

Productivity past, present and future

New research published by NIESR

For immediate release

The latest issue of the *National Institute Economic Review*, to be published on 6th February, focuses on productivity – past, present and future. Leading experts in the field will provide in-depth analysis of the so-called ‘productivity puzzle’, with five articles on issues ranging from the decline of British manufacturing, to the role played by EU membership and labour reallocation in recessions and recovery.

The five articles, introduced by an overview from NIESR’s Director Jagjit Chadha, are:

- Hours worked across the world: facts and driving forces, by [Nicola Fuchs-Schündeln](#), (Goethe University, Frankfurt);
- Persistent productivity failure in the UK: is the EU really to blame? by [Nicholas Crafts](#) (CAGE, University of Warwick);
- The decline of British manufacturing, 1973–2012: the role of total factor productivity, by [Richard Harris](#) and [John Moffat](#), (Durham University Business School);
- Labour reallocation in recession and recovery: evidence for Europe, by [Eric Bartelsman](#) (Vrije Universiteit Amsterdam), [Paloma Lopez-Garcia](#) (ECB) and [Giorgio Presidente](#) (World Bank);
- The anatomy of UK labour productivity: lessons from new and existing data sources, by [Philip Wales](#) (Office for National Statistics).

[Nicola Fuchs-Schündeln](#)’s article looked at labour hours, reprising the themes of her [Anglo-German Foundation Lecture](#) held at NIESR last year. She found that there are differences in hours worked across countries – for example they are substantially more hours worked in poor than in rich countries. And this seems to have implications for employment levels, with higher employment rates and lower weekly hours worked in Western Europe and Scandinavia than in the US, and with the opposite being true in Eastern and Southern Europe. Moreover, among core-aged individuals, married women form the group that exhibits the largest differences in hours worked across countries. International differences in taxation, and especially in the tax treatment of married couples, are an important driver of these differences.

[Crafts](#)’ article argues that joining the EU was not to blame for Britain’s disappointing productivity performance in the decades leading up to the financial crisis. Indeed, EU membership, which was an integral part of the Thatcher reform programme, had a significant positive impact. Over the long run, UK supply-side policies have been badly designed in various different ways. These design faults have not been the result of constraints imposed by EU membership but rather the consequence of domestic government failure. The author concludes that there is no reason to think that Brexit will lead, either directly or indirectly, to improvements in UK productivity outcomes.

Harry and Moffat's paper uses plant-level estimates of total factor productivity (TFP) covering 40 years to examine what role, if any, productivity has played in the decline of output share and employment in British manufacturing. The results show that TFP growth in British manufacturing was negative between 1973 and 1982, marginally positive between 1982 and 1994 and strongly positive between 1994 and 2012. Poor TFP performance therefore does not appear to be the main cause of the decline of UK manufacturing. The largest contributions to TFP growth in the latter period come from foreign-owned plants, industries that are heavily involved in trade, and industries with high levels of intangible assets. In this sense better productivity performance in manufacturing would not necessarily guarantee an increasing manufacturing share of activity.

Bartelsman et al's paper builds on previous research by the authors and provides empirical evidence on the cyclical features of labour reallocation in a sample of European Union (EU) countries over the Great Recession and the slow recovery that followed. They found that while productivity-enhancing reallocation generally is counter-cyclical, so that it would be expected to provide a silver lining in downturns, it turned out to be quite weak during the Great Recession in the EU, but there is some evidence that it reverted back to more normal patterns more recently. It seems likely that the very nature of a financial crisis might be to prevent reallocation of capital but also the operation of the monetary union, with pockets of deficient demand, may prevent some relocation of capital as landscapes are scarred with low levels of employment and activity.

Wales' paper highlights three aspects of the UK's recent productivity performance through the lens of official statistics: the weakness of recent productivity growth; the 'gap' in productivity terms between the UK and other leading economies; and the large differences in productivity between businesses. It surveys recent work by ONS to help researchers and policy-makers to understand the UK's productivity performance, including new experimental and official statistics, analysis and research. It concludes by drawing together the key findings of these new statistics, highlighting how further improvements might be made through the greater use of survey and administrative data.

Commenting on the articles NIESR Director Jagjit Chadha said: *"We now have a situation where advanced country growth rates seem to have become unhinged and some have fallen by considerably more than the others. It turns out that the answers to the question seem to be well understood, it is more that the political will for the implementation of solutions seems extraordinarily weak. Why?"*

The Review will also include NIESR's analysis of the UK and global economic outlook, which will be detailed in separate press releases under embargo until 00.01 on Wednesday 6 February.

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Notes for editors:

The research reflects the authors' views and does not necessarily reflect the views of the institutions that they may represent.

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