A Productivity Revolution in Britain
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Only by joining inclusion to innovation – and so raising productivity across the economy – can Britain assure its future. This is the vision set out in Labour’s plan for prosperity, published today.

Under the present government, average wages have fallen by £1,600 a year. The fiscal deficit remains stubbornly high at £91bn. These are serious problems in their own right. But the cost-of-living crisis and the persistence of the deficit are also symptoms of a broader failure to raise on productivity. In leading sectors like aerospace, finance, pharmaceuticals and the creative industries, Britain is world class. Across the economy overall, UK output per hour fell to 17% below the rest of the G7 in 2013, the largest gap since 1992. It takes British workers until the end of Friday to produce what a German, French or American worker have done by Thursday.

Building on existing areas of strength, Britain must back sectors where it already enjoys an advantage. Growing these sectors will create more of the well-paid, high-productivity jobs of the future that the country needs. Relying solely on these sectors to generate wealth and then redistributing part of the gains will not be enough to trigger a productivity revolution. Nor will it master the powerful forces driving greater inequality and exclusion. The better route is to change the primary distribution of income and wealth through more equal access to economic opportunity and education, and accelerate the rate of growth by spreading the power to innovate right across the economy.

We can create such an inclusive vanguardism, first, by forging a new relationship between government and business. We should not resign ourselves to choosing between the American model of hands-off, arms-length regulation of business and the Northeast Asian model of top-down, bureaucratic imposition. Rather, Britain’s approach must be facilitative, supporting broad-based innovation. Instead of prescribing a blueprint to obey, it should set an overall direction. Progress can result from a wide range of policy and institutional experiments. The priority is to enable firms across the economy to gain fast and easy access to productivity-enhancing skills, practices, and technologies. The network of catapult centres – devised under the last Labour government – connecting small- and medium-sized businesses to cutting-edge practices should be expanded. And it means investing in basic and applied science, supporting the development of new materials, technologies and practices not tied to particular sectors.
Second, we should make it easier for small and medium sized firms to pool risks and resources, and learn from each other. From Silicon Valley to Silicon Fen, Southwest Germany to North-Central Italy, the best regional examples of advanced production are places where people, ideas and practices circulate. Law and policy must support this cooperative competition among innovative firms.

Third, the education system must equip Britain to become not just a country with innovative sectors, but a nation of innovators. It should give priority to mastery of analytical powers, and prefer selective deepening to encyclopaedic superficiality. Vocational training should emphasize the generic and flexible capabilities of modern production, not just task- and machine-specific skills. It should multiply means and occasions for lifelong learning.

Fourth, we must respond to changing realities of work. In Britain, much of the recent growth in employment has been in temporary, subcontracted or otherwise precarious employment. Production is being reorganised, with freelancers as well as workers in faraway places vying for niche roles. Even within employment relationships, economic risk is being transferred to workers on zero- or short-hours contracts. The commitment to flexibility must not result in generalized economic insecurity. This is not compatible with inclusive innovation. Traditional policies of social protection do not suffice to avoid this result. They must be complemented by a legal regime to protect, organize, and represent workers lacking the safeguards of secure employment.

Finally, power must be devolved – to cities, regions and localities. As local areas adapt successful practices and policies to their circumstances, devolution becomes an instrument of collective discovery. It loosens the stranglehold of dogma. Local Enterprise Partnerships need strengthening. City Deals must go further and faster, with encouragement for strong, combined authorities, like Greater Manchester. A "devo-default" approach would establish a presumption in favor of passing down powers and funding. There is no incompatibility between experimental devolution and national direction. For Britain, combining vigorous initiative at the center of government with radical decentralisation can be more fertile than conventional federalism in its ability to inform innovation with experiment.

What these initiatives have in common is a goal and a method. The goal is to marry innovation to inclusion. The method is step-by-step institutional change, including to the institutions of the market economy. They are not about replacing market with state, nor simply correcting – through retrospective and compensatory redistribution – the inequalities markets create, though some redistribution will remain necessary. They are about using the power of
government to reshape markets and democratise the opportunity to share in the work – and the benefits – of innovation.

From such an approach can come two great goods: overcoming the constraint low productivity imposes on national prosperity, and giving ordinary men and women in Britain a better chance to live a bigger life.

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