

Needed: Britain's economic reinvention

"Where have all the good times gone?" That old song by The Kinks often comes back to my ears when I am in Britain –quite regularly, that is. Here only? Nope. If the "*UK economy moves out of recession*" (Financial Times headline on January 26, 2010), why playing the doomsayer, then? The situation is worse in many other places, but, for various reasons, Britain's economy (let's not consider other dimensions of the problem, and there are many) is not only going down, but is not up to what it used to be.

This is an election year, after all, and the citizens should expect answers to some of the real questions. Instead, we often have the impression of going back in time, with Old Labour versus Old Tory recipes (is it just about more or less for spending (cuts), debt, deficits, taxes?), with a few extra post- crisis dashes and rare novelties. But, for many, the real situation looks misread and the causes of the crisis seem to have been forgotten (already?).

A Cadbury flop on Abbey Road

The takeover (renamed "merger" in politically correct terms) of Cadbury by Kraft Foods and the sale of Abbey Road studio by EMI are just the latest in a long series. And who came first? In two or three decades Britain has lost many of the jewels in its industrial crown. One of the most spectacular examples that comes to mind is the car industry. When The Times writes about Jaguar Land Rover as "*the UK's largest carmaker*" (January 26, 2010), it's an illusion –or is it delusion? Some of the plants are still there -for how long?- but the seeds have moved to America, Germany, Japan, China, India... Once a champion in automotive and mechanical engineering, the UK is now a part of the global assembly line. The brand on the radiator grille might still be British but the rest -and often almost the whole- is made elsewhere. A Vauxhall is (was?) just an Opel with another logo. Aston Martin might still be hot but the financial steam now mainly comes from Kuwait. To add fuel, who knows that the English component in Rolls-Royce is in the air and not on the roads any more, and that a Bentley has just (well, almost) been a Volkswagen for years? And so on. Who has cared - and done something- about Britain turning into a chocolate-box country? No use crying over spilt milk? OK then. But if it was only about cars. BOC for gases, Pilkington for glass, Corus for steel, ICI for chemicals, BAA for airport management, Scottish Power (which is virtually not Scottish any more), Body Shop (a trailblazer in natural cosmetics, sold to L'Oréal) and so on. Want another round? (Less) English beers (order now, among others, via Heineken, which has become UK's largest beer and cider brewer), (less) Scotch whiskies (think -or drink- Pernod Ricard et al.). Oh, there are still some real Welsh ciders to comfort, yet not all drinkers. Who's next is not the only question. Who will be left may be the one.

UK's manufacturing output went down from over 30% of total gross value added in the 70s to less than 15% in the first years of the twenty-first century. Behind the numbers, which show an increase of the service sector at the expense of manufacturing in all "old" industrialised nations, there is no equivalent to such a loss of industrial substance -and big companies- in any of the major countries, such as Germany, Japan, France, the US (where entrepreneurship generates "replacement"), and even Italy (si, si). Some among the smaller developed economies like Sweden and Switzerland have demonstrated a better ability to

keep top companies at home (note: even with a wider shareholder base, and not necessarily with attractive tax rates), i.e. to save decision centres, value added and significant employment volume. When Bundeskanzlerin Merkel declares that Germany will switch to electric cars, at least she knows that the steering wheels are still around the corner. Gordon Brown or David Cameron could hardly promise the same as Britain is no longer in the driving seat. Enter Nick Clegg, the leader of the Liberal Democrats, who declared on February 11 in Newcastle that shipyards should be converted and upgraded to produce wind turbines. This is of course not the only solution to the crisis and recession, but can certainly bring Britain a step forward towards a "green economy". And, somewhat paradoxically (as it is about making new from old), this goes through a real reinvention of the manufacturing sector, once the greatest strength of the UK economy.

OK, let's do -and try to make- something else then. Don't bet your bottom pound. Clicks stories are up, that is down, to the bricks. To take but two examples: telecom leaders created in the wake of privatisation have been overtaken -or taken over (Orange)- by major rivals and, bar a few, British IT development lags far behind other countries or areas success stories, from the Silicon Valley to Bangalore. Who still remember GEC and ICL? The number of "*leading global technology companies*" based in the UK is... four (reported in the Financial Times, January 21, 2010). People in the UK enjoy the quality of some newspapers but don't always see the wood for the trees: the main owner of some was born in Australia and runs them from Sixth Avenue, and the iconic Reuters fell into North American hands in 2008. How can you shut your eyes to those football shirts wearing the logos of foreign champions of embezzlement or feudal capitalism? A last straw? A large portion of investment banking, once a pride of the City, has been controlled (not most effectively, by the way) by foreign financial institutions for a decade or longer.

Mind the gap

Before the latest financial turmoil the City's financial revenues accounted for 30% of UK's GDP. This proportion is much higher than any financial centre's in any developed economy, except Luxembourg, but including Zurich. To make things better when the sun is shining and worse when a bad moon is rising, one third of London's listed companies' equity is in the hands of foreigners. Those two factors, combined with others (bankers' irresponsibility (despite what Chancellor Darling said in Davos, they should "*feel sorry*"), excessive speculation activities and poor risk management, property bubbles, a growing credit-card society and, back to the above lines, a weaker manufacturing sector) explain the heavier toll taken on Britain in this crisis and recession. As a few experts dared pointing out, Iceland's fate was looming here. "*The British economy had a massive heart attack when the arteries of the banking system seized up,*" as Vince Cable said in Demos politics speech (January 25, 2010). And, unfortunately (well, sort of), as Charles Dumas (chairman of Lombard Street Research) wrote in the Financial Times (December 20, 2009): "*The US has China as a 'sugar daddy', Greece has Germany and Dubai has Abu Dhabi... that just leaves Britain on its lonesome.*" Luckily, the UK is not part of the eurozone and, following others (like FT's chief economics commentator Martin Wolf), we would recommend not to join it any time soon.

Britain depends too much on London and London relies too much on the City. Compare here not with France, of course (Paris remains the almighty "ville lumière") but with more balanced, more diversified and less centralised economies (US, Germany, Japan, Sweden, India and... China, which combines strong central authority with regional diversity). Incidentally, that implies going further than simple devolution. Decentralised economies including stronger regional poles resist more to crises than others (see Catalonia in Spain, Bavaria in Germany and various states in the US). But that's another issue.

Stating like a Toscafund manager did recently (Financial Times, January 18, 2010) that London's role as financial centre is "*set for a new boom*", mostly because affinities with some markets wanting a western hub could lead to the same troubles if City traders and bankers' behaviour gets back to what it was (and the inclination is there) and when the next bubble bursts –which is a matter of time. This is not to say that the City's role is bad as such. Having one of the biggest financial hubs in the global economy (and finance) is a big advantage that should be sustained. But not at all costs and not –and certainly less than in the past– to the detriment of other parts of the economy and the society. Bowing down to bankers and financiers reluctant to any reform "against the City interest" is a sure-fire way to make the next crisis happen, and hit the City and the country once again –the sole question being "when?" "*It is no good running our economy and society around the interests of 5,000 bankers and would-be foreign companies who want to make hostile takeovers,*" said Will Hutton of the Work Foundation (in The Guardian, November 29, 2009).

The gap between virtual finance and the real economy is bigger in "Anglo-Saxon" economies than in other ones, but it is certainly made worse in the UK, and outside London, due to the weakening of the other segments of the economy. Unprecedented financialisation plus the shift towards a service economy have certainly not brought the benefits expected by its promoters to the British economy, not least because, compared with European rivals, the UK banks are far from most performing on major attributes (e.g. customer service, information technology, small business lending), and the quality of service (in and outside the financial sector) is not up to what it was years ago, if any.

Plastic man at a branch?

For all the ownership ideology –a Thatcher legacy almost fully, and wrongly, endorsed by the Blairist New Labour– a much larger proportion of Britain's individuals and enterprises do not "own" their goods and control their interests as fully or at least safely as in the past. The former due to the development of credit (but also to other non-minor aspects such as the energy bill), the latter because of foreign controlling interests (in the name of "open for business"). Curiously, and while hardly being absolute beginners in free trade (or is it because of this?), John and Jane Bull seem to "*be content with a quiet life*" and waver between naivety ("*plastic man got no brain*") and tired cynicism ("*plastic man don't feel the pain*"). Adam Smith warned that "*The greater part of proprietors seldom pretend to understand anything of the business of the company*". This is made much worse when business is controlled from far away. Paradoxically, and rather surprisingly with regard to Britain's history (made of much deserved pride for some aspects), company nationality no longer seems to matter here, while it is considered critical in many, if not most, other

industrialised and emerging countries. Another British founder of economics, John Locke emphasised the importance of labour in the value of products. This reminds us how value added locally -name it "Made in Britain" and don't leave this issue to BNP- matters to a healthy and (as much as possible) independent economy.

That marks one of the biggest failures of the (neo)conservative policies of privatisation and liberalisation, followed in their right or left versions, on both sides of the ocean. Those policies were certainly necessary acts but the ideological angle and the implementation have turned many into unnecessary evils. Has David Ricardo's "comparative advantage" been stretched to such an extreme that there wouldn't be any advantage left to the UK (except the City, perhaps?) As Dennis Franklin, a Financial Times reader, puts it (January 21, 2010), "*UK risks being reduced to 'branch office' status*".

Fame ancient as the days. But reinvention needed

Economic reinvention should top the agenda. This is neither about betting again on the invisible hand of the market (with a little help from the City) nor counting on the heavy hand of the State (with some help from lenders, from abroad, of course), but about revisiting a, er, a third way. Reinvention is an appropriate term in the UK context as the main... inventors of classical and post-classical economics were British: Adam Smith, Thomas Malthus, David Ricardo, John Locke, John Stuart Mill, Jeremy Bentham, John Maynard Keynes, to name but the most famous ones... With such founders and foundations, the job should be less tough, at least intellectually, bearing in mind that we are not in the 18th or 19th century and the Empire, a big "facilitator" of free trade freer for some is now just the Commonwealth.

Let us suggest a few key policy actions and directions:

- A BETS programme to... bet on business (B), environmental (E), technology (T) and social (S) entrepreneurship. Britain has a number of playing cards here: a more entrepreneurial culture than most of the twenty-seven EU member States (with less hindrances too), a rather well developed practice of spinoffs from research (Cambridge cluster gathers 1,700 SMEs, more than any university anywhere in Europe), initiatives such as Business in the Community (one of the Prince's Charities). But it is lagging far behind areas such as Denmark, Germany, California as regards "green jobs" and the local development of renewable energies on which the country should have already embarked full steam ahead. Everybody now recognises that thousands of jobs can be created in the shift towards low-carbon economies. And the country hasn't demonstrated as much efficiency as e.g. Denmark in making social enterprises (or the "third sector") a real alternative to both an ineffective welfare state and unfair market forces. This is not only a British challenge but could help (re)weaving the social fabric. Various fiscal and social measures can put it to work.

- A reinvention of venture capital, where the UK has been a European pioneer and leader and which has, regrettably, become private equity and late(r) stage funds and has (for most) departed from its enterprise-driven origins. Local enterprise funds are among the possible options. In line, or as a further logical step, reinvigorating midcap markets, e.g. at regional levels and not necessarily from London should be a priority.

- Foster MEs and make them able to grow international. The deficiency in medium-sized enterprises in the industrial fabric is clearly a handicap, compared to the US, but also to Germany and France. And the inability of UK companies, even the largest, to be really international is baffling, and probably lies among the reasons why more are bought than buying. Higher skills and better training are part of the problem... and the solution. On these, Britain is not up to the best in class (Germany, Scandinavia, Japan).
- Keep as many decision centres as possible in the UK. Note that this is not only a taxation issue, as the Swedish and Swiss examples prove it (keeping a strong local shareholder base is critical and not contradictory with a relatively high level of free float).
- Put a priority on highly labour-intensive renovation and less on new construction, e.g. through energy savings incentives. Developing electronics is fine, but having more electricians, and plumbers, and others at work would not harm.
- Develop employee ownership schemes, but avoid stock options-like systems and mind the pensions mechanisms.
- Favour local -and national- value added. "Made in Britain" or "Buy British" are good slogans that shouldn't be owned by the rightists. Never mind the accusations of protectionism coming from the free-trade zealots. Why can Americans or French people be proud of their flagged products and not the British? Naturally, we admit that the notion of local content is not what it used to be in nowadays intertwined economies. Still, there is much to create, do, design, add and... brand (branding services aren't a weakness here). Had Britain (like... Iceland) been more insulated, kept some of its trademarks, brands and plants; and the effects of pure laissez-faire policies and the subsequent crisis would have been less unpleasant.

Call it Herculean or... Elizabethan, Britain's economic reinvention is much needed. And would be most welcome.

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