

# RESEARCH

---

# FOR THE WORLD

---

## Stagnation nation: how can Britain pull itself out of its economic decline?

Published 24 January 2023



Nemat (**Minouche**) **Shafik** is a leading economist, whose career has straddled public policy and academia. She was appointed President and Vice Chancellor (formerly Director) of the London School of Economics and Political Science in September 2017. Minouche was made a Dame Commander of the British Empire in the Queen's Birthday Honours list in 2015, and a cross-bench peer in the House of Lords in July 2020. Her book *What We Owe Each Other: a New Social Contract* is out now.

Years of low growth and high inequality have created a difficult economic reality for households across the UK. **Baroness Minouche Shafik** and **Sir Clive Cowdery** set out why “The Economy 2030 Inquiry” is so desperately needed, and how it aims to identify a policy-rich path out of the country's current slump.

The short-term economic news in Britain recently has been captivating, dramatic and at times infuriating. But it's nothing compared to the much bigger story that lies behind the headlines – Britain has been slipping badly for 15 years and has a very small window of opportunity to catch up.

Britain today faces a toxic combination of low growth and high inequality. We need to get serious about this challenge and formulate a strategy for dealing with it.

This toxic combination helps to explain why typical households in Britain today are 10 per cent poorer than their French counterparts, and why the poorest fifth of households in Britain are 20 per cent poorer. It is why so many households across the country are unable to cope with the rising food prices and energy bills that we see today, despite significant government support. Today, the poorest households in the UK are spending 60 per cent of their budgets on these essentials – the hardest things for families to cut down on – up from 51 per cent in the mid-2000s.



Our productivity woes lie in our business inputs – our firms have a poor record on investment, on training up workers, and on managing their staff. ”



**Sir Clive Cowdery** is Founder of the Resolution Foundation and Chairman of the Resolution Group.

## Why is productivity poor in the UK?

Clearly, the UK needs to get out of its economic slump. Politicians of all stripes promise stronger economic growth. But painful experience shows us that promises are easier to say than deliver on. Britain lacks a coherent, overarching economic strategy. Addressing that is the task we have set ourselves in our Economy 2030 Inquiry – a multi-year partnership between the Resolution Foundation and the Centre for Economic Performance at LSE.

The project will ultimately produce a policy-rich strategy to guide the UK through the changes it needs to navigate the decade – from how to transition towards a net zero economy in as fair a way as possible, to finding post-Brexit Britain's place in the global economy. But the starting point for any successful strategy has to be a diagnosis of the problems we face. Put simply, we need to understand our economy's weaknesses and strengths, in order to tackle the former and leverage the latter.

The UK's overarching weakness – poor productivity growth – is widely discussed. But it is also widely misunderstood. Some economists have blamed the UK's long tail of unproductive firms for dragging down the average, a tail that has got longer as low interest rates have bred zombie firms (companies that are able to operate but not make enough profit to pay their debts). But our research has shown that this inequality of output has always existed – even when the UK was outperforming the US and Germany productivity-wise in the 1990s and early 2000s. Instead, our productivity woes lie in our business inputs – our firms have a poor record on investment, on training up workers, and on managing their staff.

The UK also suffers from downplaying its main economic strength – being a services superpower, exporting more services across the world than any other country bar the US. But we rarely celebrate the wide-ranging success of our legal and financial services, our expertise in accountancy and cultural exports. Politicians spend too much time wishing that Britain was a manufacturing behemoth like Germany. Instead, we need to focus on being a better Britain, rather than a British Germany.



If the lived experience of this stronger economic performance is simply higher housing costs and greater inequality...it's unlikely to enjoy democratic support from its citizens. ”

## **A strategy for economic growth will fail if regional inequalities are not addressed**

With these insights we can start to see where our path to future economic prosperity might lead. We need to tackle the UK's chronic lack of business investment – a stable macroeconomic environment and investment-friendly tax system are both likely to help.

We need to leverage our existing strengths in services through how we shape our trade strategy and where we prioritise investment. Our services specialism can also help us to understand how to turn the welcome rhetoric around “levelling up” into a reality.

The evidence shows that services tend to cluster around major cities. But outside London and Edinburgh, too many of the UK's great cities perform poorly compared to their European counterparts. In fact, all of Britain's biggest cities outside London and Edinburgh have productivity levels below the national average.

There have been many examples in recent history of cities turning themselves around – London, Bilbao and Dortmund being prime examples. We need to see cities like Leeds, Birmingham and Manchester carving out their own economic success stories too.

This is how you can start to tackle Britain's deep-rooted geographic inequalities – but a successful levelling up strategy requires significant investment and to confront some painful trade-offs. For example, we can make our cities more successful by boosting productivity. But ensuring that success is spread across cities, and on to nearby towns is far from guaranteed. If the lived experience of this stronger economic performance is simply higher housing costs and greater inequality, as many Londoners can attest to, then it's unlikely to enjoy democratic support from its citizens.



**While the cost of failure is catastrophic – for our living standards, and for our planet – the prize for success is huge. ”**



## Cross-party support is vital if long-term challenges around net zero are to be met

Critically, this fundamental change in Britain's economic prospects must be a collective endeavour. We need cross-party support to address long-term challenges around net zero. And we need our social sciences – from universities and think-tanks, to charities and beyond – to be at the forefront of setting out the evidence and shaping the debates around strong economic growth.

This task is hard. But while the cost of failure is catastrophic – for our living standards, and for our planet – the prize for success is huge. British politics has got stuck debating a false trade-off between boosting growth and reducing inequality. The reality is that we have ground to catch-up on both fronts.

Let's return to the UK's toxic combination of low growth and high inequality. Take five countries that most UK citizens would regard as comparable with our nation – France, Germany, the Netherlands, Australia and Canada. Our poor relative performance in recent decades has left us poorer and more unequal than all of them.

But what if we were turn that around? Matching the income levels of the average of these countries would boost the disposable income of a typical household in Britain by a fifth. Addressing our high levels of inequality would boost the "squeezed middle" even more and raise the incomes of poor households by a further fifth. Succeed in both tasks and, by the end of the decade, the typical households in Britain would be a third richer – a cash gain of nearly £9,000 a year.

These stark facts show just how much the UK economy has lost its way in recent decades – but it also shows how much we can gain if, through a new economic strategy, we can catch up with our peers. That's a goal we should all strive for. ■

---

Read The Economy 2030 Inquiry's interim report, "[\*Stagnation nation\*](#)", published in July 2022.

---

Find out more about The Economy 2030 Inquiry at [cep.lse.ac.uk/\\_new/our-work/economy-2030/and/economy2030.resolutionfoundation.org/](https://cep.lse.ac.uk/_new/our-work/economy-2030/and/economy2030.resolutionfoundation.org/)

---

**Subscribe to receive articles from LSE's online social science magazine**

[lse.ac.uk/rftw](https://lse.ac.uk/rftw)