

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

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# **The Long Goodbye: how the crisis casts a long shadow**

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

London School of Economics

9<sup>th</sup> November 2015

London

# Long Goodbye

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- Shadow
- Policies
- Lessons

# 1. Shadow

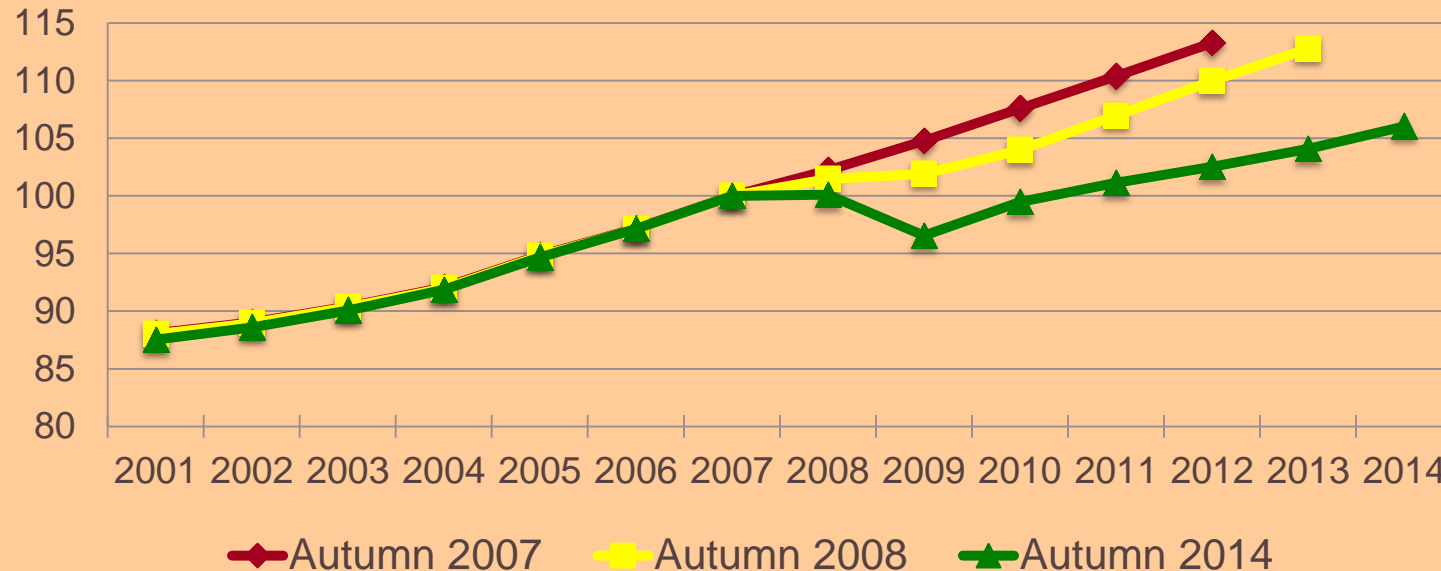
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- The crisis was a watershed moment:
  - Developed countries are slowly recovering
  - But potential growth has collapsed
  - Emerging economies are badly hit
  - China has entered a difficult transition

# 1. Shadow: high-income economies

## LOST OUTPUT AND LOST GROWTH

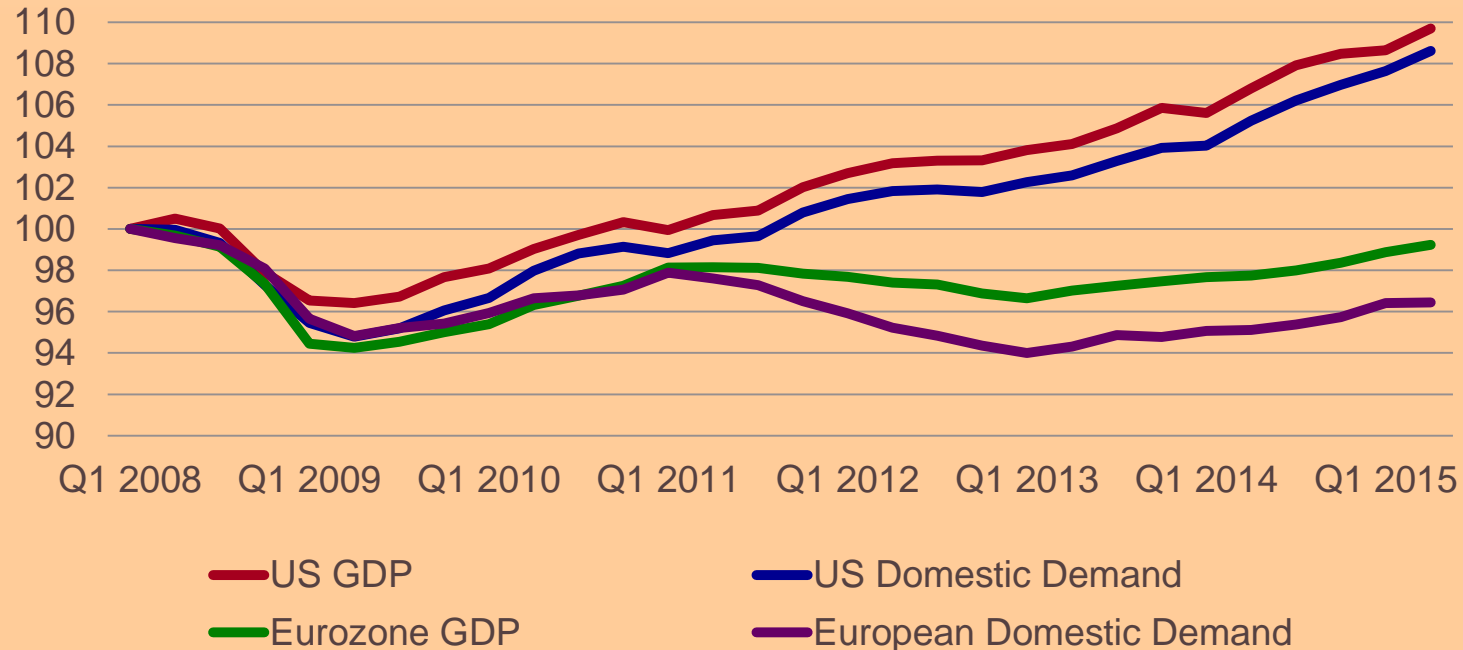
**IMF Pre-Crisis Forecasts and Outcomes for GDP of High-Income Economies (Source: IMF, World Economic Outlook April 2015)**



# 1. Shadow: high-income economies

## DIVERGENCE BETWEEN THE US AND EUROZONE

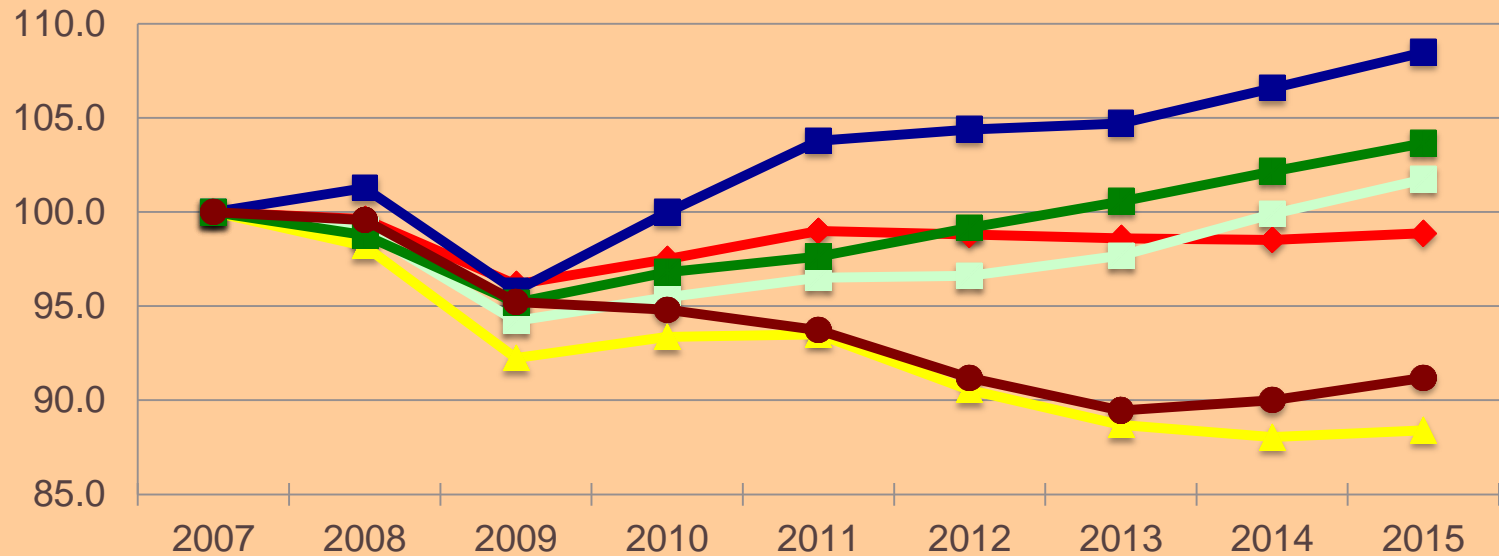
### GDP AND REAL DOMESTIC DEMAND



# 1. Shadow: high-income economies

## DIVERGENCE IN LIVING STANDARDS

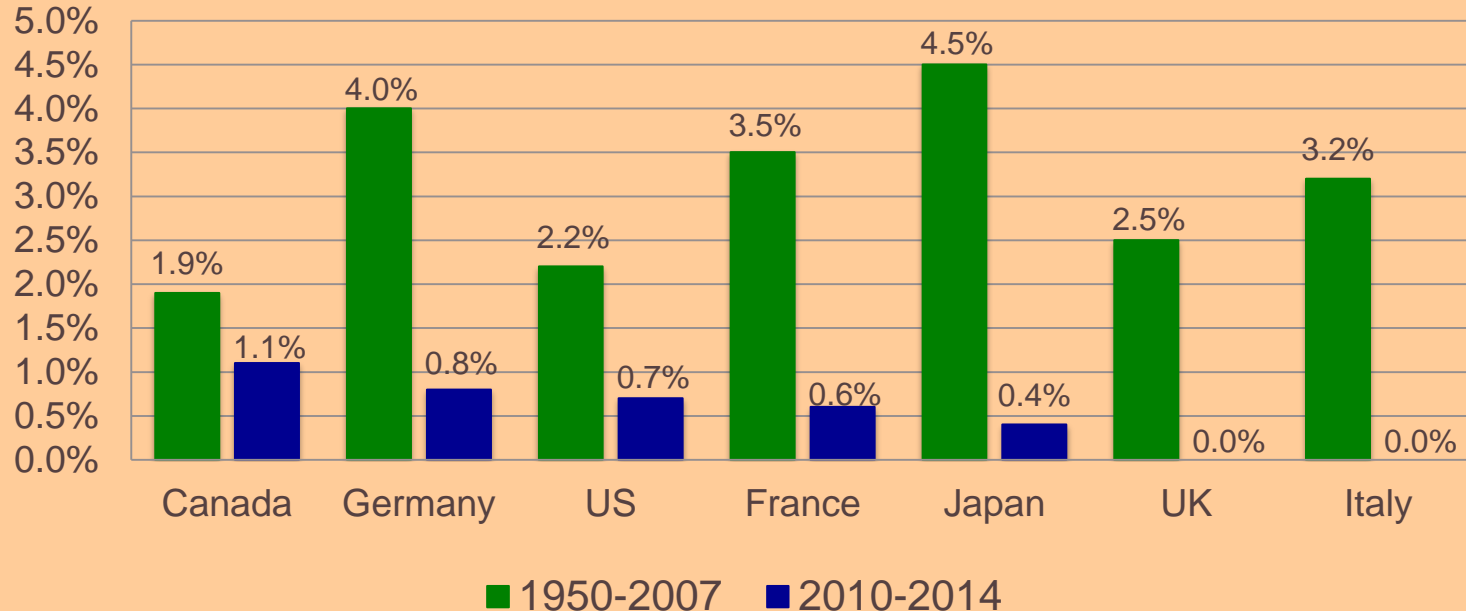
GDP Per Head (2007 = 100; at purchasing power parity;  
2015 is a forecast) (Source: The Conference Board)



# 1. Shadow: high-income economies

## COLLAPSE OF PRODUCTIVITY GROWTH

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

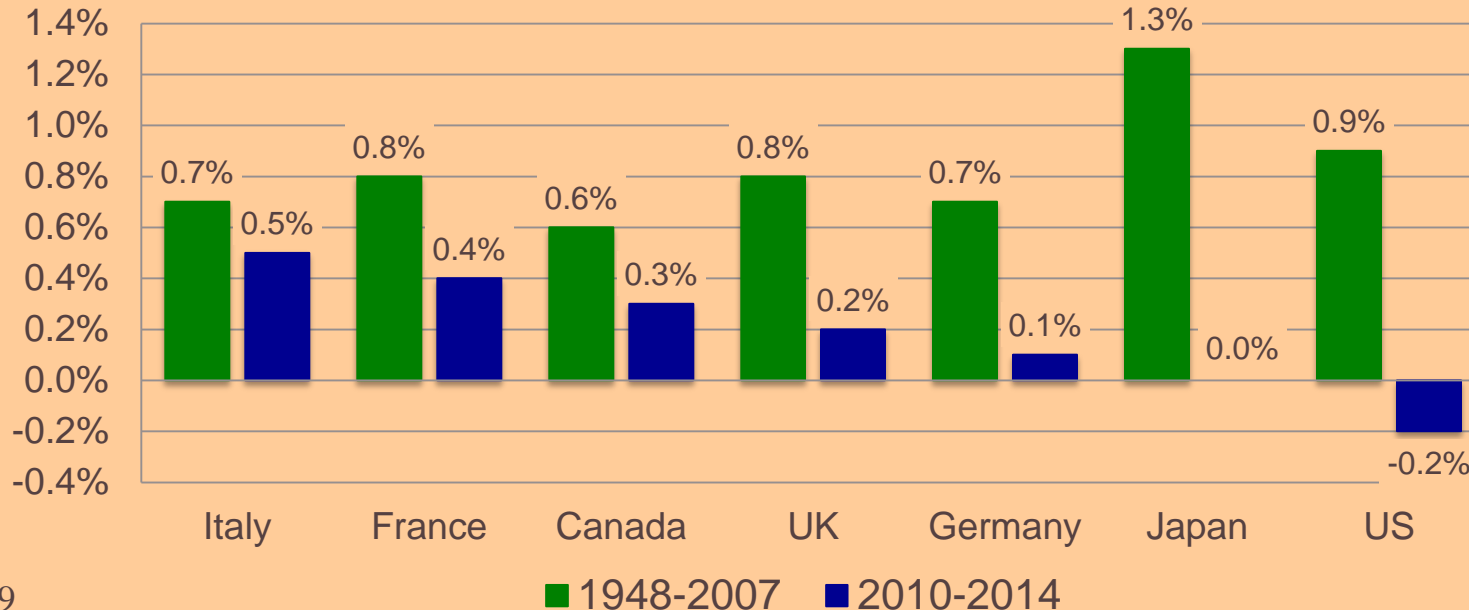




# 1. Shadow: high-income economies

## COLLAPSE OF INVESTMENT

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

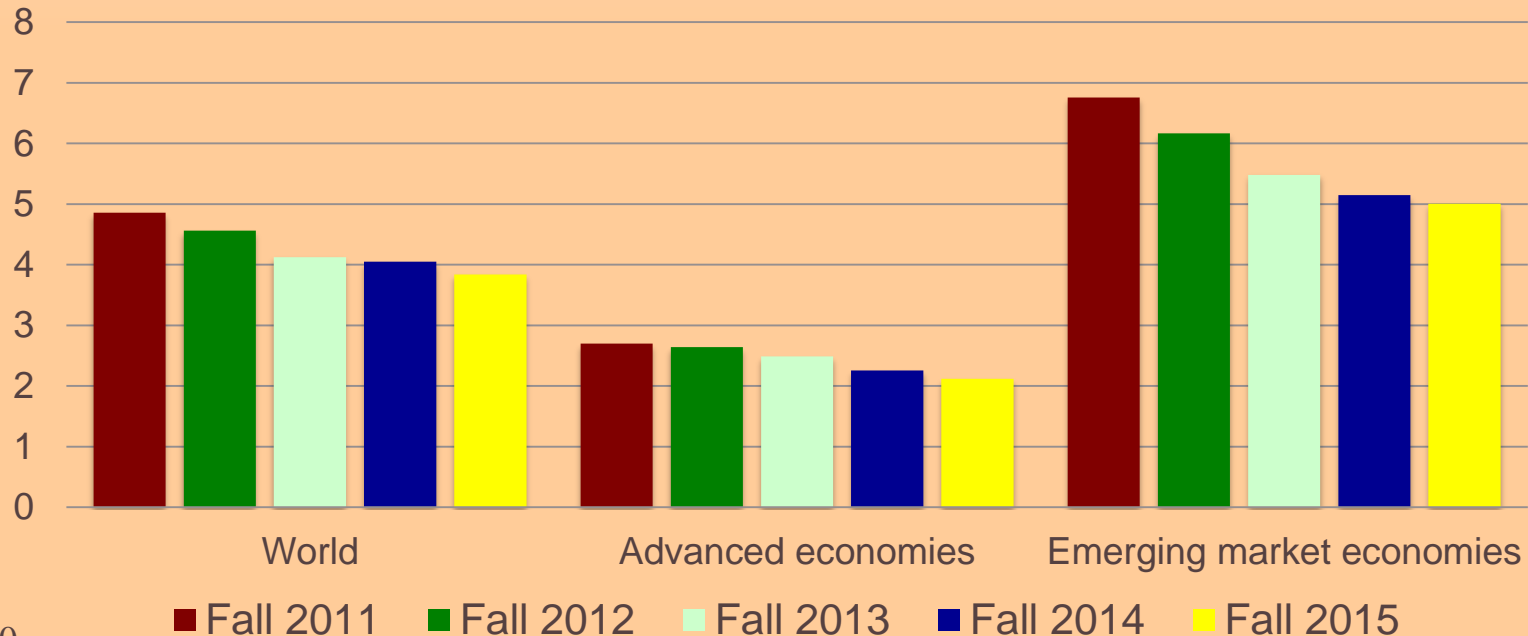


# 1. Shadow: emerging economies

## UNEXPECTED GLOBAL SLOW-DOWN

### Successive Medium-Term Growth Forecasts (five years ahead)

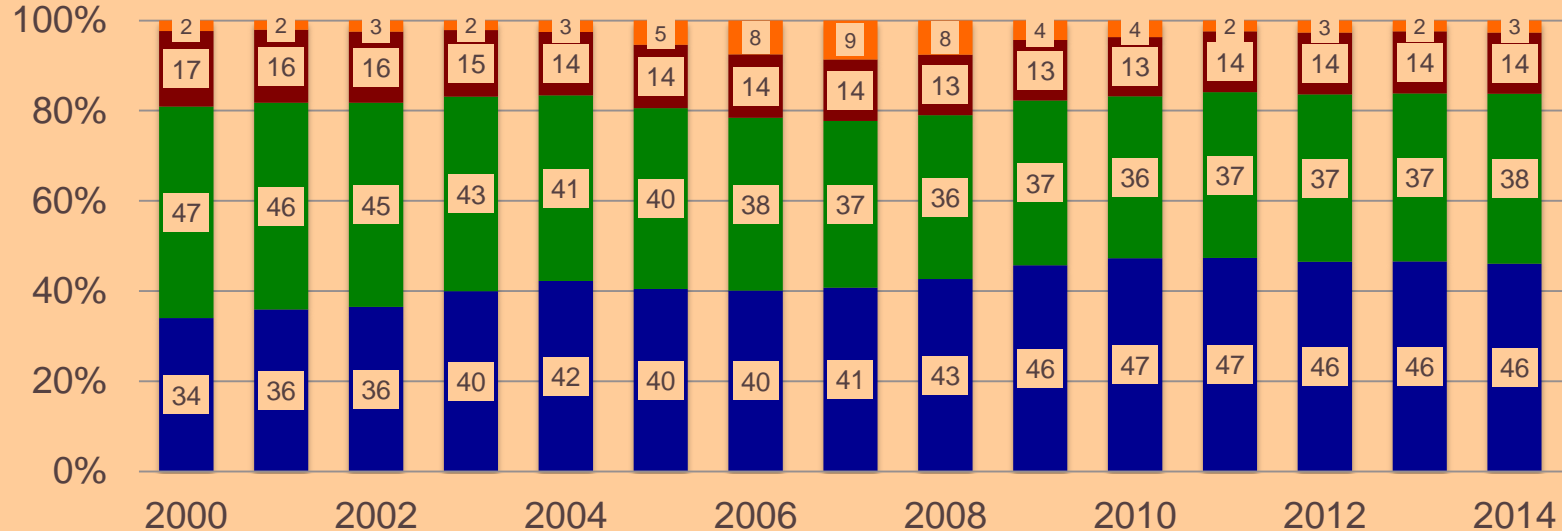
(Source: IMF, World Economic Outlook, April and October 2015)



# 1. Shadow: emerging economies

## CHINA'S UNBALANCED ECONOMY

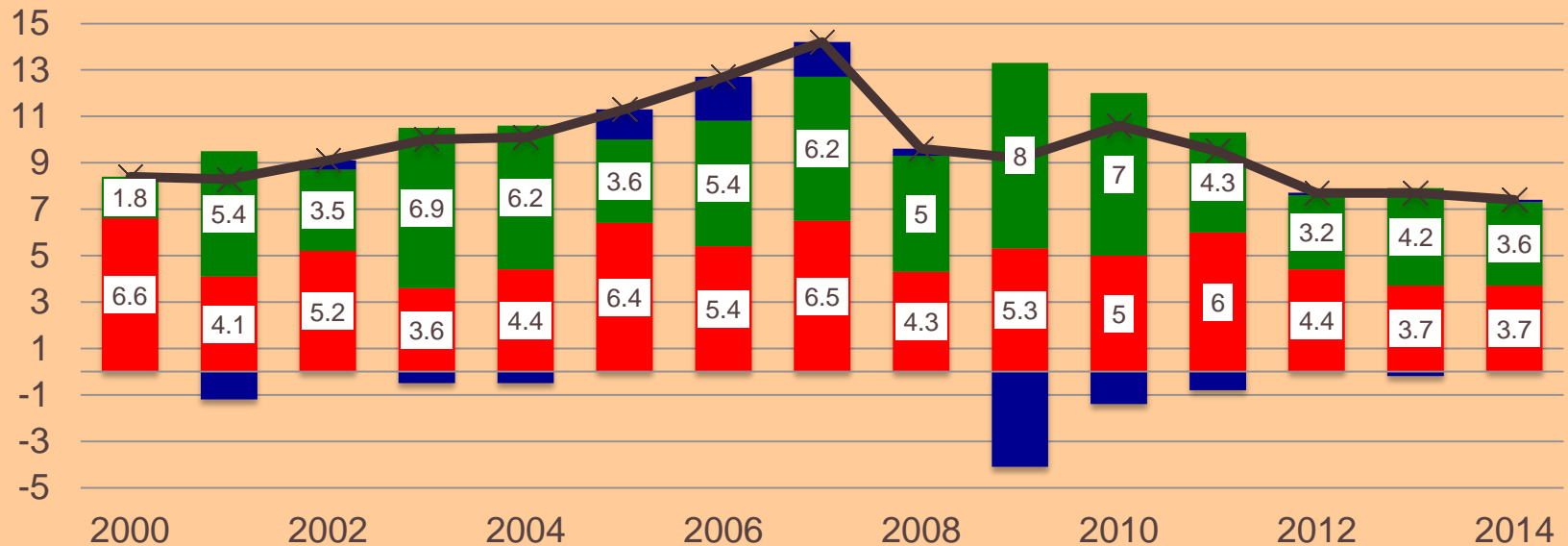
Shares of Spending in China's GDP  
(Source: Haver Analytics)



# 1. Shadow: emerging economies

## CHINA'S SLOWING ECONOMY

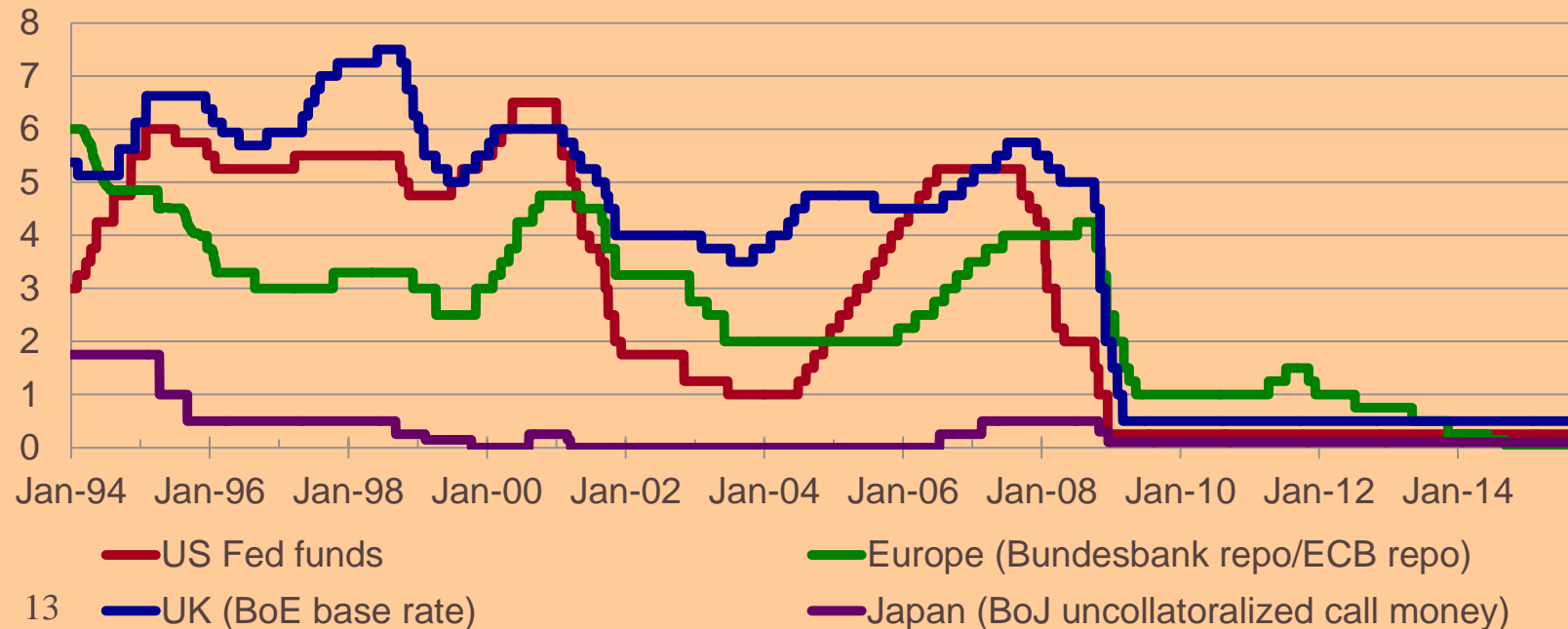
Contributions to Chinese Growth (percentage points)  
(Source: Haver Analytics)



## 2. Policies: easy money

### WHAT THE ECB TELLS US ABOUT EASY MONEY

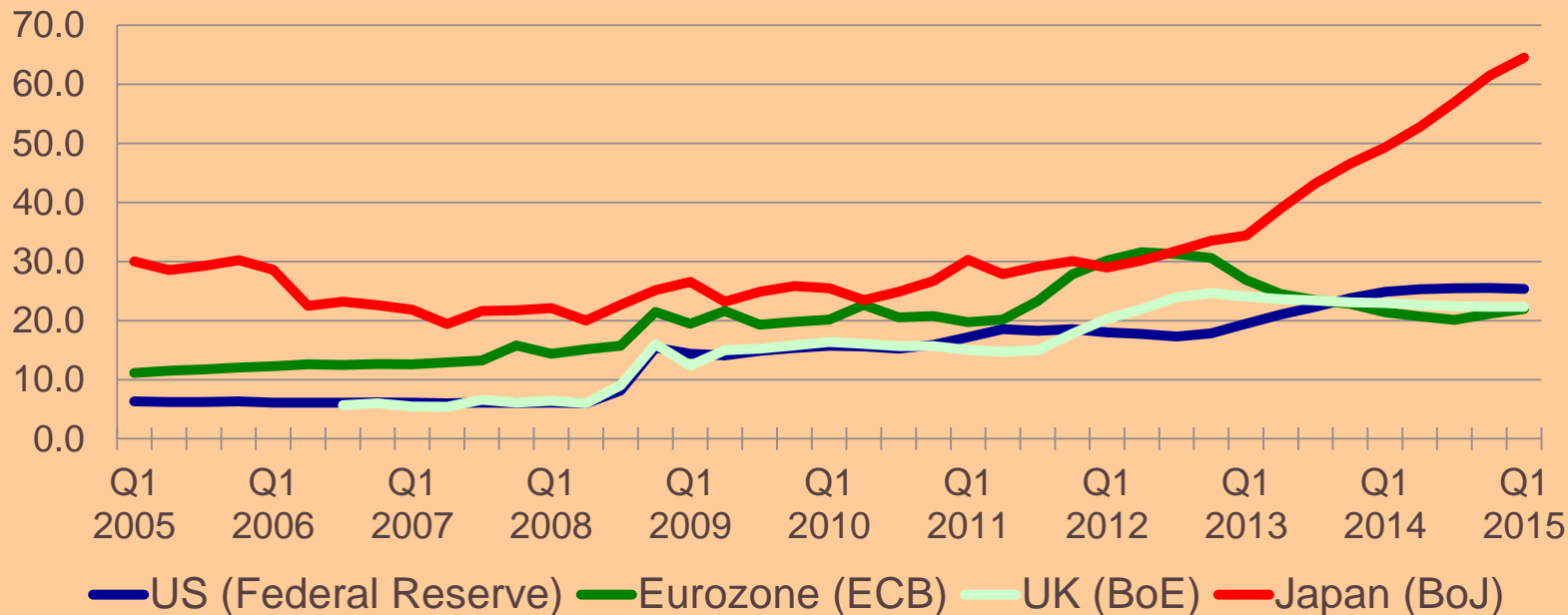
Official Policy Rates  
(Source: Thomson Reuters Datastream)



## 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)

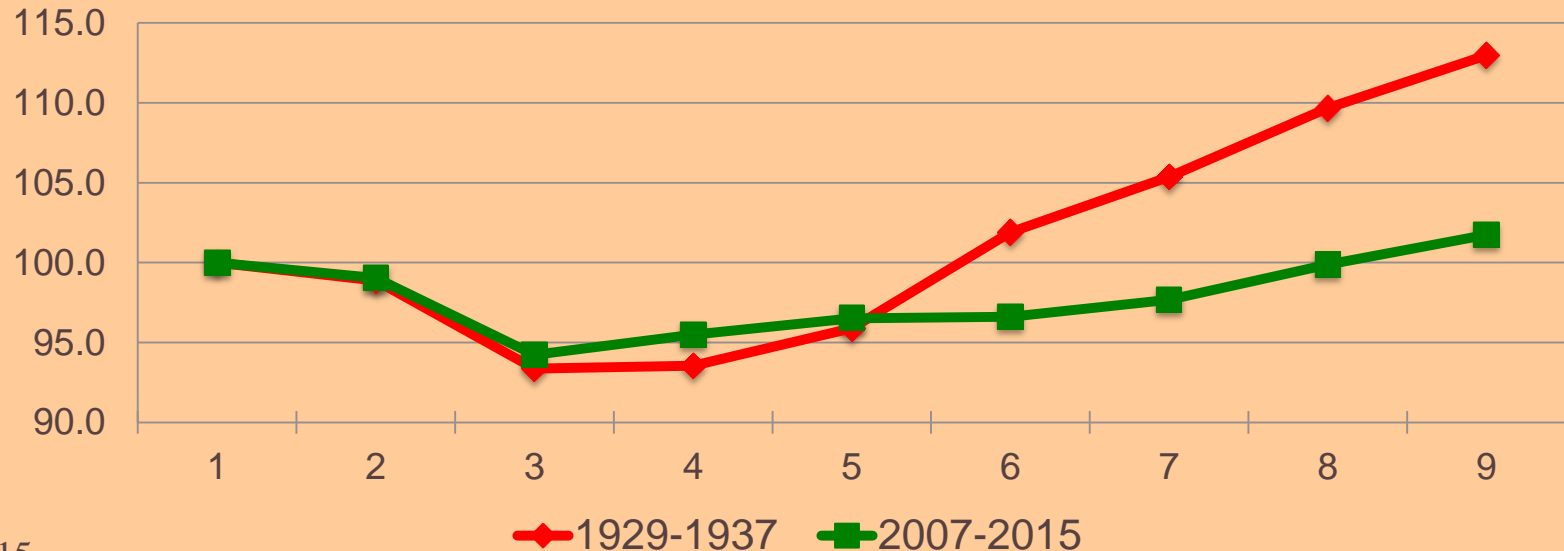


## 2. Policies: austerity

### 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)

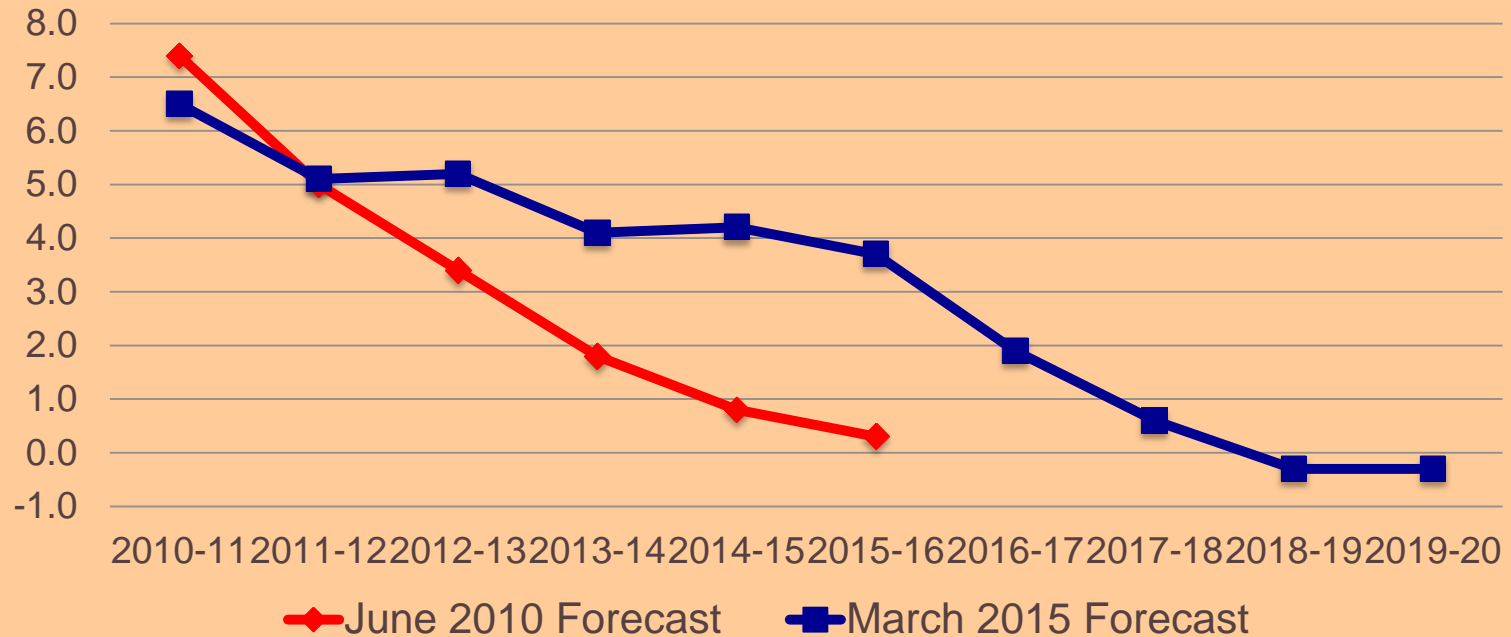
(Source: Maddison Project and Conference Board)



## 2. Policies: austerity

### SHORTFALL IN UK FISCAL TIGHTENING

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





## 2. Policies: austerity

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### NO BOND-MARKET VIGILANTES

Yield on UK Government 10-year Gilts  
(Source: Thomson Reuters Datastream)



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