

Growth figures show that Britain is essentially going backwards. Bringing forward the £10,000 tax allowance is the best option to encourage growth.

According to figures released today by the Office for National Statistics, the UK economy grew by only 0.2% in the second quarter of 2011, down from 0.5% in the first quarter. [Tim Leunig](#) argues that these figures should be much higher, and that the government's policy of cutting the deficit quickly is restricting the growth potential of the economy.



No doubt someone somewhere will be spinning today's growth rates as a success. But growth at these levels can only be described as anaemic. An economy in recovery should be catching up with its potential, making good the shortfall from the last couple of years. That means growing at 0.6-1% per quarter, rather than the anaemic rates just announced. Compared with the underlying trend growth rate, caused by improvements in technology and the like, Britain is going backwards.

The government expected to be unpopular one year on, because of cuts. But it expected to gain kudos for economic competence. Instead we have high inflation, low rates of economic growth, and little evidence of the picture changing. When a government loses its reputation for economic competence, it usually loses the next election. Ask John Major, or Gordon Brown.

The government is part of the problem. Julian Glover has recently written in the Guardian that the [Government deserves praise for managing to borrow money at German interest rates while running a Greek deficit](#). But Britain has a small stock of government debt, and on average little of it comes up for renewal each year. We were always more like Japan than Greece, and Japan has always been able to borrow easily. Like Japan, and unlike Greece, we have our own currency, and a functioning tax system. The decision to cut the deficit more quickly was a political one, not an economic one, and the country is paying a price for that decision.

George Osborne cannot change his position – that would spook the markets. But he can accelerate sensible policies already announced. The best thing would be to announce a rise in the income tax allowance to £10,000 from next April. This is coming over the parliament anyway, so the cost of doing it early is relatively low, and it doesn't have to be taken back as and when the recovery arrives. The 50p band falls into the same category, but cutting taxes for the very rich while the economy is in a mess is terrible politics.

Britain grew more between 1997 and 2010 than almost any other major economy. There is nothing intrinsically wrong with the way our economy works – indeed, the relatively small rise in unemployment shows just how well our labour markets are working, and just how sensible and moderate workers are. There is no reason why we cannot grow again. A deleveraging private sector is not going to deliver the demand side boost that we need, and our export markets are flat. Hence the need for government intervention. Plan A was never the right plan, and the government needs to move to Plan B in a way that allows it to pretend to be sticking to Plan A. Bringing forward the £10,000 tax allowance is the best option.