How neoliberal populists serve capital: the business interests behind Brexit

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Abstract

The dominant view on the Centre and Left of Britain's exit from the European Union ('Brexit') is that it has occurred despite and against the interests of business or 'British business'. In this article we contest this view. We argue that many sectors of business operating or headquartered in Britain or investing through the City of London have had an interest in Brexit, and others have been ambivalent. Moreover, much capital disbenefited by Brexit has relocated its operations into the EU. We discuss the implications for Left strategy in the coming years. We briefly examine similarities between the British Conservative Right and Trump.

Understanding Brexit

Comrades in the US who are evaluating the Trump presidency may be interested in understanding the rise and continuing reign of Britain's Trump, Boris Johnson. The Conservative Right has risen to power through its project of getting the UK out of the EU - 'Brexit'. An obvious common feature with Trump is the use of xenophobia and racism to win popular support for a strongly neoliberal agenda, particularly from parts of the working class worst affected by long term de-industrialisation and post-financial crisis austerity. Having formally withdrawn in January 2020 and signed a trade agreement with the EU in December, the Conservatives are likely to have four more years in government. Much has been written on how a large section of working class voters came to support leaving the EU in the 2016 referendum and then vote for a Conservative government in December 2019. Much less has been written about the role of *capital* in this process; this is our focus in this article.

Since the 2016 EU referendum, the majority of commentators of the centre and left have argued that Brexit is wholly against the interests of 'British business'. This is based on the fact that manufacturing, farming and an important part of the City of London are heavily reliant on exports to the EU, and in the case of manufacturing, imports from it. Exiting the EU would therefore severely damage these sectors. All the leading employer organisations called for a Remain vote in the referendum, and since then argued for a tariff- and quota-free trade deal with the EU. In this view, the Leave vote won by the Conservative Right, and the threat of May and Johnson to leave with no trade deal, show that the Conservative Party has ceased to be the party of business: it has been taken over by a reactionary clique of fantasists, nostalgic for the Empire, and detached from the needs of contemporary British and international capital, except perhaps for minority parts of finance such as the hedge funds. How could this coup take place? The consensus view is that it was powered by a majority of the population who wished to leave the EU, either to reduce immigration, to regain a notional 'sovereignty', to protest against the Brussels/ London 'elite', or through hostility to government in general. Thus in its pursuit of electoral success, the Conservative Party has transformed itself into an anti-business party.

We disagree with this consensus view. We argue that there have been powerful capitalist interests in Britain leaving the EU, and that for other sections of business Britain's membership of the EU was contradictory. Moreover, business adversely affected by Brexit has had ways of getting round the problems it creates. The Conservative Right is not disconnected from the needs of business.

The capital concerned here includes not only manufacturers with British factories (the focus of the consensus view), but also commercial and financial businesses operating within Britain, both British- and foreign-owned; British-headquartered corporations whose operations are mainly abroad; and overseas money capital invested through the City of London.

Britain's trade with the EU

There are three areas where large sections of business may benefit from Britain leaving the EU: trade in goods and services between Britain and the EU; corporate taxation; and regulation of finance. Regarding the first of these, around 45% of UK exports and imports are to and from the EU. Trade in goods (including food) has been free of tariff and non-tariff barriers on condition that each product meets minimum quality specifications, common labour market and ecological regulations are enforced, and state aid to industry is not 'anti-competitive'. For manufacturing production within Britain, this framework is essential. Supply chains and final markets are built up over decades, and are embedded in production complexes that take decades to develop; they cannot easily or quickly be redirected, for example to non-EU countries. Moreover, many manufacturing sectors are reliant on EU-wide collaborations in high-tech research and production.

But this imperative for *production* is not necessarily one for *capital. S*ince 2016, many manufacturing transnationals have side-stepped Brexit by moving production or new investment from Britain to existing or new sites in the EU. Moreover, many British-owned manufacturing corporations have all their factories outside the EU, and are therefore indifferent to the Customs Union. These internationalisations of production have muted the opposition of manufacturing capital to a hard Brexit.

The EU's labour and environmental regulations apply to all employment within Britain, not only to manufacturing. Locally-supplied services, roughly 70% of the economy, have had strong reasons for escaping these regulations through Brexit. The utilities (water, electricity, gas), oil and gas extraction, and property and building capital have an interest in escaping EU ecological regulations. Catering, hospitality and leisure corporations, with their low-pay, casualised employment, wish to escape EU labour regulation. Thus much locally-supplied service capital - a massive power - has had reasons to support Brexit.

Since the referendum the Conservative Party has therefore had contradictory pressures on it, from manufacturing and farming on the one hand and locally-supplied service capital on the other. May and Johnson tried to square this circle by demanding tariff-free access to the EU without adherence to the 'level playing field' conditions. But the EU proved to be intransigent on these. By autumn 2020, while some manufacturing capacity in Britain had already closed or been relocated to the EU, the remainder faced having to trade with the EU on WTO terms, resulting in short- or medium-term loss of an estimated 700,000 jobs. In the agreement of 23 December 2020, Johnson was forced to put the immediate interests of manufacturing and farming over the long term interests of locally-supplied service, building and oil capital, maintaining tariff-free trade by agreeing to abide by EU labour, environmental and product regulations and rules on state aid in exchange for tariff-free trade. In this field, the Brexiteers have achieved no increase in 'sovereignty'.

It should be added that in the month since the agreement, Britain has already reneged on two important ecological regulations on farming, thus breaking the treaty and giving grounds for the EU to apply trade sanctions. Johnson is relying on the EU being distracted by the Covid-19 crisis. This farce is set to continue.

Avoiding increase in corporate taxation

Signing the trade agreement does not mean, however, that Brexit has yielded nothing for the Tory Right or for capital – to the contrary. Brexit has enabled a major gain for capital in *corporate taxation.* Britain has such low rates of taxation of corporations that it has been dubbed a tax haven; and there is zero corporate taxation in the archipelago of Britain's 'overseas dependencies' such as the Cayman Islands. Since the 'financial' crash of 2007-8, and the subsequent crisis of the Euro, Germany and France have led a push for unified taxation policy throughout the EU. During the Eurozone crisis in 2011, Merkel summoned an emergency European Council meeting to create a fiscal compact; this was vetoed by UK prime minister Cameron. Since then, Germany and France have attempted to raise the rates of corporation tax in countries where it is low, particularly Ireland, Luxembourg, Malta and Cyprus. In 2019 the Commission attempted to introduce a directive requiring large corporations to show how much tax they pay in each member state (temporarily blocked by the low-tax governments). Clamping down on tax havens is already in train. Minimum common taxation of e-businesses, particularly the US-based big four, is being discussed. For capital, a key aim of Brexit has therefore been to head off any increase in corporate taxation. This aim is shared by *all capital operating in, from and through Britain.* This aim has been completely absent in commentary on Brexit, including from the left. In our view it has been crucial.

The neglect of this issue is connected to the *invisibility* to the public of two major beneficiaries of Brexit. The large number of British-headquartered corporations whose production is entirely outside Britain and the EU: manufacturers producing overseas; large property, building and civil engineering corporations operating abroad, especially in the Middle East; mining, oil and gas; and tropical agricultural producers. Collectively these constitute a large proportion of British-headquartered capital, reflecting its imperial history. They have no interest in Britain's trade relationship with the EU, but they have a strong interest in Britain's low rate of corporate taxation. The same is true of the vast amount of foreign money invested through the City of London.

Escaping EU regulation of finance

Another Brexit gain for capital is in *the regulation of finance and business services*. Reacting to the crash of 2007-8 which centred on derivatives trading and the massive harm it caused to the real economy, the EU wishes to reduce trading in derivatives and other high-risk assets in order to prevent another financial implosion. The EU also wishes to clamp down on the inward flow of kleptocrat, oligarch and mafia capital. The City of London is the top centre in the world for both derivatives trading and money laundering, and accordingly has strong reasons to support Brexit.

However, City finance and business services now have a large client base in the EU; London is the largest investment banking provider for the EU. The City's trade in the EU has been enabled by 'passporting rights' which have now ended. The alternative is 'equivalence', where regulations of a non-EU state are deemed to be the same as EU regulations. But for City firms operating in the EU, equivalence is a poor substitute because market access is more limited, and it is a one-sided arrangement which the Commission can unilaterally withdraw if regulations diverge. Faced with this uncertainty, many large City-based institutions decided not to rely on equivalence. Starting in 2018, they began to establish operational hubs in cities such as Dublin, Luxembourg, Paris, Frankfurt and Amsterdam. In 2018 alone, it is estimated that over 250 City businesses created new, or upgraded existing, offices in EU27 countries in order to establish passporting rights post-Brexit, and transferred 10 percent of City banking assets. While many City firms operating in the EU were initially opposed to Brexit, by the end of 2020 most large firms were fully prepared. The City now has it both ways: trading with EU clients as before, and continuing with high-risk trading and money laundering in London.

Negotiations between the City and the EU over 'equivalence' have taken place since 2016. But up till now they managed to secure equivalence for only two of the 28 sectors of finance and business

services, and only for three years. Equivalence negotiations over the coming year will be important for smaller City firms and professional services such as law and accountancy. But in a situation where Britain has no cards to play, success for the City will depend on the self-interest of EU capital in using its services.

Left strategy

It is remarkable how little has been said by the left about the interests of capital in Brexit. Before and after the referendum, Corbyn rightly highlighted the wish of the Brexiteers to deregulate the labour market and the environment. But Labour said nothing about capital's wish to avoid increase in corporation taxation, nor the wish of finance and business services to avoid EU regulation. These are the elephants in the Brexit room.

What should the left do now? To fund decent public services and investment, we need a serious increase in taxation of capital, as in Labour's 2019 manifesto, and closure of Britain's offshore tax havens. Without the EU's help, this can now only be achieved by a large scale and long term campaign by the left. We also need long term campaigns to constrain speculative trading in financial assets, and to end the servicing of kleptocrats and mafias by the City of London. We shall also have to campaign continuously to prevent labour and environmental regulations from being illegally violated by Johnson.

Like Johnson's, Trump's economic policies were designed *directly* to benefit certain business interests: withdrawal from the Paris climate agreement (benefiting energy, oil, coal and car capital), permission for oil and gas drilling and pipelines, and tax cuts for the super rich. Opposing this aspect of the neoliberal populism is crucial for us in winning workers away from supporting it. In every country, we should point out how their policies directly hand increased profits to certain capitals to the detriment of working people.

The authors

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More texts by Jamie on recent British politics and Brexit can be found on www.jamiegough.info.