

Just like 1975: Britain back into recession

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ing into it,” the chancellor said. “The one thing that would make the situation even worse would be to abandon our credible plan and deliberately add more borrowing and even more debt.”

The City sees no prospect of interest rates being raised from their record low of 0.5% before the end of 2013 at the earliest and said further electronic money creation by Threadneedle Street to extend its £325bn quantitative easing programme should not be ruled out.

Gerard Lyons, chief economist at Standard Chartered Bank, who warned late last year that the economy would contract by 0.5% during 2012, said the UK might face a long struggle following the breakdown of an economic model based on high levels of borrowing and lending. “Expectations have run ahead of reality,” Lyons said. “Everybody has been thinking there is going to be a recovery soon. But balance sheet recessions always take a long time to turn around.”

Unlike the United States or Germany, UK economic output has yet to return to the levels before the recession began four years ago. Activity is still more than 4%

lower than it was at its peak in early 2008 and has recovered more slowly than it did after the Great Depression of the 1930s.

Trevor Greetham, director of asset allocation at Fidelity Worldwide Investment, said: “Since the last general election the UK has been bumping along the bottom with growth sometimes a bit above, sometimes a bit below zero. The Bank of England’s quantitative easing has failed to offset the negative impact of government spending cuts in the way cuts in interest rates would have.

“In the US, where austerity exists only in rhetorical form and not in reality, the recovery from the 2008 slump continues to gather momentum and unemployment is falling. Growing your way out of debt looks like the better strategy.”

The TUC general secretary, Brendan Barber, said: “Austerity isn’t working. The government should look across the Atlantic and follow President Obama’s alternative that has reduced unemployment and brought growth back to the USA.”

The CBI provided one piece of good news for the chancellor yesterday, with the quarterly snapshot of manufacturing from the employers’ organisation showing order books, output and business confidence on the rise.

In recent quarters, however, the hard data from the Office for National Statistics has tended to be gloomier than suggested by business surveys.

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