We Didn't Need Ditchley Park Summit to Acknowledge Brexit's Negative Impact on the Economy

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Using past knowledge and relevant facts to help develop what we generally refer to as "evidence – based policy" is generally the way for good decision making in government- but more widely too. The opposite is creating a narrative that suits or confirms ideology, prejudices, personal whims or wider political objectives and ending up with what is euphemistically known as : " policy-based evidence".

Well, understanding trends and using evidence properly is even more important now given all the noise in the data caused by the turmoil of the pandemic and the war in Ukraine.

So, what do we know?

One: on INFLATION: Yes, the rate is slowing down but at 10.1% in January over a year ago this is still a higher rate than all G7 countries except Italy which was at the same level . And though prices fell by 0.6% in the month in th UK, the downward path in the annual rate is slower than elsewhere. There are serious structural issues, particularly in supply chains worsened by Brexit as most studies ascertain .

Two:on GROWTH: The high inflation rate is hindering growth. The 0.5% drop in GDP in December means the UK remains 0.8% below pre- pandemic levels . We are the only G7 country in that position. Moreover, if the latest Bank of England forecasts are to be believed, we will still not have recovered the lost pandemic output by the end of the Bank's forecasting period which goes to 2026. For 2023 the UK will be the only G7 economy in contraction while even the EU overall is now expected to avoid recession.

Of course, the fact that the UK is almost singularly hit by a simultaneous tightening of monetary and fiscal policy isn't helping . But the voices beginning to also point the finger at Brexit have multiplied, even amongst conservative politicians and leave voters. Business investment has slumped since the Brexit vote and trading intensity has dropped . Surveys conducted by the ONS and chambers of commerce report considerably higher costs associated with increased bureaucracy, particularly for SMEs trading with the EU. Many are exiting the export market as a result.

Three : on the LABOUR MARKET: Shortages of workers in a number of sectors since Brexit have been well publicised. This is particularly so in transport and distribution, agriculture, construction and the hospitality sector but is felt much wider. There are of course other reasons, additional to the departure of EU workers, for why vacancies, which are slowly coming down, have still remained so high for so long . But the resulting wage pressures have added to firms ' already sharply rising input costs as prices of imported materials and fuels rose by 0.6% in January 2023 and by 16.8% from a year earlier.

WHAT CAN BE DONE? As international price pressures moderate, inflation will come down fast which will be great relief to all. But it might also obscure for a while the wider loss of international competitiveness that the UK has been effectively embedding into its system since Brexit.

The tensions over the NI protocol are not helping. It is welcome therefore that some progress seems to be in prospect over the way goods move between GB and NI . Having less of a combative relationship with Europe should be a bonus . It should help to at least open the door to proper participation in the EU Horizon project which would give a boost to much needed collaborative research.

One of Rishi Sunak's stated priorities is to get growth moving again. The signs are that not just the short-term issues but also the longer-term cost to productivity, growth and prosperity were beginning to be understood and debated by the Ditchley participants last week. If so, it would suggest that future decisions on our relationship with Europe may well rely more on evidence from now on than has so far been the case.

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