POLECON UK

ECONOMICS CONFERENCE

LONDON

9 DECEMBER 2013

CHAIRMAN'S SPEAKER NOTES

These notes were made by the Chairman, to indicate the main content of talks where the speakers did not use Powerpoint. These notes have not been edited by the speakers, so please excuse any errors or omissions.

Steve Davies, Education Director of the Institute of Economics Affairs (IEA).

Steve dealt with the economics and politics of the deficit. He asked whether companies are paying their fair share of taxes. His answer was that in certain cases they are not. He also made an interesting point about "Unfunded Liabilities", which he said was a clever accounting trick which enabled certain amounts which the government owed, including Private Finance Intitiative (PFI) contracts to be excluded from the public debt totals. Steve argued that these are sums which will have to be paid at some time in the future, and are therefore objectively "debt". This mean that the problem of deficit reduction is in all probability greater than official figures indicate.

Other interesting points made by Steve:

- The government's help to buy scheme – encouraging mortgage borrowing and boosting house prices – "wrong headed" and "unsustainable".
- The UK economy does not have much of an "output gap", the production possibility frontier has not moved outwards; therefore the recent "recovery" is driven by credit rather than by productivity.
- The economy may be in a "liquidity trap" where the "natural rate of interest" is less than zero. This is the rate of interset that would create full employment. This means that monetary policy fails to work. Japan has been in this position and has tried expansive monetary and fiscal policy for years without success.

Tim Harford, Financial Times and BBC, author of The Undercover Economist

Tim told the story of Alban William "Bill" Phillips.

Bill was brought up in a very rural part of New Zealand, where very few houses had working systems such as flush toilets or electric lighting. Bill's house had these amenities, however, but not because the family were rich. They had them because Bill's Dad was a bit of an inventor and a handyman, so he could rig up some contraptions using materials that were to hand. Bill had to cycle nine miles to the station and then catch a train to school. One day he found an old truck that nobody could get to work. He looked under the bonnet and realised that the engine was some sort of "system". If he could figure out how that system was supposed to work he believed he would discover what needed to be done to fix it. Eventually the truck engine sprang to life, and Bill, aged 14 would drive himself and his friends to school, parking the truck on a side street so his teachers would not find out.

Bill left school at 15 but did not go to university. The Wall Street Crash of 1929led to the Great Depression of the 1930s which made university unaffordable. This taught Bill an important lesson about the economy: an event originating 10,000 miles away could affect his life chances. During World War II, Bill was an engineer in the air force, servicing warplanes. Again, he instinctively worked with "systems", figuring out a way of fitting a mechanism which would enable old planes to fire machine gun rounds through the blades of a rotating propellor by synchronisation, just like on the Spitfire and other modern fighter planes.

He was captured and imprisoned by the Japanese and saw some terrible sights in the prison camps. After the war he wanted to know why it was that human beings could do such horrible things to each other. He came to London and enrolled on a sociology course at the LSE. He found himself drawn less to sociology than to economics classes, where he did not do all that well and in fact was in danger of failing his course. However he recognised some of the differential equations being used by economists to describe changed flows in the economy. They were similar to some equations he had learned to use by water engineers to describe flows in plumbing. He spent the summer of 1949 putting together a machine consisting of taps, valves, reservoirs, and Perspex tubes containing stocks and flows of coloured water. He presented his machine to a seminar in the autumn, and his professors immediately recognised its significance and created a post for him at LSE as a lecturer. The Phillips Machine is now in the Science Museum in London, near the Difference Engine of Charles Babbage, the father of computing.

Most students know Bill Phillips from the Phillips Curve, and the paper suggesting a relationship between inflation and unemployment is the most cited article in academic economics. But Tim Harford suggests that Bill Phillips' most important legacy is his insight that in order to find solutions to an economic problem, we need to understand the system that creates the problem.

Larry Elliott, Economics editor of *The Guardian*

Larry reminded us that the rationale for the Single European Market was to achieve economies of scale and specialisation. There was a believe that this would boost European productivity towards the levels achieved in the USA. However, there were and still are important distinctive features in the USA:

- Since the establishment of the Federal Reserve (Central Bank) in 1913, the USA has had a single currency
- There is also a single official language
- The EU (Brussels) budget is tiny compared with the US federal (Washington) budget

- The USA has weaker trade unions and a more ‘flexible’ wage system

Not all members of the Single European Market joined the Single European Currency, but it was probably unwise for certain countries to be allowed in. Howvere, in the early days the euro was successful in comparison with the US dollar, which happened at that time to be suffering from the dot.com bubble. However, the sub-prime crisis of 1997 exposed weaknesses in the euro, It has surprised some people that so far the euro has held together. A lot of political captal has been invested, and this has led to a strong defence. After initial drift in the hope that something might turn up, and smaller countries (Greece, Ireland and Portugal) being put under pressure, the dangers posed by Spain and Italy were recognised when Mario Andrani stated that of the European Central Bank would do “Whatever it took” to defend the euro. This calmed the markets.

Will the euro survive? Nobody really knows, but there are four ways in which differences in productivity and debt between member countries can be dealt with:

1. A long period of austerity, reduce costs, achieve fitter, leaner economies – an “internal” devaluation in place of a traditional devaluation of the currency
2. Rich parts of the union transferring money to poorer parts – this already happens at the EU level in terms of infrastructure and human capital projects with cohesion/ regional funds, but the wholesale transfer of funds is not popular in Germany
3. Full banking and fiscal union, as in the USA
4. Complete break-up and a return to national currencies.

Current policy involves elements of (1) and (2).

Rachel Reeves, MP (Leeds West), Shadow Secretary of State for Work and Pensions.

Rachel spoke about the “Labour Approach” to the economic crisis. She began by commenting on the fact that economics and politics are closely inter-related. She pointed out that Keynes argued that cutting borrowing during a recession was self defeating. When the recession worsens, the government has to borrow more, not less. She also mentioned the six large energy companies as strong evidence of a market not working. Market forces alone will not end a recession.

Rachel believes that in terms of employment the government has two particularly important economic roles

1. Promoting a strong education and training system for skills
2. Using its influence through taxation and rules for markets to encourage businesses to train, offer apprenticeships, etc.

Growth may have returned, but we need to consider the kind of growth that we are experiencing, and to question the fairness of policies for growth.

Hugh Pym, Chief Economics Correspondent, BBC

Hugh discussed some ways in which the global economy impacts on the UK. He began with Scotland, which has an independence referendum next year. If there were a majority vote for independence, then Scotland would have to learn to survive in a global economy. At the moment, the First Minister, Alex Salmond, does not wish to have an independent currency, but is hoping to negotiate a currency union with the UK. Scotland would want to share in the governance of the Bank of England. It is very uncertain whether the UK parliament would be willing to legislate for this, and other uncertainties surround such matters as consumer regulation , EU membership and whether border controls would be needed. Some major supermarkets are saying that they might have to charge more for food in Scotland, as they would no longer be able to swallow up transport costs within UK-wide profit margins.

Meanwhile the international balance of power is shifting towards large economies such as China. By 2020 China could be one the UK's top 3 export markets. Small businesses such as the "Real Satchel Company" have shown that the UK can manufacture if it can enter a huge export market like China.

Hugh's talk generated a lot of interest, and he some very perceptive questions from delegates on China, Scotland, Wales and the UK.

Duncan Wheldon, Senior Economist, TUC.

Duncan commented on the government's stated aim of "re-balancing" the economy, away from debt, financial services and imports, towards investment, manufacturing and exports. He stated that what is needed is a long-term structural change in the way that the UK economy works.

However, he pointed out that whereas the government had stated that it wanted 60% of economic growth to come from investment , it is actually 20%, and the current "recovery" is mainly driven by consumer spending. He argued that government policies are framed around a short-term political cycle leading to the next General Election, and not a long-term structural shift.

Duncan discussed the idea of a "Basic Citizen's Income", which could re-balance the power between employers and employees, and become a part of a fundamental re-structuring of the economy. However, at the moment, there is a lot more interest in such a policy overseas than in the UK. However this interest is being shown not only by politicians and economists of the "left", but by a range of commentators, experts and opinion formers.

Duncan ended the afternoon's proceedings by responding to several interesting questions from delegates.

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