

UK Business Investment: Economists, Managers, Financiers

An Integrated Framework
to Analyse the Past and
Underpin Prospects

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to help understand and communicate the policy implications of new academic research related to UK productivity;

to collect evidence from key stakeholders and provide summaries of research and evidence with an emphasis on regions and the devolved nations;

to examine the implication of planned policies, respond to policy initiatives in Whitehall, elsewhere and overseas, provide policy advice and develop policy proposals.



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TPI is a UK-wide academic research organisation exploring what productivity means for business, for workers and for communities – how it is measured and how it truly contributes to increasing living standards and well-being.



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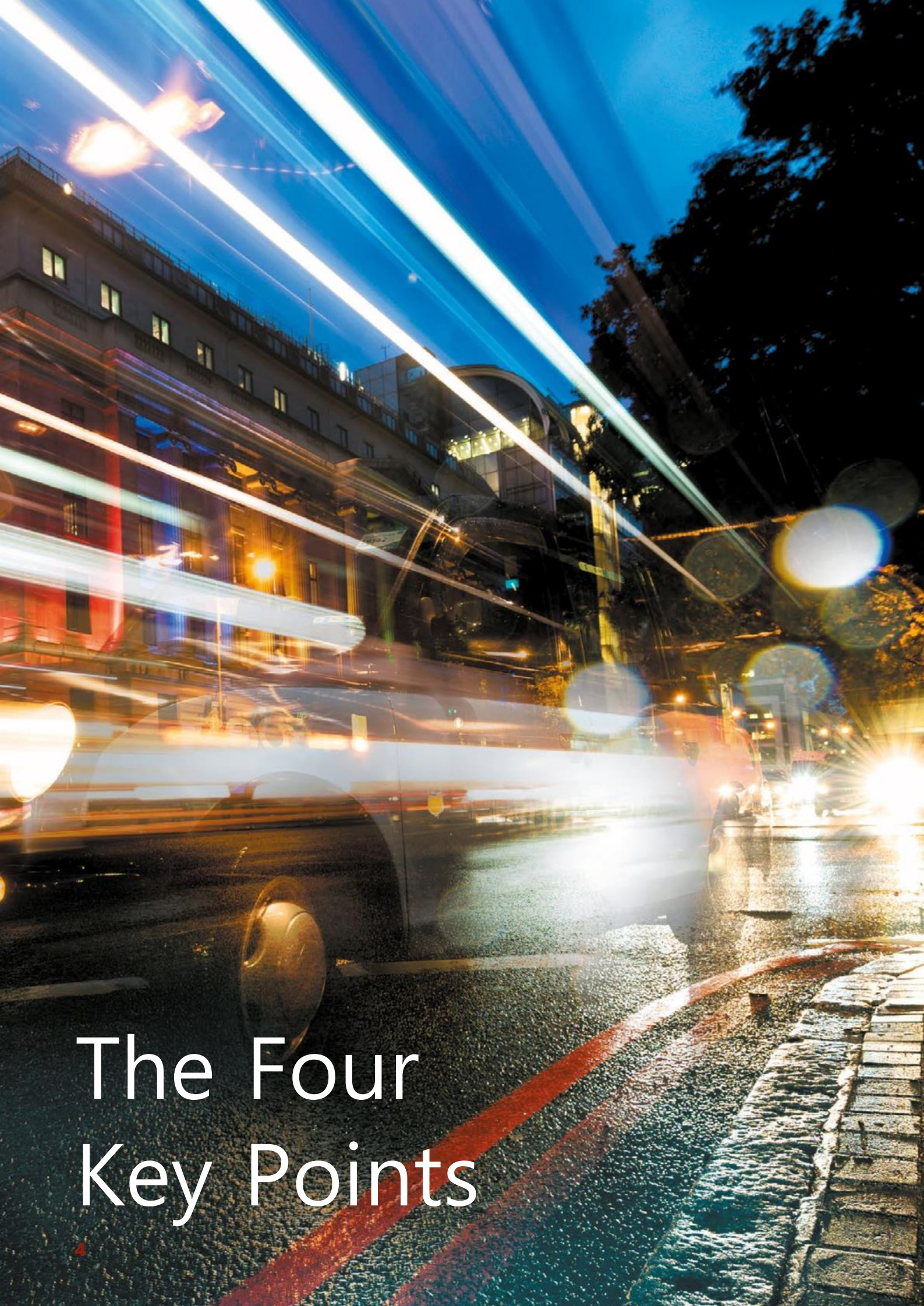
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The author is a Professor of the Practice at Brandeis University and an External Member of the Monetary Policy Committee of the Bank of England.

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The views expressed are my own and do not reflect the views of the Bank of England, the Monetary Policy Committee, or the Bank of England.



The Four Key Points

1

UK business investment has underperformed. Research on other countries suggests that while this is not a uniquely British problem, the UK does appear to face more headwinds. Slow growth in global trade, inequalities and increased uncertainties, and concentration of investment both by firms and by institutional investors are in focus for the UK.

2

Uncertainty is always detrimental to business investment, and here the decision to leave the EU is an important factor since domestic growth and access to global markets, along with available financing, were all affected. In the face of various kinds of uncertainty, research finds that UK managers and firms tip toward financial investments and/or hold higher cash buffers, both deleterious for business innovation and investment.

3

The concentration of UK business investment in the largest, foreign-owned firms, together with the concentration of institutional investors, means that an assessment of the relationships between size, ownership, and management, as well as market growth and global exposure is a basic starting point for understanding the dynamics of business investment in the UK.

4

The three perspectives on business investment from an economist, a manager, and a financier are importantly intertwined. With the availability of firm-level data, investor-level data, and manager-level assessments, research can combine the three perspectives to get a view of what matters most for UK business investment.

1. Introduction



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That UK business investment has underperformed is not a new observation. By various assessments UK business investment has been weak for decades, was particularly sluggish after the Global Financial Crisis, and has slowed further since Brexit and Covid (Alayande and Coyle 2023) (Figure 1a and 1b). Research on other countries also point to a capital deepening problem. Slow global demand growth, reduced competitive pressures, higher uncertainty of various types, underexploited agglomeration and network externalities, inequalities of rising financialisation and earnings management, and increased importance of institutional investors are variously cited as culprits holding back business investment. Are some of the headwinds more prevalent in the UK? This review will not fully answer this question, since UK specific research has not investigated all these factors. The objective of this review is to outline an integrated framework for analysis of business investment, review literature germane to the framework for the UK and other countries, and point to research gaps that might be particularly fruitful for UK-focused research.

Business investment is the focus for the second year of The Productivity Institute's multi-agenda, having considered productivity growth last year. Productivity growth is about the transformation of products, processes, and workplace practices, and in all three of these contexts, business investment plays a central role, whether that be investment in new ideas, in new locations for expansion, or in technology to change workplaces practices and production. In short, business investment and productivity growth increase the potential for the economy to deliver higher living standards. Business investment is not the only or the whole story—public investment and enhanced labour participation and skills are also needed. But the objective of this review is to take a fresh look at UK investment and point out directions for new research to both assess the past and offer perspectives on how to improve the UK business investment outlook and outcome.

Figure 1a. G7 Gross Fixed Capital Formation



Source: Alayan de an d Coyle (2023) Investment in the UK: Long Term Trends. Working Paper No. 040, The Productivity Institute