

Britain's productivity problem reaches well beyond the plans set out by either Labour or the Conservatives



The Conservatives' plan for addressing Britain's productivity problem seems to be to funnel limited spending into established areas of manufacturing and to create mini tax havens. At the same time, Labour are being too cautious to articulate a coherent alternative. Neither approach is good enough, writes [Sean McDaniel](#).

Britain has a productivity problem. That much has been clear for a long time. For years, particularly since the 2008 crisis, productivity growth has experienced a significant downturn. The economy is far from alone in suffering from this decline, yet its productivity shortfall is [twice as severe as of other G7 economies](#). Traditionally, productivity increases are crucial for economic growth and shape the living standards of workers. While wage growth has stopped tracking productivity growth, an enduring downturn in productivity forces us to confront important questions about how our economy operates and where a rise in living standards will come from (aside from even more cheap credit and rising house prices). A new model of growth is required. Neither of the two main parties, however, have a plan that could address this issue.

Such concerns are, we are told, at the forefront of the government's planning for the post-Brexit economy. £800 million is earmarked for the new Advanced Research and Invention Agency (ARIA), a 'high-risk, high-reward' scientific research agency modelled on the US Defence Advanced Research Projects Agency. The latter has been at the forefront of a significant number of technological advancements, not least the internet. While this initiative is in some respects a step in the right direction, there are some serious flaws in this apparently buccaneering approach.

The ARIA project has the potential to embed historic, problematic patterns of productivity in the British economy by continuing the trend of investing in the 'military-industrial complex' (including firms such as BAE Systems and Rolls Royce), as the late David Coates put it, at the expense of wider productive sectors in the economy. Perhaps more significant, however, is the lack of real ambition behind the government's plans. The level of funding offered pales into insignificance compared to other countries' spending on Research & Development (R&D). The US Defence Advanced Research Projects Agency manages an annual budget of \$3.2 billion, while Germany's leading applied research organisation, Fraunhofer-Gesellschaft, also has an annual research budget of €2.8 billion. ARIA's £800 million, on the other hand, is due to last across the next three years of this parliament. Researchers have suggested that, [at 1-2% of the country's science budget](#), ARIA's funding will mean it struggles to effect significant change. More widely, spending on R&D in the UK stands at just [1.7% of GDP currently](#), well below the likes of Germany (3.1%) and the USA (2.8%). The government has set out an '[R&D roadmap](#)' pledged to increase R&D investment to 2.4% of GDP by 2027, but this will only bring the UK in line with the OECD average.

The government's only other significant new plan with regard to Britain's new economic model is the introduction of several 'freeports', to be located in areas that have suffered from a lack of economic prosperity in recent years, including the Humber region, Liverpool and Teesside. While freeports may bring some employment growth, they have been criticised, including [in a report for the European Parliament](#), as potentially fostering tax avoidance and money laundering. Despite promising a Rooseveltian New Deal approach, the reality of Johnson's economic strategy appears to be more of a rehashed, Reaganite 'boosterism'. That is, plenty of talking up Britain's potential, while selectively lowering tax and regulatory burdens. It seems unlikely that freeports can truly improve the productive tissue of the UK economy.

For all the talk of 'levelling up', moreover, the decision to scrap the Industrial Strategy Council and whispers of removing the 'industrial strategy brand' from government departments, alongside the creation of freeports, indicates a government still very much committed to light market regulation and limited intervention. While the ARIA project has strategic potential, if it fails to receive sufficient financial support it may end up being little more than a vanity project. As with the period following the 2008 crisis, these current plans will realistically do little more than further embed the existing dynamics of Britain's economic model.

Labour, for its part, has not outlined a coherent vision for an alternative growth model for the post-Brexit UK either. As the party grapples with how it might rebuild its electoral coalition in the so-called Red Wall areas, it appears to have retreated to a 'safety first' position by focusing on fiscal responsibility. While this may arguably be necessary to rebuild confidence amongst parts of the electorate who were sceptical of the party's economic policies under Corbyn, it is not clear how such an approach will appeal to voters who want to see big changes in how the economy works for them.

Opposition parties are usually, and understandably, hesitant to show their hand early on in a parliament. However, Starmer's caution risks allowing the Conservatives too much room to set the narrative around their own vision of how to 'build back better'. The Biden administration's leftward turn in office is revealing of a much-changed political and electoral landscape globally; Labour should not attempt to re-run the 2010-15 parliament. From 'pre-distribution', to 'the foundational economy' and 'the Green Industrial Revolution', today Labour is better equipped with ideas of how to re-wire the British economy to be more productive, more equitable, and greener. The Labour leadership, however, needs to work out how to weave these policy ideas into a strategy of reform and, crucially, a story of national renewal.

Britain's productivity problem reaches well beyond the plans set out by either of the two main parties. That would be true even without the twin issues of COVID-19 and Brexit, both of which threaten profoundly negative and destabilising effects on manufacturing and many other economic sectors. Addressing the productivity issue will require more than funnelling (limited) spending into already established areas of Britain's manufacturing expertise and the creation of mini tax havens. The period since 2008 has been a wasted opportunity for genuine reform of the British model of capitalism. Today we stand at another significant historical juncture and the need for change is ever more urgent.

About the Author



[Sean McDaniel](#) is Senior Lecturer at Manchester Metropolitan University.

Photo by [krisna iv](#) on [Unsplash](#).