

I. Introduction

At the beginning of 2013, the outlook for the UK economy remains highly uncertain. Output has been depressed for a longer period than it was even in the Great Depression, with GDP still below the peak level of early 2008.

Institutions once thought of as emblematic of the UK economy are under stress. The City of London has been tarnished by being at the centre of the global financial crisis that began in 2007 and worsened dramatically in late 2008. There are serious concerns about the ability of the institutions of UK economic policy-making to steer the economy out of nearly five years of stagnation and into a sustainable recovery.

Changes outside our national borders are also having a profound effect. The continuing crisis in the eurozone is weighing down on our major export market. Over the longer term, the emergence of China, India and other countries as major economic powers is shifting the global division of labour and will challenge us in areas where the UK has historically enjoyed a comparative advantage.

Over the past 12 months, the LSE Growth Commission has looked at the institutions and policies that should underpin growth for the next 50 years. We believe that it is vital to look beyond the next budget cycle, the next spending review and the next parliament. Although austerity is one of the current headline debates to which several of the commissioners have contributed, we are not focusing on the appropriate fiscal and monetary policy stance in the near term. Indeed, we fear that impassioned debates about the short term are clouding even more important debates over the longer-term direction of the UK economy.

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We take an optimistic view as there are many underrated strengths of the UK economic framework. Competitive product markets, flexible labour markets, openness to foreign investors and migrants, independent regulators and good levels of higher education have helped to reverse a century of relative UK decline prior to the three decades leading up to the crisis. They should keep playing important roles in the future.

But significant reforms are needed to address the major challenges that we face, including productivity levels that still lag behind other major countries. Effective reform requires learning from both our failures and successes. Our primary failures are to invest in the long term and to tackle the rising inequalities that accompanied the improvements in our growth performance before the financial crisis.

Policies for prosperity require providing the right conditions for investment in skills, infrastructure and innovation. This will not happen without creating institutions that are built to last and that diminish rather than exacerbate policy uncertainty. These institutions must support an economy that is both resilient to adversity and capable of seizing new opportunities.

Our report discusses what should be done to build for the future by *investing for prosperity*.

Our approach

The area we are tackling is huge, well-trodden and daunting. Our value added is to bring together a range of perspectives from academia, policy-making and business. We draw on the existing literature summarised in independent documents prepared by the LSE Growth Commission Secretariat and available at lse.ac.uk/researchAndExpertise/units/growthCommission/documents/home.aspx. We draw on the best available research, but a recurring theme is the paucity of high quality evaluation of policies. Unfortunately, even when such evidence is available, it is too often ignored by policy-makers.

We focus on our **three long-term investments – skills, infrastructure and innovation** – because there is a strong analytical basis for the claim that they are important for growth; because there are some longstanding problems with UK performance in these areas; because these problems are not being adequately addressed by the current trajectory of policy; and because we have some concrete proposals for what needs to be done.

The report begins with an overall analysis of the UK's economic story to date. Then, in each of the three main chapters, we describe why each investment matters for growth and offer a diagnosis of the UK's failure to invest sufficiently. This analysis underpins our policy proposals, which are organised into two groups: core and supplementary. At the end of each main chapter, we ask why adequate policy solutions have not already been implemented: political bottlenecks and institutional rigidities loom large in understanding this problem. Finally, we make the case for a new measure of economic progress. We also discuss the structures at the heart of government that are needed to drive the growth agenda forward.

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The views expressed here are those of the Commissioners, they do not necessarily reflect the views of the LSE, the Institute for Government or any of the other institutions or individuals mentioned above.

Signed,

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