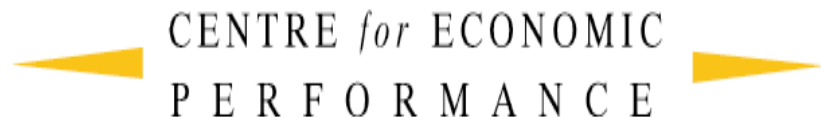


SOURCES OF GROWTH

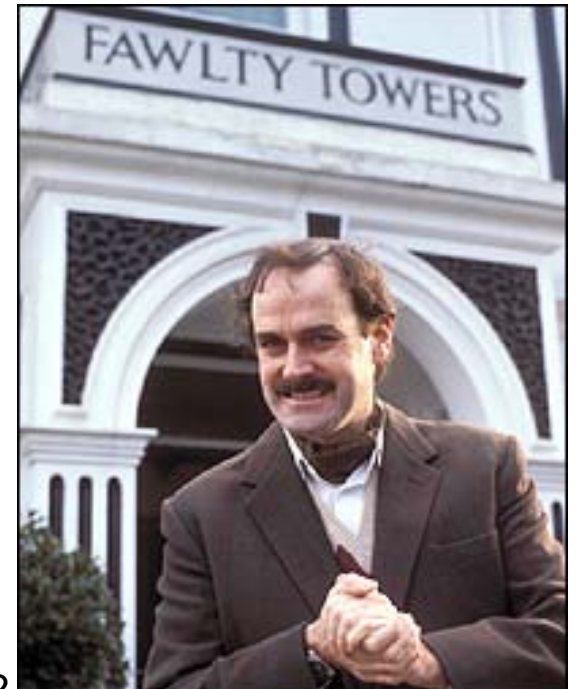
John Van Reenen

Department of Economics, LSE;
Director, Centre for Economic Performance

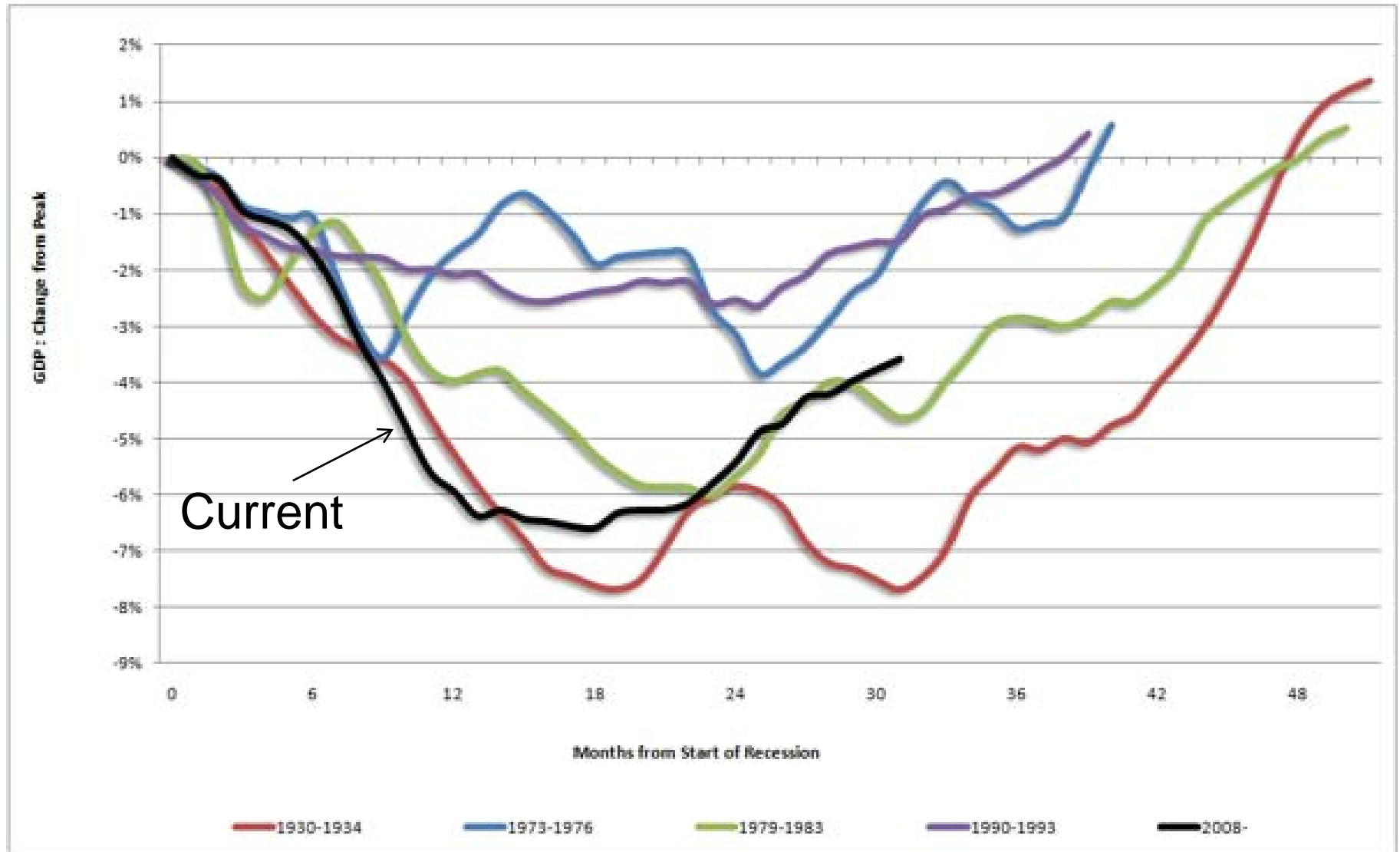
CEP 21st Birthday Series Lecture No. 2
LSE, November, 2010



SOURCES OF GROWTH?



2008-09 "GREAT RECESSION" COMPARED TO PREVIOUS RECESSIONS, CUMULATIVE CHANGE IN UK GDP



Source: NIESR (November 2010)

QUESTIONS

- **What are the drivers of growth?**
 - Technological innovation
 - Management practices
 - Micro-economic structural reforms
- **Are the Government's budget consolidation measures justified?**
 - No, March 2010 Budget better
 - Extreme austerity will harm economy
- **How can we rebalance the UK economy?**
 - Private Sector (e.g. finance & construction to manufacturing & market services)
 - Public sector

OUTLINE

1. Productivity: what is it & how is UK doing?

2. Why is there a productivity gap?

3. The drivers of better management

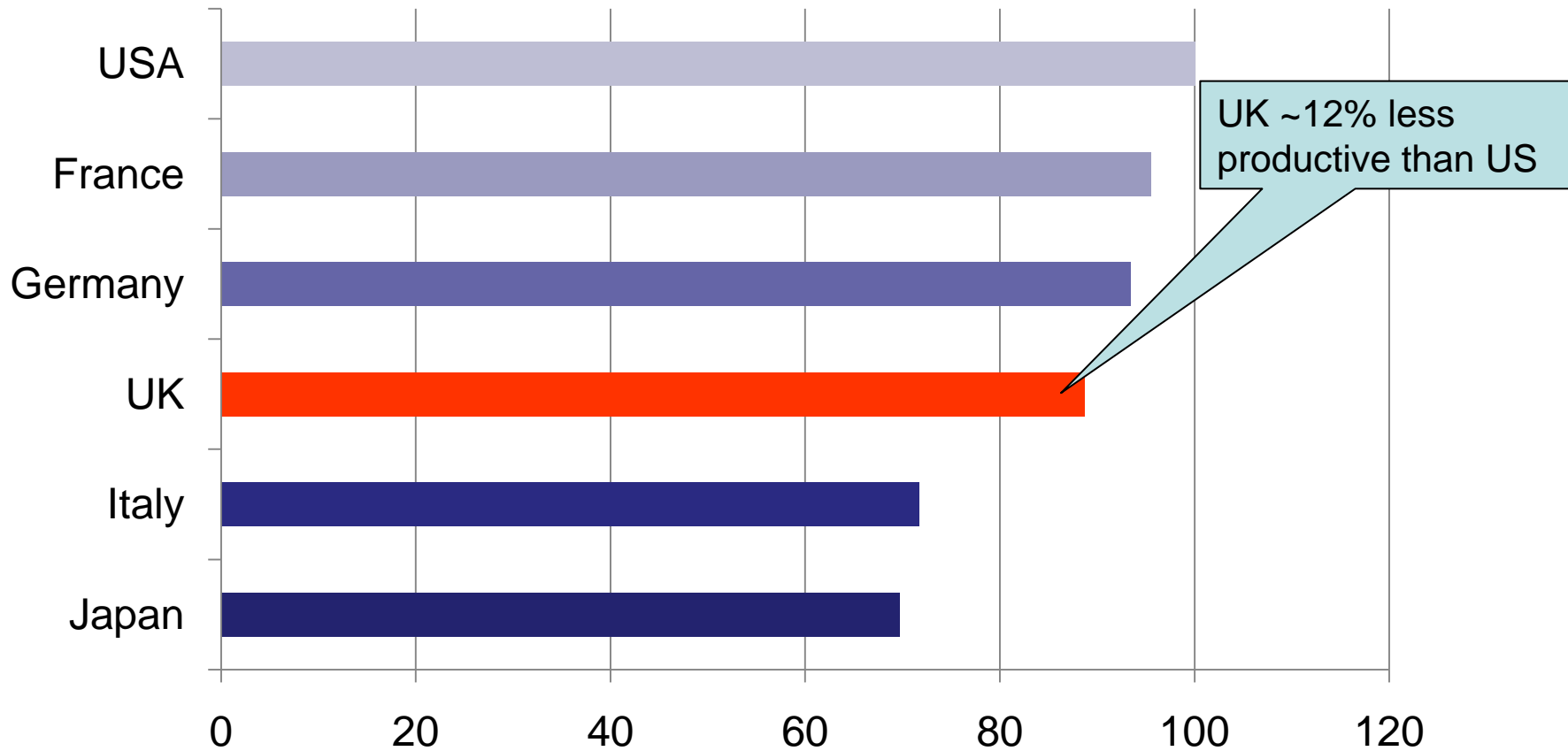
4. Micro-Policy: Structural reforms for long-term growth

5. Macro-Policy: Austerity and its implications

WHAT IS PRODUCTIVITY AND WHY SHOULD WE CARE?

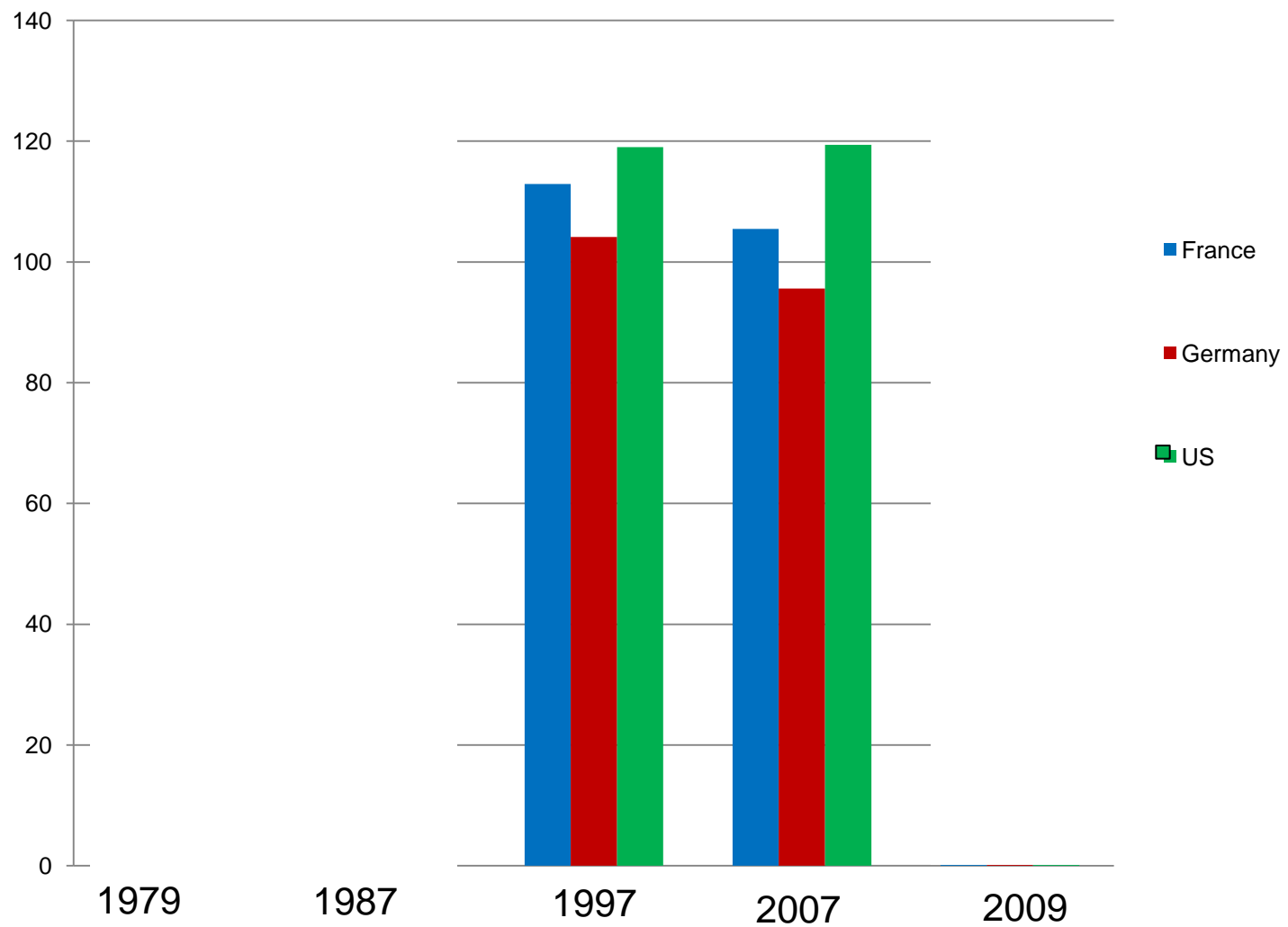
- **Absolute growth of GDP not the issue**
- **Productivity growth is what matters (GDP per hour & TFP)**
 - Drives growth of real wages & consumption
 - Can facilitate redistribution
- **Downsides to productivity growth**
 - Poverty?
 - Happiness?

RELATIVE LABOUR PRODUCTIVITY (GDP PER HOUR) IN 2009, US=100



Source: Conference Board World Economy Database,
September 2010

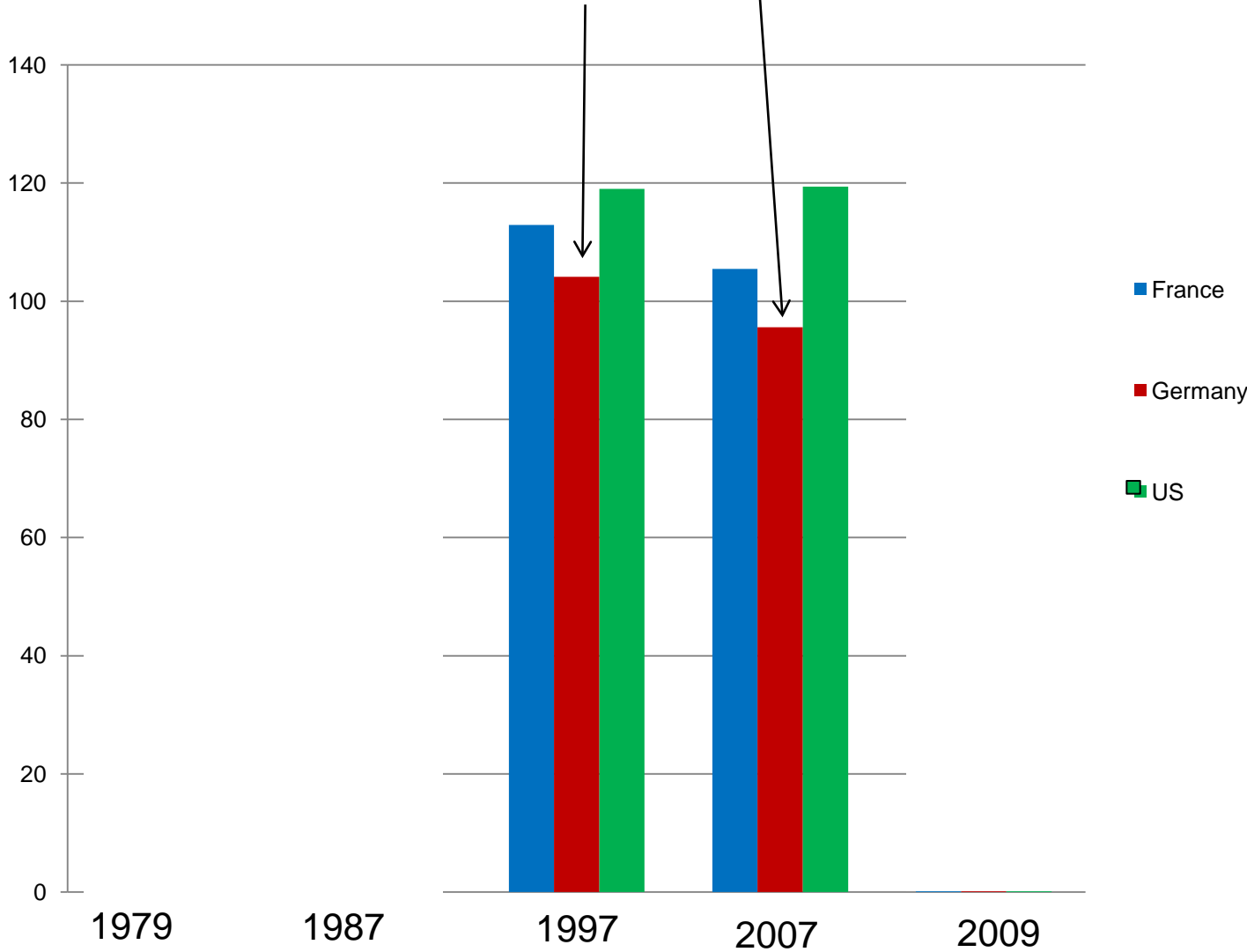
GDP PER WORKER RELATIVE TO UK IN US, FRANCE & GERMANY (UK=100), 1979-2009



Source: Conference Board (2010), PPPs

UK RELATIVE GDP PER WORKER

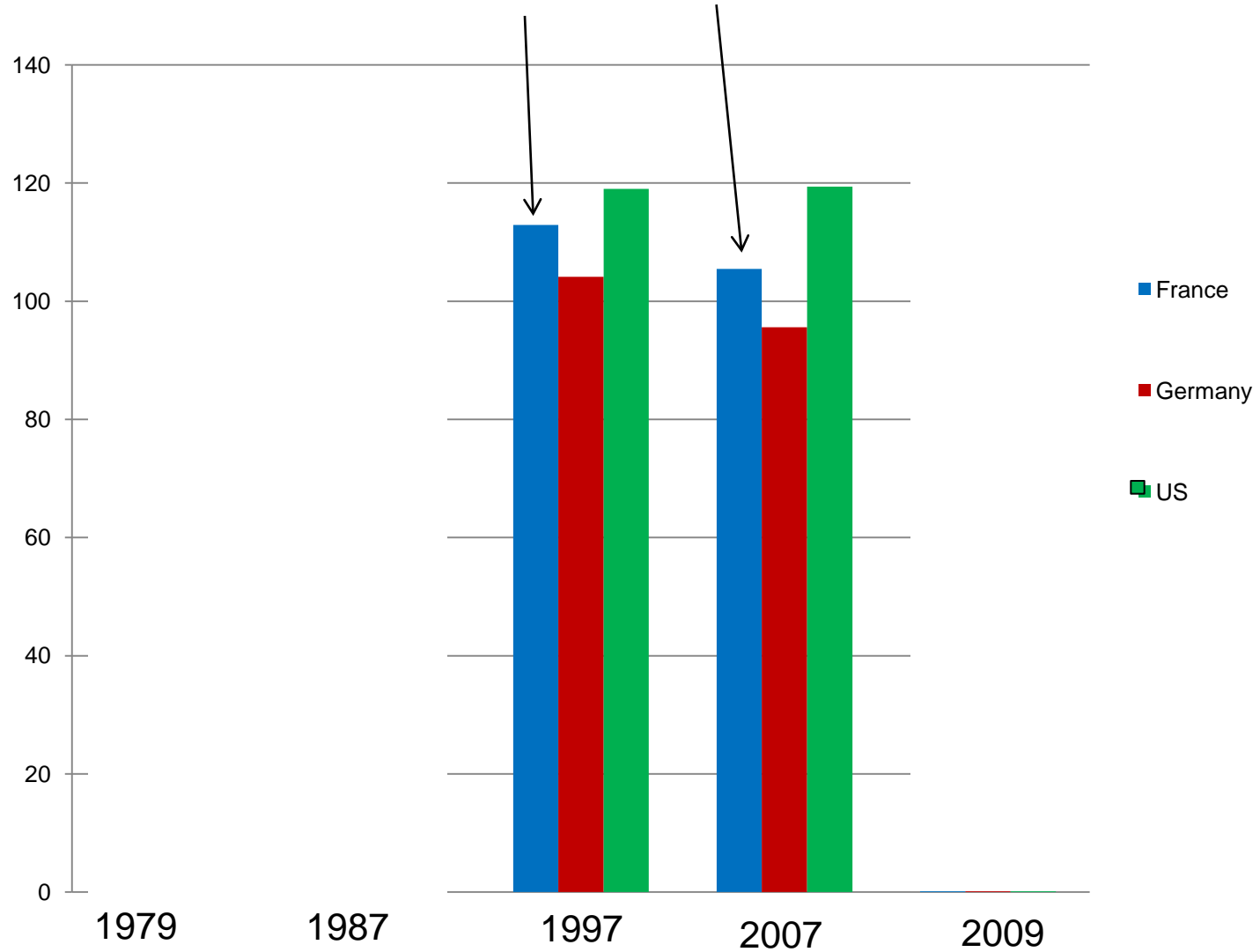
UK Gap with Germany reverses from -4% to +7%



Source: Conference Board (2010), PPPs

UK RELATIVE GDP PER WORKER

UK Gap with France falls from -13% to -10%



Source: Conference Board (2010), PPPs

RECENT TRENDS IN PRODUCTIVITY

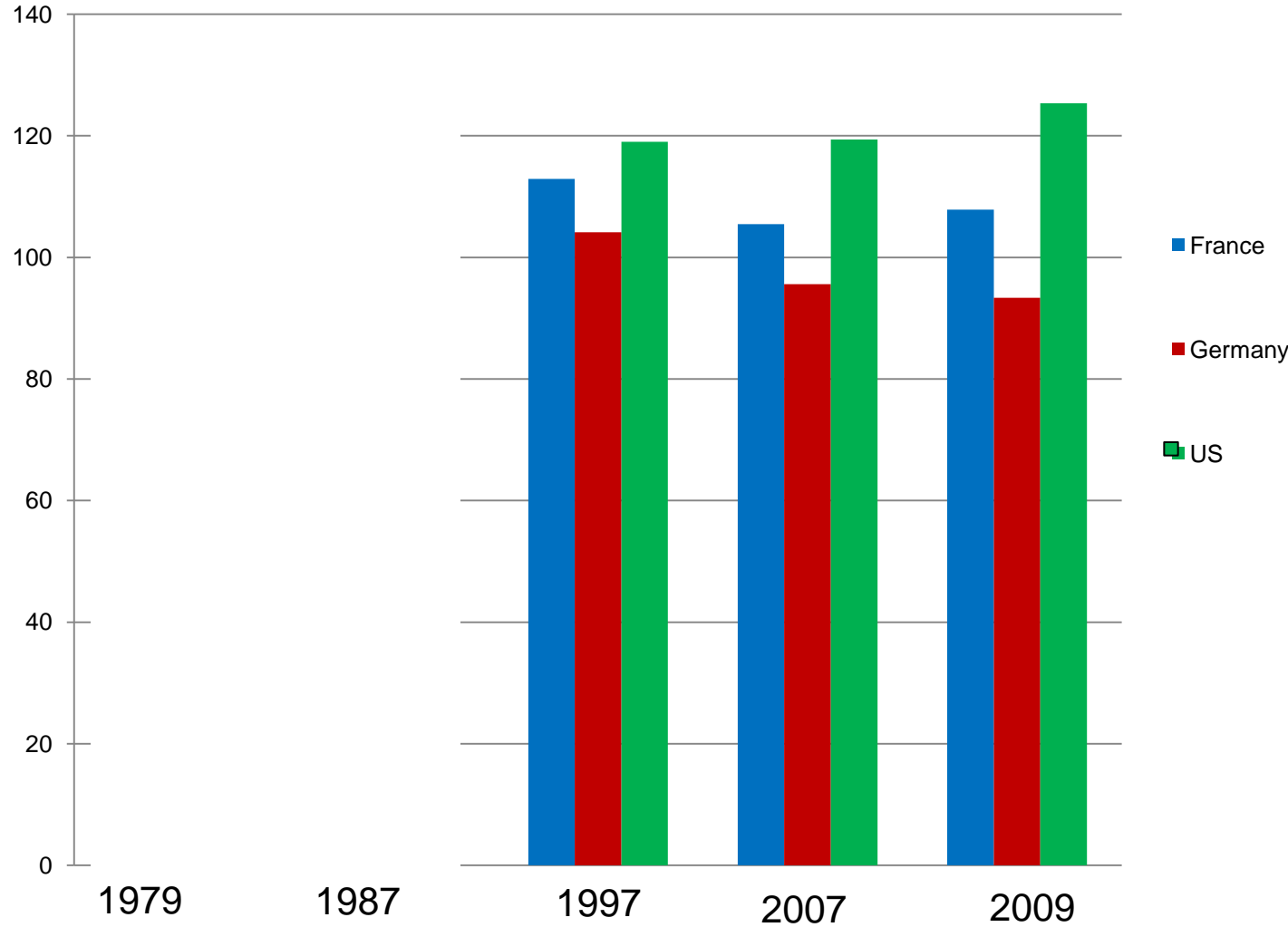
- After 1970s Oil Shocks a Productivity slowdown (e.g. US productivity growth slowed to about 1.2% p.a)
- From mid-1990s, US productivity “miracle”
- Crisis after end 2007

GDP/hour p.a. growth

	US	EU-15	UK	France	Germany
1995-2005	2.3%	1.5%	2.2%	1.8%	1.6%
2005-2009	1.2%	0.3%	0.4%	0.2%	0.3%

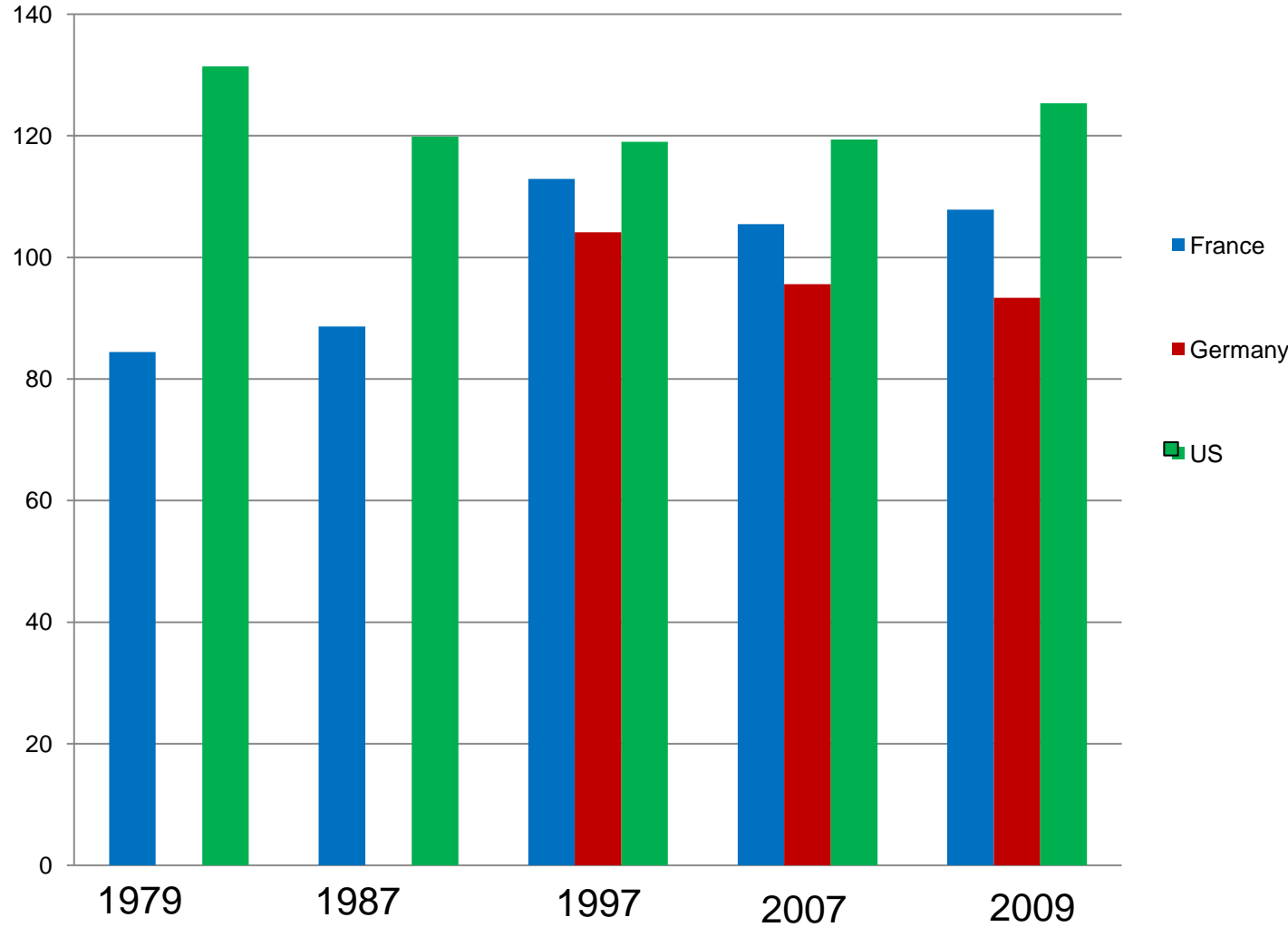
Source: Conference Board, September 2010¹¹

GDP PER WORKER RELATIVE TO UK IN US, FRANCE & GERMANY (UK=100), 1979-2009



Source: Conference Board (2010), PPPs

GDP PER WORKER RELATIVE TO UK IN SELECTED NATIONS (UK=100), 1979-2009



Source: Conference Board (2010), PPPs

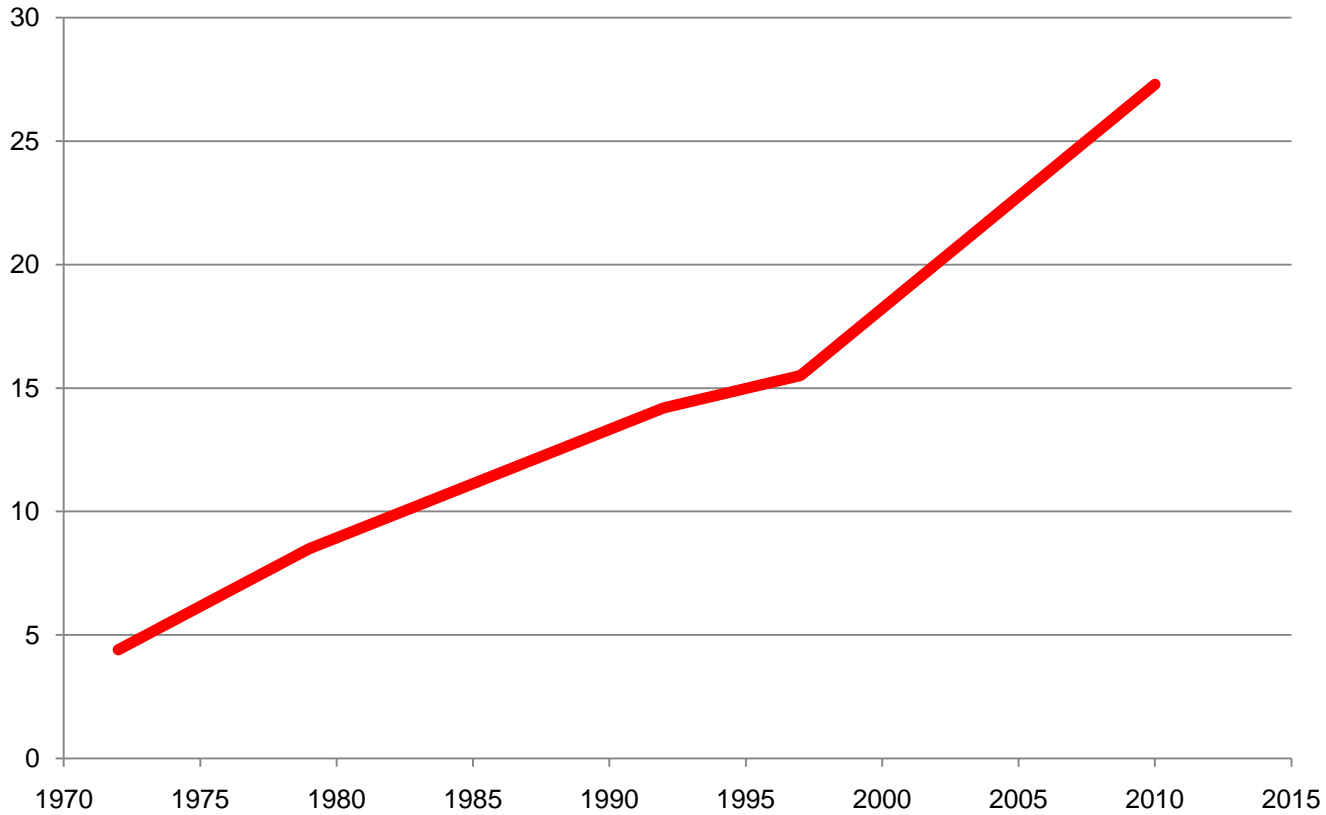
WHAT HELPED IMPROVE UK'S PRODUCTIVITY POSITION POST 1997?

- Not driven just by financial sector; e.g. retail/wholesale had very strong productivity growth
- Increase in human capital through university expansion & school reforms (see over)
- R&D supported both directly & introduction of R&D tax credits (in 2000 for SMEs & 2002 for all firms)
- Product Market competition (e.g. Competition Policy Regime improved & ranked 2nd in world)

Also:

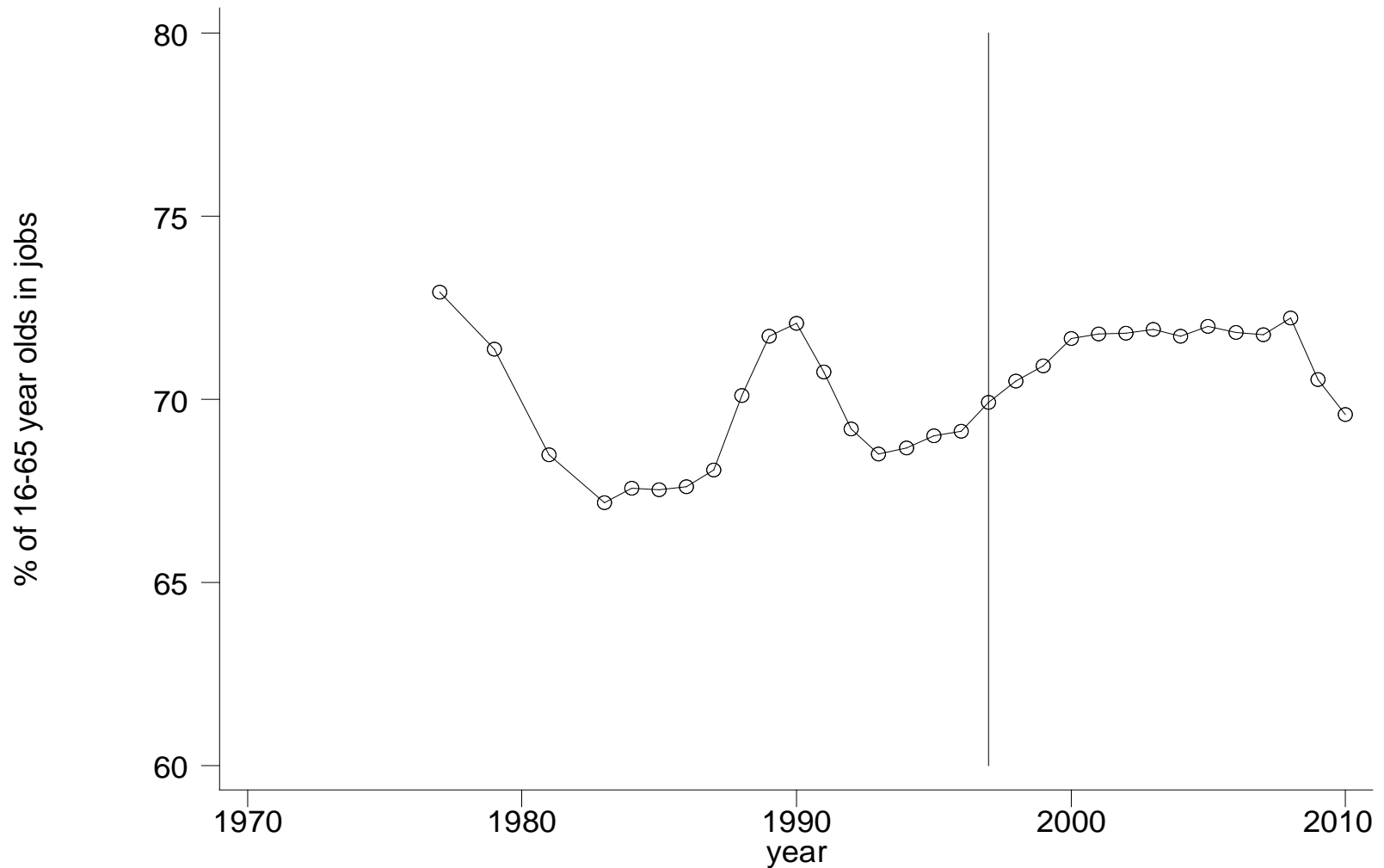
- Labour market flexibility
- Openness to FDI
- Labour market supported by welfare reform (e.g. New Deal)

PROPORTION OF UK WORKERS WITH A COLLEGE DEGREE ROSE BY 12 PERCENTAGE POINTS 1997-2010



Source: GHS and Labour Force Survey, Various years

IMPROVEMENTS IN UK EMPLOYMENT RATE OF ADULTS, 1978-2010



Source: Labour Force Survey, Various years, ages 16-65

OUTLINE

1. Productivity: what it is & how is UK doing?

2. Why is there a productivity gap?

- **Technological Innovation**
- **The role of management**

3. The drivers of better management

4. Micro-Policy: Structural reforms for long-term growth

5. Macro-Policy: Austerity and its implications

TECHNOLOGICAL INNOVATION THE CAUSE OF PRODUCTIVITY GAP WITH THE US ?

- **Partially correct: UK has innovation deficit:**
 - Although universities/basic science strong (e.g. highest paper citation to GDP ratio of G8 nations)
 - But commercialization weak: Research & Development (R&D), Patenting, etc.

UK SECOND ONLY TO US IN ELITE SCIENCE

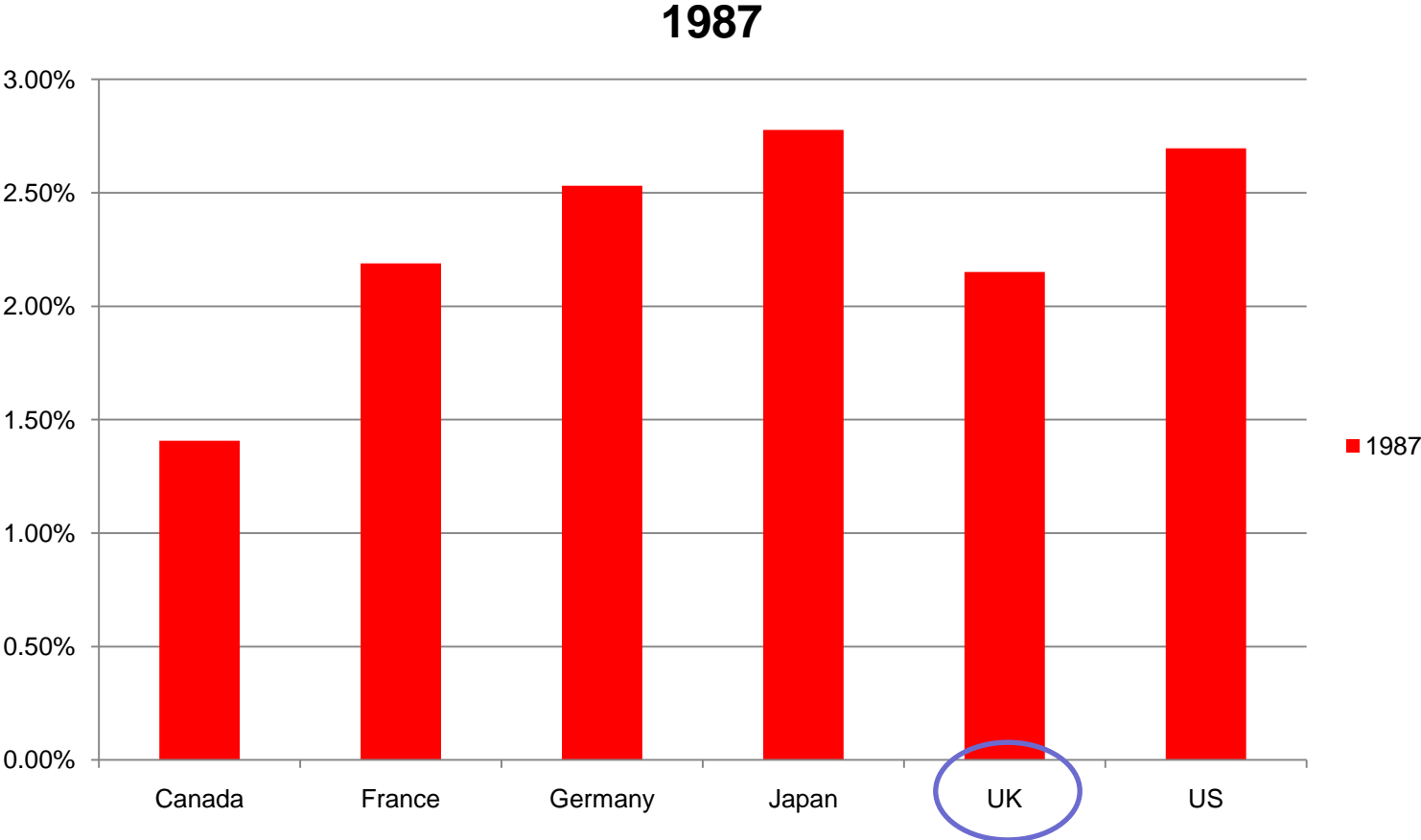
	Share of top scientific papers	Rank
US	58.6	1
UK	14.4	2
GERMANY	11.1	3
FRANCE	7.0	4
CANADA	6.2	5
JAPAN	6.1	6
ITALY	4.8	7
NETHERLANDS	4.3	8
CHINA	4.2	9

Notes: Shares of the most cited scientific papers 1999-2008 (top 1%)

Source: BIS/Thompson-Reuters (2009) “International comparative performance of the UK research base”, Table 1.12, p.60

http://www.bis.gov.uk/assets/biscore/corporate/migratedd/publications/i/icpruk09v1_4.pdf

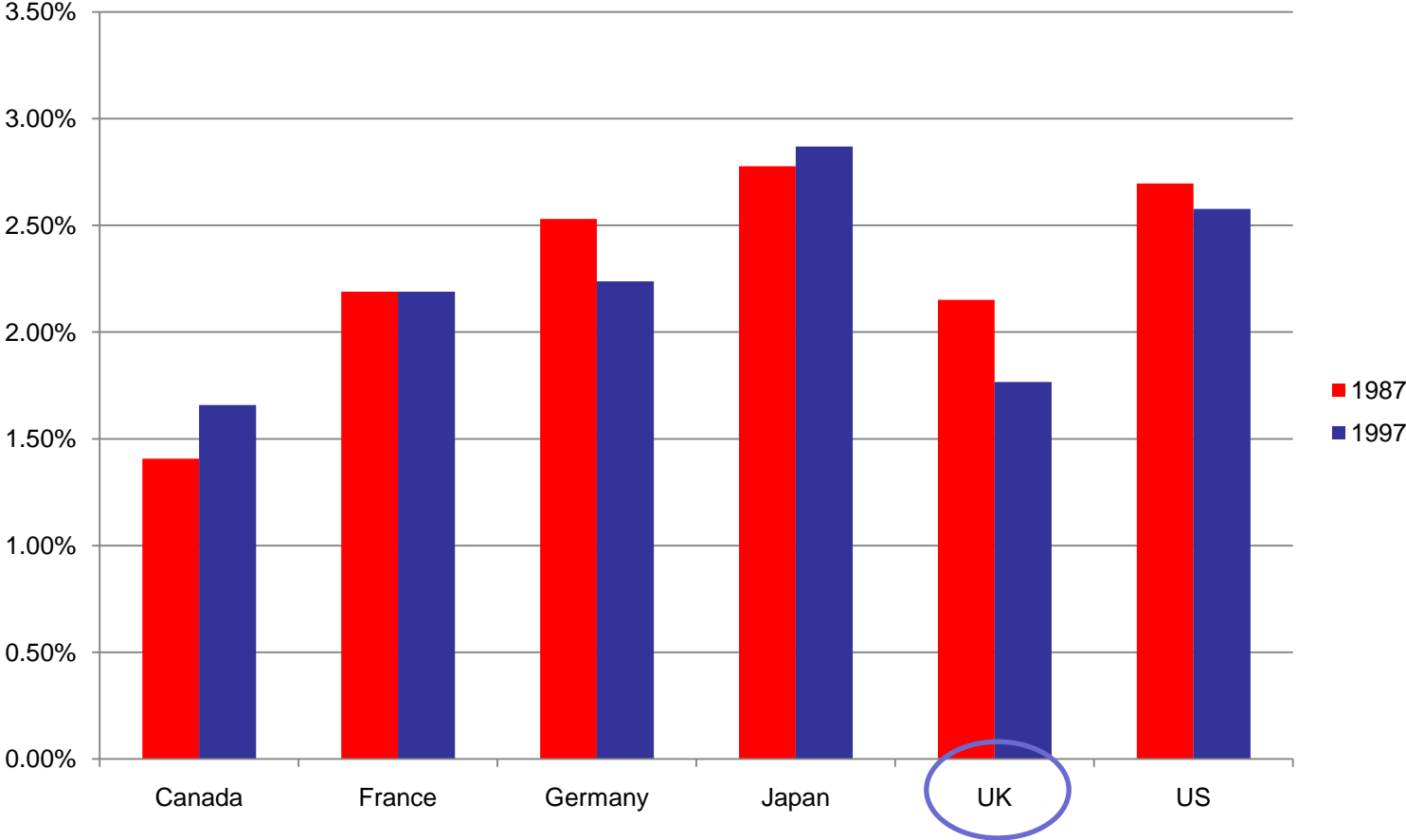
UK R&D LOW COMPARED TO OTHER COUNTRIES. TOTAL RESEARCH AND DEVELOPMENT AS A % OF GDP



Source: OECD (GERD/GDP)

UK R&D DECLINE 1987-1997? TOTAL RESEARCH AND DEVELOPMENT AS A % OF GDP

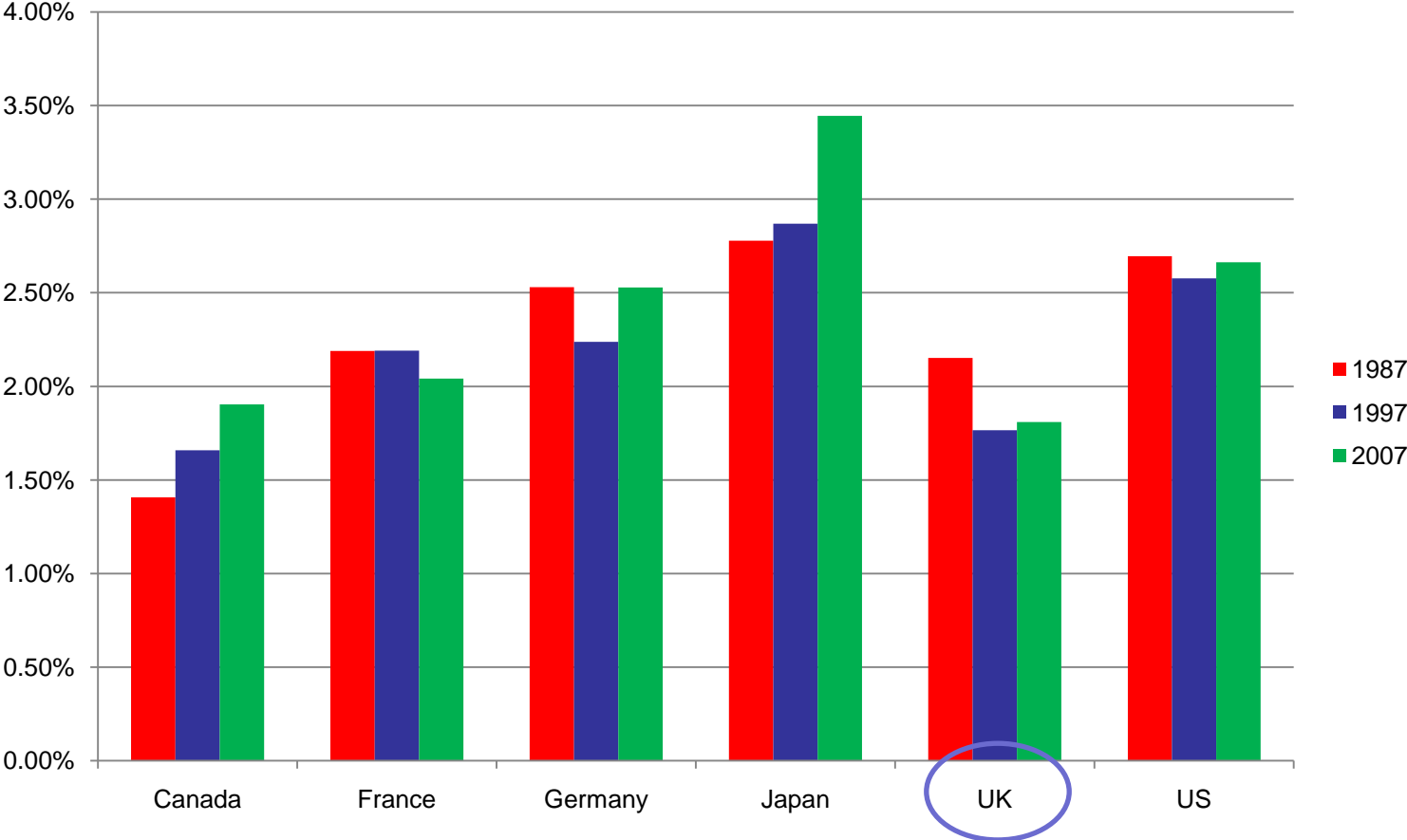
1997



Source: OECD (GERD/GDP)

UK R&D DECLINE HALTED? TOTAL RESEARCH AND DEVELOPMENT AS A % OF GDP

2007



Source: OECD (GERD/GDP)

TECHNOLOGICAL INNOVATION THE CAUSE OF PRODUCTIVITY GAP WITH THE US ?

- **But problem is not just “hard” technologies. Also problems with the way firms are managed**
- **“Innovations” in management such as**
 - Toyota’s Lean Manufacturing system (1970s)
 - American System of Manufacturing (1850s)
 - Taylor’s Scientific management (1900s)
 - Mass production (1920s)
 - Alfred Sloan’s M-form firm (1930s)
 - Demming’s quality movement (1950s)
- **Firms response to challenges & opportunities: Crisis, technology & globalization**

MANAGEMENT A CAUSE OF PRODUCTIVITY GAP?

- Research Program with Nick Bloom (Stanford) & CEP/LSE team over last 7 years
- How to quantify and compare management across firms and countries?
- Why don't all firms adopt best practice immediately? Similar to “hard” technologies (hybrid corn, ICT, etc.)
 - Information
 - Incentives
 - Human Capital
 - Other factors.....

THE SURVEY METHODOLOGY

1) Developing management questions

- Scorecard for 18 monitoring, targets and people
- ≈45 minute phone interview of manufacturing plant managers

2) Obtaining unbiased comparable responses (“Double-blind”)

- Interviewers do not know the company’s performance
- Managers are not informed (in advance) they are scored
- Run from LSE, with same training and country rotation

3) Getting firms to participate in the interview

- Introduced as “Lean-manufacturing” interview, no financials
- Official Endorsement: Bundesbank, PBC, RBI, etc.
- Run by 55 MBA types (loud, assertive & business experience)

MONITORING – e.g. *HOW IS PERFORMANCE TRACKED?*”

Score

(1): Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren't tracked at all

(3): Most key performance indicators are tracked formally. Tracking is overseen by senior management

(5): Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools

Note: All 18 dimensions and over 50 examples in Bloom & VanReenen (2006).

INCENTIVES - e.g. “HOW DOES THE PROMOTION SYSTEM WORK?”

Score	(1) People are promoted primarily upon the basis of tenure	(3) People are promoted upon the basis of performance	(5) We actively identify, develop and promote our top performers
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Note: All 18 dimensions and over 50 examples in Bloom & VanReenen (2006).

MANAGEMENT SURVEY SAMPLE

- Interviewed over 8,000 firms across Americas, Asia & Europe
- Obtained ~45% response rate from sampling frame (with responses uncorrelated with performance measures)

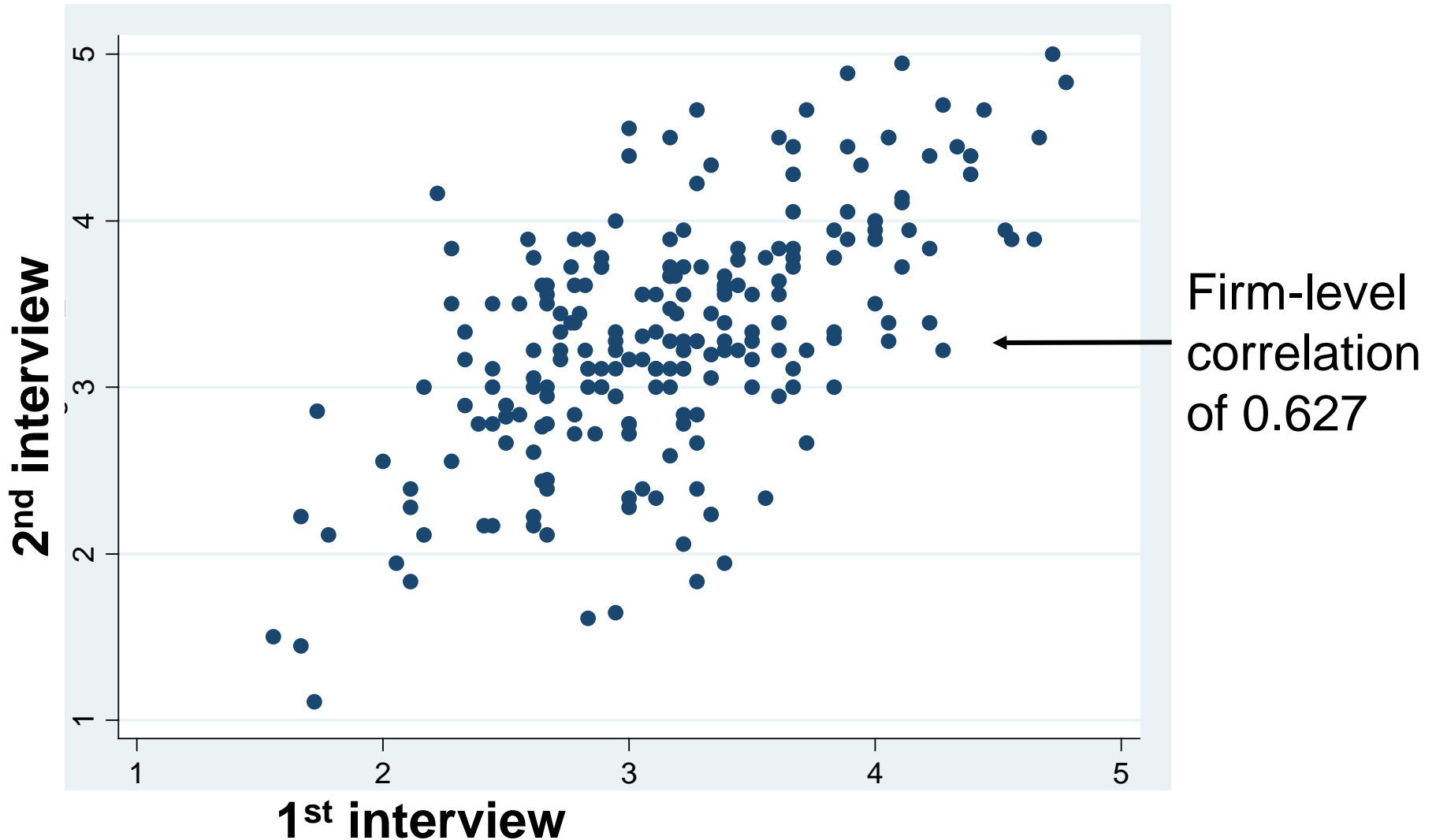
Medium sized manufacturing firms:

- Medium sized (100 - 5,000 employees, median \approx 250) because firm practices more homogeneous
- Manufacturing as easier to measure productivity
- Also examined management in Hospitals, Schools, Retail, Law Firms, nursing homes, charities, tax collection agencies

INTERVAL VALIDATION OF THE SCORING

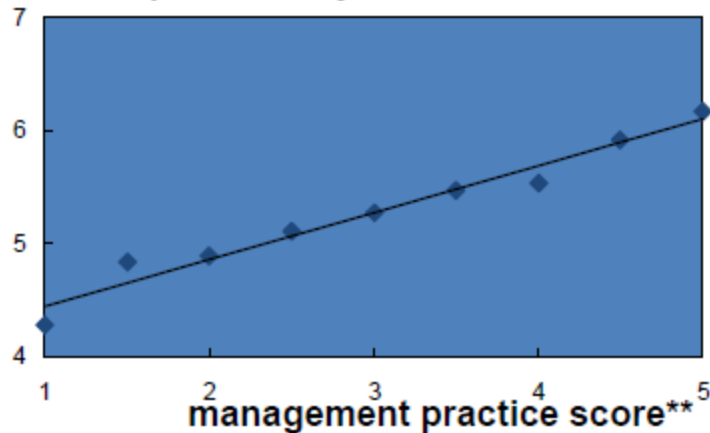
Re-interviewed 222 firms with different interviewers & managers

Firm average scores (over 18 question)

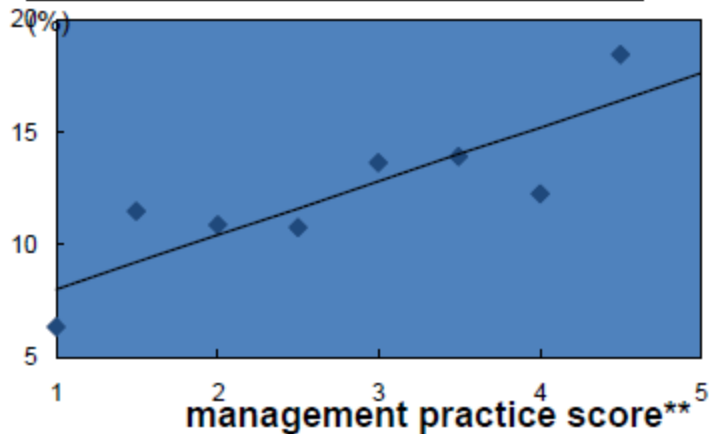


EXTERNAL VALIDATION: MANAGEMENT SCORE CORRELATES WELL WITH PERFORMANCE INDICATORS

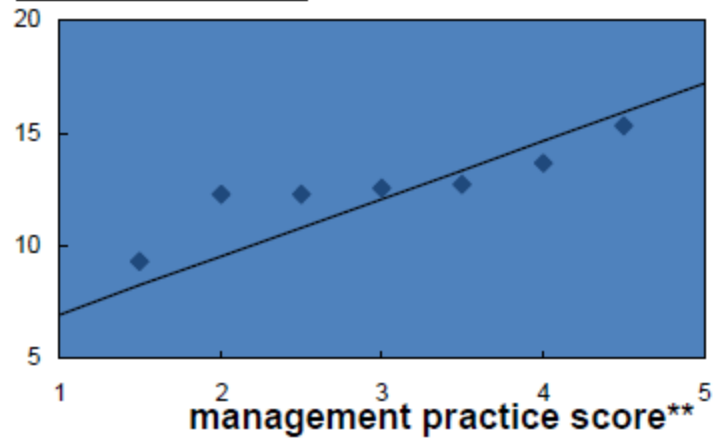
Labour productivity*



Return On Capital Employed, ROCE



Sales growth (%)

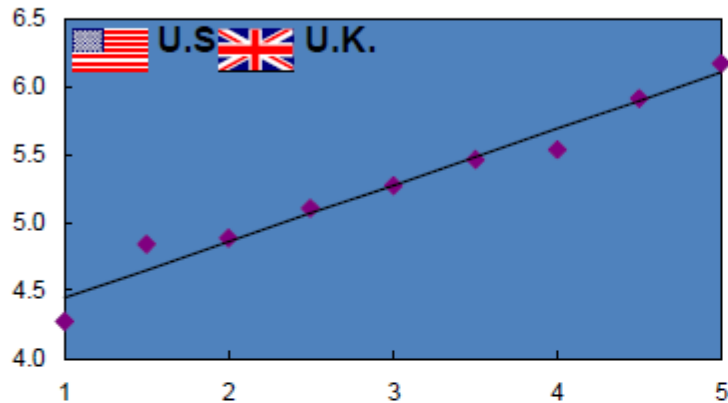


* Log scale

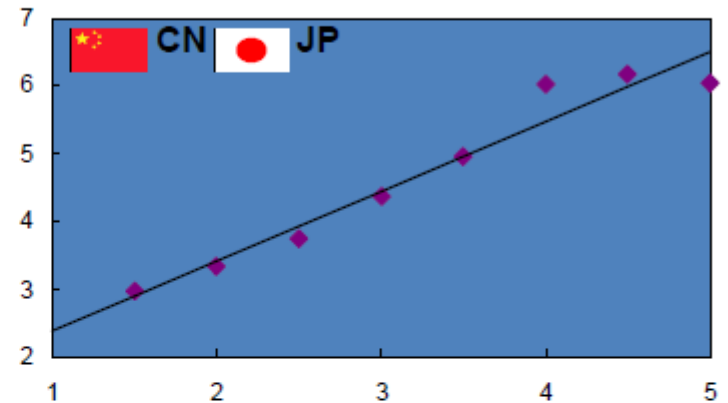
** Firms are grouped in 0.5 increments of assessed management score

THE LINK BETWEEN PRODUCTIVITY AND MANAGEMENT HOLDS TRUE ACROSS DIFFERENT COUNTRIES

Labour productivity*

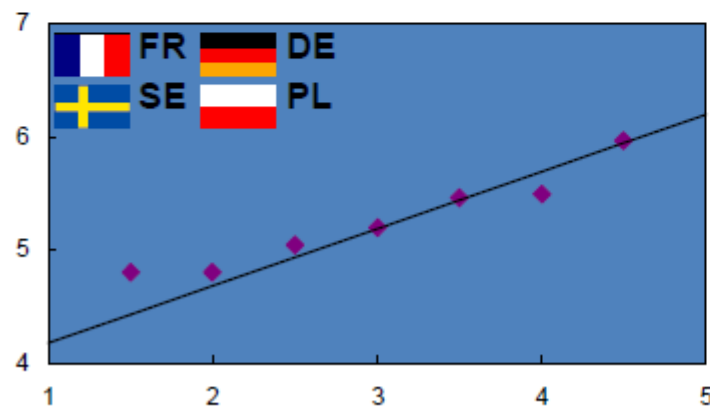


Labour productivity*

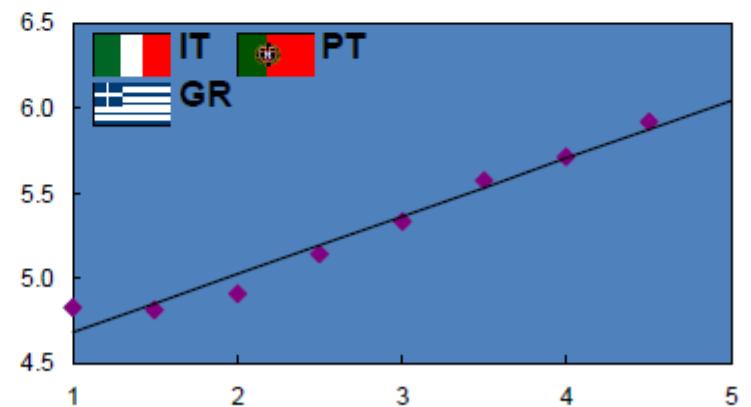


management practice score**

Labour productivity*



Labour productivity*



management practice score**

* Log scale (sales per worker)

** Firms are grouped in 0.5 increments of assessed management score

THE CAUSAL EFFECT OF MANAGEMENT ON PRODUCTIVITY

- Randomized Control Trials of Indian textile firms outside Mumbai
- All Firms receive a “light” management treatment then a randomized treatment group receive in-depth management consultancy from top international consulting firm for ~6 months
- Followed these firms for ~2 years
- Large improvements in management, quality and profitability (~\$200,000 p.a.)
- So evidence of an important and large causal effect of these practices on performance

MANY PARTS OF THESE INDIAN PLANTS WERE DIRTY AND UNSAFE



Garbage outside the plant



Garbage inside a plant



Flammable garbage in a plant



Chemicals without any covering

THE PLANT FLOORS WERE DISORGANIZED

Instrument not removed after use, blocking hallway.



Old warp beam, chairs and a desk obstructing the plant floor

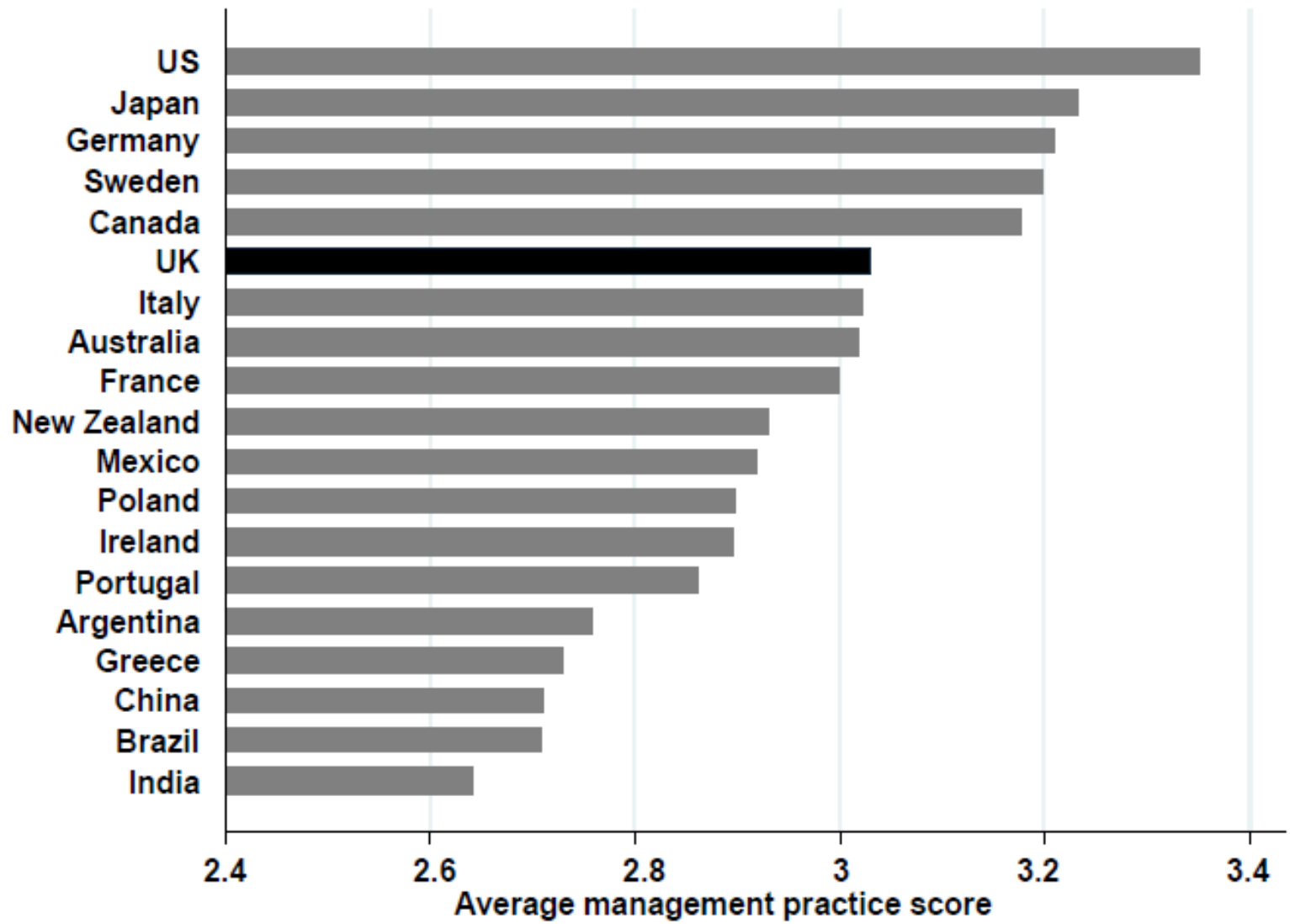
Dirty and poorly maintained machines



Tools left on the floor after use

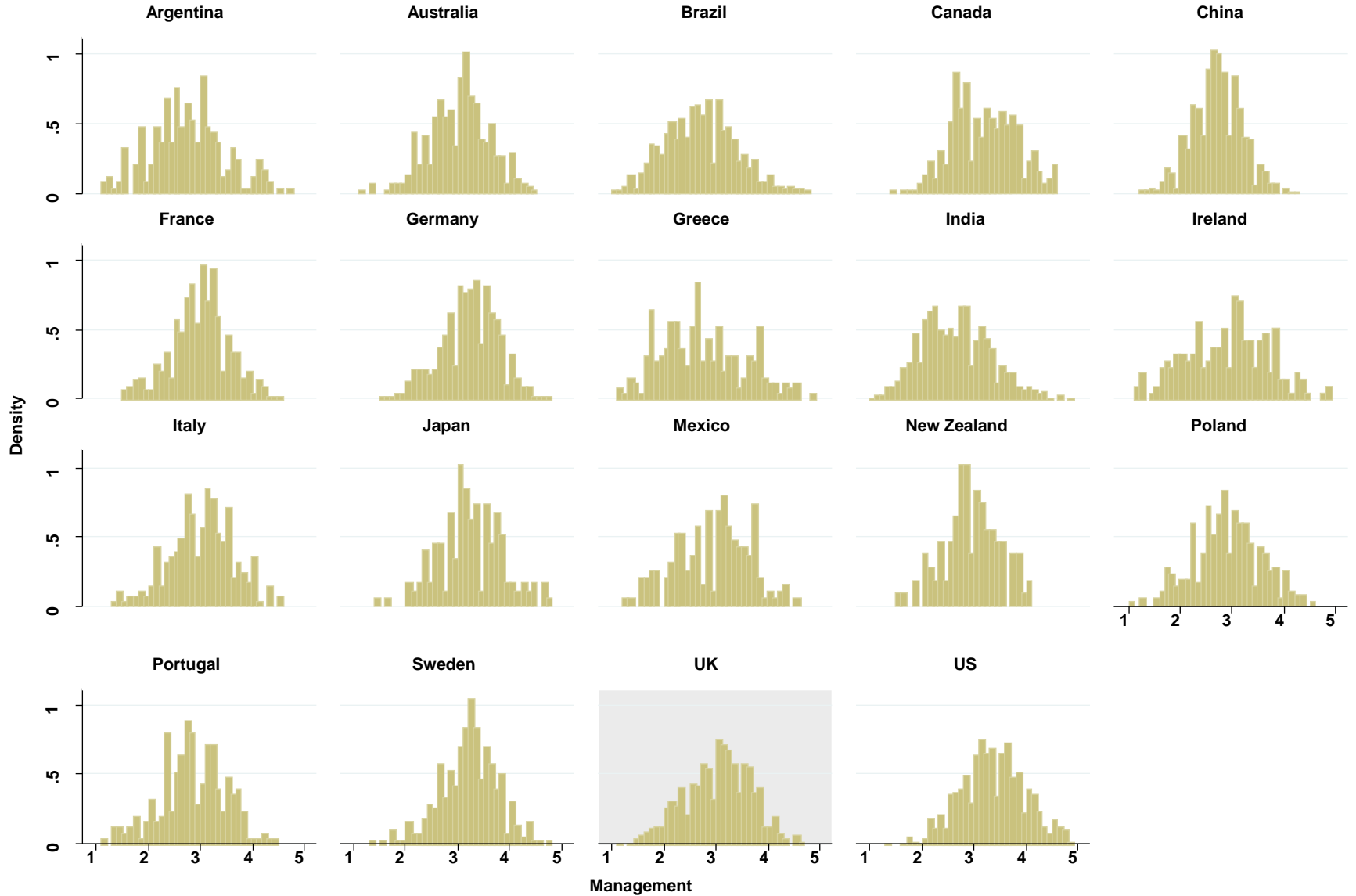


UK MANAGEMENT MID-TABLE BY INTERNATIONAL STANDARDS



Note: Based on 8,261 management interviews between 2006 and 2010. We pool across multiple survey waves to maximize the extent of cross-country management comparison

HUGE VARIATION OF MANAGEMENT PRACTICES COMPARED WITHIN ALL COUNTRIES



Note: Based on 8,261 management interviews between 2006 and 2009.

MUCH OF THE CROSS-COUNTRY DIFFERENCES DUE TO THE “LOWER TAIL”

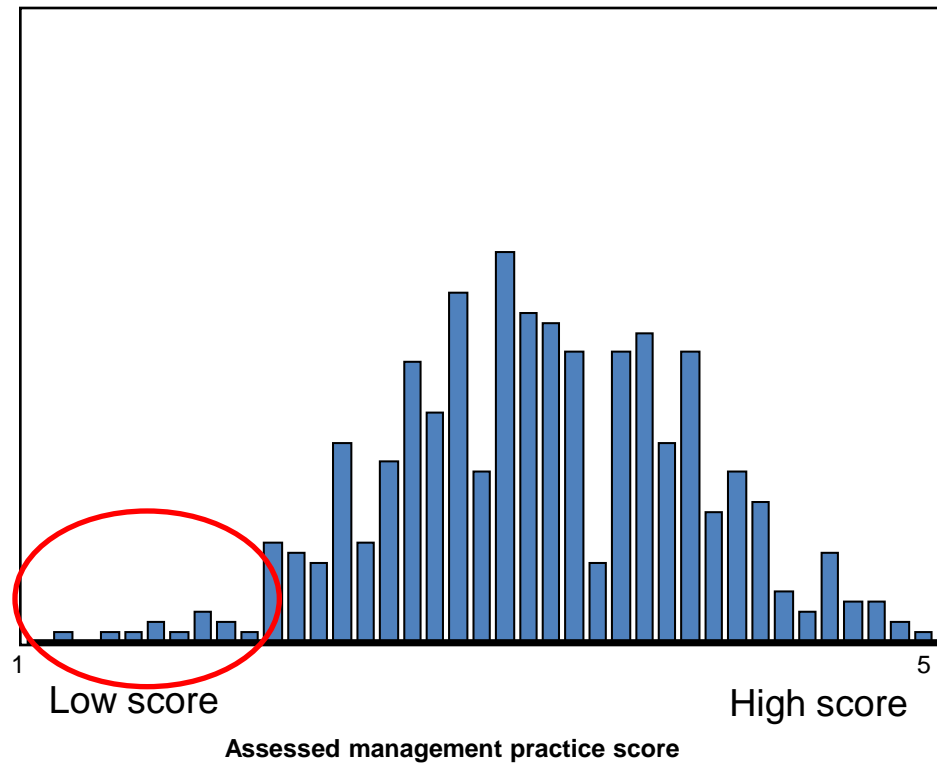
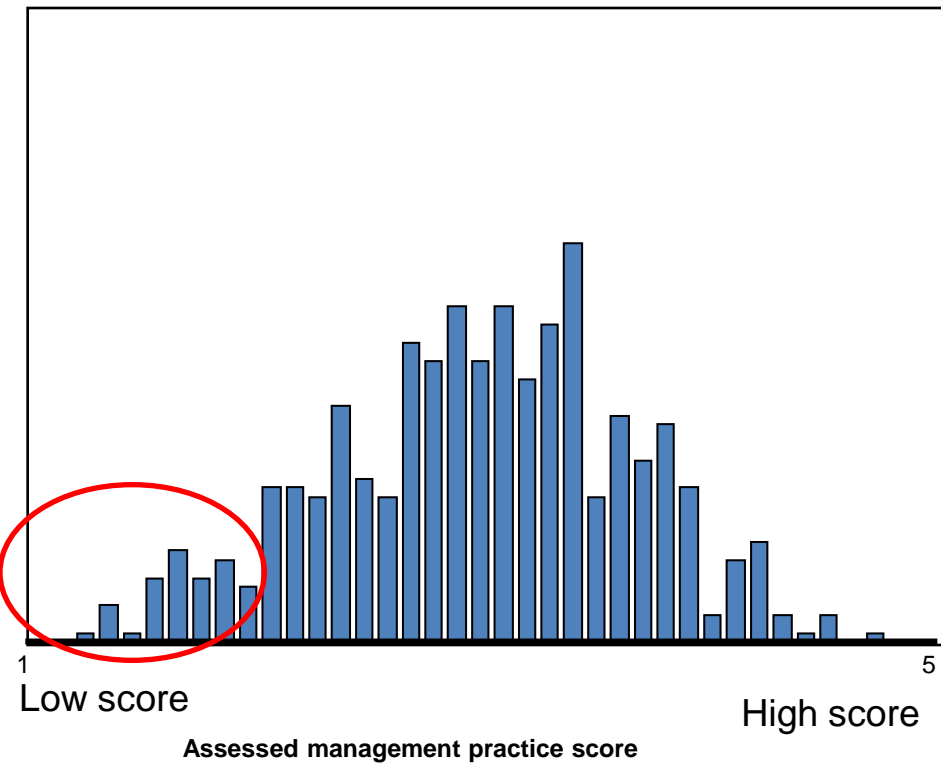
Distribution of firm level management practice scores



U.K.



U.S.



OUTLINE

1. Productivity: what it is & how is UK doing?

2. Why is there a productivity gap?

3. The drivers of better management

- **Competition**
- **Ownership & control (Family Firms)**
- **Skills & other factors**

4. Micro-Policy: Structural reforms for long-term growth

5. Macro-Policy: Austerity and its implications

COMPETITION & MODELS OF MANAGEMENT

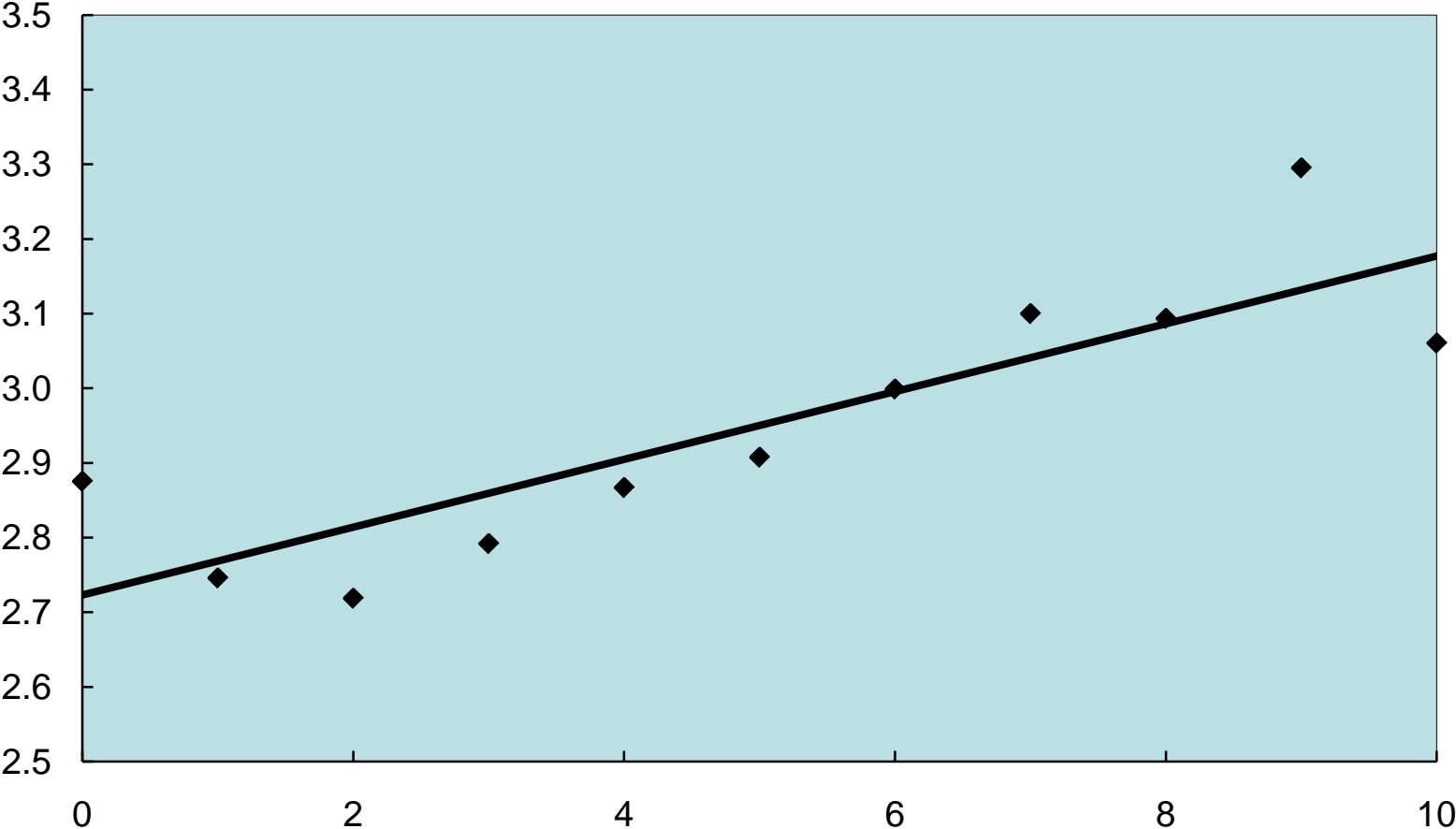
Various ways that competition may influence management

- Selection – badly run firms more likely to exit
- Effort – forces badly run firms to try harder to survive

We find competition is strongly linked with better management through a mixture of selection & effort

COMPETITION IS ASSOCIATED WITH BETTER MANAGEMENT PRACTICES

Assessed management practice score

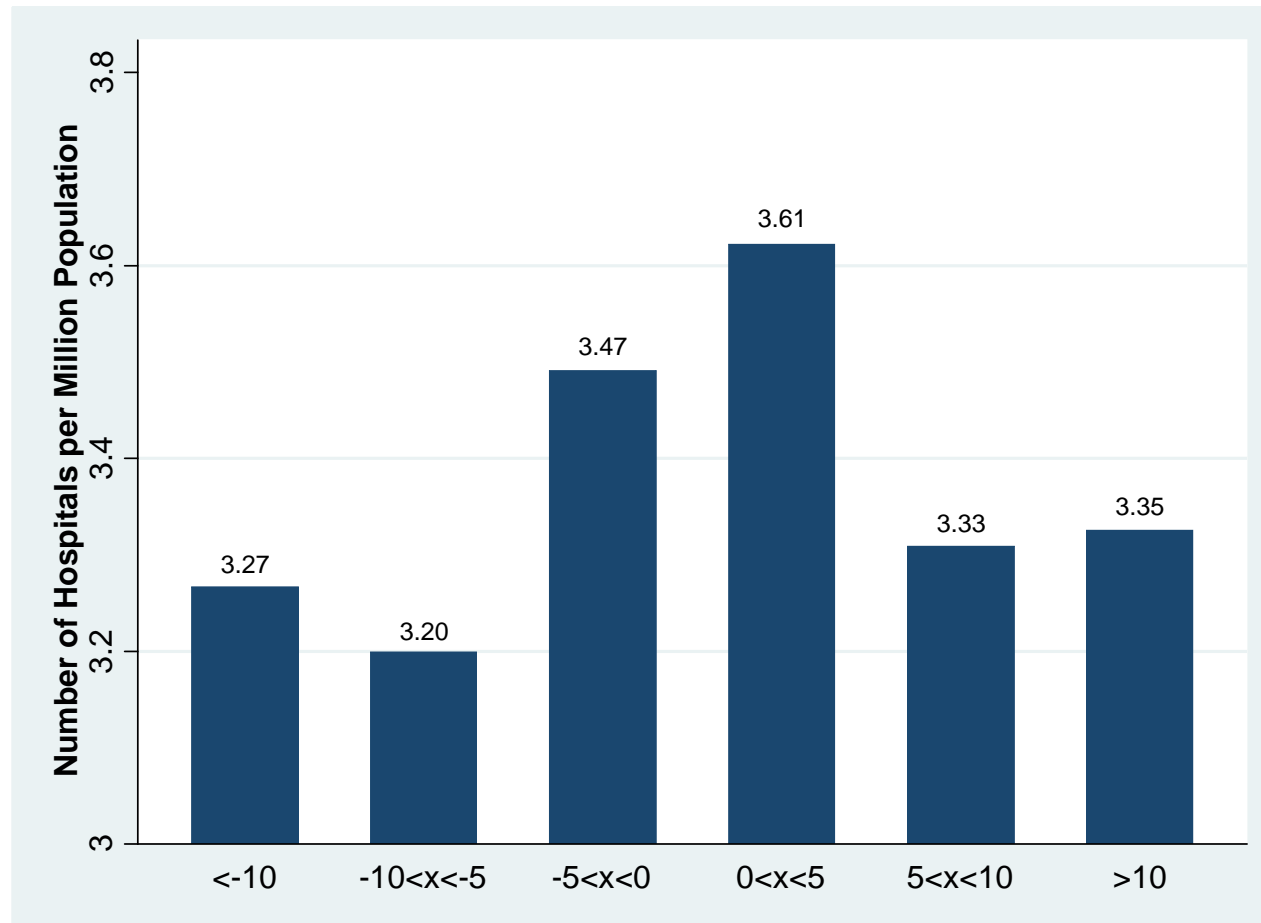


Note: Reported number of competitors (10=10 or more)

IS COMPETITION A CAUSAL FACTOR IN IMPROVING MANAGEMENT?

- Examine management in NHS hospitals. Mid 2000s reforms increased competition by geographically closer hospitals
- Closing hospitals very politically unpopular, so we use exogenous variation in degrees of political contestability to construct a “natural experiment”
 - Hospital in “marginal” wards much less likely to be closed

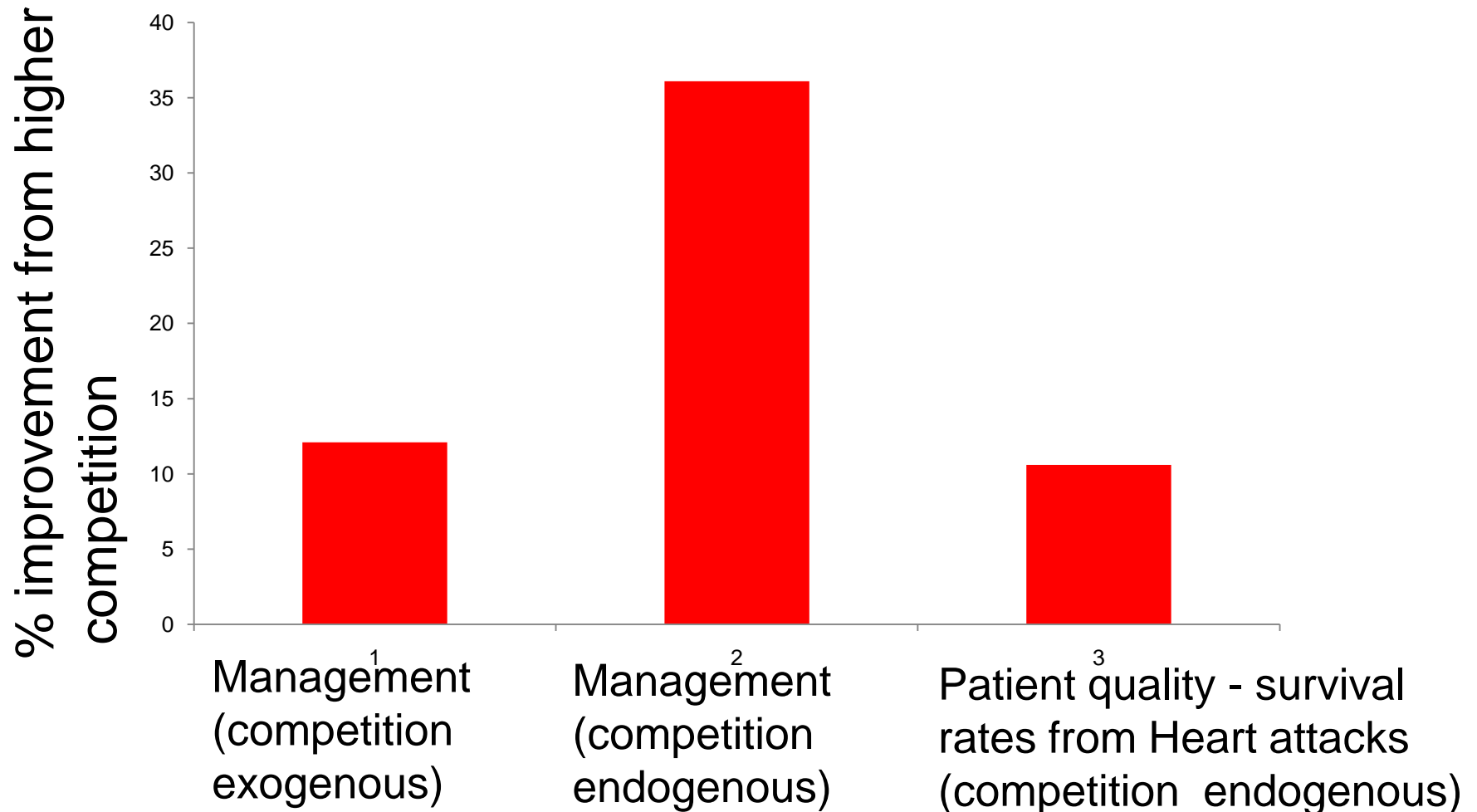
MORE HOSPITALS IN MARGINAL CONSTITUENCIES



Labour party's winning % margin (1997)

Notes: Mean number of hospitals per 1 million people within a 30km radius of centre of a political constituency; "winning margin" (x) is % of votes ahead of second party

EFFECT OF AN INCREASE IN COMPETITION (1 EXTRA RIVAL HOSPITAL) ON MANAGEMENT AND CLINICAL QUALITY



Source: Bloom, Propper, Seiler & Van Reenen (2010)

Notes: Derived from OLS and 2SLS regressions

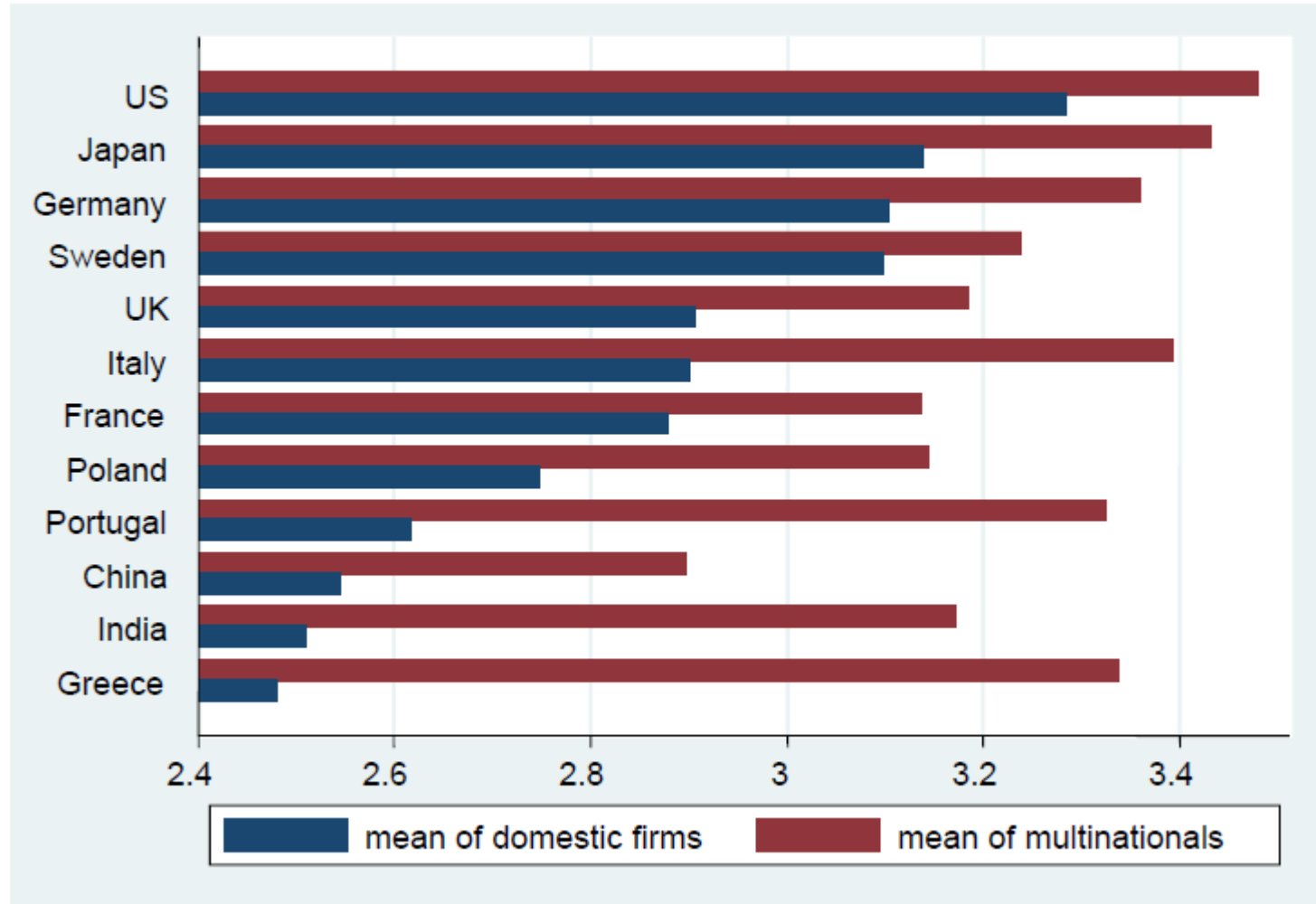
FAMILY FIRMS (OWNED WITH ELDEST SON AS CEO) AND GOVERNMENT FIRMS HAVE WORST MANAGEMENT

Average score on 18 management practice questions

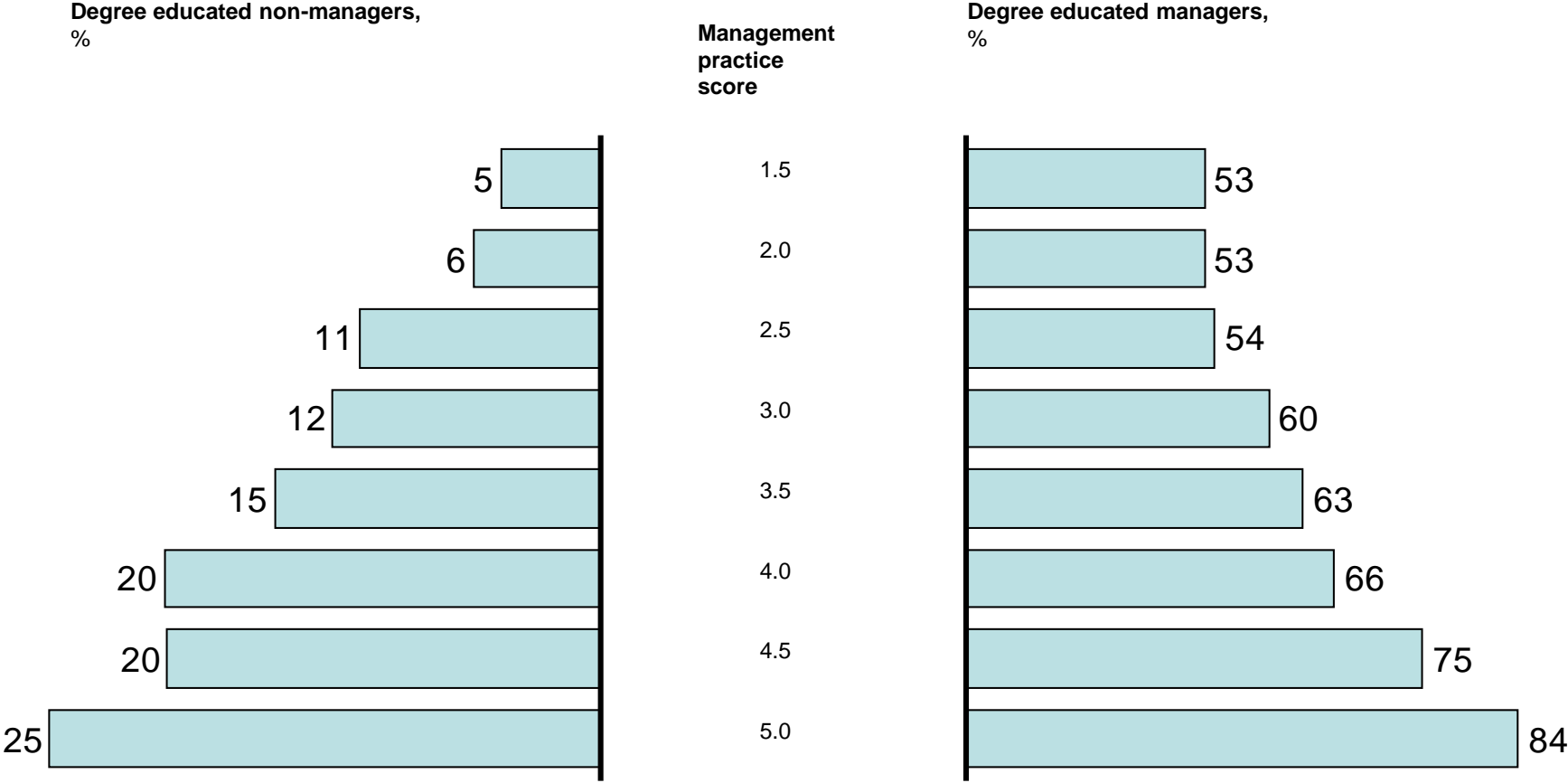


Note: Sample of 4,221 medium-sized manufacturing firms. The bottom bar-chart only covers the 3696 firms which have been in the same ownership for the last 3 years. The "Other" category includes venture capital, joint-ventures, charitable foundations and unknown ownership.

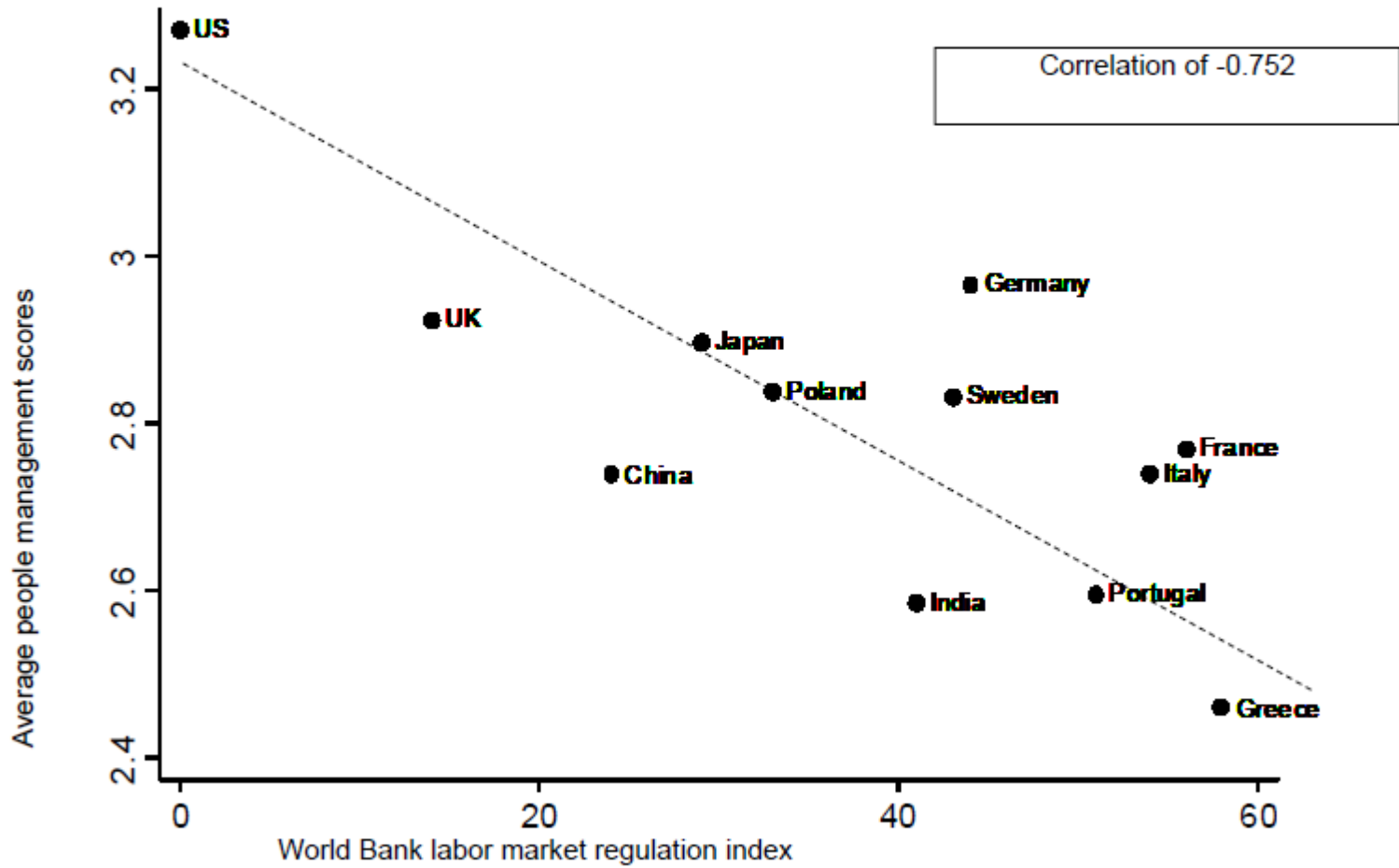
MULTINATIONALS APPEAR TO BE WELL MANAGED IN ALL COUNTRIES



BETTER MANAGEMENT IS LINKED WITH HIGHER SKILL LEVELS OF BOTH MANAGERS AND NON-MANAGERS



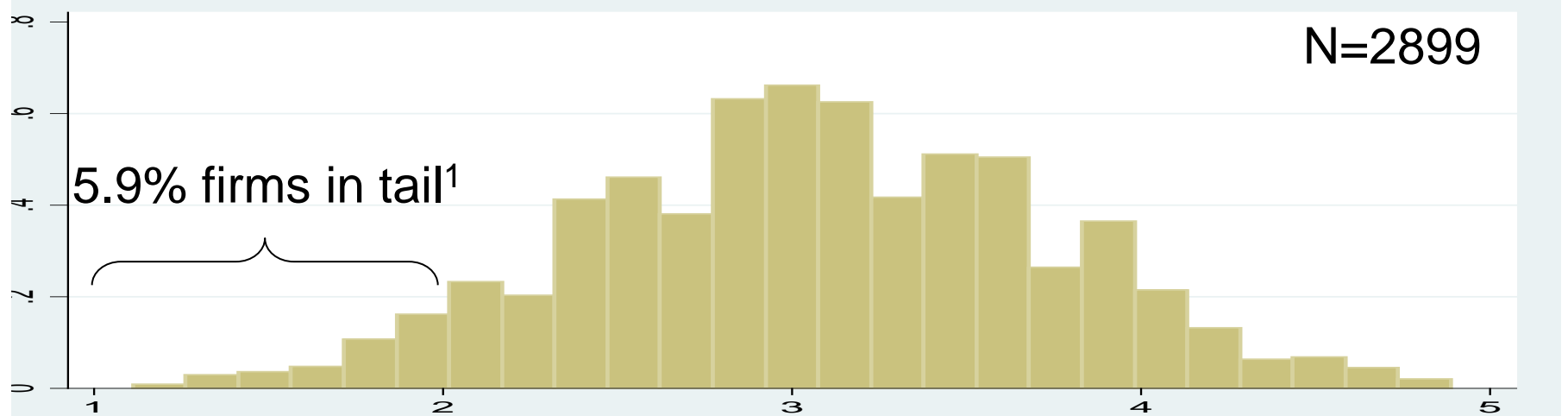
LABOUR MARKET REGULATION ARE NEGATIVELY CORRELATED WITH PEOPLE MANAGEMENT...



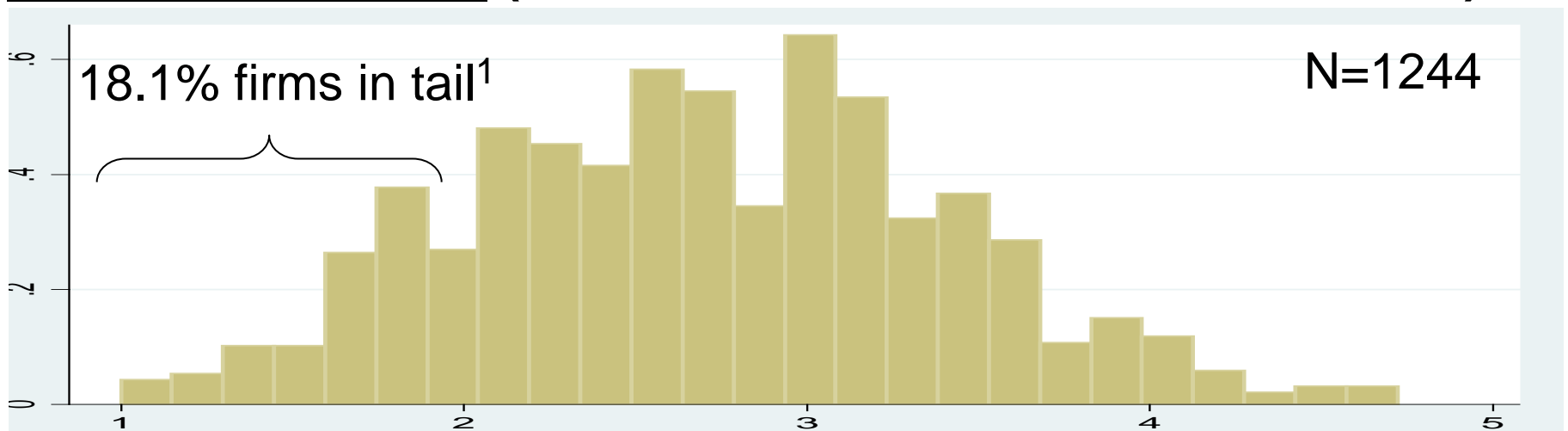
QUANTIFYING EFFECTS OF COMPETITION, FAMILY FIRMS & MULTINATIONAL:

- **ACROSS FIRMS ~ 1/2 VARIATION**
- **ACROSS COUNTRIES ~ 1/2 VARIATION**

“GOOD DOMESTIC” (MANY COMPETITORS, NOT PG FAMILY) OR MULTINATIONAL



“BAD DOMESTIC” (FEW COMPETITORS OR PG FAMILY)



¹ Tail defined as a score ≤ 2 . In the whole sample 9.6% of firms are in the tail.

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STRUCTURAL REFORMS TO IMPROVE MANAGEMENT & PRODUCTIVITY

- **Product market Competition**
 - Competition policy, Trade policy, planning
 - Public sector (e.g. UK hospital reforms)
- **Meritocratic CEO appointment not eldest sons**
 - e.g. 100% Inheritance Tax exemption for family business assets, promotes family firms (cf. Mirrlees Review)
- **Human Capital**
 - UK weak at lower end (e.g. EMA, Apprenticeships,)
- **Openness to foreign investment**
- **Labour market regulation**
- **Financial market regulation**

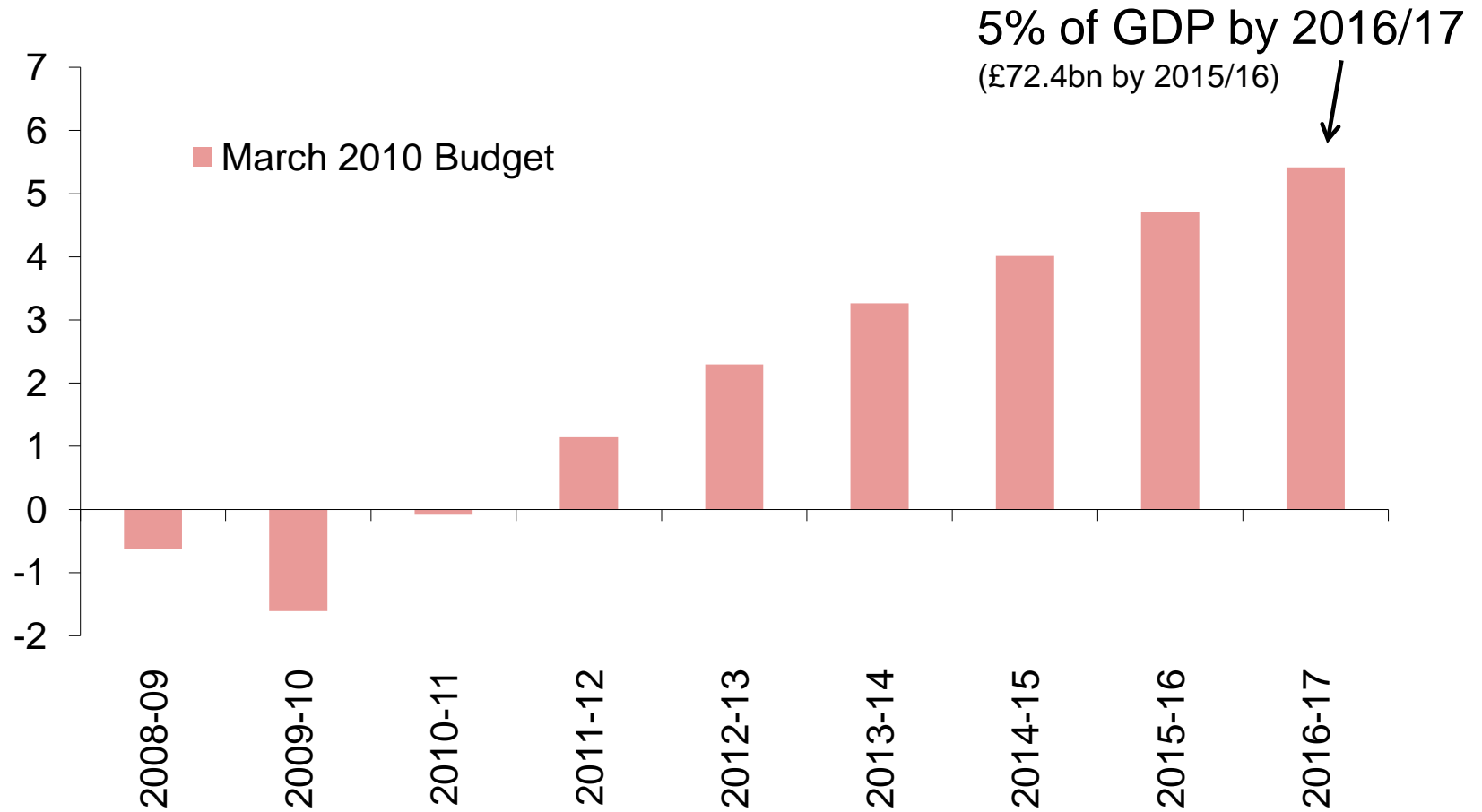
IMPLICATIONS FOR POLICY MAKERS – INNOVATION

- **Structural reforms will tend to also boost innovation**
- **Universities and basic science**
 - Funding & Browne Response; student visas
 - University linkages (Technology Transfer)
- **R&D policies**
 - R&D tax credits raise R&D (Bloom, Griffith & VR, 2002) but improving supply side better

OUTLINE

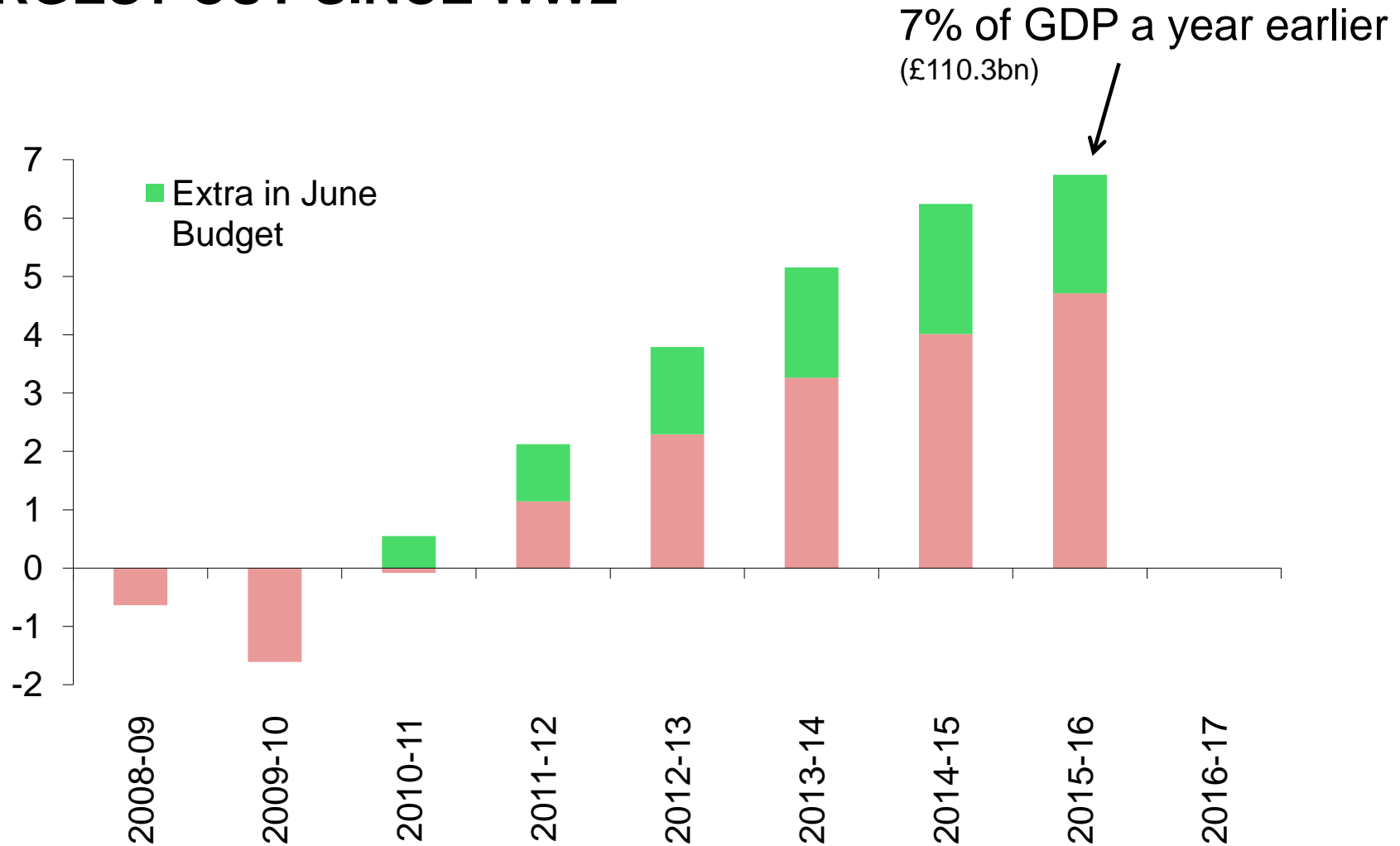
1. Productivity: what it is & how is UK doing?
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AUSTERITY – LABOUR’S PLANS FOR FISCAL TIGHTENING



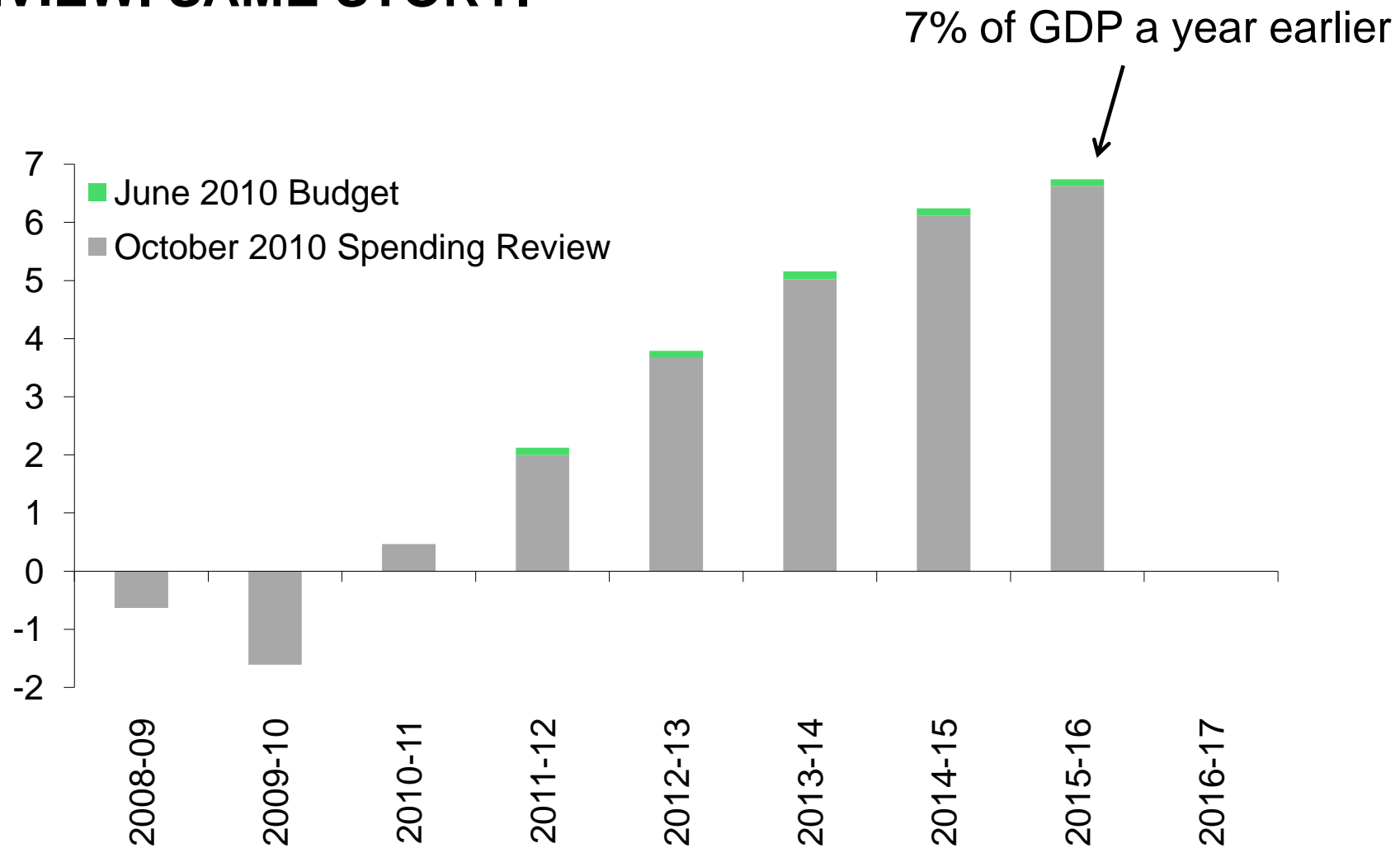
Source: IFS, HMT

EXTREME AUSTERITY – JUNE EMERGENCY BUDGET. LARGEST CUT SINCE WW2



Source: IFS, HMT

EXTREME AUSTERITY – OCTOBER SPENDING REVIEW. REVIEW. SAME STORY.



Source: IFS, HMT

COSTS OF ACCELERATED AUSTERITY

- **Withdrawal of demand risks recovery**
 - Private sector cannot speedily adjust to the fiscal shock
 - Recovery is fragile (e.g. 2010 UK growth through construction & stimulus & US very weak)
- **Long-run effects of short-run fiscal contraction**
 - Scrapping of human and fixed capital (a pessimistic view of UK capacity becomes a self-fulfilling prophecy)
 - Example: long-term unemployment (Pissarides)
- **Destruction of successful policies**
 - Crisis forces removal of unsuccessful policies, but also a bonfire of successful programs (e.g. EMA)
 - Combined with huge changes (e.g. decentralization to GPs in NHS upheaval) creates uncertainty
- **Fairness**

BENEFITS OF ACCELERATED AUSTERITY

- **UK faces a “Greek scenario?”: unsustainable debt**
 - Deficit driven by global recession & consensus on need for reduction, mainly via spending cuts
 - Reduce borrowing costs? Not if contraction severe
 - Debt crisis exaggerated:(i) Historically moderate (42% in 2006;79% 2011;av=102%); (ii) maturity;(iii) no default
- **Credibility & Confidence**
 - “Frontloading” to reassure irrational bond markets?
 - Better to deliver a realistic good plan than fail to deliver an unrealistic bad plan
- **Productive capacity is much lower**
 - Too pessimistic? some genuine productivity progress post 1997

EXTREME AUSTERITY – THE NEED FOR A “PLAN B”

- **Chancellor has argued against a Plan B**
- **Mervyn King & MPC to the rescue?**
 - Low interest rates?
 - Quantitative Easing
- **Tax cuts & spending increases**
 - Hard to fine tune
 - Extreme loss of credibility

WHAT “REBALANCING” IS NECESSARY?

- **Within Private sector**
 - Away from finance, construction, etc.
 - Towards manufacturing, high tech service exports
- **Between Public and private sector**
 - Need to reduce public spending
 - But to what level? Problem in 2000-07 was that taxes should have been raised more to cover spending choices
 - Expansion of health & education a choice post 1999
 - Reducing also a political choice, not an economic necessity, e.g. US vs. Northern EU

CONCLUSIONS

- Sources of productivity growth are innovation (well-studied) and management (understudied)
- Management and productivity can be improved by micro-economic structural reforms - especially over competition, human capital, tax reform, labour markets.
- Extreme austerity a political choice not economic necessity, will have long-lasting negative effects
 - An experiment?

MY FAVOURITE QUOTES:

The difficulties of defining ownership in Europe

Production Manager: “We’re owned by the Mafia”

Interviewer: “I think that’s the “*Other*” category.....although I guess I could put you down as an “*Italian multinational*” ?”

Americans on geography

Interviewer: “How many production sites do you have abroad?”

Manager in Indiana, US: “Well...we have one in Texas...”

MY FAVOURITE QUOTES:

Who rules the home in Ireland

Interviewer: “Would you mind if I asked how much your bonus is as a manager?”

Manager: “I don't even tell my wife how much my bonus is!”

Interviewer: “Frankly, that’s probably the right decision...”

Staff retention the American way

Manager: “I spend most of my time walking around cuddling and encouraging people - my staff tell me that I give great hugs”

The trusted Secretary

French secretary: “You want to talk to the plant manager? There are legal proceedings against him, so hurry up!!”

MY FAVOURITE QUOTES:

The traditional British Chat-Up

[Male manager speaking to an Australian female interviewer]

Production Manager: “Your accent is really cute and I love the way you talk. Do you fancy meeting up near the factory?”

Interviewer “Sorry, but I’m washing my hair every night for the next month....”

MY FAVOURITE QUOTES:

The traditional Indian Chat-Up

Production Manager: “Are you a Brahmin?”

Interviewer “Yes, why do you ask?”

Production manager “And are you married?”

Interviewer “No?”

Production manager “Excellent, excellent, my son is looking for a bride and I think you could be perfect. I must contact your parents to discuss this”

FURTHER READING

1. Bloom and Van Reenen (2010) “Why do Management Practices Differ across Firms and Countries?” *Journal of Economic Perspectives* 24(1) 203-224
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.1.203%20>
2. Bloom and Van Reenen (2007) “Measuring and Explaining Management practices across firms and nations” *Quarterly Journal of Economics*, 122(4), 1351–1408. CEP Discussion Paper (2006) <http://cep.lse.ac.uk/pubs/download/dp0716.pdf>
3. Bloom, Sadun and Van Reenen (2007) “Americans do I.T. better” CEP Discussion Paper No. 788, *forthcoming, American Economic Review*
<http://cep.lse.ac.uk/pubs/download/dp0788.pdf>
4. UK productivity
http://cep.lse.ac.uk/briefings/pa_uk_productivity.pdf

Back Up

RECENT TRENDS IN PRODUCTIVITY

- TFP p.a. growth (Conference Board, Sept. 2010)

	US	UK	France	German y	Japan
1995- 2005	0.9%	0.5%	0.3%	0.8%	0.1%
2005- 2009	-0.5%	0.5%	-0.5%	0.5%	0.1%

TARGETS - e.g. "HOW TOUGH ARE TARGETS?"

Score

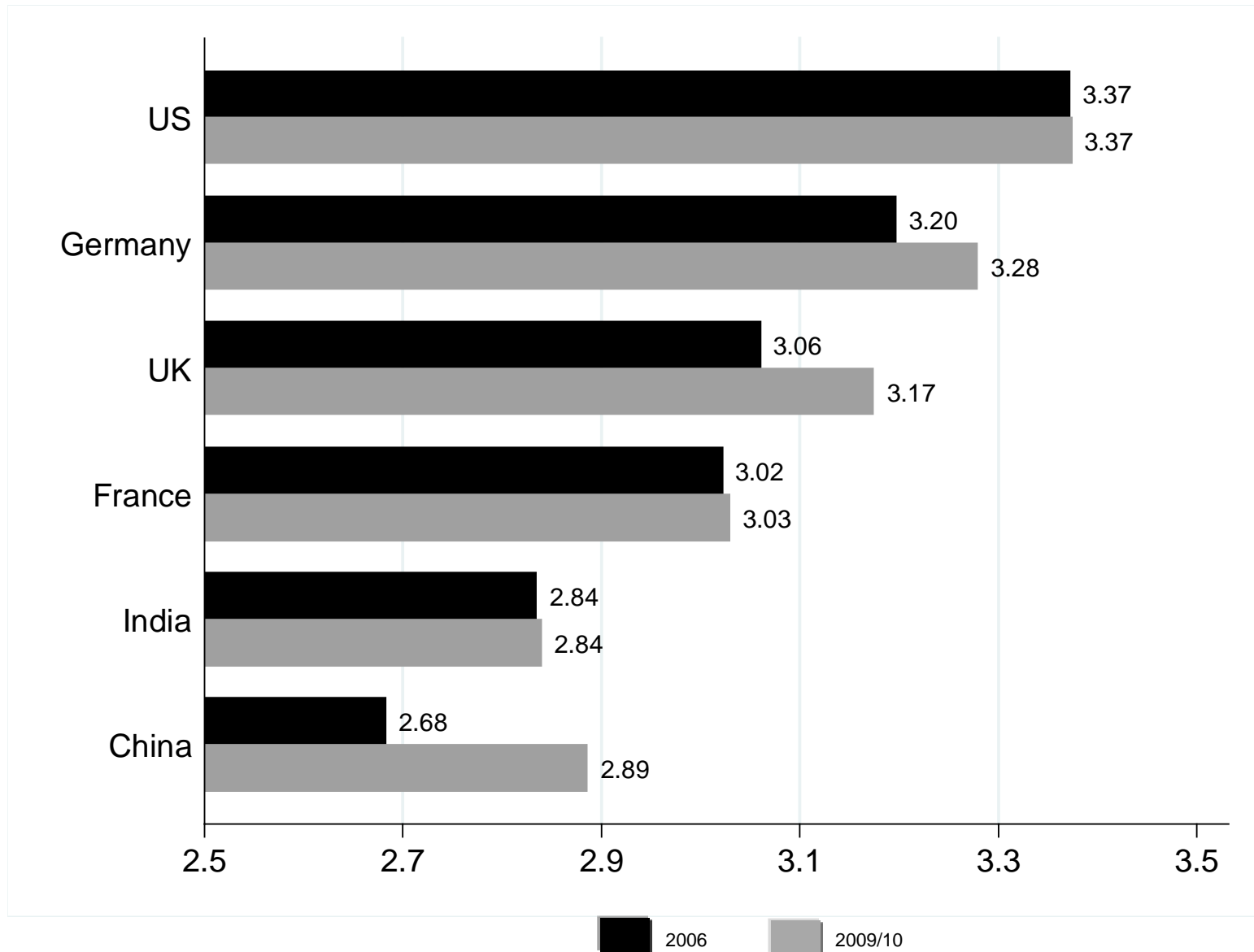
(1) Goals are either too easy or impossible to achieve; managers low-ball estimates to ensure easy goals

(3) In most areas, top management pushes for aggressive goals based on solid economic rationale. There are a few "sacred cows" not held to the same rigorous standard

(5) Goals are genuinely demanding for all divisions. They are grounded in solid, solid economic rational

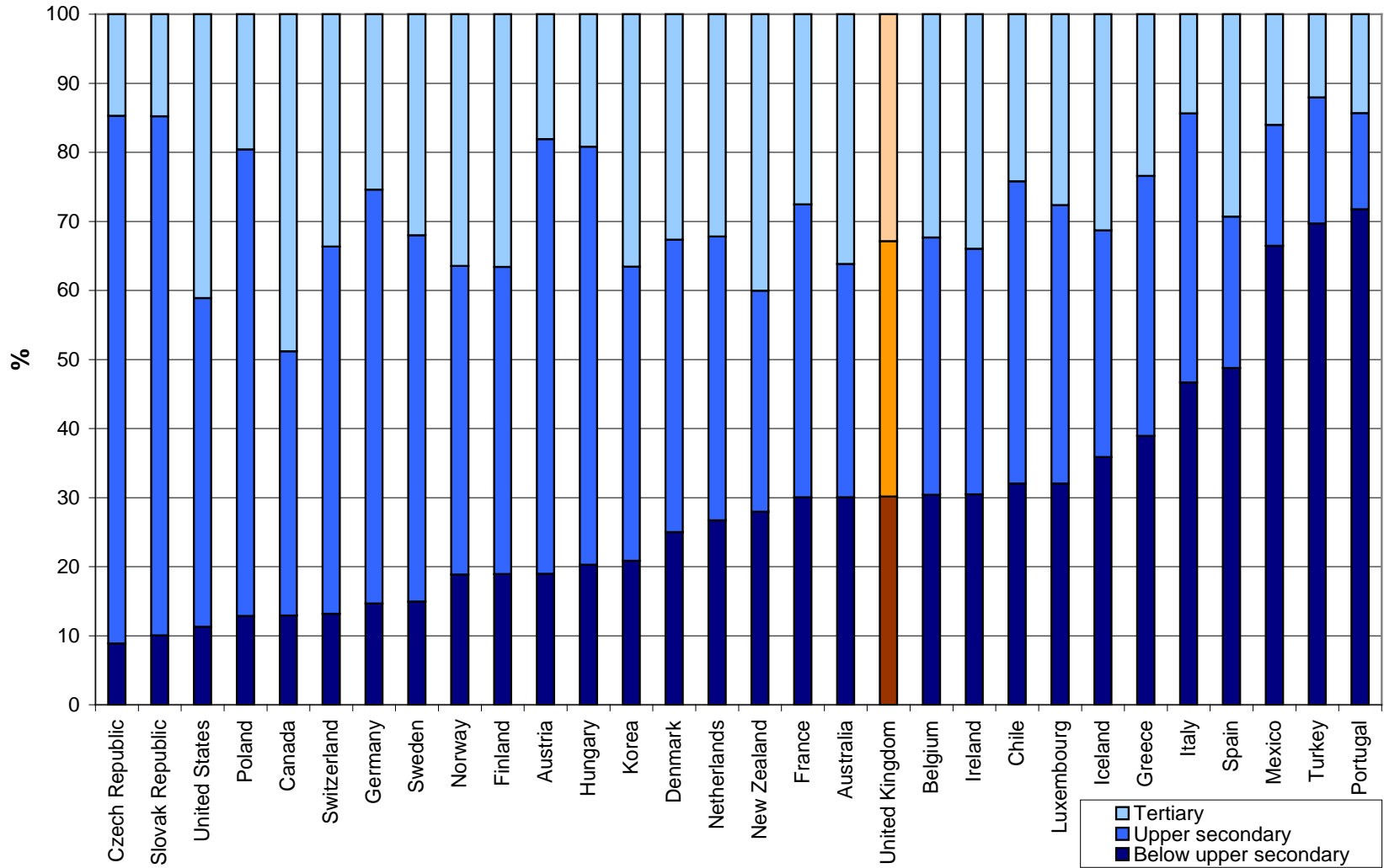
Note: All 18 dimensions and over 50 examples in Bloom & VanReenen (2006).

CHANGES IN MANAGEMENT SCORES ACROSS COUNTRIES



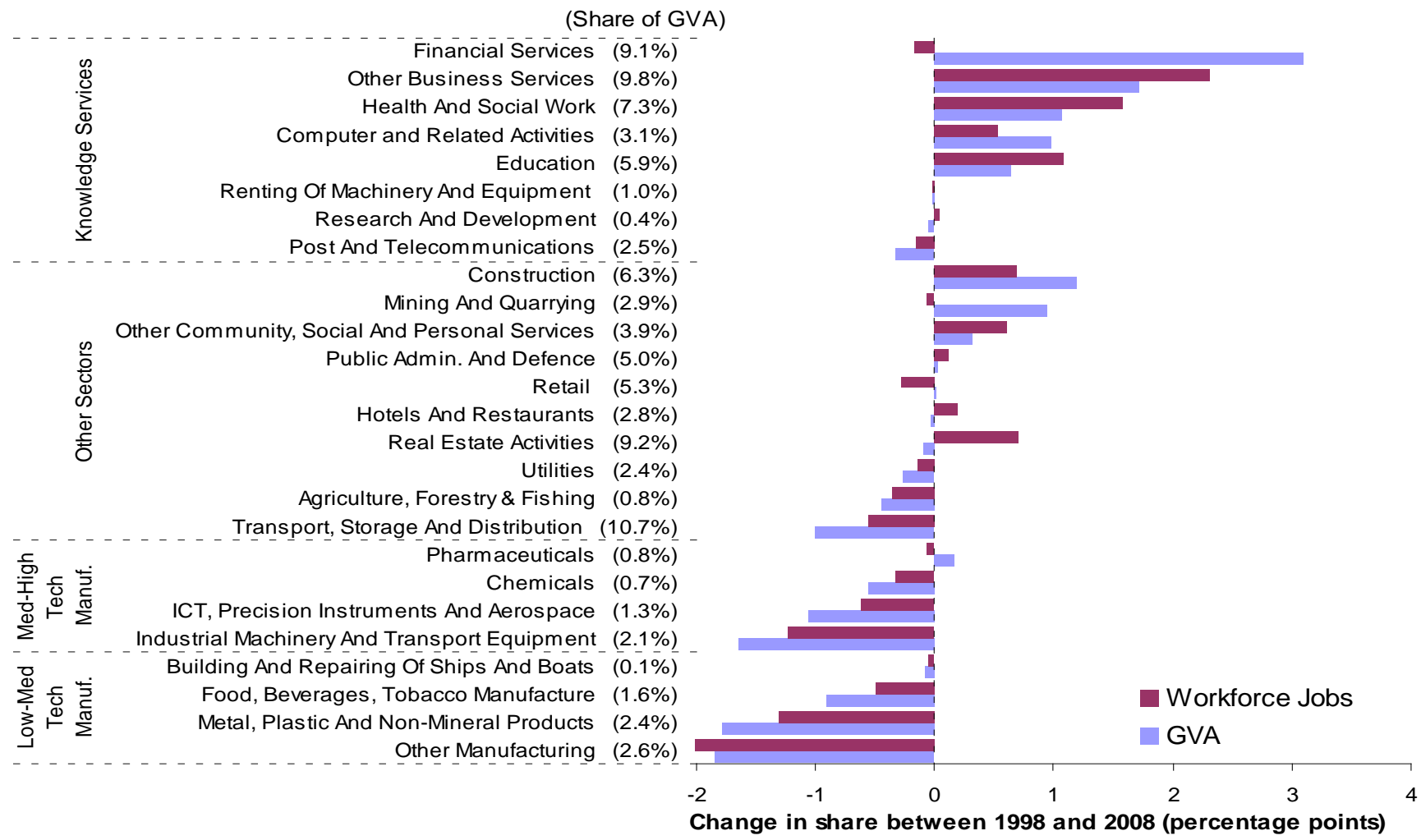
Note: Data from a total of 1,718 firms interviewed in 2006 and 2009/10 (263 US, 118 German, 253 UK, 157 French, 197 Chinese, 107 India firms).

% 25-64 with below upper secondary, upper secondary & tertiary education (2008)



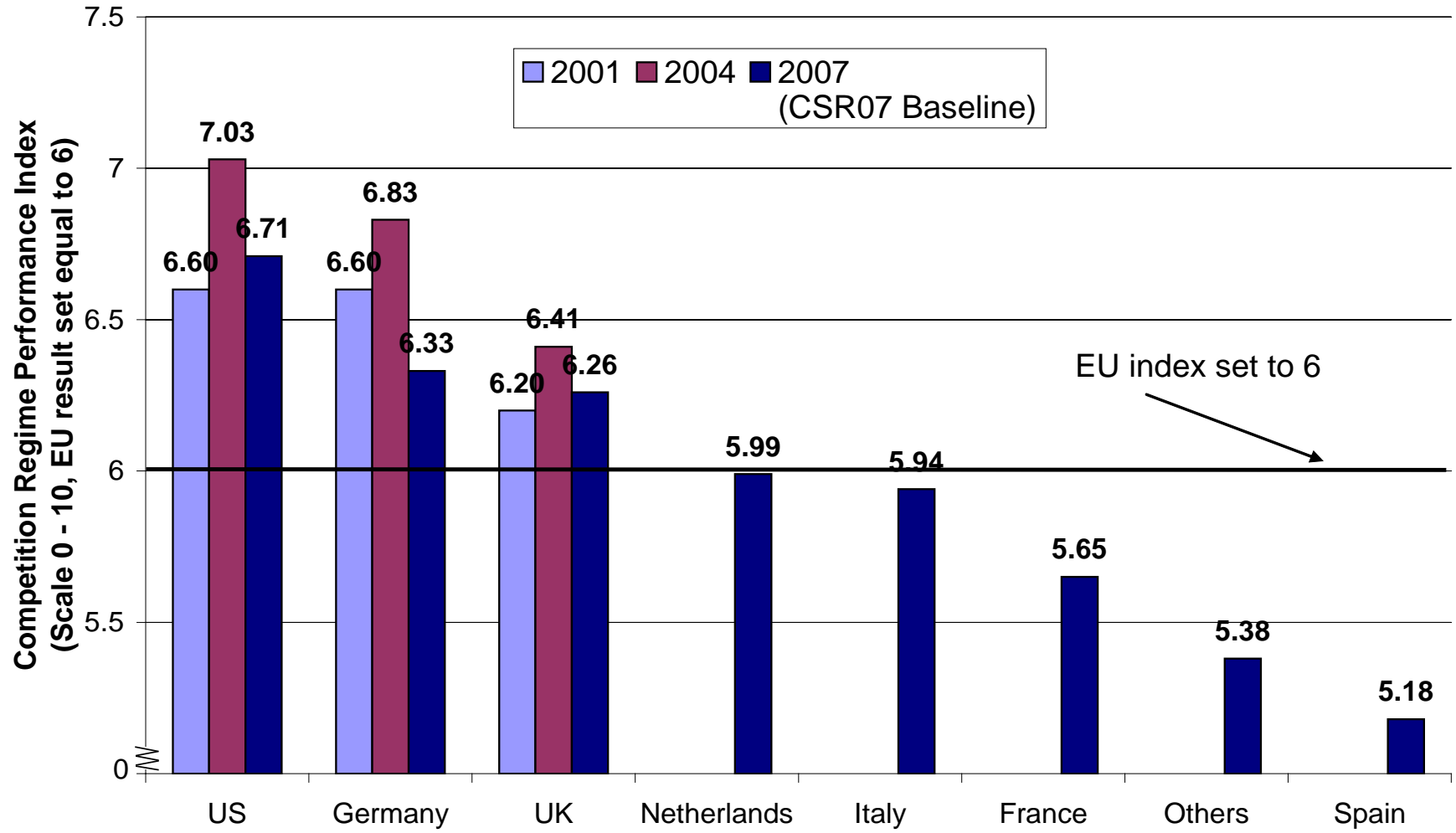
Source: OECD Education at a Glance 2010

CHANGE IN THE SHARE OF UK EMPLOYMENT & VALUE ADDED (1998-2007)



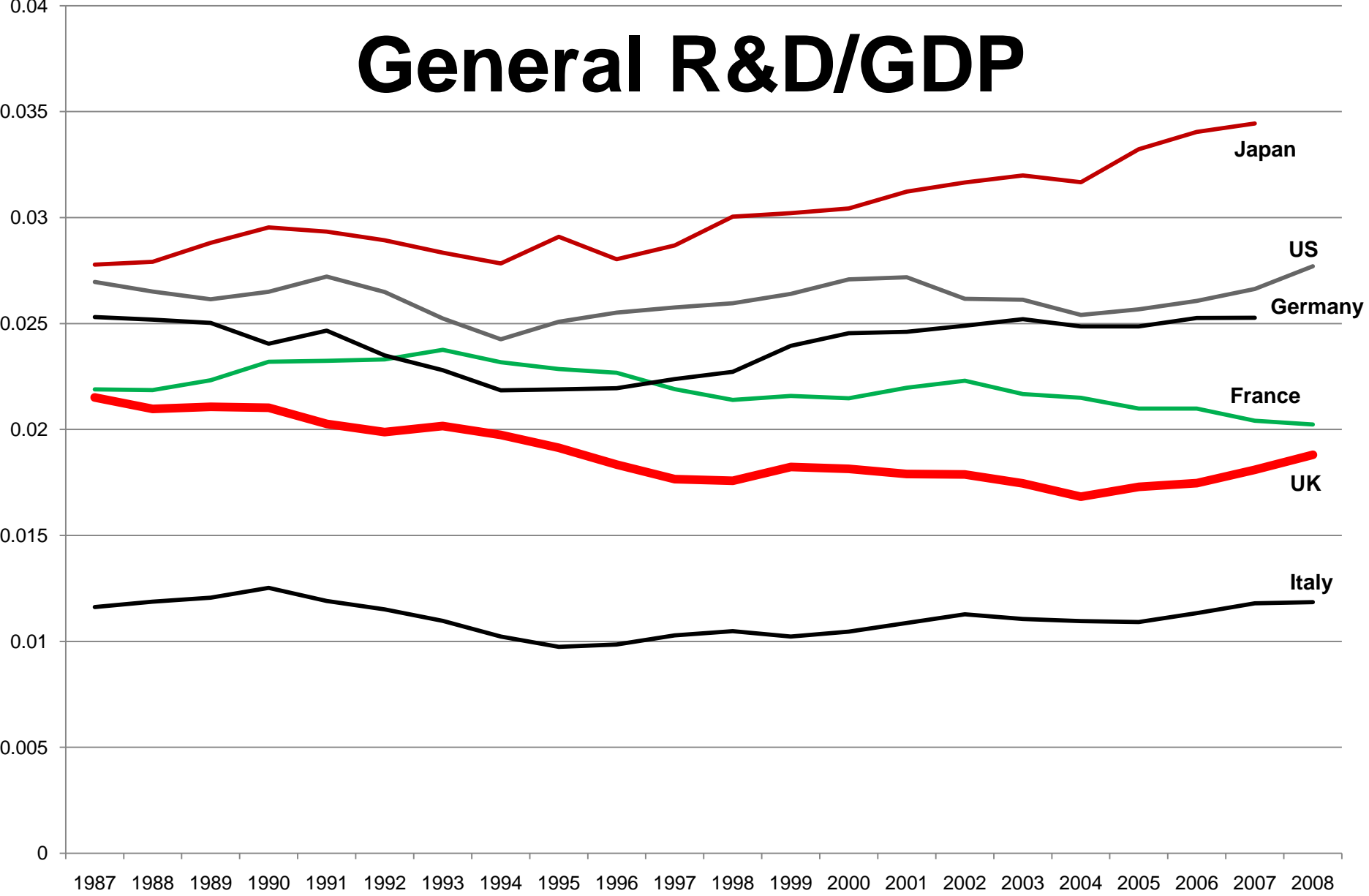
Source: BIS (2010)

COMPETITION REGIME PERFORMANCE



Source: BIS (2010), KPMG

General R&D/GDP



UK STRONG POSITION IN ELITE SCIENCE

- UK 1% of world's population but....
 - 7.9% of all scientific papers (2nd in world)
 - 11.8% of all citations to these papers (2nd in world)
 - 14.4% of all top papers (in top 1% of citations), 2nd
 - 32 papers per \$bn GDP – 1st in G8
 - Citations per \$bn GDP – 1st in G8
 - 2.5 papers per \$m GERD - 1st in G8 (3rd in world)
- Universities are very strong area of UK comparative advantage
 - Major export industry
 - Threatened by spending cuts
 - Threatened by new student visa regime

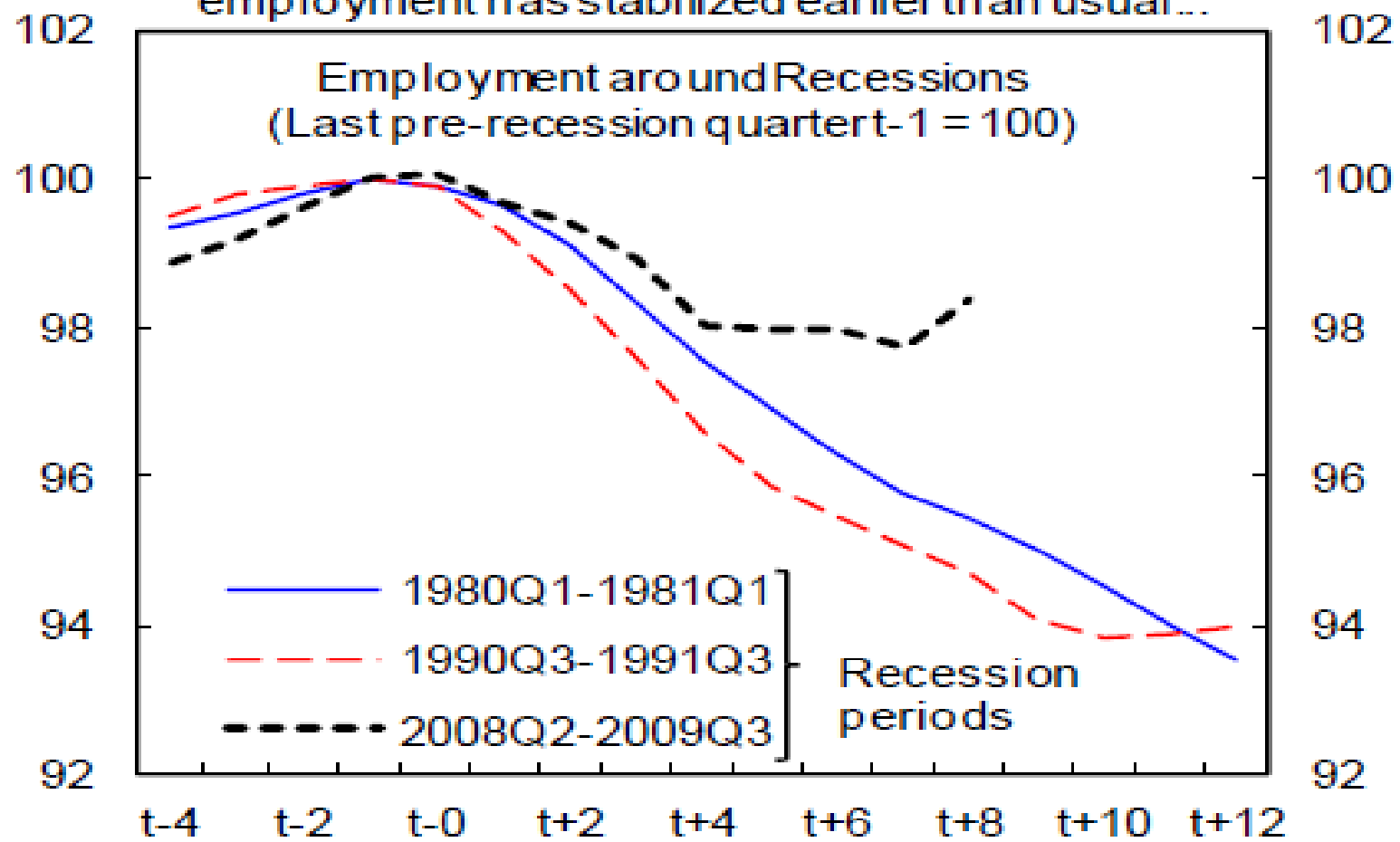
CAUSAL EFFECT OF COMPETITION ON MANAGEMENT & PATIENT OUTCOMES (DEATH RATES) IN HOSPITALS

Type of Regression	OLS	IV: 1 st Stage	IV: 2 nd Stage	IV: 2 nd Stage
Dependent variable	Management	# Competing Hospitals	Management	Emergency AMI death rate
# Competing Hospitals	0.121** (0.058)		0.361* (0.215)	-1.827* (1.037)
Marginal Constituencies		5.850*** (1.553)		
F-statistic of excluded instrument		14.18		
Observations	161	161	161	140

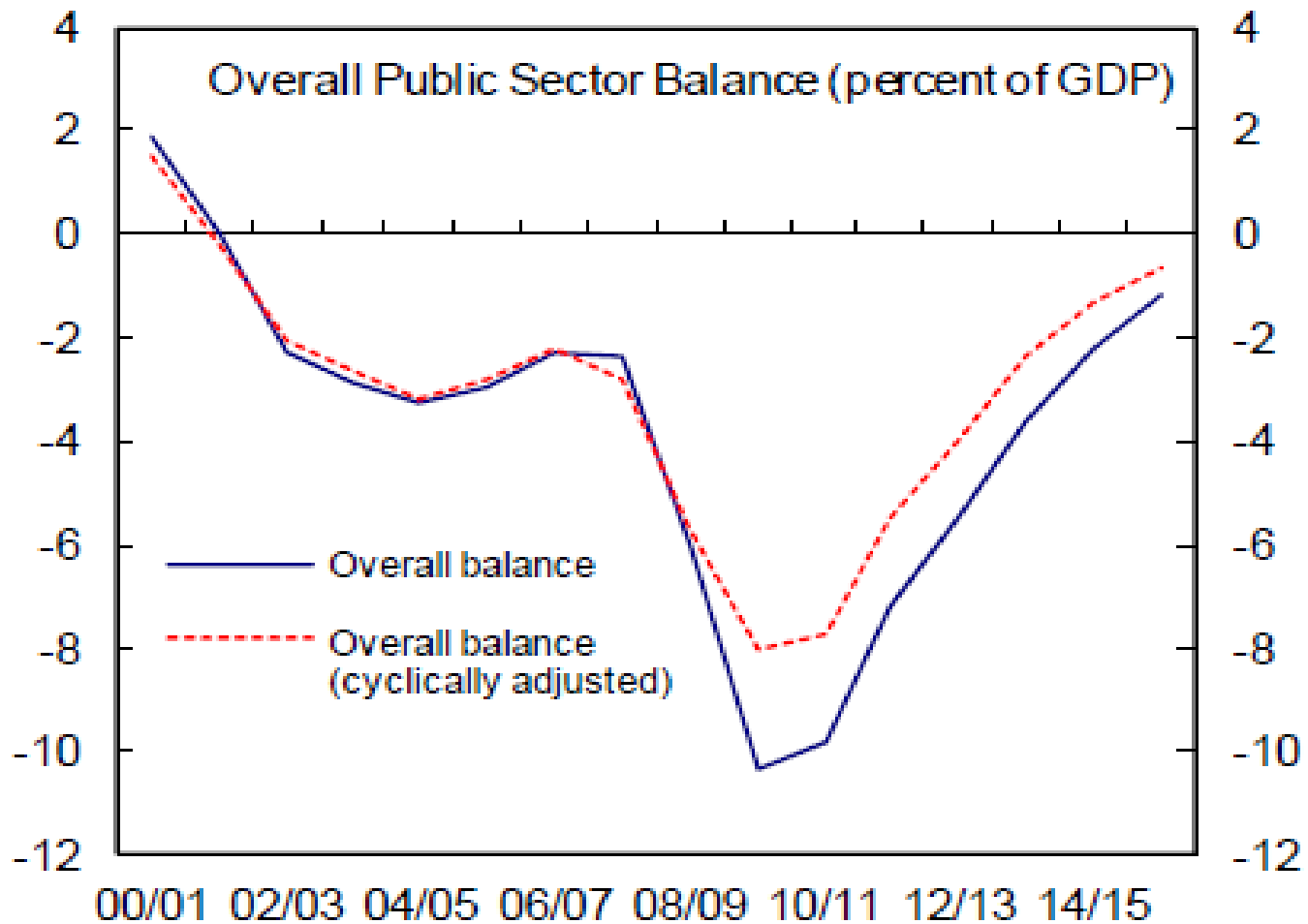
Source: Bloom, Propper, Seiler & Van Reenen (2010)

Notes: Constituency marginal if won by <5%. S.Es clustered by hospital. Controls include casemix (age/gender of admissions), population density, age profile (11 categories), Foundation Trust & interviewer dummies (4); % Labour votes, #political constituencies & mortality in catchment area; respondent tenure & whether she was a manager or clinician, regional dummies, # hospital sites, # admissions, % managers with a clinical degree and a dummy for joint decision making at the hospital level.

The labor market has proven relatively resilient, as employment has stabilized earlier than usual...

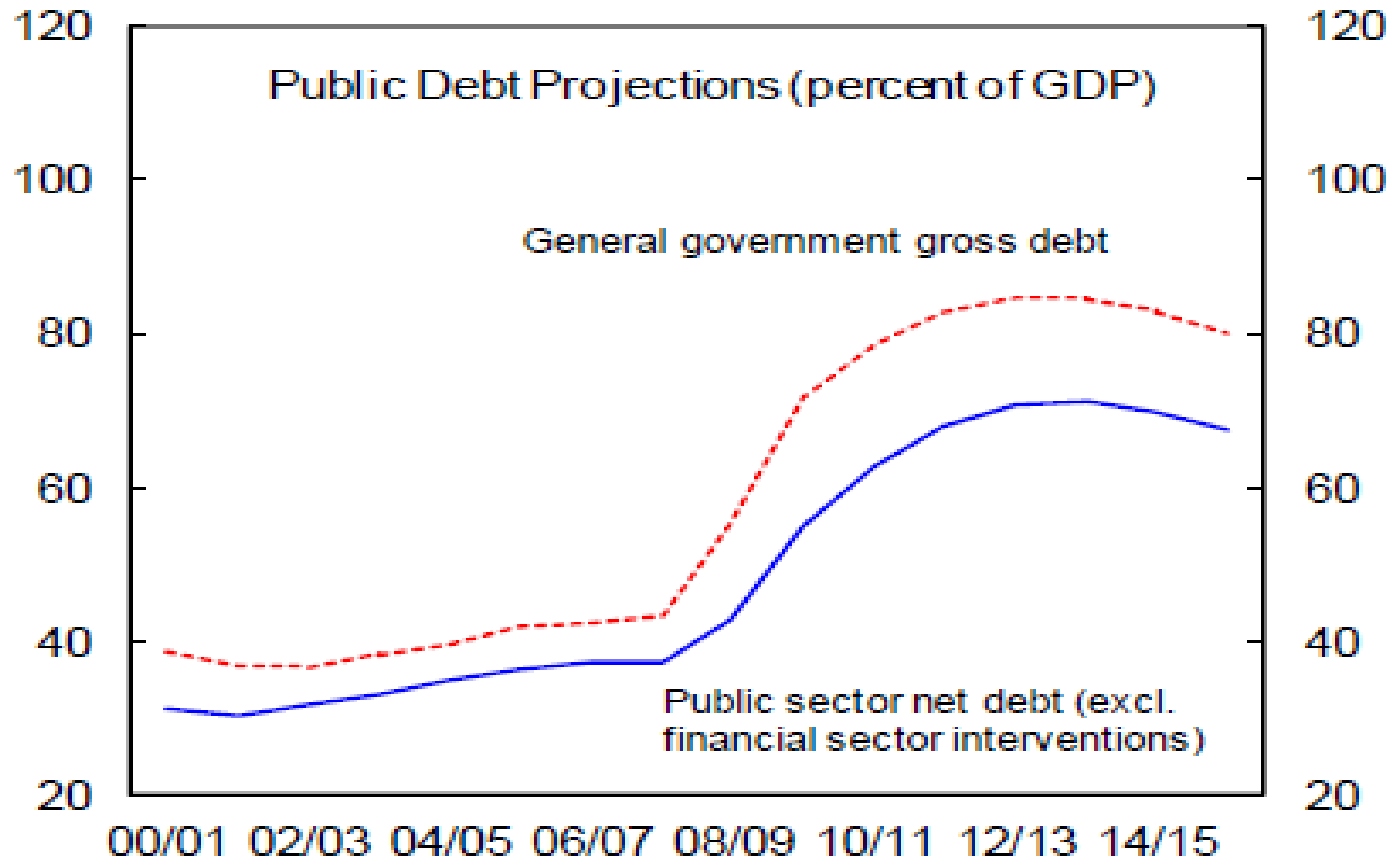


Source: IMF (2010), Article IV Consultation



Source: IMF (2010), Article IV Consultation

..to close the UK's large structural deficit and restore debt sustainability.



Source: IMF (2010), Article IV Consultation

Public Sector Finances (percent of GDP) 1/

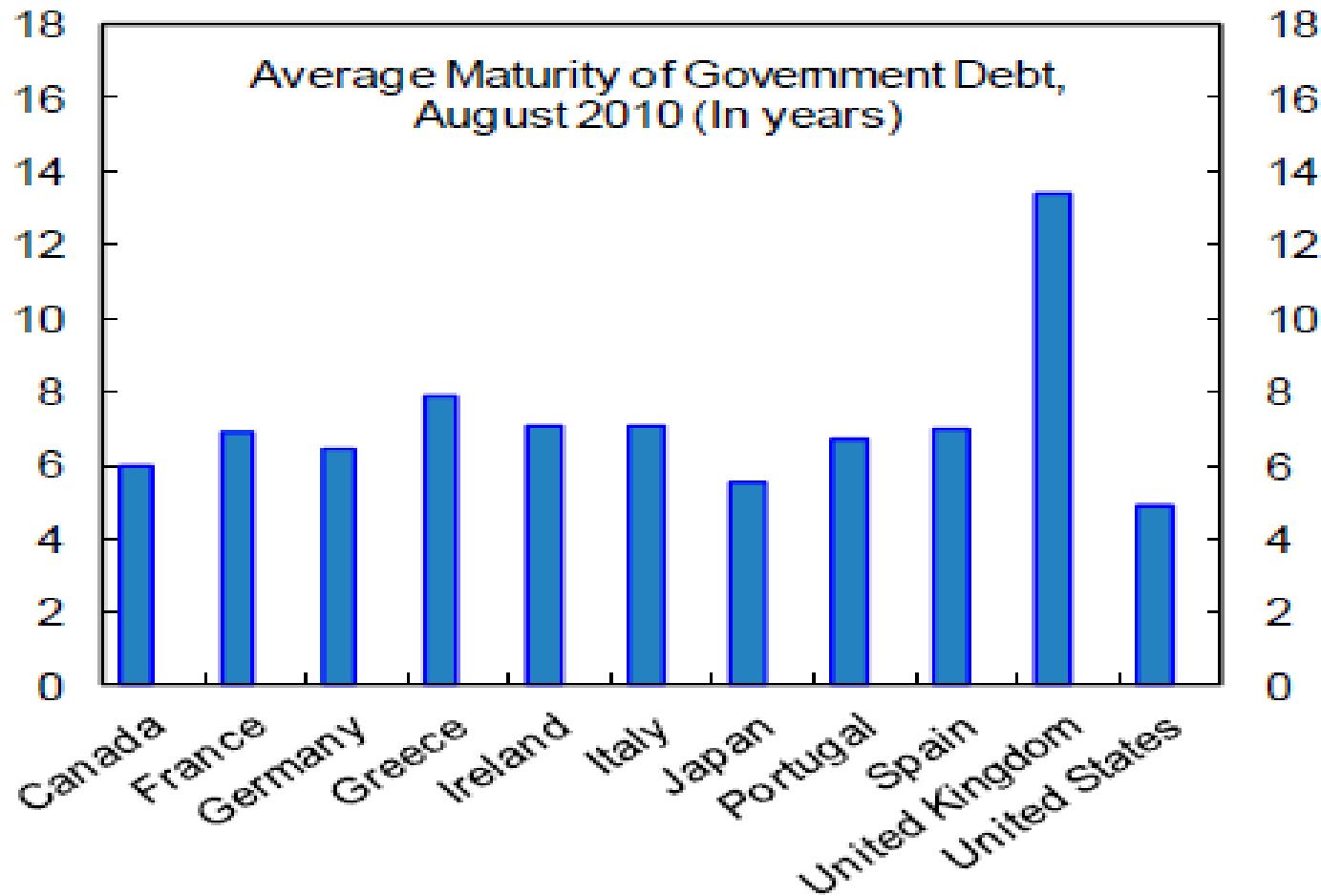
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	June 2010 Budget						
Overall balance	-11.0	-10.1	-7.5	-5.5	-3.5	-2.1	-1.1
Cyclically adjusted overall balance	-8.7	-7.4	-5.0	-3.4	-1.8	-0.8	-0.3
Current balance	-7.5	-7.5	-5.8	-4.1	-2.4	-1.0	0.1
Cyclically adjusted current balance	-5.3	-4.8	-3.3	-2.0	-0.7	0.3	0.8
Fiscal stance 2/	2.4	-1.3	-2.4	-1.7	-1.6	-1.0	-0.6
<i>of which: new policy measures</i>	...	-0.5	-0.5	-0.5	-0.4	-0.3	...
General government gross debt	71.2	78.9	83.6	85.5	84.9	83.1	80.4
	Staff projections						
Overall balance	-10.4	-9.9	-7.2	-5.5	-3.6	-2.3	-1.2
Cyclically adjusted overall balance	-8.1	-7.7	-5.5	-4.0	-2.4	-1.4	-0.7
General government gross debt	71.6	78.5	82.8	84.8	84.6	82.9	80.2

Sources: Office for National Statistics, HM Treasury, and staff estimates.

1/ Fiscal year starts in April and ends in March.

2/ Negative of the change in cyclically adjusted balance.

UK sovereign debt has a favorable structure, featuring a longer average maturity than in any comparator country.



Source: IMF (2010), Article IV Consultation

Table 1. United Kingdom: Selected Economic and Social Indicators, 2005-11

	2005	2006	2007	2008	2009	2010	2011
						Proj.	Proj.
Real Economy (change in percent)							
Real GDP	2.2	2.8	2.7	-0.1	-5.0	1.7	2.0
Domestic demand	2.1	2.5	3.1	-0.7	-5.5	2.6	1.5
Private final domestic demand	2.0	2.7	3.3	-1.4	-6.6	1.3	2.6
CPI, end period	1.9	3.0	2.1	3.1	2.9	2.8	2.5
Unemployment rate (in percent) 1/	4.8	5.4	5.4	5.6	7.5	7.9	7.5
Gross national saving (percent of GDP)	14.5	14.1	15.6	15.0	12.3	12.1	12.9
Gross domestic investment (percent of GDP)	17.1	17.5	18.2	16.6	13.6	14.5	15.2
Public Finance (fiscal year, percent of GDP) 2/							
General government balance	-2.9	-2.3	-2.7	-6.7	-11.3	-9.9	-7.4
Public sector balance	-2.9	-2.3	-2.4	-6.0	-10.4	-9.9	-7.2
Cyclically adjusted balance (staff estimates)	-2.8	-2.2	-2.9	-5.8	-8.1	-7.7	-5.5
Public sector net debt	35.5	36.0	36.5	42.7	53.5	61.2	66.3
FX-denominated public debt (percent of gross debt)	0.3	0.3	0.2	0.0	0.0
Money and Credit (end period, 12 month percent change) 3/							

Source: IMF (2010), Article IV Consultation

Table A1. United Kingdom: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2005	2008	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Baseline: Public sector debt 1/ o/w foreign-currency denominated	41.7	42.4	43.1	55.4	71.6	78.5	82.8	84.8	84.6	82.9	80.2	-0.7
	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Source: IMF (2010), Article IV Consultation