FABIAN SOCIETY

GOING UP A GEAR

RAISING PRODUCTIVITY BY POWERING UP INVESTMENT, WORK AND INSTITUTIONS

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SUMMARY

This report summarises why the UK needs 'good' productivity growth and sets out a number of practical recommendations that would make it happen.

Good productivity growth is essential

The UK needs productivity growth to improve living standards. Without productivity growth, we will be economically vulnerable to recessions or stagnation. We will likely see widening inequality, lower incomes, a smaller tax base, and, as a result, poorer health, lower educational attainment, and lower life satisfaction. All this would in turn mean lower productivity, tipping us into a vicious cycle. Productivity growth is necessary to improve people's lives.

But it must be 'good' productivity growth. We must avoid productivity gains that come at a high social cost: shedding jobs, reducing working conditions, or raising living costs in overheating regions. Poorly constructed cuts to taxes and regulation, supposedly to 'unleash growth', can in fact mean insecurity for businesses and workers, and a smaller tax base to fund public services. This can be self-defeating, as it ultimately undermines long-term productivity by eroding the foundations on which any modern economy rests.

We set out a working definition of 'good' productivity growth as a sustainable rise in private sector productivity which results in higher and more equal living standards, protects or improves the environment, and funds – or reduces the cost of – public services and infrastructure. In practical terms, this means businesses increasing economic output per hour of work while also creating more and better jobs than any that are lost, and which are accessible to the people who need them; protecting nature and emitting less carbon dioxide; and capturing tax revenue or dividends for investment in public services. It is closely related to the well-worn terms good growth, inclusive growth and economic justice.

The UK does not currently experience good productivity growth because of low and ineffective investment, poor quality work, and weak, centralised institutions and governance

We have a good understanding of what governments can do to enable good productivity growth. We know that productivity will tend to grow in response to certain public and private investments, in areas such transport, infrastructure, skills and innovation; measures to ensure good quality work; and stronger institutions and governance.

The UK economy retains some good foundations for this kind of productivity growth. We have some underlying advantages, and our aerospace, life sciences, professional services and creative industries are strong. Our employment rate is also high compared to many countries.

But government decisions have undermined these strengths by doing the very opposite of what the evidence suggests. These are policy failures – not mere accidents, coincidences or curiosities. Many high-income countries have struggled to maintain productivity growth, and some factors contributing to our current predicament have been outside of our control. But UK governments since 2010 have either missed opportunities to improve productivity or have acted in ways which experts almost unanimously decried as counterproductive at the time.

Together, these policy failures have resulted in low growth in productivity and living standards. UK productivity and disposable income have taken more of a hit than other high-income countries.[2] Between 1997 and 2007, growth in output per hour was the second highest in the G7; but between 2009 and 2019 it was the second lowest. This low productivity growth is the primary driving force behind living standards stagnating and even falling in recent years.

There are three interrelated policy challenges we now need to address.

1. Low and ineffective investment

- Since 2010, governments have cut the adult education budget; invested too little public money in transport, energy, broadband and innovation, with real-term cuts now pencilled in for the years ahead; and failed to address low business investment.
- The good ideas policymakers did develop were not seen through, or were inconsistent: George Osborne's northern powerhouse; Theresa May's industrial strategy; Boris Johnson's 'levelling up' agenda; national targets for R&D spending and broadband rollout; and vital transport projects, like HS2 or Northern Powerhouse Rail.

- For the last 10 years, UK investment (gross fixed capital formation) has averaged 17 per cent of GDP, compared to 21 per cent in Germany and 23 per cent in France.

2. Poor quality work

- Since 2010, governments have pushed people from unemployment into work they are ill-suited for, while presiding over low pay growth, and failing to update employment rights, especially in response to insecure forms of work.
- Some initiatives have made an important difference. The national living wage has reduced low pay even while median earnings have stagnated, and the pandemic furlough scheme protected incomes and the labour market. But other plans have fallen flat – the promising Kickstart scheme was chaotically delivered and poorly managed, for example.
- If the rate of annual pay growth in the five years preceding the 2008 peak had been sustained at 1.8 per cent, average pay would be £190 per week (31 per cent) higher than it is now.

3. Weak institutions and centralised governance

- Since 2010, governments have specialised in policy gimmicks and slogans, instead of sustaining effective industrial and regional institutions and policies; centralised economic power, then failed to use it; and left the EU chaotically, with a poor deal which has caused strain and chaos for trade and supply chains.
- There have been some sensible interventions, but their delivery has been weak or inconsistent. Devolution to new mayoral combined authorities was important, but the city regions are still not powerful enough. 'Boosterist' slogans focused media and investor attention, but the northern powerhouse really lasted only two years and made little lasting impact beyond devolution.
- Regional income inequality has gone up since 2010, and the UK has become more centralised in terms of public spending and capacity. The UK remains the most centralised large high-income country, as well as the most regionally unequal major economy, in productivity, life expectancy, disposable income, and job creation – while poverty is also created in the capital by London's economic overheating.

The country needs strong UK-wide and devolved economic institutions and long-term plans and interventions that support good productivity growth

The government should:

1. Establish a cabinet committee to oversee industrial strategy and regional policies and make decisions.
2. Set up an Industrial Strategy Council with regional representation to bring partners into policymaking.
3. Set up a Productivity Commission to provide independent, expert advice.
4. Develop an industrial strategy with a strong regional focus.
5. Empower workers and enforce employment regulations.
6. Devolve power and sustain resources to mayoral combined authorities.
7. Make the British Business Bank and UK Investment banks more autonomous and regionally focused.
8. Require businesses benefiting from economic support to demonstrate public benefit.

INTRODUCTION

The UK still retains a significant endowment of assets and advantages. Compared to other countries, we can genuinely claim to be world-leading in important sectors, including advanced life sciences, aerospace, creative industries, professional services, financial services and AI and fintech.[3] These are underpinned by some strong fundamentals such as our geographical position, our universities, deep capital markets, and even the English language.[4] In terms of the quantity of jobs in our economy, we do better than many of our peers: despite recent changes, our employment rate remains high and we have created large numbers of jobs since 2010. All is not lost.

But governments have made some incredibly poor choices that have held back our potential and now threaten our future prosperity. Some of these decisions are historic – we are still living with the decisions made about how to deindustrialise in the 1980s. But many mistakes are more recent. These decisions have often prevented us from fully realising the value of our existing assets, but they have also failed to support emerging and potential strengths.

Together, these policy failures have left the UK in uniquely vulnerable compared to other high-income countries: we are at risk of sliding down the ranks of developed nations. Other countries, like Germany, France, or the USA, are far from perfect. They too have made economic policy mistakes, muddling their way through deindustrialisation, globalisation and technological change. They have also had to deal with the global financial crisis, the pandemic and the energy crisis. But they have not actively and systematically undermined their own strengths for a sustained period; they tend to have more interventionist and devolved industrial and regional policies; they tend to adapt better to events; and they tend not to ignore the weight of evidence in their decision making. Their policymakers increasingly see the UK as a cautionary tale.[5]

This leaves us facing a challenging economic period poorly prepared, with no clear path to return to productivity growth and improving living standards. And it leaves us with no viable way through a long-term, intergenerational fiscal challenge: improving the quality of life for working-age people while simultaneously supporting a growing retired population and investing in the future, from early years and education to infrastructure and net zero.

This paper synthesises the research in this field as a basis for a set of practical recommendations to set the UK on a better course. First, we explain the importance of rising productivity, and account for some of its detractors' valid criticisms, by contending that 'good' productivity growth should be our shared goal. Then we examine how government policies can support good productivity growth, and how recent policy decisions have resulted in low investment, poor quality work, and weak, centralised institutions and governance. Finally, we propose how the government should change course.

1. THE UK NEEDS 'GOOD' PRODUCTIVITY

Productivity is the economic output created for each hour worked. Why do we need it to rise more quickly?

Some might say that raising productivity does not matter. Poverty and inequality have persisted in times of high and low productivity growth; and they persist in high productivity places, like London, as well as in low productivity places, like Cornwall. Significant productivity improvements could imply fewer jobs or fewer hours worked – or an unacceptable cost to the environment.

At a time when many high-income economies are struggling to sustain productivity growth, some have concluded one or more of the following: that productivity is not necessary to reduce poverty or raise living standards; that other outcomes, such as life satisfaction, should be prioritised instead; or even that 'degrowth' might be optimal, particularly from an environmental perspective.

Most economists disagree. The accepted wisdom within the profession is reflected by Paul Krugman's famous phrase: "Productivity isn't everything, but in the long run, it's almost everything."[6] But clearly this needs to be explained and qualified.

This section shows why productivity growth (and by extension rising GDP per capita) remains necessary but not sufficient to improve living standards. We argue that productivity growth, social inclusion and environmental sustainability can be mutually reinforcing with the right interventions, and must be fused together into what we term good productivity growth. This is a well-worn debate in economic policy, at international, national and sub-national level, but one which bears repeating, so that the true value of productivity gains can be assessed.[7]

Productivity growth is essential

Productivity is essentially economic 'bang for buck' – the efficiency with which economic output can be generated. If a company, region or country creates more value from the resources put in, then it is said to be more productive. Productivity is usually defined as the value added to goods and

services for each hour that people work, or else relative to the value of all inputs, including capital inputs.[8]

Productivity growth results in a series of benefits (although there are caveats which are discussed below).

- **Jobs, incomes and progression.** Businesses need to add value more efficiently in order to employ more people, to reward them more (with pay and other benefits), or to invest in training and progression. If they become less productive or less competitive, they will often do the opposite: cut jobs, pay less and not support progression. Productivity has a multiplier effect in local economies and in supply chains, which in turn affects more people's jobs, incomes and progression. There is a well-established link between long-run productivity growth and rising living standards and welfare.[9]
- **Environmental sustainability.** The environment can benefit from productivity growth, if that growth comes from efficiencies that also reduce CO2; if the growing sectors are less carbon intense than those they replace; or if growth is in industries that reduce net emissions in other sectors – insulation, renewable energy and so on. In recent decades the link between aggregate economic growth and net CO2 emissions has been broken, as many high-income countries have curtailed emissions significantly while continuing to grow.[10]
- **Public service outcomes in early years, education and health**. Productivity growth has an indirect but important impact on people's health and education. First, by contributing to jobs, incomes and progression, it will often have a knock-on effect on the health of employees, and their children's development and education. Second, there is an 'area effect' – high productivity can help create a healthy local labour market, which in turn is linked with higher life expectancy, better education outcomes and better career progression for children growing up in such areas.[11] Third, productivity growth shields public services from the downstream costs of low productivity. Public services today are often forced to act as a 'sticking plaster' for industrial decline, which they can only ever do ineffectively.[12] This is particularly true of early years services, education and health but also active labour market policy, social security and pensions.
- **A larger, more resilient tax base to fund public services and infrastructure.** Productivity growth contributes to higher taxes, through the taxes that businesses and employees pay, including national insurance, corporation tax, income tax and VAT. Almost all taxes have a direct or indirect relationship with productivity. These taxes, in turn, fund public services and infrastructure.

Productivity growth can be poorly managed

But there are some important caveats: the wrong kind of productivity growth does not work for people or the environment. Productivity growth can sometimes mean:

- **Job losses.** Productivity gains come from increasing outputs relative to inputs, and often labour is the 'input' that businesses cut. Sometimes companies become more productive by laying off staff, or replacing them with automated processes, but they can also cut or freeze pay, reduce pension entitlements, and provide fewer opportunities to train or progress.[13] Retraining packages often form part of government intervention for high-profile business closures, but they rarely work in practice – redundancy, unemployment or early retirement result.[14] For many communities, a further cost is also paid by later generations – with fewer total jobs, and fewer good jobs in a community, there are fewer opportunities created by the natural churn of people leaving or retiring. This is one way in which shocks can lead to downward spirals which are hard to recover from, and one reason why local economic diversity and resilience are important.[15]
- **Intensification of work and poor working conditions.** Employers sometimes make work more intensive, or make unwarranted intrusions into their employees' behaviour in search of productivity gains. This has become the business model of some large, well-known warehousing, distribution and 'gig economy' businesses, as well as call centre work.
- **Inequality.** Improvements to living standards and quality of life arising from productivity growth are not necessarily evenly distributed. Arguments that wealth will 'trickle down' or that a 'rising tide lifts all boats' were always suspect and, since the 1980s, they have proven demonstrably wrong in the USA. In the UK productivity growth has fed through to mean wage growth, but growth in median pay has fallen behind.[16] Productivity growth can take place alongside rising economic and health inequality, and political polarisation, if the economy is mishandled in other ways. This will happen if the rewards from productivity gains are disproportionately captured by groups with power: men, white people, non-disabled people and those who have the privileges of high income, wealth and social class. Evidence of this is widespread in the labour market and fundamental to wider challenges of inequality in society. It can be seen specifically in the lower pay and employment rates of ethnic minorities, women and disabled people.
- **Disconnect between rising productivity and wages**. Productivity does not automatically convert into pay and better living standards –

it requires worker power and government regulation. Research has shown that productivity increases in UK hospitality have not driven higher pay, in large part because workers are not unionised, the supply of workers has historically been higher than demand, and our labour market is lightly regulated.[17] On the other hand, some industries *have* seen pay increases even though they have not become more productive, because their workforces are powerful enough to negotiate improvements that derive from productivity growth elsewhere.[18] A tight labour market can help too – recent labour shortages in low wage sectors, such as hospitality and food production, have seen employers forced to offer higher pay in sectors where doing so was previously written off as unworkable because of companies' business models and supposedly low profit margins.

- **Environmental costs.** In the wrong circumstances, economic growth can come at a huge cost to nature and the climate. Some industries, like oil and mineral extraction, become directly more productive by destroying the environment more efficiently or emitting more CO_2. And almost all companies generate some CO_2, directly and indirectly.
- **Regional inequality.** The UK government has a disproportionate focus on UK-level productivity, when many of the benefits outlined above are specific to location. The benefits of London's high productivity have not been felt in other regions in terms of jobs, incomes and progression, and the current system to redistribute tax and spend regionally has evidently failed all regions. Furthermore, in high productivity places such as London, any income improvements are often quickly eroded by the increased living costs that result from attracting large numbers of workers and then not responding to their needs, particularly for housing.
- **Differences by industry**. Productivity increases and 'adding value' mean very different things in different industries. In some industries, such as the digital or marketing sectors, there is a measurement issue: a question of who, in a long chain of people making more or less intangible contributions, has added value. In others, like hospitality, a rise in productivity can mean companies are just charging more for the same thing; this can mean people do not feel real-terms gains from wider productivity growth. Some companies and individuals even profit from activities that are socially damaging – some 'high-productivity' financial services and property companies profit from effectively laundering money, while bailiffs infamously profit from the misery of economic downturns.[19]
- **Cost and opportunity cost.** If policymakers try to use tax cuts, deregulation or spending to raise productivity, then this comes at a cost insofar as it limits the resources available for public services. Any tax or spending decision that reduces expenditure on public

services can be a false economy over the long term – not just for the people who use the public services in question but also, indirectly, for productivity. If policymakers were to cut public services, such as health and education, to fund policy areas more directly associated with productivity, like transport and innovation – or even to cut taxes – they could end up with the worst of both worlds: they might hold back long-term productivity growth, because those public services support the economy, while also reducing the quality of services. This obvious point has been overlooked in recent years. Policymakers must be at least conscious of such trade-offs when making decisions.

'Good' productivity growth

We suggest a working definition of 'good' productivity growth as:

> *a sustainable rise in private sector productivity, which results in higher and more equal living standards; protects or improves the environment; and funds, or reduces the cost of, public services and infrastructure.*

In practical terms, this means businesses increasing economic output per hour of work while creating more and better jobs than any that are lost which are accessible to the people who need them; protecting nature and emitting less CO2; and capturing tax revenue or dividends for investment in public services. This is closely linked to 'good' GDP, inclusive growth, and economic justice, but focuses on private sector efficiency as opposed to growth of the economy as a whole, as explained in box 1 below.

Good productivity growth contributes to positive social and environmental outcomes. These outcomes also contribute to productivity growth in a mutual and reinforcing virtuous cycle.

- **Jobs, incomes and progression contribute to higher productivity**. Better quality work, especially pay, can induce higher business investment, raise demand and reduce the social cost of poor employment, often paid for inefficiently via taxes.[20] This is discussed in section 3 below.
- **Environmental sustainability can support higher productivity.** Several highly productive industries support efforts to tackle climate change, like electric vehicle manufacturing. Interventions which reduce energy use can also reduce business costs, while public transport interventions can reduce congestion, and increase the local labour pool and customer base, which attracts investment and transforms economies.[21] Measures which protect against natural disasters or wider climate change impacts help to reduce risks and

uncertainties, ensure that long-term productivity growth is resilient, and protect businesses from unexpected costs.

Box 1: Good growth and good productivity growth

GDP measures an economy's 'size'. It is "the standard measure of the value of final goods and services produced by a country during a period". This can be measured in one of three ways: the output, minus intermediate consumption (ie the value added to what was put in); the income earned from production (wages, profits and so on); or the total expenditure on final goods and services, minus exports.[22]

GDP has always had a more nuanced relationship with social welfare than might be assumed. It may be a vital economic indicator, but it is not a measure, in itself, of social welfare, wellbeing or living standards – though it is of course related to them. For many years, 'pro-growth' organisations like the OECD and the IMF have been clear about the role GDP has, and does not have, in measuring an economy's health – pursuing programmes of work including 'beyond GDP' or 'good growth'.

In parallel, local policymakers have recently turned their focus to 'inclusive growth' or 'inclusive economies'. These have become buzzwords, particularly in the UK, as councils and mayoral combined authorities have sought to apply a brand name to how they use their very limited power to shape economic development in a progressive way.

The concept of 'good' productivity growth draws on these ideas, but focuses specifically on interventions that increase the efficiency of the private sector, and can best bring about positive social and environmental outcomes. It is therefore 'narrower', and more focused on the 'engine' of growth rather than the whole economy. It notably excludes from consideration net taxes, the public sector element of GDP, and the effect on GDP of population growth.[23]

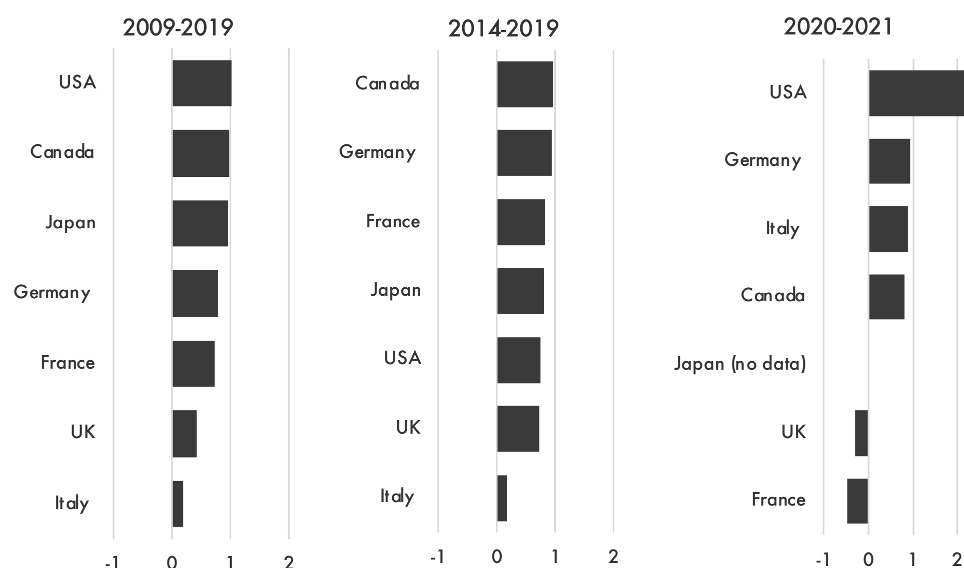
2. UK GOVERNMENTS HAVE FAILED TO ENABLE GOOD PRODUCTIVITY

The UK is falling into a vicious cycle. As figure 1 below shows, labour productivity growth was the second slowest in the G7 – between 2009 and 2019, between 2014 and 2019, and in the most recent year of comparable data, 2020/21. Moreover, growth in total factor productivity (the measure of productivity that accounts for labour and capital inputs) has been almost flat since the financial crisis.[24]

This poor productivity growth has had a major effect on pay and living standards. Based on ONS analysis, the Productivity Commission found that: "if productivity had continued to grow at two per cent per year in the last decade, it would have meant an extra £5,000 per worker per year on average"(in 2022).[25] Further, what productivity growth there has been has decoupled from the wages of lower earners.[26]

FIGURE 1: UK PRODUCTIVITY GROWTH HAS BEEN STRIKINGLY LOW COMPARED TO OTHER G7 COUNTRIES

Average annual growth in output per hour for the periods 2009 to 2019, 2014 to 2019 and 2020 to 2021



Source: ONS, International Comparisons of UK productivity (ICP), Final Estimates: 2021, ONS, 2023

Many common explanations for this are insufficient. There is a healthy academic debate to be had about the nature of productivity growth in high-income countries generally and many countries are struggling – but none so much as the UK.[27] The UK's industrial structure does not explain this shortcoming either: yes, the UK is more services-oriented than Germany, but Germany remains an economy based overwhelmingly on services, and the decline of manufacturing does not explain the UK's predicament. [28] And while high employment sectors, like hospitality, may have been a drag on relative productivity at one point, that is no longer the case.[29] Low productivity predates recent shocks, such as leaving the EU, the Covid-19 pandemic, and the energy supply shock. So far, the evidence indicates that, of these three events, only leaving the EU has affected long-term productivity.[30]

The UK's poor performance, then, is not inevitable. In fact, both government action and inaction are largely responsible, particularly since 2010. This section makes the case for intervention, before showing how the UK has failed to intervene across three areas: low and ineffective investment; poor quality work; and weak, centralised institutions and governance.

Good productivity requires government intervention

We have a good understanding of the conditions required for good productivity growth in the private sector. Politicians have often recast these conditions in their own idiosyncratic terminology (in January 2023, for example, then-Chancellor Jeremy Hunt unveiled his 'four Es': enterprise, education, employment and everywhere).[31] And there are important differences in *how* different political traditions propose to stimulate these conditions (broadly, tax breaks and relaxing regulations vs investment and employment rights). But for the most part, the conditions and the ultimate objective remain consistent.

Before exploring these conditions, we should acknowledge that governments have less agency than is often assumed to 'drive' or 'unleash' additional growth. The UK is a small open economy, dwarfed by the USA and China, and now outside of the EU. We are subjected to global trends and technology change and the UK government has limited practical control, even within its own borders, over the billions of decisions made every day by almost 70 million people, 27 million workers and 5.5 million businesses.[32]

Some argue that government intervention is not required – that instead, productivity grows best when the government steps back. Such an extreme approach is rarely implemented wholesale, but it is the foundation for calls to cut taxes and regulation, at the expense of workers, consumers and the environment. The UK briefly experimented with this approach in late 2022 under the short-lived Truss administration, at great and enduring cost. It is worth briefly outlining why this light-touch approach is so misguided.

First, it is impossible for a government not to intervene in an economy. Almost all activity, from regulations and legislation to spending, will have some impact. The distinction is about whether governments intervene deliberately, strategically, and explicitly, or if they do so accidentally, non-strategically and without acknowledgement. For example, monetary policy has a powerful and very unequal impact on different industries, and policies concerning the exchange rate have been crucial in supporting industries in countries such as Germany and South Korea.[33]

Second, insofar as the government can 'step back', any positive impact is often lopsided and temporary. Productivity might, in some specific circumstances, experience a surge from a particular regulatory or tax change, but this is often a short-lived 'sugar rush' which threatens to erode the wider foundations of productivity. State intervention is required to ensure healthy competition and to optimise economic outcomes.[34] More

fundamentally, as almost all high-income countries demonstrate, the foundations of long-run productivity rely on stable regulation, public infrastructure and a large, well-funded, welfare state. [35]

Government intervention is inevitable and necessary. The task is to ensure that it is strategic and effective, a discussion we turn to below. There is a great deal of good and bad practice to learn from in our own policy history, and that of similar, more interventionist countries, such as France and Germany. Internationally, there is, if anything, a growing willingness to intervene.[36]

Governments must intervene consistently and well for productivity to grow. They can also intervene in ways that are profoundly damaging, including measures which erode our resilience to crises.[37] All too often, recent UK governments have either not intervened when required, or intervened poorly in a way which has damaged productivity.

1. Low and ineffective investment

Both the private sector and the public sector invest. Both are important, and should be complementary. Government has a role in encouraging private sector investment as well as investing directly. Examples of direct public investment include transport, housing, digital infrastructure, business financing, and publicly funded R&D. Public policy can enable private investment by intervening in the above areas well, often jointly funding projects with the private sector; by providing the underlying enablers of business investment (such as connectivity); or more generally by providing stable and favourable conditions in which businesses can make decisions. More actively, governments directly encourage trade and inward investment policies and provide business support with the aim of increasing private sector investment or dynamism. Other forms of 'capital' are also important even if they do not come under a traditional capital budget – education and training create vital 'human capital'. And 'intangible capital', which includes intellectual property, software and patents is also vital. These are the traditional tools of economic development.

Historically, the UK's public and private sectors have underinvested or invested poorly in many of these areas. Since the deindustrialisation and economic liberalisation of the 1980s, state investment in areas that enable growth has been both relatively low and poorly targeted. This feeds into low private sector investment. Private finance has now become trapped in a so-called 'Matthew effect', rewarding and then re-rewarding already successful industries and places.[38] Some of this was mitigated between 1997 and 2010 by the regional development agencies but, with little time and money, they were unable to change the fundamental conditions.

Since 2010, governments have sometimes intervened effectively. The 2020 budget proposed returning adult education spending to around 2010 levels in real terms, and the government introduced a lifelong learning entitlement and other positive policies in the 2021 Skills for Growth White Paper. Early uptake of the government's lifetime skills guarantee was 28 per cent higher than the government's planned number. The government's 'bus back better' reforms supported mayors to provide cut-price bus travel. The targets for broadband and R&D showed the right priorities. Enterprise zones, freeports and investment zones may have started life as gimmicks, but have ended up as relatively sensible, albeit marginal, interventions. Most recently, there has been a welcome investment in strategic manufacturing sectors.[39]

But to a large extent, government decisions since 2010 have undermined good productivity:

- **Public investment in transport and skills.** Funding for buses has been cut, meaning bus miles travelled outside London have fallen by a quarter since 2010.[40] The UK has been terrible at extracting value for money from infrastructure spending, and miles travelled by rail continue to trail behind Germany and France.[41] Public spending on skills has plummeted: the government's 45 per cent funding cuts to adult education between 2009/10 and 2017/18 contributed to a 48 per cent fall in learner numbers, and a 46 per cent fall in the impact of the further education system on productivity.[42]
- **Private investment in technology and training.** The UK's business investment is the lowest in the G7, while the UK has the lowest rate of adopting industrial automation and a poor record on ICT investment too.[43] Employer investment in training per employee dropped in real terms from £1,710 in 2011 to £1,530 in 2019.[44] UK workers are notably underqualified compared to other high-income countries, and many employers report skills gaps among their workforce and vacancies that are hard to fill due to skills shortages.[45]
- **Long-term productivity enhancements.** Long-term transport projects have been delayed and downgraded – most notably the recent curtailing of HS2 and continued uncertainty and delays around rail infrastructure. R&D targets have been chaotic: in 2017, Theresa May's government set an 'ambitious' target for total spending on R&D to reach 2.4 per cent of GDP by 2027, but a new methodology found expenditure in 2020 to be above that target, implying a potential cut in support.[46] Furthermore, the UK has failed to address its historic inability to conduct applied R&D, commercialisation and diffusion, and there is no long-term plan to address this structural weakness – though there has been an erratic succession of strategies, new bodies (notably ARIA) and changes to the machinery of government.[47] The Johnson government also promised an ultra-fast broadband rollout to most homes by 2025, but

even a scaled-back target is unlikely to meet this deadline.[48] Governments have also underinvested in energy, insulation and housing.

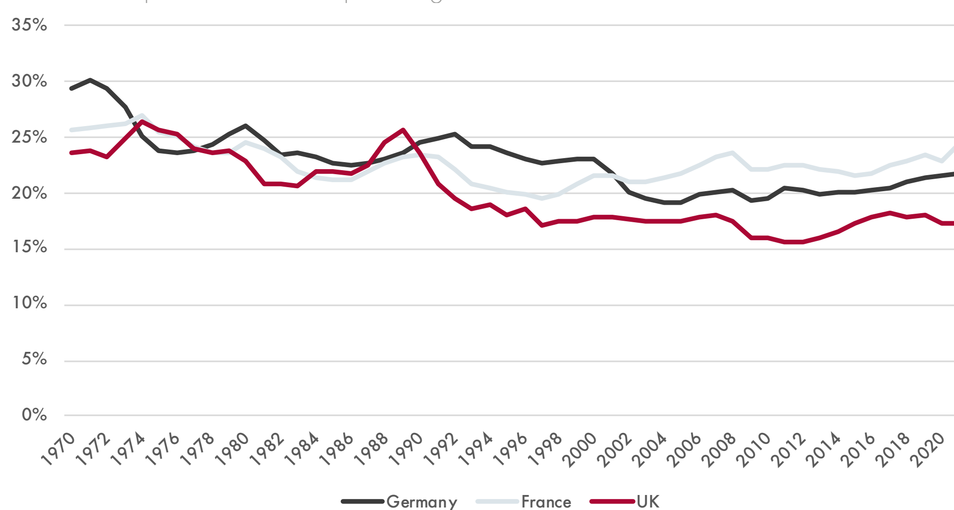
- **Regional development**. Vital economic development spending continues to go disproportionately to London, even though it benefits few Londoners, and mainly serves to raise house prices ever higher.[49] The shared prosperity fund is smaller, more centralised and less well targeted than the EU funding it supposedly replaces, while the levelling up fund and towns fund are so small as to be tokenistic. Leaving the EU so abruptly appears to have adversely affected regional inward investment, trade and productivity.[50]
- **Social infrastructure: early years, health and social security**. Mounting pressures on the NHS have an employment impact, with many people unable to work because they are awaiting a healthcare appointment or treatment.[51] Childcare has been fragmented and underfunded, resulting in parents unable to work or made poor by doing so.[52] Universal credit may have risen in line with inflation recently, but it did not for many years, meaning that between April 2015 and September 2023 benefits lost 12 per cent of their value.[53]

As a result, the UK is a low-investment economy. Figure 2 below shows total public and private investment since 1970. It is clear that the UK is only diverging further from other high-income countries like France and Germany.

Investment takes time to accumulate, which means that, as the gap grows, it becomes much harder to close. Between 2010 and 2021, gross fixed capital formation, a measure of investment, rose (in cash terms) by just 58 per cent in the UK, compared to 63 per cent in France and 71 per cent in Germany, embedding a long-term path of divergence that stretches back to the 1970s. For the last 10 years, UK investment has averaged 17 per cent of GDP, compared to 21 per cent in Germany and 23 per cent in France.

FIGURE 2: UK CAPITAL INVESTMENT HAS LONG TRAILED FRANCE AND GERMANY BUT HAS DIVERGED FURTHER SINCE 2008

Gross fixed capital formation as a percentage of GDP



Source: OECD, Investment (GFCF), 2023

2. Poor quality work

Good quality work can contribute to high productivity. Employment rights, good business practices, and active labour market policies all create a labour market that is good for workers and raises productivity.[54] Higher wages and improved employment rights can raise company profits.[55] High pay can force employers to upskill their staff, breaking out of a 'low skill, low pay, low productivity' equilibrium, and moving to a 'win-win' business model of high skills, high investment, high pay and high productivity.[56] Well-paid jobs also provide people with the income to spend on other services, helping to raise demand in the wider economies of towns, cities and whole countries. Poor jobs, on the other hand, have a significant economic and social cost.[57]

Historically, the UK has slowly improved the quality of work. Like many countries, the UK has been dealing with a long-term legacy of deindustrialisation. Trade union membership has declined and there are fewer large workplaces.[58] But from 1997, Labour implemented policies which improved the quality of work: the national minimum wage act; the 'new deal' labour market programmes; and improved parental leave policies. The UK also signed up to EU-wide employment regulations, such as the working time directive and anti-discrimination laws. Going into the global financial crisis, the quality of work had been improving, and the government's initial labour market response to the financial crisis focused on trying to mitigate employment impacts – particularly with the rollout of schemes like the Future Jobs Fund. [59]

Since 2010, Conservative-led governments have taken some positive steps. Minimum wage rates have risen, particularly with the introduction of the national living wage in 2015. Ministers have recently announced investment in minimum wage violation enforcement and implemented the day-one right to request flexible working. There have been other good policies, such as the Covid-19 furlough scheme. Worker surveys find that most people enjoy their work, find it fulfilling and have good relationships with managers and colleagues.[60]

But since 2010, governments have also enabled an insecure, low-pay, low-skilled and exclusive labour market.

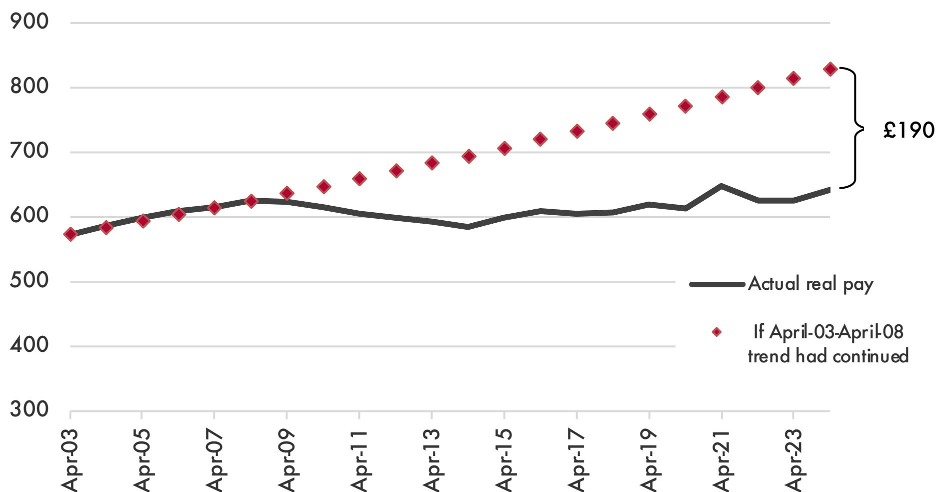
- **Quality of work.** Minimum wage violations have spread, especially in certain sectors. Pre-pandemic, the Low Pay Commission estimated that 400,000 employees were paid less than the hourly legal minimum wage.[61] Alongside the US, the UK has the longest working week of any G7 country, with many people working overtime, often unpaid, and eating into their holiday entitlement.[62] A third of all workers are given less than a week's notice of their shifts, rising to half of all workers earning below the real living wage and more than half of workers whose work includes variable hours or shift work.[63] Despite labour shortages, a fifth of people are in involuntary part-time or temporary work; many would like to work more, but can't.[64] Many workers report that work has a negative impact on their health – particularly their mental health.[65] Too many workers also continue to be unhappy with the training and development opportunities available to them and their chances for career progression, and there has been no progress in addressing longstanding problems with management practices.[66]
- **Employment rights.** Sick pay, parental leave and carer's leave all remain far below levels in many other countries and, while EU countries have improved employment rights, UK rights have not improved, or have been slightly eroded. A long-awaited employment bill has been delayed indefinitely – leaving us with one of the weakest employment rights frameworks of all high-income countries.[67]
- **Worker voice and power.** Trade union density and collective bargaining coverage have both declined, and are particularly low in new or growing sectors where exploitation is a major problem – hospitality, retail and the gig economy – but also in older sectors, notably agriculture, textiles and food manufacturing. [68]
- **Active labour market policies.** Between 2011 and 2017, the government contracted out its Work Programme to help people back into work, but it was overly centralised, fragmented, poorly managed and underfunded, which resulted in a low success rate compared to predecessor programmes.[69] The general 'work first'

> approach has been counterproductive, by pushing people into work that they are ill-suited for and unlikely to sustain, instead of investing in their training and development.[70] While furlough was a great success, the government missed the opportunity to retrain people who were out of work, unlike other countries such as France.[71] The Kickstart scheme showed promise but delivery was chaotic and it was poorly managed.[72] Moreover, real terms benefit cuts, the poor design and chaotic rollout of universal credit, and the punitive and routine use of sanctions have pushed people away from work, as well as causing great hardship.

Pay and living standards are now lower than in 2008. As figure 3 below shows, average weekly pay was rising in real terms at an average rate of 2.5 per cent per year from March 2003 until the March 2008 peak. The global financial crisis and austerity saw a fall in real pay each year until 2014. Pay then rose slowly, barely rising after the Brexit referendum. After the pandemic, average pay returned to 2008 levels very briefly. Real pay then fell again due to inflation, eroding a fragile recovery which had taken more than a decade to achieve. In normal circumstances, we expect real pay to grow year after year. That is what the UK saw in the years up to 2008. And if the rate of annual pay growth in the five years preceding the 2008 peak had been sustained at 1.8 per cent, average pay would be £190 per week (31 per cent) higher than it is now.

FIGURE 3: REAL PAY IN 2024 IS £320 PER WEEK LOWER THAN IF THE PRE-2008 TREND HAD CONTINUED

Real pay since 2003, in April 2024 prices (adjusted for CPIH), with projection based on April 2003 – April 2008 growth (1.8 per cent)



Source: Author's analysis of ONS, Real average weekly earnings using CPIH (seasonally adjusted), 2024

3. Weak, centralised institutions and governance

Productivity growth requires good governance, clear rules and strong institutions.[73] These underpin stability and fair competition and ensure that access to state support is fair and competitive.[74] Institutions like 'productivity commissions', industrial strategies, and partnerships between trade unions, business and government are also crucial.[75] Good governance and institutions are also vital at a subnational level and need to sit at an appropriate geographical scale. This enables them to respond to local opportunities and threats, to develop feedback loops between the effects of a policy and those implementing it, and to intervene effectively on the ground with integrated economic development policies.[76]

Historically, UK governance and institutions have lacked some key features that have benefited other countries. The last Labour government set up the regional development agencies, devolved power to the nations, and invested in many regions outside London, as well as in the capital itself. This was moderately successful and, between 1997 and 2007, many cities started to recover, and all UK regions grew quickly by OECD standards.[77] But there was no overarching, stable, explicit or rules-based industrial or regional strategy drawn up in collaboration with businesses and trade unions, only ad-hoc interventions. Outside London, regional development agencies were central government outposts, not led by local leaders, and they were therefore vulnerable to the change in government that followed. There was no formal governance at the vital subregional level – ie 'travel to work' functional economic geographies. Moreover, the unstated priority was to grow London's economy, particularly its financial services, and redistribute the proceeds via the public sector, a model which proved to be severely flawed. This is discussed in box 2 below. Partly as a result, the UK has seen a sharp decline in manufacturing, and has become the most regionally unequal high-income country.[78]

Box 2: Understanding productivity in regions and sectors

The actions of successive governments suggest there is a deep-rooted, if unstated, Treasury assumption that only London's economy can be highly productive and that national prosperity flows from redistributing the capital's wealth to the rest of the country. In recent times there has been a small corrective, with a growing acceptance that Manchester and Birmingham can also be hubs of productivity, albeit far smaller.

This view is founded on the idea that the UK is a service-based economy and that the high value economic activity of the future will take place predominantly in large and medium-sized cities, where they can benefit from the economies of agglomeration. This perspective does not easily align with the idea of supporting specific sectors in a traditional 'industrial strategy' sense; but it does align with measures such as improving skills supply and transport connectivity, which are associated with conceptions of 'horizontal', non-sector specific, industrial strategy.

Cities, skills and services are vital, but industrial and regional strategy must have a more comprehensive scope. [79]

Cities, towns and regions meet their potential by working together.

- The 'grow London and redistribute its taxes' model has evidently failed – UK productivity is poor, the economy lacks resilience, and living standards suffer in all regions – in London due to high costs, and elsewhere due to low growth. An approach which also includes Birmingham and Manchester in a tokenistic way is likely to be similarly ineffective.
- Connectivity, rather than crude population density, is key. Policymakers should focus on connecting people and businesses with transport links. This is another way of improving density *in effect* but realises the potential of satellite cities and towns, which is crucial in city-*regions* like Greater Manchester (which contain towns and are inseparable from the wider region).
- Other attributes contribute to growth besides agglomeration – many high-productivity industries (such as high-tech manufacturing) require the space that areas outside cities can offer, or port and airport connectivity, which is why places outside but connected to cities often hold great potential. [80]

Manufacturing and services are both important and often complementary.

- Productivity in financial services and professional services has contracted since the global financial crisis while productivity in information and communication, and manufacturing sectors has grown.[81]
- 'Frontier', traded sectors are vital. Industrial strategy must focus efforts where policy can raise productivity, which is not the case for all business services, but only traded, knowledge-intensive services and high-tech manufacturing, as well as sectors which don't easily fit within either (such as the digital and creative sectors).
- Manufacturing, services and other sectors are often intertwined – high-tech, traded manufacturing needs finance, legal services and universities, for example. Services serve other businesses and are traded directly overseas, or indirectly via the exporters they serve.[82]

Since 2010, there have been some good initiatives. The advent of mayoral combined authorities is a particularly welcome change. And Transport for the North and Midlands Connect could become vital strategic transport bodies at the regional level. Though short-lived, George Osborne's northern powerhouse, Theresa May's industrial strategy and Boris Johnson's levelling up agendas each had some value.

But since 2010, UK governments have failed to provide the institutions, governance and strategies needed:

- **Low diversity, dynamism, diffusion and regional balance**. The government has continued to rely on property, finance, consumer spending and debt for economic growth. The UK has a poor record of scaling up companies, many sectors lack competition, and there are high market concentrations and high markups as a result.[83] The UK's lagging productivity is due to issues within sectors and within firms, rather than our sectoral composition – the Productivity Commission found that: "the gap between the most and least productive firms is about 16-fold in the UK compared to tenfold in other countries examined by the OECD". There is a 'squeezed middle' of firms between the 60th and 90th percentile of productivity, which have demonstrated productivity potential before the financial crisis, but have been the major cause of low productivity since.[84] And our institutions are not effective in building regional supply chains and diffusing innovation.[85] The British Business Bank remains smaller, more centralised and less regionally focused than those in other countries and the UK Infrastructure Bank has not been utilised to its full potential.[86]

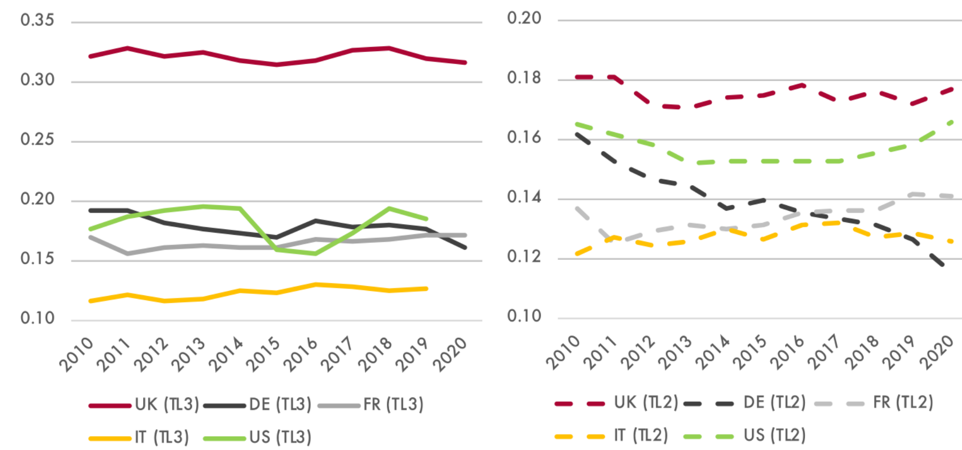
- **Poor decision making and prioritisation.** From 2010, austerity was prioritised over growth, which choked off the post-crash recovery, and also meant the UK was more vulnerable to the Covid-19 pandemic.[87] Poor prioritisation meant that, though the UK was less reliant than others on Russian gas, we had not stockpiled energy or invested sufficiently in insulation, nuclear energy, or renewables. Notably, previous governments introduced a de facto ban on onshore wind development in England. With Brexit, successive prime ministers prioritised party-political concerns over the economic health of the country – from calling the referendum in the first place, to the negotiations, the eventual deal and enduring uncertainties over implementation.
- **Instability and inconsistency.** Despite the same political party governing the country for 14 years, there have been dramatic shifts in approach. Governments have bounded haphazardly from erasing Labour's regional agenda (2010-2014), to regional interventionism focused on the North (2014-2016), to industrial strategy and local industrial strategy (2016-2019), to wider 'levelling up agenda' (2019-2022), followed by a month-long detour through radical libertarianism under Truss and then an ill-defined approach under Sunak. By one count, there have been 11 new growth, industrial and regional strategies since 2010, supported by a procession of announcements, plans and other such initiatives that often cut across one another. The uncertainty is demonstrably damaging UK prospects.[88]
- **Centralisation.** Despite the devolution, northern powerhouse and levelling up agendas, the UK has become even more centralised and regionally unequal since 2010.[89] Councils have had to cut their economic development teams and compete for small amounts of centralised funding. Meanwhile, central government is overloaded, micromanaging while proving incapable of delivering major infrastructure. Promising new organisations like Transport for the North and Midlands Connect have been sidelined. Mayoral combined authorities have little formal power, particularly compared to mayors overseas, and far less than the devolved nations of the UK. Even within government, all economic policy remains dominated by the Treasury, which actively undermines any other department which has an economic role.

Since 2010, regional inequality in disposable income has increased, while regional inequality in productivity has remained the highest of any developed country, despite declining in other countries, as figure 4 below shows.

Since 2019, productivity growth patterns have shown why concentrating on London is a mistake. First, the pandemic demonstrated that reliance on London makes the UK economy vulnerable. Between 2019 and 2022, London's productivity growth was among the lowest in the country – almost as low as West Wales and the Valleys, and Derbyshire and Nottinghamshire, two of the lowest productivity regions.[90] But this period also showed great potential in other places. Towns and cities in the north west grew at more than twice the rate of London – including Greater Manchester, Cheshire, Lancashire and Merseyside. Greater Manchester has gone from being 66 per cent as productive as London in 2019 to 74 per cent as productive in 2022, and Cheshire from 77 per cent to 86 per cent as productive. The highest rate of productivity growth was seen in East Yorkshire and Northern Lincolnshire. It is unclear whether this trend continued since 2022, or if London rebounded as the effects of the Covid-19 pandemic eased.[91] Despite this, between 2019 and 2024, the concentration of jobs in the capital increased: 45 per cent of the UK's net new jobs were created in London and the south east, meaning 33 per cent of UK jobs were located there, compared to 27 per cent of the UK's population.[92]

FIGURE 4: REGIONAL INEQUALITY IN PRODUCTIVITY HAS REMAINED HIGH IN THE UK, WHILE IT HAS DECREASED IN OTHER COUNTRIES

Coefficient of variation in regional GVA per worker, TL3 geographies (small sub-regions, e.g. Darlington) and TL2 geographies (large regions, e.g. north east)



Source: Analysis of OECD, Regional GVA per worker, 2023. Excludes extra territorial regions

3. RECOMMENDATIONS

'Good' productivity growth is essential. Productivity must grow, but it must also translate into more jobs, higher incomes, environmental sustainability, a supportive welfare state and a healthier tax base. And it should not mean a net decline in jobs, worse working conditions, higher living costs, harm to the environment or reduced quality of life.

Government intervention can enable good productivity growth by investing in the right infrastructure and training, raising the quality of work, and establishing good governance and institutions.

The UK has failed to do these things, particularly recently. We suffer from the opposite: low and ineffective investment; poor quality work; and weak, centralised institutions and governance.

These are policy failures, not mere accidents, coincidences or curiosities. Other countries have also struggled, and governments are not all-powerful in their ability to shape the economy. But UK policymakers have failed to meet even low expectations.

The government should:

1. Establish a cabinet committee to oversee industrial strategy and regional policies, make decisions and oversee delivery

This committee would be chaired by the prime minister and attended by the chancellor and two key secretaries of state responsible for business and regions.[93] Other key ministers would attend as needed. They would meet regularly, and would be supported by an economic delivery unit within the cabinet office to ensure departmental actions are aligned and sustained. The Ministry of Housing, Communities and Local Government (MHCLG) would be enhanced by taking on the regional development role which often falls to the Treasury. The prime minister should ensure the minister in charge of this department is always a deputy prime minister, or first secretary of state, in order to counter the centre of gravity of the Treasury.

This committee would be the executive body, making decisions and breaking down silos. The four ministers would make accountable decisions on economic policy interventions and coordinate legislation to ensure integration and strategic alignment. They would also monitor a pipeline of interventions, including an enhanced national infrastructure and

construction pipeline – which would include all major productivity enhancing, capital and revenue programmes at all tiers of government.

This committee would benefit from advice from two other new institutions discussed below: an Industrial Strategy Council and an expert-led Productivity Commission.

2. Set up an Industrial Strategy Council with regional representation to bring partners into policymaking

Leaders from the devolved nations and local areas in England should join trade unions, businesses and central government agencies on an Industrial Strategy Council. They should coproduce a UK industrial strategy, as well as advising on complementary strategies on issues such as housing, transport, inward investment and trade.

The government should commit to hold these structures steady for at least 10 years and seek cross-party support for their broad constitution and aims. All political parties should explore how to make this as secure as possible and put it on a statutory footing. The new body would have a key role in shaping industrial strategy alongside the proposed cabinet committee and Productivity Commission.

The Council would allow workers, businesses and government to get round the table together in 'social partnership'. It is also vital that regional and industrial strategy are brought together – productivity growth usually happens in a particular location, and requires place-based interventions to be most effective, whether that be coordinating local colleges and training providers to support local industries, or providing the local infrastructure, land assembly or streamlined planning businesses need.

3. Set up a Productivity Commission to provide independent, expert advice

A Productivity Commission would provide expert, independent advice. It would conduct inquiries and public hearings.[94] It would be a statutory body, wholly independent of government – similar to the Office for Budget Responsibility (OBR). It should draw from international examples, such as in New Zealand, Australia and the Netherlands.[95] It must have an explicit regional remit, to draw on all of the UK's diverse capabilities.[96] It should report to the cabinet committee proposed above, and it should not be housed within the Treasury. Its offices should be outside London.

The Commission would recommend independent targets for delivery and outcomes, advise on the development of industrial strategy (as well as other economic strategies) and objectively appraise government progress. It would need to collaborate closely with the OBR, the Low Pay Commission, the Committee on Climate Change, and National Infrastructure Commission. But its role would be distinct and important: to focus on a widely acknowledged structural problem, which needs independent, expert advice which no other current organisation can realistically offer.

UK central government has shown a tendency toward short-termism, and has spent a great deal of time and energy reconceptualising problems instead of addressing them. In other countries, institutions exist to help guard against this tendency, to provide objectivity (similar to the OBR on fiscal policy) and to provide a long-term reference point for all stakeholders.

The commission should advise on long-term spending needs and the government should be challenged to meet them. The commission's advice should cover both spending levels and policies, and its scope should include the key drivers of growth, namely:

- Training, lifelong learning and active labour market policy.
- Public transport connectivity.
- Innovation – including diffusion and applied R&D.
- Digital communication infrastructure, such as ultra-fast broadband.
- Trade and inward investment policies.
- The business environment, business support and finance.
- Spatial and land-use strategy.
- Labour market regulation and enforcement.

Finally, the commission should monitor wider government policies that have an indirect effect on productivity. This would mean, for example, flagging the impact on productivity of cuts to education and health.

4. Develop an industrial strategy with a strong regional focus

An industrial strategy should:

- **Focus on long-term productivity growth; good work; and rebalancing industries and regions together.** Modern industrial strategy cannot work either in isolation from, or in opposition to, regional growth strategies and employment policies.[97] Industries need places and places need industries – recent US industrial strategy has emphasised the importance of place to great effect, while Germany and France have industrial strategies at the regional level too, often with a particular focus on low-income areas.[98] And

higher quality work should support, and be supported by, productivity growth across industries and regions.

- **Provide a framework for other economic strategies.** Industrial strategy must also align strategically with other economic policies. It should provide the overarching reference point and conceptual alignment for more focused sectoral, regional and employment policies, to ensure they dovetail or complement one another toward long-term goals. It should provide the formal foundation for related policies, such as land use planning, housing, trade and innovation. And it should be particularly integrated with competition policy, which can cut across policies which prioritise one industry or capability.
- **Enable growth in all regions.** The government should reject the inaccurate notion that only a very small group of cities or regions can grow. Decades of evidence show that a diverse group of geographies contribute to growth, often connected in the form of regions of towns and cities. And while growth is inevitably geographically uneven, the government needs to build policy that supports all places, over time, to undertake complementary economic functions, connected into larger regions that are diverse and resilient. The government should rigorously investigate national and regional capabilities to understand where our competitive advantages are, both at a regional scale and at an aggregated UK scale. This involves being smart about sector specialisation and diversification – looking at supply chains and enabling capabilities rather than focusing on specific, rigid sector definitions and individual companies or sectors in isolation.
- **Convene sectors and assets together around long-term missions.** These could be similar to those set out in Labour's industrial strategy: delivering clean power by 2030, caring for the future, harnessing data for the public good and building a resilient economy (these were in turn similar to the 2017 Conservative government's industrial strategy grand challenges, which bodes well for long-term cross-party collaboration).[99]

5. Empower workers and enforce employment regulations.

The government should raise the quality of work across the board. They should start by tackling minimum wage and other employment rights violations, by raising penalties and taking a robust and multi-pronged approach to enforcement. They should also introduce sector-level fair pay agreements, strengthen union powers to organise and bargain, ban 'one-sided' zero hours contracts and 'fire and rehire', and give workers a stronger right to flexible working from day one, alongside extending statutory parental leave, including provision for the self-employed, and improving rights to carers' leave and sick pay.

We have one of the weakest employment rights frameworks among high-income countries. We should aim to have the strongest. So the government should continue to improve employment rights, learning from other countries and adapting to changes, especially in technology.

6. Devolve power and resources to mayoral combined authorities

The government should:

- Roll out devolution of economic development powers across all of England, requiring all places to form a combined authority (known as 'Level 2' devolution) by the end of the parliament.[100] So-called 'Level 4' trailblazer devolution, which is currently being developed in Greater Manchester and the West Midlands, should become increasingly powerful and flexible. Ministers should create a range of robust, non-mayoral local accountability options to enable all sub-regional combined authorities (whether or not they have a mayor) to take on some powers and funding over areas such as adult education, housing and transport.
- Set out a rolling 10-year devolved economic development budget confirmed each spending review, covering transport, skills, employment support, innovation and business support. An Act of Parliament would set aside this economic development funding for local and regional government in each spending review – before departmental settlements are negotiated. Local governments should be given the opportunity to collectively allocate this economic budget, but each place would be guaranteed a minimum floor of spending per person. If local governments failed to come to an agreement, then the Treasury would step in and allocate resources using a transparent, fair formula.
- Devolve a supplementary 30-year, economic development funding pot to combined authorities. This would be similar to the shared prosperity fund (SPF) and 'levelling up' funds, and would replace all current economic development non-core funding. This should be available to all places with a Level 2 devolution deal. It should have robust assurance and audit, learning from existing configurations and recent challenges. But it would only have 'light touch', reactive accountability to central government's goals, with five-yearly independent 'gateway' reviews. The government should ensure the funds available rise in real terms, unlike current 30-year funds. Current free ports, enterprise zones and investment zones should be embedded within these long-term funding arrangements and aligned with national and local strategies.

- Enable places to raise funds for productivity growth with targeted levies and charges. Combined authorities and councils should have the legal powers and capacity to raise more revenue locally, through a range of tools, including land value capture, workplace parking levies, visitor levies and higher council tax on second or empty homes.[101]
- Set up locally appointed partnerships of trade unions, businesses, the relevant combined authority and central government to jointly produce and oversee a local economic strategy. These strategies would focus on each area's strengths, and complement the national industrial strategy.
- Establish locally led pan-regional combined authorities, to govern transport and foster economic collaboration. These would build on Transport for the North and Midlands Connect to focus on inter-city rail franchising and infrastructure, and provide a platform for collaboration on energy, strategic planning, housing and supply chain development.

7. Make the British Business Bank and UK Investment Bank more autonomous and regionally focused

Two relatively new state banks could help both grow and rebalance the economy. They need to be reformed, though not fundamentally changed.

- **The British Business Bank (BBB).** The government should support high-growth businesses to create good jobs by making the BBB more independent, bringing mayors and council leaders into the governance of regional funds, and creating new regional funds to cover all of England.[102]
- **The UK Investment Bank.** The government should pump prime capacity in councils, mayoral combined authorities and subnational transport bodies to draw down funds, and take responsibility for ensuring that there is an investable pipeline of projects in all parts of the country.[103]

8. Require beneficiaries of economic policy to demonstrate public benefit

The government should require all organisations funded by public money or tax breaks to regularly and clearly demonstrate public benefit. Government departments and quangos should be outside of London by default, buying locally and recruiting locally. Organisations in receipt of grant funding, loans, subsidies, tax breaks, or any favourable treatment should be required to meet a set of good jobs standards set out nationally, and enforced

regularly and robustly, as well as signing up to local employment charters or sector-wide training schemes where these are in place.

Governments should not hesitate to demand welfare and environmental outcomes from the businesses they support. This is common in other countries, has precedents in the UK, and is a necessary component of good economic policy.[104]

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