Parting shot

By Mirko Draca
Director, CAGE

Reviewing the evolution of economic policy over the last decade, I'm struck by the stunning retreat from Austerity that occurred in the wake of the 2017 election. A programme that was 'conventional wisdom' amongst a big section of the policy-making class suddenly became anathema, with few strong defenders existing now outside of the former Osborne-Cameron circle.

I'm further struck by the fact that the May and now Johnson governments have not articulated a clear direction for post-Austerity tax and spending policy. The initiatives and changes announced so far seem to be remedial (for example, restoring police spending) rather than being elements of a systematic agenda. But as I write (late March 2020), the COVID-19 virus is also doing its best to subvert any expectations we might have about what a systematic policy agenda might look like.

Given this, rather than being one of those pundits who announces what policy-makers should do before the dust has settled, I want to instead highlight what trends are likely to be important for a post-Austerity economy and society.

The second coming of the 'Productivity Paradox'
Robots, drones, talking TVs, and phones that first got really tiny but are now big mobile computers. Technology is all around us, but it is not improving productivity according to the statistics. This previously happened in the 1980s as part of a 'Productivity Paradox' that was resolved by the Information and Communications Technology (ICT)-driven productivity surge of the mid-1990s.

"The wolf is beyond the door. The wolf is in the living room. This is the anthropocenic condition. This is how we live. This is force majeure. It's here. It's very obvious."

So, following recent work by Brynjolfsson, Rock and Syverson (2018), if the pattern of the 1980s and 90s holds, we are in the midst of a productivity downturn and waiting for a wave of new technology (in short, Artificial Intelligence (AI) and robotics) to pull us out. This would change the game, giving us more output per head to work with. The questions are how big this surge might end up being and importantly, how it will be distributed?

> ## "AI and robotics are set to automate a range of tasks and processes that have traditionally required human judgment, organisation and discretion."

Reinventing government... again

AI and robotics are set to automate a range of tasks and processes that have traditionally required human judgment, organisation and discretion. This could change the nature of government services in significant ways. In particular, service delivery could be streamlined using tools such as chatbots, linked databases, expert systems, predictive analytics, and behavioural 'nudges' tested at scale. A useful way to think about this development is that these tools will allow us to chip away at the fundamental economic problems of asymmetric information and moral hazard that have bedeviled both government and anything that involves building a bureaucracy. New ideas are great, but the 1970s' wave of economic theory in the area of 'information economics' — how lack of information can effect economic decision making — is due for a revival of interest and (crucially) a popularisation, as we see these new technologies develop.

Everything's gone grey

The Covid-19 virus has acutely exposed us to the fact that a big segment of our society is ageing or vulnerable in other ways. The Office for National Statistics' (ONS) figures indicate that the current population share of those aged 65+ is around 18.4%. Furthermore, the 65+ group is the fastest growing part of our population — it's projected that nearly a quarter of the population (24.2%) will be 65+ by 2038. As a benchmark, this compares to an 11.8% share in the 1960s. The biggest implication will be health: illness rates haven't necessarily been going up too much, but the volume of illness in the population is increasing as society ages. This has obvious fiscal costs along with effects on well-being. In short, a bigger fraction of the population will be experiencing regular pain and limitations in their lifestyles due to acute or chronic illness.

This will be the 'Thundering Twenties'

Finally — you must have known this was coming — climate change. The 2020s are going to give us more storms, fires, floods, droughts (and yes, pandemic threats). We will have to build these regular climate threats into the management of society and some geographic areas might become uninhabitable. Get ready to talk about the weather a lot more.

One of my favourite writers is a guy called Bruce Sterling (look him up). He summarised the situation well in a speech back in 2011:

"I will pass the rest of my lifetime in the shadow of climate change. It's not about warning people in 2011, or trying to avert or defuse a misfortune. The wolf is beyond the door. The wolf is in the living room. This is the anthropocenic condition. This is how we live. This is force majeure. It's here. It's very obvious." ◀

Further reading

ONS, *Overview of UK Population: August 2019*, ons.gov.uk, accessed 25.3.2020.

ONS, *UK Population Pyramid, 1960*, ons.gov.uk, accessed 25.3.2020.

Johnson, Brad, 'Bruce Sterling: Climate Change is Now a 'Melancholy and Tiresome Reality'', thinkprogress.org, accessed 25.03.2020.

Brynjolfsson, E., Rock, D., and Syverson, C., (2019) "Artificial Intelligence and the Modern Productivity Paradox: A Clash of Expectations and Statistics", Agrawal, A., Gans, J., and Goldfarb, A., (eds.), *The Economics of Artificial Intelligence: An Agenda*, NBER, University of Chicago Press.