

Productivity

A word which is sometimes misunderstood. Here in the UK business leaders, economists and financial institutions always talk about productivity. But what is it, how is it measured and why is it important. Lots of questions and hopefully within this article you will find an insight into these questions.

An economist may look to define productivity as profits and dividends and/or outputs made by businesses per hour, coupled together with wages, which figures are then compared with other businesses and/or countries.

But being a lawyer, I look at things in a slightly different way to that of an economist. As such, it may be easier to define what productivity is not rather than what it is, as it does not measure how idle a country is compared to another. Within the UK we have low productivity as compared to a country like France, but when I look around at my clients they are far from being idle.

In my view, the difference in productivity between the UK and France can be explained by the fact the French labour system is very rigid and is orientated by its unions. It is much like the UK prior to Thatcher coming into power. If you have a difficult labour market there is no choice but for businesses to invest in technology as an alternative to labour. You should also bear in mind that the structure of the UK economy is very different to that of the French economy. As a result of the last recession, the UK's service based economy dipped in productivity terms and has never really recovered.

The conundrum for the UK is that we have low employment. In fact, some economists think we have full employment given our employment rate is at 5% compared with 15% in France. Yet the workers in France are paid more than their UK counterparts. Again, this could be down to the strength of collective bargaining through the French unions.

So, the real question for the UK may be, is more employment better? At the end of the day, one thing certain for economic growth is you do need sustained productivity. It is in this backdrop of Brexit that we have to hope that policy makers will make the post-Brexit world better for businesses by allowing them to continue to invest so that they can continue to grow and reduce their levels of debt. This is a simple goal which can be easily translated into the policy going forward. The only way the UK National Debt will reduce is either increased productivity by making more per hour, or spending less so we do not need to borrow as much.

Word Count: 445