

Growth must be the goal;

Viewpoint

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How can Britain get back to Growth? (To the tune of "Maybe it's because I'm a Londoner") Maybe it's because I'm an economist that I don't like output down.

It's hard to be cheerful when the OECD predicts a UK recession this year and our national output is still 4 per cent below pre-recession levels. Even in the Great Depression, GDP was higher at this stage of the business cycle.

What can be done to restore growth? Whether in London, Brussels or Washington, the debate focuses on austerity versus stimulus. This is important, but it is not the only issue, nor the most important one. The cacophony over the fiscal stance obscures the challenge of long-run growth. To tackle this we need to understand how we got here, where we are going and what can be done.

The conventional wisdom is that Britain had a binge of a party from the mid-1990s, with the economic punch bowl spiked liberally by finance, property and government. When the lights went on in 2008, we saw we'd been dancing with an unbalanced and broken Briton who needed some tough fiscal medicine to sober up. And Pronto.

But the data actually show a more nuanced picture. In terms of national output per person, the UK actually had faster growth after 1997 than all other leading industrialised nations, even including the Great Recession period after 2008. UK Productivity (GDP per hour) grew almost as strongly as the American "productivity miracle" and we had an even better jobs record than the United States.

The growth of the government and property sectors actually held back measured productivity. Between 1997 and 2007, productivity grew by 2.7 per cent a year in the "market economy" (which drops the public sector and property). And, contrary to popular wisdom, only 0.4 per cent of this growth was because of finance - on the back of big investments in skills and technology, the business services and distribution sectors contributed more than three times as much.

Productivity took a big hit in the recession and the jury is still out on the exact causes. Pessimists believe that almost all of the damage is permanent and growth is lower for good, so severe austerity is necessary to live within our means. An alternative view is that low global demand is holding things back as public and private sectors deleverage.

For optimists, there remains a large gap between actual and potential output, leaving some room for a "Plan B" stimulus. They fear pessimism will become a self-fulfilling prophecy as the jobless lose skills. Of course, the pessimists retort that deviation from austerity will lead to inflation and bond market panic.

Whatever side of the austerity debate you swing towards, boosting long-run growth would help. History indicates what can be achieved - Mrs Thatcher's reforms helped to end a century of relative UK economic decline. The rate of productivity growth after the Blair election was only marginally higher than under the previous Conservative years. It's wrong to think that the best that could be said of the Labour years was that they did not "mess it up" and simply enjoyed a free ride on Conservative radicalism on unions and privatisation. Productivity growth in the 2000s was fostered by continuing reforms to toughen competition policy, expand higher education and subsidise science.

The lesson is that fostering sustainable growth requires getting the economic environment right over competition, skills, taxation, regulation and infrastructure. It is obvious that bad financial regulation was the major

failure in the pre-crisis period. And it is equally obvious that lousy land planning has meant we have too few homes and businesses in the areas we need them most.

In my view, the Government can do more than this by moving beyond Plans A and B to a Plan "V". We need to uncover the areas where Britain has future comparative advantage and whether these are likely to be in growing global demand. In these sectors we need a relentless policy focus on removing barriers.

Higher education is an example of this. In the 1990s universities were seen as factories for raising the supplies of skills and in the 2000s they were seen as the source of growth boosting innovation. Both views are right, but partial - universities are also significant export industries. The UK is second only to the US in the market for foreign students and higher education is a globally growing market where we have an edge because of our excellent academic science.

Restricting high-skilled immigration to meet an arbitrary net immigration target is a classic anti-growth strategy that must end.

This year I launched the LSE Growth Commission with my colleague and former MPC member Tim Besley, to inject fresh thinking into the growth debate, and I invite all Times readers to share their ideas with us (<http://cep.lse.ac.uk/LSEGrowthCommission/>).

We are reporting at the end of the year. There is no one blueprint for growth but there must be better ways to create and deliver growth policies than the current mishmash.

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