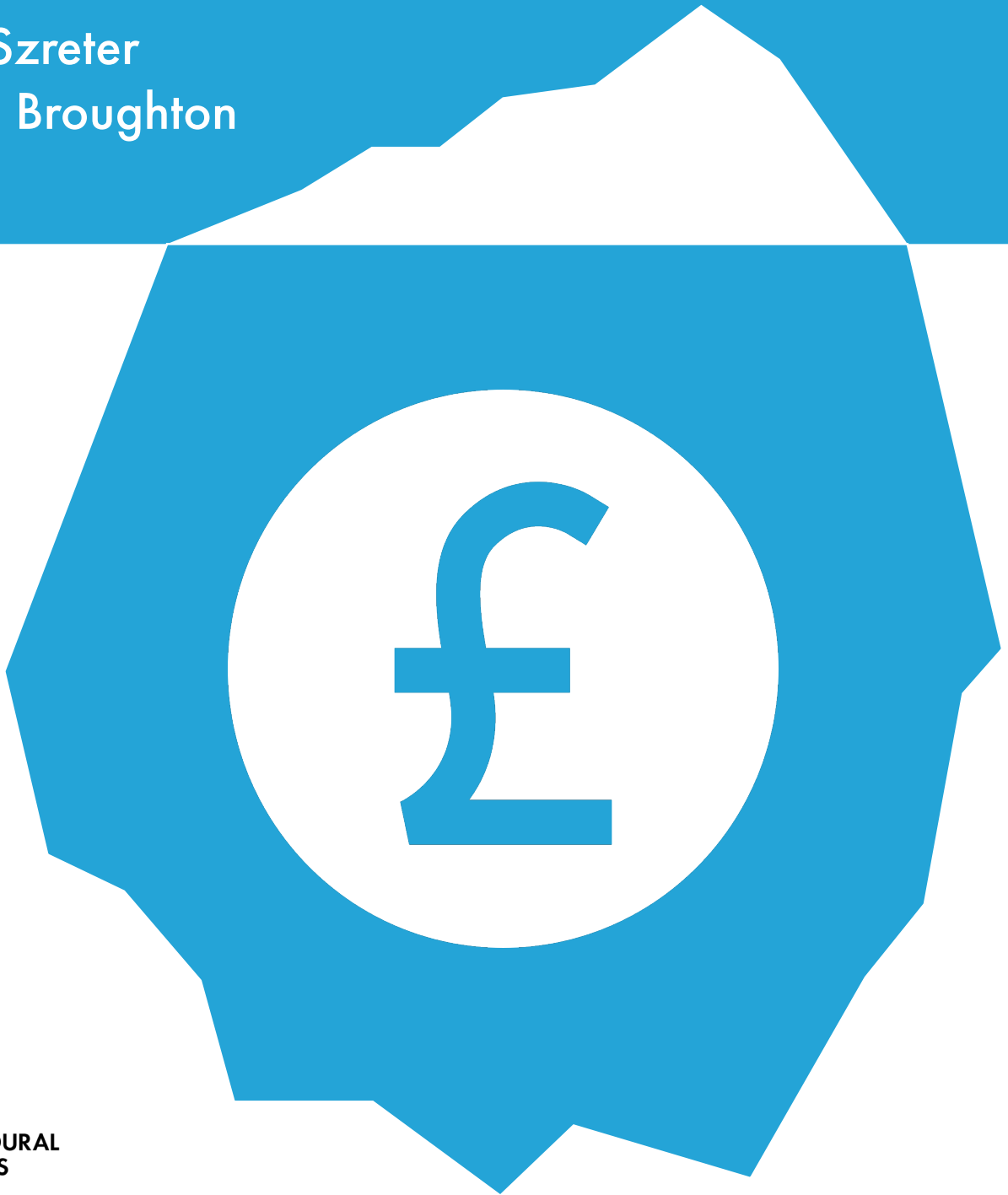


The Shrouded Economy

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The Shrouded Economy: A thinkpiece for boosting the UK's productivity and growth

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Executive summary

Across the economy, consumers struggle to tell the difference between good and bad products. Critical information, from price to quality, is either missing, hard to access, or hard to compare. The markets are 'shrouded'.

This has obvious costs for consumers, but the effects on the economy run much deeper. If consumers cannot identify the best products and services, firms have no incentive to compete on quality, stifling innovation. The most productive firms, who can offer the best products and services, struggle to differentiate themselves and grow, stifling productivity growth. And when the shrouded market itself is designed to increase productivity – such as markets for business advice and services – the inability to distinguish good providers makes the difference between services that deliver large productivity improvements, and a regrettable expenditure.

We estimate that deshrouding markets could add £5-23bn to the UK economy; three times the benefit of full-expensing, one of the government's flagship productivity policies and one of its most expensive. Yet, until now, this lever has been largely overlooked.

This discussion paper presents the case for deshrouding markets, provides examples of shrouded markets in practice, and provides preliminary suggestions for deshrouding through policy. We welcome feedback on the ideas and further recommendations.

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Part 1. The problem and opportunity

Helping consumers tell the difference between good and bad can reduce consumer harms, support our best businesses, and boost economic growth.

In July 2023, the UK's Competition and Markets Authority (CMA), ordered supermarkets to clean up their act on pricing. As Sarah Cardell, the CMA chief executive, put it:

“With so many people struggling to feed their families, it's vital that we do everything we can to make sure people find the best prices easily. We've found that not all retailers are displaying prices as clearly as they should, which could be hampering people's ability to compare product prices.

We're writing to these retailers and warning them to make the necessary changes or risk facing enforcement action. The law itself needs to be tightened here, so we are also calling on the government to bring in reforms.”

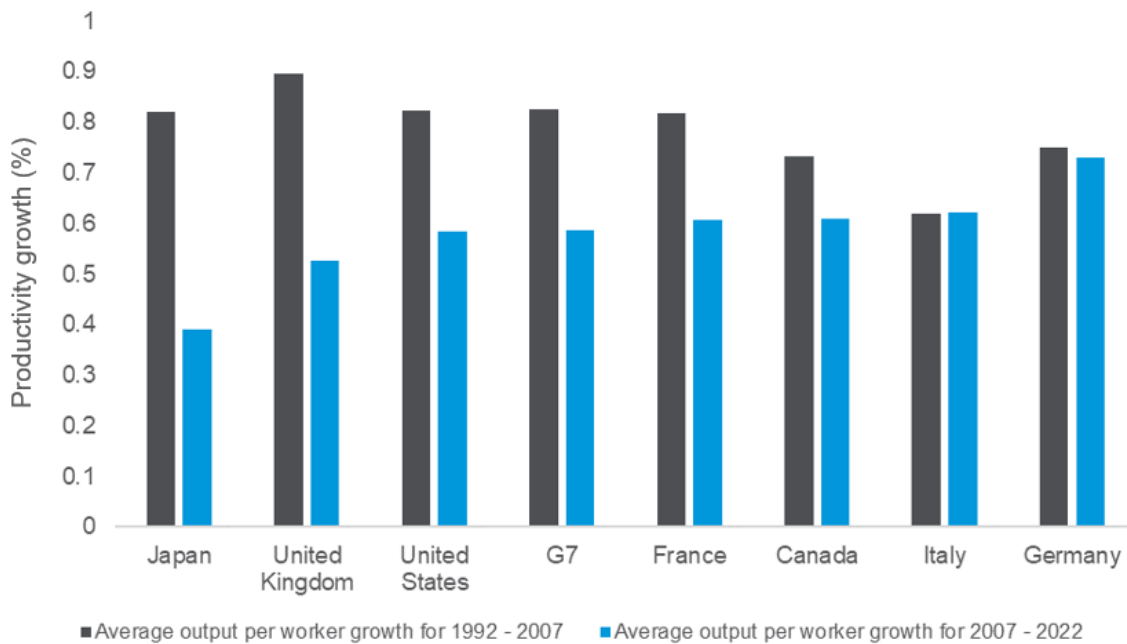
This is a simple everyday example of 'shrouding'. It is hard for consumers to compare the actual price per gram or unit. For example, some prices are labelled per 100g, others per unit, and some only have a headline price for the whole packet or deal. It is an open question whether supermarkets do this on purpose, or whether it has occurred by accident or inattention. But the net result for the consumer is much the same: it's very hard to tell which product is the 'better deal'.

There is an arc of opacity from such everyday price 'shrouding', through labour, business-to-business (B2B) markets, and investment decisions that acts as a drag on the growth and performance of the UK and other economies. Addressing it could add £5-23bn to the UK economy, as well as increasing the long-term trend growth rate.

From prices to productivity

The UK has a well-known productivity problem, with close to flatlining productivity growth since 2008.¹ This problem is not unique to the UK - productivity has risen more slowly in the last 15 years than in previous decades in many OECD countries - but the pattern is particularly pronounced in the UK.

Productivity growth has fallen in nearly all G7 countries, with the UK second to Japan as the largest fall²



Without fixing our productivity growth problem, it will be hard for any government to deliver on all the other aspirations of the UK public.

Indeed there seems to be a political consensus on this. In January 2023 the British chancellor Jeremy Hunt made improving productivity a centrepiece of his plan for growing the British economy which was emphasised again in the March 2023 Spring Statement³ where Hunt talked about *‘tackling our longstanding productivity issues’*. On the other side, Labour leader Keir Starmer reiterated this with a speech in Manchester in February 2023 outlining Labour missions making growth and productivity top of the list *‘Mission one – secure the highest sustained growth in the G7 with good jobs, productivity growth in every part of the country, growth that makes everyone, not just a few, better off.’*⁴

The headline numbers and analysis behind the productivity problem in the UK have been well-studied⁵ including the strikingly long tail of low productivity in UK business⁶ (i.e. that the UK’s top businesses appear highly competitive internationally, but the ‘long tail’ of all the others below this top tier is characterised by a low productivity, low investment, low wage rate equilibrium).

There is a familiar list of policy responses that successive UK administrations have pursued. Raise skills. R&D tax credits. Improve infrastructure. Attempts to encourage

businesses to mutually learn and improve (for example '[Be The Business](#)'). Schemes to incentivise businesses to upgrade their tech and management. On top of this, a sequence of 'once in a generation' industrial policies have been published, but each has rarely survived more than 2 years.

Government policy for driving productivity improvements has oscillated between a strong laissez-faire instinct - the best thing HMG can do is get out of the way - and very specific interventions that are often poorly tailored to business needs. The latter is illustrated by the poor take-up of schemes such as [Help to Grow](#) (which reached just a tenth of its target enrolment six months after launch⁷).

Yet few policies have tried to address how markets themselves work.

Regulators, like the Competition and Markets Authority (CMA), have made significant progress on protecting consumers from the most egregious examples of bad practice and misleading claims in specific markets. But a truly efficient market would enable consumers not just to avoid scams and malpractice, but to distinguish between bad, good, and even better products and services.

Right now in the UK, how does a consumer discern a green or healthy product? How do you find a credible, high quality heat pump provider or installer? How do you judge the quality of your local nursery or care home?

Businesses have little incentive to compete on quality and innovate if consumers cannot discern and choose the better products, brands or providers.

What is a 'shrouding problem'?

A 'shrouding' problem is: a situation in which key attributes of goods and services, such as price, or more commonly a reasonable measure of quality, cannot be easily discerned by consumers, either because the information is hidden or because it is hard to interpret or compare. These elements that are not observed therefore remain 'shrouded' to the prospective purchaser.

How does 'shrouding' differ from information asymmetry?

Information asymmetry is a situation in which one actor in a market (almost always a seller) has more information about the product than another actor and can use that imbalance to exert power in that market. An example might be that the seller of a 2nd hand car knows that the car they are selling is poor quality and is likely to break down in the near future but the buyer does not know this. The buyer therefore pays more than they would if they had that information.⁸ In this sense, information asymmetries - whether by intent or accident - often lead to shrouding (eg the car seller deliberately withholds important information).

Information asymmetries – in the conventional sense of the expert or business knowing more but choosing to selectively withhold that information – are a frequent but not the unique driver of shrouding problems. Shrouding expands this definition to include when:

1. **Both suppliers and consumers are missing information.** For example, businesses may find it hard to assemble accurate information about the carbon footprint of their products or services. Or, they may have limited feedback on consumer experiences of their products or services.

Absence of information may be an active choice. For example, a businesses may have more incentive to find out their carbon footprint if they think it will paint them in a favourable light, so the decision not to invest in this research may be (partly) a signal of poor performance.

2. **Information is available, but difficult to compare across products.** For example, several businesses might quote for a job, but one might quote with a day rate and an estimated number of days (but with the possibility of going over), one might provide a fixed fee quote, and another might provide a quote for two-thirds of the work, but suggest a separate supplier (and quote) for the remainder. Sometimes, these discrepancies will be part of deliberate obfuscation. But other times, the market simply doesn't have clear norms for suppliers to follow. Comparisons could also be made difficult by information being spread out, for example if consumers have to visit several different sites to find the information they need.

In sum

Shrouding is about the practical reality of comparing products and services. It includes many classes of 'market failure', but in its most simplified form can be thought of as:

information gaps + asymmetries (loosely defined) + comparison frictions.

Ultimately, however, each of these aspects of shrouding lead to the same outcome: consumers struggle to distinguish between high-quality and low-quality products, so that prices fail to reflect quality, and suppliers have little incentive to compete on quality or other shrouded attributes.

Shrouding is a widespread and under-addressed market failure

Nearly 7 in every 10 consumers experience some form of detriment from a purchase each year,⁹ with poor-quality products being the leading cause. Even where product information is available, consumers struggle to navigate it: less than half of consumers can identify the best offer for a foreign exchange transaction¹⁰ and, when shown credit card offers and asked about their charges, consumers get only about 40% of questions right¹¹. Price comparison websites, which have proliferated over the past decade, aim to help with this. But they cover a limited number of markets and, in practice, can continue to obfuscate markets (see [Case Study: Shrouding in Practice](#)).

The challenge of distinguishing 'good' products and services from bad affects B2B and labour markets, as well consumer markets. Small businesses behave rather like consumers, often relying on recommendations and immediate networks to source supplies and services. They also often lack internal expertise around product and service innovation, such as how and if to digitise or reduce energy use. At the same time, the service industries whose role it is to help businesses work better - consultants, IT providers, and so on - are often highly opaque around quality and even price.




Shrouding is a behavioural issue

A combination of *inattention* and *information overload* means that any market that requires consumers to do extensive research to discern quality is largely ineffective, leaving consumers exposed. This is further exacerbated by *choice overload* and *comparison friction*. Consumers have limited bandwidth to make complex trade offs, and so navigating choices that involve comparing and collating different aspects of quality is very difficult. Studies show that even relatively modest frictions can strongly undermine consumers' ability (or willingness, given time pressures) to make differential judgements of quality or price.¹² This can in turn drive and reward predatory behaviour by sellers, from drip-pricing to cash-backs (that won't get claimed).

These issues partly relate to human capabilities and the mental shortcuts we use to avoid overload, but they are equally rooted in the complexity - and sometimes 'confuseology' of contemporary markets. Research shows that conditions of scarcity or poverty further impact decision-making^{13 14 15}, so the harms from the shrouded economy are likely to be even more severe among vulnerable people.

Case study: Shrouding in practice

Below are five internet service providers, the best deals they offer, and their Trustpilot rating. These are factual comparisons that a BIT researcher assembled from multiple sources. Which deal would you choose?

	A	B	C	D	E
Monthly cost (incl. setup)	£29.74 24 month contract	£26.00 18 month contract	£23.99 18 month contract 	£29.99 12 month contract	£27.50 18 month contract
Avg. download speed	46-72 Mbps	59 Mbps	63 Mbps	70 Mbps 	67 Mbps
Trustpilot rating	1.6	1.5	4.1	4.0	4.6 

All data was collected in November 2022. An example postcode in London was used for prices.

You probably chose C, or maybe E if the trust-mark rating caught your eye. Whatever your preferences, A and B look like inferior deals. Yet they may be the only deals you come across.

We found offers A, B and C through a major broadband comparison website. Offer A was labelled “{website} provider of the year!”. Offer B was the top “{website} rated” deal. Offer C – better than both deals on price and speed, the main metrics the comparison site used – was number 25 on the list. Most consumers won’t look this far: research by the CMA shows that ~70% of people searching on mobile devices click on the top 3 results.¹⁶

Offers D and E were not on the comparison site at all. We found them by specifically searching for small broadband providers. Even if they had been listed, E’s glowing reviews wouldn’t feature – you’d need to visit a separate site for that.

As the above example illustrates, even an everyday choice over household broadband, where there are many characteristics of a well-functioning market - strong price competition, many market players, strong regulation - identifying a good service is difficult. This creates widespread consumer detriment (people or firms buy badly) and slows the growth of better products and services that can’t take market share because they are losing out to competitors. It can be in some businesses’ interests to increase complexity and make it hard for consumers to know if they are getting a good deal or should switch: people need to spend an estimated 107 minutes per week on navigating and comparing options if they want to make good

decisions.¹⁷ We simply don't have this time, or dedication. A solution is needed that doesn't put all of the onus on consumers to navigate these complex choices.

The market for internet services is shrouded, but many other markets are even more afflicted. It can be hard to find basic information on price or quality for traders, care homes and financial products for example. Similarly, items like beauty products and green products are often peppered with false claims or more well-intentioned but confusing information.

Even products that appear nominally deshrouded - notably from nutrition labels (or alcohol units) - appear to fail 'real world' tests of consumers ability to discern between them¹⁸, not least because of crowding and dilution effects from all the other information and imagery presented alongside the labelling.

Green washing and wishing: an everyday example of shrouding

One of the unfinished threads from COP26, and the green agenda, is helping consumers tell which products are environmentally sustainable. 'Green-washing' – marketing that deceptively makes products appear sustainable – is highly effective, making it very hard for consumers to tell what products are genuinely friendly to the planet.¹⁹ The good news is that around 8 in 10 UK consumers say that they would support the Government introducing standardised green ratings for businesses and ecolabels for products and services.²⁰

The nascent labelling landscape is confused and often misleading. There are a myriad of rival labels and claims, mixed in with a large swath of 'green-washing' and 'green-wishing'. Even those labels that are intended to help, often add more confusion. The image on the next page is an example we have mocked up based directly on real-life practice that we have observed. Look carefully, and you will find that many of the 'green' options actually have higher CO2 emissions than the red ones, since they are larger portions. There is no suggestion of malice - these kind of menus often come from excellent and self-evidently ethical companies - but the labels are very hard to make sense of.

desserts

B	0.33 kg of CO ₂	Fruit Crumble with ice cream	7
B	0.46 kg of CO ₂	Cheese Cake	7
B	0.42 kg of CO ₂	Chocolate Torte	7
C	0.61 kg of CO ₂	Creme Brulee	7
E	0.25 kg of CO ₂	Affogato	5
B	0.53 kg of CO ₂	Ice Cream	5

Carbon Emissions Rating

CO₂
per kg



Very Low



Low



Medium



High



Very High

The colour of the icon shows the carbon emissions created by the dish per kilogram. The actual number of CO₂ per kg is shown for each dish.

Shrouding is arguably even worse outside of consumer markets. B2B markets – such as management consultants, accountants, lawyers, export advisers, IT providers and so on (dare we say behavioural science practitioners!) – are particularly afflicted.

What if, for example, you were a UK company wanting to start exporting? Helpfully, in the wake of Brexit, HMRC published a [list of customs agents](#) to get businesses started. By August 2023, there were more than 1,300 companies listed– you can surely find a good one. But there is no information on quality. In fact, other than a few filters (such as *available to take new clients?* which only 2% say “no” to), there is little information to go on. Most people will just choose one of the businesses at the top of the list.

This still creates competition, of a sort. Firms compete on how to spell their name so that it is at the top of the list. *Blaiklock International Logistics* becomes "*1 Blaiklock International Logistics* – punctuation and a number placing it second in the list (not quite as successful as *GB Customs Clearance*, who just added a space before their name). Pity the poor soul who named their business Zebra exports - though perhaps better to be at the very bottom of a list than buried two-thirds down.

This is particularly worrying, because B2B services can contribute to the productivity of all the firms they work with. If firms cannot identify good advisors, there's a good chance they will receive bad advice. There's also a good chance they will avoid getting advice altogether: previous work has suggested around 28% of companies would benefit from business support but don't pursue it,²¹ with the leading reason being doubts about the benefits and value of assistance. Lack of information about the cost, availability and quality of advice has been a consistent factor in the low take-up of many government-backed schemes to promote business advice,²² yet more focus has been on changing funding criteria or levels, rather than dealing with informational failures or shrouding.

Shrouding inside government and public services - the biggest buyers of all

Back in 2010, when the Behavioural Insights Team had just been set up, the UK Cabinet Office introduced a new IT system. It was a minor disaster. It typically took 25 minutes to boot up each PC everytime it was switched on, and was clunky and difficult to use. It was so bad, that the then Minister Frances Maude refused to use it and had the equipment removed from his office.

Eventually the system was junked, and litigation ensued. At the same time as this was happening, two other major government departments bought the same system.

The provider, Fujitsu, is now better known in the UK for the Horizon IT system it installed and maintained in the Post Office - and one of the biggest scandals of modern times. But the question has frequently been asked, why did UK government carry on buying more than £6bn worth with a company and system with this track record?

In a word, shrouding. Much government purchasing - not just in the UK but across Europe - actively shrouds or 'veils' past performance. This was intended to prevent

incumbent providers from having an unfair advantage, and enabling challengers to have a chance of successful bids without long past records of delivery with that government or Department. But the net result can be perverse.

The issue is illustrated by a BIT study of HMG IT providers, partly inspired by the Fujitsu example. We assembled feedback on the performance and delivery of IT equipment and systems from purchasers across UK government. We also checked these ratings against any other data we could get our hands on, such as delivery delays or returns of faulty equipment.

We found large differences in the ratings of suppliers. These included poor ratings for some of the largest government suppliers, alongside better ratings for other, often smaller, suppliers. Yet at the time, the legal guidance was that this information - based on prior performance - should not be used in ongoing procurement.

Governments and public services suffer from an even more pervasive form of shrouding: trillions of pounds are spent with surprisingly little evidence on 'what works'. At the micro level, this ranges from surgeons trying to decide between 50 different possible hip replacements to schools trying to decide which new digital teaching software to buy. At the macro level, this ranges from how best to reduce reoffending to how best to boost regional growth.

There has been progress. The UK's What Works Centres, such as the Educational Endowment Fund (what works for schooling), have made significant progress in building up the evidence base to guide the best way to spend time and money in at least some sectors. Similarly, the establishment and work of the Treasury-backed Evaluation Task Force is helping to drive up the number of robust evaluations within government, pulling back the shroud of ignorance about how best to spend 45 percent of GDP.

We are pleased to report that the rules and position on government procurement has now been changed too. The Procurement Bill that was passed in late 2023 now enables - indeed encourages - government purchasers to take into account past performance, though will not come into force until later in 2024. We now need to make sure these powers are actually used (see later).

Deshrouding - helping consumers tell the difference between good and bad

The good news about shrouding is that this appears to be a relatively tractable problem. Building better feedback loops on price and quality should enable consumers, businesses and the public sector to purchase better value products and services. This in turn should save money, drive up quality, and boost productivity.

Market studies show how 'deshrouding' can boost the growth of better products and services while empowering consumers. For example, an elegant and well-designed US study showed how an extra star (out of 5) on a restaurant rating has a causal impact on boosting the restaurant's sales by 7% in the following year.²³ Results from hotels are similar: a one-star increase in a hotel's Yelp or Tripadvisor rating increases demand by 25% and enables them to raise prices by 9%.²⁴ In both studies, these gains disproportionately benefit independent businesses and customers with less local knowledge. This is true of deshrouding approaches in general: they are market-based solutions that most benefit vulnerable and inexperienced consumers, and businesses that are smaller, new and more innovative.

The responsiveness of sales to better products is key to competition and productivity. When market transparency allows consumers to identify better products, high productivity firms (who can offer more to consumers, for less) take increasing market share, while low productivity firms go under, increasing productivity.²⁵ This helps to drive labour reallocation, with labour shifting to the growing, high productivity firms – identified by the Resolution Foundation as one of the key drivers of productivity growth.²⁶ Despite its importance however, this mechanism is increasingly broken: since the financial crisis, the relationship between productivity and firm growth has fallen by 30%.²⁷ If the best firms cannot stand out, they will not grow.

As well as driving productivity by supporting the growth of productive firms, deshrouding is also likely to increase the productivity of individual firms. Firstly, [as discussed previously](#), pronounced shrouding in B2B markets leads to poor quality business services and advice, and low-uptake of business support. Deshrouding these markets is likely to drive more and better business advice, enabling firms to learn and grow. Secondly, deshrouding itself can help firms learn. Customer ratings,

provider rankings, and external assessments all provide businesses with valuable information on where they can improve. Rationally, businesses should seek this feedback out anyway, but many don't. Seeking feedback is time consuming but, more importantly, most people suffer from overconfidence – why get feedback, if your product is already great? By baking reviews and feedback into the system, deshrouding can actively help firms to improve.

Interestingly, follow-up work shows how deshrouding not only drives up quality and returns, it also tends to increase total market size. In the much studied case of restaurants at least, the increased transparency - and especially good ratings - seem to encourage more people to venture out and eat, safe in the knowledge they will get a good meal.²⁸

Two examples of deshrouding - vehicle safety ratings and social media

Car Safety

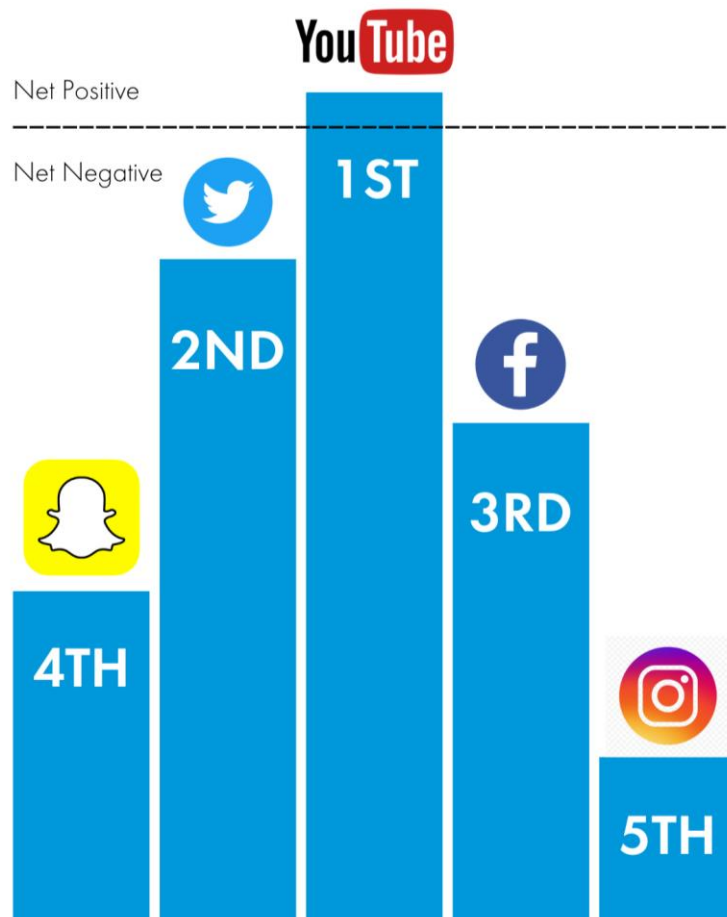
Vehicle safety is complicated, yet the creation of the simple 5-star NCAP (European New Car Assessment Programme) rating helps consumers to choose a safer car. Indeed, a recent survey suggests this is one of the most important considerations among new car buyers.²⁹ Consequently, manufacturers are continuously incentivised to up their game and compete on safety scores, meaning we all drive safer cars as a result. This simple rating system has been a major driver of improvements such as air bags, advanced crumple zones, ABS and more.



Social Media

In 2017 the Royal Society of Public Health and the Young Health Movement published the [#StatusofMind report](#) which assessed how damaging different social media platforms are to young people. In particular, the report showed a comparison between the potential harm from different platforms (see figure on next page, which recreates a main chart from the report) as well as a breakdown on different metrics for each platform (see pages 19-23 of the report). This was an important exercise which, with wider dissemination and replication, could help both parents and young people make evidence-based, better-informed choices about which social media platforms to use, and help to drive market incentives of social media platforms towards reducing harm. But it's lack of reach also underscores a deeper point: ratings on their own do not shape markets. They need to be widely adopted and baked in at critical moments, such as the point of purchase (or download). This will often require government action.

Summary results from 1,500 teenagers ranking the effects that different social media had on them



Source: adapted from Royal Society for Public Health, Status of Mind: Social media and young people's mental health and wellbeing. May 2017, page 18, available at <https://www.rsph.org.uk/static/uploaded/d125b27c-0b62-41c5-a2c0155a8887cd01.pdf>

BIT researchers ran an analysis to estimate the impact on the UK economy if deshrouding measures - similar to those applied to restaurants and hotels - were applied to other broadly comparable consumer-facing markets. Our rough estimate is that such deshrouding could add 0.2 - 1.0% to UK GDP in the immediate term, by shifting consumers to better and more productive firms.ⁱ These short-run benefits

ⁱ See Appendix for more details on our approach. One important question is the extent to which this is a one-off effect (better businesses get a one-time boost when the rating system is introduced, albeit maintaining that additional custom and/or margin) versus providing a continuing boost to growth and productivity every year. It is a difficult dynamic to model, but we think there will be an element of both. In other words, increasing market transparency provides an immediate and substantial gain to 'better' businesses (estimated in our 0.2 - 1.0% figure). The effect also continues to drive further innovations and growth, but with the exact extent likely to depend on the dynamism and innovation rate in the

alone are equivalent to between £5b - £23b³⁰. At the midpoint, that is nearly three times the expected benefit from full expensing³¹ -- the government's flagship productivity policy, and claimed to be the “largest business tax cut in modern British history”.³² We anticipate the long-run effects on productivity could be even larger by shifting fundamental market dynamics: facilitating the growth of new firms, providing feedback to existing firms that allows them to improve, and fostering greater competition.

Part 2. A programme for deshrouding

There are some examples of policymakers actively deshrouding markets, from Ofcom publishing internet provider speeds to the requirement on Higher Education Institutions to publish student satisfaction scores. But, for the most part, the orthodox view in government and most regulators is based on a classical economic perspective that markets will self-correct.

Changing that perspective has wide ranging policy implications, but the recommendations below are a starting point, with an emphasis on interventions that have the potential for rapid impact.

1 - Identify the scale of the issue across UK markets: shrouding audit

Take a sector-by-sector focus. The new Department for Business and Trade should identify, or commission rolling analysis on, levels of shrouding by industry and points of purchase. Working with regulators, and building on the CMA's annual [State of UK Competition](#) reports, they should challenge relevant sector bodies to develop consumer and B2B approaches that address these sector specific shrouding issues. Where these efforts fail, or there is no suitable trade body in place, DBT / CMA should intervene more heavily, including using the instruments listed below.

2 - Release new data to increase transparency and fuel innovation

Release HMG data with licensed APIs that can enable deshrouding, including service markets. For example, HMRC hold considerable data on tax advisers and accountants, including advisers whose returns include disproportionately high levels

relevant market. Given the difficulty in modelling it, we have excluded these subsequent increases from our estimate, but it consequently underestimates the long-term benefit.

of errors. Similarly information is held, or could be easily gathered, on: complaints against landlords, or building regulation breaches; pollution levels of firms; and on employee turnover and pay progression at large companies (see also below). Releasing this analysis on services and firms to the public, in easily accessible formats that can be incorporated into platforms and 'choice engines' like comparison sites, will help consumers and businesses make better decisions.

Gather and release data that sheds light on labour markets. Choosing who to work for, and in what area (sector and geographic) is one of the most important decisions people make in life - and is often highly shrouded, with a lot of room for improvement in existing platforms.³³ While finding the right job is an understandably complex and personal job, it can be extremely hard for prospective employees to reliably establish even reasonably objective measures of job quality, promotion prospects, or even pay in advance.

The government has considerable data assets and involvement in labour markets, from NINo (National Insurance Numbers) and RTI (real time information) data to the Job Centre Plus network, that could be released to integrate into job platforms like Glassdoor or Indeed (or even gov.uk/find-a-job). For example, such data could be analysed to show average pay rates, how long people tend to stay at given companies, and wage progression rates. Relatedly, there also remains heavy shrouding around the returns to qualifications, particularly in the FE and adult skills sector. We should help to build a market encouraging good work and not just any work by making this data available in a structured and useful way to people.

3 - Shape the markets government already influences

Revamp government procurement to take overt and systematic account of past performance. As noted above, government procurement has historically been legally constrained to underweight or ignore past performance (based on EU measures intended to weaken the grip of incumbents). [The new Procurement Bill](#) (passed in November 2023) should enable this shift.

However, it is one thing to pass a law, another to operationalise it and to shift decades of practice, from central government procurement to front-line purchasing. Central government, across the four nations, should lean into this challenge,

including supporting platforms that make it easier for schools, hospitals and other public services to make better informed purchases. For example, the current NHS purchasing platforms are built on delivery models, with a near-exclusive focus on price not quality (although even price is often hard to compare). These merit upgrading to incorporate feedback loops on quality and value-for-money, including from other fellow professionals. Similarly, we want schools and other services to adopt new technology, but they have very few reliable sources to help them decide between the burgeoning products.

The What Works Centres could play a significant role in further deshrouding public sector purchasing, including by providing more expanded 'Which?'-style guides to help public sector purchasers and providers. For products and services that have both public and private sector applications (such as catering or IT services), or markets that extend outside the UK, a further step would be to publish performance ratings, or allow firms who achieve high ratings to advertise their ratings. This would enable firms with good ratings to leverage this performance, attracting custom from other governments and the private sector, while creating further powerful incentives for suppliers to deliver high value for money and quality.

4 - Design and fund new solutions

Instruct Innovate UK to run a funding round specifically targeted at enhancing transparency and easy comparison in key markets. The objective would be to grow scaled but trustworthy market intermediaries, including at least one unicorn. *[Note: Innovate UK should have an additional interest in solving shrouding issues because shrouding disproportionately acts as a brake on the growth of new entrants and the types of innovative firms and products they fund.]*

Fix advice markets. Advice markets also have 'shrouding' problems! Currently, it is very hard to tell whether a review or advice platform (or other adviser) has underlying conflicts of interest. As a minimum, we need to get this decisively fixed so that consumers can tell if the advice is to be trusted. This should ideally not just be a base-line minimum (or 'kite-mark') system, but should differentiate between say 'bronze', 'silver' and 'gold' so that platforms or advisers achieving higher standards can be differentiated. This is an issue that is likely to need addressing sector by sector, and/or regulator by regulator. Telling who is a good financial or robo-adviser

may be different, and more complex, than assessing if a switching site is indeed offering good advice on your broadband supplier options. The former may be a deep issue for the FCA and financial services advice industry to resolve, the latter might be addressed quite fast with some mystery shopping commissioned by Ofcom.

Expand access to *Consumer Reports* and *Which?* -style platforms *Consumer Reports* (USA) was founded in 1936, and its sister organisation, *Which?* (UK), was founded in 1957. Both are fiercely independent platforms that have helped generations of consumers identify better products, weed out sharp practices, and have led to improvements and occasional recalls of products. Such platforms can be characterised as semi-private goods: some of their content is publicly available but much remains behind paywalls. Although *Consumer Reports* and *Which?* have around 3.8 million and 0.6 million subscribers respectively (or around 1 percent of the population), paywalls mean that most consumers, and particularly the less affluent, do not have access to their full recommendations.ⁱⁱ Both have experimented with more public access arrangements, such as *Consumer Reports Television* and *Which?* licensing the display of their 'best buy' recommendations to manufacturers so they can show them in stores and advertising. The latter is particularly interesting, in that it can generate significant revenues for the platform while improving market functioning. For various often sensible reasons (people may be cash-strapped or want to avoid signing up to more services), people seem not to like paying for advice, and instead seek to use sponsored platforms with distorted incentives (or just use 'gut' instincts). For these reasons, we would strongly encourage government and regulators to work with the 'general purpose' consumer platforms to make their outputs and recommendations available to all, and at the same time increase the range of their product coverage. It is also noteworthy that *Which?*, again to its credit, subcontracts out much of its testing (*Consumer Reports* subcontracts about 11%), and as such sits in a unique position in the 'market of recommenders'. Policymakers might also consider supporting open access consumer information through the BBC and/or public service 'broadcasting' (and/or the consumer platforms through partnerships with them).

ⁱⁱ Of course, far more consumers may indirectly benefit from the work of organisations such as *Which?*, if they drive markets to perform better, including weeding out bad or unsafe products.

Conclusion

There are many reasons why we should help people to tell the difference between high quality and poor quality or even dodgy services. It reduces consumer detriment - a mild-sounding phrase that can conceal the real hassle and upset that many people feel when a product or service disappoints. It enables better businesses and products - in all the senses of 'better' - to grow and expand faster. It can boost productivity, lift the quality of work, and lower inflation.

There are also deeper reasons to pursue aggressive 'deshrouding'. Both markets and societies run on trust. Trust that what you are being told is true; that the promise offered will deliver; and that you have some recourse if things go wrong (including to warn others). In short, trust rests on trustworthiness. Trust has a positive impact on economic growth.³⁴ Addressing 'shrouding' problems and ensuring that low quality traders and services are driven out of business, is therefore a policy that will help to boost growth not only through improved individual choices, but through positive spillovers mediated through increasing generalised trust.

This isn't about Government choosing winners, or telling you which washing machine to buy. It is about governments improving how markets work, unleashing innovation and creativity, and helping people to make better choices for themselves. It is, in the language of behavioural science, a 'boost' not a 'nudge'.

Acknowledgements

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Appendix: estimating the impact of deshrouting

We estimated the impact of deshrouting on productivity by assuming that productivity moves in line with satisfaction ratings (on the basis that a more productive business is able to offer better value to customers, which is then reflected in customers' ratings of the business). We then adjusted the revenue of firms based on the observed effects of star ratings on revenue in the restaurant industry, using figures from [Luca \(2016\)](#).

Estimating growth within deshroutable industries

- We start with the productivity distribution of all firms in the UK, broken down by firm size.
- We assume that productivity moves in line with satisfaction ratings, and therefore assume that firms at the bottom of the productivity distribution would receive low quality ratings in the market, and those at the top would receive high quality ratings.
- We assign a 'star' rating to each point on the productivity distribution, based on their productivity (inferred quality). The distribution of stars is taken from a study of Google restaurant reviews in [Fang \(2022\)](#) to reflect the negative skew seen in most ratings systems.
- Firms with a higher 'star' rating see increases in revenue. We base the size of the revenue increase on results from [Luca \(2016\)](#) with effects driven by smaller firms (see below for more detail).
- We model the revenue increase for these firms as an increase in the density of firms at that point in the productivity curve (and, conversely, a decrease in the density of low-rated firms).
- We normalise the productivity curves, so that there is no overall change in the area under the curve. In effect, this means we are saying that the overall size of the market (or its employment share) does not change (see assumptions, below). We do this separately for each firm size, which also implies no shift in the composition of firm sizes.

- We calculate the size of the economy by estimating the total productivity of firms (per worker) before and after the changes, multiplied by the number of workers employed by firms of that size. We initially conduct this analysis for the whole economy, but later adjust it to account for the share of markets that are “deshroudable” (see below).
- We use these before and after figures to calculate the % change in the size of the economy.

Estimating the prevalence of deshroudable industries

We use data from the Annual Business Survey to (1) identify industries that are likely to benefit from deshrouding, and (2) estimate what proportion of the economy they make up.

- We go through industry codes one-by-one, and make a judgement on whether they are likely to benefit from deshrouding.
 - This process is naturally subjective and also crude – there will be a lot of variation even within industry codes.
 - Our aim is to provide a rough estimate, where any errors are likely to balance out. To help this, we create two lists: a loose list, where we err on the side of including industry sectors, and a strict list where we err on the side of excluding them.
 - We have set out our decisions and reasons towards the end of this analysis, to welcome challenge on the decisions made.
- We then estimate the percentage of the economy covered by these industries using their GVA.
 - We sum the total GVA for industries not likely to benefit from deshrouding, and the total GVA for industries that are likely to benefit (using our loose and strict definitions to give upper and lower bounds).
 - We calculate the % of the total GVA covered by industries that could benefit.

- The ABS only covers two-thirds of the economy (its main exclusions are financial industries and the public sector).
 - As an upper bound, we assume that the third of the economy not covered will benefit in a similar way to the two-thirds covered by ABS. We don't change our estimate of the share of the economy covered.
 - As a much more conservative lower bound, we assume that only the two-thirds covered by ABS could benefit from deshrouding. We revise our estimate of the share of the economy covered down by one third.

Key assumptions, simplifications & implications

Several assumptions & simplifications have been made in this model.

Some of these are likely to underestimate the impact of shrouding:

- We assume that the only way that deshrouding affects the economy is through moving consumers towards better/more productive firms within an industry. The most critical element of this assumption is that firm productivity is assumed to be fixed (but productive firms take increasing market share). In practice, we think there are several ways in which deshrouding would increase the productivity of individual firms, and therefore increase the estimated impact on growth:
 - New market entrants & competition. Deshrouding is consistently shown to benefit independent firms vs. chains and large organisations, increasing competition. Resolution Foundation's report, [Ready for change: How and why to make the UK economy more dynamic](#), argues that the slowdown in new businesses and market change is one of the key underpinnings of the UK's slow economic growth. We only model shifts within existing firms (and hold the ratio of SMEs to larger organisations constant) so these effects on market entrants and competition are not captured.
 - Feedback loops. Deshrouding provides information to producers/suppliers, as well as consumers, and these feedback loops are likely to improve the overall quality of supply.

- Second order productivity effects. Particularly for B2B services, improvements in quality are likely to benefit the productivity of the firms they serve, for example in business advice markets.
- We also do not allow for increases in the overall market size. If quality improves and/or consumers can better identify the products they want, consumers are likely to be willing to spend more. Fang (2020) estimates the restaurant industry increased its revenue by 3% as a result of ratings, but we have kept the market size / employment rate fixed for simplicity; and to minimise potential double-counting emerging from potential displacement effects (e.g. consumers switching from spending money from one sector to another).
- We ignore the effects of deshrouding on labour markets, because there is not enough research to estimate effect sizes. However, there are potentially large benefits to the quality of work, which in turn affects factors such as return-to-work rates and long-term sickness absence.

Others are likely to overestimate the impact of shrouding:

- We use the economy-wide productivity curve, and estimate deshrouding as movements along that curve. This gives us a more dispersed productivity function than if we were to look on an industry-by-industry basis, and therefore means that the gains from shifting up the productivity function are greater.
- We assume that productivity perfectly correlates with satisfaction ratings. This mechanically associates higher productivity firms as benefitting from deshrouding.

There are other simplifications used in this model which could be refined in a further analysis, but the effect on these refinements on the final figure are unclear (the refinements are likely to improve accuracy, but their absence is unlikely to be systematically biasing the results). For example:

- The distribution of stars is fixed for each firm size, rather than distributing them across all firms. In some ways this favours small firms, which are

generally less productive and would have lower ratings if we took an all-firms approach. On the other hand, we know that in practice small firms often receive higher ratings, so this might be disadvantaging them.

- We base the distribution of stars on Google restaurant reviews. Distributions for restaurant reviews on TripAdvisor and Yelp, for example, are slightly different. This decision was largely arbitrary, we primarily wanted to reflect the fact that all reviews bunch heavily around 4* ratings.
- We ignore time costs or savings to consumers as a result of the market information, and any knock-on effects of these. We generally assume that better market information reduces consumer time, by making it easier to compare products. However in some cases it may increase consumer time if, in the absence of any information, consumers make immediate, instinctive decisions with minimal associated time.

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