Unedited Webinar Transcript
Martin Wolf
December 1, 2022

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00:04:35.060 --> 00:04:46.309
Markus Brunnermeier: so welcome back everybody for another. Webinar organized by Princeton for one world by to be very happy to have Martin Wolf with us. The chief economic commentators from the Financial Times. Hi, Martin,

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00:04:46.330 --> 00:04:47.230
Martin Wolf: bye,

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00:04:47.760 --> 00:05:00.310
Markus Brunnermeier: Martin will talk about what's the matter with Great Britain, so we will hear a lot about Uk today and try to understand the you know the developments from the past and going for into the future for the United Kingdom.

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00:05:01.340 --> 00:05:23.480
Markus Brunnermeier: I would like to give some few opening remarks. Of course, what comes to mind, you know, if you look, some major events occurring in the Uk is not only Brexit, I think one is that at some point the Uk. Was very much focused on Asia. It was supporting the Asian Infrastructure Investment Bank against, you know the Us. And was very much put china. So it was focused on Asia. And there was a Major Brexit event, of course,

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00:05:23.490 --> 00:05:40.059
Markus Brunnermeier: the more recently in on the four this year in the autumn this year was a Mini-budget, and you know the guilt chaos of the guilt interested was going out of control. Uh, and the pension funds were struggling so. But that's you know. Some meters zigzag going back and forth,

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00:05:40.070 --> 00:05:45.229
Markus Brunnermeier: and the question is a little bit. You know the traditional strength of the United Kingdom was a pragmatism

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00:05:45.500 --> 00:05:56.069
Markus Brunnermeier: is the Uk, you know, for the battling to find the right growth model, how to go forward and I outline potentially three different ways. One could go forward. One is one.

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00:05:56.080 --> 00:06:19.399

Markus Brunnermeier: A campus strategy could be that you focus very much on technology. The twenty-first century will be all about life sciences. And if you think about Cambridge and and Cambridge University around that it's all about life sciences. If you think about deep mind it. Uk: is very leading on this. But of course there's also green technology, and Uk could be contributing to become a standard set. Then this way.

12
00:06:19.510 --> 00:06:36.480
Markus Brunnermeier: Another uh growth model would be to focus being a tax haven. And this way you also make sure the financial center in London stays One of the major centers this way. That's another way to move forward. What a third way to become somehow European Bridge to Asia.

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00:06:36.600 --> 00:06:49.070
Markus Brunnermeier: Uh, that is close connection to Asia, and coming through essentially, the Uk will play a major role on that. So these are different ways to go forward so probably many more, but such as three ways to go forward.

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00:06:49.150 --> 00:07:07.669
Markus Brunnermeier: All of them have actually some application. What corporation you need. If you really want to step some standards in all the technology side, you have to cooperate a lot with the United States. Uh, to some extent also to Europe. But there is a lot of new technology. Uh: you can't set alone. Essentially standards from the okay perspective.

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00:07:07.820 --> 00:07:14.399
Markus Brunnermeier: If you go for a tax Havens strategy. Then you will confront the particular Europe and also the United States.

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00:07:14.500 --> 00:07:44.489
Markus Brunnermeier: And if you go for this bridge to Asia, the strategy might be in conflict to the United States. So in all of these examples they are very different implications. In particular, they are very different implications with regard what's interaction with geo politics? If you think about Geo economics, so there will be very different implications, for you know the geopolitical implications, and we know the United Kingdom is a very important, the geopolitical power as well, and that has implications. So the economic strategy has feedback and

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00:07:44.500 --> 00:07:47.030
Markus Brunnermeier: applications. Also. For

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00:07:47.110 --> 00:07:52.219
Markus Brunnermeier: you know the Geo. Political interactions with our major players as well. The

19
00:07:52.480 --> 00:07:53.650
Markus Brunnermeier: now

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00:07:53.880 --> 00:08:03.360
Markus Brunnermeier: Erez agmoni. The other aspect I would like to emphasize is the global trade aspect. So the global trade is is very important, and of course the Ok. Is a big current account deficit one hundred and fifty.

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00:08:03.560 --> 00:08:10.979
Markus Brunnermeier: And the question is, if we go to a bipolar world if the global framework will be fragmented or d globalized,

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00:08:10.990 --> 00:08:40.970
Markus Brunnermeier: is this hurting the United Kingdom or Britain in more generally? Um, Because, you know, if you have a smaller country, you don't have such a big home market, it might. You might rely much more globalization and and could be a Free Trade champion, and also because it has the commonwealth connections. It has English as a common language which is used across the global. So it's very natural to uh, also for the service sector, which is now becoming more and more important for globalization that the Uk. Will play an important role.

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00:08:41.440 --> 00:08:46.819
Markus Brunnermeier: And as I mentioned. There's this ongoing current account deficit, which is, you know,

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00:08:46.950 --> 00:09:03.780
Markus Brunnermeier: uh, over years. So it also makes the pound essentially vulnerable. Uh, and also because, uh, the guilt might not be a safe asset of a serve currency. So it does not. It has the same exorbitant privilege like the Us. Treasury has, and that makes. It is another challenge,

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00:09:03.790 --> 00:09:11.329
Markus Brunnermeier: and we could see, uh, the challenge in October two thousand and twenty when they yield for the you uh British

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00:09:11.340 --> 00:09:25.649
Markus Brunnermeier: uh treasuries were spiking so on. The reason for this Spike was either a fiscal situation because of the mini budget, or it was a current account situation, or it was a financial stability issue because the pensions, funds, Lei

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00:09:25.660 --> 00:09:54.839

Markus Brunnermeier: investment structure costs on financial stability issues, and there was a three signed a game of chicken going on between monetary dominance, fiscal dominance, and financial dominance. So the central banks were actually the Bank of England had some game of chicken going on with the government, and at the end of the day one could argue that monetary dominance prevailed, or the bank of income prevailed. Uh, you know, at the the bank we didn't have to give in. They could stand its uh strategy to find inflation

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00:09:54.850 --> 00:10:11.189
Markus Brunnermeier: uh, and the Government at the end had to resign. So there's actually a very nice classic example playing out right now about this different dominance schemes, and of course financial dominance played a role, too, because the Bank of England also tried to force the pension funds to recapitalize some of the Ldi schemes.

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00:10:12.100 --> 00:10:28.430
Markus Brunnermeier: Now I think, overall, I think the Uk is still in it can bounce back. And what's of course, the adaptability and agility and the pragmatism which actually helps uh the United Kingdom uh to bounce back. So with this opening remarks, I would like to go to the poll. Questions uh you answered,

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00:10:28.560 --> 00:10:43.389
Markus Brunnermeier: and thanks again for everybody for participating in this poll questions. And here are some questions about to put forward, and I put some one like, and I added to one to that will the Uk. They join the European Union single market before two thousand and thirty, yes or no,

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00:10:43.460 --> 00:10:48.009
Markus Brunnermeier: and thirty percent thought yes, and but seventy percent thought no,

32
00:10:56.170 --> 00:10:59.280
Markus Brunnermeier: fifty percent. That yes, and fifty percent said no.

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00:10:59.290 --> 00:11:27.490
Markus Brunnermeier: The third question was can the Uk recover? They brief a natural crisis growth rate of Gdp per head So not the level but just the growth rate, yes or no, and thirty-eight percent said Yes, but sixty-two percent said no, which you know is quite a significant number and Finally, the the Uk growth strategy. Will it be most successful if it's technology focused that's forty-seven percent thought Deep Mind, scandinavians is actually following this carbon navy

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00:11:27.680 --> 00:11:39.330

Markus Brunnermeier: approach a tax haven a focused a strategy. That's what's thirteen percent thought a bridge to Asia focused thirteen and other focus was Twenty-seven percent.

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00:11:39.440 --> 00:11:52.989
Markus Brunnermeier: So With this brief opening remarks, we are very excited to hear what Martin has to say, and of course he's one of the experts following the Uk economy. So we are learning a lot, and I really appreciate for being with us. Thanks again, Martin.

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00:11:53.340 --> 00:12:01.330
Martin Wolf: Okay. So it's a great pleasure to be with you, and that's an excellent introduction, and most

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00:12:01.390 --> 00:12:06.799
Martin Wolf: of all, because it doesn't really overlap with my presentation. So it leaves us plenty of questions to address it

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00:12:06.840 --> 00:12:25.760
Martin Wolf: later on, and I have to say that I would broadly agree with the conclusions given um by the viewers to the polls. I think that those are pretty pretty sensible, and I might make a comment if I've got time at the end of my presentation, or in our discussion

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00:12:25.770 --> 00:12:28.200
Martin Wolf: uh, about some,

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00:12:28.270 --> 00:12:45.929
Martin Wolf: and why these strategies, the least unlikely is the first, I think the the second and third. Uh, we're going to do a bit of both, but that we're not going to be able to do much. Uh but I tend to believe that it for a country of of the Uk size. It's not Singapore,

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00:12:45.940 --> 00:13:05.100
Martin Wolf: You You're never gonna end up with just one strategy, so you can see that there will be no political consensus on it. Um, at least not in a messy democracy. And, my God, we're a messy democracy, like most other democracies. Okay, i'm going to uh um uh um go with the

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00:13:05.110 --> 00:13:13.069
Martin Wolf: sharing. And I hope uh, why isn't it coming out. This is okay. Here we are,

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00:13:13.950 --> 00:13:17.499
Martin Wolf: and i'm going to start my slideshow.

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00:13:18.760 --> 00:13:32.510
Martin Wolf: And basically what I've got here is a lot of slides, and my purpose is really to explain to the audience what has been going on and where we are, and there's a little bit about the challenges.

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00:13:32.520 --> 00:13:40.609
Martin Wolf: But, as I said, that should provide a good background, i'm a basically assuming that lots of you really don't follow the Uk. Um,

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00:13:41.320 --> 00:13:48.220
Martin Wolf: You know not that important the country when all set and down, and certainly Haven't followed the history of the last uh

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00:13:48.230 --> 00:14:18.190
Martin Wolf: twenty, thirty, forty years, and and the more recent history. So i'm just gonna tell you a lot of stuff I put together about forty slides. It's ended up as twenty-eight. So i'm going to have to go through fairly quickly. But you're all used to use looking at these things, so i'm sure you'll be able to follow very closely. So what uh? Marcus started off with this question: What is the matter with bread? And my immediate reaction is, It's absolutely nothing. I mean It's it. It's all just what you'd expect, so essentially uh my view of Britain. Uh, and I have this view for the

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00:14:18.200 --> 00:14:32.370
Martin Wolf: last Um, let's say, half a century since I was at Oxford. It's a just a declining break power. It was a uh a pre to naturally powerful country One hundred and fifty years ago

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00:14:32.380 --> 00:14:50.090
Martin Wolf: uh leading economic power, the the the the launch launch pad for the industrial Revolution, Um, emerging democracy, and just ludicrously powerful in the world influence so well that it's causing it to be steady and in thealuable decline.

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00:14:50.100 --> 00:15:09.620
Martin Wolf: Uh, and I think by comparison with most great powers and decline. It's been reasonably elegant, I mean, I would suggest you. Just look at Russia um turkey um i'm not even sure about the Us. But I will leave that to the side for the moment. Uh. And and my view is

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00:15:09.630 --> 00:15:29.340
Martin Wolf: uh that basically our self perception has consistently lagged about a generation or two behind reality. And that's not

surprising, because well, an increasing proportion of the cop population is over over forty, and so they don't really understand where we are,

52
00:15:29.380 --> 00:15:45.400
Martin Wolf: it is find it very difficult to recognize that some of its core weaknesses are actually the mirror image of its historic successes, particularly institutionally and politically, and I hear I'm going back to the nineteenth century um,

53
00:15:45.410 --> 00:16:03.630
Martin Wolf: and of course, as markets already recognize, There is a a great deal of nostalgia, particularly in our elites. Um, not in much of the country, I think, but in the elites um. But uh, and that influences politics profoundly. I think most

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00:16:03.640 --> 00:16:19.559
Martin Wolf: uh developed democracies now seem to supper from this, because well, they already relative to client apart for all that. Well, I would say, one of the great achievements is, we've got a true rid of a truly lousy Prime Minister,

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00:16:19.570 --> 00:16:39.220
Martin Wolf: who had no idea what she was doing, and the Chancellor detail without any bloodshed in forty four days. Um! And we moved on. I think that's absolutely marvelous, and politically at least, it looks far healthier than the Us. So I've just put this: This is a chart taken from Freedom House, which is, of course,

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00:16:39.230 --> 00:16:53.019
Martin Wolf: a well known American think tank, partly government funded, which looks at the quality of democracy. And here is a ranking of major developed countries, all the G seven plus, I think Australia

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00:16:53.030 --> 00:17:12.790
Martin Wolf: uh, and this is from just before Covid, so I didn't want to get Covid to mess it up, and you can see where it's sort of in the middle there, very close to Germany. A bit of a bit ahead of the France, and that's roughly what I would have uh expected in the Us. Is looking pretty sick, so we're sort of not that terrible.

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00:17:12.800 --> 00:17:26.659
Martin Wolf: Now for the economic stuff. I'm going to talk about the long run economic performance of the Uk economy in relative terms, how it would perform out to the financial prices, which has been pretty grim. I think it's very important

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00:17:26.670 --> 00:17:36.569
Martin Wolf: what we know about what Brexit is down there. I stress. I can only show a few aspects of this but a number, and finally i'll look at some challenges now.

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00:17:36.600 --> 00:17:37.630
Martin Wolf: Um,

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00:17:37.730 --> 00:17:45.500
Martin Wolf: and that overlaps with that What Marcus is talking about a bit, and then i'll go to the conclusion, which is Bill Punch you.

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00:17:46.270 --> 00:18:04.849
Martin Wolf: So this is, I think, quite an interesting long run picture. This is in the work. Nicholas Crafts, a very well known academic uh economic historian here in Britain. Um, I think many of you must know, is what so. Um the in this. In this the Uk is at zero,

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00:18:04.950 --> 00:18:22.350
Martin Wolf: consistently at zero, and the other countries Us. France and Germany are relative to the Us. It to the Uk. So back in one thousand eight hundred and seventy Gdp. Per hour, worked in. The Uk. Was way about levels in France and Germany, and somewhat about the Us.

64
00:18:22.360 --> 00:18:27.819
Martin Wolf: The Us. Surpassed it dramatically to reach a relative peak in one thousand nine hundred and fifty

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00:18:27.840 --> 00:18:46.769
Martin Wolf: uh uh, and the two Continental countries finally caught up with Britain, that in the nineteen seventy S. You'll know that the really interesting point is in the last fifty years the relative position. This would be. The Continental countries has changed very little.

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00:18:46.780 --> 00:18:58.090
Martin Wolf: Basically, they are fifteen percent higher in Gdp per hour. Uh, they obviously other measures. Um. And the us has fallen. Uh, though it's a reason

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00:18:58.420 --> 00:19:08.510
Martin Wolf: uh noticeably. But in the last fifteen years, when it's productivity, performance is somewhat better than the other. The then the European big big countries.

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00:19:08.520 --> 00:19:23.399

Martin Wolf: But the Us. Is very close to Germany and France and Britain is a bit behind. So in the long period catch up, followed by relative stagnation over a pretty long period, and the catch up was mostly done by the seventies. Um.

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00:19:23.410 --> 00:19:35.200
Martin Wolf: The The second thing is, how is productivity developed in the Uk. Compared with other major developed countries, and these are average growth of output out from the conference board

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00:19:35.210 --> 00:19:53.999
Martin Wolf: since the fifty, so it's an average of the fifty, sixty, seventy, and of course it brings out very beautifully. What we all know is that Japan, Canada, Japan, Germany, Spain, France, and Italy, had spectacular catch up here. It's in the post war period, and since and us and Uk much less so.

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00:19:54.010 --> 00:20:09.759
Martin Wolf: Um! They were more advanced in. The Uk was sleepy, and then there was a very considerable decline in the rate of growth of productivity in the last couple of decades. Pretty well, universally, the Us. Least

72
00:20:09.770 --> 00:20:15.340
Martin Wolf: uh it was continually growing fast in the two thousand, much the fastest of these countries

73
00:20:15.350 --> 00:20:35.029
Martin Wolf: and the you could. Finally, in the last decade, the Uk had a colossal collapse. Uh from the uh, the nineteen ninety S. Down to two thousand and ten, and it's growth, the product output power. It's only a little bit of a bit of it. So the Uk's productivity growth, us measure that has

74
00:20:35.040 --> 00:20:41.400
Martin Wolf: fallen from being really rather good in the eighties and nineties to being really terrible.

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00:20:41.840 --> 00:20:42.870
Martin Wolf: Um!

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00:20:42.920 --> 00:20:53.010
Martin Wolf: And that's a long time process one of the features of the economy, and which might explain It is part of this, because, of course, productivity

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00:20:53.020 --> 00:21:10.399
Martin Wolf: uh out for our, for some part, the vintage of your machinery, the vintage of your technology. Um, Uk's investment rate is very, very low. Uh, and this has been very low for a long time, just gone over the last twenty-three years here,

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00:21:10.410 --> 00:21:15.460
Martin Wolf: and you can see that the uk's average investment rate is

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00:21:15.470 --> 00:21:34.819
Martin Wolf: the lowest. There was a period when Italy was a bit lower, but as risen a bit. Now, of course, countries like Japan invest a lot, and they don't grow that fast. It's not a simple correlation, but the investment rate is really remarkably low, and that might be one factor in explaining the relatively low growth of productivity. What? Our

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00:21:35.460 --> 00:21:37.120
Martin Wolf: that I have shown you.

81
00:21:37.240 --> 00:21:50.639
Martin Wolf: Um. Now, another feature of the Uk, obviously and partly related to low growth. But the other factor is inequality, and i'll come to that in a moment. It's, I think, an important feature of the economy.

82
00:21:50.650 --> 00:22:08.719
Martin Wolf: So uh, here this comes from our resolution foundation. This shows growth rates over fifteen year period. So basically the increase in Uh Gdp per head over fifteen year periods. Every point is the previous fifteen years, starting in

83
00:22:08.730 --> 00:22:11.879
Martin Wolf: one thousand nine hundred and seventy six. So that includes the sixtys.

84
00:22:11.960 --> 00:22:30.200
Martin Wolf: So what basically it happened here? And I think what's important are two things in the. This is obviously what happened in the nineteen eighties, above all, under markets that, uh and in the very early nineties there was massive deviation in growth of household income ahead

85
00:22:30.210 --> 00:22:32.340
Martin Wolf: in uh um

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00:22:32.430 --> 00:22:37.270
Martin Wolf: in the top desile and the bottom dile, and the medium

87
00:22:37.370 --> 00:22:48.160
Martin Wolf: was very close to the average, for Gdp per head. Uh, And during that period there was a very, very large rise in household

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00:22:48.170 --> 00:23:06.510
Martin Wolf: income, distribution, inequality of household income distribution. Uh and i'm going to show you the endpoint of that Uk at an inequality of house of distribution in nineteen eighty, rather like Germany's better than France, and it's now considerably more unequal.

89
00:23:06.520 --> 00:23:11.289
Martin Wolf: So that's the first thing that period really started in the that you period of massive

90
00:23:11.310 --> 00:23:30.309
Martin Wolf: income distribution shifts uh in more people direction in the last fifteen to twenty years, as you can see that divergence across income, this upcoming, these parts of the income distribution. The Median yeah top, Tesla and the bottom desile has disappeared

91
00:23:30.320 --> 00:23:49.300
Martin Wolf: about what it is. Instead, everybody's stacking. So the last fifteen years I've seen a very long period of stagnant, real incomes, which, of course, you'd expect from what I showed on productivity. But for the Uk. This is without doubt we the lowest growth

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00:23:49.310 --> 00:24:06.310
Martin Wolf: of household incomes over fifteen year periods. Towards the end. We're talking about the whole period from the financial crisis that we've had at least for a century, and possibly since. Well before that, back into the nineteenth

93
00:24:06.320 --> 00:24:24.999
Martin Wolf: is, if you take London out, and if you take the financial sect out, is then this still? Is it a London effect, a financial sector effect, or is it certainly London in significant parts? I haven't seen a breakdown. I don't know it even exist on a regional level for this

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00:24:25.010 --> 00:24:44.060
Martin Wolf: I don't ha! I I thought about with it, scrapped the uh charts on reaching inequalities just too much. But it is true that the Uk Uh. Is an exceptionally regionally unequal country by European standards. Quite extraordinary so,

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00:24:44.070 --> 00:24:59.430
Martin Wolf: and it's not just London. It's London and the South East. So that's about a quarter of the country, and London is one of the richest places in Europe on every measure, I mean. And of course our poorest regions are some really quite poor. Uh, and

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00:24:59.440 --> 00:25:18.400
Martin Wolf: that clearly rose in the eighties and ninety. So i'm sure it's a significant factor, and that makes the inequality problem, at least with something else, too, which is that in that period was in it. We had a very quick period of the industrialization in the eighties,

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00:25:18.410 --> 00:25:29.880
Martin Wolf: and I mean, which just collapsed uh, and That was a regional process, because our industry was located in certain regions, we really and truly never recovered. Um!

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00:25:29.890 --> 00:25:47.790
Martin Wolf: Oh, what i'm trying to emphasize, and I think the whole question is, Is there a very deep structural processes going on that explain some of the phenomena? They're not even the last fifteen years, as though that's very important to stagnation. It has to do with structural changes in the economy over,

99
00:25:48.400 --> 00:26:03.920
Martin Wolf: I would say, actually probably one hundred and twenty, one hundred and thirty years, but certainly the last fifty, which make it much more difficult to change. Of course I just said I thought i'd put up something about inequality. This was two thousand and sixteen Um! The rules out,

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00:26:03.930 --> 00:26:20.799
Martin Wolf: and it just ranks the standard genie, coefficient inequality of household disposable income after tax, and some counts transfer from the Oecd, and you can see whether us is off the top. Not surprising. But the Uk is well above all other

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00:26:20.810 --> 00:26:40.630
Martin Wolf: uh European uh countries you can see, as you'd expect, the smaller countries are much more equal. Uh um. As I said, the Uk was quite close to France forty odd years ago. It isn't now. And so that's really. And I think that's a significant back for us by seeing

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00:26:40.640 --> 00:26:49.009

Martin Wolf: in explaining social pressures, because with a lot of really not a very high average income, and with a lot of people, are really

103
00:26:49.020 --> 00:27:05.150
Martin Wolf: quite poor relative to the mean, and a much more. Let much less generous welfare state than most other European countries. You have a lot of people in Britain are really poor by European standards, even if average incomes are that far below um,

104
00:27:05.160 --> 00:27:09.860
Martin Wolf: and that creates political and social stresses and explains something i'm going to come to in a minute.

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00:27:10.390 --> 00:27:27.209
Martin Wolf: Um, okay, I said. I would discuss. Um. I thought I should put this up just to be illustrate my point about the tax burden, and that, of course, links to what welfare distribution there is, and the quality of public services which is the link

106
00:27:27.260 --> 00:27:46.519
Martin Wolf: uh clearly to the standard of living in the bottom. Few desires. And you can see that the Uk is a relatively low tax country uh even um, though of course, considerably about the Us. Which is low. Um, and it will also be

107
00:27:46.530 --> 00:27:51.240
Martin Wolf: quite a bit about Australia, but it's well below Um, uh,

108
00:27:51.410 --> 00:28:09.729
Martin Wolf: uh, quite a number of Continental countries. Um fairly close to Canada. It's got that sort of state system. Uh, but the British think this tax rate is really far too high, and on the other, and they really like the welfare state they have,

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00:28:09.740 --> 00:28:18.929
Martin Wolf: they have, and I would say that because uh strategic challenge might be reconciling their desire for low taxes with the Continental size, Welfare State.

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00:28:20.730 --> 00:28:34.619
Martin Wolf: Now, then, I'm going to move to the financial crisis. So that's a long history. Now let's look briefly at the financial crisis. Um Britain, as I've noticed, noted, was very hard hit, and you can see that the productivity numbers

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00:28:34.630 --> 00:28:41.549
Martin Wolf: This is another way of looking at the same thing. Um, which will appear in a book of mind will be forthcoming in February

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00:28:41.920 --> 00:28:54.379
Martin Wolf: uh big plant, or the prices of democratic capitalism. Anyway, what I've done here is simply take uh the deviations of actual Gdp

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00:28:54.480 --> 00:29:07.289
Martin Wolf: from the Gdp. That would have occurred if the trend growth of Gdp between one thousand nine hundred and eighty and two thousand and seven had continued in that country.

114
00:29:07.360 --> 00:29:25.849
Martin Wolf: And interestingly, the only one of these countries where the deviation was essentially zero was Germany. That's part of the growth before the crisis was really rather low. Um, uh! By two thousand and eighteen Us Gdp uh per head was fifteen percent below trend

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00:29:25.860 --> 00:29:44.070
Martin Wolf: uh uh the sorry the Us. Was um about seventeen in the but the Uk was twenty-two percent. The one's worst you to hold for it to be in spain because of the huge shop of their financial crisis. But Gdp ahead in the Uk by two thousand and eighteen in the late

116
00:29:44.080 --> 00:29:46.550
Martin Wolf: in my book I've got a more updated chart, which I

117
00:29:46.670 --> 00:29:58.029
Martin Wolf: wasn't able to insert in time. Uh was twenty one percent below free prices, friends. That's a pretty dramatic shortfall from what people were expecting.

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00:29:58.180 --> 00:30:17.269
Martin Wolf: But one could all you that they pre the crisis tend to a little bit excessive. For some countries I think they were particularly excessive, and I think the one of the most interesting questions is whether the collapse in Gdp per Head we've growth and real household disposable income. We, since since two thousand and seven

119
00:30:17.280 --> 00:30:20.420
Martin Wolf: research financial crisis into shock,

120
00:30:20.600 --> 00:30:38.189

Martin Wolf: which it must be in part, or reflects the fact that a significant part of pre-inancial prices growth was an illusion, as I uh have argued Um. In the Uk case, particularly some part of the

121
00:30:38.300 --> 00:30:39.430
Martin Wolf: the,

122
00:30:39.720 --> 00:30:56.110
Martin Wolf: the. The apparent income generated by the growth of financial sector was simply the conversion of money, money, and financial expansion, which was unsustainable, shown to be unsustainable into incomes which were illusory.

123
00:30:56.220 --> 00:31:08.699
Martin Wolf: I think it's pretty easy you were an expert to see how that would happen, and I think that must have been part of this story, and it is a big part. So if you even it all out properly.

124
00:31:08.720 --> 00:31:26.040
Martin Wolf: Uh you would get the conclusion that Britain never really caught up as well as we thought. And i'm going to come to this in a moment. The Thatcher revolution was much less successful than people thought. But I haven't seen a really good analysis of what that means quantitatively.

125
00:31:26.050 --> 00:31:30.890
Martin Wolf: So i'm just using the actual figures for Gdp ahead as they're reported.

126
00:31:30.940 --> 00:31:33.329
Martin Wolf: Uh by your stuff.

127
00:31:34.270 --> 00:31:35.410
Martin Wolf: Okay?

128
00:31:35.430 --> 00:31:54.539
Martin Wolf: Um. Now what has happened now? I'm gonna move on to the last six years? Um, because we had this secondary shop. We've had four shots. The financial Crisis, Brexit Covid and the energy shop, and i'll go through the more So the uh the Uk is, of course, been.

129
00:31:54.550 --> 00:32:02.349
Martin Wolf: This is growth in real Gdp per head. This is the actual absolute increase. So

130
00:32:02.360 --> 00:32:15.980
Martin Wolf: uh, first of all growth, the increases in the size of the economies between Gdp and Gdp, between two thousand and sixteen and two thousand and Twenty-two would be pretty miserable almost everywhere in the Uk. They were about three and a half percent.

131
00:32:16.240 --> 00:32:19.210
Martin Wolf: You guys not dramatically bad.

132
00:32:19.230 --> 00:32:23.930
Martin Wolf: Uh It's actually ahead of Japan, Spain, and Canada, not far

133
00:32:24.090 --> 00:32:40.330
Martin Wolf: below Germany. Italy, of course, was helped by the recovery from the financial crisis to some degree. But um! The Uk is pretty low down in a very miserably performing bunch. Um,

134
00:32:40.840 --> 00:32:47.789
Martin Wolf: and this uh just looks at the Covid period. Uh taking from my

135
00:32:47.880 --> 00:33:01.640
Martin Wolf: I have column by my friend and colleague, Chris Giles, and includes the Oecd average. And this is the This is Gdp, and not Gdp per head. And you can see

136
00:33:01.650 --> 00:33:14.290
Martin Wolf: that you guys the only one of these economies whose economy in the third quarter of twenty, twenty-two was still smaller than it would be in the fourth world in two thousand, and nineteen though Germany is vastly better.

137
00:33:14.300 --> 00:33:28.540
Martin Wolf: But Eu as a whole, Italy, uh Canada, France, and us, above all, look much much better in terms of the scale of their recovery. So these figures suggest pretty strongly that Uk performance. Since the Brexit year

138
00:33:28.550 --> 00:33:36.180
Martin Wolf: it's been pretty poor, not colossally for, but pretty down for, and the post Covid recovery has been very weak.

139
00:33:36.570 --> 00:33:51.940

Martin Wolf: Another thing that is pointed out, which is uh and and markets already mentioned. This is uh the exchange rate uh the effect of strange right, for Sterling fell sharply at the time of the referendum.

140
00:33:51.950 --> 00:34:10.950
Martin Wolf: Uh! That was the most obvious way which uh markets suggested. Uh, for the shock of the referendum through the exchange rate, which, in my view, is pretty desirable. That's what good reason for having a currency. But it's another question. But you can see it's wobbled around quite a bit, but it's ended up

141
00:34:10.960 --> 00:34:13.619
Martin Wolf: uh pretty well where it started uh

142
00:34:13.670 --> 00:34:19.220
Martin Wolf: um over six years ago. So basically there was a downgrade at the currency, reflecting, I think,

143
00:34:19.260 --> 00:34:25.020
Martin Wolf: in all pop probability the Brexit shop. And that's where much of the adjustment.

144
00:34:25.679 --> 00:34:26.790
Martin Wolf: Um.

145
00:34:26.870 --> 00:34:43.659
Martin Wolf: Now, Obviously, people are interested in this. The impact of Brexit at this very early stage Don't forget. We only went through the transition period. It was the actual shop, so of course, people could anticipate it at the end of two thousand and twenty um!

146
00:34:43.670 --> 00:35:03.500
Martin Wolf: The general belief of what it's worth, and I don't think anybody knows It's the Bank of England, the Obr off of a bunch of responsibilities. The end of all this, the Uk economy might be three or four percent smaller than it would otherwise be because of the Brexit effect. My view is that's not wildly implausible, but really nobody,

147
00:35:03.510 --> 00:35:22.169
Martin Wolf: I suspect it might be a bit optimistic when all the facts run through, but there are so many uncontrollable about how this is going to play out. But we do know a little about trade. So people done an analysis of this which is quite interesting, which they constructed. It's obviously uh a synthetic

148

00:35:22.180 --> 00:35:38.090
Martin Wolf: uh what the Uk. Would have done if we didn't do what they call the Doppelganger Uk, and that's the the pink line uh for Uk exports to the Uk. Imports from you, and then they've got the actual below, and

149
00:35:38.300 --> 00:35:46.840
Martin Wolf: this story seems to be from this, that actual Uk exports to the you have lag

150
00:35:46.880 --> 00:35:48.839
Martin Wolf: significantly

151
00:35:48.960 --> 00:36:07.000
Martin Wolf: below uh the Uh um what they would have been with this. So there are export losses, which is what you'd expect whether these are uh and basically exports from the you pay to. You have been pretty well stagnant over the last three

152
00:36:07.010 --> 00:36:14.180
Martin Wolf: or four years, and they are actually uh way below in dollar terms, where they were in two thousand and nineteen.

153
00:36:14.290 --> 00:36:33.130
Martin Wolf: Uh, interestingly, the imports from the you have not been affected so much, and the main reason for that is, we haven't imposed tariffs on the Eu and the uh, and the the regulatory barriers have also basically not been introduced. So the Uk has remained open to the Eu, And I think that's shown pretty good.

154
00:36:33.860 --> 00:36:34.790
Martin Wolf: Yeah,

155
00:36:34.940 --> 00:36:43.589
Markus Brunnermeier: do this figures taking into account that the pound weekend, and hence you would have expected to export to be flourishing.

156
00:36:43.640 --> 00:36:57.900
Martin Wolf: But we we we found, even after uh, the financial prices. Another story that uh, while there's an adjustment mechanism in the currency, it's impact on export seems to be remarkably weak,

157
00:36:57.920 --> 00:37:08.080
Martin Wolf: and the supposition here is the as well, and it's my theory, though it's an adjustment system. It it it

158
00:37:08.100 --> 00:37:24.440
Martin Wolf: a it, it it um uh um! Give some reduction of pressure that to expand exports in a big way from a country like the Uk. You need um significant investment,

159
00:37:24.450 --> 00:37:29.409
Martin Wolf: and if your trade environment is uncertain and the currency is very uncertain.

160
00:37:29.440 --> 00:37:37.030
Martin Wolf: Companies don't invest, and this might well be one of the explanations for our very weak corporate investment,

161
00:37:37.150 --> 00:37:48.740
Martin Wolf: and in which case it's the cost of. There's also cost of exchange rate, flexibility as well as an advantage, and I think that's an interesting um hypothesis uh

162
00:37:48.910 --> 00:37:59.409
Martin Wolf: this looks at real business investment sort of uh um in continuous time, just for the Uk. It's not comparative, and the the big story

163
00:37:59.420 --> 00:38:09.859
Martin Wolf: here is. It was a reasonable recovery after the financial crisis, it topped out in real terms in two thousand and sixteen, and it's never got back

164
00:38:09.880 --> 00:38:27.789
Martin Wolf: uh uh particularly. And this is particularly true. I mean, for business investment. Overall fixed investment is held up better because government actually increased its fixed investment. But even that, of course, essentially stagnates in the last three or four years. But private

165
00:38:27.800 --> 00:38:37.950
Martin Wolf: uh business investment is been pretty depressed since the financial crisis, either stagnant or actually since Covid. Um. Significantly,

166
00:38:38.160 --> 00:38:45.970
Martin Wolf: the previous spirit, and that looks to me like a Brexit effect which links with our discussion of

167

00:38:46.980 --> 00:38:48.919
Martin Wolf: these set

168
00:38:49.010 --> 00:39:07.699
Martin Wolf: uh this issue of exchange work. This is, I think, fascinating. I don't want to go too much time on this, but it the, as you probably know, obviously one of the great reasons for Brexit politically, was to do something about immigration from the Eu,

169
00:39:07.710 --> 00:39:16.510
Martin Wolf: which is the blue line here. By the way, the series aren't completely consistent, so there are breaks in it, but they are reasonably okay.

170
00:39:17.330 --> 00:39:29.180
Martin Wolf: Uh, we're not quite sure. Um uh. The big point is they really did reduce net immigration from the Eu dramatically, as you can see the blue line

171
00:39:29.190 --> 00:39:39.709
Martin Wolf: mit ctl and has fallen to zero, and it Hasn't picked up. Now the economy is open again in two thousand and twenty-two at all basically net immigration. The Eu is now negative,

172
00:39:40.400 --> 00:39:43.080
Martin Wolf: very, very sad. Um

173
00:39:43.360 --> 00:39:50.209
Martin Wolf: uh the um. But immigration from the rest of the world has exploded.

174
00:39:50.220 --> 00:40:07.609
Martin Wolf: Now There are some special factors in this explosion recently that the Ukrainian refugees from Ukraine there, and people in Hong Kong who have a right to um citizen right to citizenship, to live here, which is excellent both cases.

175
00:40:07.620 --> 00:40:25.810
Martin Wolf: But it's not clear here, even before these shops, that overall immigration is going to fall. The tool. Just the composition is going to change dramatically what that will do for the the quality of the labour force, the nature of. Of course, Honestly, I think we don't know yet.

176
00:40:25.820 --> 00:40:42.949

Martin Wolf: Uh, uh, but it does mean significant shortages in certain sectors of the economy which came to rely on certain types of Eu labor, particularly in the low, some of the low wage sectors, but overall it's the control of immigration. Brexit is clearly failed.

177
00:40:43.540 --> 00:40:57.099
Martin Wolf: Um, now. Uh uh, the um uh this address is one of Marx's questions. Uh. So I I was interested in this question, too. Um, uh

178
00:40:57.180 --> 00:41:11.919
Martin Wolf: the markets very unkindly referred to what happened after the Mini budget in September, as the more on premium. There were obviously lots of things going on, and Marcus has mentioned the pensions thing uh shock as well.

179
00:41:11.930 --> 00:41:29.519
Martin Wolf: So this is the Uk tenure gilt spread over French ten year bones. I thought that France is a pretty good comparative for us, uh, but more similar to us really, than any other country I can think of, and uh, something neither country wants to believe, and the um,

180
00:41:29.530 --> 00:41:48.459
Martin Wolf: and you can see there was a colossal spy cap in the spread uh, and part time was sank. Tank became Chancellor, and uh, really properly, there was a collapse in the spread in a very short period of time. And basically this was a week ago. I think

181
00:41:48.470 --> 00:41:54.940
Martin Wolf: it's basically back to where it was that would suggest in answer to his question that

182
00:41:55.030 --> 00:42:12.220
Martin Wolf: the sense that this government was a rogue government, which wasn't playing by the rules and wasn't responsible was the most important reason for this, and I think, uh I So I do think it was very much financial sector, driven, though the emergence of the bond crisis, of course,

183
00:42:13.390 --> 00:42:29.659
Martin Wolf: uh exacerbated this and and whatever for whatever reason. But I think mainly because I got rid of these people and replaced it with people who didn't play by the rules talk the right to talk about fiscal responsibility and all the rest of it.

184
00:42:29.670 --> 00:42:57.600

Martin Wolf: Um! The markets seem to have calm down. Will that last? I don't know one of mighty rules in life. What happened to the mortgage market is the mortgage market back and running again and running back again. Of course, mortgage rights are higher, because the spreads uh, because, as you know, yields are higher, and the short rights are higher, and on yields have gone up with them. And of course this is I'm not going to have time to look at that, because that's a global phenomenon.

185
00:42:57.610 --> 00:43:17.069
Martin Wolf: And I remember correctly when I most of the Us. Yields are about. Uk: You. That's not particularly surprising. Uh that largely reflects expectations of future uh interest rates. Uh, i'll come to this inflation picture very soon, but I don't think any more that there is. Uh

186
00:43:17.080 --> 00:43:33.029
Martin Wolf: that is showing in the markets any sign. There's something, you know. The things like the Uk has become an emerging market, by which they mean one that can't fund itself in its own currency. That doesn't seem to have happened. It could happen, but it hasn't yet.

187
00:43:33.290 --> 00:43:46.509
Martin Wolf: Now a really important thing that is happening. Uh, I'm now moving to challenges. So that was uh the last of uh. So I was actually moved to challenges a little bit earlier.

188
00:43:46.820 --> 00:44:13.300
Martin Wolf: Uh, so I've just that was the last Brexit now moving to challenges with them where we are Now, this is about where we are now, and this is a really disturbing chart. Uh, and I don't think we fully understand why this has happened. But basic. This is from my colleague, John Burn Murdoch. He's done a lot of wonderful work. He basically shows that the Uk. Is the only developed country in the world with a share of working age. People outside the labor force kept rising

189
00:44:13.310 --> 00:44:16.160
Martin Wolf: after the initial pandemic shop,

190
00:44:16.170 --> 00:44:36.430
Martin Wolf: so unlike everywhere else, we're not on the feedback pandemic trend. A lot of the evidence. I had beautiful charts, but I had to get rid of it. Suggest this is health related, and it's not clear whether this is because it's obviously partly because our health system has been colossal over burden, because underfunded, and it's partly, I think,

191
00:44:36.440 --> 00:44:50.569

Martin Wolf: a consequence of the interaction of the pandemic, with long-term health deprivation in significant parts of our population. For the reasons I discussed earlier rising inequality,

192
00:44:50.580 --> 00:45:06.499
Martin Wolf: a rising regional and equality. It's concentrations of very poor public services, very poor housing, and uh, and poor diets and inadequate welfare support means You've got a lot of very unhealthy people, very similar to the Us in this respect.

193
00:45:06.660 --> 00:45:07.740
Martin Wolf: Um,

194
00:45:07.760 --> 00:45:20.870
Martin Wolf: uh! And if you look down the Us, you see it's a huge rise. It's just falling again, and that's well known. So there are some similarities there, but the Uk position on this is very disturbing and not fully understood.

195
00:45:21.100 --> 00:45:22.220
Martin Wolf: Um,

196
00:45:22.390 --> 00:45:24.169
Martin Wolf: uh! Now

197
00:45:24.190 --> 00:45:26.950
Martin Wolf: let me go to the challenges again.

198
00:45:27.110 --> 00:45:39.249
Martin Wolf: Obviously, we're going to be in recession uh, and and that's going to have big implications, and we've had to upgrade our update our forecasts rather dramatically,

199
00:45:39.260 --> 00:45:52.930
Martin Wolf: and we and we did this. The ovr of the Budget responsibility did this with the autumn statement, and the first, The on the left is, I think, very extraordinary sort of underlying something, I said earlier, but it's up to date, which is,

200
00:45:52.940 --> 00:46:01.869
Martin Wolf: uh the expected expected growth of real household disposable in count per person over the next two years, which are the red block

201
00:46:01.880 --> 00:46:25.249

Martin Wolf: uh in the forecast zone. And basically what they say is, these are cumulatively far and away. The largest declines in real household disposable income. After a long period when quarterly declines at this time were quite common, as you can see it far away, the largest since the war, and some estimates suggest that it's the largest since the twenty. So

202
00:46:25.260 --> 00:46:32.789
Martin Wolf: we're going to experience a dramatic decline, and we will have some disposable income, and that will mean formatting increases in significant

203
00:46:32.850 --> 00:46:52.229
Martin Wolf: property, at least by developed country standards and worsening help will be part of that, and you can see, if you looked at the level of real household disposable income that the um, the november twenty-two forecast shows a dramatic downgrade from the march two thousand and twenty-two forecast, and

204
00:46:52.240 --> 00:47:01.280
Martin Wolf: right now, in a couple of years expected the level will be back to where it was um uh uh ten years, and so ten years of

205
00:47:03.450 --> 00:47:19.289
Martin Wolf: um. So that's going to be a big, eligible thing now. The other another big concern right now obviously related to this is what's going to happen to cpi inflation. Um, i'm not going to go into all the details of this rather beautiful chart about which are the Ovs forecast

206
00:47:19.300 --> 00:47:34.510
Martin Wolf: to close to, but a little more optimistic than the Bank of England, at least less optimistic. But basically what it shows is a massive spike in the Uk uh really unlike the Us. Um uh more like Europe, and not quite

207
00:47:34.600 --> 00:47:47.019
Martin Wolf: other other non tradable service sector is rather unimportant in the inflation boost. It's mostly food beverages and tobacco and gas episodes, food and uh,

208
00:47:47.100 --> 00:48:05.539
Martin Wolf: and energy uh, and fuels uh, and the other tradables which are the the the consequence of the Covid shop, and this inflation in goods. Um. So there is an relatively optimistic view that the baseline of that will mean that inflation will start fully

209

00:48:05.850 --> 00:48:19.829
Martin Wolf: in the course of next year, and get back to trend with only a modest tightening, bringing down the other long tradables, particularly uh to um. So the inflation that

210
00:48:19.870 --> 00:48:20.930
Martin Wolf: the

211
00:48:21.220 --> 00:48:36.809
Martin Wolf: um base rate might not peak at much Over four and a half percent inflation will go away. It will then rise again, but not about two percent. So this is a relatively benign view of the inflation outlook, but it will still mean this is a massive

212
00:48:36.820 --> 00:48:45.229
Martin Wolf: rises in prices, and we have a terms of trade job that real incomes are going to be dramatically reduced, and it's going to be worsened by Bank of England

213
00:48:45.400 --> 00:48:49.379
Martin Wolf: uh timing, which is mostly what still will have a significant

214
00:48:49.470 --> 00:48:50.350
Martin Wolf: Okay,

215
00:48:50.420 --> 00:48:59.850
Martin Wolf: as Mark is suggested, and it's very important in considering the vulnerability of the Uk economy, we run enormous current account that since uh,

216
00:49:00.610 --> 00:49:20.309
Martin Wolf: and that's here showed the components of those very disturbingly large net investment income uh yet negative um at the service sector uh is the only one which significant positive items. So it's. It's forecast to be fire at six percent of Gdp,

217
00:49:20.320 --> 00:49:26.640
Martin Wolf: and that means as uh, Mark Carney famously said, We depend on the kind of

218
00:49:26.830 --> 00:49:32.779
Martin Wolf: profoundly we we. We depend on the confidence of strangers, and so far that more or less worked

219
00:49:32.910 --> 00:49:49.649
Martin Wolf: erez agmoni. Now a big consequence of the crisis and the long lags. The long, long period of very weak growth, and the social pressures created by this is that public spending is rising one hundred and fifty

220
00:49:49.660 --> 00:50:03.399
Martin Wolf: um as a share of uh of uh Gdp Um, The uh the and uh, the levels are running about forty percent of Gdp,

221
00:50:03.410 --> 00:50:19.510
Martin Wolf: not very high by European standards. But of course there are a huge fiscal deficits here, but they have been big increases now, forecast, and they're going to go end up at levels of expanding as a share of G. We haven't seen really since the mid seventies

222
00:50:19.520 --> 00:50:27.040
Martin Wolf: uh, and that, of course, has implications for taxation or um, or borrowing.

223
00:50:27.590 --> 00:50:34.899
Markus Brunnermeier: So when you give your inflation numbers, they don't take you to account the budget deficit each year. I mean

224
00:50:35.090 --> 00:50:50.329
Martin Wolf: if you believe in in some fiscal see of the price level aspects that fiscal deficits ultimate at some point will lead also to high inflation. Yeah, i'm not entirely convinced of this theory, but you can tell me that you do. You are Um, but i'm not going to discuss the the system

225
00:50:50.340 --> 00:51:09.910
Martin Wolf: The as things stand at the moment. There will be very large fiscal deficits this year and next, and then expected all steadily. It is possible that those will show up in significant inflation one way or the other. I'm. Not completely persuaded that that will be the case. Uh but uh,

226
00:51:09.920 --> 00:51:23.629
Martin Wolf: it's certainly an argument that we'll have. If that happens, either public spending will have to be cut a lot which will, I think, lead to the topic of government, or they will have to raise taxes a lot, and that might also be to the copying the government. I'm going to come to that in a moment.

227

00:51:24.100 --> 00:51:33.050
Martin Wolf: Um uk net public debt, of course, has risen dramatically since two thousand and seven. As you can see, we look down this chart,

228
00:51:33.060 --> 00:51:50.620
Martin Wolf: but it's not dramatic by the standards of other developed countries. Is this too much for a country. That is a large net external data with a large current account deficit. Who knows but it it isn't the case that our deposition is dramatically out of line.

229
00:51:50.630 --> 00:51:59.540
Martin Wolf: Uh, but of course it's worse than Germany for the Netherlands or Australia or Canada, but it's quite a bit better than the Us. Spain, France, Italy,

230
00:51:59.640 --> 00:52:00.850
or Japan.

231
00:52:01.430 --> 00:52:02.399
Martin Wolf: Um,

232
00:52:03.140 --> 00:52:05.459
Martin Wolf: i'm getting very close to the end,

233
00:52:05.670 --> 00:52:14.070
Martin Wolf: the big issue for the future far and away, In my view of all is what's going to happen to potential out for

234
00:52:14.740 --> 00:52:31.099
Martin Wolf: average output growth in the future. The uh, as you can see here, if you believe these numbers uh the one thousand nine hundred and eighty one thousand nine hundred and ninety-eight to two thousand and seven period uh had a very positive

235
00:52:31.110 --> 00:52:44.669
Martin Wolf: uh growth. And lot of it was. It was a labor hour supply to what that was. Immigration. Not much was capital deepening, and a lot was that total back to productivity which might be this financial sector focused focus.

236
00:52:44.750 --> 00:52:56.270
Martin Wolf: They. It fell dramatically between two thousand and ten and nineteen. It was almost all labor hours, labor productivity, growth was, as I already showed you, about half a percent in point of year at most,

237
00:52:56.300 --> 00:53:11.439
Martin Wolf: and the full cost is, there'll be still lower, and the main reason it'll be still low is labor force supplied like for us to stop um uh, partly because of the aging of the British labor force, and part of because immigration it is expect it will finally be brought under.

238
00:53:12.150 --> 00:53:24.879
Martin Wolf: Uh. If these figures are correct. Um Gdp. Growth will be modest and green. Gdp. Growth per hour will remain also very modest, and capital deepening will remain both

239
00:53:25.390 --> 00:53:26.939
Martin Wolf: the part of that very

240
00:53:26.980 --> 00:53:42.029
Martin Wolf: um very weak, and that implies something not much better than a little more than stagnation, little better than stagnation in terms of real incomes uh ahead and real disposable in counts.

241
00:53:43.260 --> 00:53:52.559
Martin Wolf: Okay, Finally, that's the review of I. What I think are the challenges. If you look at it, how do we get both that which Markus springs with his

242
00:53:52.690 --> 00:53:58.809
Martin Wolf: for the strategies. Ha! What, what's what's involved in getting

243
00:53:58.820 --> 00:54:16.410
Martin Wolf: and uh how people the Brexit effect be um? Can we overcome the major regional and other inequalities we've experienced. Can we get productivity growth going again? And what would be strategies involved? But it's pretty clear to come back that

244
00:54:16.420 --> 00:54:31.610
Martin Wolf: the hope that the factory revolution that it would lead to some fundamental permanent transformation didn't work out. I don't have the time to keep all these charts, but we still have essentially the Thatcher error. Post that error of tax

245
00:54:31.830 --> 00:54:35.640
Martin Wolf: rates. Um, they're not wildly different.

246
00:54:35.650 --> 00:54:54.840

Martin Wolf: Um, we the the companies privatizer, so privatize. There' be no real reversal of this revolution except Brexit effects clearly some important things. Our tax average tax rate remains relatively low. By developed countries standards the regular.

247
00:54:54.850 --> 00:55:13.869
Martin Wolf: They always see um indicators of regulatory stringency in the Uk are relatively low, so it doesn't look as though our relatively poor performance is essentially because we've got a sectionally highly taxed and rigid over-regulated economy. That doesn't seem very plausible

248
00:55:13.880 --> 00:55:31.930
Martin Wolf: So it's strategy. That you're going to have to pursue. I think it's going to have to be quite different from the one that we were pursuing uh in that in the post that your period and the quoting um trust theory that slashing a few taxes getting rid of bank bonus taxes would

249
00:55:31.940 --> 00:55:34.200
Martin Wolf: transformed

250
00:55:35.230 --> 00:55:37.620
Martin Wolf: the final thing I wanted to say.

251
00:55:38.040 --> 00:55:56.889
Martin Wolf: And this is uh, this is, I think, really interesting, because It depends on the first couple of questions you were asked to answer. Uh, these are the very, some very recent polls, and you've got all the dates on whether people think

252
00:55:56.900 --> 00:56:03.420
Martin Wolf: we should rejoin the Eu or stay out, and there's no doubt in the last year or so

253
00:56:03.470 --> 00:56:18.299
Martin Wolf: most a year or two. There's been a very big, a sensible shift in public opinion that may well still be soft, and he's worth remembering. At the beginning of the referendum campaign. The majority of polls were showing that remain would win.

254
00:56:18.370 --> 00:56:27.729
Martin Wolf: But if that continues or gets more serious, then you can begin to imagine the politicians will at least start thinking about the single,

255
00:56:27.740 --> 00:56:47.040

Martin Wolf: the single market, and maybe even in the next decade, start thinking about reversing the Brexit, though I myself think that it's just stupendous obstacles to that, because there are so many passionate opponents, and my own theory view is that you would be crazy to take us because we are so

256
00:56:47.050 --> 00:57:05.589
Martin Wolf: difficult, and the final thing. Then let me just go through the conclusion. The long story is one of relative decline. Very roughly speaking, the factory revolution did not give enduring benefits. On the other hand, stop the relative to climb. This would be Continental Europe by and large

257
00:57:05.610 --> 00:57:24.520
Martin Wolf: the period after the financial crisis in particularly, for in terms of economic performance, and I, as I said, the factory resolution certainly greatly increased in the quality. Um, and I think some of that was really stagnant for falling with income for significant parts of the population. So I showed you

258
00:57:24.710 --> 00:57:25.649
Martin Wolf: um

259
00:57:25.740 --> 00:57:28.470
Martin Wolf: the brexit referendum, and its result

260
00:57:29.240 --> 00:57:48.710
Martin Wolf: were actually chickens coming him to roost. I. That is to say, failures to provide decent incomes and opportunities for quite significant parts of the country. So a lot of the we all working class voted for Brexit, and that was the line. So, of course, demographic time, for we were in out right lies.

261
00:57:48.740 --> 00:57:57.179
Martin Wolf: The economy has certainly performed relatively poorly, since Brexit. How much that's due to Brexit we don't know, but it must be a factor.

262
00:57:57.210 --> 00:58:03.179
Martin Wolf: Our energy price is big and an expensive. It would ultimately be manageable without

263
00:58:03.220 --> 00:58:14.750
Martin Wolf: fiscal disaster. But a lot of people will be worse off, as I've shown you, and there's a huge inflation spike associated with this, which will, I think, disappear; but

264
00:58:14.770 --> 00:58:26.560
Martin Wolf: unless it actually goes to negative inflation, there's a permanent rise in prices permanent shift in the terms of trade that might not end, which makes us permanently worse off than we've otherwise been.

265
00:58:26.680 --> 00:58:46.129
Martin Wolf: But the challenges are renewing inclusive growth, and in relation to that resolving the Brexit conundrum, simply because it's poisoning our politics and making it very difficult to focus on any other policies in response to democracy strategic questions. I don't believe in single strategies, so I tend to go for all of them.

266
00:58:46.140 --> 00:58:46.919
Martin Wolf: Um,

267
00:58:48.110 --> 00:58:52.620
Martin Wolf: we're not going to go for Singapore on Thames. Um,

268
00:58:52.720 --> 00:59:10.600
Martin Wolf: not even Switzerland. I think the Tax Haven approach is going to be so unpopular with the Eu and the Us. We can't really do it beyond what we're doing in any way. I think the promoting um tech innovation so will be very promising for us, and we have to do that.

269
00:59:10.610 --> 00:59:27.960
Martin Wolf: But the big problems is none of that is going to generate a lot of income for the bulk of the less educated population. Unfortunately, long term failures in education which I had in that time to discuss, make it very difficult to restore um really first rate golf jobs, for

270
00:59:32.780 --> 00:59:36.259
Martin Wolf: so we know so very difficult.

271
00:59:36.300 --> 00:59:45.310
Martin Wolf: Ah, not very optimistic about a glorious future. But i'm not sure that will be vastly worse than I would

272
00:59:45.590 --> 00:59:51.480
Martin Wolf: about a number of other high-income European countries,

273
00:59:51.960 --> 00:59:53.739
Martin Wolf: which also have a lot of

274
00:59:53.910 --> 00:59:55.080
Martin Wolf: some of

275
00:59:55.100 --> 01:00:10.790
Martin Wolf: not many of these uh problems as to the longer term political stability of the nation, While those are some big questions, will it remain together? We'll stop them dependent. Will we get more popular some even

276
01:00:10.800 --> 01:00:15.140
Martin Wolf: Um. With all the social facility we're seeing in the Us. I think not.

277
01:00:15.580 --> 01:00:17.720
Martin Wolf: I. I think we are also in a period

278
01:00:17.820 --> 01:00:26.669
Martin Wolf: of quite new and difficult challenges to long period of stagnation which Britain is not used to. Historically,

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01:00:26.910 --> 01:00:30.150
Martin Wolf: I that gives you a sense of

280
01:00:30.260 --> 01:00:34.780
Martin Wolf: what's the matter with Britain, or at least what's been going on.

281
01:00:35.860 --> 01:01:00.810
Markus Brunnermeier: Thanks a lot uh Martin, for this great to to force across Mary very many aspects of uh in the Great Presence economy. Let me just zoom in on this inequality aspect. So two aspects: One is, you see, a tensions, or how progressive is. The tax level you said, is low, but how aggressive is the tax or the taxes regressive? I, one of the jobs I had to get rid of

282
01:01:00.820 --> 01:01:15.859
Martin Wolf: was a very nice chart for direct taxes that value added to course, taxes are regressive, and our property taxes, but for direct taxes, surprisingly, are a a a comparative chart that I can send you.

283
01:01:15.870 --> 01:01:35.240
Martin Wolf: Um, but that those were part of my forty charts. That shows that to my surprise, actually, uh, because we have very high income tax

thresholds and in, and our social insurance charges are relatively low that the direct taxation uh

284
01:01:35.250 --> 01:01:51.999
Martin Wolf: sort of shares of income taken by taxes up to the Median income are relatively low by Uh and continental standards. Uh that's the main, of of course, the not true for the Us. So actually, um!

285
01:01:52.010 --> 01:02:01.029
Martin Wolf: The tax system is not particularly regressive. It seems to be Um, the the the the

286
01:02:01.040 --> 01:02:19.689
Martin Wolf: what some of us here called pre distribution I incomes generated within the market economy uh have been the dominant uh backl. I didn't go into wealth inequality. That's a whole different story, very complicated and and uh, quite difficult to read it, because

287
01:02:19.700 --> 01:02:21.890
Martin Wolf: house prices.

288
01:02:23.650 --> 01:02:38.929
Markus Brunnermeier: And there's a huge tension between. If you were to follow a strategy of having more tax haven or not, at least going in this direction a little bit with the inequality component.

289
01:02:39.080 --> 01:02:46.120
Martin Wolf: The British guy I haven't had the time to discuss the strategies and debate. The British Government is moving

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01:02:46.860 --> 01:03:01.150
Martin Wolf: towards creating investment zones or enterprise, and to change the name which are relatively small areas which will have tax haven status, though, as far as I can see, they're basically

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01:03:01.280 --> 01:03:09.939
Martin Wolf: corporate tax status Havens not income tax savings That, I think, is going to be out of the question.

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01:03:09.970 --> 01:03:19.359
Martin Wolf: Um, we've got our own income tax uh haven stages through the the non dom regime which allows people who are

293
01:03:19.510 --> 01:03:39.169

Martin Wolf: deemed to be not domiciled, and many foreigners coming to work in Britain are deemed to be on the side to escape income taxes in large measure for a long time, so that is a tax haven status. Um, but otherwise it's these idea of enterprise zones uh for um,

294
01:03:39.180 --> 01:03:43.829
Martin Wolf: uh, and uh, they may encourage

295
01:03:43.970 --> 01:03:47.220
Martin Wolf: some movement of investment

296
01:03:47.300 --> 01:03:54.029
Martin Wolf: into those zones uh losing some revenue. But um,

297
01:03:54.070 --> 01:04:03.780
Martin Wolf: we we're not. We're not thinking of Tax Haven status on, as I said, on direct taxation um, which I think will be politically explosive,

298
01:04:03.790 --> 01:04:22.640
Martin Wolf: and we've obviously got all sorts of tax trips in our capital gains. Tax system carried interest taxation. I mean, there is a whole slew of stuff like that, like everywhere else. So really, if you're a very rich person and you pay tax, you are a full um got those sorts of things,

299
01:04:22.650 --> 01:04:28.450
Martin Wolf: but really aggressive tax havens designed to make us a uh

300
01:04:28.560 --> 01:04:39.339
Martin Wolf: uh a track for Fdi as island as being, I think, it's not being considered uh it, there will be two problems. It would affect revenue.

301
01:04:39.410 --> 01:04:45.389
Martin Wolf: Uh, and we hope to get revenue from Cap Cap Corporation tax right now. Wrongly, I think.

302
01:04:45.600 --> 01:04:47.479
Martin Wolf: Probably,

303
01:04:47.520 --> 01:04:54.059
Martin Wolf: but it also would run directly into the direction that the Us. In particular and the Europeans have been pushing,

304
01:04:54.140 --> 01:05:01.439
Martin Wolf: so we need the revenue to support the Welfare State, and we want to. We don't want to break on corporation tax. We

305
01:05:02.000 --> 01:05:20.759
Martin Wolf: um Well, when that our our rates are going to be well, a high above that we could lower them that would lose some not insignificant revenue. And the problem the British Government has, I don't think, that they would get away with cutting, spending significantly with the social distresses

306
01:05:20.790 --> 01:05:40.760
Martin Wolf: such, and is affecting marginal seats quite dramatically. That's a political judgment. So if they did cut taxes in some areas that have to raise some somewhere else. I think that's possible. I think land taxes could be great increase, but it will mean a major restructuring of tax system.

307
01:05:40.770 --> 01:05:54.760
Martin Wolf: But nobody has been willing to think about, because in a stagnant economy it means you have a lot of big losers, and in introducing a tax reform which designed to raise revenue. It creates a lot of big losers. It's politically,

308
01:05:55.640 --> 01:05:59.100
Martin Wolf: but, as I said, talking, spending also politically night,

309
01:05:59.480 --> 01:06:11.239
Martin Wolf: so I think the Government is sort of stuck on this. If the economy doesn't recover in such a way that spending on relatively cyclically related welfare, spending

310
01:06:11.300 --> 01:06:17.750
Martin Wolf: doesn't fall and cyclically related revenue doesn't Rise, then the British Government.

311
01:06:17.760 --> 01:06:40.710
Martin Wolf: We'll have some really big problems in the next uh. But but the special zones are primarily for real physical investment, if the the also for financial, I can see it's real fiscal investment no one is suggesting, and I Haven't looked at the details of the proposal and see the whole city. You know we can make Canary War for special enterprise, so that will clearly be possible.

312

01:06:40.720 --> 01:06:49.979
Martin Wolf: But the the financial sector is such an important source of revenue for the British Government, even off the prices. I just can't imagine they can do it.

313
01:06:50.290 --> 01:06:51.169
Okay,

314
01:06:51.880 --> 01:06:58.370
Martin Wolf: basically they're in a public finance trap at a lower level. But my sense of it is

315
01:06:59.040 --> 01:07:00.500
Martin Wolf: uh that,

316
01:07:01.220 --> 01:07:04.250
Martin Wolf: looking at the Us. Looking at Continental Europe

317
01:07:04.320 --> 01:07:07.490
Martin Wolf: pretty well, all the larger countries are in this situation now.

318
01:07:07.680 --> 01:07:08.529
Yes,

319
01:07:09.360 --> 01:07:19.899
Markus Brunnermeier: so moving to the next topic, which will be a free trade. So you know, if the work becomes more fragmented, polarized, and um!

320
01:07:20.090 --> 01:07:35.130
Markus Brunnermeier: Is it much harder for the United Kingdom to, you know, be in as being a small, relatively small country compared to the big blocks, and or can it be playing some role there to keep the the world open? It's entry to just about the

321
01:07:35.470 --> 01:07:41.839
Markus Brunnermeier: inflation of a reduction Act in us, which you know makes it much harder to export for Europeans to

322
01:07:41.850 --> 01:08:00.340
Markus Brunnermeier: to the Us. And so forth. And global Europeans will respond to that. How will the Uk in between somehow manage that? Or would it be a beacon of free trade? Or where do you, individual Uk playing out?

That is a fantastically good question, to which, as far as it see, the Uk currently has no answer.

323
01:08:00.610 --> 01:08:03.550
Martin Wolf: I think the instinct after

324
01:08:04.320 --> 01:08:05.600
Martin Wolf: let me go back.

325
01:08:06.110 --> 01:08:10.549
Martin Wolf: The world that was assumed to exist during the Brexit campaign

326
01:08:10.660 --> 01:08:13.419
Martin Wolf: pretty obviously does no longer exist.

327
01:08:13.570 --> 01:08:29.350
Martin Wolf: So the assumption back in two thousand and sixteen is that we would be a beacon of free trade. Uh, we would be global Britain, which was the price use, and that meant pretty clearly a lot of the Brexit pro brexit economy. So we would adopt

328
01:08:29.370 --> 01:08:41.409
Martin Wolf: even unilateral free trade in the nineteenth century model, and we would be open to China and Chinese investment in Chinese trade, and we'd be open to the Us. And we'd have free trade areas with the world,

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01:08:41.420 --> 01:08:53.190
Martin Wolf: and we would indeed be in a free trade. So, of course, if you give away Now that immediately raised the question. What if you give away all your barriers voluntarily? You can't negotiate, so you don't have much cloud, and that

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01:08:53.220 --> 01:08:59.079
Martin Wolf: already, immediately after the Brexit referendum was over, struck home to people.

331
01:08:59.439 --> 01:09:07.670
Martin Wolf: So we didn't do much unilateral liberalization we've done. We got a few very tiny irrelevant Free Trade deals

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01:09:08.729 --> 01:09:10.330
Martin Wolf: Australia notedly.

333
01:09:10.399 --> 01:09:20.860
Martin Wolf: Um can't remember where we are in Japan, but it's not going to make much difference. Um! There's hope for India. None of these are important. Uh, the Eu is a free trade agreement. But

334
01:09:20.870 --> 01:09:34.099
Martin Wolf: rate of three barriers is so important that it doesn't help as much as you like, and this clearly not going to be a free trade agreement with the Us. And this clearly not going to be a free trade agreement with China, so the that possibility of

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01:09:34.109 --> 01:09:43.249
Martin Wolf: I'm. Wrapping up with free trade agreements in all the world has to be gone Global Britain in a globally open world has gone. Um. So I think

336
01:09:43.470 --> 01:09:45.550
Martin Wolf: there isn't a trade strategy anymore.

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01:09:46.000 --> 01:10:04.059
Martin Wolf: Broadly speaking, Um! What are the options? We keep our current tariffs, which are generally pretty low, because tariffs. Are um, And we push in the global context for general liberalization.

338
01:10:08.540 --> 01:10:17.020
Martin Wolf: The uh we can. Second, we can continue to pursue the pre-trade areas with everybody strategy.

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01:10:17.490 --> 01:10:20.040
Martin Wolf: I just don't think there are titles.

340
01:10:20.070 --> 01:10:23.379
Martin Wolf: And and uh,

341
01:10:23.670 --> 01:10:27.000
Martin Wolf: it's clearly going to be a lot of pressure from the Us.

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01:10:27.050 --> 01:10:32.879
Martin Wolf: The Eu not to do things that make us a Trojan horse for china.

343
01:10:33.920 --> 01:10:47.499

Martin Wolf: I'm. Increasingly obvious. So uh that doesn't look very plausible, and, on the other hand, the Us. Is clean up in the past any liberalizing and negot uh um trade deal uh in the foreseeable future,

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01:10:47.740 --> 01:10:55.399
Martin Wolf: so that's out of the question. The third possibility is to try and improve our relationship with the Eu

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01:10:56.540 --> 01:11:01.649
Martin Wolf: and the obvious thing to do, They say, Well, we can't do deals with anybody else.

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01:11:01.830 --> 01:11:05.940
Martin Wolf: Uh, and so why not join the Eu Customs Union

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01:11:06.910 --> 01:11:11.799
Martin Wolf: that doesn't involve the problems with with, uh with um

348
01:11:12.920 --> 01:11:14.790
Martin Wolf: free movement.

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01:11:14.930 --> 01:11:34.149
Martin Wolf: And uh, it will get rid of all the tariffs. It will, so would it also dissolve the Northern Ireland issue, particularly if we adopted Eu regulations on our on goods, which I think would be natural to go, because there's really no British industrial demand, but having different.

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01:11:34.230 --> 01:11:48.589
Martin Wolf: It's product regulations, and standards from those of Europe which are, of course, their most important market, just constantly nonsense. So we have the same food standards and the same manufacturers standards.

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01:11:48.680 --> 01:12:06.199
Martin Wolf: Then, uh the regulatory harmonization will possible. Now, of course, that creates the problem with the role of the Ecj. I'm not going to go into all that. But, anyway, getting closer to Europe will be a feasible strategy. And actually, it seems to me the most rational strategy,

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01:12:06.420 --> 01:12:18.650
Martin Wolf: and the final strategy is to forget all that and leave things basically as they are, while at least resolving the the Northern

Ireland Protocol problem, which probably does mean fixing the the food standards issue

353
01:12:18.820 --> 01:12:28.439
Martin Wolf: those, I think, the options, and at the moment the the British government is not prepared to consider them, but to me in the world you described

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01:12:28.490 --> 01:12:33.259
Martin Wolf: um, at least in products for product trade.

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01:12:33.830 --> 01:12:37.350
Martin Wolf: The only rational strategy is to get closer to Europe.

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01:12:38.040 --> 01:12:49.200
Martin Wolf: But finance. You can imagine that you might not lose that much. We're not going to get into the financial sector regime uh

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01:12:49.260 --> 01:13:07.890
Martin Wolf: you're You're dealing still in a world where capital flows are free. There are regulatory barriers, but they not gigantic. So, being an offshore center in finance uh with london's sort of installed base. You lose something, but you don't lose that much,

358
01:13:07.900 --> 01:13:10.020
Martin Wolf: and um

359
01:13:10.630 --> 01:13:26.039
Martin Wolf: in the context of generally better relations with you. Maybe that would work, so I don't think we have to rejoin that. Um, uh, I don't think it's really feasible if that would involve the single European act. But I see. Um.

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01:13:26.480 --> 01:13:34.020
Martin Wolf: So the your your European economic area, almost certainly, but I think in goods

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01:13:34.410 --> 01:13:37.099
Martin Wolf: both the Customs Union regulation and

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01:13:37.240 --> 01:13:42.990
Martin Wolf: and in a few other areas. We really have to get close to the you. I can't see another rational strategy.

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01:13:45.030 --> 01:14:02.109
Markus Brunnermeier: So final quick question is about education. Of course Uk is a fantastic elite education of how it broad mass education is there. And is it also regionally very different? So it's a challenges on the regional side? I'm not an expert. My wife is the expert in this area. Um!

364
01:14:03.520 --> 01:14:08.859
Martin Wolf: There is evidence that in the last decade, to my great surprise,

365
01:14:09.020 --> 01:14:12.369
Martin Wolf: relative education performance in school

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01:14:12.510 --> 01:14:29.079
Martin Wolf: as improved. We've given a lot of decentralization to schools lot of decentralization. We've sort of imitated some of the best things of the Charter school system, and Britain has moved up the ranks of Pisa and others, and

367
01:14:29.090 --> 01:14:40.260
Martin Wolf: I mean, for example, to my absolute astonishment, according to Alison, i'm not my wife. Um. We're ahead of France, which would have been unthinkable in the past. Um so.

368
01:14:40.310 --> 01:14:47.730
Martin Wolf: But of course, improving our schools in the last ten years, it is obvious, affects the labor force very slowly.

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01:14:48.080 --> 01:15:07.450
Martin Wolf: And uh, and while we are trying to encourage an import of high skilled labor, and that may be uh, that could be very useful. I think the instinct will remain to try and cut back again, so i'm not sure that immigration will be big enough to

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01:15:07.900 --> 01:15:12.599
Martin Wolf: this. We have a very long tail of

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01:15:12.690 --> 01:15:13.880
um

372
01:15:14.310 --> 01:15:16.660
Martin Wolf: pretty poorly performing

373
01:15:16.690 --> 01:15:17.830
Martin Wolf: uh

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01:15:18.240 --> 01:15:26.089
Martin Wolf: pupils, and many of them, of course, and people were now in the labor force who came out of school in the last forty years, but

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01:15:26.820 --> 01:15:37.089
Martin Wolf: and also include a great many, were really very, very fully paid, and they are very depressed regions, with a very few good jobs, and, as my wife constantly tells me,

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01:15:37.350 --> 01:15:50.280
Martin Wolf: and then us experiencing shows very strongly that one of the best ways for people to get skills is to have a job, so they don't have good jobs, so they're doing very simple warehouse jobs that they're not going to get much skills, So

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01:15:50.680 --> 01:16:02.549
Martin Wolf: there is some sign of improvement in school education. We have moved to a mass university system, and that's almost certainly improve the average level in the top

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01:16:02.710 --> 01:16:09.909
Martin Wolf: half of the that they generate each generation. But that's relatively reason, and

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01:16:09.930 --> 01:16:17.989
Martin Wolf: I think there's very real concern of whether the quality of elite education hasn't gone down. I believe it probably has.

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01:16:18.160 --> 01:16:34.689
Martin Wolf: Uh, but on balance things might be improving, but it will affect the labor force very slowly, and the problem still is without, with large parts of our regions of our economy, where the jobs being generated as so poor.

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01:16:34.700 --> 01:16:42.909
Martin Wolf: But movement is very expensive, because our housing market is so dysfunctional, so moving to London, where there are lots of jobs.

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01:16:43.290 --> 01:16:49.140
Martin Wolf: Well, it's very expensive people, just too expensive for people to live, so there are many obstacles

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01:16:49.470 --> 01:17:02.169
Martin Wolf: to dealing with some of the problems we now face, and they are interacting to. The thing I've become more and more aware of is that these sorts of problems are not Don't come singly, They're interactive.

384
01:17:03.510 --> 01:17:20.099
Markus Brunnermeier: So thanks a lot. I mean, let's stop at this positive note to education. At least there's one positive glimpse. So I think we should. We have to tradition on this Webinar that we stop at a positive note. So I thank you a lot. Thanks a lot. It was fantastic to get the great picture what's going on in the United Kingdom,

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01:17:20.390 --> 01:17:37.670
Martin Wolf: and of course we all hoping that the you know Uk will move closer to Europe again, and that's uh, you know, beneficial for everybody. Nobody can do that more than being Marcus, as you know, i'm a very much a passionate European. I like Europe today, and I think the idea that Britain

386
01:17:37.890 --> 01:17:56.099
Martin Wolf: doesn't fit within Europe, given any sense of it's true history over the last two thousand years. It's just ridiculous, and I think Britain can contribute to Europe, and, like sure, this, hell believe that Europe can contribute to Britain. This is a very painful risk, and I hope it will end.

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01:17:57.560 --> 01:18:02.429
Markus Brunnermeier: Let's work towards it. Thanks again, and I think you you do a big part of it.

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01:18:03.370 --> 01:18:08.759
Markus Brunnermeier: Thank you very much. Thank you. Enormous pleasure. Thank you.