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By

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Abstract

The neoliberal agenda has polarised societies and in consequence, the choices facing the UK electorate range from neoliberalism to left wing socialism. Empirical evidence already exists on the measurable effect of the increasing dominance of the neoliberal wing of the Conservative party, indicating the continuation of laissez faire, migration control, increasing inequality, a low tax low wage economy, stagnating income and deteriorating public services. The competing ideology will result in the nationalisation of the utilities and the railway system, the regulation of capital, necessitating some element of control to prevent flight, the deregulation of labour, increased taxation, particularly on corporations to repair the damage to infrastructure and public services, and provisions enacted to improve wealth distribution. Both these alternatives should be unappealing to the majority of the electorate. However, allied to the "first past the post" electoral system, in a post Brexit world, what has become the tribal nature of UK society will oscillate between two competing ideologies to the detriment of national welfare. The rationale for this phenomenon is little understood or accepted by the political elite. A plausible explanation is the cultural shift in progressive values towards a post industrial, technological, socially inclusive, multicultural society, built on increasing opportunities for tertiary education, which has threatened the perceived superiority of privilege enjoyed by the older post war generation of primarily white men.

Key Words: European Union, Brexit, neoliberal, international production networks, imports, exports.

JEL Codes: B, E, F, G, H

Discussion

On the 23rd June 2016 a referendum conducted in the United Kingdom (UK) voted by a 52% to 48% majority to leave the European Union. The turnout was 79% of the voting population. The campaign was conducted within an environment of mild hysteria in which wild claim and counter claim were greeted with lurid headlines from the tabloid press, including accusations that the Supreme Court judges were "enemies of the people". In this febrile atmosphere, the triumph of the populists was achieved by a combination of a nostalgic appeal to the glories of the British Empire, a malevolent view of immigration, and exaggerated claims of the economic and military importance of the UK's role in the world. The paradox of both the approach and the decision is that the argument for leaving was deployed on the basis of a neoliberal ideology, which resulted in the exit from a single market and customs union built on the very principles espoused as the justification for departure. The claim is that the EU will be replaced by a neoliberal agenda, which will go further, ideologically, in the pursuit of free market goals, theoretically, to bring prosperity to the UK and trickle down to the population at large. Thus, the population of the UK will be subjected to an economic regime, which was the basis of their decision to vote to leave.

In this context, it is important to understand the motivation of this ideological movement. The neoliberal paradigm that has held sway in both the UK and the United States since 1980, when the Thatcher led Conservative government in the United Kingdom and the Reagan led administration in the United States championed Hayekian economic policies in the interests of their perception of national welfare (Harvey 2007). This contention of state capture has its roots in the Hayekian and Friedman inspired school at the University of Chicago, which itself grew from the Mont Pèlerin Society founded in 1947. The founding members were Friedrich Hayek and Milton Friedman and, amongst others, Ludwig von Mises, James Buchanan and Karl Popper. This context is of interest since three of these economists were awarded the Nobel Prize for Economics. The Chicago School was pivotal in the creation of partisan economic think tanks like the Institute for Economic Affairs in London and the Heritage Foundation in Washington DC (Mirowski and Plehwe 2015).

Straying into the field of politics and sociology, there is a persuasive argument that the influence of neoliberalism, and its apparent dominance of economic thought and practice, is the result of a “thought collective” ("Denkkollektiv" in German). This was developed by Polish/ Israeli physician, Ludwig Fleck, to explain how a cohort of researchers jointly develop and elaborate, from a shared framework of ontological and epistemological ideas, knowledge, experience, beliefs and cultural background, to produce a universal truth in relation to a particular concept (Harwood 1986).

In relation to neoliberalism, the claim is that members of the Mont Pelerin Society, through Hayek and Friedman, became influential in both the Chicago School of Economics and the London School of Economics and both these establishments became thought leaders in the post war debate between Hayek and Keynes. The fact that the individuals purportedly leading this thought collective have continually denied its existence, is an argument that is unappealing to leading researchers on the subject. Mirowski (2014) claims that:

“[W]hat is noteworthy about the neoliberals is that they forged a unified doctrine and institutional structure to do just that: they can reassure themselves that no human being is capable of second-guessing the Truth of the Market, and therefore spreading ignorance about their own true motives is not duplicity, but rather, foaming the runway for the bearers of real civilization to land and take over. There is no better modern exemplar of the core of the Straussian political doctrine of the noble lie”.

The evidence to support the claim that the five hundred members of the Mont Pelerin Society had a profound effect on economic outcomes and policy, is addressed in a compendium of research edited by Mirowski and Plehwe (2015) and provides thoughtful insight on the subject. Marxists held the view that capitalism should be encouraged and supported to such a degree that that an overly repressed proletariat would rise and support their political objectives (Mirowski 2014). However, the real evidence exists in the actual events and in the known members of the society who emerged since the transition from Keynesianism to neoliberalism in the early 1980s. Following the Pinochet coup in Chile, against the democratically elected socialist government of Allende, which chimed with the collapse of the Import Substitution programme that had successfully regenerated much of South America, the subsequent recession required an economic solution. It came in the shape of a cohort of United States educated economists who became known as the "Chicago Boys" due to their allegiance to the teaching of Milton Friedman. From the point of view of the Chilean economy, their successful introduction of what subsequently became known as the Washington Consensus (WC) programme, was the direct application of all they had been exposed to while studying at the Chicago School, and the shock tactics they implemented received Friedman's full support (Silva 1991). Solow (2013) regarded Friedman as an ideologue, echoing his support of Reagan and Thatcher, and stating, "I think that Milton Friedmans' are bad for economics and bad for society"

The most recent examples of the programme in action are found in Europe, although it is first necessary to contextualise the reference. Literature suggests that the EU has gone further than any other group of member states to embrace the principles of the WC and, while there is significant reference to the WC, what is "less widely recognised is that there really exists only one pure laboratory experiment implementing the Washington Consensus in the Western World: Europe. [It] ……. has gone very far in the internalisation of the Washington Consensus; in fact, it has devised constitutionally a form of government that has no choice but to implement it" (Fitoussi and Saraceno 2012 pp. 1). It can be argued that, in so doing, Europe laid the foundation for the poor growth it is currently experiencing. There is also some evidence of convergence of IMF and EU funding policies, with the EU adhering to a much more orthodox monetary regime than the IMF (Lutz and Kranke 2014).

For example, the new member states of the EU had no choice but to incorporate the Aquis Communitaire (accumulated body of EU law and protocols since 1958) into their legal and regulatory administrations. The accession states had no choice but to engage completely in the process; to have done otherwise would have led to denial of entry. Western Balkan countries, currently in the accession process, face the same dilemma in a one-sided negotiation, where the conditionality of membership is non-negotiable (Lavigne 2000). This will result in the same systemic change as that enforced on the countries of Central and Eastern Europe.

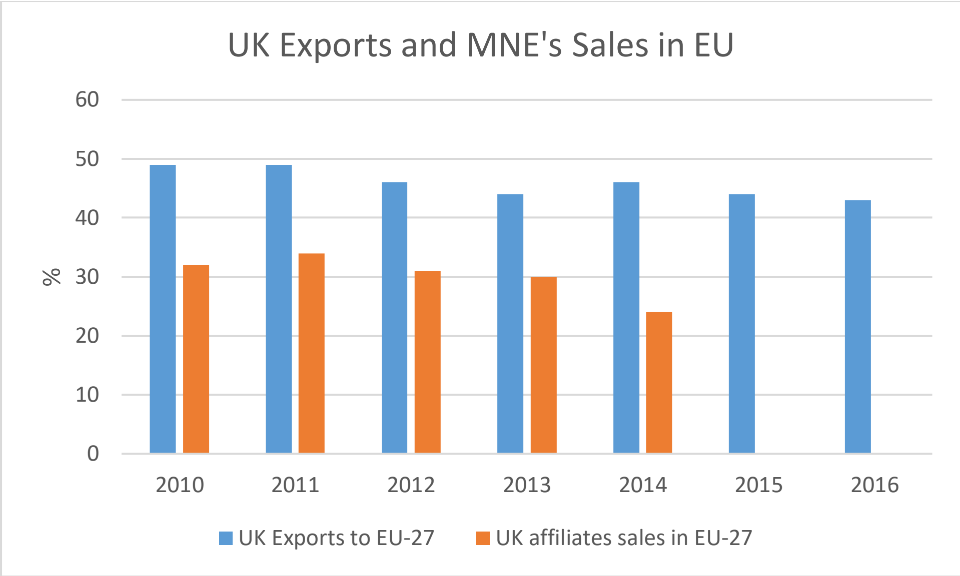
Following the Eurozone crisis, the internalisation of the WC can be epitomised in the formation of the Troika, consisting of the European Commission (EC), the European Central Bank (ECB) and the IMF, to bail out Portugal, Ireland, Italy, Greece and Spain (the PIIGS). The policy of austerity, demanded in return for money, is the very bedrock of the IMF's strategy of external conditionality and serves to demonstrate the extent to which the EU has internalised the WC (Featherstone 2015). This view is further emphasised by the crises in Hungary, Latvia and Romania in 2008/09, when the EU and the IMF cooperated to provide a rescue package. It should be noted that the conditionality imposed by the EU was far stricter than recommended by the IMF (Lutz and Kranke 2014).

There have been a multiplicity of interpretations of the WC policy, although the reality is that it is associated with orthodox macroeconomic policies established and pursued by international financial institutions, including the IMF and the EU. It was the EU however, which proved the most recalcitrant by pursuing an aggressive, contractionary and pro cyclical programme conditional on the award of loans to Hungary, Latvia, Romania, Greece, Ireland and Portugal (Marangos 2009a and 2009b; Lutz and Kranke 2014; Babb 2012). A particular example was its treatment of Romania, where severe austerity measures were demanded, including a 25% cut in public sector pay and a 15% cut in pensions, followed by further cuts in return for additional funds. In contrast, the IMF believed a far less austere regime could have been agreed. This demonstrates that, by internalising the WC programme, the EU's adherence to the established paradigm necessitated a far stricter observation of economic orthodoxy (Lutz and Kranke 2014). This approach is identical to that pursued by the UK government since 2010, with similar consequences.

The complete supremacy of the EU Commission is apparent in the control exerted at supranational level on trade, competition and, in the case of the Eurozone, through the monetary policy of the European Central Bank. Even in the area of fiscal policy, there are constraints established by the Stability and Growth pact. Essentially therefore, the neoliberal agenda is established with a reduction in the presence of government, insistence on a balanced budget, control of inflation and the increase of competition through market mechanisms (Fitoussi and Saraceno 2012). Add the privileges of the common market and the customs union, and an augmented WC programme is complete.

In this context, the UK's decision to leave the EU is perverse. Firstly, those who appear currently to be leading the campaign for a hard Brexit, are the very disciples of Hayek and Friedman and likely to supply the next leader of the Conservative party; by definition, the Prime Minister. Albeit at a supranational level, the EU already has in place the free trade agreements (FTA) which the UK would have to replace simply to retain what it currently enjoys. It has established laws, rules and regulations that encourage and support the principles and areas of operation that the Brexiteers claim they will introduce to the significant benefit of the UK. There is duty free access to the largest single market in the world, which includes the free movement of capital. There are free trade agreements, in which the UK participates, with in excess of 50 countries worldwide, including Canada and Japan. Some 43% of UK exports go into the EU, which rises to 63% when countries with an FTA with the EU are included. Furthermore, the EU also houses subsidiaries of multinational enterprises (MNE) accounting for 25% of global sales (see figure 1 below).

Figure 1. UK Exports to the EU together with Affiliate sales

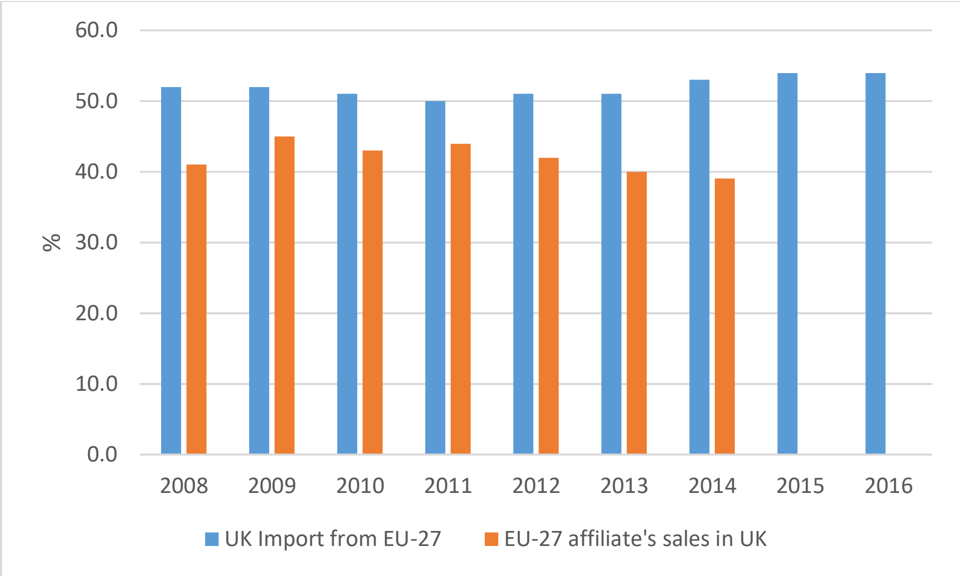


Source: Authors from Theurer et al. 2018

Over 50% of imported goods emanate from the EU, including manufacturing inputs which form part of global production networks (GPN); the life blood of globalisation. Globally, manufacturing multi nationals are dependent on complex and sophisticated international supply chains. A perfect example is the UK automotive industry, almost entirely owned by Japanese, German and Indian companies, in which 60% of inputs are imported. Equally, subsidiaries of EU multinationals account for circa 40% of foreign company sales in the UK.

The importance of GPNs to the UK economy cannot be underestimated. Figure 2 below shows the breadth of EU inputs throughout the UK's manufacturing and services sectors. By contrast, with the exception of financial services, UK inputs into UK businesses are comparatively modest.

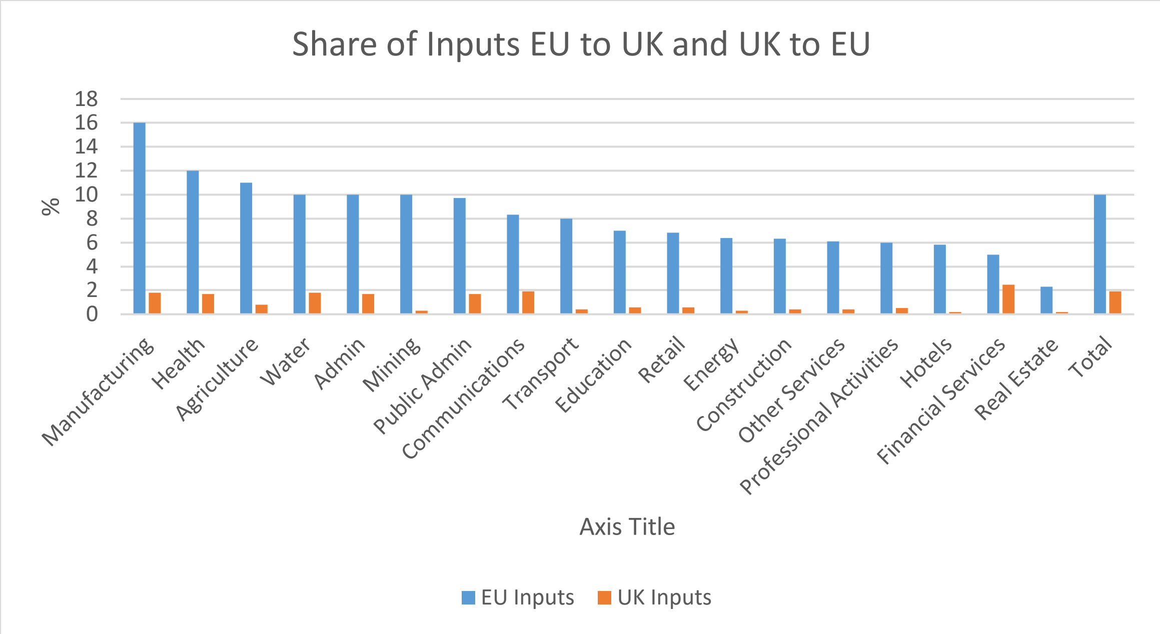
Figure 2. UK Imports from the EU and Affiliate Sales in the UK



Source: Authors from Theurer et al. 2018

Production networks consist of the core manufacturing process, namely, the assembler of the finished good supplied by a complex international tiered supply chain providing raw material, assembled components and services. Core companies have invested heavily in greenfield sites in the UK to benefit from membership of the single market and the customs union. Tier 1 and tier 2 suppliers have been encouraged to invest in local companies to minimise distance and maintain the integrity of the just-in-time principle. Nevertheless, a significant quantity of inputs is imported (Djankov and Hoekman 2000; Meyer 2000). Reference to Figure 3 below indicates the level of dependence on EU imports of many UK businesses: the paucity of reciprocal volume should be noted. The significant volume of foreign inputs not only limits the opportunity of an export multiplier but reduces the potential for domestic firm spillovers limiting the probability to those in receipt of foreign investment. In this context it is difficult to envisage how creating obstacles, where none previously existed, removing the raison d'etre for maintaining a UK manufacturing base, and risking the "just in time" nature of IPNs, is going to provide the UK with a competitive advantage. A hard Brexit could result in a double jeopardy; disrupting the just in time protocol and increasing prices as a consequence of a weaker pound, thus threatening competitiveness. As margins in the automotive industry are tight (3% to 4%), any disruption to the process would erode what little there is. Since exports would be cheaper, there would be some alleviation, although this could be negated by dearer foreign inputs which already depress the export multiplier. The overall effect could be disinvestment in the UK, threatening 1m jobs.

Figure 3. Share of EU Inputs into UK and UK Inputs into EU



Source: Authors from Theurer et al. 2018

In addition to the threat to the UK's membership of IPNs, there is the problem of the UK work force skill base. In this context, what is interesting is the paucity of skills caused, in part, by the application of neoliberalism in the eighties when whole industries were privatised, labour regulated and capital deregulated. This asymmetry led to the deindustrialisation and financialisation of the UK economy when reduction in taxation resulted in reductions in infrastructure spending in key areas such as education and training. Figure 4 below shows education spending as a percentage of GDP. Notably, in a Keynesian environment, the percentage rose steadily from a base of 2.8% in 1953/54 and peaked at 5.9% in 1975/76, declining to a low of 4.3% under the neoliberal regime of a Conservative government. Under a further Keynesian orientated Labour government, it began to rise again back to a peak of 5.9%, before falling to 4.7% under another Conservative neoliberal regime (Statistics only Belfield et al. 2018). Studies have demonstrated that improvement in skill training and education improves productivity and the UK has shown little sign of growth since the financial crisis of 2007/08. Manufacturing, utilities, construction and financial services are claiming increased density of skill shortage vacancies, with the agriculture sector claiming a general lack of manpower. This problem will not be solved by relying on the indigenous population, therefore both skilled and unskilled immigrants will be required to fill the breach. Within the public services sector, particularly elderly care and the health service, there is an almost total reliance on immigrant workers and yet one of the overriding reasons for Brexit was opposition to the high level of immigration.

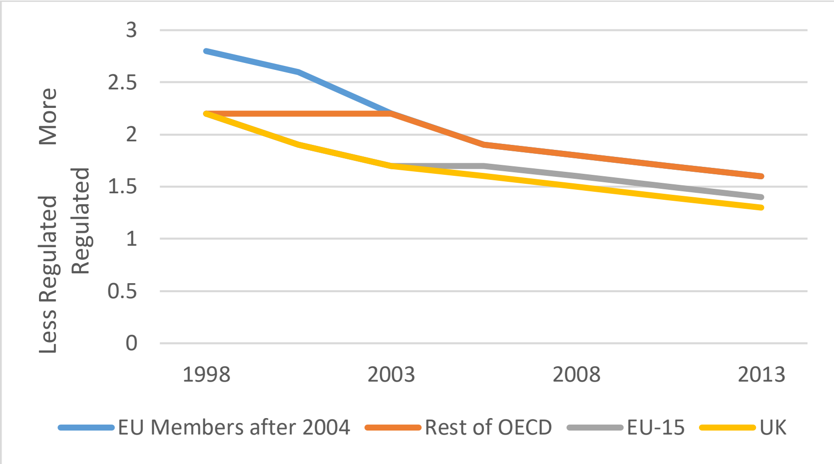
In this context, curtailing the free movement of people within the EU, allied to an increasingly hostile environment within the UK, there is already a shortage of labour, with a lower percentage of immigrants and a higher percentage of emigrants who are EU citizens. The importance of absorptive capacity in relation to improving productivity is emphasised by

Kneller (2002) and Girma (2002), both of whom find that the benefits obtained are influenced by the human resources available. Kneller (2002) finds that the shorter the distance between investor and investee the greater the effect, whilst Girma (2002) claims that a base level of absorptive capacity is required for a positive result. Both findings indicate that curtailing immigration from the EU will have a detrimental effect on manufacturing, construction, business and public services. Notably, EU immigrants are better educated and less likely to be unemployed than their indigenous peer group. Thus, they contribute to the economy, not only in relation to their work rate but also by paying taxes and increasing demand, which in turn creates more employment opportunities. Between 1995 and 2015, the number of EU immigrants tripled from 0.9 million to 3.3 million, yet the UK has record employment figures and the lowest levels of unemployment in decades, with no evidence of this group impacting rates of pay (Wadsworth et al. 2016).

The bonfire of regulations predicted post Brexit is a further myth being promulgated by the Brexiteers. Reference to Figure 4 and 5 below, shows that the UK is amongst the least regulated economies in the OECD and EU for both labour and products. Therefore, the potential upside for regulatory reduction is limited and there is little supply side benefit. Furthermore, any reduction in labour regulations will inevitably have a detrimental effect on employees, many of whom are already disadvantaged as a result of the gig economy. As capital increases its hold on national wealth, there will be additional costs to the state when those same workers require working tax credits and state assistance within an increasingly unequal society. In the context of a low tax economy, this increased fiscal pressure will fuel the debt to GDP ratio, leading to a continuum of austerity and an inability to fund improvements to an aging infrastructure.

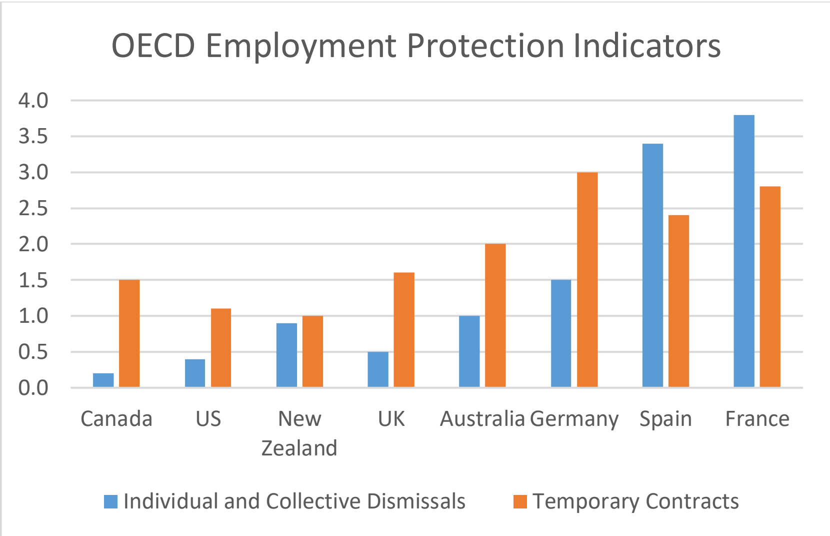
An easing of product regulations will also do little for the economy. Firstly, without regulatory product alignment with the EU, it will be impossible to export to the world's biggest market. Secondly, the adoption of multiple product specifications will increase unit costs making products more expensive and less competitive. Thus, firms will default to the regulations of their largest market which, in the case of the majority, is the EU. Furthermore, any relaxation of product regulation will expose the UK to substandard quality and potentially harmful and undesirable merchandise (e.g. chlorinated chicken and antibiotic treated meat from the US and goats head meat from Australia).

Figure 4 Product Regulations



Source: OECD

Figure 5 Labour Regulations



Source: OECD

Allied to product standards and tariff protection, there is little doubt that the EU regulatory regime has the twin objectives of creating a level playing field for trade within the common market and customs union, whilst affording indigenous manufacturers a degree of protection from predatory pricing or even more efficient and cheaper states exercising a degree of comparative advantage. Thus, the Brexiteers suggest that by adopting WTO rules, or even abolishing import tariffs altogether, the UK will advance GDP and improve national welfare. In fact, they go so far as to adopt a General Equilibrium Model to advance the argument that there would be a 4% improvement in GDP: the fallacy being that they use a 70s trade model assuming perfect competition and goods of identical type and quality. The model assumes that trade will be enacted by buying from the cheapest producer. In this unilateral world, the UK would buy from the cheapest producers, thus reducing prices to benefit consumers. This would both increase demand and improve consumer welfare (Minford 2015, 2016).

There are several fallacies to this argument, beyond the use of 70s econometric modelling and data that is over 14 years old. Firstly, the removal of protection from UK manufacturing companies would create significant damage to a sector already under competitive duress. The subsequent fallout, particularly in areas under economic pressure, would result in further erosion of the UK's manufacturing base, thereby increasing unemployment and putting greater pressure on an already stretched benefits system. There is also an assumption that any price reduction would be passed on to consumers, whereas evidence suggests that an enhanced capitalist regime would hoard the gains with the consequent rise in inequality. Post Brexit, the devaluation of the pound would result in dearer imports negating any possible price reductions, and the resulting inflation would increase interest rates and the danger of short to medium term recession. Any advantage for exporters, particularly to the EU, would be negated by tariffs imposed under WTO rules: the service sector being particularly affected as the WTO has made little progress in comparison to the EU in terms of the liberalisation of services.

FDI and international trade theories have existed since Adam Smith (1776) postulated that markets both created and dictated trade. David Ricardo (1817) claimed that countries should concentrate resources on products in which they have a comparative advantage. Heckscher and Ohlin (1933) espoused a factor proportion theory whereby countries would specialise by utilising their most abundant resources to maximise comparative advantage. More recently the discussion has become more nuanced when Hymer, in his posthumous Ph.D thesis, argued that overseas investment was predicated on firm level advantage over internal competition and resources in the target country. In particular, he developed the notion that multi-national enterprises (MNEs) were the main drivers of FDI. Hitherto, portfolio capital flows were the main focus of international trade economists (Hymer 1970). This theory was further developed by Dunning who developed the eclectic paradigm of Ownership, Location, Internalisation (OLI) in which he proposed an approach that is encapsulated as; ownership, allowing an MNE to exploit firm specific advantages against competitors; location, that the firm has a choice of locale; internalisation, providing the operational capability of utilising assets to reduce costs in both the host and guest nation (Dunning & Rugman 1985). The gravity model relates international trade flows to the distance between the exporter and importer, implying that the shorter the distance, the greater propensity to trade. Additional variables can be used to enhance the model including size of the economy, language and common borders. An example is Germany, the near neighbour of the new member EU states of Eastern Europe, where there is evidence of increased business in relation to both FDI and trade, to a significantly greater degree than any other state within the EU15, albeit that trade grew strongly with the Euro area as a whole. This conforms to the gravity theory of trade (Bussière et al. 2005)

The concept of free trade agreements with the economic heavyweights of the US, China and India is attractive, but does not stand detailed scrutiny. The UK already has a balance of trade surplus with the US, which the latter is intent on reducing. It has product regulations, particularly in the agricultural and pharmaceutical sector, which the UK population may find unattractive, to say nothing of the prospect of the US healthcare industry penetrating the National Health Service. The Chinese market is appealing and, with an expanding consumer base, has potential for a myriad of UK goods. However, China is an autocratic state with subsidised industries which, in the case of steel, has already incurred the opprobrium of the Western world as a result of dumping its spare capacity cheaply on world markets. India has one of the most complex tariff arrangements in the world, with a lack of transparency that makes it difficult for exporters to price goods. Additionally, the issue of migration from the Indian sub-continent will be a mandatory topic in any trade negotiation. These three economic powerhouses have significant trade negotiation resources and experience, whereas the UK must build this expertise from scratch at a time when it has to replace all the other agreements with nations who already have free trade agreements with the EU. The concern is whether the UK can augment the trade it already enjoys with these countries at a level which replaces that which will be lost on leaving the EU. In relation to any international trade negotiation, it should be recognised that the UK economy is less than 20% of the size of the EU. Inevitably there will be a competitive edge to any transaction with the EU proving a more attractive export destination.

The gravity model is equally relevant to the subject of investment. Bilateral FDI flows between states depend on a number of factors including market size, the potential for an export platform and the distance between them. Using the gravity model, there is evidence of the positive effect of EU membership on the quantum of FDI into any one of the member states. It is estimated that membership increases the stock of FDI from within the EU by 28%, and by 14% from states outside the EU (Dhingra et al 2016). There is also evidence that EU membership leads to a 25% increase in trade with other EU members (Baier et al. 2008). It is a stylised fact that FDI raises productivity and therefore output, and theoretically income, although evidence suggests that income has stagnated throughout the Western world indicating the strength of capital and its ability to control the distribution of wealth by constraining labour costs. The UK has in excess of £1 trillion of FDI stock, of which in excess of 50% comes from other member states. Increases in trade costs with the EU, allied to issues relating to regulations and rules of origin and the diminution of the UK's usefulness as an export platform, will reduce FDI over time. A conservative estimate is a reduction of 22%, causing a decline in real income of 3.4% or £2,200 per household (Dhingra et al 2016). The effect on the City of London may be particularly severe since it is the recipient of 45% of all FDI into the UK and the sector represents 8% of GDP and 12% of tax revenue (Tyler 2015). Currently, UK financial services have passporting rights throughout the EU allowing a free flow of services inside the single market. A loss of these rights could restrict UK firms and potentially lose trade to other financial centres, including the migration of indigenous firms out of the UK.

Currently, the UK remains a member of the EU and is negotiating an exit agreement to maintain a free trade environment, although there are a number of significant obstacles. The UK is insistent that it will leave the single market and the customs union, curtail freedom of movement, rescind the authority of the European Court of Justice and cease any contribution to the EU budget. The EU is wedded to the four fundamental freedoms: the free movement of goods, services, capital and people. To yield on any of these puts in peril the whole European project, which resonates strongly within clarion call of nationalists throughout the continent. In other words, the EU cannot allow the UK to exit without paying the price, and that price has to be high enough to deter others.

In addition to trade, the UK has other political and fiscal issues to resolve. The vote to leave was carried primarily by those over the age of 50, particularly the population over 65. Whilst the motivation for the decision to vote leave is complex, there is little doubt that there was an element of nostalgia rooted in the UK's imperial past, the industrial revolution and the period when "Britannia ruled the waves". Paradoxically, this sentiment may well lead to the breakup of the very union on which the UK's past successes were based. Both Scotland and Northern Ireland voted to remain, so the former may find solace in independence and the latter accept the embrace of Eire, with both opting to remain in the EU.

From a fiscal perspective, the UK will save money when payments to the EU cease. In 2016 the gross payment to the EU was circa £12.6 billion and receipts £4.4 billion, making a net contribution of £8.2 billion (Office of National Statistics 2018). A breakdown of the receipts indicates that some £3.3 billion are expended on the agricultural community and regional development, and therefore it is not unreasonable to assume that, in the short to medium term, an identical sum will be required to prevent any deterioration in agricultural sector competitiveness and regional infrastructure. Thus, the savings are a far cry from the £19.2 billion promised to the National Health Service by the vote leave constituency. A generous estimate of the saving to the UK is £4.9 billion, circa 0.5% of UK GDP, a figure that the majority of economists claim would be dwarfed by the losses in trade alone. There are other obligations that may have fiscal implications that will have to be considered by a UK government. Membership of the European Medicines Agency and the European Aviation Safety Agency will lapse without an agreement and, whilst it is rational to assume that one will emerge, there could be a cost to the exchequer. The EU has also stated that membership of the Galileo project will lapse, resulting in the UK government promising to build an alternative solution at an estimated cost of between £3 and £5 billion.

The conclusion to be drawn is that the economic case for leaving the EU has not been made. However, there is a recent and powerfully argued paper by Coutts et al. (2018) taking issue with the forecasts and suggesting that they have been derived as a result of an erroneous use of both the general equilibrium and gravity models. Firstly, the paper suggests that, following accession, the initial presumption of improved growth in the UK economy is erroneous as the 2.75% long term growth trend slowed post 1973. This is disingenuous since the 1970s were plagued by significant industrial strife, a three day week and an IMF bailout as the conflict between capital and labour took root. In the 1980s, the economic shock of oil price increases, deindustrialisation, deregulation of capital and the regulation of labour were more likely to have stalled growth than accession to the EU. An alternative study, using the Synthetic Counterfactual Method, evaluates the impact of an intervention by constructing a weighted combination of groups to be used as controls, which are then compared to the treatment subject on the assumption it had not received treatment (Imbens and Wooldridge 2009). They found that the UK benefitted substantially from membership (Campos et al. 2014). However, this evidence is discounted on the assertion that using Argentina and New Zealand as benchmarks adds little to any forecast relevant to the UK economy. The extensive use of augmented General Equilibrium and Gravity Models is criticised on the basis that their immediate post referendum forecasts have proved erroneous, and continuing work in this field is compounding the problem. The argument propagated is that the relationship between trade and productivity is exaggerated as that there is little evidence that trade growth in advanced economies is associated with increases in productivity, and therefore its inclusion in the model has a distorting effect. Coutts et al. (2018) also take issue with the trade diversion effects and the assumption that there would be no gain in trade to replace that lost from within the EU. Furthermore, there is criticism of the use of estimates based only on the mean for all EU member states, discounting the fact that circa 57% of UK exports are supplied to countries outside the EU. They make two further salient points, firstly, having controlled for the claimed distortions in models used by economists to date, they conclude that the negative effects of Brexit are exaggerated and, secondly, the consequent effect in the credibility of economic forecasting is damaged and undermines the profession's potential contribution to the cause of national welfare (Coutts et al. 2018)[1].

There is little prospect of a meeting of minds on the effect of Brexit on the UK economy and the likelihood is that it could be a decade or more before the true effect can be measured. Equally, the outcome of the negotiations, the decisions made by the UK parliament and any fallout resulting in a further referendum or general election, are currently unknown. However, statements by the Prime Minister and the influence of the neoliberal wing of the Conservative party allows a prediction on the shape of the economy, at least until the general election of 2022. The UK will become a low tax economy, as the Prime Minister has promised the lowest corporation tax in the G7 group of countries. Regulatory control across a broad range of business sectors will be loosened, and labour regulations will be eased to maintain capital's grip on both the economy and society at large. The causes of the failure of the banking system in 2008 remain unresolved, with the danger that any economic shock as a result of Brexit could have devastating effects. Austerity will continue as pressure is exerted on public services to a degree that influences national welfare, particularly amongst the poorest in society, with the greatest pressure on the deindustrialised regions of the UK.

Brexit is a symptom of a deeper malaise within Western society, where the hegemony of the neoliberal agenda has polarised societies confronted by democratic choices at the more extreme boundaries of political and economic ideology. In consequence, the choices facing the UK electorate range from neoliberalism to left wing socialism. Empirical evidence already exists on the measurable effect of the increasing dominance of the neoliberal wing of the Conservative party, indicating the continuation of laissez faire, migration control, increasing inequality, a low tax low wage economy, stagnating income and deteriorating public services. The competing ideology will result in the nationalisation of the utilities and the railway system, the regulation of capital, necessitating some element of control to prevent flight, the deregulation of labour, increased taxation, particularly on corporations to repair the damage to infrastructure and public services, and provisions enacted to improve wealth distribution. Both these alternatives should be unappealing to the majority of the electorate. However, allied to the "first past the post" electoral system, in a post Brexit world, what has become the tribal

[1] Note that the authors Coutts, Gudgin and Buchanan are "remainers" and their paper is not politically or ideologically motivated.

nature of UK society will oscillate between two competing ideologies to the detriment of national welfare.

The rationale for this phenomenon is little understood or accepted by the political elite. A plausible explanation is the cultural shift in progressive values towards a post industrial, technological, socially inclusive, multicultural society, built on increasing opportunities for tertiary education, which has threatened the perceived superiority of privilege enjoyed by the older post war generation of primarily white men (Inglehart and Norris 2016). The spread of these progressive values, aided by increasing inequality and stagnant incomes, has created a feeling of marginalisation leading to a cultural backlash and the rise of populism. This is the challenge which the UK has to face and to create a more integrated society which is an essential antidote to the dangers posed.

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