

The Economics of Brexit Needn't Be Quixotic: Towards a Green Industrial Strategy for Britain

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Eurocrisis in the
Press

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“Fortune is guiding our affairs better than we ourselves could have wished. Do you see over yonder, friend Sancho, thirty or forty hulking giants? I intend to do battle with them and slay them. With their spoils we shall begin to be rich for this is a righteous war and the removal of so foul a brood from off the face of the earth is a service God will bless.”

-Miguel de Cervantes, *Don Quixote*

Much attention is currently focused on [migration, identity, and related factors in explaining Brexit and related phenomena](#). The emphasis on regaining sovereignty and “control,” limiting immigration, and scapegoating others has characterised public debate not only during the referendum campaign but also since Leave won. Indeed, Prime Minister Theresa May’s newly appointed government has prioritised so-called sovereignty over access to the common market as part of its [Brexit plan](#). In Mrs. May’s narrative, “citizens of the world” and shadowy multilateral agencies have undermined the U.K. by foisting multiculturalism and regulation upon its industrious citizens. At the risk of being unfashionable, both in our perspective and diagnosis, it is worth returning the discussion to the long-term causes and directing our thinking towards possible long-term strategies. Euroscepticism, resurgent nationalism, and a turn inward are the immediate symptoms of a longer standing malaise that may be best expressed by the widespread belief that future generations will be [worse off](#) than present ones. The decline in reliable middle- and working class jobs, the erosion of social services that provided a baseline of stability throughout people’s lives, and the attendant economic vulnerability that many experience have been mobilised by populists for their nationalist causes. Rather than offering a sober assessment of the underlying trends giving rise to the despair genuinely felt by much of the British populace and proposing creative ways forward, British politicians across the spectrum are opportunistically channelling anger by blaming ready-at-hand foes such as immigrants and the EU, who, we are told, are the sole culprits. As an alternative to this [quixotic](#) penchant for a “hard Brexit,” we outline an industrial strategy that addresses the U.K.’s economic and social challenges, while being environmentally sustainable and forward-looking.

Diagnosis of what ails thee

In our reading, Brexit is, to a significant extent, the expression of long-term trends that have gnawed at the economic foundations of the middle – and working classes (see [here](#) and [here](#)). The erstwhile ostensible panacea of economic liberalisation also eroded the wide base of material well-being on which liberal democracy’s social contract rested. In response to stagflation brought on by the first oil crisis of the 1970s, [many OECD countries sought to reinvigorate their industries by shifting manufacturing to the global south and by transitioning towards the service sector for domestic jobs.](#)^[1] These alterations were underpinned by deregulation and reduction of trade barriers. The resulting increase in offshoring benefited the global north as its multinational corporations were simultaneously able to lower unit production costs and increase domestic demand as their citizens subsequently gained greater access to credit even if real wages



stagnated. Thus, benefits from this restructuring accrued primarily to multinational corporations and their shareholders with some modest gains for the middle class from cheaper goods and real-estate speculation. For example, taking the specific case of the electricity industry, its deregulation was promoted in the U.K. in the 1980s on the basis of increasing choice for customers. However, [retail electricity prices did not decrease in real terms after privatisation in 1991. In fact, the main benefit from deregulation was the removal of subsidies to British Coal \(which could have been implemented without recourse to deregulation\) and windfall profits to shareholders in privatised power companies.](#)^[2]

While a liberalised economy offered seemingly unbounded possibilities for everyone to profit from the housing and stock market bubbles in lieu of stable manufacturing jobs, such a system was also more prone to crises such as the Great Recession in 2008. The coalition government elected in 2010 (like many other centrists) pushed for more liberalisation and reduced welfare spending to jump-start an economic recovery. In effect, whether by sober analysis or driven by ideological impulse, they diagnosed incomplete deregulation as the economic ailment and urged more of the same while arguing that cumbersome EU regulation and deficit spending is what holds “hard-working families” and “small businesses” back. Yet, six years of such policies did not restore any semblance of middle-, let alone working class prosperity and [saw inequality deepening in the U.K. while curbing hopes of social mobility](#). Automation, and the increasing competitiveness of Asian economies at the threshold of becoming major exporters of both capital and technology (hitherto mainly importers of both), only compounded the malaise. Duly frustrated by diminished economic prospects from repeatedly voting for incremental change, the electorate lashed out at much-maligned international institutions in the Brexit referendum.

Populists on the left and right propose different, but equally incoherent, visions for Brexit Britain's economy

After having been a (mute) supporter of the campaign to remain in the EU, Mrs. May came out as an ardent executor of the “will of the people” upon assuming the role of Prime Minister in stating categorically that the U.K. will not seek membership of the common market after exiting the EU. To those familiar with her tenure as Home Secretary, Mrs. May's stance is not surprising. Indeed, for six years in David Cameron's Cabinet, [Mrs. May adhered to a zero-sum view of immigration in pushing to bring down net migration to the “tens of thousands”](#) from its level of 256,000 in 2010. In spite of her efforts to tighten immigration control, [net migration actually increased to 335,000 in June 2016 with equal net inflows from EU and non-EU countries](#). As Prime Minister, Mrs. May has continued her quixotism in order to cement her leadership position by riding the populist zeitgeist with scant regard for the welfare of the nation. Policy, in so far as one can call it that, aims to address the symptom and not the cause of our present troubles. Tellingly, Mrs. May's actions (such as [the Nissan deal](#), which has already been cast in doubt again, [informal pursuit of trade agreements with Commonwealth countries and the U.S.](#), [threats to turn the U.K. into an offshore tax haven](#), and promises to bolster public spending) suggest that even the palliative is incoherent. Effectively, Mrs. May knows that what is left of British manufacturing will not be economically viable under WTO rules or even under free-trade agreements with Commonwealth nations. Simply put, the comparative advantage of Asian, or central European economies, when it comes to manufacturing, would render the U.K. uncompetitive.

In fact, the British manufacturing sector's current existence depends and relies on its deep integration with supply chains crisscrossing the common market: remove that membership, and there is little reason for Nissan to locate its plant in Sunderland, or for BMW to continue producing the Mini in Oxford. This is why Mrs. May is forced to offer an undisclosed promise of state aid to Nissan for it to remain, which could embolden other manufacturers to demand similar deals. Furthermore, free trade with the rest of the world but without the scale and uniform regulatory platform of the common market would make it difficult for other British manufacturing sectors to emerge. Of course, there are services, but most trade deals do not cover these. In summary, Mrs. May's vision for a post-Brexit U.K. is economically incoherent (free trade but with special deals for manufacturers and no economies of scale for alternative sectors to develop) and unapologetically nationalistic in its repudiation of multiculturalism and immigration. For the “hard-working families” that she purports to represent, Mrs. May offers no mechanisms to incubate well-paid, sustainable jobs, while repealing the social protections previously ensured by the European

Court of Justice. Indeed, that Mrs. May does not rule out turning the U.K. into a low-tax haven with scant regulations for multinational corporations betrays her lack of interest in the welfare of the very people whose interests she presumes to advance.

Meanwhile, the Labour party led by Jeremy Corbyn offers similarly facile tonics couched in anachronistic visions of a socialist (rather than nationalist) command-and-control economy: [re-open the coal mines, re-nationalise power companies](#), raise taxes on the wealthy, and spend more on social services. To his credit, Mr. Corbyn has recently downplayed his support for coal mining and has promised to bolster renewable energy production. However, [in a nationalised power sector, the socially optimal response to controlling damage from greenhouse gas emissions is to reduce consumption rather than to invest heavily in renewables.](#)^[3] This muddled understanding of economics on part of Mr. Corbyn reveals that he has not formulated any long-term strategy. Moreover, Mr. Corbyn's pledge to freeze energy prices would benefit the largest consumers of energy, i.e., wealthier households and large corporations, and potentially stifle signals for investment in new capacity (both renewable and otherwise). As with the populists on the right, there is a lack of vision among the populists on the left, as they propose no new industry to drive the post-Brexit economy and only an anachronistic and environmentally degrading, if symbolically significant, one.

An environmental alternative

What is needed is a broad strategy for generating wealth for the nation after Brexit. Rather than more of the same, whether from the recent past or from the age of colonialism, a centre-left response to Brexit that addresses the concerns of marginalised citizens should be built on launching industries that leverages the one comparative advantage that the U.K. possesses: renewable energy. [The northwest of the U.K. has some of the highest wind speeds in all of Europe](#), and, [as we noted a few years ago](#), these could be harnessed to anchor a sustainable economic recovery for Europe. In the past four years, the economics of both on- and off-shore wind technologies have only improved to the extent that [on-shore wind turbines are now competitive with gas-fired plants](#): the levelised cost of electricity without tax credits for on-shore wind technology to be installed in 2018 ranges from \$41.3/MWh to \$71.3/MWh as opposed to \$45.2/MWh to \$60.2/MWh for combined cycle gas-fired technology. Simultaneously, the dangers from greenhouse gas emissions have not subsided with climate scientists now warning that [changes to the climate are occurring even faster than predicted by their models](#). Thus, both economic and environmental imperatives for the renewable energy industry are strong in the U.K. Unlike conventional power plants or manufacturing, which are highly automated, renewable plants and the associated infrastructure would be labour intensive in both the installation and maintenance phases. Of course, wind power is intermittent, which means that it needs to be backed up by a mix of flexible conventional plants, energy storage, and demand-side response. These issues could be more effectively coordinated by greater interconnection capacities across regions in order to allow intermittent renewable energy technologies, such as solar and wind power, to balance each other out and to access hydro reservoirs in the Alps and the Nordic countries. In fact, [the North Sea Link between the U.K. and Norway](#) is already under construction and is due to enter service in the year 2021. Hence, a renewable energy industry facilitated by a European supergrid and [continued membership of the common market \(e.g., via the EEA\)](#) to achieve economies of scale offers the U.K. a means to prosper by re-orienting its economy towards goods and services in the renewable energy sector, demand for which will only rise as, for instance, ballooning energy consumption collides with worsening air pollution in China's mega cities.

As the world undergoes an unprecedented energy-sector transformation in order to mitigate the effects of climate change, an export-oriented renewable energy sector offers a sustainable alternative to what is currently available, viz., bribing companies from leaving the country or sending fellow citizens to work in unthinkable conditions extracting coal. Besides its economic benefits, an environmental re-orientation of the economy would also offer a new political movement for the centre-left that aligns the urban and the rural. While constituents of these two groups may find little agreeable about each other's social views, they could agree on the importance of the environment and a new paradigm for economic growth. Indeed, while there may be NIMBY-related resistance to on-shore wind farms, [public approval of renewable energy plants near one's own home is higher than that of fossil-fuel or nuclear](#)

[power plants](#). Furthermore, an environmental alliance would offer greater say to those who felt side-lined by the political discourse of the recent past, thereby allowing them to value their local natural resources better and participate in a more consultative decision-making process. In this respect, government policies should not only encourage decentralised mechanisms for decision making e.g., [as per the German Stadtwerke](#), but also enforce pollution pricing. Indeed, the latter, e.g., in the form of a carbon charge and costing of each externality, would make transparent the benefits of a shift towards a green economy and prevent multinational corporations from subverting the debate on the basis of specious arguments, e.g., “job-killing regulation.” In tandem, [eliminating subsidies for fossil fuels in the U.K. and other OECD countries](#) would remove an environmentally damaging distortion that benefits producers of hydrocarbons, thereby supporting the renewable energy transition and making it transparent that oil companies have unjustifiably been the primary recipients of government support.

If Britain is serious about making a success of Brexit, then its politicians must acknowledge that the precarity faced by many British middle- and working-class citizens cannot be addressed by shrinking the state further or by simply curbing immigration. Rather, it requires public investment in social services and education that would enable former manufacturing employees to transition into viable industries. It requires the political will to support new sectors that are more equitably distributed across the country. This will also necessitate a shift in economic doctrine that admits that the “free market” will not generate a substantive industrial strategy or bring forth new sectors without a political nudge, commitment, and sustained political will—as the politically willed [emergence of South Korea’s shipyards and steel industry](#) demonstrated. Thus, instead of quixotically blaming immigrants and EU institutions, British politicians should show some imagination in the pursuit of an industrial strategy that can generate substantive, growth-oriented new value chains. One such industrial strategy could support renewable energy technologies and infrastructure based on a credible carbon charge to incentivise export-oriented manufacturing and services jobs and continued membership of the common market to exploit economies of scale.

Note: This article gives the views of the author, and not the position of the Euro Crisis in the Press blog nor of the London School of Economics.

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[1] Prashad, Vijay (2013), *The Poorer Nations: A Possible History of the Global South*, Verso Books,.

[2] Hyman, Leonard S. (2010), “Restructuring Electricity Policy and Financial Models,” *Energy Economics* 32(4): 751-757.

[3] Siddiqui, Afzal S., Makoto Tanaka, and Yihsu Chen (2016), “Are Targets for Renewable Portfolio Standards Too Low? The Impact of Market Structure on Energy Policy,” *European Journal of Operational Research* 250(1): 328-

