NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:
PRESS CONFERENCE
Tuesday 5th February 2019
Opening remarks by the Director

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our February 2019 *Review*. Since the turn of the year, much commentary on the world economy seems to have got itself into a rather despondent state. Whilst the Institute always make a point of trying to understand the build up of risks to our central cases (as our fan charts and boxes on EU Exit and box on Global House prices illustrates), which admittedly often fall on the downside, with the end of the second decade of the 21st century in sight we need to recall that this has been a decade of solid growth in the world economy. And given the size of the financial crisis shock, it is possible to say that the outcomes look reasonable relative to some of the catastrophic counterfactuals that we might have envisaged a decade or so ago.

That said there continues to be considerable discussion in all of polite society about the causes of the productivity puzzle, which is reflected in low rates of growth in income per head in much of the advanced world. In the UK, for example, output per hour worked, grew by around 0.5% per quarter on average in the decade prior to 2008 and has been broadly flat over the last decade, with implications for earnings, household income and macroeconomic management. This Review considers some potential explanations for the productivity slowdown and productivity performance differentials across countries and firms.

We start by looking at labour hours with an overview paper by Nicola Fuchs-Schündeln (Goethe University Frankfurt) which was given at the Institute in April 2018 as the Anglo-German lecture. She finds that there are differences in labour supply worked across countries and that international differences in taxation, and especially in the tax treatment of married couples, are an important driver of these differences. Nick Crafts (Warwick) provides a survey of post-war productivity patterns with an emphasis on the influence of the EU. On average, UK productivity performance has persistently been disappointing in comparison to its main trading partners. He argues that there is no reason to think that EU exit will lead, either directly or indirectly, to improvements in UK productivity outcomes. Richard Harris (Durham) and John Moffat (Durham) use plant-level estimates of total factor productivity over some 40 years to examine the role 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 clearly positive between 1994 and 2012. Poor TFP performance therefore does not appear to be the main cause of the decline of UK manufacturing from over 30% of output at the start of their period to only slightly above 10% by the end of the period. In this sense better productivity performance in manufacturing would not necessarily guarantee an increasing manufacturing share of activity.

Eric Bartelsman (Tinbergen Institute), Paloma Lopez-Garcia (ECB) and Giorgio Presidente (World Bank) provide empirical evidence on the cyclical features of labour reallocation in a sample of European Union (EU) countries since the Great Recession and during the slow - what is tempting to call the stagnant - recovery in many advanced economies. While productivity-enhancing reallocation is generally counter-cyclical, so that it would be expected to provide a silver lining in downturns, it turned to be quite weak during the Great Recession in the EU. Finally, Philip Wales (ONS) uses new ONS data to understand weak recent productivity performance in the UK. He presents three 'stylised facts' on 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.

In his 1988 inquiry into economic development, Robert Lucas, called for theory to help us understand why advanced country growth rates in income per head were so stable and why some poorer countries suddenly underwent large changes in growth rates, "both up and down". Some 30 years on we now have a situation where the advanced country growth rates also seem to have become unhinged and some have fallen by more than the others. But many of 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 is political will so weak? One answer perhaps lies in the distrust between the politics and the economics.

Accordingly in the *Commentary* to the Review written with Toke Adit and Hamid Sabourian (both at Cambridge), we suggest some reforms to voting procedures driven by the social choice and game theory literature that would not only help get out of the impasse about EU Exit but may also help us reform some of our political decision-making so that policy alternatives are considered more fully by Parliament. We note that constitutional order has often been under threat but revisions to procedures and rules were made to preserve the order and to find a democratic way forward. We argue that such a revision may be the best way out of the Brexit impasse.

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