Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Jim O'Neill

# The UK could get itself unstuck

A recent edition of the Economist has an amusing if somewhat desultory lead article about the current state of the United Kingdom, describing it as a national version of Poundland, the discount store where everything was originally sold for £1 or less.

Supplementary articles addressed some of the UK's myriad other problems, including long-term debt sustainability, which is understandable, given that the latest annual report on the issue by the Office for Budget Responsibility makes for rather bleak and sobering reading.

This focus captures Britons' mood about the country and the economy rather well. But, amidst all the doom and gloom, I find myself thinking that there are some underlying positive developments that rarely get much attention, and certainly are not understood even among policymakers.

First, a slow but important relative price shift in the housing market, which began almost a decade ago, has continued, though it is barely commented on.

Many days you can read a new article about unaffordable house prices, typically focusing on London.

But while prices are extremely prohibitive, at more than six times average earnings, the level has come down from nearer to eight times earnings a decade ago – still prohibitive, but not as bad as it was.

## The ongoing decline in London house prices

Several factors appear to explain this development: the introduction of the buy-to-let tax in 2015, the Brexit referendum the following year, other schemes to weaken demand, as well as the rise of remote work that began during the COVID-19 pandemic, and perhaps maybe the non-domicile tax all may have played a role.

Moreover, London is not the economic powerhouse it once was, and its post 2000's productivity weakness is the new driver of the country's overall poor productivity performance.

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The underlying affordability issues and, equally important, the impediments to the labor market and social mobility in the UK would be mitigated if the trend continues.

Interestingly, the ongoing decline in London house prices appears to be having no negative systematic financial consequences, unlike past periods of house-price bubbles bursting, nor does it appear to be negatively affecting other regions.

On the contrary, some other regions appear to be immune or possibly benefiting from shifting patterns in housing demand, which may reflect changes in relative regional economic performance.

## Productivity growth

This takes me to the second positive development: relative regional productivity.

The annual publication of regional GDP data released last month by the Office for National Statistics (ONS) shows a more positive growth and productivity story in Greater Manchester.

Productivity growth in this urban area has been nearly triple that of London since 2004. As a result, the absolute level of productivity is now only 35% below that of London, instead of close to 50%.

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This is an important story, because if Greater Manchester's experience is repeated in other urban areas going forward, the country's trend growth performance would be stronger. And data relating to individual boroughs shows other pockets of hope.

Notably, Rotherham in South Yorkshire has recorded the sharpest rise in productivity anywhere in the North since 2004. This almost certainly reflects the impact of the Advanced Manufacturing Research Centre, which is physically located on the edge of Sheffield but is administratively located in Rotherham.

## Changes are possible

These two developments are important in themselves, and it is remarkable they don't get much media attention.

But in my view, both stories raise the possibility that other, seemingly insurmountable national economic challenges can be probably addressed more easily than either the public or the government believes.


*Our elected policymakers and civil servants must abandon the pretense that dabbling around the edges will make a difference - Jim O'Neill*

This includes the economic insanity – highlighted by the ONS report – of the persistence of the unaffordable and unfair "triple lock" on pensions, which guarantees that benefits will rise each year by either the rate of inflation, the rate of wage growth, or 2.5%.

It also includes the stalled effort at modest welfare reform, the seeming impossibility of fixing the National Health Service and social care, and the antiquated tax and planning systems surrounding the housing and construction system.

All are solvable challenges. What they need is determination from our elected policymakers and civil servants, who must abandon the pretense that dabbling around the edges will make a difference.

The lack of awareness of positive recent developments in regional house prices and regional growth is odd, because both trends suggest that the UK could get itself unstuck. Big, bold, necessary changes are possible. All we need is sustained resolve to bring them about.

Jim O'Neill is a former UK Treasury minister and a former chairman of Goldman Sachs Asset Management.