

The Politics of Productivity: institutions, governance and policy

A. Pabst, A. Westwood (Dec 2021)

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 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.

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.

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.

Many arguments and drivers for reforming the nature and role of the state predate the Covid-19 pandemic. Divergence of policy approaches in Scotland, Wales and Northern Ireland 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’.

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.

Key research questions

UK

- How do institutions affect the UK’s productivity performance?
- Why might politics and policy matters to productivity growth?
- 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?
- In a context of Brexit and Covid-19, will an emerging focus on economic recovery and Levelling Up improve or strain relations between different levels of government?
- Can the UK Government address established issues concerning fragmentation and a lack of ‘joined-upness’?

Structural factors

1. **Over-centralisation** The pyramidal shape of the UK state suggests 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. So far city-regions and the new mayoralties have not significantly decentralised the economy.
2. **Weak, ineffective institutions and policy churn** A poor financial infrastructure fails to support investment and innovation across regions and sectors for small, medium and even large businesses, which is combined with an insufficiently developed diffusion infrastructure that helps to promulgate ideas and technologies and recycle expertise and know-how.
3. **Institution and policy silos** Both in terms of funding and reach, Britain’s institutional ecology seems too weak and ineffective to boost the country’s productivity growth beyond London and the South East. Regional policy has been chopped and changed for decades with few positive effects on reducing long-standing inequalities.
4. **Short-termism and poor policy co-ordination** 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. 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.

English devolution and Devolved Nations

- Does the devolution model developed in Northern Ireland, Scotland and Wales aid or inhibit the UK’s economic performance and development overall?
- Can productivity be framed as a shared challenge in a moment of increasing tension within the Union?
- Is England’s current model of devolution sufficient or does it need a more robust approach?
- How can better linkages, co-ordination and partnerships be forged between the UK levels, and other tiers of government across the UK?
- At what spatial scale should decision-making about regional and local economies be taken?