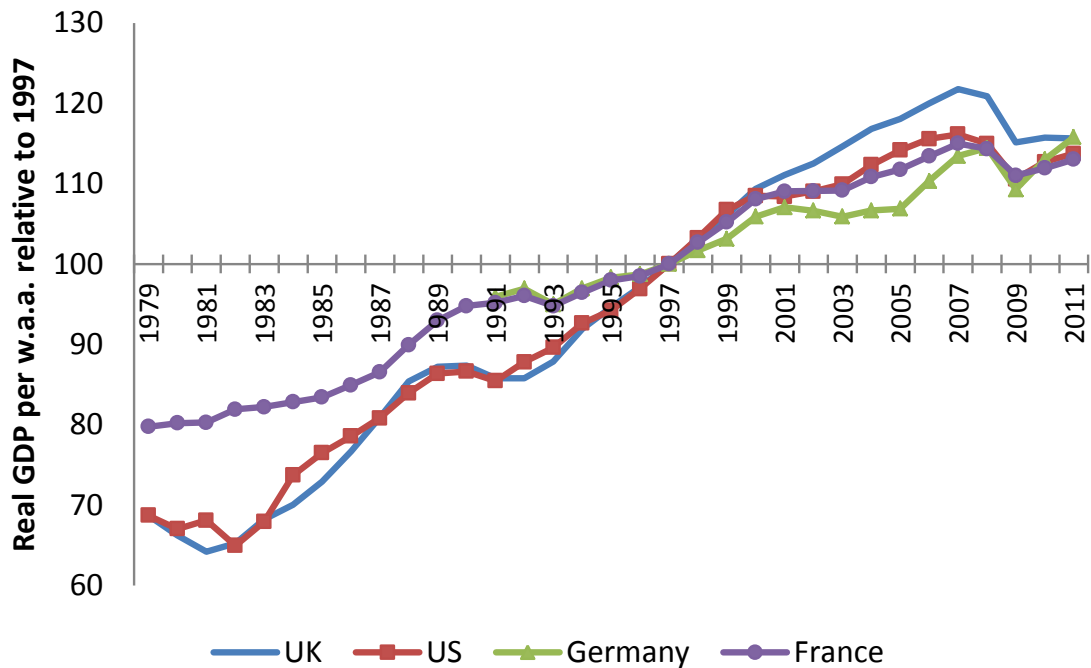


## EXECUTIVE SUMMARY OF PESSOA AND VAN REENEN

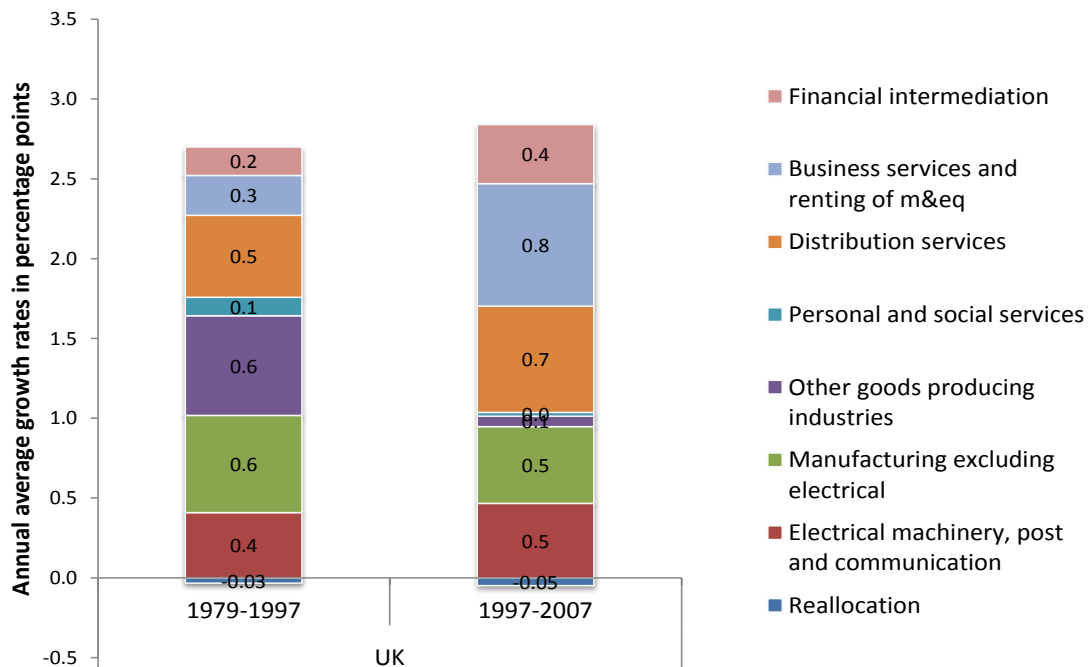
- Although the British people have seen improvements in their material wellbeing for many centuries, British per capita GDP was in relative decline compared to the US, Germany and France since at least 1870. Since around 1979, this pattern reversed and the UK has been catching up with these countries.
- British economic performance 1997-2007 was strong with GDP per capita growing faster than any other G6 country. This broadly continued the post 1979 trend: market sector output per hour grew at 2.7% per annum 1979-1997 and 2.8% 1997-2007.
- Exhibit 1 shows trends in UK per capita GDP since 1997. UK performance was better than all other countries 1979-2007 and 1997-2007.
- The post-2008 crisis took a severe toll on all OECD countries with the UK somewhat worse than average. Even if we look over the period 1997-2011, however, UK productivity growth was second only to the US and GDP per worker was as good as all other countries.
- UK productivity *levels* (GDP per hour) still lag behind the US, Germany and France. The level of the employment rate is higher than Continental EU and similar to the US
- Exhibit 2 shows that productivity growth 1997-2007 was not mainly due to sectors like finance, property, public spending or oil. Finance only accounted for 0.4% to the 2.8% annual productivity growth in the market economy between 1997 and 2007 (up from 0.2% 1979-1997). Distribution and business services were much more important contributors to productivity growth.
- Rates of TFP growth were about 1% 1979-2007. They were similar pre and post 1979, but ICT and skills made a larger contribution post 1997 (more like US than EU)
- Improved economic performance post 1979 is related to reforms to competition, human capital expansion, Employment Service reforms and labour markets changes.

**Exhibit 1 Trends in real GDP per capita (adult), 1979-2011**



Notes: GDP per adult trends (1997=100) so a value of 116 in 2011 means GDP per adult 16% higher in 2011 than 1997. Data from Conference Board (2012)

**Exhibit 2: Finance directly contributes about 14% to overall UK productivity growth**



Notes: See Figure 7. This is for market economy (i.e. not including education, health, public administration and property)