BREXIT TRUTHS:

How 'Project Fear' proved to be 'Project Delusion'

IBN Independent Business Network

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Introduction

Throughout the run up to the referendum to the UK's membership of the European Union (EU), the Remain campaign and those backing the UK's continued membership claimed the UK's economy would suffer greatly because of leaving. Instead of proposing positive arguments for remaining as part of the EU, they committed to a campaign that revolved around the mindset of 'Project Fear'. New trading restrictions, businesses leaving for the continent, and a loss of labour were all cited as key reasons to oppose breaking away from an economic standpoint.

As a strategy, this may have worked if those behind the Leave campaign had adopted a similar approach. Instead, the campaign and its Business Council worked hard to point out the hyperbole of the Remain campaign and neutralise it in the minds of the public by putting out a far more positive campaign, one focusing on the positive future that could be achieved. Had this approach not been undertaken, the result of the referendum may have been vry different.

Five years on from that historic vote, and the economic picture is a markedly different one to that painted by the pessimists in government and business. In this report, we examine the claims made by those backing Remain, looking at claims about the economy in general from five prevalent economic organisations, and two specific sectors: manufacturing and financial services. We then highlight the reality of the people's decision to back our country to stand tall on the global stage, showing that the general economic landscape, and those of the manufacturing and financial service sectors, has not suffered the dire fate predicted in 2016. Having laid bare the misunderstanding of how our economy could prosper by those in power and by big business, it becomes evident that their ideas on the economy moving forward cannot be trusted, and so we set out our alternative proposals for the UK economy moving forward.

Claims about the economy as a whole

As the referendum campaign got underway in early 2016, it did not take long before the heavy hitters on both sides of the vote began bombarding the public with arguments in an attempt to gain their vote. Those in favour of remaining in the EU were so negative in their campaigning that the media labelled their efforts 'Project Fear', a phrase with origins in the 2014 Scottish Independence Referendum campaign which the SNP used to label Unionist campaigning as scaremongering.[1] Will Straw, the director of Britain Stronger In Europe, argued that leaving the EU would lead to increased prices in many areas of everyday life for the British people, including their shopping and filling up their car.[2] These figures, however, did not come up with these claims and others on their own. Numerous think tanks were used by those on the Remain side of the debate to provide forecasts on what they thought might happen to the economy should the UK leave the EU. As you would expect, the claims made for grim reading and were lapped up by Will Straw et al.

[1] Jack, I. (2016), https://www.theguardian.com/commentisfree/2016/mar/11/project-fear-started-as-a-silly-private-joke-now-it-wont-go-away

[2] Andrews, J. (2016), https://www.mirror.co.uk/money/would-brexit-make-supermarkets-cheaper-8014132

The International Monetary Fund (IMF)

Led at the time of the referendum by Christine Lagarde, who is now President of the European Central Bank, the IMF were firmly on the side of Remain in their findings. In its 2016 country report, published in June of that year, it argued that while there was a range of estimates regarding the economic implications of leaving the EU, it found that '[t]he net long-run economic effects of leaving would… likely be negative and substantial'[3]. It justified this overall view by stating that leaving the EU would stoke inflationary pressures and wipe 5.5% off of UK GDP by 2019.[4] This major impact on the British economy would come as a result of a number of more immediate impacts that Brexit would instigate. One of these was that Brexit could spark an almost immediate stock market crash and cause house prices to decline steeply.[5] The other was that Brexit would result in an overall reduction in economic output in the long run, stemming from a number of factors:

1. Reduced trade access to the EU and the various Free Trade Agreements (FTAs) it had in place with other countries and economic groupings would result in lower investment and output.[6]
2. Tighter immigration controls that would be put into place would lead to a reduced labour force, which would contribute to decreased output and, as a result, decreased fiscal revenue.[7]
3. The lack of trade access would lead major firms to relocate their European headquarters to countries still in the EU, taking jobs with them.[8]

So far, the IMF's premonitions have failed to materialise. Such lack of foresight by Lagarde calls into questions her reliability as a long-term economic forecaster, and we should be thankful we are no longer in a position which ties us to an institution where she is in charge.

[3] IMF (2016), p. 3, https://www.imf.org/external/pubs/ft/scr/2016/cr16169.pdf
[4] Idem, p. 31
[5] Inman, P. (2016), https://www.theguardian.com/business/2016/may/13/imf-warns-stock-market-crash-house-price-fall-eu-referendum-brexit
[6] IMF (2016), p. 10, https://www.imf.org/external/pubs/ft/scr/2016/cr16169.pdf
[7] Ibid
[8] Ibid

The Organisation for Economic Cooperation and Development (OECD)

The OECD released its report entitled 'The Economic Consequences of Brexit: A Taxing Decision' in April 2016 on behalf of its 37 members (including a number of EU states). As another international economic organisation, it argued along similar lines to the IMF, stating overall that were Brexit to occur, it 'would be a major negative shock to the UK economy, with economic fallout in the rest of the OECD' and would lead to GDP being up to 3% lower in 2020 than if it remained in the EU.[9] The OECD's analysis focused on the near-term effects, being seen between 2016 and 2019, and the longer-term effects. Of the near-term effects, areas highlighted were:

1. Issues with Free Trade Agreements (FTAs), with claims that even if an FTA were to be agreed, some sectors would still see double-digit levels of decline, including Metals (11%) and Transport Equipment (12%), with other sectors experiencing slightly lesser, yet still significant, shrinkage.[10] In other words, even if an agreement is reached having left the EU, this will still be negative compared to staying within the EU.
2. Increased consumer saving as a precautionary measure, thereby leading to less consumption[11]
3. A sharp currency depreciation[12]. This in particular would be key, as basic economics tells us a weakened currency (in this case caused by uncertainty regarding the UK's economy) leads to cheaper exports and more expensive imports, increasing costs and lowering profits for businesses trading abroad.

[9] Kierzenkowski, R. et al (2016), p. 5, https://www.oecd.org/unitedkingdom/The-Economic-consequences-of-Brexit-27-april-2016.pdf
[10] Idem, p. 20
[11] Idem, p.21
[12] Ibid

In the long-term, OECD concerns centred around:

1. Regulatory divergence, with fears that the UK breaking away and forming its own sets of regulations, in particular with relation to areas such as financial services, would increase trade costs, thereby hampering trade relations with foreign companies.[13]
2. Levels of FDI. The OECD believed Brexit would make the UK less attractive for FDI. As a result, this would impact business by weakening areas such as innovation and productivity owing to the lack of ideas coming from abroad, as well as reducing fixed investment levels.[14]
3. The effects on immigration limitations on the labour pool. As well as lower FDI impacting business, new restrictions on foreign workers would adversely affect British business, partly through the loss of GDP contribution from these workers (average 0.7% of GDP 2005-2015), and partly through the reduced skills pool. Measures proposed such as the Australian points-based system would seek to increase the skill level of those who do arrive, but this would be offset by the significant reduction in numbers arriving.[15]

A common theme seems to keep cropping up with these organisations and their claims; they fail to see the bigger picture. Yes, a weaker currency value may decrease the value of exports, but this really makes exports more competitive for overseas consumers, as highlighted by the large numbers of tourists who travelled to the UK who now had greater spending power.[16] This competitiveness, combined with a lack of the predicted drop in FDI (see p.13-14) meant that British exports did not see the double-digit shrinkage predicted.

[13] Idem, p. 24
[14] Idem, p. 25
[15] Idem, p. 26-28
[16] Inman, P. (2017), https://www.theguardian.com/business/2017/sep/22/uk-overseas-tourists-pound-brexit-ons-figures

Confederation of British Industry (CBI)

The CBI commissioned PwC to produce a report into the impact of two different models of existence outside of the EU: one where the UK and EU agree an FTA between them within five years of the referendum, and one where this agreement is not reached and the UK and EU operate trade based upon WTO rules. Published in March 2016, the results found that by 2020 GDP would be between 3% and 5.5% lower than if the UK retained membership of the EU, equating to a reduction of between £55 billion and £100 billion (at 2015 levels).[17]

The negative trend continued throughout the majority of its findings, touching upon employment (by 2030, there would be a reduction in employment of between 350,000 and 600,000[18]), investment (reduced by between 16% and 25% by 2020 depending on the exit scenario[19]) and GDP per capita (a reduction of between 0.8% and 2.7% by 2030, though potentially a larger reduction in the short term after a vote to leave[20]). One of the more interesting findings from the report, however related to EU regulations.

The report argued that under either the FTA agreement scenario or the WTO scenario, the UK would face difficulties with regards to regulatory divergence. It argued that even if the UK were able to obtain an FTA with the EU and maintain a certain amount of alignment, over time regulatory divergence would likely occur, thereby leading to the presence of non-tariff barriers (NTBs) for businesses and increasing the cost of trade.[21] These NTBs would increase the cost of exports to the EU by 1.4% and the cost of imports into the UK by 1.8%.[22]

As with the IMF and the OECD, the CBI's negative fearmongering simply assumed that the UK would never achieve anything vaguely resembling a decent trade deal with the EU, and even if it did, negatives relating to regulations would offset any positives. Why would regulatory divergence from the EU not be positive? We already possess one of the finest financial centres in the world, and setting our own regulation allows us to distinguish ourselves even more.

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[17] Gilham, J. et al (2016), p. 3, https://www.pwc.co.uk/economic-services/assets/leaving-the-eu-implications-for-the-uk-economy.pdf
[18] Idem, p. 4
[19] Idem, p. 9
[20] Idem, p. 3
[21] Idem, p. 22
[22] Idem, p. 24

National Institute of Economic and Social Research (NIESR)

In May 2016, the NIESR published reports entitled 'The Short-Term Economic Impact of Leaving the EU' and 'The Long-Term Economic Impact of Leaving the EU'. The short term impacts it found mirrored the similar reports already mentioned, including major currency depreciation and reductions in GDP, with GDP 1% lower in 2017 and 2.3% lower in 2018 than if the UK remained in the EU.[23] The long-term report argued the economic impact of leaving the EU, by 2030, would still be a negative one. Overall, it believed that GDP would be reduced by between 1.5% and 3.7%, real wages would be reduced by between 2.2% and 6.3%, and consumption would be reduced by between 2.4% and 5.4%, in addition to significant reductions in FDI, as the lack of ability to passport and continue the free trade of goods and services between the UK and EU would make the UK a less attractive destination for FDI.[24]

The NIESR's long-term report explained the variations in the predicted figures as being dependent on the kind of model the UK adopted after leaving the EU. They gave three models the UK could follow:

1. The Norway model, which would result in the UK joining the EEA and allowing the free trade of goods and services in the EU, including access to EU financial services through passporting. This model would result in the lowest reduction in GDP compared to forecasts, between 1.5% and 2.1%.[25]
2. The Swiss model, which would involve a series of bilateral agreements with the EU regarding the free trade of goods, but not services. As a result, there would be no access to EU financial services due to the lack of passporting, and so GDP would be between 1.9% and 2.3% lower than forecasts.[26]
3. The WTO model, whereby there would be no membership in FTAs for goods and services, thus conducting trade accompanied with most-favoured-nation (MFN) tariffs. This would lead to GDP being between 2.7% and 3.7% lower than forecasts.[27]

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[23] Baker, J. et al. (2016): p. 108
[24] Ebell, M. and Warren, J. (2016): p 121
[25] Idem, p. 129
[26] Ibid
[27] Ibid

The Treasury

It was not just independent thinktanks who believed that leaving the EU would result in negative impacts on the British economy. The Treasury also released two reports in the run up to the referendum, looking at the short and long-term consequences should the UK choose to leave the EU. Its view was not difficult to make out, with George Osborne, the then-chancellor, stating in his forward to the long-term document:

> "…the alternatives [to EU membership]… come with serious economic costs that would affect businesses, jobs, living standards and our public finances for decades to come. To put it simply, families would be substantially worse off if Britain leaves the EU."[28]

In the short-term, businesses would be the main strugglers. Uncertainty regarding EU negotiations would lead businesses to reduce spending, with the lack of clarity affecting expectations of demand and financial investment from the EU. This uncertainty would also impact on international supply chains, threatening the profitability of British business.[29]

Outside of businesses, the effect would also be considerably negative. Inflation would increase by between 2.3% and 2.7%, a knock on from the increased costs for businesses; house prices would reduce between 10% and 18%; and wages would be between 2.8% and 4% lower than if we were still in the EU (equating to a reduction of between £780 and £1114 per year). Unemployment would also rise significantly between 520,000 and 820,000. Taken together, by 2018 GDP would be between 3.6% and 6% lower than if the UK were still part of the EU. [30]

The Treasury's long-term estimates for the effect on GDP if the UK left the EU are even worse. It forecast that by 2030 GDP would, depending on the model followed post-Brexit, be between 3.4% to 9.5% lower, and that the GDP loss per household would end up between £2400 and £6600.[31]

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[28] HM Government (2016a), p. 6
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf
[29] HM Government (2016b), p. 14
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/524967/hm_treasury_analysis_the_immediate_economic_impact_of_leaving_the_eu_web.pdf
[30] Idem, p. 52
[31] HM Government (2016a), p. 7

Claims regarding the manufacturing sector

Both before and after the vote to leave the EU, those backing Remain were very keen to use the manufacturing sector as an example of an area that would suffer greatly as a result of Brexit. In particular, it was argued that the automotive industry and steelmaking would be severely affected by a move to leave the EU, as it would reduce access to the single market for these, and other, manufacturing industries. In the week after the vote, Toyota released a statement saying that they believed "continued British membership of the EU is best for our operations and their long-term competitiveness".[32]

Pre-referendum, one of the main arguments for remaining in the EU focused on the impact on jobs in manufacturing, as Remain campaigners argued foreign companies would choose other countries over the UK in which to open new factories owing to their ability to access the EU single market, both reducing the chance of jobs being created in the UK and also increasing the chance of jobs being lost in the event of companies relocating. The TUC supported this view, arguing that highly skilled jobs would be exported form British factories to the EU, with Frances O'Grady, the TUC general secretary, stating at the launch of their report backing remaining in the EU:

> "What's absolutely clear is that jobs would go. [W]e'd be losing high-pay, high-skill, high-productivity jobs… that pay £100 a week more than service sector equivalents. These are good jobs in the regions outside London that need them most."[33]

Following its claims about the potential impact of Brexit in 2016, in 2018, before any trade deal had been signed between the UK and the EU, the CBI continued to fly the Remain flag, this time arguing that continued uncertainty in Brexit negotiations would bring any growth in manufacturing output to a standstill, and that the lack of skilled labour would affect future plans and limit output.[34] Concerns over skills shortages were not limited to the CBI, with MakeUK putting forward in their 2018 Brexit Briefing worries that the loss of the customs union would have damaging consequences for the entire manufacturing sector. They argued that the combination of a domestic skills gap and the reduction of skilled workers from overseas who fill 'hard to fill' vacancies was the key reason behind these concerns.[35]

The claims around skills shortages, job losses for UK workers, and greater difficulties exporting led forecasts to predict manufacturing would shrink in the UK, no matter what kind of deal, if any, was agreed between the UK and EU. In their 2018 briefing paper entitled 'Which Manufacturing Sectors Are Most Vulnerable To Brexit', Gasiorek et al. from the UK Trade Policy Observatory

[32] World Finance (2016), https://www.worldfinance.com/home/the-industries-hit-hardest-by-brexit
[33] Monaghan, A. (2016), https://www.theguardian.com/business/2016/jun/01/brexit-british-manufacturing-sector-uk-factories
[34] Elliot, L. (2018), https://www.theguardian.com/business/2018/oct/23/cbi-urges-government-to-end-damaging-brexit-uncertainty
[35] MakeUK (2018), https://www.makeuk.org/insights/reports/brexit-briefing-brexit-making-it-work-for-manufacturing,

forecast that Manufacturing output would reduce by between 2.1 and 5.5 per cent, and that the value of UK exports would reduce by between 5.2 per cent and a staggering 19.5 per cent.[36]

Claims regarding financial services

Along with manufacturing, financial services was probably the most talked-about sector when it came to discussing the negatives of leaving the EU. This was not surprising given the sector's very much international outlook, especially in the City, and the value of the assets being handled, with various hedge funds and investments banks handling well into the hundreds of billions of pounds for various transactions.

As part of a series entitled 'Brexit: in or out', the Financial Times interviewed a number of leading figures from within the City about how they felt about the possibility of Brexit and what they thought might happen should a vote to leave occur. The result of these interviews was for the most part very negative.

Jamie Dimon, the Chief Executive of JP Morgan, felt that Brexit would reverse decades of growth for banks and services based in the City, and that the loss of passporting would mean that firms would 'have to set up different operations in Europe'.[37] Alex Wilmot-Sitwell, the head of the European arm of Bank of America Merrill Lynch agreed, stating that '[a] significant amount of financial trade currently booked in London would leave if the UK left the EU'. [38] Arm-in-arm with trade leaving London, so too would jobs it was claimed, with Jamie Dimon later saying to employees in the run up to the vote that up to 4,000 jobs at the firm may have to be cut in the event of a leave vote,[39] and a report by PwC for TheCityUK specifically on the impact of Brexit on the financial services sector claiming the sector as a whole could lose up to 100,000 jobs by 2020.[40]

It was not just the bosses of banks who did not think Brexit could be successful. Before she became prime minister following David Cameron's resignation and was tasked with leading negotiations with the EU, Theresa May was very much in the remain camp. According to the New Statesman, in April 2016, just two months before the referendum, she felt that for financial services outside the EU:

> "There would be little we could do to stop discriminatory policies being introduced, and London's position as the world's leading financial centre would be in danger."[41]

Theresa May's apprehension for financial services was backed by a report released by Grant Thornton. In the report, it was felt that there could be issues for financial services in terms of legislation, as 40 years' worth of regulation would not being formally enshrined in UK law.

[36] Gasiorek, M. et al. (2018), p. 6, http://pinguet.free.fr/brexitpaper218.pdf
[37] Jenkins, P. and Agnew, H. (2016), https://www.ft.com/content/e90885d8-d3db-11e5-829b-8564e7528e54
[38] Ibid
[39] Farrell, S. (2016), https://www.theguardian.com/business/2016/jun/03/jp-morgan-boss-up-to-4000-jobs-could-be-cut-after-brexit
[40] Hunt, S. et al. (2016), p. 4, https://www.thecityuk.com/assets/2016/Reports-PDF/93f730bc84/Leaving-the-EU-Implications-for-the-UK-FS-sector.pdf
[41] Rampen, J. (2016), https://www.newstatesman.com/politics/staggers/2016/10/7-brilliant-arguments-theresa-may-once-made-against-brexit

Furthermore, the fact that in the event of a financial crisis, EU and UK regulators may well have diverging responses, gave Grant Thornton the impression that overall banking stability would be reduced.[42]

Taken altogether, the outlook from many well-respected thinktanks and business figures both in the run-up to the referendum vote and in the period following the vote was extremely negative. Little consideration was given to the real benefits of life outside of the EU for the UK, and little attention was paid to the feelings of the British people. The result of the vote showed how people were tired with negative thinking about the UK's ability to go it alone, and highlighted their belief that Britain should make its own way in a new global world, one very different to when we joined the EU in 1973, without the shackles of EU membership. Boy, were they on to something.

[42] Fleming, E. and Young, D. (2016), p. 2, https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/brexit-impact-financial-services.pdf

The reality for the economy

Before embarking on our exploration of how stark the difference has been between the claims and the reality of Brexit, one thing must be noted. The coronavirus pandemic has had a major effect on every part of global life; no part of any global economy or society has escaped untouched. The result of this with regards to the British economy post-Brexit has been that the growth later revealed in this report to have taken place after the referendum was wiped out. It will take time to recover, of that there is no doubt. However, as we will see in due course, the UK is now in a strong position to rebuild its economy to even greater heights, thanks to the enviable place it now holds free to pursue a positive economic agenda without the shackles of the EU.

The UK economy has, in the last year, proven how resilient it is. Despite the greatest economic challenge since the Second World War, it has bounced back in less than a year from GDP levels not seen since the financial crash of 2008. According to ONS figures, it is currently at an early 2015 level, [43] and is expected to continue growing rapidly in line with the strong growth being achieved pre-pandemic, with the May 2021 Treasury compilation of forecasts for the economy putting the average GDP growth forecast for this year at 6.4%.[44] Certainly, the short-term predictions for GDP from the IMF, OECD, CBI and the Treasury were well off the mark, and were it not for the pandemic, they would have been even further from reality. Before the pandemic took hold, the IMF forecast in January 2020 that the UK would grow at a faster rate than the Eurozone in the two years immediately after leaving the EU, assuming that an orderly 'divorce' took place.[45]

The Treasury and Government have definitely changed tune since the 2016 reports summarising both the short and long-term effects of Brexit to be negative. In its report released in March this year looking at 'Global Britain in a competitive age', the Government's summary of the UK economy was far from the hellish nightmare predicted, with key points including:[46]

- In 2019, total trade accounted for 62% of UK GDP
- The UK is 5th in the world for the export of goods and services
- The UK FDI to GDP ratio is 72%, currently well ahead of France (32%) and Germany (27%)
- The Digital sector has been booming, with its contribution in 2018 up 30% from 2010 at £150 billion, with over 1.6 million people employed and in 2019 receiving £10.1 billion in investment, which accounted for 33% of all European tech investment

It is not just the Government who has had to lick wounds since the vote to leave.

[43] ONS (2016), https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmi/qna
[44] HM Treasury (2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987466/Forecomp_May_2021.pdf
[45] Maidment, J. (2020), https://www.dailymail.co.uk/news/article-7908509/IMF-UK-economic-growth-dependent-orderly-Brexit.html
[46] HM Government (2021a), p. 51, https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy

After its report arguing that Brexit would, among things, severely harm investment, the ex-boss of the CBI Mike Rake went further in 2018, signing an open letter which stated "Brexit… will further depress investment".[47] This prediction was hugely short-sighted, with the EY May 2020 Attractiveness Survey of FDI in the UK showing that from 2018 to 2019: the number of FDI inward projects rose by five percent; the UK's share of FDI inward projects in Europe rose from 16.6% to 17.4%; and the UK was the leading destination for FDI projects in Europe.[48] Certainly not the doom and gloom predicted by Mike Rake and others.

It was not only investment predictions that ended up proving inaccurate. In 2019 before the pandemic brought havoc to UK employment, unemployment figures were at their lowest levels since the 1970s, and wages were growing at the fastest rates since 2008.[49] This flew in the face of CBI estimates in relation to employment and Treasury estimates relating to both employment and wages.

On top of domestic economic concerns being allayed, fears over our international trade agreements, seen as crucial to maintaining strong output, have proved to be unfounded. Remain felt they had struck gold when Barack Obama, at a joint press conference with David Cameron in April 2016, stated that the UK would be at the "back of the queue" when it came to any trade deals with the US.[50] Fearing that this would mean trade deals with other nations who had deals with the EU bloc would also prove difficult, the UK has swiftly put pay to such fears, with a steady stream of trade deals being agreed with countries and other blocs from around the world. 62 have been agreed so far, either awaiting ratification or already fully ratified, with a total value so far of £188 billion.[51] Funnily enough, there are 166 other countries to have trade deals with outside the US and EU; the world does not revolve around the US, as much as it loves to tell itself just that.

[47] Stubbington, T. and Meddings, S. (2018), https://www.thetimes.co.uk/article/city-grandees-including-lord-davies-and-sir-mike-rake-demand-peoples-vote-on-brexit-2qqgr69p8
[48] EY (2020), p. 4, https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/attractiveness/ey-uk-attractiveness-survey-may2020.pdf
[49] Partington, R. (2019), https://www.theguardian.com/money/2019/aug/13/uk-wages-rise-at-fastest-rate-for-a-decade-despite-brexit-risks
[50] BBC (2016), https://www.bbc.co.uk/news/uk-36115138
[51] HM Government (2021b), https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries

The reality for manufacturing

The claims regarding manufacturing were dependent primarily on the inability to negotiate tariff-free access to the EU market, which would increase the cost of business for many British businesses. Once again, the CBI showed no confidence in the UK's ability to do this. They need not have bothered with their scaremongering. Once the EU finally saw sense, the UK and the EU bloc negotiated its Trade and Cooperation Agreement (TCA) at the end of 2020.

The TCA ensures that British exports will not face import tariffs or quotas when heading to the EU. For industries such as the automotive and chemical industries, this is excellent news, though given the EU accounts for 46% of UK goods exports and 53% of goods imports,[52] tariff-free access is good news for everyone. In January 2021, Nissan COO Ashwani Gupta spoke about the future for his company, a well-established employer in the North East of England, stating:

> "Brexit for Nissan is a positive. We'll take this opportunity to redefine the auto industry in the UK… our competitiveness is improved… Brexit gives us the competitive advantage in the UK and outside."[53]

A major additional bonus for manufacturing is the trend of onshoring that is now beginning to take off. This is the move by businesses to move the parts of their supply chains that are currently outside of the UK into the UK, in order to comply with rules of origin that allow tariff-free trade. This means that UK suppliers and manufacturers are securing more work, and the cash flow of UK businesses is aided as money is not having to be paid so far in advance for long-distance contracts. In fact, a report by global professional services firm Alvarez and Marsal estimated that up to $6.4 billion (£4.6 billion) worth of retail manufacturing alone could be onshored by the end of 2021.[54] If that is the forecast for retail manufacturing, the figures for wider manufacturing will be even greater. This bodes well for employment in manufacturing as well which, contrary to predictions by the TUC, actually saw an increase of nearly 10,000 following the vote to leave up to 2019.[55]

With a greater range of products now being lined up for manufacture in the UK, Managing Director of automotive, electronics, aerospace and defence sector supplier ENL Group, Richard Gamble has stated this will boost manufacturing as a whole:

> "With manufacturing set to become an important part of the UK economy for the foreseeable future, I think this could be a chance for us to nurture the innovators of tomorrow. A real opportunity for the UK to become pioneers in cutting-edge design and technology."[56]

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[52] Ward, M. (2020), p. 4
[53] Tovey, A. (2021)
[54] Alvarez and Marsal (2020), p. 26, https://www.alvarezandmarsal.com/sites/default/files/the_future_of_retail_supply_chains.pdf
[55] Rhodes, C. (2020), p. 8
[56] ENL Group (2020), https://enl.co.uk/re-shoring/

The reality for financial services

Most financial services chiefs and remain-backing thinktanks envisaged major job losses for the sector, and an exodus of big names from London to the continent for fear of missing out on the EU market. As with manufacturing, they need not have been worried.

It did not take long for naysayers to begin changing their tune. PwC and TheCityUK, after barely one year previously claiming the sector could decline by up to 9.5% were already forecasting the potential for financial services to add £43 billion to the economy by 2025, and instead of declining by 9.5% it would grow by 9%.[57] This would be possible by the industry, regulators and the Government being able to come together and set out the way forward for the industry; impossible while still a part of the EU.

With regards to job losses, it is clear how exaggerated the claims made at the time of the referendum were. A poll by the FT conducted in December 2020 of 24 large international banks and asset managers found that the majority of companies had actually increased their UK-based workforces.[58] After its Chief Executive Jamie Dimon was pessimistic about Brexit pre-referendum and thought his firm would have to cut 4,000 jobs, JP Morgan actually grew its UK workforce by 2,000 to 18,000;[59] what foresight!

Given the concern regarding financial services firms leaving the UK for the EU even before a deal was agreed, lots of attention was paid to the strength of financial service exports. The statistics from the ONS once again proved that worries that the sector would shrink considerably were baseless. In the most recent available data, the financial services sector remained the largest UK exporter of services, and in fact increased by more than £3 billion from 2016 to 2018.[60]

The reason for this continued success can almost certainly be attributed to the ability of the UK to now set its own regulations for the sector. This was certainly the view of a number of figures within financial services and government. Arnab Das, Global Market Strategist for EMEA at Invesco, spoke to CNBC in January 2021, saying that regulatory divergence, along with liberalization, would "lift the currency, UK risk assets, [the] property market, construction [and] investment…".[61] Jes Staley, speaking to the BBC in February 2021, felt that "Brexit is more… on the positive side than… the negative side" and that the "UK's regulation [is] a major strength."[62]

[57] TheCityUK (2017), p. 4, https://www.thecityuk.com/assets/2017/Reports-PDF/6770942b5f/A-vision-for-a-transformed-world-leading-industry.pdf
[58] Noonan, L. et al. (2020), https://www.ft.com/content/0c7c2597-4afd-4ade-bc19-02c3bbc53daf
[59] Ibid
[60] ONS (2020), https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/internationaltradeinservices/2018
[61] CNBC (2021), https://www.cnbc.com/video/2021/01/15/how-the-uk-might-make-a-comeback-post-brexit-invesco.html
[62] Jack, S. (2021), https://www.bbc.co.uk/news/business-55939857

The future of the economy and recommendations

What has become abundantly clear since the vote to leave the EU is that those who fought to keep us locked in with restrictive European arrangements have so far been very wide of the mark with their doomsday predictions. The IMF, the Treasury, TheCityUK, JP Morgan and many more all predicted an economic catastrophe for the UK. Jobs, GDP, output, nothing would be safe. Yet we have seen them go back on these forecasts once they realise the real direction in which the UK economy is heading.

Most laughable of all of these changes of heart is the CBI. Even once the vote was set in stone, its (now ex) boss Mike Rake and the organization kept banging the drum for a 'people's vote', even though we had already had that vote, and warning of the dire consequences facing the UK economy upon leaving the EU. But wait, it now seems even the CBI has given in to reason and accepted the benefits Brexit will bring. In its new report with the tagline 'Seize the Moment', it finally acknowledges what life outside the EU will bring:

> "There are huge opportunities for the UK to reach for. For the first time in 40 years, the UK now has more control over our trade, immigration, and investment policy, alongside sector and market regulation."[63]

Why, therefore, should the hard-working family businesses of the UK listen to anything these so-called experts have to say. Time after time over the last five years they have proven themselves to be incapable of seeing the bigger picture or considering the needs of British businesses and people. That is the reason we have drawn up our own recommendations for the future of UK economy. We believe we are now the voice that best represents the interests of British business going forward, and our recommendations, if adopted, will ultimately help British business thrive in the new economic environment we find ourselves leading.

First of all, we reiterate our previous proposals to transform the environment in which British business operates. These include:

- In the short-term, cutting corporation tax from 19% to 15%, and by the end of the current parliament, abolishing the current form of corporation tax altogether. This would provide an initial boost to the economy of over £11 billion, and would then lead to the elimination of punitive taxes such as the 'factory tax' that dissuades British manufacturers from investing in innovation[64].
- Revoking the Ports Services Regulations, which were introduced as part of an EU-wide directive, to provide greater freedom. The current regulations are more appropriate for the larger, publicly owned EU ports, not smaller British ports where there is greater private investment. To ensure our exports are boosted to their fullest potential, we must eliminate the 'one size fits

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[63] CBI (2021), p. 6, https://www.cbi.org.uk/media/6836/seize_the_moment_report-01_06.pdf
[64] Lesh, M. (2020), https://www.adamsmith.org/research/abolishing-the-factory-tax

all' approach imposed on our ports by this regulation.

- By the 2024 General Election, business rates in their current form need to be replaced. Under the current model, businesses are highly discouraged from making major investments as they are aware of the major tax bill they will accrue. Even the Treasury Select Committee, in its report on the impact of business rates on business, stated "The current approach to business rates acts as an immediate significant disincentive to investment."[65]

Second, we draw to attention the drawbacks of the CBI's 'Seize the Moment' strategy. The most evident of these are:

- Channeling funding into business 'clusters'. While this will benefit multinational businesses, who can afford to access brand new facilities and supply chains, family businesses based in towns will not be so lucky. A boost in infrastructure investment in regional towns is needed to ensure these businesses can maximise their potential.
- Its supposed 'Tax Roadmap' is nowhere to be seen. Despite one of its five pieces of advice to the Government being a long-term tax roadmap that 'will restore the public finances in a way that is consistent with supporting business investment',[66] the CBI fails to advise on a tax cut at any point in the report. A long-term economic strategy supporting business without a single mention of a tax cut is not a strategy the Government should be paying attention to.
- At no point in the CBI's strategy is there mention of regulatory divergence or simplification. We now have a great opportunity to differentiate our economy and its sectors from our neighbours, who are now also our competitors. A strategy with a lack of bold reform is not indicative of a desire to move forward.

The CBI's strategy is neither bold enough, nor appropriately focused. Measures such as rolling out high-speed internet are not groundbreaking; they are the policies of a nation that has been stuck in second gear. As the voters of this country trusted in us five years ago that leaving the EU was the best way forward, so the Government should trust us that our policies are the way forward.

They must trust the contrarians of UK business; those who go against the grain and vested interests to bring about positive change. Contrarians have always been the ones to push things forward, as they challenge the old guard with ideas they consider almost heretical, which invariably end up becoming the new norm.

Multinational businesses will always do well in this country; it is our family-run and owned business that, with the right backing from Government, will take our country forward.

[65] House of Commons Treasury Select Committee, *Impact of business rates on business*, (HC 222 2019-2020), para. 82

[66] CBI (2021), p. 3

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