

Social Policy and Distributional Outcomes

in a Changing Britain

# What does Brexit mean for social policy in the UK?

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# Introduction

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- Aim of this paper: to draw on existing literature and analysis to map out the ways in Brexit has affected/is likely to affect:
  - Living standards, poverty and inequality
  - Social and employment rights and social protection
  - Provision and accessibility of public services
- Written against a backdrop of continuing uncertainty
- Focus on potential opportunities as well as challenges

# This presentation

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## **The backdrop of uncertainty**

## **Overview of the paper**

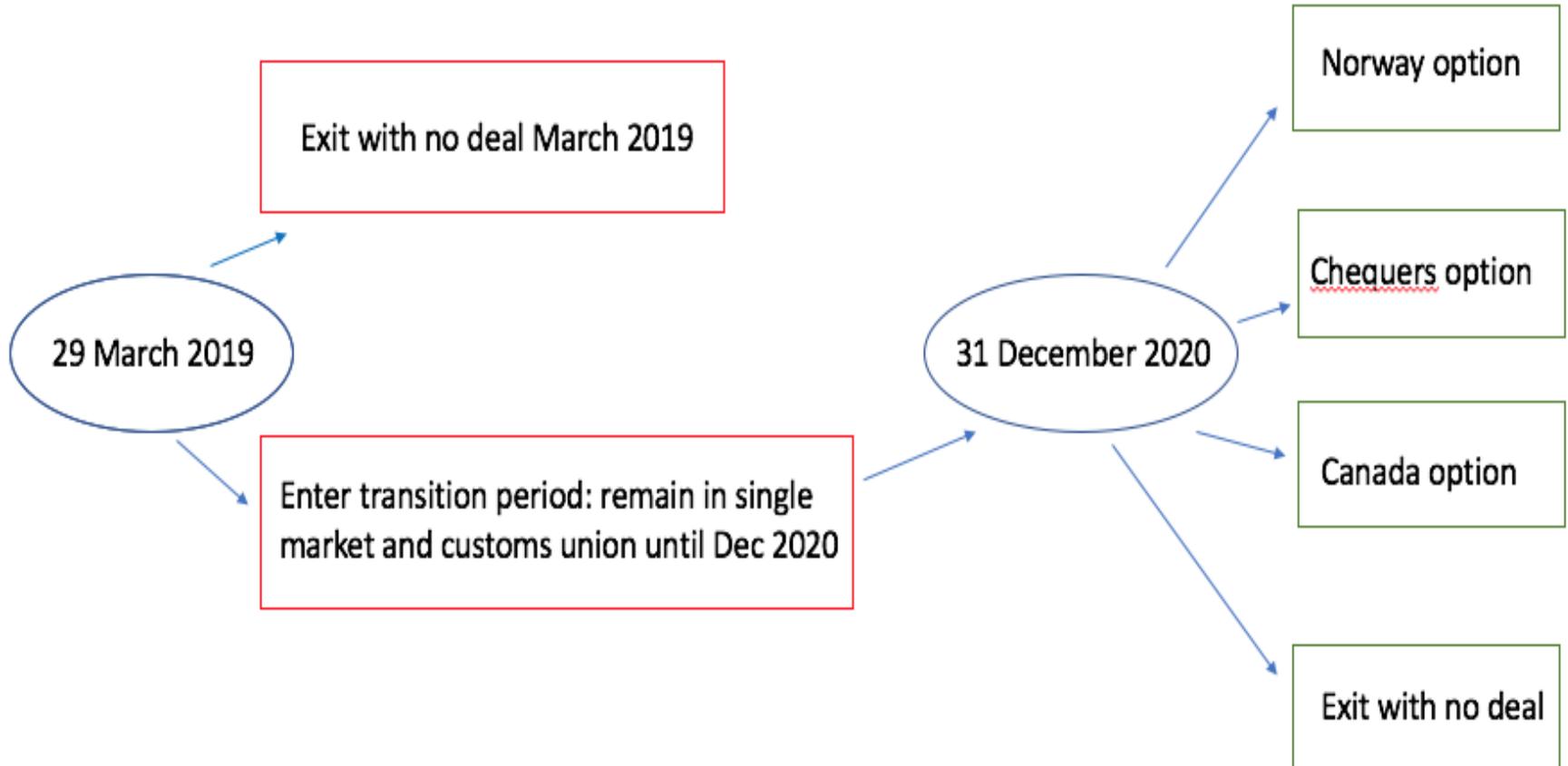
## **Indirect effects via political and economic consequences**

## **Direct effects: Focus on three sections**

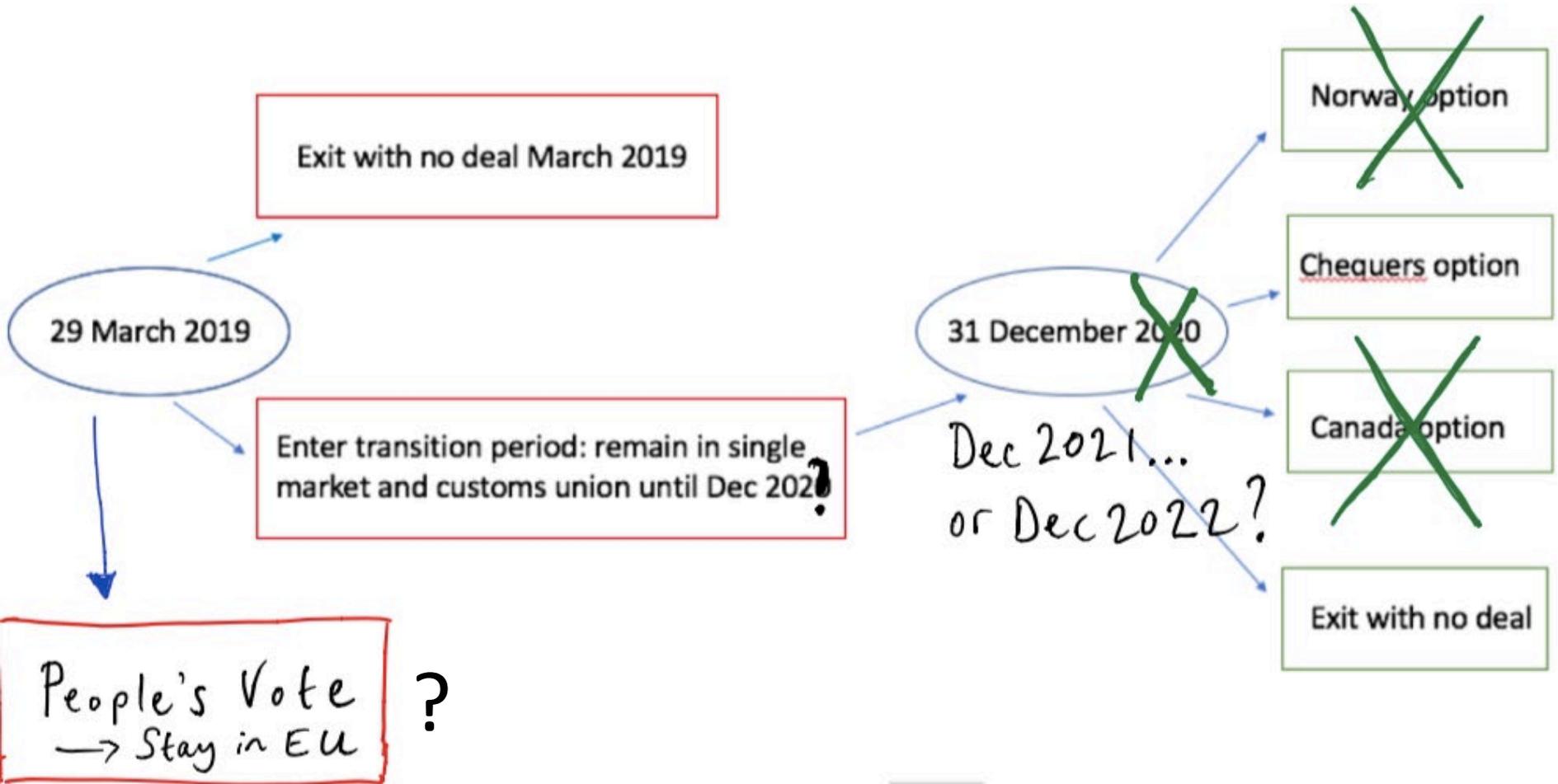
- Brexit and social/employment rights
- Implications of end of free movement for public services
- Implications for state aid and public procurement

## **Broad conclusions**

# Uncertainty (1) Time scale



# Uncertainty (1) Time scale



## Uncertainty (2) Shape of the future relationship

|                           | Customs Union? | Single market (goods)? | Single market (services)? | Free movement? | Tariffs with EU | Non-tariff barriers at the border | Non-tariff barriers behind border |
|---------------------------|----------------|------------------------|---------------------------|----------------|-----------------|-----------------------------------|-----------------------------------|
| EU Membership             | Yes            | Yes                    | Yes                       | Yes            | None            | Low                               | Low                               |
| Norway                    | No             | Yes                    | Yes                       | Yes            | Low             | Medium                            | Low                               |
| <b>Chequers/WDAgreemt</b> | <b>(Yes)</b>   | <b>(Yes)</b>           | <b>No</b>                 | <b>No</b>      | <b>(None)</b>   | <b>Low</b>                        | <b>Low-med</b>                    |
| Canada                    | No             | No                     | No                        | No             | Low-med         | High                              | Medium                            |
| No deal                   | No             | No                     | No                        | No             | High            | High                              | High                              |

### Withdrawal Agreement scenario

- Avoids hard border for Northern Ireland
- Minimises economic impact on trade in goods (but not services)
- Ends free movement of people (but UK/EU citizens already moved retain residency and social security rights, and can get permanent residence after 5 years)

Also relevant to social policy – customs backstop “will include the corresponding level playing field commitments ... to ensure fair competition” (WA, p.311):

- Thus UK committed to EU social and employment protection
- And to EU state aid and public procurement rules

# Overview of the paper (and the rest of the presentation)

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## **Indirect effects**

- Political consequences of the referendum result
- Economic consequences – of the result, and of Brexit itself

## **Direct effects**

- Withdrawal from European labour, social protection and human rights instruments
- [End of free movement – implications for EU citizens in the UK and UK citizens in the EU]
- End of free movement (and withdrawal from the single market) – implications for public services
- Taking back control – new powers over resources and procurement rules

# The political consequences of the referendum

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- **A new government**
- **A new focus on social, economic and geographical divides?**
- Brexit bandwidth
- Changing political environment

# The political consequences of the referendum



# The political consequences of the referendum



July 2016. New PM Theresa May pledges to “make Britain a country that works, not for the privileged few, but for every one of us” and to tackle the “burning injustice” of differences in outcome by income level, race, class and gender.

October 2016 Conference Speech. The referendum as a “once-in-a-generation chance to change the direction of our nation for good. To step back and ask ourselves what kind of country we want to be.”

# The political consequences of the referendum

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## **In practice, some change and a lot of continuity**

### Change

- Housing policy – shelving of fixed-term tenancies and ‘pay-to-stay’ in social housing; retention of Housing Benefit for 18-21s
- Education policy – halt to academisation
- New Race Disparity Audit
- New Industrial Strategy

### Continuity

- Welfare reform – no new cuts, but most of £12 bn already announced (4 year freeze on working age benefits, 2 child limit, cuts to Universal Credit work allowances)
- Public spending much as before (until July 2018)
- Increases in personal tax allowance (even in Oct 2018)

[Implications for Northern Ireland social policy of DUP role in government since General Election June 2017]

# The political consequences of the referendum

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- For the longer-term, could the deeper understanding of the extent of social and economic divides have consequences for social policy?
- For now, gap between rhetoric and reality

December 2017: all four members of the Social Mobility Commission resigned, citing “indecision, dysfunctionality and a lack of leadership” at the head of government.

# The political consequences of the referendum

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## **Brexit bandwidth**

Brexit is “the biggest, most complex challenge facing the civil service in our peacetime history” Jeremy Heywood, then Cabinet Secretary, July 2017

By March 2019, an estimated 10,000 additional civil servants will have been taken on across the six main Brexit-affected Departments (payroll cost £400,000).

Growth in numbers in Home Office, Defra and HMRC have largely reversed reductions 2010-2016.

“Rapid job creation in response to Brexit has meant more opportunities, and that means moves are becoming more frequent.” Some moves after just 6 months, meaning promotion of less experienced staff. (Owen et al, 2018. p.4)

Some positives?

- “A sense that fresh perspectives and new skills... [may] bring benefits beyond just the Brexit effort” (Owen et al)
- More space for civil servants in less affected departments to quietly design better policy?
- More space for devolved authorities to fill the gap?

# The political consequences of the referendum

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## **A changing political environment?**

- More variation in social policies across the four nations (and even break-up of the Union?)
- More tolerance of xenophobia and racism?
  - Spike increase in hate crime after the referendum (O'Neill, 2017)
- Changing political allegiances (Curtice, 2018)
  - Referendum voting cut across party lines and created new Leave-Remain allegiances, which were carried through into 2017 general election – attitudes to public spending and redistribution have become less important as predictors of voting behaviour.

# Economic consequences

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**Economic consequences affect social policy and distributional outcomes via:**

- **Effect on living standards**
  - Employment
  - Wage growth
  - Inflation
  - House price inflation
- **Effect on public finances**
- **Distributional effects if different regions or sectors affected more**

# Economic consequences *of the referendum*

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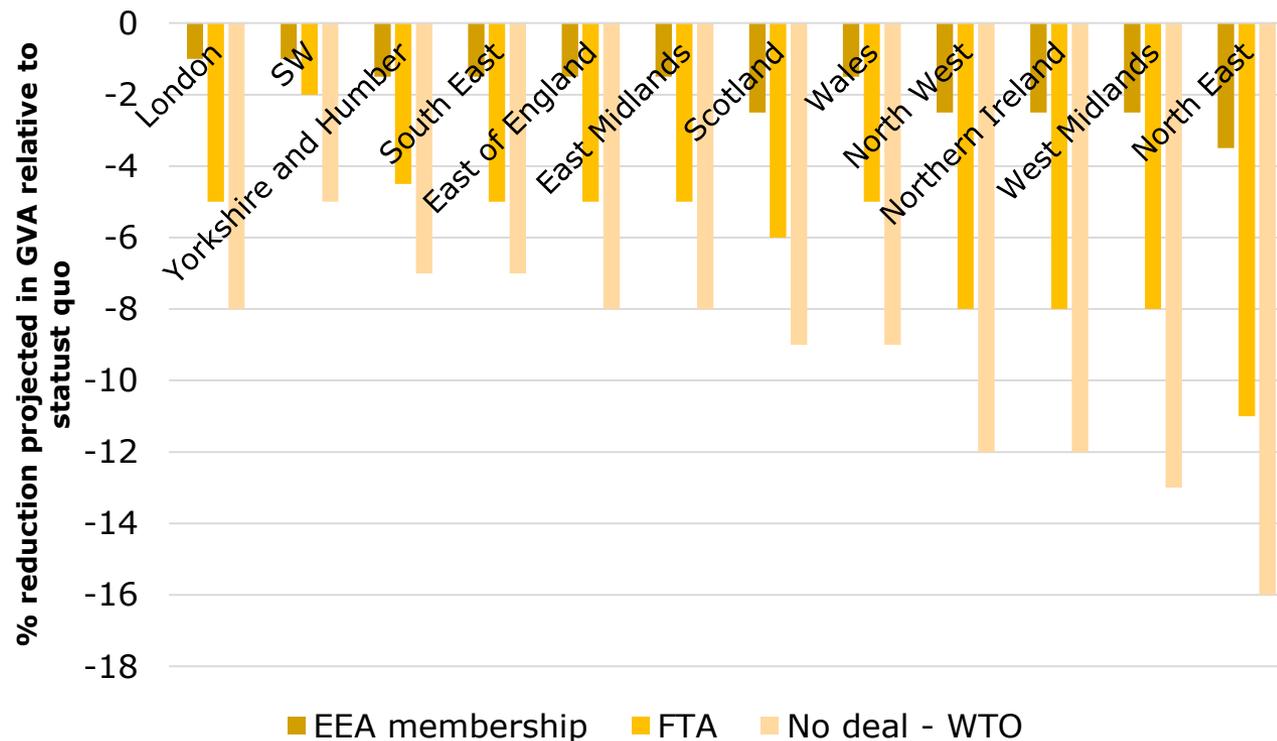
## Evidence to date points to:

- **Slower growth**, compared to pre-referendum forecasts, while Eurozone growth has been faster than forecast (OBR, 2018)
  - Bank of England estimate 1% lower than forecast, and 1.75-2% lower if factoring in faster-than-expected EU and global growth
  - Estimates equate to around £870 per household per year
- **Higher inflation**, due to currency depreciation (OBR, 2018; Breinlich et al, 2017)
  - Inflation cost average household £404 in year to June 2017
  - Those in receipt of benefits likely most affected, given freeze
  - Inflation also affects cost of service delivery (compensating NHS staff for price increases 2016-18 would cost £1 billion)
- **No change in unemployment** – has continued to fall
- **No effect on borrowing**, compared to projections (OBR, 2018)
- **Falling house prices** – down 0.7% in year to March 2018 (ONS)

# Economic consequences of *Brexit*

- Implications for **growth** (and therefore jobs, living standards and public finances): heavily dependent on the exact scenario (Figure shows GVA in 2033 compared to remaining in EU)

Source: DexEU (2018)



Household income fall: £850-£1,700/year, or £4,200- £6,400 if factoring in effects on productivity (Dhingra et al, 2016)

# Economic consequences of *Brexit*

## Fiscal implications



- UK's net contribution is about £8 billion a year (IFS)
- Divorce bill £39 billion, ruling out savings until 2023
- Reduction in GDP of 1% equals more than £8 billion fall in tax revenue (IFS)
- In brief, no "Brexit dividend".
- Looking ahead: Treasury projects higher borrowing relative to status quo of £20 billion (Norway) to £80 billion (no deal) (DexEU, 2018, slide 25)

# Economic consequences *of Brexit*

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- **Distributional implications**

Some variation in regional projections:

- Los et al (2017): *Deepening regional inequality.*
  - London and SE relatively protected as they trade globally;
  - NW, Midlands and SW hard hit – highest exposure to EU demand.
  - Clear positive correlation between % Leave and extent to which local employment dependent on the EU.
- Dhingra et al (2017): *London and SE may be hardest hit*
  - London and SE more trade in services
  - SE has current advantage of geographical proximity to EU; other areas may vary from dispersion of trade
  - BUT negative shocks more keenly felt in poorer areas
  - And London and SE may recover more quickly.

# Economic consequences *of Brexit*

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- **Distributional implications**

Effects on different sectors/groups of workers:

- Levell and Keiller (2018): Greatest exposure to EU trade in clothing/textiles, transport (including car manufacturing), chemicals/pharmaceuticals and finance.
- Men more exposed than women
- Lower educated men most of all
- Jobs most at risk are relatively high paid within each education group (meaning *inequality* could fall)
  - E.g. high risk for older men with specific skills working in process, plant and machine operative occupations.
- Will these effects be balanced by reductions in competition from migrants?
  - No. No expected effects on employment, and only very small effects on wages for low-skilled workers – already wiped out by inflation effects since 2016 (MAC, 2018)

# Economic consequences *of Brexit*

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- **Distributional implications**

A smaller City of London?

- Reduced pressure on housing in London
- Reductions in ostentatious wealth
- A permanently weaker currency allowing rebalancing towards other industries, offsetting some of the trade effects
- But loss of supporting jobs – IT, catering, cleaning.
- Poorer but more equal overall?



# Direct implications of leaving the EU for social policy

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## **1. Withdrawing from European labour, social protection and human rights legislation: the implications for citizens' and workers rights**

2. EU citizens in the UK and UK citizens abroad: implications of an end to free movement for the rights of mobile citizens.

3. Withdrawing from the single market: implications for public services *[largely but not entirely about free movement]*

4. Taking back control of Structural and Investment Funds and state aid rules

# 1. Brexit and Social and employment rights I

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## ***Will no longer have after Brexit:***

- **The Charter of Fundamental Rights**
  - Brings together all civil, political, social and economic rights gained at different times through different legal instruments
  - Enforced by CJEU
  - Takes supremacy over conflicting laws of member states
  - **Amendment to retain into UK law rejected**

## ***Will continue to have after Brexit:***

- The Equalities Acts (2006 and 2010)
  - **But not constitutionally protected**
- European Convention of Human Rights → The Human Rights Act (1998) enforced by European Court of Human Rights
  - **But focus on civil and political rights**
- European Social Charter 'enforced' by Council of Europe
  - **But no judicial enforcement**

# 1. Brexit and Social and employment rights II

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## Concerns about

1. **Gaps in rights legislation** (freestanding rights to non-discrimination, rights of the child and right to dignity)
2. **Weaker remedial mechanisms** (the charter as a powerful legal tool and strong mechanisms for EU law)
3. **Left behind as EU law continues to progress** (e.g. work-life balance initiative)
4. **Potential erosion of existing rights** (not constitutionally protected so can be amended)

# 1. Brexit and Social and employment rights III

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**Nothing inherent about Brexit that means we will necessarily lose rights...**

**Is this a potential opportunity?**

- British Bill of Rights?
- Create superior levels of protection?

**BUT**

- Many EU laws have provided a floor not a ceiling
- Political context – history of government opposition to certain rights e.g. Working Time Directive
- Conflict between workers' rights and pressure to create a 'business-friendly' low regulation environment

**Suggestions for protecting rights**

- Workers' rights could be written into trade deals to protect existing rights but also can be used to extend rights, and track EU progress (Harrison et al, 2017 'Protect, Promote, Empower')

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# 3. The end of free movement and public services

Reduced migration:

- Reduce pressure on public services?
- Affect the supply of staff delivering public services?

Focussing on:

1. Social security system
2. Health and social care
3. Social housing
4. Higher education

## Brexit plan will stop EU migrants 'jumping the queue' - May

🕒 19 November 2018 | 📄 7775

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Brexit



## 3.1 The end of free movement and 'benefit tourism'?

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- In reality EU citizens only ever had full access to social security system if workers or self-employed (or family members)
- **Official data**
  - DWP and HMRC (2016) find net fiscal contribution.
  - Office for Budget Responsibility (2017) predicts positive long-term economic impact of higher migration scenario
- **MAC report (2018a)**
  - **Static model:**

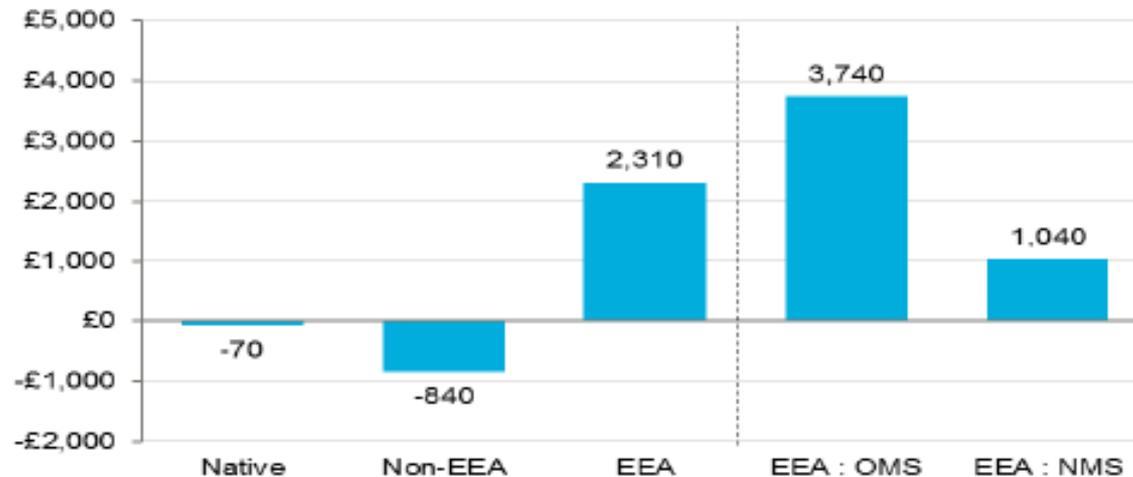
In 2016/17 EEA migrants paid £4.7bn more in taxes than they received in benefits or services compared with UK-born's population *deficit* of £41.4bn

## 3.1 The end of free movement and 'benefit tourism'?

### - MAC report (2018a)

- **Static model:** per capita average EEA migrant contributed around **£2,300 more** to UK public finances than the average adult resident in the UK (both UK and non-UK born)

Figure 4.1: Average annual net fiscal contribution of each migrant and native, relative to the average resident UK adult, 2016/17 (£ per "accountable adult")



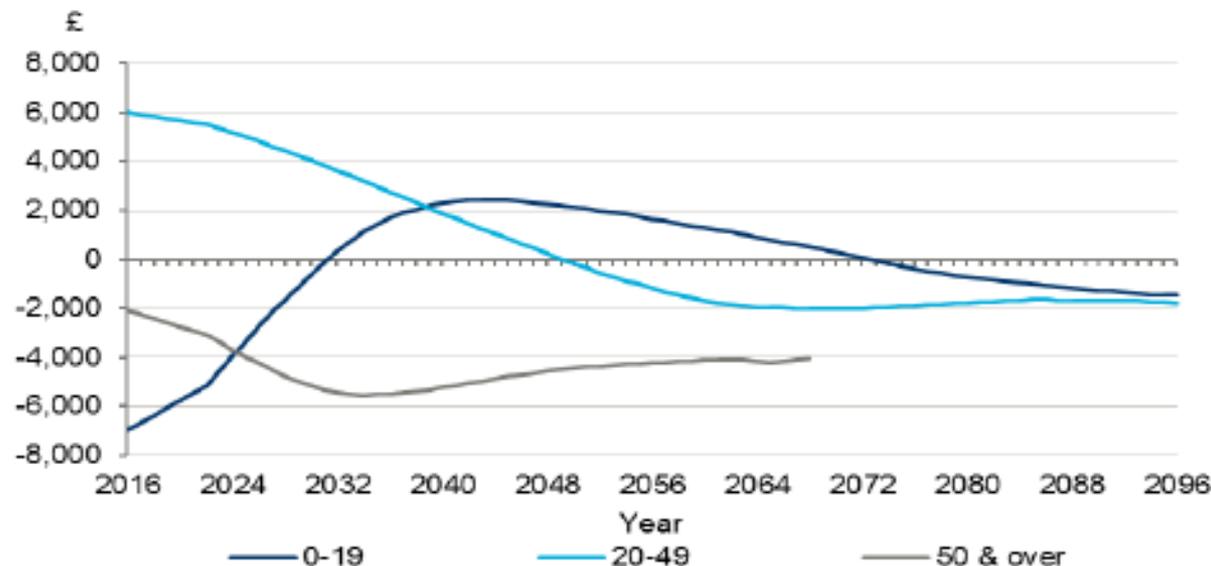
Source: Oxford Economics

## 3.1 The end of free movement and 'benefit tourism'?

### - MAC report (2018a)

- **Dynamic model:** the 515,000 migrants who arrived in 2016 are estimated to make a discounted net contribution of £26.9bn over their lifetime.
- Per capita this equates to each additional migrant from the EEA making a total discounted fiscal contribution of around £78,000 over his or her lifetime (in 2017 prices).

**Figure 4.4: Annual average net fiscal contribution over lifecycle of 2016 cohort, discounted and smoothed (age cohorts, 2016 prices)**



Source: Oxford Economics

MAC, 2018a: 76

## 3.2 The end of free movement: health and social care

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### - **Estimating EU migrants' use of healthcare**

- Wadsworth (2012) finds no significant difference in use of hospital services between immigrations (not specifically EU) and UK-born citizens, but small significant difference in use of GP services – used slightly more by immigrants who arrived as adults
- Guintella et al (2015) finds no impact on accident and emergency or elective care waiting times & reduces NHS waiting times for outpatient referrals due to 'healthy immigrant effect'. Estimate that a ten point increase in the share of migrants living in a local authority would reduce waiting times by an average of 9 days. But effects differ by area with largest reductions in least-deprived areas
- MAC report (2018a): Roughly 89% of health spending goes on those born in the UK and Ireland (more than their 86% share in the pop.)

## 3.2 The end of free movement: health and social care

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- **Estimating impact of immigration on delivering healthcare**
  - NHS staffing crisis – in 2016 50,000 clinical roles unfilled (NAO, 2016).
  - 10% of doctors in NHS England and 5% of all NHS work force and 7% of total care workforce are EU nationals.
  - Reduction in EU migration (already started) will exacerbate the problem – Dep of Health estimates shortfall of 20,000 nurses by 2025/6 if EEA migration is stopped with Nuffield Trust estimating the gap to be 50,000
- **Possible solutions**
  - Health workers as special category in post-Brexit immigration system? [but MAC recommendations]
  - *Opportunity* to train/recruit more UK-born?
    - [time lag and cost around £200,000 to train a UK doctor]
    - [concerns about recruiting to social care]

## 3.3 The end of free movement and social housing

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- Perception EU migrants are placing additional pressure on scarce resources or even being given priority but several studies have found no evidence of this (Vargas-Silva, 2017)
- EEA migrants comprise only 3.4% of all social housing residents in 2017, though looking at the flow of new lettings each year shows that the proportion going to UK-born tenants has declined from 94.5% in 2007 to 91.5% in 2016 whilst a rising share has gone to EU migrants (MAC, 2018a)
- However the main reason for decreasing access to social housing for UK-born is declining stock driven by sales and lack of new construction. Battison et al (2014) estimate declining stock accounts for 2/3 of the reduction in probability of UK-born accessing social housing
- Furthermore, reduction in EU migration could negatively affect housing supply, both via fiscal impact and access to EU construction workers (Home Building Federation estimate 18% of workforce overall and 50% of workforce in London are from EU).

## 3.4 The end of free movement and higher education

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### **Staff**

- 1 in 6 of all university staff in UK are from the EU
- 2017 survey by UCU found 76% of EU academics at UK universities said more likely to consider leaving UK HE due to Brexit
- If Tier 2 immigration route extended to EU migrants only 26% of EU staff in HE would meet the £30,000 salary threshold and would also be a huge bureaucratic burden for universities (House of Commons Education Committee, 2017a)
- Potentially positive for qualified UK nationals as reduces competition for jobs but might negative consequences for quality of teaching and research as smaller market for universities to recruit from and likely reduction in collaborative work across EU institutions

## 3.4 The end of free movement and higher education

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### Students

- Currently EU nationals have same rights as home students – pay same tuition fees and eligible for loan \*but withdrawal agreement includes no obligation to give student loans
- Uncertainty whether EU students will be expected to pay overseas fees which would likely result in reduction. UCAS data has already shown a 7.4% decline in EU undergraduate applications.
- MAC (2018b) estimate total economic benefit to UK economy of typical EU undergraduate to be around £87,000. Also no evidence of crowding out domestic students
- Potential opportunity to recruit more students from beyond the EU? Higher fees = positive for university funding
- UK is most popular for EEA students wanting to study abroad BUT majority of international students already come from beyond Europe: in 2016/17 73% of international students were non-EU with more from China than all EU countries combined
- But competition from US and Australia and concerns re UK's declining share in the global HE market

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## 4. State intervention in the economy: The 'Lexit' case

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“Labour’s alternative plan for Brexit includes:

1. A new comprehensive and permanent customs union, with a British say in future trade deals, to support businesses and jobs and ensure no hard border in Northern Ireland.
2. Guarantee that our country doesn’t fall behind the EU in workers’ rights, or protections for consumers and the environment. Brexit must not be an excuse for a race to the bottom in protections or rights at work.
3. A strong single market relationship that allows British business continued access to European markets for both goods and services – while **also ensuring we have the powers to support our public services and industry and transform the economy in all our regions and nations.**”



Source: [labour.org.uk](http://labour.org.uk) 18 November 2018

## 4. State intervention in the economy: The 'Lexit' case

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Will Brexit give government greater power for interventionist economic strategy?

### **Nationalisation and public ownership**

- Re-nationalising the railways – impossible within the EU?
- Yes: infrastructure and services need to be separate, and operators of services need to win contracts competitively.
- Though governments can award contracts directly if this can mean service improvements.
- IRONY ALERT: this is the EU pursuing a (somewhat watered down) version of the UK model.

### **Industrial strategy**

- Governments cannot target resources to particular industries – e.g. subsidise the steel industry directly.
- But there are many exemptions – environment, energy, broadband.
- And 'horizontal' support is possible – e.g. investment in infrastructure, R&D subsidies, support with meeting environmental standards
- In 2015 only 4 EU countries spent less than the UK on state aid.

## 4. State intervention in the economy: The 'Lexit' case

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### **Public procurement**

- Procurement contracts must be open to all bidders across the EU
- "Lowest price" and "most economically advantageous tender" must be among the key criteria for awarding large contracts
- **The objection:** local governments have limited ability to e.g. award contracts locally or to small businesses.
- **In practice** government can make it easier to support local economies.
  - E.g. German procurement law requires contracts to be divided into small lots to make it easier for local businesses
  - Germany includes energy efficiency criteria
  - Sweden has introduced labour requirements
- **But** some things are not possible.
  - E.g. Labour manifesto pledge that government suppliers would be expected to reduce wage inequalities by moving towards a 20:1 ratio highest/lowest paid would not be allowed under current rules.

## 4. State intervention in the economy: The 'Lexit' case

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### **EU competition law and healthcare**

- Where there is a purchaser-provider split (as in England, though not Scotland or Wales), providers must be allowed to compete on an equal footing
- This rules out co-operation between providers and commissioners of services that might limit competition.
- This is also enforced within the English Health and Social Care Act 2012 – not currently being enforced by EU legislation.
- But EU law would make it harder to repeal the Act if we wanted to (BMA, 2017).

**Important caveat to all the above: in current Withdrawal Agreement we are likely to be tied to EU regulations on state aid, procurement and competition law.** These are seen as integral to the functioning of the Single Market – which we are effectively joining for goods.

# Summary

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## *The referendum has already meant:*

- A reduction in economic growth and slower growth in living standards (though no negative effect on unemployment)
- Inflation due to currency depreciation, with deepest effects for those in receipt of benefits given cash freeze
- Some evidence of increased ethnic tensions

## *On the other hand:*

- A change in government, and a (slow) move away from the austerity agenda of Cameron-Osborne
- A renewed focus in rhetoric on inequalities and 'left behind Britain' – though little policy action, perhaps in part to 'Brexit bandwidth' (the focus of politicians and civil servants on Brexit issues)

And – an apparent shift in voting allegiances. Attitudes to government intervention and public spending no longer great predictors of voting intentions. Unclear implications for social policy in the long-term.

# Summary

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## *Looking ahead, Brexit is likely to mean:*

- A reduction in economic growth and slower growth in living standards, with scale depending on the nature of eventual trading relationship
- Potential loss of 'good jobs', especially for older men with specific skills – though this could mean reduced inequality
- Less money for public services: No 'Brexit dividend'!
- [Almost certainly] lower EU immigration, meaning rising cost of delivery of public services, with no net fiscal benefit, and little reduced pressure on services
- Challenges to the quality of universities – smaller pool for staff, more restricted funding and research collaborations.

## *On the positive side, it could also mean:*

- Potential for reduction in regional inequality? (London and SE could take biggest hit) – though this is disputed.
- A less unequal (though poorer) London
- New opportunities for UK youngsters? (if govt invests in training and pay)
- Protection for EU citizens here by exit date, if they apply for residence

*Taking back control over rights' legislation, state aid rules and regional policy provides more democratic control over these areas – things should only get better?*

But (a) politics and history raise concerns about how these rights will be used.  
(b) in practice, these powers are limited in current Withdrawal Agreement – the price of accessing the single market for goods

# Concluding thoughts

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A number of ways in which the most vulnerable may be most at risk.

- Those in receipt of benefits as inflation rises
- Those with fewer skills, therefore less able to navigate effects of industrial restructuring
- Those working long hours or in precarious employment, unless employment rights protected by EU trade agreement.
- Those unable to access private health care or social care if waiting lists increase and quality falls
- EU migrants with right to permanent residence but not knowledge or evidence to complete the paperwork (cf Windrush)

Requires vigorous compensatory investment and redistribution by UK government

- Will Brexit enable this sort of action? Or make it more difficult?

# Thank you for listening

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Final paper will be published in January 2019 on the *Social Policies and Distributional Outcomes in a Changing Britain* website:

[http://sticerd.lse.ac.uk/case/\\_new/research/spdo/default.asp](http://sticerd.lse.ac.uk/case/_new/research/spdo/default.asp)

