A little faster, George?

The British economy is stuck. It needs structural reform, looser money and more infrastructure spending

Over the past 170 years this newspaper has tracked the British economy through some devastating shocks. The global slump of 1857 wiped out banks and chilled demand for exports. The 1930s Depression hit the country hard. Two world wars destroyed homes and infrastructure. Yet five years after each of these events the economy was growing. Not so this time.

Britain is barely bumping along. The Bank of England reckons output, which peaked at £1.5 trillion ($3 trillion) in 2007, will not reach that level in real terms until 2015. With an ill wind the country could easily lose a decade. Meagre wages and stubborn inflation are eroding spending power (see article). The pound is falling, yet the balance of trade is dismal. Pessimism is calcifying: 12% of Britons expect their household finances to improve next year, and 52% think they will worsen.

Fill 'er up

This failure to grow not only hurts businesses and households: it makes it far harder to balance the books. Britain's chancellor, George Osborne, is part-way through a commendable course of austerity that aims to eradicate the structural budget deficit, currently 3.6% of GDP, and start lowering the debt-to-GDP ratio by 2017-18. But sluggish growth is keeping benefit payments up and tax revenues down, putting the goal out of reach. Debt has risen from £600 billion in 2008 to £1.1 trillion now. Government borrowing costs are still low, because investors trust Mr Osborne, but Britain was downgraded because of worries about medium-term growth. Where can he find some?

Lending remains a big problem. Although the Bank of England has pushed rates down to record lows, banks charge firms much higher rates, which helps explain why borrowing by businesses has been shrinking since 2009. Monetary policy is part of the answer. The Economist has argued for Mr Osborne to reinterpret the Bank of England's remit, so the bank could make it clear that it will not raise interest rates until nominal GDP is 10% higher than today. This would calm fears of a sudden rise. Mr Osborne also needs to conspire with the bank to expand its "funding for lending" scheme, which lowers commercial banks' funding costs so they can pass these savings on. The scheme is well designed but modest, covering

just 5% of banks' existing stock of British loans, plus any new credit they provide. So far it has helped edge mortgage rates down, but has done little for Britain's firms.

The Treasury should also take steps to get capital flowing. Britain's dividend-obsessed financial markets fail the small, research-intensive firms the country needs for future growth. The government could give innovation a boost by setting up a public-private investment bank focusing on them. Rewriting the bankruptcy rules would also help. Despite a colossal reduction in output, few firms have folded: banks are unwilling to take losses, owners shun the stigma of going bust and cheap money allows them to avoid it. But the undead firms keep capital away from outfits with better ideas. Looser takeover rules for small firms would allow winners to absorb losers. And failure should be less costly: Britain still lags America in enabling entrepreneurs to make a fresh start.

The other priority is infrastructure. Railways and roads, bridges and broadband give growth a bigger boost per pound from the public purse than other sorts of spending. Yet this is where cuts have been deepest. Between 2009-10 and 2011-12 public-sector net investment plunged from £48.5 billion to £28 billion. The Treasury insists there are few big "shovel-ready" projects awaiting cash. That is true, but projects do not need to be big: small, unglamorous improvements to roads, railway signals and the like can be started quickly (see article). Investment could comfortably be doubled to £56 billion.

The tax system could also be changed to promote growth. One reason why companies sit on development land is because they do not pay taxes until the offices and warehouses are built. It would be much better to tax the land value: that would make hoarding expensive and force owners to sell to someone who can use the site. Once in use, the site value and the tax would rise—creating a virtuous circle, as the revenues pay for better infrastructure, making land more valuable.

Finally, Mr Osborne should make it clear that Britain wants talented people. The government's populist efforts to cut immigration, which deter the young and educated, are an economic disaster. The latest farce over Brazilian visas was notably brainless (see article). Most of the fall in immigration over the past year is caused by a drop in students. This is economic self-harm that should be reversed.

Where to find the lubricant

Many of these reforms—a nominal GDP target, bankruptcy laws, immigration—are free. Others, notably the extra £28 billion of infrastructure, need cash. Mr Osborne can find most of this in his budget on March 20th by shifting resources from less productive parts of Leviathan: for all the austere talk, state spending in 2011-12 was £300 billion more than in 2001-02. Health spending, which rose from £59.8 billion to £121.4 billion in that spell, is specifically protected. That is wrong: what private-sector boss would allow costs to rise so fast? And money could be saved by targeting now-universal welfare benefits, like fuel subsidies for pensioners, at the poor.

The Economist still supports the thrust of Mr Osborne's plans to reduce the deficit largely by means of spending cuts. The state had become bloated. And we reject the idea, pushed by the Labour Party, that Britain's economic woes are all down to fiscal tightening. The euro crisis and a damaged financial system are chiefly to blame. But the chancellor needs to be much bolder in stimulating growth. By chopping away at the flabby public sector, he should easily find at least half of the £28 billion for infrastructure we advocate, hopefully more.

And should the austere Mr Osborne be prepared to borrow the rest? If it is for long-term growth-promoting infrastructure, our answer is yes: even £14 billion would increase the debt by just 1% of GDP. Critics will jeer, but the bond markets will forgive him a little more borrowing in the interests of growth. After all, without growth Britain is going nowhere.

Fonte: The Economist, London, v. 406, n. 8826, p. 15, 9 a 15 Mar. 2013.