

NATIONAL REVIEW

Brexit: What Now?

Will Britain's lawmakers use their new freedom to ditch the sclerotic welfare state?

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The short-term shock and turmoil of Brexit will eventually pass. Markets will stabilize as investors realize that the scare campaign by the anti-Brexit establishment was vastly overblown. The Britain of today is largely the same as the Britain of a week ago.

The big question, though, remains unanswered: Will Britain seize on this opportunity to fundamentally remake its economic policies in a way that will increase economic growth? Or will it simply substitute British bureaucracy, taxes, and regulations for European ones?

Despite the vote to leave the EU, Britain will eventually negotiate a trade deal with the European bloc. After all, close to half of Britain's trade is with the EU, and the U.K. is one of the top trading partners for many member states. Whatever the bluster and hurt feelings, neither side is going to sacrifice those markets. Britain could, for instance, follow the lead of countries like Norway and Switzerland, and join the European Economic Area (EEA) while remaining outside the EU. This would allow Britain to continue to benefit from the free movement of people and goods within Europe, without subjecting itself to stifling EU bureaucracy and regulations in agriculture and other industries.

But Britain now has an opportunity to expand its trade opportunities. As Daniel Hannan, a British member of the European Parliament, has pointed out, the EU is not really a free-trade zone but rather a "customs union," which regulates tariffs for members but erects trade barriers against countries outside the bloc.

For example, India has been trying to negotiate a free-trade agreement with the EU since 2007, but the protectionist bureaucrats in Brussels have thrown up one roadblock after another. Britain can now steal a march on the rest of Europe by negotiating a separate deal with India.

There is also talk about a trade deal or deals with Anglosphere allies like the United States, Canada, Australia, and New Zealand. The Obama administration has, unfortunately, declared that Britain would have to go to the back of the "queue" – presumably behind the proposed

Trans-Atlantic Trade and Investment Partnership — in any trade negotiations, but there is no reason for the next administration to stick to that policy.

Beyond trade, Britain now has the chance to cast off the dead weight of European tax and regulatory policy and build a pro-growth economy. For instance, freed from the EU's VAT directive, Britain could significantly reduce its value-added tax. Indeed, no longer bound by the EU's belief in tax harmonization, Britain can become the low-tax capital of Europe.

Likewise Britain can dump many of the regulations currently imposed by Brussels. Those regulations include binding renewable-energy targets, working-time directives, collective redundancy directives, and regulations on alternative investments, among others. EU-imposed regulations are estimated to cost Britain at least 2 percent of GDP annually, and possibly as much as 6 percent.

Britain also has a new opportunity to look at spending and the overall size of government. It is worth noting that government spending as a percentage of GDP today is almost what it was when the EU was established in 1993 (roughly 42 to 43 percent). That leaves a lot of room for cutting.

In short, Britain has a unique opportunity to reform its sclerotic welfare state. The pro-Brexit side has already made so many promises that it could result in more spending. But there is reason to worry. For example, ending British contributions to the EU will save British taxpayers roughly £13 billion annually. But rather than use those savings to reduce taxes, anti-EU politicians have promised to pour that money back into the moribund National Health Service and other government programs. Indeed, the pro-Brexit side has already made so many promises that it could result in more spending. At the same time, Brexit forces have offered nothing in the way of a tax- or regulatory-reform agenda.

Britain has declared its independence from the EU bureaucracy, with all its high taxes, heavy regulation, and protectionism. But while replacing bad EU policies with bad British policies may be a victory for sovereignty, it will do little to help the average Briton unless the politicians have a change of heart.

That's a lesson U.S. populists should keep in mind.

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