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UK ECONOMY HAS SUFFERED ‘LOST DECADE’ OF GROWTH

Centre for Economic Performance election analysis describes the continued weakness in UK productivity – and how ‘getting Brexit done’ won’t improve things

The UK economy has suffered a ‘lost decade’ as productivity growth in the UK has failed to recover since the global financial crisis, a new election analysis from the Centre for Economic Performance (CEP) at LSE highlighted today.

The analysis shows that if productivity (GDP per hour worked) had increased at the same average annual growth rate from 1979 to 2010 - it would be 17 per cent higher today, around £5,000 per person.

And if the UK had followed the three-decade trend prior to the global financial crisis of 2008-09, productivity would have been 24 per cent higher.

“Increasing productivity is key to improving living standards, and yet productivity growth in the UK has stagnated over the last decade,” Anna Valero, Policy Fellow at the CEP and joint author of the report, said.

“The UK’s poor productivity performance since the financial crisis puts the economy in a fragile position as it deals with prolonged Brexit-induced uncertainty, and faces the potential of further economic damage, particularly if a hard Brexit is pursued by the next government,” she added.

Recent UK productivity performance stands out for being particularly poor by international standards – and the gap between the UK and its main peers has widened.

John Van Reenen, professor of economics at LSE and joint author of the report, said: “It is a mistake to believe that ‘getting Brexit done’ will improve things. First, there will be continued uncertainty due to years of negotiation over what form the UK’s future trading relationship with Europe will actually look like. Second, a hard Brexit is certainly bad for the economy compared with remaining in the EU. The UK will be a relatively smaller market with higher trade costs with our closest neighbours, so a less attractive place for investment.”

He added: “It is welcome that the main parties are promising increases in spending to finance public investment, so long as such investments are based on solid evidence rather than political gimmicks and ministerial whims. But public spending requires tax increases; otherwise the deficit will be unsustainable, especially in the event of a negative Brexit shock.”

The report shows:

- Low productivity growth is reflected in pitiful wage growth. Average earnings (after inflation) have still not recovered to their level before the financial crisis – the longest pay stagnation for centuries.
- The positive side of low wages is that there are plenty of jobs: the proportion of prime-age adults with jobs is 76 per cent. Higher than historical peaks of 73 per cent after previous recoveries from recessions. But underlying the strong aggregate performance, there has been a significant rise in the share of poor quality jobs.
- Boris Johnson's Brexit deal would be likely to reduce national income per person by more than 6 per cent over the next decade relative to the Liberal Democrats' policy of remaining in the EU. If Labour were to preside over a soft Brexit, this would reduce rather than eliminate the economic damage.
- One of the reasons for the UK's longstanding weak productivity is low investment in infrastructure, innovation and skills. Investment is currently depressed by uncertainty over the form of Brexit, which will not be resolved for many years. But the main damage to domestic and overseas investment is due to what will undoubtedly be the negative effects of Brexit on the size of the UK economy. 'Resolving' the uncertainty with a hard Brexit will make this loss of investment even worse than it currently is.
- The willingness of the main parties to borrow more to invest is welcome. But public borrowing for current spending is not sustainable, especially in the event of a negative Brexit shock. All parties would need to raise taxes to pay for spending if an inflationary spiral is to be avoided.

The full report *The UK Economy: Policies for Investment and Productivity Growth* is available here: [The UK Economy](#)

Notes for editors:

Anna Valero is a Policy Fellow at the Centre for Economic Performance.

John Van Reenen is the Ronald Coase and School professor of economics at the London School of Economics, and former director of the Centre for Economic Performance.

CEP election analysis: *The UK Economy* is one in a series of election briefings produced by the Centre for Economic Performance, LSE. The series aims to provide an impartial, evidence-based analysis of the key issues in the 2019 UK general election including education, social mobility, immigration, the labour market and regional policy.

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