INTRODUCTION

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Regardless of the particular form that Brexit ultimately takes, the UK faces an unprecedented set of political, economic, and social challenges. While the causes are many and complex, they amount to a crisis of confidence and popular trust that has overturned the normal logic of political practice and policymaking. The national interest demands a strategy for the decades ahead, capable of putting the country back on its feet.

This collection of essays aims to launch a serious debate about what such a strategy should look like. It seeks to establish coherent priorities for government – of whichever political stripe – in addressing challenges ranging from low productivity and ageing infrastructure to economic and regional inequalities and the UK's post-Brexit role in the world. It proposes measures to shore up the Union and improve governance. It seeks to challenge established thinking on such topics as industrial policy and the roles of fiscal and monetary policy, on the grounds that unprecedented challenges demand fresh ideas.

Above all, it amounts to a plea for rational, evidence-based policymaking and a warning against populist approaches. The authors, all acknowledged experts in their field, reflect no political alignments or party affiliations. They are, however, united in the view that restoring national cohesion and confidence requires sustained initiatives, both domestic and *vis-à-vis* the rest of the world, that are well targeted, feasible, efficient, affordable, collectively coherent, and mutually reinforcing. Most share the conviction that public spending and the way the UK uses its resources will have to change if the needs of an ageing society, continual technological change, and a constantly changing world are to be met, while working within prudent public and private financial constraints. The inescapable conclusion is that the nation's economic and social policies, together with supporting public investments and actions, will have to be overhauled on the basis of established facts and realities.

These papers, with their policy proposals, are presented in four basic sections:

- Maximising the output from available resources.
- Outward-facing policies: foreign policy, and defence and security.
- Addressing market failures: industrial policy, climate, housing, infrastructure.
- Enhancing the capacity of government to deliver.

Maximising the output from available resources

Fiscal and monetary policy. Maximising the output from the available labour force and capital stock will present new challenges for policy. Monetary policy, hitherto the principal tool for output stabilisation, will likely prove inadequate in the next slowdown, or an extended period of weak growth and low inflation. Policymakers may find themselves obliged to use the tools at their disposal differently from how they have in the past.

At a minimum it would be wise to re-orientate and strengthen the automatic fiscal stabilisers. But even then they are likely to prove inadequate. An effective response

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will probably require discretionary fiscal initiatives, perhaps the setting aside of some fiscal rules, and closer coordination with monetary policy. The latter should not be done lightly, nor be politically motivated. Ideally an independent body – the Office for Budget Responsibility for preference – should determine, in concert with the government and the Bank of England, just when the requisite conditions have been met.

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; and prepare the institutional framework for their deployment. Again, it could make sense for the OBR to determine when the requisite conditions have been met.

Adjusting efficiently to structural change. Brexit, however ultimately configured, will impel significant structural change. Whenever economies are subjected to such shocks from the supply side, there is for a time an inevitable loss of output as people and investment move from one activity or region to another.

The structure of the economy will ultimately adjust: economies always do. But it will take time – perhaps ten years or more. There is therefore much to be gained from policies that facilitate and assist the adjustment process, so as to keep the associated output and employment losses to a minimum.

Key initiatives include the enhancement of active labour market policies, especially for 16–24 year-olds and low-educated/low-skilled job seekers, closer to best practice in OECD countries. They should be buttressed by substantial investment in lifelong learning, with a focus on upskilling workers; and improving general mobility – not least housing.

Rapid structural change is bound to meet political resistance that could push policy in the wrong direction – towards protectionism, subsidies, and other false palliatives. It is therefore important to ensure that both the costs and the benefits of change are shared – and seen to be shared – reasonably equitably.

Developing trade. The quantity of resources available to a country is augmented through international trade, as countries specialise in areas in which they are particularly efficient. Access to major markets, particularly those nearby, is central to prosperity.

The EU Single Market is the world's largest free trade area, and the UK's closest. Staying closely integrated with it is the most important measure that the UK can take to ensure that trade continues to be a positive force for its living standards.

There are new and rapidly growing markets beyond Europe, but most are small. And the UK already has, by virtue of agreements concluded on its behalf by the EU, access to all but 17 per cent of the global economy. Meanwhile, international trade is at growing risk from protectionism and attacks on the international institutions.

Public debate on trade policy has lacked the detailed analysis of these issues. Britain would benefit considerably from a policy review institution like the Australian Productivity Commission, to examine and report upon future policies in the UK's interests.

Trade in services is quantitatively much more important to the UK than is trade in goods. And it is a difficult area because it is so complex.

The constraints on exports of services to markets abroad are seldom tariffs, but rather regulatory rights of access. It will be in the UK's interests to keep the majority of its services-related regulations close to those of the EU.

Beyond the EU, the UK will have to put in a tremendous effort to negotiate entry into services markets that are less well developed and more protected than those of the EU, and with which it is initially far less well aligned.

Outward-facing policies: foreign policy, and defence and security

Foreign policy needs to play a considerable part in helping to raise the UK's economic performance, not least by aiding in the construction of beneficial trade arrangements. It should devote equal weight to constructing good relationships with its two major trading partners: Europe and the US.

In the European context, the UK should clearly establish itself as a contributor to the remedying of regional problems; but under a careful and consistent set of principles.

Internationally, the UK's interests stand to be served by working with other capable middle-ranking powers to encourage the biggest powers, notably the US, the EU, and China, to promote a rules-based international order.

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Part and parcel would be the promotion of observance of international values and human rights.

The UK has a reputation as an experienced collective problem-solver in international arenas, and this should be promoted. Particular attention should be paid in the relevant international fora to the issues of climate change, migration, and technological innovation.

All this will require a strong central department, under a very senior Minister, to coordinate the full panoply of foreign, international development, and international trade policies.

Security and defence policy. Feasible ambitions for defence and security policy have to be in proportion to the size of the UK's available resources. A comprehensive post-Brexit review to put policies on an agreed footing will need to reflect that reality.

The UK needs to remain fully committed to NATO. At the same time it will need to raise the pressure on allies to meet their 2 per cent of GDP spending target.

As regards the projection of force, this will have to be focussed essentially on the European sphere, the Mediterranean, and the Gulf, rather than globally.

Within the European sphere the UK should liaise closely with the EU in their development of a capable defence policy, while insisting that it be compatible with NATO's. On the security side, the UK should develop coordination with the European security agencies; seek to connect France to the Five-Eyes intelligence community; and engage in signature projects with France and Germany. At home it should review immigration policy and methods of border control as a security, and not just an economic and social, objective.

Internationally, the UK can further its interests by: working to preserve the Non-Proliferation Treaty, but avoiding unilateral nuclear disarmament; raising the UK's contribution to the UN's peacekeeping efforts; and helping to develop an alliance on cyber security strategy.

It is doubtful, however, that even these ambitions can be accomplished with present resources. There would seem to be no alternative but to halt, and in time reverse, the decline in UK troop numbers. And to achieve this and the other essential objectives will almost certainly require an increase in UK defence spending to 2.2 per cent of GDP.

Addressing market failures: industrial policy, climate, housing, infrastructure

Industrial policy. The persistent structural shortcomings of the UK economy, and not least its extended productivity shortfall, mean that there is a strong case for a new, more activist, industrial strategy. This is particularly the case in the context of climate change.

However, this strategy must be properly focussed, and congruent with the underlying structure of the UK corporate sector. This means that it must reflect the dominant role of services rather than manufacturing, as well as the importance to economic dynamism of new, fast growing, firms.

It is also important that the strategy be placed at the very heart of economic policy, closely aligned with export promotion, and that the structure and machinery of government evolve rapidly in such a way as to give it the best possibility of success. The historical record suggests that the Treasury should not be the strategy's home. Indeed, whichever public sector entity is ultimately given responsibility for it should enjoy an independent mandate akin to that of the Bank of England.

At the same time, however, greater activism should not be a substitute for a competitive market structure, let alone descend into protectionism. Interventions should be targeted at clear market failures, be time-constrained, and transparently assessed.

Climate change. The mass of scientific evidence is that the world is warming; that this is resulting in climate change everywhere; that this will benefit some regions but damage others; and, that the cost will be high.

One way or another, the world is going to decarbonise: the only question is whether that results from global warming destroying food supplies, drying up water supplies, flooding major cities, and killing populations, or whether decarbonisation is led by mankind.

The UK is too small a polluter (only 1–2 per cent of the global total) to do much directly to slow global warming. But it has had success using its soft power to accelerate change elsewhere. And by directing its own policies to decarbonisation, it can create an economy structured to produce carbon-reducing goods and services that will be demanded not only at home but also abroad.

The UK should integrate its industrial strategy with its clean growth strategy, so as to develop strong domestic

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supply chains that can support the full spectrum of decarbonisation activities. To that end, it should develop research priorities designed to retain comparative advantage in markets of the future.

Financial support for decarbonisation is not necessary indefinitely; once a certain scale is reached and prices fall, reinforcing network effects lead to a tipping point, whereupon support can be reduced or even withdrawn.

Infrastructure investment is unique. It can act both as a macroeconomic stabiliser on the demand side and contribute importantly to the economy's supply side. Yet, notwithstanding important improvements in the way that infrastructure is assessed and planned over the past decade, the UK's infrastructure is poorly perceived, and beset by significant areas of congestion.

The UK economy is operating largely with 20th, sometimes 19th, century infrastructure. Significant parts of its energy, water, transport, and communications networks are in urgent need of renewal or replacement. National productivity and competitiveness are suffering as a result, and the nation is poorly equipped to meet future challenges.

The requirement is for a bolder approach, setting out more ambitious programmes for energy and information and communications technology projects, regional spending, capital recycling, and increased involvement of private sector investors. Infrastructure strategy also needs to dovetail with other key areas of policy, including addressing decarbonisation and various forms of inequalities.

These should all be part of a strategy to raise total (public plus private) infrastructure outlays to the 3.5 per cent of GDP per year that the OECD regards as the norm for developed economies. The role and powers of the National Infrastructure Commission should be enhanced: it could even evolve into a National Investment Bank that would offer project guarantees; recommend user fees; lend to projects with the proceeds of National Investment Bonds; and rationalise planning.

Housing policy is a complex matter with wide ramifications. It needs to address, at a minimum, social housing, stress in the private rented sector, benefits, subsidies, and taxation of home ownership. Solving it involves much more than simply building houses – though the country does need to add around 100,000 social homes to the stock in England every year for a decade.

In addition, a sophisticated approach to planning home-building is needed, both for assessing overall numbers and their regional distribution, and in financing the supporting infrastructure, which in some cases can be even more important than income, narrowly defined. It could be appropriate to develop, alongside industrial strategy policies, the idea of 'Universal Basic Infrastructure'.

Help to Buy should be replaced by a better alternative – endowing all young people with a capital sum. This need not necessarily be used for house purchase, and could be used for second-hand homes as well as new build.

Reform of the rental sector too is needed. There is a keen requirement for varied cultural provision and well-designed urban centres in troubled localities. Valuation experts could be used to challenge private sector rentals where housing benefit is paid, and to enforce standards of decent housing stock.

Most fundamentally, taxation is in urgent need of reform, not least as part of a drive to reduce various forms of inequalities, in particular the way the tax benefits of owner-occupation incentivises overconsumption of housing, leading to a widening wealth gap between renters and home owners, and between owners in different parts of the country. Alternative ways should be found for raising a levy on development values that is more sensitive to the final sales value of the development.

Inequalities. Arguably it is the backlash against various inequalities, together with a burgeoning sense of unfairness and unfilled aspirations, that lie at the heart of the UK's political malaise. Confronting disparities has to be a priority if faith in government is to be re-established, and social stability maintained.

There are many disparities: between income and wealth groups, regions, generations. Equally, if not more serious, are disparities of opportunities, seen by those denied them as fundamentally unfair. Concern over disparities is not just a matter of political colour: if they remain unaddressed, the very future of British democracy could be at stake.

The range of statistics on inequalities is markedly narrower than the full breadth of the issue. Nevertheless, those that are available indicate that the UK has become much more unequal over recent decades. At a minimum it should be a primary goal of policy to reverse that trend, perhaps targeting the average level of inequality

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in the OECD economies, and reducing the number of people living below the poverty line by, say, one-half. The government should also continue with the policy of progressively raising the minimum wage, at least until such time as it is seen to be undermining employment.

Measures to combat perceived unfairness should cast their net wide, extending for example to closer scrutiny of competition in high-yielding sectors such as technology, and incentives for the appointment of worker representatives to company boards.

Much can be achieved in easing disquiet by keeping the economy close to full employment. However, a government intent on fundamentally tackling inequalities will have no alternative but to raise public spending, and the taxation of both income and capital from their currently historically low levels. In particular, spending on education and active labour market policies should be increased significantly.

The Union. One of the most significant impacts of Brexit may be on the UK's internal constitutional arrangements. It is essential that the ideas of identity and local control, so clearly expressed in the Brexit discussions, be brought into the heart of the debate.

If the UK is to continue to have a Union, then democratic principle requires that governments of its constituent parts need to be responsive to local needs. But there is too much distance between them and policymakers, in London and Westminster in particular.

There are many implications. The regions should have the right both to target expenditure, and to raise taxes locally. In the case of Scotland, more taxes should be devolved to Scottish local authorities; its capital borrowing should not be capped; the Joint Ministerial Committee should be put on a statutory basis; and 'English Votes for English Laws' (EVEL) should be discontinued.

There is perhaps also a case for the Bank of England's Monetary Policy Committee having regional representatives, in the manner of the US Federal reserve System, and getting rid of EVEL.

Governance. A prerequisite for virtually all of the policies advocated in the various chapters is high-quality governance. This requires a structure that is both appropriate for today's circumstances and able to be seen by the public as both trustworthy and efficient. Extending the current role of the National Audit Office into an Office of Government Efficiency could be helpful.

The present civil service system, whereby politically neutral officials serve whatever government comes to power, is under challenge – from the public and politicians alike – who seem to wish to move to a more politicised civil service.

A national debate needs to be held, with politicians playing a prominent part, to decide whether or not to recommit to the present system.

To the extent that the wish is for a more politicised civil service, many consequential changes would be needed, including: reforming Number 10 as the Prime Minister's Department, with its own Parliamentary scrutiny committee and annual reporting system, separate from the Cabinet Office; replacing the title of Adviser within the Number 10 system with something that more accurately reflects the executive power that now goes with these appointments; and making instructions given by Number 10 to departments available to Parliament. All this can be done consistent with the usual national security constraints on the provision of sensitive information.

There is also a powerful case, not least in addressing various forms of inequality, for reducing the strong centralising grip of central government on the rest of the country. Measures that would help include: legally entrenching structures to confirm that devolved powers cannot simply be overridden by the Westminster Parliament in the event of a dispute; and guaranteeing a level of fiscal autonomy in local government.

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