Weighing the past, to assess the future.

Productivity Challenges in a Volatile World: Workshop in Honour of Nicholas Crafts

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Thank you to colleagues at Sussex and elsewhere for organising this event in Nick's honour. In particular to Sambit for inviting me to contribute. I am very sorry that I cannot be there in person. Please forgive me. The great tragedy of Nick's death last year is self-evident but within that is that his retirement plan had been so well formulated: Teaching at Sussex and becoming Chair of the Council of NIESR. These complementary jobs allowed him to continue research and policy advice, at which he excelled. He even found time to be elected President of the Royal Economic Society. We are all sorely missing his down to earth, Nottingham frankness.

Nick was something of a hero to me. I read his book, British Economic Growth During the Industrial Revolution, as an undergraduate in the late 1980s. And to learn the basic point that revolution was more evolution has stayed with me. That the leading and most innovative industries may not be good indicators as to the performance of the whole or the rest of the economy, seems obvious with a moment's thought. And that positive change may have much deeper origins that a sudden "dash for growth". But such mis-readings are still made regularly. Only last year when the Chancellor of the Exchequer, Jeremy Hunt, was making the case that AI and

Fintech could rapidly raise total factor productivity, he was repeating the mistakes that Nick had corrected.

In fact, three of our biggest economic policy errors - I will place Brexit in its own special category of poor policy formulation and execution - involved making the fundamental error of not understanding that aggregate supply cannot be improved that quickly. So in 1973, the Barber boom stimulated demand when it had already become excessive relative to supply following oil price shocks. In the late 1980s, the Lawson boom followed an incorrect inference that faster growth was a supply side phenomenon, or in the language of the time a permanent increase in income prospects, and so not requiring significantly tighter monetary policy. And the mini-Budget of 2022, made the schoolboy of error or targeting a rate of growth in GDP that it was simply not possible to achieve and tried to inject 2-3% of demand into an inflationary economy.

What we do note from history is that UK has had relatively poor productivity performance since the second world war expect for the 1980s and the period around the turn of the century. And what we also know that there has been a lot of scarring where regions and places that have suffered large negative shocks associated with de-industrialisation have, with only one or two exceptions, been permanently pinned back. The creation of regional disparities is itself a post-industrial phenomenon. Look at the Piece Hall in Halifax, the existence of stock exchanges and country banks around the nation to realise that the first industrial nation had spatial element to its growth. T. S. Elliot writing Wasteland had no hesitation or irony in calling out: A silk hat on a Bradford millionaire. The 19th century seemed to be period where

regional wage inequalities improved, albeit slowly. In 1986 Hunt wrote: This erosion of spatial differentials was a very gradual process up to 1914.

Our debate since 2010 on austerity or sound money, might well have been helped by more understanding of history, rather than a mechanical adherence to whether **r** is greater than **g**, which is anyway a steady state condition and in no circumstances can be used to guide short run policy. A close look at the UK historical record after periods of rapidly increasing debt does not suggest that debt was inflated away or that markets were running scared. Obviously in the longer sweep of history, Britain enjoyed the exorbitant privilege that now benefits the USA. As a reserve currency, Sterling assets were of particular value.

As is well known the fall in debt as share of GDP after the Napoleonic Wars is well explained by a long period of economic growth, indeed the mild deflation did not help, but it was growth that permitted a long sequence of primary surpluses to be maintained. Comparing the 1920s and the 1950s. There was a more gradual fall in the 1920s as there was on average a deflation, real income growth was lower and even though the primary surpluses were extraordinarily high by modern standards they could not chip away much at the debt level because the average interest rate on debt was 4.6 per cent on a debt stock that was nearly twice GDP. The remarkable fall in public debt to GDP in the 1950s of around 90 per cent results from an inflation rate that was nearly 5 per cent higher and a real growth rate of over 3 per cent. The primary surplus was just about offsetting the interest rate burden, which while there was considerably more debt the average

interest rate paid was significantly lower at just over 3 per cent. Obviously, stewardship of the national debt is important but in setting policy since 2010, but we have consistently misunderstood how important economic growth has been in bringing debt as a share of GDP down.

In March 2009, Bank Rate went to 0.5%, which was at that point an historic low for the Bank of England with a three-century history. Although it now stands at 5.25%, in the normalisation of Bank Rate that started in December 2021, we only reached 0.5% in March 2022 – a thirteen-year period of Bank rate bumping along the bottom. It was argued that this was the rate required to stabilise inflation at around 2% and so reflected some notion of **r*** - the rate that clears savings and investment. Maybe given weak demand around the world and domestically, such low rates were required for an extended period to support nominal demand. But had we looked carefully at previous experience, there were two points that perhaps we might have been thinking carefully about. The prolonged period over which there was no change in rates as well as the level might have had longer term implications for the financial structure. Did low rates trace the demand curve for private and public debt and did an extended period of "cheap money" push asset and house prices to elevated levels? That have contributed to wealth inequality but also to tapering labour mobility? Unlike the textbook exposition, has monetary policy over the past decade or more, had real effects?

But the past, as the present and the future, is also not fully knowable. Context, of course, helps. Since the New Year we have had a narrative about recession and recovery. The calling of a "technical recession" was an example of how the

news and political cycle can drive out the truth. Academic business cycle analysis would never use two recent quarters' estimates of GDP to deploy the **R**-word. Whether it is the NBER, the EABCN or the UK Business Cycle Committee (hosted by NIESR on which Stephen Broadberry, Ryland Thomas and Jason Lennard sit, who co-authored our paper on three centuries of business cycle for the Economic History Review) we know that data can be revised for some years after the initial estimates. But in any case, any recession is really a sustained and material fall in economic activity across a range of sectors. A fall of a fraction of a percent is basically zero in my view. The narrative of recession and recovery really ought to be replaced by one of continuing doldrums, as we have had very little growth since 2022 and income per head has stagnated. Indeed, the real problem is the break, or do I mean breaks, in the path of output per head since 2010.

But, of course, we never really know what happens. In the *Money Minders*, I looked at the causes of the early 1920s recession and the relatively mild one the UK suffered after the Wall Street crash. Using data constructed well after these events and recent econometric techniques, I wrote that it was possible to conclude that both were driven largely by negative monetary policy shocks rather than spending shocks. But again, I go on argue does that really settle the Temin debate for the UK? Not really, I argued. What if the data is noisy, what if the curves are not stable, what if expectations mattered, if not spending why did unemployment rise so rapidly? The real contribution of my analysis was to invite an even deeper dive into the causes of things. And that is how it should be. My subsequent paper, written with Jason Lennard, Ryland Thomas and Solomos Solomou, for the Keynes

Versailles volume looked at how tariff policy may have stabilised prices and prevented expectations of a deflation taking hold, with all the negative momentum that can create.

On a final note, as we know Nick finished at the top of the Economics Tripos as a student. And perhaps his work, along with my predecessor Martin Weale, was the end point on a great generation of economic historians working at Cambridge. From Phyllis Deane and William Cole with the estimates that Nick improved. Charles Feinstein who was providing estimates of National Income from 1855-1965. Robin Matthews work on business cycles, and before Stephen Broadberry's excellent team which includes Alex Klein, perhaps wrote the definitive book on British Economic Growth with Feinstein and Odling-Smee. Not to forget the parallel work of Tony Wrigley and Roger Schofield in constructing population estimates of England from the 16th to the 19th century. At the same time Brian Reddaway's examination of FDI and tax was an attempt to find practical answers. We had a corpus of economic historians piecing together an evolving picture of British economy that provided such marvellous context to our economic problems. I think we are missing that today.

I mention all these names because they are fast receding from the collective memory. In economics departments, until recently, there has been very little space for economic history and yet when crises come along, we always turn first the history books for lessons. Not that I think there are necessarily lessons from history. But if we listen carefully we can hear an echo. Who was the author that everyone started reading after the financial crisis of 2008? Charles Kindleberger: "Surpluses, the liquidity crisis, exchange

depreciation, and finally bank failure and money collapse produced the fateful mixture.” He wrote in his classic on the Great Depression.

My point is not that good careful, rigorous knowledge of historical episodes and data can guarantee the avoidance of economic policy failure. But where models have their own internal consistency that may not match the foibles of a disappointing world. And where locating the correct instrument may help us pin down a parametric response. Economic history provides context. The careful weighing of the past, allows us to confront whatever comes along: Brexit, Covid, War or the US Presidency being held by a criminal deviant, with many more informative priors as to how things will play out. The next problem is to get people to listen.

Thank you. And to Nick. Cheers!

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