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The Center for Pension, Insurance & Economic Psychology

WORKING NOTE

Brexit as a Forecasting Laboratory:

Why Economists Got It Right, Politicians Got It Wrong, and the Immigration Reversal Was Hiding in Plain Sight

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Abstract

Brexit offers a rare natural experiment for evaluating the accuracy of socioeconomic forecasts across three distinct domains: macroeconomic impact, political negotiation dynamics, and immigration flows. The record is uneven in a theoretically revealing way. Mainstream economists were broadly right on GDP costs (–6–8% by 2025), though they underestimated the long-run magnitude. Political actors made predictions that were not merely wrong but structurally impossible given the incentive architecture of EU institutions. The immigration reversal — fewer Europeans, far more non-Europeans, net immigration up — was derivable from first principles yet politically suppressed. The divergence across these three domains is not random: it maps onto the degree to which forecasters were insulated from the incentive to produce a desired answer.

This note is addressed to colleagues in forecasting and judgment under uncertainty. Its purpose is diagnostic, not political.

1. The Brexit Referendum: A Brief Framing

On 23 June 2016, the United Kingdom voted 52–48% to leave the European Union. The campaign was conducted in a climate of competing and often quantified predictions. This is unusual: political campaigns rarely generate such a rich, dateable set of explicit forecasts, verifiable against outcomes over a defined time horizon. A decade on, enough data exists to assess the record.

Three forecasting domains stand out for their richness and their divergence in outcome quality:

- Macroeconomic costs of leaving the Single Market and Customs Union
- The difficulty and duration of trade negotiations
- The direction and composition of immigration flows



2. Macroeconomic Forecasts: A Qualified Success

2.1 What was predicted

The pre-referendum consensus among economists was pessimistic. HM Treasury (2016), the IMF (2016), and a large academic literature converged on a long-run GDP loss in the range of 4–10%, with most central estimates around 4–6%. Remainer politicians amplified the most alarming figures; Leave politicians dismissed the entire exercise as "Project Fear."

Remain economists predicted

- ~4–10% long-run GDP loss
- Significant investment decline
- Labour market disruption
- Productivity drag from trade friction
- Short-run uncertainty shock

Leave politicians claimed

- Economy will thrive with new FTAs
- £350M/week freed for NHS
- "Easiest deal in history" with EU
- "Project Fear" — forecasters biased
- Sunlit uplands, Global Britain

2.2 What happened

The authoritative post hoc estimate, from Bloom et al. (NBER Working Paper 34459, 2025), combines macroeconomic simulations with microeconomic panel data from the UK's Decision Maker Panel — a survey of thousands of British firms. The results:

Key findings: Bloom et al. (2025)

- GDP per capita: -6 to -8% relative to counterfactual by 2025 Q1
- Investment: -12 to -18%
- Employment: -3 to -4%
- Productivity: -3 to -4%

Effects accumulated gradually — largely invisible in 2017–18, fully apparent by 2023–25
Confirmed by a separate Bank of England model (Millard et al., 2025): -7.5% GDP under TCA vs. Remain

2.3 The forecasting verdict

The pre-referendum consensus was right on direction and right on order of magnitude at the five-year horizon. Where it erred was on timing and, ultimately, long-run magnitude: the consensus predicted ~4% loss; the actual figure is tracking 6–8% — an underestimate, not an overestimate, of costs. The oft-repeated charge that economists overstated Brexit costs is empirically false.

The mechanism is also well understood. Four channels have been identified: **(1)** persistent uncertainty depressing investment; **(2)** reduced expected demand; **(3)** management time diverted to Brexit



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preparation; (4) misallocation between firms, with internationally exposed, high-productivity firms hit hardest.

This last point deserves attention: the firms most harmed were the UK's most productive ones. Brexit did not harm equally — it imposed a structural tax on economic openness.

3. The Negotiation Predictions: A Structural Failure

3.1 What was claimed

The Leave campaign's most memorable predictions concerned the ease of the post-Brexit process:

- "The deal will be one of the easiest in human history." — Liam Fox, Trade Secretary, 2017
- "I didn't anticipate that getting a free trade deal with the EU would be this difficult." — Boris Johnson, 2018 (implicit retraction)
- David Davis committed to concluding a full trade and customs agreement before March 2019. The TCA was finally signed in December 2020.
- The Vote Leave campaign promised continued "free trade and access to the Single Market" — which the EU's own rules make impossible without accepting the four freedoms.

3.2 Why this was not a forecasting failure — it was a logic failure

The prediction that negotiations would be easy was not based on a model of negotiation dynamics — it was generated by the rhetorical needs of a campaign. But even granting it forecasting status, it rested on a fundamental error: confusing bilateral economic interest with bilateral bargaining incentives.

The error was structural. The EU faced a classic commitment problem: if it offered the UK a favourable deal, it would signal to other member states (particularly those with Eurosceptic movements) that exit was low-cost. The EU had an overriding institutional interest in making Brexit visibly costly — not from vindictiveness, but from self-preservation logic. This incentive was publicly documented, widely understood in academic international relations, and entirely ignored by Leave campaigners.



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The structural argument any IR economist could have made in 2016

The EU is a club with self-enforcing membership norms.

Club theory predicts that defection must be penalised to sustain cooperation among remaining members. An EU offer of Single Market access without obligations would create an incentive for other members to exit.

Therefore, regardless of economic goodwill, the EU was institutionally constrained to impose costs.

The only variable was how high those costs would be, not whether they would exist.

Prediction: negotiations would be long, contentious, and produce an agreement inferior to membership.

Result: TCA signed after 4.5 years, widely assessed as delivering substantially less access than membership.

The Leave politicians who made these predictions were either unaware of this logic or chose to suppress it. In either case, this was not a case where forecasting is genuinely difficult — it was a case where incentives to forecast incorrectly overwhelmed the capacity to forecast correctly.

4. The Immigration Reversal: Predictable, Suppressed

4.1 The promise

"Control of our borders" was the single most emotionally resonant Leave argument. It was understood by voters as: fewer immigrants, particularly from Eastern Europe. Proponents also argued that reduced labour supply would raise wages for British workers.

4.2 The counterfactual methodology

The most rigorous assessment (Centre for European Reform, March 2026) constructs a synthetic counterfactual UK — a weighted average of comparable economies that did not experience Brexit — and compares actual UK immigration outcomes against what the counterfactual "UK Remain" would have produced.

CER findings vs. counterfactual Remain (to 2024)

EU-origin workers: -785,000 (the counterfactual predicts +30% growth in EU workers; actual UK roughly flat)

Non-EU-origin workers: +992,000 (UK reached ~225% of counterfactual levels)

Net effect: +207,000 net foreign workers (+0.6% of workforce)

Wages: no measurable uplift from labour scarcity — inflation, weak productivity, and AI automation dominated



4.3 The mechanism — and why it was foreseeable

The reversal follows from a logic that was available in 2016 to anyone willing to apply it:

- Free movement did not operate in a vacuum. EU workers filled labour needs in care, agriculture, logistics, hospitality, and construction. The need — determined by demography, consumption patterns, and economic structure — did not disappear with the vote.
- The pre-Brexit immigration regime applied a points-based system to non-EU nationals. EU nationals were exempt. Removing that exemption did not reduce the total demand for foreign labour; it redirected it.
- The points-based system, now applied universally, opened recruitment to a vastly larger global pool. Employers facing acute shortages responded rationally by recruiting from India, Nigeria, the Philippines, Pakistan.
- The result was substitution, not reduction: less European immigration, substantially more non-European immigration, a fractionally positive net total.

Several labour economists made exactly this argument before the referendum. It was not a subtle prediction requiring heroic assumptions — it was a straightforward application of labour demand theory. Its suppression in the Leave campaign was politically necessary: "we'll swap Polish plumbers for Indian nurses" was not a winning slogan.

4.4 The political paradox

The immigration that Brexit was designed to reduce — visibly Eastern European, associated with cultural change in specific towns — declined sharply. The immigration that replaced it — from South Asia and West Africa — was precisely the immigration that had generated the most political anxiety in British polling for decades. Brexit achieved the opposite of its stated immigration objective in the dimension that most concerned its core constituency.

A further irony: a Remain outcome would have generated more EU immigration and less non-EU immigration — which is to say, the composition of immigration that historically provoked less political backlash in UK survey data.



5. A Cross-Domain Summary

Domain	Pre-Brexit Claim	Outcome (to 2025)	Verdict
Macroeconomic costs (GDP, investment, productivity)	-4% GDP long-run (mainstream)	-6-8% GDP by 2025; investment -12-18%	Direction correct; magnitude underestimated over a decade
Ease of EU trade negotiations	"One of the easiest deals in history" (Fox)	Multi-year negotiations; TCA took 4.5 years	Catastrophically wrong — structural incentive ignored
NHS windfall (£350M/week)	Explicit campaign claim	Abandoned within days of the vote	Pure electoral fiction
Immigration: total volume	Reduction promised	Net foreign workers slightly up (+207,000)	Wrong — demand for labour unchanged
Immigration: composition	Less discussed	EU workers -785K; non-EU workers +992K	Predictable from labour economics; ignored politically
Wages uplift	Higher wages from labour scarcity	No measurable effect; inflation eroded real wages	Wrong — ignored productivity as primary wage driver
New trade deals compensating EU loss	Sunlit uplands; global Britain	FTA gains \approx 0.47% GDP vs. Brexit cost \approx 4% GDP	Directionally possible; quantitatively negligible
Union cohesion (Scotland)	"Union will be stronger" (Johnson)	Scottish independence movement galvanised	Opposite of prediction

6. Implications for Forecasters

The three-domain analysis of Brexit yields a set of propositions that generalize beyond this case:

6.1 The structural conditions of good forecasting

Economists outperformed politicians not because they are smarter, but because their institutional setting rewarded accuracy over advocacy. They used models with defined inputs and outputs, operated under reputational incentives tied to correctness, and were not in the position of having made a prior political commitment to a particular result.

Politicians' "predictions" about negotiation ease were not forecasts in any meaningful sense. They were advocacy statements dressed as predictions. The distinction matters: a forecast is a belief about the world held subject to revision by evidence; an advocacy statement is a desired world dressed as a forecast. Conflating them — as public discourse routinely does — is an error with consequences.



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6.2 Incentive-structured blindness

The immigration case is the most instructive for forecasters. The correct prediction was derivable, was derived by some analysts, and was systematically absent from public debate. This is not because it was hard to see — it is because it was politically costly to say. The asymmetry between what can be predicted and what can be said is a persistent feature of politically consequential forecasting domains.

Forecasters operating in such domains should ask: not only "what do the models say?" but "what incentive structures determine which predictions enter the discourse?"

6.3 The counterfactual is not optional

The immigration reversal is invisible without a counterfactual. Observing that non-EU immigration rose post-2021 without asking what it would have been in a parallel Remain universe produces a misleading picture. The same applies to trade figures cited by Brexit supporters: nominal growth in UK-EU exports says nothing about whether those figures are above or below what they would have been. All causal claims about policy interventions require counterfactual discipline. This is not a technicality — it is the minimum condition for drawing any valid inference.

6.4 The asymmetry of timing errors

Economists were right directionally and approximately correct on magnitude, but wrong on timing: they predicted losses would materialise faster than they did. This produced a temporary appearance of vindication for Leave — "the economists were wrong, the economy is fine" — which was eventually reversed as the slow-burn effects accumulated. In long-lag domains (trade integration, productivity, investment decisions), forecasters should explicitly model the delay between cause and measurable effect, and communicate that delay clearly to avoid premature verdicts.

7. Conclusion

Brexit is, among other things, a large-scale controlled experiment in the quality of different types of socioeconomic prediction. The record is not uniformly bad. Where forecasters had disciplined models, reputational incentives tied to accuracy, and insulation from the advocacy motive, they performed well — arguably better than in most macroeconomic forecasting exercises. Where prediction was generated by the political process itself, it was structurally incapable of accuracy: it was not trying to be accurate.

The immigration case occupies an intermediate position that is perhaps the most generalisable: the correct prediction existed, was derivable, was articulated by some analysts, and was excluded from the dominant discourse by political incentive. The lesson for forecasters is less about technical methodology than about the sociology of whose predictions enter the record and under what conditions.



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The broader implication: the quality of public forecasting in politically charged domains is not primarily constrained by the limits of analytical capacity. It is constrained by the incentive structures that determine who forecasts, for whom, and at what professional cost.

Principal sources

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