

Video transcript

When the money runs out

Stephen King, Group Chief Economist

Chris Brown-Humes, HSBC: Stephen you called your book When the Money Runs Out: the End of Western Affluence. Why?

Stephen King, Group Chief Economist: Well obviously the money can't literally run out because central banks can print lots more of it if necessary. But what I mean is that the growth rates that we used to enjoy in the Western world, from the 1950s through to maybe 10-15 years ago just aren't coming through anymore. In the first four decades of my life, there was a three-fold increase in per capita incomes in the UK. And over the last 10 years or so there's been an increase of only 4 per cent. So a really tiny increase. And it is a story we are seeing not just in the UK but in many other Western countries as well. So in one sense we've had a lost decade already, over the last 10 years.

Chris: But you are saying, this is not something cyclical, caused by the global financial crisis, you are suggesting this is structural.

Stephen: That's right. Because during the first four decades of my life, so to speak, there were a series of what I would describe as one-off boosts to economic growth. The massive opening up of world trade in the 1950s and 1960s, the emancipation of women in the workforce, and much greater representation now than was the case 30 or 40 years ago. Huge increases in financial business, in particular, the rise of consumer credit, which was helpful for a long period of time before it became unhelpful over the last few years. There was, if you like, a series of step-changes in Western economic development over the last 40 or 50 years, which have appeared really to come to a bit of an end over the last 10-15 years.

Chris: But we've got used to ever-rising standards of living here. What are the dangers?

Stephen: The problem is that we've spent basically more over the last few years than we have really earned. In a sense we've made commitments politically to pensions, healthcare, social security, but also commitments financially in the sense that we have all these pieces of paper like bonds and equities, which are effectively claims on future levels of income. As it turned out, the actual levels of income in recent years have been much, much lower than the expectations. The problem now in one sense is how do we reduce those claims which in totality are far too big relative to the income we are currently generating.

Chris: And does that mean we are going to default on some of the promises we have made, for example to pensioners?

Stephen: Certainly one possibility of course is that the retirement age will rise really quite significantly in the years ahead. Of course that trend is already there. Other people may choose to work well beyond retirement age because their pensions simply won't be as generous as they had previously expected. In terms of default more generally, there'll be all sorts of ways of governments and central banks trying to shift the burden, from debtors through to creditors. For example creating perhaps higher inflation, or going for currency devaluation or even the possibility of perhaps within the eurozone, that ultimately there will be some kind of debt restructuring associated with these excessive levels of debt in Southern Europe.

Chris: None of that sounds very pleasant. How do we avoid those outcomes?

Stephen: I think there are some things that might be useful, for example, trying to change the mandate for central banks rather than focusing on inflation they should focus on what I call nominal GDP, basically the value rather than volume of GDP. To make sure effectively that financial contracts don't end up being null and void; that would be a step in the right direction perhaps, but also it would emphasise that to get faster growth coming through you can't really rely on what central banks do, you have to rely instead on structural reforms of one sort or the other, so-called supply side reforms, which frankly are quite difficult even at the best of times, that's a tricky issue. Also, I would suggest, and this is one of the key themes of the book, there has to be a real sort of rebuilding of trust because one of the big problems of stagnant economies is that any one person's gain is often another person's loss. And in those circumstances levels of trust within society begin to fall away. So levels of trust have to build up some way or another.



Chris: And in terms of the things that policy makers have tried, quantitative easing for example, has that worked?

Stephen: At first it worked pretty well, because we had got the threat of a great depression. And that did not happen so that was the very good news relative to say the 1930s. It's kind of morphed over the last few years, from being a very powerful antibiotic, to becoming rather like an addictive pain killer. It hides some of the problems but doesn't really deal with the underlying difficulties. And I also argue increasingly that these QE policies, quantitative easing policies, are having an impact on the distribution of income and wealth, rather than necessarily lifting growth to a significant degree so it's creating winners and losers in society which drags central bankers right into the political fray.

Chris: Stephen you used a lot of historical examples, what are the lessons in history?

Stephen: Well there are a lot of examples of economies being growing quite happily then bump into some kind of constraint which leads to disappointment and often to political and social unrest. I went back a long, long way. I looked at the peasants' revolt back in 1381, through to the French Revolution, through to some of the monetary upheavals of the late 19th century, through to the austerity in Britain in the late 1920s, which eventually forced Britain off the gold standard, a whole bunch of lessons you can really take from the past. I think one of the biggest problems economists have is to focus too much on their mathematical models and not enough on what has happened historically to economies and in particular the social and political consequences of economic disappointment.

Chris: Stephen, thank you for joining us today.

Stephen: Thank you.