



WHAT DOES THE CURRENT PRIME MINISTER THINK HIS SUCCESSOR'S POLICY SHOULD BE?

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Unlike most outgoing leaders, Boris Johnson had a high-profile moment to give some advice to his successor at his final Prime Minister's Questions. Boris did give some very pithy advice and both candidates should pay close attention to it.

Stay close to the Americans

This was his first exhortation. Boris clearly understands the importance of the transatlantic relationship. His work on the Atlantic Charter represents a huge opportunity for more US-UK cooperation especially in the security and economic spheres. We must now agree a common approach to dealing with the global economic issues which plague us and part of this will involve a common robust economic approach to the big market distorters in the world. Nothing would alienate the Americans more than muddled thinking on China. The establishment view of China has always been to make money off its distortions, essentially underwriting the fix. It has taken the UK a long time to reverse its dangerous direction on China. Dealing with China is the biggest preoccupation of Republicans and Democrats alike. We simply have to be robust and there is no room for caving to establishment groupthink on this. Here Tom Tugendhat is to be commended. As foreign secretary, Liz Truss's position on China has been very clear, and she has further articulated a vision of a network of liberty countries being pulled together to deal with this threat and using AUKUS to help deal with security issues as well. But there will continue to be big fights here as the establishment has been significantly penetrated by China.

Support Ukraine

Boris, Ben Wallace and Liz Truss were perhaps the only statesmen in world affairs who understood the importance of standing up for Ukraine and that it mattered immensely that their people were standing up for themselves. President Zelensky could easily have accepted President Biden's offer to get on a plane. If these three people had not stood firm, we would now be debating how much of Ukraine should belong to Russia. The UK fulfilled its calling and purpose by alone embarrassing the EU and US to change their approach. That is real leadership and it needs to continue. We need to increase defence spending to levels which will be necessary to provide that sustaining support.

Fight for freedom and democracy

Freedom, as Ronald Reagan famously said can be lost in a generation and needs to be zealously guarded. The Foreign Secretary's push for a "network of liberty" countries recognises that there is a battle on a number of levels for the world's operating system. Economic freedom underpins freedom of action, a sense of agency and all the things that we in the West often take for granted. But it is time that we actually took serious and robust measures with countries that deviate from these norms. While China is often a poster child, we have seen what other cronyist governments such as Russia are prepared to do.



Deregulate where you can

Sometimes this word is misunderstood. After all, it suggests less regulation is always better than more regulation. But in economic circles, it really means regulation that burdens business and ordinary market competition less. But some still regard the debate as a binary “more regulation” versus “less”. We need to ensure that we promulgate regulation that is the most pro-competitive possible consistent with the regulatory goal, which must be legitimate and publicly stated. By most pro-competitive, we mean regulation that damages the ordinary process of competition as little as possible. We must apply this logic to retained EU law and come up with new approaches to the EU’s hazard based/precautionary regulatory system which seeks harmonisation around the world. Instead the UK should have a regulatory system that can interoperate with other regulatory systems on the basis of equivalence, adequacy but that crucially allows regulatory competition. It is only through competition that we are likely to land on the most competitive form of regulation.

The regulatory reform agenda is vital and also linked to staying close to the Americans. Locking ourselves into EU regulations or putting an EU collar around our regulatory system as some in the Cabinet seem to want is fatal to these twin objectives. This is where the real battles will lie. There are powerful establishment and incumbent business interests who do not want to change. The fights on these issues have typically pitted Liz Truss and Jacob Rees Mogg who are in favour of deregulation and competition against many ministers who have acted like channels for this incumbent power. Since this and external trade policy are the economic opportunities that Brexit allows, whether a candidate voted leave or remain is not relevant. The battle lines have already been drawn. They are between those who push hard for a liberalising trade policy and domestic regulatory reform such as the Brexit Opportunities minister, the Secretary of State for Trade and the Foreign Secretary, or the Treasury which has blocked it. On trade, agreements must be generally liberalising not vehicles of more protectionism. Again Treasury, along with DEFRA and BEIS tend to resist change as these departments tend to be most captured by incumbent interests. This is not a criticism of those departments, but is merely the reality of the pressures they are under. It will require strong and convicted leadership to break through this.

Ignore Twitter

A bit unusual as policy advice perhaps, but there is a wider point. Twitter has become an echo chamber for two core groups, left wing activists, journalists looking for stories, and the establishment (sometimes there is a common thread between all three). But Twitter is not representative of ordinary working people outside the Westminster bubble. Ultimately no-one who matters in elections pays much attention to it outside of that world. Because of the nature of the people on it conventional wisdom and groupthink generally prevails. Twitter would never have approved on any transformative changes or pushes against the status quo. There is a connection between cultural wokeness and policy groupthink both of which prevail on social media platforms generally. That cultural wokeness and an inclination towards interventionism and government control as expressed in anti-competitive regulation go hand in hand.

Don’t always listen to the Treasury

The outgoing PM was very much referring to the importance of policymakers avoiding groupthink. Perhaps the best example of it is to be found in Treasury orthodoxy which makes a number of assumptions. First there is an assumption that economic interactions are zero sum. Hence if some



policy is suggested, it must be costed and “funded” by tax rises. Like accountants, books need to be balanced. This all sounds good, but we know that economic interactions are non-zero sum in nature. Economic activity in the private sector does create “something out of nothing” if voluntary exchange is allowed so that firms can meet human needs without anti-competitive distortions. From this false assumption, we get the stale debate that pits “growth” against “austerity”. The second assumption relates to the measurement of GDP itself. GDP includes government spending and is therefore not a good measurement of a country’s private economic activity creation. Indeed GDP statistics recently showed Northern Ireland having higher GDP growth than the rest of the UK at one point. But this does not factor in the enormous government spending and public sector dominance in Northern Ireland. As long as officials use GDP as a measurement, we will have policies that do not differentiate between public spending and the creation of private economic activity. In order to create wealth we must prioritise private sector economic activity. In addition, where public sector spending extends into areas where the government should not be operating a service competitive to private firms, private firms themselves will be damaged as they cannot compete against government subsidy and privilege. For too long in the UK this type of government activity has grown unchecked, growing substantially and under the radar in the Blair/Brown years, and not significantly rolled back since. Thirdly, there are policy responses derived from Treasury orthodoxy which attempt to deal only with macroeconomic symptoms and not microeconomic drivers. But it is the microeconomic issues that ultimately shape these macroeconomic effects. That is why a focus on supply side reforms is so critical. It is also why reducing distortions in our own market systems, particular those that are anti-competitive is also vital. There is no doubt this will increase firm to firm interactions, leading to more competition and downward pressure on price. We have to be realistic that if you lock the global economy down for such a long period, and disrupt supply chains as we have done, it will take time for these measures to have effect. That does not mean you don’t do them. We have to remember we are trying to turn an economic tanker around, which is burdened by decades of false assumptions. No solution will be an overnight success, but it is crucial we start this process yesterday. Speaking of yesterday, it is HMT that has resisted a lot of the reforms referred to. So the two candidates need to be tested not just on what they say they will do, but what they have in fact done in this space in the past.

So what do the candidates believe and why?

We will never know everything that is in another human being’s heart and mind. We shall never really know them as we know ourselves. But one thing that has struck me about Truss is that she has been on a very similar journey that many people go on. After all, Liz Truss would not be the first conservative Prime Minister to be a Liberal in her youth, and a Conservative in her adult years. Winston Churchill was of course a Liberal first, before switching parties. In explanation, he quoted what many people from Disraeli to Clemenceau have said. If you aren’t a socialist in your twenties you have no heart, and if you aren’t a conservative in your forties you have no head. When Liz Truss was a liberal democrat, I was an ardent socialist. But I came to believe in the power of the free market and competition to lift people out of poverty and the impact of market distortions in pushing people into poverty. Those of us who have learned this the hard way, through life’s experience have the zeal of converts. We do retain our heart to make the lives of people better – we have just learned that what we believed in our youth makes their lot worse. Because she has been on this journey, I am more confident of the strength of her conviction. And I have certainly seen it on display in many fights over trade policy and regulation in the years after the referendum vote. Those fights will continue and will pit reformers against the establishment. The future of Britain will be determined by who wins that fight.

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