

What is Productivity?

Where is it going and why should you care?

Definitions

- Productivity is the amount of output that you get for a given quantity of input (used resources or factors of production – land, labour, capital, energy, ideas).
- Usually talking about labour productivity – easy to measure.
- What ultimately matters is Total Factor Productivity (TFP) VERY hard to measure. A residual. Driven mainly by innovation.

Why Care?

- Only way to get a rise in living standards long term is to raise productivity.
- Level of productivity determines your standard of living.
- Increased productivity needed to keep things as they are (because of capital servicing and replacement).
- What really matters is not just P but P growth.

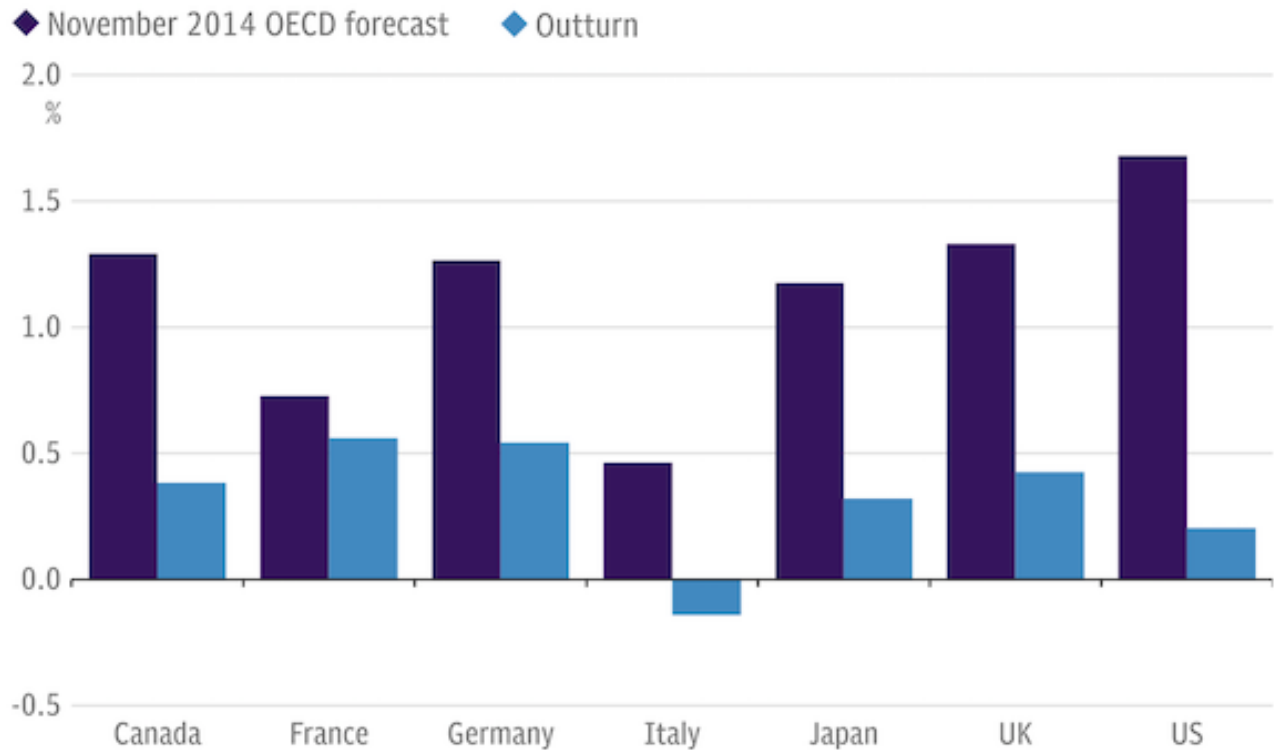
The Global Situation.

- Since 2008 P growth has slowed in all major economies (G7).
- TFP is 7.5% lower than if pre-2008 trend had continued.
- In UK case 15.2% lower – so much worse by comparison. In fact dire.

Global Problems

Productivity is a global problem

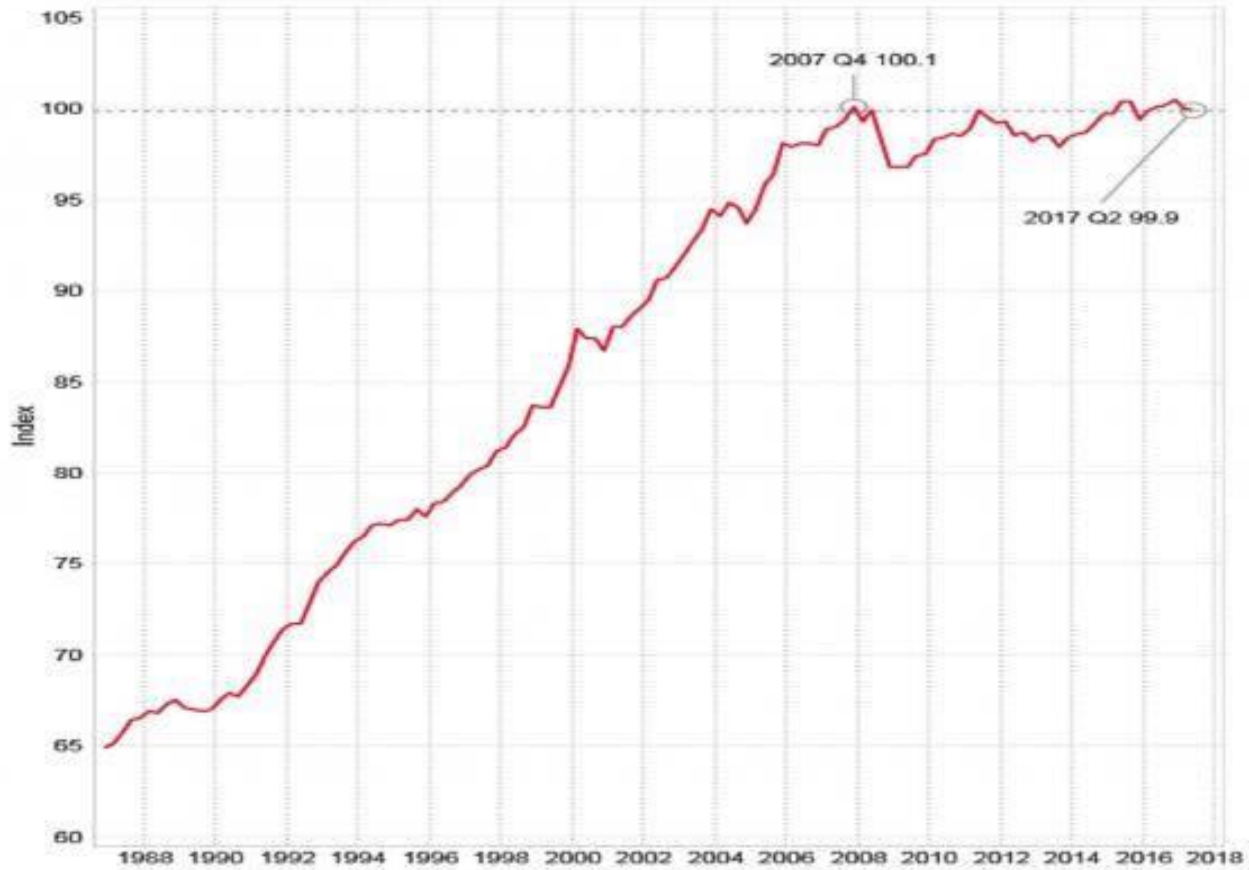
Annual growth in output per hour in 2015 and 2016



SOURCE: OECD

The UK's Performance

UK output per hour



Source: Macrobond, The Independent

Comparisons.

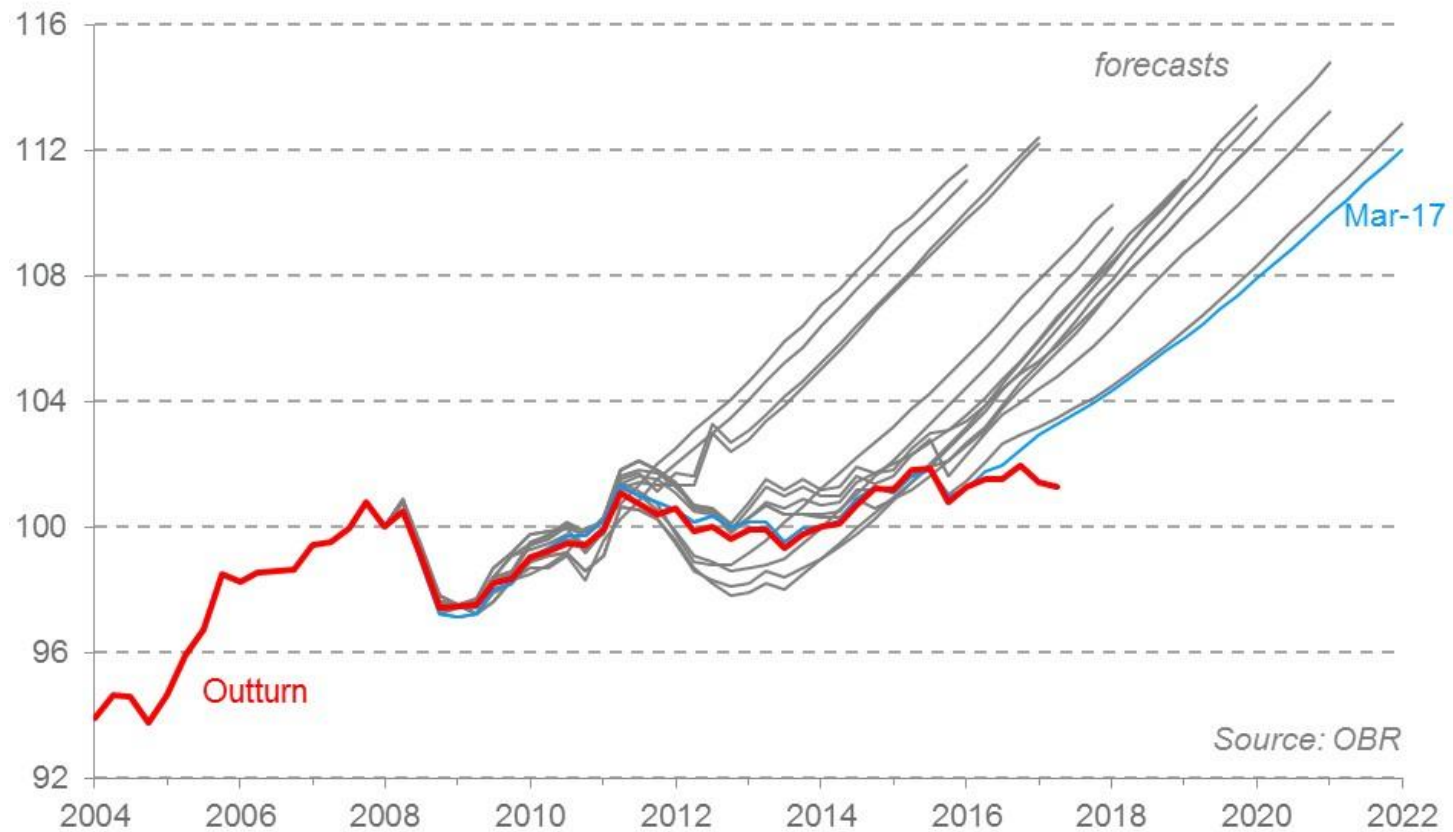
- Gap between UK output per hour and G7 average is 15.9%
- 22.2% < US
- 22.7% < France
- 26.7% < Germany
- 10% < Italy!
- Fifth out of seven. Japan and Canada worse.

Some History.

- UK P growth long term level is 2% per annum.
- So lower than other countries – not new.
- Much worse during 1960s and 1970s.
- Improved dramatically during 1980s and 1990s – after supply side reforms. Catch up.
- But slowed down after 2000 – perhaps by more than realised.
- Since 2008 zip, nada, nothing.

Conceding Defeat

Indices of non-oil GVA productivity per hour:
outturn and successive OBR projections (Q1 2008 = 100)



Explanations – Reasons to keep calm.

- Lots of employment
- A service based economy
- An ageing population
- Zombie firms
- Lack of investment after 2008
- Statistical illusions.
- Uncertainty - Brexit

Explanations – start worrying

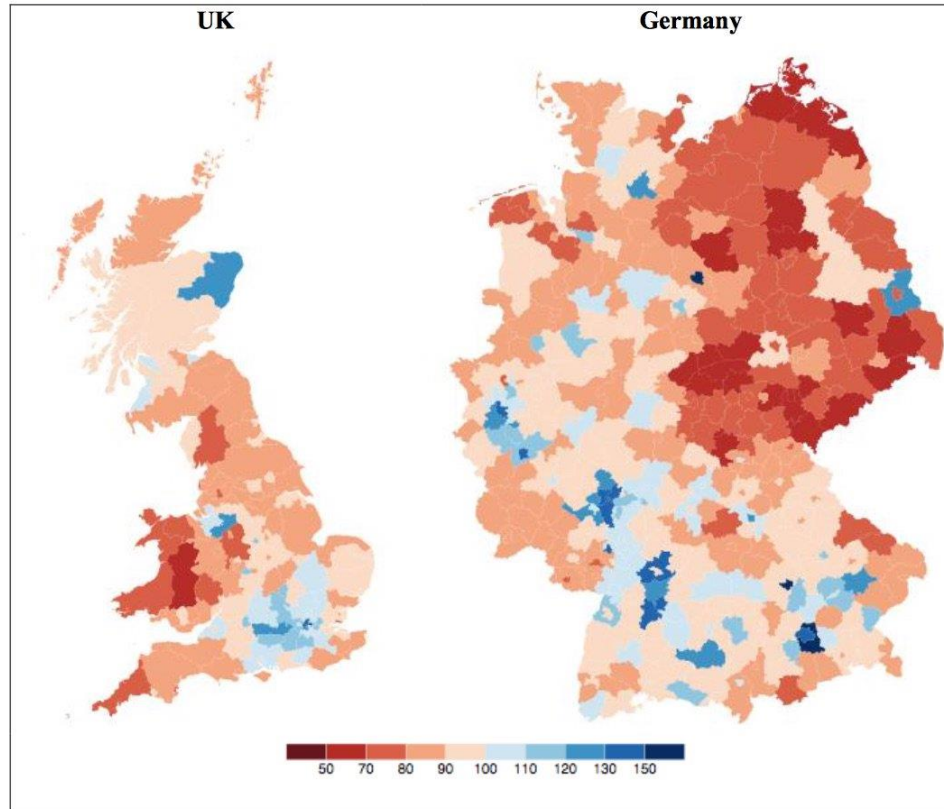
- Overestimation of growth 2000 – 2008
- Ageing population
- Lack of investment
- Poor infrastructure
- Poor education
- Poor management
- Declining innovation (global)
- Malthusian constraints (energy but also water etc) (global)

The Challenge

- OBR threw in the towel last year. (Just before things picked up!).
- No quick fix such as just spending more money.
- Supply side reforms take about 7-8 years to pay off.
- And politically unpopular.
- Significant regional effects – a big challenge.

Regional Variations.

Figure 10.2. NUTS3 GVA per hour versus national average (=100)



Notes: GVA per hour at NUTS3 level in 2014, with the overall country's level set to 100 (index). Source: UK data from ONS Regional and Subregional Productivity release (Jan 2017), German data from the federal states national accounts (VGRdL).

Questions

- 1. What policy positions would you adopt in response to this? (NB Doing nothing is a perfectly acceptable position).
- 2. Why has the UK got a historically poor performance in terms of productivity growth (since the 1880s!)?
- 3. If nothing fundamental changed in 2008 why has P growth stagnated since then?

A Nation of flat productivity?

- Stagnant or declining living standards.
- Increased pressure on public spending.
- Increased political divisions.
- Attempts to squeeze one factor (labour).