

The growth that wasn't

By David Hearne, Researcher, Centre for Brexit Studies

Whilst in the UK, our collective naval-gazing around Brexit and the upcoming elections continues, I wish today to focus on other news that perhaps passed most of us by.

Yesterday brought news that Tesla – the electric-only car manufacturer headed by the flamboyant billionaire, Elon Musk – has chosen to build a new factory near Berlin. This being Tesla – and Musk – the announcement garnered more attention than most industrial decisions.

However, in amongst the usual verbiage praising the chosen location was an interesting – but unsurprising – titbit of information: according to Musk, Brexit meant that the UK was not in contention for the investment^[1]. This was particularly striking as the UK had previously been touted as a very real candidate (back in 2016, before the EU referendum).

Now, it might have been that the UK wouldn't have won this particular piece of Greenfield FDI in any case. After all, France (whose EU membership is not currently in doubt) did not. However, to effectively rule oneself out of the race before it starts – particularly when you are a top-tier candidate – is a very serious thing to do.

The reason that this is particularly important is twofold. Firstly, this is a forward-looking investment, being focused on technologically advanced electric vehicles. Secondly, there are non-trivial network effects involved. The presence of several major players in close proximity facilitates the development of a pool of highly-skilled engineers and technical knowledge. It also supports the broader supply chain. The presence of such a pool of skills then attracts further companies to the area.

This is true of many industries. There is a reason why a huge proportion of global CPU design (by several major companies) is done in Austin, Texas. Similarly, it is precisely the presence of such network effects that supports such a confluence of technology firms in and

around San Francisco and the wider US West Coast. Whilst attention is focussed on which 'national' policies might support the development of "the next Silicon Valley", the reality is that the network effects that foster these are regional – not national.

It is here that the economic damage of Brexit is being done. The long-term damage will not come as a result of disruption in the event of a no-deal Brexit. Whilst any disruption as a result of queues around Dover will undoubtedly cause headlines, they will ultimately improve. Indeed, I suspect that such disruption will ultimately be far less catastrophic than many envisage.

My fear is that such things will be passed off as mere bumps on the road and that academic research – which almost unanimously suggests that Brexit will be a net economic negative – merely represents the prognostications of "project fear". The reality is that the economic damage of Brexit will not be a sudden cataclysmic event. Instead it will be the drip, drip, drip of opportunities that the UK misses out on. Tesla's "Gigafactory" is one such opportunity.

The economic damage will not be measured in terms of mass unemployment but rather in good, well-paid jobs that were never created. Similarly, it will not be in terms of deep recessions but rather in terms of economic growth that was slower than it would have been – the good times that we miss out on.

It will come in the form of opportunities lost for those companies that can't afford to deal with the paperwork of exporting. The exports that don't happen because the £20-30 of administrative cost added to a shipment means that a Black Country firm drops out of contention as a supplier to a business based in Milan.

It will come when major firms in Derby freeze hiring or decide to offer fewer apprenticeships, because they want to shrink their headcount as they're expanding production elsewhere in the world instead of in the UK. These will be the costs of Brexit and these are the things that economists mean when we talk of growth foregone – an economy that is 3% smaller than it would have been.

This is difficult because it is something that few (if any) will notice. People don't miss what they never had. Tesla's new "Gigafactory" is

part of this pattern – the investment that never was and the jobs that weren't created.

[1] <https://www.autoexpress.co.uk/tesla/108395/tesla-gigafactory-europe-to-be-built-in-germany-not-uk-as-elon-musk-blames-brexit>