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What Brexit and austerity tell us about economics, policy and the media.

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About the author



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In this paper, which formed the basis of my Prize lecture, I want to argue the following:

1. Only a minority of academic economists ever supported austerity but this fact is almost completely absent in public discussion.
2. The necessity of austerity was accepted by nearly all the mainstream media (MSM). When the floods came at the end of 2013, to my knowledge no one presented the data showing the extent of cuts in flood defences.
3. The media's acceptance of the Conservatives' narrative on the economy played a critical role in allowing the Conservatives to win the 2015 election.
4. Treating the near unanimous views of economists as opinion rather than expertise neutralised the economic argument against Brexit.
5. Political coverage in the broadcast media needs to prick the Westminster bubble and open itself up, letting in academic economic expertise in particular.

Let me start with austerity. Austerity was the underlying reason I started my blog. Until 2010 I saw governments do what macroeconomic theory would suggest, which is expansionary fiscal policy because interest rates were stuck at their lower bound. It was common sense: when one instrument, interest rates, cannot work any more you use the next best thing. It also made perfect sense from both the theory we teach undergraduates, and state of the art analysis. I knew this so well because what I had been doing over the previous 10 years was publish papers on the interaction of monetary and fiscal policy.

And then in 2010 it all changed, and what we call austerity began. I think for many the turning point was the Eurozone (EZ) crisis, where the markets stopped buying periphery Eurozone government debt. The assumption was this contagion of market panic that had already spread from Greece to Ireland and Portugal, could end up hitting the UK. But by 2012 it was clear to most macroeconomists that this was a unique problem for the Eurozone.

My first post was about the way that journalists and to some extent governments seemed to be misunderstanding what was going on. After each new austerity package they would ask 'will this convince the markets?', when it seemed obvious to me that the markets were really only interested in the actions of one actor: the European Central Bank (ECB). By the time I wrote my post Paul De Grauwe, now one of those seemingly unwelcome EU immigrants working at the LSE, had established clearly that it was the ECB's failure to act as a lender of last resort to governments that caused the crisis to spread beyond Greece. In September 2012 De Grauwe was proved right: with its OMT programme the ECB did act as a lender of last resort to countries beyond Greece, and contagion came to an end.

But, just as Eurozone austerity was a result of the failure of the ECB to act, austerity in the US and UK had little to do with the Eurozone debt crisis. Let me focus on the UK. In April 2009, the UK Chancellor of the Exchequer, George Osborne, set out the macroeconomic theory behind his vision of how macroeconomic policy should be conducted.¹ He quoted New Keynesian theory to suggest that changing interest rates was a better tool to manage demand and inflation than fiscal policy. Therefore

fiscal policy should not be used to support the recovery. Yet New Keynesian theory also says that no longer holds when interest rates hit their lower bound, and by April 2009 interest rates were already at their lower bound, which was then 0.5%. Despite this, there was no mention of the zero lower bound (ZLB) problem for interest rates in his speech. New Keynesian theory also says that at the zero lower bound quantitative easing (QE) is ineffective: no mention of this either.

It may be difficult to imagine how extraordinary this omission was. This was a technical discussion, the equivalent to the famous Gordon Brown post-neoclassical endogenous growth speech. In a first year undergraduate exam it would be marked down as a fail, as being totally irrelevant to a question about the current situation. It leaves open the possibility that austerity in the UK was a result of simple ignorance: of failing to talk to academic macroeconomists. Once he was committed to this policy, perhaps it was too difficult to admit his error.

However, I suspect a different motive behind UK austerity. I call it deficit deceit: using a manufactured concern about whether the markets will fund the deficit to make otherwise unpopular cuts to public spending. He could achieve a neoliberal goal by the back door, knowing that the ‘maxing out the nation’s credit card’ would be a line that resonated with the public. With the Republicans in the US this deceit is obvious: just watch them happily increase the deficit under Trump. But the evidence points the same way here. Why else was so much of the fiscal consolidation in the form of spending cuts rather than tax increases, and why in later years were spending cuts combined with tax cuts?

At this point I hit a problem talking to non-economists. Many are convinced, absolutely convinced, that without austerity the markets would have stopped buying UK government debt. I say that there is not a shred of evidence that this is true, and plenty that it is not, but they remain convinced. I tell them that because the Bank of England was, through QE, acting as a sovereign lender of last resort there was no chance, absolutely no chance, the UK government could be forced to default. But the exchange rate would have collapsed, leading to all kinds of difficulties, they say. But the exchange rate has fallen sharply following Brexit, and there was no crisis.

It seems that an imminent UK government funding crisis has become what I call a politicised truth: something that is assumed to be true because a body of politicians say it is true and no other politicians dispute it, so the media assumes it must be true. I think that is indicative of political reporting that exists inside a Westminster bubble that actually excludes economic expertise, as I will argue later. But, for now, let me just state what expert opinion was on austerity, because I do not think this is widely known.

What evidence we have suggests that in May 2010 a clear majority of economists thought Osborne’s turn to austerity was a mistake, but this was not a Brexit-type majority: a number of good economists were in the minority supporting Osborne. In part this was because at that time the EZ situation was unclear, and partly because of an assumption that a recovery had begun. By 2012, as an excellent piece of journalism in the *New Statesman* pointed out, a good proportion of the minority of economists advocating austerity in the UK had changed their minds.

All the evidence suggests that most academic economists now believe austerity was a mistake. It is evidence rather than a clear fact, for reasons that I will return to later, but given the importance of this point let me set out some of this evidence.

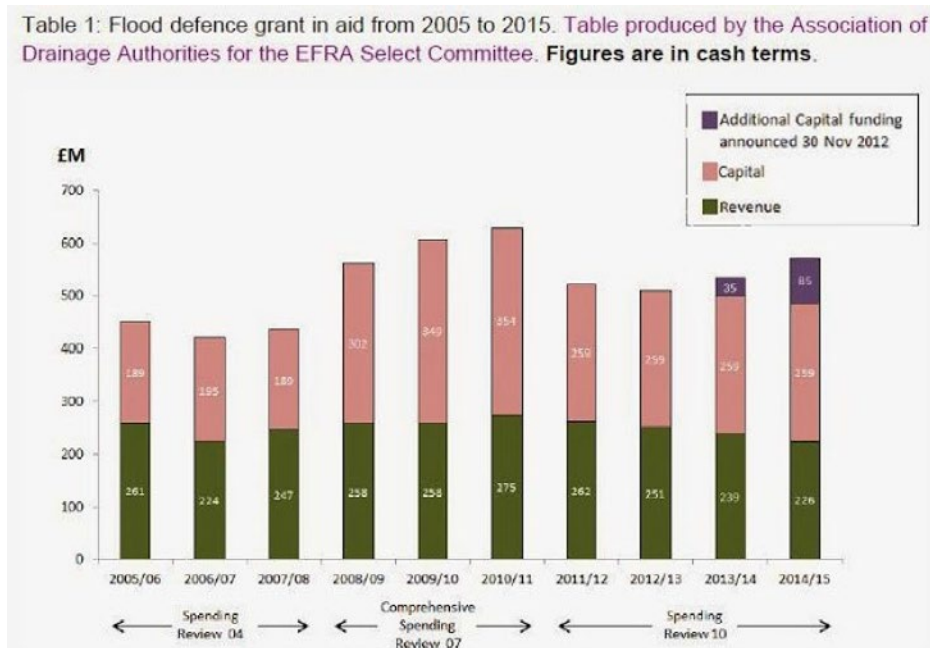
In the US, which for macroeconomics dominates and leads the UK, we have the IFM forum survey of leading economists. This has consistently shown a large majority believing that Obama's 2009 stimulus helped reduce unemployment. In 2015 only 2% thought otherwise. In the same year the UK CFM survey showed that 66% disagreed with the statement that austerity had helped GDP. In the *Financial Times* (FT) survey at the end of 2013, 10 out of 12 academics said the 2013 recovery did not vindicate austerity. A report by the IMF's Independent Evaluation Office in 2014 said that IMF calls for stimulus in 2008/9 were "timely and influential", but 2010 calls for fiscal consolidation were "premature" and the recommended policy mix "inappropriate".

We can also look at the models academics and central banks use. The dominant model for analysing the business cycle is the New Keynesian model, and central bank models are elaborations of it. This shows clearly and unequivocally that spending cuts reduce output at the ZLB. As a result, nearly all the model-based analysis of austerity I have seen published shows austerity reduced GDP.

I stress I am talking about academics here: City economists tend to be political or ideological (naturally), as can be seen from the FT survey I have just mentioned: whereas over 80% of the academics asked thought the 2013 recovery did not vindicate austerity, about half the City economists said it did. This is actually a big problem for the media, which tends to rely on City economists for macroeconomic expertise. For telling you why the dollar fell yesterday they are great at telling stories (and they are stories), but on economic policy they are biased.

The austerity mistake was a very costly mistake. It delayed the UK recovery, as the Office for Budget Responsibility (OBR) has consistently pointed out (although this is rarely reported in the media). To put this in more directly relevant terms, I used the OBR estimates to calculate that austerity had, at a minimum, cost every household in this country £4,000. I stress that is a minimum figure: equally plausible alternative calculations could put it at £10,000 or more.

What did much of this damage was cutting back on public investment. That investment included flood defences, yet, when the first floods came at the end of 2013, I did not see any report the evidence of cuts available from the House of Commons library. One of the few [places](#) to publish that data was my blog.² Instead we got 'he said/she said' reporting of whether there had been any cuts at all, when one look at the data showed there had been cuts.



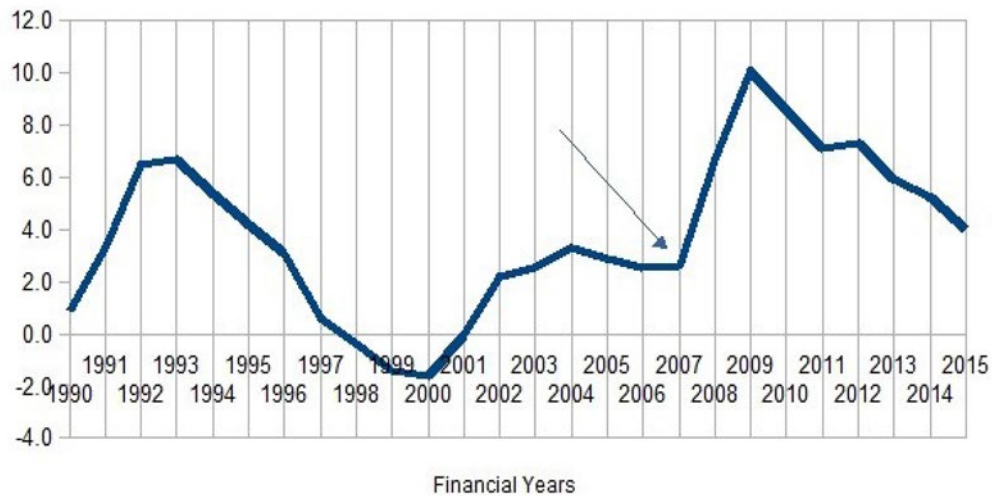
A minimum of £4,000 per households, which could easily be £10,000. That is a lot of money for a Chancellor to lose for no good reason. The slowest recovery since records began. Stagnant productivity and real wages. Yet, in 2013, when the economy started growing again, we had even the serious financial press claiming this represented a success for austerity. Delaying the recovery from 2010 to 2013 becomes a success: this was truly Orwellian macroeconomics. I coined a term for this strange kind of macroeconomics that others have subsequently used: 'mediamacro'.

By 2015 mediamacro had become the received wisdom. The Conservatives could be trusted on the economy because they could control the deficit while Labour could not.

The myth of the profligate Labour government was a textbook example of the politicisation of truth. The 'clearing up the mess Labour left' became a constant refrain by both Coalition politicians and the right-wing press. Yes, it was a fatal mistake that Labour let that go, but that can be no excuse for the broadcast media to leave it unchallenged.

So that BBC Question Time participant just before the 2015 election who accused Labour leader Ed Miliband of lying when Miliband said Labour was not profligate had every reason to feel justified, because he had seen his truth set out unchallenged in virtually all the media for five years. He cannot have been expected to read the few academic articles on Labour's record, or indeed just look at the data, which showed the claim was false.

Table 2: UK net borrowing requirement, % GDP (Source OBR)



And if you look at this and immediately think what about the structural deficit, you should read my paper on the subject.³

The 2015 election

Before the 2015 election I posted a series on mediamacro myths. Labour profligacy was one. A 'strong recovery' was another: GDP per capita growth only just reached trend levels at best, and every macroeconomist should define a recovery as above trend growth. Another myth was that this poor performance could be offset by strong employment growth: in reality, it just meant productivity was terrible, helping produce an unprecedented decline in real wages.

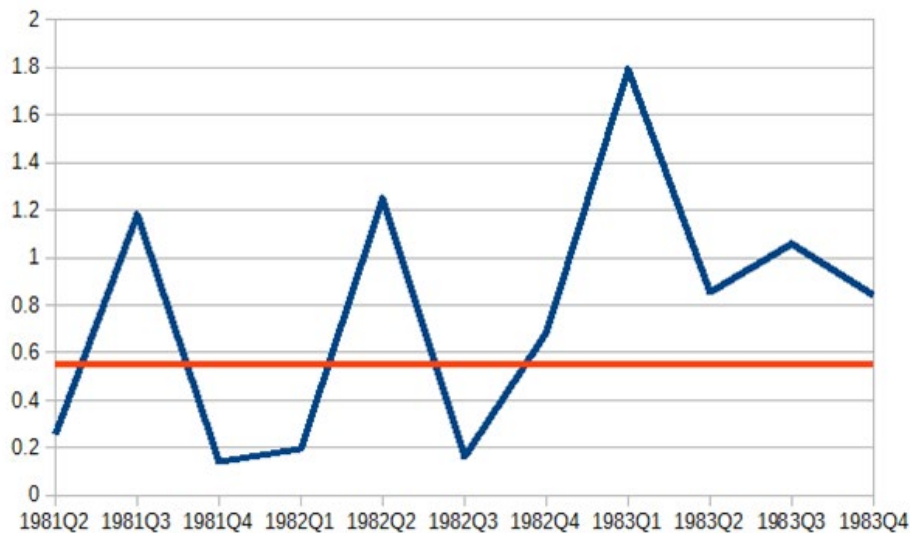
After the election result in 2015 I posted this. But unlike the *Sun's* claim in 1992, I think mine is no exaggeration. All the polling evidence says that the economy was the Tories' strong card: indeed virtually their only strong card. If the media had reported the facts, rather than the political spin, we would almost certainly not have had a majority Conservative government and we would therefore not have had Brexit.



Now whenever I make claims like this, or talk about the media politicising truth, I meet a barrage of defensive mechanisms. So let me be clear. I am not talking about a political bias, a bias in favour of the Tories. That may or may not exist. I am talking about a bias against evidence, against even simple facts. Economists and economics are not alone in suffering this, but economics suffers more than its fair share, because so much of politics is about economics.

Let me give you another example that even had me fooled. Some of you will remember the famous letter from 364 economists written after Mrs Thatcher's deflationary 1981 budget. In perhaps the only BBC programme during the Brexit debate about the collective views of economists, the introduction given by a BBC journalist said the 364 had been wrong: no ifs or buts, just wrong, because the recovery began "immediately after the letter". Now I had always assumed that those making this claim had got their facts right. But a few months ago I actually looked at the data. Here is the quarter on quarter growth rate in GDP per head, and its long-run trend (the red line). Remember that a recovery is above trend growth.

Table 3: UK Quarter on quarter growth in output per head



You can see that from the second quarter of 1981, just after the budget, until the end of 1983 there were as many quarters of below trend growth as above trend growth. Only a year and a half after the 1981 budget did we have a clear recovery. Any statement that recovery started just after the 1981 budget is simply untrue. To claim on that basis that the 364 economists got it wrong is therefore also untrue. But it is a claim made so often by Conservative politicians and members of right-wing think tanks like the Institute for Economic Affairs that it has now become accepted as fact by BBC journalists. It is another politicised truth.

Brexit and Trump

Which brings me to Brexit. With austerity and the 2015 election I thought the media's problem might be specific to macro, in part because of something I have already mentioned: the influence of economists in the financial sector on the media. But nevertheless on 3rd March this year I wrote a post that was very pessimistic

about the outcome of the Brexit vote, which followed directly from my experience with austerity and the 2015 election. I argued that to many voters the issue with migration was clear-cut: you cannot directly control EU migration from within the EU. But the issue on the economic costs would become neutralised by the media. The views of economists would count for almost nothing. That is exactly what happened.

What Brexit showed is that we have a much more general problem: academic economists in particular tend either to be ignored, or what they say has to be ‘balanced’ by an opposing view, even when less than 5% of economists agree with that opposing view. As Mark Thompson, former director-general of the BBC and now chief executive of the *New York Times* Company, [wrote](#) recently: “it would not be impartial, but irresponsible to give a smoking enthusiast equal time with the Chief Medical Officer or Surgeon General”.⁴ Yet that is exactly what happened to economists, and economic expertise, during the Brexit campaign. (For a clear exposition of this, see John Van Reenen’s [account](#).⁵)

Let me be clear. This is not just another moan about the media. It is a clear diagnosis of generic problems: academic economics is either ignored (leading to the politicisation of truth), or presented not as knowledge but as just another opinion to be contested. Those are problems that go beyond economics, but affect economics so often because of the close relationship between so many political issues and economics. But the problem of treating knowledge as just opinion can be overcome, as the example of climate change shows.

In the US climate change is regularly presented in the media as contested, and partly as a result a large proportion of US citizens think there is no scientific consensus on the issue. For a time this began to happen in the UK. Partly as a result of pressure from the scientific community, the BBC changed its policy and it now treats man-made climate change as an established scientific consensus.

When there is a clear consensus, as there was with Brexit, economics needs to be treated like climate change. It is vital this happens, and happens quickly. The partisan press (and in the US partisan broadcasters) have become more extreme than ever before. [Evidence suggests](#) the internet, that could in theory allow readers to expand their horizons, instead just allows the majority to confirm their prejudices.⁶ If the non-partisan media does not inform its readers about what the economic consensus is, who will?

I think broadcasters resist this for at least five reasons. First, many broadcasters are deeply suspicious about economics. Part of that comes from their preoccupation with unconditional macroeconomic forecasts. Yet no one would seriously say that because doctors cannot forecast exactly when you will die if you smoke we should ignore what they say about smoking decreasing your expected lifespan. But routinely during the Brexit campaign that argument was made for economists views on the long-term cost of Brexit. A macro forecast such as what growth will be in 2017 is an unconditional forecast: it could go wrong for an almost infinite number of reasons, just as could a forecast about how long you will live. A view that Brexit will reduce long-run prosperity is a conditional forecast, like a forecast that smoking will reduce your life. It is much less likely to be wrong.

A second reason is that political broadcasters feel threatened by economics. I saw a recent study which said that almost 90% of discussion of economics in the media was by non-economists. A large amount of that comes from political journalists, only a few of whom have any economic expertise. That does not mean that every political journalist should have economic expertise, although those that do are noticeably better as a result, but rather that political journalists should be backed up by research which does source economic expertise from academics.

A third reason is journalistic culture. This prizes headlines over providing information. It likes the entertainment value of debate. You get scoops from spending a lot of time with politicians, rather than talking to academics. Whether all this really produces better television is debatable, but it is part of the culture. In the 1970s Peter Jay and John Birt diagnosed similar problems to the ones I have addressed, and proposed that broadcasters should adopt a 'mission to explain'. Their proposal lost out to the adversarial model focused largely on debates among Westminster politicians – a model that not only neutralises knowledge, but also gives air time to extreme positions.⁷

A fourth is the pernicious influence of the right-wing press, constantly putting the BBC on the defensive.

But perhaps a fifth reason for resistance is the key. So much of politics involves economics. If the media started treating issues on which there was an academic consensus as expertise rather than as opinion to be contested, they would have politicians on their back far more often than they do now.

Economists themselves are partly to blame for this state of affairs. Unlike those in the sciences, we are rather poor at telling the media what the consensus is within the discipline. As a collective we need to make it easier for the media to report how economists as a whole see key economic issues, and give journalists some cover against politicians. As a collective we can run regular surveys to find out where the balance of academic opinion stands. We could provide a one-stop resource where journalists can not only find this information out, but also where the key economic arguments are set out. Economists need to abandon the naive idea that all they need to do is good research, and policymakers will then seek it out. A moment's reflection, using tools economists themselves use every day, will show how limited this view is: something I tried to elaborate on in a recent paper.⁸

I hope Brexit will be a wake-up call that economists need to do these things. Forget about media training: providing this collective voice that it is easy for journalists to access, and a voice that can complain loudly when they do not and when they should is what is important. But the real change has to come from the media, and it has to happen fast because right now we are going backwards. Which now brings me, as it inevitably must, to Donald Trump.

An incredible poll result during the US election was that more voters trusted Trump to Hillary Clinton. How can that be, when the evidence that Trump told lies regularly is there for everyone to see? But it was there to see for those who wanted to find out. For the average voter who just watched the nightly news on the non-partisan TV channels, they saw more time devoted to Clinton's emails than all policy issues

combined. In the US the nightly news during the 2008 election devoted 220 minutes to policy issues, in 2012 114 minutes, but this year it was only 35 minutes.⁹ They had not talked at all about the candidates' different positions on trade, healthcare, climate change, drugs, poverty, guns, infrastructure, or deficits. But 125 minutes had been devoted to Clinton's emails, a largely manufactured scandal.

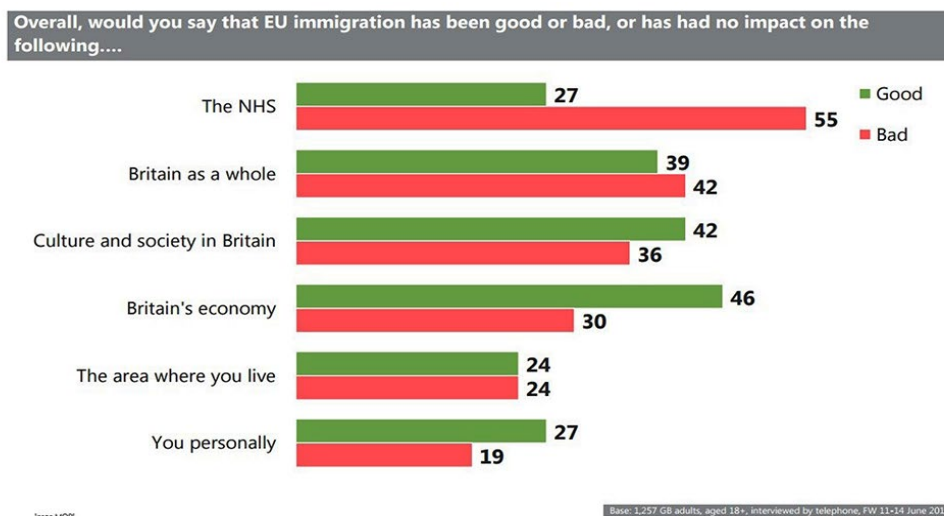
All this is terribly depressing, particularly if you are an economist. But I also want to be positive, hard though that is in these times. Bringing economics and the views of economists into everyday political discourse offers so much. Take the issue of the centre ground in politics. Most political journalists allow the centre ground to be determined by the politicians of the day, which potentially makes it a purely relativistic concept. Paul Krugman, the economist blogger par excellence, is a pretty centrist kind of guy in terms of the economics he espouses. Heterodox economists often like to claim that mainstream economics is implicated in either left- or right-wing politics (depending on the nature of the heterodoxy), but for the most part it is an ideologically and politically neutral technocratic discipline. So when someone like Paul when he draws on that discipline gets labelled as left-wing by the media, you know a real shift in politics to the right has occurred.

Because the mainstream left in the UK and elsewhere gradually gave up on opposing austerity, political journalists began to assume austerity now represented the centre ground (the politicisation of truth). As I hope I have shown, it was nothing of the sort. Instead what this indicated was a clear move to the right: an intensification of the neoliberal project to roll back the state.

Once you understand this, other things become clear. Openly challenging austerity was not being championed by any of the three major UK-wide parties, even though austerity was not supported by most macroeconomists. By 2015 the Labour party chose to keep quiet in public, and hoped that those who bothered to look would realise its policies involved much less austerity than the Conservatives. After the 2015 election some Labour politicians even became advocates for austerity. That meant that there was a huge hole on the left of UK politics. In these circumstances, Jeremy Corbyn's election as Labour leader was not the surprise that most political commentators thought it was.

Once again, if you take the viewpoint of economists, a key problem to be solved is to understand why immigration appears to be such an important issue for so many voters. Many people, including in the media, assume that what voters say about immigration holding back wages or competing for public services is true, but economists know it is not. Others think it is just a cover for xenophobia or worse. Here is a poll that suggests that is incorrect: I have no reason to believe that people are not being honest in their responses here.

Table 4: EU immigration



But economists know that, if it is from the EU in particular, immigration typically improves the public finances: the evidence for this is pretty strong. The reason why people would think otherwise is straightforward. It comes from the same fallacy as the Swabian housewife view of the public finances: to treat either GDP or total spending on the National Health Service (NHS) as fixed. If the broadcast media took its duty to inform seriously, this fallacy would be explained, but instead the best we get is to see it expressed as an opinion to be balanced against others.

This gives us a direct causal link between austerity and Brexit, mediated through public misunderstanding and the inadequacy of the media to counteract it. Austerity has resulted in the share of GDP going to the NHS falling, when typically - and for good reason - it rises over time. Yet not only are people convinced austerity is necessary, but they are repeatedly told that the NHS has been 'protected': a piece of spin designed to mislead and dutifully repeated by politicians and so-called independent political journalists. In these circumstances it is hardly surprising that people assume that the reason the NHS is deteriorating so badly is due to extra demand from immigrants.

Conclusion

Let me bring things to a conclusion. When I started blogging I thought I would just be talking about economics, and most of the time just macroeconomics: hence the title of the blog. But as more and more things happened which should not have happened if you knew the economics, I began thinking about how that can keep on happening. In macroeconomics we have something called rational expectations: people make the optimal use of the information they have. So it is natural, when bad decisions are made, to ask: did people have all the relevant information? In this paper I have tried to argue that people are getting inadequate or downright misleading information on a grand scale when it comes to economics, and this has had huge consequences.

This focus on the media is not an alternative to the more frequently heard discussion around failures of globalisation and the rise of populism, but is complementary to it. People have real grievances, but they are choosing the solutions of snake-oil salesmen. They are choosing solutions that make sense to the person in the street, but are simply known to be wrong. Austerity in the middle of a recession is a clear example of that. Making it harder to trade with your neighbours is another. Electing a demagogue is dumb in anyone's language. Yes, all these things serve someone's interest, but that they happen is not inevitable, and how our media works plays a major role in whether they do happen.

I have suggested concrete changes that make a difference. The media needs to follow the example the BBC has provided with climate change: where a clear academic consensus exists, treat that consensus as knowledge and not as opinion. In return, economists as a collective need to make it easier for journalists to know whether a consensus exists and what it is. The BBC Trust recently published a report of the use of statistics, which suggested the BBC should be more willing to weigh, interpret and explain the statistical evidence and, when appropriate, challenge and correct when it is misused, and be "better and braver in interpreting and explaining rival statistics and guiding the audience". It noted that to do this the BBC needs more expertise in house. The same is true for economics. We need less reliance on City economists for guidance on policy issues, and the expertise to access and use academic knowledge. When they have that knowledge, they too need to be braver in using it. Here I think I speak not just for myself, but after Brexit for most academic economists. Only this will end what I have called the politicisation of truth, where economic propositions are regarded as true by the media because they are made by politicians and not contested by other politicians, even though these propositions are in fact false.

What is sometimes called the fourth estate should be a protection against populism, not the means by which it takes hold. After austerity, and Brexit and Trump, we really do not need any more wake-up calls. There is not much that can be done about what one economist called the rabidly right-wing press, or its TV equivalent in the US. There are many print journalists who do what they can. I have tried to suggest there are things that can change within the non-partisan broadcast media, and for once I do not think it is melodramatic to say this needs to be done before it is too late.

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