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AN INFRASTRUCTURE FOR PRODUCTIVITY: SHALL WE BUILD TOWARDS PRODUCTIVITY?

PAPER #5 OF THE MCA PRODUCTIVITY CAMPAIGN

YEAR OF DISRUPTION
PRODUCTIVITY CAMPAIGN

AN INFRASTRUCTURE FOR **PRODUCTIVITY:** SHALL WE BUILD TOWARDS PRODUCTIVITY?

Paul Connolly, MCA Think Tank Director, argues that productivity needs a world-class physical, social and investment infrastructure

Smart, integrated cities. Competitively priced, modern, efficient transport infrastructure. Affordable, rationally located housing. These are frequently cited as essentials for a productive economy. The MCA's report Building Blocks: How Britain can get infrastructure right is five years old. But despite the adoption of many of its recommendations by government, the report remains relevant. Chronic underinvestment has left the UK with a deficit in transport infrastructure. Our rail network is expensive and inefficient. The housing shortage is well documented. A step change in resourcing and capacity is needed.

But any new investment should not simply be blindly focused on mere quantity. Infrastructure consulting specialists achieve many of their best results for clients by delivering 'outcome-focused' projects. A new bridge connecting, say, an island to a mainland is only a meaningful asset, creating value long after the temporary local multiplier effects accompanying its construction, if it answers a specific need. It is wasteful to build the bridge if the problem it is intended to answer (such as introducing islanders more readily to the mainland labour market) can be better addressed by other measures, such as remote working. The case for outcome-focused infrastructure has been strengthened by digital. Technologies deployed in planning and design, navigation and automation, usage monitoring and the integration of consumer experience, make the prediction, assessment and tracking of outcomes easier.

As policymakers wrestle with both the UK's infrastructure deficits and with the productivity crisis, the question they need to answer is the one posed in *Building Blocks*, and also in the MCA's response to Brexit and the Industrial Strategy, New Economy 2020 and Beyond. What sort of outcomes do we want to deploy infrastructure investments to support and help realise?

KPMG's Regional Productivity report sets out the differential performance across the UK. The picture correlates substantially with the pattern of investment and business opportunity. But it also relates to other factors, such as skills, housing and transport systems. Moreover, Brexit defined a sharp congruency between leave voter concentrations and areas of deprivation or limited economic opportunity.

The economy has spare and unproductive capacity in people who are completely disengaged from the labour market, are in low-value jobs, or lack the skills to create substantial value. While we need education initiatives to address this, there is also an important role for infrastructure investment. Arcadis 2017 report Sustainable Cities Mobility Index identifies differential performance in city transport systems.
Positive interventions here, as well as in housing and related infrastructures (see Arcadis's Building Homes, Making Places and Investing in Britain: Cities Built for the Future reports) could create more dynamic local economies, as well as wider product and labour markets, supporting regional development.

A clear conception of economic purpose in infrastructure projects would also help ensure that choices between competing investment options are made on broadly rational grounds. Some opponents of HS2 argued that in the Digital Age rail was a potentially less value-creating investment than upgrading the UK's broadband infrastructure. Whatever the merits of that argument, the concept of purposive infrastructure, in creating a clear linkage between the investment and a desired goal, can help develop persuasive criteria to determine relative priorities.

Of course, discussions of investment recall another issue adversely impacting the UK's productive performance. Since the Financial Crisis, UK business resourcing of R&D has not recovered its pre-2008 levels. Businesses needed to build up balance sheets in the initial aftermath of the Crisis and were cautious investors. The 2013-16 period saw a limited recovery of confidence and associated investment. However, since then Brexit and its attendant uncertainties have created an investment-inhibiting climate. All this despite the very low cost of borrowing for the whole of the last decade.

In the *New Economy 2020 and Beyond*, we called for the UK to win the 'Education Arms Race' and create the human infrastructure needed to withstand Brexit and positively exploit the dynamics of the disrupted economy. We also called for a massive increase in infrastructure spending. Plainly, both must be accompanied by a related expansion of *research* infrastructure. Better relationships between the UK's major tertiary institutions and business are needed. And this is not a case of the UK throwing good money after bad. We already have world-class institutions. What they do not always enjoy is the status of business-supporting hubs in the way that their US counterparts do.

Indeed, this is sometimes because the efforts of successive governments to foster business-friendliness have been clumsy. In their agitation to rebalance research away from theoretical to applied, they emphasise immediate business needs in a way that does not foster the culture of mutual understanding between business and prestige educational establishments. Businesses in the US seem much more ready to associate themselves with institutions that pride themselves on theoretical research. They know that such work is not just an inherent human good, but something with potential applied consequences downstream. The US has the applied research success *because* it has the Nobel Prizes, not despite them. US business seems to get this. UK policymakers by contrast second guess (and thus frame) the attitudes of industrialists and wring their hands over the next UK commitment to CERN or the European Space Programme. The superficial attractions of such philistinism are just that. Superficial. Instead, the UK government should ensure its tertiary and research institutions are amply funded and support initiatives for their enhanced engagement with business. And then step back and let the relationships blossom. After all, backing winners is unfashionable.

But perhaps there is one part of the infrastructure arena where the UK could contemplate some applied clairvoyance. If a nation is behind the investment and modernisation curve it can try to catch up. The risk is that others will move on to new things. Or it can try to anticipate tomorrow's world and invest in it. Japanese, French and German bets on high-speed rail fifty years ago were ahead of the game. Fifty years later the UK is committing large sums to these systems. But are we doing so on the eve of their obsolescence? Shouldn't we be investing in drone transport or Hyperloop instead?

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