



Structural adjustment in the United Kingdom

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Analytical framework

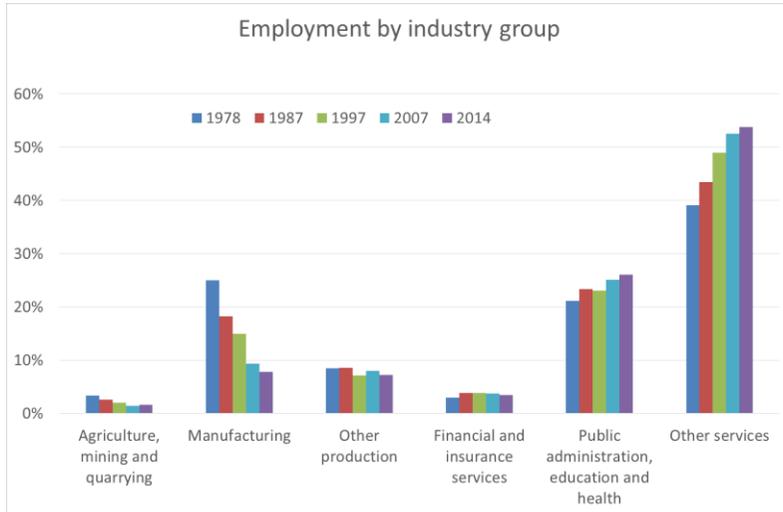
- Economic growth entails continuous adjustments in the structure of employment and production across industries
- Schumpeter's "creative destruction"
- OECD's "Going for Growth"



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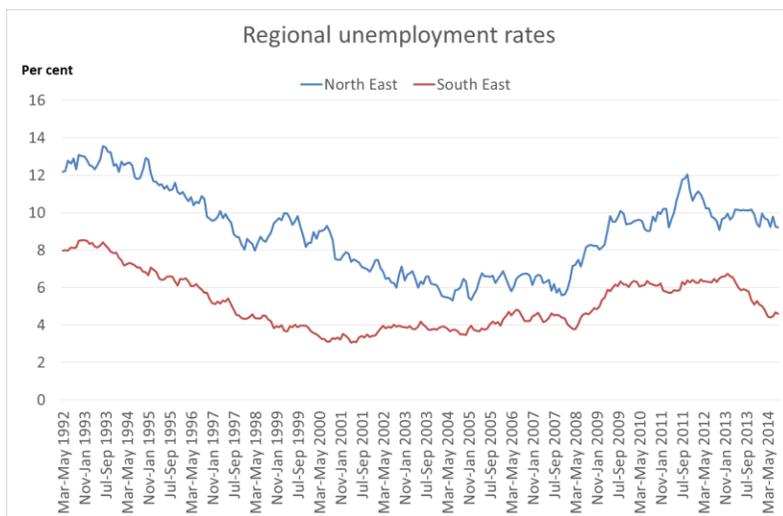
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Structural change in the UK economy since the 1970s



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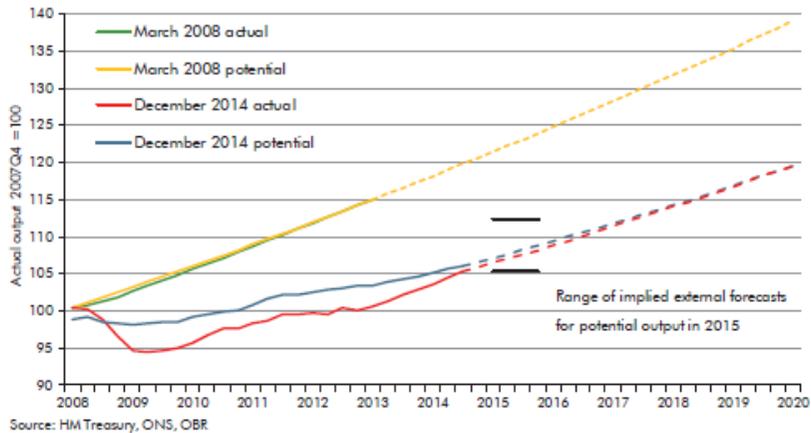
Evolution of regional unemployment rates



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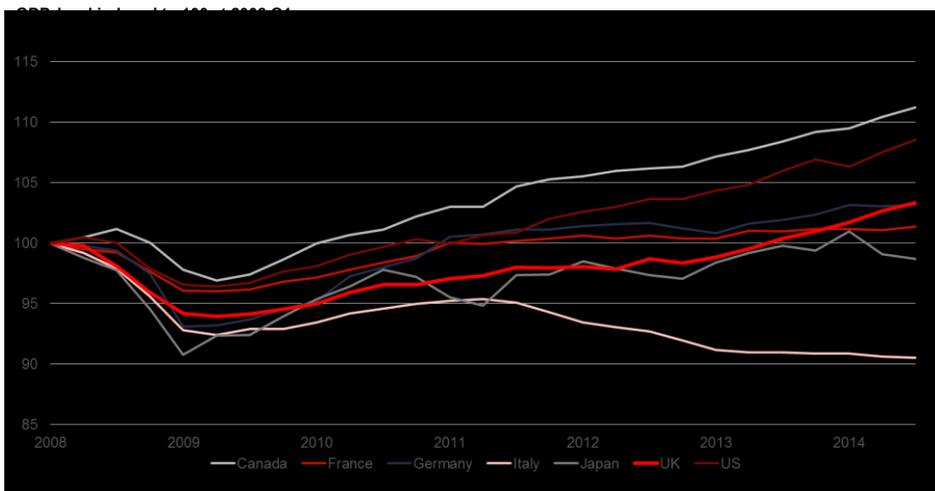
Potential output forecasts

Chart 3.6: Potential output forecasts

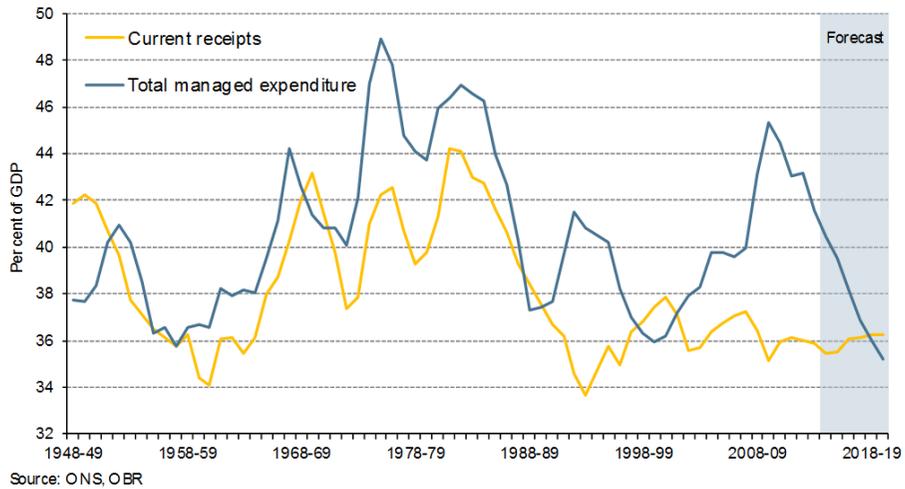


Source: OBR, Economic and Fiscal Outlook, Dec-14

International comparison of GDP



Fiscal position



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UK economic strategy

- o monetary activism and credit easing
- o deficit reduction
- o reform of the financial system
- o a comprehensive package of structural reforms

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Supply side reforms

Government has published an updated **National Infrastructure Plan (NIP)** providing clarity and visibility that industry and investors need.

- NIP 2014 has **£460bn of planned public and private investment** to the end of the decade and beyond across the key infrastructure sectors, including roads, rail, flood defences and science.

In addition, the Government announced a comprehensive package to build on existing reforms to boost UK productivity and create the right conditions for continued, balanced growth. Measures include:

- **Science & Skills:** £5.9bn of investment in the UK's research infrastructure over 2016-21, ambitious changes to postgraduate funding and further funding for the High Value Manufacturing Catapult.
- **Infrastructure and energy:** A £15bn transformation of our road network. £2.3bn of investment in over 1400 schemes to tackle flooding and coastal erosion. Support for shale gas research and North Sea extraction.
- **Housing & Planning:** taking forward existing commitments for up to 42,000 new homes, releasing land with capacity for up to 150,000 homes and committing to new measures to support

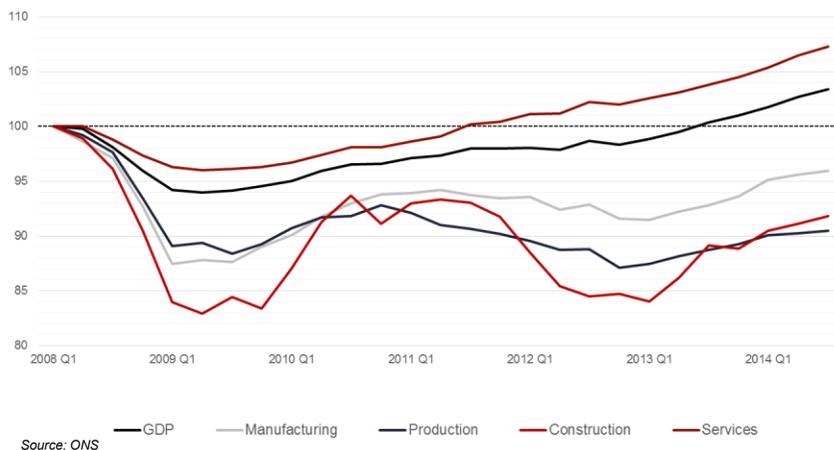
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Decomposition of GDP growth since 2008

Office for
Budget
Responsibility

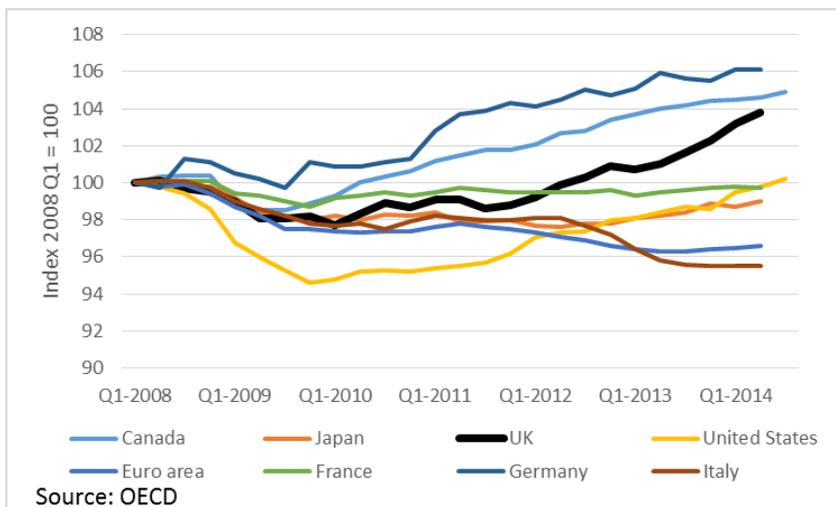
UK GDP growth since 2008 by sector, indexed to 100 at 2008 Q1



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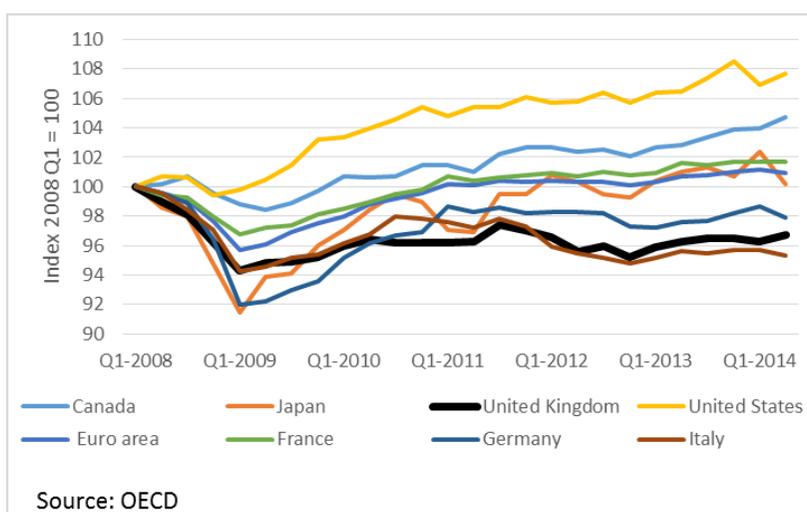
Employment



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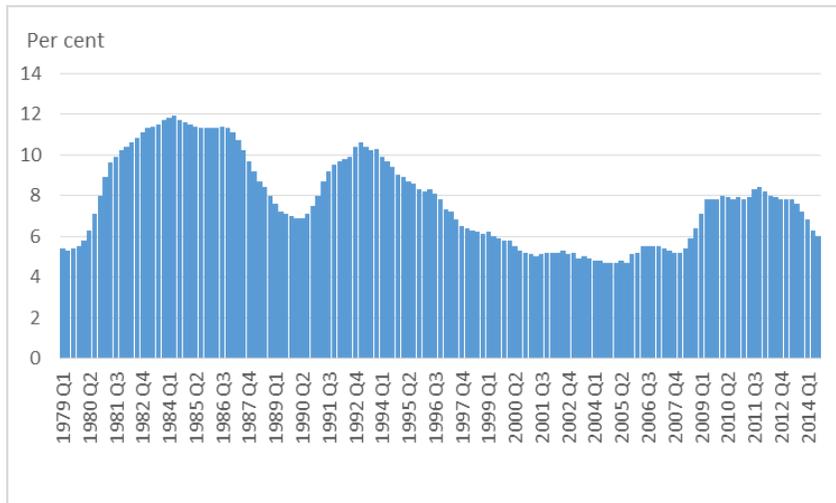
Productivity performance



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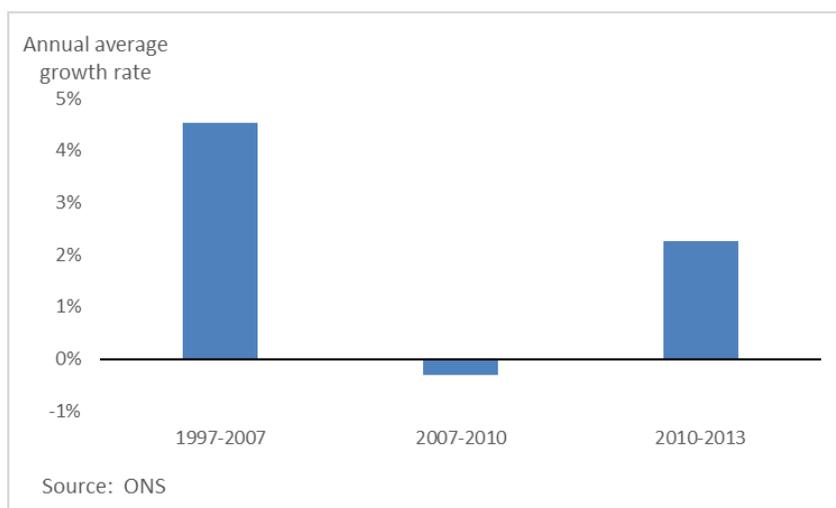
Unemployment rate



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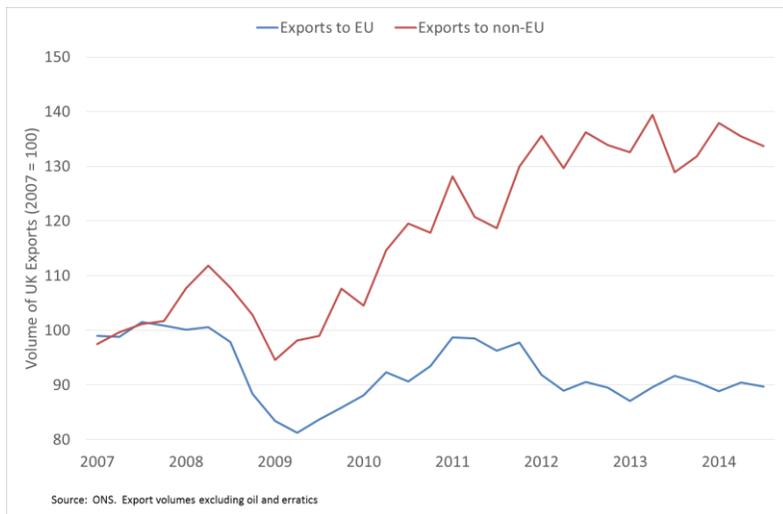
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UK exports of goods and services, volumes



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UK exports by destination



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Conclusions / Key messages

- Maintaining growth requires that economies are able to respond flexibly to changing economic environment
- Structural change is inherently disruptive; especially when rapid ...
- ... but disruption can be mitigated by policies that aid adjustment ...
- ... notably policies that enable labour and capital to flow freely between different economic activities

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