

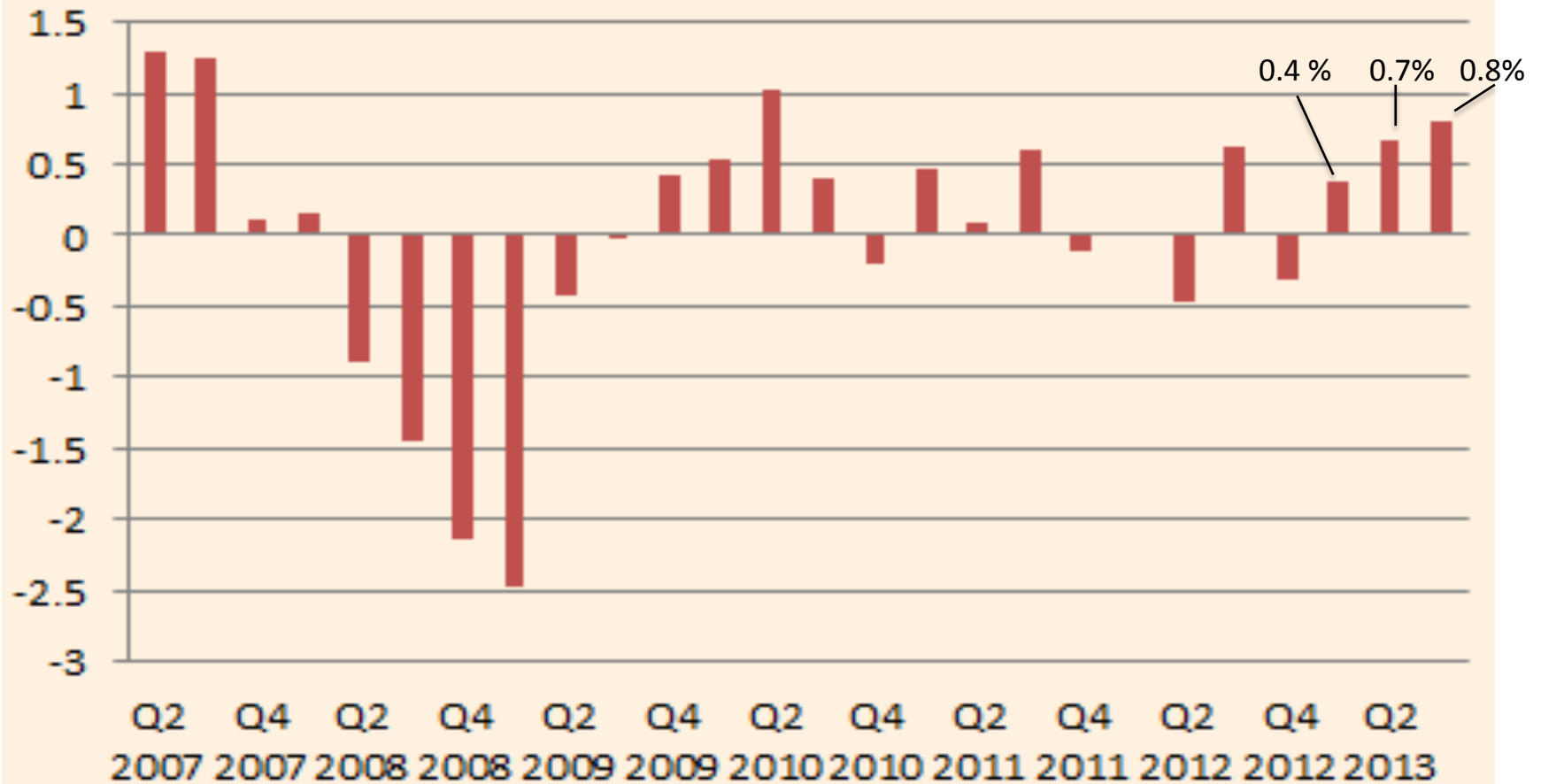
The UK's experience of austerity

Robert Skidelsky

ONS growth forecasts

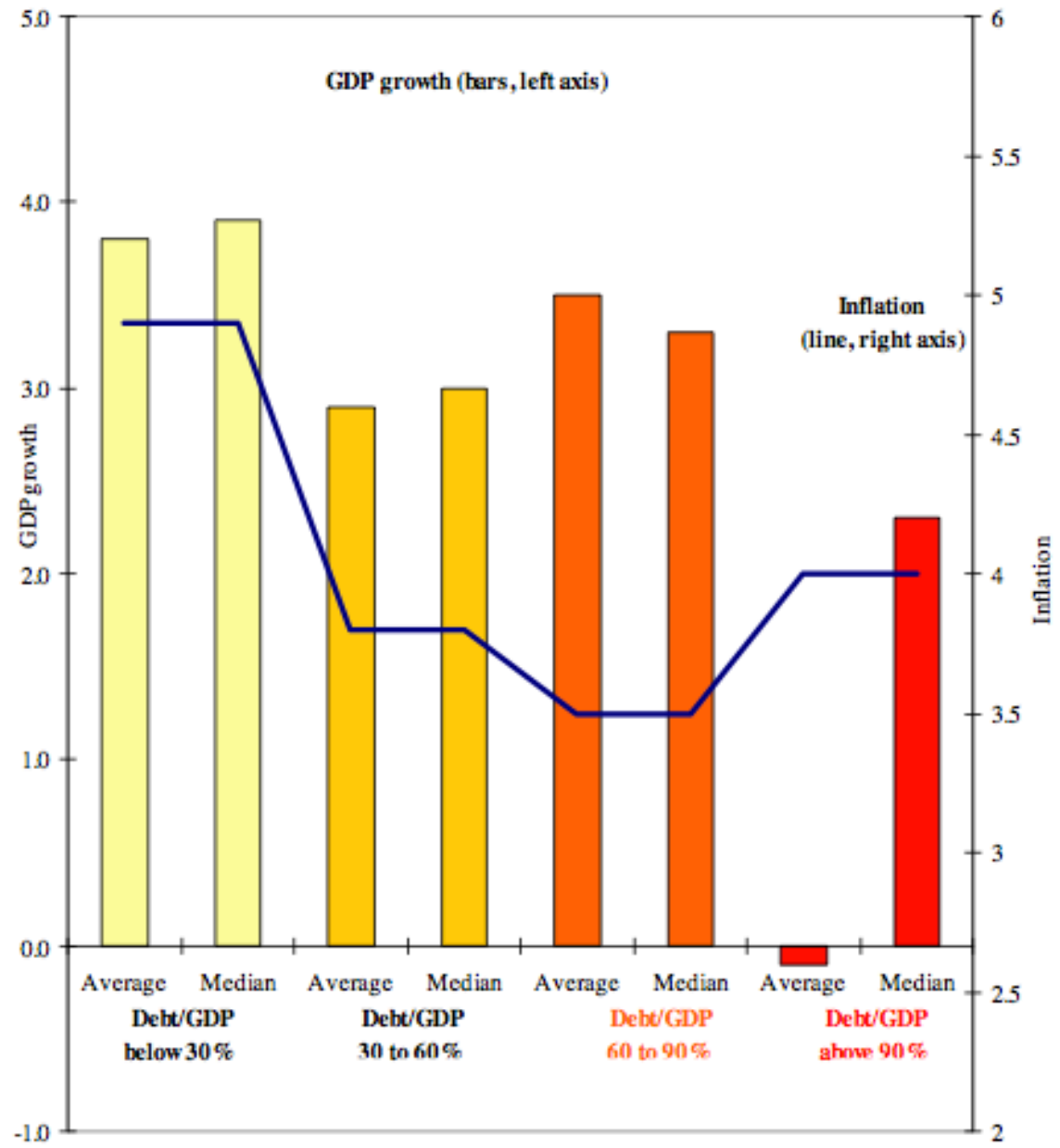
UK GDP growth

Quarter on quarter % change



Source: ONS

Reinhart & Rogoff: Debt-GDP over 90% leads to median growth roughly 1% lower and mean growth 4% lower.



George Osborne:

“As Ken Rogoff himself puts it, ‘there’s no question that the most significant vulnerability as we emerge from recession is the soaring government debt.

[...]

To entrench economic stability for the long term, our aim will be to eliminate the bulk of the structural current budget deficit over a Parliament.”

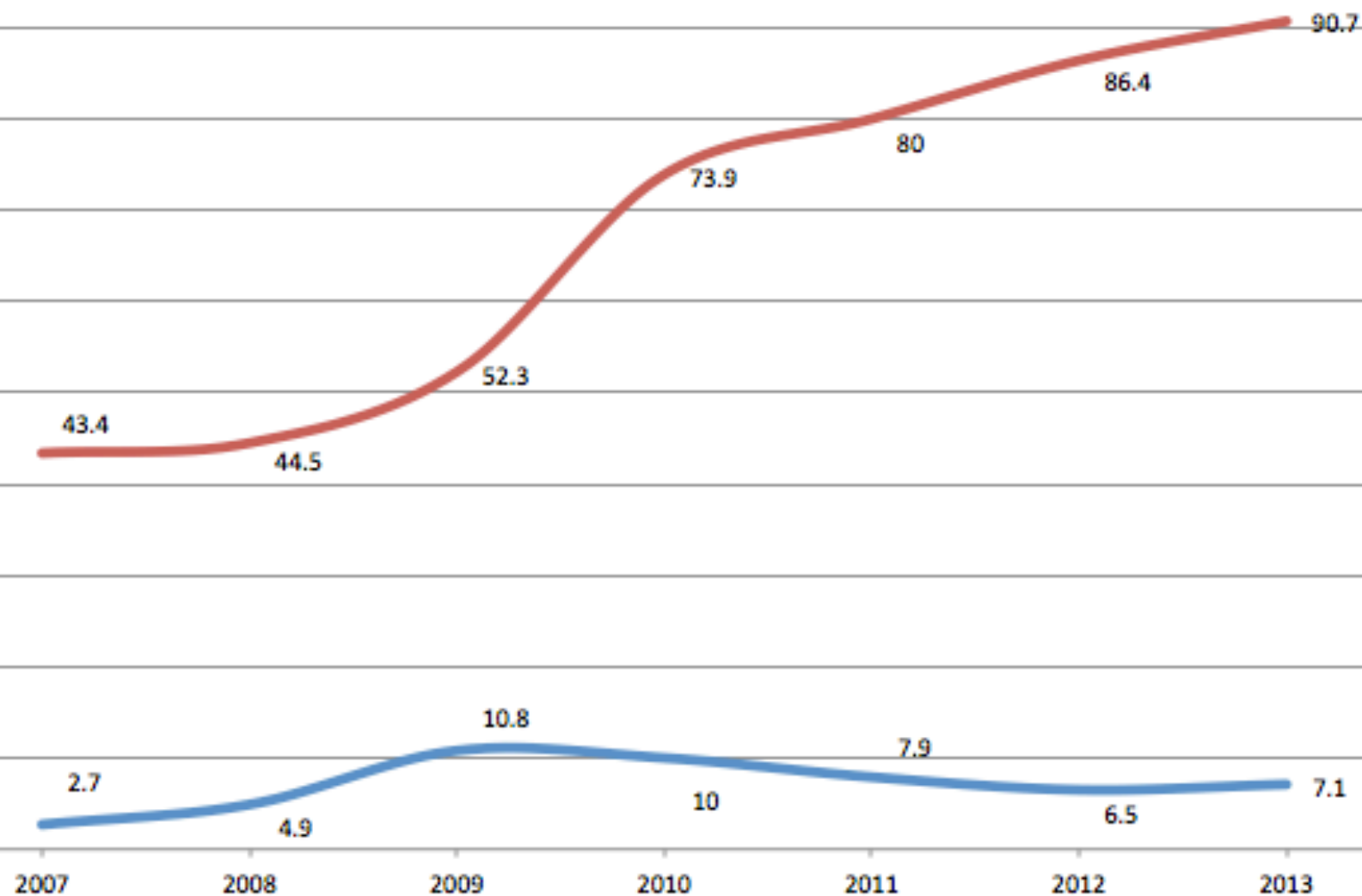
Hellwig & Newmann (1987) :

“A more adequate analysis differentiates between the direct demand effect of cutting the growth of government expenditure and the indirect effect on an induced change in expectations.

The direct demand impact of slower public expenditure growth is clearly negative. The indirect effect on aggregate demand of the initial reduction in expenditure growth occurs though an improvement in expectations if the measures taken are understood to be part of a *credible* medium-run program of consolidation, designed to permanently reduce the share of government in GDP, and thus taxation in the future.”

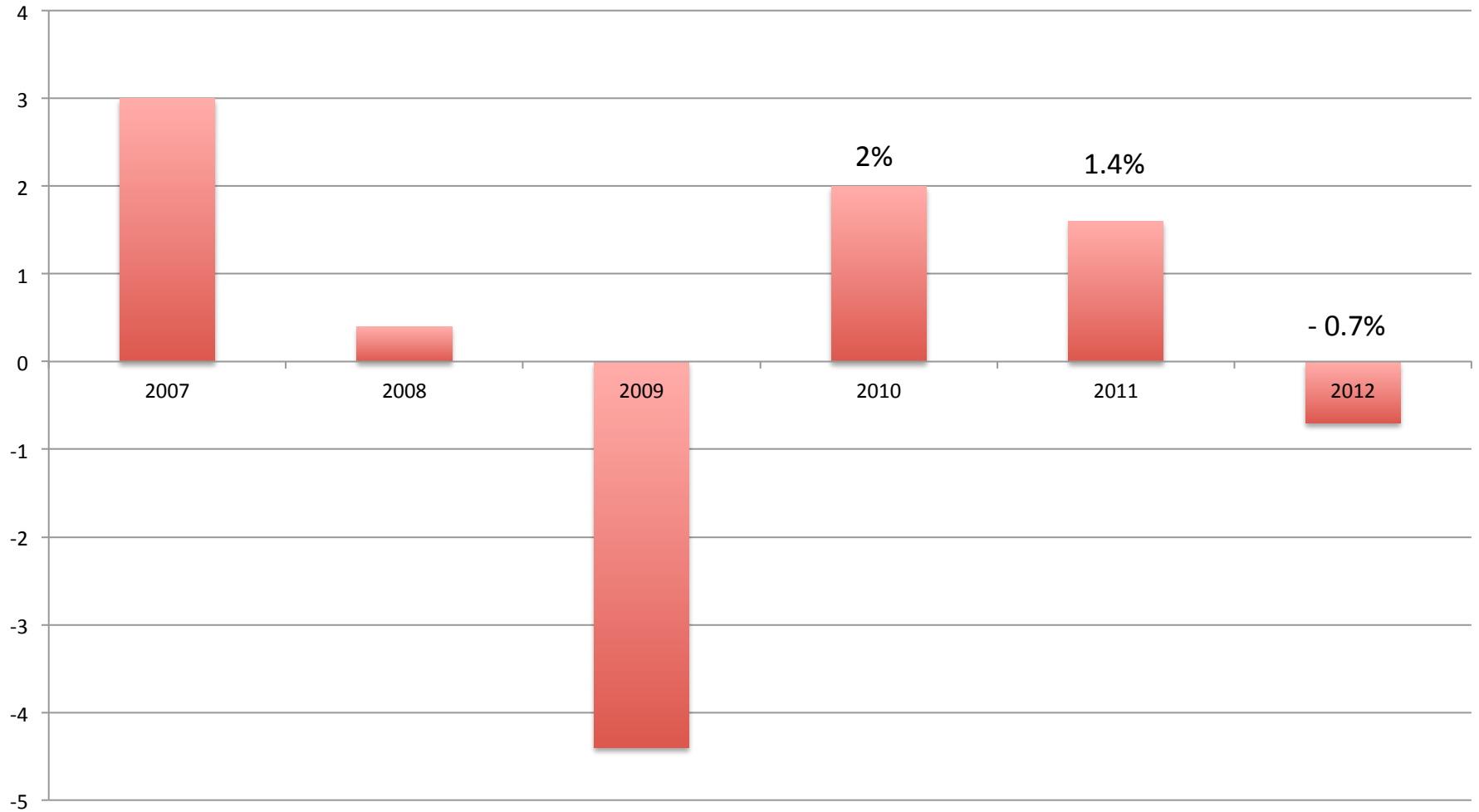
UK deficit and government debt as % of GDP

— UK deficit % of GDP — UK government debt % of GDP



Eurozone GDP %-change on previous year

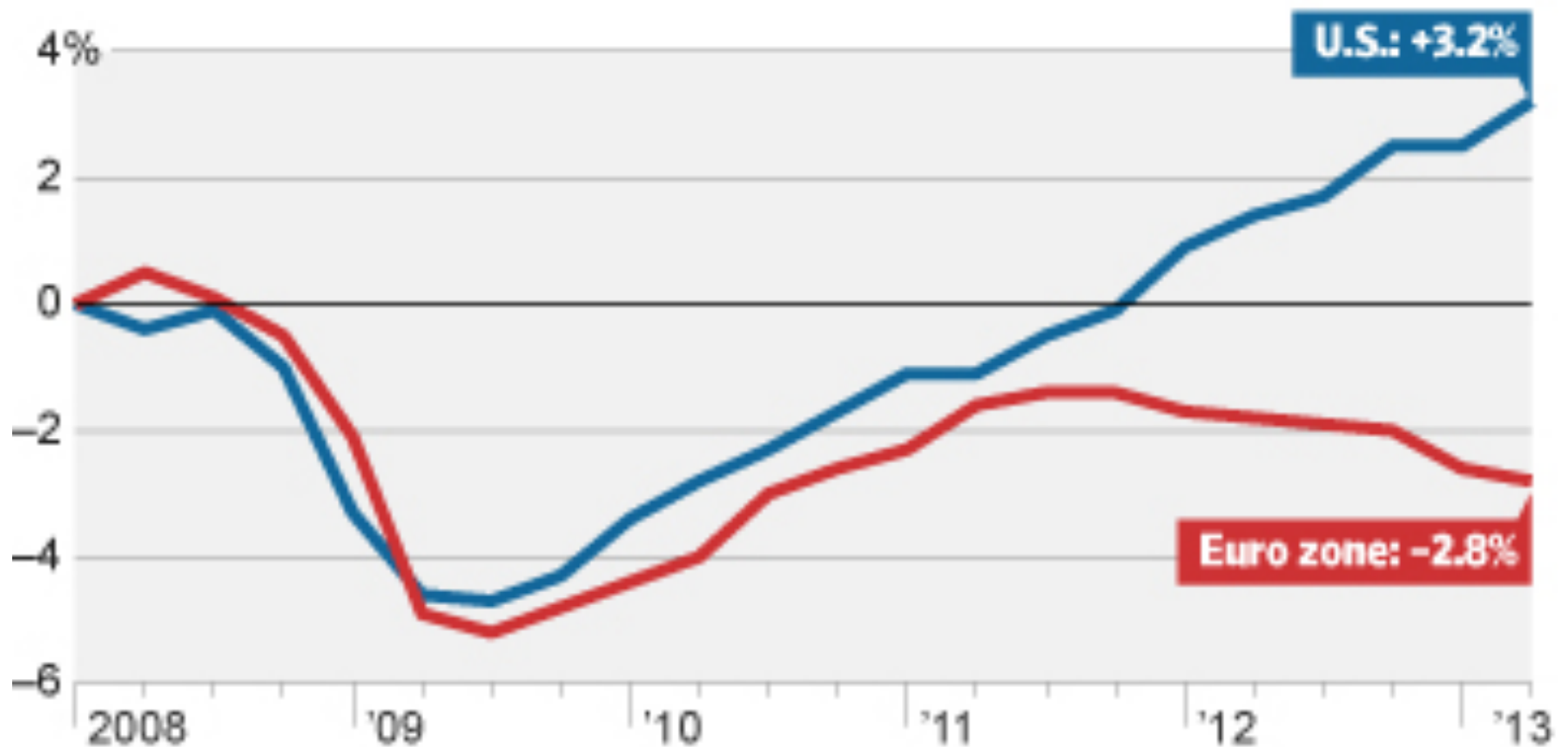
Source: Eurostat



The US economy is now larger than before

Widening Gap

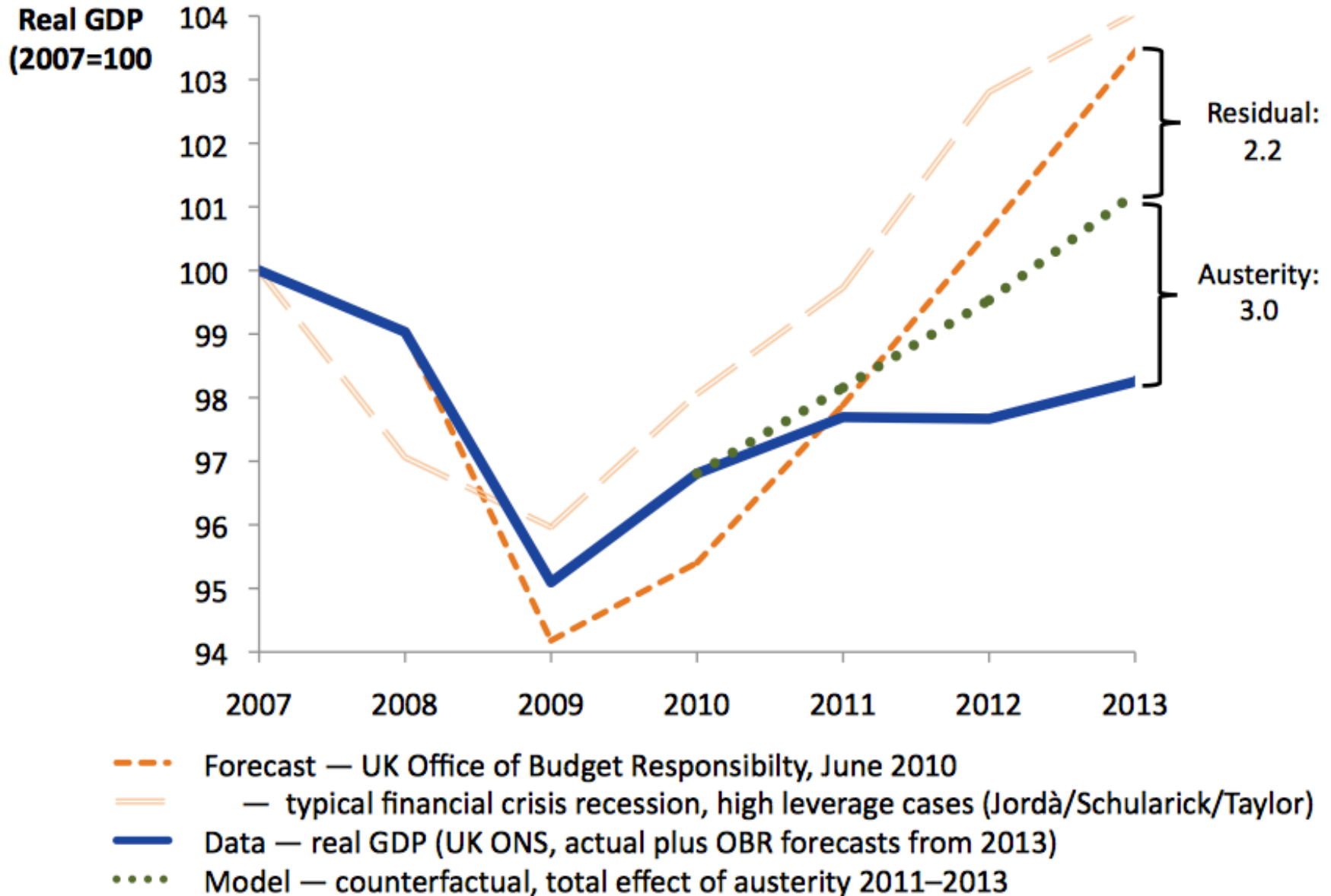
GDP, change since 2007; adjusted for inflation and the seasons



Sources: U.S. Commerce Department; Eurostat

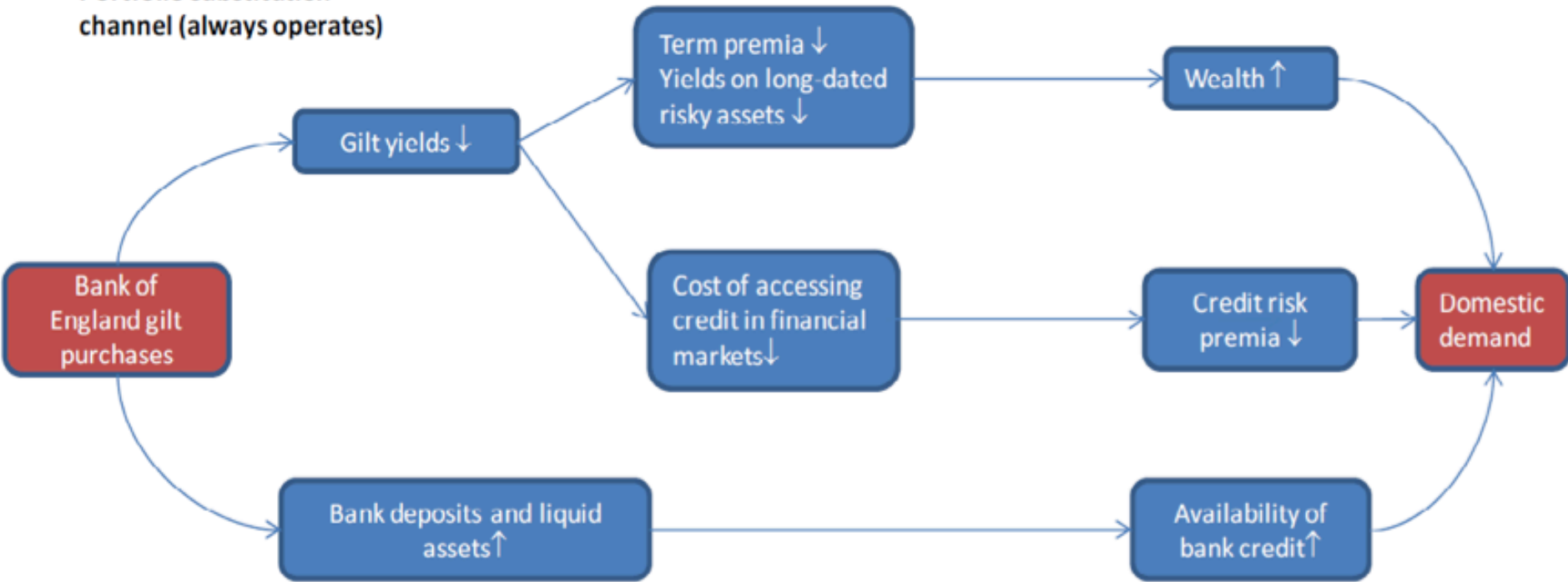
The Wall Street Journal

Taylor & Jordá : Each year of Osborne knocked 1% off growth, 3% in total.



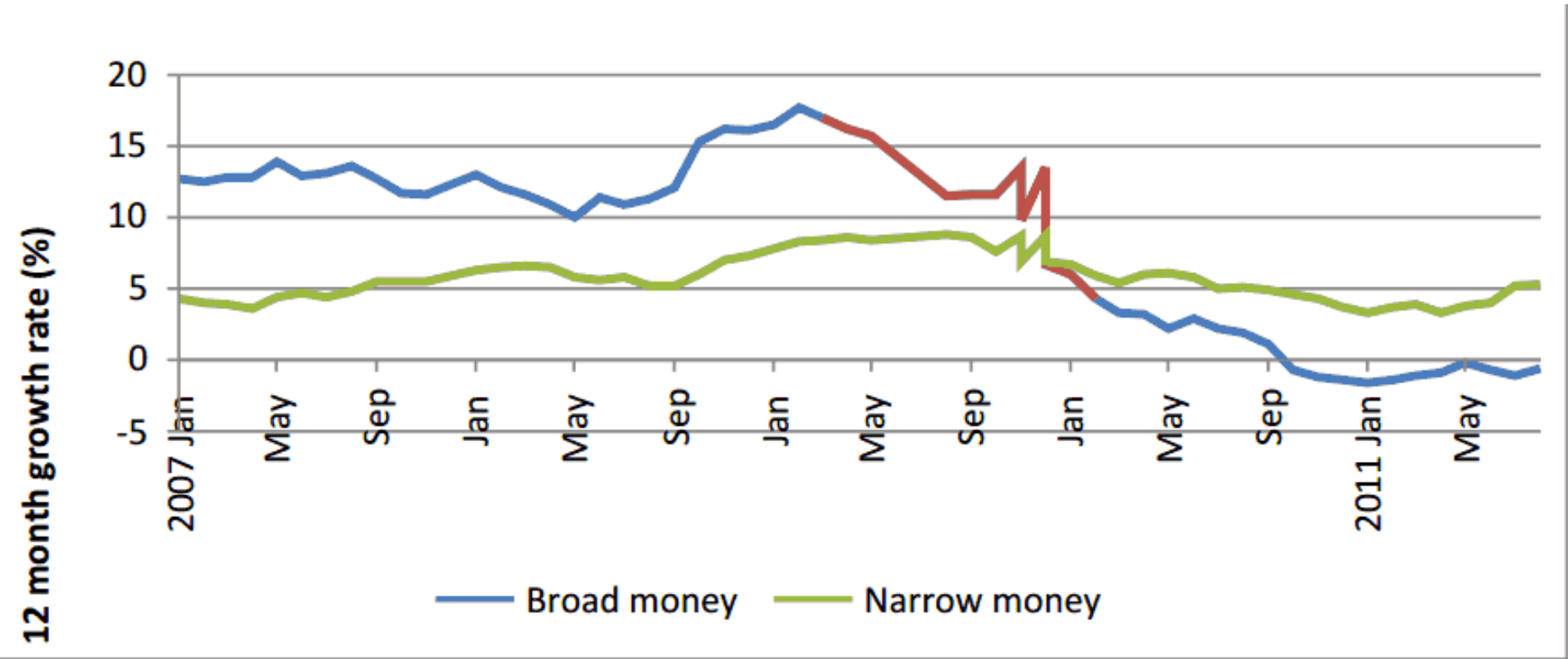
Bank lending and Portfolio rebalancing channels

Portfolio substitution
channel (always operates)

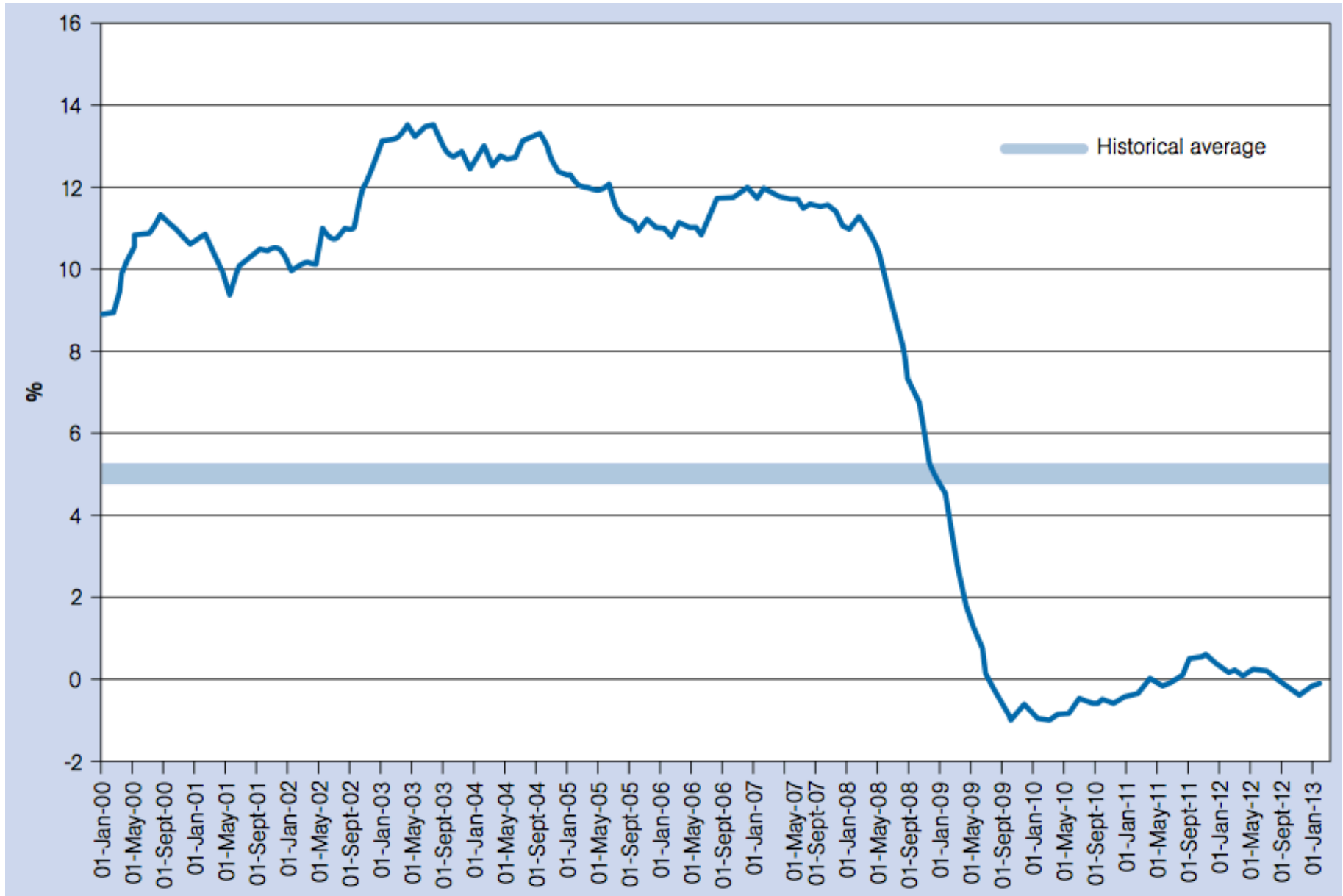


Bank funding channel (may operate in
conditions of stressed bank funding)

Money supply growth since the crisis

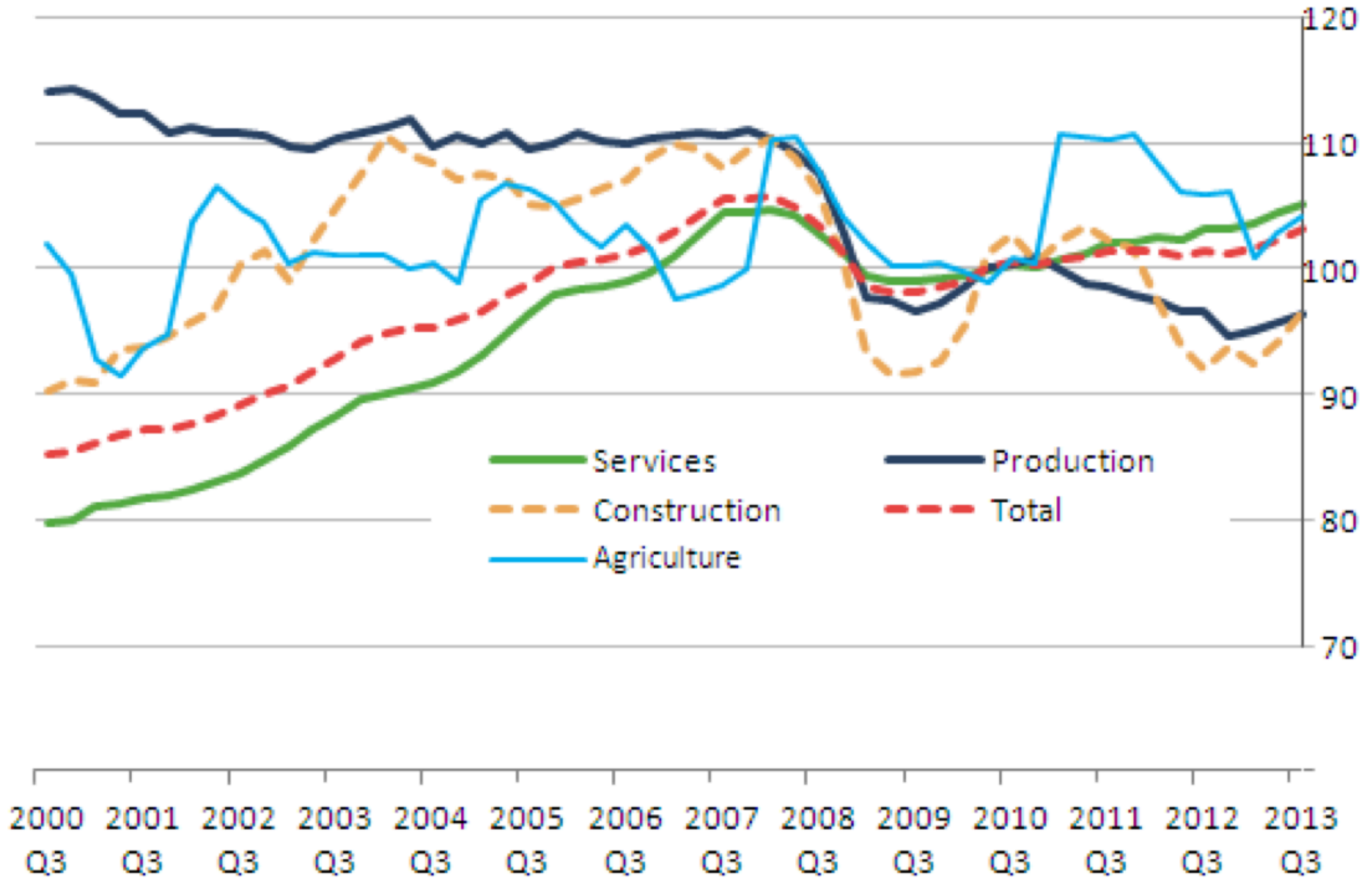


Bank lending to businesses and households 2000-2013



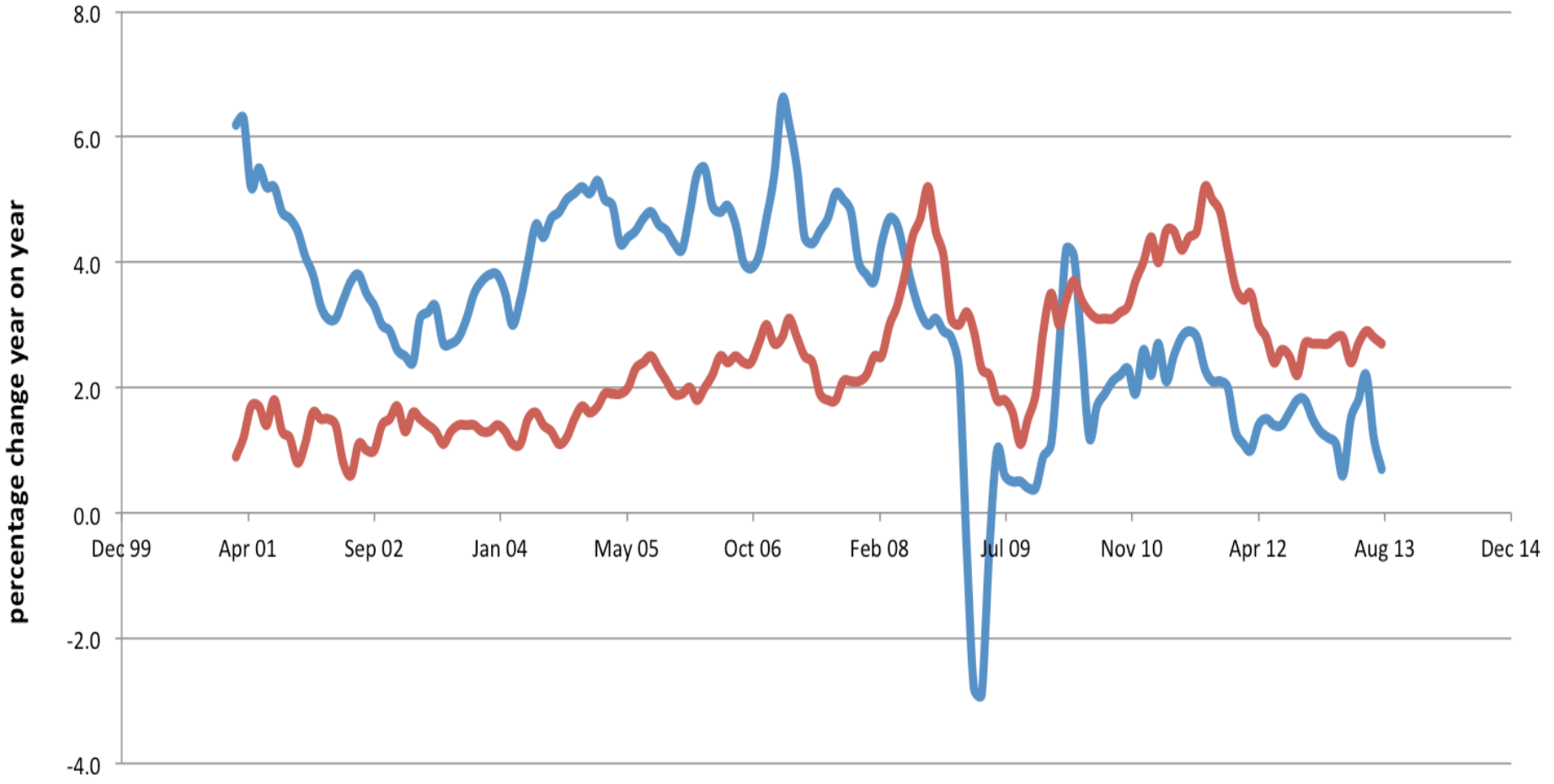
Source: New Economics Foundation

GDP and main components, 2000-2013

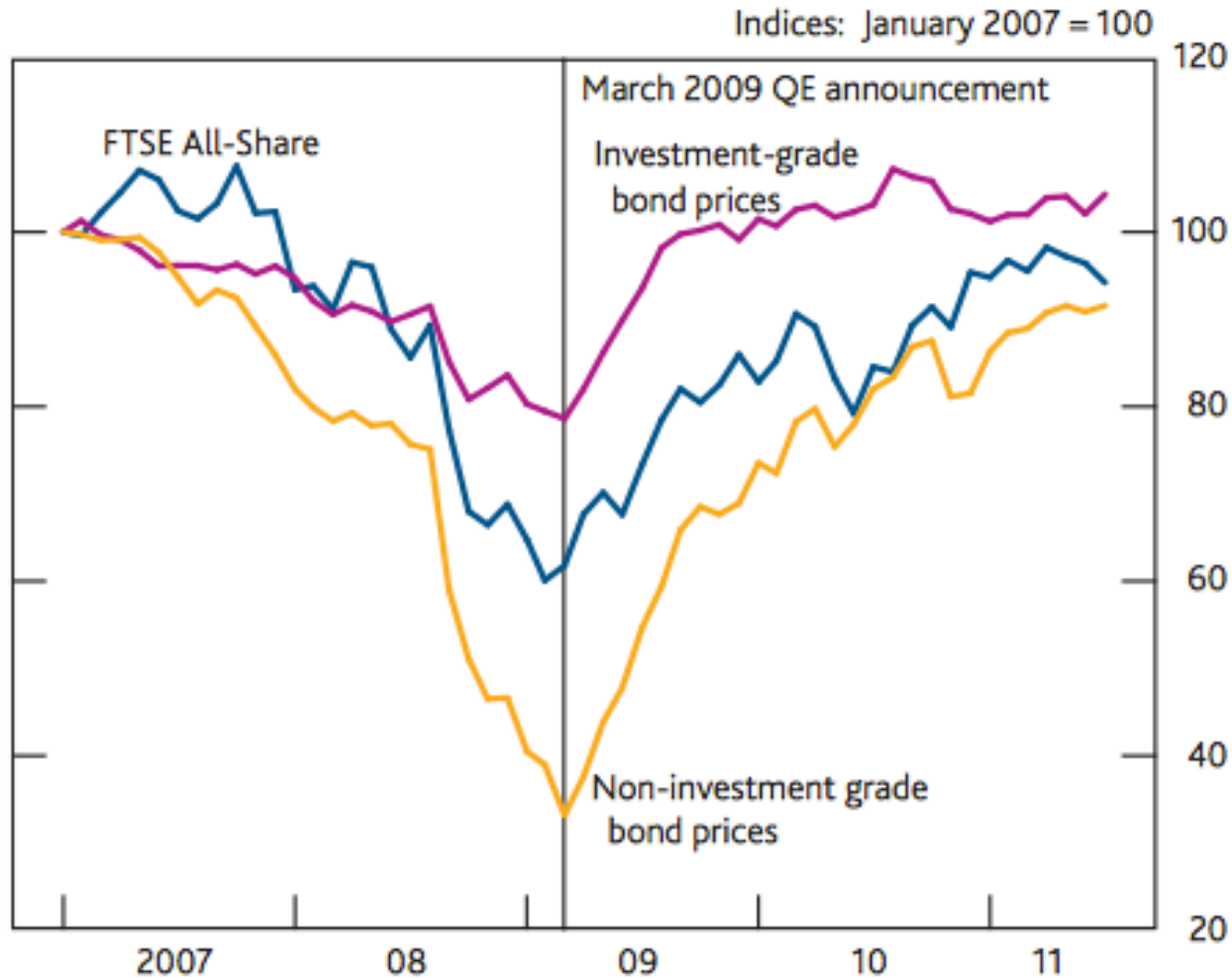


Inflation vs. earnings growth, 2001-2013

Average weekly earnings growth (KAC3) CPI inflation (D7G7)



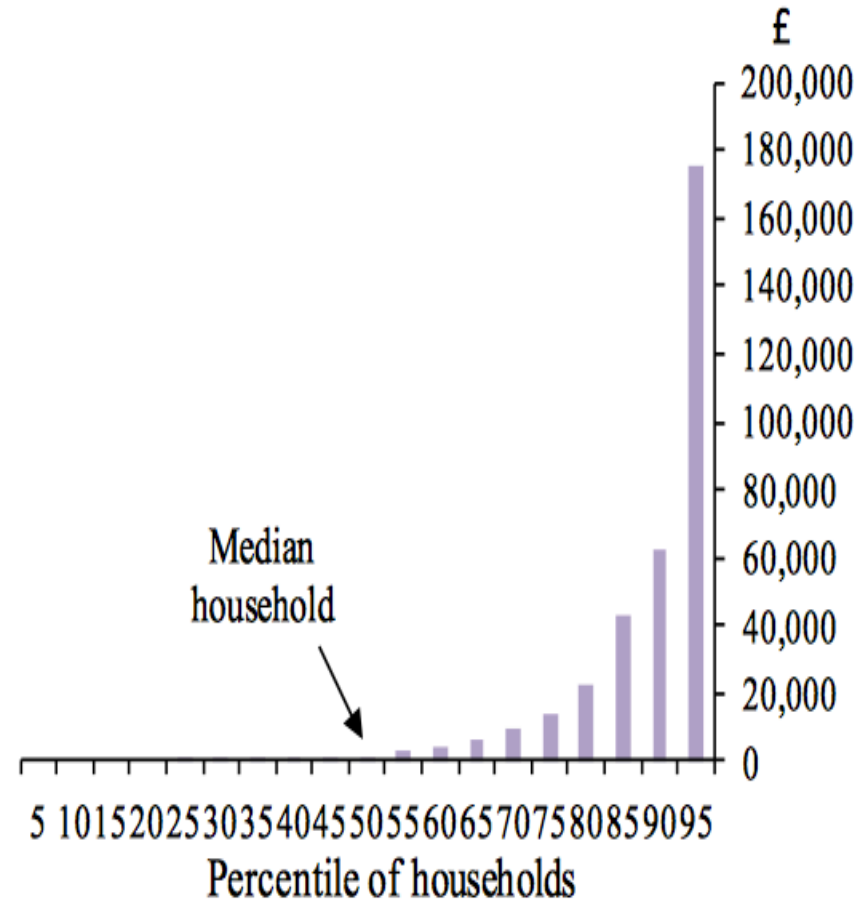
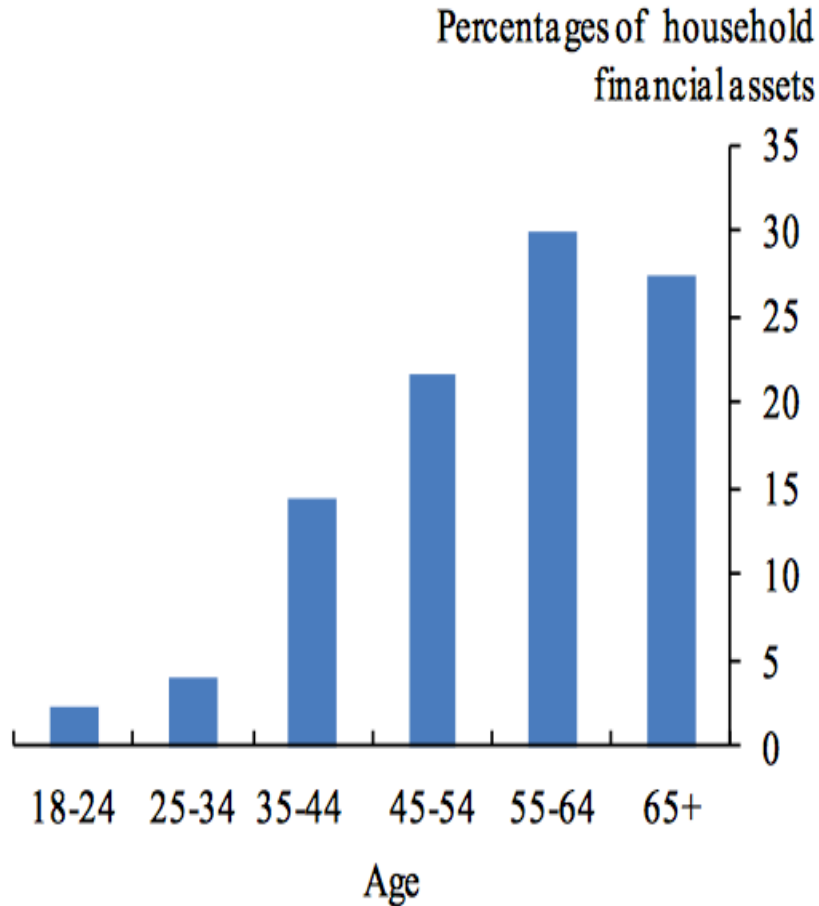
Changes in major UK asset prices



Sources: Bloomberg, Merrill Lynch and Bank calculations.

Source: Bank of England

Distribution of financial assets



Source: Bank of England