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- The gap in GDP per capita relative to most advanced OECD countries has narrowed in recent years, driven by greater labour utilisation. Labour productivity growth remains however weak.
- Income inequality is above the OECD average but has fallen somewhat recently. The share of national income held by the poorest 20%, still below the OECD average, slightly increased.
- Some action has been taken in all recommended reforms in *Going for Growth* 2015, in particular on development and long-term infrastructure planning. Spending-based fiscal consolidation has lifted efficiency gains in public sector administration, leading to a removal of the priority identified in 2015.
- Greater spending on education and training would raise skills and enhance productivity, allowing for higher wages. Higher housing supply would improve labour mobility and reduce skill mismatches, resulting in additional income gains. More investment in research and development and higher infrastructure provision would support technical progress and boost the capital stock, also enhancing progress in living standards.

Going for Growth 2017 priorities

Improve skills. Adults have lower literacy and numeracy skills than the OECD average and the proportion of younger people in England with low skills is higher than the proportion of people nearing retirement age.

Actions taken: To boost the development of vocational skills, the authorities adopted legislation to phase in an apprenticeship levy on large businesses from April 2017. Since 2013, Maths and English study programmes are provided to all 16 to 19 year-old students who have not, by the age of 16, achieved at least a minimum grade in these subjects.

Recommendations: Encourage the expansion of high quality postsecondary vocational programmes. Better align programmes and policies to local economic development through further decentralisation of funding for skills programmes and by further involving employers. Support lifelong learning of low-skilled workers to ensure that their productivity can adjust to planned raises in the National Living Wage.

Strengthen work incentives and active labour market policies. Spending on active labour market policies is below the OECD average and the share of all unemployed and not in education, employment nor training (NEET) youth is above the OECD average.

Actions taken: Universal Credit, a welfare reform aimed at increasing work incentives, has been introduced progressively, but at a measured pace. Access to free childcare will broaden gradually from September 2016, which should support work incentives for parents.

Recommendations: Implement the Universal Credit and monitor its effectiveness in moving people to employment. Raise spending on active labour market policies, in particular for 15 to 19 year-olds, and improve their efficiency by fostering competition among contracted providers, better profiling customers and developing a performance measurement system based on jobseeker features and local labour markets.

Enhance housing supply. Stringent planning regulation complicates new construction, and weak housing supply reduces affordability and the matching of skills to jobs, which in turn weakens productivity.

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### Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)		2003-09	2009-15
GDP per capita		0.2	1.2
Labour utilisation		-0.3	0.6
of which:	Labour force participation rate	0.2	0.2
	Employment rate[1]	-0.5	0.4
	Employment coefficient[2]	0.0	0.0
Labour productivity		0.4	0.8
of which:	Capital deepening	1.1	0.1
	Total factor productivity	-0.8	0.7
Dependency ratio		0.1	-0.1

B. Inequality

|	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	35.8 (31.7)*	-0.2 (0)*
Share of national disposable income held by the poorest 20%	7.2 (7.7)*	0.1 (0)*

* OECD average

C. The gap in GDP per capita has not changed much
Gap to the upper half of OECD countries[4]
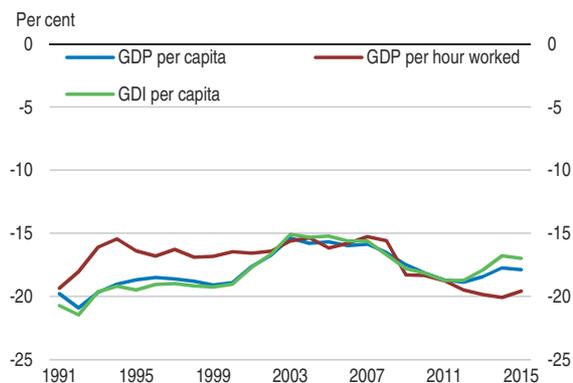
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

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Policy indicators

A. Government expenditure on R&D is low
Percentage of GDP, 2014
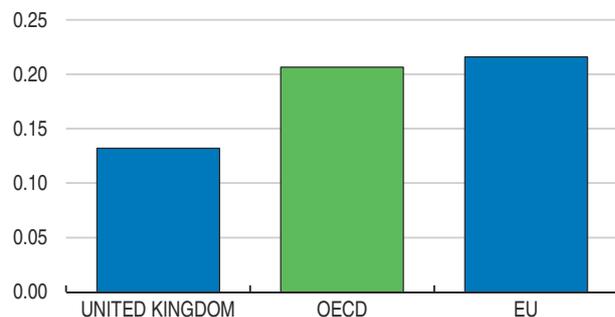
B. Adults have lower skills than in other OECD countries
Percentage of adults scoring at proficiency levels,[1] 2012
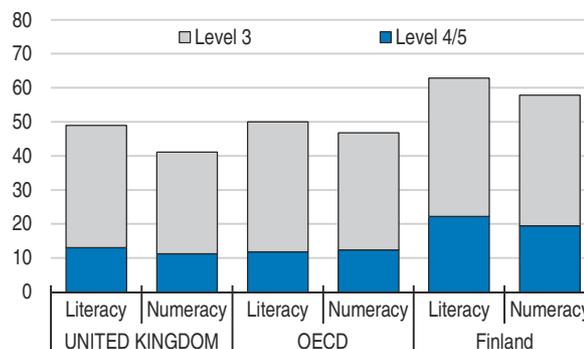
1. PIAAC level of proficiency in literacy is defined by particular score-point ranges and the level of difficulty of the tasks within these ranges. Adults scoring at proficiency level 1 or below are only able to perform basic arithmetic operations with whole numbers, whereas adults attaining the highest scores have proven to master analysis and more complex reasoning about quantities and data (level 4) or the ability to draw inferences and work with mathematical arguments and models (level 5).

Source: Panel A: OECD, *Science and Technology Indicators Database*; Panel B: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*.

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Actions taken: The government has announced a set of planning reform measures to improve the process for reviewing and updating local plans and to reduce excessive pre-commencement planning conditions after the release of planning permissions. The planned construction of 400,000 new affordable homes by 2020, announced in November 2015, will help to alleviate supply shortages.

Recommendations: Further relax regulatory constraints to release more land for housing, in particular by thoroughly reviewing the boundaries of protected areas of the Green Belt and by easing skyline restrictions. Enhance the provision of social housing where private sector activity is insufficient to promote greater equity in housing access.

Improve public infrastructure. Congestion is high in the road transport network and the quality of the infrastructure stock is perceived as suboptimal, holding back productivity and the well-being of citizens.

Actions taken: In October 2015, a National Infrastructure Commission was established to provide expert advice to the government on pressing infrastructure challenges and long-term infrastructure needs. A list of infrastructure projects has continued to be reviewed and updated as part of the National Infrastructure Plan. At the start of 2016, several administrative units were consolidated into a single infrastructure delivery authority responsible for all major projects and programmes.

Recommendations: Continue to build on the progress made with the National Infrastructure Plan to further enhance long-term infrastructure strategy and planning. Further prioritise public infrastructure investment and continue to increase access to private financing. Move towards user pricing, especially in areas where negative environmental externalities exist, such as road transport.

****Promote R&D spending.**[1]** Support for business R&D is well balanced between direct and indirect funding, but both private and public spending on R&D are comparatively low, which weakens innovation.

Recommendations: Prioritise spending on direct funding – such as grants, loans and procurement – to leverage private sector innovation in emerging sectors and potentially "disruptive" technologies, and also on R&D tax incentives to ensure that support measures for R&D remain balanced between the two sources of funding.

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1. New policy priorities identified in *Going for Growth* 2017 (with respect to *Going for Growth* 2015) are preceded and followed by an "*".

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Beyond GDP per capita: Other policy objectives

A. Income increased for poor households while it fell in the upper part of the distribution
Annualised growth in real household disposable income between 2008 and 2013[1]

%
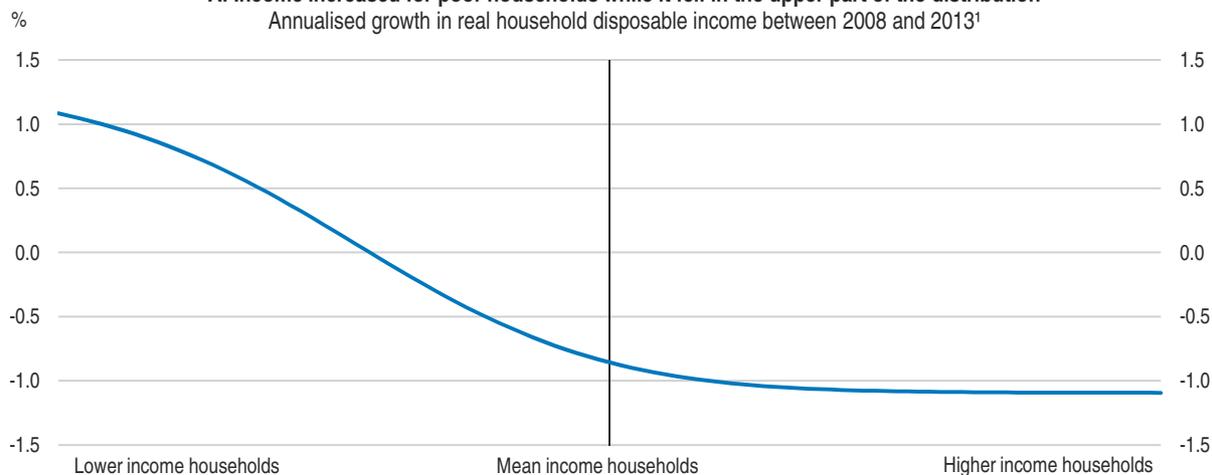
B. Emissions per capita are below the 1990 level
Average 2010-14

Share in global GHG emissions: [3] 1.2%
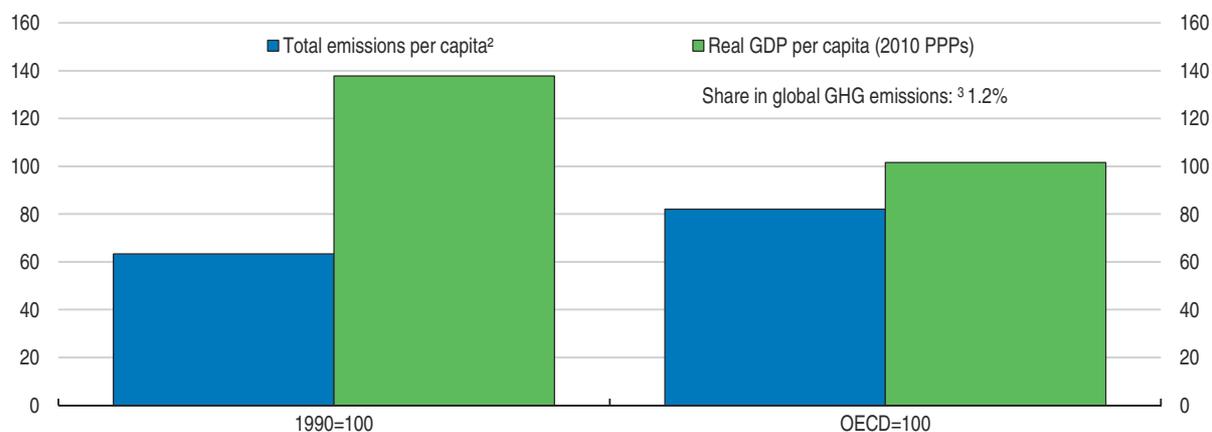
1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

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