

# This recession is nothing like previous ones and so it ...

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I was told by an economist today that the situation that we face now is exactly like the 1930s. Without wishing to name the person in question, I fundamentally disagree with them. In my opinion the crisis that we face now is nothing like that of 1929 and what followed then, or 1987, 2001 or 2008. There is very good reason for saying so, and it is fundamental that this be understood if we are going to get the reaction to this crisis right.

All of those crises, and the downturns that followed them, were of fundamentally similar type. Overheated financial markets crashed. The result was a decline in demand (largely neutered, it must be said, in 2001 but otherwise very apparent). That downturn in demand then lead to supply-side problem as businesses reacted to the falling demand for their products, and in turn this then lead to unemployment and spiralling economic issues of varying degrees of significance on each occasion.

The important point to note though is that the cycle was:

- Financial crash
- Fall in demand
- Supply-side response
- Economic issues as a consequence of multiplier effects

This time the cycle is very different. The crisis has started with a real issue in the economy. A pandemic has created what, initially, was a supply-side shock: lockdown resulted in almost immediate supply-side issues, appreciation of which was only deferred by the Chinese New Year. Thereafter, and in this case not long after, two demand-side issues emerged. One, arising as a result of fear and further lockdowns, has been the virtual collapse of demand for certain goods and services, whilst simultaneously there has been panic buying of a limited range of other products. And then, but really only then, have financial markets realised the scale of the crisis that 21st-century capitalist economies are facing as a result, and massively marked down share prices.

In other words, the sequencing this time is:

- Supply-side causation
- Demand-side reaction
- Resulting financial crash
- Massive potential economic consequences as a result of multiplier effects

The net outcome is the same, but the route to it is utterly different.

As a result to pretend that this downturn can be treated like others, for example like that of the 1930s, is at this moment wholly inappropriate. It cannot be.

The immediate reaction that the 1930s required was a demand-side boost i.e. an increase in the income of households to ensure that they could spend more and so keep the supply-side of the economy going. In every subsequent downturn this lesson has been learned, and so effectively in 2001 that we do not even really recognise what actually happened.

But this time a demand-side stimulus is wholly unnecessary at this point in time, precisely because the continuing physical threats within the economy created by the pandemic mean that many people are simply unable to spend at present, because they cannot even go out, and even if they could there is nothing to spend upon precisely because so many outlets are closed.

In that case discussion of demand-side stimulus at this moment is irrelevant: all that is necessary with regards to current financial support for people impacted by the pandemic, in whatever way, is that they can keep essentials going. So, for example we must:

- keep food on people's tables;
- keep people in their homes; which means that mortgage, council tax and rent holidays are essential;
- keep people's credit records intact so that they can buy again (given our debt-dependent economy) when this crisis is over, which is why other bank loan, lease and credit card arrangements must all be put on hold at present with regard to repayment;
- keep people's utilities connected whatever happens right now, including their mobile phones, which is why the government should be covering these costs for a number of months;
- cancel other outgoings e.g. on council tax, tax payments, and so on.

The aim is to, quite simply, keep households solvent, safe and fed.

But that is an insufficient condition for an upturn to happen. There can be no economic upturn to come if during the enforced downturn that we are now suffering the supply-side, i.e. business, collapses because companies have received inappropriate support from the government to keep them afloat during this crisis, for example because they have been offered loans when they need grants or equity injections instead.

So, the priority at this moment is keeping households with sufficient cash income to cover basic needs, whilst waiving their fixed obligations, and at the same time

providing as much support as is necessary to preserve as a large a part of the UK economy as is possible during the course of the crisis that will unfold during the course of the next few months. Hence my suggestions that:

- Companies should have complete tax holidays;
  - Pension contributions need not be paid during this period;
  - Business rates should be waived for all businesses.
- Support should be provided to ensure that businesses can keep on all their employees on the books even if they have no work to do at the present point in time, and their payrolls should be used as a mechanism to supply the support noted above to those households where employees are impacted (other arrangements are needed for the self employed, those without work and so on) with the government covering the costs;
- Bank loan deferrals and rent holidays should also be available to businesses.

Only if we do this can we hope to have an upturn, at all. And, without this sequencing with this sense of priority to keep the supply-side going this is going to be a very long and serious recession.

None of this does, of course, ignore the fact that there is an ongoing financial crisis as well. It would be wrong to do so, but what I have already [noted elsewhere](#) is that if any financial support is to be provided to larger companies (and there will, undoubtedly be many that will require it) then some quite stringent conditions need to be attached including binding undertakings to:

- Keep employees on during this crisis;
  - To pay a living wage after it is over;
  - To sign up to a tax transparency standard like the Fair Tax Mark;
  - To commit to full country-by-country reporting;
  - To prepare a published plan on how to become net zero carbon;
- to include financial reporting on progress to achieve that aim to be net zero carbon in its audited financial statements hereafter.

There should be no such thing as a free lunch for big business this time round. But, the point, to reiterate, is that this package is in some ways the lowest priority: the sequencing is different this time. I just hope the government realises that, because if they do not they will get all this very wrong.

Coronavirus is nothing like anything we've seen before. And it is most certainly not like the 1930s.