Why the EU is Not the Answer to Britain's Growth Challenge

By Dr Gerard Lyons

Executive Summary

Addressing the UK's growth problem is paramount and should underpin virtually every other priority when it comes to public policy. However, contrary to recent clamour, rejoining the EU, its Single Market (SM) or Customs Union (CU) will not provide a solution to Britain's growth challenge, and should not be part of any pro-growth strategy. The Government needs to have the confidence to stand its ground on remaining outside of EU institutions. It should do so based on an assessment of the present situation, of which there are 10 key features:

1. Debates around rejoining the SM or CU overstate how good they have been for the UK in the past, and do not properly address the economic (let alone political) trade-offs rejoining either or both. It is particularly telling that the initial narrative of economic catastrophe upon leaving the EU has now become that of a 'slow puncture'.

2. Questionable statistics – including the oft-quoted (and often misunderstood) claim that our economy will be 4% smaller in 15 years' time than if we had stayed in the EU – are distracting policymakers from the UK's genuine economic challenges, which are deep-rooted and have little to do with the EU.

3. The use of dodgy economic counterfactuals – the doppelganger approach to economic modelling – has given rise to misguided arguments about how the economy would have grown faster and how the tax take would have been higher had the UK stayed in the EU.

4. The inability of British politicians (not least in the last Conservative governments) to articulate a coherent vision and deliver a properly thought-out post-Brexit economic policy has allowed figures vehemently opposed to Brexit to define the debate and helped to create an economically damaging narrative about the UK on the global stage.

5. Britain does have an investment shortfall – but this problem long predates Brexit, and the apparent 'Brexit effect' after 2016 probably had less to do with leaving the EU per se, and more to do with the political process (chaos) of 2016-19, as a profusion of potential scenarios (including potentially reversing the referendum) led to extreme policy uncertainty.

6. The turning point for economic growth was not 2016, but 2008 and some of the policies implemented in response to the global financial crisis. While some politicians wrongly presented Brexit as the solution to many of these issues, even giving the impression that it would transform the country's fortunes overnight, we are still better placed to pursue a reforming, pro-growth agenda from outside the EU.

7. Instead of raw GDP figures, we need to focus on GDP per capita. This is currently falling – at least partly because of very high levels of relatively unproductive immigration. Yet this was not an inevitable outcome of leaving the EU, but rather the result of subsequent policy choices.

8. Making maximum use of the competencies that have returned to Westminster remains a huge opportunity. Though this need not necessarily rule out dynamic alignment in a few sectors, we need to focus on the domestic policy levers that can be pulled to boost our competitiveness.

9. The debate about the future of the UK-EU relationship needs to be cognisant of the changing global environment – which is already very different to 2016. In particular, there has been a major

shift in the balance of economic power towards the Indo-Pacific region. This is where the bulk of future economic growth lies, particularly for a service-based economy like the UK.

10. The decision to leave the EU had and has mass support. Some 17.4 million people voted for Brexit – more than the number of people who voted for Labour and the Conservatives combined in the 2024 election. Historically, Brexit has been as much a left-wing as a right-wing cause.

This is not to say that leaving the EU has had no effect. I stick with the view I outlined before the referendum: there would be an economic shock, not least because you can't leave something you have been in for over four decades and not expect an impact. Above all, Brexit was a political event aimed at retuning control to Westminster, and in economic and financial terms it would be a process with the benefits accruing over time – as long as it was accompanied by sensible policies. I called this a 'Nike swoosh'. And despite the failure to implement many of those policies, the potential for such a sustained uptick is still there.

Overview

Addressing the UK's growth problem is paramount, and underpins virtually everything else when it comes to public policy. Yet rejoining the EU, its Single Market or its Customs Union will not provide a solution to the UK's growth challenge and should not be part of any pro-growth strategy, despite the recent clamour from some for this. It has therefore been encouraging to hear the Prime Minister, despite his personal support for the Remain cause, make clear that this will be his Government's approach.

The major challenges facing the UK have long predated Brexit and solutions are not reliant on being in the EU. Some may argue that Brexit has made the challenges worse. I would disagree, but this can be debated. The UK has had an investment shortfall since the 1970s, a trade deficit problem since the mid-1980s, and regional and other imbalances that have persisted for some time, too.

Moreover, because of increased political polarisation, economic headlines are often mispresented to benefit certain arguments – for example, the 4% hit to GDP attributed to the Office for Budget Responsibility (OBR), covered below. Sometimes, numbers are simply invented, as with factually incorrect comments from former Governor of the Bank of England Mark Carney about the UK economy's size.

Critics of Brexit said that it would lead to an immediate economic collapse – and that did not happen. So now the narrative has changed to it being a 'slow puncture'. But far too often Brexit is labelled as the sole or main cause of the UK's economic problems, when it is not the case.

Brexit, as I stated innumerable times before the referendum, would be an economic shock. You cannot be in something for over 40 years and leave and not expect there to be an impact. Brexit was a political event – about democracy, control of our laws and ensuring power remained with UK voters as the EU moves in the future towards ever closer union. Indeed, I would agree with another former Governor of the Bank of England, Meryvn King, that it, 'Isn't really an economic issue: it's a political issue'.

The way I framed it, therefore, was that Brexit would be a 'Nike swoosh': after the initial shock, the benefits would accrue over time with sensible policy decisions. That, of course, is dependent upon sensible decisions being made.

This still holds true today. When we were in the EU, there were many things we should have done to improve the economic outlook, but we didn't. Likewise, now we are outside the EU, there is increased room for policy manoeuvre.

The economy has been hit by a combination of shocks from the 2008 global financial crisis, Brexit and the pandemic. On top of this, our challenges have certainly not been helped by a lack of consistent

policymaking: a fixation on politically motivated (and short-lived) fiscal rules; errors made during austerity (in particular the failure to take advantage of locking in borrowing to invest at low long-term interest rates); political churn; and exceptionally poor monetary policy, among others.

As the economist [Paul Krugman noted recently in the *Guardian*], 'Brexit has not had the disastrous effects some predicted.' While true, it is also the case that its execution has certainly not been as good as it should have been – particularly in the eyes of the public, judging from opinion polls. I suspect this in part because of how some of its cheerleaders sometimes presented Brexit as a panacea, and the way that even within the Conservative Party there were sharply differing views of what post-Brexit economic policy should look like.

The priority now should be to focus both on the domestic policy environment and on improving the trust deficit with the EU, while recognising and seizing the opportunities that Brexit presents both economically and geopolitically.

The new Government is seeking a new deal with the EU, with Keir Starmer talking of resetting relationships at the recent European Political Community conference at Blenheim Palace. Naturally, we need to see what that entails. Clearly a sensible working relationship with the EU is necessary, given our many shared challenges – such as climate change, science, education and defence – and also the first review of the Trade and Cooperation Agreement (TCA) coming up in 2026**. If the Government can achieve a better Brexit deal, then that should be welcomed. But at the same time, the Government needs to have the confidence to stand its ground on remaining outside the SM and CU – and it should do that based on an assessment of the present situation.**

1. The economic debate

Many economists have been saying since well before the referendum that membership of the SM or the CU is good for growth – but this does not give the full picture.

Of course, a UK-EU deal over trade access is not in trade terms as favourable as unlimited tariff-free access. Yet membership of the EU was about more than trade – not just in terms of democratic accountability or political decision-making, but in economic terms, too. The economics journalist Liam Halligan and I discussed these issues, and future policy options, in our book *Clean Brexit* (which according to *The Times* made, 'By far the best case for Brexit', and for *The Economist* was a 'truly global' vision).

Unlike devolution at home, where more power has been ceded to Cardiff, Holyrood and Belfast, membership of the EU saw an increasing scale of competencies being transferred through successive treaties to Brussels and the centre. Partly as a result, membership of the SM was not been particularly successful for the UK compared to other member nations, given that our economy is heavily based on services. Even our trade performance while a member was not great. Meanwhile, the regulatory burden on all our firms, not just those selling into the EU, was high.

There were gains and costs to leaving the SM, just as being outside the CU presented new opportunities, as we have seen with our ability to negotiate new trade deals and to position ourselves to join other trading blocs that do not carry the same political obligations, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Moreover, as we know from previous experience, trade deals made when we were within the EU just had the UK's interests as one of 28 countries. Now, bilateral deals we make allow greater focus on the issues that matter for us. Some sneer at the effort it took for the UK to roll over trade deals it had within the EU, but this fails to acknowledge that from this position we can then adjust them over time to be more aligned with our respective interests.

The lesson of the last eight years is that policy and confidence matter.

2. Rebutting the 4% myth

There is an often-quoted claim that as a result of Brexit, the economy will be 4% smaller in 15 years' time. As Meryn King said, 'They can't possibly know that.' It is, indeed, a suspiciously precise number in relation to a large economy like the UK, where the margin of error on forecasts looking just one year ahead can be significant. For instance, the mean absolute difference between the OBR's forecast and the outturn for real GDP one year ahead is 0.5% of GDP.

The 4% is based upon the OBR comment that, 'the volume of UK imports and exports will both be 15 per cent lower in the long run than if we had remained in the EU, reducing the overall trade intensity of GDP. And we assume that this leads to a 4 per cent reduction in the potential productivity of the UK economy.' They also noted that two-thirds of this had already occurred by the time the TCA came into force, because of uncertainty.

This figure is often portrayed by the media as if it is an incontestable truth based on deep analysis, akin to that usually carried out by the OBR. But it is in fact 'the average estimate of a number of external studies' – and crucially was made in 2016.

It does, in qualitative if not in quantitative terms, fit with my pre-referendum view describing Brexit as an economic shock. But I would not view it as permanent – and like any shock, its longer-run impact depends upon subsequent policy and how one responds. Equally, the figure itself appears too large based on the economy's performance since. As a result, I think the impact is smaller and temporary.

Moreover, as it was linked directly to trade, what does the data show? Since 2016, UK trade has proved more resilient than many expected, especially in services where, according to UK in a Changing Europe, 'the UK has outperformed almost all other advanced economies'. Perhaps this should in itself cast doubt on the 4% figure. (Note, this is not linked to any boost to trade from movements in non-monetary gold and precious metals, which can be large and volatile and thus distort UK trade data.)

Trade intensity – or trade openness – measures total trade as a proportion of GDP. The argument is that firms who trade are more productive than those who do not, and thus higher trade intensity implies higher productivity, which in turn may mean higher growth. In terms of the UK suffering a hit, this is probably best outlined in the trade work of the economist Swati Dhingra, currently on the Monetary Policy Committee; the UK Trade Policy Observatory; or the UK in a Changing Europe. In contrast, rival economists Gudgin and Western, referenced below, have stressed there is no evidence for a causal link from trade intensity to productivity among high-income OECD economies.

In my view, it is unclear whether more productive firms choose to trade or whether trade leads to greater productivity. It is probably an element of both, for both exports from and imports into the UK.

Even if you accept that there is a link, the actual data might suggest that there is little to worry about. The economist Catherine McBride looked at this and drew attention to OBR data from March 2023 showing that the UK's trade intensity is in line with that elsewhere, within the G7 range, apart from 2017 and 2020 when it was in fact above.

Yet, in my view, it would be wrong to suggest there has not been an impact, even if overstated. As the LSE's Centre for Economic Performance noted, 'the total value of UK exports has been more resilient to the effects of Brexit than economists had expected'. But it added that 'the impact of the TCA [has] been concentrated on small firms'. This negative impact on small firms, however, reflects a few things. One aspect of no trade barriers is that it allows relatively less productive businesses to access such markets, while also the cost of barriers would hit small firms. Also the impact evidenced on small firms might reflect the issue covered by a ONS paper in July 2018 by Wales, Black, Dolby and Awano. That pointed to a high degree of concentration in UK trade performance, with a small number of large firms accounting for a

significant share of exports and imports. Firms that trade had a productivity premium, though was 'notably lower' for trade with the EU. So, there is a link between trade and productivity, but they note too that the results are not necessarily causal.

Perhaps the issue here is to focus not on trade-driven productivity, but on productivity-driven trade. Certainly, that underlying productivity remains the issue for the UK to address.

As for trade itself, there are still areas in the UK-EU relationship that can be focused on. As the report cited earlier from UK in a Changing Europe noted, 'There is scope to improve the terms of UK-EU trade outside the parameters of the TCA. One of the most important relates to what are termed 'sanitary' and 'phytosanitary' (SPS) checks on agricultural and animal-derived food (agri-food) exports… (and)… As well as minimising existing frictions, any UK strategy for EU trade will also need to think about upcoming challenges. Most notably, the EU's Carbon Border Adjustment Mechanism will also have major implications for UK-EU trade.'

Additionally, as the UK Trade Policy Observatory notes, 'Many modern trade problems concern regulation and trade, particularly in services. For example, there is a growing body of trade and climate change regulation, where there will be impacts both on trade and wider policy objectives.'

3. The dodgy counterfactuals

Some of the claims made about the impact of Brexit are open to challenge. But some are simply and obviously wrong.

Initially, it was said that Brexit would lead to an immediate economic collapse. It didn't. Economic projections that underpinned what was dubbed 'Project Fear' said that half a million jobs would be lost within two years, and three-quarters of a million within three years, of a vote to leave. In contrast, employment rose.

Since then, attention has turned to counterfactuals, and what might have happened if the UK had stayed in the EU. These counterfactuals are called doppelgangers. It is these that gives rise to the argument that the UK economy would have been larger and the tax take higher without Brexit. Unfortunately, they are economically flawed and are of no use in drawing conclusions.

I am indebted to Professor Graham Gudgin of Cambridge, plus Julian Jessop and Harry Western for their research on pointing out flaws with the doppleganger approach. Their key point, however, is that if you want to make a valid comparison you should compare like with like. So compare similar economies to the UK, over a wide group of variables, over the same, relevant time.

As Gudgin, Jessop and Western highlight, the doppelganger model used in particular by the Centre for European Reform not only doesn't use the same countries across different variables, but the comparator group is not even kept consistent for the same variable. The comparator group used now for GDP is the USA, Germany, New Zealand, Norway and Australia. But, as they point out, the earlier comparator group for GDP included the US, Germany and Luxembourg, Iceland and Greece.

In addition, these countries are economically very different to the UK. I feel more comfortable making comparisons with other G7 countries. Now, admittedly, one could argue that Germany, France and Italy are different too – large public sectors, ageing populations and a greater share of manufacturing. Germany has also been shaken by changes to three underpinnings of its economic model: reliance on cheap energy from Russia, manufacturing exports to China and underspending on Nato.

Also, such models tend to ignore the impacts of fiscal policy. While having the US in the comparator group for UK GDP is sensible, the US's fiscal stance has been very expansionary, providing a boost, while the UK's has been tight. Not only that, but economic cycles differ across countries.

The doppelganger models take a group of countries that happened to perform similarly to the UK in one economic period and one set of economic circumstances – the cyclical rebound following the global financial crisis up until 2016 – and then assume that any divergence in the subsequent period, which included a global pandemic and energy crisis, can only be due to Brexit. This is clearly nonsense. At the very least more weight should be placed on what has actually happened, not some alternative universe based on questionable assumptions.

The same is true, as my Centre for Policy Studies colleague Robert Colvile has pointed out, of the research commissioned by the Mayor of London which claimed that the UK economy is £140 billion smaller, and has generated two million jobs fewer, because of Brexit. Robert pointed out that this counterfactual UK would have grown faster than the US since the referendum, and twice as fast as Germany and France, and that the equally implausible figures on employment underestimated the number of jobs that have actually been created in the UK by more than a million. Such analysis serves only to further muddy the debate over the actual costs and benefits of Brexit.

4. Carney's wrong data and the communication gap

On top of erroneous analysis, there is a need to address some outright falsehoods. For example, in 2022 the former Governor of the Bank of England, Mark Carney, received much coverage for his comment that, 'In 2016 the British economy was 90 per cent the size of Germany's. Now it is less than 70 per cent.'

There is nothing wrong with making a mistake, but Carney doubled down on it when challenged. In fact, it was trivially easy to show that he was wrong: among his mistakes he had not compared like with like, instead comparing nominal growth in Germany with real, or inflation-adjusted, growth in Britain.

He also recently said that instead of 'Singapore-on-Thames', the UK has delivered 'Argentina on the Channel'. This reflects two challenges the Conservative Government failed to address while it was in power. One was poor communication, globally as well as at home. Of course, the continuous political shenanigans of recent years have not helped, but on a global stage the inability of UK politicians and leading policy makers to present and articulate a coherent and thought through vision meant the vacuum was filled by comments such as those made by Carney.

The second challenge is the reference to Singapore-on-Thames. What does this mean? For some, it was seen solely in terms of cutting regulations and taxes and that it was this that was holding the UK's growth rate back. I never found this comparison convincing, and it did not help the measured case for Leave that I and some others made.

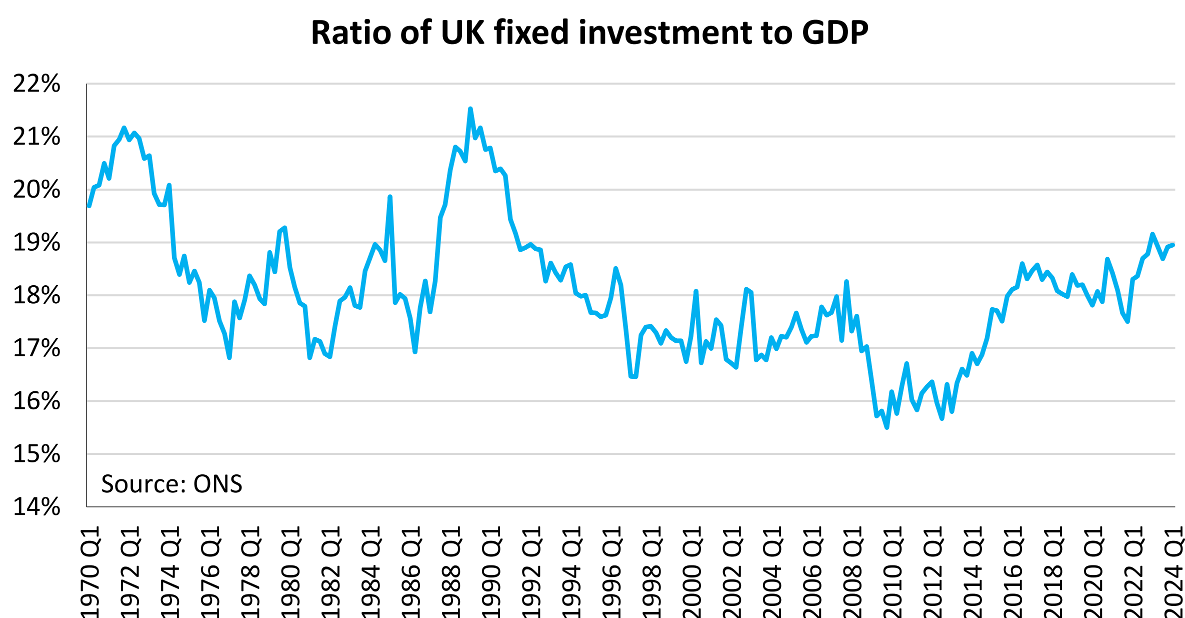
For me, a link with Singapore, which I know well, can be seen in very different policy terms. It is about public policy and the private sector working well together, a very empowered public sector, a very incentivised private sector, and a clear vision to deliver upon, built around enhancing competitiveness, boosting growth and raising living standards. This is supported by the appropriate tax and regulatory framework. There was a failure to explain and even agree on an coherent and persuasive vision for how Britain's economic model would change after Brexit, and how this could increase our prosperity in the long term.

5. Is there really an investment shortfall?

Public and private investment is low and addressing this is part of the new Government's focus. This is likely to be linked to the green agenda and a move to renewables, which is welcome although it is likely to be heavily dependent upon private sector finance (if the right incentives can be put in place).

However, one of the most disingenuous graphs that does the rounds is of UK investment rising sharply from around 2010-16, post the 2008 global financial crisis, then slumping back. A straight line is drawn as if to suggest the trend would have continued beyond 2016.

Far better is the graph shown below of investment as a proportion of GDP, stretching back to 1970, as it conveys a more realistic interpretation of investment. It also covers the period of EU membership, from 1973. A recent report from the IPPR showed how the UK has not matched the G7 average for such investment since 1990. I drew attention to this, relative to the G7, in a column I wrote in The Times back in 1991, pointing out that it had been a problem way before then.



Looking at such a long-term graph, it is hard to argue that the entire solution is to rejoin the EU. In particular, this graph shows that the rise in investment pre-2016 was in part due to the way it had been depressed in the aftermath of the 2008 global financial crisis.

One view is that the tailing off after 2016 was a Brexit effect. Another is that the period after 2016 saw a normal cyclical slowdown irrespective of the referendum, plus a key contributor was a sharp decline in North Sea investment and excluding that, the dip after 2016 is far less marked.

That said, I would accept that 2016 had an impact – not solely because of the decision to leave itself but because of the years of uncertainty that followed. Clearly some firms, based on their business models, may have altered their plans, including no longer seeing the UK as the base for their EU wide operations. A distinction, though, needs to be made between Brexit as an act, and the political process of leaving the EU and the uncertainty it generated. Instead of accepting the result and focusing on how to ensure Brexit was a success, many opposed it and tried to reverse, delay it or undermine it, in turn weakening the UK's negotiating position with the EU. This should not be controversial to say. This uncertainty spread over the next three and a half years, until the December 2019 election. Notoriously, because of this political reaction, Article 50 was triggered before the UK was even clear about its negotiating position.

There were other factors, too. Importantly, Whitehall had not worked on a scenario for what might happen if the UK voted to leave, as sensible Government necessitated. The nature of a referendum is that it is unlike a general election, where there is a manifesto that the victors execute. Instead, those in charge after the result not only had not supported the policy but also had no Whitehall template to turn to.

Also, it is far from clear that those in power reached out to those who had supported Brexit and had advice to give. The key lesson here is not that rejoining the EU will boost investment, but that we should search for and address the real reasons why UK investment is low – while doing our best to minimise political uncertainty and create a stable and predictable environment for investors.

In fact, in recent years the UK has consistently been seen as an attractive investment destination, in terms of inward investment. In May, EY reported, 'The UK saw its share of Europe's inward investment market grow to 17.3%, up from 15.6% in 2022' with France ranked first for the fifth successive year. This came as total FDI projects in Europe were down 4%, with France and Germany's project numbers declining year-on-year. In his last Budget, Jeremy Hunt noted that the UK is third only to the US and China in terms of foreign direct investment inflows.

While the UK is in a strong position in Western Europe, so too are others, and hence complacency cannot set in, reinforcing the need for the UK to ensure that the narrative it paints and policies it adopts reinforce its attraction. A recent CPS report, 'Why Choose Britain', made some explicit recommendations on this, and 'that there was a lack of joined-up thinking.'

Addressing low investment involves many other policy options, other than looking to the EU. It seems to be the case that the new Government understands this, although the issue is whether its execution will be the right one, with a National Wealth Fund and industrial policy part of their approach. For when it comes to the private sector, we know the factors that are needed to improve investment: more finance and lending for small firms; sound macro policies; a lack of bureaucracy; simple, predictable and low taxes; plus reliable future expected demand.

6. 2008 matters more than 2016

The sixth point to stress is that the global financial crisis of 2008 matters far more than 2016 in terms of a turning point for UK growth.

Before 2008, the UK's trend rate of growth was far higher than now. Growth had averaged around 2.75% over the previous two decades, although trend growth tended to be seen as lower than that, perhaps around 2.25%. Now, the OBR sees trend ground around 1.67%, but it could be lower.

The bottom line is that the UK is now a low-growth, low-productivity and in turn low-wage economy. This growth challenge is considerable and, in my view, we can address it better outside of the EU.

That will, however, take hard work. Some politicians – and some economists too – wrongly gave the impression that Brexit would turn around the country's fortunes overnight. The fact this hasn't happened yet has not helped perceptions of Brexit. Economists for Brexit, for instance, of which I was a member, had a wide range of views. Professor Minford, for example, had naively optimistic forecasts, and while he may have intended to show what could have been possible, it was in my view always very unlikely. Such predictions, and those from politicians, were seized upon by critics and undermined the measured arguments many pro-Brexit economists were making.

Of course, Economists for Brexit was not part of the official Leave campaign: we were a collection of independent members who produced our own research. I felt then, and still do now, that Brexit was primarily a political issue and that it was important to bring some balance to the economic debate and to outline that there were arguments against membership of the EU, just as there were arguments for. After

all, our membership of the EU had hardly been an economic success, and the future outlook for the global economy was changing dramatically.

Likewise, it is necessary now to push back on the clamour for rejoining the SM or CU and think about how we address domestic issues, become competitive and position ourselves globally.

In Select Committee testimony that I gave in November 2015, I pointed out that: ‘Although staying or leaving is a vital decision, it is not the only thing that matters. My analysis [shows] that the outlook also depends upon the policies adopted.’

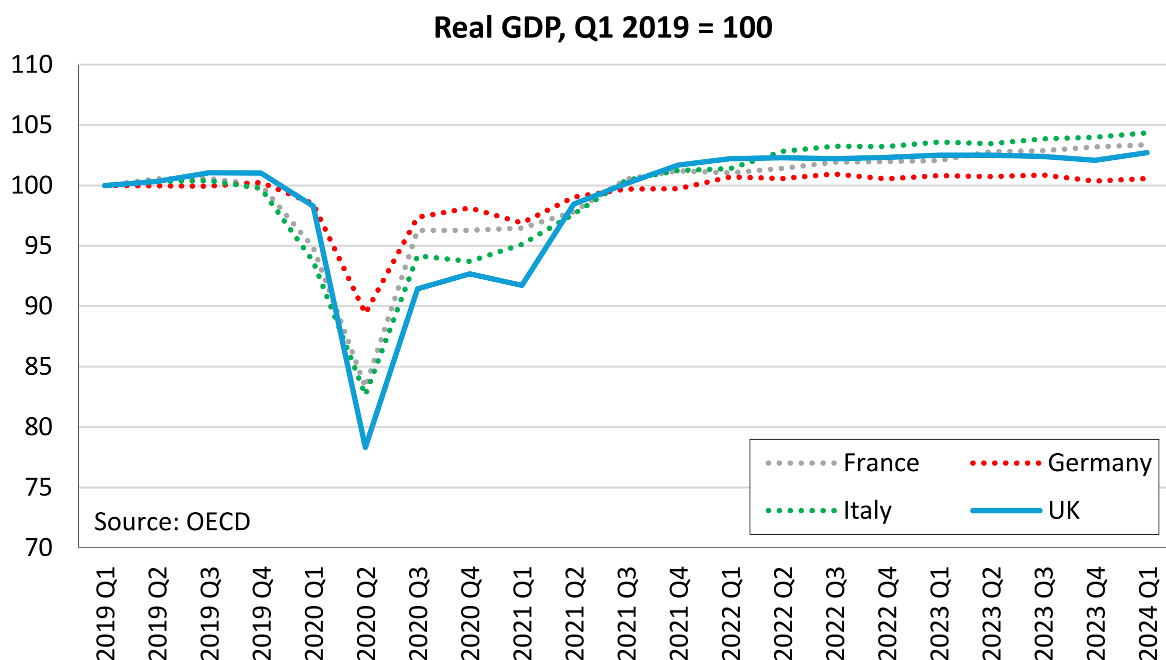
I noted that there were four scenarios: the UK remaining in a reformed EU (‘Brave new world’); in an unreformed EU (‘business as usual’); outside the EU on good terms and global in outlook (‘one regime, two systems’); and outside but not positioning ourselves well (‘inward looking’). This was based on work produced for the then Mayor of London by independent economic forecaster Volterra, with the forecasting work led by economists Professor Paul Ormerod and Bridget Rosewell, and supported by an analysis of the impact on different sectors of the London economy.

The best two scenarios, by some way, were ‘brave new world’ and ‘one regime, two systems’. The worst was ‘inward looking’ – the outcome which we have probably been nearest in recent years. The key to success, I argued, was a reforming and pro-growth agenda, whether within or outside the EU. That is still the case today

7. We need to focus on GDP per capita

The discussion around GDP invariably focused on the raw figure. But it is far more important to ask whether individuals, on average, are becoming richer. And in Britain, alarmingly, this is not the case.

The best way to measure the UK’s economic performance – rather than those doppelganger models – is to compare us with the major three economies in western Europe who are G7 members, namely France, Germany and Italy.



One can also measure this in different ways, but let’s consider GDP growth. Since 2010, the UK has outperformed the other three. Since leaving the EU, as shown in the chart above, the UK has

outperformed Germany and France but not Italy. Since the pandemic, though, Italy and France have outgrown the UK, which in turn has outperformed Germany. The reality, though, is that all four countries face similar challenges and none are facing up to them fully.

Indeed, the true outlier in terms of economic performance is not the UK but the USA, which has outperformed the major economies of western Europe by some distance. This has been seen in the eyes of the financial markets to reflect US exceptionalism, in contrast to the relative stagnation seen across the major economies of western Europe.

Yet performance can be measured not just in terms of economic growth, but GDP per capita and overall living standards. GDP per capita can paint a very different and thus more realistic picture than GDP growth – in particular in countries, like the UK, with very high levels of migration.

In its March 2024 economic forecast, the OBR talked of UK growth rising 0.3% last year and 0.8% this. But it predicted that GDP per capita would fall in both years, by 0.7% in 2023 and 0.1% in 2024.

Once again, this has been a long-running issue, and one which precedes Brexit. Average GDP per capita growth has decelerated from 2.5% in the 1980s, to 1.9% in the 1990s, 1.2% in the 2000s and just 1.1% in the 2010s, before falling further during the pandemic. Admittedly, on the IMF's measure, UK GDP per capita (based on current prices) is within a similar range in Germany ($54.3k), the UK ($51.1k) and France ($47.4k), and well above Italy ($39.6k). But this is far too low, especially when compared with the US ($85.4).

One consequence of looking at GDP per capita is that it links the debate on economic growth to the size of the population, and thus immigration. Controlled immigration is good for an economy, as it targets those it wishes to attract to fill existing gaps, whether skilled or unskilled, temporary or longer-term.

But unlimited migration is not the answer, diverting a focus from the need for the economy to invest more and to upskill its existing workforce, or for higher pay in areas where there are shortages. Large-scale immigration can also suppress wage growth and, as a recent Centre for Policy Studies report highlighted, add to pressure on housing and demand for public services. The eminent Cambridge economist Robert Rowthorn has also made this point.

It seems pretty clear that the current scale of immigration is feeding falling GDP per capita, as implicitly recognised in the OBR's economic and fiscal outlook.

There is therefore a need for a more detailed analysis of the fiscal costs attached to immigration and whether there is a better way to address staff shortages in the health system in particular. Substituting free movement from EU countries with higher migration from elsewhere, such as the Philippines or Nigeria, has led it to be said that at least with EU free movement we had the right to go and work in those EU countries, too. Moreover, if people came from the EU they did not necessarily bring their dependents with them.

While leaving the SM impacted freedom of movement, the UK has failed to keep immigration under control in the years since – and it now clearly needs a credible immigration policy.

8. The return of competencies

Leaving the EU has returned competencies to the UK in many areas, and not just trade deals. Just how much freedom one has in a globalised, or even in a fragmented world economy may vary across sectors. But there is still huge scope to do more with the powers we have repatriated.

One challenge for the new Government is that while remaining outside the SM allows it not to accept free movement, it's unclear what format any future relationship on regulatory agreement will take. A sensible future relationship with the EU makes sense, but this should not be at the expense of tying the UK's hands on domestic economic policy or international trade policy.

Sadly, the narrative around economic policy – both domestically and globally – has been suboptimal since Brexit. This was not helped by a failure to focus post the referendum on some key sectors, such as the City and financial services – an approach which I described in 2021 as 'benign neglect' – or on the arts and creative sector, which as the Bazalgette report in 2017 showed, and I have also highlighted, is a growth area for the economy. The former has already started to be addressed, with a focus on improving the international competitiveness of the City. The latter was not helped by the pandemic, but needs a focus in terms of arrangements regarding touring.

Rachel Reeves, in recent weeks, has drawn attention to the chemicals sector, which like the motor industry views non-compliance with EU rules as a cost. There may be interest there in dynamic alignment to the EU's rules (sticking to them even when they change). So there are clearly some sectors where issues remain. For other sectors it may be about global bodies or about the UK using its ability to change regulations to improve the UK's competitiveness. Yet given the importance of future vision and direction of travel when it comes to regulations, an important focus has to be on the policy levers that can be pulled at home.

The EU regulatory approach was often seen in terms of an IOU: Inflexible, Overly cautious (as seen with the reliance on the precautionary principle), and Unscientific, for example in its attitude to GM foods.

The UK's future approach should be driven by the need for smart, as opposed to light, regulation. There is a particular opportunity for the UK to create bespoke and competitive regulatory regimes for the growth sectors of the future, whether that be in AI or life sciences. Irrespective of one's stance on Brexit, the ability to be agile should be seized.

The economic challenges the UK faces are not unique to us. But many of the UK's challenges have not been helped by poor economic management. For instance, there has been a failure to address aspects of the supply side agenda where we know what needs to be done, but political pressures have prevented policy execution such as easing planning restrictions and institutional change across Whitehall. Both are nothing to do with the EU and yet could have helped deliver material growth and it is easy to see why the new Government has put planning reform high on its agenda.

9. The changing global context

The debate about the future UK-EU relationship needs to be cognisant of the changing global environment, which points to a shift in the balance of economic power to the Indo-Pacific, stretching from India in the west to the US in the east.

Western Europe is set to be the slow growth region of the world economy. Within a quarter of a century, its share of global GDP will be less than 10%, smaller than India's. We can already see this happening: average annual growth rates from 2010 to 2022 were 1.1% for the Euro area, 2.2% for the US and 2.7% for South Korea. The high-tax, high-spend zone of Western Europe stands out globally as having the lowest growth rate.

Our competitive landscape therefore needs to be set by the Indo-Pacific. Hence the importance of the UK not only seeking trade deals with the likes of India but repositioning ourselves – in trade terms – with growth regions such as east Asia. We can only do this outside of the CU, as we have been doing, and by rediscovering the competency for negotiating trade deals which we had transferred to the EU previously.

Of course, one does not need a trade deal to trade. One also needs to factor in the future and not just current size of the countries with which such deals may be cut. Discussing the impact of trade deals based on, for instance, the size of India today, rather than in 25 years' time, will underplay the relative merits of enhanced trade with this huge future economy. The same applies to other fast-growing markets where the UK has scope to develop a much deeper trading relationship.

It is not just an economic shift that is happening globally, but a geopolitical one, too. The big change since Brexit has been the fragmentation of the global economy, and also the geopolitical shift towards a G3 world: the US and its allies, China and its allies, and the middle-ground, non-aligned powers such as India, Nigeria and Brazil. The geopolitical risks of this transformation have been very evident with the war in Ukraine, which has reinforced the importance of Nato, points to upward pressure on defence spending and strengthens the case for the UK to cooperate with like-minded European nations, whether they are in the EU, or not, as highlighted by the European Political Community conference.

In short, like other countries in western Europe, the UK needs to reposition itself in a changing and growing global economy. Again, rejoining the SM or CU will do little to help with this.

10. There is still mass support for Brexit

Finally, there are some who see the decision to leave as driven by a right-wing agenda. That, too, is to ignore the reality and the strong cross-party support that Brexit received. It was the considered verdict of many millions of Britons. More, in fact, than voted for the Conservatives and Labour put together at the last election. Admittedly, in recent years, opinion polls have shown some of the support for it has waned.

It is also worth considering that the situation today – in which support for the EU is left-coded and hostility to it is right-coded – is not an inevitability. Economists as a group have not always been advocates of EU membership; likewise, many of the arguments against the EU were previously outlined by the left.

Today, many seem oblivious to the deep-rooted animosity that the Labour movement showed towards the EU (and previously the EEC) until Jacques Delors's speech to the TUC in Bournemouth in September 1988, when he focused on the social dimension. After that, the TUC and the Labour Party switched from being anti-EU to being pro, triggering Margaret Thatcher to move the other way. This also contributed to a shift in the allegiance of many economists, with academic economists as a group becoming more supportive of the EU and many City economists at that time moving the other way. Indeed, it's arguable that Delors's 20-minute speech is the most significant one that most people have never heard of.

It's worth pointing out, therefore, that many of the left's original worries about Brussels being unaccountable, dominated by big business, lobbyists and technocrats have, if anything, stood the test of time.

Conclusion

As Keir Starmer said in his BBC Panorama interview with Nick Robinson during the election campaign: 'If you look at the problems for growth over the last 14 years, they were there, or many of them were there, before Brexit, so the idea that the sort of single silver bullet is simply the relationship with the EU is not something I accept.' He is absolutely right. Britain's membership of, or departure from, the EU has not been the main driver of our economic performance since 2016. Instead, our overwhelming focus needs to be on resolving our long-term growth challenges – rather than refighting the battles of the past.

About the author

Dr Gerard Lyons is a Research Fellow at the Centre for Policy Studies and has been described by the Times as 'one of the most influential analysts of the global economy'.

On public policy he advised Boris Johnson when Mayor of London, was senior advisor to Gordon Brown's Business Council for Britain, was a candidate for Governor of the Bank of England in 2019, was an inaugural member of the EU Commission's Network of China Experts and has sat on several Councils of the World Economic Forum. He has testified to committees of the US Senate and House of Representatives, and to committees of both Houses of the UK Parliament. His paper 'Banking the Unbanked' was presented at the Commonwealth Finance Ministers Conference and his report 'Qatar 2020' was commissioned by and presented to the Emir.

On the environment he has sat on the Advisory Board of the Grantham Research Institute on Climate Change and the Environment since its inception in 2008 and since 2022 has been a member of the Washington-based Bretton Woods Committee's Climate and Energy Transition Finance (CEFT) project team.

In the City, he is the Senior Independent Director and a board member of Bank of China (UK) and is Chair of the Risk Committee and sits on the board of BGC Partners, the global brokerage firm. He is a member of the Advisory Council of the Official Monetary and Financial Institutions Forum.

Gerard is also Chief Economic Strategist at Netwealth Investments, the discretionary wealth manager which he helped establish in 2016. From 1999-2012 he was Group Head of Global Research, Chief Economist, and Advisor to the Board at Standard Chartered, as well as having senior business roles as a member of the bank's Executive Forum and Risk Management Committee, where he was credited as one of the few economists to predict the 2008 global financial crisis and where his team was rated in 2010 - 11 by Bloomberg as the most accurate forecaster globally.

In 2010 he was elected by the economic members to serve a five-year term on the Council of the Royal Economic Society, and he also joined the strategy group. Since 2011 he has been appointed a Fellow of the Society of Professional Economists. In 2021, he was appointed a member of the UK economy Honours Committee.

His website and full biography is at www.drgerardlyons.com.