Reviewing the LSE Growth Commission [1]

Written by **Anton Howes** [2] | Tuesday 5 February 2013

The London School of Economics' much-vaunted "Growth Commission" has finally released its report [3], after a year of discussion, debate and work. Unfortunately, the policies it advocates are unoriginal and underwhelming.

They focus on three areas of long-term investment, into human capital, infrastructure and innovation. All of these factors are, of course, conducive to growth. However, beyond that obvious, aggregated view, the authors fail to answer the question of *which* investment is right for growth; *which* human capital;*which* institutions are most conducive to growth.

For example, human capital is not some homogenous gloop to be imparted into the grey matter of students, but can be subdivided into a whole host of different skills and capabilities. Some of these skills will be conducive to productivity growth and innovation. Others will be useless. While improving school autonomy is admirable, the largest contribution of this report is to slap the term "flexible ecology" onto policies already being pursued. At no point do they explain that school autonomy is important because freer interactions allow employers and universities to demand and get the types of human capital that they need, rather than what a top-down state system foists upon them.

Similarly, physical capital in the form of infrastructure is not some magical panacea. While they identify the planning system as a key barrier to private infrastructure investment, the report's authors bizarrely recommend the creation of three new Quangos, one of which is a bank, and to automatically pay more for any infrastructure projects. Perhaps they might have stopped to consider that the implication of a faulty planning system is to reform it, rather than to add more bureaucracy, and pour even more money on the problem. The report's proposals again focus on merely increasing investment, with little regard for quality and sustainability.

The report is weakest on the most important aspect of economic growth: innovation. They identify a lack of capital for new entrepreneurs as the biggest problem. Predictably, their answer is to support current moves towards a government-run "Business Bank", to support new financial regulations, and for yet another Quango to be created to form industrial policy. Again, this is hardly original. All of this ignores the fact that government, and even supposedly sainted "independent" Quangocrats are notoriously bad at picking winners, and are likely to exacerbate any capital misallocations in the economy by diverting it away from viable innovations. The Commission's plan is basically to use taxpayer money to prop up unsustainable start-ups, towards an unclear and likely negligible impact on economic growth.

The LSE Growth Commission's report fails to see that institutions need to be conducive to choosing the right investment, not simply more of it. The value of an economy is only increased if people get what they

actually demand. For all its imperfections, free exchange is still the best test of determining what people want, and which innovations are best at meeting those wants.

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