

UK economic problems: diagnosing is easier than coming up with solutions



With Boris Johnson's launch of his "New Deal" and Michael Gove's speech on "[the privilege of public service](#)", the government has made clear its intention to press ahead with the domestic agenda of "levelling-up" and reform of government on which it was elected. There was little surprise in either announcement, with all of the elements to be found previously in the collective works of Dominic Cummings, the Wizard of Boz.

When Dorothy eventually made it to the Emerald City and confronted the Wizard of Oz about his regime being all smoke and mirrors, his defence was that he was "a very good man, but a very bad wizard". So it is perhaps with the Wizard of Boz, at least in part.

This might not be the conventional view: Dominic Cummings is, after all, regarded by some as a very great wizard having delivered an EU referendum result against the odds and a large parliamentary majority based on winning seats the Conservatives had not won for decades, if ever. And some of his well-reported antics would not seem to place him in the saintly sub-section of "very good men". As an aside, it is generally a bad idea to label people as "good" or "bad" because almost everyone is a mix, though in different proportions. We might have fewer problems with statues if our memorials honoured achievements of our society rather than individuals.

In terms of diagnosis of the UK's problems – abysmal productivity growth, persistent regional inequalities, and declining trust in government – the government's list is not a bad one. But diagnosing problems is often a lot easier than coming up with solutions and when it comes to the proposed solutions, one worries that a bad wizard is in charge.

The key problem of the UK economy since the financial crisis and before COVID was an abysmal productivity performance leading to stagnation, even falls, in living standards. Productivity growth at the frontier is based on invention and science so policies to encourage innovation, not least in the public sector, are to be welcomed. Though not all productivity growth comes from scientific advances: there is a lot to be gained from the adoption of current best practice. All sectors in the UK have both low- and high-productivity firms and UK productivity performance as a whole seems to lag behind some other countries.

Persistent regional inequalities are also a very serious problem, neglected for too long in the UK and elsewhere. I have written on this topic with Michael Amior about both [the US](#) and [the UK](#). The main explanation we propose is that areas that specialised in manufacturing came to suffer decades of negative shocks to the demand for labour. The economic adjustment mechanisms of commuting or migrating to other areas were not strong enough to prevent these persistent shocks translating into differences in economic opportunities and if they had been stronger might simply have accelerated a process of relative population and economic decline.

And, as a [recent book](#) by Martin Sandbu argues, the cause of these negative demand shocks to employment was primarily new technology. In past decades it is technology itself that has been the primary cause of regional inequalities. Why future technology would now help to reduce regional inequalities in the government's vision is very unclear. Perhaps the only mechanism that can be identified is through the direct creation of jobs in science in these areas. But then it is not really the science that matters; well-paid jobs in education or health or public service would also suffice.

The re-location of central government jobs through the UK is also seen as part of the solution to both levelling-up and restoring trust in government. The UK is too centralised but past experience with similar initiatives is not positive. For example, the move of ONS to Newport resulted in something like 90% of staff leaving the organisation rather than move (any dual-earner professional couple would probably have found that a hard move to make), a widespread belief that the resulting loss of specialised skills [reduced the quality](#) of national statistics and reports that it had little benefit for the local economy.

Central to Michael Gove's argument was that public servants need to live in the communities to understand the problems they face and the concerns of the local population. My experience is that the problem is not that no-one cares or understands but that no-one really knows what to do about persistent regional inequalities and few past policy initiatives seem to have had much impact. Middlesbrough is a good example. In the Industrial Revolution, it became a port for coal and then a base for the iron and steel and chemical industry. It is easy to give a clear narrative for why the town's location was a positive advantage for these sectors and that accounts for its rapid growth in the 19th century from a farm to a very large town. It is also easy to give a clear, simple story for why the industries that were the basis for its economy went into decline and are unlikely to return.

It is much harder, however, to come up with a clear vision for the future of Middlesbrough. What is needed is a source of revenue from outside the town, whether from employment or welfare benefits. Currently many of these jobs are public-sector jobs or in higher education – Middlesbrough has a much higher proportion of both employment in the public sector and public spending on welfare benefits than the national average.

In economics jargon, the solution to persistent regional inequalities is a credible answer to the question "what is the comparative advantage of an area"? It is hard to see a clear answer in what is being proposed at the moment: infrastructure spending, less regulation and freeports have all been tried before and are unlikely to make more than a small difference. We may still be waiting for a good wizard.



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