

Why a post-Brexit UK needs more frontier companies like Amazon

JEREMY WARNER



Forget the coming robotic revolution. At Amazon "fulfilment centres" in Doncaster, Dunstable and Manchester, robots are already a fact of life. Where humans once used to walk the aisles, painstakingly selecting items for packaging and delivery, robots now do a large part of the job instead.

Yet paradoxically, far from destroying employment, the robots have ended up creating much more of it, at least within Amazon itself. Not everyone will be celebrating; there will be victims of Amazon's success among the dispossessed of less competitive retailers. But the overall effect of Amazon's robots on both UK employment and productivity seems thus far to have been overwhelmingly positive. The second machine age, the fourth industrial revolution, artificial intelligence and advanced robotics, use whatever labels you wish: Amazon's robot enabled fulfilment centres are just one small example of the great leap forward in productivity and ultimately living standards that these new technologies promise to unleash.

Only one problem; so far, the tech revolution is almost entirely absent from the economic data, where productivity is experiencing one of its longest periods of sub-trend growth in modern history. This so-called "productivity puzzle" – transformational technological progress on the one hand but poor to non-existent productivity growth on the other – was the subject of a characteristically thought provoking lecture this week by the Bank of England's chief economist Andy Haldane. Was he right to blame poor productivity performance? Yes and no.

But first a word on why it's so important. Productivity growth – more output for less input – is the magic ingredient which delivers higher living



AFP/GETTY IMAGES

standards. It's why real wages rise over time, and it's why, at least in the modern age, each generation has been significantly better off than the last one.

Without it, living standards stagnate or decline and, as we have seen, political and social tensions rise. Poor productivity growth is therefore an urgent cause for concern. Since the financial crisis, poor productivity growth has been common to virtually all Western economies. Yet for Britain, there is at least the opportunity to play catch up, for we have a much longer term issue with low productivity than some of our main rivals. The Chancellor, Philip Hammond, and his Business Secretary, Greg Clark, have made addressing this deficit one of their key policy priorities. We can only wish them luck, for raising the productivity of British industry has been the holy grail of successive governments for my entire working life. Success has so far proved elusive.

It's also the case that higher productivity isn't the only yardstick by which we should judge economic success. Unlike much of the rest of Europe, Britain has enjoyed something approaching a jobs "miracle" since the depths of the financial crisis, with record levels of job creation. This in itself has marred the productivity data. If Britain had been willing to tolerate

the very high levels of unemployment seen throughout much of the rest of Europe, then it is a matter of simple mathematics that its productivity performance would have been much improved. There is an obvious trade off here.

What is more, the productivity data suffers from an affliction common to much economic analysis; it is merely an aggregated average that disguises wide disparities between regions, cities, sectors and companies. The mediocrity of the overall numbers gives the impression of a nation of lazy, ne'er-do-wells, run by managers of questionable competence and ability, not an appetising message to send to international investors.

Yet the reality is much more granular: Britain manages to combine some of the most productive companies and regions in the advanced world with some of the worst. The UK's highest productivity region, London, is for instance 75 per cent more productive than its lowest, the North East, and manufacturing is 35 per cent more productive than construction. Even more concerning, the UK operations of foreign owned firms are generally much more productive than their British counterparts. Furthermore, companies that export a lot –

Amazon's warehouses are still full of jobs for humans despite the robot revolution

lamentably few and far between in the UK – tend to be more efficient, if only because they have to be globally competitive, than those that rely heavily on domestic consumption. But what of Haldane's main criticism – that of poor management? Well, if there is a problem, it's again a global one that does much to explain the "productivity puzzle" in the round. Analysis by the OECD has found a clear division in the business world between a small number of what it calls "frontier companies", where technological take-up is high and rates of productivity growth correspondingly exceptional, and the great hinterland of "laggards" which despite its inefficiencies, nevertheless manages to scrape by and survive. Amazon is a prime example of a frontier company. I'm not going to risk complaint by naming some laggards, but they all know who they are. Or perhaps not. Mr Haldane compares them to car owners, who regard themselves as above average drivers and are impervious to any evidence to the contrary.

Be that as it may, one of the key explanations of poor productivity growth is emerging as lack of diffusion of new technologies from the frontier to the rest of the economy. And labour displaced by the growing market power of frontier companies is forced to find work in lower wage, lower productivity employment, further polarising the gulf between the high and low productivity parts of the economy.

To cap it all, we have London, sucking the lifeblood out of the rest of the country, a phenomenon which is virtually impossible to reverse as economic power becomes ever more concentrated in the world's major urban conurbations. London's success is simple "agglomeration economics", and something similar is observable the world over.

If Britain wants to become more productive, it should therefore aim to create more big cities, essentially the idea behind George Osborne's "Northern Powerhouse" – before, that is, he determined to take up the editorship of the Evening Standard and put London first. Hey ho.

Britain manages to combine some of the most productive companies and regions in the advanced world with some of the worst'