The Politics of Productivity: institutions, governance and policy

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Abstract

This paper explores the 'politics of productivity' by focusing on the political institutions, the system of governance, and the policies that have shaped the UK's poor productivity performance. The starting point is that the deepening divide between economics and political science reinforces over-specialisation that ignores the complex connections between economic and political drivers of productivity. We propose a broad, political economy perspective that combines the study of the more 'political' institutions that are specific to the UK's productivity performance – including structural weaknesses in national, regional, local government – with an evaluation of the flaws of more 'economic institutions' such as finance, R&D dissemination or firms, as well as an insufficiently robust social and civic infrastructure such as universities, training colleges, professional associations or trade unions.

In section 1 we group the deep structural features of the UK's productivity problem into four stylised facts: (1) over-centralisation; (2) weak, ineffective institutions and policy churn; (3) institutional and policy silos; (4) short-termism and poor policy coordination. Section 2 analyses the meaning and role of institutions in the UK landscape, while section 3 situates the country's productivity performance within a wider governance system that is dysfunctional. Section 4 focuses on key policy challenges in the wake of austerity, Brexit and Covid.

Each section contains some key research questions, which the Governance & Institutions theme of the Productivity Institute will address over the coming months and years. One of the main arguments we develop is that the UK's institutions and policies of productivity are too centralised in spatial, geographic terms and simultaneously too fragmented in functional, sectoral terms. Both these factors contribute to the country's low productivity growth.

Introduction

The UK has one of the poorest productivity performances and highest spatial inequalities among the OECD's 38 advanced economies. It also has one of the most centralised political and financial systems (Carrascal-Incera et al., 2020; Collier and Tuckett, 2020). Countries with higher productivity growth, such as Germany or the USA, are more decentralised both in terms of their government and their capital markets. These striking stylised facts raise fundamental questions about the link between institutions and productivity.

- Does a country's governance system affect its productivity performance and, if so, what are the institutional conduits?
- Is the state – government and administrative machinery – compensating for market failure or are market mechanisms making up for state failure?
- Does the existing evidence support the hypothesis that decentralised countries with lower spatial imbalances have higher productivity growth?
- Or does productivity primarily rest on investment in skills, infrastructure and other economic factors that are largely unrelated to the political and administrative arrangements, in particular whether a country is more centralised and unitary or more decentralised and federal?
- How do institutions and policy-making at national, regional and local levels shape productivity in the public and the private sector?

As part of the Governance and Institutions research theme of The Productivity Institute (TPI), this paper explores these and other questions about the potential connections between UK productivity and its system of governance, institutions and policy. The country's poor productivity performance is well known, and many of the related market failures such as inferior labour productivity resulting from inadequate investment in physical and human capital and in R&D are extensively documented. But state or government failures have received less attention (Besley, 2021a and 2021b), especially in political science where there is a dearth of research on productivity. Political economy should provide an overarching framework for analysing both the economics and politics of productivity, yet its scope is diminished by disciplinary divides and ever-more specialisation (Collison Black *et al*., 1973; Dobb, 1973; Blaug, 1997). The ensuing silos are not only barriers to a better understanding of how economic and political factors interact. They also risk leading to the absorption of politics into economics (e.g. North, Wallis and Weingast, 2010; Lohmann, 2008) or to the absorption of economics into politics (e.g. Blyth, 2013).

Either way, both fields rest predominantly on certain theories and assumptions, such as rational choice, instrumental rationality, utility maximisation or the opposition between macro- and micro-level institutions (Simon, 1982; Dunleavy, 1991; Green and Shapiro, 1994; Gilovich, Griffin and Kahneman, 2002). These presuppositions conceal a richer conceptualisation of the drivers of productivity, growth and well-being linked to meso-level institutions – the economic, political and social infrastructure that lies between the central state and the market. In a prescient essay published in 1941, the economist John Hicks warned that

> [i]n the field of economics, over-specialisation is doubly disastrous. A man who is a mathematician may live a stunted life, but he does not do any harm. An economist who is nothing but an economist is a danger to his neighbours. Economics is not a thing in itself. It is a study of one aspect of the life of man in society […]. The economist of tomorrow (sometimes of today) will also know what to advise, on economic grounds; but if, through increasing specialization, his economics is divorced from any background of social philosophy, he will be in real danger of

> becoming a dodge merchant, full of ingenious devices for getting out of particular difficulties, but losing contact with the plain root-virtues, even the plain economic virtues, on which a healthy society must be based. Modern economics is subject to a real danger of Machiavellism – the treatment of social problems as matters of technique, not as facets of the general search for the Good Life (Hicks, 1941, p. 6).

Hicks' point about the search for the good life may sound utopian, but it shifts the focus on questions about the wider socio-economic objectives pursued by both government and business. GDP and similar aggregate measures fail to capture the more granular patterns of the economy and the state of social well-being (Coyle, 2015; Pilling, 2018).

Since productivity is the engine of prosperity, this paper argues that it matters to politics in three ways: politics as an academic discipline; politics an object of study; and politics as a sphere of practice. We seek to challenge both existing research and public policy on the politics of productivity. Our focus will be on the more 'political' institutions that are specific to the UK's productivity performance, including structural weaknesses in national, regional, local government but also the flaws of more 'economic institutions' such as finance, R&D dissemination or purposeful firms, as well as an insufficiently robust social and civic infrastructure such as universities, training colleges, professional associations or trade unions.

The paper sets out what we know, how this applies to the UK case and what key research questions will have to be addressed by TPI's research theme on Governance and Institutions. Our hypothesis is two-fold. First, as already indicated, that the division of political economy into economics and political science leads to over-specialisation that fails to recognise the complex connections between economic and political drivers of productivity, notably institutions and governance arrangements. Second, that the separation of economics from political science has also had the effect of reinforcing silos in policy-making, which exacerbates fragmented decision-making.

This, combined with the persistent problem of overcentralised government, favours a set of weak institutions as well as constant policy and institutional churn (Norris and Adam, 2017; McCann, 2016; IGT, 2017). By over-centralisation we mean a concentration of power and resources at the centre, which leaves central government with too much direct control and micromanagement and too little knowledge of local and regional needs. This privileges short-termist and large-scale intervention while undermining institutional capacity-building at lower levels, which in turn lack authority and decision-making powers (Hooghe and Marks, 2021). One of the main arguments we will develop is that both the set-up and the functioning of UK institutions contributes to policy design and decision-making that are too centralised in spatial, geographic terms and simultaneously too fragmented in functional, sectoral terms. Both these factors, we would contend, contribute to the UK's low productivity growth.

1. Stylised facts and existing explanations

UK productivity growth has stagnated since 2008 and has sharply decreased compared with earlier periods. Whereas the growth in output per hour was 2.6 per cent in the period between 1990 and 2000, it fell to 0.4 per cent in the period between 2010 and 2019. Among the G7 leading high-income economies, only Italy's productivity performance has been worse. Britain's decade-long record of flat-lining productivity, stagnant living standards as well as growing disparities of wealth and power requires a radical rethink if the country is to tackle the task of economic recovery after Brexit and Covid-19, combined with the ecological transition and profound transformations in demography, technology and trade.

Much of the economics literature on productivity focuses on key market failures, in particular the lack of annual gross fixed investment and low investment in R&D (O'Mahony, 1999; Sainsbury, 2020), though the latter has been explained by the prominence of the service sectors in the UK economy. Other market failures in relation to UK productivity include insufficient competition and a lack of dynamic firms spread across the country more evenly (HMT, 2000). Underpinning this approach is a diagnosis that private sector shortcomings are the main drivers of the UK's poor productivity performance and a prescription that state intervention is the solution to the problem by combining macroeconomic stability with microeconomic reforms in order to correct market failures.

Other economists have questioned this analysis by suggesting a number of gaps, most notably government failure that contributes directly to weak productivity growth and the limits of state intervention in resolving private sector problems. Examples of the former include protectionism that reduces efficiency, growth and overall social welfare (Magee, 1994) and barriers to technological progress that undermine attempts to rationalise production by eliminating inefficient activities or entire firms. Instances of state intervention that fail to solve market problems include industrial policy and the politics of 'picking winners' that turned out to be losers (e.g. Morris and Stout, 1985). In the process, billions were spent shoring up ailing companies and delaying the inevitable process of adaption. Government failure requires market solutions to allow for the 'creative destruction' of inefficient firms and stronger limits on the discretionary actions of politicians by introducing and enforcing rules-based policies.

The two approaches – the one focused on market failure and the other focused on state failure – highlight some important features of the UK productivity performance but there are limitations to both. Government intervention to correct market failure requires greater attention to the overall fiscal framework and not merely individual fiscal measures and a recognition that public sector productivity suffers from an agency problem (e.g. Crafts and O'Mahony, 2001; cf. Chadha et al., 2021). Market solutions to state failures tend to ignore the role of public institutions to help businesses to compete in the global economy and the role of government support for strategic sectors and/or key corporations in strategically important sectors (e.g. Atkinson and Lind, 2018).

In a certain sense, both approaches are right about each other and wrong about productivity. They risk over-emphasizing the importance of state and market institutions and underplaying all the other institutions that sustain economic growth, innovation and prosperity – notably the intermediary institutions of civil society (Rajan, 2019) and the value of the wider social infrastructure (Kruger, 2020; Kelsey and Kenny, 2021). More fundamentally, the two approaches are wedded to the over-specialisation in both economics and political science and fail to recognise that an integrated political economy perspective is needed to shed light on the nature of the UK's poor productivity performance: the interface of both political and economic problems and their shared roots in deep structural features, which we have grouped into four stylised facts.

1.1. Overcentralisation

First of all, overcentralisation in both the UK political system and the UK economy. Despite devolution to three of the country's four nations, to London and to several city-regions, Britain remains a unitary state that is overcentralised. As Philip McCann has argued, the UK state's pyramid shape suggest that it is both hyper-centralised and top-down, which means that the centre fails to learn from regions and localities, while the latter depend on the centre for power and resources (McCann, 2022). One indication is the Internal Market Bill that entered into force on 17 December 2020. It not only describes the UK as a 'unitary state' but also gives UK government ministers powers to regulate in a vast array of otherwise devolved areas in the name of preserving the integrity of the UK's internal market. The latter will be defined and policed by the government's appointed Competition and Markets Authority (CMA) and by ministerial power which can be enhanced using statutory instruments rather than primary legislation. This is far from the idea of a voluntary union of nations and a move towards a federal direction.

On the contrary, Westminster's *de facto* and *de iure* powers extend beyond 'reserved powers', and the response to the Covid-19 pandemic has reinforced state centralisation (Morphet, 2021; Ward, 2021). This builds on the well-established structures, which Lord Hailsham (1985, p. 71) described as a centralisation of power in the 'hands of the government machine' combined with party-political control that amounts of an 'elective dictatorship'. Leaving aside the context in which he developed his argument, the broader point that the government's executive power trumps parliamentary sovereignty still stands. To which we can add the top-down centralism of Whitehall in general and the Treasury in particular, as well as greater executive power in relation to the civil service. As Patrick Diamond (2018) argues, in the British tradition, civil servants tended to be loyal to the government of the day, but not the party in power, whereas for the past decades political pressure has been exerted on officials to comply with the governing party's agenda and its partisan motives (cf. Richards and Smith, 2016). One of our hypotheses is that an overcentralised, unitary state contributes to the poor productivity performance because it entrenches deep regional disparities that hold back growth and shared prosperity.

In terms of the economy, overcentralisation is exemplified by the concentration of wealth in (parts of) London and the South-East, including a financial system dominated by the City of London, a lack of economic devolution in terms of regional or sector banks and the concentration of public investment around London and surrounding areas (Coyle and Sensier, 2019). So far city regions and the new mayoralties have not significantly decentralised the economy. The Northern Powerhouse model was tightly controlled by HM Treasury, with devolution being centrally imposed and shifting some powers from Whitehall to city halls without changing fundamental control over resources.

A devolution model that devolves responsibility but not power or resources relies on an economic logic that led to the poor productivity performance in the first place: wealth trickling down by way of high-value jobs creating more demand for services such as childcare, cleaning or hospitality which create more but often low-paid and low-productivity jobs. It it a strategy that focuses on globally mobile, high end and financially extractive parts of the economy, which exacerbate already existing disparities of wealth in terms of both income and assets. By targeting no more than 10 per cent of manufacturing and benefitting mostly high-tech industries, the advantages of such a strategy accrue to the already affluent parts of the UK economy.

Focusing on cities as engines of growth and on commercial property development and high productivity trading sectors ends up neglecting manufacturing and industry as well as the middle- and low-paid jobs. An overcentralised economy rests either on the ability of the centre to compensate for the weakness of the periphery (Harris and Moffat, 2012) or on the progressive extension of a 'one-size-fits-all' model to the rest of the country. Our hypothesis is that such an approach will not improve the UK's productivity performance significantly or permanently.

1.2. Weak, ineffective institutions

The second stylised fact relates to the first and concerns a set of weak, ineffective institutions. Politically, Westminster and Whitehall centralise power but most government departments with the notable exception of the 'imperial Treasury' lack power or influence over central decision-making or the implementation of policy across the country. Like other parts of the public sector, much of the civil service is dominated by a combination of bureaucratic stasis and managerialist overdrive, which limit strategic thinking and effective action – including pre-pandemic planning or the initial response to the Covid-19 crisis, for example an insufficient stock of protective equipment and unavailable Covid tests. Further examples include the NHS and its paradoxical combination of overcentralised management and fragmented authority, which delayed the building-up of sufficient testing capacity and a near-total lack of integration with social care. Both health and social care are overcentralised and under-funded, compared with Germany's better funded and decentralised system. Meanwhile the Department of Health was unable to organise contract tracing early on in the coronavirus crisis and ended up spending tens of billions on a test-and-trace capacity that for a long time was inferior to that of South Korea or Taiwan.

Nor is this confined to crisis management. The UK's political institutions did not merely fail to prepare the country for a respiratory illness like Covid-19 rather than the anticipated influenza pandemic. Britain's institutional ecology left the country unprepared in terms of critical medical supplies such as the provision of PPE and, crucially, without a sufficient manufacturing and industrial base in order to be resilient, competitive and productive in the context of the global economy. The weakness and ineffectiveness of UK institutions extends other parts of to the economy too – whether regional and sectoral banking, infrastructure outside London and the South East, or investment in national assets more generally. For example, Britain is good at generating innovation based on research spending but poor at diffusing and disseminating innovation because it lacks the appropriate institutional infrastructure (Haldane, 2017 and 2018a). As Andy Haldane (2018b, p. 7) has argued,

> Typically, we think of "Research and Development" (R&D) as a rhyming couplet. In the UK's case, the R and the D do not seem to rhyme. The UK does R well, as a world-leading innovation hub. But it does D poorly, where the D refers not just to development but the diffusion and dissemination of innovation to the long, lengthening, languishing lower tail. When it comes to innovation, the UK is a hub without spokes.

Two key aspects of the UK's inadequate institutional infrastructure are (1) a poor financial infrastructure that fails to support investment and innovation across regions and sectors for small, medium and even large businesses; (2) an insufficiently developed diffusion infrastructure that helps to promulgate ideas and technologies (e.g. the UK Catapult Centres) and recycle expertise and know-how. Both in terms of funding and reach, Britain's institutional ecology seems too weak and ineffective to boost the country's productivity growth.

1.3. Institutional and Policy Silos

The third stylised fact is closely connected with the first two: enduring institutional and policy silos combined with a political process that produces a churn of new institutional and policy initiatives (Norris and Adam, 2017). Examples of silos and churn abound across the UK and in relation to productivity in particular. In the area of Higher Education (HE) and Further Education (FE), the UK has lacked a consistent, integrated approach (Westwood, 2018). With

28 major pieces of legislation since the 1980s, the sector has undergone revolutionary change without addressing the core lacuna of high-quality vocational and technical training. Britain also has a system of funding university education that was financially unsustainable prior to Covid-19 and the drop in overseas student numbers. UK universities are expected to be centres of shared learning at the service of the public good even as centrally imposed procedures regulating their governance, teaching and research turn them into de facto businesses that operate in a global market, which commodifies knowledge (Collini, 2012 and 2018). Not to mention the decline in academic standards and a narrow approach to employability based on transferable skills that leaves many graduates unequipped for the labour market.

Moreover, successive British governments have a poor track record of effective cross-departmental coordination, as highlighted not just during the Covid-19 emergency but also in relation to the repeated failure to put in place a robust industrial policy (Myrodias, 2022). New Whitehall departments have been created and renamed, and industrial strategy recalibrated with every new incumbent in No 10. At the height of the financial crisis in December 2008, Peter Mandelson, then Secretary of State for Business, Innovation and Skills, outlined a new vision of ‘market-driven industrial activism’. Government in partnership with the private sector would support growth areas such as low-carbon technology and high-tech manufacturing. It marked a recognition that market forces alone would not lift the economy out of recession. But no discernible industrial strategy was put in place either before or after the 2010 election.

In the wake of the Brexit vote, the Conservative government under Theresa May set out its industrial strategy focused on how to ‘boost productivity and earning power throughout the UK’. It identified five foundations of productivity: ideas, people, infrastructure, business environments and places. These would underpin its attempt to tackle four ‘grand challenges’ of AI and the data economy, the future of mobility, clean growth and an aging society. Central to its strategy were sector deals to drive up innovation. But the Industrial Strategy Council (ISC), which had been set up in 2017 under the aegis of the BEIS department (BEIS, 2017), was abolished by the Johnson government in March 2021 and replaced with a Treasury-led ‘Plan for Growth’ (HMT, 2021; cf. Haldane, 2021; Jones, 2021). The top-down character of successive government industrial intervention and the lack of substantive consultation with business (especially SMEs), regions and local communities undermine the prospects of an effective policy to improve productivity.

One of the most egregious examples of institutional and policy churn is regional policy, which has been chopped and changed for decades with few positive effects on reducing long-standing inequalities. In the 1980s, the Conservative government set up ‘urban development corporations’ to improve land and property markets in urban areas, but this further entrenched disparities between more prosperous regions around London and parts of the South East and other regions in the Midlands and the North. New Labour left intact the Thatcherite economic model of finance-powered growth in retail and service sectors but tried to tackle regional inequalities by creating the National Strategy for Neighbourhood Renewal together with Regional Development Agencies (RDAs) across nine regions of England, with a budget of approximately £2bn a year for 12 years, which is substantially higher than the current government’s funds for levelling up. But the focus on the ‘knowledge economy’ and the service sectors at the expense of industry, manufacturing and vocation and technical training failed to address growing imbalances within regions between more urban areas and more suburban, rural and coastal areas. After 2010, the coalition government scrapped RDAs in favour of local enterprise partnerships (LEPs), which look set to be abolished by the current government. What has been missing is a clear, consistent approach to which powers of central government should be devolved alongside both resources and accountability. This is one contributory factor in relation to the UK's 'geography of discontent' (McCann, 2016) composed of certain prosperous areas and other so-called 'places that don't matter' (Rodríguez-Pose, 2017), which have been ignored and neglected for several decades.

1.4. Short-termism and poor policy coordination

The fourth stylised fact in some sense underpins the other three and consists in short-termism. In the economy, the focus on profit maximisation to the benefit of top executives and large, institutional shareholders has entrenched a short-term perspective at the expense of longer-term profit optimisation and more stable investment. Maximising financial value based on speculative price bubbles tends to take precedence over generating real value in terms of producing goods and services or creating decent jobs (e.g. Collier and Kay, 2020). At the heart of economic short-termism lies a shift in ownership: more plural corporate models that included mutuals, family-owned businesses and employee co-ownership were abandoned in favour of an increasingly self-interested listed company model based on a concept of dispersed ownership (Mayer, 2013, 2018 and 2021). One effect of this shift was to move away from various mechanisms such as dual-class share structures to protect the virtues of limited liability joint-stock companies or more stable ownership based on 'block shareholders' (such as families or trusts) that can anchor long-term strategy – combined with board accountability and social purpose. Short-term business strategies harm the productivity of firms and entire sectors.

In politics, both institutional design and policy-making have been short-term insofar as they tend to follow the electoral cycle rather than the economic cycle. This raises questions about whether economic and fiscal policy decisions are taken in the light of political calculations and whether due attention is paid to any trade-off between the two cycles. For example, in the years before and after the financial crisis, fiscal prudence or fiscal consolidation in the form of strict spending limits or adherence to formal fiscal rules was frequently achieved by either postponing or cutting altogether capital spending instead of current spending (Chadha et al., 2021). The reason was that governments of different stripes have a tendency to view cuts to capital spending politically more palatable than cuts to consumption spending (as the effects are not immediately felt), even though it ends up reducing national output. Such and similar long-run trade-offs are concealed by short-term considerations and a growing realignment of the economic cycle to the political-electoral cycle.

More generally, expedient political decisions about the economy ignore the point that flexibility in the short run is subject to the constraint of maintaining longer-term credibility, or reputation which is a critical intangible and invaluable asset. Arguably it 'pays' to align economic policies to people's long-run priorities and their expectations of an institution's behaviour. The rationale is that it makes short-run policies more effective as they avert problems associated with time inconsistency, e.g. interest rates changes in the past when certain central banks like the Bank of England were not operationally independent or changes to tax or spending by HM Treasury. Connected with that is the need for the budget to set out the government's thinking about the state of the economy and a more detailed analysis of the socio-economic implications of key policy choices, including the anticipated effects on productivity. Balancing short-term decisions with a medium-term horizon is key to promoting sustained investment in physical, organisational and human capital to support more sustained productivity growth and more robust, resilient and inclusive economic growth.

2. What do we mean by institutions and why do institutions matter for productivity?

The lack of research on productivity in political science is inversely related to the prominence of productivity-related issues in politics past and present. Improving productivity might not have been a headline term in party manifestos or election campaigns, but many of the promises from across the political spectrum have over the years been built on the need to do so – either boosting wages, creating jobs and investing in local economies, or the pledges to increase infrastructure and R&D spending as well as the quality of public services, including the police, hospitals, schools and social care. Even if it is not explicitly about productivity in the political discourse, the recent political debate has focused on how best to generate economic growth and prosperity, better jobs, higher wages and health and well-being throughout all nations, regions and communities within the UK – 'levelling up' the places 'left behind' by globalisation and 'building back better' following the Covid-19 pandemic (HMT, 2021; cf. Fraser, Holloway and Blagden, 2021; Jennings, McKay and Stoker, 2021).

For the past four decades or so, the main focus was on market mechanisms to improve Britain's productivity performance rather than on the role of the state. By contrast, investing in the institutions or infrastructure of the national economy – whether R&D and technology, skills and human capital or public services – was a fairly constant aspect of our politics from 1945 until the late 1970s, anchored in what the political theorist (and former MP) David Marquand and the historian David Edgerton call the 'developmental state' (Marquand, 2008; Edgerton, 2019). Both Labour and Conservative government were broadly committed to a certain rebalancing of power between capital and labour in the interest of national economic reconstruction following the destruction wrought by World War Two.

After 1979, the political pendulum swung away from state direction of the economy and 'embedded liberalism' (Ruggie, 1983 and 2003) towards free-market liberalism promoted by central government (Hayek, 1960; Friedman, 1962; cf. Gamble, 1994). The national economy was opened up to market forces and integrated into the growing global economy. To construct new markets, Conservative government policy led to an even more highly centralised state and undermined the independent powers of local and regional authorities. During the New Labour years, devolution seemed to herald a major constitutional change in the balance of power between the centre and the three devolved nations, but central control was not fundamentally altered and in some areas of policymaking actually increased (Flinders, 2010) – notably the role of HM Treasury in relation to public investment. And since the Global Financial Crisis (GFC), the UK has experienced a decade of austerity and monetary activism, which looks set to be followed by a decade of fiscal activism in the wake of the Covid-19 shock.

To establish whether or not institutions matter requires a deeper understanding of the history of politics and policymaking in relation to productivity and of why different approaches or models had had varied effects. Analysing successive approaches to governance, to key institutions and to policymaking is the focus of this paper. So too is the political context that shapes decision-making. In turn, this raises fundamental questions about what we mean by institutions and governance.

2.1. What we know: defining 'institutions' in economics and political science

Both economics and political science have contested conceptions of institutions. In economics, as the economist Elinor Ostrom (1986, p. 3) writes, 'little agreement exists, however, on what the term 'institution' means, whether the study of institutions is an appropriate endeavour, and how to undertake a cumulative study of institutions'. One influential account of institutions in economics was developed by Douglass North (1991, p. 3), the American economist who describes institutions as ‘the rules of the game in a society’ and ‘humanly devised constraints that shape human interaction’ (i.e. informal social norms) and ‘reduce uncertainty by providing a structure to everyday life’. Importantly, North makes a clear distinction between institutions and organisations in the same way that in sport, the rules are different from the teams or the players:

> Organizations include political bodies (political parties, the senate, a city council, a regulatory agency), economic bodies (firms, trade unions, family farms, co-operatives), social bodies (churches, clubs, athletic associations) and educational bodies (schools, universities, vocational training centres). They are groups of individuals bound by some common purpose to achieve objectives […]. Both what organizations come into existence and how they evolve are fundamentally influenced by the institutional framework (North, 1991, p. 5).

In contemporary economics broadly speaking, there is a split between two conceptions of institutions. One conception can be found in the work of economists like Douglass North who in the vein of New Institutional Economics (NIE) tend to equate institutions with the formal rules and informal social norms governing both individual behaviour and social interactions (Alston, 2008). As such, institutions are the main mechanism for reducing transaction costs in the marketplace – including political institutions – whereas organisations are subordinate to the institutional framework and the wider constitutional settlement (North and Weingast, 1989; North, 1990 and 1991; Buchanan, 1990; Vanberg, 2005).

Other economists, like Herbert Simon, consider both institutions and organisations to be much more than at the service of market exchange. Accordingly, the state and the institutions of government are seen as a driving force that not only shapes constitutions and intermediary, meso-level institutions but also intervenes in the operation of markets (Simon, 1991; cf. Rodrik, 2011; Stiglitz, 2019). The second group of economists have a different conception of the political drivers of productivity as their definitions of institutions are key to the practical translation of politics into day-to-day policymaking. For example, Dani Rodrik sets out a similar set of drivers compared with North, notably three forms of long-term relationships, belief systems and third-party enforcement but in relation to the last of these he puts forward a very different argument:

> But as economies grow and geographical mobility increases, the need for clear and extensive rules and more reliable enforcement becomes paramount. The only countries that have managed to become rich under capitalism are those that have erected an extensive set of formal institutions that govern markets: tax systems that pay for public goods such as national defence and infrastructure, legal regimes that establish and protect property rights, courts that enforce contracts, police forces to sanction violators, bureaucrats who design and administer economic regulations, central banks that ensure monetary and financial stability also so on (Rodrik, 2011, p. 15).

He adds that, in the language of the economist, these are the institutions of ‘third party enforcement’ or ‘the rules of the game enforced by a formal, typically government apparatus’ (Rodrik, 2011, p. 15). These ‘rules of the game’ and their ‘enforcement’ are principally the responsibility of governments and the institutions they create either separately or collectively. As Joseph Stiglitz argues, ‘because the rules of the game and so many other aspects of our economy and society depend on the government, what the government does is vital; politics and economics cannot be separated' (Stiglitz, 2019, p. xxvi).

But do politician scientists or policymakers think of institutions in the same way as economists? Or are they thinking about different things? Daron Acemoglu and James Robinson (2011) distinguish between economic and political institutions at a conceptual and practical level. Giles Wilkes, a former adviser to Theresa May at No 10, has pointed out the different practical definitions of economists and policymakers: 'in normal parlance, an institution is an organisation tasked with some function. For economists, it means something slightly different'. He writes that economic and industrial policy 'must involve choices' and that 'politics is an inescapable part of it'. 'The choices must be higher level… and in their implementation the real work of economic progress is managed by institutions, not the political actors at the centre' (Wilkes, 2020).

The study of specific political institutions is central to the identity and indeed the founding of the discipline of political science. Rational choice institutionalists, like some economists, may see them primarily as a system of rules and incentives. Others more interested in history and legality focus on specific institutions, how they have been formed and have evolved over time. Policymakers may be most concerned with the design and actions of specific institutions within their control. In politics then, as identified by Rhodes, Binder and Rockman (2008, pxiii), 'we lack a singular definition of an institution on which students of politics can find wide agreement'. They add that there are 'considerable differences of view about why and how we should study institutions, about the impact of institutions and indeed about the extent to which institutions may be thought to be endogenous (independent or autonomous) or inextricably exogenous (woven into traditions, culture, norms and preferences)'.

Despite the absence of a widely shared conception of institutions and organisations, there is widespread agreement among economists and political scientists that institutional and policy frameworks are critical foundations for growth and productivity (e.g. Acemoglu et al., 2005; Ogilvie and Carus, 2014). Understanding different definitions of institutions and organisations and those that matter and act at different levels is important in this strand of work. As Ostrom (1986, p. 4) writes,

> The multiplicity of uses for a key term like 'institution' signals a problem in the general conception held by scholars of how preferences, rules, individual strategies, customs and norms, and the current structural aspects of on-going political systems are related to one another […]. The multiple referents for the term 'institutions' indicates that multiple concepts need to be separately identified and treated as separate terms. We cannot communicate effectively if signs used by one scholar in a field have different referents than the same sign used by another scholar in the same field.

In the context of the UK's productivity problem, two questions arise: first, how does this discussion of different conceptions of institutions and organisations relate to the UK's institutional architecture? Second, how do we develop the discipline of political economy and the theorising of institutions in ways that avoid over-specialisation and separate silos?

2.2. The UK context

This is a fundamental challenge when studying the interplay between the politics and economics of productivity. Economists and political scientists are likely to agree that the rule of law, the role of government enforcement and key institutions such as Parliament, HM Treasury and the Bank of England are of central importance. So too in the UK context might we consider the institutions of the welfare state to support the labour force. However, once we begin to consider policymakers' interests, we quickly move to more specific institutions – to the Departments of State that make up Whitehall such as the Department for Business, Enterprise and Industrial Strategy (BEIS), or the Department for Education (DfE) or the new Department for Levelling Up, Housing and Communities (LUHC), to devolved and local government operating at the micro and/or meso levels and to the civil service itself, the NHS, the BBC, our universities and so on. To make practical progress in terms of our own interdisciplinary thinking as well as to address issues of specific policy changes or of overall co-ordination to improve productivity, we should be thinking carefully about them all – from the theoretical to the specific and local. And we should seek to establish the importance of common definitions and understanding.

This is also an area where there tend to be different political and economic approaches. The levels of analysis in economics commonly referred to as 'meta', 'macro' 'meso' and 'micro' might in political science be more comfortably and recognisably defined as 'systemic', 'global', 'domestic' or 'individual' levels. They do not directly or easily correspond and yet how they apply in the UK may be vital to our understanding of the practical links between existing approaches and improving the country's productivity performance. These include different perceptions within and between academic and theoretical disciplines but also through multiple levels of governance to actual institutions operating within a framework of specific objectives, strategies, resources and powers. At the local level, for example, this might include councils, universities and colleges, as well as firms and businesses in any given area.

At the 'global' or 'meta/macro' levels this includes the idea of democratic, co-operative organisations and in practice, economic and political institutions such as the International Monetary Fund (IMF), the World Trade Organization (WTO) and the World Bank. It might also include the European Union and the International Labour Organisations (ILO). Equally the 'meta' level might include the principle of democratic or representative institutions, the rule of law and in practice, how these are constituted and how they function in practice within individual nations. At the 'systemic' and 'meso' levels, institutions we might also include departments and agencies of government (how they function and are structured) and at the 'micro' level we might include local institutions as well as the actions and impacts of, or on, individuals, households and communities.

These are not meant to be internecine academic differences. Rather, they relate to our understanding of policymaking and how it is practically aiming to improve individual, local, sectoral or organisational and national productivity. So what individual universities or colleges actually do will matter at the local or sectoral level – the research they carry out, the students they teach and the relationships and networks they share with local communities, politicians and businesses. Equally the way national governments are set up: departmental responsibilities, objectives and resources will matter too (as with industrial policy that is fought over by HM Treasury and BEIS). In the case of DfE or the Office for Students (OfS) or UK Research and Innovation (UKRI), they will oversee universities and colleges in these actions.

Something similar applies to meta and international levels – i.e. from the political systems of international, national, local government to the rule of law and economic institutions including the BoE. But also 'meso' and national (and less theoretical levels) such as government departments, quangos as well as devolution to nations, city regions and local government. Most if not all institutions are under pressure and or in some state of flux in the wake of austerity, Brexit and Covid-19 (ABC). New institutions are being created alongside new approaches to governance and policy. All this requires careful analysis based on a rigorous conceptual framework, which the following section briefly outlines.

2.3. Key research questions: how to study real institutions and organisations?

Our interests run from the different conceptions and definitions of institutions and governance and their theoretical underpinning to the practical roles of real institutions acting today on issues relating to productivity in the UK. In this strand of research, we want to ask the following key research questions:

- How do institutions affect the UK's productivity performance?

- Why might politics and policy matters to productivity growth?

We will test our hypotheses that underinvestment, fragmentation and instability are to a significant extent the outcome of dysfunctional governance and that stronger institutions at local, regional and national levels – combined with more joined up and coordinated decision making over the longer term are necessary for higher and sustained productivity growth.

To this end, we will consider three rival approaches in political economy. First of all, 'rational actor' approaches, which posit that governance, institutions and policy ultimately make little difference to the behaviour of individual agents (Becker 1976; Lohmann 2008). Such approaches are based on variants of methodological individualism to map preferences, instrumental rationality that underpins cost-benefit analysis and self-interest that drives utility maximisation. While there are many theoretical limitations, these approaches might offer some descriptive insights into the actions of certain individuals or perhaps the incentives or rewards enshrined in specific institutions.

The second set of approaches are behavioural theories. Their general assumption is that institutions and policies shape actions by reducing uncertainty and compensating for the limits of human reason (Kahneman, Slovic and Tversky 1982; Green and Shapiro 1994; Thaler and Sunstein 2008). Behavioural approaches rest on (i) methodological 'structuralism', i.e. the idea that institutional and other structures help to constitute individual behaviour; (ii) a recognition that human rationality is bounded, i.e. social behaviour is not reducible to rational calculation alone and (iii) humans are motivated by the pursuit of 'life satisfaction' as well as their own interests, which means that individual choice exceeds mere utility maximisation to include some form of social or public good.

The third set of approaches we will consider can be described as institutional and 'relational' theories. Common to them is the argument that the design of institutions and policies is critical to economic growth and a better productivity performance (Acemoglu and Robinson, 2012; Coyle, 2020a; Rajan, 2019; Kay and King, 2020). These approaches combine (i) methodological pluralism, which acknowledges that there are plural sources of human creativity and agency; (ii) a recognition that human decision-making involves reason, emotions and judgement, which means that human actions cannot be modelled exclusively on some adaptation of physical laws or purely private psychology but rather are shaped by a social 'instinct' – a shared commitment to social solidarity based on a measure of trust and cooperation; (iii) the pursuit of economic growth and productivity is ultimately indissociable from shared prosperity and human well-being beyond GDP and other similar aggregate measures.

But our point is that politics and policy (as well as institution and governance generally) really matter, both in general and in particular relation to the current and long-term political context. Policy design and policy history matter too: how structures and orthodoxies have emerged and been formed, and how often it is chopped and changed and unstable/short-term. And policies need to have tangible effects on the things that people really understand and value: wages, incomes, access to good products and services – but also less obvious things that might be less rational and more intangible such as vibrant high streets, strong communities, settled identity and so on (Collier and Kay, 2020; Sandbu, 2020; Tanner et al., 2020a and 2020b).

These themes are already shaping the government's Levelling Up agenda (Westwood et al., 2021). The Department for Levelling Up, Housing and Communities has been tasked with four goals: (1) to shift power to local leaders and communities; (2) to support the private to grow and to raise living standards; (3) to spread opportunity and improve public services; (4) to restore local pride and civic cohesion. Both goals (1) and (4) explicitly involve changes to the institutional and governance system, while goals (2) and (3) require new policies and potentially new institutions too.

3. What do we mean by governance and why does governance matter for productivity?

3.1. UK context

Within different UK governments the structure and focus has often operated in similar ways with the policy responsibilities for improving different aspects of productivity scattered across a range of departments and ministers. In the main, it has been the Treasury that has taken the lead as the dominant, all powerful ministry for economics and finance (Richards et al., 2020), though there have been exceptions and challenges to this hegemony notably with the creation of beefed up business or economics ministries under powerful politicians such as the Department for Economic Affairs (DEA) under George Brown in 1964 and the Department for Business, Innovation and Skills (BIS) led by Peter Mandelson and created in 2008. But neither lasted long. At the same time, the profound structural problems already identified in the 1940 Barlow Commission about the deep disparities between the South East (including London) and the rest of the country persisted. As Bill Rodgers, the undersecretary of state at the DEA remarked in 1964: 'We are still coming to terms with the same problems that faced us … 25 years ago'.

As Sir John Kingman, a former senior civil servant at the Treasury has said: 'sagging productivity is the economic challenge of our age' (Kingman, 2016) – likely something that most Chancellors since Nigel Lawson and most Treasury officials would agree with. But co-ordinating the delivery of policies designed to tackle it has been a consistent challenge for successive governments. If improving productivity depends on infrastructure spending, on human capital, science and technology and on roads and rail as well as our digital infrastructure, then this becomes as much a challenge of management and co-ordination of delivery as it is of diagnosis. And many key departments, including education, local government, transport, health and culture, may not have the same grasp or prioritisation of that task. Our hypothesis is that UK governance is at once overcentralised and fragmented and thus vulnerable to silos and a lack of institutional and policy coordination.

Considering institutional aspects of policymaking and delivery in the UK and in each of the four nations is therefore important. Some of the main questions that will underpin research in the Governance and Institutions theme are as follows:

- How do governments choose to configure their institutions in relation to productivity?
- How might they choose to reform existing organisations to help boost productivity?
- How do they fund and direct them?

From Whitehall Departments and their policy/legislative agendas set out in green and white papers and other governance levers available to the different layers of government – such as 'multi-level governance' (Rhodes, 1997) or 'multi-centric policymaking' (Cairney, 2020) – models of governance are not limited to the constituent parts of central government and the civil service but also include local and regional bodies and the devolution of policy, powers and resources across the four UK nations and within them to cities, towns and local communities too.

At the heart of UK governance lie the so-called 'Westminster Model' (e.g. Hall,. 2011; Richards and Smith, 2015) and 'Northcote-Trevelyan' paradigm. The former denotes an executive-dominated system based on centralised government, parliamentary sovereignty and a unitary state, while the latter defines the civil service as impartial, appointed on merit and committed to transferring its loyalty and expertise from one elected government to the next. Both are key to our understanding of UK government and its institutions. They are the main institutions in the wider policy-making arena and the complexity of governance arrangements, broadly defined, within which UK policy operates.

The 'Whitehall Model' and the 'Northcote-Trevelyan' paradigm are therefore a starting point for political science when we think about the plans for institutional and system reform planned by the current (and more recent) government(s) (Moran, 2017a and 2017b). This current context and the combination of Covid-19 and a broader post-Brexit strategy may in time be seen as a critical juncture for wholesale institutional change as part of the government's promise of 'levelling up' and 'building back better'. Together with the political costs of dealing with the pandemic, managing the crisis may then serve to reinforce the 'centrism/top-downism' associated with the 'British Political Tradition' (Hall, 2011; Hall et al., 2018; Richards et al., 2019), e.g. secrecy, lack of transparency and accountability, hierarchy, centralism, linearity, elitism, inflexibility and functionalism and what Michael Moran (2003) describes as a 'club governance' approach.

In relation to productivity, Richard Jones (2016) summarises well the current state of UK governance:

> Important culprits may be fragmented decision-making and the absence of broad, well-functioning ecosystems involving business, government and research institutions at local, regional and national level in the UK, which operate in a coherent, coordinated and long-term manner. Many policy initiatives suffer from over-centralisation, top-downism, short-termism linked to the electoral cycle, silos and the absence of effective joined-up government, as well as lack of meaningful engagement with stakeholders (both governmental and non-governmental) beyond Westminster and Whitehall, and a disjointed, constantly changing approach to both policy-making and policy-delivery.

Many arguments and drivers for reforming the nature and role of the state predate the Covid-19 pandemic. Divergence of policy approaches in Scotland and Wales is at least partly being driven by a lack of faith and trust in UK institutions and the Whitehall and Westminster model of centralised and ‘hoarded power’ (Rhodes, 2017). This has also been a feature of the drive towards greater sub-national devolution within England both before and after the 2016 EU Referendum vote in favour of Brexit. As part of a particularly poisonous campaign, it was not only European institutions that were delegitimated but also national institutions and decisions. One key question is how to design and build or renew institutions that command both popular trust and elite allegiance:

> The problems have eroded the trust that is fundamental to a well-functioning society. More generally, trust — in authority, government, science, expertise and some institutions — has wavered and changed over the pandemic. These changes in trust have, in turn, influenced people’s views about the effectiveness and fairness of public services, and indeed some people’s willingness to co-operate. Fundamental questions are now being asked about the role and shape of the UK state, in building resilience and in ‘insuring’ or protecting society, ranging from social protection of the vulnerable and economic management, to co-ordinating actions to address long-term challenges such as climate events or pandemics (ESRC Social Sciences Advisory Board, 2020).

There is not then a clear consensus on the precise definitions of institutions or governance, nor the relative importance of different levels when thinking about policies that improve productivity locally, sectorally or nationally. There are important differences between economics and political science and between academics and policymakers in government. Whilst there is more agreement about definitions of governance and the levels at which it operates, there are differences in judgement about its importance – between those persuaded by rational choice theories and those that accord greater significance to policymaking at local and/or national levels and the impact on institutions and organisations. This includes debates about the use of evidence (Pabst, 2021a) and about lessons for the UK from international good practice (Banks, 2015; Hsieh, 2015; Renda and Dougherty, 2017). Furthermore, there is a strong sense that the next few years will test all of these as the UK government (and its different constituent parts) implements Brexit and attempts to recover and to ‘build back better’ from Covid-19. Ambitions for new approaches to governance, to policy-making and for significant and far-reaching reform of our institutions are clear. This is likely to be a period of significant reform in a great many of these areas.

3.2. Key research questions

In the TPI’s Governance and Institutions research theme, we will examine whether the UK’s institutions and notably the Whitehall system of governance, which are still largely organised around a set of 19th-century principles, and the policy-making process are fit for purpose in the 21st century. Specifically, we must consider how these institutions, processes and cultures will function in relation to policies designed to improve productivity. As well as these main governance scenarios after Brexit and in response to Covid-19, we must also ask what their implications are for governance capacity and legitimacy in the context of a UK-wide productivity strategy.

- Is the UK too centralised in its approach to economic policy-making, given that so many key powers in this area remain in Whitehall, and too fragmented in relation to different institutions and policy areas?

National and local devolution represents a considerable change in governance and divergence can be seen in both policy-making and politics, including in the handling of the pandemic in

Scotland, Wales and Northern Ireland. But there are also differences in how each nation sees its political economy and that of the UK. We must also consider how much consensus/disagreement exists between policy-makers in the four territorial parts of the UK and about the nature of the productivity challenge and the policies required to deal with it.

- Does the asymmetrical devolution model developed in Northern Ireland, Scotland and Wales aid or inhibit the UK's economic performance and development overall?

- How can better linkages, co-ordination and partnerships be forged between the UK levels, and other tiers of government across the UK?

- Can productivity be framed as a shared challenge in a moment of increasing tension within the Union?

This is a further reminder of the importance of politics – as these questions for TPI will be asked while support for independence and pressure for a second referendum grows in Scotland following the victory of the SNP in the May 2021 Scottish elections and a parliamentary majority (together with the Green Party) for a second independence referendum (Mance, 2021).

Given the high and enduring levels of interregional and intraregional disparity within England (McCann, 2016 and 2020; Carrascal-Incera et al., 2020) and the Government's focus on 'levelling up', we must also ask three further questions:

- Is England's current model of devolution sufficient or does it need a more robust approach?

- Specifically and alongside the TPI theme on Place and Geography led by Philip McCann, at what spatial scale should decision-making about regional and local economies be taken?

- In a context where the ongoing Brexit impact and, latterly, Covid-19, have placed considerable strain on the UK's system of governance, will an emerging focus on economic recovery and 'levelling up' ameliorate relations between different levels of government, or strain them further?

We can, of course, learn much from our own history, from our own policies on innovation, technology, science and R&D, and how they have changed and evolved since World War Two (Edgerton, 2019). History matters and so does our track record in designing/delivering policy and previous attempts to reconfigure government (from departments to agencies and including local government). We can and should also learn lessons from the approaches of other governments, especially where they are facing similar issues, as well as from their historical and longer term histories.

Better co-ordinating different policies and activities may be one of the most obvious needs, where governance, policy and institutions must come together optimally – locally and nationally.

- Can the UK Government develop the necessary capacities for effective coordination around its approach to a UK wide productivity strategy to address established issues concerning fragmentation and a lack of 'joined-upness'?

As Diane Coyle has remarked, this question has not been sufficiently addressed by economists who study the UK's poor productivity performance:

> Such examples have now attained almost motherhood-and-apple-pie status among economic researchers, given the widespread acceptance that "institutions" are important for growth and development. But economists need to connect their analysis with an understanding of the political potential for change, the sociology of organisations, and the psychology of decision-making. Simply urging regions to "be more like Silicon Valley" is useless. The challenge for researchers and policymakers is to understand – in each specific context – exactly what coordination is needed to increase productivity, and what actions (and by whom) can achieve this (Coyle, 2020b).

As set out by van Ark and Venables (2021), there are certainly questions about the failures of many different policy approaches in the recent and more distant past in the UK and 'why is the UK lacking – or misallocating – these complementary investments?'. Here research is required into the many obstacles faced by people, firms, and places in both acquiring and utilising the capabilities necessary to achieve higher levels of productivity. There are questions about resources, capacity, incentives and the broader coordination of productivity-enhancing policies, including industrial policy, science, innovation and human capital policies.

4. The UK politics and policy of productivity

There is of course some alignment between economic and political thinking on many issues, such as an interest in improving growth, wages and household incomes, tackling regional and local inequalities, increasing investment in infrastructure, research and skills, to name but a few. These are real political objectives for delivery in the short and longer terms, including over the duration of this Parliament. But there are also significant tensions that may play out over similar timeframes, most notable are those over trade such as tariffs and borders, reduced labour mobility, different regimes over state aid and competition and many other issues associated with Brexit and the new political rules and institutions created after leaving the EU. The same applies to the Government's headline domestic agenda of 'levelling up' and a desire to improve a range of conditions and issues in Britain's underperforming regions, towns and cities, including productivity. The pandemic adds further challenges and potential conflicts between longer-term structural change and shorter-term political choices.

All are fundamental for this theme of research at TPI. At the December 2019 General Election, the Conservatives were committed to a radical agenda based on 'getting Brexit done' and 'unleashing Britain's potential'. The opportunity to 'reset' governance, create new institutions and radically reform many others was widely established. This was billed as a deliberate opening of a 'policy window' (Kingdon, 1984) for change – a critical juncture (e.g. Acemoglu and Robinson, 2011) for such reforms – in order to make the very most of leaving the EU and remaking much of the British state. The arrival of Covid-19 in the UK only a few weeks after the election added many new aspects and challenges to the political and policy context. Boris Johnson was already committed to being 'active' and interventionist' in his approach, but the global pandemic is reaffirming his and the government's appetite to think and work in novel ways.

There are likely to be several areas where such as approach may create tensions, including in headline political ambitions on international trade and 'levelling up' (Westwood et al., 2021). The welfare state offers a key area for potential reform, from the NHS to housing, benefits and education policy. Likewise on Industrial Policy and the evolving role of the state in relation to the economy – with the more strategic and extensive the intervention, the more discomfort for some economists who are keener for politicians to stay well away. This aspect of policymaking is evolving rapidly. In the documents published alongside the Budget, a 'Plan for Growth' is described as taking the place of the 2017 Industrial Strategy (HMT, 2021). The day after the Budget was delivered the Secretary of State for BEIS, Kwasi Kwarteng announced the closure of the Industrial Strategy Council amidst a wider rebranding of the Government's policies in this area (Haldane, 2021; Jones, 2021).

But there are also reforms in train that alter the nature of institutions such as the rule of law, the operation of the media and to the operation of the Government and Parliament. Institutions and Governance in the definitions of Douglass North or Dani Rodrik are in a period where the 'rules of the game' are in flux. This is the case both within the UK and the constitutional and legal relationships between Westminster and devolved governments in Scotland, Wales and Northern Ireland (Kenny et al., 2021), and also internationally with the rewriting of trade and legal rules with the EU and with other countries. There are then a series of major political and policymaking issues over the next few years that will shape the governance of the country and its productivity performance. Many of these are likely to involve different conceptual and practical understanding between economists and political scientists and, as we have already discussed, the interests of economics and politics will not always align.

The short-term politics of an eighty-seat majority won, at least in part, through former Labour seats in the Midlands and the North is likely to demand more attention on 'levelling up' and addressing regional inequalities than other aspects of the productivity problem. In the relatively recent past, there have been strong arguments to invest in people rather than on places (Gibbons et al., 2014), but the realpolitik of Brexit Britain is changing. Evidence suggests that around 50% of people only ever work in the local labour market where they were born (Bosquet and Overman, 2019), with this proportion rising to 60% for those without a Higher Education qualification, suggesting that policy needs to be more realistic about how far people are willing to move for work. Assuming that people, especially the less skilled, are able or likely to move to larger cities even relatively nearby is therefore impractical. This raises questions about how we approach the different economic conditions within as well as between regions and suggests that there needs to be more thought about targeting both the lower skilled and the places they live in. Where there are issues relating to identity, these differences may be further exacerbated (Collier, 2018; Sandbu, 2020).

Spatial disparities and 'levelling up'

There is some considerable agreement across political parties and economists as well as political scientists that tackling regional inequality and economic underperformance will be a critical issue in the next few years (e.g. Agarwala et al., 2020; Carrascal-Incera et al., 2020). Long-standing imbalances have been widely diagnosed as a significant driver of our productivity gap but also of political discontent rising to the surface during the EU Referendum in 2016 and in subsequent general elections. Whilst political disaffection and the 'geography of discontent' (McCann, 2016 and 2020) is partly down to economic factors, there is also a range of social and political issues that play a part, such as a lack of trust in public institutions and a sense of powerlessness the further away people and places are from London (British Election Study, 2021).

In the UK, and in England in particular, this brings us to the major domestic objective of the Conservative Government: 'levelling up' (Fraser, Holloway and Blagden, 2021; Jennings, McKay and Stoker, 2021). As pointed out by van Ark and Venables (2021), ‘the gap in productivity across regions in the UK is much wider than among regions in other OECD countries’. This is evident both between regions as well as within them. More detailed analysis shows that this is not just a reflection of London being a high productivity outlier, but of particular problems and challenges in other parts of the country, including low productivity in second-tier cities when compared to similar locations in Europe and North America (Centre for Cities, 2021), enduring problems in post-industrial locations and in coastal and peripheral areas too.

The politics and economics of underperforming places and regions do come together, though not completely. There still remain political tensions about place that are not fundamentally economic in nature: issues of identity, value and political attention that may run contrary to economic choices and interpretation (Sandbu, 2020; Pabst, 2021). As Rana Faroohar (2020) says ‘the laissez-faire model of economic development is dead’, and that although manufacturing, goods and capital were mobile in the past few decades, ‘most people, and jobs, were not’, adding that ‘the problem for policymakers is that people vote’. Described by Rodríguez-Pose as ‘the revenge of the places that don’t matter’ (2017), industrial decline, technological change and globalisation and its political consequences are therefore important here. The issues in such affected places are partly economic although not exclusively so, but they are not necessarily based on rational economic decision-making (Sobolewska and Ford, 2020).

The UK’s interregional and intraregional disparities may be larger than in most countries, including the US, but the political and policy challenges have similarities with other countries in Europe and North America. Francis Fukuyama described industrial decline turning thriving manufacturing towns into a ‘rust belt’ as a part of a bigger transitional trend that he called ‘the Great Disruption’ (Fukuyama, 1997). Others have pointed to the uneven benefits from globalisation (Rodrik, 2011) and economic liberalism (Stiglitz, 2019) causing both decline and political dissatisfaction in post-industrial towns and cities like the American ‘Rustbelt’.

Considering the best approaches at a local or regional level recalls the conceptual differences between institutions and organisations. As Wilkes (2020) notes, this will likely come down to a combination of choices made by Government and the actions (and overall co-ordination) of individual organisations and actors:

> Creating the right institutions in both the conventional and economic sense is going to be crucial to any ambitions of “levelling up”. If we take it to mean ‘raising the productivity of lagging regions’, the real task will be carried out by thousands of actors, acting under their own steam and the institutional structures put about them. Decisions taken in Westminster to place funds here or there may make a difference. But – as already noted – crude fiscal reallocation cannot take this agenda very far.

These are questions that a focus on ‘levelling up’ seeks to answer within and alongside an overall vision for the future of the UK’s economy after Brexit and Covid-19. A White Paper on ‘levelling up’ incorporating devolution is promised in early 2022, which we will analyse alongside the already published White Paper on innovation strategy and a focus on local ‘innovation deals’ and a UKRI ‘place’ strategy. Additionally the three-year Spending Review published on 27 October 2021 has set spending priorities alongside departmental allocations for the remainder of the Parliament (NIESR, 2021).

These are key points in policymaking for both Government and TPI as it considers the various drivers and solutions for tackling regional inequality and sets the agenda for at least the remainder of this Parliament. It will be important for the Institutions and Governance theme as we look at the role of organisations at local and regional levels. For example, how regional institutions are configured and resources such as Combined Authorities and Local Enterprise Partnerships to specific policies for funding and regulating universities and colleges are likely to be significant. This underlines the importance of working across research themes in TPI but also taking a broader definition of institutions and governance as we do so.

Covid-19, Spending and Planning Recovery

The Covid-19 pandemic has disrupted so many plans and assumptions not least those of Government in the period almost immediately after the 2019 General Election. It is having deep impacts on the way we think about and understand society and the economy, recasting our view of the size, role and reach of the state. A commitment to ‘build back better’ (HM Treasury, 2021) characterises and underpins the Government’s narrative for a series of post-Covid plans. They are keen to set out a policy agenda that delivers on a popular mandate for change ‘won’ at the 2016 Referendum as well as in the 2019 General Election. As already discussed in this paper, this includes a range of institutional and governance reforms that will form a policy context to the research carried out in this theme of TPI.

Although many plans have been inevitably delayed by Covid-19, we are now beginning to see the shape of early reforms. White Papers on energy – ‘Powering Our Net Zero Future (BEIS 2020) and skills – ‘Skills for Jobs’ (DfE, 2021) – have been published as has the Treasury’s ‘Plan for Growth’ (HM Treasury, 2021). Others such as on innovation have also been released while the White Paper on ‘levelling up’ is now promised for January 2022. In early 2022 we can also expect, amongst other things, a ‘Net Zero Strategy’, a ‘Digital Strategy’ and a full response to the Augar Review (Post-18 Education and Funding Review, 2018). All will form critical components of this Government’s approach to productivity over its lifetime. By contrast, decisions have been made by the Treasury about longer term investment plans for all key areas, including commitments to infrastructure spending, R&D, education and other budgets which were confirmed in the Autumn Budget and the 2021 Spending Review (HM Treasury, 2021; cf. NIESR, 2021).

Much of the speed and extent of each of these ambitions depends largely on the financial envelope that the Government has pledged. This is politics and economics at a fundamental level, an important aspect of institutions and governance (which will also affect, and be analysed by, TPI’s Macroeconomics research theme), but also vital to the subsequent policy decisions in all areas and at all tiers of government. Arguably, fiscal policy over the medium-term – until the end of the current Parliament, which coincides with the lifetime of TPI – is rather tight and not sufficiently focused on investment. While the response to the Covid-19 pandemic involved a significant increase in public expenditure to avert a descent into depression, the Autumn 2021 Budget and the Spending Review fall short of the level of investment in national assets to regenerate the UK’s devolved nations and regions (NIESR, 2021). The bulk of higher public spending will be allocated to health and social care. Transport and R&D will also see sizeable increases. But in many other areas public expenditure will rise modestly and total spending will be substantially less by the end of this Parliament in 2024/25 than at the start of ten years of fiscal consolidation in 2010. The decade of cuts may be over, but the damage is far from being undone.

Both the IMF and OECD – also significant global institutions and policy actors – have noted the need to avoid austerity measures and for governments to keep up their roles in supporting businesses and national economies in the medium term. The head of the International Monetary Fund (IMF), Kristalina Georgieva, warned the Chancellor back in 2020 that 'now is not yet the time to balance the books' (Conway, 2020). Talking about governments more generally, she added: 'it is paramount for governments not to withdraw (economic) support prematurely. Because if it is done, we risk massive bankruptcies and unemployment […]. We have low interest rates everywhere and governments can afford to borrow.' In relation to productivity in particular, Georgieva is also clear that one objective must be 'to limit 'scarring' and long-term falls in productivity as people lose skills, health and hope – productivity is hard to create in the first place. It's also hard to get it back when it's lost' (Greeley, 2020). But the IMF has also started to talk about not just spending levels overall, but about the 'quality of spend' too saying that it should target obstacles to growth and improving productivity such as on research, education, health, and roads.

The OECD and the World Bank have also warned Governments to rethink constraints on public spending and that fresh austerity risks a public backlash. Last year, Carmen Reinhart, the World Bank's chief economist, urged countries to keep on borrowing to fight the economic fallout of the pandemic. 'First you worry about fighting the war, then you figure out how to pay for it' (Wheatley, 2020). And according to Laurence Boone, chief economist at the OECD, 'your debt is sustainable when people have trust in your institutions and that policymakers will deliver on what they have promised' (Giles, 2021).

Closer to home, the House of Lords Economic Affairs Committee (2020) in its report studying the economic response to the pandemic said:

> The Government should not repeat past mistakes by withdrawing economic support too soon. Over the next 12–18 months it will need to continue to spend to generate a sustainable recovery and to address rising poverty and unemployment. The Government will need to restore order to the public finances in the future, but this should only become a priority once the recovery has been established.

The 2021 Budget confirmed the shift away from a decade of austerity but the Chancellor Rishi Sunak also signalled his intention of beginning to 'balance the books' in the medium term with the adoption of new fiscal rules and the stated goal of cutting tax before the next election, all of which will be determine the government's actual commitment to match its 'levelling up' rhetoric with real action.

Globalisation, Trade and National Self-Sufficiency

Brexit, at least in part, was a desire to 're-shore' such political and economic decisions (Menon et al., 2021). But this is not just about the EU. Some of these questions also extend to other geopolitical issues such as tensions between China and the West. Martin Wolf (2020) has described a coming era of 'deglobalisation' – something that might make little practical or theoretical sense to some, but increasingly to political scientists and those watching politics around the world after the financial crisis, is a feature of domestic political discourse in a series of countries.

> The plausible future is not that international exchange is going to die. But it is likely to become more regional and also more virtual. After the global financial crisis, trade ceased to grow faster than world output, as it had done in previous decades,

> but grew roughly in line with world output, instead. This slowdown was due to the exhaustion of opportunities, the absence of any global trade liberalization and rising protectionism. COVID-19 reinforced these trends. A marked result has been a desire to shift supply chains back home or at least out of China (Wolf, 2020).

This is not simply a question for Brexiteers in the UK but also an issue for a post-Trump America and a post-Brexit EU. Martin Sandbu, writing in the *Financial Times* (2021) describes it as 'the biggest question in geoeconomics this year, will be how the US and the EU develop their stances toward China'.

Leaving the EU with a limited trade deal agreed in 2020 is undoubtedly the start of a new phase of politics, policymaking and economics in the UK. Brexit marks a 'critical juncture' that its architects wished to create, but it is rather less clear what they plan to do with this opportunity (Menon et al., 2021). There are competing visions as well as theories of how a state through its institutions and model of governance might act. This might be characterised between a free market/small state ideology and a more active, interventionist government – or 'Britannia Unchained' versus 'Levelling Up' approach to the economy and the state (Sylvester, 2021; cf. Pabst, 2021b). Or there is a third approach where in narrative at least, you might try to have it both ways. Boris Johnson has described his government as 'more active' and interventionist than its predecessors and himself as a 'Brexity Hezza' (Parker and Bounds, 2020), but he is also known for his more liberal or even libertarian instincts, as evinced by the reluctance to decide on lockdowns in March 2020, autumn 2020 and January 2021.

As we have seen, the Government's intention has been for radical reform both during its (or its key leaders) campaigning in both 2016 and 2019. A broad coalition of support has encouraged such a radical reshaping of the British state after Brexit and redoubled as a response to the pandemic. The *Daily Telegraph*'s opening editorial after leaving the EU (2021) called for a 'shake up' of our institutions:

> Britain needs to reflect, to learn from what went right in the past 12 months and what went wrong. With two vaccines being rolled out, we have a chance to get on top of Covid-19 and, with the added impetus of the one great development of the year, Brexit, for the Government to reset itself. But both of these require bold institutional reform. Institutions that we long believed we could rely upon let us down exactly when we needed them the most.

They call for 'an honest assessment of where these institutions went wrong' and 'a wide-ranging, courageous reform agenda' and a government dedicated to 'radical reconstruction'. Since 2016 we have seen the Government and key members within it offer a series of challenges to a wide range of key institutions including to Parliament, the Supreme Court, the BBC, the rule of domestic and international law and to Westminster and Whitehall (challenging/proroguing parliament, reducing scrutiny, civil service reform, including the removal of several senior Civil Servants). Reforming our political and economic institutions appears to be a key ambition.

But the Government's priorities and objectives are evolving quickly and are also being reshaped by the pandemic. James Forsyth (2021) notes a shift to what Boris Johnson calls 'national self-sufficiency' and 'the view that Britain cannot afford to be dependent on imports for vital medical equipment'. He adds that there will be a 'huge new push for domestic manufacturing after this crisis to ensure that this country can produce drugs, vaccines and medical equipment when necessary'.

This suggest that the economic model is changing as the Government wants to actively support and intervene in the demand as well as the supply side of the economy. It wants the ability and scope to support technology, develop clusters, to offer loans, take equity and as with One Web, buy stakes and back technologies in the pursuit of greater resilience and growth. This, to some extent at least, lay at the heart of disagreements with Brussels about the 'level playing field' and 'state aid' during the negotiations for a trade deal. Traditionally we may not have been big spenders/users of such intervention, even under previously applied EU rules, but it still proved to be a significant stumbling block. According to Philip Aldrick, (2020), 'winners will be picked'.

So, what might 'national self-sufficiency' or a post COVID-19 economic strategy look like and what impact is this likely to have on the UK's productivity? On the one hand, we have seen the recent dismantling of the Industrial Strategy launched in 2017 but at the same time attempts to maintain or grow strategic and industrial capacity in key sectors through approaches like 'Project Birch' and 'Project Defend'. In the Government's initial plans for exiting the first lockdown and planning for recovery, it describes the need to 'improve domestic manufacturing capability', 'diversify the UK's sources of supply and strengthen the UK's supply chains for the long term' (Westwood, 2020).

This has also been a feature of domestic economic policy in the US with President Biden commissioning supply chain reviews in key sectors such as defence and health:

> The 100-day reports make clear: more secure and resilient supply chains are essential to our national security, our economic security, and our technological leadership. The work of strengthening America's critical supply chains will require sustained focus and investment. Building manufacturing capacity, increasing job quality and worker readiness, inventing and commercialising new products, and strengthening relations with America's allies and partners will not be done overnight. We are committed to carrying this work forward across your Administration to ensure that America's critical supply chains are resilient and secure for the years to come.

In the UK, our similar approach is described as a concerted effort to 'ensure the UK's supply chains are resilient' and that 'the UK has sufficient access to the essential medicines, PPE, testing equipment, vaccines and treatments it needs, even during times of global shortage'. According to the FT (2021), the proportion of PPE supplies manufactured in the UK has increased from 1% at the start of the pandemic to 70% today.

The UK's Vaccine Taskforce constituted early in the pandemic has been a case study in – re-shoring manufacturing capacity identifying likely vaccines while still in their early stages and procuring supplies, securing domestic manufacturing agreements along the way (in places including Oxford, Stoke, Wrexham, Livingston and Teesside). Such approaches bring tensions between policymakers and different academic disciplines with disagreements over protectionism and the inefficiency of such government intervention aiming to subsidise or 're-shore' supply chains in the name of resilience. Such objectives may be neither effective nor desirable (Espitia et al., 2021) but these are now policy objectives in the US and the UK. All politics and economics involves at least some 'trade offs' and it may be that any additional costs are considered a price worth paying in the pursuit of other objectives. However, even Keynes (1933) considered there to be an appropriate balance to be struck between free trade and 'national self-sufficiency'.

So as we can see in our exit from the EU, as well as our recovery from Covid-19, there are significant opportunities for domestic reform and changes in governance as well as to the institutions – new and old – that will help shape and deliver policy. It will further test our political and economic institutions and likely create new ones and reshape others. Not all will be for the best – we already know with some economic consensus – that there will be a price in foregone GDP for Brexit. For some that is a price worth paying in return for greater sovereignty and control. But for any research over the next four years, it is now a given and like other subsequent policy and institutional change it is a salutary reminder that we must deal with the world as it is as opposed to the one we might prefer. The importance of multidisciplinary understanding – primarily between economics and political science – but also an understanding of the policymaking and political process will be essential if we are to truly understand as well as improve productivity across the UK.

5. Concluding Reflections on our Policy and Research Programme

As we have discussed in this paper, we will adopt a broad, multi-disciplinary approach to TPI's Institutions and Governance theme will be critical. We will also seek to apply pragmatic and inclusive definitions of these key concepts as we commission and deliver research during the lifetime of the programme. Furthermore, we will endeavour to achieve frequent and meaningful contact with policymakers and politicians as we do so, recognising that the political context and the thinking and actions of policy actors within institutions matters too – both to the impact of TPI and to the policy changes that we hope will be influenced by our research. Amongst other things this means that we will try to apply our thinking to the real political realities of the next few years, including a shifting geopolitical context, the delivery of Brexit, recovery from Covid-19 and the ambitions of Government to 'level up' spatial inequalities across England and the UK. There will be many other issues that matter alongside these and also policy processes and decisions that we will seek to engage in and influence with empirical as well as theoretical research.

Some areas and engagement might carry risks: research can be 'cherry picked' or findings can be incorrectly or selectively applied. Sometimes the use of research, evidence or the views of experts can create new tensions and difficulties as well as having the potential to throw novel light on recent or established ideas. But these are risks we should take, confident that our understanding of the political and policy processes form part of the expertise that we bring to the Productivity Institute. TPI will develop its own policy ideas but also engage with policy debates nationally and regionally via the Regional Productivity Fora:

We will analyse the productivity implications of

- the already announced Spending Review and a range of Government Strategies, including White Papers on 'Innovation' (already published) and on 'Levelling Up' (due in early 2022);
- Covid-19 recovery policies and 'building back better';
- governance at multiple levels: the UK as a whole, its four nations and at local and regional capacity and arrangements too;
- key institutions at international, national, regional and local levels (and particularly organisations where this is distinct and/or appropriate)
- FE/HE reform and skills/human capital policy, including policies to try to mitigate Brexit's effects on human capital mobility and labour skills;
- R&D and infrastructure investment;

- central and local government reform (including the civil service);
- industrial strategy and net zero.

We will also assess recent and more long-term attempts to develop ideas and solutions in these areas and the impact they have had, both at the time and on policy thinking today. And we will examine definitions and theoretical understanding too and raise questions about why productivity might have been a priority for academic economists, but not necessarily so in other disciplines such as political science. So while we have known about the UK's productivity problem for many years, there has rarely been a unified understanding or approach across the social science. We should also acknowledge that priorities as well as language may not be shared across government departments, academic disciplines or even political objectives. The words of Joseph Stiglitz from earlier in this paper bear repeating here as a conclusion: 'because the rules of the game and so many other aspects of our economy and society depend on the government – what the government does is vital; politics and economics cannot be separated'.

Our aim is to develop a more holistic political economy conception of productivity, combined with concrete policy ideas to improve the UK's governance system and institutions in support of higher productivity, greater prosperity and shared well-being.

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