A bump, yes — but then watch us surge ahead with new friends

GERARD LYONS

After a short hiccup, a bright economic future awaits an outward-looking UK, says Boris Johnson's former economic adviser

There have been two monumental years in British economic history over the past century: 1945 and 1979. To those we should now add 2016, but remember that while 1945 and 1979 eventually proved turning points, both were followed by painful years. Building sustained economic success takes time and strategic policy-making.

During the referendum campaign, seven colleagues and I formed Economists for Brexit to argue the economic case for leaving. The polls at that time showed "remain" leading by 22 points on the issues of both "the economy" and "jobs". By the end of the campaign, and once we had spent eight weeks touring the country and making countless appearances in newspapers and on television, the figures had narrowed to leads of just 6 and 1 point respectively.

I argued for Brexit but stressed that leaving would cause an economic and financial shock at first. The market reaction on Friday reflects this. We have been in the EU for 43 years, so unwinding this relationship is not straightforward, particularly given the legal complexity of parts of it.

The economic impact of leaving should end up looking like a tick, or the "Nike swoosh": after a period of uncertainty, the further ahead one projects, the better the economic outlook. Yet achieving this prospect will require the right policy actions. There are many aspects to this. Policy needs to aim for stability, to outline a road map for the future and a realistic strategic vision.

After all the warnings of Project Fear, it should be no surprise that markets have reacted the way they have. The pound and stock markets have fallen. Yet Britain is well prepared. The financial system is far more resilient than it was after the 2008 financial crisis, being well capitalised, liquid and strong.

Action will be required to stabilise financial markets, prevent contagion of the broader economy, sustain domestic demand and position us for the future. Markets often overreact, focusing on short-term factors. The Bank of England has made clear it will provide sufficient liquidity. Interest rates will stay low and could fall further. In a low-inflation environment, a weaker pound will be a welcome boost. The risk of inflation from a weaker pound should not be overstated.

> **YOUNG PEOPLE, DESPITE APPEARING DISAPPOINTED BY THE RESULT, SHOULD EMBRACE THE CHANGE ABOUT TO BE SEEN**

The ratings agencies have threatened to downgrade the UK. Let them. They were at the heart of the financial system during the crisis and they have not changed. This will be one "bad press" day and have little lasting impact. The UK is financially secure. Thanks to the Debt Management Office, the maturity of our debt is long term — on average UK government bonds (gilts) mature in about 12 years.

Over the past five years the average yield on 10-year gilts was about 2%. Now it is 1%. This has big benefits. It should allow the government to borrow at cheap rates to invest in infrastructure that will not only provide positive returns but will address issues highlighted during this referendum: namely the lack of public infrastructure to cope with a rising population. And it will help keep low the cost of capital for companies.

A vision must be communicated. It should contain a number of elements. One, aimed at international firms based here, investors overseas and our global partners, should be the idea of "global Britain". Too much of the referendum debate gave the wrong impression that the UK will be retreating from the world. The opposite needs to be made clear. This will require reaching out to the banks and firms based here, to listen to their concerns and reassure them.

The chancellor said in the last weeks of the campaign that there would be an early budget. If there is, it should be the opposite of the punishing deflationary plans he voiced a few weeks ago. Longer-term thinking is needed. The UK in a post-Brexit world needs to focus on innovation, investment and infrastructure. We should announce a massive homebuilding programme. Corporation tax and stamp duty on housing should be cut.

We then need to agree the terms of our exit from the EU by invoking article 50 once a new prime minister is in place. The two-year renegotiation period will give us time to put in place other necessary Brexit measures. One is a timetable to repatriate powers. In 2013-14 Whitehall produced detailed reports on the competences the UK has transferred to Brussels. These provide a basis from which to work.

Another important area of policy will be how better to spend the financial contribution we currently make to Brussels. We need to identify areas that receive EU funding. This is our taxpayers' money and should not be withdrawn from recipients such as scientific research organisations, universities and farmers.

As for the City, leaving the EU creates initial challenges. Even so, I am optimistic, because London is much more competitive than any other financial centre in Europe, with its concentration of knowledge and expertise.

More broadly, while the EU will not want to reward us for leaving, it faces a dilemma. As we are its biggest single export market, it should negotiate sensibly and agree a deal on goods and new guidelines on the movement of people.

We need to do what is in our own best interests, and force the issue. We can make plans to leave the customs union as soon as we can. This could involve cutting the price tariffs that the EU imposes on our imports. Food prices would fall. We would still be able to sell into the single market without a trade deal, as others do. But the likelihood is that we would do a deal.

We have a great opportunity to make trade deals that boost exports, but first we need to rebuild the necessary skill set. Outside the EU, we have to replicate existing deals, learn from countries such as South Korea and Singapore and make trade deals that play to our strengths, particularly with the fast-growing regions of the world.

The referendum highlighted the need for a sensible migration policy. Migration is good for an economy, but not unlimited migration. Its current scale highlights the inability to limit the numbers from the EU. We now try to control this by discriminating against those from outside the EU. An Australian-style points system was mentioned many times, but we need a specific UK system.

I think the prime minister was right to say that the economic fundamentals are strong. Yet just as our success was not due to our membership of the EU, likewise the UK cannot blame all its economic problems on the EU. We have a large current account deficit, we have not built enough houses for 40 years, we borrow too much and we have not invested enough. These problems still need to be addressed.

We are not ignoring Europe; we are breaking free of failing European institutions. Moreover, we have to compete more with the innovative United States, China and India. Young people appear disappointed by this result, but they should embrace the change that is about to be seen. They have the skills to succeed globally. I agree with the apparent desire of young people to break down borders — that is what we can do in economic and trading terms.

Outside the EU we can position the UK to be outward-looking. The world economy is changing as never before. Globalisation, technological change and innovation mean economies knows fewer borders, and countries need to adapt, be flexible and control their own destiny.

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London is far more competitive than any other financial centre in Europe and will overcome any Brexit challenges