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**The American and British Fiscal  
Policies After the Financial Crisis of  
2008: An Examination of What  
Measures Were Taken and What Can  
Be Learned From Them**

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## INTRODUCTION

Beginning in late 2007, the global economy was rocked by an economic crisis now known as the Great Recession.<sup>1</sup> The crisis, which shocked many,<sup>2</sup> was catalyzed by the bursting of the American housing bubble, which then led to the decline of the stock market and widespread chaos in the financial sector.<sup>3</sup> In technical terms, a recession is generally defined as “a time when real [Gross Domestic Product (“GDP”)] declines for two or more consecutive quarters.”<sup>4</sup> In the United States, the recession officially began in the fourth quarter of 2007 and did not end until the second quarter of 2009,<sup>5</sup> marking “the worst [economic] performance since the 1930s.”<sup>6</sup> This lengthy recession had substantial effects. For example, “the peak-to-trough decline in real GDP was 4.25 percent,”<sup>7</sup> and total job loss was approximately 8.8 million jobs.<sup>8</sup> Although the United States was severely impacted by its failing economy, it was not the only country to be struggling at the time. “Because the United States is the world’s largest economy and has strong trade and financial linkages with many other economies,” many other countries experienced recessions as well.<sup>9</sup>

Faced with declining GDPs, increasing unemployment, and a host of other economic problems, governments across the world attempted to use both monetary and fiscal policies to

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<sup>1</sup> ALAN S. BLINDER, *AFTER THE MUSIC STOPPED: THE FINANCIAL CRISIS, THE RESPONSE, AND THE WORK* 13 (2013).

<sup>2</sup> *Id.* at 1.

<sup>3</sup> *Id.* at 5.

<sup>4</sup> *Id.* at 13.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 14.

<sup>7</sup> Alan S. Blinder, *What Did We Learn From the Financial Crisis, the Great Recession, and the Pathetic Recovery?*, 46 J. OF ECON. EDUC. 135, 135 (2015).

<sup>8</sup> *AFTER THE MUSIC STOPPED*, *supra* note 1, at 11.

<sup>9</sup> Stijn Claessens & M. Ayhan Kose, *Recession: When Bad Times Prevail*, INT’L MONETARY FUND (Mar. 28, 2012), <http://www.imf.org/external/pubs/ft/fandd/basics/recess.htm>.

improve their economies. Because there was no clear “right” way to recover from a downturn as large as the Great Recession, countries diverged in their approaches.<sup>10</sup> Accordingly, much can be learned from examining different countries’ policies and evaluating how successful they were. Such information, once understood, is important because it can be used to inform how countries react to economic crises in the future. In that vein, this paper will explore the fiscal policies of both the United States and the United Kingdom in reaction to the Great Recession. In Part I, the paper will comprehensively delineate the measures each country took to address the economic crisis and why it took such measures. Part II will then discuss the effects of each policy using statistics to quantify how successful each was. Finally, Part III will provide the big-picture takeaways for future practice that can be gleaned from comparing and contrasting the two countries’ policies.

## **I. THE POLICIES**

### **A. AMERICAN FISCAL POLICY**

#### *1. The Economic Stimulus Act of 2008 and the American Reinvestment Recovery Act of 2009*

When the financial crisis began in late 2007, the presidential campaign for 2008 election was well underway, but President Bush was still in office.<sup>11</sup> Like other governments across the world, President Bush and Congress decided to follow Keynesian economics and enact a stimulus bill to try to counteract the worsening economy.<sup>12</sup> “The logic behind fiscal stimulus is straightforward: With businesses and consumers hunkered down, the government steps in by temporarily increasing its own spending and/or cutting taxes to induce households and

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<sup>10</sup> *See infra* p. 2–18.

<sup>11</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 212–13.

<sup>12</sup> *Id.* at 210.

businesses to spend more.”<sup>13</sup> In President Bush’s case, the stimulus, known as the Economic Stimulus Act of 2008, was passed in February of 2008 and focused on cutting taxes.<sup>14</sup> On an individual level, “most American taxpayers received a one-time income tax rebate ranging from \$300 to \$600 for single individuals and from \$600 to \$1,200 for married couples.”<sup>15</sup> To encourage investment by businesses, the bill also “increase[ed] limits on expensing investment costs and accelerat[ed] depreciation of qualifying investments.”<sup>16</sup> At the time, it was estimated that the Act would reduce federal revenue by a total of \$168 billion in FY2008 and FY2009.<sup>17</sup>

Although “there is little doubt that the 2008 [Economic Stimulus Act] gave the U.S. economy a modest shot in the arm,” economic conditions continued to decline throughout 2008.<sup>18</sup> In fact, between October of 2008 and January of 2009, when President Obama was inaugurated, almost 2.8 million jobs were lost.<sup>19</sup> In response, President Obama acted quickly once he assumed office, passing the American Reinvestment and Recovery Act (“ARRA”) on February 17, 2009.<sup>20</sup> The ARRA was a major stimulus package, originally estimated to cost \$787 billion,<sup>21</sup> that focused on cutting taxes, increasing spending, and aiding state and local governments.<sup>22</sup> With regards to tax cuts, the ARRA, like the Economic Stimulus Act, focused on cutting taxes for both individuals and businesses. For individuals, the Act provided for a tax credit of 6.2% of earned income in 2009 and 2010 (with a phase out beginning at an income

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<sup>13</sup> Alan S. Blinder & Mark Zandi, *The Financial Crisis: Lessons for the Next One*, CTR. ON BUDGET AND POLICY PRIORITIES 11 (Oct. 15, 2015), <http://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one>.

<sup>14</sup> *Id.* at 224.

<sup>15</sup> *Id.*

<sup>16</sup> Robertson Williams, *Economic Stimulus: What is the Economic Stimulus Act of 2008?*, TAX POLICY CTR. (Mar. 13, 2008), <http://www.taxpolicycenter.org/briefing-book/background/stimulus/2008.cfm>.

<sup>17</sup> *See id.*

<sup>18</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 225.

<sup>19</sup> *See id.* at 210.

<sup>20</sup> *Id.* at 232.

<sup>21</sup> *Id.* at 228.

<sup>22</sup> *Id.* at 232.

level of \$75,000 for individuals) and “exempt[ed] up to \$46,700 of an individual’s income [...] from the [alternative minimum tax] in 2009.”<sup>23</sup> Additionally, first-time home purchasers were given a “refundable tax credit of up to \$8,000,” as well as other tax breaks.<sup>24</sup> For businesses, the ARRA “expand[ed] tax incentives for renewable energy facilities” and “g[ave] companies a 50 percent bonus deduction on capital investments made in 2008 that would normally be depreciated over many years,” among other things.<sup>25</sup>

Along with the tax cuts it provided, the ARRA also allocated money to increase government spending. For example, the ARRA increased unemployment compensation to \$325/week and extended the period of its availability to 20 weeks for most states and 33 weeks for states with high unemployment rates.<sup>26</sup> Furthermore, the ARRA provided for over \$20 billion in increased food assistance and over \$27 billion for states to build and repair highways and bridges.<sup>27</sup> Money was also allocated to other sectors such as energy, education and the environment.<sup>28</sup> Finally, some money was set aside to help states, including increasing the federal government’s contribution to Medicaid costs.<sup>29</sup>

Although the ARRA ultimately became law in the form discussed above, and although Democrats gained control of both the White House and Congress in 2008, passing the ARRA was by no means a sure bet. The House of Representatives voted in favor of the Act by a vote of

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<sup>23</sup> Farhana Hossain et al, *The Stimulus Plan: How to Spend \$787 Billion*, N.Y. TIMES, [http://projects.nytimes.com/44th\\_president/stimulus](http://projects.nytimes.com/44th_president/stimulus). The alternative minimum tax is a “parallel income tax system” that was created in 1969 to tax wealthy people who ended up owing nothing “under the rules of the regular income tax code.” *Taxes: The Alternative Minimum Tax*, CNN MONEY (May 28, 2015), <http://money.cnn.com/pf/money-essentials-taxes-amt/>.

<sup>24</sup> Hossain, *supra* note 23.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

244-188; however, zero of the votes in favor came from House Republicans.<sup>30</sup> Similarly, in the Senate, Republicans only contributed 3 votes towards passing the ARRA—votes that were only secured after President Obama made concessions to the Republicans, “including a variety of business tax cuts that the president didn’t want.”<sup>31</sup> Despite their low volume, these votes were essential in approving the ARRA, which just barely passed by a vote of 60-38.<sup>32</sup> This battle between Democrats and Republicans, who “decried *any* federal spending as suspect and wasteful, even in a recession,” would continue to rage over the next few years as President Obama attempted to stop the economic crisis.

## *2. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the Middle Class Tax Relief and Job Creation Act of 2012*

After the passage of ARRA in 2009, the U.S. continued its stimulus efforts in 2010. In order to ensure that a stimulus bill made it through Congress, President Obama cooperated with the Republicans and passed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 on December 17, 2010.<sup>33</sup> Unlike the ARRA, which was focused on both spending and tax policies, the 2010 Act was centered around tax policy. Primarily, the Act extended the so-called “Bush tax cuts” for another two years, “prevent[ing] taxes from rising [...] for virtually every American household.”<sup>34</sup> More specifically, the extension of the tax cuts saved the average middle class family about \$3,000 in taxes in 2011.<sup>35</sup> Additionally, the Act, which was estimated to cost \$858 billion, extended unemployment benefits, “guarantee[ing]

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<sup>30</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 226.

<sup>31</sup> *Id.* at 227.

<sup>32</sup> *Id.*

<sup>33</sup> Lori Montgomery et al., *Obama signs bill to extend Bush-era tax cuts for two more years*, WASHINGTON POST 1 (Dec. 17, 2010), <http://www.washingtonpost.com/wp-dyn/content/article/2010/12/16/AR2010121606200.html?sid=ST2011022703543>.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

unemployed workers in hard-hit states up to 99 weeks of jobless benefits through the end of [2011].”<sup>36</sup> Furthermore, the Act incentivized spending by consumers and businesses, including by reducing the Social Security payroll tax by 2%.<sup>37</sup> This payroll tax cut was later extended through February 2012 in the Temporary Payroll Tax Cut Continuation Act of 2011.<sup>38</sup>

Although the Tax Relief Act was not passed by as small of a margin as the ARRA—it passed by 277-148 in the House and 81-19 in the Senate—neither side of the aisle was completely satisfied with its provisions.<sup>39</sup> President Obama, who had previously pledged to get rid of the Bush tax cuts for the wealthiest 2%, acknowledged that “there [were] some elements of this legislation that [he didn’t] like.”<sup>40</sup> Similarly, other Democrats were upset by the Act’s extension of the tax cuts; they also did not approve of the Act’s revival of a 35% estate tax, with an exemption for estates worth up to \$5 million.<sup>41</sup> In contrast, Republicans supported the extension of the Bush tax cuts but wanted more spending cuts.<sup>42</sup>

Despite the Republicans’ desires, the American government continued to increase spending when it passed the Middle Class Tax Relief and Job Creation Act of 2012. From a spending perspective, there were two especially notable provisions of the Act. First, the Act continued the work of the Temporary Payroll Tax Cut Continuation Act of 2011, extending the Social Security payroll taxes through 2012.<sup>43</sup> This provision was estimated to cost \$93.219

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<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> *Payroll Tax Cut Temporarily Extended into 2012*, IRS (Dec. 23, 2011), <https://www.irs.gov/uac/Payroll-Tax-Cut-Temporarily-Extended-into-2012>.

<sup>39</sup> Montgomery, *supra* note 33, at 1.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* at 1–3.

<sup>42</sup> *Id.* at 1.

<sup>43</sup> *Summary of the Middle Class Tax Relief and Job Creation Act of 2012*, U.S. SENATE, COMMITTEE ON FINANCE (Feb. 16, 2012), <http://www.finance.senate.gov/news/press-releases/summary-of-the-middle-class-tax-relief-and-job-creation-act-of-2012>.

billion over eleven years.<sup>44</sup> Second, for an estimated cost of \$30 billion, the Act extended unemployment benefits for up to 99 weeks through May of 2012, for up to 79 weeks through August of 2012, and up to 73 weeks through December of 2012.<sup>45</sup> Among other things, the Act also contained provisions regarding Medicare, including fixing the Sustainable Growth Rate through 2012 (“Medicare physician payment rates [were] scheduled to be reduced by 27.4 percent on March 1, 2012.”).<sup>46</sup>

### *3. Other Stimulus Measures and Overall Cost*

Along with the aforementioned Acts, the American government also took a variety of smaller measures to stimulate the economy. One such measure, created in 2009, was the Car Allowance Rebate System, also known as “Cash for Clunkers.”<sup>47</sup> “Cash for Clunkers” was a program meant to help the failing auto industry that allowed people to “turn in their old cars for up to \$4,500 in cash to be used toward the purchase of a more fuel-efficient alternative.”<sup>48</sup>

Another smaller bill that the government passed to improve the economy was the Hiring Incentives to Restore Employment Act (the “HIRE Act”), passed on March 18, 2010.<sup>49</sup> The HIRE Act, which was aimed at combatting the job loss of the Great Recession, had two main provisions. First, employers who hired unemployed workers between February 3, 2010 and January 1, 2011, could “qualify for a 6.2-percent payroll tax incentive, in effect exempting them from their share of Social Security taxes on wages paid to [those] workers after March 18, 2010.”

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<sup>44</sup> *Id.*

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> *Study: ‘Cash for Clunkers’ an even bigger lemon than thought*, Fox News (Aug. 11, 2014), <http://www.foxnews.com/politics/2014/08/11/texas-am-study-cash-for-clunkers-even-bigger-lemon-than-thought.html>.

<sup>48</sup> *Id.*

<sup>49</sup> *Two New Tax Benefits Aid Employers Who Hire and Retrain Unemployed Workers*, IRS (July 12, 2010), <https://www.irs.gov/uac/Two-New-Tax-Benefits-Aid-Employers-Who-Hire-and-Retain-Unemployed-Workers>.



This tax incentive was specifically targeted at employers—although it had “no effect on the employee’s future Social Security benefits, [...] employers would still need to withhold the employee’s 6.2-percent share of Social Security taxes.”<sup>50</sup> Second, “for each worker retained for at least a year, businesses [could] claim an additional general business tax credit, up to \$1,000 per worker, when they file[d] their 2011 income tax returns.”<sup>51</sup>

Overall, combining these (and other) smaller measures with the larger stimulus bills of 2008, 2009, 2010, and 2012, the U.S. government spent a total of \$1,484 billion on stimulus during the Great Recession.<sup>52</sup> The following chart delineates exactly how much was spent on each measure, providing a comprehensive breakdown of stimulus costs.

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<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> Blinder & Zandi, *supra* note 13, at 12.

## Fiscal Stimulus During the Great Recession (billions of dollars)

	Spending
<b>Total Fiscal Stimulus</b>	<b>1,484</b>
Spending increases	783
Tax cuts	701
<b>Economic Stimulus Act of 2008</b>	<b>170</b>
<b>American Recovery and Reinvestment Act of 2009</b>	<b>832</b>
<b>Infrastructure and other spending</b>	<b>147</b>
Traditional infrastructure	38
Nontraditional infrastructure	109
<b>Transfers to state and local governments</b>	<b>188</b>
Medicaid	93
Education	95
<b>Transfers to persons</b>	<b>307</b>
Social Security	13
Unemployment assistance	224
Food stamps	46
COBRA payments	24
<b>Tax cuts</b>	<b>190</b>
Businesses & other tax incentives	40
Making Work Pay	64
First-time homebuyer tax credit	14
Individuals excluding increase in AMT exemption	72
Cash for Appliances	0.3
<b>Cash for clunkers</b>	<b>3</b>
<b>HIRE Act (Job Tax Credit)</b>	<b>17</b>
<b>Worker, Homeownership, and Business Assistance Act of 2009</b>	<b>91</b>
Extended unemployment insurance benefits (Mar 16)	6
Extended unemployment insurance benefits (Apr 14)	12
Extended unemployment insurance benefits (May 27)	3
Extended unemployment insurance benefits (Jul 22)	34
Extended/expanded net operating loss provisions of ARRA	33
Temporary extension of UI benefits (outlay)	56
Temporary extension of investment incentives	22
Temporary payroll tax holiday (change in revenue)	112
<b>Temporary Payroll Tax Cut Continuation Act of 2011</b>	<b>29</b>
<b>Middle Class Tax Relief and Job Creation Act of 2012</b>	<b>125</b>

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<sup>53</sup> *Id.* at 12–13.

Extended/expanded homebuyer tax credit	3
<b>Department of Defense Appropriations Act of 2010</b>	<b>2</b>
Extended guarantees and fee waivers for SBA loans	1
Expanded COBRA premium subsidy	1
<b>Education Jobs and Medicaid Assistance Act</b>	<b>26</b>
<b>Tax relief, unemployment insurance reauthorization, and Job Creation Act of 2010</b>	<b>189</b>

#### 4. *The Budget Control Act of 2011, the American Taxpayer Relief Act of 2012, and Sequestration*

Although many people, especially Democrats, were in favor of the stimulus measures, the large price tag attached to them drove up the federal budget deficit. Specifically, the deficit went from being 1.1% of GDP in FY2007, to 3.1% of GDP in FY2008, to 9.8% of GDP in FY2009,<sup>54</sup> totaling approximately “\$1.4 trillion in actual dollars.”<sup>55</sup> Because the FY2009 federal budget deficit was the highest relative to GDP in the nation’s history since WWII, “much of the often-raw politics was consumed by highly partisan debates over whom to blame for the deficit and how to reduce it quickly.”<sup>56</sup> Although some Republicans began calling for an immediate balancing of the budget in 2011, such an extreme measure was never taken.<sup>57</sup> Partisan politics, however, came to a head in 2011 when the U.S. was deciding whether or not to raise the national debt ceiling. After much debate, Congress passed the Budget Control Act of 2011 on August 2, 2011.<sup>58</sup> The Act not only raised the debt ceiling, but also provided for “\$900 billion worth of spending cuts” over ten years and laid out a plan for sequestration (“\$1.2 trillion in spending

<sup>54</sup> Table 1.2—Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2021, OFFICE OF MGMT. AND BUDGET, <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/hist01z2.xls>.

<sup>55</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 234. The budget deficit was augmented not only by the fiscal stimulus measures, but also by other laws passed by the government during the crisis, including the Troubled Asset Relief Program. *Id.* at 350.

<sup>56</sup> *Id.* at 234, 235.

<sup>57</sup> *Id.* at 235.

<sup>58</sup> *Id.* at 399.

cuts...[that] would trigger in automatically”) in January of 2013 if the government did not come up with \$1.2 trillion in “spending cuts and revenue increases.”<sup>59</sup>

Although the Budget Control Act delayed further immediate action on the deficit, the U.S. again reached a critical point at the end of 2012. This point was reached because beginning in January of 2013, the sequestration was supposed to take effect and the Bush tax cut and payroll tax cuts were set to expire.<sup>60</sup> “[This] combination of policies came to be known as ‘the fiscal cliff.’”<sup>61</sup> Knowing that allowing all of these changes at the same time “would have amounted to a giant fiscal contraction,”<sup>62</sup> in a last-minute deal, Congress dealt with the “fiscal cliff” by passing the American Taxpayer Relief Act of 2012.<sup>63</sup> Among other things, the Act postponed the sequester for two months, extended federal unemployment insurance for a year, allowed the payroll tax to expire, and made permanent the Bush tax cuts for income (for individuals) below \$400,000.<sup>64</sup>

Finally, the sequestration took effect in March of 2013. For the rest of FY 2013, cuts totaled \$85 billion.<sup>65</sup> Domestic programs were cut by 5%; “the Department of Defense also saw cuts, which amounted to 7.8[%] of that department’s projected budget for fiscal 2013.”<sup>66</sup>

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<sup>59</sup> *Id.* at 400.

<sup>60</sup> Dylan Matthews, *The Sequester: Absolutely everything you could possibly need to know, in one FAQ*, WASHINGTON POST 1 (Feb. 20, 2013), <https://www.washingtonpost.com/news/wonk/wp/2013/02/20/the-sequester-absolutely-everything-you-could-possibly-need-to-know-in-one-faq/>.

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> Joseph Henchman, *Details of the Fiscal Cliff Tax Deal*, TAX FOUND. (Jan. 1, 2013), <http://taxfoundation.org/blog/details-fiscal-cliff-tax-deal>.

<sup>64</sup> Suzy Khimm, *Your fiscal cliff deal cheat sheet*, WASHINGTON POST 1 (Dec. 31, 2012), <https://www.washingtonpost.com/news/wonk/wp/2012/12/31/your-fiscal-cliff-deal-cheat-sheet/>.

<sup>65</sup> Samantha Dana & Matt Kramer, *History of the U.S. Federal Budget, 2011-2013*, NAT’L PRIORITIES PROJECT (Feb. 12, 2014), <https://www.nationalpriorities.org/analysis/2014/history-us-federal-budget-2011-2013/>.

<sup>66</sup> *Id.*

## **B. BRITISH FISCAL POLICY**

### *1. Fiscal Stimulus: Labour Party Governance from 2008-2010*

Unlike in the U.S., where President Bush began fiscal stimulus in February of 2008,<sup>67</sup> the British government was still feeling optimistic about its economy in the beginning of 2008. In fact, when then Chancellor of the Exchequer Alistair Darling announced his 2008 budget on March 12, 2008,<sup>68</sup> he stated, “Because of the changes made by this Government to entrench stability and increase the flexibility and resilience of our economy, I am able to report that the British economy will continue to grow through this year and beyond.”<sup>69</sup> However, as the economy worsened, this optimism abated, and the U.K., like the U.S., began a policy of stimulus. In his November 2008 Pre-Budget Report (“PBR”),<sup>70</sup> Darling focused on both decreasing taxes and increasing spending. First, the PBR instituted a cut in the Value Added Tax (VAT) to 15% beginning on December 1, 2008 and running through 2009.<sup>71</sup> Additionally, the PBR “[made] permanent the £600 increase in the income tax personal allowance announced in May 2008, with a further increase of £130.”<sup>72</sup> The PBR also provided “generous tax relief” for business operating at a loss and started a program to allow businesses in “temporary financial difficulty” to pay their

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<sup>67</sup> See *supra* p. 3.

<sup>68</sup> *Darling defends ‘bad news’ Budget*, BBC NEWS (Mar. 12, 2008), [http://news.bbc.co.uk/2/hi/uk\\_politics/7291841.stm](http://news.bbc.co.uk/2/hi/uk_politics/7291841.stm).

<sup>69</sup> Jon Riley & Robert Chote, OFFICE FOR BUDGET RESPONSIBILITY, *Working Paper No. 7: Crisis and consolidation in the public finances* 20 (Sept. 2014), <http://budgetresponsibility.org.uk/wordpress/docs/WorkingPaper7a.pdf>.

<sup>70</sup> “The [Pre-Budget Report] was designed to complement the spring Budget by setting out the Government’s economic thinking and predictions as well as trailing any major changes to the taxation, benefits, spending or borrowing policy.” The current Coalition government has substituted the Pre-Budget Report with an Autumn Statement. *Pre-Budget Report*, POLITICS.CO.UK, <http://www.politics.co.uk/reference/pre-budget-report>.

<sup>71</sup> HER MAJESTY’S TREASURY, PRE-BUDGET REPORT: NOVEMBER 2008, at 1 (U.K.), *available at* [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/238690/7484.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238690/7484.pdf).

<sup>72</sup> *Id.* The income tax personal allowance is the “amount of income you don’t have to pay tax on.” *Income Tax rates and Personal Allowances*, GOV.UK, <https://www.gov.uk/income-tax-rates/current-rates-and-allowances>.

taxes “on at timetable they [could] afford,” among other things.<sup>73</sup> Furthermore, the PBR “[brought] forward £3 billion of capital spending from 2010-11” and allocated an additional £1.3 billion to assist the unemployed.<sup>74</sup>

Unlike the U.S.’s first major stimulus measure, the ARRA, the PBR was easily made law because of the structure of U.K.’s budgetary process. In contrast to the U.S. where both houses and the president have to approve all taxing and spending decisions, in the U.K., such decisions are made by the Chancellor of the Exchequer himself.<sup>75</sup> Accordingly, although other parties may not agree with the governing party’s policies, the governing party is free to determine fiscal policy and implement it as it desires.

The British government under Prime Minister Gordon Brown and Chancellor of the Exchequer Alistair Darling continued their attempt to improve the economy through fiscal stimulus with the 2009 Budget. For example, the 2009 Budget doubled businesses’ capital allowance rate to 40% to “encourage firms to bring forward investment,” and extended benefits for business operating at a loss.<sup>76</sup> Furthermore, the Budget provided for an increase from £350 to £380 a week in statutory redundancy pay and allocated money for other spending to help the unemployed, including £1.7 billion in extra funding for the Job Centre network.<sup>77</sup> Additionally, like the American “Cash for Clunkers” program, the 2009 Budget incentivized people to buy new cars by giving them a £2,000 discount on a new car when they traded in one older than 10 years. For this program, £1,000 of the discount came from the government and the other half

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<sup>73</sup> PRE-BUDGET REPORT, *supra* note 71, at 1.

<sup>74</sup> *Id.*

<sup>75</sup> Stuart Young, *The British Budget Process: A Case Study* 8–9 (Harvard Law School Federal Budget Policy Seminar Briefing Paper No. 32, 2006).

<sup>76</sup> *At-a-glance: Budget 2009*, BBC NEWS (Apr. 22, 2009), [http://news.bbc.co.uk/2/hi/uk\\_politics/8011882.stm](http://news.bbc.co.uk/2/hi/uk_politics/8011882.stm).

<sup>77</sup> *Id.*

came from the industry itself.<sup>78</sup> Along with many other provisions, the Budget also noted that public borrowing would increase to £175 billion.<sup>79</sup>

After 2009, Brown's government began backing off from fiscal stimulus. First, they allowed the VAT cut to 15% to expire (as had been planned in the 2008 PBR), bringing VAT back to 17.5%.<sup>80</sup> Second, they announced a self-proclaimed "fiscally neutral" budget in 2010.<sup>81</sup> True fiscal consolidation, however, did not start until after Gordon Brown's Labour government lost power.

## *2. Fiscal Consolidation: Coalition Governance Beginning in 2010*

When David Cameron and George Osborne assumed power as Prime Minister and Chancellor of the Exchequer, respectively, they were very concerned about one fiscal issue in particular—the national deficit. To this end, George Osborne introduced an emergency budget shortly after entering office in 2010.<sup>82</sup> In announcing his emergency budget to the House of Commons, Osborne highlighted his fears about the amount of the deficit, stating, "This is an emergency budget, so let me speak plainly about the emergency we face. The coalition Government has inherited from its predecessor the largest budget deficit of any economy in Europe with the single exception of Ireland.... This at the very moment when fear about the sustainability of sovereign debt is the greatest risks to the recovery of European economies."<sup>83</sup> This sentiment was expressed in the emergency budget itself, which said, "The most urgent task

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<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> *VAT Rates*, GOV.UK, <https://www.gov.uk/vat-rates>.

<sup>81</sup> HER MAJESTY'S TREASURY, BUDGET 2010: MARCH 2010, at 1 (U.K.), *available at* [http://webarchive.nationalarchives.gov.uk/20100413203226/http://www.hm-treasury.gov.uk/d/budget2010\\_complete.pdf](http://webarchive.nationalarchives.gov.uk/20100413203226/http://www.hm-treasury.gov.uk/d/budget2010_complete.pdf).

<sup>82</sup> *See generally* HER MAJESTY'S TREASURY, BUDGET 2010: JUNE 2010 (U.K.), *available at* [http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/junebudget\\_complete.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/junebudget_complete.pdf).

<sup>83</sup> George Osborne, Chancellor of the Exchequer, Address at the House of Commons (June 22, 2010), *available at* <http://www.theguardian.com/uk/2010/jun/22/emergency-budget-full-speech-text>.

facing this country is to implement an accelerated plan to reduce the deficit.”<sup>84</sup> Unlike in the U.S. where how to deal with the nation’s rising debt was a divisive partisan issue, in the U.K., there was more widespread approval for taking action to decrease the nation’s debt. As John Wrathmell, a former official at Her Majesty’s Treasury (“HMT”) who headed the Labour Party’s economic policy from 2011 until recently, stated, “Very few people would have argued in 2010 that there didn’t need to be some consolidation. The debate then wasn’t about how fast do you cut. It was about how fast do you go?”<sup>85</sup>

This pervasive sentiment was informed by two fiscal rules introduced by Gordon Brown when he was Chancellor of the Exchequer.<sup>86</sup> The first rule known as the “golden rule” was that “over an economic cycle—the length of which is determined by the Chancellor—the government will borrow only to finance public investment, not for public consumption.”<sup>87</sup> The second rule “mandate[d] that over the economic cycle the ratio of net public debt to GDP will be less than 40%.”<sup>88</sup> When the coalition government came to power, neither of these rules was being met. With regards to the second rule, the ratio net public debt to GDP was 44.6% in the 2008-2009 cycle and 56.4% in the 2009-2010 cycle.<sup>89</sup> Additionally, as Osborne cited in his speech to the House of Commons, the U.K. was “set to miss the golden rule in [the 2010-2011] cycle by 485 billion pounds.”<sup>90</sup> Although in his speech Osborne announced the end of using the fiscal rules to create fiscal policy, he was, as previously mentioned, still worried about the heights to which the

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<sup>84</sup> HER MAJESTY’S TREASURY, BUDGET 2010: JUNE 2010, *supra* note 82, at 1.

<sup>85</sup> Telephone interview with John Wrathmell (Jan. 15, 2016).

<sup>86</sup> Young, *supra* note 75, at 3–4.

<sup>87</sup> *Id.* at 4.

<sup>88</sup> *Id.*

<sup>89</sup> Riley & Chote, *supra* note 69, at 25.

<sup>90</sup> Osborne, *supra* note 83.



debt had reached.<sup>91</sup> Accordingly, Osborne's emergency budget was one of fiscal consolidation.

Osborne's emergency budget focused on both increasing taxes and reducing spending, with the "balance of spending cuts to tax rises [to] be 77% to 23%."<sup>92</sup> On the taxation side, the emergency budget's main provision was an increase in the VAT rate from 17.5% to 20% beginning on January 4, 2011.<sup>93</sup> The capital gains tax was also raised by 10% (from 18% to 28%) for "higher rate taxpayers."<sup>94</sup> These changes, along with other measures, were estimated to increase revenue by £8 billion per year.<sup>95</sup> In terms of spending, the emergency budget "include[d] £30 billion of current spending reductions."<sup>96</sup> These reductions included £11 billion in welfare reforms and a two-year pay-freeze in public sector pay, except for those earning less than £21,000 a year.<sup>97</sup> Housing benefits for the unemployed were also cut by 10%.<sup>98</sup> Despite all of its austere provisions, the emergency budget was also had a few provisions that were more in line with fiscal stimulus ideas, including increasing the personal income tax allowance by £1,000 in April of 2011 and cutting corporate tax by 1% for 3 years.<sup>99</sup>

The Budget for 2011 reflected the consolidation measures that Osborne put into place in June of 2010, with spending increasing by only 2%.<sup>100</sup> The Budget for 2012 did so as well, while making a few big taxing changes. As the 2012 Budget stated, "Over the course of 2010 and 2011, the UK economy was hit by a series of further shocks — with commodity price driven

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<sup>91</sup> *Id.*

<sup>92</sup> *Budget key points: At-a-glance*, BBC NEWS (June 22, 2010), <http://www.bbc.com/news/10374475>.

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> BUDGET 2010: JUNE 2010, *supra* note 82, at 2.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

<sup>98</sup> *Budget key points: At-a-glance*, *supra* note 92.

<sup>99</sup> *Id.*

<sup>100</sup> Lisa Evans, *Budget 2011: The full list of measures and what they're worth*, THE GUARDIAN (Mar. 23, 2011), <http://www.theguardian.com/uk/datablog/2011/mar/23/budget-2011-measures-list>.

inflation reducing real incomes, the impact of the euro area debt crisis damaging confidence, and the ongoing structural impact of the financial crisis weakening economic recovery.”<sup>101</sup> To combat this, the Budget explained that it was going to continue consolidation and announce “tax reform to make Britain one of the most competitive places to do business.”<sup>102</sup> Accordingly, the Budget cut corporate taxes to 24% and said that they would be at 22% by 2014.<sup>103</sup> Furthermore, the Budget again raised the personal income tax allowance beginning in April 2013, “a move the government says will make 24 million people £220 better off.”<sup>104</sup> However, in keeping with consolidation, the Budget largely offset these losses in revenue by reducing the threshold for the higher tax bracket, bringing approximately 300,000 more people into the higher rate.<sup>105</sup> The Budget also removed various loopholes from the VAT, including for sports nutrition drinks. Additionally, the 2012 Budget specified that “pensioners will no longer receive a larger personal income tax allowance than people of working age.”<sup>106</sup>

The 2013 Budget was similarly geared towards consolidation and promoting business competitiveness, although it did not make many more big policy changes.<sup>107</sup> Instead, it continued cutting the corporate tax in the future—saying that it would go from 21% to 20% in 2015.<sup>108</sup> Also, the Budget provided for “most government departments to see budgets cut by 1% in each

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<sup>101</sup> HER MAJESTY’S TREASURY, BUDGET 2012: MARCH 2012, at 1 (U.K.), [http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/budget2012\\_complete.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/budget2012_complete.pdf).

<sup>102</sup> *Id.*

<sup>103</sup> *Budget 2012 at a glance: George Osborne’s key points*, BBC NEWS (Mar. 22, 2012), <http://www.bbc.com/news/uk-politics-17449501>.

<sup>104</sup> *Id.*

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

<sup>107</sup> *See Budget 2013 at a glance: George Osborne’s key points*, BBC NEWS (Mar. 20, 2013), <http://www.bbc.com/news/uk-politics-21851965>.

<sup>108</sup> *Id.*

of [the] next two years.”<sup>109</sup>

## **II. THE EFFECTS**

### **A. AMERICAN FISCAL POLICY**

There has been much debate over how successful the American fiscal policy since 2008 has been. This debate has been fueled by the fact that “the pace of recovery has been slow. Real GDP growth has averaged only 2.1% per annum over the past six years, well below the 3% average growth experienced since World War II.”<sup>110</sup>

In particular, the effects of the ARRA have been especially controversial. This controversy is partially due to an expectations problem created by the Obama administration. In enacting the ARRA, the administration said that the unemployment rate would not go above 8%.<sup>111</sup> However, the administration was unaware that the unemployment rate was already at 7.8% in January 2009, making its estimate of an 8% ceiling untenable.<sup>112</sup> This mistake was then used as ““proof”” by Republicans that the ARRA had failed when unemployment “peaked at a horrific 10 percent.”<sup>113</sup> Despite this political rhetoric, a more recent study by Alan S. Blinder and Mark Zandi demonstrates that the ARRA did in fact help stop the recession. Blinder and Zandi write that the ARRA was “vital to ending the free fall in the economy and jump-starting the economic recovery,”<sup>114</sup> noting that ARRA’s provisions “added well over 2% to GDP in 2009 and an additional almost 1% by the end of 2010.”<sup>115</sup> Additionally, they explained:

The temporary tax cuts were particularly important in supporting consumer spending in the teeth of the downturn, but the spending, including increased

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<sup>109</sup> *Id.*

<sup>110</sup> Blinder & Zandi, *supra* note 13, at 23.

<sup>111</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 231.

<sup>112</sup> *Id.*

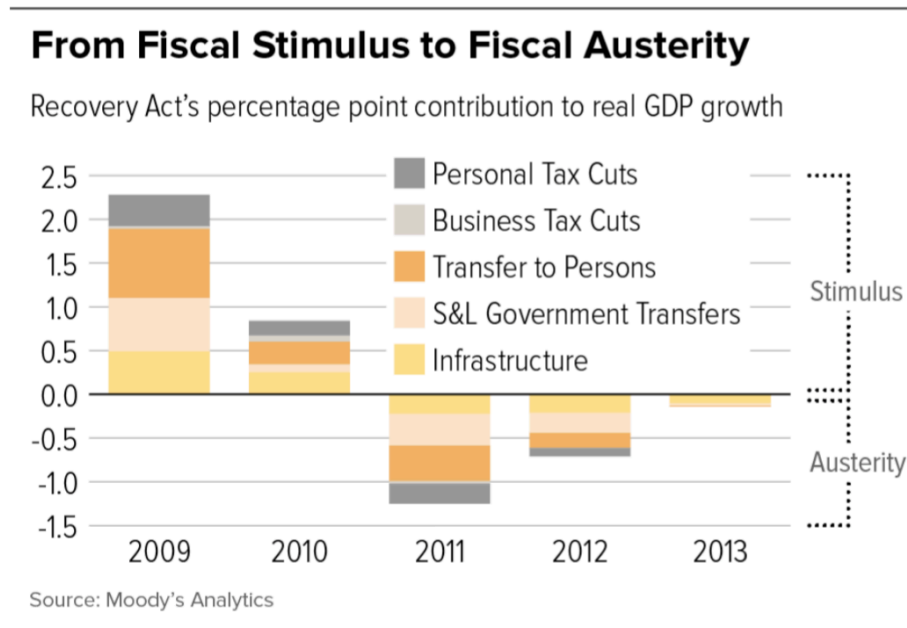
<sup>113</sup> *Id.*

<sup>114</sup> Blinder & Zandi, *supra* note 13, at 26.

<sup>115</sup> *Id.* at 25.

outlays on infrastructure, boosted growth for longer. By 2011, the provisions of the Recovery Act were winding down, which weighed on growth, shaving over a percentage point from real GDP growth. The effects of this large fiscal stimulus package had largely faded away by 2013.<sup>116</sup>

The following chart illustrates these points.



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Not only was real GDP 3.3% higher than it would have been in 2010 without the ARRA, but the ARRA also positively affected job production.<sup>118</sup> In fact, Blinder and Zandi found that the ARRA “added almost 3 million jobs at its apex, and the unemployment rate was reduced by more than 1.5 percentage points.”<sup>119</sup> The following table sums up these statistics and further breaks down how they were calculated.

<sup>116</sup> *Id.*

<sup>117</sup> *Id.*

<sup>118</sup> *Id.* at 26–27.

<sup>119</sup> *Id.* at 26.

## Estimated Impact of the American Recovery and Reinvestment Act

	Real GDP (%)			Employment (millions)			Unemployment Rate (percentage point)		
	CBO Low	CBO High	Moody's	CBO Low	CBO High	Moody's	CBO Low	CBO High	Moody's
2009	0.4	1.8	1.3	0.2	0.9	0.8	-0.1	-0.5	-0.4
2010	0.7	4.1	3.3	0.7	3.3	2.6	-0.4	-1.8	-1.4
2011	0.4	2.3	2.0	0.5	2.6	1.7	-0.2	-1.4	-1.1
2012	0.1	0.8	0.5	0.2	1.1	0.4	-0.1	-0.6	-0.2
2013	0.1	0.4	0.1	0.1	0.5	0.1	0.0	-0.3	-0.1
2014	0.0	0.2	0.0	0.1	3.0	0.0	0.0	-0.2	0.0

Source: Moody's Analytics, CBO

Of course, while these statistics indicate that the ARRA was successful at curbing the recession, the logical question they present is if a bigger or different stimulus would have been even better for the economy. While the inquiry about a bigger stimulus is mooted by the fact that it would have been politically impossible to achieve (recall that the ARRA was barely accepted by Republicans), Blinder has previously suggested that job creation could have happened more cheaply. He argues that job creation could have been targeted more effectively if the ARRA had included a new jobs tax credit (“NJTC”), which the administration had considered but ultimately did not pursue.<sup>120</sup> Against the backdrop in which the ARRA estimated that it would cost \$112,000 of GDP to create one job, Blinder explained how the NJTC would work by saying:

Under such a plan, businesses would be offered, say, a \$5,000 annual tax credit for each employee they *add* to their payrolls. If the average employee costs \$50,000 a year, the effect is like cutting wages by 10 percent. The statistical evidence clearly shows that firms hire more workers when wages are lower, which is hardly a surprise. And estimates at the time suggested that the cost of the NJTC per job created would run in the \$35,000 to \$40,000 range, making it roughly three times as efficient as general fiscal stimulus.<sup>121</sup>

This measure could conceivably have been better, however, it is impossible to know for sure

<sup>120</sup> AFTER THE MUSIC STOPPED, *supra* note 1, at 229.

<sup>121</sup> *Id.* at 229–30.

since it was never implemented because businesses did not support it.<sup>122</sup>

Although the ARRA was the biggest stimulus measure the U.S. took, the other stimulus measures between 2008 and 2012 were also helpful in improving the economy. Blinder and Zandi ascertained this by comparing the economy with all of the fiscal stimulus measures taken to what would have happened had no stimulus occurred.<sup>123</sup> Under these conditions, they found that without the stimulus measures, the peak-to-trough decline in real GDP would be almost 6%,<sup>124</sup> as opposed to the 4.25% it actually was.<sup>125</sup> Additionally, total job loss would have totaled almost 11 million<sup>126</sup> instead of 8.8 million.<sup>127</sup> Furthermore, the economy would have bottomed out in late 2009 and unemployment would have peaked at 11%.<sup>128</sup> Despite these statistics, however, it is clear that the measures taken after the ARRA were not as successful as the ARRA itself—GDP grew by only 1.68% in 2011 and 1.28% in 2012, whereas it grew by 2.73% in 2010.<sup>129</sup>

While Blinder and Zandi's study shows that the stimulus as a whole was successful, one measure that was decidedly unsuccessful was President Obama's "Cash for Clunkers" program. In a study from Texas A&M University, three economists concluded, "Car sales went up during the program, but they went down by enough during the subsequent seven to nine months that the total number of vehicles sold within a year of the start of the program was not affected."<sup>130</sup>

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<sup>122</sup> *Id.* at 230.

<sup>123</sup> Blinder & Zandi, *supra* note 13, at 25. This scenario assumes that the other, non-fiscal measures that were taken still occurred.

<sup>124</sup> *Id.*

<sup>125</sup> *See supra* p 1.

<sup>126</sup> Blinder & Zandi, *supra* note 13, at 25.

<sup>127</sup> *See supra* p 1.

<sup>128</sup> Blinder & Zandi, *supra* note 13, at 25.

<sup>129</sup> *U.S. Real GDP Growth Rate by Year*, <http://www.multpl.com/us-real-gdp-growth-rate/table/by-year>.

<sup>130</sup> Stan Veuger, *A Clunker of a Program*, U.S. NEWS & WORLD REPORT (Aug 14, 2014), <http://www.usnews.com/opinion/economic-intelligence/2014/08/14/obamas-cash-for-clunkers-stimulus-bailout-failed-car-companies>.

Additionally, because of the environmental safeguards in the rules, people who did buy new cars bought ones that were smaller and cheaper.<sup>131</sup> In fact, people “‘spent an average of \$4,600 less on a new vehicle than they otherwise would have.’”<sup>132</sup> Consequently, “total spending on new cars actually went down in 2009-2010, at the height of the recession.”<sup>133</sup> Ultimately, the government spent \$3 billion on the program and wound up reducing car spending by the same amount.<sup>134</sup> Thus, the program was a failure; however, as discussed, its failure did not prevent the overall stimulus from being successful.

Like the stimulus, it appears that the austerity policy that hit its stride in 2013 with the “fiscal cliff” deal and sequestration<sup>135</sup> was at least somewhat successful in continuing economic improvement as well. First, despite the spending cuts and tax increases that the policy included, the unemployment rate continued to improve. When the sequestration began in March of 2013, the unemployment rate was 7.5%.<sup>136</sup> Although the unemployment rate worsened slightly in April 2013 (going to 7.6%), thereafter it continued to fall, ending up at 6.7% in December of 2013.<sup>137</sup> Similarly, the austerity did not negatively affect unemployment in 2014—it fell to 5.6% by the end of the year.<sup>138</sup> In terms of the fiscal consolidation’s impact on GDP, GDP grew by 2.45% in 2013 and 2.47% in 2014 (more than it had in the previous two years).<sup>139</sup> Finally, the austerity was successful in its primary objective—reducing the deficit. For example, the deficit before the sequestration and fiscal cliff deal peaked at 9.8% of GDP in 2009 and was at 6.8% of GDP in

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<sup>131</sup> *Id.*

<sup>132</sup> *Study: ‘Cash for Clunkers’ an even bigger lemon than thought, supra* note 47.

<sup>133</sup> Veuger, *supra* note 130.

<sup>134</sup> *Id.*

<sup>135</sup> *See supra* p. 11.

<sup>136</sup> *Databases, Tables & Calculators by Subject*, BUREAU OF LABOR STATISTICS, <http://data.bls.gov/timeseries/LNS14000000>.

<sup>137</sup> *Id.*

<sup>138</sup> *Id.*

<sup>139</sup> *U.S. Real GDP Growth Rate by Year, supra* note 129.

2012.<sup>140</sup> However, the deficit dropped to 4.1% of GDP in 2013 and 2.8% of GDP in 2014. The following chart further delineates the change in deficit rate as a percentage of GDP during and after the Great Recession.

Year	GDP (in billions of dollars)	Total		
		Receipts	Outlays	Surplus or Deficit (-)
2005	12,888.9	16.7	19.2	-2.5
2006	13,684.7	17.6	19.4	-1.8
2007	14,322.9	17.9	19.1	-1.1
2008	14,752.4	17.1	20.2	-3.1
2009	14,414.6	14.6	24.4	-9.8
2010	14,798.5	14.6	23.4	-8.7
2011	15,379.2	15.0	23.4	-8.5
2012	16,027.2	15.3	22.1	-6.8
2013	16,498.1	16.8	20.9	-4.1
2014	17,183.5	17.6	20.4	-2.8
2015	17,803.4	18.3	20.7	-2.5
2016 estimate	18,472.0	18.1	21.4	-3.3

<sup>141</sup>

## **B. BRITISH FISCAL POLICY**

Although there are no studies like Blinder and Zandi's that quantify the exact effects of U.K. fiscal policy (especially as distinguished from those of monetary policy) in the wake of the financial crisis, the impact of the government's short period of stimulus and then turn to austerity can be examined by looking at the changes in GDP, unemployment and the deficit. As mentioned, the U.K.'s stimulus began in late 2008 and lasted until the Labour Party lost power in the middle of 2010.<sup>142</sup> From an exploration of the change in GDP during the period of stimulus, it is difficult to make conclusions about the exact magnitude of the stimulus' impact; however, it is clear that the stimulus halted the deficit and spurred new economic growth. In 2009, the GDP

<sup>140</sup> Table 1.2—Summary of Receipts, Outlays, and Surpluses or Deficits (-) as Percentages of GDP: 1930–2021, *supra* note 54.

<sup>141</sup> *Id.*

<sup>142</sup> See *supra* p. 14–15.



had its worst year, dropping 4.3%.<sup>143</sup> However, the GDP rebounded in 2010, climbing by 1.9%.<sup>144</sup> This figure, however, is somewhat confusing to understand because the fiscal consolidation began in the middle of 2010. More telling is the fact that GDP began growing, relative to the previous quarter, in the third quarter of FY2009, and continued to do so in the first quarter of FY 2010 by .6%.<sup>145</sup> One measure that clearly contributed to the rise in GDP was the cut in the VAT rate from 17.5% to 15%. In fact, a study conducted by Thomas Crossley, Hamish Low, and Cath Sleeman found that “the cut raised the volume of retail sales by around 1% which on its own generates a 0.4% increase in total expenditure.”<sup>146</sup> The study found that this increase was the case despite the fact that “[a]lthough firms initially passed through the VAT cut [to consumers] by lowering their prices, at least part of the pass through of the VAT cut was reversed after only a few months.”<sup>147</sup>

Although the steady increase in GDP per quarter indicates that the stimulus was effective, it was abruptly cut short by Osborne’s emergency budget in the middle of FY 2010, which began a period of fiscal consolidation. The magnitude and effects of the U.K.’s austerity have been widely debated. Some people in the U.K. feel as though Osborne did not live up to his promise of strict austerity. For example, Wrathmell stated, “The public spending changes and tax

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<sup>143</sup> *Gross Domestic Product Preliminary Estimate, Q4 2014*, OFF. FOR NAT’L STATISTICS 6 (Jan. 27, 2015), [http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171778\\_392909.pdf](http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171778_392909.pdf).

<sup>144</sup> *Id.*

<sup>145</sup> Simon Rogers & Ami Sedghi, *U.K. GDP Since 1955*, THE GUARDIAN (Oct. 25, 2013), <http://www.theguardian.com/news/datablog/2009/nov/25/gdp-uk-1948-growth-economy>.

<sup>146</sup> Thomas Crossley, Hamish Low & Cath Sleeman, *Using a temporary indirect tax cut as a fiscal stimulus: evidence from the UK 1* (Inst. for Fiscal Stud., Working Paper No. W14/16, 2014), available at <http://www.ifs.org.uk/uploads/publications/wps/wp201416.pdf>.

<sup>147</sup> *Id.*

increases haven't been as long in practice as they were in rhetoric.”<sup>148</sup> Others, however, feel that this sentiment is misplaced. For example, one official at HMT explained:

The argument that austerity didn't happen comes from misunderstanding things. People that use that critique say it wasn't that austere because the Chancellor didn't quite deliver what he announced. If you look at the budget deficit numbers though, we started with 11% and he said he was going to bring it down to 3-4%. So he only got it from 11% to 5%, but the reason was because the economy didn't perform as well as expected. So the government did deliver less, but the government is also right because based on the state of the economy, they would have been able to deliver had there not been a Eurozone crisis. This doesn't mean that austerity didn't happen.<sup>149</sup>

Regardless of where the blame or credit is attributed, what is clear is that the consolidation that Osborne imposed brought the deficit down to 5.7% of GDP in 2013 (it peaked at 11.4% in 2009).<sup>150</sup>

As in the U.S., the fiscal austerity in the U.K. was successful at continuing growth after the stimulus. However, unlike in the U.S. where GDP grew more after austerity was implemented than in previous years,<sup>151</sup> the rate of GDP growth in the U.K. declined after 2010. In fact, GDP growth fell from 1.9% in 2010 to 1.6% in 2011.<sup>152</sup> The situation was even worse in 2012—GDP grew by only .7%.<sup>153</sup> Finally, in 2013 GDP grew by 1.7%.<sup>154</sup> Given that GDP dropped by 4.3% in 2009 and grew by 2.6% in 2014, these statistics indicate that the average rate of GDP growth from 2009 through 2014 was .7%. Excluding 2009, the average change in GDP since the U.K. began to see economic growth (2010) through 2014 was approximately 1.2%. This rate sharply contrasts the average growth rate in the U.S. for the same years, which, at

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<sup>148</sup> Telephone interview with John Wrathmell, *supra* note 85.

<sup>149</sup> Telephone interview with HMT Official (Feb. 11, 2016).

<sup>150</sup> *United Kingdom Government Budget*, TRADING ECONOMICS <http://www.tradingeconomics.com/united-kingdom/government-budget>.

<sup>151</sup> *See supra* p. 22.

<sup>152</sup> *Gross Domestic Product Preliminary Estimate, Q4 2014*, *supra* note 143, at 6.

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

2.1%, was .9% higher.<sup>155</sup> More specifically, as shown in the following charts, the U.S. beat the U.K. in terms of GDP growth in every year until 2014.<sup>156</sup>

Year	U.S. GDP Growth Rate (measured in calendar years)	U.K. GDP Growth Rate (measured in U.K. fiscal years)
2008	-2.77%	-.3%
2009	-.24%	-4.3%
2010	2.73%	1.9%
2011	1.68%	1.6%
2012	1.28%	.7%
2013	2.45%	1.7%
2014	2.47%	2.6%

Additionally, it is noteworthy that the U.S. GDP has consistently grown each quarter, relative to the previous quarter, since the end of 2009.<sup>157</sup> In contrast, however, the U.K. has had quarters where the GDP has declined relative to the previous quarter, including in the fourth quarter of 2010, only months after austerity began.<sup>158</sup>

The U.K. also fared worse than the U.S. did in terms of reducing its unemployment rate. When the crisis began in 2008, the unemployment rate was at 5.7%.<sup>159</sup> However, in 2009, when the U.K.'s GDP was at its lowest, the unemployment rate jumped to 7.6%.<sup>160</sup> This increase is

<sup>155</sup> See *supra* p. 18.

<sup>156</sup> *U.S. Real GDP Growth Rate by Year*, *supra* note 129; *Gross Domestic Product Preliminary Estimate, Q4 2014*, *supra* note 143, at 6.

<sup>157</sup> *U.S. GDP Growth Rate by Quarter*, <http://www.multpl.com/us-gdp-growth-rate/table/by-quarter>.

<sup>158</sup> Rogers & Sedghi, *supra* note 145.

<sup>159</sup> *Unemployment Rate*, OFF. FOR NAT'L STATISTICS (Mar. 16, 2016), <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx>.

<sup>160</sup> *Id.*

consistent with what occurred in the U.S., where unemployment peaked in October of 2009 at 10%.<sup>161</sup> However, unlike the American unemployment rate, which steadily decreased after the ARRA was passed and had begun to take effect,<sup>162</sup> the U.K. rate continued to increase, even after its stimulus measures kicked in. In 2010, the British unemployment rate increased to 7.9%, and it finally peaked in 2011, hitting 8.1%.<sup>163</sup> As these statistics reflect, many people lost their jobs during the period, although the impact fell largely on public sector employees. A study by Jon Riley & Robert Chote of the Office of Budget Responsibility explained:

During the crisis, market sector employment fell by 0.8 million between the start of 2008 and the start of 2010. Over the subsequent three years it rose by 1.2 million. In contrast, general government employment rose slightly during the recession, but then fell by 360,000 from its peak between the end of 2009 and the start of 2013, reflecting the fiscal consolidation. Over the whole period to the end of 2012-13, market sector employment rose by around 400,000 (rather than the 600,000 forecast prior to the crisis) while general government employment fell by around 200,000 (rather than remaining flat).<sup>164</sup>

Overall, considering the fiscal policies of both the U.S. and the U.K. and examining their effects, it seems that both the American and British governments have been successful at stopping their recessions, restarting GDP growth, reducing their unemployment rates, and bringing down their deficits. However, based on comparisons of the magnitudes of both states' recoveries from the Great Recession, it appears that the U.S. has fared somewhat better than the U.K.

### **III. THE LESSONS LEARNED**

There are a few themes that have emerged out of the ways in which the U.S. and the U.K. recovered from the Great Recession that should be remembered by policymakers in the future.

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<sup>161</sup> *Databases, Tables & Calculators by Subject*, *supra* note 136.

<sup>162</sup> *Id.*

<sup>163</sup> *Id.*

<sup>164</sup> Riley & Chote, *supra* note 69, at 41.

First, one simple yet major truth to be considered is that *stimulus works*. This fact was proved in Blinder and Zandi's study<sup>165</sup> and also substantiated by the U.K.'s GDP growth after the stimulus began.<sup>166</sup> A caveat to this maxim is that *larger stimuli work better in larger recessions* like the Great Recession. In their study, Blinder and Zandi confirm this idea by saying that "[t]he size of the stimulus should be proportionate to the magnitude of the expected decline in economic activity."<sup>167</sup> The experiences of the U.S. and the U.K. illustrate this theme. In the U.S. the ARRA, which was the U.S.' main stimulus measure, totaled 5.7 percent of the U.S.' GDP in 2009.<sup>168</sup> On the other side of the spectrum, in the U.K., the PBR, which was the U.K.'s main stimulus measure, totaled only 1.4 percent of the U.K.'s GDP in 2009.<sup>169</sup> Accordingly, the U.K. ended up with an average GDP growth per year that was .9% less than the U.S.' Thus, policymakers should remember that when dealing with large economic crises, bigger stimuli are better. Additionally, Blinder and Zandi explain that "the ["specific tax and spending policies"] taken may have to be more varied, or even experimental, when the downturn is anticipated to be deep."<sup>170</sup> Given the battle that American Democrats and Republicans had over increasing spending, as opposed to just cutting taxes, during the debate over the ARRA, this idea is one that is clearly not understood by many. However, it is an important one for politicians to internalize so that future recessions can be handled as effectively as possible.

There is one significant corollary to the lesson that stimulus works—*it should not be cut off too early by fiscal consolidation*. As Blinder and Zandi put it, "Fiscal policy should not swing from stimulus to austerity until it is clear that the financial system is stable and the economy is

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<sup>165</sup> See *supra* p. 18–21.

<sup>166</sup> See *supra* p. 25.

<sup>167</sup> Blinder & Zandi, *supra* note 13, at 40.

<sup>168</sup> See *supra* p. 9; *US Real GDP by Year*, <http://www.multpl.com/us-gdp-inflation-adjusted/table>.

<sup>169</sup> Tisa Silver, *Global Bailout: Did the U.K. Do Enough?*, INVESTOPEDIA (Dec. 9, 2009), <http://www.investopedia.com/financial-edge/1209/global-bailout-did-the-u.k.-do-enough.aspx>.

<sup>170</sup> Blinder & Zandi, *supra* note 13, at 40.

enjoying self-sustaining growth.”<sup>171</sup> This lesson is clearly exemplified by comparing the experiences of the U.S. and the U.K. from 2008 through 2013. As demonstrated above, the U.K. had a brief, two-year stimulus before resorting to fiscal austerity, while the U.S. did not begin true fiscal consolidation until 2013. The U.S.’s policy has resulted in a 2.1% average increase in GDP per year, and a consistently falling unemployment rate since the height of the Great Recession. On the other hand, however, instead of decreasing unemployment, the U.K.’s policy led to increasing unemployment that did not peak until 2011—about three years after the crisis began. Similarly, the U.K.’s average GDP growth per year was only 1.2%.

Furthermore, even though the U.S. has fared better than the U.K. since 2008, the slow growth rate that the U.S. has been experiencing has been at least partially attributed by some economists to the U.S.’ switch from stimulus to consolidation. For example, Mark Thoma, an economist at the University of Oregon, has opined, “[T]here was no follow through when it was clear more stimulus was needed. To make matters worse, instead of providing adequate stimulus over an extended time period, Congress actually turned to austerity and sequestration – budget cuts – when just the opposite was needed. The recovery could have been much faster...”<sup>172</sup> This idea is corroborated in Blinder and Zandi’s work, which explains that “[a] good rule of thumb is that the estimated unemployment gap—the difference between actual unemployment and the full-employment unemployment rate as a percent of the labor force—be clearly less than 1 percentage point and declining before the stimulus is withdrawn.”<sup>173</sup> Neither the U.K. nor the U.S. waited until the suggested juncture before beginning their consolidation. Instead, the U.K.,

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<sup>171</sup> *Id.*

<sup>172</sup> Mark Thoma, *Why is the Recovery so Agonizingly Slow?*, THE FISCAL TIMES (Jan. 14, 2014), <http://www.thefiscaltimes.com/Columns/2014/01/14/Why-Recovery-so-Agonizingly-Slow>.

<sup>173</sup> Blinder & Zandi, *supra* note 13, at 40.

where the full employment unemployment rate<sup>174</sup> is 5% according to the Bank of England and the Office for Budget Responsibility, began its austerity when unemployment was at 7.9% and was increasing.<sup>175</sup> Similarly, the U.S., where the Federal Reserve puts the full employment unemployment rate between 5.2% and 5%, began fiscal consolidation when unemployment was at 7.5%.<sup>176</sup> Although counterfactuals can never be completely definitive, it seems likely that both states would have recovered better had they waited longer to stop their stimulus measures before turning to austerity. The obvious rebuttal to the idea that stimulus should have been extended is that doing so would have further increased the states' debt, leading to future problems. However, while it is true that further stimulus would have increased debt, "[a] majority of economists...think the cost-benefit calculus of running larger versus smaller deficits shifts dramatically in favor of deficits when the economy is depressed."<sup>177</sup> Thus, policymakers should consider continuing fiscal stimulus longer in the future.

Finally, a third lesson to take away from examining the U.S. and U.K.'s fiscal strategies is that it is best to avoid hard-and-fast fiscal rules. The main source for this notion is the U.K.'s experience with its two rules, including the "golden rule," created under then-Chancellor of the Exchequer Gordon Brown. Although the rules were ultimately abolished by Osborne and thus did not actually control the way that he decided on his fiscal policy, the main havoc that the rules wreaked was psychological—they set expectations and thereby made both the public and the government particularly squeamish about higher deficits at a time when they should have been

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<sup>174</sup> The full employment unemployment rate is the unemployment rate at "full employment," which "is defined as a labor market with no cyclical unemployment." Cory Stern, *The US labor market is rapidly approaching a major milestone, full employment*, BUSINESS INSIDER (June 9, 2015), <http://www.businessinsider.com/us-full-employment-2015-6>.

<sup>175</sup> Oscar Williams-Grut, *The British economy is heading towards a sweet spot*, BUSINESS INSIDER (May 13, 2015), <http://www.businessinsider.com/has-the-uk-economy-reached-full-unemployment-2015-5?r=UK&IR=T>.

<sup>176</sup> Stern, *supra* note 174.

<sup>177</sup> Blinder & Zandi, *supra* note 13, at 35.

more accepting of them. Thus, in the U.K., as Wrathmell stated, “very few people would have argued in 2010 that there didn’t need to be some consolidation.”<sup>178</sup> In contrast, in the U.S., although people were concerned about the nation’s debt in 2010 and 2011, there was enough support for continuing the stimulus such that it was extended. Accordingly, moving forward, policymakers should think twice before committing themselves to any fiscal rules and instead respond to each economic situation as it comes. In fact, Osborne himself seemed to realize this—not only did he strike down Brown’s rules but he also chose not to introduce any new ones of his own.

## **CONCLUSION**

Although the financial crisis known as the Great Recession was one of the worst in decades, both the U.S. and the U.K. have successfully, albeit slowly, recovered from it. To do so, the U.S. implemented a fiscal policy that began with a substantial period of fiscal stimulus. This period, which began in 2008 and ran through 2012, was primarily marked by the ARRA, the U.S.’s most significant stimulus measure, which both cut taxes and increased spending. Ultimately, in 2013, the U.S. moved into a period of austerity, which was started by the “fiscal cliff” deal and sequestration. On the other side of the spectrum, the U.K. had a short period of stimulus from 2008 into 2010, but quickly turned to fiscal consolidation when the Coalition government took power from the Labour Party. Both the U.S. and U.K.’s policies were successful at ending the recession and restarting economic growth, but to varying degrees. From comparing the effects of both policies, it is clear that the U.S.’ policy was more effective at raising the country’s GDP and decreasing unemployment than the U.K.’s was.

Given these facts, there are three main lessons to be remembered by policymakers in

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<sup>178</sup> Telephone interview with John Wrathmell, *supra* note 85.



future economic crises. First, politicians should remember that fiscal stimulus is successful at reversing downturns and jumpstarting the economy and that bigger stimuli are better. Second, people should not forget that fiscal consolidation should not replace stimulus measures until the economy is ready to handle it, which, according to Blinder and Zandi, is not until “the difference between actual unemployment and the full-employment unemployment rate as a percent of the labor force—[is] clearly less than 1 percentage point and declining...”<sup>179</sup> This principle was not followed by either the U.K., or, to a lesser extent, the U.S., which likely accounts, at least partially, for the slow recovery rates of both states. Finally, policymakers should consider the harms of imposing strict fiscal rules on their states because, as seen in the case of the U.K., they can create expectations that ultimately lead to worse policy decisions. Hopefully, by following these three lessons, states will be better equipped to handle financial crises in the future.

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<sup>179</sup> Blinder & Zandi, *supra* note 13, at 40.

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