LSE Growth Commission

Presentation to SCDI, Edinburgh

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http://www2.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/home.aspx

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SET UP (IN JAN 2012)
IN PARTNERSHIP WITH THE INSTITUTE FOR GOVERNMENT

• Co-Chairs Tim Besley & John Van Reenen
• Financed by HEIF 5 and ESRC
• Commissioners:
  o Philippe Aghion
  o Lord John Browne
  o Francesco Caselli
  o Sir Richard Lambert
  o Rachel Lomax
  o Lord Nick Stern
  o Nobel Laureate Chris Pissarides
WHY AN LSE GROWTH COMMISSION?

• Long-term structural issues - beyond debates about austerity

• Political economy: why things have not been fixed before? What institutions could be built to last?
An Economic Story of the UK

Innovation & investment

Infrastructure

Human Capital
DECLINE AND REBOUND: RELATIVE GDP PER CAPITA FROM 1870

Source: LSE Growth Commission
PRODUCTIVITY GROWTH (GDP PER HOUR) : IT WASN’T ALL FINANCE

1979-1997:
- Financial intermediation: 0.2
- Business services and renting of m&eq: 0.3
- Distribution services: 0.5
- Personal and social services: 0.1
- Other goods producing industries: 0.6
- Manufacturing excluding electrical: 0.6
- Electrical machinery, post and communication: 0.4

1997-2007:
- Reallocation: 0.4

Source: LSE Growth Commission
THE INEQUALITY CHALLENGE: GROWING WAGE DIFFERENCES

Source: LSE Growth Commission
WHAT WORKED

• Policy Changes
  – Competition/privatisation policy; flexible labour markets; increases in university education; Openness to FDI & immigration

• Institutional innovation
  – Competition Commission & OFT; NICE; Bank of England MPC; OBR; MAC, LPC, NPRB

WHAT DIDN’T WORK

• Policy failures
  – short-term political horizons; adversarial politics; lack of independent expert advice & evaluations

• Outcome is structural weaknesses in skills, infrastructure and investment in innovation
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INVESTMENT AND INNOVATION

- Low investment as a share of GDP
  - heavily weighted towards property and buildings
- Weak intangible investment
  - Low R&D & patent intensity
  - Poor management quality
- Financing gaps affecting start-ups and SMEs
- Aggravated by lack of skills & infrastructure
- Short-termism in Finance: competition weak in retail banking
PROPOSALS

• Increase competition in retail/SME banking
  – Account switching; banking license
  – Referral to Competition & Markets Authority

• Business Bank to focus on innovative start-ups
  – Independent board
  – Focus on innovation investments
  – SME securitisation

• Other Proposals
  – Voting linked to length of holding shares
  – Implement Vickers in spirit & letter
  – Allowance for Corporate Equity
  – Industrial Strategy
  – Management
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Human Capital
INFRASTRUCTURE

• Problem areas
  – Transport (roads, aviation, rail)
  – Energy

• Government induced policy risk
  – Lack of clear sense of strategy – uncertainty
  – Vacillation in and politicisation of policies and projects

• Rigid planning framework
  – Rationale with little economic content
  – Limited scope to share benefits

• Rigid and misleading public accounting conventions
NEW INSTITUTIONAL ARCHITECTURE

• **Infrastructure Strategy Board**
  – Independent expert advice
  – Accountable to Parliament
  – Foundation for cross-party consensus

• **Infrastructure Planning Commission**
  – Delivery – planning implications
  – Share benefits of development
  – No ministerial veto

• **Infrastructure Bank**
  – Reduce policy risk to encourage private sector investment
  – Develop sector-specific skills in new areas
  – Catalytic/multiplier effects on private investment
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Human Capital
WHY HUMAN CAPITAL MATTERS

• Strong relationship between skills & growth
  – “Double Dividend”: boosts growth & reduces inequality

• Some UK problems
  – Mediocre test scores (e.g. OECD PISA)
  – “Long tail” of underachievement
  – Steep socio-economic gradient
1. `FLEXIBLE ECOLOGY’ FOR SCHOOLS

Spread better teaching practices:

• School **autonomy**

• Strengthened **accountability**

• Wider parental **choice**

• **Flexibility** in entry and exit
2. TACKLING DISADVANTAGE

Current focus on average, not on “long tail” of disadvantage

- **Information** on performance across the distribution (e.g. League Tables)
- Ofsted **Inspection**
- Revise floor **targets**
- Expansion of **sponsored** academies in **disadvantaged** areas
CONCLUSIONS

Build institutions that put politics in the right place

– Making strategic choices
– Setting high level objectives
– Holding executive bodies to account

supported by

– More capability at the centre of government
– A bipartisan commitment to evidence based policy

Effective action requires sustained cross party commitment:

– to tackle the key problems holding back long term growth
– to develop the institutions needed to create a stable long term policy framework
Thank You
PROMOTING CONFIDENCE AND TRANSPARENCY

Infrastructure Strategy Board

Strategic Advice

Policy Goals

Parliament & Government

Policy Framework

National Policy Statements

Infrastructure Bank

Independent Planning Commission