

Growth, Innovation and Competitiveness: Maximising the Benefits of Knowledge-Based Capital

Productivity remains low compared to the best performing OECD economies, despite significant catch-up in the decade preceding the global economic and financial crisis and a supportive business environment. The crisis has impacted on the level and growth of productivity, reflecting cyclical factors like labour hoarding during the recent slowdown, persistent factors linked to the financial crisis, overlaying long-standing structural factors like planning, innovation, insufficient infrastructure, public sector inefficiencies and weak export performance. A Plan for Growth set by the government aims at enhancing the potential of the economy and rebalancing towards exports and investment. Investment in infrastructure needs to be supported by removing land-use planning constraints and addressing the lack of financing. The weak productivity in the public sector could be improved through better management and greater regional flexibility in public sector wages. The low R&D intensity compared to other OECD countries could be addressed by better rewarding innovation through the tax system. Innovation and development of green technologies should be supported by more uniform carbon pricing and enhanced innovation policies, which can be a win-win policy for both environmental sustainability and growth. Other growth opportunities will also need to be better seized. Higher education is among the United Kingdom's most important exports and has strong growth potential, which should not be hampered by excessive restrictions on student visas. Demand from emerging markets is likely to expand, especially in financial and business services, where the United Kingdom has a competitive edge.

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