Best-laid plansPoor productivity leaves Britain's public finances looking shaky

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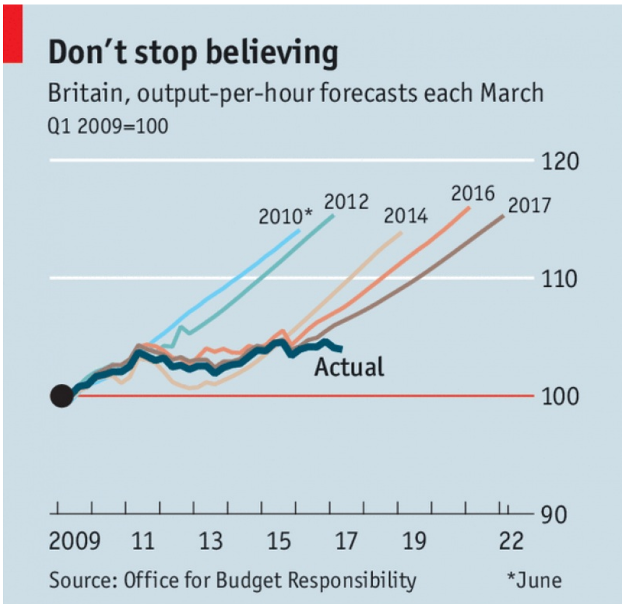
Unfortunately, more disappointing news came on October 10th, when the OBR suggested that it was considering a "downward revision to prospective productivity growth" in its next economic forecast. It would not be the first time that such a revision had taken place (see chart). Yet with a budget due on November 22nd, this is news that Philip Hammond, the chancellor, could do without.



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Productivity usually refers to output per hour of work. In the 20th century productivity growth in Britain averaged 2% a year. In the past decade, however, it has barely budged. Productivity has not been this stagnant since the end of the Napoleonic wars, 200 years ago, when economic activity was disrupted by an influx of men returning from fighting.

If productivity continues to disappoint then the prospects for economic growth are grim. Productivity is the biggest determinant of potential output. True, the economy could also grow if a higher share of Britons found jobs, or if immigration boosted the number of workers. Yet in future years neither of these two factors will make a big difference. The employment rate is already near a record high. Net migration is falling and the Tories have promised to cut it further.

A rule-of-thumb calculation suggests that if productivity growth continues to stagnate over the next four years, the economy might grow at an annual rate of around 0.5% over that period, far below the historical average of around 2.5%. Lower GDP growth, in turn, would give Mr Hammond less fiscal room for manoeuvre. As it stands he has at most £25bn ($33bn) to play with, which he can use to boost the economy if it is buffeted by Brexit. Contrary to what is suggested by talk of the chancellor's "war chest", there is no pot of money. Instead the £25bn represents the difference between two things: the structural budget deficit in 2020, which is now expected to be around £20bn, and Mr Hammond's self-imposed ceiling for it that year: 2% of GDP, or about £45bn on present forecasts.

Lower GDP would lower the ceiling, giving Mr Hammond fewer pounds to play with. And if the tax take disappoints, he may have to borrow more. As his fiscal headroom is reduced he will have less to offer after Brexit—say, to farmers affected by new EU tariffs on their exports. Writing for the *Times* on October 11th he admitted as much, saying that he would not yet spend money in preparation for a no-deal Brexit (a move which Brexiteers say weakens Britain's hand in Brussels). Weak GDP growth would also make it hard to eliminate the overall budget deficit soon without big tax rises or spending cuts.

Mr Hammond will hope that, for once, productivity surprises on the upside. It could happen. Unemployment is just 4.3%; with labour scarce, firms may invest in capital instead. Mr Hammond intends to boost public investment by over £5bn a year more than George Osborne, his predecessor, had planned. That could improve productivity as roads become less congested, internet connections get faster and so on.

Even if that happens, though, the chancellor's plans could still be foiled. Brexit is a vast unknown quantity. Fiscal pressures will rise as the population ages. And earlier this year the OBR made revised, gloomier forecasts for health-care spending. Partly as a result of that, it suggests that the ratio of public-sector net debt to GDP could increase from its current level of 90% to around 200% within four decades. In the short term Britain faces uncertainty over its public finances. The long-term outlook is an even bigger concern.