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We need a Plan B to

What can a government do to boost demand when all conventional policies have shot their bolt? Or, to put it differently, what is Plan B? Much recent news has been downbeat. If the recovery falters, the only weapon left in the armoury is more quantitative easing, or QE2. Yet on past form, even a policy of vast money creation is unlikely to bring salvation and carries dangers of its own.

The hope is that net exports will come to the rescue, thanks to the weak pound. But with our major markets on the Continent looking dicey, that is no certainty. Last week's trade figures were ghastly.

One option is to go easy on the fiscal tightening and even to rescind the coming VAT increase, announce other tax cuts or specific spending increases. But this would surely be political suicide. It would appear to say: "Come back, Gordon - you were right after all." And it would also probably unnerve the markets and threaten to destroy the good work that has been done since May.

No. Somehow the Government has

to boost private expenditure without spending much itself. One way is to bolster private sector confidence, but the Government cannot realistically expect much response from simply saying "be confident", even if accompanied by gunfire from the Tower of London. In fact, its public utterances have gone in the opposite direction. It is understandable for ministers to stress how dire things are, in order to prepare people for the pain to come - and to gain maximum political advantage from being able to blame the previous government. But this will not boost the animal spirits of either firms or households. Better to give the message that before long, pain will give way to prosperity.

The Government can also engender confidence by announcing its plans. It has already pre-announced cuts in corporation tax and intends to make clear plans for corporate taxation this autumn. It would help if it could pre-announce its plans for personal taxation, including a date when the new 50pc tax rate will be scrapped and a schedule for reducing the burden of income tax on ordinary tax payers.

boost confidence all round



Roger Bootle
Comment

Unfortunately, again, practical politics get in the way of good economics. There are major disagreements within the Coalition and politicians always want to retain room for manoeuvre.

If banks could be persuaded to lend more that would boost aggregate demand without using a penny of government money. The last government tried this with its lending targets, but these have been honoured more in the breach than the observance. With the banks under pressure from all sides, somehow I doubt that it is going to be easy to boost bank lending.

The Government should look to its own failings. There are areas where it is standing in the way of sensible private investment. One example is

the planning system governing residential house building. Even with regard to brownfield land, the system is ultra-conservative, slow and burdensome for developers. For example, in the current environment, many high-street shops will fall vacant. Permission for redevelopment for residential use will be difficult to get. Pure waste.

There are other examples of investment opportunities on a grand scale - a privately-financed high-speed rail network, a new airport in the Thames estuary and privately-financed, new power generation plants. A sell-off of motorways to private operators able to charge for use would not only bring money into the coffers but would also spur a wave of expenditure associated with the infrastructure required. It would also stimulate a rethink of which transport requirements would require expenditure.

The Government can say that such ideas are already under review or, as in the case of road pricing, have been rejected. But such projects are typically rejected or delayed after an assessment of whether they make sense from a

micro perspective. But in current circumstances, there is an equally important macro perspective.

Does the structure of government allow this case to be heard? I doubt it. Rather, transport projects are reviewed by the transport department and energy projects by the energy department. The Treasury is involved only in regard to how much these projects may affect public expenditure.

A policy unit needs to be established to review from a macro perspective where profitable private investment expenditure can be encouraged, permitted or cajoled as a result of the Government getting out of the way, taking clear initiatives, or simply by making up its mind. And then government must act. The unused policy tool lies where micro meets macro.

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