

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.

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Treatments for CV 19

It was good to hear the Secretary of State for Health on Friday say a bit more about treatments, and express some optimism that this year should see approval for treatments for CV 19 which make it much less likely someone will die or have a bad version of the disease. The UK is currently conducting 96 trials of drugs and 9 trials of other vaccines. Worldwide there are reported trials of 700 drugs that may help with treating CV 19, with a total of 2607 clinical trials running for the drugs and vaccines. The USA alone is currently organising 555 clinical trials for CV 19 treatments and vaccines.

I have been long advocating the UK puts resource into these important efforts. Without medical training, I do not know which if any of these possible treatments can do good. It must be worth trialling them to find out.

So far the UK has approved dexamethasone, remdesivir and tocilizumab as options for doctors to prescribe where they think they are appropriate. There are a number of other treatments used elsewhere, and we await progress with further trials here for those. There have been strong arguments over Vitamin D, hydroxychloroquine and ivermectin in particular, with disagreements about the conditions for some past trials and strong views of whether these might be effective or not. All possible medical options should be fairly and promptly assessed. I hope the government's new enthusiasm to share some more information and to express some optimism is a good sign that the medics do now feel treatments from adapted existing drugs and from new drugs can make an important contribution to lessening the suffering from this disease. I will follow up with some more questions to the government.

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UK GDP careful with the numbers

The poor UK GDP figures for 2020 are not comparable with many other countries. As I explained on 12 August on this site, the UK statisticians reported a large fall in health output with the big drop off in non CV 19 work, and a big fall in education output with the closure of schools from the second quarter of the year. Other countries with large state sectors in education and health report the cost rather than the output, so they do not show any decline in these large areas of activity.

I agree with the UK statisticians that GDP should be based on output. It is a pity other countries do not use the same basis. If we included all the UK spending instead of output in the state sector then the UK had a relatively good GDP performance last year compared to other European countries.