

Election 2024



A productivity plan for the next UK Government

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Productivity has to be at the core of the next Government's agenda

To achieve this, the UK needs a broad-based and integrated set of policies. These policies should above all support business and public investment in skills, innovation, and the transition to a net-zero economy across all sectors, devolved nations, and regions in the UK.

While there is still scope to grow the economy faster by increasing workforce participation and creating opportunities for older workers to keep working longer, as acknowledged in the parties' manifestos, raising economic growth will be difficult without significantly increasing the productivity of our labour force.

Labour productivity, measured as GDP per hour worked, is currently on a slow growth trajectory of about 0.5 percent. In order to match the growth of the economy during the 2010s, productivity growth needs to be doubled to 1 percent.

However, for us to afford the much needed public investments in the economy without having to raise taxes dramatically, productivity growth will need to climb to 1.5 to 2 percent. This is achievable, as the UK demonstrated during much of the 1980s, 1990s, and early 2000s.

A new Government should aim to realise another big acceleration in productivity, especially one that underpins inclusive growth to the benefit of all. The key issues to address, as laid out in The Productivity Institute's Productivity Agenda, are:

- Countering the chronic underinvestment in business investment which has been weakening since the mid 1990s.
- Where businesses, cities and regions are excelling at productivity, there needs to be greater diffusion of best practices and better leverage of cluster effects in city areas beyond London.
- Britain needs to tackle its institutional fragmentation by improving communication between the public and private sectors and other groups. This fragmentation results in a lack of joined-up policies, often at a devolved nation or regional level.

The election manifestos, published in the second week of June 2024, sparsely recognise the importance of productivity, but they all identify key policy areas that could be impactful if fully implemented, properly funded, coordinated and committed for the long-term. The proof of their effectiveness will lie in the actual policy details revealed in the coming months.

For now, the Conservative Party manifesto presents policies that support innovation, infrastructure development, and regulatory reform, which are components of a broader industrial strategy even though such a strategy is not explicitly mentioned. The Liberal Democrats and the Labour Party both have dedicated sections in their manifestos outlining their industrial strategies, with a focus on providing businesses with certainty, fostering partnerships, and aligning policies with long-term growth and environmental goals.

Top 10 policies for the next UK Government focused on Productivity

1. **Create a stable set of economic policies geared towards growth** These include supporting business investment in skills, innovation, and the transition to a net-zero economy.
2. **Attract high-value investment** Spearhead R&D initiatives and attract investment focused on addressing national challenges like infrastructure, healthcare and the transition to net zero.
3. **Focus on inclusive growth** Develop policies that strengthen well-being and engage people currently out of the labour market or without a job, including supporting hybrid work.
4. **Boost public sector productivity** Introduce initiatives to deliver public services better and faster, not just to save money but also to help people, firms and places improve their productivity.
5. **Regulate better** Simplify and speed up planning processes, make land use more flexible, and tackle other regulations that currently hinder investment. And benefit from the new Digital Markets, Competition and Consumers Act to broaden the productivity gains from the digital economy beyond large “winner takes all” firms.
6. **Improve trade and foreign investment** Agree better trade deals, especially with the EU, to ensure British firms face less cost and red tape in exporting and that foreign investment creates broader productivity gains for the economy.
7. **Streamline business support** Develop a simpler and more effective business support network by consolidating existing offerings, and provide grant support for larger firms to collaborate with and support smaller businesses (SMEs).
8. **Foster collaboration for local innovation systems** Implement measures to encourage networking and knowledge sharing between businesses in the same areas.
9. **Invest in skills at the local level** Invest in public sector training programmes at regional and local levels to enhance capabilities across the country and empower English regional mayors with greater authority over skills formation in their regions.
10. **Promote coordinated policy efforts and address fragmentation:** Set up a new Growth and Productivity Institution on a statutory footing and develop a framework of institutions that allow for aligning pro-productivity policies between UK-wide, devolved nations, regional and city levels

REFERENCES

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We assess the three main UK party manifestos against our own top 10 policies for the incoming UK Government

Creating a stable set of economic policies geared towards growth

While all three parties aim to create stable economic policies that support growth, they differ in their emphasis and approach.

- The Labour Party focuses on a strategic partnership with industry and a mission-driven industrial strategy.
- The Liberal Democrats emphasise green investment and repairing relationships with Europe.
- The Conservatives highlight their record of economic management and support for business innovation and trade.

It's particularly troubling that the UK's productivity growth has slowed to a crawl at a time when there are two major economic transformations under way, the transition in the energy system to net zero and the continuing digital revolution.

People's living standards for decades ahead will be shaped by the decisions the next government takes in terms of increased public investment, research and development funding, and co-ordinating business activity. These long-term imperatives are far more important than the obsession in the campaign so far with exactly what will happen to which taxes.

Professor Dame Diane Coyle, Co-Director of The Productivity Institute

The country needs a prolonged period of rebuilding, both in business and public investment. Funding health, social care, education, defence, R&D, and an infrastructure programme will persistently add many percentage points to the UK's debt/GDP ratio.

So first, we need to raise taxes gradually to deal with the immediate need for higher levels of total managed expenditure. If revenues were on track to match expenditures, it would be easier for the government to make the case to financial markets that borrowing for investment will be well-managed, well-targeted, completed and deliver higher term economic growth.

Professor Jagjit Chadha, Co-Director of The Productivity Institute

Attracting high-value investment

- The Liberal Democrats focus on participation in European research programmes and a target for R&D investment.
- The Labour Party emphasizes a National Wealth Fund and strategic public investment to attract private investment.
- The Conservative Party highlights their commitment to increasing R&D spending and supporting various sectors to enhance productivity and innovation.

The transition to net zero has great potential to give a boost to labour productivity by modernising our economy with green technologies. To accelerate this transition, the government must think about the benefits of creating new green jobs in addition to supporting business in greening existing jobs.

The current workforce should not be left behind and feel alienated, but instead given the support to be part of and benefit from the transition to net zero.

Professor Jonatan Pinkse, Co-Director of The Productivity Institute

A focus on inclusive growth

- The Labour Party emphasises secure jobs and a new industrial strategy.
- The Liberal Democrats focus on education, training, and support for small businesses.
- The Conservative Party makes mention of a plan to increase employment and welfare system reform, although specific details are not provided in the manifesto.

In Scotland, there needs to be a direct focus on new and progressive approaches to productivity for inclusive and sustainable growth and prosperity. Investment is needed in housing, education, welfare, and public infrastructure. Coherent policy support and shared learning will help underpin improved productivity growth in Scotland, acknowledging the opportunities and challenges of the transition to net zero.

Professor Bridgette Wessels, Scotland Productivity Forum Lead

Boosting public sector productivity

- The Conservative Party emphasises the use of technology and efficiency targets to boost public sector productivity.
- The Liberal Democrats' manifesto does not mention public sector productivity but acknowledges responsible management of public finance.
- The Labour Party integrates public sector productivity improvements into their broader economic and industrial strategy.

Productivity in the public sector should be a key priority for the next government for various reasons. Citizens will benefit from services that are delivered speedily, consistently and of a high quality. The private sector will hugely benefit from a productive provision of infrastructure, procurement, health care and planning services. And a responsible use of new technology can save on the cost per unit of a public service delivered.

Professor Bart van Ark, Managing Director of The Productivity Institute

Better regulation

- The Labour Party emphasises a new office to innovate regulation.
- The Liberal Democrats focus on high regulatory standards in supporting local businesses.
- The Conservative Party highlights reducing EU-inherited laws and simplifying the planning system to speed up infrastructure delivery.

Addressing the UK enormous regional productivity imbalances is central to realising higher national growth. Alongside a genuine devolution of powers and resources at much greater scales than has hitherto been the case, fundamental reforms to the UK's land use planning are essential. In order to build more houses and also in order to attract long-term investors back into the UK, the planning system needs to be reformed from an ad hoc development control system to a genuine planning system which provides clarity and certainty for investors, developers, policy-makers and citizens.

Professor Philip McCann, Co-Director of The Productivity Institute

Improving trade and foreign investment

- The Labour Party focuses on improving trade relations with the EU and aligning trade agreements with industrial strategy.
- The Liberal Democrats prioritise repairing the relationship with Europe and ensuring high standards.
- The Conservative Party emphasises trade deals with the US.

Skills and innovation need to be at the heart of the UK's inward investment strategy. The UK faces two simultaneous problems - a lack of demand for jobs that can be done by less skilled people, and a need to both foster and attract investment that drives innovation and productivity. To boost the productivity of less prosperous regions, inward investment needs to be linked to education and training, involving collaboration at a local level between skills providers, local supply chains and national efforts to attract inward investment.

Professor Nigel Driffield, Midlands Productivity Forum Lead

Streamlining business support

- The Conservative Party focuses on reducing the regulatory burden and providing financial support for SMEs.
- The Liberal Democrats emphasize expanding financial support and creating a local banking sector for SMEs.
- The Labour Party's approach is to create a strategic partnership with industry through a new industrial strategy.

Boosting national growth and productivity will depend critically on the UK's five million small and medium enterprises. To prosper, they need a stable economic and policy environment and enhanced and more joined-up business support services to support digitalisation, innovation and moves towards net zero. Reducing late payment and cutting the red tape associated with exporting and importing will also be critical for future growth and productivity among smaller firms.

Professor Stephen Roper, Co-Director of The Productivity Institute

Fostering collaboration

- The Conservative Party's approach to collaborative innovation is indirect through economic incentives.
- The Liberal Democrats focus on coordinating development projects and boosting growth through local and regional partnerships.
- The Labour Party emphasizes a strategic partnership with industry and the revival of an Industrial Strategy Council to foster collaboration and innovation.

To boost the productivity of firms behind the international frontier, the United Kingdom needs much better coordination of policy on innovation and skills. An integrated industrial strategy that combines central with regional government action and harnesses place-based assets is critical to more targeted public investment, which can unlock greater business investment. The country would also benefit from a strategic partnership between the state, business, trade unions and civil society organisations to break down silos, reduce churn and inject more long-term perspective into pro-productivity policies.

Professor Adrian Pabst, Co-Director of The Productivity Institute

Investing in skills at the local level

- The Labour Party focuses on devolving control and funding for skills development to local areas and transforming Further Education colleges.
- The Liberal Democrats emphasize expanding apprenticeships and lifelong learning opportunities.
- The Conservative Party broadly supports local growth and investment through economic incentives.

Ambitions to reduce regional disparities, or 'level up' in the UK, rely on strong productivity growth in devolved nations like Wales where productivity is lower than the rest of the UK. This will require prolonged and coordinated policy attention that focuses on supporting sustainable long-term increases in education and skills, and business innovation, but also connectivity given its importance in enhancing economic opportunity in more remote locations.

Professor Melanie Jones, Wales Productivity Forum Lead

Addressing fragmentation and promoting coordination

- The Liberal Democrats and the Labour Party both have clear and dedicated sections in their manifestos outlining their industrial strategies, with a focus on providing businesses with certainty, fostering partnerships, and aligning policies with long-term growth and environmental goals.
- The Conservative Party, while not explicitly mentioning an industrial strategy, presents policies that support innovation, infrastructure development, and regulatory reform, which are components of a broader industrial strategy.

Increasing productivity is key for Northern Ireland as statistics show it has the lowest productivity growth of any UK region since 2010. This economic stagnation has particularly affected the living standards of the most vulnerable. Delivering productivity growth in Northern Ireland and the UK will require the incoming government to focus holistically on its main drivers: education and skills, health, investment, and infrastructure.

Professor John Turner, Northern Ireland Productivity Forum Lead



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About The Productivity Institute

The Productivity Institute is a £32 million investment, made possible by a grant of £26 million from the Economic and Social Research Council (ESRC) and an additional £6 million from our partners. Based on the premise that the long-term underperformance of productivity in the United Kingdom threatens a future of global excellence in economic performance and shared prosperity across the nation, The Productivity Institute's mission is to lay the foundations for an era of sustained and inclusive productivity growth. Our broad-based interdisciplinary research programme focuses on identifying the causes of the stagnation in UK productivity and making proposals for solutions and with strong regional engagement with stakeholders across the whole country.

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