

## **Cancel Culture, Female Bias at Work, Mortgages, Corporate Credit, and Chinese Deflation - What Happens Next – 1.3.2021 – Charles Goodhart**

Larry:

Our first speaker today is Charles Goodhart, an Emeritus Professor at the London School of Economics will start today's program to discuss his new book *The Great Demographic Reversal*.

Charles Goodhart:

Larry, what happened to your father is going to happen to a larger number of all of us. Medicine has not managed to cure the neuro-degenerative diseases like Parkinson's and dementia. My older brother died of Alzheimer's about four years ago, and my wife already has dementia, so this is going to happen to a very large number, which is one of the reasons why deficits and debt are going to grow larger. But what happens next, more generally, is that inflationary pressures are going to bound back again after the COVID pandemic has been beaten by the vaccines. And I know it may seem odd, considering how the pressures for the last 30 years have been disinflationary, but the disinflationary pressures have largely occurred because of trends in globalization and in demography.

Globalization led to disinflation because mobile production could move out to the low-wage countries like China and Eastern Europe, and this had three effects. Production of these tradable goods became cheaper. It provided this stick whereby employers domestically could hold down wages at home by threatening to move abroad if wage pressures became too high. It also meant that there was a shift from manufacturing to services, where labor is less well organized.

Besides globalization, there was a very beneficial movement in demography where the baby boom immediately after World War Two led to a surge in the working age population from 1965 onwards, which is just beginning now to turn around. Meanwhile, the very sharp decline in birth rate that occurred immediately thereafter meant that there was a much larger participation of women in the working age population producing workers. And the more workers there are as a share of the population, the more disinflationary the world becomes, because you don't employ a worker unless the value of their production is expected to be greater than the wage that you have to pay them. So, more workers are disinflationary, and moreover they'll have to save for their retirement.

On the other hand, the old, who are now going to be an increasing share of the population than the young consumers produce, so they are inflationary almost by definition. And these shifts, the shift to globalization, the bringing of China and Eastern Europe into the world's trading system and the very beneficial demographic movements meant that there was an unbelievably

sharp rise in the available workers that people with mobile production could use. In fact, it more or less doubled, or more than doubled over the years from 1985 to 2010, but now that's going really quite rapidly into reverse.

Charles Goodhart:

Globalization is beginning to reverse with the America-China systemic competition. Brexit is another example, and indeed the COVID pandemic has underlined the importance of having industries at home. From now on, the increase in the share of the old, who are very expensive, is going to vastly outnumber the increase in the working population, and in many countries, even the fastest growing, Germany and China, the working age population is even going to shrink, so that the availability of workers is going to decline. That's going to mean that what was a positive labor shock is going to become a negative one, and that in turn will raise the bargaining power of labor. But that bargaining power has got so crushed with the decline in the power of private sector trade unions, which is both a symptom and a cause, that it will take some time for these trends to turn around from a disinflationary forces into the inflationary forces that we expect over the next few decades.

Charles Goodhart:

But what then occurred was the COVID pandemic, and the policies that have been used, policies which I do believe to have been appropriate and right, were to throw fiscal policy and monetary expansion at them. The magic money tree has meant that we have monetized much of the deficits that have been generated in the last year. Savings ratios and the availability of money to the wider population have risen to a really quite extraordinary, and when the COVID pandemic is over, there will be, I think, a recovery which will lead to a sharp rise in inflation and will lead to an increase in demand. It will be rather like, the best analogy is perhaps the Roaring Twenties, and that is likely to bring about inflation rather quicker than we had already expected. Now at that point, I'll hand over to Manoj.