Britain's productivity puzzle reflects not individual failings of workers, but dysfunctionalities in Britain's model of capitalism and the politics that upholds it

***Ben Clift** and **Sean McDaniel** discuss the overlapping problems of British productivity. They explain why any analysis that foregrounds the supposed laziness of British workers only serves to let politicians, institutions, and the state off the hook.*

New Prime Minister Liz Truss has dominated headlines in recent weeks by claiming that workers outside of London 'need more graft'. In a remarkable reheating of longstanding debates about Britain's 'productivity puzzle' during the Conservative leadership campaign, these comments have given new voice to concerns raised in a decade-old book that Truss co-authored with Conservative colleagues, which described British workers as the 'worst idlers in the world'. Most recently, Jacob Rees-Mogg doubled-down in support of Truss' comments, which dovetail with his own mission of getting the post-pandemic civil service back to the office.

While there are certainly regional disparities in UK productivity, this trend results not from failings in individual work ethic but from path dependent, institutional features of the British model of capitalism. These are shaped by decades of inadequate public policy, much of it pursued by Conservative governments including, despite his promise to turbo-charge the economy post-Brexit, the previous Boris Johnson administration. Fully appreciating these dynamics necessitates taking a more holistic view of the long-term drivers of productivity than is common in the issue's academic, media, and political treatments.

While weak productivity is a contemporary international phenomenon, the British case is particularly acute. The twentieth-century trend of UK productivity growth hovered reliably around 2.2% a year. From the mid-2000s, however, this figure cratered to between 0.3% and 1%. Such aggregate numbers mask a more nuanced picture of regional difference. As Truss alluded to, in London and the South East of England, productivity is higher than the British average, with the capital's statistics dwarfing those of the weakest region (Wales) by 63%.

Several explanations have been offered for these patterns. As we have seen, Truss has lamented the insufficient 'skill and application' of British workers, and the inadequate distribution of productive labour characteristics across the nation. Others have made cases for 'capital shallowing' (where workers replace structures and equipment) and the declining 'creative destruction' of unproductive firms (facilitated by poor technological innovation and diffusion and permissive monetary policy). UK economic managers, meanwhile, freely admit that no-one really knows why the country's twenty-first-century productivity is so poor.

No single thesis fully captures the drivers of Britain's disappointing productivity. Existing explanations are too narrow and miss the multifaceted *politics* behind recent trends. Taken together, however, several factors can help us to better understand the so-called productivity puzzle.

The dominance of finance

With its roots in imperial economic patterns, London's longstanding status as a leading financial centre has provided significant fuel for Britain's regional productivity differences. British industry has not benefitted proportionally from the City's status, and limited state intervention through industrial and regional development policies has meant no substantive regeneration in former industrial heartlands.

High-end financial and business services account for the majority of British exports, with such highly productive 'frontier firms' disproportionately concentrated in the economically prosperous South. Meanwhile, a lower-skilled, domestically-oriented service sector economy characterises the rest of Britain, which lags behind.

Labour market fragilities and imbalances

Finance's dominance in British capitalism has distorting effects on the labour market. The financial sector wage premium is disproportionately high in Britain, at 45%. University graduates are the typical beneficiaries of this well-paid work, mostly located in London and South East England. They are also much more likely to receive bonus payments than those working in the wider economy, exacerbating trends towards acute inequality.

Decades of underperforming education and training infrastructures, alongside flexible labour market policies have created the low skill, low wage, precarious employment rut the UK labour market finds itself in. The majority of the British labour market comprises low productivity service sector work, characterised by precarity, limited training opportunities and low remuneration. Government 'active' labour market policies are strongly geared towards making workers available for any (low-quality) job, rather than investing in human capital or 'upskilling'. The British economy prioritises a shareholder value logic favouring ever-freer capital and labour markets, and minimal hiring and firing restrictions. These factors arguably restrict the path to higher productivity growth, helping to explain the predominance of low value-added service sector jobs at the expense of higher skills and higher value-added production.

Insufficient public investment

The common thread underpinning each of the previous productivity problems is the long-term lack of well-targeted public investment. Successive governments have proved unwilling to pursue more interventionist or directive 'upskilling' measures to assist the economy's transition towards high-end exports. Despite increased investment in education from the 1990s, ongoing labour market liberalisation designed to facilitate the knowledge economy only exacerbated the divergence between high- and low productivity firms.

The British state's built-in antipathy to public investment and lack of strategic support for manufacturing industries has further productivity implications. British capital is historically short-termist rather than focused on long-term productive investment. For over two decades since 1997, Britain has had the lowest levels of Gross Fixed Capital Formation – a measure of investment in non-financial public and private sector assets – of any OECD nation. R&D investment in Britain is also much lower that European and OECD averages. These trends mean that Britain has long lacked the kind of expenditure that is essential for developing high-end production.

Conclusion

Exposing the politics of Britain's productivity puzzle highlights the prejudicial nature of Truss' comments. Any analysis that foregrounds the supposed laziness of British workers only serves to let politicians, institutions, and the state off the hook. Capitalism, after all, is shaped by institutional context and public policy, including regional (under)investment, skills, and education policies, and is embedded in distinct social contexts, sustained by specific institutional infrastructures. Britain's productivity puzzle reflects not individual failings of often-disadvantaged workers, but structurally embedded dysfunctionalities in Britain's model of capitalism and the politics that upholds it.

Note: the above draws on the authors' published work in the *British Journal of Politics and International Relations*.

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