NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:
PRESS CONFERENCE
Tuesday 31st July 2018
Opening remarks by the Director

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our August 2018 *Review*. As we shall hear in more detail shortly, economic growth seems to have broken out in the global economy, as in 2017 economies expanded at their fastest pace, just under 4%, since 2011 and we expect much the same for this year and next. That global momentum contrasts with unusual degree of uncertainty facing the UK as it seeks to engineer an acceptable exit from the European Union by March 2019.

The main risks to the global economy are explored in the *Review*. If economics is the 'study of scarcity', then one aspect that does not seem at all scarce in modern economies is debt. The burgeoning levels of public debt in the advanced economies and corporate debt in the emerging economies mean that many economies are particularly vulnerable to negative income shocks and/or positive interest rate shocks. Total debt in the advanced economies is $123Tn at some 276% of GDP and in the emerging economies debt is some $54Tn at some 193% of GDP. Given that prosperity and trade go hand in hand, we quantify the risks that a tariffs represent to global trade. Any escalation in the 'trade war' and in the deployment of tariffs will tend to reduce the rate of technological progress and thus global output. Finally, we explore the extent to which fiscal policies may be able to alleviate some economic underperformance by focussing on the Euro Area, which we expect to grow below the OECD average in 2018 and 2019.

In the UK, uncertainty about exit from the EU seems to be limiting the development of policies to promote more inclusive economic growth. Many of the causes of political uncertainty such as widening regional inequality and the impact of globalisation from waves of trade and labour migration, as well as extant problems in the provision of health and education are increasing the pressure to end fiscal consolidation. Work by the Institute has, for instance, highlighted the extent to which public sector wages have started to fall behind those in the private sector. And with a weak or impaired supply side there is likely to be more upward pressure on Bank Rate than would otherwise be the case. As in the previous Review, we feel that some change in the monetary-fiscal mix is in order.

In this *Review* we also publish four contributions on the so-called 'Broken Housing Market' in the UK: *The housing market: challenges and policy responses*, by Stephen Aldridge (Ministry of Housing, Communities and Local Government); *Broken market or broken policy? The unintended consequences of restrictive planning*, by Paul Cheshire (LSE); *Housing, debt and the economy: a tale of two countries*, by John Muellbauer, (Nuffield College Oxford); and *Housing policy and the changing tenure mix*, by Christine Whitehead (LSE). The large fall in housing affordability in the UK over the past two decades seems to be well explained by national preferences for owning homes, the increased availability of loanable funds for housing purchase, the tax regime and limited housing completions. Given that preferences are hard to shift and that much policy since the establishment of the Financial Policy Committee in 2011 has been directed at reducing excesses in lending practices, the remaining degrees of freedom seems to be in encouraging housing development and a fundamental examination of property taxes.

The main risks to the global and domestic economy seem to be associated with policy choice. Either as a result of uncertainty about policy *per se* or the maintenance of policy stances that no longer seem appropriate. As the experience of the housing market shows, it is not so much that we do not know what needs to be done but there needs to be political will for implementation. In many countries changes in taxes and fiscal policy overall maybe the best way to ensure continuing growth in the rest of the world and, as far as the domestic economy is concerned, limit the impact of the UK's EU exit.

JAGJIT S. CHADHA
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