



The Fiscal Impact of Brexit

One of the main areas where even detractors of Brexit concede that the UK will benefit from withdrawal from the EU concerns the saving of the annual contributions paid to that organisation.¹ However, the calculation of net budgetary contributions to the EU is not quite as straightforward as it might appear, however, for a number of different reasons, including

1. The composition of the EU budgetary process is itself slightly opaque, due to the way in which budget payments are set, the resources over which the EU lays claim and the fact that contributions depend to a large extent upon the relative national income of member states. Thus, should the UK achieve a higher (lower) growth rate relative to other member states, it will incur higher (lower) retrospective demands for contributions to the EU budget than were initially anticipated.
2. Net payments to the EU must take into account the UK rebate, and how this may change (or cease to exist) over time, and also the range of payments received from the EU. It is easy to justify payments made directly to the UK government and also farmers, since this is part of EU agricultural subsidies (the Common Agricultural Policy [CAP]) administered by the UK government. However, it is more contentious to justify the inclusion of funding achieved by private

¹Additional savings may arise from a reduction in UK representation in the various EU institutions.

sector organisations (including UK universities) in research and/or training programmes, secured through competitive bidding.

3. The timing of calculating the payments is different when comparing Treasury and EU Commission estimates of net payments, with the result that they often present quite different estimates. Hence, there will be some discrepancy between different studies, depending upon which data sources they have chosen (Browne et al. 2016: 40). To take one example, the Institute for Fiscal Studies typically use figures from the EU Commission, whereas this chapter draws its data from HM Treasury.
4. The level of fiscal savings will partially depend upon whether the UK's future arrangement with the EU involves an element of fiscal contribution to secure participation in EU programmes.

For something as apparently clear-cut as UK budgetary contributions to the EU, therefore, estimating the likely fiscal benefit arising from Brexit is a little more complicated than might be expected.

COMPOSITION AND SIZE OF THE EU BUDGET

The EU budget has increased, over time, from 0.5% of community gross national income (GNI) in 1973 to its present 1% level (Browne et al. 2016: 6). It is set for a 5–7-year Multiannual Financial Framework in order to provide a stable funding platform. For 2014–2020, the budget was set at €960 billion, which implies an average of €137.14 billion per year. This settlement represents a cash increase over the previous financial period, but a real terms (after inflation) decrease (from 1.12% EU GNI), which represents the first such real terms reduction in the EU budget (HM Treasury 2014: 5; Keep 2015: 3).²

In practice, however, it is a little more complicated for two reasons. Firstly, the EU budget fails to include additional elements which are essentially off balance sheet (HMG 2014: 26). These include €36.8 billion worth of allocations to an Emergency Aid Reserve, a European Globalisation Fund, a Solidarity Fund, a Flexibility Instrument and the European Development Fund (EDF). If included in the core EU budget, this would represent an increase of 0.04% of total EU GNI. Secondly, the

² http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/eco-fin/139831.pdf

appropriation commitments are increased by what is described as a ‘margin’ of around 0.28% of EU GNI, presumably in order to provide a degree of flexibility to EU expenditures intended to cover a relatively long time period. Hence, the total appropriations (payments made into the EU budget) necessary to cover this total sum (i.e. core budget + margin) represents 1.23% of EU GNI up until 2020 (see Table 2.1).

Having established the magnitude of EU budgetary expenditures, the contributions can be established for each member state. This primarily derives from what the EU has established as its ‘own resources’, namely (HM Treasury 2014: 9–10)

- (i) GNI-based contributions (currently representing approximately 74% of total EU revenue) vary according to the relative affluence of member states. It is calculated that the UK’s share of this revenue category was 14.5% in 2014;
- (ii) VAT contributions (13% of EU revenue), based upon a slightly complicated set of assumptions and capped to limit excessive variations. The pertinent point is that the UK’s share of contributions to the EU budget under this category was 16% in 2014;
- (iii) Customs duties (12% of EU revenue) levied on goods imported from non-member states. It is estimated that the UK contributed 16.1% of the revenue under this category;
- (iv) Sugar levies (less than 1% of EU revenue) are charged on the production of sugar;
- (v) A small proportion (approximately 1%) of EU revenue lies outside of the ‘own resources’ and includes contributions from non-EU member states to participate in certain programmes, taxes paid on EU staff salaries, interest on late payments and fines levied upon companies breaching competition law.

Customs duties and sugar levies comprised the initial basis for EU funding, reflecting its early focus upon agricultural production and its establishment of a customs union (described as a ‘common market’ in UK discourse), later augmented by value-added tax (VAT) contributions and, more latterly, the rising importance of revenues calculated according to the relative affluence of member states. The volatility in calculating net payments to the EU budget is largely due to the inherent nature of the ‘own resources’ system (HM Treasury 2014: 13–14). Moreover, the complexity inherent within the ‘own resources’ approach therefore partly

Table 2.1 Multiannual Financial Framework EU 28 for 2014–2020, adjusted for 2017 (€m, 2017 prices)

<i>Commitment appropriations</i>	2014	2015	2016	2017	2018	2019	2020	<i>Total 2014–2019</i>
1. Smart and inclusive growth	52,756	77,986	69,304	73,512	76,420	79,924	83,661	513,563
1.a. Competitiveness for growth and jobs	16,560	17,666	18,467	19,925	21,239	23,082	25,191	142,130
1b. Economic, social and territorial cohesion	36,196	60,320	50,837	53,587	55,181	56,842	58,470	371,433
2. Sustainable growth: Natural resources	49,857	64,692	64,262	60,191	60,267	60,344	60,421	420,034
Of which market related expenditure and direct payments	43,779	44,190	43,951	44,146	44,163	44,241	44,264	308,734
3. Security and citizenship	1737	2456	2546	2578	2656	2801	2951	17,725
4. Global Europe	8335	8749	9143	9432	9825	10,268	10,510	66,262
5. Administration	8721	9076	9483	9918	10,346	10,786	11,254	69,584
Of which administrative expenditure of the institution	7056	7351	7679	8007	8360	8700	9071	56,224
6. Compensation	29	0	0	0	0	0	0	29
Total commitment appropriations	121,435	162,959	154,738	155,631	159,514	164,123	168,797	1,087,197
As a percentage of GNI	0.90%	1.17%	1.05%	1.04%	1.04%	1.04%	1.03%	1.04%
Total payment appropriations	135,762	140,719	144,685	142,906	149,713	154,286	157,358	1,025,429
As a percentage of GNI	1.01%	1.02%	0.98%	0.95%	0.97%	0.97%	0.96%	0.98%
Margin available	0.22%	0.21%	0.25%	0.28%	0.26%	0.26%	0.27%	0.25%
Own resources ceiling as a percentage of GNI	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%

Source: Europa EU (2016)

reflects the historical development of the EU and the difficulty in securing a more streamlined approach, when this would inherently involve individual nations who benefit from any changes and others who are required to make larger contributions as a result. The evolution and significance of each source of EU revenue is illustrated in Fig. 2.1.

In terms of EU expenditure, the initial dominance of the CAP, which can be noted in Fig. 2.2, has been reduced somewhat due to the dramatic expansion of cohesion and structural funds to promote regional development across all member states. Thus, in the current budgetary framework, 47% of total spending commitments relate to regional policy, 39% for CAP and sustainable development, with the balance incorporating administration (6%), external policy (6%) and issues relating to migration, public

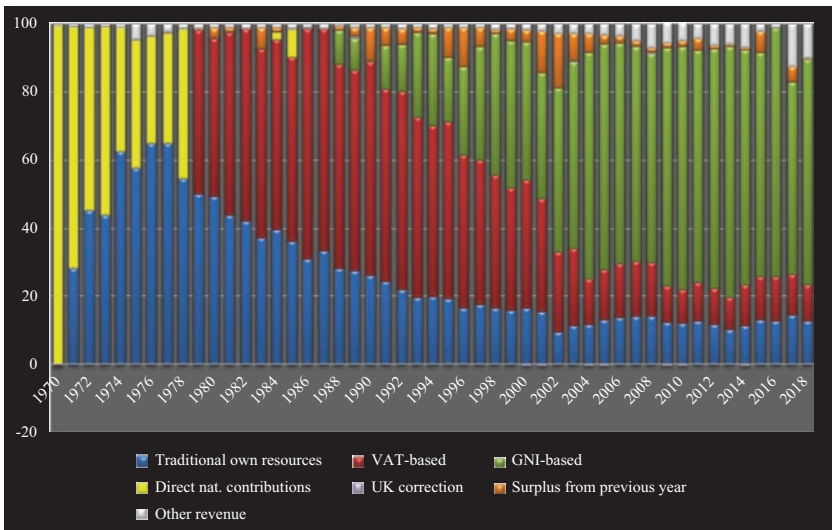


Fig. 2.1 Structure of EU financing, 1958–2018. *Sources:* For 1970–2008: European Commission (2009). Financial Report EU budget 2008. Publication and accompanying dataset. Last accessed 15 August 2016. For 2009–2014: European Commission (2015). Financial Report EU budget 2014. Publication and accompanying dataset. Last accessed 15 August 2016. For 2015–2016: European Commission (2016). Definitive Adoption (EU, Euratom) 2016/150 of the European Union’s general budget for the financial year 2016. Last accessed 15 Aug 2016. For 2017–2018: European Commission (2020)

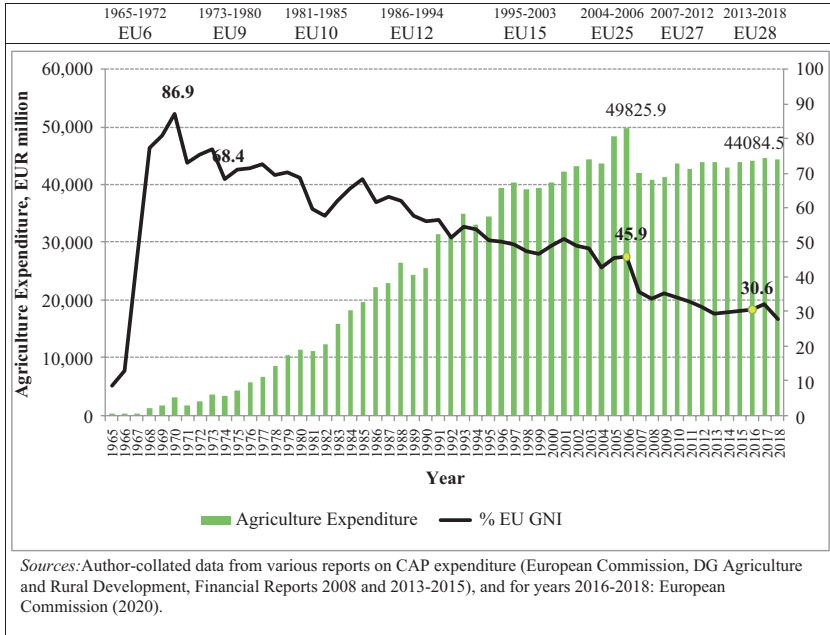


Fig. 2.2 Agriculture expenditure as part of the EU GNI, 1965–2015 (€m). Sources: Author-collated data from various reports on CAP expenditure (European Commission, DG Agriculture and Rural Development, Financial Reports 2008 and 2013–2015)

health, consumer protection, culture and youth policy (2%) (Keep 2015: 6–7).

Financial Management and Fraud

One issue which typically arises, when considering the EU budget, concerns accusations of financial mismanagement and/or fraud. This criticism derives from the annual reports produced by the European Court of Auditors (ECA), which assess the financial management of the EU’s finances. In its opinion, the latest set of accounts to be assessed, in 2012, was found to be legal and regular, but that 4.8% of EU expenditure was subject to ‘material error’. In essence, this means that spending did not conform to the rules established to guide EU expenditure. Data collected

through monitoring sampling, undertaken across different categories of EU expenditure, indicate that errors were not confined to specific sectors, with agricultural support estimated to have a material error of perhaps 3.8% of total expenditure, rural development 7.9%, regional policy, energy and transport 6.8%, employment and social affairs 3.2%, external relations 3.3% and research 3.9%.

The auditors argued that this did not necessarily equate to fraud, and nor is almost 5% of the total EU budget necessarily wasted—the complexity inherent in administering a series of programmes across a large number of nations, each at different levels of development, and with different practices concerning the distribution and monitoring of public expenditure. That is why the ECA themselves have set an error ceiling of 2% as acceptable for EU spending programmes—a rate that would be difficult to justify in public spending programmes within a single nation (HMG 2014: 30). Nevertheless, the failure to meet even this generous target creates cause for concern about deficiencies in eligibility assessment and compliance monitoring which require corrective action. Consequently, for the nineteenth consecutive year, the ECA provided only partial assurance as to the accuracy of the EU’s accounts (HM Treasury 2014: 21–24).

UK CONTRIBUTIONS TO THE EU BUDGET

The UK has been an almost continuous net contributor to the EU’s budget, the one exception being in 1975 (see Table 2.2).

The UK is currently the second largest net contributor to the EU, after Germany, but only the sixth largest when these payments are averaged per capita (per person), as illustrated in Fig. 2.3.

The UK Rebate

One early acknowledgement of distributional concerns raised by the ‘own resource’ system resulted in the adjustment of the UK’s net contributions paid into the EU budget by means of a correction or abatement—normally described as a ‘rebate’. Given that the UK had a relatively efficient and small agricultural sector and that CAP expenditures were a majority of EU spending at the time of its accession to the EU, the UK received relatively small expenditures from the EU budget. At the same time, as a trading nation, the UK’s share of customs duties and VAT receipts were disproportionately large, thereby requiring a disproportionately high

Table 2.2 UK net contributions to the EU/EC budget (£m), 1973–2020

Year	Gross contribution	Negotiated refunds	Rebate	Total contribution (after rebate and refunds)	Public sector receipts	Net contribution (Gross contribution—rebate and refunds—public sector receipts)	GDP, chained volume measures, seasonally adjusted (£m)	Net contribution as % GDP
1973	181			181	79	102	781,583	0.013
1974	181			181	150	31	762,257	0.004
1975	342			342	398	-56	750,912	-0.007
1976	463			463	296	167	772,852	0.022
1977	737			737	368	369	791,889	0.047
1978	1348			1348	526	822	825,111	0.100
1979	1606			1606	659	947	855,933	0.111
1980	1767	98		1669	963	706	838,462	0.084
1981	2174	693		1481	1084	397	831,931	0.048
1982	2863	1019		1844	1238	606	848,700	0.071
1983	2976	807		2169	1522	647	884,520	0.073
1984	3204	528		2676	2020	656	904,639	0.073
1985	3940	61	166	3713	1905	1808	942,519	0.192
1986	4493		1701	2792	2220	572	972,239	0.059
1987	5202		1153	4049	2328	1721	1,024,346	0.168
1988	5138		1594	3544	2182	1362	1,083,629	0.126
1989	5585		1154	4431	2116	2315	1,111,618	0.208
1990	6355		1697	4658	2183	2475	1,175,573	0.211
1991	5807		2497	3309	2765	544	1,162,605	0.047
1992	6738		1881	4857	2827	2030	1,167,268	0.174
1993	7985		2539	5446	3291	2155	1,196,331	0.180
1994	7189		1726	5463	3253	2211	1,242,342	0.178
1995	8889		1207	7682	3665	4017	1,273,790	0.315
1996	9133		2412	6721	4373	2348	1,305,527	0.180

<i>Year</i>	<i>Gross contribution</i>	<i>Negotiated refunds</i>	<i>Rebate</i>	<i>Total contribution (after rebate and refunds)</i>	<i>Public sector receipts</i>	<i>Net contribution (Gross contribution—rebate and refunds—public sector receipts)</i>	<i>GDP, chained volume measures, seasonally adjusted (£m)</i>	<i>Net contribution as % GDP</i>
1997	7991		1733	6258	4661	1597	1,355,853	0.118
1998	10,090		1378	8712	4115	4597	1,405,272	0.327
1999	10,287		3171	7117	3479	3638	1,453,448	0.250
2000	10,517		2085	8433	4241	4192	1,503,408	0.279
2001	9379		4560	4819	3430	1389	1,548,124	0.090
2002	9439		3099	6340	3201	3139	1,584,110	0.198
2003	10,966		3559	7407	3728	3679	1,636,169	0.225
2004	10,895		3593	7302	4294	3008	1,675,011	0.180
2005	12,567		3656	8911	5329	3582	1,728,273	0.207
2006	12,426		3569	8857	4948	3909	1,776,462	0.220
2007	12,456		3523	8933	4332	4601	1,819,641	0.253
2008	12,653		4862	7791	4497	3294	1,814,526	0.182
2009	14,129		5392	8737	4401	4336	1,737,448	0.250
2010	15,197		3047	12,150	4768	7382	1,771,321	0.417
2011	15,357		3143	12,214	4132	8082	1,798,603	0.449
2012	15,746		3110	12,636	4169	8467	1,825,204	0.464
2013	18,135		3674	14,461	3996	10,465	1,864,255	0.561
2014	18,777		4416	14,361	4583	9778	1,912,866	0.511
2015	19,717		4913	14,804	4315	10,489	1,957,920	0.535
2016	18,896		5026	13,870	4584	9286	1,995,478	0.465
2017	17,058		4302	12,756	4144	8612	2,033,234	0.424
2018	19,970		4451	15,591	4492	11,027	2,061,408	0.535
2019 ^a	20,197		4662	15,535	4993	10,541		

(continued)

Table 2.2 (continued)

<i>Year</i>	<i>Gross contribution</i>	<i>Negotiated refunds</i>	<i>Rebate</i>	<i>Total contribution (after rebate and refunds)</i>	<i>Public sector receipts</i>	<i>Net contribution (Gross contribution—rebate and refunds—public sector receipts)</i>	<i>GDP, chained volume measures, seasonally adjusted (£m)</i>	<i>Net contribution as % GDP</i>
2020 ^a	20,433		4319	16,114	5147	10,967		
2021 ^a	21,145		4251	16,894	5938	10,956		
2022 ^a	21,430		4567	16,863	5905	10,957		

Note ^afigures for 2019–22 are OBR forecasts, drawn from HM Treasury (2019: 17)

Sources: HM Treasury (2015); ONS, UK National Accounts (2016, 2019); HM Treasury (2019); ONS, UK Balance of Payments—The Pink Book (2019)

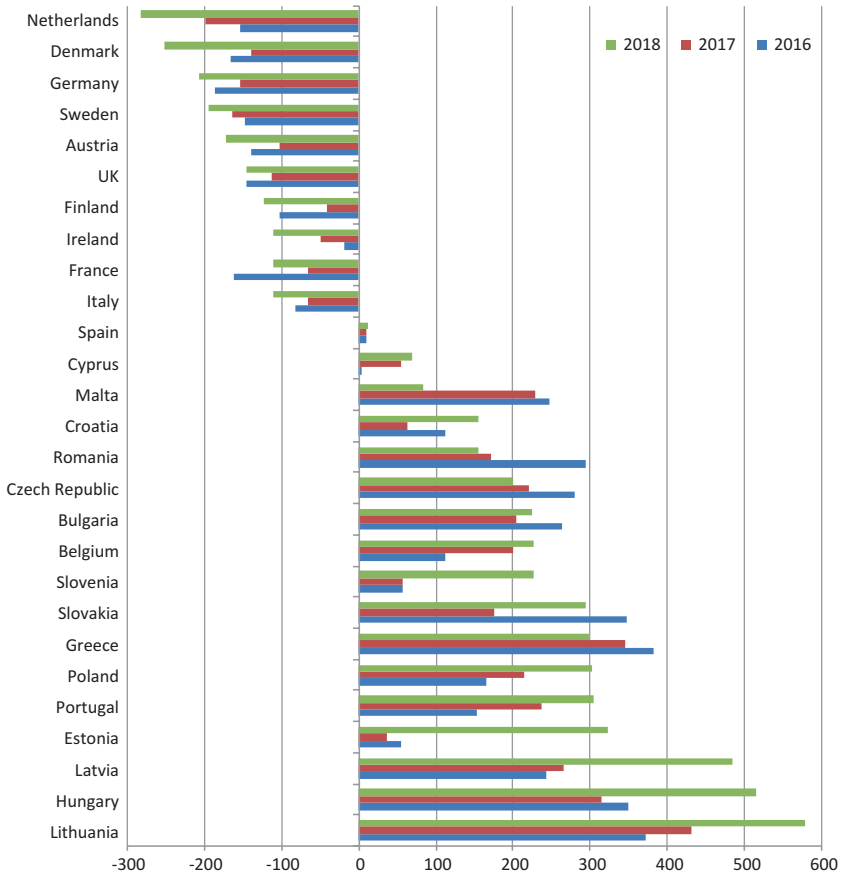


Fig. 2.3 EU net contribution per capita, by member state (in €), 2016–2018—ranked from largest to smallest total net contribution in 2018. *Notes:* Negative figures denote a member state being a net contributor of funds to the EU budget; positive figures denote being a net recipient of funds from the EU budget. Not showing Luxembourg as the figures are high for the graph scale. *Source:* Authors’ calculations based on data from the European Commission (2020) and OECD 2020 population data series

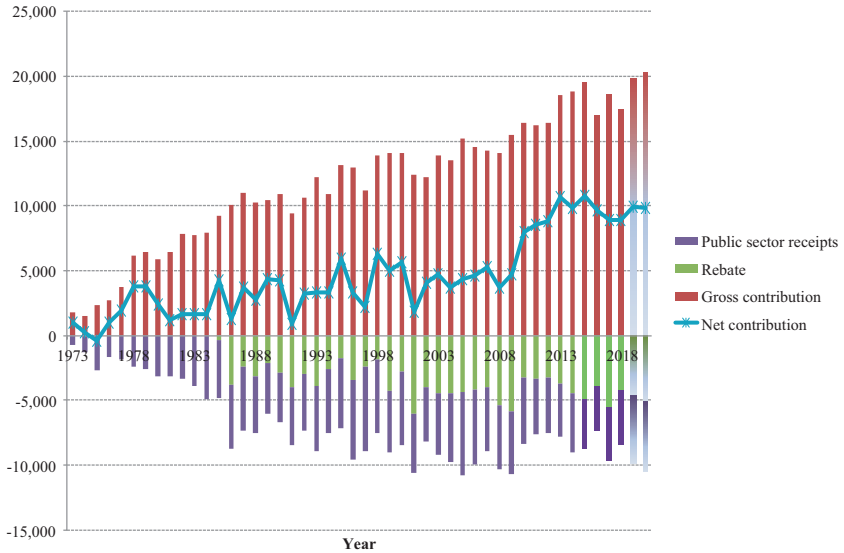


Fig. 2.4 UK contributions to and receipts from the EU budget real terms (£m at 2015 prices), 1973–2020. *Note:* Figures for 2019–2020 are forecasts rounded to the nearest £100 million. *Sources:* HM Treasury (2016); ONS, UK National Accounts (2016)

contribution to the EU budget. In 1984, the UK was the third poorest EU member state, in terms of GNI per capita, and yet making the second largest net contribution to the EU budget (HMG 2014: 15). Unsurprisingly, this led to political tensions and the rebate was negotiated to provide an ex post facto adjustment to reduce net contributions to a more equitable position.

The initial 1985 rebate lowered UK contributions by two-thirds and calculated by subtracting the UK's percentage share of expenditure from the UK's percentage share of VAT contributions, then multiplying this by 0.66 and finally multiplying this sum by the total amount of EU expenditure.³ This rebate is valuable to the UK (see Fig. 2.4), amounting to £4.9 billion in 2014 and signifying that the UK's net contribution

³ <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%205602%202014%20INIT>

would have been just under 50% larger had the rebate not been applied (see Table 2.4).

It should be noted that the UK is not the only member state to benefit from a budgetary correction mechanism. For example, Austria, Denmark, Germany, the Netherlands and Sweden are all net contributors to the EU budget and who receive one or more forms of contribution adjustments, to prevent what might otherwise be termed an ‘excessive’ budgetary burden (HMG 2014: 27; Business for Britain 2015: 369–370). Thus, the UK is certainly not unique in the EU for having what are regarded as disproportionate and inequitable funding burdens ameliorated (EU Commission 2014). Despite this fact, the UK abatement has been subject to periodic criticism from the Commission and other member states (Business for Britain 2015: 182; Capital Economics 2016: 28), and indeed, before the UK’s withdrawal, there were proposals being discussed which would have gradually removed the UK rebate in its entirety.⁴

As a fiscal matter, any decision to remove or reform the rebate would require unanimity in the Council of Ministers, and hence, whilst the UK remained a member of the EU, it could have vetoed the proposals, although previous UK governments have accepted reductions in the rebate to secure concessions on other areas of fiscal spending—a fact which had a significant impact upon UK fiscal contributions to the EU (Business for Britain 2015: 182; Keep 2015: 15; Webb et al. 2015: 9–12; Begg 2016: 44). See Table 2.3.

Table 2.3 Percentage of UK rebate lost due to 2005 changes

<i>Year</i>	<i>Actual size of UK rebate in nominal prices (€m)</i>	<i>Value of UK rebate had 2005 changes not been made in nominal prices (€m)</i>	<i>Lost value of the UK rebate</i>
2008	6114	6416	4.7%
2009	6057	7407	18.2%
2010	3553	5670	37.3%
2011	3623	5978	39.4%
2012	3835	6726	43.0%
2013	4073 (Est)	7480 (Est)	45.5%

Source: Business for Britain (2014: 4)

⁴ <https://www.independent.co.uk/news/uk/politics/brexit-eu-budget-rebate-gunther-oetinger-second-referendum-remain-a8580616.html>; <https://www.ft.com/content/5ce33318-4e1c-11e8-a7a9-37318e776bab>

Gross Versus Net Contributions

One controversy, which arose during the 2016 referendum campaign, concerns whether it is more appropriate to refer to *gross* or *net* contributions to the EU budget. This is an interesting question to consider because the answer partly depends upon what the presentation of the figures is seeking to demonstrate. In regular conversation, for example, if an individual is asked about their income, they will most likely reply giving their gross income, rather than what they actually receive into their bank accounts after tax and other deductions. Nor will it be very likely that they will think to add back into the calculation of their income what they might receive in tax credits or social security benefits, and even less the net benefit they might personally receive through the provision of those public services which their tax payments help to fund, less any additional fees or charges involved in utilising these public services. The more complex net income calculation may provide the more accurate answer, but it is unlikely to be the one given, even if the individual concerned was an economics professor!

Nevertheless, economists aim to be a little more precise. Hence, if the intention is to highlight the total liability to the UK should anticipated payments not occur and the rebate is assumed to have been abolished, then the gross figure is appropriate. It might also be justified when considering whether any divergence between the efficiency of nationally, as opposed to supra-nationally, determined forms of expenditure may affect the economic impact experienced by the UK economy (Congdon, 2014: 19–22). However, if the intention is to emphasise the magnitude of UK fiscal expenditure over which the UK has only indirect control, then gross payments less the rebate might be an appropriate figure. By contrast, if the intention is to estimate the magnitude of public finances that could be repatriated following withdrawal—that is, over which the UK government has ‘taken back control’—then the *net* contribution is more appropriate.

Official estimates of net UK contributions to the EU are given in what is known as *The Pink Book* (ONS 2019, Table 9.9). In 2015, the last year before the referendum debate, the net contribution was given as £10.5 billion (equivalent to £202 million per week), whereas for 2018, the most recent year for which data is available, this figure is £11 billion. This figure relates to total contributions transferred to the EU by the UK government after the rebate has been deducted and after taking

account of the receipts received back *by the public sector* from the EU for participation in various programmes, such as the CAP or regional development funding.

There is, however, an alternative estimate produced, by the EU, which includes into its calculations an additional amount received by the UK *private sector* due to their participation in EU programmes. These most notably include research funding won by UK universities, through a competitive process, from the Horizon 2020 research programme, and the Erasmus student mobility scheme. The Treasury estimates that in 2013, these payments to private organisations totalled in the region of £1.4 billion (HM Treasury 2015: 14), whereas the EU estimated this private benefit to be in the region of £2.2 billion in 2017 (HMT 2019: 15). If this is subtracted from the net public sector receipts, it gives a final net financial impact upon the UK economy from the EU budget of around £8.3–8.8 billion per year.

The range of different estimates of UK contributions to the EU budget, therefore, range from around £19.2 billion gross payments to between £11 billion net contributions for the UK government and public sector, and around £8.8 billion for both public and private sectors (ONS 2019, Table 9.9). Each of these figures can be used for certain circumstances. For example, the £11 billion net contribution estimate would be preferable when seeking to estimate the impact of withdrawal from the EU upon expected fiscal savings to government following Brexit, because it outlines the magnitude of expected additional fiscal resources that would be available for an independent UK government once Brexit is completed. The EU figure might arguably be useful when seeking to calculate the net economic impact upon the UK economy as a whole. However, this does assume that the UK government would replicate EU spending decisions following withdrawal, otherwise private sector organisations which would no longer receive the £2.5bn difference between the figures. This highlights the important difference between money secured *indirectly* through competitive bidding to various EU run programmes, by private sector organisations such as universities or public limited companies (PLCs), compared with direct transfers to public sector bodies. There is a significant degree of volatility in research funding, for example, and while participation in EU programmes has been an undoubted benefit for many universities over the past few decades, there is no assurance that this would continue into the future, irrespective of government guarantees and the

fallout from Brexit.⁵ Hence, the £11bn (0.53% UK GDP) figure is perceived to be the most reliable for economic studies, and, indeed, most economic studies therefore use this figure (e.g. HM Treasury 2014; Ottaviano et al. 2014: 2; Dhingra et al. 2014: 3; Capital Economics 2016: 3).

Misuse of Statistics

It is difficult to avoid mention, at this point, of the controversy relating to the *Vote Leave* campaign bus slogan:

“We send the EU £350 million a week—let’s fund the NHS instead”.

This has been denounced by many as being factually inaccurate⁶ and complaints on this issue were made to the Independent Press Standards Organisation and latterly to the High Court,⁷ albeit that neither were upheld. Criticism centres around three elements of this statement:

1. The suggestion that £350 million per week would be better spent upon the National Health Service was criticised as a general ‘aspiration’⁸ because it was not subsequently enacted by the government following the referendum. This reflects an important difference between General Election campaigns, where political parties make, and are expected to fulfil, manifesto promises should they gain control of the levers of power, and referendums where participants may

⁵ <https://royalsociety.org/-/media/news/2019/brexit-uk-science-impact.pdf>; <https://www.theguardian.com/education/2017/dec/03/eu-university-funding-grants-decline-brexit-horizon-2020>; https://www.ukro.ac.uk/Documents/factsheet_brexit.pdf?pubdate=20191030

⁶ <https://www.theguardian.com/commentisfree/2017/sep/18/boris-johnson-350-million-claim-bogus-foreign-secretary>; <https://www.independent.co.uk/news/uk/politics/brexit-latest-news-vote-leave-director-dominic-cummings-leave-eu-error-nhs-350-million-lie-bus-a7822386.html>

⁷ <https://www.pressgazette.co.uk/ipsa-rule-boris-johnsons-350m-to-eu-figure-made-in-telegraph-column-not-significantly-inaccurate/>; <https://www.ipso.co.uk/rulings-and-resolution-statements/ruling/?id=18520-17>; <https://www.judiciary.uk/wp-content/uploads/2019/07/2019ewhc-1709-admin-johnson-v-westminster-mags-final.pdf>

⁸ <http://www.independent.co.uk/news/uk/politics/brexit-350-million-a-week-extra-for-the-nhs-only-an-aspiration-says-vote-leave-campaigner-chris-a7105246.html>

- win the argument but (as in this case) not find themselves in office and therefore unable to enact their preferred outcomes.
2. The use of the word ‘send’⁹ would seem to imply that the full (gross) contribution was transferred to the EU, whereas this does not occur until the UK’s rebate is deducted. Whilst a case can certainly be made that the UK rebate may not have survived in the long term even had the UK remained a member of the EU,¹⁰ this does not justify it being omitted from the figure stated as being ‘sent’ to the EU. The gross fiscal cost after rebate deductions in 2016 was approximately £275 million per week (Emmerson and Pope 2016: 1).
 3. If, however, the intention of this slogan was to estimate the magnitude of public finances that could be repatriated following withdrawal—that is, over which the UK government has ‘taken back control’—then the *net* contribution figure (£212 million) should have been used. The UK Statistics Authority argued that this was a “clear misuse of official statistics”¹¹ which was potentially capable of misleading voters,¹² whilst a Treasury Select Committee found the lack of qualification sitting alongside the Vote Leave slogan as “deeply problematic”.¹³

It would be remiss and unbalanced, however, to imply that these were the only occasions when the UK Statistics Authority and the Treasury Select Committee criticised the use of statistics in the referendum campaign. Indeed, the latter report extends the following criticisms over the misuse of statistics during the referendum campaign:

1. Claims made by *Stronger in Europe* that withdrawal would increase consumer prices were criticised due to their use of out-of-date

⁹ <http://www.theguardian.com/politics/reality-check/2016/may/23/does-the-eu-really-cost-the-uk-350m-a-week>

¹⁰ <https://standpointmag.co.uk/issues/july-august-2019/the-350-million-wasnt-alie-heres-why/>

¹¹ <https://www.statisticsauthority.gov.uk/wp-content/uploads/2017/09/Letter-from-Sir-David-Norgrove-to-Foreign-Secretary.pdf>; <https://www.statisticsauthority.gov.uk/news/uk-statistics-authority-statement-on-the-use-of-official-statistics-on-contributions-to-the-european-union/>

¹² <https://fullfact.org/europe/350-million-week-boris-johnson-statistics-authority-misuse/>

¹³ <https://publications.parliament.uk/pa/cm201617/cmselect/cmtreasy/122/12204.htm>, paragraph 36.

sources and unrealistic assumptions over tariff levels set by a newly independent UK.¹⁴

2. Claims made by the Prime Minister and Chancellor relating to the economic models discussed in the previous chapter misrepresented key aspects of the economic studies.¹⁵
3. Claims made by *Britain Stronger in Europe*, the former Deputy Prime Minister (Clegg), former Chief Secretary to the Treasury (Alexander) and repeated in the government leaflet distributed during the referendum campaign, that 3 million jobs are dependent upon UK trade with the EU, were criticised as “misleading”,¹⁶ a “wild overstatement” (Capital Economics 2016: 18) and “totally implausible, and certainly not based on evidence” (Portes 2013: F8–9). The reason is quite simple—that even the worst-case predictions of Brexit impact upon trade would accept that most of this trade would continue and therefore the impact upon employment (if any) would be far smaller than this headline figure. PwC (2016: 3), for example, suggested that any such employment effects would be perhaps a tenth of the more publicised claims, whilst any increase in trade with the rest of the world could mitigate or offset any such effect.

Consequently, it would be fair to conclude that many of the participants, individuals and campaigning groups on both sides of the argument, were less than stringent in their use of official statistics during and after the referendum campaign. This highlights the importance of, where possible, examining the data yourself and making an educated judgement about the veracity of competing claims. Indeed, this is hopefully one of the contributions that this book can make to the ongoing debate of the UK’s future relationship with the EU.

THE UNCERTAINTY OF FUTURE BUDGETARY DEVELOPMENTS

When producing their estimates of the economic impact of Brexit, those studies which incorporate a fiscal element tend to project potential budgetary savings arising from Brexit on the basis that future developments do not impact upon this level of budgetary savings. This simplifies the

¹⁴Ibid., paragraphs 44–45.

¹⁵Ibid., paragraph 74.

¹⁶Ibid., paragraphs 50–51.

analysis but at the cost of underestimating these likely effects. These might include the following:

- (a) Future growth of the EU budget and consequent increase in UK fiscal contributions
- (b) The financial settlement with the EU
- (c) The cost incurred in preparation for UK exit from the EU
- (d) Which model of trade relationship the UK negotiates with the EU following Brexit
- (e) The macroeconomic impact arising from Brexit and consequences for the national budget

For the first factor, it can be noted that the historical development of UK budgetary contributions has been variable, but following a steadily increasing trend (see Fig. 2.5). There are many causes to this phenomenon, including (i) the natural growth in a budget fixed at a certain percentage of EU GDP; (ii) UK growth rates being faster than the EU average during the recent Eurozone crisis, and therefore the UK has to pay an increasing share of EU expenditure; (iii) the EU budget as a whole being expanded over time, from 0.5% of EU GDP in the 1970s to a little over

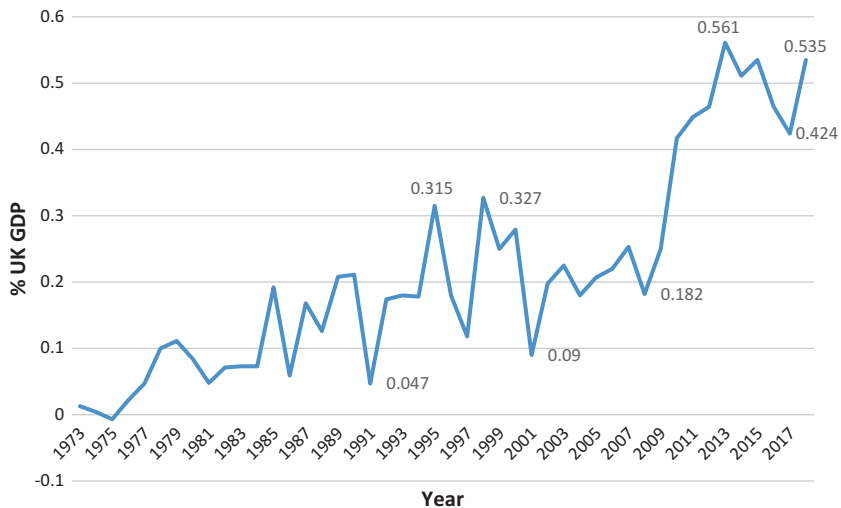


Fig. 2.5 UK net contributions to the EU budget (% of UK GDP), 1973–2015. Sources: HM Treasury (2019); ONS, *UK National Accounts* (2019)

1% of GDP today; and (iv) the UK rebate being eroded through negotiating exemptions as a means to leverage additional change within the organisation. However, there is a reasonable expectation that the EU budget will continue to increase during the next budgetary period. This may arise out of the need to provide further support to the single currency (MacDougall 1977: 20; HMG 2014: 37–8), to expand current programmes or to enable the EU to provide a sufficient fiscal stimulus in current and future economic crises (Begg 2016: 41).

The 2021–2027 EU budget remains subject to debate, yet it is worth noting that the EU Commission has proposed an increase to 1.114% of EU GDP and the European Parliament has proposed 1.3%.¹⁷ Either of these options would have resulted in significant increases in UK fiscal contributions to the EU budget. If the UK currently contributes £11bn to an EU budget set at 1% of EU GDP, the expectation would be that UK payments might have risen by between 11% and 30%, *ceteris paribus*, if either of these proposals were accepted. Hence, economic studies projecting Brexit impact for the next decade should take into account the potentially higher fiscal savings the UK will make in the future compared to the baseline of continued EU membership.

The second factor relates to the financial settlement negotiated as part of the draft Withdrawal Agreement between the UK government and the EU. This ‘divorce bill’ is intended to wind up the UK’s membership of the EU by calculating the assets and liabilities arising from past and future policy commitments made whilst a member of the organisation. There are three main components of the financial settlement, namely

1. Continued EU membership contributions during the transition period, negotiated as part of the withdrawal agreement, and intended to last until the end of 2020;
2. The UK’s outstanding commitments or *Reste à Liquidier* (RAL),¹⁸ which arise out of decisions taken during the period of the UK’s membership of the EU, but where spending is ongoing past the end of 2020; and
3. Remaining net liabilities (after assets have been offset)—the largest element of this relates to the estimated £8.6bn pension liability.

¹⁷ <https://www.euractiv.com/section/economy-jobs/linksdossier/eu-faces-tough-post-brex-it-test-with-2021-2027-budget/>

¹⁸ <https://op.europa.eu/en/publication-detail/-/publication/b3ea5d9a-c4c2-11e9-9c4e-01aa75ed71a1/language-en>

It is difficult to provide a precise estimate of the final cost of the financial settlement because certain elements depend upon the movement in exchange rates (as the payment is calculated in Euros) and changes in future EU budgets can also have an effect as part of the UK's contribution to the EU budget reflects the UK's share of total EU GDP and is thereby determined retrospectively; if the UK outperforms the rest of the EU, then its share of contributions to the EU budget rises, and vice versa (HOCCPA 2018: 9–10). This figure will not be known until 2022. Nevertheless, the best estimate made by the Office for Budget Responsibility (OBR) is that the total cost is likely to be around £32.9bn and comprised £8.9bn from participation in the EU budget during the transition period until the end of 2020, £19.2bn due to RAL and £4.8bn relating to remaining net liabilities.¹⁹ Compared to earlier estimates, the latter category appears to have increased significantly (HM Treasury 2019: 67). Seventy-five per cent of these payments are expected to have been made by the end of 2023, but others, primarily pension liabilities, will potentially extend many years into the future, whilst the EU's use of a rather unfavourable actuarial discount rate for pension liabilities mitigates against the option of early payment (HOCCPA 2018: 12; HM Treasury 2019: 68).²⁰ All of this assumes that the transition period will terminate at the end of 2020 as currently envisioned. If it is further extended, perhaps because of difficulties for negotiations caused by responding to the COVID-19 virus,²¹ then further costs would be incurred.

One additional element not included in the financial settlement calculations refers to the UK's commitment to contribute a further £3bn to the EDF in the post-Brexit period. The rationale for not including this sum is that the UK remains committed to spending 0.7% of its GDP upon overseas aid and if it did not spend this money through the EDF, it would be mandated to do so via another mechanism. Thus, the Treasury did not include this sum in its estimates of the cost of withdrawal from the EU as it did not represent additional expenditure over and above that which would have occurred in any case (HOCCPA 2018: 11).

A related factor concerns the cost for the UK government arising from preparations for withdrawal from the EU. The best available estimate

¹⁹ <https://commonslibrary.parliament.uk/research-briefings/cbp-8039/>

²⁰ <https://commonslibrary.parliament.uk/brexit/the-eu/withdrawal-agreement-bill-the-financial-settlement/>

²¹ <https://www.dailymail.co.uk/news/article-7720395/Boris-Johnson-vows-NOT-extend-Brexit-transition-period-past-December-2020.html>; <https://www.brookings.edu/blog/order-from-chaos/2020/03/26/brexit-is-not-immune-to-coronavirus/>

produced thus far, by the National Audit Office, suggests that government departments have spent around £4.4 billion, between June 2016 and 31 January 2020 (NAO, 2020). Approximately £301 million of this sum derived from existing budgets, consequently around £4.1bn represented funding provided specifically to facilitate Brexit. This is unlikely to represent the end of this expenditure as there will be a requirement for information provision to assist exporters to comply with new trading rules, such as the operation of a rule of origin scheme (for all Brexit scenarios excepting a customs union), whilst it is probable that further investment will be required to strengthen goods and passenger infrastructure given the need for more customs checks for EU imports and the anticipated rise in trade with the rest of the world. There will be further areas of expenditure related to agriculture and fisheries support, research and student mobility schemes, and so forth. Thus, Brexit is likely to have more significant impact upon the future scope of public expenditure than is simply covered by measuring the benefit arising from no longer transferring a significant net fiscal transfer to the EU.

The future trade relationship that the UK negotiates with the EU will have a fourth impact upon the future development of UK public finances, especially if this includes an element of financial contribution towards EU programmes. Around half of the preferential trade options, available to the UK (discussed in more detail in Chap. 9), would involve varying degrees of fiscal transfers to the EU (see Table 2.4). The closest forms of trade relationship would be likely to carry the most significant fiscal costs, as members of the European Economic Area (EEA) are expected to make a

Table 2.4 Estimated fiscal impact from different future trading relationships with the EU

	<i>Gross</i>		<i>Net</i>		<i>UK net</i>	
	<i>£m</i>	<i>% GDP</i>	<i>£m</i>	<i>% GDP</i>	<i>£bn</i>	<i>% GDP</i>
Norway—EEA	620	0.76%	310	0.38	4.4	0.22
Turkey—customs union	n/a	n/a	n/a	n/a	3 ^a	0.14 ^a
Swiss—bilateral	420	0.13	410	0.13	2.1	0.09
South Korea—FTA	0	0	0	0	0	0
Greenland—WTO	0	0	0	0	0	0
Hong Kong—unilateral free trade	0	0	0	0	0	0

^a Authors' estimate

significant contribution towards EU programmes, whereas the more independent and less intimate the relationship, the less of a fiscal burden may be required, if, indeed, any contribution is necessitated at all. Thus, should the UK participate in the EEA on the same terms as Norway, the overall net savings to the UK from Brexit might be as low as £5.6 billion, whereas if the UK negotiated a Free Trade Agreement (FTA) on a similar basis to the deal offered to Canada, there would be no fiscal cost involved, and therefore the final budgetary saving for the UK would remain at around £11 billion.

This calculation is complicated because the studies, discussed in Chap. 1, suggest that the closest trading relationships to full EU membership carry greater economic benefits (or lower costs). The significance of the economic impact of Brexit is that it would only require a 0.9% permanent reduction in the level of output in order to eliminate Brexit's £11 billion net budgetary saving or a 0.9% net boost to the economy in order to double Brexit's net fiscal benefit (Capital Economics 2016: 29; Emmerson and Pope 2016: 2). The range of economic studies, produced over the past two decades, have predicted effects ranging from large economic benefits to equally large economic costs, with the majority of the studies suggesting a more moderate impact of between plus or minus 2–3% of UK GDP (see Table 1.1). Thus, the net fiscal position is likely to depend upon whether this predicted economic impact occurs as expected and, if so, whether the effect is larger than the level of net fiscal savings.

One claim, made by the Liberal Democrats during the 2019 General Election campaign, suggested that cancelling Brexit and remaining in the EU would result in the UK economy being 1.9% larger by 2024/2025 and hence generate a 'remain bonus' equivalent to £14 billion per annum or £50 billion accumulated over a five-year period.²² The problem with this estimate, of course, is that it is based upon the predictions made by the same group of economic studies discussed in Chap. 1 of this book, and it is therefore tainted with the flawed assumptions that underpinned these studies. Consequently, it is likely that the claim is over-stated, with both the magnitude and even the existence of a 'remain bonus' remaining uncertain.

²² <https://www.libdems.org.uk/the-remain-bonus>; <https://www.bbc.co.uk/news/election-2019-50486538>; <https://www.channel4.com/news/factcheck/factcheck-lib-dem-manifesto-and-the-remain-bonus>; <https://www.ifs.org.uk/election/2019/article/liberal-democrat-manifesto-an-initial-reaction-from-ifs>

The consideration of future budgetary exposure to the EU might appear a little odd since the UK has withdrawn from the EU and there is no immediate prospect of the submission of an application to re-join. However, the significance is two-fold. Firstly, it relates to how economic studies incorporate fiscal impact into their calculations of Brexit. Rather than simply projecting forward estimates of fiscal savings of either 0.3% or 0.53% of UK GDP as a gain from Brexit, based upon the payments into the current EU budget cycle, these calculations should reflect the probability that future UK contributions would rise, in line with larger EU budgets, and hence ongoing Brexit *ongoing* savings would be significantly higher than the values used in economic studies; perhaps 11–30% higher, if the Commission or European Parliament succeed in getting their budget proposals ratified. In addition, *non-recurring* financial settlement costs should be built into these models, implying that there would likely be little fiscal gains from Brexit for the first two years followed by benefits of perhaps 0.6% of UK GDP thereafter. The choice of Brexit option is likely to have an impact on this amount, although the current UK proposal of an FTA with the EU would involve no budgetary contributions (unlike EEA and customs union alternatives), whilst considerations regarding potential future participation in certain EU programmes would, if adopted, slightly lower future fiscal gains.

The final point that the future performance of the UK economy is likely to have a greater impact upon future fiscal developments is, of course, quite accurate. This is, after all, what all economic analysis is seeking to predict. If Brexit proves to be a success, then fiscal gains will increase commensurately; if, however, the economy weakens significantly as a result, then the impact upon fiscal policy will likely outweigh the initial savings made through no longer contributing to the EU budget. Unfortunately, the problems inherent in forecasting economic and fiscal impacts, which were discussed in the previous chapter, make it difficult to reach a firm conclusion.

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