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Commentary

Uncertainty Kills the Cake: Economy and Society After Brexit and Beyond

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Abstract

This article discussed the key political issue limiting a genuine assessment of Brexit, in particular the divergence between the political narratives around migration and the facts regarding the actual economic impacts of migration, and the economic effects of labour vs. capital mobility. Moving forward, the article discusses political options regarding Britain's relationship with the EU suggesting membership to the Customs Union and Single Market. The article concludes with an alternative building on a green, purple, red new deal for radical abundance to challenge the current status quo and pave the way for a democratic discussion on Britain' rejoining the EU.

Keywords: *Brexit, inequality, migration, capital mobility, Customs Union*

Introduction

Britain's economic and social problems such as deficiency in physical and social infrastructure, low private and public investment, weak wage growth, high intersecting inequalities in terms of class, gender, and race, and across regions, that paved the way to Brexit in 2016 were not caused by the EU. However, leaving the EU has made them worse rather than contributing to a solution (Onaran, 2023). Of course, the economy has suffered from multiple other shocks since Brexit such as the pandemic, Russian invasion of Ukraine and the consequent cost of living crisis, which were experienced deeper in comparison to some other high income economies due to weak state capacity and particular policy mistakes in Britain. It is difficult to decompose the effects of these different factors on the economy, but it is fair to say that Brexit did not help, rather made supply shortages, e.g. in food and drugs or labour worse. Particular vulnerabilities due to years of austerity implemented by the 2010-15 Conservative-Liberal democrat collation government, historically low investment in both physical and social infrastructure, a highly financialized economy, high debt levels of households and SMEs and Brexit hurting both investment and international trade with the EU -the most important trade partner, caught the country unprepared to deal with the pandemic and the cost of living crisis.

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Brexit has left Britain with a very uncertain future, and it is not the best starting point for progressive transformation. "Lexiteers" (e.g. Larry Elliott, 2023) best assessment is that it has not been a "disaster." This is not good enough a justification for those who have campaigned strongly for Brexit. There is no point in trying to downplay the negative impact of Brexit on grounds that not all hell broke loose.

BoE Monetary Policy Committee member Haskel (2023) estimates that the UK has lost about 1.3% of GDP worth of business investment due to Brexit. Elsewhere, the BoE (2023) outlook estimates that the gap between the UK's current level of trade and its trajectory before the UK formally left the EU in 2019 would reach 3.2% of GDP by 2026.

Uncertainty about access to the European single market have already hit private investment in the UK and is likely to have further negative impacts on investment in the future. Indeed, this negative impact on private investment is the biggest economic cost of Brexit.

The hope of offsetting the impact of loss in exports to the EU via free trade agreements with non-EU countries has been wishful thinking, as distance matters for trade, even in services as much as in manufacturing. The UK's exit from the EU's single market and customs union in January 2021 led to an immediate, sharp drop in both exports and imports with the EU for the average firm (Freeman et al., 2024). The effect was worst for the small and medium enterprises (SMEs). Many exporters and importers stopped trading with the EU entirely, while the largest firms could cope. Freeman et al., (2024) estimate that leaving the EU reduced worldwide UK exports by 6.4% and worldwide imports by 3.1%.

Following this introduction, section two focuses on the key political issue limiting a genuine assessment of Brexit and discusses the divergence between the political narratives around migration and the facts regarding the actual economic impacts of migration. The section also briefly compares the economic effects of labour vs. capital mobility. Section three looks forward and discusses political options regarding Britain's relationship with the EU suggesting membership to the Customs Union and Single Market. The section concludes with an alternative building on a green, purple, red new deal for radical abundance to challenge the current status quo and pave the way for a democratic discussion on Britain' rejoining the EU.

Politics vs. Economics of Migration

Migration is still at the crux of the deadlock in tackling the post-Brexit problems with the EU. Some of the expected negative effects of Brexit via the migration channel has been mitigated by the fact that total net-migration did not fall due to the rise in immigration from outside the EU (Portes, 2025 in this special issue). This has led to a positive impact on the supply side except during the pandemic when Britain experienced more severe labour shortages due to Brexit. Some migrant workers from the EU who returned home during the lockdowns and have never returned, which add to labour shortages -an outcome partly related to the migration policies after Brexit. In very diverse professions ranging from health and social care, to science, engineering, food, agriculture, or retail, firms experienced labour shortage. The rise in migration from outside Europe in the following years came with serious issues with migrants' rights at work, e.g. in care sector and agriculture with migrant workers at greater risk of modern slavery after Brexit (Thiemann et al., 2024).

The political impact of Brexit has been much bleaker than the economic one. Brexit "victory" has flourished in the same political environment which has been a fertile ground for the rise in the popularity of one nation conservative discourse and xenophobic right discourse. While there was a brief moment under the illusion of "taking back control," the opinion polls indicated that people have moved on from migration as the top issue on their list, political parties on all sides of the spectrum embraced the "migration problem." The racist riots in summer 2024 indicates the explosive risks of not tackling the anti-migrant discourse with alternative policies to address the root causes of the discontent of the people.

The politics vs. economics of migration present rather different pictures. Rising inequality was a strong concern for people who voted for Brexit, but our recent research (Onaran and Guschanski, 2016; Guschanski and Onaran 2018) shows that migration has not been a cause of rising inequality, and it does not have a negative impact on either the share of wages in total income or real wages even in the service sectors predominantly hiring low-skilled labour, which also employ a large share of migrants. Inequality increased because of the increased fallback options of capital related to increased imports (in particular import of intermediate inputs, i.e. offshoring), capital mobility in the form of outward FDI and financialisation, along with declining fallback options of labour related to the decline in collective bargaining power of trade unions, deregulation of the labour market, zero hours contracts and false self-employed contracts, austerity, housing crisis and rising household debt. This is not a new phenomenon but a process that gained momentum since the 1980s. The quick conclusions related to the impact of immigration on inequality, without adequately decomposing the impact of all other factors, misses the point that correlation is not causation. The simultaneous rise in immigration and inequality does not mean that the former causes the latter (Onaran and Guschanski, 2018).

Mostly the debate about migration is taking place without any reference to a progressive approach to trade. In principle free trade as such without conditions is not what progressives praise. We need to avoid asymmetry between trade and labour mobility. Migrants are visible to the people, but imports or relocating firms also cause job losses, but this is less visible than migrants. The problem is not labour mobility but uncontrolled capital mobility, the asymmetry between the options and power of labour and capital, exploitative employers, unorganized migrants as well as local workers, and lack of public spending in infrastructure to mitigate the impact of rising population. Peoples' concerns about their living and working conditions are real and understandable, but the real solution to these concerns requires tackling the real causes of inequality and disempowerment. If the balance of power shifts in favour of labour and unions have a strong voice, when migrants come to work, it is possible to set the terms and conditions under which they work (Onaran and Guschanski, 2018). Conversely, if migrants will not be allowed to come, firms will go to where cheap labour is in the current situation free with capital mobility and low wages elsewhere in Eastern Europe and the world. It is a lot harder to set the conditions of work abroad to avoid a global race to the bottom in wages than organizing both local and migrant workers at home.

Previous research has shown that migration is related to increased innovation and is therefore positively linked to productivity in the UK, and that migrants to the UK are higher educated than the average British worker (Rolfe, et al. 2013; Saleheen, and Shadforth, 2006; Huber, et al. 2010). Even migrants with low skills do not always substitute domestic labour, if their labour supply as well as demand is increasing the overall demand for labour in the economy (Onaran and Guschanski, 2018). More migration need not lead to lower wages, lower wage share and worse working conditions if unions and regulations are strong and the positive benefits of migration on productivity as well as tax revenues are shared across the country.

What Can Be Done?

Brexit has definitely led to a smaller "cake" and intensified the distributional conflict. A Brexit deal that minimizes damage would have required minimum distortion to the relationship with Europe, which in turn would require membership to the customs union as well as access to the single market via membership of the European Economic Area (EEA). This option would involve the UK to comply with the Single Market regulations, and implementing new ones, despite being unable to influence their content, free movement of people and continue to make some contributions to the European Union budget. Our partners in the EU, including the progressives, refused to split four freedoms of movement of goods, services, capital and people. In that sense, Brexiteers could not "have their cake, and eat it." Sadly, there is no time for schadenfreude as we need to navigate the structural issues and fractures deepened in the post-Brexit Britain.

A return to neither the single market nor the customs union is regarded as an option by the Labour government currently with fear of being blamed by reversing Brexit. Conservative Party majority object to both the single market and customs union due to their own ideological convictions. While Liberal Democrats may campaign for membership to a customs union with the EU, this is unlikely to set the political tone in the short-run.

Any attempts by the government to improve the relationships, e.g. via mutual recognition of professional qualifications, improved touring opportunities for musicians, or the UK attending the EU Foreign Affairs Council is likely to be welcome only if the UK starts making some "voluntary" contributions to EU budget and align with the EU legislation. EU may also push for concessions on the movement of people, which fuels the government's fears of being dubbed as being loose on migration. This fear is behind the UK government's objection to the EU's proposals for a youth mobility scheme. A consequence of this miscalculation by the government is the decline in European students at the UK universities, which add to the financial stress at a substantial number of them.[2]

In the short run, from an economic perspective I would advise membership to the customs union as well as the European Economic Area (EEA). In the medium run my advice is a radically different alternative approach to this stalemate by addressing the root causes behind people's discontents that paved the way to Brexit by creating an environment of abundance and empowerment, and then reapplying to the full EU membership after a decade or more.

[2] Accepted applicants for undergraduate study in the UK from EU countries declined by 50% in 2021/22 and fell further in the following two years to its lowest level since 1994 (Bolton et al., 2024).

How to Create an Environment of Abundance?

Post-Brexit Britain is yet to deliver for the working people and address the concerns of those who voted for Brexit. This requires an appropriate policy mix combining industrial policy, fiscal policy, labour market policy and international trade policy with complementary and consistent aims.

In the medium run the multiple crises require a paradigm shift towards a needs-based approach to macroeconomic policy, in particular fiscal policy, addressing the deficits in the care and green economy, avoiding competition between urgent social and ecological requirements.

Addressing the grievances of people that led to Brexit, the structural problems of Britain, cost of living and energy crises, as well as reversing the ecological crisis requires a massive and urgent mobilization of substantial amounts of public investment in the green economy, i.e., renewable energy, public transport, housing, energy efficiency, sustainable organic plant-based agriculture, forestry, recycling, and repair. The long-standing deficits in the care economy are no less urgent, and are now behind the labour shortages, and the public provision of high quality universal free basic services in social care, health, childcare, and education is key to tackling both the care deficit and inequalities by creating decent purple care jobs while providing the much-needed services. The scale and the urgency of the spending needs to address both deficits in the green and care economy and the public good character of these services requires a large public spending programme, which cannot be substituted by private investment based on profit motive. There has never been a better moment to make the case for creating permanent public sector jobs with decent wages to build a caring and sustainable society based on a green, purple, red new deal.

Fiscal and industrial policies have to aim at multiple targets of creating decent jobs with decent incomes, a sustainable and equitable economy, and decreasing dependence on imports.

A substantial public investment programme linked to industrial policy targets need to ensure adequate supply of health, education, child care, social care, and housing to address regional inequalities and any pressure on public services is mitigated.

Labour market regulation and new legislation to strengthen the trade unions to level the playing field is the key to manage globalization in a way that it delivers for all the working people. This requires redefining corporate governance to increase the voice of trade unions and have full collective bargaining coverage including also those with non-standard working times, as well as ending zero hours contracts making sure that all employees, migrant or native, have contracts with guaranteed minimum hours, ending practices of employing dependent employees as self-employed, ensure equal rights for all workers including the migrants. These will put an end to conditions of work that give rise to a perception of native workers being undercut by migrant workers, as in reality it is the unchecked employers in a neoliberal labour market and not the migrants to erode the working conditions. Being honest about the positive impact of migration and how labour markets need to be regulated to make work pay is likely to be more realistic in the long run rather than accepting the scapegoat rhetoric which is not based on facts and claiming that decreasing migration would solve the problems of the working people in Britain. Obviously there are also some simple measures that need to be taken care of when it comes to compiling the statistics about migration; e.g. a separate category of migration statistics should be reported which exclude overseas students in the headcount.

Labour standards and protection for workers and the environment should also be at the core of any international trade agreements. Similarly, any deals for Foreign Direct Investment inflows should come with terms and conditions consistent with industrial policy priorities, e.g. negotiating for joint ventures and minimum local content, and labour standards. This is a very different attitude of globalisation compared to the investor dispute schemes, which are aimed at protecting the multinational corporations against the public and workers, as is the case in TTIP.

We should not let the Brexit to stand in the way of international cooperation. As part of a European alliance of progressive forces, we can work for more coordination of investment, social and labour market policies, regulation of capital markets and finance, tax coordination, ecological standards far better than we could on our own. Negative effects of openness or global integration are not an unavoidable destiny, rather an outcome of policies and institutional factors. Openness and regional integration can be managed in a way to benefit both the richer and poorer partners if trade and investment flows are designed as part of an egalitarian international economic policy. There is a lot more scope for international cooperation, in case the coordination failure can be overcome.

How to Fund a Green, Purple, Red New Deal for Radical Abundance?

The social and ecological needs, and the urgency of an effective response to the multiple crises of inequalities, care and climate change requires the use of all tools of policy.

Public spending even without any increases in the tax rates, is partially self-financing, thanks to the strong multiplier effects (Onaran, Oyvat, Fotopoulou, 2022; 2023; Onaran and Oyvat, 2023). However, increase in economic activity and thereby tax revenues without a change in tax rates will finance only half of the public spending in the UK according to our estimations (Onaran, Oyvat, Fotopoulou, 2022; 2023).

Public borrowing to fund the deficit can be justified given the effects on productivity and sustainability, or the expected damage to the ecology, society, and economy, if investment needs are not delivered on time.

Monetary policy should accommodate fiscal policy for public investment in the care and the green economy. The BoE's mandate should include a dual target of full/high employment, and an inflation target high enough to be consistent with the former, moving within a band, with a higher weight for employment (Onaran, 2022).

National and regional investment banks working in cooperation with the government and central bank are also crucial for funding large scale public infrastructure projects.

However, eventually the large scale of spending needs requires also an increase in the degree of progressivity of taxation of both income and wealth. A progressive scheme of wealth taxation, aiming especially at the top 1% of the wealthiest households, rather than a limited one-off windfall tax targeting only one sector or increasing tax rates merely on dividends & capital gains, is particularly important after the Great Recession, quantitative easing by the BoE, and the pandemic which has increased wealth inequality. Wealth is more unequally distributed than income in aggregate and in terms of gender gaps. Wealth grows exponentially; returns are higher the higher wealth is; composition is skewed towards financial and business wealth on top the distribution. Progressive taxation of wealth is essential to prevent excessive wealth concentration. According to our macro-econometric modelling for the UK, contrary to common wisdom, progressive wealth taxes, and the consequent decline in wealth inequality is good for private investment, because it tames speculation, financialisaton, market concentration, and barriers to entry (Onaran, Oyvat, Fotopoulou, 2023). Thereby, wealth taxation has very strong positive impact on output, employment of women and men and the budget balance in the UK.

Tippet, Wildauer, Onaran (2024) proposes a progressive scheme starting with a high threshold targeting the top 1% wealthiest households, including all assets to limit avoidance, exemptions, and reliefs. The advantage of this is that only a small number of households (about 260 thousand) are to be valued and is easier to monitor. The proposal starts with a marginal rate of 1% for the top 1% (households with net wealth > £3.4 million), a marginal rate of 5% for the top 0.5% (above £5.7 million), and a marginal rate of 10% for the top 0.1% (above £18.2 million). It is estimated that this scheme can generate £70-130 billion a year, i.e. 9-16% of total tax revenues taken by the UK (after administration costs and 15-50% tax avoidance/evasion is accounted for). To put things in historical context, the average effective tax rate on wealth currently is less than 1% of wealth, while it was about 2% in 1970.

The coordination of fiscal and monetary policies with the labour market policies eases the funding pressures as higher wages lead to higher tax revenues (Onaran et al., 2023). Strong, well-coordinated trade unions, equal pay legislation, increased job security, permanent contracts, higher minimum wages, and an improved and equitable parental leave are good for an equality-led sustainable development.

At this crucial juncture of food, energy and ecological crises international policy coordination is vital. Firstly, the effects of public spending are stronger and negative effects on the current account balance are moderated, if policies are implemented simultaneously in all the countries (Obst, Onaran, Nikolaidi, 2020). Sadly, Brexit makes it harder for the UK now to lead this coordination across the EU, but not all is lost.

Finally, the multiple crisis opens space to rethink not just the role of fiscal policy but also public ownership in the care and green economy and finance, national coordination in combination with collective, municipal, and cooperative ownership and democratic participatory planned decision making.

It is in this context of an environment of abundance and empowerment the root causes behind people's grievances that lied behind the Brexit vote can be addressed adequately, and a genuine democratic discussion for reapplying to the full EU membership can be launched in the medium run, e.g. after a decade. In the short run, it is still is advisable to minimize the damage of Brexit via membership to the customs union as well as the European Economic Area (EEA).

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