

John Van Reenen: 'A lot of promises are just smoke and mirrors'



As director of LSE's Centre for Economic Performance (CEP) up to 2016, British economist **John Van Reenen** led a team of academic researchers who produced [detailed analysis](#) of the consequences a divorce from the European Union would have on the UK economy. They predicted a fall in GDP, employment, direct investment, wages and productivity. Of these indicators, only employment contradicted the forecasts. Van Reenen, who is now professor of economics at [MIT](#), defends the work of economists on Brexit as consensual and accurate, but competing against lies. He spoke to LSE Business Review managing editor **Helena Vieira** on 22 November at LSE, and commented on the election promises the parties had made until then. "A lot of promises are just smoke and mirrors", he said.

Economists were criticised after the referendum results for not knowing how to communicate with the public. Is there anything that you would have done differently?

I think the communication part is probably true in general. What you just said, economists are not as good at communicating as, say, natural scientists, like we read in that interesting [blog post](#) saying that economists use jargon, which makes it harder to communicate well with the public. That's definitely an issue for the profession. On the referendum, though, the criticism that I thought I heard of economists and the government was that they said we were exaggerating the costs, the downsides of Brexit. We weren't being positive enough. I thought the criticism was less because we're not being clear. I thought there was a lot of clarity. The profession as a whole spoke really clearly that Brexit was going to cost people, arguing about how much it was going to cost, and I thought that this was said reasonably clearly. Now, did that penetrate through to the public consciousness? Brexiters were kind of saying, 'just ignore the economists, they're talking rubbish'. Or you have the more traditional broadcast, the BBC, who would put one of the 99 per cent of economists who said Brexit was going to cost us, against one person representing the one per cent, meaning Patrick Minford, who would say that Brexit was going to be wonderful, and then tell the viewers to make up their minds, which I think is a serious problem. There is such a professional consensus that Brexit would cost people financially. You might think it's good for other reasons, but financially, economically, it was going to be extremely costly. Then having a so-called balance where you have one person representing one per cent versus one person representing 99 per cent, which is a consensus, that's no balance. It's like having one climate change denier up against someone saying climate change is happening, which it is, or having an anti-vaxer saying vaccination leads to autism, which it doesn't, versus somebody saying vaccines are not going to give you autism. So it seems to me one of the big problems with the traditional broadcasters was that they were pursuing a false sense of balance where there was an unusually strong professional consensus of what the impact was likely to be.

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You also had a very large part of the press that was overwhelmingly anti-Europe, giving only positive views of Brexit. Now, some may say that people heard the economists and then decided that they were going to vote for Brexit even though it was going to cost them financially, because they wanted other things like sovereignty or less immigration. That's a perfectly reasonable choice to make. You might say, 'that's going to cost me 1000 quid a year, but I'll have fewer immigrants and feel that I've got more sovereignty'. However, if you look at surveys, that was not what people were thinking. It seems that most Leavers thought they would be better off financially, which was against the professional consensus of economists. Economists were unable to persuade people. But I think the bigger problem was just the way in which the mainstream media was using false balance, and the rest of the print media was very sceptic. It was very difficult for the profession to get its opinion across, no matter how clearly they were speaking. Another point is that economists were struggling to convey to people the idea that being in the European Union is like being in a club: you pay a membership fee, and in return you get five to ten times the benefits, because you have open trade and fewer trade barriers. That's the offer that the European Union gives to Britain.

If you think about the campaign on the back of the bus that Boris Johnson drove around, the problem was the statement that we would save £350 million to be used in the National Health Service, which is just a blatant lie. We don't give the EU anything like £350 million. The membership fee is not £350 million, because with the rebate, the money doesn't even leave, even before you get into the economic advantages, which are the other kinds of benefits. The whole thing was a complete lie. Disputing that is not about economics. It's just a clear statement of fact. Despite that, we know that a majority of Leavers believe that number. So, if you can convince people of just a complete blatant lie, when the economists were trying to raise the debate to a higher level, then the problem is much bigger. It's not just an economist not being able to communicate or get the message across. I think it's a fundamental problem that we are living in a world now where blatant lies are just not shut down. They perpetuate themselves and they are used deliberately by populist politicians to get what they want.

“Technology is still pushing towards globalisation, while the politics and trade policies are pulling in the opposite direction.”

And social media is partly responsible for that too, because it allows anyone to publish what they want.

I think that conventional media, though, is also to blame. But yes, the problem gets even worse with social media where people can increasingly just hear what they want to hear. There was another problem with the narrative, which became, 'well, economists got it wrong, they said things were going to be bad and look, things aren't so bad'. Incredibly, the economic forecasts were extremely accurate. My work was on the long-term impacts. But people who looked at the short-term impacts, for the next two, three years, were predicting between one and three per cent fall in GDP compared to being in European Union. That's exactly what's happened. There has been a fall of about two to three in GDP, relative to staying in the European Union. So those forecasts actually turned out to be relatively accurate. Now, the forecasts for employment weren't so good. Employment is higher, but the forecasts of falling direct investment, falling wages, falling productivity, all those were right. The fact is that economists have done incredibly well. Chris Giles in the Financial Times has a nice summary of this. So, I do think there is a real problem between the kind of perception, on the mass media side, and what actually economists were saying and have been saying. That's a real fundamental problem. And I'm not sure extra media training for economists is going to solve that problem. I think it's a more structural problem with the nature of society and the media at the moment.

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There has been talk about the end of globalisation. A recent [article](#) in the FT says that the ECB president, Christine Lagarde, is recommending that EU countries focus more on expanding domestic demand than on exports. Is this a relevant factor in this Brexit saga?

It's clear that after having many decades of globalisation and decreasing trade costs, we're at a moment in politics in which there is a big backlash against that. Most vividly with the kind of Trump-China trade wars, with barriers being erected by Trump against China and other countries, including the European Union. That's all over the world and includes, as you say, the Brexit saga, but also more generally, it's becoming very hard to get trade deals through. We are living in a moment when that element of globalisation, trade liberalisation, is in retreat. So that could be a reason for wanting to focus more on domestic integration, European integration and so on. But what goes against that is that technology is still making global communication and global trade easier, because it's reducing many kinds of trade costs. If you think about the advances in communication through faster broadband... When you came in, I was having a Zoom call with one person in Cambridge, Massachusetts, somebody else in Princeton, somebody else in Chicago. It's almost like being in the same room. And developments in technology communication are going to continue reducing the cost of interaction, trading with other people. Technology is still pushing towards globalisation, while the politics and trade policies are pulling in the opposite direction. We'll have to see which one wins out at the end. It does seem that people are looking more inwardly, becoming more nationalistic, trying to put up more barriers to immigration as well as trade. My sense, and my hope as well, is that it's a kind of temporary thing because the underlying nature of integrating people all over the world is very strong. We saw similar things in the 1920s and 1930s, when we had a long period of globalisation the 19th century, and then a retreat into nationalism, and the first and second world wars, so I hope it doesn't lead to that kind of conflict as it did then.

“It's harder and harder to find new ideas. It takes more and more efforts to push the frontier of knowledge forward... If we want to have the rates of growth we had in the past, we have to make bigger and bigger investments in research.”

Moving on to productivity... Nokia [argues](#) in a white paper that 5G will solve the productivity paradox because up until now, we have we've had improvements in personal communications, but with 5G, machines will be able to synchronise and industries will become more efficient, which will raise productivity exponentially...

In the history of humanity, productivity growth is the foundation of our income growth and the improvement of our well-being. Technological improvements are behind that. Technology has improved over the course of the last couple thousand years, and particularly in the industrial revolution in the last 300 years. There's no reason why that won't continue. That's the foundation of productivity growth. The question is, for the last hundred years or so, we saw GDP per worker in the UK going up by one or two per cent a year. Will that continue, will it slow down, will it speed up? What we've seen certainly since the global financial crisis is that there has been a particularly severe slowdown of productivity growth in Britain. But technology is still carrying, and so productivity will bounce back. Will it bounce back to the rate of the last hundred years? Will it bounce back to the rate it had starting in the 1970s in the UK? Those were pretty good years, in fact 30 years when we kind of caught up with our major peer countries, like Germany, the US and France.

From a global perspective, one of the worrying factors is that productivity growth has stayed the same or slowed down despite the fact that we've been putting more and more resources into research and development. More and more people, like me, are involved with doing research and development. But that hasn't led to fast productivity growth. Most of the main economic models say that when you put more resources, you should get more growth coming out but that hasn't happened. Take one example: people always talk about Moore's law, predicted by Gordon Moore, the CEO of Intel, that every 18 months to two years, the number of transistors that go into a silicon chip more or less doubles. That has led to this fantastic productivity growth in semiconductors, which go into computers, which then go into networks and 5G and everything else. If you look at semiconductors, productivity is growing by 35 per cent a year, amazing. But over the last 30 or 40 years to get that 35 per cent growth productivity, there has been an 18-fold increase in the number of workers in semiconductors. So you increased the number of people 18-fold, but productivity is going to stay the same. So why is that? It's just because it's harder and harder to find new ideas. It takes more and more effort to push the frontier of knowledge forward. There are diminishing returns to knowledge. There are diminishing returns to everything else. The more effort you put in, the more you get out, but the extra hour of effort doesn't create as much new stuff as the first hour did. So I think that it's getting harder, as we get more and more knowledge, to push that frontier forward. Now, there's no reason why we can't keep on putting more and more people into research. There's only about one or two per cent of people who are doing research. So we've got a long way to go. But it shows you that you don't get something for nothing. If we want to have the rates of growth we had in the past, we have to make bigger and bigger investments in research. In the long run, that's how we have to solve the problem. In the shorter run, these innovations — 5G, artificial intelligence, robotics, quantum computing, new forms of drug engineering, genetics — all these things are improving productivity. Often, the effect takes a long time, because you have to figure out how you transfer these new ideas into products and services, which really do create value for people, and that requires lots of experimentation. You know, an analogy would be with electricity. The historian Paul David pointed out that it took decades for the invention of electricity to have an effect on productivity, because people had to completely redesign the way they ran factories, to know that they could run them 24 hours a day, they could make it in different ways. So there's a lot of experimentation, a lot of learning, change of management, change of organisation, change of worker skills, to make best use of the new technology. These things take a long time and a lot of experimentation, so maybe that's going to happen soon. It might not happen quite as quickly as many people wish it would.

“The illusion is that you can raise taxes and I won't have to pay anything (...) the terrible companies making high profits and the rich people [will have to pay]. But unfortunately there aren't enough rich people to raise that kind of money.”

Now on to the upcoming elections. What is at stake here?

The biggest thing in the UK elections is certainly Brexit. If the Conservative party gets the majority, then they will push through Johnson's plan. That will lead to more years of uncertainty because it will take many years to negotiate a very difficult trade agreement with the European Union. It will be very rancorous. The Johnson plan will increase trade costs between Britain and the rest of Europe. We'll probably be battling with slower growth than we would have had before, which will obviously mean less money for hospitals and schools and the police. So the Conservative government is promising to spend lots of money, when the negative Brexit shock will mean that there is less money we can afford to spend.

On the other hand, if Labour wins or forms a coalition with some of the other remain parties, that will give us an opportunity for a second referendum. That could lead to cancelling Brexit, which would produce a big economic bounce, something like a £50 billion bonus to public finances. So that's a huge difference economically, whether or not someone leaves or stays in the European Union. All the other things are secondary to that simple binary choice: do you vote for a policy towards Brexit, which will lead to more uncertainty and make the country poorer than it would have been, or do you have a chance to remain and actually gain a huge economic benefit from doing that? That's the main thing.

What did you think of the Labour manifesto?

It's pretty radical, very much like the 1983 manifesto, promising a lot of nationalisation, very large increases in public spending. To me, whether nationalisation is good or bad is not the main thing. A company can be efficient in the public sector, and it can be inefficient in the private sector. What matters is the competition that it faces and how well regulated it is. The public sector doesn't solve all the problems. You still have to think about how that company is managed. How you set up the incentives for them to invest sufficiently in the future and charge reasonable prices to consumers. But that's equally true for the private companies. Nationalisation is not the main issue. The problem is that it's going to be a big distraction, because you're going to have long arguments on what the appropriate form of nationalisation is and everything else. My personal view is that it is preferable to regulate these companies better in the private sector. And what you really want to do is create structures for better long-run investments, and to lessen policy uncertainty.

Labour's policies will cost some 80 billion pounds a year by the end of the next Parliament. That's a lot of money. Some of that is spending on investments. One of the big failures of the UK is its inadequate long-term investment. So, I think borrowing more money to pay for investment is perfectly reasonable, like pouring money to buy a house. We need to make a good choice of investment like we need to make a good choice for a house. You want to be careful about how you make the investment. There's nothing wrong in borrowing a lot if you're investing a lot. But borrowing a lot of money to pay for current consumption, like higher wages for public servants, is not sustainable. The money has to be paid back at some point. In order to pay for it, you have to raise taxes. Again, nothing wrong with that. There are plenty of countries that collect high taxes and have high spending like Sweden, the Scandinavian countries, Germany. But the illusion is that you can somehow raise taxes and I won't have to pay anything. Everything's going to be fine because somebody else is going to have to pay the taxes, it's going to be the terrible companies making high profits and the rich people. But unfortunately there aren't enough rich people to raise that kind of money. And if you want to have better public services, everybody has to be prepared to pay more taxes, not just the top one or five per cent. You have to prepare yourself to have your taxes put up. The Labour party has to be honest about that and realise it's not just the top five per cent who will pay more taxes, really, because we'll have to have a lot of people paying more taxes. An increase in taxes for firms, which is again, perfectly reasonable to do, is not costless. Because, you know, when you put up taxes on firms, either they put prices up, so consumers pay, workers will pay with lower wages or shareholders will get lower returns. The big shareholders are actually pension funds that are managing investments for people. So, people will get less return on their investment. Again, that may be something that you're happy to live with. But the idea that nobody pays for this, it's money from the sky, is just an illusion.

The Tories are also talking about increasing spending.

Yes, the Tories are the same. They also won't be honest, they're quite dishonest with how they're going to pay for this additional spending just to install things they have already announced, like new hospitals, which turned out not to be building new hospitals, turned out to be just thinking about building new hospitals. So, a lot of that is just smoke and mirrors. I think the Liberal Democrats have been kind of more open about this. It's the only party that is currently planning not to increase debt as a proportion of GDP. The other parties are promising lots of spending without actually saying how they're going to pay for that. The Tories are indeed also promising tax cuts as well, which is going to make things even harder to manage.

Is there still hope that Brexit is not going to happen?

Absolutely. If the Conservative party doesn't get the majority, then we'll be in the same situation as we are now. I think the only reasonable democratic solution to that, now that people have an idea about what the choices are, is to allow them to have a say on those choices. People were voting back in 2016 without really knowing what they were voting for, both on the Remain and the Leave side, really. Now there is a clear deal and you want to give people the choice. Here's the deal, you know what it is. Do you want this deal, versus carrying on being in the relationship we've enjoyed for the last four, five decades as a member of the European family? Most polls, 90 to 95 per cent of them, have suggested that Remain is going to win, which wasn't true of the previous referendum. It does seem to me that there has been a shift towards Remain as people got more knowledge about what's going to happen.



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