



AS PREPARED FOR DELIVERY

**“Reinvigorating capitalism...
a Conservative case for growing the economic cake post-Brexit”**

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13 September 2018

Unscrambling the Compass: the Conservatives, business and capitalism

Ten years ago, Lehman Brothers went bust. It wasn't quite the beginning of the Global Financial Crisis. But it signalled that it really was a crisis. A decade later, many people in Britain and elsewhere are still trying to make sense of it.

Discontent with capitalism and with business abounds

One popular story is that the crisis was a reckoning, a judgment on a failed system. The near-collapse of the Western banking system and the long recession that followed are taken by some to be a sign that liberal capitalism and free markets were fatally flawed. ...that the long period of steady growth since the early 1980s, what Ben Bernanke called the “Great Moderation”, was really a grand illusion. ...that capitalism had been a big mistake all along.

This has been a field day for far left around the world, from Syriza in Greece to Bernie Sanders in the US – and it played a major role in the takeover of the UK Labour Party by its hard Left, almost exactly seven years after Lehman failed. This week we've seen Jeremy Corbyn and John McDonnell setting out their plans to dismantle the free markets should they take power, reintroducing mandatory sectoral wage bargaining and Bennite schemes for worker control.

That the IPPR, once the Blairite think-tank par excellence, released a report on the economy this week that was warmly welcomed by John McDonnell is a sign of how total Corbyn's victory has been. The Left think capitalism's goose is cooked, and they can't wait to carve up the carcass.

But it's not just Labour. One of the things I've been doing as universities and science minister is going around the country, talking and listening to students and young people. In most of these meetings, I've asked what we could do to raise prosperity for the next generation. And you know what? I never got an answer that was not about raising taxes and spending more. The idea of



growing the national cake, or moving up the economic league table so there would be more to share, never comes up.

So why am I here? I figured that the far Left have got their ambassadors – from Stormzy to the Archbishop of Canterbury – and a grassroots operation, Momentum, to spread their ideas. I think we need a similar renaissance on the Right...with our thinkers, our musicians, our artists, and our politicians all making the case for open markets...and the CPS has to help lead the way.

There is a long charge-sheet against capitalism, and some of it is justified. When some big businesses can privatise profits and socialise losses, as the big banks did in the financial crisis, you can understand the thirst for revenge among the populace. It's also true on a day-to-day basis.

The email I got today from a constituent complaining that a utility company had hiked his bills by 20% for no reason is depressingly typical.

We've got to be honest: capitalism is not perfect. But it is the best system we've got. To those who say that true socialism could work, but hasn't been tried – I say: I do not want my children to be guinea pigs for a Marxist experiment. And this is precisely what it would be. Let's not forget that some of the plans and policies that Corbyn's Labour most admire are those that were too crazy even for the 1970s left, from Sweden's socialist Meidner Plan to forced worker cooperatives in the UK.

What's the Right thing to do?

This brings me to the subject of my talk today: what the Right in the UK should make of all this.

The fortunes of the British Right in the last century have been shaped in no small part by our relationship with business, and with capitalism. The Conservatives' remarkable electoral success in the last hundred years has relied on it. Not just because we have had, for most of that period, a reputation as the party of business, and the party of sound economic management. But also because we offered a vision of how capitalism benefited citizens. Our electoral success was based on our ability to reinvigorate capitalism – not fix it – in order to match the challenge of the time .

Between the wars, we offered Noel Skelton's "property-owning democracy". As Britain was rebuilding itself after the Second World War, we were comfortable with consumerism and the birth of an affluent society. And as the Seventies rolled into the Eighties, Margaret Thatcher grasped faster than anyone the dynamics of the entrepreneurial, post-industrial society that



Britain was becoming. The genius of her government was in her *diagnosis* of what the world of the 1980s was about, as in her policy *prescriptions*.

We are at our best when we are pro-enterprise and pro-endeavour, and when we do this in a way that is clear that our motive is to make the world a better place and improve the lot of ordinary citizens.

But if all voters hear from us is an echo of the Left's concerns, and singing from Labour's hymn sheet, without an enthusiastic and full throated endorsement of open markets, we will have only ourselves to blame when turn away from capitalism. We know we are the party of sound economic judgment, but we also need to offer an optimistic vision of the prosperous country we want to create.

So: how are we measuring up? Well... Firstly, let me share with you a story about fascinating pieces of research which epitomises the current relationship between parts of the Right and Business. It was carried out a decade ago, coincidentally about the time that Northern Rock and Lehman Brothers were going under.

A team of psychologists from Germany's Max Planck Institute for Biological Cybernetics asked a question: what happens to people who find themselves in the wilderness without a map? They recruited volunteers and sent them to remote places - a thick forest, open fields, the Tunisian desert – and recorded where they ended up. Without a map, unsurprisingly, they all got lost. But interestingly, they all got lost in the same way. Very quickly, all the volunteers ended up walking in circles, and quite small ones, endlessly retracing the same steps. Sometimes they turned to the left, sometimes to the right, but all going nowhere.

When I look at how we on the Right have reacted to the perceived failings of capitalism, I can't help thinking of those volunteers as a salutary warning.

Disconcerted by what seems like a change in attitudes to business, and by the cumulative surprises of the financial crisis and the EU referendum, there's a risk that we find ourselves going round and round in unproductive circles.

And like the hapless volunteers in the experiment, the circles can begin by turning left, or turning right.

Sometimes we appear to accept criticisms of capitalism at face value and out-Corbyn Corbyn...a futile task. At other times, we seem to want to take on the mantle of Trumpian economic



nationalism and protectionism. And sometimes we just reach for the old playbook, implying that if we simply deregulate and cut taxes, all will be fine.

The end result is we can look confused and directionless, like the hikers in the experiment. We simultaneously risk conceding the arguments of the populist extremes of both Left and Right, while also seeming complacent about people's concerns.

When Conservatives veer between talking business down, ignoring voters' concerns, and telling businesses to shut up – or worse – it is clear sign we have lost our way. When it comes to our relationship with Business, we must unscramble our compass if we are to stand any chance of defeating the hard Left. We need to find our way, and quickly.

Unscrambling the compass

If you're lost in an unfamiliar place, like the volunteers in the study I talked about earlier, there are three things you need to do.

First of all, you need to get some sense of where you are. Secondly, you need a reference point, some fixed object to guide you. Only then, can you make a plan to get yourself to where you want to be.

The same is true in politics, more or less. First, we need to take stock of the current economic position we find ourselves in, and the challenges we face. Then, we need to remind ourselves which way is north – in other words, the principles and values that we will adhere to. And based on that, we develop a plan of action.

The state we are – and aren't – in

So, how do we win this fight. We must start by defending our record on the Economy... these are points you won't hear at a Momentum rally:

- **Employment** is at record highs, and unemployment at record lows. This did not happen by accident. So when Labour say they want to raise corporation tax, we should ask them: what price do you want to pay? How many jobs are you willing to destroy? Let's celebrate and salute those who take risks, build businesses and create jobs.
- The **deficit** continues to fall, thanks to the policies of the Coalition and of the present government. But for many young people I speak to, austerity is seen as a central tenant



of Conservative faith. We should always be clear: austerity was not a matter of religion, but a matter of necessity. And without it, we all would be worse off.

- There is good news too when it comes to **inequality**. For all the talk of rising inequality around the world, inequality in the UK has fallen to its lowest levels in 30 years, according to the Office for National Statistics and the Institute for Fiscal Studies.
- And it was a Conservative government that delivered the living wage and our flexible labour market, which cushioned people in their jobs during the great recession.

We also need to recognise what our record and success rests on - our “can-do” optimism as a country. No where is this more obvious than in the area of technology and the industries of the future.

The UK is undoubtedly the UK’s tech hub. We play host to 13 of Europe’s 34 tech unicorns. More venture capital is invested here than in Germany, France and Sweden combined. In 2017, our tech sector grew 2.6 times faster than the economy as a whole, increasing by 4.5%.

This is a far cry from the picture that John McDonnell would paint of our country.

And why are we so successful: our strong, agile **institutions**...our capital markets...our widely admired legal system...our world-class universities. And others that sometimes get less recognition, like our intellectual property regime.

Britain is a beacon of global excellence.

Our enduring strength is our openness and our tradition of entrepreneurship. So as we look to the future, we need to double down on these strengths.

Our guiding values

So we are doing well and have the right foundations for a bigger, brighter bolder future. But if we are to fend off McDonnell and his Momentum hoardes, we must also be clear and confident in defence of the values that underpin capitalism and open markets. We should not be cowed in defence of timeless and proven values.

There is a **moral case for free markets** that is even more important than the material one. As the American writer Conor Friedersdorf put it, “nothing better protects minorities than a system where they can pursue their needs and wants outside the realm of popular control”. Free markets are



inherently liberal – and they give people more choices than a system where the government, even a democratic one, decides who gets what.

Some of my colleagues have said that the Archbishop of Canterbury was wrong to hold forth on his views about capitalism this week. They've said politics and morality don't mix. I say the opposite: economic growth is a moral issue, and I am convinced that capitalism is the best way of delivering it. I extend the hand of friendship to the Archbishop, and I'd be more than happy to debate this with him – perhaps over a Deliveroo pizza, with an Uber dropping us off at home afterwards.

As Conservatives, we believe that individuals are better interpreters of their own destiny than bureaucracies or impersonal forces. Institutions or rules cannot solve all our problems, and they have a tendency to grow; to counteract this, we must assiduously create space for individuals to thrive, and resist state overreach.

This means I put a lot of store on **enterprise and initiative**. A society that empowers individuals and businesses to innovate and to compete will do better than one that stifles those urges.

Finally, I'm an **optimist**. I'm optimistic for Britain's future. I'm also an optimist about technology, science and the future. Every technology of the past, from the computer to the aeroplane to the power loom, had its detractors, worried that it would upend society and change things for the worse. These worried have not always been baseless, but the benefits of innovation have massively exceeded the downsides. Instead, technology has made the modern world more prosperous than any society in history. There's a pragmatic reason for my optimism too: if Conservatives treat the modern world with scorn and scepticism, the modern world will return the favour. Optimism is intellectually justified - but it is also good politics.

A Plan

Our plan for the future has to have enterprise and innovation at its heart. If we want Britain to prosper, we need to commit to being a place where entrepreneurs and businesses can thrive and take on the world.

What this means is we need a New Model Economy. It must be based on entrepreneurship, innovation and new approach to regulation that allows them to flourish.



Too often, society only recognises entrepreneurs when they've made it – and then it take their success for granted. But for most of them, it is a tough, often lonely process where you try and try again, and often fail. We should make it easier for them to succeed, and celebrate their success.

How then do we do this?

A good place to start is by talking the talk. We on the Right must state unequivocally that we believe in entrepreneurs and risk-takers and that businesses matter to us. There are times in politics when talk is cheap, but given the mixed messages about business from across the political spectrum, now isn't one of them. Stating our beliefs is an important place to begin.

The next thing we need to do is to recognise that enterprise is an international undertaking. Look at countries that have become prosperous through innovation – Israel, Ireland, Singapore - and you'll see that they all share a profoundly international outlook. As the computer pioneer Bill Joy said, “no matter how good you are, the best people work for someone else”, and what is true for tech companies is true for countries too. This is certainly true if we look at our most dynamic startups – a majority of the UK's tech unicorns were founded by people from overseas. We need to make sure the UK is open to trade, that we provide a welcome to the brightest and the best, whether they are students, researchers, businesspeople or company founders. Because these people, like our own best and brightest, have a choice about where they live and work. We must give them a reason to be here.

We also need to think seriously about **how these businesses are regulated** – especially when technology is changing industries fast. But this isn't because, as some have suggested, governments in the UK or elsewhere have somehow taken our foot off the pedal when it comes to regulation. Nor is it simply a question of cutting regulation: the old one-in two-out model. It's because the challenges are changing as we see more information-rich businesses with novel business models. We need new, tech-savvy rules and processes to deal with the challenges of a new economy, and enable the businesses of the future to thrive.

Take one example my department has worked on: when people used search engines like Google to search for films or songs, rights-holders discovered they were often being pointed to pirated content. This is bad for artists, and discourages the next generation of creators. But it's hard to deal with under existing rules. It required careful, government-brokered discussions between search engines and rightsholders to reach a fair deal. As technology changes business models, it's the sort of nimble regulation we'll need to see more of.

And nimble regulation doesn't just help stop market abuses: it also benefits consumers.



Government needs to understand when rules need to change to allow new business models, from Uber and electric scooters to challenger banks and fintech. When I was a backbench MP, I wrote a report proposing the quantitative easing be channelled through alternative lenders like Funding Circle, as well as the big banks; in a small way, this helped the UK's alternative finance sector grow into the global force it is today. Now, with the same end in mind, we're setting the Regulators' Pioneer programme to get more regulators thinking in a tech savvy way, so they can protect consumers without stymying honest entrepreneurs.

We face challenges from robots, AI and automation, which will change the way we live and work, and lead to different ways of working. If we react to those challenges with attitudes built for the old labour-intensive economy we will lag behind the rest of the world. This is the kind of thinking we need to deal with the so-called Gig Economy. Just attacking it is a cheap shot. Instead, we should champion the job opportunities and flexibility it allows, rather than trying to regulate it out of existence.

It needs to start from an understanding that new technologies have the potential to improve things for consumers and for workers, and that they need tech-savvy regulation – which will take careful thought, which is what the review of modern employment practices led by Matthew Taylor has been doing. It needs to respect that some employees value flexibility, and that new employment models can benefit both worker and consumer. But at the same time, it must recognise that it's wrong to use new employment models to exploit what are in practice full-time workers.

This is precisely what Labour's recent proposal to simply treat all gig economy workers got wrong – it ignored the potential of new technology, and sought for ideological reasons to simply impose old economy regulation. This process of building new institutions won't be straightforward, but it is a vital task for government if we want a prosperous economy that works for everyone.

Another challenge will be getting tax policy right for the new economy. We've lowered tax rates for businesses, and it's right that we should be aiming to have one of the most competitive business tax regimes in the world. The quid pro quo is that companies should pay their taxes. I'm proud that it was a Conservative government that put tax and tax avoidance on the G7 agenda, and we should continue to be on the front foot when it comes to making sure our tax system is fit for the modern, intangible-intensive economy.

The new economy will also require new approaches to finance. Entrepreneurship cannot flourish if businesses can't raise the finance they need to grow. Increasingly, the most promising businesses have few tangible assets that banks are willing to lend against – and getting bank



finance for early stage businesses was never easy to begin with. A small minority of businesses solve this problem through venture capital.

But we should be helping more businesses access equity finance, ensuring working with institutions like the London Stock Exchange, with its ambitious programmes for high-growth companies. Increased equity ownership also creates more chances for ordinary people to own a stake in the economy – an essential part of popular capitalism.

Government has a role to play in investment too. This is particularly true when it comes to R&D. If we want to make the most of the coming technological opportunities, we will need, as a country, to invest in R&D and innovation. Most of this investment needs to come from business. But economists have long recognised that the uncertainties of R&D mean that government needs to coinvest alongside business, either through tax credits or through public research. This is exactly what has happened in countries like the US and Israel, whose tech sectors have become global leaders.

As technology becomes more important, this role will grow – which is why the Government has committed the biggest ever increase in public R&D funding – and why we have even more ambitious goals for the future. It is already reaping benefits. One example I'd point to is the success of Genomics England, the organisation set up with the support of the Coalition Government to sequence 10,000 human genomes. Many thought it would never work. But through a bold, entrepreneurial approach, it has established itself as a world leader in genome sequencing, and has positioned the UK for success in this important field. I see the same in other fields: the UK's dynamic, entrepreneurial space sector; our world-leading nuclear fusion researchers; our deep expertise of artificial intelligence – they all rest on a combination of entrepreneurship and public investment. We need to think big, and to back the kind of moonshot projects that will help us prosper as a nation.

Done well, this kind of investment can also address the regional inequality we see in the UK. I believe that many of Britain's great cities and towns have the opportunity to become the centres of thriving tech clusters, generating jobs and improving wages not just for tech workers, but for the wider economy. Enrico Moretti's work showed compelling how this kind of innovation-driven growth has the potential to deliver not just for the well-educated, but for the whole population. We should heed this lesson.

The other area for public investment is skills. When I talk to the founders and CEOs of Britain's fastest growing businesses, they're quick to tell me that the difference between success and failure is their ability to hire talented, skilled employees. And they are clear that success in the



new economy is not just about science and tech skills. Skills like management and creativity matter too – as anyone who's run a business will recognise.

The OECD this week pointed out that employers' demand for graduates shows no signs of slowing – it shows it's all the more important to make sure our universities are providing high quality teaching. It's why I've been tenacious in pushing them to deliver value for money, in cracking down on grade inflation, essay mills and "bums on seats" courses, and in publishing data to help applicants understand the returns from different courses.

And the coming months are the right time to make these investments.

One thing that Leavers and Remainers agree on is that leaving the EU will be anything but business as usual. It offers us a once-in-a-generation chance to ask ourselves what sort of economy we want to be. If we are to make a success of it, we need to seize this chance, seize the future, and invest in it. We need to do so in a spirit of optimism: optimism about the future, about our country, and about capitalism itself.

Some people might think that it's self-indulgent to spend time now thinking about the future of the economy. That we've got plenty on our plate with Article 50 and the process of Brexit. That the next General Election is far away. I disagree. We need to unscramble our compass, find our way, and proclaim our plan. This battle is being fought now – and it is one we have to win.