

# The Telegraph

## Why economists are hopeless when it comes to Brexit



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Almost all economists believed that Armageddon was likely after the Leave vote

I love economists, I really do. I adored economics at school, spent five years studying the subject at university and have written about the economy, among other topics, for my entire professional career. I like hanging out with dismal scientists.

But it's time for economists to take a chill pill. They need to relearn a little humility, especially when it comes to trying to understand the impact of a gargantuan event such as [Brexit](#).

Grasping its implications is not in their or anybody else's comfort zone, and they would be better off admitting as much sooner rather than later.



The full implications of Britain leaving the EU are still unknown

Every so often, when they are not too busy being self-important, economists realise the absurdity of what the public expects of them.

There are whole websites devoted to jokes about economists, with various anonymous authors gently poking fun at themselves. One soon gets the hang of the art form: “It’s tough to make predictions, especially about the future” – that sort of thing.

It is a shame, therefore, that economists, as a group, seem unable to display such self-awareness when it comes to their extreme, [near-unanimous forecasts about Brexit](#).

As recently as a few days ago, something like 90 per cent believed that Armageddon was on the cards merely as a result of the Leave vote. Yet whenever dismal scientists agree so passionately about the impact of a complex, one-off and multi-faceted event, alarm bells deserve to go off.

Anybody who has followed economic forecasts closely over the past 15 years knows full well [how wrong the consensus almost invariably turns out to be](#) – not surprisingly, as it is a case of predicting the unpredictable.

The average economist always gets turning points in the business cycle wrong, is too optimistic at the height of a boom and too pessimistic at the trough of a recession.

Their predictions about unemployment, wage growth, productivity, central bank and market interest rates and inflation have all been drastically off the mark in recent years. This is as true of City forecasters as it has been of the bank of England and official bodies.

Most damaging of all was all the nonsense about [double or triple-dip recession a few years ago, a pathology compounded by data](#) that keeps being revised.

If that weren’t the case, and if working as an economist conferred upon practitioners some near-magical, proto-astrological insight, business, investing and life in general would be

too easy. It's time the profession stopped pretending that it is dealing with a simple, mechanistic world.

It is far too soon to tell what the short-term impact of Brexit will be – after all, expectations and animal spirits are inherently intangible and arbitrary. There may still be a sharp downturn. But so far, all the official data has utterly confounded the consensus view among economists.

For consumers at least, nothing has changed. The next batch of data, which will come from companies, could easily be bad – but so far the economy is holding up well.

Retail sales surged by 1.5pc in July, (economist had expected a rise of 0.3pc) and grew by a remarkable 5.4pc on the year. The number of unemployment benefits claimants fell by 8,600 in July; even though jobs vacancies remain on a downwards trend, they certainly don't imply a recession. Even before QE, there remained a massive appetite for UK government bonds even at insanely low interest rates.

The pound is down (though off its lows) but that is, on balance, a good thing given our nasty pre-Brexit current account deficit. Sure, inflation has been creeping up (to 0.6pc, from 0.5pc) but a rise in the price of imported goods caused by the weak pound will eventually help rebalance the economy.

So why have economists been so surprised in recent days? Ideology – in the sense of a dislike of Brexit, and a particular interpretation of what it will end up meaning – is probably clouding their judgement. I say that as an ideologue on this matter myself, of course, albeit one who backs Brexit.

The difference is that I readily accept that there will be short-term costs to Brexit – first caused by uncertainty, and then by any measures that reduce economic integration with the EU – though I believe that the long-term benefits will be greater.

My view is that with the right free-market policies, our departure from the EU will eventually be remembered as a great triumph on every front, including economic.

Smaller political units are better managed than larger ones; and competition between these smaller units tends to make countries pursue more fiscally conservative and sensible, pro-growth policies. We'll eventually find out who's right.

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