

# STICKY, BUT NOT SISYPHEAN



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**Britain may be wrestling with a serious budget deficit, says Kevin Featherstone, but comparisons with the situation in Greece are overblown**

The election campaign introduced a novel factor into British politics: the fear that we might 'go Greek'. Our new coalition government, formed amidst a sense of deep economic crisis, has set its mind on steering a course to avoid the economic abyss that Greece has faced.

As early as last January, David Cameron told the leading financiers gathering in Davos, Switzerland, that Britain needed deep budget cuts if it is to avoid a 'full-blown' fiscal crisis like that of Greece. For his part, Nick Clegg warned in the election campaign that a Cameron

government, intent on carrying out its budget cuts, risked provoking Greek-style riots in the UK. Only Labour eschewed a Greek flirtation. David Miliband called the Tory leader "economically illiterate" on Radio 4's *Today Programme*, for drawing such a comparison. David Cameron's Greek odyssey has not been all negative, however. Last August, he accepted a free flight to Santorini to meet Rupert Murdoch. This may well have been his most important Greek reference in terms of his election campaign.

So where is the UK in comparison to Greece? Successive governments in Athens have sustained a level of public debt around 100 per cent of GDP since 1993. This year its debt level will hit 125 per cent of GDP. In the UK, as recently as 2007, our debt was equivalent to just 43.8 per cent of GDP. This year, however, it is forecast to be 80 per cent, and perhaps 88 per cent by 2011/12. But, until now, the contrast has been that between a man who is badly overdrawn on his credit card – and needs to rein in – and one who has a long-term unsustainable mortgage on his house. Even now, the picture remains different.

The deficit out-turn for the UK in 2009-10 was announced in the last budget as being some £14bn lower than projected five months earlier in the autumn statement. And we should note that the forecasts of rising UK debt are partially offset by the rise in the value of the RBS and Lloyd's Bank shareholdings held by HMG.

**"Greece offers a warning, but we are far off from it being a parallel"**

Greece is destined to remain in a deep recession this year and next: experiencing negative growth of five per cent in 2010 and 3.5 per cent in 2011. By contrast, the UK is projected (by the EU Commission) to have the highest growth of the major European economies in 2011 (amongst the EU-15, only Luxembourg and Sweden will do better).

A further contrast between our two economies is that between a floating exchange rate and a single cur-

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rency regime. Outside the euro, the UK has more policy options available to adjust to its market pressures.

Beyond the economics, our political systems have widely divergent capacities for delivering economic reform. The measures being forced on Greece now by the EU and the IMF include many of those items long considered in Athens but only partially implemented by governments to date. There has been a log-jam, thwarting reform initiatives, and the constraints have come from all sides. Public sector unions have defended acquired privileges and rights; businesses have accepted anti-competitive practices; and politicians in power have had an eye on their electoral interests against rocking the boat. On international measures – like the World Bank's 'Ease of Doing Business' or Transparency International's 'Perceptions of Corruption Index' – Greece and the UK are poles apart.

So, Greece offers a warning, but we are far off from it being a parallel. There is also a warning about the management of cuts and the building of social consensus. As the Institute of Fiscal Studies has reported, the UK needs to take major corrective action – a judicious mix of tax rises and spending cuts – but we are nowhere near Greece's junk bond status. 卐



Top: social unrest. Below: (left) Greek PM George Papandreou, (right) Greek finance minister Giorgios Papakonstantinou



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