URI DADUSH

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Thank you very much Richard. It is a pleasure to be here. As Richard intimated already, the world economy is in the midst of a broad-based expansion, according to consensus forecast, or the IMF forecast, which is actually very close to the consensus. We are seeing 3% real growth in 2017 using market exchange rates as weights, and this implies a 0.5% acceleration, which is really quite notable for the world economy, compared to 2016, and it also marks for the first time since the financial crisis a return to the 20-year trend of world economic growth. I agree. I have been doing this for a long time, looking at the world economy in various contexts. I agree that 2017, 2018 will be good years, and I also agree that there are big risks when you look further out, although my focus is going to be on the real economy rather than the financial issues raised by the stability report. I am sure others will cover financial issues.

2017 was a good year, and so will be 2018. Why? Four elements, just very quickly, these are well known. Steady growth across all the large economies, accelerations of economies that have been in trouble – Russia, Brazil, Japan and Italy – less trouble in the past, but very sluggish growth. You are actually seeing decent growth in these large economies. The second element is that policies are helpful, monetary policies remain very stimulatory. Fiscal policy plays a larger, neutral role. The tax package announced in the US suggests that there will be some fiscal stimulus coming in the United States, so it could be even – from the short-term point of view – a good thing.

The third element is we have had 10 years of very slow growth, a terrible time really in the world economy. There is a lot of pent-up demand, and there is also a lot of under-utilised capacity, so in half of the 60 largest economies in the world, unemployment is still over 5% at the moment. That is a good indication of under-utilised capacities. Finally, inflation is very subdued. Oil and commodity prices are still very moderate, and so inflation is under the 2% benchmark. That is at the headline level, if you look at the underlying inflation it is even lower than that, so these are the elements, essentially, of the optimism for the short-term.

If you look at imbalances, there are actually relatively few imbalances in the advanced countries. People will challenge me on that. The big exception that I see is Germany's gigantic current account surplus, but it seems like the other countries, particularly European countries, have learned to live with that.

When I look at risks, I am not being politically correct. I actually see relatively little by way of short-term downside risk in the course of the next year, year and a half. When I was running the forecast at the World Bank, I would have been more cautious. I do not see much downside risk, in fact I see some upside risk, and 2018 could be closer to 3.5% than 3%, essentially because from my experience, when the world economy gathers momentum like that, there is a self-feeding mechanism. That is also one of the reasons why when I go into 2019, I think people might be surprised that there will be some pick-up in inflation, and markets may be underestimating the rise in interest rate that will be needed, not necessarily in 2018, but going into 2019, and that could cause some issues.

However, as I look at the long-term –for me, it is the most important at the moment –we have had a big slowdown in the labour force across the world. We also had relatively low investment in recent years, and productivity growth has been relatively slow, so it would be imprudent to assume that you are going to get more than about 3% growth over the next 20 years, as we did over the last 20 years, but I want to make two qualifications on the optimistic side; one is that we do not really understand what drives productivity. Total factor productivity is measured by economists as a residual from a regression, which essentially means we do not know what is driving it, and there could be a lot of innovations coming down the pipe. There are a lot of indications that there will be, so we may be seeing accelerated productivity.

The other factor, which is perhaps just as important, is that regardless of what is happening at the technology frontier, developing countries are so far behind the technology frontier, and they now account for about 40% of world GDP at market exchange rate, and they are growing about two and a half times faster than advanced countries. Developing countries can do even better than what they have been doing in recent years, and that, together with the possibility of a productivity acceleration could make us quite optimistic about the medium-term. It is very important what the policies that are pursued in developing countries will be, with regard to whether they are going to fulfil that potential, and that is where I go now in the long-term, and tell you about my pessimism, why I am very worried about the policy picture, and I could mention two or three things, but I am going to focus on one, since we have very short time.

The issue I focus on is protectionism. I do not mean to pick on the United States. I live in the United States, I admire the United States. The United States is the most open large economy, and protectionism today is a much more prevalent feature outside the United States than in the United States. However, the fact that the United States is turning inward is profoundly significant. Furthermore, I see US protectionism as not just a temporary Trumpian aberration, but the result of the US economy's failure to adjust to stagnant wages and rising inequality, caused by technology and globalisation. Kemal – to my left here – and I wrote about this risk long before Mr Trump came on the scene, several years before. Unfortunately, current US policies such as tax cuts and reductions in health coverage are not only failing to deal with the underlying problem, but they are making it worse. Protectionism in the United States is bound to be profoundly destabilising, both at home and abroad, and it is going to give a very bad example to the developing countries that we hope would be the future of our long-term prosperity. If it persists, if we do not have some unexpected event – and of course there could be, given what is happening in the US at the moment – then we may soon be looking at the 3% global growth rate of 2017 with some nostalgia.

Richard COOPER

Thank you very much.