EconoFact Chats: Lessons from a Decade into Brexit
Nicholas Bloom, Stanford University
Published on 25th January 2026

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I'm Michael Klein, Executive Editor of EconoFact; a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us, and see our work at www.econofact.org

Michael Klein
In June 2016, the British people voted to leave the European Union, in what is known as Brexit. In the run-up to that referendum, there were claims on both sides of the issue about the consequences of the vote – Leave claiming that Brexit would reestablish British sovereignty over economic and social policies, remain claiming that Brexit would be lead to self-inflicted harm, in soccer, or more appropriately, football, terms, an "own goal." It's been almost ten years since that fateful June vote. What have, in fact, been the consequences of Brexit. And what are the lessons from this for other efforts to disengage from the world economy? A recent research paper analyzes these issues, and I'm very pleased to welcome back to EconoFact Chats one of the co-authors of that paper, Professor Nicholas Bloom of Stanford University. Nick is the Co-Director of the Productivity, Innovation and Entrepreneurship program at the National Bureau of Economic Research, and a Fellow of the American Academy of Arts and Sciences. Nick, welcome back to EconoFact Chats.

Nicholas Bloom
Thanks so much for having me on.

Michael Klein
Nick, before we get to the economics of Brexit, what were its politics? Who decided there should be a vote on British membership in the European Union?

Nicholas Bloom
David Cameron, in 2013, made this commitment that if the Conservatives won their next election, which was in 2015, they'd have a referendum on Brexit. And the reason he did that is there were a bunch of people in his party that wanted that, and so it was kind of a stop-gap solution.

Michael Klein
There's been a long controversy in Britain about its ties to continental Europe. Small Britain, and so on. I guess the vote on Brexit was the most recent example of this. But there are other relevant issues as well, right?

Nicholas Bloom
Yeah. I mean, the fact that the British have a term, they're called "Europe," and they don't think of themselves. You know, when you say, "I went on holiday to Europe," it doesn't typically include Britain in their terms. So yes, we've long had a strange, strained relationship with the rest of Europe. And we were relatively late to join the European Union, and unfortunately, I guess for the economy, at least, left.

Michael Klein
So you're using first-person plural. People might have already guessed by now that you're from England, right?

Nicholas Bloom
Yeah. Put it this way, when I watch football/soccer, I support England. Yeah, I grew up there, and I left when I was early thirties, moved to the U.S. So I'm now a dual national, but actually voted in the Brexit vote. So I was there. I was with my wife, so we got to vote.

Michael Klein
And where are you from in Britain?

Nicholas Bloom
London. Well, I'm from London, and my wife is from Scotland, from Glasgow, Scotland. So we kind of span the entire United Kingdom.

Michael Klein
There are regional differences across Britain in support of Brexit, right? People in London were voting for Remain, and people in like the Midlands and the industrial North were voting more for Leave.

Nicholas Bloom
Yes. I mean, amazingly, it's very similar. Actually, Brexit supporters look a lot like the kind of demographics and background of folks that supported Trump in the U.S. So if you look, Brexit supporters tended to be older, lower income, less educated, in poorer parts of the country. So London is kind of young and rich, and that was very much Remain. And the Midlands and the North of the country, which tended to be poorer and older, kind of like the South, or maybe the rural parts of America, they tended to be more pro-Brexit.

Michael Klein
So in fact, there are some parallels between the support for Brexit, and what we saw as America First policies in the United States, at least regionally, right?

Nicholas Bloom
There are incredibly strong parallels. Two reasons why Brexit is back on the agenda. One is the British are quite honestly discussing, it's been such a mess, that whether they partly reverse it. And the second is it has incredible parallels to the U.S. So, firstly, Brexit voters look a lot like Trump's support base. Secondly, the issues are very similar. So Brexit, a lot of it was around…people thought there was too much immigration, they thought trade was bad, foreigners were kind of stealing [from] them. And there was also this kind of nostalgic feeling that globalization is responsible for our ills, and if only we can turn back the clock.

Michael Klein
Make Britain great again, I guess.

Nicholas Bloom
Yes, maybe make England great again, although I should be clear that England is only one part of the United Kingdom. It's a bit like calling America California.

Michael Klein
Right. Well, in advance of the Brexit vote, the consensus was that Remain would win. Even Nigel Farage, the leader of the Leave movement, was conceding defeat as the polls were closing. But of course, the people narrowly voted for Brexit, and in the immediate wake of this, the British pound had its biggest one-day sell-off ever. What were the markets thinking that led to this sell-off?

Nicholas Bloom
You know, again, the parallels to the U.S. were very similar. So Trump was not favored to win in 2016. The betting markets were favoring Hillary Clinton. And what we saw was in the UK, Brexit was given about a 25 percent chance of winning on the betting markets. You know, amazingly, on the evening itself, actually, at one point, Nigel Farage conceded that he'd lost. He said, "I know I've lost. Friends in the City tell me it's all over." And of course, he was wrong, and Brexit won. And the next day, yes, the pound crashed. I mean, the reason the pound crashed was Brexit was predicted to be damaging to the UK economy, and if the economy is going to grow more slowly, then the pound is less valuable.

Michael Klein
I use this example in class a lot. The pound crashed because it was such a surprise. And had people known ahead of time, the markets would have reacted sooner and not just in the immediate wake of the vote, right?

Nicholas Bloom
Exactly right. Markets respond to news. So markets had priced in a 25 percent chance of Brexit being successful, but obviously it was successful, so it moved to 100 percent. So that fall in the pound was basically three-quarters of the expected total impact.

Michael Klein
There was a lot of expert opinion about the cost of Brexit before the vote, but, famously, Lord Chancellor Michael Gove said before the vote, "I think the people of this country have had enough of experts with organizations, and acronyms, saying that they know what is best and getting it consistently wrong." What were the predictions about the costs of Brexit by these experts that Gove so dismissed?

Nicholas Bloom
That Gove comment was hilarious. It's been so ridiculed. It's kind of like, we've heard enough of the experts, now let's hear from people that don't know anything about what they're talking about. So yes, he ridiculed the experts. The reason he ridiculed it, of course, was the experts were all predicting that Brexit would be bad. He didn't want to hear that because he was supporting Brexit. The experts turned out to be directionally right. It turns out that Brexit was even worse than they predicted. Just to put numbers on the table, we found twelve different forecasts. You can strip out two because they were politically motivated. You're left with ten. There were five from banks, like four from academics, and one from some government agency. They predicted, on average, a 4 percent damage to GDP, and we find something like 6 to 8 percent.

Michael Klein
So you're alluding to this recent research paper that you've done that has gotten a lot of attention. And so the experts, you know, got it wrong because they underestimated the damage of Brexit, right?

Nicholas Bloom
Yeah, so what they got right was it was negative. I mean, Paul Krugman, for example, wrote an opinion piece, and it was a short piece, but it kind of summarized the key points. He said, look, if you are a medium-sized country and you make it harder to trade with the rest of the world, you're clearly going to slow growth. And in addition to that, you create some uncertainty, because you have, you know, a transition and no one quite knows where it's going. It is going to slow investment. The reason it was worse than predicted was the transition process itself was just

a mess. So we went through four different prime ministers, because people get in, they'd say, let's do Brexit, they'd realize it was complicated. The biggest issue was the Brexiteers, the people that wanted to leave, didn't really have a good plan over what 'leave' meant. It's kind of like, you know, the plane is going down, let's all jump out, but then no one actually bothers to check there's a parachute. And so that created a huge amount of fighting, and the, you know, the many-year delay with all the uncertainty that brought about, and that's why the damage was so much worse.

Michael Klein
So let's talk a little bit about your research. You and your co-authors took two different approaches to analyzing the effects of Brexit. Can you briefly describe what each of these were?

Nicholas Bloom
Yes. In simplest terms, there's the bottom-up and a top-down. So the bottom-up is we survey 2,000 firms a month, that's been a collaboration between the Bank of England, Kings and Nottingham, and these companies, we know their pre-Brexit exposure. So how many, you know, Europeans they had working there, how much their trade, their imports, exports, etc. And we have their data, and accounts data, going back, you know, until 2010. So from that bottom-up number, you can look at the impact in each firm, and then add it all up, and that gets about minus 6 percent on GDP. The top-down version is we compare Britain to 33 other countries, the whole of the rest of the European Union, plus six other countries like the US, Canada, Norway, Switzerland, etc., and that gives, if you take the average of those 33, that gives minus 8 percent. And to note, Britain looked very similar to that average up to Brexit. So it was kind of tracking right in the middle, and it went from being right in the middle to being the second-worst country, with the worst being Bulgaria. So Bulgaria, something even worse happened. I'm not sure it was some political, you know, upheaval, but Britain went from middle of the pack to second bottom after Brexit.

Michael Klein
So your macro and your micro results, top-down and bottom-up as you put it, they came up with very similar answers, right?

Nicholas Bloom
Yes, they did. To be clear, they don't need to be. Why is that? There are different things going on. So, Michael, if your firm is exposed to Europe and you're hit by Brexit, for me, if I'm not exposed, it may actually be good news. So I, you know, may steal business from you, steal, you know, customers, etc. So you could have some offsetting effects. At the macro level, there's things like exchange rates, interest rates that move. It just turns out empirically, micro and macro, 6 percent versus 8 percent, and there's enough confidence intervals around those numbers, you could say they're one number, which is, you know, 6 to 8 percent is a good range.

Michael Klein
So Brexit, as you mentioned, there was a long transition process from the vote in 2016. The results that you found took some time to emerge, right?

Nicholas Bloom
Yeah, that's one of the things. I'd say economists got the prediction right, but they got the timing wrong. In that group, I helped the Treasury make some forecasts in 2015. So economists thought the damage from Brexit would be much quicker than occurred, and they were predicting within a year or two. Why did it take a long time? One is actually after the vote, the pound dropped, but we didn't immediately leave the European Union. So you're in this kind of honeymoon period in late 2016, 2017, 2018, where Britain was still in the EU but the pound's cheaper, so it's easier to export stuff, and that boosted growth. The other reason it just took so long is the process was such a mess. So the fact that prime ministers were coming and going. There were fights. I mean, Boris Johnson campaigned on the strapline, "Get Brexit done," which tells you how much it hadn't been done up until then. So that's what dragged the thing out. And so they only properly left in 2021. There was a one-year transition period. We're still, I mean, we're now in 2026, they're still negotiating stuff. So, you know, ten years on, the process has not even completed.

Michael Klein
So you described it as a honeymoon period, but it's like a honeymoon where the couple has decided right after the wedding to get divorced.

Nicholas Bloom
Yeah, you get married, and you decide a year from now you're going to get divorced, but between, you know, the day after the wedding and for the rest of the year, you're going to have a good time. So yeah, you know what's coming. But in that intermediate period, maybe you party like there's no tomorrow, and that's kind of what we saw. So, you know, I was thinking about myself, and when I made these predictions, I didn't think through the politics of it. The Brexiteers basically didn't really have a clear plan for what post-Brexit was going to be. There was one group who were the kind of free-marketeers who thought Britain should look like Singapore, this kind of totally open, unregulated global trading economy. Fine, and that maybe would have worked very well, actually, if that had been what we had. But most people, and most of the voters, had a very different idea. They wanted to turn back the clock, and they wanted to stop immigration and stop trade and stop globalization, etc. And that would have been very damaging. And the problem was the politicians had these very opposite policy views of what the Brexiteers wanted, and couldn't really keep everyone happy, and so they didn't do anything. They were frozen. And so that's why it took so long. As a result the damage was so protracted. And I guess none of us saw that Brexit would be so slow. Everyone just kind of predicted the vote would happen, and then after the vote, you go with either yes or no, and then life would move on. It was much more complicated and painful and uncertain than that.

Michael Klein
There has been some pushback on your results – pro-Brexit people say that macro results only reflect the difference between Britain and the US, not between Britain and the other comparison countries. How do you respond to that?

Nicholas Bloom
You know that pushback kind of makes me laugh. So I'll tell you what they claim, and then I'll tell you what the actual data shows. So they claim that our results are deduced by comparing to the U.S. And they say, well, the U.S. has done really well, and if you compare the UK to the U.S. So that's true, but we should point out we have thirty-three countries we compare to, and we take the average of them, so the U.S. is only one of them. So that's 3 percent of the result. And in fact, in the paper, we have an exercise whereby we drop each one of those 33 countries in turn and show the results hardly change. The issue is, I think these people complaining had not read the details, not clear they read the paper at all. They just didn't like the result, and immediately criticized it. The most interesting point on politically motivated reasoning is, if you look at the forecasts, the two pro-Brexiteers that made forecasts predicted positive growth, which was outlandishly wrong. The investment banks made predictions. They're actually the most accurate. There were five of them, and they predicted pretty negative numbers. They're the ones that are motivated by getting it right, because their customers and their clients care about it. So if you look at independent forecasters like investment banks or research papers, they got it pretty accurate. If you look at politically motivated types, they're somewhat separated from the actual data and reality on this.

Michael Klein
It's like that line from Casablanca. "I'm shocked, shocked that there was political influence here." The other thing is, I guess, you know, the micro results don't depend on the United States at all, right?

Nicholas Bloom
No. I mean, those criticisms, to be honest, they're worthless. They just didn't read the paper. And you look at what they said, they're like, it's all driven by the US. I mean, we have a robustness thing saying that factually is just not true. And yeah, as you say, the micro results have nothing to do with this. Before the vote, during the vote, after the vote, they've lived in this alternative reality. And it just…I mean, to be fair, Brexit could've increased growth if we'd gone to this, you know, low-regulation Singapore, free-trading... We just didn't go there. It just didn't happen because most of the voters were…the typical Brexit vote was a fifty-five-year-old manual worker that wanted to turn back the clock. And I can understand why they're upset. They've done badly out of rising inequality. But Brexit wasn't really the policy to fix that.

Michael Klein
So, Nick, you know, we've talked about the results. What were the channels through which these results took effect?

Nicholas Bloom
I mean, there are at least three factors. The most obvious is you just make it harder to trade. So tariffs, trade costs, quotas, regulations have gone up a lot with Europe. I mean, the kind of stories you hear is, there's monetary cost, but what's often been worse is the paperwork. For example, there's an interview with someone that cut flowers, and used to cut flowers in the UK, ship them across the channel into Europe. Now you have to fill out a ton of forms, get permits in advance. And they said, look, it takes so long the flowers are dead. So it's just killed the business. The first is costs of trade. The second was uncertainty. So businesses don't like uncertainty. If you can't predict the future, you tend to pause in investing and hiring. And uncertainty, we've had kind of a ten-year burst of higher uncertainty. That's kind of coming to an end, but that was been very damaging while it lasted. And it's left us with now a history of much less investment, much less capital. And finally, is just the enormous amount of wasted time. So in our survey of 2,000 businesses a month, 80 percent of them are either CEOs or CFOs. These are typically fifty- to one-hundred-person firms. And we asked them how much time did dealing with Brexit take up. And the numbers we got were, on average, two to three hours a week. And that's just a huge amount of time spread over four or five years. So what's happened is you have very senior managers, the CEO, spending a lot of time on Brexit, and as a result, they're not spending as much time on foreign export markets, developing new products, maybe improving the management practices.

Michael Klein
So cost of trade, uncertainty, wasted time. Once more, I'd like to ask you how all this applies to the United States at a time when our government is restricting immigration, imposing tariffs, there's a lot of uncertainty about policy, and the government is generally trying to withdraw from the world economy. So Nick, what lessons would you draw from your research on Brexit for the United States at this moment in time?

Nicholas Bloom
Well, there is a famous saying, which is, history doesn't repeat, but it rhymes. And this feels very much like this. So for the US situation, this is incredibly similar. So if Trump increasingly pulls us out of world trade with tariffs and with quotas, then what you're going to see is less trade in total, which will slow growth. You'll see more uncertainty that's already upon us. I mean, when you talk to businesses, they don't know what's going on. There's, you know, trade is on, it's off, it's off again, it's on, you know. So secondly, and then finally, it is also an enormous waste of time. I talk to a lot of execs off the record. They're spending more time focusing on politics now than before, because they don't know what's happening. And that's time taken away from

business. So there's that old saying, the business of business is business. And it's just best to let firms get on with that and try and separate them off from politics. And so, yes, I think Brexit, the prediction would be if, as the US goes into these anti-trade policies, in particular, to some extent, anti-immigration, it may not have a devastating impact in year one, but by year five, year six, year seven, it's going to be pretty damaging. It's this kind of, you know, death by a thousand cuts.

Michael Klein
What would you say to somebody who tried to counter your argument by saying, well, you know, Britain's a medium-sized country, and the United States is a really big country, so we don't need the world the way Britain did?

Nicholas Bloom
That is correct. So yes, they're absolutely right. So you might say, look, if the US did a Brexit, rather than six to eight percent of GDP, maybe the US is only going to lose two to three percent of GDP. But that's still an enormous number. I mean, if you were to take, you know, the US goes to a very anti-trade move, which it's headed in, if you lose two, three percent of growth over the next ten years, that's still a third of a percent a year. That's billions, hundreds of billions of dollars lost. One thing I note in the UK, one of the most frustrating things, is the campaign was motivated on, I can take all this money and spend it on the NHS. Both my sisters, my dad, worked in the NHS. If you look at the amount of money the NHS gets, the National Health Service in the UK, it's about 11 percent of GDP. Given we've lost six to eight percent of GDP, you could have, you know, had an amazing NHS if we hadn't left. So similarly, in the US, you could spend all that extra money on defense, or you could have fixed Social Security. So this is still large amounts. It's just not as big as it would be for Britain, which was more open.

Michael Klein
You know, when people say, well, two percent, that's not that big, I remind them that growth in a very good year is three percent. So you have to have a context for thinking about these kinds of things.

Nicholas Bloom
Yeah. I mean, it would be like a hundred billion here, a hundred billion there. You know, it starts to add up, and soon you're talking about serious money. I mean, these are the magnitudes. I agree. It's a hundred billion. It's not a trillion, but a few hundred billion a year. That's enormous amounts of money. It's huge.

Michael Klein
And as you say, if you think about some of our problems, that could solve a lot of them already.

Nicholas Bloom

Completely. So I mean, the huge issue that people kind of aren't focusing on, but Social Security in the US is about to run out of money. If you push two, three percent of GDP into that, you'd fix the problem. So it would help us all get a pension when we retire. And without higher growth and more taxes, we're not going to get it.

Michael Klein

Well, Nick, there are a lot of lessons from this. It's really interesting in and of itself, about Brexit. But of course, there are lessons for other countries as well, as we see more fragmentation in the world economy. So thank you very much for joining me today. I always really enjoy speaking with you.

Nicholas Bloom

Thanks very much. And as Michael Gove, you know, unfortunately didn't say, they should have listened to the experts, because they turned out to be reasonably right.

Michael Klein

Well, at EconoFact, we always like people listening to the experts, and you're certainly one of them. And it was great to have you on today.

Michael Klein

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