History tells us that we can get out of the current economic slump if government guarantees low interest rates, rising prices, and provides a more sensible planning system.

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With interest rates already very low, levels of public debt very high, there seems very little room for government to improve the current economic situation. **Tim Leunig** *looks to history to provide a recipe for growth, arguing that, as was effective in the 1930s, the government must act to guarantee that prices rise at a certain level annually, interest rates remain low, and the planning system is reformed so that many more new houses can be built.*

There are four ways out of a recession. First, you can sell more of your goods overseas. That is not going to work at the moment. Second, your own people can spend more, increasing employment, and starting a virtuous cycle. But pay rises are low and people are scared, so we can rule that out. Third, government can spend more. But even the Miliband/Balls plan would be a drop in the ocean. Finally, we can cut interest rates, lowering borrowing costs for government, firms and households. Unfortunately, the Bank of England has already cut rates to only 0.5%, so that option appears unavailable. We appear to be stuck.

Nor does looking around the world seem to help. The Eurozone is in a mess, and theUSbudget problems are truly awful.Japan's recent history makes it a lesson to avoid, not copy. Thankfully, we can look to our own history. After the Great Depression hit in the 1930s, Britain left the 'Gold Standard' exchange rate system and cut interest rates. The pound fell but the economy did not recover. The international economy was terrible, and the government debt was still huge from the First World War. We were in the same predicament then as now – yet the economy shot forward, with 15% growth over four years. The key was a major government announcement. The Chancellor, Neville Chamberlain, stated that prices would rise in future, and interest rates would remain low. This government could change the Bank of England's mandate tomorrow and achieve exactly that. Inflation at 4% for five years, with interest rates remaining at very low levels, would be good for growth.

Knowing that 4% inflation was coming, people would ask for pay rises of around 4%. Firms would grant them, knowing they could raise prices to cover the cost. As most people have some fixed expenses – the mortgage, a car loan or credit card debt – this makes them better off. It also makes firms better off because inflation erodes part of their debts. Consumers will have more money and rising prices mean that they know there is no point in waiting for future bargains. Firms will want to invest, knowing that their customers are becoming better off. Finally, inflation reduces the government debt without requiring further austerity measures. All of these things help to get the economy going again.

Rising wages and low interest rates make buying a house very attractive. Unchecked, that would lead to yet another house price spiral. That is why we also need to allow more houses to be built, particularly in the south east. The planning system needs to be reformed to achieve just that.

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In the 1930s – when there was no planning system – we built more private houses than ever before or since. This is how we gotBritainback to work, and got out of the depression. We could increase employment by around one million people if we were to build 400,000 houses a year instead of the current 150,000. Those jobs would largely go to young people with low and medium skills – exactly the people who have been hit hardest by the recession.

Rising prices, low interest rates and a more sensible planning system will get us out of the recession, but there will be losers. Savers would see around 10% of their savings eroded by inflation. This hits pensioners, and those saving for a pension. It is regrettable, but if the alternative is a Japanese lost decade, with near zero interest rates, it may not be any worse than any other alternative. Getting out of a recession, even the longest recession for a century or so, is not rocket science, provided that we learn the lessons from our own history. Politicians need to do that, and they need to do it quickly.

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