Ep. 32 Productivity Puzzles podcast transcript

Wrapping up Productivity Puzzles 2023: brief interviews with productivity experts

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- **Adrian Pabst,** Deputy Director at the National Institute of Economic and Social Research (AP)
- **Mary O'Mahony,** Professor of Economics at King's College Business School in London (MO'M)
- **Stephen Roper,** Professor of Enterprise at Warwick Business School and Director of the Enterprise Research Centre (SR)

BVA: Has 2023 brought us closer to putting the Productivity Puzzle together? What can we learn from The Productivity Institute's Productivity Agenda just published? And what are some of the most important insights from our 11 previous podcasts in 2023? We are going to find out. Welcome to Productivity Puzzles.

Hello and welcome to Productivity Puzzles, your podcast series on productivity, brought to you by The Productivity Institute. I'm Bart van Ark and I'm a Professor of Productivity Studies at the University of Manchester and a Director of The Productivity Institute, a UK-wide research body on all things productivity in the UK and beyond.

Welcome to what is already the twelfth and final episode of Productivity Puzzle season two. We had a great year of podcasts, a very wide range of productivity-related topics. We started the year off with an outlook on productivity in Europe and globally for 2023. And even though the final numbers are not in yet, I think our prediction that this year would still be a tough year for productivity growth will turn out pretty much on the mark.

But we have also been looking for the upside on productivity. And, in fact, we dedicated as many as five podcasts to science and innovation policy, skill improvement and artificial intelligence. Because change is in the air and we shouldn't be missing a productivity revival if there is one around the corner.

We also looked at some interesting trends impacting on productivity, including the Green Economy and the experiences of firm with a four-day work week. And, of course, we did, as always, pay much attention on regional performance and on international comparisons.

A high point for sure was last month's podcast as part of our National Productivity Week, where I sat down with a super panel, including Ed Balls, Andy Haldane and Rachel Wolf. I can highly recommend that high-powered discussion, where we're coming from and where we're heading with productivity in the UK.

In any case, you can listen to all previous episodes by scrolling through Productivity Puzzles on your favourite podcast platform or go to The Productivity Institute's website at Productivity.ac.uk and find them all there.

In this last podcast for 2023, I'm going to wrap up the year with some discussions with key researchers in The Productivity Institute. Last month, we published our Productivity Agenda, with 10 chapters on all sorts of topics discussed above. So, I thought it would be useful to sit down with four of my colleagues to discuss what we have learnt.

So, let's start with a regular panellist on Productivity Puzzles, Dame Diane Coyle, Bennett Professor of Public Policy at the University of Cambridge. Diane oversees the Institute's work on knowledge capital and is a contributor to many productivity-related topics. But she was also the editor of our Productivity Agenda.

So, I started by asking her what we have now learnt about the productivity slowdown in the UK and across the advanced world. And this is what she told me.

DC: We do see a slowdown across the OECD economies, the rich countries, but it's been worse in the UK than elsewhere. So, clearly, that means there are some common things going on and there could be a whole range of explanations, from population aging to a debt overhang from the financial crisis, to new technologies being implemented and so on.

But for the UK specifically, there isn't, in one sense, a mystery about what's been going wrong because we've been talking about these issues for a long time, probably as far back as the original Productivity Week, that there are skills mismatches, that we haven't been investing enough in skills or in machinery and equipment and that there are issues about financing investment for some firms.

So those aren't a mystery. That makes the question, well, why has nothing been done about it?

And I think what we've concluded from our work at The Productivity Institute that we brought together for the Productivity Agenda, is that it's about the institutional and decision-making structure in the UK. And there is something about the way we organise decisions about the economy that prevents businesses and people from getting on and being as productive as they might be.

And the top candidates for that are that we're a very centralised economy, decisions get taken in Whitehall and Westminster, or perhaps now in Darlington but still for the whole of country. And that means that decisions aren't able to take account of local conditions and local information. So, in something like skills mismatches, that's going to be a problem.

And then the other is the extreme degree of policy churn we have in the UK. The number of times that fundamental policies such as educational qualifications or tax structures facing companies get changed. So, we have governments asking individuals and businesses to make decisions that will last their whole career for individuals or 10 or 20 years for businesses and yet policy is changing every couple of years.

So those, I think, are the areas to focus on and why the agenda ends up with a call for an institution that will evaluate policies, monitor what the government is doing and provide some means for feeding back into future policy decisions and some long-termism.

BVA: Now your own contribution to the Productivity Agenda, and you also wrote a separate piece in the Economics Observatory with Richard Jones, you speak about the slow diffusion of technology. And this has been an ongoing story that it's great to have these shiny, new technologies but that doesn't mean that it's very quickly…well, maybe quickly diffused but certainly not very quickly adopted.

Now with the rise of Artificial Intelligence, we're seeing this, sort of, a new phase where we see big promises down the road that this will really be the big gamechanger in terms of productivity.

Do you see similar challenges with knowledge diffusion on AI as you have seen with previous technologies? And perhaps related to that. What can we do to avoid or slow diffusion from happening in the future?

DC: Diffusion and adoption has been slow in lots of previous technologies, so it isn't just specifically a digital and AI problem, but it seems to be worse with these technologies. That's partly because economic production has become quite complicated, so the, sort of, digital tools that you need to use have increased in their sophistication, so the capabilities needed have increased.

One likely cause is, however, that it's an information technology. It's about how you use data to turn that into an information that you can act on to make better products and services and sell more. And that means that organisations have to restructure because the information's only useful if people can actually go ahead and make the decisions and act on it. And that means changing decision-making structures, accountability. And so, it's quite slow for companies to do that reorganisation.

And so, what seems to be happening, and we've got some preliminary research going on about this, is that companies will take the first step, they will buy some digital tool or access to it, and they'll use it to do a little bit better some of the things that they already do. But it's only a tenth of companies that actually then reorganise their processes in order to get the full advantage of the digital technology.

BVA: So that will, sort of, raise the inequality between firms, right, and potentially even then the inequality between the wages that people working in these firms are making. So, is this technology, in the first instance, another driver of the large diversity in firms' performance that we're seeing across the UK?

DC: This may be an area where AI is actually a bit different from previous incarnations of digital. Because the early evidence is that when used within a firm, it's the least productive workers who get the most advantage out of it because it's making systematic some decisions and capturing the insights of the best people in the company and sharing that through the company.

But so far, as, you know, your question alludes to, inequality has actually increased within sectors of the economy between people working for the productive companies and people working for the least productive. Whereas previously, it always used to be across sectors. So, for example, retail was paid much less than professional services.

BVA: Okay. Well, that brings us to the issue of technology and how this is impacting differently on firms and on people.

So, let's bring in Stephen Roper. Stephen is a Professor of Enterprise at Warwick Business School and a Director of the Enterprise Research Centre, which looks especially at innovation and productivity for small and medium enterprises. And Stephen is involved with lots of our work on firm level productivity. And if you get a chance, please read his chapter in the Productivity Agenda, which I would certainly recommend.

To start off, I asked Stephen how he would describe the diversity in productivity performance across firms.

SR: What we've seen is the growing divergence in performance between those firms at the top end of the productivity distribution and those in the middle and at the bottom. The leading firms, the top 10 per cent, typically we call frontier firms. These tend to be larger, internationally trading and these firms have grown their productivity in the UK in line with international best practice over the last decade, since the financial crisis.

The experience of productivity growth in the middle of the distribution perhaps from the tenth percentile to the middle of the distribution, around 50 per cent, has been very different. And these firms have really shown very anaemic productivity growth over the last few years in the UK. And this is really the heart of the UK productivity problem in many ways.

The firms at the bottom, many of those are smaller, low productivity. They do a very useful role in terms of providing employment but they're not going to be the source of future productivity growth.

So, I think when we think about productivity policies, we have to think very differently about these three groups of companies and think differently about the way we treat them and the way we think about and shape policy for each of the groups.

BVA: So, one of the things that we find in the Productivity Agenda is that actually that middle group, so the 50 to 90 deciles, so those are all companies that are actually more productive than the average. But all the productivity slowdown that we have seen in the UK since the global financial crisis is coming from that group. What does that tell us about what doesn't work in the economy?

SR: I think there's a couple of things that I would pick out specifically, although there's a whole range of different drivers of productivity, as we very well know. And I think perhaps the two things that we might focus on are investment and then the diffusion of good practice and new technologies across the economy.

Firms in the middle of the distribution may be a little less profitable than those at the top of the distribution and they may, therefore, have a little less resource to invest. They may be more dependent on external finance for that investment. We've seen the bank interest rates increase, of course, over the last couple of years. But we've also seen the banks actually having less willingness to invest potentially to risky prospects. And we know that they're not necessarily keen to invest always to support innovation.

So, there may be a difficulty on the finance side but for many of those firms, it's around that investment in skills, in intangibles, in physical capital that we've seen some real problems.

The other area I think is in those firms' ability to adopt new technologies, so that could be digital but it might not be, and best practice in terms of management that can actually help them to improve their performance in terms of productivity.

BVA: Let's go back to the investment story. You're leading some new work at The Productivity Institute now on investment. And, of course, we talk a lot and we know a lot about the external environment to firms and lack of certainty and things like that, that, sort of, constrain firms to invest.

But you are also beginning to focus a little bit on what…how do investment decisions, how they're being made within the firm and what is that makes it easier or more difficult for firms to actually take the right investment decisions. And it seems to me from early work that I've seen from you that we actually know very little about that. What's your thinking about that?

SR: I think this is always an exciting phase in a research project when you just start something and then you realise that actually people have given very little thought to who the investment decision-makers are in companies and the kinds of mental models, the kinds of factors which those individuals are taking into account when they're actually making investment decisions.

Some of this is about the context of the firm, of course, the markets, the opportunities that firms and these decision-makers actually see. Some of it is around their understanding of the broader economy and things around uncertainty.

And so, it's their investment mindset that we really want to try to understand here because if we can understand that better, then we can shape some pro-investment policies which might actually influence some of those decision-makers and help them to make more confident investment decisions.

BVA: So that helps us to understand why investment and productivity works for some firms but not for others. But what about people?

For that, I turn to my colleague, Mary O'Mahony, Professor of Economics at King's College Business School in London. And Mary, who is the Director of Research at The Productivity Institute, has done a lot of research on skills, human capital and productivity.

So, I asked her why it is important that we don't only talk about what skills need to be provided by schools and colleges, but also what skills are needed in the light of new technologies that I spoke about with Diane. And here is what she had to say.

MO'M: So, the research we're doing for The Productivity Institute is focusing on the demand side. We've been using job platform data which show the hires by firms of workers of various types. We have data from millions of job hires across the UK. We're particularly interested in looking across regions of the UK using these data.

And, in particular, on technical skills required from digital adoption. So, we've constructed some measures of the demand for technical skills. And these range from very advanced skills, such as machine learning, to fairly basic skills such as use of Microsoft Office. We have a measure of technical skills. And then we look at divide these up into graduate and non-graduate technical skills. And so, we found some interesting geographical divisions of the demand for these skills.

So, what we see is that in the golden triangle, which is London and Oxford, Cambridge, there's a big demand for graduate level skills. However, in other parts of the country, such as Manchester and Birmingham, the Midlands conurbations, there's demand for graduate level skills but there's also very high demand for non-graduate technical skills.

So, this is interesting because it asks the questions, is it the case that firms in those regions outside the golden triangle find it difficult to hire graduates? Most of the graduates move to the high wage paying, high amenity golden triangle and they then substitute non-graduate skills. Or is it the case that what's being produced in these other places is different from what's being produced in the golden triangle?

So far, we can't really see in our data, we need to do a lot more work on matching up this demand and supply to figure out exactly what…which of these two explanations matter most. I mean, they probably…both explanations will be true to some extent. But it does focus quite a lot of attention on non-graduate technical skills.

So, if we looked at the earlier wave of information technology that arose from the mid-1990s, there was a very clear demand for university level skills. It seems with the digital, that's not necessarily the case and other providers could actually be providing the skills that firms need. So, this is an interesting finding and I don't think it's there in the literature to date.

BVA: What you're suggesting is that in this, sort of, recent period of AI where there's a lot of talk about that we need data scientists and so on, that actually a lot of firms, that you're not necessarily looking for or even needing such high level graduate data scientists but actually that you can deal with non-graduate advanced technical skills and still have a very good business model. And that would then potentially be an advantage to some of the regions outside the golden triangle to actually have a productive business model.

R: Yes, that seems to be the case. It's early days yet because, you know, we've just started looking at this.

But another related question is, in digital adoption, it may be the case that firms need a certain amount of advanced technical skills but they also need people with technical skills that can talk to those people with the advanced technical skills.

So, this is something I think is described in the literature as something called lost in translation. And I think this is the idea that you need technical skills to communicate at all levels of the business operations, not just at the very top. So, it does seem to focus on the need for technical skills.

And I'd like to add that, you know, in a recent survey undertaken by the TPI, many aspects of productivity, what comes up a lot is firms saying we don't have enough workers with technical skills.

BVA: What does this mean for the provision of those skills, in particular? Because a lot of these, sort of, non-graduate technical skills are being taught by FE colleges, further education colleges, technical colleges, vocational training. So, what is your view on what should change there in order to make sure that the demand and the supply for these non-graduate skills is better matched?

MO'M: A lot of it is the colleges talking to the firms in the local areas, trying to get a sense of what is required, what do the firms need, and trying to provide them. But, of course, as we all know, the funding for FE colleges has been going down and over time has been very up and down, a lot of churn, a lot of different policies.

And so, I guess there's a need for, you know, firms to basically say to the government, our voice needs to be heard in terms of the provision of skills.

I also think there's a need to talk to schools. There's a link between schooling and particularly FE colleges, also higher education. And so, the FE colleges need to link with the schools, back with the schools, forward with the firms.

BVA: You mean with the secondary schools and so on?

MO'M: With the secondary schools, in particular. But, you know, these kinds of technical skills, it's important that they're taught at a very, very young age. And they are. In primary schools, education now is very different from when we were young, which was a long time ago.

BVA: So yeah, and indeed, there's an earlier podcast in this year's series with Jen Nelles and Ben Verinder who have done some research on how FE colleges and the business community and local government are actually working together to strengthen these links, as you're arguing for. So, it's something you can listen back to.

So, we've talked about technology, digital and AI and what this means for firms and their investments, and for people and their skills. But there is a third pillar in productivity beyond firms and people. And that is places.

To discuss that, I sat down with Adrian Pabst. Adrian is currently Deputy Director at the National Institute of Economic and Social Research in

London. And he's one of the leaders in The Productivity Institute's programme on institutions and governance.

Adrian has recently done much work on the issue of productivity and other trends at a regional level in the UK. So, I put it to him that we know about these very large differences in productivity performance between London and the South East on the hand and many other regions and devolved nations in the UK on the other.

And I asked him how our relatively low national level of productivity is especially impacting those below average regions which have ended up in what may be called low productivity traps. So, what does that really mean?

AP: So, what it means is that not only are the differences between those local productivity areas of the country and the higher productivity areas such as, you know, London and the Metropolitan parts of the South East not reducing, they're, in fact, widening.

So, we're seeing greater inequalities, greater disparities rather than a catching up process, which is the whole point of the Levelling Up Agenda. If you remember that the Levelling Up White Paper published in February 2022 has these 12 missions. At the heart of each of the 12 missions is this idea that the worst performing areas will be catching up. And at the moment, that's just not what we're seeing.

So, some of the work that we've done at the National Institute and together with TPI, shows that actually in parts of the Midlands, productivity is falling. Whereas, of course, in other parts it's growing. So, these divergences are getting worse, not better.

And the reason why this is a problem is because, ultimately, not only does it drag down the overall productivity growth rate but, worse than that, these areas fall further and further behind. That means they will need more and more help and they can't sustain themselves economically and socially in any real shape. So, it's going to be a greater burden on the rest of the country.

And the highest performing areas in London and in the South East simply cannot be expected to carry all of that. There's no way that they can just compensate for this because we know that the spillovers are limited and we know that even within London and within parts of the South East, there is still a lot of catching up to do as well.

So, we just need to spread growth and spread productivity growth much more in order to fulfil the objectives of the levelling up process but really crucially, to make sure that the country, economically and socially, actually moves ahead rather than falls further behind by historical standards but also by international comparison.

BVA: So, I think a problem with these low productivity trap areas also is that they become very vulnerable to shocks. I think one of the reasons why we see a lot of people in firms really, sort of, falling through the floor, if you like, in those areas is because they're so low that they can't really absorb these shocks anymore, right. And, therefore, any kind of policy treatment isn't necessarily helping them to get out of the trap, right, because all these problems seem to be connected. Would you agree with that?

AP: Yeah, I think that's exactly right. And we show…we've seen it with shocks like the financial crisis that, you know, started elsewhere but then, of course, had this ripple effect across the Western world and beyond and then within countries. Because we know that London was hit very badly because, of course, the City of London and the importance of the financial sector, but then also London would recover much faster. Whereas other areas, once you have a recession, again, they fall further behind and they will just not catch up.

So, it's exactly that resilience to shocks. But, of course, the same could be said about COVID and global supply chain disruption, the same could be said about the inflationary shock. They simply don't have the resources and the, sort of, institutional critical mass and capacity to absorb shocks and to grow and, as I said, to catch up.

They should be catching up because they're starting from a low level. London, which is closer to the frontier, won't be growing at very high rates. But at the moment, we're simply not seeing a catch-up process, while we're also seeing a slowdown in London compared with other cities.

So, there's a UK-wide problem, as we know, but it does take very different shapes and forms, depending on where you are. It's this lack of resilience, it's this lack of capacity to deal with shocks that's a major issue for the regions.

BVA: So, you mentioned the Levelling Up White Paper which the government published over a year ago now. And one of the interesting things in the Levelling Up White Paper is, I think, about this broader investment concept, they're called the six capitals, right.

So, if we talk about investment, we quite often think about, sort of, machinery, equipment and stuff like that. But we also need to talk about human capital and, you know, knowledge capital, but also institutional and social capital and things like that. So, it all sounds great but it's very hard, it seems to me, from a policy perspective to really embrace such a broad-based agenda.

So how are you thinking about this, you know, how can places really join up these kind of investment policies? And I think a related question is, are they really able to do that at the current level of political and fiscal devolution that's quite limited that we see to places coming from central government?

AP: So, the joining up is absolutely vital because so much of policymaking has been operating in silos, both in the central…in central government but also regionally and locally. And we know that policy areas intersect.

So, for instance, we know that human skills are, of course, also linked to some of the social institutional capital because you need to create the right institutions to impart the skills, but also create the right ecology of institutions to support that. We know that, for instance, institutions are vital in knowledge diffusion. And again, that is then part of how you get technological progress and get firms to absorb and grow and become more productive. We know that, for instance, physical and digital capital, you know, it's linked, we need more of that infrastructure in the country, it's not just one or the other, it's both.

And so, at the moment, there seems to be a lack of scale, we don't have enough investment, and also a lack of targeting investment in the right areas where it's needed. And the lack of devolution here or the limits to how devolution has been designed and delivered is that essentially, a lot of areas are given responsibilities but aren't given the decision-making powers and the resources to really deliver on things.

So, we do need further physical devolution and also devolution of certain decision-making power. So, for instance, it could be in the area of skills. Skills could be devolved further down. I think it would help it terms of identifying local needs and interests. And then designing skills programmes in, sort of, mixed further education, high education colleges to deliver on that.

That means we could close some of the skills gaps or address some of the skills mismatches. And that really cannot be done from the centre. The centre doesn't always know best. The centre has a very important role to play in terms of co-ordination, upholding nationwide standards and definitely overseeing things, but it cannot design and deliver skills programmes at that level of granularity, it's simply not possible.

And there are, of course, lots of other examples, you know. Transport is a bit different because some of this crosses, you know, borders between, sort of, different areas of the country. But even transport is often very local when you think about bus routes and so on, you know, there needs to be a lot of targeted investment in transport to help with productivity.

And all of that suggests that the lower levels have a bigger role to play, not at the expense of the centre but in a different way of co-ordinating and co-operating. So that the centre plays its full part but it can devolve certain things because that will simply help decision-making and efficiency.

BVA: Okay. Now we have covered productivity in firms, people and places. The next question then is, what can we do? And especially, what can policymakers do to move the needle on productivity growth sooner rather than later?

But before that, let's take a short break to see what else is there to do at The Productivity Institute.

[Start of audio recording]

The Productivity Institute is a UK-wide research organisation that is dedicated to understanding and improving productivity. For our National Productivity Week 2023, The Productivity Institute created a special website with a lot of new content, including the Productivity Agenda, brief videos explaining what the national productivity problem is, and what it means for business.

There are also links to updated interactive regional scorecards and to work from our productivity forums across the country. To access this content, you can go directly to the Productivity Week webpage at Produtivityweek.co.uk or go through our Productivity Institute website at Productivity.ac.uk.

The Productivity Institute. Productive together.

[End of audio recording]

BVA: Welcome back to the second part of our final episode for Productivity Puzzles season 2023, for which we have recorded some one-on-one conversations with several of my colleagues in The Productivity Institute.

So, the last topic I wanted to discuss with each of my interviews is what we can recommend in terms of policy change. We produced this large document, the Productivity Agenda, with lots of good ideas on pro-productivity policies, focused on investment, knowledge diffusions, skills creation and place-based policies.

And a general theme here is that many of these policies will only show results in fast productivity growth if we get a longer term focus. The chopping and changing of policies and, as a result, the continuous underfunding of new initiatives, is creating a lot of uncertainty for investment by firms, places, as well as by people.

That's all good and well but it raises the question whether it's enough to just be long term focused without delivering clear and tangible results in the shorter term, say, over the next term of government.

So, my question to each has been, how can we make sure that policy action is also seen to be changing things for the better for firms and people and places in the short term? Here is what Diane Coyle had to say about that.

DC: It's like the old joke, you wouldn't really start from here. I think the measure in the last budget for full capital expensing was good and should stay and that will help a bit on investment. Ending policy uncertainty within one administration will help as well, so setting out a strategic framework would be important for a new government and sticking with it.

I, myself, think it has to come through additional investment and the public sector will crowd in private sector investment. That's a political call because the government would have to raise taxes to do that. But we're in a low growth trap and the only way to get the debt GDP ratio down or tax GDP ratio down effectively that serves people, will be to get the growth rate up. And that means, kind of, bootstrapping growth by some extra investment. So that would be my short term suggestion.

BVA: Okay. So, focusing on this public sector and, indeed, to my question, the electorate would see results of that if we put more money in the public sector, we can probably fairly quickly see results from it. But we're The Productivity Institute, so we do want to see the productivity effects from that as well. It's not just money, it also has to be another way of working within the public sector.

So, what would have to change to raise productivity in the public sector in a way that actually, you know, citizens are going to benefit from it?

DC: Well, there are two aspects to this. So, one is making the public sector itself more efficient, more productive. That's clearly going to have to happen because, for example, local authorities are not suddenly going to get a financial bonanza. And that goes right to this question about ways of working and mechanisms for accountability because they are, for obvious reasons, much harder to shift in the public sector than the private sector.

We did, when The Productivity Institute first started, a little bit of work in hospitals, where the COVID crisis enabled them to change their governance systems for the duration. And that's now all reversed. So that sort of structural reorganisation I think would be key to a lot of public sector productivity.

But I would add that actually spending more on health and education in itself will boost national productivity because that affects human capital very directly. We've seen spending per pupil post-16 going down for a decade. Actually, post-primary school going down for a decade. And it's clear that the health of the population is part of the reason for that increase in long term inactivity.

So, I think those would have really quite substantial impacts on productivity, although again, not particularly short term.

BVA: Okay. Public sector investment and productivity don't have to contradict each other, that would be good news. When I asked the question on low-hanging policy fruit to Mary, she obviously started saying that education and training takes time to translate itself in higher productivity. But let's listen to what she had to say about it.

MO'M: The first thing I should say is, skills are developed over long periods of time. So low-hanging fruit, it's not so obvious there's that much. But the government have brought in the Local Skills Improvement Plans. This is a move in the right direction. It does focus very much on firms and firms talking to schools, colleges, universities, however the funding is miniscule.

I believe the people Involved in these LSIPs have barely got to the stage where they're just examining what skills are required and the funding runs out. And the actual joining up and talking to the schools and the colleges and trying to come to some kind of conclusion on what exactly is needed is not happening because of funding.

So, it seems to me there's something that could be done that's building on quite a useful initiative that might give us something. But getting the skill division right is a…it's a long term thing and it involves joining up schools, colleges and universities.

I'd also say on the university sector, universities have been very slow in developing these technical skills. They have particular degrees, areas where they do have very advanced skills but data science can be used in lots of different degrees. And universities tend to provide these as additional credit modules that are there for students to take and the uptake is very high but I do believe these technical skills should be much more embedded in the curriculum in the modules. And I do think university is lagging behind, whereas I think the FE colleges probably are more ahead on this one.

BVA: Yeah, I think I agree with that. And the research by Jen Ellis and Ben Verinder, which I referred to and which is available on our website, also shows that, yes, funding is needed but I think some tangible results were actually having a stronger conversation between the business community and FE colleges and schools in earlier education, I should say, and government.

Having these conversations, you can just see in some places that already is making a difference, even with the tight funding. So, in that sense, I do think that the LSIPs are, if anything, just a way to strengthen that conversation and making sure that there's more alignment would already be helpful.

Steve Roper started his answer to what government should do in the short term in an interesting way.

SR: Sometimes I think it's what the government shouldn't do rather than what it should do. I mean, we've seen both positive and negative decisions made, I think, over the last two or three months by the current government. In the autumn statement, we had the continuation of investment incentives, which I think was a good thing for investment and gave companies some certainty.

We've had other decisions about migration and bringing in valuable workers to the UK and changes in the wage rates there, which isn't…puts uncertainty into the environment and counters, I think, firms desire and willingness to invest.

So, sometimes it's about creating that enabling environment but not chopping and changing very regularly. So, I think actually probably the most important thing a new government can do of any complexion is to create that, sort of, stable environment in which firms can think about investment and create some certainty about policy direction.

More broadly, I think we've seen some very positive, sort of, sectoral pro-investment policy over the last few years around things like the Industrial Strategy Challenge Fund, which I think were actually very positive for some sectors.

BVA: So, when it comes to small and medium enterprises, those firms that are, sort of, at the lower end of the productivity distribution, you mentioned the importance for employment creation. So how can we get tangible results from better policies there?

SR: Yes, I think the small and medium sized companies are critical to many smaller towns, to many rural areas, and so they perform a critical element of many local economies. Again, these firms are often financially constrained, mandatorily constrained. So having a, sort of, supportive investment climate is critical for those companies, willingness of banks to lend to those businesses, willingness of Innovate UK and others to support innovation in those companies.

But it goes way beyond that, I think. For many of these companies, there are big challenges around the quality of the workforce that they can access, the skills that they can access. And indeed, even these firms ability to actually support the health and wellbeing of their workforces.

And so, I think the, sort of, network of business advisory support and business support for those companies is absolutely critical. And that's very poor in England at the moment. It's better in Scotland, it's better in Northern Ireland and Wales where they've had more stability in the system. But in the UK, it's an area where we've had huge amounts of churn in that business support and advisory sort of network. And so that's something where we definitely need a little bit of new policy thinking and a little bit more stability.

BVA: Should we have a more ambitious Help to Grow programme?

SR: I think we've got a more ambitious Help to Grow programme at the moment. I mean, the ambition was, when the programme was set up, that about 30,000 companies would go through that programme. We've only managed to get, I think, less than 10,000 companies through that programme at the moment. So, it's not about the programme, it's a bit more about delivery.

BVA: Right. Strengthening the delivery on the Help to Grow for small and medium enterprises, particularly because it also helps the places that are struggling most. That's a key point, connecting the performance of places and firms.

It may be that small firms don't count for as much of the macro productivity growth figure but they do matter for individual places as they provide most of the jobs, particularly in places that struggle. And better performing smaller firms will be a way for those places to escape the low productivity trap we talked about earlier.

That provides a pretty natural transition to Adrian Pabst, who answered the question on which policies provide tangible results to places in the short term. So, I asked him, how the Levelling Up and Devolution Agenda could not only show long term but also short term benefits.

AP: Yeah, let me start with a long term focus just for a minute because I think it's absolutely right to highlight a huge structural problem, I think, at all levels of government. And that is a lack of capacity. Even government departments don't always have the capacity to do the things they would like to do.

So, we need to think about state capacity, what do we mean by that, how do we measure it, how do we build up state capacity where we've lost it? Because people who have been watching this for not just 10 or 20 years but 30, 40, 50 years, and I'm thinking of some of the people on our Productivity Commission, they're saying that they don't even think some of the bigger government departments, such as the Treasury, necessarily have the capacity to deliver on the things they'd like to do.

So state capacity I think is a major question for us. But that is a long term issue, of course.

In terms of low-hanging fruit in the short to medium term, I think there are at least two things that the next government, you know, whoever will be in power, should focus on.

And the first one is housing. Because we have a housing shortage and a shortage of affordable housing in certain parts of the country. That also includes parts of London and the South East but elsewhere too. And I think housebuilding in the areas that need it most is a vital priority. Yes, there will be planning issues but Acts of Parliament can change that. Acts of Parliaments do override these things and they shouldn't…you know, land ownership shouldn't be seen as a, kind of, intrinsic obstacle that can't be addressed. I simply don't think that's the right argument.

So housing is one thing. And I think the other thing to think about is, I think, skills, as I've mentioned before. And in connection with skills, I guess you also need to think about some of the other infrastructure you need. So, there's work done by TPI colleagues such as Diane Coyle and Andy Westwood on universal basic infrastructure. You know, what are the things that you need to have everywhere? You can't have everything everywhere but you can have more of the essential universal basic infrastructure. And I think we need to think about that as well.

Not all of that is long term. So, for instance, one of the things we know because it's a well-known problem, is broadband. The broadband coverage in many parts of the country is woeful and we know that that for both businesses and public sector organisations is a real, real obstacle. So, I think broadband is another area where you can make short term progress.

So housing, devolving skills and designing skills programmes more regionally and locally, as well as broad. They're, kind of, three things that I think can be done in the space of five years.

BVA: So where does that leave us? Let me wrap up with a few observations.

First, productivity may be tough and sometimes a hard topic to sell. But without productivity, it is unlikely we can generate enough from our resources to meet our challenges and realise better outcomes.

Second, we need to invest more publicly and privately in technology, in people, in capabilities to innovate. We also need to invest in what Adrian calls a universal basic infrastructure, the public services that need to be provided at a minimum level for firms, people and places to perform better.

Third, we need to build better institutions to help be able to diffuse knowledge and innovation and best practices. That means less centralisation at the top and less fragmentation of policies at the bottom.

And fourth, yes, productivity is a long term issue and it will take time before we can see it go up in a significant and sustained way. But we can have tangible policy results in the shorter term if firms can operate in a more stable environment. If they can be supported, where needed, in improving practices. If skills programmes can help people to get retrained and be better at their jobs. And accelerated investment in housing and homebuilding and making broadband more widely available are all things where people can see tangible results.

So, there's much to do in the New Year. And we'll, therefore, be back with a new season of Productivity Puzzles to get you to the best and most up-to-date insights on why productivity matters and how we can get it up. So, look out for another series of 12 Productivity Puzzles podcasts in 2024.

Meanwhile, you can sign up for the entire Productivity Puzzles series through your favourite platform, to make sure you also don't miss any future episodes.

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Productivity Puzzles was brought to you by The Productivity Institute. And this was me again, Bart van Ark, at The Productivity Institute. Thanks for listening. Take a restful break. That's important too, so that you can start a new productive 2024 when the year comes.

End of transcript