

UNITED KINGDOM

Economic growth has been resilient in the last downturn and structural unemployment has fallen to low levels. But the productivity gap with the leading OECD economies remains large.

Priorities supported by indicators

Reform disability benefit schemes

The proportion of the population claiming disability-related benefits is high relative to other countries, probably reflecting tightening eligibility criteria in the rest of the income support system.

Actions taken: A new approach for disabled people is being piloted with mandatory work-focused interviews for new claimants and a “Return to Work” credit paid for the first year for those taking up work.

Recommendations: If the pilot scheme is successful, roll it out nationally. Make it compulsory for those with less severe medical conditions, and consider applying it to the existing stock of claimants, not just new claimants.

Improve access of young people to vocational training at upper-secondary level

While the literacy of British 15 year-olds is above OECD average, many leave school before completion of upper-secondary education and without the vocational qualifications needed in a modern work place.

Actions taken: The Modern Apprenticeships programme has been expanded to include one in four at age 22 this year, and two-year foundation degrees will be introduced in higher education. For adults without the most basic literacy skills, workplace training has been expanded into the National Employer Training programme.

Recommendations: Extend eligibility of young people to these schemes. Expand adult training, but keep public costs under control by cost-sharing arrangements and by focussing content on what is relevant to work.

Improve public infrastructure, especially for transport

For decades under-investment in public infrastructure was an easy option for constraining public expenditure, but this has resulted in congestion on the roads and an unreliable rail system.

Actions taken: The government’s fiscal rules distinguish between capital and current expenditure and help to avoid short-term expediency. The share of government investment in GDP has risen recently, and is planned to rise further. The organisation of the railways has been streamlined, with greater responsibility for government.

Recommendations: Even after planned increases, government investment will be low relative to other OECD countries and may be inadequate to correct years of neglect. Further increases may be necessary. Following the success of the London congestion charge, more widespread use of road charging should also be considered.

Other key priorities

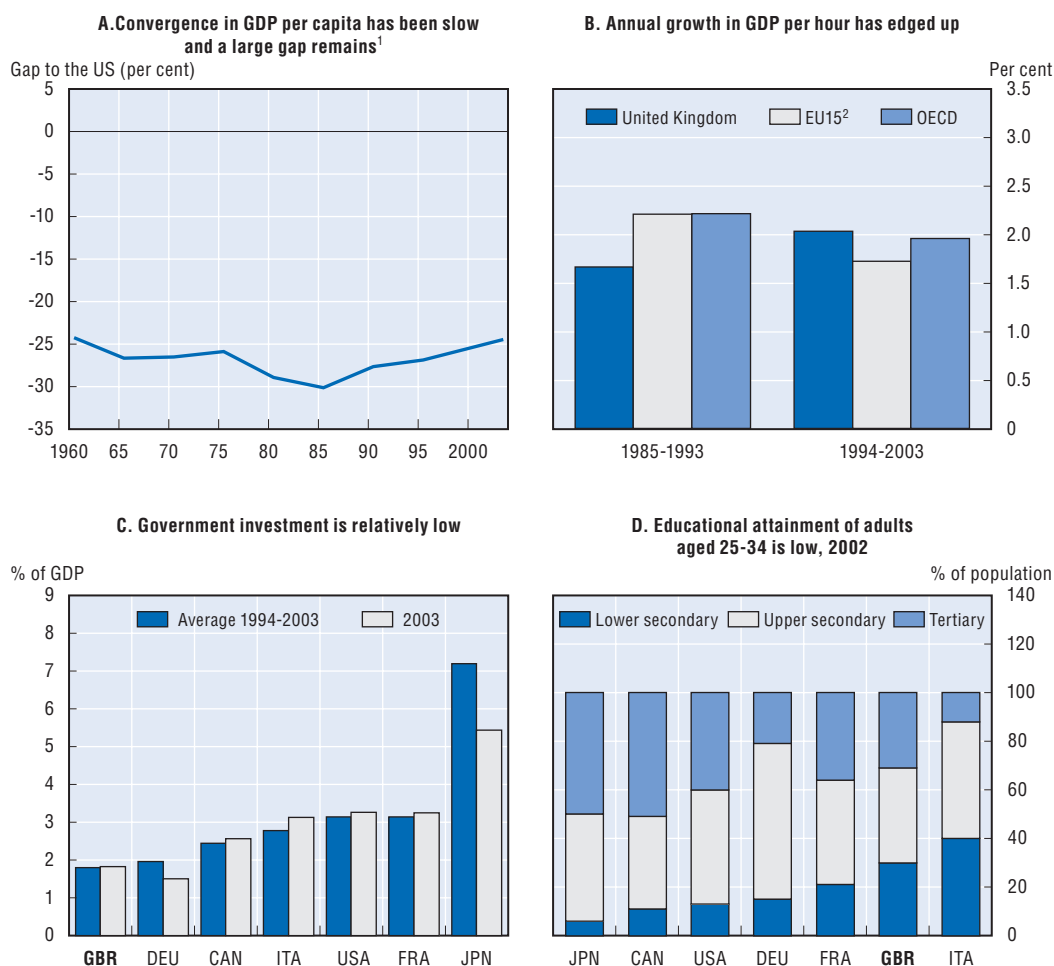
- Enhance incentives to pursue performance targets in publicly-funded services. Reduce waiting times by expanding activity-based funding for hospitals, and by introducing incentive pay for hospital doctors (i.e. paying them through a combination of salaries and fees).
- Re-examine planning restrictions, which inhibit competition in key services and limit the supply of new housing. Give greater weight to economic considerations, and involve fewer layers of decision-making in the process.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	2.2	2.2	2.4	2.3
Trend employment rate	69.4	70.4	71.8	72.1
Trend participation rate	75.4	75.9	76.1	76.2
Structural unemployment rate (NAIRU)	8.0	7.2	5.6	5.4

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

Source: Charts A and B: *National Accounts of OECD countries, 2004*; *OECD Labour Force Statistics, 2004*; *OECD Economic Outlook, No. 76*; Chart C: *OECD Economic Outlook, No. 76*; Chart D: *OECD Education at a Glance, 2004*.