## Growth forecasts no surprise [1]

Written by Dr Eamonn Butler [2] | Wednesday 21 September 2011



It should be no surprise that the IMF has cut its world growth forecasts. We had it coming. In the UK, the Office of Budget Responsibility's growth forecasts always looked wildly optimistic? 1.8%, they were predicting back in november. Now the IMF says UK growth will be a mere 1.1% in 2011, and 1.6% in 2012. Even that, I figure is on the optimistic side, and the IMF admits there's 6:1 odds of us going negative.

It's not just the eurozone crisis. It's odds-on that the euro will split asunder. Either Greece, and then other spendthrift peripheral countries, will be forced out? or Germany and its more economically solid neighbours might just leave them to it. There's little chance that Greece, which in the last twelve month has not sold one state asset or fired a single civil servant, will actually knuckle down to the latest 'austerity' package. Trying to save the euro by issuing a 'eurobond' looks a forlorn hope too? it would take years of treaty negotiations to establish. Setting up some 'European Monetary Fund' could be done more quickly, but taxpayers in the more solid countries like Germany would likely be rather grumpy about chipping in money just to keep bailing out the spendthrifts.

Nor is it 'low demand' caused by government cutbacks. Britain's public sector 'cuts' have amounted to just 0.7% in real terms this year, which hardly amounts to a 'reckless' slashing of public 'investment'. You can argue that the government should be stimulating growth by boosting its spending if you like? but where will the money come from? If it comes from borrowing, that just makes our debt hold deeper, which will not ease any business person's fears. The UK is already on track to add £126bn to its borrowing this year, which must alarm investors. And our households are the most indebted in Europe. If more spending is paid for through taxation, then we will all have less left in our pockets to spend, and businesses will get even gloomier. If it comes by printing money, well, that is the way to make our money even more worthless, that is, to more inflation. Inflation is already killing UK growth. People on fixed incomes are seeing their wages buying 5% less than they did last year. No wonder growth is slowing.

No, we are at last feeling the hangover after our twenty-year cheap-money borrowing and spending boom. I'm afraid that we just have to go through the pain of it. When we do, the economy will be much better 'balanced', though without the need for politicians to 'rebalance' it? people will just write off overambitious investments and start putting their effort and money into more realistic ones. But the fact that we are in for some quite unavoidable pain should come as a surprise to nobody.

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