

## 2018 Annual Conference preview: Let's stop talking about 'productivity'

29<sup>th</sup> November 2018

It is about time we stopped talking about 'productivity'. We know the problem, UK output per hour worked is low compared to our peers, but as a term it is nebulous and doesn't help anyone think about a solution.

Nobody solved a productivity issue by thinking about productivity. But 'how can the economy make everyone better off with no extra hours worked?' Now that is a question which can really motivate us all.

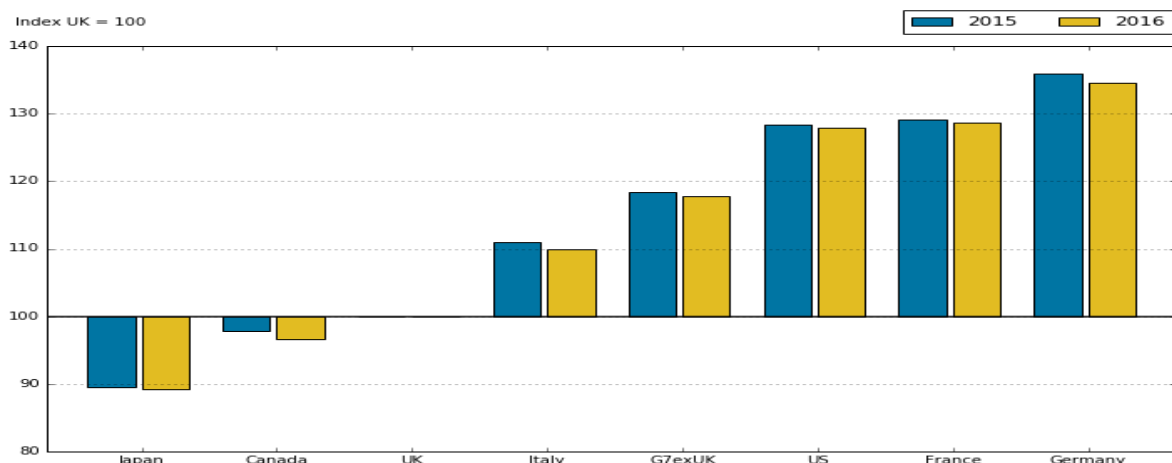
This question also raises one uncomfortable point that might be worth addressing – in an uneven economy, is productivity something that organisations have an incentive to pursue? We should start with the basics.

### *What is productivity?*

Productivity is typically measured as the amount of economic output that can be achieved from an hour of labour. Of course, this either reads like an abstract economic equation – or alternatively it brings to mind archaic business owners driving more from an oppressed workforce. In the modern economy it is neither of the above. In the modern economy it is about focusing on sectors that create most value – and investing in capital and process improvements to increase output.

### *Why is it a problem?*

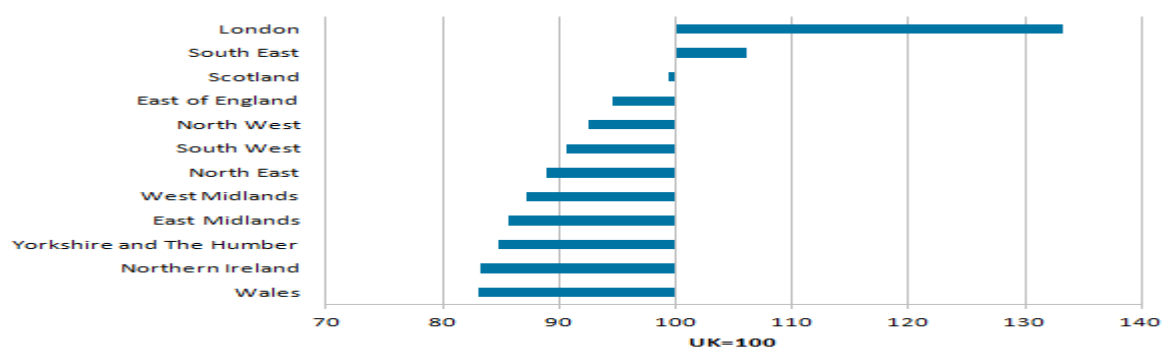
The UK's record on productivity is poor when compared to other G7 nations. The chart below shows the UK's productivity (GDP per hour worked) relative to the G7 in 2015 and 2016 (source: OECD).



The UK has consistently performed poorly on productivity relative to other nations and inevitably, if an economy generates less per hour of work, there is less to be shared across the economy unless longer and longer hours are worked.

#### *Where are the UK's under-performing regions?*

On the standard measure of GVA per hour worked, the under-performing regions of the UK were everywhere apart from London and the South East and this is illustrated by the graph below (Source: ONS 2016, most recent, figures).



#### *Shouldn't the regions just work harder?*

This question highlights the potential insidiousness of the measure and why productivity on its own is too nebulous a concept to be useful to local policy-makers. The reason why Wales and Northern Ireland lag behind London and the South East is mainly because of the mix of industry in the devolved administrations rather than any under-performance of the workforce.

#### *Why is equality a potential issue?*

One aspect of the productivity debate which is not often discussed is that rising productivity is the tide that could raise all ships – but this is likely to involve significant investment in capital and people by business owners/shareholders. If business owners/shareholders are able to maximise their returns without significant expenditure on capital and workforce development then this is the route that they are more likely to pursue – and in many cases access to inexpensive labour reduces the imperative for capital investment and productivity rises. In the long run, a lack of international competitiveness will damage the entire economy – but companies can survive a few years of under-investment before that becomes apparent.

#### *So, what should we be focusing on?*

Productivity is the outcome of things in the economy that we can understand and focus on delivering. Essentially this is training, capital investment and creating growth in high-value

opportunities. So, in terms of economic development – and trying to achieve positive outcomes – let's stop talking about productivity and start designing interventions that seek to maximise the incentives for investment in training, capital investment and a focus on higher value activities. Productivity has become an invisibility cloak for discussions about the building blocks of the economy.

**Nigel Wilcock is Executive Director of the Institute of Economic Development. Nigel is Chairing the *Solving the UK's Productivity Problem* stream at the IED's 2018 annual conference titled *Mind the Gap – Productivity, Place and People* on 6<sup>th</sup> December: <http://www.regenevents.com/ied/conferenceOverview.php>**