

## How to get back to growth?

### Leading UK think tanks discuss UK Growth in a Special Session at Royal Economic Society

Monday 26 March 2012: CEP Director Professor John Van Reenen organized and spoke at a Special Session on UK Growth at the Royal Economic Society. He emphasised that UK growth remains anaemic, still 4% below its peak in 2008 and last week's budget ([http://cep.lse.ac.uk/textonly/\\_new/research/productivity/realbudgetforgrowth2.pdf](http://cep.lse.ac.uk/textonly/_new/research/productivity/realbudgetforgrowth2.pdf)) offered no respite from the misery. Despite the current gloom, UK growth since 1997 has been impressive, even including the post 2008 period, and the labour market has held up much better than in previous recessions. This was not simply a bubble in finance, property or government. Between 1997 and 2007 productivity in the UK's market economy (i.e. dropping the public sector and property) grew at an average of 2.7% a year and only 0.4% of this was due to finance.

He takes issue with the supply side pessimists who say that the UK's potential trend growth has permanently fallen due to the banking crisis. Some of the fall in the level of productivity after 2008 is due to the financial crisis, but much is also due to depressed demand in the UK and around the developed world – a position that is made worse by rapid austerity programs.

Professor Nick Crafts of CAGE, Warwick compares the current recession to the 1930s Great Depression. He draws worrying similarities in terms for GDP growth, but shows how government spending after 1935 rearmament helped lift the economy, and that the Keynesian multiplier was strong. What prolonged the world recession were policy mistakes such as premature austerity and a retreat from free trade and competition.

Dr. Helen Miller of the IFS examines one of the government's responses to growth, the "Patent Box", a policy that gives corporation tax breaks for intellectual property. She shows evidence that raises scepticism over whether this is a good use of scarce taxpayer money. It is poorly targeted as it subsidises the income from ideas, not the activity that generates the ideas. And attracting IP is not the same as attracting innovation.

Professor Van Reenen argues that reversing the 10% real terms cut in the science budget over the next 4 years would have been a better use of government money than the patent box. It illustrates the need for better ideas over how to stimulate long-term growth – something that the LSE Growth Commission is reporting on at the end of the year (<http://cep.lse.ac.uk/LSEGrowthCommission/>).

The session was chaired by Professor Helpman of Harvard University, one of the world's leading thinkers on growth theory and globalization.

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