

What does a Growth policy look like?

Yesterday I looked at targets and controls to ensure prudence. I recommended the existing targets for inflation and debt interest. Today I want to look at an additional target to replace the Maastricht requirements and to provide some balance to the controls. There should be a growth target to remind Whitehall and the Bank that growth brings higher living standards and brings the state deficit down more quickly than austerity.

Choosing a growth target is not easy for an economy that has been like many others so badly bruised by lockdowns and other anti covid policies. The pre financial crash economy could have sustained a growth rate of 2.5%. The post banking crash economy struggled to sustain 1.5%. With much better financed banks now and with plenty of cash around in the banking sector it should be possible to sustain a 2% growth rate for the next five years. That would make a sensible target, with symmetry around 2% inflation and 2% growth. That would mean typically wages rising 4% a year and real incomes 2%.

What actions should a government take to seek to sustain such a target? Just asking the question would be refreshing after years of asking how we meet the Maastricht lower debt and deficit targets with an implied emphasis on doing and spending less. I have set out in past blogs some of the components of a successful growth strategy. We need more and cheaper energy, we need more domestically produced energy, industrial products and food. We need a policy aimed at cutting the large balance of trade deficit, with opportunities to replace imported energy, food, timber vehicles and much else besides. We need more intelligent use of government purchasing to back competitive UK products. We need lower taxes and easier rules on the self employed and businesses as they take on their first employees. The UK economy needs a larger small business and self employed sector, with more competition for the large businesses with strong market positions.