

March 13 AEJ meeting with Lord Jim O'Neil of Gatley

Report by Peter Norman

For Jim O'Neill, the eminent international economist, the populist policies arising from Brexit in the UK and the election of US President Donald Trump are out of sync with world economic trends and hostile to further growth.

Discussing “Trump, Brexit and Challenges for the Globalised Economy” with the AEJ on March 13th, he said Donald Trump’s administration appears “stuck in the dark ages” in its interactions with the rest of the world. In the UK, meanwhile, Theresa May’s government had yet to “get real” with the economic and trade risks of Brexit.

According to the former chief economist of Goldman Sachs, who as Lord O'Neill of Gatley joined David Cameron’s government as a Treasury minister in May 2015, Brexit and Trump had happened in the context of a world economy where growth so far this decade was in line with performance in the 1980s and 1990 and “not as weak as often perceived” by western leaders.

An absence of protectionist measures so far this year, reasonable growth in China, Japan and the UK, and indicators of quickening of activity in the US and continental Europe meant global economic growth could now be accelerating quite sharply, he said.

But the public and politicians had only recently caught up with dramatic changes of the past 20 years: notably the rise of China to become, among other things, Germany’s most important trading partner, and the end of US domination of the world economy.

Against this background, President Trump was “almost exclusively playing to the emotions” with little sign of rational economic thinking. It was very unlikely that imposing barriers to US imports, as proposed, would have a positive effect on the US current account deficit. The decision to drop the Trans Pacific Partnership “seemed naïve” given the economic importance of Asia.

Despite the negative tones from the US administration, Lord O'Neill saw some merit in one area of Trump policy. This is deregulation, where Trump’s promise to ease regulation of the financial sector in particular has helped drive US share prices higher since his election. As Commercial Secretary to the UK Treasury in 2015-2016, O'Neill saw signs that “box-ticking” regulations, introduced after the Financial crisis of 2007-9, were damaging to productivity growth in Britain.

Turning to Brexit, O'Neill said he didn’t believe leaving the EU was the most important challenge facing the UK although it was “up there”. More important were the weakness of productivity growth over the past 30 to 40 years and the “remarkable” geographical imbalance between London and the South East, which were among the most successful economies in Europe, and the rest of the country which contained some of the poorest regions.

The solution lay in taking serious action to boost skills and education and tackle the regional imbalances. But for O'Neill, who was recruited by the former Chancellor George Osborne to help drive the “Northern Powerhouse” programme to revitalise the old industrial areas of northern England, there was no sign politicians were dealing more seriously with these issues following the Brexit vote.

O'Neill, who now has no party political affiliation in the House of Lords since resigning from the government in September 2016, saw Brexit as an outcome of internal Tory party politics. And prime minister Theresa May's focus on propping up the Tory Party – together with the current cyclical strength of the UK economy -- meant the government had so far failed to come to terms with the realities and risks of Brexit.

It was unrealistic simply to expect Britain to flourish around the world. The UK should look to “where trade matters” to compensate for walking away from the EU – the world’s biggest trading grouping.

In O'Neill's view, achieving trade agreements was less important than concentrating on countries where growing domestic demand would fuel imports. Thus, the UK “should have ministers almost permanently located in Beijing and New Delhi”. Trade with New Zealand would make “zero difference to a post-Brexit UK,” O'Neill said. “Sadly, I don’t think there are many people near the prime minister, who think like that.”

As the man who coined the acronym BRIC (for Brazil, Russia, India and China) in 2001 to symbolise the shift of economic power from the mature industrialised economies, O'Neill was asked about the future of globalisation. The integration of national and regional economies through trade, immigration and modern communications, is seen by critics as the cause of many ills in the modern world.

As befits someone who has been hailed as its high priest, O'Neill strongly defended globalisation. It meant “we are living through the biggest decline in global inequality ever”.

But industry and business should act out of enlightened self-interest to counter populist anger with globalisation, and help those who had lost out. It “made a lot of sense to boost minimum wages” in the present phase of globalisation. Industry and business should invest rather than spend cash on share buy-backs that served to boost executive incomes. Strategies such as the Northern Powerhouse could help deprived regions, including in the US, although it was crucial that local political and business leaders knew they had the support of central government.

Looking ahead, O'Neill saw three big areas which could give a big boost to global trade and prosperity:

Africa – where nations were beginning to see neighbours as trading partners rather than rivals.

India – so long as it could overcome regional tensions and cooperate economically with neighbours Pakistan and Bangladesh and

China with its “one belt, one road” version of globalisation.

Whether the UK post-Brexit or the US of Donald Trump will recognise such opportunities remains to be seen.