Where is Future Growth Going to Come From?

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Chair, LSE
WHERE IS FUTURE GROWTH GOING TO COME FROM?

John Van Reenen

Department of Economics, LSE
Director, Centre for Economic Performance

LSE Works Lecture; February 17th 2010
2008-09 “GREAT RECESSION” COMPARED TO PREVIOUS RECESSIONS, CUMULATIVE CHANGE IN UK GDP

Source: NIESR (data through 2010,Q3)
WORRIES ABOUT GROWTH

• Austerity program biggest budget cut since WW”

  – Chancellor: No need for a “Plan B” because economy firmly on road to recovery

  – Shrinking economy? 2010Q4 0.5% GDP fall

  – Pfizer closes down Sandwich research lab
UK QUARTERLY GDP GROWTH 2007Q1-2010Q4: LET’S HOPE IT’S JUST THE WRONG KIND OF SNOW........

Source: ONS (February 2011), Quarterly Growth of GDP, seasonally adjusted
THE WORRIES ABOUT GROWTH

• Austerity without a growth plan
  – need a “Plan V”

• An active de-industrial policy?
  – **Macro policies** damaging growth through premature scrapping of human capital and fixed capital
  – **Micro policies** are undermining growth (e.g. Universities, immigration)

• Faster income growth since mid-1990s, but still a productivity gap between UK & leading countries:
  – Technological innovation
  – Management practices
GREAT PEOPLE TO WORK FOR?

GREAT PLACES TO WORK?........
Ericsson factory shop floor
State-owned telecoms equipment factory in Belarus. Everyone on a mysterious break?
Family-owned textile company outside Mumbai, India
1. International Comparisons: How is the UK doing?

2. Why is there a still productivity gap?
   - Technological Innovation
   - Management Practices

3. **Short-Run policies**: Alternatives to Extreme Austerity

4. **Long Run Growth**: The V-Plan
UK GROWTH PERFORMANCE SINCE 1997 IS GOOD: ANNUAL AVERAGE PER CAPITA GDP GROWTH 1997-2010

% (GDP/person) growth

<table>
<thead>
<tr>
<th>Country</th>
<th>% (GDP/person) growth</th>
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<tr>
<td>UK</td>
<td>1.19</td>
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<td>France</td>
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<td>Japan</td>
<td>0.77</td>
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</table>

Source: Conference Board World Economy Database, February 2011, EKS $PPPs
RELATIVE LABOUR PRODUCTIVITY (LEVELS OF GDP PER HOUR) IN 2009; $PPP

- Italy: 41.01
- EU-15: 48.7
- UK: 60.76
- Germany: 53.46
- France: 54.65
- USA: 58.98

Source: Conference Board World Economy Database, September 2010, Table 8
GDP PER WORKER RELATIVE TO UK IN US, FRANCE & GERMANY (UK=100), 1979-2009

Source: Conference Board (2010), PPPs
UK RELATIVE GDP PER WORKER: GERMANY

UK Gap with Germany reverses from -4% to +7%

Source: Conference Board (2010), PPPs
UK RELATIVE GDP PER WORKER: FRANCE

UK Gap with France falls from -13% to -10%

Source: Conference Board (2010), PPPs
UK RELATIVE GDP PER WORKER: US

UK Gap steady with US which had a “productivity miracle”

Source: Conference Board (2010), PPPs
GDP PER WORKER RELATIVE TO UK IN US, FRANCE & GERMANY (UK=100), 1979-2009

Source: Conference Board (2010), PPPs
GDP PER WORKER RELATIVE TO UK IN SELECTED NATIONS (UK=100), 1979-2009

Source: Conference Board (2010), PPPs
PROPORTION OF UK WORKERS WITH A COLLEGE DEGREE ROSE BY 12 PERCENTAGE POINTS 1997-2010

Source: GHS and Labour Force Survey, Various years
1. International Comparisons: How is the UK doing?

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IS TECHNOLOGICAL INNOVATION THE CAUSE OF PRODUCTIVITY GAP WITH THE US?

• Partially correct - UK has innovation deficit

• Although universities/basic science strong.....
  – 14% of all top scientific papers in world (2nd only to US) with ~1% of world’s population

• ....Commercialization of innovation is weak: Research & Development (R&D), Patenting, etc.
RESEARCH AND DEVELOPMENT (R&D) AS A % OF GDP

1987-2007

Source: OECD (GERD/GDP)
RESEARCH AND DEVELOPMENT (R&D) – BUT WHAT ABOUT 2011?

Source: OECD (GERD/GDP)
OUTLINE

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INNOVATION A CAUSE OF PRODUCTIVITY GAP?

• Problem is not just “hard” technologies. Also problems with the way firms are managed.

• Technologies available globally - why do some countries/firms not use?

• Research Program with Nick Bloom (Stanford), Raffaella Sadun (Harvard) & CEP team
  – How to measure, quantify and compare management across firms and countries?
THE SURVEY METHODOLOGY

1) Developing management questions
   • Scorecard for 18 monitoring, targets and people
   • ≈45 minute phone interview of manufacturing plant managers

2) Obtaining unbiased comparable responses ("Double-blind")
   • Interviewers do not know the company’s performance
   • Managers are not informed (in advance) they are scored

3) Getting firms to participate in the interview
   • Official Endorsement: Bundesbank, RBI, HMT, etc.
   • Run by 75 MBA types (loud, assertive & business experience)
## INCENTIVES - e.g. “HOW DOES THE PROMOTION SYSTEM WORK?”

| Score | (1) People are promoted primarily upon the basis of tenure | (3) People are promoted upon the basis of performance | (5) We actively identify, develop and promote our top performers |

**Note:** All 18 dimensions and over 50 examples in Bloom & Van Reenen (2006)
THE LINK BETWEEN PRODUCTIVITY AND MANAGEMENT HOLDS TRUE ACROSS DIFFERENT COUNTRIES

* Log scale (sales per worker)

** Firms are grouped in 0.5 increments of assessed management score

* Labour productivity*

** Labour productivity**
UK MANAGEMENT MID-TABLE BY INTERNATIONAL STANDARDS

Note: Based on 8,261 management interviews between 2006 and 2010. We pool across multiple survey waves to maximize the extent of cross-country management comparison.
HUGE VARIATION OF MANAGEMENT PRACTICES ACROSS FIRMS WITHIN ALL COUNTRIES

Note: Based on 8,261 management interviews between 2006 and 2009.
MUCH OF THE CROSS-COUNTRY DIFFERENCES DUE TO THE “LOWER TAIL” OF BADLY MANAGED FIRMS

Distribution of firm level management practice scores
MY FAVOURITE QUOTES:

The traditional British Chat-Up

[Male manager speaking to an Australian female interviewer]

Production Manager: “Your accent is really cute and I love the way you talk. Do you fancy meeting up near the factory?”

Interviewer “Sorry, but I’m washing my hair every night for the next month….”
Production Manager: “Are you a Brahmin?”

Interviewer “Yes, why do you ask?”

Production manager “And are you married?”

Interviewer “No?”

Production manager “Excellent, excellent, my son is looking for a bride and I think you could be perfect. I must contact your parents to discuss this”
WHAT IMPROVES MANAGEMENT? COMPETITION

Various ways that competition may influence management

- **Selection** – badly run firms more likely to exit
- **Effort** – forces badly run firms to try harder to survive

We find competition is strongly linked with better management through a mixture of selection & effort
MORE COMPETITION IS ASSOCIATED WITH BETTER MANAGEMENT PRACTICES

Assessed management practice score

Reported number of competitors

0 2 4 6 8 10
0 2.5 3.0 3.5
2.5
2.6
2.7
2.8
2.9
3.0
3.1
3.2
3.3
3.4
3.5

10 or more
WHAT HURTS GOOD MANAGEMENT? FAMILY FIRMS RUN BY ELDEST SON, GRANDSON, ETC.

Impact of family firms depends on involvement

- **Ownership** but not management probably positive
  - Concentrated ownership so better monitoring

- **Management** probably negative
  - Smaller pool to select CEO from
  - Possible “Carnegie” effect on future CEO’s
  - Less career incentive for non-family managers
FAMILY FIRMS AND GOVERNMENT FIRMS HAVE WORST MANAGEMENT

Average score on 18 management practice questions

- Government: 2.5
- Founder: 2.75
- Family, family CEO: 2.85
- Private Individuals: 2.95
- Other: 3.05
- Managers: 3.15
- Family, external CEO: 3.25
- Dispersed Shareholders: 3.35
- Private Equity: 3.45

Number of firms:
- Management: 134
- Management (same ownership 3+ years): 635
- Founder: 722
- Private Individuals: 625
- Other: 290
- Managers: 138
- Family, external CEO: 174
- Dispersed Shareholders: 1357
- Private Equity: 137

Note: Sample of 4,221 medium-sized manufacturing firms. The bottom bar-chart only covers the 3,696 firms which have been in the same ownership for the last 3 years. The "Other" category includes venture capital, joint-ventures, charitable foundations and unknown ownership.
SUMMARY OF DETERMINANTS OF MANAGEMENT (& PRODUCTIVITY)

- Product market competition
- Meritocratic CEO selection
- Human Capital

- These account for almost all of the management gap between UK and US
BUT DOES MANAGEMENT REALLY CAUSE HIGHER PRODUCTIVITY? BLOOM ET AL (2011)

- Run experiment on plants in Indian textile firms outside Mumbai
- Randomized “treatment” plants get heavy management consulting; “control” plants get very light consulting (just enough to get data)
- Collect weekly performance data on all plants from 2008 to 2010
  - Improved management practices led to large and significant improvements in productivity and profitability (~$200k pa)
MANY PARTS OF THE FACTORIES ARE DIRTY AND UNSAFE
THE TREATED FIRMS INTRODUCED BASIC INITIATIVES (CALLED “5S”)

Worker involved in 5S initiative on the shop floor, marking out the area around the model machine.

Snag tagging to identify the abnormalities on & around the machines, such as redundant materials, broken equipment, or accident areas. The operator and the maintenance team is responsible for removing these abnormalities.
QUALITY DEFECTS INDEX: TREATMENT & CONTROL PLANTS

Notes: Displays the average weekly quality defects index, which is a weighted index of quality defects, so a higher score means lower quality. This is plotted for the 14 on-site treatment plants (+ symbols) and the 6 on-site control plants (♦ symbols). Values normalized so both series have an average of 100 prior to the start of the intervention. To obtain confidence intervals we bootstrapped the firms with replacement 250 times.
OUTLINE

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THREE DIFFERENT VIEWS OF GROWTH

- **Right:** Shrink state & let markets flourish
  - Thatcherism and Osborne-ism?
  - But markets needs some intervention (e.g. Competition policy)

- **Left:** Top down plans
  - NHS Target-ism
  - Untargeted expansion of demand

- **Alternative:** The Enabling State
  - Market failures (e.g. Innovation, climate change, etc.)
  - Stimulate through targeted investing (e.g. Innovation, human capital, infrastructure)
AUSTERITY – LABOUR’S PLANS FOR FISCAL TIGHTENING IN MARCH 2010

Source: IFS, HMT

5% of GDP by 2016/17
(£72.4bn by 2015/16)

Source: IFS, HMT
EXTREME AUSTERITY – JUNE EMERGENCY BUDGET.
LARGEST CUT SINCE WW2

Source: IFS, HMT
ACCELERATED AUSTERTY

- Government borrowing/GDP
  - 2010-2015 reduction 3rd highest in OECD (29 richest nations).
  - Level in 2010 also 3rd (US and Ireland higher)

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<th></th>
<th>2007/8</th>
<th>2009/10</th>
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<tr>
<td>Total government spending/GDP</td>
<td>41%</td>
<td>47.6%</td>
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<tr>
<td>Total government receipts/GDP</td>
<td>38.6%</td>
<td>37.2%</td>
</tr>
<tr>
<td>Budget deficit</td>
<td>2.4%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

- Spending out of control? No: GDP fell dramatically
FEATURES OF ACCELERATED AUSTERITY

• Choice of government spending/GDP of 40%
  – 43% 1970/1 - 2008/9 average

• Assumes a large permanent fall in GDP?
  – Unknown. Ranges from 2% to 10%
  – Ignores some productivity improvements

• Serious costs of frontloading cuts
  – Withdrawal of demand risks recovery
  – Scrapping of human and fixed capital (e.g. Chris Pissarides & long-term unemployment)
    • A pessimistic view of UK capacity becomes a self-fulfilling prophecy
BENEFITS OF ACCELERATED AUSTERITY?

• UK has unsustainable debt?
  – Debt “crisis” exaggerated
    • Historically moderate (42% in 2006; 79% 2011; av=118%)
    • Long maturity
    • No formal default

• Credibility & Confidence
  – Gives reassurance to irrational bond markets?
  – Surely better to deliver a realistic good plan than fail to deliver an unrealistic bad plan

• Voters’ memory is short
EXTREME AUSTERITY – THE NEED FOR A “PLAN B”

• Chancellor has argued against a Plan B

• Mervyn King & MPC to the rescue?
  – Low interest rates
  – Inflation fears

• If really in trouble we can always slow down
  – Hard to fine tune
  – Given rhetoric, would lead to extreme loss of credibility
  – Better to move towards a sensible plan now

• Need also to think long term “From Plan B to Plan V”
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WHAT WE NEED IN A GROWTH PLAN

• Getting external conditions right
  – Admit we do not know exactly where new growth will come from
  – Get the conditions right so we can generate and exploit new ideas and areas for growth

• Focus on sectoral growth areas....
  – Examples: Universities; Healthcare; Business services; Green; ICT; Niche manufacturing, etc.

• ...where UK has comparative advantage & capability
  – Market services, academic science-based (bio-pharma), creative sectors
WHAT ARE THE CONDITIONS FOR GROWTH?

• Product market Competition
  – Competition policy, Trade policy, planning
  – Public sector (e.g. UK hospital reforms)

• Taxation
  – 100% Inheritance Tax exemption for family business assets encourages family firms not meritocratic CEO
  – Mirrlees Review: stability and simplicity, not level

• Human Capital
  – UK weak at lower end (e.g. EMA, Apprenticeships)

• Innovation Policy & Tax regime (later)
• Financial markets – Too Big to Fail issues
AN EXAMPLE OF A GROWTH INDUSTRY: UNIVERSITIES

• Current situation
  – overseas students: globally from 0.5m (1980) to 3.3m (2010). Growing at ~7% pa (McKinsey, 2010)
  – UK research & share of overseas 2nd only to US.
  – **Opportunity**: US lost share 2000-2008 (24% to 18%); Australia 2009 due to immigration policy

• Current Policies
  – Reduce teaching subsidy to zero
  – Immigration target of 100,000 a disaster.
    • Discourages overseas students from UK
    • Harder to attract global academic talent

• *Explicitly anti-growth policies*
EXAMPLE OF INNOVATION POLICY: R&D SUPPORT

• Failure in market for knowledge
  – Too little R&D because ideas are promiscuous
  – Social return to R&D 2x as big as private return
• R&D helps catch-up with technological leaders as well as pushing out technological frontier
• Abolish “Patent Box” policy costs £1bn+ & subsidises existing intellectual property not new ideas
• Put this money into R&D tax credit (under review) & support of basic research
• Maps of firm “distance” focus where UK has existing or potential strength
  – Technology, Geography, Product markets
  – Can focus directed efforts
BACK TO CURRENT GROWTH – UH-OH, LOOKS MORE LIKE “W” THAN “V”

Source: ONS (February 2011), Quarterly Growth of value added, seasonally adjusted
BEFORE THE V-PLAN
DURING THE V-PLAN
DURING THE V-PLAN
AFTER THE V-PLAN
CONCLUSIONS

• Sources of productivity growth are innovation (well-studied) and management (less studied)

• Extreme austerity a political choice not economic necessity
  – Need a Plan B

• Management and innovation can be improved via reforms to competition, tax reform, universities, R&D
  – Need a Plan V

• You learn a lot from talking to people......
MY FAVOURITE QUOTES:

The difficulties of defining ownership in Europe

Production Manager: “We’re owned by the Mafia”

Interviewer: “I think that’s the “Other” category……..although I guess I could put you down as an “Italian multinational” ?”

Americans on geography

Interviewer: “How many production sites do you have abroad?
Manager in Indiana, US: “Well…we have one in Texas…”
MY FAVOURITE QUOTES:

Staff rewards the American way

*Production Manager:* “For example, if an employee suggests a company slogan, and his name is used, he gets a TV. If he is employee of the month, he gets a parking space”

Staff retention the UK way

*Interviewer:* “How would you persuade your top performers to stay?”
*UK Chairman:* “Sex is a great thing! If the employee finds a new girlfriend somewhere else, I can’t do anything!”
Further Reading


3. Lisbon agenda [http://cep.lse.ac.uk/briefings/pa_lisbon_agenda.pdf](http://cep.lse.ac.uk/briefings/pa_lisbon_agenda.pdf)

4. UK productivity improvements : [http://cep.lse.ac.uk/briefings/pa_uk_productivity.pdf](http://cep.lse.ac.uk/briefings/pa_uk_productivity.pdf)
BACK-UP
SMALL FIRM OBSESSION?

- Cut small profits tax rate to 20% (from 21%)
- Bank lending, tax credits, etc.
- Small firms create more jobs….
- …but they also destroy more jobs
- Small firms are also less productive, pay lower wages, more likely to be badly managed, etc.
- Young firms do create more new jobs, but small ones per se do not
- Easier to get news headlines per government £1 spend
WHAT IS PRODUCTIVITY AND WHY SHOULD WE CARE?

- “Productivity isn’t everything, but in the long run it is almost everything” (Nobel Laureate Paul Krugman)

- **Productivity growth**
  - Drives growth of real wages
  - Can facilitate redistribution

- Particularly important during current era of budgetary cutbacks
DOWNSIDES TO PRODUCTIVITY GROWTH?

• Poverty?
  – Absolute poverty tends to fall with growth (e.g. China, India)
  – No evidence that faster productivity growth means more relative poverty/inequality

• Happiness?
  – Growth doesn’t guarantee happiness
  – Wellbeing not all about consumption (e.g. environment)
  – But big falls in consumption create misery
WHAT IS LABOUR PRODUCTIVITY? 3 COMPONENTS OF GDP (NATIONAL INCOME) PER PERSON

Basic “welfare” measure

\[
\frac{GDP}{Population} = \frac{GDP}{hours} \times \text{Labour productivity}
\]
WHAT IS LABOUR PRODUCTIVITY? 3 COMPONENTS OF GDP (OR GNP) PER CAPITA

Basic “welfare” measure

\[
\frac{GDP}{Population} = \frac{GDP}{hours} \times \frac{hours}{workers}
\]

Choice? Labour supply

Labour productivity
WHAT IS LABOUR PRODUCTIVITY? 3 COMPONENTS OF GDP (OR GNP) PER CAPITA

Basic “welfare” measure

\[
\frac{GDP}{Population} = \frac{GDP}{hours} \times \frac{hours}{workers} \times \frac{workers}{population}
\]

Labour productivity

Employment rate. Voluntary & Involuntary. Unemployment & inactivity

Demographics
WHAT IS LABOUR PRODUCTIVITY? 3 COMPONENTS OF GDP (OR GNP) PER CAPITA

Basic “welfare” measure

\[
\frac{GDP}{Population} = \frac{GDP}{hours} \times \frac{hours}{workers} \times \frac{workers}{population}
\]

Labour productivity

• Growth per capita matters for welfare. Total growth does not!
MEASURING PRODUCTIVITY

• Labour Productivity (Output per hour) depends on:
  
  – Inputs per hour (physical and human capital, materials, energy, etc.)
  
  – “Total Factor Productivity” = TFP = “Solow residual”
  
  – TFP Accounts for most of long-term growth & much of differences in wealth of nations
LARGE INCOME & TFP DIFFERENCES BETWEEN COUNTRIES

Total Factor Productivity, 2000

Per Capita GDP, 2000

Source: Jones and Romer (2009). US=1
WHAT IS LABOUR PRODUCTIVITY? UK 2007

\[
\frac{\text{GDP}}{\text{Population}} = \frac{\text{GDP}}{\text{hours}} \times \frac{\text{hours}}{\text{workers}} \times \frac{\text{workers}}{\text{population}}
\]

\~£26,140 \quad \~£33.20 \quad \~1,650 \text{ p.a.} \quad 48\%
UK LAGS IN RESEARCH & DEVELOPMENT (R&D/GDP), GERD

Source: OECD MSTI 2007-2
WHAT HELPED IMPROVE UK’S PRODUCTIVITY POSITION POST 1997?

- Not driven just by financial sector; e.g. retail/wholesale had very strong productivity growth
- Increase in human capital through university expansion & school reforms (see over)
- R&D supported both directly & introduction of R&D tax credits (in 2000 for SMEs & 2002 for all firms)
- Product Market competition (e.g. Competition Policy Regime improved & ranked 2nd in world)

Also:

- Labour market flexibility
- Openness to FDI
- Labour market supported by welfare reform (e.g. New Deal)
EXTERNAL VALIDATION: MANAGEMENT SCORE CORRELATES WELL WITH PERFORMANCE INDICATORS

Labour productivity*

Return On Capital Employed, ROCE

Sales growth (%)

* Log scale
** Firms are grouped in 0.5 increments of assessed management score
IMPROVEMENTS IN UK EMPLOYMENT RATE OF ADULTS, 1978-2010

Source: Labour Force Survey, Various years, ages 16-65
UK SECOND ONLY TO US IN ELITE SCIENCE

<table>
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<tr>
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<th>Share of top scientific papers</th>
<th>Rank</th>
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<td>NETHERLANDS</td>
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</tr>
<tr>
<td>CHINA</td>
<td>4.2</td>
<td>9</td>
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**Notes:** Shares of the most cited scientific papers 1999-2008 (top 1%)

**Source:** BIS/Thompson-Reuters (2009) “International comparative performance of the UK research base”, Table 1.12, p.60
Functionally illiterate (% aged 16-65, 1995)

Source: HDR 1998
| Score | (1): Poor performers are rarely removed from their positions | (3): Suspected poor performers stay in a position for a few years before action is taken | (5): We move poor performers out of the hospital/department or to less critical roles as soon as a weakness is identified |

If you had an employee who could not do his job, what would you do? Could you give me a recent example? How long would underperformance be tolerated? Do some individuals always just manage to avoid being fixed/fired?
| Score | (1) Goals are either too easy or impossible to achieve; managers low-ball estimates to ensure easy goals | (3) In most areas, top management pushes for aggressive goals based on solid economic rationale. There are a few "sacred cows" not held to the same rigorous standard | (5) Goals are genuinely demanding for all divisions. They are grounded in solid, solid economic rational |

Note: All 18 dimensions and over 50 examples in Bloom & VanReenen (2006).
UK R&D LOW COMPARED TO OTHER COUNTRIES. TOTAL RESEARCH AND DEVELOPMENT AS A % OF GDP

Source: OECD (GERD/GDP)
UK R&D DECLINE 1987-1997? TOTAL RESEARCH AND DEVELOPMENT AS A % OF GDP

Source: OECD (GERD/GDP)
RECENT TRENDS IN PRODUCTIVITY

- After 1970s Oil Shocks a Productivity slowdown (e.g. US productivity growth slowed to about 1.2% p.a)
- From mid-1990s, US productivity “miracle”
- Crisis after end 2007

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<th>US</th>
<th>EU-15</th>
<th>UK</th>
<th>France</th>
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<tr>
<td>1995-2005</td>
<td>2.3%</td>
<td>1.5%</td>
<td>2.2%</td>
<td>1.8%</td>
<td>1.6%</td>
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<tr>
<td>2005-2009</td>
<td>1.2%</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.2%</td>
<td>0.3%</td>
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Source: Conference Board, September 2010
WHAT “REBALANCING” IS NECESSARY?

• **Within Private sector**
  – Away from finance, construction, etc.
  – Towards manufacturing, high tech service exports

• **Between Public and private sector**
  – Need to reduce public spending
  – But to what level? Problem in 2000-07 was that taxes should have been raised more to cover spending choices
  – Expansion of health & education a choice post 1999
  – Reducing also a political choice, not an economic necessity, e.g. US vs. Northern EU
FAMILY FIRMS & MANAGEMENT – AN OLD TOPIC

Alfred Chandler¹ and David Landes² claimed that the UK industrial decline relative to US & Germany was linked to family firms

“The Britain of the late 19th Century basked complacently in the sunset of economic hegemony. Now it was the turn of the 3rd generation…and the weakness of British enterprise reflected their combination of amateurism and complacency”

¹ Alfred Chandler, “Scale and Scope: The Dynamics of Industrial Capitalism”, (1994)
² David Landes, “The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present”, (1969)
EXTREME AUSTERITY – OCTOBER SPENDING REVIEW. SAME STORY.

7% of GDP a year earlier

Source: IFS, HMT
THE FACTORIES ARE ALSO DISORGANIZED

- Instrument not removed after use, blocking hallway.
- Oil leaking from the machine.
- Cotton lying on the floor.
- Instrument blocking the hallway.
A splendid decade

GDP per person
Average annual growth rate, 2001-2010*, %

<table>
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<tr>
<th>Country</th>
<th>0.4</th>
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<th>+0.4</th>
<th>0.8</th>
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Unemployment rate
Harmonised definition, latest month, %

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<th>Country</th>
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BETTER MANAGEMENT IS LINKED WITH HIGHER SKILL LEVELS OF BOTH MANAGERS AND NON-MANAGERS

Degree educated non-managers, %

- Management practice score
- Degree educated non-managers, %

- Degree educated managers, %

- 1.5 2.0 2.5 3.0 3.5 4.0 4.5 5.0
Management scores across countries

WMS team analyses the average country-level management practice scores.

[Bar chart showing management scores for various countries]
Support for slowing down consolidation

- "There is no doubt that a fiscal consolidation plan should be in place, and we have argued for one both before and after the election. Increasing the national debt transfers resources from our children to us, and leaves us unprepared for the next crisis. However, the debate over the timing and scale of the consolidation is not over. Borrowing is cheap, debt default risks in the UK are low, and there is a significant output gap in the economy. In these circumstances we would argue for a delay in consolidation."

- (Ray Barrell, NIESR)
Figure 2: Rising proportion of unemployment is long term

% of total unemployment

- % of unemployed > 12 months
EXAMPLE OF BAD INNOVATION POLICY

• Patent Box to be introduced in 2013
  – reduces corporation tax rate on net income from patents to 10%
  – Costs ~£1bn a year given to a small no. of companies
  – Poorly targeted at promoting research
  – Distorts incentives to invest in patents relative to other IP
  – Deadweight subsidy on activities that already occur
  – Encourages tax competition (Benelux)
  – Complexity
MY FAVOURITE QUOTES:

India is such an interesting place…

Plant Manager: “Modern manufacturing? Yes, I have heard about it, but it doesn’t make any sense at all, does it?”

Interviewer: “How do you identify your star performers?”
Manager: “This is India, everyone thinks he is a star performer!”

Interviewer: “How do you keep your top performers?”
Manager: “I am a star performer and I want to leave!”
MANAGEMENT SURVEY SAMPLE

• Interviewed over 8,000 firms across Americas, Asia & Europe
• Obtained 45% response rate from sampling frame (with responses uncorrelated with performance measures)

Medium sized manufacturing firms:
• Medium sized (100 - 5,000 employees, median ≈ 250) because firm practices more homogeneous
• Manufacturing as easier to measure productivity (also conducted in Schools, Hospitals, Retail and Law Firms)
### How is Performance Tracked?

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<tr>
<th>Score</th>
<th>Measure</th>
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<td>(1)</td>
<td>Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren’t tracked at all</td>
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<td>(3)</td>
<td>Most key performance indicators are tracked formally. Tracking is overseen by senior management</td>
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<td>(5)</td>
<td>Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools</td>
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**Note:** All 18 dimensions and over 50 examples in Bloom & Van Reenen (2006)
Where is Future Growth Going to Come From?

Professor John Van Reenen
Professor of economics and director of the Centre for Economic Performance, LSE

Professor Jonathan Haskel
Professor of Economics, Imperial College Business School

Professor Steve Machin
Chair, LSE