

**Adam Posen: BBC HARDtalk transcript**  
**August 22, 2012**

Stephen Sackur: Over the last five years serious questions have been asked about the competence of economic policymakers in the Western world. My guest, Adam Posen, is about to retire as one of the independent members of the Bank of England's Monetary Policy Committee (MPC). Why is managing the world's richest economies proving so very difficult? Adam Posen, welcome to HARDtalk.

Adam Posen: Thank you.

Stephen Sackur: You have spent three years in London advising the Bank of England. During those three years we have seen an anaemic economy in the United Kingdom and we have seen a double-dip recession. Are you leaving with a sense of great disappointment?

Adam Posen: I'm leaving with a sense of sadness that we were not able to do better. A little disappointment, but it's more about trying to make sure we understood things correctly and the Bank of England did what we could. And I think we have done a lot, there's a few things more we should be doing.

Stephen Sackur: Was the Monetary Policy Committee, was it consistently behind the curve? Because that is what it has looked like to outsiders.

Adam Posen: Every central bank and every economic policymaker was behind the curve in late 2007/2008. In late 2008 and early 2009 the Bank of England, and my predecessors on the Monetary Policy Committee, I did not get there until September 2009, I think caught up very quickly and they all did great things in a very activist way to keep the world from falling apart. I did push for harder, more aggressive stimulus policies starting in late 2010. And it took a while for the rest of the committee to go down that route. And I think that is a case where they were behind the curve.

Stephen Sackur: It seems to me there is a fundamental problem. That is, growth forecasts, inflation forecasts, the gritty data you need to rely on has been consistently wrong over the last three to four years.

Adam Posen: It has been worse on the growth than the inflation. On the inflation, I and some of the others, have kept focussing on core inflation, which is not the short term noise about this month's train fare increases or last month's oil price falls. If we tried to follow that all the time we would just jerk around the UK economy to no good avail. The inflation forecasts we have gotten broadly right frankly. The growth forecasts have been disappointing. That was in part I think because people, not just in the United Kingdom, underestimated how much of a drag austerity was going to be. I have said that from a long time ago. I said

from a while ago, whatever its long term merits, austerity was always going to be more painful short term than people expected. And I think that's a big part of it. And then also obviously the eurozone getting worse and worse and has been a big part of that.

Stephen Sackur: Now you have already introduced the idea that you were battling some others inside the Monetary Policy Committee particularly on the issue, particularly on how much to loosen monetary policy and in particular on how much to use quantitative easing (QE). Pouring new money into buying government debt. You were on the side of employing it very dramatically and indulging in quantitative easing. Others opposed you. Would it have made a difference if you had won the argument earlier and been more extreme in your QE policies?

Adam Posen: I do not think they opposed me. They were worried about things that turned out not to be legitimate worries or turned out ex post not to be major worries, like inflation expectations getting out of control. Wages going up too fast. Us getting into credibility problems. All of which proved to be nonsense.

Stephen Sackur: Well, no they didn't because inflation went up beyond 5 percent a year ago.

Adam Posen: Twice it's got up to 5 percent and come down immediately once the oil price has moved or once the exchange rate has moved. That's the definition of a good monetary anchor. So when you get buffeted by the storms, you do not move the fundamental economy, you just have a short term buffeting. So the Bank of England and the MPC delivered what it was supposed to on inflation. But when you talk about would it have made a difference if we had moved earlier, I think it would have. I don't think it would have solved all of our problems by any means. I think unemployment would have been lower. Investment would have been higher. And in particular I would like to think consumption would have been higher over the last couple of years.

Stephen Sackur: And you yourself have flip-flopped on this in recent times. You were an arch advocate of quantitative easing. And I think more than £370 billion already. You then I think in March or April this year declared enough had been done already. But then in May you changed your mind again and called for more quantitative easing again. You now seem now thoroughly confused.

Adam Posen: No, I think it's like I'm driving down the road, and I think am I going to take this exit or not? Well I think I'm almost there. Now, oh geez, it turns out I got off one exit too early time for me to get back on the highway.

Stephen Sackur: I have to say hearing that description it doesn't fill me with confidence that you as a policymaker know where you are going!

Adam Posen: Well I think it does say that we know where we are going because we are in uncharted territory. This isn't about me going down the road on my normal commute. This about going down a road in completely uncharted territory and I got within one exit of getting it right. Now if I dropped you off down in Mongolia in a beat up Opel and asked you to get some place on time, and only got a ten minute delay by getting off one exit too early on the highway that would be pretty good. This isn't me going down the A4 to Heathrow here.

Stephen Sackur: No, without stretching the metaphor too far, what sort of place is the UK economy in right now? How much extra stimulus does it need? The IMF (International Monetary Fund) looked at what you and your colleagues on the MPC have been doing recently, the advice you have been offering, they said Britain probably needs more aggressive monetary policies. Think about lowering interest rates and more QE.

Adam Posen: Talking about whether to lower interest rates and quantitative easing, there is not a big distinction between them. So it's more about the amount we need to do. What happened was, and I do not think flip-flopped is quite fair, what I said was we have to let the data speak, we thought productivity was going to get better once we saw the private sector kept hiring. There is no way in the world that private sector recession-hit businesses are going to keep adding workers if there isn't hope that these workers are going to be useful. So there was reason to think that we're not in a disaster. And just has been very current in the papers there's a lot of reports coming out saying we are not in the type of double-dip recession, we are not in the tight contraction we had in 2008 and 2009. Things are still unsatisfactory. We still have too high unemployment, slow growth. But the UK economy, you asked me Stephen, is in a state of poor growth, stagnation, we could be doing better with the potential we have got.

Stephen Sackur: In terms of wider Europe, we are relatively lucky. The unemployment rate is nowhere near as high as it is in Spain or Portugal. But it is still bad. Youth unemployment is particularly bad. And yet, the government points to the fact that jobs are being created in large numbers. How can that square with the fact that we are technically in recession? Jobs are being created.

Adam Posen: That is why some of us want to look past the technically in recession. Let's focus on the big picture story of where we sit, which of course Governor King has also emphasised. Which is, we're not growing as fast as you normally would when coming out of a recession. We are obviously not in complete contraction because the private sector is adding jobs, on net. It's not that at every time the private sector adds jobs, it's on net the private sector is adding significant numbers of jobs. Youth unemployment is a real problem, as Alastair Darling just wrote about, there is a call for bipartisan work on this. That is the one place where the UK labour market is not operating well. But compare us to the United States, Spain, or Portugal, participation rates in the United

States have come down. So the UK labour market is actually working reasonably well.

Stephen Sackur: Interesting. The Federal Reserve in the country you know best has a remit which is not just about keeping prices stable, but maximising employment. The Bank of England does not have that remit. It is only fixated on controlling inflation. Is that wrong?

Adam Posen: No, because if you read the remit carefully, it is given to us by Parliament and confirmed by successive governments, we are to keep inflation over the medium term as close to target as possible and to do so in a way that is consistent with a stable growing economy. We're not supposed to be shooting off like we did in the 70s here in the United Kingdom, doing everything possible to pump up the economy through short-term measures. But as my colleagues and I on the committee all agreed, we're going to look through short term inflation and make sure the economy didn't descend into a deflationary spiral.

Stephen Sackur: But the point is you seem to have been frustrated by the narrowness of the Bank of England remit. You said the Bank of England should abandoned anguished religious ethic over justifiable intervention. You have already told me you think the Bank should have done more.

Adam Posen: You are absolutely right, the Bank could have done more, but it is not a problem with the mandate. The problem with the Bank of England in my opinion have about doing more was—the Bank of England executive prior to the MPC, is currently supposed to decide what assets the Bank of England can buy. What particular interventions, the form of the intervention. Which once you get us passed just cutting interest rates is an important part of policy design. And myself and other external members of the committee have suggested that we should be buying things other than just gilts. And that was the key way I feel we did not live up to what we could have done.

Stephen Sackur: You mean private sector debt?

Adam Posen: Private sector debt. Bundles of private sector debt. Securitised debt. Special bonds being issued to finance construction or infrastructure. The creative thing that the Bank of England just came out with, the Funding for Lending Scheme, is a step in that direction. I would want the Bank to do more to go around the banking system rather than working with the current banking system.

Stephen Sackur: What about setting up a public bank specifically to lend to small- and medium-sized enterprises which some people have muted as being the best way to get money into these businesses?

Adam Posen: Well the some people as I presume you know include me. In 2010 and 2011 I gave two speeches talking about that I got that issue onto the agenda.

Stephen Sackur: It has not been delivered. Is that why you are leaving? You are frustrated.

Adam Posen: I'm leaving because I came to the end of my term and I was offered a job in Washington at the institute I used to work at, which gives me a broader platform but much less power. It was a job I could not refuse.

Stephen Sackur: But there is a political context to this. We talk about monetary policy. That is what your committee does. You have to consider the wider economic context, which takes in fiscal policy, tax, and spend issues. You have been working for the Bank of England in a country where the government is absolutely committed to an austerity programme, which I suspect you believe has in some ways been damaging, am I right?

Adam Posen: I believe the short-term effects of the economy, what we have seen in the last couple of years were predictable. It definitely made unemployment higher than it would have been. It made consumption lower than it would have been. It probably interfered with public investment. It is for elected officials to decide what are the balances of risks are. This government won a majority on this ballot. They were very clear this was what they were going to do. And secondly there are big ticket items which little boffins like me at the Bank of England should not be deciding. So there was this mooted idea in 2010, if we do not do something we might end up like Grace.

Stephen Sackur: I appreciate the modesty of the little boffin line, but you work for a big boffin, Mervyn King...

Adam Posen: He's no bigger than I...

Stephen Sackur: Well he's not an elected boffin for sure, but he choose to say in 2010, at the most crucial time in recent political history when the coalition was being formed, he chose to give what can only be described as pretty explicitly backing to George Osborne's idea of eliminating the structural deficit in the United Kingdom within the lifetime of a single parliament. He said, "I am very pleased there is a clear and binding commitment to accelerate the reduction in the deficit."

Adam Posen: And as I said on record before the Treasury Select Committee in November 2010, I opposed him making that statement internally. I have been on record since the early 2000s, saying not just the Bank of England, but the Federal Reserve, the ECB they have no business commenting around the time of elections. They have no business commenting on fiscal policy. Look at the way the ECB (European Central Bank) is threatening Spain and Italy. I do not think unelected officials should be doing it.

Stephen Sackur: But for the last 2.5 years you have had to advise and work closely with this guy who you believe made a fundamental and strategic error?

Adam Posen: But he has also done a bundle of really good things. We all have to work with different kinds of people. Governor King is a true public servant who works all the time. He is trying to do the right thing for the economy. On that particular issue I disagree and I have been clear about my disagreement.

Stephen Sackur: A huge issue. Do you think it is time for Mervyn King to go?

Adam Posen: His term ends in less than one year. He will be succeeded by someone else.

Stephen Sackur: And his departure will be no bad thing?

Adam Posen: The Governor has been a true public servant for the Bank and has done a lot of good things. I happen to disagree with him on that particular issue. He has been very grave on a lot of issues and he has given me and a lot of other members of the committee room to disagree with him which most other central banks don't do. So I am not going to get into that. I'm not going to evaluate his job. I stick to the general principle, that in that instance, I happen to disagree with him. I do not think unelected officials should be yammering about stuff around elections particularly when elections are being fought on that basis.

Stephen Sackur: It seems there is always, particularly right now, a debate within top economists' circles about whether the current situation proves that in essence, Keynes was right and the government has to pump the economy. Somebody has to do it and it has to be the government. Or, those who say absolutely not, at a time when debt is the insurmountable problem, piling new debt is a mistake. Do you think that in essence Keynesians have won the argument?

Adam Posen: Well the Keynesians have had all the evidence on their side and it has turned out to be right, and I have argued that in a number of speeches. They have not won the argument which is a shameful statement about our politics in the United States, Europe, and United Kingdom, because it was not all evidence based. All the things that Keynes told you: that interest rates will stay low when there is a lack of private sector demand, that governments are not going to be held under threat by bond markets when there is just as much worried about growth and they are fearful of what to do with their money. When you withdraw or add fiscal stimulus, it has a multiplier greater than one. All those things were proven to be right by Keynes and by recent experience in the United Kingdom and all those things were proven to be right when I did work on Japan in the 1990s. You know... I do not know why we still debate these things, well people have ideologies.

Stephen Sackur: Except in Europe and around the world we have sovereign debt crises and what you are arguing is that you simply build up more debt in a desperate effort.

Adam Posen: It is not a desperate effort, it is a necessary effort because we are in desperate situations. What matters with public debt as with private debt is what you spend it on. So as this note said of noted economists, Lord Desai, Tim Besley of the LSE (London School of Economics). Nine have come out and said we always said you should not cut public sector investment, because it's what you spend it on and at what price. As interest rates are as low as they are in the United Kingdom it does not make any sense to sit on the money.

Stephen Sackur: These arguments go far beyond the United Kingdom. Talking about the eurozone on. Mervyn King, the Governor of the Bank of England, has said the greatest threat to the UK economy is the crisis in the eurozone getting worse and the prospect of a possible breakup, do you agree?

Adam Posen: I agree that if it gets worse, or if the eurozone were to break up, it would overwhelm the UK economy in ways we cannot really do much about.

Stephen Sackur: You know Germany very well, when you look at the argument raging in Germany about whether to in essence front up and guarantee the debts of the very weak Sovereign's around the southern periphery of Europe, do you believe that in the end, for political and constitutional reasons, that cannot happen and there is going to be a constituting of the euro, for example Greece leaving Europe?

Adam Posen: What I do believe is twofold. First, it is in Germany's interests, its commercial and economic interest not just its foreign policy idealistic interest, to really restructure the debt that other countries owe them. This is really the mirror image of what Germany went through after World War I. When the United States imposed the Versailles Treaty.

Stephen Sackur: For Germany to take the hit?

Adam Posen: For Germany's lenders who made the mistake of lending to all these countries. These borrowers had to get the money from somewhere. It was a German government decision and Austrian banks and Dutch banks who lent the money to all these countries and companies so they could buy German exports. Germany has been running, just as subprime lenders in the United States, they have been running a scheme in their own interest. So you want to restructure the debt. You cannot make it all on the borrower. Somehow it has to be more has to be some moral hazard allowance for them to take the hit.

Stephen Sackur: But the *Economist* magazine ran a cover the other day, suggesting Angela Merkel is reaching a point of decision where she may look at

the balance of the equation, when it comes to risk and pain, and decide there is less long-term risk to supervise a breakup of the eurozone than continue down the path.

Adam Posen: And that would be a very ill-advised move on the part of anybody looking at Germany's interests to do that. It is pure political pandering to pretend otherwise. Germany's currency would shoot through the roof, Germany's trade relations would be disrupted, Germany's banks would then be on the bailout list. You would reinforce bad incentives. You would reinforce a narrative in Germany that makes no sense that somehow it was morally right that they paid their workers nothing for years so they gained a competitive advantage over other countries...

Stephen Sackur: But in the end there is democracy as well as economics. If the German people are not prepared to take the pain that you're suggesting they should be taking, that is not viable.

Adam Posen: No I'm telling you all the pain they are going to get... If they did a proper debt restructuring, they would have to take some losses in their banking system that they would have to make up but that would be it. Trade, exports would go on, the losses would be much smaller, the would-be political stability, the currency would not appreciate in a ridiculous way, the banks would...

Stephen Sackur: Maybe you're right but frankly, Germans may not believe you. Just one final question on Europe: Mario Draghi the boss of the European Central Bank has said all summer that the ECB will do whatever it takes to ensure stabilisation and stability in the eurozone. Is that incredible?

Adam Posen: I wish they would get on with it if that is what they are going to do. The problem for me, and this goes back to politics and what we were saying about my differences with Governor King about the role of central bankers, I do not think the ECB has any business saying there are risks to the eurozone ...[inaudible] In Italy, there are shutdowns in the bond markets. They are undermining the eurozone and the world economy. The ECB should be intervening to deal with them. One last thing, on your political point, as I said to you it is not about economics. I do not want Mario Draghi making the decision. Angela Merkel is perfectly free. She is an elected official. She has every right to say she will not bail out those countries. All I'm saying is from the economics, it would be a self-inflicted wound of huge proportions on Germany to do that. I would hope she would explain the truth to the people rather than pander to them.

Stephen Sackur: You are going home to the United States to run an influential economic think tank. Do you have any confidence that the management of the US economy is in better hands than in Europe?

Adam Posen: No. Not much.

Stephen Sackur: When you look at the election, considering that Mitt Romney is taking on Paul Ryan as his running mate who envisages the most swingeing cuts to the Federal Budget and activity over the next decade, is there now that clear-cut argument about how to run the US economy which will be the centrepiece of the election?

Adam Posen: That is my optimistic take. I am hoping that by Presidential Candidate Romney making Paul Ryan his running mate, we will have a very detailed directly engaged debate between Obama and Biden and Romney and Ryan. Things will have to come out in public. When you talk about swingeing cuts, one of the things that has happened in the past week, since Paul Ryan has been nominated, we have had some stuff come out about his numbers and make the economic advisers looking out to make his numbers work. We need to make sure the numbers work. It could be a good election.

Stephen Sackur: Some senior Democrats including Erskin Bowles, who coauthored the plan to get rid of the deficit, has praised Paul Ryan who he says has a sensible budget plan.

Adam Posen: I do not want to praise any politician one way or another. That is not my job. I do know that on the numbers, the current plans as examined by the non-partisan budget office to which I am advisor, and others, they do not add up. But there are ways of making them add up and I hope that Ryan and Romney choose to go that route.

Stephen Sackur: Thank you for joining us on HARDtalk.

Adam Posen: Thank you for having me.