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TO GROWTH, MANUFACTURING AND FINANCIAL SERVICES

FINDINGS FROM YOUGOV-CAMBRIDGE UK ECONOMY POLL, 1–2 JULY 2012

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August 2012

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ACKNOWLEDGMENTS

We would like to thank Joel Faulkner-Rogers and Sean Kirwan at YouGov-Cambridge for their work, both in helping us to design this poll and then conducting it using their facilities at YouGov-Cambridge. We also wish to thank Professor Andrew Gamble, head of the Department of Politics and International Studies (POLIS) at the University of Cambridge, for his support on this project, and Professors Colin Hay and Tony Payne of the Sheffield Political Economy Research Institute (SPERI) at the University of Sheffield, for allowing us to present our findings at SPERI's inaugural conference on 16 July 2012.

In addition, we would like to thank Tony Dolphin for his help in turning our findings into a report for IPPR.

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This paper was first published in August 2012.

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IDEAS to
CHANGE BRITAIN

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Introduction

With newspaper headlines and TV news bulletins still dominated by stories of impending disaster in the eurozone, stagnation in the United States and United Kingdom, and now even signs of slowdown in the Chinese economy, the global economic crisis has come to feel like part of everyday life. Economic news and debates have become hard to avoid, even for the most casual observer of current affairs, and people's exposure to complex ideas and theories has surely increased – if not their understanding of these ideas. Given this background, this paper offers some insights into public attitudes to and understanding of the UK economy, using results from a specially commissioned online poll devised as a collaboration between YouGov-Cambridge and the Department of Politics and International Studies (POLIS) at the University of Cambridge.

The nationally representative survey was conducted online between 1 and 2 July 2012, with 1748 UK-based adults answering 15 discrete questions on three core topics:

- deficit reduction versus economic growth
- the future sectoral balance of the UK economy
- regulation of business and industry

This paper details some of the key findings of the poll and offers some tentative explanations for some of the data. However, as with any poll, there are limitations to what we can infer from the results and we must be cautious in our interpretation. More detailed results are available on the YouGov-Cambridge website.[1]

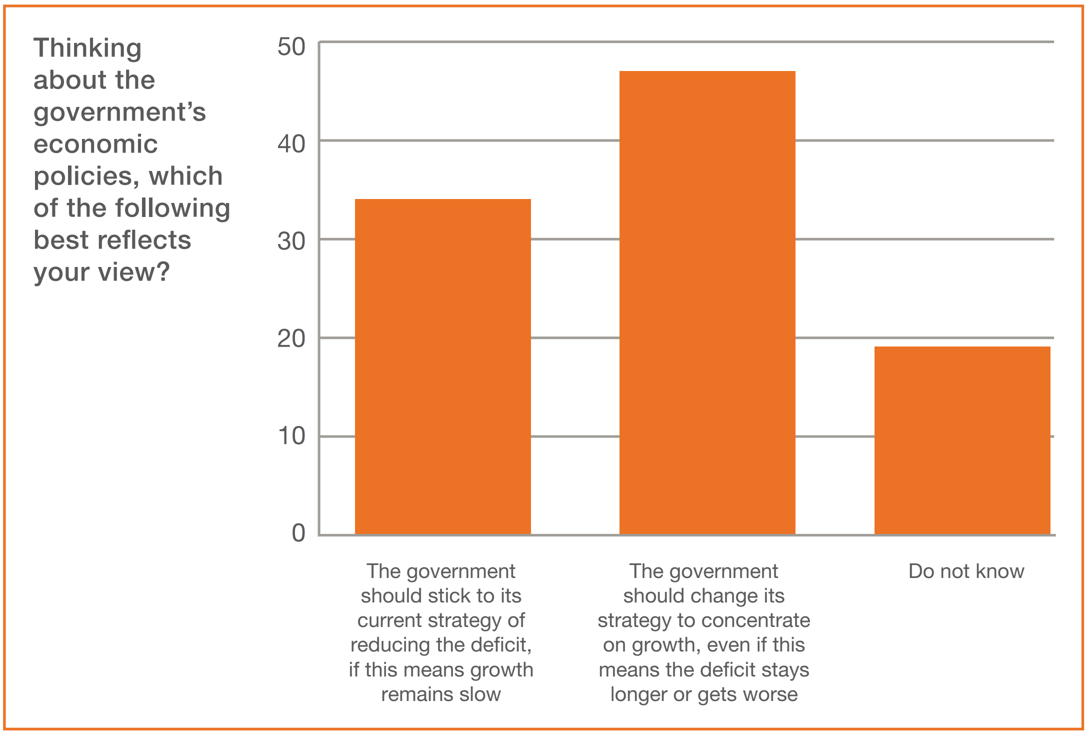
1 http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/8vud040b3f/YGCambridge-Archives-Economy-160712.pdf

Deficit reduction versus growth

The first question asked people about their attitudes towards the government's flagship policy of deficit reduction. Specifically, the question asked people to make a trade-off between deficit reduction and economic growth as their preferred policy priority. Some economists would argue that this trade-off is artificial and that the deficit can be reduced and reasonable levels of growth achieved simultaneously. Certainly, the government would like this to be the case. However, we put this trade-off to people in order to find out which they saw as being *most* important.

More than one-third of respondents felt that the government should stick to its current course of deficit reduction, *even if* that meant growth remained slow. However, a substantially larger proportion, 47 per cent, thought the government should change course away from deficit reduction and concentrate on growth.

Figure 1
Fiscal priorities



As to what this might mean in electoral terms, it is difficult to draw firm conclusions. The Labour party has argued for slower and shallower cuts and for more emphasis to be placed on policies for growth. Labour supporters should be cautious in drawing too much comfort from the above result, however, and should look to a range of indicators including current voting intentions and opinions about their party's economic competence.

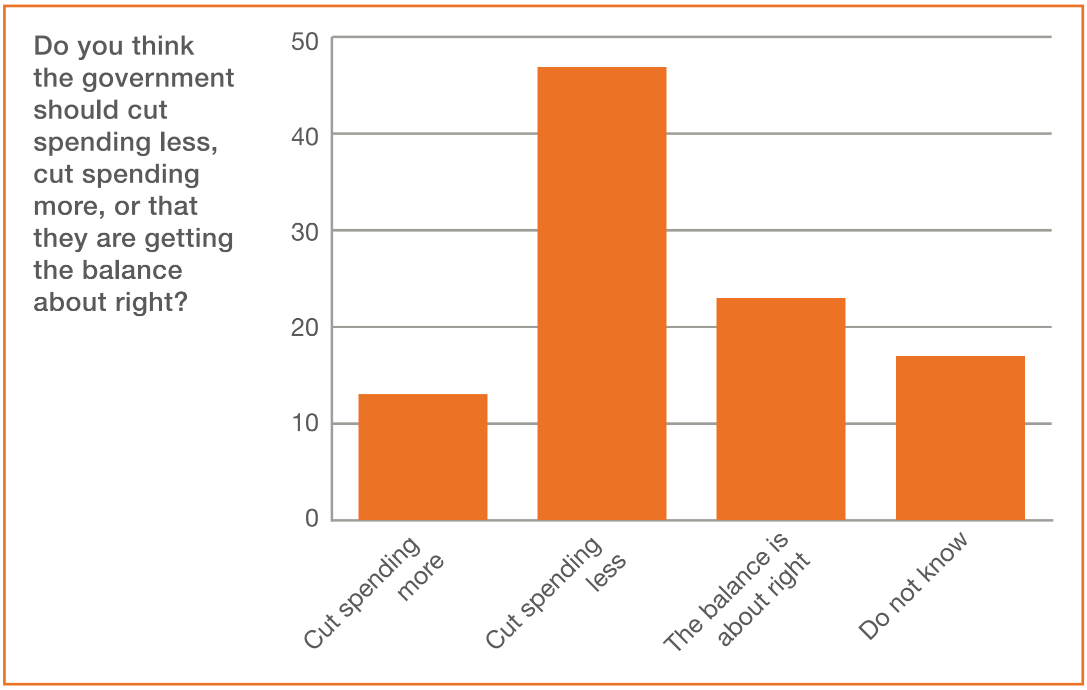
When we look in more detail at the breakdown of the results for this question, there is, unsurprisingly, a very clear split along party lines. Around three-quarters of those currently intending to vote Conservative are in favour of the government's strategy, while almost three-quarters of those currently intending to vote Labour prioritise growth over deficit reduction. Perhaps more interestingly, there is a 41/41 split among those currently intending to vote Liberal Democrat (with 18 per cent responding 'don't know'), highlighting the unease many Lib-Dem supporters feel about their party's role in the Coalition government.

Other noteworthy details from the breakdown include the male/female divide, with a 12 percentage point gap between the proportions of men and women who prioritise growth over deficit reduction. 51 per cent of voters in the north of England prioritise growth – four percentage points higher than the overall average. In regional terms, the most striking deviation occurred in Scotland, where 57 per cent favour growth over deficit reduction – 10 percentage points above the overall figure. Again, it is dangerous to draw strong conclusions; however, sustained divergence in economic priorities between Scotland and the rest of the UK could possibly have implications for the strength of the union, in light of the upcoming referendum on Scottish independence in 2014.

Spending cuts

On the specific question of spending cuts, the results from our survey are consistent with recent data from the YouGov Economy tracker, with the largest grouping opting for lower spending cuts.[2]

Figure 2
Balance of spending cuts



Looking again at the breakdown according to current voting intentions, a huge majority of Labour voters, perhaps predictably, thought spending should be cut less (76 per cent). While the majority of Conservative supporters thought spending cuts were 'about right' (54 per cent), the spread was more evenly distributed compared to the Labour voters, with 13 per cent thinking spending should be cut less, 26 per cent thinking it should be cut more, and 7 per cent responding 'don't know'. Again, most interesting was the finding for those currently intending to vote for the Liberal Democrats, with 38 per cent thinking spending should be cut less – a result five percentage points higher for than the group who think spending cuts are about right. This might indicate a hard core of Lib-Dem supporters who are willing to stick with their party despite not agreeing with the spending cuts being implemented by the Coalition government.

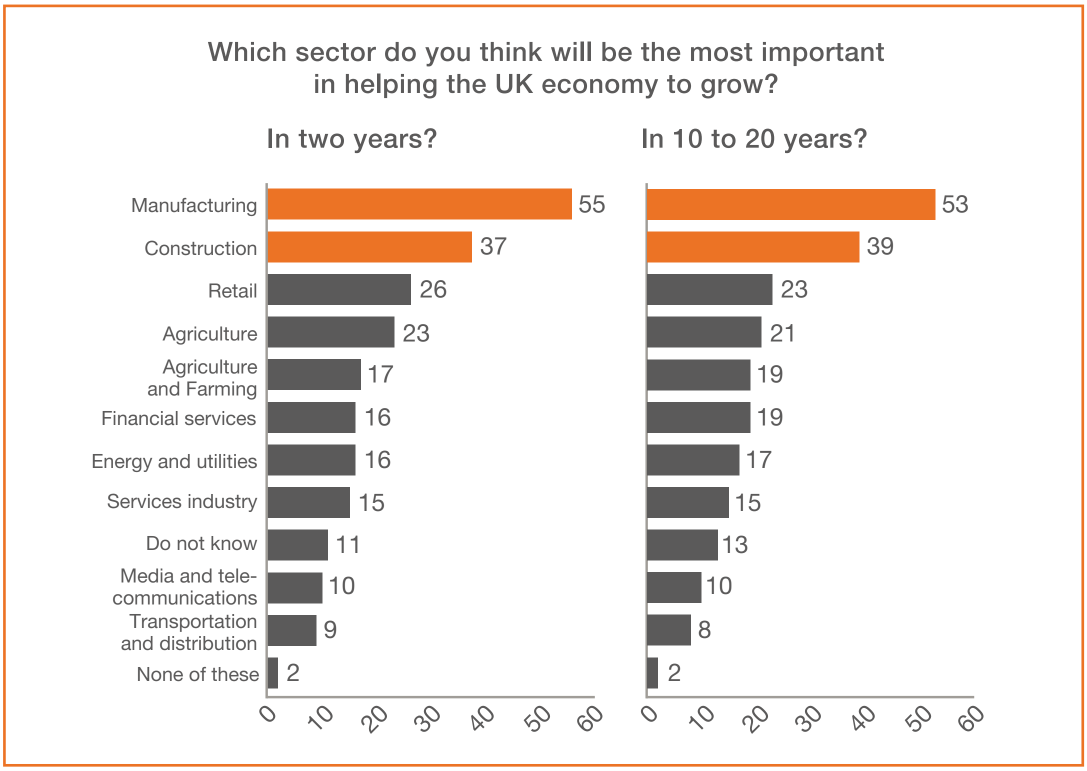
2 See http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/20hh1jaq4z/YG-Archives-Trackers-Economy-240712.pdf

What this finding certainly does illustrate is that there is little appetite for further cuts on top of those already announced. A recent Fabian poll suggests that the British public tend to be conservative (with a small 'c') when it comes to public spending, favouring current or higher levels of spending in certain core areas, such as the NHS and schools, but being much less enthusiastic about rises in other areas, such as universities and colleges.[3]

Sectoral balance

Respondents were asked to choose up to three sectors from a list of 12 options (including 'none of these' and 'don't know') which they felt were most likely to contribute to economic growth over the short and long term.

Figure 3
Sectoral importance



As the graphs clearly show, people's views differed very little depending on the timeframe concerned, with people emphasising the importance of manufacturing and construction relative to retail and other service sectors. Less than one-fifth of respondents thought either of financial services and other services would produce much growth in the future – this is perhaps surprising given the common characterisation of the UK as a service-based economy. Interestingly, current Conservative supporters emphasised the short-term importance of manufacturing most strongly (64 per cent), while 18–24-year-olds were least convinced of manufacturing's contribution to future growth (31 per cent).

These findings might be considered good news for the government, given its rhetoric about 'rebalancing' the economy away from financial services, and George Osborne's vision of a Britain 'held aloft by the march of the makers'.[4] However, it remains to be seen

3 http://www.fabians.org.uk/the-language-of-priorities/
4 Quoted in Shrimsley R (2011) 'All hail the March of the Makers', Financial Times website, 23 March 2011.

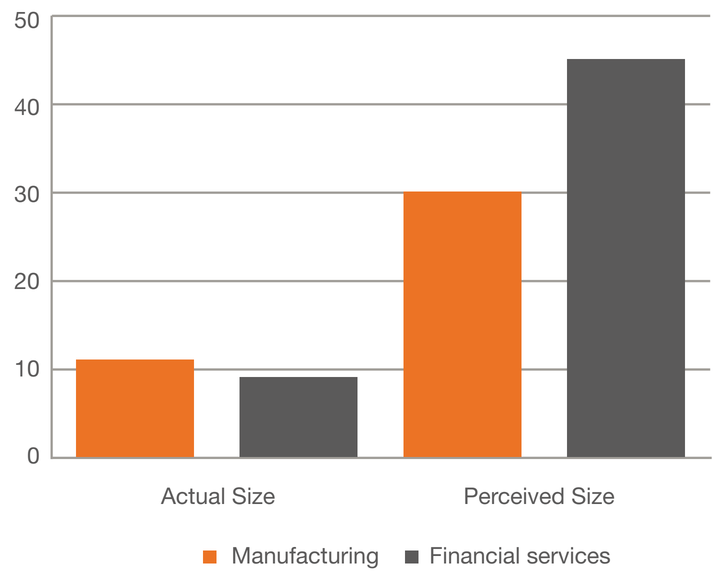
to what extent this rhetoric can be turned into economic reality, given manufacturing's relatively small share of the UK economy and Britain's comparative advantage in certain service industries. A recent report by the UK Commission for Employment and Skills argues that manufacturing as a share of GDP is likely to stay roughly the same (around 11 per cent) up to 2020, clearly limiting its potential for producing substantial growth in the economy as a whole.[5]

Perhaps the public sense that economic realities may not match up to their hopes and expectations. A later question asked people whether they thought the UK's manufacturing sector was likely to shrink over the next 10 years – 47 per cent thought it would. While this might seem contradictory to the results above, it is possible that respondents were projecting their views about where they think growth should come from in the next two or next 10–20 years, rather than where they thought it would actually come from, and when asked directly about the likelihood of manufacturing decline, their underlying pessimism revealed itself.

People were asked to say what percentage of the UK economy they thought was made up of manufacturing and financial services, respectively – and grossly overestimated the size of both sectors.

Figure 4
Sectoral perceptions

What percentage of the UK's overall economy do you think is made up of manufacturing and financial services?



Source: 'Actual size' data from: 'BIS economics paper 10b: manufacturing in the UK': http://data.gov.uk/dataset/bis-economics-paper-10b-manufacturing-in-uk; *The financial sector's contribution to the UK economy*, House of Commons standard note SN06193: http://www.parliament.uk/briefing-papers/SN06193

This question provided some of the most intriguing data. In the graphic, we have plotted the mean of respondents' answers against the actual size of these two sectors to highlight the disparity in perceptions. Initially, it might seem staggering that respondents thought that financial services accounted for nearly half of the UK economy, when the real figure is nearer 10 per cent of GDP. However, on reflection, it is perhaps not so surprising, given

http://www.ft.com/cms/s/0/a3a0fc2c-5588-11e0-a00c-00144feab49a.html

5 UKCES (2011) *Working Futures: 2010–2020, Executive Summary 41*, London. http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-41-working-futures-2010-2020-es.pdf

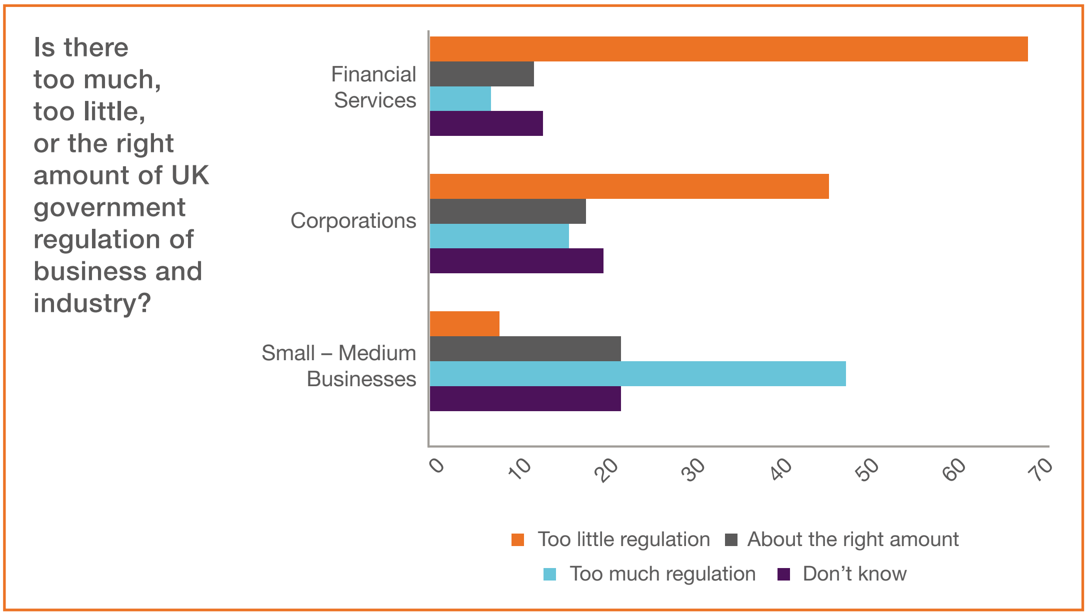
the sheer volume of media coverage devoted to UK financial services since the onset of the crisis in 2007–08.

The recent Fabian poll took a similar approach in asking people to estimate the percentage of total public expenditure that went to certain services. The results showed that people were likely to significantly overestimate the proportion of spending on typically less popular services, such as housing benefit and jobseeker's allowance.[6] Perhaps the negative light in which financial services are viewed also contributes to the scale of the overestimation of their contribution to the British economy in this instance, although this would not account for the similar significant overestimation of the size of the more popular manufacturing sector.

Regulation

When asked about regulation of business and industry in general, respondents slightly tended towards thinking there was too much regulation (33 per cent) rather than 'about right' (24 per cent) or 'too little' (19 per cent). 24 per cent responded 'don't know'.

Figure 5
Extent of regulation



Broken down by region, the lowest level of outright hostility to regulation occurred in London, compared to the rest of Britain, with only 24 per cent of respondents thinking there was too much. Interestingly, people in Scotland were most likely (41 per cent) to say there was too much regulation of business and industry.

Asking people about regulation of business and industry in general gives us a relatively even spread of responses. However, as figure 5 illustrates, asking people about the regulation of specific types of business produces more interesting results. Clearly, a large majority favour greater regulation of financial services and the largest proportion of respondents favour greater regulation of corporations (that is, big business). When it comes to small and medium-sized businesses, however, people tend to be more

6 See note 4

sympathetic in their outlook, with 48 per cent of respondents believing they are too heavily regulated.

Conclusions

The results of this survey can only give us a snapshot of public opinion about the British economy, but it is an interesting snapshot nonetheless, and one we should take note of. Three key themes emerge from the poll:

1. **The government should change course:** While there are significant numbers of people who think deficit reduction and spending cuts remain the best answer to Britain's problems, a substantially larger body of people think fewer cuts and more emphasis on growth is what's needed. If the government persists with its current strategy, it could cede further ground to Labour, whose rhetoric on the economy seems more in line with public opinion.
2. **Manufacturing creates growth but there is pessimism about its future:** While people have strong opinions about where the economy should be heading – predominantly away from cuts and towards more productive manufacturing and construction sectors – they are doubtful about the likelihood of future manufacturing strength. The public see the British economy as dominated by a bloated, under-regulated financial services sector that is unlikely to contribute much to growth in either the short or long term – this is similar to some popular perceptions of the nationalised heavy industries in the 1970s and '80s.
3. **The moral economy matters:** In this conclusion we are admittedly straying furthest from the data, however, we hypothesise that the survey reflects ethical and moral judgments about what the British economy could and should look like as much, if not more, than it reflects people's 'hard-headed' assessment of economic realities and likely outcomes. On the whole, people see sectors such as manufacturing and construction as more productive of real wealth, probably because they create physical products and goods as opposed to the more ethereal outputs of finance and other service industries. No doubt, popular conceptions of Britain's economic past as 'the workshop of the world' still have strong currency across party lines. How Britain makes its way in the world matters enormously to national identity, and the close association of the UK economy with financial services, is something people are no longer comfortable with – if they ever were. Moreover, there seems to be a popular conception that government should free 'the little man' and unleash the small and medium-sized enterprise by reducing the regulatory burden. Instead, the focus of regulation should fall on financial services and big business.

Undoubtedly, others will have their own views on the data, and we welcome them to look at the full findings and draw their own conclusions. In the future, we hope to pursue these lines of questioning further, probing deeper into people's understanding of the British economy on both the technical and ethical level. For example, it would be fascinating to compare attitudes towards public and private spending, and to disaggregate terms such as 'manufacturing' and 'growth' further to see what people understand by these terms and what matters to them most. With the economy likely to dominate headlines for years to come, more work needs to be done on enhancing economic literacy and exploring popular attitudes towards economic issues, as this would surely help to enrich our national debate.