THE TIMES

The low-cost way to get our economy growing

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February 29 2012 12:01AM

We need an industrial policy and to rip up regulations — but does George Osborne have the imagination?

Can anything be done to revive the British economy without causing the coalition an unacceptable loss of face? With George Osborne's Budget now only three weeks away, pressure is mounting on the Government to "do something" to stimulate growth. While Britain may not be in the same desperate straits as Greece, Ireland, Portugal or Spain, the economy is trembling fitfully between recession and stagnation — so much so that recent indications of a 0.1 or 0.2 per cent growth rate has been reported as good news.

In the months ahead, an additional embarrassment for Mr Osborne, underlining the failure of his austerity plans to deliver anything like the promised 3 per cent growth rates, will be the contrast with the American experience, where the Obama Administration's more Keynesian policies are finally achieving results.

But a Keynesian response to Britain's stagnation can be ruled out — not because it would cause a Greek-style debt crisis, which it wouldn't in a country with its own currency and central bank, but because it would be embarrassing for Mr Osborne. Moreover, there have been many policies proposed by think-tanks and industry lobbies that claim to be just as effective as fiscal stimulus in boosting the economy, while remaining consistent with the coalition's pre-Keynesian philosophy. These ideas fall into four groups.

The first family of ideas would redistribute the burden of taxes and spending cuts in a more growth- friendly manner without affecting the overall size of the fiscal consolidation. For example, higher taxes on top incomes and expensive houses, to fund infrastructure investment, are popular with the Lib Dem grassroots. The money taken from wealthy households would, they argue, have little or no negative impact on demand, since the rich could simply draw on their wealth. Meanwhile, new public works projects would directly create jobs.

Unfortunately such proposals are politically unrealistic, since large amounts of extra revenue are difficult to squeeze from the very rich in Britain's open society, where capital is mobile. Also, the effect of new property taxes could filter down, weakening prices in the middle of the market — the source of middle-class wealth. Furthermore, public sector infrastructure projects take years, if not decades, to plan and prepare.

A second family of "something for nothing" ideas, mostly from Conservative politicians and business lobbies, claim to be self-financing because they target help to economic players directly responsible for creating jobs — for example reductions in corporation tax or temporary tax cuts in employers' national insurance.

But large non-financial companies in Britain are already enjoying surprisingly high levels of profitability, yet remain stingy in their hiring and investment plans. If tax cuts increased their cashflows they would probably just save this money or pay it out to shareholders as dividends, rather than spend it on new investment and jobs.

Which brings us to two more promising types of policy that do not involve large sums of public money: regulation and industrial policy.

There can be little doubt that abolishing all employment protection and health-and-safety regulation would encourage small business hiring. While total abolition might be socially unacceptable and incompatible with EU rules, significant exemptions could be carved out, especially for the smallest companies, responding to the widespread view among small businesses that red tape is a big deterrent to job creation.

Like health and safety, planning and financial regulation are necessary in every modern society. But Britain has some of the world's most onerous controls on land use and, more surprisingly, on all financial institutions — not just banks but also insurance and pension funds.

Lifting many planning controls, while it might be unpopular with some Nimby voters in London and South East England would, in combination with near-zero interest rates, unleash a boom in construction and housebuilding of the kind that pulled the British economy out of depression in the 1930s.

The Government has promised to override local objections to projects of national significance, but has largely discredited these promises by expending its political capital on pushing high-speed rail through the Chilterns, a project reliant entirely on government funding and of dubious economic value and therefore unlikely ever to be built. Meanwhile, ministers have proved sensitive to local pressures against airport expansion, against nuclear power stations and even against expansion of Europe's biggest film-making studio at Pinewood.

Easing the regulations governing the accounting and management of pension funds would strengthen the finances of many large British companies far more than any conceivable reduction in corporate tax. Similarly, resisting EU demands for over-restrictive insurance regulation would do more to keep companies such as Prudential in Britain than costly corporate tax cuts.

The examples of Prudential and Pinewood lead me to the fourth option: industrial policy. This phrase is anathema to the Treasury, which abhors government intervention as a betrayal of free-market principles and a potential drain on public funds.

But modern industrial policy, as practised with varying degrees of success in France, Germany, Japan and also increasingly in the US and Canada, is not about throwing money at sunset industries. Instead the whole range of public policies is shaped to reinforce the comparative advantage of industries that are already highly successful and globally competitive.

London's dominant position in business services in Europe could be enhanced by switching from Greenwich Mean Time to Central European Time. The computer gaming industry could be saved from displacement to Canada with some very modest tax concessions The film production industry could be boosted by imposing local-content requirements on pay TV distributors such as Virgin and Sky. Aerospace and engineering contractors could be far more globally competitive if Britain restored an export-credit system comparable to those of Germany and France.

Such measures to encourage private sector growth at little or no cost to the Government could go and on. And it would on Budget day, if only the Chancellor had some imagination.