A new EU arrangement for the United Kingdom: European lessons from the February 19th agreement

By [Catherine Mathieu] and [Henri Sterdyniak]

Following the demand made by David Cameron on 10 November 2015 for a new arrangement for the United Kingdom in the European Union, the European Council came to an agreement at its meeting of 18 and 19 February. On the basis of this text, the British people will be called to the polls on 23 June to decide whether to stay in the EU. This episode raises a number of questions about the functioning of the EU.

– The United Kingdom has challenged European policy on matters that it deems crucial for itself and largely got what it wanted. Its firmness paid off. This has given rise to regrets on this side of the Channel. Why didn't France (and Italy) adopt a similar attitude in 2012, for instance, when Europe imposed the signing of the fiscal treaty and the implementation of austerity policies? This is a cause for concern: will what has been accepted for a big country be tolerated for a smaller one? The UK's threat to leave is credible because the EU has become very unpopular among the population (especially in England), and because the UK is independent financially (it borrows easily on the capital markets) and economically (it is a net contributor to the EU budget). A country that is more dependent on Europe would have little choice. This raises worries: won't we see other countries follow suit in the future? Will Europe be able to avoid becoming a Europe á la carte (each country taking part in the activities that interest it)? But is a model based on forced participation preferable? Europe must allow a country to abstain from policies that it deems harmful.

– The United Kingdom will therefore organize a referendum, which is satisfactory from a democratic perspective. The most recent referendums have hardly yielded favourable results for European construction (France and the Netherlands in 2005, Greece in July 2015, Denmark in December 2015). The British will be limited to choosing between leaving the EU (the February agreement clearly rejects the possibility of new renegotiations if the referendum results in a majority in favour of an EU exit) or staying with a reduced status; the possibility of the UK remaining in the EU and seeking to strengthen its social dimensions, as advocated by some of the Labour Party and the Scottish Nationalists, will not be offered. Too bad.

– The United Kingdom is explicitly exempted from the need to deepen the EMU or from an “ever closer union” or “deeper integration”, all formulas contained in the treaties. The proposed arrangement clarifies that these notions are not a legal basis to extend the competences of the EU. States that are not members of the euro zone retain the right to take part or not in further integration. This clarification is, in our opinion, welcome. It would not be legitimate for the Union’s powers to be extended continuously without the consent of the people. In the recent period, the five presidents and the EU Commission have proposed new steps towards European federalism: creating a European Fiscal Committee; establishing independent Competitiveness Councils; conditioning the granting of Structural Funds on fiscal discipline; implementing structural reforms; creating a European Treasury department; moving towards a financial union; and partially unifying the unemployment insurance systems. These moves would strengthen the technocratic bodies to the detriment of democratically elected governments. Wouldn’t it be necessary to explicitly request and obtain the agreement of the peoples before embarking on such a path?

– The exit of the United Kingdom, a certain distancing by some Central and Eastern Europe countries (Poland, Hungary), plus the reluctance of Denmark and Sweden could push towards an explicit move to a two-tier Union, or even, to take David Cameron's formulation, to an EU in which countries are heading to different destinations. The countries of the euro zone would for their part accept new transfers of sovereignty and would build a stronger fiscal and political union. In our opinion this proposal should be submitted to the people.

– At the same time, the draft agreement provides that the Eurogroup has no legislative power, which remains in the hands of the Council as a whole. The UK has had it clarified that a non-member state of the euro zone could ask the European Council to take up a decision on the euro zone or the banking union that it believes harms its interests. The principle of the euro zone's autonomy has thus not been proclaimed.

– The United Kingdom has had it clarified that it is not required to contribute financially to bail out the euro zone or the financial institutions of the banking union. This may be considered discomforting vis-à-vis the European principle of solidarity, but it is understandable. This is because the establishment of the euro zone has abolished the principle: "Every sovereign country is fully backed by a central bank, a lender of last resort", which is posed by the bailout problem. The UK (and its banks) are backed by the Bank of England.

– The United Kingdom has had the principles of subsidiarity reviewed. A new provision states that parliaments representing 55% of the Member States may challenge a law that does not respect this principle. The UK has had it noted that the issues of justice, security, and liberty remain under national competence. It is a pity that countries devoted to their specific social systems and their wage bargaining systems have not done the same.

– It is understandable that countries concerned about national sovereignty are annoyed (if not more) by the EU’s relentless intrusions into areas under national jurisdiction, where Europe’s intervention does not bring added value. It is understandable that these countries are refusing to have to incessantly justify to Brussels their economic policies or their economic, social or legal regulations when these have no impact on other Member States. Europe must undoubtedly take these feelings of exasperation into account.

– As regards the banking union, the draft text is deliberately confusing. It is recalled that the “single rule book” managed by the European Banking Agency (EBA) applies to all banks in the EU, and that financial stability and equal competitive conditions must be guaranteed. But at the same time, it says that Member States that do not participate in the banking union retain responsibility for their banking systems and can apply special provisions. Moreover, countries that are not members of the euro zone have a right of veto on the EBA. This raises the question of the very content of the banking union. Will it make it possible to take the measures needed to reduce the scale of speculative financial activity in Europe and steer the banks towards financing the real economy? Or is the objective to liberalize the markets for the development of financial activity in Europe so as to compete with London and non-European financial centres? In the first case, what was needed was to clearly take in hand the market in London, telling it that membership in the EU requires close monitoring of financial activities. And that its departure would allow the EU to take capital control measures to limit speculative activities and encourage banks in the euro zone to repatriate their activities.

– Likewise, Belgium, Luxembourg, the Netherlands and Ireland would have needed to be told that EU membership means the end of tax avoidance schemes for the multinationals.

– The United Kingdom has had a declaration passed affirming the need both to improve regulations and repeal unnecessary provisions to improve competitiveness while at the same time maintaining high standards of protection for consumers, labour, health and the environment. This compatibility undoubtedly amounts to wishful thinking.

– The text recognizes that the disparity in wage levels and social protection in European countries is hardly compatible with the principle of the free movement of persons in Europe. This has long been an unspoken part of European construction. The United Kingdom, which was one of the only countries not to take interim measures to restrict the entry of foreign workers at the time of the accession of central and eastern European countries in 2004, is now demanding that such measures be provided for in any future accessions. The draft agreement states that a European person's stay in a country other than his or her own is not the responsibility of the host country, meaning that the person either must have sufficient resources or must work.

– The question of the right to family benefits when children are not living in the same country as their parents is a tangled web. In most countries, family benefits are universal (not dependent on parental contributions). Both principles cannot be met at the same time: that all children living in a country are entitled to the same benefit; and that everyone working in a given country is entitled to the same benefits. The United Kingdom has won the right to be able to reduce these allowances based on the standard of living and family benefits in the child's country of residence. But fortunately this right cannot be extended to pension benefits.

– Most European countries currently have mechanisms to promote the employment of unskilled workers. Thanks to exemptions on social contribution, to tax credits and to specific benefits (like in-work credits or housing benefits in France), the income that they receive is largely disconnected from their wage costs. The British example shows that these programmes can become problematic in case of the free movement of workers. How does a country encourage its own citizens to work without attracting too many foreign workers? Here is another of the unspoken issues of open borders. It is paradoxical that it is the United Kingdom that is raising the question, while it is near full employment and is claiming that the flexibility of its labour market allows it to easily take in foreign workers. In any case, the UK was granted that a country facing an exceptional influx of workers from other EU Member States can obtain the right from the Council, for seven years, to grant non-contributory aid to new workers from other member countries in a graduated process over a period of up to four years from the start of their employment. The UK has also had it clarified that it can use this right immediately. This is a challenge to European citizenship, but this concept had already been chipped away for the inactive and unemployed.

The European Union, as currently constructed, poses many problems. The Member States have divergent interests and views. Because of differences in their national situations (the single monetary policy, freedom of movement of capital and people), many arrangements are problematic. Rules without an economic foundation have been introduced into fiscal policy. In many countries, the ruling classes, the political leaders, and the top officials have chosen to minimize these problems so as not to upset European construction. Crucial issues concerning the harmonization of taxes, social conditions, wages and regulations have been deliberately forgotten.

The UK has always chosen to keep its distance from European integration, safeguarding its sovereignty. Today it is putting its finger on sensitive points. To rejoice at its departure would be irrelevant. To use this to move mindlessly towards an “ever closer union” would be dangerous. Europe should seize this crisis to acknowledge that it has to live with a contradiction: national sovereignty must be respected as much as possible; Europe has no meaning in and of itself, but only if it implements a project that supports a specific model of society, adapting it to integrate the ecological transition, to eradicate poverty and mass unemployment, and to solve European imbalances in a concerted and united manner. If the agreement negotiated by the British could contribute to this, it would be a good thing – but will Europe's countries have the courage to do so?

The British elections: border questions (2/2)

By Catherine Mathieu

David Cameron has put the economy at the forefront of his electoral campaign, making the British economy's good performance a trump card in the Conservative programme (see "The UK on the eve of elections …"). But, according to the polls, when May 7 comes to a close no party will be able to govern alone. While in 2010, the uncertainty was whether the Liberal Democrats would choose to ally with the Conservatives or the Labour Party, this time there is even greater uncertainty, as several parties are likely to be in a position to swing the outcome. The Liberal Democrats have lost popularity following five years of participation in government and are likely to receive less than 10% of the votes, behind the nationalist United Kingdom Independence Party (UKIP, with about 12% of voting intentions), which calls for the United Kingdom to leave the EU and won the last European elections. Faced with rising euro-scepticism, particularly in the ranks of his own Conservatives (the "Tories"), David Cameron has promised to hold a referendum on the UK's membership in the EU by the end of 2017 if he becomes Prime Minister again. As for

Labour, if it is able to form a coalition government, it could ally with the Scottish National Party (SNP). But Labour has excluded this possibility in the face of attacks by David Cameron, who has raised the spectre of the fragmentation of the UK among the British electorate, which has barely recovered from its fright at the possibility of seeing Scotland become independent in the September 2014 referendum. Labour would nevertheless benefit from the support of the SNP and could form a coalition with the Liberal Democrats. The Lib-Dems have drawn several red lines with respect to entering a coalition government: less fiscal austerity if they ally themselves with the Conservatives or more fiscal restraint if they join with Labour, except in education where the Liberal Democrats want more resources than the two major parties.

Economic and social programmes of the main parties: similarities, with some slight differences …

The Conservatives are welcoming the rebound in growth and employment, and have halved the public deficit relative to GDP in 2018/2019. They feel they have "put the house in order" and now want to "repair the roof while the sun is shining". They say they want this to benefit everyone. They therefore want to increase spending on the health system (NHS), maintain spending on education and increase the number of places in university. They are committed to continue to raise pensions by at least 2.5% per year. They will make significant public investments in transport. They will not increase VAT, income tax, or social contributions. On the other hand, they will further reduce the cap on income assistance so as "to make work pay".

The Conservatives want to promote apprenticeships, encourage business, regulate the right to strike, cut paperwork, and get disabled people into the workplace. They wish to control and reduce immigration from the EU (bringing it down to "tens of thousands" per year instead of "hundreds of thousands" now). The right to social benefits will be cut back (it will be necessary to have resided in the country for at least four years to qualify for tax credit and child benefit, and social housing will be reserved for British citizens). They want to provide cheap energy to households by developing energy savings and renewable energies, especially nuclear.

The Tories have set themselves the goal of bringing the public deficit into a small surplus (0.2 percent of GDP) through a combination of cutting public spending and social spending and combatting tax evasion and avoidance (taking action on non-domiciled status – "non-doms" – and the taxation of multinational firms).

For Labour, "Britain only succeeds when working people succeed". A national renewal is needed so that "the economy works for working people". Labour is denouncing the increase in inequality and in precarious jobs and the fall in the purchasing power of working families.

But the Labour Party is also proclaiming their commitment to reducing the public deficit every year. Their goal is to bring the current account deficit (excluding investment) into balance by 2018-19, which would mean a public deficit of 1.4% of GDP. This goal is less ambitious than that of the Conservatives and would be met in part by higher taxes. The maximum marginal rate of income tax would rise from 45% to 50%. A tax would be introduced on "mansions" (properties worth more than 2 million pounds). Labour has pledged to maintain the most competitive corporate tax rates in the G7. This rate, which was cut to 20% in April, would nevertheless be raised by one point. The levy on banks would be increased (900 million expected). Labour also wish to reinstate a lower 10% starting rate of tax, to be financed by the abolition of the allowance for married couples. They want to eliminate the very unpopular tax on vacant rooms (the "bedroom tax"). Like the Conservatives, they would remove the tax advantages for "non-doms".

Labour, however, want to cut government spending, except on health, education and international development. They propose an increase in NHS funding in order to reduce waiting times. They have pledged to raise the hourly minimum wage to GBP 8.00 in 2019 (from the current level of 6.50 pounds, which is set to rise to 6.70 in October 2015). They propose to regulate zero-hour contracts (at least for employees who have worked regularly for more than 12 weeks). On the other hand, they do not question a cap on income assistance. Labour also say that they will control immigration and limit the right of immigrants to social benefits (by requiring at least two years' residence in the country). They want to implement an industrial strategy to develop a green economy. They propose reducing the role of shareholders in corporate management and creating a British Investment Bank to help finance small businesses.

The Liberal Democrats call is for a "stronger economy, fairer society". They want to make the UK a world leader in terms of future technologies. They want to increase spending on health and education. They also want to increase the availability of childcare and parental leave. Above all, they want to develop green taxation and make the transition to a low-carbon economy. They aim to balance the current budget, like Labour, but this would occur a year earlier (2017-2018). This would be achieved by limited spending cuts, but also by increasing taxes on the wealthy, on banks, on big business and pollution and by fighting tax avoidance. They too propose a mansion tax.

… and a number of unknowns

The Institute for Fiscal Studies (IFS) has published two notes: "Post-election austerity: Parties' plans compared ", *IFS Briefing Note BN 170*, 22 April, and "Taxes and benefits: The parties' plans", *IFS Briefing notes BN 172*, 28 April. In these notes the IFS attempts to estimate the proposed measures, but underlines the lack of detail in the different programmes. The Conservatives are planning more spending cuts, while Labour and the Liberal Democrats are planning a less rapid reduction in deficits and consequently in public debt. Under the Tories, the public deficit would fall from 5% of GDP in 2014-15 to 0.6% in 2017-18, to 1.1% for the Liberal Democrats, to 2% for Labour, and to 2.5% for the SNP. The public debt would decline from 80% of GDP in 2014-15 to 72% in 2019-20 under the Conservative plan, compared with 75% for the Liberal Democrats, 77% for Labour and 78% for the SNP. The three parties have announced that they will pursue the goal of deficit reduction but without specifically detailing how they would do this. The Conservatives, for instance, would not increase taxes; they would have to make an 18% cut in spending on non-protected sectors, that is to say, defence, transportation, social assistance and justice. They do not spell out how they would make large savings on social welfare spending while excluding pensions and the NHS. At the end of April, the Liberal Democrats injected into the debate the idea that the Conservatives would consider reducing family allowances, which David Cameron has denied he will do, but suspicion remains just a few days before the election. All the parties have committed not to increase the main VAT rate, income tax or health insurance contributions, but all of them are also counting on a great deal of revenue from the fight against tax avoidance.

Scotland-Europe: two key issues in the elections

Two issues make this vote unique and have given rise to a very specific political configuration. First, the Scottish National Party (SNP) is continuing to call for Scotland’s independence, despite the outcome of the referendum in September 2014 (55% no). As a centre-left party that is currently in power in Edinburgh, it could win 55 of the 59 Scottish seats, at the expense of the Labour party, and thus be in a pivotal position for securing a future majority. It is calling for a new referendum on Scottish independence, but also for an end to austerity policies on public and social welfare spending.

UKIP is calling for the UK to leave the EU. David Cameron has promised to hold a referendum on this before the end of 2017 if the Conservatives prevail. In any case, Cameron is opposing any extension of Europe's economic or political powers; Europe must above all be a single market that needs for free market policies to be maximized; he rejects any European regulations on financial services as well as any solidarity between countries, any increase in the EU budget, and any increase in the British contribution ("I am not paying that bill"). He wants the UK to have the possibility of limiting the social rights of EU immigrants, which would be the main point in any Conservative negotiations over keeping the United Kingdom in the EU. David Cameron will not come out for keeping the UK in the EU until these demands are taken into account. Labour has denounced the UK's loss of influence in Europe caused by its isolationism, but it is also demanding less Europe: the UK should remain free to set its own immigration policy and social policy. According to Gordon Brown, leaving the EU would transform the UK into a "new North Korea", without allies and without influence. Labour would hold a referendum if Europe wanted to impose unacceptable measures on the UK. The Liberal Democrats are very attached to Europe. They want to defend business in Europe, along with the Transatlantic Trade and Investment Partnership (TTIP), eliminate unnecessary institutions such as the European Economic and Social Council and the sessions of the EU Parliament in Strasbourg. They want to maintain freedom of movement in Europe but reduce immigrants' rights to benefits. They will vote no on a referendum for leaving the EU. Currently, 35% of the British people would vote for leaving the EU and 57% against (but 38% want to stay while reducing the EU's powers). The large corporations and even more so the City want to remain in a big market. As was the case during the Scottish referendum, some corporations (e.g. HSBC[1]) are threatening to move their headquarters if the UK leaves the EU. The richest and best-educated part of the population also wants to stay in the EU.

The UK's economic and political development is thus now subject to three uncertainties: the risk that there will be no clear majority in Westminster; the return of the Scottish debate; and the debate on leaving the European Union.

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[1] But HSBC is also challenging the increase in taxes on banks as well as the regulations inspired by the Vickers report, which would require ring-fencing the activities of the commercial banks.

The United Kingdom on the eve of elections: The economy, David Cameron's trump card (1/2)

By Catherine Mathieu

In the countdown to the general elections on 7 May 2015, there is so much suspense that the bookmakers are putting the Conservative Party as winners and Ed Miliband, the Labour leader, as the next Prime Minister! Not only are the Labour Party and the Conservative Party running neck-and-neck in the polls, but with voting intentions fluctuating between 30 and 35% for many months now, neither party seems poised to secure a sufficient majority to govern alone. David Cameron, current PM and leader of the Tories, has placed the British economy at the heart of the election campaign. And the figures do seem rather flattering for the outgoing government with regard to growth, employment, unemployment, public deficit reduction, etc., though there are some less visible weaknesses in the UK economy.

A flattering macroeconomic result

With growth of 2.8% in 2014, the UK topped the charts for growth among the G7 countries (just ahead of Canada at 2.5% and the United States at 2.4%). The British economy has been on the road to recovery for two years, as growth picked up from 0.4% yoy in the fourth quarter of 2012 to 3% in the fourth quarter of 2014. This recovery stands in contrast to the situation of the large euro zone economies, where there was a weak recovery in Germany (respectively, 1.5% after 0.4%) and weak growth in France (only 0.4%, against 0.3% in 2012), with Italy still in recession (-0.5% after -2.3%).

At the end of 2014, Britain’s GDP was 5% above its pre-crisis level (*i.e.* first quarter 2008), due to a strong recovery in services, which was particularly spectacular in business services (where value added (VA) was 20% above its pre-crisis level, representing 12% of VA), with a good performance in the fields of health care (VA 20% above the level of early 2008; 7% of VA) and in real estate (VA 17% above the pre-crisis level; 11% of added value).

According to the initial estimates released on April 28 by the Office of National Statistics (ONS), GDP nevertheless increased by only 0.3% in the first quarter of 2015, instead of 0.6% as in the previous quarters. While this initial estimate is likely to be revised (upwards or downwards, only half of the data on the quarter is known for this first estimate), this slowdown in growth just a few days before the elections comes at a bad time for the outgoing government…

A strong decline in the unemployment rate …

Another highlight of the macro-economic record as the elections approach: the unemployment rate has been falling steadily since late 2011, and was only 5.6% (ILO definition) in February 2015, against 8.4% in late 2011. This rate is one of the lowest in the EU, better than in France (10.6%) and Italy (12.6%), though still behind Germany (only 4.8%). While the unemployment rate has not yet reached its pre-crisis level (5.2%), it is now close. The number of jobs has increased by 1.5 million in the UK since 2011, and David Cameron unhesitatingly boasts of the UK's success as "the jobs factory of Europe", creating more jobs on its own than the rest of Europe combined! ***[1]***

Behind this strong increase in employment, however, there are many grey areas…. First, the nature of the jobs created: 1/3 of the jobs created during this recovery are individual entrepreneurs, who now represent 15% of total employment. In times of crisis, a rise in the number of the self-employed generally reflects hidden unemployment, although according to a recent study by the Bank of England[2] this increase is part of a trend. The issue of the growth in what are called "zero hour" contracts, which are contracts for jobs with no guaranteed number of hours, has also burst into the discussion. Until 2013, this type of contract was not subject to statistical monitoring, but according to surveys recently released by the ONS, 697,000 households were affected by this type of contract (representing 2.3% of employment) in the fourth quarter of 2014, against 586,000 (1.9% of employment) a year earlier, *i.e.* an increase of 111,000 persons, while total employment increased by 600,000 over the period: zero-hours contracts therefore concern only a relatively small portion of the jobs created.

One corollary of the job creation that has taken place since 2011 is low gains in productivity. The British economy began to create jobs from the beginning of the recovery, while productivity fell sharply during the crisis. Companies have kept more employees on the payroll than they usually do in times of crisis, but in return wage increases have been curtailed. UK productivity today remains well below its pre-crisis level. Will the British economy keep a growth model based on low productivity and low wages for a long time to come? It is too early to tell, but this is a subject lying in the background of the election campaign.

Very low inflation

Inflation, as measured by the harmonized index of consumer prices (HICP), fell in February 2015 to only 0% yoy against 1.9% at the end of 2012. This slowdown was due to lower energy prices, but since the end of 2012, also to a slowing in core inflation: from 1.9% at end 2012 to 1.2% in February 2015. The question of inflationary risks has been debated within the UK Monetary Policy Committee for many months now: growth and low unemployment are potentially harbingers of short-term inflationary pressure, if one accepts that the economy is once again approaching full employment. In fact, the continuous decline in inflation since 2012, coming amid low wage increases, a more expensive pound and falling energy prices, has put off the prospect of an acceleration in short-term inflation. For the moment, the members of the Bank of England’s Monetary Policy Committee are voting unanimously for the status quo.

Long-term interest rates on government debt remain at low levels, which was one of the goals hammered at by the Conservatives during the 2010 electoral campaign. In fact, UK rates are moving in much the same way as US rates, in line with similar growth prospects.

Despite this relatively good record, the British economy is still fragile.

The vulnerabilities of the British economy over the medium term

Household debt continues to be high

Household debt had reached record levels before the 2007 crisis, and at that time represented 160% of household annual income. Since then, households have begun to deleverage, with indebtedness falling to 136% at end 2014, which is still well above the 100% level of the 1990s. This deleveraging is lessening households' vulnerability to a further economic slowdown or to a fall in the price of assets (especially property), but this also has the effect of reining in private domestic demand, while the household savings rate remains low (about 6%) and growth in nominal and real wages moderate. The rebalancing of domestic demand should continue, especially in terms of business investment.

Business investment is catching up

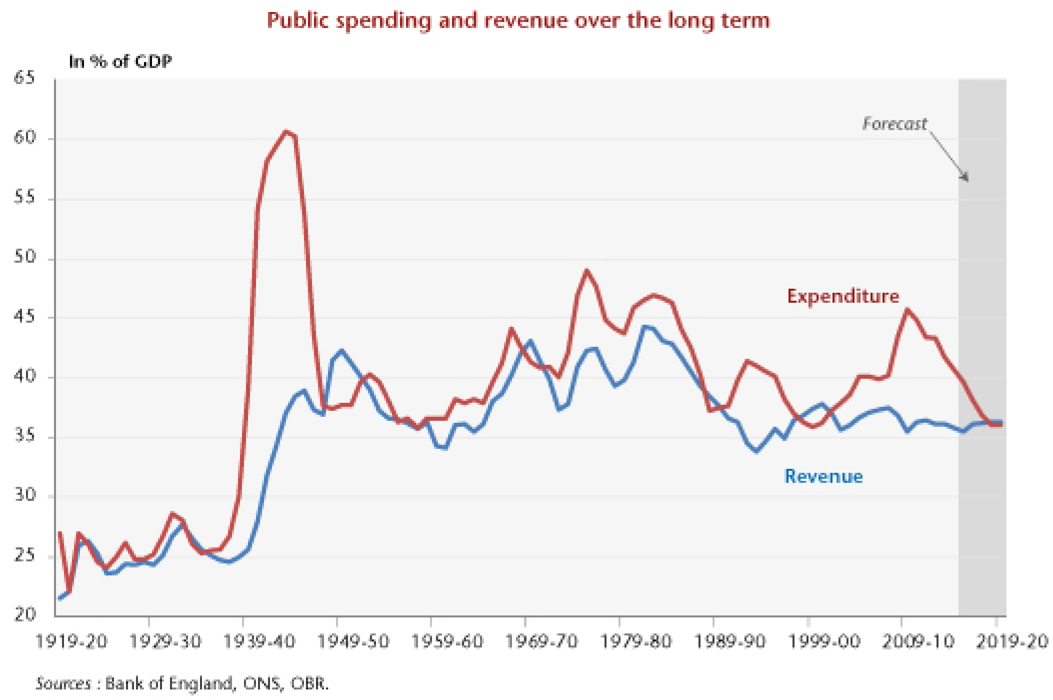
Business investment was structurally weak in the 2000s in the UK. But the recovery has been underway for 5 years, and the rate of investment volume is now close to its level of the early 2000s. The recovery of investment is obviously good news for the UK's productive capacity. But there is still an external deficit, a sign that the UK is struggling to regain competitiveness, at least with regard to the trade in goods. The stabilization of the trade deficit at around 7 GDP points in 2014, however, was due to the goods deficit being partially offset by a growing surplus in services (5 GDP points at end 2014), a sign that the UK economy still has a high level of specialization in services. Nevertheless, taking into account the balance in income[3], the current account deficit came to 5.5 GDP points, which is high.

The deceptive appearance of the public finances

In 2010, the Tory campaign blamed the previous government for letting the deficits mount during the crisis. Their electoral programme included a large-scale fiscal austerity plan, which corresponded to the archetypical IMF plans: 80% spending cuts and 20% revenue increases over a 5-year horizon. In fact, as soon as they came to power, the government increased the VAT rate, which in 2010-2011 interrupted the recovery; it cut spending, while preserving the public health system (NHS) that the British hold so dear, as well as public pensions, which are low in the UK, but which the government decided to peg to inflation or wages (using whichever is the higher of the two variations, with a guaranteed minimum of 2.5%).

Five years later, David Cameron is highlighting the “success” of his government, which has cut the public deficit in half, from a level of 10% in 2010 to 5.2% in 2014. But with respect to the government’s initial ambitions, this is in fact only a partial success: its first budget in June 2010 set out a public deficit of only 2.2% of GDP in 2014. The originally planned decrease in public expenditure relative to GDP was in fact realized, but revenue rose much less than expected (due in part to sluggish household income).

While the austerity programme was generally weaker than what had been announced, in the March 2015 budget the government set out sharp cuts in public spending by 2019, which would bring it down from the current level of 40% of GDP to only 36% of GDP, one of the lowest levels of public spending since World War 2 (graphic). This reduction in public spending would be sufficient in itself to balance the public deficit, without any significant tax hikes: this would represent large-scale budget cuts, whose components are not specified and which it is hard to imagine would not sooner or later affect spending on health care and pensions, which the government has so carefully avoided doing up to now…



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[1] "We are the jobs factory of Europe; we're creating more jobs here than the rest of Europe put together" (Speech on 19 January 2015).

[2] "Self-employment: what can we learn from recent developments?", *Quarterly Bulletin*, 2015Q1.

[3] But the deficit of the balance of direct investment income (2 percentage points of GDP) is probably inflated by the relatively good performance of foreign companies operating in the UK in comparison to British companies operating abroad.