

# The costs of separation

John Springford and Anton Spisak on how much Brexit has cost the UK economy – and why the hardest trade-offs still lie ahead.

Brexit was, among other things, one of the starkest ‘natural experiments’ in modern economics. Britain chose to pull away from one of the world’s largest markets – a market on its doorstep, governed by rules it had helped to write, and into which its firms and supply chains had been deeply integrated for more than four decades. No other advanced economy has so deliberately made trade with its nearest and deepest trading partners more difficult.

Before the referendum, most economists expected Brexit to be costly. The only question was how large the damage would be and how quickly it would appear. A decade later, the answer is clear. Brexit did not produce a sudden economic shock, but it did something more insidious: it created a persistent drag on Britain’s growth path. The UK’s Office of Budget Responsibility estimated that Brexit would reduce UK trade openness by around 15 per cent in the long run, lowering potential productivity by around 4 per cent. More [recent studies](#) suggest that the damage may be larger – around a 6–8 per cent hit to GDP and a 3–4 per cent hit to productivity by 2025. Earlier [‘synthetic control’](#) estimates, conducted by the CER, also found substantial losses to UK GDP, trade and investment.

Estimating counterfactuals is always difficult, and it has been harder still because Brexit coincided with Covid, the energy shock following Russia’s invasion of Ukraine, high inflation and years of domestic policy churn. But the evidence points in one direction – towards a weaker growth and productivity path that has been shaped through three main channels of trade, investment and migration. The size of each effect can be debated, but the direction should not.

The most direct channel has been trade. The Trade and Co-operation Agreement avoided tariffs on most goods, but it did not preserve

the same frictionless access to the single market that Britain had once enjoyed. Firms now face customs declarations, ‘rules-of-origin’ requirements, veterinary certification, regulatory checks, product certification procedures and continuing uncertainty over future regulatory changes. In modern trade, these ‘non-tariff’ costs matter more than duties levied at the border.

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Our own [latest estimates](#) show that Brexit has reduced UK exports to the EU by about 12 per cent and imports by about 16 per cent. Goods exports to the EU are now about 16 per cent lower than what they would have been had the UK stayed inside the EU; goods imports are 14 per cent lower. These trade losses are substantial, and they are consistent with business surveys showing around half of UK exporters and two-thirds of importers reporting considerable costs from Brexit-related friction.

One striking feature of Britain’s post-Brexit economic performance is that services trade has held up relatively well. Our estimates suggest that this is not evidence of a Brexit dividend. UK services exports to the EU are 7 per cent lower, and services imports 19 per cent lower, than they would have been had Britain

stayed in the single market. The strength of services exports reflects rising post-pandemic global demand for the kinds of services in which Britain has a comparative advantage – especially business services, such as law, accounting and consultancy.

[Our analysis](#) also shows that most of the trade loss appears to stem from leaving the single market, not the customs union. Leaving the customs union introduced cumbersome ‘rules-of-origin’ requirements and customs paperwork, but it was the departure from the single market that meant losing the regulatory recognition that underpins friction-free market access. Some barriers can be reduced through selective alignment with EU rules and sector-by-sector mutual recognition agreements. But unless the British government is willing to revisit the red lines around rejoining the single market, it cannot recover most of the economic losses.

Investment has been the hidden casualty of separation. [Firm-level evidence](#) found that UK investment was 12-18 per cent lower by 2025, reflecting years of uncertainty, contingency planning, supply-chain adjustment and management attention diverted from expansion to adaptation. Firms may not have left Britain *en masse* because of Brexit, but leaving the EU was enough for them to scale back their ambitions, or to decide that the UK was a less attractive base from which to serve the wider European market.

Migration is the third channel of Brexit costs – though here, the effects have so far been limited, and possibly positive. Brexit ended free movement, but Conservative governments replaced it with a more discretionary system. According to [recent estimates](#), Brexit reduced the number of EU-origin employees by about 785,000 by 2024, but this was more than offset by a rise in non-EU workers. Overall, post-Brexit migration rules led to an increase of foreign-born workers of about 207,000 – or roughly 0.6 per cent of the workforce. Whether that migration dividend lasts is uncertain, as successive governments have tightened the visa regime, and net migration is plunging.

The fiscal consequences follow from the economic ones. A smaller economy means a smaller tax base. If the OBR’s estimate of a 4 per cent productivity loss is correct, around £40 billion of the roughly £100 billion in tax rises during the 2019-24 parliament were needed because of Brexit. Covid, energy prices, weak public investment and years of poor productivity performance have all weighed on public finances, but Brexit has made every fiscal trade-off harder.

It is tempting to look for a single dramatic refutation of these facts: that the German economy has barely grown over the last decade, or that investment has been sluggish across many European economies. But that misses the point. The costs of leaving the EU have been cumulative and counterfactual. They appear in the trade that does not happen, the investment that is not made, the productivity that is foregone, the political time that is lost and the taxes that have to rise. Britain spent the better part of the last decade arguing about the terms of separation from its closest economic partner while the country stagnated.

Acknowledging these impacts was treated as politically dangerous until recently. There are signs of change, however. Keir Starmer has recently said that Brexit “damaged the British economy”, while Chancellor Rachel Reeves has argued that Britain should align with EU rules where it is in the national interest. These are sensible statements, and also overdue ones. But the question today is not whether Brexit has been costly, but rather how much of the cost Britain is still prepared to bear for the sake of regulatory autonomy it has often chosen not to use, and sovereignty that has not delivered the change that many British voters expected in June 2016.

Getting closer to the EU can recover some lost ground. Selective alignment can reduce frictions; a veterinary agreement can ease agrifood trade; mutual recognition and mobility arrangements can help firms and workers. But none of these options is without political trade-offs. A decade after the referendum, the

British economy has not been ruined because of Brexit, but leaving the EU has made Britain's hard economic problems even harder. The costs of separation are the costs with which people and businesses in Britain now live.

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