On Monday, The Economist's Society welcomed Robert Chote to UCL, for what is to be one of the many great talks organised for this term.

Robert Chote is the chairman of the Office for Budget Responsibility (OBR), created in 2010 as an independent and authoritative analyst of the public finances. He was previously the economics editor of the Financial Times (1995-1999), advisor to the senior management at the IMF (1999-2002) and director of the Institute of Fiscal Studies (2002-2010).

The talk began with a brief introduction of the role of OBR, which are namely:

- Produce 5-year forecast for the economy and public finances
- Assess if the government in on course to hit their medium term fiscal targets
- Review the Treasury's costing of budget measures and comment publicly if they are in agreement or not.
- Assess long term sustainability of public finances

Thereafter he went on making it clear that this talk is not an analysis of why the financial crisis occurred but rather aimed at understanding the public's and government's response to it focusing on the medium term view.

<u>How the public explains austerity…</u>

He started off by analysing the public's response to the austerity implemented by the coalition government when they came into power. From the survey that was conducted, he summarised the results as follows
64% of Britons felt that it was the result of paying for the banks' mistakes
41% of Britons thought that it was because the Labour Government had overspent
40% of Britons thought that it was due to overspending by individuals during the NICE period
28% of Britons felt that it was the Conservative party trying to shrink the role of the state (i.e. Party's ideology)
From these results, he concluded that the public has a rather varied view of the cause(s) of austerity, which in some cases were rather surprising.

<u>Public finance through crisis and consolidation</u>

He went on to highlight that after 2002, spending exceeded tax receipts, which was then not viewed as a problem as the gap was predicted to eventually narrow. However, as a result of the crisis, the newly forecasted gap was to increase tremendously due to a huge increase in spending. Robert went on to explain that had the government not implemented fiscal consolidation measures, the spending would continue to soar and the deficit would be explosive making it unsustainable.

He also gave a through analysis of the reasons for the big fall in nominal GDP relative to pre-crisis are summarised below.
1) Weaker labour market (although it fared better than expected)
2) Revenue rich financial sector hit disproportionately hard
3) Weaker housing and equity market
4) CPI was high relative to money GDP
He then concluded that nominal GDP was more critical than real GDP in making predictions as the tax receipts tracks the nominal GDP better than real GDP as shown by the line graph plotted.

<u>How policy response evolved…</u>

Policy measures post 2008 Budget, He summarised the information as follows:

- Labour: Aimed to level out fiscal consolidation by 2016/17 at around 5.5% of GDP
- Coalition June 2010: Aimed to level out fiscal consolidation by 2015/16 at around 6.5% of GDP. (Decided to do more and more quickly)
- Coalition post June 2010: Aim to level out fiscal consolidation by 2017/18 at around 9% of GDP

Predicting the potential GDP (the "known unknown")
He clarified that forecast made "incorporates large sustained fall in potential GDP". However, given the project's weakness, the actual GDP is expected to remain below the potential GDP. The methodology used is "Long on data and short on elegant theoretical property".

Personally, I am rather skeptical of forecast made as I feel that it is really vague and there does not seem to be a real basis which strongly supports the figures. Also, often, there is a huge amount of value judgment involve which differs from one individual to another. However, as there seem to be a lack of better alternative than these forecasted figures to help to give a rough view of the future, I guess we shall all just have view it with a pinch of salt.

Another thing that I am especially skeptical of is the aim of the Coalition government (Post June 2010). Based on the theory of political cycles, governments tend to increase spending right before the general elections (in this case May 2015) to win some extra votes. If this is the case, it might take longer than by 2017/18 for fiscal consolidation to level out.

Nevertheless, whether the forecasts made are good or poor estimates or if fiscal consolidation does indeed level out by 2017/18, I believe that all the attendees would agree that this was indeed an interesting and insightful talk and that we have all benefited from it.