BOOK REVIEW

BEYOND BREXIT: A PROGRAMME FOR UK REFORM

THE POLICY REFORM GROUP

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Despite its name, *Beyond Brexit: A Programme for UK Reform* is only partially a book that addresses the economic consequences of Britain's exit from the European Union. In many respects, and certainly when it is at its most broadly relevant and boundary pushing, it is about the economic consequences of the Great Recession of 2007–09 and of Britain's long retreat from the forefront of the global economy in general.

The book—which consists of a series of essays compiled by the newly established Policy Reform Group and published in volume 250 of the *National Institute Economic Review*—includes contributions from sixteen different authors on a broad range of key policy areas. These include everything from macroeconomic policy to housing, to infrastructure, to climate change, to foreign policy, to

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inequality—a breadth of subject matter which structurally reflects the sort of political manifestos the book is hoping to influence. The book's introduction, attributed to the Policy Reform Group as a whole, argues that the current politico-economic crisis surrounding Brexit requires the adoption of a national industrial strategy “for the decades ahead,” with the purpose of the book being to “launch a serious debate about what such a strategy should look like” (p. 2). The dry and occasionally technical language in which the book delivers its proposals gives an indication of the type of audience that it hopes to spark debate among, although several of the policy proposals made are deceptively broad and qualitative in nature.

Indeed, *Beyond Brexit* is somewhat slight in its use of economic theory or detailed technical justifications to support its proposals, partly as a result of its orientation toward policymakers rather than academic economists, but partly also due to the restrictive brevity of many of its chapters. Each chapter is tasked with presenting a sweeping program of reform for an entire broad area of the British economy or political system, including numerous specific policy proposals, but all in an average space of only around five pages per chapter. The book as a whole could have benefited considerably from a more extended presentation of its ideas, to enable the contextualization of its proposals in economic theory in addition to the granular, fact-by-fact presentation that it affords. However, the book's repeated appeals to “evidence-based” policymaking suggests that the relative absence of Austrians' preferred theoretical approach was more likely an intentional decision than a mere matter of space limitation.

As mentioned at the outset, the book's most surprising aspect is the relatively little attention it gives to issues specifically and exclusively related to Brexit, much to its own benefit. The task of addressing Brexit directly is left primarily to the two chapters on international trade, while other chapters tend to address issues which have been major areas of discussion in British economic policy since at least the 2008 financial crisis, if not before. In the preface, National Institute of Economic and Social Research (NIESR) director Jagjit S. Chadha contextualizes the book as a response to the current “break-down of the liberal rules-based consensus” (p. 1), which had guided politico-economic decision-making from roughly the demise of Keynesian

demand management in the 1970s until the Great Recession.¹ In the context of this breakdown, *Beyond Brexit* presents a series of policy approaches neither too near nor too distant from the current mainstream, such that their potential to be adopted into the new consensus, whenever it arrives, can easily be imagined. This marks the book's relevance as extending far beyond Brexit and the present moment in time, with potential interest for economists of all countries.

This broader relevance is especially apparent in the first chapter, in which Russell Jones and John Llewellyn, both of Llewellyn Consulting, address the growing difficulties faced by countercyclical monetary policy since the 2008 crisis in Britain and elsewhere. Over a decade after the crisis, the Bank of England's key "bank rate" of interest remains at only 0.75 percent, leaving little room for orthodox credit expansion when the next recession arrives, while even the unorthodox policies adopted after 2008 have also "become less effective over time" (p. 9).² Jones and Llewellyn suggest that still more unorthodox policies could conceivably be adopted to address the next recession: an extension of Large-Scale Asset Purchase programs, a temporary overshooting of inflation targets, a transition to a cash-free economy, taxation or subsidization of currency itself, or a negative 10 percent interest rate on bank deposits held at the Bank of England. However, the authors ultimately judge these proposals to suffer from a number of drawbacks, including the potential diminution of government seignorage revenues, possible inflation of asset bubbles, encouragement of risk taking, and the general fostering of the impression that the state is becoming "increasingly intrusive and predatory" (p. 10). Indeed, Jones and Llewellyn even offer a brief critique of conventional monetary policy, with which Austrians could likely agree:

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¹ Furthermore, Russell Jones and John Llewellyn, in chapter 1, perceptively mark Brexit itself as just another aspect of this broader breakdown the pre-2008 politico-economic consensus (p. 8).

² Unconventional monetary policies adopted by the Bank of England since 2008 have included quantitative easing, the introduction of the Funding for Lending Scheme, corporate asset purchases, and enhanced liquidity support in the form of wider collateral, long-term repos, the discount window facility, and the Special Liquidity Scheme. See Joyce (2013) and Lyonnet and Werner (2012).

Even “pure” interest rate policy has real and financial side-effects, not least on resource allocation, asset prices, risk tolerance, and the distribution of income and wealth. Such effects would likely become more substantial still, were monetary policy to break new ground (p. 9)

Unfortunately, however, rather than critically reassessing the framework of central banking and a government-managed mixed economy itself, the authors instead engage in a vain attempt to break new ground on the decidedly closed frontier of the old paradigm. Acknowledging that the years since 1970 have seen the breakdown in isolation of both fiscal fine-tuning and conventional monetary policy, Jones and Llewellyn instead point to a combination of these two approaches as the way forward. This would involve maintaining the current 2 percent inflation target while simultaneously adopting substantial automatic fiscal stabilizers (variations in subsidies, taxes, and transfers), which should be fiscally neutral over the course of the cycle. The authors further argue for a significantly enhanced role for discretionary fiscal policy, including such proposals as internationally coordinated relaxation of fiscal standards³ and the use of preapproved shovel-ready infrastructure projects which could be started and stopped again at short notice, as business fluctuations require. In support of such projects, they argue for the establishment of an operationally independent but state-funded National Infrastructure Bank, which is one of the book’s most frequently reoccurring proposals.

Jones and Llewellyn further advocate raising public spending from its current “historically low” levels up to the EU average of around 47 percent of GDP, which they justify by appealing to the aging of the population and the fact that “the public are strongly in favour of transfer payments” (pp. 12–13). This latter point highlights a shortcoming of the book as a whole from the perspective of value-free economics. The book very deliberately presents itself as a politically neutral exercise in technocracy, yet its goal of policy advocacy leads it unavoidably into normative statements and the smuggling in of its own value judgements, occasionally explicitly, such as in the

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³ Confusingly, Jones and Llewellyn assert that organizing this sort of relaxation in an internationally coordinated manner would lead to less of the information, decision, and implementation lags which usually prevent timely action at the national level (pp. 10–11).

aforementioned statement justifying transfer payments with public desire, but more often implicitly. Austrians in the Rothbardian tradition would likely not judge such normative statements to be objectionable *per se*, as long as they are grounded in a coherent and rationally defensible ethical system (Rothbard [1976] 2011). However, the briefness of this book and its chapters leaves many of its proposals unbacked even by a fully elaborated economic justification, let alone an ethical one, giving an impression of arbitrariness to many of its normative statements.

Chapter 2, written by John Martin of University College Dublin, addresses the longstanding issue of Britain's "productivity gap" compared to the rest of the world, which seems to have grown significantly since 2008.⁴ Martin suggests an expansion of government investment in ongoing training for workers, although he admits that such policies tend to be expensive while only increasing per capita income in the long run. He also advocates the expansion of trade apprenticeships for young people, despite the fact that such schemes have been attempted unsuccessfully in Britain many times before, a fact which he acknowledges but does not address. Perhaps the most interesting aspect of this chapter is how many of its smaller, offhanded comments inadvertently illustrate the gulf between Austrian and mainstream perspectives. For example, Martin breezily asserts that the British economy suffers from "few distortions to the private sector induced by state involvement" (p. 19), while also noting that "firms have responded [to rises in the UK minimum wage] by reducing profits, increasing prices, cuts to non-wage costs, the restructuring of workforces and pay structures," which he regards as an "overwhelmingly positive judgement on the minimum wage" (p. 18).

Chapters 3 and 4 cover the issues of international trade and mark the book's only direct and extended commentary on Brexit itself. Chapter 3, written by David Vines of Oxford University, Paul Gretton of the Australian National University, and Anne Williamson of Partners in Health Mexico, assesses the three possible approaches to trade Britain might take after Brexit: protectionism, negotiation of free trade agreements, or unilateral liberalization.

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⁴ In 2012, output per hour worked in the UK was fully 21 percent lower than the G7 average (Office for National Statistics 2012).

The authors ultimately judge all three possibilities to be flawed, and hence advocate remaining in the European Union's single market and customs union. Their primary objection to unilateral trade liberalization is that it would be "highly disruptive... [to those] currently favoured by relatively high assistance" (p. 26), but no consideration is given to the potential benefits of resource reallocation away from protected industries. Chapter 4, written by Alexis P. Lautenberg of Covington and Burling, argues that the EU will likely severely restrict British services trade with Europe if the former alters its regulatory regime away from EU standards to any significant extent.

Chapters 5 and 6, written by diplomat Jeremy Greenstock and former National Security Adviser Mark Lyall Grant, respectively, address the issue of foreign policy, and advocate a more active and outward-looking role for Britain in terms of both "soft power" and military capability.

Chapter 7, written by Tim Besley and Richard Davies of the London School of Economics, advocates the adoption of a new comprehensive industrial strategy, urging Britain not to be squeamish about supporting its businesses with "activist policies" (p. 48), as many of her trading partners already do. However, this chapter emphasizes the importance of not straying from markets lightly, even going so far as to invoke F. A. Hayek, and stresses that interventions should only be undertaken when "justified by carefully-argued market failure arguments" (p. 47). This sentiment is reflected at many other points in the book, with policy proposals often being tempered by qualifications along the lines of "only when deemed necessary," or "only under certain circumstances."⁵ However, such considerations are unlikely to restrain politicians, who stand to benefit from the new powers these policies imply. In its striving for an apolitical and technical tone, the book is unable to address the perverse incentives facing the politicians it is seeking to influence. In placing its seal of approval on these policies with only weakly stated qualifications, the book may be licensing politicians

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⁵ For example: "It may become necessary even to embrace central bank financing of public expenditure or tax cuts. The government would be well advised to consider, in advance, under what circumstances, and subject to what constraints, it might be wise to entertain such departures" (p. 3).

to implement these new policies in ways of which even its authors would not approve.

Chapter 8, written by Dimitri Zenghelis of the Bennett Institute for Public Policy at Cambridge University, addresses the potential difficulties and benefits of decarbonizing Britain's economy. This chapter almost falls into the common mistake of emphasizing the benefits of renewable technology so strongly that the reader is left wondering why the advocated government intervention is even necessary. However, this is avoided by appealing to the supposed market failure of inertia and transfer costs, which would prevent Britain from claiming a first-mover advantage in the new green economy unless the government intervenes. Specifically, Zenghelis advocates a "strong and comprehensive carbon price signal" to guide consumer and producer behavior, as well as regulations and direct planning for "non-price-sensitive" sectors (p. 58).

Chapter 9, also by Russell Jones and John Llewellyn, advocates a significant increase in public infrastructure spending, arguing that such spending could be implemented countercyclically, and even that such an increase in spending could *reduce* government debt in a low interest rate environment. The authors acknowledge the considerable cost overruns and inefficiencies typically associated with public infrastructure spending but attribute this problem exclusively to worker skill shortages in the UK, without discussing the calculational issues endemic to government provision of unpriced goods. Strangely, they also include without comment a list of five current or proposed public infrastructure projects⁶ whose total cost, according to their own figures, will amount to 32.6 percent of current UK GDP—a fact seemingly ill at ease with the rest of their argument.

Chapter 10, written by Kate Barker of the major house-building company Taylor Wimpey PLC, addresses the issue of Britain's ongoing housing crisis by advocating the construction of 1 million new social homes over the next ten years at an estimated cost to the taxpayer of £200 billion. Barker also advocates replacing the government's current Help to Buy scheme with a simple capital

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⁶ Namely the HS2 railway, Northern Powerhouse Rail, the Hinkley Point C nuclear power plant, Crossrail 2, and the expansion of Heathrow Airport.

sum gift to young people, which could be, but need not be, spent on a house. The space limitations of the book's chapters are particularly apparent in Barker's brief and unsupported assertion that a lack of low-price housing is *the* cause of the UK's current homelessness crisis,⁷ a complex, multifaceted issue which is here presented briefly and without further comment. However, her observation that "the fall in long-term real interest rates has been a major driver of the increase in all asset prices" (p. 70) does fall in line with Austrian insights.

Chapter 11, an additional contribution from Jones and Llewellyn, addresses the issue of inequality, for which it identifies six causes: globalization, technological change, the increased market power of large firms, declining trade union membership, favoritism toward the London financial sector, and inability of antitrust policy to deal with modern tech companies. Of particular interest is the chapter's brief critical assessment of universal basic income, which the authors judge would not only be extremely expensive, but also a driver of unemployment and potentially "social decay" (p. 80).

In chapter 12, Angus Armstrong of NIESR argues that greater taxing and spending power should be devolved to Britain's regional assemblies, and Martin Donnelly of Oxford University in the following (and final) chapter further argues that such devolution could bolster the perceived legitimacy of the British government.

Beyond Brexit is certainly encumbered by a number of shortcomings, not least of which is its restrictive brevity, and few of its policy proposals can be expected to find sympathy with economists of the Austrian school. However, its strength is in its direct engagement with the current transitional moment in mainstream economics, and it is entirely conceivable that the policies and approaches that it advocates could play a part in the formation of the next consensus. Although its adjacency to the familiar arguments of the current mainstream might not invite immediate attention, *Beyond Brexit* does present some genuinely novel approaches, especially in the area of countercyclical policy, with which critical engagement may soon be necessary.

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⁷ According to Barker's own figures, the number of rough sleepers in England has increased by more than 150 percent over the past nine years (p. 70).

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