

Where is the real Manifesto for Growth?

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As voters go to the polls in a knife-edge election, Labour's popularity on the NHS is counter-balanced by the Tory's reputation for economic competence. But is this reputation deserved? [John Van Reenen](#) writes that a real manifesto for growth requires a coherent long-term plan at the heart of government.



Last week, the [ONS](#) revealed that growth of national income halved to 0.3 per cent in the first quarter of this year. This caps a miserable period of British economic history with GDP per person now [17 per cent](#) below pre-crisis trends. This is due to lacklustre productivity growth which fell in 2008-9 and has stagnated ever since.

The economic “debate” during the campaign has obsessed almost exclusively on [fiscal](#) consolidation. This matters – the Conservatives plan much more severe public spending cuts than the other main parties, about £30 billion more than Labour (and the Liberal democrats and SNP) by the end of the next parliament. But these spending projections rely on Office for Budget Responsibility assumptions over growth – which the [IMF](#) and others have questioned. The cacophony over austerity has all but drowned out discussion on the more important issue of long-run growth.

Pessimists say that governments can do nothing to help growth. They are wrong. In the three decades leading to the financial crisis Britain reversed a century of relative economic decline. Whereas the UK's national income gap deteriorated in the century before 1980, it then improved. This was no accident – policies strengthened competition, reformed welfare and expanded universities. An important ingredient of the policy mix was the creation of more independent institutions that drew some of the poison out of debates over interest rates, NHS drug treatments and mergers.

But even before the fall of Lehman Brothers, there was still a significant productivity gap between the UK and its peers in the US, Germany and France. The LSE Growth [Commission](#) concluded that the major reason for disappointing economic performance has been a failure to invest for the long-term, particularly around infrastructure, innovation and skills.

There is a chronic shortage of supply in transport, energy and housing. Roads, rails and airports are clogged; we are in danger of the lights going out due to low electricity capacity and pathetic rates of [house](#) building have generated stratospheric prices.

Building infrastructure produces permanent economic gain, but provokes temporary political pain. Nimbies object to disruption and we have been reluctant to compensate them properly. So it's no surprise that people use the archaic planning system to block and delay investment projects. Politicians find it easier to prevaricate and reverse their predecessors' decisions and set up *ad hoc* celebrity reviews (e.g. the coalition's bottling out of Heathrow expansion). When the time comes for spending cuts, investment is first on the chopping block because the economic bruises only come out years later.

A classic example of this was the coalition's public investment cuts of 40 per cent between 2010 and 2012 in a downturn when interest rates were rock bottom. Unlike Labour or the Liberal Democrats, the Conservative fiscal plans are to generate an absolute budget surplus which rules out borrowing to invest. This risks repeating exactly the same old mistakes. No company would ignore the assets side of the balance sheet when making spending plans.

Britain needs a new institutional architecture to make get infrastructure going. It would propose strategy (voted on by Parliament), deliver these commitments and pull in long-term private sector financing. This would reduce the political risk that undermines private investment. Labour has taken tentative steps in this direction but more

radicalism is needed. The proposed Infrastructure Commission needs full autonomy.

Political short-termism is mirrored by corporate myopia which holds back innovation. There remains a lack of competition in banking. It is time for de-concentration of retail banking and a more severe split between the casino and utility parts of banking.

Finally, growth must be inclusive – it does no good if everything is grabbed by the richest 1 per cent. The UK is right to be proud of its strength in elite education, but it largely fails those in the bottom third. By improving the skills of people who currently lose out, we could generate both more productivity and lower inequality. This needs an overhaul of vocational education and a re-focus of the school academy movement where it began (and where it was demonstratively most [successful](#)) in disadvantaged areas.

A real manifesto for growth requires a coherent long-term plan at the heart of government. Give the likely fragmentation and uncertainty after polling day, this plan could provide an economic compass for steering a clear path through the choppy political seas ahead.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

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