The core challenge that Johnson's Government won't face up to. Boosting growth.

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Boris Johnson famously wants to "unleash Britain's potential." But where economic growth is concerned, the Bank of England thinks the problem is too little potential in the first place.

Last week, it revised down "potential output growth" for the next three years, from 1.4 per cent to 1.1 per cent per year, implying less capacity for growth without overheating. That's a stark contrast with the historic 2.8 per cent growth rate that Sajid Javid aspires a return to.

Potential growth is calculated by making judgments on potential additional hours worked economy-wide and on potential labour productivity growth (i.e. improvements in output per hour worked). On both, the Bank's judgment is grisly.

With unemployment low, employment high, and EU immigration slower, the Bank revised down growth attainable by simply adding people or hours. More worryingly, it has given up expecting a productivity growth rebound, instead judging our post-crash performance a kind of "new normal." For 2020-23, it expects productivity growth of 0.5 percent per year; far below the 2.2 per cent per year seen pre-crash or even the above one per cent forecast last year.

If this seems dry and arcane, the implications are not. If accurate, worse potential growth driven by weak productivity means less robust improvements in living standards, a worse "structural" budget deficit, and macroeconomic "stimulus" becoming more impotent. Indeed, trying to "boost the economy" through Government spending or monetary stimulus would more likely just generate inflation.

As Javid prepares for his March Budget then, the Bank's verdict should trouble him. Last March, the Office for Budget Responsibility itself forecast potential growth at 1.5 per cent for 2020, rising to 1.6 per cent through 2023. But that assumed productivity growth jumping to 1.3 per cent per year. If the OBR now agrees that 0.5 per cent is likelier, Budget day will bring terrible economic headlines.

Now we should not take the Bank's judgment as gospel, of course. Economists understand less about "potential" than reporting suggests. Defining "capacity" for companies, let alone large economies, is hard. As Chris Dillow has written, in a world of intangible assets and digital technologies it's not even clear what capacity means. What is Google's "capacity"? The Bank may prove as unduly pessimistic as it recently was overoptimistic.

But that doesn't make its intervention unimportant. Olivier Blanchard, Guido Lorenzoni and Jean Paul L'Huillier's work suggests negative judgments from forecasters about potential growth can become self-fulling. If consumers and investors expect to be poorer, they might cut their cloth now. They find, internationally, that a 0.1 per cent downward revision to potential growth leads to a fall in consumption growth that year of anywhere between 0.4 and 0.7 per cent. Just what the Chancellor needs.

Few can deny too the problem that the Bank's revised judgment reflects. As years since the financial crisis roll by, it becomes ever easier to conclude that Britain is in a productivity growth slump with no sign of returning to pre-crash trends. The question really is: does the government intend to do anything meaningful about it?

It feels tired to posit this question. Commentators like me having been making the case for trying to raise the potential growth rate since 2010, to little avail. Partly this reflects a helplessness from policymakers in the face of trends beyond their control; partly it's disagreements about what pro-growth policy is.

So let's recognise uncomfortable truths upfront. Yes, slower growth across countries since the crash suggests something about the bank crisis or the unsustainability of what went before has impaired growth. Yes, an ageing population is another headwind. And, yes, Brexit has slowed growth to date, though how much due to pure "uncertainty" chilling investment, as opposed to negative expectations about future trade policy, is unclear.

But acknowledging all this shouldn't induce fatalism. In fact, it strengthens the imperative for other pro-growth policies in recompense. We shouldn't just treat the economy's weak potential as a fait accompli – an unwelcome external force that affects budgets. No, given its importance, we should see weak growth as a failure of collective current policy. At the very least, sustained poor growth gives reason to review programmes tolerable in "good times" that we suspect come with a growth trade-off.

Is the government really prioritising growth today? Javid's ambition is commendable, but actions must follow words. Prioritising something means willingness to accept trade-offs in its pursuit. Yet last week, ministers were asked to consider cutting programmes that didn't fulfil the Government's stated priorities – tackling crime, funding the NHS, or "levelling up" regions. Growth got no mention. Indeed, if growth is a priority, why not ask "does this programme improve the economy's potential?"

Often, it seems that the Government thinks talking about any economic policy is synonymous with being pro-growth. But, listening to recent announcements, it's difficult to conclude that rapid growth is a guiding star.

True, in some areas people like me just disagree with them on what might boost growth – little surprise given how contentious the literature is. Dominic Cummings thinks a British ARPA will generate loads of spillovers from public science and R&D spending. Javid thinks a further education skills push will raise human capital in the long-term. The whole government seems sold on regional infrastructure being transformative (Japan through the 1990s colours me sceptical). We can debate this, while recognising that government noises on planning have been well-evidenced and unambiguously pro-growth.

In other areas though, growth is clearly a secondary concern, at best. No coherent tax reform agenda appears likely, and Ministers are prioritising a broad-based National Insurance cut that will do little for potential growth. Boris Johnson talks up the benefits of using regulation to strengthen environmental outcomes and worker protection; there's little mention of growth trade-offs here, or a pro-growth review of repatriated EU laws.

Though Johnson laments mercantilists and tariffs, last week his government briefed on using them to encourage countries to make trade deals with it – an approach that has seen Donald Trump cripple U.S. manufacturing productivity by raising its input prices. Public service reform ideas seem non-existent. The minimum wage keeps being raised. On infrastructure, HS2 is being prioritised over schemes with bigger estimated economic bang for the pound. And whatever your view of climate change, it's undeniable that rapid decarbonisation impairs an economy's growth potential, despite fairytales of win-win "green growth."

Now, setting all dials to maximise growth is neither easy nor politically viable. Governments, understandably, have other aims and electoral mandates. But given its central importance – not least how it can make all other challenges easier – it still gets insufficient attention. With the government's healthy majority, anti-growth headwinds, and leaving the EU, there's surely never been a more necessary or better time to act on the Bank's warning and try to see what sticks.

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