

## The fiscal rollover – how long can we postpone the return to growth?

*With each passing month, more questions are asked as to what the British economy will look like post-recession. After yesterday's Autumn Statement [Andrew Sissons](#) surveys the present situation and asks what it means for the chancellor.*



Taken at face value, yesterday's OBR forecast wasn't very interesting – and not just because it contains 195 pages of complex charts and terse prose. Essentially, after a lost year of growth in 2012, the OBR appears to have rolled everything back a year. The recovery will take a year longer to emerge, and the chancellor's fiscal targets will take a year or two longer to achieve. That will surprise no one, although it comes as something of a relief to the chancellor, because it suggests that his fiscal plan will still work, just more slowly.

But behind these headline numbers, a debate is raging about what the future of the UK economy looks like. Is the economy really going to return to normal after a sluggish 2013? Is growth ever going to come back at all? If so, where will it come from? It's unlikely to come from consumer or government spending, but is there any reason to think Britain can turn around its disappointing investment and trade performance of the last two years? And what if the Eurozone crisis, overseas inflation and other global factors fail to ease up? Presumably then the chancellor's fiscal strategy would be doomed?

The OBR's analysis of these questions is fascinating, even if their overall answer – that growth will eventually return to normal, only more slowly – ducks the issue slightly. The OBR thinks that most of the UK's economic losses since 2008 are permanent, rather than temporary – or put another way, that the UK's productive potential has fallen since the crisis. The OBR does not think there is a single explanation for this drop, but that it is likely to be a combination of lower investment, labour hoarding, lower research and development spending and capital mismatches, among other things. This raises a significant question: if the UK's economic potential has been held back by all of these factors over the last few years, why would we expect it to grow over the next few years?

This is not a throwaway issue; it is critical to the chancellor's fiscal plans, and to the UK's future. There is now a serious debate about whether growth could be permanently lower for western economies, one into which [many respected economists](#) have waded. Even putting such sweeping pessimism aside, it is hard to see which bit of the heavily-indebted UK economy is going to drive a recovery.

Now, as I have [written extensively in the past](#), I don't accept the growth pessimists' arguments. There are plenty of technological opportunities to re-launch economic growth, and I still believe that a recovery based on investment and trade is entirely possible. It will only happen, though, if the government has a credible plan for growth, and there was little such material in yesterday's Autumn Statement.

In this vein, it is worth contrasting the OBR and the chancellor's views with Mervyn King's comments in his inflation report last month. [To paraphrase](#), King said that the future of the UK economy is highly unpredictable, vulnerable to global shocks, and that many of the normal rules of economics – such as that inflation falls when growth is weak – aren't working at the moment. Worse, King's comments seemed to imply that there isn't much else the Bank of England can do to support the economy.

That presents a huge challenge to the chancellor. His original plan to boost trade and investments – labelled “monetary radicalism” by David Cameron – was supposed to be led by the Bank of England, through low interest rates, quantitative easing and the like. The Bank now seems to doubt its ability to play that role, and yet the chancellor still does not have an alternative economic strategy. If he cannot come up with one – and he'll now have to wait until March at the earliest – his promises on the deficit stand little chance of survival, and the pain inflicted on the UK economy could be immense.

**This was originally posted on [The Work Foundation's Blog](#).**

*Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.*

### **About the author**

**Andrew Sissons** leads the Big Innovation Centre's research on markets, place and networks, looking at how innovation works in practice. His research focuses on how the UK economy is changing, how businesses and customers interact in an internet-enabled world, and which parts of the economy are most likely to undergo rapid innovation in the future.

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