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To keep the euro alive will require cuts in living standards 'greater than the UK faced in WW2'

Likelihood of euro remaining in its current form 'only one in five'

To keep the euro in its current form would require cuts in consumer spending of 15% or more in Ireland, Greece, Spain, Portugal and Italy according to a new report released today. These cuts would be greater than the fall in consumer spending faced by the UK in World War Two¹.

The calculation, contained in the latest issue of Global Economic Prospects from the Prospects Service of the Centre for Economics and Business Research (Cebr), casts doubt on the euro's ability to survive.

The report argues that 'for the euro to survive in its current form, five things need to happen:

- 1) German growth needs to be 3% plus for at least 4 years;
- 2) A European bail-out fund sufficient to bail out Spain and Italy needs to be constructed;
- 3) A system whereby the EU has a some control over economic policy in the weaker economies needs to be constructed and encapsulated in a new treaty;
- 4) Government spending in the weaker economies needs to be cut by around 10% of GDP; and
- 5) Living standards in the weaker economies need to be cut by on average 15%.'

¹ The fall in consumer spending during WW2 was 14% for the UK, 21% for Germany and 27% for Japan - source Jerome B Cohen, *Japan's Economy in War and Reconstruction* (1949) p 354 for Japan and Germany, *The British War Economy*, (1949) W.Keith Hancock and Margaret M Gowing. If the start date for the fall in consumer spending in Japan is taken as 1941, the year Japan entered the war rather than 1939, the fall was 31%.

The report argues that ‘making all these things happen at the same time is unlikely to prove either politically or economically acceptable’.

Report co-author, Cebr Chief Executive Douglas McWilliams, comments: ‘There is no modern history of falling living standards in peacetime on the scale necessary to keep the euro in its current form. Indeed, the scale of the cuts necessary was only just achieved in wartime. This is why I think there is at best a 1 in 5 chance that the euro will survive as it is’.

As a result of the potential problems for the European economy, Cebr has revised down its forecast for world GDP growth.

Year	Forecast world real GDP growth, annual change	
	December 2010	September 2010
2010	3.8%	3.5%
2011	3.2%	3.4%
2012	3.6%	3.9%
2013	3.5%	3.8%
2014	3.5%	3.8%
2015	3.4%	4.1%

NOTES TO EDITORS

Cebr is a leading independent commercial economics consultancy with particular strengths in macroeconomic and market forecasting. The report has been co-authored by Cebr staff (for details see below).

The Global Prospects report is a quarterly report released as part of the prospects service - Cebr’s macroeconomic advisory package for business.

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