

Liberal Democrats Policy Consultation

Sources of Sustainable Prosperity and Jobs

Consultation Paper 105



This consultation paper is presented as the first stage in the development of Party policy for sustainable prosperity and jobs. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside.

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Comments should reach us as soon as possible and in any event no later than 6th April 2012.

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Foreword

In the years since the financial crisis, the economy has consistently remained the dominant public policy concern.

This consultation explores how we can prosper once again whilst extending the opportunity of employment, and without bumping up against the constraints of labour productivity, financial capital and environmental limits.

We urgently require a stronger, more dynamic and more resilient economy that:

- Enables further wealth creation by businesses, so that we can raise living standards for all alongside an improved quality of life.
- Provides employment opportunities that let people realise their potential and recognise it – in so doing, giving them greater independence.
- Generates a robust tax base that supports our valued public services.

Liberal Democrats place sustainable development at the heart of our thinking, as affirmed at our conference last Autumn in the paper *'Facing the Future'*. Any concern for sustainable development should certainly start with the seminal 1987 Bruntland Report, which described it as:

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Despite much-vaunted claims of sustainable development and "an end to boom and bust", the last decade in fact saw continuing fossil fuel dependency, a credit-driven boom, followed by a financial crisis, leaving our economy propped up by levels of public borrowing which in Europe have proven to be impossibly large, and levels of unemployment that are an appalling waste. The Labour Government undeniably failed to deliver sustainable prosperity for the UK.

So: how can we in future secure for all parts of the UK sustainable prosperity and jobs?

We have identified seven key opportunities and challenges to frame our thinking: attracting inward investment, exporting to emerging markets, accessing finance for business, fostering innovation, developing relevant skills in our workforce, sustainably generating energy and drawing on resources, and rebuilding local economies. In this paper, we hope to have set out some of the critical questions, and look forward to hearing your suggestions.

This really is the big question being asked of politicians seeking to serve our country.

Let us now get the answer right.

Duncan Hames MP
Policy Working Group Chair

Attracting Inward Investment

1.0.1 Direct benefits of inward investment include jobs, raising wages, skills training, revenue for local supply chains and services. For the government it means tax revenues, unemployment reduction and by implication deficit reduction. Other 'spillover' benefits include competition improving efficiency and productivity thereby 'raising all boats'. In some analyses the UK is currently rated the best country in Europe for inward investment and second in the world with over \$1 trillion of foreign assets invested in the UK. We are particularly good at attracting investment from the USA, Japan and other EU countries. Much of this goes into IT, advanced engineering, life sciences and financial services, with a small but growing low carbon sector. We have more HQs of global companies in the UK than all other EU countries combined.

Question

1. What is existing Government policy doing to encourage this level of inward investment?

1.1 Drivers of Inward Investment

1.1.1 The drivers of inward investment are often said to include a stable macro-economic, political and regulatory climate, market access and open competition, manageable taxation, available and appropriate sites, infrastructure, skilled staff, suppliers, sector expertise, resources, education and research facilities and a good quality of life and incentive schemes.

Question

2. What would drive more inward investment? What are the current barriers to inward investment?

1.2 Current Government Policy

1.2.1 Targeted government policy includes identifying growth sectors of the future, international promotional campaigns, educating investors about the UK, legal advice, tax breaks, and subsidies. Government also targets its supports through vehicles like UK Trade & Investment (UKTI) and other agencies.

Question

3. Do our agencies and their activities represent good value for money? Do they need reform or refocusing?

Exporting To Emerging Markets

2.0.1 The UK continues to run a trade deficit. The EU accounts for 49% of the UK's exports and continues to play an extremely important role in our economic success. As a comparison, the UK currently exports \$11.2bn to China whereas Germany exports \$71.1bn to China.

2.0.2 The Government's target is that 25% of UK SMEs should be exporters, an increase of 5% from the current level.

Question

4. What impact will global trends in patterns of trade have on the UK? What are the emerging markets that should be targeted for increased UK exports?

2.1 Type of Exports

2.1.1 Business and professional services account for 14% of exports making this sector significant in its own right. Machinery and transport equipment is the single largest goods export sector, with 4 out of 5 cars manufactured in Britain being exported and accounting for around 36% of total manufactured goods. The car industry benefited from a deliberate strategy for inward investment in the 80s and our close ties with Europe strengthened this.

Question

5. What successes are other countries having in identifying areas of promising export potential and encourage them?

2.2 Current Government Policy

2.2.1 UK Trade and Investment (UKTI) employs 2,400 staff and has offices in 96 countries. Its remit is to provide businesses with help through trade fairs, trade missions and bespoke market research. It also offers UK companies training and specialist help and advice through regional trade teams.

Question

6. What are the benefits and drawbacks of UKTI? How can support for exporters be more effective? Should changes be made to the funding, structure, or operations of UKTI to achieve this?

Accessing Finance For Business

3.0.1 Small and micro businesses account for just under 50% of the jobs in the private sector in the UK, offering employment across a wide range of skills. Some will remain small but others are potentially the industry leaders of tomorrow. Access to financing, both debt and equity, is essential to their growth.

3.0.2 Similarly, medium and large businesses need to be able to fund working capital and expansion. Shortage of finance in these businesses can hold them back or even lead to their failure.

3.0.3 There has been significant consolidation in the banking sector over the last decade. As a result the main infrastructure for credit financing is currently “mega-banks”. There are few new entrants to the market.

Questions

7. Does any particular size of business or sector find it harder to access finance? Would this change if financing were more prevalent through smaller or sector focussed lenders? Would banks in other countries take a different approach?

8. What are the implications of the new non-bank entrants into the investment and lending arena such as peer-to-peer lenders?

3.1 Access to Equity

3.1.1 An alternative source of financing to credit is the equity markets in the form of venture capital and private equity (and public listing for a limited range of cases).

Question

9. What role should equity financing provide? Are sources of venture capital and private equity in the UK sufficiently accessible or too limited? Are the demands placed on businesses backed by venture capital and private equity reasonable, or overly demanding?

3.2 Current Government Policy

10. Do current tax structures unnecessarily hamper any particular form of financing?

11. Can and should the banks ‘owned’ by the taxpayer be restructured in a way to address the issues identified above? Should they be wholly or partly structured to meet the needs of small and micro businesses or a particular region or sector?

12. What impact is current Government policy having? What is the evidence that Government low interest rates are benefiting businesses and is this benefit limited to particular sizes of

business or particular sectors? What impact does credit easing have on lending to businesses (and is this limited to businesses of a certain size, location or sector)?

Fostering Innovation

4.0.1 Innovative firms trend towards growing the fastest and accounting for a disproportionately high growth in employment. Innovation occurs in lots of industries, i.e. it not just sunrise industries where innovation takes place, however innovative firms do tend to cluster together. The current Government response to innovation is mainly in the form of research and development tax credits but could also include funding (for example co-investment models) and ensuring the technology transfer happens more freely.

Question

13. What other barriers exist around fostering innovation? What more should Government be doing? How successful is the current research and development tax credit system? What role should public procurement and co-investment take?

Developing Relevant Skills in our Workforce

5.0.1 In order to achieve sustainable prosperity we need to ensure that we have a sufficient and appropriate skills base (both current and future) and that groups are not left behind.

5.0.2 It will always be the case that some sectors of employment are declining whilst others are rising. Some reports observe recent expansion in high-skilled sectors that present few obvious employment opportunities for the lower-skilled. Many low- and medium-skill manufacturing jobs have disappeared and seem likely to be replaced by high-end manufacturing which has high productivity but a limited volume of jobs.

Question

14. Should Government seek to predict future trends and shape the skills base accordingly or to react to the economic conditions of the time?

5.1 Education

5.1.1 Overall the UK is reported to have a less skilled workforce than France, Germany and the USA, contributing to a 15% productivity gap with the UK's main competitors. UK schooling outcomes are highly unequal. Levels of qualification are highly correlated with benefit claiming, with 46% of those on Incapacity Benefit having no formal qualifications.

5.1.2 Over 80% of our 2020 workforce is now already in work. We therefore need to improve the 'stock' of adult skills as well as the 'flow' of young people into the labour market.

Questions

15. What are our schools and higher education establishments currently doing well to prepare leavers for the working environment? Are they preparing people with the right sorts of skills and knowledge?

16. How can the training system be made more transparent and responsive to recent and local job market trends? To what extent is there a problem of take-up associated with the stigma of 'going back to school'?

17. Are school syllabuses designed to encourage a commitment to life-long learning?

5.2 To What Extent Should Employers Be Responsible?

5.2.1 Skills providers need to be responsive to on-going labour market developments and sensitive to local conditions, both skill levels and labour market threats and

opportunities, as these vary considerably across the country. Constrained public finances demand creative solutions to meeting this challenge and means that employers will need to play a larger role in improving skills.

5.2.2 We need to explore how employers, employees, the State and the Third sector share the responsibility to deliver further training.

Questions

The State:

18. Should there be more emphasis on acquiring skills at work, through apprenticeships and other forms of on-the-job training? How does the UK approach compare with other countries and what can we learn from them?

Employers and Employees:

19. What incentives can the Government offer to private employers to provide more in-house training or commission training from other providers? Can the Government facilitate employees themselves, whether individually or in groups, to organise further training and/or take steps to help them cope with the risk of future unemployment or the decline of their sector?

Sustainably Generating Energy and Drawing on Resources

6.0.1 Currently our lives are highly dependent on resources that are not renewable. Large quantities of materials are imported as manufactured items.

6.0.2 Many of our technologies, production processes and consumption habits produce pollution and waste that can cause harm to the environment and human health.

Question

20. How should we balance the use of renewable versus non-renewable materials and energy sources in the short, medium and long term? How should the impact on the environment be factored into any analysis of what is sustainable? To what extent can the market be relied upon to regulate consumption and to encourage investment in more sustainable solutions?

6.1 Energy

6.1.1 Current consumption of energy has major environmental impacts which are a key concern for public policy yet our lives are dependent on having reliable sources of energy at a reasonable price.

6.1.2 Existing Government policies include:

- Seeking an ambitious international agreement to raise the EU target for cutting net carbon emissions from 20% to 30% by 2020.
- Increasing the share of energy from renewable sources, and from waste and introducing carbon capture and storage.
- Investment in energy infrastructure including a smart grid, smart meters and an offshore grid.
- Energy market reform through the creation of a carbon floor price, emissions performance standard, capacity mechanism and long-term contracts through feed-in-tariffs with contracts for difference.
- Development of a Green Investment Bank and green financial products to invest in green energy infrastructure.
- A 'Green Deal' to encourage home energy efficiency improvements.
- Measures to encourage energy efficiency in the business and public sectors.
- No public subsidy for nuclear power.

6.1.3 Our *Zero Carbon Britain* policy paper set the target of cutting UK net carbon emissions to zero by 2050. The Government has agreed an intermediate target of cutting our carbon emissions by 30% by 2020.

6.1.4 OFGEM estimated the cost to the UK alone of financing planned new energy generating capacity by 2020 would be in the region of £200bn.

6.1.5 The Government has published a National Infrastructure Plan incorporating projects in the energy sector but also for other resource utilities and transport.

Question

21. Are the above Government measures sufficient? How are other countries managing these challenges and what should we be learning from them?

6.2 Materials

6.2.1 In the past the UK imported raw materials into the country for processing, but now most of this activity happens overseas and we import materials either in their refined state or as finished products. This has reduced our energy demand here – but we are importing material with a higher ‘embedded’ energy.

6.2.2 At the end of their lives, many items are recycled but many more become scrap, going to landfill or sometimes to incineration plants. Some of this waste is exported for processing overseas.

Question

22. Should we increase our levels of reuse and recycling and, if so, should Government intervene further or wait to see if there is a market response? How can we increase the market for reused materials? What can we learn from other countries about this?

Rebuilding Local Economies

7.0.1 Using local resources more effectively to make our local economies thrive and make them independent of government handouts should be one of the main long-term objectives of Liberal Democrat policy for sustainable economics. Many local economies perform below their potential because local talents are underused, and information networks are underdeveloped or underexploited. Traditional economics suggests that people should move to find work, and that success in one sector will trickle down to the rest.

Question

23. What are the barriers to people moving to find work? What have other countries done that is successful?

7.1 Building on Local Assets

7.1.1 As well as seeking to attract external resources – grants from central government or investment from outside the area – Local economies can take initiatives to provide sustainable jobs for their future. Examining the non-monetary assets that have been allowed to go to waste could release resources for rebuilding local economies.

Questions

24. What kind of policies will make this possible? What local skills are required to achieve this?

25. Are there aspects of planning policy that have an effect on how well a community uses local assets?

7.2 Better Use of Existing Money Flows

7.2.1 It is argued that the best way to revive local economies may be to make the money that is already circulating around it work more effectively, by keeping it circulating longer before it leaks out of struggling economies, using local people and resources more effectively. In which case, it may not be the total amount of money that is important but the strength and diversity of businesses.

Questions

26. Is this analysis sound and, if so, what kind of powers would local authorities need to help them plug the monetary leaks locally, if they need to?

27. What can be done to help local authorities commission more from local businesses if they need to?

7.3 Supporting Enterprise

7.3.1 The most important local asset, often ignored, is the imagination and energy of local people. As Liberal Democrats, we do not believe there is a shortage of imagination or enterprising people but there is a shortage of confidence and a shortage of local institutions capable of supporting them. But how can we put this to work?

Questions

28. What changes to the tax system should be made to support local business better?

29. What are the main benefits of the new LEPs, Enterprise Zones and Regional Growth Fund and what could be improved?

30. How effective are the current European funding streams (ERDF, ESF and the convergence fund)? Should government adopt an explicitly redistributive regional policy that pushes investment into the regions? What alternative approaches could share future prosperity more evenly in all parts of the country?

APPENDIX: Remit – Sustainable sources of prosperity and jobs

A Liberal Democrat Policy Working Group has been asked to produce a paper on sources of sustainable prosperity and jobs to be debated at the party's conference in September 2012. The group will take evidence and consult widely inside the party, in particular at a consultative session to be held at the party's Spring Conference in March, and importantly, outside of the party.

The Working Group is chaired by Duncan Hames MP.

SCOPE OF THE COMMITTEE'S WORK

The Working Group will analyse how Britain can generate future prosperity sustainably, across the economy and the policies and economic institutions required to support this. Specific topics the group will seek to address include:

- Delivering investment in key infrastructure for economic activity.
- Developing credit and equity markets that enterprises need to access to raise capital.
- Making Britain an attractive home for inward investment.
- Spreading prosperity across all regions and nations of the UK.
- Strengthening local economies and small businesses.
- Developing skills to meet the future demands of the labour market.
- Prospering through trade in the EU's single market and in emerging markets.
- Applying scientific research and technical innovation.

The group will review these issues in the context of the transition to a low carbon economy globally, and the opportunities this brings for job creation and exports, and harnessing new technologies.

Building on the work of the Quality of Life Working Group, the Working Group will explore ways of measuring and monitoring progress other than just GDP growth. The work of this group will complement that of a further group to be established on the Transition to a Zero Carbon Britain.