ENGAGING BUSINESS ON THE BENEFITS OF BREXIT

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Introduction

Clearly there will be winners and losers in the business community with respect to the Brexit process. Overall however, the UK economy will win and all businesses will have the opportunity to succeed, but only if the government do the right things.

Identifying publicly those "right things" at the earliest opportunity and describing as often as possible the enterprise economy that will be created as a result, in a positive fashion, is the best way to engage and enthuse business. It would also be more successful if business were invited to participate, for example by identifying a deregulation hit list. As much of the new enterprise economy is entirely independent of the Single Market (SM) and Customs Union (CU), but is inhibited by our membership of them, this should in no way interfere with or undermine the negotiations with the EU. In fact it should strengthen our negotiating hand by making it manifestly clear that the UK is prepared to walk away without any free trade arrangement.

Now the Prime Minister has declared the direction of travel, it is incumbent on the government to promote a vision of what opportunities lie ahead post Brexit. Not least so that business can start to plan to take advantage of these, so that it reduces uncertainty and in order to promote positive sentiment. This in itself is important to business and economic success and ultimately to the success of Brexit.

The manifest economic benefits of Brexit are entirely unrelated to membership of the SM and to the CU. In fact membership of these prevents the UK from crystallising those benefits, so any attempt to hang on to elements of these could lead us into doing nothing other than maintaining a poorer version of what we had before, rather than embracing a bright and exciting economic future.

The Decision to Leave

The decision to leave the EU fulfils the democratic will of the British people. When it is said “leave means leave” this must by its nature include leaving both the SM and the CU; maintaining continued membership of these will effectively mean we have not left the EU.

The nation state is partially defined by having control of its borders, having sole jurisdiction over judicial matters and the rule of law and having the sole power to make laws, in our case via Parliament. Continued membership of the SM and CU would subvert the above prerogatives of the nation state, quite apart from it preventing the crystallisation of the economic benefits of leaving. We would have access without any say in EU law making, yet we would still be paying the bills.

The counter factual is also an important consideration. What if we had voted to stay, how would the EU have developed?

Very probably towards having within the Eurozone a unified fiscal and economic policy, a European military command structure and combined forces. At least that is according to the script set out in the EU Five Presidents’ Report. Increasingly the Eurozone tail will wag the EU dog, with Eurozone members able to outvote non Eurozone members and with a muscular paymaster, Germany, the spider at the centre of the web.

All of these things are matters that define the nation state and that will increasingly define the Eurozone/ EU as a state and deny its members their independent status.

Implications for Business and the Economy

So much for the politics, but what are the implications for business and why should business engage with enthusiasm?

For foreign multinationals, the political and constitutional changes may not matter or may be seen at first sight as detrimental. For UK companies and UK domicile businesses, having a stable and constitutional UK, outside the EU, making its own laws in favour of free markets and free trade, should make for an attractive proposition. This is particularly so if the government sets out an agenda to make the UK the best place in the developed world in which to do business and aims to actually deliver a rebalancing of the economy; something which Osborne and the Treasury failed to do. This vision would be attractive to business but needs to be clearly articulated, repeated and enthusiastically “evangelised”.

An Enterprise Economy

The government must now set about a programme to:

1) Develop UK infrastructure:

This should be primarily Transport infrastructure, in particular motorway construction, railway construction, airport expansion, and a favourability to seaport expansion where required. Business in the north would likely prioritise early trans Pennine and inter city road and rail plus local upgrades over HS2. Similarly, in the South West road and rail improvements are long overdue.

2) Digital and wireless connectivity:

The Government should address this crucially important element of a modern economy. Small and medium sized businesses are the backbone and future of the economy. They are the greatest part of GDP, collectively the largest employer, the innovators and growth companies ("gazelles"). For these the service provision is often no better than for the domestic consumer which itself is patchy, often poor and compares badly with other countries. In particular, getting connections for new companies is lamentably slow and a bigger impediment to start-ups than any other public utility.

3) Access to loan capital:

We need to facilitate this fundamental component of an enterprise economy: access to loan capital, which covers both long-term investment and working capital. This became almost non-existent during the financial crisis but has been a very long term, historic impediment to the enterprise economy in Britain. This is in contrast to the USA and Germany and many other economies where this sort of capital is available from state-backed business banks. In fact the development of Silicon Valley depended upon it. It is hardly surprising we will never have a Microsoft of our own.

Loan capital is very unpopular in the City, as it would compete with private equity and venture capital. However, it is for this very reason why the UK has an underdeveloped mid sized business sector, as start-ups have to find capital to grow and by necessity take it in equity. They then lose control and are on track to sell out to corporates, often foreign, with the consequent loss of potential and intellectual property. Organic growth of companies is not always the preferred option, but all too often, when it is, it is thwarted by the imperative to sell out.

4) Rebalance towards exports:

We need to address this need to rebalance towards exports, which will become acute post Brexit. The current support for exports through UKTI, now DIT, is inadequate and badly targeted. The support network in the UK is ad hoc and depends very much on the experience of the advisers, who all too often have no practical knowledge of markets overseas and who have never been in business. Advisers overseas often have no business experience and are focused on soft influencing of government officials. The overseas posts provide a valuable service when the client is a large corporate wanting government contracts or government permission, but often corporates are well able to finance consultants for themselves for any other service.

The area of real need is in the dynamic medium and small sector who require practical knowledge and help - legal, tax, finance, supply chain, logistics, potential customers, trade fairs etc both in the UK and overseas. The current arrangements in these areas are woefully inadequate. Furthermore, the allocation of resources is totally unbalanced. The UK spends around £10billion pa on overseas aid but less than £400 million on DIT. Within that there is too great an emphasis on supporting inward investment rather than the much more difficult task of supporting exports. Not all inward investment is good and yet it is taken as a given that it is positive and counted towards measures of success.

The setting up of foreign sales offices, for example, counts towards inward investment and, according to the London Chamber of Commerce, much of London inward investment falls into this category and often disappears again within a year or two. Worse still is inward investment that strips the UK of intellectual property, R&D, head office decision making and even production and employment.

Effectively much investment is to acquire a brand, knowledge or to eliminate competition or a threat. Inward investment into the UK is also a short-term fix to fund the trade deficit. In the long run it adds to what is an unsustainable deficit level. Selling the “family silver” is a one-off capital flow. The subsequent outward flow of returns and worse, the loss of tax revenue, jobs etc simply adds to the problem. The UK becomes an inward investment “junkie” with an ever-worsening addiction year on year. We need a switch to meaningful export support.

The restructuring of the UK economy to an enterprise economy is very much intertwined with the development of a strong and much enhanced mid-sized business sector. This would also have profound benefit in the regions. Achieving this is in strong part dependent on access to loan capital or mezzanine finance, which sustains business growth, and to a fundamental switch to export support of SMEs, exactly the opposite of the current policy.

5) Support strategically important industries or companies:

We should not be afraid to support activities that are vital to a free-standing nation state, or to intervene where market activity would result in market failure and a substantial lessening of long-term economic value to the UK economy.

Some sectors, for example agriculture, will require support. However, support should not distort the market in goods and services to the detriment of consumers, inflation and growth. Support must be transparent and separate from market mechanisms. Free of EU state aid rules, the scope for this will be enhanced. A free-standing, nation state needs to be able to feed its people, produce armaments and provide energy and transport.

Similarly, not all inward investment is beneficial and the almost religious adherence to the idea that it is has become a doctrine of the trade department. Mergers generally but particularly foreign takeovers can be value-destroying for the economy as a whole. Especially where they create private company dominance, monopoly or remove R&D, decision making and even production and jobs.

This is not at all incompatible with the general rule of free markets, free trade and enterprise nor the proper operation of the efficient use of capital. As long as the framework is clear and provides no less certainty of the rules than at present, such a policy should work in favour of growth and enterprise.

6) Education and Training:

Business requires skilled and motivated people in order to deliver a high performance economy and to increase productivity.

Just as investing in equipment increases productivity, investing in skills drives a high skill, high wage, high productivity economy, the inverse of an economy based on cheap, imported labour.

The UK has almost 600,000 unemployed under 25 year olds, which is a national scandal. Many of whom are unemployable because of the absence of technical skills and, just as important, employability and soft skills.

Brexit will provide both the imperative and the opportunity to address the skills gap. The government must focus on an education system that provides for talents of all kinds, not just academic. We need high quality academic achievers but we also need technical skills and artisanal skills. The idea that half of young people should pursue academic qualifications rather than, for example, apprenticeships is both misguided and a catastrophic fraud on young people.

The education system must recognise the talent pools; academic, technical and artisanal and accommodate all three with equal status and funding, and provide the opportunity to switch for late developers.

The growth of both studio schools and Grammar schools should be embraced equally.

Education is however, not solely the responsibility of the state. Employers, particularly multi nationals, have been all too keen to rely on imported talent and labour and should be encouraged to commit to the UK by providing high quality training and apprenticeships.

These measures will ensure that the reduction in migration following Brexit has no negative effect on the economy, but we need to begin now.

Crystallising the economic benefits of Brexit

Creating an enterprise economy is a fringe benefit of Brexit. The compelling, direct benefits of Brexit relate to a number of freedoms, which the UK will enjoy on leaving the EU. These are entirely independent of our membership of the SM and the CU, except in so far as our membership of these prevents us from crystallising them. Just as we must leave the SM and CU to have the constitutional and sovereignty benefits of leaving the EU (i.e. if we remain in the SM and CU we will not have left and we will not therefore have fulfilled the will of the people), we must also exit the SM and CU to have the considerable economic benefits of leaving. The alternative is to have only a poorer version of what we had before; the costs, restrictions and regulations but without any say in these.

The economic benefits of Brexit are as follows:

1) The repatriation of our net contribution (around £10billion) and the better, more efficient use of the balance of our gross contribution (around £9 billion). However this is invested or utilised, whether for example in public services like the NHS or in the development of UK infrastructure, it will contribute to the UK economy. Of course, the allocation to some is better than others when it comes to economic benefit and it is recommended that careful consideration be given to the utilisation of these funds. Allocation that creates economic growth, wealth and jobs is a better use than direct investment in public services since these commercial ventures generate taxes which can then be used for public services, like the NHS - spending which is far more likely to be sustainable as a consequence. The use of these funds will help facilitate the rebalancing towards an enterprise economy.

2) Deregulation is equivalent to a tax cut for business and would benefit the economy by 0.7 per cent and up to 2 per cent of GDP.

There have been various estimates of the financial scope of deregulation. A Treasury paper in the mid “noughties” identified the huge costs of EU regulation. The Open Europe report in 2015 identified a cost to the UK economy of over £33billion for the top 100 EU laws. The British Chambers of Commerce (BCC) stopped counting after its 2010 EU regulation barometer estimated a cumulative cost of around £80 billion. Potential savings from deregulation of 0.7 per cent of GDP were estimated by Open Europe at the time of its report as the maximum politically acceptable savings from deregulating a proportion of the top 100.

Ten per cent of the Treasury figure or the BCC tracker would also yield between 0.7 - 0.9 per cent of GDP. A more bold attack on regulation would, as set out by the Economists for Free Trade group, yield up to 2 per cent of GDP.

All of these are big numbers for relatively modest deregulatory targets. In any event the government should be bold and challenge business to identify a “Brexit day plus one” hit list of deregulatory measures for consideration by Parliament.

For the purposes of stability, it is undoubtedly right that the “aquis” should initially be transposed into UK law in order to promote certainty and stability. However, this should not be allowed to persist. It should also be recognised that some multinationals will resist deregulation. Business does not like change, especially big business, who have vested interests and sunk costs in being able to use regulation as a barrier to market entry and competition. Big firms who are better able to game the system can afford to deal with complexity and also favour being able to segment markets in their own interests. For example, they can produce cheaply and sell expensively using such things as the EU exhaustion of trademark rights to prevent parallel imports.

In order to identify deregulation opportunities it is important to consult medium and small business and regulatory “experts” who have not been captured by vested interests.

Having sat for years on Mrs Thatcher’s Deregulation Task Force, which was largely fruitless, the willful forces of inertia in Whitehall and amongst their doppelgänger, big corporates, should not be underestimated.

3) The abolition of the Common Agricultural Policy (CAP) is an essential component of crystallising the benefits of Brexit. Not only does the application of the CAP lead to unnecessarily high food prices for UK consumers, it increases inflation and removes disposable income, which would otherwise boost consumer spending and thus the economy. On top of this, it artificially inflates agricultural land values, which further increases the cost of food.

The government may, quite properly decide, that along with other areas of the economy, agriculture is a strategic industry which it is necessary to support for a nation state. But these supports should be transparent and separate and not a hidden tax on hard-working families. Agricultural subsidies are not a reason to maintain external tariffs.

Support for land stewardship (coupled with a requirement to produce), but with production subject to market forces, would help drive efficiency and production, meeting both economic and strategic objectives.

4) Fisheries should be repatriated. One of tenets of the campaign to leave the EU is that Britain's fisheries should be returned to the UK and policed. Not only would this rejuvenate an industry, it would also return an enormous resource and enable the UK to better manage fish stocks and the ocean environment. It may be that this process will be, by necessity, staged, with quotas available to foreign trawlers reducing over time as the UK fleet develops. But development of the fleet should be encouraged, with all the economic and employment benefits this will bring.

5) Free Trade arrangements (FTA) with the "rest of the world" (ROTW) are a very important opportunity post Brexit and every effort should be made to pursue detailed informal discussions prior to Brexit day so that we have as near to "signature ready" arrangements available on Brexit day plus one, with as many countries as possible. These will help facilitate future economic growth and the removal of technical barriers and should focus as much on the 91 per cent of our economy which is services, compared to the 9 per cent which is manufacturing. However, it is also important to recognise that 80 per cent of the economy is not concerned with exports and will benefit from the other manifest benefits of Brexit. As will the 11 per cent, which is already associated with exports to the ROTW.

We should sacrifice none of the other benefits of Brexit, which boost the domestic economy and our exports to the ROTW by making UK business more competitive in the world market, simply in order to mollify the EU in our negotiations.

It would also be best not to promote FTAs with the ROTW as the one and only benefit of Brexit, as other benefits are significant and their delivery is entirely in our own hands. By contrast FTAs with the ROTW, including with the United States, are dependent on other parties and while business will be encouraged by the success of these, it will be even more so by recognising benefits that are more certain, especially in prospect as opposed to completion.

6) The removal of external tariffs should be a key objective of post Brexit, UK economic policy. Economists for Free Trade estimate that the unilateral removal of tariffs by the UK would boost the UK economy by at least 4 per cent of GDP and reduce inflation by 8 per cent. It is likely to be economically undesirable to execute this in one go, and it would no doubt be politically difficult. It would actually be too rich a tincture and risk overheated growth. Nonetheless, the long-term objective should be the removal of external tariffs. Initially, this should mean the unilateral removal of as many as possible, particularly on products, that we do not produce, do not produce enough of, or that we cannot produce out of season in respect of agriculture. Other tariffs may be removed by free trade negotiations or by reduction over time.

Counter intuitive as it might be, retaliation for EU applied tariffs should not be our initial response. However the threat of retaliation may need to be implied as part of the negotiation process.

7) The control of borders is not only a political imperative given the importance of security and of social cohesion, but migration control is an economic necessity.

The all party House of Lords Report on Migration identified that migration is at best of marginal benefit to the UK economy and was detrimental to the economic prospects of a significant proportion of the population; those who rely on low skill employment. In other words, while migration may increase the size of the economic cake, the slices get smaller and as skilled workers and investors take bigger slices, the rest are left worse off.

Supporting this, the group Economists for Free Trade have concluded that migrants occupying low skill jobs cost the UK Taxpayer £3500 per migrant, per annum. As a consequence the control of borders and thus of migration will be a great benefit to the economy.

Of course, the UK will continue to need skilled workers from overseas where there are skill shortages or the best talent is out with the UK. A post Brexit work visa system, or similar, should reflect this. However, this should not be a substitute for educating and training home grown talent.

Given the current make up of the labour force, foreign nationals currently residing and working in the UK and their existing dependents should be allowed to stay, subject to a cut off point.

Foreign students are a “service sector export” as educational establishments generate revenue from the sale of educational services.

Students also provide a talent pool from which the brightest and the best can be chosen by UK business and provide a global network when they choose to return home.

As a consequence, undergraduates should not be counted towards immigration until they graduate, and should only be allowed to stay if they have a work visa or have created a business with a set level of wealth or investment.

UK businesses, including multi nationals, should be encouraged also to develop home grown talent.

Benefits of Brexit

The catalogue of benefits outlined above need to be “evangelised” in order to positively engage business, an activity which should best address business directly, bypassing the vested interests of the business groups.

Many of these benefits have not been publicly recognised by government and certainly not by the media who still preface every good news story with the words “despite Brexit”, especially the BBC, ITV and to an extent Sky. Of course the Guardian and FT are beyond the pale in this respect.

It is vital that the government must not be drawn into prolonged and ultimately fruitless negotiations with respect to “access” to the SM and CU or to a EU FTA. Ministers should concentrate on limited resources, time and effort on preparing an enterprise economy and they should be ready to crystallise the true benefits of Brexit outlined above.

The government should make an early judgement call as to whether FTA negotiations with the EU are likely to be fruitful. If not they should transfer resources to focus on the real benefits of Brexit.

Clearly, there will be a need to settle many administrative arrangements with the EU - Open Skies, visa arrangements, residency, customs documentation, passporting/equivalence, etc. Time would be better spent on these and on preparing an enterprise economy.

Conclusion

Positive sentiment is important in many spheres; politics, sport, war and no less so in business. A vision of a bright economic future need not in any way undermine the government’s negotiating position, albeit it might create political argument domestically. It would, however, create the atmosphere for economic success, jobs and growth and strengthen the UK’s negotiating position.

Optimism breeds success. Business people, especially entrepreneurs, are natural “glass half full people”. If they were not positive, they would never take the risks that they do. They respond to a positive message based on a sound and credible perspective. The starting point for building this momentum is to create a narrative explaining the economic benefits of Brexit and a vision of an enterprise economy.

Leave Means Leave

The Leave Means Leave campaign has been established to provide support, evidence and arguments for a genuine exit from the European Union by the United Kingdom. It is based upon the primacy of the UK making its own laws, trading openly across the world outside of the Single Market and Customs Union, with no tariffs and having full control of its own borders.

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