LSE100 public lecture and prize giving

The Long Goodbye: how the crisis casts a long shadow

Martin Wolf
Chief Economics Commentator at the Financial Times, London
Author, The Shifts and The Shocks: what we've learned – and still have to learn – from the financial crisis

Professor George Gaskell
Chair, LSE

Suggested hashtag for Twitter users: #LSEWolf
The Long Goodbye: how the crisis casts a long shadow

Martin Wolf, Associate Editor & Chief Economics Commentator, *Financial Times*

London School of Economics

9th November 2015

London
Long Goodbye

- Shadow
- Policies
- Lessons
1. Shadow

• The crisis was a watershed moment:
  – Developed countries are slowly recovering
  – But potential growth has collapsed
  – Emerging economies are badly hit
  – China has entered a difficult transition
1. Shadow: high-income economies

LOST OUTPUT AND LOST GROWTH

IMF Pre-Crisis Forecasts and Outcomes for GDP of High-Income Economies (Source: IMF, World Economic Outlook April 2015)
1. Shadow: high-income economies

DIVERGENCE BETWEEN THE US AND EUROZONE

GDP AND REAL DOMESTIC DEMAND

- US GDP
- US Domestic Demand
- Eurozone GDP
- European Domestic Demand
1. Shadow: high-income economies

DIVERGENCE IN LIVING STANDARDS

GDP Per Head (2007 = 100; at purchasing power parity; 2015 is a forecast) (Source: The Conference Board)
1. Shadow: high-income economies

COLLAPSE OF PRODUCTIVITY GROWTH

Annual Rate of Labour Productivity Growth
(Source: US Council of Economic Advisers)

<table>
<thead>
<tr>
<th>Country</th>
<th>1950-2007</th>
<th>2010-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>1.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>US</td>
<td>2.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>France</td>
<td>3.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>4.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>UK</td>
<td>2.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>3.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
1. Shadow: high-income economies

COLLAPSE OF INVESTMENT

Contribution of Capital Investment to Annual Growth of Labour Productivity (Source: US Council of Economic Advisers)

1948-2007  2010-2014

Italy  0.7%  0.5%
France  0.8%  0.4%
Canada  0.6%  0.3%
UK  0.8%  0.2%
Germany  0.7%  0.1%
Japan  1.3%  0.0%
US  0.9%  -0.2%
1. Shadow: emerging economies

UNEXPECTED GLOBAL SLOW-DOWN

Successive Medium-Term Growth Forecasts (five years ahead)
(Source: IMF, World Economic Outlook, April and October 2015)
1. Shadow: emerging economies

CHINA’S UNBALANCED ECONOMY

Shares of Spending in China’s GDP
(Source: Haver Analytics)

Investment  Household Consumption  Govt Consumption  Net exports
1. Shadow: emerging economies

CHINA’S SLOWING ECONOMY

Contributions to Chinese Growth (percentage points)
(Source: Haver Analytics)

- Consumption
- Gross Investment
- Net Exports
- Total
2. Policies: easy money

WHAT THE ECB TELLS US ABOUT EASY MONEY

Official Policy Rates
(Source: Thomson Reuters Datastream)
2. Policies: easy money

WHAT JAPAN TELLS US ABOUT BALANCE SHEETS

Central Bank Balance Sheets (assets over GDP; per cent)
(Source: Thomson Reuters Datastream and Bank of England)
2. Policies: austerity

GREAT DEPRESSION AND GREAT RECESSION IN UK

UK Real GDP Per Head in the Great Depression and the Great Recession (1929 and 2007 = 100; at purchasing power parity; 2015 is a forecast)
(Source: Maddison Project and Conference Board)
2. Policies: austerity

SHORTFALL IN UK FISCAL TIGHTENING

CYCLICALLY-ADJUSTED NET PUBLIC BORROWING
(per cent of GDP)(Source: OBR)

June 2010 Forecast
March 2015 Forecast
2. Policies: austerity

NO BOND-MARKET VIGILANTES

Yield on UK Government 10-year Gilts
(Source: Thomson Reuters Datastream)
LSE100 public lecture and prize giving

The Long Goodbye: how the crisis casts a long shadow

Martin Wolf
Chief Economics Commentator at the Financial Times, London
Author, The Shifts and The Shocks: what we've learned – and still have to learn – from the financial crisis

Professor George Gaskell
Chair, LSE

Suggested hashtag for Twitter users: #LSEWolf