

The need to reform economic targets to get faster growth

I have written to the Chancellor wishing her success in getting the U.K. economy to grow at the fastest pace of the G7 economies. As she says if we achieve that we can afford better public services and infrastructure. We should also boost the after tax incomes of the many and help business grow profitably.

The task is difficult but not impossible. The U.K. along with the other large European economies in the G7 have fallen way behind the USA in GDP per head, with a much slower growth rate this century. The US has raced ahead on the back of nurturing seven world beating digital giants, going for cheap fossil fuel energy produced domestically which it is also now exporting to Europe, and demonstrating leadership in many areas from pharmaceuticals to defence equipment. The U.K. has higher GDP per head than the EU, and has done relatively better at pharmaceuticals and digital technology than the continent.

I suggest the government look again at the control framework for the U.K. The US has twin targets of 2% inflation and growth in jobs and activity. The U.K. government could regard the 2% inflation target as binding on itself as well as the Bank, as government decisions on pricing public services and managed prices have a direct impact on inflation outturns. It could then complement that with a growth target. 2% would be an attainable improvement on the past. Maybe they would need to adopt 2.5% to give us a good chance of outgrowing the US in the years ahead from the lower base.

Of course government should consider OBR forecasts of debt and deficit, as both need to come down as a percentage of GDP. Relying on their fifth year forecast is not such a good idea, as it is impossible to forecast accurately. If the OBR is too pessimistic it limits unduly choices to pay for a growth strategy.