

# CITY A.M.

## **The ‘level playing field’ line is a poor excuse for protectionism**

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Occasionally a politician says something that personifies their worldview.

Last week, it was Irish Prime Minister Leo Varadkar, who expressed the old eurocrat canard that free trade requires “a fair and level playing field”.

Asked a Brexit-related question, Varadkar was quick to state that continued free trade across the Irish border required UK regulatory alignment on things such as the environment, food standards, and labour laws.

Such musings are terrible economics. The whole point of international trade is the ability to acquire products from other countries of differing quality at different prices, according to your own preferences.

Sure, it can be sensible for one country to have laws to ensure imported foodstuffs are not a threat to health. But what on earth has harmonising maximum working hours regulation or directives on collective redundancies got to do with “free” trade?

Does anyone seriously believe that Varadkar wants Britain to maintain EU labour standards to enhance trade, or because he is desperate to see British workers enjoy the same “rights” as their Irish cousins?

No. Just like every other “level playing field” disciple before him, he is advocating back-door protectionism, rather than truly breaking down barriers between willing buyers and sellers.

He and other EU leaders are petrified that post-Brexit Britain will deregulate its economy, particularly in areas such as finance and the labour market.

He wants to ensure that the UK maintains “high standards” because he believes that this will keep production costs higher in the UK than they otherwise could be, accomplishing the same result as imposing across-the-board tariffs on British goods.

True free trade does not require such harmonised laws. Where safety is concerned, mutual recognition agreements between states for trusted standards can be useful and trade-enhancing. But imposing your own regulations on the process by which goods are made should not be an international trade matter.

To see the damage it causes, suppose that the UK in future sought a free trade deal with a very poor, developing country. Such a country might have an absolute advantage in low-skilled manufacturing, given its low wage costs, but not have as strict environmental laws as here given its level of development.

If the UK were to impose its own environmental standards onto them as part of a trade deal, it would raise the cost of their products to our consumers, and leave consumers who continue to buy them less money left over to buy goods at home. It would simultaneously lead to a reduction in the overall quantity of foreign goods demanded, and reduce producer incomes to buy other goods there too.

By restricting the ability of buyers and sellers to freely exchange, producers and consumers in both countries would overall be worse off.

The UK, as a rich economy already, would no doubt choose to have high regulatory standards in most areas after Brexit. But that does not mean that there are no gains to be made from regulatory reform.

Brexit allows us to re-examine EU regulations on everything from carbon emission mandates, employment legislation, financial regulation, agriculture and fisheries, right through to the clinical trials directive.

In fact, control over regulation, through virtue of allowing changed policy at home and the ability to negotiate new services-based trade deals abroad, is arguably the most powerful economic tool that could be repatriated.

That is why the government’s agreement to “full alignment with those rules of the Internal Market and the Customs Union” in the event no solution is agreed for the Northern Irish border question is so concerning.

By making the fallback position one where the UK must remain part of, or strongly associated with, the Single Market and Customs Union, an EU that agrees with Varadkar has little incentive to agree to a more bespoke free trade deal.

They would much prefer the UK to be a supplicant “rule taker”, rather than using its regulatory and tariff-policy freedom to show other EU countries that leaving can enhance economic potential.

Theresa May’s fudge on this issue was dangerous because it undercut both the political and economic case for Brexit.

The political case has always been about “taking back control” and allowing a sovereign UK to shape laws regulations to its own needs. The economic case is about the ability create a more liberal, pro-growth economy than EU rules allow.

The existence of Varadkar’s worldview that regulation must be harmonised for trade to be truly free is one reason why the UK was right to vote to leave.

We must not miss the opportunity to escape this approach.

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