

## Government must start talking up the UK economy



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Government cannot give up governing just because it is tearing itself apart after the referendum CREDIT: RICHARD ISAAC/REX/SHUTTERSTOCK

What is wrong with the government? The fact that it has been destroyed by the referendum doesn't mean that it should no longer govern. It has a duty to keep the show on the road, and that includes demonstrating that Britain remains open for business. It needs to reassure, not simply shrug.

The campaign is over. The government may not like the way the vote went, but its duty is to urgently reprogramme itself and to make the most of the situation. Project Fear should not turn into a self-fulfilling Project I told You So. Sadly, it has, at times, felt as if the Prime Minister no longer really cares, and is refusing to take simple steps to stabilise the situation. All political careers end in failure, but sulking is never right.



David Cameron's resignation gives a sense that he no longer cares CREDIT: HEATHCLIFF O'MALLEY

The Chancellor has been little better, but at least he has unveiled a proposal to slash corporation tax to 15pc, a move which may well be enough to (for profitable firms) cancel out any freshly-imposed tariffs, were we ever to get to that. We need far more of this kind of thinking to cancel out the broken animal spirits in the City, and to paint a picture of a pro-growth economy.

The most outrageous, unacceptable and economically damaging failure of the past 12 days is the way EU residents who reside and work in Britain have been left in the lurch. The Leave campaign explicitly stated that all such people would be allowed to live here when we leave the EU; the only people making an issue and claiming that this wouldn't be true were certain elements of the Remain side. The issue was put to rest when Leave firmly pointed out that this wasn't its policy, and it cited - convincingly, in my view, the fact that international agreements such as the Vienna Convention on the Law of Treaties mean that acquired rights (to reside, in this case) don't suddenly vanish if the underlying treaty is repealed. Under the Charter of Fundamental Rights, which would still bind the rest of the EU post-Brexit, "collective expulsions are prohibited".



The Leave campaign stated that EU residents already in the UK would be able to stay CREDIT: AFP

So what is going on? Is the government still trying to ensure that its original scaremongering now comes true? It's a great shame that Theresa May has, so far at least, fallen into the same trap and refused to state explicitly that people who already live and work here (and their dependents) will be allowed to stay permanently. There will be plenty of other chips to bargain with.

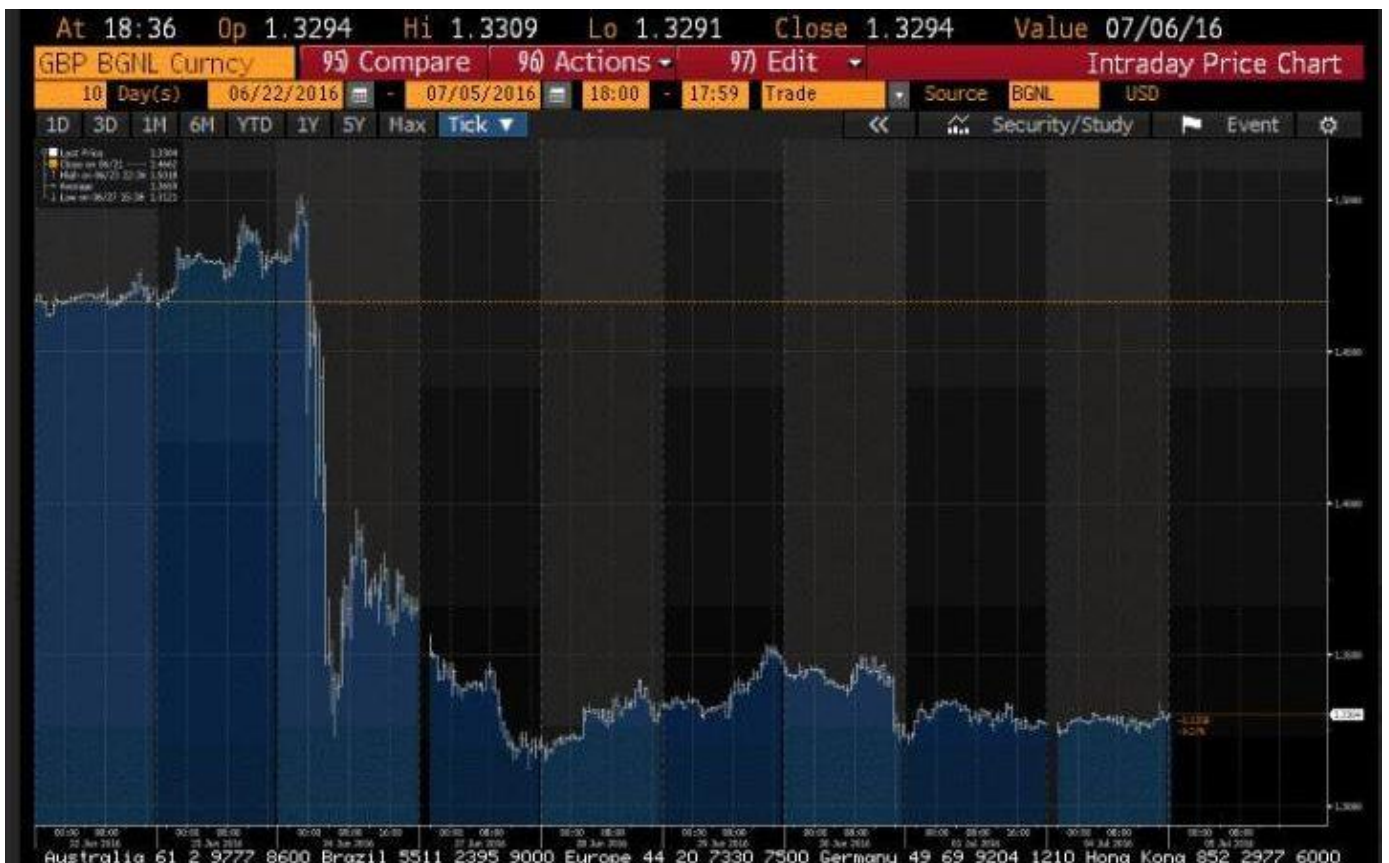
The government's equivocation is not just inhumane and legally wrong, it is also economically stupid. It will terrify employers. It will worry employees. It will hit corporate investment and consumer spending and the housing market. This is the kind of avoidable nonsense thth in the third quarter.



Theresa May has so far refused to state that EU residents may remain in the UK  
CREDIT: XINHUA / BARCROFT IMAGES

The business establishment is already shell-shocked and fearing the worst (while not quite knowing what this might be); and the last thing the government should be doing is fuelling its fears. It should instead be stressing how we can thrive, grow, trade and attract capital as an independent country outside of the EU, in exactly the same way that every other non-EU country in the world is able to do so.

Don't get me wrong: I also think that the Leavers messed up badly when they failed to lay out an alternative for Britain as soon as they had won. This allowed a vacuum to develop, panic to set in and Boris Johnson has now paid the ultimate price for this loss of nerve. But the ball is in the government's court, and it must do much more to reach out to business.



How the pound has fallen against the US dollar since the referendum

I'm not especially concerned for the moment with the value of sterling; its extremely sharp and sudden depreciation (especially against the dollar) has benefits as well as costs. It will boost competitiveness. It will also bolster the consumer price index (via more expensive imports) - but probably by no more than 3pc over two years, which is manageable and which will help rebalance the current account deficit. The very same people who were complaining that inflation was too low cannot now say that this will be a problem.

I'm not especially concerned about the FTSE 100 either (which is vital to the health of the economy because so much wealth is tied up in it) or the FTSE 250 (which is the market's assessment of the net present value of the more domestically focused UK Plc). Both indices are at acceptable levels, partly because of the translation impact of a lower sterling and partly thanks to the promise of a looser monetary and financial policy. Gilt yields are too low, but their post-Brexit drop represents a very small fraction of their overall decline of the past few years.



Britain's property market could take a hit as a result of Brexit CREDIT: PA WIRE

But I am concerned by the property market, which is where the first genuine stress is materialising. The construction PMI has fallen to 46.0 in June, down from 51.2. If output does fall sharply over the next few months, this would indeed be bad news (though of course residential property has been in trouble in London for months now, as a result of stamp duty, tax hikes and overvaluation).

Investors are even more panicky: as a result of their sell-offs, Standard Life is suspending dealing in its UK Real Estate fund. Investors won't be able to buy or sell units in the fund while it raises cash by selling off some of the portfolio. Commercial property is all about confidence: the market is tight at the moment, and rents high in prime locations, so panic implies that investors believe that vast swathes of the economy will collapse. There's zero evidence for this and in fact, with a proper vision, trade deals and domestic reforms, no reason to believe that the economy cannot outperform over the next decade.

The government needs to spend the next two months vigorously explaining why Britain still cares deeply about attracting investment and jobs. The current attitude - sitting on the sidelines, passing the buck to its successor -- is inflicting real damage to our economy.