

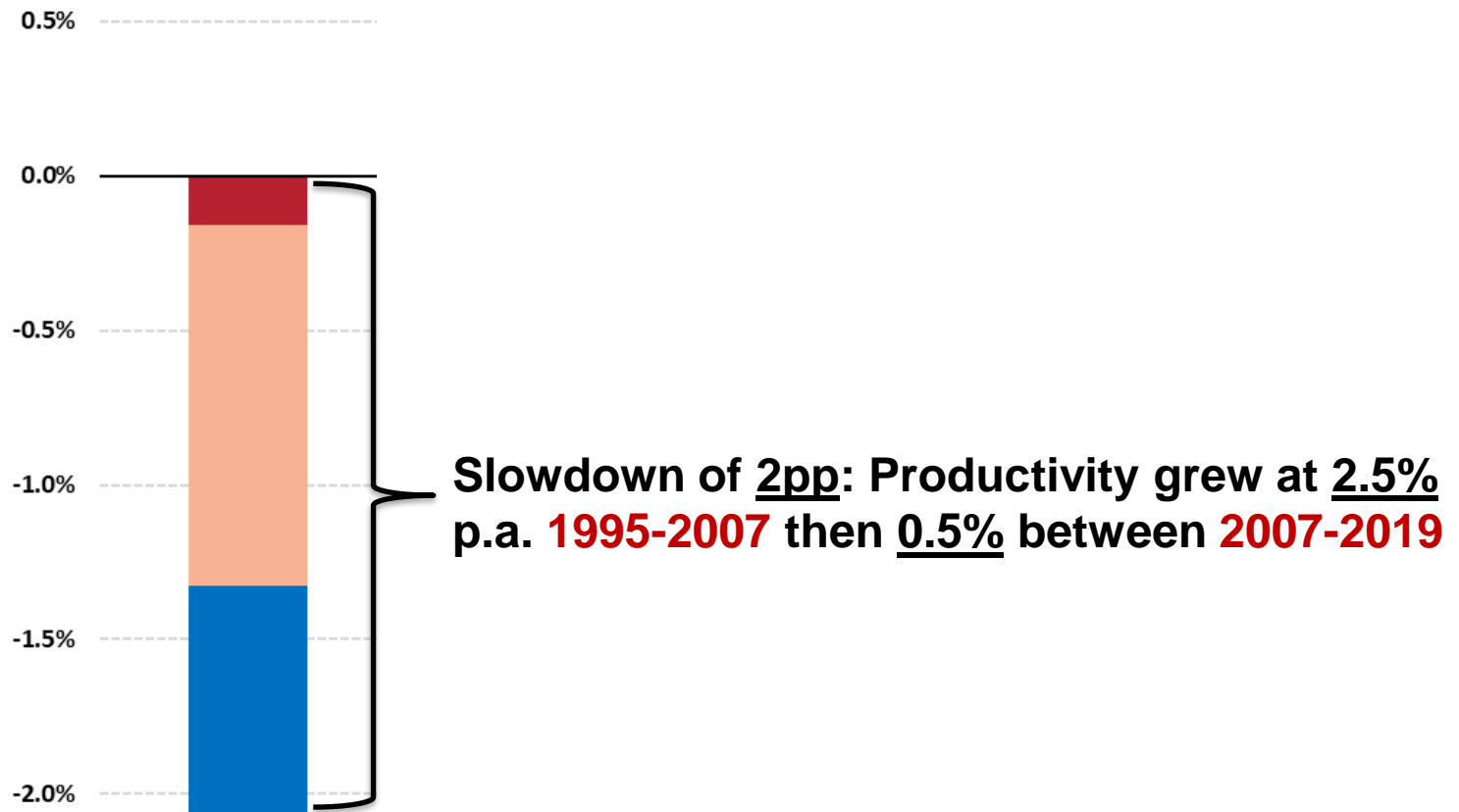
# Economy 2030 Workshop

LSE, July 5<sup>th</sup> 2023

John Van Reenen,  
Ronald Coase School Professor, LSE  
Digital Fellow, MIT



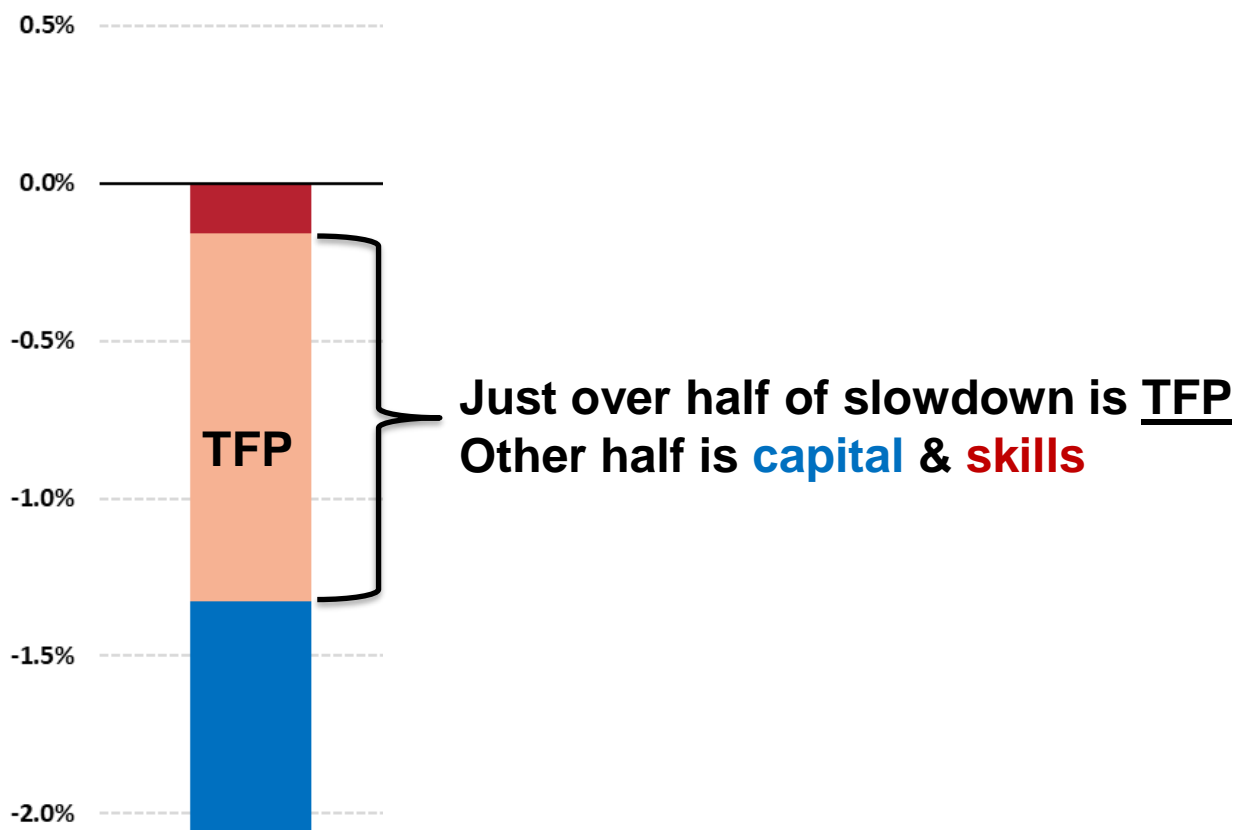
# Accounting for the ~2pp per year slowdown in UK Labour Productivity Growth pre-post Financial Crisis



**Note:** Comparison of market-economy GDP per hour growth 2019-2007 vs. 2007-1995. EUKLEMS & INTANProd 2023 release; OECD (2014) and other sources.

**Source:** Van Reenen and Yang (2023)

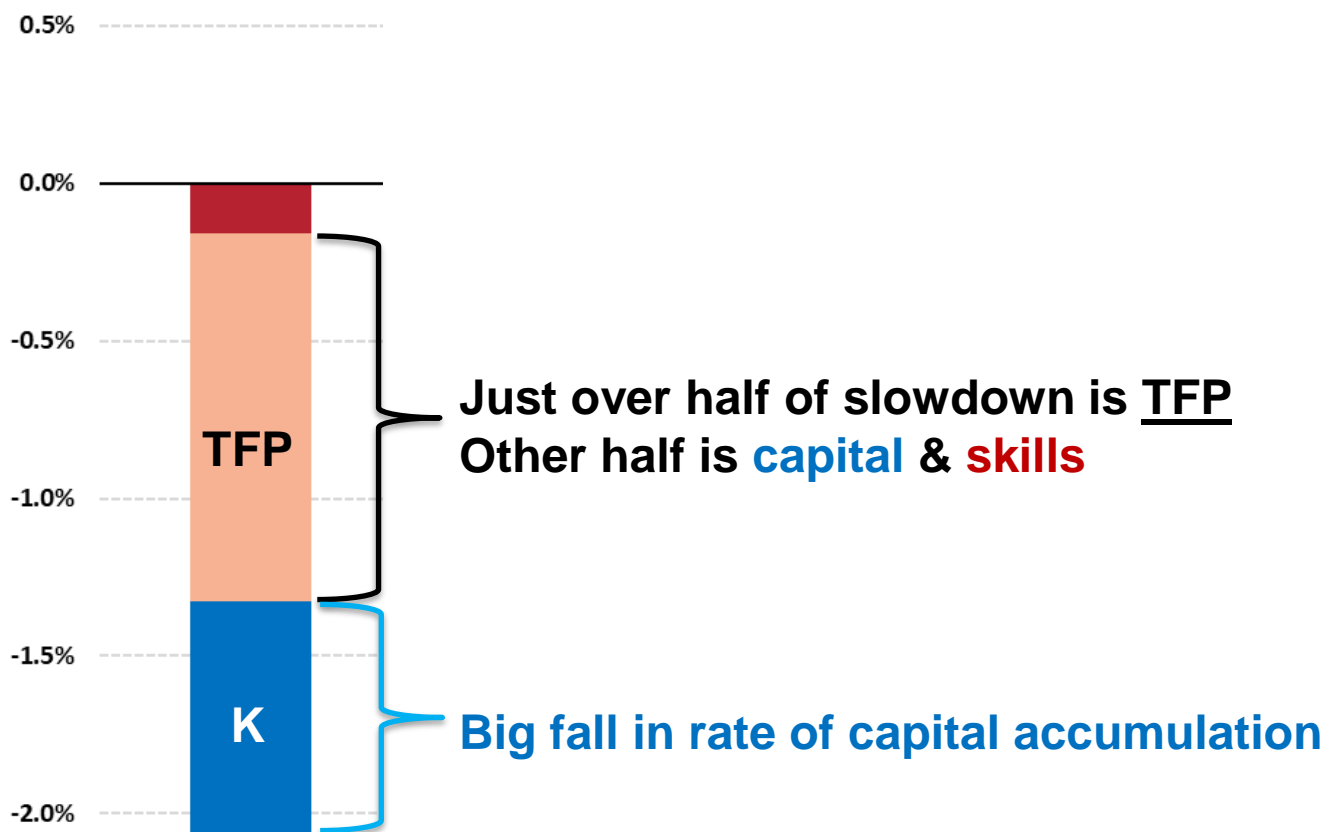
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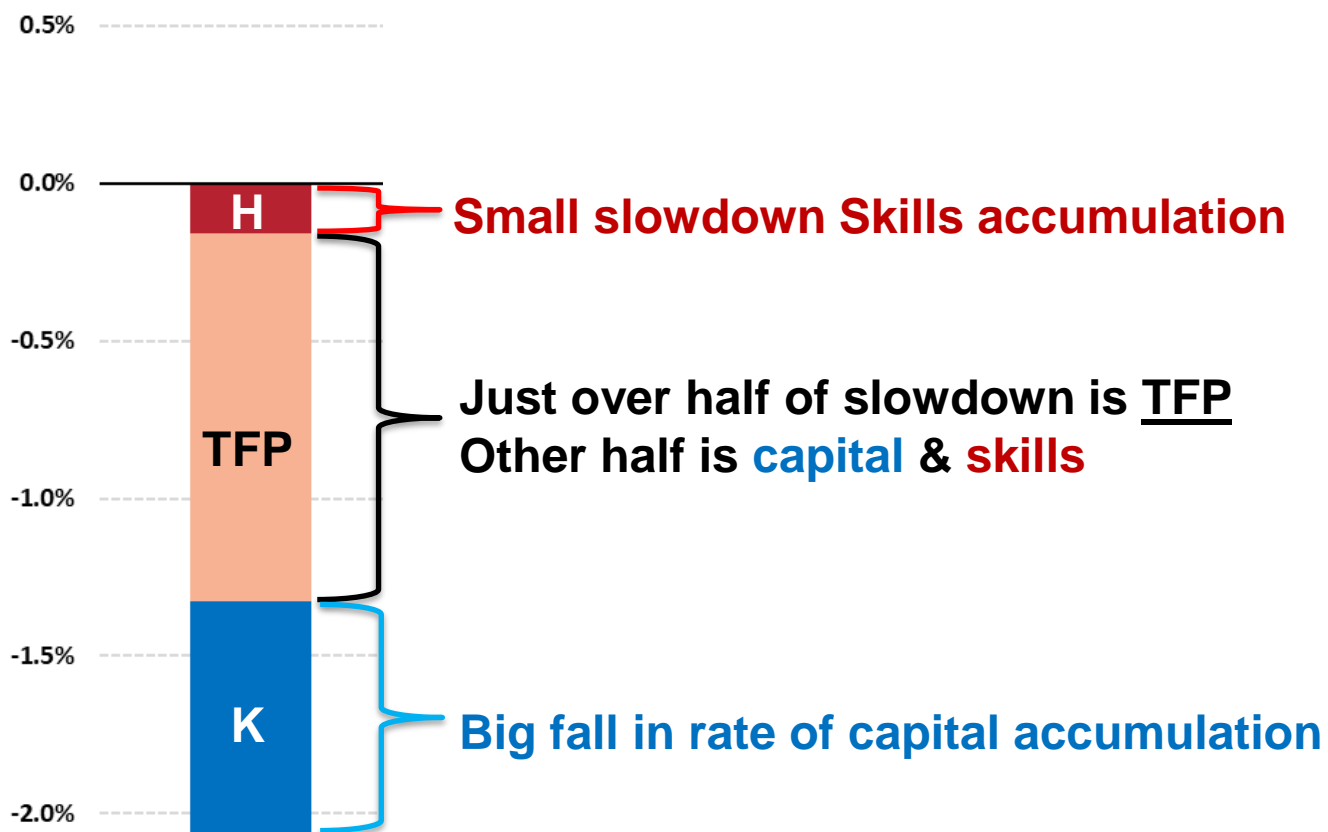
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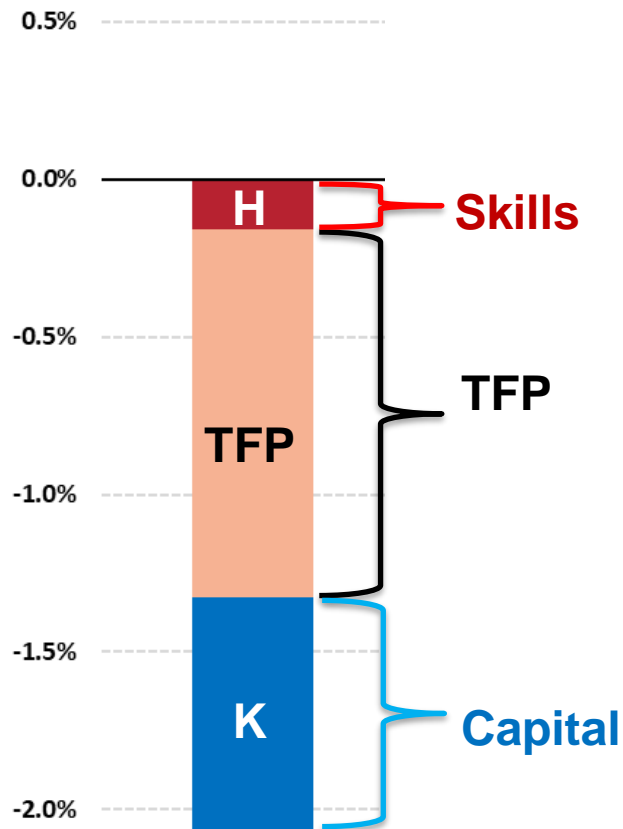
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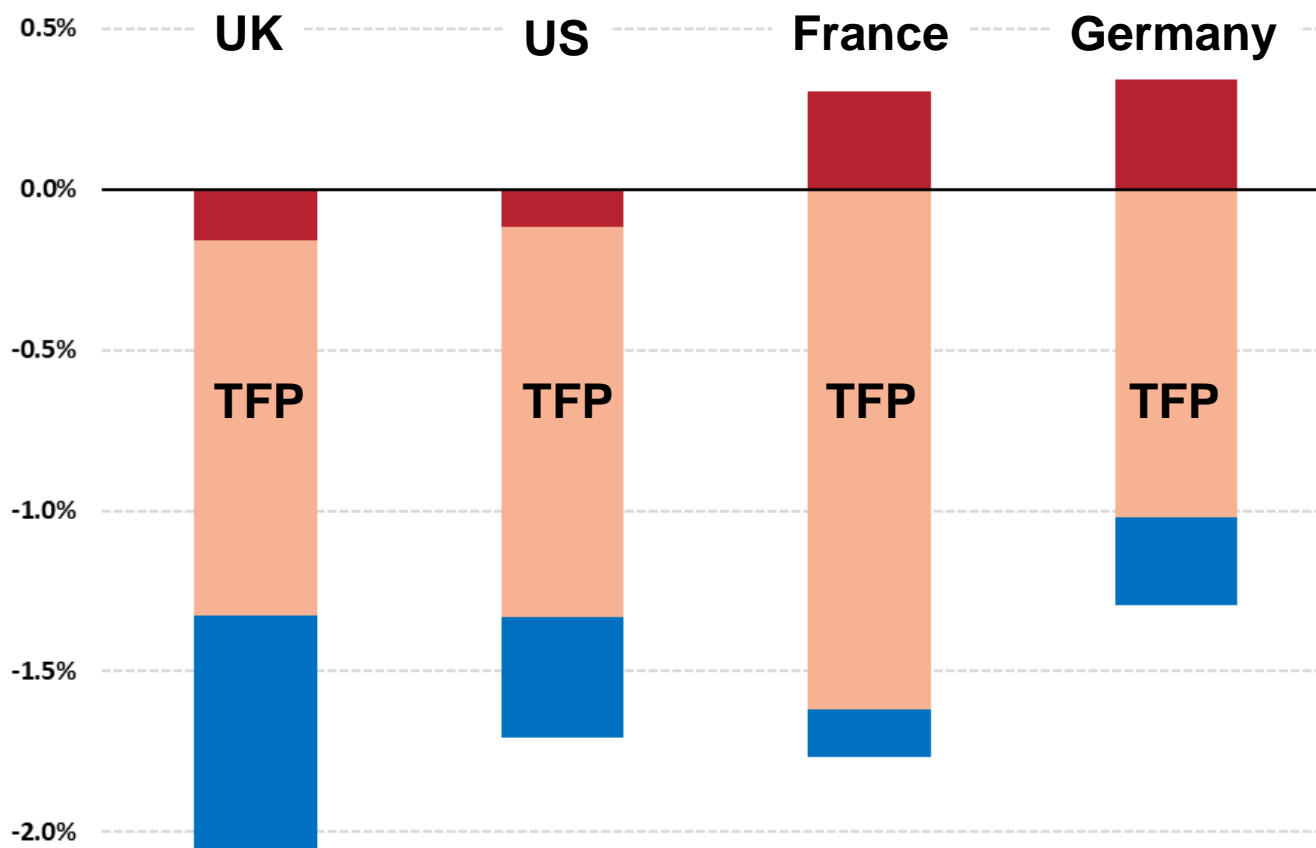
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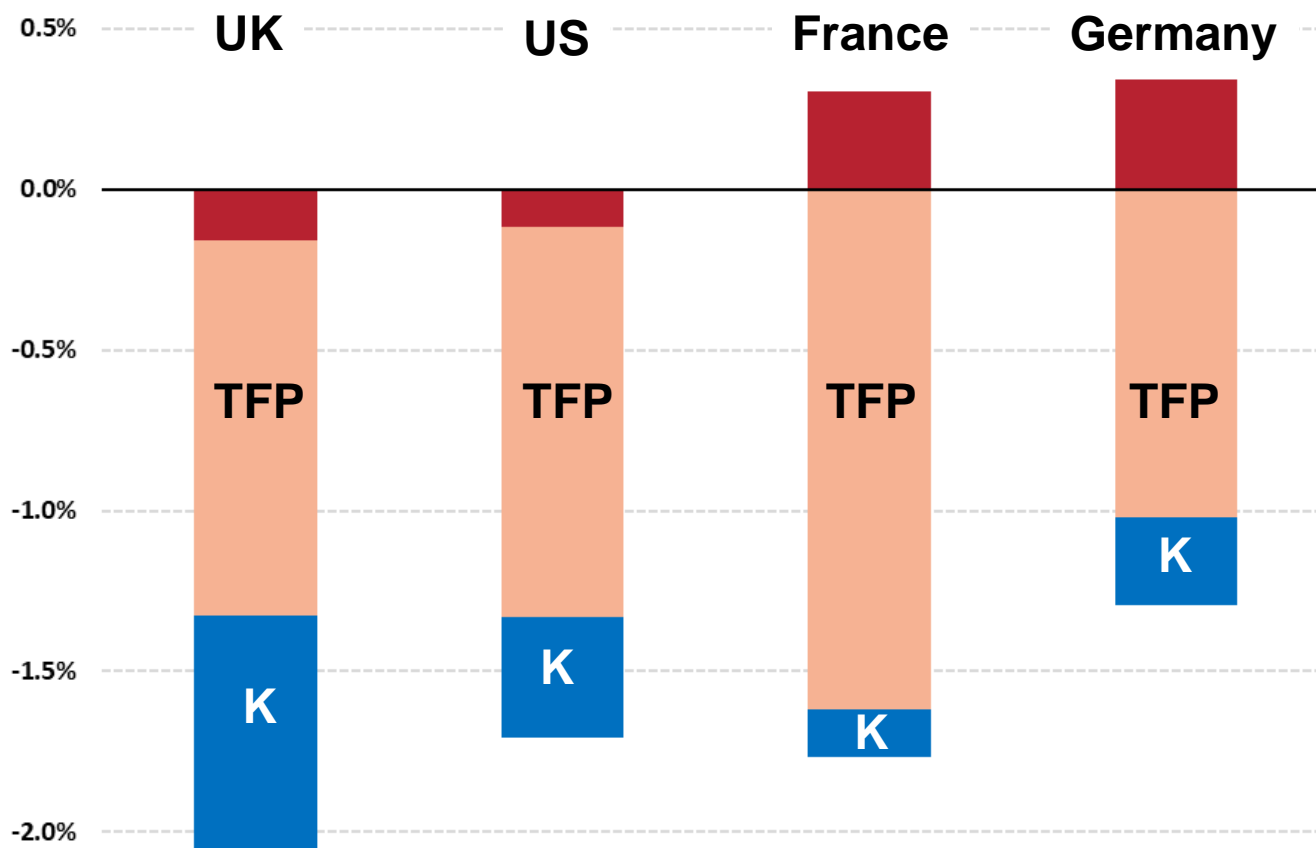
# TFP slowdown pretty common across major economies....



**Note:** Comparison of market-economy GDP per hour growth 2019-2007 vs. 2007-1995. EUKLEMS & INTANProd 2023 release; OECD (2014) and other sources.

**Source:** Van Reenen and Yang (2023)

## ... But UK investment (K) particularly bad

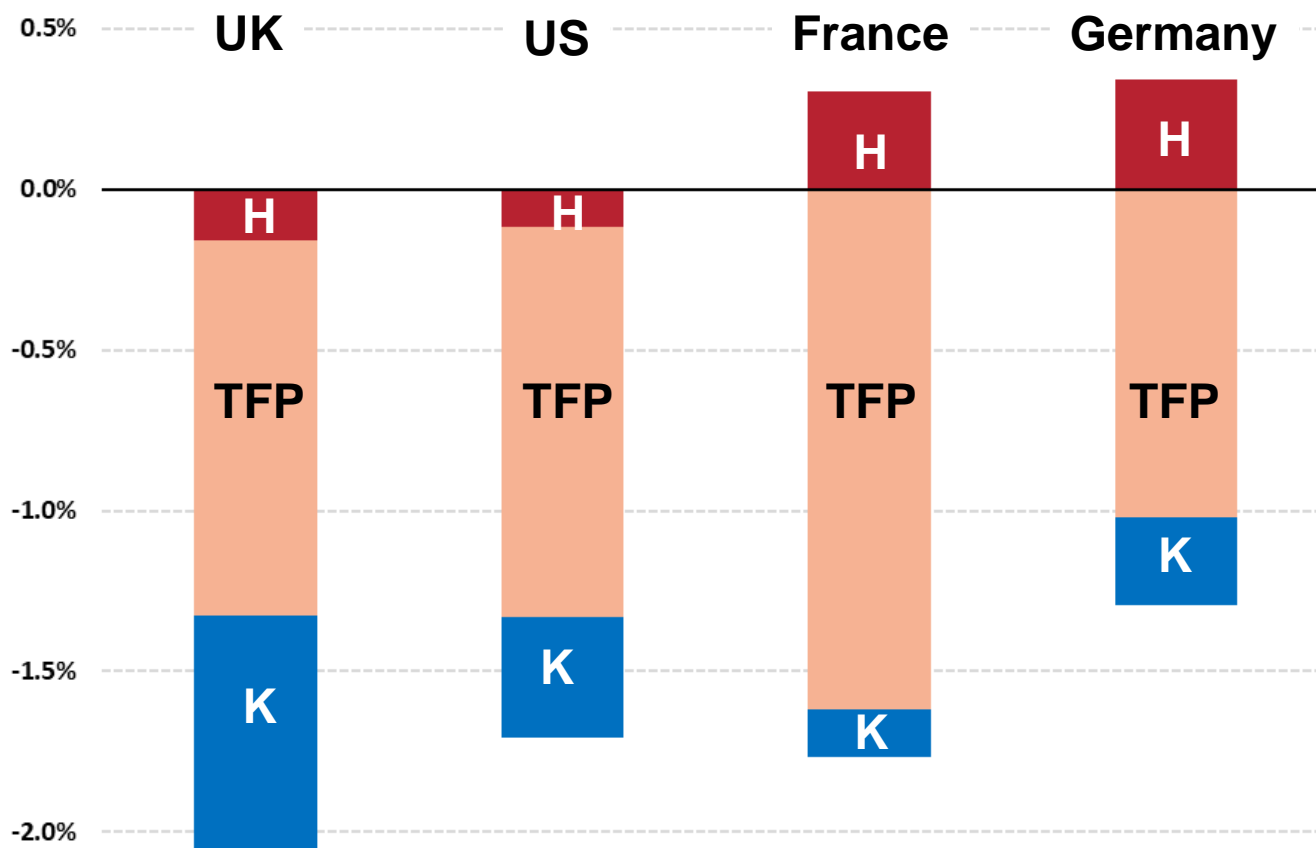


**Note:** Comparison of market-economy GDP per hour growth 2019-2007 vs. 2007-1995. EUKLEMS & INTANProd 2023 release; OECD (2014) and other sources.

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## ... And somewhat larger slowdown in human capital accumulation (H)



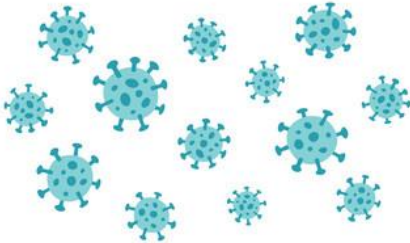
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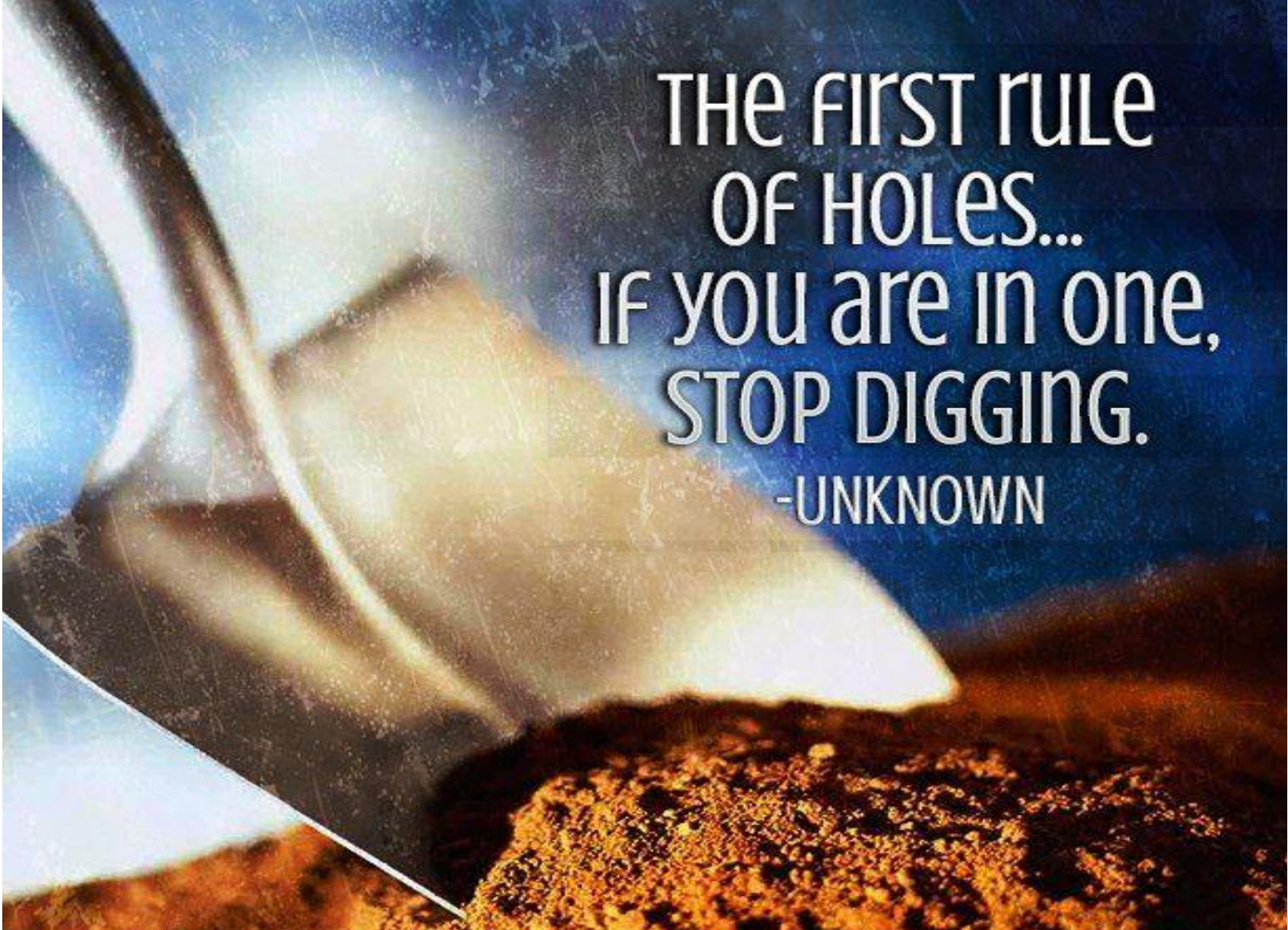
# Analysis....



# Analysis....







THE FIRST RULE  
OF HOLES...  
IF YOU ARE IN ONE,  
STOP DIGGING.  
-UNKNOWN

# Investment

- Many of the themes echo what we said 10 years ago in LSE Growth Commission (although things have got a lot worse since then)
- **Main factors:**
  - Uncertainty, especially around policy
  - Endemic short-termism
  - Lack of a serious growth strategy
  - Institutions supporting growth are weak



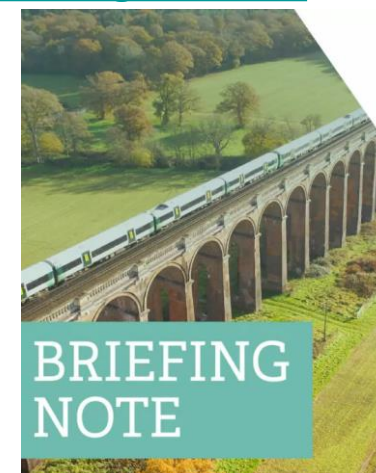
## Beyond Boosterism



## Business time



## Cutting the Cuts





# Investment: Economy 2030 Policy Proposals

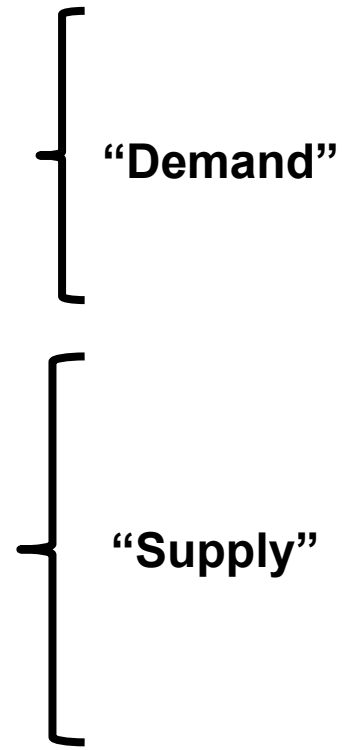
- Public investment
  - Fiscal rules: net wealth rather than debt
- Getting **Pension Funds** back into UK corporations through superfunds, etc.(more about governance than supply of finance).
- **Workers on Boards:** Good, but unlikely to be game-changer
- **Taxation:** stability; simplicity; tax bads not goods
- Building and planning
  - Right direction, but weak on details.
  - Politics: local leaders need “skin in game” so need more fiscal decentralization (to city-regions) & land value tax
- National Growth Board at heart of government

# Raising Innovation (TFP)

- Less emphasis here, but in long-term this is critical
- Reforms to **competition policy** to reflect rise of superstar firms
- Reduce **EU trade frictions** through dynamic alignment of regulations
- Innovation ecosystem
  - Mix of tax and direct grants (as part of industrial strategy)
- “Lost Einsteins and Marie Curies”
  - Much productivity sacrificed because of barriers to talent. Social mobility also fosters growth. Vision of just society
  - Practical policies:
    - Education
    - Pre-school/childcare
    - Exposure/mentorship programs
  - These are long-term and won’t solve immediate problems but are symbolic of where we want to go and often cheap

# Innovation Policy: The “Lightbulb” Table

(1)	(2)	(3)	(4)	(5)	(6)
Policy	Quality of evidence	Conclusiveness of evidence	Benefit - Cost	Time frame:	Effect on inequality
Direct R&D Grants	Medium	Medium	💡💡	Medium-Run	↑
R&D tax credits	High	High	💡💡💡	Short-Run	↑
Patent Box	Medium	Medium	Negative	n/a	↑
Skilled Immigration	High	High	💡💡💡	Short to Medium-Run	↓
Universities: incentives	Medium	Low	💡	Medium-Run	↑
Universities: STEM Supply	Medium	Medium	💡💡	Long-Run	↓
Exposure Policies	Medium	Low	💡💡	Long-run	↓
Trade and competition	High	Medium	💡💡	Medium-Run	↑



Source: Bloom, Van Reenen and Williams (2019, JEP)



# Can it be done?

- **Pessimism:** UK productivity deficit is long-standing problem
- **Optimism:** UK Productivity gap **narrowed a lot** in 30 years before financial crisis (after century of relative decline)
  - **Structural policies** played an important role: stronger competition rules; deeper trade through EU; expansion of universities, etc.
- Need similarly **ambitious policy agenda** for next 30 years
  - COVID vaccine is an example of what can be done



## Some Further Reading (and viewing)

“Innovation Policies to Boost Productivity” (2020) Hamilton Policy Proposal 2020-13

[https://www.hamiltonproject.org/assets/files/JVR\\_PP\\_LO\\_6.15\\_FINAL.pdf](https://www.hamiltonproject.org/assets/files/JVR_PP_LO_6.15_FINAL.pdf) webinar

“A Toolkit of Policies to promote Innovation” (Nick Bloom, Heidi Williams and John Van Reenen), *Journal of Economic Perspectives* (2019) 33(3) 163–184 <http://cep.lse.ac.uk/pubs/download/dp1634.pdf>

“Why Do We Undervalue Competent Management” (Raffaella Sadun, Nick Bloom and John Van Reenen) *Harvard Business Review* (2017), September-October

“Measuring and Explaining Management practices across firms and nations” (Nick Bloom and John Van Reenen) *Quarterly Journal of Economics* (2007) 122(4), 1351–1408.

“The Costs and Benefits of Brexit” (Swati Dhingra, Hanwei Huang, Gianmarco Ottaviani, Joao Pessoa, Tom Sampson and John Van Reenen) *Economic Policy* (2017), 32(92) 651–705 [Vox](#)

“Who Becomes an Inventor in America? The Importance of Exposure to Innovation” (Alex Bell, Raj Chetty, Xavier Jaravel, Neviana Petkova and John Van Reenen), <http://cep.lse.ac.uk/pubs/download/dp1519.pdf> [Data](#) *Quarterly Journal of Economics* (2019) 134(2) 647–713, [New York Times](#) [Vox](#) [Atlantic](#) [Fortune](#) [Conversation](#) [VoxUS](#) [Economist](#) [VC](#) [Centrepiece](#) [INET](#)

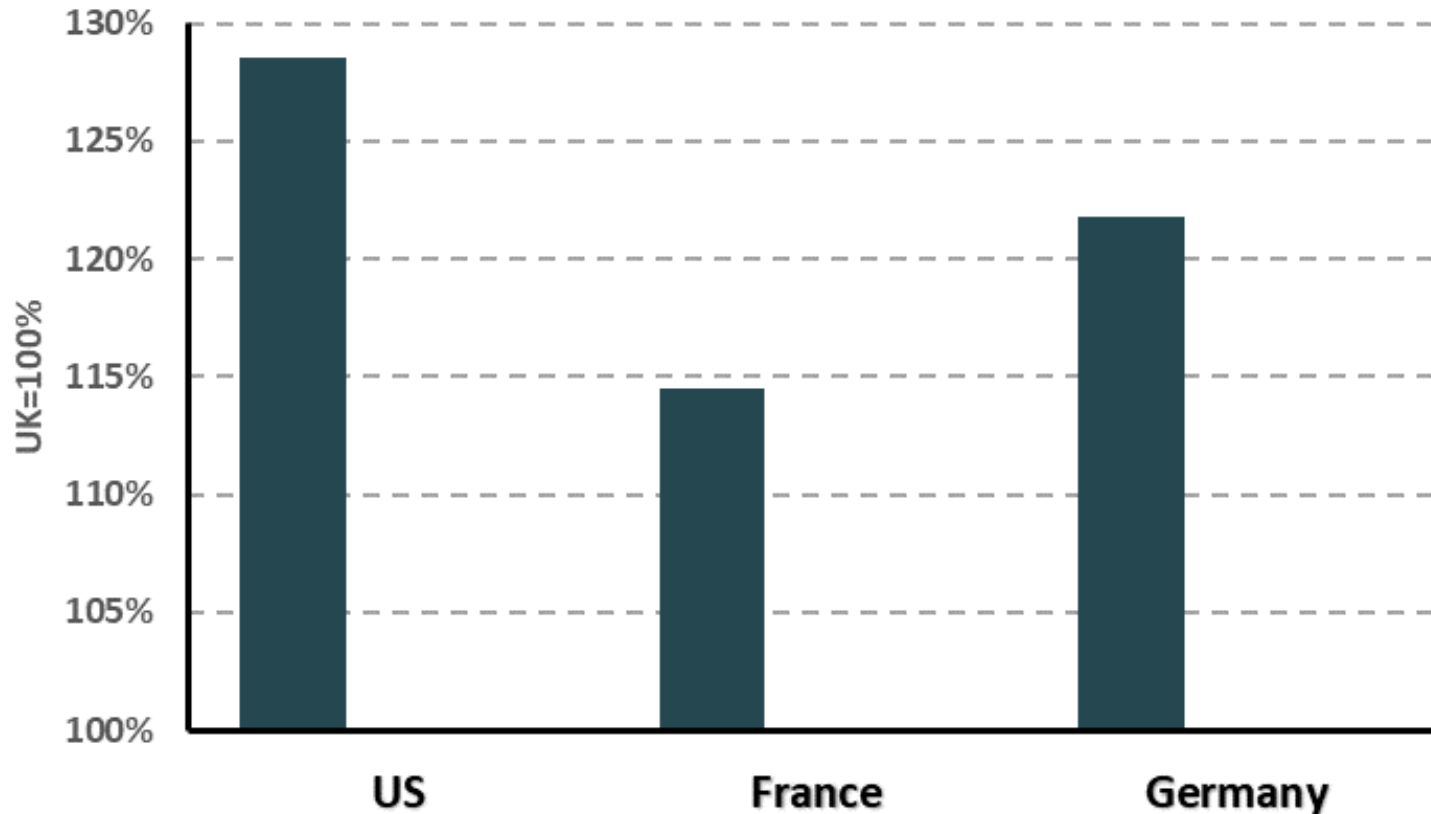
“Mapping the Two Faces of R&D: Productivity Growth in a panel of OECD industries” (Rachel Griffith, Stephen Redding & John Van Reenen) *Review of Economics and Statistics*, (2004) 86(4) 883-895. <http://cep.lse.ac.uk/textonly/people/vanreenen/papers/wp0002.pdf>

## Further reading

- “The World Management Survey at 18” (Scur, Sadun, Van Reenen, Lemos & Bloom, 2021), *Oxford Review of Economic Policy* <https://poid.lse.ac.uk/textonly/publications/downloads/poidwp002.pdf>
- World Management Survey <http://worldmanagementsurvey.org/>
- “Increasing Difference Between Firms” *Changing Market Structures and Implications for Monetary Policy*, Jackson Hole Symposium (Van Reenen, 2018) 19-65 <http://cep.lse.ac.uk/pubs/download/dp1576.pdf> [NYT](#) [NPR](#)
- LSE Growth Commission Final Report (Aghion et al, 2013) <http://www.lse.ac.uk/researchAndExpertise/units/growthCommission/documents/pdf/GCReportSummary.pdf>
- “Management as a Technology” (Bloom, Sadun and Van Reenen, 2017): <http://cep.lse.ac.uk/pubs/download/dp1433.pdf>
- “Do Fiscal Incentives increase innovation? An RD Design for R&D” (Antoine Dechezlepretre, Elias Einio, Ralf Martin, Kieu-Trang Nguyen and John Van Reenen), CEP Discussion Paper 1413 [Vox](#), <http://cep.lse.ac.uk/pubs/download/dp1413.pdf>

**Back Up**

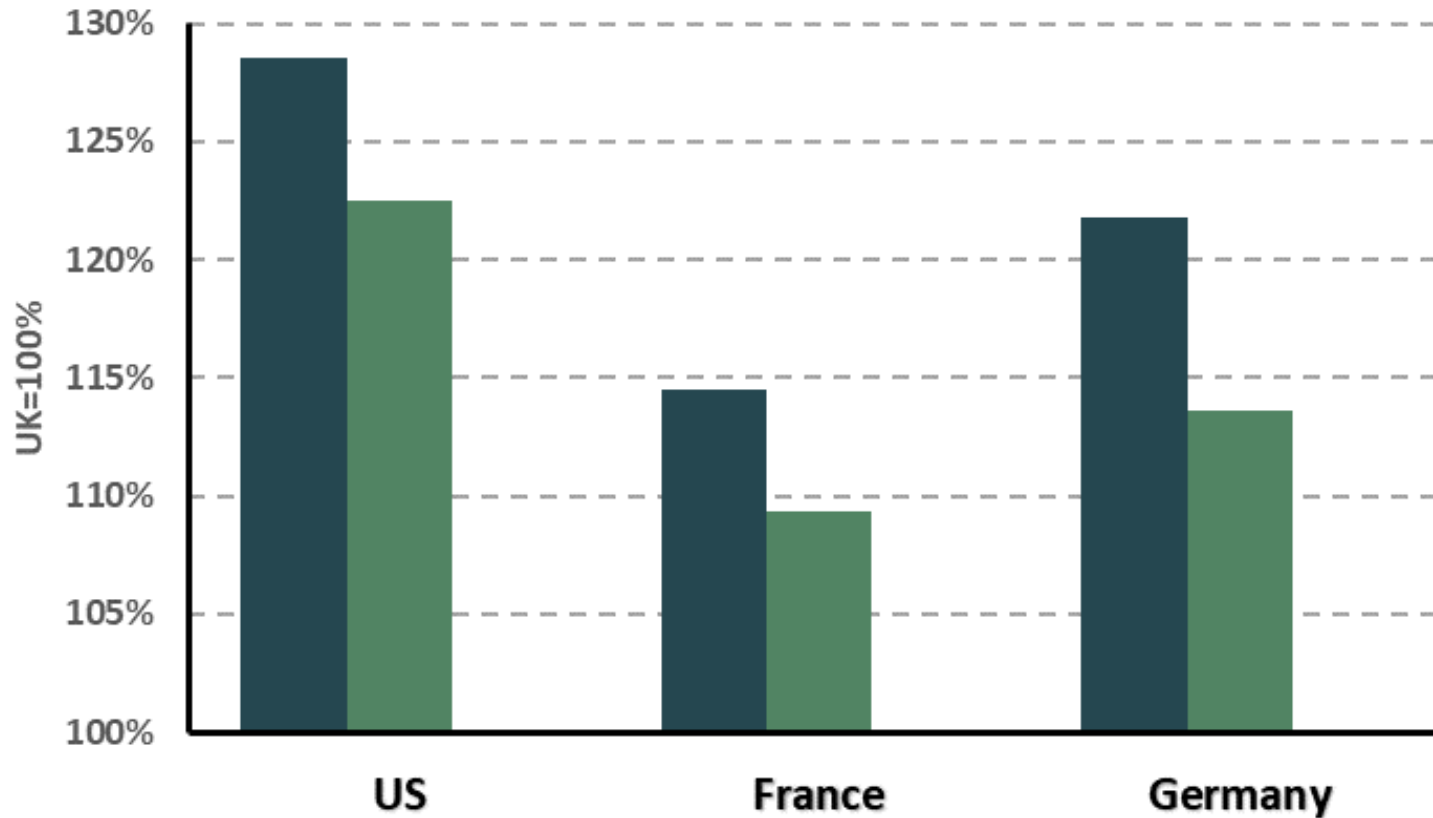
# UK has long had a major deficit in productivity (GDP per hour) in levels compared to other countries



**Note:** 2019 data. EUKLEMS & INTANProd 2023 release; OECD (2014); PPP from OECD (2023) and other sources. Hours measured in consistent way across countries.

**Source:** Van Reenen and Yang (2023)

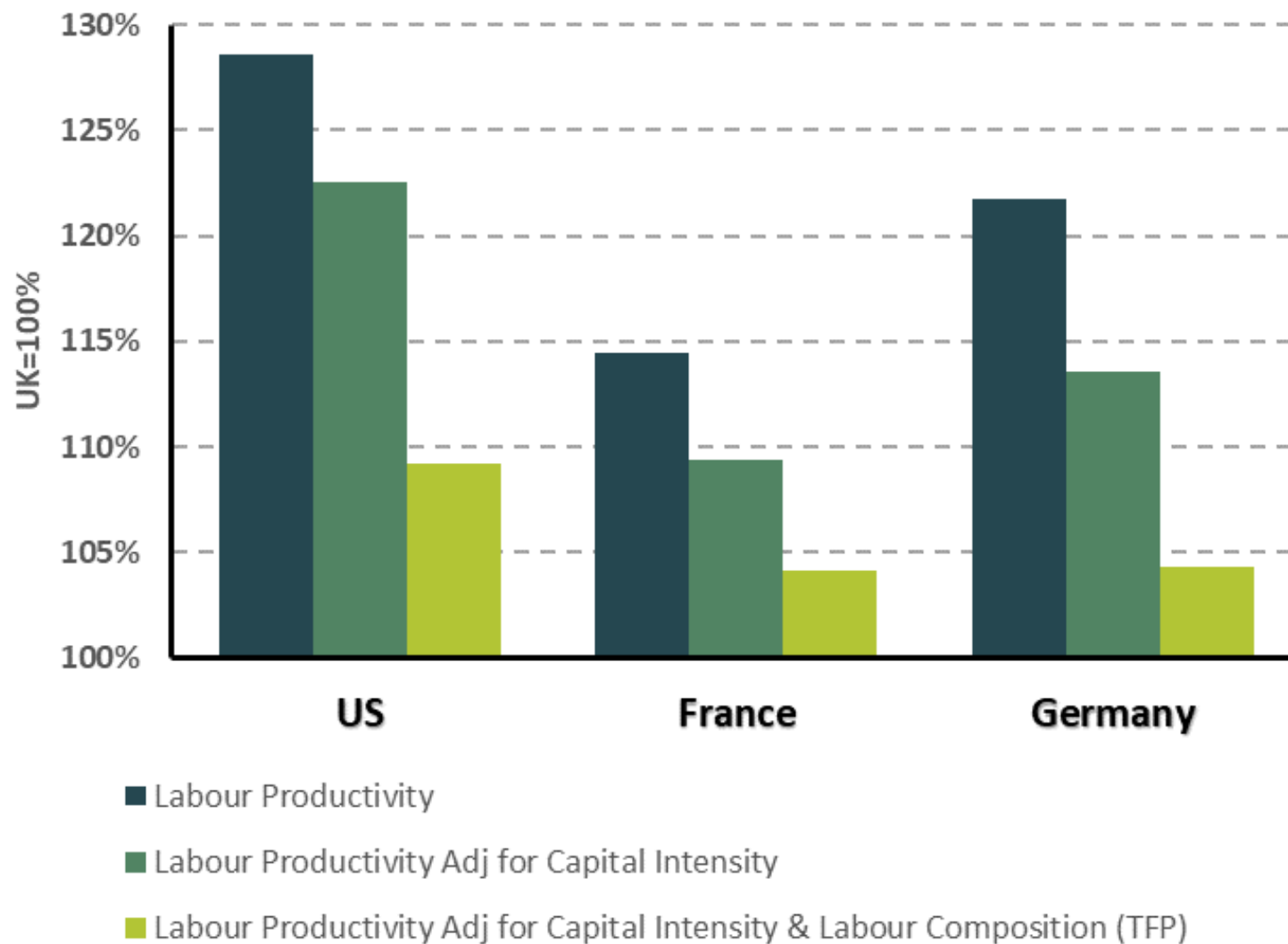
# UK Productivity Gap after controlling for capital intensity



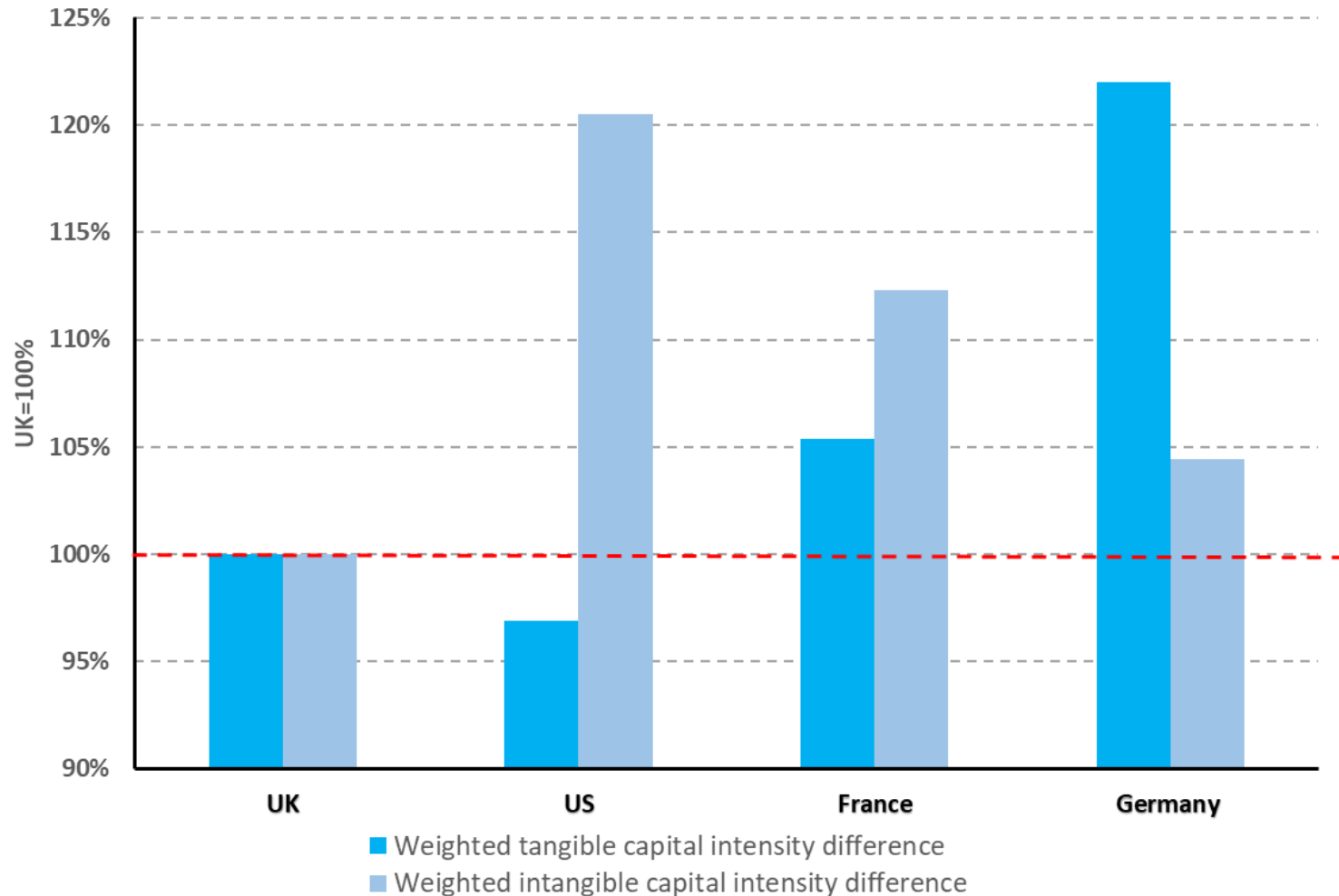
**Note:** 2019 data. EUKLEMS & INTANProd 2023 release; OECD (2014); PPP from OECD (2023) and other sources. Capital is national accounts tangible and intangible capital. Development accounting using bilateral average of capital service share of GDP as weight

**Source:** Van Reenen and Yang (2023)

## UK TFP Gap (after controlling for capital and skills)



# UK Tangible and intangible capital inputs relative to other countries

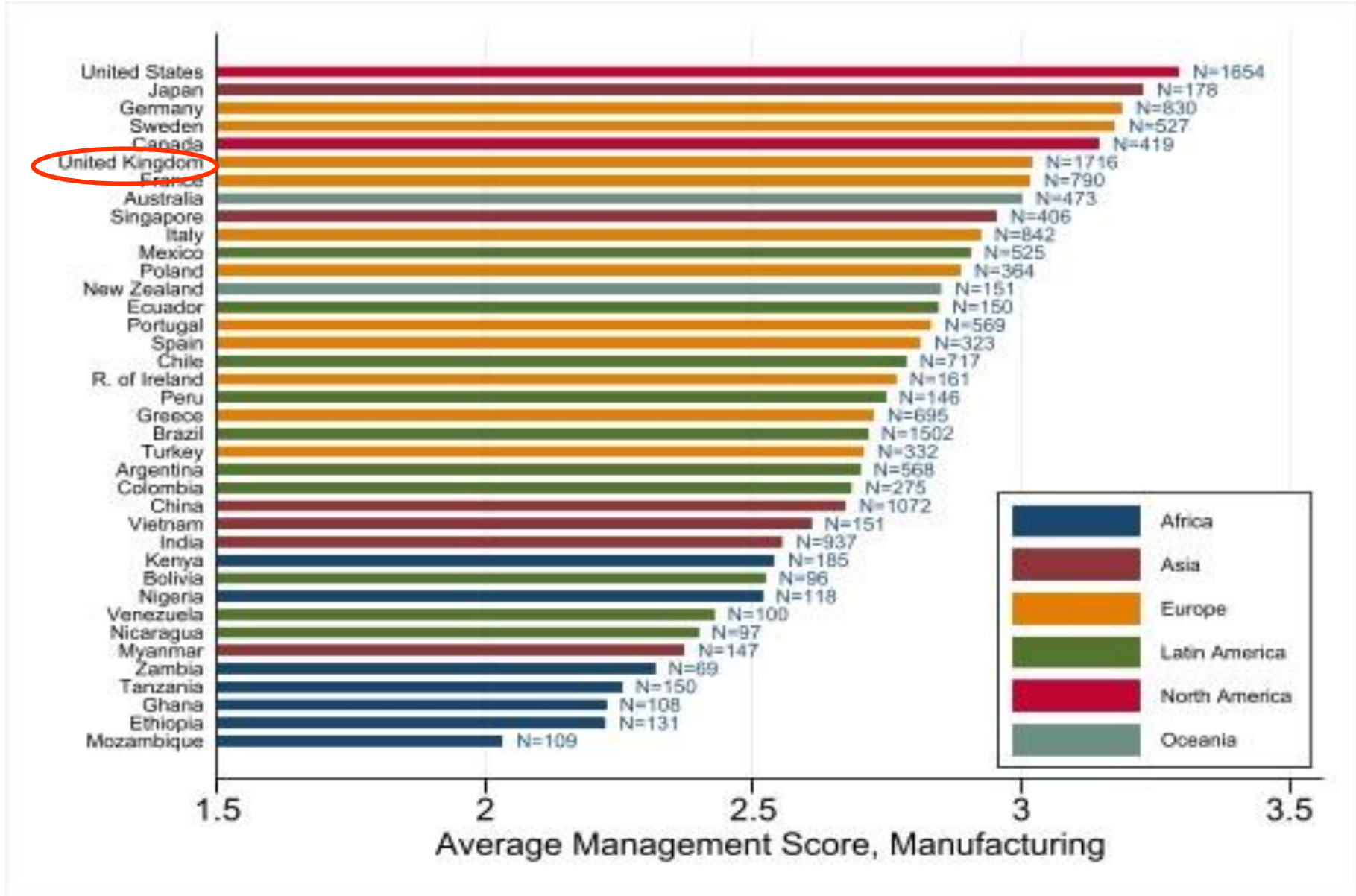


**Note:** 2019 data. EUKLEMS & INTANProd 2023 release; OECD (2014); PPP from OECD (2023) and other sources. Bilateral average of tangible or intangible capital stock share of total capital stock is used as weight.

**Source:** Van Reenen and Yang (2023)



# UK Managerial weakness (not in Premier League)



**Note:** Unweighted average management scores; # interviews in right column (total = 17,783); all waves pooled (2004-2022)









**Source:** Scur et al (2023)

# Management policies Toolkit: Need for experimentation & evaluation

L = Low; Not politically easy

M = medium

H = Highly possible

Policy type	Strength of evidence	Policy Net benefit (out of 5)	Difficulty of implementation	Time frame
<b>Structural</b>				
Competition	H		M	medium
Trade and FDI	H		L	medium
Education	M		M	long
Labour Deregulation	M		L	medium
Governance	M		M/L	long
<b>Direct</b>				
Training - consulting	H		H	short
Training - formal classroom	M		H	medium
Information/benchmarking	L/M		H	medium

**Source:** Scur, Sadun, Van Reenen, Lemos & Bloom (2021)