# Brexit: Hopes & Dreams

*by Angelo Desouza*

- Expectations of Brexit
- The reality of Brexit
- What is going to be done to fill its void

# Brexit: Hopes & Dreams

*Eight years ago, the UK held a referendum to decide whether to remain in the UK, with a 51.9% majority vote to leave.*

*But what expectations of this decision influenced so many Britons to want to leave such an exclusive club, and did their aspirations come true?*

## Executive Summary

**Expectations of Brexit** were marked by optimistic forecasts and bold promises. Proponents championed reclaiming £350 million a week for the NHS, instituting a stringent Australian-style points-based immigration system, and initiating seamless global trade deals. The narrative was imbued with a vision of the UK regaining sovereign control over its laws, borders, and economy. It posited Brexit as a strategic move to extricate the nation from the EU's bureaucratic grip and re-establish its global standing.

**The Reality of Brexit,** however, starkly contrasts these lofty aspirations. The anticipated NHS windfall remained elusive, with no direct fiscal benefits materialising post-Brexit. The revamped immigration system, while operational, did not yield the expected reduction in net migration. Instead, it saw a shift with a rise in non-EU immigration, thereby complicating the labour market dynamics. Economically, the UK grappled with a deteriorating trade balance, especially with the EU, where exports plummeted, further straining the already contracting GDP. The article meticulously analyses the economic indicators, trade statistics, and immigration data, revealing a landscape fraught with challenges that undercut the initial Brexit promises.

**Filling the Void** discusses the UK's strategic conundrum in redefining its relationship with the EU and the broader global market. The analysis pivots around the feasibility of rejoining the European Economic Area (EEA) or leveraging new trade agreements to ameliorate the economic downturn. Desouza scrutinises the implications of such moves, considering the political, economic, and social ramifications. The section also contemplates the practicalities of enhancing the UK's service sector and mitigating the skilled labour deficit through more nuanced immigration policies.

# Introduction

## The Start of Brexit

Former Prime Minister David Cameron pledged to hold an "in-out" referendum on the UK's membership of the EU as part of the Conservative Manifesto for the 2015 General Election. Following the referendum, Cameron resigned, believing the "Country requires fresh leadership to take it in this direction."

In March 2017, Article 50 of the treaty on the EU was invoked, officially starting the two-year count to the UK formally leaving the EU.

## The Promises

The infamous Red Bus boldly advertised that the £350 million a week sent to the EU would fund the NHS. Further claims of being able to develop tighter control over UK immigration by the leave campaigners with the proposed introduction of an Australian-like point system to ensure that economic migrants meet specific requirements. Concerning the NHS, migrants would be required to financially contribute to the NHS before receiving the benefits of living in the UK.


Figure 1: The red bus advertising the pro-Brexit campaign

Moreover, frictionless trade and the arrival of new global deals would fill the gap left by Brexit. The Conservative party noted that the new relationship with the EU would allow for a regain of control over trade policy. The UK would be out of the single market and customs unions, and the power held by the European Court of Justice would be removed entirely.

Under the Conservative Party's plan, the agricultural sector will experience a significant shift. Farmers will be liberated from the constraints of EU bureaucracy and transition to a system that rewards 'public money for public goods'. Additionally, the annual quota for the seasonal agricultural workers scheme will see a boost from 2019. In the realm of fisheries, the plan ensures that the UK will regain control of its waters and maintain funding upon leaving the Common Fisheries Policy.

Moreover, the Conservative party's plan includes robust support for small and medium-sized enterprises (SMEs) in their journey to become exporters. The government will actively assist these businesses in seizing the 'opportunities' that a post-Brexit Britain presents, fostering economic growth and job creation.

Ultimately, the Conservative party and pro-Brexit campaigners advertised leave as a permittance for Britain to regain its glorious sovereignty and independence while maintaining the same privileges of a free trade agreement with the EU.

A brief analysis of the proposed Brexit agreements during the campaign and the 2019 Conservative Manifesto would remind one of the classic proverbs: “You cannot have your cake and eat it too.”


Figure 2: Conservative ad poster for 2019 general election

## The Reality

Brexit officially occurred in January 2020  following a total delay of 10 months. While the NHS budget has increased over time, there have been no apparent links to Brexit being a source of additional income, as the House of Commons Library reported. Independent fact checkers also found that the actual amount that would be saved at the time is £250 to £280 Million. More importantly, the severe economic cost of any “Brexit dividends” is likely to have outweighed any hypothetical savings for the NHS, and research by Nuffield Trust has found that the “Growth in health spending stagnates when adjusted for population changes” in recent years.

**NHS ENGLAND BUDGET**
£billions

| | Cash | | 2018/19 prices | |
|---|---|---|---|---|
| | £ billions | Annual % change | £ billions | Annual % change |
| 2018/19 | 115 | | 115 | |
| 2019/20 | 121 | 5.4% | 119 | 3.3% |
| 2020/21 | 127 | 5.1% | 122 | 3.3% |
| 2021/22 | 133 | 4.9% | 126 | 3.0% |
| 2022/23 | 140 | 5.0% | 130 | 3.1% |
| 2023/24 | 149 | 6.0% | 135 | 4.1% |

Figure 3: NHS England Budget from 2018 to 2024

NHS wait times have steeply increased in the last two years. The British Medical Association has claimed that there has been a lack of investment in infrastructure, and wages have risen in line with inflation (since 2008). Figure 4 shows the rise in NHS waiting times since 2008.


Figure 4: NHS Waiting Times from 2008 to 2021

Now, taking a look at Immigration, the conservatives were able to deliver with a point-based system, but have immigration rates improved? The Office for Budget Responsibility reported, “We had assumed that the Government’s new post-Brexit Migration regime would reduce net inward migration to the UK.” In other words, the OBRs' net migration forecast for 2024 increased by 89.9% (from their March 2022 forecast to their March 2023 forecast).

**A total of 70 points is needed to be able to apply to work in the UK**

| Characteristics | Mandatory/Tradeable | Points |
|---|---|---|
| Offer of job by approved sponsor | Mandatory | 20 |
| Job at appropriate skill level | Mandatory | 20 |
| Speaks English at required level | Mandatory | 10 |
| Salary of £20,480 to £23,039 or at least 80% of the going rate for the profession (whichever is higher) | Tradeable | 0 |
| Salary of £23,040 to £25,599 or at least 90% of the going rate for the profession (whichever is higher) | Tradeable | 10 |
| Salary of £25,600 or above or at least the going rate for the profession (whichever is higher) | Tradeable | 20 |
| Job in a shortage occupation as designated by the Migration Advisory Committee | Tradeable | 20 |
| Education qualification: PhD in a subject relevant to the job | Tradeable | 10 |
| Education qualification: PhD in a STEM subject relevant to the job | Tradeable | 20 |

Figure 5: UK Immigration point system

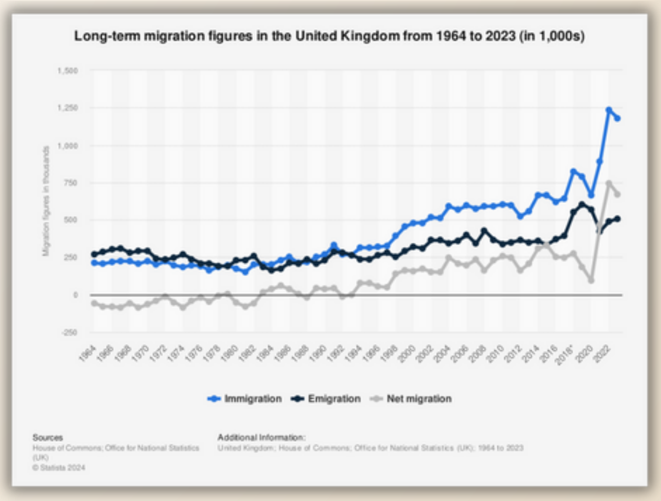


Figure 6: Long Term Migration figures in the UK (1964 - 2023)

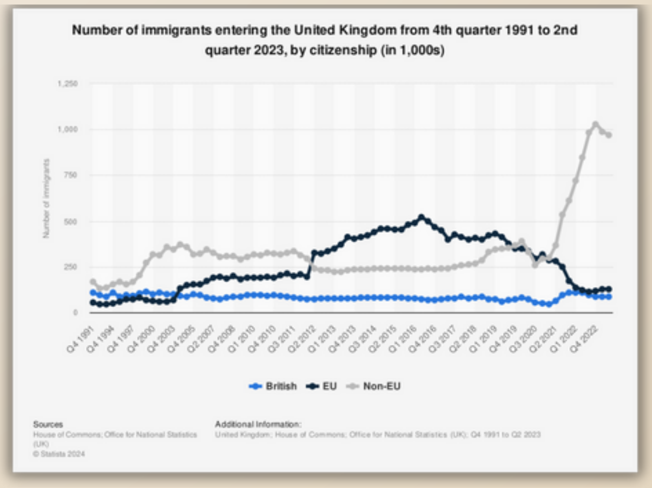


Figure 7: Number of immigrants in the UK from 4th quarter 1991 to 2nd quarter, 2023 by citizenship

The proper graphs demonstrate that whilst EU Immigration fell, this was offset by a substantial increase in non-EU immigration with a significant spike in Net migration (considering the Emigration of citizens). Moreover, a report from the CIPD indicated a net loss of 330,000 workers compared with EU free movement had continued, with the transport and storage sector and the wholesale and retail sector being the most affected.

Interestingly, the CIPD found that Brexit led to economic migrants having higher qualifications than before its implementation. However, given the new requirements for EU students to have visas, the vast pool of young student talent has been reduced for the UK.

Finally, looking at trade, the UK's net export balance of goods with the EU has dropped sharply to—£34.2 billion as of the fourth quarter of 2023. Looking closely, UK imports from the EU decreased more than its exports from 2019 to 2021 (18% and 9% falls, respectively). The sharp drop in EU exports during the post-transition is evident below, as a significant contributor to the UK’s falling GDP between 2019 and 2022 and poor performance compared to other G7 countries (see figure 9).

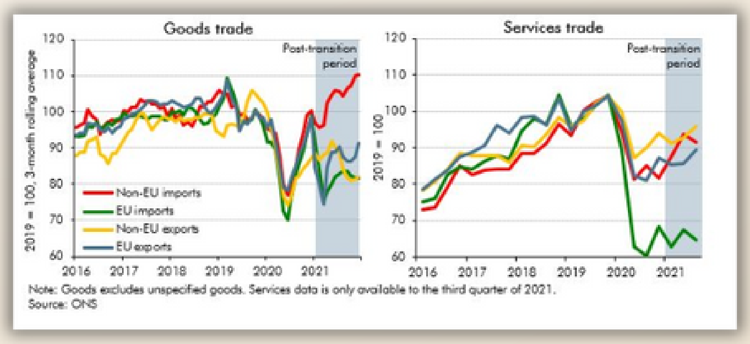


Figure 8: UK Goods & Services trade with EU from 2016 to 2022

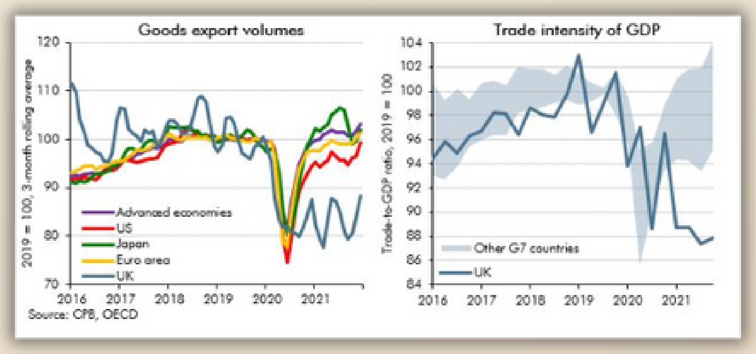


Figure 9: UK Goods export volumes comparison and Trade intensity of UK GDP amongst G7

Figure 10 shows the Brexit trade impact in a better context. Advanced modelling by Aston Business School implies that exports to the block are 26% lower than expected, with more detrimental impacts on SMEs ill-posed to absorb the higher trade costs.

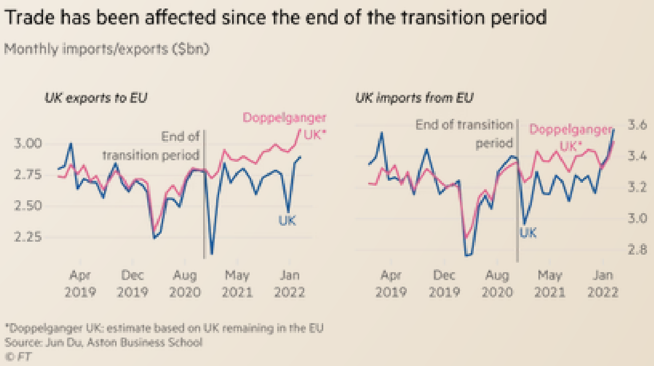


Figure 10: How UK Trade has been affected since the end of transition period

In addition, Bloomberg reported that road shipments crossing the Schengen border were delayed 38% of the time in 2022, with increased paperwork, costs, and customs checks due to Brexit. As a result, several businesses have been forced to move operations out of the UK, avoiding the tight border controls and the threat of being replaced by EU competition.

According to research by Cambridge analysts, the London economy would have shrunken by £30 billion in real terms if it had remained, with the average Briton being £2000 worse off in 2023 (£3,400 for the average Londoner) and two million fewer jobs overall (approximately 300,000 fewer in London also).

Regarding the cost of living, City Hall analysis suggests that 30% of food inflation between 2019 and 2023 was due to Brexit, and LSE demonstrated that Brexit added an average of £210 to household goods bills from 2019 to 2021 (costing UK consumers a total of £5.8 billion).

Finally, the Cambridge study predicts that the UK Gross Value Added would be 10.1% less in 2035

than if the UK had not left the EU. Regarding the cost of living, City Hall analysis suggests that 30% of food inflation between 2019 and 2023 was due to Brexit, and LSE demonstrated that Brexit added an average of £210 to household goods bills from 2019 to 2021 (costing UK consumers a total of £5.8 billion).

Finally, the Cambridge study predicts that the UK gross value added would be 10.1% less in 2035 than if the UK had not left the EU, which is anticipated to be 6% lower. The OBR also state that productivity will be 4% lower in the long run.

Turning to the foreign exchange market (Forex), we see a clear and significant impact of Brexit. Following the Referendum, Sterling experienced a sharp depreciation of 10%. This, coupled with a 2.9% fall in real wages, has resulted in households incurring an average annual cost of £870. In other words, the Sterling now has less purchasing power, costing households more for the same goods and services (see figure 11).

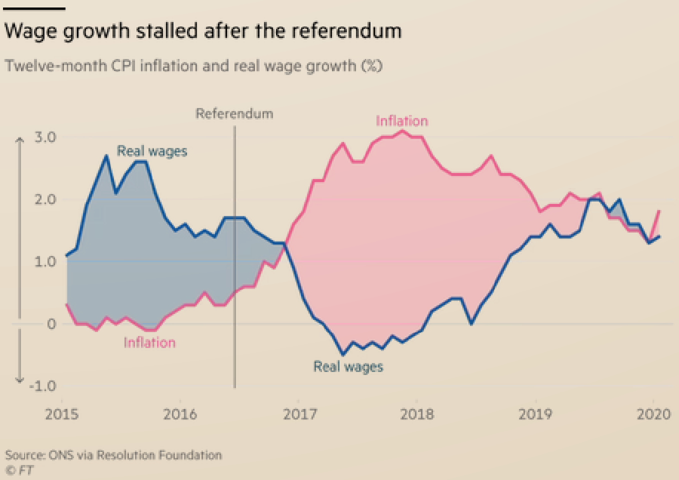


Figure 11: UK Wage Growth, 2015 - 2020

But what about the impact of the pandemic? For fairer comparison, the UK GDP in Q4 was 1.0% above its pre-pandemic level of Q4 2019, whereas the Eurozone GDP was 3.0% higher, and the US was 8.2% higher (according to the House of Commons Library). Furthermore, the IMF real GDP growth(%) for G7 put the UK at the second lowest rate of 0.6% and 1.6% in 2025.

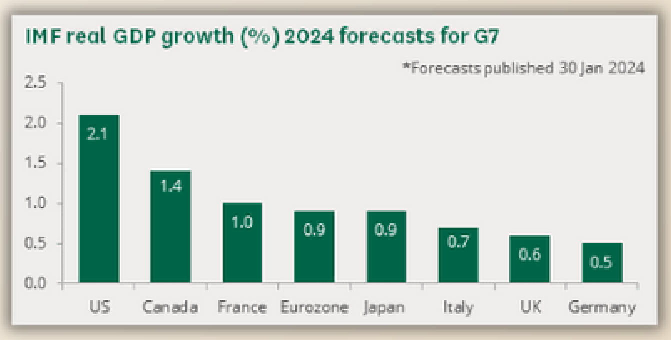


Figure 12: IMF real GDP growth (%) 2024 forecasts for G7

However, the OECD has a more optimistic prediction for the UK at 0.7.

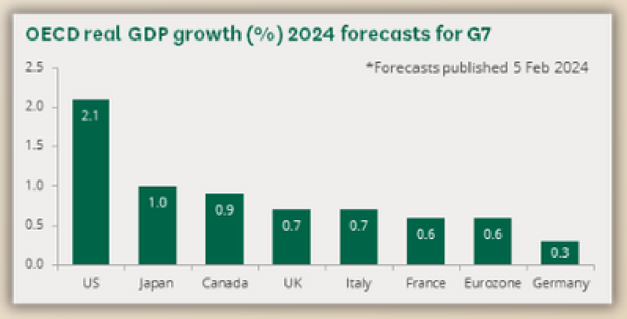


Figure 13: OECD real GDP growth (%) 2024 forecasts for G7

As of April 2023, the ONS also admitted that new trade deals with non-EU countries would not have a tangible effect as they were merely rollover agreements held pre-Brexit. Further analysis of the more recent Forward Trade Agreements (FTAs) demonstrates the incredible void these and future agreements will have to fill (see figure 14).

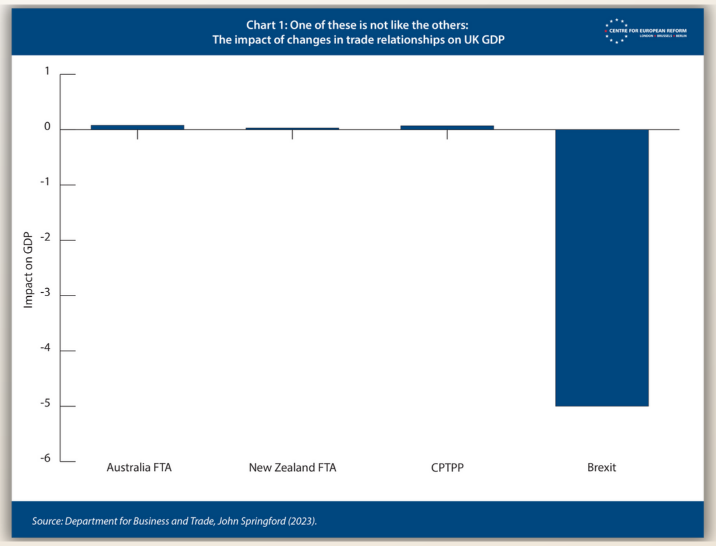


Figure 14: Impact of trade relationships on UK GDP

## Filling The Void

According to YouGov, as of February 2024, 56% of Britons believe it was wrong to leave the EU; in contrast, 32% thought it was right. More specifically, as of 2023, 31% of Britons wanted to rejoin the EU, and 30% wanted to improve trade relations without rejoining the EU.

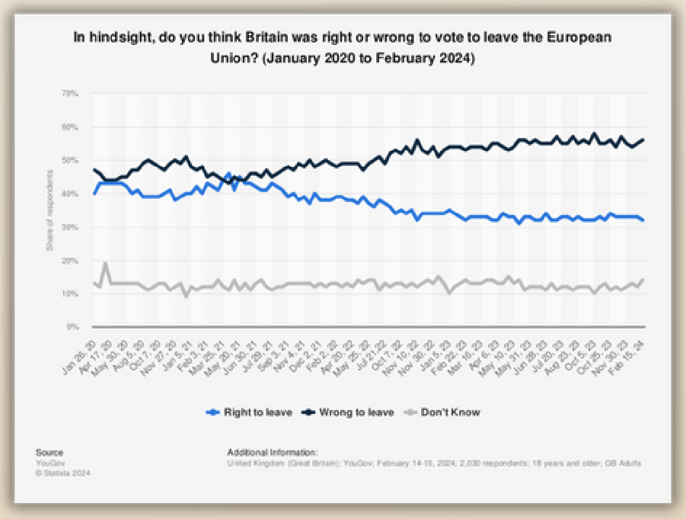


Figure 15: YouGOV survey results, asking Britons if they believed it was wrong to leave the EU

So, what has to be done to replace the void trade left by Brexit? One obvious strategy may be to rejoin the EU. However, there is a bipartisan agreement that this is not an option shortly, and the EU would most likely leverage this disruptive U-turn with unfavourable terms for the UK, such as having to use the euro. Such an option is impractical and unlikely to be seriously considered for another decade at best.

A more sensible option would be to rejoin the European Economic Area (EEA), which allows for the free movement of goods, services, persons, and capital within the 30 EEA States. However, the UK would first be required to rejoin the EFTA (European Free Trade Association), which promotes free trade between Iceland and Switzerland.

Norway and Liechtenstein. The UK was also one of the founding members of EFTA and has a well-established history with the organisation. The EFTA states it is “engaged in numerous processes to maintain trade relations with the UK as close as possible.” However, this statement does not guarantee that the EFTA will accept the UK back with open arms.

Another option is reducing the tight bureaucracy between the UK and EU, which mainly suffocates SMEs. UK CABs (Conformity Assessment Bodies) are “no longer recognised as competent to perform conformity assessment against EU regulatory requirements,” and vice versa for EU CABs. The UK and EU could have a Mutual Recognition Agreement (MRA), as they do with the USA.

Furthermore, given that the UK's most significant exports are services (financial, legal, and business-related), the UK currently struggles to economically leverage its talents as FTAs have a limited impact on services trade, being focused around goods. Exploring new trade agreements to leverage the UK's leading export could significantly counter-attack the effects of Brexit.

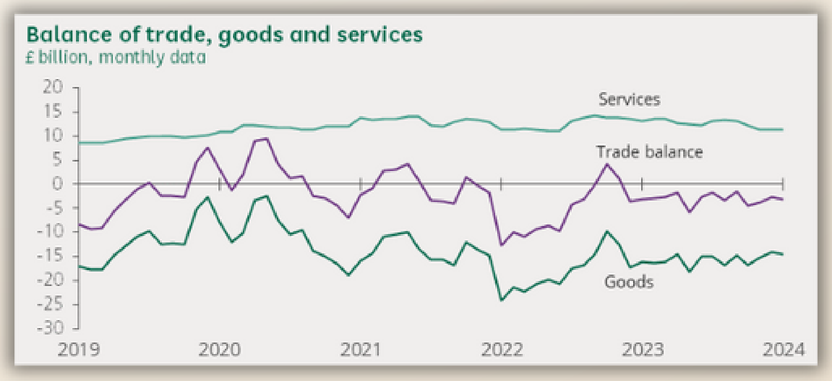


Figure 15: Balance of trade, goods and services in the UK from 2019 to 2024

Regarding the labour deficit, more relaxed and subsidised work visas could be introduced, as there is currently an overconcentration of skilled workers, causing shocks to industries such as hospitality and manufacturing.

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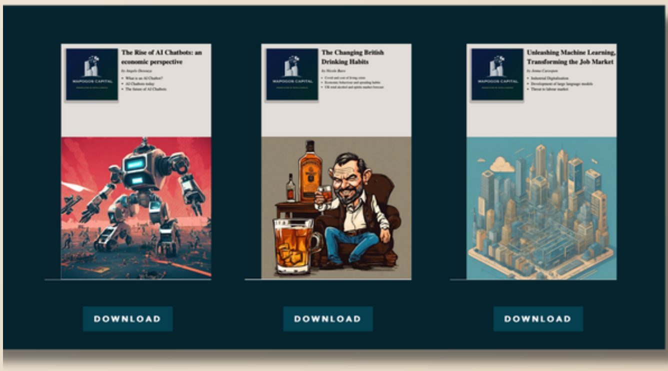


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