

Up for a Challenge?
Taking Office in the Wake of a
Global Economic Crisis

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A poisoned chalice?

- “I saw the governor of the Bank of England [Mervyn King] last week when I was in London and he told me whoever wins this election will be out of power for a whole generation because of how tough the fiscal austerity will have to be.”

David Hale

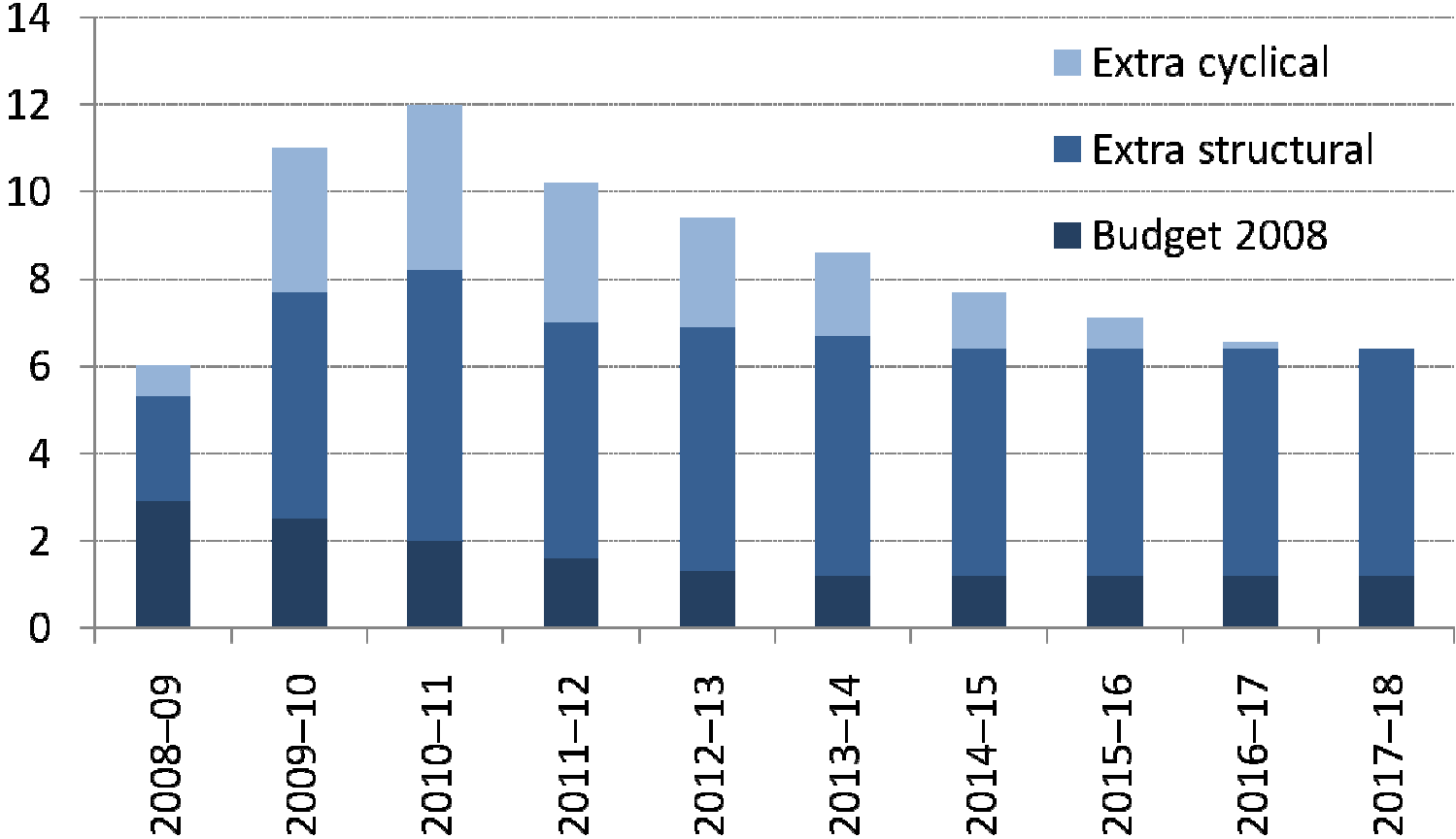
A post-election cabinet meeting?



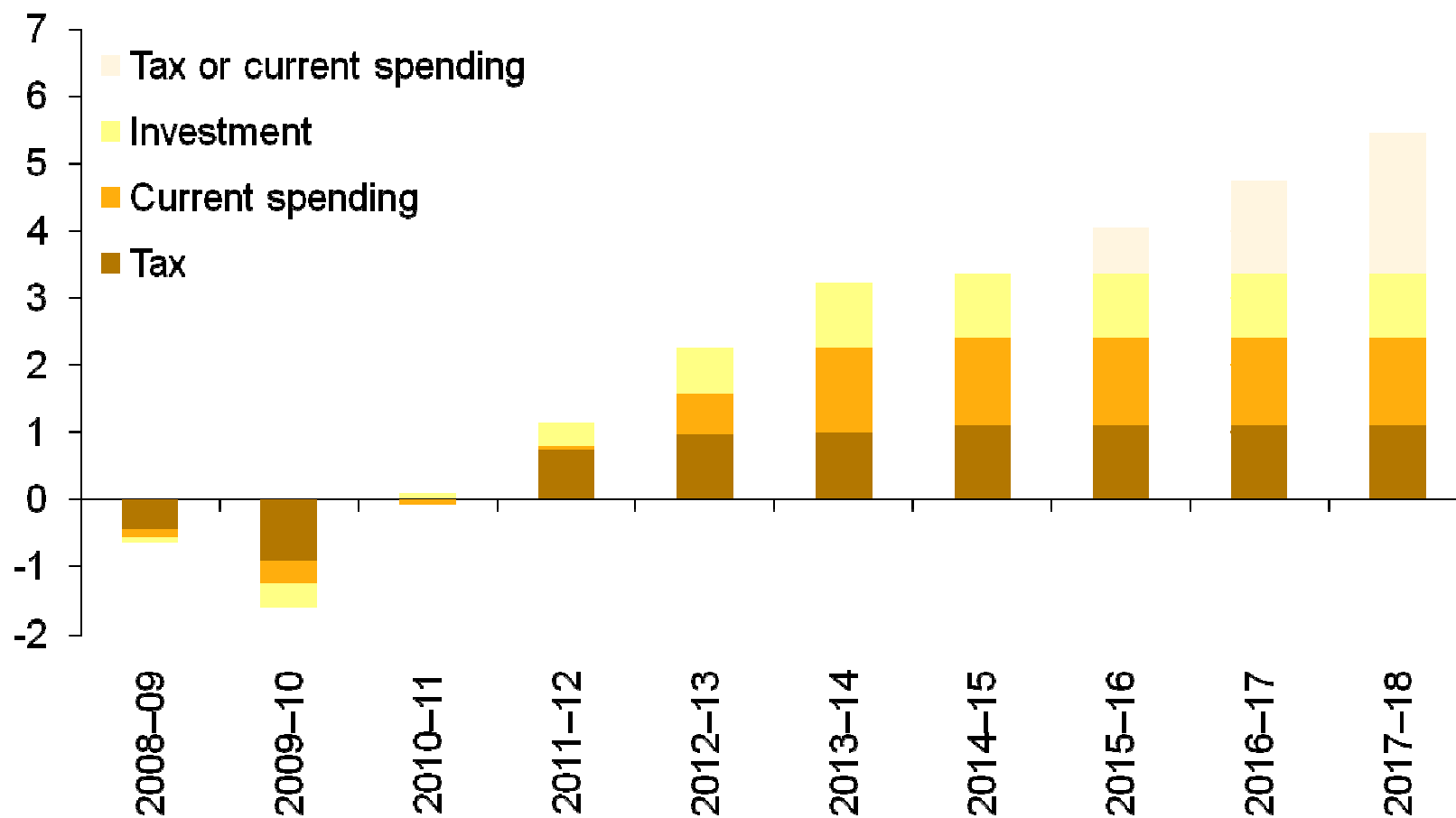
Economic challenges

- The Deficit
 - Tax increases
 - Spending cuts
- Financial markets
- Global factors

The Deficit



Government Response: Two Year Stimulus Eight Year Squeeze



How would you like your stimulus
today Sir?



Monetary versus Fiscal Policy

- Keynes rediscovered
 - But its all about the hangover
- Monetary stimulus
 - But inflation is the main risk.

Public Spending

- American tax levels and a Swedish style welfare state don't add up
- According to IFS the implied manifesto cuts in spending are:
 - Labour -- £47bn
 - Cons – £59.4bn
 - Lib Dems -- £42.7bn
- Structural reforms
 - Is this the time?

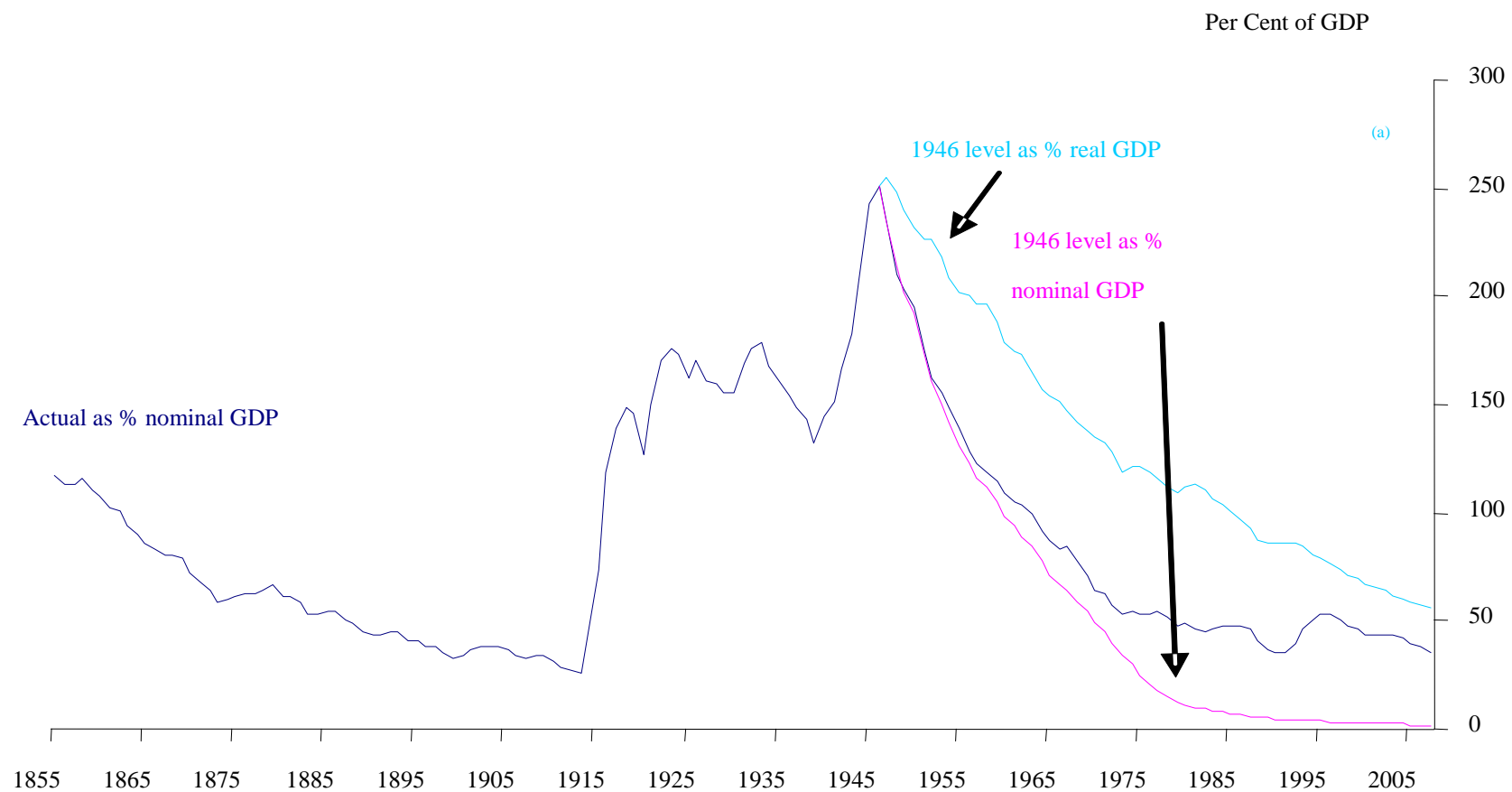
Tax Increases

- “Read my lips”
 - VAT
 - National Insurance
- Scope for major tax reform?

Beware of Greeks bearing gifts



How do governments pay their debts?



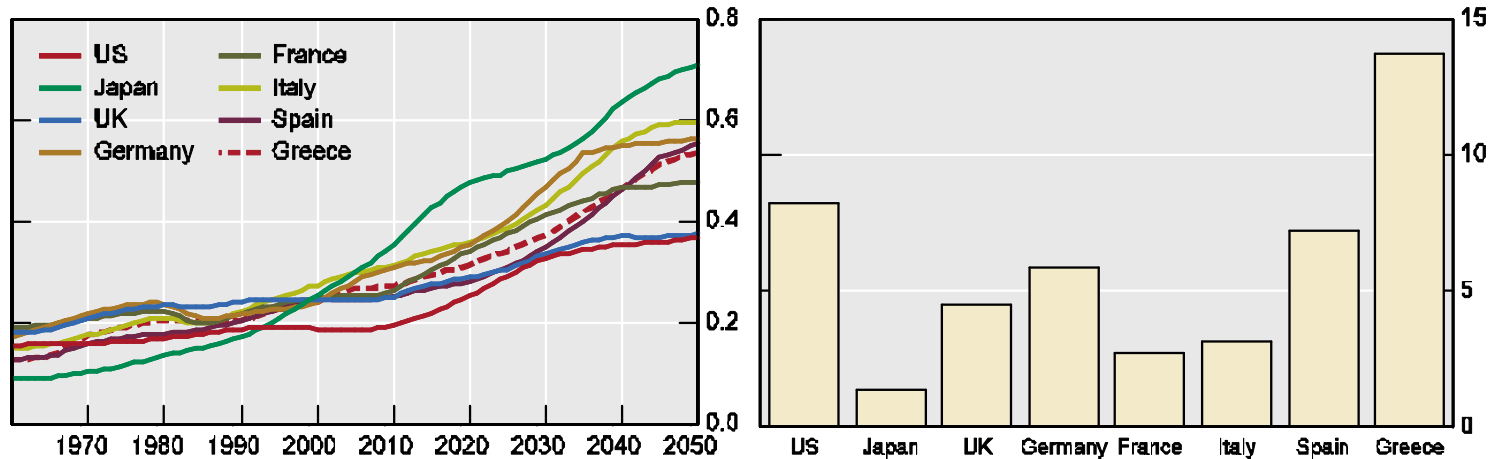
And the Longer Term Challenge is Even Greater!

Graph 2

Projected population structure and age-related spending

Old-age population (ratio to working-age population)¹

Estimated increase in age-related government expenditure from 2011 to 2050²



¹ Working-age population is between 15-64. ² As a percentage point of GDP.

Sources: IMF April 2007 WEO; United Nations Secretariat European Commission; Congressional Budget Office.

The Real Hangover

- Trust in politics
 - Leaders or followers?
- Limits on fiscal capacity
- Competition from emerging market economies

Getting the economy moving

- The real issues
 - Low private sector investment
 - Higher household savings
- Good news?
 - Some stimulus from a weak pound
- Bad news?
 - The financial sector is still impaired

Financial Sector

- Big challenges
 - Regulation
 - Taxation
 - Inequality

The political economy of finance



Global Challenges

- A new world order?
 - Developments at IFIs
 - The G20 as the new global force?
- Agenda
 - Regulation of finance
 - Tax coordination
 - Climate change