The impact of the recent financial crisis on the public sector

Tony Travers
London School of Economics

Initial government responses, 2008 and 2009

- Maintain levels of public expenditure as ‘Keynesian’ stabilisation for national economies
- Some boost to capital investment to provide an additional stimulus
- Creation of a two-speed economy
  - Private sector losing activity, employment
  - Public sector growing relatively and absolutely

Short-term consequences

- Public sector employment growth partly offset private sector contraction
- Sharp growth in government deficits in many countries
- Overall drop in GDP in many countries, typically 4 to 7 per cent
- Growth of fear of public sector debt crisis to replace banking debt crisis

When to start to deduce the deficit?

- Governments have varied in the timing of their decisions to start to reduce deficits, eg
- Early: Ireland, Germany, UK
- Little choice: Iceland, Greece, Spain
- Soon: France
- Later: United States

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