STICK OR TWIST ?

That the Autumn Statement is already long forgotten confirms it was more of the same, changing no opinions. If you buy it's a slow, long-term inevitable slog, *plus ca change*; as is the case if you think the medicine is killing the patient.

Like football, or if the euro will live or die, this is the argument that divides economic families. In jargon, it starts with whether this is a cyclical or structural recession, meaning a regular downturn where the business cycle hits a low – the back end of boom and bust, or a more fundamental disconnect between supply and demand.

Of the six recessions to hit Greater Manchester since the twentieth century started, like the Great Depression after 1929, most were structural. This one was sparked by the financial crisis that began with the world working out it had invested rather too much in low value (sub-prime) US mortgages, leading to oil prices and unemployment rising, housing and asset prices dropping, and credit becoming scarce. And so broadly things remain four years on.

The structural element this time around is less pronounced than the three previous post-war recessions, seeing a shift from public to private, rather than bigger shifts from manufacturing to services. Thus we see many characteristics of a cyclical downturn, with less long-term scarring on economic competitiveness and the labour market remaining flexible. The effects on GDP have been severe; on unemployment much less so. Part of the reason for this is more part-time working, fewer hours being worked, lower wages and higher self employment and inactivity. The 1980s recession saw GM unemployment more than double in just 20 months to 16%, with manufacturing massively bearing the brunt; now it is just over 9%. In the first phase of this recession, to 2010, public sector employment actually rose; now it is dropping significantly everywhere apart from London. Our forecasts show this trend continuing.

To emerge from the technical into the light of the practical, albeit this format requires missing a few explanatory steps, the big conundrum of this looks-like-a-cyclical-recession conclusion is how then to follow through, with the logic being countercyclical action. In english, this means borrowing and investing more, for example in infrastructure. This boosts employment, demand and long-term productivity.

However, these are unprecedented and unstable times in global finance, with an instability not known since the era of mass and systemic wholesale markets began just a few decades ago. With economies like ours dependent for their almost-daily borrowing bread on very jumpy investors, it is very difficult to accurately assess the risks to macroeconomic stability and our ability to borrow at exceptionally low rates.

A little more foreseeable are the risks of economic decline and the social costs of failing to invest, increase employment and raise our international competitiveness in a world moving east and leaving less productive performers behind.

That, to stick or twist is the painful decision of the era we are in.

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