The British Academy's Economic Strategy Programme

Executive Summary

June 2025

The British Academy

1. Introduction

Today, the UK is a medium-sized economy. Along with other countries, the UK is both looking outward at an environment of international turbulence and inward at what has been a long period of low economic growth and productivity. Internationally, from an historic and diplomatic perspective, the UK retains a significant role in framing the world's financial, economic, and political institutions. Today, the UK is not large enough to act unilaterally or bilaterally - as it has in the past - nor is it a member of a major economic bloc.

This presents a challenge in navigating strategies for long-term economic prosperity:

- The infrastructure to support some of the UK's greatest strengths is precarious or poorly aligned with our needs and opportunities;
- We have experienced persistently low economic growth and productivity, and entrenched inequalities across and within economic geographies;
- Our otherwise strong skills base is unevenly spread and mismatched across regions;
- A lack of downstream infrastructure for adoption and diffusion of innovation that flows from our excellent R&D capabilities;
- The role of social value in long-term prosperity has tended to be overlooked in governments' economic strategies.

However, there are opportunities in the way that the past, unequal international order is loosening up. Given the UK's experience of multilateralism and its globally-intertwined economy, there is an opportunity to be a dependable broker with many parts of the world. We have many comparative advantages:

- Strong and stable legal, financial, cultural and scientific institutions;
- Deep historical experience of multilateralism and a leading role in shaping the world's major international organisations;
- World-class universities with a solid research base and world-leading global sectors such as financial services and the creative economy;
- Existing collection of a great deal of robust data against a variety of broader economic, social and environmental indicators; and
- A strong skills base that is able to be more effectively mobilised.

Any new economic strategy will need to be able to withstand and respond to the heightened levels of global uncertainty that we see today. Fundamentally, policies that underpin a sustainable and long-term economic strategy should involve 'investing in investing', i.e. investing in the institutional, human and physical capital that makes a place 'investible' for the private sector. Here, investment does not just mean money, but also time, effort, expertise and capabilities allocated towards promoting growth, stability and societal well-being. Concrete ideas for how to make these investments are put forward throughout the detailed Briefing Papers of this collection.

2. Programme background

The British Academy is the UK's National Academy for the humanities and social sciences. Our fellowship and research community represents leading minds across these subjects. The Academy's Economic Strategy Programme is an independent policy programme, established in response to an initial workshop that brought together senior civil servants in His Majesty's Treasury and the Department for Business and Trade. It began in mid-2023, after some of the world's largest economies were making major, long-term inward investments in R&D, net zero infrastructure, and national industrial bases, but has completed in early 2025, in a period of deep international, economic and geopolitical unrest.

The programme began with a fundamental question: *What are the critical elements of an integrated, holistic and sustainable strategic approach to the UK economy, given current and developing national and international contexts?* It was recognised that the question required long-term, integrated thinking across disciplines, sectors and policy areas. Four Working Groups explored the following pillars in detail: International trade and geopolitics, R&D and innovation, Skills, and Sustainability and social value. Taken together, these four pillars could provide the basis for the long-term and holistic thinking needed for a long-term strategic outlook for the economy.

The substantive outputs of each group are included in the Briefing Papers which, together, offer the collective insights from this programme. This Executive Summary draws together the main policy conclusions from each paper and offers a final commentary on a cross-cutting thread that ties them together: **how to invest for investment**.

3. Policy insights

3.1 International trade and geopolitics

The UK played a critical role in laying the foundations and direction for many of the global economic governance institutions that promoted an open global economy during the 20th and early 21st century. It is now exposed to the unilateral activities of larger economic powers and emerging forces, with fewer economic and political instruments to influence outcomes. This group explored strategic positioning options that would empower the UK to best influence external dynamics in alignment with its future domestic economic priorities and existing comparative advantages.

In a context of growing global fragmentation and unilateral activity, the UK has an opportunity to position itself as a dependable and desirable broker amidst escalating geo-strategic competition. To achieve this the following actions should be taken:

- Invest further capacity and resources in building agreements as part of emergent and value-based coalitions in international economic organisations in which the UK plays an outsized role.
- Explore new multilateral collaborations with countries and regions that have an interest in remaining open and unaligned in an economic environment dominated by US-China competition.
- Develop and articulate a new 'special relationship' between the UK and Europe based on values, geography and security to mitigate the impact of global shocks and to deliver mutually beneficial improvements in economic exchange.

The UK will be subject to external dynamics that will have significant consequences for the future structure of its domestic economy. In considering these wider trends, especially in relation to technological, climate and geopolitical disruptions, the UK must remain nimble by investing in its deep assets that underpin comparative advantage. These assets include the UK's:

- relatively stable political landscape, strong institutions and low levels of corruption
- comparative openness to develop and attract human capital, and
- a knowledge and finance ecosystem well-equipped to redirect resources to effective innovations and commercialisation.

These deep assets are a core comparative strength for the UK and should be a central focus for continued investment and prioritisation.

3.2 R&D, technology and innovation

This group sought to explore the reasons why the UK has had relatively weak productivity growth since 2007, despite having an R&D system that is, by international standards, high quality. It started from the premise that R&D is only one of a number of inputs to innovation. In a modern service economy, a significant share of innovation is not high-tech R&D (or traditional definitions of R&D), but process and service-oriented. This is particularly the case in sectors such as logistics, retail, education, health and finance which are more reliant on innovative research in fields such as mathematics, psychology, history, economics, law, sociology and data science.

Comparisons with innovation around the world highlight the extent to which the UK's model of innovation focuses on inputs to the innovation system, including the funding of research, rather than complementing this investment with policy to support downstream outputs and their adoption and diffusion. Other nations have a more interventionist and holistic approach to adoption and diffusion, including building capabilities within firms. For example, **a more active approach to industrial policy could build advanced technological capabilities in manufacturing through aligned investments in applied research, procurement and local/regional policymaking capabilities.** This approach would coordinate regional innovation ecosystems, bringing under-utilised resources into play through better alignment between different areas of public policy. It is not one or the other: effective adoption and diffusion strategies must have high quality and world-leading research bases to draw on, but more inter-connectedness and multiple sectoral and geographic levels is key.

These small but co-ordinated interventions would better align the strengths of the UK's higher education and research system with a regulatory environment that supports innovation and growth. Doing so would be a key part of a strategy to energise a new global offering for UK R&D and innovation in a new international environment.

3.3 Skills

Skills play a vital role in driving economic productivity. However, UK skills policy over the long-term has failed to deliver these potential benefits. There has been a decline in employer investment in training and ongoing issues with managerial underutilisation of employees' existing skills. While the UK has strengths in knowledge-based institutions, there are issues with the supply of basic skills. For example, too many young people are failing to achieve a pass grade in GCSE (and equivalent) Maths and English. Meanwhile, there are ongoing issues in the funding and structure of all stages of post-secondary education, with a lack of apprenticeships for young people as well as too little support for adult retraining and lifelong learning. The severity of these deficits is substantially greater in some regions than others, particularly outside London and the South East of England. Addressing these structural weaknesses, and developing a more successful set of skills policies are possible in the following ways:

- Ensuring policymakers consider the skills needs and match of both employers and individuals to ensure that policy is adaptable to change as well as flexible to local needs.
- Leveraging public and private investment towards getting the most out of the UK's currently untapped human capital.
- Identifying and addressing the future challenges to forms and patterns of work posed by the emergence of Generative AI and the need to transition to Net Zero.
- Demonstrating and articulating the ways in which skills policy can be proactive, responsive and adaptable to rapidly changing circumstances.

Overall, **skills policies cannot succeed in a vacuum and must be coordinated and well-aligned to other policy areas as it is a key component of many policy areas, not just education.**

3.4 Sustainability and social value

There are deep interconnections between economic, social, and environmental policymaking which present an opportunity as the economy is to a large extent 'socially-embedded'. This means that social value and economic growth are closely intertwined, so that investments in health, education, wellbeing and social cohesion – or 'social investments' – can improve the nation's economic performance. Investing in a socially-embedded economy will in turn reduce costs to the state by focussing on prevention and improve long-term productivity, while also strengthening societal resilience and capacity for change.

Given the close inter-connections, policymakers will need to consider aspects of people's lives beyond paid work that are fundamental to citizens' well-being and a prosperous, well-functioning society. This can be done if we:

- Incorporate the social investment aspects of the economy into an analysis that is based on whole-systems approaches within government, rather than seeing these aspects as compartmentalised or disconnected.
- Complement the existing collection of robust data with a variety of broader economic, social and environmental indicators, and develop new ones.
- Use these new indicators alongside GDP to provide a more comprehensive reflection of the nation's overall health, as well as people's quality of life.

Done together, these elements could help develop an accounting model that integrates these indicators in ways that can directly bear on economic strategy. An example of this is the natural capital approach, which integrates systems thinking in climate change. We will need to recognise the value of this whole-systems approach in other policy areas, including:

- the kinds of social infrastructure and institutions that underpin our economy;
- the social protections that need to be adapted to support people through the coming structural transformations to the economy;
- the changing nature of work and what a 'good work' approach looks like; and
- the way that national security connects with connections between social, environmental and economic security.

If properly supported in this way, social investments can build resilience at individual, community and national levels.

4 Strengthening the infrastructures for investment

A strong theme emerges across the insights and conclusions of the four Working Groups. The UK needs a long-term strategy that allows its economy to grow, but it must create the conditions which enable it to do so. **We must invest in the UK's capacity for investment, which means investing in the forms of infrastructure and capabilities where we already have comparative strengths and deep assets.**

Investment, in a broad sense, is the deliberate allocation of resources—such as time, effort, money, or expertise—towards initiatives, systems, or relationships with the expectation of generating positive returns or outcomes over time. This can foster growth and stability, but require strong economic, social and institutional infrastructures.

Currently these infrastructures are inadequate, but there are opportunities to strengthen them and each of the Working Groups has considered how to leverage our deep assets as a country more effectively.

Use our deep roots in multilateralism and shaping international institutions to become the world's most dependable broker. In our international trade and geopolitical relationships, we need to invest more in our external relationships. We have long-standing partners and allies in Europe and the Global South; we have an historic role in shaping the major international organisations; and we have substantial knowledge of global institutions and international legal norms and practices. Investment in this institutional infrastructure would lead to a strategic narrative for our medium-size economy which is that the UK economy which still remains open to the world in these turbulent times.

Strengthen our world-class research base so that we invest in adoption and diffusion in all sectors as much as primary research funding. R&D and innovation policy has had a framework which has been about investing in funding inputs in science and technology, with less consideration on how that funding will be used downstream. We need both, with greater capabilities and infrastructures which support the adoption and diffusion of innovation in our technological sectors, as well as our leading services sector, including financial services and the creative economy.

Combine our diverse skills base with demand-side infrastructure for effective labour market matching. In skills policy, we need to invest in an infrastructure where capability needs within firms are effectively mapped to the skills base, being led by the demand-side. Market mapping is not simply about building a 'future skills pipeline' but a structure that measures and utilises specialist skills within organisations, supporting productivity while improving job quality and social mobility. This will require dual investment in the supply of skills infrastructure to ensure the skills produced are those that firms need, as well as investment in capabilities that allow firms to find and use the right skills within their local area while responding to internal and external shifts, to overcome poor matching.

Ensure we integrate our robust data sources into a clear set of broader social, economic and environmental indicators. Embedding social value in policy will need a social infrastructure for investment which connects people, enables collaboration and sustains our social fabric. The complex policy challenges the UK faces are not discrete; rather, they are cross-cutting owing to the inherent connections between economic, social and environmental policy agendas.

The papers in this collection explore these opportunities and challenges in more depth, with specific policy ideas put forward for each area. Taken together they provide a route map for how to invest for investment, highlighting why this can deliver an integrated economic strategy for the long-term.

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