

Will Hutton Journalist State of Open: The UK in 2024 Phase Two: The Open Manifesto Report



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Thought Leadership: 'This time no Mistakes in Tech'

In the past few weeks Nvidia, Microsoft and Apple have been vying with each other over whose stock market valuation alone exceeds the total value of all companies quoted on the London Stock Exchange – swapping places for the privilege with every small relative percentage change in their share price. The glaring imbalance between the tech performance of the US and UK economies could hardly be more vivid – or painful. It emphasises that only 1% of the top quoted companies in the UK are in the tech sector compared to thirty per cent in the US.

But it doesn't need to be like this.

The 'We Economy' and Tech

Investment Bank Ondra estimates that over the last 20 years some 50 high-growth, mainly tech, companies that could have been part of a dynamic tech-led FTSE 100 have instead been sold overseas. These have been sold to private equity houses but also to corporate trade buyers. We too could have had 30% of our top quoted companies as tech companies.

Tech is the great lost opportunity of our times.

Britain has an excellent record creating so-called 'unicorns' – start-ups that are now valued at over a billion dollars – greater even than the US or China per head of population. In the UK open source sector we have seen Canonical and Snyk recognised as unicorns. We have universities that generate frontier knowledge and the entrepreneurial zeal to match anything in the US. Yet we have not grown a tech sector to match them. The challenge for the next government is to reverse this – ongoing failure is to condemn the UK economy to third class status. UK innovators must be enabled to scale as UK companies, remain here and so form a critical mass of British based tech enterprise. It is a mission at least as important as Labour's other 5: to achieve it will make the achievement of all the others immeasurably easier.

In my recent book, 'This time no mistakes: how to remake Britain', I argue that a good economy and society must combine both the dynamism of individual agency and ambition with the power of fellowship and having each others' backs. For too long British economic policy making has been dominated by the



primacy of 'I' thinking and relegated the 'we' to the margins: it has been a grotesque misreading of what generates wealth and the author of some of the gravest catastrophes in economic policy making ranging from the monetarism of the 1980's to Liz Truss's budget – united by the philosophy of shrinking the state to set 'the individual free'.

The values of the 'We economy and society' closely align with the values of openness – open innovation, open data and open source software – that is driving the digital economy. They will enable a digital future which is intentionally collaborative and which thus democratises technology. 'Fellowship is the hope of the world' declared the nineteenth century artist, champion of guilds and political thinker William Morris. There is no fellowship without openness: it is collaboration harnessed to individual energy that is the ultimate source of wealth creation. Opening up tech thus enables innovation, increases competition and many new market entrants.

The missed opportunity of an "I Economy"

Today we have a handful of big companies whose economic dominance allows them to generate massive economic rents but also to control the UK's digital economy. They own platforms critical to our personal and business' activities and which are the basis of our public sector and enterprise infrastructure. The task is to challenge these, thus democratising technology and creating a 'We Society' where our digital futures are open and collaborative.

To meet the needs of a 'We economy' the UK's innovation strategy must be true to our long term open source -first policy and deliver usage of technology and the technology in which our public sector invests to be well managed open source. Public money for public code. This will enable greater interoperability and competition, allowing new entrants into the market and enabling greater choice of provider.

Building a future tech sector

A significant problem is that our ecosystem of financial support – from venture capital through growth equity and venture debt to the final exit – is extraordinarily weak as is our education of innovators to become tomorrow's entrepreneurs. Founders take international investment or exit by selling their company for a juicy sum rather than retain its independence via an initial public offering (IPO) because our company valuations are so mean. The path beaten by ARM (sold to Japan's Softbank and then listed in the US), DeepMind (sold to Google) and Darktrace (recently delisted and sold to US private equity firm Thomas Bravo) has been typical all this century. Britain is surrendering its chance to be a major rival to the US. Instead, as the chair of the British Business Bank Stephen Welton, recently declared, Britain risks being nothing more than an incubator of great high growth companies from which others benefit.

The weaknesses mean that Britain is developing a submarine ecosystem of skilled open source technologists from software developers to community builders, business people and government experts often working from home and employed by international companies. They sit under the UK's radar and collaborate by innovating on a global basis in open source communities working to solve particular



technology challenges. Building skills and reputations in these communities has led to their employment by international companies, or to the companies that they build from being invested in or bought by the US where the understanding of their sector is so much stronger.

Open source and open innovation – sharing ideas rather than locking them up in some restricted copyright licensing or patents – are being embraced by Britain's tech community as a potent means of survival. It is surprisingly vibrant.

Instead of building a balanced tech sector involving major foreign and British 'primes', we are colluding in 'tech stripping' more rampant than asset stripping ever was, and creating an underclass of entrepreneurial talent.

What to do?

There is no single magic bullet. One necessary if insufficient precondition for change is to boost low stock market values, whose impact casts a depressing shadow across the whole system. Start-ups, for example, can only be valued highly if mature quoted companies are valued highly. CAPE ratios measure the cyclically adjusted stock market valuations of companies in relation to their reported earnings averaged over 10 years. 30 years ago, British quoted companies habitually sold at the same CAPE ratio as those in the US and EU. Now they sell at half the valuation of US companies, and 75% of European. In other words, British companies are the Cinderellas of world stock markets, and this matters particularly for high growth tech companies.

What has happened is an unprecedented flight of British talent and capital from the stock market driven by withdrawal of tax breaks and the closure to new entrants of defined benefit pension fund schemes, with their allegedly expensive commitments, that are now being run off. Essentially £1.4 trillion of capital in redundant defined benefit pension funds has been put in cold storage in risk free assets like government bonds pending the funds eventual wind-up: British pension funds invest only 2% of their total portfolio in British companies. It is a matter of national urgency that this capital is released for productive use. The funds should be consolidated into one meta fund – either through the Pension Protection Fund or a newly created twin – to invest in a diversified range of assets, and told they will only enjoy valuable pension fund tax relief if they invest 25 per cent of their assets in British companies.

All this must be fashioned in a way that builds on the dynamism afforded by open source and open innovation.

One of the interesting early findings in a research project undertaken by the Purposeful Company (full declaration: I am the co-chair) is that successful start-ups in the tech space are characterised by a strong belief in purpose. An inspiring business purpose that explains the 'why' of a company draws people together to make common cause, allows the business model to be owned by everyone, fosters creativity, promotes staff loyalty and attracts investors.

For many tech entrepreneurs one of the ways to instrumentalise purpose is via open collaboration so that the pre-declaration of how any monetary gains will be shared is vital. Companies thus need to be organised as open networks requiring constitutional innovation in how they are governed and rewards shared out. We are moving towards a more democratic 21st century capitalism.



None of this is rocket science – it is recognising our strengths and determinedly building on them. It is time to stop the embarrassing blather and hype of the Tory years about Britain being world beating – and to do it. We could have the west’s second most dynamic high-tech sector after the US – and even in some areas challenge them. This Time No Mistakes!

Will Hutton’s recent book that informed this article – This Time No Mistakes: How to Remake Britain – is published by Head of Zeus.

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