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Remain’s models are built on poor foundations

- ROGER BOOTLE

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In this, my last column before D-Day, I want to discuss some key features of the case for Brexit that, in my view, have been misrepresented or ignored.

The Treasury, and some other bodies, have subjected the Brexit option to trial by macro-economic model. Various assumptions were fed into a series of equations which, on the basis of past experience drawn from a number of countries, are supposed to embody wisdom about how the key economic variables will respond. The model whirred and then spewed out forecasts for our post-Brexit future.

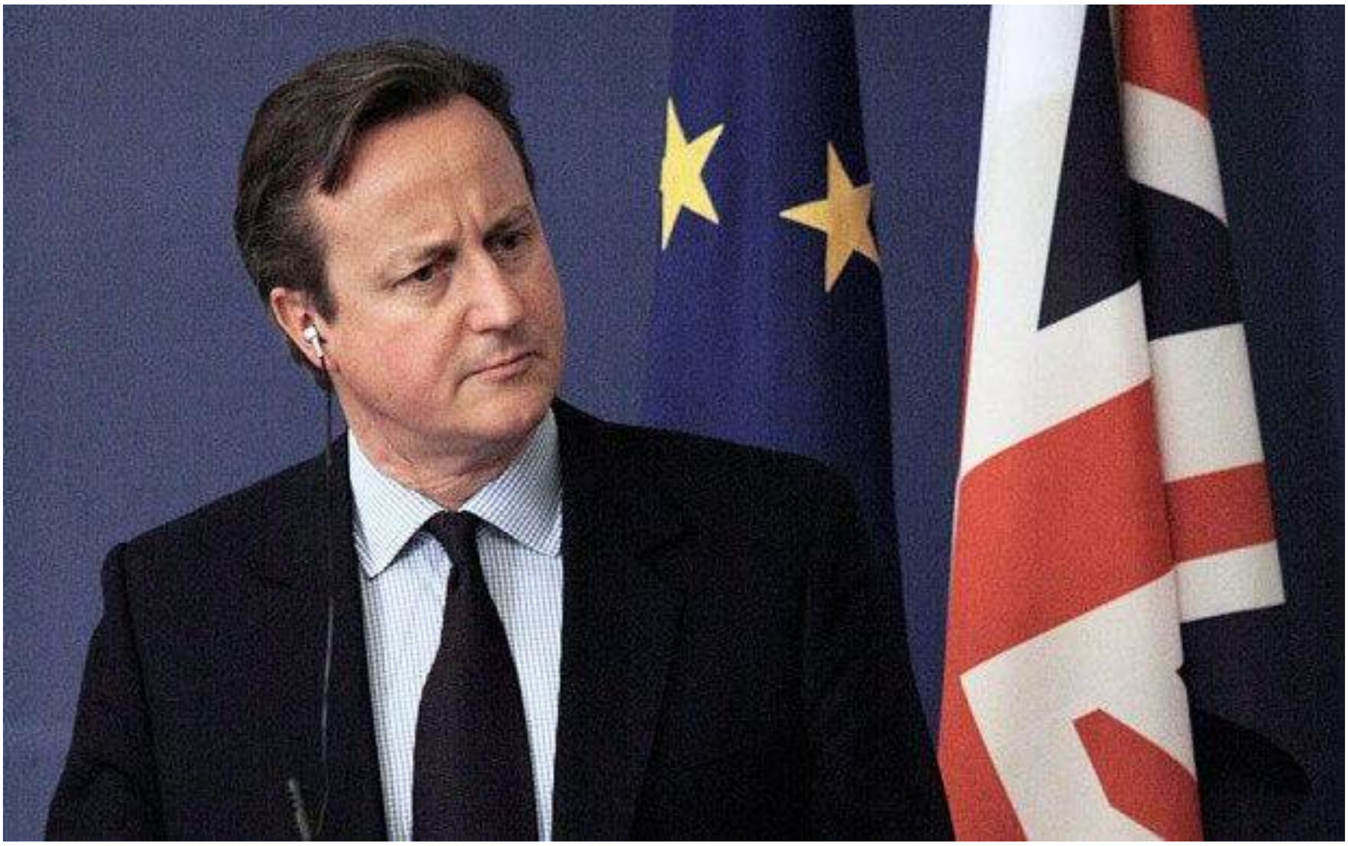
These methods are unsuitable for assessing the impact of such a seismic politico-economic event. Moreover, the assumptions that have been plugged into the models have typically been bizarre. For instance, the Treasury study assumed no regulatory changes.

The Treasury's models made some surprising assumptions

Equally, it assumed we would not be able to do any new trade deals with the EU or anyone else. Nevertheless, we would continue to impose the EU’s tariff on imports from the rest of the world. No wonder this exercise concluded Brexit would cause an economic loss from reduced trade.

This conclusion derives further loss from lower investment and even weaker productivity growth. But if trade does not fall, there is no reason for these effects to occur.

To these trade-related effects is added the impact of uncertainty, which will supposedly persuade people and companies to defer spending. Yet if there is a loss of confidence after Brexit, the responsibility for this will rest with the Prime Minister and Chancellor for spreading pessimism about our prospects outside the EU.



David Cameron will have to take responsibility for spreading pessimism about the impact of Brexit CREDIT: VALENTINA PETROVA

In fact, a loss of confidence could be addressed by an appropriate policy response. Admittedly, the Chancellor has warned that interest rates would have to go up. But the City is assuming that the Bank of England would reduce interest rates. I know who I would rather believe.

Meanwhile, a Brexit-inspired fall of the pound is being portrayed as a disaster, just as it was before our ejection from the ERM in 1992. In fact, just as happened then, this is exactly what the economy needs.

Forget the Government’s attempts to scare you – focus on five key issues. First, over the past two decades, the EU’s average growth rate has been low by comparison with almost all other developed countries. The most important reason is the introduction of the euro, which has devastated the economies of southern Europe. But even Germany has not grown strongly and France is weaker. The euro was not an accident. It was introduced as part of “the European project”. Heaven knows what further delights Team Europe has in store.

Second, you do not need a trade deal in order to trade. Britain does not have a trade deal, for instance, with the US. Nor do you need to be an EU member to trade with “the single market”.

The US, China, India, and countless other countries export successfully into the EU without belonging to it. Indeed, their exports to it have risen faster than ours. So much for the much-vaunted sitting at the table when regulations and standards are debated and established. These countries don't have a seat at the table nor a single MEP or EU commissioner, but this doesn't hinder their exports.

The City might see some financial companies leave because of Brexit, but the majority would remain CREDIT: REUTERS/METROPOLITAN POLICE

Third, although the loss of "passporting rights" may cause some financial business to move from the City to European centres such as Paris or Frankfurt, most would remain. Moreover, this is just one part of a more complex whole. The City has already felt the icy touch of the EU's regulatory tentacles. There could be much worse to come. One of the greatest threats to the City's prosperity comes from the EU's potential imposition of a financial transactions tax. The City can thrive outside the EU.

Fourth, suppose the euro finally collapses, with new currencies having to be constructed and, for a time, financial and economic chaos reigning across Europe. We would be better able to withstand the blow if we were outside the EU.

Fifth, the EU's direction of travel is towards more integration and heavier regulation, which would bring added costs to business.

If the euro collapses, Britain having its own currency will bring advantages

Several of the points I make here against EU membership apply to what may happen in the future. Some on the Remain side see these as serious dangers but they deploy a beguiling counter-argument. If the EU does turn into the economic and political monster that many have been warning about, that is the time to leave, not now. We should stay, do our best to improve matters, and see how things turn out. We have an option, which we can choose to exercise later.

This is extraordinarily naive. It has taken more than 40 years since the last referendum on the EU for us to be given the chance to vote again. It might be another 40 years until the next one. By that point, unless you think the Prime Minister's "renegotiation" has protected us, surely it would be too late. Britain as we know it would have dissolved in some common European mush.

If this is not an attractive prospect, then do not let economic fears, or the self-interested bluster of big business, or the model-based prognostications of the gloom merchants deflect you. There is a strong economic argument for Brexit that sits alongside all the others. It is really quite simple. It is about taking control and running our own affairs, just like plenty of other thriving non-EU countries around the world.

The Remainers say the issue of our EU membership will affect the future of our children and grandchildren. They are right. It is just the conclusion that they have got wrong.

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