

Is Brexit breaking Britain?

(An Address to the members of the Eastbourne European Movement)

(Given 11 February; updated 3 March 2026)

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Summary:

Britain has obvious problems – is there a ‘quick fix’? Or have they been brewing for decades? Take a long run view over the 40 years from 1985 – half an expected lifetime! That 40-year span included 1987’s Black Monday on Wall Street. A few years later the UK’s first “unset” from Europe arrived: Black Wednesday in 1992 when the “market vigilantes” threw the UK out of the ERM. This was the “foreign exchange” branch of the market vigilantes but the “bond market vigilantes”¹

showed their irresistible strength during the euro crisis of 2012. UK Prime Minister Truss had an unpleasant brush with them in 2022. Even President Trump seems afraid of them, and Chancellor Reeves certainly is as they move progressively into the driving seat of UK economic policy. ([See the detailed discussion below](#))

Brexit has steadily pushed them into that position of power by:

1. Raising our vulnerability to an aging, and increasingly disabled, society where the non-immigrant labour force has scarcely risen in 40 years ([link](#));
2. curtailing economic growth due to reduced immigration ([link](#));
3. stalling business investment due to Brexit uncertainty - and thus productivity growth ([link](#));
4. inducing a cumulative shortfall of tax revenue that is nearly £400 billion since 2016 – and may double by 2030 ([link](#)). That shortfall will require a further rise in the tax ratio – to levels last seen in 1944;
5. thereby creating a squeeze on public spending that is rending the fabric of British society – spending on the non-priority areas has fallen from 16% of GDP in 1985 to 10% today ([link](#));

¹ **Who are the “bond market vigilantes”?** If a state needs to borrow money from “the market”, then in an open, international system, the market participants will decide if they wish to lend at the terms offered – or lend at all if they believe the risk of default is too great. At the end of the chain, those market participants are only seeking to ensure they can meet their own obligations to the ultimate beneficiaries – citizens/nations saving for their income in retirement.

6. fuelling the deep concerns of the holders of Britain’s government debt – effectively giving “all the cards” to the bond market vigilantes ([link](#)).
7. creating political instability due to the manifest contradiction between large majorities who think Brexit was a mistake and the opinion polls showing that Reform will be the largest party after the 2029 General Election.

This lengthening list of the consequences of Brexit has created a serious and growing risk of a debt crisis. Extraordinarily - and unaware of the inexorable logic of this chain of events – electors presently seem likely to elevate one of the original (and leading) architects of this disaster to be Prime Minister, despite their historic repudiation at the last General Election of the political party that actually “*Got Brexit done*”.

Would re-joining the EU and joining the euro be an answer to our economic problems? The biggest political problem may be to convince the EU that we are serious about re-joining as they can read the opinion polls. What are the chances of Prime Minister Farage willingly leading the charge to re-join the EU and then join the euro??? Will the foreign bond market vigilantes leave him no option but to take the “road to Damascus” on this matter?

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Notes:

- **All charts, data and calculations supplied by Gemini unless otherwise stated**
- **This paper was prepared before the outbreak of war in Iran but updated to take account of the Spring Statement on 3 March 2026.**

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Is Britain really broken? Economically

The plight of the iconic Grade II* listed Hammersmith Bridge across the River Thames epitomises the UK's governance problems - exacerbated by lack of funds. The original 1827 structure was damaged by a boat collision and was rebuilt in three years – reopening in 1887. Structural problems were discovered in 1997 and the owners (Hammersmith and Fulham Council) were unable to agree on cost sharing with Transport for London. Eventually it was closed to traffic in 2019 (and even pedestrians in 2020 but was re-opened to them/cyclists in 2025). The projected costs have now risen to £250m but neither the Government nor the other public sector bodies are willing – more probably, able - to bear the cost. They have wrangled about cost-sharing for more than twice the time it took the Victorians to build it!

Figure 1: Hammersmith Bridge under repair since 2019



Photo: Courtesy of City A.M.

Many people feel that public services are crumbling – that Britain is “broken”, and **as a direct result** our politics are broken because the political system is unable to fix the problem. The question the author wants to answer in this paper is: *what role has Brexit played in this “breaking”?*

An obvious indicator of “crumbling” is the state of public buildings, rather than the

services provided within those buildings. The National Audit Office (NAO) reported in January 2025 on “[Maintaining public service facilities](#) “. “*The report focuses on the properties that the government uses to deliver services to the public and support its operations, such as NHS properties, schools, jobcentres, courts, prisons.*” It identified backlogs of “urgent” repairs needed in these areas but excluded “*the property of the devolved administrations, local government offices, public corporations and the wider*

public sector, such as the Parliamentary Estate in Westminster....” (Note: the latest estimate for renovating the Houses of Parliament is a minimum of £16 billion)

Figure 2: Public Sector Backlog of Urgent Repairs

	Backlogs, £ bn	Notes
Roads	17.0	Local Councils Group
Min of Defence	15.3	National Audit Office - Central Govt - 2025
Schools	13.8	“
NHS/hospitals	13.8	“
Prisons	1.8	“
Courts	1.3	“
Jobcentres	1.1	“
Non-road Infrastructure	?	
Local Councils	?	
Overseas assets	?	
TOTAL	£64.1 + ???	

The Local Council Roads Innovation Group has [identified](#) £17bn of road repairs – the potholes!! The Financial Times reported on 5 February 2026 that “*Nearly 70 English councils say they face insolvency over special needs education debt...Local authorities have said they cannot afford to pay debts totalling £14bn from years of overspends on special educational needs and disabilities (Send) provision and urged ministers to step in to cover deficits*”. As a local example in East Sussex, the most expensive child costs the County Council £1m annually and the top 20 cost £13m. Overall, it is not difficult to identify more than £100bn of liabilities that the government will have to meet at some future time.

The November 2025 Budget, delivered by Chancellor Rachel Reeves, addressed a significant, much-debated "black hole" in UK public finances, estimated by various sources between £20 billion and over £50 billion in current spending... The budget measures were designed to meet the key fiscal rule: debt should be falling as a share of national income by 2029-30. That rule may be harder to meet if the ‘off-balance sheet’ obligations are included.

An ageing/disabled Britain has a serious labour force shortfall: Solution: immigration

Some very basic economics:

- National output is essentially the number of people actually working multiplied by the number of hours worked and their output per hour – their productivity!
- Then comes the question: what proportion of their output is taken in tax (the “tax ratio”)? The financial resources available to government are buttressed by borrowing - How much extra is then borrowed? Are those lenders willing to lend more?
- What choices have been made on how to spend all ‘your’ money – tax or borrowing - on these ‘crumbling’ public services?

The long run demographic drivers of the UK economy

The evident pressures on society that are now bubbling over into political discontent have been brewing for decades. So, this analysis looks back over four decades to 1985 – roughly half a modern lifetime.

Our society is aging: The ‘total fertility rate’ (TFR) required for population replacement is about 2.1 children per woman. TFR has been below that rate - around 1.8 – throughout this time until 2010. Then it started dropping again and is now 1.4 children per woman. So, the population should have been declining for decades. Curiously, the UK population has actually grown from 56m in 1985 to nearly 70m today.

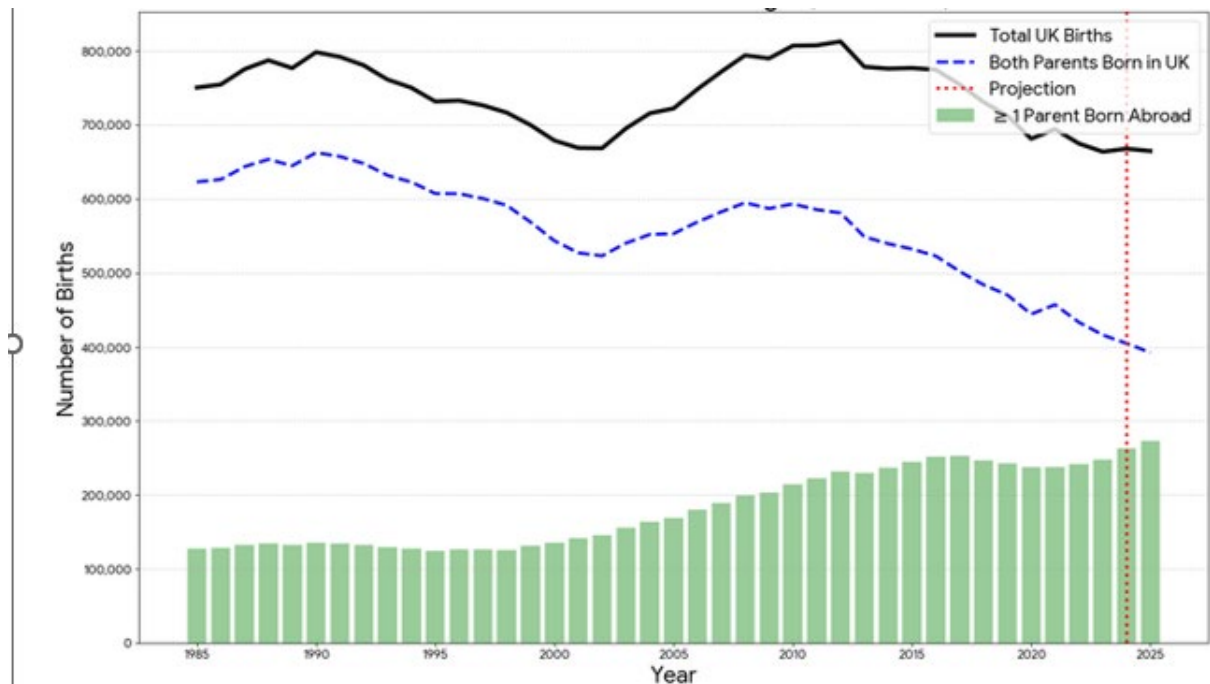
That can be attributed to two factors:

- The average age at death has risen from 72 years to just over 80 in 2025 – reflecting the benefit of improved (but expensive) health care.
- Cumulative net immigration has been around 9 million over the four decades.

But the outlook for the size of the labour force in a couple of decades is disturbing. The number of births (the black line in the chart) comfortably exceeds the number of deaths so the population is still expanding naturally. But the chart shows a sharp divergence in the parental origin of these births: The births to parents who were both born in the UK has fallen by a third since the early years of this century whereas the births with at least one parent born abroad have risen by about the same proportion.

(MEMO: The UK’s demographic problem is minor compared with China’s. Its TFR is now below 1 and the number of babies born last year fell below 8 m – halving in one decade and only a third of those born four decades ago. As this shortfall works through into the Chinese labour force in the years ahead, the consequences will be dramatic.)

Figure 3: UK Births: Total vs Parental Origin (1985-2025)



How many people are actually working – the key driver?

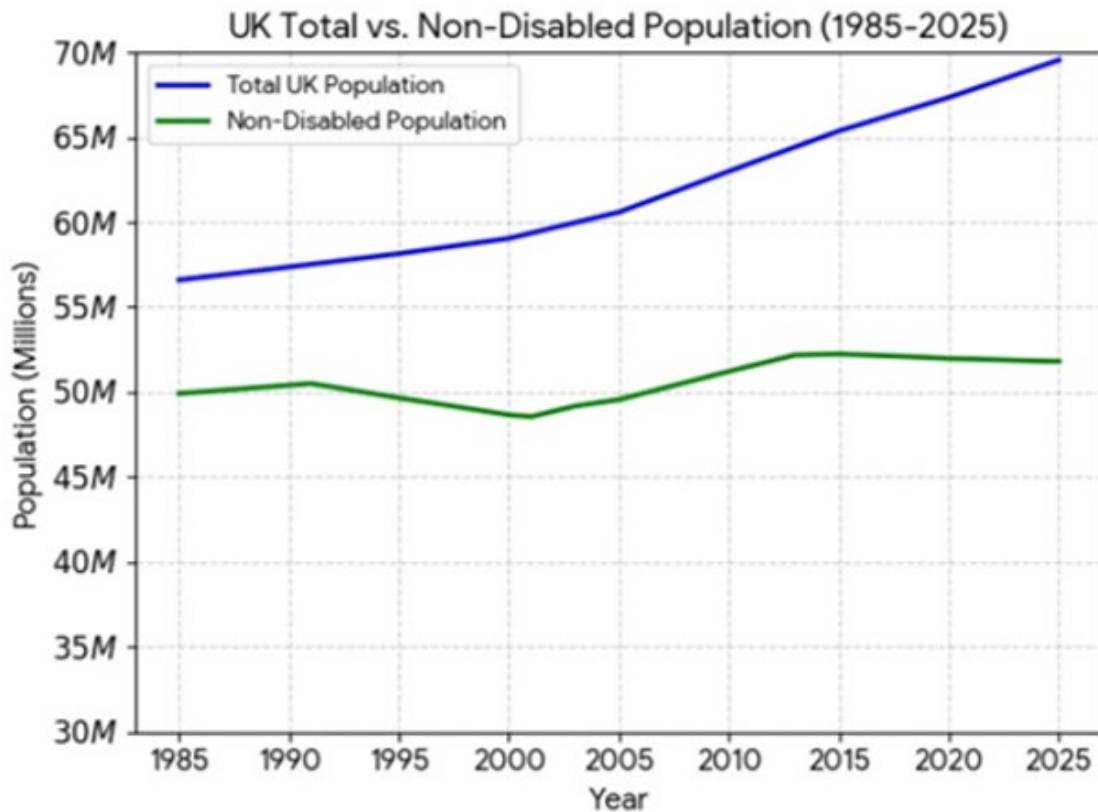
Knowing the size of the total population is only the first step in identifying how many people are actually contributing to economic growth by working. The relevant issues are the number of people of working age (WA): 16-64; the proportion who are disabled and the participation in the labour force by adults as many have other responsibilities (childcare, care of the sick and aged etc)

The number of disabled people has risen from 6m in 1985 to 18 m today – **tripled**. But the scope of “disabled” has been extended from purely physical impairment since the 1985 “Green Card “scheme and is now driven by the 2010 Equality Act that includes mental impairment.

Disability by Age:

- 12% of children (some of these are in SEND category), 24% of working-age adults, and 45% of adults over State Pension age are disabled.
- Working age disability has risen from around 12% in the early 1990’s, to 24% currently – according to the House of Commons Library – with a 50% rise in just the last decade.
- However, approximately 5 million of the 10m disabled working-age people are in employment.

Figure 4: UK Total vs. Non-disabled Population (1985-2025)



Step 1: Working Age population and effective `local` labour force

Let's step through the population components to arrive at the "effective labour force" – that key driver of economic growth. This process is fraught with statistical difficulties of definition, consistency and the accuracy of the data.

CAVEAT: these calculations can only be regarded as "indicative of the general trend".

But that trend shows that the underlying demand for labour in a growing economy can only be met by significant amounts of immigration. This is where Brexit may wreak havoc. The alternatives would include: a significant rise in the retirement age – probably to above 70; adapting the approach to disability and young people "Not in Employment, Education or Training" (the NEETs). **Any of these steps would create major social/political problems in themselves.** The underlying, and fundamental, issue is the decline in the birth rate and thus the need to change societal attitudes to enhance the capacity of young women to choose to become mothers, as well as meeting any other aspirations.

(NOTE: This paper is only concerned with the economic necessity of immigration and does not seek to discuss the merits of different aspects of the various immigration

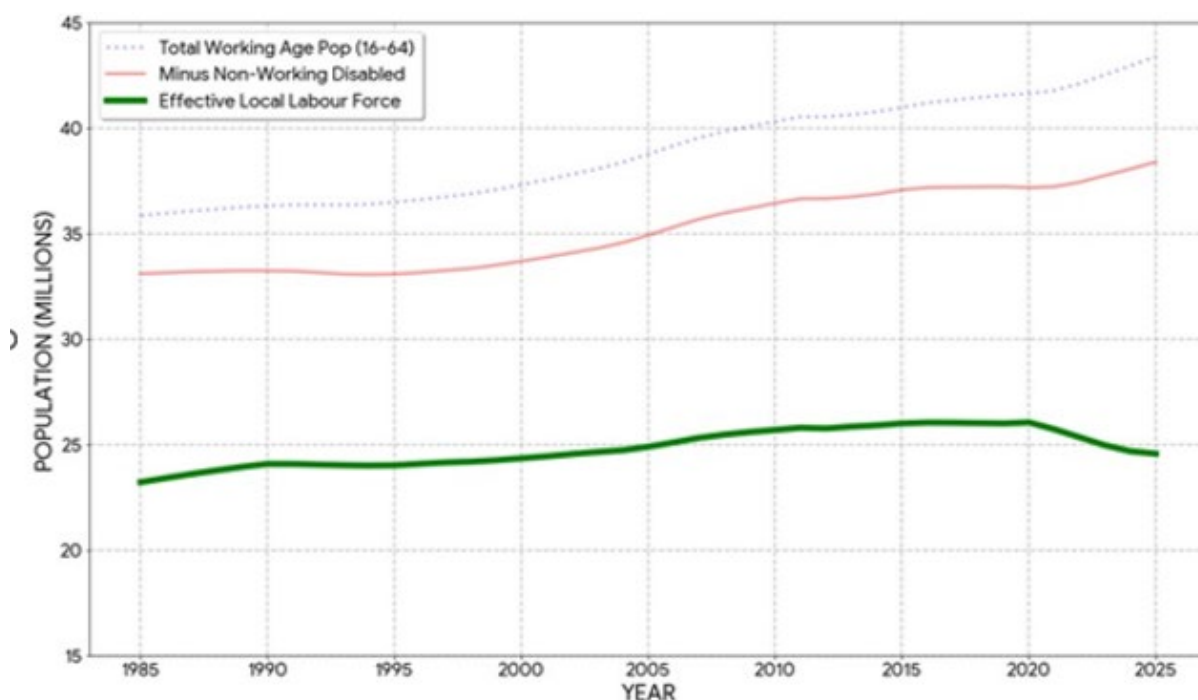
policies over the years and especially the contortions arising from Brexit. These are covered extremely well in a recent Federal Trust paper [Brexit and Immigration: The Arc of the Pendulum](#) by Jonathan Thomas.)

In the first stage of the analysis, this author excludes immigrants to ascertain the supply of “local labour”:

1. Start with number of people of “working age (16-64)” (WA) – 43m today.
2. Disabled WA People: About half are actually in employment today; assume that ratio has remained constant over this period; deduct 6% of the WA population in 1985 and pro-rate that to 12% of 43m WA today – 5m.
3. Then make an inevitably-crude adjustment for the numbers of immigrants. 80% or more are of working age and their disability proportion appears to be substantially lower than the `local` population.
4. How many of the “local” population are in employment as many in that age group will have other duties e.g. mothers, carers etc. This is the “employment rate”. In the 1980s it was 70% and is about 75% now, having touched 79% recently.
5. Then one should deduct the NEETs from the potential `local labour force`. There are nearly 1m of them at present but this calculation is not going to attempt that degree of sophistication.

This process provides the number of `local` people – so excluding immigrants - actually in employment. Over the 40 years from 1985, it has barely changed – rising from 23 m to 24 m today

Figure 5: UK Labour Force Analysis (1985-2025)



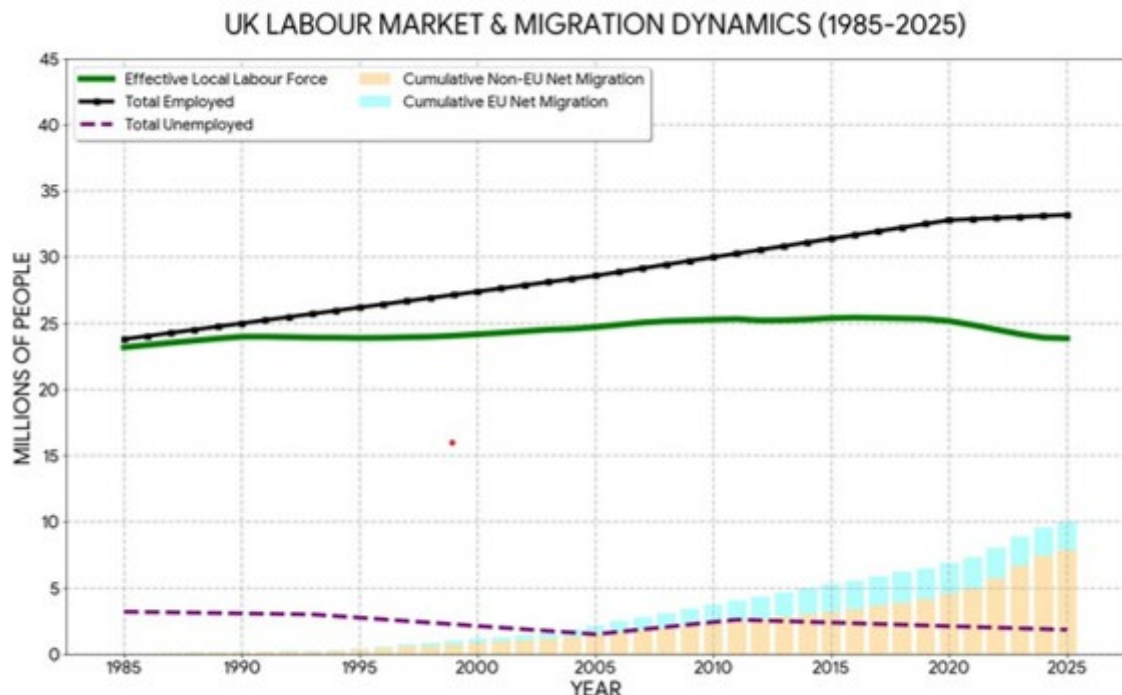
Step 2: Supply of labour versus demand: no unemployment surge

The Past:

Step 2 compares this supply of `local' labour with the overall demand for labour. "Total employed" – the total of people doing the work that keeps the economy functioning – has risen to 34m over the period (according to the Labour Force Survey – with all its problems since Covid). There is a significant shortfall of the `local effective labour force' versus the demand – an apparent shortfall of 12m that has been made up by a combination of immigrants, the black economy and still-working retirees.

Estimates of the black economy range around 10% of GDP – so the "full-time" output of perhaps 4-5 m citizens. (By definition, such estimates are imprecise!) The cumulative total of immigrants shows clearly that immigrants – both EU and non-EU - are the key factor in balancing the shortfall of the `local' labour force versus the demand for labour. Without the contribution of more than 7m employed migrants, the UK economy would be of the order of 15% smaller – with disastrous consequence for tax revenue and public services.

Figure 6: UK Labour Force and Migration Dynamics (1985-2025)



Looked at from the other side of the account, if the total **supply** of labour – `fit' locals plus immigrants – systematically exceeded the **demand** for labour, then the number of unemployed people would rise (though partially offset by a decline in the employment

rate). **It has not!** In line with economic cycles, peaks of 3m were seen in the mid-80s, early-90s and nearly reached that level after the Great Financial Crash in 2008. During Covid, it reached 1.8 m and, after a dip, is just above that level today – despite cumulative immigration of more than 7m economically active people since the late 1980s. (Note: only about 0.2m people have crossed the Channel in small boats)

In the last year, the opinion polls sampled by Gemini show a sharp rise in public support for Reform UK’s immigration policies. In August 2025, the BBC reported “Reform UK has suggested it would be prepared to deport 600,000 migrants over

Figure 7: Who is most trusted on the immigration problem?

Month	Nigel Farage (Reform)	Keir Starmer (Labour)	Kemi Badenoch (Con)	None / Other
Feb 2025	18%	25%	15%	42%
May 2025	23%	21%	11%	45%
Aug 2025	27%	17%	8%	48%
Nov 2025	30%	18%	9%	44%
Feb 2026	32%	19%	8%	41%

five years if it won power at the next election.” However, the largest portion of UK electors does not trust any of the principal political leaders to resolve the problem.

Already Brexit has triggered a net outflow of EU migrants of about 0.2m. As the pre-2000 local population continues to decline due to its low fertility, any slowing in immigration will pose ever-greater risks to the outlook for the UK’s economic growth – in the absence a surge in business investment that will correspondingly increase productivity.

The level of immigration was one of the core issues underpinning the public vote for Brexit. But voters have to recognise and then face the conundrum: any government that “fixes” immigration e.g. “reduces it to tens of thousands each year” will automatically kill economic growth – at the very least!

The Future:

The think tank “Uk in a changing EU” recently published a paper [“The coming collapse in immigration to the United Kingdom”](#). The author (James Bowes) – set out his calculations for projecting that net immigration will decline from 860,000 in 2023 to between 70,000 -170,000 in 2026. The main reason is the tighter immigration rules announced in 2024 – including tighter rules for graduates that mean more are likely to emigrate after their studies are complete.

Developing this theme, the Financial Times recently published an article [“Fall in UK net migration threatens to carve deep hole in public finances”](#) The article argued that “The bigger question, though, is whether the UK fiscal watchdog [OBR] will revise assumptions for net migration over the coming five years that now look implausibly high,

in view of tighter visa rules and the proposed policies on settlement that could force some migrants already in Britain to leave.”

On the public finance implications, the article stated that “if annual net migration were to be 200,000 lower on average than the OBR’s current assumption over the five years of its forecast, the cumulative 1mn hit to labour supply could add up to £20bn per year to forecast borrowing, the IFS noted. This would wipe out Reeves’ headroom against her rule of balancing the current budget in the final year of the forecast.”

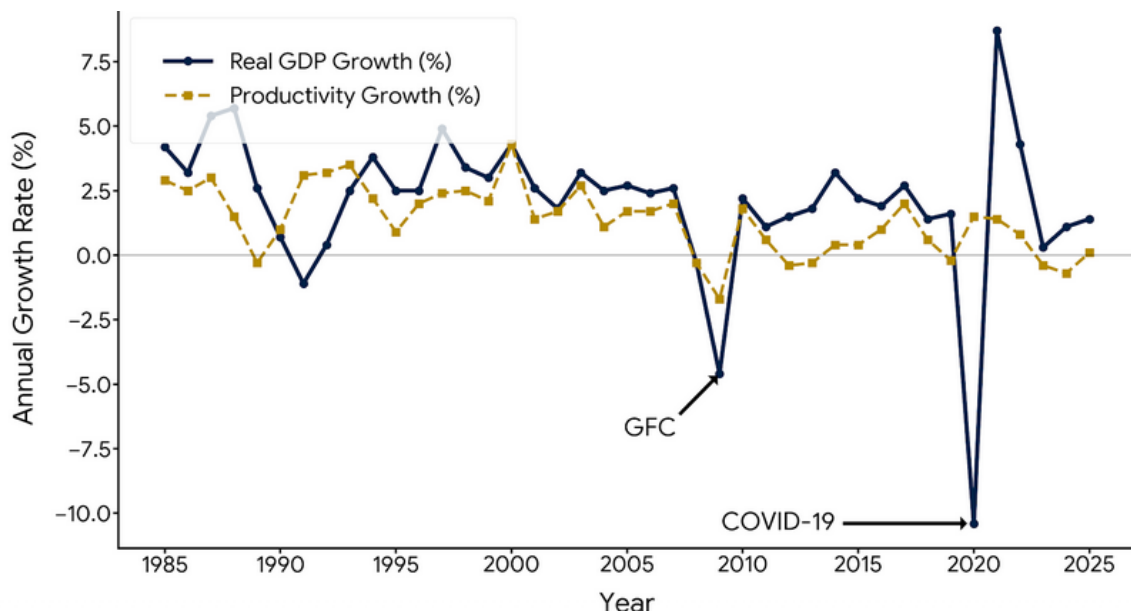
The OBR stated that the ONS has recently made significant downward revisions to net inward migration and is reviewing its methodology. ONS will release new population projections in April and the OBR will use these for its November economic forecast. **If net migration is as low as Bowes projects, then Brexit will have ratcheted the noose on the UK economy ever-tighter.**

The Brexit economic hit: GDP and productivity

GDP growth:

- **Pre-Referendum (1985–2015):** The UK averaged roughly **2.3%** annually
- **Post-Referendum (2016–2025):** The ONS reported average annual growth dropped to approximately **1.2%** (excluding the 2020 COVID anomaly).

Figure 8: UK Real GDP growth vs Productivity growth (1985-2025)



Productivity:

- **Until 2005:** The UK averaged about 2.3% annual productivity growth – a leader amongst advanced economies.

- **After the Great Financial Crash:** Average productivity dropped well below 1% annually
- **Post Referendum 2019-2025:** Productivity fell again – to around 0.3% - 0.4%. UK investment as a % of GDP has remained the lowest in the G7 for much of the post-referendum period. The weakness in business investment is now seen as a key effect of Brexit – see below

OBR forecasts – March 2026: “We assume that productivity growth will pick up to 1 per cent in the medium term, while labour supply growth declines from recent highs – driven by lower net migration and population ageing – to ½ a per cent by 2030. Near-term cyclical weakness means we expect real GDP growth to slow from 1.4 per cent in 2025 to 1.1 per cent in 2026, before averaging 1.6 per cent a year over the rest of the forecast...Public sector net borrowing is projected to fall in the central forecast from 5.2 per cent of GDP in 2024-25 to 4.3 per cent of GDP this year and then to 1.6 per cent of GDP in 2030-31 “ Note that the OBR expects the world economy to be growing twice as fast as the UK and business investment to more or less flatline in the forecast period.

The Brexit economic hit: The NBER paper on what should have been

The Office for Budget Responsibility (OBR) and various studies have estimated that Brexit set the UK economy back by approximately 4% to 6% in terms of long-term GDP. However, recently the US National Bureau of Economic Research (NBER) produced an 81-page study that suggested a much larger hit – [NBER Working paper 34459](#). This was produced by a group of economists from the Bank of England, Deutsche Bundesbank, the Universities of Nottingham, Stanford and Kings College, London. (*The author is not aware of any serious rebuttal of their work.*)

1. The Core Comparison: GDP "Gap"

The paper identifies a widening gap between the UK's actual performance and its potential trajectory had Brexit not occurred. It uses a "synthetic control" method (comparing the UK to 33 other countries like the US, Germany, and Spain).

Metric (by 2025)	NBER w34459 Estimate (Counterfactual)	Actual ONS Outcome (Reported)
Total GDP Level	6% to 8% higher than actual	2024–2025 GDP growth averaged ~1.1% to 1.4%
Business Investment	12% to 18% higher than actual	Stagnant; 2025 growth was ~1.0%
Productivity	3% to 4% higher than actual	Near-zero growth; -0.7% in 2024

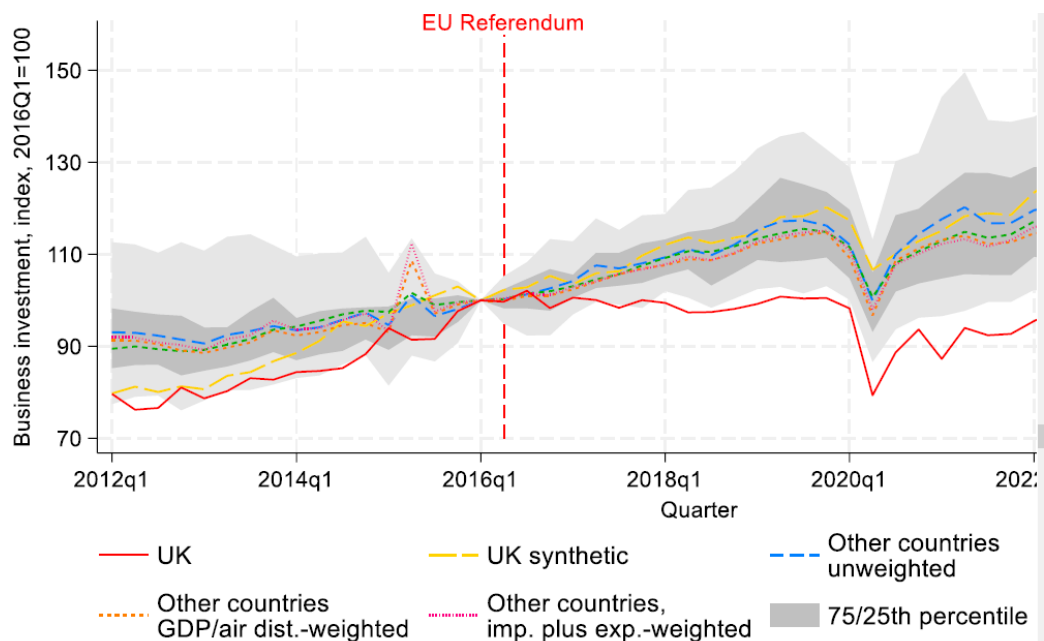
Employment: Interestingly, the NBER paper finds a smaller hit to employment (**3% to 4%**) than to GDP. This aligns with ONS data showing the UK has maintained a high "People in Work" count – perhaps a hoarding of scarce labour - but those people are producing less output per hour.

Exports were impacted by new trade barriers but this was overshadowed by the sheer uncertainty of what would happen after the unexpected Referendum result in 2016. Lengthy political manoeuvres in the UK about what type of Brexit was desirable were followed by extremely difficult negotiations with the EU, a change of Prime Minister and a General Election. The natural reaction of business would be to pause new investment.

“We show that Brexit generated a large, broad and long-lasting increase in uncertainty. This contributed to lower business investment, in particular, but it also may have reduced productivity too by restraining innovation and spending on potentially productivity enhancing forms of capital expenditure. We also show how the time and resources firms devoted to preparing for Brexit were strongly correlated with lower productivity. These channels have potentially been more important than the effects of reduced trade with the EU, at least initially, although the ways in which Brexit affects productivity will change over time and the trade effects may well become more important.”

The UK only devotes 10% of GDP to “Business Investment” – well below its main industrial competitors, with a slower growth rate even before the Referendum. The impact of that referendum is striking – as shown in the NBER chart below.

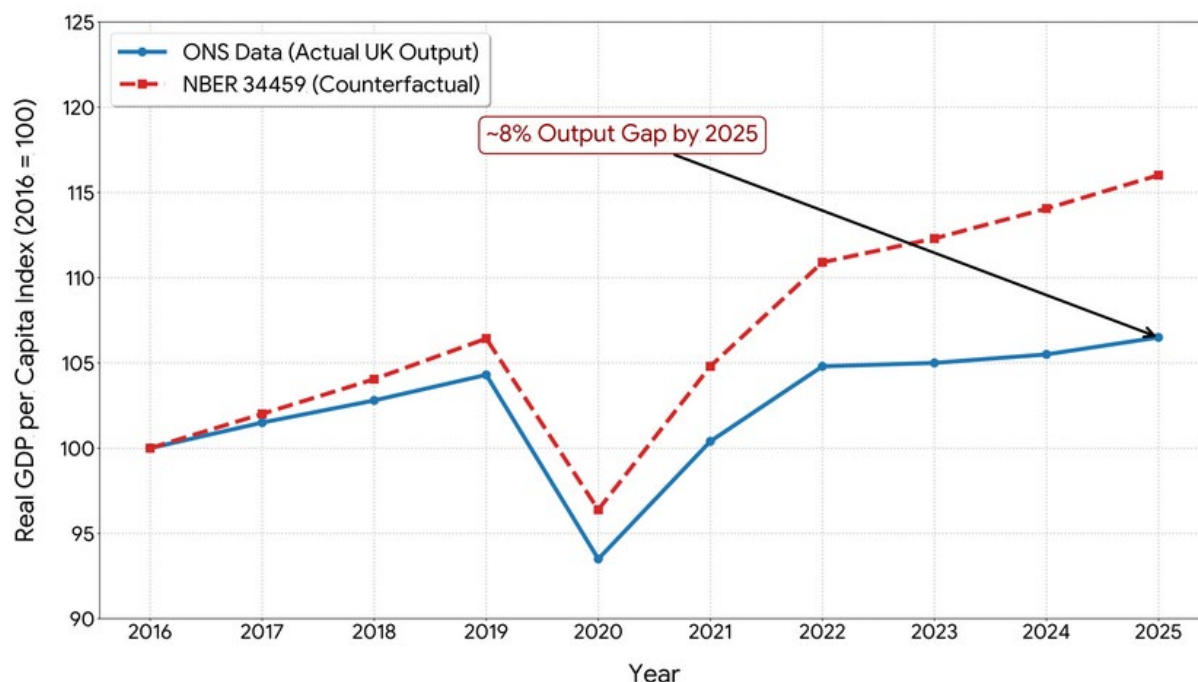
Figure 8: NBER: Business cross-country comparison



Notes: Investment is defined as business non-residential gross fixed capital formation. Comparator countries are US, Canada, EU-27 countries, Iceland, Norway, Switzerland, and Japan. All series used in the calculations have been detrended to remove the effect of the EU referendum on the UK's economy by comparing the evolution of UK investment to the evolution of investment for a synthetic control group. We use data starting from 2006Q1 up to the EU referendum (2016Q1) in the pre-referendum period. To predict business investment in the UK in the pre-referendum period we used the values of business investment in other countries in that period. Not included in the estimation were Cyprus. The series used includes residential investment. The country weights were: USA: 0.66, LTU: 0.25, POL: 0.09. Percentiles were estimated using the bootstrapping method. Sources: ONS, U.S. Bureau of Economic Analysis, Statistics Canada.

NBER calculates that this "investment freeze" alone accounts for a huge portion of the 6-8% GDP hit. Figure 10 simply widens the gap in expected output from an initial zero to 8% by the end of the period – a growing wedge between `expected` and `actual`.

Figure 9: Output gap: actual vs. NBER



(MEMO: [National Bureau of Economic Research \(NBER\)](#) is a private, nonprofit, nonpartisan U.S. research organization founded in 1920, dedicated to promoting a greater understanding of how the economy works. It acts as a network of top academic economists who produce unbiased, data-driven research on various economic topics without making policy recommendations.)

Implications for the fiscal squeeze: Tax and Spending

The smaller-than-expected economy - combined with lower-than-expected productivity – naturally resulted in `lower-than-expected` tax revenues from the existing tax rates. So successive governments progressively raised tax rates to fund spending commitments without running up excessive deficits. The short-lived burst of “Trussonomics” simply underlined the power of the “bond market vigilantes” to enforce this fiscal discipline.

- **The Tax Ratio & Budget Deficit:** The UK's tax-to-GDP ratio was 33% in 2016 but is estimated to be 35% in 2025. Despite this, persistent deficits (the gap between total spending and tax revenue) remain, though they are narrowing from the

massive Covid spike seen in 2020 (13.9% of GDP). Last year’s deficit was just over £150 billion (5.3% of GDP) and this year is planned to be a little lower.

- **The March 2026 OBR forecast suggested the tax ratio will rise even more – to 38.5% of the national pie. The last time it was this high was in 1944 - at the end of World War II – at 38-39%.**

Applying the tax ratio of each year to the shortfall in output based on the NBER numbers enable a calculation of the shortfall in tax revenue each year since 2016. The widening of the wedge of lost tax revenue is startling. Some commentators point to the near-£100 billion shortfall in 2025 but miss the bigger picture of the accumulated shortfall in the years since 2016: nearly £400bn!

Figure 101: Annual tax lost due to Brexit (2016-2030F)

Year	Actual GDP (£bn)	Brexit Output Gap %	Output Lost from Brexit (£bn)	Tax Ratio %	Tax on Lost Output (£bn)	Annual Gov't Borrowing (£bn)
2016	£2,019	0.0%	£0	34.0%	£0	£46
2017	£2,098	0.9%	£19	33.7%	£6	£42
2018	£2,161	1.8%	£39	33.5%	£13	£37
2019	£2,241	2.7%	£61	33.4%	£20	£57
2020	£1,993	3.6%	£72	33.5%	£24	£315
2021	£2,272	4.4%	£101	33.5%	£34	£152
2022	£2,461	5.3%	£131	35.4%	£46	£87
2023	£2,537	6.2%	£158	35.3%	£56	£128
2024	£2,560	7.1%	£182	35.0%	£64	£122
2025	£3,038	8.0%	£243	35.0%	£85	£152
2026*	£3,105	8.1%	£252	35.7%	£90	£133
2027*	£3,237	8.2%	£266	36.4%	£97	£118
2028*	£3,372	8.3%	£280	37.1%	£104	£100
2029*	£3,474	8.4%	£292	37.8%	£110	£75
2030*	£3,578	8.5%	£304	38.5%	£117	£59
TOTALS 2016–2030	—	—	£2,400	—	£866	£1,623

Summary: Total tax on lost Brexit output (2016–2030): £866bn · Total government borrowing: £1623bn · Tax gap as % of borrowing: 53.4%

Sources: ONS / OBR (GDP & borrowing) · OBR March 2026 EFO (* forecast years 2026–2030) · NBER Working Paper 34459 – Bloom et al. 2025 (Brexit output gap: 0% → 8% by 2025, → 8.5% by 2030) · Tax ratio: OECD National Accounts taxes as % of GDP; rising 35.0% → 38.5% by 2030 per OBR March 2026.

Note: 'Tax on lost output' = Brexit GDP gap × tax ratio each year. Tax ratio uses OECD National Accounts measure — lower than OBR's broader 'public sector current receipts' (~2–3pp higher) | Light blue rows = OBR forecast years. All £ figures in nominal terms.

Calculations: Courtesy of Claude

However, the truly shocking aspect is the projection forward to 2030 – using the OBR’s latest forecasts. It expects UK growth to be about half the global average so the “Brexit output gap” will continue to expand. Applying the expected tax ratio to this lost output produces a staggering loss of tax revenue – by the end of the period the annual loss exceeds the entire annual borrowing by the government!

Without Brexit, there would never have been the need to push taxes up to the proposed level, borrowing would have been lower so the bond market vigilantes would not have been demanding premium interest rates and the crumbling infrastructure that so concerns society would never have become so dilapidated. The necessary increase in defence expenditure could be accommodated easily. **The dire consequences of “getting Brexit done” are laid bare.**

Public spending

Figure 11: UK public spending: share of GDP (1985-2029)

UK Public Spending: Key Milestones and Forecasts (1985–2029)

The percentages represent the share of UK GDP, and the cash value represents the total annual expenditure in billions of pounds (£bn).

Year	Welfare (%)	Health (%)	Education (%)	Defence (%)	Debt Interest (%)	The Rest (%)	Total TME (%)	Total Cash (£bn)
1985	11.5	3.9	4.6	4.5	3.5	16.0	44.0	£158
1995	12.8	4.8	4.9	2.8	3.1	11.6	40.0	£298
2005	12.5	6.4	5.3	2.3	2.1	11.4	40.0	£534
2015	13.9	7.3	4.7	2.1	1.8	9.2	39.0	£745
2020	17.5	10.1	4.5	2.1	1.4	16.4	52.0	£1,108
2023	15.8	8.8	4.2	2.1	4.4	9.2	44.5	£1,228
2024	15.5	9.0	4.2	2.2	4.0	9.5	44.3	£1,277
2025*	15.2	9.2	4.1	2.3	3.6	9.7	44.1	£1,325
2026*	15.1	9.4	4.1	2.4	3.5	9.5	44.0	£1,371
2029*	14.8	10.1	4.0	2.5	3.2	8.9	43.5	£1,505

This table shows the **shares** of the ‘national pie’ allocated to each spending area. If we have strong economic growth, then the pie expands and the money available goes up -even if the share shrinks. BUT on the other hand: if the pie shrinks – due to recession – then each area gets less actual cash

Consider each column in turn:

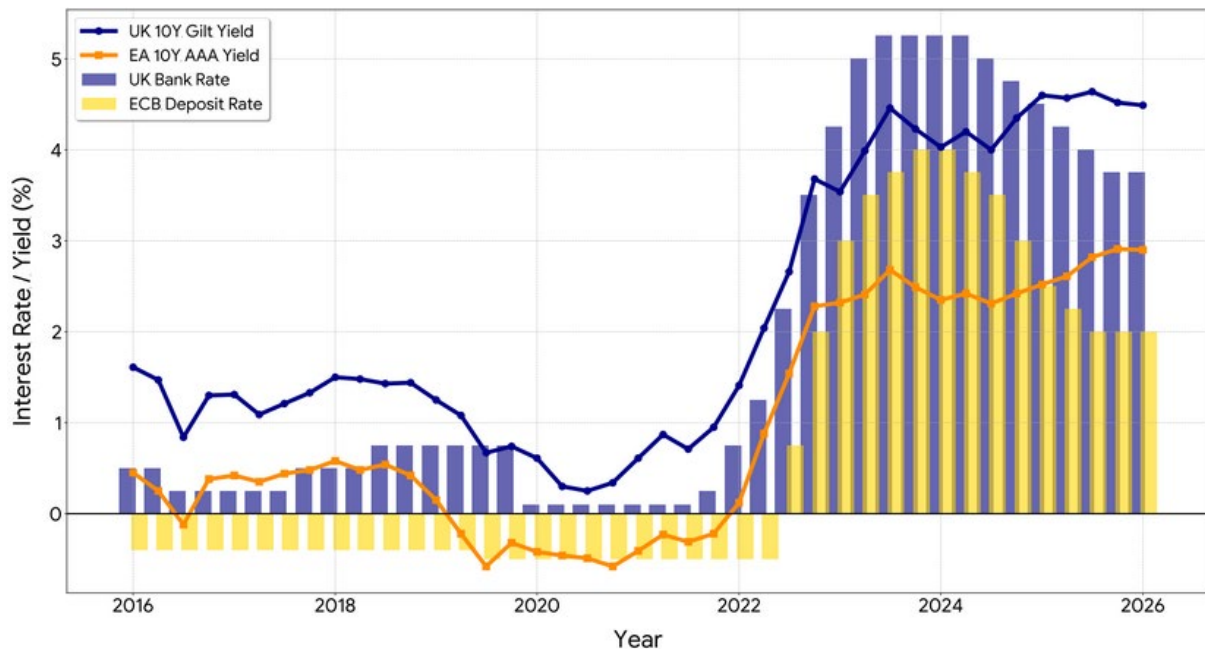
- Welfare: aging population and increasing disability of the whole of society. Its share of the national pie has risen by close to half in the last 40 years.

- Health: up by 2 ½ times – it was smaller than defence in 1985 but is now four times!
- Education: broadly unchanged
- Debt interest: down by two-thirds since 1985 but more than doubled again in recent years
- “The rest”: has had a really bad time! Down by 40% and expected to continue declining. Don’t expect Hammersmith Bridge to be repaired .. but that is the least of it!

The Crunch: Interest charges on public debt -- the risk premium

National Debt: The Public Sector Net Debt has shifted dramatically. After falling to **24.5%** of GDP in 1990, it surged following the 2008 financial crisis and 2020 pandemic. It is now projected to remain near **100%** of GDP. Accordingly, interest charges are a key factor in the sustainability of public finances.

Figure 12: Euro and sterling interest rates – short & long-term (2016/26)



The three factors pushing up interest charges since the low point in 2020/21 are:

1. General level of interest rates:
 - a. Short term rates - Bank Rate – rose sharply from the Covid lows of 0.1% to a peak of 5.25% in 2023, before declining slowly to the current 3.75%.

- b. Long term rates are epitomised by the 10-year rate for government bonds (Gilts). They troughed in mid-2021 at 0.5% or less before rising to exceed 4% in mid- 2022 at the peak problem of Trussonomics. However, concerns about the UK's public finances pushed yields above 4.5% in mid-2023. The November 2025 Budget assuaged the market's fears somewhat and yields were about 4.2%, but the Iran war has already pushed them to new highs above 4.6%.
2. About a quarter of Gilts are now "inflation linked" so the low coupon is offset by the risk of Inflation as the principal is "indexed" to the RPI rate of inflation. Thus, a rise in inflation means that the principal rises permanently, and the interest cost rises with inflation correspondingly.

How did the interest charge on government debt rise from 1.4% of GDP in 2020/21 to 4.4% just two years later – an increase that exceeded the entire defence budget? The average life of UK government bonds is famously very much longer than most major countries as UK pension funds used to want long-term assets to match their very long liabilities to retirees. So, the rise in interest rates – both short and long – should not have had such a profound impact so quickly. Two factors account for the dramatic change:

1: The Inflation “Linker” Boomerang

Issuance of index linked Gilts began in 1981 and was seen as a successful tapping of cheap funds because the yield on “linkers” – the colloquial name amongst market participants – was significantly lower than the implied inflation premium in conventional Gilt yields. As a result, linkers grew to become about 25% of the entire Gilt market by 2022 – a much higher proportion than any other G7 state.

This happy state of affairs was well and truly upended when President Putin “unexpectedly” invaded Ukraine in 2022. This triggered a rise in energy prices and thus the Retail Price Index (RPI) that determines linker interest payments. The RPI now stands 28% above the level just before Putin’s invasion. The OBR’s ready reckoner puts the cost of a one percentage point rise in the RPI at £6 billion due to the impact on linkers. The OBR says that the extra interest cost of linkers since 2021 now exceeds £110 billion in total. **The UK’s public finances remain particularly vulnerable to any unexpected inflation as the costs boomerang back via “linkers”.**

2: The Quantitative Easing (QE) Boomerang

The Bank of England began purchasing fixed rate Gilts in 2009 to counteract the problems caused by the Great Financial Crash. The portfolio built up to a peak of £875 billion and gave an overall yield of 2-3% - financed by issuing ‘reserves’ at Bank Rate

(near 0% during Covid). In effect, QE converted the interest rate sensitivity of about a third of government debt from very long-term fixed rates to overnight short-term rates.

According to the OBR, the cumulative profits on this “carry trade” up to 2022 were £124 billion - about 5% of GDP. However, Bank Rate then rose sharply to 5.25% and QE became a historic loss-maker on the 2-3% yielding Gilts portfolio - requiring HM Treasury to indemnify the Bank of England for the losses on the income account. Even worse, the process of selling some of the Gilt portfolio back to the market – known as Quantitative Tightening (QT) - triggered very large losses on the Gilts purchased at much lower yields/higher prices. HM Treasury had to make good these losses in (borrowed) cash - hence the massive rise in debt charges.

Bond market vigilantes have been handed all the cards

Each year, we want to borrow an extra £150 billion (5% of GDP) to fund existing public services, and rollovers of maturing bonds of the same amount – so perhaps more than £300 billion. It is unfortunate timing that many of the shorter-term gilts issued to fund “Covid” will fall due for redemption in the next few years running up to the 2029 General Election. In addition, Quantitative Tightening currently means that the Bank of England will sell some of its Gilt portfolio back to the market – taking the total financing burden up to perhaps £350-400 billion annually.

In the early days of this author’s career in the City, the self-administered Defined Benefit (DB) pension funds were receiving massive net inflows of contributions from companies and employees as they built up their “retirement pot”. So the UK domestic financial institutions were purchasing large amounts of gilts – broadly, funding the entire budget deficit until the turn of the century - see Figure 13 below. However, that changed dramatically in the Great Financial Crash when the Bank of England stepped in with QE and built up a Gilt portfolio that eventually peaked at £895 billion. Moreover, the well-meaning 1995 Pensions Act required DB funds to move away from using “best endeavours” to meet pension obligations to a legal requirement to hold enough assets at all times. As expected, this proved to be the death-knell of DB schemes.

In any case, UK pension funds are now demographically “mature” so they are net sellers of Gilts and life insurance companies (who are doing the bulk buy-ins of pension liabilities) are buyers of barely a tenth of the Gilt sales that the Government needs to make. Indeed, pension funds and insurance companies have reduced their gilt holdings steadily and are now 40% down since the 2020 peak.

The chart below shows this progressive atrophying of net flows into gilts from UK institutions and the 2022 encounter with Trussonomics signalled the end of serious demand – just as QE ended and was replaced by Quantitative Tightening (QT). Once the Bank of England ended its QE purchases, much of the gap was filled by foreigners and hedge funds – turning them into the marginal buyers who eventually determine the price. **They were handed all the cards.**

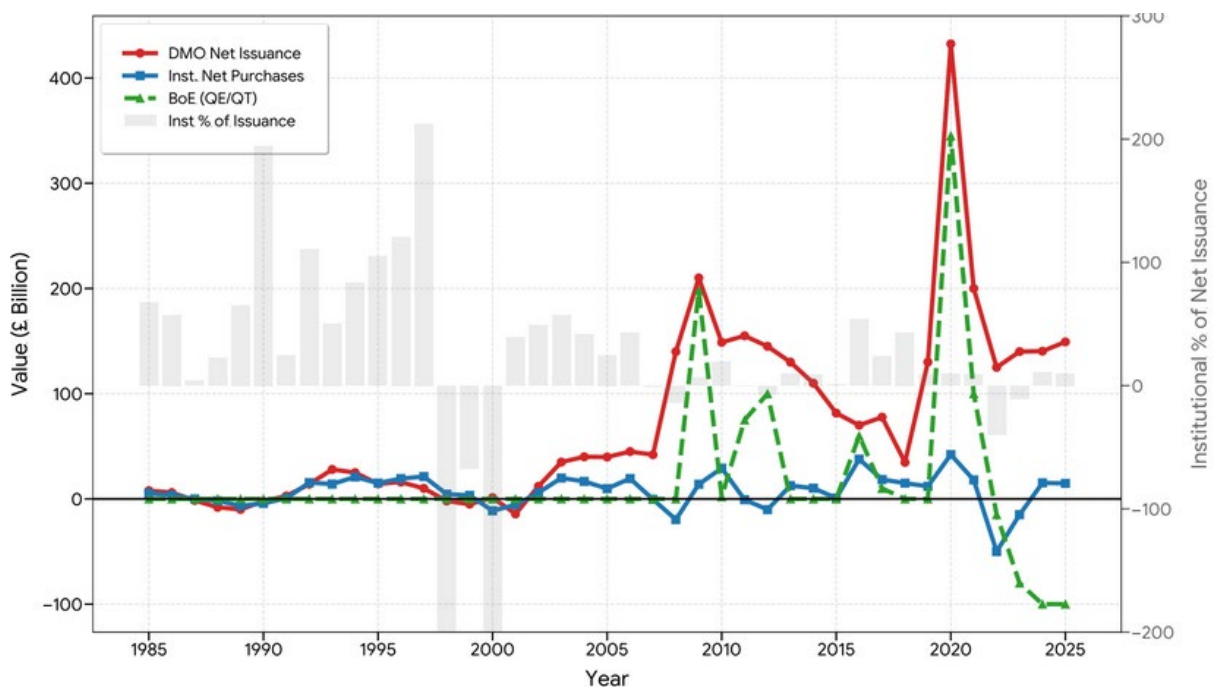
Foreigners now own about a third of all Gilts and are likely to be ever more strongly the buyers at the margin who set the price. **In the years ahead, the foreign “bond market vigilantes” are likely to be in control of the UK’s public finances as they will be especially concerned about sterling.** For a country running a large current account deficit, this is a perilous situation: Any weakening of sterling may prompt the Bank of England to raise Bank Rate to head off inflationary pressures – especially given the sensitivity of the public finances to inflation.

According to the Debt Management Office (DMO) [data](#), foreigners overtook the size of the domestic financial institutions in the early 2020s, though their holdings briefly lurched down by 20%. But “other financial institutions” (which include hedge funds) are much more volatile: their holdings peaked in 2019 but halved within three years, before tripling by 2025. These two highly volatile investor groups now hold around half the gilt market!

According to the OBR’s 2025 “ready reckoner” on QE, a 1% rise in Bank Rate would cause a loss of around £8 billion that year. Much of this will need to be financed by the foreign bond market vigilantes. As long ago as 2017, then-Governor of the Bank of England Mark Carney coined his famous phrase “**Beware of the kindness of strangers**”. **It is even more true a decade later.**

Alternatively, the Bank of England could resume its QE purchases at £150 billion annually or more. But that would make the UK extremely sensitive to short term interest rates – driven by unexpected inflation and/or pressure on sterling.

Figure 13: UK Gilt Supply vs. Institutional & BoE demand (1985-2025)



Is Britain really broken? Politically

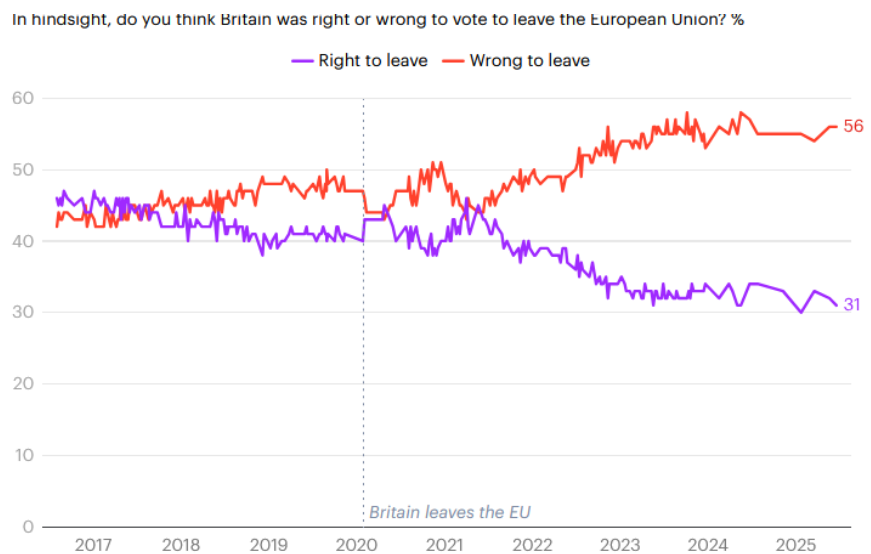
Brexit opinion: Right or Wrong to leave?

The YouGov chart below shows the phases of the growing public disenchantment with Brexit.

- **2016–2017:** Immediately after the referendum, the public remained divided, with "Right" and "Wrong" often polling within the margin of error.
- **2018–2020:** The "Wrong" sentiment began to take a consistent lead as the complexities of withdrawal negotiations became more apparent. This change in sentiment underlined the finding by the NBER that the uncertainty was the principal driver of the collapse in business investment. However, UK electors made a historic decision in December 2019 to give a massive mandate to “get Brexit done” to Boris Johnson – the leading architect-in-power of Brexit, along with Nigel Farage on the sidelines.

- **2021–2025:** Following the end of the transition period and the implementation of the new trade relationship, the gap widened substantially. By early 2023, polling showed that more than half of Britons believed the decision was wrong, while

Figure 14: Right or Wrong to leave the EU - Nine years on



YouGov

Latest data: 16-17 June 2025 • [Get the data](#)

only a third still considered it right. Well over 80% of electors [blame](#) the Conservative party and Boris Johnson for this historic mistake. **But two-thirds blame Nigel Farage.**

In December 2025, Peter Kellner (a founder of YouGov polling) [calculated](#) the possible impact of demographic change if a referendum were held now. (NB those born after 1992 – so anyone under 34 – had their birthright taken away without their consent: they can no longer travel freely, live or work in the EU. They have noticed!)

Figure 15: Demographic changes in voters 2016 - 2025

Millions of voters	Remain/rejoin	Leave/Stay out
Referendum result in 2016	16.1	17.4
Minus those who have died	-1.8	-3.2
Plus new voters since 2016	2.5	0.5
Total taking account of demographic change	16.8	14.7
Voted Remain, now say stay out	-1.1	1.1
Voted Leave now say rejoin	4.1	-4.1
What voters want in 2025	19.8	11.7

As the table shows, the combined impact of demographics and changed minds is to convert a 1.3 million majority for leaving the EU into an 8.1 million majority for rejoining it. Even the greatest landslide election victories have come nowhere close to this lead in the popular vote.

Prediction for seats at the 2029 General Election

Figure 16: Electoral Calculus predicted seats in 2029 General Election

Current Prediction: Reform short 18 of majority

Party	2024 Votes	2024 Seats	Pred Votes	Low Seats	Pred Seats	High Seats
CON	24.4%	121	18.1%	20	73	217
LAB	34.7%	412	19.8%	18	75	257
LIB	12.6%	72	11.8%	30	66	89
Reform	14.7%	5	28.5%	145	308	411
Green	6.9%	4	14.1%	23	56	107
SNP	2.6%	9	2.9%	15	44	46
PlaidC	0.7%	4	1.0%	2	5	12
Other	3.5%	5	4.0%	0	5	6
SF		7			7	

Source: [Electoral Calculus](#) as at 24 February 2026

On the face of it, these sets of polling evidence are utterly inconsistent: There ought to be the greatest landslide victory ever in a referendum to rejoin the EU; two-thirds of electors blame Nigel Farage directly for the woes Brexit has inflicted on the economy yet – under the current voting system - Nigel Farage would become Prime Minister in 2029! That “cognitive dissonance” - as the psychologists call it – may already be surfacing in the Gorton and Denton bye-election. Electors voted tactically to exclude Farage’s Reform party.

What might happen to the economy? Solutions?

Brexit is now tightening its noose around the neck of the UK economy. It can only get tighter as net immigration collapses. The cloud of uncertainty that caused business investment to stagnate for the last decade is hardly likely to lift as the UK’s political stability evaporates before the eyes of the business community. Without that investment, it is difficult to see a return to the productivity growth of last century that would be the salvation for economic growth and thus tax revenues. Brexit has created a set of intractable problems – for any government.

Possible solutions:

1. **Muddle through:** Try new Prime Ministers, governments or governing coalitions. But the tightening Brexit noose will always leave them teetering on the brink of fiscal disaster – to the dismay of voters suffering the consequences. The need to disinflate our way back to a competitive exchange rate to address our huge trade deficit is unlikely to be tackled. Lurking in the shadows, the foreign bond market vigilantes will not allow their investments to be put at serious risk and they will increasingly be in *de facto* control of the UK’s public finances by setting the conditions for any further borrowing – as the direct, foreseeable (and foreseen!) result of Brexit.
2. **Try Trussonomics again:** The crumbling infrastructure and imperative for increased defence spending may tempt a return of Trussonomics to borrow our way out of the fiscal hole. Again, the bond market vigilantes will surely not finance this.

Could EU/Euro membership be part of a solution?

The euro area has much lower interest rates and euro membership would remove the risk of an inflationary run on sterling. The benefits of being in the euro area include:

- a. Reduced costs of government debt. Ten-year Gilts presently yield 4.6% whereas AAA-rate euro area government bonds yield 2.7%. Even Greek government ten-year bonds yield 3.6% - a full percentage point less than UK bonds! (A decade ago, the British press labelled Greece as a 'basket case' that should be thrown out of the euro...)

The premium interest rate paid by the UK has been called the "Moron premium" by financial analysts to describe the extra interest rate investors demand to hold UK government debt due to perceptions of erratic or incompetent fiscal policy. It was originally coined after the 2022 Truss/Kwarteng mini budget,

The savings would feed in cumulatively but the OBR's latest 'ready reckoner' in the 3 March 2026 Spring Statement states that a sustained 1 percentage point increase in Bank Rate and gilt yields would increase borrowing by £15 billion in 2030-31,

- b. Business investment: Joining the European Union would remove many of the uncertainties facing British business about future access to major markets. Today, that would remove the risk of the vagaries of a US president radically changing the terms of access to our largest individual market. Combined with a sharp reduction in the cost of financing new investment, EU/euro membership should stimulate significant investment to improve productivity and obviate the need to rely on cheap, imported labour.
- c. Mortgage rates would be around 2% i.e. roughly same as a Bank Rate which would then be same as the ECB rate of 2%. Would that ease the "cost of living pressure" on households? Would it stimulate growth in general, and especially capital investment?

But first, we must join the EU. Could the proposed "Ukraine model" work for the UK in the future? The model is early EU membership but with rights – including voting – being phased in over a lengthy transition. However, the Member States seem to be pushing back on this Commission idea. Fortunately, the UK still retains the vast majority of its EU-origin laws despite the efforts of Conservative governments via the Retained EU Law Act. The first problem was identifying what is 'retained EU law'. The Government initially identified 2,400 pieces but other estimates put the true number nearer 4,000. Only a few hundred have been repealed so returning to compliance with the *acquis Communautaire* should not be too onerous.

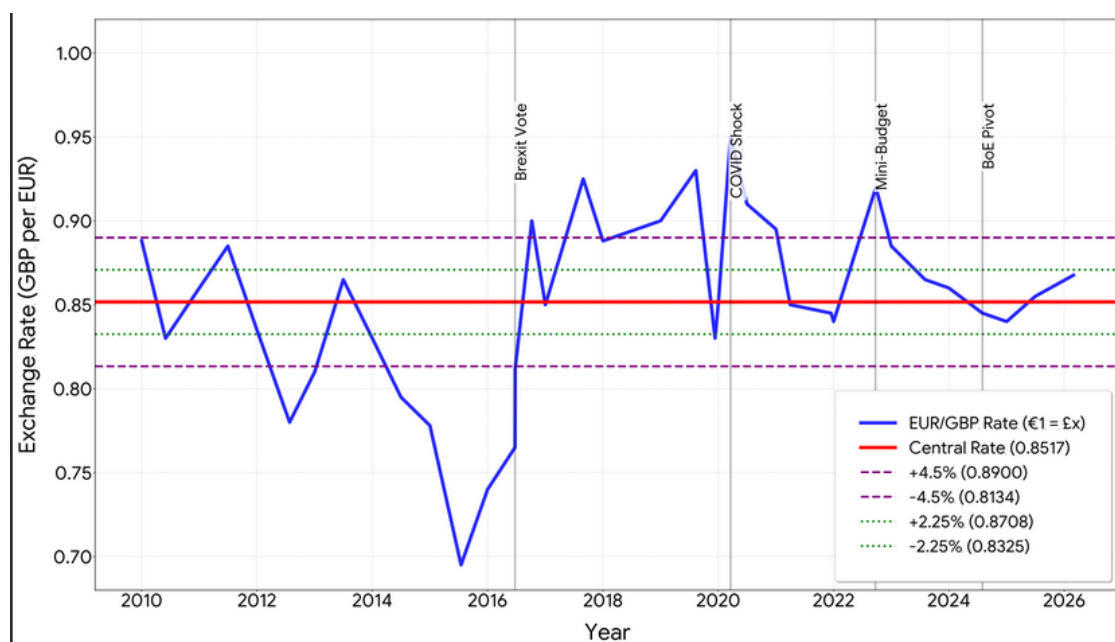
However, such a "rapid rejoining" scenario is only conceivable as part of a rescue package that would protect the EU itself from the trading consequences of a disorderly run on sterling that threatened the EU's own competitive position given

our size as a trading partner. At what exchange rate? 1:1 parity with the euro would help stimulate business investment in industry. Moreover, it would ease the British public's concerns as there would be no change in nominal price levels! In fact, it would be hardly noticeable as euro and sterling would be interchangeable in the UK during the transition.

However, there are three difficult conditions for membership:

- a. The inflation criterion must be satisfied: The candidate's inflation rate must be no more than 1.5 points above "average of the three best performing" States. Currently, that criterion is 2.2% inflation (As of late 2025, the three euro area countries with the lowest annual inflation rates are [Cyprus](#) (0.1%), [France](#) (0.8%), and [Italy](#) (1.1%)). UK Inflation was 3.0% in January 2026. So the UK would only have to meet its own goal (set by the independent Bank of England) of 2%. A fall to parity with the euro might complicate the matter in the first round.
- b. Budget deficits must be below 3% of GDP: The UK's deficit is currently around 5% of GDP but the current government has formally set its taxing and spending policies to bring the deficit below 2% by 2029. That would entail the debt ratio falling – and that would satisfy the condition that the ratio is falling at a "satisfactory rate".
- c. The third condition is to be part of the Exchange Rate Mechanism (ERM). For more than a third of a century, the folk memory of the UK's ejection from the ERM in 1992 has been an emotional "red line" for the body politic.

Figure 17: EUR/GBP exchange rate 2010-2026



However, deep economic integration means that the UK shares many of the forces that have buffeted the euro area over the last decade. A chart of the exchange rate shows that the independent central banks changed interest rate policy for their own domestic reasons in a manner that kept sterling closely within an ERM relationship with rather “softer” limits of +/- 4.5%. A “soft” ERM relationship would not have forced UK policy changes that would have been unwelcome to a purely domestic audience.

The major breaches of these soft limits were associated with the Brexit vote itself, Covid and the Truss premiership. Otherwise, there is a remarkable return to a “central rate” of €/\$0.85 for the last ten years or more.

However, the biggest political problem may be to convince the EU that we are serious about re-joining as they can read the opinion polls. What are the chances of Prime Minister Farage willingly leading the charge to re-join the EU and then join the euro??? Will the foreign bond market vigilantes leave him no option but to take the “road to Damascus” on this matter?

Published by Graham Bishop

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