

[UK growth: Nice, but unreal](#) [1]

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Britain's Chancellor of the Exchequer, George Osborne MP, is smiling like a Cheshire Cat. Today the Office for National Statistics (ONS) said that the last quarter's economic growth in the UK was the strongest in more than three years, with expansion in services, construction and manufacturing. It is the third quarter in a row that output has grown; in the last quarter of 2012, output fell by 0.3%, but in the first, second and third quarters of 2013 it grew by 0.3%, 0.6% and 0.8%. It seems easily probable that over 2013 as a whole, the UK economy will have grown by a healthy 2%+.

The figures are likely to boost confidence, and that itself may stimulate recovery. And a growing economy makes it much easier for the government to balance its books, or at least to reduce its annual borrowing, even if the prospect of actually repaying Britain's record peacetime debt is still remote. And we should remember that, thanks to years of stagnation, the UK economy is still 2.5% smaller than its 2008 peak.

I am not sure I believe the figures ? growth estimates are notoriously unreliable and survey data suggest that things are growing a good deal more slowly. But whatever level it is, this growth is the wrong kind of growth. It is not growth based on getting the fundamentals right, and on people actually investing in thriving businesses or selling exports of greater value. Not growth based on 'rebalancing' as the economists and politicians rather obscurely call it. Rather, it is fake growth based on government and household borrowing, and shoring up what Tom Papworth, in an ASI paper this week, calls 'zombie' businesses that are living off subsidies and low interest rates, rather than contributing much of value to the economy.

House builders, for example, have been boosted by the government's Help to Buy Scheme, and by several other fiddles designed to make mortgages more easily available. Indeed, the days of the 95% mortgage ? one of the symptoms of what got us into this mess ? are back. That is one reason why construction soared by 2.5% in the third quarter. The services sector expanded at a healthy 0.7% in the quarter. At least part of that is genuine, created by the resurgence of Britain's important financial services industry. But a lot of it is services bought in by a government that spends half the nation's income ? and by households that are borrowing more again. When interest rates are rock bottom, borrowing makes perfect sense. Saving, of course, does not. But without savers, there are no funds available for rational investment in the viable businesses of the future.

It was low interest rates, loose money and excessive borrowing that created the boom-bust cycle that burst in 2008. Is anything different now? Rather than enduring the hangover after the party and picking ourselves up, we have opted to down a few more pain-killing doses of money and credit. We all want the recovery to be true; and we can all think up reasons why it might be. But we wanted the pre-2008 boom to be true, and look what happened then.

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