

Macro-economics, local experimentation  
and discovery: Meeting the challenges of  
economic change

Directors' Forum: conference of Directors  
of Children's Services, Dartington Hall

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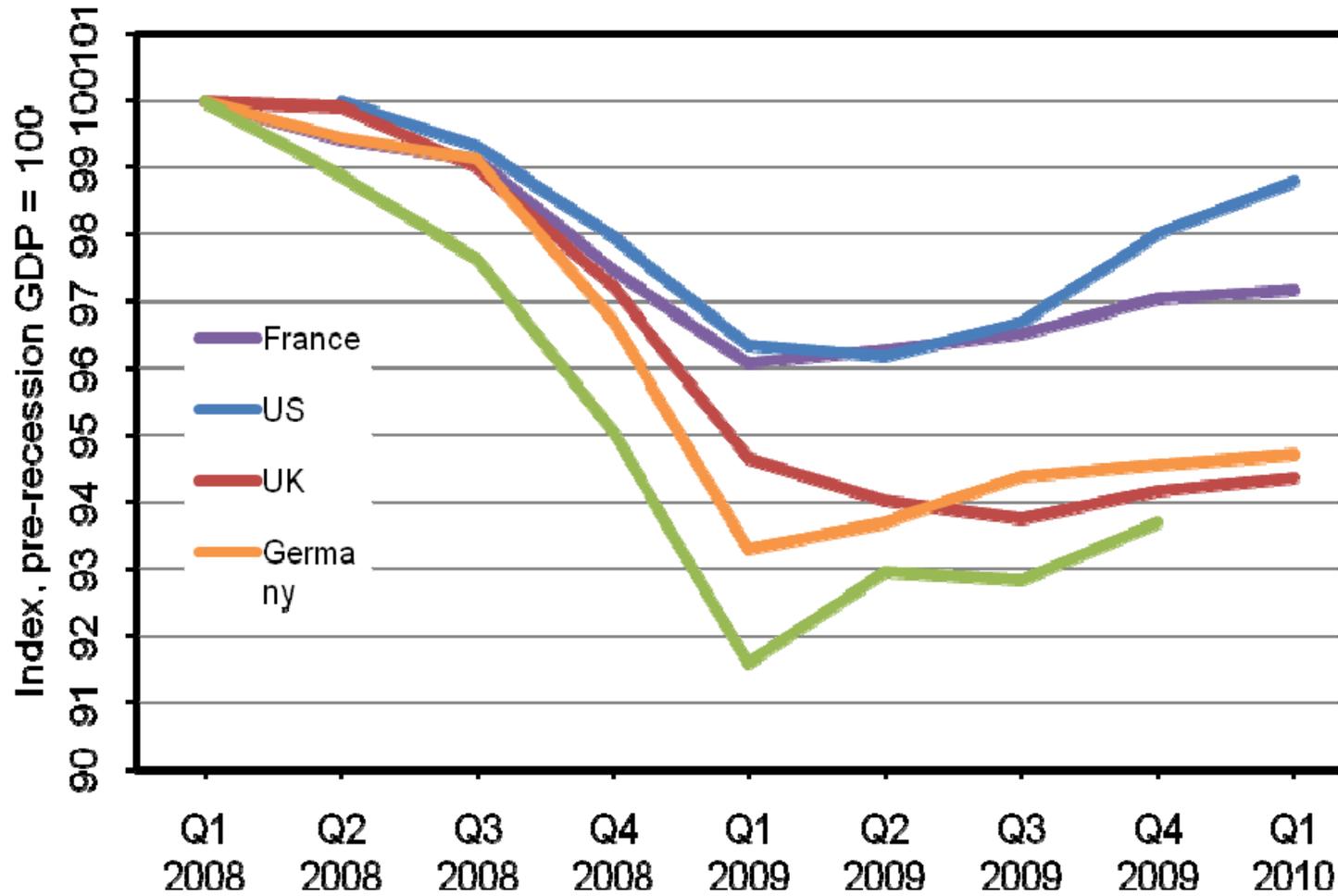
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- 224 examples of recessions (negative growth of output) in the West since the late 19th century
- Most recessions are short - 70 per cent only last 1 year, another 20 per cent last 2
- Long recessions are rare





## Volterra How typical has the recession been? (2)

- o Most recessions are small
- o One quarter show a fall of output less than 1 per cent
- o One half show a fall of less than 2.5 per cent



- A deep recession, in most countries the falls in output are in the top one quarter of all recessions since late 19th century
- Once recovery starts, it tends to be fast - V shaped
- After financial crises, it is more usually U-shaped
- And after financial crises, there is usually a sovereign debt crisis



- o Completely different policy response from the American authorities
- o Output in the US fell 2.5 per cent and is now growing again
- o 1930-33 it fell 27 per cent, almost 1 in 4 Americans were jobless
- o India, China etc are now big economies and have continued to grow
- o Overall, cautious optimism



- Historically, there seems to be a tipping point of debt as a percentage of GDP
- Below this, debt rarely causes financial crises; above it, it can be does not always
- This percentage is 90-100 per cent



- In 1950, the percentage for the UK was around 200
- In Japan in the decade before the recession, it averaged more than 150 per cent
- The current UK figure - there are different ways to define it - is below the tipping point
- Much of the deficit - the annual addition to debt- is due to the recession and only a tiny part to 'bailing out banks'
- When the economy recovers, the deficit will shrink



- The deficit - the annual addition to debt - *is* big
- Not much inflation to erode the real value of debt
- Brown ran a deficit even in the good years - there is a structural imbalance
- It is to a large part a matter of market sentiment rather than 'objective reality'
- But this doesn't make the problem less real



- Brown really did believe that problems could be solved by throwing money at them
- This has simply not worked - public sector productivity record is poor
- A non-trivial part of the increases in public spending went in pay rather than to provide services
- This is why there will be serious squeezes on public sector budgets



# Volterra Value for money and successful delivery

- 21st century approaches require economic/social systems to be thought of more from an evolutionary perspective than from the central planning mechanical approach of the 20th century
- Diversity is important in getting the best results - local experimentation
- 'there is no success like failure': Bob Dylan - public sector needs to accept that failure is an integral part of success
- Nudge is fine but not always easy to anticipate the effects
- Networks are the key - 'social learning' - to behaviour change and successful policy
- Royal Society of Arts promoting the theme '21st century enlightenment'
- [www.paulormerod.com](http://www.paulormerod.com)

