

## Written evidence submitted anonymously

### **Part 1 - Introduction and reason for submitting evidence**

Explaining what I have learned during the last 44 years about businesses, business support and how to achieve successful economic recovery/growth, will answer some of the questions. The backstory also describes my motivations and the rationales for my replies to the questions as well as providing evidence. My other objective is to overcome some of the entrenched misconceptions and incorrect assumptions that have been long-term barriers to creating world-class business support. **Removing these barriers will enable the creation of robust, diverse and world-class businesses that will build back a better and stronger UK economy.**

### **Part 2 – Answers to questions**

My answers are based on 44 years informal but detailed, objective and long-term research and empirical evidence obtained from close interactions with businesses. My International research provides comparisons of SME competence and business support with other advanced economies. I have also had the opportunity to observe first-hand several different models of economic recovery/growth strategies and have analysed what works, what doesn't work, and why. I was privileged to play a key role in a very successful economic recovery/growth programme in Stocksbridge South Yorkshire.

### **Part 1 - Introduction**

#### **1.1 - 1977 – 1995 – Interacting with several thousand businesses in a banking environment**

My parents were both scientists and I inherited a scientific curiosity, as well as an analytical and problem-solving mind that, unintentionally, triggered 44 years of in-depth study of businesses. During 18 years in banking, I spent a lot of time working on personal and business lending. This involved very close interactions with businesses, analysis of financial and non-financial information and an assessment of their business and financial acumen. Banks also review the operation of business bank accounts because it reveals a great deal about the health of a business and provides warning signs of problems. As well as developing a thorough understanding of businesses, I also developed a deep respect for their ingenuity and tenacity and empathy for their problems.

#### **1.1.2 - Key findings**

A significantly large proportion of businesses are good at their prime business activity (producing their product or service), but struggle with the management of the actual business (business and financial acumen). Managing cashflow was, and still is, one of the biggest problems. Frustratingly, I saw large numbers of potentially good businesses struggle and fail because of significant gaps in business know-how. **This is a fundamental finding that explains the gap in the UK's level of productivity compared to other advanced**

economies, and why productivity growth has been persistently weak in the aftermath of the 2007-2009 financial crisis.

### 1.1.3 - Attempted remedies

It is not the bank's role or responsibility to provide business training. To give them credit, they produced booklets and sponsored business training that was delivered by the relatively new business support industry. However, the booklets provided disjointed pieces of information and the business training was poor quality and inadequate. Consequently, both attempted remedies were ineffective. **This fundamental issue has blighted UK businesses for decades**

## 1.2 - 1996 – 2000 – International research into business support and delivering projects to assist 800+ SMEs successfully implement IT into their business

Having decided that I wanted to make a positive contribution to assist businesses, rather than powerlessly seeing their problems in a banking environment, I started a new career in business support. After the rigours of my professional banking qualification and the extensive training I received during my banking career, I found the professional standards of Business Advisers left a lot to be desired. I also encountered many misconceptions and incorrect assumptions about businesses and business support. **This explains why a great deal of business support was, and still is, ineffective.**

### 1.2.1 - International Research

However, despite these limitations, I had incredible opportunities to learn more about businesses through delivery of business support and International research. As part of my initial induction in 1996, I visited Germany to research their strategy for dealing with the decline of the steel and coal industry. I also discovered how they had successfully achieved the re-unification of Germany. Financial experts have estimated that it cost 2 trillion euros and economists had predicted it would severely damage the German economy. Instead, Germany has emerged even stronger and their success has been described as an "economic miracle".

### 1.2.2 - Introducing IT to 800+ SMEs

My main contribution to businesses, during this period, was developing, managing and delivering business support for 3 projects that assisted 800+ businesses to gain IT skills and successfully implement IT into their business processes. The project activity included business diagnostics, training-needs analysis, IT training, and development of an IT implementation strategy.

The largest project was "ADAPT through IT" (1998 – 2000). The main objective of the project was to "develop, test and evaluate innovative approaches to resolving the fundamental barriers to the development of ICT competencies in SMEs".

"ADAPT through IT" was a transnational project with Austria, The Netherlands and Germany. Part of my role was to manage the transnational theme of "SME Competence". This gave me the opportunity to study German SMEs and business support in a more structured format and compare it with Austria, The Netherlands and the UK.

### 1.2.3 - Key findings about SME Competence

The main reason the German economy out-performs the UK, and German businesses out-perform UK businesses, is training. Training is embedded in their culture and has been for a long time. Passing knowledge from one person to another down the generations, is the cornerstone of human civilisation. For individuals they provide extensive vocational and professional training:

- Academic education and vocational training have equal respect and prominence
- German employers invest in professional and vocational training for their employees. They are committed to training programmes as a strategy to attract and retain top talent
- Dual system of vocational training and quality apprenticeships for skilled trades, offers a combination of technical theory and practical experience

For businesses, they provide comprehensive and high-quality business start-up training. To them, it is as natural as taking driving lessons when first learning to drive. Consequently, **Germany has very few self-taught businesses. By contrast, most UK businesses are self-taught and inevitably have significant gaps in know-how.** In 44 years, one of the main things I have learned is that even small gaps in know-how can cause big problems for businesses.

Germany explains its success:

*“A large part of the reason for the prominence of Germany’s economy on the world stage can be linked to the small and medium sized businesses (SMEs) of the Mittelstand.*

*The Mittelstand is the engine of the German economy.”*

The SMEs of Germany have always driven their economic growth and will enable their economy to bounce back very quickly. See more on <https://economic-recovery.uk/germanys-economic-miracle/>

**Training is the foundation of civilisation, but has become neglected and undervalued in the UK. Until this significant problem is successfully addressed, the UK will continue to lag behind other advanced economies.**

### 1.2.4 - Key finding about introducing new technology to businesses

Example to illustrate the key finding: Many businesses were motivated to introduce IT because they hoped technology would improve the difficult task of bookkeeping. However, the tutor delivering training for the computer accounting software, soon discovered an underlying problem i.e. businesses lacked basic bookkeeping know-how. This meant that technology would hinder rather than help the situation. Because “ADAPT through IT” could respond to a clear rationale to adapt the approach, a basic paper-based course delivered know-how foundations, before moving to computer accounting software training.

**This finding is relevant to any proposal that technology or Artificial Intelligence can meet Government expectations. Until the foundations of basic business know-how are in place, businesses will continue to underperform and not realise their true potential. Advice, mentoring, coaching or technology can never be as efficient and cost-effective as comprehensive high-quality A to Z training.**

Despite extensive dissemination, the best practices and lessons learned were not adopted.

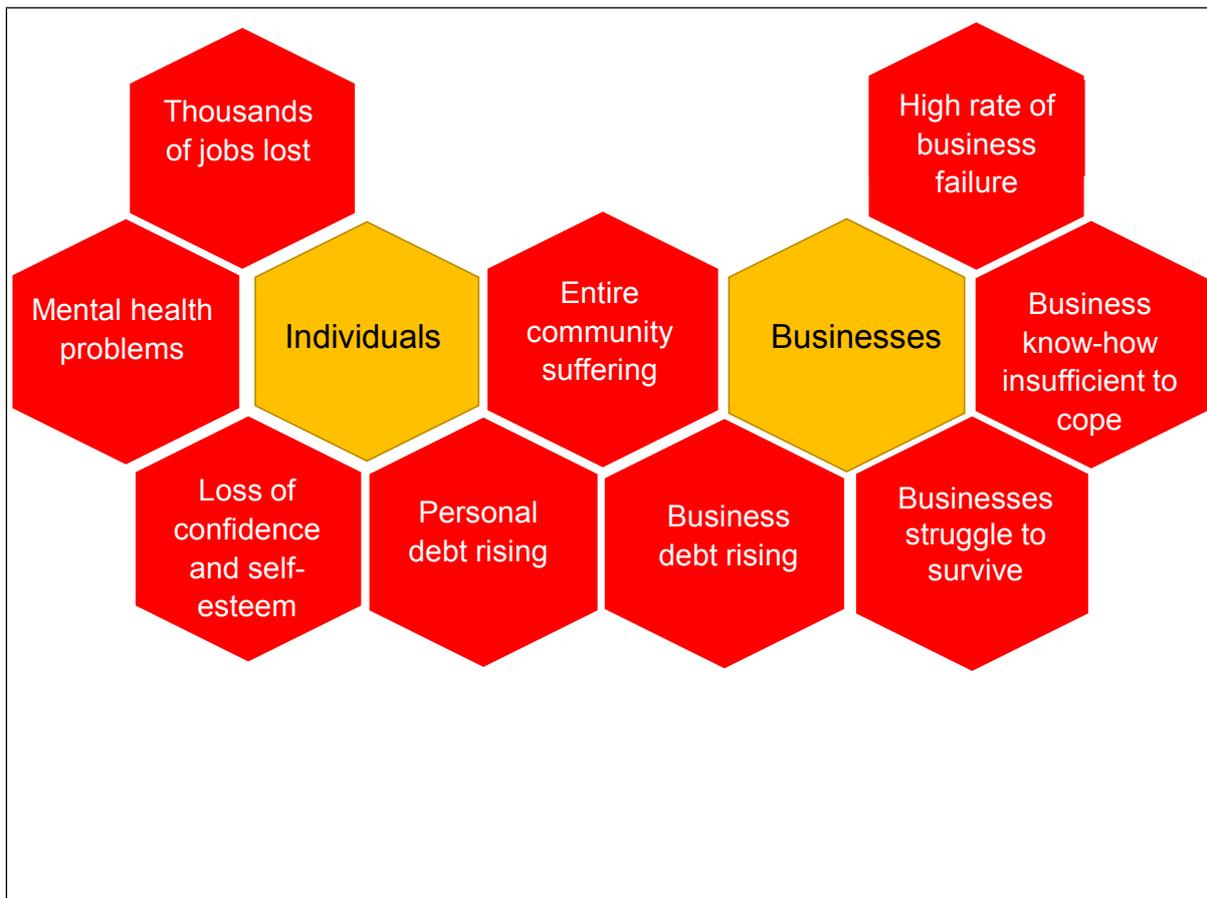
“ADAPT through IT” was part funded by the European Social Fund (ESF) and subject to rigorous external evaluation.

**1.3 - 2000 – 2010 – Creating a unique business support programme based on comprehensive high-quality training and delivering it as a key part of a very successful economic recovery and growth strategy**

Starting my own company in 2000, (Lorna Hesling Associates Ltd), I became self-employed. This allowed me to set my own professional standards and put into practice everything I had learned in the previous 23 years.

Most of my working life was spent in parts of the UK that had suffered severe economic decline and I saw the damage to individuals, businesses and entire communities. **The economic damage caused by Coronavirus will be a new experience for many prosperous parts of the UK.**

**Economic damage to individuals and businesses**



I had various contracts with public sector and community sector organisations that were engaged in economic recovery, regeneration or growth. This enabled me to identify what strategies and methodologies worked, what didn't work and, more importantly, why. Many Public Sector programmes were limited to businesses and did not recognise that businesses needed economically healthy customers.

**1.3.1 - A lesson from the past**

Herbert Hoover – engineer, businessman and politician during the “Great Depression (1929-1939)” in the USA said:

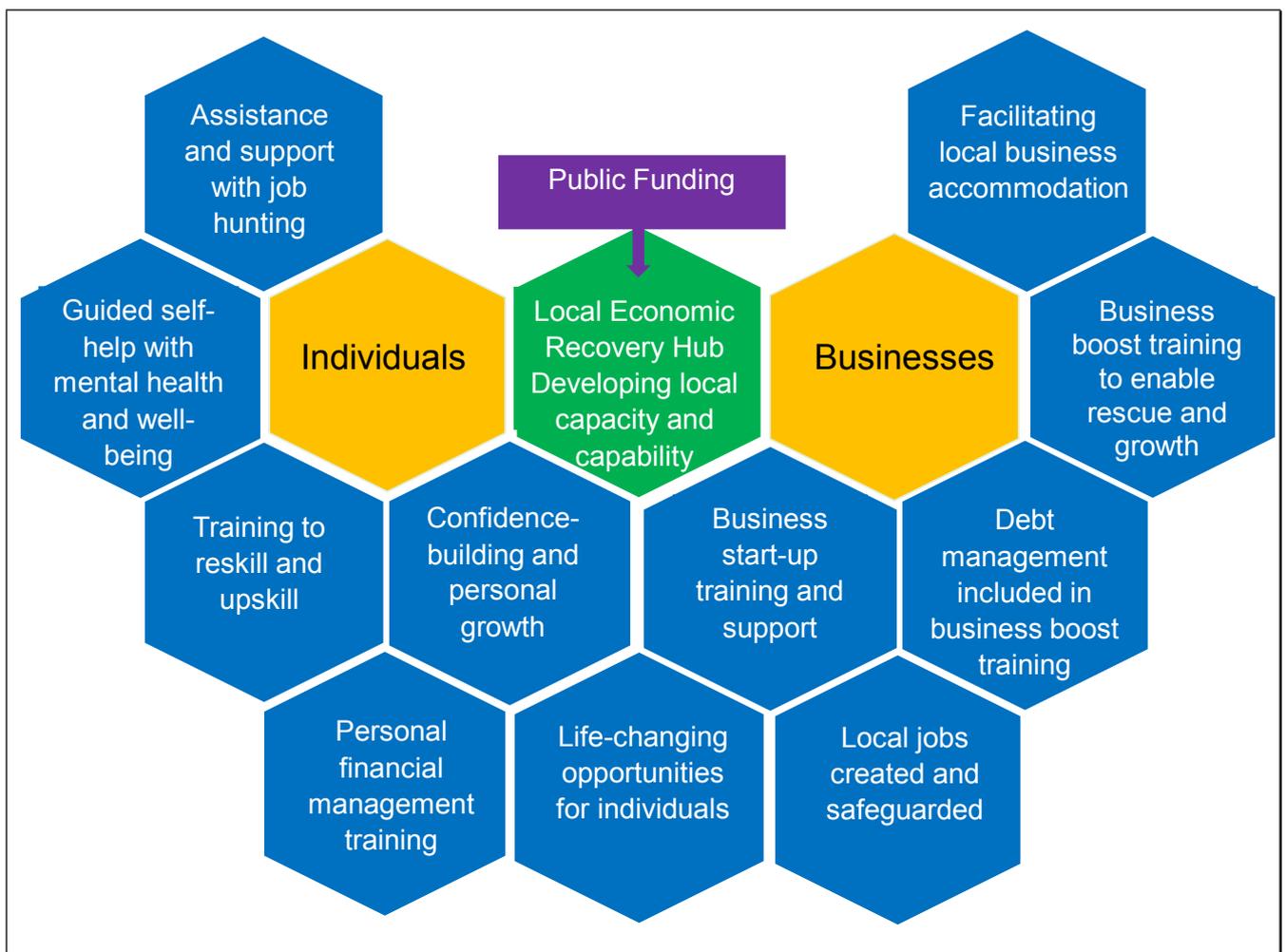
*“Economic depression cannot be cured by legislative action or executive pronouncement. Economic wounds must be healed by the action of the cells of the economic body – the producers and consumers themselves”*

The economic cells at the grass-roots of a local, regional and national economies, are individuals and businesses.

### 1.3.2 - Successful economic recovery and growth

The most successful strategy I encountered, was developed by a group of people who got together and created a community organisation to do something about their town. Stocksbridge South Yorkshire, had been devastated by contraction of the steel industry. See <https://economic-recovery.uk/the-economic-miracle-in-stocksbridge-south-yorkshire/> for a full account.

#### Blueprint for a successful Economic Recovery and Growth Strategy



Their incredible, unique solution used truly joined-up thinking and a holistic approach. They recognised the interlink and interdependence between local businesses and local people.

The strategy required integration of support from people with diverse skills combined with team-working, to offer each participating individual and business a choice of services or a progression through the services. In 2001, I was privileged to be contracted to develop a unique business support programme to fit into their methodology.

In recent years, stigma around mental health has reduced and empathy has increased, but what the Stocksbridge programme did 20 years ago, was truly pioneering

**Example 1** - If my team of Business Advisers encountered a business owner/manager with mental health problems, my team could ask our colleagues who were delivering mental-health support, to provide assistance. **Example 2** - If an individual who had confidence or mental health problems received help from our colleagues delivering mental-health support and wanted to progress forward by starting a business, they were referred into the business support programme. **Example 3** – If an individual came on the business start-up training and made a positive decision that starting a business was not for them, they were referred to the assistance and support for job-hunting. The confidence boosting and business know-how provided by the start-up training was transferrable and increased their employability.

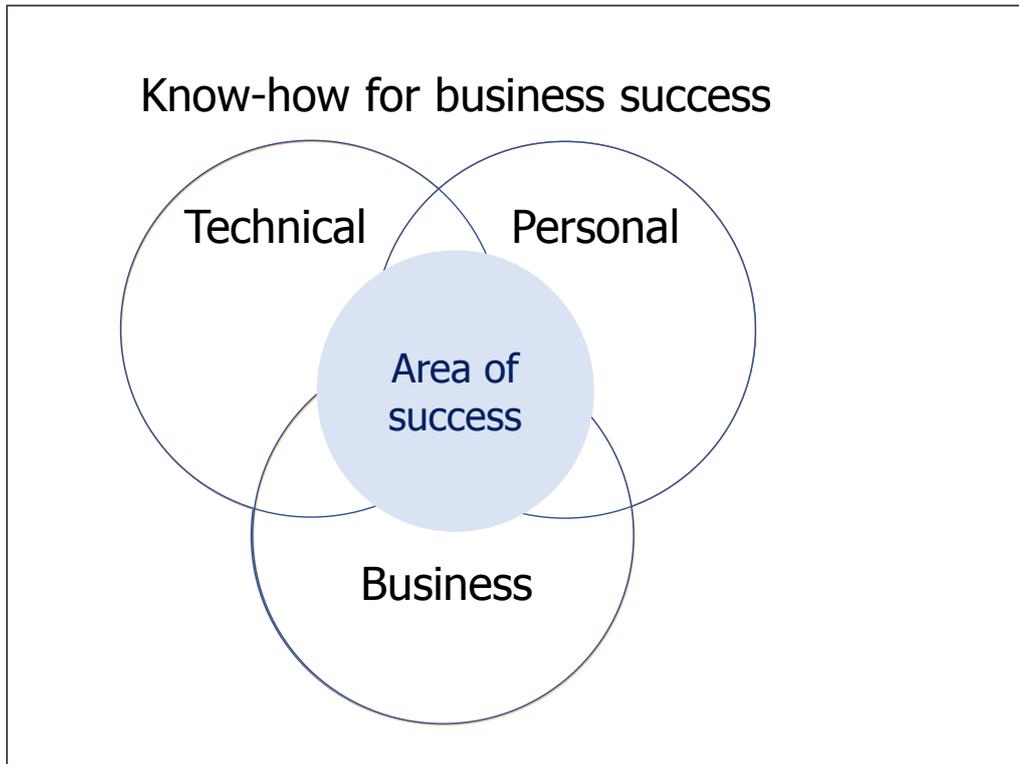
### 1.3.3 - Findings

The strategy and joined-up approach enabled individuals that had suffered financial and/or emotional problems as a result of redundancy and/or long-term unemployment, to become economically active and contribute to their local economy.

The amount of know-how to run a successful business is often underestimated. Business training provides vital foundations that stimulates entrepreneurial thinking and commercial awareness and combines it with business and financial know-how. The resultant businesses are investment-ready and growth-enabled. As well as unprecedented survival rates, some businesses achieved phenomenal growth. Boosting the know-how of self-taught businesses enables them to take their business forward by self-rescuing, reinventing, diversifying and achieving sustainable growth.

### 1.3.4 - Key finding 1

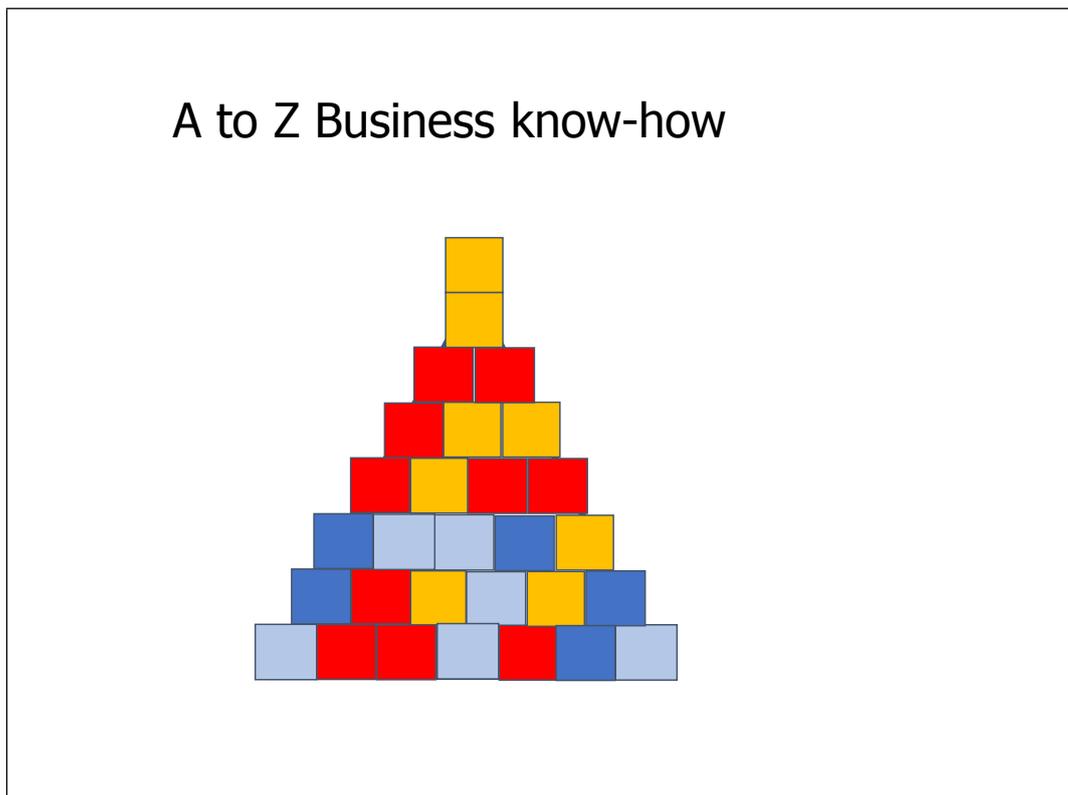
Starting a business is like learning to drive. Regardless of education and work/life experience, it requires new know-how. With the right training, almost anybody can learn to drive or start a successful business. Offering the business equivalent of a Driving School, is the most successful and cost-effective way to boost UK businesses and achieve economic recovery/growth. Accepting this concept helps to overcome many misconceptions and incorrect assumptions about businesses and business support. Comparing existing or proposed business support against whether it would work for learner-drivers, is an aid to decision-making.

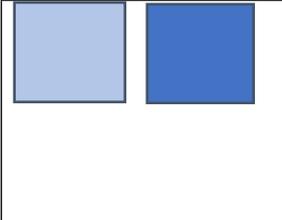
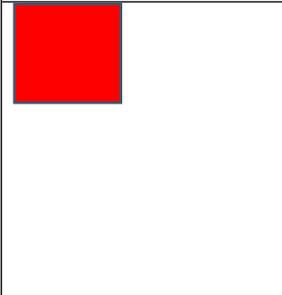


Technical knowledge and skills - the ability to produce/deliver the product/service.

Personal skills – Includes enthusiasm, ambition and problem-solving. Techniques are used to open minds to new possibilities and encourage out of the box thinking.

Business know-how – A to Z Business know-how is required.



	<p>Represents commonly known elements that can be obtained from many sources. A business that only has the commonly known elements, would have too many gaps in know-how. Survival could be a struggle and success would be very difficult</p>
	<p>Represents pitfalls that cause businesses to struggle and fail. They have a negative effect on businesses. I have seen many tragic cases of businesses being forced to cease trading because of pitfalls. The financial and emotional consequences can be devastating. One of the reasons this training has achieved such high business survival and growth rates, is because it provides know-how to avoid pitfalls</p>
	<p>Represents the brilliant and inspired things businesses have done to achieve success. They have a positive effect on businesses.</p>

My interactions over the years, enabled me to gather key elements of the combined know-how of several thousand businesses, and incorporate them into the training. I call it experience by proxy. The starting point was a detailed specification of the know-how required to start and run a successful business. Then, I identified desired learning outcomes. There are a few key topics that have caused problems for many of the businesses I have encountered. Some of them, such as tax and working capital can be quite complicated. I overcame this problem by carefully creating a learning journey to start at the basic foundations and move through to more advanced and complex topics. This enables me to de-mystify and simplify complex subjects. I used various communication methods and included narrative-based learning from real-life examples, plus techniques to stimulate thoughts, spark ideas and embed learning.

The bottom 3 rows of the pyramid represent the know-how required for business survival. The quantity and variety of know-how required for a business to simply survive is surprisingly large. Even small gaps in know-how can cause big problems and make a business vulnerable.

Successful businesses have additional and greater depth of know-how.

Very successful businesses have the complete A to Z of know-how plus well-developed entrepreneurial thinking and commercial awareness.

The know-how is interlinked and interdependent and I strongly believe that no UK business can find this breadth and depth of know-how from any other source. The reason I say this with conviction, is from experience of rescuing businesses that have been through other business support provision. Among the businesses rescued, some had been through mainstream start-up provision or DWP Job Centre+. I also assisted a graduate with an HND that included “Business Studies”, who had committed commercial suicide.

My most successful method to rescue a business, is to offer the training and enable them to use their additional know-how to self-rescue. That way, the business keeps ownership of

the problem(s) and the solution(s). **I have seen virtually every situation a business can encounter and the remedy for almost every problem is boosting know-how.**

The secret to business success is determination, passion, hard-work and know-how. I will leave the definition of “entrepreneur” to those that think they know. Entrepreneurial thinking and commercial awareness are overlaps between personal and business skills. Stimulating entrepreneurial thinking can be facilitated by helping individuals to unlock hidden or buried potential. It has achieved some amazing results.

Education provides knowledge, training provides know-how. It may seem a subtle difference, but the difference between successful and unsuccessful economic recovery, business support and business training, is often very subtle. The UK education system is more focused on achieving academic qualifications than vocational, technical or business know-how. Starting and running a business is a great leveller and offers opportunities for less academically inclined and/or disadvantaged individuals.

### **1.3.5 - Key finding 2**

When providing business support, it is important to recognise the difference between what businesses say they want, and what they actually need. It is also important to identify whether business problems are caused by internal factors (within the control of the businesses), or external factors (beyond the control of the business). Under normal circumstances, external factors are either a threat or an opportunity. With entrepreneurial thinking and commercial awareness combined with business know-how, businesses can recognise/exploit opportunities and reduce/mitigate the impact of threats. Coronavirus has been an external factor that has had a catastrophic impact on businesses in certain industry sectors. However, the primary external factor that causes the majority of problems for businesses, remains lack of access to business training.

For example, repeated surveys of businesses have revealed that up to 50% consider cashflow to be their biggest problem. If you ask businesses the cause of the problem, they often suggest late-payment by debtors and unwillingness of banks to increase borrowing facilities. However, debtors and banks are symptoms, not causes. A key finding has been that boosting financial know-how enables businesses to manage their working capital more effectively and solve their own cashflow problems.

**With nearly 6 million small businesses in the UK (most of whom are completely self-taught) and 700,000 start-ups per year, providing training that ensures businesses have the know-how to succeed will have a major impact on survival and growth. There is huge potential to achieve world-beating economic recovery and growth.**

### **1.3.6 - Outcomes**

- Increased start-ups per 10,000 population
- Over 90% survival rates of start-ups after 1,2 and 5 years
- Exceptional growth by some of the businesses
- Jobs created and safeguarded cost effectively
- Investment ready businesses that have no difficulty accessing finance
- Social benefits of increased opportunity, optimism and personal achievement.

- Reduced unemployment, reduced benefits-dependency, reduced mental and physical health problems, reduced re-offending of ex-offenders
- Opportunities for suppliers of goods or services to the businesses created
- Stimulation of demand for local business accommodation
- Opportunities for banks to obtain valuable new business customers and expand their business lending books, with lower risk of bad debts
- Opportunities for suppliers of professional services (Accountants and Solicitors)
- Creation of a dynamic, diverse and robust business community creating local economic regeneration and growth.
- Revenue from tax, VAT, NI and local business rates

### 1.3.7 - Evidence of success

As the programme was part-funded by Phoenix Development Fund it was subject to rigorous external scrutiny and evaluation. Business survival rates, jobs safeguarded/created and business growth has been independently verified. A visit to Stocksbridge would also testify to the economic transformation achieved and the inward investment it has attracted. The success of the programme was recognised by winning a BURA award in 2002 (British Urban Regeneration Association) and my contribution was recognised when I became IBA Start-up Business Adviser of the year in 2005.

Accurate replication of the whole model will achieve rapid, cost-effective success, particularly when delivered online or using an elearning platform. On the evidence from Stocksbridge, if the results achieved are scaled-up, it will exceed all Government economic growth aspirations.

I am offering free use of the Economic Recovery and Growth Strategy to any organisation that wants to “hit the ground running” and achieve rapid success, without having to go through a steep learning curve. See <https://economic-recovery.uk/>

The RBS Living business survey reveals some surprising information about the level of qualifications held by owner/managers of SMEs in the UK:

- 45% of owners of small businesses left school at 15 or 16
- 19% had no educational qualifications
- 26% passed GCSEs or equivalent
- 12% achieved A Levels or equivalent
- 16% had sat City & Guilds / NVQs
- 5% said they had a professional qualification
- 7% had a university degree

Several celebrity entrepreneurs left school at 16 with no qualifications. These statistics suggest that a 16-year-old with no qualifications can be economically more valuable than a graduate.

### 1.4 - 2011 - present

Until the pandemic, I enjoyed a period of semi-retirement with occasion contracts and some pro-bono work with businesses. However, the plight of UK businesses during the pandemic

and the need for urgent economic recovery/growth has prompted me to become much more actively involved.

My reason for submitting evidence is a serious concern that, despite good intentions, trial and error or repetition of previous unsuccessful strategies will consume valuable resources and time whilst individuals, businesses and entire communities suffer additional hardship.

## **Part 2 - Jobs, growth and productivity**

### **How much difference can government policy make to economic growth?**

I have compared starting a business with learning to drive in terms of requiring new know-how. In 1937, it was a Government policy that ensured all motorists on public roads had sufficient know-how. I have suggested that providing the business equivalent of a Driving School will unlock incredible talent and enable self-taught UK businesses to survive, thrive and grow. Only Government policy and funding can make it happen. Local delivery can be achieved through Local Authorities, Councils, LEPs and community organisations.

If the business training is also part of a holistic Economic Recovery/Growth Strategy, as developed at Stocksbridge, economic benefits will be seen throughout the UK. It will also enable long-term equalisation of opportunity between prosperous and less prosperous parts of the UK. It will finally enable Universities and the UK's extraordinary creative and scientific talent to successfully commercialise intellectual property and open up new high-tech industries.

### **What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-2009 financial crisis?**

Low productivity is one of the symptoms of unhealthy businesses. Other symptoms include cashflow problems, vulnerability to external factors, difficulties accessing finance, high business failure rates and inability to grow. Before suggested remedies can be considered, it is important to establish the cause and understand why so many UK businesses are affected.

Having compared productivity with other advanced economies, why not consider what causes higher productivity in those countries? My research into SME Competence, clearly illustrated that business training was the cause of business success and high productivity in Germany (the highest performing economy in Europe). As previously stated, the cause of the gap in the UK's level of productivity is lack of access to business training, which has left most UK businesses struggling because of insufficient know-how.

### **Barriers to successful business support**

Misconceptions and incorrect assumptions about businesses and business support are the biggest barriers to delivering effective business support.

### **Misconceptions and incorrect assumptions to avoid**

1. Incorrectly assuming that individuals interested in starting a business would have and should have prior business knowledge. High quality business training can provide all the know-how they need.

2. The misconception that the production of a business plan, rather than providing the know-how to implement it, will lead to business success.
3. Incorrectly assuming that self-taught existing businesses are already entrepreneurial thinking, commercially aware and have business know-how. Training to boost their know-how will rebuild their foundations.
4. The misconception that it is possible to identify and cherry-pick potential high growth businesses at pre-start stage, instead of providing universal provision of training for all-comers.
5. The misconception that interventions to rapidly accelerate business growth is a good strategy. Sustainable growth contributes to business success; rapid growth often causes business failure. Overtrading creates pressure on working capital. It is difficult to believe that a rapidly growing, profitable business can fail. Offering A to Z training to ensure all start-ups have comprehensive know-how is the best way to produce high-growth businesses. Two of the start-ups that came through the Stocksbridge programme did not have initial ambitions of high growth. One grew to a £1 billion business and the 4<sup>th</sup> largest in their industry, the other became a £multi-million business employing 80 young people in South Yorkshire. Training is the best proven strategy to achieve sustainable growth.
6. The incorrect assumption that it is a good strategy to target or exclude specific industry sectors. The retail sector was excluded for many years based on the incorrect assumption that new retailers would displace existing retailers. The decimation of high streets is evidence that this, and many similar theories have been questionable. New retailers replace not displace.
7. The misconception that graduates are more likely to start high growth businesses. Some of our celebrity entrepreneurs are famous for having left school at the earliest opportunity with few, if any, qualifications.
8. The incorrect assumption that start-ups need a financial incentive. Know-how is more valuable.
9. The misconception that access to finance is the only barrier to business growth when gaps in business know-how is the main barrier
10. The misconception that difficulties accessing finance is caused by factors that are external to the business, rather than internal factors. Having confidence in the business and financial acumen of applicants is difficult for many banks. The assurance that businesses have received A to Z training boosts bank confidence.
11. The misconception that “spot fix” business support (advice, mentoring and consultancy) is sufficient for start-ups or will enable the growth of existing businesses. Misused in this way, it can actually cause business failure. Start-up and growth can be steep learning curves and training is the best solution.
12. The idea that technology or innovation can compensate for lack of business know-how.

### **Example: Business Incubators v the process of business incubation**

Providing Incubator units is a very appealing strategy that has been widely adopted. The theory that providing high-quality and flexible business accommodation, will encourage businesses to stay local, is sound. Construction of units on derelict or “brown” sites have visually transformed unsightly areas. However, if the incubator does not have enough units to reach critical mass, it is not financially viable. The intangible action of business incubation has often been, at best, unsuccessful or just completely overlooked and

neglected. Without stimulating creation of sustainable businesses, occupancy rates of the units will remain stubbornly low. Training is the answer.

I can provide more information and examples of all these misconceptions and assumptions.

**How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?**

Under normal circumstances, I would say that providing funding without providing the know-how to make best use of it, is not a good policy. However, financial support during the pandemic was absolutely essential.

In common with many places that suffered from reduction/closure of coal, steel and other major industries, Stocksbridge suffered economic scarring because Government and EU support strategies were ineffective at addressing key problems. As time went by the situation worsened. Decline, dereliction, loss of jobs and businesses, decimated many communities and there seemed no hope of recovery. It was only when a group of local people decided to create their own solution, that the situation changed. Their model of Economic Recovery/Growth combined with my model of business support truly transformed Stocksbridge. The longer it takes to implement the right policy and strategy, the deeper the scarring and the longer it will take to recover.

**Do economic statistics adequately capture growth in the modern economic, and what lessons can be learned from the pandemic about the measurement of economic activity?**

I have insufficient information to make a useful contribution.

**What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?**

A legacy from the reduction/closure of coal, steel and other major industries is the loss of training opportunities that were an integral part of major industries. Another problem is the increasing unwillingness of employers to train employees. Instead, they prefer employees to be ready-trained before recruitment. This is in stark contrast to the attitude of German employers. Can Government policy change hearts and minds or influence bigger businesses? It may require financial incentives to address the problem.

The implementation of the Economic Recovery/growth strategy provides a holistic approach for individuals and will make a positive contribution. The return on investment on business training, is far greater than any other single activity and will deliver long-term economic prosperity.

**Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?**

Unless the policies include addressing the gaps in business know-how, the answer has to be "no".

**Is the Government doing enough to encourage corporate investment?**

I have insufficient information to make a useful contribution.

### **Is the “Plan for Growth” an adequate replacement for the “Industrial Strategy”?**

The principle of Business Support as a valuable tool for the recovery of local economies that have suffered severe economic damage, was originally promoted by Conservatives in the 1980s. However, neither business support, nor the businesses assisted, ever realised their full potential. Understanding some of the reasons for this may help to ensure that funding and economic recovery/growth activity is optimised to maximise successful outcomes and return on investment.

**A successful business cannot be built on inadequate or incomplete foundations. Training is a powerfully transformative activity and I have seen some incredible outcomes for individuals, businesses and local economic recovery/growth. I passionately and conscientiously believe it could make a vital contribution to rapid and sustained economic recovery/growth.**

Enabling SMEs to boost their know-how will allow them to strengthen their foundations and build back better. Training is a quick, simple, cost-effective and long-term solution. Training provides equality of opportunity, regardless of age, gender, ethnicity, academic qualifications, previous work/life experience, financial situation **and location within the UK.** Training as an intangible activity that provides enduring economic value and high return on investment

If the “Plan for Growth” does not include providing businesses with high-quality A to Z business training, achieving growth will be difficult.

### **Are we in a period characterised by long-term low economic growth (secular stagnation), and if so, what are the implications for Government economic policy?**

If the UK is in a period of long-term low economic growth, it has been caused by long-term lack of access to business training. As previously suggested, policies to address that problem will rapidly revitalise the UK economy.

### **Is the UK well placed to take advantage of future technological breakthroughs and translate them into economic opportunities?**

Businesses with entrepreneurial thinking and commercial awareness combined with A to Z business know-how, are essential for successful commercialisation of technological breakthroughs. Creating more businesses of that calibre, will enable more of the UK’s extraordinary creative and scientific talent to be translated into economic opportunities.

## **Macroeconomic policy**

### **What are the roles of monetary policy and fiscal policy in stabilising the business cycle and promoting growth in the post-pandemic economy?**

When I first studied Economics as part of my professional banking qualification, I was sceptical about the assumptions on which the theories are based. Are individuals and businesses genuinely influenced by interest rates and fiscal policy? Have all permutations been considered or have simplistic assumptions been made? Have economics theorists assumed everybody thinks like them when making financial decisions? What consideration

has been given to variations of age, psychology, aspirations and personal financial management capabilities?

Markets, investment managers and major corporations are obviously influenced by monetary and fiscal policy, but they are far-removed from individuals and smaller businesses. Of the 6 million businesses in the UK, 96% of them are micro businesses (employing 0 – 9 people). When deciding any type of policy that affects businesses, it is important to remember that advice and input into policy from executives of large businesses, is unlikely to reflect the needs of over 96% of the business population. I have also identified the importance of distinguishing between what businesses say they want and what they actually need.

I have already explained that lack of access to business training has left serious gaps in know-how. Tax know-how (fiscal literacy) is a gap I have frequently encountered and can cause businesses to overpay tax because they don't understand allowable costs or capital allowances. Whilst HMRC website is relatively user-friendly and contains useful information, it is impossible to interrogate any website, unless you know the question. It is not the purpose of HMRC website or professional Accountants to provide training.

Fiscal policy to offer incentives or disincentives to businesses, is ineffective if businesses have insufficient tax know-how. For example, capital allowances have been used to incentivise investment in technology and environmentally friendly vehicles. In my experience, very few businesses have even heard of capital allowances, even fewer have any understanding of how they work, so how can fiscal policy influence their decisions? They may receive advice from external Accountants; but it can be dangerous for a business, if a decision to invest in assets in order to take advantage of tax incentives, denudes working capital and causes cashflow problems.

As far as individuals are concerned, personal financial know-how is another valuable life-skill that is not provided by education. In my experience savers and people with savings, are more likely to be influenced and affected by changes in interest rates, than borrowers.

Property prices have forced a decline in home ownership, so a lower proportion of the population have mortgages. The cost of rental property will not be affected by monetary policies. The other variable is the psychology of borrowers. Why do so many people, either with above average or below average incomes, live beyond their means? Why are borrowers prepared to pay exorbitant charges and interest?

### **Evidence from the Bank of England**

*“The interest on unsecured debt such as credit cards tends to be much higher. Such loans are more risky for the lender because there’s no asset to repossess if you can’t pay back what you owe. Certain types of borrowing such as overdrafts, revolving credit on your credit card and payday loans are also more expensive because they indicate that you’re having financial difficulties. This makes you seem like a risky borrower”.*

### Comparison of household debt, loans and debt securities as % of GDP 1980 to 2018 between Germany and the UK

	1980	1990	2000	2010	2018
Germany	52.31	58.16	70.92	59.03	53.59
UK	29.87	57.51	62.91	93.67	87.19

Source ONS

In 2020 the FCA (Financial Services Authority) introduced rules for banks to prevent them charging daily or monthly fees for overdrafts. In response, the banks have increased interest on overdrafts to 40%. The fact that borrowers are still willing to pay such high interest, demonstrates that monetary policy is unlikely to influence their decisions.

To explain, but not defend, why banks impose these costs, it is important to understand the lending process. Each Lending Manager receives daily information of all personal and/or businesses accounts that are defined as being “out of order”. This means that an item (or items) due for payment that day will take an account overdrawn without prior arrangement or in excess of agreed the overdraft limit. The list can be anything from 50 – 200 accounts. Lending Managers must decide what action to take. Their alternatives are to contact the customer, allow the overdraft (possibly because the monthly salary is due shortly), or “bounce” the item(s) due for payment. This is obviously very labour-intensive, and therefore costly (unless it is more automated since I had to do this job). The charges and interest are imposed in order to recoup this cost. However, another way of looking at it, is to suggest that banks use the charges and high interest as a disincentive or deterrent to unauthorised overdrafts.

#### How many individuals are affected?

About 19 million people use an arranged overdraft each year

About 14 million people use an unarranged overdraft each year

About 7.3 million people use both an arranged overdraft and an unarranged overdraft each year

**Lenders made about £2.4bn in revenue from overdrafts in 2017**

About 30% of this came from unarranged overdraft fees and charges

Source FCA

#### An alternative suggestion

It would substantially boost the UK economy, if individuals had an additional £2.4bn to spend, instead of paying it to banks. Providing training that offers financial know-how, a tool to manage income and expenditure in a timely manner and psychology to motivate changes in behaviour and stimulate financial discipline, is a simple, cost-effective and easily-achieved solution.

Driving a vehicle, business know-how and personal financial know-how are life-skills that are valuable to individuals, businesses and the economy. To be clear, when I refer to lack

of business or personal financial know-how, it is not a criticism of businesses or individuals. It is highlighting a crucial gap in training provision. Billions has been spent over the last 40 years on businesses support, so why are so many businesses self-taught, why do so many have cashflow problems, why are UK businesses less productive than other advanced economies?

**Does the inflation target remain fit-for-purpose, especially in a world where interest rates may be “low for long”? Should the MPC target anything else?**

I have insufficient information to make a useful contribution.

**Does the MPC have effective monetary policy tools to stimulate the economy when interest rates are low?**

When interest rates are low, individuals with capital, choose alternative types of investment. One popular choice has been buy-to-let property. The property purchased, is usually at the lower end of the market. This has distorted house prices and prevented a whole generation from getting onto the property ladder. Economic theories that low mortgage interest rates provide more disposable income and increase consumer spending, are therefore outdated.

**What evidence is there of the relationship between the scale of the public debt and economic growth?**

I have insufficient information to make a useful contribution.

**Is a return of inflation a risk to the economic recovery?**

I have insufficient information to make a useful contribution.

**Can monetary and fiscal policy improve employment, growth and/or productivity outcomes by “running the economy hot”?**

I have insufficient information to make a useful contribution.

*May 2021*