

# Political Economy of Growth and Reform

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## Introduction

The UK suffers from a series of persistent policy problems to which existing institutions and processes seem unable to produce adequate long-term solutions. Examples include aspects of skills formation (e.g. long tail of poor educational achievement in schools, vocational education for 14-19 year olds, STEM capacity), investment in infrastructure (e.g. limited aviation capacity in the South East, capacity to meet future energy demand), and housing affordability in significant parts of England. All of these problems put at risk future UK productivity and growth.

An earlier report of the London School of Economics Growth Commission, undertaken in partnership with the Institute for Government, mapped out some of these problems and proposed policy solutions. An important limitation of this work, common to most other similar studies in academia, is that it largely ignored the policymaking process, including the set of institutions and incentives that shape it. We set out to address this gap in this research, drawing on insights from political economy and political science. The aim of this study is to develop an analytical framework to shed light on the institutional roots of persistent policy problems in the UK, including options for reform and how it might come about, and to apply this framework to two of the important policy areas we have highlighted above: infrastructure investment and housing policy.

This document summarises the findings of three earlier reports that capture in greater detail the results of our research.<sup>1</sup> We start by looking at institutional weaknesses that increase the risk of sub-optimal policy outcomes. This is followed by a discussion of how the UK's Westminster model of democracy exacerbates the impact of some of these institutional weaknesses, including illustrations of how this applies to infrastructure investment and housing. We then move on to examine what the academic literature says about the factors that can foster institutional reform. The paper concludes by reflecting on the type of institutional innovation that is required to tackle problems in the governance of infrastructure and housing, and what might drive such innovation.

## The institutional roots of policy failure

The issues that concern us are less to do with the quality of individual policies, than with aspects of the policymaking process that affect outcomes, and in particular increase the risk of failure. Two features stand out from the academic literature: one is related to political representation, the way in which individual interests/preferences are taken into consideration in the formulation of public policy; the other focuses on policy responsiveness, i.e. the degree of alignment between policy decisions and those interests/preferences.<sup>2</sup>

Even in a representative democracy, there are instances where not everyone affected by decisions has a say in the policymaking process. Policies may reflect the wishes of the current electorate, but not of future generations; current decisions may constrain the options

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<sup>1</sup> See Coelho *et al.* (2014a, 2014b, 2015), available at: <http://tinyurl.com/q2nefrb>.

<sup>2</sup> For more details see Coelho *et al.* (2015).

of future governments; and restrictions imposed by geographical constituencies may affect the ability of those who are not local residents to influence local policies that affect their interests. Housing policy in England offers good examples of the latter, as we shall see below.

Problems of policy responsiveness are also well documented in the political economy scholarship. The literature points towards a variety of reasons why the link between voters' preferences/interests and policy decisions may be imperfect. One relevant example in the context of the UK is the influence of core voters, and swing voters in marginal constituencies. A key tenet of representative democracy is that electoral accountability should make policy responsive to individual preferences. But, in practice, some preferences are given greater weight than others as parties seek to optimise their electoral strategies. This often means that governments target spending to loyal supporters and to swing voters and marginal constituencies, in an attempt to preserve a majority in the national legislature.

Another example is related to the impact of alternation of parties in government. This is, in some respects, key to electoral accountability and, therefore, policy responsiveness. Yet it can also present challenges in areas where the ability to commit credibly to a particular policy path over the long term is critical. Infrastructure investment is one such area where the risk of government change compounded by unwillingness to forge cross party agreements spanning multiple parliamentary cycles will often lead to sub-optimal policy.

The quality of the information that is used in public and political debates about policy options is also an important condition for policy responsiveness. Empirical studies have linked more and better information to strengthened electoral accountability, and thus improved quality of governance. Research has shown, for example, that better information leads to an increase in voter turnout, higher engagement of voters in the political process, and better policy outcomes.

## Policy failure in the UK Westminster model

Problems of political representation and policy responsiveness are present, to a greater or lesser extent, in all modern democracies. A discussion of the strengths and limitations of policymaking processes cannot be divorced from the macro political structure where they take place.

In the UK, this structure is, of course, the Westminster model, a key subject of interest of political scientists. Their work tends to describe this model as a paragon of majoritarian democracy: a unitary and centralised state, "winner-takes-all" electoral rules, and a pluralist, competitive constellation of interest groups. Proportional representation was rejected in the name of clearly defined and easy-to-understand lines of accountability. The electoral system promoted concentration of power in single-party majority governments, dominant before Parliament. The political culture was described as one that prizes confrontation over compromise.

Of course, this stylised description of the British system has been disputed. Some have claimed that the actual practices of British government are a lot more consultative, inclusive and moderate than that description appears to imply. Others have argued, that the UK's constitutional arrangements have been changing in fundamental ways, and quite rapidly,

most notably since 1997, in ways that no longer fit comfortably within the traditional account of the UK Westminster model<sup>3</sup>. Perhaps more importantly, the development of multi-party politics and regional political divergences represent a radical departure from the familiar Westminster model.

These are important challenges to the traditional description of the UK political system. Yet we posit that some of its core features are still useful today for making sense of problems that afflict some policymaking processes in the UK, and of the type of institutional changes required to address them.

For example, the UK electoral system amplifies the weight of swing voters in marginal constituencies compared to some other countries. Any serious attempt to understand the institutional foundations of policymaking in the UK needs to be sensitive to the set of incentives, including underlying distortions and biases, stemming from Britain's electoral geography and plurality voting system. Marginal constituencies are associated with key political outcomes, including turnout, party campaign spending, and allocation of public spending. Furthermore, the way votes are translated into parliamentary seats has become increasingly disproportional over the years,<sup>4</sup> which increases the importance of marginal constituencies.

The UK political system is often described as a strongly majoritarian form of democracy, with single-party governments alternating in power, and relatively few veto players over a wide range of policy areas. Combined with high ministerial turnover, these features have posed exceptional challenges to the formulation of credible policy commitments over the long term, since future governments (or ministers) with different agendas can easily reverse current policies. They can yield benefits in some areas, by making policy more responsive to shifting public preferences. They may also, however, undermine the consistency and effectiveness of policy in areas where long-term credibility/commitment is crucial.

Another aspect of the Westminster model with important implications for the quality of the policymaking is the type of incentives it creates regarding the use of information. An intensely partisan and adversarial political landscape, characterised by reluctance to compromise is not, in theory, well suited for an effective use of information in public and political debate. It incentivises political actors to manipulate information to score political points or advance private interests. In the event, "evidence" becomes an instrument of party-political battle and competition between legitimate interest groups, in ways that harm the policymaking.

[Our study](#)<sup>5</sup> of the governance of infrastructure investment in the UK lends support to both of these hypotheses. The evidence we reviewed indicates that the way the UK makes strategic infrastructure decisions is often inefficient and lacks public support. Among the causes are problems of credibility and commitment and of poor quality of information. In particular, lack of cross-party agreement around infrastructure investment appears to generate political risk and uncertainty with significant impact on private investment and/or the cost of capital. But

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<sup>3</sup> Specifically, British constitutional experts have underlined that developments such as membership of the EC/EU, the endorsement of European Human Rights obligations, the enactment of Central Bank Independence, the creation of a Supreme Court, and the deepening of devolution within the UK.

<sup>4</sup> I.e. the gap between each party's share of the votes cast and its share of seats in the House of Commons has widened.

<sup>5</sup> Coelho *et al.* (2014b), available at <http://tinyurl.com/ku6w9qb>.

there are also problem with projects which do command cross-party support. In these cases, deficiencies in the evidence base underpinning individual projects seem to undermine the quality of policymaking. Other problems include lack of a forward-looking strategy and failure to foster local community consent. The latter reflects the lack of satisfactory mechanisms to reconcile local opposition with longer term national interest, leading to political procrastination and delay.

We concluded that most of these problems reflect a lack of deliberative processes that could effectively engage politicians, experts, interest groups and local communities in the policymaking process. This institutional gap often leaves the political process exposed to potentially unconstructive interactions between party-political tactics, pressures from interest groups with legitimate claims on infrastructure decisions, and hostility from local communities to individual projects. This has been taking place in an increasingly litigious environment, where judicial reviews and other legal challenges become key mechanisms of dispute resolution.

There are other aspects of the UK Westminster model which have important consequences for policy outcomes. It is quite common for political scientists to draw attention to the highly centralised nature of British government. It is less usual for them to discuss thoroughly the quality of governance in areas where decision making is devolved to the local level. The dearth of analysis of the political economy of housing policy in England is particularly acute. One of the main aims of our research into the housing problem was to help fill this gap.<sup>6</sup>

The background is relatively well known. Increases in house prices, in real terms, over the past four decades, in some part of England, have ranked among the highest of the developed world. In London and the South East, problems of housing affordability have become severe, especially among younger generations and the poor. The size of new houses has been declining for several years and is now smaller than in many other advanced economies. The number of houses built over the past few years fell well short of the level required just to keep the current prices stable.

We found strong evidence that the problem is intimately related to constraints in housing supply, which in turn can be traced back to particular features of the governance of land in England. In particular, planning decisions made at the local level, combined with weak or absent higher level co-ordination (city-wide, regional and/or national) do not seem to ensure that the full breadth of interests affected by housing development are taken into account. New empirical results generated by our own analysis indicate that there is a real and significant risk that planning decisions in England reflect an unbalanced set of interests.<sup>7</sup>

## Institutional Reform

Having discussed how the Westminster model shapes policymaking in the UK, we now turn to the question of how institutional reform can come about – i.e. the drivers of institutional change.

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<sup>6</sup> Coelho *et al.* (2014a), available at <http://tinyurl.com/kzf87gs>.

<sup>7</sup> The problem is also likely to be aggravated by local authorities' limited fiscal autonomy and by "development control", i.e. a planning system where any change of land use, legally defined as "development", requires individual planning permission.

Long periods of institutional stability are often abruptly interrupted by sweeping changes caused by exogenous shocks (e.g. profound economic and political crises, and technological disruptions). Crises can make the need for change clearer and more salient, and alter the way individuals view the world, especially how they associate policy choices with outcomes. Crises may also weaken the ability of interest groups to block reform, and lower the opportunity costs of change, turning previous adversaries into new supporters of reform.

There are numerous compelling examples, both in the UK and abroad, where crises have played a significant role in facilitating institutional change. The creation of the English planning system, for example, came after government was compelled to take actions to address economic decline in some areas in the North and in Wales, and rising concerns about the social and environmental impacts of “urban sprawl” in the South between the two world wars.<sup>8</sup> A Royal Commission was appointed in 1937, which took the view that there was likely to be a causal link between the physical growth of great conurbations in the south and in the Midlands, and the economic hardship of the old industrial towns. The Commission also concluded that the disadvantages of living in large urban concentrations outweighed any advantages, and demanded specific government remedies such as controls on the location of new industry. This analysis and recommendations laid the foundations of the post-war urban and regional planning system in the England.

Recent institutional reforms in the governance of land-use in Florida, Maryland, and some Australian states, have also been (at least partially) driven by increasing perceptions of crisis – that contemporary development patterns were economically and environmentally unsustainable. In particular, a rebalancing of planning powers from the local to the state level came in response to rising public concern regarding the economic and environmental effects of “urban sprawl”.

The creation of a modern, statutory competition regime in the UK is another case in point. In the 1990s, after decades of sporadic new thinking and incremental reform, it was widely held that the prevailing competition regime was a failure. It was perceived to be extremely complicated; to fail to provide competition agencies with effective investigative powers and sanctions; to place unnecessary burdens on business and regulators, while simultaneously diverting attention away from illicit, hard-core cartels; and to be responsible for obstructive discrepancies with European Community competition law. It was in response to the spreading of these perceptions that a new government, shortly after being elected, introduced the Competition Act 1998, which marked the beginning of a new era of competition law and policy in the UK.

Accounts of institutional change reliant on exogenous shocks tend to concentrate on instances of discrete, rapid institutional reform. Another view that has been gaining support over the years focuses instead on patterns of subtle, incremental change that often add up to fundamental transformations, sometimes in counterintuitive ways. The core idea is that old institutions, however dysfunctional they might be in the present, are rarely fully dismantled.

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<sup>8</sup> Town planners and rural conservationists voiced their concerns about the uncontrolled nature of urban sprawl, which they claimed, was using up valuable rural land and harming townspeople, through increased congestion and commuting times. At the same time, industrial areas of northern England, south Wales and central Scotland were now in steep decline, devastated by the effects of globalisation and technological change, while new industries were thriving in other areas, such as London the Midlands.

On the contrary, they are regularly amended, revised, and upgraded, sometimes at the cost of institutional coherence.

The development of the UK competition regime in the second half of last century also offers a good illustration of incremental change. Before world war two, there was a lack of antitrust law in contrast to other major jurisdictions. And after the second world war, the emergence of such a system was protracted and unsystematic, each reform introduced intermittently on a four or five year cycle, in response to short-term pressures.<sup>9</sup> Wilks (1999, p.173) argues that “the complexity and ambiguity of British competition agencies and law, as they stood in 1997 ahead of the Labour reforms... did not grow from a clear design or a policy vision. They were not forged in a furnace of public outrage (as in the US); they were not imposed as part of the fruits of victory (as in Japan); neither were they conceived as part of a vision of political and economic integration (as with the EEC). Instead British policy emerged piecemeal and incrementally.”

Another major piece of the institutional reform puzzle is associated with changes in ideas/beliefs about individual interests and preferences, and how the economy works, including how policies connect to outcomes. Ideas impose limits to institutional design. They can be a powerful source of path dependency, constraining the choices that are perceived as legitimate. Conversely, new ideas can help to expand the domain of institutional changes that are politically feasible. Their impact is especially relevant when they are coupled with other drivers of institutional change such as crises.<sup>10</sup>

The evolution of the governance of infrastructure in the UK over the last century captures well the power of shifting ideas. For most of the nineteenth century, UK infrastructure was heavily dependent on the private sector initiative, in some cases with remarkable success. Yet, by the 1930s and 40s, the investment record of the private sector was perceived to be relatively poor, short-termist, and too fragmented to meet the needs of the electricity grid and of modern transport networks. At the same time, the Great Depression in the early 1930s caused an important shift in mainstream economic and political thought, helping to raise the profile of public enterprise. The mobilisation imposed by world war two completed the trend towards greater reliance on state intervention. When the UK re-emerged from the second world war, a large part of its infrastructure (energy, post, telecommunications, roads, rail and housing development) was taken into public sector control, and would remain so for at least the next forty years.

The new governance arrangements were fairly successful in meeting the infrastructure needs that came with the economic boom that followed the second world war and that lasted until the 1970s. Yet with time, serious flaws were exposed and important tensions built up, especially in the energy sector. These included increasingly disruptive forms of industrial action; deterioration of investment and operating-cost performance; and the introduction of public spending controls after a prolonged increase in the size of the state, and at a time

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<sup>9</sup> See Scott (2009) for details. In a similar vein, Wilks (1999, p.173) argues that “the complexity and ambiguity of British competition agencies and law, as they stood in 1997 ahead of the Labour reforms... did not grow from a clear design or a policy vision. They were not forged in a furnace of public outrage (as in the US); they were not imposed as part of the fruits of victory (as in Japan); neither were they conceived as part of a vision of political and economic integration (as with the EEC). Instead British policy emerged piecemeal and incrementally.”

<sup>10</sup> John Stuart Mill was one of the first authors to posit that ideas are of little consequence by themselves unless other outward circumstances conspire with them. Change comes when conditions make it possible for new ideas to trump both vested interests and long-held beliefs. Crises are one of the most obvious examples of such conditions.



when further increases in taxation were thought to be politically unattainable. Privatisation in the 1980s was, in part, motivated by the desire to curb the power of unions, and by the expectation that access to private capital markets would free investment in infrastructure from short-term spending constraints imposed by the Treasury. But shifts in the prevailing economic ideology, framing profit incentives, competition and regulation as engines of innovation and efficiency, also played a very significant role.<sup>11</sup>

The origins of the UK's competition regime can also be read as evidence of the stimulus provided by shifts in beliefs and ideas in opening opportunities for institutional reform. As previously mentioned, the UK has only recently adopted a serious competition regime. Among the reasons that help explain the delay are a persistent Victorian commitment to a *laissez-faire* approach; a perception of value in unrestrained monopoly, conglomeration and cartelisation, in a context of changing conditions of international trade; and a strongly corporatist approach to government-industry relations until 1979. The social justice agenda that emerged after the second world war fuelled a new presumption that anti-competitive behaviour should be discouraged. This was thought to be an instrument for channelling corporate power towards social interests, and for achieving full employment. The enthusiasm for the new approach was politically bipartisan. It led to the passing of the Monopolies and Restrictive Practices Act in 1948, which triggered a "psychological convulsion"<sup>12</sup> in attitudes to competition. It drew the attention of business, policy makers, and the wider public to the advantages of competition and the costs of monopolistic behaviour, which prompted calls for further changes.<sup>13</sup>

Finally, there appear to be other important instances of institutional reform that are not directly related to exogenous shocks, incrementalism, or new ideas, but derive instead from the party-political battleground. There are examples of the latter among the reasons that have been proposed to explain why some governments have decided to delegate monetary policy to independent central banks. In particular, it has been claimed that delegation could be motivated by the desire to deflect pressures from financial interests; that governments expecting to lose power might want to limit the discretion of their successors; that divided governments seeking to resolve disputes about economic policy may opt for shifting decisions to a third party; and that delegation could provide a vehicle for avoiding blame for economic downturns, and handle contradictory demands from the public for expansionary economic policy and from global financial markets for restraint.

The context in which the shift to central bank independence took place in the UK is an interesting case, albeit one that does not fit neatly into any of these explanations alone. There are studies suggesting that by delegating power to the Bank of England in 1997, the Labour government sought to signal a commitment to responsible, anti-inflation monetary policies; to free up Treasury resources for other policy areas; and to bound others, including members of government and powerful interest groups, in their ability to influence monetary policy.

There are also several examples of institutional innovation that originated from a reactive approach to obstacles to government policy, where an initially reluctant government was

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<sup>11</sup> See also our case study on the start of the Conservative 1980s privatisation programme in Rutter *et al.* (2012).

<sup>12</sup> Allen (1966).

<sup>13</sup> See Scott (2009) for details.

forced to make institutional changes to achieve its objectives. These have typically involved situations where governments have failed to obtain public consent to pursue a certain course of action, and were then forced to turn to deliberative approaches in an attempt to foster public support.

For example, in 2006, the Dutch government published a 'white paper' setting out the Cabinet's position on the expansion of Schiphol, one of Europe's busiest airports. The document quickly came under heavy fire from local and regional voices. In an effort to build support for further development of the airport, the Government charged a consultative body with formulating advice on plans for securing future growth while protecting environmental objectives. This new body offered an effective forum where discussions and negotiations between different interests (national and municipal governments, representatives of the local communities, and from the aviation industry) could be conducted in a co-operative way, and paved the way for the expansion of Schiphol.<sup>14</sup>

Another example comes from Vancouver where, in the 1960s, there was a surge of public opposition to plans for expanding the local motorway network. In response, planning authorities designed large-scale public consultation processes, which would radically change future planning processes in the region. These were orchestrated not with the intention or expectation of reaching consensus, but with the objective of exposing the public to the trade-offs involved in accommodating growth and engaging local communities in the debate about strategic planning options - e.g. tackling tensions between containing urban sprawl and promoting sustainable living environments, on the one hand, and keeping house prices at affordable levels through a flexible supply of land.

## Conclusion and Implications for reform of UK Institutions

The UK economy suffers from a number of structural weaknesses that damage the prospects for future prosperity. Some of the strongest examples include investment in infrastructure and the undersupply of housing in certain parts of England. The conventional approach in academia, and indeed in the standard political debate, is to search for culprits in individual policies and to advocate new policy solutions. We argue that to tackle those structural weaknesses effectively, we must look beyond individual policies, and specifically at the institutions and incentives that underpin the formulation of policy. This was the idea that motivated our emphasis on political economy, rather than on pure normative economics.

Our tour through the political economy and political science scholarship led us to conclude that there are two defining aspects of the policymaking process that bear on the risk of policy failure: political representation, i.e. the range of interests taken into consideration in policymaking; and policy responsiveness, i.e. the degree of alignment between policy decisions and those interests.

The performance of the UK Westminster model, in some of these respects, is less than ideal. First, compared to some other countries, it amplifies the weight of swing voters in marginal constituencies, which have been associated with key political outcomes, including turnout, party campaign spending, and public spending allocations. Second, single-party governments alternating in power facing relatively few veto players pose exceptional

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<sup>14</sup> There are some similarities with the current work of the Airports Commission in the UK.

challenges to the formulation of credible policy commitments over the long term. Third, an intensely partisan and adversarial political environment creates incentives for parties and legitimate interest groups to misrepresent/manipulate information strategically, with the purpose of scoring political points or advancing private interests. Fourth, among the relatively narrow set of policies that the UK political system devolves to the local level, there are cases (most notably housing policy) where localism creates problems of political representation.

In two separate reports, we discussed in detail how some of these problems play out in the context of infrastructure investment and housing policy<sup>15</sup>. On the former, we concluded that to help the political process move to a more constructive space, the UK needs to create a policy forum where those affected by infrastructure investment are encouraged to take part in structured, informed discussions of the evidence on the effects of alternative policy options and of the trade-offs that they involve. Our research identified several international examples that present interesting lessons for the UK. They range from policymaking processes designed to facilitate discussion and negotiation between groups with interests in specific infrastructure projects (with a view to reaching agreement on the delivery and operation of those projects) to institutions at arm's length from government being charged with conducting analysis of topical policy issues and engaging the public both in the formative stages of the analysis as well as in the dissemination of the results.

With respect to the housing market, our analysis indicated that problems of steep increase in real house prices in certain parts of England reflect, to a large extent, constraints in supply, which in turn are intimately related to peculiar features of the English planning system and the institutional environment where it operates. In all the international case studies that we reviewed, attempts to make housing supply more responsive to demand involved some degree of rebalancing of planning powers from the local to higher tiers of governance. There are clear lessons to be drawn for the UK, namely the need to consider a more balanced approach to planning that is based on, but it is not confined to, the input from local communities.

It is one thing to take a normative view about a desirable pathway for institutional change. It is quite a different thing to see it being implemented. This led us to investigate what drives institutional reform. Crises and other (exogenous) shocks (e.g. technological changes); incremental reforms that accumulate into fundamental institutional transformations; shifts in beliefs/ideas; and institutional restructuring as a by-product of party-political tactics/strategies, are the main contenders that academic studies have put forth for drivers of change. We found evidence of these various forces at play in important institutional reforms both in the UK and abroad. We noted, however, that this list is not exhaustive. For example, there appear to be cases where institutional change arises while governments seek to foster public consent in deeply contested policy areas, often reacting to outbursts of community opposition to specific policy plans.

Looking ahead, and trying to anticipate how these drivers of change might apply to infrastructure investment, there are two trends worth taking into account. First, in some areas of infrastructure, there is an increasing perception of crises in the making, which could play an important role in triggering institutional changes. Energy generation is perhaps the

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<sup>15</sup> Coelho *et al.* (2014a, 2014b).

strongest example. Attempts over the last decade to attract private investment have largely failed to meet the expectations of their promoters and have prompted a series of urgent, costly policy interventions to ensure energy supply is capable of meeting demand over the next few years. An array of government subsidies and guarantees, reflected in the prices paid by consumers, have put upward pressure and made energy prices politically salient before the last election, which in turn triggered calls for government to take action, including proposals for institutional reform.<sup>16</sup>

Second, local community opposition in the context of plans to expand airport capacity in the South East led the coalition government to pursue a more deliberative approach to policymaking through the Airports Commission. At the time of writing it remains to be seen whether it helps settle the issue. Local community opposition to the extraction of oil and gas through hydraulic fracturing and to building new rail lines has prompted changes in the compensation mechanisms that allow for the costs that large infrastructure projects impose on local communities. These changes could signal a move to new ways of making important decisions around infrastructure in the UK.

In housing policy, there also some signs that change may not be too far into the future. The key ingredients for reform are likely to be an aggravation of the current housing crisis and (associated) shifts in ideas/beliefs about the inner-workings of the housing market and the type of government intervention required. The rapid rise in real house prices since the mid-1990s, combined with the lack of income growth since the early-2000s, have meant that the ease of owning a home is changing. These trends seem to be driving a structural shift in homeownership, which has been declining for about two decades, and is particularly strikingly among those born from the mid-1970s onwards. If this decline were to continue, it could lead to a rebalancing of the political influence of groups in different tenures that might support more expansionist housing policies. Other possible catalysts for change include shifts in voters' preferences (e.g. survey data indicates that opposition to new homes fell substantially between 2010 and 2013, across all tenures); business groups becoming increasingly vocal about the costs that problems of housing affordability impose on business competitiveness (e.g. by putting upward pressure on wages and making it difficult to recruit and retain staff); and rising fears that volatility in the housing market might pose a threat to financial stability and economic growth. Party manifestos in the 2015 election remained focussed on demand side interventions to subsidise new buyers, but the Government has recently announced important reforms to the housing planning system that mark a departure from previous doctrines of localism and 'development control'.

The key to long-term prosperity lies in a country's capacity and flexibility to modify or create institutions swiftly to prevent or address policy problems.<sup>17</sup> In infrastructure investment in the UK, this means creating institutions and processes that foster deliberative approaches to policymaking. In housing, it involves reforming the planning system so that it does not simply cater for the interests of local homeowners. None of these changes are easily implementable since, as our research revealed, there are powerful political economy forces acting against

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<sup>16</sup> For example, in September 2013, Sir John Armit published a review of long term infrastructure planning in the UK that called for the establishment of an independent National Infrastructure Commission to identify the UK's long-term infrastructure needs and monitor the plans developed by governments to meet them. The review had been commissioned by the Labour Party: <http://www.armittreview.org/>

<sup>17</sup> E.g. North (2005).

them. Judging from past experience, both national and international, the outlook for institutional reform, in general, is not very promising. It often takes profound crises or technological disruption to prompt institutional change. Occasionally reform comes from incremental changes, but these tend to be protracted and can go in unexpected directions. In other instances, reform involves structural shifts in the beliefs/ideas of the electorate, which are, by definition, rare events that sit largely outside the ability of governments to influence. But past experience also offers positive examples where the party-political battle led to innovative institutional change, and where governments whose plans had run against public opposition came to adopt improved policymaking practices. These examples show the way forward for the UK to address its institutional weaknesses.

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