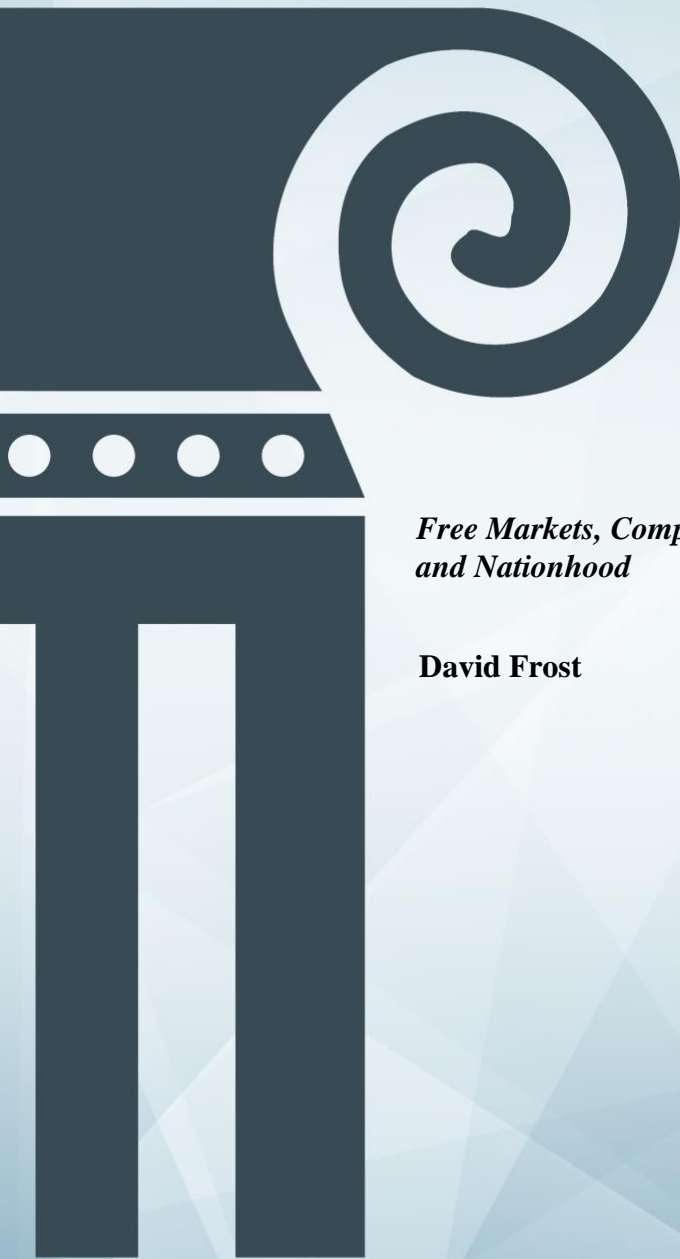


POLITEIA



*Free Markets, Competitive Business
and Nationhood*

David Frost

A FORUM FOR SOCIAL AND ECONOMIC THINKING



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A Forum for Social and Economic Thinking

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*This text is the edited version of the analysis given by the author to Politeia's conference series, *Getting UK Business Down to Business – A Bonfire of Controls*, in late November 2022

Free Markets, Competitive Business and Nationhood

The problems that this country faces are significant and deep. To solve them we will need a flourishing and competitive business sector, and the “bonfire of controls” alluded to in the title of the series will eventually be necessary, but it will not be enough on its own. The ground must be prepared, and, rather than rushing at things, we must shape the politics first. There is no short cut for that and these proposals indicate how we should go about it.

Now is an opportune moment to start. British politics is at a moment of stasis. Indeed some would call it an ideology-free zone. There is no election in the offing, and so far the government has not set out a clear ideological direction: indeed some of its actual actions appear to make a number of its own supporters uneasy. Meanwhile, the economy is gently sliding into recession.

That is perhaps why, despite all the present challenges, there is a curious sense that we are stuck in the political doldrums. The space this creates is perhaps one of the reasons why we seem to be re-running the debate about Brexit. Plenty of the small but vociferous dyed-in-the-wool Remain community consider that Labour might win the election and that therefore a change of direction of travel on Brexit, perhaps some softening, might be on offer. Hence all the noise around the supposed costs of Brexit and the attempt to get it firmly into the political bloodstream that ‘Brexit is failing’.

This isn't the place to labour the point now as to why they are wrong. There is of course a small cost from leaving the single market and the customs union, almost certainly well under one per cent of GDP. We've seen a few percent off our goods trade with the EU, similarly inevitably, but that is not the same as GDP. Indeed, for advanced economies, the connection between GDP and trade, if any, is certainly not direct. Moreover there are consequences to bear from the costs of the pandemic and the Ukraine war.

Despite all this, according to the OECD's most recent analysis and forecasts, the UK has been the fastest growing major European economy since it left the EU transition period at the end of 2020.

The UK Economy - Strengths and Weaknesses

That is not, of course, to deny that there are significant economic, and indeed political and cultural, problems. There are. But they go back much further and it is important if we are to 'get business back to business' to look honestly at them.

There is no reason to be too bleak. The UK has major strengths – internationalism and openness, entrepreneurialism, the tech scene (if we can keep it), science and research, the City. It is still a large economy. It has global significance in ideas and policy-making, with disproportionate influence but also visibility. And it is not in the creaky and dysfunctional Eurozone with all the extreme risks that come with that.

However, there has been a major productivity problem since at least 2008. Much intellectual effort has gone into analysing why. The truth is that many factors are very likely involved. A collapse in financial services productivity after the crash, restrictive planning laws, high house prices affecting labour mobility, high levels of migration discouraging capital investment and up-skilling by firms and individuals, decline in quality of education system, drag from poor public sector productivity, our decision to embark on a particularly deranged version of net zero entailing super-high energy costs for business and no doubt much more.

Of course not all of these problems are directly caused by EU membership, but it does bear repeating that the productivity collapse came over a period when the UK was more integrated with the single market than at any point in history, when it was fully part of EU services and indeed financial services regulation, and when migration levels were at historic highs. The zealots might try to argue UK performance would have been even worse without this but it seems improbable. More plausibly, the deepening integration into the single market was orienting the UK into a particular position within that market, a broadly low-value-added, fairly low-skill, largely service economy sustained by some advanced manufacturing, the City and related services, and by scientific and research excellence based around a small number of world class universities, all – because of the pull of the single market – highly centred on south-east England. This, what that early Eurosceptic and Scot Bill Jamieson derisively called ‘Benelux West’, was becoming our designated role in the broader European economic area centred on Germany.

Changing the Model

This model was rejected in the 2016 referendum. There is a huge opportunity now to change it - but it is an opportunity that, if not properly, thoughtfully, and systematically taken, could easily expose the UK. No longer does the option exist to avoid thinking hard about the national future and to simply go with the flow of European-norm policies. Now the country needs to think for itself, but, just at this crucial moment, appears to have lost the ability to do so. Indeed the British ruling establishment seems, to a significant extent, to have lost the will to govern effectively - as has been all too painfully apparent in the last few months.

EU membership is, in my view, the underlying cause of this broader malaise. It didn't have the same effect on France or (maybe) Germany because they saw the EU as *their* project, one they had to invest in and think strategically about if it was to work. We never did. The UK never sought to rule it, at times sought to shape aspects of it, but by the end sought only to resist it. Now out, it finds it hard to think strategically and systematically about how the country should be governed - and people can see it.

That doesn't mean Brexit was the wrong thing to do. Far from it. Brexit is the way to stop genteel decline, not the cause of it. Brexit is a necessary, but of course not sufficient, requirement for tackling the UK's problems. To do that a deeper malaise must be dealt with.

How? First the focus must be on the fact that politics in this country now involves two sets of issues: economics and values.

The first, economics, is well known. There's a spectrum of views, from free markets at one end through to social democracy and socialism at the other. Conservatives are fairly distinctively found at one end of this spectrum, socialists at the other.

The second issue, values, needs more comment. It's a spectrum at one end of which is nationhood and community and a sense of place, a belief that the best way we have found of organising a democracy, with all the arguments that come with it, is within a nation state with some established traditions and conventions. Patriotism, established institutions, a degree of social conservatism, control of borders and migration, family, history, religion, duty, are all part of this.

At the other end of this spectrum is "globalism". The word may already be tainted but, using it in a non-pejorative sense, it perhaps means a belief that the main forces in modern politics are not nation-state based and do not depend on tradition, but rather are about personal autonomy and fulfilment, and about non-geographically based communities, regional or global ideas, norms, regulations, and institutions. There's a belief that barriers to these things are in principle undesirable, if sometimes necessary in practice, that the ideas themselves can be constantly reinvented, and that established ways of doing things can and should be overturned if there is a justification for it. In my view, Conservative politics does not at the moment appear to be in the right place on the economics and the values spectrums. Since 2010, there have been, to differing degrees, free market policies with a large element of globalism and social liberalism; followed in the 2017 administration by elements of social conservatism,

nationhood and economics seeming to drift-leftwards into social democracy and the belief that a cohesive nation must necessarily have high levels of government tax and spend too; then followed by the final delivery of Brexit, then Covid, with a rhetoric mix of all the above elements.

Indeed, overall, there seems to be a very heavily embedded belief that if you are a free marketeer, you must be a globalist, and if you are a social conservative, you must also be a social democrat.

This is mistaken. There is another approach, and unless the UK adopts it, the country will not be able to achieve the changes needed to make Brexit a success.

Free Markets and Nationhood – Making Brexit a Success

That other approach is to see free markets and nationhood, not as contradictory, but as *mutually reinforcing*. The way forward for Brexit conservatism is free markets in the economy and nationhood and social conservatism in values - at one and the same time. If nationhood and social conservatism are ignored, all the things that make a country a country are ignored. Equally, if free markets are ignored, economic decline follows. Both are needed. Indeed, the more emphasis there is on free markets , the more social conservatism is needed: only the sense of community and nationhood makes the constant churn and change of free markets in any way tolerable. Without it there will not be the bonfire of controls that is so needed.

Why is the government not putting this mix on offer?

First, there seems a very strong “business liberal” view within the Conservative party, and beyond - a view which seems insensitive to that part of politics that keeps a nation a nation, but rather sees everything in terms of reducing barriers, and sees people purely as factors in production - as we have seen from the migration discussion recently.

Second, there has grown up a strong current of support within the Conservative Party for an “active state”, a state which doesn’t just do its core job but gets assertively into areas like industrial policy or skills policy, a state which has created a universal credit system that now supports people earning towards the average wage, a state which increasingly seems to see equality of outcome as a goal and which believes itself capable of taking on any task towards it. This really should be a heresy for Conservatives, who should recognise that a government is no more likely to get the best outcomes purely because the people in charge of the government are, at least nominally, on the right rather than the left.

Third, and finally, and this is in my view the most difficult problem, there is the very marked devaluation of the idea of freedom in Western societies. As a country, indeed as a broader Western civilisation, this country has become very collectivist. I have written elsewhere about why that is¹, but the result is that society tends to look to governments for solutions and to protect people from harm. The model of the self-reliant individual is in rapid decline. Although the country is much richer than when the welfare state was created, high levels of taxation mean it is hard for individuals to hope to create the wealth that will see

¹ <https://policyexchange.org.uk/publication/holy-illusions/>

them through difficulties. The contributory principle in social security has collapsed and instead we see a growth in universal basic income ideas, the ultimate end of which is that all resources are the state's and people just get pocket money.

So, because government is required to be there to protect everyone from harm, when it does try to deregulate in one way or another, there is instantly a cry of 'this will hurt group X' and the process stalls. This can be seen in the current debate about our planning laws. But if this trend becomes dominant, and the 'nationhood' route is doubled down on, we end up trying to protect people from change or challenge of any kind, and delivering social democrat and protectionist economics - the view that sees our Australia trade deal as a bad thing.

The only way out of this is to change the politics, begin to reverse the trend of the last 50 years and get people taking responsibility for their own lives again. The role of the state in the *economy* must be reversed, and at the same time the state should aim to be more effective and capable in supporting the institutions and culture of the country, so addressing concerns about *values*. The state must work better in its core functions - police, justice, controlling borders. It should be ready to protect fundamentals such as free speech, the family, and our national history. The greater the success in doing this, the easier it will be for people to support the necessary reform programme, the necessary deregulation, reform of employment law, environment law, product law, reduction of tariffs, plus the necessary reduction of spending and taxation, the necessary reform of public services, over time.

This will be a slow process. There is no point in thinking it can be rushed. The example of the Truss government indicated what happens when there is inadequate preparation. The ground must be made ready, and, crucially, rhetorical clarity and a sense of political direction established. Instead of what too often seems like random messaging - assaults on the “woke” agenda, criticism of illegal migrants, disconnected demands for deregulation in different areas - coherence must be applied to the agenda, and a clear philosophical view of Brexit conservatism created – a ten year plan, aiming to reduce tax and spending as a proportion of GDP to the levels of successful countries like Switzerland or Israel, to implement the economic reforms needed to make this work, and to rebuild a country within which these reforms will pay off.

And finally it should be made attractive. In his book “Mass Flourishing” from 2013, Edmund Phelps says “*There is little awareness of how valuable modern life was [note, he uses the past tense]. There is no longer in America or in Europe a sense of what mass flourishing was like. Nations with brilliant societies a century back, say France in the roaring Twenties, or half a century ago, America in the early sixties, have no living memory of wide flourishing. Increasingly the processes of a nation’s innovation...are seen as a pain...The processes are not seen as the stuff of flourishing – the change, challenge, the lifelong quest for originality, discovery, and making a difference.*”

As the custodian of economic and political freedoms, and of nationhood and patriotism, the government and its political leadership should move from a defensive crouch. Instead, it

should remind people what it means to have growth of 3 per cent a year and a country to be proud of the expansion of human potential, the reduction in social conflict, the increased sense of possibility, the enhanced ability to direct your own life rather than always being subject to the decisions of others. If there is to be a bonfire of controls, ‘control’ must become a bad word again, and “freedom” a good one. To say that is to underline just how far there is to go. All the more need to start now.

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