

# So what would a 'Lexiteer' government look like?

When it comes to Brexit, the failure of this Conservative administration to take full advantage of Britain's new-found freedoms has been well and truly exposed.

But as we head into 2024 and assess the choices on offer in a forthcoming general election, what can we expect from those on the centre-left who also support our departure from the EU?

What follows is a 'Lexit' manifesto, drawn up by a loose association of left-leaning individuals who campaigned to leave the European Union in 2016.

We highlight some of its main conclusions below with a copy of the full manifesto beneath it.

## ***Like the Curate's egg – good in parts***

The report confines itself to economic policy rather than any wider social or cultural issues, so those who wish to know about Labour's post-Brexit immigration policy will have to look elsewhere.

Within that narrow remit however the report identifies long-term weaknesses within the UK economy which both left and right need urgently to address.

## **Re-balancing the economy**

The report highlights an understandable desire to re-balance the economy in favour of production over consumption. For decades now the UK has consumed more than it has produced and as at June 2023 its current account deficit grew to £28.5 billion or 4.2% of GDP.

## **An Active-Interventionist State**

The report's key recommendation is state-intervention including nationalisation of key utilities, a co-ordinated regional economic policy and a shift in the balance between capital and labour with much greater bargaining power amongst employees vis-à-vis their employers.

It also places great stress on strategically important industries which should be protected against the kinds of international upheavals we have witnessed in recent years which has left many countries including the UK particularly exposed.

## **De-financialise the economy**

Among other things the report recommends the UK "move away from excessively integrated financial markets which will reduce the associated systemic risks that are inherent where capital is able to move freely. Outside the EU, a future democratic socialist government can implement restrictions on cross-border financial activity tailored to the UK's circumstances."

## **Tax and Tariffs**

The authors advocate an aggressive closing of tax-loopholes and cuts to VAT as well as lower tariffs on goods from the Third World.

## ***Back to the future?***

The report identifies many of the country's long-term economic ailments. The UK has an unenviable record of low-skills and low productivity and any measures designed to address these problems deserve to be taken seriously.

Protecting strategically important industries, nurturing fledgling firms in the new technology and environmental sectors and encouraging the re-patriation of industries back to the UK are policies on which there is indeed a widespread

consensus.

Nonetheless, the report contains many contentious recommendations on which there is no cross-party agreement.

Renationalising swathes of the economy would be hugely expensive with no guarantee of success. That policy was tried after the war with disastrous results. Would it be any different this time?

Likewise, proposals to remove the UK from integrated financial markets sounds fraught with risk as are proposals for an aggressively redistributive tax policy.

And re-balancing power between capital and labour through increased bargaining power by the workforce sounds like a return to the ominous trade union-style closed shop of the 1970's.

Is this anything other than a re-hashed version of the post-war economic settlement which eventually ended in tears? Only time will tell.

## **Conclusion**

There is no question that the country is in dire need of a fundamental economic re-set. What that new economic model looks like will define the shape of political debate on the left and the right for years to come. The stakes could not be higher.

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# **A Lexiteer manifesto: building a British Social Model**

**Written by Democratic Left Network**

*The Democratic Left Network, which was set up to advance a left case for Brexit, argues that an in-coming Labour Government should make full use of the UK's newly independent powers to revitalise the UK economy*

## **1. A Labour Victory in 2024**

The growing possibility of the Labour Party returning to power at the next election raises the question: what might a Labour government do? Labour seemingly left behind a long time ago the democratic socialism that was the mainstream of the old Labour Party. The latest indications from Labour's leadership and economic teams seem to confirm that, whatever the current Labour Party brings forward on issues of political economy for example at the next election, it is unlikely to be far-reaching in its ambitions.[1]

### **The inevitable missed opportunity of the next Labour government**

The chance to transform the UK's model of political economy was one of the key motivations of Lexiteers during the campaign for independence from the EU. Therefore, for many of a democratic socialist hue, there is considerable disappointment because, now the UK is outside the EU and has

thrown off the shackles of the EU's neo-liberal "regime" and the enshrining of "corporate rights" in constitutional law,[2] law-making is once again under the control of the UK's elected politicians and in-turn the electorate.[3] Consequently, there is an unparalleled opportunity to fundamentally re-shape the political economy of the UK. A British Social Model (BSM) can be built.

The new British Social Model (BSM) will represent a reigning back of the domain of the market, which the EU has played a central role in expanding,[4] and a revitalisation of the public realm. Instead of market freedoms and the associated individualistic concepts of justice being the main values reflected in the UK's political economy, the British Social Model would be the antithesis of that. The principles of solidarity and security, in-part by delivering a genuinely full employment and less unequal society, would be paramount organising goals for a transformed British capitalism.

## **A Lexiteer government**

Despite the unlikelihood of the next Labour government creating a new social model of political economy for the UK, it would be instructive for those on the left who still think Brexit was a mistake for economic reasons and for those of other political persuasions who believe leaving the EU was some sort of conservative or classical liberal cause, to see why Brexit is an essential prerequisite for transforming British capitalism. To that end, the remainder of this piece outlines the broad contours of what might be deemed a Lexiteer's manifesto for replacing the UK's current (and failed) model of political economy that was shaped by four and a half decades of EU membership.

## **2. Key components of the British Social Model**

### **A re-balanced macroeconomy**

Constructing and sustaining a British Social Model of political economy will require a more balanced macroeconomic regime. One that is less consumption focussed and more investment reliant than has been the case while the UK has been in the EU.

This will require the UK to shift away from its over-reliance on a highly leveraged consumer buoyed by inflated asset prices fuelling aggregate demand. However, such an alteration will not happen without deliberate policy steps. These will need to involve a recalibration of the balance between fiscal and monetary policy, including:

- A shift to nominal GDP targeting by the monetary authorities;[5]and
- A more prominent and proactive role for public investment not only to improve the supply-side but also as a driver of the demand side.[6]

### **De-financialising British capitalism**

Part of the move away from a reliance on highly leveraged consumers will be driven by the wider de-financialisation of the UK's model of political economy. Engineering such a change will require some retrenchment in the financial sector, to a less economically detrimental size.[7] [8] A de-financialisation policy would have three benefits:

- Better protection for the wider UK economy from systematic risk in the financial system.
- Incentivising more domestic capital to invest in the UK.
- Helping de-leverage the indebted British consumer.

## **Creating a more stable financial sector by reducing the UK's exposure to global capital flows**

Leaving the EU and therefore the EU's free movement of capital and initiatives such as the "Capital Markets Union"[9] is the first step for the UK away from excessively integrated financial markets and in-turn reducing the associated systemic risks that are inherent where capital is able to move freely. Outside the EU, a future democratic socialist government can implement restrictions on cross-border financial activity tailored to the UK's circumstances.

## **More capital for an investment-led political economy**

In addition to increasing financial stability, leaving the EU also presents an opportunity to craft policies that will ensure that the UK has a political economy – to paraphrase John Maynard Keynes – where investment is no longer the "by-product of a casino" and that the activities of capital align with the domestic economic interest.

One area for particular focus is the £22 billion business financing gap[10] identified by the Bank of England. The continent-wide integration of wholesale and retail capital markets under the auspices of EU neo-liberalism and the apex role of the UK's financial services sector in that integration has not led to an improvement in the supply of risk-capital to start-ups and scale-ups.

Such constraints continue to hold back the contribution of small and medium-sized enterprises (SMEs) to local and regional growth.

Now outside the EU, the UK can make extensive use of intervention to remedy this, through the establishment and operation of publicly run economic institutions to boost regional and local economies which will no longer be inhibited by EU state aid and competition rules.

To help tackle the finance problem for example, state backed regional financing entities can be developed.[11] These could emerge through an expanded and federated British Business Bank model, with a more aggressive remit to back regional start-ups and firms with patient risk capital, or the creation of regional stock exchanges focused upon capitalising firms within their designated areas.[12]

Also, key to boosting domestic investment will be incentivising British private capital to invest in the UK through policies which encourage it to stay domestic rather than chase (often speculative) returns abroad. This will require the kind of discrimination in policy measures that would be typically considered unlawful by the EU.

### **3. Putting the UK on a higher growth trajectory through industrial policy**

#### **Increasing investment levels in local and regional economies**

Long-running disparities between different parts of the country are indicative of a failed political economy. Only by replacing it with a new model, that shifts the UK onto a higher accumulation trajectory can those regional imbalances be evened out. The British Social Model will do this by:

- Rebuilding some of the UK's lost productive capacity.
- Improving the resilience of strategic industries in an uncertain world.
- Moving the country to the international frontier across a range of the newly emerging and fast growing sectors.

**Industrial and regional policy is foundational to**

## **building the British Social Model**

Outside the EU the British state can adopt lessons from the developmental success of countries such as South Korea and Singapore. These lessons include maximising the strategic use of state aid and public procurement.[13] Under the British Social Model the use of such tools would be central tenets of an integrated regional and industrial policy. Further, that industrial policy would prioritise good quality employment and societal resilience as well as industry competitiveness. This would necessitate moving beyond the traditional focus of industrial policy, on manufacturing and other internationally traded sectors.[14]

More specifically, important aspects of the regional and industrial policy elements of the British Social Model would include the national state, supporting:

- Substantially higher direct long-term investment in physical infrastructure through a better resourced UK Infrastructure Bank.[15]
- Local and regional industrial clustering[16]including seeding new clusters as well as helping existing ones expand. [17] [18]
- The founding of innovation focussed public-private partnerships and the enlargement of existing successful arrangements.[19]
- Start-up and scale-up firms in general as well as those in leading-edge sectors, through the provision of grants, rebates and tax breaks[20]and customised assistance services.[21]
- Companies of all sizes in important sectors that are expanding, with subsidies that are subject to strict “additionality” criteria. One option would be to introduce an adapted version of Singapore’s Development and Expansion Incentive approach where, to benefit from

the incentives, enterprise have to undertake certain pro-firm-growth activities.[22]

Inside the EU, such measures – at the scale at which they are required – would have needed permission from the Commission (and where litigated, from the Court of Justice) and in most instances would have been, at best watered down, and in some cases ruled to be entirely unlawful.[23]

## **Institutionalising long-term stewardship through public ownership**

Crucial to delivering the higher investment British Social Model, is public ownership. Not just ownership of key utilities such as rail, water and energy, but also government stakes in firms that are strategically important.

## **Public ownership of key utilities to deliver higher investment levels in vital infrastructure**

Taking into monopoly public ownership important utilities that have failed under privatisation is not possible under EU law. Outside the EU, a democratic socialist government that is building a British Social Model of political economy can re-nationalise key industries such as rail, water and energy.

A key benefit of nationalisation is the ability it provides governments to inject significant investment into sectors in order to repair vital existing and build new infrastructure, which will result in better services. In addition, there are three other benefits accruing from public ownership:

- Nationalised industries can be contributors to full employment and aggregate demand through the ability of the state to control investment levels in nationalised firms and ensure they are high investment enterprises

over the long run.

- The assets of the nationalised companies are held in stewardship for the country.
- The government can ensure that basic services, central to the functioning of society are resilient in the face of an uncertain future, through investment in additional capacity, which may be considered inefficient in the short-term but essential if crises hit.

## **Government intervention to ensure strategically important firms operate in the public interest**

Under the British Social Model, government ownership of shares in a range of strategically important firms would become common. Such ownership would reflect the particularly important role such enterprises have in ensuring UK resilience and long-term security. Particularly important would be shielding strategic companies from damaging takeovers and excessive short-term pressures for profit maximisation and dividend payouts which might detract from investment in assets important for national resilience.

Efforts to ensure strategically significant corporations operate in the wider public interest e.g. through rules which ensure the public interest is embedded in the governance and operations of such enterprises, have been ruled against by the Court of Justice of the EU in judgments such as *C-112/05 Commission v Germany [2007] ECR I-8995*. Consequently, liberated from EU constraints, the British Social Model could more directly tailor UK capitalism to society's long-term benefit in ways that would not otherwise have been possible.

## **Rebalancing the power of labour and capital**

Central to the British Social Model would be a more even power balance between capital and labour. The EU privileged the

freedoms of capital over the protection of labour. As a result, this imbalance was “constitutionalised” because EU law acted as a supreme law, unchangeable by domestic legislatures.

The British Social Model could not credibly be described as a genuine alternative to the EU’s neo-liberalism if it did not rebalance the position of workers vis-à-vis capital. A central tenet therefore of the British Social Model has to be a well-designed labour market policy which helps ensure full employment and puts bargaining power into the hands of labour which, in-turn, will:

- Boost wages especially in the medium-term and help sustain higher ongoing aggregate demand.[24]
- Encourage capital investment by employers rather than many of the latter relying on cut-price labour, which will ultimately drive-up firm-level productivity levels and in the long-run the earnings of workers, too.

A tight labour market was an impossibility in the EU because of its neo-liberal free movement of people principle. It meant no control over the inflow of labour. The labour market of the British Social Model would be a tight one. Such a policy might create some inflationary risk in the long term. Other, complementary measures will be needed to guard against these. The latter is likely to include a new wage bargaining architecture supported by an active labour market policy[25] that boosts functional flexibility[26] and supports necessary mobility.

## **A more redistributive tax-system**

Central to the British Social Model is a progressive tax structure. A key element of that would be reducing VAT to the kind of level found in countries like Australia (e.g. 10%). Inside the EU, VAT could not be reduced below 15% and the exemptions and ameliorations (e.g. zero rating) were dictated

by EU law (i.e. the 2006 VAT Directive).

Therefore, making the overall tax system in the UK more progressive by dramatically reducing the VAT rate for example and introducing a luxury goods rate (but still below the minimum requirement), was not possible while remaining a member state. The former would make a notable difference to the affordability of many goods and services by those on lower incomes and in-turn indirectly boost purchasing power of poorer households. Ultimately, as well as distributional upsides, this would have additional benefits for aggregate demand levels in the economy, not least because lower income consumers tend to have a higher consumption propensity.

The revenue raising efficacy of the UK tax system was undermined by the EU's quest to build the internal market for capital. To construct the latter, curbs were placed on member states and their ability to clamp down on tax avoidance especially by corporations. These often came, courtesy of the Court of Justice and its case law, such as *Case C-6/16 Egiom SAS, formerly Holcim France SAS* and *Enka SA v Ministre des Finances et des Comptes publics [2017]*.

The kind of public investment essential to the new British Social Model will require the aggressive closing of tax loopholes in order to help pay for it. Having important parts of tax policy decided by a neo-liberal supranational court in Luxembourg always was one of the more curious positions EU fans on the left were ultimately supporting.

EU membership placed limitations on the scope for member states to raise additional taxes on overseas capital, whether they were financial assets coming into or leaving the UK or property purchases by EU investors. The result was that UK government could not deploy some desirable measures which would have helped to lessen housing market related inequalities, raised extra revenues for the Exchequer for spending on public investment and assisted in disincentivising

excessive cross-border financial flows.[27] Such measures would be useful tools in the armoury of a democratic socialist government pursuing the construction of a new British Social Model.

## **Re-shaping**

Building the British Social Model will require a decisive shift away from the EU's neo-liberal "mode of regulation". The latter is epitomised by the internal market which, as scholar Fritz Scharpf has summarised:[28]

*"...required the liberalisation of hitherto protected, highly regulated and often state-owned service-public industries and infrastructure functions, including financial services, air, road and rail transport, telecommunications and energy; and it extended the reach of European competition law to all national policies that could be regarded as distortions of free competition".*

The internal market and its construction has been central to the EU's ultimate political agenda of integrating the political economic models of member states, policy approaches and political and legal power into supranational institutions. The indivisible combination of the EU's supranational nature and neo-liberalism has resulted in infamously poor-quality laws, with many badly conceived and terribly designed.[29] [30] [31]

Powerful special interests, in the guise of entities such as the European Roundtable for Industry (ERT),[32] have had a highly influential role in guiding the broader process and over specific laws. Much of the law making in the EU takes place behind closed doors. Market liberalising legislative proposals are often acquiesced to by member states through the fiats of "qualified majorities" in the Council of Ministers. At other times they are imposed through the judgments of the

apex EU institution – the ideological Court of Justice of the EU – with its neo-liberal preferences.

## **A regulatory environment reflecting the public interest**

The British Social Model requires a regulatory environment that reflects the public interest. Only outside the EU is this feasible. A future British democratic socialist government constructing a new political economy can take advantage of Britain's less captured,[33] [34] more transparent,[35] straightforward and flexible law-making arrangements to create well-crafted laws that are clear, coherent, certain, which meet their objectives which are aligned with the preferences of the public.

For example, one of the first package of reforms that could and should be introduced, as part of the construction of the British Social Model, is legislation to overhaul the corporate governance of public companies operating in the UK in order to more closely align their decision-making and activities more explicitly with the common good.[36] [37]

## **An international economic policy reflective of democratic socialist values**

As well as a very different kind of domestic political economy, the British Social Model would also involve a different approach to external economic relations compared to that which the UK was bound, courtesy of its EU membership.

The continuation of the latter would have meant that a British democratic socialist governing party could not – in many instances – formulate and advance a distinctive internationalist policy position on a range of issues pertinent to the international political economy, such as trade and development, financial markets regulation, tax rules

and intellectual property protection, among others.

## **A trade policy aligned with the wider aims of the British Social Model**

The British Social Model necessitates a different approach to trade issues than that which the UK was subject to, while in the EU. More specifically trade policy can play a full supporting role in helping ensure full employment, less inequality and greater economic security, rather than being determined by the interests of the most powerful lobbies in Brussels. More specifically, the trade policy of the British Social Model can be tailored to:

- Protecting strategic sectors.
- Nurturing fledgling firms in emerging industries.
- Encouraging the re-shoring of industrial capacity.[38]

## **Support for the developing world**

Also important to the British Social Model will be helping less developed countries. As long as the UK was in the EU, it was part of what many have labelled the EU's neo-colonialism towards developing countries, especially those in Africa.[39] [40] [41] The British Social Model would deliberately eschew such an approach.

Instead, outside the EU's Customs Union and trade and development policies, the UK under a democratic socialist government, could implement measures that will support development rather than hinder it. These might include, in contrast to the EU's notoriously complex tariff regime, a simple schedule that makes it easier navigate or unilaterally lower tariffs on both commodities and higher value-added products from developing countries. Certainly, the UK should aggressively pursue trade agreements with developing countries

which maximise access to the UK market.

## **Transforming British capitalism requires a more effective state**

Achieving the ambition of transforming British capitalism will require a fundamental reorientation in the state towards a more developmental (i.e. interventionist and mission-orientated) posture. Delivering the kinds of changes needed to build the British Social Model of political economy, will require the state to expand its capabilities and capacity.

Over more than four decades, as the EU's competences expanded, there was a "Europeanisation" of the British state,[42] which led to an atrophying of the latter's strategic and policymaking capabilities. This was combined by parallel trends in the domestic sphere where public spending decisions and the outsourcing of functions denuded the state of effective implementation capacity, too. In other words, neo-liberal integration as a result of EU membership and closely allied neo-liberal policy preferences among successive domestic governments resulted in a pincer movement against UK state capabilities and capacity.

Therefore, building the British Social Model needs to begin with an aggressive plan to upgrade the strategic, policy development and operational capabilities alongside an expansion of governmental capacity. This will require sufficient sustained resourcing. Only when the state has largely "de-Europeanised" i.e. built-up sufficient autonomous capabilities and capacity, can it put in place and run, for example, an effective regional and industrial strategy on kind of that would make the British Social Model a successful reality.

*Democratic Left Network (DLN) DLN are a loose association of left leaning individuals (from a variety of backgrounds)*

established to help put the left case for leaving the EU (Lexit) during the 2016 referendum campaign. They continue to blog from time-to-time, at: <https://www.democraticleftnetwork.com/> and tweet at: <https://twitter.com/demleftnetwork?lang=en>

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