

# Re-igniting economic growth: Lessons from history

Politicians must learn from past mistakes and ensure that economic growth policies are designed in a way that minimises the negative impact on competition and maximises improvements in private sector productivity.

There is renewed political focus on the need to re-ignite UK economic growth by improving competitiveness. At its heart is 'supply-side' policies that aim to make the economy run more efficiently by investing in areas such as research and development, education, training and innovation.

National competitiveness can be defined as the extent to which the UK can produce goods and services that meet the needs of international consumers while simultaneously maintaining and expanding households' long-term incomes. This means that policymakers must help deliver improvements in technologies and supply-side reforms that tend to lead to higher labour productivity.

Although this might seem like a legitimate goal, the policies needed to achieve higher productivity can run into political opposition. Technological innovation can lead to the demise of existing businesses, trade liberalisation creates losers as well as winners, and reform of labour markets and public sector privatisations can lead to job losses.

A report from the ESRC Centre for Competitive Advantage in the Global Economy (CAGE) has explored lessons to be learnt from economic policies over the last 80 years. The analysis shows that the results of government interventions have been mixed. After the Great Depression there was a retreat from competition via protectionist policies, such as encouragement to cartels, a general tariff and controls on foreign investment.

## Key findings

- During the 1950s to 1970s industrial policies were biased towards propping up ailing industries and misguided attempts to subsidise investment, job creation and radical innovations.
- Since 1979 policy reforms boosted competitiveness by abandoning protectionism, strengthening competition policy and implementing deregulation of product, labour and services markets. Increased competition in product markets drove up management performance, and labour market reform led to more efficient working practices and fewer industrial disputes.
- This combination of more openness and heightened competition helped the UK to achieve a respectable growth performance and by 2007, prior to the financial crisis, had helped close the productivity gap with Germany and France that had built up since the Second World War.
- More recently the UK has benefited from a policy focus on education and R&D and from the wider adoption of information and communications technology (ICT), which was supported by deregulation of services industries that are intensive ICT users.
- The decline in investment in infrastructure such as transport since 1980 threatens to discourage private investment and harm productivity, while land-use planning has made property excessively expensive and restricted cities from growing to the size that leads to the greatest gains in productivity and competitive advantage.

**Industrial policy should focus on policy reforms that boost productivity by improving efficiencies across the economy.**

## Policy relevance and implications

Politicians seeking to implement policies that aim at re-igniting economic growth need to avoid the mistakes made during previous attempts to pull the economy out of recession, some of which were very costly.

- Increasing competition and lowering trade barriers lead to higher levels of productivity, while policies aimed at 'picking winners' tend to deliver poor results and are vulnerable to political whim. This means any return to a more interventionist industrial policy should avoid reducing competition.
- Industrial policy should instead focus on policy reforms that boost productivity by improving efficiencies across the economy, such as improving infrastructure, encouraging innovation, reforming tax and regulatory policy and improving the quality of state education. Innovation policy should focus on efforts to increase the adoption of technologies rather than simply promoting inventions.
- In order to ensure that the UK can adjust to the challenges resulting from globalisation, the government should remove obstacles to the development of competitive urban economic regions that are imposed by the planning process and inferior transport infrastructure.
- The UK must invest in measures to improve the quality of the education system and in particular the cognitive skills that are needed to ensure that UK takes advantage of the opportunities in ICT. It should continue to support light regulation of the ICT sector that has encouraged investment in ICT equipment and the creation of jobs in the sector.

**The UK should continue to support light regulation of the ICT sector that has encouraged investment and job creation in the sector.**

### BRIEF DESCRIPTION OF THE PROJECT

This briefing is based on the CAGE Working Paper *Creating Competitive Advantage: Policy Lessons from History*, which reviews selected aspects of the history of UK supply-side policy in terms of productivity implications. A review of industrial policies shows weaknesses in education, infrastructure, taxation and land-use planning, but regulation which encouraged the rapid adoption of ICT. Any return to a more active industrial policy should be designed to minimise adverse impacts on competition.

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