

Cracking the Productivity Code

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Department of Business and Trade

November 28th 2023

This Presentation is based on several reports

- Launched yesterday:
 - **Cracking the Productivity Code: UK productivity analysis** ([Van Reenen and Yang](#))
 - **A new UK policy institution for growth and productivity: proposal for institutional change** ([Valero and Van Ark](#))
- **Economy 2030** reports on Investment, Growth & Net Zero
- Response to the **Autumn Statement** ([Valero and Van Reenen](#))



POID Special Report

Cracking the Productivity Code: An international comparison of UK productivity

John Van Reenen and Xuyi Yang
November 2023



POID-CEP Briefing

A new UK policy institution for growth and productivity: A blueprint

Anna Valero and Bart van Ark
November 2023

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There is no lack of investment opportunities but making the most of these – and translating them into productivity growth across the country – means getting serious about addressing the barriers that prevent businesses investing for long-term value creation.

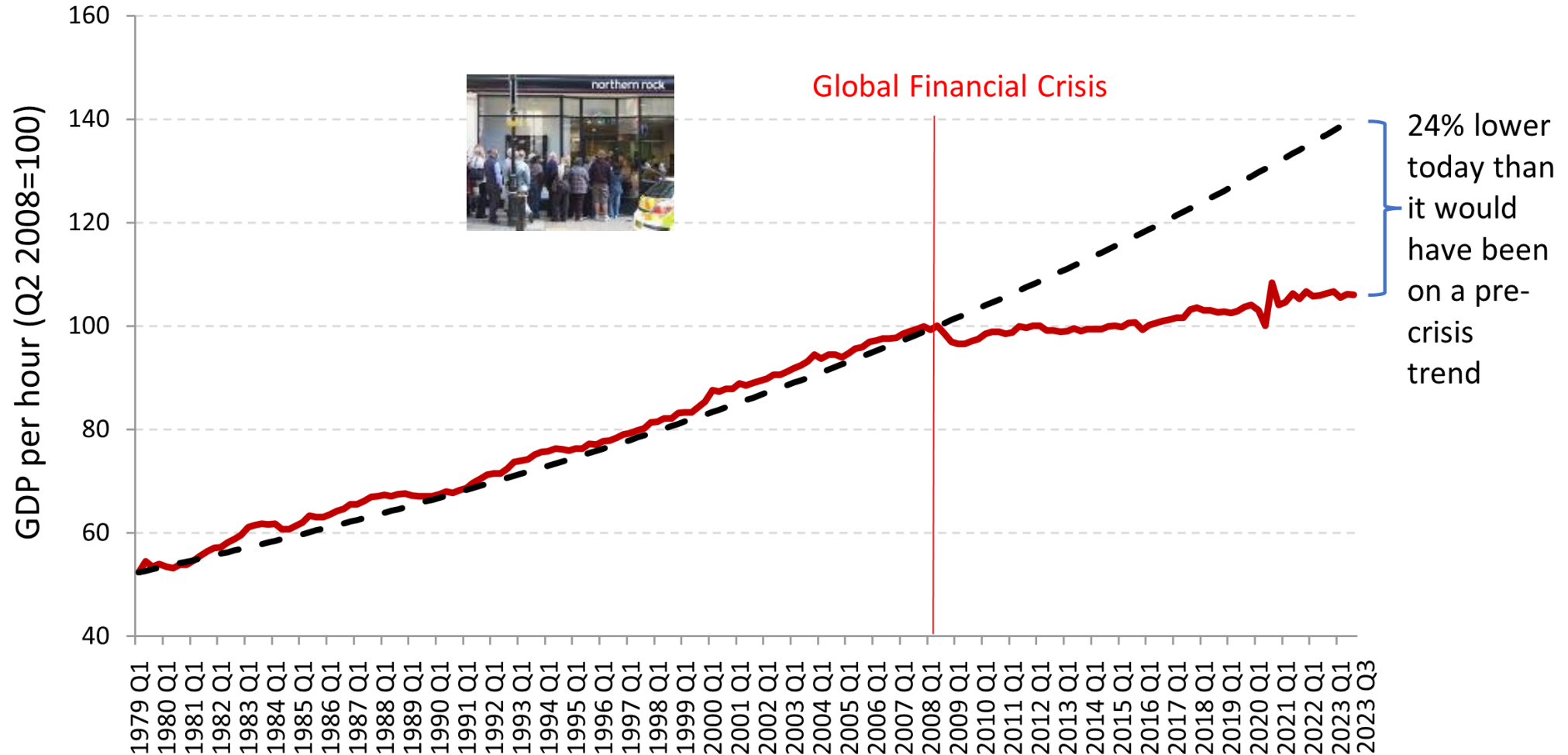
Anna Valero and John Van Reenen



LSE British Politics and Policy

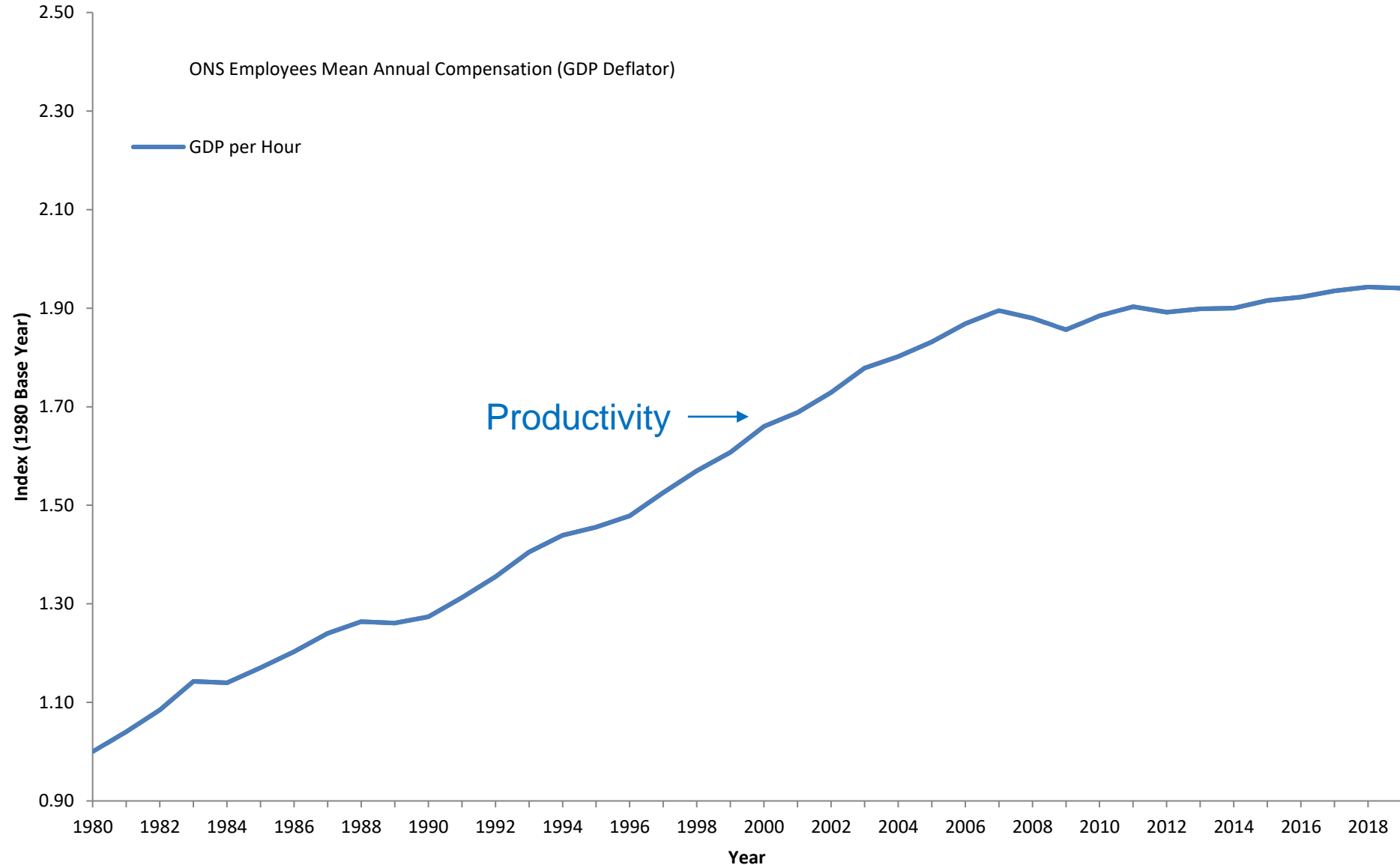
UK Labour Productivity 1979-2023: The Big Slowdown

Whole economy output per hour worked (Q2 2008=100)



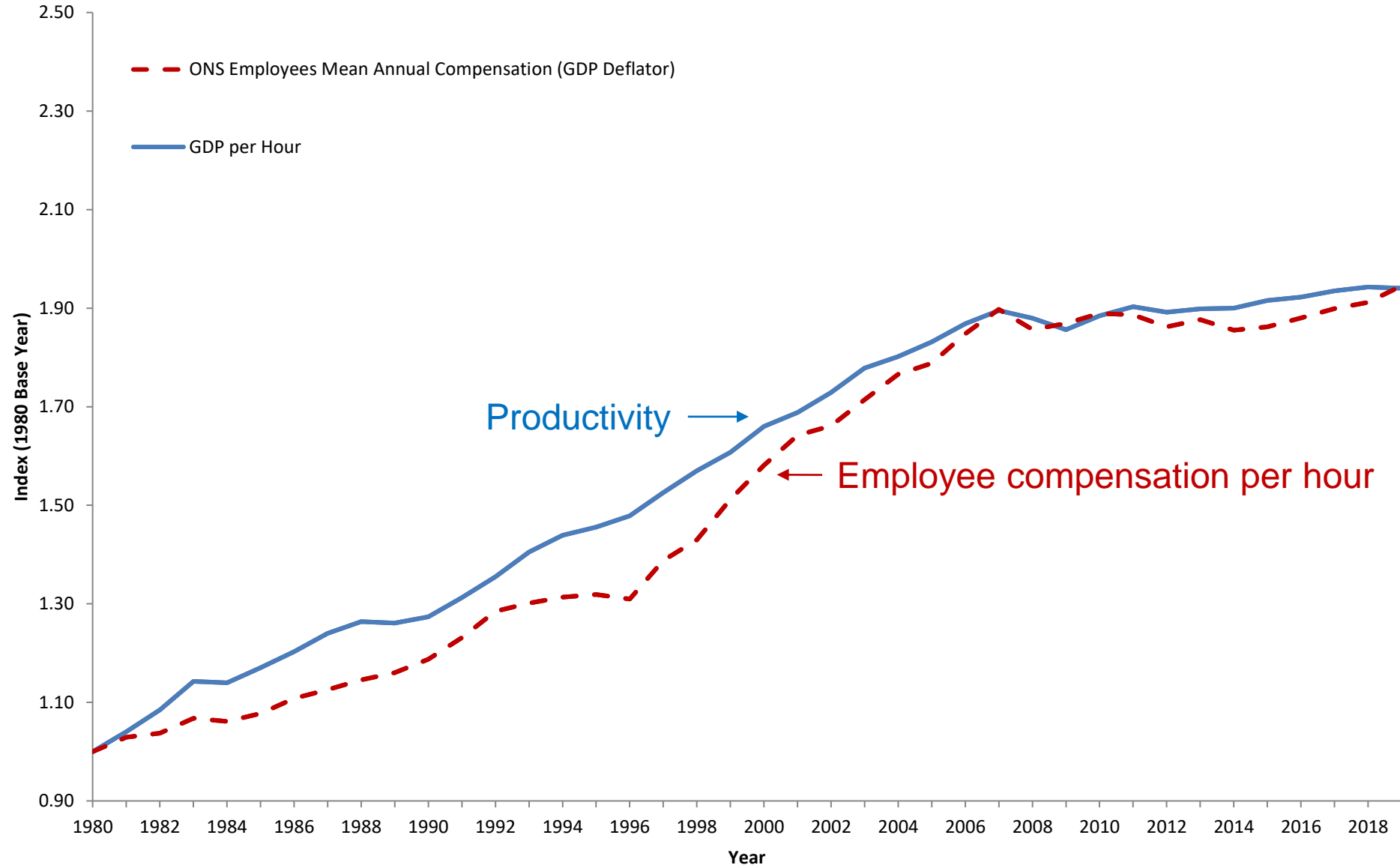
Source: UK Whole Economy (2008Q2=100); ONS Output per hour (24/10/23), Productivity Flash Estimate, (21/11/23) July-September 2023. Predicted value after Q2 2008 is dashed line calculated assuming a historical average growth rate of 2.2% (the 1979Q1-2008Q2 growth rate).

Why Productivity matters: Real wages follow productivity



Source: ONS (2021); Series both based at 1 in 1980, both compensation and productivity approximately doubled over the four decades

UK Employee Average Compensation tracks UK Labour Productivity



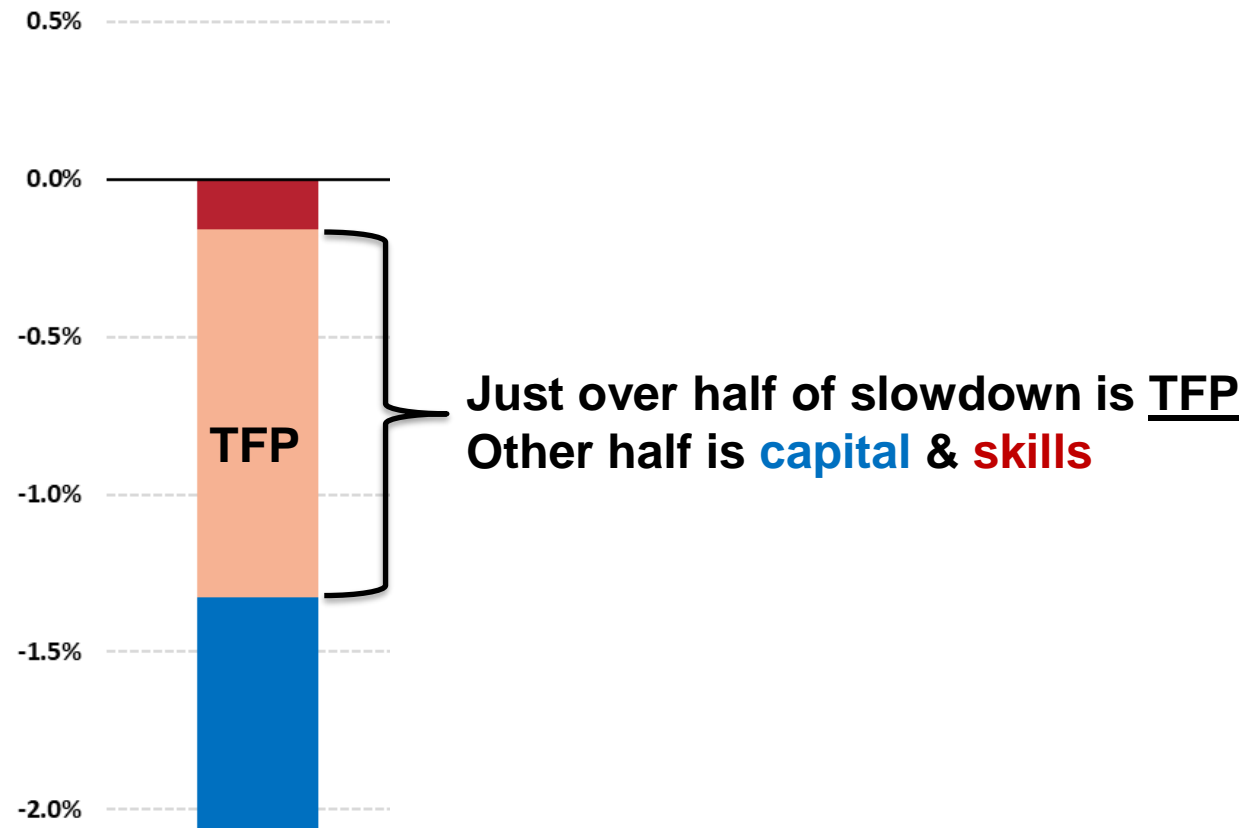
Source: ONS (2021), Teichgraber & Van Reenen (2022); Series both based at 1 in 1980, both compensation and productivity increased by about 87% over the four decades

UK Market Economy Annual Productivity Growth declines by about 2 percentage points post vs. pre Global Financial Crisis

Time period	1995-2007	2007-2019	Fall
Labour Productivity Growth	2.54	0.48	2.06

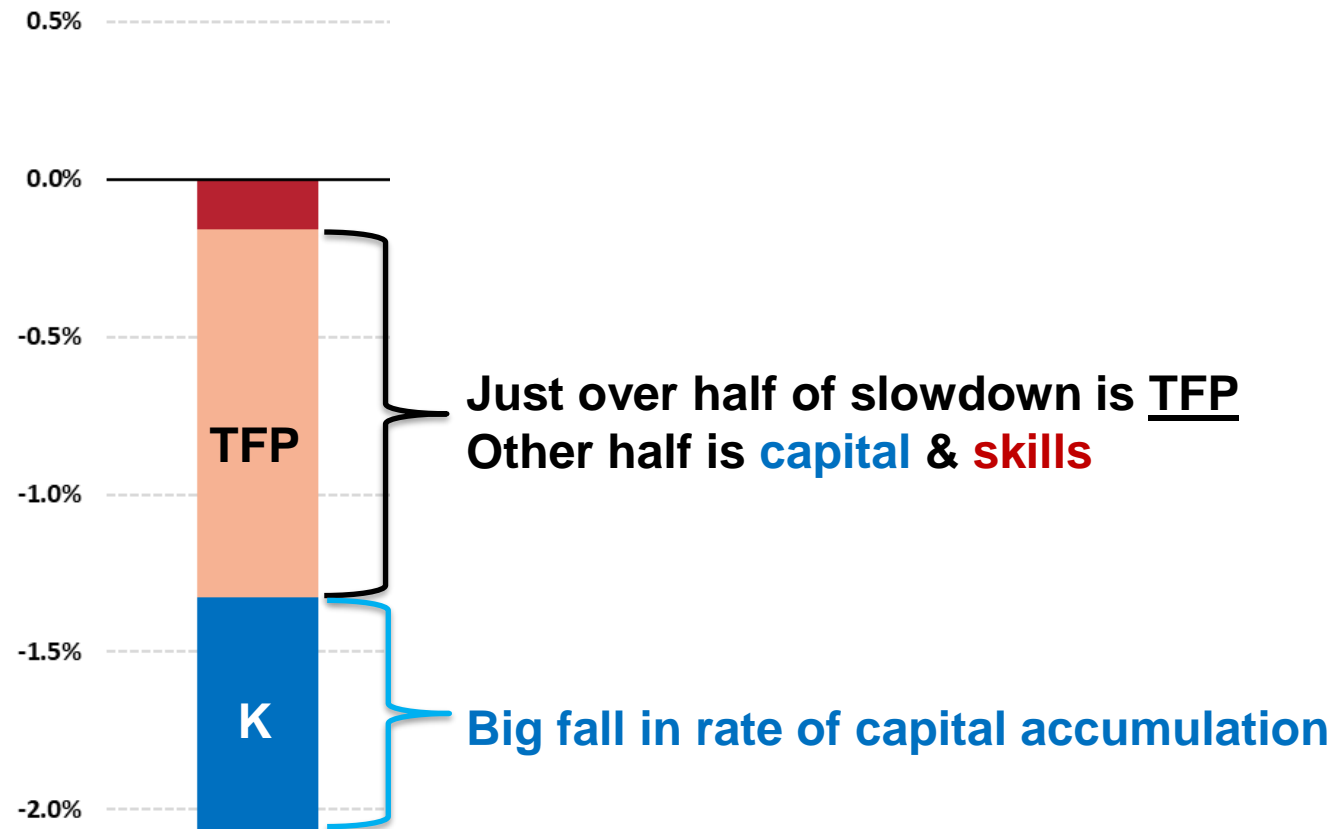
Note: Comparison of market-economy real value added per hour growth 2019-2007 vs. 2007-1995. EUKLEMS & INTANProd 2023 release; OECD and other sources.

Accounting for the 2 percentage point slowdown in UK Labour Productivity Growth after Financial Crisis



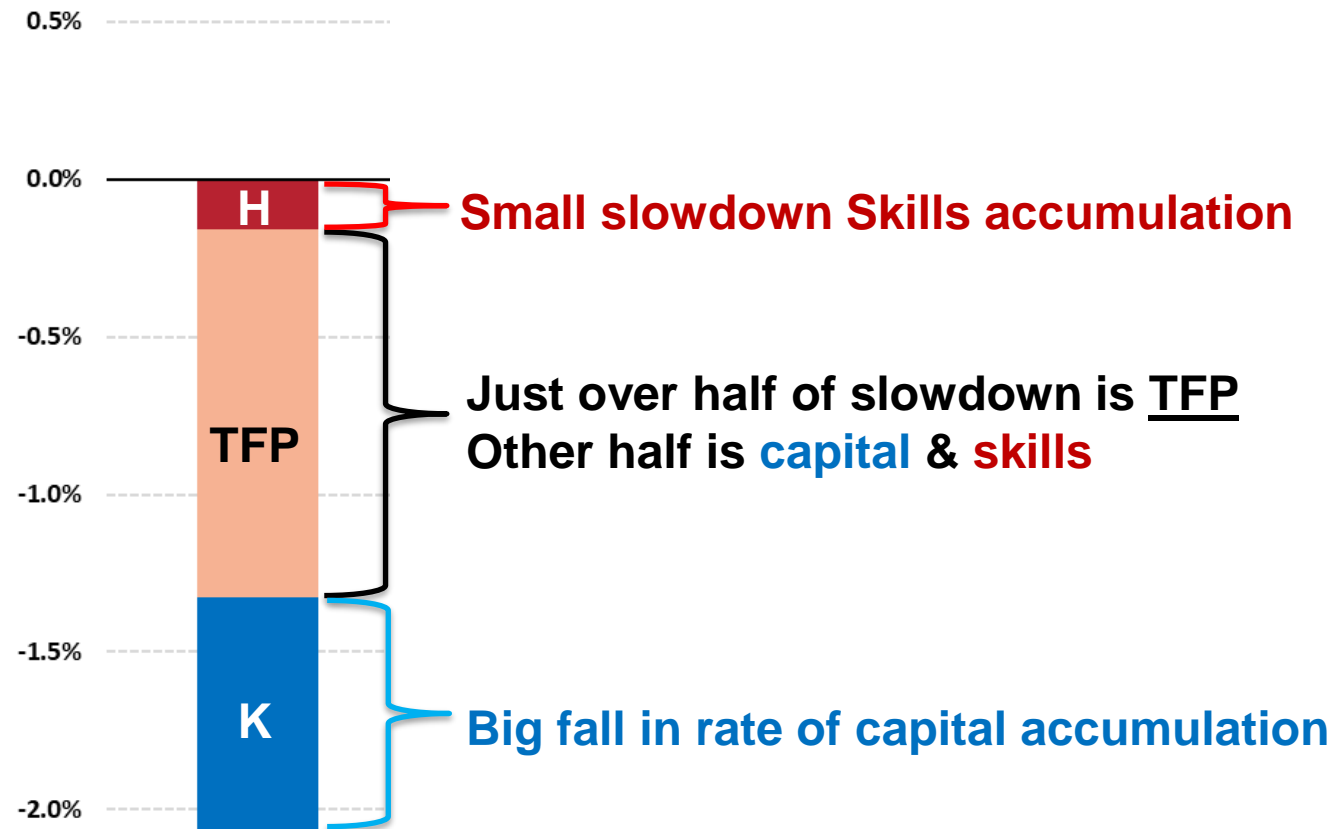
Note: Comparison of market-economy real value added per hour growth 2019-2007 vs. 2007-1995. EUKLEMS & INTANProd 2023 release; OECD (2014) and other sources. Bars represent the contribution of different components to the slowdown in labour productivity growth. TFP = residual Total Factor Productivity.

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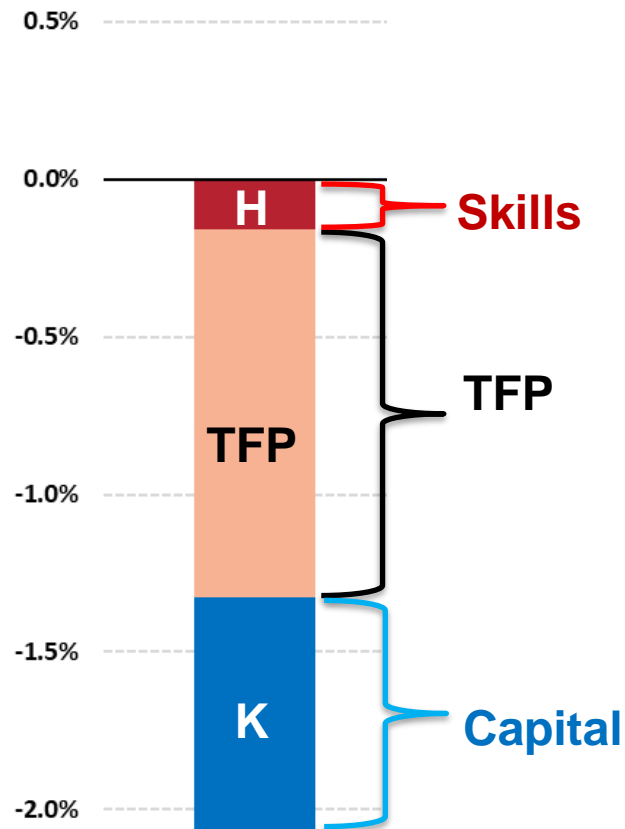
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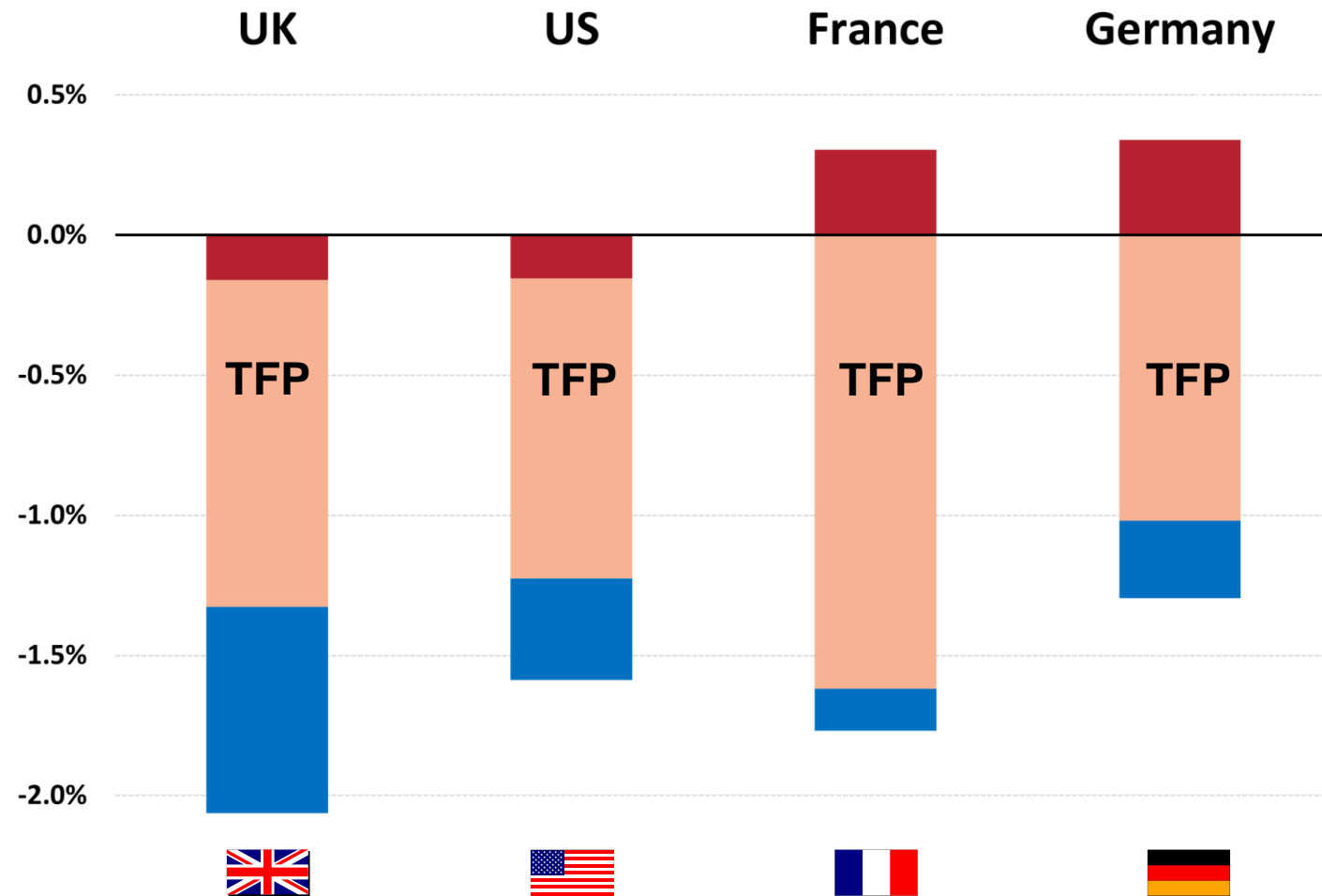
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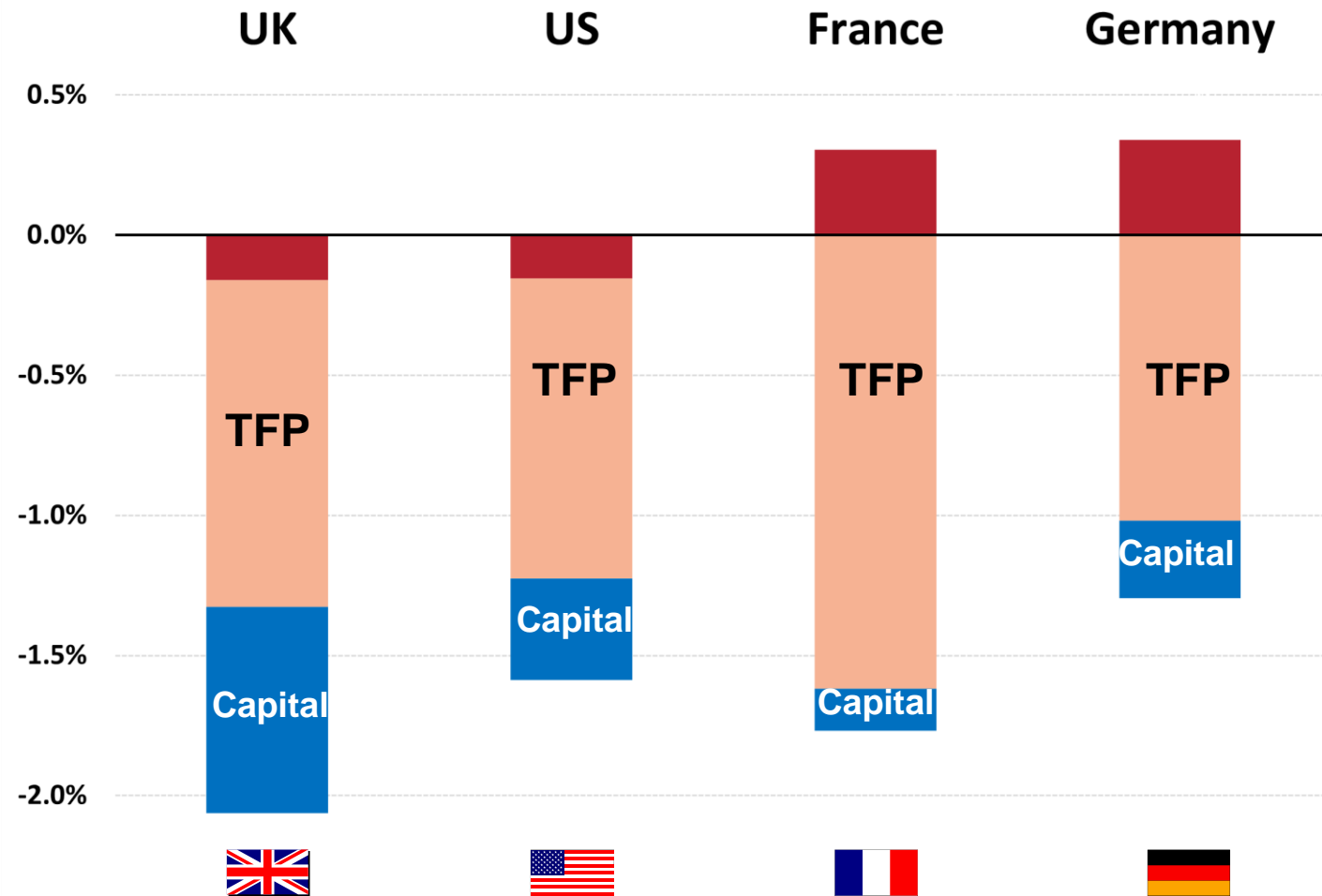
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TFP slowdown pretty common across major economies....



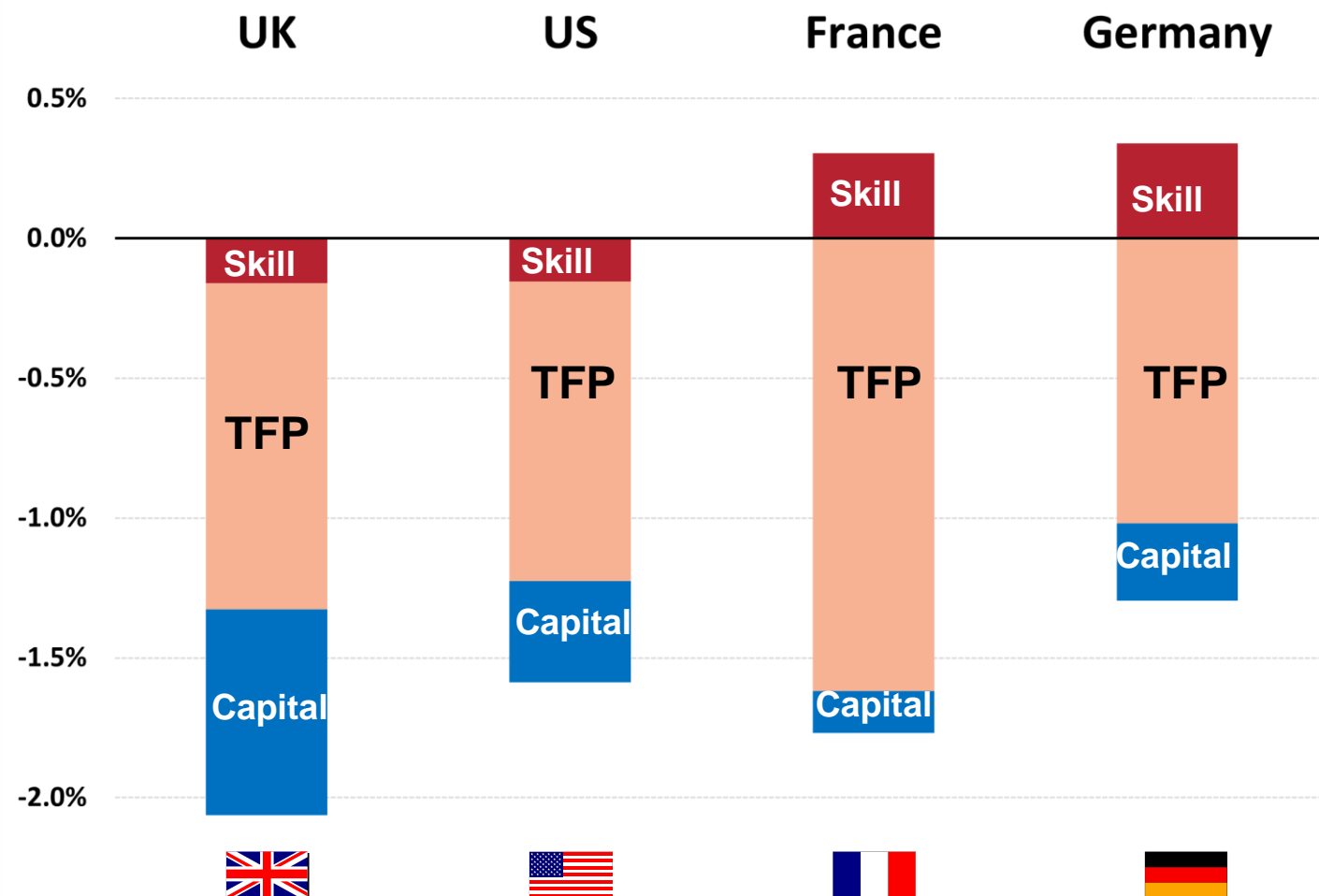
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... But UK capital investment particularly bad



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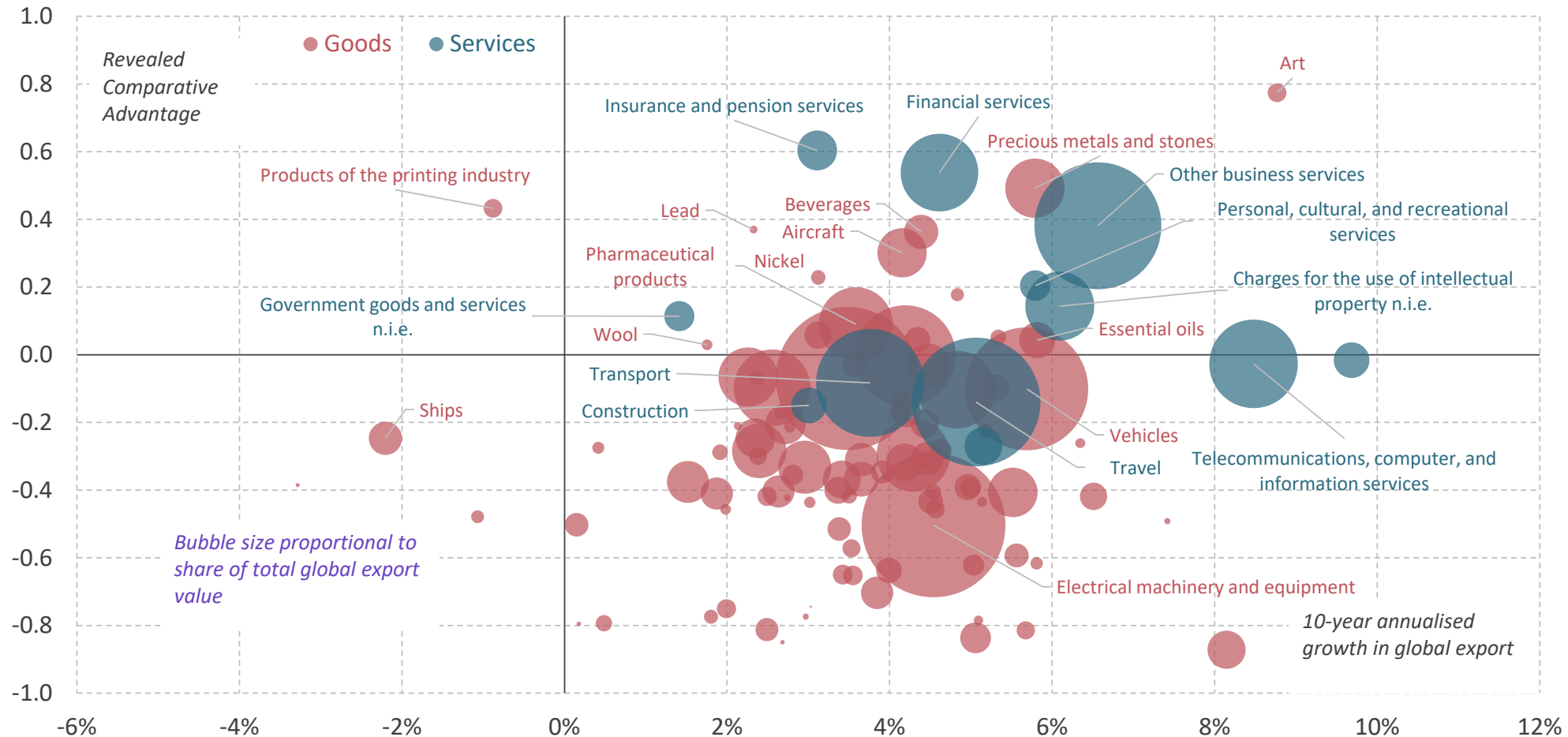
... And somewhat larger slowdown in human capital accumulation



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UK has “enduring strengths” to be built on, including in innovation

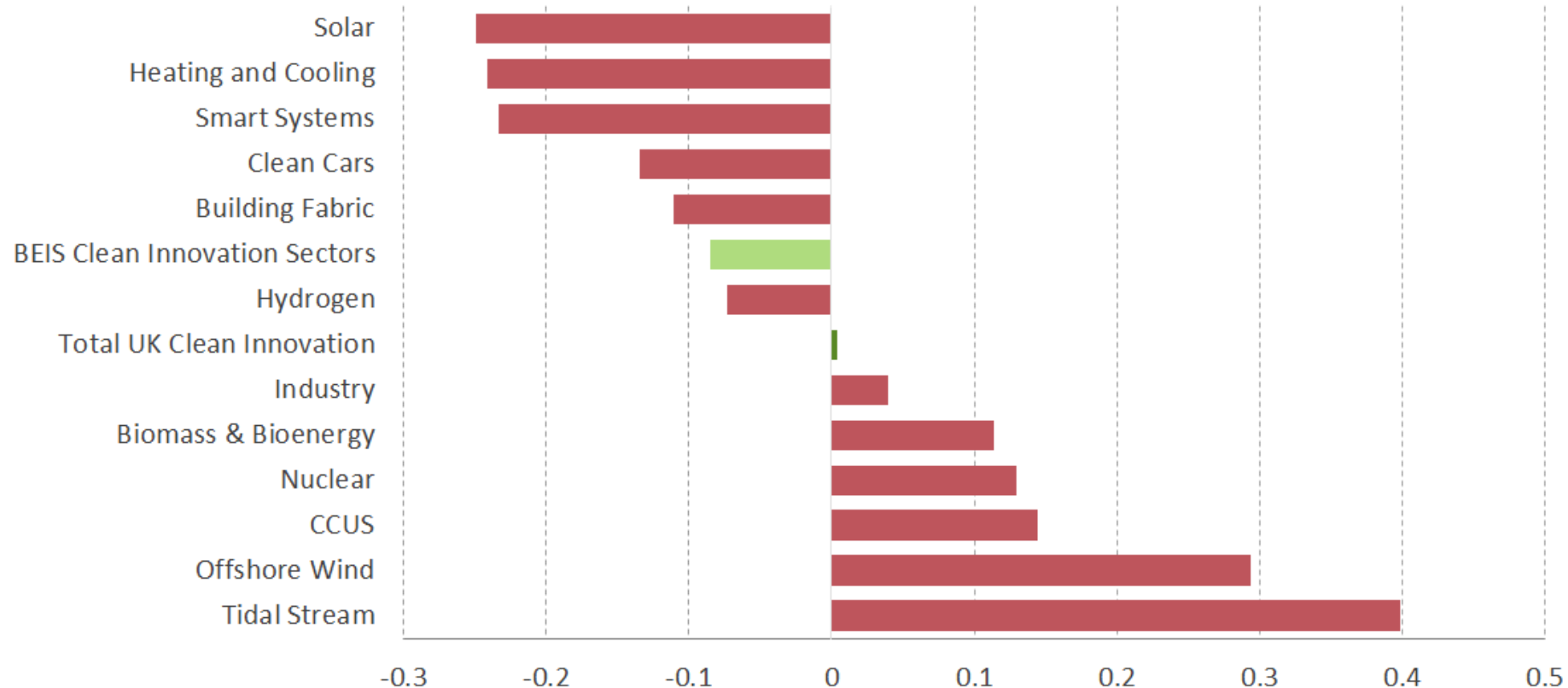
Revealed comparative advantage and 10-year annualised growth in global export value, by product category: UK, 2019



Notes: The horizontal axis measures compound annual growth rates of volumes between 2009 and 2019. The vertical axis shows the revealed comparative advantage in 2019. The size of the bubbles corresponds to each product's share in world trade in 2019. SOURCE: Analysis of Harvard Growth Lab, Atlas of Economic Complexity (HS version) and OECD-WTO, Balanced Trade in Services.

The UK is particularly specialised in some clean techs

RTA by selected clean technologies: UK, 2015-2018



- Differences within categories, e.g. in smart systems, the UK is specialized in a number of digital technologies

Notes: Revealed Technological Advantage for the categories in R Martin & D Verhoeven, Knowledge spillovers from clean and emerging technologies in the UK, CEP Discussion paper 1834, March 2022. Category 'clean cars' added. Total UK Clean Innovation refers to all patent families under the CPC class 'Y02'
Source: Analysis of PATSTAT 2021, Autumn edition. Chart taken from: [Growing Clean](#), Economy 2030 Inquiry, May 2022.

Business investment

- Raising firms' **willingness** to invest for long-term growth
 - Pressure from above: empowered owners (**pensions reforms**)
 - Pressure from below: empowered workers (**corporate governance**)
 - Corporate tax: **permanent full expensing**, broader, stability



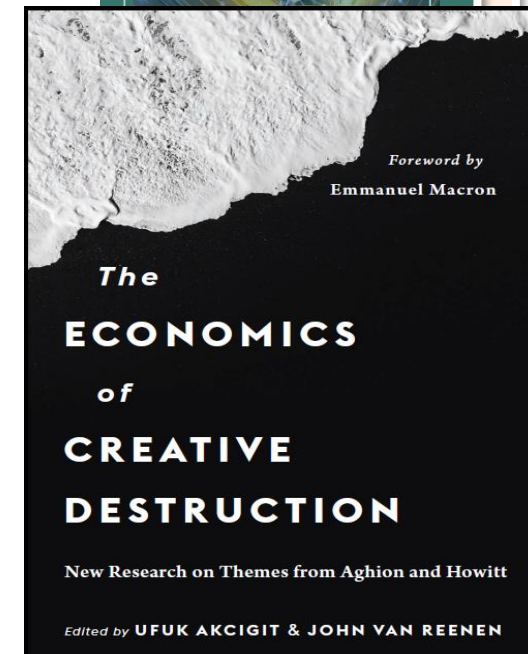
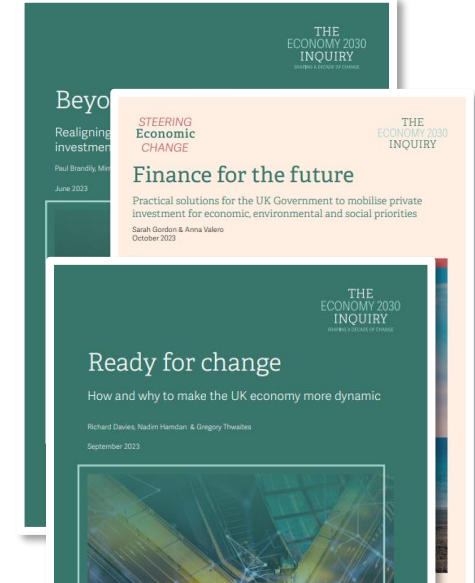
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 - **Planning** (business structures, infrastructure and housing)
 - **SME support** (finance for high growth firms; broader set of SMEs)



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- Boosting human capital (esp. intermediate skills)



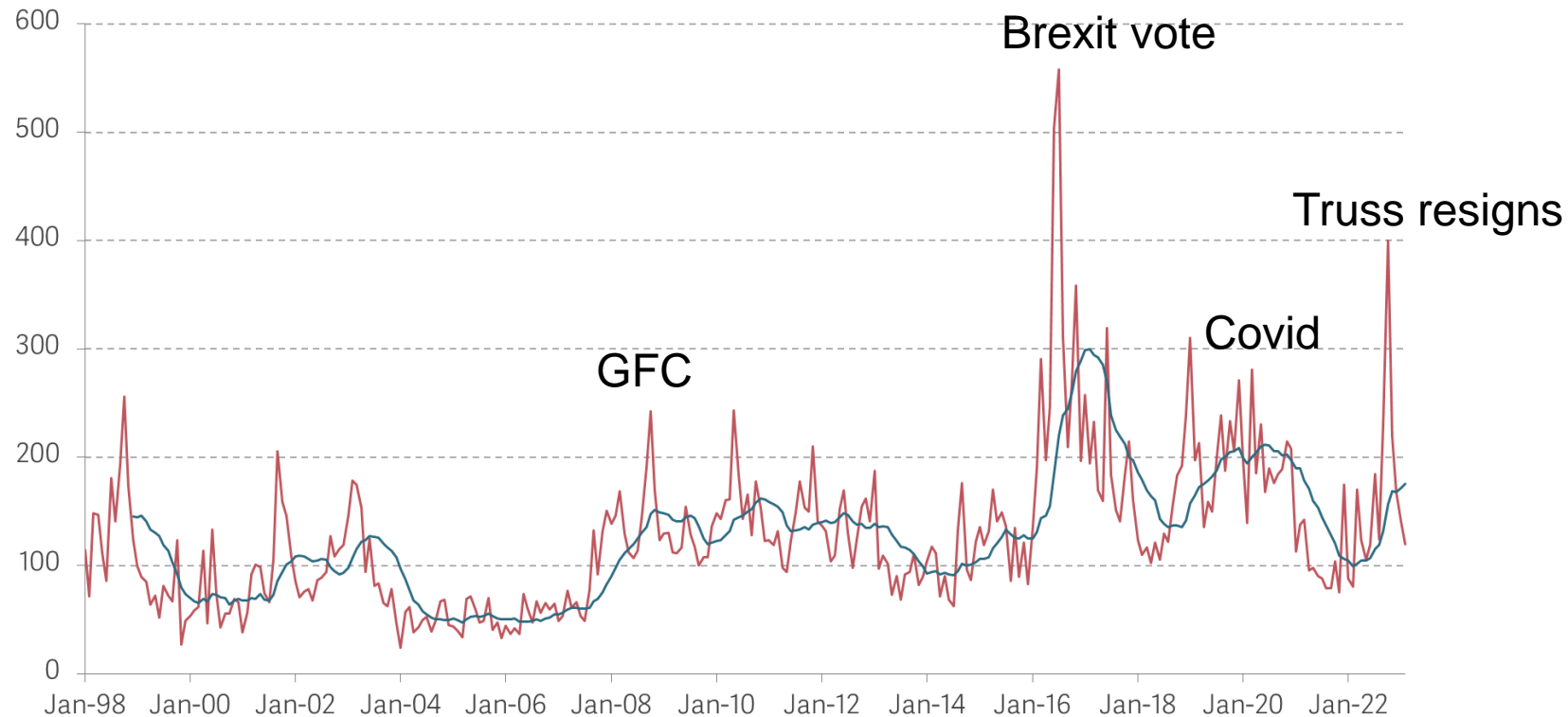
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- Reducing (policy) uncertainty also important



Uncertainty chills investment, and we have had a lot of it

Index of economic policy uncertainty, monthly and 12-month moving average: UK, 1998-2023



Source: Analysis of 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com.

Growth and business policies have been subject to a particularly high degree of churn, institutional reform could help



Also: Innovation Strategy, Science Superpower, Levelling Up White Paper, Net Zero Strategy

- Recent churn at the strategy and plan level
- Also features at a more "micro" business policy level
- Role for a new growth and productivity institution

A strategic approach for improving UK investment and productivity

- No magic bullet, or short-term fix – coordinated, long-term approach is required
- Modern industrial / growth strategy should target current potential strengths in areas that are large or expected to grow, or areas where (energy) security considerations are at play
- Welcome steps on business investment in Autumn Statement, but cuts to public investment (and services) are concerning
- Long-term economics vs short-term politics
 - Institutional change likely to be needed in order to make progress

Thank You!