PRESS RELEASE

GROWTH, JOBS AND PRODUCTIVITY:
A new assessment of the UK’s economic performance since 1997
– and the implications for what the Chancellor does now

The UK’s economic performance between 1997 and 2010 was surprisingly strong, according to a report published today by the Centre for Economic Performance (CEP). GDP per capita grew faster than in France, Germany, Italy, Japan and the US. Productivity growth as measured by real GDP per hour worked was second only to the US. And improvements in employment rates were actually better than in the US.

The study by CEP’s director Professor John Van Reenen, Anna Valero and former government adviser Dan Corry shows that the UK’s strong productivity performance was not due to “unsustainable bubbles” in finance, property, oil or public spending.

Professor Van Reenen comments that “Productivity in the UK market economy grew by around 2.8% per year before the Great Recession, and financial services only contributed 0.4% to this growth. Industries such as business services and distribution made a much bigger contribution to overall productivity growth than finance.” And in addition to overall efficiency improvements, there were substantial investments in skills and information technology.

The report’s findings have important implications for the Chancellor’s current economic strategy. We believe that an “output gap” – the difference between actual and potential GDP – does exist, and that there is room for a “Plan B”, slowing down the pace of fiscal consolidation – for example, through temporary cuts to VAT/ National Insurance contributions and greater than planned investment in schools and roads.

More importantly, the UK needs a longer-term growth strategy – a “Plan V” – that is relentlessly focused on areas where the UK has comparative advantage and where the growth of global demand is likely to be strong. The authors argue that a look at the experience since 1997 suggests that the economy would benefit from policies that both build up the UK supply side and expand demand.

The report also finds that the improvements in the UK economy relative to other countries under Labour continued a trend set by the Conservatives from 1979. Anna Valero notes: “After a century of decline where UK GDP per capita fell behind that of the US, Germany and France, the last three decades have seen us catching up”.

Labour did not simply bask in the windfall of Mrs Thatcher’s pro-market reforms. The analysis suggests that Labour’s policies contributed to the strong productivity performance after 1997 through the growth of education, greater support for research and development and tougher competition policy.
The big policy failure was poor regulation of finance and in retrospect public debt was allowed to rise further than it should have.

But the authors cast doubt on “supply side pessimists” who believe that potential output and growth are so much lower than pre-2008 that there is no room for demand expansion. The fall in productivity since 2008 is not simply due to the banking crisis causing permanent structural damage. Productivity is also likely to be held back by low demand.

Professor Van Reenen comments: “Current policies assume that there is little room for demand expansion – but not only is that far from being proven but the policy of austerity can itself reduce potential output. A change here combined with positive supply side measures would stand the UK in much better stead for the challenging times ahead.”

ENDS

Notes for Editors:
1. Authors are Dan Corry, Anna Valero and John Van Reenen
2. Details of event, Executive Summary and full report “UK Economic since 1997” will be available here http://cep.lse.ac.uk/_new/events/event.asp?id=145.
3. For further details contact Romesh Vaitilingam (07768 661095), Helen Durrant (020 7955 7395) or John Van Reenen (0780-3614137)