

Institution: University of Warwick
Unit of Assessment: 18 – Economics and Econometrics
Title of case study: British Productivity Measurement and Pro-growth Policymaking
<p>1. Summary of the impact (indicative maximum 100 words) Professors of Economic History Steven Broadberry and Nicholas Crafts benchmarked historical British productivity performance against other modern economies and determined the factors which most influenced productivity growth, highlighting the important roles played by <i>supply-side policies</i> including education, innovation, competition, and labour relations policies. Their research has impacted both public and policymaker understanding of pro-growth responses the current government could make to the 2008 financial crisis. Their findings underpinned many Thatcher government policies and supported the retention of these policies by governments that followed.</p> <p>2. Underpinning research (indicative maximum 500 words) Broadberry and Crafts' expertise in the history of British economic growth has had a sustained impact on policy making, most visible in New Labour policies of the 1990s and in post-2008 policies.</p> <p>In a series of articles spanning 20 years, Broadberry and, especially, Crafts, analysed post-war British productivity performance, benchmarking it against other modern economies, and investigated the micro-economic foundations of differential growth outcomes. Based on this research, they articulated “supply-side” policies designed to foster economic growth.¹</p> <p>Bean and Crafts (1996) documented the decline in British productivity relative to a 12-country peer group between 1950 and 1973. Their research revealed Britain’s relative economic decline to be due to low investment and low total-factor productivity (TFP) growth, probably because of shortfalls in workforce training and a lack of product and process innovation. They further found that fragmented bargaining and the frequent presence of multiple unions reduced TFP growth in the period. These findings were confirmed in Broadberry and Crafts (1996), which analysed patterns in labour productivity in the manufacturing sector and found that British manufacturing suffered from a lack of human capital formation and that British industrial relations induced “overmanning” and a failure to obtain the full productivity gains from new technology.</p> <p>Broadberry and Crafts (2003), citing 19 papers by one or both of the authors, summarise their research between 1992 and 2003 to conclude that British productivity growth was lower than it could have been between 1950 and 1973 by about 1 per cent, causing Britain to fall behind other European countries (notably West Germany) in manufacturing and services. It confirmed that this poor performance was driven particularly by poor British labour relations and a lack of competition in British product markets.</p> <p>This research was noted for its early advocacy of policies that are now common in pro-growth economic reforms. For example, Crafts (1996) recommended policies (1) to stimulate investment, (2) to enhance workforce skills acquisition, e.g. by investing in education, (3) to promote innovation, (4) to enhance appropriability through the reform of corporate law and regulation, and (5) to promote competition. All of these proposals were implemented by Labour and Coalition governments and continue to be a policy focus today. Crafts’ recent research has reinforced the particularly important role played by competition in enhancing productivity growth (Crafts (2012)).</p> <p>As public and policy debate intensified over the slow recovery of the British economy from the 2008 financial crisis, Professor Crafts synthesised the implications of this literature for contemporary policy-making in an influential Royal Economic Society (RES) Policy lecture and companion research paper (Crafts (2013)). Drawing on lessons from macroeconomic and growth-oriented policy responses in the 1930s and 1980s, Crafts advocated for policies reversing the decline in government infrastructure investment and promoting road pricing, enhancing incentives in education, shifting taxes from income to consumption and property, relaxing planning</p>

¹ Note that Professor Crafts was on the Warwick faculty from 1988 to 1995 and again from 2006 to the current time. All of the research referenced here was either conducted while he was at Warwick or is co-authored with Professor Broadberry, who was on the Warwick faculty at the time.

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regulations, and discouraging competition-distorting industrial policy. He concluded that despite the constraints placed on fiscal policy by the need to reduce government debt, and on monetary policy by the Zero Lower Bound to nominal interest rates, targeted supply-side policies could enhance productivity and growth.

3. References to the research (indicative maximum of six references)The research:

1. Crafts, N., 1996, 'Post-Neoclassical Endogenous Growth Theory': What are its Policy Implications?, *Oxford Review of Economic Policy*, v12n2, pp 30-47, DOI: <http://dx.doi.org/10.1093/oxrep/12.2.30>.
2. Bean, C. and N. Crafts, 1996, British Economic Growth Since 1945: Relative Economic Decline ... and Renaissance?, Chapter 6 in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe since 1945*, Cambridge University Press, pp 131-172, DOI: <http://dx.doi.org/10.1017/CBO9780511758683>.
3. Broadberry, S. and N. Crafts, 1996, British Economic Policy and Industrial Performance in the Early Postwar Period, *Business History*, v38, pp 65-91, DOI: <http://dx.doi.org/10.1080/00076799600000135>.
4. Broadberry, S. and N. Crafts, 2003, UK Productivity Performance from 1950 to 1979: a Restatement of the Broadberry-Crafts View, *Economic History Review*, v56, pp 718-735, DOI: <http://dx.doi.org/10.1111/j.1468-0289.2003.00267.x>.
5. Crafts, N., 2012, British relative economic decline revisited: The role of competition, *Explorations in Economic History*, v49, pp 17-29, DOI: <http://dx.doi.org/10.1016/j.eeh.2011.06.004>. [REF2]
6. Crafts, N., 2013, Returning to Growth: Lessons from History, *Fiscal Studies*, v34, pp255-282, edited version of Crafts's Royal Economic Society Policy Lecture of 17th October, 2012, DOI: 10.1111/j.1475-5890.2013.12005.x

Evidence of research quality:

There are six academic papers listed above. Those targeting an academic audience ([2], [3], and [4]) are all published in excellent (3* or 4*) outlets. The book in which [2] appears is published by Cambridge University Press, a leading academic press. *Business History* is the best business history journal in the Association of Business School (ABS) rankings, and *Economic History Review* is the second-best Social Science journal in the ABS rankings and 76th best economics journal in the Kalaitzidakis et. al. (2003, *JEEA*) rankings. [1] is in the *Oxford Review of Economic Policy*, which targets both academics and policymakers. It is a "Grade Two" journal in the ABS Economics rankings (which only considers the first of these potential audiences) and 69th in the *JEEA* rankings. *Explorations in Economic History* and *Fiscal Studies* are (n/a, 57th, and 163rd) and (99th, n/a, 154th) in the (ABS, *JEEA*, Repec) rankings.

4. Details of the impact (indicative maximum 750 words)

Broadberry and Crafts' early research and 1990s policy influence has a current, *continuing impact*, which is enhanced by their *contemporary impact* on public attitudes and government policies.

In the late 1990s, Broadberry and Crafts' research contributed to New Labour's response to Thatcherism, for example, in HM Treasury's 'Productivity Agenda' from 1999 and 2000. Crafts regularly met with and presented to policymakers; as early as the 1997 Wincott Lecture Crafts highlighted pro-growth policies (from Crafts (1996)) which were reflected in the 'Five Drivers of Productivity Performance' (investment, skills and human capital, innovation, competition, and enterprise) which Labour presented in its policy statements from 1999 onwards (cf. HM Treasury (2000)).

The impact of this research continues into the current period. Dr Charles Bean, Deputy Governor for Monetary Policy at the Bank of England, commented, "The historical perspective afforded by [Crafts'] research into Britain's comparative economic performance ... has provided policymakers with a unique perspective on the engines of growth and the [supply-side] policies to support it...

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While the importance of supply was contentious in the 1980s during the Thatcher years, I think it is fair to say that it is now accepted by all the main political parties and Crafts' work has played into providing the hard evidence to support that belief" (Bean (2013)).

Ken Warwick, former Director General at the Department for Business, Innovation, and Skills (BIS), commented "[Crafts] is the economist of choice for anyone working on economic policy in the field of productivity, economic growth, and a wide range of supply-side policies... Nick's research and his participation in Whitehall debates helped ensure that... economic policy during 1997-2007 continued to emphasise a market friendly approach" (Warwick (2013)).

John Kingman, Second Permanent Secretary and Conrad Smewing, Deputy Director, Corporate Finance, Business, Innovation, and Skills, both at HM Treasury, noted Crafts' continuing impact: "Crafts' research... had a clear impact on the Treasury's approach to supply-side economic policy in the 1990s and 2000s. Particular areas where he has been influential in policy thinking include competition policy – where for example his work had direct impact on policy development for the 1998 Competition Act ...and approaches to the labour market and industrial relations. This thinking continues to have an impact on the Treasury's prioritisation and policy approach in a number of areas, [f]or example a renewed Treasury focus on competition and competition policy is currently being set in train" (Kingman and Smewing (2013)).

The 2008 financial crisis, change of government, and sluggish economic performance in the last few years have revived interest in pro-growth economic policies. Crafts is notable for targeting academics, policymakers, and the broader public through his writing. Crafts is one of the most highly-read authors on VoxEU, a leading economics blog which publishes research in non-technical language for a general-interest audience. His eight articles since 2008 attracted over 150,000 page views. Dr Bean concurs, "I think it is worth recording Crafts' efforts to engage with policymakers and the wider public. For instance, he delivered last year's well-received Royal Economic Society Policy Lecture [and] is a regular contributor to the Vox website ([where] his recent contributions... have garnered over 30,000 hits each) and to the quality press."

Crafts' research has also had a contemporary policy impact. The economic and policy analysis team at BIS (and its predecessor BERR) have relied on Crafts (2013) to motivate the Coalition Government's pro-growth policies limiting the adverse impacts of regulation and continuing to invest in transport infrastructure (BERR (2008), BIS (2010a), BIS (2010b)). Indeed, three of the 'four pillars' of the current Government's Plan for Growth – lowering regulatory and legal barriers to starting and growing a business, encouraging investment, and creating a more educated workforce – are identical to those in Crafts (1996) and repeated throughout Broadberry and Crafts' research.

Lord Gus O'Donnell, former UK Cabinet Secretary 2005-2011, concluded, "The Treasury has struggled for years to understand the determinants of growth and productivity. Crafts' work has been fundamental to putting this policy area on a much stronger footing... His emphasis on the importance of the right structural reforms had a big impact on the Treasury's thinking and directly influenced the debates about what should go in various budgets. Governments have taken on board many of his points such as the need to improve the planning system and to strengthen competition" (O'Donnell (2013)). Warwick added, "With the global financial and economic crisis in 2008-09, the Government's approach to economic and industrial policy shifted somewhat – with a greater emphasis on strategic intervention, countercyclical policy and sectoral strategy... [Crafts'] work has proved a salutary reminder of the dangers of excessive intervention and the risks associated with trying to 'pick winners' [in industrial policy]. [This] helped analysts in Government shape the new approach to industrial policy in ways that were consistent with the literature and the lessons from past experience" (Warwick (2013)).

Kingman and Smewing add, "Crafts' more recent work continues to shape thinking at the Treasury. In particular his Royal Economic Society lecture of 2012 [Publication (6) above] and associated work has contributed to internal policy debate and policy development on crucial supply-side issues. One notable area is planning reform, where his research fed into the policy development leading up to the publication of the "Plan for Growth" alongside Budget 2011. Other areas where

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he has been influential include the importance of infrastructure spending, which formed a major part of the 2013 spending review, the role of the housing market and housing policies in recovery, and the Treasury's approach to industrial policy as part of the Government's Industrial Strategies.

The reach and significance of Broadberry and Crafts' research is considerable. Direct beneficiaries include UK policy makers and members of the private sector they consult with, while indirectly their research touches virtually every sector of the British economy, making all UK households, firms, and workers beneficiaries of their work.

Broadberry and Crafts (2003) estimate that economic growth in the post-war period was between 0.75 and 1 percentage point lower than it could have been due to the inefficient structure of education, labour relations, and competition policies in place at that time. Crafts (2013) argues that further changes in supply-side policies could help the current economic recovery and close the output gap, a primary consideration given output (as of end-2012) is still 3 percentage points below its 2008 level.

5. Sources to corroborate the impact (indicative maximum of 10 references)

Deputy Governor, Monetary Policy, Bank of England, email to Professor Gregory Crawford, Director of Research Impact, Department of Economics, University of Warwick, received 14 June 2013.

BERR, 2008, BERR's role in raising productivity: new evidence, p12. URL:

<http://www.bis.gov.uk/files/file44504.pdf>

BIS, 2010a, Learning from some of Britain's successful sectors: An historical analysis of the role of government, pp vii, 1-17, 35, 77, 82, 85, 118, 121, 127. URL:

<http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/10-781-bis-economics-paper-06.pdf>

BIS, 2010b, Economic Growth, pp 52, 77, 122. URL:

<http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/e/10-1213-economic-growth.pdf>.

Crafts, Nicolas (1997), "The Conservative Government's Economic Record: *An End of Term Report*", Wincott Lecture, The Institute for Economic Affairs, London.

HM Treasury, 2000, Productivity in the UK: The Evidence and the Government's Approach, p32.

URL: http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/ent_prodevi_index.htm

HM Treasury, 2007, Productivity in the UK: 7 – Securing long-term prosperity, pp 15, 22, 47, 48, 59. URL: http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/ent_prod7_index.htm

HM Treasury and BIS, 2011, Plan for Growth. URL: http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

Former Second Permanent Secretary at HM Treasury & Deputy Director, Corporate Finance, Business, Innovation, and Skills, HM Treasury, 2013, email to Professor Gregory Crawford, Director of Research Impact, Department of Economics, University of Warwick, received 18 July 2013.

Former UK Cabinet Secretary, email to Professor Abhinay Muthoo, Head of Department, Department of Economics, University of Warwick, received 17 February 2013.

Former Director General and Director of Analysis, Department for Business, Innovation, and Skills (BIS), 2013, email to Professor Gregory Crawford, Director of Research Impact, Department of Economics, University of Warwick, received 18 July 2013.