

The Telegraph

As the Brexit war ends, free trade, not protectionism, must flourish

Ryan Bourne

February 1, 2020

For those of us who actively campaigned for Brexit, yesterday's overwhelming emotion is one of happy relief. Having been involved in Eurosceptic politics for over 10 years though, not least as a founding member of "Economists for Brexit", it's difficult not to be reflective at this historic juncture.

Three seemingly insignificant Brexit-related moments really stick with me. First is how it was as late as April 2006 before a post-Thatcher Tory backbencher felt confident enough to declare they favoured EU exit, when Philip Davies launched the Freedom Association's "Better Off Out" campaign.

The second came at a Westminster book launch in 2011, when a prominent Conservative minister shut down a conversation with me by declaring "nobody out there in the public cares about the bloody EU".

Finally, in October 2015, former Conservative MP Douglas Carswell and I defeated Remain campaigner Lucy Thomas and former Labour MP Phil Wilson in a Braintree Brexit debate, turning the pre-debate 60pc to 40pc Remain majority into a 62pc to 38pc majority for Leave. Interestingly, we did so by arguing in favour of an open, economically liberal UK. Immigration went unmentioned.

These might seem like disparate, inconsequential recollections. But there are heartening retrospective lessons underpinning them. They show that politics can change rapidly, meaning you shouldn't give up on what you believe because of a current hostile environment; that conventional wisdom about what the public think can be woefully inadequate, not least because good political entrepreneurs can tap into latent voter desires; and that public opinion can be shifted by argument and debate.

The repatriation of control of economic policies – in trade, migration, regulation – increases the range of possibilities for an independent Britain. We Brexiteer economists have always argued

that the UK's success outside the EU will depend on how such powers are used, cognisant that these new degrees of freedom brought risks as well as opportunities.

Our institutional claim was that our flexible, adaptive, adversarial democracy, accountable to the public, would, over time, tend to produce better economic outcomes than a centralised technocracy in Brussels. But Brexit itself isn't about a bundle of policies, any more than political independence for other countries.

Yet conventional wisdom says Brexit means the UK being less open, more protectionist and anti-market. That leaving the EU will simply lead to more restrictions on immigration, barriers to trade, a return to industrial planning and bone-headed state aid.

Such a view is backed by some contemporary evidence. Bailing out Flybe, talk of actively incentivising the redistribution of economic activity by region, and recent claims the UK will raise tariffs as a "negotiating tool" for trade deals, hardly suggests Boris Johnson is readying us for Thatcherism 2.0.

In fact, psephologically, it is clear many of today's Conservatives readily embrace the judgment that their election victory owes to "Red Wall" voters who long for a Labour-lite economic interventionism.

But this is by no means an inevitable consequence of Brexit, now or in future. In fact, liberal Brexiteers have a duty to resist this slow-building tide, sticking to their guns for an open, free-trading, dynamic Britain, regardless of the flak they get for not supporting the team that delivered their constitutional goal.

Most urgently, they must remind the Government that the objective of trade policy should be free trade, not free trade agreements. As my Cato colleague Dan Ikenson has written: "The purpose of trade is to enable us to specialise; the purpose of specialisation is to enable us to produce more; the purpose of producing more is to enable us to consume more. More and better consumption is the purpose of trade."

Once one understands this, it becomes obvious that the lion's share of the gains from good trade policy come from removing your own import barriers regardless of what others do, making your industries more competitive (cheaper inputs), productive (by opening them to global competition), and providing consumers with cheaper goods.

So threatening tariffs to encourage other countries to negotiate trade deals amounts to self-inflicted economic harm, as president Trump has found out with his trade war with China. Free trade agreements can be important and beneficial in locking in mutual trade liberalisation, yes, but encouraging more of them by becoming more protectionist is totally backward.

Economic liberals should also sound the siren on Boris's preferred immigration proposal. Central planning fails, whether it is for industries or the labour market. Any "points-based immigration system" with salary thresholds, quotas, and more, will always result in shortages and surpluses of certain workers as the needs of businesses and the economy's structure changes.

Instead of this crude favouritism, the Government should look instead at a market-based immigration system for work, with a mechanism to distribute a greater share of the gains that migrants obtain from moving here to affected UK regions or workers.

More broadly, post-Brexit policy shouldn't be about protection or resisting change, but allowing people to flourish in an ever-changing world. It's vital the Government avoids using state aid to prop up uneconomic industries and resists "buy local" campaigns, subsidising high streets, and calls for successful companies with innovative new business models to be punished by tax and regulation.

To truly help those "left behind", we should instead be removing barriers to people moving to opportunities, giving local leaders the tools to make their regions more attractive for investment.

It is a sign of the times – a regrettable trend that pre-dated Brexit – that many of these principles seem alien again in our politics. Market economics today has few genuine champions. But, hey, until relatively recently, neither did the case for leaving the EU.

Ryan Bourne occupies the R. Evan Scharf Chair for the Public Understanding of Economics at Cato.