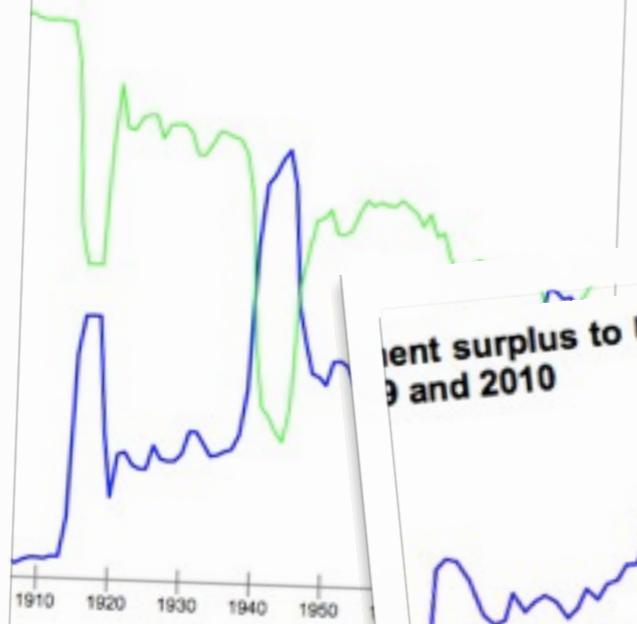
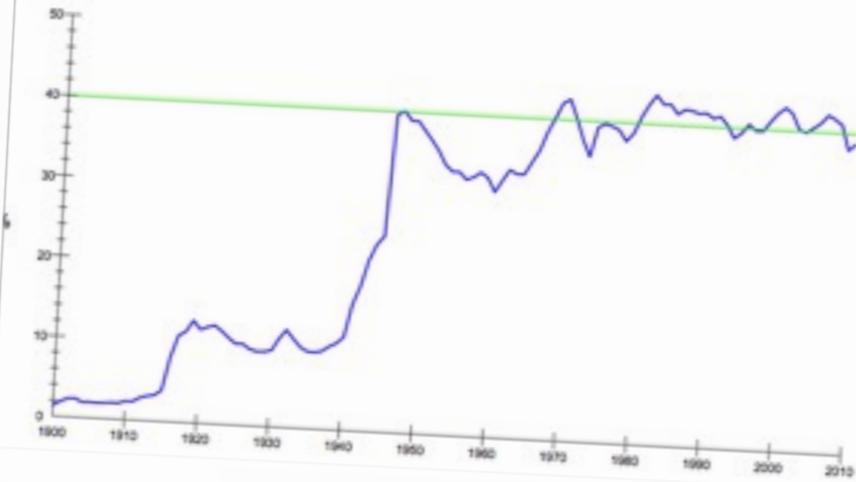


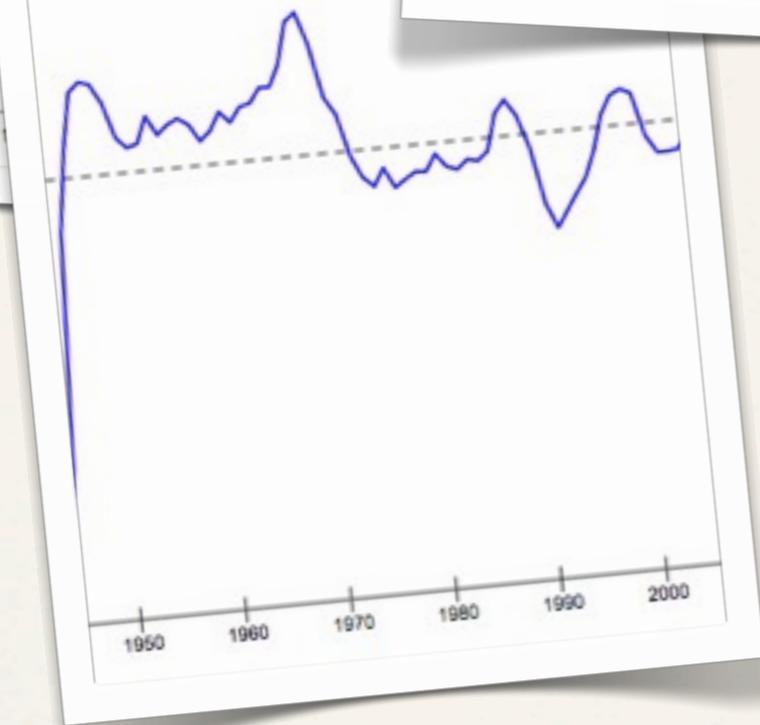
ratios of UK general government expenditure to UK GDP at factor cost 1900- 2008 with implied Budget forecasts for 2009 and 2010



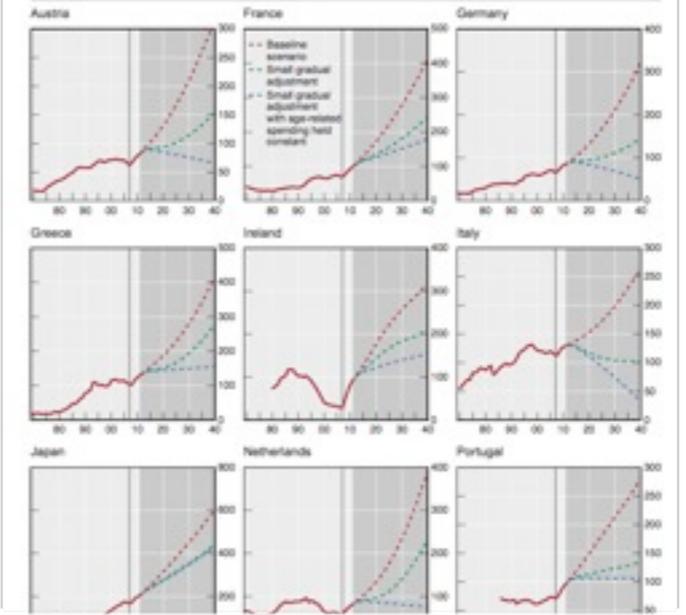
Part 3: Ratio of UK non-oil tax receipts to UK non-oil GDP at factor cost 1900- 2008 with implied Budget forecasts for 2009 and 2010



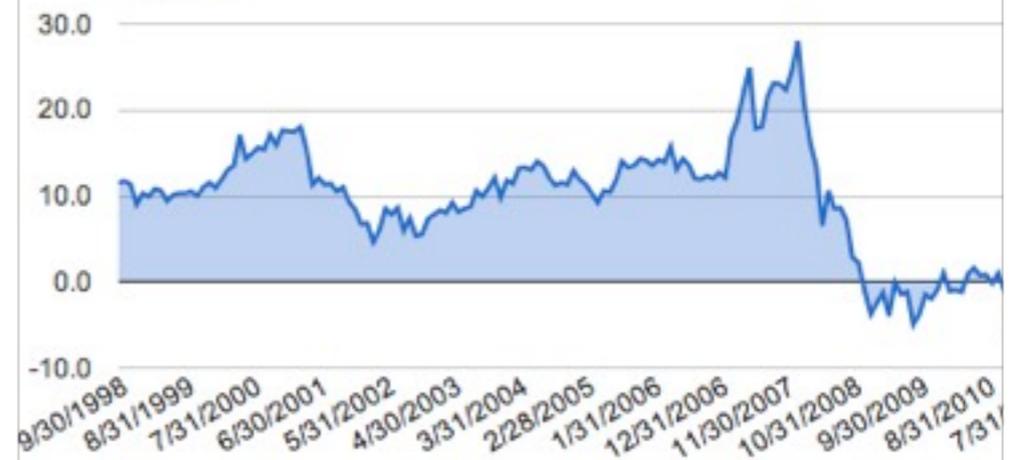
UK government surplus to UK GDP from 1900 to 2008 with implied Budget forecasts for 2009 and 2010



Public debt/GDP projections



MA growth



How to create a financial crisis

The failure of a century of statism

Some headlines

Thursday 16 February 2012

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February 15, 2012 10:54 pm

King puts damper on economic forecast

By Norma Cohen, Claire Jones and Sarah O'Connor

The Bank of England's forecast for inflation and growth suggests a more benign path for the economy than that of a few months earlier, with inflation no longer expected to be far below its target in two years' time.

February 15, 2012 10:26 pm

Recession's toll on growth puzzles Bank

By Norma Cohen, Sarah O'Connor and Claire Jones

One of the great puzzles about the economy has been whether the nation's underlying productive capacity has been permanently dented by the severity of the recession.

Thursday 16 February 2012

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Moody's puts 114 Europ

Moody's warned last night that it may downgrade European financial institutions in an effort to spread throughout the global fin

PATRICK COCKBURN

Jo

Britain out of the woods? Unw

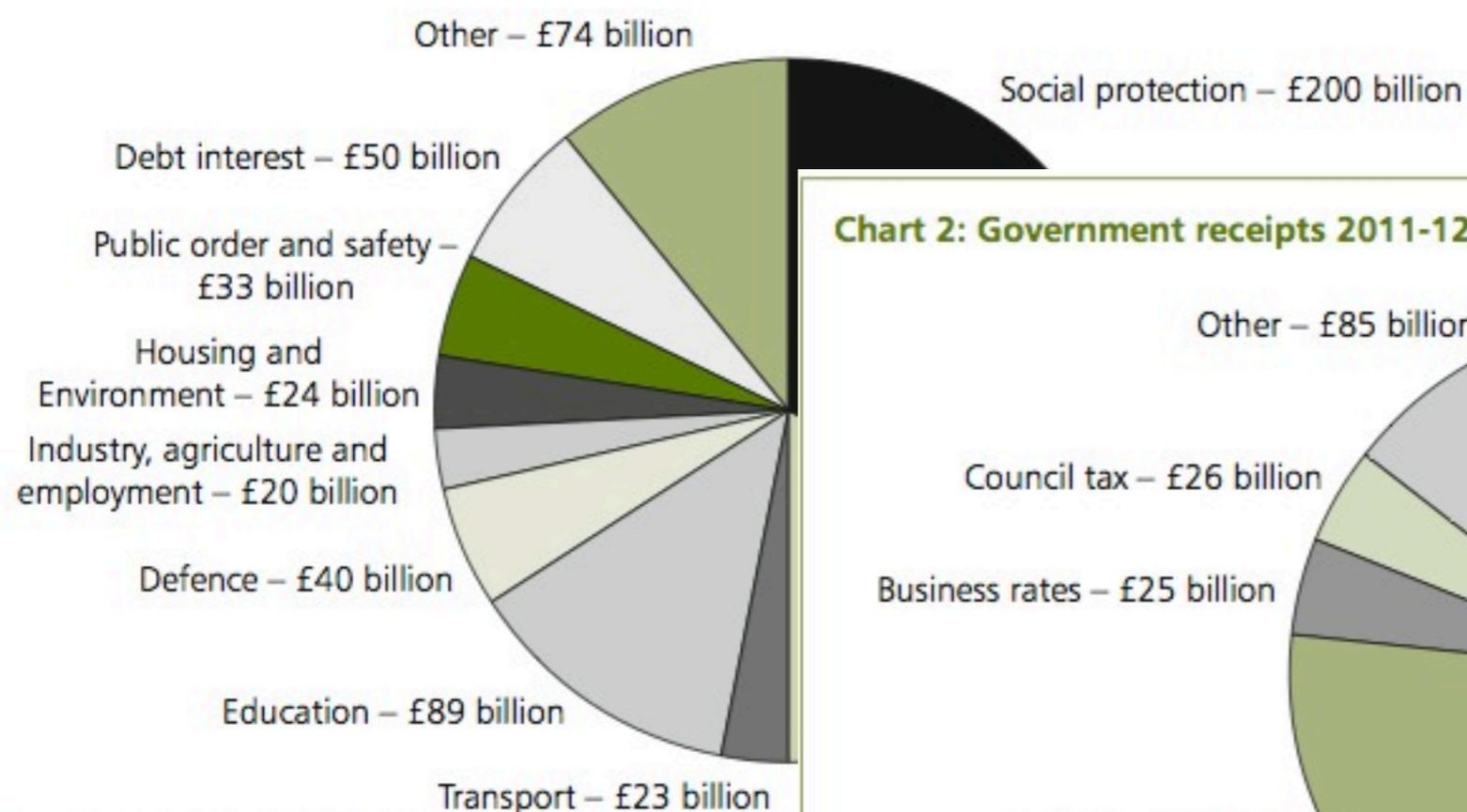
There was no doubt about it. The mood has very definitely improved, with a growing sense of moving in the right direction and even the worst being behind us.

Stepping back

- ❖ What is the situation?
- ❖ What is the Government doing?
- ❖ How did we get here?

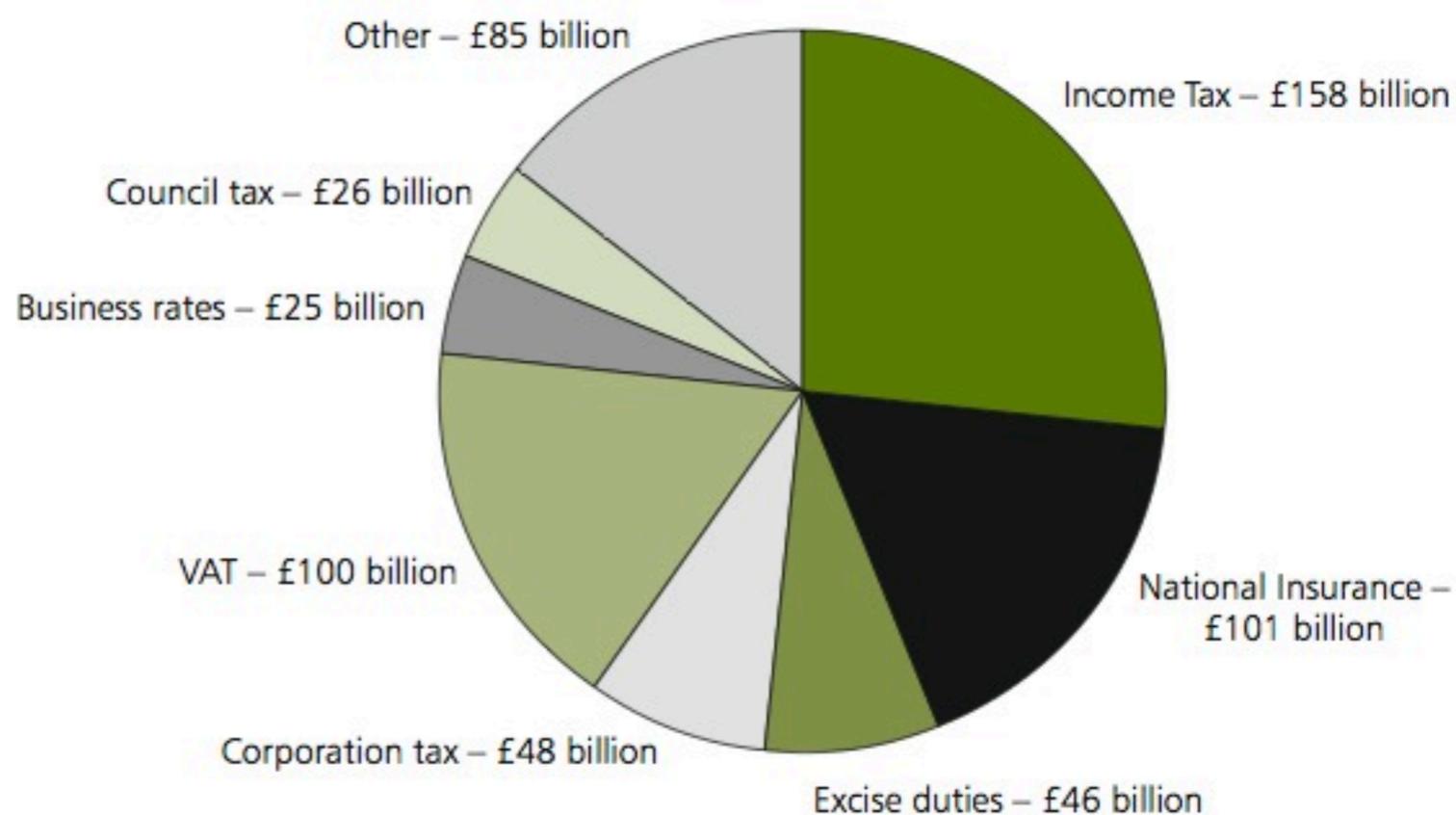
Situation: spending and receipts

Chart 1: Government spending 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Allocations to fund
For more detail see the Budget data sources document.

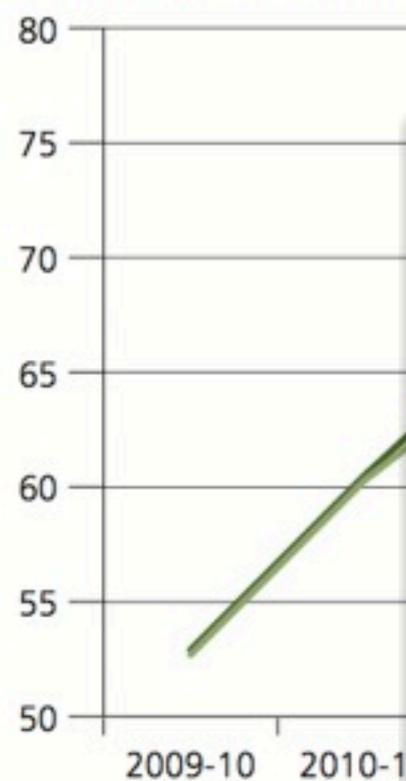
Chart 2: Government receipts 2011-12



Source: Office for Budget Responsibility, 2011-12 estimates. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum due to rounding.

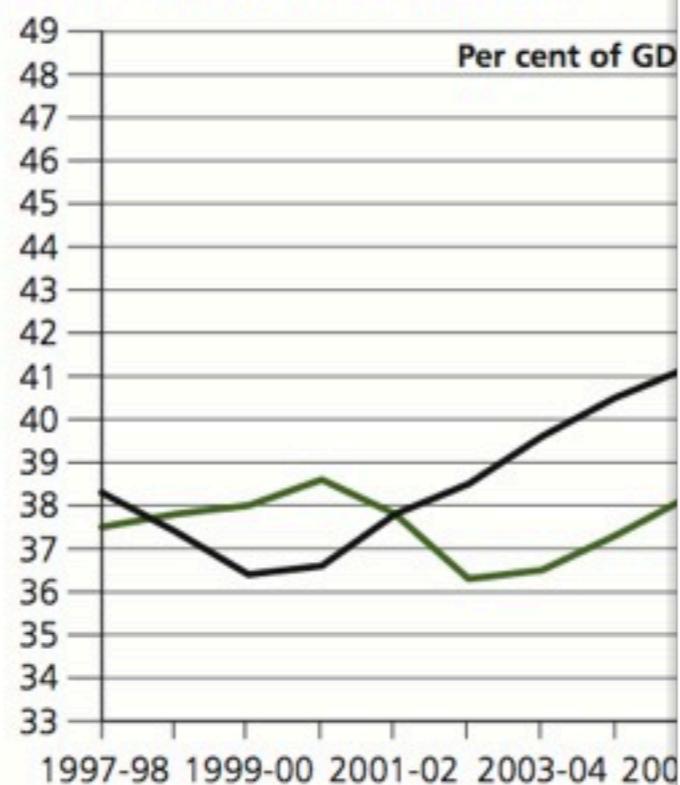
Debt, deficit and Govt action

Chart 1.9: Public sector net debt



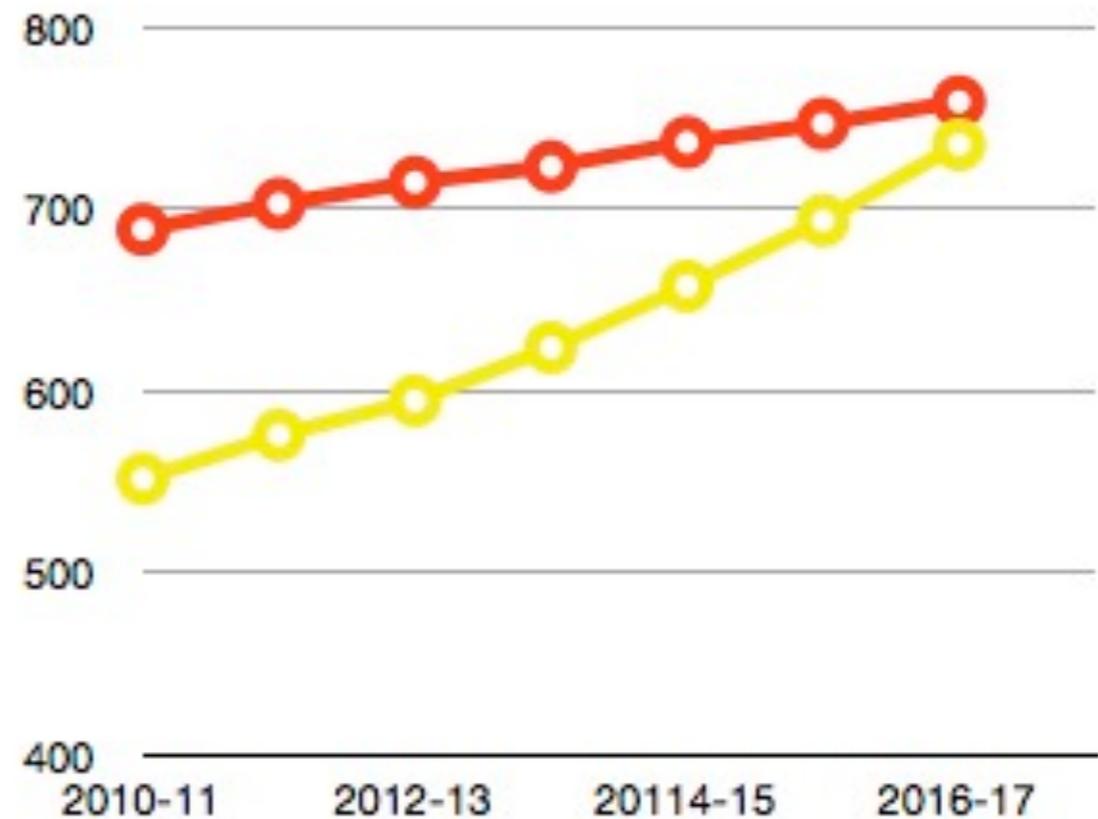
Source: Office for Budget Responsibility

Chart 1.7: Receipts and expenditure



— Total managed expenditure
— Public sector current receipts

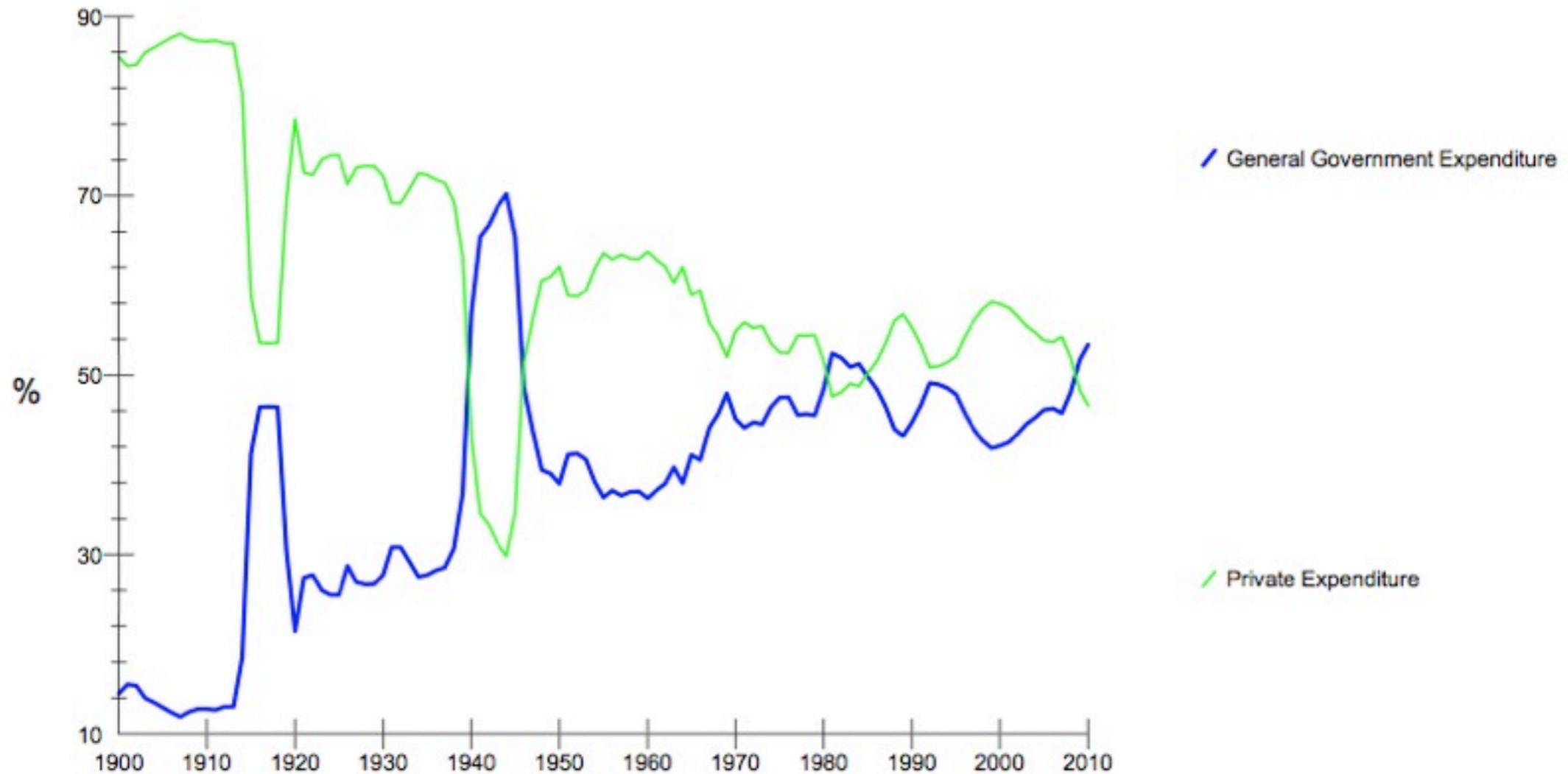
Source: Office for Budget Responsibility and Office for National Statistics.



◇ Current receipts ◇ Total managed expenditure

How did we get here?

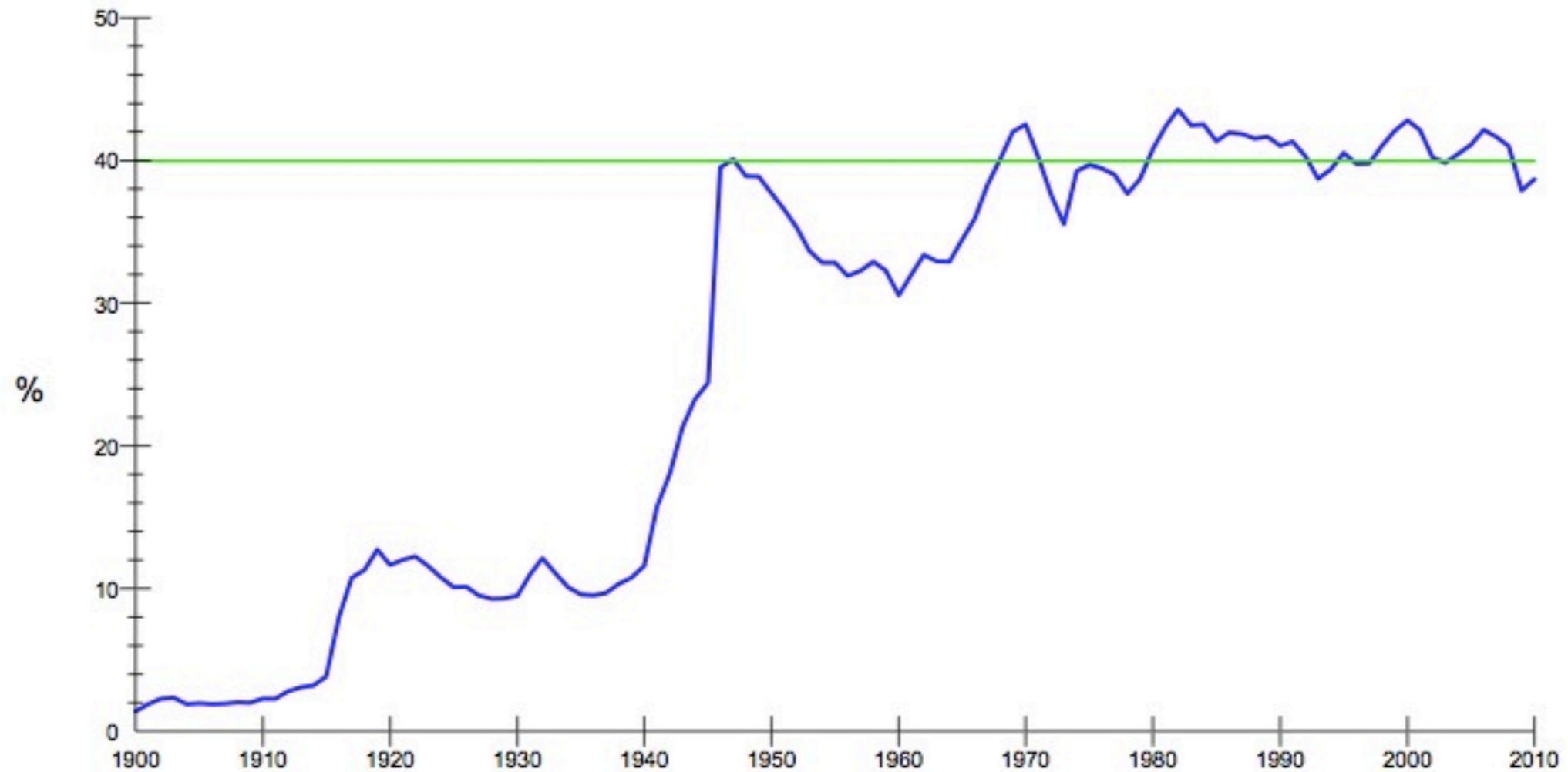
Chart 1: Ratios of UK general government expenditure and private expenditure to UK GDP at Factor Cost 1900- 2008 with implied Budget forecasts for 2009 and 2010



UK govt and private expenditure

As a proportion of GDP at factor cost

Chart 3: Ratio of UK non-oil tax receipts to UK non-oil GDP at factor cost 1900- 2008 with implied Budget forecasts for 2009 and 2010



The tax burden

The pips are squeaking

Chart 5: Ratio of UK general government surplus to UK GDP at factor cost 1900-2008 with implied Budget forecasts for 2009 and 2010



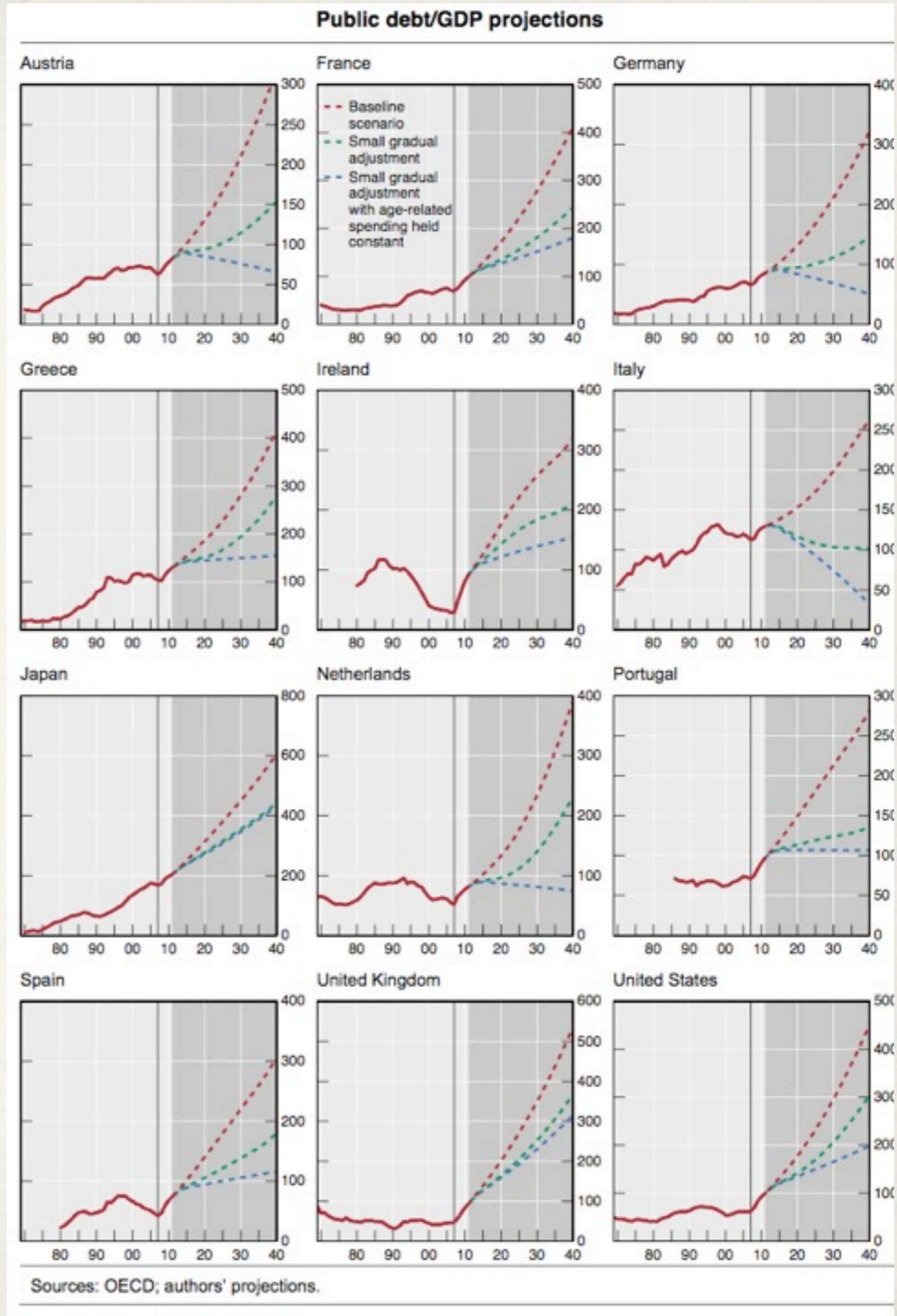
The borrowing requirement

Only total war has caused larger deficits than we have today.

BIS debt projections

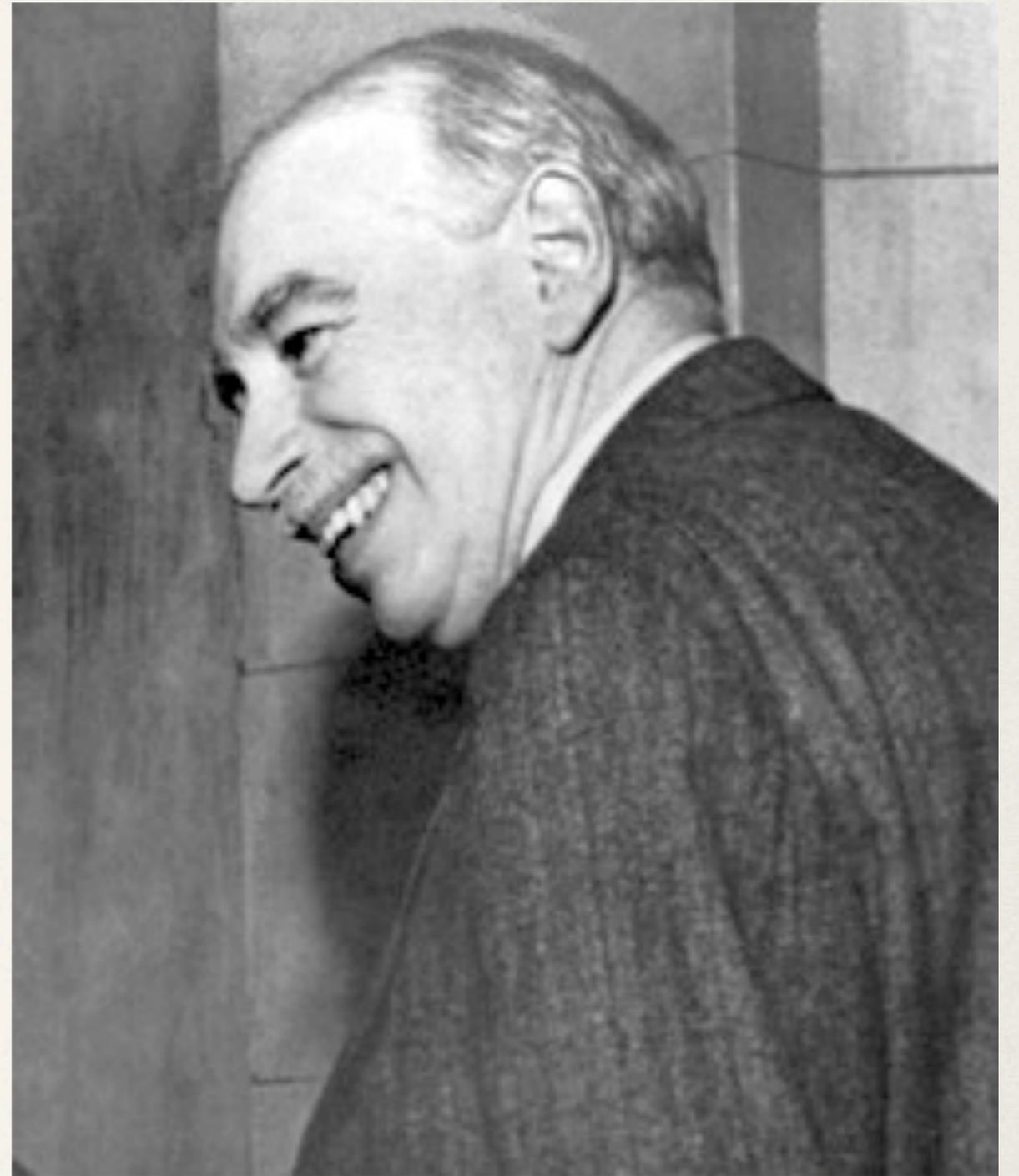
See also IEA, TPA, Cobden Centre

Source: *The future of public debt: prospects and implications*, BIS, Cecchetti et al, Working Paper 300, March 2010



Keynes on inflation

The Economic Consequences of the Peace,
Chapter VI, pg.235-236



Keynes on inflation

“... By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. ...

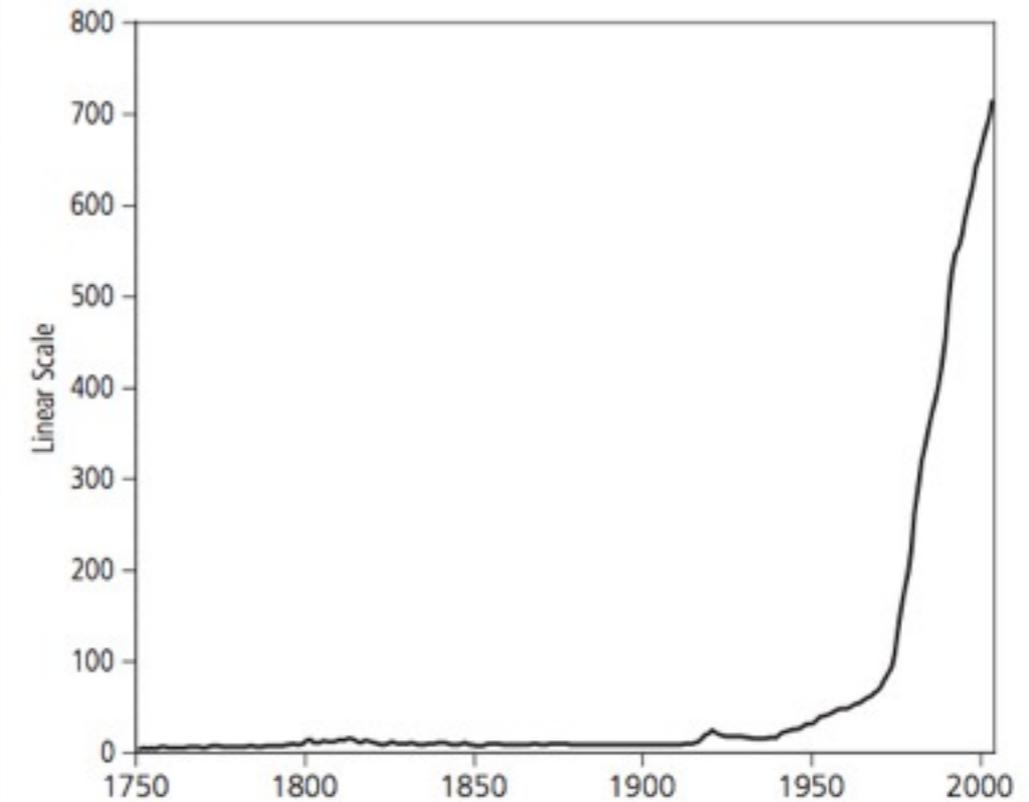
...There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.”

Inflation

1800-1900 vs 1945-2010

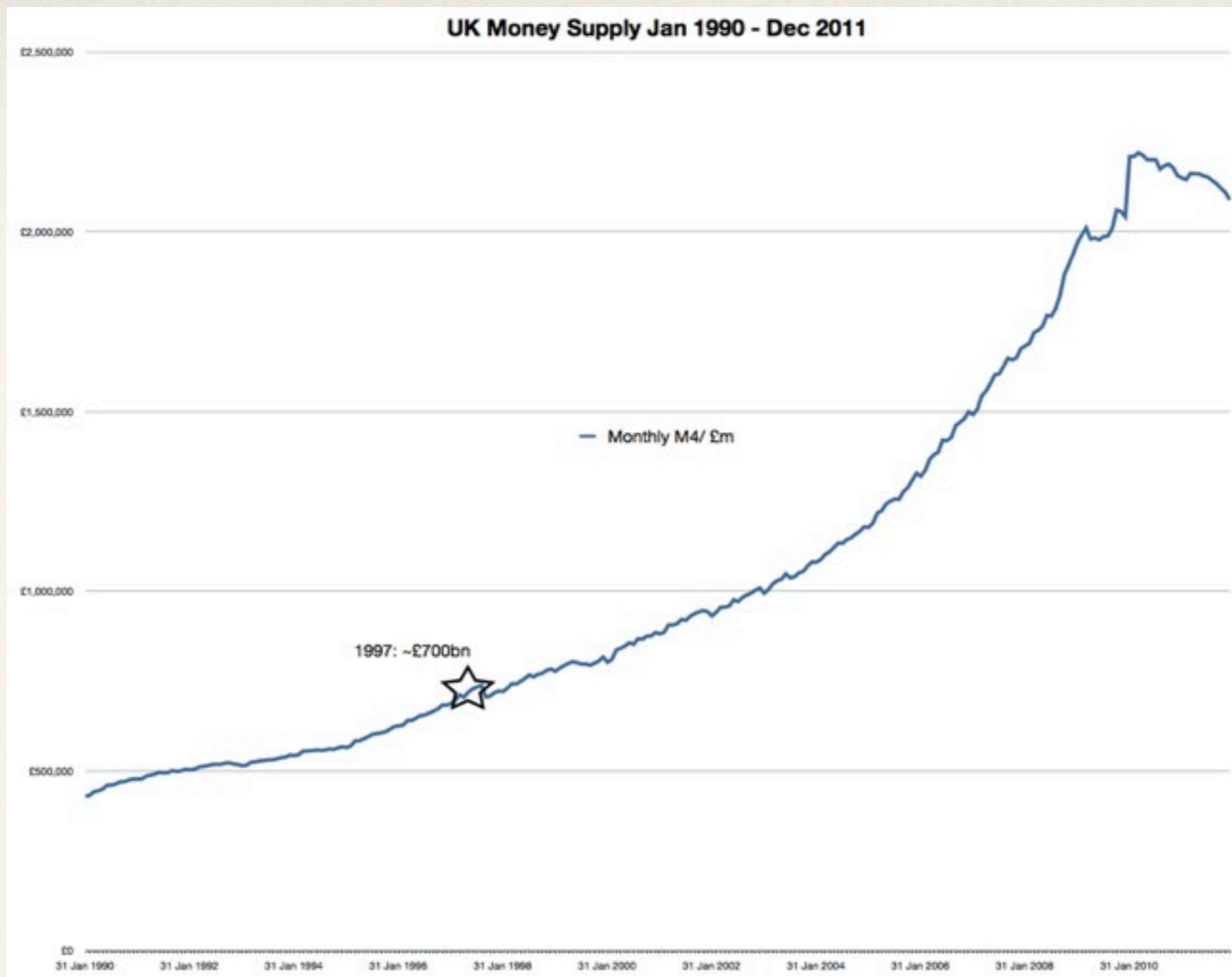
Source: Consumer Price Inflation since 1750, O'Donoghue et al, Office for National Statistics, 10 March 2004

Composite Price Index 1750 to 2003,
January 1974 = 100 (linear scale)



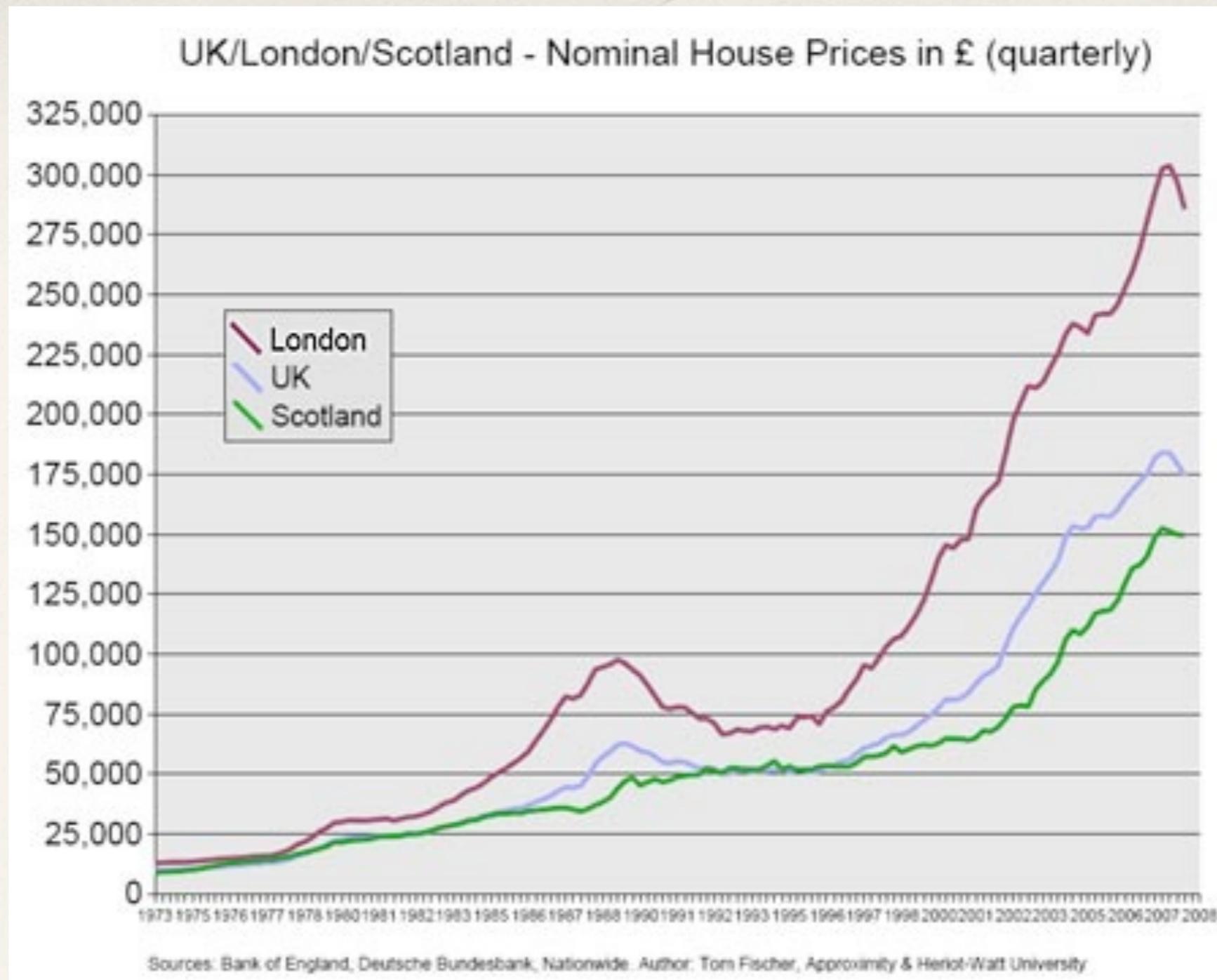
Composite Price Index 1750 to 2003,
January 1974 = 100 (logarithmic scale)





Money supply growth – M4

Where jobs and growth came from and where they went



UK house prices

Money was loaned into existence – into housing

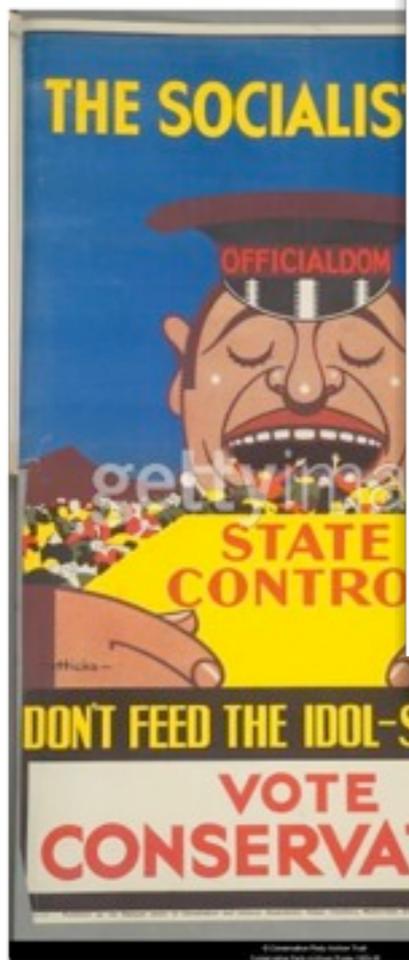
Conclusions

- ❖ The Govt is increasing cash spending, debt and tax
- ❖ Growth is required merely to balance the budget
- ❖ Government spending was transformed in the 20th century
- ❖ Spending has mostly exceeded receipts since 1971
- ❖ Debt and inflation - currency debasement - has covered the gap
- ❖ We are now in a third round of “Quantitative Easing”
- ❖ Conservatism is the answer...

What do we seek to Conserve?



19



1929



19

1950



1965



2010