For Red Pepper

The capitalist interests behind Brexit

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With the trade and security agreement reached between Britain and the EU on 23 December, now is an appropriate moment to assess the role of capital in the Brexit process. 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 Customs Union would therefore severely damage these sectors. The peak employer organisations – the CBI, Institute of Directors, Makers UK, numerous sectoral business organisations, the British Chambers of Commerce – called for a Remain vote in the referendum, and since then have argued for a tariff- and quota-free trade deal with the EU. In this view, the Leave vote won by the Tory Right, and the hard Brexit pursued by May and Johnson, show that the Tory 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. Conservative responsiveness to business is seen as, at most, an influence of 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 the working class has achieved exit from the EU against the interests of business, and the Conservative Party has, opportunistically, transformed itself into an anti-business party.

In this article we contest this consensus view. We argue that Britain's membership of the EU has been contradictory for many sections of capital, and there have been powerful capitalist dynamics towards Britain for leaving the EU. Moreover, capital adversely affected by Brexit has had ways of getting round the problems it creates. The Tory Right (and Farage) are not disconnected from the needs of capital. The capital concerned here includes productive, commercial and financial businesses operating within Britain, both British- and foreign-owned; British-headquartered corporations operating abroad; and overseas money capital invested through the City of London.

There are three fields to capital's involvement in Brexit. The first – and most contradictory – is trade in goods and services between Britain and the EU. 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 development; 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. This has been particularly prominent in the vehicle industry; Ineos, for example, is to build the new Land Rover Defender in France. Moreover, many British-owned manufacturing corporations have located all their factories outside the EU, and are therefore indifferent to the Customs Union; Dyson, for example, since 2002 has produced its white goods in Malaysia. These internationalisations of production have muted the opposition of manufacturing capital to a hard Brexit.

However, 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 a strong interest in escaping these regulations through Brexit. The utilities, oil and gas, and property and building capital have an interest in escaping EU ecological regulations. Thus Jim Ratcliffe, the owner of Ineos whose major operations are in oil, gas and fracking, is an ardent Brexiteer who denounces EU 'bureaucracy' and 'interference in business'. Catering, hospitality and leisure corporations, with their low pay, casualised employment, wish to escape EU labour regulation. This explains the pro-Brexit campaign of Tim Witherspoon, owner of the cheap-beer pub chain. Much locally-supplied service capital - a massive power - has accordingly supported a hard Brexit. (This stance has been supported even by some sectors of high-polluting manufacturing; thus in 2019 our friend Ineos closed its Middlesbrough manufacturing plant because of the 'excessive cost' of meeting EU rules on air and water pollution.)

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 much manufacturing capacity in Britain had 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 well over a million jobs. Johnson was forced to put the immediate interests of manufacturing over the long term interests of locally-supplied service, building and oil capital.

Accordingly, the agreement on trade concluded on 23 December was a complete capitulation by Johnson. In order to maintain trade in goods without tariffs or quotas, Britain will continue to have equal minimum standards with the EU in labour market and ecological regulation and on state aid to industry. Britain will remain within some of the high tech industrial collaborations of the EU and the Horizon research programme. In this field, the Brexiteers have achieved no increase in 'sovereignty'.

This does not mean, however, that Brexit has yielded nothing for the Tory Right or for capital – to the contrary. First, 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 its archipelago of overseas dependencies. 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. Excepting the Eurozone, types and rates of taxation are presently a matter for national governments only; but there is a strong trajectory towards common tax policies. During the Eurozone crisis in 2011, Merkel summoned an emergency European Council meeting to create a fiscal compact; this was vetoed by Cameron. Since then, Germany and France have attempted to raise the rates of corporation tax in countries where it is low, particularly Ireland (where the European Commission attempted to reverse a sweetheart deal made with Apple, subsequently thwarted by the ECJ), 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, though for the moment this has been blocked by the low-tax governments. Clamping down on tax havens is already in train, and this affects Britain directly with its numerous tax haven dependencies. Minimum common taxation of e-businesses, particularly the US-based big four, is being discussed, and has already been introduced in France. For capital, a key aim of Brexit has therefore been to head off any increase in corporate taxation. This basic and simple aim is shared by *all capital operating in, from and through Britain.* This aim of capital has been completely absent in commentary on Brexit, including from of the left. In our view it has been crucial.

The neglect of this issue is connected to the invisibility of a major beneficiary of Brexit, the large number of British-headquartered ('British-owned') corporations whose production is entirely outside Britain and the EU: manufacturers like Dyson producing overseas; large property, building and civil engineering corporations operating abroad, especially in the Middle East; mining, oil and gas; and tropical agricultural producers such as Tate and Lyle. Collectively these constitute a large proportion of British-headquartered capital, reflecting Britain's 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. This sector of capital has been entirely invisible in discussions of Brexit.

The second major gain for capital is in *the regulation of finance and business services,* though again, not without contradictions. 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. One means to do this, though not the only one, is the imposition of a Financial Transactions (Tobin) tax. The EU also wishes to clamp down on the inward flow of kleptocrat, corrupt oligarch and mafia capital (the latter alone making up perhaps 15% of world 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. In its negotiations with the EU over 2020, Britain managed to secure equivalence for only two of the 28 sectors of finance and business services; the rest will be negotiated over the coming year or so, but in a situation where Britain has no cards to play. Success for the City will therefore depend on the self-interest of EU capital is using City financial and business services.

Faced with uncertainty about the outcome of Brexit, 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 (paralleling the relocation of manufacturing into the EU). 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. To meet EU capital requirements, they also transferred £800 billion, equivalent to 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 were fully prepared, though some smaller firms and sectors may still have to rely on future equivalence decisions. The City now has its cake and is eating it: trading as before with EU clients, and continuing with high-risk trading and money laundering in London.

There have been, then, three important fields in which Brexit has advantages for capital: deregulation of labour and environment for (especially) locally-supplied services; evasion of increased corporate taxation; and continuing freedom for high-risk finance and criminal money capital. These affect differently distinct but overlapping sectors of capital. Note that the first two of these do not specifically concern financial capital. We disagree with the common view – 'Brexit aims to create Singapore on Thames' - that it is only finance, or only the hedge funds, which benefit from Brexit.

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 sections of capital 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 sitting-room.

Now that we have capital's relation to Brexit clearly in our sights, what are the implications for the campaigning priorities of left? This requires a further article. Two targets flow directly from our analysis. First 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, we'll need large scale, long term campaigns by the left and labour movement. Such campaigns must also aim to constrain trading in risky financial assets, and to restrict the servicing of kleptocrats, oligarchs and mafias by the City of London.

Second, the Brexit agreement prevents a medium-term collapse of manufacturing and bonfire of labour and eco regulations. But the government will attempt to weaken these regulations while avoiding EU sanctions. With the ink scarcely dry on the treaty, Johnson is proposing to allow gene editing of animal and plant DNA, and to allow the use of neonicotinoid pesticides, both of which are banned by the EU. Though labour conditions and environmental protection are already abysmal,as is investment in manufacturing, caring work, public services and green infrastructure, the labour movement will have to expose and oppose every case of such backsliding. It is clear therefore, that while Brexit might in a formal sense be 'done' our struggle against the latest manoeuvres and political pressures of capital must intensity.

For a version of this argument with more detail and historical context, see http://www.jamiegough.info/sites/default/files/downloads/Brexit%20capital%20and%20the%20Conservative%20Party%20final%2011-20.pdf