

## **Prospects for the International & British Economies**

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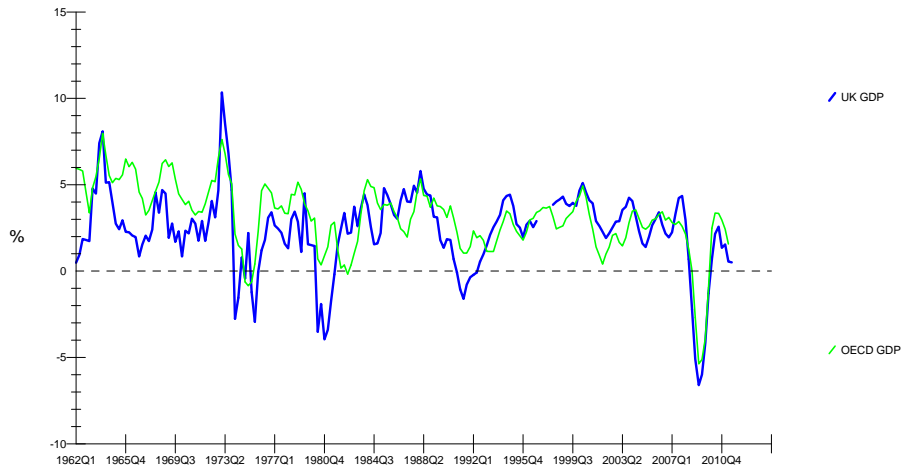
## Introduction

- The British Empire is long dead. Nowadays, Britain has a small, open & trade dependent economy that is like a small cork bouncing around on the turbulent seas of the global economy.
- This makes it hard for the domestic fiscal and monetary authorities to control events. It also means, that as far as my presentation is concerned, the international background has to be dealt with first.
- These are unusually uncertain times, not just because of Harold MacMillan's 'events' but because of a collapse in the quality of much official data.
- The fundamental problem facing the West is that the supply-side has been wrecked by tax-and-spend politicians. Conventional stimuli will cause stagflation not growth.
- However, there are huge differences between the different regions of the UK, with respect to their economic properties and state dependency.

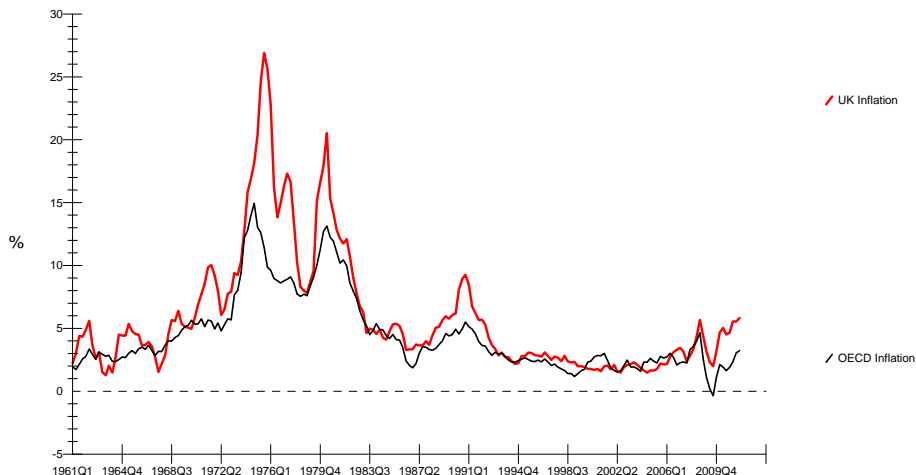
## Britain's Dependency on the World Economy

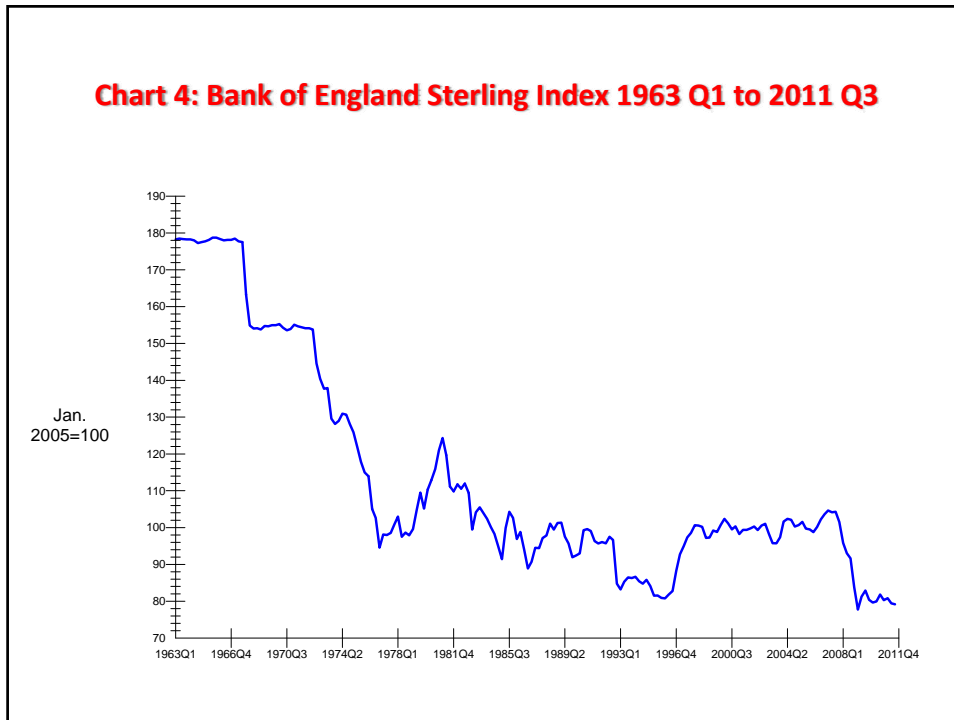
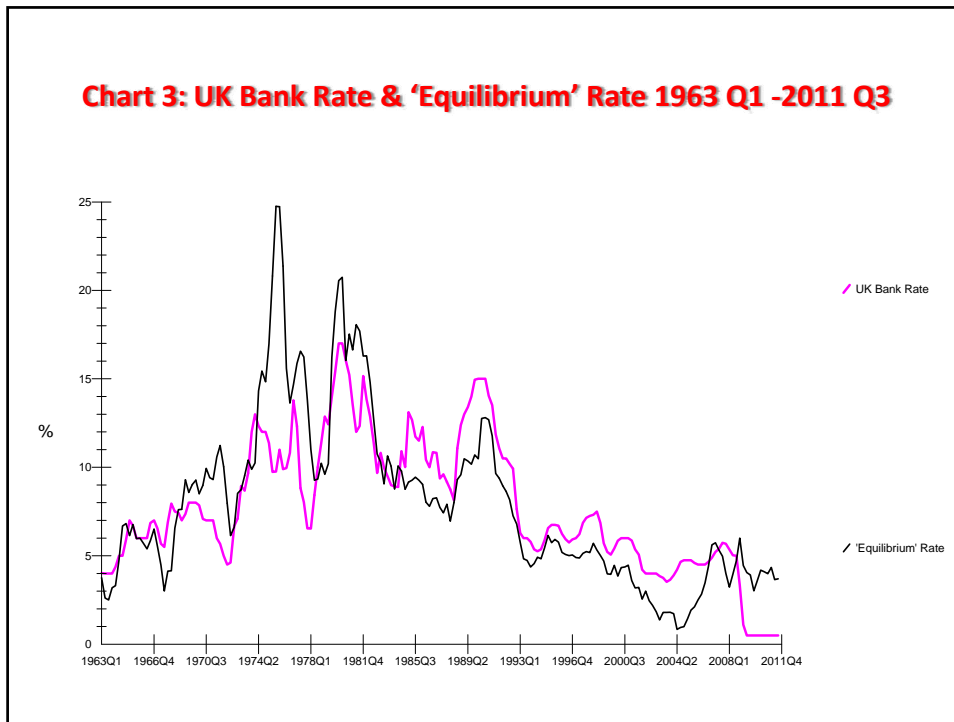
- The next few charts illustrate Britain's high degree of dependence on events overseas.
- The fiscal and regulatory authorities can improve Britain's long-term growth performance by avoiding spend, borrow and tax policies and excessive regulation (and vice versa). However, the global business cycle dominates in the short run (Chart 1).
- The monetary authority can influence Britain's relative inflation performance, by pursuing policies that pull up the exchange rate (and vice versa). But in the short run international inflation is the main influence on the UK rate of price increase (Chart 2).
- In its rate setting, the Bank of England has tended to import the foreign real rate of interest much of the time (Chart 3).
- If it does not, then sterling adjusts to a possibly uncomfortable degree (Chart 4).

**Chart 1: Annual % Changes in UK and OECD Real GDP 1962 Q1 - 2011 Q3/Q2**



**Chart 2: Annual % Changes in UK 'Double-core' RPI and OECD CPI 1961 Q1 - 2011 Q3**

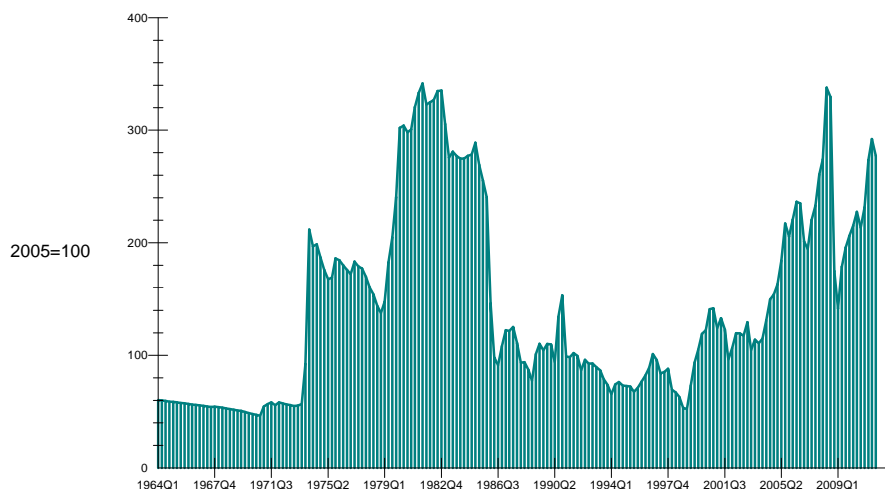


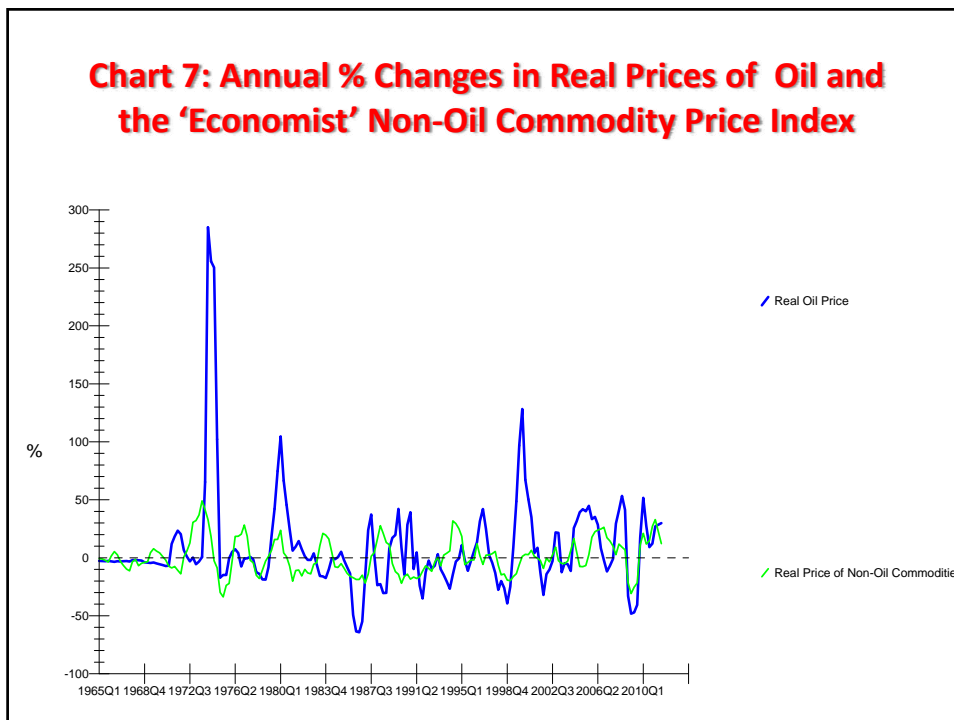
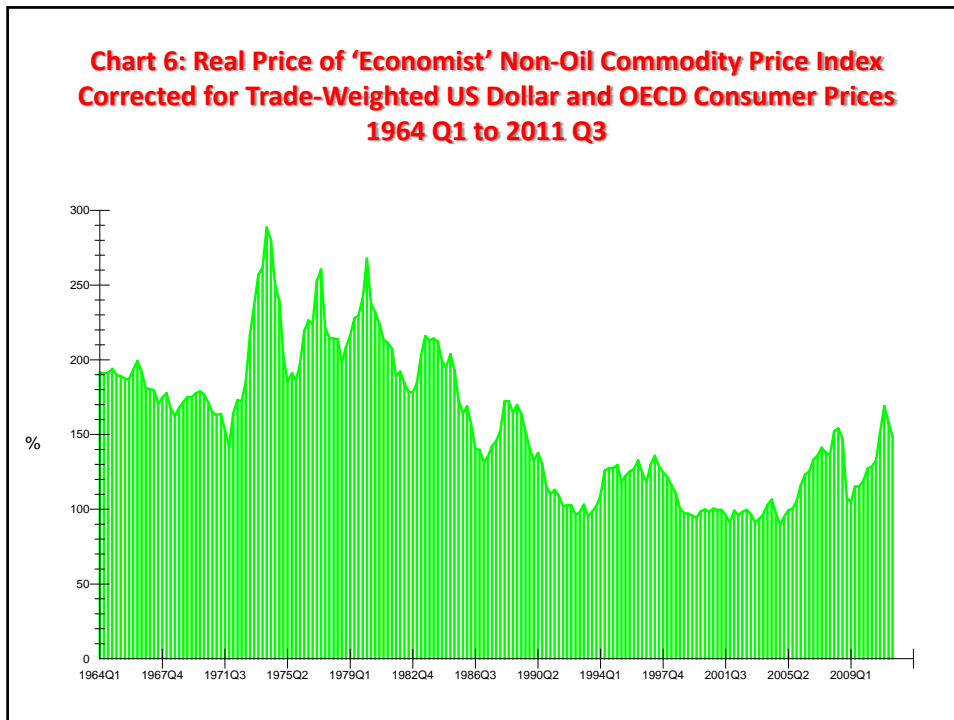


## International Background

- In recent years the international economy has experienced three major shocks, all three of which had the potential to de-rail it.
- **Shock No. 1:** was the increase in the price of oil from an average of US\$55.1 in 2005 to US\$80.2 in 2008, and US\$112.2 in 2011 Q3.
- This remains a huge long-term increase in the real cost of oil even after correcting for movements in the US\$ and inflation (chart 5).
- However, not only has the oil price been expensive but so have non-oil commodities (chart 6). Their price has also been extremely volatile (chart 7). This volatility adds to the disruptive effects because it will inevitably catch some people out.
- One reason for the dear raw material costs facing the West has been the coming on stream of massive new demand from countries such as China, who are unintentionally pricing out the 'Old West'. Another has been geopolitics.

**Chart 5: Real Price of Brent Crude Oil Corrected for Trade-Weighted US Dollar and OECD Consumer Prices 1964 Q1 to 2011 Q3**





### The Global Financial Crisis (GFC)

- **Shock No.2:** was the Global Financial Crisis which started to break in 2007 and approached catastrophic dimensions after the collapse of Lehman Bros in September 2008. I have written extensively on the subject e.g. in:
- *Cracks in the Foundations? A Review of the Role and Functions of the Bank of England After 10 years of Operational Independence*, Economic Research Council, London, May 2007, which anticipated the problems that the BoE would face acting as lender of last resort and in:
- *Crisis Management? How British Banks Should Face the Future*, 2009, Politeia, London.
- Both of which can be downloaded free from the organisations concerned. This means that I do not need to spend too much time on the GFC although it is worth making a few quick points.

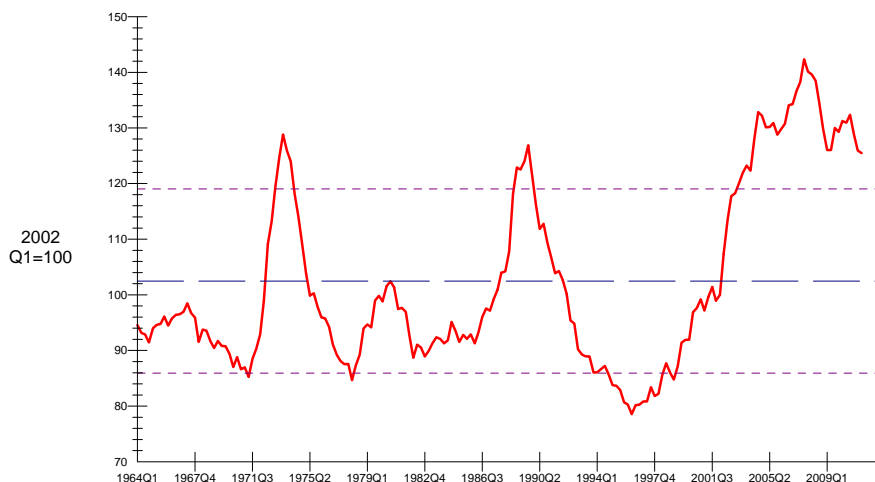
### The Global Financial Crisis (contd.)

- First, the financial meltdowns experienced in the US and Britain were quite rare events. The International Monetary Fund has 186 member countries, the United Nations has 192. **Of these only 5% or so have witnessed the collapse or near collapse of major financial institutions.** Many countries have suffered from the global recession. Most have not suffered from a bank meltdown.
- Second, the monetary authorities in the countries whose banking sectors did melt down were arguably inept. As I tell students, being in the bottom 5% of the peer group implies serious shortcomings of intelligence, application, foresight or execution. The same applies to regulators.
- The US & UK financial regulators and central bankers are still in psychological denial about the extent of their failures. They have blamed everybody but themselves.

## The Global Financial Crisis (contd.)

- Third, bankers' greed cannot explain the crash because bankers' greed is a constant. The loss of one bank is the fault of the management. The systemic loss of many banks is the fault of the central bank and regulators.
- Fourth, major causes of the excesses that led to the GFC were the **moral hazards generated by: 1) 100% state guaranteed deposit insurance** – depositors would be more cautious if this was limited to, say, 85%; **and 2) the fact that bank executives had no personal financial liability**, as they would have done under a partnership system. **Senior bankers should be made financially liable if a state bail out is required and remain so on a diminishing scale for, say, five years after their retirement.**
- Fifth, another cause of the UK crash is that the Bank of England was **'asleep at the wheel'** and ignored the numerous signs that the Heath-Barber and Lawson credit booms were being relived, including in the housing market (chart 8).

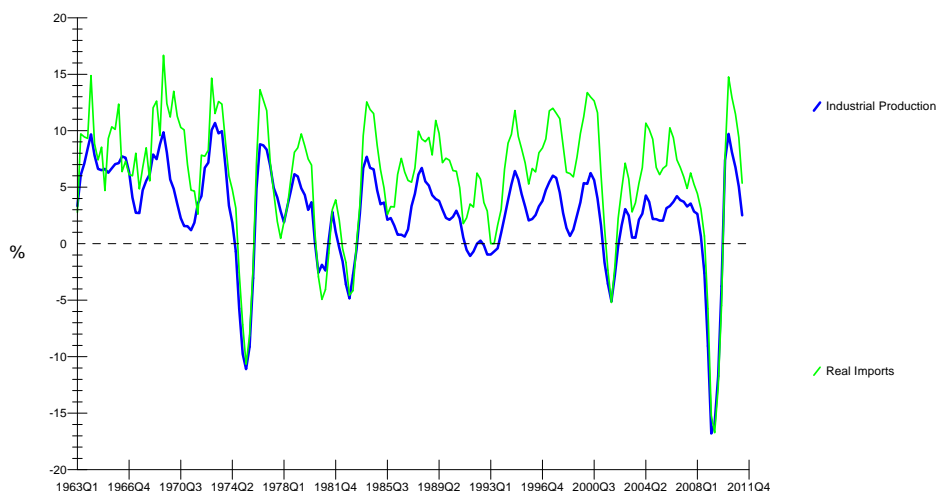
**Chart 8 : Ratio of UK House Prices to Household Consumption 1964 Q1 to 2011 Q2**



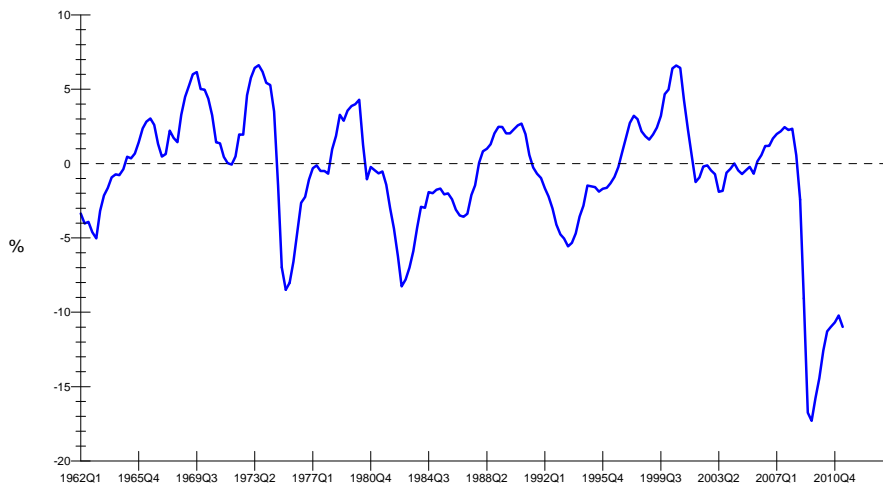
## The Global Financial Crisis (contd.)

- The worst stages of the crash were triggered by the default of Lehman Bros and involved two things that are not measured in most official statistics: intermediate demand and trade credit.
- Global supply chains collapsed because every business suddenly feared that it would not get paid – because its client or its client’s bank, both of which might be in foreign jurisdictions, might default – so trade credit collapsed and the orders from one business to another.
- This ‘dash for cash’ then led firms to: run down their inventories; fire workers, and become far more aggressive in their cash management. All this was happening on a global scale.
- This implosive chain reaction could not go on for ever – inventories cannot fall below zero, for example – and after a period confidence in business counterparties returned, if they were still standing.
- The result was quite a strong initial industrial recovery but from an unprecedentedly weak base (Charts 9 & 10 ).

**Chart 9: Annual % Changes in OECD Industrial Production & OECD Real Imports (World Trade) 1963 Q1 to 2011 Q2**

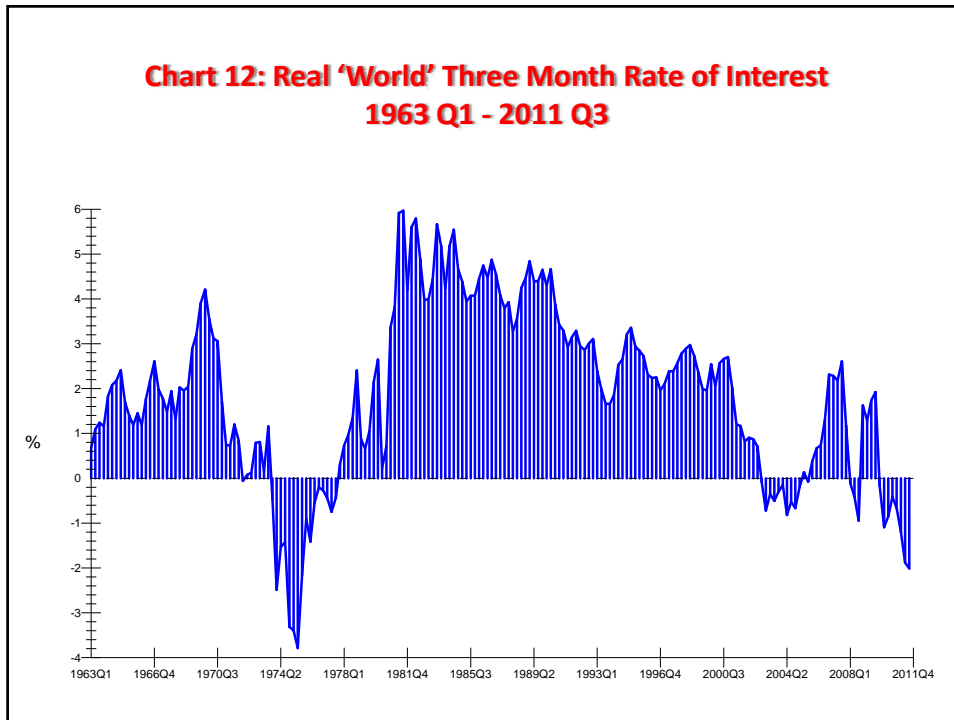
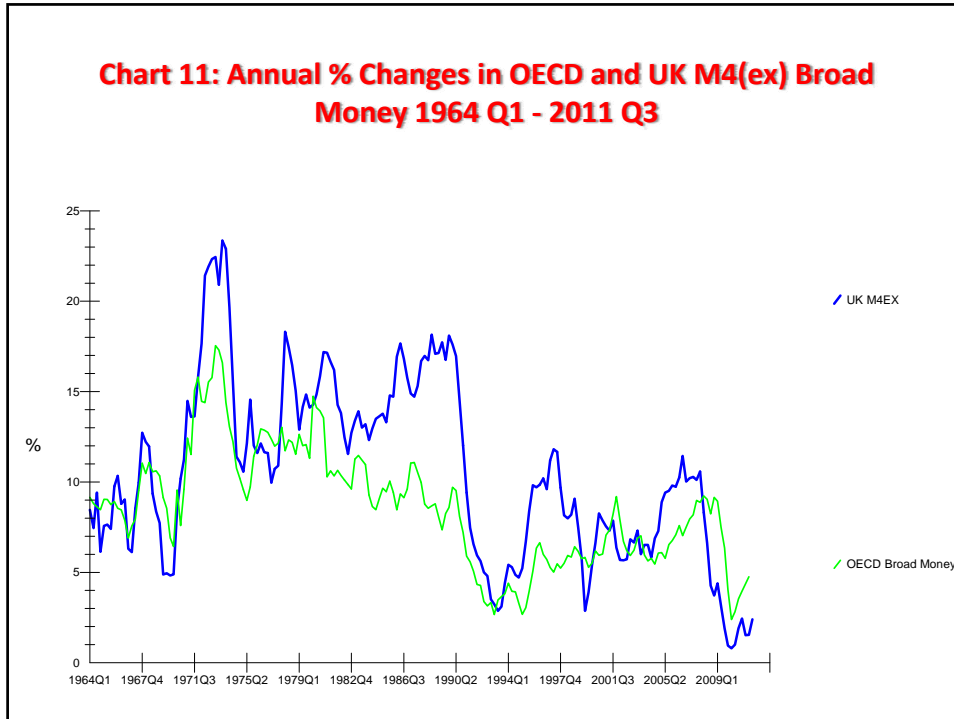


**Chart 10 : Deviations of OECD Industrial Production about its Trend (Output Gap) 1962 Q1 - 2011 Q2**



### **The Global Financial Crisis (contd.)**

- Chart 11 (to follow) shows what has happened to the broad money supply in the OECD area as a whole and to UK M4(ex).
- Chart 12 (to follow) reveals how central banks have responded to the crisis by cutting nominal interest rates to the bone, while allowing inflation to reduce the real rate of interest.



### The Global Financial Crisis (contd.)

- In effect, the monetary authorities are trying to offset the negative effects of weak money and credit growth, with ultra low interest rates and unconventional measures such as Quantitative Easing (QE).
- However, excessive regulation of the financial sector in response to the crisis risks becoming a major cause of slow money and credit growth, just as misguided regulations contributed to the crisis in the first place.

### Government Spending & Aggregate Supply

- **Shock No. 3:** Has been the collapse of confidence in the fiscal soundness of governments and the rediscovery of the concept of 'sovereign risk'. This has arisen because of the huge long-term increase in the socialisation of the western developed nations. Today, the UK government is spending a significantly larger share of GDP than the peak costs of fighting the 1914-18 War and President Obama is spending a higher share of GDP than the peak cost of World War II in the USA.
- It is not surprising that many western economies are suffering all the strains traditionally associated with wartime finance. Governments are also using many of the same dodges and devices, including running large deficits, forced funding and resorting to the printing press (i.e. QE). It is not surprising that the private sector is unwilling to invest against this background, despite high profits and liquidity.
- Table 1 (next slide) shows how the size of the public sector has grown since the late Victorian period for those mature industrial countries for which continuous data exist.

**Table 1: Ratios of general government expenditure, including transfers, to money GDP at market prices (%)**

	1870	1913	1920	1937	1960	1980	2000	2010
Austral.	18.3	16.5	19.3	14.8	21.2	34.1	34.8	36.3
Austria	10.5	17.0	14.7	20.6	35.7	48.1	52.2	53.0
Belgium	-	13.8	-	21.8	30.3	58.6	49.1	53.1
Canada	-	-	16.7	25.0	28.6	38.8	41.1	43.8
France	12.6	17.0	27.6	29.0	34.6	46.1	51.6	56.2
Germany	10.0	14.8	25.0	34.1	32.4	47.9	45.1	46.7
Italy	13.7	17.1	30.1	31.1	30.1	42.1	46.1	50.6
Ireland	-	-	-	-	28.0	48.9	31.3	67.0
Japan	8.8	8.3	14.8	25.4	17.5	32.0	39.0	40.7
Nether.	9.1	9.0	13.5	19.0	33.7	55.2	44.2	51.2
NZ	-	-	24.6	25.3	26.9	38.1	38.3	43.0
Norway	5.9	9.3	16.0	11.8	29.9	43.8	42.3	46.0
Spain	-	8.3	9.3	18.4	18.8	32.2	39.1	45.0
Sweden	5.7	10.4	10.9	16.5	31.0	60.1	55.1	53.1
Switz.	16.5	14.0	17.0	24.1	17.2	32.8	35.1	33.7
<b>UK</b>	<b>9.4</b>	<b>12.7</b>	<b>26.2</b>	<b>30.0</b>	<b>32.2</b>	<b>43.0</b>	<b>36.6</b>	<b>51.0</b>
USA	7.3	7.5	12.1	19.4	27.0	31.4	33.9	42.3
Average	10.7	12.8	19.9	23.0	28.5	43.1	43.0	46.7

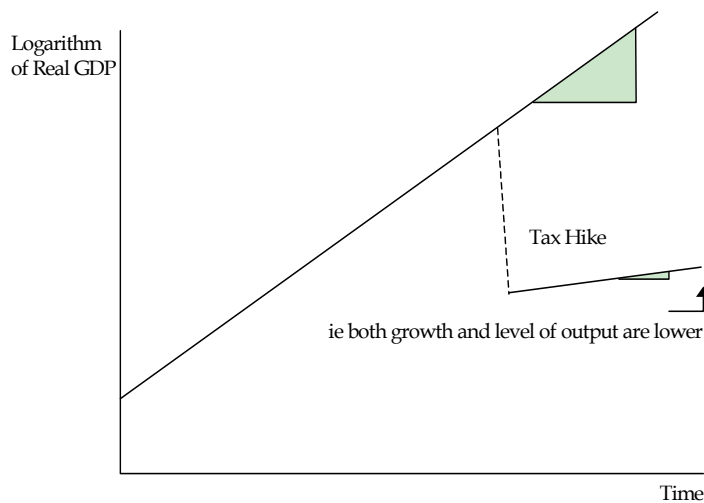
### Growth of Leviathan

- One striking fact is that the average spending ratio is now 4.4 times what it was in 1870. It is arguable that many western economies are now market-communist hybrids rather than capitalist ones.
- Another is the extent of the increases in government spending ratios in the UK (+14.4 percentage points) and USA (+8.4 pps) since 2000. These are massive increases by normal peacetime standards and contrast with the situation in Germany where the spending ratio has been more stable.
- The OECD figures show that Britain has outspent the German Rhineland model every year since 2007 (i.e. before the crash). The US spending ratio also seems to be catching up rapidly on Germany from below.
- Germany's relative long-run fiscal rectitude contrasts with many other Euro-zone countries and helps explain the tensions within EMU.

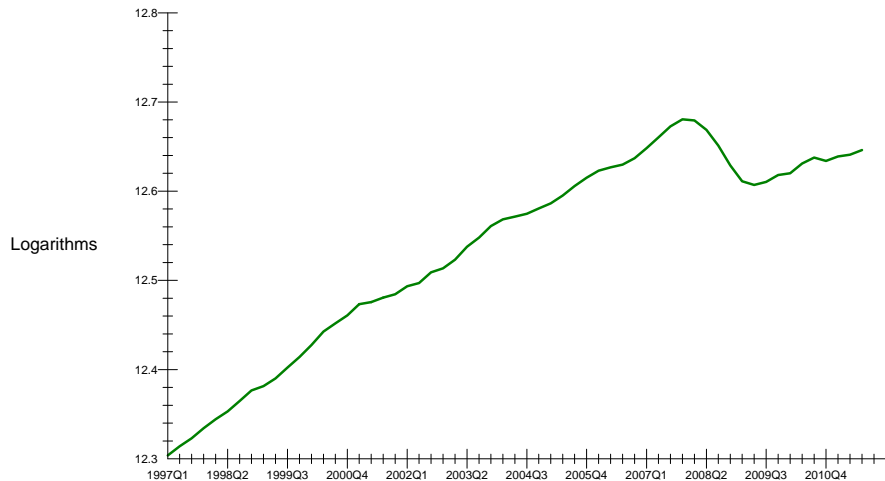
## Growth of Leviathan (contd.)

- It is also arguable that the increased socialisation of the US and UK economies in the 2000s led to a slowdown in the sustainable growth rate. In the case of the UK, the 8.4 percentage point rise in the government spending ratio between 1996-2000 and 2006-2010 might be expected to slow growth by 1.25 percentage points, say, from some 2.75% to 1.5%.
- The values of equities and property represent the net present values of future income deflated by the risk-free long-term rate of interest. Such a slowdown would reduce the values of shares and property by some 45%, *ceteris paribus*. The GFC was part of the transmission mechanism through which public spending crowded out private activity and aggregate supply.
- The Diagram that follows shows what should happen in theory to the sustained level and growth of real GDP in a 'post-neo-classical endogenous growth' model following a large increase in the socialisation ratio.

## Diagram: Effects of Increased Size of State in a Post-Neo-Classical Endogenous Growth Model in Theory



**Chart 13: Does the Logarithm of UK Real Non-Oil GDP 1997 Q2 to 2011 Q3 Reveals a Supply Withdrawal in Practice?**



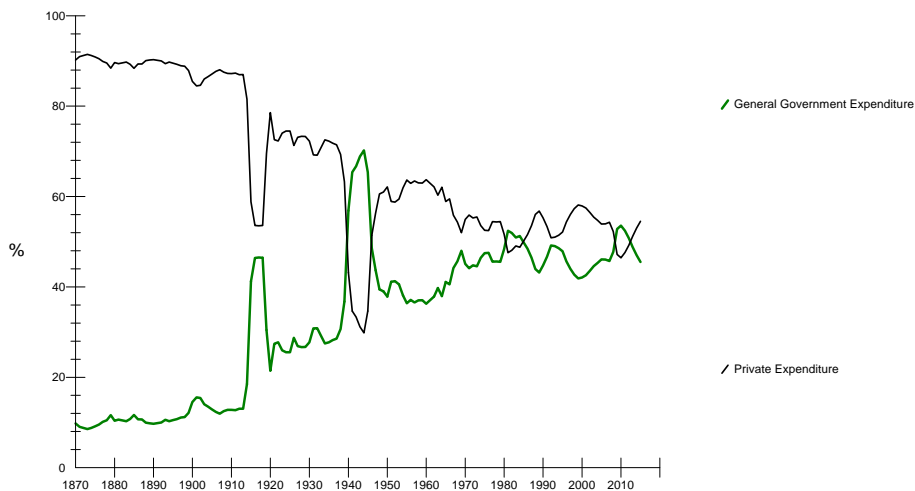
### **The Output Loss from Excessive Public Spending**

- Table 2 shows the estimated loss of GDP that has accompanied the growth of the government sector since 1960, when spending ratios were far closer to their 'optimal' 35% or so than they are today. The calculation assumes that 1pp on the spending ratio cuts growth by 0.15pps.
- Chart 14 shows the size of the UK public and private sectors back to 1870. It also includes the latest official forecasts to 2015.

**Table 2: Estimated Effects on Economic Growth of Increase in Public Spending Since 1960**

	Change in Public Spending Burden 1960-'2010' (%)	Estimated Impact on Annual Economic Growth (%)	How Much Higher Output Would have Been in '2010' with 1960 Spending Levels (%)
Australia	12.2	-1.8	144
Austria	10.1	-1.5	111
Belgium	21.2	-3.2	383
Canada	10.6	-1.6	121
France	19.8	-3.0	338
Germany	13.0	-1.9	156
Italy	19.8	-3.0	338
Ireland	16.6	-2.5	244
Japan	20.0	-3.0	338
Netherlands	14.4	-2.2	197
New Zealand	9.6	-1.4	100
Norway	13.5	-2.0	169
Spain	23.8	-3.6	486
Sweden	24.2	-3.6	495
Switzerland	19.8	-3.0	338
United Kingdom	16.5	-2.5	244
United States	7.5	-1.1	73
Mean	16.0	-2.4	251

**Chart 14: Ratios of UK General Government Expenditure and Private Expenditure to UK GDP at Factor Cost with Implied Budget Forecasts for 2011 to 2015**



### Regional Differences in Government Spending

- Table 3 shows the regional government spending ratios calculated using both the basic-price and market-price measure of national output. The basic-price measure is a better guide to the resource costs involved.
- However, market-price GDP allows the spending ratios for the twelve 'Nomenclature of Units for Territorial Statistics' (NUTS1) regions into which Britain is divided officially to be placed in an international perspective, making them comparable with Table 1.
- London's spending ratio of 35.3%, for example, would be the third lowest in the entire OECD after Korea (30.9%) and Switzerland (33.7%). The South East's spending ratio (35.9%) would then be the fifth lowest OECD figure, after Australia's 35.6%.
- In contrast, the North East (65.2%), Wales (70.6%) and Northern Ireland (72.2%) all have noticeably higher spending ratios than Denmark (58.1%), which tops the OECD, and are as socialised as much of Eastern Europe under communism. The 36.9 percentage point difference between the least and most socialised regions within the UK is also greater than the 27.3 percentage points range observed within the OECD area as a whole.

**Table 3: UK General Government Expenditure in 2009-10 by Country and Region on a Residence Basis**

	Scaled Public Spending 2009-10 (£m)	Estimated GDP at Basic Prices 2009-10 (£m)	Ratio to GDP at Basic Prices in 2009-10 (%)	Ratio to GDP at Basic Prices in 2005-06 (%)	Change in Basic-Price Ratio 2005-06 to 2009-10 (%)	Ratio to GDP at Market Prices in 2009-10 (%)	Proportion Employed in Public Sector in 2010 Q2 (%)
North-East	29,942	41,214	72.7	62.8	9.9	65.2	24.6
North-West	78,193	121,572	64.3	54.8	9.5	57.7	21.9
Yorks & Humber	54,566	88,947	61.4	51.8	9.6	55.1	22.0
East Midlands	43,280	78,840	54.9	46.2	8.7	49.3	18.2
West Midlands	57,224	93,087	61.5	51.1	10.4	55.2	20.5
East	54,162	120,263	45.0	37.3	7.7	40.4	16.4
London	96,977	246,315	39.4	35.2	4.2	35.3	20.9
South-East	77,512	193,793	40.0	33.8	6.2	35.9	16.5
South-West	51,028	97,262	52.5	44.7	7.8	47.1	20.5
England	542,885	1,081,293	50.2	43.0	7.2	45.1	19.8
Scotland	63,412	104,699	60.6	56.1	4.5	54.4	24.8
Wales	35,767	45,449	78.7	67.6	11.1	70.6	26.1
Northern Ireland	23,211	28,848	80.5	70.4	10.1	72.2	29.1
UK	665,275	1,260,288	52.8	45.6	7.2	47.4	20.8

**Table 4: Public Spending per Capita in Nominal and Real Terms and Regional House Prices**

	Public Spending Per Capita in 2009-10 (£)	Price- Deflated Public Spending (£)	Price-Deflated Spending as Index (UK=100)	Mix-Adjusted House Prices in July 2011 (£)	Mix-Adjusted House Prices (UK=100)
North-East	9,433	9,606	109.6	133,163	64.1
North-West	9,229	9,398	107.2	149,868	72.2
Yorks & Humber	8,449	8,710	99.4	145,551	70.1
East Midlands	7,917	7,965	90.9	157,639	75.9
West Midlands	8,579	8,528	97.3	162,901	78.4
South-West	7,942	7,982	91.1	210,872	101.5
East	7,647	7,556	86.2	227,125	109.4
London	10,183	9,437	107.7	347,271	167.2
South-East	7,481	7,313	83.4	266,067	128.1
England	7,942	Na	Na	215,146	103.6
Scotland	9,940	9,970	113.7	165,687	79.8
Wales	9,709	9,867	112.6	150,161	72.3
Northern Ireland	10,564	10,769	122.8	141,474	68.1
UK	8,766	8,766	100.0	207,690	100.0

### Economic and Financial Outlook

- The cinema mogul Sam Goldwyn once famously remarked “Never prophesy, especially about the future!”.
- I am about to break that rule. However, as someone who has been actively involved in macroeconomic forecasting since the early 1970s, I must emphasise that this is probably the most uncertain outlook than I can recall, apart from the 1974 to 1976 period, perhaps.
- It can be assumed, I hope, that we are all grown up here and understand the huge margins of errors attached to forecasts. In particular, there is a large element of political risk involved. Politicians appear to be willing to do things that are irrationally damaging to an economist either to maintain cherished projects, such as EMU, or simply to appeal to the baser instincts of the electorate – e.g. recent speeches by Vince Cable. I am not going to discuss the Euro-zone crisis. However, I could not resist the attached 2000 cartoon from *Der Spiegel*, which says it all.

### The German View of EMU Circa 2000



### International Background

- Table 5 (to follow) summarises my latest forecasts for the OECD area as a whole.
- Charts 9 and 10 have already revealed that the developed recoveries in aggregate suffered an unprecedented downturn followed by quite a strong rebound, which now seems to have stalled, however.
- The negative OECD industrial output gap that emerged (chart 10) was the worst recession of my lifetime.
- Even quite rapid growth from now on will still leave a long period ahead when output remains well below its pre-2008 trend, This should help limit inflation but suggests that the labour market in the 'Old West' will remain sluggish for a long time to come.
- High male youth unemployment is often associated with social disorder.

**Table 5: International Prospects**

	Annual Averages				4th Quarter Averages			
	2010	2011†	2012†	2013†	2010	2011†	2012†	2013†
OECD Real GDP	3.0	1.8	3.5	3.9	3.0	1.9	4.2	3.5
OECD Inflation	1.9	2.8	2.1	2.7	1.9	2.8	2.2	3.0
OECD Broad Money	3.2	5.4	6.4	5.5	4.0	6.5	5.6	5.6
'World' Short Rate	0.5	0.7	1.0	2.6	0.6	0.7	1.6	3.0
'World' Bond Yield*	3.0	2.9	2.4	2.9	2.8	2.4	2.6	3.0
Oil Price (US\$ per barrel of Brent Crude)	80.2	110.9	110.5	112.0	87.2	109.0	110.5	112.0

†BEF Forecast. \*Approximately ten-year composite yield. The oil price was US\$115 on 8<sup>th</sup> November.

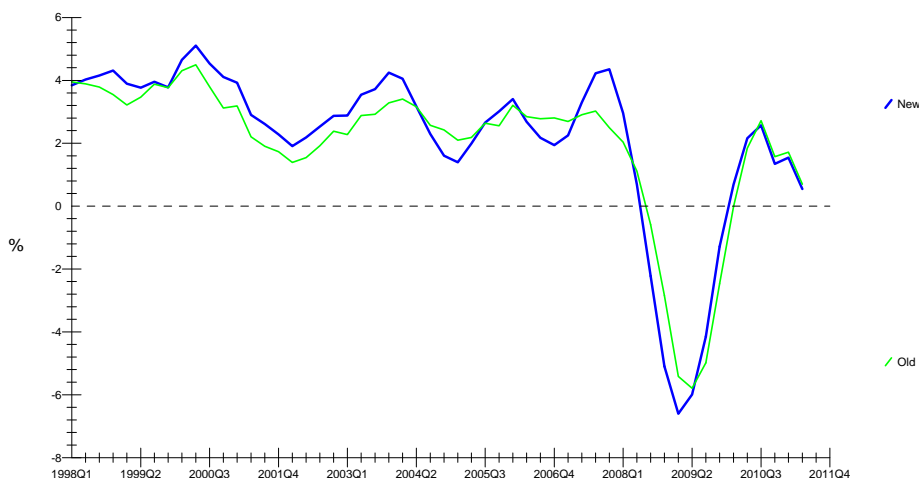
## Recent Changes to the UK Data

- The Office for National Statistics (ONS) introduced a massive series of changes to the UK national accounts on 5<sup>th</sup> October. So far, the ONS have only introduced a short back run of the new data (to 1997 Q1) and many of the more detailed figures needed to run a forecasting model are simply unavailable.
- This means that my UK forecasts are highly unreliable. It will take several months before macroeconomic models will be running properly once more. One reason is that the ONS will not be publishing more detailed figures until 23<sup>rd</sup> November. Normally, these are available in late June.
- Forecasting is always dodgy but this is the worst data instability that I can recall for at least fifteen or so years. Both the BoE November *Inflation Report* and the OBR's *Autumn Statement* forecasts will have been affected.
- Table 6 summarises the 5<sup>th</sup> October revisions to headline GDP but the changes at a more detailed level are far larger in many cases.

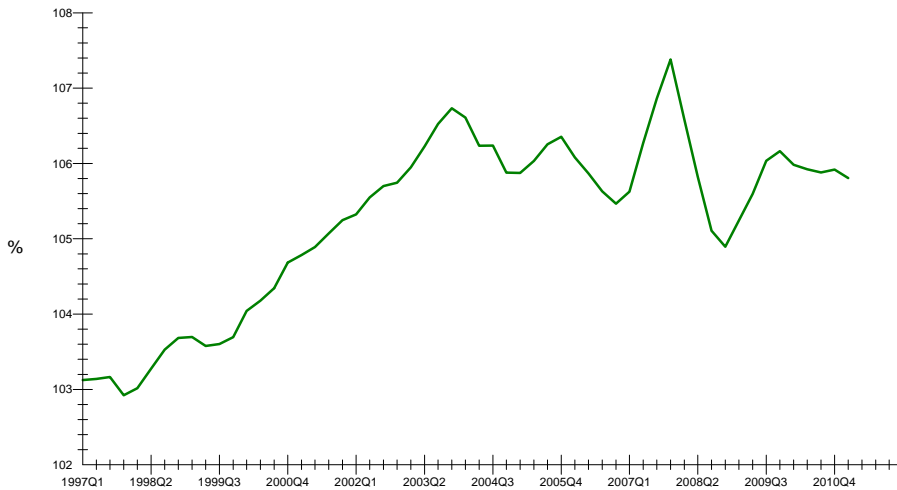
**Table 6: ONS Revisions to Annual Growth Rates  
Released on 5<sup>th</sup> October 2011**

Year	Latest GDP Growth Estimates (%)	Previously Published Estimate (%)	Revision (Percentage Points)
1998	3.8	3.6	0.2
1999	3.7	3.5	0.2
2000	4.5	3.9	0.6
2001	3.2	2.5	0.7
2002	2.7	2.1	0.6
2003	3.5	2.8	0.7
2004	3.0	3.0	0.0
2005	2.1	2.2	-0.1
2006	2.6	2.8	-0.2
2007	3.5	2.7	0.8
2008	-1.1	-0.1	-1.0
2009	-4.4	-4.9	0.5
2010	1.8	1.4	0.4

**Chart 15: Annual % Changes in New and Old Measures of UK GDP 1998 Q1 to 2011 Q2**



**Chart 16: Ratio of UK Real GDP in 2008 Prices to its 2006 Price Predecessor**



**Table 7: Britain's Economic Outlook**

**Table 2: Britain's Economic Outlook**

	Annual Averages				4th Quarter Averages			
	2010	2011†	2012†	2013†	2010	2011†	2012†	2013†
Economic Growth*	1.8	0.9	2.3	2.7	1.3	0.9	3.0	2.6
Inflation (CPI)	3.3	4.5	2.3	2.3	3.4	4.6	1.6	2.8
PSNB (£bn)**	137.1	132.9	146.4	138.0	44.2	43.2	40.2	35.4
Current Account (£bn)	-36.7	-21.7	-42.8	-48.9	-9.7	-8.1	-12.6	-11.9
Unemployment (000's)	1,499	1,538	1,683	1,669	1,459	1,621	1,687	1,653

†BEF Forecast. \*GDP at market prices. \*\*Fiscal 2010-11 equals 2010, etc.

**Table 8: UK Financial Forecasts**

	Annual Averages				4th Quarter Averages			
	2010	2011†	2012†	2013†	2010	2011†	2012†	2013†
Bank Rate	0.5	0.5	1.1	2.6	0.5	0.5	1.8	2.8
Twenty-year Yield	4.3	3.9	3.4	3.5	4.1	3.4	3.5	3.5
Sterling Index (Jan. 2005=100)	80.4	79.7	77.1	73.9	78.8	79.5	74.8	73.3
M4 <sup>ex</sup> Broad Money (%)	1.5	2.2	4.6	3.9	2.5	3.4	4.0	4.3

†BEF Forecast. The sterling index closed at 80.7 on 8<sup>th</sup> November.

### Recapitulation

- I started today by emphasising Britain's dependency on the world economy – a small cork bobbing about on turbulent seas.
- The international background was then discussed and the importance of three major shocks was emphasised. **Shock 1** was the jump in the price of oil. **Shock 2** was the global financial crisis. **Shock 3** was the realisation that several developed countries were close to sovereign-debt default.
- The expansion in the size of the state was then considered using data back to the late Victorian period. The rapid increases in the government spending burdens in the UK and the US since 2000 were noted. It was suggested that this helped to explain poor/negative growth and chronic fiscal deficits.
- I then touched on the differences between the degree of socialisation of the twelve NUTS1 regions into which the UK is officially divided.
- After appropriate health warnings, the latest Beacon Economic Forecasting (BEF) projections for the international and domestic economies were summarised.
- I will now turn to the main conclusions.

### Conclusions

- First, the big spending policies of Gordon Brown in the UK and Bush/Obama in the US caused a 'supply withdrawal'. The slowdown in the sustainable growth rate meant that the net present value of future earnings streams was seriously reduced.
- Second, central bankers failed to realise this was happening – particularly Alan Greenspan – and tried to ginger up their economies by running unduly low rates of interest. This led to speculative excess and repeated the mistakes of the 1970s which caused the original stagflation.
- Third, the baby boomers 'search for yield' to fund their retirements was one reason why there was a market for packaged mortgages. The supply of these items was also excessive and reflected massively misguided US legislation.
- Fourth, the 'China effect' held down inflation, and made it easy for the West to fund balance of payments and fiscal deficits but pushed up commodity prices.

### Conclusions (contd.)

- Fifth, a misguided Keynesian belief that the problem was a simple demand-side one – plus lynch-mob populism against wealth creators – has led to perversely damaging actions on the part of many governments. Mr Osborne's decisions to raise VAT and employers' NIC's damaged the economy and made the fiscal deficit worse, not better.
- Sixth, the fiscal outlook is dire. Explicit sovereign default – e.g. by Greece and Portugal – and implicit default through high inflation – e.g. Britain and the US – are both possible. Modern welfare states are absorbing more resources than a World War. It is not surprising that the funding problems of Wartime finance have re-appeared.
- Seventh, left to their own devices, economies can and do recover. This is apparent in my forecasts. However, this natural healing can be undone by political and regulatory interventions or blunders by the central bank.

### Conclusions (contd.)

- Eighth, there exist huge differences between the extent of state dependency between the various regions of the UK both within and between the twelve official NUTS1 categories. The switch from fiscal profligacy to mild discipline will affect the most state-dependent areas disproportionately.
- Last, as Adam Smith pointed out ‘there is much ruin in a nation’. I guess we will muddle through the next few years, even if we could have done far better with smaller government and a more competent central bank. However, I also wonder how long the UK can maintain fiscal credibility in the face of the likely overshoot of Mr Osborne’s borrowing targets, and whether the UK sovereign debt crisis was postponed – but not averted – by the change of government in 2010.

**Finally, I would like to present an early photo of the Patron Saint of 21<sup>st</sup> Century Banking Practice and Fiscal Policy – a man who has clearly turned out to be a more influential role model than any economist or public finance expert.**



And here is the late Mr Charles Ponzi, in his prime.



## The End

- Thank you for your time and attention.
- Anyone who wants a copy of this presentation is welcome to E-Mail me at:
- [xxxbeaconxxx@btinternet.com](mailto:xxxbeaconxxx@btinternet.com)