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Unwrapping productive finance

What is productive finance and why should you care about it?

Productive finance is fast becoming a central part of the wider discussion of how we might grow the UK economy and improve the lives of people living in the UK. In this article, the first of a new series, we set out our view on what productive finance is and start to consider the conditions needed for it to work well. Over the series, we'll explore what productive finance could achieve and in which sectors of the economy, the key stakeholders and what it means for you.

Balancing the books – an age-old task

We all manage money, from balancing our household budgets to the more weighty task that Rachel Reeves, the new Chancellor of the Exchequer, has of balancing the budget of the country.

In all cases, for any given amount of earnings, we make decisions on how much to

- **spend** (pay the bills),
- **save** (against future budget deficits) and
- **invest** (for future gains).

And because we work hard for our earnings, we require any investment we make to lead to a long-term 'gain' or benefit that'll make it easier to balance our budget in the future.

In a household sense, for example, the decision to invest in a heat pump will generally lead to reduced energy bills over the long term, being more efficient than traditional heating methods. The equivalent at a country level is to invest in the national economy in a way that will deliver a sustained improvement in domestic production and/or economic growth. (In a future article, we'll return to the question of what factors we should think about when considering economic growth, beyond GDP).

Productive finance does exactly that, while also being a vehicle to address environmental and social issues (although the latter often have a more local focus). It's also desirable to move to an improved regime sooner rather than later to avoid storing up problems for the future, and in the heat pump analogy, not letting continued use of an aging and inefficient heating system cause problems later down the line.

What resources does the UK benefit from?

Of course, as a country, the UK has wider resources at its disposal than just earnings. Productive finance can make use of other levers within the economy, for example land, labour and capital. Taking each in turn, the UK has some key areas of strength:

- a specialism in financial services, giving access to capital flows and pools of domestic and international savings
- a skilled labour force and positive working conditions, which allow the UK to attract and retain the highest-quality people (for example, drawing academics to UK universities and innovators to science-based industries)
- as an island, we could benefit from advances in wind and tidal technologies

The productive finance questions facing the UK government are – how do we use our economic levers and existing advantages to support economic growth? And how do we ensure that economic growth delivers a longer-term national benefit? Productive finance should allow the government to deploy its resources to benefit people beyond the immediate stakeholders (the owners of the capital and skilled workforce) of the investment. And the effect should persist longer than the intended initial period of investment.

Productive finance, in a nutshell

So, what actually is productive finance? Descriptions vary, but one reasonable overview of productive finance is *purposeful investment to improve UK businesses (enterprise) and infrastructure to accelerate UK growth.*

What outcomes should productive finance achieve? A return for investors and a growth stimulus that generates increased revenues for the UK government to invest in enhanced public services.

How do we measure success? An improved lived environment and enhanced industrial and financial security for the people of the UK.

We also believe that productive finance:

- has to have a domestic UK impact
- goes beyond the initial deployment of capital – it's a longer-term proposition
- should provide a wider (multiplier effect) positive impact on the economy and not just a simple return for those who provide capital
- should build and create new industries that will remain headquartered in the country where the productive finance is deployed

The UK has one of the largest and most competitive financial services sectors in the world. Competition for capital is intense, and the ultimate goal of all financial services organisations is to improve their clients' financial position. As a result, globally, capital allocates intentionally and efficiently.

What productive finance could achieve, when implemented well, is to unite investors (in the broadest sense – the allocators of capital through to the individuals that provide the capital for allocation) and the UK government. This would improve the opportunities for return in the domestic economy for the betterment of the UK and all of its citizens.

Wrapping up

We hope your found this first in 'Unwrapping productive finance' an interesting and informative read. Do engage with the rest of the series, which explores what could be achieved and in which sectors of the economy, the key stakeholders and why it matters to all of us.

Contact us

If you want to discuss anything further, or have any questions, please get in touch.

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