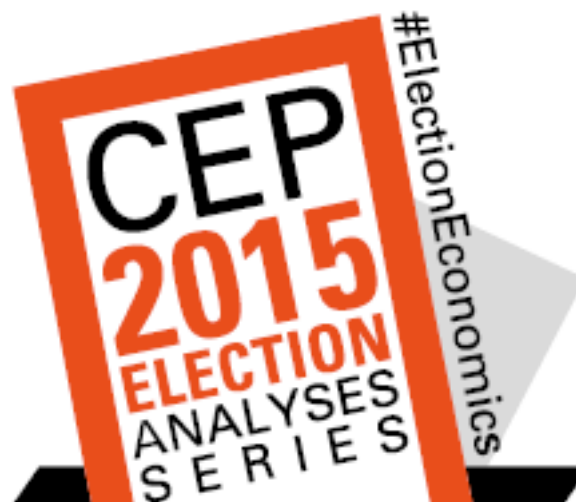


The Election & the Economy

John Van Reenen (Professor of Economics LSE & Director Centre for Economic Performance)

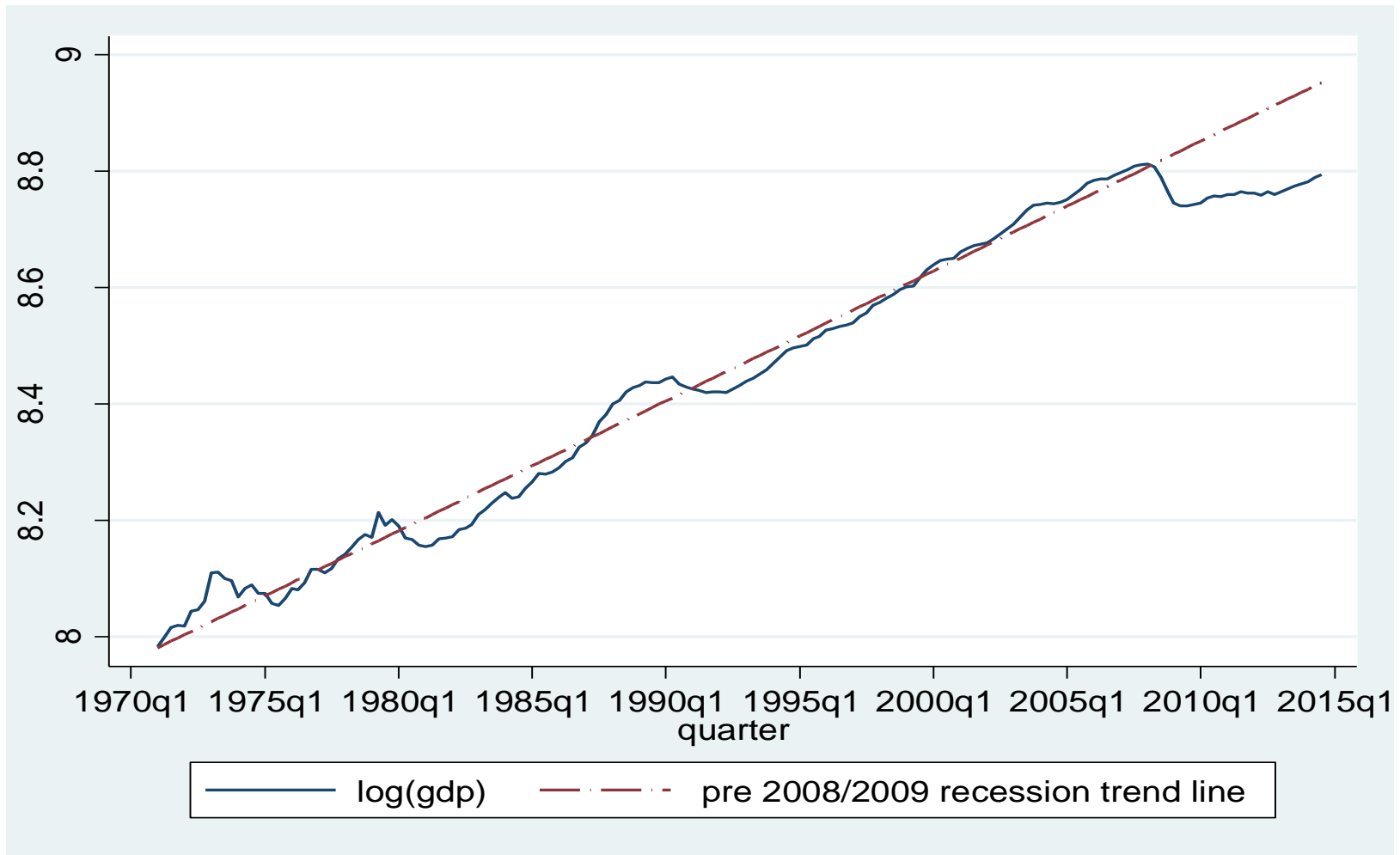
LSE March 2015



Big Economic Issues

- **General Picture & productivity**
- Fiscal Consolidation (Austerity)
 - Consensus
 - Investment
 - Taxes
- Infrastructure – housing; energy & transport
- NHS
- Schools
- Living standards: Old vs. Young

A DISMAL ECONOMY? GDP PER PERSON IS NOW 16% BELOW TREND

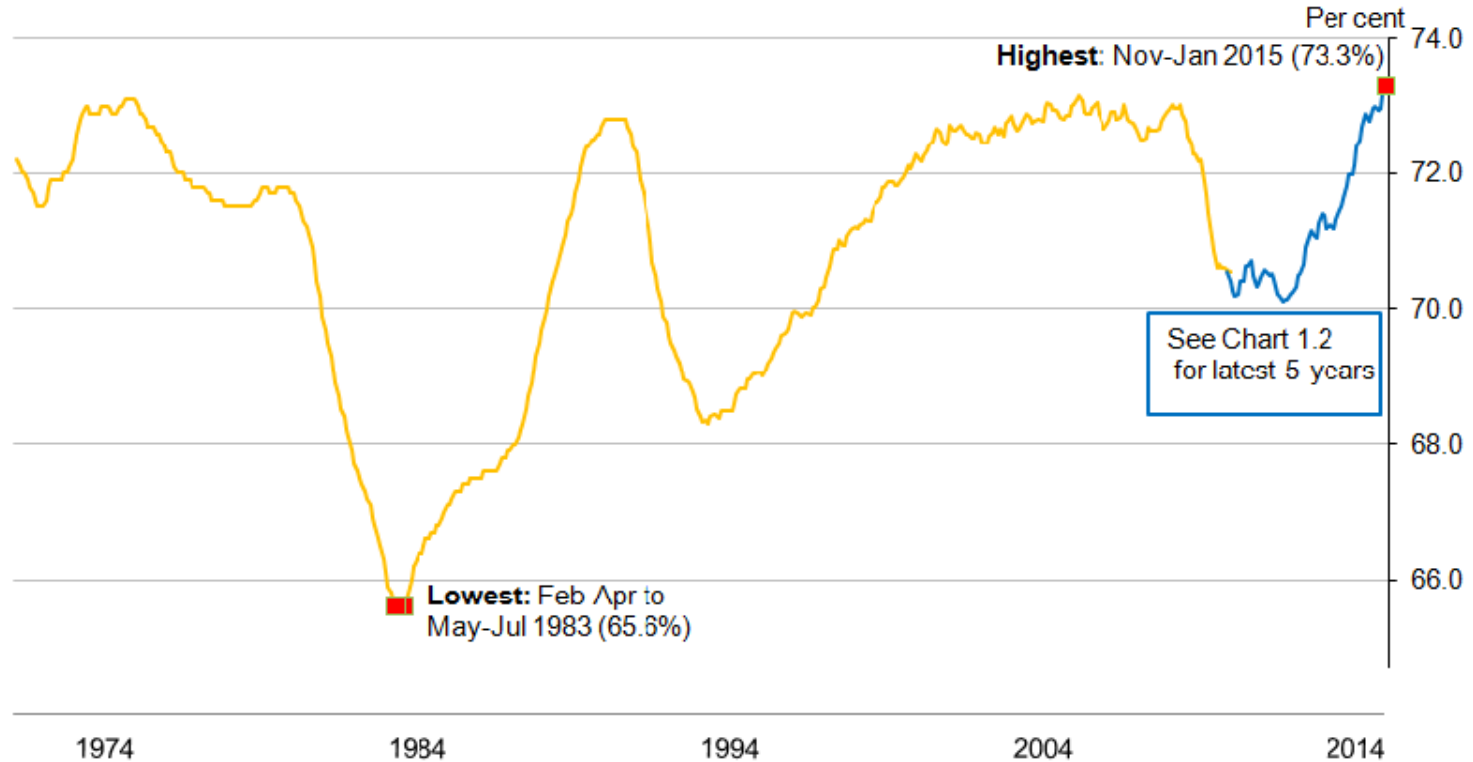


Notes: Trend line at 0.558% per quarter (linear trend from 1970Q1 to 2008Q1 when recession began). Growth 2010Q2 to 2014Q3 was 0.195% per quarter. Quarterly Gross domestic product (average) per head (series IHXW), market prices (downloaded February 23rd)

<http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=IHXW&dataset=ukea&table-id=X11>.

A HAPPY ECONOMY? EMPLOYMENT RATE AT RECORD HIGH

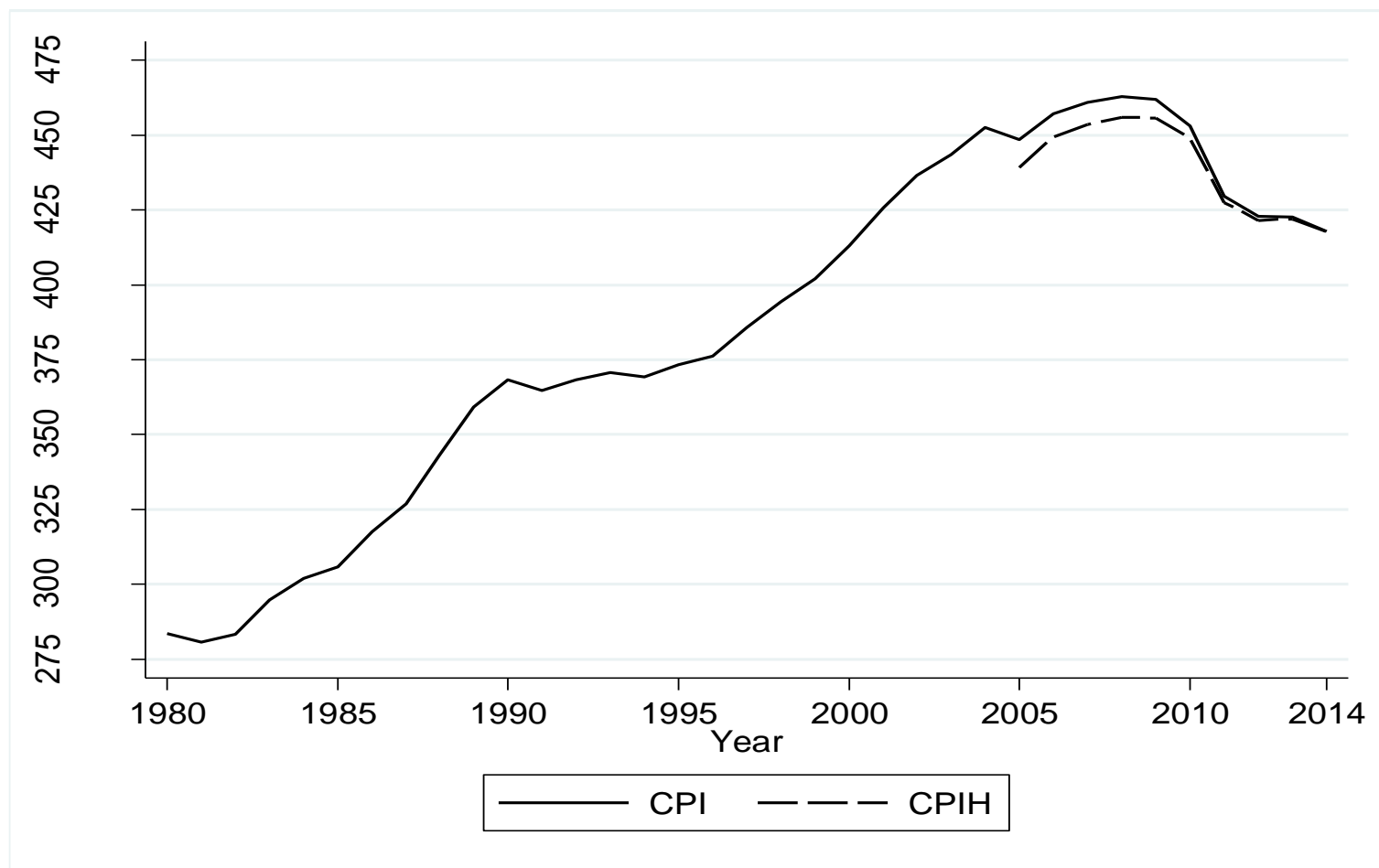
Chart 1.1: Employment rate (aged 16 to 64) from January-March 1971, seasonally adjusted



Source: Labour Force Survey - Office for National Statistics

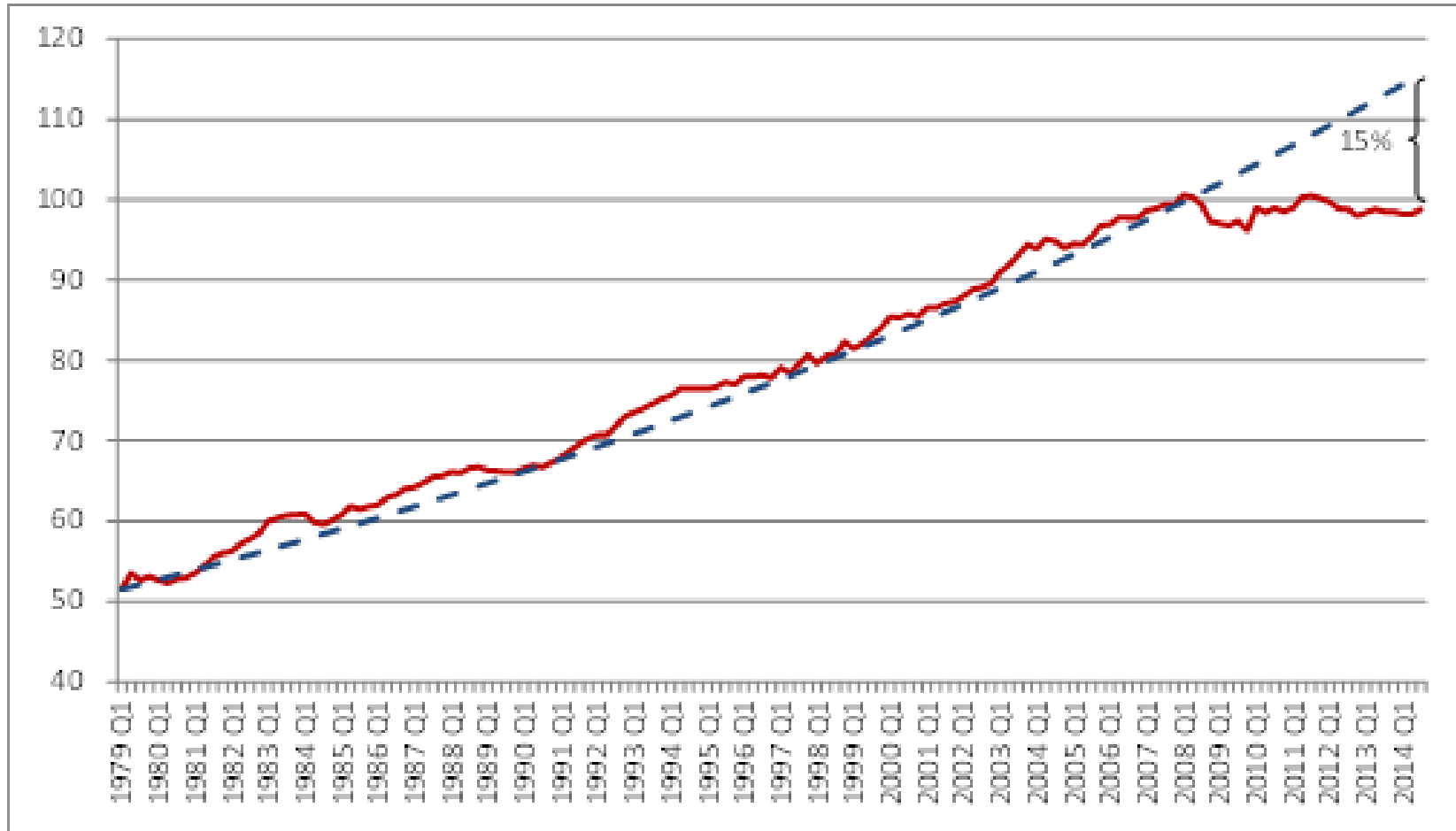
Source: ONS LFS (2015, March) http://www.ons.gov.uk/ons/dcp171778_396467.pdf

EXPLANATION: MEDIAN REAL WAGES DOWN 8%-10%



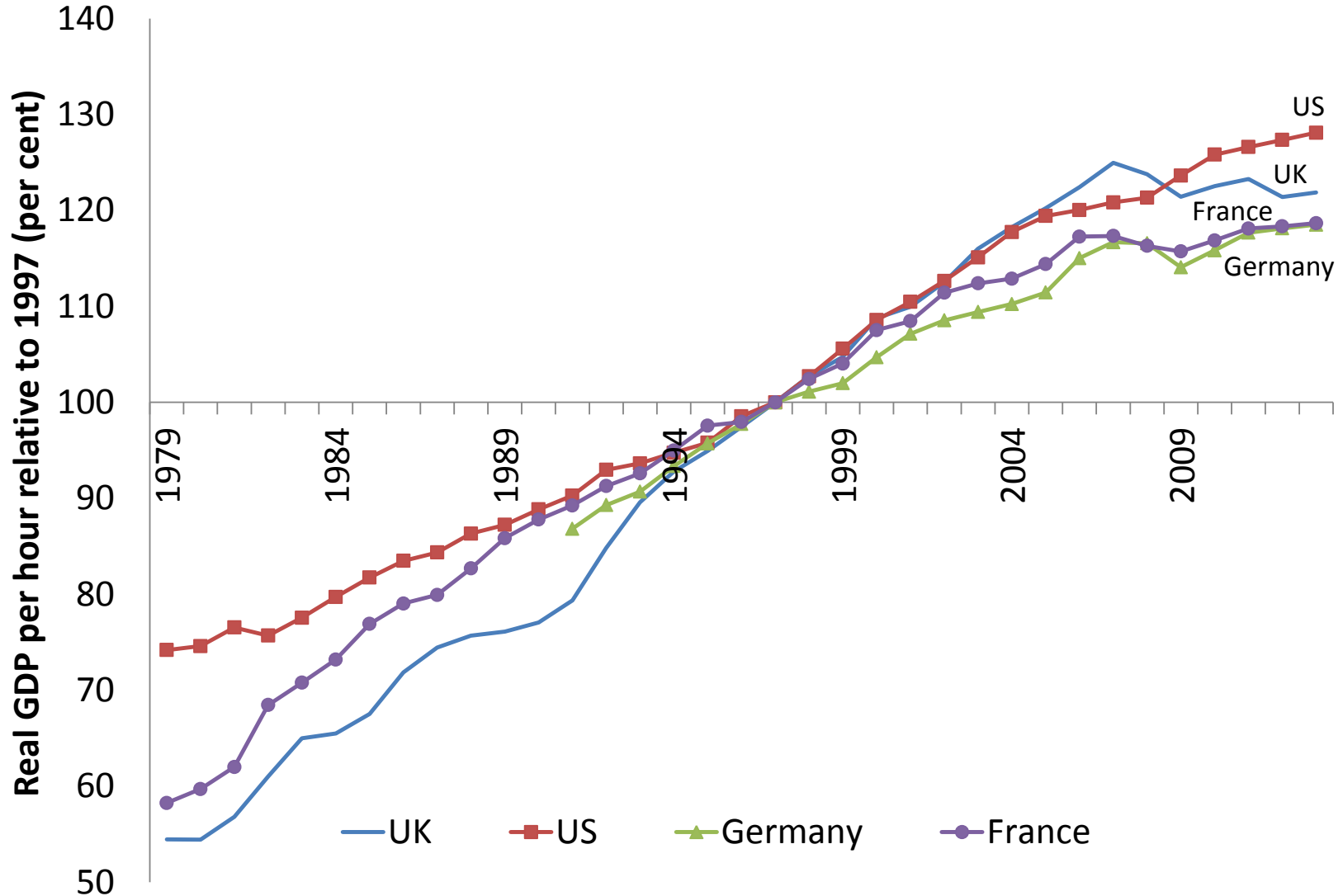
Notes: Annual Survey of Hours and Earnings (ASHE) weekly earnings numbers, updated from Gregg et al (2014a, 2014b), deflated by CPI and CPIH (from 2005).

HAND IN HAND WITH LOUSY PRODUCTIVITY GROWTH (GDP PER HOUR)



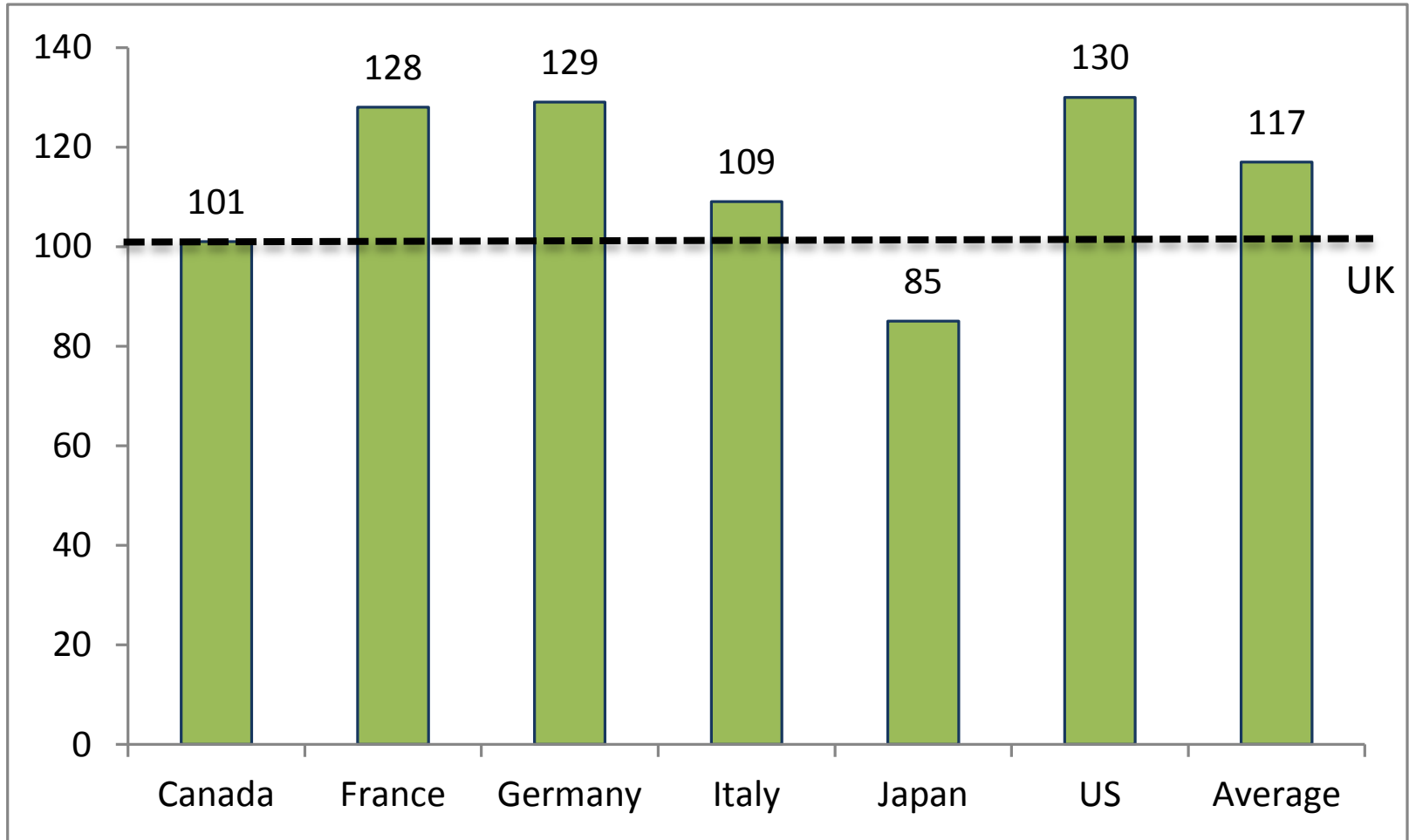
Source: <http://cep.lse.ac.uk/pubs/download/ea021.pdf>

WASN'T ALWAYS THIS WAY: UK WAS CATCHING UP IN PREVIOUS 30 YEARS BEFORE CRISIS



Source: <http://cep.lse.ac.uk/pubs/download/ea021.pdf>

PRODUCTIVITY LEVELS (GDP PER HOUR)



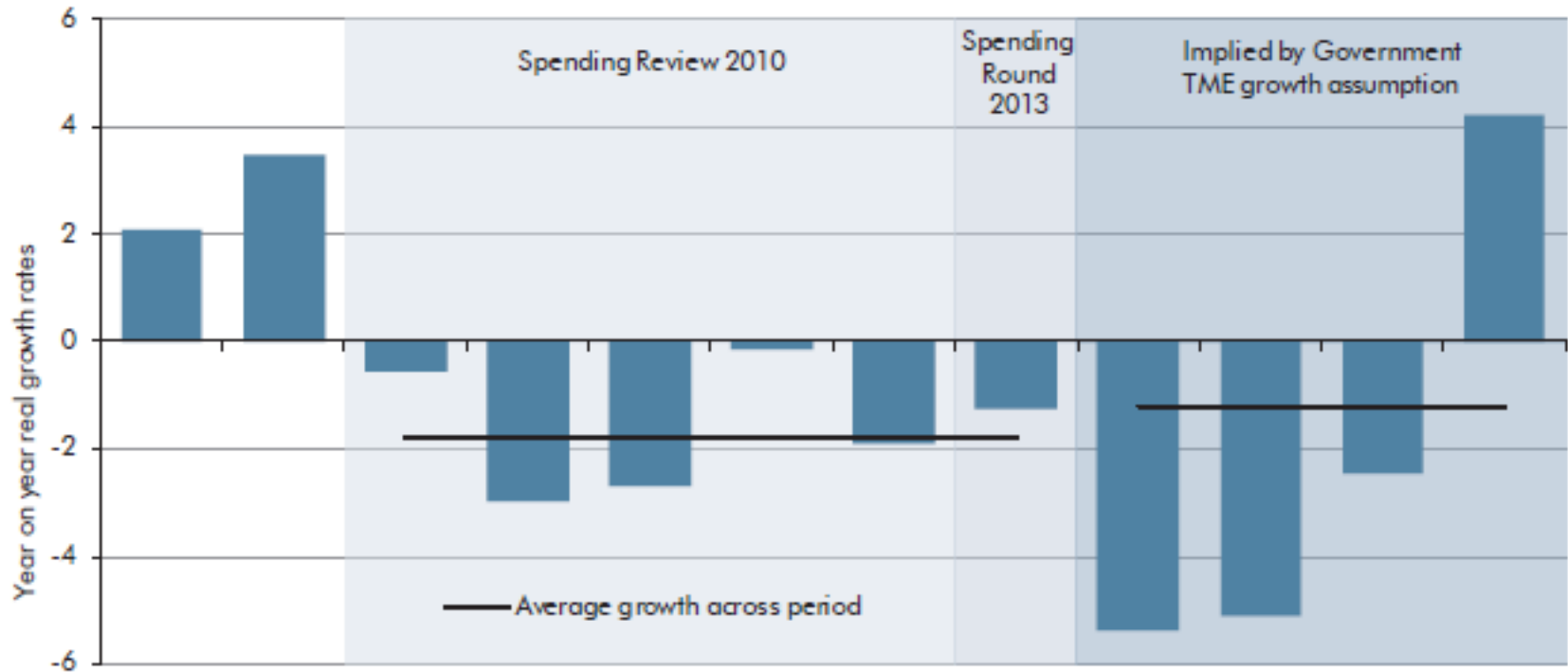
Source: <http://cep.lse.ac.uk/pubs/download/ea021.pdf>

Big Economic Issues

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- NHS
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THE “ROLLERCOASTER” PATTERN OF SPENDING ON PUBLIC SERVICES

Chart 1.3: Year-on-year growth in real resource DEL spending



Note: RDEL series excludes major historical switches with AME as well as switches with AME in forecast years. Details are available in the supplementary fiscal tables on our website.
Source: OBR

Source: OBE (March, 2015)

http://cdn.budgetresponsibility.independent.gov.uk/March2015EFO_18-03-webv1.pdf

Total managed spending manages not to fall to a new low

% of GDP



Source: OBR

Note: 2019-20, public spending 36.0% of GDP (35.8% in 1967-58) instead of 35% as in Autumn Statement

Big Economic Issues

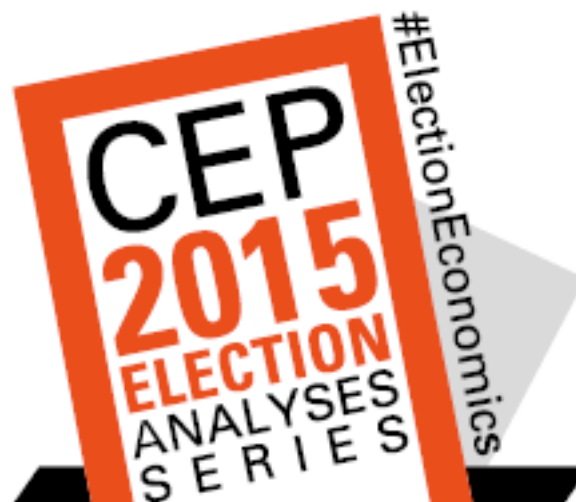
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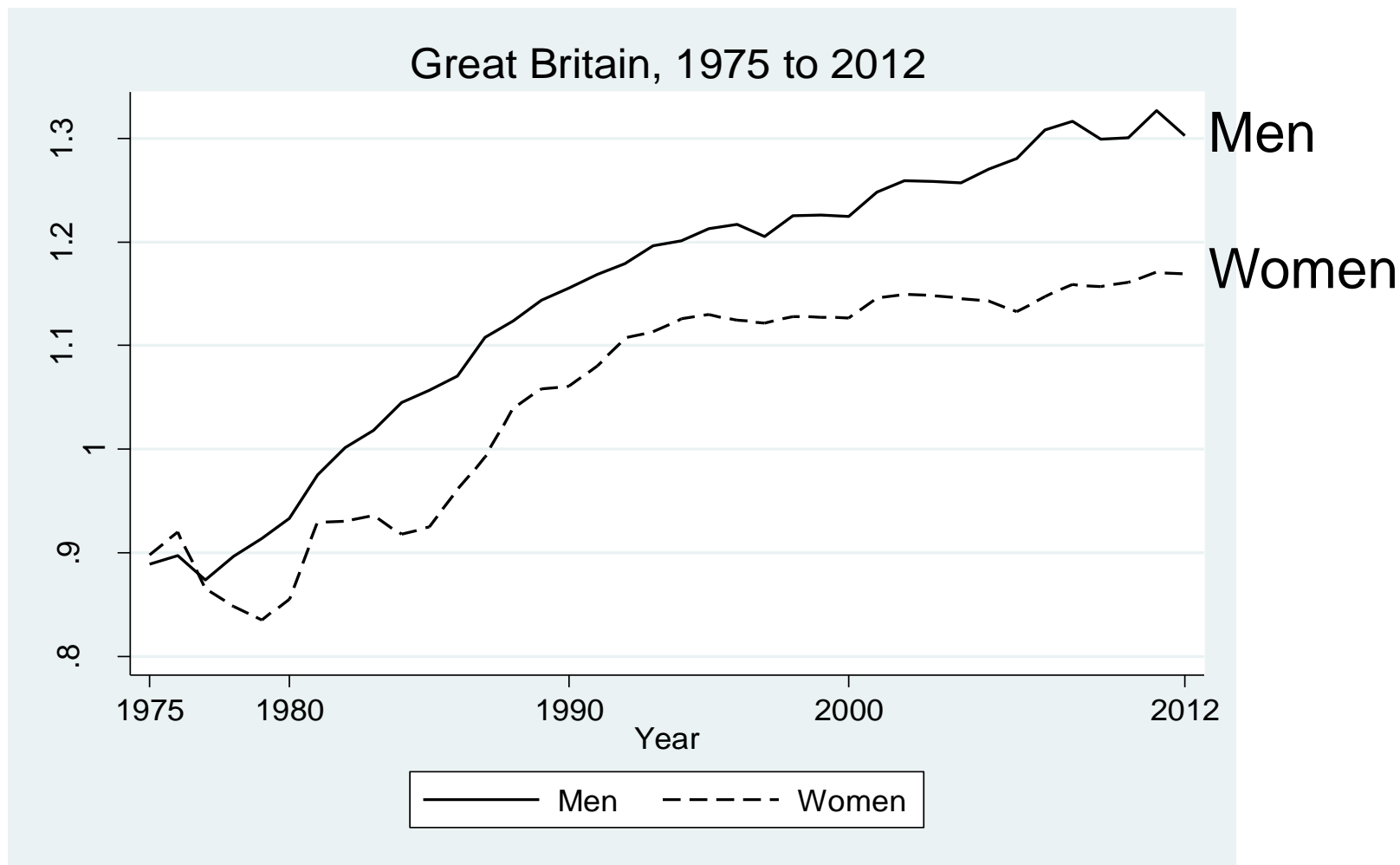
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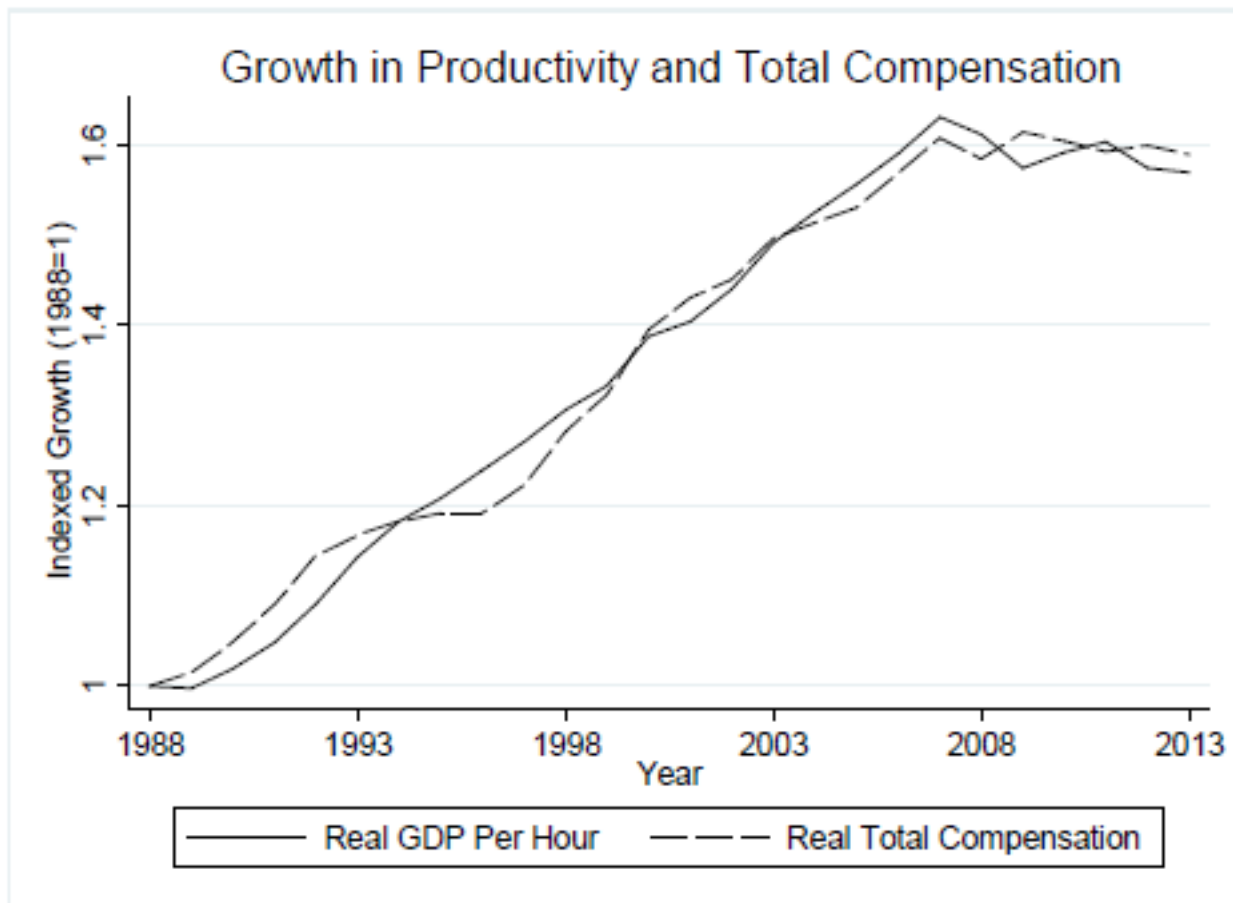


PERCENTAGE DIFFERENCE IN PAY BETWEEN TOP AND BOTTOM 10% OF EARNERS, UK



Notes: UK data, 1968-96 (NES) 1997-2012 (ASHE); (90-10 log weekly earnings ratios, full-time, 1975-2012)

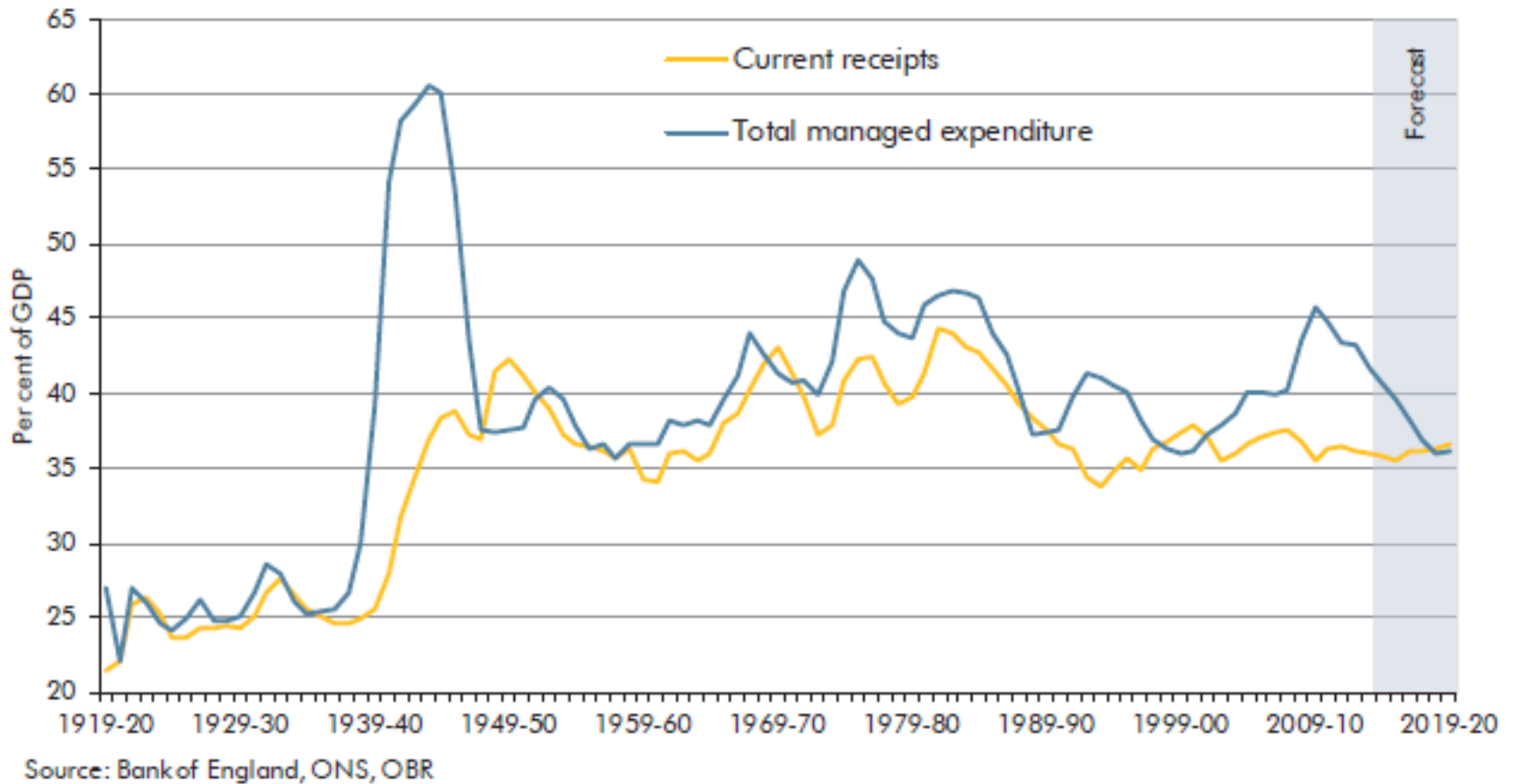
Labour Productivity and Annual Compensation, 1988 to 2013



Notes: From Gregg, Machin and Fernandez-Salgado (2014).

ALL TO AVOID THE CLAIM OF “LOWEST PUBLIC SPENDING SINCE 1930’S” (1948)

Chart 1.2: Total public sector spending and receipts



Note: 1919-20, public spending 36.0% of GDP (35.8% in 1967-58) instead of 35% as in Autumn Statement

Historical Real Wage Falls, UK

Periods of Real Wage Falls Over Long Term, UK

	1865-67	1874-78	1921-23	1976-77	2007-14
Duration (years)	2	4	2	2	7
Depth (%)	-10	-1.7	-8.2	-6.6	-8.2
Recovery (%)	12.8	0.6	4.5	14.5	n.a.
Total change over seven years (%)	1.2	-1.1	-4.0	6.9	-8.2

Source: Trade Union Congress. Notes: taken from 'UK workers suffering the most severe squeeze in real earnings since Victorian times', Labour Market and Economic report, available at <http://www.tuc.org.uk/economic-issues/labour-market-and-economic-reports/economic-analysis/britain-needs-pay-rise/uk>.