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Growing Pains

How to restore economic growth and rebalance the UK economy

Glyn Gaskarth

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55 Tufton Street
London SW1P 3QL

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email: **info@civitas.org.uk**

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Please Note:

None of the groups featured in this report have been asked to give their support to any of the proposals contained within and their inclusion does not indicate such support. Some of the think tanks operate a policy of not having official positions on the issues explored here. Though for ease of use we shall refer to the 'centre for policy studies policy recommendations' etc the reader should not consider the proposals contained in reports released by each think tank as the official line of the organization that released them and the organizations featured should be contacted directly to establish their official position on each policy issue. In the case of the section on proposals by the Unite and Unison trade unions this has been compiled from a series of bulletins, campaign materials and one report and is featured to reflect their differing stance on the issues of debt reduction and public spending reductions. A more full exploration of a trade union position on how to increase economic growth has been included in the German section due to the Trade Union Congress's concentration on that nation's industrial policy as an example to be followed. It could easily have been included as a separate growth proposal by a policy organization. Each report review is a summary of the points made by the author that I view as most relevant to the subject of increasing UK economic growth. This has clearly involved summarizing the author's positions and therefore I direct the reader to the bibliography to consult the original reports to gain a fuller knowledge of the arguments made if they wish to quote or describe a reports proposals.

Executive Summary

The UK growth review does not fully address the structural problems the UK economy faces. Both the Growth Review and the Trade and Investment White Paper prioritize measures which directly harm UK growth and exports. Diplomatically supporting Less Developed Countries (LDCs) defence of their domestic protectionism restricts the market for British goods in those countries. Environmental measures such as the soon to be introduced carbon price floor make energy more expensive for UK firms and export UK jobs to countries which often have much lower environmental standards. The retention of the anti bribery rules make it very difficult for UK firms to trade in high growth emerging markets many of which have very high levels of domestic corruption.

Attempts to reduce regulation exist more in rhetoric than in practice. Rules such as the one in one out rule for new regulation are not universally enforced. Additional business costs are being imposed by the coalition government. Efforts to increase UK airport capacity are being blocked. Energy policy is not delivering sufficient capacity to meet projected demand. The benchmarks in the Growth Review seem to be set deliberately low and/or general so that they may be easily achieved. The Government gives the impression that deficit reduction alone will solve the UK's problems, it will not. Britain needs to develop a clear plan which does not affect the rate of reduction in UK public expenditure but does increase the long term growth rate of the UK economy. To discover how we looked at proposals made by fourteen groups from across the political spectrum.

The Confederation of British Industry proposes making equity finance tax deductable, establishing an aggregation platform for small businesses to raise bond finance and introducing a National Exports Strategy with an export enabling test for all regulation. The Federation of Small Businesses urge the government to bypass the existing banks, create a Post Bank to lend to local businesses and introduce a Community Reinvestment Act to direct bank funding to poorer communities. UNITE and UNISON urge a clamp down on tax avoidance and the introduction of a Robin Hood tax on financial transactions to end public spending reductions and provide financial assistance to repair the balance sheets of indebted households. Reform advocate reductions in health and welfare expenditure and a broadening of the tax base to fund tax simplification and reduction.

The British Chambers of Commerce proposes a long term manufacturing strategy for the UK, the formation of a British Business Bank and a government procurement strategy which recognizes the costs of UK regulation when selecting government suppliers. Policy Exchange want increases in the ISA allowance to encourage private investors to invest in small firms debt, the abolition of national pay bargaining to increase public sector efficiency and planning reform to allow the construction of new 'Garden Cities.' The Institute of Public Policy Research seeks to increase aggregate demand and the long term growth potential of the economy by increasing quantitative easing and additional infrastructure spending funded by tax increases such as a mansion tax. NESTA in cooperation with

the Work Foundation identify six barriers to growth that potential high growth firms and existing high growth firms say need to be overcome to convert more of the former into the latter.

The Social Market Foundation believe the government should increase the efficiency of public spending and boost demand by spending less on items with a low fiscal multiplier such as the winter fuel allowance and more on items with a high fiscal multiplier such as infrastructure investment. The Centre for Policy Studies advocate measures to increase house building, which helped Britain's economy perform well in the 1930's, suspending the National Minimum Wage for under 21 year olds to tackle youth unemployment and more rapid increases in the personal tax free allowance.

The TaxPayers' Alliance and the Institute of Directors urge the adoption of a programme of tax reduction and simplification by introducing spending targeting to reduce public expenditure, which would fund the abolition of eight taxes, the merger of national insurance and income tax and the greater localization of taxation and expenditure to increase public sector efficiency. The IMF supports the targeting of funds to the most indebted households to help them to repair their balance sheets and resume consumption levels. The OECD propose structural reforms including reducing welfare payments, controlling health expenditure, reforming planning regulations and targeting resources at improving the education of the poorest to reduce education inequality in the UK. Civitas recommend a British industrial policy to aid British firms to develop comparative advantages in the marketplace and to build a stronger UK manufacturing sector.

To ascertain how other countries are dealing with the Great Recession I chose three countries which have each returned to economic growth. The United States has experienced high productivity growth and more rapid bank deleveraging than similarly indebted states. German labour market reform and industrial policy are analyzed to consider how this nation has increased its proportion of world exports while the UK's has declined. Israeli success at innovation is considered to identify how that small country became a world leader in ICT with greater Venture Capital Investment per capita than America and more countries on the NASDAQ than the whole of Europe combined. Each of these case studies helped inform the fifteen proposals I have identified for immediate adoption by the Government which are listed below.

Fifteen steps back to growth	
1	The UK should not exceed international regulatory standards unless the enhanced UK regulation can be shown to not damage UK economic growth. This rule should apply not merely to the scope of the regulation but also to whether competitor nations are effectively enforcing the rules they have signed up to. Areas requiring immediate reform include: • The Bribery Laws which should be amended to exclude application to countries not in the OECD. • Bank capital requirements which should be reduced to the internationally agreed standards to allow more lending. • The Carbon Price Floor which should not be introduced.

2	Cease UK diplomatic support for trade protectionism against UK goods by Less Developed Countries and push for full market access as a condition of opening the EU market to these countries.
3	Cease the subsidy for green industry and develop a comprehensive energy policy to exploit the UK potential in shale gas.
4	A British Business Bank should be launched using the funds from the Green Investment Bank, which should be abolished, and the sale of shares in UK state owned banks. This new entity should be given the explicit function of providing funds to small and medium sized enterprises denied access to private bank finance with private institutions being given the right of first refusal.
5	International development aid should be eliminated and the funds used to endow a UK infrastructure bank with a set charter instructing it to finance enhancements in UK road, rail and energy infrastructure.
6	Spending targeting should be adopted in addition to targets relating to the debt to GDP ratio and the elimination of the structural deficit to enhance the government's deficit cutting credentials and ensure the UK government deficit is reduced on schedule.
7	Merge Income Tax, Employers National Insurance and Employees National Insurance into a single tax rate for all workers under 65 before 2015 to simplify the personal taxation system.
8	The one-in-one-out rule should be increased to a one-in-two-out rule and extended to cover all UK regulation with no exemptions and enforcement of the rule by all departments should be subject to an annual statement before Parliament with a new system of fines being applied to departments which do not implement the policy in full.
9	End the opposition to Heathrow expansion, allow the construction of an additional runway and work with private operators to expand the number of flights to emerging markets arriving in London and the regional airports.
10	Cancel High Speed rail and divert a proportion of this funding to improve the existing rail commuter links into our major cities, widen platforms, increase the number of carriages and cap fare increases and a proportion to make up the funding for a UK infrastructure bank taken from the Green Investment Bank which itself was raised by the sale of High Speed rail licences.
11	Privatise the existing UK Motorway Network and introduce a toll based system combined with the elimination of fuel duty and road tax. Use the funds raised through privatization to further reduce UK indebtedness and the income raised from taxing the new private entity to allow for the maintenance of the local road network.
12	Introduce a triple lock for welfare payments pledging to increase them by the lower of three indicators, inflation, average earnings or 2.5 per cent until 2015 (excluding those on disability benefit). Earmark any savings to reduce the basic rate of income tax to

	increase work incentives for poorer citizens.
13	Regionalise the national minimum wage to ensure the incentive to work is maintained in areas where private sector wages are low and match this with full implementation of the governments cap on immigration into the UK to reduce the competition these low wage workers face.
14	Reform the planning system to provide cash incentives to households affected by development to back construction, increase the thresholds those wishing to block planning applications must exceed and introduce reviews of the planning burdens imposed by each local authority with financial penalties for those which do not reduce regulatory costs.
15	Review the UK's association with the European Union and negotiate the repatriation of powers to decide UK employment and social policies or withdraw from the EU.

Background

In November 2010 Chancellor of the Exchequer George Osborne and Business Secretary Vince Cable initiated a Growth Review to increase UK economic growth. The background was not fortuitous. The government deficit, the difference between tax revenues and public expenditure in the fiscal year, was 11 per cent of GDP in 2009-10.[1] Government was borrowing one pound in every four it spent.[2] Government debt, the sum total of present and past borrowings not yet repaid and accumulated interest, was set to increase to 74.4 per cent of GDP by 2014-15 from 44 per cent of GDP in 2008-09.[3] Increasing the rate of UK economic growth offered the coalition a less painful means of adjustment, possibly reducing the amount of cuts to public expenditure and increases in taxation necessary to balance the budget.

Two years after the Growth Review began UK economic output remains around 3 per cent below its peak and the National Institute of Economic and Social Research do not predict it will surpass the 2008 level of economic output until 2014.[4] The Government deficit has been reduced by a quarter, mainly through tax increases and reductions in capital expenditure. The deadline to eliminate the structural deficit, the gap between tax revenues and spending that will not be addressed by a return to trend rate economic growth, has been postponed from 2014-15 to 2016-17. Plans to stop Government debt still rising as a share of GDP by the end of the Parliament are in danger. Reductions in Government consumption spending have barely begun. They will need to be deeper and last longer than originally forecast. The deficit reduction plan is essential but it alone is not enough to restore the UK to economic health.

Excuses can be made for the current economic woes. The previous government badly mismanaged the economy. In 2010 the IMF estimated the UK had the highest structural deficit in the OECD.[5]

[1] HM Treasury, Budget 2010, *Budget Report: Deficit Reduction: Rebalancing the UK economy*, P8.
[2] HM Treasury, *Key Spending Review Announcements*
[3] HM Treasury, Budget 2010, June 2010
[4] National Institute of Economic and Social Research, *Estimates of Monthly GDP*, 9 October 2012
[5] HM Treasury, Budget 2010, P9

Britain entered the crisis with a high structural deficit, recently revised up, of 5.2 per cent of GDP in 2007/08.[6] The opposition Labour party is vocal in opposing each proposed reduction in government expenditure but more quiet on how they would close the deficit without matching reductions in public expenditure or further increasing taxes. The Eurozone is the UK's major export market and its continued stagnation will affect UK growth in the short term. The IMF note that "*economies with the strongest trade ties to Europe have generally seen the largest downgrades*" but the British public expects economic growth to resume.[7] The coalition did not create this economic crisis. They now own it. We need a proper roadmap for economic growth rather than excuses for continued hardship.

[6] The Telegraph, *Labour ran a structural deficit in 2007*, 25 October 2012
[7] IMF, World Economic Outlook, April 2012: *Growth Resuming, Dangers Remain*, P49

Introduction

The Plan for Growth is not succeeding. This report aims to find out why and offer an alternative. It is divided into four sections.

First I analyze the government's Growth Review, the updates to this plan and the independent government reviews which have fed into the process. The most pressing problems the UK faces are identified, the government's measures are found wanting.

Second I analyze the growth proposals made by fourteen groups representing a cross section of the political spectrum including trade and industrial bodies, trade unions, think tanks, pressure groups and international economic bodies. The common themes and curious omissions are explored and consideration is made as to which are suitable for immediate adoption in the UK.

Third, I have selected three countries that are growing and have surpassed their previous highest level of output. The measures they have taken are considered as is their applicability to the UK.

Fourth, I suggest an alternative plan for growth comprising ten proposals for immediate adoption by the UK government.

Section One:
The growth review explored

The birth of the growth review

In November 2010 the Chancellor of the Exchequer George Osborne and the Business Secretary Vince Cable initiated the Growth Review in *The Path to Strong Sustainable Balanced Growth*.[8] This set out a four point pledge made by the Government to the private sector to:

1. provide the stability business needs to plan and invest;
2. make markets more dynamic by removing barriers to growth wherever possible;
3. focus the Government's own activities on providing the conditions for private sector growth and investment; and
4. ensure that strong growth is fairly shared and sustainable in the long-term.

The government set up the Office for Budget Responsibility to have independent and reliable UK budget forecasting and created an Independent Commission on Banking to develop proposals for reform of the sector. The first UK *National Infrastructure Plan* was unveiled in October 2010. The Trade and Investment White Paper published in February 2011 set out UK strategy. [9]

The Plan for Growth: Defining the benchmarks of the Growth Review

This was followed by the Plan for Growth in March 2011 which set four aims for the UK economy during this Parliament and outlined a series of benchmarks to achieve them. Both are featured in the table below with an assessment of their suitability. Reforms to planning, regulation and access to finance were also outlined. Eight sectors of the economy were identified as the first stage of a process to review barriers to growth across all sectors of the UK economy.

[8] HM Treasury and the Department for Business, Innovation and Skills, *The Path to Strong Sustainable Balanced Growth*, November 2010

[9] Department for Business, Innovation and Skills, Trade and Investment for Growth White Paper, February 2011

	Aim	Benchmark	Comments
1	To create the most competitive tax system in the G20	The lowest corporate tax rate in the G7 and among the lowest in the G20	A precise and effective target
		The best location for corporate headquarters in Europe	Need more detail
		A simpler, more certain tax system	General enough to be meaningless
2	To make the UK one of the best places in Europe to start, finance and grow a business;	Improving the UK's ranking in major international indices of competitiveness	A precise but undemanding target given recent falls in our ranking
		A lower domestic regulatory burden	Lower in absolute terms or a slower growth in regulation than our European peers?
		More finance for start-ups and business expansion	Unspecified increase
		An increase in the proportion of planning applications approved and dealt with on time	Unspecified increase
3	To encourage investment and exports as a route to a more balanced economy	Ensure the UK remains one of the top destinations for foreign direct investment (FDI)	'*one of the top*' would allow for a decline in the UK's position given our current high ranking
		An increase in exports to key target markets	Trade is increasing so this may happen naturally – not an effective target
		An increase in private sector employment, especially in regions outside London and the South East	Imprecise – what level of increase?
		Increased investment in low carbon technologies	Imprecise aim – what level of increase?
4	To create a more educated workforce that is the most flexible in Europe.[10]	Supporting more apprenticeships than any previous government	A low benchmark given the lack of UK apprenticeship schemes compared to the best countries e.g. Germany
		Home to more of the world's top universities than any other country except	Already achieved – not really an aim

[10] The Plan for Growth, March 2011, P5/6

		the USA	
		An increase in the participation of 16-24 year olds in employment or learning	Level of increase not specified
		Narrowing the educational attainment gap, allowing everyone to meet their potential	By how much?
		Lowest burdens from employment regulation in the EU	Benchmarking against declining countries with uncompetitive labour markets

Alongside the Autumn Statement 2011 the government outlined further reforms to infrastructure, education and skills, logistics, mid-sized businesses, the rural economy and open data. Updates on progress in meeting these benchmarks were published in March 2012. To complement the Growth Review (although not formally part of it) independent reports on employment regulation by Adrian Beecroft, health and safety regulation by Lord Young and a report on UK competitiveness by Lord Heseltine have been completed. Where relevant their recommendations are considered below. The OECD suggests a programme of structural reform could raise the capacity of an advanced economy by around 3 per cent over a period of 5 years.[11] The UK Growth Review should serve to increase the trend rate of economic growth if all goes to plan.

The Growth Plan Explored

No Industrial Policy Please, We're British?

The Growth Review is a process designed to create a business friendly tax and regulatory climate in the UK. It seeks to identify the barriers to economic growth in each economic sector and remove them but not to subsidise particular industries in the hope they may be the source of future growth (green technology being an exception). The government ruled out an industrial strategy in their Trade and Investment White Paper in February 2011 because "*the Government cannot predict future areas of economic strength for the UK*." The evolving UK economy makes "*simple, static, sectoral prioritisation of industries less useful*." Therefore, "*pursuing broad-based liberalisation remains our [the Government's] overarching priority*."[12] The Plan for Growth evolved to target specific sectors by declaring the UK "*should determine to become a world-leader in, for example, advanced manufacturing, life sciences, creative industries, green energy, and non-financial*

[11] The Plan for Growth, March 2011, P14
[12] Department for Business, Innovation and Skills, *Trade and Investment for Growth*, February 2011, P51

business services."[13] In September 2012 Business Secretary Vince Cable seemed to suggest the UK would have an industrial strategy and would target advanced manufacturing such as aerospace, automotive and life sciences, knowledge intensive services such as professional and business services and higher education, and enabling sectors such as energy and construction.[14] The report considered where action might be more effective but did not outline proposals for adoption. If the government is now deciding to adopt an industrial strategy it remains in the early stages of development.

The Eight Sectors Reviewed First:

1. Healthcare and life sciences:

The UK's share of global patient recruitment in clinical trials dropped from six per cent in 2000 to two per cent in 2006. The sector accounts for 28 per cent of all UK business Research & Development (R&D). The government established a new health research regulatory agency to improve the cost effectiveness of clinical trials. The National Institute for Health Research (NIHR) established in May 2011 will apply a 70 day benchmark condition for new contracts to speed up the trials. Ehealth record data from the NHS will be used to aid UK health research by establishing the Clinical Practice Research Datalink and practice level prescribing data will be published at a chemical level to aid research, clinical research information will be opened to the public. The government is encouraging the European Commission to adopt a more risk based approach to management to such trials and publishing an updated Intellectual Property Strategy Handbook to deal with issues of possible data property infringement in clinical trials.

New translational research partnerships are being launched with £775 million investment in NIHR and Biomedical Research Centers. A cell therapy technology and innovation centre is to be established. The Small Business Research Institute is assigning a £2 million budget over two years to innovate in NHS procurement, out of their total budget of £10 million over two years. The government is looking at means of leveraging NHS intellectual property and has established NHS Global to create a brand in overseas markets and provide advice to NHS Trusts and it is working with Saudi Arabia and the BRIC countries to identify commercial opportunities. A third of the life science sector's workforce is sourced from abroad. Employers complain of the poor practical and numerical ability of UK bioscience graduates. The government is developing an applied bioscience technology foundation degree from 2012 and Cogent, the Sector Skills Council for Chemicals, Nuclear, Oil and Gas, Petroleum and Polymers, launched a Life Sciences Higher Level Apprenticeship in February 2012 as art of an action plan to ensure the sector has sufficient qualified native workers to meet its needs.

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[13] The Plan for Growth March 2011, P3
[14] Department for Business, Innovation & Skills, *Industry Strategy: UK Sector Analysis*, September 2012

2. Advanced manufacturing

In the UK manufacturing is said to suffer from an image problem compared with career opportunities in the service and public sectors. To deal with this perceived weakness a new Queen Elizabeth international prize for engineering will start in April 2013.[15] The government has asked the UK Commission for Employment and Skills to publish a framework for a new degree-equivalent Higher Level Apprenticeship which will include incorporating engineering status and professional recognition for successful apprentices when they graduate.[16] The National Career Service is supporting STEM occupations and a Make it in Great Britain website is showcasing the best of UK manufacturing as featured in a Science Museum exhibit. These measures need to address the fact that, as with life sciences, employers are frequently recruiting foreign workers to fill new job vacancies. Thirty one per cent of high tech manufacturing firms "*had recruited people from outside the UK owing to a lack of suitably qualified people from within the UK.*"[17] The governments answer is to expand the number of apprenticeship schemes.

The UK has fewer apprenticeship schemes than many European competitors. In Austria, Germany and Switzerland 25 per cent of employers offer apprenticeships compared to 8 per cent in England.[18] Incentive payments of £1500 will now be paid to SMEs that hire a new apprentice aged 16-24. A £250 million fund will allow employers to purchase the vocational training they require and a new £75 million programme will help smaller employers access Advanced Level and Higher Apprenticeships.[19] Delays in hiring apprenticeships will be reduced with employers being able to advertise vacancies within one month of deciding to take on an apprentice with the apprentice starting in three months. Manufacturing Fellowships and funding for 100,000 additional work experience placements and 50,000 additional apprenticeship places over four years are being provided.[20] Nineteen new University Technical Colleges are planned by 2014, thirteen have been established.[21] These colleges will receive £200 million in funding and are modeled on the German Faunhofer Institutes indicating a welcome recognition that the UK can learn from Germany in this area.

The quality and duration of UK apprenticeships is often lower than in Germany. In response, the government has commissioned an employer led review of apprenticeships starting in September 2012. Apprenticeship funding will now require all employers to support training in English and Maths up to A* to C at GCSE. They are publishing destination information at ages 16 and 18 and

[15] The Plan for Growth March 2011, P86
[16] The Plan for Growth March 2011, P86
[17] The Plan for Growth, March 2011, P37
[18] The Plan for Growth, March 2011, P36
[19] The Plan for Growth March 2011, P86
[20] The Plan for Growth, March 2011, P38
[21] The Plan for Growth, March 2011, P19

developing an industry kite mark for courses so would be apprentices can make more informed choices about the economic value of different schemes. These are welcome moves to rectify the situation as identified by Professor Alison Wolf in her *Review of Vocational Education* where "*between a quarter and a third of young people between the ages of 16-19 are, right now, either doing nothing at all or pursuing courses which offer no route to higher levels of education or the prospect of meaningful employment*."[22]

The Government has also formed a series of bodies to promote research and development within manufacturing, diffuse innovation within the sector and inform organizations how to commercialize their findings. A Manufacturing Advisory Service was launched and given £59.3 million over three years to improve the adoption of innovative processes.[23] A high value Manufacturing Technology and Innovation Centre was established in October 2011. It will receive £140 million over six years to commercialize business led research. Twelve new university-based centers for Innovative Manufacturing were established in 2011 with funding of £61.5 million over five years.[24] To encourage investment in advanced technology the capital assets short life asset regime has been extended for plant and machinery from four to eight years.[25] This extended tax relief is welcome but unfortunately was mitigated by the reduction of capital allowances to finance the reduction in corporation tax, which affected the more capital intensive manufacturing sector adversely.

3. Construction:

Construction is in a dire state. House building is at its lowest level in peacetime since 1924. The National Planning Policy Framework has combined all national planning policies into one document reducing the number of pages from 1000 to 52. The regional tier for planning has been removed. An annual update on simplification and measures to streamline planning and development control has been introduced[26] as has a presumption in favour of sustainable development and guarantees that all planning applications and appeals will be processed in twelve months. In May 2011 the government outlined a Construction Strategy with a two year programme of projects where public sector funding had been agreed with an aim to reduce public sector procurement costs in construction by fifteen to twenty per cent by 2015.[27]

The government is increasing the tax incentives to invest in the construction of rental property and making public land available for development. Reforms to stamp duty land tax for bulk purchases

[22] Review of Vocational Education, *The Wolf Report*, Professor Alison Wolf, March 2011, P4.
[23] The Plan for Growth March 2011, P22
[24] The Plan for Growth March 2011, P24
[25] The Plan for Growth, March 2011, P7
[26] The Plan for Growth, March 2011, P46
[27] Cabinet Office, *Government Construction Strategy*, May 2011

of residential property and the removal of barriers to entry for new Real Estate Investment Trusts aim to encourage investment in rental stock.[28] Auctions of public sector land are to be trialed. In October 2011 four major land holding departments, the Ministry of Defence (MOD), the Department of Health (DH), the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Transport (DFT) published land release strategies. Land sufficient to build 100,000 houses and create 25,000 jobs by April 2014 has been identified. The March 2012 update predicted two trials by end 2012. They are considering operating a 'Build Now, Pay Later' model to sale of public land for development.[29]

Councils are being trusted to choose development. The government is "*further reducing the number of applications 'called in' by ministers for decision at a national rather than local level*."[30] They have introduced a Written Ministerial Statement which says that "*local authorities and other bodies involved in granting development consents should prioritise growth and jobs*."[31] A New Homes Bonus of £200 million in 2011-12 rising each year thereafter was introduced to encourage communities to build houses.[32] The government set out funding for over 10,000 first time buyers to buy a home through the FirstBuy scheme. Targets specifying the level of development that should take place on previously developed land have been abolished. The Government consulted on proposals to make it easier to convert commercial premises to residential by removing the need to gain planning permission, from classes B1, B2 and B8 (business, general industrial and storage) to class C3 (residential).[33] The government is monitoring the performance of local authorities who will be required to meet certain standards.[34]

Whether measures to increase local involvement in planning will aid development is unclear. Planning is certainly becoming more diverse and community led. Local authorities have a new duty to engage with relevant neighbouring authorities on the preparation of development plan documents, in particular the provision of key sub national strategic infrastructure. Businesses can also bring forward neighbourhood plans.[35] Parish and neighbourhood input will not be able to block development merely shape it and must comply with the local authority plan and national policy and show they have consulted with local businesses. One hundred and twenty six projects were underway to test the neighbourhood planning process as of August 2011.[36]

4. Digital and creative industries:

[28] The Plan for Growth, March 2011, P116
[29] The Plan for Growth, March 2011, P39
[30] The Plan for Growth, March 2011, P48
[31] The Plan for Growth, March 2011, P43
[32] The Plan for Growth, March 2011, P37
[33] The Plan for Growth, March 2011, P45
[34] The Plan for Growth, March 2011, P46
[35] The Plan for Growth, March 2011 P45
[36] DCLG, Gov.UK, News: *More communities chosen to try out new planning powers*, 31 August 2011

Key concerns for this sector are protecting intellectual property to preserve the economic value of their product, keeping up with technological advances and extending the penetration of their products in new markets. The government has launched a Creative Industries Council to provide proposals on finance, skills, export markets, regulation, infrastructure and intellectual property. An independent review on intellectual property has been compiled by Professor Hargreaves, the government accepted all its recommendations, with an estimated benefit to business of £7.9 billion.[37] The government has published a guide to public sector intellectual property procurement policy to tackle concerns for public sector suppliers who fear infringements of their data integrity.

The Tech City Initiative is marketing London as the digital capital of Europe. The UK is 13th for advertised broadband speeds in the OECD group of countries and the government is committed to rolling out super broadband to increase our capacity. The Budget 2012 pledged £100 million to create 10 super connected cities and £50 million to fund ten smaller super connected cities. Broadband Delivery UK is considering councils applications for match funding to roll out broadband in areas not currently covered. Both the BBC and UKTI have produced proposals to help UK intellectual property penetrate overseas markets and encourage investment in the UK Digital and Creative Industries Sector respectively. Intellectual property attaches have been recruited in China and India and the European Commission agreed to a three year extension of the film tax relief.

5. Retail:

Tax and wage uncertainty combined with high planning costs undermine business investment in this sector. The government acknowledges "*businesses said that high levels of policy uncertainty are reducing the sector's willingness to invest. An earlier indication of the level of the national minimum wage is a top priority, followed by stability of business rates and other taxes*."[38] The government response has been disappointing with the small business rate relief extended only an annual basis and the Low Pay Commissions opposition to two year recommendations for the national minimum wage accepted. This sector accounts for five per cent of UK GDP; employs one in nine of the workforce and the UK has the sixth largest retail market in the world by sales but has "*significantly lower labour productivity than the US, France and Germany*."[39]

To increase productivity the government pledges to provide pre employment retail skills training to the unemployed and to encourage greater take up of apprenticeships. The National Apprenticeship Service and Skillsmart Retail have launched a Retail Apprenticeship Training Academy. The Red Tape Challenge has scrapped or simplified 160 regulations relating to the sector and the Better

[37] *Digital Opportunity: A Review of Intellectual Property and Growth*, An Independent Report by Professor Ian Hargreaves, May 2011
[38] The Plan for Growth, March 2011, P111
[39] The Plan for Growth, March 2011, P111

Regulation Office has simplified age restricted sales regulations and licenses for businesses. The Mary Portas Review of Town Centres made 28 recommendations and 12 pilot towns were chosen to trial the different options. The Town Centre First Policy is providing "*best practice guidance to local authorities and businesses on the potential benefits of Business Improvement Districts (BIDs) and how Local Authorities can use Compulsory Purchase Orders to help re-invigorate town centres*."[40] At the EU level the government has "*communicated to the European Commission its views*" on cross border retail sales and is "*pushing the EU*" to create a digital single market with an EU plan expected in December 2012.[41]

6. Professional and business services:

One of Britain's most important export earners the challenge is to increase its penetration in emerging economies. The Rolls Building in London has been opened as a centre for dispute resolution to allow foreign clients to choose for their deals to be made using English law. The UK pressed all EU members to implement the service directory in full and established European Commission benchmarking and a network of points of contact in all member states to lobby for this. As of March 2012 the government believes that all EU member states have implemented the services directive in full.[42] The Higher Education Global Portal was launched in January 2012 to advise higher education institutions looking to expand abroad. A cross Whitehall Cyber Security strategy aims to limit data theft in the sector.

The Government recognizes that immigration restrictions are a concern for the sector and has introduced tailored exceptions to the cap on non EU immigration into the UK. The government is "*excluding intra-company transfers from the annual limit on non-EU migration*" and in terms of investors and entrepreneurs "*there will be no limit on the numbers of these wealth creators who can come to Britain*"[43] Also no cap can be placed on EU migrants who are free to move within the EU to find work or the number of immigrants obtaining asylum while we remain signatories to the relevant treaties. A new Prospective Entrepreneur Visa will enable business start ups and funding to be arranged before applying for an entrepreneur's visa and the threshold has been reduced from £200,000 to £50,000. The entitlement to UK settlement has been speeded up to after 2 years for those investing £10 million or more. The UK Border Agency (UKBA) is increasing the number of biometric ID visa centres around the world, moving to online visa processing, and publishing application guidance in more languages[44] including tourist and business visa guidance in Arabic, Chinese, Hindi, Russian, Turkish, and Thai by April 2011.[45] The government is adopting measures

[40] The Plan for Growth, March 2011, P111
[41] The Plan for Growth Implementation Update, November 2011, P22
[42] The Plan for Growth: Implementation Update (March 2012) P45
[43] Department for Business, Innovation and Skills, *Trade and Investment for Growth*, February 2011, P50
[44] The Plan for Growth, March 2011, P124
[45] The Plan for Growth, March 2011, P106

to address the social inequalities in this sector with the provision of higher level apprenticeships in insurance, banking and stock broking.

7. The space industry:

The global space industry is worth around £160 billion. The government wants the UK to become a centre for space tourism. They have provided £10 million of funding to accelerate the development of the International Space Innovation Centre (ISIC) at the Harwell Science and Innovation Campus with 28 'fast-track' R&D projects to demonstrate the commercial products that use space technology. They have clarified the regulation on the security aspects of technology and defined novel space vehicles to offer low cost access to space. They will work with Ofcom to ensure that British industry has full and fair access to the limited supply of satellite orbit slots. UK standards on insurance are to be relaxed to comply with international norms because *"in other countries the compulsory insurance requirement is required only for the launch phase and unlimited indemnity against third party liability claims is not required."*[46] The liability of operators will be capped and the minimum third party insurance cover as a licence condition has been reduced from £100 million to 60 million EURO. The government will explore the opportunities for inter governmental agreements as these can be "*a prerequisite for business to co-operate and allow the UK to win international business*."[47] Such agreements have opened opportunities in Indonesia, Peru, India, China and Russia.

8. Tourism:

The government markets the UK as a destination and provides tourists with information while they are in the UK. Tourism is the UK's sixth biggest industry and our third-largest export earner. The sector employs 4.4 per cent of the workforce. Domestic tourism accounts for 59 per cent of the sector's visitor spend, while inbound travelers account for 14 per cent and outbound 27 per cent. The UK had a tourism deficit of £13.2bn in 2009.[48] A new public/private funded £100 million advertising campaign launched in 2011 aimed to attract 4 million additional visitors to the UK over four years. A task force of senior tourism industry figures has been created to identify opportunities to cut red tape. Industry partners including People 1st and the National Skills Academy for Hospitality will be enlisted to increase the number of apprenticeships. The process of applying for tourist visas is being simplified.[49] The industry and consumers have been given responsibility for hotel 'star rating' schemes. Visit England has been given funding from the Regional Growth Fund to engage with the Local Enterprise Partnerships and a ten year strategic framework for tourism aims for a five per cent per annum growth in value over the next decade.

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[46] The Plan for Growth, March 2011, P119
[47] The Plan for Growth, P119
[48] The Federation of Small Businesses, *An agenda for stability and growth*, P24
[49] The Plan for Growth, March 2011, P8

The measures affecting infrastructure, education and skills, logistics, mid-sized businesses, the rural economy and open data, announced in the Autumn Statement 2011 are contained in the analysis below.

How is the Plan for Growth doing?

Low benchmarks are easily achieved

The government declares the Plan for Growth should be "*judged against its own benchmarks*" and unsurprisingly they have set very achievable benchmarks.[50] One of the benchmarks relates to maintaining Britain's position as a favourable place for FDI another to remaining home to many prestigious Universities. Other benchmarks seek '*an increase*,' '*more*,' '*increased*,' '*simpler*,' '*improving*,' '*increased*' and '*lower*.' Presumably any increase or decrease in the direction intended achieves the benchmark. Where the government benchmarks against a relevant peer it is usually in an area where that peer has underperformed. Having the lowest burden of employment regulation in the EU, an economic block which has a relatively high burden of employment regulation, and creating more apprenticeships than the previous UK government, when all parties accept we have too few apprenticeships currently, will not help Britain compete with the emerging economies. The plan promises "*In all areas of policy the Government will constantly benchmark the UK against best practice around the world*"[51] but this is not the case. The Growth Review should start from an analysis of the structural of the problems in the UK economy, set clear policies to rectify these problems, identify the best nations in each sector and benchmark against those countries.

What are the structural problems in the UK economy?

The Government recognizes the UK has become '*unbalanced*.'[52] The Department for Business, Innovation & Skills *Industrial Strategy: UK Sector Analysis* highlighted UK reliance on financial and business service net exports which were larger than the next fifteen categories of exports combined.[53] Manufacturing has declined as a proportion of the economy from 20 per cent of GDP in 1995 to 11 per cent of GDP in 2009. Fifty per cent of all UK manufacturing jobs have been lost.[54] In UK regions where manufacturing constituted a greater share of the economy public spending has filled the gap making them particularly vulnerable to government spending cuts. The UK share of world exports has fallen from 4.4 per cent in 2000 to 2.8 per cent in 2009. Liam Fox wrote in a letter to the Financial Times that *"despite a 25 per cent devaluation of sterling, UK exports to Asia in the last three years have grown at a slower rate than those from Greece and Spain"*[55] In 2006

[50] The Plan for Growth, March 2011, P40
[51] The Plan for Growth, March 2011, P40
[52] Prime Minister, *Transforming the British economy: Coalition strategy for economic growth*, 28 May 2010
[53] Department for Business, Innovation & Skills, *Industry Strategy: UK Sector Analysis*, September 2012
[54] The Plan for Growth, March 2011, P3
[55] Financial Times, *The pressing case to cut both taxes and spending*, Liam Fox, 21 February 2012

the UK's current account deficit exceeded three per cent of GDP and was third in the world behind the USA and Spain.

Policy Exchange identifies a series of structural problems in the UK economy. UK productivity is lower than the G7 average by 11 to 15% and public sector productivity has not increased for many years. The proportion of national income going to those in the bottom half of the income distribution has fallen by a quarter while the share of the top one per cent has increased by half in the last thirty years. The UK has 3.9 million working age, workless households with sixty per cent of the workless in ten per cent of all wards. The CBI state that "*By international standards, the UK infrastructure ranks poorly at 28th in the world, far behind our main competitors of France (3rd), Germany (10th) and the United States (24th). And we are not heading in the right direction: our ranking in 2008 was just 18th*"[56] The UK has declined from 4th in the World Economic Forum's Global Competitiveness Index in 1998 to 12th in 2010, overtaken by countries including Germany, Japan, Finland, the Netherlands and Denmark.[57] The UK share of world services exports, an area of traditional strength, has declined from 8.7 per cent in 2004 to 6.2 per cent in 2010.[58]

The UK is weak in exports of manufactured items, losing ground in exporting services, has not established itself in emerging markets, where future economic growth is predicted to come from, and depends on exporting to developed markets, which are currently experiencing low growth. These trends are not inevitable for a developed nation. German exports grew as a percentage of world exports over the last decade and with manufacturing Policy Exchange say the decline is *"often ascribed to 'global trends' yet Japan and Germany saw no fall at all while France and the US saw only moderate declines in manufacturing's share of GDP."*[59] Even before the financial crisis the UK economy had serious problems.

Is economic growth the government's main priority?

The government declares that growth "*requires tough choices and putting economic growth ahead of other priorities.*"[60] However, both the government's trade and investment plan and the Plan for Growth contain numerous proposals of limited importance to promoting economic growth. The bribery laws make it very difficult for UK firms to operate in the emerging markets which all score lowly in corruption ratings, support for the carbon price floor, which is to be introduced from April 2013, makes energy more expensive for UK manufacturers, funding the development of an African trade union and tolerating protectionism in less developed countries damages UK exports.

[56] The Confederation of British Industry, *Winning overseas boosting business export performance*, P36
[57] The Plan for Growth, March 2011, P11
[58] Department for Business, Innovation & Skills, BIS Economic Paper Number 17, *UK trade performance across markets and sectors*, February 2012, P1
[59] Policy Exchange, *Looking to the future of growth*, November 2011, P87
[60] The Plan for Growth, March 2011, P14

Responding to EU member states protectionism against UK goods with appeals to the EU is a feeble response mechanism.

Is protectionism on the rise?

The UK government acknowledges that certain EU members are erecting non tariff barriers to imports. The European Commission "*estimates that approximately half of the barriers in place are 'behind the border' measures*."[61] There is also "*evidence of governments persisting with crisis measures that in ordinary times would be considered protectionist. Many governments have implemented subtler, non-tariff means of protectionism, such as subsidies and support packages, 'buy national' incentives and pressuring companies on where to locate production facilities*."[62] These non tariff barriers within the EU reduce UK/EU trade "*as much as 45% below potential*."[63] Removing these barriers would unleash "*untapped export potential of £80 billion*" and add "*7% additional income per capita per UK household*." UK trade is more heavily service orientated.[64] The UK is the largest net exporter of business services in the G7 and these accounted for one third of total UK growth between 2000 and 2007.[65] The service sector represents "*70% of world output but only about one-fifth of world trade and remaining trade barriers in services are generally far more significant that those in manufacturing*."[66] Non-tariff barriers (NTBs) "*arise from a range of sources such as different regulatory standards, or restrictions on ownership and investment*"[67] The UK government needs to consider more carefully how to reduce trade barriers in sectors where we have a competitive advantage such as financial services.

Is the government acting to protect UK companies?

The CBI outlines how this reluctance to intervene to support UK companies has already affected UK businesses. They write "*The European Commission temporarily relaxed state aid rules relating to short-term export credit insurance in 2008, allowing member state ECAs to step in to fill this gap until the private market recovered. Sensing an opportunity to increase support for their exporters at a difficult time, a number of ECAs in Western Europe expanded their coverage. In the immediate aftermath, Germany's ECA received 20,000 additional applications for short-term credit, leading to an initial €3bn of coverage. By comparison, the ECGD did not take this opportunity, placing UK businesses at an immediate disadvantage*."[68] The government "*remain concerned*" about '*reciprocity*' and commit to "*encourage the EU to negotiate greater*

[61] The Trade and Investment White Paper, P25
[62] The Trade and Investment White Paper, P23
[63] The Trade and Investment White Paper, P29
[64] The Trade and Investment White Paper, P29
[65] The Plan for Growth, March 2011, P105
[66] The Trade and Investment White Paper, P62
[67] The Plan for Growth, March 2011, P57
[68] Confederation of British Industry, *Winning overseas boosting business export performance*, P52

liberalisation of trade in services."[69] They plan to lobby EU bodies to ensure the single market is enforced, it is extended to the business to business services sector and to provide a "*sustained focus on the export opportunities for SMEs within the EU*"[70] but they outline no counter measures either to pressure EU countries to remove these barriers or to protect UK companies from their affects. UK companies could go bankrupt before such infractions are resolved and other firms may experience subdued growth.

Defending foreign protectionism against UK products

Failing to defend British companies is bad. Defending and subsidizing other countries to continue tariffs against UK exports is unforgivable. The Trade and Investment White Paper reveals the UK is pushing for all members of the G20, including the emerging powers, to agree to 100% Duty-Free Quota-Free Access for the Least Developed Countries (LDCs). These trade initiatives will not require the LDCs to open their markets to UK goods as EU free trade agreements should "*take into account the different stages of development of countries signing*" and apply a "*flexible approach to provisions on intellectual property rights*."[71] The government will even "*establish an Advocacy Fund for the least developed and low-income countries to boost their capacity to develop trade strategies and promote their interests*."[72] Establishing an African trade bloc is "*a top priority for the UK government.*" [73] Why establishing a trading bloc which will no doubt operate a common external tariff against UK goods is a UK foreign policy aim is not explained. The FCO seems to be working "*to improve the global economic environment for trade and investment*" rather than to secure British advantage in trading relationships.[74] For instance, "*the Government does not think that the EU should close its own markets if others' markets are not opened*."[75] The UK believes the EU should enter trade agreements on the basis of offering almost unconditional access to EU markets. This may not be the best strategy to persuading other nations to open their markets.

Exceeding International Rules in ways which damage growth: the Bribery Rules

A key aim of the government is to expand UK exports to emerging markets. The hope is that emerging economies, which initially needed the manufacturing tools that Germany specializes in, will now buy in the business to business and financial services the UK specializes in. The IMF forecasts that the world economy will expand by $20 trillion in current prices between 2010 and 2015, with advanced economies contributing around $8.5 trillion, while faster growing emerging and developing economies contribute around $11.5 trillion, creating great opportunities for UK

[69] Trade and Investment for Growth, February 2011, P10
[70] Trade and Investment for Growth, February 2011, P60
[71] Trade and Investment for Growth, February 2011, P68
[72] Trade and Investment for Growth, February 2011, P11
[73] Trade and Investment for Growth, February 2011, P42
[74] Trade and Investment for Growth, February 2011, P48
[75] Trade and Investment for Growth, February 2011, P61

businesses.[76] From 1998 to 2008, UK exports to the eight largest emerging markets increased by just over 0.5 per cent of GDP compared to over 3 per cent for Germany[77] and "*recent surveys show that the UK had a slightly lower share of exporting SMEs than the EU average and that the share of UK SMEs' revenues accounted for by exports was also lower than the EU average*."[78] UK companies are trading with developed countries more and these countries are growing at a slower rate if at all. We need to reorient UK trade to developing markets.

Emerging markets frequently score lowly on corruption ratings. The Corruption Perceptions Index published by Transparency International rates the BRIC countries as follows Brazil (73rd), Russia (143rd), India (95th) and China (75th) with 1st being the least corrupt and 182nd the most corrupt.[79] The government acknowledges that the business services sector view the implementation of the Bribery Act 2010 and Money Laundering Regulations "*as particular concerns*."[80] The domestic response has been to publish guidance to help commercial organizations understand the Bribery Act 2010, to abolish two dozen regulatory offences under the Money Laundering Regulations and exempt businesses with low turnovers. The international response is to "*press for world-wide enforcement of bribery rules*" and press "*all 38 signatories to the OECD Bribery Convention to take active steps to enforce their own foreign bribery legislation*."[81] The government has not adopted the suggestion made by Jo Johnson MP in the Centre for Policy Studies Report *Growth, Growth, Growth* to "*undertake an assessment of the impact of the Bribery Act on appetite for engaging with India*" in particular.[82] It is unrealistic to target markets with high levels of corruption for increasing UK exports, to introduce rules which punish UK companies for paying bribes in foreign states and then to be surprised that UK companies confine their activity to markets where corruption rates are low.

Exceeding International Rules in ways which damage growth: Green energy

The government has increased taxes on domestic oil exploration and failed to outline a plan to take advantage of the huge opportunities in shale gas available in the UK preferring instead to incentivize green energy. Oil now accounts for 8 percent of imports and the UK recently became a net importer of energy.[83] To encourage investment in low-carbon power, the Government will introduce a carbon price floor for electricity generation from 1 April 2013.[84] This is confusing as elsewhere in the plan the government recognizes that adopting new, low-carbon technologies in

[76] The Plan for Growth, March 2011, P29
[77] The Plan for Growth, March 2011, P29
[78] Trade and Investment for Growth, February 2011, P19
[79] Transparency International, *Corruption Perceptions Index 2011*
[80] The Plan for Growth, March 2011, P105
[81] Trade and Investment for Growth, February 2011, P10 and P59
[82] The Centre for Policy Studies, *Growth, growth, growth: New ideas for growth and prosperity in the 21st century*, P44
[83] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012
[84] The Plan for Growth March 2011, P81

energy production and consumption will increase the average non-domestic energy bill by an estimated 11 per cent by 2015 and 26 per cent by 2020. The government celebrates its abolition of the carbon capture and storage levy which will mean that business electricity bills will be 2 per cent lower by 2015 and 3 per cent lower by 2020. The CBI warns that "*without mitigating action [of the carbon price floor], these cost rises could significantly undermine the slight competitive advantage currently enjoyed by firms through the depreciation of sterling*."[85] The Government promise to cap the cost of policies funded through energy bills[86] will need to undo some of the damage done by these other measures if energy intensive UK manufacturing is to remain competitive.

Climate change is included in the UK trade plan. The Government promises to leverage their £236 billion public procurement power to help drive new markets in green products and services,[87] has established a £3 billion Green Investment Bank[88] and is investing £25 million to facilitate the purchase of low carbon buses and £10 million is being spent reducing the pollution from existing buses. From 2016 all homes will need to be zero carbon homes and they are considering applying an interim regulation in 2013 to smooth the way. To "*ensure that it remains viable to build new houses*" the Government will hold house builders accountable only for those carbon dioxide emissions that are covered by Building Regulations.[89] The wording implies that there is some doubt over whether it would be viable to build new homes if the regulation were applied more broadly indicating the high cost of this measure or the precarious nature of the viability of UK home building. Imposing this regulation seems at odds with the governments plans to review existing construction regulations to remove regulations where the "*costs outweigh the benefits*."[90] Pushing for "*a legally binding deal to tackle climate change*" will not assist UK companies driven out of business by high energy costs, enforcement of these regulations should follow a global or EU wide agreement not precede it and should be contingent on other nations effectively enforcing similar standards.[91]

How has the credit crunch affected business lending?

While there was no boom in lending to business prior to the Great Recession, outside of the construction sector, there is "*a concern that trade finance markets in general, including in the UK, have tilted against new or small firms in particular*."[92] The Breedon Report states that "*borrowers have reported that credit facilities are taking longer to approve; the maturity of loans has*

[85] Confederation of British Industry, *Winning overseas boosting business export performance*, P36
[86] The Plan for Growth March 2011, P8
[87] The Plan for Growth March 2011, P82
[88] The Plan for Growth March 2011, P82
[89] The Plan for Growth, March 2011, P117
[90] The Plan for Growth, March 2011, P117
[91] Trade and Investment for Growth, February 2011, P66
[92] Trade and Investment for Growth, February 2011, P23

shortened, there are higher collateral requirements and in some cases additional fees for loans."[93] It also found that "*the UK had one of the highest SME loan rejection rates in the European area*" and has had the sharpest drop in small business lending.[94] Gross lending to the non-financial private sector peaked at £657bn in December 2008. It has declined by £151 billion to £506 billion in December 2011 due to repayments and a decline in new lending. Bank deleveraging is occurring at the expense of new business lending. UK Venture Capital Investment is down by half.[95] Research suggests there is a continuing 'equity gap' for SMEs seeking equity finance in the range of £250,000 to £2 million.[96]

What are the recommendations of the *Breedon Report*?

The Breedon report on alternative source of finance sought to increase the range of financial options open to small business and their capability to access them. It found that "*only 3% of small businesses' use equity finance, whereas 55 per cent use credit cards*" and small firms were "*focused on building their customer base and lack the scale to be able to justify a dedicated finance professional*."[97] The finance gap was estimated at "*over the next five years of between £84bn and £191bn*."[98] The government should "*start by clearing up the 'alphabet soup' of business support schemes, learning from countries that do it well*" and "*create an entity which carries out many of the functions undertaken by state-owned business support agencies such as KfW in Germany*" to address "*market failures*" in the supply and demand for finance and provide an outlet for governments credit easing measures.[99]

The recommendations included the introduction of a Business Finance Advice Scheme and a single delivery agency and brand for government support interventions. The government should promptly pay large contractors on condition they quickly pay their smaller suppliers, be prepared to revoke these conditions for non compliance and work with industry associations to better enforce existing legislation on late payment. They should also consider how to use Government's role as a purchaser to encourage suppliers to adopt supply chain finance. UK signatories to the Government's Prompt Payment Code, now represent more than 60 per cent of the UK supply chain, they commit to pay according to the terms set at the beginning of the contract and to avoid changing practice on length of payment time for smaller companies.

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[93] The Breedon Report, P12
[94] The Breedon Report, P13
[95] The Plan for Growth March 2011, P21, (European Venture Capital Association Yearbook, European Venture Capital Association, June 2010)
[96] Department for Business, Innovation & Skills, BIS Economics Paper Number 16, *SME Access to External Finance*, January 2012, Pvi
[97] The Breedon Report, P2
[98] The Breedon Report, P16
[99] The Breedon Report, P3

The government was urged to conduct a feasibility study to explore creation of an aggregation agency to lend directly to SMEs or to pool SME loans to facilitate SME access to public corporate bond markets and launch an industry task force on removing barriers to bank financing of SMEs. The report found that "*each of the successful models for new bond markets launched in Europe in recent years has been retail-based (e.g. MOT in Italy, ORB in the UK, and BondM in Germany) highlighting the growing importance of the private investor base as a means of diversifying sources of capital for companies*."[100] UK retail investor appetite for corporate bonds should be increased through additional tax incentives such as the ISA scheme and the government should consider making investments in Online Receivables Exchanges, Mezzanine Loan Funds and P2P Lending Platforms.

Can banks deleverage and increase lending to small business at the same time?

Paradoxically while trying to get banks to increase their lending the government is also urging banks to increase their capital reserves to a level higher than their European competitors. The UK government has won a concession from the EU to allow them to operate higher capital requirements for retail banks once proposals to ring fence the retail and investment banking sectors are complete. The Independent Commission on Banking recommended capital requirements of 10 per cent compared with the 7 per cent required by Basel III. Banks can deleverage by desisting from issuing new loans as existing loans are repaid, divesting assets and/or diverting new deposits to buy 'safe assets' such as government bonds to act as collateral. None of these would result in more lending to businesses or households.

The governments Funding for Lending scheme, launched in July 2012, seeks to encourage banks to lend more to businesses by allowing banks to use their existing loan books as collateral to obtain Treasury notes. They will use these notes as collateral to borrow on wholesale markets to then lend out to UK private businesses. Banks balance sheets will improve and more credit will be available to business and private lenders. This scheme operates in conjunction with Project Merlin, set up in February 2011, which commits those banks which have signed up to increase lending to SMEs by fifteen per cent per year.[101] A £2.5 Billion bank led Business Growth Fund[102] and the Enterprise Finance Guarantee, which will lend £2 billion over four years to viable SMEs that lack a track record or collateral, should also provide additional credit.[103]

The governments stress on higher capital requirements cancels out some of the positive measures to boost bank lending and exacerbates the problem of the UK corporate sector failing to invest as a greater proportion of capital is devoted to 'safe' investments in government bonds. The government

[100] The Breedon Report, P24
[101] The Plan for Growth, March 2011, P22
[102] The Plan for Growth, March 2011, P18
[103] The Plan for Growth, March 2011, P64

is correct in seeking to reduce banking leverage, given the threat of a fresh Eurozone crisis, but there are other means to achieve this.

Is the government addressing Britain's legacy of low business investment?

Funds spent buying back company shares, reducing debt or hoarding cash reduce the amount available for business investment. UK corporate cash holdings currently exceed £700 billion.[104] Business investment as a share of GDP was the lowest among the advanced economies in the 2000's,[105] is now the second lowest and it fell during the recession from this low base.[106] The Office for Budget Responsibility envisages a ten per cent per annum increase in business investment. By contrast business investment increased by only 3.1 per cent in Quarter 2 2012 (compared with Quarter 2 2011).[107] The government has protected spending on Science and Research Programmes in the 2010 Spending Review, increasing spending on health research[108] and allocated £20million over two years to the Small Business Research Initiative, half of which is allocated to specific competitions to address healthcare challenges.[109] It would be more effective to commission research into why UK business investment has been low for over a decade and how this trend could be reversed. Creating a more stable macro fiscal framework by reducing government debt is part of the answer but not sufficient.

Is government doing enough to build a diversified market in banking finance?

Distrust of the banking sector is commonplace but alternatives to conventional bank finance remain underdeveloped. Community Development Finance Institutions (CDFIs) provide small loans which private entities would deem too expensive to administer and too risky, a valuable contribution to the business finance market. However, the Plan for Growth notes that they "*have difficulties raising capital to lend and many do not yet have a sustainable business model*."[110] Peer to peer lending firms are not regulated by the Financial Standards Authority and thereby are not covered by its compensation scheme. SMEs are reliant on bank lending because other measures such as debt capital markets (corporate bonds and private placements) are effectively restricted to large companies. The Regional Growth Fund has been aligned with the European Regional Growth Fund timetable to allow businesses to seek support from both and the Government has relaxed the rules on age limits for membership, year-end dates and allowed credit unions to offer interest on

[104] Deloitte, *What to do with corporate cash?* 7 February 2012
[105] The Plan for Growth, March 2011, P11
[106] The Plan for Growth, March 2011, P30
[107] Office for National Statistics, *Business Investment Q2 2012 Revised Results*, Released 27 September 2012
[108] The Plan for Growth, March 2011, P22
[109] The Plan for Growth, March 2011, P24
[110] The Plan for Growth, March 2011, P64

deposits to expand the range of financial services they can offer.[111] These moves alone cannot expand the range of financial tools open to UK business enough.

What about finance for UK firms looking to export?

The UK has underperformed in this sector. Foreign competitors offer a broader range of products, have adapted those products to meet unique economic circumstances and are more effective at raising awareness of their services among the business community. The government has tried to address these issues by launching three new trade finance products; a bond support product, an export working capital product and a foreign exchange credit support scheme, and made both the Letter of Credit Guarantee Scheme and the ability to use Export Credits Guarantee Department (ECGD) guarantees to raise long term finance on capital markets permanent. The ECGD has "*started discussions with banks on sharing credit risk with them on foreign exchange hedging contracts of up to two years for SME exporters*."[112] The ECGD has extended the eligibility of its existing short term credit insurance policy, the Export Insurance Policy (EXIP) which allows exporters to claim compensation if the buyer does not pay for the goods.[113] The Export Enterprise Finance Guarantee (EFG) provides short term export finance lines up to £1 million to exporting SMEs.[114] This expansion of the range of financial options open to exporters is welcome.

Are the trade finance products offered by the ECGD similar to those offered by our leading competitors?

The government believes these new products make the ECGD offering "*broadly comparable to that of most leading international export credit agencies*." The CBI disagrees and declares "*The mass market rhetoric of the ECGD is not backed up in either resources or intention*." They suggest "*a comparison with the German ECA, Hermes, illustrates the gulf between their capacities. In 2010, Hermes administered €32.5bn worth of business, 73% of which went to SMEs; by comparison, the ECGD administered a total of €3.3bn (£2.9bn), with almost no SME coverage and dominated by the aerospace sector*." Furthermore, "*the relaxation of EU state aid rules as a result of the credit crisis resulted in a number of other ECAs plugging finance gaps; yet the ECGD remained gold-plated and inflexible*."[115] Post March 2011 the Export Finance Guarantee (formerly ECGD) issued seventeen insurance policies under the Export Insurance Policy to sixteen exporters for £39 million in exports of which 13 exporters accepted the support offered. The Bond programme offered to assist eight exporters with 37 contract bonds to a contract value of £135 million being

[111] The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011
[112] Trade and Investment for Growth, February 2011, P57
[113] The Plan for Growth, March 2011, P59
[114] The Plan for Growth, March 2011, P60
[115] The Confederation of British Industry, *Winning overseas boosting business export performance*, P51

guaranteed of which four accepted to the value of £62 million. These are trivial sums compared to the amounts offered by our German and American competitors.

Will the diplomatic service make UK companies aware of commercial opportunities overseas?

Using the FCO to advance UK commercial interests is not new but it is valuable. Joseph Chamberlain declared in 1896 that the Department should be "*chiefly engaged in finding new markets and in defending old ones*."[116] The Foreign and Commonwealth Office and UKTI is going to provide UK businesses with local intelligence through the High Value Opportunities Programme which focuses UK Government support on fifty projects at a time.[117] The IPO is establishing a network of attachés covering the key global markets, including China, East Asia and India to provide local support to exporters.[118] UKBA is implementing a single point of contact for all traders, with lead officials at ports and airports so Government departments can assist in case of delays through the Strategic Partner Group.

The government recognizes that "*barriers to trade and investment with the emerging powers are generally higher and commercial decisions can be influenced by political factors*" and the National Security Strategy aims to develop political links that may have commercial value.[119] The trade and investment plan recognizes three sector-specific areas in the US. These are; Public Private Partnerships, High Speed Rail Transit and Low Carbon Energy. Here "*the UK Government can play an important role in helping UK businesses secure significant contracts*."[120] Each of these moves is welcome but the UK government should seek to build a more extensive commercial opportunities detection service for UK companies. Building a network of attaches has value but the Foreign and Commonwealth Office budget is being cut by £240 million. Given the FCO operates few large programmes, this budget relates to buildings and staff, creating a new network of attaches while cutting local support staff seems counter productive.

Are UK trade missions working effectively to promote UK companies overseas?

Trade missions are potentially valuable. The government has devoted considerable energy to visiting key target markets. They promise that UKTI will identify opportunities and barriers faced by UK companies operating in high-growth markets and ensure that the UK's diplomatic resources and ministerial visits focus on eliminating these barriers to trade.[121] However, the CBI suggests that trade missions organization "*lacks commercial understanding or focus*" and that "*business*

[116] Financial Times, *Foreign Office adjusts to austere times*, Jim Pickard, Political correspondent, 13 April 2012
[117] The Plan for Growth March 2011, P59
[118] The Plan for Growth March 2011, P100
[119] Trade and Investment for Growth, February 2011, P31
[120] Trade and Investment for Growth, February 2011, P31
[121] The Plan for Growth, March 2011, P59

involvement in political trade delegations remains haphazard - visits are often arranged at short notice and often get cancelled." This is compared to Denmark where "*partial funding [government] is available for businesses to conduct pre-delegation scoping visits and to follow-up after the delegation*," Spain which "*has a rotating system of 12 monthly priority countries - currently Russia - during which the trade minister visits four or five times, the prime minister visits one or two times and a number of ministerial and ambassadorial interaction also takes place*" and Germany where "*Angela Merkel has made four visits to China in five years*.[122] In contrast British Ministers on one of their few visits insisted on wearing remembrance poppies reminding their Chinese hosts of the infamous UK/China opium war.

Export advice and support services need to prove their worth

The government notes that "*evidence also suggests that SMEs tend to undervalue the benefit of external advice*".[123] The UKTI Passport to export service aims to help firms enter new markets through advice and the 'Gateway to Global Growth' provides experienced exporters with a tailored service of support.[124] In November 2011 "The National Export Challenge" was launched, it includes a new UKTI prize for the best export idea, a new 'how to' guide for professional service companies and an open to export web resource for UK firms to swap information. The aim is to get 100,000 more SME's exporting by 2020. Forty thousand business mentors will be organized. A business coaching for growth programme was launched in England in January 2012. Prizes for a successful first time exporter and a firm which has exported successfully for at least 3 years are to be administered. The success of these programmes will rely on effective marketing of their existence and proven commercial wins by assisted firms.

Trade promotion without the power to conclude a trade deal

The BIS plan for trade and investment is patchy because trade policy is an EU preserve. The UK cannot develop separate trade deals with other nations and must negotiate through the EU. The government is limited to pushing the European Commission to conclude additional free trade treaties and expand those in operation. A particular UK aim is to remove trade barriers for the professional and business services sector in non-EU markets.[125] Of the free trade deals featured in these plans the government welcomed renewed EU and US efforts to "*reinvigorate the Transatlantic Economic Council (TEC) and is committed to strengthening and expanding it*."[126] This implies efforts to achieve greater EU-US free trade had stalled. BIS also recognized that "*even though there is an EU-Mexico FTA, UK exports make up less than 1% of Mexican imports and the*

[122] Confederation of British Industry, *Winning Overseas: Boosting business export performance*, P44
[123] The Plan for Growth, March 2011, P63
[124] The Plan for Growth March 2011, P58
[125] The Plan for Growth March 2011, P107
[126] Trade and Investment for Growth, February 2011, P31

UK-Mexico bilateral trade relationship is not well developed."[127] Free trade treaties alone will not expand UK exports substantially.

Relations with the EU:

The EU is the source of a substantial proportion of UK regulations. Since "*October 2009, the cost of European regulations to the UK has varied from 27 per cent to 60 per cent of the total UK regulatory cost*."[128] No deregulatory drive could omit changing our association with the EU and reinterpreting our treaty commitments. The government promises that the gold plating of EU Regulations will be curtailed.[129] The EU was not costing its European Commission Legislative and Work Programme or assessing the cumulative burdens of its regulation.[130] The UK worked to get the EU Parliament to cost all their substantive regulations and audit their cumulative impact and adopt thirty one administrative burden reduction proposals which are currently being held up.[131] The EU Parliament has now created an Impact Assessment Unit to assess business burdens.

The government promises to "*push the Commission to deliver a culture change that bears down on the overall impact of EU legislation*."[132] In an update in November 2011 the government declared that the European Commission was now "*committed to exempting micro-enterprises from new EU legislation unless there are compelling reasons to include them*."[133] This curious wording suggests the EU introduces regulation for non compelling reasons or applies regulations which may be relevant to one area in a uniform manner to areas where the reasons are less salient. The government has worked with GSK, Balfour Beatty, Kingfisher and Tribeka Limited to identify options to improve European growth opportunities for UK businesses (not non European markets). The aim is to revise EU Regulations and Directives which impose extra costs on UK businesses trading outside the EU. On the clinical trials directive the government is seeking to "*influence Commission to bring about sound based proposals to reduce regulatory burdens*." The EU maternity and paternity rights extension and information and consultation of employees directive are also areas of concern. EU approval has been requested for a series of growth measures from increasing the SME rate of R&D tax credit,[134] extending film tax relief, extending the community investment tax relief and establishing a Green Investment Bank. A comprehensive review of all areas where the UK government no longer has the authority to set policy without EU authorization would demonstrate the constraints the government operates under and provide impetus for reform.

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[127] Trade and Investment for Growth, February 2011, P39
[128] The Plan for Growth, March 2011, P51
[129] The Plan for Growth, March 2011, P52
[130] The Plan for Growth, March 2011, P51
[131] The Plan for Growth, March 2011, P55
[132] The Plan for Growth, March 2011, P54
[133] The Plan for Growth Implementation Update, November 2011, P4
[134] The Plan for Growth March 2011, P7

Deregulation or a temporary reduction in the rate of creation of new regulation?

Regulation imposes significant costs on UK business. The cumulative additional cost to business of all regulation introduced since 1998 is £90 billion a year.[135] The World Economic Forum ranks the UK as 89th out of 139 countries in terms of business perceptions of the burden of regulation. Surveys of business leaders show that several 'raised concerns' about "*the complexity of the tax structure, bureaucracy in the UK planning system, and high energy costs*" and the burden of regulations "*notably in the environment and employment fields*."[136] The Forum of Private Business revealed that the typical small business spends 34 hours a month dealing with red tape. This represents an area where the government could achieve quick wins, reducing business costs without spending more money. Unfortunately no bonfire of controls has occurred.

The government recognizes that "*every Government Department makes decisions that affect the UK's economic performance*."[137] They are consulting on "*providing new guidance to UK domestic regulators to encourage them to have regard to the effect of their actions on trade and investment*."[138] They have created a new sub-Committee of Cabinet under the chairmanship of the Minister for Trade & Investment to provide a whole of government approach to this area and pledged to scrap proposed new regulations that would have cost businesses over £350 million a year to implement. These regulations include Home Information Packs,[139] the planned extension of the right to request time to train to SMEs and the right to request flexible working to parents with children under 17 from April 2011.[140] Many of these measures are worthy but they are preventing increases in regulatory costs rather than cutting the existing burden. Between January 2011 and March 2012 the government achieved a cumulative net reduction of regulatory costs to business of £3.3 billion.[141] If the pace of deregulation is sustained it would mean less than a fifteen per cent reduction in the regulatory cost imposed since 1998, this is without additional regulation costs being imposed by the coalition government and does not apply to the total stock of regulation which also includes the rules passed prior to 1998.

The government has initiated a "*public thematic review*" of all regulation.[142] This is seeking public views on the 21000 Regulations and Statutory Instruments currently on the Statute Book. The Red Tape Challenge was launched in April 2011, four themes have been through the process and across these over fifty per cent of the domestic regulations identified were simplified or scrapped, over 1500 regulations have been considered so far. A binding set of principles of economic regulation

[135] The Plan for Growth, March 2011, P11
[136] Trade and Investment for Growth, February 2011, P45
[137] Trade and Investment for Growth, February 2011, P48
[138] Trade and Investment for Growth, February 2011, P10
[139] The Plan for Growth, March 2011, P52
[140] The Plan for Growth, March 2011, P39
[141] The Plan for Growth: Implementation Update (March 2012), P21
[142] The Plan for Growth, March 2011, P7

have been outlined[143] and an Enforcement White Paper has committed the government to review all regulators, impose sunset clauses on new statutory regulations and extend the primary authority scheme to include different types of business such as franchises and additional sectors of the economy such as gambling. These moves are exactly what is needed but have yet to deliver substantial wins.

Employment tribunal procedures have been revised with the introduction of fees, an increased qualification period for unfair dismissal of two years and the requirement for all cases to go before the Advisory Conciliation and Arbitration Service before proceeding further is being introduced. The government has not implemented the Beecroft recommendation of compensated no fault dismissal but is consulting on introducing 'protected conversations' allowing employee and employer to reach a settlement agreement perhaps using the model agreement being developed for small businesses that will cover all future claims. Lord Young's review of health and safety which proposed bringing in new risk assessment tools, the registration of health and safety consultants, combined inspection programmes and taking action to constrain 'no win, no-fee' legal services is to be introduced in full.[144] This has simplified or scrapped 84 per cent of health and safety regulation. By applying the common EU standard rather than the previous British standard the government has reduced the number of small firms having to undertake an audit saving UK companies £150 million a year in accounting requirements.[145]

Micro and genuine start up businesses have been exempted from new domestic regulation for three years from April 2011. Note this only applies to new legislation and UK legislation. Large and medium sized businesses are not included. It is a temporary break and not a permanent arrangement and it does not apply to all regulation as "*impacts on equality will be taken in to account when making decisions on whether to exempt micro businesses*."[146] Measures covered by this exemption include a delay in the auto enrolment of workers into pensions for small businesses till the end of this Parliament, small retailers being exempted from the tobacco display ban until April 2015 and businesses employing less than 250 people not having to implement the right for staff to request time to train. This matches the trend outlined in the one-in-one-out rule on regulation the Government has introduced. The Reducing Regulation Cabinet Committee is meant to not approve new regulations until a deregulation measure of equal value is identified.[147] Research by the British Chambers of Commerce suggests this rule is being applied to only half of all new domestic regulations in practice.

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[143] The Plan for Growth, March 2011, P25
[144] The Plan for Growth, March 2011, P23
[145] The Plan for Growth, March 2011, P77
[146] The Plan for Growth, March 2011 P52
[147] The Plan for Growth, March 2011 P22

How is the government increasing regulation?

Concurrently the government has introduced a series of measures which the FSB believe make doing business more expensive and unpredictable. These include additional tax reporting rules, the increase in fuel duty and fuel prices, ending business rates exemption on empty properties, increasing Employer's National Insurance Contributions, extending paternity leave rights, capping non EU migration, ending the default retirement age, implementing the Agency Workers Directive and introducing employee automatic enrolment into a pension scheme and the plan to "*introduce a provision for employment tribunals to levy a financial penalty on employers found to have breached employment rights* [payable to the Exchequer]."[148] The FSB declare "*the Government has sent very mixed signals to the business community*" by preaching deregulation and simplification but increasing taxation and extending employment legislation.[149]

Using Government procurement to stimulate small business

The government spends £236 billion a year on procuring goods and services but SMEs win 24 per cent of the value of contracts compared to an EU average of 34 per cent.[150] A target of awarding twenty five per cent of the value of government contracts to SMEs has been set. [151] To increase SME success Pre-Qualification Questionnaires for all central government procurements under £100,000 have been eliminated and a standardized PQQ introduced for all contracts in excess of this amount.[152] A portal called Contracts Finder has been set up as a one stop shop with every central government tender for SMEs to identify opportunities; nine companies have also listed their sub contracting opportunities on the site.[153] The Community Right to Challenge introduced in the Localism Bill and the statutory guidance on the best value duty should enable smaller providers to more effectively challenge for local authority contracts. A government promise to complete procurement processes within 20 working days should reduce delays. Efforts are being made to improve the range of products and services available to SMEs to help them protect their intellectual property.[154] This is an area where the government has delivered positive reforms that will greatly assist small UK firms.

Local authorities account for around a third of UK public sector procurement, procuring around £86 billion in 2009-10. The Government has issued a council transparency code setting out

[148] Department for Business, Innovation & Skills, *Resolving Workplace Disputes: Government Response to the Consultation*, November 2011, P9
[149] Federation of small businesses, *An agenda for stability and growth* P7
[150] Federation of small businesses, *An agenda for stability and growth*, P25
[151] The Plan for Growth March 2011, P72
[152] The Plan for Growth March 2011, P22
[153] The Plan for Growth March 2011, P22
[154] The Plan for Growth March 2011, P26

expectations for the data that councils should publish, including details of contracts and tenders.[155] Consultations on the Fair Deal on Pensions, which requires that broadly comparable pensions are provided to staff where they have been compulsorily transferred from the public sector to a new employer, the collective redundancy rules and TUPE are being launched. The government is informing bidders what the TUPE implications of bidding for a contract are earlier on and withdrawing the two tier code which was an additional burden for independent providers. Research by the FSB has revealed that "*almost a third of small businesses have been paid late by central Government, and a quarter said they have been paid late by local authorities*" this compares with 34 per cent for sales to the private sector.[156] Project Bank Accounts are now being used to speed up these payments. Central government is not providing an example in terms of paying suppliers promptly. Matching the performance of local authorities is an achievable aim the government should adopt.

How is the government increasing incentives to work?

Increasing the numbers in work and their productivity at work will create a larger UK market with expanded growth opportunities for UK firms. This means reforming welfare and making taxation simpler and lower. Worklessness is a significant problem as "*nearly five million people are out of work and on benefits, almost exactly the same level as ten years ago, despite employment overall having risen by 1.5 million*."[157] The introduction of the Universal Credit will simplify the benefit system, the Work Programme is providing extra support for the long term unemployed to increase their employability through hiring private contractors on a payment by results basis and the reforms to housing benefit are increasing the incentives for the poorest to find work.

Progress on taxation is more subdued. The government aims to create a lower, simpler and more stable taxation system. To achieve this they promise to "*develop and implement tax reforms over a longer policy cycle, providing greater opportunity for consultation with business on policy design*."[158] The Office of Tax Simplification has been created and has abolished 43 tax reliefs and with the Treasury has abolished 100 pages of tax legislation.[159] A consultation has been held on "*options to integrate the operation of income tax and national insurance*."[160] A higher threshold for employer NIC contributions makes it cheaper to employ anyone earning less than £21,000 per annum. The upper taxation rate is being cut from fifty per cent to forty five per cent as of 2013, the tax free threshold is being increased to £10,000 and corporation tax is being reduced.

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[155] The Plan for Growth March 2011, P73
[156] Federation of small businesses, *An agenda for stability and growth*, P15
[157] The Plan for Growth, March 2011, P37
[158] The Plan for Growth, March 2011, P16
[159] The Plan for Growth, March 2011, P17
[160] The Plan for Growth, March 2011, P17

Is the government encouraging UK entrepreneurship through the tax system?

Tax reforms to encourage entrepreneurship include the pledge to increase income tax relief under the Enterprise Investment Scheme, doubling the lifetime limit on capital gains qualifying for entrepreneur's relief from April 2012 (to £10 million) and a proposed business angel co investment fund. The government has increased the rate of Enterprise Investment Scheme (EIS) Income Tax Relief to 30 per cent from April 2011 and the lifetime limit on capital gains qualifying for Entrepreneurs Relief rose to £10 million from April 2011. The rate of tax relief on SME R&D was increased from 200 per cent in 2011 to 225 per cent in 2012. The Big Society Capital Group has been funded by money from England's proportion of the £400 million in UK dormant bank accounts and was operational from July 2011. Both social and business entrepreneurs should benefit from these reforms and there has been an increase in self employment but this may be due to necessity (people losing their jobs) rather than the result of these reforms.

The Corporate Tax Road Map outlines why the government is cutting corporation tax. In 1997 the UK had the tenth lowest main rate of corporate tax of the EU27. In 2010 the UK had the twentieth lowest.[161] The way the corporate tax base was determined was also a cause of concern particularly the treatment of foreign operations and intellectual property. An opt-in exemption from corporate tax on the profits of foreign branches is being introduced to provide a "more territorial corporate tax system."[162] The new controlled foreign companies rules in the Finance Bill 2012 seek to "*make the UK a more attractive location for multinationals and for corporate headquarters*."[163] The Government is providing "*a bespoke service to key inward investors, giving them direct access to UK ministers and speedy resolution of bureaucratic obstacles to investment*."[164] These proposals seek to maintain the UK as one of the top destinations for foreign direct investment and the location for European corporate headquarters.

The TaxPayers Alliance (TPA) criticises the focus on headline rates of taxation. They declare "*focusing solely on headline rates can cause people to miss the real picture. More important than the headline rate is the effective rate – i.e. the percentage of taxable income that companies actually hand over to the Treasury. The difference between the two is not tax evasion (although this would have an impact), but established and sensible provisions for things such as capital allowances, how previous losses are carried forward, and profits from foreign subsidiaries. Analysis by the Cato Institute estimates that in 2010 the effective Corporation Tax rate on new investment for the UK was actually 27.9 per cent, compared to an average rate of 17.7 per cent*

[161] HM Treasury, *The Corporate Tax Road Map*, November 2010.
[162] The Plan for Growth, March 2011, P17
[163] The Plan for Growth, March 2011, P17
[164] The Plan for Growth, March 2011, P58

across all countries studied. This also compared to an OECD average of 18.6 per cent."[165] The aim to have the lowest corporate tax rate in the G7 is not sufficient because "*Britain does not only compete with the large developed G7 economies and needs to keep up with the prevailing trend towards lower and more competitive rates*."[166]

Has the taxation system been reformed?

The World Economic Forum rating on taxation shows that "*the UK has fallen significantly from 25th in 2006-07 to 95th in the latest 2010-11 figures*."[167] Government reforms to taxation have not provided the stability and clarity promised. The small business rate relief holiday is being extended on an annual basis which leaves business unable to make long term business decisions.[168] Targeted schemes to address regional imbalances have flopped. The TPA declare that "*the introduction of a highly conditional National Insurance holiday. The scheme, which exempted small firms (those with 10 or fewer staff) from having to pay National Insurance for a 12 month period, had attracted just 10,000 registrations out of a total of 400,000 expected to benefit from the scheme" projected to create 800,000 jobs actually created 1,000*."[169] Value Added Tax has increased from 17.5 per cent to 20 per cent and a refusal to cut fuel tax (as opposed to preventing future increases) mean that "*in September 2011, tax accounted for 60 per cent of the pump price of petrol in the UK, a greater percentage than in any other EU country*."[170] The coalition's reforms to taxation have not restored the UK's tax competitiveness.

Are we building the transport and energy infrastructure a modern 21st century economy requires?

In 2010 the government set out the first ever UK National Infrastructure Plan (updated in November 2011). It included five hundred infrastructure projects such as Crossrail and High Speed Rail and £1 billion funding for a carbon capture and demonstration plant.[171] A two year rolling review of the programme will be undertaken and updated on a quarterly basis. The Infrastructure Planning Commission (IPC) was abolished by the Localism Act and decision making returned to Ministers. An informal ministerial group will oversee the performance of the major infrastructure planning regime drawn from departments on the Economic Affairs Committee. Major infrastructure planning applications will be fast tracked with decisions within 12 months of the start of an inquiry. Local authorities seeking to apply the community infrastructure levy are now

[165] TaxPayers' Alliance, A single income tax, 2020 Tax Commission, P201/02
[166] TaxPayers' Alliance, A single income tax, 2020 Tax Commission, P200
[167] The Plan for Growth, March 2011, P16
[168] The Plan for Growth, March 2011, P26
[169] TaxPayers' Alliance, A single income tax, 2020 Tax Commission, P49
[170] TaxPayers' Alliance, A single income tax, 2020 Tax Commission, P357
[171] The Plan for Growth, March 2011, P32

required to assess the economic viability of the rates that they set. The Government will work with local authorities to ensure the cumulative burden of regulation can be assessed.[172]

Financing infrastructure development is a particular concern. In August 2012 the government increased funding to guarantee £40 billion for stalled projects that lacked sufficient finance provided they are able to begin within one year of gaining the guarantee. A memorandum with China on infrastructure has been reached and an event held to bring together Chinese institutional investors and UK developers. The government is supporting Network Rail to invest £55 million in rail freight interchanges to facilitate better connectivity with ports. An industry led task force is considering fuel efficient low emission rail freight technologies and £8 million is being provided to pump prime procurement of low emission HGV technologies. Micro initiatives such as the Department of Transport plans to release a series of data on road works to help businesses plan ahead, to publish data on the performance of aviation providers and provide £100 million for local authorities to repair potholes caused by cold weather[173] and trial the attachment of snow ploughs to heavy duty vehicles to clear roads are good but they are not the bold measures we need.

None of these measures rectify the big infrastructural challenges the UK faces such as how to keep the lights on, how to retain the UK's position as an aviation hub and how to deliver a road and rail network fit for a G7 country. "*Citigroup have estimated that Britain would have to invest more than the other major European economies put together to meet environmental targets this decade*."[174] It is therefore regrettable the government chose to delay the Energy National Policy Statement on nuclear energy was delayed due to "*recent events in Japan*." The lessons from Japan being don't build nuclear power plants in an earthquake zone subject to tsunami rather than not to build nuclear power plants. Britain lacks a plan to provide sufficient energy capacity to replace the generation facilities being decommissioned in the coming years. The recent announcement by Hitachi of its proposed investment in UK nuclear power is a welcome development. The Aviation Policy Framework claims to want to preserve the UK's position as an aviation hub did not consider a third runway at Heathrow which has been ruled out by the two parties now governing. High Speed 2 is such a move but as Janan Ganesh remarks is "*an expensive way of shortening rail journeys by not that much*."[175]

What role will local authorities and Enterprise Zones play in raising the UK economic growth rate?

Eric Pickles described the three priorities of the coalition government as localism, localism and localism but councils can act as a barrier to economic development if they do not have the right

[172] The Plan for Growth, March 2011, P44
[173] The Plan for Growth, March 2011, P35
[174] TaxPayers' Alliance, *Industrial Masochism: The carbon price floor and energy intensive industry*, P26
[175] *George Osborne: The Austerity Chancellor*, Janan Ganesh, October 2012

incentive framework. The government has initiated the Local Government Resource Review to ensure local authorities can benefit financially from decisions which lead to additional growth in their areas. Rural growth network pilots are to be initiated with £15 million in funding in 2012/13. A £1.4 billion regional growth fund operating over three years[176] has been set up to stimulate private sector growth in regions most dependent on the public sector but this represents just one third the investment providing by the preceding Regional Development Agencies.

Enterprise Zones are meant to provide a powerful local business voice in favour of development. There is a 100 per cent business rate reduction for businesses that move into an Enterprise Zone during this Parliament (capped at 275,000 over a five year period). All business rates growth during the zones in a 25 year period will be retained and shared between the local authorities.[177] The use of Tax Increment Finance to support the long term viability of these areas is being promoted.[178] The government is working with Enterprise Zones in areas with strong manufacturing to introduce "*enhanced capital allowances for plant and machinery*."[179] All businesses in Enterprise Zones will have access to superfast Broadband and the Government aim to have the best superfast broadband network in Europe by 2015.[180] The LEP role in planning is less precise. They could provide "*evidence and technical assessments to inform decision making*" or guide infrastructure delivery or be a business voice in the planning system.[181] Whether these Enterprise Zones will increase business creation and growth or divert it from other areas of the country is unclear. The government might do better making the UK an enterprise zone.

Are we reversing the declines in the world ranking of UK school education?

The UK fell in the OECD's Programme for International Student Assessment (PISA) rankings from: 4th to 16th for science; 7th to 25th for literacy; and 8th to 28th for mathematics between 2000 and 2009.[182] The government has outlined a series of measures to reverse this. An English Baccalaureate which encourages schools to offer a broad curriculum to age 16 including a greater stress on foreign languages is being introduced,[183] the number of academies is increasing, new free schools are being created and exams are being made harder to increase the value of qualifications. Resources have been targeted on reducing the attainment gap between rich and poor and by 2014 the pupil premium will deliver an extra £2.5 billion per annum to encourage good schools to take on poorer pupils. A Science, Technology, Engineering and Maths (STEM) ambassador programme has been launched to bring professionals from industry and academia into schools. School reform

[176] The Plan for Growth, March 2011, P32
[177] The Plan for Growth, March 2011, P33
[178] The Plan for Growth, March 2011, P34
[179] The Plan for Growth, March 2011, P34
[180] The Plan for Growth, March 2011, P100
[181] The Plan for Growth, March 2011 P48
[182] The Plan for Growth, March 2011, P13
[183] The Plan for Growth, March 2011, P37

is an area of substantial progress but its effects on growth will not be felt for many years. The following think tank proposals offer a more immediate solution to our woes.

Section Two: Routes out of stagnation – Westminster wise ideas

In this section I review the growth proposals of a cross selection of think tanks, trade bodies, trade unions and pressure groups. The groups detailed include; the Confederation of British Industry, Federation of Small Businesses, Unison and Unite, Reform, British Chambers of Commerce, Policy Exchange, Institute of Public Policy Research, NESTA and the Work Foundation, Social Market Foundation, Centre for Policy Studies, the TaxPayers' Alliance and the Institute of Directors and the IMF and OECD and Civitas. The reports have been chosen to highlight the range of options suggested by these influential bodies.

(i) Confederation of British Industry (CBI)

CBI Policy Recommendations	
1	"*Growth objectives [should be] cemented in legislation for the new financial regulators – the Financial Policy Committee (FPC), Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA).*"
2	Banking reforms should *"not stand in the way of attempts to diversify and use new forms of financing to take some of the strain off our reliance on banks*," in particular, insurers should be able to play a role as '*long-term investors*.'
3	The CBI recommend an "*immediate implementation of the re-think on the use of 'super-equivalents' in the UK during periods of downturn to the economy*."
4	The Bank of England should "*now seriously consider investing directly in non government assets, such as bank bonds and high-grade corporate paper*."
5	Establish 'a one stop shop.' This aggregation platform would bundle loans and allow medium sized firms to raise money in the bond markets.
6	Equity finance costs should be tax deductible '*on a par with debt finance*'
7	Government should "*facilitate the introduction of retail bond products to support the deepening of the UK corporate bond market*"
8	Lobby the EU to allow expansion of the threshold for the Enterprise Investment Scheme to encompass medium sized businesses

9	Create a new UK export fund with '*finance raised and lent to buyers of UK exports, either by government directly or by banks*.'
10	Seek the reinstatement of a corporate venturing tax incentive
11	*"Extend the NewBuy scheme to boost the number of people who can take advantage of the support on offer*" and extend Firstbuy beyond the budgeted period
12	Funding for Lending Scheme should be used to support medium house builders to reduce the cost of mortgages.
13	Develop a 2020 National Exports Strategy and introduce an export enabling test for all new regulation

In *Financing for growth: Refocused finance for a rebalanced economy* the CBI outline a series of measures to improve access to finance for small and medium sized businesses.[184] The policies aim to smooth the transition to a '*new normal*' where credit to small and medium sized firms and exporters is preserved even if it becomes more expensive and *Winning Overseas: Boosting business export performance* outlines how such firms can be given a greater role in a rebalanced economy.[185]

What is the 'New Normal' for small business lending?

The fifteen per cent per annum increase, on average, in the stock of lending, in the years before the financial crisis, meant "*a sharp reduction in lending was somewhat inevitable*" but "*the overall stock of lending has been negative since mid-2009*." There is a fear that financial regulation may make lending "*more expensive at precisely the wrong time*." Bank balance sheet restructuring, a more conservative attitude to risk pricing and regulatory reform that increases capital holdings will create a 'new normal' where corporate financing is more expensive. In 2012 "*fees and commissions, and spreads on lending*" have been rising because "*higher wholesale funding costs*" are "*feeding through into increased loan pricing*." These higher costs are attributed to "*concerns over the indebtedness of a number of euro area governments and banks*." Therefore, banking reforms should not exceed internationally agreed norms in their scope and implementation timetable.

[184] CBI, *Financing for growth, refocused finance for a rebalanced economy*
[185] CBI, Winning overseas: boosting business export performance

UK business reliant on banking finance and applying higher capital standards for banks than international regulatory requirements

UK business have a "*historic reliance on bank finance*" with banks accounting for over three quarters of all credit intermediation compared to 25 per cent in the United States. Other possible sources of finance including pension funds and insurance companies and public financial institutions have been less utilised. Among SMEs "*awareness levels of alternative sources of finance and government interventions to support business remain patchy and a new approach is required*." For instance, less than a quarter of SMEs are aware of the flagship Enterprise Finance Guarantee. Demand for finance has declined as the proportion of SMEs not applying for finance in the previous 12 months and '*content not to do so*' rose from 68 per cent in Q1 2011 to 74 per cent in Q1 2012.[186]

Banks want to maintain shareholder returns but are being asked to deleverage. The Basel III reforms, implemented in the EU through the Capital Requirements Directive, require banks to hold more liquid assets. The Financial Services Authority applies a standard above the CRD requirements with "*more narrowly defined liquidity buffers*." This reduces the amount banks can lend which means higher charges for borrowers and customers. Trade finance and SME lending can be particularly badly affected as "*banks respond to the new rules by shifting capital away from areas that require significantly higher capital levels and produce relatively low returns (such as SME lending and trade finance)*."

If the Bank of England will diversify its asset purchases away from government bonds banks can deleverage without reducing new lending

Bank deleveraging is ongoing and the "*UK has not made as much progress on bank deleveraging as the US. Whilst levels have fallen, they remain elevated and still have some way to go to reach a sustainable level*." There are three ways to deleverage; to raise capital, sell assets or reduce lending. Lending has been cut to the real estate and construction sectors. Asset sales "*can only be disposed of at a very low price, often below book value*" so "*holding down lending is the most immediately available tool to help bank deleveraging*." Non financial corporate debt will mature between 2012 and 2016 and new money and refinancing requirements in the UK and Eurozone amount to $11.5 trillion over next five years. The Government should take action to deal with the corporate refinancing set to occur over the next four years. Businesses are reluctant to spend money on their corporate balance sheets when uncertain about their refinancing needs. The Bank of England should start investing in alternatives to government bonds including corporate paper to ease business concerns.

[186] CBI, *Financing for growth, refocused finance for a rebalanced economy*, P6

Rebalancing the economy towards SMEs and export focused firms:

To rebalance the economy the CBI believe there needs to be '*an increase in the UK's export performance*,' more '*private sector led investment*' and a '*bigger role for high growth medium sized businesses*.' This would begin by providing targeted assistance to the housing and construction sectors which have been particularly adversely affected by bank deleveraging. The government *"should extend the NewBuy scheme to boost the number of people who can take advantage of the support on offer*" because of the reduction in high loan to value (LTV) mortgages on offer and extend "*the successful FirstBuy scheme beyond the currently budgeted period*" with £400 million of new funding over three years. The Funding for Lending Scheme should be used to support medium house builders of reduce the cost of mortgages.

High growth medium sized enterprises should be supported through making the costs associated with equity finance tax deductible '*putting it on a par with debt finance*' and government should "*facilitate the introduction of retail bond products to support the deepening of the UK corporate bond market,*" as an alternative to debt finance for small and medium sized firms. Currently only five per cent of medium sized businesses are able to access debt capital markets. Expanding the threshold for the Enterprise Investment Scheme to encompass medium sized businesses requires EU approval and the CBI want the "*Government [to] make a relentless effort for State Aid approval for the expansion of the scheme*."

The CBI believes "*achieving our export potential could be worth up to 1.5% of UK GDP, or an injection of £20bn to the economy by 2020*" and wants the government to develop a 2020 national exports strategy. Our goods export performance has been poor, growing by only 1 per cent per year in the last decade, compared with 5 per cent in Germany and over 3 per cent in the US. UK services exports have grown by 4.6 per cent per annum since 2000. The UK has been unable to compete with countries such as Germany to meet the BRIC economies demand for capital goods such as machinery, tools and equipment. Simply put "*our skills level, infrastructure and foreign language capability are not sufficiently world class to support a world class export vision*." The UK needs a drive to shift our exports to high growth markets.

The CBI proposes a five step plan for exports. First, set a high bar by developing a 2020 national exports strategy whose indicators would be reviewed after five years. The number of SMEs exporting should increase from one in five to one in four and all government advice should be available through a single web portal. Second, government must produce a policy framework that supports exports by introducing an 'export enabling test' for all legislation, promoting training in STEM skills in schools and exploring how to meet the need for airport hub capacity and regional airport expansion. Third, the UK must "*inject greater commercial focus*" into institutions to support UK businesses. The CBI will benchmark our commercial diplomacy offering against that of

our competitors to identify any short comings. Fourth, the CBI will develop regional export clubs and provide a CBI exports website. Fifth, the CBI will work with government to increase availability of export credit.

Expanding UK exports can be achieved through moves to '*shape trade financing regulation*' and '*new products to support UK exporters*.' A new UK export fund should be created and "*finance raised and lent to buyers of UK exports, either by government directly or by banks*." UK Export Finance should investigate the cost and feasibility of introducing an '*agreed guarantee limit*' with partnering banks to fast-track applications for UK Export Finance guarantees if they meet an agreed risk profile. The Financial Services Authority should "*review the liquidity requirements on UK Export Finance backed contracts*" and the government should "*lobby so that the trade finance elements of CRD IV do not cut across a push…on exports*." They also recommend the reinstating a corporate venturing tax incentive so large corporations can "*invest and get cash off their balance sheets and into the economy*."

What is the effect of Sterling devaluation and where should UK trade promotion efforts direct their focus?

Sterling has declined by 27 per cent from its 2007 peak but exports have not increased substantially. The overvaluation of Sterling until 2007 had a negative effect on export performance but "*while unit labour costs and the value of sterling had a negative drag on growth of the UK's goods exports, this impact was not as significant as geographical focus*." Simply put the UK "*is more dependent on markets with slower growth rates compared to its main competitors*" with almost half UK exports going to Western Europe and only four per cent to the BRICs. Respondents from foreign business associations commented on "*the UK's over-reliance on competitive currency devaluation as the means to boosting export performance*." The government should seek to reorient trade to the emerging markets. Rising consumer expenditure in the BRICs (Brazil, Russia, India and China) will create demand for a different product mix. Goldman Sachs has identified a Next Eleven group of countries (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam) anticipated to experience rapid growth. The CBI education and skills survey found employers urgently needing staff with language skills, "*a fifth (21%) saw languages as important in building relationships with overseas contacts, rising to almost half (47%) in the manufacturing sector*."

(ii) Federation of small businesses (FSB)

FSB Policy Recommendations	
1	Establish a Post Office Bank using the Post Office Network to lend to SMEs, coordinate with local credit unions and serve credit starved communities
2	Introduce a Community Reinvestment Act to require banks to lend to poorer local communities
3	Create a Financial Conduct Authority with a role to promote competition
4	Create government accounts in existing peer to peer lending sites to extend finance to SMEs direct

In *ALT+ Finance: Small firms and access to finance* the Federation of Small Businesses in cooperation with the New Economics Foundation outlines how to build a more diversified market for SME finance comparing the UK experience with that of America and Germany.[187] In *The case for a Post Bank, Presented by the Post Bank Coalition* the FSB in cooperation with the Communication Workers Union, UNITE, the Public Interest Research Centre and the New Economics Foundation make the case for using the existing Post Office network to create a Post Office Bank to boost lending to small business and poor and marginalized communities.[188]

Between 2007 and 2010 lending to small and medium sized UK businesses fell more than in comparable nations. Successful SME applications for loans fell by nine per cent in Germany but by twenty four per cent in the UK and in America the Small Business Association (SBA) actually increased lending to small businesses in 2010. In the UK the danger of existing quantitative easing proposals is "*that for the sake of speed of implementation, it unavoidably uses these banking channels thereby reinforcing the existing market structure*."[189] The FSB attributes this to the more diversified market for business finance in these nations. A vital first step is to make it easier to switch between bank accounts and create a Financial Conduct Authority with a role promoting competition in financial markets.

The German Sparkassen market is geographically defined and comprises "*431 locally controlled banks with public interest criteria in their governing constitutions*."[190] Seventy per cent of the German banking sector is in small or community banks and lending decisions are made at the branch level. German banks with stakeholder representation have low rates of return on capital but

[187] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*
[188] Federation of Small Businesses, *The Case for a Post Bank*, Presented by the Post Bank Coalition
[189] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P9
[190] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P11

provide more effective support to local business. State guarantees appear vital for the sector as seven regional banks, or Landesbanken, did get into trouble during the last decade after the European Commission forced the withdrawal of state guarantees from the sector in 2005. In the US "*there are more than 15,000 financial institutions competing in the US market – around 7,700 banks and 7,600 Credit Unions*."[191] Nearly half the deposits in the USA are lodged in small banks. 6700 local banks have $257 billion invested in small businesses and farms compared with $85 billion for the four largest US banks. These localised finance markets were nurtured by policymakers.

American institutions are required to reveal the amount of money they keep in their local area under the Community Reinvestment Act. The CRA monitors the level of lending, investments, and services in low and moderate income communities – rejects the idea this was a causal factor in subprime. US Community Development Finance Institutions (CDFI) have $30 billion in assets serving low income communities. Their growth is due to the duties laid on all financial institutions to lend in neighbourhoods where they were prepared to accept deposits. Some US states have passed legislation requiring the state to shift public assets into banks based in their state so that money is lent out to local businesses (New Mexico). Another "*important further element in the US model is the role of its SBA to develop and tailor Government backed loan products for small firms, and to orchestrate their distribution through the banking network*."[192] For instance, the 504 Fixed Asset Financing Programme provides funding for the purchase or construction of real estate and/or the purchase of business equipment/machinery with the lender providing 50 per cent, Certified Development Companies 40 per cent and the borrower 10 per cent of the investment amount.

The FSB support the establishment of a challenger bank to enter the banking sector. The UK should create "*plain vanilla financial institutions not beholden to their shareholders and returns on capital but with a wider set of public obligations*."[193] The Post Office Network is already embedded in local communities and could lend at small margins to small local businesses. They could liaise with the credit unions and the community development finance institutions to coordinate support to local businesses and individuals. This would require the cessation of the Post Office closure programme and the "*expansion of existing post offices and hiring more staff will be necessary to accommodate the additional banking customers and deal with the current experience of long queues*."[194]

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[191] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P11
[192] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P16
[193] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P16
[194] Federation of Small Businesses, *The Case for a Post Bank*, P3

Post Office Limited already has established a Post Office Card Account. The financial services offered operate on a commercial basis in partnership with the Bank of Ireland which receives fifty per cent of the profits. The Post Office Bank should be independent and separate and operate with a Universal Banking Obligation to match the existing Universal Service Obligation. Small businesses and social enterprises face not merely the inability to obtain new loans but the withdrawal of overdraft facilities and changes to the conditions of existing loans. Banks are reluctant to loan to small businesses given the high administration costs and low returns on investment and they charge more to lend to businesses based in deprived areas.

The Post Office Bank could be funded directly by government or through the issue of local bonds. Extending financial services using the existing post office branch network will help reach marginalized communities and businesses. Three million individuals have no bank account meaning their savings cannot be reinvested. The bank "*should cover its costs eventually but there will be certain products and services to do with loans, debt advice, that could be funded from Government funding programmes directed at poverty and social inclusion*."[195] The French, Italian and German post offices have developed their own bank arms, which demonstrate the credibility of the concept and make it "*difficult for the [European] Commission to withhold support*."[196]

The government should introduce a UK Community Reinvestment Act and replicate the work of the American SBA. Community Development Finance Institutions are social enterprises. They operate in all regions of the UK. They exist to target finance at non exploitative rates to underserved markets. Responsibility for Community Development Finance Institutions (CDFIs) is "*somewhat unclear and fragmented*" with the Department for Business, Innovation and Skills, the Department of Work and Pensions and the OCS all responsible for different aspects.[197] One body should be responsible for CDFI and there should be a former referral route to it for firms seeking finance.

Peer to peer firms should be brought into a more regulated market structure and the government should create accounts in the peer-peer firms and use them to extend lending to small business. Asset backed finance needs "*greater market penetration and awareness*" among business and the government should put a pilot scheme in place to judge the operational viability of SME bonds under existing FSA licensed Recognized Investment Exchanges including using credit easing to enhance the credit rating worthiness of single bonds/bundles of small business bonds.[198] The Seed Enterprise Investment Scheme is a beneficial move and the one year capital gains holiday should

[195] Federation of Small Businesses, *The Case for a Post Bank*, P10
[196] Federation of Small Businesses, *The Case for a Post Bank*, P11
[197] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P18
[198] Federation of Small Businesses, *ALT+ Finance: Small firms and access to finance*, P6

be made permanent if it proves successful at increasing deals with the re-investment of profits in new deals which benefit small businesses.

(iii) Unite and Unison

UNITE Policy Recommendations	
1	Close tax loopholes that allow the wealthy to evade and/or avoid paying their fair share. The Tax Justice Network estimates the cost of tax avoidance and evasion at £95 billion each year.
2	Increase the number of tax collectors to investigate and collect unpaid tax. An estimated £26 billion each year is uncollected.
3	Reverse the cut in corporation tax
4	Introduce a 'Robin Hood Tax' on all city financial transactions a tax of 0.1% could raise £4.2 billion each year.
5	Introduce minimum tax rates of 40% and 50% on incomes above £100,000 and £150,000 respectively to raise an estimated £14.9 billion each year.
6	Increase the minimum wage of £5.93 (£6.08 from October 2011) to a living wage of £8 an hour, to increase the consumption of the low paid.
7	Reverse the increase in VAT for all and introduce a higher 25% band for luxury goods.

Both Unite and Unison seek a return to growth through greater redistribution through the tax system from the rich to the poor. They cite an International Monetary Fund (IMF) report which says that "*increasing the share of a country's wealth that working people receive in wages would make future financial crises less likely*."[199] They view the public spending cutbacks as wrong and refer to the government draining *"£81 billion in public spending from the economy*." The deficit will be closed through increasing tax revenues.

Unite advocate the provision of support to indebted households and increased investment in public services funded through a variety of new taxes and more effective enforcement of existing taxes. Cracking down on tax havens, tax evasion and avoidance could, they believe, raise £95 billion more in revenue.[200] They think **"***£70 billion in tax is illegally evaded each year with an additional £25 billion avoided*."[201] A "*fair taxation policy and closing tax avoidance loopholes are essential*."[202]

[199] UNITE, Arguing for the Alternative, *Fair Wages and Tax Justice for All*, July 2011, Issue 2
[200] UNITE, Arguing for the Alternative: *Not in my name: A government of the rich?*
[201] UNITE, Arguing for the alternative, *Fair wages and tax justice for all*, July 2011 – Issue 2

These proposals aim to alter the distribution of wealth in the UK where "*the richest 10 per cent of the population are now over 100 times wealthier than the bottom 10 per cent*"[203] Unite highlight that the government "*will make £13.45 billion from the rise in VAT, but is losing £12.6 billion from tax cuts and other changes such as the cut in Corporation Tax*." They regard this as an attack on the spending power of ordinary families to fund an increase in corporate profits.

Unison advocates giving "*urgent help to people struggling to pay their mortgages and better security for tenants*" and "*councils the cash to build and renovate homes, buy empty ones and provide more affordable housing*."[204] Help for poorer households to finance their fuel bills would be paid by a windfall tax on the energy companies. This will encourage demand. Greater public investment is beneficial because public services "*help to counteract the downturn by providing socially useful employment that maintains economic demand and helps support other jobs*."[205] Public service job cuts should cease and service provision should be expanded. Infrastructure investments should include "*building the social and affordable housing we so desperately need, updating our national energy, telecommunications and transport infrastructure*."[206] Both unions are agreed on the need to deal with the deficit through increased revenue collection rather than public spending reductions. Neither union considers the opportunity cost of increased taxation or its possible affects on business investment.

(iv) Reform

Reform aims for UK economic policy	
1	We should build "*sound public finances*" with "*fiscal discipline*" which "*eliminates deficits*" and then "*reduces debt*."
2	Flexible labour markets with "*a greater openness to immigration of skilled labour*."
3	Greater productivity growth will be "*driven by 'creative destruction' of organisational success and failure*."
4	We should create a consistent and transparent tax and regulatory policy and the burden of the latter should fall.
5	Infrastructure investments should be "*justified by returns in the market*."

[202] UNITE, Arguing for the alternative, *Fair wages and tax justice for all*, July 2011 – Issue 2
[203] UNITE, Arguing for the Alternative: *Not in my name: A government of the rich?*
[204] UNISON, *Putting you first: Unison's agenda for a strong economy and a fair society*
[205] UNISON, Factsheet N1 *What's wrong with our economy?* P2
[206] UNITE, Arguing for the alternative, *Fair wages and tax justice for all*, July 2011 – Issue 2

In *The long game: increasing UK economic growth* Reform outline their vision for a reformed UK economy.[207] Reform support the programme of public expenditure reductions but think that "*under the best economic scenario a programme of austerity should be at least a two-term project with the first term emphasising deficit reduction and the second consolidating the gains*." This means that "*Plan A is the start*." The UK deficit reduction plan is similar in size to those being undertaken in the Eurozone. Keeping 'Plan A' on track requires additional savings in "*less productive areas*" such as health and welfare. Easing fiscal plans "*would provide little or no benefit while potentially incurring the cost of higher interest payments and risking losing the Government's credibility with markets*."

Reform rejects short term stimulus measures. Temporary reductions in employment taxes do not result in greater hiring because the "*tax reduction is temporary while the hiring decision is permanent*." VAT temporary cuts have little effect on retail prices and are expensive to implement for retailers. Investment in infrastructure is no comprehensive solution to unemployment because infrastructure projects are "*less labour intensive [than before] and the labour that they employ is often skilled*." Devaluation of the currency has been shown to be no solution to export woes as "*a weaker currency will increase tradeable inflation and risk harming domestic demand and also exporters (given the import composition of exports)."* The effectiveness of quantitative easing has been undermined by Government imposed regulations that "*discourage banks from holding non-cash assets*." There are no simple solutions to the UK's economic problems.

Government policy in a few areas has undermined growth. Environmental targets "*have gone much further than many other countries*" and this could lock the UK into a high-cost energy system which provides "*no discernible economic benefit*." For instance, the Climate Change Act 2008 commits the UK to cut greenhouse gas emissions by 34 per cent by 2020; this is 14 per cent higher than the EU target. The government "*could push targets for renewable energy generation back*" because "*the UK does not have a comparative advantage in green jobs or green industry*." Investments in the leisure and tourism sectors would be more productive in creating jobs and growth. The UK should have "*a fast follower approach*" where targets are "*dependent on what happens in other countries*."

In banking reform the government has committed the banking sector to higher equity capital requirements than Basel III requires, "*the starting point of 10 per cent Tier 1 capital equity ratio proposed by the ICB is higher than the 7 per cent outlined in Basel III and significantly disadvantages the UK relative to other European financial centres*."

[207] Reform, *The long game: Increasing UK economic growth*, November 2011

The obsession with small and medium sized enterprises is an "*unhelpful distraction*" as "*despite making up 99 per cent of businesses, SMEs contribute just 14 per cent of tax revenue. Large companies, who made up less than 1 per cent of companies, contributed 86 per cent of tax revenue.*" Also "*OECD data shows that small firms account for 26.1 per cent of value added in the UK, compared to 28.0 for medium-sized firms and 45.9 for large companies.*" A "*moratorium on new regulations for small firms, can create perverse incentives for businesses*" because it encourages large firms to become small allows the survival of less productive firms. Reducing the headline rate of corporate taxation is unnecessary as the UK "*already has the lowest corporate tax rate of the G7*" and the benefits of increasing the personal allowance go to the better off not those intended and reduces the incentive to work.

The cap on non EU immigration is "*likely to be an economic own goal*" because immigration increases the working age population, can provide skills native Britons lack and can encourage innovation. Reform rejects the lump of labour idea that immigrants take British workers job because there are a limited number of jobs in an economy. The government seems to understand the need to reduce employment regulation but "*Ministers [are] failing to take the commitment seriously.*" The £1.5 Regional Growth Fund has created 27,000 direct jobs in the first round of bidding at a cost of £450 million or £16,667 per job and Local Enterprise Zones are proving "*a relatively high cost way of increasing employment.*" The government has signed up to but "*made such little progress on implementing Lord Young's report Common Sense Common Safety*" published in 2010.

Employment law should be altered "*to make it easier to hire and fire staff.*" Employers should be given greater scope for taking staff on for a trial basis. Cuts to employers' national insurance would be beneficial if it was confirmed that these reductions were to be permanent. Government should recognize that "*job losses and business closures are a feature of a healthy economy*" but understand that "*standing back and simply allowing economic growth to absorb the increase in unemployment will likely be ineffective. There is a risk that future growth could be in sectors and regions, and among population groups, that are different from those where unemployment has increased.*" Nevertheless, an active industrial policy "*may bring a long term loss of competitiveness*" because it would "*attempt to insulate the economy from necessary change*" and is therefore rejected.

Tax "*revenue should be increased through broadening bases,*" it should not be increased by raising tax rates. Forty three tax reliefs have been abolished but one thousand remain in effect. The integration of National Insurance and Income Tax and the reform of pension tax relief should be part of a programme of tax reduction and simplification. Increased competition in the banking sector would be beneficial and this requires giving the Financial Conduct Authority a duty to

promote competition and making it easier to switch personal and business accounts. Taken together Reforms' proposals seek to establish a more stable tax and regulatory system with lower government debt to encourage businesses to invest.

(v) British Chambers of Commerce (BCC)

BCC Policy Recommendations:	
1	Government must develop a long term manufacturing strategy explaining how the government will assist firms to grow
2	R&D tax credits should be expanded with greater clarification on what constitutes "*improved products*" and the line between "*new innovation*" and "*process improvements*." A roadmap should show how these credits will be expanded as the economy improves
3	The government should consider special capital and investment tax breaks for those on the small profits rate if they suffer disproportionately from capital and investment tax break cuts.
4	UKTI should create a manufacturing and exporting mentoring network.
5	Government must intervene to provide short term export credit insurance because of the market failure to provide it. This could be run through a private company as in France and Germany.
6	Groups of manufacturers could be encouraged to establish joint academies to train staff in the skills they need.
7	Government should consider UK specific regulation costs to firms in employment and energy etc when procuring goods or services.
8	Government should push for energy market liberalization across the EU to ensure UK manufacturers are not put at a disadvantage by foreign state backed firms offering discounted energy to their companies.
9	Change targets for UKTI from number of companies helped and income received by UKTI to targets looking at the value of help to the firms and the Government should provide better coordination of these different bodies providing help.
10	Launch a campaign highlighting the excellence of UK manufacturing to improve the sectors image. It is "*seen as low-skilled and unglamorous work*."
11	The UK should push through the WTO and bilateral for deals to improve intellectual property in emerging economies.
12	Set up a British Business Bank to lend money to UK small businesses

In *Red Tape Challenged* the BCC highlight the governments' poor implementation of their one-in-one-out rule to reduce regulation. *The Case for a British Business Bank* explores how this institution could combat the dominance of the big four banks in providing finance to SMEs. In their *Exporting for Growth* series the BCC identify potential barriers to increased exports and the report *Manufacturing for export: Make or break for the UK economy* outlines how the government could encourage manufacturing growth.

The government needs to do more than rhetorically commit to deregulation, measures such as the one-in-one out rule need to be implemented in practice.[208] The British Chambers of Commerce finds that fifty per cent of the new regulatory proposals they analysed were not subject to the one in one out rule for new regulation. Regulations found to be outside the scope of the one in one out rule included those that didn't impact on business or civil society organizations, European Union Regulations, Decisions and Directives; international agreements and obligations; tax both central and local; tax administration; civil emergencies regulation; spending decisions; specific enforcement action; fines and penalties; fees and charges; contractual obligations; court or tribunal cases; and environmental taxes. In assembling the information the BCC found there had been "*no co-ordinated approach to the regulatory process across government departments*" and "*some were unclear, uncooperative and showed little interest in the deregulatory agenda*."[209]

The BCC suggest that all applicable regulations should be subject to the one-in-one-out rule and all impact assessments should be in the impact assessment library to increase transparency. The Regulatory Policy Committee (RPC) was established in 2009 to provide external input to impact assessments. It gives Impact Assessments a Red, Amber or Green rating. The BCC believe that an amber rating on RPC recommendations should be reviewed as evidence that departments are ignoring them, and government departments' deregulatory progress should be monitored to ensure implementation. For instance, "*some IAs did not state whether or not they were in scope of the OIOO [One in One Out] framework, nor was a cost or a benefit clarified, which is one of the key aims of an IA*."[210] BIS actually "*implemented fewer RPC opinions than all other departments and withheld the most impact assessments*."[211]

This is a UK specific problem not an EU related one because "*more regulations not in scope are of domestic origin than of European origin or the result of international agreements and obligations*."[212] Sixty five of the regulations deemed not in scope were domestic while sixty two were due to EU and international obligations. The costs are substantial with nine of the regulations deemed outside the scope of one in one out adding £32.25 million to business costs. If the

[208] British Chambers of Commerce, *Red Tape Challenged 2012*, July 2012
[209] British Chambers of Commerce, *Red Tape Challenged 2012*, July 2012, P4/5
[210] British Chambers of Commerce, *Red Tape Challenged 2012*, July 2012, P12
[211] British Chambers of Commerce, *Red Tape Challenged 2012*, July 2012, P5
[212] British Chambers of Commerce, *Red Tape Challenged 2012*, July 2012, P21

government are serious about increasing SME success in winning government orders they need to ensure that they "*factor in public charges and levies that make British made goods more expensive than foreign counterparts*"[213] including employment and environmental legislation. Councils "*invariably choose the cheapest products without taking into account domestically imposed levies which non EU countries are not subject to*."[214]

Britain is the seventh largest manufacturer in the world but "*cannot hope to return to being a high-volume producer of low-cost goods*" and it is "*unrealistic to expect UK manufacturing to return to the 24% of GDP it generated in the 1980s*."[215] There has been a decline in areas of traditional UK industrial strength in steel and ship building but the sector continues to account for half of UK export earnings. The coalition government has led a "*conscious dismantling of Lord Mandleson's nascent industrial activism*" including the cancelation of the £80m loan to Sheffield Forgemasters.[216] Reductions in Corporation Tax have been partly paid for by cuts to capital and investment allowances. These affect capital intensive manufacturing more. A manufacturing council should be established to hold the government to account. Manufacturers are "*far more sensitive to Government policy changes*" because they encompass more of the value chain than service companies.[217] Exporting requires interacting with non English speakers and to improve are skills the National Curriculum should be revised to make studying a foreign language compulsory until AS level and tax credits should be provided for small and medium-sized businesses to invest in language training for their staff.[218]

Poor UK infrastructure means "*the costs of physically exporting goods are significantly more expensive for British companies than for their European competitors, especially when trading within the EU*."[219] The government should encourage private sector investment in infrastructure through pension and foreign sovereign wealth funds. They could invest in UK regional maritime ports with grants and tax incentives. Road pricing should be used to fund capacity at pinch points and reform Vehicle Excise Duty to stop double taxation. A comprehensive aviation strategy should provide additional capacity in the south east and expand international connections. The government should fully commit to implement the National Infrastructure Plan and "*when Ministerial decisions run counter to official advice from the Major Infrastructure Directorate of the Planning Inspectorate, Ministers must make a statement to Parliament explaining why they are taking a decision that could harm our national economic well-being*."[220] Government should

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[213] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P7
[214] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P54
[215] British Chambers of Commerce,*Manufacturing for export: Make or Break for the British Economy*P5/15
[216] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P5
[217] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P6
[218] British Chambers of Commerce, Exporting is good for Britain – *Market Barriers*
[219] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P49
[220] British Chambers of Commerce, Exporting is good for Britain - *Transport connections*

also consider how to make companies cluster because "*one of the reasons for a lack of technically skilled employees in some areas is that British businesses do not generally cluster as intensely as they do in Italy or Germany, which means that in many areas there is not a pool of specialist labour*."[221]

Developed countries that have had particular success in maintaining their share of world exports have done so because "*the real incomes of German and Japanese workers have grown very little*."[222] These nations also invest more in R&D than the UK which "*spends 0.5% less of its GDP on R&D than the developed world's average*."[223] Despite recent declines in the value of Sterling companies are "*unable to base their business strategies around currency depreciations, which are usually far more short-term than business cycles*."[224] These companies need "*a sustained and stable improvement in the exchange rate for a protracted period if British exporters were really to benefit*."[225] We also need to consider that businesses can "*have inputs to their supply chains from all over the world, raw material costs have increased as the exchange rate has slipped*."[226] Reducing the unit cost of labour is essential to restoring UK competitiveness.

Export finance is poorly delivered and this leaves UK companies "*in a weak position vis-à-vis their rivals from other major exporting nations who can access state-backed schemes*."[227] UK Trade and Industry should be judged on growth in sales and employment generated not the number of companies assisted. When providing assistance the Overseas Market Introduction Service should have variable and not flat fees to allow SMEs to more easily access parts of their service.[228] Support for non exporters considering exporting could include "*a guarantee of support for a first trade mission or a reduced rate of tax on early exporting profits*."[229] SMEs also need help with cashflow problems. British Chamber of Commerce surveys show that seven in ten potential exporters say cash flow and payment risk influence the decision to export.[230] SME's find exporting difficult because payment terms vary widely across world markets making cashflow problematic. The "*standard terms in the UK are on average 45 days, while this can lengthen to 60 days in the rest of Europe. Terms in Asia are up to 90 or 120 days. While this is manageable for large companies with strong cash-flows, it can be troublesome for SMEs hoping to enter high-value Asian markets*."[231]

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[221] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P52
[222] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P15
[223] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P38
[224] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P42
[225] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P42
[226] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P42
[227] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P6
[228] British Chambers of Commerce, Exporting is good for Britain - *Planning*
[229] British Chambers of Commerce, Exporting is good for Britain - *Skills*
[230] British Chambers of Commerce, Exporting is good for Britain - *Finance and costs*
[231] British Chambers of Commerce, *Manufacturing for export: Make or Break for the British Economy*, P46

Why do we need a British Business Bank?

The British Chambers of Commerce believe there is a need for a British Business Bank. Employees of existing banks are "*unable or unwilling to facilitate access to what is a bewildering array of products*."[232] Possible causes are "*incomplete information, difficulties in rolling out training, or the fact that banks' incentive structures are geared to the sale of their own products, rather than helping companies to access Government support*."[233] This constitutes "*a serious market failure around access to finance*" as "*debt will remain the single biggest form of business financing*" for decades to come. The Enterprise Finance Guarantee and Funding for Lending schemes "*share a fatal flaw: total dependence on the existing UK banking infrastructure*."[234]

Businesses fear their applications for finance will "*either be rejected or that they will have other facilities re-evaluated*."[235] There is a lack of competition in the business banking sector as 85% of SME accounts are with the 'big four' high street banks. Establishment of a business bank will aid business in the long term and should be combined with the swift implementation of an '*aggregation*' vehicle to securitize the UK SME loans necessary. It should be separate to the green investment bank or an infrastructure bank. A British business bank does not exist because Ministers have "*lacked the political will to face down Treasury civil servants*."[236] They should use any "*slack in the legislative timetable*" to legislate for a business bank and appoint a Treasury Minister with "*explicit responsibility*" for setting it up.[237]

A British business bank would need its own "*credit risk assessment infrastructure*."[238] It could hire existing credit reference agencies to risk assess loans and banking personnel made redundant or recently retired. It would have a '*strong risk appetite*,' providing funds to start up, small and medium sized enterprises. Private sector lenders would be given "*first right of refusal*" on all business applications. Peer to peer lending platforms and alternative funding models cannot fill the gap because they are "*niche players*." The business bank will be a contact point for small business, a lender of last resort and an umbrella body for all state backed lending schemes. It would be able to invest funds in sectors subject to sudden shocks such as construction currently.

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[232] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P6
[233] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P6
[234] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P2
[235] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P5
[236] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P11
[237] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P11
[238] British Chambers of Commerce, *The case for a British Business Bank*, September 2012, P3

(vi) Policy Exchange

Policy Exchange Growth Policy Proposals	
1	Commit to eliminating the structural deficit by 2015/16. Further reduce public expenditure if economic developments endanger achievement of this aim. Divert extra tax revenues above those expected primarily to reduce the deficit further if economic growth is greater than expected.
2	Set out a tax roadmap detailing the tax framework for the Parliament at the beginning of the Parliament so businesses can invest confident of the tax implications
3	Construct Green Cities on the edge of major existing conurbations funded by private investors and run by City Corporations with statutory compensation for affected local citizens
4	Abolish National Pay Bargaining and replace with a local system to increase the competitiveness of private sector wages in depressed areas and public sector employment in areas with high wages levels
5	Cease subsidization for particular green industries but proceed with the development of a carbon pricing system
6	Increase the ISA allowance by £5,000 for investors in SME loans

Looking to the future of growth features policy recommendations for adoption by the Government in the 2012 Budget[239] and *Cities for Growth: Solutions to our planning problems* rightly declares that UK housing prices are high because of a lack of supply rather than a lack of finance and proposes measures to increase supply.[240]

If the situation deteriorates the government should double down on deficit reduction

Like Reform, Policy Exchange support the government's fiscal consolidation measures and reject "*short-term tax breaks* [which] *are unlikely to be effective*" and "*debt-financed fiscal stimuli*" because of their potential impact on the UK's cost of borrowing which is "*a risk not worth taking*."[241] The Government should continue to commit to eliminating the current structural deficit by 2015/16. If it is judged unlikely this target is going to be met they advocate the UK be put back on course through "*further fiscal restraint and reforms to boost growth*."[242] Better than expected tax revenues should be "*shared between investment to reduce the current structural deficit faster*

[239] Policy Exchange, *Looking to the Future of Growth*, November 2011
[240] Policy Exchange, *Cities for Growth: Solutions to our planning problems*, Alex Morton, November 2011
[241] Policy Exchange, *Looking to the future of growth*, P13
[242] Policy Exchange, *Looking to the future of growth*, P5

and structural reforms focused on the long-term growth of the UK."[243] Policy Exchange believes that it should be legislated that "*at least half [of any tax revenues in excess of those expected] should be invested into reducing the structural deficit*."[244]

A tax roadmap should clarify the direction of travel for UK taxation

Instead of changing tax rates, allowances and rules each year Policy Exchange recommends a Finance Bill to set out a tax roadmap for the next four years near the start of a Parliament. The Government could make changes in subsequent years but this would "*require the government to make a statement to Parliament setting out in detail both the reasons for the change and the potential impact on business and investment*."[245] A tax reform Green Paper should set tax strategy for the whole Parliament including "*an analysis of the treatment of debt and equity in the tax system and implications for investment decisions and macroeconomic risk; a summary of its intentions on the taxation of land and property; and a summary of the potential for longer-term reform to the income tax and National Insurance systems to simplify the personal tax system while strengthening the functioning of the contributory principle*."[246] Policy Exchange was committed to the abolition of the fifty pence rate but argued that "*a set of criteria*" would "*need to be met before the rate is removed*."[247] It has since been announced that the fifty pence rate will drop to 45 pence from April 2013. Businesses would be able to make informed investment decisions aware of the potential tax implications.

Reducing housing and planning costs and constructing new 'green cities'

UK cities have stagnated "*the general trend is that the more urban the area, the greater the internal migration away from it; only high levels of international immigration are supporting city populations*."[248] The restrictions on land available for development are unjustified as only 10 per cent of the UK is built on, "t*he actual cost of building a house is way below what it is sold for; the gap is the result of land prices, which are inflated because too little land is and has been released for development*."[249] These restrictions "*six of the top 50 most expensive cities in the world are in the UK, while most other countries have just one or two. The LSE note that commercial space in Birmingham is the most expensive of any European city outside Paris and London; Manchester costs more than Manhattan*."[250] By raising the cost of non-agricultural land the planning system "*discourages investment, particularly in sectors that have a low return per*

[243] Policy Exchange, *Looking to the future of growth*, P6
[244] Policy Exchange, *Looking to the future of growth*, P6
[245] Policy Exchange, *Looking to the future of growth*, P6
[246] Policy Exchange, *Looking to the future of growth*, P6
[247] Policy Exchange, *Looking to the future of growth*, P7
[248] Policy Exchange, *Cities for Growth: Solutions to our planning problems*, P5
[249] Policy Exchange, *Cities for Growth: Solutions to our planning problems*, P6
[250] Policy Exchange, *Cities for Growth: Solutions to our planning problems*, P10

m2 (essentially manufacturing and similar sectors)."[251] Planning delays require developers to amass land banks while they await planning permission. Larger cities increase worker productivity and wages and could increase the UK's trend rate of economic growth.

The Government should "*move as rapidly as possible from a plan-led system to an externality led system of planning that breaks out of the 1940s strait-jacket our planning system imposes*."[252] This would require "*legislation to allow new Garden Cities to spur growth and housing construction in industries and areas that need it most*."[253] Garden city corporations would locate these cities near existing cities and would be financed by private investors. A statutory compensation scheme should provide for those affected by nearby greenfield development combined with a levy to pay for improvements to the green belt. A presumption against interference from local authorities should be introduced. Section 106 should be abolished because local people and not councils need to be compensated for development. Councils should concentrate on strategic issues rather than micro managing developments. The governments' presumption in favour of development is inadequate as this existed between the 1960's and 1990's, a period when development fell.

Continue to provide support to the banking sector until it is secure and encourage private investors to invest in lending to SMEs

The Bank of England should **"***reconsider its decision not to rollover the Special Liquidity Scheme (SLS)"* because the banking system still requires support.[254] The Government should raise £25 billion in funds and allow banks to apply to lend it out to business to ease credit to small and medium sized firms. They would have to return the funds if not lent out within three months. This now occurs in a slightly different form through the Funding for Lending Scheme. The Government should extend and better advertise the Business Payment Support Scheme which provides short term loans to profitable businesses with problems meeting tax liabilities. The ISA allowance should be increased by £5000 for investments in the debt of small and medium sized firms.

How can we increase public sector productivity?

Policy Exchange favour the abolition of national pay bargaining and the devolution of pay negotiations to the local level but taxes on employment should be reduced across the UK. National Insurance Contributions holiday for new workers in new firms (in certain regions) should be extended to cover any additional worker employed by a firm with less than ten employees as a pilot scheme. If successful in this Parliament the policy should be made permanent because "*if reform is*

[251] Policy Exchange, *Looking to the future of growth*, P27
[252] Policy Exchange, *Looking to the future of growth*, P27
[253] Policy Exchange, *Looking to the future of growth*, P27
[254] Policy Exchange, *Looking to the future of growth*, P8

good for business, we should be rolling it out to all firms, not just small firms."[255] The government should also review the cumulative cost of regulations including the Agency Workers Directive; changes to pension regulations (the introduction of NEST); maternity and paternity leave and the changes to both; and health and safety legislation. This review could perhaps consider these measures effect on job creation.

A more diversified public sector would be a more innovative and productive one. The government should "*set out a stronger vision for new models of delivering public services in partnership with the private and third sectors*" which the Open Public Services White Paper "*failed to deliver*."[256] The aim to increase the involvement of small firms in delivering government projects will not be fully achieved while as the PASC Report recognises "*Procurements that go through the most rigorous process take an average of 77 weeks to complete in the UK. This length means that many small businesses cannot commit staff to work on a bid for the duration of the procurement process.*"[257]

How can we ensure a more stable and less cost costly energy supply?

Subsidies for particular green industries should be abolished. The opportunity cost of public funding for renewable industries is substantial and "*it is money that could be used for investment elsewhere in the economy*."[258] This imposes higher energy costs. However, Policy Exchange supports "*an effective long-term carbon pricing framework to guide markets and to support innovation*."[259]

(vii) Institute of Public Policy Research

Six IPPR proposals to boost UK economic growth	
1	An increase in the scale of quantitative easing and a more diversified set of purchases included corporate bonds and aggregating small business loans
2	A two year 2 pence cut in employer NI to boost growth in the short term paid for by a permanent mansion tax helping reaffirm the plan to eliminate the deficit in the medium term
3	£30 billion in additional infrastructure spending funded by additional borrowing at existing low interest rates
4	Measures to make household debt restructuring easier to increase the ability to consume among

[255] Policy Exchange, *Looking to the future of growth*, P25
[256] Policy Exchange, *Looking to the future of growth*, P29
[257] Policy Exchange, *Looking to the future of growth*, P28
[258] Policy Exchange, *Looking to the future of growth*, P26
[259] Policy Exchange, *Looking to the future of growth*, P26

	those with a higher propensity to do so
5	A Jobs Guarantee to provide anyone unemployed and claiming JSA for 12 months with a guaranteed job funded by restricting tax relief on pension saving to the basic rate of tax
6	An active industrial policy which supports the growth of chosen high growth sectors and involves the establishment of a National Investment Bank to lend to SMEs

In *A Path Back to Growth* the IPPR explain that the UK economy's growth problem is one of low aggregate demand caused by Government cuts taking demand out of the economy in the short term and a long term supply worry caused by the decline of skills among unemployed workers and a lack of investment in productive capacity.[260] They believe "*more effort is required to boost demand in the short term*" and wish to make changes to "*ensure that the economy's growth potential is supported in the medium term*." The IPPR are one of the few organisations to advocate an "*active industrial policy*" by name (point six in their programme listed above) to rectify these problems.

The IPPR think the coalition's deficit reduction plan is not working. UK output was 4 per cent below it's pre recession peak (at time of writing, now it is 3.1 per cent below), Moody's has put the nation's credit rating on negative watch as low growth is increasing government borrowing projections and this has been the slowest recovery from a recession in one hundred years. The Office for Budget Responsibility original estimates of a 9.5 per cent growth in business investment in 2012 and the three subsequent years look fanciful when the 2012 projection is now for 0.7 per cent growth. We can hope for a recovery in Eurozone demand but this will not aid UK exporters if the pound strengthens, reversing the 25 per cent reduction in its value since 2008.

Step One: Quantitative Easing

The Monetary Policy Committee should explore alternatives to the purchase of government bonds to provide for monetary easing. The IPPR recommend consideration of purchases of corporate bonds and commercial paper and moves to aggregate loans to small business so they can gain bond finance. Greater support for the Funding for Lending Scheme where the Government buys troubled assets if the banks agree to lend more seems appropriate. Higher inflation in the short term is not to be feared because it reduces the real value of debts and keeps real interest rates low. In fact quantitative easing "*may also support the economy's growth potential in the medium term, if it helps to prevent a rise in sterling*." The IPPR believe the "*Bank of England should make it clear that it will tolerate inflation above the target rate of 2 per cent until the economy has been*

[260] Institute of Public Policy Research, *A Path Back to Growth*, Tony Dolphin, July 2012

expanding at a normal pace for some time." Withdrawing the support of QE at the right time requires replacing the existing method of Bank of England forecasting which is discredited.

Step 2: Fiscal Policy

Despite the rhetoric of the coalition and the Labour party "*the profile for borrowing in the OBR's latest forecasts is very similar to the one set out in March 2010 by the Labour government*." Total borrowing from 2011/12 to 2015/16 is set to be £120 billion higher than predicted at the June 2010 budget. The IPPR advocate "*a short-term stimulus*" in the form of extra spending or a "*temporary tax cut*." Deficit reduction would be expanded only when sustainable growth was achieved because "*policies designed to boost growth that do not relax the current fiscal austerity will not work*."

The temporary tax cut could be similar to the US temporary payroll tax cut. The UK could introduce a two year employee national insurance tax cut of 2p at a cost of £7 billion a year offset by the introduction of a permanent mansion tax, a one per cent levy on the value of all houses in the UK in excess of £2 million. This would bring in around £1.7 billion a year, "*so it would take a number of years for the government to recoup the cost of the NI cut*." The IPPR supports the IMF approach of increasing taxes in ways that do not damage demand and spending the revenue on infrastructure projects that do have an immediate and large effect on demand.

Step 3: Infrastructure Spending:

Infrastructure spending is favoured because it "*provides a short-term boost to aggregate demand and it raises the growth potential of the economy in the medium to long term*." By contrast, tax cuts can be saved or spent on imports. The Office for Budget Responsibility (2010) estimate that "*capital spending generates roughly three times more output in the UK than tax cuts and two-thirds more than spending on current goods and services*." Low interest rates on government debt mean the cost of a £30 billion investment programme is as little as £150 million or less. The infrastructure projects undertaken could include social housing, broadband, low carbon electricity generation and moving forward planned transport projects. Efforts to get pension funds to invest in infrastructure have been unsuccessful in the past so Government investment is necessary. There is little danger of crowding out investment by the private sector when there is "*ample spare capacity in the construction industry*." Between Q1 2008 and Q1 2012 construction output dropped ten per cent and employment in the sector dropped 300,000.

Step Four: Household Debt Restructuring

Uncertainty over demand is preventing companies investing when "*the government is cutting its spending, the UK's main export market is facing turmoil and there are fears that household debt repayment will prevent domestic consumption from increasing at a healthy pace*." There is also

"*the knowledge that around nine-tenths of the spending cuts are still to come, and that public sector austerity will predominate for several years yet*." The UK has a higher ratio of household debt to disposable income than any developed country. Five to eight per cent of mortgages may be in forbearance now (Financial Services Authority estimate). When interest rates increase more people will experience problems. Government can restructure mortgages to prevent foreclosures; transfer funds to credit constrained households and thereby increase consumption among those "*households with a high marginal propensity to consume*."

The 'Making Home Affordable' programme in the United States encourages mortgage providers to reduce the principal owed on homes by those in negative equity and to lower the interest rate on housing loans for people who lose their job or have their earnings reduced. The welfare system can also be altered perhaps by "*establishing a form of 'mortgage insurance'*" with costs recouped through extra national insurance contributions when the worker is employed again. These measures should be accompanied by policies to stop a housing bubble emerging such as a cap on loan to income ratios and loan to value.

Step 5: Keeping the long term unemployed in touch with the labour market:

The long term supply side worry is of underinvestment in productive capacity and jobseekers giving up on finding work or losing the skills that are in demand. Those over fifty can give up seeking work and the long term unemployed can be reclassified as unable to work. The effect of the 1980's recession meant that "*even after 15 consecutive years of economic growth, at the end of 2007 there were still 4.25 million people claiming out-of-work benefits*." In the UK "*Unemployment has increased by over a million since the recession began in 2008*." A prolonged period of low business investment will mean "*there is a risk this will be followed by slower productivity growth -and thus slower growth in output*." The coalition proposals to make it easier to fire workers will encourage them to save more out of fear which could further reduce demand. Given this backdrop the private sector alone cannot provide the jobs needed and requires support.

The IPPR recommends a Jobs Guarantee for anyone unemployed and claiming JSA for over 12 months. This would guarantee a job paying over minimum wage with the Government or third sector unless the claimant could find an alternative role and stop claiming JSA. The cost of the scheme would be similar to the Future Jobs Fund which cost £4000 per worker after reduced benefit costs. The costs could be balanced by restricting tax relief on pension contributions to the basic rate of income tax.

Step six: An active industrial strategy

The UK Government should identify sectors where the UK has a competitive advantage and high growth sectors where we could develop one and target them. Areas where we already have an

advantage include "*information, communications and technology (ICT), pharmaceuticals and medical devices, financial services, tertiary education, creative industries, and a range of engineering-based high-value-added industries.*" Possible high growth sectors to be targeted include "*the ageing of the population, the need for a massive upgrade of the UK's infrastructure (in particular the need for new, low-carbon electricity generation capacity and improved rail lines) and the need for more housing*."

To support key industries the government should establish a National Investment Bank to lend to small and medium sized businesses and infrastructure projects. A £30 billion infrastructure spending boost "*is an eminently sensible thing to do*" and this should include "*backing for industrial clusters, such as Southampton and the semi-conductor cluster around Bristol and Bath.*" Immigration policies which prevent firms recruiting overseas workers should be reversed. Measures to address UK Government indebtedness should be delayed to add demand to the economy in 2012.

(viii) NESTA in association with the Work Foundation

Six Barriers to Growth		
Number	**Barrier**	**Survey data**
1	Obtaining finance	"*32% of high growth firms say obtaining finance is a significant obstacle to the success of their business, compared to 25% of other firms*."
2	Cash flow	Firms need short term finance to fund existing operations and expansion plans.
3	Recruiting staff	"*57% of high growth firms and 50% of potential high growth say this is a problem, compared to 47% of other firms*."
4	Skills shortages	"*More than half of high growth firms (52%) say skills shortages are a significant obstacle to success, compared to 40% of firms overall*"
5	Managerial skills:	"*41% of high growth firms see managerial skills as a significant obstacle to their success compared to only 32% of potential high growth firms and 27% of other firms*"
6	Availability and cost of premises:	"*34% of high growth firms and 25% of potential high growth firms see this as a significant obstacle, compared to 22% of normal firms*"

Free to grow? Assessing the obstacles faced by actual and potential high growth firms reveals the barriers to growth as identified by small businesses in the Small Business Survey 2010 and the Annual Small Business Survey 2007/8.[261] Both are surveys of Small and Medium Sized Enterprises (with fewer than 250 employees) conducted by the UK Department for Business, Innovation and Skills. From these surveys NESTA and the Work Foundation identify two business sub groups. A group of "*high growth firms*" that expect 20% employment growth per annum over a two-year period and a group of potential high growth firms which have similar growth ambitions and business models to the high growth firms but expect less rapid growth. The definition of high growth firm is similar to the OECD definition which is a firm that achieves 20 per cent employment growth per year for three consecutive years.

NESTA believe that employment growth will occur due to the activities of this relatively small number of high growth firms. They have found that between 2007 and 2010 just 7% of firms created almost half of all new jobs. High growth firms are "*important to employment growth, to disseminate innovation throughout the wider economy, and to create social benefits in their local areas*." Helping these firms requires an awareness of where they could appear but it is "*hard to predict where they will appear: while there tend to be more high growth firms in rapidly growing sectors, it is not uncommon to find high growth firms in previously moribund markets*."

Current high growth firms are identified on the basis of 20 per cent employment growth over a two-year period. Potential high growth firms are identified using propensity score matching that detects their similarity to high growth firms through their product and process innovation and management qualifications. Firms that didn't want to grow were excluded. The report recognises that "*high growth firms do not grow in a linear, predictable manner. Firms may only achieve high growth for a short period, often followed by relative stagnation or decline*." Because a firm has achieved rapid growth does not mean it will sustain rapid growth. Managing a changing firm can "*create problems for managers, and sustaining rapid growth requires management structures which are able to seek new opportunities as firms expand, address obstacles and barriers which come up and act flexibly to integrate new staff and expand products*" Not all barriers to growth are external and the government should aid firms to develop the management skill to handle growth.

[261] NESTA, *Free to grow? Assessing the obstacles faced by actual and potential high growth firms*, Neil Lee, The Work Foundation, November 2011

(ix) Social Market Foundation (SMF)

Social Market Foundation Policy Recommendations	
1	Shift government expenditure from items with a low fiscal multiplier such as winter fuel payments to expenditure on items with a high fiscal multiplier such as infrastructure
2	Implement the £15 billion in cuts the government say they will identify in 2015 now and use the funds in the meantime to fund investment in infrastructure from 2012 onwards

In *Osborne's Choice: Combining Fiscal Credibility and Growth* the SMF outline a plan which would change the composition of public spending and taxation, leaving the deficit reduction plan unchanged. They believe such a plan must strengthen the Government's deficit cutting credibility, by combining fiscal tightening with a full-funded stimulus plan. They claim that "*the UK's growth problem has three parts: weak aggregate demand; reduced supply capacity; and sluggish productivity growth*."[262] They intend to solve this through altering the composition of UK public expenditure because "*the composition of spending and taxation matters at least as much for fiscal credibility and output as the speed and size of cuts*." They advocate balanced budget expansionism.

Expenditure should be diverted from items with a low multiplier effect to those with a high multiplier effect to increase output without increasing public borrowing. The report defines the fiscal multiplier as "*a number that illustrates the impact on national output (or GDP) from a given change in public spending*" so "*If a pound of government spending increases GDP by the same amount the multiplier is said to be one*." Expenditure items said to have a low fiscal multiplier include benefits for pensioners and tax breaks for higher earners, the items with a high multiplier affect include capital expenditure.

UK growth forecast downgrades meant that at the time of the last budget a further £15 billion of cuts needed to be identified at the next spending review. The Government plan to delay the announcement of these cuts until nearer the time. The SMF argue that this damages the government's fiscal credibility with investors since announcing huge cuts close to an election would be electorally unwise. They therefore urge the Government to identify £15 billion in savings and begin making them from April 2012 onwards (the report was released in February 2012). These savings could be used to fund £15 billion capital investment which will "*boost economic output now*" and "*expand the growth potential of the economy*." The SMF estimates that, based on Office

[262] Social Market Foundation, *Osborne's Choice: Combining Fiscal Credibility and Growth*, Ian Mulheirn, February 2012, P5

for Budget Responsibility figures, such an investment would "*raise output by around £10bn in each of the next three years*" and result in "*an economy around 0.7% larger in each year from 2012-13 to 2014-15 than would be the case if tax and spending remained in their current configuration.*"

The SMF outline the kinds of low-growth spending measures that the Chancellor could cut:

Measure	**Cost Saving (per annum)**
Halve higher rate tax relief on pension contributions	£6.7bn
Cap maximum ISA holdings at £15,000	£1bn
Roll Child Benefit into the existing tax credits system	£2.4bn
Restrict Winter Fuel Payments and free TV licenses to those on pensioner credit	1.7bn
Scrapping free bus travel for the over 60s	£1bn
Total	£12.8 billion

The multiplier effect of different items of Government expenditure is central to the SMF proposals. The OBR assume the multiplier effect is constant whether the economy is contracting or expanding. The SMF state the multiplier is affected by the point in the economic cycle (recession or growth), the openness of the economy (will the stimulus be diverted overseas) and monetary policy (will it engender higher interest rates which crowd out private investment and consumption). The danger of crowding out private economic activity is thought to be low in a contracting UK economy. The "r*ecycling* [of] *£15bn per year of current spending into capital spending from 2012-13 would return the capital budget to around £63bn in that year, just short of the level it was planned to be at in the 2008 Budget.*"

Infrastructure investments can increase both productivity and consumption as "*they cut the costs that otherwise weigh on households and firms"* through *"better road capacity, more punctual trains, and cheaper energy.*" Capital expenditure can 'crowd in' investment by firms and prevent the decline of worker skills and capital caused by the alternative of long term unemployment. The SMF recommend using microeconomic policy to unblock problems in the housing sector to "*encourage households with the capacity to sustain demand to increase their consumption.*" The SMF believe cash transfers to the middle and upper income brackets will be saved by households which it regards as a negative development due to its impact on economic output. The SMF say "p*olicies that reduce the savings and boost consumption among better-off households will help to*

create sustainable demand for UK firms."

Increasing the effectiveness of UK Government expenditure by altering its composition is essential. However, the Conservative Party made an explicit election promise not to cut winter fuel payments or free TV licences and bus passes for pensioners at the last election. The suggested cuts outlined by the SMF would involve breaking an explicit promise to a group (people over 65) with a greater propensity to vote, an important consideration for any plan being advocated for politicians to adopt. Replacing the cuts in pensioner benefits and tax relief outlined by the SMF with the elimination of development aid would yield a similar amount, affect less registered voters and could be deployed to fund the same level of capital expenditure they suggest, although this is not something that the SMF proposes.

(x) Centre for Policy Studies

The Centre for Policy Studies has compiled research identifying how Britain emerged from the great depression and had an economically successful 1930's, suggesting twenty one policies for growth for introduction in the Budget 2012 and the growth ideas of five Conservative MPs.

Five lessons from 1930's Britain on how to reduce debt and restore growth	
1	Spending cuts work. An immediate 10% cut in benefits and civil service salaries was instituted.
2	A cheap monetary policy must accompany austerity
3	Confidence in the legal and political foundations of the financial system must be restored. The early 1930s saw a number of high profile trials of those who had misbehaved in the previous decade.
4	Tax cuts work. Neville Chamberlain introduced tax cuts for families and the low paid gave a further boost to business confidence.
5	Press on with welfare reform. The National Government failed to do enough for the long-term unemployed and for those areas which had been hit particularly hard by the recession

In *Metroboom: Lessons from Britain's recovery in the 1930's*, the CPS explain how contrary to popular perception Britain had an economically good 1930's.[263] Between 1934 and 1939 economic

[263]Centre for Policy Studies, *Metroboom: Lessons from Britain's recovery in the 1930's*, George Trefgarne, March 2012

growth averaged four per cent, between 1932 and 1937 unemployment halved and industrial production regained its pre recession peak in 1934. "*The British economy as a whole actually recovered better and faster than any other major world economy except Germany*." From this the author derived five lessons we can learn from the 1930's, which are listed above.

A key factor in UK success was the construction sector which provided a significant boost to economic growth. 2.8 million homes were constructed in the 1930's and around 350,000 housing completions per annum in the five years between 1934 and 1938. There were 102,000 homes completed in 2010. To put this in context consider that the UK has a larger and more diverse population with individuals marrying later if at all, divorcing or separating more often and living longer. Devaluation of Sterling also helped UK economic performance. After leaving the Gold Standard, the Pound devalued by 30 per cent by the end of 1931. Public spending was cut by ten per cent. Britain introduced imperial protectionism in reaction to the Smoot-Hawley tariff in the US. New tariffs raised eighty per cent of the deficit in the public finances. Protectionism did not increase prices as inflation was low in the 1930's. Chamberlains strategy was to stabilise the public finances, a cheap money policy to encourage businesses to invest and tax reductions for those on low incomes and families.

Britain's debt position in the 1930's was worse than it is today, "*the British Government's debts were some 175% of GDP (compared to around 68% today), and the single biggest slice of debt was War Loan, raised in 1917*." These debts forced up commercial interest rates and deprived industry of investment. UK debt was restructured in 1932 as war loan investors were 'invited' to swap their 5% stock for a new 3½% issue. Neville Chamberlain "*appealed to investors' patriotism, but those who accepted within a month were to be redeemed in cash at par, plus a 1% bonus. Those who did not accept would be converted into the new stock compulsorily later in December*." Britain also refused to pay its war debt to the US from 1934 onwards once Germany cancelled its reparation payments. Effectively the UK had defaulted on part of its debt but it is important to note this was part of a general cancellation of war debts that saw Britain forgive debts owed to her that exceeded the amount the UK owed the US.

Reduce taxation to increase people's incentive to create wealth

In *2012 Budget: 21 Policies for Growth and Wealth Creation* the CPS advocate a programme of tax cuts to stimulate business growth and increase work incentives This includes cutting the main rate of corporation tax to 20 per cent in 2012 and announcing the intention to cut it further subject to closing avoidance loopholes, the main rate of employers' National Insurance Contributions (NIC) should be cut by one percentage point, and NIC holidays for new employees should be introduced

to encourage small business growth.[264] For personal taxation the CPS advocate abolishing the fifty per cent additional income tax rate, increasing the income tax personal allowance to £9,000 in 2012; and £10,000 next year and setting out plans to merge income tax and national insurance by 2015. The annual contribution limits for tax relief on ISAs and pensions saving should be combined, at no more than £40,000 allowing savers to save the full limit in an ISA alone if they so choose. The 10p tax rebate on pension assets' dividends and interest income should be reinstated. The Mansion Tax and all other new wealth taxes should be ruled out but stamp duty evasion should be clamped down on.

Reduce government spending and employment regulation to fund tax reduction and stimulate job creation

Tax reductions will be financed by cuts in Government expenditure include means testing winter fuel payments, old-age TV licenses and bus travel for pensioners. The current and capital budgets of the Department for International Development should be cut to 2010/11 levels. State funding of trade unions should cease. Promotion of low carbon technologies in developing countries should cease and the imposition of the carbon price floor should be delayed while the Government lobbies to strengthen the continent wide EU Emissions Trading Scheme. Changes to the pension system include abolishing higher rate pension tax relief, ending the contracting out of the State 2nd Pension, and replacing the 25 per cent tax-free concession on lump sum withdrawals at retirement with a 5 per cent 'top-up' of the pension pot paid prior to annuitisation.

Measures of employment deregulation include; exempting all small businesses (0-50 employees) from the extension of flexible working regulations, requests for time off for training and pension auto-enrolment. The National Minimum Wage legislation should be suspended for workers under the age of 21 working in small businesses and flexible working for senior employees by enabling 'protected conversations' with workers aged 65 and over. Strengthen the power of employment tribunals to strike out and deter spurious claims, create a new no fault dismissal option for underperforming employees after two years of employment and reform TUPE to encourage business rescues.

In *Growth, growth, growth: New ideas for growth and prosperity in the 21st century* the CPS profile a series of growth proposals by Conservative MPs. [265]

[264] Centre for Policy Studies, *2012 Budget: 21 policies for growth and wealth creation*, Ryan Bourne and Tim Knox, 2012

[265] Centre for Policy Studies, *Growth, Growth, Growth: New ideas for growth and prosperity in the 21st century*, November 2011

Policy recommendations made by six Conservative MPs	
1	Reduce corporation tax by 2 per cent per annum for the Parliament.
2	Float the Merlin Growth Fund on the LSE to allow private investment
3	Offer National Infrastructure Bonds to retail investors to fund construction
4	Introduce transparency on the condition of the loan books at state controlled banks and introduce staged privatisation of these banks from 2014 to 2018 until they are fully private
5	Aim for a 25 to 30 per cent cap on the banks use of the wholesale debt markets to finance their lending
6	Introduce a cap on family size for children born to families on welfare and localise benefit rates to ensure effective incentives to work in low cost areas
7	Use UK Impact Assessments of the costs of regulation in negotiations with the EU, delay implementation until both the EU and the UK agree on the regulations cost and make it easier to repeal EU legislation and repatriate areas of social and employment policy

Chapter One: Karen Bradley MP: Tax and Growth:

Tax reductions should focus on the higher rate of income tax, corporation tax and capital gains tax. The fifty pence rate is the fourth highest headline rate for personal tax in the EU. Ms Bradley MP advised that it should be reviewed and abolished if found to reduce revenue available for public services, the Government has since announced it will reduce the top rate to 45 pence from April 2013. With corporation tax "*a 2% per year reduction would lead to a rate below 20% by the end of the Parliament, giving the UK one of the five lowest corporate tax rates in the OECD*." Reductions in capital gains taxes would help the serial entrepreneurs and business angels that create the 89% of enterprises in the UK which employ fewer than 10 people and the 98% that have fewer than 50 employees.

Ms Bradley MP rejects proposals to reduce VAT. She notes "*the extra administrative burden on business, the fact that a rate of 20% is broadly in line with the European average and that such a change would not create the private sector led recovery that the Government wants*" [being consumption rather than export and investment led]. She notes the complexity of the existing UK tax code which runs to 11,000 pages and HMRC employs 80000 people and the need for greater simplicity. She highlights the HMRC impact assessment on R&D tax credits for large companies that stated "*the availability of R&D tax credits has little effect, however, on decisions to undertake specific R&D projects*." This casts doubt on Government efforts to boost R&D investment through the tax system.

Chapter Two: Financing Growth, Charles Elphicke MP

The reliance of small UK firms on bank financing is a problem. Larger businesses have alternatives with "*stronger cash balances, [they] can raise money in the syndicated lending markets and issue quoted bonds on the markets*." The reliance of the banks on wholesale funding rather than deposits is problematic. The report highlights that "*40% of total UK bank funding still comes from the wholesale debt markets - compared to less than 20% for US banks*." Mr Elphicke MP believes that setting a regulatory incentive or limit to the reliance on the wholesale debt market for funds should be considered. He suggests 25% to 30% would be feasible and provide greater stability (the US rate is 20 per cent).

It is difficult to determine how long the deleveraging of the banking sector will continue. The "*total debt of UK banking and financial companies is around 250% of GDP (equivalent to £3.5 trillion). In comparison, in 2002, the debt was 150% of GDP. If 150% of GDP were to be seen as sustainable over the longer term, it would mean that UK bank balance sheets would need to be reduced by more than £1 trillion. This is the scale of the challenge to return to normality.*" Mr Elphicke MP recommends an "*immediate and objectively assured policy of transparency on the condition of the loan and trading books at the nationalised banks, with all assets valued on a mark to market basis – including sovereign debt*." These banking assets should be disposed of now with similarity priority "*to that given to forcing increases in capital immediately following the initial banking crisis*." From 2014 twenty per cent of the Governments' stake in the banks should be sold per year till 2018 until all the Governments' holdings are sold.

The Merlin Growth Fund should be floated on the LSE to allow pension funds and private investors to invest in it. If they "*matched the current investment of £2.5 billion, the capital could be in the region of £5 billion. If such an organisation were geared just four times, the fund for equity and intermediate investment could total £25 billion (on the basis of £5 billion raised and a gearing of four times).*" The state owned banks should also identify another £500 billion of non-core assets for rapid disposal.

Chapter Three: Welfare and growth – Harriet Baldwin MP

Welfare policy needs to be changed to reflect both the wage differential between regions in the UK and to reflect successful changes in welfare policy under President Clinton in the United States in the 1990's. The US Personal Responsibility and Work Opportunity Act in 1996 "*allowed the US states to impose "family caps" on children born to families on welfare*." The UK has the highest level of teenage pregnancies in Europe with "*half of all under 18 conceptions occur in the 20% most deprived wards. One fifth of births among under 18s are repeat pregnancies*." Ms Baldwin MP suggests a reform "*to prevent anyone who is receiving housing benefit in a workless*

household from having an entitlement to a larger property by increasing family size. Once the family has a working family member, this could then change, as a way of increasing the reward for work" Twenty two US states have rules in place which prevent families on benefits receiving additional support for children conceived while on state benefits.

From 2013 all new claimants for Jobseeker's allowance, Housing benefit, Child Tax Credit, Working Tax Credit, Income Support and Employment Support Allowance will receive a single Universal Credit. This simplifies benefit administration but "*with median weekly earnings of £432 in Jarrow and median earnings of £733 in Chelsea and Fulham, the benefits of working relative to one national rate of benefit is much clearer in Chelsea*." Ms Baldwin MP suggests that "*once the Universal Credit is in place, localising benefit rates relative to a labour market's median average wage would be a sensible next step as it would mean that there is a common incentive to take on work across the whole country*."

Chapter Four: Infrastructure and growth, Claire Perry MP

Britain's infrastructure is poor by European standards. The UK motorway network "*is less extensive than European competitors, even when adjusted for population and density. Heathrow operates at 98% of capacity compared to 73 to 74% capacity levels at Charles de Galle, Frankfurt and Schipol airports. Commuter train routes into London are over-crowded while the rest of the country (apart from Kent) lacks high-speed rail connections with Europe*." The UK is spending less than our developed competitors, the UK ranked 21st out of 25 OECD countries for infrastructure spending between 2004 and 2008 and UK investment achieves less as the UK is an expensive country in which to build infrastructure "*with civil engineering works costing about 60% more than in Germany due to a combination of planning sclerosis, poor contract structuring and material costs*."

The Private Finance Initiative (PFI) was extended to unsuitable public infrastructure such as schools and hospitals and the private market for PFI deals has dried up so they are more expensive to finance. The coalition should investigate which infrastructure projects should be brought forward, PFI debt should be treated as public debt with Infrastructure UK taking over their management. New financing tools such as tax increment financing should be considered and "*The Coalition could offer National Infrastructure Bonds to retail investors as has been done in Australia, with a guaranteed rate of return over the life of the project*."

Chapter Five: International trade and growth, Jo Johnson MP

The enhanced partnership with India could be a model for relations with other emerging economies. Dreams of a trade surplus seem misguided as the "*value of imports has exceeded the value of exports in all but six years since 1900, none of them recent*." Promoting exports is

essential for UK growth and the creation of a new Trade and Investment cabinet subcommittee for Economic Affairs, chaired by Lord Green; previously Group Chairman of HSBC is positive as the "*Foreign and Commonwealth Office's decision to create 30 new posts in India and 50 new positions in China, roughly a 7% increase in each mission's manpower*." Our performance on export growth is disappointing, "*In volume terms, measured from the cyclical trough, German exports are up 23%, US exports are up 18%, French exports are up 14%. The UK is lagging behind, with export growth of about 10%.*"

Mr Johnson MP recognises that "*as trade is an exclusive EU competence, the Coalition must maximize Britain's influence in Brussels so that the Commission reflects UK interests to the greatest extent possible in the negotiations over the long-awaited EU India Free Trade Agreement (FTA)*" The Government should also ensure the Export Credit Guarantee Departments Chief Executive Patrick Crawford pledge to target "*the many small exporters who have never heard of us*" delivers results. UK aviation policy also needs to change. Our airports do not link to enough capitals of emerging market economies, "*Jakarta, Osaka, Caracas and Bogotá have all been removed from Heathrow's destination boards in recent years, while Lima, Manila, Panama City and Guangzhou have never been available.*"

Chapter Six: The EU and growth, Chris Heaton Harris MP

EU regulation since 1998 has cost the UK £124 billion, 71 per cent of the total cost of regulation to the UK economy in this period. Mr Heaton Harris MP suggests that "*quite obviously, if 60% to 70% of new regulation is coming from the EU, this should be the major focus of future deregulatory reform.*" Stopping EU regulations before they impose these costs is imperative as "*three new EU financial supervisors were established at the start of this year [in 2011].*" Existing efforts have met with little success, "*between 2003 and 2009 the Commission only dropped four proposals following a cost-benefit analysis.*"

Three policies to reduce the cost of EU regulation to the UK are suggested. The UK should use its own impact assessments in EU negotiations. Where UK cost estimates differ from EU estimates implementation of the regulation should be delayed until agreement is reached. The UK should also push to make it easier to repeal EU legislation and to repatriate employment and social policy. The cost of the Working Time Directive alone to the British economy has been estimated by the British Chambers of Commerce at £19.5 billion between 1999 and 2010. The recent Temporary Agency Workers Directive (which came into effect on 1 October 2011.creates a legal principle of equal treatment for agency and permanent staff when it comes to "basic working and employment conditions" This could impose significant costs.

(xi) TaxPayers' Alliance and the Institute of Directors

2020 Tax Commission principles for UK Tax Policy	
1	Taxes should be cut to 33 per cent of national income (because private expenditure is more efficient than public and to fund tax reduction).
2	Marginal tax rates should not exceed 30 per cent and the personal allowance should increase to £10,000
3	Taxes on capital and labour income disguised as business taxes should be abolished, and replaced with a tax on distributed income
4	Transaction, wealth and inheritance taxes should be abolished
5	Consumption taxes need to stay for now but transport taxes should be cut.
6	Local authorities should raise half their income from local taxation.

In *The single income tax: Final report of the 2020 Tax Commission* the TPA and the Institute of Directors have convened a *2020 Tax Commission* of noted experts to redesign the UK tax system to make taxes simpler and lower.The Governments' deficit reduction plan is judged to "*be more likely to prove inadequate*" than excessive "*if the intention is to encourage private activity*" because government spending crowds out private investment and must be funded by taxes on private income. The TPA has frequently criticized the coalition government's policy of increasing energy prices to provide funds to subsidize investment in renewable energy generation. I have included an analysis of their report *industrial masochism: The carbon price floor and energy intensive industry* which highlights the costs of the proposed carbon price floor to UK manufacturing.

What does the plan hope to achieve?

The TaxPayers' Alliance and Institute of Directors plan seeks to raise the UK growth rate by an estimated 0.4 per cent per annum. If implemented the TPA believe that the proposals would make UK GDP 9.3 per cent higher by 2030. The proposals involve the abolition of eight taxes including Employers' National Insurance, Employees' National Insurance, Corporation Tax, Capital Gains Tax, Inheritance Tax, Stamp Duty Land Tax, Stamp Duty on shares and Air Passenger Duty and the creation of a single tax on distributed income to replace them. Excluding National Insurance the taxes to be abolished are responsible for 499 exemptions or reliefs, out of a total of 1,042. Many of these reliefs will be removed during this process. The Commission reject tax simplification alone. They recognise that "*to be popular and sustained, tax reforms need to cut the overall burden of taxes*" and what is important "*is whether it reduces taxes for most taxpayers, with issues of*

redistribution or the support of elites mattering less." This leads them to reject "*moving to a simpler sales tax or broadening the base [of VAT]*" which "*could be worthwhile in theory*" but "*should not be combined with a rate as high as it is now*."[266] The six principles which guide their policies are detailed in the chart above.

How would this happen?

Proposed tax changes should be introduced from 2013 onwards and phased in if not combined with spending restraint. Employers' National Insurance would be merged into income tax from 2013 onwards so it appears on employees wage statements, employees national insurance contributions would be merged into a single tax on labour income at a rate of 30 per cent in 2016. Inheritance Tax, Stamp Duty Land Tax and stamp taxes on shares and capital gains taxes would all be abolished from 2013 onwards. Air passenger duty would be abolished from 2013 onwards. Fuel duty would be cut by one penny a litre per year from 2014 to 2018, a five pence reduction per litre in total.

Local authority grant reductions would allow a reduction in national taxes, councils would be allowed to introduce a local income tax, a local sales tax and non domestic rates would be decentralised to replace some of the revenue lost. Corporation tax would be converted into a capital income tax in 2016. This tax on distributed income collected at the corporate level would operate like PAYE. A distributed income tax will ensure that "*each stream of income [is taxed] once and keep the system simple to limit the number of loopholes that can be used to avoid tax*." The personal tax free allowance would increase to £10,000 and a Family Transferable Allowance would ensure fair treatment of families with children or a single earner, allowing them to transfer part of their personal allowance. The report authors recognise that "*some of the measures proposed in this report, particularly around the detail of the changes to capital taxation, may violate existing EU rules*." This suggests that a renegotiation of our association with the EU may also need to be undertaken.

Why lower public expenditure?

Controlling public expenditure is essential to increase economic growth. The report authors state that "*if Britain had kept spending at 33 per cent of national income since 1965, national income would now be more than 50 per cent higher.*[267]" Any increase in the share of UK government spending in GDP above 38 per cent is pointless as "*all further increases in the government spending ratio become fully reflected in increased borrowing*." They suggest a limit to the taxable capacity of the UK economy of 40 per cent of GDP and the "*a maximum justifiable level of*

[266] Summary- The 2020 Tax Commission
[267] Summary- The 2020 Tax Commission

spending is 35 per cent of national income." They advocate public spending targeting to achieve "*a 33 per cent of national income target*." The Government made a mistake in setting targets for borrowing and debt alone because the "*rules need to directly address spending*."

Value for money is said to be higher in the private sector than the public. The public sector becomes more efficient when it is smaller. The report highlights "*Olson's argument in The Logic of Collective Action that more concentrated special interests are better able to organise and lobby, at the expense of the latent majority's interests*." The report cites a Work Foundation study which "*shows that the average output per person doubled when monopoly status and political management were removed from the formerly nationalised industries in Britain*." Increases in output per person post privatisation exceeded 100 per cent in British Steel (104 per cent), BT (180 per cent) and British Coal (341 per cent) from 1979 to 1994.

"*Falling productivity in a growing public sector means that overall productivity is reduced. That means less economic growth*." If "*instead of falling by 3.4 per cent, the public sector had matched the 27.9 per cent increase in market sector productivity over the period 1997 to 2007, it would have saved £58.4 billion*." Using a study into public sector efficiency by the European Central Bank by Afonso, Schuknecht and Tanzi the TPA suggest that "*Britain could cut spending by 16 per cent and produce the same results if it matched the performance of the developed countries with the most efficient public sectors. If that is applied to 2011–12 spending of £710 billion, it implies a potential saving of £113.6 billion*."

High public spending in poorer areas of the country may "*be responsible for the problems of the poorer regions, even when the public spending is funded by transfers from elsewhere*." National welfare and public sector wage rates affect the willingness to work and enter the private sector more in areas of low productivity and low wages. If the minimum wage reflected regional differences in median earnings it would range from £5.39 per hour in Northern Ireland to £7.40 in London. "*The fact that it does not do so explains why the minimum wage is likely to price more people out of employment in the North East than in London*."

These factors make the tax system "*highly dependent on a relatively small number of high earners and select industries, as less productive workers and struggling industries and regions are squeezed by rising taxes and onerous regulation*." Despite the rhetoric of savage cuts in public expenditure "*in 2011–12, spending cuts were only 56 per cent of the total discretionary consolidation, and at Budget 2012 were only expected to reach the 80 per cent of the fiscal consolidation initially announced by 2016–17*."

Why lower taxes?

Higher taxes undermine efforts to increase UK exports by making them uncompetitive on price. This encourages domestic workers to engage in low value professions in which there is not foreign competition such as hairdressing etc. The "*development of South-East Asian economies where the state only spends between 20 per cent and 25 per cent of national income - has greatly speeded up and exacerbated this hollowing out effect, leading to the accelerated de-industrialisation that his hit regions such as the North East of England and West Midlands so hard.*"[268]

A complicated tax system makes companies less able and willing to engage in productive activity. Tax compliance burden amounts to "*36 hours per month [of unpaid work] for the typical very small business according to evidence provided to the 2020 Tax Commission by the Forum of Private Business.*" Tax complication creates a significant deadweight cost of taxes (investments not made/work not undertaken due to the tax rates). The US Office of Management and the Budget (OMB) "*has incorporated a 25 per cent deadweight loss measure into Federal cost-benefit analyses since 1992.*"

Corporation tax falls and employers national insurance fall on workers in the form of lower wages except to the extent the latter cause unemployment. The national insurance fund should be abolished with its funds assumed by the Treasury. "*HMRC spends substantially more in order to maintain separate National Insurance and Income Tax systems than it would if one of the charges did not exist and the remaining charge was commensurately higher. It charges £300 million to the National Insurance Fund for collecting contributions.*"

Why shift taxation from central taxation to more local revenue collection?

The authors believe greater competition between local authorities will improve public sector efficiency. In the UK "*under 20 per cent of local authorities' revenue comes from taxes they raise for themselves locally*" and "*of the more than 350 local councils in existence, well over half were dependent on central government money for more than 90 per cent of their tax funding.*" An econometric study from the German CESifo group suggested a 10 percentage point increase in local and regional government's share of total national tax revenue improves public sector efficiency by around 10 per cent. With UK public spending of *"£700 billion [per annum], increasing local governments' share of taxes from its current five per cent up to say, 15 per cent, would save around £70 billion a year.*" If local government raised half its revenue from local taxes, this could increase GDP growth by around 0.5 per cent a year. The Lyons Inquiry estimated HMRC's set-up costs for a local income tax at £125 to £200 million, with annual running costs of just £10 million. The Chartered Institute of Public Finance and Accountancy estimates the cost of localising business

[268] TaxPayers' Alliance, *The single income tax*, 2020 Tax Commission, P72

taxes at £100 million. Funding from central government grants means "*local authorities do not have a strong incentive to grow their own local economy and tax base, and that feeds through directly to lower GDP growth at the national level.*"

What is the carbon price floor?

In *Industrial Masochism: The carbon floor price and energy intensive industry*, Matt Sinclair, Chief Executive of the TPA recommends scrapping the carbon price floor because it discriminates against UK heavy energy users without reducing carbon emissions.[269] This report was produced by the TPA alone; it is not a collaboration with the Institute of Directors as was the previous report. The European Union Emissions Trading Scheme (EU ETS) is the largest carbon market in the world. It is a cap and trade scheme. The carbon floor price was introduced in Budget 2011. The carbon market is made of firms trading a restricted supply of emissions allowances, which should determine the carbon price.

Why is the EU Emissions trading scheme not working as planned?

Unfortunately the price of carbon permits has varied massively "*In 2005, the carbon price fell from €29 per tonne on 11 July to €18 per tonne on 22 July. It then slowly recovered to just under €30 again by 24 April 2006 before collapsing again to just over €14 by 28 April. It then slowly declined effectively to zero for the rest of Phase I (2005 to 2007), falling below €1 per tonne in February 2007 and then continuing to decline.*" This collapse in the carbon price was caused by nations granting an excessive amount of licenses. The UK Government has introduced a carbon price floor to rectify price volatility. The carbon floor price "*does not adjust the overall cap and therefore will not reduce overall EU emissions. The result will be a shift in emissions from Britain, with a higher carbon price, to the rest of Europe, with a lower carbon price.*" No corresponding carbon ceiling has been introduced to limit price increases. This policy could potentially hugely damage major industries which are heavy energy users such as steel or chlor-alkali where "*energy represents between a quarter and well over half of total costs.*"

Why should we scrap the carbon price floor?

UK firms are already at a disadvantage over energy costs. Large energy consumers "*already pay up to 10 to 25 per cent more than in Germany, and 60 to 75 per cent more than in France, where industry often gets rebates or more substantial discounts on its energy costs. The carbon floor price alone will add another 10 per cent to their energy costs by 2020, while reducing costs for competitors.*" A Department for Energy and Climate Change Study is cited which estimates that "*large energy intensive users would face a rise in electricity prices of between 11 per cent and 52*

[269] TaxPayers' Alliance, *Industrial Masochism: The carbon floor price and energy intensive industry*, November 2011

per cent by 2020, and between 16 per cent and 58 per cent by 2030 depending on whether the gas price rises or falls (if it rises, the cost of policy will be less)." By contrast a French industrial consortium buys discounted energy from the largely state owned EDF under an agreement signed in 2007 set to last fifteen years and German energy intensive firms are exempt from 98.5 per cent of the renewables fee. In Germany total energy taxes before rebates are around €52 /MWh but less than €3 /MWh after the rebates. The carbon price floor will transfer jobs and growth away from the UK to our European competitors without reducing overall EU emissions and it should be abolished.

(xii) International Monetary Fund (IMF)

IMF UK Structural Reform Proposals	
1	Be prepared to further loosen monetary policy if there are further shocks to economic growth
2	Reform healthcare and pensions to reduce the deficit as these reforms can significantly improve the UK's long term fiscal health without reducing short term aggregate demand
3	Restructure household debt to allow households to increase consumption
4	Preserve some flexibility in fiscal plans in case of an oil shock caused by conflict with Iran

What is balanced budget fiscal consolidation?

In the *World Economic Outlook April 2012, Growth Resuming, Dangers Remain*, similar to the Social Market Foundation the IMF describe how "*low-multiplier spending could be cut while high-multiplier spending is increased*."[270] They call this "*a balanced budget fiscal expansion*" because it raises output without affecting fiscal consolidation plans. The IMF states that fiscal consolidation "*will be subtracting roughly 1 percentage point from advanced economy growth this year [2012].*" This deleveraging has "*favorable long-term effects*" but "*adverse short-term effects.*" Balance needs to be reached by identifying "*credible long-term commitments*" to "*decrease trend spending and put in place fiscal institutions and rules that automatically reduce spending and deficits over time.*" This suggests that to the IMF outlining a path to long term fiscal health is more important than immediate reductions in government spending.

[270] IMF, World Economic Outlook, *Growth Resuming, Dangers Remain*, April 2012

Is there space for the UK to further loosen monetary policy?

In the UK the IMF recognise that "*with inflation expected to fall below the 2 percent target amid weaker growth and commodity prices, the Bank of England can further ease its monetary policy stance.*" So "*should downside risks to the growth outlook threaten to materialize*" then "*central banks could step up their unconventional policies, preferably in a way that eases credit conditions for small and medium-size firms and households.*" For credit to small firms and those exporting this means "*possibly stepping in through government programs if needed.*" For households in the UK and other advanced economies which "*have very low interest rates and are close to or have hit the zero-bound constraint to easing monetary policy* [i.e. the 0.5 per cent base interest rate]" it is more difficult. The UK monetary stimulus is a preferred tool to ease the debt service burden of over leveraged households somewhat because the UK has variable mortgage rates.

How can we reform entitlements while still helping those in need?

The IMF suggests that "*reforms to aging related spending are crucial because they can greatly reduce future spending without significantly harming demand today.*" Also *"aggressively tackling pension and health care reform, which offers by far the largest potential benefits."* Investment in infrastructure and assistance to repair the balance sheets of poorer households are suggested because they can boost consumption. Proposed options include "*temporary tax hikes matched by increases in government [infrastructure] purchases*" or "*spending targeted to distressed households that spend all their disposable income.*" Bank deleveraging is often accused of worsening the slump but "*if overly indebted households or firms are trying to repair their balance sheets, bank deleveraging will not be as binding and may not add to deterioration in growth beyond what is reflected in falling credit demand.*"

The IMF believes "*government policies can help prevent prolonged contractions in economic activity by addressing the problem of excessive household debt. In particular, bold household debt restructuring programs such as those implemented in the United States in the 1930s and in Iceland today can significantly reduce debt repayment burdens and the number of household defaults and foreclosures.*" We can prevent a tightening in credit availability through "*recapitalizations and government purchases of distressed assets.*" The social safety net can also "*automatically provide targeted transfers to households with distressed balance sheets and a high marginal propensity to consume, without the need for additional policy deliberation.*" Household debt restructuring "*prevents self-reinforcing cycles of declining house prices and lower aggregate demand.*" But any programme needs to provide "*sufficient incentives for borrowers and lenders to participate.*"

Even the US, which has introduced debt restructuring programmes for the poor, has not introduced wide ranging enough schemes

The IMF compare modern US debt restructuring with that achieved during the Great Depression. In the latter, the Home Owners Loan Corporation bought distressed mortgages off the banks in exchange for bonds. Mortgages were changed from variable to fixed rates of interest, term periods were extended and part of the principal written off to ensure no mortgage exceeded 80 per cent of the appraised value of the property. This "*transferred funds to households with distressed mortgages that had a higher marginal propensity to consume and away from lenders with (presumably) a lower marginal propensity to consume*." The US Home Owners' Loan Corporation bought "*one in five of all mortgages*." It issued bonds with guaranteed interest and principal, exempted payments from state and federal income taxes and allowed their use as collateral.

The modern Home Affordability Modification Plan (HAMP) is more limited. Participation is voluntary for those lenders not in receipt of Troubled Asset Relief Programme funds. "*Most borrowers remain seriously constrained even after the modifications, with after-modification total debt repayment burdens averaging 60 percent of monthly gross income and the after-modification LTV sometimes actually increasing*" The re-default rate on modified loans is 27 percent after 18 months. The HAMP has only restructured 1.9 per cent of all mortgages and has had to be continually renewed and expanded. Nevertheless, in the United States two thirds of debt reduction has occurred through defaults.

Any economic plan needs to leave room for further economic shocks

Unlikely among the plans analysed the IMF recognises that any economic plan should recognise the potential for further economic shocks. In particular, "*Iran's location at the Strait of Hormuz, the choke point for shipment of about 40 percent of global oil exports (25 percent of global production), and its geographic proximity to other major oil producers means that there is a risk of a large-scale, possibly unprecedented, oil supply disruption in the event of military conflict*." The importance of preserving flexibility in any plan cannot be overstated.

(xiii) Organization for Cooperation and Development (OECD)

In *Going for growth 2012: Structural Reforms can make the difference: United Kingdom: Priorities supported by indicators* the OECD proposes a series of structural reforms to enhance UK growth potential.[271] On welfare they believe the UK should reform disability benefits to lower the inflow of people onto incapacity benefit and improve work incentives for low paid lone parents and

[271] Organisation for Economic Cooperation and Development, *Going for Growth 2012: Structural Reforms can Make the Difference*, February 2012

second income earners through lower marginal tax rates and childcare costs for lone parents. Education outcomes should be improved by targeting resources to disadvantaged children, vocational education and a stress on literacy and numeracy skills.

Public infrastructure should be excluded from spending constraint and road pricing should be introduced to ease congestion. Efficiency in public services should be improved by containing "*compensation for some highly-paid National Health Service (NHS) personnel"* and strengthening *"competition among providers.*" Land planning regulations should be changed to give more incentive to local communities to provide land for development.

The progress of the coalition government is found wanting. The OECD note that "*GDP per hour worked is low in an international context and has fallen*" and "*little has been achieved in terms of enhancing public sector efficiency and educational outcomes*" and while the share of the working age population receiving disability benefits has been reduced it "*remains above the OECD average.*"

(xiv) Civitas

Civitas Policy Recommendations	
1	Set an exchange-rate target consistent with a higher-level of manufactured exports, subject to a monetary policy aimed at achieving sound money.
2	Reduce government debt as rapidly as possible to reduce the cost of borrowing so that investment can be increased.
3	Aim to move towards a main corporation tax rate of 15 per cent within a few years. Preserve and extend R&D tax credits. Move towards 100 per cent capital allowances.
4	Cut personal tax and inheritance tax to increase the funds available for private investment with the intention of encouraging a renewal of private and family-owned enterprises.
5	Apply a moratorium on all new business regulations in the legislative pipeline.
6	Aim to abolish employment tribunals and all related laws, and in the meantime, place a cash limit of £5,000 on all employment-related compensation awards
7	Abolish business rates on empty property so firms can relocate to more appropriate property.
8	Restrict all climate-related measures to those that are consistent with keeping the UK within the top three most competitively priced energy markets in the EU and the G20.
9	As an extension of the export credits guarantee service, provide an exchange-rate hedging service for raw and semi-finished materials for use in manufacturing, and for exports of finished products.

10	Use public procurement more effectively to incubate innovative companies.
11	Increase taxpayer support for basic research when financial constraints permit.
12	Preserve and extend the Enterprise Finance Guarantee scheme.
13	Develop an Industry Bank, _odeled on the Industrial and Commercial Finance Corporation.
14	Encourage saving and enterprise banks _odeled on German savings banks.
15	Transform regional development agencies into arms of the Industry Bank.
16	Maintain a list of strategic industries, including defence, support them and prevent foreign takeovers.
17	Make vigorous use of WTO reciprocity rules.
18	Encourage the WTO to permit 'adjustment protection' for a time-limited period
19	Ensure that importers are not placed at an advantage by home taxes and regulations. If necessary equalise the burden.
20	Examine all substantial foreign investments to ensure compatibility with competition law.
21	Place apprenticeships as far as possible under the control of employers, and whenever feasible provide the prospect of a job at the end.
22	Repeal the 2002 Enterprise Act to allow the relevant Secretary of State to intervene to protect the public interest in cases of acquisitions, mergers and other potentially anti-competitive activity.

In *A strategy for economic growth: A modern industrial policy* Dr David Green, Director of Civitas, makes the case for a UK industrial policy with government intervention to encourage manufacturing and ensure the provision of cheap energy. An industrial policy requires selective assistance for sectors or companies which *"marks out an industrial policy from a plan for growth*". UK prosperity relies on building a strong manufacturing sector and this may require public borrowing to invest which "*will inevitably mean adding to the national debt in the short-term*." In *Prosperity with principles: some policies for economic growth* Dr Green makes the case against a doctrinaire policy of non interventionism and outlines six principles to govern policy intervention and explores how government could intervene to develop comparative advantages for UK firms.

The need for state intervention

A pragmatic approach to state intervention rather than doctrinaire non interventionism is advocated. We should not treat "*all government action as nothing but a restraint, when it may be*

an essential building block of a free system as well as indispensable for the attainment of greater productivity." Liberalism supports intervention to help the worst off, to educate all citizens to achieve their potential and is not supportive of greater wealth at any cost to other values. Adam Smith did not assume the 'natural' state of affairs was the absence of government and Frederick Hayek often criticized laissez faire economics recognizing the importance of legal and cultural institutions. Some comparative advantages can only be created by government and firms in temporary difficulties may require assistance. John Maynard Keynes recognized that creative destruction does not automatically lead to individuals diverting their attention to more productive industries often they simply become unemployed so we should introduce change gradually to prevent undue harm. The UK cannot prosper with services alone, "*even at its maximum output in 2008, the financial services sector generated exports of £52.8 billion, while British manufacturing generated £194.2 billion*." "*Since 1992 Britain has only spent 18.7 per cent of its state aid specifically supporting British interests while France, Germany and Spain have all spent over 40 per cent supporting domestic firms and industries*."

The need for a strong UK manufacturing sector

We need a large manufacturing sector unless we are willing to migrate away in large numbers or to accept a lower standard of living. We last had a trade surplus in goods in 1982 and we last had a trade surplus in goods and services in 1997. Our manufacturing policy should recognize the value of low value activities which "*are typically part of a supply chain that has a high-value finished product at the end*." Government concentration on high tech manufacturing ignores the 86 per cent of UK manufacturing which is not high tech. There need to be mundane unskilled jobs to provide opportunities for the full ability range. Most growth in employment among the OECD countries is in low or medium tech companies. There is no correlation between the high tech share of manufacturing value add and GDP growth and it is "*surprisingly difficult to predict where the next innovations will come from and for that reason an open system is preferable*." The physical proximity of both subcontractor and manufacturer can be important in the survival of both and companies that produce things can provide services as part of their product e.g. maintenance contracts.

British governments have successfully intervened before

The Thatcher administration applied a pragmatic attitude to reforming the economy. They used "*government grants, loans and subsidies" to "'buy time' so that companies could restructure and become fit enough to face international competition*" and to recruit foreign manufacturers, "*'golden shares' were used to restrict foreign ownership of strategic industries*." For instance, "*Nissan was attracted to Sunderland in 1984, partly by subsidising the cost of land, which was provided at agricultural prices*." This intervention enabled our current competitive advantage in

car manufacture. Selective assistance was provided to British Steel, Rolls Royce and Rover to prepare them to compete in the private market. This was consistent with Adam Smith's approach where "*competition from foreigners should 'never be introduced suddenly, but slowly, gradually, and after a very long warning'*." Adam Smith was not a believer in completely free trade. He allowed for exceptions to restrict the threat foreign nations posed to Britain, to equalize conditions for domestic producers if domestic policies or foreign tariffs disadvantaged domestic producers and to prevent undue hardship. We should not create national champions, the "*objective test* [for selective assistance for firms] *would be their ability to supply consumers who currently prefer to buy imported products*." In *Reviving British Manufacturing* entrepreneur Alan Reece argues the UK government should look at each economic sector and ask which of their policies is putting UK firms at a disadvantage compared to foreign rivals.

Other countries are not applying doctrinaire non interventionism

Other countries understand that while you need checks and balances to prevent cronyism and poorly run but politically well connected firms being subsidized and public funds being wasted you still effectively back domestic producers rather than adopt a policy of non interventionism. Countries have used tools such as "*import substitution, state-owned enterprises, foreign-exchange controls, state investment planning and price controls*" and *"tariff rebates, subsidised export credits, and transport corridors."* China has suppressed wage growth and protected state industries. Brazil entered the aircraft industry and South Korea into steel making through state owned companies. The South Korean government controlled all banks and foreign exchange ensuring foreign exchange was used to purchase raw materials and machines rather than consumer goods.

Six points to consider before adopting a policy proposal:	
1	Strategic importance: Which industries are strategically important and need to be prevented from being owned by foreign nationals or have the proportion of foreign ownership of their shares restricted?
2	Trade and Reciprocity: When should the UK use the "*World Trade Organisation rules* [which] *allow for reciprocal action to correct unfair trade practices*" and what costs would such action lead to in each case?
3	Government imposed costs: Can we identify what cost differential between foreign producers and domestic companies is due to government measures and is wise to apply policy measures to level the playing field in such cases?
4	Sudden change: "*How can we protect people from sudden harmful change or permit time for gradual adjustments to changed circumstances?*"

5	Economising: Is a proposed trade related measure cheaper than the alternative? e.g. R&D tax credit cheaper than a government directed scheme.
6	The common good or sectional change: Is the proposed policy in the common good or does it solely benefit a self-serving section of society? "*a government can act to create 'capacity to compete', but it should stop when its measures entrench monopoly or become merely an excuse to impose higher prices on fellow citizens*"

How can the UK Government help create comparative advantages for UK firms?

The government should develop policies concerning "*the exchange rate, government debt, inflation, the official interest rate (the cost of capital), taxes, energy costs, communications, transport links, the regulation of workplaces and the availability of highly skilled employees*" to promote a balanced economy with a stronger manufacturing sector. A "*respected study by Ralph Gomory and William Baumol has shown that if there are economies of scale and high-start-up costs, markets entrench the position of existing producers and deter rivals. Consequently, the competitive advantage of some producers is not the result of being the most efficient manufacturer but of having started early*." Industries are thus capable of succeeding in many locations and public policies should investigate whether an industry is retainable and profitable and if so support its development in the UK. An example industry to target would be civil aircraft. With public procurement "*Government agencies should devise buying strategies that help to incubate new producers and to encourage the growth of home producers. The huge resources of the NHS, for example, could be used to encourage science and engineering based production in the UK*." The UK should push for the abolition of EU state aid rules and prevent a repeat of the Thameslink fiasco where the contract was given to Siemens rather than the UK based (but Canadian owned) Bombardier. Instead UKTI has had its funding cut 17 per cent, its offices vary significantly in the quality of service they offer and the fee structure has been changed so now firms are charged for using UKTIs time and resources not just its products and services.

Why has UK manufacturing not increased rapidly despite the substantial fall in the exchange rate?

ONS figures show that manufacturing output is about eight per cent below its pre-recession level. The Bank of England Monetary Policy Committee recognize that it is '*possible that UK firms in some industries lacked the plant or capacity to expand production rapidly in response to the past depreciation of sterling and it would take time for them to install it*.' The affects of the past deindustrialization of the UK make it more difficult for the sector to rapidly expand. Businesses will not invest if they believe that the exchange rate depreciation is temporary. A World Bank 2005 Report warned against "*indiscriminate opening of the capital account*" after 1990's crises because

it led to increases in the exchange rate, increased deficits and led to more short term borrowing followed by capital flight and increased poverty. Chile and Malaysia had taxed capital inflows and India limited capital inflows and offshore borrowing. Foreign direct investment can play an important role but "*in a downturn foreign owners are far more likely to close UK plants, even when they are economically viable*." They may also acquire UK firms to close them down and reduce competition. Therefore, "*Proposed foreign takeovers should all be referred to the Competition Commission to ensure that the outcome will not reduce worldwide competition*." The Government could refer acquisitions and mergers to the competition commission until the 2002 Enterprise Act. This should be repealed to enable the government to apply a public interest test to all FDI and ask if specific investments are likely to increase or reduce competition.

Supporting exports by managing the exchange rate

The government should provide an exchange rate hedging service to help exporters to cover imports of essential raw materials and exports of finished goods and services. This is necessary because commercial banks don't cover all levels of risk and their services are expensive for small firms to access. This would be complemented by the introduction of exchange rate targeting to ensure a high level of exports and a monetary policy designed to achieve sound money. Exchange rate volatility can wipe out the gains from efficient management, credit controls and quantitative measures could be used to manage the money supply and reduce this. Monetary policy should be designed to achieve sound money without inflation or deflation and a currency competitive with key currencies to encourage exports. There is "*a close and unavoidable connection between monetary policy, fiscal policy and the exchange rate*." Money supply should be kept proportionate to goods and services production. "*To keep the exchange rate low, the aim of policy should be to reduce the national debt to as near to zero as possible over a decade or so*."

Encouraging firms to pay corporate taxation in the UK

On corporation taxation "*there is an international competition for the location of big-name companies. It is better to attract them by creating conditions favourable to all enterprise, rather than through selective assistance*." According to the annual KPMG survey *"the average rate for OECD members in 2009 was 26.3 per cent and for EU members, 23.2 per cent. These figures compare with our main rate for large companies of 28 per cent*." The Government plans to reduce the headline rate of corporation tax to 22 per cent by 2014. Twelve countries out of the 34 in the OECD currently have a lower headline rate than the UK. We should aim to have a rate closer to Ireland's which is 12.5 per cent. Civitas recommend "t*he headline rate of corporation tax should be cut in stages to a low rate close to that of Ireland (let's say 15 per cent), 100 per cent capital allowances should be permitted and R&D tax reliefs should be continued*." The lower rate of corporation tax "*should exclude interest, rental income and profits and fees from pure arbitrage,*

that is the buying and selling of securities for profit as distinct from investing in businesses that trade in goods and services" and "*companies should be permitted to deduct from their taxable profits allocations made to reserves to provide for future losses and bad debts, as they can in Japan and Germany*." Multinational companies can largely choose in which country they pay their corporate tax and "*98 of the FTSE 100 companies utilize offshore tax havens. If Britain were drastically to reduce its corporation tax rate, the quid pro quo should be the closure of these tax loopholes*."

Providing a tax relief system that encourages UK manufacturing

Tax credits for research and development should be retained because "*science-based innovation is one of our main potential comparative advantages, not least because we still have some strong science-based universities, and government policy should encourage it through the R&D tax credit*." In 1996 12 OECD member countries had R&D tax credits; by 2007 there were 21. Tax credits are also cheaper than direct grants from government. With capital allowances companies should revert to being a simple business expense with firms able to choose whether they prefer to deduct all capital expenditure against taxation in the year in which it is incurred or as a depreciation charge over time. Until 1984 firms could deduct "*100 per cent of investment in plant and machinery could be deducted from taxable profits, but it was replaced by a 25 per cent per year deduction on a declining-balance basis*." The government recognizes the value of a 100 per cent capital allowance to firms in Enterprise zones and this should be extended nationwide as a business expense perhaps by declaring the whole country an enterprise zone and confronting the EU Commission. Current proposals to reduce capital allowances to part finance the corporation tax reduction penalize capital intensive firms.

Building private wealth to provide for small business growth

Personal taxation needs to be cut because "*If a higher rate of business start-ups is the aim of public policy, the first task should be to cut taxes so that potential entrepreneurs have the means to fulfil their ambitions out of their own resources. In particular the higher rate of income tax and inheritance tax should be cut*." We have half the new company formation rate of the US where the system allows for joint filing and "*If we aspire to compete with countries such as America we need to have American income tax rates, which start at 10% and peak at 35%. US couples who file jointly pay the highest rate of 35% on taxable income above £242,000. No tax is paid on the first £12,200. Then 10% is paid on the next £10,800, 15% on the next £44,000, followed by a steady progression through 25%, 28%, 33%, and finally to 35%.*" This allows the accumulation of the capital needed to fund business start-ups, "*88% of start-up funding is from personal savings or loans from friends and family; only 12% is from banks*." The reduction in the fifty pence rate to forty five pence is not enough to build a large economically independent middle class.

Entrepreneurs often wish to retain control of the businesses they build, the Rowlands report described the desire of business founders to retain control as a 'market failure' "*but the 'aversion to equity' expressed by about 35 per cent of SMEs was because they did not wish to cede control to people with no strong attachment to the ideals of their business*." Private businesses are an important part of the corporate mix but "*the paradoxical result of this hostility to private wealth was to make corporate wealth and 'political wealth' the only acceptable forms that the control of significant resources could take*."

Encouraging long term investment in SMEs

There is an equity gap for investments between £250,000 and £1 million. "*Three main approaches have been taken by the Government: first, tax breaks have been introduced to encourage more private money to be invested in start-ups and growing firms; second, loan guarantees have been provided; and third public funds have been lent to professional managers who then invest in companies according to commercial principles*." Venture Capital Trusts come with income tax and capital gains tax relief but require a three to five year commitment. This attracts investors who "*enter discussions with a pre-planned 'exit strategy'. Their anticipated exit invariably depends on maximising the tax benefit rather than judging the optimal moment for the development of the business or its underlying technology*." The Enterprise Finance Guarantee offers a guarantee for 75 per cent of the loan for a premium of two per cent of the outstanding balance. Loans can last up to ten years and are available to companies with a turnover of up to £25m. Amounts can be from £1,000 to £1m. Government has lent public funds to professional managers who then invest in companies according to commercial principles. Capital for Enterpise Limited manages Enterprise Capital Funds, based on the US Small Business Investment Companies, to provide subsidized capital to private investors engaging in early stage investment, ten funds have been launched since 2006. On capital gains tax the rate "*should not be lower than the basic rate of personal income tax to avoid giving an unduly large incentive to define income as a capital gain*." Taper relief should ensure that tax relief is applied to investors rather than speculators by reducing capital gains tax on assets held for eight years and cutting the rate to zero after ten years. At present the rate is 18 per cent with a reduced rate of 10 per cent for qualifying entrepreneurs.

The need for a British Enterprise Bank

The UK government Business Growth Fund of £2.5 billion is "*on a scale far below what is required*." We need to replicate the local bank network seen in Germany and Switzerland to increase lending to small business. This should include restrictions to prevent siphoning off of funds for investment banking. Investment worthy businesses are being denied funds because banks can make more money through arbitrage, ONS survey shows the SME demand for finance increased between 2007 and 2010 but the number of successful applications went down from 90

per cent to 65 per cent. The default rate on existing loans for SBA is 12 per cent, which is not unduly high. This investment could improve the balance of payments, reduce the amount spent on out of work benefits and reducing unemployment helps not just those directly employed. UK Financial Instruments Ltd holds shares of RBS and Lloyds and currently is prioritizing price rather than increasing competition as it seeks to repair the companies and prepare them for sale. RBS is 85 per cent owned by government. It could be converted into an industry bank and changed to provide finance for SMEs.

A network of local savings banks to fund SMEs

The German savings banks show how this could work in practice. They control thirty four per cent of banking assets and "*until 2005 all deposits were guaranteed by the federal state in which savings banks were based but in that year the guarantees were removed at the behest of the EU*." They have a legal obligation to operate under sound banking principles but to prioritize local savings and investment over profit maximization. "*Two-thirds of the members of the supervisory boards are nominated by the local council and one-third by employees*." Civitas recommend that "*We could establish one in every locality starting with the major towns. They would be not-for-profit organisations run by professional managers who expect to work for an honest living, not to increase shareholder value at any cost. The managers would be supervised by trustees representing the customers. They would attract deposits by providing good market interest rates for savings and be obliged to offer full current-account banking to any law-abiding individual or organisation that asked.*" Deposits could be guaranteed by credit guarantee insurance and "i*n return for a premium of two per cent of the outstanding value of the loan, 75 per cent of any loss would be guaranteed.*" The banks could be restricted to operate in a specific geographic area.

Ensuring cheap energy to prevent energy intensive firms moving abroad

In the Autumn Statement of November 2011, George Osborne claimed that the Government intended to '*reduce the impact of policy on the costs of electricity for the most electricity-intensive industries*' but there has been little evidence of this. The Government should set a target of "*keeping the UK in the top half-dozen most competitively priced energy markets in the EU and the G20*" to which all climate change measures would need to be consistent. Otherwise high energy using sectors will be at a disadvantage compared to competitors. Steel, glass, paper, chemical and ceramics industries are suffering due to climate related energy policies. The chemicals industry supports six million jobs and is vital to the development of materials essential to a low carbon economy e.g. insulation. High energy costs are driving cement production overseas. The current policies of the UK climate change department "*amount to an act of national self-harm*." Tata steel has already cut workers due to '*uncertainty about the level of further unilateral carbon cost rises that the UK government is planning*.'

According to a separate Civitas study by Ruth Lea and Jeremy Nicholson, "*business could be facing additional costs on electricity bills of up to 70 per cent because of 'green' policies planned by 2020*" and "*the impact assessments of the Renewable Energy Strategy were released in July 2009 and show that the net costs of the strategy for the period 2010-2030 are expected to range between £52bn and £66bn (in 2008 prices). Such costs will threaten the viability of a number of high-energy using industries*." The "*average energy-intensive company could be forced to pay nearly £20 million in costs by 2020 as the result of the Government's climate change policies,*" the Carbon price floor to be introduced in April 2013 will increase the cost of carbon to £30 a tonne by 2020. The current market price, paid by competitor nations in the EU Emissions Trading Scheme, is £6 a tonne. The carbon price floor should be scrapped. A *"fifth of power capacity expected to shut down in the next ten years as a result of EU regulation.*" We should end the feed in tariffs and investment in wind energy and invest in nuclear, gas and coal, delaying the planned closure of coal fired power stations, which are being closed to comply with European regulations, and encourage the development of domestic shale gas *"at the fastest possible rate*" to ensure the power supply is maintained.

Employment regulation

The regulations applying to working time, money laundering and employment tribunal regulation should be reformed. Maintaining a higher level of employment requires making it easy to fire staff because "e*mployers are generally more willing to take on extra staff if it is easy to dismiss them when necessary*." Ideally there should be a moratorium on new employment regulations and the abolition of employment tribunals. In the meantime a cash limit of £5,000 should be placed on unfair dismissal and discrimination cases, "*the pernicious no-win-no-fee system of paying lawyers should be abolished*" and the tribunal process should be transformed into a mediation process. Employees should be required to make a deposit to reduce vexatious claims.

Section Three: Back to growth—countries that are growing

(i) America - Increasing productivity and dealing with the debt overhang

Two key features of the US economy deserve careful consideration. These are; how the US has increased the productivity of its workers by more than any G7 country since the mid 1990's and how American banks and households have managed to deleverage faster than comparable developed countries. The US has not built a political consensus on a medium term fiscal adjustment plan to bring its government debt down to sustainable levels. This has lost the nation its triple A credit rating and could seriously affect economic growth. However, the performance in the private sector holds valuable lessons for the UK.

US Productivity and working hours

Economist Paul Krugman declares that "*productivity isn't everything but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker*."[272] US productivity growth has outpaced all other G7 countries since the mid 1990's during periods of economic growth and recession. The International Labour Organization reports that American workers were the second most productive in the world per hour and worked more hours than the nation above them (Norway) making their total output per worker the highest.[273]

Americans work longer hours than many their European counterparts. America is the only OECD country to not give its employees the right to time off.[274] American workers work almost 1800 hours per annum compared to just over 1400 in Germany and just less than 1500 in France.[275] Working longer hours is not the only factor to economic success, if it were Greece would be the richest country, its workers work over 2000 hours per annum. Combining high output per worker with a high labour market participation rate and/or an extended working week for employees is essential. It is making sure the longer hours worked are more productive that America excels at.

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[272] The Age of Diminished Expectations, Paul Krugman, 1994
[273] Bureau of Labor Statistics, Division of International Labor Comparisons, *International Comparisons of GDP per capita and per hour, 1960-2010*, 15 August 2011
[274] Atlantic Monthly, *The only advanced country without a national vacation policy? It's the US*, Derek Thompson, 2 July 2012
[275] OECD, *Average Annual Hours Actually Worked Per Hour*

Productivity enhancements are the output of business investment. Research for the Federal Reserve Bank of St Louis indicates that in the 1990's "*lower prices for information and communications technology (ICT) equipment plus new related business practices have boosted the economy's trend rate of productivity growth*."[276] An increase in the rate of decrease of semi conductor prices encouraged more firms particularly in the service sector to introduce ICT and adapt their business practices. Between 1995 and 2000 the price of computers declined by 22 per cent per annum (on average).[277] According the IMF two thirds of the acceleration in productivity growth was related to the production and use of ICT.[278] UK government plans to introduce super fast broadband in cities and expand broadband to rural areas may incentivize further ICT investment which could prove beneficial.

Another component to productivity relates to labour market structure, in the United States it is both easier to hire and fire workers than it is in the EU. This motivates employees to work longer and more productively to retain their jobs, it allows employers to shed less productive workers increasing the average output and it has resulted in American unemployment rates on average being lower than in European countries such as France with higher worker protection. America's labour market is not without problems, Currently, America's labour participation rate has declined to the lowest level since 1981 as more Americans gave up looking for work.[279] American firms cut workers more aggressively during the downtown, the unemployment rate remains over 8 per cent and American wage growth has stagnated. By contrast in the 1990's America combined a productivity surge with a low level of employment, this suggests American productivity is not a contributory cause of current labour market problems.

Increased productivity results from capital deepening e.g. replacing labour with ICT and rearranging the interaction between capital and labour through different techniques to increase total factor productivity. Business practice reforms included organizing workers in self managed teams, introducing job rotation and meetings for production workers to discuss workplace issues. With business practices the diffusion of the activity rather than its presence mattered most. For instance, Professor Lisa M Lynch found that the number of production workers meeting to discuss workplace issues was more important than simply having the meetings. She identifies the factors that inhibit adoption of innovative practices as "*entrenched management, lack of knowledge of best practice, and certain groups of workers who might feel threatened by these practices such as*

[276] Federal Reserve Bank of St Louis Review, *The 1990's acceleration in labour productivity: Causes and Measurement*, Richard G Anderson and Kevin L Kliesen, May/June 2006
[277] IMF, *Finance and Development, Who has a new economy?* Paula de Masi, Marcello Estevao and Laura Kodres, Volume 38, Number 2, June 2001
[278] IMF, *Finance and Development, Who has a new economy?* Paula de Masi, Marcello Estevao and Laura Kodres, Volume 38, Number 2, June 2001
[279] Bloomberg BusinessWeek, *US Jobless Rate Drops For The Worst Of All Reasons*, Peter Coy, 7 September 2012

lower level managers and supervisors"[280] This experience matches that in Germany which has engaged manufacturing workers in designing mechanisms to adapt to economic downturns (see Germany section in this chapter).

Simplifying the tax system and protecting the tax base

America has not echoed the UK in lowering effective corporation tax rates preferring to reduce the headline rate of taxation by widening the tax base and eliminating deductions. This is because the US has a similar effective tax corporate rate to other advanced nations (a lower one than the UK) but due to loopholes has a narrower tax base and thereby a higher headline rate. One of these deductions relates to the costs of moving operations abroad which will no longer be a deductable expense against US tax. Instead companies will receive a twenty per cent income tax credit against the cost of re-shoring production in America. The US administration is also seeking to tax the 'excess' profits made by moving intangibles such as the profits from intellectual property overseas.

American policy does not echo the UK's commitment to free trade. The stimulus package contained significant 'Buy American' provisions and the 2012 State of the Union Address included a measure to impose a minimum tax on foreign earnings to incentivize domestic investment.[281] They oppose the move to "*a pure territorial system* [which] *could aggravate, rather than ameliorate, many of the problems in the current tax code. If foreign earnings of U.S. multinational corporations are not taxed at all, these firms would have even greater incentives to locate operations abroad or use accounting mechanisms to shift profits out of the United States*."[282] It is an explicit aim of the US administration to "*prevent companies from reaping the benefits of locating profits in low-tax countries*."

Is America developing a new industrial policy?

In *A strategy for economic growth: a modern industrial policy* and *Prosperity with Principles* David Green of Civitas outlines the key components of the US industrial policy. The American government has funded half or more of US R&D since World War 2. Since the 1950s the US Small Business Administration (SBA) has lent funds to 20 million American small businesses refused funding by commercial banks and "*between January 2009 and May 2011, more than $53 billion of government-guaranteed loans were issued to more than 11,300 SMEs.*"[283] The Small Business Jobs Act 2010 (SBJA) "*provisions included: an extension of the government-backed loans to*

[280] *Organizational innovation and US productivity*, Lisa M.Lynch, William L. Clayton Professor of International Economic Affairs, Fletcher School at Tufts University, 6 December 2007
[281] US Treasury, *The President's Framework for Business Tax Reform, A Joint Report by the White House and the Department of the Treasury*, February 2012
[282] US Treasury, *The President's Framework for Business Tax Reform, A Joint Report by the White House and the Department of the Treasury* , February 2012
[283] Civitas, *A strategy for economic growth: a modern industrial policy*, P11

SMEs administered through the Small Business Administration (SBA); a new fund to encourage small banks to lend to small businesses; an initiative to strengthen state-based programmes of lending, and significant tax reliefs."[284] The 2009 American Recovery and Reinvestment Act (ARRA) reduced the fees applicable to the borrowers of SBA-backed loans. Maximum loan values were also increased. "*By the end of 2010, the SBA had approved more than $10 billion in loan guarantees that would not have been possible without the introduction of the SBJA*."[285] The US Small Business Lending Fund seeks to increase lending to small firms by small banks, "*The fund encouraged small business lending via community banks through an interest rate incentive structure – the more that the institutions increased their small business lending, the lower the rate of interest they would have to pay on the funds received from the government*."[286] Interest rate ranges from one per cent to seven per cent depending on whether a bank increased lending by ten per cent or more on 2008 levels or did not increase it on 2008 levels. More than sixty per cent of participants increased their lending by ten per cent or more.

The US National Exports Initiative established in March 2010 aims to double US exports in five years. The Export Express Loan Programme has been extended so there are "*90 per cent Federal Government guarantees for an export loan of up to $350,000 and 75 per cent Government guarantees for an export loan of up to $500,000*" and the loan amounts under the Export Working Capital Programme and International Trade Loans have been increased to up to $5 million.[287] The US Export Import Bank is able to finance both the US firm and the foreign buyer and the aim is to double lending volume between 2009 and 2014. In contrast, the UK Export Enterprise Finance Guarantee began in April 2011. It provides export finance to firms which cannot obtain finance commercially but operates on a commercial basis because of EU State Aid rules. The borrower must pay a three per cent premium each year on the loan so the scheme is self financing. The UK National Loans Guarantee Scheme launched March 2012 does not guarantee loans against default. Each bank sets its own rate and any business in financial difficulty is excluded from the scheme. The UK Government abandoned lending targets for business in 2012 following the dismal results in 2011.

The US government has committed to using state procurement to back domestic producers, under the ARRA they committed "*to ensure 23 per cent of federal contracting dollars are awarded to SMEs*."[288] They exceeded this goal and by April 2011 32.6 per cent of Federal contracting went to SMEs. Buy American clauses require contractors that win state contracts to source all steel, iron and manufactured goods from the US. The UK target of 25 per cent of state procurement going to

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[284] Civitas, *A strategy for economic growth: a modern industrial policy*, P12
[285] Civitas, *A strategy for economic growth: a modern industrial policy*, P12
[286] Civitas, *A strategy for economic growth: a modern industrial policy*, P14
[287] Civitas, *A strategy for economic growth: a modern industrial policy*, P15
[288] Civitas, *A strategy for economic growth: A modern industrial policy*, P17

SMEs by March 2012 was not achieved (it was 13.7 per cent) and EU procurement policies prevent the government favouring domestic firms. In the US the maximum time to pay contractors has been reduced from within 30 days to within 20 days, a portal with contracting opportunities has been set up and a taskforce to work with government department teams formed to make them understand the importance of procuring from SMEs. The US State Small Business Credit Initiative introduced in SBJA provides $1.5 billion to state programmes that leverage private lending to assist private business provided there is a payout of $10 for every $1 provided by the scheme and is set to be in place for seven years. The US Small Business Lending Enhancement Act has increased the amount of their assets credit unions can lend out from 12.5 per cent to 27.5 per cent.

US manufacturing has fallen from 27 per cent of GDP in 1957 to 12.8 per cent in 2010[289] The Manufacturing Framework outlined by President Obama stated "*we are unlikely to be able, nor should we aspire, to compete for all manufacturing jobs worldwide. Manufacturing activities that are likely to remain highly labor intensive, or that require proximity to raw materials not found here, are unlikely to be good candidates for being made in America*."[290] They also recognize that the government has "*a poor track record in picking winners and losers*." Nevertheless the US administration makes the case for government interventionism. They argue that "*the private sector often under-invests in the most basic research since it cannot capture all the benefits from such research*" and "*coordination failures exist in which no individual makes an investment because it will not be profitable unless a number of others make similar investments*" and "*inventions from the telegraph to the jet engine, the microwave oven and the Internet did not happen simply because of private sector incentives.*"[291] The administration seeks to increase the proportion of US GDP invested in R&D with increased science budgets, prizes for meeting key aims including for making an electric car battery meeting certain standards, a reverse auction among private companies to produce a specified quantity of electric car batteries to be sold on the private market and strengthened protection for the intellectual property of US companies. Taken together these measures indicate the US government's willingness to micromanage R&D expenditure to achieve state goals and intervene to protect key sectors.

Private sector deleveraging

The McKinsey Global Institute has found that post 2008 all categories of US private sector debt have fallen as a percentage of GDP. Financial debt is at the level of 2000. It has fallen almost a quarter ($1.9 trillion) to $6.1 trillion. "*Nearly $1 trillion of this decline can be attributed to the collapse of Lehman Brothers, JP Morgan Chase's purchase of Bear Stearns, and the Bank of*

[289] American Enterprise Institute, *A US manufacturing strategy: Not an industrial policy*, Mark J Perry and Thomas A.Hemphill, 1 May 2012
[290] Executive Office of the President, *A Framework for Revitalising American Manufacturing*, December 2009, P4
[291] Executive Office of the President, *A Framework for Revitalising American Manufacturing*, December 2009, P15

America-Merrill Lynch merger."[292] Meanwhile "*US households have reduced their debt relative to disposable income by 15 percentage points, more than in any other country; at this rate, they could reach sustainable debt levels in two years or so*."[293] This deleveraging has happened through a combination of defaults (two thirds), foreclosures and debt restructuring. In January 2012 $254 billion of troubled mortgages were in the foreclosure pipeline which suggests that debt levels may have dropped by a further few percentage points since these figures were compiled. At the existing rate of debt reduction US households would return to the pre bubble ratio of debt to disposable income in mid-2013.

In contrast, UK the total amount of household debt has increased since 2008; the ratio of debt to disposable income has decreased from 156 per cent of GDP to 146 per cent of GDP from 2008 to mid 2011. This debt is not in fixed rate long term arrangements, "*two-thirds of UK mortgages have floating interest rates, which may create distress if interest rates rise—particularly since UK household debt service payments are already one-third higher than in the United States*."[294] The difference between the UK and the US "*can be attributed in part to the relatively small number of troubled mortgages that have progressed to Foreclosure*."[295] At the current pace "*the ratio of UK household debt to disposable income would not return to its pre-bubble trend for up to a decade*."[296] Bank deleveraging in the UK, as in Europe, is a product of the higher capital requirements required by legislators. Two thirds of European banks rated capital requirements as "*important*" or "*extremely important*" in their plans to divest or deleverage in the Deloitte Bank Survey 2012 making it the number one cited factor, an increase in risk aversion ranked only ninth.[297] UK deleveraging will happen slower as "*with run-off the dominant strategy, the duration of deleveraging should be correlated with the life of assets being run off*."[298] The UK will take time to run-off the zombie banks and distressed households and this is holding back economic growth.

The composition of private sector debt in the UK and US differ, the debt of financial institutions is the biggest component in the UK while in the US it is household debt. America can rely on the increasing rate of household formation to work off the excess housing inventory. In contrast "*The United Kingdom is in a very different—and more fortunate—position. It has too few houses, particularly in the Southeast, which has experienced the strongest economic growth. For decades,*

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[292] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P18
[293] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P1
[294] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P5
[295] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P24
[296] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P6
[297] Deloitte, *The Deloitte Bank Survey 2012, Capital gain, asset loss: European bank deleveraging*, October 2012, P3
[298] Deloitte, *The Deloitte Bank Survey 2012, Capital gain, asset loss: European bank deleveraging*, October 2012, P2

UK housing investment has lagged far behind rates in other developed countries, at just 3.5 percent of GDP, compared with 6 percent in France and Germany and as much as 12 percent in Spain."[299] The UK needs to build more houses but increasing supply faster than demand to lower housing costs will also reduce house prices and thereby could put more households into negative equity. Britain needs a solution which allows UK households to deleverage and housing costs to decline, a difficult mix to achieve.

Banks are less central to distributing credit within the economy in the US with capital markets playing a more important role than they do in the UK. The government is a more activist player in mortgage finance as "*U.S. banks provide less than 30% of U.S. mortgage funding and 30% of corporate funding*."[300] US banks are also more reliant on deposits (as opposed to wholesale markets) than European countries, "*the U.S. market has a loan to deposit ratio of 78% compared to more than 110% in Europe. European banks have a total funding gap of $1.3 trillion ($1.72 trillion) which they need to finance in wholesale markets*."[301] American banks have been better able to divest themselves of mortgage debt, especially through the Troubled Asset Relief Programme, "*European banks keep mortgage exposures in their balance sheets, as opposed to US banks, which can securitize and easily divest their mortgage portfolio, primarily via the Government Sponsored Entities (GSEs)*."[302] A more diversified financial market means bank deleveraging is less harmful (not not harmful) to business lending.

Up to 35 per cent of US mortgage defaults were the decision of borrowers based on being in negative equity or with a mortgage in excess of the properties value. Eleven of the US states have non recourse loans including Arizona and California, lenders can't pursue the other assets and income of borrowers that default. It is important not to overstate the amount of deleveraging that has occurred in the United States. The IMF report that "*The program [HARP] has generated about 1 million refinancings since April 2009; but an estimated 8 million homeowners in the United States still have underwater mortgages (the market value of the property is less than the outstanding loan balance) at above-market interest rates*."[303] This also creates a significant moral hazard and greater costs for more prudent households. But this is still greater than the deleveraging in the UK and proposals to further increase access to the federal programmes which made it possible are before Congress.

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[299] McKinsey Global Institute, *Debt and deleveraging uneven progress on the path to growth*, Charles Roxburgh, Susan Lund, Toos Daruvala, James Manyika, Richard Dobbs, Ramon Forn, Karen Croxson, January 2012, P39
[300] The Wall Street Journal, *Why Europe's Banks Trail in Deleveraging Process*, March 2012
[301] The Wall Street Journal, *Why Europe's Banks Trail in Deleveraging Process*, March 2012
[302] European Banking Authority, *Supervisory Policies and Bank Deleveraging: A European Perspective*, Andrea Enria, Chairperson European Banking Authority, 11 April 2012, P4
[303] World Economic and Financial Surveys, *Global Financial Stability Report, The Quest for Lasting Stability*, April 2012, P75

Creating a more diversified market for credit distribution involving government sponsored bodies and being willing to acknowledge and write down mortgages that exceed the house value have achieved a more rapid deleveraging in the US. This would suggest a strategy of persuading banks to write down non performing loans rather than requiring them to increase capital requirements.

(ii) Germany – Supporting manufacturer, nurturing a domestic supply chain of small businesses and a relentless focus on exports

Ha Joon Chang, noted economist remarks the British attitude to industrial policy is "*No industrial policy please, we're British*."[304] Germany has adopted a different approach and retains a strong manufacturing sector, a positive balance of trade and after a 4.7 per cent reversal in 2009 posted a 3.7 per cent GDP growth rate in 2010. Despite some problems the German model has some enduring strengths which are worth exploring. This section explores how German policymakers have ensured German manufacturing has remained competitive through analyzing their labour market reforms and industrial policy.

Keeping labour costs low and adopt a long term

In 1999 Germany was declared the '*sick man of Europe*' by the Economist magazine.[305] They stated "*the biggest economic problem for Europe today is how to revive the German economy*."[306] Unemployment was at 4 million, 10.7 per cent of the workforce. Non wage labour costs amounted to 42 per cent of the cost of wages in 1998. The cost of employing German workers was fifty per cent above that of any other G7 country. From 1991 to 2003 the German economy grew by 18 per cent compared to 35 per cent for the UK.[307] This the magazine attributed to "*a byzantine and inefficient tax system, a bloated welfare system and excessive labour costs*."[308]

In 2010 the Economist declared Germany '*Europe's engine*' and noted that "*despite the recession, unemployment is lower than it was five years ago*." During this decade "*unit labour costs fell by an annual average of 1.4% in 2000-08 in Germany, compared with a decline of 0.7% in America and rises of 0.8% and 0.9% in France and Britain respectively*."[309] German has maintained its position in manufacturing which generates 26 per cent of GDP. Germany's trade surplus reached 120 billion Euros. These are the fruits of Agenda 2010 Gerhard Schroeder's plan to hold down labour costs and reform the welfare state. The success of the German economy has been praised by both the Tax Payers' Alliance and the Trades Union Congress.

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[304] The Guardian, *'No industrial policy we're British is out of date,'* Ha-Joon Chang, 12 September 2012
[305] The Economist, *The sick man of the euro*, June 3rd 1999
[306] The Economist, *The sick man of the euro*, June 3rd 1999
[307] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006
[308] The Economist, *The sick man of the euro*, June 3rd 1999
[309] The Economist, *Europe's engine: Why Germany needs to change, both for its own sake and for others*, 11 March 2010.

The Institute for the Study of Labor in Bonn published *Before and after the Hartz Reforms: the Performance of Active Labour Market Policy in Germany*. In 2002 the German government "*took advantage of a scandal involving the federal employment office to overcome the so called reform logjam ('Reformstau') and start a series of rather radical – given the prior reluctance – policy changes*."[310] The Hartz reforms were instituted between 2003 and 2005 and consist of four laws Hartz I-IV. The Government "*explicitly tied the implementation of the Hartz laws to an evaluation mandate*."[311] This involved research institutes being employed to discern the impacts of the reforms both individually and collectively, "*more than 20 economic and sociological research institutes with about 100 Researchers*" were involved in the evaluation.[312] This is very different to the UK Plan for Growth which has set broad undemanding targets to be assessed by the government that made them.

Before the Hartz reforms "*the German benefit system combined generous benefit levels with high benefit reduction rates that taxed away most of the additional earned income of a benefit recipient. Thus, incentives to take up a job were very low, especially for low skilled workers*."[313] The "*sanctions for low engagement in job search activities were rarely implemented,*" unemployment benefit payments were of "*unlimited duration*" and they were a fixed percentage of final salary "*to maintain the worker's social status during unemployment rather than providing a safety net of last resort*."[314] In response the government set up the "Commission for Modern Labour Market Services" which recommended a series of reforms dubbed the Hartz reforms after the Commission Chairman.

Employment offices were reorganized to offer more services including administering benefit payments, provision of social services and advice and counseling. Vouchers were introduced for placement services, which the client could take to a private provider if not placed within six weeks of unemployment. Every local employment office from 2003 set up a staff service agency. This agency could lend the worker temporarily to a firm or give them a permanent placement. Statutory regulation of eligibility conditions was reduced to give employment offices more flexibility to target assistance packages such as training. An interview takes place in which the client will be assessed and put in one of four categories determining the level of support needed. Clients could only be sent to participate in a training programme if they had a 70 per cent probability of finding a job

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[310] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P2
[311] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P2
[312] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P9
[313] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P6
[314] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P6 and 4

after the measure and training providers had to guarantee a 70 per cent success rate of finding clients work to qualify to participate. Public employment work creation schemes were reserved to the claimants judged least likely to obtain private sector employment and those entering public employment were not eligible for full unemployment benefits after the placement. Programmes are geared to linking clients with the job market rather than "*training measures and public job creation schemes that keep participants out of the market for the duration of the programme*."[315]

Welfare benefit provision was changed from being solely based on contributions made to being linked to a person's ability to work 15 hours per week or more. Contributors receive a benefit type 1 linked to their former salary for six to twelve months followed by means tested benefits thereafter. Those who have not contributed are put on means tested benefits immediately. Jobseekers were required to accept any offer of suitable work and this included moving to a different city to obtain work. The Hartz reform abolished restrictions on "*synchronisation, re-assignment, fixed-term contracts and the maximum duration of temporary employment*."[316] Exemptions from dismissal protection were extended from firms employing less than five people to firms employing less than ten. Exemptions from restrictions on fixed term contracts previously applied to workers over 58, this was lowered to 52 so the contracts could be renewed repeatedly.

Wage subsidies were paid to firms to hire hard to place workers particularly older and disabled workers. These integration subsidies are not to exceed fifty per cent of remuneration and can last between 6 and 24 months depending on the group. Subsidies don't apply if the employer dismissed a worker to employ a subsidized worker or if the subsidized worker worked for the employer in the previous four years. Minijobs and Midijobs were created which have wages below 400 Euro and 800 Euro respectively. On the former no social security contributions are made. On the latter contributions are made on a sliding rate with employees earning 400 Euro paying no social security contributions and people on 800 Euro paying full contributions. "*The results show that the introduction of reduced social security subsidies for Midijobs caused a significant increase of about 125,000 in the number of employees in this income range, while the Minijob reform caused a huge expansion of employment in this earnings segment (+ 1.8 million Minijobs due to the reform)*."[317] Start-up subsidies were also offered to unemployed people wanting to found their own companies.

Also important were German tax reforms. There was a shift from taxes on labour income to taxes on consumption. "*The decision by the Schroder Government in Germany to raise Value Added*

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[315] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P11
[316] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P13
[317] Institute for the study of Labor, Bonn, *Before and After the Hartz Reforms: The Performance of Active Labour Market Policy in Germany*, 2006, P22

Tax in order to reduce social overhead costs – equivalent to Employers' National Insurance contributions – appears to have led to a noticeable reduction in German unemployment, in conjunction with the phased Hartz reforms to unemployment benefits from 2002 onwards."[318] Incentives to work were increased by a 25 per cent reduction in the basic rate of income tax. The TPA also attributes German economic success to controlling public spending to the point where Britain has "*had a higher spending ratio than Germany since 2007, before the global financial crash*."[319]

Trades Union Congress (TUC):

In *German lessons: Developing industrial policy in the UK* the TUC argues for a British Industrial Strategy. They desire the development of a UK social market economy similar to the German social market economy. This would involve targeting specific high value, high skill sectors to cement UK comparative advantage. An expansion of apprenticeships and measures to increase the esteem the public has for vocational qualifications, the development of small and medium sized enterprises as central to manufacturing similar to the Mittelstand in Germany and "a *procurement policy* [government] *guided by the principle that every pound of taxpayers' money should contribute to jobs, skills or the strength of the British economy*."[320] The benefits of the German model are "*high investment, a long-termist culture, a recognition of the value of professionalism, and an industrial relations system that allows for difference, but promotes consensus*."[321] Each of these polices seem reasonable.

Past UK efforts at industrial policy are explored in the paper. The Industrial Reorganisation Committee established by the Labour government in 1966 provided finance to encourage firms to merge forming bigger British companies thought to be better able to compete such as British Leyland. This was followed by the Industry Act of 1975 which nationalized some of the merged and failing British companies without increasing their productivity, which the report refers to as "*the failed industry policies of the 1970's*."[322] The rebirth of industrial policy under Peter Mandelson in the "*New Industry New Jobs*" approach in the last years of the Labour government was matched with a mere £950 million of public investment. UK industrial policy seems scared by an opportunist approach geared to subsidizing powerful lobby groups and hampered by poor management and industrial relations but as the TUC demonstrate it does not have to be this way.

The German model facilities more investment in R&D. Germany spends 2.6 per cent of its GDP on R&D and plans to increase this to 3 per cent by 2015. A dual vocational training system exists

[318] TPA Tax Commission 2020 Report, P190
[319] TPA Tax Commission 2020 Report, P35
[320] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P9
[321] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P25
[322] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P22

where all German pupils can access vocational training after compulsory education. This includes placement in a company and courses at the vocational training school. Over 40 per cent of German pupils engage in this training which leads to recognized qualifications compared to 6 per cent of UK 16-18 year olds undertaking courses which lasted on average one year in 2010. Trade Unions are given a position on management boards which enable them to achieve consensus with the management on the future direction of the company. German Works Councils negotiate deals with management and then workers comply with the terms whereas in the UK trade union agreements are approved through a ballot of members.

The previous Labour government rebuffed TUC lobbying for the UK to adopt the German short-time work initiative which encouraged employers to reduce worker hours without sacking employees with the government making up the difference with benefits.[323] In May 2009 1.5 million German workers were subject to the scheme. Bentley introduced a novel twist on this policy operating a time banking system where workers are paid during down periods the same as usual but can enjoy leisure periods on the understanding they will need to work unpaid overtime when demand picks up and this will be debited from the hours logged during the period they were on down time.

The UK government does not have to pick winners as much as identify the trends that will determine future demand. Green growth is clearly one area the government has singled out for investment. Developing a long term plan of the sectors Britain wishes to lead on will give firms the confidence to invest. The TUC call for a strategic investment bank which will take ownership stakes in the firms it supports. There is too big a divide between the multi national companies and small firms in the UK. We lack a Mittelstand of medium sized enterprises that can act as suppliers to the larger firms and support employment in the UK. The German Mittelstand is supported by more powerful local government and a more diversified financial sector able to finance small businesses to grow into medium sized enterprises. The German government is willing to provide subsidies to support this sector in difficult times such as the short time work initiative.

The TUC recognize the value some foreign companies provide but also say "*Whether we like it or not, there is political pressure on companies to create jobs and wealth in their home countries*."[324] UK firms are at a greater risk of cut backs in difficult times if they are owned by foreign companies as the pressure is to shift work to the home base. The government must reserve the right to step in to preserve the UK's strategic interests in key sectors as required. Government does not do enough to support UK business. The TUC report "*other countries push procurement law to the limit, whereas the UK tends to assume that certain procurement practices would fall foul of the law, so*

[323] Der Spiegel, *'We need to learn from Germany' How the German economy became a model*, Thomas Shulz, 21/03/2012
[324] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P83

they never check."[325] Consequently other nations are more effective at getting local content stipulations into contracts and awarding contracts to native suppliers. The guiding principle behind procurement policy should be developing the high skilled economy Britain seeks what this means in practice the TUC want a dialogue with the government about.

Unfortunately the paper also includes a list of policies geared to empower the trade union movement specifically. These include the placement of trade union representatives on management boards, the restoration of collective bargaining and the provision for a high minimum wage. The opposition to privatization seems more ideological than based on factual analysis of investment and productivity. The recommendation of a standardized apprenticeship quality standard has some merit but it is also a powerful means of erecting barriers to entry which could force up labour costs. It is understandable the TUC would recommend these policies but they don't appear to link to the growth agenda. In particular, the paper itself recognizes that "*Germany's trade surplus has been achieved at least in part on the back of wage depression to subdue domestic demand, which is not a model we advocate that the UK should follow*."[326] The TUC support their partner in production of this paper IG Metalls' call for Germany to introduce a minimum wage, while helpful in making UK exports more competitive, highlights the fact that Germany does not have one, a key economic difference. We must be careful not to assume that because of Germany's recent economic success she is without problems. Germany had a Mittelstand and trade unions on management boards in 2000 when the German economy was dubbed the sick man of Europe. Reducing labour costs and reorientating trade towards emerging economies may be bigger factors in their success retaining a large manufacturing sector.

As the CBI recognize "*In the short to medium term, it would be unrealistic to expect the UK to compete like-for-like: Germany's mixture of a strong skills base, high productivity levels and lower unit labour costs currently outstrips the UK's capabilities in this area*."[327] However, "*with a steady expansion rate of both high-growth and slow-growing firms, more akin to mid-sized business growth in Germany, the additional value to the* [UK] *economy could be £20bn by 2020*."[328] Had Britain reorientated its trade towards high growth economies with the same success as Germany did between 2000 and 2010 goods exports would be 10 per cent higher according to the Ernst & Young ITEM Club.

[325] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P89
[326] Trades Union Congress, *German Lessons: developing industrial policy in the UK*, P10
[327] CBI, *Winning Overseas: Boosting business export performance*, P16
[328] CBI, *Financing for growth: Refocused finance for a rebalanced economy*, July 2012, P17

(iii) Israel - Nurturing start up businesses in an innovation economy

The Israeli economy grew by almost 5 per cent in both 2010 and 2011 and output fell for only two quarters in the whole recession.[329] Unemployment is below pre crisis levels at a historic low of 5.5 per cent. A budget expenditure rule is set to reduce public debt from 75 per cent of GDP to 50 per cent. Israel has the highest density of start ups in the world at 3850, one for every 1844 Israelis. There are more Israeli listed companies on NASDAQ than there are companies from all of Europe. In 2008 Venture Capital investments in Israel per capita were 2.5 times greater than the US and 30 times greater than Europe.[330] These successes occurred despite conflicts externally with Lebanon, internally with the Palestinians and an external trade boycott by surrounding Arab states which extends to non Arab companies which trade with Israel and those which trade with companies trading with Israel.

Immigration:

The UK government promises to reduce immigration but Israel has taken a different path. The Israeli population has increased ninefold over sixty years. From 1990 to 2000 this immigration included 800,000 highly educated Russian immigrants entering Israel under the law of return. It is worth noting that the right to immigrate to Israel is still heavily restricted and these immigrants were entering under a 'right to return' extended to Jews alone. The authors of *Start up Nation: the Story of Israel's Economic Miracle* explain how this demographic diversity encourages risk taking and innovation while the constant external threat encourages cooperation. Alex Vieux, CEO of Red Herring magazine is cited in *Start Up Nation* as saying he has been to "*a million high-tech conferences, on multiple continents…the others are always making a pitch for their specific company. The Israelis are always making a pitch for Israel.*"[331] Clearly the UK government would not want to stimulate an external threat to promote internal cohesion but they need to explore ways of creating a collegiate feel to trade missions where larger companies promote their UK suppliers abroad too. The business coaching services they are creating are a natural forum to experiment with this.

Creating a financial sector to fund small start ups from scratch

Israel lacked a financial sector capable of providing sufficient funds to invest in R&D to provide the high value add and high wage jobs the new Russian immigrants required. The government believed they would need to create 500,000 jobs to absorb them. In 1991 the government created twenty four technology incubators and funded hundreds of companies with payments up to $300,000.

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[329] IMF, *Concluding Statement of the 2012 Article IV Consultation Mission to Israel*, February 13, 2012
[330] Start-up Nation: The story of Israel's Economic Miracle, By Dan Senor & Saul Singer, P11
[331] Start-up Nation: The story of Israel's Economic Miracle, By Dan Senor & Saul Singer, P66

Reviews of the grants found that the "*success of these small companies, it was disappointing*."[332] Undeterred in 1993 the government created Yozma, a £100 million state owned venture capital fund and $20 million to invest in technology companies. Each fund had to have three represented parties; Israeli venture capitalists in training, a foreign venture capital firm and an Israeli bank or investment company. Initially the funds offered a 1 to 1.5 match so if a company could raise $12 million they would be given $8million. Due to high demand this was later raised to $16 million needing to be raised by a company to receive $8 million from the fund. Government would retain a 40 per cent equity stake in the fund but would offer the private partners the option to cheaply buy out the stake plus interest after five years if the fund was successful. Government shared the risk but offered the private firms the reward. The government privatized Yozma in 1998 because the market was up and running.[333] Today the funds manage $3 billion of capital. Israel launched a targeted programme to meet a specific identified problem with the Israeli economy and ended government involvement when the aim was met.

The UK has a problem directing sufficient finance to small and medium sized enterprises as recognized by the government and most of the think tanks here considered. A Yozma style programme should not be unthinkable. Those who would argue EU law may prevent this in the UK need to consider that in December 2008 Ireland launched a 500 million EURO 'innovation fund' to attract funding from foreign venture capitalists which finances a series of state venture capital funds that partner with private bodies. Other EU members have taken similar actions.

An enduring government commitment to innovation

Israeli innovation policy is made by the Office of the Chief Scientist (OCS) in the Ministry of Industry and Trade and the government continues to fund R&D programmes. There are three main programmes. The magnet programme which provides grants of between 66 per cent and 90 per cent of the project costs to fund consortia of academics and industrial groups to perform generic research. The incubator programme which funds start ups that have been accepted by an incubator (usually a private firm) up to 85 per cent of the cost of the company's first two years, or three years in the case of Life Sciences. The R&D fund which pays grants to firms in all sectors of 25 to 50 per cent of the cost of an innovation project provided firms pay royalties if the scheme is a success. These royalties can be waived by the OCS to encourage investment in deprived areas. Income from royalties amounted to a quarter of OCS funds in 2010. The OCS grants are extended on the basis of innovation criteria and not to benefit specific themes or industries. Innovation in Israel is 80 per cent funded by the private sector.

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[332] Start-up Nation: The story of Israel's Economic Miracle, By Dan Senor & Saul Singer, Chief Scientist Elrich, P165
[333]The Atlantic, *It's not (just) the culture, stupid: 4 reasons why Israel's economy is so strong*, Jordan Weissman, 2 August 2012

The success rate of OCS grants while monitored is not published. However, an Applied Economics study points to the success of the programme. "*The paper found that the rate of additionality was 1.28, meaning that for every €1m in government support private industry invested €1.28m that would not have been invested without the government grants. In measuring spill over effects the study found that every €1m created between €4-5m in economic activity*."[334] Innovation support budgets offer a valuable cushion when the economy suffers an external shock. In 2010 innovation support funds were 70 per cent higher than in 2007 due to temporary measures designed to avert a collapse in R&D expenditure. This funding has since fallen back from 435 million EURO in 2010 to 398 million EURO in 2011 indicating the funding surge was a temporary aid not a long term crutch. Israel seems to be able to provide targeted support to innovators in times of dire need without building a permanent client base of special interest groups.

A light touch industrial policy

Start up nation features the story of Shai Agassi a top executive who has developed a plan to take Israel off oil. Electric cars are expensive because the batteries are expensive, Agassi started Better Place which operates a service where consumer's sign up to a plan where they can receive the car battery for free provided they pay per mile driven. It operates similar to a mobile phone contract where people receive the phone for 'free' but pay for it through the tariff they pay each month. Israel's small size meant a limited number of battery swap stations would need to be built by Better Place in the initial stage.

He was backed by former Israeli Prime Minister Shimon Peres who organized fifty meetings with Israeli's top industry and government leaders. Then Prime Minister Ehud Olmert agreed to sign up if a top five auto maker would participate. Renault Nissan agreed to participate and produce 100,000 cars a year. Mr Agassi needed to secure $200 million to develop a smart grid by turning half a million parking spaces into charging spots and building swap stations which needed to be up before the cars were sold. These kind of informal business and political links are difficult to replicate and often criticized in the UK where they are viewed with suspicion (often correctly).

UK efforts to promote targeted sectors of the economy including green energy and life sciences should beware Israeli competition. The Israeli life sciences sector recently saw the launch of a 120million EURO Orbimed Israeli Life Sciences Venture Capital Fund. The Israeli government is a limited partner with 28 million EURO invested. This is the first time the Israeli government has entered the Venture Capital Trust sphere since the Yozma programme in the early 1990's. They have also created an alternative energy R&D centre in southern Israel near Eilat.[335] Israel has

[334] Mini country report – *Israel - Thematic Report 2011 under Specific Contract for the Integration of INNO Policy TrendChart with ERAWATCH (2011-2012)*, December 2011, P6
[335] Mini country report – *Israel - Thematic Report 2011 under Specific Contract for the Integration of INNO Policy*

similar problems to the UK on some indicators. It has less success at transitioning Israeli start ups to become Israeli global companies without prior sale to a foreign purchaser. It is divided between a strong core and a more deprived periphery. It is seeking to spread the success of the ICT sector to peripheral areas and traditional industries aware of the concentration of the sector in a few centers such as Tel Aviv.

Non hierarchical culture but acceptance of elitism in education

Israelis are thought to have a quality called chutzpah or gal, they "*learn that assertiveness is the norm, reticence something that risks your being left behind*." The culture rewards people thinking intelligently regardless of the ultimate success of the endeavor which encourages innovation. Israel is a militarized economy in which citizens are subject to conscription. Edward Luttwak highlights the fact the Israeli army has a ratio of senior officers to combat troops of 1-9 compared to 1-5 in the US army, this means "*there are fewer senior officers to issue commands" and allows "more initiative at the lower ranks*."[336] When Israel faced a challenge to it's non hierarchical culture in the perceived failings in the Lebanon war the response was "*not so much a call to tighten the ranks as it was to loosen them: to work harder at devolving authority and responsibility to lower levels and to do more to encourage junior officers to challenge their higher-ups*."[337] The Israeli economy integrates military and civilian life making use of the management training afforded young officers.

In contrast, in the UK members of the Territorial Army have problems finding and retaining employment and officers made redundant can have trouble convincing employers of the applicability of their skills in the civilian sphere. The UK has engaged in two major conflicts in the last decade and is currently embarking on a programme of defence cuts. Many experienced and able officers and men will be made redundant and there is no plan to integrate them into the civilian economy in appropriate positions.

The UK growth review highlights the poor view of vocational qualifications and manufacturing roles in the UK. In Israel the Talpoit programme has been running since 1973. The top 2 per cent of Israeli high school students are asked to try out for the programme, one in ten pass, they then are asked to undertake an accelerated university degree in maths or physics. These students are then exposed to different sections of the military and asked to "*find cross disciplinary solutions to specific military problems*" to maintain the technological advantage of the IDF. The Talpion title "*carries prestige in both military and civilian life*."[338] The programme has created 650 graduates in 30 years, many of which went on to become successful entrepreneurs. There is little reason why the UK could not replicate this programme to meet an identified UK strategic and technical aim as

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TrendChart with ERAWATCH (2011-2012), December 2011, P2

[336] Start-up Nation: The story of Israel's Economic Miracle, By Dan Senor & Saul Singer, Chief Scientist Elrich, P45

[337] Start-up Nation: The story of Israel's Economic Miracle, By Dan Senor & Saul Singer, Chief Scientist Elrich, P99

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part of the government's programme to increase the publics' perception of the attractiveness of engineering and manufacturing.

Section Four: What we must do

The UK government needs to afford a greater priority to policies which aid UK economic growth. Dealing with the deficit alone is a necessary but not sufficient condition to produce balanced UK economic growth. The British government needs to put the British people first.

Eliminating the UK diplomatic support for LDC's trade protectionism against UK goods would be a good first step. Pressuring the EU, or if we leave the EU adopting a UK policy, to grant foreign nations access to the EU/UK market only on a reciprocal basis is also important. The prioritization of 'green energy' which makes UK exports uncompetitive, the higher capital requirements for UK banks (than their European peers) and the continued enforcement of anti bribery laws which make it impossible for UK firms to effectively compete in highly corrupt emerging markets all need to end.

Questions need to be asked about the willingness of UK governments of all parties to pay individuals welfare benefits to do nothing rather than allow the existence of low paid jobs where workers produce something, even if of low value, especially in cases where workers are currently have low skill levels and are looking to develop them. An essential step to making this viable is to ensure restrictions on the immigration of additional low skilled labour from developing countries is reduced. By introducing a regionalized minimum wage or abolishing the provision and persuading UK corporations to invest their corporate cash holdings the government could more effectively rebalance the economy.

Shale gas is a huge potential growth industry and this resource is also present in regions of the economy which are more reliant on UK public expenditure and vulnerable to the government deficit reduction strategy. Oil imports amount to 8 per cent of our total imports and the UK fast needs to replace its existing energy infrastructure. Exploring the potential shale gas offers should be an immediate priority. Attempts to meet UK energy needs through expensive and impractical green technologies should be ended.

The UK lacks a banking system which can effectively support the development of a UK Mittelstand of SMEs. Using the funds used to establish the Green Investment Bank and funds raised from the sale of banking assets to establish a specific institution dedicated to this purpose would allow the UK government to separate supporting SME's from supporting the inefficient zombie state banks. The alternative would be to invest these funds into peer to peer lending sites explicitly set up to provide lending to SMEs such as Funding Circle. It would allow more honesty about the condition

of their loan books, a more rapid divestment of their assets and a more rapid sale of the slimmed down institutions.

Borrowing money and getting Britain deeper into debt to fund expenditure on aid payments to countries some of which have their own space, nuclear and foreign aid programmes makes no sense. International development aid should be eliminated, with funds for disaster relief and immunization programmes preserved. The money saved should be directed to fund the establishment of a British Infrastructure Bank. We need to rebuild Britain before we engage in philanthropy overseas. It is pathetic that the UK government will lobby foreign sovereign wealth funds to invest in UK infrastructure but is unwilling to create a UK based body with this aim.

The deficit reduction strategy should remain but the government should err on the side of more public expenditure reduction rather than less and reduce the government deficit faster. An Iranian oil shock caused by an Israeli or American strike on their nuclear facilities, or a Eurozone implosion are realistic possibilities and would definitely affect UK economic growth so having the extra flexibility that more rapid deficit reduction will provide would be welcome. Introducing spending targeting where each department agrees to spend no more than a specific figure each year will ensure UK deficit reduction targets are met on schedule.

National Insurance is a general tax on employment. The administration costs are not justified as there is no effective fund with all income being immediately lent to the Treasury. Merging income tax and employers and employee national insurance would be a very valuable measure to simplify taxation, reduce waste and increase the transparency of future tax policy, making increases less likely. The one-in-one-out rule and the temporary moratorium on regulation for small business is a symbol of what is wrong with the governments deregulation agenda. The objective should not be to preserve the existing level of regulation or to give certain types of firm a temporary respite but to decrease the overall level of regulation. The one-in-one-out rule should be replaced with a one-in-two-out rule with each Department required to make a statement before Parliament on progress in meeting this target with a system of fines applied for a failure to meet it. Currently the target is more an aspiration than a rule.

Britain needs a modern transport system that allows foreign businessmen and tourists to visit this country and invest to create the jobs we need and our citizens deserve to travel on modern and well maintained roads and railways. Heathrow expansion should be allowed and the government should work with private operators to increase the number of links to the developing world. If they cannot land here they will not invest here. High speed rail should be cancelled and the funds used to improve commuter lines into our major cities capping fare increases and providing better facilities for long suffering commuters. Our motorway network should be privatized and a toll system should be introduced. This should not be used to increases taxes on motorists but to make them more

transparent and effective. Road tax and fuel duty should be abolished to compensate motorists with oil distributers legally required to pass on the reductions.

Welfare reform needs to be extended. We need to do more to reduce the tax burden on low paid workers and reduce the subsidies paid to able bodied people on welfare. Introducing a triple lock in welfare with the government pledging to increase welfare payments to these individuals by the lowest of three indicators, 2.5 per cent, inflation or wage growth would help increase the incentive to work. Regionalising the national minimum wage will ensure that those with low skills or little experience will not be priced out of the jobs market. Restricting the number of low skilled workers that are allowed to work in Britain will give our native population more bargaining power to campaign for higher wages. It will require UK firms to invest in British or EU workers rather than relying on importing cheap labour from outside.

Unlike the US the UK suffers from a housing shortage and not a housing glut. Britons are marrying later if at all, splitting up and divorcing more frequently and living longer and immigration has increased our numbers both immediately and our population growth given the proportionately greater number of children born to immigrant mothers compared to those born to UK born mothers. We need more houses. The government should introduce cash incentives to households affected by development (not councils) to back construction, increase the thresholds those wishing to block planning applications must exceed and introduce reviews of the planning burdens imposed by each local authority with financial penalties for those which do not reduce regulatory costs.

Lastly, our relationship with the EU is holding this country back. Many of the policies suggested here may fall foul of the regulatory framework required by the EU. Gold plating of EU regulations is a uniquely British phenomenon. We need to negotiate a new relationship with our European partners to preserve our essential trading links but give the UK the freedom to determine its own domestic policy. If our EU partners are unwilling to make compromises the UK should be willing to leave the EU and be aggressive in expecting reciprocity in exchange for free access to the UK market.

Fifteen steps back to growth	
1	The UK should not exceed international regulatory standards unless the enhanced UK regulation can be shown to not damage UK economic growth. This rule should apply not merely to the scope of the regulation but also to whether competitor nations are effectively enforcing the rules they have signed up to. Areas requiring immediate reform include: • The Bribery Laws which should be amended to exclude application to countries not in the OECD.

	• Bank capital requirements which should be reduced to the internationally agreed standards to allow more lending. • The Carbon Price Floor which should not be introduced.
2	Cease UK diplomatic support for trade protectionism against UK goods by Less Developed Countries and push for full market access as a condition of opening the EU market to these countries.
3	Cease the subsidy for green industry and develop a comprehensive energy policy to exploit the UK potential in shale gas.
4	A British Business Bank should be launched using the funds from the Green Investment Bank, which should be abolished, and the sale of shares in UK state owned banks. This new entity should be given the explicit function of providing funds to small and medium sized enterprises denied access to private bank finance with private institutions being given the right of first refusal.
5	International development aid should be eliminated and the funds used to endow a UK infrastructure bank with a set charter instructing it to finance enhancements in UK road, rail and energy infrastructure.
6	Spending targeting should be adopted in addition to targets relating to the debt to GDP ratio and the elimination of the structural deficit to enhance the government's deficit cutting credentials and ensure the UK government deficit is reduced on schedule.
7	Merge Income Tax, Employers National Insurance and Employees National Insurance into a single tax rate for all workers under 65 before 2015 to simplify the personal taxation system.
8	The one-in-one-out rule should be increased to a one-in-two-out rule and extended to cover all UK regulation with no exemptions and enforcement of the rule by all departments should be subject to an annual statement before Parliament with a new system of fines being applied to departments which do not implement the policy in full.
9	End the opposition to Heathrow expansion, allow the construction of an additional runway and work with private operators to expand the number of flights to emerging markets arriving in London and the regional airports.
10	Cancel High Speed rail and divert a proportion of this funding to improve the existing rail commuter links into our major cities, widen platforms, increase the number of carriages and cap fare increases and a proportion to make up the funding for a UK infrastructure bank taken from the Green Investment Bank which itself was raised by the sale of High Speed rail licences.
11	Privatise the existing UK Motorway Network and introduce a toll based system combined with the elimination of fuel duty and road tax. Use the funds raised through privatization to further reduce UK indebtedness and the income raised from taxing the new private entity to allow for the

	maintenance of the local road network.
12	Introduce a triple lock for welfare payments pledging to increase them by the lower of three indicators, inflation, average earnings or 2.5 per cent until 2015 (excluding those on disability benefit). Earmark any savings to reduce the basic rate of income tax to increase work incentives for poorer citizens.
13	Regionalise the national minimum wage to ensure the incentive to work is maintained in areas where private sector wages are low and match this with full implementation of the governments cap on immigration into the UK to reduce the competition these low wage workers face.
14	Reform the planning system to provide cash incentives to households affected by development to back construction, increase the thresholds those wishing to block planning applications must exceed and introduce reviews of the planning burdens imposed by each local authority with financial penalties for those which do not reduce regulatory costs.
15	Review the UK's association with the European Union and negotiate the repatriation of powers to decide UK employment and social policies or withdraw from the EU.

Conclusion

In surveying the proposals made by the government we saw how they were not fit to meet the major structural problems with the UK economy. The proposals made by the various think tanks suggested a way out of our malaise and the three countries profiled showed how other governments are leading their people back to growth. UK deficit reduction is essential and the government call on this was absolutely correct but it is not enough. We need a growth policy, an approach that puts British citizens first and develops policies that will put them back to work. I believe these recommendations will achieve that objective, which should be the main concern of the UK government.

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