There isn't an army of low skilled workers in the UK. T...

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Larry Elliott has a piece on the UK's productivity in the Guardian this morning and whilst Larry and I may both be members of the Green New Deal group I have to say that I think on this occasion Larry is reaching inappropriate conclusions.

I stress that in saying that I do not think Larry is wrong, per se. He asks conventional questions on productivity and comes to fairly conventional answers. But as is so often the case in economics, it is his assumptions that are awry. This is clearly indicated in his last paragraph where he says:

A new army of low-paid, low-skill workers is depressing the level of average earnings growth across the economy and forcing the Bank to revise down the level of unemployment consistent with stable inflation.

I seriously doubt there is such an army. Yes there are a lot of people willing to take low paid work. It's also true that those people have, in too many cases, very limited demands made of them. But it's simply wrong to think that they are unskilled as a consequence. A great many of them will be very skilled, and will be vastly under using those aptitudes in the work that they are asked to do.

It is true that this may force the Bank to revise down the level of unemployment consistent with stable inflation, but in my opinion what this really implies is that the wrong question with regard to productivity is being asked.

I think it fair to say that productivity is considered a measure of output, usually measured in in terms of monetary revenue, compared to the value of inputs into an economic process, those two inputs usually being labour and capital. Implicit, therefore, in this process is a measure of profit, which will reflect the difference between the value of inputs and outputs. There is also implicit in this definition an expectation that labour output per unit input should rise as capital is increased; the relative reduction in the cost of labour therefore providing the return to capital.

What Larry makes clear - and what many others are confused by, including the Bank of

England - is that these relationships are not working as expected. The relative price of labour is going down whilst the volume of labour used is increasing with the result that apparent productivity is falling and returns to capital are at most stable, meaning that more employment is being generated without there being any risk of inflation. This is an environment that most economists have never considered a plausible scenario and for which they have not, as a result, planned. It is, however, that lack of thinking that explains their confusion.

Firstly, this outcome was obviously foreseeable. For three decades there have been continual attempts by successive governments to undermine the power of organised labour, to reduce its capacity to enforce its rights, to increase the power of employers to dispense with labour at will, and to reduce overall collective wages. The result is the current labour market. It is not one that business apparently wants. It is most certainly not one that most employees want. It is clearly one that is disadvantageous to society. But it is the outcome that some theoretical politicians and their dogmatic followers wished to create. Be careful what you wish for might be the message to the very many politicians have been caught up with this neoliberal mantra.

Second, the outcome is one that economists had not foreseen because none of those who worked on the creation of this idea of the reformed supply-side of the labour market had ever considered the impact of inequality on the outcome that they were seeking to create. It had not, and still does not, occur to them that inequality is a factor in economic well-being, and that increases in it have significant impact upon society.

Thirdly, and again, those economists who prescribe this outcome did not presume that the consequence would be the supplier the massive subsidy to business requiring either the governments run deficits to fund a social security system or that taxation be increased on those in higher paid work to effectively reallocate labour reward to capital through this process. That is because those who promote such ideas (and two of them had an article in the Financial Times this weekend) do not only argue the lower wages, they also argue for lower education (extraordinarily) and at the same time assume that there will be no benefits to support those on such low wages so that people will have no choice but take them. These are all entirely repugnant assumptions in modern society.

So, what is the answer? In my opinion we have simply got the definition of productivity wrong. In the 21st-century, when at long last most people realise that we are living in a world of decidedly finite resources that we have to preserve to the maximum possible degree if we want to protect the interests of future generations than any economic relationship that is indifferent, with the exception of monetary reward, to the relationship between labour usage and capital, including natural resources has to be fundamentally flawed. In that case a new relationship has to be defined.

The first assumption in that new relationship is that because labour is a renewable, but at the same time instantly depleted resource (because if we do not use it in the present it is gone forever), then it must be the variable whose use is maximised in the production process. We have an absolute duty to offer work to all those who want it to the limit of their reasonable availability, but no more: it is of course a wholly false assumption that all our well-being is dependent upon our economic consumption.

Second, the idea that capital is homogenous is absurd: it is not. Some capital very clearly enhances human well-being almost without limit. This is, in effect, intellectual property, which is one of the reasons why I have so many difficulties with artificial restrictions on its use when so much should be, and is, in fact created by and for the benefit of populations by the governments which represent them but which is restricted in use because of the commercial nuance applied to it in the last stage of development. We do, very clearly, need to invest in this intellectual capital which will, when properly focused, release the requirement to use the natural resources which have, for so long, been considered core to the definition of capital but to which however, no return can, as a matter of definition, ever be paid and which as a consequence create the wholly destructive concept of rents within society and economies, and which in turn contribute enormously to imbalances created by inequality.

It is only when we rebuild concepts of productivity so that return to labour, and not capital, are the focus and when the objective is to minimise the input of nonrenewable capital (with a resulting minimisation in rents to be paid) with as much of the intellectual property required to deliver this process being made as freely available as possible that we will actually get definitions of productivity right. Until we do conventional economists will remain confused.