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Brexit and Growth of the UK Economy

New Analysis by the Centre for Competitive Advantage in the Global Economy

Joining the EEC raised UK GDP by over 8 per cent each and every year since the mid-1980s, leaving the EU would probably have a significantly adverse effect on the level of UK GDP today, but long-term trend growth performance in the UK economy is not affected either positively or negatively by EU membership. The obstacles to adopting policies that could deliver faster growth in the UK are to be found in domestic politics not in constraints imposed by EU membership.

These are among the conclusions of research by the Centre for Competitive Advantage in the Global Economy (CAGE) at the University of Warwick presented in a new report written by Professor Nicholas Crafts, the Director of CAGE.

The report reviews growth performance across European countries from the 1950s to today with a view to identifying the role played by European economic integration through the reduction of trade costs. It finds that the EU has been highly effective in achieving increased levels of trade – much more so than other trading agreements and that increased trade volumes have raised income levels substantially. In the longer term, however, policies that relate to education, infrastructure, innovation, the diffusion of technology, and taxation are the key to long-run growth performance.

The CAGE research shows:

The benefits to the UK from being in the EU have been much higher than any reasonable estimate of the membership fee that arises from fiscal transfers and unwanted regulations. The benefit-cost ratio has been at least 5 to 1.

Joining the EU was not an alternative to Thatcherism as a response to low growth and the relative economic decline of the British economy. On the contrary, it was an integral part of an approach to improving UK economic performance by strengthening competition as is underlined by the strong support shown by Mrs Thatcher in the mid-1980s for the Single Market.

The UK economy outperformed much of Europe from the mid-1990s to the crisis but this was based on factors such as superior assimilation of ICT rather than a consequence of differing degrees of integration into Europe. There are, however, significant weaknesses in British supply-side policy with negative effects on growth performance including a highly questionable record on innovation policy, a most unfortunate land-use planning regime, and a serious shortfall in infrastructure spending. These are all entirely a result of policies made in Westminster not Brussels.

Brexit is highly likely to reduce income levels in the UK, quite possibly by as much as 7 or 8 per cent. The magnitude is unclear for two reasons. First, there is no precedent for Brexit. Second, it depends on the details, in particular, what kind of trading arrangements would emerge to replace EU membership and how much trade costs would rise. Staying in the Single Market would minimize the damage but would not allow the control of migration desired by many in the Leave campaign.

Nicholas Crafts commented: “With regard to the future growth on the British economy, it is hard to see a problem to which Brexit is the solution”

For further information please contact Professor Nicholas Crafts at n.crafts@warwick.ac.uk