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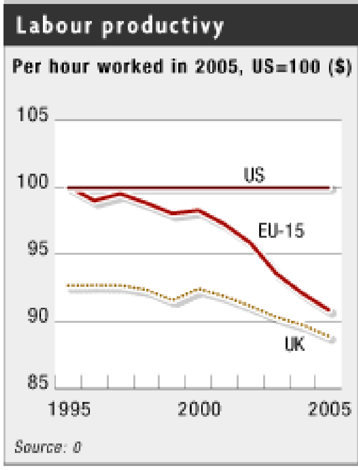

UK productivity gap with US grows
By Chris Giles, Economics Editor
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Gordon Brown's dream of British productivity to rival that of the United States is dealt a blow on Wednesday with the publication of figures showing the gap has widened since Labour came to power.

Another poor year of productivity growth in 2005 has opened an even wider gap between Britain and the US, according to Conference Board, the global business organisation and a recognised world authority in global economic comparisons reports.

Since Labour came to power in 1997, Britain's output for every hour worked has fallen further behind that in the US, mirroring weaknesses in France and Germany. In contrast, the efficiency of Britain's economy had been gradually catching up with the US under previous governments.

The figures suggest that Gordon Brown's central ambition to raise the relative performance of British productivity has not yet been achieved.

>In 2005, Britain's output per hour worked rose by 0.9 per cent, according to the Conference Board. The level was the same as in Germany but well below the 1.8 per cent rise recorded in the US, the 1.9 per cent increase in Japan and the 1.5 per cent rate in France. The European Union 15 recorded a sharp fall overall but these figures have been distorted by an amnesty for illegal immigrants in Spain.

The 10 new members of the EU, taking advantage of new opportunities offered by EU membership, enjoyed productivity growth of 6.2 per cent in 2005. They year sealed almost a decade of British and European underperformance relative to the US.

The chancellor has repeatedly recognised that labour productivity is one of the most important building blocks of economic prosperity. In his 1998 Budget speech he said: "I want us to be as determined to raise productivity as we have been tough minded about the need for stability".

When examining its own record, the Treasury concentrates on international comparisons of national output per worker; Britain's relative performance appears better than France and Germany on this measure. But the Conference Board figures show the improvement is entirely due to an increase in working hours in the UK. Britain's output per hour worked is just as far behind Germany and France's level as it was in 1997 and even further behind the US.

Bart van Ark, the consulting director to the Conference Board, told the Financial Times that, alongside the other big European economies, the erosion of Britain's productivity in comparison to the US was now an ongoing structural problem that had emerged in the late 1990s after decades when Europe had been catching up.

"The dynamics of how technology is used and diffused throughout the economy is much slower in Europe than in the US", he said, adding that competition across European markets has not forced companies to adopt the best techniques as quickly as in the US.

Recent research by the Centre of Economic Performance at the London School of Economics backed up Mr van Ark's analysis, which showed that US-owned companies were able to improve productivity in their plants much more than British owned equivalents by using computers better and adopting more aggressive management of staff. Almost 80 per cent of the productivity difference between Britain and the US in this study came from the use of computers.

Britain's failure to keep productivity growing as fast as the US will be a persistent worry for the chancellor in the remainder of the parliament. With low unemployment, long hours and high numbers of people in work, Britain must improve productivity growth if the economy and living standards are to rise rapidly.