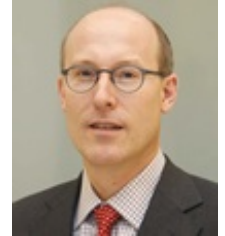


Plan B is the wrong rhetoric, but the Treasury must spell out a strategic vision for the UK's economic growth

Blog Admin

Britain's sluggish growth and combination of high inflation and unemployment are squeezing confidence in the coalition government's economic policies. While the latest IMF report appears to endorse George Osborne's tight public spending approach, [Timothy Besley](#) writes that the Treasury must be more than just the guardian of fiscal probity. Setting out a realistic pathway for renewed economic growth is consistent with achieving lowered deficits.



The independent [IMF assessment of the UK government's policies](#) concludes by saying:

Aided by the implementation of a wide-ranging policy program, the post-crisis repair of the UK economy is underway.

The IMF has no reason to pull its punches and things would have been very tricky indeed for the government had its broad policy position not received such an endorsement. But the policy agenda has to remain fluid and it is important that priorities evolve to reflect this. Within a fiscally credible framework, audited by an independent Office of Budget Responsibility, the search should continue for worthwhile policy initiatives to support growth and recovery.

The backdrop, of course, is generalized disappointment in the UK's growth performance over the past year. But anyone who has read Ken Rogoff and Carmen Reinhart's comprehensive historical study of financial crises ([This Time is Different: Eight Centuries of Financial Folly](#)) won't be too surprised. They argue that the usual pattern following a financial crisis is a slower recovery than following "normal" recessions. Blaming the recent experience on fiscal consolidation is premature. The financial sector in the UK is far from operating normally. Recall that two major banks remain on government life support. And we are far from economics as usual when the Bank of England rate remains at a crisis-management level. It is not all doom and gloom, with more than respectable private sector job creation over the past year and some promising signs in manufacturing. But there is no room for complacency.

I was not asked to sign [the letter from 52 economists](#) which appeared in the *Observer* last Sunday and I would not have done so. Talking about Plan B is simply the wrong rhetoric in my view. The best plans are contingent and respond to news and circumstance. If the recovery continues to disappoint, this means redoubling efforts to ensure that the right range of supportive policies for growth is in place.

However, I certainly don't disagree with everything in the *Observer* economists' letter. One theme that deserves highlighting is their emphasis on the need to put policies in place which promote the UK as a world leader in green technologies. There is potential for the UK to be a major player in this new technological revolution. But it needs a supportive policy environment. This means developing a thoughtful, evidence-based approach to how green technologies can best be developed and implemented. While, this is not an overnight fix for the structural imbalances in the UK economy which were part and parcel of the crisis, it would be an investment in our long-term future based on a clear strategic vision for the economy.

Economic growth is promoted by skills, infrastructure, innovation and investment. It would be dangerous indeed if political ping-pong over the pace of deficit reduction stood in the way of a proper debate about how to enable long-term policy priorities to support growth and prosperity. In a time of austerity, the question is crucially one of priorities. This means having a clear delineation of good and bad spending cuts in terms of their contribution to growth.

The government has given us strategy on the deficit, and has backed this with the creation of an institutional framework for sound fiscal policy. And this does seem to have gained IMF support, as well as backing from a number of other multilateral organizations. These changes have allowed the Treasury to reassert its traditional role as the guardian of fiscal probity. It now needs to reassert its other key role as an economic ministry, and clearly spell out its strategic vision for a growth strategy for the UK economy.

