Abstract

The paper sets out a two-sector growth model and uses it to generate projections of the trend growth rate of GDP and of labour productivity in the market sector. The distinguishing feature of our model is that in the second sector, which we identify with the sector producing information and communications equipment (ICT) products, total factor productivity (TFP) is growing much more rapidly. So there are two engines of growth, namely TFP growth in the two sectors. Insofar as ICT products are imported, more rapid TFP growth in the ICT sector shows up as improving terms of trade and this too is an engine of growth.

The model is calibrated using data from the Bank of England Industry Dataset. We find that the projected growth rate of labour productivity is heavily influenced by the assumptions made about the take-up of ICT technology and the rate of TFP growth in the ICT sector. On relatively pessimistic assumptions, the projected growth rate of labour productivity is 2.45 per cent per year; on relatively optimistic ones it is 3.96 per cent per year.

About the Speaker

Nicholas Oulton is a Senior Visiting Research Fellow at the Centre for Economic Performance of the London School of Economics and is currently also a Visiting Professor at University College London. He was a Senior Economist at the Bank of England from 1998 to 2003. Previously he was a Senior Research Fellow at the National Institute of Economic and Social Research from 1987-1998. He is the co-author of a 1994 book on UK manufacturing and has published numerous articles on productivity and competitiveness at the company, industry and whole economy levels. Most recently, he has studied the role of ICT in explaining UK and US economic performance. His webpage is http://cep.lse.ac.uk/people/bio.asp?id=1458.