

# Brexit, competition and markets: there's a need to spread the benefits of growth

 [blogs.lse.ac.uk/brexit/2017/04/21/a-major-lesson-from-brexit-the-need-to-spread-the-benefits-of-growth/](https://blogs.lse.ac.uk/brexit/2017/04/21/a-major-lesson-from-brexit-the-need-to-spread-the-benefits-of-growth/)

2017-4-21

*London and the South-East plus metropolitan and major university towns are markedly more pro-market and pro-competition than much of the rest of the UK. This is reflected in the geographical pattern of Brexit referendum results. In this post, **Jon Stern** examines the future of competition policies, as well as the perceptions of fairness and legitimacy of pro-market competition and industrial policies in a post-Brexit UK.*



Since the mid-1980s, UK competition policy has become much more market based and consumer-oriented and much less weighted towards producer interests and public service obligations. This trend has been reinforced by parallel developments in the EU Single Market and in EU competition policy. However, this policy trend has been far from universally popular as reflected in the geographical pattern of Brexit referendum results, which illustrate major popular concerns about how UK industrial and competition policy will develop post-Brexit. In particular, these concerns raise major questions not just about the *content* of competition and related policies but also about the perceptions about the *fairness* and *legitimacy* of pro-market competition and industrial policies in a post-Brexit world.

In the UK, areas further away from London have been much more wary of the pro-market industrial and competition policy trend, particularly if they had traditionally been areas of heavy industry like the North East or South Wales. This split was clearly reflected in the Brexit Referendum voting patterns across the UK. London and the South-East plus metropolitan and major university towns may be pro-market and pro-competition, but – rightly or wrongly – much of the rest of the UK seems to be much less convinced. I live in a small market town near the England-Wales border in an area where the EU Referendum vote was 59-41 for Leave and where the economic arguments in favour of freer trade and pro-market competition policy were either little supported or opposed.

The intellectual and policy debate on these issues among economists (and related disciplines) has focused primarily on the impact of competition and trade relative to technical progress and digitisation on jobs and incomes. The relevant research has particularly focused on impacts on the numbers of less skilled jobs and their corresponding earnings as well as overall employment impacts in traditional manufacturing areas. The dominant and consensus view arising from this debate is that digitisation and associated technical progress have had much larger effects on the distribution of employment and incomes than has increased competition or trade liberalisation. However, that consensus seems to hold much less for the general population nor, increasingly, is it the view found in the public statements of politicians.

These differing perspectives are of particular concern to me since my work as a competition and regulatory economist is heavily London-based, but I live in a small market town around 120 miles west of London. Twenty years ago, there was a considerable amount of light (and some heavy) manufacturing in this town. But, as a consequence of digitisation and with growing imports of industrial goods, many of the companies – and, in particular, their less-skilled jobs – have now disappeared. As online shopping has grown, the high street is now increasingly populated by charity shops. Service sector employment has increased, but much of this – particularly for the less skilled jobs – is made up of insecure, short duration and contract jobs.

The changes from technical progress and greater competition may have benefitted the residents in terms of the range and prices of goods, but they have also led to major concerns over jobs – and particularly about the job prospects of less academic school leavers. The area where I live is not a high unemployment area, but it is a low wage area. Median weekly earnings are about 20% lower than in England as a whole and 10% less than in the West Midlands. Under these circumstances, it is difficult to argue that the residents in my town have gained

significantly from increased national or international competition.

Andy Haldane and the Bank of England have recently made speeches demonstrating how most of the income, wealth and employment gains since 2000 (and particularly since 2008) have gone to residents in London and the South-East. I come to London regularly and the income and wealth gaps relative to those in more disadvantaged regions certainly *seem* to have increased significantly over the last 10 years. Certainly, in my home town, there is considerable feeling that people have not benefitted much from increased competition – it is the ‘clever-clogs’ London and South East people (like me) who seem to have benefitted most, along with the post-2006 immigrants, and at the expense of the indigenous local population.

Hence, as shown in Brexit Referendum discussions and voting, quite a lot of the local residents where I live would very likely be happy to reduce the force of competition policy for (supposedly) greater company and job security. Tougher public service obligations, a more activist industrial policy, controls against foreign mergers and similar would almost certainly get strong support in my town – and in most places in England and Wales more than 100 miles from London (at least other than in major metropolitan and university towns). The clear Leave majorities in the industrial Welsh valley towns and in North-East England were a clear signal of such views.

As a longstanding policy economist, I think that the evidence is clear that reverting to policies that restricted competition in the market on the grounds of safeguarding supposed public interest objectives would be seriously damaging to economic welfare across the country, including the area where I live as well as in London and the South-East – perhaps more so. The same is true for the EU and the US.



Image by [WorldSkills](#)

[UK \(Flickr\)](#), (CC BY 2.0).

But, (and it's a big but), I am also very clear that it is essential that market developments and government policies lead to significantly more of the growth benefits of competition and trade going to lower income areas and people. This seems to me essential if the current competition policy direction is to be sustainable. In addition, some way needs to be found to provide secure, reasonably well-paid job opportunities for all people, not just for the better-educated and more skilled. Unless this is done, we will find that popular (and political) support for market-oriented competition and regulatory policies is likely rapidly to disappear.

Having started my professional career in 1970, I well remember the UK's attempts at running a corporate society and economy and the collapse of this model during the later 1970s. But, the key underpinning for a competition policy of the kind we have developed over the last 30 years is that the welfare benefits of greater competition are *perceived* to be widely spread. The policy rapidly loses legitimacy if significant numbers of people believe that the dice are loaded against them and their families as market forces become more important.

At the recent CCRP, City University Round Table discussion that I chaired in January, there were a number of speakers pointing to the importance of public and universal service obligations, particularly for regulated utilities. There were also a number of speakers (rightly) pointing out that restricting competition policy via public and universal service was a bad way of addressing these issues, particularly in merger and market cases. However, so far, we have not done well at finding better ways via regional policy, education and training policy or similar to redress or ameliorate the problems. I strongly suspect that calls for restricting the scope of competition (and competition policy) will become not just louder but a lot harder to resist unless we find better ways over the next 5-10 years of spreading the benefits of growth.

The Round Table discussion about Brexit and the choices it forces on competition policy were the main focus of debate. However, it is not just the legal and related aspects of Brexit competition policy that will be crucial in the years ahead, but even more the *wider context* within which it is negotiated. The less well-handled that is done, the harder it will be to maintain open markets and open market access with all the implications for productivity and welfare growth – in the EU as well as in the UK.

*The post gives the views of its author, not the position of LSE Brexit or the London School of Economics.*

**Jon Stern** is an Honorary Visiting Professor in the Department of Economics at City University, London. He is also a Panel Member at the Competition and Market Authority. He is a Visiting Researcher at the Cambridge Judge Business School, an Associate Researcher at EPRG (the Energy Policy Research Group) of the University of Cambridge and an associate at CARR, London School of Economics. However, the views expressed in this post are purely personal and should not be taken as reflecting the views of any institution with which he currently works or has worked in the past.

- Copyright © 2015 London School of Economics