



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

## Social Policies and Distributional Outcomes

in a Changing Britain

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

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### About the paper

The paper was written as part of a major research programme on trends in the distribution of social and economic outcomes in the UK and the design and impact of social policies. The paper seeks to map out the potential implications of Brexit for social policies and distributional outcomes in the UK. It explores the consequences of the referendum result itself while also looking ahead to the possible impact of the UK's exit from the European Union. Future effects are considered under five main headings: the effects on the economy, with knock-on consequences for public services; withdrawal from European employment and human rights legislation; implications for EU citizens in the UK and UK citizens in the EU; implications of an end to free movement for public service delivery; and implications of gaining control over resources and regulations, such as those governing state aid. Given the continuing context of high uncertainty, the paper considers what different Brexit scenarios may mean, with a central focus on a scenario in which the UK leaves the single market. The full research paper is available at: <http://sticerd.lse.ac.uk/dps/case/spdo/spdorp03.pdf>



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On 23<sup>rd</sup> June 2016 the UK voted to leave the European Union. This paper explores the potential consequences of this decision for domestic social policy. Drawing on existing research and evidence, it sheds light on the many ways in which social policy in the UK has been affected by EU membership, and hence the likely implications and challenges arising from the decision to leave. We conceive social policy broadly, to encompass policies affecting employment, working conditions and living standards as well as the traditional pillars of the welfare state – health, education, housing.

The paper explores the consequences of Brexit understood in two ways – as the referendum result itself and as the eventual outcome of negotiations over the exit process and shape of future relations with Europe. Regardless of where the process ends up, the result changed British politics. The evidence the vote presented of deep disaffection with the status quo, the change of administration, and the time and resources focused on withdrawal negotiations and scenario planning have all had ongoing implications for social policymaking.

In terms of the eventual outcome, huge uncertainty remains and may well continue for years to come. Against this backdrop, the paper maps out the implications of likely alternatives, including a central scenario in which the UK leaves the single market and brings an end to the free movement of workers. We consider the implications under five broad headings i) the effects on the economy, with knock-on consequences for living standards and public spending; ii) withdrawal from European labour, social protection and human rights legislation; iii) the implications of an end to free movement for the social rights and entitlements of EU citizens in the UK and UK citizens in the EU; iv) implications of leaving the single market for public service delivery more widely; and v) implications of regaining control over resources and regulations, including those governing public procurement and industrial strategy.

We seek throughout to look for the opportunities as well as the risks of Brexit, and to highlight government action that could mitigate risks and allow opportunities to be maximised.

Our overarching conclusion is that Brexit poses major risks to social policy, and that these risks are larger the more distant the UK's future relationship with the EU. Social policy has been affected by the UK's membership of the EU in multiple ways – and hence will be deeply unsettled by leaving.

Evidence points towards lower economic growth under all Brexit scenarios, meaning lower living standards and less money for public services – the opposite of a 'Brexit dividend'. Slower growth could also result in downward pressure on workers' rights as the UK tries to find new ways to invite investment and boost employment. And a weaker economy will make the UK a less attractive place for the migrant workers we are likely to continue to need to keep our public services running.

Concerns about immigration were interpreted as being one of the key drivers of the referendum result, and ending the free movement of workers has been a red line for the UK government from early on. But a fall in EU migration also looks likely to have significant negative consequences for social policy. EU migrants play an important role in the delivery of health and social care and in housing construction, so reduced migration will make it more difficult – and more expensive – to provide these services.

The consequences for service delivery are likely to be much greater than any reduction in service demand. Aside from their role in delivering services, EU migrants are estimated to pay more into the exchequer in taxes than they take out in benefits and services, so reduced migration will have a negative effect on public finances. And evidence does not suggest there will be significant compensatory effects on the wages of UK-born workers as a result of reduced competition.

Wider losses associated with leaving the single market include, of course, the freedom to live and work in the EU with security of access to health and other social provisions, as well as access to healthcare in other Member States for UK citizens travelling as tourists or as patients looking for quicker or better treatment. The loss of the Charter of Fundamental Rights will weaken human rights protection, and leave rights protected in domestic law, such as those currently covered in the Equality Acts, at risk of being amended in the absence of any constitutional protection. New lines of inclusion and exclusion are likely to emerge within as well as between the categories of the UK, EU and non-EU citizen, with inequalities not only in principle but also in practice in the reality of access to social provisions. Universities stand to lose access to funding and EU-wide collaborations, and will face a smaller pool of talent for research and teaching staff; between them these developments may damage the long-run reputation of higher education in the UK. And there are particular risks associated with a no-deal outcome, beyond those that will operate through the effects on the economy, including risks to food security and to access to medicines and medical treatment.

Some of these outcomes can be seen as the democratic effect of bringing decision-making back to Westminster: for example, the UK will no longer have employment protection legislation imposed by Brussels if this is not what the British electorate would vote for. But it is difficult to imagine that voters in the referendum had in mind the scale and breadth of some of the less direct effects.

On the positive side, Brexit may lead to a fall in the price of housing by reducing demand from overseas investors (there is some evidence that it has already done so), which could improve affordability and make home-ownership possible for more first-time buyers. A shrinking in the size of the financial sector could ultimately encourage a rebalancing towards other industries, via a lower value of sterling. There are some indications that we may end up a slightly less unequal country, albeit a poorer one, though in part these indications come from studies that predict the loss of higher paid and more secure jobs, including for men with specific skills but few formal qualifications working in manufacturing. There could be opportunities for more and better employment for UK-born youngsters, filling roles in health care, for example, currently done by migrant workers. But this will only be possible with the necessary investment in training.

While effects on relative poverty have been projected to be small for most Brexit scenarios, there are a number of ways in which the more vulnerable may be most affected. Groups at particular risk include those in receipt of frozen cash benefits as inflation rises; those with fewer skills, who are less able to navigate industrial restructuring; those working long hours or in precarious employment, who have been beneficiaries of EU employment legislation; those unable to afford private health or social care to allow them to avoid waiting lists and a poorer service if there are staff

shortages; and EU migrants with a right to permanent residence but not the knowledge or evidence to complete the paperwork.

Some of the potential downsides of Brexit could be overcome with vigorous compensatory investment and redistribution by the UK government. Investment is needed in education and training to help UK youngsters fill roles in health care. More resources must be identified to pay for public services as costs rise; for example, wages in social care will need to rise to attract UK workers away from retail and other sectors. And a major strategy for regional and industrial investment is essential. In the immediate term, a small move that would have an important effect would be to end the freeze on working age benefits and return to uprating them with inflation, to ensure that those in receipt of benefits are not left in increasingly difficult circumstances as prices rise due to currency depreciation. The challenge, of course, is that all these actions will be made difficult by the constraints that Brexit will place on public finances as the economy slows.

The rest of this summary sets out the main conclusions from each section of the paper.

## Political consequences

The referendum had clear and immediate consequences for British politics, leading to a change in Prime Minister and later the loss of the Conservative majority in Parliament. At least in part influenced by the message of disaffection seen to be contained in the high Leave vote, Theresa May brought a new rhetoric to the Premiership, with a focus on injustice and social mobility replacing the austerity agenda of the Cameron-Osborne era. In both housing and education the new leadership sought to mark a clear break with the policies of its predecessors. Yet overall substantive policy change was limited, no doubt in part because of the time and resources that Brexit has demanded of ministers and civil servants. Some policies in need of urgent attention and reform – notably Universal Credit – appear to have suffered from these constraints on capacity.

By refocusing attention on the extent of social and geographical inequalities and divisions, Brexit could yet have positive consequences for the politics of social policy in the longer-term. In principle, it could also allow space for devolved authorities to exercise more control and negotiate new powers. In practice, in the short-term, devolution appears to have stalled rather than moved forwards – also victim to the overwhelming focus on Brexit, and/or to the loss of George Osborne as champion. A plausible medium-term outcome is an increased divergence in social policy between England and Scotland, but the eventual break-up of the UK remains a serious possibility, especially under harder forms of Brexit.

Meanwhile, the referendum result may have changed national political environment for the worse, legitimating the expression of racial and ethnic intolerance. The result may also have lasting consequences for voting allegiances: support for remain and leave cuts across traditional party lines, perhaps heralding a long-term realignment in party loyalty, which could in turn affect party positions on social policy issues, though in ways that are difficult to predict. Tensions within the political parties could conceivably lead to splits in one or both of the main parties, presaging a shake-up in the party system.

## **Economic consequences**

In the short term, Britain is already worse off in economic terms as a result of the referendum: growth has fallen relative to plausible counterfactuals, likely due to a combination of business uncertainty and the inflation caused by currency depreciation, which has squeezed consumer spending. Higher inflation has been particularly problematic for those in receipt of working-age benefits, because of the cash freeze on these benefits since 2015. However, unemployment has continued to fall.

Looking forward, there is a strong consensus among economists that Brexit will leave the UK poorer overall in the medium-term, with the size of the effect depending on the nature of future trading arrangements with the EU. If correct, the consequences will include lower average living standards and less money for public services, with the loss of tax revenue easily outweighing the gains from reduced contributions to the EU budget: there is no 'Brexit dividend'. A 'no deal' Brexit would be expected to have the most negative medium-term economic effects, and would also cause immediate disruption that is hard to assess. One anticipated effect of failure to reach a deal is on food security.

There are divided projections on which regions of the country will be most affected, but either way richer regions in the south are likely to be in a better position to shoulder the burden more easily, because they are starting from a stronger position and because the diversity and flexibility of the capital's economy should allow a quicker recovery, as happened after the 2008 financial crisis. More important than regional differences appear to be differences by gender and education level, with men, and especially lower-educated men, most exposed. Older men with specific skills working in relatively well-paid jobs in process, plant and machine operative occupations have been found to be at highest risk. There may be potential positives from a reduction in the size of the financial sector in London – less pressure on London's housing and a permanently weaker currency, which could encourage a rebalancing of the economy towards other industries in different parts of the country. Overall the UK will almost certainly end up poorer, though perhaps a little less unequal.

## **Consequences for human rights protection and workers' rights**

When the UK leaves the EU it will no longer be subject to the Charter of Fundamental Rights enforced by the Court of Justice of the European Union. While the UK will still have certain rights protected in domestic law, i.e. the Equality Acts (2006 and 2010), there will be important gaps, such as the freestanding right to non-discrimination, the rights of the child and the right to dignity, which common law is unlikely to fill. Furthermore these laws can be amended; in the absence of a UK constitution they are not constitutionally protected.

After leaving the EU, the UK will still be subject to the European Social Charter (though in practice there are not strong mechanisms for enforcement) and the European Convention of Human Rights enforced by the European Court of Human Rights, though this only covers civil and political rights and offers weaker remedial mechanisms than

was made available by the Charter of Fundamental Rights. As well as gaps in rights and weaker legal protection, UK citizens are at risk of missing out on any future progress made by the EU in relation to rights.

There is nothing inevitable about Brexit leading to fewer rights, and proposals have been put forward to try to ensure they are protected going forward, including writing the protection of workers' rights into trade deals; using a formulation of the mirror principle to ensure UK rights legislation keeps up with EU advances; and new legislation to protect existing rights from being easily amended. However, the political and economic context provide reasons for concern that in practice there will be downward pressure after Brexit, especially on workers' rights. In the past UK governments have pushed back against regulations on working time and the rights of part-time and agency workers. Taking back control may in this case mean diluting protection, especially given the need to attract inward investment once outside the EU. Workers' rights are also likely to be affected by trade agreements. Commitment to matching EU social and employment rights could very well be a condition of a close trade relationship with the EU. But if such an arrangement is not reached, rights might become vulnerable in attempts to secure trade deals with other countries.

### **Entitlements to settlement and social provisions**

Post-Brexit entitlement to settlement and social provisions is likely to be complex for EU citizens in the UK and UK citizens in other EU countries. New lines of inclusion and exclusion may emerge. For example, UK nationals in the UK moving to another EU country after Brexit may find themselves no longer entitled to social security provision in that EU country, while UK nationals legally residing in an EU country before Brexit may retain entitlements even if they move to a different EU country. A potential positive consequence, at least for those EU/UK citizens residing in UK/EU countries prior to exit day, is that the process for applying for access to permanent residence and the social benefits that come with this has become less onerous. By facilitating access to permanent residence, EU nationals already in the UK will, in principle, be *less* likely to be excluded from social benefits and healthcare than without Brexit, especially given the increasingly restrictive approach that was in place prior to the referendum. However, migrants who do not know about the need to apply for residence, who consider themselves ineligible, who need others to apply on their behalf (e.g. because they are children), or who find it harder to compile the necessary evidence of living in the UK for the required period, may end up losing out. The recent experience of members of the Windrush generation of Caribbean migrants provides an illustration of the consequences this could have for individuals further down the line.

For EU/UK citizens moving after the Brexit transition period, there is continuing uncertainty and complexity regarding entitlements. But if post-Brexit migration policy for EEA migrants is based on existing policy for non-EEA migrants, as currently seems likely, it points to new divisions in security of status and social rights between higher-skilled and lower-skilled migrants.

## Consequences for public services

While there is no certainty about what future immigration policy will look like after Brexit, migration from the EU is already falling, and it is widely accepted that numbers will fall further if and when the UK leaves the single market. Such a reduction is likely to have a much deeper impact on the delivery of high quality services than on the demand for them. Under a range of assumptions, EU migrants are found to make a net contribution to public finances, paying more in taxes than they take out in benefits or use in services. At the same time, EU migrants form a significant proportion of the workforce in health, social care and higher education, and also make up a large share of construction workers, with implications for house building.

Having fewer EU nationals to do these jobs could have positive consequences in opening up more opportunities for UK workers – more academic positions for UK PhDs, more chances for UK-born children to become doctors and nurses. But it would require increases in investment in training, especially for health professionals; currently the UK free-rides on human capital costs borne by other EU member states. It would also entail more generous funding to attract UK workers to lower-skilled jobs such as in social care. Existing shortages of health professionals alongside recent cuts in training budgets raise questions about the likelihood of this happening, especially given the greater fiscal pressures that would accompany a slower-growing economy and a drop in migrants as net contributors.

Beyond the loss of free movement, there are wider implications of leaving the single market, especially for the health and higher education sectors. For health, patients are likely to face poorer access to new medicines in the long-term if the UK fails to remain a member of the European Medicines Agency. Single market exit will also mean more limited access to healthcare for UK citizens in EU countries, whether they are there as overseas residents, tourists falling ill, or UK-based patients looking for the best treatment options. And there are immediate concerns about the impact of a 'no deal' Brexit on access to medicines and medical equipment.

For universities, Brexit could mean the loss of access to EU funds and cross-national collaborations, as well as a smaller pool of talent for research and teaching staff; between them these developments could damage the quality of research produced in UK universities and eventually the reputation of UK higher education.

## Taking back control

The effects of Brexit on economic growth and therefore tax receipts are expected to more than cancel out UK net payments to the EU, and are likely to eat into gross payments, including resources currently returned from Brussels through European Structural and Investment (ESI) funds and agricultural subsidies. This point aside, gaining more control over these resources should in principle allow money to be better targeted to domestic priorities, with more regional control and less administrative red tape. In practice, however, withdrawal may end up meaning less money for regional development and a weaker focus on reducing inequalities. EU regional policy has been argued to have a stronger social justice focus than UK equivalents, while ESI funds have

also had the benefit of being a long-term stable source of funding not subject to fluctuations in political interest in regional policy, or to domestic pressures on funding, as during the peak austerity years.

With regards to state intervention in the economy, some policies will in principle become possible which are currently outlawed – including full-scale nationalisation of the railways, some forms of targeted industrial subsidy, and some public procurement approaches, such as using only British steel or imposing pay ratios on contracted companies. Brexit may also offer an opportunity to limit the extent of competition involving private providers in the NHS in England.

However, a wide range of actions are allowed within the EU to support national industries and local suppliers, and to date the UK has made less use of these abilities than some other Member States, casting doubt about how different British policy will be on the outside. In some areas, such as the imposition of competitive tendering in the rail industry, and the insistence on competition between providers where there is a purchaser-provider split in health care, EU policy is adopting or reflecting practices that have been pursued unilaterally in the UK. Furthermore, it is not clear that the UK will in any case have full freedom to make its own decisions, even if the UK leaves the single market. Accepting EU competition laws may well be a condition of an EU-UK trade deal, and while the NHS secured exemptions from a further opening to competitive pressures in the EU-USA negotiations over the Transatlantic Trade and Investment Partnership, it may still find itself vulnerable in negotiations between the UK and the US.

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This is one of a series of research papers in the research programme Social Policies and Distributional Outcomes in a Changing Britain (SPDO), which aims to provide an authoritative, independent, rigorous and in-depth evidence base on social policies and distributional outcomes in 21st century Britain. More information and other publications in the series are available at the project webpage:

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