Public sector productivity

There is renewed interest in productivity. The way to higher pay and better services is to work smarter. Applying new technology and more machine and digital power can help employees achieve more. Improving ways of working to make them easier with more right first time can save money and improve service. As improvements are made so it is possible to share the financial benefits between the service users and the providers.

UK productivity has been disappointing this century. The ONS figures for public service productivity shows that our large public service sector has been particularly poor. Between 1997 and 2019 pre pandemic total public sector productivity rose just 3.7% over the whole period. In the first decade under Labour, 1998-2008, it did not grow at all. In the following period it grew at 0.4% a year. Public service productivity fell over lockdowns and has still not got back to 2019 levels.It was 6.8% below average 2019 levels in the first quarter of 2022, more than wiping out all the gains of the previous two decades.

This should be a matter of grave concern. Productivity of making welfare payments, for example is well down despite the arrival of much smarter computer programmes and automated payment systems. In the case of education some argue there can be a need to lower labour productivity by allowing fewer pupils per teacher or more teaching assistants per class. There are also ways of raising productivity when it comes to support services and use of on line materials.

The private sector has managed a bit better record on productivity, though here too there are service areas where a build up of more regulatory requirements and greater administration has offset gains from more digital processing and record keeping. Factory productivity has continued to advance rapidly in the best cases with the application of more computer control and robotic handling.

It is time the Cinderella of productivity came to the economic ball. There are ways to raise quality and reduce costs at the same time which are much needed in some public service areas.

The battle of the railways

The strikes that swirl around the railways are damaging a business in trouble. The railway main problem is it lacks fare paying passengers. The mainstay of the passenger railway prior to 2020 was the five day a week commuter into city centres. They were made to pay large sums for season tickets as they had no real choice over how and when to get to work. Covid lockdowns and the move to hybrid working has demolished the railways main pool of passengers. People now may only go in twice a week to the office . They may go in at other times of day that qualify as off peak.

The passenger market railway managers say they wish to expand is the leisure market. This has often been a discount market where people choose to visit places when they are offered cheap tickets. The railway often declines to run special trains to serve popular events which might offer some better fare opportunities.

Going on strike puts more people off relying on trains as well as losing most revenue on strike days. It gets occasional commuters doing more from home or finding road based alternatives.

The employees say they want a pay rise close to inflation along with job guarantees. All the time the railways are so short of business they cannot afford large pay rises. The pay increases the industry would be willing to pay depend on reaching agreement on working smarter. All employees need to buy into boosting fares and curbing costs to give them the best chance of keeping their jobs.

The government needs to stress that paying more and more subsidy to run more and more near empty trains is not a good use of taxpayers money. It also needs to allow more competition over using the tracks to run services and over putting in new links to get the railway to where the potential customers are. The Hull train services are a good example of how competitive challennge can create better service and new demand.

Wokingham roads consultation

Dear Clive

I am writing to urge you to extend the time allowed for consultation on your road plans, to improve the content on the website to allow clear overall visibility of the plans and to advertise it more widely so the public can engage.

The extensive plans to change roads and junctions in Wokingham Borough could pose considerable difficulties to all those who need to use a van or car to earn a living, to deliver items to homes and shops to keep us supplied, to get children to school, to get people to surgeries and hospitals, to allow mobility to the disabled and to give easy access to emergency vehicles when needed.

I welcome the provision of more and better cycleways away from main roads, and good walking routes also away from main roads. As someone who does a lot of walking in the local area I feel well catered for, with plenty of

footpaths allowing me to get away from traffic. I support more greenways to schools so more children can choose to cycle or walk in relative safety away from main roads.

The area has experienced a fast pace of housing development which outstripped the capacity of the road network. Most new homes are lived in by people who need a car to get to work, to undertake the weekly shop or to go out in the evening. The Council was in the business of catching up with the shortage of roadspace by putting in much needed bypasses and better highways for motor vehicles, leaving other routes freer for pedestrian and cycle priority. This current plan seems to want to damage the main road routes, adding to potential conflict at junctions between pedestrians and vehicles, and creating traffic jams which will cause more motorist and van driver frustration. Changing successful junctions like the Woosehill roundabout which usually flows well is particularly worrying. Reducing main road capacity is a bad idea when we are short of capacity to start with.

The Consultation has been insufficiently advertised and is too short a time period when many people are away on holiday. The technology also does not make it easy to see what is planned in all parts of the Borough. It looks like an expensive and worrying plan which will worsen people's experience of the Borough, frustrate visitors and make normal lives more vexatious. I suggest the Council thinks again and goes back to a system of incremental improvement with a balanced approach which allows vehicle users principal routes to get around whilst providing more safe routes for cyclists and pedestrians. The main A and B roads should be strategic local routes to allow business to flourish and to permit all those who need to use a car because of distance or disability to do so easily.

At a time when the Council is worried about having enough money for crucial priorities in social care and education this potentially large expenditure looks badly judged.

Yours sincerely

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[What is Treasury orthodoxy?]()

Ever since the Maastricht Treaty the Treasury official advice has been a version of the Treaty controls on EU economies. These were designed for countries in or planning to join the Euro, so they were answering the question how do we get these economies to converge. They were not designed to optimise the growth/inflation outcomes, and usually entailed the target economies running with considerably higher unemployment than countries on different systems. It was only when covid and lockdown allowed the Euro controllers to undertake large QE schemes creating huge liquidity did the EU abandon the Maastricht criteria, and go for a mixture of much faster inflation and a temporary fall in unemployment from stimulus.

The two controls were to limit the budget deficit to a maximum of 3% with a lower average deficit across the cycle, and to try to get state debt down to 60% of GDP. This became more fanciful as the years rolled on, so the new aim is to get highly indebted states to start reducing debt as a percentage of GDP. The UK followed this with fervour, with an annual debate on progress and full reports to the EU, even though it had no intention of joining the Euro and did not face the same penalties for Treaty breaking on deficits as Euro members did.

Out of the EU the Treasury has reformulated these two controls, but they remain similar. It is now clear that in recent years they have not led to a combination of low inflation with good growth. The official forecasts have tended to be too pessimistic about debt and deficit levels leading to a bias in policy to higher tax rates than needed. There is also the issue of whether some higher tax rates are in themselves self defeating, leading to less activity and lower revenues than a growth based model would produce.

So Treasury orthodoxy at its worst conjured up a National Insurance Tax rise to come in in April 2022, a tax on jobs and a hit to real incomes at exactly the point where high inflation was undermining real incomes anyway. The official view was we needed to raise an extra £12bn and this was a good way to do it. Then they discovered an extra £77bn last year in tax revenues over forecast.

Any sensible economic policy aims to control public spending by concentrating on priorities and seeking good value for money. Excessive borrowing is not a good idea, and a control over how much tax revenue goes on servicing debt is a wise precaution. Good budgets and a strong Treasury value for money based Spending Control department is important. If the aim is to see off a possible recession higher taxes are a very bad idea. If you wish to have a lower deficit then more growth is a good way to achieve that.

Treasury and Bank forecasts and independence.

At last there is widespread interest in Treasury (and Bank) orthodoxy. I have been critical for sometime of the models and forecasts the Treasury and Bank provide, which do not help policy makers make good decisions. I have also been critical of the fiscal rules, which are the repackaged Maastricht rules. Under these controls and with these forecasts we have ended up with inflation five times target, and with the threat of a five quarter long recession according to the Bank. We can do better.

I have drawn attention to the Bank's confident forecasts last year that inflation this would be 2%. I queried if it was wise to continue creating so much money and keeping longer term rates so low last year when recovery was well set. I have also pointed out in answer to a Bank which says they only got it wrong because of the war in Ukraine, that inflation had already hit 5.5% in January 2022 before the war. That was some 275% of target. I disagreed with the Treasury at Budget 2021 when they forecast a huge budget deficit for 2021-2 and when Treasury advice told the Chancellor he needed to put in tax rises to plug the gap. Come the end of the forecast year they reported £131 bn less central government borrowing than estimated! I said revenue would grow faster with faster growth which we achieved. This was before any of the tax rises came in to damage it. As a result last year revenue beat forecast and model prediction by £77bn. The OBR said they did not understand why company tax had been so good, the very company tax they wanted to increase in later years by putting the rate up. It is likely the Treasury/OBR forecasts of increased revenue from higher rates next year will prove optimistic against the background of recession.

It is important to get a common understanding of OBR and Bank independence. I am not recommending less discipline or less independence. Indeed we clearly need more discipline on inflation as the current rates are unacceptable and wide of the plan and targets. Let me have another go at explaining the facts about the current control system. The Bank's MPC is independent when it comes to setting the official short term interest rate, and no-one is suggesting taking that power away. It is not independent when it comes to influencing the other key interest rates. These have been manipulated on the market by the Bank creating money and buying up large quantities of bonds to keep longer term rates down. These programmes have always required the written consent of the Chancellor, and a full Treasury guarantee against losses on the bonds. No-one can seriously claim the Bank is independent when it came to printing £895bn of new money and buying such a large portfolio of bonds. These decisions dominated money policy and interest rates for most of the last decade.

The OBR is free to publish what forecasts it wishes based on the OBR economic models at Budget time. However, the model they use is the old Treasury model they inherited. Any amendments to the model are decided jointly by the Treasury and OBR. The assumptions used to produce an official forecast run are often decided by or influenced by Treasury officials. There is much close and iterative working between Treasury and OBR officials throughout. Any government should in a free society be open to challenge over the conduct and outcomes of economic policy. It is open to any expert forecasting House to be very critical of policy or to take on official forecasts. Sensible Ministers look at outside forecasts as well as the official ones and take interest in relative success rates of forecasters.

In a later piece I will go into what may be producing poor outcomes in these official models.