

Executive summary

What institutions and policies are needed to sustain UK economic growth in the dynamic world economy of the twenty-first century? After years of inadequate investment in skills, infrastructure and innovation, there are longstanding structural weaknesses in the economy, all rooted in a failure to achieve stable planning, strategic vision and a political consensus on the right policy framework to support growth. This must change if we are to meet our current challenges and those that may arise in the future.

The nation is scarred by the worst economic crisis in many generations and we are left wondering what the next half-century will bring and how to prepare for it. The pace of change is sometimes bewildering. The world's centre of economic gravity has been shifting eastwards, bringing a new global division of labour; innovation has created rapid change, with new online giants emerging from almost nowhere; the global crisis led to the demise of several financial behemoths overnight; and climate change may fundamentally alter the physical environment in which we live.

Despite the current gloom, the UK has many assets that can be mobilised to its advantage, including strong rule of law, generally competitive product markets, flexible labour markets, a world-class university system and strengths in many key sectors, with cutting-edge firms in both manufacturing and services. These and other assets helped to reverse the UK's relative economic decline over the century before 1980. Over the course of the following three decades, they supported faster growth per capita than in the UK's main comparator countries – France, Germany and the US. These assets must be fostered and enhanced, as ill-conceived policies can cause collateral damage (for example, putting our universities at risk, as discussed below).

This report argues that the UK should build on these strengths and, at the same time, address the inadequate institutional structures that have deterred long-term investment to support our future prosperity. This requires stable, well-informed policy frameworks anchored in a broad political consensus around a strategic vision for growth.

The reforms we propose here are crucial to respond to a rapidly changing world where skills, flexibility, openness and receptiveness to technological change are becoming ever more important for prosperity. Together, they constitute a 'Manifesto for Growth', which we call on all political parties to support.

We propose improving investments in human capital to foster inclusive growth. The UK needs to put an end to the waste of human resources that comes through poor education and the inability of a significant proportion of society to participate effectively in the economy. This involves improving the quality of teaching by:

- Improving teacher quality through expanding the intake of teachers and engaging in more rigorous selection.
- Creating a 'flexible ecology' of schools, by which we mean more autonomous primary and secondary schools, greater parental choice and easier growth for successful schools and their sponsors.
- Linking targets, inspections and rewards more effectively to hold schools to account for the outcomes of disadvantaged pupils.

We propose developing a new institutional architecture to address the poor quality of our national infrastructure. This would dramatically reduce the policy instability that arises from frequent changes in political personnel and priorities, particularly in transport and energy. The new structures would create the strategic vision required to stimulate investment in these areas, comprising:

- An Infrastructure Strategy Board to provide independent expert advice to parliament to guide strategic priorities.
- An Infrastructure Planning Commission to support the implementation of those priorities with more powers to share the gains from infrastructure investment by more generously compensating those who stand to lose from new developments.
- An Infrastructure Bank to facilitate the provision of finance, to bring in expertise and to work with the private sector to share, reduce and manage risk.



We propose improving the provision of finance for private investment and innovation through:

- Increasing competition in retail banking.
- Having the proposed Business Bank make young and innovative firms its top priority.
- Encouraging a long-term investment perspective through regulatory changes (for example, over equity voting rights) and tax reforms (for example, reducing the bias towards debt finance).

Prosperity is strengthened when everyone has the capacity to participate effectively in the economy and the benefits of growth are widely shared. ***We propose reforming the way we measure and monitor changes in material wellbeing and its distribution, including regularly publishing median household income alongside the latest data on GDP.***

Our core proposals can provide the stable policy framework that has long been lacking in the UK, one that will encourage long-term investment. By ensuring that difficult and contentious long-term decisions are based on the best available independent expertise, they would help to break the damaging cycle of institutional churn, political procrastination and policy instability.

The principle that policy should be evidence-based is now widely accepted, but often more in word than deed. Many of the areas where there are potential benefits to growth are largely untested. The benefits to long-term growth from properly conducted policy experiments in some areas could be significant while the costs of experimentation are modest.

We therefore recommend creating an independent National Growth Council to review relevant evidence and to recommend growth-enhancing policy reforms that could be subject to rigorous evaluation. The body should also challenge government on why successful policies are not introduced and/or why unsuccessful ones are not closed down. It would provide the kind of evidence that is needed to underpin an industrial and growth strategy focused on removing barriers to the growth of firms, industries and geographical clusters.

Implementing an ambitious long-term growth programme will demand sustained direction from the centre of government. Institutional change in this area is overdue. The Whitehall machinery for providing strategic advice and overseeing implementation is relatively small-scale and informal and has been prone to radical change from one government to the next. The absence of stable machinery at the centre of government makes it more difficult to develop and implement a long-term strategy for promoting economic growth.

Important challenges lie ahead for the UK. We have seen what damage financial instability can do to current living standards and their prospects in the medium term. Severe inequalities may be a source of political instability by fostering a sense of injustice. Managing the substantial risks of climate change and fostering the transition to a low-carbon economy will not be easy. Failure to tackle these and other emerging challenges could compromise the sustainability of growth in the longer term: the UK must be prepared to respond effectively to them. Our proposals aim to equip the nation for this task.

But we cannot foresee all future challenges. There is, therefore, a premium on policies and institutions that foster anticipation, flexibility and discovery. This means creating a system that celebrates and encourages entrepreneurship, innovation, opportunity and creativity. Building a strong, stable and credible investment climate for human, physical and innovation capital will be a decisive step towards creating prosperity over the next 50 years.