NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:
PRESS CONFERENCE
Thursday 25th October 2018
Opening remarks by the Director

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our November 2018 *Review*. NIESR is the UK's oldest independent economic research institute, and was founded just over eighty years ago on 2nd June 1938. The Institute's original mission was "to carry out research into the economic and social forces that affect people's lives and to improve the understanding of those forces and the ways in which policy can bring about change". In the years since its foundation, the Institute's researchers have made many significant contributions in pursuit of that objective. To celebrate the milestone, this edition of the Review brings together five papers by current and former staff members reviewing aspects of the Institute's work.

Ray Barrell, Andy Blake and Garry Young focus on macroeconomic modelling, forecasting and policy analysis, which has played a central role at the Institute with the first forecast published in 1959. Stephen Hall and Brian Henry build on this paper by discussing the empirical research of the 1970s and 1980s, including the increased attention to the modelling of the supply-side and the integration of expectations. The Institute has a strong track record in the analysis of productivity, and in particular why the UK's performance has been so poor relative to that of many other advanced economies. This matters hugely because productivity is the fundamental determinant of a nation's living standards. Moreover, productivity growth has been especially weak in the decade since the financial crisis and the consequent stagnation of real incomes for the bulk of the population has played its part in the rising discontent with the liberal economic order. Geoff Mason, Mary O'Mahony and Rebecca Riley review the Institute's work on this topic.

The labour market has been a particular focus of much of the Institute's work, in part reflecting the many associated policy challenges. Peter Dolton reviews the Institute's analysis of topics such as: persistently high unemployment in the 1980s; the behaviour of wages; poverty and inequality; the returns to education and training; the role of unions and industrial relations; immigration; exiting the EU; the impact of minimum wages and the future of work. Much of this work has moved the study of labour markets away from macroeconomic aggregates to the household as the unit of account and has acted to motivate much of the Institute's qualitative and quantitative work on social policy. Finally I discuss the need for increasing sophistication in the analysis of the impact of the rest of the world on the UK economy. Whereas in the Institute's early days, the focus of policymakers was very much on the trade balance and whether the exchange rate was at a level consistent with both internal and external balance. As time has progressed, the international mobility of both capital and labour has increased and financial markets have become more integrated and means that many aspects of the supply side of the economy is internationally determined.

On which note I will turn to the immediate future for the UK. As we shall hear in more detail shortly, we expect reasonably robust economic growth in the global economy with a broad-based expansion of just under 4% and expect much the same for next year. We articulate various risks to that path. One in particular revolves around removal of monetary accommodation in the US and the impact on the rest of the world, especially in emerging economics many of whom have caught the advanced country debt disease. Those risks notwithstanding, global momentum contrasts with the unusual degree of economic and political uncertainty facing the UK as it seeks to engineer an acceptable exit from the European Union by March 2019.

The Budget next Monday offers a chance to consider the fiscal settlement after the GFC and in the process of exiting from the EU. There was a sustained fiscal stabilisation effort after the GFC, which more than doubled public debt as a share of national income. The Office for Budgetary Responsibility was established in 2010 to bolster fiscal credibility by assessing HMT fiscal performance against its self-imposed rules. A path of fiscal consolidation was also adopted in 2010 but countercyclical fiscal policy has broadly continued with a sequence of primary budget deficits. The fiscal rules have been regularly modified and one question is whether they ought to be treated as a binding constraint or more as a target to be followed flexibly, as has been the case with the monetary policy rule for inflation. In other recent Institute work we have shown that expenditure plans are regularly revised but may not reflect the correct response to the requirements of society in terms of current or capital expenditure. And worse by concentrating on controlling public expenditure we are missing an opportunity to consider systemic reform of the tax system that would raise revenues and allow expenditure to adjust more smoothly.

As we said in the summer, the main risks to the global and domestic economy are associated with policy choices. Either as a result of uncertainty about policy *per se* or the adoption of policy stances that may not be appropriate. In many countries changes in taxes and fiscal policy overall maybe the best way to ensure continuing growth and, as far as the domestic economy is concerned, limit the impact of the UK's EU exit.

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