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Comments on Kumi Shigehara's Issues Note on
"The Future of Policy Advice by Intergovernmental Institutions"

By

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The issues note argues that:

1. In the run-up to the UK referendum, virtually all economists predicted a negative economic impact on the UK.
2. The UK Treasury published a model-based projection in April 2016 which predicted substantial and quasi-permanent, or even permanent, reductions in UK GDP, with a severity depending on post-Brexit trade arrangements with the EU.
3. Two international organisations, the OECD and the IMF, also subsequently published their own model-based quantitative projections of the likely impact, with estimates similar to those of the UK Treasury.
4. The results were ignored or rejected by the "Brexiters" either because they disbelieved "expert advice" or because they believed alternative scenarios, or because the economic arguments were not their only preoccupation.
5. One conclusion in the draft issues note is that the international organisations, which are intended to be neutral and objective, should have addressed policy issues not simply with focus on macroeconomic aspects but with due regard to other closely related problems, especially the distributional and regional implications of further trade liberalisation and migration. The OECD in particular is well placed to adopt such a holistic approach, as it has the relevant expertise and experience, and the IMF is possibly moving in this direction.
6. Another conclusion in the draft issues note is that the international organisations need to improve their communication strategies, reaching out to the general public, using arguments and language that can be more easily followed.

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My view is that better communication strategies are desirable, although the country-specific analyses of both the IMF and the OECD are fairly easily available, as are their global “outlook” publications. But they are now both competing with a very large number of official and private economic analyses, widely available on the net. The days are gone when the IMF published hardly anything, and the OECD “Economic Outlook” press conferences were attended by large numbers of reputable journalists, and lengthy summaries were published in the press world-wide in those pre-internet days. For some smaller countries, the OECD was then almost the only source of reliable and objective economic information. To widen the appeal of their publications, their language used could certainly be improved: I sometimes feel that OECD communications are either “langue de bois” or slick slogans. I also agree that the OECD could and should be more emphatic in explaining and expounding its views. All OECD Directorates should be encouraged to hold small press conferences for the local media towards the beginning of any country mission, to explain their presence and how their work could help that country (without of course criticizing or praising any particular policy). This would help dispel the perception that the OECD is an overwhelmingly economic-policy organization.

Nevertheless, I am not convinced that better communication strategies will suffice to restore the trust that the general public puts in the views of the international institutions, or for that matter their own governments or academics. We “experts” have been too wrong too often. Apart from the famous letter to Mrs Thatcher that Paul Atkinson referred to in his impressive set of comments, there was also our failure to foresee both the financial crisis earlier this century, and why and how a temporary liquidity crisis in the financial sector would morph into the worst post-war recession in the real economy, and one from which many OECD countries and their labour markets have yet to recover. There was also the insistence that once fiscal stimulus had avoided the worst, a dose of austerity would inspire confidence and restore growth. At the extreme, in its first Article IV consultation for Greece after the 2010 bailout, with its programme of drastic spending cuts and higher taxes, the IMF projected a 2.6% fall in GDP in 2011 followed by a return to positive growth thereafter. In the end, GDP began to stabilise only recently, at a level 25% below its peak (<http://www.imf.org/external/pubs/ft/scr/2010/cr10286.pdf> page 26). In a different field, medical experts predicted in the late 1990s that UK victims of “mad cow” disease could reach tens of thousands over the next few decades, justifying the slaughter of 4.4 million cows as a precaution. Deaths peaked at 28 in 2000, with 3-5 new cases reported each year currently. The total number of recorded deaths is 178, considerably lower than the number of farmers who committed suicide during this episode, and during a foot and mouth disease outbreak in 2001, which led to even more cattle slaughter.

As far as our own profession is concerned, confidence will be restored only if the mainstream proves to be right. In the case of Brexit, that unfortunately means that the UK economy would have to suffer a prolonged period of slower growth, possibly (according to the BoE) a recession, with the gap between the UK and the remaining

EU countries widening for some time and never closing thereafter, and with the mechanism clearly linked to lower trade with the EU. What I fear is that the negative shocks will not be as large as predicted, and/or will be slower in coming than people expect, thus further denting our credibility. A worst case scenario would be one where the UK economy slows down a little, and another crisis breaks out in the Eurozone, exacerbated by right-wing parties gaining power and restricting intra-EU migration. The Brexiters will be cheering from the sidelines.

How should the international economic organizations react? They have a dilemma. If they produce specific quantitative forecasts, they are giving hostages to fortune. If they provide a large number of possible scenarios, they will be accused of not having a clue. What they do need to do is to present more holistic projections, not just the standard macroeconomic variables, but also some indication of the likely impact on income distribution and regional impacts. In the particular case of the Brexit, they could have emphasized that although “globalisation” creates losers as well as winners, it was certainly not a surge in imports from the EU that weakened traditional manufacturing industries in the UK. More holistic communications will entail (in the case of the OECD) closer collaboration between Directorates, which is not something that will be easy to implement, but certainly easier than getting ministries in national administrations to collaborate more closely.

I have been a subscriber for many years to the American journal “Aviation Week and Space Technology” in order to keep abreast of what is going on up in the skies and beyond. A recent number had an series of interviews with aerospace firms in the UK to elicit their views on the implications of Brexit. The last paragraph, based on an interview with the managing director of a Stansted-based aero-engine firm, was a good summary. It reported that “There has been some initial chest-beating from the European leaders but we are sure post-Brexit negotiations will be mutually beneficial and common sense will prevail. “ And although few would bet on the country securing a better economic deal than it had as a member, departure is unlikely to be disastrous. That said, expect plenty of politicians and companies to cite ‘Brexit uncertainty’ as a catch-all excuse for any poor performance in the coming years”.