

‘What determines the UK’s productivity and potential for economic growth?’

John Van Reenen, British Academy, 18th June 2026

Thanks for the opportunity to share some thoughts on one of my favourite subjects – economic growth. I’m very proud to be a British Academy Fellow and support this amazing institution.

Apologies for the excessively dull title of the talk. I should have called it something more upbeat like **‘Let’s Go for growth!’** But I have to cement my reputation as a card-carrying member of the dismal science of economics.

Let me say from the get-go, that I am speaking in a purely personal capacity. I am no longer Chair of the Council of Economic Advisers under Chancellor Rachel Reeves so I’m not representing the government in any way.

So what is productivity growth and why should we care?

At a national level, productivity is simply how much output we get from the inputs we put in. Since the main input is our human labour, the simplest

measure is the value of the goods and services produced per hour of work. We often call this labour productivity and use GDP per hour as a rough but revealing indicator.

Nobel Laureate Paul Krugman famously quipped *that productivity isn't everything, but in the long-run, it's almost everything*. Paul was right, because the size of the economic pie – how much we have for redistribution, for public services like health and education, for improving the environment and indeed for our own consumption - is fundamentally determined by productivity.

Sadly, as is well-known, the UK has a productivity problem. In the thirty or so years leading up to the Global Financial Crisis in 2007, productivity growth trundled along at a healthy 2% or so per year. Since the crisis, it has crawled to a measly half a percentage point per year.

This matters because pay follows productivity. Wage growth slowed down in a mirror image of productivity growth. Pay also grew four times faster in the decades prior to the financial crisis than afterwards.

So no wonder people are angry. They have a right to be angry, because the system appears to have failed them.

It's important to realise that the pay slowdown isn't due to rising inequality. The pain of low productivity growth has been democratically shared between people throughout the income distribution from the richest 10% and those in the squeezed middle.

Nor is dismal pay growth due to capitalists grabbing a bitter share of the economic pie. Unlike America, in Britain workers' share of GDP has been pretty stable for decades.

We should resist the urge to be parochial about this problem -- Britain is far from alone in suffering from a growth slowdown. The Eurozone experienced a halving of productivity growth since the financial crisis, from 1.3% to 0.6%. And contrary to popular belief, America has **also** experienced a halving of productivity growth. It only appears in better economic shape because it entered the productivity crisis growing at 2.2% - a much faster rate than Europe

This global problem helps explain the global frustration and the wide appeal of simple populist solutions. Unfortunately, this creates a kind of

political economy doom loop, which exacerbates the problem.

Take Brexit as an example of this doom loop. Low growth after the financial crisis led to voter anger that was misdirected at foreigners -- such as immigrants and Brussels bureaucrats. Voting to leave ushered in a hike in trade costs with our closest European neighbours and massive uncertainty.

At the time of the referendum, I was heavily criticised as a miserable pessimist for predicting a Brexit induced productivity [hit](#) of up to 6% to 9% over the longer run. Recent external [work](#) shows that losses have been 6-8% of GDP. So, a pretty good forecast!

Brexit is a major reason why Britain has suffered more than its international peers. And this Brexit induced hit to growth – alongside Covid and high energy prices - has further fed the populist beast.

So what determines productivity?

Since productivity is measured per hour, increasing how hard we work, through extra hours in the day or weeks in the year, doesn't really do anything to increase it. In fact, working excessively hard will tend to reduce productivity if people are overworked and stressed out.

So it's not lazy Brits that are the problem.

The first major driver of productivity is capital investment. Equipping workers with better kit – more machinery, computer software, offices and so on, helps us do more things .

Britain has historically invested less than its peers. My own [estimates](#) show that about half the fall in UK productivity growth after the financial crisis was due to lower capital investment.

And it isn't just short-termism in the private sector. British governments have repeatedly responded to fiscal pressure by cutting public investment, as happened in the years of austerity after 2010. It's tempting politically as delayed infrastructure projects cause less voter blowback than reducing public sector jobs and wages or cutting welfare. But delayed transport, housing, energy and R&D do have an impact in the long-run. And now we are living in that long-run.

When I entered government in July 2024, the very first briefing by officials showed that over [£20bn](#) of extra spending had been disguised by the previous administration. We inherited plans were for a further real cuts in capital investment and we were under pressure to go even further, following previous form.

The Chancellor chose not to do this.

Rather, in the autumn 2024 Budget and 2025 Spending Review the government chose to [raise](#) capital spending by £120bn – almost an extra percentage point of GDP per year. This was a break with the past and will, if continued, be the foundation for stronger growth

And capital is not just tangible machines and buildings. Today, much of it is **intangible**, especially in human capital, that is skills. A more highly educated and better trained workforce is a more productive workforce. Britain traditionally has done well on elite education, but badly on training those who don't go to university. We must do better.

What really matters though is not just the amount of labour and capital inputs, but how they are combined through better technologies and efficient [management](#) practices.

The main driver of long-run productivity growth is innovation – doing things differently.

Technical change used to be a huge blind spot for economists. It was assumed to be exogenous ‘manna from heaven’. But in the last 30 years we have made tremendous progress in understanding the causes of innovation and what policies can guide it.

This progress is in large part thanks to my friend and co-author, Philippe Aghion, who deservedly won the [Nobel Prize](#) last year. His modern growth theory showed how we can craft policies to strengthen innovation and growth.

What can we do to get back to decent growth?

The first lesson is that a thriving research base is the main driver of growth. Public R&D, in particular, has very high returns perhaps generating £8 of output for every £1 [invested](#).

With Putin’s war in Ukraine and America distancing itself from NATO, we have to raise defence [spending](#). The innovation imperative is that this military spending hike should be as R&D intensive as possible.

Structural reforms are also vital. Inflexible planning rules make the costs of infrastructure too high. The government has improved regulation on housing and energy projects to help tackle this, but needs to go much further.

We must burn the avalanche of red tape caused by Brexit. Re-building a close relationship with the EU is imperative, especially as America is now a vandal rather than a supporter of the international trading order.

In my view, knowing what growth policies are is actually the easy part. The harder part is overcoming barriers to implementing them. There is often much political pain in the short term as the perceived benefits only come in the longer term.

But the benefits can come sooner than is often thought. Commitments to public investment can crowd in private investment, and create more growth especially if there is spare capacity in the economy.

And a vision of where you are going can give the confidence to accept change.

So let me end with some good news – reflected in the graph behind me. In the last two years, productivity growth has [revived](#). This has been statistically disguised by problems of low response rates to the LFS, the key survey of the ONS. If we use the correct administrative data, annualised productivity growth has been around 1.6% since mid-2024, compared to 0.3% in the previous decade.

This could be the first signs of the impacts of AI on the economy. America has also seen a recent productivity bounce-back, consistent with this more optimistic story.

Despite all our problems, the UK has many enduring strengths. We are a service exporting super power, especially in knowledge intensive sectors like life sciences, finance, law, consulting, marketing and IT. We have world leading universities and a potential European Silicon valley in the Oxford-Cambridge corridor.

This gives us huge potential to take advantage of new technologies like AI.

We cannot have an economy and society that just focuses its resources, protection and welfare on older incumbents. We must unleash the energy of

young people and firms, innovators and entrepreneurs wherever they live or whatever families they are born into.

If we are prepared to seize these opportunities for renewal and growth, the nascent productivity revival could be the start of a new and more prosperous era for our country.

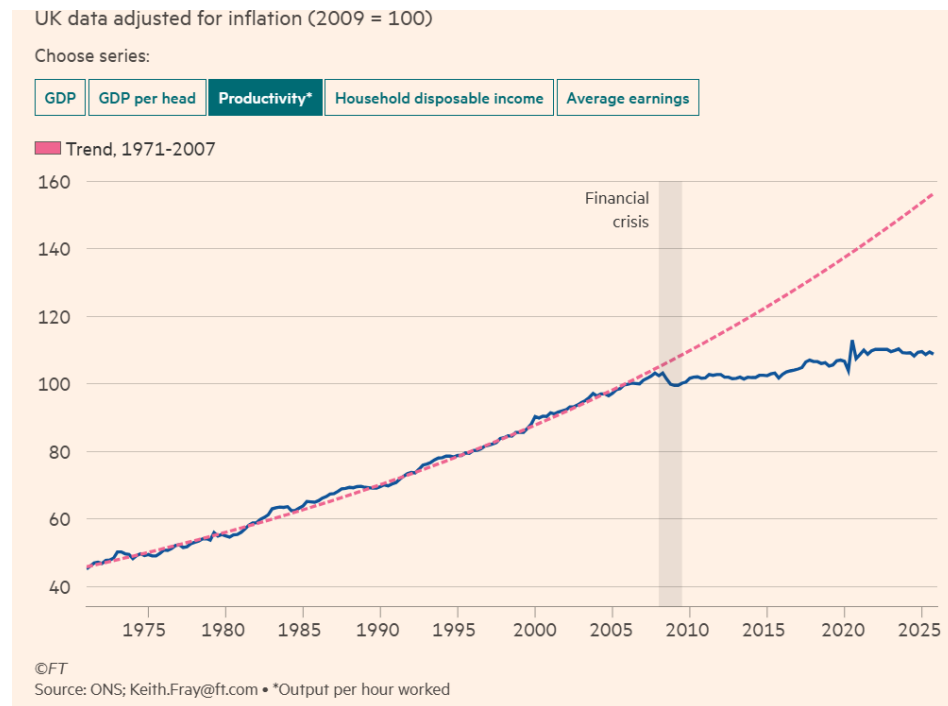
The choice is not determined technologically by the outside rhythm of the machine.

The choice is in our hands.

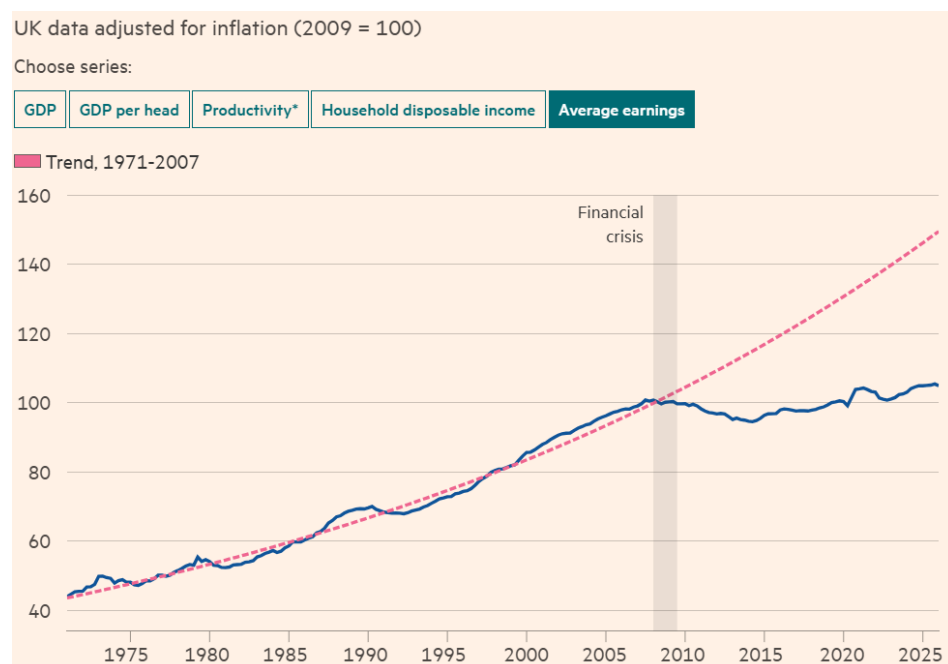
Thank you.

The great UK productivity and wage slowdown

A. Labour Productivity



B. Earnings



Source: Martin Wolf in Financial Times, May 25th 2026

<https://www.ft.com/content/a1334546-73e9-4149-bb13-6f0999b5db91?syn-25a6b1a6=1>