

## TAKE CONTROL, FOR WHAT?

*Dani Rodrik*

Assuming Brexit becomes a reality, what are the implications for the overall direction of economic policy in Britain? What kind of economic model should the country espouse? Admittedly, I watch the discussion from afar. Yet it does not look like this important question has been adequately discussed.

There is of course lots of chatter about the implications for trade and trade agreements. But the focus on the trade consequences can miss the point. Trade is a means and not an end. What ultimately matters is economic wellbeing (or what economists call, somewhat misleadingly, 'welfare'). Unless Britain remains in the single market, which would defeat the whole purpose of 'taking back control', it is a safe guess that Britain's trade will face increased barriers in Europe (and possibly other countries with which the EU has trade agreements). What that means for Britain's economic wellbeing, however, is not that clear cut.

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In one scenario, which many economists have emphasized, the effect would be to disrupt automotive and other supply chains, causing manufacturing to face higher costs and move elsewhere in Europe. The consequences for British living standards would be significantly negative. But that is not the only possibility. Trade could take a big hit with very little impact on living standards. Imagine the French have a *slight* preference for British-built cars and the British have a *slight* preference for French auto brands. Under the

single market, there is huge two-way trade in cars between the two countries. With Brexit, this trade collapses completely, but the implications for consumers and producers will be barely perceptible (since what creates trade is, by assumption, a very small preference for the other country's cars).

My point is not to downplay the economic significance of Brexit, but to draw attention to the real issues at stake. The volume of trade matters, but only so much. What is critical is what Britain will do with its new freedom. What kind of economy and society does Britain want to be? How will 'national sovereignty' be deployed to achieve those goals?

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The question is not for me to answer. But let me suggest the outlines of an alternative economic model, to underscore the points that alternatives exist and thinking their implications through matters.

Britain’s great strength is that it is a financial center. But excessive focus on finance also distorts the economy. It renders the City overly powerful, the pound overvalued, economic activity overly concentrated in London, and inequality higher.

An alternative, more inclusive model of prosperity would focus on the productive side of the economy – advanced services and manufacturing that generate good jobs for workers in the British economy. The purpose of this model would be to disseminate high-value production away from finance to real economic activities, and out from London into other parts of the country.

Such a model would have to be supported by both macro and micro policy tools. At the macro level, the country would need a permanently more competitive pound. This in turn requires saving policies and macroprudential measures to stabilize the value of the currency at a lower level.

At the micro level, local and national government agencies would need to get their hands dirty with a modern industrial policy. This entails the government collaborating closely with firms to help them become more productive and grow – especially in employment - and to encourage them to disseminate their technologies to their suppliers and other firms. Some

features of such an approach have been outlined in the government's November 2017 industrial strategy. But pushing the country onto a different growth path would require an effort more ambitious than what has been so far articulated. It also would need to have a greater focus on generating employment – and not just productivity.

Such a model would be quite a departure for Britain. To be honest, I am not sure if it is feasible or that it even makes sense. But if not this model, what other model? The reality of Brexit necessitates some hard thinking about the future of the British economy. In brief, to what end will national sovereignty be put? Even those who were against Brexit need to have an answer now.

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