

UNITED KINGDOM

Macroeconomic performance has been resilient. But the productivity gap with the leading OECD economies is large, and there is scope for raising labour force participation.

Policy priorities

Tighten disability benefit schemes

Challenge and recommendations: Many claim disability-related benefits. It was recommended that mandatory work-focused interviews and credits for those returning to work included in the “Pathways to Work” programme be rolled out nationally, if the pilot programme was successful, and to consider including all claimants, not just new ones.

Actions taken: The coverage of the Pathways to Work programme is set to be extended to one-third of incapacity benefit recipients. Reforms have been announced for incapacity benefits to put the emphasis on encouraging action to regain employability in so far as incapacity is partial or temporary.

Improve access of young people to vocational training

Challenge and recommendations: While the literacy of British 15 year-olds is above the OECD average, many leave school early. It was recommended that vocational programmes for the young as well as adult training be expanded, but to have cost-sharing for adult training and focus content on what is relevant in the workplace.

Actions taken: A reform of vocational diplomas has been announced, aiming towards fewer and more up-to-date diplomas. For low-skilled adults, workplace training has been expanded in the National Employer Training programme and wage compensation is likely to play a smaller role than during the pilot phase.

Improve public infrastructure, especially for transport

Challenge and recommendations: For decades there has been under-investment in public infrastructure, resulting in congestion on the roads and an unreliable rail system. It was recommended that general government investment be increased and greater use of road charging be made to deal with congestion.

Actions taken: The government aims to boost public investment by one-third over 2004-06, but as a per cent of GDP it will still be modest compared with most OECD countries. Additional funding will be provided from 2007-08 to encourage local authorities to take measures to relieve road congestion. The government is considering a national road-charging scheme to be introduced in 10 years time.

Enhance incentives to support performance targets in publicly-funded services

Challenge and recommendations: It was recommended that waiting times be reduced 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).

Actions taken: Contestability has been raised in publicly-funded services by increasing private sector involvement. Activity-based funding for hospitals is gradually being rolled out with a policy focus on personalised and patient-led care. Doctors' pay has not been changed.

Give greater weight to economic considerations in planning decisions

Challenge and recommendations: Planning restrictions inhibit competition in key services, and limit the supply of new housing. It was recommended that greater weight be given to economic considerations in the planning process and to speed it up with fewer layers of decision-making involved.

Actions taken: Legislation to speed up and simplify the planning system has recently been passed. The government is also making use of “Urban Development Corporations” that are empowered to effectively bypass the normal planning processes in specific areas. New house building in the South East, where shortages are most acute, has risen by about one-third relative to the average of the previous 5 years.