



ECONOMIST'S VIEW

By Dr Gerard
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Britain must stop selling herself short

BRITAIN'S biggest export is its pessimism. Yet we have much to be proud of, even now in these difficult times.

At Christmas a good party game may be to name a world class British industry. You might be surprised how long the game lasts.

Let me start: UK universities, the pharmaceuticals industry, high end manufacturing, Formula One racing, nano-technology, green economy, creative industries, major retailers and a host of specialised small firms spread across the country. And – despite the financial crisis – the City.

Yet all these positives risk being over-shadowed by the economy's continued weakness. Thus the key is for the UK to return to growth, and then position itself for the future as the world economy continues to change.

There is a shift in the balance of economic and financial power from the West to the East. Economies across Asia, Latin America, Africa and the Middle East will grow at far higher rates, and will become more important markets to sell into.

This shift will also add to near-term uncertainty. Competitive pressures are likely to intensify, adding to pressure for economies in the West to compete on cost and quality. Big firms in the UK who appear to have money to invest may be reluctant to spend here if demand is sluggish.

The world economy grew 4.4pc in 2010. This strength was explained by the combination of policy easing in the West, and by booming emerging economies such as China and India.

However, by this summer, the world economy had already slowed sharply, leaving it vulnerable to bad news.

At that time it was my view that if we were to see a double-dip recession it would be caused by an external shock, a policy mistake or a loss of confidence. Unfortunately, we got all three, at the same time, in Europe.

Not only did this hit growth in Europe but it has had a global impact, impacting trade and financial flows and confidence across the globe. This year global growth is likely to be 3.1pc.

Next year Standard Chartered thinks global growth will be only 2.2pc. Once again it will be a tale of two worlds, with a fragile West and a robust East.

The UK economy has still not recovered to where it was when the crisis began. I think the UK has already slipped back into recession this quarter. So much so

that growth of only 0.6pc in 2011 may be followed by a contraction of 1.3pc in 2012.

The overhang of debt and the scale of deleveraging is the biggest problem. The squeeze on real incomes, and need to repay debt means people are not spending. Firms are thinking twice about investing and are laying off workers, while Europe's recession will dent export prospects.

What needs to be done? In some respects the Chancellor is damned if he does something and damned if he does nothing. Therefore whatever he does needs to be put in context so that people and firms can start to formulate a vision of what lies ahead.

I believe the Chancellor's policy over the last year worked, as 'Plan A' has helped the UK achieve credibility in the eyes of international investors. While the low yields the UK now pays help keep debt payments down, this should not be their only benefit.

In the same way in which a firm that is optimistic about its future may take advantage of low interest rates to borrow to invest, so too should a government.

Of course, one can understand the Chancellor's reluctance to lose the good faith he has established with the markets. However, as we move into 2012, I think the focus of international markets will shift from the need for austerity to a focus on growth. The reason for that is the best way to reduce debt is stronger growth.

I have long been an advocate of a Plan A-star, as we need to move to a pro-growth agenda. The economy has a huge number of unemployed resources and ample spare capacity. This justifies the Bank of England's behaviour, and low interest rates.

The Autumn Statement had some welcome measures. But I think these need to be expanded upon in the March Budget. The scale of infrastructure spending needed is huge. And many of the plans are too low key. Housing needs a boost, given the housing shortage, ample spare capacity in the construction industry and rising rents.

Given all this I think it is vital that we need a strategic vision for the UK, with some joined up thinking in Whitehall and Westminster answering the key question, 'What is the future for the UK in an inter-connected world economy?'

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