

Comments on Subacchi and  
Oxenford  
Increasingly apart: The Euro area  
and the UK

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# Overview

- Good paper: informative analysis of UK and EA growth since the GFC.
- Highlights relative greater flexibility of UK labor market as major reason for superior UK growth.
- Agree labor market flexibility critical
  - Even more for intra EA adjustment

Comments: 2 fns on UK; macro policy contributions to disparate outcomes

# UK Footnotes

- Importance of product market flexibility.
  - UK has high product market flexibility and ease of firm entry and exit.
- Risks of consumption driven growth with C/A deficit.
  - See US 2004-07
  - High HH debt
    - Vulnerability to shocks and amplification

# Macro policy differences UK-EA (1)

- Fiscal policy
  - UK responded more forcefully to recession
  - Both UK and EA tightened since 2009, but UK still has less restrictive policy than EA, cyclically adjusted
  - In EA constraints on fiscal policy in periphery not offset by expansion in countries with fiscal space.

# Macro policy differences UK-EA (2)

- Monetary policy
  - UK rapid forceful response to recession
    - Rates, QE, FLS
  - EA slow, initial reversals
    - Now forceful: negative rates, asset purchases
    - But interest rate increases in 2008, 2011
    - 2 percent as ceiling, not goal; responses to headline
    - Critical importance of nominal growth for debt sustainability

# Macro policy differences UK-EA (3)

- Macroprudential regulation—bank recapitalization
  - Both back debts and use government capital in crisis
  - Recovery held back in both by tight bank credit
  - UK recognized earlier recapitalization required for lending
    - Stress measure of adequacy
    - Faster phase in of B3
    - Tradeoffs: FPC mitigates risk of added restraint in short run

- EA handicapped by sovereign risk and national responsibility for banks
- Apparently reluctant to force private capital raises
- Impetus from banking union and asset quality review helped, but late

# Summary

- Good paper: learned a lot about UK-EA
- Labor market flexibility is critical
- But so are differences in fiscal, monetary, and macroprudential policies
  - EA handicapped by cumbersome decision making and divided responsibilities growing out of currency area made up of sovereign states.
    - Some progress toward centralized decision making e.g. for banking supervision—but enough?