The current jobs crisis is the result of a lack of business confidence and a shortage of consumers with money to spend. The government needs to create a long-term framework to drive innovation and raise productivity across the economy

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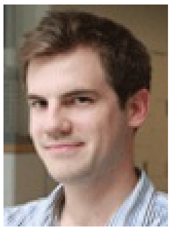
Last week's job figures provided a stark reminder of the human impact of austerity and dealt another blow to George Osborne's hopes of bringing the economy back to growth and paying off the deficit by 2015. **Andrew Sissons** *takes a look at how we got in this position and suggests that the government should commit to more spending on innovation and infrastructure.*



The latest unemployment figures make for grim reading. Almost every indicator points to a labour market in freefall. There are now more people unemployed than there have been since the early 1990s. The economy shed a staggering 305,000 employee jobs in three months, a similar fall to that experienced during the darkest days of the recession in early 2009. But the most terrifying thing about these figures is not the pain they indicate right now; it's what they suggest about the future. It is set to get far worse.

The problem is that, up until now, unemployment hasn't been as bad as expected. This is the worst economic crisis since at least the 1930s, and yet unemployment has so far remained lower than during previous recessions. Unemployment briefly hit 3 million in January 1993, but that recession was nowhere near as severe as the one we have just experienced. Up until now, we've been lucky; unemployment has not moved much above 2.5 million. Most commentators were expecting unemployment to reach 3 million again after the recession, but this has not yet happened.

Six months ago, we were talking about this relatively small rise in unemployment as a labour market miracle. In the year to April 2011, the economy created 391,000 employee jobs. How, we asked, could we be creating so many jobs while the economy is flat lining?

Unfortunately, we never had the opportunity to answer this question. The so-called miracle appears to have unravelled in the last few months. As GDP growth has continued to stutter, we have begun to shed jobs at the rates befitting of a recession, and unemployment has begun to soar. Unless we see an urgent uplift in GDP, this punishing trajectory is likely to continue.

So why have firms suddenly turned from creating to destroying jobs so quickly? It is hard to be certain at this stage, but one explanation is a lack of confidence. 18 months ago, we had emerged from recession and were expecting a period of strong recovery. Most forecasts predicted that economic growth would progress strongly throughout 2011 and beyond. Businesses that had survived the recession had held on to their key workers, and were looking to expand as the economy picked up. But this rosy narrative has evaporated in recent months. The economy has failed to grow as expected, and most growth forecasts indicate that growth will remain sluggish throughout the next year and beyond. Faced with this uncertain horizon, firms now have little choice but to lay off workers, racked by uncertainty and weak growth prospects.

The most striking consequences of the downturn in the labour market are well known. Unemployment among young people now exceeds one million, with particularly devastating consequences both for the young people affected and for our future economic potential. But behind the headlines, there are many other worrying trends that also need urgent attention.

There are almost 870,000 people who have been out of work for 12 months and more – and some 260,000 of these are under 25. The impact on these people is devastating, and the growing competition for a dwindling number of jobs will make it even harder for them to escape this trap.

Some places have also been hit far harder than others. Unemployment in Yorkshire and the North East is now well over 10%. In some towns and cities in all parts of the UK, there just aren't any job opportunities at present. The Work Foundation recently published research showing how over a quarter of young people in some towns is neither in work, education or training.

So what, if anything, can be done about this looming jobs crisis? The first rule is to get the economy growing strongly again by any means possible. There is no point in blaming unemployment on welfare policies or employment regulations at a time like this. There are not enough jobs, plain and simple, and that is because companies have no confidence and consumers have no money to spend.

Above all, the government needs to put in place a long-term framework to drive innovation and raise productivity across the economy. It needs to give businesses the confidence to invest, by avoiding knee-jerk reactions (such as the abrupt cuts to the solar power subsidy) and committing to more spending on innovation and infrastructure. There is no easy way out of this crisis, and only the government can take the lead in moving us towards an ambitious long-term plan.

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