

# MANUFACTURING. OUR FUTURE.

BUILDING A BALANCED ECONOMY  
ON A SECURE MANUFACTURING BASE





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## Foreword

These turbulent economic times have refocused attention on the importance of manufacturing. Innovative UK manufacturers can help find solutions to the challenges facing this country and the rest of the world. But too few people understand what manufacturing is today, have a vision for what it can contribute to our economy or have mapped out a credible plan to realise its potential. This report – our manifesto for manufacturing – sets out to fill this void.

In our vision for the future, UK manufacturers will be large and global as well as small, capable and ambitious enough to grow into the multinationals of tomorrow. Through close relationships and collaborations they will respond flexibly and quickly to market demands. Their innovative outlook will give them a sustainable competitive advantage, making manufacturing an attractive career option for engineers and entrepreneurs alike.

Fulfilling this vision will make major demands on our manufacturers. We believe they are up to the challenge, but the government will need to back manufacturing with a long-term strategy to help them. Our report sets out the actions that government and manufacturers need to take to put the UK on the path to a more dynamic, diverse and durable economy.

‘Manufacturing now stands at a crossroads and is being subjected to massive change. By the end of this decade, it will look significantly different than it does today. We cannot allow it to decline at its current rate or the UK economy overall will suffer the consequences.’

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EEF, *Manufacturing at the Crossroads*, 2001

## Introduction

Eight years on from this statement, the UK is paying the price for relying on financial services, cheap credit and public spending to drive a narrow and, largely, illusory decade of growth. Instead of reaping the benefits of that growth, the UK now faces ballooning public sector deficits, entrenched regional disparities and a trade deficit that can no longer be financed by excess foreign savings.

Without significant changes to the composition of our economy, the UK is likely to grow significantly below its long-term potential. As a nation we will neither address our existing economic imbalances nor prepare ourselves to meet our long-term challenges. A conscious decision to change our economy is needed.

Only a stronger, globally focused and diverse economy will enable us to generate the wealth needed to correct our economic imbalances and achieve broader national prosperity. Our economic future is, therefore, inextricably linked to the development of a strong UK manufacturing base that’s open to global markets, focused on knowledge and high value, and capable of exploiting fast growing markets.

For our economy to thrive it’s vital that manufacturers continue to evolve, adapt and grow. This won’t be easy. The sector is threatened by a perfect storm of global

uncertainty, currency volatility and, if the recession drags on, deferred investment and the loss of skilled workers.

Nevertheless, manufacturers have survived turbulent times in the past and are positioning themselves to thrive in the future.

The UK needs them to succeed.

That means politicians of all stripes must adopt a dramatically different mindset in order to create an investment-friendly business environment and directly support those markets and sectors in which the UK has potential to develop a sustainable competitive advantage.

In this report we do not set out a comprehensive economic route map or a ten year plan for reshaping our economy. To do so would be neither timely nor relevant. Instead we outline a long-term strategy for the type of economy we believe the UK needs in order to remain globally competitive – one in which manufacturing plays a greater role. We outline the principles that all government policy that impacts on manufacturing should follow. In acknowledging the gap between where our economy is now and where it needs to be, we recommend tangible actions for government and manufacturers alike to put the UK on the path to a more dynamic, diverse and durable economy.

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## A manifesto for manufacturing

The UK is at a crossroads. We can either hope that the economy will ride out the recession and return to business as usual, or we can learn from the lessons of the past ten years and take action to create a more dynamic, diverse and durable economic base.

The former implies a return to myopic, debt-fuelled growth and a gradual but inevitable collapse in national competitiveness. The latter requires politicians – and manufacturers – to take tough choices and decisive action to stimulate a manufacturing sector capable of restoring our economic competitiveness.

This manifesto doesn't leave all responsibility at government's door. It outlines action that must be taken by politicians and by manufacturers themselves.

This manifesto is an urgent call for action that must be taken, not after consultation or review or even after an election, but now.

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*Action must be taken,  
not after an election, but now.*

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### A message for manufacturers

Having survived and thrived in the past decade, manufacturers must focus on the future, evolving to become more innovative, agile and diverse.

#### 1. *Develop a long-term strategy:*

By developing long-term continually evolving business strategies, manufacturers will be able to create and shape their own markets and develop a sustainable competitive advantage.

#### 2. *Be more ambitious:*

Drive rapid growth and differentiation through convention-challenging innovation, plus new business models and investments in cutting-edge technologies.

#### 3. *Increase the focus on knowledge and value:*

Investment in knowledge – whether wrapped in the metal of modern machinery or embodied in employee expertise – will allow manufacturers to continually add value and create their own markets.

#### 4. *Invest in productivity and efficiency:*

Continue to improve productivity and develop products and technologies that allow society to preserve the value of the physical environment.

#### 5. *Sell yourself:*

Manufacturers must be vocal, clear and bold about what they need from government in order to compete in a global economy.

## A strategy for government

Reshaping the UK economy won't be a quick or easy task. It calls for an ambitious agenda of reform delivered by a government that's able and willing to plan for the long term.

#### 1. *Develop an overarching vision:*

Set out a strategy that can deliver a dynamic, diverse and forward-looking economy and commit the resources needed to make that vision a reality.

#### 2. *Send clear and effective signals:*

Be clear about priority markets, sectors and investments.

#### 3. *Be ambitious with scarce resources:*

Rather than spreading scarce public resources ever more thinly across the economy, prioritise and make the most of the limited finances available.

#### 4. *Put finance to work for the real economy:*

Focus on real investments, not on exotic financial products, and on long-term relationships, not short-term gains.

#### 5. *Create a competitive business environment that promotes investment:*

Deliver a predictable and investment-friendly business environment to make sure manufacturers can invest in the skills and modern machinery they need to be competitive in a global economy.

## Reshaping the economy

### *Today's economy: imbalanced and unprepared*

While the UK has enjoyed sixteen years of uninterrupted growth, it has become increasingly clear that this growth was built on unstable foundations. It is extremely difficult to see how the UK can return to pre-recession, business-as-usual growth when the upturn eventually arrives.

The country's current parlous economic state is a direct consequence of imbalanced growth over the past decade, both here and across the world. Large budget and trade deficits in the UK and the US have been financed by excess savings from China, Japan and the oil-exporting countries. Real interest rates, pushed to historically low levels over the last decade, have fuelled financial innovation in a search for higher investment returns, driving the rapid growth of credit in the UK and US.

The UK economy can't, of course, be shielded from volatility in global markets, but it can be made more balanced and robust. However, the economy will not rebalance itself. Intervention is needed. We must, therefore, build consensus – based on a thorough understanding of our economy's current failings and imbalances – about the route to sustainable growth and the role of manufacturing in driving the economy along that path.

### *Narrow drivers of growth*

The imbalances in the UK economy are reflected in a few shocking statistics:

#### *Imbalanced growth across the economy:*

- At the start of the decade, financial and business services, plus the public sector, represented just under 50% of employment and gross value added (GVA). Yet from 2000 to 2007 they contributed to almost 90% of GVA growth and 125% of all new jobs.

#### *An over-dependency on debt:*

- As a percentage of gross domestic product (GDP), household debt is higher in the UK than in the US or the EU and has risen from around 70% of GDP in 2000 to just over 110% in 2007.
- Although corporate debt rose by slightly less than household debt, financial services debt grew from just over 100% to 250% of GDP.

The outcome of this over-reliance on debt and financial services was summed up in the Turner Review of financial services: 'growth in the relative size of financial services within the overall economy ... [saw] ... activities internal to the banking system growing far more rapidly than end services to the real economy ... [and] increased the potential impact of financial instability on the real economy.'

The downsizing of the financial services sector currently in train isn't purely cyclical. It represents a permanent one-off reduction in the size of the sector. This means we can no longer rely on financial services to make the same contribution to growth, or indeed tax revenues, that it has in the past. However, despite its role in triggering today's recession, we must acknowledge that a world-class financial services sector is integral to the nation's future prosperity. With little appetite for short-term unsustainable gain, a greater respect for risk and a high degree of public and regulatory scrutiny, it is to be hoped that the industry's growth, though more modest, will be more sustainable.

## *Tackling the deficits*

The UK's over-reliance on a narrow base for growth at the expense of other sectors, including manufacturing, has widened our current account and budget deficits.

Over the past ten years the UK's trade deficit has more than tripled, from £22 billion in 1998 to over £92 billion in 2008. While the trade gap is likely to narrow in the short term, first because a weaker sterling exchange rate will help exporters and second because consumer retrenchment will lower imports, we can't rely on these factors to get us out of trouble and keep us out. Nor can we rely on excess foreign savings to bridge the gap.

The health of the UK's public finances has also deteriorated over the past decade. Robust growth between 2000 and 2007 should have left them in better shape going into the recession. Without a credible plan to restore the health of public finances, financial markets could begin to lose confidence in the long-term strength of the UK economy.

Difficult decisions lie ahead to if we are to address the balance between tax rises and spending cuts in the short term. In the longer term, the UK's growth prospects will be limited unless government adopts a radically different strategy to promote diverse sources of economic growth. Policymakers must also ensure that we derive maximum benefit from future spending, focusing more on deriving long-term value from investment rather than curtailing short-term costs.

## *Underprepared for long-term challenges*

Running parallel to these imbalances is a series of long-term economic and social challenges which must be addressed. These challenges – the ongoing trend towards globalisation and the need to meet future energy, infrastructure and security needs as well as to adapt to demographic change – are also opportunities for growth.

Our response to them will determine the UK's competitiveness in the years to come. If we do not create solutions to these challenges we will have to import them – putting further pressure on the UK's trade position and throwing away the opportunities they present. However, if we grasp those opportunities we will put ourselves in a strong position to compete in a world economy that's set to double in size by 2020.

## *The first challenge: globalisation*

Over the past decade new markets and lower-cost sourcing options have opened up for UK manufacturers. At the same time, emerging market competitors have been raising their game and have started to shift towards higher-value activities, presenting competition to UK manufacturers in export markets and here at home.

However, even before the recession, a combination of rising commodity prices and freight costs, quality concerns and unreliable delivery times were pushing companies to rethink their value chain strategies and bring some production back to the UK.

Over the past eighteen months, soaring global demand has given way to recession. There are significant question marks over how the challenges and opportunities brought by globalisation will play out once the world economy recovers.

Emerging economies will retain significant labour cost advantages, making them attractive production locations to UK manufacturers, providing quality issues can be resolved. At the same time, their need to address their own imbalances and diversify their economic bases should boost domestic consumption.

Already we see signs of this happening. Asian governments, for example, are developing their social security benefits provision, especially in the area of health, thereby increasing households' disposable income. This will create healthy export markets which manufacturers, providing they can bounce back faster than their foreign counterparts, will be able to exploit. The return to global growth, therefore, will bring equal measures of opportunity and uncertainty. Company strategies will be determined, not just by policies made in the UK, but by ongoing changes in the global business environment and strategic priorities in other countries. Nevertheless, UK companies across all parts of manufacturing have an opportunity to extend their reach into new markets and meet the demands of a potentially fast-growing consumer base.

### *The second challenge: the environment*

Climate change brings the prospect of profound changes in our physical environment which, in turn, will bring new social and economic pressures. Increasingly, economies across the globe will need to shift from extracting value from natural resources to preserving value. To this end we will have to find ways to adapt to the impacts of climate change and use resources more efficiently. At the same time we will need to maintain a secure energy supply and meet the transport and infrastructure requirements of a modern society.

To thrive in these circumstances we must innovate. Our future energy needs, for example, must be met with a combination of renewable sources, nuclear power and fossil fuels. Building and maintaining this capacity will provide opportunities for manufacturers and provide a solid foundation for UK competitiveness. In particular, for those that develop the next generation of renewable energy technologies, there will be significant gains.

Equally, environmental standards and regulation, together with changing consumer tastes and rising fuel and commodities prices, will require the ongoing research, design and development of ever-more efficient products and services. The companies that create them will tap into a growing and significant customer base.

### *The third challenge: demographics*

Between 2010 and 2030 the number of UK citizens aged over 60 will increase by 30%, or 4.4 million. Coupled with rising life expectancy, this growth will strain health care provision and financing as well as raise public sector pension liabilities. However, it could also increase the potential markets for health care technologies and leisure goods. This challenge is not unique to the UK but is faced by many other major economies, presenting opportunities at home and abroad for UK manufacturers.

With the world population increasing by up to 25% by 2030, global labour markets will also continue to expand, with most of the population growth in developing economies being in low-skilled labour. This means that, in the next five to ten years, the UK will continue to face pressures from economies with relatively cheaper labour costs. Over the longer run, however, developing economies will improve the skill levels of their labour forces and have ambitions to compete in higher-value markets.

### *The fourth challenge: strategic security*

Over the past decade or more the UK – and the world – has been dealing with a number of geopolitical challenges. Conflicts in parts of the Middle East and the increase in non-conventional threats have placed additional demands on the UK's police and security services. Determining our future requirements will not only require an assessment of future threats to our own national security, but of the UK's future role in stabilising conflict zones across the globe.

Globalisation plus demographic and environmental changes also pose strategic security issues. Globalisation and technological advances have increased the scope for international crime and exacerbated economic inequality, both of which are feeding political instability. Population growth will aggravate pressures over scarce natural resources, such as food, land, water and energy supplies.

Our strategic security needs will, therefore, extend beyond traditional defence issues, encompassing foreign policy, international aid, national security and transnational crime. Yet our current approach is haphazard and uncoordinated. For example, Pakistan, a country integral to the UK's strategic security concerns, receives only 1.7% of the development department's total budget.

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### *Future challenges, future markets*

*Long-term global market potential will arise for companies inherently positioned to address our long-term challenges. We highlight some examples below, though this is not intended to be a comprehensive list – many opportunities and innovations will cut across typical sectoral definitions.*

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*Energy:*

Despite decades of benign neglect, the UK still has the ability to develop global leadership in marine, wind and micro-generation technologies. New energy management technologies could also create mass markets for improving domestic and industrial energy efficiency.

*Automotive:*

In the near term, opportunities exist for low-carbon technologies that improve engine efficiency or develop lightweight materials. Although the size of the personal car market is likely to shrink, replacing existing stock with green vehicles will create long-term markets in hybrids, fuel cells and batteries.

*Construction and building products:*

The UK needs significant infrastructure investment, including schools, hospitals, utilities and transport, as well as new home builds and urban regeneration. These projects will provide markets for energy and resource-efficient products and materials.

*Health care:*

An ageing population will boost markets in which the UK is already competitive, such as prosthetics. Emerging health trends, such as obesity, will challenge manufacturers to create preventative solutions or facilities for treatment and care.

*Chemicals and pharmaceuticals:*

Chemicals industries will have opportunities in consumer personal care markets, and also longer term in terms of resource efficiency and the use of recycled materials. Advances in genomics will present pharmaceutical and biotech companies with opportunities in preventative care technologies.

*Aerospace and defence:*

Long-term opportunities will exist in civil aerospace and in emerging technologies such as composite materials, homeland security and unmanned aircraft. Ultimately, however, the long-term market for industry should be linked to a broad strategic security review.

*The way forward*

The need to redress our existing imbalances and prepare for our challenges is clear, but building a better balanced, better equipped economy in practice will require difficult choices.

The UK needs an economy that is diverse enough to prevent the future build up of economic imbalances, robust enough to face its long-term challenges and dynamic enough to turn those challenges into opportunities. In short, an economy that draws more heavily on productive, high-value sectors with greater export potential.

The focus, therefore, must shift to a more diverse, agile and innovative manufacturing base – the sector that's able to provide many of the solutions to the UK's future challenges and, consequently, the goods and services exports needed to close the trade deficit and underpin future prosperity. Put simply, the UK government needs to focus its efforts in order to stimulate and encourage the production of goods and services that allow us to pay our way in the world.

## Our manufacturing future

After the current economic crisis subsides, higher borrowing costs and greater financial market regulation will confine a decade of debt and public sector largesse to the history books. In the next decade, the opportunities for generating growth will depend upon our openness to global markets, our focus on knowledge plus high-value products and services, and our exploitation of fast growing markets.

The UK economy and its manufacturing sector will undoubtedly evolve in fits and starts, matching the disruptive tendencies inherent in global, open and flexible markets. Only a stronger, globally focused manufacturing sector will help generate the wealth needed to correct our economic imbalances and contribute to broader national prosperity.

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*If they remain focused and undeterred, manufacturers will, at the end of the coming decade, have achieved positive change and deliver:*

- *Strength from diversity. UK manufacturers will be large and global or small and capable and ambitious enough to grow into the multinationals of tomorrow. They will operate in markets across the globe and add value in ways that no one else in the world can.*
  - *Advantage through agility. Manufacturers will use their proximity and close relationships with customers and suppliers, investors and innovators to respond flexibly and quickly to market demands.*
  - *An innovative outlook. Manufacturers will be innovative, developing solutions that give them a sustainable competitive advantage and allow the UK to meet the major, long-term challenges head on. Manufacturing will be seen as an attractive career option for engineers and entrepreneurs.*
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### *Strength from diversity*

Greater diversity of the UK's manufacturing base will allow it to take advantage of a wider range of ideas and partners, expertise and technologies. A broader manufacturing base will minimise exposure to the risk of any single customer or supplier delaying payments or going out of business. Rather than being constrained in narrow supply chains, in future manufacturers will use their core capabilities to supply a variety of customers in different markets and a range of sectors. Broad and deep networks of suppliers will give manufacturers a large degree of flexibility and allow shorter lead times.

Diverse markets and sectors: with the global economy set to double in the next twenty years, UK manufacturers will build on their competitive position to take advantage of growing domestic and international markets. The UK will be seen as a prime location for international manufacturers looking to sell into the US and European markets. Long-term global market potential will also arise in sectors that are inherently positioned to address our long-term challenges.

Manufacturers of all sizes: solving many of the long-term challenges facing the UK will require considerable investments of the sort only very large companies or government can make. Foreign-owned companies investing in the UK will be an essential component of this equation, but so too will UK-owned multinationals, who will bring forward innovations and percolate new ideas or technologies down through supply chains.

Growing smaller manufacturing companies into the multinationals of the future will come in part through organic growth and in part through ambitious acquisitions. It will also require spin-outs and start-ups to have greater access to industry, government and financial sector support in order to overcome the financing and management issues inherent to developing new technologies and growing businesses.

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## Big companies for big problems

*The challenges confronting the UK and other countries are not simple problems with easy answers. They are large scale, long-term challenges. Addressing them requires significant levels of upfront investments exposed to a range of economic and political risks. In the aftermath of the financial crisis, the costs of capital to finance these investments are high and rising.*

*Only large companies have the sufficient scale and capacity to access the appropriate levels of finance and sufficiently manage risk. Equally, only large companies have the capacity to invest in skills and expertise, develop and strengthen supply networks, invest in innovation and engage with universities.*

*Yet in the UK, we have fewer large manufacturers than our competitors. Less than 0.5% of UK manufacturers employ 500 or more people; in the US 1.4% do. That represents a gap of over 1,300 mid- to large-size manufacturing companies. What's more, only three firms founded in Europe since 1975 have joined the ranks of the world's 500 biggest listed companies, compared with 25 in America and 21 in emerging economies.*

*If the capacity is not developed here, the UK will become reliant on buying solutions from abroad.*

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A diverse set of capabilities: the capabilities at the core of UK manufacturers' competitiveness will cut across traditional sector definitions. Capitalising on these capabilities – including innovation, design, development, speed, customisation, niche production and service provision – will enable manufacturers to continue to add value in increasingly competitive and rapidly evolving global markets.

The drive to add value will be rooted in manufacturers' management abilities and technical expertise. Most strategic initiatives, assessments of project risks and benefits, and decision-making responsibilities lie with top leadership teams. Turning management ambitions into real advantage requires manufacturers to draw on their technical expertise. Successful manufacturers will invest in state-of-the-art machinery and adopt new technologies, such as nanotechnology and rapid prototyping, to help them meet diverse customer demands.

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## Flexibility with materials

*The intersection of the UK's design and materials expertise is allowing manufacturers to tackle emerging problems across a range of sectors. By working together, designers and engineers are prototyping hospital furniture and equipment aimed at helping the fight against health care associated infections.*

*Likewise, manufacturers are also designing out waste in their manufacturing processes, by investing in and using materials that reduce scrap rates and so add money to the bottom line.*

*Drawing on the skills from the old textile industry in the North West, carbon-fibre materials are being designed into a new generation of aeroplanes. The composite materials are lighter and stronger, helping to improve fuel efficiency. In addition, they do not suffer from corrosion, cutting down on costly and labour-intensive maintenance and regular repair and replacement programmes.*

*It's this broad base of capabilities that will allow manufacturers to cut costs, add value and create wealth; to turn potentially precarious competitive positions into more assertive and ambitious market-leading ones.*

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## *Advantage through agility*

Manufacturers know that today's high-value-added, precision-engineered turbine blade will be tomorrow's mass produced commodity. Because markets never stand still, neither will UK manufacturers. Thriving in a high-labour cost economy is a moving target with small, fleeting windows of opportunity for manufacturers to deliver high value. By anticipating trends and making strategic investments, manufacturers will be positioned to shape growing markets.

Co-locating their research, design, development and production capabilities helps manufacturers and their partners respond flexibly and quickly to customers. Being geographically close to short and lean supply chains reduces lead times and increases speed to market. Close relationships with suppliers help embed innovation and new technologies in supply networks, ensuring suppliers are geared up to meet their competitive requirements.

This agility will help manufacturers adapt and respond to evolving markets and new competitive pressures. It will also allow them to meet diverse customer demands while maintaining lean operations. Their operational agility will be reflected in the mindsets of their staff, from management to the shop floor. Manufacturers will be open to new ideas, new ways of working and new business models, whether they come from the shop floor, competitors, customers or universities.

## *Innovative in outlook*

Manufacturers will be innovative, developing new business models and technologies that give them sustainable competitive advantage. Manufacturing will be seen as an attractive career option for engineers and entrepreneurs alike.

UK manufacturers will use innovation in its widest sense to push technical advances in their markets, so that their performance stays above that of their competitors. They will use disruptive innovations to create and change markets, moving beyond traditional competitors. Innovative ideas won't just be generated in the UK, they'll be developed here too, ensuring that production remains embedded.

Investors, from business angels to banks, will compete to finance the design and development of cutting-edge manufactured products and technologies. Close relationships with universities will help new and risky ideas get to market faster. Large and growing manufacturers will constantly spin out new ventures based on technologies and innovations developed either in house or in collaboration with partners.

Manufacturers will be problem solvers. The entrepreneurial, innovative nature of the industry will attract high quality apprentices and graduates in maths, design and engineering. Some will plan long-term careers in the industry, others will gain experience to start their own businesses.

A better understanding of manufacturers as businesses will attract new management talent. The success of the sector and the influx of new talent will encourage manufacturers to be more ambitious in their growth plans and confident of their ability to contribute to the wider economy.

## *Where we are now*

Although this is a compelling vision of a manufacturing future and a dynamic and diverse economy, it is by no means certain. Achieving it should be our top economic priority, yet a vast chasm stands between this future and the current state of our economy.

Established manufacturers will, once again, need to respond. They will need to invest for growth and become the larger companies the economy needs. Supply networks must continue to be broadened and deepened to attract investments by large, mobile multinationals.

However, today's uncertain economic and business environment actively discourages long-term investment in skills, innovation and modern machinery. At the beginning of this decade, EEF set out the conditions needed for UK manufacturers to close the productivity gap with US and EU competitors. Skills, regulation and taxation were at the top of the agenda then.

Companies' own efforts have meant that the UK has made some inroads but, almost a decade later, a roller coaster ride of reforms, consultations and reviews has only added to uncertainty without addressing core problems. Government has failed to deliver the signals necessary to encourage long-term investment in infrastructure and growing markets.

Redressing our economic imbalances, tackling our long-term challenges and restoring prosperity will require a stronger and, consequently, a relatively larger manufacturing base. However, this won't happen unless we have a very different approach for setting the broader business environment and ensuring that the UK has the capacity to compete in growing, high-value markets.

Today's recession acts as a spur to action for manufacturers and policymakers alike. It also presents a perfect, though fleeting, window of opportunity during which we can proactively address our shortcomings. In the remainder of this report we provide practical proposals to do this. First, we address manufacturers themselves. Having thrived through the past decade and survived the worst of the current recession, we provide guidance on how to prepare for the future. Second, we focus on how government can and must take a more strategic approach to manufacturing to put the UK on the path to a more sustainable and robust economy.

## The future for manufacturers

Over the past decade UK manufacturers have improved their competitiveness, productivity and global reach. The recession at the beginning of this decade, an uncompetitive exchange rate, a history of underinvestment and the emergence of new low-cost producers required a significant shift in their business strategies.

And manufacturers responded.

They stopped competing on price or volume, focusing instead on a broad range of value-adding strategies. They explored and entered niche markets, differentiating themselves through a combination of innovation and design, production capacity, flexibility and customer service.

They widened their customer offer to include services and generated new revenue streams by providing maintenance support and warranties and by developing integrated solutions encompassing design, manufacture, project management and installation.

They invested in skills and modern machinery to support these strategies. Innovation in its widest sense has come to the fore. They have increased their in-house focus on innovation and increasingly worked with external partners to overcome obstacles and maximise returns.

They have taken processes offshore to take cost out of their operations and implemented IT solutions and lean manufacturing techniques to drive up performance and efficiency.

They have benefited from their actions, with sustained gains in productivity and profitability over the past five years. Some manufacturers have recorded stellar rates of growth. Exports have risen steadily and those to the BRIC economies have doubled in value since 2002.

Manufacturers evolved to survive intense global competition. Now, if they are going to meet the challenges of creating a more dynamic and diverse UK economy, they must do it again.

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*Manufacturing productivity has grown by 50% since 1997.*

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### *The message to manufacturers*

Government has a role to play in creating the framework for future manufacturing, but manufacturers need to build their own success. By making specific, strategic changes, they can take their place in the top ranks of business and at the heart of a balanced economy. Many are already doing so, but still more must follow.

#### *1. Develop a long-term strategy*

While some manufacturers are focused on the future, too few have fully developed, long-term business strategies that look at their current and potential markets beyond a two-year time horizon. By developing long-term, continually evolving business strategies manufacturers will be able to create and shape their own markets and develop sustainable competitive advantage.

#### *2. Be more ambitious*

The global economy is set to double in the next twenty years, creating export opportunities for companies that have the best game in town. Manufacturers must use this recession as a catalyst to build on their current competitive advantages, to invest and to restructure. Disruptive innovations, new business models, investments in cutting-edge technologies and rapid growth must be the priority for the next decade.

As the UK's proportion of the global market continues to decline, no manufacturer can afford to ignore global opportunities. Even suppliers whose customers are all UK-based are finding that many of their goods are ultimately headed for overseas markets. Success in markets outside the UK will often require companies to establish a manufacturing, marketing or distribution presence in the countries to which they sell.

Just as today's internet giants began life with one computer in a garage, advances in design and digital manufacturing mean that tomorrow's manufacturing multinationals will start from equally humble beginnings. UK manufacturers will need to be more ambitious about their own growth and markets if they are to survive and thrive under the competitive pressures from new and growing competitors.

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### 3. *Increase the focus on knowledge and value*

Manufacturers must build on their successes of the past decade by expanding their core knowledge and capabilities and by using these to drive differentiation and world-class standards. Investing in knowledge – whether wrapped in the metal of modern machinery or embodied in employee expertise – is the only way UK manufacturers will be able to continually add value.

### 4. *Invest in productivity and efficiency improvements*

Operating in a high-labour cost economy requires continual efforts to improve productivity. Lean manufacturing delivers tangible productivity benefits and efficiency gains and must be applied across the whole business – from the supply chain to manufacturing processes. Systematically measuring performance will also clarify where investment in new solutions and processes will deliver maximum benefit.

In order to thrive in a more environmentally aware climate, manufacturing must lead by example, moving towards sustainable operations. At the same time, it must focus on the development of technologies that allow society to preserve rather than deplete the value of the physical environment.

### 5. *Sell yourself*

Over the past thirty years, UK manufacturers have shifted from heavy, dirty industry to problem-solving entrepreneurship. If they are worried about the perception of the industry, about the business environment and lack of support, they must become more vocal, proactive and engaged.

Their engineers develop and use cutting-edge technologies and are some of the most innovative thinkers in the world. Their employees give them strong links into local communities. If they can compete globally, they can cut through red tape and engage locally with schools and higher education establishments to communicate the skills and insights they need. As politicians begin to take a more active interest in manufacturing, manufacturers need to make themselves heard, clearly and boldly, about what they need in order to compete.

## A framework for government

The UK needs a more dynamic, diverse and forward-looking economy. We need to rely less on debt-driven sectors and more on export-oriented, high-value and productive ones like manufacturing. This shift in the focus of our economic activity will not happen overnight. It requires a conscious change in strategy; a long-term plan that gives manufacturers the confidence they need to invest in a better balanced economy.

Here we set out specific principles of a framework that should underpin the broader strategy and policies that affect the way businesses – including manufacturers – invest for the future. This framework will serve as the benchmark against which markets and manufacturers alike will be able to judge the government's performance in driving the UK's shift towards a better and more balanced economy.

It is, however, important to be clear what this framework is not about. We are not proposing a radical rebalancing between the state and the market. Nor are we calling for extensive bailouts and subsidies. A large increase in government spending is not credible, given the parlous state of the public finances. We are not arguing for government to depart from its longstanding commitment to free and open markets. Drifting in the direction of protectionism is always damaging and would be particularly dangerous in the current climate. Nor is our approach trying to create and protect national champions. Our economy needs more manufacturers with the scale and strength to play a leading role in growing markets, but this should be a result of a new approach – not part of the framework itself.

## *A framework for the future*

Over the past few decades, the government's approach has been based on the orthodoxy that it should only intervene when markets fail. To some extent this has served the country well, avoiding the damaging impact of heavy-handed intervention and stifling regulation. However, there has been a significant downside for the UK. Failure to intervene sufficiently early and to take a long-term view has seen Britain fail to develop a significant lead, or even a presence, in industries where it has a potential competitive advantage. For example, Denmark, Spain and Germany have all stolen a march on the UK in the onshore wind industry, despite our geographical advantages and the leading role we have played in research in this area.

Government must, therefore, develop an approach based on clear long-term economic priorities. Then it must follow this up with transparent, tangible actions and sufficient resources to match its ambitions. Such strategic actions would see the government recognise its influence in markets and use it to deliver a dynamic, diverse and forward-looking economy.

The framework has four key principles that will be critical to its success:

- **Send signals:** signal the importance that government attaches to specific technologies, markets or investments and the steps it will take to help them succeed.
- **Overcome obstacles:** work with business to identify and overcome obstacles to the growth of new and developing markets.
- **Be a collaborative customer:** work more closely with industry to convey government's needs as a customer and to ensure suppliers have the capacity to meet them.
- **Target investment:** develop a clear set of criteria for government investment in areas such as technology, infrastructure and skills.

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## *Send signals*

New and developing markets are potentially more uncertain and volatile than developed markets. Companies investing in these markets will look for business environments with the least political risk and the highest expected return on investments. Government, therefore, has an important role in sending out signals to manufacturers that will give them the confidence to make the necessary long-term investments. This confidence will come from a combination of what the government says about the importance of developing a particular technology or market and about what it does to support its development.

Government must send clearer, more effective signals about its priority markets, sectors and investments. The strength of the signal needed is likely to depend on the maturity of the market, how the risks and benefits of any investments are shared between the public and private sectors and whether the government is already a significant market player. This would provide companies with a basis for understanding government demand, investing in capacity and evaluating how they might develop innovative solutions in order to provide value for money over the long term.

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## *Nuclear – a case in point*

*The economics of nuclear power are long-term. Capital costs are high, stations have operational lives of 40 to 60 years and end-of-life decommissioning and waste liabilities need to be factored into financing a project.*

*Against the background of ageing plants, a succession of reviews, consultations and white papers between 1997 and 2006 failed to reach a definitive position on the future of nuclear power. Add polarised public opinion to the mix and the result is minimal private sector interest in developing new capacity in the UK.*

*In January 2008, a decisive shift occurred when government announced that it not only considered new nuclear plant in the national interest, but vital to the country's energy future. This was complemented by a raft of practical measures, from planning reforms to the identification of suitable sites. Crucially, legislation was passed to clearly define operators' responsibilities for waste, and the Office for Nuclear Development was established to coordinate policy.*

*Since then, three different consortia of major international utilities have announced firm plans to build new nuclear capacity in the UK. In February 2009 the industry's financial commitment to new build became clearer, with EDF's £12.5bn acquisition of British Energy, which holds the majority of the best sites for new plant. Yet a fluctuating carbon price – the government's attempt at creating a passive market signal – is too volatile to encourage long-term investments.*

*The signals sent by the government in the case of nuclear have vacillated between ambivalence, scepticism, tentative backing and incomplete support. Consequently, private sector commitment remains uncertain.*

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### *Overcome obstacles*

Another critical part of acting before markets fail lies in identifying and addressing the obstacles to developing new markets, or significantly scaling up existing ones. Many companies, for example, face technical and financial obstacles as they develop and commercialise innovations. Others need broader, deeper supply chains to compete in developing or growing markets.

Government will also need to demonstrate that it is willing and able to tackle the planning system, which continues to constrain development in a number of markets. Most recently, this has been a major obstacle in the development of the onshore wind industry, and failure to tackle this will also affect other environmentally focused growth areas, including the development of facilities for recycling and waste treatment.

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### *Wind energy – a case in point*

*The offshore wind industry offers an excellent example of how targeted intervention can help companies overcome specific hurdles. This industry looks set for a sustained period of significant growth, with next-generation turbines already under development. While some UK companies are at the forefront of these developments, they have experienced difficulty sourcing components locally. The government therefore has a key role to play in providing targeted support to improve the capabilities and raise the productivity of the UK offshore wind supply chains.*

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### *Be a collaborative customer*

The government is a major customer of the private sector, purchasing some £175bn worth of goods and services each year. Its decisions as a buyer can have a major influence on the ability of UK manufacturers to meet its needs and to do so in an innovative way, particularly in new and growing markets.

To do this effectively, government must provide its suppliers with clear and transparent information on its current and future needs and engage in regular dialogue with them on how they might best be met. It must also recognise that sporadic or uncertain order flows limit businesses' ability to plan for investment in capital equipment, innovation and skills. For example, it is widely acknowledged that lack of either a long-term strategy or a steady order flow from the government in the rail industry has eroded the skills base and placed constraints on innovation.

A strategic change in procurement practices would also force the cultural changes necessary if a risk-averse government is to focus on long-term value rather than short-term savings. Because different departments and different industries have different needs, this strategic approach needs to be flexible enough to match the different needs of varying markets and sectors.

## *Target investment*

Manufacturers could not succeed in competitive markets without prioritising investments based on a clear and consistent strategy. The same rule applies to economies. The current lack of such a long-term economic strategy makes it impossible for government to prioritise its investment in skills, innovation and infrastructure.

Based on our discussions with UK manufacturers, we have developed five criteria for targeting government investment where it can be most effective. By judging each potential investment against these criteria, the government can ensure that it is supporting markets and sectors that will generate economic growth.

- *Medium- to long-term investments*  
By focusing on medium- and long-term investments in areas such as new technologies, skills and infrastructure, the government can lay the foundations for a more competitive economic future. Such longer-term investments are, however, exposed to a greater degree of risk and some will invariably fail to generate any returns for the wider economy. However, government can minimise its exposure to risk by, for example, taking a portfolio approach to investments and sharing risks with the market. Clear and robust intervention criteria will also help.
- *High growth potential and sustainable competitive advantage*  
Our economy faces small, fleeting windows of opportunity to capitalise on existing or nascent competitive advantages. Delaying investment decisions inevitably leads other economies, markets and companies to steal a march on the UK and rob us of our economic capacity. Invest in markets, companies and technologies that demonstrate:
  - high value products and services
  - high levels of skill and knowledge
  - high rates of design evolution and innovation
  - low to medium production volumes
  - an industrial lead in early stage technologies
- *High return on investment*  
If the government invests taxpayers' money into long-term, growth markets, it should expect market returns. However, given the greater exposure to risk inherent in longer-term investments, the government needs to become better at managing risk. Given the public nature of the funding, government must become more transparent, explaining the risks it's taking, how they're being managed and how they're delivering a return for the taxpayer and for the economy. This will also require the Public Accounts Committee and the National Audit Office to become more sophisticated in how they assess value for money.
- *Drive productivity growth*  
A primary economic benefit of any of government's longer-term investments should be greater productivity growth. The UK needs to boost productivity in order to keep ahead of competitor countries. Government intervention should underpin the drivers of productivity and focus on inherently higher-value, more productive markets and sectors, many of which are in manufacturing.
- *Foster domestic economic complementarities*  
The UK economy will benefit from investments that either develop broad and deep value chains or take advantage of the natural strengths within UK manufacturing and its complementarities with other sectors.

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## Good, bad and ugly government intervention

### *Performance to date:*

#### *The good:*

*Long-term investment in science and research – the Ten year Science and Innovation Framework, and the corresponding increase in budget allocations for research, sent a strong signal of government commitment to the science base. The framework also provided certainty over funding arrangements for Research Councils and Higher Education institutions. It allowed the Research Councils, for example, to plan priorities, while encouraging collaborative work across councils and with the Technology Strategy Board.*

#### *The bad:*

*One of the reasons for the slow development of renewable energy in the UK has been the government's reliance on price signals that are either complex – the Renewables Obligation – or inherently volatile – the carbon price in the EU Emissions Trading Scheme. This instability creates uncertainty about revenues from low-carbon energy technologies, for example new nuclear plants, and that uncertainty is constraining investment.*

*Without a more stable carbon price, or support for investment from government, the commercial case for investing in new nuclear capacity in the UK looks increasingly weak. In contrast, government intervention has sometimes been too heavy-handed. For example, while its explicit financial support for renewables technologies, carbon capture and storage demonstrators has attracted private investors, it has tilted the playing field too far against other low-carbon energy technologies, such as fuel cells.*

#### *The ugly:*

*Government bailouts for the banks, after a decade of boasting about light-touch regulation, may well have been necessary, but it was certainly clunky and costly. By intervening only after clear evidence of market failure, the government had to risk more taxpayer money to provide a safety net for our financial system. This basis for intervention is potentially too costly to be sustainable, too late to provide help when it is needed and too myopic about the role government plays in determining market outcomes on a daily basis.*

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## The framework in practice

A new framework must be backed up with tangible actions and sufficient resources. The shift to a more sustainable economy will require wide-ranging change across government. The right policies will also be needed – policies that encourage firms to grow and provide the confidence to invest. The following recommendations will set the UK economy on the path to a more diverse and durable economy.

### 1. *Develop an overarching vision and embed it across government*

As a first step, government needs to be clear about what kind of economy we need in the future. It will need to make choices about its priorities, commit to them long term and provide the resources necessary to make them a reality. This vision will have to be translated into a clear and comprehensive strategy.

This strategy will only succeed if it becomes embedded in the government's DNA. Business currently receives a confused message because government policy often seems to be pulling in different directions. For example, proposals to support or develop specific industries and sectors tend to exclude the role of the corporate tax system in influencing investment decisions. Equally, some policy areas have undergone a multitude of changes in recent years. Ongoing change in skills policy, for example, has produced a complex and unpredictable system.

Government must deliver a more coherent and effective approach, with consistent policy across departments. This means new ways of working and closer cooperation between departments and at all levels of government. Specifically we recommend that government:

- Create a credible, long-term strategy: Government must set out its long-term vision for the economy, backed by a credible strategy to reduce the trade deficit and restore the public finances to health by diversifying the economy and strengthening manufacturing.
- Embed that strategy across government: The National Economic Council (NEC), which was created to steer the country through the recession, should become the vehicle for coordinating the new strategy. To support the NEC, Cabinet Committees should be given a greater role in the delivery of specific, cross-departmental priorities. The government should also take a more coordinated approach to seeking expert advice and guidance on how best to encourage long-term investment in high-priority growth sectors and markets. Parliamentary Select Committees and formal consultation should continue to play a role in policy development, while the NEC would ensure greater consistency across government.
- Develop the capacity to deliver: Delivering a new strategy will require a cultural and organisational change in Whitehall, and also in sub-national governance structures. Government must ensure that, at all levels, its decision-making structures are fit for purpose and focused on the future. These structures need to have the credibility and authority to take decisions quickly and have the critical mass necessary to encourage growth and prosperity.

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## Transparent, coordinated government creates business opportunities

*Too often the left hand of government doesn't know what the right hand is doing. Inevitably this leads to confusion and can mean that businesses miss out on commercial opportunities.*

*The recent and infamous case of the 'fridge mountains' illustrates the point: a breakdown in communication between the EU authorities, national government and local authorities over the introduction of new recycling rules led to disused fridges being stockpiled and dumped as the UK's waste infrastructure struggled to catch up.*

*Government can and should do more to highlight such legislation well ahead of its planned implementation. The information – along with detailed timelines – could be delivered through a single legislative online portal. This would allow regulators and businesses to prepare for the introduction of new initiatives, identify new infrastructure requirements and – most importantly – spot new market opportunities.*

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## 2. *Send, clear and effective signals*

A new strategy must be matched with clear and effective signals of government intentions in new and developing markets. Government can send a range of signals to change behaviour, encourage private sector investment or encourage the industrialisation of emerging technologies. In the past, the reliance on measures that manipulate market prices as a means of changing behaviour has, in many cases, simply added to business costs. The increase in the landfill tax is one example – while this measure was intended to reduce the amount of waste going into landfill, it contributed little to the development of new waste infrastructure until changes to planning were implemented to boost investment.

Specifically these signals should include:

- **Providing clarity on spending and procurement plans:** Government must provide greater clarity on the details of its future spending plans. Headline totals for departmental expenditure don't provide manufacturers with sufficient information on the priorities within department budgets. In instances where manufacturers are contracted to provide goods and services, long-term industrial strategies, developed in close consultation with industry, must be put in place.
- **Being a better consumer:** Government must also decide the extent to which it will be a customer in low-carbon markets. Its reach and scope as a procurer, from the government estate to its fleet of vehicles, means it can have a significant role in stimulating the development of low-carbon goods and services. For example, the government could commit to buying only electric or low-emission vehicles for its car fleet.
- **Being explicit about priority markets and sectors:** Reducing our trade deficit means reducing our reliance on imports. Therefore, government signals – including public procurement and departmental industrial strategies – should be designed to encourage new and existing domestic capacity in markets, sectors and technologies that can address our long-term challenges.

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Commit to feed-in tariffs on a wider scale, including large-scale marine renewables

*Government must support emerging renewables in which the UK has a realistic opportunity of developing an industrial lead and competitive advantage in the domestic market. The predictability of support is attractive to developers and investors who might be especially averse to price risk because they are already taking on significant technology risk.*

*Crucially, fixed long-term tariffs significantly reduce political risk from an investor's perspective – a feed-in tariff is a commercial agreement between two parties protected under contract law. Feed-in tariffs could have a major impact on industrial development – supply chains tend to develop around the lead market in which a technology is initially deployed.*

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3. *Be ambitious with scarce resources:*

Reshaping our economy won't be a quick or easy task. It requires an ambitious agenda for reform. Yet there are clear constraints on the public purse. Government will need to prioritise, directing resources to areas where they will have the most impact. Where it does decide to act, government should be bold and ambitious.

Our competitors are making significant investments in their strategic priorities. The Chinese government, for example, has committed \$1.5 billion to boost innovation in electric and hybrid vehicles in its domestic automotive sector. The Japanese government is also investing significant resources in the development of renewable energy technologies.

The UK can rise to meet its long-term challenges with domestic capabilities. However, doing so will require bold decisions from policymakers to ensure that its ambitions are met with sufficient investment. Rather than spreading scarce public resources ever more thinly across the economy, government must prioritise and make the most of the limited finances it has available. Specifically we recommend that government:

- Gives greater priority to promoting exports: The balance between UK Trade and Investment's (UKTI) investment and export activities must be reassessed. While attracting foreign investment will remain important, rebalancing the trade deficit is an urgent priority.
- Creates a well-funded, ambitious prize for innovation: The UK is a world leader in research. To maximise that advantage we need an innovative approach to help companies overcome the hurdles they face in developing and commercialising their innovative ideas. Government should create a single prize with a single focus – to bring new technologies to market.

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## Backs big bold projects

*For example, a £1bn ‘Innovation Nation’ prize could be offered to help industrialise low-carbon technologies. The prize could take the form of a single lump sum awarded to a single winner or shared between several top achievers. Part of the prize could also be given in the form of a government guarantee for orders.*

*A well-designed and operated prize could change popular perceptions of the manufacturing industry and send a strong statement about government’s commitment to supporting the costly pre-revenue development stage of new innovation. It could inspire the kinds of efforts that lead to radical and sudden breakthroughs, largely because competitors collectively devote more time, attention and money – 10 or 40 times as much – than is actually on offer. The prestige of winning, and the guarantee of government orders, would be a powerful spur for creative endeavour.*

*For example, the ‘X’ Prize Foundation’s competition to design a marketable car that travels 100 miles to the gallon attracted over 100 teams of competitors, from large auto makers and racing teams to universities and individual innovators. The Foundation is developing a whole series of prizes as a catalyst for the development of clean, renewable and cost-effective energy. The combined value of the prizes could reach \$100 million.*

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## 4. *Put finance to work for the real economy*

Through excessive risk-taking, the banking industry has severely weakened the financial system and failed the economy. Although the pain is not over – and some banks face further misery – there are glimmers of optimism that order may be restored. Even the biggest banking victims of the crisis expect to return to profitability this year. Because banks expedite the flow of credit through the economy, we all need them to make money.

In the future, the financial services sector should have a greater focus on real businesses, not exotic financial products; and on long-term relationships, not short-term gains. Given the now explicit guarantees given by government to the financial system, financial services must be better regulated to ensure that the actions of individual banks don’t undermine the country’s economic stability.

Just as important as curtailing the worst of the financial sector excesses, however, the Bank of England, the Financial Services Authority and government need to ensure that regulation of the financial system does not constrain the flow of credit to the economy and that a renewed regulatory zeal does not spill over into other sectors. Instead, attention must be trained on ensuring that the financial system returns to its core function of allocating credit to businesses and consumers efficiently. London needs to remain a world-class financial centre; the UK economy will benefit if it does.

We specifically recommend:

- Re-establishing an industrial bank tasked with investing in the future:  
The banking sector’s return to profit will come on the back of higher interest rates and fees plus tighter lending restrictions. This will significantly raise the cost of finance for mature companies and make financing all but impossible for developing businesses.

The Industrial and Commercial Finance Corporation (ICFC) was set up in 1945 by the Bank of England and the major British banks to provide long-term investment funding for smaller businesses. ICFC was initially created because the needs of manufacturing were systematically ignored by the banking and financial system.

Today, small and growing manufacturers – those with fewer than 250 employees and less than £10m in turnover – still struggle to find medium- to long-term finance to match their investment needs. The venture capital market for start-up and developing companies has also dried up. Any form of lending entails risk, and extending credit to a small business is one of the riskiest activities a bank can undertake. However, continued capital investment is the only way manufacturing companies can remain competitive in a high-labour cost economy.

We recommend the creation of a new Bank for Industry – a bank capable of financing medium- to long-term industrial investments and providing venture capital financing. The new Bank for Industry could be financed through the profits the UK makes as the government sells off its stakes in bailed-out UK banks.

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## Green bonds for green businesses

*The UK needs to invest more in the development of new technologies. UK manufacturers are world-class innovators, but they struggle to find support for the development and commercialisation of innovative products.*

*We recommend the creation of a ‘green bond’, which will allow loss-making companies that are developing low-carbon technologies to claim immediate cash funding against accumulated tax losses, rather than offset those tax losses against future taxable profits. Green bonds will help manufacturers finance the final stages of development and commercialisation of green and clean technologies.*

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### 5. *Create a competitive business environment that promotes investment*

Modern manufacturing is global in its outlook, and the UK’s business environment plays a key role in investment decisions. At the beginning of this decade EEF argued that, for UK manufacturing to close the productivity gap with its competitors, we needed to take significant steps to improve skills, reduce the regulatory burden, reverse years of underinvestment in our transport infrastructure and address barriers to accessing finance.

More than five years on, progress in these areas has been mixed. There is clearly still a role for government to create a more predictable and competitive business environment. Specifically we recommend:

- **Flexible labour markets:**  
The UK’s flexible labour market is a vital comparative advantage for manufacturers competing in a global marketplace. That flexibility must be protected by government and, ideally, enhanced.
- **Planning and infrastructure investment:**  
Recent planning reforms generated by the introduction of the National Planning Commission and National Planning Statements should be retained. Government must also work with the private sector to fund long-term investment in transport systems and the energy infrastructure.
- **Regulation:**  
Regulatory budgets should be introduced early in the next Parliament to place a value on the cost of regulation and allow government to be held to account on the red tape it imposes on business.
- **Skills:**  
The UK needs a simpler, demand-led skills system where funding follows the individual learner and where providers are incentivised to respond to the demands of employees and students.
- **Tax competitiveness:**  
The UK needs a stable, predictable and internationally-competitive tax system that allows manufacturers to invest in modern machinery and finance operations abroad.

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## A taxing problem

*Our tax system fails to recognise either the importance of capital investment to manufacturing or the advanced technologies and short lives of modern machinery. Manufacturers replace their equipment, on average, every eight years; many companies even sooner. Yet recent changes to the tax system mean that it can take a business up to 29 years to reflect the full cost of that investment.*

*While this may seem like a simple timing issue for the government, for manufacturers competing in global markets, cash is king and the difference adds to the cost of investing. In buoyant times, it puts a hidden brake on the abilities of companies to reinvest; in recession it paralyzes manufacturers, preventing them from investing for the future.*

*The tax system should recognise the full costs of manufacturers' investments when they make them, not decades later. In a high-labour-cost economy, manufacturers can only be competitive through a process of constant innovation that is inseparably linked to exploiting advances in technology. Constraining manufacturers' ability to reinvest in capital equipment would lead to the rapid erosion of their competitive advantage, in essence forcing them to compete increasingly on cost of labour – a battle the UK cannot win.*

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## *At a crossroads*

Just like manufacturing at the start of this decade, the UK economy sits at a crossroads. We can either blindly believe that the economy will ride out the recession and return to business as usual, or we can learn from the lessons of the past ten years and take action to create a more dynamic, diverse and durable economic base.

The former implies a return to myopic, debt-fuelled growth and a gradual but inevitable collapse in national competitiveness. The latter requires manufacturers and politicians to make tough choices and take decisive action to restore our economic competitiveness in the future.

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## About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

Around a quarter of the UK's manufacturing businesses are our members and many more use our services to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their

deliberations. We work with them to create policies that are in the best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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