

# Introduction

## The Original Sin

A few weeks before the Brexit referendum of June 2016 I found myself sitting on an EasyJet flight en route to Vienna for an article about the rise of populist politics in Europe. Sitting next to me were two guys from London's East End, one in his mid-20s, the other in his early 50s, who were going to the Austrian capital to erect digital advertising signage for a motor-sport event. They were a perfect example of the economic benefits of EU membership: flying visa-free to deliver goods and services in a foreign country on a low-cost airline made possible by the EU's single market for aviation. Since the vote was looming, the conversation inevitably fell to discussing the rights and wrongs of Brexit. The younger man was instinctively for Remain but hadn't bothered to find out much about it and said he probably wasn't going to vote at all; but his older colleague was emphatically for Leave. 'We just got to get out,' he said. I expressed surprise to hear that from him. Wouldn't Brexit make it harder to conduct the business that was currently paying his wages? 'Maybe, but I think Britain will be fine. And even if it did, I still don't care,' he said. 'We just got to go. We need to be free from Brussels telling us what to do all the time and all that red tape.'

It is true that for many people Brexit wasn't about raw economics, but in some sense it had to be about a brighter future for Britain. No one votes for a darker future, after all. Some Brexiters, like that freely moving worker on the flight to Vienna, said that they accepted that leaving the EU may cause economic damage, but still held the belief that the UK would be 'better off out'. That's because the overarching offer that was made to British voters in 2016 by the Brexit campaign was that outside

the EU, the UK would be happier, healthier and freer. By reducing uncontrolled immigration after two decades of flat wages and opening up the prospects of global trade to faster-growing markets on the other side of the world, Brexiters promised that quitting Europe would enable the UK to float free of its Continental ‘ball-and-chain’. In the phrase of the former Conservative and UK Independence Party MP Douglas Carswell, the UK would no longer be ‘shackled to the corpse’ of Europe. The implication was that EU membership had emasculated Britain and that, via Brexit, the virility of the nation could be restored. As the victorious UKIP leader Nigel Farage put it: ‘Let June 23rd go down in our history as our Independence Day!’

While the vote to leave had proximate causes, like the 2015 migrant crisis in which over a million refugees arrived in Europe as they fled civil war in Syria, the foundations were laid over many decades. From the start, the UK had always been instinctively nervous of the supranational elements of European integration, not engaging with the founding Treaty of Rome in 1957, but preferring to focus on the Commonwealth and the dream of a global economic system with sterling at its heart. These misgivings never went away, even after the UK joined the European club in 1973, and they deepened still further following the 1992 Maastricht Treaty. By the time Boris Johnson was a correspondent in Brussels for the *Daily Telegraph* in the early 1990s, sending back rollicking stories about bendy bananas, the idea of the EU as a sovereignty-sapping federal superstate was constantly being drip-fed into British popular thinking by a jingoistic tabloid media. An opportunity was never missed to fuel ideas of British exceptionalism based on the *Dad’s Army* school of international affairs: plucky Britain standing alone in the face of overbearing attempts to unify Europe. Johnson was explicit about this during the 2016 referendum campaign: ‘Napoleon, Hitler, various people tried this out, and it ends tragically,’ he said. ‘The EU is an attempt to do this by different methods.’

This narrative was so all-pervasive that even those who voted to remain often did so for negative rather than positive reasons – clinging to the safety of the status quo rather than actively embracing the idea that Britain could have a positive role in

shaping the wider European neighbourhood. Perhaps this was not surprising, since over the decades very few British politicians, Labour or Tory, had ever dared to make a positive case for the benefits of EU membership, at least in public. Those benefits were economic, but also cultural and geopolitical as the EU became the foundation for a peaceful post-war Europe. Brexiters, on the other hand, believed they were voting for a radical and exciting transformation, reasserting an individual national identity by leaving the European collective without economic or cultural costs. Voters like to ‘have their cake and eat it as much as their politicians. It is why, in the end, the Leave side won the vote.

Seven years after the vote to leave the EU, it is becoming clearer by the day that that promised future turns out not to exist. Brexit was first and foremost a political project to ‘take back control’ of law-making and borders in order to remake Britain as a globally influential actor. But having repatriated powers from Brussels, Brexit has instead delivered political instability at home and embarrassment abroad, surprisingly high levels of immigration, weak borders and poor trade performance, corrosive levels of business uncertainty and – ironically – all with limited scrutiny from the newly sovereign UK parliament. The economics of Brexit is rapidly catching up with the politics of Brexit, and the two cannot remain divorced for ever.

This book is about why that is the case and, much more importantly, about what we can do to fix the mess. Because more than seven years after the vote to leave, it is time to look forward not back. There is little mileage in relitigating the history of Brexit – as the saying goes, ‘we are where we are’ – but that does not mean accepting that the UK has to remain in its current state of Brexit purgatory. Far from ‘taking back control’, the UK has in fact been left in a state of limbo by Brexit. Moving on means that those, like Boris Johnson or Nigel Farage, who were allowed to define Brexit in its current form, should not be granted a monopoly of wisdom about what Brexit might mean in the future. Talk of ‘selling out’ or ‘betraying’ Brexit – by which they mean the *Dad’s Army* version of Brexit – is an attempt to close down a debate about the scope of the UK’s relations with Europe. This is a debate the UK urgently needs to have. The last seven years have poisoned British politics,

unsettled the foundations of Britain's unwritten constitution, curtailed trade, rattled investors and tarnished the UK's reputation abroad as a pragmatic power that can be trusted. By the end of 2022, two years after the UK–EU post-Brexit trade deal came into force, the UK's exports (excluding precious metals) were more than 9 per cent below the 2019 pre-pandemic average, putting the UK right at the bottom of the G7 pack. The Resolution Foundation think tank described the UK trade performance since Brexit as 'a disaster'.

The good news is that space is now emerging for a rethink. Polls clearly show that a growing proportion of the public are coming to see that much of what they were told about the 'benefits of Brexit' have turned out to be untrue. The shift in the public mood has been matched on the diplomatic front by Prime Minister Rishi Sunak's politically astute Windsor Framework to resolve the stand-off with Brussels over Northern Ireland. This has re-opened the door to discussion with Europe on a range of other topics, from energy security to scientific collaboration at both the EU and bilateral levels. The coming general election could provide a further political inflection point. The Northern Ireland Assembly will hold its first consent vote in 2024 on whether to continue to accept the newly refurbished post-Brexit trading arrangements. And after 2025, the low-ambition EU–UK trade deal agreed by the former prime minister Boris Johnson is also up for review, giving the UK a chance to improve terms with the economic bloc that takes nearly half the UK's trade. All these provide potential footholds to rebuild broken relationships, but only if there is sufficiently brave political leadership to shift the Brexit debate away from toxic notions of 'betrayal' and back onto the economic well-being of the nation.

But any fruitful discussion about the future must be predicated on a clearer understanding of why the current version of Brexit is failing – and why that is an entirely predictable function of its design, not an unexpected failure of execution. The negative economic consequences of Brexit, far from being the result of some brave gamble gone wrong, were completely foreseeable. In fact, they were foreseen, including by several of those responsible for delivering the current settlement, like Boris Johnson, David Frost and Liz Truss, who were all at

different points admirably clear about the costs of leaving the EU, until it suited them politically to say otherwise. With EU integration having progressed so far via the construction of the EU single market, the economic benefits of membership – plugging British manufacturers and professional service providers directly into a vast market of consumers – very clearly outweigh the costs. The UK can bemoan this from the sidelines, if it wants, but it cannot deny the reality. It's why leading Eurosceptic leaders like Marine Le Pen in France or Matteo Salvini in Italy quickly gave up talking about 'Frexit' or 'Italexit' after 2016. They understood the destruction of value that would cause. The case for Brexit was that the UK, being a large and innovative economy outside the Eurozone, was in some way exceptional. But it wasn't. And it isn't.

The dreaded 'Brussels red tape' that was so enthusiastically mocked by the Eurosceptic press, far from choking British industry, on balance enabled business to trade freely with the advanced economies on our doorstep. True, EU regulation wasn't always perfectly suited to the UK economy because it yoked together 27 other economies, but it provided friction-free access to a market of 450 million people. Brexit turned Brussels 'red tape' into British 'red, white and blue tape', and lots of it. Joining the EU single market – what Carswell called 'this poverty-producing club' – in truth made the British economy more competitive, not less so. It reduced costs and exposed UK industry to the advanced competitors on its doorstep, which in turn drove innovation, investment and productivity. The free movement of people caused social dislocation at home, but it also opened massive opportunities abroad for the UK to sell the services – professional and cultural – at which our economy excelled. Similarly, EU membership did not constrain our ability to trade around the world. On the contrary, it gave the UK access to nearly 70 international trade agreements. The Netherlands and Germany were better at seizing the opportunities these deals created, it is true, but Britain did not need to leave the EU to boost its overseas trade. Brexiters bragged about the prospects for 'global Britain' without acknowledging they were already part of the world's biggest trading bloc, whose rules made the regulatory weather for businesses all over the planet.

As a result, Brexit has thus far damaged the prospects for UK trade and investment, not improved them. The promised raft of post-Brexit free trade agreements with other countries hasn't turned up. And even if all those promised deals were struck – and we're still waiting for major deals, including with the USA – they're economically insignificant when set against the costs of Brexit, according to the Government's own estimates. The cost of building back barriers between the UK and the single market full of wealthy consumers on its doorstep is about 20 times the value of UK trade deals, in a best-case scenario. From a purely business perspective, Brexit is a trade-off that no CEO in their right mind would ever have made. The promise of a deregulatory nirvana to offset the costs of building back borders with our biggest trade partner also hasn't materialised. This is because, however frantically Brexit-believers exhort British companies to embrace deregulation, for much of industry and the public this doesn't make sense. True, conforming to regulation creates cost for business, but that same red tape also creates certainty, builds consumer confidence and a 'level playing field' on which to trade across borders.

So what price freedom? Trade with the EU is now more expensive than it was before Brexit thanks to new bureaucratic barriers. These are likely to increase, not diminish, over time as EU countries continue to integrate the physical, financial and regulatory frameworks that undergird their economies. In simple terms, Brexit has made the UK less competitive, less open and less productive than it otherwise would have been. The UK is falling behind its competitors. UK trade performance has been much weaker than the G7 average since the Brexit trade deal came into force. UK business investment, which creates the next generation of better-paying jobs, has flatlined since 2016. Researchers at the London School of Economics (LSE) calculated that by the end of 2021, Brexit had already cost UK households a total of £5.8 billion in higher food bills. Over the next decade the Resolution Foundation think tank, which focuses on the lives of those on lower and middle incomes, says we can expect the wages of UK workers to fall by £470 per worker a year – thanks to Brexit.

The pain of the last seven years is not solely economic. Arguably even more damaging has been the political fallout

caused by post-Brexit governments trying to reconcile what they hoped to be true before Brexit with the reality of life outside the EU. The process of trying to make Brexit work, often in the face of all the evidence, has had deeply corrosive secondary effects. These have undermined the foundations of the British state and constitution, straining relationships between the government and parliament; politicians and judges; ministers and civil servants; and the UK government and the devolved administrations in Scotland, Wales and, especially, Northern Ireland, where Brexit issues have caused the collapse of the devolved government. The result is that dishonesty over the consequences of Brexit has become a chronic condition in British politics.

That urgently needs to change. ‘Take Back Control’ was a brilliant political slogan. It enabled the proponents of Brexit to appeal simultaneously to the notion of an independent, ‘buccaneering Britain’, freed from the regulatory shackles of Brussels, while also promising to build back the borders needed to reclaim England for the English after two decades of supposedly uncontrolled migration. The bitter irony is that Brexit has delivered less control, not more – the UK no longer has a seat at the table in Brussels, and has foregone its role as the diplomatic hinge between Washington and the EU. British companies who want to trade with Europe now have to follow rules their politicians no longer have a hand in making; British diplomats trying to broker an end to the ‘small boats’ crisis have no standing inside the EU to cut a deal on migrant returns; and to keep trade flowing the UK elected not to police its own customs and regulatory border with the EU for three years after Brexit. As the world’s challenges become ever more global, Brexit has left the UK looking increasingly parochial.

Understandably, Brexit played on the insecurity of communities that felt they were losing their sense of agency in face of global forces: big tech and social media; flat wages and unaffordable houses; low growth and rising job insecurity; immigration and outsourcing. Those issues have roiled all industrialised democracies in different ways, with differing results. But the original sin of Brexit was to promise that leaving the EU would make the UK better able to meet those challenges. It didn’t, it won’t – and it was never going to. Those who

made those rash promises should have known better. Most of them surely did.

It's time to think again about Brexit by taking an approach based on the facts, not fallacy and fantasy. Both Conservatives and Labour continue to set red lines over the UK's future relationship with Europe – no membership of the customs union or EU single market – while airily promising that the disadvantages of leaving the EU will be massaged away over time. More likely, if those red lines do not at least turn pink, the opposite will be the case as the EU finds other places to do business with; other universities to send their students to; other musicians to play in their orchestras; and other nations through which to thread their supply chains and build security and energy alliances. The process of honestly interrogating Brexit trade-offs does not have to be a counsel of despair. It could just as easily be a wake-up call, helping the UK identify structural shortcomings at home, as much as deciding where to set the cursor on the relationship with the EU. But time is of the essence. The UK's diplomatic and trading relationships with Europe have a half-life. Based on the current rate of attrition, many will not survive another seven years of disengagement and decay. The time for a Brexit reboot is now.

## Trade: The Basics

EU trading relationships membership levels at a glance – gold, silver and bronze.

### *Membership of the EU Single Market*

- The ‘gold’ package. Where goods, services, people and capital all circulate freely. This is what the UK enjoyed as an EU member.
- To make that happen, all members of the market sign up to a ‘common rulebook’ on goods. This means that you can throw a box of sausages into a van in Birmingham and drive it to Berlin, confident that all the other countries are following the same rules and regulations.
- When goods cross the border within the EU there are no customs or other checks to ensure you are conforming to the regulations – because it is presumed these are being enforced by each member internally and at the external borders of the EU.
- To ensure the rules are being enforced equitably and preserve a ‘level playing field’ for trade, the members of the market also agree to abide by the rulings of a common court – the European Court of Justice – in areas where this is necessary to allow the free movement of goods and services.
- Within the EU the single market is underpinned by the Customs Union. This means that goods entering from outside the single market pay the same tariff – a common external tariff – in order to ensure no one is undercutting each other. But once that tariff is paid, the goods can circulate freely among all the members, regardless of where they were made, so no customs checks are needed.
- Members of the market also agree not to treat each

other's workers differently – Polish or Portuguese citizens have the same rights to live and work around the EU as German or French citizens.

- EU members also make financial contributions to pay for the workings of the EU's collective institutions – the EU Commission, Council and Parliament. Some funds are redistributed directly to poorer regions in order to strengthen the economic foundations of the Union.
- The EU single market is still incomplete in many respects, particularly in services. The EU is looking to further harmonise rules on tax, transport, energy and medicines to further facilitate trade. The 'digital' single market looks to harmonise rules on areas like data, copyright and telecoms.
- You can be in the EU's single market, but not in the EU – which is what Norway, Iceland and Liechtenstein do as members of the European Economic Area (EEA). But they must accept the common rules without having a say in how they are made, and pay financial contributions. Their goods are subject to customs checks at the border since only locally produced goods are duty-free.

*Membership of the Customs Unions,  
But Without a Single Market*

- The silver option. Under the EU customs union all the members of the EU customs territory agree to charge the same tariff, with the customs authorities of all EU countries working together as if they were one.
- Once the EU's common external tariff is paid on goods, they can then circulate freely within the Union. Therefore no customs duties are charged when goods cross, say, from France to Germany or from Italy to Spain.

- The EU customs union is made up of EU members, but the EU has a partial customs union with Turkey, which covers industrial goods, but not agricultural products. Turkey aligns with EU rules on goods covered by its customs union with the EU.
- Membership of a customs union with the EU still does not remove all border checks related to the single market. That would also require a full ‘regulatory union’ and an agreement from the EU to recognise that the UK was qualified to certify goods as compliant with the rules of the EU single market.

#### *A Free Trade Agreement*

- The bronze package. The EU–UK Trade and Cooperation Agreement (TCA) is a comprehensive free trade agreement that covers goods and a strictly limited number of services, but falls far short of either EU single market membership or a customs union with the EU.
- Although the deal is a ‘zero-tariff, zero-quota’ agreement, this does not mean that all UK goods automatically enter the EU tariff-free. To avoid paying tariffs, UK exporters must prove their goods are sufficiently ‘locally made’ to qualify for that tariff-free access.
- The trade deal lays down complex rules that firms must follow – ‘rules of origin’ – specifying exactly how to calculate whether a good is sufficiently ‘local’ to enter tariff-free. This takes time and generates paperwork. Goods without sufficient ‘originating content’ pay tariffs.
- But tariffs are only one small element of what restricts trade across borders – differing regulations and restrictions on travel and recognising professional qualifications (‘non-tariff barriers’ to trade) can be a much greater drag on cross-border exchange.

- The TCA is not a regulatory union, so goods arriving at the border also have to show they comply with a wide range of EU rules and regulations, from packaging to organic food standards.
- Crucially, even if the UK follows the EU's regulations and standards, it still must demonstrate that it has done so – that means lots of paperwork and certification. Unilateral alignment with EU rules doesn't remove the need for this paperwork and checks.
- The UK is also no longer part of the EU's common VAT framework, which means exporters need to pay VAT on goods as they arrive in the EU, which often requires employing a 'fiscal representative' to pay the tax on the goods.
- The TCA also provides for very limited access to the EU for financial and business service providers when compared to membership of the EU single market. That means UK professionals – from ski instructors and musicians to engineers and architects – can no longer operate in the EU without visas and permits.
- UK banks also no longer enjoy 'passporting' rights, giving them equal access in the EU markets. Maintaining data flows between the EU and the UK relies on a unilateral decision by the European Commission that UK data protection standards are equivalent to the EU's.