

## B ECONOMIC STABILITY AND COMPETITIVENESS

### Main messages

Between 1970 and 1998, the UK economy grew by 86 per cent in real terms, producing higher standards of living for most people. But there have been three major recessions which have been costly in both economic and social terms.

In 1998 and 1999 the inflation rate has been stable and close to the target of 2.5 per cent annual increase in the RPIX index.

Public sector net borrowing has reduced from the high levels in the early 1990s to 4 per cent of GDP in 1996 and is estimated to have declined to around 0 per cent of GDP in 1998.

Labour productivity in the UK in 1997 was much lower than in Germany, France, Canada and the USA.

UK exports and imports more than doubled in real terms between 1980 and 1998.

The UK has invested too little in buildings, modern plant and machinery. Total investment declined as a per cent of GDP over the period 1970 to 1998.

### Relevance

Economic stability is essential if individuals and businesses are to plan and invest, and maintain long-term economic growth. Sustainable development requires a stable economic environment, with low inflation, prudent levels of government borrowing and debt, and competitive business. Trade is important for future growth and prosperity and is also economically beneficial to other trading countries.

The extent to which the key objectives identified in the Strategy are being achieved, as reflected by the indicators, is illustrated in the following table.

### Key Strategies

- *A better quality of life. A strategy for sustainable development in the UK.* (6.14-6.21)
- UK Competitiveness white paper<sup>1</sup>
- Welfare to Work and New Deals targets<sup>2,3</sup>

### Some other related indicators:

Proportion of people of working age who are in work (**H3**); Indicators of success in tackling poverty and social exclusion (**H4**); Qualifications at age 19 (**H5**); UK resource use (**A1**); Energy efficiency of economy (**A2**); Energy use per household (**A3**); Developing skills and rewarding work (**C1-C11**); Economic vitality and employment (**E1-E5**); Vacant land and properties and derelict land (**K1**); New retail floorspace in town centres and out of town (**K2**); Net Official Development Assistance (oda) (**U2**)

<sup>1</sup> December 1998, ISBN 0-10-141762-4

<sup>2</sup> September 1999, ISBN 0-10-144452-4

<sup>3</sup> May 1998, ISBN 0-10-138052-6

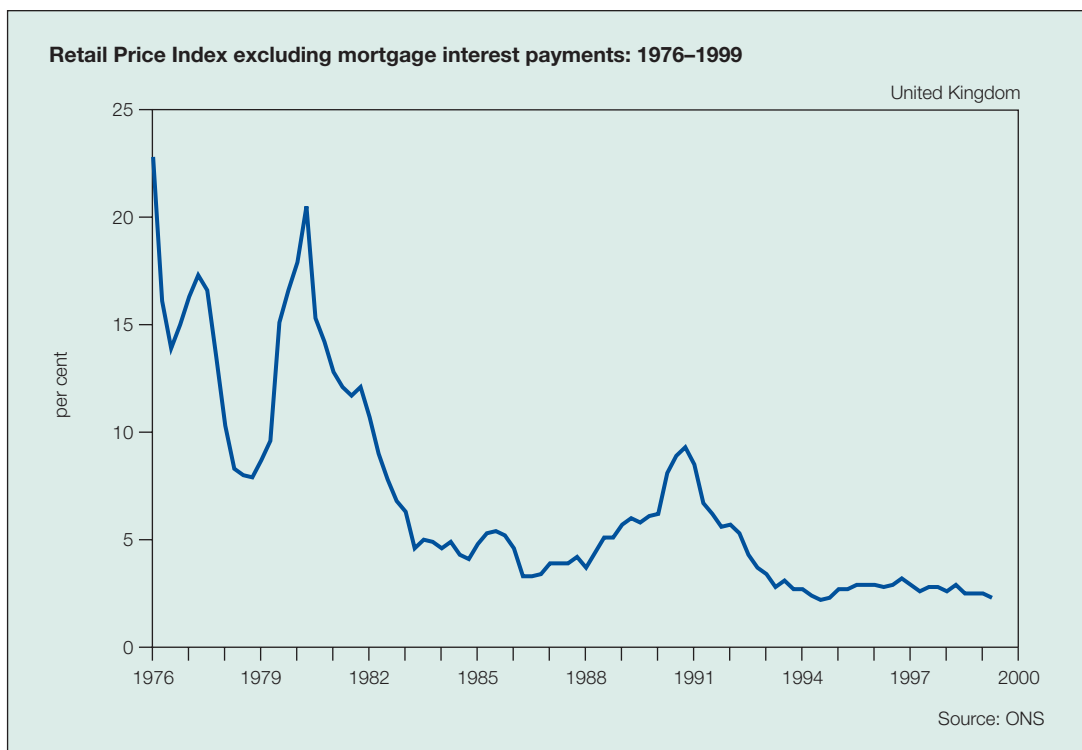
Objective	Ref no.	Indicator		Data used	Change since		Specific targets/goals
					1970	1990	
Our economy must continue to grow	H1	Total output of the economy (GDP and GDP per head) (headline)		1970-1998	✓	✓	
Deliver low inflation	B1	Rate of inflation		1976-1999	✓	✓	Government RPIX target is 2.5% for the UK
Government borrowing at stable and prudent level	B2	Public sector net borrowing and net debt	Net borrowing	1970-1998	≈	≈	The “golden rule” and the “sustainable investment” rule, UK
			Net debt		✓	✗	
Promote UK competitiveness	B3	Labour productivity		1977	✓	✓	
	B4	UK imports, exports, trade balance		1970-1998	✓	✓	
Investment (in modern plant and machinery, as well as research and development) is vital to our future prosperity	H2	Total and social investment as a per cent of GDP (headline)		1970-1998	✗	✗	
Also invest in “social assets”	B5	Social investment as a per cent of GDP		1970-1992	✗	✗	

Key	
✓ significant change, in direction of meeting objective	✗ significant change, in direction away from meeting objective
≈ no significant change	••• trend is uncertain or no quantitative data available
na not applicable, in cases where the indicator is for contextual purposes	

**Objective** Deliver low inflation

**Indicator** Rate of inflation

**B1**



After periods of high, volatile inflation in the 1970s, inflation (excluding mortgage interest payments) has remained in single figures. In 1998 and 1999 the inflation rate has been stable and close to the target of 2.5 per cent.

**Relevance** High and widely fluctuating rates of inflation are damaging to long-term economic growth and involve social costs often falling heavily on people with lower incomes.

**Targets and goals** The Government's RPI target excluding mortgage interest payments (RPIX) is 2.5 per cent annual increase.

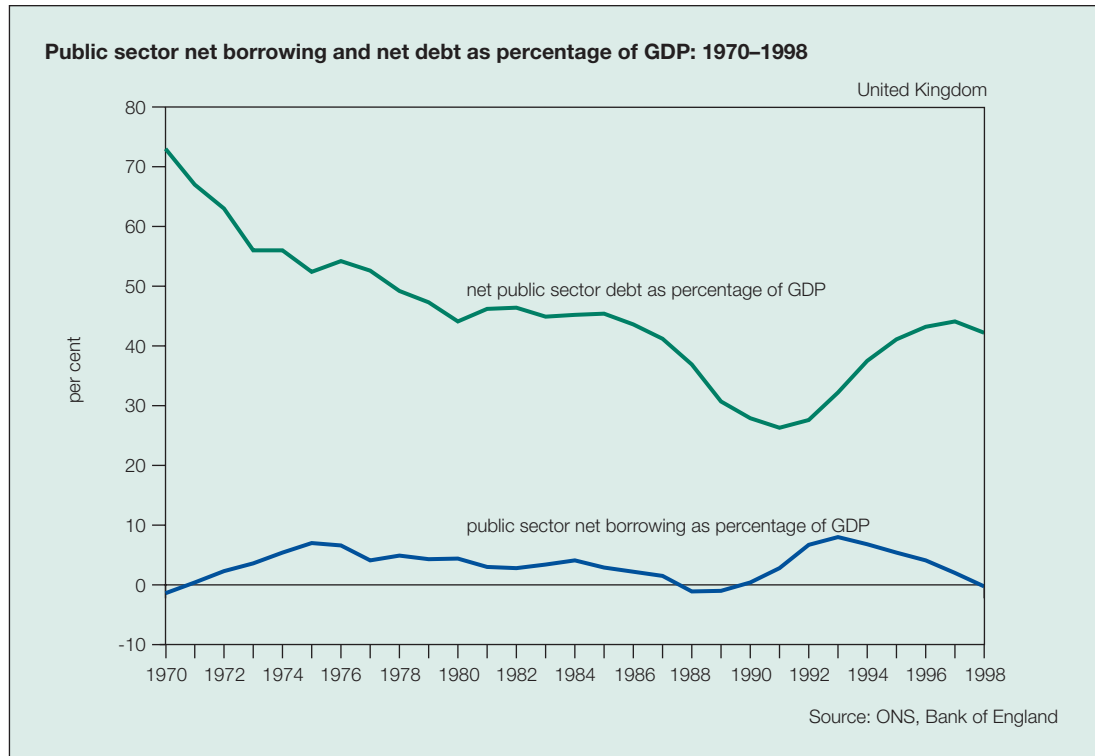
**Trends** From high levels of inflation, topping 20 per cent in the 1970s and early 1980s, the annual rate fell to 4 per cent by 1987. Inflation rose again during 1989 and 1990, then generally stayed below 3 per cent after 1992. The current rate for September 1999 is 2.1 per cent.

**Background** The chart shows the percent change in RPIX each quarter, compared to the same quarter a year ago.

**Objective** Government borrowing at stable and prudent level

**Indicator** Public sector net borrowing and net debt

**B2**



Net debt as a percentage of GDP rose sharply during the early 1990s but fell in 1998. Public sector net borrowing has reduced from the high levels in the early 1990s to 4 per cent of GDP in 1996, and became 0 per cent in 1998

**Relevance** Servicing high and rising levels of government debt lead to high interest rates for businesses, depressing investment and growth.

**Targets and goals** Over the economic cycle, the Government borrows only for investment and not consumption, and the level of borrowing must be consistent with keeping public sector net debt, as a proportion of GDP, at a stable and prudent level (the “golden rule” and the “sustainable investment rule”).

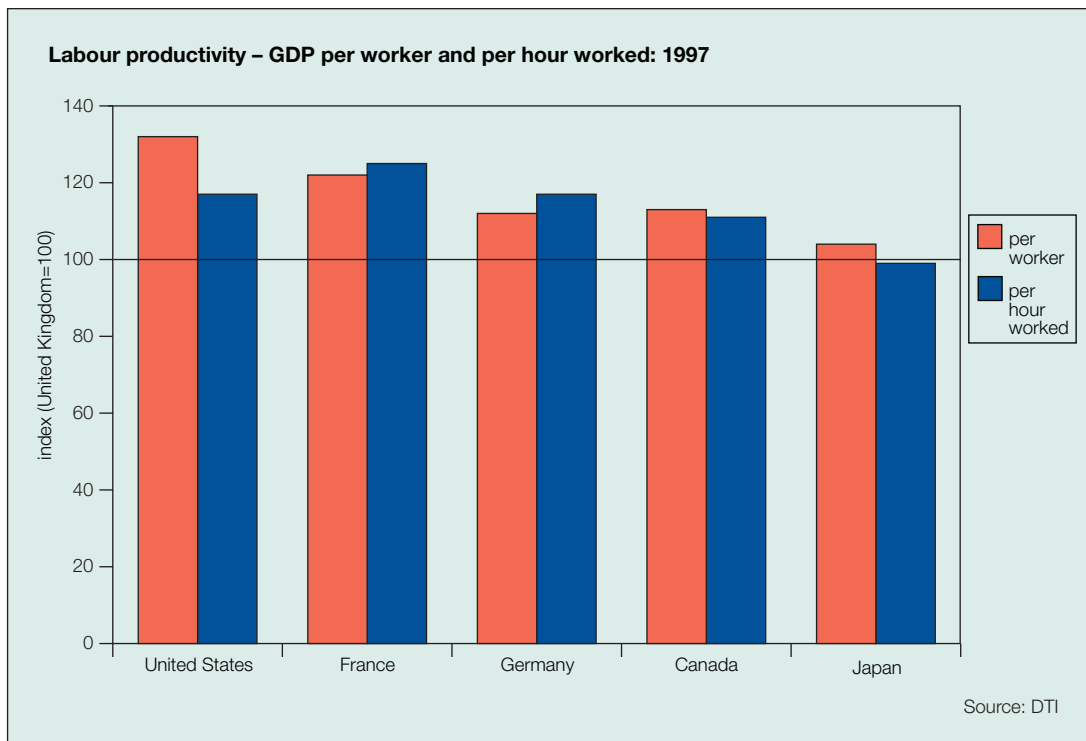
**Trends** Both borrowing and debt, relative to GDP, have fluctuated substantially over the last thirty years. In the 1970s borrowing peaked at 7 per cent of GDP, became negative in the late 1980s, rose to 8 per cent in the early 1990s, fell back to 4 per cent in 1996 and declined to around 0 per cent of GDP in 1998. Net debt declined from 73 per cent of GDP in 1970 to 26 per cent in 1991, before rising to 44 per cent in 1997 and dropping back to 42 per cent in 1998.

**Background** Total net borrowing by the public sector is shown as a percentage of GDP at market prices. Public sector net debt as at the end March each year is shown as a percentage of GDP at market prices for the twelve months centred on March.

**Objective** Promote UK competitiveness

**Indicator** Labour productivity

**B3**



**In 1997, labour productivity in Germany, France and the US, based on output per hour worked, was around 20 per cent higher than in the UK. The shortfall in productivity occurred in both manufacturing and service sectors.**

**Relevance** In order to maintain stable and high economic growth and employment at home, the UK needs to be competitive in world markets.

**Trends** Productivity levels are expected to converge amongst industrialised countries in the long run although there is considerable debate about the speed at which this will happen. Countries such as the UK, where productivity is relatively poor, can copy leading countries' best practice. Over the last few years the productivity gap between the UK and the US has been closing but the UK is losing ground to Germany and France. Productivity in Japan has been catching up with the UK.

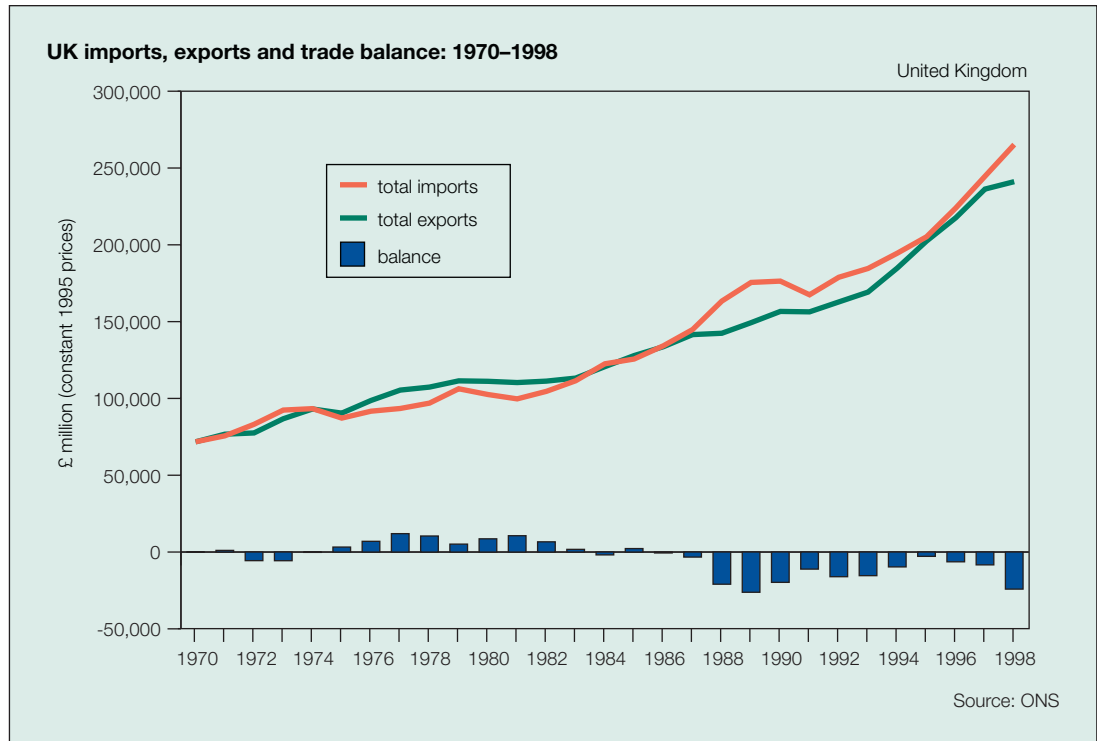
**Background** The UK is a trading nation and in order to prosper in rapidly changing world markets we need to produce goods and services more economically and efficiently than other countries. Also, if we can produce more with less, then spare resources can be transferred to other activities, helping to stimulate growth in the economy.

The DTI has developed UK competitiveness indicators to explain the shortfall in productivity between the UK and other major trading partners and to measure the UK's performance in closing the gap. These indicators will be published annually.

**Objective** Promote UK competitiveness

**Indicator** UK imports, exports and trade balance

**B4**



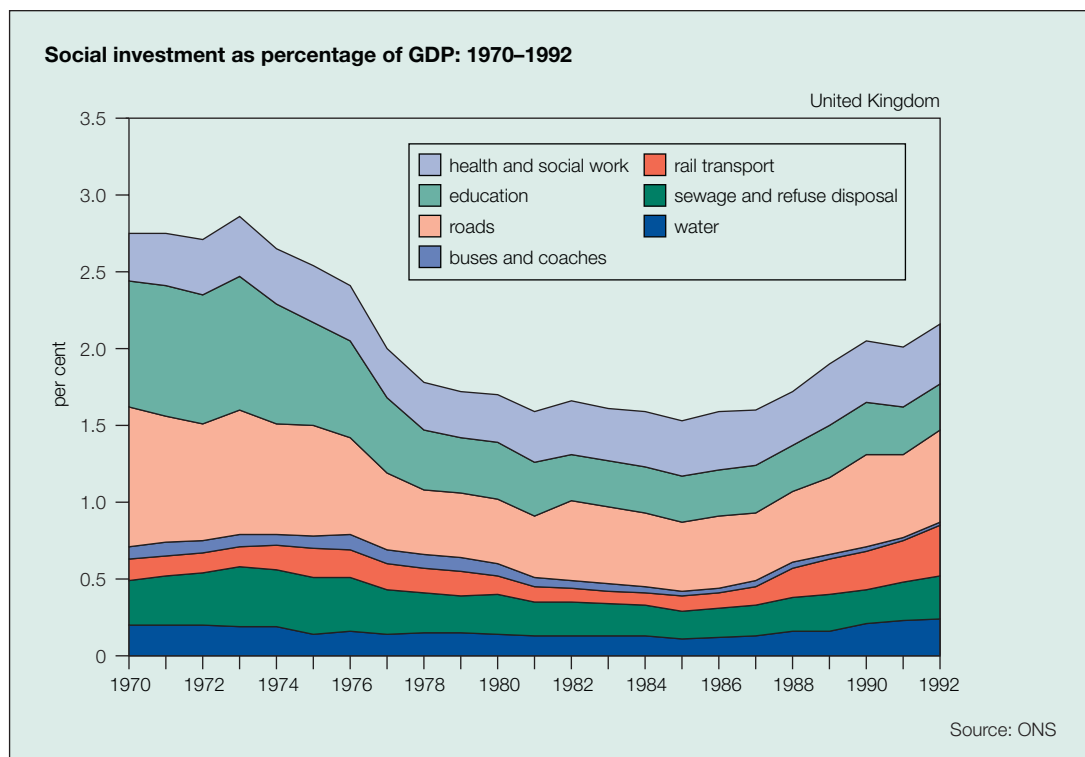
**UK exports and imports have grown strongly over the period 1980 to 1998**

- Relevance** Strong exports and balanced trade are essentials for high and stable economic growth.
- Trends** Exports and imports have more than doubled in real terms between 1980 and 1998. There has been a negative trade balance over the period 1986 to 1998.
- Background** Trade is important in generating income and wealth. World trade helps to make most efficient use of natural resources. However, trade may also exacerbate problems of pollution and environmental degradation in producing countries and encourage unethical production methods, without suitable controls.

**Objective** Also invest in “social assets”

**Indicator** Social investment as a per cent of GDP

**B5**



**Social investment has declined as a proportion of GDP over the period 1970 to 1992.**

**Relevance** Everyone should have access to high quality public services, which means we need to invest in social assets such as railways, buses, hospitals, schools, water and sewerage.

**Trends** Social investment declined overall from 2.8 per cent of GDP in 1970 to 2.2 per cent in 1992 but with cyclical variations reflecting the economic cycle. Social investment as a proportion of GDP increased in real terms between 1986 and 1992 but preliminary estimates indicate that investment relative to GDP declined subsequently.

**Background** Firm estimates of social investment since 1992 are not currently available. Investment estimates are generally made for each industrial sector using the Standard Industrial Classification of companies, based on the main activity of the business. Estimates of investments by asset type are also made but this has become much more difficult in recent years because of diverse investments by large companies spanning different industrial groups, because of privatisation of industries such as rail, buses, water and sewerage, and because of the introduction of the Private Finance Initiative. Data collection systems are being improved so that more accurate information on investment by asset type will be available in future.