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We have our independence, now let the pound fall and boost exports

ROGER BOOTLE 

Now that the campaign is over, it is time for the consequences. What will they be? And how should economic policy respond?

Despite the warnings of disaster from the Remain campaign, at first, nothing very much is going to change. David Cameron has suggested that it will be three months before we invoke Article 50 of the Lisbon Treaty, which lays down a period of up to two years of negotiations between the departing country and the EU. But there is no reason why this period should necessarily be three months.

There is a strong argument for making it as long as possible, effectively doing pre-negotiations before the legal process starts. This would avoid the loss of bargaining power that would follow from being boxed into the Article 50 timetable. Meanwhile, Britain's trading relationships would continue unaffected.

In one sense, though, this tactic may not be helpful, because it would extend the period of uncertainty. And that uncertainty even includes the degree of eventual separation from the EU. For what the British people have said is that they want to leave the EU; they have not said what sort of arrangement they want to have with the EU once we have left.

The Norwegian option of membership of the European Economic Area (EEA) is still on the table. For those people who wanted to remain in the EU, this is undoubtedly the most attractive arrangement. It involves continued membership of the single market, but also a continued obligation to accept European migrants, continued contributions to the EU budget and continued acceptance of most EU laws and directives.

For this reason, most Leave supporters do not find this option attractive, except perhaps as a transition on the way to something else. But the British establishment may naturally gravitate towards this arrangement – unless consciously prevented from doing so.

So this is the most fundamental uncertainty that will need to be resolved over coming months – are we really going to leave the EU? Interestingly, some senior European leaders have even suggested that the EU should now consider some fundamental reforms and concessions to the UK that would persuade us to stay in a genuinely "reformed EU." If such a thing were to transpire, then perhaps there would need to be a second referendum.

In practice, I suspect that a major effort by our European partners to keep us in is unlikely, not least because that would give encouragement to eurosceptics in other countries to seek their own referendums.

Nevertheless, in view of this fundamental uncertainty, surely the direst forecasts of the Remain campaign about City exits by major banks and pull-outs by foreign manufacturing firms will prove wide of the mark. Doubtless, there will be some relocation of business and jobs. But for major moves, surely the big firms will wait to see what happens.

More generally, I have never accepted the notion that business and consumer confidence would suffer appallingly in the wake of an "out" vote, nor that we would somehow face an economic catastrophe. Some of the people who propounded this view – especially the Chancellor of the Exchequer – have to live with the consequences. I hope that George Osborne will now have the good sense to disown his former pronouncements and reassure people that the economy is not going to collapse.

George Osborne predicted economic chaos in the event of a Brexit

One major consequence of Brexit that could have a significant impact on the economy is what has happened to the pound. This has been widely portrayed as some sort of disaster. The truth is exactly the opposite. The lower pound will help to improve Britain's trade balance, and that will boost our GDP, thereby encouraging investment.

Given this, and given the current extremely low rate of inflation, the Bank of England should not make any attempt to protect the pound. Indeed, the greatest policy challenge it will face over the next year or two is how to keep the pound down to its new competitive level. It should be prepared to reduce interest rates and even to restart the QE programme, if necessary.

What's more, under no circumstances should the Chancellor embark on a renewed bout of fiscal tightening. Of course, if the economy performs just as well as before, or even better, helped by the low pound, then there is no reason for the public finances to deteriorate. But if the economy does slow markedly and the government deficit widens, the Chancellor should simply accept this.

There is a case for fiscal action – but of a very different sort. As well as a programme of deregulation, we now also need a plan for even lower corporate tax rates. Both of these will take time to be developed, but there is a lot to be gained by announcing soon the direction of travel.

How leaving the EU could affect travellersPlay!01:09

How policy evolves will surely depend on who becomes the next Prime Minister, and on the shape of their government. This will affect both the sort of settlement that Britain tries to reach with the EU and the thrust of UK domestic economic policy.

If Mr Osborne does not remain as Chancellor, the new holder of that office needs to re-examine some of his policies. If we are really facing a fiscal crisis as a result of Brexit, why are we continuing to ring-fence the foreign aid budget at 0.7pc of GDP? Why not suspend it until Britain's finances are appreciably stronger? The combination of this and the end of the UK's contributions to the EU budget would reduce both the fiscal deficit and the current account deficit by more than £20bn a year.

And some other bits of Osbornomics should come up for review, including the absurdly high national living wage, which threatens to cause extensive job losses.

No, these points were not part of the Brexit manifesto, but they would be welcome spin-offs from the main advantage secured by last week's vote – namely, the recovery of independence.

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