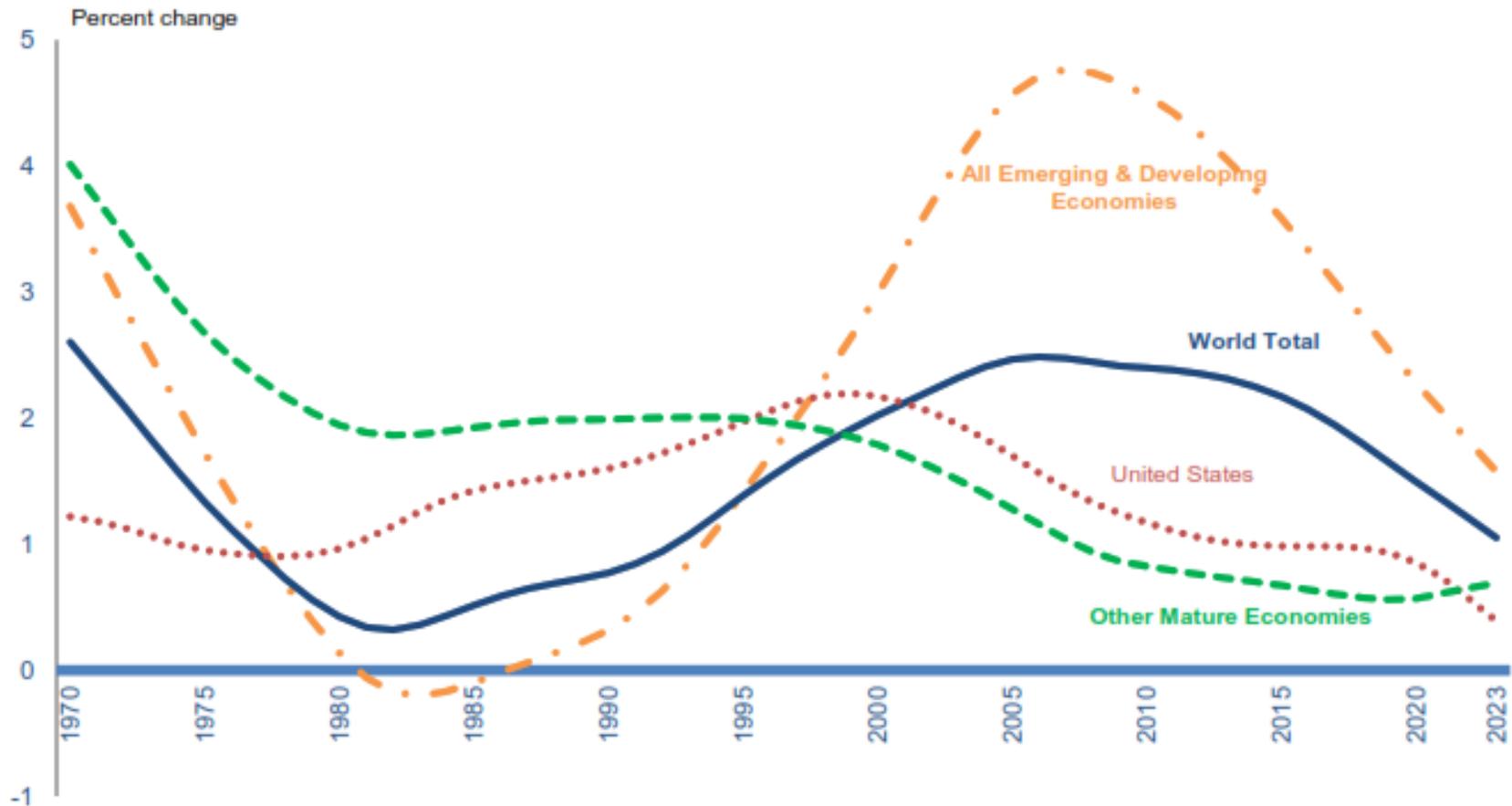


# PRODUCTIVITY AND PLACE: THE NEED FOR A PLACE-BASED INVESTMENT APPROACH

April 2023

# THE GLOBAL ECONOMY IS FACING BIG PRODUCTIVITY CHALLENGES ALL AROUND

CHART 1: Trend growth of GDP per Person Employed using HP filter, Major Regions, 1970-2023



Source: The Conference Board Total Economy Database™ April 2023.

Notes: Trend growth rates are obtained using HP filter, assuming lambda=100.

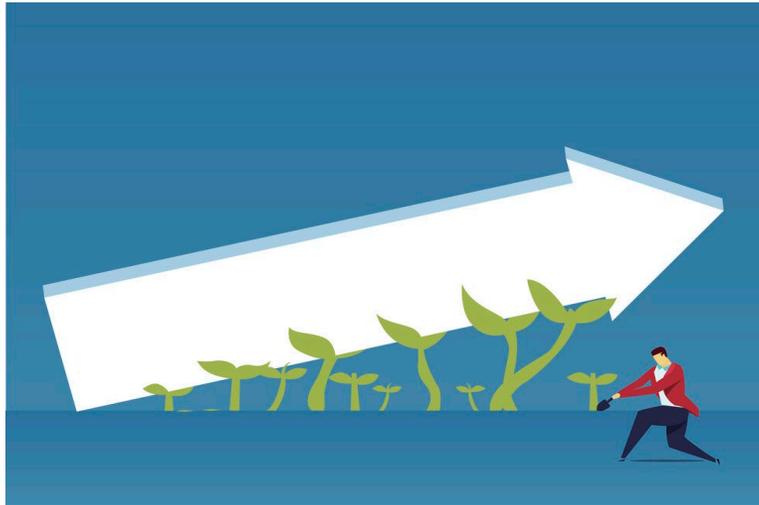
# CAUSES OF THE PRODUCTIVITY SLOWDOWN

- Exacerbating effects from the ***global financial crisis***
  - Slow demand
  - Weak investment
  - Too low interest rates
  - Failing fiscal policies
- ***Slowing catch-up growth*** in emerging markers, especially China – one-off bonus gone?
- Greater share of ***low-productivity personal services*** in advanced economies (“Baumol effect”)
- ***Structural policy effects***: increased regulation, lack of competition, declining global trade, FDI, supply chains
- ***Measurement problems***: output and inputs in a digital and intangible economy are harder to catch in the statistics
- ***Weaker technological change and innovation***:
  - Technology and innovation pessimism & winner-takes-all effects
  - The Productivity Paradox of the New Digital Economy
- ***Transformational challenges***: climate crisis, aging, inequality

→ The outcomes and resources, and the way those are combined, are strongly place-based

# THE NEED TO BROADENING THE PRODUCTIVITY AGENDA TO INCLUSIVENESS AND ENVIRONMENTAL SUSTAINABILITY

## ENVIRONMENTAL PRODUCTIVITY



ECONOMIC  
PRODUCTIVITY



SOCIETAL  
PRODUCTIVITY

## INCLUSIVE PRODUCTIVITY



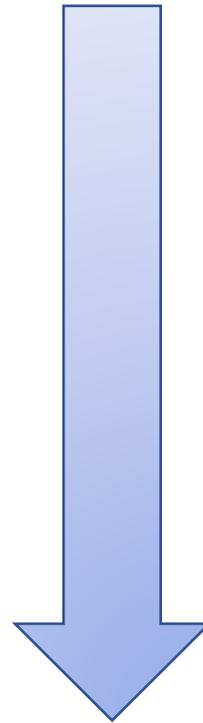
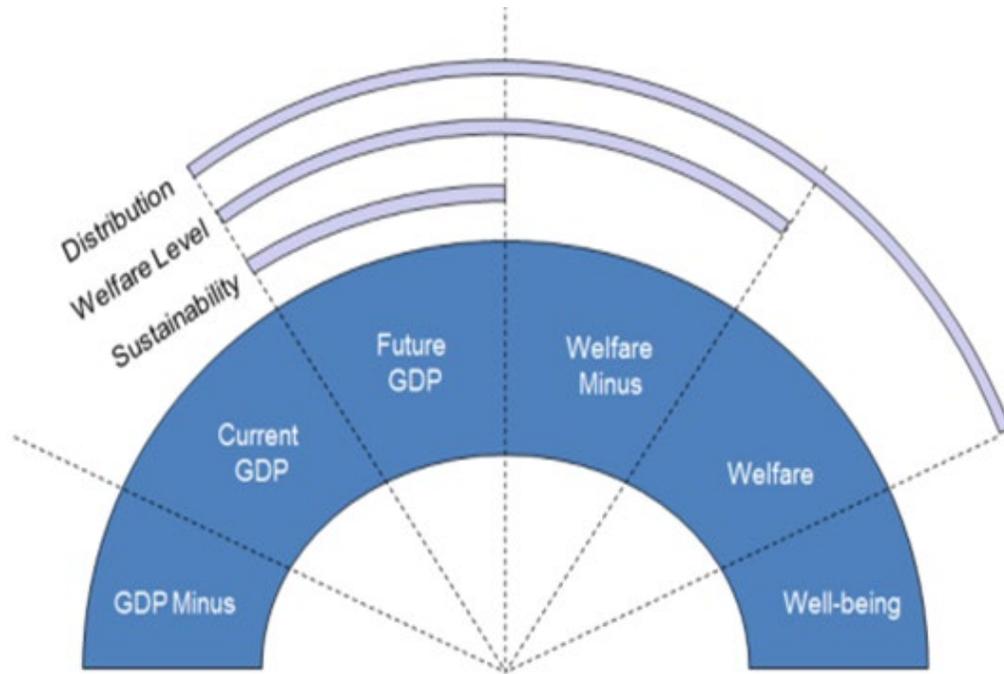
*Environmentally-adjusted productivity is an entity's ability to generate income from a given set of inputs, while accounting for unmeasured good and bad environmental outputs and the consumption of non-renewable and renewable natural resources*



*Inclusive productivity is an entity's ability to raise productivity growth while realizing improvements in well-being which are experienced widely across segments of the population (age, ethnicity, regional, gender, skill level)*

# SOCIETAL PRODUCTIVITY REQUIRES NEW MEASURES AND BROADER TARGETING OF OUTPUTS AND INPUTS

**Output / Input = Economic Productivity**



Source: Heys, Martin and Mkandawire, [GDP and Welfare: A spectrum of opportunity](#), ESCoE Discussion Paper 2019-16

Source: [International Integrated Reporting Council](#)

**Outcomes/Resources = Societal Productivity**

# THE PRODUCTIVITY OF THE PUBLIC SECTOR MATTERS HUGELY

1. **Public sector productivity is key to stronger economic performance**, rising living standards and stronger well-being
2. Productivity growth in public sector organization has proven to be possible, but there is still **much scope and need for further improvement**
3. The **key levers of public sector productivity** are (1) adaptive business design, (2) digital transformation and (3) an agile workforce
4. To **put productivity in practice**, public sector organizations should focus on (1) identifying and solving constraints for productivity growth, (2) managing and measuring to organically improve performance and (3) collaborating and communication internally and externally

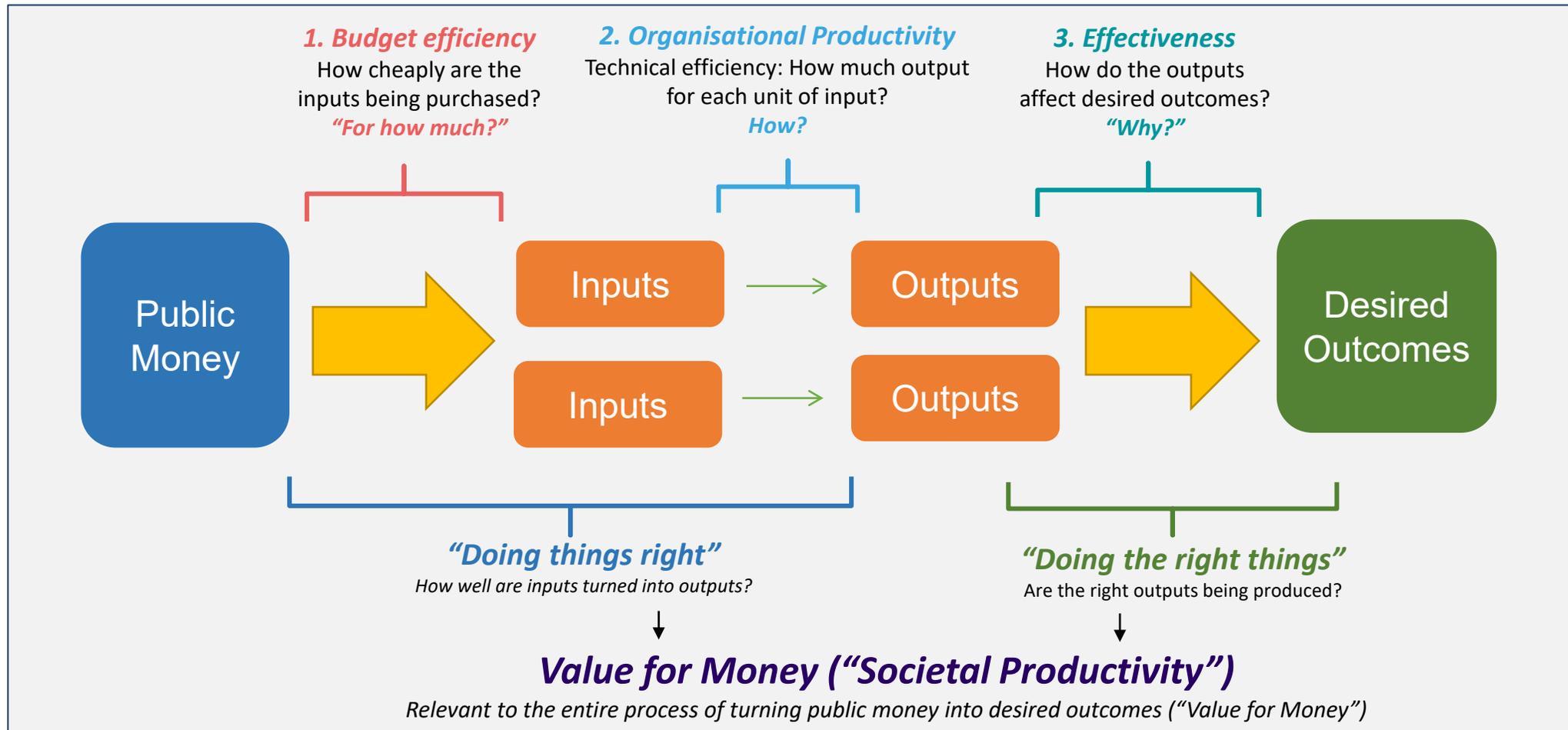


<https://www.productivity.ac.uk/research/making-public-sector-productivity-practical/>

# VALUE FOR MONEY DELIVERS SOCIETAL PRODUCTIVITY ALONG THE PUBLIC SERVICES DELIVERY CHAIN

## The Public Sector Delivery Chain

A simplified model of how public money is turned into inputs, outputs and outcomes



Adapted from Government Economic Services, [Improving public sector efficiency to deliver a smarter state](#), 2016

# DEVOLUTION AND DECENTRALISATION CAN PROVIDE A BOON TO PRODUCTIVITY ... ... DEPENDING ON HOW YOU DO IT

1. UK central government exerts a lot of direct control on sub-central government, creating distortions in regional policy objectives and limiting discretionary policy-making decisions.
2. The over-centralised UK governance system hinders both central government learning and local government institutional capacity-building. It also incentivises both short-termism in policy-making and policy churning
3. UK levels of fiscal decentralization are low by international standards. UK's cost-based rather than revenue-based interregional fiscal equalizer systems provides weak underpinnings for growth and productivity enhancing investments.
4. The UK government's leveling-up agenda is a good step forward, provided it will be sustained with effective devolved decision-making and more flexible financial autonomy.



<https://www.productivity.ac.uk/research/the-fiscal-implication-of-levelling-up-and-uk-governance-devolution/>



THE  
PRODUCTIVITY  
INSTITUTE

<https://www.productivity.ac.uk/>

THE PRODUCTIVITY INSTITUTE AT A GLANCE

ESTABLISHED  
1ST SEPT  
2020

130 INDIVIDUALS INVOLVED IN OUR REGIONAL PRODUCTIVITY FORUMS

10 INSTITUTIONAL PARTNERS

5 YEAR GRANT

8 REGIONAL PRODUCTIVITY FORUMS

8 RESEARCH THEMES

£32M INVESTMENT

40+ CO-INVESTIGATORS



Human capital



Organisational capital



Knowledge capital



Geography and place



Macroeconomic trends and policy



Institutions and governance



Measurement and methods

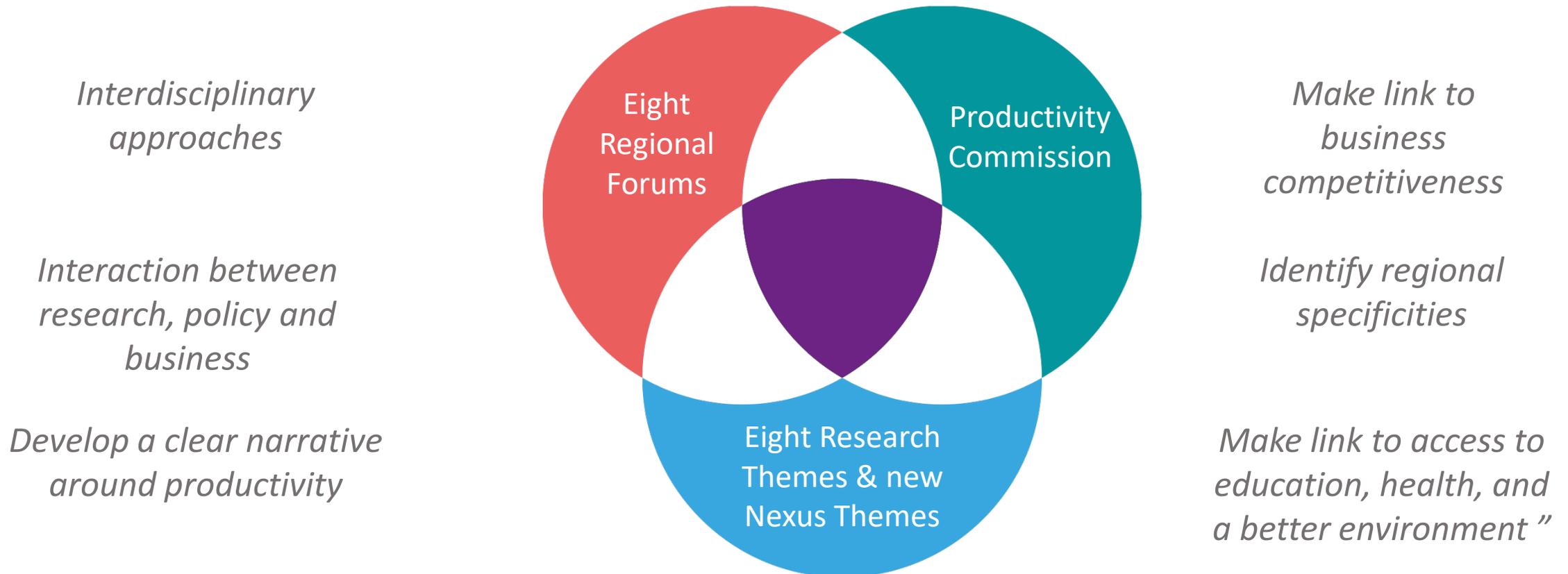


Social, environmental and technological transitions



# TPI'S MISSION AND HOW WE ARE GOING TO ACHIEVE THIS

***Lay the foundations for an era of **sustained and inclusive productivity growth** and help **policy makers and business leaders** across the UK understand how to **improve productivity and raise living standards*****



# Solving the Productivity Puzzle requires getting many things right

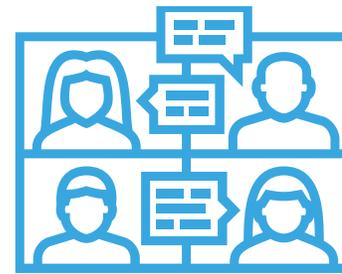
*Invest in people, ideas and your organisation*



Human capital



Knowledge capital

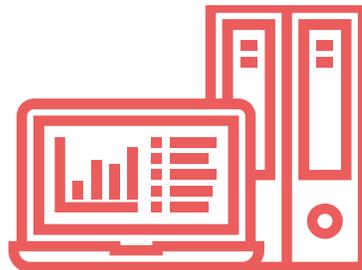


Organisational capital

*Leverage power of place*



Geography and place



Macroeconomic trends and policy



Institutions and governance



Measurement and methods



Social, environmental and technological transitions

*Collaborate*

*Measure success*

*Focus on the big picture*