LOW PRODUCTIVITY: Policies to tackle Britain’s number 1 problem
New #ElectionEconomics policy briefing from the Centre for Economic Performance

In tomorrow’s budget, will the Chancellor mention low productivity, probably the greatest challenge facing the UK economy? And if so, what will he propose to do about it?

A new report from the Centre for Economic Performance (CEP) – the latest in a series of background briefings on key policy issues in the May 2015 UK general election – explains the fundamental problem and analyses how the parties propose to make UK businesses more innovative and more productive.

The CEP reports that:

• UK productivity (GDP per hour) and income grew faster than in France, Germany and the United States between 1979 and 2008, reversing a century of relative decline. Increases in higher education, tougher product and labour market competition, the adoption of information and communication technologies, and innovation policies all contributed.

• UK productivity stagnated after the Great Recession of 2008-09 and remains about 15% below historical trends. This ‘productivity puzzle’ is due to a mixture of cyclical and structural effects – the fall is not entirely permanent.

• The poor performance in recent years has widened a longstanding productivity gap between the UK and other countries. UK GDP per hour is currently around 17% below the G7 average. This is due to low investment (especially in infrastructure and innovation), poor management and weak intermediate skills.

• Weak competition, short-termism and bad debts in the banking sector have hurt access to finance for productive businesses, especially innovative small and medium-sized enterprises. Pro-competition policies in banking have delivered limited results.

• All parties agree on the importance of improving the UK’s productivity performance, and that business policies that boost innovation and investment are key, in particular through improving firms’ access to finance, information and expertise. There is also consensus for support for key industries via the new form of industrial policy.

• The parties appear to be committed to ring-fencing the science budget, but no party has so far committed to protecting it in real terms. This is a concern since government-financed research and development is important both in its own right and through the many benefits it brings to innovation in the private sector.
There are differences between the parties on corporate tax, regulation and corporate governance. It is important that the principle of independent regulation be protected without heavy-handed intervention by politicians.

Anna Valero, co-author of the report, concludes:

‘The UK’s longstanding productivity underperformance has been heightened since the global financial crisis.

‘To meet this central policy challenge, the UK needs a long-term framework for investment and innovation. This ties in with many other policy areas, not least ensuring that there is an adequate supply of skills and a strong infrastructure network.’

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Notes for editors:

‘Productivity and Business Policies’ by Anna Valero and Isabelle Roland is the third in CEP’s #ElectionEconomics series.

Objective, brief and non-technical, CEP Election Analyses is a series of background briefings on the policy issues in the May 2015 UK General Election.

This series discusses the research evidence on some of the UK’s key policy battlegrounds, including immigration, austerity, living standards, productivity, business, Europe, health, education, crime, inequality, gender regional policy, housing and planning, climate change and energy.

These analyses are provided by some of our expert researchers and draw on some of our past and current research.

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