

Productivist policies for the UK

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How productivism can build a new economic settlement

The reinvention of the economy of the 21st century will need to take place during an era of new challenges: climate change, geopolitical rivalry and supply-chain fragility. As policymakers in advanced economies reorientate toward these intersecting issues, the promise of ‘good jobs’ for workers will need to be a core pillar of their new economic model.

We call this new model ‘productivism’ – though the substance matters more than the label itself. Productivism seeks to create productive economic opportunities throughout all regions of an economy and all parts of the workforce.¹ It differs from neoliberalism in that it gives governments a more expansive role to play in the economy. It also differs from welfare-state Keynesianism in that it places less emphasis on transfers and macroeconomic policies. At its core lies a new relationship between the public and private sectors. Governments and firms collectively problem-solve to remove obstacles holding back productive opportunities and internalise the positive benefits brought about by the good jobs created as a result.

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There are a number of reasons why a productivist approach might be particularly relevant for the UK.

First, the productivity gaps between the UK and France, Germany or the US are well known. UK productivity levels are 17 per cent lower than those in the US.² Low productivity growth since the financial crisis has translated into stagnant wages. The Resolution Foundation has found that low-income UK households are 22 per cent poorer than similar households in France.³ The surest route to increasing wages and living standards, alongside strengthening the social security net, is through raising the productivity of jobs.

Second, the UK requires an approach to industrial policy that tackles regional inequality. No city outside South East England has a productivity level above the UK average.⁴ Workers are most likely to report good career progression opportunities in London and least likely in the North East and the East Midlands.⁵ The need for a place-based approach to good jobs is borne out by the diverse

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1 Rodrik D (2023) ‘On productivism’, draft essay for a symposium at the LSE in May 2023. https://drodrik.scholar.harvard.edu/sites/scholar.harvard.edu/files/dani-rodrik/files/on_productivism.pdf

2 Shah K and Thwaites G (2023) *Minding the (Productivity and Income) Gaps*, Resolution Foundation. <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/02/Minding-the-productivity-and-income-gaps.pdf>

3 Resolution Foundation and Centre for Economic Performance, LSE (2022) ‘Stagnation nation’ (chapter one) in *Stagnation Nation: Navigating a route to a fairer and more prosperous Britain*, Resolution Foundation. <https://economy2030.resolutionfoundation.org/wp-content/uploads/2022/07/Chapter-one-interim-report.pdf>

4 Doshi V, Spencer H and Rodrik D (2023) *Creating a Good-Jobs Economy in the UK*, Resolution Foundation. <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/07/Creating-a-good-jobs-economy-1.pdf>

5 Office for National Statistics (2022) ‘Job quality in the UK – analysis of job quality indicators: 2021’, ONS. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/jobqualityindicatorsintheukhourspayandcontracts/2021>

challenges facing the UK economy. Solutions to London's stagnating productivity growth may differ from solutions that will be appropriate for Birmingham, Manchester or elsewhere.^{6,7}

Third, 'productive dualism' has become a dominant feature of the UK economy. In a recent study, the Institute for Fiscal Studies found that 0.1 per cent of businesses make up almost half of the UK's aggregate turnover.⁸ This is emblematic of an economic dualism that is becoming more entrenched in developed economies across the world. Deindustrialisation, globalisation and new technologies have caused a divergence between the winners and losers in an economy, with a small number of firms benefitting as a result. This dualism has consequences for the health of a country's democracy as well as its economy.

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HOW MIGHT A PRODUCTIVIST APPROACH BE DEVELOPED IN THE UK?

New missions require new toolkits. With industrial policy back in vogue, attention is rightly turning to the question of *how* governments can deliver the good-jobs agenda that underpins their policy platforms.

It first requires a shared understanding of what we mean by 'good jobs'. Any definition of a good job will involve work that pays well enough to maintain reasonable living standards; that provides dignity, security and autonomy; and that creates opportunities for progression and self-development over time.

Viewed through this lens, it is clear that good jobs create positive externalities. Firms that provide good jobs help create the conditions for thriving communities. Conversely, a shortage of good jobs in a community can generate negative externalities – from social exclusion to mental health challenges to low trust in institutions – that governments around the world are grappling with.⁹ The disappearance of good jobs is one important factor behind the rising support for authoritarian, ethno-nationalist populists.

If the public policy problem is a lack of good jobs across all parts of the economy, it follows that the government solution should lie in increasing the capacity of the economy to produce them. But this requires more of a shift in mindset for policymakers than is immediately apparent.

Historically, efforts to reduce inequality have focussed on interventions in the pre-production and post-production stages of the economy.¹⁰ In the pre-production stage, governments can invest in endowments that enhance people's capabilities in the labour market, like education or apprenticeships. In the post-production stage, governments can redistribute income through transfers, social security nets and pensions. A productivist approach in the UK would instead focus squarely on the productive sphere, with the goal of increasing the supply of good jobs.

6 Rodrigues G and Bridgett S (2023) *Capital Losses: The role of London in the UK's productivity puzzle*, Centre for Cities. <https://www.centreforcities.org/publication/capital-losses-the-role-of-london-in-the-uks-productivity-puzzle>

7 Brandily P, Brewer M, Cominetti N, Coombes M, Corlett A, Judge L, Odamtten F, Overman HG, Pacitti C, Rodrigues G, Shah K, Swinney P and Try L (2023) *A Tale of Two Cities (Part 2)*, Resolution Foundation. <https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/09/A-tale-of-two-cities-p2-Manchester.pdf>

8 De Loecker J, Van Reenen J and Obermeier T (2023) *Firms and Inequality*, Institute for Fiscal Studies. <https://ifs.org.uk/inequality/firms-and-inequality>

9 Wilson WJ (1996) 'When work disappears', *Political Science Quarterly*, 111(4): 567–595. <https://doi.org/10.2307/2152085>

10 Rodrik D and Sabel CF (2019) 'Building a good jobs economy', *SSRN Electronic Journal* [preprint]. <https://doi.org/10.2139/ssrn.3533430>

To date, the primary focus of governments on the production stage of the economy has been on high-growth, high-productivity sectors like advanced manufacturing, through tools such research and development (R&D) and export incentives. Yet there is little evidence to suggest that a focus on manufacturing will lead to the good-jobs booms that have been promised. Even in economies with highly competitive manufacturing sectors, such as Germany, South Korea and Taiwan, the share of employment in manufacturing has been on the decline – even when the contribution of manufacturing to Gross Domestic Product (GDP) has increased at constant prices.¹¹

Labour-saving innovations mean that manufacturing does not hold the same promise of plentiful jobs that it once did. This is not to suggest that manufacturing will not remain important for some communities in the UK, but that it is not where we should look if our goal is to create a sufficient number of good jobs across the economy. Non-tradable services, like health, education and hospitality, are set to remain the largest employers in the UK economy.¹² Raising productivity in these sectors is the surest route to ensuring that good jobs are distributed most equitably throughout the UK.

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Productivism therefore provides a framework that primarily focusses on services, not manufacturing, on collaborative problem solving instead of tax incentives and on place-based – not top-down – solutions. But what these solutions might look like deserves attention. The remainder of this article sketches out a strategy that would unlock productivity at the local, regional and national levels in the UK.

Locally, policymakers should scale up employer-designed training programmes tailored to local skills gaps. The 2010s saw a 45 per cent cut in real-terms spending on adult education.¹³ Despite some reversals in recent years, they still represent a significant decline in real terms today. Training on the job has also deteriorated: 40 per cent of employees in the UK are offered no training whatsoever and employers spend only half of the European Union (EU) average per worker on training.¹⁴

Several new training initiatives have been launched to much fanfare over the past decade, only to be quietly discontinued. There has been insufficient focus on expanding the active labour market policies that have a strong evidence base for success. In the US, for example, sectoral training programmes are uniquely designed in collaboration with businesses, local economic development institutions and jobseekers to address specific industry skill gaps. They offer wraparound services (for example, guaranteed job interviews on completion of the training course) and formal qualifications developed in partnership with local tertiary and further education colleges. When delivered well, they have demonstrated their potential to generate long-term level-shifts in wages, up to 40 per cent in some cases.¹⁵

11 Rodrik D (2022) *An Industrial Policy for Good Jobs*, The Hamilton Project

12 Panjwani A (2023) *Industries in the UK*, House of Commons Library. <https://commonslibrary.parliament.uk/research-briefings/cbp-8353>

13 House of Commons Education Committee (2021) ‘A plan for an adult skills and lifelong learning revolution’. <https://publications.parliament.uk/pa/cm5801/cmselect/cmeduc/278/27802.htm>

14 Sibietta L, Waltmann B and Tahir I (2022) *Adult Education: The past, present and future*, Institute for Fiscal Studies. <https://doi.org/10.1920/BN.IFS.2022.BN0344>

15 Maguire S, Freely J, Clymer C and Conway M (2020) *Tuning In to Local Labor Markets: Findings from the sectoral employment impact study*, Issue Lab; Schaberg K (2017) *Can Sector Strategies Promote Longer-Term Effects?*, MDRC; Roder A and Elliott M (2018) *Escalating Gains: The Elements of Project QUEST’s success*, Economic Mobility Corporation

“There has been insufficient focus on expanding the active labour market policies that have a strong evidence base for success”

But good-job policies go beyond training. At the regional level, economic areas need to develop the ‘demand side’ for workers by increasing the number of productive firms in the first place. This mode of place-based industrial policy would operate through a partnership between businesses and government to spot both barriers to and prospects for productivity growth. Rather than limiting their policy toolbox to tax incentives, the government would supply a range of customisable public services – from business advice to local infrastructure investment – to unlock the opportunities for productivity growth. In return, businesses would make soft commitments on the number of good jobs they would aim to create.

Crucially, this framework doesn’t ask the government to ‘pick winners’. Firms would choose whether to participate in this new partnership, in the knowledge that in return for the specialised public services they would need to make commitments of their own. Regional government officials would take on the role of programme directors: bringing together stakeholders, coordinating agencies involved in delivering new public services, identifying problems facing firms and collaborating with partners to address them iteratively.¹⁶ Interventions would be evaluated for impact and the conditionality of government support – its contingency on firms delivering the jobs promised – would be developed over time.

What sorts of public services have worked in the past? In the US, programmes such as Genesis in Illinois have helped companies to experiment in operational innovation and worker empowerment at the same time, through improving frontline worker supervision. From 2014 to 2017, the average pay for employees in these companies went up by 12 per cent.¹⁷ Again in the US, Tim Bartik’s research suggests that effective business support programmes cost \$50,000 per job created, compared with traditional tax incentives that cost \$296,000 per job.¹⁸

Such partnerships would also create an opportunity to tackle the infrastructure bottlenecks that are most pressing to businesses. Shortages of lab space, transport links and ultra-fast broadband lines are well evidenced.¹⁹ But while the problems are well known, the solutions could be novel. The rollout of business broadband connectivity schemes could be fast-tracked in places where firms commit to creating good jobs. High-quality universal childcare provision, such as the creation of a new maintained nursery school, could provide an attractive offer for a firm looking to set up in a local area.

At the national level, one of the most pressing challenges for the future of good jobs lies in the UK government’s response to new technologies. A productivist approach would shift away from seeing the development of labour-replacing technologies as inevitable. Instead, it would reorient innovation policy to prioritise technologies that *complement* rather than *displace* labour.

16 Bartik TJ (2020) ‘Place-based policy: an essay in two parts’, policy paper, W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/pol2020-021>

17 Jain R, Lowe N, Schrock G and Conway M (2019) *Genesis at Work: Evaluating the effects of manufacturing extension on business success and job quality*, Aspen Institute

18 Bartik TJ (2022) *How State Governments Can Target Job Opportunities to Distressed Places*, W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/tr22-044>

19 Bidwells (2022) *Life Sciences 2030: The implications for real estate*, Bidwells. <https://www.bidwells.co.uk/globalassets/report-documents/life-sciences-2030—report.pdf>; Rodrigues G and Breach A (2021) *Measuring Up: Comparing public transport in the UK and Europe’s biggest cities*, Centre for Cities. <https://www.centreforcities.org/wp-content/uploads/2021/11/Measuring-Up-Comparing-Public-Transport-in-the-UK-and-Europes-Biggest-Cities.pdf>

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The retail sector provides a helpful example here. As the largest private sector employer in the UK, the retail industry holds considerable promise for job-quality improvements. Yet it is almost self-evident to note that retail has among the lowest proportions of net R&D expenditure across UK sectors. Aside from the largest retail employers, there is little opportunity for investment in productivity-enhancing R&D. A good-jobs strategy would aim to shift this trend. The key would be investment in technologies that create new tasks (such as customised consumer services) and enhance the ability of ordinary workers to deliver them. With the right incentives in place, the ‘internet of things’ could play a much larger role in, for example, optimising inventory management and food safety, without diminishing labour needs.²⁰ The UK’s Catapult centres²¹ – innovation hubs focussed on late-stage R&D – span advanced manufacturing, health, digital and energy sectors. Establishing a specialised Catapult centre focussed on retail productivity would signal the government’s commitment to driving investment and innovation in less high-growth but no less important sectors for the wellbeing of the UK’s workers.

The UK’s ‘investment zones’²² present a potential opportunity to bring together these local, regional and national policies into a good-jobs strategy. Launched earlier this year, these zones are aimed at catalysing private sector activity and aligning government and industry through a broader set of tools than tax incentives. The funding envelope perhaps does not meet the rhetorical ambition underpinning the policy, but the investment zones remain a potentially exciting sandbox for place-based policies. The next UK government might take the opportunity to work with regional partners to design a good-jobs strategy in a South Yorkshire or Glasgow Investment Zone, rather than start a new partnership model from scratch.

“A meaningful shift in the UK’s economic strategy would set the country on a path to a more inclusive, more prosperous future”

The problems of dwindling productivity and declining ‘good jobs’ are shared across much of the developed world, but many countries are managing them much better than the UK. The core idea at the heart of a new economic strategy for the UK is a redefined relationship between the public and private sectors. For businesses to thrive, they need a skilled workforce, strong infrastructure, innovation-friendly regulations and global protections. In return, the government would expect firms to consider societal benefits that can arise from their labour and investment decisions. A meaningful shift in the UK’s economic strategy would set the country on a path to a more inclusive, more prosperous future.

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20 McKinsey (2022) *Navigating the Market Headwinds: The state of grocery retail 2022*, McKinsey. <https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/state%20of%20grocery%20europe%202022/navigating-the-market-headwinds-the-state-of-grocery-retail-2022-europe.pdf>

21 Catapult Network (2023) ‘Our Catapult Centres’, webpage. <https://catapult.org.uk/about-us/our-centres/>.

22 Department for Levelling Up, Housing and Communities (2023) ‘Investment Zones: technical document’, webpage. <https://www.gov.uk/government/publications/investment-zones-technical-document/investment-zones-technical-document>.