BREXIT AND BEYOND:

ECONOMY

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ECONOMY

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MACROECONOMIC OUTLOOK

Jonathan Portes

WHERE HAVE WE COME FROM?

The impact of the 2016 Brexit vote on the UK economy was not, as the Treasury predicted, a financial crisis, resulting in a recession and a sharp rise in unemployment. Instead, the main immediate impact was a sharp fall in sterling, pushing up inflation and reducing real wages. These effects were a one off, but there have been less visible ongoing impacts, with slow growth in both trade and investment, attributable at least in part both to Brexit-related uncertainty and expectations that Brexit will in due course increase barriers to trade. Overall, the consensus is that growth between 2016 and now was depressed by 2-3% overall. Nor did the Conservatives' clear victory in the 2019 election result in the promised 'Brexit [or Boris] bounce'. In the months prior to the outbreak of Covid-19, growth was essentially zero.

WHERE ARE WE NOW?

Subsequently, economic developments have been dominated by the impact of the pandemic. Like all major European economies, the UK has been badly hit and has responded with unprecedented emergency economic and fiscal support measures. Although the economy recovered relatively strongly in the second quarter, it was still eight per cent smaller in September than in February. Despite the fact that restrictions on manufacturing and construction were lifted in July, output remains approximately five per cent and eight per cent respectively below pre-pandemic levels. This reflected a number of factors: the general level of uncertainty over future economic prospects and in particular consumer demand, the reduction in external trade and the pausing of construction projects, particularly public and social housing and commercial property.

WHERE ARE WE HEADING?

In the face of a second, and now possibly a third wave of the pandemic, the Government has reimposed restrictions on economic activities. These differ significantly from those seen in March in several respects. Manufacturing and construction are not subject to new restrictions, and many 'non-essential' retail stores have improved their capabilities for online ordering and home delivery, while consumers are more accustomed to using such services. This will mitigate the short-term impact on output.

However, some firms, particularly smaller businesses, are under severe financial strain and may not survive a second round of closures. This is a particular risk for those that are heavily dependent on the pre-Christmas period for much of their revenues or profits, as is the case for some hospitality venues and retail stores. On top of this, we now have significant additional disruption to trade, particularly between the UK and the EU, as a consequence of a combination of pre-Brexit stockpiling and renewed restrictions on travel.

The economy is likely to shrink again over the fourth quarter of 2020 and the first quarter of 2021. The impacts on household incomes and the labour market will be mitigated by the Government's decision to extend the furlough scheme (and some business support schemes) until March of next year; this means that unemployment is unlikely to rise as sharply as feared, although the fiscal costs to the Government will be substantial.

The further downturn is likely to be concentrated in consumer-facing services (retail trade, food and beverage serving activities, travel and transport, and entertainment and recreation). These were hardest hit by the first lockdown, but recovered strongly, and as of September were not more adversely affected than other sectors; this 'catch-up' is likely to reverse again. Meanwhile recovery in other sectors is likely to remain slow and patchy at best, although the end of the Brexit transition may provide a temporary boost because of stockpiling.

Developments remain highly uncertain, and dependent on the success of latest restrictions in containing the virus, the early roll-out of a vaccine, as well as a smooth transition to the new trading arrangements with the EU. The agreed deal will still result in significant new trade barriers between the EU and UK, with associated negative economic impacts, but it will at least boost business confidence, minimise short-term disruption, and signal a more constructive future economic relationship.

Under a positive scenario, a clear reduction in infections would allow a gradual loosening of restrictions early this year, and the relatively speedy roll-out of a vaccine would allow a return to normality in a few months. This would likely lead to a strong recovery in the short term but one which was substantially differentiated between sectors. The very large overhang of 'forced saving' among some middle and upper-income households (those whose incomes did not fall much during the crisis but who could not spend as normal) could lead to very high demand for some discretionary spending (for example, high value consumer goods, up-market tourism).

But at the same time some sectors may remain weak for a prolonged period, in particular commercial real estate and customer-facing services that rely on office workers for demand, since at least some of the shift to working from home is likely to be permanent. And while the initial impact of the Brexit deal on confidence will be positive, over the medium term there will be significant adverse impacts on some sectors, including pharmaceuticals, chemicals, business and financial services.

Moreover, to the extent consumer spending does recover, this will reduce private saving and generate upward pressure on inflation and interest rates; in these conditions the Government will need to move to tighten fiscal policy, necessitating significant tax increases. A further constraint on growth may be the labour market; the latest statistics show a fall of more than 800,000 in foreign-born people of working age resident in the UK, mostly EU citizens. While this will mitigate the rise in unemployment, it might also mean that a significant upturn might be hampered by labour and skill shortages, particularly since the new points-based immigration system will make it much harder for Europeans to move here to work.

Under an adverse scenario, in which the roll-out of a vaccine is delayed, recovery would be further delayed. In these circumstances the government would continue to provide massive fiscal support, limiting the downside risks, but a prolonged period of stagnation would be in prospect, with slow growth in output and persistently lower employment.

ECONOMICS OF TRADE

Ingo Borchert & Mattia Di Ubaldo

WHERE HAVE WE COME FROM?

Within the EU's Single Market, UK manufacturers could be assured that what was lawfully produced at home could be sold in any other member state, with no further checks at the border. UK firms in financial or creative industries, or professionals providing legal advice, could move and establish themselves in other EU countries with a degree of freedom and flexibility unparalleled in any other trade agreement. Consumers also benefited from more product choice and easy access to services when in other EU countries.

Combined with geographic proximity, the Single Market and the Customs Union resulted in the EU being the top trade partner of the UK: the EU receives 42.5% of UK exports (46% of goods and 39% of services), while 51% of UK imports (53% of goods and 49% of services) originate in the EU. Overall 3.7 million jobs are associated with UK exports to the EU, not least as part of supply chains that extend beyond the EU to third markets.

WHERE ARE WE NOW?

The UK Government decided that Brexit meant leaving the Customs Union, the comprehensive rules of the Single Market, and instead renegotiating FTAs with third countries. This 'disintegration shock' will affect UK GDP, trade, and labour and capital markets.

There has already been an impact since the referendum, with UK investment and consumption below what they could have otherwise been due to revised expectations of future prosperity, UK services companies setting up EU subsidiaries to retain access to the EU market but not vice versa (EU investment in the UK declined), lower labour demand and fewer entries into exporting by those UK firms that are more at risk of facing higher tariffs with the EU.

On 24 December 2020, the UK and the EU reached an 'agreement in principle' on the text of a Trade and Cooperation Agreement, including an FTA that will provide for duty-free and quota-free trade of all goods. At the same time, frictions will arise in number of areas, not only because of the need for 'rules of origin' or meeting EU requirements on food safety and product standards. The scope for trading services is severely curtailed compared to the Single Market; for instance, audio-visual services are excluded from the terms of the draft agreement, UK airlines will no longer be able to serve two airports within the EU, and passporting rights for trading financial services will cease to exist.

Overall, therefore, this UK-EU FTA will avert a 'no deal shock' but it will not deliver anything resembling intra-EU trading conditions. The cushioning effect of the FTA on UK value added trade is estimated to be 20-25%. Put differently, most of the losses in trade and income would have occurred anyway because of the exit from the SM, which addressed nontariff barriers.

The position of Northern Ireland (NI) will be different to Great Britain (GB) because its trade remains aligned with EU rules. This implies the need for customs formalities and checks for goods flowing from GB to NI, as well as for EU tariffs levied on products at risk of moving into the Republic of Ireland. These barriers will negatively affect firms engaged in NI-GB trade, notwithstanding a recent agreement between the UK and the EU on the details of how the Protocol will be implemented.

WHERE ARE WE HEADING?

A major pro-Brexit argument has been the possibility of negotiating ambitious new FTAs. The UK has so far concluded 'continuity agreements' with some EU partners, covering 13% of UK trade, and an FTA with Japan, accounting for another 2% of UK trade. Other agreements are being negotiated (with the US, Australia, New Zealand, and the CPTPP bloc), in addition to the deal with the EU. Will these FTAs compensate for the losses of leaving the Single Market? The available evidence says no.

There are four main issues. First, the Single Market establishes deep integration that cannot be recouped with FTAs, even ambitious ones. Second, the share of trade with individual partners is small compared to the EU. Hence, to just break even, every one per cent drop in trade with the EU due to higher trade costs would require a much higher increase in percentage terms under a new FTA with a partner that accounted for less of UK exports.

Third, the UK is a much smaller player in trade negotiations (equivalent to only 15% of EU GDP) and may therefore be unable to obtain as many concessions from new partners as the EU. That said, the UK might strike deals better tailored to its specific interests.

Finally, negotiations are complex due to the difficulty of finding common ground on 'behind-the-border' issues, such as regulatory measures, technical standards, and qualifications for professionals. Tariff reductions have little bite, as many are already low (except in agriculture). With the growing importance of e-commerce and digital services, nearly every digitally enabled services trade transaction (and many goods transactions too) are linked to data flows, making digital trade provisions vital. Yet, the provisions on data protection in the UK-Japan FTA are more lax than what the EU requires to allow personal data to flow across countries: this brings the UK closer to the standards in the CPTPP agreement, but raises worries about how the UK will align itself to the EU. More generally, diverging from higher EU standards to secure trade deals with 'key partners' is likely to lead to long and complex negotiations, or to impose costs on producers asked to comply with multiple sets of rules.

Most importantly, the UK is attempting to cut its losses from the break up with its neighbour by reaching out to large but faraway trading partners. Yet countries naturally trade more with markets that are large, geographically close and culturally similar. These 'gravity' forces are the main drivers of international trade, implying that the tight integration with the EU cannot be replaced by an ambitious trade policy directed towards Australia, Canada, Japan or the US.

BREXIT AND UK TRADE: WHAT NEXT?

Thomas Sampson

WHERE HAVE WE COME FROM?

Brexit is expected to make the UK poorer in the long run compared to remaining an EU member. Although the analysis used to reach this conclusion is complex, most forecasts depend upon the same economic logic. Brexit will create new trade barriers between the UK and the EU, leading to lower trade and causing income losses through higher prices and less efficient production.

This reasoning implies that Brexit will cause the UK's trade with the EU to fall relative to its trade with the rest of the world. To date, there is little evidence this has occurred. Prior to the referendum, in 2015, UK exports of goods and services totalled £530 billion, of which 42% went to the EU. In the same year, UK imported £557 billion of goods and services, with 53% coming from the EU. Fast forward to 2019 and not much had changed. The EU accounted for 43% of UK exports and 51% of UK imports.

WHERE ARE WE NOW?

But perhaps this stasis should not come as a surprise. Trade barriers between the UK and EU did not change until the start of 2021. Faced with uncertainty over when Brexit would occur and what form it would take, firms may have chosen to maintain their existing trade patterns while waiting to learn what Brexit means. Consequently, it is too soon to evaluate the forecasts.

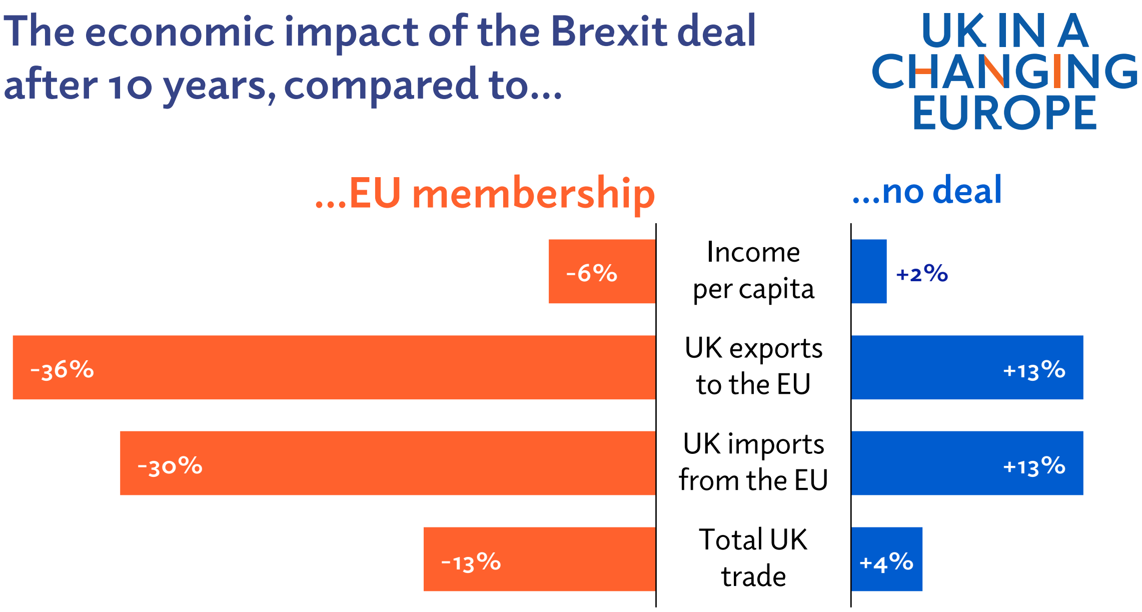
However, now that a trade deal has been reached, new trade arrangements are being implemented. The deal ensures that there will be no tariffs or quotas on UK-EU trade, but does not prevent the introduction of new non-tariff barriers. Goods trade costs will increase due to customs red tape, border delays, rules of origin requirements and the need for products to satisfy different regulations and standards in the UK than the EU.

For services, which accounted for around one third of UK-EU trade in 2019, the increase in trade costs is likely to be even larger. Compared to membership of the EU's single market, the trade deal does little to ensure market access in services. Financial firms no longer have passporting rights to serve EU clients, there is no guarantee of mutual recognition of professional qualifications, labour mobility is severely restricted and firms will have to navigate a maze of country and sector specific regulations on service providers.

WHERE ARE WE HEADING?

The full economic effects of Brexit will take a decade or more to materialise. But how UK and EU firms adapt to the trade deal should start to become apparent in the next few years, helping us to answer these five important questions.

First, how will Brexit affect the level of trade between the UK and the EU? There is already evidence that Brexit has caused some firms to stop trading with the EU in anticipation of future changes in trade policy. Research by Crowley, Exton and Han using UK data and by Martin, Martinez and Mejean using French data finds that the Brexit vote has led to fewer trading relationships between UK and EU firms. So far, it is likely that Brexit has only destroyed low value trading relationships, while leaving the large firms that dominate aggregate trade unaffected. But there is no guarantee this will continue to be the case.



Second, which sectors, regions and types of workers will be most affected by changing trade patterns? Trade adjustment often generates costs that fall disproportionately on small groups who lose market access or face increased competition. We will soon learn which groups are worst hit by the new UK-EU trade relationship and, just as importantly, whether the plight of the losers provokes political opposition that erodes support for Brexit.

Third, which type of trade barriers matter most for UK-EU trade? The trade deal creates many new non-tariff barriers between the UK and EU. Quantifying the magnitude of these non-tariff barriers is challenging and there is substantial uncertainty over their relative importance. Studying how changes in trade depend upon which barriers are most prevalent in different sectors will provide new evidence on the origins of trade costs.

Fourth, how will Brexit affect UK productivity? UK productivity growth since the financial crisis has been anaemic, giving rise to what is called the UK productivity puzzle. Slow productivity growth reduces output leading to lower wages and living standards. There is some evidence that raising trade barriers is bad for productivity, but the existence and size of this effect is controversial. Analysing productivity growth in firms that trade with the EU will shed light on whether, as many economists fear, Brexit will worsen the UK's productivity crisis.

Fifth, how will Brexit affect the recovery from Covid-19? Lockdowns and reduced demand have reduced output and left many firms in financial trouble. Firms that are financially constrained or have staff on furlough will have less capacity to deal with changes in trade barriers. Could Covid-19 accelerate Brexit-induced changes in UK trade patterns by causing some UK firms to permanently shift away from trading with the EU? Alternatively, will the short-run impact of Brexit be swamped by Covid-19? Careful, data-intensive research will be needed to disentangle the economic effects of Brexit from those of Covid-19.

After four and a half years of waiting, debating and speculating, the UK has finally left the EU's single market and customs union. Because economic disintegration on this scale has no historical precedent, there is a great deal of uncertainty over what comes next for UK trade. For businesses this is a challenge, but for researchers it's a learning opportunity.

PUBLIC FINANCES

Carl Emmerson & Isabel Stockton

WHERE HAVE WE COME FROM?

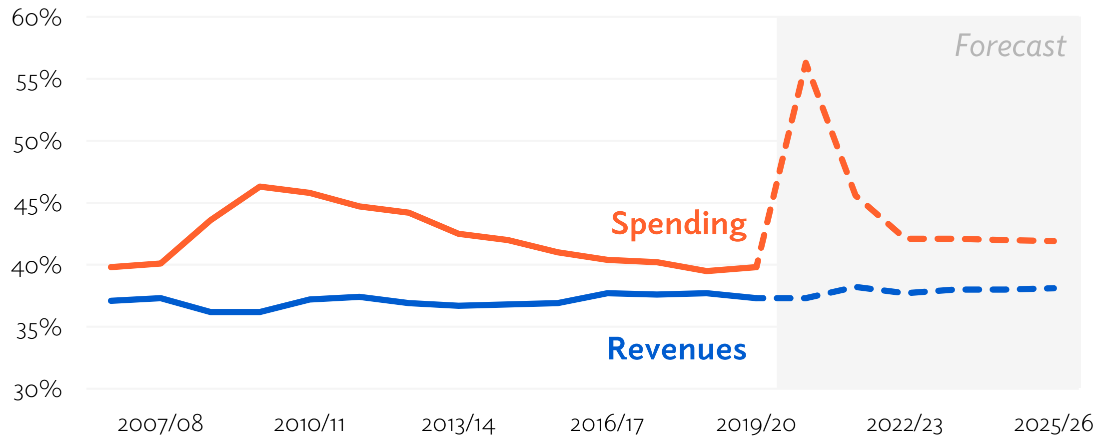
The years following the financial crisis saw net tax rises and substantial spending cuts. Borrowing fell from the post-War high reached in 2009-10 to a level slightly below that seen prior to the Great Recession.

Even before the pandemic, the Government had loosened fiscal policy. Austerity was declared to be 'over' and spending increases, such as a multi-year settlement for the NHS, and a commitment to increase investment spending to levels not maintained in the UK for 40 years, were not matched by tax rises or cuts to spending elsewhere. In their 2019 General Election manifesto, the Conservative party proposed a new set of fiscal targets that were looser than those legislated after the 2017 election (in turn looser than those legislated after the 2015 election). At the same time, successive official forecasts had downgraded assumptions about underlying growth, reducing the outlook for revenues. The era of falling borrowing was coming to an end, with a Government wanting to spend more without being willing to tax more.

Additional Covid-19 spending has led to a sharp increase in public sector borrowing

Public spending and tax revenue as a percentage of national income.

UK IN A CHANGING EUROPE



Source: Public Finances Databank, obr.uk/data.

WHERE ARE WE NOW?

The coronavirus pandemic necessitated huge government intervention to support households, businesses and public services. The size of fiscal support provided is unprecedented in the UK in modern times: far exceeding that seen in the financial crisis. In addition, the sharp reduction in economic activity during the lockdown depressed tax revenues and increased spending on universal credit. As a result, borrowing is forecast to climb to almost 20% of national income this year — its highest level in over 300 years outside of the two world wars.

For the public finances, what matters more than the size of this spike is the speed and — in particular — the completeness of the recovery. If the economy bounces back, and revenues recover, then the additional debt accumulated this year could be managed back down over a long period. As long as the cost of debt interest remains cheap, as it has done in recent years, this wouldn't be much of a problem. Unfortunately, rising unemployment and business failures will leave permanent scars, the size of which will depend on a number of factors such as the speed and effectiveness of the roll-out of vaccines and on how successful policy is in averting high levels of long-term unemployment.

WHERE ARE WE HEADING?

The pandemic has been an extreme shock: comparing the increase in forecast borrowing in 2020—21 since March with the distribution of errors in official borrowing forecasts 12 months out suggests that the public finance shock is of a magnitude we should expect only once every two hundred years. As, hopefully, the coronavirus pandemic is brought under swift control by the successful rolling out of vaccines, we will begin to find out more about its legacy for the economy and the public finances.

The after effects are likely to put pressure on public spending. For example extra resources are needed for the NHS to tackle the large backlog of non-Cocivd-19 care that was postponed in the last year and schools will need to support pupils who have fallen behind during the pandemic. In both these cases, existing inequalities will be exacerbated unless the legacy of the pandemic is addressed. Older adults in the most deprived areas were 40% more likely to have hospital treatment cancelled than those in the least deprived areas. Among primary school pupils, learning time for the poorest children fell by much more than in richer households during the first lockdown; pupils in better-off families were doing on average 75 minutes more learning each day than their more disadvantaged peers.

While adjustment pressures will be felt — to varying degrees — by economies around the world, the UK economy is also facing a substantial restructuring due to Brexit. Sectors that trade a lot and are therefore most affected by Brexit are generally distinct from the customer-facing sectors that have borne the brunt of the pandemic. As with coronavirus, Brexit will create additional spending pressures. But it is also likely to have a substantial long-run effect on tax revenues. Four and a half years after the referendum, an agreement ensuring tariff- and quota-free trade has been agreed by the UK and EU. Whilst this avoids the even more severe disruption of an exit on WTO terms, the UK is nevertheless leaving the Single Market, which goes much further than a free trade agreement in harmonising standards and regulations. Leaving the Single Market thus erects non-tariff barriers to the tax-rich export of services, which will be particularly costly from the point of view of the public finances. The Office for Budget Responsibility estimates that in terms of lost economic activity, the difference between EU membership and a typical free trade agreement is twice as big as the difference between a typical free trade agreement and trade on WTO terms.

Both Brexit and Covid-19 are likely to lead to a smaller economy, lower tax revenues and additional spending pressures. In addition, long-standing spending pressures related to growing demand for health, social care and state pensions have not gone away. Over the medium and long term, if we intend to keep the public finances on a sustainable path — with inflationary pressures in check — this will likely necessitate higher taxes. While the uncertainties — specifically about the lasting damage done by the pandemic to the outlook for revenues and the demands on public spending — are high, plausible estimates suggest that tax rises of the order of two per cent of GDP, or £40 billion a year, could be required to prevent debt as a share of national income from an ever-rising path. Carefully designed reforms to the tax system could raise additional revenue while minimising economic damage and improving the coherence and fairness of the overall tax system, and will be a key challenge for the public finances going forward.

PRODUCTIVITY

Rebecca Riley

WHERE HAVE WE COME FROM?

Defined in the simplest way, productivity is the average amount of value added to the economy per hour worked. Productivity is an incredibly important metric because it measures our ability to generate income and to sustain high living standards.

UK productivity performance lags behind that of many of its peers, including Germany, France, the Netherlands, the Scandinavian countries and the US. For example, international comparisons suggest that in 2016, the average hour worked in the UK yielded, at best, 84% of the output generated by the average hour worked in the US.

In the decades leading up to the global financial crisis of 2008, UK productivity increased by an average of around 26% every ten years. This led to commensurate improvements in living standards, as captured by measures of average household incomes. Since the global financial crisis, UK productivity has hardly increased at all. Neither have living standards. Productivity growth has slowed in other advanced economies too, but to a lesser degree than in the UK. Productivity stagnation is a major policy concern.

While there are many factors that influence productivity, the UK's relatively poor productivity performance owes much to persistent underinvestment in technology and chronic skills deficiencies.

WHERE ARE WE NOW?

How did the UK's decision to leave the EU affect productivity levels in recent years, before the actual event? A key issue has been the uncertainty about what the UK's new relationship with the EU might look like and the risk of rising business costs.

Investment, and hence productivity, is typically hampered by uncertainty. Businesses may have put off investment decisions, because of the risk these may not pay off under the terms of the new relationship between the UK and the EU. Business resources may have been diverted from their usual productive use in preparation for a new, yet unknowable, relationship with the EU.

Economists have attempted to quantify these early effects of the UK's decision to leave the EU on the investment and productivity levels of UK businesses. They asked business leaders about the sources of uncertainty for their enterprise. Since the EU referendum, more than a third of businesses (sometimes as many as three in five businesses) reported that Brexit was a main source of uncertainty. This uncertainty and anticipated increases in trade costs is estimated to have led to a reduction in UK productivity of between two and five per cent over the three years following the referendum.

WHERE ARE WE HEADING?

At the end of last year, the EU-UK Trade and Cooperation Agreement was agreed between the EU and the UK. While several significant details remain outstanding, notably regarding trade in services, the terms of the new UK-EU relationship have begun to take shape. As uncertainty gradually dissipates, how are the longer-term prospects for UK productivity likely to be affected by the UK's departure from the EU?

Investments that were delayed, due to risks that have now faded away, may of course now take place. This shorter-term consideration aside, the majority view amongst economists is that the longer-term productivity challenges already faced by the UK have not become any less or any easier to address in the context of Brexit, whichever shape this may have taken. This is because any change in the trade arrangements with the EU will introduce more 'frictions' to transactions with the UK's largest and geographically closest trading partner.

As the UK-EU agreement develops and the finer detail becomes clear, new estimates of the economic impacts of the agreement will emerge. Much as with existing estimates of the consequences of loosening ties with the EU and moving to a Free Trade Agreement (FTA) with the EU, lower income per capita in the FTA case compared to the EU membership case will largely be the result of lower productivity — that is, lower value added to the economy per hour worked.

The precise magnitudes of these effects on productivity are highly uncertain, but their direction is less so. Magnitudes depend on the extent of barriers to trade, the effects these barriers have on trade and its composition, and the wider knock-on effects from trade to determinants of productivity.

Barriers to trade, such as customs checks, will create new jobs, but these jobs do not add to economic output. They represent an additional cost of trading, and as a consequence, they subtract from UK productivity. Second, these additional costs are likely to reduce the volume of trade, as some activities in the UK may no longer be profitable and attract less foreign investment. This will shift the industry composition of the UK economy towards non-traded and less productive sectors. Third, lower trade volumes will mean less competitive pressure and knowledge sharing, both of which tend to enhance productivity.

Might these adverse effects on productivity be offset by the UK's new policy freedoms outside the EU? The UK's new abilities to negotiate its own trade agreements and control its borders may, depending on how policies are formulated, enhance productivity to some extent. But they are unlikely to fully offset the adverse effects of new barriers to trade with the EU. Taking a historical view, some have argued that as EU membership is not to blame for the UK's productivity weaknesses, exit from the EU is unlikely to present a remedy to the UK's productivity problems.

Thus, if anything, the UK's departure from the EU underscores the pressing need for a coordinated effort to support UK productivity performance. In the years ahead, both Brexit and Covid-19 will change the structures of the UK economy and the local economies within it. Resulting changes in productivity and incomes will not be felt equally across the UK, and will depend on local industry structures and abilities to adapt to change. Going forward, policy to support productivity will need to go hand in hand with policy to ensure resilience across the UK.

INEQUALITY

Mike Brewer

WHERE HAVE WE COME FROM?

Income inequality in developed countries is at its highest level for the past half century, and pre-crisis data shows that income inequality in the UK is one of the highest among comparable major economies, second only to the United States. We know that countries with high levels of inequality have lower rates of growth, are more stressed and anxious, less happy and healthy, and have lower feelings of solidarity or trust across society. And hard data and careful research show that the greater are inequalities of outcomes, the harder it is to achieve equality of opportunity and the less social mobility there is.

The UK's high level of inequality has its roots in the 1980s, when the UK shot up the international league table of inequality. That was caused by growing divides between high and low earners, and by policy decisions to reduce top rates of tax and to increase social security benefits only in line with inflation, not earnings growth. Wages continued to grow more unequal through the 1990s, but a more generous benefit system, particularly for lower income families, prevented inequality from rising further. In fact, measures of overall inequality have changed little in 30 years. But every year of high inequality is another year that strains our sense of fairness and of social justice, and another year where equality of opportunity becomes harder to achieve. And headline measures hide what has been happening at the very top, where the share of national income going to the top 1% or 0.1% continued to rise until the onset of the financial crisis in 2008, and has shown signs of strong recovery in recent years. Wealth, meanwhile, is far more unequally distributed in the UK than is income, with the wealthiest ten per cent owning between around half of all household wealth.

WHERE ARE WE NOW?

With hopes of an imminent vaccine roll-out and a return to normality, 2021 should see Britain experience a strong economic recovery, with the Office for Budget Responsibility expecting the economy to grow by 5.5% next year. But the permanent damage to our economy done by the virus means that real household disposable income (RHDI) is set to grow by just one per cent per person — or £220 — over the entire period of the current Parliament. This would make it the second worst Parliament for living standards since records began in 1955.

WHERE ARE WE HEADING?

But although the worst of the economic hit is behind us, the labour market crisis is far from over, with unemployment set to rise through to the summer of 2021. And the coronavirus crisis had its roots in the labour market, with the need to restrict activities to reduce the spread of Covid-19 heavily affecting sectors such as hospitality, non-food retail, leisure, tourism and the arts. As a result, the labour market hit has been far stronger for younger workers, those on atypical contracts, and those on low pay — the sort of jobs disproportionately found in these hard-hit sectors. On average, white workers have been a little less affected than workers from minority ethnic groups. There is no evidence that the labour market shock was much greater for women than men, but women have been more likely than men to see their mental health worsen, and mothers have taken on more of the additional childcare and home schooling through 2020 than have fathers.

But this bottom-heavy labour market hit does not translate directly into a bottom-heavy hit to household incomes. This is partly because some low earners live in high-income households, and because some low-income households have no one in work at all, so cannot be affected by a jobs shakeout. Policy has also helped reduce the hit to living standards that we would otherwise have seen.

The unique nature of this crisis means, though, that we need to go beyond income to look at household balance sheets to get a true picture of the distributional nature of the pandemic. On average, household spending has fallen in 2020, and aggregate saving rates have risen, as we have gone out less, taken fewer holidays, and spent less on commuting. But this average hides a clear social gradient. The crisis has seen low-income families more likely to run down their savings or borrow money to cover everyday costs, while high-income families have been improving their balance sheets, benefitting from the enforced cut in spending from the various lockdowns.

The impact of the UK's new trading relationships on inequality will be overshadowed in the short-run by the aftermath of the pandemic. So far, the pandemic has worsened inequalities between the rich and the poor. A lot now depends on how much better-off and older households spend down their additional savings as vaccines are rolled out through 2021: there is a close link between the spending patterns of the better-off and older households, and the health of the labour market for low-paid and younger workers. Meanwhile, the impact of Brexit on jobs might act to reduce inequalities if it hurts higher-paid sectors like finance and manufacturing, albeit by levelling down rather than levelling up. But any price rises on traded goods, whether due to tariffs on EU imports or additional costs of crossing borders, are likely to weigh more on lower-income households than better-off households.

But whatever is the long-run trading relationship with the EU, the combination of recovering from a pandemic and leaving the EU means we are inevitably going to see a living standards squeeze — and this after a truly awful decade for pay and incomes in the 2010s — and renewed public finance pressure. This may also reignite generational divides, given the scarring effect that entering the labour market in a recession has on young people's mental health and future prospects. More optimistically, though, we also know that, with the political will and public support, policies can make a difference, and that high levels of inequality are not inevitable.

LEVELLING UP

Arianna Giovannini

WHERE HAVE WE COME FROM?

Regional disparities are a longstanding feature of the UK and the country remains one of the most regionally unequal in the developed world. Strategies to 'rebalance the economy' have been at the core of successive governmental policy agendas for decades. And yet, none of these efforts has proved particularly successful. Regional inequalities are not only deeply entrenched, but they are also widening.

This, in turn, has created a geography of discontent that has found expression via resentment towards the 'status quo', especially in declining areas in former industrial regions and rural and coastal towns outside London. According to some, the vote for Brexit was a manifestation of these feelings. Similarly, the shift in political allegiances epitomised by the fall of the 'Red Wall' that helped the Conservatives to victory in the 2019 General Election could also be read as a clarion call from so-called 'left-behind' places.

WHERE ARE WE NOW?

Boris Johnson's Government has made 'levelling up the country' a central plank of its programme. While to some degree policy is always driven by politics, this is particularly true in the case of 'levelling up'. The Government relies heavily on, and needs to consolidate, its electoral gains in the North and the Midlands. To achieve this, it must persuade communities in these areas that it has delivered on its promises.

However, the conflation of political and policy motivations has affected the 'levelling up' agenda, leading to ambiguity over its meaning and purpose. First, it is unclear what disadvantaged areas should be 'levelled up'. 'Left behind' areas do not neatly correspond to a simple north-south dichotomy, nor do they conform to administrative and political boundaries. Second, simply focusing on regional or metropolitan scales misses important dimensions of inequality. Recent analysis shows that intra-regional inequalities are at least as deep as inter-regional ones, and areas of deprivation can be found within big cities as well as in small towns. Indeed, the highest levels of child poverty in the country are found only a few miles from Westminster. Finally, it remains unclear how to level up the country. 'Left behind' places are not identical and one-size-fits-all solutions simply will not work. This explains why, to date, the Government has talked a good game but its actions have not matched its rhetoric.

Covid-19 has thrown a further spanner in the works when it comes to levelling up. Many 'left-behind' areas face the double whammy of pre-existing socio-economic problems and being deeply affected by the pandemic.

Brexit renders this issue still more acute. Even if a deal has now been agreed, research suggests that the medium-term economic impact of Brexit will be more severe than that of the pandemic. And areas that rely more on unskilled and manufacturing jobs and/or have a workforce with lower levels of education look set to be hit the hardest.

In addition, the trade and competitiveness effects of Brexit will widen even further both inter- and intra-regional inequalities. The areas that voted to leave the EU broadly reflect the geography of 'left behind' places. But these are also the parts of the country with highest levels of dependency on EU markets for their economic development.

WHERE ARE WE HEADING?

Taken together, these factors make the task of reducing inequalities considerably harder than anticipated a year ago. The November 2020 Spending Review offered an opportunity for the Government to flesh out the details of its 'levelling up agenda'. Yet, the outcome was far from reassuring.

First, the Chancellor focused primarily on limiting the impact of the Covid-19 crisis — but plans related to the impact of Brexit were notably absent. Some details about the Shared Prosperity Fund (UKSPF) were offered, and Sunak claimed that over time this will match EU receipts, reaching on average £1.5 billion a year. However, the exact profile of the UKSPF will be determined only at the next Spending Review. Until then, the Government will only fund pilots for those areas 'most in need' — although it remains unclear how these will be selected.

Second, the new £4 billion 'levelling up fund' amounts to a drop in the ocean in terms of what is needed to rebalance the economy. Crucially, the fund targets primarily physical infrastructure with a focus on connectivity to/for big cities. But evidence suggests that investing in intra-regional connections and local transport such as buses, would be a more effective way to help revive the fortunes of 'left behind' towns and cities. Large-scale infrastructure alone will not deliver the change required.

And yet, a commitment to social infrastructure such as healthcare, education, and housing, which are vital for areas lagging behind, is still missing. Perhaps even more importantly, the fund will be managed by Whitehall, requiring support from local MPs while essentially side-lining councils, mayors and Local Enterprise Partnerships (LEPs). As with the Town Deals scheme, where funds were targeted on Conservative constituencies, this looks more like a recipe for pork-barrel politics than for any genuine devolution of power.

These points underline the extent to which party politics continues to drive the 'levelling up' agenda. They are also a warning sign that more centralisation is on the cards. But research has repeatedly emphasised that empowering and adequately funding local government, together with a coherent devolution strategy, are key to 'levelling up'.

Rebalancing an economy that was already deeply unequal before the twin shocks of Brexit and Covid-19 will not be achieved by resorting to the centralised approach that caused those disparities in the first place. Now that a Brexit deal has been agreed, the PM seems eager to make levelling up his flagship policy for 2021. But but if the Government is serious about this vow, it should adopt a new vision and start devolving real power to the subnational level, rather than keep hoarding it at the centre. It should also develop a comprehensive, long-term policy agenda that works for all people and places, avoiding knee-jerk solutions based on party political needs. Until this happens, levelling up won't be realised.

REGIONAL INEQUALITIES

Tom Forth

WHERE HAVE WE COME FROM?

In 1900, the UK was Europe's strongest economy. It was also the most regionally equal. Industry generated, almost everywhere, prosperity of a level never seen before. While other European nations had only a few heavily industrialised regions, the UK boasted at least two dozen world-leading towns and cities.

As industrial prosperity spread to all of Europe, and right across each country, the UK held its lead. But in the 1950s the continent started to catch up. First the economies of German regions overtook the UK. Then in the '60s and '70s many Dutch, Belgian, French, and Italian regions did the same.

The success of European integration played a part. The UK staying out of the EEC held it back. Meanwhile national solidarity was eroded by a particularly painful transition away from heavy industry.

In the '70s, '80s and '90s, good fortune and hard choices stopped the UK's relative economic decline. It joined the EEC and drove the creation of the Single Market. North Sea oil boosted both the economy and the treasury. Deep reforms accelerated the move away from an industrial economy with state-controlled industries towards a services economy with privatised ones.

WHERE ARE WE NOW?

South-East England benefitted most, and today it is among the strongest economies in Europe. Most of the rest of the UK trails well behind, with economies more like Spain than Germany. The UK is Europe's most regionally unequal major economy.

People in regions with weak economies can feel that their place does not pay its way even if high London rents and universal services like the NHS make living standards more equal. Living on someone else's money is no replacement for the pride that came with the strong economies and grand town halls of the past.

WHERE ARE WE HEADING?

Regional inequality is not inevitable. In Germany and the Netherlands it is low and has been falling for two decades. Convergence is possible.

The coal-rich region of Limburg in the Netherlands faced similar challenges to much of the UK in the 1960s. It took a different approach, fell less far behind, and has bounced back more quickly. Today Limburg's economy is as strong as South East England's.

Limburg enjoyed large national investments in skills, transport, research & development, culture, and institutions, often delivered on the ground by strong provincial governments. In the 1970s the Dutch government moved many state functions to the region including the Dutch office for national statistics. The UK would emulate this three decades later in South Wales. But at least as important were hundreds of local decisions and investments of all types made in Limburg.

Germany's East enjoyed thirty years of similar but larger investment as it recovered from the failure of communism.

Today both regions have stronger economies than North England, the Midlands, Wales, or Northern Ireland, places where investments in growth on a similar scale were never tried. Fast electric trains connect Leipzig, Dresden, and Chemnitz, three Eastern cities enjoying enormous German investment in research and cultural institutes. The same cannot be said of Leeds, Manchester, and Sheffield nor Birmingham, Nottingham, and Leicester.

The EU's role in regional economic convergence is often exaggerated. The Single Market has boosted growth almost everywhere, but there is little evidence that this has driven convergence. EU spending is often claimed by supporters to be a significant driver of convergence. It is not. In the most heavily supported regions in western Europe, EU spending rarely tops up national spending by more than one or two per cent.

Reducing regional inequality within countries is the task of national governments, not the EU. But the legacy of EU funding is still important to the UK. EU funding was unusual because its spending, especially through the regional development fund, was guaranteed in the long-term, often controlled locally, and explicitly aimed at achieving regional convergence.

Since the UK left the EU it has adopted similar language, but not yet expressed a similar strategy. We have the undefined objective of 'Levelling Up', a UK Shared Prosperity Fund that barely exists, and both a Towns Fund and Town Deals with no clear objective. In each case the amount of money is far too small to have much hope of success. They are just like the dozens of similar schemes announced over decades in Westminster that were never likely to achieve regional economic convergence.

Could we succeed now where we failed in the past? We have the advantage of knowing that success is possible. Since voting for devolution in 1997, Scottish public investment in growth has kept pace with London. The economy and productivity of Scotland, focused on its larger cities and advocated for and controlled locally, has kept pace with South East England while the rest of the UK has fallen behind. What worked in Limburg and the East of Germany can work here.

But do the rest of the UK's lagging places want to emulate these successes? In Wales and Northern Ireland the support for devolution suggests that the answer is yes. Strong institutions argue for and manage greater investment in growth. But England's trailing places seem less keen. Metro Mayors were imposed only after regional assemblies and city mayors were rejected.

Without strong institutions to push back, the UK Government in Westminster continues to expand and cut local government spending. Investment in the things that stimulate economic growth continues to be higher in South-East England, where the decisions are taken. For example, an increase in research and development spending large enough to boost the UK's lagging regional economies seems likely to be assigned centrally under the same formula as today, which favours London.

A commitment to invest more in skills, transport, research and development, culture, and institutions in struggling regions than in prosperous ones would decrease regional inequality in the UK, especially if this additional spending were to be focused on cities. EU membership posed very few barriers to doing this. Brexit thus changes very little. On regional inequality, the UK's choice remains its own to make.

EMPLOYMENT

Danny Dorling

WHERE HAVE WE COME FROM?

Unemployment has not always been with us. In fact, the term was hardly used at all before 1900, and that was because the concept of being unemployed only began to take form in the early 1880s depression. Before then there were paupers, who were often assumed to be work-shy and lazy. Unemployment scarcely exists without unemployment benefits of some kind. The word unemployment is most mentioned in books scanned by Google in 1936 and 1984; the heights of the great depression of the 1930s and the great recession of the 1980s.

Employment is not the opposite of unemployment. Many adults can be neither employed or unemployed. They can be retired, caring unpaid, studying, or sick. Also people can be underemployed, or entirely dissatisfied with their work. By 2020 the majority of children living in poverty were being cared for by parents in poorly paid work which was not the case in the 1980s.

WHERE ARE WE NOW?

Towards the end of 2020, unemployment and redundancies were on the increase, as ONS reported in November. At the very same time, the number of employed people living in the UK who had been born abroad began to fall rapidly; by 717,000 between March and September. At first commentators thought that such a rapid change must be due to changes in how the statistics were recorded, but then they realised that the pandemic had led to an exodus. The majority of those leaving were EU citizens who had been in employment before April. People who were unemployed were more likely to stay, but in total, 915,000 adults who were not born in the UK left the UK between April and September. Of those who stayed, 88,000 more were unemployed.

WHERE ARE WE HEADING?

Employment levels, and the quality of jobs, are partly a political choice. It is not 'the market' which mainly determines how many people are in work, but the extent to which people are encouraged to be in paid work or not. A government can decide to make it more or less attractive to employ people. A highly progressive tax rate can make it more attractive to employ more people at a good wage, rather than fewer at a higher wage, resulting in an increase in overall employment rates.

Governments that impose punitive sanctions on those deemed not trying hard enough to find work can force the unemployment rate down. Governments can directly create employment themselves through jobs paid for by the state. Within Europe, this can be 50% higher in some countries as compared to others. The diagram below shows the extent of variation in unemployment rates within Europe and how the UK had chosen (by 2019) to be at one extreme of that distribution, copying the USA by ensuring that as few people as possible resorted to unemployment benefits. Many took inadequately paid jobs, many had to do multiple jobs, many in the UK did not like their jobs.

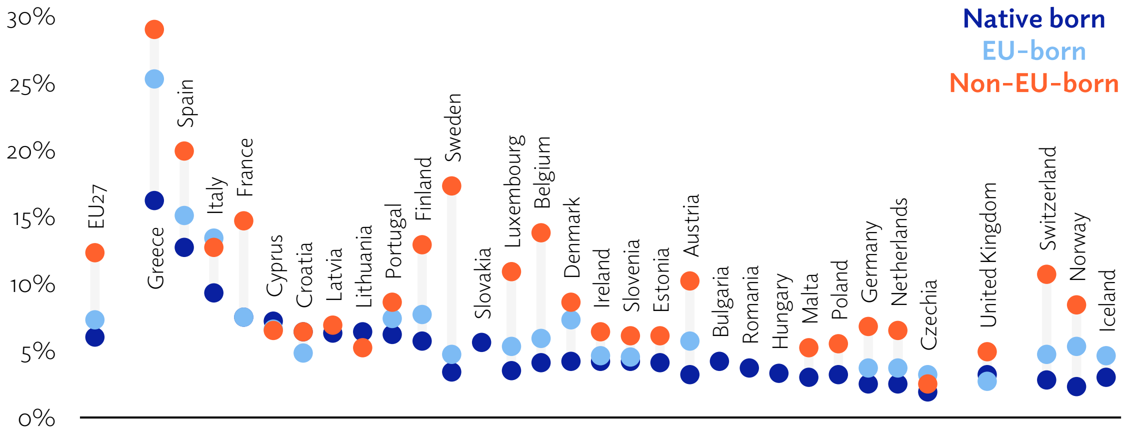
What may happen next? Often the most sensible predictions are also the dullest and most depressing. The UK could continue along the route it has taken in recent years. Work becomes more mandatory and more precarious for the majority. Unemployment benefits are further reduced (in real terms they are already half what they were in the 1970s). Millions of people in the UK are forced to take even more demeaning work, increasingly acting as servants for the better-off: delivering take-aways, cleaning their homes, walking their pets. Inequality rises.

I do not think the above scenario will play out. This is because of the 2020 pandemic. Rather like the second world war, it has weakened right-wing devil-take-the-hindmost politicians. Once you have to ask everyone to be 'in it together', once you rack up an enormous bill to pay for the war or pandemic, once you start to use the language of having to make individual sacrifices for the greater good, it is then very hard to return to a rhetoric of there being no such thing as society — just individuals and their families. A pandemic shows just how false such thinking is.

UK unemployment has been low compared to the EU27

UK IN A CHANGING EUROPE

Unemployment rates among 20-64 year olds in the EU, EEA and UK by country of birth, 2019.



Source: Eurostat (online data code: lfsa_urgacob).

Note: EU-born and non-EU-born figures unavailable for Bulgaria, Hungary, Romania, Slovakia. EU-born figures unavailable for Latvia, Lithuania, Malta and Poland. EU-born figures for Croatia and Slovenia have low reliabiality. Non-EU-born figures for Croatia, Lithuania, Poland and Czechia have low reliability.

What I think is more likely is that the UK fills up with even more of its 'ex-pats' returning; especially the older ones. Young, cheap and efficient workers leave these shores because they do not have equal rights, because the pound drops even further, and as their prospects dwindle. The UK middle-class is squeezed; their graduate children have no work of the kind which a (now very expensive) university degree was supposed to deliver. Above all else there is a need to take back control from those who actually took it — the richest people in Britain who took a greater share of income in the UK than that group takes anywhere else in Europe.

The UK will level out rather than level up. Taxes will rise, especially for the better-off. Government will have to create jobs. The 'fifth option' — to not be forced into paid employment — will return, perhaps through tentative steps towards a universal basic income, mimicking the tentative steps towards paying unemployment benefit of just over a century ago. The stigma of having to rely on benefits will decrease. And, just as has happened several times before in British history, those at the top will know not to ask for a pay rise and those at the very top will accept permanent reductions in their pay — as the FTSE 100 CEOs already have started to, albeit only slightly so far. And so Britain outside the European Union will slowly begin to look ever so slightly more like an average employment/unemployment level European state.

HOUSING

Ben Ansell

WHERE HAVE WE COME FROM?

Up until the past few years the housing boom reinforced existing patterns of class division. From 1997 to 2010, house prices were a pretty good predictor of how constituencies voted. In 1997 the 108 constituencies in England with the lowest house prices all voted Labour. Labour did win some expensive London constituencies both then and now but outside of London, in 1997 the Conservatives won 43 of the 50 constituencies with the highest house prices, even during a historic collapse. This pattern where wealth structured the vote continued all the way up through 2015. In England and Wales, about thirty percent of the variation in Conservative electoral success across constituencies could be attributed to house prices between 1997 and 2015.

WHERE ARE WE NOW?

That is emphatically no longer true. If we again take the 108 English constituencies with the lowest house prices, we find 39 of these voted for the Conservatives in 2019. House prices explain precisely zero of the Conservative vote in Boris Johnson's victory. What happened? Brexit. Constituencies with high house prices emphatically voted Remain in 2016, those with cheaper houses voted Leave. House prices explain around forty percent of the variation in the Brexit vote. This is not just north versus south — London had both the highest variation in house prices and in Brexit voting of any region. What's more, as data from the British Election Study shows, this relationship is particularly pronounced among homeowners.

The referendum cut completely across traditional patterns of wealth politics as the Conservative party shifted to the party of Leave. Combining the traditional politics of wealth and this new Brexit effect, constituency wealth is no longer related to voting patterns. Conservatives and Labour now represent the full distribution of wealth in the country.

Housing policy in the UK has shown rather more political consensus over the past few decades than other key areas from immigration to welfare spending to Brexit. From the 1990s onwards the Conservative and Labour parties spoke with one voice — rising homeownership is good and rising house prices are good.

In the case, of homeownership, the Conservative Party had of course since the 1980s advocated growing homeownership. As my own research shows, expanding homeownership in a climate of rising house prices had ancillary benefits for the Conservatives, since homeowners with appreciating assets tend to become less supportive of high taxation or social spending. But the arrival of New Labour in 1997 didn't lead to a reversal not least because Tony Blair sought to capture the support of swing voters, including those ex-council tenants who had moved to the Conservative Party. Rising house prices also benefited Labour electorally, inasmuch as it underpinned a booming economy and a sense of growing national wealth. Labour did try to counter concerns about affordability through the Barker Review of housing supply, but the unit created to act on its recommendations didn't survive Labour's loss in 2010.

Homeownership growth eventually creaked to a halt and begun to reverse. And though the crash of 2008 reduced house prices, in many parts of the country, especially the South-East, this was only temporary. Goosed by the Cameron government's Help to Buy scheme, the tax favourability of Buy to Let, and quantitative easing from the Bank of England, house prices have risen continuously since 2012, barely put off by the Brexit shock and — so far — fairly robust even to the coronavirus. In the meantime, housing supply has remained torpid.

Low interest rates mean that even as prices rose, mortgage payments remained steady. But putting down a deposit to get onto the housing ladder has become ever more challenging. According to the Resolution Foundation the time it would take a 30-year-old to save for the typical first-time buyer house has increased form three years in 1986 to around twenty years. Young people locked out of ownership have to move to the private rental market, which has doubled from ten percent of people in 1990 to twenty percent today. And whether they rent or (less often) own, millennials are paying much higher proportions of their disposable income on housing — almost twenty-five percent on average, as compared to under ten percent at the same age for those born in the late 1940s.

However, as in most other wealthy countries, the majority of Brits are homeowners. They are the beneficiaries of unaffordable housing since once you own a property any further price rises increase the value of your house but don't increase the costs you have to pay for it (unlike in America, property taxation in the UK doesn't respond to annual price changes). YouGov's polling in 2015 found that the tax considered 'least fair' in Britain was inheritance tax, swiftly followed by stamp duty. And building new houses runs into the buzzsaw of vehement local opposition.

WHERE ARE WE HEADING?

Boris Johnson's government, perhaps because it is less politically dependent on wealthy homeowning constituencies than previous Conservative governments, has promised a complete overhaul of planning laws that could lead to more construction. But the plan has already met massive internal opposition. What's more, they are hardly the first party to claim a planning revolution is on the way — most have promised this and then balked at delivering it.

More generally, a levelling-up agenda could boost the value of housing in the North and Midlands while Brexit and the coronavirus weigh down house prices in London and the South-East. That kind of regional recalibration might improve national labour mobility and productivity and counter some of the resentments of 'left behind' regions that have shaped our current politics. But that relies on beating the combined forces of NIMBYISM, easy credit, and landlord interests that have undermined previous attempts to reform the British housing market. I wouldn't bet my house on it.

ECONOMICS AND POPULISM

Mark Blyth

WHERE HAVE WE COME FROM?

Despite Covid-19 woes, while there has been a narrowing in the polls, there has been no collapse in support for the Conservatives, the party that institutionalized populism through its embrace of Brexit. Getting the latter 'done' will not auger the end of populism in the UK. To see why, we need to consider the economics that drives it.

When populism burst onto the scene in 2015, some saw it as primarily an economic phenomenon. Thirty plus years of rising inequality, the shifting of risk from firms and states onto individuals, and the 'payback' from those most negatively affected from bailing out the financial system in 2008, all combined to delegitimise incumbent politicians and their established parties.

But there was a rather obvious flaw with such an explanation. Those most effected by rising inequality, the poor, focused not on inequality in their grievances, but on issues such as immigration, and looked for solutions to the populist right rather than the left. Moreover, those who voted for the populist right were often relatively wealthy.

Into this void a cultural understanding of populism quickly gained ground that stressed variously, a loss of status among the white working classes, a rise in authoritarian sentiment in populations at large, and the return of overt racism in politics.

More recent work has however pushed back, arguing that you can hardly explain a rise in racism by pointing to a rise in the number of racists. Something else has to be causing both, and the prime suspect remains changes in the economy.

WHERE ARE WE NOW?

What generates populist voting in the UK and elsewhere is the relative decline in income over a long period of time. 'Places that don't matter' have been prone to support populism across the western democracies. And what amplifies this effect is when native young workers leave that area and the local demography similarly shifts downwards: this is reflected in lower local house price growth, which has been shown to be a strong predictor of support for Brexit. From East Germany to the East Midlands 'on the skids plus very old' is the key predictor of populist voting.

Other factors amplify these effects: the degree of import penetration into an area (how trade displaces local production); whether the area is GVA (gross value added) positive (it adds to GDP) or lives off central transfers (most of the UK outside of London is GVA negative); whether such areas suffered income losses due to identifiable central government policy (George Osborne's 'bedroom tax' correlates highly with support for Brexit); and whether such areas combine sustained income losses with high social capital (which allows for the transmission and amplification of grievances, and thus populist mobilization). Anyone reading research on the UK's 'Red (now Blue) Wall' constituencies will recognize how all this applies to an awful lot of them.

WHERE ARE WE HEADING?

So, if these 'it's the economy — stupid v.2.0' set of arguments are plausible, what does it tell us about life after Brexit?

The first implication that follows is that, without significant government support, the costs of Brexit in any form will be felt the most by the most populist communities. For example, the UK imports two thirds of its food and if the cost of food rises due to tariffs, that is equivalent to a real wage cut to consumers who are already experiencing income declines.

But will that support be forthcoming? We can expect the government to buffer those costs among those it relies upon to win elections — old people — who are already most likely to be populists. Meanwhile, richer consumers can either better afford the tariff, or they can more easily switch to import substituting consumption. But it will be hard in a centralized country like the UK to finetune redistribution in such a way as to support Brexit-voting areas without also compensating the urban areas that largely voted Remain. Whether the creation of the Towns Fund, which attempts to do just that, will be enough will be interesting to see.

Second, the UK's growth model of debt-powered consumption, dependent on finance, and high-end services, is likely to continue, given the failure of manufacturing exports to pick up since the Brexit-induced devaluation of sterling. But it is far from clear that this is good news. Recent research has pointed out how the UK economy is increasingly dominated by rent-generating sectors, where the control of an asset (mobile phone towers, a valuable brand, land, and property) that earns income for those who own it crowds out investment in more productive sectors. The resulting decline in investment and productivity ultimately means more pressure on wages over time.

Third, we began by asserting that Brexit will end, and in the sense of a new set of economic realities being imposed on the country. But will it really end politically? Given that there are real costs to any form of Brexit, and the supposed benefits have so far at least proven illusory, any resolution may create incentives for politicians to revisit this issue, again and again, arguing that while we need Brexit, we didn't need this Brexit. Nigel Farage is an obvious example and some Conservatives — those that don't simply move on to other issues — may well join him, if only to head him off, once again, at the pass.

Given that the economic factors powering populism in the UK will be heightened rather than reduced by Brexit, we should expect populism to persist in its wake, and indeed to keep the politics of Brexit front and centre for the rest of this parliament.

The perennial threat to the Conservative party coming from the Faragist right will likely revive in the event of post-Brexit disappointment, whilst the growing threat of a more centrist Labour party will push the government to emphasize its nationalist credentials to hold on to the Brexit coalition. There will be an 'after Brexit,' but the economics of populism suggest that the politics it helped unleash will keep it alive long after the UK has left.

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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