

UK productivity – what is the “problem”

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What do we mean by productivity

- ◎ Productivity is supposed to be an indicator of internal efficiency – ie how well a unit turns inputs into outputs.

- ◎ Typically this divides into 2 :
 - Labour productivity
 - Multifactor (or total factor) productivity

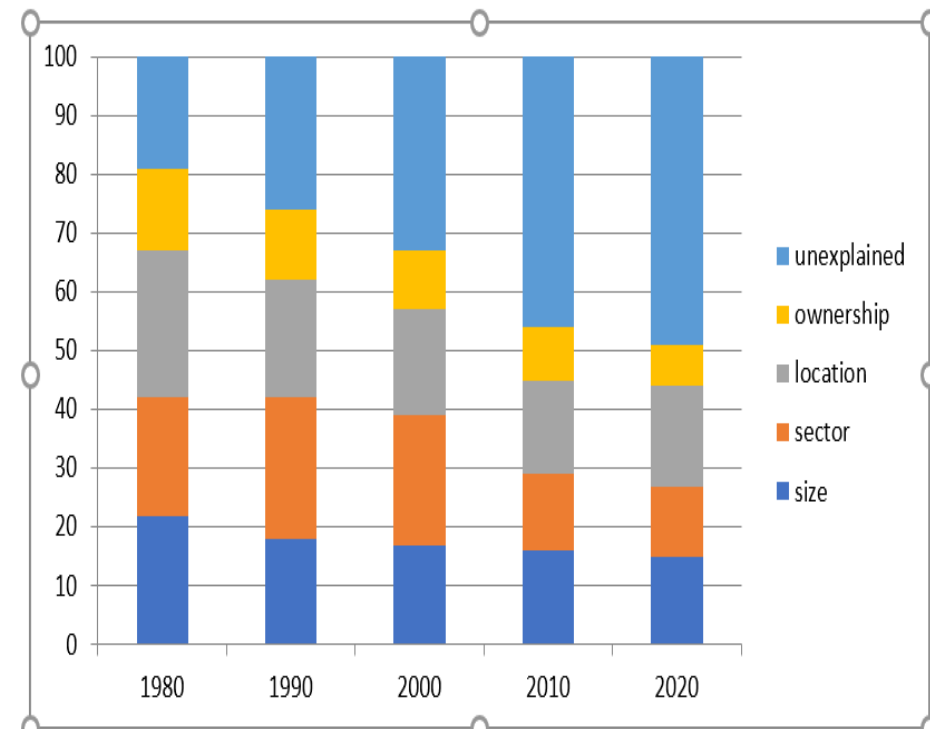
What are the typical explanations of “low productivity” ?

- ⦿ (in no particular order)
- ⦿ Low innovation
- ⦿ Low levels of training
- ⦿ **Labour market policies**
- ⦿ Fragmented supply chains
- ⦿ Access to finance for high growth firms / exporters
- ⦿ Land use / planning
- ⦿ “price effects”
- ⦿ connectivity

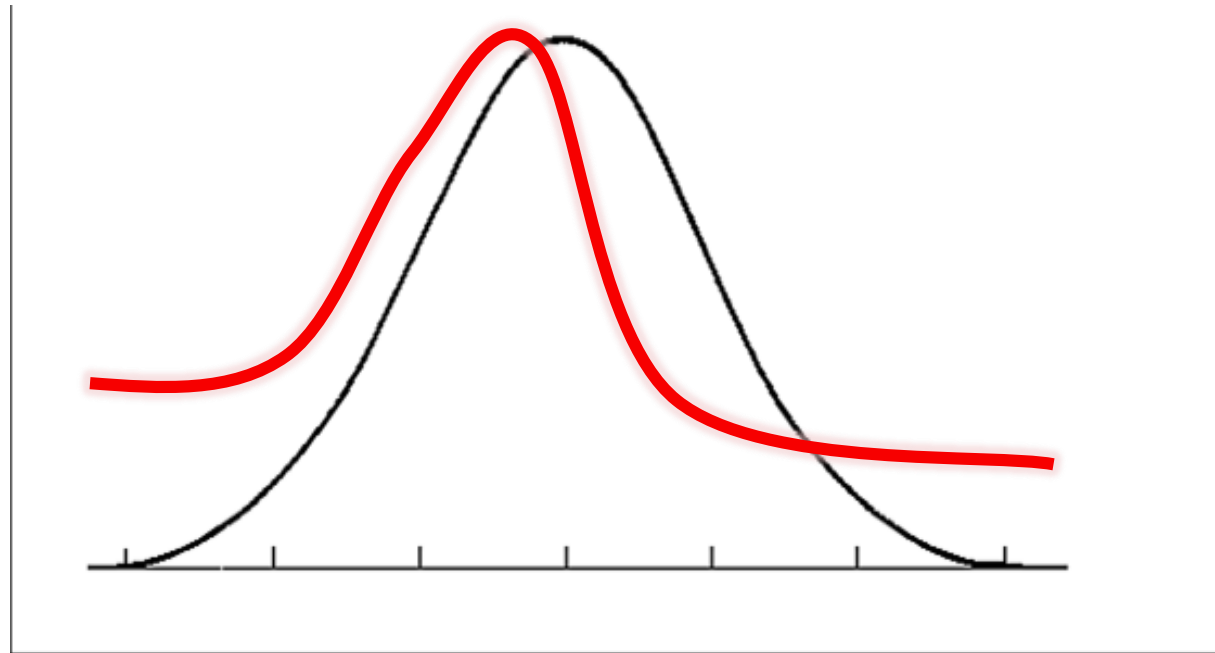
The changing nature of productivity

- Traditionally a very high proportion of the variance in firm level productivity could be explained by just 4 variables
- size, location, sector and whether the firm is foreign owned.
- OECD data, across all OECD regions and sectors however reveal that this is breaking down:

Figure 3.1



Leaving aside all the many (many) measurement issues:



Looking at firms not the aggregate

Fig. 2(a)

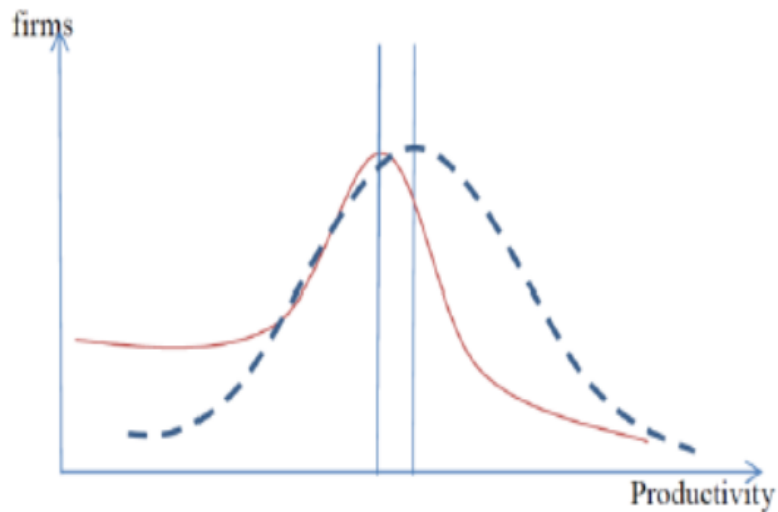
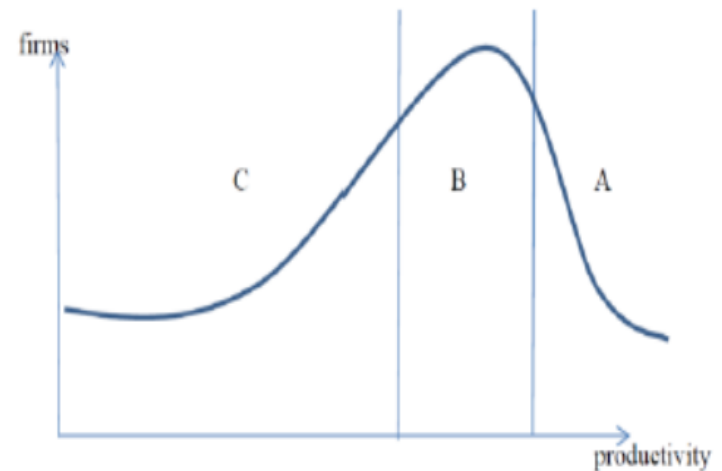
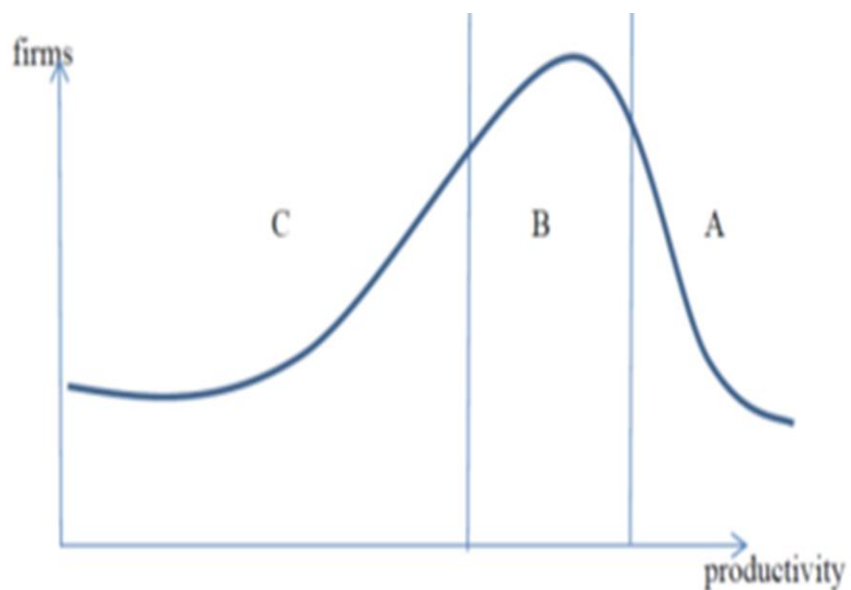


Fig. 2(b)



Policy Responses



- Sector A – attract more such firms, tax incentives for innovation investment for example.
- Sector B – seek to encourage such firms to move to sector A, encourage innovation, and encourage them to locate more high tech activity. Another focus on this group could be on managerial capacity, training for managers in the commercialization of intellectual property, or in the management of innovation for example.
- Sector C. the focus here may be on skills and training, but also on labour market policies to encourage workers to invest in their human capital, by emphasizing the returns. Alternatively the focus may be on knowledge transfer from segments A and B to segment C.



Some final thoughts

Standard measures of productivity were developed at a time when one simply measured things in terms of production – how much work a person did in an hour, allowing for differences in the value of inputs.

As the economy has evolved in many cases these have become subsumed into labour market measures “that job does not pay much therefore is low skill and low productivity”.

Equally, just because a large firm can push the prices of its suppliers down, does not mean that they are “low value activities”

Productivity as an aggregate construct

- We need to start thinking of the productivity not as an activity in isolation.
- Whether that is in terms of parts of a value chain, or services that free up time.
- For example, the social care provided to dependents of the well paid, facilitate the well paid to go to work – should therefore the “productivity” of that care be valued at more than minimum wage....