

Institute for
Fiscal Studies

How can the UK achieve sustainable
growth in the future?

The service sectors

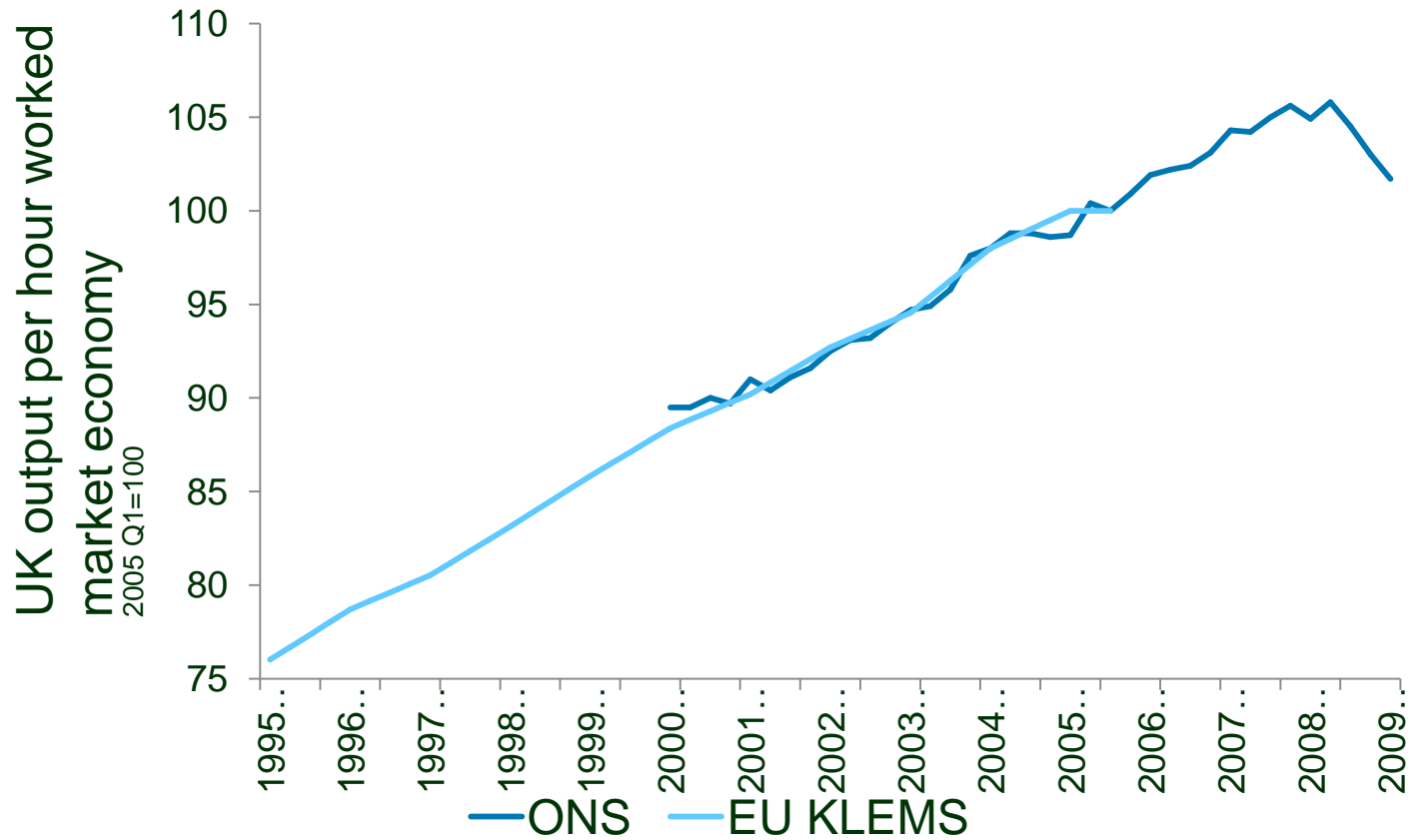
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Rachel Griffith

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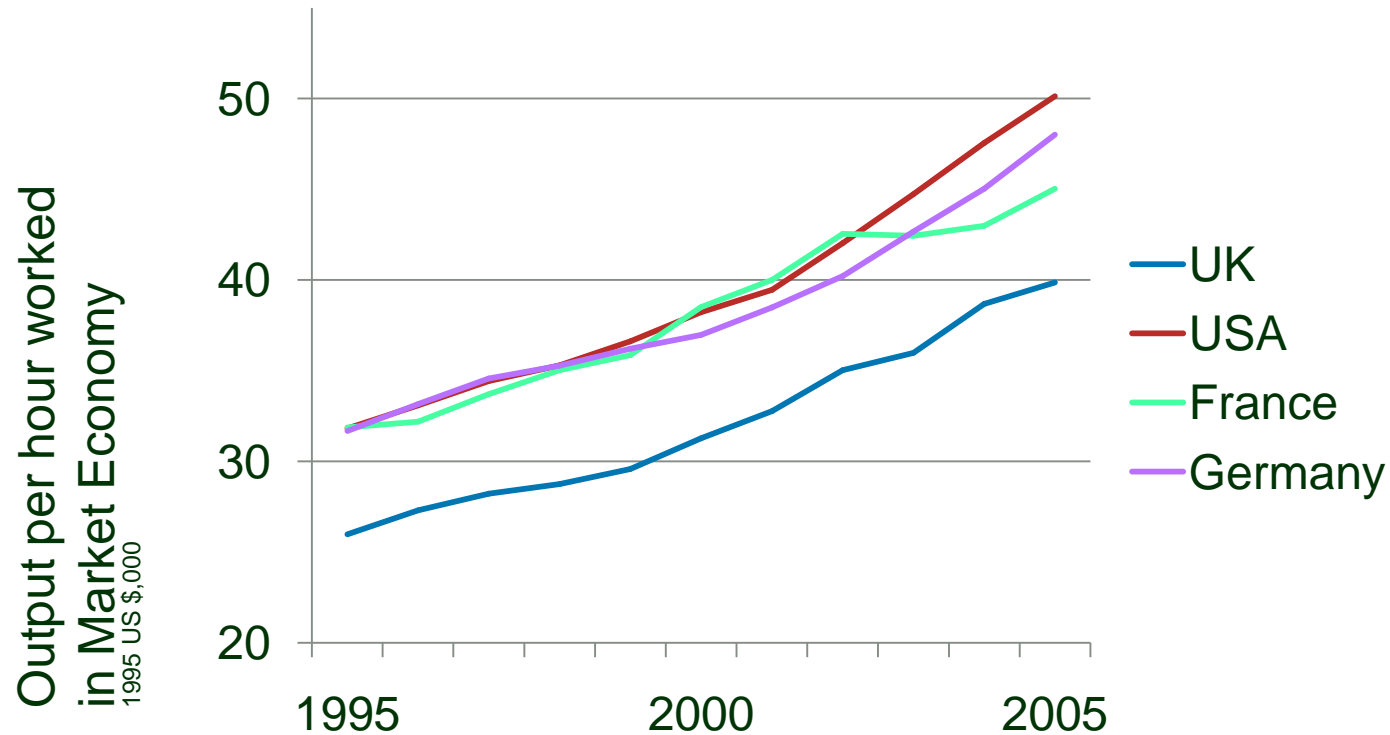
UK has experience strong growth in output per hour worked over past 15 years ...

2005 Q1=100



Source: ONS and EU KLEMS.

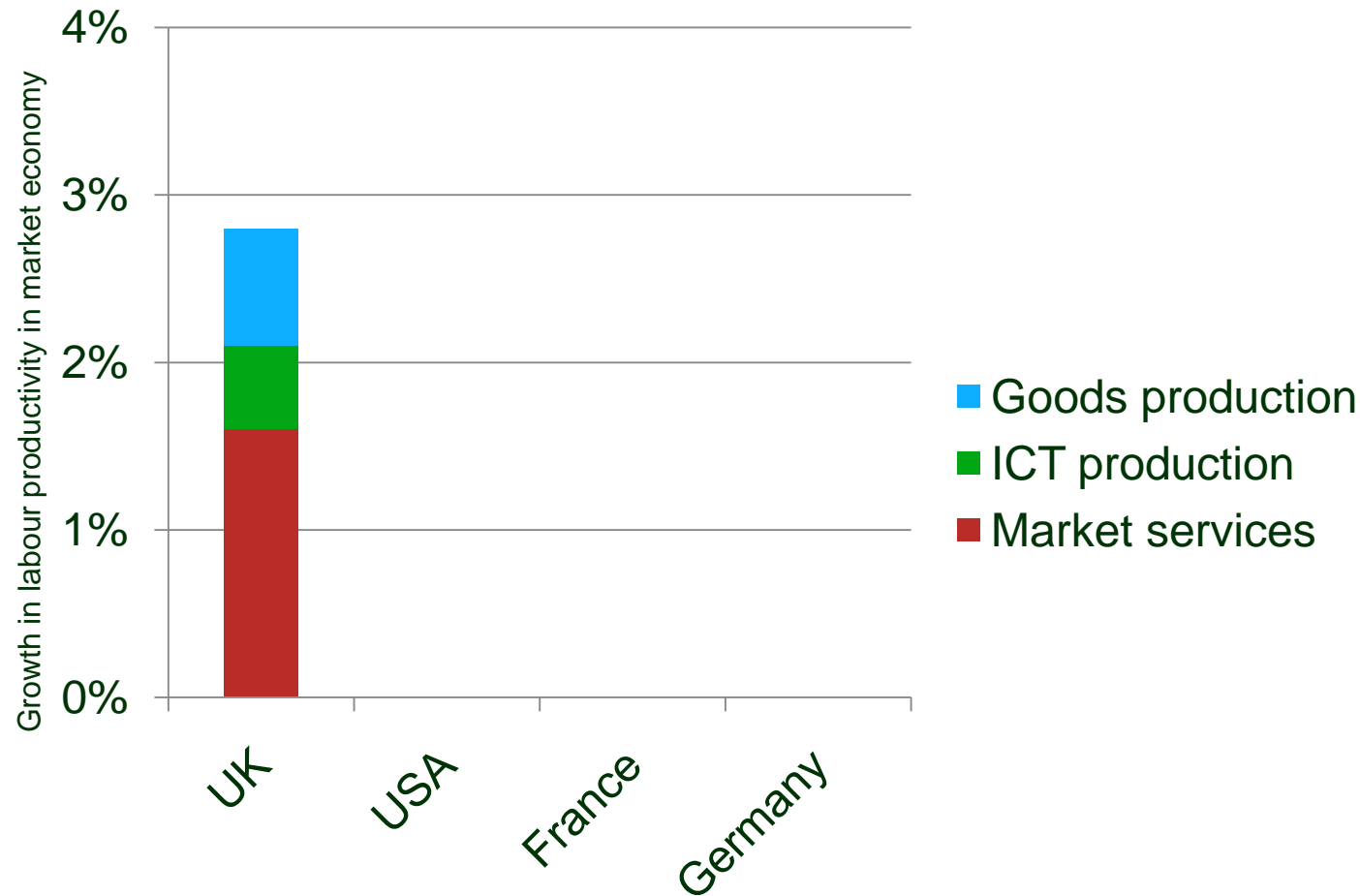
... but the UK still lags the others



Source: EU KLEMS.

UK market economy growth has come mainly from market services

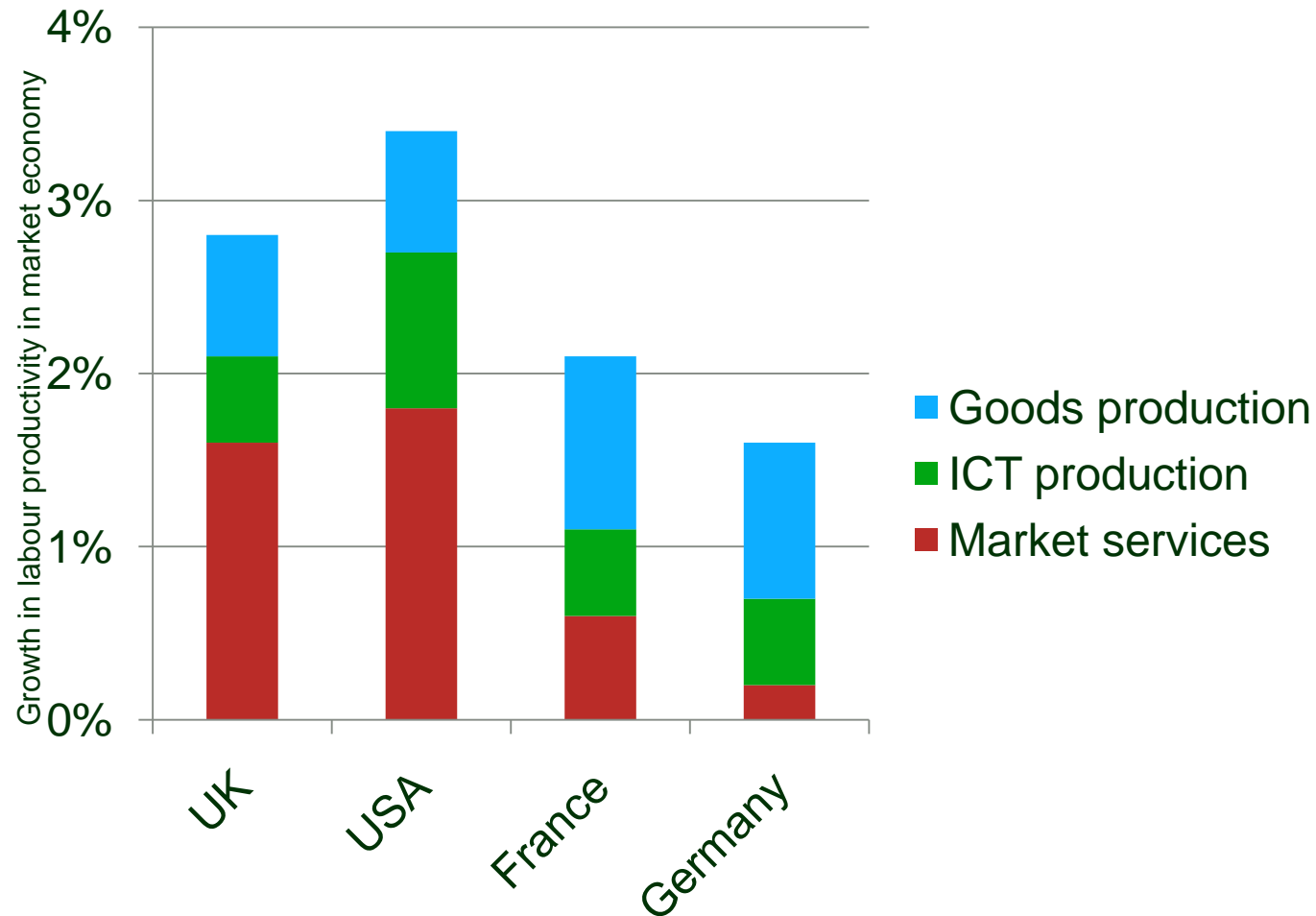
1995-2004



van Ark, O'Mahony and Timmer (2008)

Similar to the US different from France and Germany

1995-2004



van Ark, O'Mahony and Timmer (2008)

The UK market economy

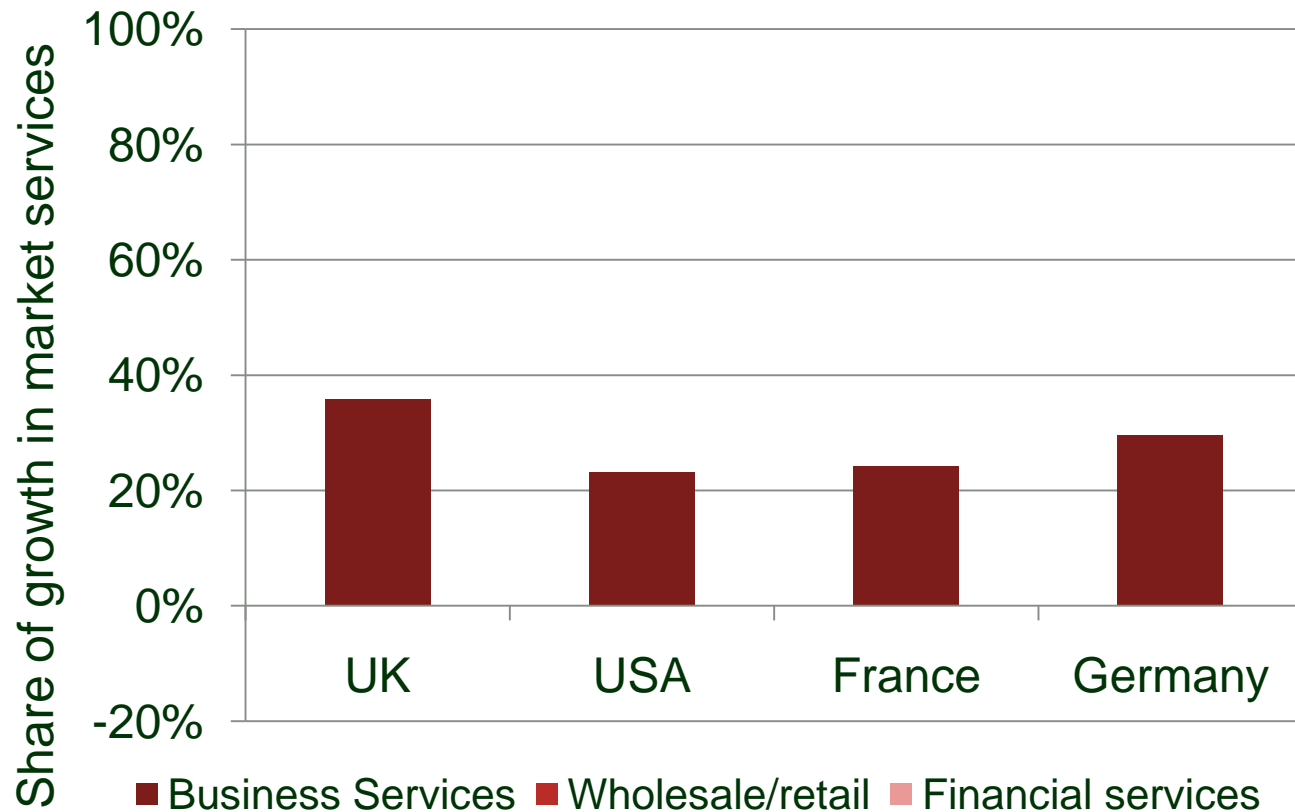
2005

| | | | |
|-----------------|-----|-----------------------------|--------------|
| | | | |
| Market services | 67% | business services | 23.6% |
| | | wholesale and retail | 23.1% |
| | | hotels and restaurants | 7.4% |
| | | transport and storage | 7.4% |
| | | financial | 5.5% |
| ICT producing | 5% | | |
| Goods producing | 29% | | |

Source: EU KLEMS

Market services growth has mainly come from Business services

1995-2005



Source: EU KLEMS.

Market services growth has mainly come from Business services and Wholesale and retail

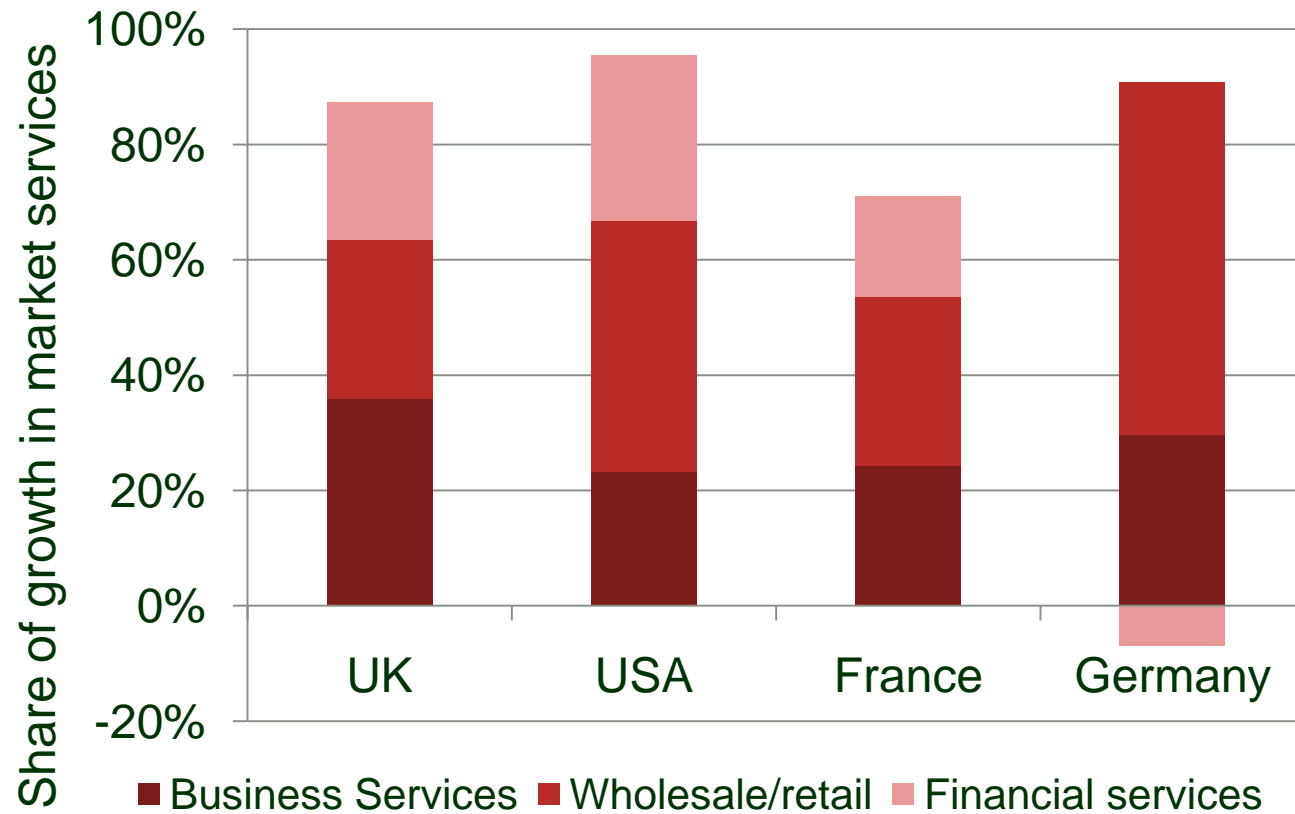
1995-2005



Source: EU KLEMS.

Financial services have been the other contributor

1995-2005



Source: EU KLEMS.

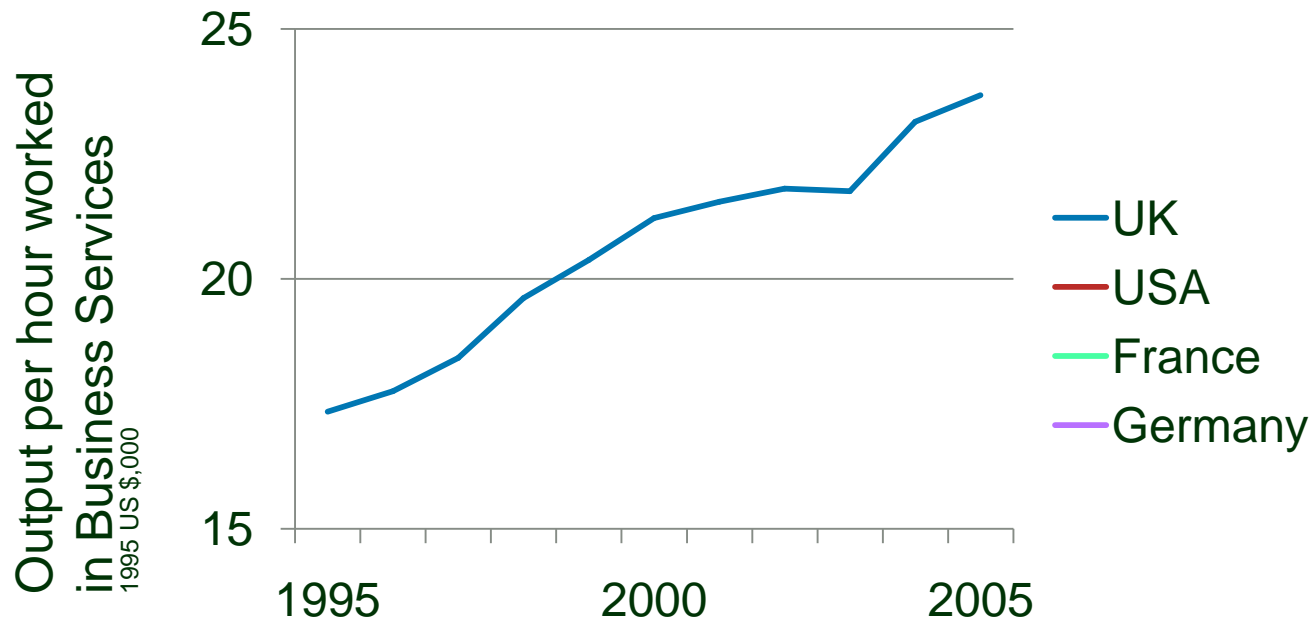
Business Services

- Renting of machinery and equipment
- Computer and related activities
- Research and development
- Legal, technical and advertising
- Other business activities, nec

Strong UK growth in Business Services

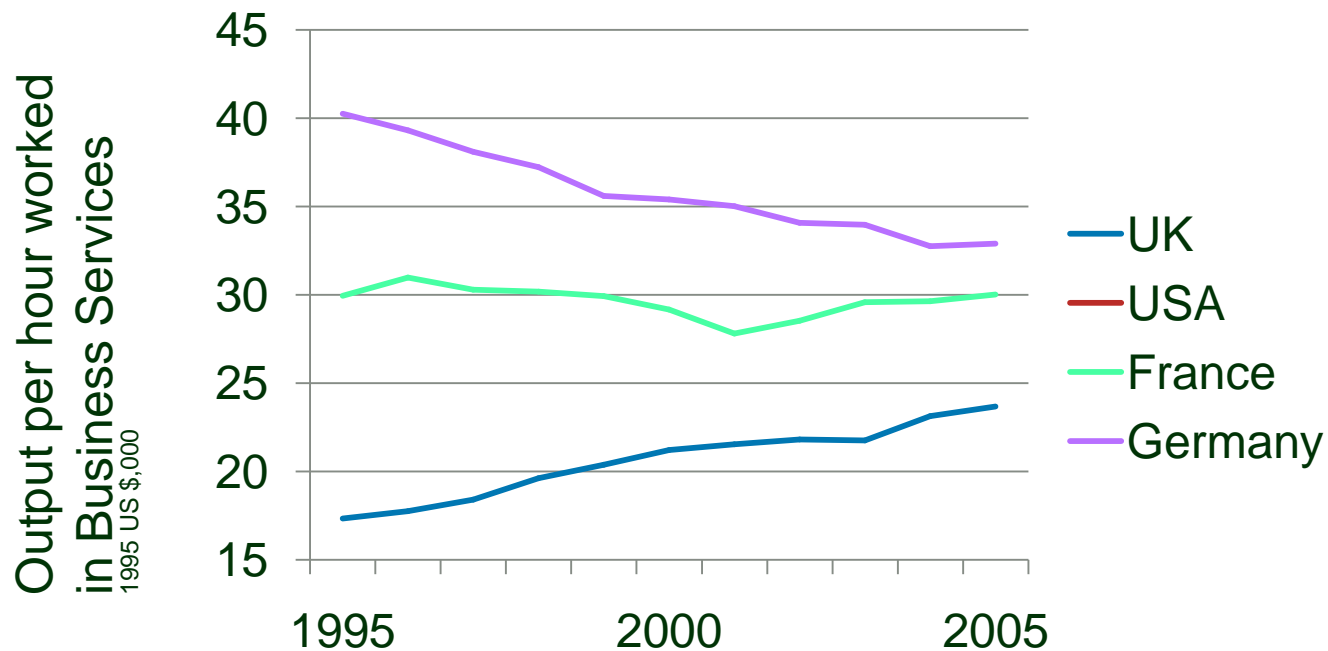
over a period of expansion

business services in 2005 account for nearly one-quarter of UK market sector employment, up from around one-sixth in 1995



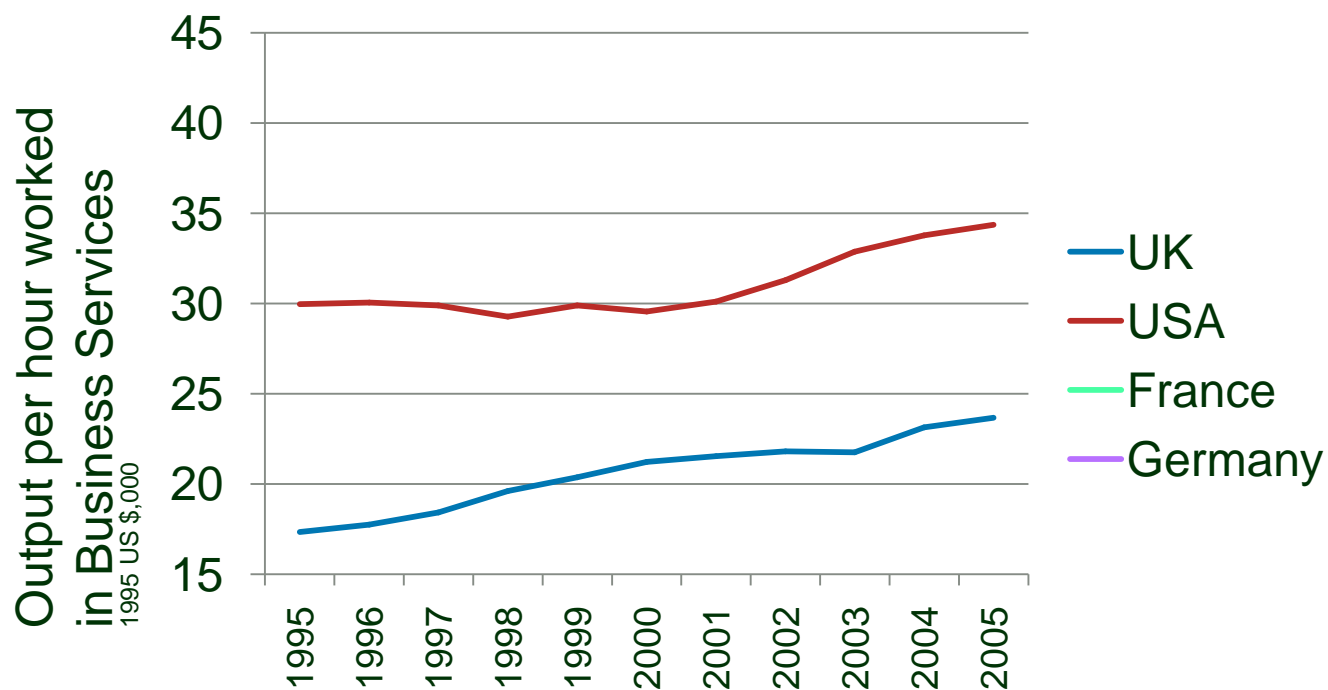
Source: EU KLEMS.

France and Germany have higher levels of labour productivity in business services but have not experienced similar growth



Source: EU KLEMS.

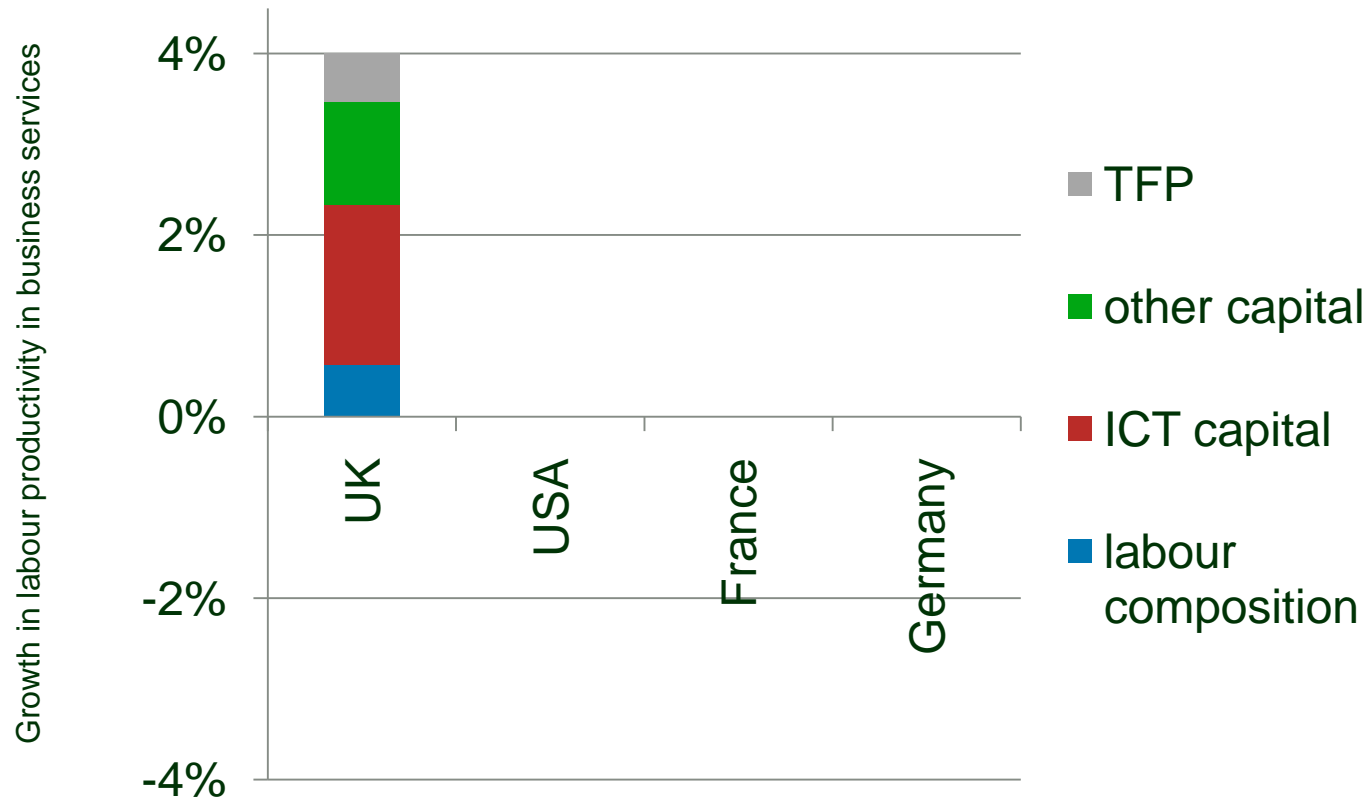
Labour productivity in the US is higher, and has grown in the most recent years



Source: EU KLEMS.

Growth in business services output per hour in the UK has come mainly from ICT capital

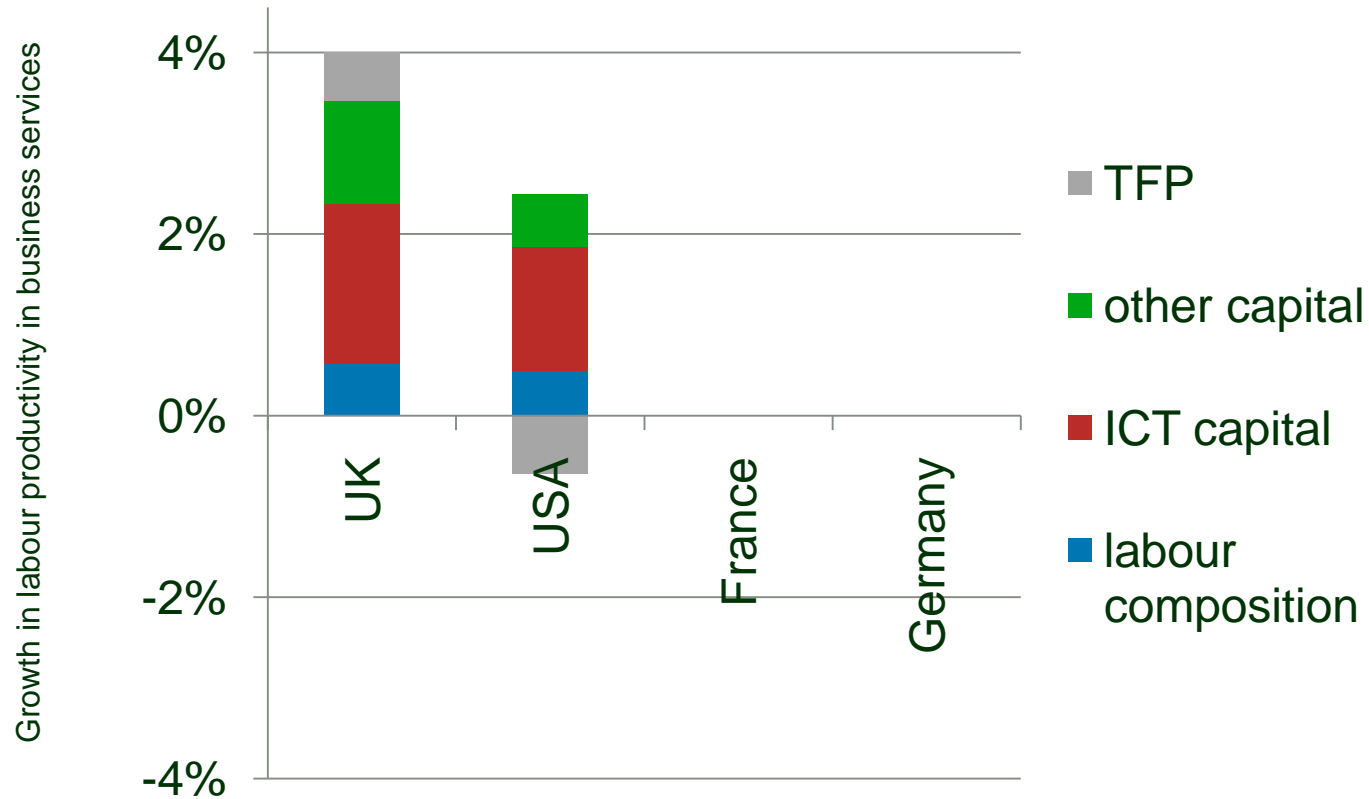
1995-2004



Source: EU KLEMS.

as in the US

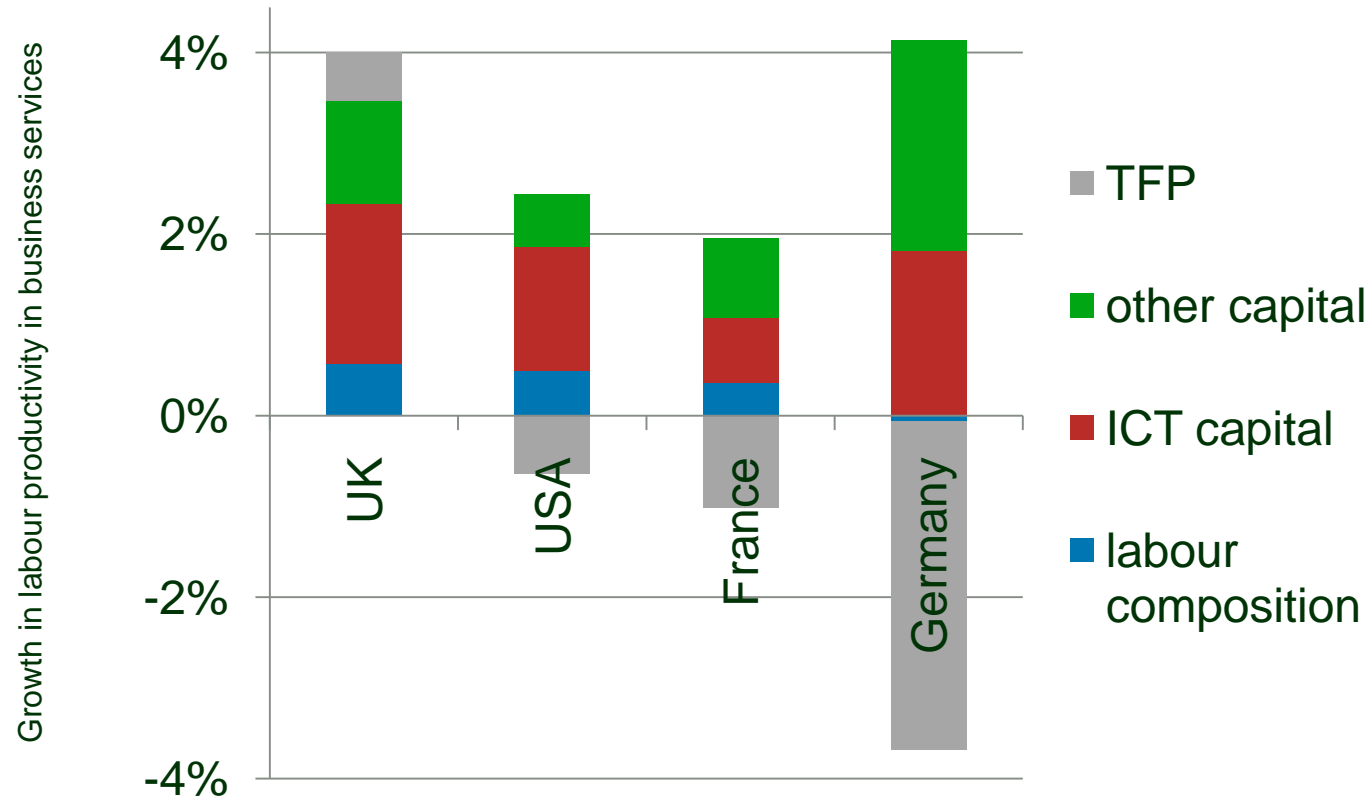
1995-2004



Source: EU KLEMS.

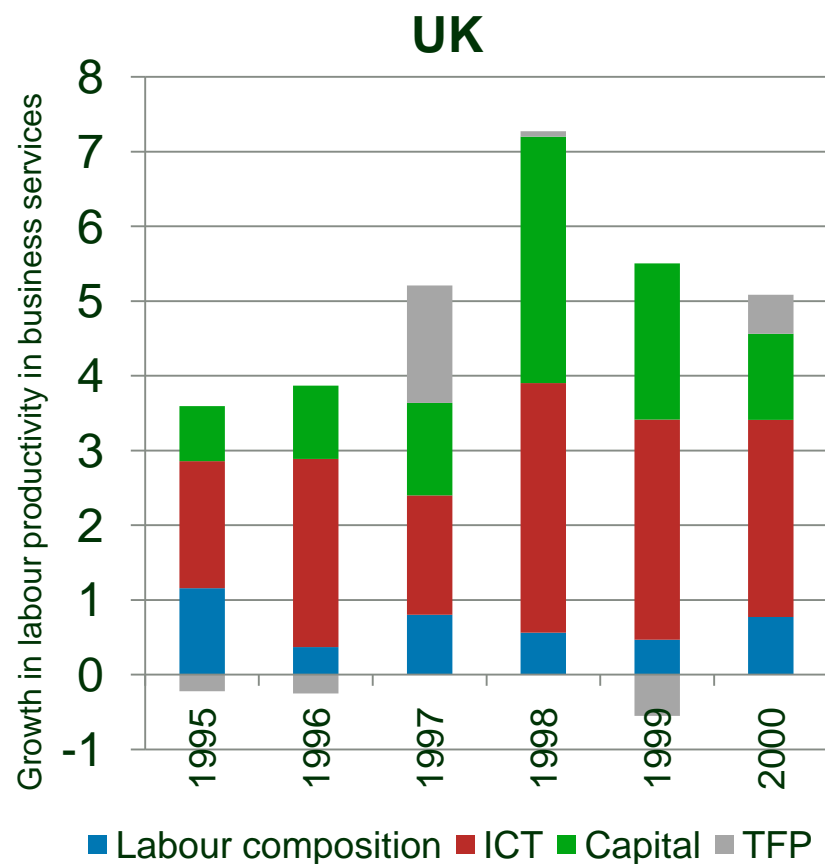
US, France and Germany have all experienced negative TFP growth

1995-2004



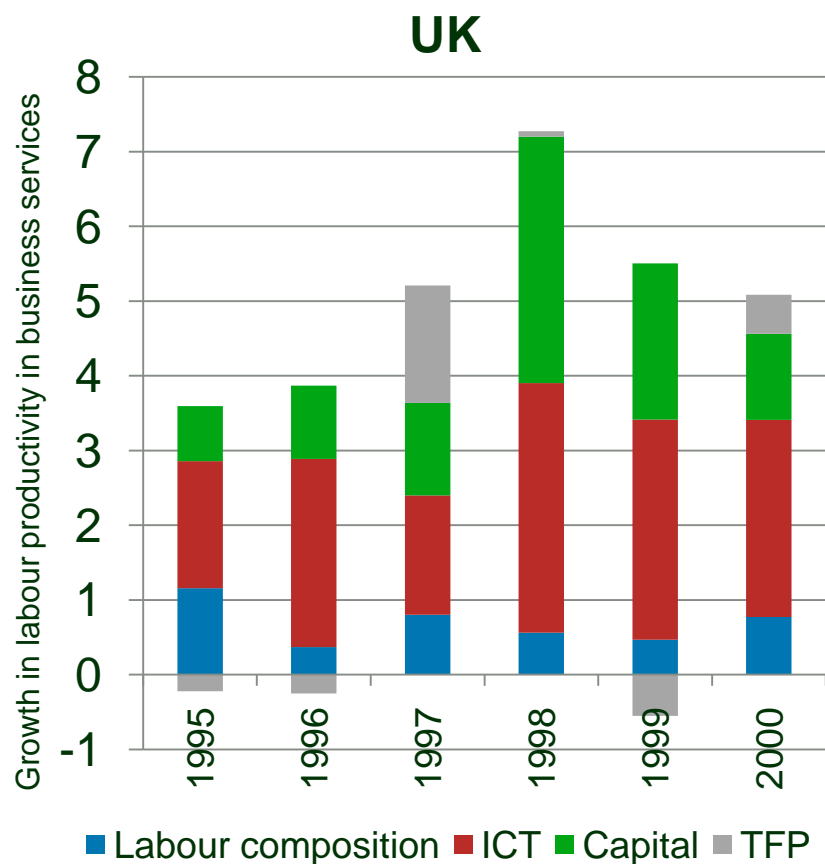
Source: EU KLEMS.

UK growth in business services 1995-2000 largely from ICT investment, and capital

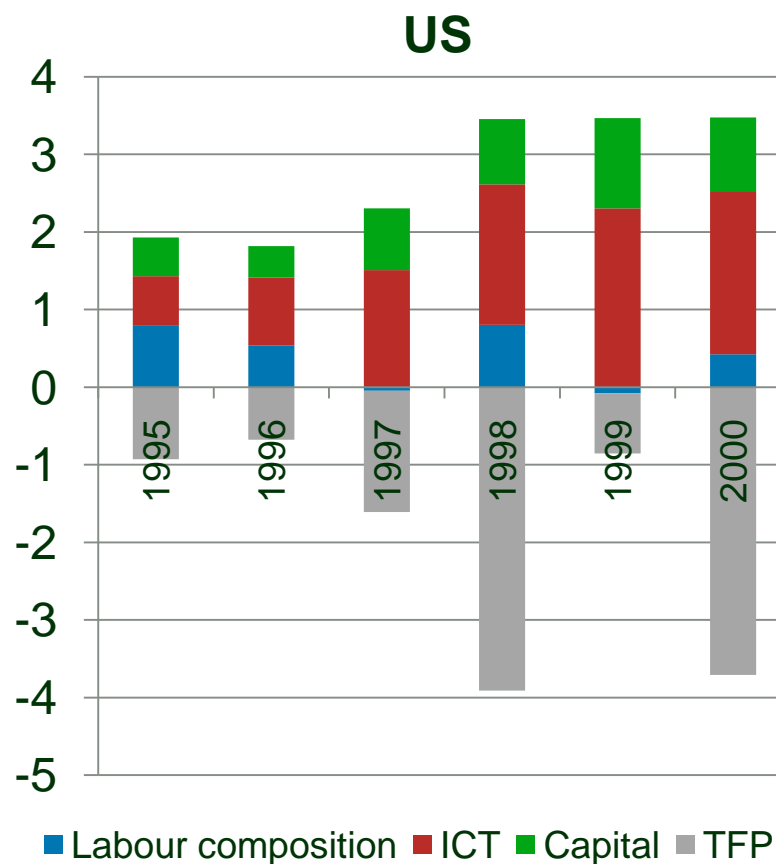


Source: EU KLEMS.

US experienced slower growth in late 90s, largely because of negative TFP contribution

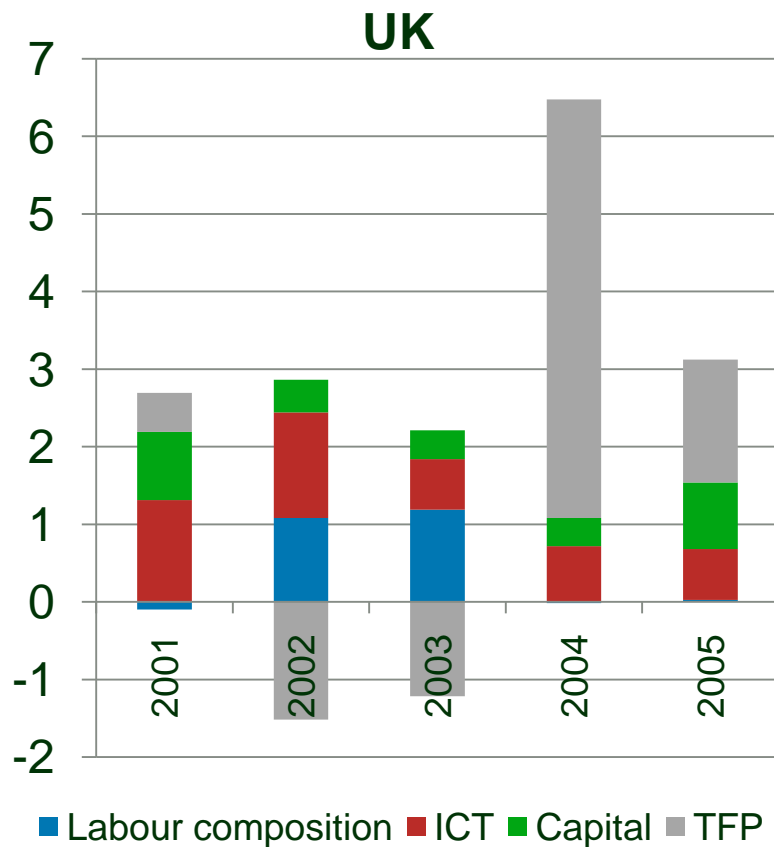


Source: EU KLEMS.

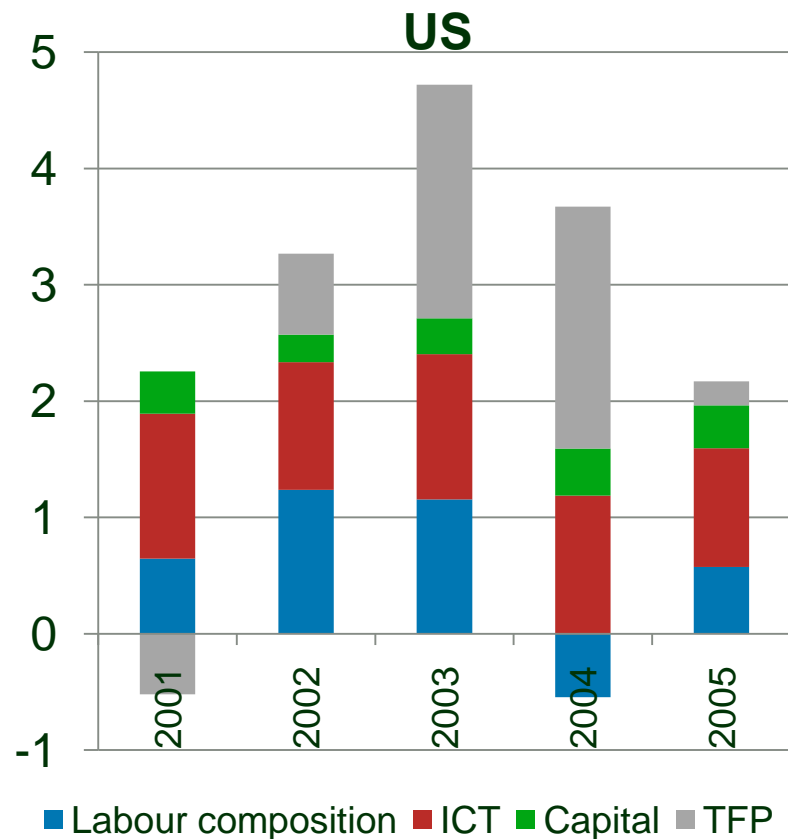


in more recent period

- in US ICT continues to make a contribution
- labour composition also plays a stronger role
- US TFP recovers



Source: EU KLEMS.

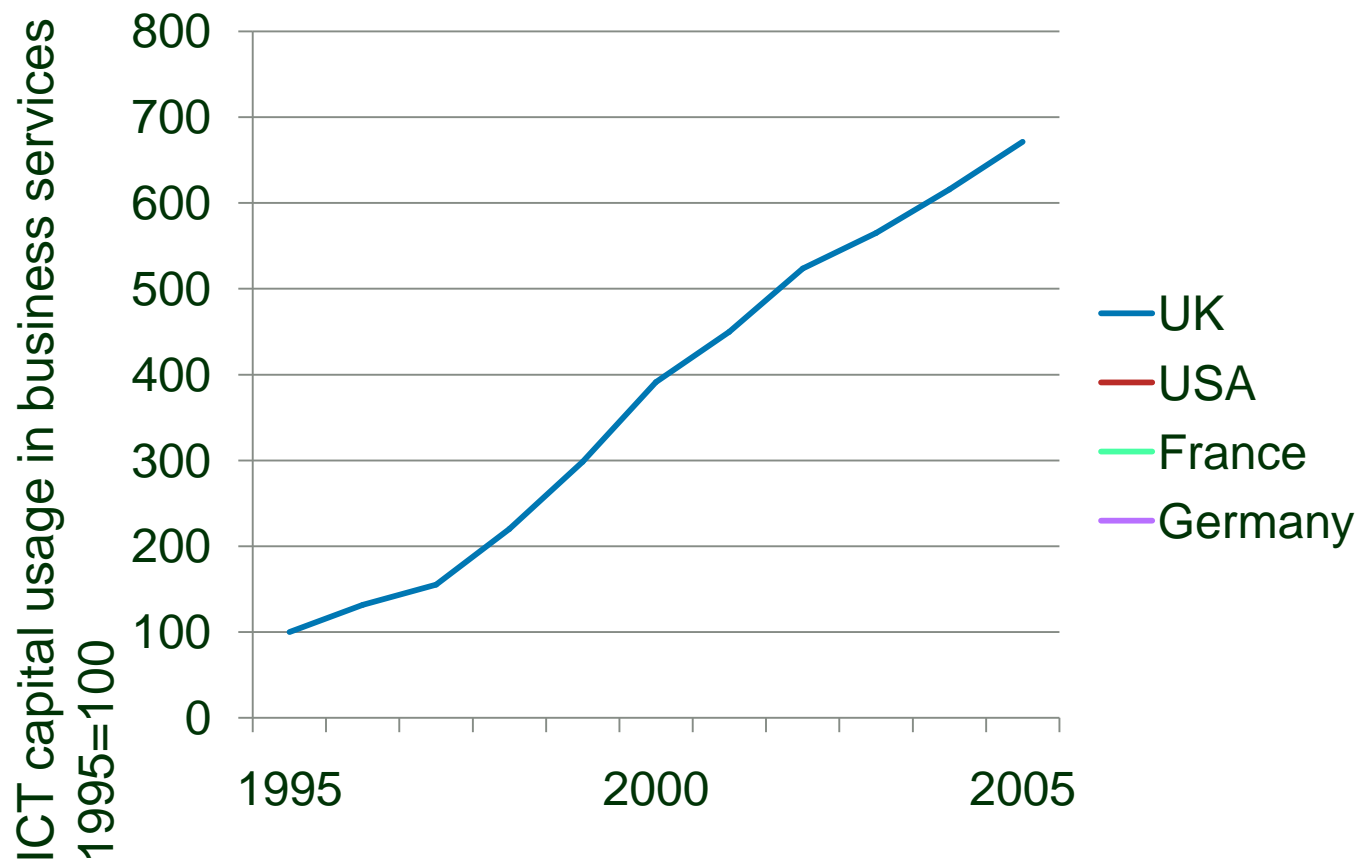


Business services

- strong UK growth in labour productivity
- at a time when expanding employment
- UK labour productivity growth stronger than US, France and Germany
- but level of UK labour productivity remains behind

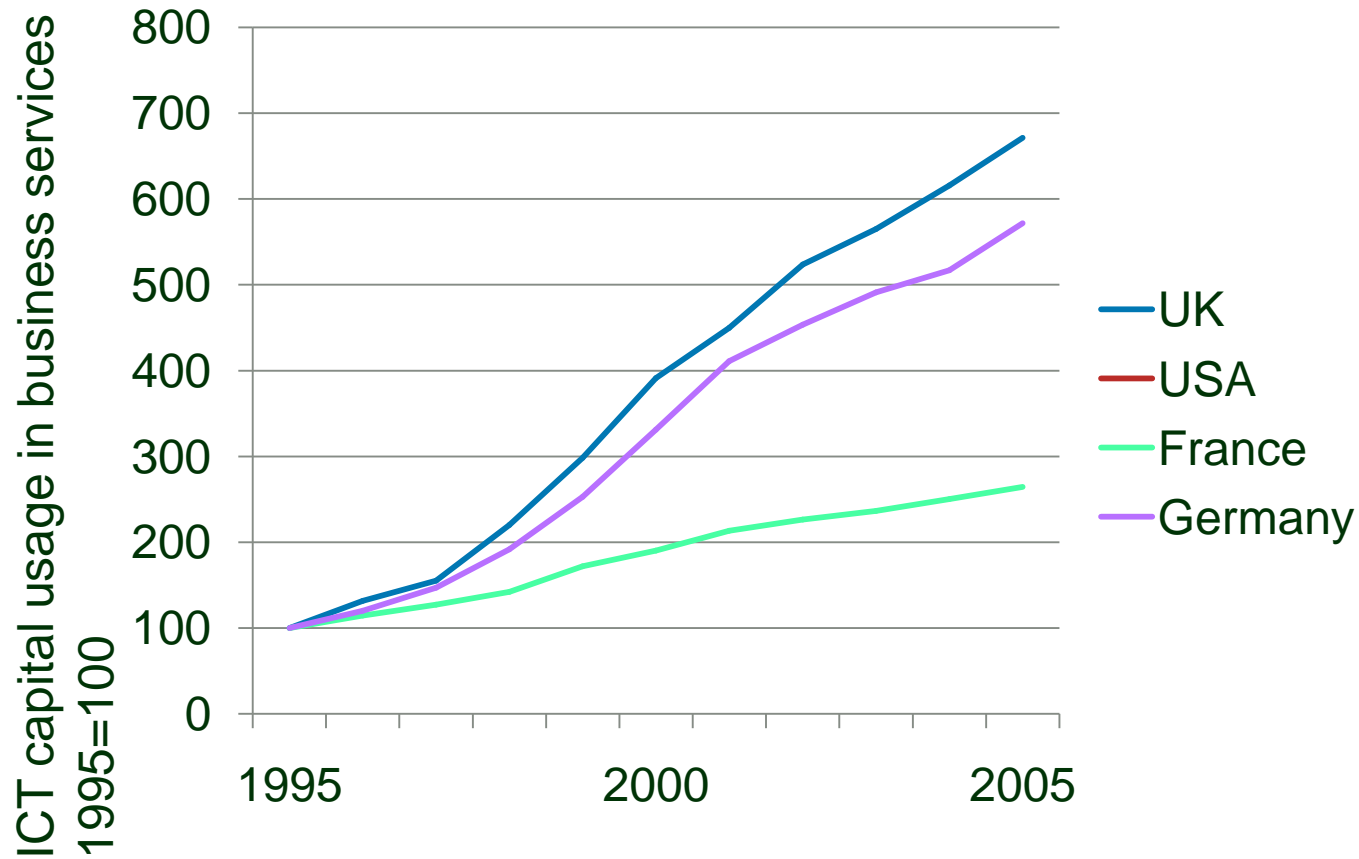
- scope for further growth?

Strong UK investment in ICT in business services



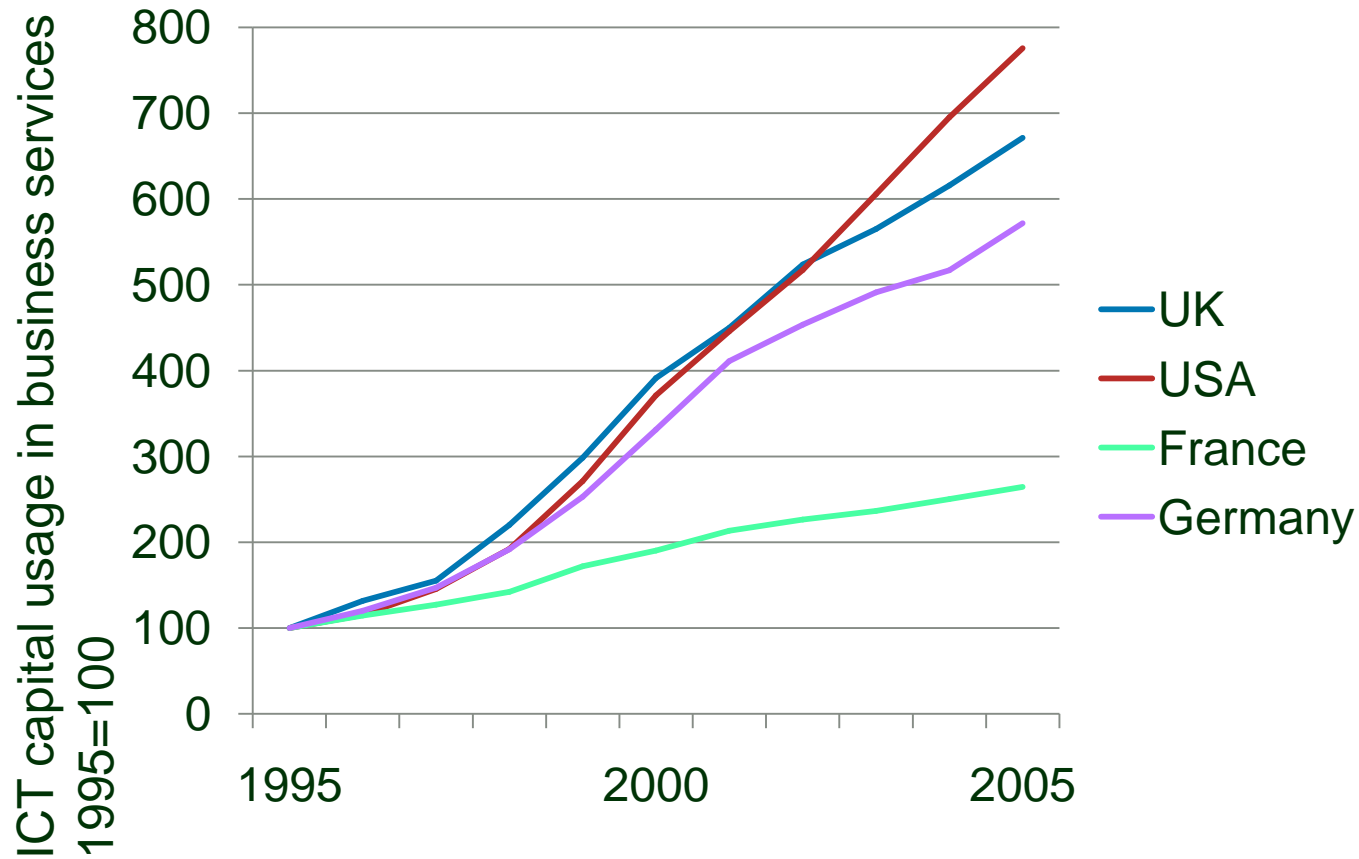
Source: EU KLEMS

Stronger than France and Germany



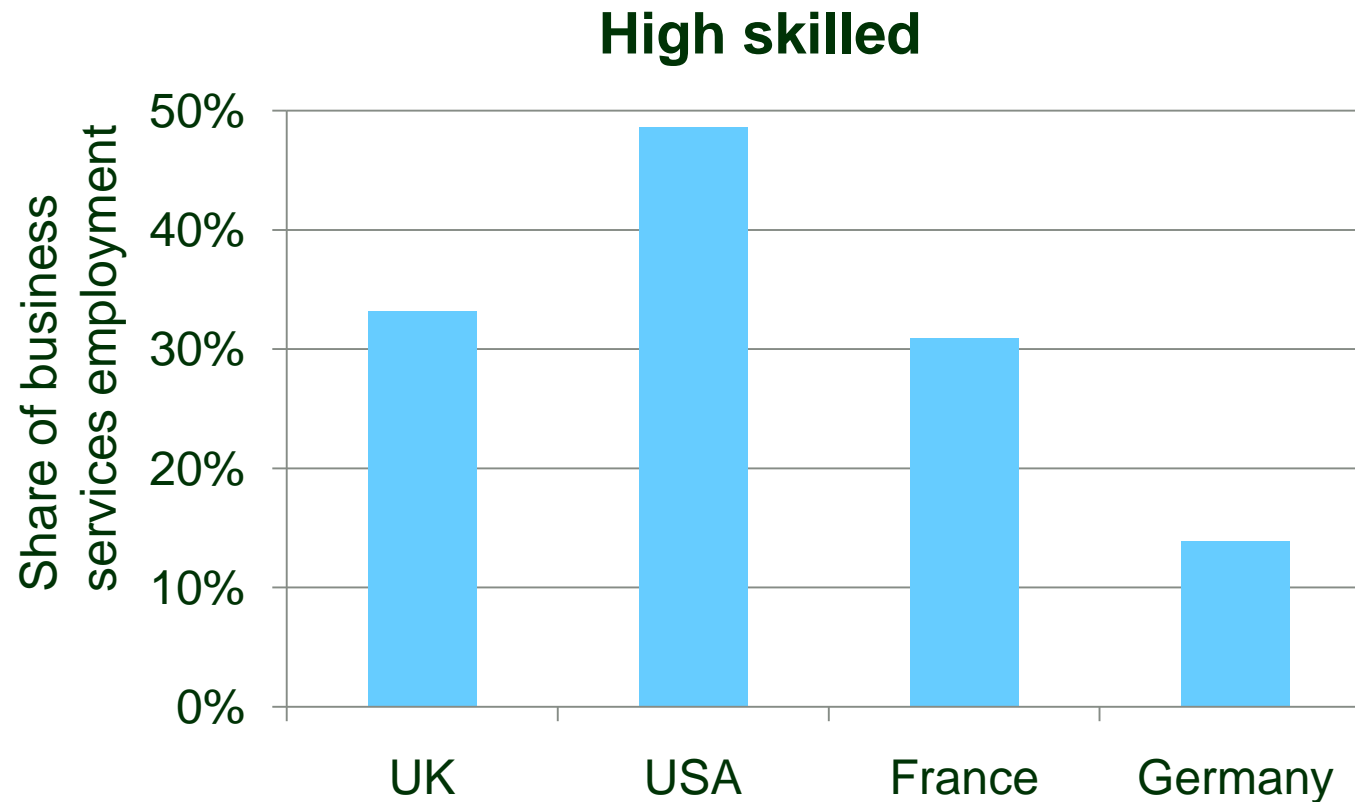
Source: EU KLEMS

But not as strong as the US



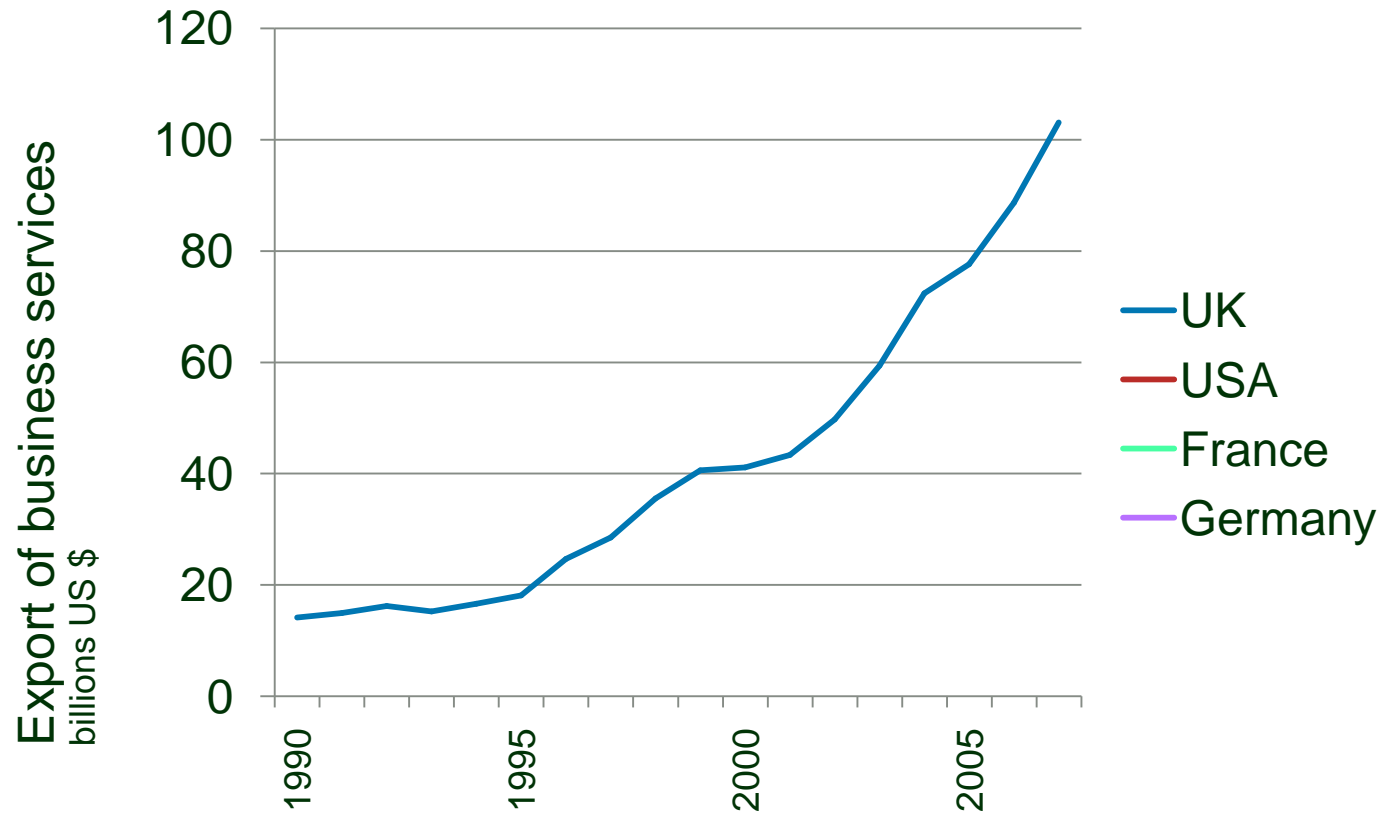
Source: EU KLEMS

The US employs a higher share skilled workers



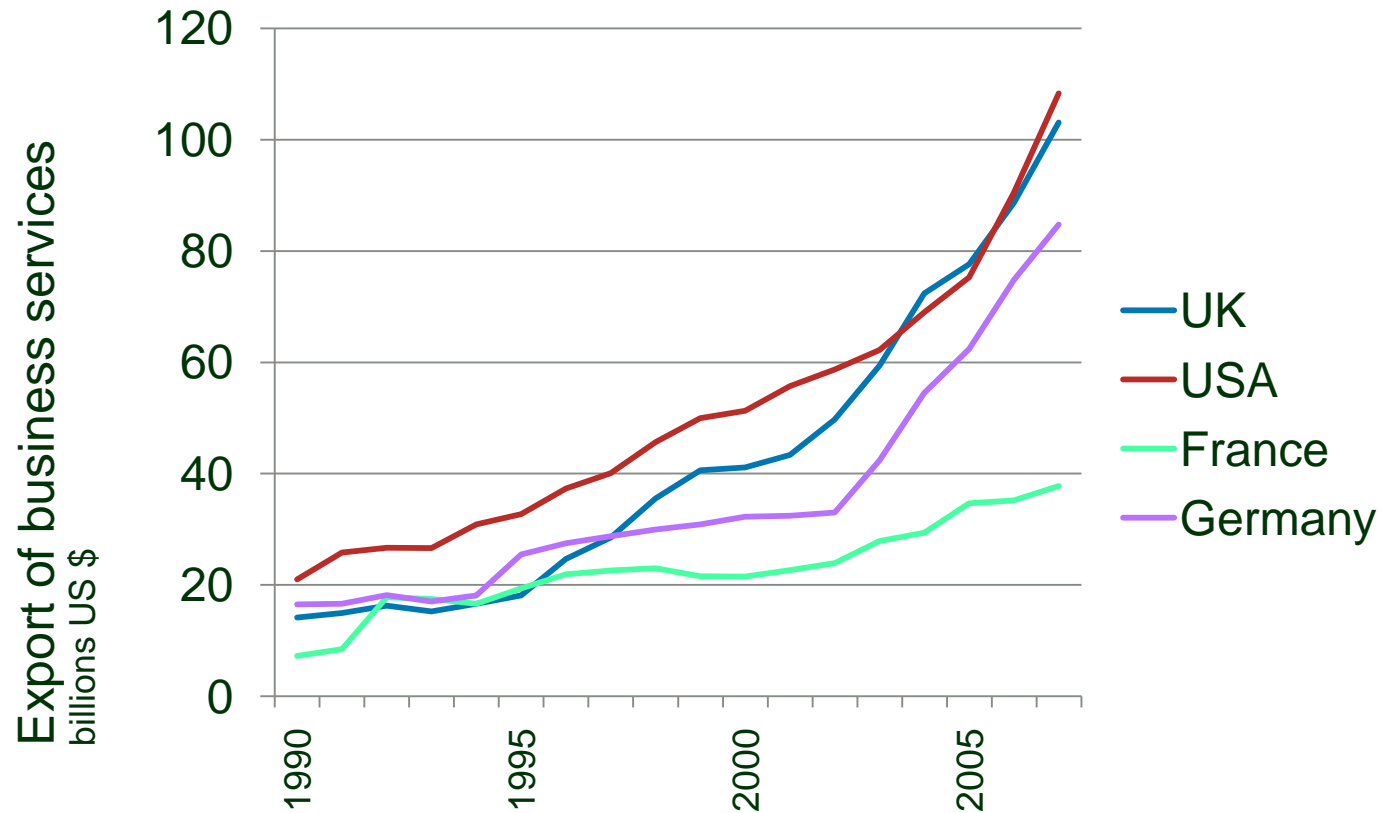
Source: EU KLEMS.

Expansion has been at least partly fuelled by export growth



Source: OECD

similar to US, stronger than France and Germany sustainable?



Source: OECD

Business services

- UK growth has been strong, but UK still lags behind
- export growth as been very strong
- prospects for growth and continued expansion?

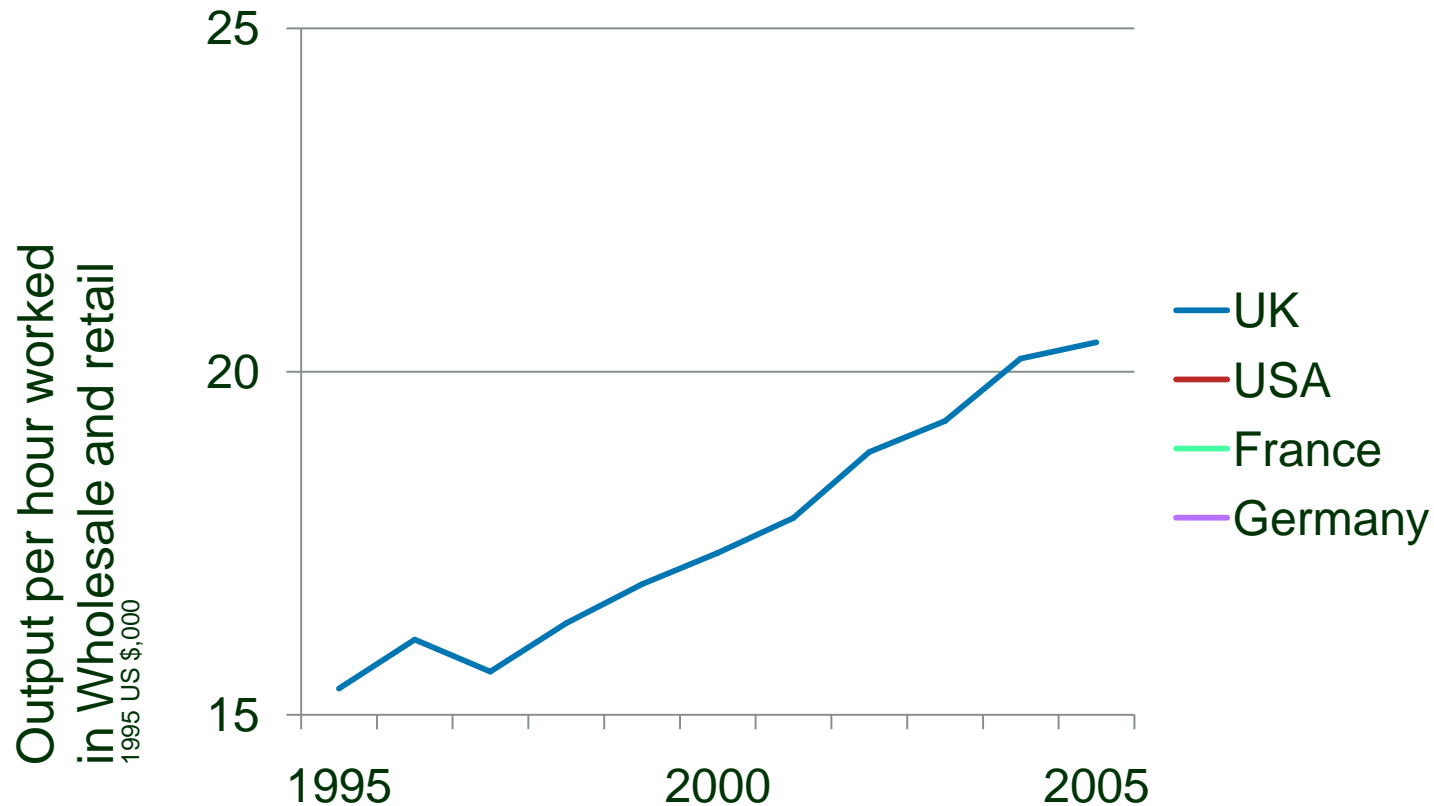
- Labour composition
 - skills?
- ICT investment
- TFP
 - entry and exit?
 - infrastructure?
 - organisational structures?
 - new products and processes?

Wholesale and retail

- Sale and repair of motor vehicles, retail sale of fuel
- Wholesale
- Retail

UK has experienced growth in output per hour worked in Wholesale and Retail

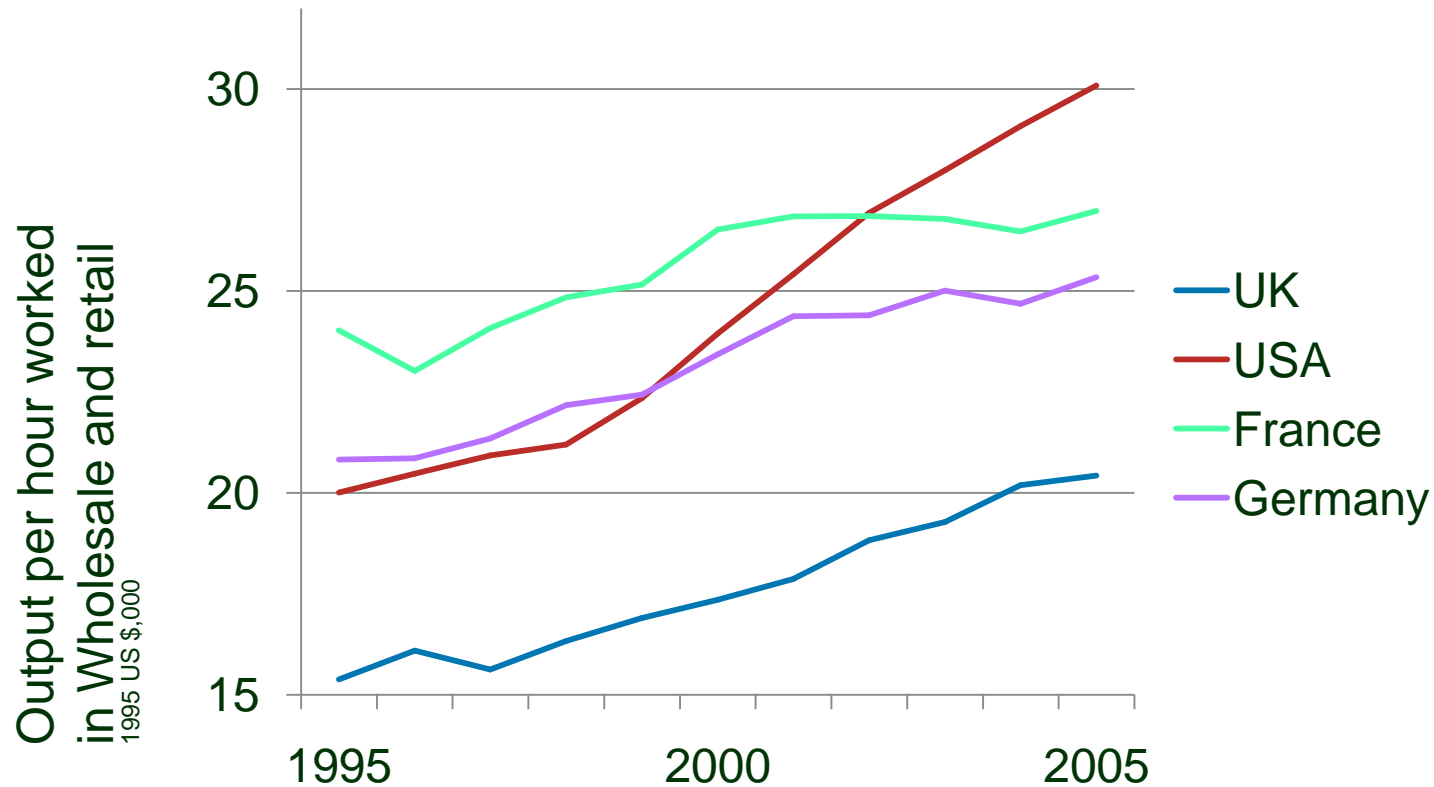
1995 US \$,000



Source: EU KLEMS.

but not as strong as US, and lags well behind

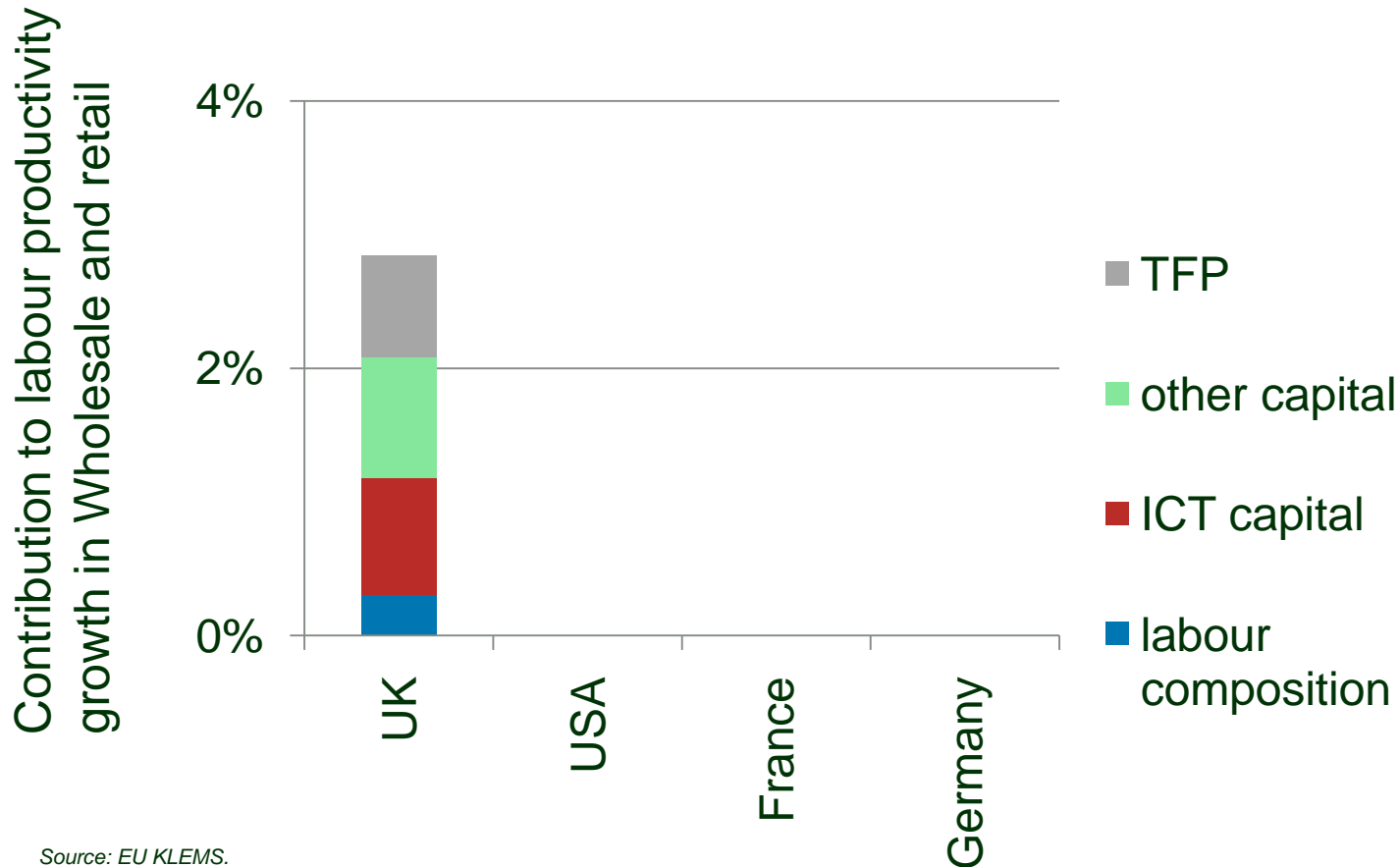
1995 US \$,000



Source: EU KLEMS.

In the UK ICT, capital and TFP have made similar contributions to growth in output per hour worked in Wholesale and Retail

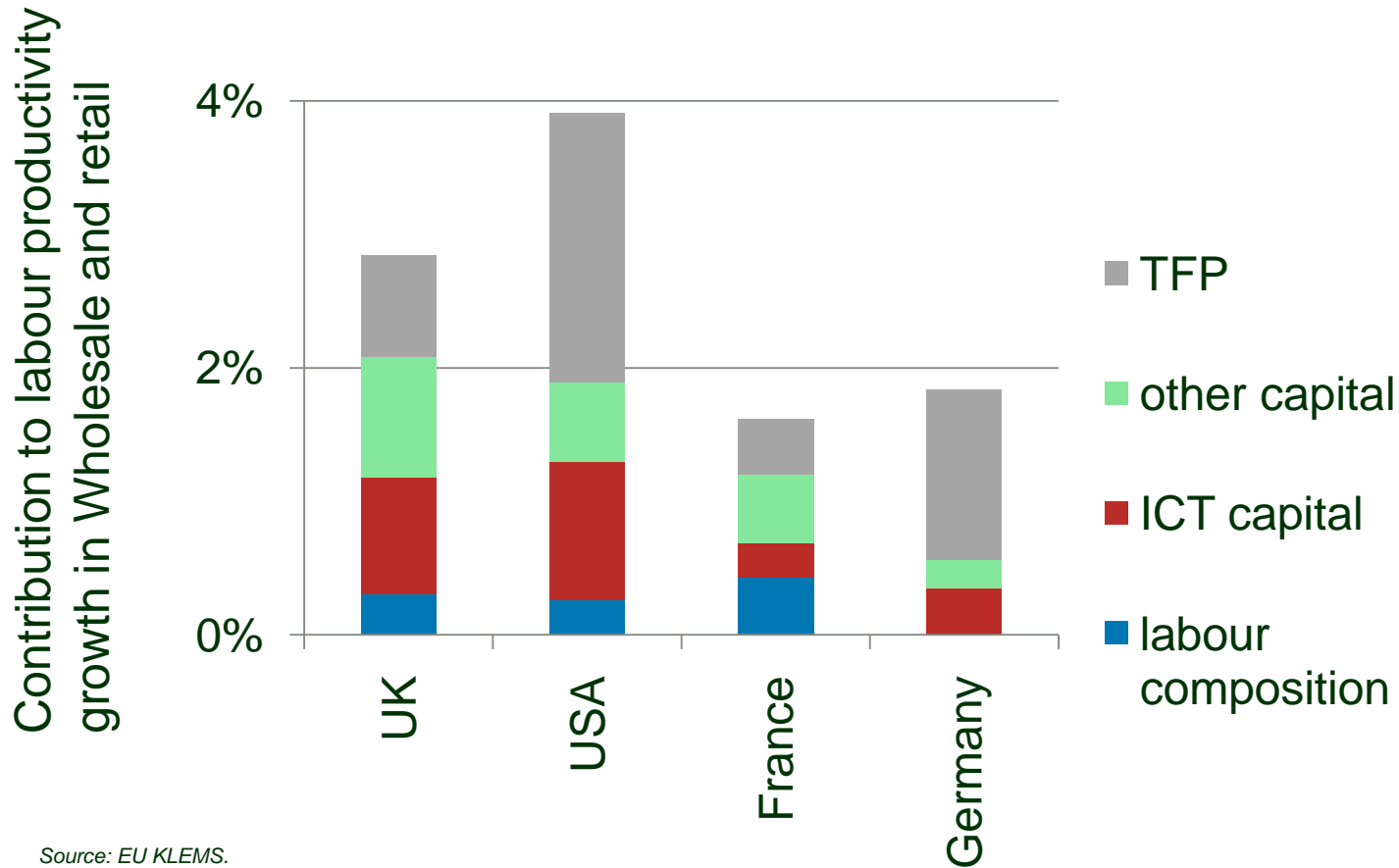
1995-2004



Source: EU KLEMS.

In the US and Germany TFP has played a much more important role

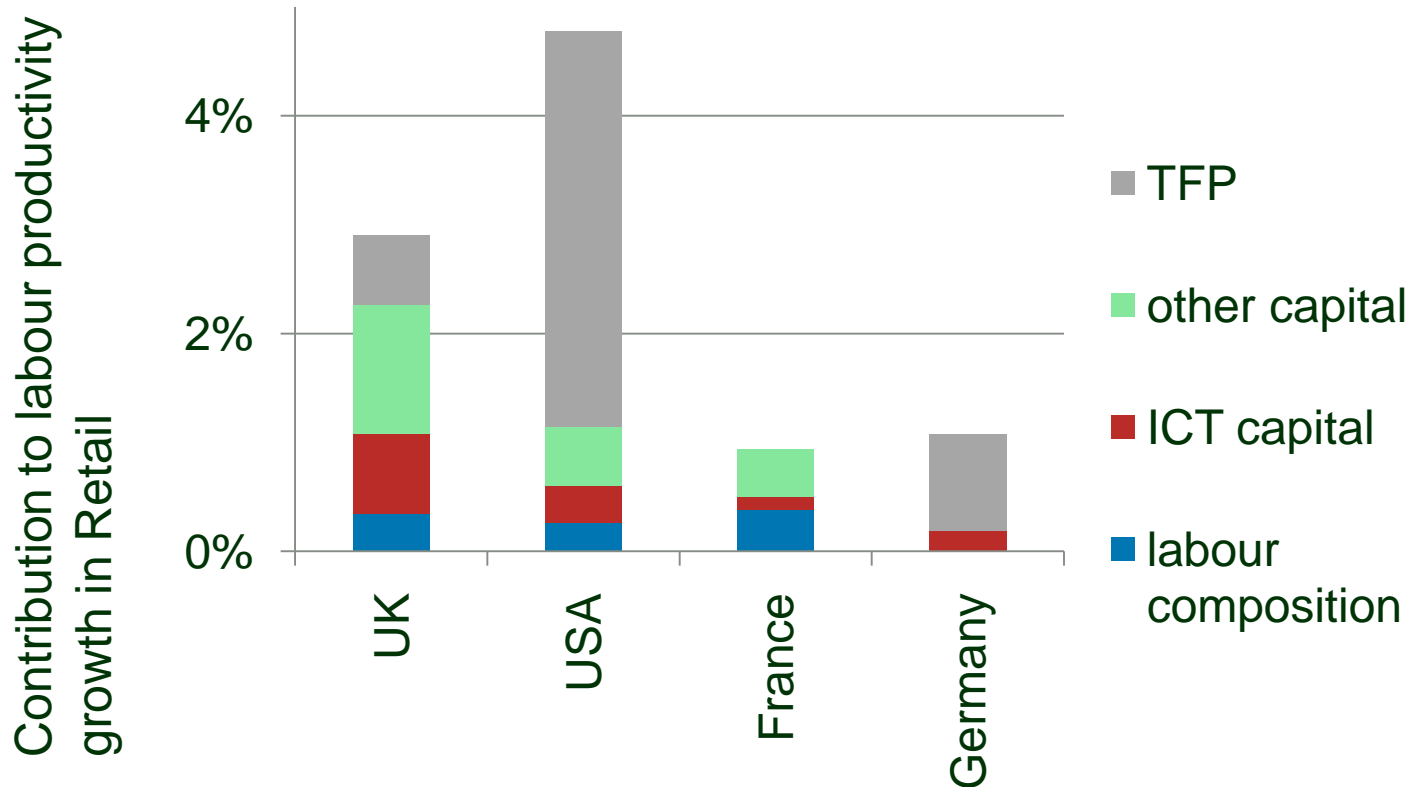
1995-2004



Source: EU KLEMS.

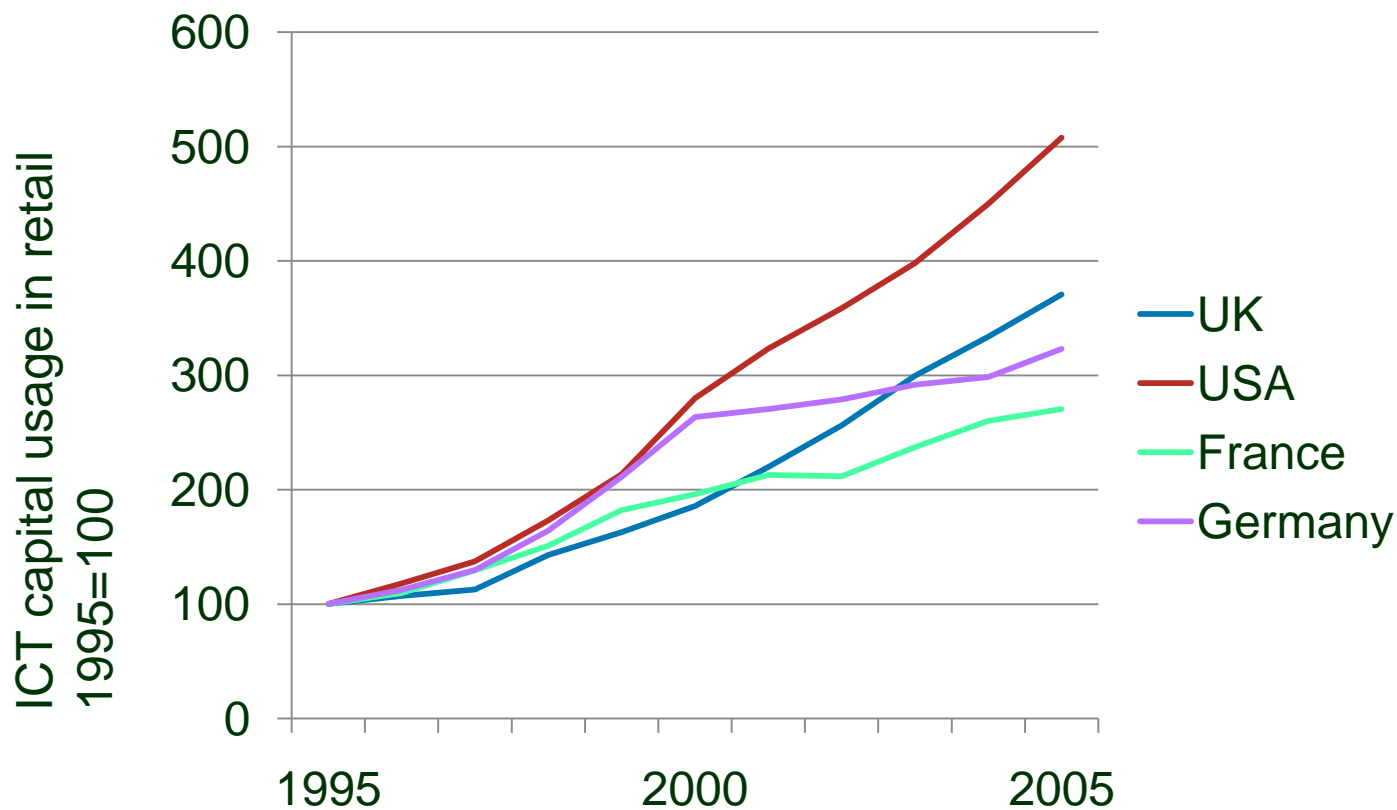
the importance of TFP in the US is even more striking when we look at just Retail

1995-2004



Source: EU KLEMS.

While ICT usage in UK retail remains below the US, this does not seem to be the main reason for slower growth



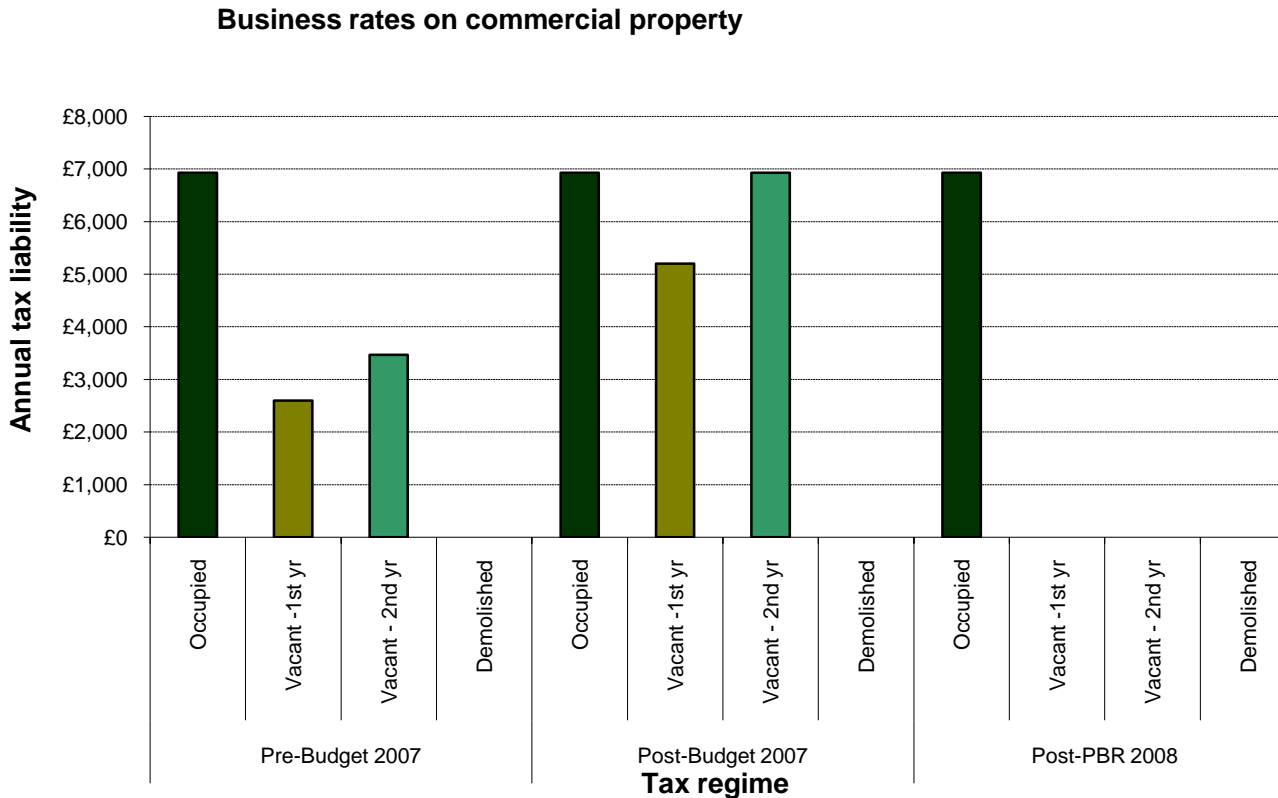
Wholesale and retail

- share of economic activity has remained relatively constant, not as much potential for expansion(?)
- ICT investment
 - weaker than the US,
 - but on its own doesn't seem to be the main reason for slower growth
- TFP
 - entry and exit? planning regulations?
 - infrastructure?
 - organisational structures?
 -?

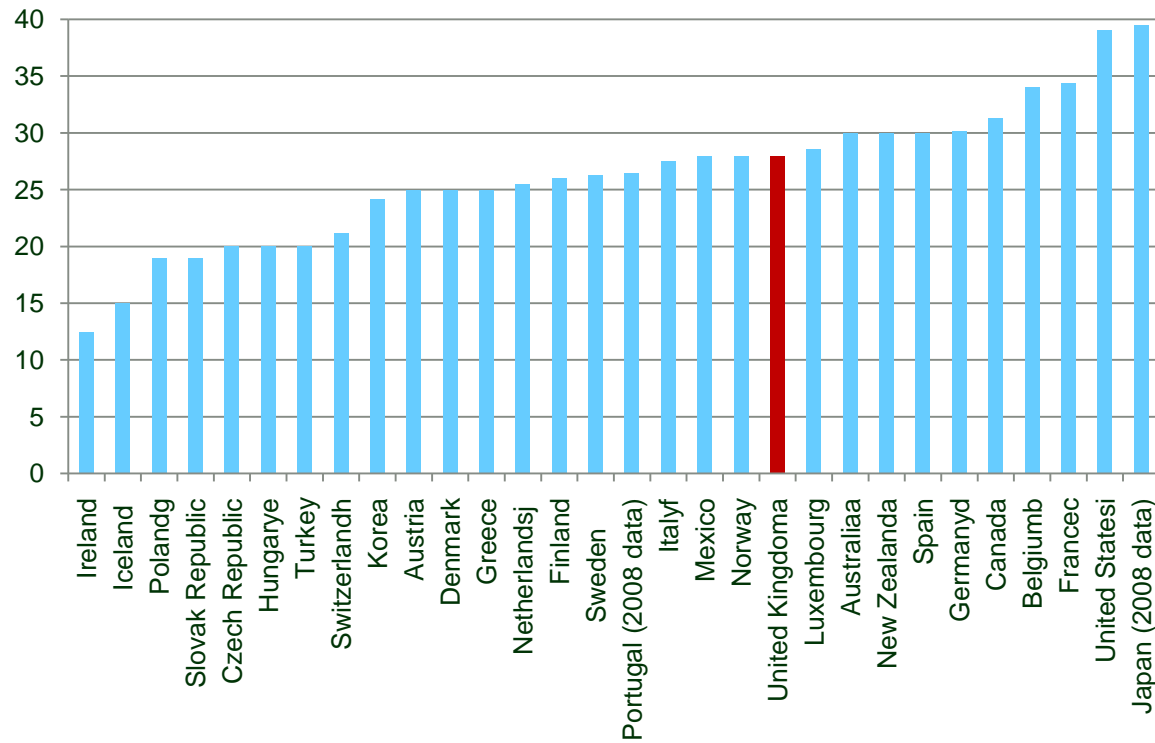
Policy and future growth in services

- Short-term
 - access to finance
- Coming out of the recession
 - access to finance
 - consistency of policy
 - uncertainty in future policy bad for investment
 - focus on the big things
 - infrastructure
 - skills
 - regulation
 - taxes
 - stop tinkering

Business rates on commercial property

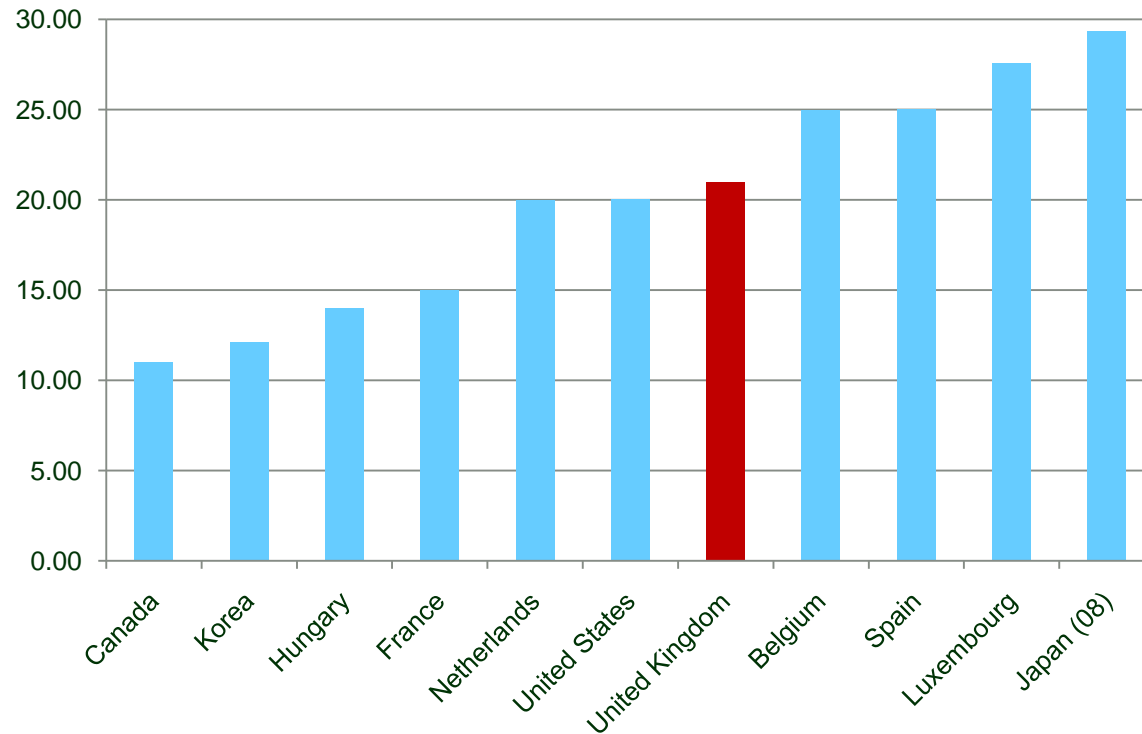


Statutory tax rate on corporate income



source: OECD

Statutory tax rate on small companies



source: OECD