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The UK’s economic interests are not the same as those of self-interested business leaders

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The UK has voted to leave the European Union

It is now common for Remainers to say that it is unsurprising that there has been no adverse effect on the economy after the referendum because Brexit hasn’t happened yet. Only when we actually leave the European Union, they assert, will adverse effects appear.

To put it politely, this is somewhat disingenuous. During the referendum campaign, the Treasury, the Bank of England, the Chancellor, the IMF and Uncle Tom Cobleigh and all suggested that there would be an immediate adverse effect from a Brexit vote. You may recall that asset prices were supposed to plunge, interest rates to rise and an emergency budget was going to clobber you where it hurts.

If you believed that the long-term consequences of Brexit would be severely negative then an adverse short-term impact might indeed be expected. After all, economic actors, especially those in financial markets, are supposed to look forward. In the event, as we now know, there was only a very transitory dip in confidence and asset values - and apparently no dip in spending.

It is amusing to observe the repeated postponement of forecast pain. Before the referendum, it was alleged that uncertainty about the outcome would undermine confidence and spending. In the event, in Q2 of this year, the economy grew by 0.7%. After the vote, it was suggested that Q3 would be depressed.

In practice, apart from Friday's soft figures, there has recently been a string of economic data that have suggested that the economy has been robust, albeit that Q3's growth rate will probably be lower than Q2's. Now the suggestion is that Q4 could turn out to be weak. I suppose, if all else fails, there is always next year and the year after to fall back upon.

One of the factors that has wrong-footed the pessimists is the drop of the pound. Of course, many Remainers believe that the weak pound is itself a sign that the UK has made a disastrous decision to leave the EU. If only these people knew their economic history. The immediate reaction to the UK leaving the Gold Standard in 1931, and again to sterling's exit from the ERM in 1992, was similarly adverse, and even alarmist. Yet on both occasions the lower exchange rate helped to secure a period of good economic growth.

There are already signs from business surveys of a major pick-up in British exports. If this materialises, it will boost prospects for investment, thereby helping to offset any adverse effects on investment by businesses worried about leaving the EU.

Of course, there are losers from Brexit. In particular, the lower exchange rate will imply that inflation will rise faster than it was otherwise going to do. This increase threatens to squeeze real incomes, even to the point where they fall. Much depends, though, upon the speed with which firms put up their prices in reaction to higher import costs. In today's conditions of generally low inflation, the pass-through may not be easy. Accordingly, there is a good chance that the rate of inflation will continue to be outpaced by the increase of average earnings.

It is striking how the use of certain terms distorts underlying concepts and impairs understanding. The current debate is characterised by a supposedly sharp divide between "soft Brexit" and "hard Brexit". The defining difference is whether the UK remains part of the single market.

Whenever it is suggested that we might go for so-called "hard Brexit" it is widely assumed that our economic future will be worse. The underlying idea seems to be that the single market is economically good. Accordingly, if the UK rejects membership of it, this must be because, either we are mad, or we value certain non-economic – and political – objectives more highly than economic prosperity. Prime among these are the control of immigration and the restoration of sovereignty, including escape from the clutches of the European Court of Justice. Accordingly, much of big business, and especially the City, favours "soft Brexit", implicitly putting prosperity before politics.

Many in the City of London favour a 'soft' Brexit

But is it clear that membership of the single market is such a good thing? Most of the world – including the US, China, Canada and Singapore - does not belong to “the” single market nor, come to that, to any other single market. Yet they seem to be rubbing along all right. Meanwhile, the members of the single market are not doing so well.

Most of those economists who supported Brexit and wanted to leave the single market – including yours truly – did not make this choice because they believed that certain political gains outweighed economic losses. They believed that in the long run, if not also immediately, leaving the single market would deliver the best economic result.

This should not be surprising. Along with single market membership comes three significant negatives. Prime among them is the need to submit to all EU rules and regulations. Britain’s leading business organisations have been berating us for years about how cumbersome and costly these are. Why have they now apparently forgotten this?

Second, if we belong to the single market we are unable to manage our own trade relations with countries outside the Union. We have to impose the EU’s common external tariff and are forbidden from forging trade deals with them.

Third, we have to pay a membership fee, amounting to about 0.5pc of GDP per annum.

Those business people and institutions who are confident that belonging to the single market is such a good thing are, on the whole, the same as those who were confident that a vote to leave the EU would bring immediate economic pain. When will they learn that the single market is not all that it is cracked up to be? The UK’s economic interests are not the same as those of established businesses as perceived by their short-termist and self-interested leaders – and loudly proclaimed by their myopic and blinkered lobby groups.

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