

## Example 1

### Does Britain have a productivity gap? If so, what are the main reasons for the UK's poor productivity?

#### Introduction

In the words of Paul Krugman, the Nobel Prize-winning economist, "Productivity isn't everything, but, in the long run, it is almost everything."<sup>1</sup> What is meant by this is that without growing productivity within an economy, real wages are unable to grow which, in turn, affects the economy's ability to boost standards of living in the long run. Following the financial crisis in 2008, the UK has experienced stagnating productivity levels. Prior to the crisis, the UK had an annual productivity growth rate of around 2.1%. As at August 2018<sup>2</sup>, the UK's productivity growth rate was measured at 0.4%. It is estimated that productivity in the UK would have been 20% higher<sup>3</sup> had the pre-crisis growth rate continued.

**(1 mark for giving detailed relevant background and / or contextual information)**

Using data from the Office for National Statistics (ONS) which was recorded in 2016 (the latest available figure), it is evident that when looking at International Comparisons of Productivity (ICP) the UK ranks below average real productivity when measuring output per hour worked. On a basic level, the standard British worker can produce around 20% less on average than their equivalent in other members of the Group of Seven (G7). The ONS data suggests that productivity within the UK was "lower than that of the U.S. by 22.6%"<sup>4</sup> but measured "above that of Japan by 8.7%"<sup>5</sup>. UK workers were 26% less productive per hour than German workers in 2016. In other words, it took a UK worker five hours to complete what a German counterpart could in four hours. On average, however, workers in the UK work longer hours than those in Germany which increases the level of output each UK worker produces in total. When

<sup>1</sup> <http://blogs.worldbank.org/psd/productivity-prosperity-long-run-it-almost-everything>

<sup>2</sup> <https://tradingeconomics.com/united-kingdom/productivity>

<sup>3</sup> <https://www.ft.com/content/b6513260-b5b2-11e7-a398-73d59db9e399>

<sup>4</sup>

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2016>

<sup>5</sup>

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/bulletins/internationalcomparisonsofproductivityfinalestimates/2016>

measuring output per worker, UK workers were only 8.5% less productive than German workers in 2016.<sup>6</sup> If current trends in productivity continue in the UK, it is estimated that by 2025 the country's workforce could be almost one third less productive per hour worked than Germany, albeit still more productive than Japan.

**(1 mark for giving a detailed economic justification for the choice of issue)**

This project aims to critically analyse whether productivity in the UK is actually lower than in other G7 countries and will consider whether this was catalysed by the 2008 financial crash. Furthermore, it will examine factors that have the potential to contribute to the slowdown in productivity within the UK, such as the lack of innovation, lack of skilled workers, and the impact of the 'gig' economy before reaching an overall balanced conclusion on the issue.

**(1 mark for clearly stating the aim of the report)**

<sup>6</sup> <https://fullfact.org/economy/productivity-germany/>

## Example 2

**Has the depreciation of the pound been positive or negative for the UK economy?**

### Introduction

Following the vote to leave the EU on the 23<sup>rd</sup> of June 2016, the value of the pound dropped by around 20%. As of 19/3/2018, it is worth \$1.40 or €1.14, compared to \$1.47 or €1.30 just prior to the referendum. There is debate amongst economists as to whether the depreciation of the pound brings more advantages or drawbacks for the economy. Mark Carney, Governor of the Bank of England, believes the depreciation is having an overall negative effect due to more expensive imports putting pressure on living standards. This view is shared by the majority of UK economists, but there are also some such as Patrick Minford who think the effects are positive.

**(1 mark for giving detailed relevant background and / or contextual information)**

The depreciation of the pound is affecting the UK's imports and exports, as it is now cheaper for other countries to buy our goods and services, and more expensive for us to buy goods and services produced in other countries. The UK has a consistent current account deficit which could be reduced by the depreciation of the pound. Inflation has also been significantly affected, with the Consumer Price Index (CPI) exceeding 3%, well above the Bank's target of 2%. Unemployment has not increased and in fact there is currently a record number of people in work. However, it is not clear that this is a consequence of the depreciation. Investment, and therefore productivity, are the final issues to be examined. As it is cheaper for foreign businesses to buy pounds with their own currency, foreign direct investment (FDI) could increase, potentially boosting productivity and pay. This must be offset against a climate of business uncertainty as we leave the EU, discouraging investment.

**(1 mark for giving a detailed economic justification for the choice of issue)**

The implications of the depreciation for the UK economy are wide-ranging, affecting virtually every area of the macro-economy. This project will consider the impact on short- and long-term economic trends to decide whether the net economic effect has been positive or negative. This project will ultimately argue that overall, the

depreciation of the pound has had a negative impact on the UK economy, although it has also boosted some smaller, select industries.

**(1 mark for clearly stating the aim of the report)**