

## [Taking the Austrian medicine](#) [1]

Written by [Dr Eamonn Butler](#) [2] | Thursday 1 September 2011



As more data trickle in, it is becoming pretty obvious that bad weather and a royal wedding are not enough to explain the UK's poor growth record. The problems are more profound. Specifically, the UK economy is highly dependent on consumption ? government and household spending ? and neither of those is looking very clever right now.

Government spending has of course hardly fallen in real terms so far, but after years of rapid rises, even a slowdown is enough to give everyone the jitters. As for households, those with savings (by and large the biggest spenders) are earning almost nothing on their deposits, and are cutting back. Sure, those with mortgages may be paying less interest, but they are still gloomy too because they know that their money-making house-price spiral has come to an end. The near-collapse of the banks gave householders a shock, and now they are fully aware (at last) that they have been borrowing too much. So they are simply cutting back and trying to reduce their indebtedness. Unfortunately, they have been hit by higher taxes such as the VAT increase, which means they have to cut back even further to make a dent on their debt.

Richard Jeffrey of Cazenove Capital thinks that quantitative easing in the UK and US has not helped, because it has fuelled rises in raw material and energy costs which again have added to household costs, and forced them to cut back their other spending even faster. And looking at that trend, it is no wonder that surveys are showing high levels of pessimism in the business sector. Customers just aren't spending, which in turn means that business has less money coming in to put into investment, which in turn means that their capacity to boost future productivity and growth is diminished.

Look on the bright side, though. As the Austrian School of economists remind us, a downturn follows a credit binge just as surely as a hangover follows an alcohol binge. A hair of the quantitative easing dog might make you feel better for a time, but makes the eventual hangover worse. Eventually, though, your body and your economy recover. You just have to nurse your head and see the process through. With calls for more quantitative easing being rebuffed, it looks like the US and UK authorities have decided to take the Austrian medicine rather than reach for the bottle again.

[blog comments powered by Disqus](#) [4]

---

**Source URL:** <http://www.adamsmith.org/blog/tax-and-economy/taking-the-austrian-medicine>

### Links:

[1] <http://www.adamsmith.org/blog/tax-and-economy/taking-the-austrian-medicine>

[2] <http://www.adamsmith.org/authors/dr-eamonn-butler>

[3] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

[4] <http://disqus.com>