

UK Economy: the crisis in perspective

Essays on the drivers of recent
UK economic performance and
lessons for the future

Edited by
Gabriele Giudice, Robert Kuenzel
and Tom Springbett



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Disclaimer

The views expressed in this book are those of the authors and do not necessarily coincide with those of the European Commission.

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Preface

By Marco Buti¹

In June 2010 the UK economy was in a dire condition. Over the previous year it had experienced the biggest annual decline in gross domestic product (GDP) since the Great Depression, the virtual nationalization of one the UK's largest banks and the ballooning of the government deficit to record peacetime levels.

At that time, when the European Commission held a seminar bringing together some of the UK's leading economists, analysts and policymakers to discuss the causes, consequences and lessons of the crisis, what struck me was that the mood was still broadly optimistic. While recognizing the clear failings that had helped take the UK economy down this dangerous path, there was acknowledgement of some of the UK's enduring strengths.

Most prominent among these strengths was the UK's flexible labour market, which had allowed a marked reduction in structural unemployment in the years before the crisis but also, through wage flexibility, helped prevent the recession from causing job losses in the numbers seen in the early 1980s and 1990s. Another strength that came out in the discussion was the UK's international openness. The positive commitment of successive UK governments to the EU single market agenda has been a force for good in Europe, and it is pleasing to see evidence from the discussion and in this book that this commitment to openness and unfettered trade within the EU has made a significant contribution to UK growth.

Of course there was also a lot of discussion of what went wrong. With hindsight it is clear that the UK entered the crisis with too large a government deficit and with too great a reliance on cyclical revenues. The fact that this happened in spite of the government having deemed its fiscal position to be compliant with its own fiscal framework suggests that that framework did not do its job. It is encouraging to see progress in this area in recent months which both strengthens domestic fiscal oversight and improves consistency with the Stability and Growth Pact. Financial regulation was another area where there were many lessons learned from the crisis. Again, it is a positive sign that the UK has been taking tough and radical decisions at home since our seminar, although there are clearly further challenges left to confront, as discussed in the remainder of this book.

I am glad that the Commission has generated a deep reflection and analysis on what has been a momentous period in UK economics, which is ultimately reflected in this timely book. The fact that since the seminar took place several of the authors have been awarded high-level recognitions, such as the Nobel Prize for Economics for Chris Pissarides and membership of the Monetary Policy Committee of the Bank of England for Martin Weale, witnesses the quality of the analysis in this book. I am confident that it will prove a useful contribution to the debate.

Note

- 1 Marco Buti is Director General of the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN).

Abbreviations

ABCP	asset-backed commercial paper
ABS	asset-backed securities
ADF	Augmented Dickey-Fuller
AME	annually managed expenditure
BBC	British Broadcasting Corporation
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BRC	Budget Responsibility Committee
CBO	Congressional Budget Office
CCE	common correlated effects
CDOs	collateralised debt obligations
CEBS	Committee of European Banking Supervisors
CLG	Communities and Local Government
CPB	Central Planning Bureau
CPFF	Commercial Paper Funding Facility
CPI	consumer price index
CT	corporation tax
DG ECFIN	Directorate General for Economic and Financial Affairs
DELs	Departmental Expenditure Limits
ECB	European Central Bank
EEA	European Economic Area
EFO	Economic and Fiscal Outlook
EIS	Enterprise Investment Scheme
EMIR	European Market Infrastructure Regulation
ERM	Exchange Rate Mechanism
ESM	European Single Market
EU	European Union
EU-27	The 27 Member States of the European Union
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
FISIM	financial intermediation services indirectly measured
FOMC	Federal Open Market Committee
FPC	Financial Policy Committee

FRO	Financial Risk Outlook
FSA	Financial Services Authority
G7	a group of finance ministers from seven industrialized nations
G20	a group of finance ministers and central bank governors from 20 major economies
GDP	gross domestic product
GVA	gross value added
IFS	Institute for Fiscal Studies
IIP	international investment position
ILAS	individual liquidity adequacy standards
ILO	International Labour Organization
IMF	International Monetary Fund
IZA	Institute for the Study of Labor
LFS	Labour Force Survey
LIBOR	London Interbank Offered Rate
LSE	London School of Economics and Political Science
LTV	loan-to-value
MFIs	monetary financial institutions
MiFID	Markets in Financial Instruments Directive
MLD	Mean Log Deviation
MPC	Monetary Policy Committee
NAIRU	non-accelerating inflation rate of unemployment
Neths	Netherlands
NHS	National Health Service
NIESR	National Institute of Economic and Social Research
No.	number
OBR	Office for Budget Responsibility
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
OMOs	open market operations
ONS	Office for National Statistics
OPEC	Organization of the Petroleum Exporting Countries
PBRs	Pre-Budget Reports
PPP	Purchasing-power parity
PRA	Prudential Regulation Authority
PSNB	public-sector net borrowing
QE	quantitative easing
R&D	Research and development
RHPG	real house price growth
RMBS	residential mortgage-backed securities
SBA	Small Business Administration
SGP	Stability and Growth Pact
SIVs	Special Investment Vehicles
SMEs	small and medium-sized enterprises
SMP	Single Market Programme

TALF	Term Asset-Backed Securities Loan Facility
TFP	Total Factor Productivity
UK	United Kingdom
US(A)	United States (of America)
VAR	vector autoregressive models
VAT	value-added tax
Vol.	Volume
WTO	World Trade Organization

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