John Mills
Institute for
Prosperity

UK ECONOMY

Energy and **Manufacturing:**

Solutions to high cost energy facing the manufacturing sector

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Email: john.mills@jmlgroup.co.uk

John Mills is an entrepreneur and economist who has long been involved with political affairs. He is the founder and chairman of John Mills Limited (JML), which specialises in selling high volume consumer products, using audio-visual methods for promoting their sale both in the UK and in many other countries – about 85 at the last count. His main interests as an economist are the UK's relationship with the EU and the relatively poor performance of western economies compared with those in the East.

He was for many years a senior Labour elected member of Camden Council, the London Borough's Association and the Association of Metropolitan Authorities, and in the late 1980s he was deputy chairman of the London Dockland Development Corporation. He was chairman and then deputy chairman of Vote Leave, joint chairman of Business for Britain and the founder of Labour Leave, all campaigning for Brexit during the run-up to the June 2016 EU referendum. He is vice-chairman of the Economic Research Council and founder of both The Pound Campaign, Labour Future and The John Mills Institute for Prosperity, all concerned in different ways with the UK's economic and political prospects. He is a frequent commentator on TV and radio and he has a large number of published books, articles, pamphlets and blogs to his credit.

John Mills
Institute for Prosperity

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“As you will see from this report, it is crucial that a modern manufacturing renaissance sits at the heart of a new national economy. This should be done not by harking back to the days of the heavy, polluting manufacturing industries of the past, but by focusing on the high tech, green and critical foundational industries that can power our economy through the century ahead and provide us with the resilience we need.”

Rt Hon Stephen Kinnock MP

ABOUT THE JOHN MILLS INSTITUTE FOR PROSPERITY

By working with policy stakeholders, legislators, business and industry leaders, trade union representatives, economists, commentators, regional leaders and the public, the Institute for Prosperity aims to bring policymakers together to affect change and find new solutions to Britain's economic problems.

We firmly believe that Britain must raise its sights and reject 1% economic growth per year, which has become the new norm. By investing in economic growth and getting our economy to grow at over 3% per year, we will increase levels of prosperity across the whole nation and ensure no one is left behind.

We are supported by an expert Advisory Board. With MPs and Lords from across the political spectrum, former ministers, academics, and business leaders, the Institute for Prosperity is made up of a diverse and broad range of opinions, ideas and solutions, and we fundamentally believe we are stronger for it. Our Advisory Board brings a wide range of expertise to our work, and in fact, many of them represent or live in left-behind communities facing deep-rooted economic challenges of the kind we are concerned about. We are all united by making Britain a more prosperous nation for which everyone benefits.

The Advisory Board's members share a passionate commitment to the Institute's mission but, because of the breadth and range of their political views, we don't expect or require them to agree with every individual idea we propose.

ABOUT THE AUTHORS

John Mills

John is also the founder, Chairman and majority shareholder of JML, the global consumer goods company which sells high-volume consumer products in the UK and 85 countries worldwide.

John started his career selling household goods door-to-door as a student in 1959. After two years of national service in the Royal Navy, a six-month spell at Unilever and a series of other business ventures, John founded JML from his basement in Camden in 1986.

Under his stewardship, JML has become a global multi-channel retailer selling over 15 million products a year. Today, JML is one of Britain's most successful exporting businesses employing over 250 people. The success of the company has helped put a JML product in more than 7 out of 10 homes in the UK.

John Mills has been a Labour Party supporter, donor, and activist for over 50 years. As an economist, his main interests are the relatively poor performance of western economies compared with those in the East and the UK's relationship with the EU.

John Penrose

John Penrose is a member of the Institute for Prosperity's Advisory Board.

He was elected MP for Weston-super-Mare in 2005, winning the seat from the Liberal Democrats. In 2019 he achieved the biggest share of the vote in his constituency since 1970.

His campaigns to make Britain's economy work for the many, not the few, include the Energy Price Cap (recently successful); making housing cheaper to own or rent by allowing urban owners and developers to Build Up Not Out, and to Make Builders Build; making Britain's economy more generationally-just and socially-just by creating a UK Sovereign Wealth Fund and a legally-binding Fiscal Rule; and reforming formerly-nationalised utilities (e.g. energy, telecoms, water, rail) to put customers in charge rather than politicians, bureaucrats or regulators instead.

A successful businessman before he entered politics, John has held a variety of posts since he was elected including PPS to Oliver Letwin, Shadow Business Minister, Tourism & Heritage Minister, Government Whip and Constitution Minister. He is currently the Chairman of the Conservative Policy Forum.

Sir Vince Cable

The Rt Hon Sir Vince Cable is a member of the Institute for Prosperity's Advisory Board.

He was Secretary of State for Business Innovation and Skills and President of the Board of Trade (2010-2015). He was Member of Parliament for Twickenham from 1997 to 2015; deputy leader of the Lib Dems from 2007 to 2010 and shadow chancellor between 2003 and 2010.

He was the leader of the Liberal Democrats from 2017 to 2019; he has served as Member of Parliament for Twickenham between 1997-2015 and 2017-2019.

He is currently a visiting professor at the London School of Economics, St Mary's University and Birmingham City University, as well as a columnist for The Independent.

Hon. Stephen Kinnock MP

Stephen Kinnock is a member of the Institute for Prosperity's Advisory Board.

He is the MP for Aberavon and Shadow Minister for Asia and the Pacific.

He is also a member of the Select Committee on the Future UK-EU Relationship, Secretary of the All-Party Parliamentary Group for Steel, and chair of the All Party Parliamentary Groups on Post-Brexit Funding, Reuniting Britain, Palestine (co-chair), and Electoral Campaigning Transparency. He is co-editor of the book "Spirit of Britain, Purpose of Labour: Building a whole nation politics to reunite our divided country" and author of "A New Nation: Building a United Kingdom of Purpose, Patriotism and Resilience."

MANUFACTURING IN THE UK

John Mills

During the nineteenth century, Great Britain was the workshop of the world. Half the iron and steel produced on earth was made in the UK. Even as late as 1970, nearly a third of UK GDP came from manufacturing. Now the ratio is less than 10% and still drifting down. Does this matter? Yes, it does – hugely – for at least five different, crucial, and overlapping reasons.

It is much easier to generate increases in productivity in manufacturing than it is in services and it is this increased output per hour, which produces economic growth and rising living standards. This is because the categories of investment which produced the high returns that keep economies expanding are clustered around quite a narrow range of investment opportunities – in mechanisation, the application of technology and the use of power, all of which find a natural home particularly in light industry. Most sorts of investment – in road, rail, schools, hospitals, public buildings and housing in the public sector and office blocks, shopping malls, hotels, new restaurants, IT systems and again housing in the private sector – only produce total or social returns to the whole economy of about 5% on average. They don't therefore contribute that much to economic growth because they don't make anything like the 50% plus total returns which mechanisation, technology and power can achieve. This is when not only the financial return to whoever put up the money to pay for the investment is taken into account, but also the increased wages and salaries, higher profitability, better and often cheaper products and stronger tax base are factored in. Think of a new machine which produces twice as much from the same inputs as one it replaces or a combine harvester replacing a scythe or a 44-ton truck instead of a wheelbarrow. The result is that the smaller the proportion of GDP which comes from manufacturing in any economy the lower its growth rate is likely to be.

Far too many of the jobs available in service industries are low skilled, relatively unproductive, insecure and poorly paid. Manufacturing jobs – at least in the right circumstances – tend to be more satisfying, more secure and better paid. The roughly 10% of UK GDP that comes from manufacturing is produced by barely 8% of the labour force indicating that its productivity is about 25% higher than in the rest of the economy. The UK labour force is notoriously poorly educated and trained – and this is a longstanding deficiency which badly needs to be made good. This will only happen, however, if better trained staff have jobs available which need the skills which they have acquired. It is an illusion to think that better training will, by itself, create better job opportunities. Only new profitable investment activity will do this.

There is a huge regional inequality problem in the UK. Gross value added per head of the population was recently found to be £49k in London and £20k in Wales and the North East.[1] The UK as a whole has a balance of payment deficit every year which has been nudging up to an average of around £100bn while London has an annual surplus of at least £50bn.[2] This means that all the rest of the economy outside London must be operating with a deficit of around £150bn a year – roughly 10% of all UK GDP excluding London of about £1.5trn. There is a simple reason for this state of affairs. All the affected regions do not have enough to sell to the rest of the world to pay their way. Instead, about 10% of their total income and expenditure is in the form of transfers, loans and grants from London. It is deindustrialisation which has caused this to happen and the only effective way of reversing what has happened is to bring manufacturing back.

Up to the 1970s, the UK used to have a balance of payments surplus most years. The last time this happened was in 1984. The main reason was that the UK began to import more and more manufactured goods in relation to our exports. In 2019 the gap was £86bn[3] and in 2016 the overall balance of payments deficit peaked at £104bn.[4] This deficit was financed by borrowing from abroad and selling UK assets on a huge scale as net sales to foreign interests of shares in UK companies and residential and commercial properties filled the gap as we lost more and more control of our economy. We need to stop this happening and the only way of doing so is for the UK to produce more goods that the world wants to buy and for us to import less. The UK is good at selling services overseas but the volumes involved are too small to fill the gap. The only viable solution is for the UK to reindustrialise sufficiently and to manufacture much more than we do now.

Deindustrialisation has made our global position on supplies much more insecure, as the inability of UK factories to supply the Personal Protective Equipment needed during the Covid-19 pandemic starkly showed. We are now far too dependent of foreign suppliers for a wide range of goods, some of them being of strategic significance.[5] Part of the problem is that promising start-up companies in the UK often find it very attractive to sell out relatively early on to foreign interests as incentives from the City and elsewhere pull them in this direction. At the same time, we have sold to foreign buyers vast numbers of established companies which supply us with energy, water, transport, and many other basic facilities. We have no effective public interest tests to see whether these changes of ownership to foreign buyers are in the overall best interests of the UK economy as a whole.

What can be done to get manufacturing back, to provide the UK economy with the boost it needs from buoyant exports, to increase investment and productivity, to get the growth rate up and to ensure that we have rising living standards rather than seeing them in sharp decline which otherwise nay well be in prospect? The challenge lies in two parts. One is in the supply side agenda and the other is to do with demand.

The supply side is relatively easy to handle politically. It is about better education and training, more research and development, improved infrastructure, appropriate tax breaks and patient capital. There is a wide measure of agreement across the professional and political spectrum that all these goals are desirable. The problem is that supply-side reforms on their own will not solve the productivity problem unless the right demand conditions are also in place – and it is the lack of these demand side conditions which has been the undoing of UK manufacturing.

For manufacturing to prosper, the problem in the UK for a long time has been that this criterion has not been met. Overwhelming evidence that this is so is provided by our falling share of world trade and the decline of manufacturing as a percentage of GDP. Some firms which are exceptionally well managed or which have niches or which are in other ways protected have flourished but most have not been able to overcome the cost challenge with which they were faced. The reason for this is that our exchange rate has been too high. $1.50 to the Pound may work well for services but it is lethal for manufacturing, which enjoys none of the natural benefits which help services in our language, our geography, our universities and the skills of our labour force. Manufacturing needs an exchange rate closer to £1.00 = $1.00 to be, on average, profitable and viable.

Why is the exchange rate so crucial? It is because internationally traded manufactured goods tend to be very price sensitive and the strength of the pound has a big impact on what prices have to be charged out on international markets. Office for National Statistics (ONS)[6] reports show that, on average, about 30% of total manufacturing costs are for supplies of raw materials, machinery and components for which there are world markets and prices, and with costs which are about the same everywhere. The remaining 70% of costs are all incurred in the domestic currency – Sterling of course in our case. They cover all the costs incurred locally within the UK, including wages and salaries, overhead costs, and interest and taxation charges. The crucial issue then is at what rate these domestically incurred costs have to be charged out to the rest of the world to make a reasonable profit – and this is almost entirely a function of the exchange rate. Because productivity in UK industry is relatively low but the exchange rate is high, our goods tend to get charged out at prices which are much too high to be both competitive and profitable.

This is then the key dilemma which needs to be tackled. How do we make our manufactured exports competitive in price? The answer is that we have to have a sufficiently competitive exchange rate to make a wide range of manufacturing in the UK profitable. Just how important this is can easily be demonstrated by what happened in the UK during the late 1970s and early 1980s. Between 1977 and 1982 the exchange rate for the pound rose by about 70%. If export prices were 100 before the exchange rate rise – made up of 30 for raw materials, machinery and components and 70 for all the sterling overhead costs – to maintain the same percentage profit margin, the new pricing had to be 30 plus 70 times 1.7, a total of about 140. No wonder manufacturing – mostly operating in highly price-sensitive international markets – as a percentage of UK GDP went into a steep decline. At this higher exchange rate, swathes of manufacturing investments became unprofitable. This is why the UK – along with most of the rest of the West – has seen its growth rate decline from an average of around 4% per annum for the quarter-century between 1950 and 1975, to around 3% running up to 2000, before it fell again to about 2% for the first two decades of the twenty-first century. Current projections for the future are for growth rates of barely 1%.[7]

What can be done to stop this happening? We have to have an exchange rate which is low enough to make it profitable to invest heavily in the UK in light industry. We need to bring manufacturing in the UK back to providing at least 15% of GDP. This is why we need an exchange rate which is much lower than the one we have at present – probably about a quarter lower at around £1.00 = $1.00 if we want to see our long-term growth rate rising by about 2% per annum from where it would otherwise be.

Would this be possible? Technically, it would not be too difficult to achieve. There is plenty of international evidence that a determined government could get the pound down with a revised remit for the Bank of England, to achieve and maintain a competitive exchange rate target replacing the 2% inflation goal as its main objective, buttressed by a large wealth fund and appropriate tax changes to make holding sterling assets less attractive. The institutional problems with adopting this kind of strategy, however, are likely to be very much stronger. For generations, the conventional wisdom in the UK has been that a strong pound was desirable. Changing public opinion to believing that a competitively priced currency would be a much better target would inevitably involve removing a very major obstacle.

Failure to accelerate UK growth will result in a terrible cost in terms of desperately low levels of investment, pitifully low productivity growth, stagnant or falling living standards and relative if not absolute international decline. A strong pound may sound like a great symbol but it comes at an appallingly high cost.

SPIRALING ENERGY BILLS AND INDUSTRY

Hon. John Penrose MP

Every household in the country is struggling with huge spikes in their energy bills. People are having to scrimp, save and cut back just to keep the lights on and their families warm.

But it isn't just domestic users who are hurting. Companies pay energy bills too and for some, particularly in energy-intensive manufacturing industries like steel, aluminium and ceramics, it is one of their biggest and most important costs. For them, a sudden spiral in gas or electricity markets can mean big price rises that have to be passed on to customers, or job cuts and shrinking sales because they're suddenly much less competitive than their international rivals from places like USA which are self-sufficient in energy and aren't facing anything like the same pressures. For some, it will be a death knell. They will have to close, shrink or move abroad and Britain's already-shrivelled manufacturing industries will take another step downwards in its 50-year story of decline.

The Chancellor has already moved to help families with their energy bills, with schemes like the £150 Council Tax rebate for less well-off households. But his measures don't apply to businesses, and nor does the energy price cap either, so how can the Government help protect UK manufacturing jobs?

The biggest and most important change for manufacturing industry would be a Carbon Border Adjustment Mechanism (CBAM), to price in the carbon that's already embedded in every box, carton and crate of goods which we import into the UK. There's no point in patting ourselves on the back for reducing the UK's carbon footprint on the way to our goal of Net Zero by 2050 if, in fact, all we are doing is shutting UK factories that emit carbon and importing the same goods from identical factories that have emitted the same amount of carbon somewhere else. The planet is no better off at all, because the amount of carbon in the atmosphere has not budged one bit. But British manufacturing jobs, skills and investment have all been hurt for absolutely no environmental gain at all. Even worse, if we import goods from foreign factories that have lower environmental standards than our own, the amount of carbon that has been emitted may actually be higher than if we had made it here at home. And that is before we allow for all the carbon emissions of shipping it to the UK in ships or planes that burn dirty fuel too.

A CBAM sorts all these problems out by pricing in the carbon that has been emitted by those foreign factories, and the ships and planes that moved the imports to the UK too. Dirty foreign manufacturers with low environmental standards and high emissions would have higher prices, while clean ones here or abroad would pay less. And the effects would be dramatic: British manufacturing firms would be able to compete on a level playing field against high-polluting foreign firms using dirty fuels for the first time in a generation. It would be great for levelling up, because UK manufacturing jobs, skills and investment are more concentrated outside London and the South East. It would be better for our planet, because we would have stopped kidding ourselves that we can get to Net Zero by pushing our carbon emissions offshore: instead, we would know the real carbon costs of everything we buy, so we can face the problem honestly and squarely for the first time ever. And, last but not least, it would mean the Chancellor could axe all the hated fuel duties and green levies on our energy and petrol bills because the CBAM would make them all obsolete overnight.

But a CBAM isn't the only change that would help. We've got to reform the way our energy markets are working too. We all know about the skyrocketing international wholesale price of gas, but what is less clear is why our energy bills follow it so closely when gas is a steadily-falling part of the UK's energy mix. Renewables like wind and solar have grown massively in the last few years, and their prices have plummeted too. So why are those lower costs not feeding through into our energy bills? Our energy markets are slaves to gas, and urgently need reforms so both manufacturing businesses and households can see the benefits of those cheaper zero-carbon supplies. The new Energy Strategy[8] says there will be market reform proposals later this summer, and they can not come soon enough.

Next, we have got to upgrade and modernise the electricity grid so it can cope with electric cars, lots more small local renewable electricity generators, and can discount electricity for local factories and manufacturers so they can take advantage if there is a surplus from Cornish solar farms in the middle of the day, or spare power from Scottish wind farms overnight.

And finally, we should reform the energy price cap because, even though it only applies to domestic bills, it builds in costs to the entire system which drive up prices for everyone whether they are capped or not. Fortunately there is a ready-made answer that is already working well in insurance, and which reduces the costs which have to be spread across everyone's bills. It deals with the 'loyalty penalty' problem the price cap was supposed to fix by making it illegal to charge loyal customers a different price than someone who switches, stopping sneaky price rises when contracts roll over or renew at a stroke.

The Government is about to announce a new Energy Bill to go through Parliament in the upcoming year. It is a huge opportunity to revive British manufacturing, level up our economy and save the planet in the process. Let's see if they're willing to do the right thing!

ENERGY-INTENSIVE INDUSTRIES

Sir Vince Cable

Some industries have an exceptionally large share of energy costs in their value added, in particular such sectors as metals – especially iron and steel and aluminium – cement, glass, pulp and paper and basic chemicals. But boundaries are difficult to draw since there is a great deal of variation between firms and individual firms outside these sectors are also 'energy intensive'.

These industries merit special attention for several reasons. First big energy price shocks affect a whole sector and not just individual firms. The most threatening environment is stagflation such that inflation in energy costs is combined with weak demand for the final product making it difficult to pass on the extra cost. Such conditions have been common in recent years and could now become more extreme. The problem has been aggravated by major producers of final products such as steel, notably China, exporting excess capacity, depressing product markets.

Second, while there is a global market for oil, coal and, to a degree, for natural gas, important sources of energy, especially electricity, are sold in regulated markets through utilities. Consequently, there may be wide discrepancies in energy prices between countries for essentially political reasons. In some countries there is extensive cross-subsidy between domestic and industrial users. In others, electricity prices may bear little relation to cost or be fixed over long periods of time.

In addition, carbon intensive energy is now recognised as perhaps the major contributor to global warming and should attract carbon taxation or the regulatory equivalent. But countries vary greatly in their commitment to carbon abatement. Britain, like other European countries, has been to the fore in promoting renewable energy and penalising carbon use and the cost has fallen on energy intensive industries to a greater extent than in other countries.

The UK government has recognised the importance of these factors and accepted that there is a strong rationale for intervention. In 2014 the Coalition agreed in principle to compensate energy intensive industries for the extra costs resulting from higher electricity costs because of the favouring of renewables. In 2016 the compensation scheme came into effect. The generosity of the scheme was inhibited by EU state aid rules which limited compensation to 85% of additional costs.

An improved, enlarged, scheme has now been introduced (though still subject to state aid rules). There is exemption from additional costs because of Feed in Tariffs, the Renewable Obligation and Contract for Difference. The procedure is still complex requiring proof of addition costs and with a minimum threshold of 20% of GVA. The scheme covers firms in the normally recognised EIIs but also some companies which have exceptional energy costs in food production, quarrying and tyres.

So, where are we now? The problems have become more extreme. Covid was highly disruptive, destroying demand only partially compensated by furlough payments for labour costs and selective industrial assistance. British Steel at Scunthorpe, now owned by Hebei Jingje from China, lost £120 million in 2020. The uneven process of recovery – because of dislocated supply chains – has affected EIIs mainly because to the vertiginous increase in natural gas costs as rising demand hit near-fixed global supply. The price shock has fed through into higher electricity prices as well as gas prices directly.

The outlook is extremely bleak since the effect of the Ukraine war and sanctions will be to raise energy costs further if supplies are disrupted. But the war will also raise the price of metals as Russian and Ukrainian steel, aluminium and other metals, are removed from the market. It is possible that UK profit margins could even increase as a result. At the time of writing metal producers across Europe were however mothballing production and accepting greater short term import dependence (presumably Chinese).

Some derive comfort from the fact that post-Brexit Britain has greater freedom to depart from the disciplines of the Single Market and EU trade and competition rules. The UK can now apply its own trade safeguard measures if it is judged that different treatment of energy costs by competitor countries constitutes and unfair advantage. So far there has been little inclination to use trade measures. One reason for reluctance to act is where these measures raise costs to downstream industrial consumers (steel fabricators as opposed to basic steel makers), the overall economic impact could be negative (as we have seen in the USA after Trump's tariffs).

It is now easier to apply more generous compensation for higher costs or to use public procurement to favour UK producers and the former is a likely way forward in the short run. But there are fiscal costs in reduced revenue or higher spending. There is strong Treasury resistance to open ended support schemes and so far the government has confined its support for companies affected by the higher gas prices to a short-term loan and guarantee scheme which assumes that the problems will end soon. The government could follow the example of continental countries and shift the cost, through regulated prices or levies, onto domestic energy consumers. But that will be as popular as a hole in the head.

In the short term, there is extreme uncertainty, and it is difficult to see the government embarking on big and generous policy initiatives bearing in mind the clamour for additional spending or tax cuts in response to the wider economic emergency.

But in the longer term there are various factors potentially working in favour of the EIIs. The quickest and most efficient way to improve energy security would be a large expansion of onshore wind. Even with back-up capacity and /or storage costs, this looks likely to be a very competitive source without the need for subsidy. And if the Treasury can be persuaded to look at long term projects like the Welsh tidal barrage, without penal discount rates, there is a virtually unlimited supply of energy at very low marginal cost. Hopefully, the crisis will lead to a rethinking of policy restraints on low carbon energy, with benefits for the sustainability of EIIs.

Several of the EIIs would benefit from replacing hydrocarbon reducing agents with zero-carbon 'green' hydrogen: steel and cement especially. But this will require substantial capital investment which could be facilitated by capital allowances linked to low-carbon investment or government loans and equity through a resurrection of the Green Investment Bank.

In order to move away from short-term, reactive fixes, Britain does need to return to an Industrial Strategy which was an important vehicle for establishing priorities for government intervention and for encouraging long term thinking. The constant process of reinventing the wheel and performing ideological somersaults has proved to be deeply damaging to the manufacturing industry in general and EIIs in particular.

GROWTH AND RESILIENCE

Hon. Stephen Kinnock MP

Wednesday 16 January 2008 is a day that will forever stand out in my mind. It was the day when – as Director of the British Council in St Petersburg – I had to tell every member of my staff that our office was going to have to close and each of them was going to lose their jobs. The relationship between Britain and Russia had utterly broken down after the British police concluded that the poisoning of Alexander Litvinenko was a state-sponsored assassination by Russian agents on the streets of London.

The Russian state had already attempted to close my office – on one occasion because a fire extinguisher was positioned 30cm too far to the left – and my staff were soon being subject to the most terrifying harassment. The day before each of my staff had been called by FSB agents simultaneously at 3pm, with each of them called into the offices of Russian secret police for questioning. That night I was personally accosted by plain clothes FSB agents seeking to arrest me on the false auspices of running a red light.

We knew the game was up. The authoritarian Russian state was closing in. Why is this story relevant to this policy paper? Because the Litvinenko poisoning and Russia's behaviour during the subsequent fall-out should have represented a stark warning to the West. In the aftermath of the Cold War there was an assumption that liberal democracy had won the day – that it was the only horse in town – and that, because of this, the world was on a one-way track to unfettered openness and turbo-charged globalisation. The path Russia has taken since – combined with the rise of China under President Xi since 2013 as an unapologetic responsive authoritarian state[9] – has directly challenged the existing world order and made a mockery of liberal, Western assumptions.

Yet it took until the Covid-19 pandemic for British politics to truly recognise our economy's over-reliance on China and President Xi's stated intentions to undermine West's values and economic model.[10] It was not until Russian troops were lining up at the Ukrainian border for politicians to fully wake up to both the threat posed by Vladimir Putin and the toll that his actions might take on Western economies. At the heart of this awakening lies the recognition that liberal democracies have become dangerously reliant on hostile foreign governments for everything from medical equipment to real estate investment, from critical national infrastructure to our energy supply and rare earth minerals. Before we even begin considering the ethics of this, such a level of dependence points to major security risks.

It was staggering that at the beginning of the pandemic China was making half of the world's Personal Protective Equipment.[11] We also know that the Chinese state owns 33% of Hinckley Point nuclear power station and that Britain has 57 critical infrastructure supply chains reliant on China.[12] Meanwhile, last year 200 UK-based academics were investigated by the British security services for unwittingly helping the Chinese state build weapons,[13] while Chinese companies have been breaking World Trade Organisation rules by illegally dumping steel in European markets in order to weaken Western competitors.[14]

And now Europe's dependence on Russian oil and gas is looking increasingly naïve, as does the decision of consecutive UK governments turning a blind eye to London's evolution into a laundromat for the dirty finance of pro-Kremlin oligarchs – so much so that Ministers were dishing out 'Golden' investor visas to Putin's conies even after invasion of Crimea in 2014.[15]

This has to be a fork in the road. We must reject both the unfettered openness of the past 40 years, but we must also recognise that protectionist measures can inadvertently shut off the healthy foreign direct investment we need. It is critical that we find that balanced path. In short, we need a more resilient British economy that can stand more firmly on its own two feet.

The Government are blaming global factors for insecurity, low growth and rising inflation, but the fact remains that it is the duty of a national government to shape and drive forward the national economy. Ultimately, a succession of chancellors that have failed to implement the type of policies that can drive growth, boost productivity and build resilience lies at the heart of why, firstly, Britain has become so dangerously reliant on hostile foreign capital; secondly, why our economy was so ill-prepared for global shocks such as a pandemic or war; and thirdly, why our living standards are decreasing.

Even if the government had managed to match the average OECD growth rate then they would have had an extra £12 billion to invest in public services and tax cuts during their time in power. If they had managed to match the last Labour government's growth rate, that figure would have stood at £30 billion.[16]

Britain was the only country that chose not to grow its way out of a global recession. For more than a decade the UK Government has failed to match the OECD average of investing 2.4% of GDP in research and development. In relative terms, the governments of Germany and Japan invest twice as much in R&D, and in so doing they unlock double the amount of private investment. In fact, in the nine years leading up to the pandemic the UK ranked 35th of 38th advanced OECD economies for private sector investment as a percentage of GDP and the IMF projects this trend to continue over the next five years meaning an investment gap of £800 million.[17] It is no wonder our productivity is at least 20% lower than many of our European competitors, and thus we have a low growth, low wage and high tax economy as a result.[18]

Painfully low levels of investment in our homegrown industries and critical national infrastructure have damaged both our national economic resilience, and the resilience of our businesses. For instance, Chinese state-backed firm Huawei were one step away from running our 5G networks. And even before the pandemic Britain had become the European capital of hostile foreign takeovers, but numbers have rocketed since – the highest profile example being Softbank's takeover of leading British microchip firm ARM.[19]

Political decisions in Westminster matter. It is politicians who set the conditions for a thriving, wealth-creating, growth-delivering private sector – and currently ministers are failing. Political inaction has resulted in deeply unbalanced with London and the South East thriving while industrial areas of South Wales, Northern England and Midlands are falling behind. The cause of this unbalancing is the very same trend that is causing our low productivity, our low growth and our over-dependence on other nations for everything from energy to medical equipment; the collapse in manufacturing from 30% in the 1970s to under 10% today.

The financialisation of the British economy may have led to highly-paid, service sector jobs being created in the cities, yet industrial communities have seen good, well paid, unionised, jobs disappear overseas only to be replaced with low-paid, insecure, service-based work – such as call centres and Amazon warehouses – which offer so few prospects to young people in those once proud industrial communities. Since 2015 alone more than 230,000 manufacturing jobs have been lost in the UK. And it is no coincidence that our productivity has declined, given it is far easier to achieve productivity gains through making products than it is in delivering services.

But the manufacturing decline has had a deeply damaging effect on our resilience. In this modern, insecure, turbulent world where tin-pot dictators are on the charge we can no longer rely on global supply chains in the way we once could. We are no longer in the glorious, liberalising post-Cold War era of the 1990s. Authoritarian regimes are outnumbering democracies for the first time since 2001.[20] It has taken too long for the government – and indeed many of all political stripes – to wake up to the world that we are in. We need a more resilient Britain that can stand more firmly on its own two feet. But we will only achieve this if government and business can partner to deliver a modern manufacturing renaissance.

The problem is that British manufacturing has been on a downward spiral. The lack of support from government for manufacturing has meant a reduction in capacity. Take a critical foundational industry, steel, which underpins the entire manufacturing by making everything from the cutlery in our kitchen and the cars that we drive, to vital military equipment and major infrastructure projects. The steelmakers in my constituency make the best steel money can buy, and the plant can be configured to make any type of steel going. But the steel industry needs guarantees from government that orders are in the pipeline.

Yet how can it have confidence when for the HS2 rail project only one UK-based firm was shortlisted for £2.5 billion worth of contracts for track and tunnel systems, alongside three other firms based overseas. The procurement of HS2 trains asked bidders to set out how their bid will benefit the UK, but Transport Minister Andrew Stephenson confirmed that this "does not form any part of the evaluation of tenders".[21]

This failure can be seen across manufacturing, and across the UK. In Scotland's offshore wind sector, despite various commitments from Prime Ministers and a promise in 2010 from the Scottish National Party of 28,000 new jobs, there were just 1,700 delivered by 2018. Meanwhile, not a single one of the steel jackets that SSE requires for its £3billion offshore windfarm project, SeaGreen, are being made in the UK. Last year Scotland's only factory making turbine towers, at Campbeltown in Argyll, closed permanently, while Britain's largest solar panel factory, in Wrexham in Wales, shut down in 2013, with the loss of 615 jobs.[22]

The cost of doing nothing to support the steel industry is grave. In 2016 the IPPR think-tank projected the cost to the British economy of losing Tata Steel to be around £4.6 billion over a decade – essentially a 'levelling-down' exercise.[23] But the closure of steel plants also takes a hammer to our strategic independence, with buyers inevitably turning to overseas supply chains. Overseas supply chains are of course also far more damaging for the environment because of the higher transport emissions and the fact that emerging market countries often play host to dirty steel plants. We need to turn this downward spiral into an upward spiral, and fast.

This means that we need a modern manufacturing renaissance to sit at the heart of a new national economy – not by harking back to the days of the heavy, polluting manufacturing industries of the past, but by focusing on the high tech, green and critical foundational industries that can power our economy through the century ahead and provide us with the resilience we need.

We are yet to see that the Government show that it truly believes in a modern manufacturing renaissance. For many years the government blamed its lack of support for British industry on European Union state aid rules. They can no longer hide behind these somewhat spurious claims – yet we are yet to see the government use Britain's new-found liberty to transform our economy in the manner that was promised. Instead, Jacob Rees Mogg – as Brexit Opportunities Minister – looks set to bring in legislation which allow for the further hollowing out of Britain's economy and the selling off our national assets; in other words, a libertarian, Singapore-on-Thames, services-based economy which will further 'level-down' Britain and fail to establish the level of resilience the new world order requires.

Jobs of the future can be brought to Britain, by investing in reshoring jobs in the same way we invest in foreign direct investment and by working with colleges and universities to make sure we are honing the skills and apprenticeships for the jobs of the future. Can the government deliver?

On steel, the British government must show that it understands the strategic importance of the industry and that it will therefore help create the conditions for steelmakers to thrive. It remains the case that every expert projection for a net zero economy involves using as much steel as we do today, and that almost every leading economy has a strong and healthy steel industry. Again, resilience is key. The government must deliver.

In recent months we have seen signs that some government ministers understand the cost of doing nothing, with some long overdue action on energy prices in the form of a carbon compensation package to Energy Intensive Industries – a step forward, but increased network connection costs still mean that British steelmakers are still not competing on a level playing field with European firms. This challenge needs to be addressed by the Department for Business, Energy and Industrial Strategy actually engaging in meaningful dialogue with Ofcom, who set the rates.

But the government must now go further in offering a Green Steel Deal, which sets out a pathway forward for a world-leading steel industry. They need to choose where to invest, with hydrogen technology and electric arc furnaces as important new technologies. On hydrogen, European governments have stolen a march with more than 23 research projects underway but yet the UK has zero. It is critical the government gets this right. According to the Metals Processing Institute the cost of steel decarbonisation in the UK is set to be £6bn, with 25,000 jobs under threat if it is not managed properly, based on the 2035 target to cut carbon emissions by 78%. The stakes are high. The government must partner with steel businesses to deliver.

It is also clear that the government needs a medium and long-term plan for energy resilience. The Energy Strategy fails to deliver the vision we need. It is a recipe for failure because it caves into MPs who refuse to entertain onshore wind in their patch – a critical part of any modern energy strategy – and the strategy is almost comically optimistic about how quickly we can get new nuclear power stations up and running. There is nothing in the document that gives us confidence we can build resilience in the short-term, let alone offer immediate solutions for bringing down energy bills.

Finally, the government must look at the mechanisms to protect struggling businesses, workers, families and local communities from the threats of hostile foreign takeover. To do this we will need to see a shift from a short-termist shareholder economy to a long-termist stakeholder economy.

There are a few measures, which can help shift corporate culture in this direction. The first should be to consider what changes might be made to the Companies Act to encourage businesses to report on social impacts such as people and planet, rather than just profit, and to ensure that reporting encourages a look forward in years rather than in months. The second is that positive models such as B-corps should be encouraged. The third is that the National Investment and Security Act should be strengthened to include amendments, which would have taken a more rigorous approach to screening entities that are investing in our critical national infrastructure including energy security.

This agenda does not cover every measure the government must introduce, but it does point to a way forward for establishing growth and resilience – and it will help to get our economy firing on all cylinders across all parts of the United Kingdom. A plan to back British manufacturers to make, buy and sell more in Britain – combined with fixing our energy market – is the first critical step forward towards building a more resilient Britain that can stand more firmly on its own two feet.

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RECOMMENDATIONS

01

The government should explore employing a competitive exchange rate policy to ensure British manufactures.

02

Government should ensure that the Electricity Grid is upgraded and modernized to ensure we are able to cope with the extra capacity.

03

Establish an Industrial Strategy containing the priorities for government and one of which should be an expansion of onshore wind.

04

Government should explore expanding capital allowances or government loans for low carbon investment.

05

The government should use its new Brexit freedoms to build resilience in the UK economy and to support a green manufacturing renaissance including the protection of key industries and energy supply.

The authors of this report don't necessarily agree with all the recommendations outlined in the report.

John Mills
Institute for Prosperity