



What's the Matter with Britain?

Martin Wolf
Financial Times

01. Dec. 2022

Britain's Zigzag course

- Asia focus: support of AIIB (against US, pro China)
- Brexit
- “Mini budget” – low tax growth model
 - Gilt yield scare LDI Pension fund

- Pragmatism: Traditional strength of UK
- Is there a battle for UK's growth model?

Country Strategy

- Life science, IT, Green technology → standard setter
- Tax haven
Financial center focus
- European “bridge to Asia”

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→ *conflict with US (AIIB analogy)*

Country Strategy - **Geoeconomics**

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Green technology
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- Tax haven
Financial center focus
→ *confront Europe, US*
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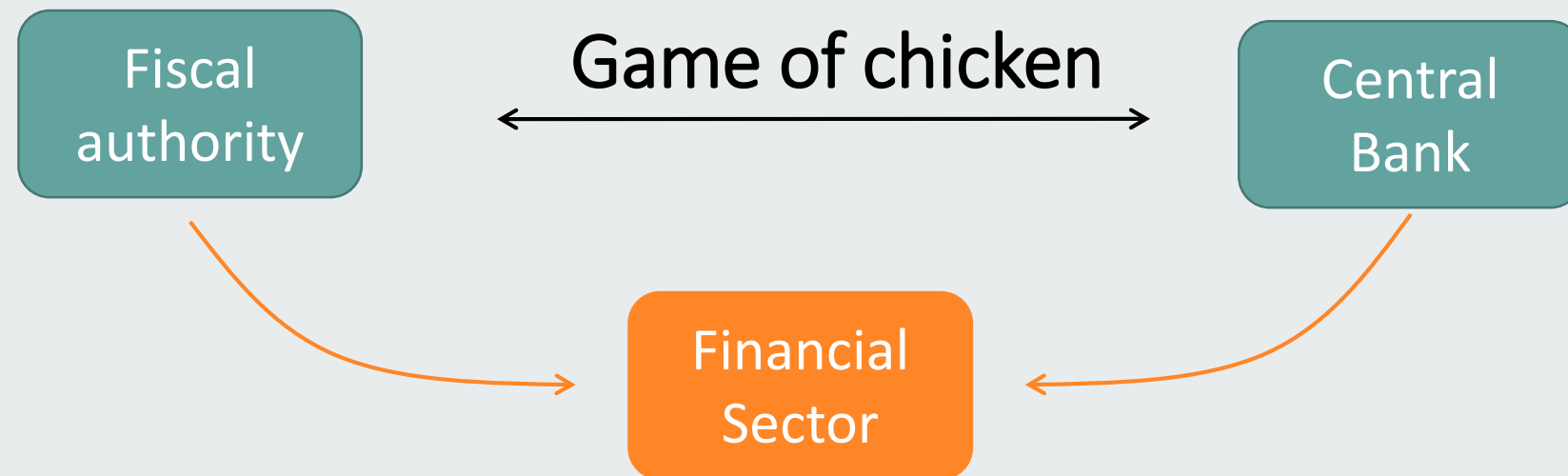
Interaction with
geopolitics

Global Trade and Current Account Deficit

- Free Trade Champion
Commonwealth connection
for services: English language advantage
- Ongoing **current account deficit**
 - Vulnerability to currency as pound is not safe asset/reserve currency
(no exorbitant privilege)

Gilt Yield Spike – Oct. 2022

- UK **fiscal** situation, **current account**, LDI-Pension fund **financial stability** issue
- 3-sided game of chicken
 - Monetary ■ Fiscal ■ Financial **Dominance**



- Monetary Dominance prevailed
 - PM Truss resigned

UK's Resilience

- Ability to **bounce back**
- Adaptability, agility
 - Political transition
- Pragmatism, Realism
 - but “past empire thinking”
- Civil service

Poll

1. Will the UK rejoin the EU single market before 2030?
 - Yes or No
2. Will the Northern Ireland protocol be abandoned?
 - Yes or No
3. Can the UK recover the pre-financial-crisis growth rate of GDP per head?
 - Yes or No
4. UK growth strategy will be most successful if
 - Technology focused (Scandinavian)
 - Tax haven focused (Switzerland)
 - “Bridge to Asia” focused
 - Other focus



What is the matter with Britain?

Martin Wolf, Chief Economics Commentator, Financial Times

Markus' Academy

30th November 2022

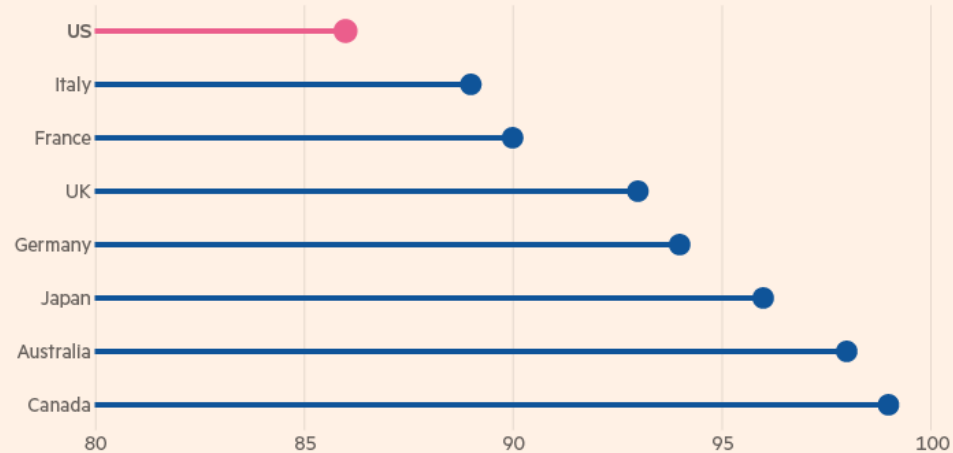
What is the matter with Britain?

1. Nothing much: it is just a declining great power:
 1. Its self-perception lags a generation or two behind reality
 2. It cannot recognise the weaknesses it inherited from past successes
 3. And it suffers from chronic nostalgia
2. Apart from all that
 1. It is still able to get rid of lousy prime ministers without bloodshed
 2. Politically at least, it is far healthier than the US

What is the matter with Britain? Politics

Trump's US lags behind other large high-income democracies

'Freedom In the World' aggregate score (0 = least free, 100 = most free), 2018



Source: Freedom House
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What is the matter with Britain?

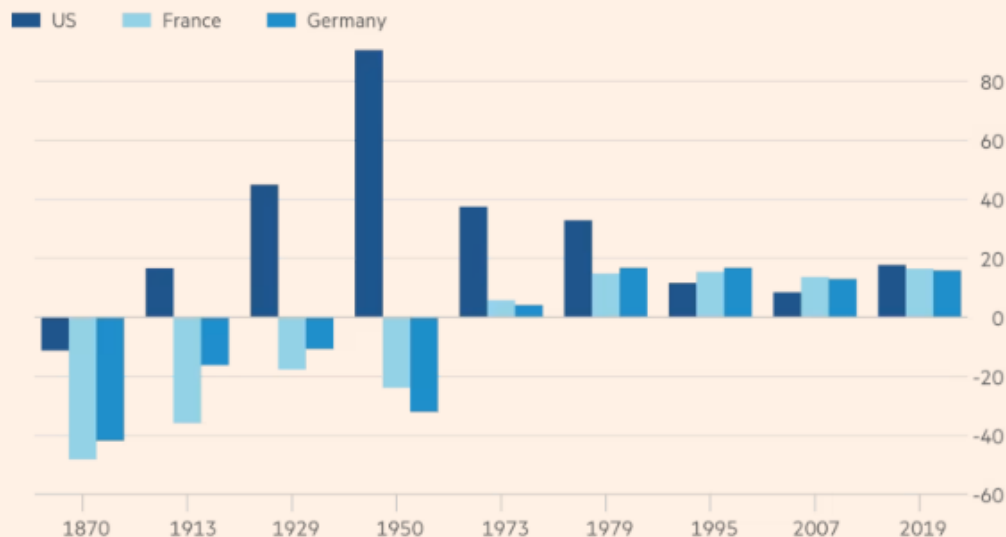
1. Now for the economic stuff:

1. Long-run performance
2. After the financial crisis
3. What Brexit has done
4. Challenges
5. Conclusion

1. Long-run performance: productivity

The UK has not caught up with French or German productivity since 1979

Relative labour productivity (GDP per hour worked, % above/below UK level)



Source: Nicholas Crafts

1. Long-run performance: productivity



1. Long-run performance: investment

UK investment lags behind other big high-income countries

Total investment, as a % of GDP



Source: IMF
© FT

1. Long-run performance: stagnation

The years before the pandemic saw very low growth in output per head and household incomes

Growth rates over 15-year periods (%)

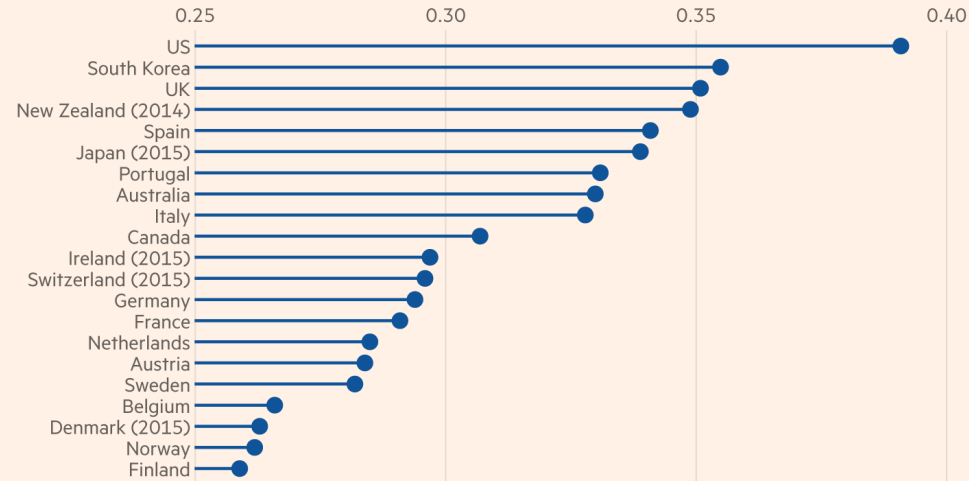


* Real non-pensioner household disposable incomes, after housing costs
Source: Resolution Foundation analysis of data from BoE, OBR, DWP, IFS
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1. Long-run performance: inequality

The US and UK are league leaders in inequality

Inequality of household disposable incomes after taxes and cash transfers (2016)*



*Measure of inequality (0 = absolute equality, 1= absolute inequality)

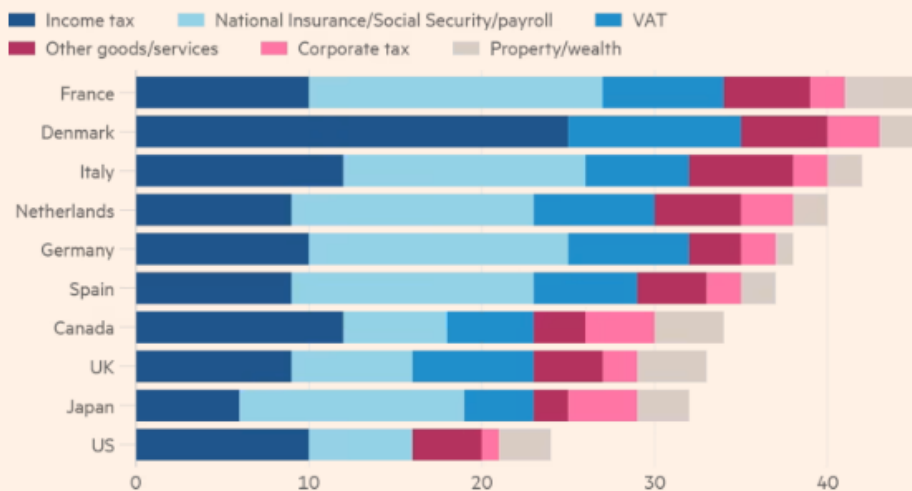
Source: OECD

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1. Long-run performance: low tax burden

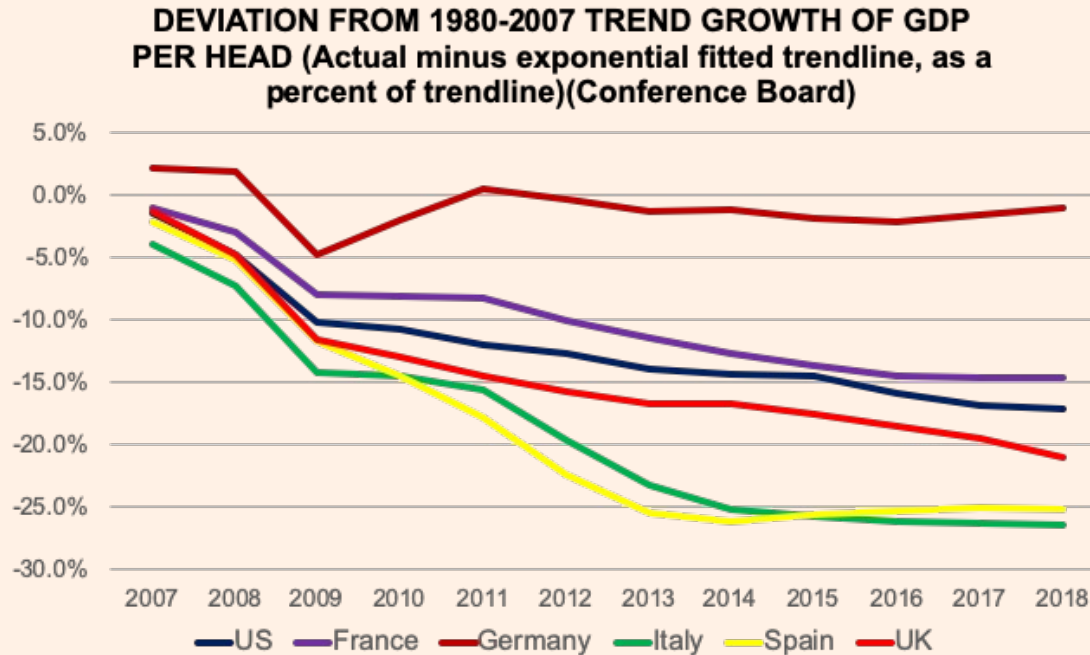
The UK has a low tax burden relative to many of its peers

Tax as a % of GDP, 2020



Sources: Dan Neidle/Tax Policy Associates, OECD
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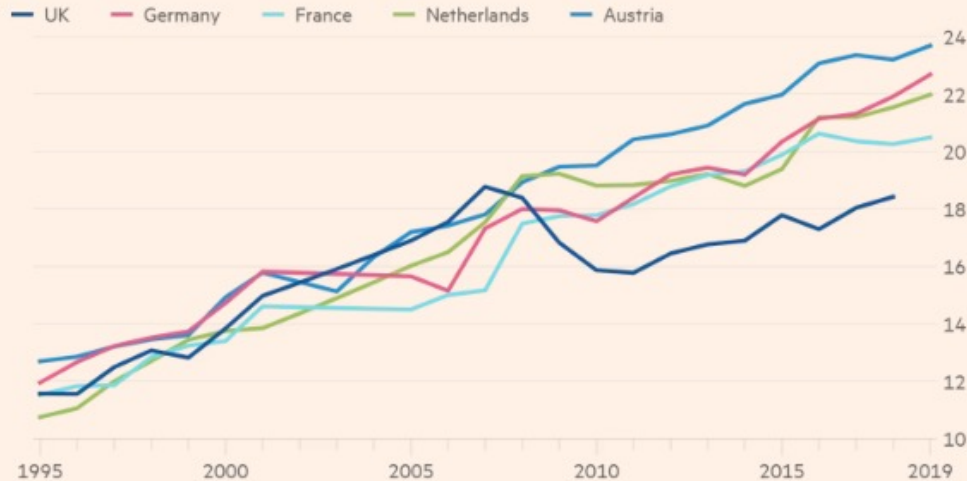
2. After the financial crisis: lost output



2. After the financial crisis: relative decline

UK incomes have fallen behind those of European peers

Median equalised disposable income, before housing costs (€ 000s)



* Adjusted for purchasing power parity

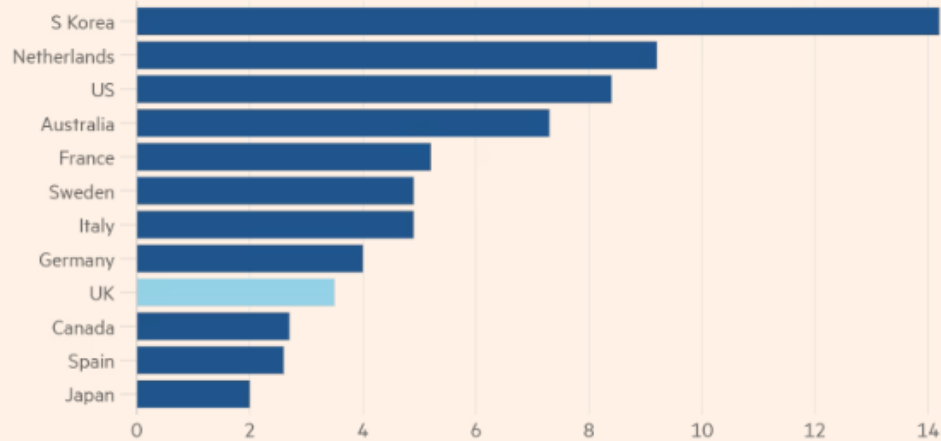
Source: Resolution Foundation, from Eurostat data

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3. What Brexit has done: more decline

The UK has been among the growth laggards since Brexit

Growth in real GDP per head*, 2016 to 2022 (%)



* at purchasing power parity

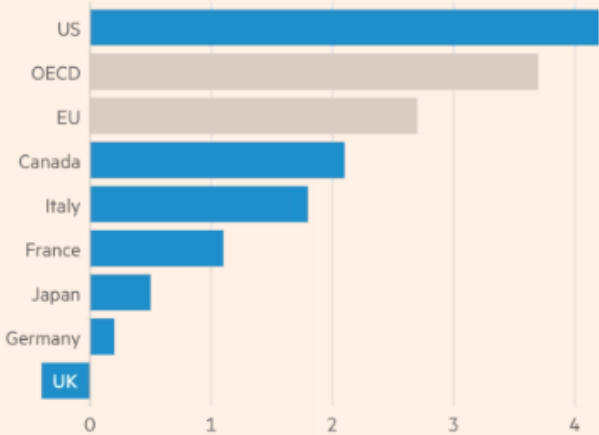
Source: IMF

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3. What Brexit has done: after pandemic

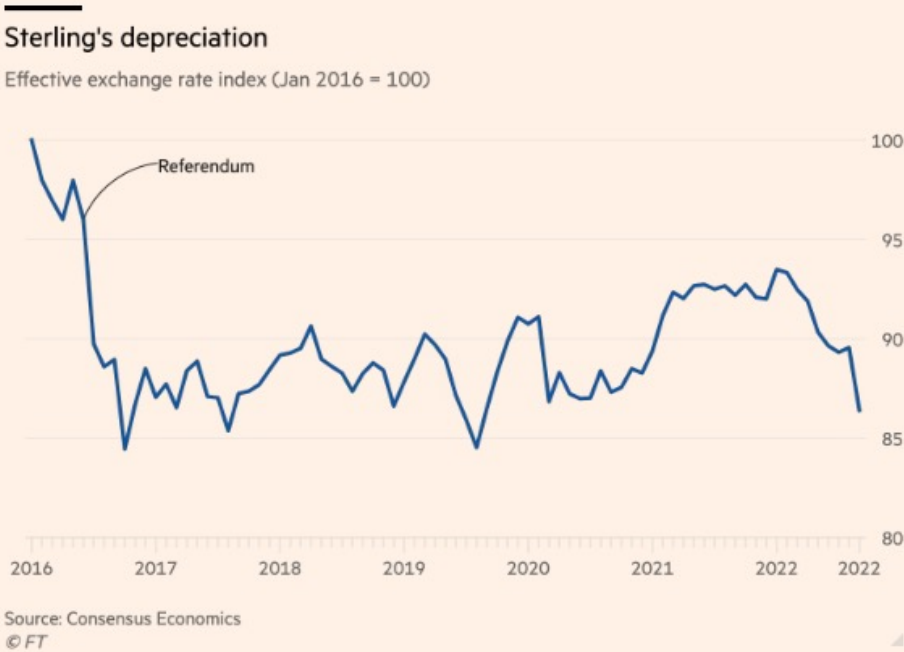
The UK is the only G7 economy still below its pre-pandemic size

Cumulative growth in GDP, Q4 2019 to Q3 2022 (%)



Source: OECD
© FT

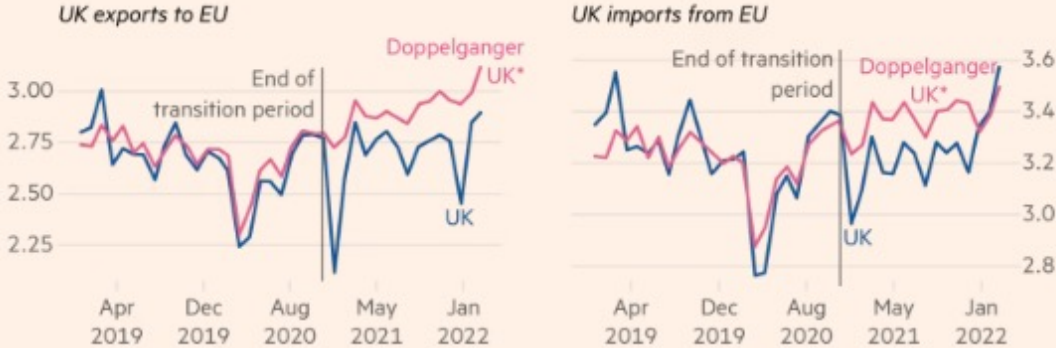
3. What Brexit has done: weak currency



3. What Brexit has done: lost trade

Trade has been affected since the end of the transition period

Monthly imports/exports (\$bn)

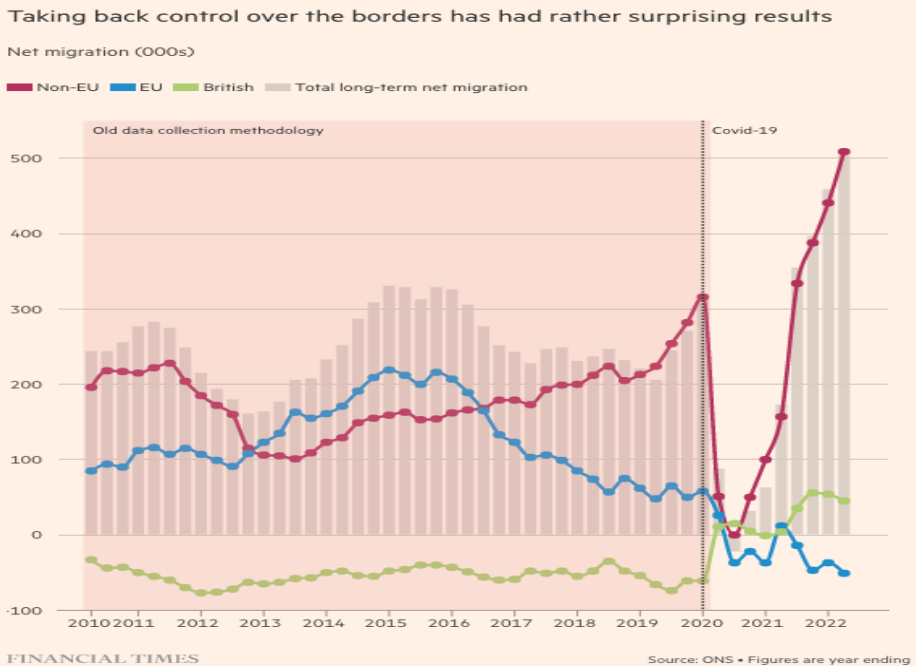


*Doppelgänger UK: estimate based on UK remaining in the EU
Source: Jun Du, Aston Business School
© FT

3. What Brexit has done: investment



3. What Brexit has done: shifts in migration



4. Challenges: the moron premium

Hunt & Sunak have removed the 'moron premium'

UK 10-year gilt, spread over French 10-year bond (%)

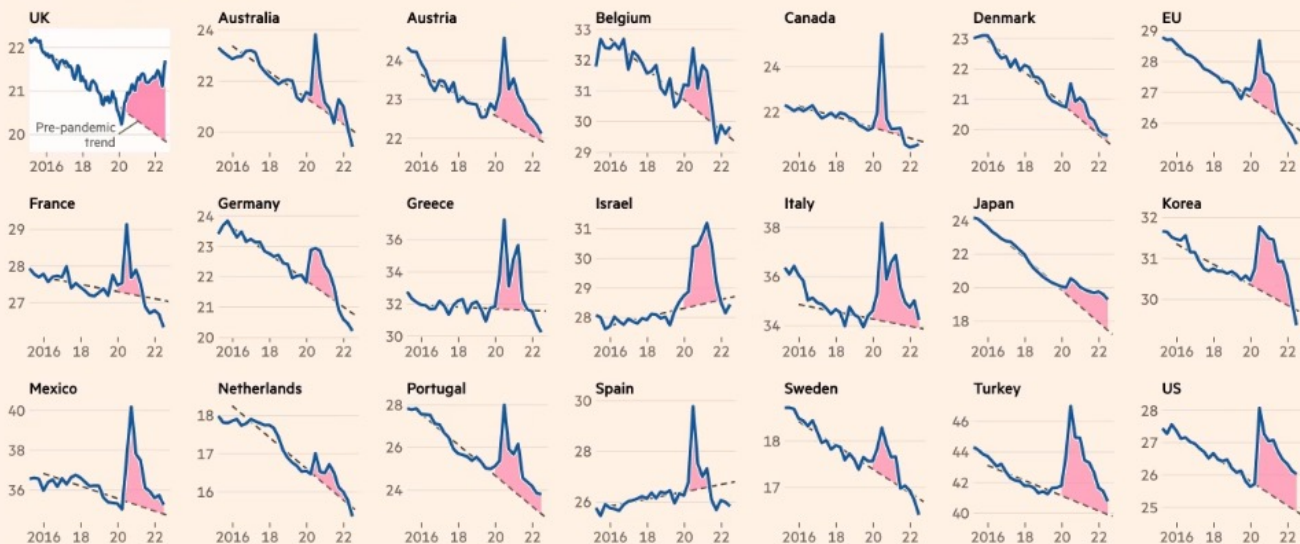


Source: Refinitiv
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4. Challenges: falling participation

The UK remains the the only developed country in the world where the share of working-age people outside the labour force has kept rising after the initial pandemic shock

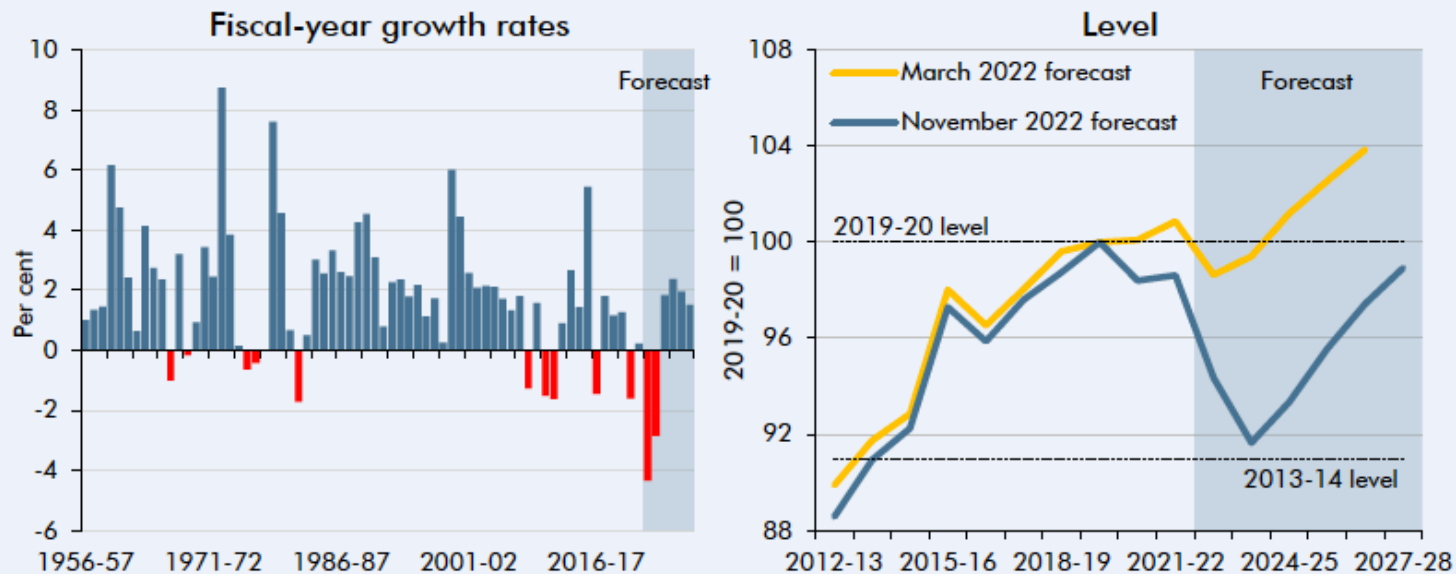
Share of people aged 15-64 who are neither employed nor seeking work (%)



Source: FT analysis of OECD figures
FT graphic: John Burn-Murdoch / @burnmurdoch

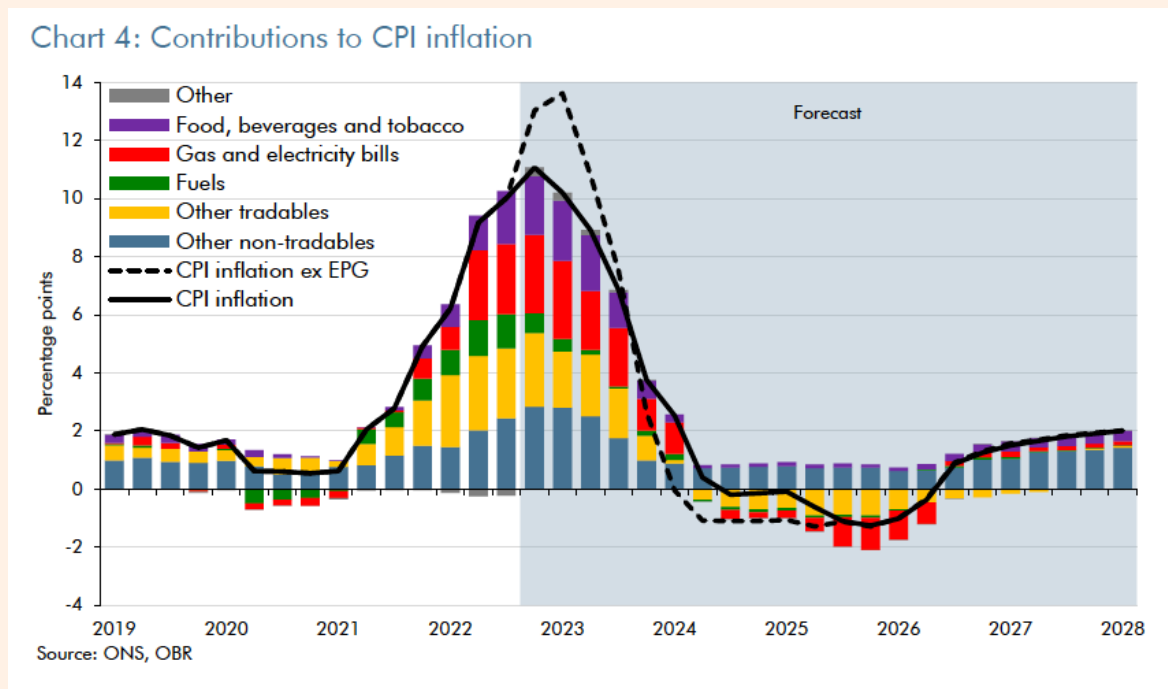
4. Challenges: an exceptional downturn

Chart A: Real household disposable income per person

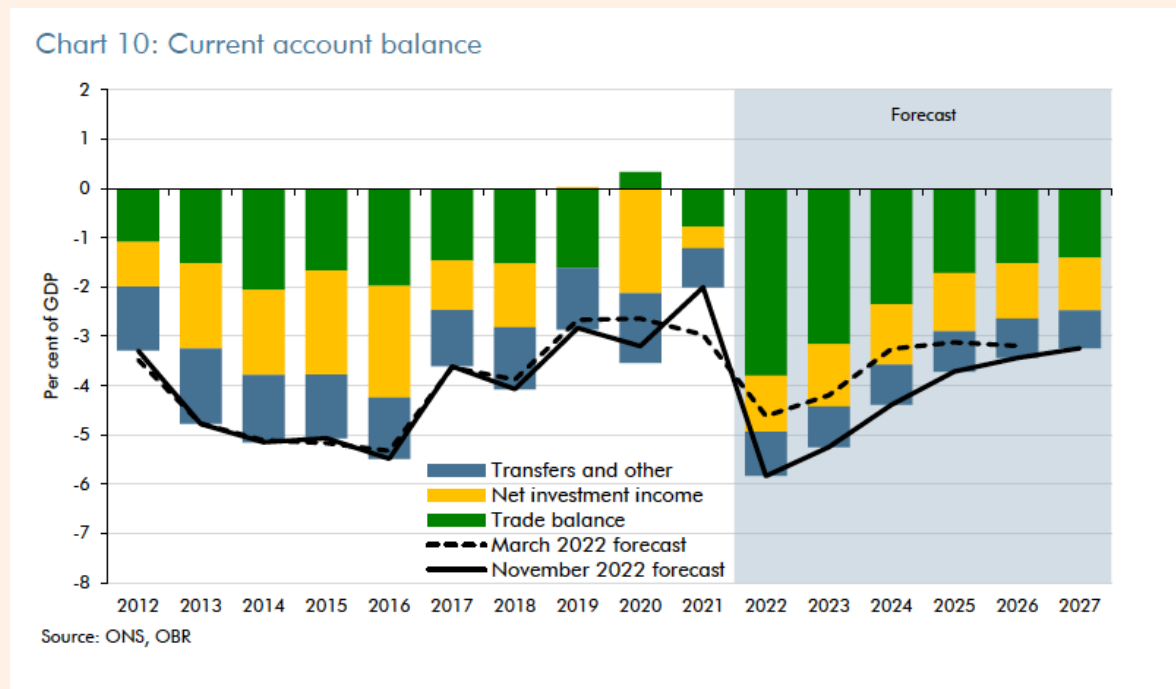


Source: ONS, OBR

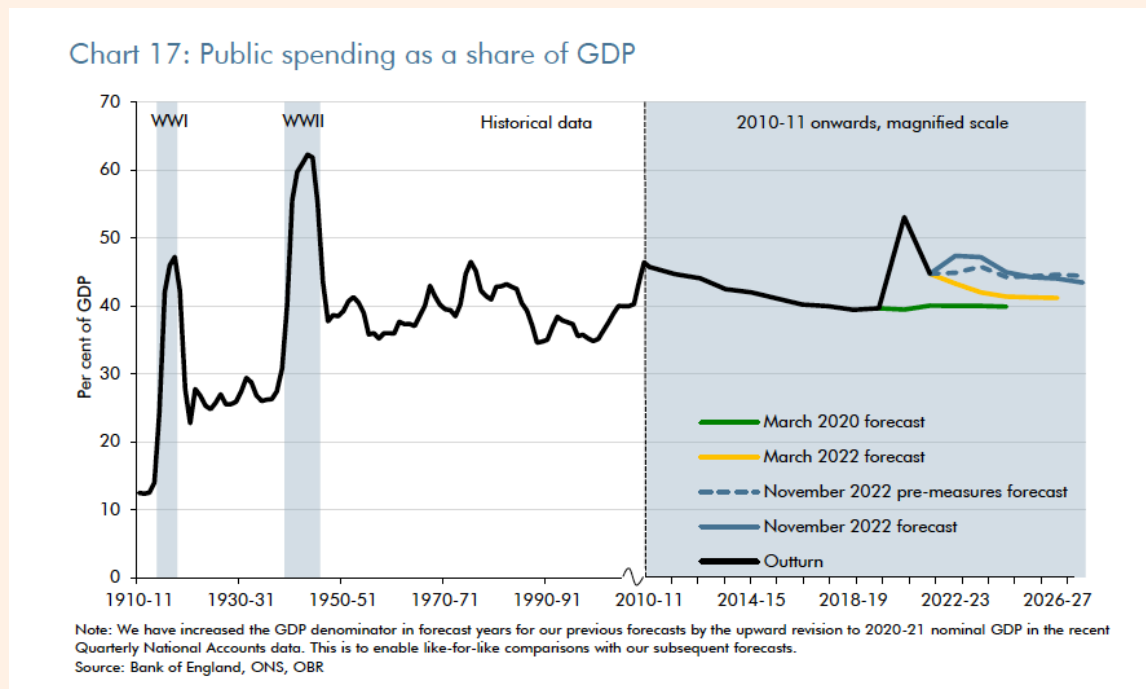
4. Challenges: inflation



4. Challenges: reliance on strangers



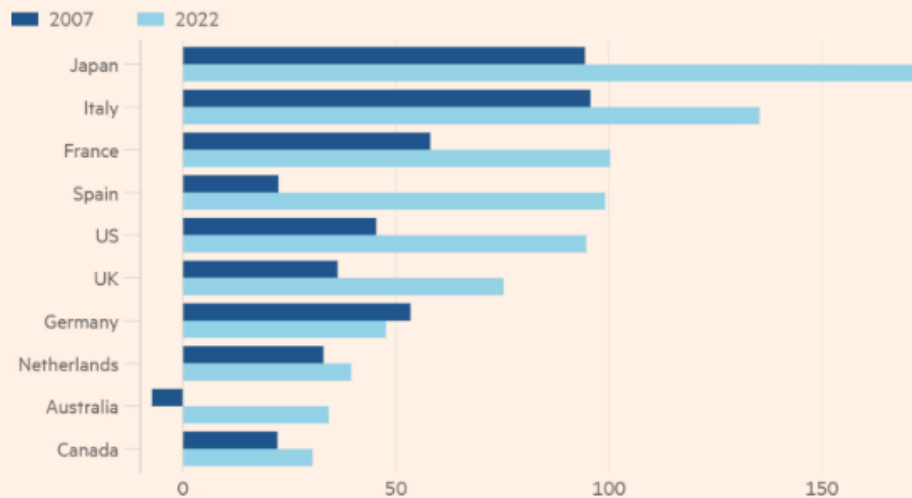
4. Challenges: rising public spending



4. Challenges: debt is not exceptional

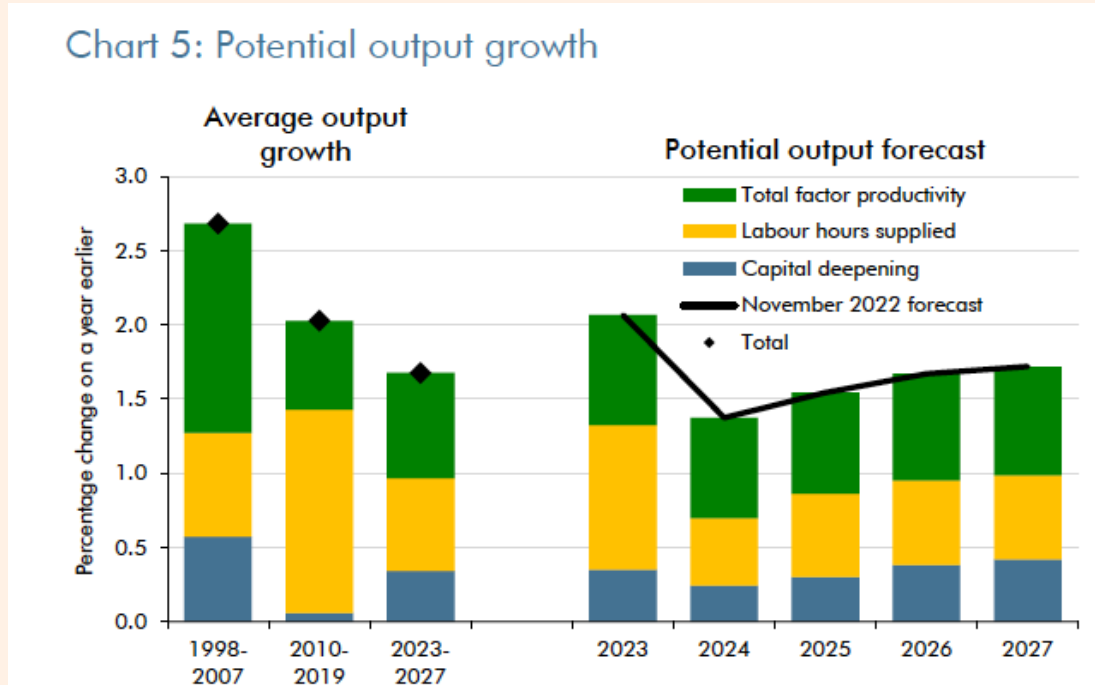
UK net public debt has risen but it is not exceptionally high

Net general government debt, as a % of GDP



Source: IMF
© FT

4. Challenges: productivity is the big one



4. Challenges: buyers' remorse

Pollster	Fieldwork Dates	Question Type	In EU	Out EU
Omnisis	27-28.10.22	Rejoin/Stay Out	59	41
Omnisis	3-4.11.22	Rejoin/Stay Out	58	42
Omnisis	10-11.11.22	Rejoin/Stay Out	57	43
Omnisis	17-18.11.22	Rejoin/Stay Out	61	39
Deltapoll	17-19.11.22	Rejoin/Stay Out	56	44
Omnisis	24.11.22	Rejoin/Stay Out	57	43
Poll of Polls	-	-	58	42

5. Conclusion

- The long story is one of relative decline
- The Thatcher revolution did not give lasting benefits
- The period after the financial crisis made this clear
- The Brexit referendum and its result was chickens coming home to roost allied to demagogic tomfoolery
- The economy has performed relatively poorly since Brexit
- The energy crisis is big and expensive, but manageable
- The challenges are renewing inclusive growth and resolving Brexit
- Politics will get in the way, because it is a field of nostalgic dreams