We should use British austerity as a model

Editorial for Challenges

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David Cameron came to power in mid-2010. In a speech harking back to Churchill, he told the British people in no uncertain terms that, after the catastrophic management of Gordon Brown and a particularly severe banking crisis, the recovery of the country would involve "blood, toil, tears and sweat". Without delay, the conservative-liberal coalition government undertook a thorough overhaul of the British welfare state: reducing transfer spending, tightening the eligibility criteria for benefits and restructuring the civil service with many job cuts. At the same time, taxation shifted its focus to consumption in order to support business. In short, the UK has given absolute priority to the productive sphere, reducing the scope of the public sphere. France has done the exact opposite by making the productive sector suffer an exceptional fiscal and regulatory shock and by refusing to reform the taboo, protected and molly-coddled public sector!

The contrast between the two countries' choices is striking.

The frontiers of the state were reduced in the UK in the period 2010-2013. Public spending was cut from 49.9% to 47.2% of GDP, compared to an increase in France from 56.6% to 57.1%. That’s a difference of ten points! Across the Channel, civil servant numbers have fallen by 6.5% over three years. The tax burden has been contained, increasing from 36.6% to 36.9% of GDP, compared to a very sharp rise in France: up 3.4% (from 44.3% to 47.7%). In the UK, VAT was increased by 2.5 points, whilst corporation tax fell from 28% to 23% (with 21% scheduled for 2014). In France, companies now have to pay 37% corporation tax, i.e. 16 points more than their UK competitors, not to mention the social contribution on this tax or the 3% tax on dividends! In terms of personal taxation, the UK abolished the 50% tax on the highest earners whilst France went in the opposite direction, introducing a 75% tax: rolling out the red carpet on one side, waving the red rag on the other.

Social transfers have fallen in the UK, dropping from 29.2% to 28.3% of GDP, whereas they have increased in France, from 35.6% to 36.6%. Social benefits have been de-indexed, incentives to go back to work have been increased and the total amount of social benefits has been capped at a percentage of the average household income. The retirement age is set to be raised to 66 in 2020. Conversely, in France the legal age of retirement in the same year will still be 62; contributions have been increased and public pension schemes continue to benefit from specific rules.

Case by case, the decisions made in the two countries are consistently opposed to each other. The results of their two different policies are just as varied.

Since mid-2012, growth has been stronger in the UK, and above all is gaining momentum there, while we are in in a state of quasi-stagnation. Next year, London expects growth of 2.6%, while France will struggle to achieve 1%. Market-sector employment has seen a sharp rise across the Channel since 2011, whereas it has fallen in France over the same period. This explains why British unemployment has not worsened, despite massive cuts in the public sector. In fact, the British economy has managed to substitute private-sector jobs for public-sector jobs, with three private-sector positions
created for each public-sector job cut this year. The unemployment rate has fallen since the end of 2011, to 7.5%. In France it has been constantly on the rise, and is currently approaching 11%.

Moreover, between 2010 and 2014, the public deficit, which is certainly at too high a level, is forecast to fall by around 5 GDP points in the UK, compared to 3.3 points in France, despite the fiscal shock.

These results are not the simple effect of the UK’s monetary sovereignty and the active policy of the Bank of England. The parity between sterling and the euro is currently about the same as when David Cameron came to power, and there has been no competitive devaluation. The UK is reaping the rewards of austerity. The reforms have reinvigorated the private sector, which has taken over from the resolutely shrinking public sector. The atmosphere on the other side of the Channel is more upbeat than in France, and the popularity enjoyed by the government is the envy of its French counterparts. The “red caps” are revolting in Brittany, not in Britain. In France we are increasing measures to prevent people from leaving the country, whilst in the UK they are welcoming our talents with open arms...

“Short-term pain for long-term gain”: austerity is not an end in itself, but it is a rite of passage if we want to return to growth and employment thanks to the development of the productive economy. Q.E.D.