# ‘Blowing the lid on Brexit baloney’

As with much of the rest of Europe the UK’s economic performance continues to be mixed, but as Dr Graham Gudgin outlines in the affiliated article below, *“Brexit appears to have had little impact on economic growth in the UK despite the many pessimistic forecasts from governmental and academic sources.”*

Indeed, the UK has already dodged one bullet, namely the threat of a 25% tariff on EU goods entering the United States. That alone represents a significant Brexit Benefit. There also remains the possibility of securing a UK-US trade deal if we are to believe the words coming out of the White House.

Almost by default the UK is diverging with EU though not through its own initiative but rather through not adopting damaging EU regulations such as the Carbon Border Adjustment Mechanism (CBAM) and restrictions on AI which appear to be stifling Europe’s ability to grow its technology sector.

Like many other EU countries, the UK continues to struggle under very high levels of debt, but that is largely as a result of the hangover from the Global Financial Crisis and the Global Pandemic.

*“These factors have influenced economic growth by much more than anything to do with Brexit,”* concludes the author.

The article can be read in full below with a link to the original beneath it.

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# How is the UK's Brexit Economy Performing?

**By Graham Gudgin**

The latest evidence shows that the UK economy has grown as fast or faster than other major European economies although not nearly as fast as the rapidly-expanding USA. There is little evidence that Brexit has yet had any significant influence on growth. As the UK starts to diverge from EU regulations this may change for the better.

## Brexit Benefits

Slowly, slowly, and perhaps too slowly, the advantages of the UK being outside the EU are being realized. President's Trump's positive message this week on the prospects for a US:UK trade deal represents a Brexit gain since Trump has also indicated that he will impose 25% tariffs on EU goods coming into the USA.

If the UK had remained inside the EU, we would have been swept up in the new US antagonism towards trade with the EU. We could not have known in 2016 that a pro-British President would be elected, but neither could we have known that an Irish-identifying, anti-British, President, allergic to any new trade agreements, would win in 2020 and delay progress on trade.

The UK has already decided not to join the EU in imposing 20% tariffs on Chinese-built electric vehicles. Nor is the UK proposing to mimic the EU's 2023 Carbon Border Adjustment Mechanism (CBAM) aimed at reducing carbon emissions in imported goods. Nor have are we proposing to adopt the EU's new regulations in its 2024 Artificial Intelligence Act. The UK is thus diverging from the EU less because of its own distinctive legislation and more through not adopting EU regulatory innovations .

History will judge whether the UK's decisions are beneficial to the UK economy but without Brexit we would have had no choice but to go along with new EU regulations (albeit potentially modified by UK inputs into the EU legislative process) or to bear the costs of US antagonism to the EU over trade.

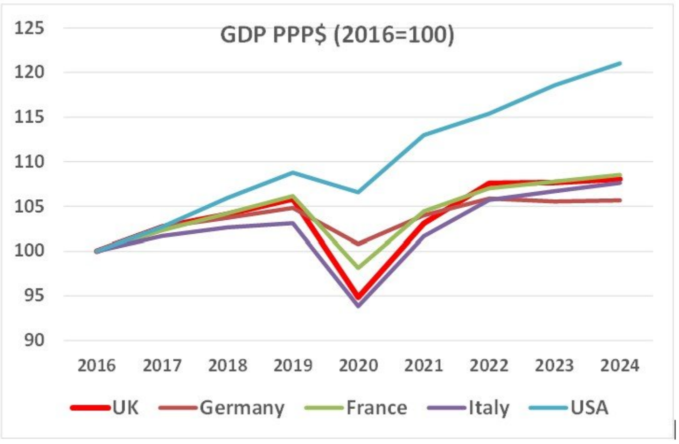
## Stifling EU Regulation

The EU's own Draghi report on economic competitiveness has expressed doubts on whether past EU legislation on AI has prevented the emergence of European equivalents of the American tech giants. Draghi concluded that 'Innovative companies that wish to scale up are hindered at every stage by inconsistent and restrictive regulations'. The UK, under either the Tories or Labour, seems determined to play a leading role in the new AI economy, and outside the EU has a chance of forging a distinctive path to competitiveness in this area.

The UK seems unlikely to diverge from future EU regulations or trade rules unless it is judged beneficial for the UK economy. The economic impact of recent regulatory divergence may however take years to manifest itself. What we can say is that, thus far, Brexit appears to have had little impact on economic growth in the UK despite the many pessimistic forecasts from governmental and academic sources. The chart below shows annual growth in GDP for the main G7 economies up to and including 2024. The data in this case comes from the US Conference Board and is in a common currency (US dollars) to allow international comparisons. The data also allows for differences in inflation rates by applying a purchasing power parity (PPP) adjustment.

## Sluggish growth in Europe compared with US

The data shows that since the Brexit referendum in 2016 the major European economies have all grown much more slowly than the USA. There is relatively difference in GDP growth between the major European economies although Germany has become a clear laggard in recent years. The UK has grown at a similar rate to France and faster than Italy or Germany. In none of these economies h is the level of GDP much above the pre-Covid level of 2019. Over the whole period since 2016 percentage growth has been as follows:




UK 8.0
Germany 5.7
France 8.5

| | |
|---|---|
| Italy | 7.6 |

*Source: Conference Board*

Economic growth in the USA (at 21%) has been almost three times as fast over this period as in any of the major European nations. US growth has been boosted by a number of factors including a huge fiscal expansion under both Trump1 and Biden. This expansion is continuing but at the cost of a rapid growth in indebtedness. The annual public sector deficit in the US is running at over 6% per annum and public debt is now at 123% of GDP, well above the levels of the UK (96%), Germany (67%) or even France (113%). Other factors helping US growth are low energy prices and the spectacular success of American high-tech firms.

## Debt hangover from 2008 and Covid

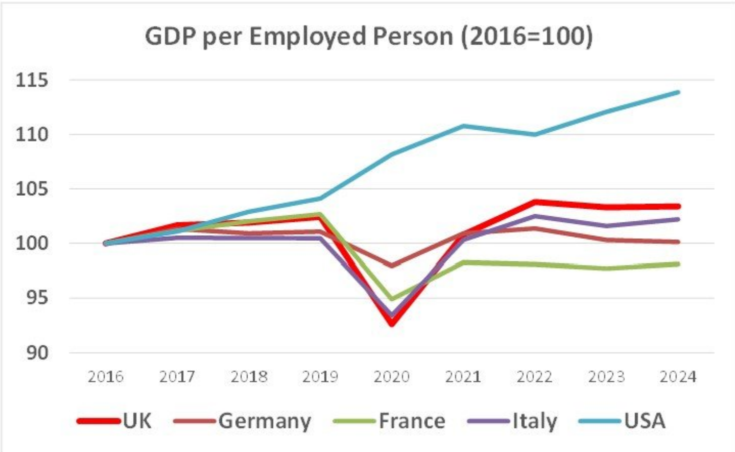
Meanwhile most of the main drivers of growth in Western European economies are running slowly. Government spending, either current or capital, is constrained by the high debt levels inherited from Covid and earlier from the 2008 banking crisis. It is true that German debt levels have remained low due to limitations on public spending under the legally binding schuldenbremse (debtbrake) which limits public spending and which the German Trades Union Confederation describes as '*cutting costs to the point of ruin*' and preventing investment in public infrastructure. European export markets are also growing slowly, including for the UK which still has the EU as its largest export market. Investment is constrained by the slow growth of the wider economy and investment in housing in the UK is still depressed; leading to a private sector housing stock which is currently 6% smaller (nearly 1.5 million homes) than would have been the case on pre-2008 trends.

These factors have influenced economic growth by much more than anything to do with Brexit. The minor impact of Brexit is shown by the fact that UK growth has kept pace with its EU comparators as we always expected it would.  The prediction of the OBR (summarizing academic and private sector estimates) that Brexit would eventually reduce the size of the UK economy by 4% below what it would otherwise have achieved, shows little sign of materializing even nearly a decade after the referendum. Claims that Brexit is having a negative impact depend on a belief that the UK economy tended to grow faster than its EU comparators prior to Brexit.  With uncoordinated business cycles It is always possible to choose periods where this true, but there is little evidence of a general UK outperformance in the current century. Prior to this the formation of the Euro or German reunification make comparisons difficult.

## Non-Brexit factors affecting UK exports

Recent ‘remainer’ pessimism has focused on the trade performance, and especially UK goods exports to the EU. The volume of UK goods exports remains 15% below pre-Covid levels but is similar to UK non-EU destinations. This suggests that factors unrelated to Brexit have been at work. Important among these has been the devastation wrought to aircraft sales and maintenance by the Covid lockdowns. Vehicle sales were also reduced by Covid-induced shortages of computer chips. These sectors are particularly important within UK goods exports. Even so, the value of UK vehicle ales has held up much better than the volume as high-quality vehicles have become increasingly important. One important factor affecting UK exports to the EU has been the reclassification of re-exports due to the imposition of EU rules of origin.  This means that some of the fall in exports of goods has been a statistical rather than real change.  The growth of service exports has at he same time been impressive.

## Effects of net migration




The UK’s economic growth has been partly driven by the extraordinary levels of net migration in recent years. It is comparatively easy for immigrants to obtain work in the UK even if this results in a Deliveroo economy of low productivity activities including such things as ubiquitous Turkish barbers as well as the  food delivery riders.  Once again, there is little evidence that Brexit has affected the path of productivity (GDP per employed person). Migration has been very high in other major European economies and any impact on the UK is unlikely to be unique. The chart below shows that productivity measured as GDP per employed person has risen a little faster than major EU economies since the Brexit referendum.  The slow growth of productivity is a major problem for most European economies. It has little to do with Brexit and attempts to blame Brexit are a waste of valuable time and energy.

*CIBUK would like to thank Briefings for Britain for their permission to re-publish this article. The original can be found here.*

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