National Institute of Economic and Social Research

Press Release

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Productivity improvement needed to raise living standards

FOR IMMEDIATE RELEASE

The next government must follow a robust, methodical and wide-ranging approach to kickstart a recovery in productivity growth in order to mend the “slow puncture” in UK economic growth, according to an election briefing by the National Institute of Social and Economic Research.

An ambitious package of economic reforms must include measures to foster macroeconomic and policy stability to help businesses make long-term decisions without having to be concerned about major changes in their trading and investment environment. It must include measures to improve the skills of the workforce so that technology can be used more effectively, and ensure that physical and technological infrastructure are effective and not a source of congestion. Competitive forces must dictate where resources should be allocated – even at a cost of job losses at inefficient firms.

The primary cause of the slow puncture is the uncertainty surrounding future trade relations with the EU. The main channel by which this has affected the economy is through lower business investment. It is also likely to have affected the dynamism of the UK economy, what it can produce and the amount of income it generates.

“*The slow pace of economic growth in the United Kingdom in the last couple of years has not been due to any weakness in overall demand but due to weakness of productivity growth,*” said Garry Young, Director of Macroeconomic Modelling and Forecasting. *“We need complementary and stable policies to encourage productivity and prosperity in the UK*.”

- The global economy has experienced a trade-related slowdown since the middle of 2018 when tariffs on bilateral trade between the US and China were increased.
- The UK economy has been suffering from a ‘slow puncture’ since the EU referendum in June 2016, made worse by faltering demand from the rest of the world. Growth has continued at a positive rate but has been at a slow pace on account of significant political and economic uncertainty.
- Employment is at record levels and unemployment is at its lowest point since 1970. There is some evidence that businesses have preferred to take on more workers than invest in capital because of uncertainty about the future relationship with the EU. Public sector employment has started to expand again as austerity is relaxed.
- Slow productivity growth has meant that living standards have not improved much in recent years. Real wages are little higher than they were at the time of the financial crisis more than ten years ago.
- Aggregate saving remains low and much of the finance for investment has been sourced from abroad via a current account deficit of over 4 per cent of GDP.
- Slow productivity growth and low saving do not bode well for growth in living standards in the future.

- These issues can be addressed by government policies to foster productivity growth and increase national saving. The type of policies that can help are well understood but have not been pursued methodically within a coherent growth strategy.

ENDS

Notes for editors:

This full General Election Briefing on "*The Economic Backdrop*" can be found ***here***.

NIESR's microsite containing briefings, podcasts and vodcasts on the General Election can be found ***here***.

This briefing is supported by the Nuffield Foundation.

For further information or to arrange interviews, please contact the NIESR Press Office: Phil Thornton on 0207 654 1923/ p.thornton@niesr.ac.uk or Luca Pieri on 0207 654 1931/ l.pieri@niesr.ac.uk

Further details of NIESR's activities can be seen on http://www.niesr.ac.uk or by contacting enquiries@niesr.ac.uk Switchboard Telephone Number: +44 (0) 207 222 7665

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