HOUSE OF LORDS

Library Note

Productivity in the United Kingdom and the British Economy Beyond Austerity

On 8 and 10 September 2015 the House of Lords is scheduled to debate the following motions, respectively:

> […] that this House takes note of Her Majesty's Government's plans to boost productivity in the United Kingdom.
>
> […] that this House takes note of the British economy beyond austerity.

The Government has stressed the importance it attaches to both fiscal consolidation and improving productivity in the UK economy. It has stated that both eliminating the deficit and improving productivity is a priority for the next five years and that encouraging major change in the UK's productivity is a primary objective of the Government's legislative programme.

The *Summer Budget 2015* noted that the UK was the fastest growing economy in the G7 in 2014 and was forecast by the OECD to be the fastest again in 2015. The Secretary-General of the OECD, Angel Gurría, has stated that although this represents significant progress for the UK economy, boosting productivity is key to making the recovery durable and ensuring that the benefits are shared widely. In recent history, UK labour productivity has grown by around 2 percent per annum. However, since the 2008–09 recession it has stagnated, and in Q1 2015 was still 0.8 percent below the pre-recession peak level of seven years earlier (in Q1 2007). The Office for National Statistics has stated that this absence of productivity growth in the seven years since 2007 is unprecedented in the post-war period. It has been estimated that output per hour worked in the UK is now more than 15 percent below where it would have been if the pre-crisis trend in productivity growth had continued. To address this issue, the Government published its productivity plan, *Fixing the Foundations: Creating a More Prosperous Nation*, on 10 July 2015. The plan outlined reforms and measures in 15 'key areas' built around two pillars—encouraging long-term investment and promoting a dynamic economy.

This Library Note provides background information on the approach set out in the Conservative Party manifesto to economic and fiscal policy and summarises recent forecasts for the economy. In addition, it provides background information on the UK's productivity performance and summarises the main elements of, and both political and other reaction to, the Government's productivity plan.

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1. Introduction

The Government has stressed the importance of both fiscal consolidation and improving productivity in the UK economy; stating in its *Summer Budget 2015* that the approach set out in that document "ensures economic security for working people by putting the public finances in order and setting out a bold plan for a more productive, balanced economy".[1]

The Conservative Party manifesto, published in April 2015, recognised that UK productivity "remains too low".[2] Productivity has also been stressed as a key issue for the British economy in various recent reports, analyses and commentaries.[3] It is also is a key concern for the Bank of England's Monetary Policy Committee—alongside inflation—in determining when to raise interest rates.[4] In his maiden speech in the House of Lords on 4 June 2015, the Commercial Secretary to the Treasury, Lord O'Neill of Gatley, stated that the Government had "put productivity as a priority for the next five years", and that delivering a "step-change in the nation's productivity" was a primary objective of the Government's legislative programme.[5] Later, on 8 July 2015, the Government stated in its Summer Budget that "productivity is the most important determinant of living standards".[6] In addition, the First Secretary of State and Chancellor of the Exchequer, George Osborne, stressed the importance of improving Britain's productivity in his statement accompanying the publication of the *Summer Budget 2015*, stating that it was "key to delivering the financial security that families see when living standards rise".[7]

Reflecting this, two days after the Summer Budget was published, on 10 July 2015, the Government published a productivity plan which aimed to "fix the foundations of the British economy".[8] *Fixing the Foundations: Creating a More Prosperous Nation* has been described by the Government as a "comprehensive plan that sets the agenda for the whole of government over the [2015–2020] parliament to reverse the UK's long-term productivity problem and secure rising living standards and a better quality of life for our citizens".[9] The 15-point plan set out the Government's strategy for "tackling the issues that matter most for productivity growth", centred around two pillars: "encouraging long-term investment" and "promoting a dynamic economy".[10]

This Library Note provides background information on the approach set out in the Conservative Party manifesto to economic and fiscal policy and summarises recent forecasts for the economy. In addition, it provides background information on the UK's productivity performance and summarises the main elements of, and both political and other reaction to, the Government's productivity plan.

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[1] HM Treasury, *Summer Budget 2015*, 8 July 2015, HC 264 of session 2015–16, p 1. For further information on the Budget, see House of Commons Library, *Summer Budget 2015: A Summary*, 10 July 2015, CBP-7251; and House of Lords Library, *Debate on the Budget Statement*, 16 July 2015, LLN 2015/0021.
[2] Conservative Party, *The Conservative Party Manifesto 2015*, April 2015, p 8.
[3] For example, see House of Commons Library, *Key Issues for the 2015 Parliament*, 19 May 2015, CBP-7189, pp 146–7. See also BBC News, 'The UK's Productivity Puzzle', 24 February 2015; BBC News, 'Solving the Productivity Puzzle', 20 April 2015; *Economist*, 'The Productivity Puzzle: Under the Bonnet', 30 May 2015; Institute for Fiscal Studies, 'Observations: Weak Productivity Growth is Not Confined to a Few Sectors of the Economy',
[4] BBC News, 'UK Productivity Remains Subdued', 1 July 2015.
[5] HL *Hansard*, 4 June 2015, cols 524–8.
[6] HM Treasury, *Summer Budget 2015*, 8 July 2015, HC 264 of session 2015–16, p 53.
[7] HC *Hansard*, 8 July 2015, col 327.
[8] HM Treasury, 'Productivity Plan Launched', 10 July 2015.
[9] HM Treasury, 'Fixing the Foundations: Creating a More Prosperous Nation', 10 July 2015.
[10] ibid.

2. UK Economy

2.1 Conservative Party Manifesto

The Conservative Party manifesto, published in April 2015, set out the Party's approach to economic and fiscal policy:

> Our deficit reduction plan has two phases. The first will see us continue to reduce government spending by one percent each year in real terms for the first two full financial years of the next Parliament, the same rate as over the last five years […]
>
> That will require a further £30 billion in fiscal consolidation over the next two years, on top of the £120 billion that we have already identified and delivered over this Parliament [2010–15]. We will find £13 billion from departmental savings, the same rate of reduction as in this Parliament. We will find £12 billion from welfare savings, on top of the £21 billion of savings delivered in this Parliament. And we will raise at least £5 billion from continuing to tackle tax evasion, and aggressive tax avoidance and tax planning, building on the £7 billion of annual savings we have delivered in this Parliament. This £30 billion of further consolidation is necessary to ensure that debt keeps falling as a share of GDP and to deliver a balanced structural current budget in 2017–18, meeting the new fiscal mandate that Parliament voted on earlier this year.[11]

Furthermore, the manifesto set out the Conservative Party's views on public spending once the budget deficit had been eliminated:

> Our commitment goes further than this. A balanced current budget is not enough to deliver a reliable reduction in our level of national debt, which remains far too high in a world of continuing economic challenges. International evidence and Treasury analysis shows that the only way to keep our economy secure for the future is to eliminate the deficit entirely and start running a surplus. Anything less would be to ignore the lessons of the past.
>
> That is why, in the second phase of our deficit reduction plan starting in 2018–19, we are set to move into surplus, with the Government taking in more than it is spending for the first time in 18 years. That means we can start properly paying down our debts and reducing the scale of annual interest payments—reducing the UK's vulnerability to future shocks by fixing the roof while the sun is shining. We will achieve this by continuing to control government spending in 2018–19, no longer cutting it in real terms, but instead growing it in line with inflation.
>
> From 2019–20, after a surplus has been achieved, spending will grow in line with GDP. A new fundamental principle of fiscal policy, monitored by the independent OBR [Office for Budget Responsibility], will ensure that in normal economic times, when the economy is growing, the government will always run a surplus in order to reduce our national debt and keep our economy secure, with a state neither smaller than we need nor bigger than we can afford.[12]

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[11] Conservative Party, *The Conservative Party Manifesto 2015*, April 2015, pp 8–9.
[12] ibid, p 9.

2.2 Economic and Fiscal Forecasts

Office for Budget Responsibility

The Office for Budget Responsibility (OBR) recorded in its most recent *Economic and Fiscal Outlook* document, published alongside the Summer Budget in July 2015, that:

> The new Government has used its first Budget to loosen significantly the impending squeeze on public services spending that had been pencilled in by the Coalition in March. This is being financed by welfare cuts, net tax increases and three years of higher government borrowing. The Government has delayed the expected return to a budget surplus by a year to 2019–20, but is then aiming for a slightly bigger surplus in the medium term.[13]

The *Summer Budget 2015* document summarised the OBR's various economic and fiscal projections, as follows:

> **Economic forecast**
> The Office for Budget Responsibility (OBR) forecasts GDP growth of 2.4 percent in 2015, 2.3 percent in 2016, and 2.4 percent for the remainder of the forecast period.
>
> The OBR forecasts employment to be 31.2 million in 2015, rising each year to 32.1 million in 2020.
>
> CPI inflation is forecast to be below target in 2015, returning gradually to 2.0 percent [the inflation target] in 2020.
>
> **Fiscal forecast**
> Public sector net borrowing is forecast to fall to 3.7 percent GDP in 2015–16 and then to fall each year. The OBR forecasts that the public finances will return a surplus of £10 billion in 2019–20.
>
> Public sector net debt is forecast to peak at 80.8 percent of GDP in 2014–19, before falling each year and reaching 68.5 percent of GDP in 2020–21.[14]

Bank of England

At its latest meeting in August 2015, the Monetary Policy Committee of the Bank of England voted by a majority of 8–1 to maintain the Bank Rate at 0.5 percent. The *Inflation Report* document issued after the meeting stated:

> In its latest economic projections, the Committee projects UK-weighted world demand to expand at a moderate pace. Growth in advanced economies is expected to be a

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[13] Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088, p 5. The OBR stated in March 2015 that the Chancellor's plans announced in the March 2015 Budget implied "a much sharper squeeze on real spending in 2016–17 and 2017–18 than anything seen over the past five years, followed by the biggest increase in real spending for a decade in 2019–20", a pattern it described as a "rollercoaster profile". BBC News, 'Budget 2015: Election Battle Over Spending Cuts', 19 March 2015.

[14] HM Treasury, *Summer Budget 2015*, 8 July 2015, HC 264 of session 2015–16, p 2. For further information, see Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088. See also HM Treasury, 'Collection: Forecasts for the UK Economy', updated 15 July 2015.

> touch faster, and growth in emerging economies a little slower, than in the past few years. The support to UK exports from steady global demand growth is expected to be counterbalanced, however, by the effect of the past appreciation of sterling. Risks to global growth are judged to be skewed moderately to the downside reflecting, for example, risks to activity in the euro area and China.
>
> Private domestic demand growth in the United Kingdom is expected to remain robust. Household spending has been supported by the boost to real incomes from lower food and energy prices. Wage growth has picked up as the labour market has tightened and productivity has strengthened. Business and consumer confidence remain high, while credit conditions have continued to improve, with historically low mortgage rates providing support to activity in the housing market. Business investment has made a substantial contribution to growth in recent years. Firms have invested to expand capacity, supported by accommodative financial conditions. Despite weakening slightly, surveys suggest continued robust investment growth ahead. This will support the continuing increase of underlying productivity growth towards past average rates.
>
> Robust private domestic demand is expected to produce sufficient momentum to eliminate the margin of spare capacity over the next year or so, despite the continuing fiscal consolidation and modest global growth. This is judged likely to generate the rise in domestic costs expected to be necessary to return inflation to the target in the medium term […]
>
> All members agree that, given the likely persistence of the headwinds weighing on the economy, when [the] Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path Bank Rate will follow over the next few years will depend on the economic circumstances. The Committee will continue to monitor closely the incoming data.[15]

3. Productivity

3.1 Background

Productivity has been defined as "how much is produced per unit of input".[16] There are various types of productivity depending on the input, and therefore various ways to calculate it. Labour productivity, for example, can be calculated per hour worked or per worker.

The House of Commons Library has noted that productivity is "directly linked to living standards, with a country's ability to improve its standard of living over time almost entirely dependent on productivity growth".[17] It has also recorded that productivity is:

> […] crucial in determining long-term growth rates of an economy. In other words, stronger productivity growth leads to stronger GDP growth. This, in turn, increases tax revenues and lowers government budget deficits. Of course, lower productivity growth results in the opposite: lower GDP growth and higher budget deficits.

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[15] Bank of England, *Inflation Report: August 2015*, 6 August 2015, pp i–ii.
[16] *Financial Times*, 'Lexicon: Definition of Productivity', accessed 10 August 2015.
[17] House of Commons Library, *Productivity in the UK*, 3 July 2015, SN06492, p 3.

Labour productivity also determines wages, with more productive employees more likely to receive higher pay.[18]

The *Summer Budget 2015* noted that the UK was the fastest growing economy in the G7 in 2014 and was forecast by the OECD to be the fastest again in 2015.[19] The Secretary-General of the OECD, Angel Gurría, has stated that although this represents "tremendous progress" for the UK economy, he has also said that "boosting productivity is essential to making this recovery durable and to ensuring that the benefits are shared by all".[20] He added that this "requires further efforts to improve infrastructure, enhance access to finance for sound businesses and promote skills".

The House of Commons Library has noted that in recent history, UK labour productivity has grown by around 2 percent per annum. However, since the 2008–09 recession it has stagnated and in Q1 2015 was still 0.8 percent below the pre-recession peak level of seven years earlier (in Q1 2007).[21] The Office for National Statistics (ONS) has stated that this "absence of productivity growth in the seven years since 2007 is unprecedented in the post-war period".[22] It has been estimated that output per hour worked in the UK is now more than 15 percent below where it would have been if the pre-crisis trend in productivity growth had continued.[23]

This weakness in productivity growth has been widely termed a "productivity puzzle" and has been the subject of much debate in recent months and years.[24] Many theories and reasons have been put forward to explain the persistent weakness in productivity growth. These include:

> […] weakness in investment that has reduced the quality of equipment employees are working with; the banking crisis leading to a lack of lending to more productive firms; employees within firms being moved to less productive roles; and slowing rates of innovation and discovery.[25]

In addition, some economists have speculated that it is possible that output per hour is now higher than we think due to inaccurate estimates of productivity growth both before and after the financial crisis.[26]

Analyses suggest that none of these explanations alone are sufficient to explain the 'puzzle'. Indeed, economists at the Bank of England have stated that "factors related to the nature of the financial crisis are likely to be having a persistent impact on the level of productivity—but there remains considerable uncertainty around any interpretation of the puzzle".[27] Those same

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[18] House of Commons Library, *Economic Indicators: August 2015*, 4 August 2015, CBP-7273, p 10.
[19] HM Treasury, *Summer Budget 2015*, 8 July 2015, HC 264 of session 2015–16, p 53.
[20] OECD, 'The UK Economy is Doing Well, But the Job is Not Yet Finished. Unleashing Productivity is Key to Sustaining Strong Growth, Says OECD', 24 February 2015.
[21] House of Commons Library, *Productivity in the UK*, 3 July 2015, SN06492, p 3.
[22] Office for National Statistics, *Statistical Bulletin: Labour Productivity—Q4 2014*, 1 April 2015, p 1.
[23] *Financial Times*, 'Weighing Up Four Theories on the UK's Productivity Gap', 19 April 2015.
[24] For example, see BBC News, 'The UK's Productivity Puzzle', 24 February 2015; BBC News, 'Solving the Productivity Puzzle', 20 April 2015; *Economist*, 'The Productivity Puzzle: Under the Bonnet', 30 May 2015; Institute for Fiscal Studies, 'Observations: Weak Productivity Growth is Not Confined to a Few Sectors of the Economy', 26 June 2015; National Institute of Economic and Social Research, 'Can We Solve the UK's Productivity Puzzle?', 29 July 2015.
[25] House of Commons Library, *Productivity in the UK*, 3 July 2015, SN06492, p 3.
[26] *Financial Times*, 'Weighing Up Four Theories on the UK's Productivity Gap', 19 April 2015.
[27] Bank of England, *Quarterly Bulletin 2014 Q2: The UK Productivity Puzzle*, 2014, p 114. See also Bank of England, *Speech: The UK Productivity Puzzle: An International Perspective*, 8 December 2014.

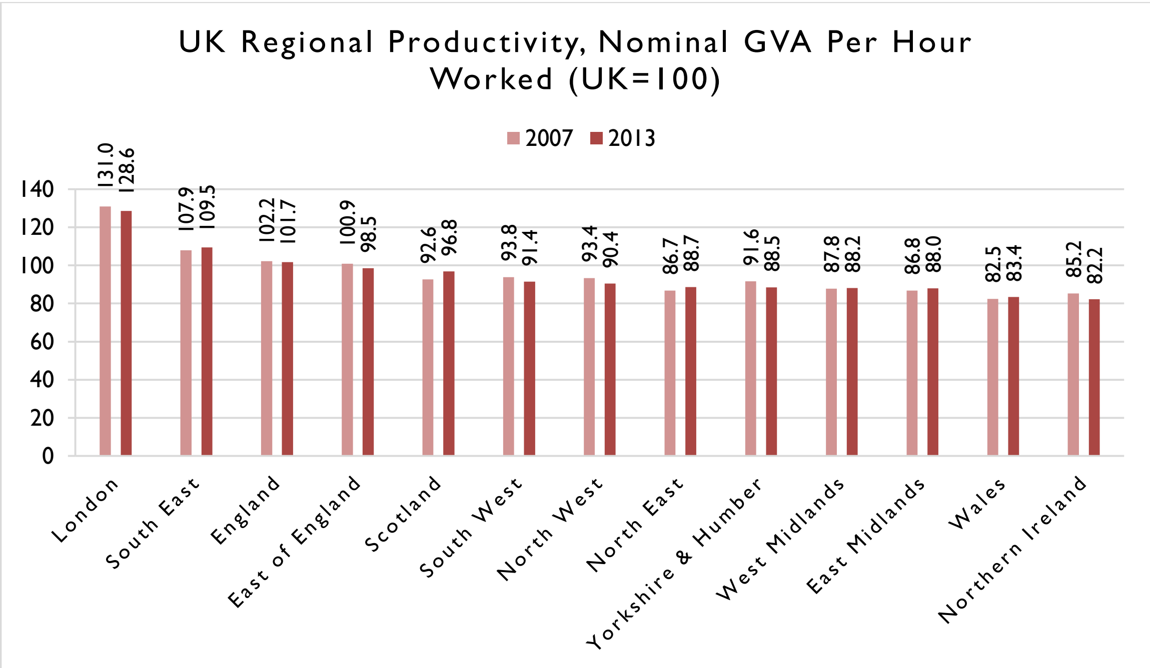
economists have also suggested that "there remains considerable uncertainty around the timing and extent of any strengthening" in productivity growth.[28]

In its most recent *Economic and Fiscal Outlook* document, published alongside the Summer Budget in July 2015, the OBR also commented on the difficulty associated with predicting when productivity growth may improve:

> […] since it is difficult to explain the abrupt fall and persistent weakness of productivity in recent years, it is also hard to judge when or if productivity growth will return to its historical average.[29]

Productivity Gap—Domestic and International

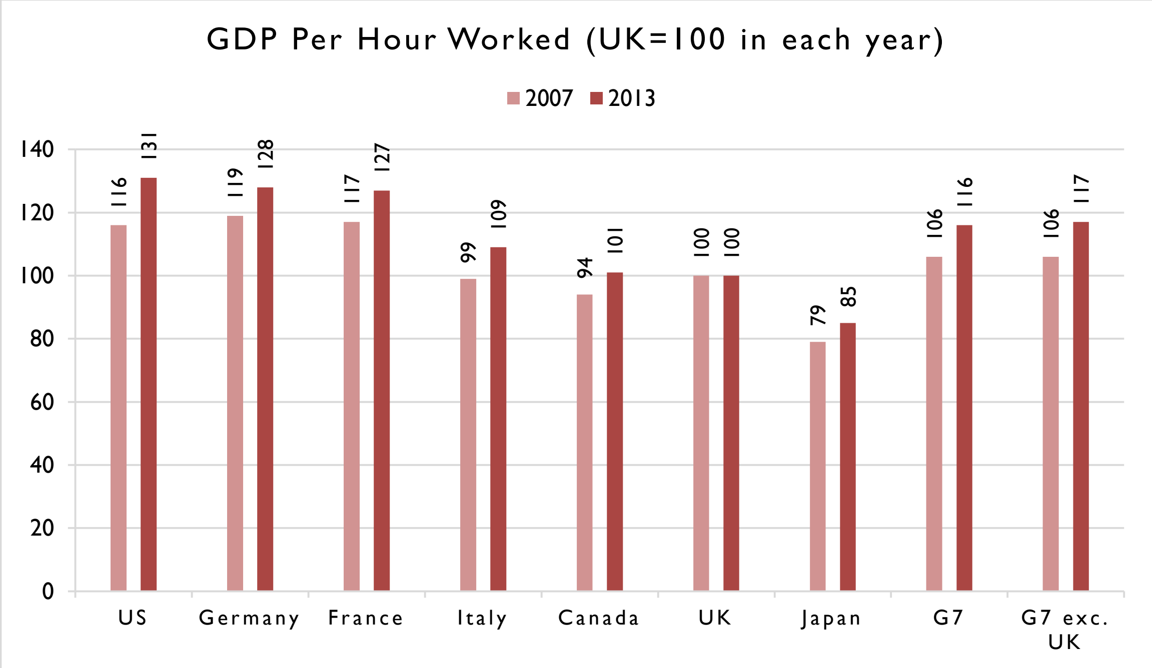
It has been suggested that a 'productivity gap' exists both within the UK and between the UK and the country's G7 peers. Regarding the domestic gap, London has higher levels of productivity than any other nation or region in the UK; almost 29 percent higher than the UK average in 2013. Wales and Northern Ireland have the lowest levels of productivity; just over 83 and 82 percent, respectively, of the UK average in 2013.[30] Also in that year, according to Office for National Statistics (ONS) data, half of the UK's twelve regions and nations had higher levels of productivity than they did in 2007 relative to the UK as a whole, with the largest relative rise between 2007 and 2013 being in Scotland and the largest relative fall being in Yorkshire and the Humber.[31]



(Office for National Statistics, 'Labour Productivity, Q1 2015', 1 July 2015)

[28] Bank of England, *Quarterly Bulletin 2014 Q2: The UK Productivity Puzzle*, 2014, p 126.
[29] Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088, p 34.
[30] House of Commons Library, *Productivity in the UK*, 3 July 2015, SN06492, pp 7–8. See Table 2 in the Appendix for UK regional productivity data (GVA per hour worked) 1997–2013, p 16.
[31] ibid, p 8.

Regarding the international gap, in the Summer Budget 2015 document the Government cited ONS data which showed that output per hour in the UK was behind that of Germany, France and the United States, and was 17 percent below the average for the major G7 advanced economies in 2013—the widest gap since 1992.[32] The UK was ranked sixth out of the G7 countries in 2013, based on real GDP per hour worked (the US having the highest GDP per hour worked and Japan the lowest).[33] In addition, UK output per hour was also nine percentage points lower than Spain and "considerably lower" than productivity in Ireland, Belgium and the Netherlands in 2013.[34]



(Office for National Statistics, 'International Comparisons of Productivity, 2013—Final Estimates', 20 February 2015. Data for 2007 included for comparison)

On an output per worker basis, UK productivity was 19 percentage points below the average for the rest for the G7 in 2013.[35] In addition, the Summer Budget 2015 document stated that in "every member country of the OECD where average wages are above UK levels, productivity is also higher".[36]

In 2013, the productivity gap between the UK and US increased to its widest since 1991 (on a per hour worked basis), with UK productivity 31 percent below that of the US.[37] The Summer Budget 2015 document added that if the UK matched the productivity level of the US, this would equate to an "extra £21,000 for each household".[38]

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[32] HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 of session 2015–16, p 53; and Office for National Statistics, Statistical Bulletin: International Comparisons of Productivity—Final Estimates, 2013, 20 February 2015, p 1.
[33] House of Commons Library, Productivity in the UK, 3 July 2015, SN06492, p 14.
[34] Office for National Statistics, Statistical Bulletin: International Comparisons of Productivity—Final Estimates, 2013, 20 February 2015, p 1.
[35] ibid.
[36] HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 of session 2015–16, p 53.
[37] House of Commons Library, Productivity in the UK, 3 July 2015, SN06492, p 14. See Table 3 in the Appendix for G7 international comparison data from 1990, p 17.
[38] HM Treasury, Summer Budget 2015, 8 July 2015, HC 264 of session 2015–16, p 53.

Latest Productivity Growth Figures

In its August 2015 *Inflation Report*, the Bank of England noted that productivity had "strengthened" in recent months and predicted that "robust investment growth" will "support the continuing increase of underlying productivity growth towards past average rates".[39] This report stated:

> […] in the four quarters to 2015 Q1, productivity growth was 0.8 percent and is expected to have been 1.5 percent in the four quarters to Q2. While this marks a considerable strengthening compared to the past few years, it is still weaker than its pre-crisis average rate of 2.4 percent.[40]

The latest ONS labour productivity statistics stated that UK labour productivity per hour grew by 0.3 percent in Q1 2015 compared with the previous quarter. This measure was 1.3 percent higher than the same period in 2014, the fastest annual growth since Q1 2012.[41] The statistics showed that output per hour in the manufacturing and production sectors fell in Q1 2015 and on the year while output per hour grew in the services sector, though estimates of individual service industries were more mixed.

The OBR expects productivity growth to return to its historical average rate (of around 2 percent per annum) by the end of 2016.[42]

3.2 Government Productivity Plan

The *Summer Budget 2015* set out an ambition to address the UK's "productivity challenge" in order to fulfil the Conservative Party manifesto ambition for the UK to become the "most prosperous major economy in the world by the 2030s".[43] It was followed on 10 July 2015 by the Government's 82-page productivity plan: *Fixing the Foundations: Creating a More Prosperous Nation*. Launching the plan at a speech in Birmingham, the Secretary of State for Business, Innovation and Skills, Sajid Javid, stated:

> Productivity is something we've been hearing a lot about recently, and that's because it's one of the few areas of the economy where Britain is struggling.
>
> Britain is home to some of the world's most innovative and dynamic businesses, staffed by incredibly talented, hardworking individuals. Yet our productivity—the rate of output per hour worked—is well below its potential. In stark terms, it now takes a worker in the UK five days to produce what his or her counterparts in Germany can deliver in four.

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[39] Bank of England, *Inflation Report: August 2015*, 6 August 2015, p i.
[40] ibid, p 22.
[41] Office for National Statistics, *Statistical Bulletin: Labour Productivity, Q1 2015*, 1 July 2015, p 1.
[42] House of Commons Library, *Productivity in the UK*, 3 July 2015, SN06492, p 3. See also Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015, Cm 9088, p 76.
[43] HM Treasury, *Summer Budget 2015*, 8 July 2015, HC 264 of session 2015–16, p 11; and Conservative Party, *The Conservative Party Manifesto 2015*, April 2015, p 7.

> […] higher productivity means higher incomes. When productivity rises, standards of living rise too. So today I'm proud to publish '*Fixing the Foundations*'. It's our plan for productivity, and our blueprint for creating a more prosperous nation.[44]

The plan represented the Government's framework for raising productivity and included a pledge from both the Chancellor of the Exchequer and the Secretary of State for Business, Innovation and Skills that "every part of government will contribute to this ambition" and that the reforms set out would be "delivered with urgency and pace".[45] The plan set out its rationale and stated that a review of the "quality, delivery and governance of UK economic statistics" would also be forthcoming:

> This plan responds to the recent slowdown of productivity growth in the UK and, perhaps more importantly, to the long-standing gap compared to other countries. This is not a quick or easy task, but it is fundamental to securing a sustainable recovery and raising living standards over the long term. Small improvements can have transformative impacts if sustained over long periods. Raising annual trend growth by just 0.1 percent would mean the UK economy would be £35 billion larger in 2030—the equivalent of approximately £1,100 extra for every household.
>
> Higher productivity will improve the public finances. The Office for Budget Responsibility (OBR) estimated in 2014 that in a high productivity scenario public sector net debt would fall to 56.7 percent by 2019–20, while under a low productivity scenario debt would rise to 86.6 percent. Raising productivity can also improve the UK's trade position by better enabling UK firms to compete with foreign firms in the global marketplace.
>
> The measures in this plan are based on an assessment of the UK's productivity performance […] One of the clear challenges that arises in assessing productivity is the difficulty of measuring it accurately in a modern and increasingly technological economy. This is an ongoing challenge and statistical offices globally must rise to it. Professor Sir Charles Bean has therefore agreed to lead an independent review of the quality, delivery and governance of UK economic statistics. The review will build on the established principle of independently produced statistics and make interim recommendations in the autumn with a final report to be published by Budget 2016.[46]

The plan stressed the importance of productivity to future prosperity and outlined reforms and measures in 15 'key areas' built around two pillars—encouraging long-term investment and promoting a dynamic economy—which have been summarised as follows:

Long-term Investment

Business Investing for the Long-term

- An even more competitive tax system: including cutting corporation tax to 18 percent in 2020, saving businesses £6.6 billion, and increasing the personal

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[44] Department for Business, Innovation and Skills and HM Treasury, 'Speech: Fixing the Foundations—Boosting Britain's Productivity', 10 July 2015.
[45] HM Treasury, *Fixing the Foundations: Creating a More Prosperous Nation*, 10 July 2015, Cm 9098, p 3.
[46] ibid, pp 6–7.

allowance to £12,500 and increase the higher rate threshold to £50,000 by the end of the parliament.

- Rewards for saving and long-term investment: including permanently raising the Annual Investment Allowance to £200,000, committing to a new business tax roadmap, and engaging with the country's most senior business leaders, led by Sir Charlie Mayfield, as they develop their proposals for improving business productivity and with some of the largest institutional investors to support companies in investing for the long term.

Skills and Human Capital

- A highly skilled workforce: including introducing a new compulsory apprenticeship levy requiring large businesses to invest in their own future, and radically streamlining further education qualifications.

- World-leading universities, open to all who can benefit: including removing the student cap and ensuring the sustainability of investment in universities by replacing maintenance grants with loans for new students.

Economic Infrastructure

- A modern transport system: including the creation of a new Roads Fund from 2020–21, financed from Vehicle Excise Duty, and a plan to get Network Rail and the rail investment programme back on track.

- Reliable and low carbon energy: ensuring that the UK attracts necessary investment to guarantee secure energy supplies and a review of business energy tax policy to improve and simplify the landscape.

- World-class digital infrastructure: including ensuring that superfast broadband is available to 95 percent of UK households and businesses by 2017 and making it easier for the market to roll out fixed and mobile infrastructure with proposals to reform planning rules on taller masts.

Ideas and Knowledge

- High-quality science and innovation: including delivering our science capital commitment, investing £6.9 billion in the UK's research infrastructure and developing the UK's network of Catapult centres for commercialising technology.

A Dynamic Economy

Flexible, Fair Markets

- Planning freedoms, more houses to buy: including introducing a new zonal system to give automatic permission on suitable brownfield sites, taking tougher action to ensure that local authorities are using making land available for housing, and working with the Mayor of London to bring forward proposals to remove the need for planning permission for upwards extensions for a limited number of stories up to the height of the adjoining building.

- A higher pay, lower welfare society: including the introduction of a new National Living Wage to help move to a higher wage, lower tax, lower welfare society.

- More people with a chance to work and progress: including doubling the free entitlement to childcare to 30 hours a week for working parents of three and four year olds, and reforming the Employment and Support Allowance to ensure the right incentives and support are in place for those taking steps back into work.

Productive Finance

- Financial services that lead the world in investing for growth: including driving financial services competition by creating a PRA/FCA [Prudential Regulation Authority/Financial Conduct Authority] New Bank Unit and embedding the importance of ensuring the supply of finance to support productive investment in the Financial Policy Committee's 2015 remit.

Openness and Competition

- Competitive markets with less regulation: including by cutting £10 billion of red tape, introducing clear new principles for switching and publishing a new Digital Transformation Plan to support the adoption of digital technologies across the economy.

- A trading nation open to international investment: by mobilising the whole of government behind exporting, working alongside a more effective UK Trade and Investment (UKTI) and better export finance, building stronger trade links with emerging markets and helping to deliver a more dynamic and outward focussed Europe.

Resurgent Cities

- A rebalanced economy and a thriving Northern Powerhouse: including devolving further powers and responsibilities to the elected Mayors of London and Manchester, and to work towards devolution deals with Sheffield, Liverpool, and Leeds, West Yorkshire and partner authorities. And by putting Transport for the North on a statutory footing to give it a budget, clear leadership and a focussed remit, including working to introduce Oyster-style ticketing across the North.[47]

[47] HM Treasury and Department for Business, Innovation and Skills, 'Productivity Plan Launched', 10 July 2015.

A number of these measures were included in the Finance Bill, introduced in the House of Commons on 14 July 2015.[48] Speaking on behalf of the Government in the House of Commons on the date of the Bill's introduction, the Secretary of State for Business, Innovation and Skills, Sajid Javid, stated:

> The economic challenge of our time is boosting Britain's productivity […] Productivity is not just some obscure measure that is of interest only to economists. Higher productivity means higher incomes. When productivity rises, standards of living rise too. That is why, as part of last week's Budget, we published *Fixing the Foundations: Creating a More Prosperous Nation*. It is our blueprint for getting Britain moving, building and growing, and creating the environment that is needed to tackle the productivity gap once and for all […]
>
> The drivers of productivity are not a mystery; the barriers that prevent it are well understood. What has been lacking in this country for too long is the political will to do something about the problem by making the bold decisions that are necessary to unleash the full potential of British business. That is not lacking any more. This Government have the mandate and the will to deliver lasting change, and that is exactly what the Budget will do.[49]

In addition, the Commercial Secretary to the Treasury, Lord O'Neill of Gatley, spoke on the issue of productivity during both his maiden speech in the House of Lords on 4 June 2015 and in a debate on the Budget Statement in the House on 21 July 2015.[50]

House of Commons Committee Inquiries

The House of Commons Business, Innovation and Skills Committee has launched an inquiry into the Government's productivity plan. The Committee intends to explore whether the plan "addresses the main causes of low productivity in the UK and whether it is likely to achieve its desired results".[51] The Committee is accepting written submissions until 10 September 2015.

In addition, the House of Commons Communities and Local Government Committee has launched an inquiry into the planning proposals in the productivity plan.[52] The Committee is accepting written evidence until 24 August 2015.

3.3 Political Reaction

Labour Party

Speaking on behalf of the Opposition, the Shadow Secretary of State for Business, Innovation and Skills, Chuka Umunna, stated in the House of Commons on 14 July 2015:

> We have the worst productivity in the G7, save for Japan. There was some fanfare around the Treasury-BIS co-sponsored productivity plan published on Friday—[Interruption.] Ministers might chunter, but having taken account of that amazing plan,

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[48] For further information, see HM Treasury, *Finance Bill 2015: Explanatory Notes—Clauses 1 to 50*, 15 July 2015.
[49] HC *Hansard*, 14 July 2015, cols 757–8.
[50] HL *Hansard*, 4 June 2015, cols 524–624; and HL *Hansard*, 21 July 2015, cols 1059–106.
[51] UK Parliament, 'Committee Launches Inquiry on Government's Productivity Plan', 21 July 2015.
[52] UK Parliament, 'Planning and Productivity Inquiry', accessed 13 August 2015.

> the Office for Budget Responsibility has downgraded its forecast for productivity per hour for next year and the following three years. I am not surprised. Two key ways of increasing productivity are to sort out the skills system, which is simply not doing enough to resolve the chronic skills shortages in our economy, and to boost business investment.[53]

Mr Umunna added that "after half a decade of Tory-led Government, the CBI [Confederation of British Industry] warned in its annual skills survey […] of ongoing skills shortages acting as a drag on productivity" before commenting on the importance of infrastructure on productivity growth.

In addition, speaking during the second reading of the Finance Bill in the House of Commons on 21 July 2015, the Shadow Chief Secretary to the Treasury, Shabana Mahmood, criticised the lack of measures in the Budget to improve productivity:

> Despite what the Minister has said about productivity, as a package it [the Budget] fails the test of building a more productive economy to bring down the deficit in a more sustainable, stronger and fairer way […]
>
> Solving the productivity puzzle is absolutely imperative if we are to experience much stronger economic growth and get the deficit down more fairly. The Conservatives' record on productivity is one of failure, given the difference between productivity in our country and in our competitors' economies. I am afraid that the Budget simply offered more of the same.
>
> Despite the Chancellor's boasts, the Office for Budget Responsibility has revised productivity down next year, the year after, the year after that, and the year after that. His belated productivity plan was simply a patchwork of existing schemes, rather than a substantial reform to boost skills, business growth and wages. The Bill should also have included legislation on big infrastructure decisions, which the Government appear to have ducked.[54]

Scottish National Party

The Scottish National Party (SNP) spokesperson for Treasury matters, Roger Mullin, voiced disappointment with the Government's productivity plan in the House of Commons on 13 July 2015. He stated:

> The Secretary of State mentions the great productivity plan, but what a damp squib that is. It fails to address the key fundamentals of productivity, whether lending to business, raising intermediate and higher intermediate skill levels that are a major drag on our productivity, or other facets. Surely we deserve better than the damp squib that was produced on Friday.[55]

Mr Mullin also moved an amendment in the House of Commons on 21 July 2015 to decline to give the Finance Bill a second reading. During his remarks, Mr Mullin stated that the Summer

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[53] HC *Hansard*, 14 July 2015, col 764.
[54] HC *Hansard*, 21 July 2015, cols 1394–6.
[55] HC *Hansard*, 13 July 2015, col 602.

Budget represented a "failure to address adequately the challenge of productivity in our economy".[56] He added:

> I am struck by how the detail of the Finance Bill suggests that, rather than addressing key issues in a positive manner, the Government present some highly counterproductive measures on productivity. I and my colleagues initially welcomed some of the changes to the banking levy and the introduction of a surcharge. However, whether through carelessness or incompetence—what I am about to say surely could not be planned—the scope of the changes now captures both challenger banks and many building societies whose practices are very different from those of the big banks […]
>
> If there is anything we do not need when trying to boost productivity, it is a contraction in lending, particularly for SMEs […] The contraction in lending […] suggests a loss of almost £5 billion over the next five years in public sector investment. Potentially, that adds up to a cumulative drop of £15 billion in private and public sector investment, and that can only be a major barrier to any chance of improvements in productivity.[57]

In addition, Mr Mullin commented on the impact of research and development on productivity:

> Other factors with a direct impact on productivity are worthy of comment too. The ability to innovate is directly related to research and development. I therefore scoured the Finance Bill to see what was planned to boost the investment in company R&D. What did I find? Less than nothing. For example, the only change to R&D expenditure credits is the removal of universities' ability to claim them. That in itself would not be such an issue if more would be done in other ways to significantly boost R&D expenditure, but that is not the case. Indeed, the Budget speech, and the accompanying Red Book, seemed keener to demonstrate adroitness with smoke and mirrors, rather than clarity and commitment to boosting research and development.[58]

Liberal Democrat Party

Speaking in a debate on the Budget Statement in the House of Lords on 21 July 2015, the Liberal Democrat spokesperson on economic matters, Baroness Kramer, voiced concerns over particular measures in the Budget, including the proposed 'right to buy' from housing associations and the decision not to proceed with the zero-carbon homes scheme. Baroness Kramer stated:

> The Minister has talked a great deal about productivity, which is a vital subject and on which I hope we will have a proper future debate. His paper *Fixing the Foundations* is in large part a reaffirmation of existing programmes and policies that we support, although in notable cases, such as the level of capital investment and devolution, it is far less daring than the measures we pushed for […]
>
> If we talk of productivity and economic growth, why does this Budget choose to gut key support for renewable energy, an area in which British companies were just beginning to reach world competitive standards? Green industries are the future and our foreign

[56] HC *Hansard*, 21 July 2015, col 1406.
[57] ibid, cols 1408–9.
[58] ibid, col 1409.

> competitors are glowing with this Government's ideological destruction of rising key UK firms—how backward-looking and, now I must understand, how typically Conservative.[59]

3.4 Other Reaction

British Chambers of Commerce

Commenting on the Government's productivity plan, the Director General of the British Chambers of Congress, John Longworth, stated:

> Whatever label the Government wish to put on it, we have to tackle deep-rooted, structural problems if we are to have a great economy. We need world class infrastructure, a streamlined planning process that serves to aid not delay projects, and, crucially, we must kick-start our export performance. We must also see better access to finance for businesses—this has been the missing piece of the jigsaw for far too long. These are the fundamentals where the UK has consistently failed to punch its weight and which act as a drag on growth and productivity.[60]

Trade Union Congress

Speaking after publication of the Government's productivity plan, General Secretary of the Trade Union Congress (TUC), Frances O'Grady, stated:

> Improving productivity is essential to making sure that all of Britain gets a pay rise and that strong growth delivers sound public finances.
>
> There are no shortcuts to higher productivity. It's only achieved by long-term investment and an embedded culture of positive labour relations. The best businesses are those where employers and the workforce are productivity partners, like our world leading automotive and chemical industries. When workers are engaged and getting a fair share from growth, they deliver better results.
>
> Trade unions stand ready to play a positive role in delivering the productivity growth the UK urgently needs. And we call on the government to use the autumn spending review to back this plan with the long-term boost in capital investment and skills that it needs to succeed.[61]

Academic Opinion

Anna Valero and John Van Reenen of the London School of Economics and Political Science have written about the Government's productivity plan. Noting that, in their view, a productivity plan is "long overdue", they stated that "for many, this is the number one issue

[59] HL *Hansard*, 21 July 2015, cols 1064–6.
[60] British Chambers of Commerce, 'Govt Must Tackle Deep-rooted Shortcomings to Secure Great Economic Growth, Says BCC', 10 July 2015.
[61] Trade Union Congress, 'Sharing Growth With Workers Will Help Boost Productivity, Says TUC', 10 July 2015.

facing the UK economy since productivity growth is a pre-requisite for sustainable growth in living standards".[62] They continued:

> Overall, the analysis and priorities seem broadly right and there are a number of positive steps. For example, the emphasis on planning reforms (especially on housing), road infrastructure and vocational skills. However, much of the Plan simply places existing policies into eight drivers of productivity growth.

They concluded:

> Although there are many individually sensible policies, it is difficult to discern a clear growth *strategy* emerging from the Plan. Without such a vision, it is likely that shorter term considerations will come to dominate, especially as the parliamentary term wears on. For example, the coalition government had set out what was meant to be a long-term industrial strategy, but there is no mention of building on this in the Plan. Given the need for continued savings across government, it seems wasteful to neglect an existing (seemingly sound) framework and the body of work that it would have entailed […] Nevertheless, the government is focusing on the right area—how to get productivity back up so we can have sustainable income increases once more.

[62] LSE British Politics and Policy Blog, 'Productivity Plan: A Sound Framework, But Gaps in Policy Persist. More is Needed to Get Productivity Growing Again', 17 July 2015. Italics in original.