

Going for growth

I have explained before that the U.K. calculates real GDP differently from many other countries. It adjusts the cost of public services like health and education for real output where others just rely on money spent. The U.K. reported correctly a sharp fall in output in education when all the schools were closed and a substantial fall in health output when elective and non urgent activity was cancelled to leave more capacity for CV19 cases. Both services recorded sharp falls in productivity as a result.

If we look at nominal GDP figures based on spending the U.K. economy had a relatively small fall of just 2.2%. This was less than Germany, France, Spain and Italy though a bit more than the USA at minus 1.2%.

The big debate now is how do we get back the lost real output and reverse the decline in Nominal GDP. Some are briefing that the U.K. needs to return to austerity with tax rises to cut the state deficit. This would be a bad idea, leading to a larger state deficit than a policy centred on going for growth and recovery. As the figures reveal there has been a big transfer of spending from private to public sector as the state has tried to make up for the inability of millions of people and hundreds of thousands of businesses to earn their own living thanks to the closures and social distancing imposed to combat the virus. The way to boost real GDP and to cut the deficit is to allow many more people and firms to supply goods and services, boosting output and tax revenue at the same time.

What we need is to expand output capacity. That needs keeping and reviving as many of the businesses as possible that we had before lock down. It also requires a positive environment for the self employed and small business to invest cash and effort to meet more of the new demands of the post CV19 world. The state needs to rebuild its service output in health and education as quickly as possible which will make our real numbers look more like others. This is a time when lower tax rates will boost output and investment and cut the deficit by more than attempting to lower it with tax rises.

The worry is too much capacity amongst the self employed and small businesses will be lost as they grapple with up to a year of lost turnover and revenue and as they work out how to pay back the loans they have taken on. There remains a number of issues for government and Parliament to help work out over liability for past rents, Business rates, and the other costs of keeping a business which cannot trade. In future posts I will look at more of the opportunities for the UK to expand its capacity as we emerge from lockdown.