Video transcript

Janet Henry explains why governments need to deliver more inclusive growth

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CBH: Hello. I'm joined by Janet Henry, our Global Chief Economist, to discuss the outlook for the global economy in 2018. Janet, the big focus of this piece is inequality. Why is it such a pressing issue when global growth is actually quite decent?

JH: You're right, Chris. Global growth is fairly decent. In fact, we've actually edged up our forecast for 2018 again. We're now looking for global growth of 2.9 per cent, which is basically the same as 2017. And again, the upgrade has come mainly from Europe. But you need to remember that this more decent growth has come after nearly a decade of what's actually been quite weak growth. And this combination of weak growth and high income inequality is leading to a lot of dissatisfaction. Now, 2017 may not have seen the same scale of political surprises as 2016, but we need to remember that Europe did actually succeed in skirting some fairly significant political risks. The first round of the French election was a very close fight, and we saw the results of the Austrian and the German elections where we did actually see some far-right parties getting into parliament – anti-globalisation, anti-immigrant parties – which does suggest still a high level of dissatisfaction.

CBH: So what do governments need to do about it?

JH: Well, for governments, it's an economic challenge and it's a political challenge. Economically, they really need stronger growth, and making growth more inclusive can actually help to strengthen growth as well. So if they bring more people into the labour force; so a lot of the youth unemployment, if that's reduced further; if female participation is raised, that can help to support growth. They can also address some of the educational inadequacies throughout people's working lifetime, not just younger people. The fact is a lot of those middle-skilled and lower-skilled workers who are being displaced by high-tech need to be given additional training. Governments can improve infrastructure spending in appropriate areas. And in emerging economies in particular, improved access to healthcare or to financial inclusion can also make a difference as well. Also, governments can provide an element of redistribution. And a lot of this goes into the urgency with which they need to respond. Some of these longer-term supply side issues will support growth over the longer term. But in the near term, if governments are fearful of big shifts in the political landscape, they may actually prefer to do something more on the redistribution side in order to address some of this current dissatisfaction.

CBH: All this sounds quite expensive at a time when government budgets are under strain.

JH: Absolutely. None of this is going to be very easy. And as you say, a lot do have larger budget deficits and high debt levels since the crisis. So it does mean quite difficult political choices. Do they just facilitate a backdrop where the market can deliver some of these required adjustments? Or do they resort to larger areas of redistribution or indeed government borrowing? So that will be the difficult choices that politicians will have to make.

CBH: You highlight China and the UK as two countries where steps are already being taken.

JH: Absolutely. The last few months have actually seen some fairly big policy announcements from a range of countries. In the UK, we saw the announcement of the industrial strategy. That seems to tick some of the right boxes, higher spending on R&D, a focus on more higher-tech kind of industries, more vocational-related training. The difficulty is budgetary. The fact is we probably need to see a lot more money thrown at it to really transform the outlook for the UK economy. In China, we have the announcements following the 19th Party Congress in October and there President Xi really set out how the growth mix in China was likely to change – it's no longer just growth at all costs. It's likely to be less construction-heavy, less public infrastructure-heavy,and a greater focuson private sector investment and higher-tech kind of industries, which will have implications for the world. There will be different relative winners in this world, more favouring some of the machinery producers, rather than necessarily commodity producers, so the likes of Japan, Korea, and, in Europe, Germany would be the obvious winner in that world.

CBH: We've also got some reforms coming out of the US, most notably on tax. Are they likely to help inclusion?

JH: Not obviously. It’s a different kind of approach that the US is taking, both in terms of the tax reform bill. It looks like the conclusion between the Senate and Congress is something that’s going to focus more on supporting the corporate sector through tax cuts. Hopefully, that will raise investment to some degree. The personal tax cuts should benefit all, to some degree, but the disproportionately large winners will be the higher wage earners. But it’s a slightly different approach because a lot of what the US is trying to achieve is growth in the US perhaps at the expense of elsewhere, particularly if they do walk away from the NAFTA agreement or indeed they resort to more trade barriers in an attempt to actually narrow their trade balance.

CBH: So are you expecting decent growth in 2018, inflation to stay subdued? What’s the outlook for monetary policy?

JH: Few changes to the monetary policy outlook. We certainly haven’t changed our view for the ECB or the Bank of Japan, where we expect policy to remain very accommodative. As far as the Fed is concerned, we have revised up our US forecast for 2019, which is when we see some of this fiscal stimulus starting to come through, but it is still a tightening from the Fed that’s more cautious than the Fed itself is projecting; so we’ve got two rate rises in 2018 and one in 2019. And across the emerging world, given our fairly stable outlook for euro-dollar, that’s still a world where you will see a degree of monetary independence across the EM, particularly in some of the Asian countries where we don’t even expect many to even follow the amount of tightening that we are forecasting for the Fed.

CBH: Janet, thanks very much.

JH: Thank you.