



MANUFACTURING REVOLUTION NEEDED FOR STRONGER ECONOMY

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A huge increase in exports is needed to get British manufacturing back on its feet and move the economy away from a dangerous over-reliance on service industries, a detailed new report from the independent think tank ResPublica has found.

In **'Make or Break: Why Britain needs a manufacturing resurgence and how we can help it to take place'** ResPublica finds that for too long any inward investment has been regarded as essential to creating a strong economy. But unproductive investment such as foreign investment in the London property market proves that not all inward investment benefits the entire UK.

Foreigners buying UK property have driven the value of the pound up making life harder for manufacturers to export. At the same time, these foreign buyers have created very few jobs. This combination of factors has made their investments largely unproductive for the UK economy.

To improve the value of foreign investment to the UK economy ResPublica calls on the Government to distinguish between productive and unproductive investment and impose for example higher taxes on foreign property purchases. The report says foreign buyers are likely to own property in other parts of the world and should, therefore, be treated the same as British residents who buy second homes to rent out. All purchases by foreign buyers should be treated like Buy to Let purchases and incur the 3% Stamp Duty Land Tax (SDLT) surcharge. The report adds that on top of this levy a further 3% charge should be added onto foreigner property purchases for properties worth more than £2 million. (There is currently a blanket 12% Stamp Duty tax on all properties worth more than £1.5 million.) However, the report argues those foreign investors who invest the same amount as their property purchase in British Industry should be free of such purchases and for their contribution treated as if they were an UK citizen.

Director of ResPublica, Phillip Blond said: "For too long we have regarded all foreign investment as an unqualified good – but this is clearly not the case, foreign ownership of UK property for example has seen far too many Britons priced out of their own market. In addition, this is a poor use of foreign capital we need to direct these money to better ends."

"We need a re-think on the way taxes are levied to increase the take on unproductive overseas investments. At the same time there should be corresponding incentives to direct foreign capital into our exporting industries, which will in turn create jobs across the country."

Mr Blond added: "The international finance that flows into the UK at the moment generally services our current account deficit, rather than increasing productivity. That needs to change if we are to redress the economic balance."

The report highlights that while the British economy has returned to sustained growth, overall productivity growth – created by manufacturing - has declined by 0.8% per annum since the 2008 financial crisis and last year's trade deficit of £35.2 billion was a peacetime record.

To address this, the report has identified a need to devolve **more power to cities to let them support business through tax incentives, as well as creating "export hubs" in which expertise can be spread. The success of**

larger manufacturers such as Jaguar Land Rover, Nissan and Bombardier present the opportunity to build supply chains of British small and medium sized businesses and move away from the replication of low value industries.

Manufacturing accounts for 30% of the 8.7 million British jobs in sectors which produce goods for export and much of that is in the Northern Powerhouse region, where there is still a skills base available to create a manufacturing renaissance. The authors also found **putting downward pressure on the pound can help manufactures regain a foothold** in a marketplace where job losses have been caused by poor export conditions - such as Tata Steel. This can be achieved in part through the government, and the Governor of the Bank of England, prioritising the importance of exports in decreasing the national current account deficit.

Mr Blond added: “The recent collapse of the British steel industry has highlighted the worrying fact that our economy is over-reliant on services and external finance.

“Growth needs to come from the long-neglected manufacturing sector where exports have been hit by a strong pound. Sterling has a key role to play in helping exports and we need to address the problem of unfavourable exchange rates for British business.”

In giving more business power to cities, they can work together to encourage and incentivise international corporations and institutions to put their currency into specialised firms and projects, allowing them to compete with low wage economies and create jobs.

Report author Edward Douglas said: “With the decline in manufacturing we have seen regional imbalances grow and the economy as a whole suffer. In order for the whole country to prosper, we need a modern-day industrial sector to build us out of the financial woes of recent years.”

In the detailed report, the authors outline a number of significant measures which would help manufacturing exports rebuild the economy including:

*The Government placing new importance on the UK economy’s structure and publishing an annual report on competitiveness to help combat problems and areas of weakness.

*UK Export Finance, the UK’s export credit agency, should look at ways to help SMEs with exchange rate support. This would include help with contracts, finding good hedging advice and access to other privately-provided exchange rate services.

*Local authorities should use new business rate powers to offer discounts to manufacturing firms investing in new machinery or equipment.

Report authors say exports are the key for a stronger economy in Britain and conditions for SMEs to sell abroad need to be strengthened. An increase in manufacturing will help increase jobs and prosperity, but can only be achieved alongside better exchange rates for British business.

Backing the report Lord Bilimoria, Founder and Chairman of Cobra Beer, said: “ResPublica’s new report sends the strongly welcome message that manufacturing can tackle our low productivity, boost our export performance and secure economic growth around the country.

“Manufacturing is crucial to the British economy. My joint venture partner Molson Coors has recently invested £80 million in the biggest brewery in the country, in Burton-on-Trent, where we brew Cobra beer. This kind of investment will bring with it huge productivity gains and will make a really positive impact on the regional economy.

“But more needs to be done to build on the world class manufacturing capabilities and institutions we already have, and encourage more domestic and foreign investment in the productive capacity of the sector. That’s why

I urge the Government to give serious consideration to ResPublica's recommendations with regard to Britain's productivity."

Mark Field MP, former Shadow Financial Secretary to the Treasury and Chair of the APPG on Venture Capital and private Equity, said: "For too long, the UK political class has failed to grasp that much of our structural and current account deficit is funded by foreign direct investment. ResPublica's report could therefore not be timelier – and it gets to the heart of the issues we need to address if we want a balanced economy and sustained growth.

"The disposal of public and private assets to fund our current account deficit is not sustainable. ResPublica's welcome contribution to this critical economic debate sets out how a new focus from policy-makers on the nature of financial inflows can boost economic growth and rebalancing."

Anna Turley MP, Member for Redcar said: "The Government has failed to support the steel industry in Redcar with the loss of 3000 jobs – and it's time for an economic strategy equipped to prevent further industrial closures and support the growth of new manufacturing firms and jobs.

"This report looks at the key issues that we face – not just in manufacturing but in the economy as a whole. We have seen in Redcar how central manufacturing industries are not just to UK's current account but to the overall health and vibrancy of local communities.

"That's why I strongly support the recommendations in ResPublica's report. This is a crucial moment for British manufacturing and the steel industry – ResPublica have made a timely and welcome assessment of where we are and where we need to go."

RtHon Cheryl Gillan MP, Member for Chesham and Amersham and a former Secretary of State for Wales and former Conservative spokesperson for trade and industry, said: "Since 2010 the Conservatives have put the economy back in the right direction. But this report is a timely reminder of the work we still need to do to rebalance the economy, increase our exports and bring prosperity to all parts of Britain.

"I welcome ResPublica's report on examining ways in which to boost the economy in the long term by encouraging more investment in our manufacturing sector and improving the competitiveness of the sector globally.

"I hope colleagues will also welcome this thoughtful contribution to the national debate."

Nicholas Comfort, journalist and author of *The Slow Death of British Industry*, said: "I strongly welcome ResPublica's report that sets out a vision of how British manufacturing can flourish again. For too long the importance of sterling exchange rate to British manufacturing has been underappreciated and this report sets out to address this.

"It is a timely report on a fascinating topic. The steady decline of British manufacturing is one of the key factors hindering a balanced development of our economy.

"The British economy is skewed towards financial services and manufacturing companies are encouraged to sell themselves off rather than grow and reports like this are essential in highlighting this problem and suggesting ways to rebalance the UK economy."

Case Study: Sheffield Manufacturing District

Building on a historical manufacturing sector specialising in heavy steel, Sheffield City Region is working with a cluster of companies in the Sheffield-Rotherham corridor to develop an Innovation District model to boost economic growth and productivity. This place-based approach to the manufacturing ecosystem will focus on supporting existing businesses as well as growing and attracting new businesses.

With greater powers and control over strategic planning and business rate retention, Sheffield City Region can bring together essential infrastructure needs through investments in premises and transport as well as greater integration of existing business support and skills development.

Such a support system offers multiple benefits. Helping manufacturing SMEs and mid-sized firms to grow their exports holds out the possibility of a reduced current account deficit; strong employment growth; a solution to the UK's productivity puzzle; and substantial regional economic growth outside London and the South East.

Case study: Tata Steel

In October 2015 Tata, which owns the remnants of British Steel, announced its decision to stop production of steel plates resulting in huge job losses across Britain.

Although the dumping of steel onto European markets by subsidised Chinese producers has been cited as the trigger, the company has blamed the pound-euro exchange rate as a key factor behind the current crisis. With most of Tata's exports going to mainland Europe, the high value of sterling against the euro has led to a 20% loss of price competitiveness against Chinese steel – an effective export premium on British steel.

The inclusion of plant machinery in the UK business rates regime – which sets us apart from our European competitors – has also added to Tata's cost base. Moreover, investment can be penalised under the current system, with changes to plant size or machinery upgrades resulting in higher business rates.

Notes to the Editor:

1) *Make or Break: Why Britain needs a manufacturing resurgence and how we can help it to take place* is written by Phillip Blond and Edward Douglas.

2) The ResPublica Trust is an independent non-partisan think tank. Through research, policy innovation and programmes, ResPublica seeks to establish a new economic, social and cultural settlement. In order to heal the long-term rifts in this country ResPublica aims to combat the concentration of wealth and power by distributing ownership and agency to all, and by re-instilling culture and virtue across the economy and society.

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