Written evidence submitted by the Social Market Foundation

About the Social Market Foundation

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About this evidence

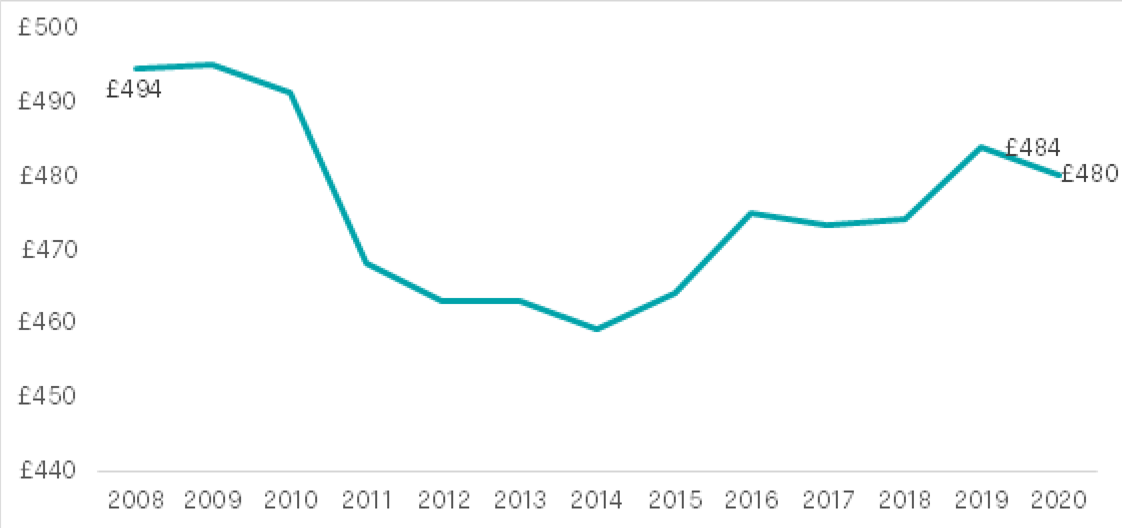
This evidence draws on research published by the Social Market Foundation primarily since the start of the COVID-19 pandemic.It reflects first on the Committee's questions on the present economic picture, the extent to which governments can influence the recovery from the coronavirus, turning then to discuss what options policymakers have available to them. It discusses the following areas of policy which the government can influence:

- Improving productivity through better management and uptake of technology
- Skills and education
- Mitigating unemployment
- Creating a good environment to do business

The long-term economic picture, and the role of government economic policy in this context

The Coronavirus crisis was the most dramatic shock the British economy has faced in centuries, with GDP falling by a tenth – the biggest annual decline since the 'Great Frost' of 1709.[i] Yet it is hard to argue that the country's position was particularly strong going into the pandemic. Economic growth slowed substantially following the financial crisis – the UK's GDP increased by 3.3% a year on average in the decade to 2007, but just 2.0% a year between 2009 and 2019.[ii] Though employment held up reasonably well, recent years have been disastrous for living standards. Adjusting for inflation, average earnings were lower in 2019 than in 2009.

Figure 1: Real Gross Weekly Pay, Great Britain



Source: *ONS, Annual Survey of Hours and Earnings; CPIH All Items Index*

At the root of this malaise is stagnant productivity, an area where the UK was breaking centuries-old records even before COVID-19. Output per hour worked rose by just 0.5% annually between 2009 and 2019,[iii] representing the worst performance since the early 1800s.[iv] By comparison, if the pre-crisis trend of 2% growth had continued, overall productivity would be a fifth higher than it is today. As a result of that shortfall, the average worker is estimated to be over £5,000 worse off in terms of their wages.[v]

Recovering from the coronavirus-induced recession is the key short-term challenge for the economy, but in the medium term, higher productivity growth is the key. Without shifting to higher-value jobs and industries and finding ways to improve efficiency in existing sectors, it will be hard to increase prosperity, reduce poverty or manage the transition to an older population.

Productivity is fundamentally driven by technological change. However, technological change is inherently unpredictable, and so it is not possible to state with any confidence whether productivity is likely to return to previous levels. It is possible that a burst of innovation could be on the horizon to jolt us from our current malaise – techno-optimists anticipate we are on the cusp of a 'fourth industrial revolution', exploiting widespread internet connection and advances in fields such as artificial intelligence, computing, energy capture and storage, robotics and nanotechnology.[vi] On the other hand, pessimists fear that "ideas are getting harder to find" [vii] and that the dramatic productivity improvements of the 20th Century may not be repeatable.[viii] The truth is that it is impossible to know.

There are things that governments can do to nudge along innovation: fund research and development and encourage private firms to do the same, invest in education, reform the incentives in intellectual property law. However, these can only be expected to have a limited impact: to a rather frightening extent, technological progress falls like manna from heaven, beyond the control of policymakers.

That does not mean that policymakers are redundant. We explore the case of Singapore later in this evidence to illustrate how getting the "policy mix" right can significantly influence economic growth. Our view is that governments should adopt an activist approach and do what they can to improve the productive potential of the economy by trying to support innovation. But more importantly, they have a critical role to play in ensuring the economy *achieves* this productive potential.

That requires sound macroeconomic management, an area we will not focus on in detail in this response. However, we do note that the case for 'running the economy hot' – maintaining a relatively high government deficit to increase demand - is particularly strong in the current period of low inflation and interest rates.[ix] These conditions signal that the country is not yet abutting against full economic capacity, despite the OBR's more pessimistic view of the damage done by the pandemic. Indeed, there is a risk that this pessimism becomes self-fulfilling as economic 'scarring' leads to those on the margins of the labour market dropping out of the workforce and low demand discourages investment. The risks facing fiscal policymakers appear to be asymmetric – if they cut government spending or raise taxes too early, that will leave the economy smaller than it could be; but if they tighten fiscal policy too late and inflation spikes, that can be addressed with monetary policy.

In this response, we focus not on managing the business cycle, but instead on structural reforms that could help the economy to achieve its full potential. These are important at any time, but have particular urgency at this present moment. In part, because of the need to make up for the depth of the coronavirus recession and the years of stagnation following the financial crisis. But also because the current period of low interest rates gives the Government greater than usual opportunity to make economic and social investments, an opportunity it is imperative to use wisely.

Specifically, we will focus in detail on the following areas:

- Improving productivity through better management and uptake of technology
- Skills and education
- Mitigating unemployment
- Creating a good environment to do business

Improving productivity through better management and uptake of technology

We will not here attempt to offer a full explanation for the productivity slowdown. The likelihood is that a combination of factors have contributed to what is an international phenomenon, albeit worse in Britain than in peer countries. A more detailed discussion ought to consider the role of the pace of global innovation, low aggregate demand following the financial crisis and government austerity policies, the anticipation of Britain's exit from the EU, slowing trade and the impact of rising employment in low productivity sectors.[x] In the following section, we will discuss the contribution improvements in education and skills can make to raising productivity. In this, we focus on measures to improve management and technological uptake.

In 2017, the Office for National Statistics carried out the Management and Expectations Survey, in which 25,000 businesses were asked whether they used a range of techniques, including tracking performance and having procedures for employees that fail to meet expectations, setting clear targets and offering pathways for personal development and promotion.[xi] They found that organisations with more 'structured' management practices were considerably more productive. Accounting for factors like firm size, age, industry and employee education level, moving a business from the bottom quarter of firms for management to just the average is associated with a 19% increase in productivity.

While some aspects of good management are tied to personality or context, there is evidence that certain general principles and effective behaviours can be taught.[xii] However, managers may not appreciate the benefits of such training – an international study found that the typical manager rates their own skills as 7 out of 10, well above average.[xiii] In this context, the Government should continue to support initiatives like Be the Business, which provides firms with mentorship and helps them benchmark their performance against peers. It should set an example and review management skills and training within the public sector. It should also promote management education as part of a broader investment in lifelong learning.

Another constraint on productivity growth is the failure of firms to adopt the most up-to-date and efficient technological tools. In particular, this is an issue in the 'long tail' of small and medium enterprises (SMEs). Despite accounting for over 99% of firms and 61% of employment in the UK,[xiv] SMEs are considerably less productive than larger firms.[xv] Only 38% of SMEs are 'innovation active', compared to 49% of large businesses, according to the UK Innovation Survey.[xvi] Andy Haldane famously described the vast majority of SMEs as 'snailing along the low road';[xvii] OECD data evidences this, showing a marked labour productivity gap between large firms and less productive 'laggard' SMEs in the UK.[xviii]

There is some promising evidence from the Enterprise Research Centre's Business Futures Survey to suggest that the pandemic has encouraged technology adoption amongst SMEs, with 62% saying their uptake has increased. Some of these changes are unsurprising: 95% of respondents reported using video conferencing more than before. Other trends could be more transformative for productivity. For example, more than 50% of businesses said they are now making more use of cloud computing, the Internet of Things, online marketing and social media.[xix]

The present moment therefore offers a significant opportunity for policymakers to consolidate the gains made during the pandemic. In 2019, the Council for Science and Technology recommended creating a National Centre for Productivity designed to encourage technological diffusion to help "close the gap with those at the cutting edge".[xx] A similar proposal has been made by Bim Afolami MP and Laura Trott MP in a paper for the Social Market Foundation which called for the creation of new Centres for Science and Policy in designated innovation clusters surrounding universities:

> *How to diffuse innovative ideas and practises? To some degree, this is the holy grail of modern industrial policy, and it would be foolish to suggest there was a foolproof path to success. However, our experience and research working with Cambridge business leaders and academics, suggests that helping to facilitate networks of academics, local government leaders, and businesspeople has significant benefits in helping people talk, exchange ideas, and learn from each other.*[xxi]

Improvements in management and technological adoption are not separate issues, but mutually reinforcing. Evidence shows that firms that are better managed are not just generally more productive but also more likely to make good use of technology.[xxii] Both have a key role to play in a holistic strategy to address the productivity crisis.

Skills and education

The economic disruption caused by the Coronavirus pandemic has raised deep questions about the ability of those who have lost their job to gain employment elsewhere. Enabling workers to move from one sector which has experienced job shedding to another where vacancies are more numerous should be a key policy priority both now and beyond the pandemic. A well-developed, sufficiently-funded skills policy can facilitate this.

The sectors worst hit by the pandemic are more likely to employ lower income individuals. Women, ethnic minorities and young people are also all more likely to work in a disrupted sector.[xxiii] This raises the prospect of growing inequality and rising levels of poverty as a result of these structural shifts in the labour market.

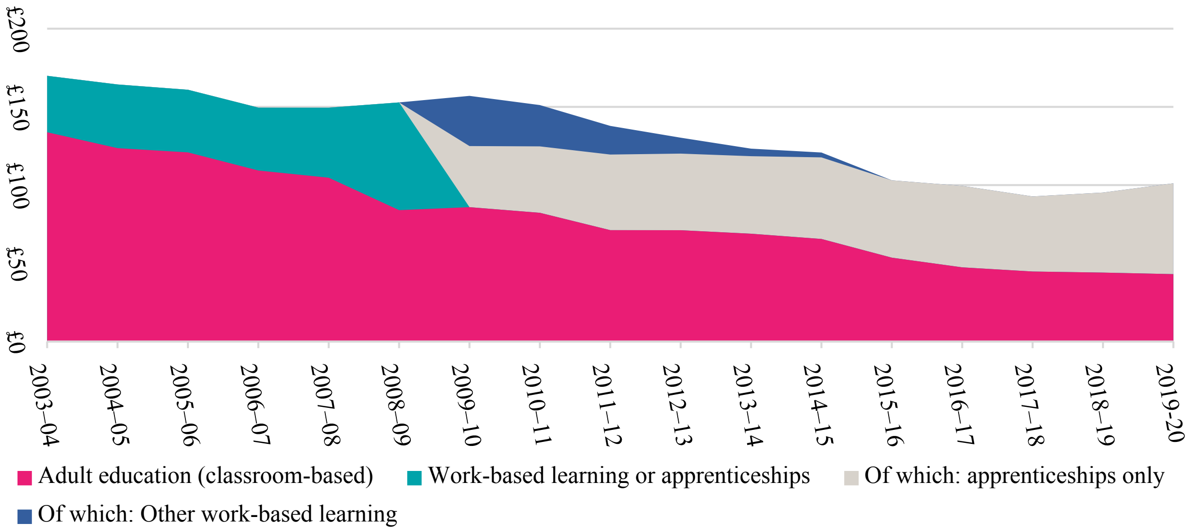
In this evidence, we do not focus specifically on how to support young people who have experienced COVID-related unemployment. However, we do note that despite the education system mitigating substantial increases in youth unemployment, with many 16+ year olds choosing to remain in education rather than face an uncertain labour market, the latest ONS data still indicate 797,000 young people are not in education, training or employment (NEET).[xxiv] And as the Resolution Foundation has shown, young people's employment outcomes are not uniform.[xxv] Policy will therefore need to be nimble to target specific groups and support them into work.

Beyond the pandemic, a successful post-16 skills and education system will also be crucial if the UK is to face up to long-run challenges, including the transition to Net Zero and demographic pressures. Workers will need to be prepared for longer careers in a more unstable economic environment, with an individual possibly needing to reskill multiple times throughout their working life.[xxvi]

SMF research published in late-2020 highlights the role adult education can play in helping workers – particularly those on lower incomes – acquire new skills in order to change career or find a job.[xxvii] Using data from the Understanding Society survey, we found that 16% of unemployed people who undertook training in 2012/13 were still unemployed five years later, compared to 27% of those did not participate in some form of training.[xxviii] Adult education participation is also linked to wage growth and improved chances of moving jobs.

However, the UK is among a global minority of countries with declining participation in adult education, which has fallen by 49% since 2004. It is likely that cuts to adult education spending have, in part, driven this trend. Analysis by the Institute of Fiscal Studies finds that, excluding apprenticeships, spending on adult education nearly halved (48%) since 2009-10; equating to a fall of around £1.3bn (in 2020-2021 prices). Current spending on classroom-based adult education works out to just £43 per working age person, down from nearly £86 in 2008/9.

Figure 2: Total spending on adult education and skills in England per capita, 18-64 year olds, 2020-2021 prices



Source: IFS, ONS, SMF analysis

Note: Adult education (classroom-based)' includes all 19+ skills expenditure (excluding work-based learning, apprenticeships, higher education and offender learning). 'Work-based learning' includes Train to Gain and apprenticeships. Apprenticeships include 16-18 and 19+ apprenticeships.

Note: Prior to 2009-10, data are only available on spending on work-based learning as a whole. Subsequently spending can be split between apprenticeships and other work-based learning programmes.

Those that do participate in adult education are more likely to be socially advantaged and better educated. Findings from the Adult Participation in Learning Survey show that almost half of people (48%) from the lowest social grades (C2 and DE) have not done any formal learning since leaving full-time education. Here, the UK could learn from countries including Sweden and Denmark, where higher public spending and funding mechanisms target vulnerable groups. In Sweden, 44% of the unemployed participate in adult education, compared to 14% in the UK.

Increased provision of adult education is not separate from discussions about increasing productivity growth. Indeed, the link between skills and productivity has been well-explored. At an organisational level, adult learning is linked to gains in productivity, employee commitment and satisfaction, and lower turnover.[xxix] This is said to translate to increased output, innovation, employment levels and subsequent tax revenue at a national level.[xxx] A Department for Business, Innovation and Skills and NIESR paper found in the lead up to the 2008/9 crisis, upskilling of the UK's workforce accounted for around 20% of total labour productivity growth.[xxxi]

Both high-level qualifications and intermediate vocational skills play complementary roles in enhancing productivity. Yet restricted and unequal access to skills and training can have a negative impact on overall economic growth; whereby limited training opportunities for disadvantaged individuals can offset the productivity advantages of other workers' investment in skills.[xxxii] The UK's provision of higher-level qualifications is a significant asset, but should be viewed in light of the nine million people who lack basic literacy, numeracy and digital skills.[xxxiii] Therefore, opportunities for upskilling and training must be available across qualification levels and groups of people to achieve economic and productivity growth.

The Government has promised an overhaul of adult education through its Skills and Post-16 Education Bill. The Lifetime Skills Guarantee (LSG) and £2.5 billion National Skills Fund are the headline measures to "reverse" the decline in adult education participation. £95 million has already been made available as of April 2021 from the LSG for learners who do not possess a Level 3 qualification. Following the Augar Review of post-18 education, the Government has also indicated it will simplify and boost the funding landscape for adult education, whilst also making it more flexible.

We welcome the Government's legislative intent here after a decade of neglecting adult and further education. However, we raise three principal concerns over the Bill:

1. The Lifelong Loan Entitlement will not be fully introduced until 2025, leaving discrepancies in the funding landscape between higher and further education for post-18 learners at a time of rising unemployment.[xxxiv]
2. The level of spending currently promised (around £625 million extra per year until 2025) committed to adult education fails to reverse the £1.3 billion fall in spending (excluding apprenticeships) between 2009-10 to 2019-20.
3. And finally, as we indicated in research from March 2021, a focus on increased provision of Level 4 and 5 qualifications could sow divisions between the further and higher education sectors.[xxxv]

We make five recommendations to boost participation in adult education and help people reskill and move between occupations and sectors:

1. **A substantial increase in adult education funding of at least £1.3bn per annum to offset the decline in funding seen in recent years, and a three year commitment to support long-term planning in the next Comprehensive Spending Review.**
2. **Funding should be simplified and should largely follow the learner.** The funding system for adult education is widely believed to be excessively complicated. One way to streamline funding structures would be to consolidate adult education funding into a single scheme of 'learner accounts', providing each individual over a certain age with a government grant to spend on accredited education or training.
3. **A large scale outreach campaign is needed to demonstrate the benefits of adult education.** Such a campaign should include advertising in traditional and digital media, but our interviews suggest there is no substitute for personal contact. 'Outreach' involves going to people in the places where they are (such as "the school gates"), rather than expecting them to seek out information spontaneously.
4. **Responsibility for coordinating adult education should be clearer.** One proposal in this direction would be to make it a statutory duty of local authorities (or, where they exist, devolved regional authorities) to provide a certain range of adult education courses, as indeed it was in the past.
5. **The Government should make a concerted effort to increase awareness and take-up of employee training rights.**

Mitigating unemployment

Alongside the vaccine programme, the Government's COVID-19 labour market interventions have been the notable success of the last 12 months. Furlough has prevented significant job losses and the scarring effects associated with unemployment. The Government should be wary of complacency, however, and recognise that despite the success of the CJRS and wider business support, unemployment is still expected to reach 5.5% according to the Bank of England's latest forecasts. HMRC data shows the number of employees on company payrolls has fallen by around 800,000 since February 2020.[xxxvi]

Looking beyond aggregate statistics also reveals a much more varied labour market picture. Policymakers should be aware of where job shedding is taking place and who it is impacting. For example, the SMF has been tracking London's labour market and our latest analysis indicates that compared to February 2020, the claimant count in the capital has increased by 178%, far higher than the 104% seen in the rest of the country.[xxxvii] Even within London there are notable discrepancies, with, for example, Newham and Brent experiencing more severe job losses than more affluent boroughs. Additionally, as the SMF made clear in its analysis of local labour market resilience in the face of COVID-19 – and this study confirms[xxxviii] – an area's pre-pandemic level of unemployment predicts how likely it will be to experience further increases in unemployment.[xxxix] In short, this means areas which had higher levels of unemployment during the Great Recession will face the longest road to recovery and likely require greater attention from policymakers.

Periods of unemployment can have significant and long-term effects on people's wellbeing, health and future wages. Research across 14 European countries has found that each six-month period out of work reduced life satisfaction and quality of life after the age of 50.[xl] A study focusing on Spanish construction workers during the Great Recession found that increased levels of unemployment amongst this group raised reported poor health and mental disorders in the affected population.[xli]

The possible scarring effects of long-term unemployment are manifold – both on individuals and on wider society. Economic inactivity equates to missed opportunities for gaining valuable human capital, well-being, and productivity, as well as previously acquired skills becoming lost during long periods of inertia.[xlii]

Unemployment at the start of one's career is likely to lead to having lower skills or to a loss confidence later in life. Skills are likely to affect an individuals' productivity and adaptability, hence their likely pay or ability to get a suitable job. 'Soft' skills, such as communication or adaptability, are also important for resilience in the labour market. There is even evidence of young people experiencing mental health problems up until their 40s or 50s due to periods of unemployment.[xliii]

Unemployment – particularly in youth – can therefore lead to a range of lasting harmful economic and health conditions, some of which could be felt by society for decades. Minimising the long-term damage done by the economic shock brought on by the Coronavirus should therefore be a clear objective of policy.

From the state's perspective, there are three main options when considering how to address unemployment:

1) **Do nothing**, relying on an upswing in the business cycle to provide work for those without employment.
2) **Encourage employment** through incentivising business to take on new staff and helping workers to retrain/find work through social programmes.
3) **Guarantee employment** through state-backed work programmes

In the wake of the Coronavirus pandemic, the Government's furlough scheme has acted as a form of income support but does not *guarantee* employment since workers must remain inactive to be eligible for furlough, and their post-furlough employment status is unknown. Therefore the Government has principally adopted the second of the approaches outlined above, as set out in its "Plan for Jobs". Initiatives designed to support the return to work include the Restart Scheme, Kickstart Scheme, additional financial support for businesses hiring apprentices, and increased numbers of Work Coaches and specialised Work Coaches for young people.

The challenge with programmes aimed at helping people into work is a reliance on the private sector to provide jobs at a time of economic uncertainty. Restart, Kickstart and other interventions will support some back into employment, and there is evidence – for example from the Work Programme[xliv] – that return to work initiatives can be successful. However, they are not universal, leaving many groups of workers exposed to the scarring effects of unemployment, and insufficient for aiding those furthest from the labour market, including some disabled people or those with low skills living in areas of structural unemployment, for whom the crisis has only worsened prospects.

The Social Market Foundation has therefore proposed a set of principles which could guide the creation of a new Jobs and Training Guarantee:

1) **Training must be a central element**, to ensure that once the period of state-backed employment ends, individuals are well placed to take advantage of new opportunities. We recommend participants should be given 20% of their working week for training and education. Workplace training should be the priority, but the Guarantee could also be an opportunity for increased collaboration between the Further and Higher Education sectors.
2) **Private sector placements should be the priority**. Employers benefiting from what amounts to free state-funded labour should be obliged to provide or source training for participants. Evidence also suggests that job guarantee programmes that engage the private sector, or even just subsidise employment in the private, can be the most effective in delivering sustainable employment to people who would otherwise not have work.[xlv]
3) **Fill the low-carbon skills gap**. The scheme should prioritise the roles and skills needed to deliver the UK's Net Zero goals.
4) **The scheme should be managed at a regional level.** Local decision-makers, including local authorities, mayors and Local Enterprise Partnerships, should be centrally involved in management and oversight.

Similar proposals have been made by the Trade Union Congress, Learning and Work Institute and House of Lords Economic Affairs Committee. Whilst specifics of each Jobs Guarantee varies, they all bear the commonalities with the principles outlined above. We also point to the Future Jobs Fund – scrapped by the Coalition Government – as evidence that guaranteeing employment is a cost-effective measure.

Case study: Future Jobs Fund

The **Future Jobs Fund** (FJF) was introduced in 2009 as part of the Young Person's Guarantee, which offered a guarantee of an offer of a job, training or work experience to all young jobseekers. It focused primarily on those aged 18 to 24 who had been in receipt of Jobseekers Allowance, and referrals to the scheme were made through Job Centre Plus advisors. The scheme supported the creation of subsidised jobs for unemployed young people who were at disadvantage in the labour market.

The basic components of FJF were: [xlvi]

- A job of at least six months duration;
- Work for at least 25 hours per week;

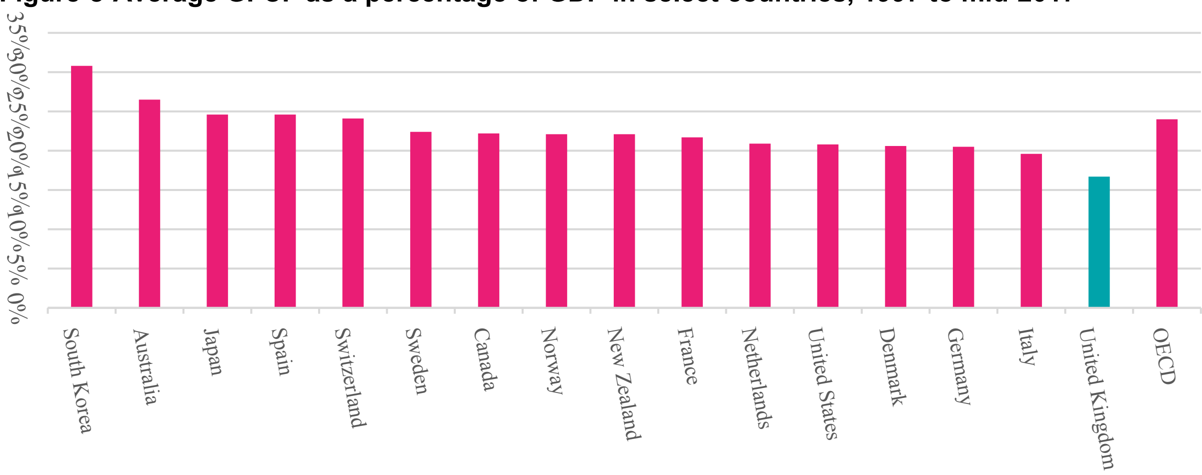
- Payment at least at the National Minimum Wage;
- Jobs that were clearly 'additional';
- A described benefit to the community outlined in each job created;
- Support to move people into sustained jobs;
- A maximum of £6,500 government contribution per job.

DWP records show that between October 2009 and March 2011, just over 105,000 jobs were created under the FJF. The programme cost approximately £680 million.[xlvii] Evidence gathered by the department suggested the FJF was a cost-effective way of increasing employment of the group targeted[xlviii] and helped to engage employers. Many employers stated they were now more likely to employ an unemployed young person or engage with future welfare to work programme.[xlix] The FJF programme was scrapped in 2011 by the Coalition Government before a full evaluation had been completed.

Creating a good environment to do business

In this final section, we explore the Committee's question on whether the Government is doing enough to encourage corporate investment. The UK has suffered from a long-standing problem of comparatively low investment levels. Figure 3 shows that in the UK, between 1997 and mid-2017, aggregate Gross Fixed Capital Formation (GFCF) averaged 16.7% of GDP. This was the lowest level of aggregate investment, relative to GDP, across a selection of industrialised countries and substantially lower than the OECD average (24%).

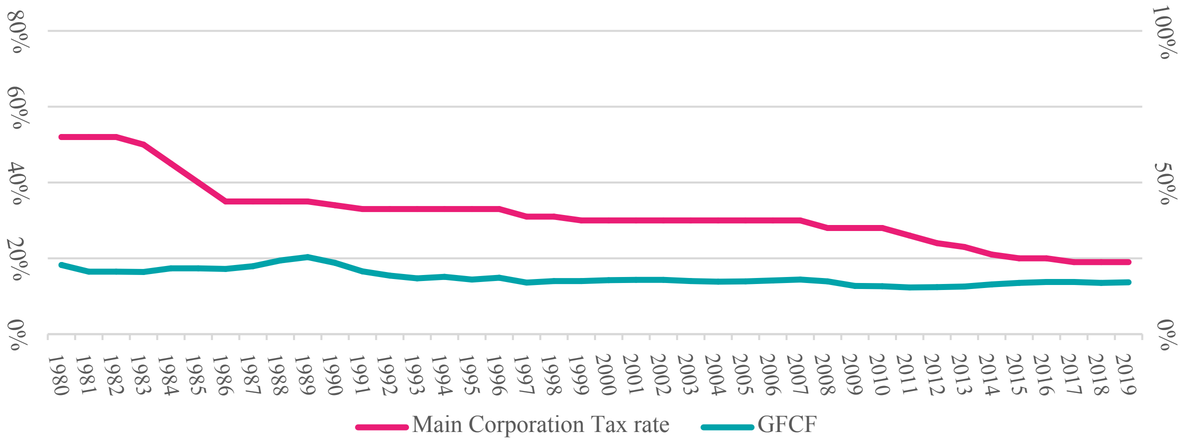
Figure 3 Average GFCF as a percentage of GDP in select countries, 1997 to mid-2017



Source: ONS analysis of OECD data and SMF analysis of OECD data

Policies pursued by consecutive governments, supposedly aimed at encouraging investment, have failed to move the UK closer to the "international capital investment frontier" on a sustained basis. One such failed policy has been, until recently, the UK's approach to corporate taxation, which began in the 1980s. Chancellor Nigel Lawson embarked on a policy of broadening the corporate tax base and lowering the (main and small firm) rates, with the aim of lowering the burden of corporate taxation and making the system more “neutral”. Lawson’s broad approach was subsequently followed by successive Chancellors from both main parties.

Figure 4 trend in the UK’s main corporate tax rate and GFCF as a percentage of GDP, 1980 to 2019



Source: World Bank, OECD and Tax Foundation

Figure 4 shows, that:

- GFCF levels in the UK declined, from 22.8% of GDP in 1980 to 17.1% of GDP in 2019, despite the long-term downward trend in the main rate of Corporation Tax and the broadening of the base.
- Since the late 1990s in particular, GFCF as a proportion of GDP has remained largely flat, with some minor variation within the 15.5% to 18% range.
- Measures such as the Annual Investment Allowance (AIA - introduced in 2008) have made little difference to the long-term trend. GFCF was lower in 2019 than when the AIA was introduced in 2008, despite it being four times more generous.

The UK’s four-decade long experiment of lowering rates and broadening the corporate tax base has shown that a corporate tax system based upon such principles does not incentivise higher levels of aggregate investment over the long-run. The variety of countries with consistently much higher investment levels than the UK across multiple decades, yet very different corporate tax regimes from each other, is additionally suggestive that corporate tax is - at best - one among many factors which drive capital investment activity over the long-term.

While adequate returns on investments and thus sufficient profits, reserves (accumulated retained profits) or external finance are necessary conditions for investment by an entrepreneur or firm - which corporate tax can influence and may make a difference for some individual entrepreneurs and businesses - there are many factors beyond corporate taxes which help determine long-run aggregate investment levels and which are frequently much more important. These include (but are not limited to):

- the level of demand or expectations of future demand
- the cost of inputs such as energy and land
- the relative cost of labour and capital
- The relative returns on alternative uses of the capital (e.g. share buy-backs, takeovers, speculation in property or other assets)

- the quality and ambitions of business leaders and the wider business and finance culture (e.g., whether it is short or long-term-ist, risk-taking or risk-averse)
- the intensity of competition between firms, the education and skills of the workforce
- the interaction of Corporation Tax with other taxes that impact firms and their investment behaviour, such as Business Rates.

Given the multiplicity of factors that determine aggregate investment levels over the long run, it seems unlikely that the recently announced “Super-deduction” into the UK’s Corporation Tax system[l] will make anything more than a marginal positive difference over the long-term, and only then if it - or a variant of it - is made permanent. The “Super-deduction” however, may encourage a short-term “up-tick” in investment, for the two-years it is currently planned to be in-place for.[li] This is unlikely to presage a sustained “historic break” with the UK’s trend aggregate capital investment levels. Further, for the same reasons (i.e. long-term investment trends are determined by a complex multitude of factors and not just corporate tax levels) the proposed higher main rate of Corporation Tax[lii] due to come-in later this decade, is unlikely to make any significant difference to investment levels either way, in the UK, in the long run.

Nevertheless, despite our scepticism about the primacy of corporate tax as an influence on investment behaviour, the SMF believes that there is scope for reforming the corporate tax system in a way that will contribute to improving the UK’s historically poor investment levels, as long as it is one part of a wider agenda of replacing the UK’s current economic strategy and Liberal Market economy (LME) model of political economy with a “new mixed economy” model, based upon social market principles. It is only change at the “system level” that will deliver the sustained “step-change” in the UK’s historic investment performance.

As part of that “system change” to a “new mixed economy” model, we believe that the basis for company taxation needs to be re-cast. A new settlement between business, society and the state is required,[liii] whereby societally desirable activities that are often under-supplied by private enterprise (because the private benefits that accrue from them are not as great as the social benefits that accumulate) will attract support through the tax system and be made financially easier than they might otherwise be.[liv] These include investing in human capital, expenditure on equipment and machinery, sharing the proceeds of growth with employees and increasing rates of innovation, several of which we have discussed in this evidence. At the same time, commercial behaviours by business that are detrimental should be discouraged. Extensive re-balancing and simplification of the system would be, in our view, necessarily part of the quid pro quo of the re-shaping of the system around the “new settlement”. Equally essential are complementary reforms to other taxes that impact businesses and their investment decisions e.g. Business Rates.

Conclusion and the Singaporean success story

In this evidence, we have explored a range of policy measures that could support long-run productivity and economic growth as the pandemic recedes. Governments are, to an extent, at the mercy of the business cycle and the inherent unpredictability of future technological changes, which limits the impact policy can have on productivity and economic growth.

Nevertheless, we do not believe that this means governments should take an agnostic approach when addressing the current economic malaise. Rather, policymakers can pull a range of levers to ensure the economy reaches its productive capacity. We have set out a small number of options in this evidence which we believe merit consideration. Our proposals do not function in isolation but should rather be considered as part of a policy mix which, for example, boosts the economy's supply side by stimulating private sector business investment and technology diffusion whilst also shoring up demand through labour market interventions like a jobs guarantee. In short, a mutually reinforcing approach is the right one.

In a recent SMF briefing, we pointed to the example of Singapore which has experienced extraordinary economic success since the 1960s. Much of this debate has caricaturised the city-state as a low tax, low regulation oasis for business, with some commentators deducing that this environment is what has driven Singapore's economic growth. We would instead highlight Singapore's activist state – and the policy mix it deploys – as the key to its success. Policies overlap, as we illustrate in our discussions around productivity, management and technology adoption. Similarly, investment in cutting-edge innovation without adequate investment in human capital will limit any economic benefits accrued.

We identify seven elements to Singapore's policy mix which the British state should adopt. These are:

1. Ensuring there is an efficient legal system that robustly protects property rights and swiftly but fairly resolves disputes.
2. Minimising barriers to entrepreneurship and business growth, especially hurdles arising from poorly designed and inefficient state bureaucracy.
3. Maximising the quality of human capital with sufficient investment in the education of young people and lifelong learning.
4. Investing heavily in world class physical infrastructure.
5. Focusing on innovativeness by nurturing a world leading "eco-system" for innovation.
6. Making proficient, targeted and sustained state investment in industry.
7. Building and maintaining a highly capable public administration system that can devise and deliver policy effectively.

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[i]https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/octobertod

ecember2020
[ii] https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmi/qna
[iii]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/timeseries/lzvb/prdy
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