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The things economists know. . . and don’t know about Brexit

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Although economists had been working on the Treasury document for a long time, that doesn’t mean that what they have produced is of serious value, Bootle says.

Last week we were treated to a fine exhibition of the economist’s art. I refer to the Treasury study of the economic impact of Brexit, which told us that in 15 years’ time, on a central view, the average British household would be worse off by £4,300 a year. This episode has prompted me to think about what it is that economists know – and what they don’t.

It is clear that economists’ prognostications have, at best, a mixed record. Not only can economists not reliably tell you what GDP is going to be in two or three years’ time but, as a group, they seem pretty bad at anticipating major developments.

Although some economists did foresee the financial crisis, as a whole they did not. Nor did most foresee the emergence of a zero inflation/deflation world.

Let me say, though, that of its type, last week's Treasury document was a fine specimen. A large team of economists has been working on it for the best part of a year, and these are good, professional people who have not simply been doing what they were told by their political bosses. Nevertheless, that doesn't mean that what they have produced is of serious value.

The problem with much of economics is that what we can readily measure, even when it is tendentious, is often the minor part of the question. Yet there is a natural tendency to measure what is measurable and to leave to one side, or to downplay, the things that are not.

The Treasury study concentrated on the effects of a Brexit on UK trade and the consequences for GDP and investment on a static "other things equal" basis. It assumed that we would be unable to secure any more favourable trade agreements with non-EU countries.

Interestingly, it did not begin to quantify the possible economic gains from a policy of radical deregulation. The reason is apparently that it is not clear that we would repeal and rescind EU legislation and directives and, in any case, the UK is a relatively lightly-regulated economy. The implication is that there is next to nothing to be gained from deregulation.

This is, to put it mildly, a rather odd stance to take – certainly if you were trying to be fair across all sides of the debate. After all, those economists who think that there is much to be gained economically from leaving the EU tend to rest their case mainly on large potential gains from EU deregulation.

Moreover, umpteen businesses across the country bemoan the costs of regulation on their operations. It is not that their case has been disproved by last week's study; it has simply been ignored.

The study, in accordance with convention, took a static approach to how the EU might evolve. True, this excluded some of the potential benefits of remaining in the EU from the extension of the single market. But it also excluded some of the most important negative possibilities.

Once the UK referendum is out of the way, if we vote to stay in, it is likely that the EU will turn quite nasty towards us. This will not only be because the EU's leaders will be cheesed off with us, although they most certainly will be.

More importantly, they will think that we have shot our bolt. In particular, we would probably find that, far from rejoicing in the City's role as Europe's financial centre, the EU would renew its attempts to undermine it.

Meanwhile, the EU would have to embark on truly momentous changes in order to make the eurozone work. Banking union, fiscal union and political union must be put in place for the euro to survive.

We don't know what effects this cocktail of changes will have upon European politics and economic performance – and hence on us.

"'We know that inside the EU we do not have full control of our destiny.'"

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The overwhelming majority of the EU will be inside the euro, and what needs to be done to make the euro work would be the EU's leading concern.

We do not know what things will be forced upon us by qualified majority voting. Moreover, with the referendum behind us, there is a good chance of a renewed push to get the UK into the euro. What have the calculations that produce the figure £4,300 a year got to say about this? The answer, of course, is precisely nothing.

And all this is before we take account of the dynamic effects and their political consequences. Perhaps after a Brexit our leaders would become enmeshed in rivalrous infighting and it would be impossible to put together an economic programme for national renewal.

But there is surely a good chance, as Michael Gove suggested last week, that by contrast EU departure would be the equivalent of a shot in the arm.

Nor did the study have anything to say about the congestion and social costs implied by uncontrolled immigration, which are at the heart of so many people's concerns about the EU.

Although the future is beset with uncertainty, about this issue we do know some things. We know that over recent decades the EU has been a comparative economic failure.

We know that unless something really radical happens, it is set to fall sharply in relative economic performance over the decades to come. We know that the EU is set to embark on a course of integration from which we aim to stand aside. We know that inside the EU we do not have full control of our destiny.

We know that inside the EU but outside the eurozone we will be marginalised.

I cannot say what all this means in terms of pounds per annum for the UK average household in 15 years' time. But I can recognise the difference between a situation of opportunity and a pig in a poke.

Roger Bootle is executive chairman of Capital Economics. The third edition of his book, The Trouble with Europe, has just been published by Nicholas Brealey.

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