

Don't take a trip on this Double Dip

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*The British economy is now officially in a double dip recession. **John Van Reenen** looks at how we got here and argues that the ideologically motivated austerity programme has failed.*



The Office of National Statistics announced yesterday that the British economy shrank in the first quarter of this year, just like it did in the last three months of 2011. The fall of 0.2% was worse than expected. We are now officially in a double dip recession. Since the economic pie just got smaller we will all have less to eat. Less demand means job losses increases. Even for those lucky enough to be in work, wage growth will be lower.

The government says we shouldn't rely on these figures which are only a first estimate and could be revised. They are right. The initial numbers for the last quarter of 2011 also said national income shrank by 0.2%, but when the revised numbers came out the fall was actually even worse: a 0.3% fall in output! Ever since the collapse of Lehman's the UK economy has been crawling along the bottom of the output curve. The government's austerity plan of tax hikes and spending cuts was meant to cure the problem – get the budget deficit in order and growth would look after itself.

Only it hasn't.

By cutting too much and too soon it has made things worse. A big factor in the lousy GDP numbers is a 3% fall in the construction sector. Why is this? Cutting spending on public housing by a whopping 25% is a major factor. The cuts are depressing demand and making firms hesitate to invest and create jobs.

It is not all the government's fault. We took a bad hit during the financial crisis. Two in five of all our exports goes to the depressed Eurozone. But a major reason for the problems of other European nations like Spain is that they are also being forced to make huge cuts to their budgets in a very short space of time. This is being driven by an ideology which massively underestimates the harm that premature austerity causes in a recession, just as happened in the Great Depression. The idea seems to be that all countries can export their way out of a recession. But who will buy these exports if our trading partners are also cutting back like crazy?

Will this finally be the wake-up call the government needs to admit its strategy isn't working? Watch this space, but don't hold your breath.

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