

Productivity in the UK 5: Benchmarking UK productivity performance

A consultation on productivity indicators

March 2004



HM TREASURY

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FOREWORD

In 1997, the Government set its central economic objective of high and stable growth and employment. Since then, employment has risen by nearly 1.7 million and unemployment is now the lowest in the G7. Building on that strong platform, the challenge is to improve the productivity of the UK economy. Increasing productivity is the driving force behind economic growth, and the route to higher levels of prosperity. We are publicly committed to narrowing the productivity gap with the US, France and Germany.

In 1999 the Department of Trade and Industry developed a set of 'UK Productivity and Competitiveness Indicators'. These indicators have provided a rich and broad assessment of the strengths and weaknesses of the UK economy, and have significantly contributed to the wider debate about how to ensure the UK makes the transition to a more innovative, enterprising economy.

Making that transition to a more productive economy is necessarily a long-term objective. However, even where improvements in productivity and growth performance take time to emerge, it is possible to track the effectiveness of the Government's productivity strategy by focusing on the drivers of productivity and identifying key leading indicators of productivity performance. Hence the Government is considering identifying a more focussed and stable set of national productivity indicators drawn in part from the existing suite of 'UK Productivity and Competitiveness Indicators'. This should allow changes in performance to be identified and provide an early warning of where policy action is needed.

Improving performance also has an important regional dimension. That is why the DTI, HM Treasury and the Office of the Deputy Prime Minister share a Public Service Agreement target to raise performance in all regions and close the gaps in their growth rates. There is clearly commonality between national and regional indicators of productivity, so this consultation document also considers a complementary set of regional productivity indicators.

In keeping with the current set of DTI indicators, the more focussed set would be based on data that is already publicly available. By publishing this set regularly, those with an interest in UK productivity performance can use them to monitor our progress. That is why we urge you to take the opportunity to help us develop the best possible set. As a starting point, this consultation document proposes a number of indicators. We would value your comments on the scope, coverage, and content of this set, and your views on possible alternatives. We hope that you will find time to participate.

Hon John Healey MP
Economic Secretary to the Treasury

Rt Hon Jacqui Smith MP
Minister of State for Industry and the
Regions and Deputy Minister for Women
and Equality

EXECUTIVE SUMMARY

INTRODUCTION

The Government's central long-term economic objective is to achieve high and stable rates of economic growth and employment. Increasing productivity is the driving force behind this, and the route to higher prosperity.

Economic growth is driven by a combination of employment growth and productivity growth. The UK has successfully generated more employment, creating nearly 1.7 million jobs since 1997, which has resulted in the lowest unemployment rate in the G7.¹ The UK has begun to make progress in narrowing the long-standing productivity gap with its key competitors. But to achieve a sustained increase in the rate of economic growth, the UK needs to continue to improve its productivity performance.

THIS CONSULTATION

Benchmarking UK productivity performance

HM Treasury and the Department for Trade and Industry (DTI) share a joint Public Service Agreement (PSA) target to improve productivity in the UK relative to our key competitors.² Chapter 1 considers recent progress towards this target. International comparisons of productivity published by the Office for National Statistics (ONS) are currently used to monitor UK productivity performance relative to the UK's key international competitors. However, this approach relies on Purchasing Power Parity data which can appear with a significant time lag. Chapter 1 explores a complementary methodology. **The Government welcomes your views on the methodology used to benchmark the UK's productivity performance over time relative to our competitors.**

A more focussed set of national productivity indicators

Making the transition to a more productive economy is a long-term process. Consequently, when assessing productivity it is useful to look for changes in the underlying factors driving productivity growth, as well as examining the headline productivity figure.

The Government has identified 'five drivers' of productivity: investment, innovation, skills, enterprise and competition.³ These provide an intellectual framework for analysing the underlying factors that are driving productivity performance and organising policies designed to improve productivity.

¹ Group of seven. A group of seven major industrial nations (comprising Canada, France, Germany, Italy, Japan, UK and US).

² "Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany."

³ HMT (2000), 'Productivity in the UK I: the evidence and the Government's approach', www.hm-treasury.gov.uk/

A set of indicators grouped underneath the five drivers may assist in monitoring progress towards the productivity PSA target and identifying performance gaps in the economy. Currently the DTI publishes the UK Productivity and Competitiveness Indicators.⁴ These Indicators have succeeded in providing a rich assessment of the strengths and weaknesses of the UK economy. The Government is considering embedding this approach within its monitoring framework by identifying a focussed set of indicators to help with measuring progress towards the specific objective of improving UK productivity performance over the cycle and narrowing the productivity gap. Adopting such a set of indicators relating to the areas that are most important for productivity may make it easier to present a clear picture of the UK's performance relative to its major competitors. **The Government is interested in your views on whether the indicators proposed in this consultation document represent the best available focussed set of productivity indicators. See Chapters 2-7 and Box 2.**

Developing regional level productivity indicators

Raising productivity in every UK region and nation is important for improving UK prosperity and living standards. That is why a strong regional policy is at the heart of the Government's productivity and growth agenda.⁵ This is supported by a joint PSA target, between HM Treasury, the DTI and the Office of the Deputy Prime Minister, to improve performance in all English regions and to reduce the gap in growth rates between the regions.⁶

Effective regional policy and strategy depends upon a robust evidence base supported by relevant, timely and reliable data. In Budget 2003, the Chancellor of the Exchequer, the National Statistician, and the Governor of the Bank of England asked Christopher Allsopp to undertake a wide-ranging review of the information and statistics needed for economic policymaking. The first report looked in particular at the statistics needed for regional policy, and it recommended that this consultation would also be a good opportunity to invite views on indicators at a regional level.⁷

The starting point for such a set of regional indicators might be the indicators that are used to measure progress at the national level. But it is not necessarily the case that they will coincide exactly. Some of the factors that are important for growth at the national level may be less important at a regional level, and vice versa. **The Government is interested in hearing your views on how to develop a similar set of regional level productivity indicators. See Chapter 8.**

⁴ DTI (2003), 'UK productivity and competitiveness indicators', www.dti.gov.uk/competitiveness

⁵ The Government's analysis and approach was first set out in: HMT (2001), 'Productivity in the UK 3: the regional dimension', www.hm-treasury.gov.uk/

⁶ "Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions."

⁷ Allsopp (2003)

Box 1: How to respond

This consultation opened on 15th March 2004. The last date for responses is 4th June 2004.

A response can be submitted by letter, fax or email to:

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Further information about how to respond, make contact or complain can be found in Annex A.

Box 2: List of Proposed National Indicators

This document proposes monitoring the following indicators of the drivers of productivity at the national level for the UK and where possible, the US, France and Germany:

Investment

- Hurdle rates – *required rate of return for a business to invest*
- Business investment as a per cent of GDP
- Government investment as a per cent of GDP
- Perceptions of the quality of infrastructure

Innovation

- Publications and citations of research in academic journals
- Business Enterprise Research and Development as a per cent of GDP
- Triadic Patents – *patents granted in the US, and patents applied for in the EU and Japan*
- Proportion of enterprises with co-operation arrangements on technological innovation activities with other enterprises or institutions
- Proportion of sales accounted for by new or improved products

Skills

- International comparisons of the overall level of qualifications
- Highest qualification of economically active adults in the UK
- Business executive perceptions of management quality

Enterprise

- Fear of failure preventing people from starting a business
- Venture capital investment as a per cent of GDP
- Cost and time to register a firm
- Total entrepreneurial activity
- Difference between the productivity growth of small and medium sized enterprises and of all firms

Competition

- Trade in goods and services as a per cent of GDP
- Product market regulation
- Competition regime peer review – *a survey of competition experts relating to the effectiveness of the competition regime in different countries*