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The Growth Commission

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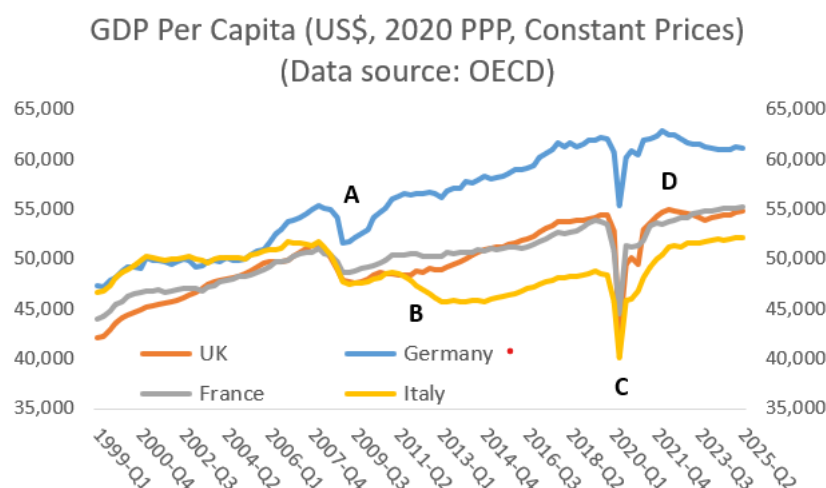
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Introduction

1. Much commentary on the issue of Brexit has focused solely on the costs for the UK of leaving the European Union (primarily in terms of the consequences of ending frictionless trade).
2. **Brexit is not the cause of the UK's economic malaise** which we in The Growth Commission have pointed out is deep rooted in thirty years or so of wrong decisions marked by a steady economic decline. The following graph (shared on social media by independent economist Julian Jessopⁱ) tracks GDP per capita in Europe's big four economies since 1999, with the major shocks marked (A being the Global Financial Crisis, B being the euro debt crisis, C being the Covid pandemic and D being the global energy crisis). In comparing their respective records, Brexit barely registers.



3. However, a properly executed Brexit does contain some of the seeds for an economic revival in the UK based on the ability to shift our regulatory system to a more pro-competitive one in many areas. Even here, **there are many things the UK could have done, with or without Brexit, which it has singularly failed to do.** These include planning reform, governance reform and some aspects of energy policy. In particular the lack of competitiveness of all UK exports (to the EU and the rest of the world) is damaged by the very high energy prices which are a key component of manufacturing.ⁱⁱ Data from the Office of National Statistics shows that the UK's annual exports of goods have decreased since 2022 while annual exports of services have continued to increase in the same period.ⁱⁱⁱ
4. All that said, it is worth noting that a discussion of whether Brexit has been positive or negative for the economy is a pointless discussion. Brexit's regulatory autonomy simply allows the UK either to take some steps that would lead to economic growth or not to take them. In order to assist the public, The Growth Commission has calculated the impact of various scenarios where the UK takes those steps (or not) to show the magnitude of the economic gains that are possible, and also to highlight the potential

losses. We note when comparing friction losses from leaving the Customs Union and Single Market, and the impact of anti-competitive regulation, the latter has between three and four times the economic impact. It is a much bigger driver of GDP per capita gains than the trade frictions introduced for goods trade between the EU and the UK.

5. Our calculations for this paper consider a range of scenarios that highlight the potential positive effects for the UK economy of diverging from EU rules and regulations. Divergence is not for its own sake, but to make the UK's regulatory system more pro-competitive than it is currently and therefore benefit economically.
6. Fundamentally, if the EU's regulatory regime were a paragon of pro-competitiveness, then aligning to it would lead to an increase in UK GDP per capita. But if that regime is deemed to be anti-competitive – and the EU itself has acknowledged this to be the case^{iv} – then aligning to it is going to damage UK GDP per capita.
7. The four scenarios we have examined each consider the trade frictions suffered by the UK as a result of leaving the Single Market and Customs Union. But the key variables in the four scenarios are as follows:
 - In Scenario 1 the UK aligns to EU regulations which become pro-competitive
 - In Scenario 2 the UK aligns to EU regulations which remain anti-competitive
 - In Scenario 3 the UK diverges from EU regulations which are anti-competitive and instead adopts pro-competitive regulations
 - In Scenario 4 the UK diverges from EU regulations which remain as they are, and UK regulations become less competitive
8. Where there is regulatory alignment, there will be less trade friction. But across the four scenarios, trade policy will differ based on what the UK is able to do, depending on its internal Anti-Competitive Market Distortions (ACMDs) and how trading partners respond.

The ACMD Model

9. The ACMD Model organises distortions into three mutually reinforcing institutional pillars: Property Rights (PR), Domestic Competition (DC) and International Competition (IC). Together these pillars capture the institutional infrastructure that allows competitive markets to function. Weakness in any one of them undermines the others, producing poor allocation of resources, lower innovation and reduced income growth.^v
 - The **Property Rights (PR)** pillar measures the strength, clarity and predictability of private ownership, contract enforcement and intellectual property protection. When property rights are insecure or applied unequally, investment falls, capital flight increases and entrepreneurship declines. Distortions in this pillar include expropriation risk, inconsistent adjudication and administrative interference that

advantages state-owned or politically-favoured enterprises and, critically, lack of enforcement of intellectual property rights. Weak PR conditions discourage long-term productive activity and redirect resources towards rent-seeking.^{vi}

- The **Domestic Competition (DC)** pillar examines whether firms compete on their merits under equal legal conditions. Distortions arise when governments grant privileges through discriminatory licensing, industrial policy, directed credit or incorrect enforcement of competition law. Such measures insulate incumbents from rivalry, reduce productivity growth and raise consumer prices. Empirical testing shows that distortions in the DC pillar typically produce the largest negative effect on GDP per capita.^{vii}
- The **International Competition (IC)** pillar evaluates openness to foreign trade and investment on non-discriminatory terms. Market-access restrictions, local-content requirements, digital-trade barriers and state aid that disadvantages foreign competitors are the primary distortions here. International distortions protect domestic incumbents, limit export performance and erode reciprocal welfare gains.^{viii}

10. These three pillars operate interdependently. Strong property rights cannot deliver high productivity when domestic markets are dominated by privilege, and open borders cannot create welfare gains when domestic regulation prevents entry. The Singham ACMD Model measures these linkages empirically, enabling policy-makers to estimate aggregate welfare losses from pillar weakness rather than isolating single regulations.

Typology and Analytical Rule

11. Across jurisdictions, ACMDs appear in recurring categories. Typical examples include:
 - **Licensing and regulatory systems** that restrict entry and favour incumbent firms
 - **Subsidies and directed finance** that sustain unproductive enterprises
 - **Selective enforcement of contracts or antitrust rules** to achieve political goals
 - **Industrial policy programmes** that allocate resources by administrative discretion rather than market criteria
 - **Non-science-based sanitary and phytosanitary standards or geographical indication rules** used as disguised protectionism
 - **Data-localisation and digital-trade barriers** that prevent efficient cross-border services^{ix}
12. The analytical rule distinguishing legitimate regulation from an ACMD is that a legitimate rule addresses a genuine market failure or public interest need while preserving open competition. An ACMD, by contrast, creates or preserves privilege and reduces competition or innovation without a corresponding public benefit.^x

Framework and Data Foundation

13. The ACMD Model rests on the three aforementioned institutional pillars (Property Rights (PR), Domestic Competition (DC) and International Competition (IC)). Together they define the institutional quality of an economy. The model treats each pillar as a variable whose observed performance can be linked statistically to national income. Using cross-country panel data from 2010 to 2023, we have estimated the relationship between improvements in these pillars and changes in GDP per capita.
14. The model draws on publicly-available, high-quality indicators from sources such as the World Bank's Doing Business Report, Logistics Performance Index and Global Competitiveness Index; the Heritage Foundation's Index of Economic Freedom; the Cato Institute's Human Freedom Index; the OECD's trade-openness metrics; and intellectual property indices from WIPO. Each indicator is normalised to create consistent scales and combined into composite scores for the PR, DC and IC pillars. The dataset covers more than one hundred economies representing over 90% of global output. This breadth allows the model to capture variation across income levels and institutional systems, from developed economies with complex regulatory regimes to developing economies with more rudimentary institutions.^{xi}
15. Using these data, the model estimates the elasticity range of GDP per capita with respect to each pillar; the range of how much income rises when a pillar's score improves by one unit. These elasticities represent the structural link between institutional quality and economic performance. The model's baseline results show that improvements in DC yield the highest gains in productivity and income, followed by PR and then IC. On average, a one-unit improvement in the DC pillar is associated with a range of 8%-11.2% increase in GDP per capita, while similar improvements in PR and IC correspond to ranges of 6.9%-7.6% and 4.4%-6% gains respectively.^{xii}
16. These findings have two implications. First, domestic distortions (licensing restrictions, discriminatory regulation and selective enforcement) are the most economically damaging forms of distortion. Second, international openness reforms produce measurable though smaller gains, reinforcing that the greatest potential lies in behind-the-border reforms. In short, the data confirm that competition on the merits within domestic markets is the principal determinant of long-term productivity growth.^{xiii}
17. The ACMD Model fixed-effects panel approach isolates within-country variation over time, ensuring that the relationships are not driven by differences in geography or resource endowment. Control variables include education, population and fiscal balance to prevent spurious correlation.^{xiv}
18. The model is not static. Because its inputs come from continuously updated data series, the scores can be recalculated annually to show whether a country's institutional quality is improving or deteriorating. This capacity makes the model

suitable for policy monitoring and for use as a performance-based component of trade agreements. Governments can measure progress towards competitive neutrality using objective criteria rather than political discretion.^{xv}

19. More details are available in Appendix 1 of The Growth Commission's [Autumn 2024 Growth Budget](#) and Shanker Singham's 2025 book, [International Trade, Regulation and the Global Economy: The Impact of Anti-Competitive Market Distortions](#).
20. Our economic models suggest that a 10% improvement in the competitiveness of UK regulation (by reference to productive and allocative efficiency) leads to an improvement of approximately 6.6% of GDP per capita (state to state – so it will depend on the time it takes to achieve this).
21. A reduction in trade facilitation with the EU of an equivalent amount would yield a loss of only about 1% of GDP per capita (again state to state).
22. The most pro-growth policy option is therefore obvious: the benefits of regulatory improvement far outweigh the limited trade facilitation loss from leaving the Customs Union and Single Market. This is before even considering the trade benefits of an independent trade policy in these calculations.
 - **Pillar elasticities per +1.0 point:**
 - **International Competition (IC):** +4.4% to +6.0%
 - **Domestic Competition (DC):** +8.0% to +11.2%
 - **Property Rights Protection (PR):** +6.9% to +7.6%

The Four Scenarios under consideration

Scenario 1

1. The UK aligns to EU regulations, which become pro-competitive
2. The UK suffers trade frictions from leaving Single Market and Customs Union (TF1)
3. Impact of independent trade policy A

Scenario 2

1. The UK aligns to EU regulations which remain anti-competitive
2. The UK suffers trade frictions from leaving Single Market and Customs Union (TF2)
3. Impact of independent trade policy B

Scenario 3

1. The UK diverges from EU regulations which are anti-competitive and adopts pro-competitive regulations

2. The UK suffers trade frictions from leaving Single Market and Customs Union (TF3)
3. Impact of independent trade policy C

Scenario 4

1. The UK diverges from EU regulations which remain as they are, and UK regulations become less competitive
2. The UK suffers trade frictions from leaving Single Market and Customs Union (TF4)
3. Impact on independent trade policy D

Key Points

23. The UK has a zero-tariff deal with the EU which means the goods flow restrictions are limited to customs process which is reflected in the trade facilitation score. We should also note that the trade facilitation shock applies only to UK trade exposure to the EU, and only in goods (which is about 19% of total UK trade).
24. On the other hand, the UK's independent trade policy allows it to negotiate deals that the EU may not be able to because of its defensive interests. A prime example of this is the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and its deal with the U.S., neither of which the EU has been able to match. Joining the EU pushed the UK more towards trade diversion (a classic way a customs union works but is inefficient) and reduced the UK's options for more beneficial trade creation through free trade agreements (FTAs) with many more countries and regions. Brexit removed that constraint, thus allowing the UK to join the CPTPP and sign FTAs with countries like the U.S. and India. This approach is also in line with the reduction of ACMDs in the international competition arena of our model. Many countries (including 31 in the Sanitary and Phytosanitary Committee) have long complained about the EU's Sanitary and Phytosanitary regime. The EU's other regulations have also attracted the opprobrium of its trading partners.^{xvi}
25. We have assumed two distinct scenarios with respect to the EU's regulatory regime. We have assumed a scenario where the UK aligns to the EU regime as it currently is and on its current trendline. It is well established that the EU's regulatory regime now is anti-competitive and has resulted in considerable wealth destruction and slowing of GDP per capita.^{xvii,xviii,xix,xx,xxi} If the UK aligns with it, then in the goods area at least, it will be reducing its own DC pillar score.
26. We have assumed a different scenario, somewhat unlikely, where the EU actually improves its regulatory framework in pro-competitive ways. It is not impossible that the extreme pressure from the U.S. Administration is forcing the EU to look again at its regulations.^{xxii,xxiii} This could result in the EU's pillar score improving and taking the UK's up with it. Alignment in this, albeit unlikely case of EU reform, would improve the UK's pillar score.

27. We have assumed another scenario where the UK diverges so that it can improve its regulatory framework, and the EU's remains anti-competitive. This scenario also improves the UK's trade pillar score because it is now able to do deeper and more liberalising deals with its trading partners as its ACMD-related baggage is much lower.
28. Applying this to the pillars leaves the following GDP per capita impacts.

The UK's EU Exposure

29. In the twelve months leading to August 2025, UK exports were composed of £542.8 billion in services and £380.9 billion in goods, giving a split of 41.2% goods and 58.8% services (according to the Office for National Statistics^{xxiv}). The EU accounted for 48% of UK goods exports and 36% of UK services exports in 2024; according to the House of Commons Library these ratios are "broadly stable"^{xxv} and are therefore used for 2025. We have assumed a 40/60 goods/services split.

Component	Calculation	Share of total exports
EU goods	0.4×0.48	0.192 (19.2 %)
EU services	0.6×0.36	0.216 (21.6 %)
Non-EU goods + services	$1 - (0.192 + 0.216)$	0.592 (59.2 %)

30. These weights determine how the negative EU-related trade shock (which applies only to goods) and the positive non-EU uplift (which applies to non-EU goods and services) feed through the model.

IC Sub-Variable Adjustments (2023 Basis)

31. For all scenarios, EU components move down and non-EU components move up by the same magnitude:

Sub-variable	Weight	EU change	non-EU change
Customs	10 %	5.2 → 4.8 (– 0.4)	5.2 → 5.6 (+ 0.4)
International shipments	36 %	5.0 → 4.7 (– 0.3)	5.0 → 5.3 (+ 0.3)
Trade freedom	11 %	6.0 → 5.5 (– 0.5)	6.0 → 6.5 (+ 0.5)
Trade facilitation	29 %	6.2 → 5.7 (– 0.5)	6.2 → 6.7 (+ 0.5)

32. Weighted change across the sub-block: EU = – 0.348 points; non-EU = + 0.348 points
The EU shock applies only to goods, and the non-EU uplift applies to non-EU goods plus services.

Shock and Policy Parameters

33. Let s_i represent the EU-goods shock scale (TF1–TF4) and δ_i the extra trade-policy boost applied only to non-EU goods and services.

Scenario	Shock scale s_i	Policy boost δ_i (IC points)
1	$0.60 \times (\text{EU goods shock})$	+ 0.30 (A)
2	$0.80 \times (\text{EU goods shock})$	+ 0.15 (B)
3	$1.15 \times (\text{EU goods shock})$	+ 0.50 (C)
4	$1.30 \times (\text{EU goods shock})$	+ 0.05 (D)

34. **Putting It Together (in IC Points):** Combining the weighted EU and non-EU impacts with their respective shock scales and policy boosts yields:

$$\Delta IC_i = (+0.348) \times 0.592 - (0.348) \times 0.192 \times s_i + \delta_i \times 0.592$$

35. These produce distinct ΔIC values for each scenario (see table below):

DC and PR Effects

Variable	Reform Δ	Effect range	Deterioration Δ	Effect range
DC	+ 0.309	+ 2.472 % $\rightarrow$ + 3.4608 %	– 0.309	– 2.472 % $\rightarrow$ – 3.4608 %
PR	+ 0.2421	+ 1.670 % $\rightarrow$ + 1.840 %	– 0.2421	– 1.670 % $\rightarrow$ – 1.840 %

36. Elasticities per + 1.0 point: IC = 4.4–6.0 %, DC = 8.0–11.2 %, PR = 6.9–7.6 %

Scenario Results (GDP per Capita %)

Scenario	IC Δ (points)	IC effect	DC	PR	Total effect
1 Align + EU regs pro-competitive; TF1; Policy A	0.3455	+ 1.48 $\rightarrow$ + 2.01 %	+ 2.472 $\rightarrow$ + 3.461 %	+ 1.670 $\rightarrow$ + 1.840 %	+ 5.65 $\rightarrow$ + 7.36 %
2 Align + EU regs anti-competitive; TF2; Policy B	0.2414	+ 1.02 $\rightarrow$ + 1.40 %	– 2.472 $\rightarrow$ – 3.461 %	– 1.670 $\rightarrow$ – 1.840 %	– 3.08 $\rightarrow$ – 3.85 %
3 Diverge + UK regs pro-competitive; TF3; Policy C	0.4252	+ 1.81 $\rightarrow$ + 2.47 %	+ 2.472 $\rightarrow$ + 3.461 %	+ 1.670 $\rightarrow$ + 1.840 %	+ 6.01 $\rightarrow$ + 7.85 %
4 Diverge + UK regs less competitive; TF4; Policy D	0.1488	+ 0.60 $\rightarrow$ + 0.82 %	– 2.472 $\rightarrow$ – 3.461 %	– 1.670 $\rightarrow$ – 1.840 %	– 3.49 $\rightarrow$ – 4.41 %

Conclusions

37. The above shows that the best policy response is for the UK to diverge from EU regulations and embrace pro-competitive regulation. The worst policy would be to diverge into less pro-competitive regulation than an EU that is improving its regulatory system (which it might do under U.S. pressure). Alignment only leads to a positive result if the EU is becoming more pro-competitive.
38. Thus, focusing only on the friction costs (TF1 – TF4) is to miss the wider point about the significant gains of regulatory competition. If the UK has been damaged by Brexit, it is only because it has not embraced the regulatory gains which are possible from being in control of its regulatory system. In that sense, it is too early to conclude what are the overall impacts of Brexit and those impacts will in any case depend on the UK's future settled regulatory framework.

Endnotes

ⁱ See <https://x.com/julianHjessop/status/1982861876016136626>

ⁱⁱ Arthur B. Laffer, Matthew Elliott, Michael Hintze, and Douglas McWilliams, *Prosperity Through Growth: Boosting Living Standards in an Age of Autocracy and AI* (London: Biteback Publishing, 2025).

ⁱⁱⁱ Office for National Statistics. *UK trade time series (Dataset ID: MRET)*. London: Office for National Statistics, released October 16 2025, <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/tradingoodsmretsallbopeu2013timeseriesspreadsheet>, accessed November 3, 2025.

^{iv} Mario Draghi, *The Future of European Competitiveness*, European Commission, September 9, 2024, https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en, accessed October 27, 2025.

^v Shanker A. Singham, *Trade Policy in the Trump Administration: Advancing Reduction of Anti-Competitive Market Distortions*, Competere, August 21, 2025, <https://competere.co.uk/august-21-2025-white-paper-proposes-landing-zone-for-the-trump-administrations-trade-realignment-to-maximize-economic-growth/>

^{vi} Ibid

^{vii} Ibid

^{viii} Ibid

^{ix} Ibid

^x Shanker A. Singham, *International Trade, Regulation and the Global Economy: The Impact of Anti-Competitive Market Distortions*, Routledge, 2025, <https://www.routledge.com/International-Trade-Regulation-and-the-Global-Economy-The-Impact-of-Anti-Competitive-Market-Distortions/Singham/p/book/9781032944166>.

^{xi} Ibid

^{xii} Singham, *Trade Policy in the Trump Administration*.

^{xiii} Ibid

^{xiv} Ibid

^{xv} Singham, *International Trade, Regulation and the Global Economy*.

^{xvi} Office of the United States Trade Representative, *2024 National Trade Estimate Report on Foreign Trade Barriers* (Washington, DC: Office of the United States Trade Representative, March 2024), "United Kingdom," 357–365, <https://ustr.gov/sites/default/files/2024%20NTE%20Report.pdf>, accessed October 27, 2025.

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^{xviii} Draghi, *The Future of European Competitiveness*.

^{xix} Oyun Erdene Adilbish, Diego A. Cerdeiro, Romain A. Duval, Gee Hee Hong, Luca Mazzone, Lorenzo Rotunno, Hasan H. Toprak, and Maryam Vaziri, "Europe's Productivity Weakness: Firm-Level Roots and Remedies," *IMF*

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^{xx} Paloma Lopez-Garcia, Brindusa Anghel, Gert Bijnens, Simon Bunel, Tibor Lalinsky, Wolfgang Modery, and Maria T. Valderrama, “The Impact of Recent Shocks and Ongoing Structural Changes on Euro Area Productivity Growth,” *ECB Economic Bulletin*, Issue 2 (2024), European Central Bank, https://www.ecb.europa.eu/press/economic-bulletin/articles/2024/html/ecb.ebart202402_01~d63ecff49c.en.html, accessed October 27, 2025.

^{xxi} Renaud Bourlès, Gilbert Cetté, Jimmy Lopez, Jacques Mairesse, and Giuseppe Nicoletti, “Do Product Market Regulations in Upstream Sectors Curb Productivity Growth? Panel Data Evidence for OECD Countries,” *Review of Economics and Statistics* 95, no. 5 (2013): 1750–1768, https://doi.org/10.1162/REST_a_00338.

^{xxii} Federica Di Sario, “The EU Shouldn’t Fight Trump’s Tariffs Alone, Former WTO Chief Warns,” *The Parliament Magazine*, July 24, 2025, <https://www.theparliamentmagazine.eu/news/article/the-eu-shouldnt-fight-trumps-tariffs-alone-former-wto-chief-warns>, accessed October 27, 2025.

^{xxiii} Philip Blenkinsop “EU Targets Business Barriers to Enhance Competitiveness amid US Tariffs,” *Reuters*, May 21, 2025. <https://www.reuters.com/business/eu-targets-business-barriers-enhance-competitiveness-amid-us-tariffs-2025-05-21/>. Accessed October 27, 2025.

^{xxiv} Office for National Statistics. UK Trade: August 2025 (Statistical Bulletin, 16 October 2025). <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/august2025>.

^{xxv} See <https://commonslibrary.parliament.uk/research-briefings/cbp-7851/>