

Brexit Britain – no shining star

EU withdrawal will make matters worse

by Simon Tilford in London

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An observer of Britain's European Union referendum campaign would be forgiven for thinking that the country's economy had been one of the EU's best performers over the last 15 years.

Much of the debate focused on how EU membership was holding back the British economy. Boris Johnson, a leading Brexit campaigner, now foreign secretary, rarely passed up an opportunity to claim that the EU economy was the world's weak link. The message was that the UK's dynamic and flexible economy had little to risk from withdrawal.

Britain was – explicitly or implicitly – put in the same company as Germany, the Netherlands and the Nordic states: reformed, flexible and dynamic.

The reality is rather different. And Brexit threatens to make matters worse.

The UK has economic strengths, such as a flexible labour market, which ensure that unemployment is low even in many of its struggling regions.

On first inspection of the data, the UK economy appears to have performed well. Growth in real GDP (that is, adjusted for inflation and calculated in sterling), has outpaced France, Germany, Italy and Spain over the past 15 years. However, this measure of GDP – denominated in euros in purchasing power parity terms – can give a misleading picture of one economy relative to others. To gain a more accurate picture of relative economic performance, we need a measure of GDP that adjusts for the different prices of goods and services across countries, and for the impact of exchange rate movements.

This puts the UK's relative economic performance in a different light. Between 2000 and 2015 UK growth lagged not only Spain and Germany, but also France, albeit only by a small margin in the latter case.

But to get an even better picture, we need to look at growth in GDP per capita, which determines living standards. This further tarnishes the image of the UK as a strong performer. On this basis, Germany emerges as the EU-15 economy with by far the best record over the last 15 years, with the UK again lagging Spain and France. UK per capita GDP on this measure was no higher in 2014 than in 2007, a considerably worse performance than France or Germany. Moreover, the average Briton has to work more hours than the EU-15 average to achieve that income.

Sustainable increases in living standards require economies to combine land, labour, capital and technology in ever more efficient ways: Britain has made a poor job of this. The UK's productivity performance has been woeful, falling to just 90% of the EU-15 average. This helps explain why Britons' wages have risen by much less than their French and German counterparts over the last 15 years.

Moreover, the UK is highly dependent on London and its environs. Apart from London, just one British region – the south-east of England – has a GDP per capita in excess of the EU-15 average, meaning that just 27% of the UK population live in regions wealthier than that EU average.

Far from catching up with the richer parts of the EU – as one might expect as they adopt technologies and working practices developed elsewhere – the UK's poor regions have fallen further behind.

Britain's problems lie mainly on the supply side and in the structure of public spending. Three key issues stand out: poor skills among a sizeable chunk of the workforce; weak infrastructure and a lack of affordable housing; and the centralisation of political and commercial power in London.

Unfortunately, Brexit risks aggravating most, if not all, of these problems. And Britain's already startling regional imbalances are likely to worsen further, leaving much of the country's population living in areas considerably poorer than the EU-15 average.

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