

Professor Tim Besley (00:00:08):

Thank you very much, Nico. For those who don't know me, I'm Tim Besley. I'm a member of the economics department at LSE and I'll be chairing this event. The panel will come on stage in a moment. I'll introduce the topic and then describe how we're going to approach this. First of all, hearty congratulations to the organisers for putting together what is an excellent event and very timely, as Nico emphasised. Our panel now is Rekindling Britain's Economic Flame. I was struck by the fact that one could have had a panel of this variety at almost any point in the post-war period. The interesting question is whether it would've had different or similar content. We'll only learn that as we listen to our speakers and to the debate today.

(00:00:59):

Almost everybody agrees that Britain has a problem with investment: investment in skills, investment in technology, in infrastructure, and in physical capital.

(00:01:11):

These are all longstanding observations about the UK economy, but it's not a very helpful observation because these are all symptoms. They're not causal factors. They all ultimately end up in relatively poor economic performance. Our productivity levels have generally lagged behind other economies with whom we compare ourselves. There was a brief period in the long sweep of history when Britain between somewhere like 1980 and the onset of the financial crisis was converging back to other leading economies. But, by and large the story of the British economy has been one of a lot of hand-wringing and disappointment, over most of the periods since it emerged as a leader. But that was probably two centuries ago. So the question is very timely: what can we do and what we can we do now?

(00:02:08):

What are the core policy prescriptions that would come out of that malaise? There's much discussion of the structural factors that shape Britain's economic performance. Are they policy based? Are they to do with the nature of our economy? The fact that we were a technological leader and first mover at some point actually became a disadvantage to us. I am struck by cyclical views. My favourite example is the Macmillan report of the mid 1930s, on capital markets in the UK, and how poorly it served medium sized firms. What was done by government in response to that was a lot of warm words, but it's very hard to point to anything specific.

(00:02:58):

Many of these themes just come and go. The other theme that is as close as we have to a national embarrassment is our inadequate attempts to deal with skills, particularly in the bottom third of the distribution. That's not a new issue. Many governments have tried to tackle that over the years with a moderate degree of success. I'm sure the panellists will have their own views of the structural features. Is it in the schooling system? Is it in the planning system? Is it in some other area of government, or is it just the way the private sector operates in the UK? Could it be even cultural? We'll, we'll be learning about all of that as we go.

(00:03:44):

We're going to hear from Lord David Sainsbury former member of the House of Lords and Chancellor of the University of Cambridge. He has some slides so the panel will remain seated so that we can enjoy those without having to look behind us. Then the panel will assemble and I will first turn to Anton Howes, Head of Innovation research at the Entrepreneur's Network a prolific author and a historian of Invention. We'll then hear from Professor Deidre McCloskey Professor Emerita of Economics and History

at the University of Illinois, Chicago well-known for her writings on a wide range of historical issues around the importance of liberal thought in the development of the economy.

[\(00:04:43\)](#):

Our 'sweeper' is Andy Haldane, Chief Executive of the Royal Society of Arts, who will reflect on what has been said. At that point we'll have a bit of a discussion among the panel and then I'll turn it over to the audience. Without further delay let me invite David Sainsbury to come to the podium. Every speaker will speak for about five minutes so we should have plenty of time for the discussion.

Lord Sainsbury [\(00:05:15\)](#):

Thank you very much. I find late in life that I've probably spent the last 40 years producing various policy documents, pamphlets about economic growth. And one of the things that I discovered in that process was that the first thing to do if you're going to produce a policy on anything is to understand what the problem is. How do you think the system or the process or the organisation should run? Why is it not running like that? And then you can start saying: that's the problem, and that's why we should put it right. In talking about economic growth I think the first thing to understand is what the problem is. That's what I'm going to try and address in the next few minutes.

[\(00:06:18\)](#):

I think this is a good place to start, which is looking at the productivity trend of G7 countries over this period from 1973 through to 2013. What you'll see is that all G7 countries have been having declining rates of economic growth, particularly from about 1990 onwards. They've all been declining and I think that has one very clear implication. This is not about the policies of any particular country. It's something that has impacted all G7 countries. The question is, what is that? What is also interesting about the declining rates of growth is that economists are unable to give an agreed view of the cause of this declining rates of economic growth. You can see it ranges from human capital labour market factors, low demand. There is even a group which thinks it's all about mismeasurement.

[\(00:07:33\)](#):

I'm going to say that it's none of those things. It's something different. One of the other arguments, which is what Tyler Cohen talked about last night, is that we are on some kind of technological plateau. I have to say I find that a very difficult argument to go along with. If you just look at the technological opportunities taking place now it's very difficult to see any sector which is not subject to technological change and opportunities that come from this: energy, information, technology, transport. All of them seem to be having technological opportunities. I think it's very difficult to argue that it's a technological plateau. This rather remarkable chart, which comes from Richard Baldwin's book, The Great Convergence, begins to give a clue as to what is going on.

[\(00:08:36\)](#):

What's rather remarkable about this is that it looks back to the year 1000. What was the size of the GDP that China and India had, and what was the size of the world economy that G7 had? Rather remarkably, at that point China and India had 51% of the world's economy, and G7 countries had 7%. People may be surprised by this China at this point. This was the Song Dynasty, an extremely prosperous China, linked with a silk road to India, a source of great spices, traded with the Roman Empire. This state, of the G7 being low and China and India having a large chunk of the world economy goes on until the period of the Industrial Revolution.

[\(00:09:37\)](#):

The G7 Industrial Revolution starts in England then spreads to Europe, then goes to America. At this point the G7 share goes up and up till about 1990 and China and India start coming down. What is interesting is that in about 1990 the G7 plateaus and then starts coming down. Having been at about two thirds, 67% it falls to about 50%. China and India start coming up. So the question is, what happened in 1990 which affected the G7 percentage? What changed at that particular point? Once you ask the question it's not very difficult to know the answer is that three parts of the world economy became market economies. In 1990 Deng Xiaoping really begins to privatise the public sector. In India VP Singh liberalises the Indian economy. And of course you have the collapse of the Russian Federation. Countries like Poland, which had been a market economy, very quickly came back to a market economy and started competing in the world economy. These are very large populations, so when China with over a billion people becomes a market economy, the impact on the world economy is enormous.

[\(00:11:32\)](#):

So what happens? What is the impact on the British economy? To understand that you have to understand something which a lot of economists particularly classical economists don't like to think about, which is that different sectors of the economy have very different value added per capita. Mining and quarrying, North Sea oil, has enormous GDP per capita as do financial activities - £96 value added per hour is high. Manufacturing is medium level. Agriculture is very low. What is interesting about these figures is that the relationships are common across the world. Whether you are looking at the Chinese economy or the American economy, or British economy, financial services are high value added, manufacturing are medium and agriculture is low.

[\(00:12:53\)](#):

Now, these are very significant because, as you will appreciate, if you start losing share in your economy, if manufacturing declines in areas like food services, it has a very negative impact. It's important to understand that, because that is what has been happening. This is an amazing chart. It shows the period 1952 until 2012 and what was happening to our manufacturing industry as a share of the total economy. You can see it goes down from 35% to to about 10% where it is still now. That's had an enormously negative impact on our growth rate, and is entirely due to the competition from countries elsewhere in the world, often those with low wages recently become developing countries.

[\(00:14:11\)](#):

You can see the impact that has on the UK economy. If you looked at all the different sectors over this period, 2010-2021 you would have a 15.7% increase. But because of the shift between sectors from manufacturing to other sectors, low value added, you have a negative effect of 13.3%. That means your total labour productivity growth over those period was 2.4, which gives you an annual increase of 0.2% extremely low and very dangerous to get into that kind of area. Now if you're in that situation where your industry is losing out in a major way to low wage cost countries around the world the strategy of cutting wages and trying to be competitive that way gets you nowhere.

[\(00:15:25\)](#):

What you need to do is increase value added, not try to make a profit simply by lowering wages. What you have to do at that point is to go into more advanced industries where potentially your scientific knowledge and skills can give you an advantage. The question is, how do you get into those advanced industries and what are they? Well a very interesting organisation in America called ITIF has looked at this particular question, the percentage of advanced industries in the total world economy, and the position of individual countries.

[\(00:16:31\)](#):

What they found was that if you look at the concentration of these industries in the world it's about 8%. If you then look at individual countries, you see the ones which have the greatest concentration of advanced industries are countries like Taiwan, Korea, and Germany, Switzerland, Japan. And China coming up quite significantly. The United States is only at just under 8%, compared to Taiwan at 18% and down here Britain at 6.6%. That means, in terms of going in to advanced industries, we start from a very poor position. Whenever I show this chart people have the same reaction: well, at least we're still ahead of France...

[\(00:17:34\)](#):

But other than that there is really no good news in that slide. Getting into these advanced industries is where we have to get growth in the future. So, just to sum up - why do we have a slow rate of growth? The answer is because we have a poor rate of innovation in advanced industries, the engine of economic growth. As a result we are not producing the high value added, the innovative world beating products and services to produce the growth we need. If you want to see a physical manifestation of that statement just look around your house, look at the study, look at your garage, and look at where the products come from. I have an Apple iPhone, an Apple computer. I have a Casio telephone system, I have a Canon printer. The watch I wear is a Swatch from Switzerland. Almost all my clothes come from Bangladesh. They have various labels on them, but they actually come from Bangladesh other than my ties which come from France, Germany, and England. In fact I am wearing an English tie, a Dunhill tie, which is the one thing which is internationally competitive. It's very difficult to see that we can base our future economic success on selling Dunhill ties to the rest of the world. So that's the problem we have. How do we create more high value added, innovative world beating products and services to produce the growth we need?

[\(00:19:33\)](#):

The second point I've learned about policymaking is that the first thing to do is look around the world at who does this particularly well, and what we can learn from them.

[\(00:19:50\)](#):

This is something you always do in business, but it's rarely done in my experience in politics. The point always to understand is there's practically no problem we have, which every other country in the world doesn't have. There are two exceptions fox hunting and hereditary Peers. But other than that the problems are the same. So, if you want to do something about growth the thing to do is to look at who has done this best. And I would argue that probably the best country to look at is Singapore which started with very low growth in very simple industries. By industry and government working together on what one would call industrial policies they have made themselves arguably the richest country in the world in terms of value added per capita.

[\(00:20:52\)](#):

You'll find in Singapore, for most of the industries they have what they call transformation maps which are agreed documents between the industry and government as to where that industry is going to look in terms of raising the level of value added per capita and how they're going to do it, and what contribution government can make to it. What we need to do, I think is target R&D, skills, financial support to the following sectors. If they have realistic plans to increase their value added per capita, there has to be a base. This is not government telling industry what to do. It's saying, how can we cooperate on your plan to increase value added per capita? And what they want to do, what they should be doing, is focusing this on the medium high-tech, manufacturing, green industries, and other advanced industries. And if we can do that effectively, then we have, I think, a chance of getting the economy to grow. Once again, thank you very much.

Professor Tim Besley ([00:22:12](#)):

Thank you very much. David tabled a challenging agenda for the panel and for the day. I'm going to turn first to Anton to give us a response in five minutes to what you've heard, or adding your own perspective on the challenges. So, Anton, first to you.

([00:22:43](#)):

Anton Howes

([00:22:43](#)):

Great, thanks very much. So we've heard what we should be learning from other countries. Essentially, I'm going to ask how do we do it in the first place, right? If you are an extraterrestrial visiting Britain or visiting the world in 1550, roughly, you're not gonna choose England and Scotland as being the place where an industrial revolution's gonna happen. You'll probably choose modern day Belgium. You're probably gonna choose maybe the Dutch Republic? So modern day Netherlands. You might choose somewhere in China, right? These are places with big cities, they're highly urbanised. There's quite a lot of industry already. Britain in this period has about 3% urbanisation, it's overwhelmingly agrarian. Like, basically the only thing that we're doing is farming keeping a bunch of sheep, growing some wool. And then maybe there's a little bit of wool spinning and and weaving going on as well.

([00:23:33](#)):

So how do we, how do we do it the first time? Well, I've only got my five minutes, so a few things about the industrial revolution that a lot of people don't realise. Firstly, the industrial revolution was broad, right? It's not about the things that you immediately think of, like cotton, coal, steam, iron steel. It's about agriculture. It's about watchmaking, it's about ceramics and landscape gardening. Anything you can think of in this period is improved, right? There are inventors who are even improving music and musical instruments. You'd be surprised to learn just how many things that we take for granted today are invented in Britain around this period, over just a period of just a few hundred years. Second thing, a lot of people assume that the revolution happens in the Midlands and the North.

([00:24:13](#)):

This is false. It happens in London first, right? Nearly overwhelmingly, nearly all of the invention happens in London. The site of production is often elsewhere in the country, but in terms of the actual agglomeration of where everyone is and where they're inventing, where they're coming up with ideas, it starts in London and then only later spreads out to the rest of the country, right? London becomes this really key hub from extremely early on from 1550 onwards. It goes from being a backwater 50,000 people, I mean, barely even registering the top 20 in Europe, let alone the world. But by 1700s, there's 575,000 people. It's one of the largest cities in the entire world. That's an extraordinary growth. Most people don't even talk about it. This is one of the really big changes that happens. So when we talk about the industrial revolution, we actually need to look at this earlier stage.

([00:25:05](#)):

What is going on here? Why do we have this massive growth of a particular city, which then becomes the key innovation hub arguably in the entire world. Third most innovation, nearly all innovation, nearly all of these innovations are incremental, and they're cumulative. There is basically no such thing as a great leap forward. A lot of stuff, sometimes people come, they come across an incremental innovation that happens to have an outsized effect, right? So you might improve some wool spinning machinery, some linen spinning machinery, some cotton spinning machinery. It just so happens that if you, you know, you improve them all by the same amount, but if you happen to improve the cotton spinning machinery, turns out there's a much larger market for that to suddenly expand quite dramatically, right?

This is the case with basically all innovation. I'd be very interested if anyone has a counter example that I can't address, at least from this period.

[\(00:25:54\)](#):

Anything post 1850, I have no idea what's going on. The other key thing there though is that nearly all of these incremental cumulative innovations are happening from people who we don't kind of typically think of as being inventors. Nowadays when we think of inventors we think of Elon Musk and Peter Thiel, and, you know, hyper rich people with huge resources at their disposal. You know, maybe there's the kind of mythos of starting in the garage. But the main kind of people who innovate are basically Wallace and Grommet. It's the oddball down the garden shed who's tinkering with stuff, comes up with an idea and then is able to leverage that, right? It's enthusiasts with obsessions a lot of the time. Sometimes it goes beyond that.

[\(00:26:36\)](#):

You get enthusiasts with obsessions who happen to get hired by some kind of R&D Lab in a large corporation. You know, we used to call them boffins - whatever happened to Q and Boffins? Our idea of innovation was actually a bit more realistic before. And just very briefly, having noted these four things about the revolution - Why Britain? It's the question on everyone's lips. Why is it that this complete backwater in 1550 roughly ends up being the place that by 1900 is the world's Saudi Arabia for coal. It's the world's New York for finance, it's the world's China for manufacturing. How do you go from backwater to that? I think one thing to note here is that innovators are incredibly rare.

[\(00:27:26\)](#):

Very few people are responsible for nearly all of those advances. But in Britain, those very, very few people who are all over the place managed to create the conditions for success as a group, because they're concentrated in London, they're particularly organised. But at the same time, you have a very, very weak Court. If you are trying to get some money from the king in 1603, 1604, in this early period, it's going to be pretty tough because the King is pretty broke a lot of the time. And what you have instead is a very decentralised system where they're essentially creating a robust system of support. There's a broader class of merchants, aristocrats, gentry that creates a vested continuing interest in innovation by a broad spectrum of elites.

[\(00:28:13\)](#):

There's that word from yesterday again. Which in turn, interestingly, when you try to appeal to a broad group of people rather than just a few people it leads to openness, right? You end up selectively revealing a lot of techniques, which ends up in turn spreading innovation further because you have this norm of openness that develops. Finally, I'm just going to end on this one note. There's a lot of hand-wringing that goes on. Tim, you mentioned, we could have had this talk 50 years ago. That's good, right? That was the case in 1550 when everyone's panicking about all these crises, and they think, how about we get Sebastian Cabot over? He knows all about navigation. That suddenly turns Britain into a maritime nation having been effectively not a maritime nation before that. It's good because in 1851, they think, oh my God, the French are catching up with us. Let's hold the Great Exhibition and try to stay ahead and figure out why we're staying ahead. This kind of paranoia about falling behind is actually what made Britain kind of great in the first place. Thanks very much.

[\(00:29:25\)](#):

Thank you very much, Anton. I'm going turn to Deirdre McCloskey now for her perspective, which I imagine will be historical too.



Deirdre McCloskey ([00:29:32](#)):

It is. I always agree with Anton. I was on his PhD committee and, to speak historically, I've been making the point that he's making from before he was born. My first venture of this sort was on the iron and steel industry in the late 19th century in Britain. And that was in 1968. So I've been arguing as Anton does that the key point here is individual opportunity, individual creativity. That theme has been rather lost in the discussions we're having here. And in the discussions outside this room. The problem is perhaps that we ask how we can improve growth in this country and others. We heard from Tyler last night that growth depends on innovation at the frontier that he once saw as slowing. Now he's changed his mind.

([00:31:48](#)):

We've just heard that it's structure, that it's because we're doing too damn many services on that point. I would say that we choose to do too damn many services. To say that that's the source of our ill would be like arguing that housework, which isn't at all figured in the national income, is a drain on productivity. We should stop taking care of children are indeed having them because that's not the internationally competitive frontier. I suppose you wouldn't claim that the British are extremely good at producing children.

([00:33:01](#)):

So there international competitiveness is a nonsense. As a goal for a country trade is determined by comparative advantage, not absolute advantage. And to be sure absolute advantage, which is how well you do what you do, is nice, it is a very good thing to have. And we should do more and more of that, do much better at having children and much better at oil in the North Sea. But it's individual choice that we value, I say in the West. But as was observed, you observed the Chinese and the Indians by turning first in 1978, and then in 1991 to more individual choice, suddenly started growing like mad. The largest migration in human history happened in China, people moving from the interior to work in the factories and construction on the coast. India too, which we once said was stuck in the Asian dilemma, hopeless case. In fact, if this was true, to be also true of of China, are now doing very well. And the problem with the Singapore model is that the are tyrants, which is what Singapore is, it's a usually screw up. And that's what's happening now in both China and India. Let's hope it turns around. So I would claim that the way Britain became rich and the way the world became rich was in a word liberalism understood as equality of permission.

([00:35:55](#)):

You all say in this country, this mad sporting country - I myself, am mad about cricket - we started to allow people to have a go. In Australia they say 'fair goes'. And that fundamental idea that all men and women are created equal, equal in permission, equal in being allowed to run the race, not equal in outcome, which if that's imposed by us, by the we, is a catastrophe and not equal in opportunity, even, which is unattainable. Some of us had excellent parents. I chose mine extremely carefully. My father was a professor at Harvard. My mother was an opera singer. Wow. I deserve a high income. You can see that right away. Some of us are fortunate in that connection. Some not so much. How are we to equalise opportunity? Are we to, like the Spartans, take away the boys from their mother at age seven rather the way of English public schools, by the way, and train the boys as the Spartan might? No, I don't think so. Free economies work better. And the solution, one very important point. I've been arguing for half a century that this talk that the British people indulge in, since the fall of the Empire: "we're just a tiny island. And woe is me. Woe is me". You are still one of the richest countries in the world. You are among the thoroughbreds, and it's, it's at least impolite to focus on, oh, "we're not as good as the Germans right now". When there are real non thoroughbreds coming within a 10th or a 20th of yours. I've been

saying this for 50 years, it's had no impact, but I say it again. Stop it, for Lord's sake. Let people be free. Allow them to run the race. Let women become airline pilots. Let let people turn agricultural land into housing. Let people start a new hairdressing salon in the neighbourhood if they want to allow people to do those services that you, you'd think are so integral to our our lives. You do that and you get economic growth. It's not the government that made for economic growth. It's not the we. Whenever I hear state private cooperation, I think of corruption and rent seeking. I do not believe that it's the responsibility of any government to choose who's to win or who's to lose. So government by the people, or let's express it way, economy by the people of the people, for the people, as our great poet and President said, is an economy of equality, of permission alone. Thank you.

Professor Tim Besley ([00:41:39](#)):

Okay, Andy, so your job is to catalyse the discussion and to comment on everything that's been heard so far and and distil that as well as giving us your own views.

Andy Haldane ([00:41:50](#)):

Very good. Thank you, Tim. In five minutes, lovely. Surrounded left and right by eminent historians. I will also take a historical lens, although a narrower historical lens. I want to talk about what I did yesterday. Now what did you do yesterday, Andy? Is the question I hear absolutely no one asking. So let me tell you. I got on a train, went to Sheffield for the launch of the South Yorkshire, first investment zone in the UK, and I came back buoyed by that experience, optimistic. Sheffield, South Yorkshire, has been a part of the great stagnation, but I came back thinking it could be part of the great regeneration, not just of South Yorkshire, but beyond. So let me give you five reasons five factors that aren't Sheffield specific, why I came back buoyed by that experience, which might be ingredients for regeneration more generally. One local leadership. Without local leadership there will not be local growth. And without local growth, there'll be no national growth. South Yorkshire has a new-ish Mayor. The investment zones have achieved a degree of glue within the region. You know what's sometimes called the People's Republic of South Yorkshire, with warring factions. Doncaster , Rotherham, Barnsley and Sheffield have now been glued together through investment zones. And without that local leadership and glue, there's no chance of local growth. It appears to exist. Secondly, South Yorkshire now has an industrial strategy - everywhere needs an industrial strategy. I would argue the world is falling over itself right now in the generation of industrial strategies. We are at risk and have already to an extent fallen behind by not having had one.

([00:43:53](#)):

David spoke to this. The East has been at this game for at least two decades. The West is belatedly being stirred from its slumber. The UK is still playing catch up in South Yorkshire. It's rooted around advanced manufacturing. David spoke about that as well. Indeed rooted in the Advanced Manufacturing Research Centre just outside Sheffield, which is a partnership between government and business. It's been in place actually for getting on for 20 years, but is just establishing wings. It is those wings that will establish regeneration in the wider region. Third, heritage. Heritage really matters if you are to bind in local citizens. But the key thing is to be respectful of heritage, but not bound by heritage. Really important everywhere, including where I was yesterday in South Yorkshire, it's symbolic for the advanced manufacturing research centre. The AMRC is based in Orgreave, which for the older members of the audience, which certainly includes me, was the place where the battle of Orgreave during the miner's strike took place, of real symbolic significance.

([00:45:15](#)):



But now they're looking forwards rather than backwards as an advanced manufacturing site. Four is about the importance of anchor institutions, both institutions and anchors. The reason I'm optimistic about South Yorkshire, indeed elsewhere, is because it is an alliance. I'm disagree a bit with Deirdre here of anchor institutions that straddle all sectors. It includes central government. The Chancellor was up in Sheffield yesterday, launching the investment zone with a slug of central government money. It includes local government, the importance of local mayors and local council leaders. It includes business. Boeing yesterday was putting a big slug of money into a regeneration of further arm of the AMRC Also, there is McLaren there, there is Rolls-Royce there, there is GKN, there's 120 industrial partners, and also there's the local universities, both Sheffield University and Hallam University as part of that partnership, public, private and civil society.

[\(00:46:33\)](#):

That for me is the absolute seed corn of regeneration success. One minute left. Thank you very much. Final point, the public realm, the cultural realm on that site is being built. 4,000 new houses on that site are being built. New green spaces, a key point in attracting people in and keeping them in. If those are the core ingredients, some of which are there in Sheffield, already in South Yorkshire, some of which are being built, what are the missing ingredients in my remaining 45 seconds? I'll mention four, 10 seconds each. The first of which is that devolution has yet to run its course, it's currently for my money rather half-hearted. It has far further to go in emboldening and empowering local leaders. Secondly transport infrastructure is pathetic in this country at both the local and the national level.

[\(00:47:35\)](#):

It's only five miles away from the city centre, the AMRC, but there's no train there. And the buses run at best at peak times, twice per hour, if indeed they run at all. And don't get me started on national infrastructure, by the way. if we want to try and get between any of our cities at any speed, good luck with that. We have built the world's first ever intercity network, which actually does not connect any cities. At huge cost. That's right. Sorry, Tim, I know you were part of the national distribution, I should have views on that. Tim mentioned the Macmillan report, the Macmillan gaps are chasms in South Yorkshire. That's why no big business has a home venue. And last, but by no means least, that speaks to stuff that Deirdre's been speaking about over many long years, which is the importance of narrative and stories. Every place needs a story about themselves. Every person needs a story about themselves and a story that's not looking backwards and down, but rather is looking forwards and up. We still miss that across many places in the UK. Until we have that positive narrative, we will not have positive growth. Thank you, Tim.

Professor Tim Besley [\(00:48:54\)](#):

Thank you.

[\(00:49:01\)](#):

So there's lots of interesting points being raised, but I think I'm going to allow them to come up in the way we interact with the audience rather than my trying to bring them out. I should say though that my heart is warmed by your reference to Sheffield, which is my hometown, where my family historically were in mining and steel making, as you might expect, but their main contribution to the economy of Sheffield was in professional football and becoming publicans after that. So not perhaps the sectors one thinks of as necessarily the important ones, but OK. So what I'm going to do is look to the audience now to provoke a bit of interaction with the panel. I'll collect them in three. Adrian, you, you caught my eye first.

Adrian Wooldridge ([00:49:56](#)):

Can I ask a question of David Sainsbury? I don't think Singapore is remotely a tyranny, but it's certainly not a democracy. Do you think serious economic growth in this country is compatible with democracy?

Professor Tim Besley ([00:50:10](#)):

Okay. Growth and democracy. Good, good. Punchy question.

Speaker 10 ([00:50:18](#)):

Thanks very much. I am heavily biased because I run a think tank about building resilience to extreme risks like pandemics and artificial intelligence and potential challenges. And my question is, if the aim is to rekindle Britain's economic flame, how do we make sure that we are not having those aims swept away by extreme risk events happening in, in the way that we've seen with covid19? but also how do we do that optimistically and, and not just kind of bring this in as a problem? What, what's the optimistic vision for managing those risks with the aim of a growing economy? Thank you.

Professor Tim Besley ([00:51:00](#)):

Okay. And then the third was just here. Yeah,

Lee Waters ([00:51:02](#)):

Thanks. I'm Lee Waters and a Minister in the Welsh Government. I don't think optimism is quite going to cut it really. I'm frustrated by the second panel discussion we've now had with no mention of the inbuilt instability we know we have from climate change. There mentioned last night was constraint in Whitehall. But other than that, even if you are a climate sceptic, which I realise there are people here who are, the change to our climate already baked in, is going to cause extreme economic instability. It's been 15 years since the Stern Report predicted a 5% annual annual drop in GDP and the science has only hardened since then. So it seems to me it is happening whether we want to acknowledge it or not, and I don't know how we can have a discussion about the next 50 years without talking about it.

Professor Tim Besley ([00:51:52](#)):

Okay, thank you. So I'm going to join the latter two questions, which both had a common theme about resilience, instability, in particular the threat of climate change. And then we had the challenge, how does this all work in a democratic framework? Can we have growth and democracy? So I'll start with Deidre, then I'll go to Anton and I'll come back to David and then we'll see how we go.

Deirdre McCloskey ([00:52:17](#)):

I don't think the science on climate change is quite baked in the way you say it is. It's changed and changed in moderately. I'm concerned about climate change in a moderately optimistic direction. I don't mean it's not happening, that's not what I'm saying. I'm saying that through, not we, but you and me we're finding small solutions or large ones, and they're happening. That's the engineering consensus. On artificial intelligence I just wrote a column about it. I'm the world's experts on artificial intelligence. So I'll tell you what I think. Artificial intelligence is as old as humans. Language is an artificial intelligence machine, for example. It has all the characteristics except physical instantiation that artificial intelligence has. The old joke in the humanities is do we speak the language or does language speak us? And more to the point of our discussion this morning, the economy is an artificial intelligence machine. By which I

mean an economy in which you and I make decisions about our life. And an order emerges for good or bad.

Anton Howes ([00:54:17](#)):

So right above me, it says lessons from the past. One thing that I think is really interesting about resilience, and I do take resilience very, very seriously, there is actually a really good historical kind of analogy to look into in some detail, which is the fall of the Dutch Republic. Now, the Dutch Republic has this golden age from about the 1580s to about 1650, 1660. And suddenly in 1650, 1660, everything goes terribly wrong. I mean, literally everything goes wrong. They get invaded by the French, goes awfully. They have their disaster year in 1672. Their fertility rates suddenly decline, the population stagnates, they start getting all sorts of environmental disasters. The various rivers start silting up, various dams start breaking the huge floods. It's almost apocalyptic. They have their version of foot and mouth disease.

([00:55:14](#)):

You know, they become quite reliant on the agriculture, there's massive fall in the cities. I mean, it literally deurbanises, despite already being the most urban society in the world, and deindustrialises all at the same time over the course of a very slow decline of about a hundred years. There is a lesson there, and yet in 1776 when Adam Smith writes about countries around him that are doing well, he talks about the Dutch having reached a certain level, a very high level of opulence. I do think those things are to be taken seriously. And one of the issues that the Dutch Republic faced is that it constantly has to ramp up taxes to try and deal with a lot of these issues.

([00:55:59](#)):

But it's very difficult to imagine a situation in which the Dutch Republic could have survived at all, let alone maintained a level of opulence a hundred years on from the beginning of all this, this kind of slow managed decline, had it not already become quite wealthy in the first place. That's not to say that growth is the kind of golden ticket out of a lot of disasters, but it certainly helps if you can, if you have a lot of wealth that you can start on mitigating against future disasters and start planning for them too. If we think of things as being kind of insurance schemes that take resources, it's very well worth doing that.

Professor Tim Besley ([00:56:35](#)):

David

([00:56:35](#)):

I think I was asked a question whether industrial policy is compatible industrial policy is compatible with democracy. I don't see any reason why not. I mean this is something that is agreed between industry, industry asking, this is our plan to do this, and we want government support and government can give support. It's not that there's no reason why that is incompatible with democracy, and Singapore is not the ideal on this, but it is actually still a democracy. They happen to continue to vote for someone. I don't think that there's anything that says you can't have an opposition. And of course what they do have is the great advantage that the same people by and large continue to run it, as opposed to our system where we have a change of minister and government pretty well every kind of few weeks.

([00:57:38](#)):

And that is not good for trying to have an industrial policy. But I can't see any reason that these two are incompatible. On climate change I think the point that needs to be made there is that climate change

and the green industries are one of the real future opportunities for economic growth. You can see that in our wind turbine industry, which was actually a rather good example of industrial policy. What we should be doing is seizing those opportunities which climate change produces as part of industrial strategy, to make it work. So I don't think it should be left out. It's a way we can create high value jobs in the future.

[\(00:58:33\)](#):

Excellent. So let me just make one comment that joins up the two questions. If you look at one very robust physical fact, which I don't think is well known, is to look at instability and whether you're democratic or not. So one thing that's very, very clear in the data is that you get very high performing autocracies - we can debate whether that is or not, Singapore - but South Korea during its early industrialization, you also get all the low performers. What you buy by being democratic is a huge shrinkage in the distribution of performance across a whole range of indicators. And actually, we're already beginning to see that in the climate area. So I did a report for the Asia Infrastructure Investment Bank last summer, which showed exactly the countries that are acting, you're getting the same pattern. You've got the autocracies that are just ignoring this. You've got a few China again that are worrying about this, but on average, the democracies are doing far more in that space. So I think we should think of democracy, not just in terms of do you get more or less growth, but actually do by yourself a certain degree of insurance or resilience. And democracies are just much more resilient. And I think you can see that across a whole range of policies. So we mustn't just think in terms of average growth rates. Okay. I'll go right to the back and then I'll sort of work across the back - three questions again.

Speaker 12 [\(01:00:02\)](#):

I'll try and keep this brief. I just wondered why we're so obsessed with high-vis and hard hats and digging holes in the ground. And not talking enough about the fact that, for example, there are women in this country, and it does predominantly affect women, who cannot afford to go to work, it's pointless them going to work. I was in that situation myself, and I had a good job where I earned the grand sum of 400 pounds cash a month, and I stuck with it. And I listened to Cheryl Sandberg who said, lean in. And I'm really glad I did. But for many women, they do not have that choice, and I don't understand why we don't talk about it more because their loss to the economy must have an impact on growth.

Professor Tim Besley [\(01:00:48\)](#):

Right. Thank you. I'll continue, I'll go right to the back and then I'll take this one in the middle here.

Nicola Headlam [\(01:00:59\)](#):

I'd like to start by thanking Andy Haldane for his contribution to the bright angelic mills narrative, rather than the dark satanic ones. I don't think anybody apart from Lord O'Neill of Gatley where I live has done as much in that space. I, for my sins, organised a summit in Rotherham with the Prime Minister and the Mayors in 2018. It was to set the Northern Powerhouse strategy. It was a disaster in retrospect because what had happened in between us thinking it was going to be a good plan and it happening was that the election for December 2019 had been called. So the temperature between the northern mayors and the Prime Minister was extremely difficult. And what I would like to say is why is the work of institution building in the sub-national - where actually the democracy and productivity thing could tie together beautifully - why is it so hard in this country?

Speaker 14 [\(01:02:08\)](#):

Thank you. It was very nice to actually have a mention of Sheffield's economic decline without usually obligatory mention of The Full Monty. So thank you to Andy for that. But even those of us who consider ourselves economic liberals, looking at the world today, seeing the trend towards deglobalization, a return of great power competition and all the various other temperature raising things we see on the horizon, does one have to accept that even if we don't like to admit this, and even if we think a free economy is one that functions the best, that even if you're not looking for industrial strategy at the moment, industrial strategy is looking for you. This is not a question of what can make an economy grow the fastest, but simply national security and preparing for an international environment that looks increasingly toasty. Thank you.

Professor Tim Besley ([01:02:58](#)):

Great. Thank you very much. So I'm going to come to Andy because you were implicated. So we have a question about gender, we have a question about institutions, and we have a question about industrial strategy.

Andy Haldane ([01:03:16](#)):

Can I take all three really briefly? Okay. On the first one. Absolutely. Economic growth, really easy. You get it either by growing your work for workforce or by making that workforce more productive. David spoke about productivity, we haven't spoke about the other bit, which is growing the workforce. The lucky story post financial crisis is that for a while our workforce was growing and that was in part a story about increased domestic participation, particularly by women, right? That reversed itself three or four years ago in the light of covid. That's why there's half million people fewer in the workforce now than was the case then. Should huge efforts be made, even bigger efforts be made, to get more people back in the workforce, particularly women? Absolutely. Are the child care reforms that are announced in the budget a step in the right direction, a down payment? Yes. Is more needed? Absolutely. I would include not just women, by the way, but older people. Most businesses are ageist, the jobs being offered, the 1 million unfilled vacancies in this country, most are not suitable for anyone my age, much less older. That is wrong and needs to change. If we are to have that second cylinder of growth, the workforce cylinder firing. Institutions, we have not valued them locally. The short story is we've failed to invest in them. We've hollowed them out over many years. Governments red and blue have done that. The tide stopped retreating, but for me is yet to fully turn and needs to, if we are to make good on a place-based strategy, which for me is the seed corn then of a national strategy. And on all matters industrial policy. I'm tempted just to agree. Whether the rationale for that is beating back the climate crisis or whether the rationale for that is strengthening the resilience of supply chains that we rely on for our essential goods, both of those are equally good rationales for pursuing this course with force as pretty much every country on the planet is now doing. It's engaged in an arms race. That arms race is positive for climate reason, by the way, most arms races aren't. This one is, because it's beating back a global externality. It's also some value for reasons of domestic resilience. We need to be careful that doesn't sway into mercantilism and protectionism. That is a risk. But ultimately this is a means by which we break free for me of that great stagnation that is our conference title.

Professor Tim Besley ([01:05:55](#)):

Anton indicated he'd like to come in.

Anton Howes ([01:05:58](#)):

Something's bothering me which is that - and maybe this speaks to Deirdre's point as well - a lot of things seem to be downstream of the fact that it's very difficult to just do things without some kind of political say. I agree that in the current climate, given the way things are structured, it does make sense that you have devolved administrations, that you have more power perhaps for elected mayors in various regions, that you have various strategies and conferences and all of this narrative building, and all of this stuff that happens. But ultimately, when you look back at how a lot of the infrastructure that we currently enjoy in this country today was built in the first place, it did not require any of that.

[\(01:06:37\)](#):

Now, clearly something has happened along the way where we've created structures whereby we have to have political say in order to get anything built, whereas before it was, well, I gotta get coal from Northumberland further inland so that I can get some more grain from further inland. Let's get a quick Act of Parliament to allow us to do that. Bish Bash Bosh, there's an economic case, it's done. Now, obviously there might be more issues that need to be solved along the way. There may need to be another kind of restructuring that goes into that. I'm not saying it's an easy task to fix, but it bothers me that so often we have this issue. And the same with housing. You mentioned that there's a local strategy to build more housing.

[\(01:07:20\)](#):

There shouldn't need to be a local strategy to build more housing. It should be that, as Sam Bowman was saying, I think so rightly yesterday, that you get building in response to energy prices. And the same with energy right. Back in the 1950s and 60s, this country was the world leader for nuclear efficiency. It was one of the first, and it was only just getting started, but it was the world leader for nuclear efficiency. And yet we let the French get ahead of us, and now look at who's benefiting. France, we're literally importing French nuclear energy all the time. And then the moment they have a problem with their reactors, we're in really big trouble because we're so reliant on that. Again, we've lost our ability to allow market forces to react in a smooth way because we've gummed up the system with so many things along the way. And I think that's very much worth addressing. I'm not saying I have the answer to that, but I think it's the way to be thinking about this.

Professor Tim Besley [\(01:08:20\)](#):

I think Deidre and David both want to come in. I hope we'll get another round of questions, though. So if you could be very brief in your replies.

Deirdre McCloskey [\(01:08:26\)](#):

Well, I have the answer. I completely agree with Anton, which is get your hands off the economy. It's a terrible mistake to think of everything in terms of 'we'. You start bringing we into it, and I object to my neighbour starting a shop. As soon as you bring politics into it you are going to get 'not in my backyard'. I was on a panel at the National Theatre in London some years ago, and the audience was predictably Red. The People's Flag is Scarlet Red and so forth. And I said, you know, the reason you have a housing crisis in London is planning permission. And they hissed me. Well, you know, as soon as you bring we in, you're doomed. Industrial policy, I'm sorry to say is a terrible idea.

Professor Tim Besley [\(01:09:59\)](#):

Okay, David.

Lord Sainsbury [\(01:10:01\)](#):



Can I just talk a little bit about industrial policy because it's a rather interesting question. If you look at this historically you find that the countries which are not leading get back to being a leading country by industrial policy. When they then get to a leadership position they suddenly change and say, what we need is a totally free market. It's a perfectly rational thing to do, but it doesn't tell you that industrial policy is wrong. And if I can go back to this historical point about how did Britain become so successful in the Industrial Revolution, it's not true that at the time of the Industrial Revolution we were purely an agricultural society. In fact we were a very wealthy society based on wool manufacturing. And how was it that we were the world leaders in wool manufacturing? Well, actually it was a Henry VII industrial policy. Henry VII as I'm sure you know was in his youth exiled to Brittany. And he saw there what was happening to Flanders. Flanders was then a very wealthy society because of its ability to weave wool and garments. And he saw that the wool and garments were made from British wool and that was the basis of their success. And so he came back to England, became King, and said that the country was in a terrible way borrowing money from the Italian bankers. We've got to get out of this. And he had an industrial policy which was to turn this country into a great woollen manufacturing country. And he did that: classic industrial policy. He stopped manufacturing woollen garments coming into this country. He got the Flemish weavers to come over to England to teach us the skills. And he put a tariff on wool being exported, which did in some of the other countries. That was a classic industrial policy. And it's why we in the period before the Industrial Revolution were extremely wealthy based on wool and manufacturing. And if you go to the House of Lords, you'll see that the speaker sits on the woolsack. Why would he sit on the woolsack, which is a sack of wool? Because that was a symbol of our wealth. Now again, if you turn to America. It didn't become wealthy as a purely liberal democracy. People forget that Hamilton was very keen on tariffs and had a tariff policy. And up to the end of the second World War America had strong tariffs to keep out foreign goods and protect its own markets.

[\(01:13:03\)](#):

It's only at the end of the second World War when America has complete world domination and success, that suddenly it says, no, no, no, this is a terribly bad thing. We have to get rid of all these tariffs, and have completely free trade. So just look at across the world, this idea that free markets is what has led to success is not true. Almost all the developing countries we've seen come forward have had some kind of industrial policy. When they become, when you become the leading country, of course, then your position changes. Okay? So if we're going to have a serious approach to try and get back into wealth, we've got to drop this idea that somehow, somehow the way you become wealthy is just purely by a market economy. I'm for a market economy, that's basic to the whole thing. But you need also to have collaboration between industry and government.

Deirdre McCloskey [\(01:14:00\)](#):

No, you're against a market economy

Lord Sainsbury [\(01:14:03\)](#):

No, no, I spent all my life in market economy. No,

Deirdre McCloskey [\(01:14:05\)](#):

You want to go back to mercantilism, that's what you want. And that's what industrial policy is. We are reestablishing what Adam Smith and John Stuart Mill, my heroes, we're arguing against. And it's going to kill economic growth. And it has repeatedly.

Professor Tim Besley [\(01:14:30\)](#):

It'd be nice to go back one more round. I've got loads of hands. I've spotted three. Be really brief please. So, down here first, who's got the mic?

Speaker 15 ([01:14:48](#)):

Okay, I'll try and get rid of my five bullet points and get it down to one.

Professor Tim Besley ([01:14:53](#)):

Yeah, give one. Only one, please.

Speaker 15 ([01:14:56](#)):

So, a lot was lost in the economic crash of 2008. But one of the things that has stood out for me, I got my dream job then to be professor of innovation in the West Midlands. We had a great plan to increase the GDP. It didn't work out because the money disappeared. What has changed in the last 15 years is the amount of gateways and the amount of people who think they know what to spend innovation money on, and the amount of turnstiles and hurdles any individual has to go through to get 10p, let alone £5 million. And I'm saying this as the university professor and as someone who worked in innovation at the B B C for 15 years, the only fund I can see in the UK that allows a single professor or a small team to do what they want in terms of research without telling you in advance what it's going to be and without telling you what the results are going to be is the Wellcome Fund. And honestly, that is a huge problem for this country.

Professor Tim Besley ([01:15:49](#)):

Okay, thank you. Again, very brief.

Speaker 16 ([01:15:54](#)):

So I was very surprised here in Churchill College to hear a panel with so many economic historians talking about what made Britain rich, that didn't mention the Empire. And that didn't mention what Britain did to India. That seems a large omission. If you have evidence Deidre on optimism in climate science, I'd love to see it. I'm a climate economist. It doesn't exist. There's only downside.

Professor Tim Besley ([01:16:23](#)):

Thank, thanks very much. Great point. And then finally at the back there.

Speaker 17 ([01:16:31](#)):

Thank you very much. I'm Allison Rankin Frost. Andy, you've given some great examples about how central planning of transport hasn't worked. And then you've talked also about strategy in regions. But how do you pick the right strategy? How do you know that your plan for essentially war is the right strategy and on heritage. My background's in Northern Ireland, how do you know that you're picking the correct side in heritage? How do you know where your boundaries are? I mentioned I'm in business. I find that often when you ask a business what its important things are and what its strategy is about, basically they talk about ESG, they've forgotten what their purpose is and their purpose is not ESG. That should be a hygiene factor. They need to focus on what they actually do and where they add value.

Professor Tim Besley ([01:17:26](#)):

Okay. So no small three questions to end on, but this will be the end. Andy, why don't you take the last question since it was more or less directed at you, and then somebody might want to comment on the bureaucratic institutions that support all of this. And then finally, someone might want to talk about Empire in 30 seconds.

Andy Haldane ([01:17:49](#)):

I'll be very brief. So on the last question and heritage, the words I used were being respectful, which is really important - including in Northern Ireland, a place I know well - but not bound by. And for me, that is key to moving ahead wherever that might be on, on transport. What I'd say with this, you know my evidence base is what has happened internationally and what has happened internationally when it comes to go-go growth is that it comes from turning your cities into mega cities. The UK has a Second City problem because it has outside of London no real mega cities and local transport is a big reason for that. And indeed, looking ahead, the real next frontier is not mega cities, it is mega regions of which the US now has about a dozen, of which China now has about 30, and of which we have now zero. Which is why underscored the importance of intercity connectivity to turn what are currently isolated, often city nodes, into a genuine UK network. That will not happen as long as we have no way of getting between our cities in less than three or four hours.

Professor Tim Besley ([01:19:07](#)):

Okay. Does anyone want to take the question about the landscape of support for people who want to do work?

Lord Sainsbury ([01:19:15](#)):

Shall I deal with bureaucratic funding? Yes. Having been science minister, this is a field of knowledge. I think if you look at research councils across the world as a whole, the British model is a pretty good one of research funding, of grants. As opposed to what used to be the Italian model, in which the projects are sent to the minister and the minister agrees them. I think it's become more bureaucratic since we've had a layer on top of the research councils and that's made it more bureaucratic. We should get rid of UKRI bureaucracy on top of the research councils because that hasn't helped. I think also in particular circumstances the UK funding system breaks down. Where it breaks down is where you've got an area very rapidly developing.

([01:20:16](#)):

There you want to fund institutions and not projects, of which the laboratory molecular biology is the classic case. So I think those modifications can be done, and you can get rid of some of the bureaucracy. But the basic system I think is, is fairly good.

([01:20:35](#)):

Can I just talk on the Indian Empire? Yes, of course the Indian Empire was one of the ways that we created our wealth. India, in fact, before the period of the empire was really quite a wealthy country internationally. We went in and one of the basics of our colonial influence was we stopped, we discouraged them, doing manufacturing. We took the raw material back to England, we manufactured the goods and then sold them back to India. With a result that by the time we left, India was one of the poorest countries having been one of the wealthiest. So there's no question that part of colonialism was in fact effectively exploitation of those countries.

Professor Tim Besley ([01:21:21](#)):

Deirdre, we're in negative territory time-wise. So if you could just be brief, please.

Deirdre McCloskey ([01:21:27](#)):

I am not in favour of slavery. I'm not in favour of empire. I am not in favour of male domination. But I don't think that any of those, the exercise of any of those, made people rich. It's not correct historically that India was rich before the Raj or before John Company [the Dutch East India Company]. That's simply false. It is not the case that Europe became rich by stealing from the rest of the world. I mean, if, if you're gonna steal from someone, steal from a rich country, steal from France. Don't steal from some poor country in Africa, that's not going to do you any good. So this charge from the Left, that the world is zero sum essentially, and that we only got rich by taking from other people is bad as economics and as history, it didn't happen.

Professor Tim Besley ([01:22:51](#)):

Okay. Well, thanks. I mean we've certainly rekindled a lot of flames here in terms of interesting debates and discussions. So the panel has been super successful in all dimensions. I think the number of hands that unfortunately I couldn't come to was also indicative of how much stimulus there must have been out there from these really fascinating comments by all of the panel. And I hope you'll join with me and in thanking them.