National Institute of Economic and Social Research

Transcript of the Evidence Session on The Underperformance of Business Investment

26 January 2023

THE PRODUCTIVITY INSTITUTE

PRODUCTIVITY COMMISSION

Transcript of the Evidence Session on The Underperformance of Business Investment

This evidence session took place on **Thursday 26 January 2023**.

The UK Productivity Commission's **Commissioners**:

- Professor Alan Barrett
- Professor Gillian Bristow
- Professor Jagjit S. Chadha
- Professor Diane Coyle CBE
- Professor Eileen Harkin-Jones OBE
- Dawn Holland
- Rachel Lomax
- Professor Stephen Millard
- Sir Anton Muscatelli
- Professor Adrian Pabst
- Dirk Pilat
- Professor Chris Pissarides
- Professor Bart Van Ark
- Professor Tony Venables
- Professor Jackline Wahba OBE
- Stian Westlake
- Professor Andy Westwood
- Professor Cecilia Wong

Observer:

- Stephen Aldridge

Secretariats:

- Max Harvey
- Dr Issam Samiri

The **witnesses** for this session were:

- Andy King (Member of the Budget Responsibility Committee, OBR).
- Frances Haque (Chief Economist, Santander).
- John Llewellyn (Consultant – formerly of University of Cambridge, OECD and Lehman Brothers).
- Martin Sartorius (Principal Economist, CBI).

JAGJIT CHADHA:

Good afternoon. Welcome to the first evidence session of 2023 by the UK Productivity Commission. I'm Jagjit Chadha, Director of the National Institute of Economic and Social Research [NIESR], where we are situated today, and also Chair of the Productivity Commission. The Productivity Commission itself is part of the ESRC funded Productivity Institute that is formally based at the Alliance Manchester Business School and NIESR is a proud partner of that initiative with the ESRC to try and understand the productivity puzzle that the UK faces, and ultimately to think of policy proposals that will improve what can only be described as a desperately poor performance over the last dozen or so years. Delighted this afternoon to welcome our four witnesses, who I will turn to in a minute: Frances Haque from Santander, Andy King from the Office for Budget Responsibility [OBR], John Llewellyn from Independent Economics and Martin Sartorius from the CBI. I'm very glad to be joined today by a number of our Commissioners in person, as well as a number online down the line. I hope that those of you watching online can see both of those who are in the building, and those who are elsewhere today. It's an interesting innovation, post-COVID, is the ability to do these things in a hybrid way. But it's something I'm still learning how to do. So please forgive me, if I screw up even more than usual, which is very likely. Let me also just make a point of thanking all my colleagues at NIESR today for helping us put this on, particularly Issam Samiri and Max Harvey, who's the Coordinator of the Productivity Commission, as well as our excellent, brilliant team at External Affairs who have been helping us do the planning for this event today. And finally, if not least, I want to mention in passing two of our Observers, one of our formal Observers, Stephen Aldridge, who is Director for Analysis and Data at the Department for Levelling Up, Housing and Communities, who had to walk what, three hundred yards?

STEPHEN ALDRIDGE:

A long way.

JAGJIT CHADHA:

A long way and I'm very glad he is here. And also in the room today is Catherine Mann, a member of the Monetary Policy Committee at the Bank of England. Someone with a distinguished record in economic policy, who will be working with us later this year on the evidence on investment. Thank you very much for joining us today, Catherine. So, today, our focus is business investment. To focus on our priorities for this year, in terms of the Productivity Commission, is investment. We can divide that in many different ways but today is strictly as far as possible on business investment rather than FDI, public investment, or other forms of investment. So with that in mind, can I turn to the witnesses today? I'll start with Frances, Andy, John, and Martin, perhaps to give a very short introduction to yourselves, but also perhaps a top line perspective on business investment. Frances.

FRANCES HAQUE:

Well. So, I'm the Chief Economist and Head of Economic Analysis at Santander. I should say upfront that everything I say today is obviously my views and does not necessarily represent Santander UK. I have to make that sort of disclosure. I effectively run all the forecasting and the economic advice to the ExCo members and the board, and we obviously do a lot of scenario analysis around stress testing. And inevitably because we forecast the economy, we are always very interested in what has happened to productivity and it was quite interesting, I've actually been asked to do a presentation next week around productivity and why it's important to a bunch of food and drink members. So it's quite timely, really, to tell them how important it really is. You know, it's obviously been, it's been obvious for many years that we've been lacking badly in productivity growth, particularly against our peers. And many times I've asked the question why and it's actually very difficult. Well, it's very difficult in two minutes to give an answer to that question. And there's been a lot of discussion around this measurement. And I noticed that we're talking about intangibles as part of this and I think that's quite a key, a key area but certainly from you know, looking at corporate borrowing, right, which you can see is quite important to, in my job, to my bank, it's fairly obvious that, that borrowing is now falling back considerably. Business investment continues to be an issue. And I'm certainly looking forward to listening to some of the replies and panel comments on this as well. But given the outlook for the UK economy over the next five years, it is for very low growth, to be quite honest. I think there needs to be a renewed focus on this. So, you know, I'm privileged to be able to sit here and be part of this process, which I think you know, it's not just the government led initiative, like we've all got to be involved in our businesses, academic institutions, everybody needs to be involved in this. I've personally been a little bit more involved on the skill side in terms of productivity growth. But you know, to be fair, skills, its business investment too to a certain extent. It's a different kind, you don't measure it in the same way, obviously, we, we think about spending on money and, you know, on automation and technological advances, but equally businesses need to invest in people, so I have been looking at that. But obviously, from the point of view of this forum, we're very much more on the, on the money side of things. But as I say, I'm extremely, feel very privileged to be here today, and I look forward to listening to the other comments.

JAGJIT CHADHA:

You are very welcome.

ANDY KING:

Thanks very much for having me along today. My name is Andy King, I am the fiscal lead on the Committee at the OBR. Previously, the Chief of Staff there and in previous guises worked on macro and fiscal issues in the Treasury. I think this question when I, when it was posed, I think the first thing to say about it is that it's just been a challenge for such a very, very long time. I think in all of the twenty plus years I've been working in the Treasury and OBR, the weakness of the UK business investment relative to other countries has been a top issue. And naturally, governments have been focused on trying to solve that problem. So it was one of Gordon Brown's five drivers of productivity. It was one of the ambitions in the, not Osborne, Gordon, Cable growth plan, it's front and centre in Rishi Sunak's tax plan this time last year. So the question really is, why has it proved such a hard nut to crack? And I think, the simple answer is that there's no simple answers. A whole, a whole host of things come together to be blessed with a low investment economy. It's not just the headline corporation tax rate or capital allowance regime, demand prospects and uncertainty about them are hugely important too. Causation runs both ways, right, both growth to business investment, and I think that makes life analytically challenging. So, one of the consequences is lots and lots of remedies are tried. Some help, some don't. But the constant changing of policy settings is a source of uncertainty in itself. So, my day job involves signing off the costs and yields of government measures, the annual investment allowance has come across my desk very many times. So it's been around for fifteen years, it's varied from twenty five thousand pounds a year to a million pounds a year. The level has been raised or cut six times in that period. So that must affect businesses as they are trying to plan. I think the one thing I've been really struck by over the years is that the underperformance of investments is not just with business investment. It's common to, we are close to the bottom of the OECD league tables in investment share of GDP [inaudible] for decades. And I think that means that part of and clearly only part of the diagnosis has to lie with finding a factor that is specific to the UK, but common to all forms of investment. For me, the planning regime seems a likely candidate, it slows things down, its costs, its uncertainties. I guess you have to worry that, that might be particularly important when you think about the volume of investment that's needed to hit net-zero. Which Martin's boss put quite colourfully in his speeches on Monday. So I could go on but I will stop there.

JAGJIT CHADHA:

Thank you very much Andy. Excellent start. John.

JOHN LLEWELLYN:

Good afternoon Jagjit and thank you for inviting me and good afternoon to everybody else. I have a bit of a confession. When I, when I read the rubric for today, I realised of course that it's about business investment. And I thought I don't know anything about that. But some of the people here will. I've always been interested and concerned with productivity. I spent quite a lot of my time in the sixties when I did my doctoral thesis and always been following that subject ever since. And so I found my mind drifting, however hard I tried in preparation for today, to other things than just purely investment and so I do have some thoughts, but they might be out of place. But just a few thoughts. One is on that, that, that productivity growth is a macroeconomic phenomenon, as well as a microeconomic phenomenon, and I'd be happy to say a few words about that if it was useful at some point. I did even find myself asking if one should be expecting more than we've been getting. As a matter of fact, it's not absolutely clear to me how much we should be beating ourselves up, but that will probably become clearer. And the third thing that I always find myself unable to avoid mentioning is measurement, are we measuring this right. So that's a bit, a bit to the side. And therefore I shall, like you, I should be interested to learn what people have to say, but if you do want to hear it then…

JAGJIT CHADHA:

Well, we have the three topics, we'll come back to them, but we would very much like your views so prepare some answers. But not just now.

MARTIN SARTORIUS:

Thank you. So, introduce myself, I'm Martin Sartorius. I'm Principal Economist at the CBI. My work at the CBI involves kind of macroeconomic analysis and forecasting of the UK and other countries, such as the US. I also work on the CBI's Business Surveys, which many of you probably know about. Right now, I'm focused on the Financial Sector Survey, but in which we will reflect on manufacturing and distribution, as well. And just a few thoughts for myself to kind of open up the discussion for my side. So as Andy mentioned, the UK really has a long-standing structural weakness in business investment, and especially when we compare ourselves to our G7 peers. And the current situation and kind of looking ahead does seem quite challenging. So just looking at our own surveys, investment intentions softened quite noticeably over the last year, reflecting a mixture of kind of headwinds, like demand uncertainty with higher cost of energy, cost of finance as well as interest rates have gone up and labour shortages as well, holding back investment plans. And when we look ahead, our own kind of CBI forecast expects the economy to fall into recession this year, in business investment and the forthcoming track, and coming forward, ninety percent below its pre COVID level. So no expectation there of a big change to kind of more sunny uplands for business investment. And kind of as my boss, Tony Danker spoke about earlier this week, and last week, we do have a growing competitiveness problem. So we have some long standing strengths in things like ease of doing business, some leading sectors, FinTech, life sciences and things and then factoring some fantastic research being done at our universities. But other countries are now making big strategic plays in areas that will define the next few decades. The biggest example being of course the US's Inflation Reduction Act, which just anecdotally is starting to draw investment in these kinds of key green areas over to that country and away from the UK. Now, the simple fact of the matter is that we won't be able to outspend the US or potentially the EU, if they had created a similar scheme. Therefore, I think kind of today's discussion is really timely to kind of talk about our existing weaknesses, and kind of think about basically where we can outsmart the competition and make the UK quite an attractive place to invest going forward.

JAGJIT CHADHA:

Thank you very much Martin. I just wondered, I have just got one question, if I may. Quite rightly, you outlined a number of issues that make us, if not disappointed, it's just investment is not going to perform particularly well in the short run. But is there any sense in which the structural problems that we face mean that the shocks that we are facing, that are faced by most advanced economies in the world, mean that we're more sensitive to them and our investment performs more poorly than other countries? Is there some trap here? Yeah, I mean, it's, it's all very well talking about day-to-day shocks, but you go to every other country and they'll say they are facing the same shock. So why does our investment continue to perform so poorly. Just a quick response, I just wanted to ask that given what you had said.

MARTIN SARTORIUS:

Certainly, so, I think just kind of touching on a couple of points that I made. So one kind of on energy, so the UK is facing higher energy costs compared to some of their European peers because we create, a big chunk of our electricity is generated from natural gas. So when natural gas spiked last year, electricity costs in the UK kind of jumped up. Because of that, versus kind of some other European countries, where coming to the mix of energy generation is a little bit different, we're kind of a little bit less exposed to that challenge and that is something that we've heard from especially kind of energy intensive businesses. And then kind of on issues like labour shortages, this is I know, it's been a long standing issue in the UK, that certainly kind of Brexit and kind of changes in immigration regime haven't made it easier, and that's kind of ties into some of the longer kind of, CBI asks about kind of looking at reforming the apprenticeship [inaudible] to kind of boost domestic skills, but also looking at more flexibility for shortage of occupation lists to really get in the skills we need for the economy.

JAGJIT CHADHA:

Thank you very much Martin. Very, very helpful, and very clear. Now I'm going to turn to our first topic, which is trying to understand the size of business investment and I will turn shortly to Anton Muscatelli, who is up in Glasgow, to particularly lead on those questions. May I also just remind people online that they're able to send us some questions or comments. I think the expression is down the line. Is that right? I think that may be a little bit out of date. Anyway, down the line, and I've asked them, please, to give us their name and affiliation when doing so. And we'll certainly try to answer those questions within the time of this session, or subsequently, because we have your email address now. Anton, may I turn to you.

ANTON MUSCATELLI:

Thank you, Jagjit. And I hope you can all hear me. I mean, I wanted to follow up on some of the points you've already made. And because in a sense, as I think a couple of you have said, this is not a new problem. I mean, if you look at business investment as a share of GDP in the UK, it's actually lower now than it was about fifty odd years ago. But in the last thirty years, since thirty years or so, since 1990, it's moved from around fourteen percent of GDP to just between nine and ten percent of GDP. So I wonder if you could speak to that. And again, comparing across countries. Some of you already mentioned what the issues might be, but also, why and how this matters for productivity, obviously, lack of capital deepening does matter for productivity. But if you want to reflect on, on the way in which this might be an obstacle for, for UK productivity, and then I know one or two of you have already mentioned sectors, there might be a sector angle on there. So I wonder if we could start with Andy, just to explore just the size of the problem, the fact that it isn't a new phenomenon?

ANDY KING:

Yes, well, as you say, it's just not, not a new phenomenon. The government reports that I've mentioned, several of them, I was the junior official putting together the chart that showed that we were doing badly on these measures. And, you know, there is a statement at the start of each of them saying something along the lines of, for decades, this has been a problem. And, by my reckoning, you know, of the, what you might call the twenty or so older OECD member countries, we've, on business investment, we've been close to, close to the bottom of the pack for most of the last twenty-five years. On other forms of investment, it's varied a bit more, but on business investment it has been persistently low. And, and I think the, I, I would defer to others on whether there's a sectoral angle to that within business investment, but that the things that are striking are many of the, many of the reasons you come too quickly, it's hard to see how the UK versus other countries is particularly bad. So if you take the situation right now, we have a relatively low headline corporation tax rate, a relatively ungenerous capital allowances system, not, not right now with the super deduction but in general, and that adds up to a kind of middle of the pack offer for business investments. So why should that be? Why should that result in a particularly low ratio? The other things that I recall looking at are things like is the UK somehow particularly short-termist in its view for investment prospects, to do with how things are financed or how the stock market works.

And as I say, the thing that I kept coming back to, that is because it's common to the other forms of investment as well, is just whether the planning regime leaves sufficient grit in the system and slows things down sufficiently that that's part of the problem. But the, I guess, the last thing I would say is that it seems so persistent and relatively large, it seems very unlikely that there's one answer, there must be many things.

ANTON MUSCATELLI:

Thanks Andy, and maybe if I could turn to John, is there anything you would add, John, to that perspective on the likely causes and importance of this phenomenon?

JOHN LLEWELLYN:

Well, there is one brief thing. And I was just looking at what the numbers actually were between 2000 and 2022, for growth of GDP per person employed and, actually, you know, in international comparisons, don’t look too bad. I mean, the numbers aren't the sorts of numbers you'd like to see, but the US did far better than everybody else, in terms of productivity growth. But really, UK, Germany, Canada, and Japan, there’s nothing much in it. We did fractionally better than Germany. The Italians look, look, look poor, with no growth in productivity at all. But the four that I mentioned the UK, Germany, Canada, Japan, it’s pretty tight, nothing to distinguish between them. So, just on that fact, I think we can berate ourselves for the low investment, by all means, but actually the productivity performance hasn't been that bad.

ANTON MUSCATELLI:

Thanks John. May we turn to Martin next.

MARTIN SARTORIUS:

Yeah. So I mean, just to follow up on John's point. So just in kind of speaking with businesses more recently, and when they're talking about kind of what is influencing their investment plan. So that a couple of things that come up is one, kind of the recent chop and change and kind of policy and kind of strategic view of the government. So it's very difficult, including on things like tax policy to plan investments, which are kind of longer term, five to ten years into the future, if you don't know kind of what the government's focus is going to be at that point in time. It's very difficult to make decisions. And the UK, especially kind of over the second half of last year was so they fit them into kind of this broader volatility in the policy landscape. And then really kind of I mentioned Brexit earlier. But again, it's something that still comes up when we speak to members and kind of when making kind of both decisions on which countries to invest, foreign owned firms, as each country manager comes up, is making the case for their country to get the investment. And we hear all the time that it just becomes a lot more difficult for the UK to make a competitive case because always they hear back from kind of the heads of these foreign companies, ‘But what about Brexit?' And it's just something additional that they have to kind of argue for and kind of overcome those questions. So, I think that those are just a couple of things that kind of put us right now in kind of a bit more of a difficult space when companies are making those decisions, whether or not to invest. And if I may just make a couple of comments on kind of the sectoral angle of business investment recently. So, kind of looking at our data on investment intentions, across a few different sectors, manufacturing has kind of stood out as like relatively more resilient compared to services and distribution. And kind of the couple of factors that kind of may come into play into that, just based again on our survey data, one, you see a distinct boost in plant and machinery investment intentions, so probably reflecting some of that support from the super deduction. And that is well, kind of in terms of reasons of capital expenditure, many manufacturers told us that they wanted to expand capacity. And I think this ties into that kind of a pandemic boost to kind of goods demand. And even in the last few months, we've still heard from manufacturers that they're working through their backlog. So there's still kind of relatively kind of decent output on that side, because there had been such a backlog of demand over COVID. So that's a couple of things kind of making it a little bit stronger in that sector relative others.

ANTON MUSCATELLI:

Thanks. Thanks very much Martin and maybe final and finally, Frances, maybe your perspective on the question, but also, if there's a particular angle from the financial markets side, in terms of behaviours you see in the UK in terms of business investment versus comparable countries.

FRANCES HAQUE:

I mean, a couple of things like I think the point about uncertainty, when I've gone out and talk to corporate clients, that certainly is an issue. And part of that's Brexit and part of its chopping and changing. But I think a lot of the class I talk to are SMEs, and I think there's possibly a difference between, you know, how the SMEs feel versus how much bigger companies feel about these things. And certainly, we've noticed from, from data coming in from the Bank of England, that SMEs are starting to, they want to pay back any debts that they've got. So I think, from an investment perspective, that means now they're much more focused on getting rid of the debt. And I can actually, I mean, from the point, I did write it down, yeah, so if you don't get the sort of floating rates for an SME, they're almost, you know, a percent higher than for, for much bigger companies, if they borrowed and they have probably borrowed that way. So, you know, they're really starting to feel the hit, now, in terms of cost to their business. So they perhaps don't have as much money to make these investments. Having said that, we do actually have something called the Trade Barometer Survey, which conducts twice a year, mainly talking to SMEs around, you know, how they feel, sentiment and things like that. So, you know, it is quite interesting. Obviously, it's trade focused. So it's more interested in those companies that are looking to trade abroad, and it's quite interesting that they want to be able to do, they would like to be able to invest, but the problem they face is they don't have the support, they're not quite sure where look for it. I think more guidance and help, actually Santander, this is a bit of a plug, but Santander have actually now created something called the Santander Navigator Tool, I do believe they are talking to government, to the Trade Department about but it's there to try and help solve this problem for our clients and those outside trying to be able to point them in the right direction. And like, so I think that there are things that can be done to help to grow investment, but quite why we lag versus other countries is difficult. I have to say, I don't, I don't really have a good understanding of that. I don't understand why we are so far behind, unless it is that we just don't feel that our businesses want to grow. Perhaps, because we have quite a large proportion of SMEs, they, they don't feel that they want to grow outside of all the, they want to keep within the bounds of what they know.

ANTON MUSCATELLI:

Thanks, thanks Frances. Could I perhaps ask you and Martin, and one or two others may want to come in, but there's been quite a lot of talk recently around SME tax, R&D tax credits and the way that we, changes to that may have impacted on, on the decision to invest, specifically in R&D intensive SMEs. Have you got any thoughts about that? Or Martin may want to come in on this as well?

FRANCES HAQUE:

I think I don't have specifically or at least I haven't heard very much from the SME side on that.

ANTON MUSCATELLI:

Martin.

MARTIN SARTORIUS:

Just a short comment from me where I think it is kind of concerning. So just kind of looking through my notes, I believe that the R&D tax credits for SMEs are kind of made less generous than they were before. And that is kind of a concern, from the CBIs perspective, I have kind of a stat of kind of every one pound in public R&D expenditure stimulates around two pounds of private investment after five to fifteen years. So that is certainly something that is a concern for us. And you hear kind of throughout from smaller businesses, just when, when kind of trying to look at it through business investment, which ties into a broader discussion on productivity, many times it might be more difficult for smaller firms to access the finance to kind of invest in the intangibles they need. I remember speaking with one merchant bank a couple of years ago, and for them when they're kind of lending to smaller businesses, I mean, it's effectively some, a no go in case you have no collateral on things like software. So that is something that is a concern when we're looking at how to boost productivity for SMEs.

ANDY KING:

Just coming in on the R&D tax credit, is that it's, it's one of the, it's one of the few areas of investment stimulating policy where the evidence base is very strong, as Martin just mentioned. But when you look at this from the, from the centre, not only was the R&D tax credit for small companies clearly very successful in stimulating R&D, it was also unfortunately quite successful in stimulating abuse of the system, because it was very generous. And you could, you could really see this in the data. But as people were learning what you needed to do to get your generous payment, that certain sectors that were not obviously R&D intensive, were claiming a lot of tax credit. And you can now see this in the ONS data. The ONS have taken on the tax-based data for R&D as a national accounts thing, revising up UK R&D spending very significantly, but unless they revise GDP significantly as well, that seems at least at face value to say that the R&D was not as productive as we previously thought. And so, you know, I'm from the OBR, I don't talk about what could certainly happen but you can see, I think you can see why the government was trying to balance the generosity of the various R&D tax credits, given what they were seeing, both in the good use and the bad use of it.

ANTON MUSCATELLI:

Thanks, Andy. Jagjit, did you want me to hand back to you because there'll be Commissioners also, in the room?

JAGJIT CHADHA:

Well, certainly, we can go back to Commissioners for any follow up questions. I have a good feeling John wanted to come in?

JOHN LLEWELLYN:

Yes. Thanks Jagjit. One quick point, and Frances and others have talked about uncertainty. It's obviously important, although I would say I don't think I've ever spoken to a company who haven't said the environment is uncertain for them. In the same breath as saying that, I'd say there is one certainty out there. And that's in the realm of climate change and global warming more generally. Because that's driven by the laws of physics, which you either choose to believe or you don't. But my sense is that there's now broad recognition across, across most of society that this is a real phenomenon, that it's an important phenomenon and it's a, it's an area which there's going to have to be a fundamental change in what we produce and how we produce it and to some extent, where we produce it. Now, until recently, I think that this discourse on that subject was that investment had to be helped in some sense by government, whether by regulations, whether by subsidies, or whatever it is, the better it works. In some countries, for example, in China, it was the policy of the government to bring down the cost of solar cells, and my god, they've been successful. But we're now at a watershed, because in many parts of the world now, renewables are cost competitive with hydrocarbons. So in a way, if a COP26, a COP27, or [inaudible] as effective as you might have wished, that has suddenly become less relevant. And it's just a question, really, in my mind, that you could talk to serious people who've seen that, who think they see the beginnings of a real wave of investment, both in the production of energy by renewable means, but also replacing capital stock which will use renewable [inaudible]. So it is just possible, but I wouldn't put it as strongly as this at the moment, that we may be facing a wave of investment that we haven't seen for a very long time. And it won't depend on policy, it depends on the laws of physics.

JAGJIT CHADHA:

Well certainly cause for optimism in the future, perhaps, but it doesn't help us understand the UK's particular problem over the last dozen years or so.

JOHN LLEWELLYN:

Well no, to what extent do we look back and to what extent do we look forward.

JAGJIT CHADHA:

Trying to understand where we currently are.

JOHN LLEWELLYN:

Yes, sure.

JAGJIT CHADHA:

I can see that Rachel; I have a question but I can see Rachel.

RACHEL LOMAX:

So I just wanted, I think we've touched on this, but I just wanted to ask if people could add a bit to it. I mean, one of the big points that seems to emerge is the UK has been at the bottom of the G7 league for some time, as far as business investment is concerned. Can we say more about that? I mean, has it, just over time, has it got worse? Is it getting better? And also in terms of sectoral differences? I mean, is this located in any particular sectors, I mean, is the composition of our economy, you know, part of the answer to all this? And sort of linked in to all this, I mean, I keep on reading in The Economist that the real answer to all this is our planning system, and it may or may not be right, but has that got any support in cross country comparisons? I mean, can you see that, for example, you know, things that require a lot of planning permission, like construction and whatever is particularly poor performance, particularly performance in the UK, relative to other countries. So can we just sort of, can I just ask if people can go a little bit deeper on this question of why our performance on business investment is so poor, and something that's got dramatically worse, or something that has been chugging along for as long as some of us can remember, and some of us can remember a long time.

JAGJIT CHADHA:

Thanks very much Rachel. I’m sorry to put you in the frame Andy, is that something you might be able to come back on. In a sense, you mentioned the planning issue. And I just want to know how important you think that is internationally, and I guess just digging into the sectoral questions on business investment to the extent [inaudible] and whether the business investment story is recoverable? It has been around for so long; it just might need a complete regime change. You may not be able to answer that, but I think that is where we are going.

ANDY KING:

So, just on the, on the facts of where we sit in the league table. For business investment, we've been close to the bottom of this kind of group of like older OECD countries, most comparable ones. And by bottom two or three places for as long as the data goes, as far as I am aware. And it has varied, we've had, you know, worse periods and better periods, but really, that is a structural issue. I think there's, there's definitely cross-country evidence that says that because we have a very service sector focused economy, you would expect lower rates but, but that cannot explain all of it. There's something larger going on. I am not aware of good cross-country evidence of planning regimes or land, land use regulation [inaudible] on investments. I mean, to my mind, the, as I've said, the thing that I find striking is that across all sectors of household, business, government sets, investment is alike, I think that is, I take that as evidence that the planning regime is an issue. I mean, to give a, one piece of evidence from a while back now, but when, in the run up to the financial crisis, when across Europe and other parts of the Anglo-Saxon world, you saw construction booms; in the UK, you really didn't, you didn't get a construction boom, you got a pure house price boom. So as the financial excess was building up everywhere, only in the UK, where it really didn't go into supply, it went into price. And you may think that's a good or bad thing, given what happened afterwards but, but that, you know, it's a, it's a piece of evidence that the ability to invest in real things is something and there has of course been some planning reform over the past decade. And the UK’s position, relative position on housing investment is not as bad as it was ten, fifteen years ago. So that's also evidence.

JAGJIT CHADHA:

Thank you very much. Just one follow up. Is there anything from any other Commissioners that want to come in? [inaudible] Simple views of business investment, one of the drivers, for firms that are risk averse and facing uncertainty, is this level of uncertainty and risk aversion that they face. Something that is always and everywhere a phenomenon as we've heard, that everyone talks about; but is there any sense in which you could say that it has been worse, the levels of uncertainty in the UK space, than other economies, either because of global factors, or the extent to which they interact with our domestic structure to make them worse for the policy churn, or the policy process that we've got? Is that an identifiable factor?

MARTIN SARTORIUS:

Yeah, it certainly is something that comes up a lot when we speak with businesses. Stability and policy certainty are all kind of key things when making investment decisions, also tax system certainty. And when those things are in flux, that makes firms a bit more cautious about investing in the UK. And I think just looking kind of internationally, the UK has been going through kind of quite a volatile period over the last six years or so. And that does stand out from kind of other international kind of peer countries. And it comes up all the time when we kind of speak with businesses. So I guess that that's certainly, we see it as well kind of in our surveys and just generally when we're talking with businesses, that comes up over and over.

JAGJIT CHADHA:

Please go on [Bart].

BART VAN ARK:

Can I just follow up a little bit on the uncertainty question? Now, we want to go to John about this, because I think John was absolutely right earlier to say businesses always complain about uncertainty. It's the same thing, like that whole conversation this morning. Businesses always complain that they can't find the skills, I have never talked to a business that doesn't say that. The question with uncertainty however is whether there is a certain tipping point. It really goes to Martin's point that it seems to be building up over time and one hypothesis, and that's why I wanted to try it out on you, is that you might have accumulated an amount of uncertainty for some of the reasons discussed here, that we now actually beginning to see a significant downward effect on investment compared to what we're seeing in other countries. How would you respond to that hypothesis?

JOHN LLEWELLYN:

Credible. I mean you do see this building. These things are very subjective. But yes, you do feel it's building. I would have added Brexit to that too, because it reduces the attractiveness of placing your investment in the UK with the view of having unfettered access to a large market. So yes, I could imagine, I've never seen evidence of it. I'll tell you what I have seen evidence of, just to Rachel's point if I may, I was talking earlier, the weekend, to a lawyer in America, who's concerned with planning and he said, 'By God, it's hard to get stuff done in this country now.' He said, 'Of course, you think we're geographically big', he said, 'But in the places you want to be, we're very crowded, and it's extremely difficult.' And I said, 'Like the UK?' And he said, 'Exactly like the UK.' And he's been trying to place, he says to place investment in the nuclear industry is damn nearly impossible, even on existing sites.

JAGJIT CHADHA:

Well, I learnt a lot from that session. Thank you very much everyone for asking the questions and answering so, so fully. I want to move on if I may to intangibles, but, by the way, I hope you did not have to pay that lawyer by the hour. That's a bit scary. But, Bart, I wonder if I may turn to you just take the lead on the questions on intangibles for the next ten or so minutes.

BART VAN ARK:

Sure. I'd like to thank you for including this topic into the agenda because intangibles have become an important part of the investment story, in recent years. Intangibles was a radically satori topic until the 1990s, it was not, certainly not the core business for economists. But since the early 2000s, a whole literature has accumulated, plus measurement has accumulated, about the importance of intangibles. And as we all know, even today, already, you see that a significant portion of intangibles are included in our investment story, research and development, software, significant parts of innovation, like artistic originals, and design. The part of intangibles are not yet included in national accounting, economists among them, for example, Jonathan Haskel, in the UK would argue that more of these intangibles need to be taken into account. And if you take that entire picture together, adding things like organisational capital and management competencies and brands and marketing, etc, are going to become part of the national accounts, the next system of national accounts, we take all that together, intangibles as a share of GDP is significantly higher than the traditional tangibles as a share of GDP in virtually all OECD economies, if not all. So, so I think we need to discuss it because we have to think about how does this exactly fit into the particular story and I think we still have a lot of sort of open parts there. And, John, as you, as you mentioned earlier that, you know, that you are interested in measurement, I think the first question I'd like to ask to you is actually, do you think that we're on the right path with measuring intangibles? Some people would argue that maybe we're pushing this a little bit too hard, that intangibles are, well, intangible, so they are somewhat different from, from the rest, and maybe we're overdoing this a little bit. Some people are arguing against including marketing and brands into, into the concept. So let me start with you, what your thinking is about this movement and whether you think that's going to be helpful for us to understand the [inaudible] investment or whether it's actually making it even more complicated.

JOHN LLEWELLYN:

It's a judgement call, of course. But firstly, on your numbers, I mean, we, we did look at them recently with some care and I would very much support your numbers that, that intangible investment is as important. Quantitatively or more now in the advanced, in advanced countries, which of course has a paradox in it because if investment was a lot higher than we thought it was then our productivity growth is less than, less than we thought it was. But putting that thought aside and addressing your question, when we looked at the sort of the whole string of, of intangibles, but one end it looked a bit fanciful to call it investment. And at the other end, it seemed dead obvious that you should. But if you, if you buy a computer for your office, it's, it's, it's fixed investment, if you buy software to make it work, it's intangible. That's obviously right to include, but on the other hand investment in brand are sometimes called intangible investments but I don't think in an economist’s terms it is. So I think some people are pushing it a bit. I agree with you. But if you, I always say to my people, we've got to come up with a number and we reckon that two thirds of what was being recorded as intangible investment was, was almost certainly right. That's a lot. Two thirds, two thirds of a half. So that's a lot.

BART VAN ARK:

Yeah, so we probably have to move to reality that marketing and brands are going to become part of investment at some point, since the national accounts movement is going there. But, but the two ways now, if you add intangibles to the story here, there are two ways to think about this if you relate it to intangibles. One is that, okay, this is just something that we didn't measure properly so far. It's been measured, but it was measured as a spent and therefore it's sort of to alter growth [inaudible]. We're just not adding it and we are recognising it as an investment. And so one argument is that well, you know, it's just a compliment. The story doesn't fundamentally change. And actually, Bank of England, in a recent paper, actually, the first author was the Governor, was arguing that this is sort of the missing investment story. And if we add these intangibles we basically have explained. The other way to think about it is to say no, there's something else going on, because there must be a reason why tangibles are becoming less important and that is because they've been substituted for more intangibles, the economy has simply become more intangible. And so as long as we get too narrowly focused on the essentials, we think there's a problem. But that may actually not be a problem, there is a substitution going on and we have to rethink where we have to put our policies. So how are you thinking about this? Do you think it's a compliment? Do you think it's a substitute? Do you think we still don't quite know and need to figure this out?

JOHN LLEWELLYN:

I think there's three elements of it. One is that it is something we always missed. We just didn't catch it, we didn't realise it was becoming important. Partly it's a compliment, because you need, you need to invest in various intangible things to make your tangible capital work properly. And to some extent it’s a substitute, at least in a sectoral sense because you move from, from machinery to, to digitisation, or whatever. So it's all three in my view.

BART VAN ARK:

More work to be done there.

JOHN LLEWELLYN:

Yes, without any doubt.

BART VAN ARK:

Final question then and then we can open up to some, some others and maybe others in the, of the witnesses may want to answer to this as well, and that is that some of these characteristics of intangibles are different from tangibles and it has been very well summarised by Jonathan Haskel and Stian Westlake, you know, spillover effects and sunk costs and synergies and so on. And there is a concern that some of the, the recent developments in intangibles are actually not as good in creating these spillovers and these synergies that we would like, that were here before the financial crisis. So we had this good round of intangible growth and into productivity growth in the 1990s and early 2000s. But then since the crisis [inaudible]. And one argument is that because of digital technology, and other movements, we are actually not generating these kinds of positive effects in intangibles as we have in the past. Again, I will just start with you, but I would like to hear from other Commissioners, from other witnesses what their thoughts are about the power of intangibles, the significance of intangibles to productivity growth.

JOHN LLEWELLYN:

I think that question is too hard for me. I think it's the right question.

JAGJIT CHADHA:

A disarming honesty.

JOHN LLEWELLYN:

It's extremely hard, isn't it, at the margins, to say, for example an anecdote, at a dinner the other night with, with the CEO of Rolls Royce small modular reactors, right. Who actually encapsulates an awful lot of what we're talking about. First of all, technologically, this country is two or three years ahead of its nearest competitors who are French and American. So that sounds like a plus. But they haven't sold any, not a lot abroad. And you are saying why haven’t you sold any abroad, because they're about thirty percent cheaper than ones constructed on site? Answer, because we can't until we've had one or preferably two orders from the UK government. Why haven't you had one or two orders from the UK government? They can't until the regulator signs off. How long is the regulator going to take? Two years. Is planning a problem? Well, it shouldn't be, because we would put these things on the present nuclear estate, as they call it. But, a government says we have to take that very seriously, though our soundings suggests that the people who have lived in the vicinities of this industry would love to have it. So there's your planning. And then last to this intangibles point, I don't know if it helps. Theresa May was there and she said, but of course, we'd have to train the people because, this is pretty sophisticated. And she said, not a bit of it, not a bit of it. Sign as a purchaser today, we'll train the people, we'll find them in any of the levelling up, any of the red wall seats, we can do it with our existing manpower, not a problem. And I just asked myself the question, when I heard him saying this, is this an intangible investment? Or is it, or is it, you wouldn't even see it, because it's done within the company.

BART VAN ARK:

Any other witnesses want to comment on this question of whether intangibles are running out of steam, if I could use that, that sort of terminology? Anyone else wants to take a crack at this?

MARTIN SAROTIUS:

I mean, I can just make a quick observation, kind of from our survey data, what the business view has been, on the kind of intangible investment. There has been, kind of been a boost to it over the pandemic, especially when a lot of firms had to move to remote working in kind of updating their digital infrastructure, pushed to kind of spend in that area. So that, something that may be kind of slowing, as we are kind of going into kind of back in person kind of meetings and workspaces. But, that certainly kind of was a recent trend and that was kind of stronger than kind of other categories of investment as some of our surveys. Kind of notwithstanding that, I go back to kind of my earlier point where I was mentioning about the funding for intangibles for that can be an issue where there is no obvious collateral. So there's a possibility that for some businesses that may want to kind of spend extra money there that don't have kind of internal cash flow to spend on it that maybe there might be kind of untapped investment that's still [inaudible] intangibles.

FRANCES HAQUE:

The only thing that I'd add is big data. I mean, certainly, I know. Well in our own business and in a lot of other tech businesses, they're really looking at big data and what they can do with that. I mean, well, I suppose that would be intangible? And that may well, but it's not quite, I just don't think it's there yet to be in that sort of monetised state, where you can start to, but I think it's coming. I would certainly, there's a real push all round, and that's partly to do with digital, which is interesting, because if I think of digital, if I think of some of the benefits of digital, they actually go to the individual rather than the company, and I think it's only starting to turn. I mean, you know, just from a banking perspective, being able to go on my phone, have the app, do it, it's done. For me, I've saved lots of time, but that doesn't necessarily get qualified as output…

JOHN LLEWELLYN:

We’ve got problems measuring the investment and we've got problems measuring the output that comes from that.

FRANCES HAQUE:

Yes, exactly. Yes, it goes back to that sort of measurement point as well. But I think there are [inaudible].

BART VAN ARK:

Well, to some extent you are also arguing that, the time-lapse element, that we are still have not seeing it yet.

FRANCES HAQUE:

Yes, it does take time. But I think there are certain things, yeah, I think data probably would be one of them.

JOHN LLEWELLYN:

I would actually question whether our statistical methods will ever, present statistical methods will capture it at all.

JAGJIT CHADHA:

We’ve got a question from one of our Commissioners, Eileen Harkin-Jones. I wonder if you could bring her in, to ask the question. Thank you. Hello Eileen.

EILEEN HARKIN-JONES:

Yes, I'd like to ask the witnesses about how important they think investment in people is going to be in the future and, for example, in areas like management training, has it always been important, and will it become more important in the future? I think our younger, younger people are going to have much greater expectations of, you know, that companies are going to invest in them. But, you know, how important is this relative to investment in software, for example?

FRANCES HAQUE:

I would certainly say from my perspective, I think it's key for a lot of organisations, particularly for the younger generation, they're, you know, they're interested in the organisation as a whole, what they stand for, what, do they then want to work for them. And you certainly get the feeling that they, they want to feel that they're getting something out of it, rather than, you know, I mean we say about going to work, we, we certainly have the quality that, you know, you need to be in the office as well, because you need to be able to build those relationships. But it's all about investing in them as well as helping, helping the firm at the same time, so I think there will be a much greater push on that. And certainly, from surveys I've seen, companies are talking very much more about upskilling their workforce, has come to the top of the agenda, and that's presumably partly because they are struggling to get the labour that they need, but also keeping it, so it will be I would imagine, it's very, very high on organisations' agendas.

EILEEN HARKIN-JONES:

Could I just ask how could we encourage, for example, our SMEs to invest more in people, and particularly in management training? What sort of initiatives? Are you aware? Are you aware of, that have worked in other countries and you know, even locally, in the UK, for example?

JOHN LLEWELLYN:

Well, do you know, I would put [inaudible] the other way up, sometimes. I speak to a lot of small firms and some medium sized firms, but our clients are large firms, and most of the small firms I talked to, and we're a case in point, we put a lot of effort into training young people. And then what happens, big companies come along and snaffle [inaudible] on the back of the investment we've done so. Yes, I actually think the big companies are worse than the small companies when it comes to training. Cause they steal it.

JAGJIT CHADHA:

Are we anywhere near understanding the extent to which intangibles are the substitute or complement for future productivity? Any gut responses on that? One issue we have looked at, well Issam has looked at this, is the extent to which intangible investment is financed internally by firms rather than [inaudible] is actually something that firms go out and use as collateral to lead to further investment, is just something they are doing internally? And I just wondered whether that acts as a constraint on the SMEs, who are investing in intangibles? But then that only matters if we think intangible investment is something that's important for productivity. So I'm finding it hard to cut through all of this, and how important it is.

MARTIN SARTORIUS:

I would say, you know, from our perspective, yes, it's very important because when we're looking at key trends going forward, kind of, the innovation space, [inaudible], automation, all of these things lead to potential investment. So for the smaller businesses that want to be competitive with the market players, really push the boundaries of the next technologies and offering the best service to their staff and to their customers, they need to be able to do that. So it's certainly a very important issue with, especially when we are thinking about productivity.

JAGJIT CHADHA:

So Bart, from the work we have at the Institute, is the intangible investment that we've got, is it split by firm size? Do we know if it's largely concentrated [inaudible]?

BART VAN ARK:

Yes, it is. Yeah, I mean, to the extent that we, that we have good firm level data, which is very limited, so in terms of the breadth of intangibles. But to the extent the larger firms are the big spenders on R&D, intensity of innovation on digital, they're ahead of smaller firms. And most of the time, so, so, so that's something that we very clearly see. Another really worrying trend at the moment is that some of the sectors that are most digitally intensive, right, the sectors that have actually seen the biggest slowdown in terms of the growth in intangibles in recent years, right, so one concern that buyers have, especially early, is that something changing the power of intangibles because it seems that those sectors actually using them do not really get much productivity growth. And that's why I think it's a matter of concern to think about it from the perspective of investment.

JAGJIT CHADHA:

That, what you've just said in the first part, that's consistent, potentially, with the news that SMEs might be under invested in intangibles, and that's part of the dynamics of firms that might be holding them back. Which is part of the point that Frances was saying, is that we have got too many small firms that aren't growing. It's definitely plausible but it's potentially part of the story.

BART VAN ARK:

And that may well be related to Martin's comment that there's no market for intangibles, essentially. And that therefore a lot of this has to be financed internally. But that can change over time, particularly as intangibles are going to create more spillovers.

JAGJIT CHADHA:

We will come onto that later.

STEPHEN MILLARD:

On that theme, John's point is really important as well. Another reason why SMEs might underinvest, particularly in skills, a downside of intangibles, is precisely because it's much easier to walk away with an intangible than it is with a tangible. You know, I could walk out the office with some knowledge stored in my head, but you would probably notice if I was to walk out with an actual computer.

BART VAN ARK:

That is true to the extent that the intangibles are linked to people, it's not true when an intangible is actually linked to the firm.

STEPHEN MILLARD:

Right, I couldn’t walk out with Marks and Spencer’s brand.

JAGJIT CHADHA:

Thank you very much, that’s really helpful to understand that a little bit more, but not fully. So, we are going to go to our third topic now, which is exactly what we’ve touched upon already, which is financing business investment and I’d like Tony, Tony Venables to kick us off with that.

TONY VENABLES:

Great, thanks Jagjit. Yeah, so the supply side. Is access to finance the problem? What I'd like to do is sort of run through two or three questions, or three or four. First couple, sort of descriptive, do you think it's a problem? Is it a major issue? And then again, on the description side, when, if so, where is it most acute? Is it sector, the types of firms, intangibles, regions of course? Then whether it's particularly a problem with different financing channels and institutions. Are some bits of the financial intermediation just badly screwed up? They are all rather descriptive issues, and then diagnosis. At some deeper level, if, if we've identified the problems, why do you think they persist? Okay. That's the sort of preview of what I'd like to do. On the first element, to the whole panel, I think, but sort of fairly briefly, is it, is kind of access to finance, is it a big part of the picture? Big common problem in the UK, relative to other countries? Frances? And then we’ll dig deeper.

FRANCES HAQUE:

I don't know about relative to other countries, to be fair. I think in the UK, I think it depends whether you're an SME or a much larger organisation, because if you're a large organisation, you've just got more scope to go to different places, equity, etc. But, certainly the SMEs probably struggle at the moment. I mean, linking it to the, the intangible point, you've obviously got to be able to put up some form of collateral. And what it's not easy to do at the moment is obviously to value that. So, it's very difficult for banks to, you know, rightly have, you know, they've got to go through a process to ensure that we're meeting all our requirements. And that's all obviously regulatory focused. So I think it can be, I can't, I can think that it's much, a much higher bar for SMEs than perhaps others, which does pose, pose a problem for them. I don't think that so much, it's so it can take the current environment, which supplies so much, perhaps the issue now, and about that, I just don't think there's that much demand for it versus the supply. But, you know, that's a present moment problem, if we're looking at it, you know, back through time, perhaps less so. But, yes, I mean, I think it's always going to be harder for SMEs. I mean, you know, the amount of information you need to provide is a sort of barrier to getting it and so anything that can be done to ease that process for them, and you know, banks are certainly looking at trying to make it as easy as, as possible, trying to provide the support that they need, you know, it's in the banks interest as well as theirs, so. But yes, I think there is a, I think there will always be a slight issue until we can, we can help them to understand what they need to provide.

ANDY KING:

From the, from the side of things that I've looked at this, like the SME financing gap has a longer pedigree than any of the challenges that [inaudible] I was working on this back in, I guess, 2011. As the, as we were trying to ease the credit crunch from within the Treasury, and Martin Weale walking in and going, 'Oh the Macmillan gap', which I had to Google. But, you know, what conclusion I took from looking at the things we were able to look at is that there is clearly a gap, but it wasn't entirely clear to me it was a market failure. These things were mispriced. When you looked at the losses in things like the Small Firms Loan Guarantee scheme, they were colossal, very, very high percentages. And so, it's, SMEs are risky, right? And so, in a way, the policy question is more one of the, are social returns higher than the private alternative in the subsidising rather than closing a market failure. And, as I said, personal reflections on something from ten years ago but, you know, SMEs don't invest a lot, in anything. The, the annual [inaudible] which is the plant and machinery capital allowance that SMEs use, seventy five percent of firms, so maybe, and so, the SME side of things, it's a, it just seems to be a blanket issue, as opposed to, you know, obviously a specific one. And, you know, some of the talks, conversations I was challenged with, were the, where you look at [inaudible] the management is a longtail of poor performance, then you look at, you know, successive government reviews of skills, you see a longtail of poor performance. Factor that back to early education, the problem when the curve looks the same, again, you know, in my former seat when I was up on the policy, these things are very challenging to address, because they look like they're quite deep seated and they have a, they start early life [inaudible].

TONY VENABLES:

Great, thank you. John?

JOHN LLEWELLYN:

I can't do better than anecdotes for you really, is the truth of the matter. When we set our small firm up, we thought it'd be interesting to find out if there was anything on offer from banks or whatever, but when you approach banks as a small [inaudible] firm, the degree of security which they require just turns you right off. They wanted security, usually your house. They wanted certainty, in fact, you had to show them you had earnings, and so we said, well to hell with it. And said to the bank in question, well, how are you supposed to set up a new small firm in this country? We didn't do this as an exercise, like we'd been paid to do it. [inaudible] So, he said, well I'm afraid you'll have to do what everyone does and pay it with your credit card. So that was the first anecdote. So, I've concluded [inaudible] they start to show interest, they only start to show interest because you have been around for thirteen years. Well, for God's sake. Then, that's not purely anecdote because as I was at a private equity dinner with some people who used to run Lehman Brothers private equity, and then they took it over themselves. And this dinner, they had equity people from private equity from all over Europe. And one of the, one of the conclusions of the dinner was that there is absolutely no shortage of finance whatsoever for private equity, because you've got a firm which is there.

TONY VENABLES:

And then the next step [inaudible]…

JOHN LLEWELLYN:

Right. So, so, so [inaudible] which fits with what I was saying before, when you've got a firm which works then you become, then you start to become of some interest. And then the other two anecdotes which go with it are that, I've been surprised because people are always blaming the government for not supporting research, but you'd be surprised, at least I've been surprised, by how many people I've come across who've used government money as seed capital and got themselves a product and then had real trouble financing it into the development stage. And the ultimate answer, they go to America. And if you're into anecdotes, I'll give you one more, which dates back a bit [inaudible]. When I was a fellow at St. John's, there was a fellow there called Fergus Campbell, he invented the night sight, which enables you to see when there is virtually no sight. He's a patriotic Scot. He tried for two years to sell it to the Ministry of Defence. And they always told him reasons why it wasn't ready, they hadn't got money, they couldn't see the application. He finally lost patience and he rang up a friend of his who worked for Eastman Kodak in New York. He said, 'Fergus, what can I do for you?' He said, 'Well, I've invented a thing which can see in the dark.' 'Fergus, where are you?' 'I'm in Cambridge.' 'Fergus, this is what you do. You get in a taxi. You take it to Heathrow. When you get to the Concorde desk, they'll be a ticket waiting for you. When you arrive in New York, they'll be a helicopter waiting for you. We'll see you there and you can be home in time for bed.' And he's the most patriotic man ever. He really wanted to sell this to the Brits.

TONY VENABLES:

Yeah. Anyway.

MARTIN SARTORIUS:

So, so from my side, I mean, I'll echo kind of what my fellow witnesses have kind of said about the SME angle, kind of being more the area where access to finance becomes an issue, but I thought I'd kind of bring them up a little bit of the regional story.

TONY VENABLES:

Yeah.

MARTIN SARTORIUS:

Because I think that's really important. And I, a couple of years ago, I worked on the project with the Northeast Lab looking at kind of investment as a, kind of investment potential in the region and had a bunch of discussions with businesses and public bodies as well. A couple of things that I thought were kind of interesting to share with the group today. So first off, on regional access to finance, when we're looking at SMEs, there may be kind of gaps where the private sector is, is not really funding or giving money to the, credit to the smaller businesses. And that's where public funding can kind of come in. And now we have the British Business Bank and that can kind of help fund that but there was a feeling, at least when we did some of our interviews, that it hasn't fully filled the gaps that was lost following Brexit. So that was a challenge that they were seeing in terms of kind of their portfolio going forward. And then, additionally, on regional proximity to finance also listed interesting themes. So this ties into some research that the British Business Bank did themselves about kind of around sixty percent of investing happens within an hour of an investor's office. And so when you're going through regions, like the northeast, where it's quite a self-contained geography, it's not just an issue that it's far away from London, but it also is kind of far away from kind of more regional financial centres like Edinburgh, Leeds and Manchester. And so that was kind of a big challenge because especially with venture capital funding, those folks might not be willing to take the drive out to Newcastle or Sunderland to kind of invest in ideas or companies there. And that was a concern in terms of access to finance.

TONY VENABLES:

Thanks. So talk about SMEs. Next question, what are the other particular areas where this problem may or may not bite? So regional, is one, if anyone would want to speak to that? Scale up too? Or [inaudible] initiation? Long term projects in particular, is there any short-term bias here? I mean, just a sense on, you know, if there's a problem, where it's mostly acute?

JOHN LLEWELLYN:

Exporters is the other, because we did a study on that once, and obviously the UK is at a disadvantage relative to a number of continental countries: partly its language, partly its proximity to borders and all of that, but, but there's clear evidence that SMEs underperform in exports relative to SMEs in other countries and relative to large countries.

TONY VENABLES:

Because of finance?

JOHN LLEWELLYN:

Because, yes, I think so. I think it also goes back to intangibles of course because languages have a part of it but finance certainly. Exporting is one of the areas where some usually do underperform.

BART VAN ARK:

The language, we share an advantage in the UK.

JOHN LLEWELLYN:

No, no, not at all. You sell in their language; you buy in yours.

JAGJIT CHADHA:

Has that got worse after Brexit?

JOHN LLEWELLYN:

I don't know, I don't know.

TONY VENABLES:

Can I turn to, funding channels? And we talked about banks a little bit, but also the venture capital or corporate bond issues, but I believe the UK has, maybe the private sector has stopped issuing any. So, again, for whoever wants to address this issue, are there particular funding channels, institutions that don't appear to be functioning particularly well in that core task of funding public investment?

JOHN LLEWELLYN:

Venture capitalism does more good. If there's risk involved, you've got a better chance of [inaudible].

FRANCES HAQUE:

I think it depends what you're trying to finance as well. Certain, and that may be sort of sector, industry bias, as with all these things. I think, actually just going back to your point about long term investment. I actually think it's potentially harder sometimes in the UK, I can only one, one thought was, you know, back when BT were thinking about, you know, do you do fibre to the home or do you do fibre to the cabinet, they went with fibre to the cabinet, partly because it was a five year return and, you know, they've got shareholders that need to be paid. And that, you know, that was certainly a consideration. I'm not, this is anecdotal. But you know, certainly that was an issue. And I imagine they're not the only company that have that sort of issue. So I think it does depend a little bit on, on sector as well. I don't know of any market that's not working, you know, not working well at all. But, yeah, I think, I think it does probably depend on what you're trying to achieve.

TONY VENABLES:

Yeah, yeah. So, the interaction with corporate governance.

JOHN LLEWELLYN:

There is one other thing that I wrote down which I should have said in the same breath, and that is that there's a cultural element in this because we in this country, apparently, are not as good as the Japanese and the Germans, at the large companies supporting their suppliers. That can include access to finance. They can do, a large company can do quite a lot for a trusted supplier because it can give it a contract which guarantees it flow of income from a long term which means it can borrow against that. And of course, it could provide finance directly itself. And I think it's cultural. And I think the Germans have, from what I understand, the Germans and the Japanese are quite good at it, but we don't do it so much.

TONY VENABLES:

With some sort of why questions, let me start with the regional. What is the real, sort of barrier [inaudible]? Why do you have to [inaudible] London or something?

MARTIN SARTORIUS:

Being there's a long-standing issue, especially to the north of England, infrastructure and kind of buildings there. So, I mean, that may play a role in kind of considering proximity with those links for training or growth. So, that may be kind of a constraint on access to finance possibly.

FRANCES HAQUE:

I know from foreign direct investment, with, the EY Attractiveness Survey found that that was one of the key case issues, was sort of transport links and things like that.

JAGJIT CHADHA:

You'll send us the link for that?

FRANCES HAQUE:
I'll have to write it down or else I'll forget to do it.

JOHN LLEWELLYN:

Martin mentioned distance and, in particular, he said distance from London. I think, I think he's probably putting his finger on the dead hand of London a bit. And I'm asking myself the question whether compared with other parts of the world, including Germany and including the US, the fact that there's more regional involvement helps. I did once do a study in which we looked at Cleveland and Detroit, both of which had sunk almost to depths which you'd scarcely imagine, but Cleveland had pulled itself out. And the study was why did Cleveland succeed and why didn't Detroit. And the answer is that each had a mayor and therefore felt he had local responsibility. And each was extraordinarily, the Cleveland one was extraordinarily entrepreneurial, induced back Clevelanders to come and put their plants there, work on the banks and so on. So I think your business point is actually probably very important, particularly if allied with political entrepreneurialism.

JAGJIT CHADHA:

Briefly on this, on the regional, the regional point, designing work at the regional level, providing incentives for better politicians and decision makers at the regional level who can drag things up because we've had experiments at the regional level that haven't worked and I think it's something you've [Adrian Pabst] been thinking about and you might want to ask…

ADRIAN PABST:

Well, the specific question that I'd like to ask is, to what extent is it a problem that so many financial institutions, media are headquartered in London, and yes, they do have branches and so on, but they may not be working in quite the way, also with call centres, and, you know, this question of distance, you know, that has been mentioned. But to what extent, you know, would regional, sectoral banks make a difference? Say, if we compare that to other countries? Or do we have to just redesign the way that banks are working so that, for instance, SMEs could lend on more competitive terms? I mean, they have access to finance but that is the question of how competitive that access is rather than whether they have access to money or not, because they clearly do. I mean, every, every large bank is on every high street across the country. I guess, it's the, it's whether it's comparable, right? Whether you're trying to lend the same in Cambridge or Oxford, or Reading, compared with somewhere in Cumbria.

MARTIN SARTORIUS:

I kind of actually, to two of those points. So, one on, I did speak with a bank recently that is interested in kind of its, improving its offer on levelling up and kind of regional offering as well. But one of the issues that they were facing was just kind of the knowledge base for them. They're a national bank, but so it's an issue for them when they're like, 'Okay, we want to invest more in the regions, but maybe we don't have that on the ground, kind of expertise of kind of the business landscape.' And that becomes a challenge because these deals may be riskier. So even though they want to kind of invest to kind of, to make them a bit more cautious. So, I think that that's kind of one thought that I do think there is positive that banks are thinking about it as something they want to address. And they want to look for additional sorts of information to kind of overcome that problem. And then secondly, kind of on your other point, some of the research I've done on financial literacy does come up as a problem for kind of SMEs. So, some may rely on traditional bank loans, you know looking into their high street bank and saying, 'Okay, this is the type of funding I can get', rather than the alternative sources of finance. So things like equity financing, angel investment and venture capital. So there, there kind of could potentially be a role, at least when we did this report with the Northeast Lab, for kind of local government actors as an honest broker kind of linking up SMEs to potential alternative forms of finance that they might not be aware of before.

JAGJIT CHADHA:

Are there any more questions from Commissioners on this question of financing business investment? I just wonder if I could, one final question directed at Andy who said earlier that on measures of short termism, the UK didn't look much worse than other countries. I just want to know what gave you that, to support that? But also, it's kind of smart, I guess, the Treasury point about this, that small firms are always riskier. So, saying that, the world in which is going to be more difficult for them to raise investment. And the counterpart is that, is that banks will always treat them as riskier, and ask for more information, which makes us end up in an equilibrium, in a sense in which it's very hard for small firms to find access. They're treated as risky, banks are treating them as risky, but potentially the people setting up small firms have other disadvantages that we could outline that make it more difficult for them to negotiate the system and get the kinds of loans that we've got. And if they're cited around the country, I think this point about, if you're lucky enough to live in an area of high net worth, with liquid pools of venture capital on your doorstep, maybe you can go to fundraisers and get venture capital but how exactly do you do that in other parts of the country? So my question always is, in the sense of, are we worse than other countries to which we would like to compare ourselves with these kinds of problems. Is it better in Germany? Is it better in Cleveland? Along those dimensions. You kind of said, 'Maybe we are just the same as everyone else.' And I'm not sure about that. Perhaps I misunderstood you and I apologise.

ANDY KING:

I'm not sure, I'm not sure I did say that. I think the issue of, is the UK excessively short-termist, I just think it keeps coming up and I've learnt more today from what the panellists have been saying. So, I don't have data on that, but my understanding from the fact that it does keep coming up is that it may be an issue. Yes, I mean, as a [inaudible] the way, the way, the conclusions that I took away from that, which was some time ago, form a kind of macro level, you could kind of see why the SME funding gap was there when the risk is high, and that, therefore, but the returns are high, and the social returns could be higher. It seemed perfectly reasonable, and you could see why, you know, over decades, and all countries have ways of trying to subsidise to grow such small companies. So, I think, I think that was all I was saying about why, you know, the market is perfect, you can just understand why it is difficult for SMEs to find finance. Because when you look at some of these schemes, we do try to, some slides they mentioned that's the problem, that the loss rates on guarantees are quite high. To me, that says that is a fiscal subsidy to something that you want to happen more than the market would deliver. You know, OBR, I don't have views. But, I think that is a perfectly acceptable policy choice, you know it is a policy choice to subsidise something [inaudible] when there's a huge failing.

JAGJIT CHADHA:

Thank you very much. Cecilia, Cecilia, good afternoon.

CECILIA WONG:

Hi, Jagjit. Yeah, sorry. Just quite, quite interesting. Earlier, I think there's a point to raise about the differential pathway between Cleveland and Detroit. Currently, I'm analysing the data, not at the regional level, but at a combined authority and local authority district level. Well, I find something that's quite interesting, which in Liverpool City Region and Greater Manchester, both have high employment growth since 2015, both over ten percent since 2015, but what I find is a trajectory that GVA per hour growth is very different. Greater Manchester actually make very good change over that period of time, better than

Greater London. But actually, Liverpool was stagnated. So I think there may be an issue, if we focus on a regional level you conceal a lot of disparities in England, at least, especially because we have a political system with the mayor are different, they have different set up. And I think that, that is something that quite interests me, especially earlier I mentioned the American case. So just want to hear more on that maybe later on in the policy discussion, we can connect that to that. The other issue I want to raise about planning, as a town planner, I have to raise. Whenever you complain about planning cause problem when we're inquiry. We've gone through Dame Kate Barker, with various people go to do inquiry, your planning system have problems, but the whole world's planning system have problem. The UK is quite unique. We have a discretionary problem. We have discretion. Central government can make the guidance and the plan and local authorities will exercise the discretion. So in theory, this system should be more responsive, more able to adjust things. If you look at the US, actually why is it so difficult? Because they do zoning as well. To un-zone things is actually very difficult, legally. Now, I don't mean each system doesn’t have pros and cons. But I want to say is, we do a lot of research, no matter which system you are, you try to think, you have zoning, you want more flexibility; you have flexible planning, you want more certainty. So that is, that's an ongoing debate. But I will not say that that is the only factor that will be something, yet. I will say that we need to look in it because either, either system do have problem. It's a really bureaucratic system. So how we can make best to have business that's something maybe again, that will be something to discuss. But I feel the current government is flip-flopping. They can’t make up their mind. So they were planning white paper, they discard it. So that does not give certainty to business either. If the government can’t make up its mind, are they going to make some reform and then they change your mind a few days later, and actually that caused a lot of uncertainty to business I think.

JAGJIT CHADHA:

Thank you very much Cecilia. I think, is there any immediate response to that? Shall we take that as a comment, that we will think about more.

JOHN LLEWELLYN:

I think the French, the French entertain less objection than we do to planning. They are quite autocratic.

JAGJIT CHADHA:

You don't say.

JOHN LLEWELLYN:

Yes. It becomes, I think quantitatively important when you're talking about citing nuclear sites because when they decide to put up a set of nuclear sites, they simply do it. I did speak to one French senator, and I can't resist telling you this, I said, 'You seem to be different from us.' He said, 'In France, when we drain a pond, we don't consult the frogs.'

ADRIAN PABST:

We certainly couldn't say that.

JAGJIT CHADHA:

You may say that, but this is recorded. Thank you John, this is recorded. Anyway, we'll move on from this. Now, policy. We are now going to move onto a section on policy, where we have slightly less time than I envisaged. I would very much want to bring in Dirk, Dirk Pilat, who has recently stepped down from his key role at the OECD working on productivity, and I am delighted he is able to join us today. Dirk, if I may turn to you for some time on policy and then perhaps in about ten minutes I'd like to ask Adrian some domestic questions, on fiscal frameworks and the development bank. Good afternoon.

DIRK PILAT:

Thank you, Jagjit. Pleasure to join all of you this afternoon. Great discussion. Also, I found the issue of planning is something that I think is coming up in other productivity commissions. At the moment, Ireland has been thinking about that. And I wanted to really, perhaps, try to wrap up a little bit discussion from on, on policy, because we've, we've addressed quite a bit of it already. But there's one issue, I think we haven't really spoken about that much, which is really the role of public investment to leverage private investment. So I was first wanted to ask a little bit about that. I mean, there is quite a bit of literature about the role of public investment on infrastructure, but also in areas like public R&D, to leverage more private investment. So I would be interested to hear a little bit about from, first, does it play a role in sort of leveraging private investment? And secondly, I think a little bit, if the witnesses could say a little bit about any initiatives they know about that have really been quite successful in this area and any lessons we can learn about that either in the UK or abroad? So any thoughts on that? So really, the question is a little bit, can these public investments play a role? Do we have any examples? And can we learn from that in certain ways? So, anybody who would like to start on that, most welcome.

JAGJIT CHADHA:

Thank you very much. Well, perhaps we could just go from left to right. Frances, would you want, would you be able to start? Sorry, sorry, have I landed you in it?

FRANCES HAQUE:

Well, I mean, I certainly think that public investment plays a, plays a key role, particularly around infrastructure. One wonders with things like broadband, whether if there had been a bit more public investment, we would have been able to be a little bit more successful in rolling out to, to each and every home, which is extremely expensive. But I'm trying to think of some initiatives. And you might have to come back on that one. Successful initiatives, I, yes, I'm, I'm struggling on that one at the moment.

ANDY KING:

I think the answer is clearly yes, that public investment can do a lot to capitalize on private investment. I think the evidence base is, this is somewhat trite, but some investment is good and some is not. And the returns, the variation on the returns, is quite great. And that's one of the challenges. And, then the, a, an allied challenge in the UK has obviously been the ups and downs to public investment over the years. And that public investment has been cut very sharply in the mid-late nineties, then again after the financial crisis. So far in this consolidation, although there has been some cutting of the extent of growth in plans is to a level that is quite high by at least to UK standards if not internationally. But, you know, again the things that we used to look at in the Treasury back in, back in the day when I was there, I was a good Treasury official of those, those years. The Eddington review of transport is something that, dear to my heart, small projects that deal with bottlenecks that have very high returns are the kind of things that you would expect to boost productivity by boosting the capacity of the private sector to invest. But then, of course, there are, there are the big projects that have done that as well, such as the Jubilee line extension, the rest, that's, that's a major project that has major returns, and then there’s very expensive ongoing ones, that, where the case is less clear.

JAGJIT CHADHA:

Very briefly, something that Stephen points out whenever we meet for a coffee, you can’t be sure of the returns on public investment. Was there any sense in that? Maybe it’s a research question for us. Is there any sense in which, that there is an anticipated variance in returns from public investment is any greater than we would get from private investment? We talked to earlier about the riskiness of private investment, wouldn't that have just the same level of variance, but it gets absorbed by capital buffers for the bankruptcy of the firm involved? There's the kind of natural exit. Is there any sense that there's any greater variance?

ANDY KING:

I’m not sure about whether there’s evidence of greater variance. I mean, the evidence that underpins things like the optimism bias adjustment is in the wall, central government appraisals, is based on cost overruns of private and public, I think, projects. But the large public, public projects, there is a very long list of those that have cost overruns and time overruns, that are enormous. And I'm afraid I don't know whether that would, how that lines up with private sector. But it is a fact of public-sector, large-scale infrastructure investments.

JAGJIT CHADHA:

To be fair, I had never thought about that question until you made your statement, it just occurred to me. Shall we carry on, Dirk, along the line.

DIRK PILAT:

Yeah, perhaps just one quick point on Andy's comment here a second ago. I was just wondering a little bit whether those time and cost overruns are partly linked again, to the planning discussion we had a second ago. Is that one of the big bottlenecks here? Or is it, is it more generally about, because some of the planning issues, you probably have less than to some extent, sometimes with some of the private investments that we're seeing?

ANDY KING:

I think that's part of it. I mean, my understanding of the evidence is that it's often linked to, you know, ministers changing and changing their goals, whether it's in a major or minor way for the project, and that requiring the project to stop and plans to be reworked and, you know, at time and cost, time and cost implications. So you see that particularly with IT projects. I've spent my OBR career watching the rollout of universal credit, which until the pandemic struck, it proved itself hugely successful in dealing with a very large influx, was a story of each time the IT was ready, the system was changed, and the IT had to be reworked for another year. It was quite painful for those involved.

DIRK PILAT:

Thanks. John, perhaps you want to come in.

JOHN LLEWELLYN:

I think one partial answer to the question that Jagjit posed is that one purpose of public involvement is to reduce that variance. And just to substantiate that point if I may. In the mid-nineties, [inaudible] was saying that he had this idea that it's all long hand really for a bank, which would have capital subscribed by the member countries, with the use of the development of eastern Europe, would undertake investment projects which the private sector would not undertake, and would make a profit. When he left, the Secretary of Health said to me, 'What do you think of that John.' And I said, 'Well, the case for investing in eastern Europe is clearly very strong. But, I wonder about making a profit.' Because here, I confess I was very Anglo-Saxon you see, I said, 'If it was profitable, the private sector would do it.' Well, in the end, the EBRD [European Bank for Reconstruction and Development] was set up and it has been spectacularly successful. In the sense that, all sorts of investment has been undertaken, which the private sector wouldn't have done on its own initiative, but which it joined very readily. Now, why? And, I think it's important to understand why, why did it join? Well, they did very careful investment appraisals. Which was done by experienced investment bankers who they paid the market price to, who they recruited from the investment banks. You'll be pleased to hear that they put their Chief Economist on the Investment Committee, because he had to sign off on the country's macroeconomic policy, because he said, there's no point in putting in place a good, what they said, there's no point in putting in place a good plan if the macroeconomics goes to hell. And he could veto it at any point, even afterwards, in subsequent talks. And so that actually influenced the evolution of the country's macro-policy, which enhances its environment and reduces that variance. So I've come over the years, after having had to eat my words, to conclude that, yes, there's a case of public-private sector involvement. But as always, that case depends on how well you do it. But they did it extremely well. And it was highly effective.

JAGJIT CHADHA:

You need to write all these anecdotes as a book.

JOHN LLEWELLYN:

Yeah.

JAGJIT CHADHA:

Martin.

MARTIN SARTORIUS:

Yeah, so yeah, I think the one thing I would mention here were kind of totally agree with kind of big public investment helping to crowd-in investment from the private sector. I think I agree with that. But one angle that I think would be interesting is kind of where the public sector investment can help kind of de-risk and encourage investment in kind of growth markets. So, things like decarbonisation kind of being one great example where government can help with setting up. We have offshore wind farms, but also providing a strategic view and to kinds of technologies of the future. And that's where kind of sometimes we hear some challenges from member businesses where, for example, I spoke with a company in the midlands, those coming from the green transport space, and they had felt that the government wasn't as clear on kind of whether or not we should go for kind of hydrogen or electricity for certain transport. So, so I think that's where kind of, there can be a bit more done to kind of get that strategic view, as I said, on kind of where business investment kind of should be flowing over the next five, ten years. And in terms of kind of just some other, I think, noteworthy examples tying into that strategic viewpoint. I think the vaccines for COVID-19 are the perfect example of kind of where we had government funding guidance on speeding things up with kind of a real vision, combined with private sector investment to get to a really successful outcome where the UK clearly was world class. And so I think that that's one important thing to raise.

JAGJIT CHADHA:

Thank you Martin. We're heading into the last ten minutes or so now, so if Dirk will forgive me, I'll go to Adrian if I may who wants to ask some policy related questions to the UK.

DIRK PILAT:

I had one other question left Jagjit, we haven't really had the more broader question on one of the problems, perhaps in the UK, just to wrap that up a little bit on what's the problems in the UK landscape? And what are some of the things that you might want to maintain? I mean, we've had five minutes now on policy, which is a bit, little compared to everything else we've been talking about. So it's a bit of a shame to cut this short.

JAGJIT CHADHA:

Perhaps I wasn't clear. Adrian will pick up exactly that point, talking about policy. Thank you Dirk, very much.

ADRIAN PABST:

Yeah, so, we'll start with a question about the British Business Bank and just talked about the EBRD as an example, in what can be done. So very specifically, do you consider the size of the British Business Bank adequate and the way it's operating or not? And if, if you think it is adequate, why and if not, why not? And what would be adequate? I'm looking to both Frances and Martin, but of course everyone else is equally welcome.

MARTIN SARTORIUS:

So, I won't make a comment on the size of the British Business Bank, but some ways in which it can kind of [inaudible]. So some ideas I've kind of, when speaking to colleagues that are things like, more independent scrutiny of the investment strategy over the longer term. So, kind of looking five years, as part of that kind of help with our broader discussion on kind of improving business investment in those funding gaps for SMEs. That's just one suggestion that kind of came up.

FRANCES HAQUE:

Not, to be honest, not specifically. I mean, I will be interested to see how it, how it fares. But no, I can't really, I don't know all the specifics of it.

ADRIAN PABST:

Okay. Second area, would be to ask you about the impact of the current fiscal framework, you know, how is that affecting business investments? Would you say on balance, it's helping or not? If it's not helping, what are some of the aspects of the fiscal framework that aren't helping? I mean, we already had a discussion about public investment, how often it's the objective of cuts, and that, that clearly is a problem. So is there something that's missing from the fiscal framework that should perhaps put greater limits on when you cut capital investment and how, especially in a downtown when I suppose you might say that's just when capital investment is needed.

MARTIN SARTORIUS:

So, I've got three areas, kind of where there could be improvement. And I think the floor can refer to kind of Tony's speech from earlier this week on kind of how to reform a, kind of the three main areas kind of working on a policy consistency and direction, which is talked a lot about for also, the other challenge facing the UK is international competitiveness on subsidies. So once again, going back to the Inflation Reduction Act, and potential EU-style competitors scheme, so you can't compete at that scale, so it's where we need to outsmart the competition and be very decisive on our direction for kind of bringing in investment. And then the other bit is on the tax system, so we're kind of in a situation where the tax burden is going to go up, while we're also reducing incentives. So that kind of makes it more challenging, to kind of be an attractive place to bring in investments. So, I mean, just to kind of touch on quickly, some of the benefits on the improvements of, the CBI has been calling for, full expensing of capital investment following the end of the super deduction, things like reforming the apprenticeship levy to boost investment in skills, planning reform to help achieve our goals on growth and net zero, and then as well, regulatory uncertainty where for some sectors, like say chemicals, they get very nervous, especially when we're looking at the kind of EU retained law bill. Many of them don't necessarily want divergence, they want to be able to export their products easily. So kind of reviewing, retaining and reforming where appropriate, those laws are another factor I think for business going forward.

ADRIAN PABST:

Okay, I do have a final question for all witnesses, which is what aspects of the current UK economic landscape and more specifically the policy landscape do you think are favourable to business investment and need to preserve but also, which really need to be tackled? Just if you want to mention something that hasn't yet been mentioned in the policy landscape? So maybe, I don't know in which order, but I'd like, I'd like to put that question to all four witnesses. Andy?

ANDY KING:

Let me just point to a few things where, you know, the UK scores well on international comparisons. So flexibility of the product market, labour market, the competition regime, you know, these are all [inaudible]. So all the structural underpinnings of the economy as a whole. There is a long list of things where you draw the chart and the UK is on the better side. So, we've talked about quite a few of those where the UK is on the better side.

ADRIAN PABST:

It’s interesting you’ve mentioned competition, because I mean, arguably in, over time, perhaps competition has not improved, but perhaps in certain sectors become rather more restricted. Do you still think on balance the competition environment is effective?

ANDY KING:

Last time I looked, I’ll defer to the literature on that.

JOHN LLEWELLYN:

Certainly a fear that I know. I still speak to Martin Donnelly about that, who, you know, former Permanent Secretary at BEIS. He said that one of the things he quite liked about being in Europe was that the bureaucratic process was so slow, that it was very difficult to be influenced by, by commercial interests themselves. And one of the things he fears is that now we've broken loose, political influence lobbying and so on, on government policy will become greater. Now that's, that's forward looking, which I know, you don't want to do Jagjit. But that does strike me that that is an issue. Therefore, because competition policy is very weak in most countries. I mean, the Americans, although they invented anti-trust, t's feeble to the point of uselessness. And we've probably weakened ours and I think there were, only ever were two components to a good competition policy: one, was international trade, because that exposed you to competition from abroad [inaudible]; and the second was bureaucratic inertia, which Europe provided rather well. And, now the UK I think will prove more responsive to that and that will be to our detriment.

JAGJIT CHADHA:

So you’re saying that good competition policy would help business investment.

JOHN LLEWELLYN:

Well, bad competition policy hinders it. That's for sure. That is absolutely for sure. Because a bad competition policy gives you monopolies and monopolies invest less.

JAGJIT CHADHA:

Well certainly, again this is US data largely but there seems to be increasing monopolistic power across so many sectors.

JOHN LLEWELLYN:

Yes. When you think of the four big things now, Amazon...

JAGJIT CHADHA:

We know the list, but we can't remember them.

JOHN LLEWELLYN:

We know the list but can't remember. They have, they have cash savings of one percent of GDP.

JAGJIT CHADHA:

We are approaching the hour, I promised everyone we were going to finish on time. But can I just ask one final thing, I mean, on this issue that for whatever reason… and I should say that we have two further evidence sessions this half year, on the 8th March, we will be looking at the relationship between public investment and growth directly as the whole evidence session, rather than business investment which was our focus for today. And also in May, on the 18th, we'll be looking at FDI. So, some of the issues we've touched on today, I've been very grateful for such wonderful answers to the questions from the Commissioners which will certainly give us a platform to delve more into these later in the year and produce a report, I would imagine, towards the middle of the year on the basis of the timetable that we've got. But it, it just, just the question is, and you, you talked about this John, the quality of the EBRD and its success. Is that something we should be doing with a development bank for the UK to help business investment across the board, whether it's small, large, public investment that combines with private? Is it part of the infrastructure that is currently missing?

JOHN LLEWELLYN:

It's worth ago. But I think it has to be accompanied by that determination to actually make it work. In other words, you don't just provide the funds and say, 'Off you go'. You have to, you have to, you have to get a [inaudible] to actually run it and make it work, and their reputations have to depend on it. But, you know, I think it's worth ago, I really do.

JAGJIT CHADHA:

I won't ask Andy. Martin? Frances?

FRANCES HAQUE:

Look, anything that I think can help bring the public and private sector together, is a good thing. Because you get the benefits of both worlds in that.

JAGJIT CHADHA:

Martin?

MARTIN SARTORIUS:

I don't think the CBI has a specific…

JAGJIT CHADHA:

What do you think? Okay, fine, I'll ask you later.

BART VAN ARK:

Can I make one observation? I think what I come down to and please, it is sort of question to you and may sort of provoke you a little bit is, Martin, you said it very explicitly a couple of times, but I've heard you all say this, obviously consistency and clear direction. And that's what I sort of hear over and over again, I was so triggered by your comment just a minute ago about that you said like, okay, the problem in the UK is that we may now be protected too much by lobbyists. Well, except for Washington, there's probably no place with as lobbyists as in Brussels. But I think the difference is, that there is an institutional stability that creates policy consistency and direction, which is the way that you actually benefit from lobbyists without having to take over. So that was just one example where I thought it. So probably is a little bit whether that's the bottom line, you know, setting up a lot of new questions, how do you achieve policy consistency and direction in order to create a better investment environment?

JOHN LLEWELLYN:

I know it's just, it's in a way a truism. Well, that's what I said before and what I'm going to say again, but I think if you engage in these exercises, you have to put a lot of managerial effort to making sure that they actually work. I mean, I've always been impressed by NASA, in that respect, it spends vast amounts of money. It started doing something which the private sector would never have done. But it has systematically, and I don't quite know why, but it has systematically engaged the private sector whenever it could, it bought as much as it could from the private sector. Not only did that, but it always made sure it had at least two suppliers, partly so that there will be competition and partly to generalise technology into the economy. And it's worked quite well. And I would never have guessed when I saw NASA put its first rocket up that you'd now see private enterprises that seem so quintessentially a national government exercise. So, as a policy of industrial development, it hasn't done at all badly. But you could imagine that amount of money being absolutely wasted. So it does depend awfully much on the management and the quality and the determination to make it work. Which means I suppose you have to write down a good rubric, which to be fair, [inaudible] did, and I thought he didn't. And then you've got, but then you've got to pursue it with people who know what they're doing. And that is where the EBRD scored, because they had economists on the board talking about the macroeconomics, they had investment bankers on the board talking about appraising it, to have financiers on the board who said how you structure the finance, and they added up to packages which were, which were credible.

JAGJIT CHADHA:

Well, we’ll certainly look at that and we’ll have to understand which structures that combine the private and the public sector have seemed to have worked and have a deeper look at those. I should finish then just by thanking everyone for participating today, for those who joined us online, for the Commissioners and their support over this process, and colleagues at NIESR, but particularly this afternoon, our witnesses: Frances Haque, Andy King, John Llewellyn and Martin Sartorius; thank you ever so much.