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How to Escape the Slump Overseas Success Stories: What lessons for the UK?

As the Coalition focuses its economic programme on growth, including plans to stimulate the housing market, should the government embark on another round of fiscal stimulus or is the solution of a different order? Politeia's new study, *Going for Growth: The best course for sustained economic recovery*, by three senior economists at Germany's Finance Ministry considers the evidence from six countries. Each has in recent decades emerged from similar problems of high public expenditure and stifled growth.

Dr Norbert Hoekstra, **Dr Ludger Schuknecht** and **Dr Holger Zemanek** explain that developed economies such as Sweden or New Zealand and emerging ones such as Chile and Brazil, shared characteristics in common with today's crisis countries: public finances in disarray, high public expenditure and poor public institutions which stifled dynamism. All undertook major economic policy reforms which brought about sustained periods of growth.

Their message is clear. There was no magic solution to growth. Rather the key was sustained cuts in levels of public expenditure, combined with institutional reform. In Sweden and New Zealand, public spending and tax cuts went hand in hand with the deregulation of markets and privatisation of public enterprises. Meanwhile property rights and public institutions were also strengthened. The same course was followed in Ireland, before it, like the UK, reverted to huge increases in public spending in the last decade.

Across the sample of six economies success rested, say the authors, on a three–pronged strategy:

- Reduction of public expenditure and restoration of order to public finances.
- Structural reforms particularly to labour, product and financial markets.
- Strengthening of institutions to increase incentives to work, invest and innovate.

'Such reforms', say the authors, 'build confidence and stability via the rule of law rather than undermine these via ad hoc policy... They require patience and consistency in the policy approach.' Indeed, such a course is the surest way to restore sustained growth in the wake of the crisis and recession, not only for countries in full crisis. The message has particular resonance for countries such as the UK, with stable but poorly performing economies.

Indeed, the UK should heed the warning against economic fine-tuning or short-termism. As the authors explain: 'For growth we need functioning markets governed by rules and efficient states… [and the] incentives to work, invest, and innovate'.

'Economic fine tuning with its disregard for incentives, institutions and legal commitments risks being detrimental to prospects of long term growth. In fact, it can be argued that many of our current calamities of over-indebted industrial economies, desperately propped up with cheap money have been caused by the sirens of economic engineering and short termism... If [the proposed] strategy is pursued with much patience and endurance, we can safely expect that confidence and growth will return.'

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