

Post-Brexit, the UK economy could flourish if it is innovation-led

Recent economic predictions from the Treasury are probably grossly underestimating the potential positive benefits of Brexit, if only our government can seize the initiative. After all, economists, especially those within the Civil Service don't usually have extensive, if any, 'hands on' business experience. So how do they know the degree to which European Union (EU) legislation and regulation – along with our government's gold-plating and inertia – have held back many businesses, especially small and innovative enterprises? However, loosening the bureaucratic chains is not that easy, especially when we are talking about people who are largely ignorant of their undesirable consequences, or not interested in doing anything.

Access to domestic and export markets for trading purposes are not enough in a highly competitive world. UK Limited needs to provide goods and services that customers want to buy at prices they can afford in more attractive 'packages' than available from elsewhere. To be able to pay high wages UK Limited needs to produce high value-added goods and services efficiently and continue to stay ahead even as competitors try to catch up. So how well are we, as a nation, doing?

The United Kingdom is a middle size economy with a poor record of productivity improvement. Whilst good at creating new jobs, these are overwhelmingly low wage, low productivity ones. Major problems are poor labour force skills, under-investment and a ready supply (or over-supply) of low wage labour. In effect then the UK is losing the ability to create high value-adding productive jobs; the world's first 'third world' country in a cold climate.

The government could kick-start a change with Brexit. Controlling poorly skilled immigration would create an imperative for higher productivity and enable higher wages to be paid; it would stimulate innovation, training and investment. Tax incentives, grants and risk sharing could also help. Encouraging home-grown start-ups and high value-adding foreign investment would also lead to better paid jobs. Public sector procurement could be a facilitator of wide ranging innovation. Yet the real key to success is the creation of an innovation-led economy for high value-added goods and services; develop, improve, become competitive, become world-leading, export and grow, repeat. However, this needs an understanding both of the nature of successful innovation, particularly low-cost innovation, and of mandatory regulations, including their objectives and implementation, in order to facilitate the former by manipulating the latter.

There is a common misconception that because we have been traditionally good at invention, we must be naturally good at innovation – doing existing things noticeably better. Not so. Many inventions and high or advanced technology products have failed commercially here for a variety of practical reasons including the lack of a viable market, pushing out the bounds of technology too far without sufficient development and politically driven lack of support. Eric von Hippel in his book *Democratizing Innovation* identifies users as an important source of innovation; they identify a need and a commercially viable innovative product (for themselves and others) which subsequently moves back along the supply chain to suppliers and producers.

Any form of legally sanctioned regulation, with few exceptions, tends to create and then maintain a mandatory status quo, which may be far from evolving 'best practice'. It is difficult and slow, if not impossible to introduce changes, which obviously frustrates innovation. It has been reported by the European Free Trade Association (EFTA)

(reported originally here and recently here) that “more than 90 percent” of the EU’s Single Market rules (and by extension, those of the European Economic Area, EEA) come from the UN and other global bodies, such as the World Trade Organisation (WTO), OECD, the Food and Agriculture Organisation and the United Nations Economic Commission for Europe (UNECE), all of which have been faithfully transcribed into EU law. The EU also tends to expand the basic requirements into mandatory bureaucratic processes, procedures, approvals, European Court of Justice rulings etc., and then our government, frequently gold-plates the rigidity, often leading to situations more favourable to larger (less innovative) businesses.

After Brexit, as a direct member of global bodies, the UK will be able to exert its influence directly to champion principles and practices in our innovation-led economy’s interests. Current EU membership prevents this. Temporary or permanent EU vassal status, (aka the Transitional deal on offer from the EU) would also prevent this. The potential is also there, after Brexit, to adapt measures (or the way they are implemented) that don’t suit our interests, or to opt out to some extent. We can become somewhat more flexible than total EU control-freak rigidity, although exporting does impose conformity with the regulatory framework applicable in the overseas market, which may well follow EU or EEA practices.

Public sector procurement could illustrate what is possible after Brexit. The public sector (definitions vary) makes up somewhere between 40-50% of the economy and has considerable purchasing power. Procurement is governed in the main by the Public Contracts Regulations, which implement EU Procurement Directive 2014/24/EU, itself an implementation of the Agreement on Government Procurement (GPA) under the auspices of the WTO. Yet although the preamble to the EU directive pays ‘lip-service’ to the need to encourage small and medium size enterprises (SMEs) and innovation, its implementation in this country often achieves the opposite result, as originally

outlined here.

Outside the EU, it is perfectly feasible to rework and streamline the Public Contracts Regulations, to facilitate user-led innovation, and to support local entrepreneurial SMEs, social enterprises and start-ups, whilst maintaining the WTO GPA core. The time-consuming complexity of the procurement process and legislation incorporating ECJ judgments is a real problem at the moment, leading to the awarding mainly of large contracts and a fear of facing a legal challenge by an unsuccessful tenderer. Also the process is poor at managing risk (for example, Carillion) or in including local socio-economic factors. Collaborations between user and supplier (to facilitate innovation) are also discouraged in mainstream procurement. Such reworking of these regulations naturally needs strong governmental commitment and understanding of the ways in which they lead to discrimination. Unfortunately it is likely that Mrs May will retain the EU directive indefinitely, although it is not mandatory outside EU Member States.

Economic forecasts that largely ignore the effects on the economy of innovation are obviously suspect in the real world. However, they do provide an indictment of government performance and its inability to seize the opportunities to facilitate an innovation-led economy. If the government understood how innovation could be facilitated by Brexit and its policies adapted accordingly, then the future prosperity of everyone in this country would be considerably greater.