard for a lower figure.
- Migration for non-work purposes: The white paper is largely silent on migration for non-work purposes, in particular family migration. It is unclear whether the government proposes to apply the current exceptionally restrictive (by international standards) rules that apply to non-EU citizens to EU ones. If so, a significant public backlash might be expected.
- Making the system more user-friendly: The white paper signals a desire to make the system more user and business-friendly, but this will depend less on policy decisions and more on whether the Home Office can transform the way it deals with applicants.

Perhaps most importantly, much will depend on future political developments. On immigration, Theresa May was the least liberal prime minister of recent decades. Any successor—certainly Boris Johnson, seen as relatively liberal on immigration—is likely to have a more positive attitude. At the same time, British public opinion appears also to becoming more sanguine about the impacts of immigration on the UK economy and society. After a decade of increasingly restrictive policies, it may be that, after Brexit, political space will appear for a more open approach.

Summary: Openness

In policy terms, little has changed. The UK remains a relatively open economy. Indeed, the conclusion and implementation of further EU free trade deals has led to some modest further liberalisation, while there has been some relaxation of restrictions on non-EU immigration. However, perceptions have changed, and not for the better. This has had a clear real-world effect. The UK has certainly become a less attractive and welcoming destination for potential EU migrants, and the evidence suggests that Brexit has reduced both trade and investment flows.

It is possible that, at least in theory, these impacts are temporary and could be reversed by post-Brexit policy choices. In particular, both the public and policy debate on immigration have turned in a more positive direction, and it looks at least plausible that, whatever happens on Brexit, the UK will choose a relatively liberal approach. On trade, and perhaps investment, however, the nature of the trade-offs means that it will be difficult if not impossible to reduce barriers with third countries without erecting them with the EU. Given the uncertainties over future policy, the prognosis is mixed.

Grades	
Assessment to date	Negative
Future prospects	Too early to tell

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Control

Question 1: 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?'

Assessment to date

Parliamentary sovereignty—implying that Parliament can enact any law it chooses and cannot bind its successor—is fundamental to the British political system. The principle resonates in the UK in a way it does not anywhere else in Europe. For Vernon Bogdanor, parliamentary sovereignty is an absolute: 'One either has it or one does not'. The problem is that being a member of the EU places limits on parliamentary sovereignty: EU law takes precedence over national law (the doctrine of supremacy) and rulings of the European Court of Justice are binding on national courts. For some, this was a violation of the sacred principle of parliamentary sovereignty and was one of the reasons why they voted to leave the EU.

Since the referendum, the UK has reversed the European Communities Act 1972, which brought about the supremacy of EU law in the UK. The EU (Withdrawal) Act 2018 will turn off the supremacy of EU law on Brexit day. Since the UK does not have a written constitution that gives special protection to important pieces of legislation, the European Communities Act is no different to any other Act and could be reversed by another Act of Parliament. Judges have in fact given limited special status to the European Communities Act, making it hard to repeal accidentally. However, it could be repealed in express terms, as it was by the EU (Withdrawal) Act 2018.

Future prospects

Once the UK leaves the EU, parliamentary sovereignty—in Bogdanor's absolute sense—would not necessarily be restored. The Withdrawal Agreement (the Article 50 divorce text) requires the UK to respect the principle of supremacy of that agreement over conflicting UK law. This will be delivered by the Withdrawal Agreement Bill (should this ever be passed by Parliament).

Should a Withdrawal Agreement be signed and a transitional period ensured along the lines specified by that agreement, EU law will continue to apply as now during the transition. For eight years beyond the end of the transition, rulings of the EU Court of Justice on 'references' (i.e. legal questions) from the UK will continue to be binding on UK courts as far as EU citizens' rights are concerned.

For all other matters, there is a more political dispute resolution mechanism. Even this can result in a dispute being submitted to arbitration. If the dispute raises a question of interpretation of EU law, the arbitration panel must ask the EU Court of Justice to give a ruling which is binding on the arbitration panel. It is possible that this kind of mechanism will also apply to resolve disputes under any future trade agreement.

Moreover, all trade agreements involve some limitation of sovereignty—at the most basic level, by limiting the tariffs that the UK can impose. Such constraints are arguably more intrusive when it comes to agreements on trade in services. An Act of Parliament, like the European Communities Act in case of the EU treaties, is needed if domestic law needs to be changed in order to implement a treaty. However, Parliament does not have the power to approve, reject or amend a treaty negotiated by the executive. Instead, under the Constitutional and Reform and Governance Act (CRAG) 2010, Parliament can say that a treaty should not be ratified. For many people, this may represent insufficient scrutiny by Parliament.

There will be no magical or sudden restoration of absolute 'parliamentary sovereignty' in Bogdanor's sense. Nevertheless, over time, most Brexit scenarios would lead to an increasing degree of divergence between the UK and the EU, with the UK Parliament gradually reclaiming powers over some aspects of domestic law and regulation.

Question 2: Immigration and trade

'There are a range of possibilities for post-Brexit trade and migration arrangements between the UK and the 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 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?'

Assessment to date

In the short term, the status quo remains in place. If the Withdrawal Agreement is passed, then this will continue until at least December 2020 and more likely at least until 2021.

On immigration, the UK continues to apply EU freedom of movement rules to EU and EEA nationals (and some relatives and dependents) but has almost complete control over policy towards non-EEA nationals. For trade, the UK remains a member of the EU, within the customs union and applying the common external tariff and common commercial policy. Indeed, to some extent this position represents some loss of control: the EU is currently negotiating free trade agreements with several third countries. As an EU member (and part of the broadly liberal and pro-trade axis), the UK would have been able to influence the bloc's position.

Future prospects

After the end of any transition period, the degree of UK control over trade policy will depend on the nature of the future relationship negotiated between the EU and the UK, as well as the possible implementation of the 'backstop'. If the UK remains in a customs union (de facto or de jure) this will constrain UK trade policy towards both the EU and third countries with respect to goods and agricultural products. However, the UK will have considerably more leeway in respect of trade in services, as the UK seems unlikely to remain in the EU's single market. The extent of future control over policy for goods and services trade will depend critically on the UK's future relationship with the EU.

An interesting question is how much control the UK will be able to exert over its future trade policies for goods and services when policy will necessarily be the outcome of a bilaterally negotiated agreement. Although the UK will be free to request anything it wants of a trade partner without the need to consult with other EU member states post-Brexit (if it is not in a customs union), its ability to induce its trade partner to agree to its requests will likely be hampered by its small market size. It has less to offer in terms of market access than the EU, so its negotiating position would necessarily be weaker than it would have been as part of the EU.

The process by which the UK will formulate its negotiating objectives is not yet clear. The influence of consumers, businesses and workers in guiding the development of these objectives varies across countries with different political systems. As part of her offer to the Labour Party, Theresa May proposed that Parliament would have to approve a negotiating mandate for the future relationship with the EU, but it is unclear how this would work in practice.

The Withdrawal Agreement gives EU nationals currently resident in the UK the right to remain indefinitely, as well as some ongoing rights to be joined by family members. However, as regards future immigration from the EU for those not covered by the Withdrawal Agreement, the Political Declaration points to a much more distant relationship with the EU than on trade, with the UK largely unconstrained. Consistent with this, the government's white paper on future immigration policy, published in December 2018, set out plans for a post-Brexit system where EU and non-EU nationals would fall under one unified system (except for Irish nationals, who would retain their current rights).

This would represent a considerable increase in the degree to which UK immigration flows were under the control of the UK government. While elements of this plan remain controversial, the basic principle appears to command broad public and political support. However, it is important to note that formal and legal control do not necessarily amount to control in practice. It is very well to suggest, as the white paper does, that the UK can select the immigrants that it wants or needs, but they first have to want to come to the UK. The sharp drop in EU migration since the referendum shows that this cannot be taken for granted, and the government's decision to respond to this by liberalising the current rules show that economic and labour market pressures cannot always be ignored.

It has also been argued that the interaction between trade agreements and immigration will mean that in practice it may be difficult for the UK to conclude trade agreements with some countries without ceding some control over future immigration. However, while this is certainly true to some extent for India, most trade agreements have little to no substance on immigration issues. Even India would not be seeking free movement but visa liberalisation. In any case, for a number of reasons, a trade agreement with India is a long way off.

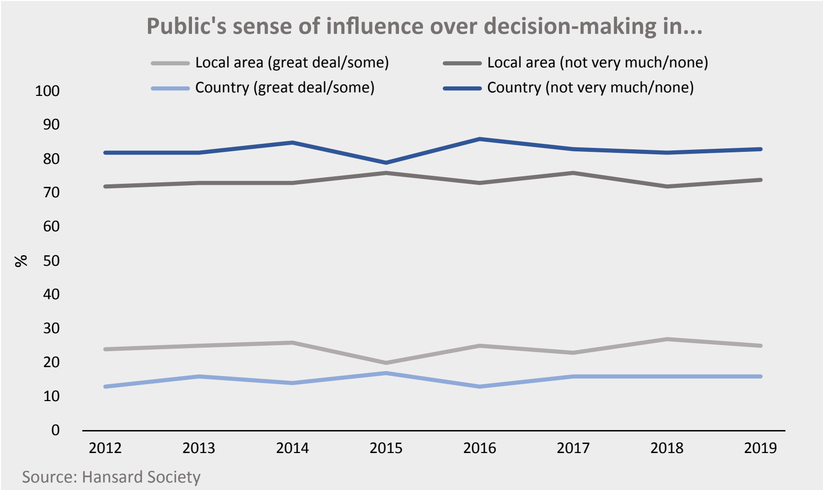
It is also worth noting that public opinion in the UK has become considerably more positive towards immigration and its economic and cultural impacts. While the drivers of this change in sentiment are not clear, it may reflect both a greater appreciation of the difficult trade-offs in immigration policy, and a post-referendum view that the UK is in the process of 'taking back control' over immigration. To this extent, it is possible that the public's sense of control over immigration has increased, even if this is not yet the case in any legal sense.

Question 3: National and local democracy

'Brexit will mean the repatriation of some powers to the UK. But will that make a 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?'

Assessment to date

At its most basic, Brexit would transfer some powers from a large and unpopular multinational entity—the EU—to a smaller, somewhat more popular and somewhat less complex entity, the UK. This shift in itself might easily be expected to lessen disenchantment with politics. Academics have found that people tend to be more satisfied with the state of democracy in smaller or more decentralised countries. Most people in the UK feel little or no attachment to the EU and so perceive the EU's current influence in domestic affairs as a form of alien control. What's more, if most people still want Brexit, its delivery should be expected to boost confidence.



On the other hand, it is far from obvious that most people do still want Brexit: in reality, the country remains split down the middle. In addition, objective analyses suggest that, at present, the EU has less influence over laws in the UK than many people think. If leaving the EU does not generate as much change as its supporters are expecting that could lead to greater disillusionment rather than less.

While 'Take Back Control' was a key pro-Leave theme, there is no evidence that Brexit will imply greater citizen control at the local and regional levels than would have been the case without Brexit. From 2013/14 onwards, the government had begun to implement a programme of increasing city-regional devolution. This, however, has almost completely stalled, or even partially reversed as central government has sought to gain greater control over all governance activities in order to manage the Brexit process.

The UK's local and sub-national governance system is completely unprepared for Brexit and local government is almost entirely locked out of the national decision-making and negotiation processes. Ironically, the few areas that have had some input into national discussions, including Scotland and London (the latter concerning the future of the City), are the UK regions with the lowest economic exposure to Brexit. This general lack of control on the part of sub-national government extends to decisions regarding the replacement for the European Structural and Investment Funds, which for more than three decades have underpinned UK regional policy. At present, the nature, scale and workings of the future 'Shared Prosperity Fund' are unknown, and central government appears to be pushing for a highly centralised and top-down approach to funding rather than properly devolved funding.

As yet, there is no evidence that the public feels that Brexit has increased their control over decision-making at either a national or a local level, which remains flat at relatively low levels. However, such perceptions as expressed in surveys are likely to be a lagging indicator, so we cannot read too much into this.

Future prospects

The impact of Brexit will depend in part on how much control really returns to the UK, as discussed above in the section on parliamentary sovereignty. In one sense, more control for people in the UK means more democracy. But another view is equally legitimate: if Brexit makes it harder for UK governments to deliver economic prosperity, people may feel increasingly dissatisfied with what Brexit actually delivers.

Crucially, Brexit's impact will also depend on how power is distributed within the UK. The most contested issue so far has been whether powers formerly exercised by the EU in areas such as agriculture, fishing and the environment will be held at Westminster or devolved to the governments in Scotland, Wales and Northern Ireland. The UK government initially wanted to retain many of these powers. It was forced to back away from this, but the EU (Withdrawal) Act 2018 still allows it to set common rules for the whole country in many policy areas for two years after Brexit. If used, that power to ram through provisions that the devolved nations oppose could stoke discontent. So far, the UK government has pursued a more consensual approach. But that could also generate tensions if the English find that the Scots and Welsh have effectively gained veto power over important decisions.

Indeed, the English dimension of Brexit has so far received little official attention. People with a strong English identity were much more likely to vote for Brexit than were those with mainly British or other identities. Yet Brexit will, on current plans, deliver no new powers specifically to England. Nor will powers devolve to local areas or regions within England. Compared to other democracies of its size, England is exceptionally centralised. Unless this changes, power is likely, for many people, to continue to seem remote and unlistening.

Yet the process of Brexit has also convulsed the political system: it has shone a spotlight on widespread grievances that previously received little attention. It has also weakened the traditional parties' grip on power. Many politicians are aware that rebuilding trust in our core political institutions may require wide-ranging democratic reforms. Many have thus become more interested in exploring new ways of engaging citizens in decision-making, such as citizens' assemblies. While not a direct consequence of Brexit, greater use of such approaches could lead indirectly to a political system that connects more effectively with its citizens.

Question 4: 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?'

Assessment to date

While the UK remains a member of the EU, the legal architecture that manages and protects individuals' rights will remain broadly unchanged. Although the government has taken a number of measures, most notably the EU (Withdrawal) Act, to prepare for life outside the EU, these will not come into practical effect until the UK actually leaves. That means when it comes to both UK and EU citizens' right to live, work and study in the EU, these rights remain unchanged currently. Similarly, UK citizens retain the ability to invoke EU law in disputes against the UK government and businesses. Similarly, on equality and human rights legislation, the more expansive package of EU human rights protections, most notably in the form of the EU Charter of Fundamental Rights, continue to apply in the UK while it remains a member state. Finally, the system of crime and security co-operation within the EU also remains in action, meaning the European Arrest Warrant and access to shared criminal databases continue.

Future prospects

There would be important changes in citizens' rights in the UK on leaving the EU. Most obviously, UK citizens look set to lose free movement rights in EU countries (besides Ireland). Although there will still be some immigration by UK citizens to EU countries, this will be on the basis of those countries' national laws (in part harmonised by EU law), which are more restrictive than free movement rules. It is important to note that this is a matter of policy rather than an inevitable legal effect of leaving the EU. It remains government policy to bring EU citizens' right of free movement within the UK to an end, so the same will apply for UK citizens in the EU. Short-term travel for leisure purposes should remain largely unaffected, because the EU has decided to let UK citizens travel to the EU for 90 days visa-free, if the UK reciprocates (although there will in future be a requirement to apply for advance travel authorisation online). It will be up to each member state to decide whether visas are required for short business visits. The government has signalled its intention to reach a youth mobility agreement with the EU, as well as some participation in the EU's Horizon research programme, so there may be routes to facilitate the movement of students.

One of the more obvious changes from the UK leaving the EU will be the inability of citizens to ask the UK courts to send questions to the EU courts to clarify questions of EU law in order to obtain redress, either against government or business. Instead, the UK Supreme Court will become the highest legal power for individuals resident in the UK. One exception may be if the Withdrawal Agreement is ratified, and in that case, UK courts could refer legal cases concerning EU citizens' right to EU courts for up to eight years in order to provide an interpretation of EU rules. The UK has also committed to setting up a monitoring body to ensure that the citizens' rights provisions of the Withdrawal Agreement are implemented and upheld. That body could bring legal action against the UK government—and the European Commission would do the same for UK citizens in the EU—on EU citizens' behalf.

Another set of protections that will no longer apply if the UK leaves the EU is the EU Charter of Fundamental Rights. Although the European Convention on Human Rights (ECHR)—a non-EU convention—will be retained, as implemented in domestic law by the UK Human Rights Act, the Charter provided a constitutional level of protection that would not exist outside the EU. Any future government could repeal the Human Rights Act if Parliament agrees, and indeed consecutive Conservative leaders have pledged to consider replacing it with a British Bill of Rights.

Finally, the absence of the Charter interacts with the ability of the UK to ensure ongoing police and judicial co-operation. Legally enforceable guarantees on things like human rights and data protection will be prerequisites for the EU prior to negotiations on police and judicial co-operation in future. Access to important databases, such as the Schengen Information System, to allow UK authorities to track and be notified of the movement of criminal suspects could well be prohibited.

Overall, it seems that personal freedom to live, work and study would be more limited for UK citizens outside the EU. Similarly, UK citizens will lose both the ability to access a higher legal authority via the UK courts to the EU courts, as well as one constitutional guarantee about human rights protections. Finally, without legally enforceable guarantees on things like human rights and data protection, police and judicial co-operation would be much diminished outside the EU, potentially degrading the UK's internal security..

Question 5: The EU budget

'After 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?'

Assessment to date

Since joining the EU in 1973, the UK has always been a net contributor to the EU budget. On the whole, it is the countries of north-west Europe which make the largest net contributions, while those in central, east and south east Europe are net recipients. The money the UK and other member states 'send to Brussels' is used partly to pay for the running costs of the EU and for EU global policies, such as development aid, but most of the money goes on policies implemented in member states. The largest shares of this spending are on subsidies for farming and fishing, research, and support for regional development. With its comparatively small farm sector and only a couple of regions eligible for substantial sums for economic development, the flow of EU money to the UK is relatively small. On average, after taking account of EU money spent in the UK, our net contribution is of the order of 0.4% of UK GDP.

The EU budget operates on a seven-year cycle, with the current one running from 2014 to 2020. However, some spending commitments made during this period will only fall due after 2020. This is entirely proper and arises because some of the projects funded by the EU are implemented over several years, particularly support for major infrastructure schemes or for five-year research projects. This carry-over of commitments is one of the reasons for the size of the 'divorce bill' agreed as part of the Withdrawal Agreement.

Whether the UK will face additional demands for contributions in future will depend on the nature of the long-term agreement with the EU after Brexit. The three European Economic Area countries make payments to the EU—in Norway's case, coming close to the current per capita UK payments—although not, strictly, to the EU budget in the same way as member states. Switzerland also makes payments for specific purposes, but on a substantially smaller scale than Norway.

A consistent message from the UK, put succinctly in Theresa May's Lancaster House speech, is 'because we will no longer be members of the single market, we will not be required to contribute huge sums to the EU budget' and she went on to say 'the days of Britain making vast contributions to the European Union every year will end'. However, the speech left open the possibility that the UK might choose to participate in certain EU programmes and recognised that, if so, 'we should make an appropriate contribution'. This stance has broadly remained the UK position, despite the many twists and turns in the negotiations.

Future prospects

Will the UK continue to make contributions to the EU budget after Brexit? If so, for what purposes, and to what extent will we have control over how the money is spent?

After the end of any Brexit transition period, payment of remaining obligations of the 'divorce bill' and the full exit from the EU, the UK is currently expected to remain in some EU programmes, particularly for research. Over many years, the UK has been among the most successful countries in obtaining EU research grants and, other things being equal, would expect to continue to do well so long as excellence is the main criterion for allocating the funding. However, EU member states which are less successful in winning such funding are likely to insist on bigger British contributions to the EU pot. The UK will also expect to pay more limited amounts towards security cooperation. In both cases, there are unresolved questions about how much influence the UK will have in determining the content of policies.

Overall, under most plausible Brexit scenarios (bar a full reversal of Brexit), the UK is likely to make considerably smaller contributions to the EU budget (on both a gross and net basis), with the terms of our participation in EU programmes negotiated bilaterally. In that sense, we will have considerably more control over both the amount and the allocation of funding than at present. On the other hand, third countries inevitably have less weight in shaping the structure of EU programmes than member states, and for programmes where the UK has historically played a key role—in particular research—this may represent some effective loss of influence.

Summary: Control

In a legal sense, as long as the UK remains an EU member, there is no sense in which either Parliament or the people have 'taken back control'. Indeed, to the extent that the UK is marginalised or irrelevant in EU decision-making, we have arguably lost control to some extent. Meanwhile, efforts to devolve decision-making within the UK have stalled. Public perceptions reflect this.

However, this delay to meaningful change is perhaps the inevitable result of the Brexit process. While it is simplistic to suggest that on Brexit Day (or even after the end of the transition period) there will be a sudden shift, over time the UK will increasingly reclaim the ability to set its own policies—subject to the economic and political constraints faced by all countries—on trade, investment and regulation. Translating that into a sense among the broader public that they have genuinely increased their own agency over decisions that shape their lives will, however, remain a challenge.

Grades	
Assessment to date	Negative
Future prospects	Positive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Conclusion

Is it premature to declare Brexit a success or failure? Absolutely. But has Brexit already had a profound impact on the British economy, society and political system? It certainly has, as the breadth and depth of the material above shows. We also believe that the detailed and, as far as possible, objective assessment that we have outlined shows that it is possible to make these judgements without partisan Leave or Remain bias.

Our verdict on the impact of the Brexit process so far is unsurprising and unequivocal. While the apocalyptic predictions of the Remain campaign have failed to materialise, the economic damage has nevertheless been significant: not just a one-off inflation shock, but also more persistent impacts on investment, trade and migration, meaning the UK is already a somewhat less open economy. Nor is the UK, in any measurable sense, a fairer society. However, the seismic political impact of Brexit means that the UK has paradoxically lost control, at least temporarily, on some aspects of our economic future.

But these are early days, to say the least. We have not even left the EU yet, and it is by no means certain we will do so at all, and if so under what conditions. The transitional arrangements set out in the Withdrawal Agreement foresee a period during which much will continue as now, albeit that the UK will enjoy far less influence over EU policies than it does now as a member state. Beyond that, the Political Declaration sets out a blueprint for the future relationship but leaves many questions unanswered. Nor would a no deal Brexit give any more certainty; even if the short-term impacts could be mitigated, it would freeze rather than resolve the deadlock.

Our judgement on the future prospects for Brexit is therefore necessarily more tentative. We can say with some degree of assurance, based on the consensus amongst credible economists, that Brexit will, overall, be negative for the UK economy and public finances. Note, for instance, how few of those who have published forecasts have seen the need to revisit them. Indeed, that consensus has if anything been strengthened by developments so far, as the prospect of any Brexit that retains single market membership and free movement appears farther away than ever.

Correspondingly, however, this means that the UK will indeed have considerably more control over a range of policies—trade, regulation and migration—than at present. The challenge of how to translate that gain in notional sovereignty into a genuine sense amongst the electorate that they have a real say will be central to British politics after Brexit.

The prospect of greater control means that the question of openness remains, well, open. Some new barriers to trade with the EU seem inevitable. But so far, perhaps surprisingly, developments in both Westminster politics and public opinion means that prospects for a relatively liberal immigration policy look better than for some time.

But the most difficult and uncertain issue remains what future governments will do to address the underlying discontent that, at least in part, drove the Brexit vote—to make the UK a fairer society. Theresa May spoke of addressing the ‘burning injustices’ in our society, and many—regardless of their views on Brexit—hoped for a ‘reset moment’, with new policies to address some structural issues that have been neglected in the past.

So far, however, not least, because the process of leaving has proven so much more complex and time consuming than many (on both sides) assumed, government has simply not had the space or time to develop the domestic policy proposals and instruments—on investment (public and private), skills, regional policy and so on—that would be needed.

Will this change once (if) the UK leaves the EU? Unfortunately, the performance of our political system in the three years since the referendum does not inspire confidence. Again, this is not a comment on either the merits of any particular approach to Brexit or the actions of any party or politician. It is simply an observation that the infighting, paralysis and accompanying media focus on the Brexit machinations at Westminster above all else (and yes, some of us must share responsibility here) have both detracted and distracted from any serious or coherent approach to these issues. At the moment, there appears little chance that this will change, but if we want Brexit to be a success, change is vital.

	Assessment to date	Future prospects
Economy and public finances	Negative	Negative
Fairness	Mixed	Too early to tell
Openness	Negative	Too early to tell
Control	Negative	Positive


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The UK in a Changing Europe

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.

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