



BANK OF ENGLAND

The Health, Wealth and Happiness of Nations

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Centre for Policy Studies Lecture

Bloomberg

24 February 2020

Adam Smith (1776)

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

Smith (Wealth of Nations (1776))



Adam Smith (1776)

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”

Smith (Wealth of Nations (1776))

“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.”

Smith (Wealth of Nations (1776))



“Designing institutions to force (or nudge) entirely self-interested individuals to achieve better outcomes has been the major goal posited by policy analysts for governments to accomplish for much of the past half century. Extensive empirical research leads me to argue that, instead, a core goal of public policy should be to *facilitate the development of institutions that bring out the best in humans.*”

Elinor Ostrom (Nobel Lecture, (2009))



Plan

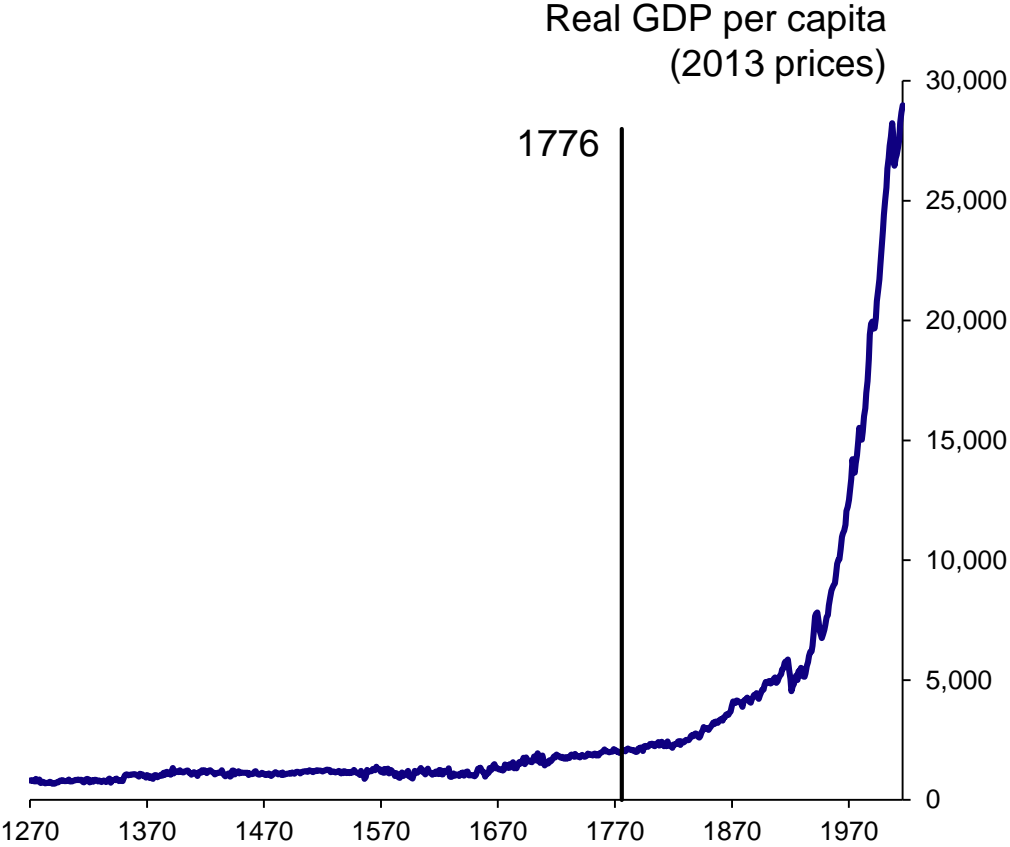
- Enlightenment then
- Six Pillars of Success
- Enlightenment Now?
- The New Pillars of Success

➤ “Community Capitalism”



Wealth

Income

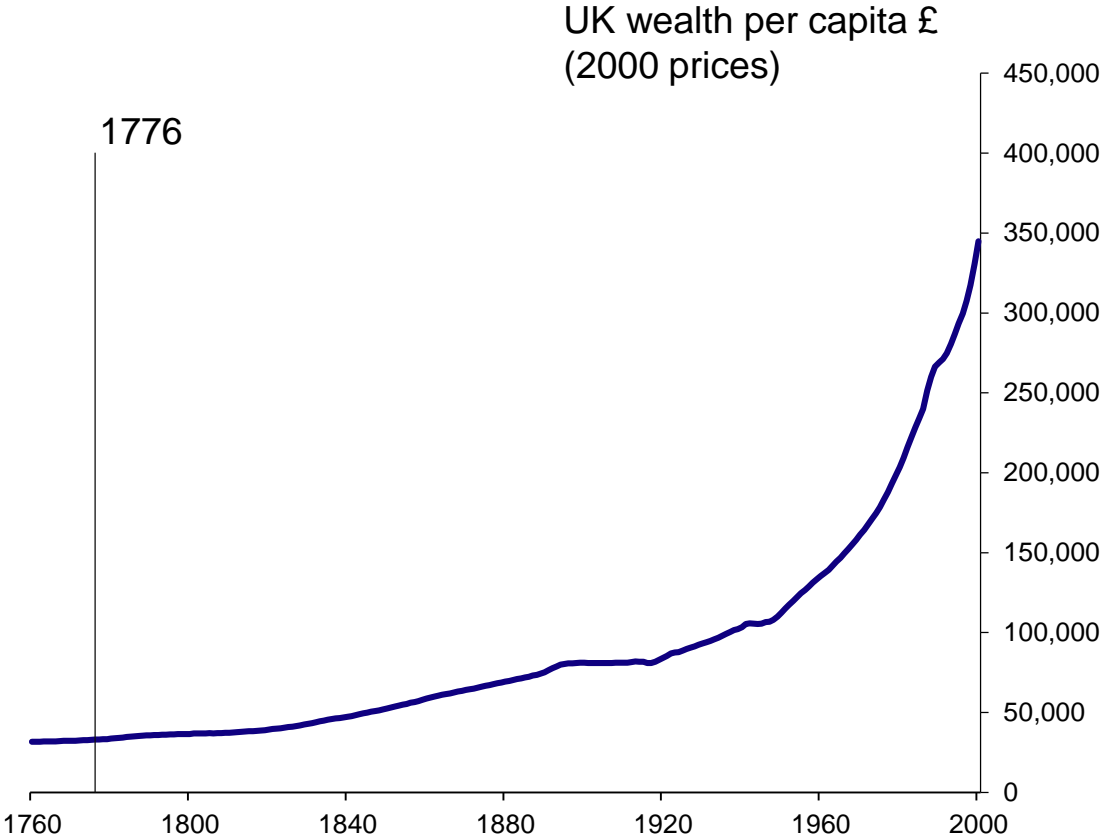


Sources: Bank of England Millennium of Data



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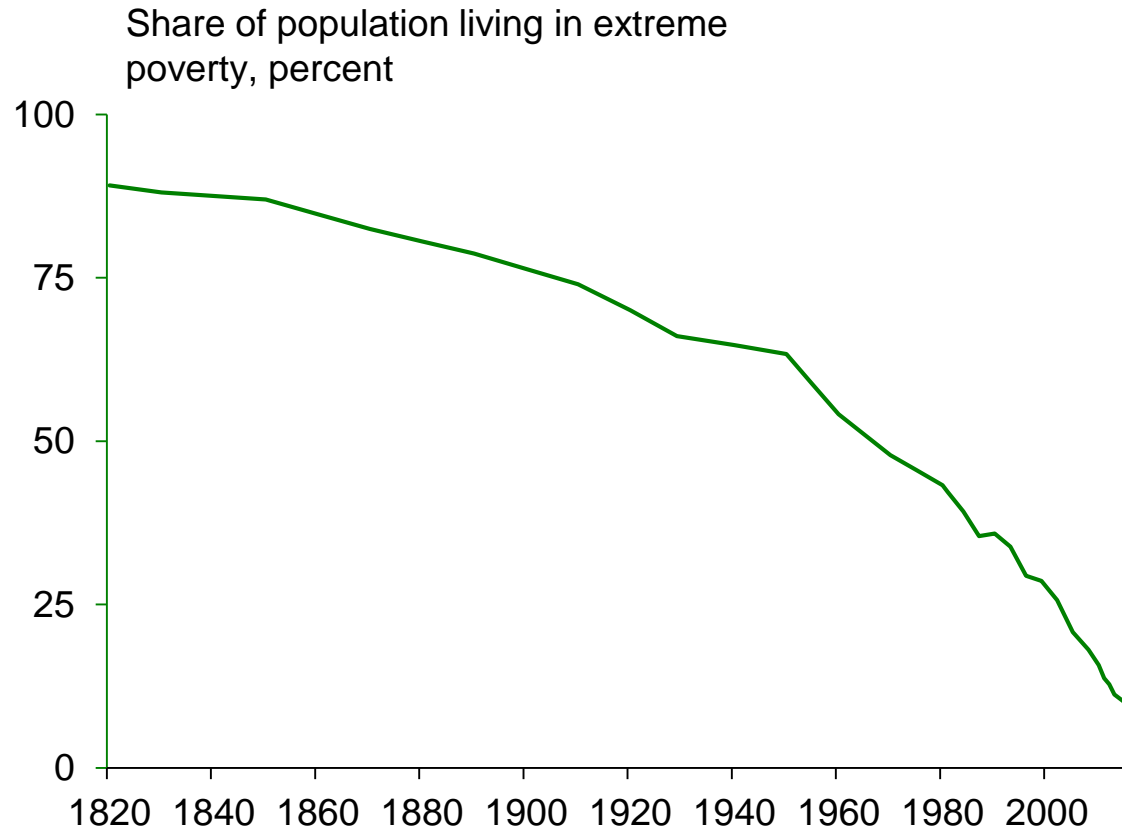
Wealth



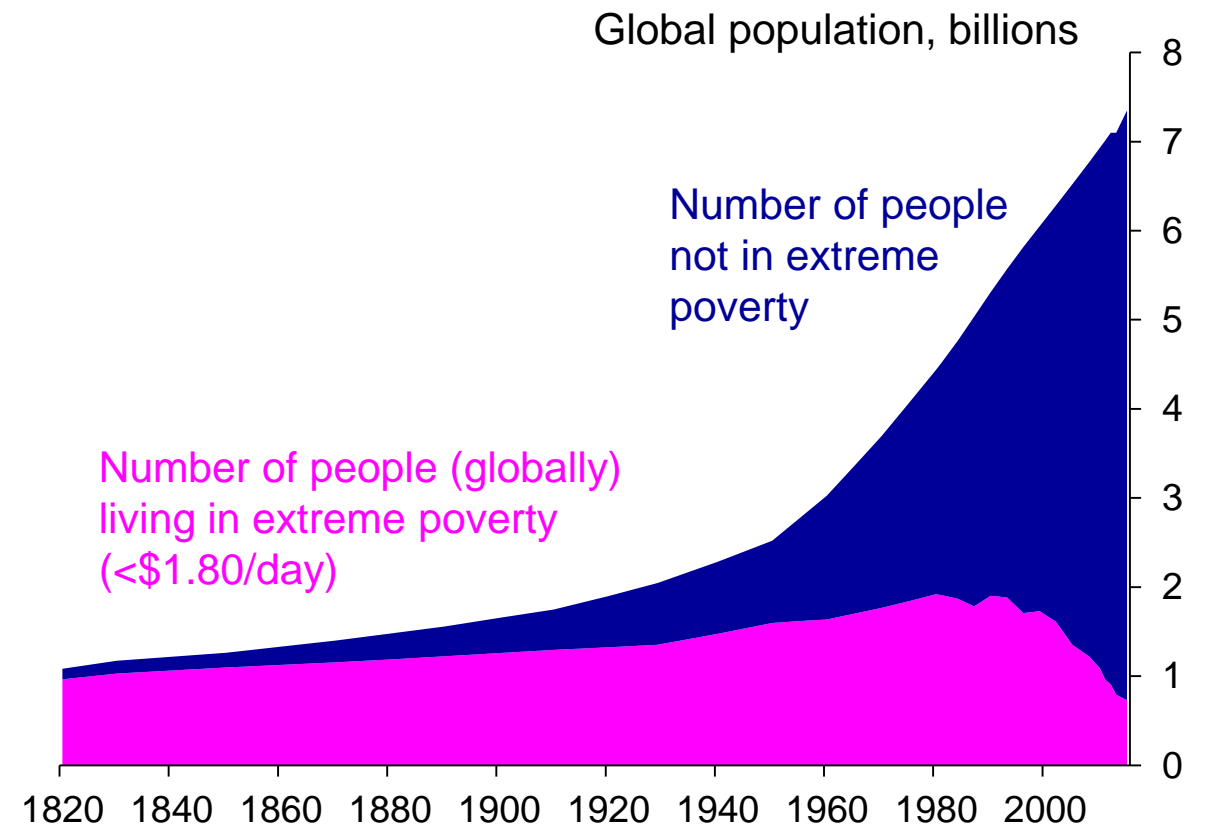
Source: McLaughlin, E. et al. (2014) 'Historical wealth accounts for Britain: progress and puzzles in measuring the sustainability of economic growth'

Wealth

Poverty rate



People in poverty

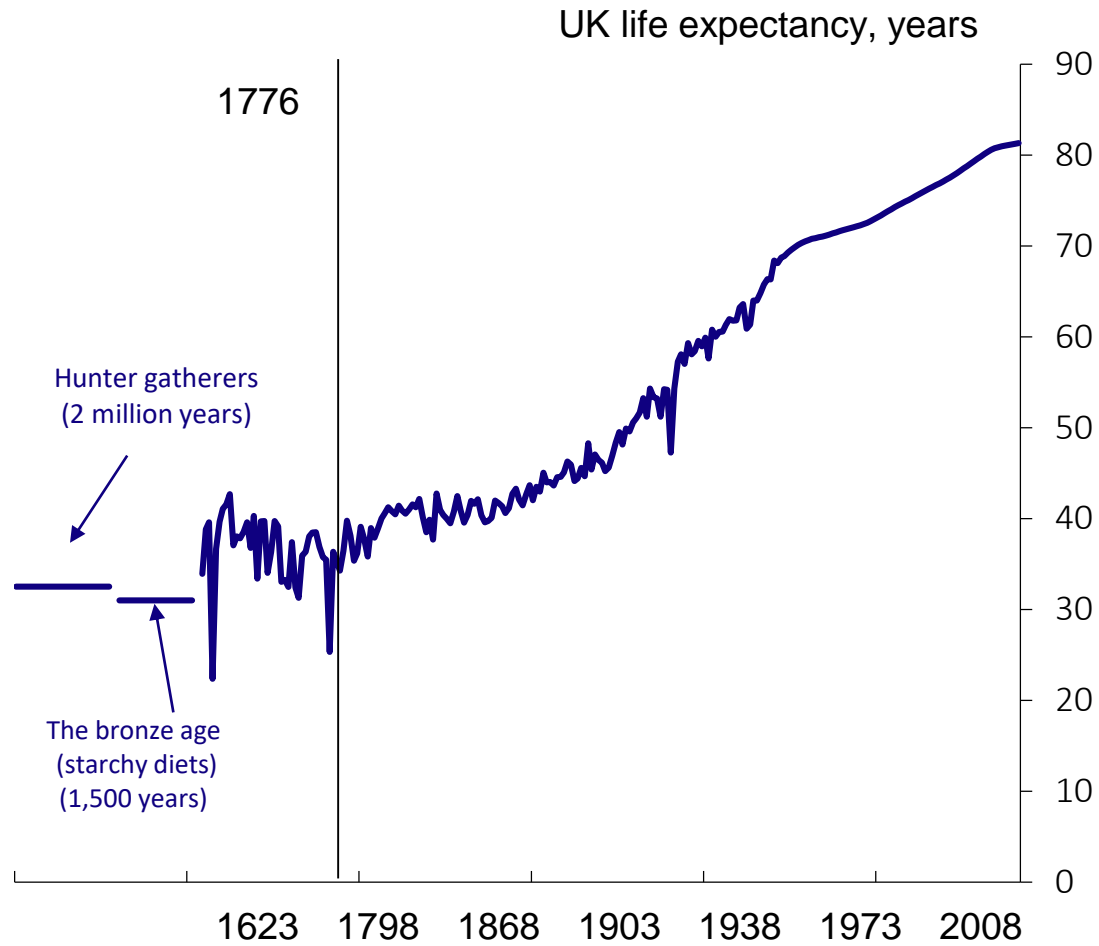


Sources: Our World in Data, based on data from Bourguignon & Morrisson (1820-1992), and the World Bank (1981-2015)



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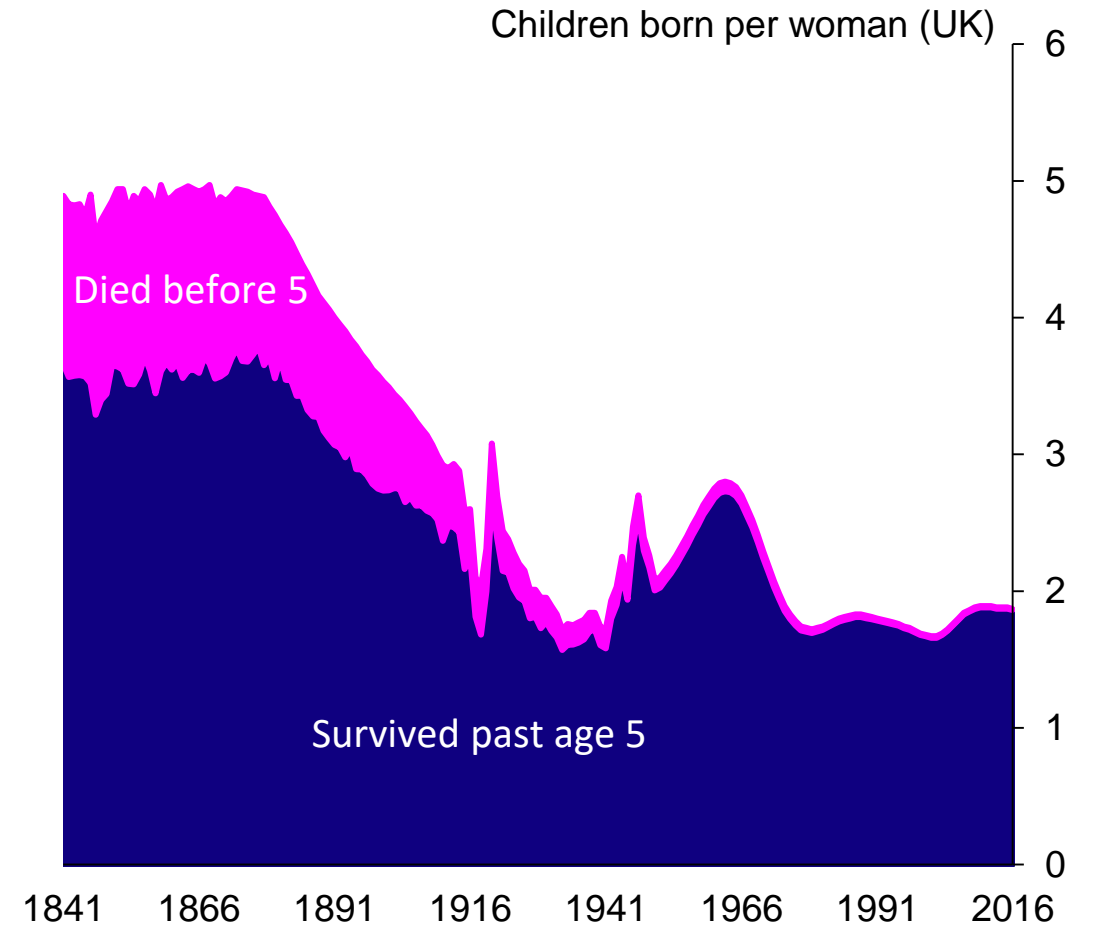
Health



Sources: Our World in Data and *Enlightenment Now*

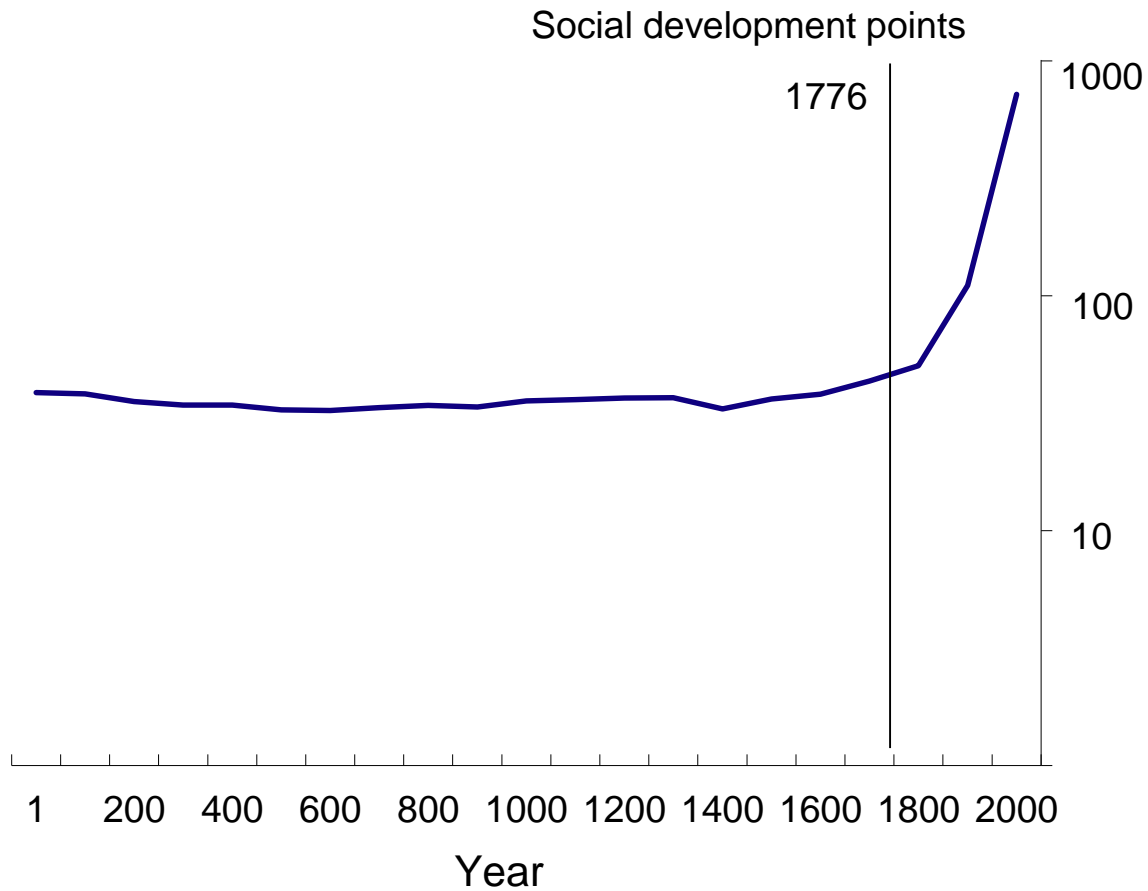


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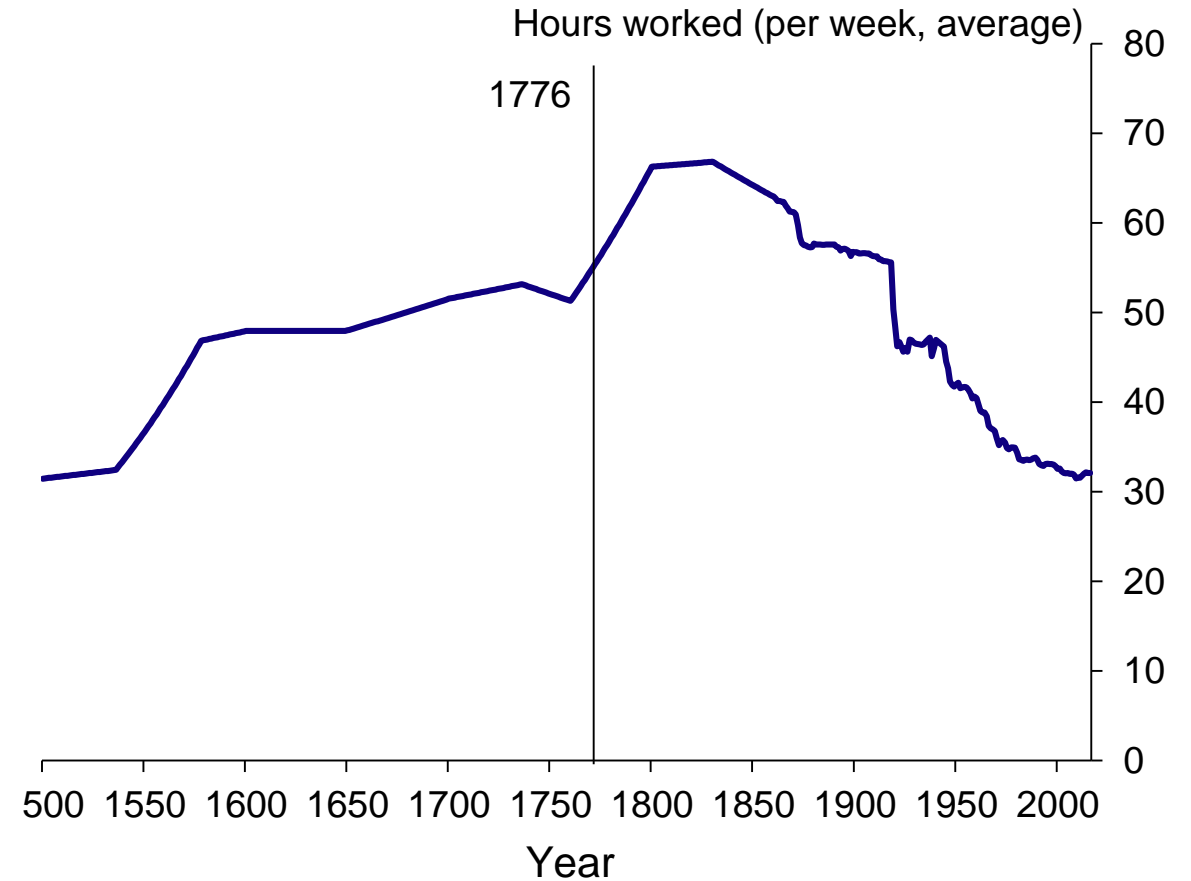


Sources: Our World in Data calculations, based on *Gapminder* data

Happiness



Source: Morris (2010, 2011).

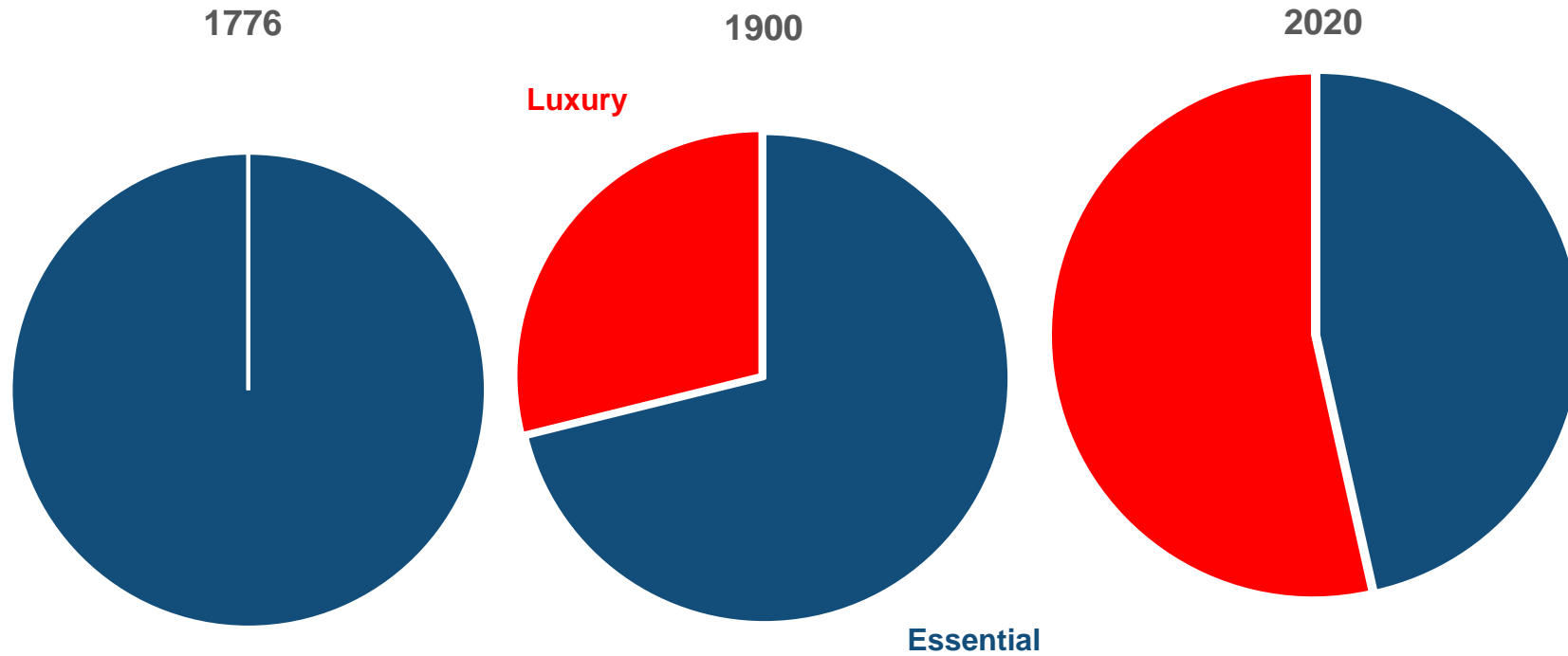


Sources: Bank of England Millennium of Data



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The Consumption Basket

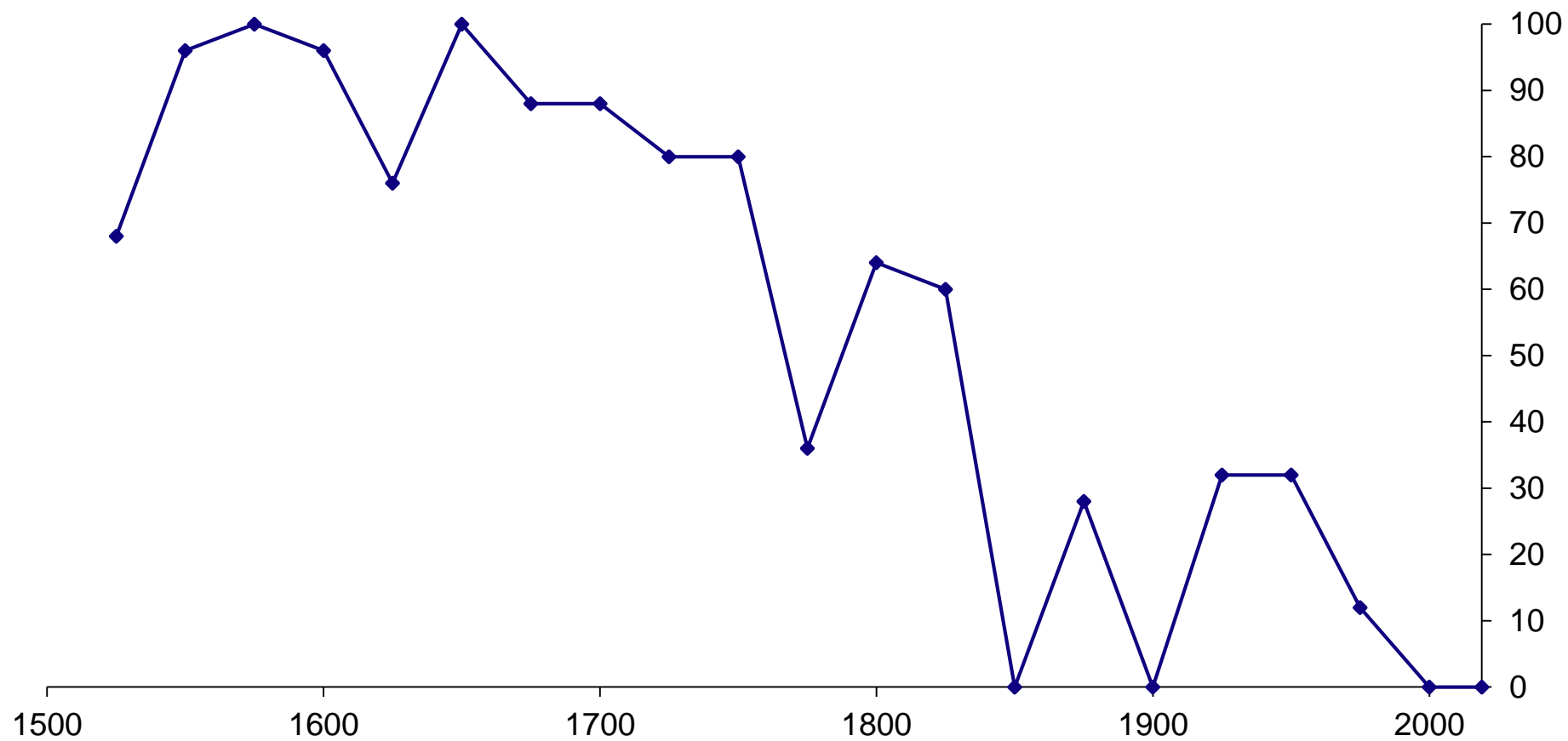


Sources: Bank calculations based on data from Feinstein (1998) for 1788, Feinstein (1991) for 1900, and ONS for 2020.



Political Economy

Percentage of years in which the 'Great Powers' fought one another



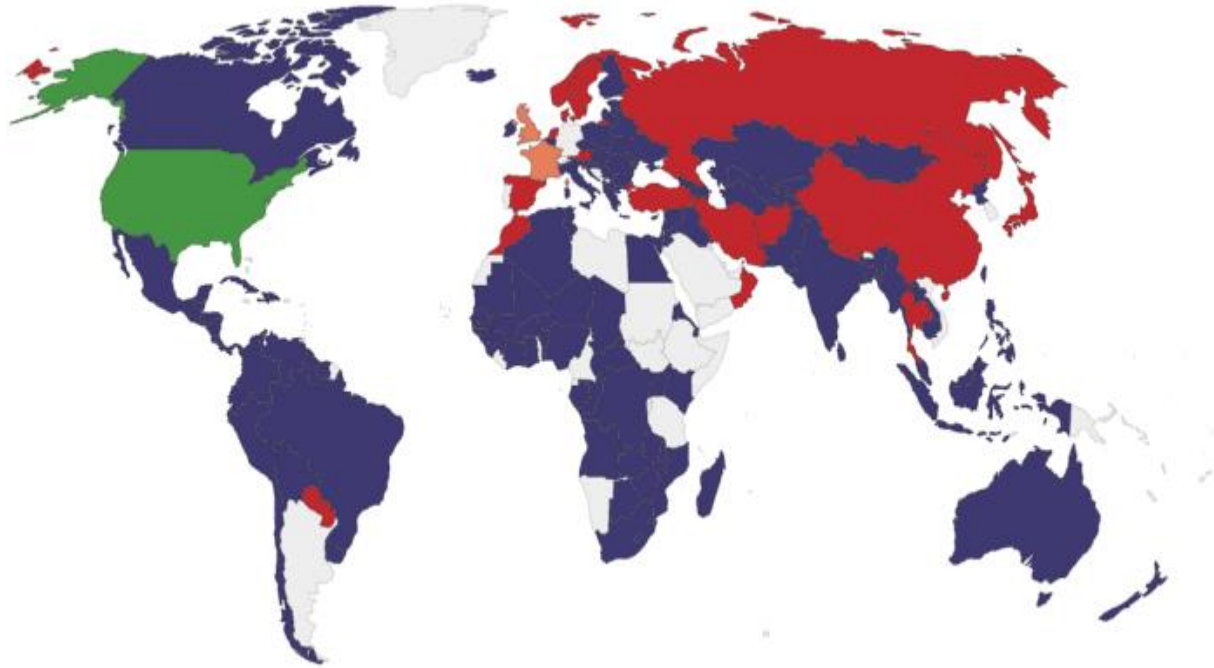
Sources: Levy (1992) and Bank calculations.



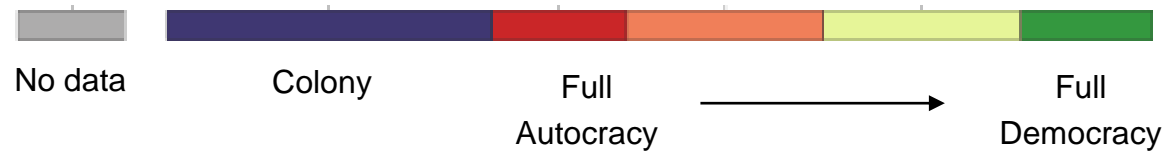
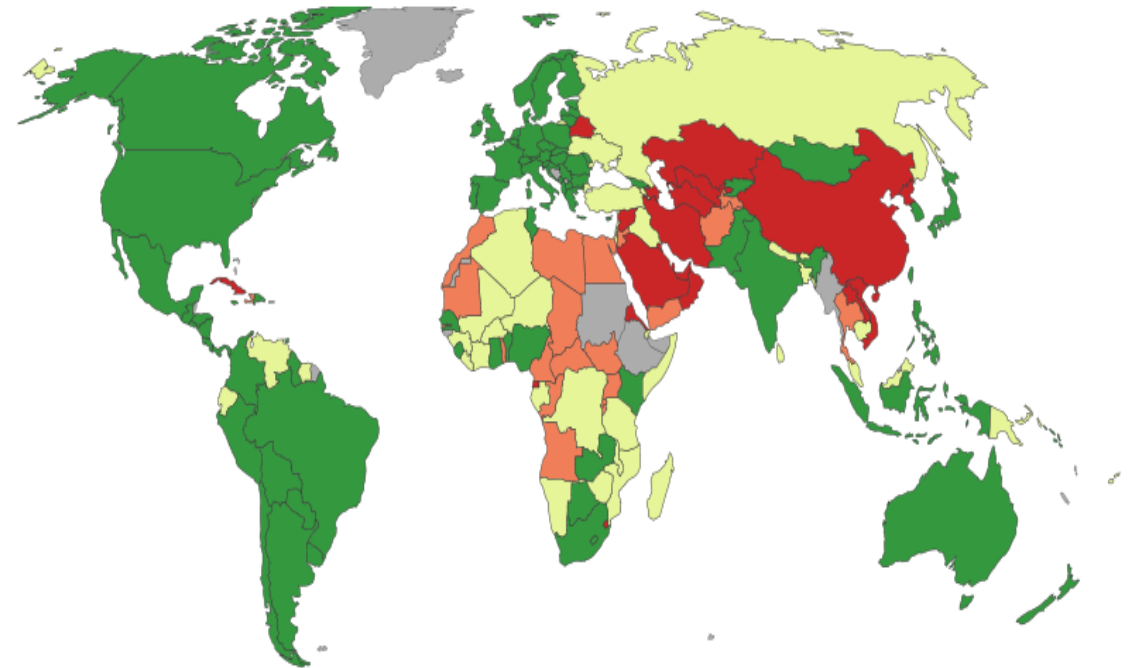
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Political Economy

1816



2015



Source: Our World In Data, Wimmer and Min (2006), Centre for Systemic Peace



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What Happened?

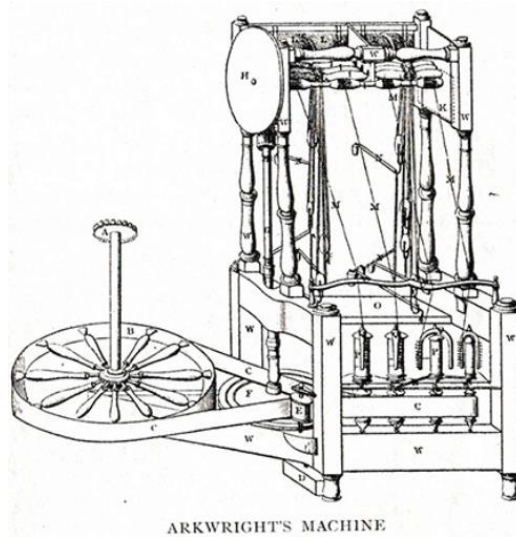
- Neo-classical story: *private innovation* inspires an (industrial) revolution

Spinning Jenny



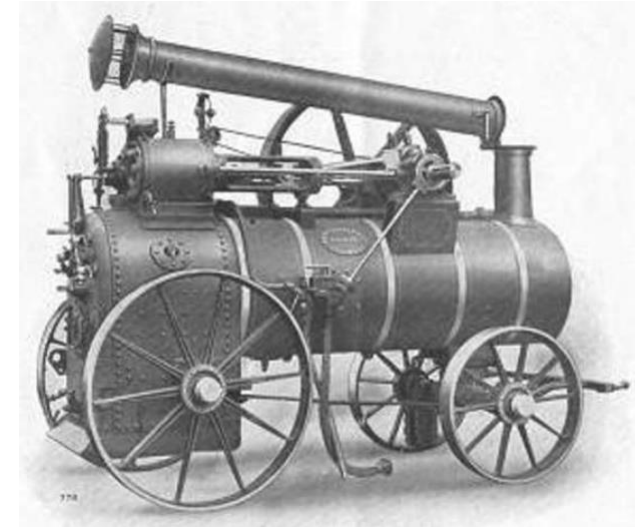
Hargreaves (1764)

Water Frame



Arkwright (1769)

Steam Engine



Watt (1775)



Problems with this Neo-classical Story

- How do we explain the inflection point?
 - The long history of innovation
- How do we explain the patterns of growth?
 - The long history of booms and busts



Timeline of Innovation

12th C



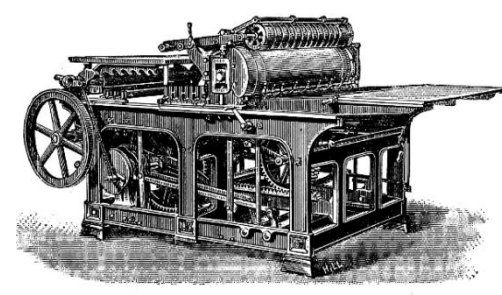
13th C



14th C



15th C



16th C



17th C

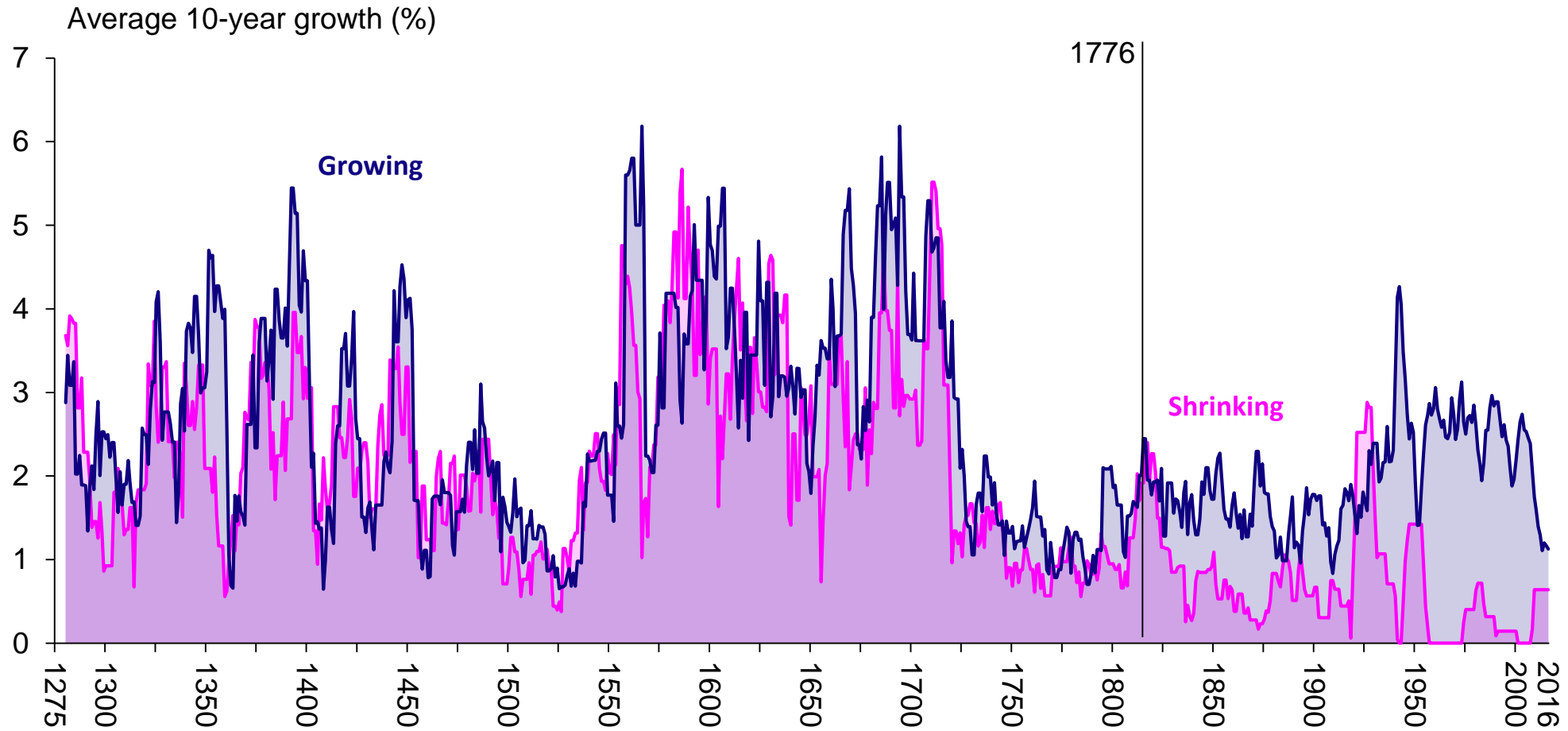


18th C



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Long-Run Growth Decomposed



Sources: Broadberry and Wallis (2017) and Bank calculations



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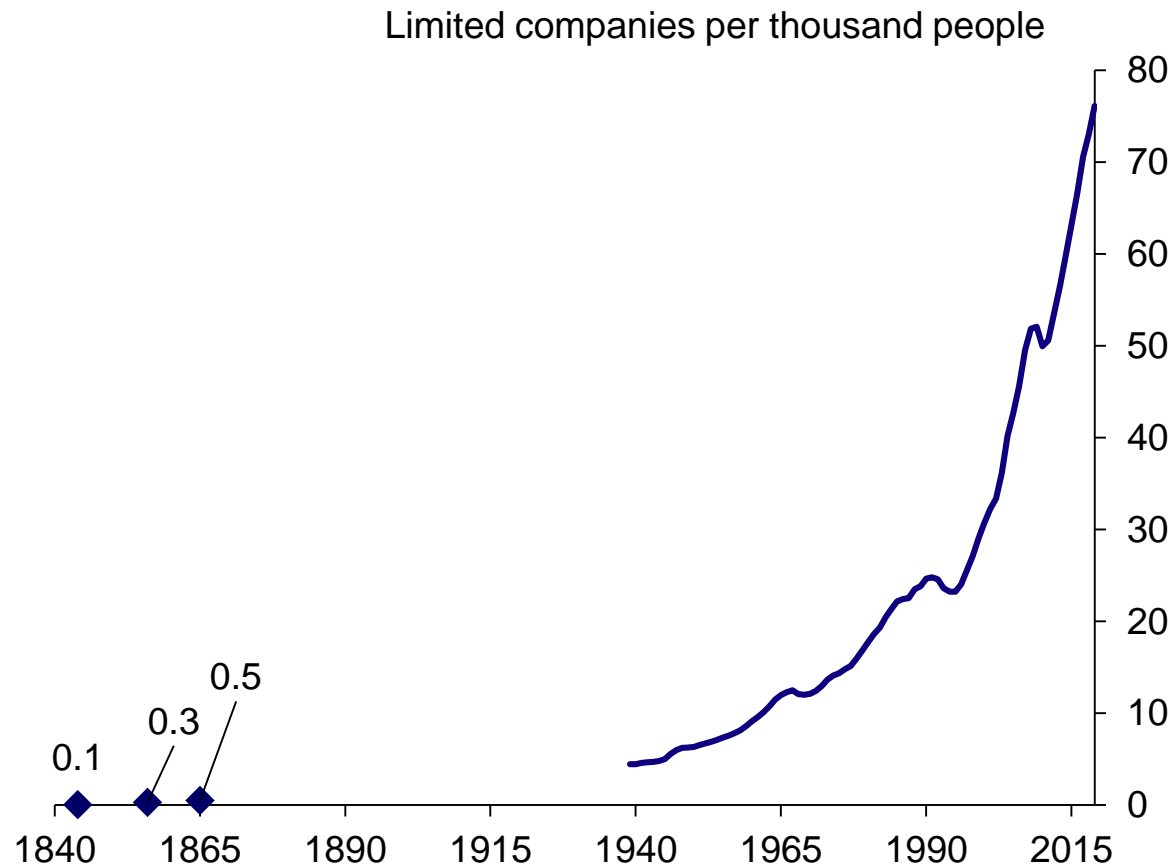
Six Pillars of Success

- *Private, public and third* sectors – mutually-supporting
- *Institutions* as much as innovation explained the Golden Era
 - Public limited company
 - Limited liability banking
 - Measurement systems
 - Public education
 - Public infrastructure
 - Civil society



The Rise of the PLC

Companies in the UK

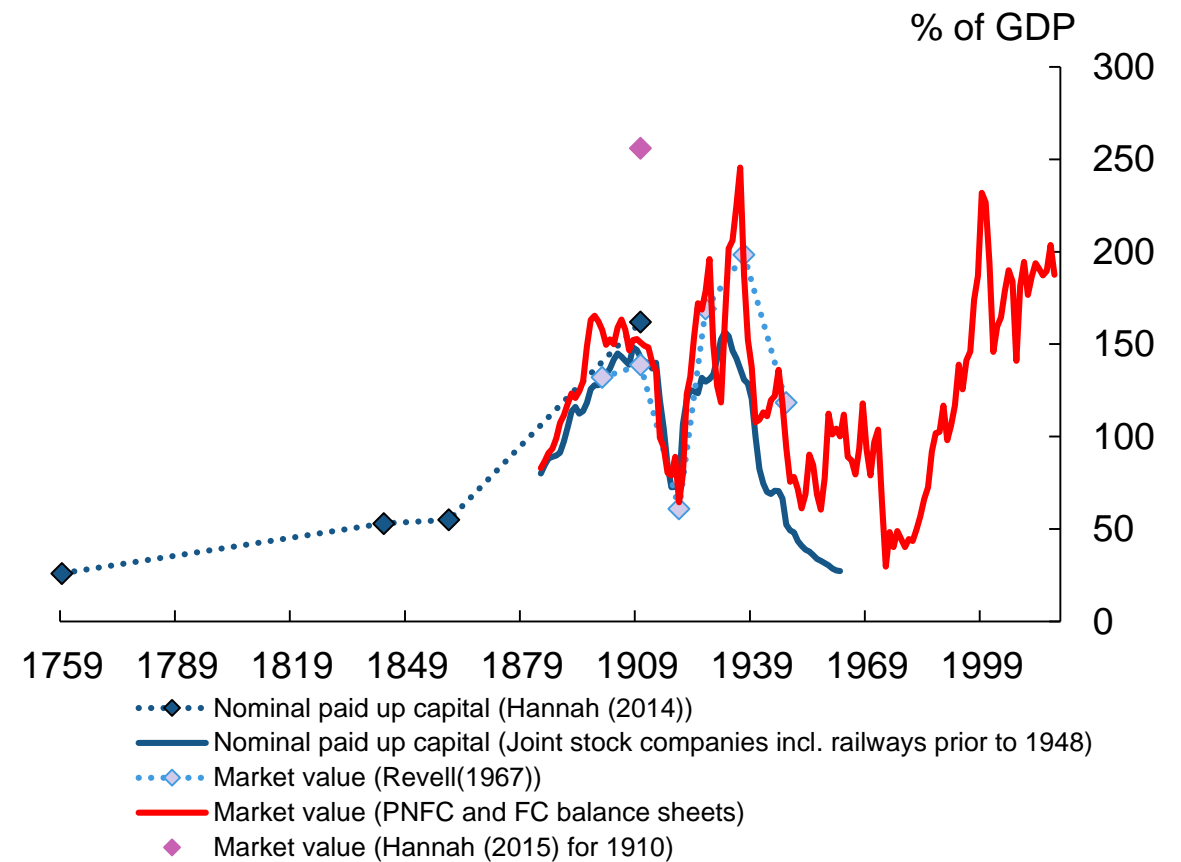


Sources: Company data from Companies House (1939-2018) and Levy (2014) for 1844-1865. Population data from Bank of England Millennium of Data.



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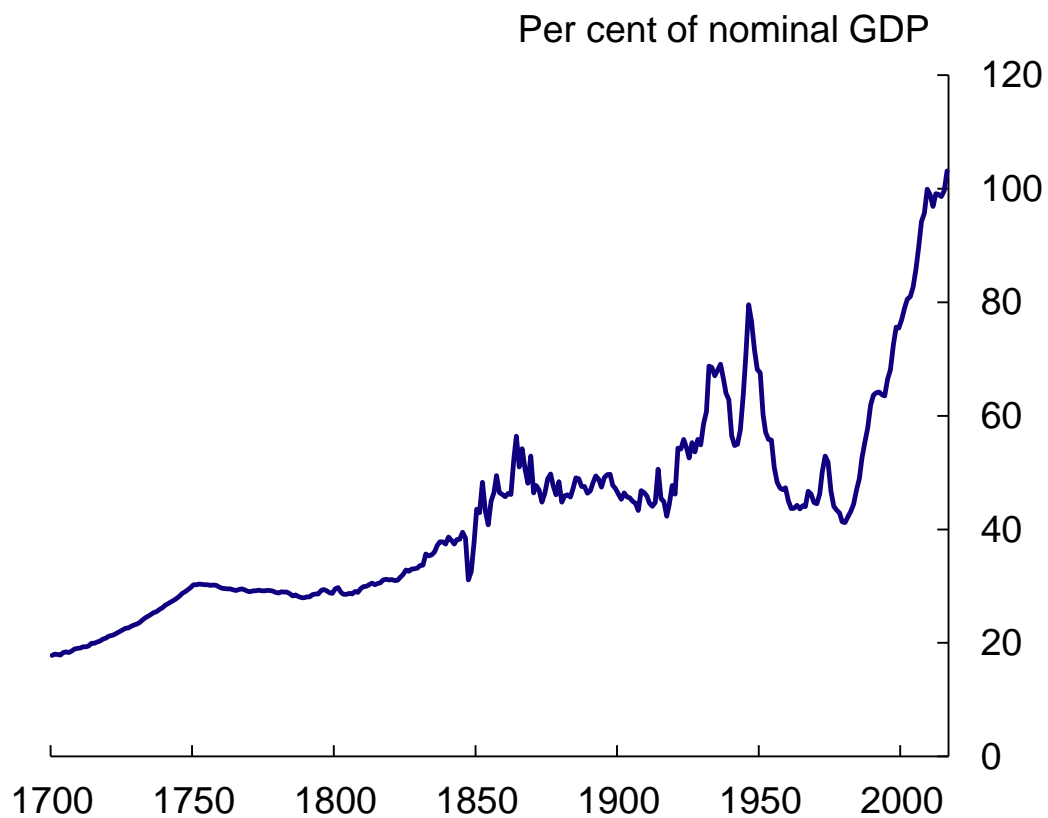
Corporate equity



Sources: Revell (1967), Solomou and Weale (1997), Hannah (2014, 2015), Thomas and Dimsdale (2017), ONS and Bank calculations.

The Rise of Banking

Broad money (% of GDP)

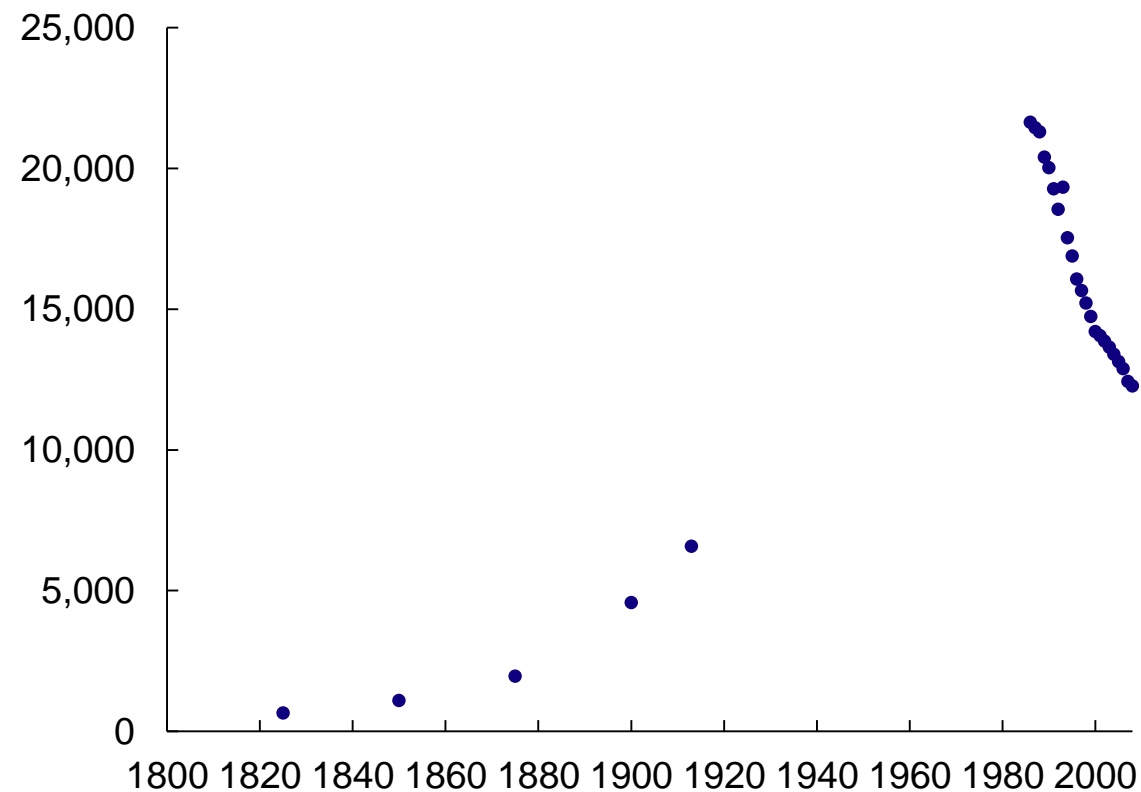


Source: Bank of England Millennium of Data.



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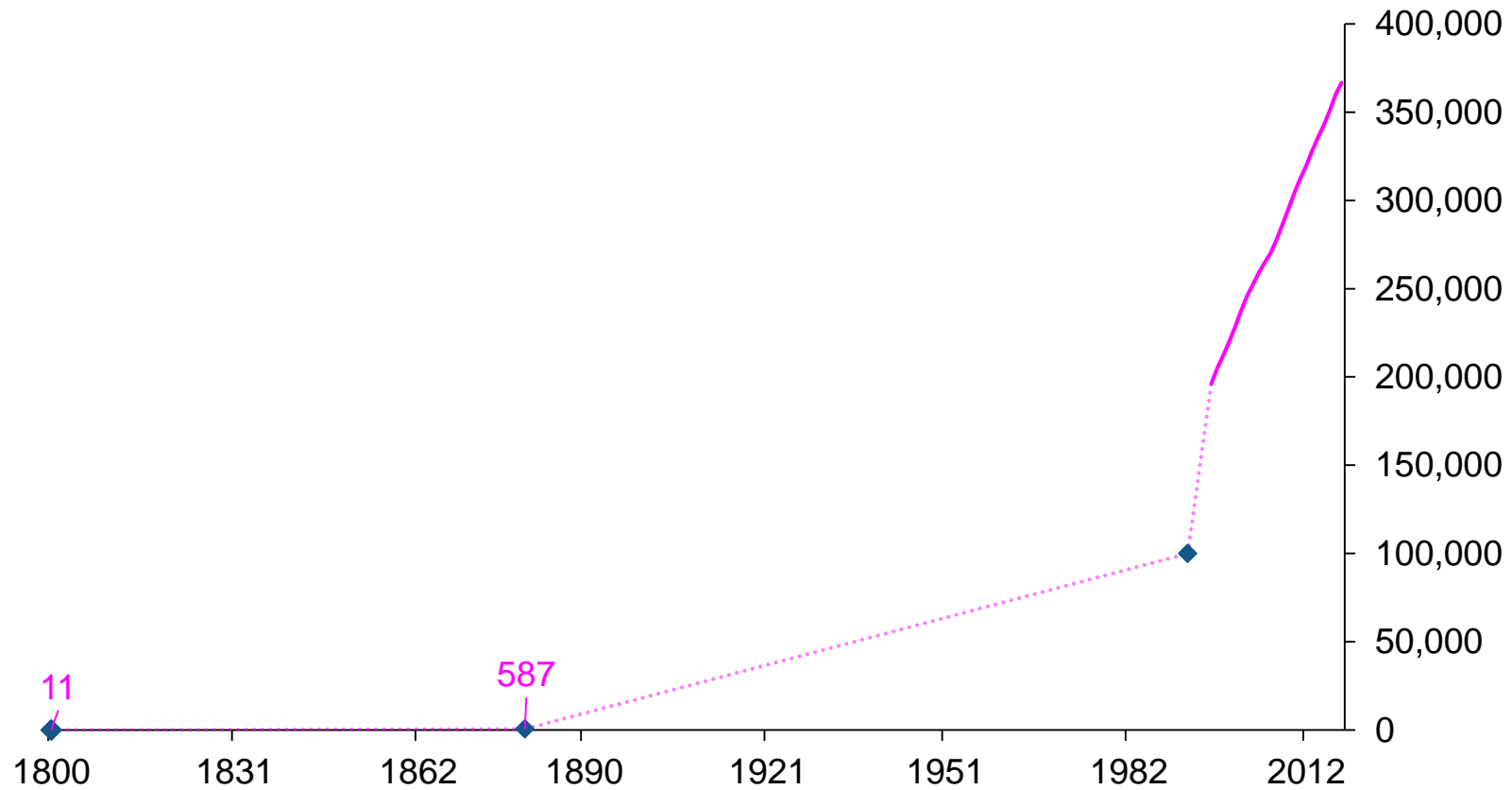
Number of bank branches



Sources: Collins, M., & Baker, M. (2003) for 1850-1913 and House of Commons Library (2020) for 1986-2019

Measurement Systems - The Rise of the Auditor

Number of accountants

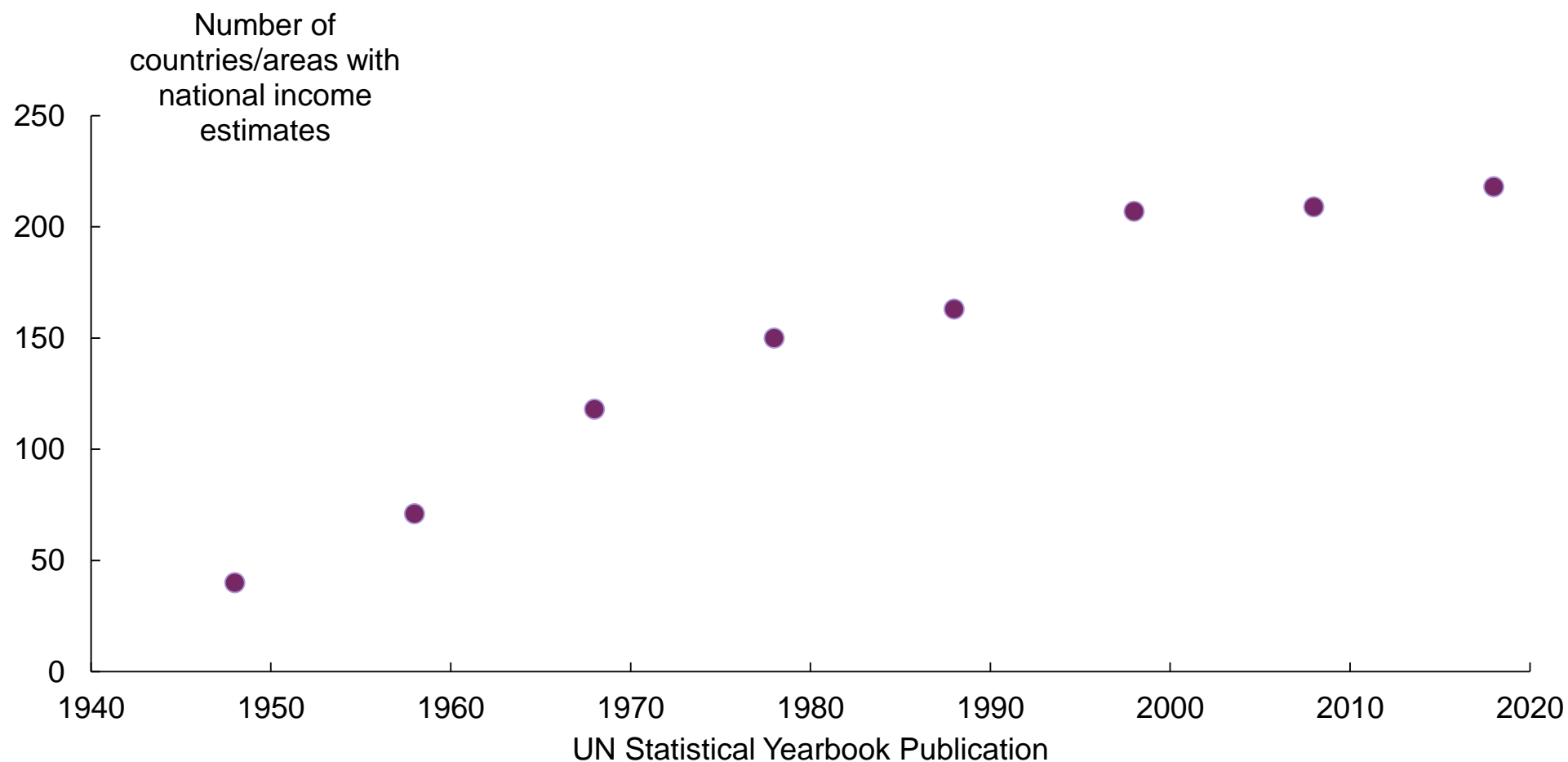


Sources: Haldane (2010), ICAEW (2012) and Financial Reporting Council (2019)



Measurement Systems - The Rise of GDP

Number of countries with GDP/income estimates in UN statistical accounts



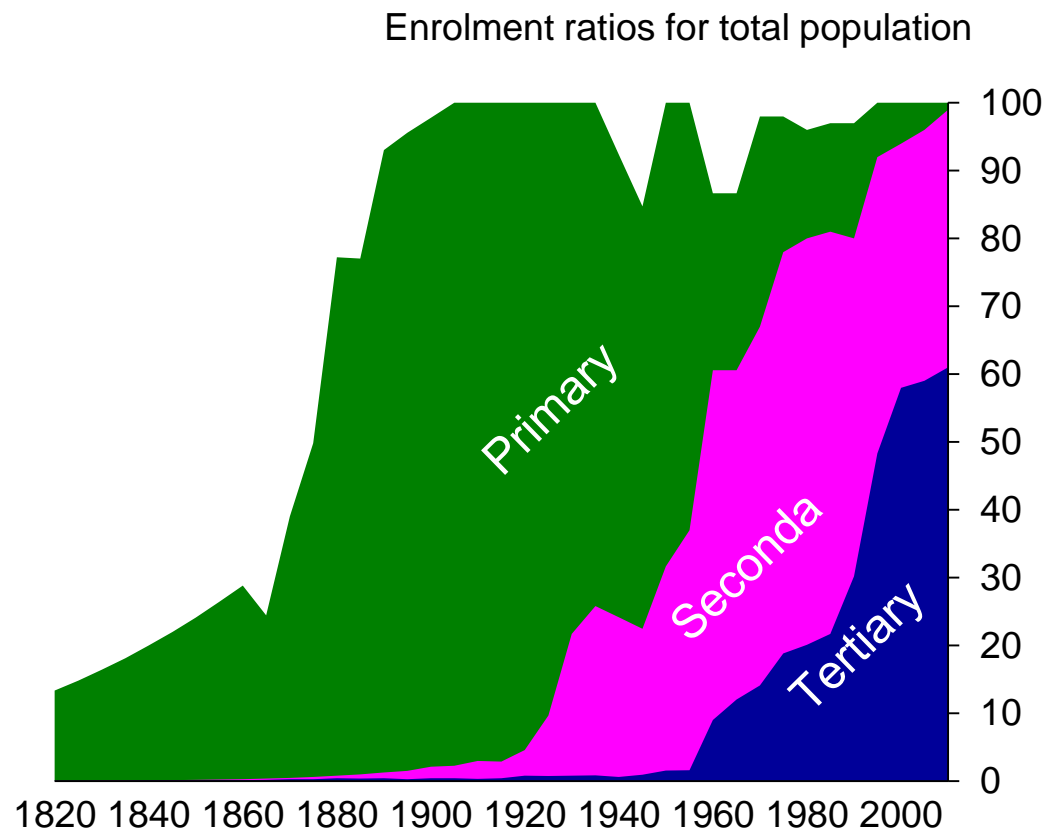
Sources: United Nations and Bank calculations.



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The Rise of Public Education

Participation

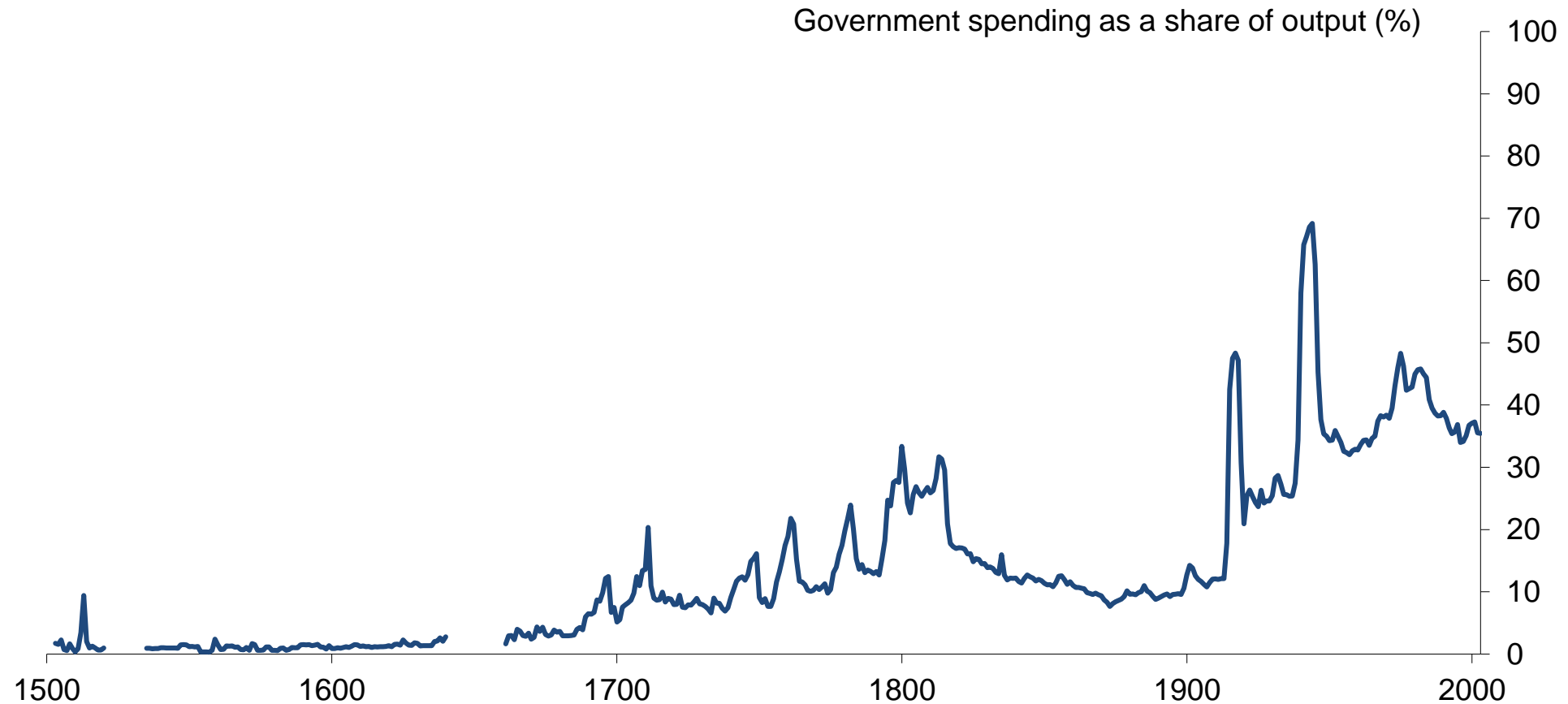


Source: Barro and Lee (2016).



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The Rise of Public Spending



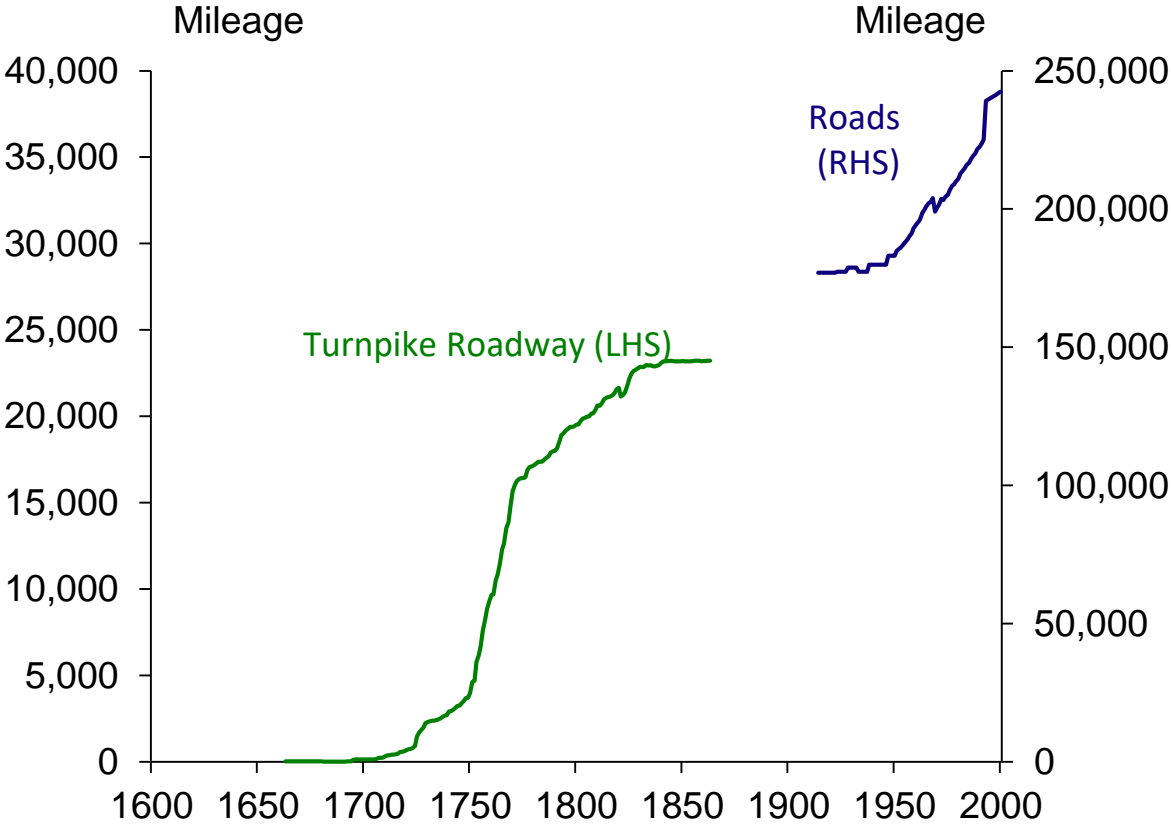
Source: Clark (2009).



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The Rise of Transport

Roads

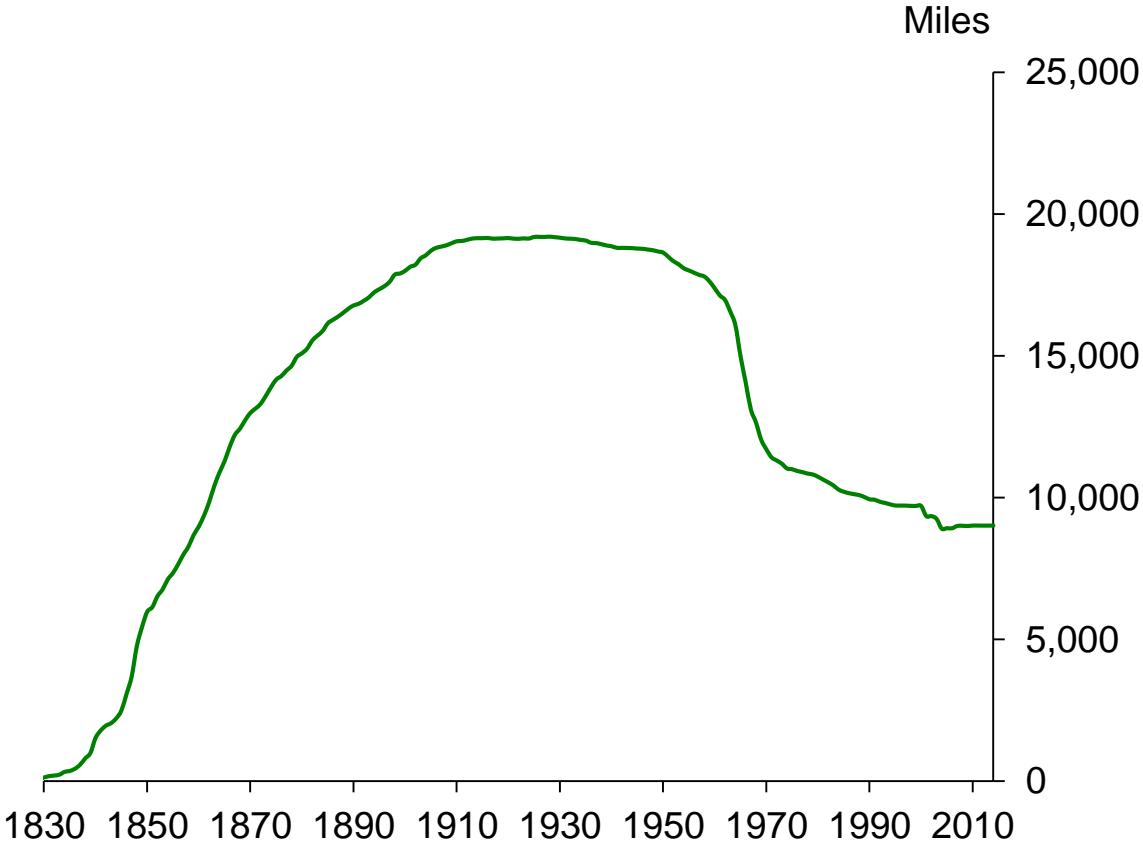


Source: Cambridge Group for the History of Population and Social Structure (LHS), and Department for Transport (RHS)



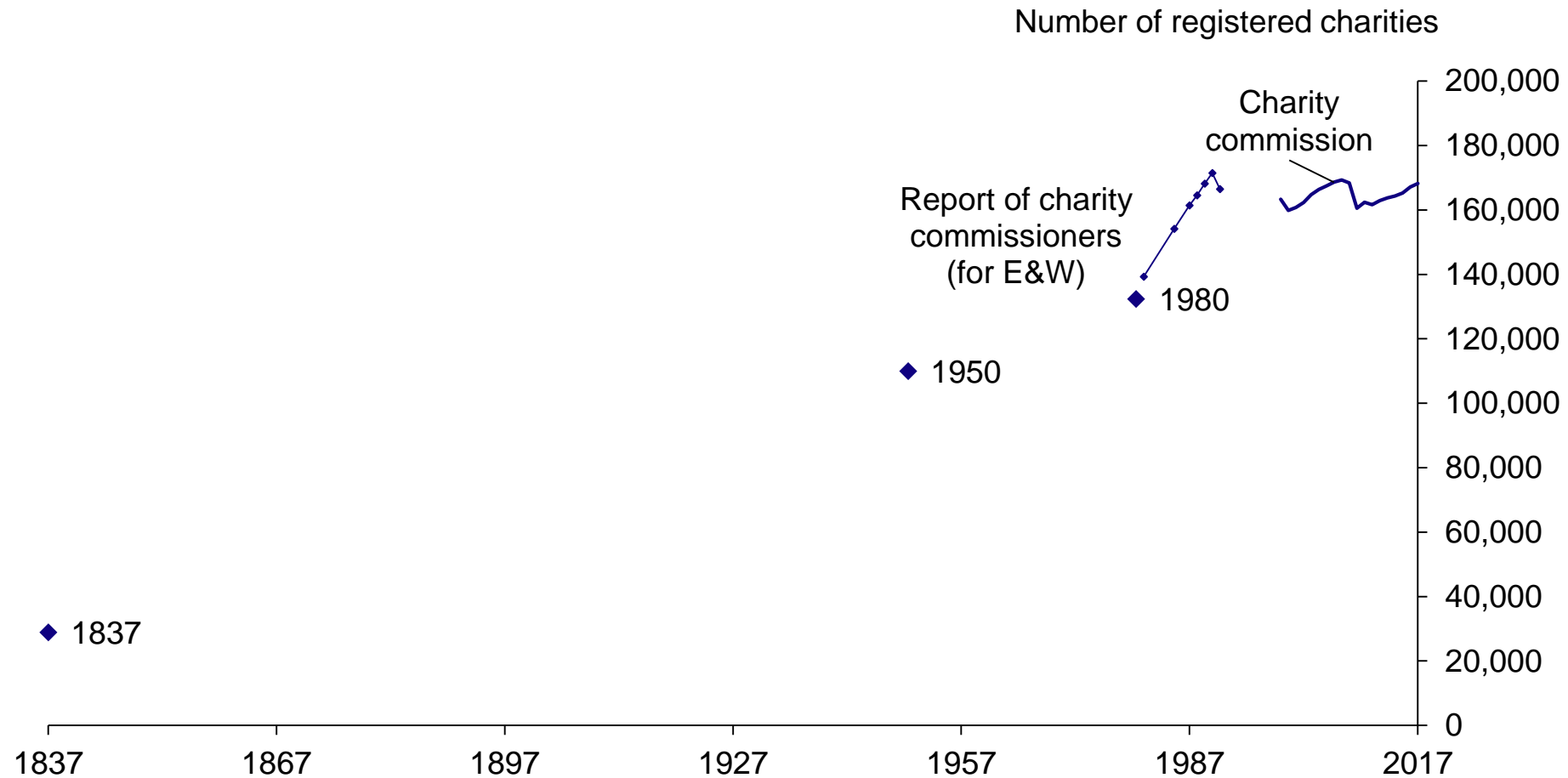
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Rail



Source: Cambridge Group for the History of Population and Social Structure and Office of Rail and Road.

The Rise of Charities



Sources: Nathan Report (1952) for 1837 and 1950, Report of charity commissioners for England & Wales (various) for 1980 to 1991, and Charity Commission (2019)



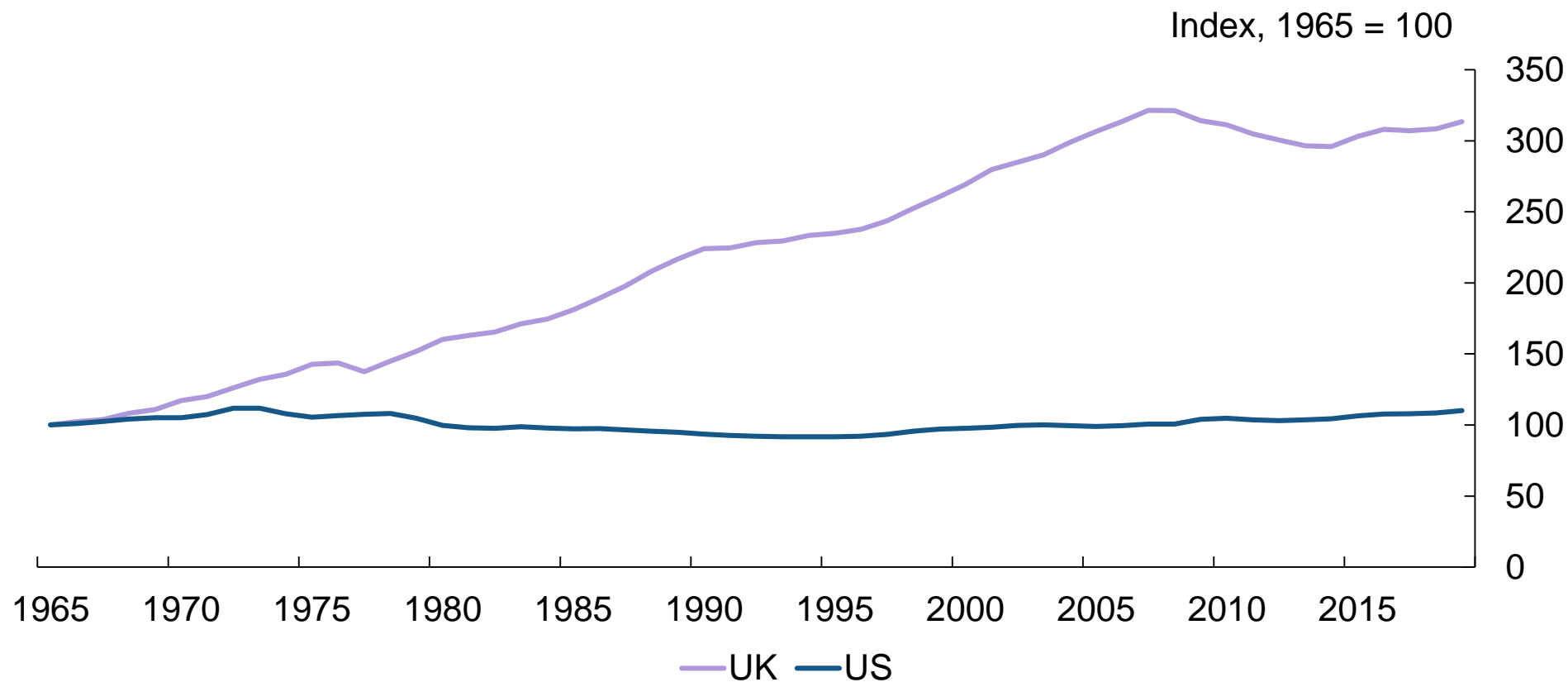
Enlightenment Now?

- Wealth, health, happiness no longer ascending for everyone
- Signs of erosion of the six pillars
- From “Age of Enlightenment” to “Era of Anxiety”
- ‘Market economy’ model – “capitalism” – being questioned



Wage Stagnation

Real wages



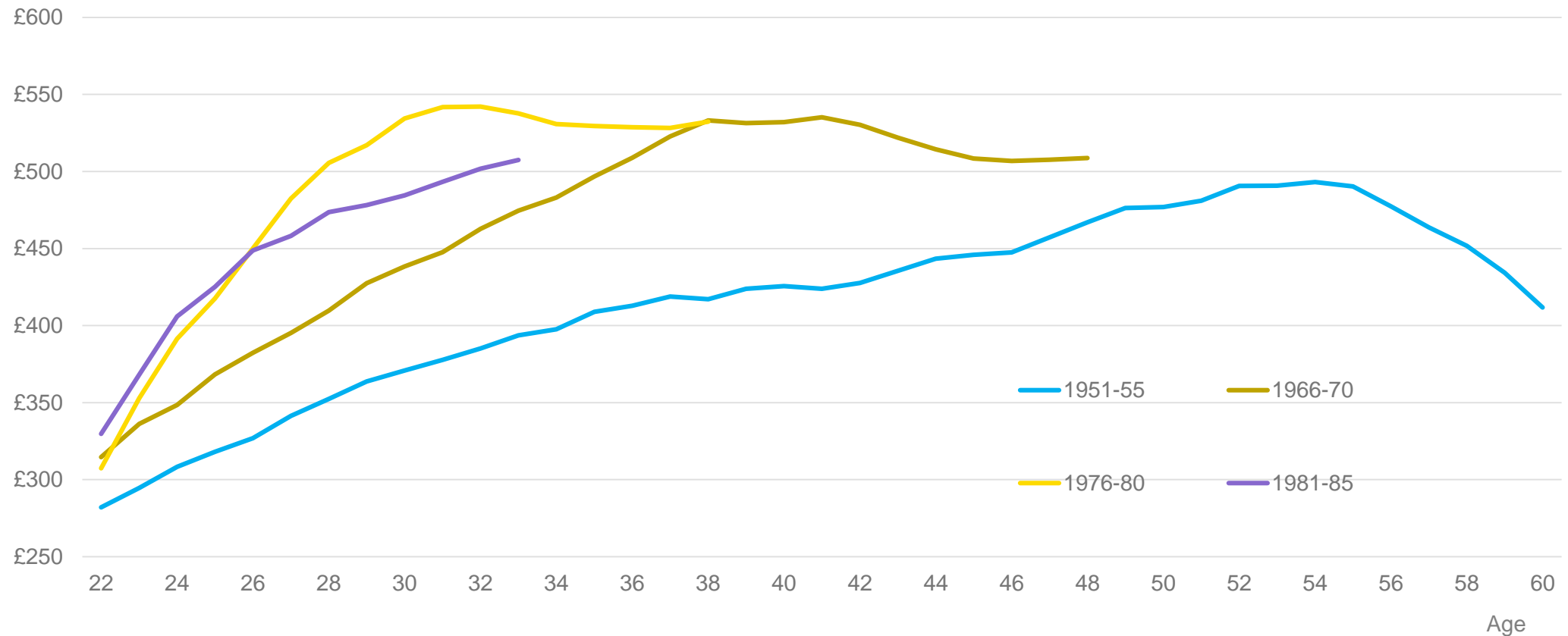
Sources: US Bureau of Economic Analysis, ONS and Bank calculations.



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Wage Stagnation

Median real weekly employee pay (CPIH-adjusted to 2018 prices), by age and cohort, 1975-2018



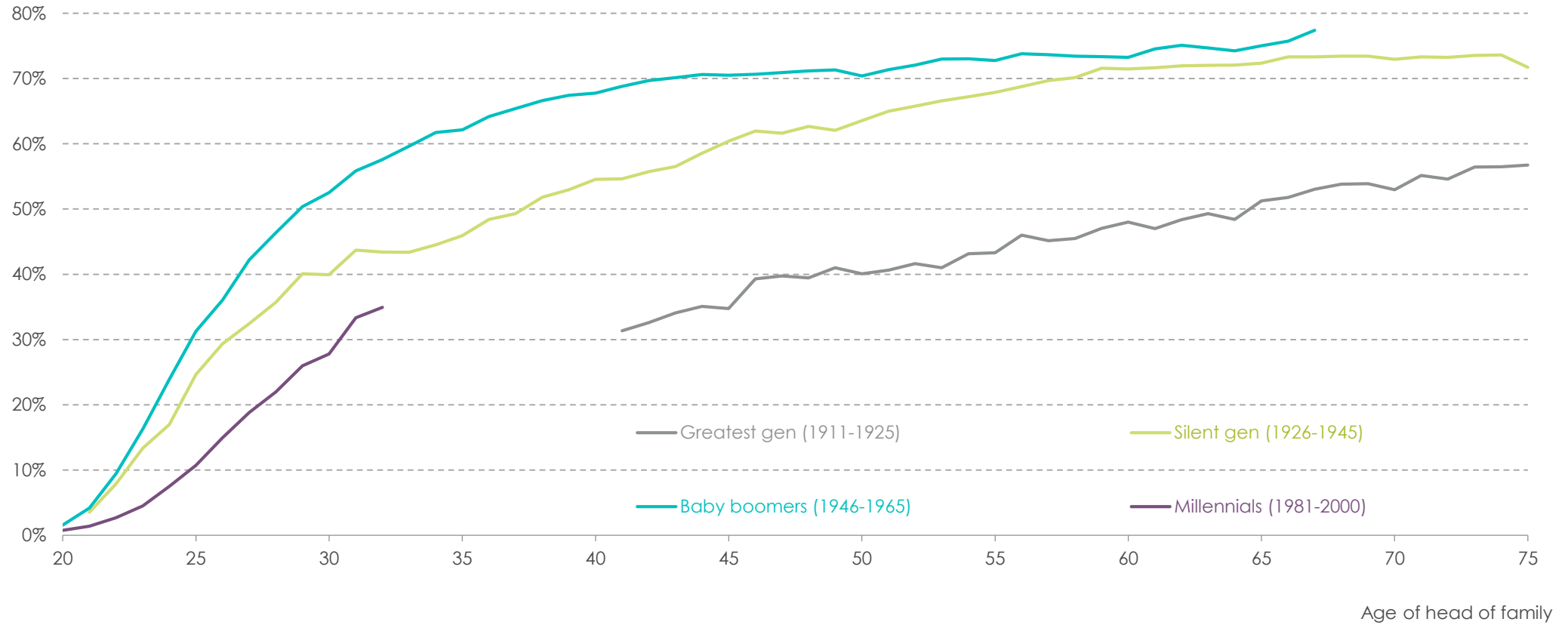
Source: Resolution Foundation (2018).



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Falling Home Ownership

Home ownership rates, by age and generation: UK: 1961-2017

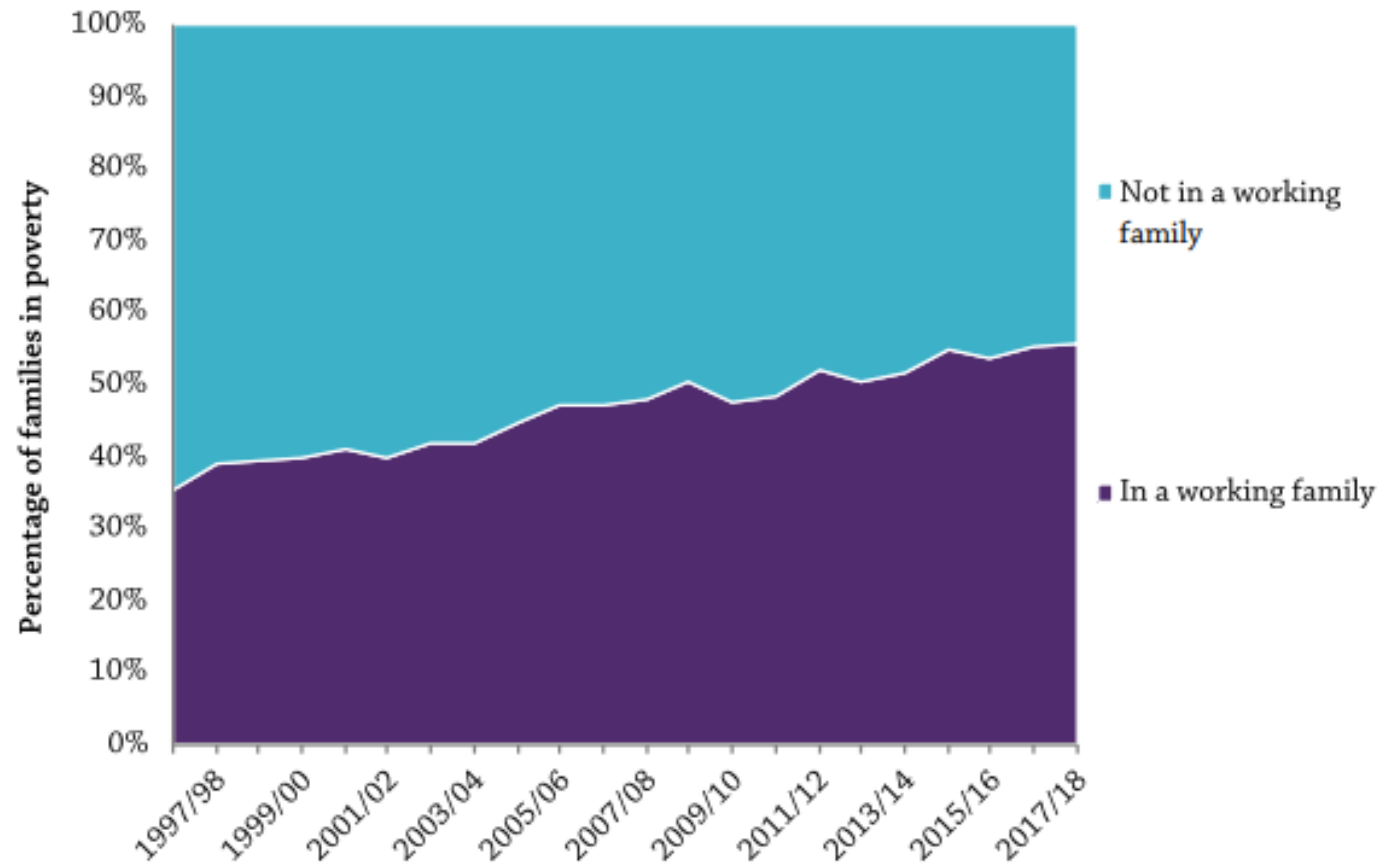


Source: Resolution Foundation (2018).



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(In-work) Poverty Rising?

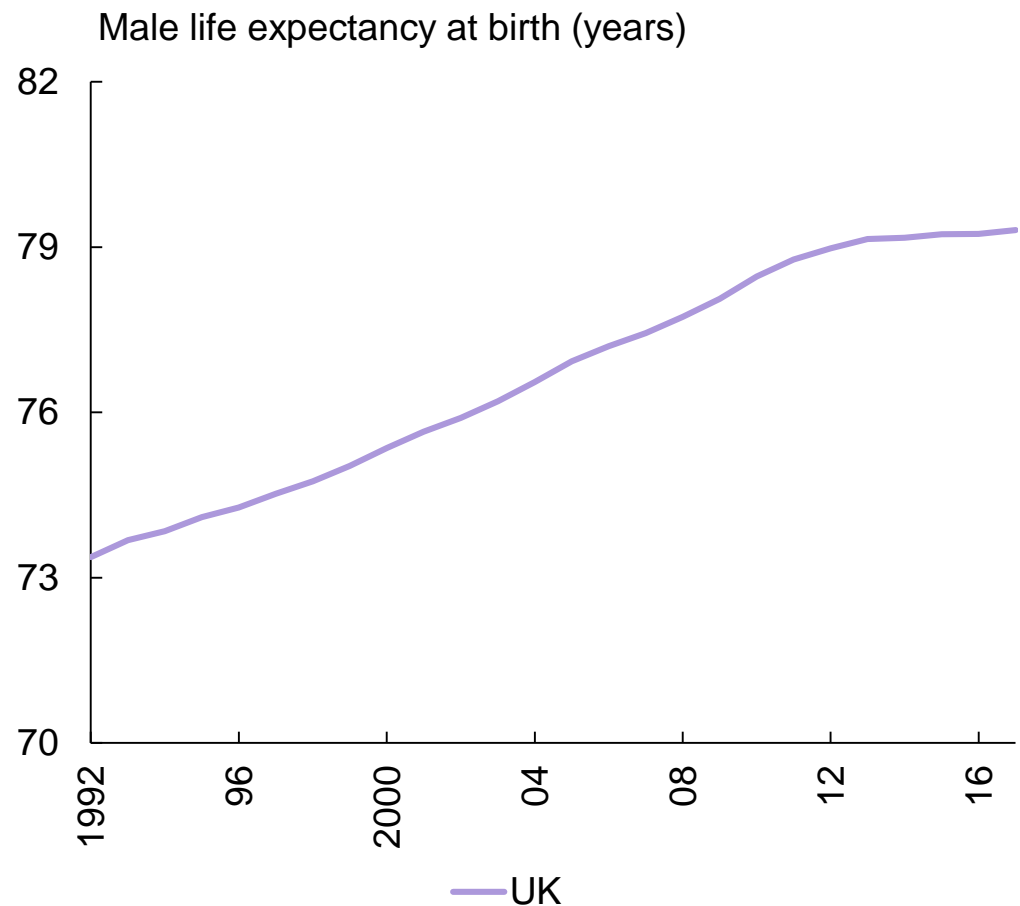


Source: Joseph Rowntree Foundation (2020).



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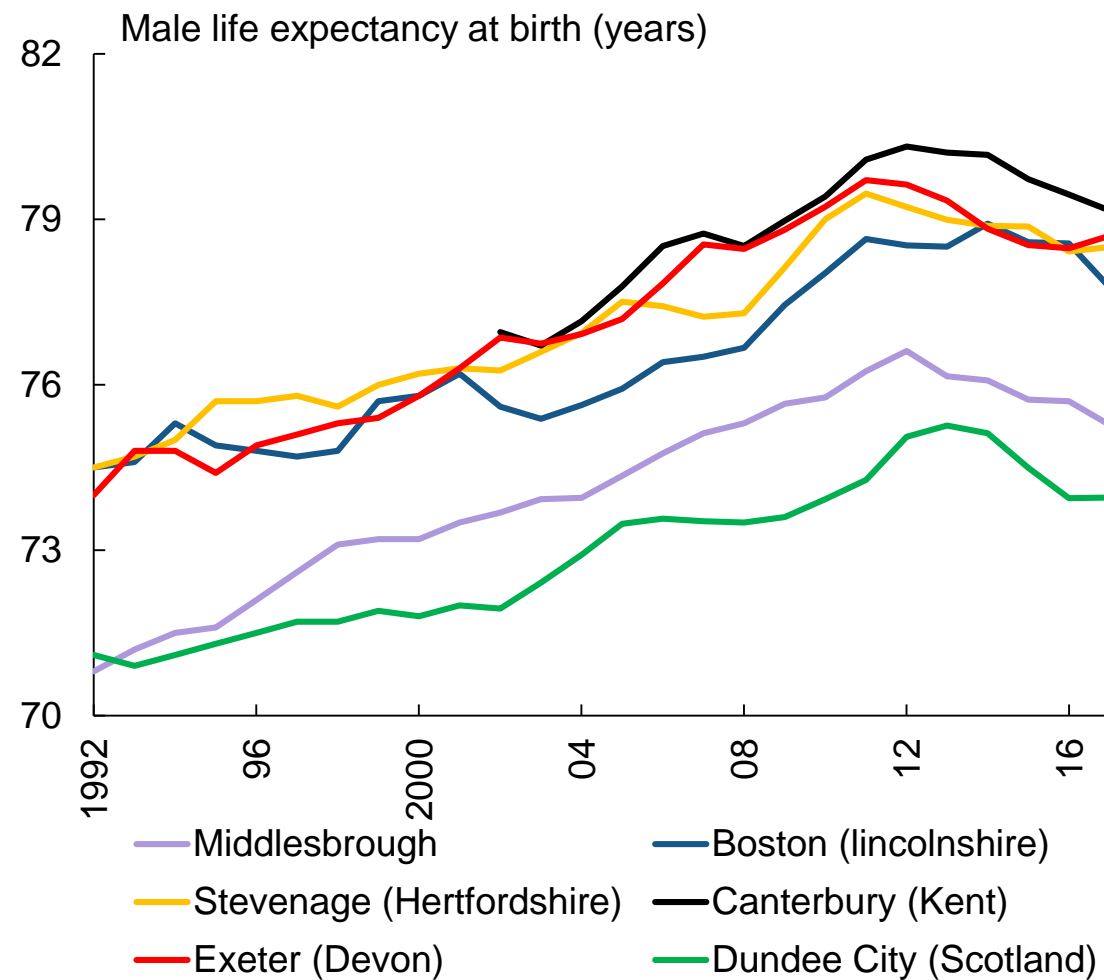
Peak Health?



Source: ONS.



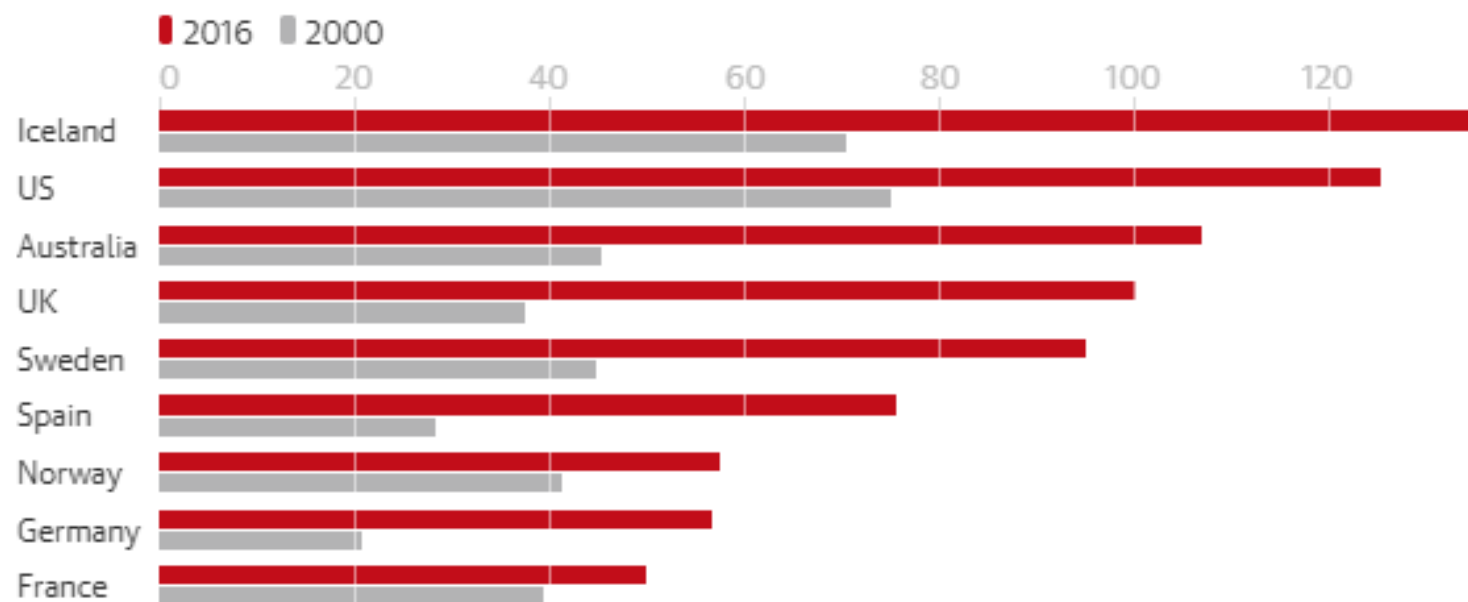
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Peak Health?

Prescriptions for anti-depressants

Defined daily dosage per 1,000 people per day

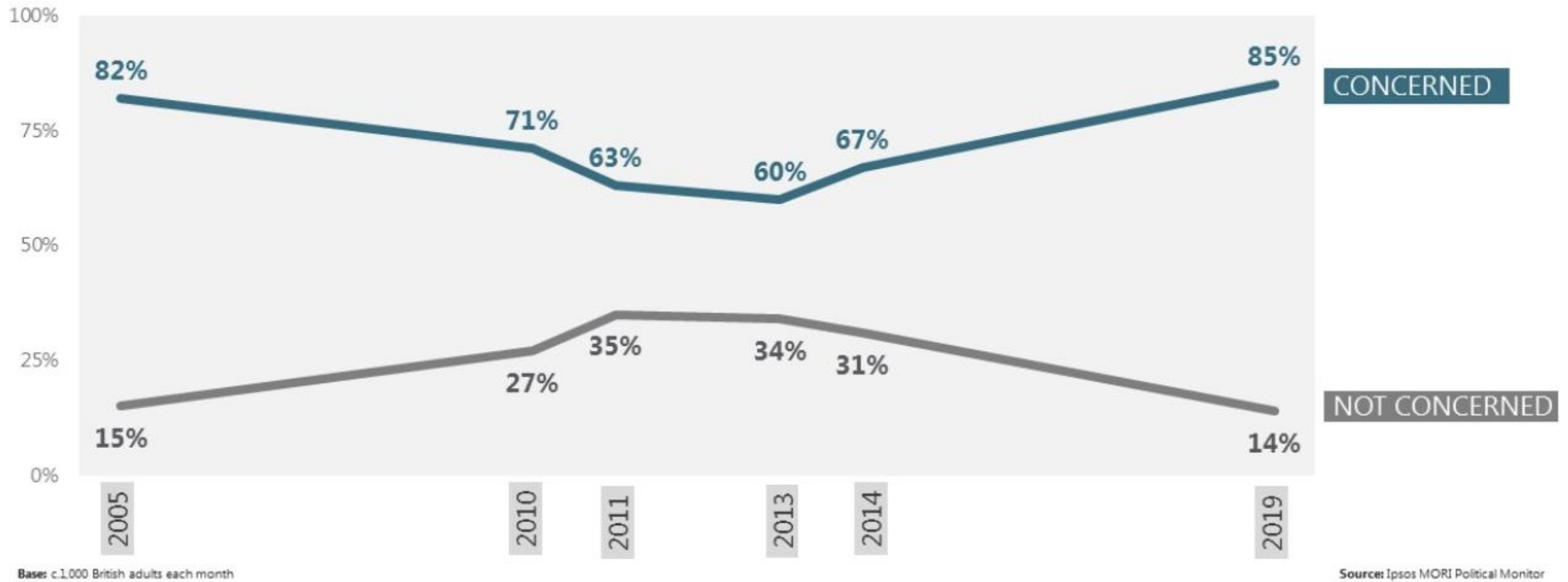


Guardian Graphic | Source: OECD. Note: According to the World Health Organization, defined daily dosage is the assumed average maintenance dose per day for a drug used for its main indication in adults

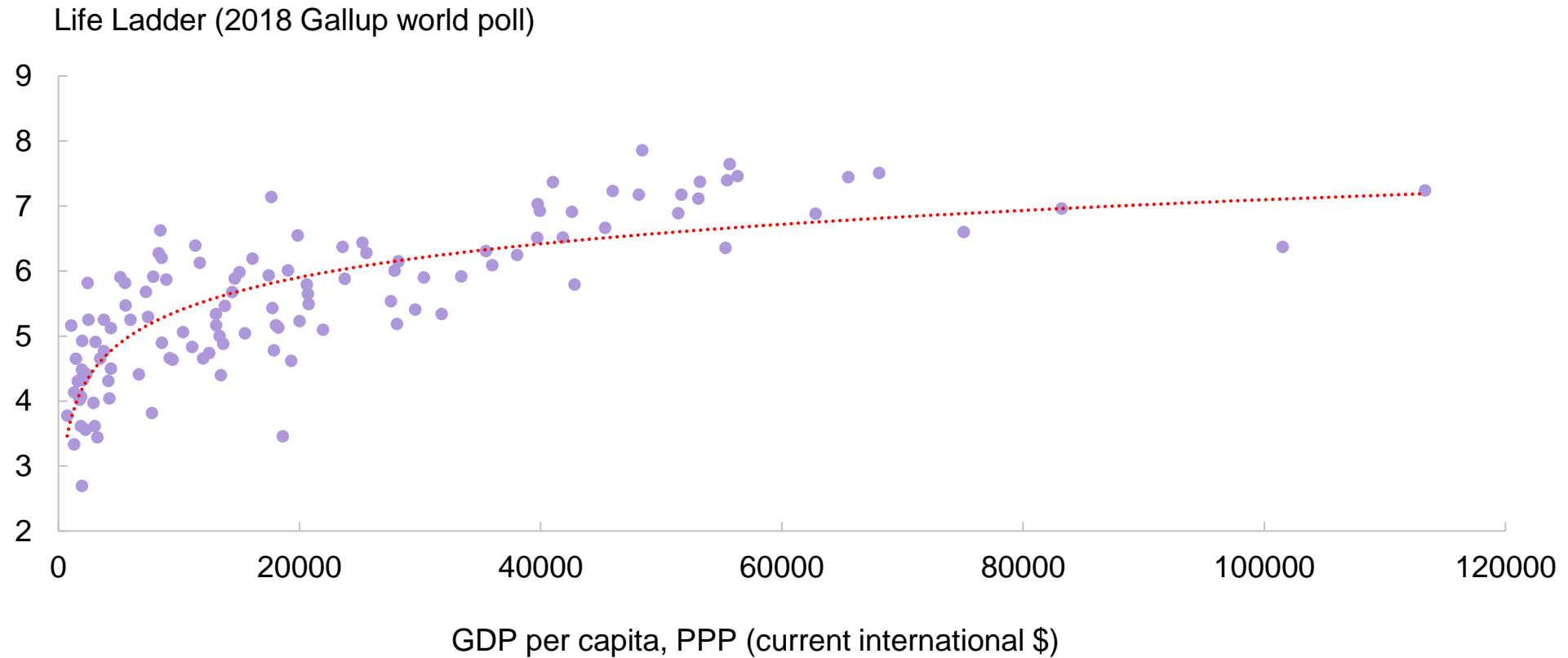


Peak Climate?

How concerned, if at all, are you about climate change?



Peak Happiness? - Easterlin Paradox



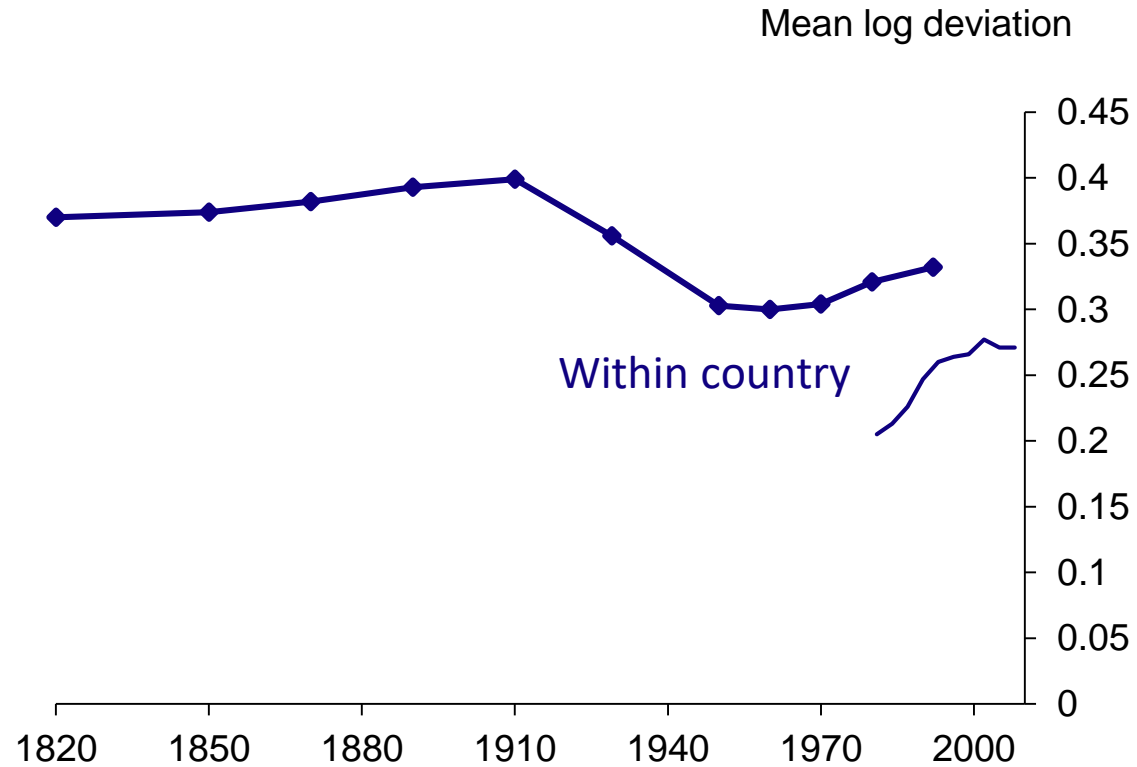
Sources: Gallup and OECD



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Rising Inequality?

Within Country

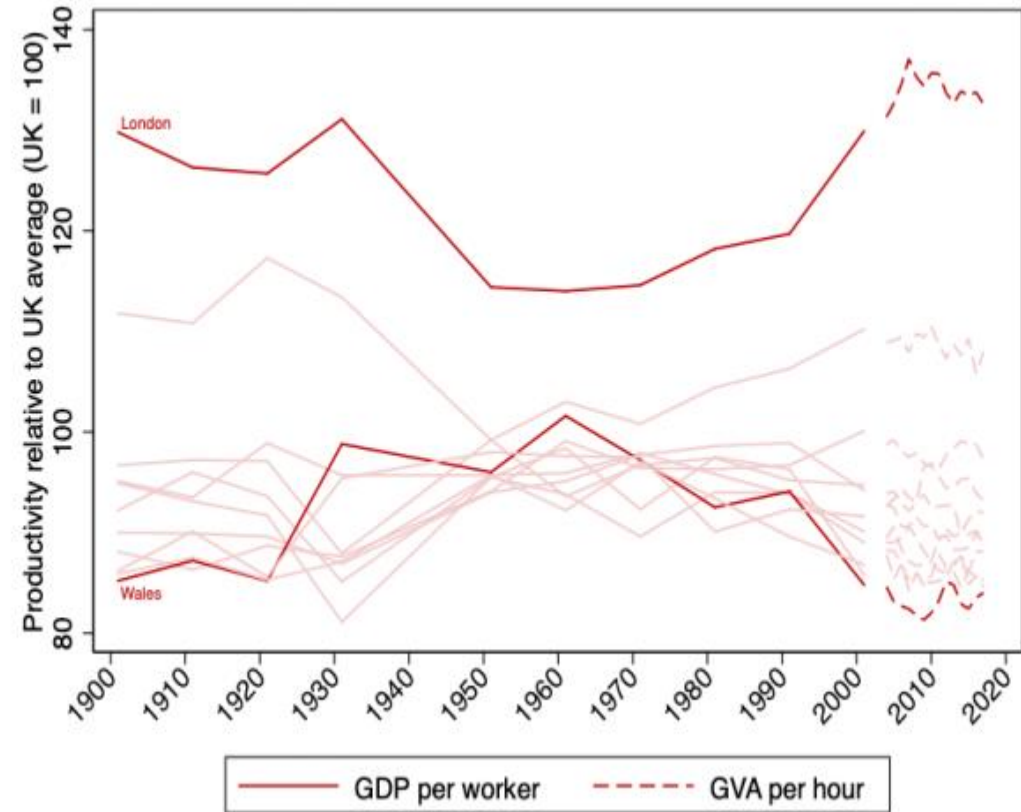


Sources: Bourguignon and Morrisson (2002) for 1820-1992, Ravallion and Chen (2012) for 1981-2008



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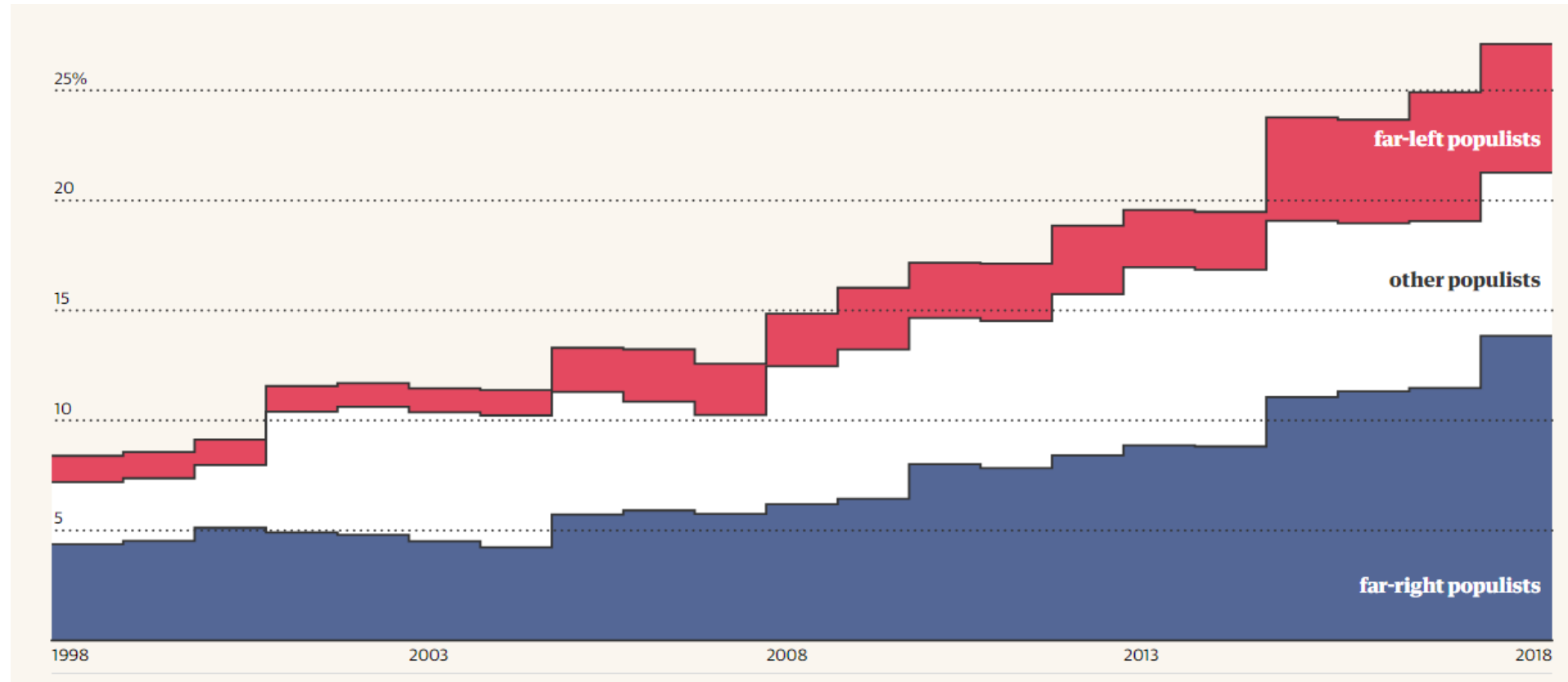
Regional Inequality in UK



Source: Industrial Strategy Council (2020).

Rising Populism?

Populist vote share in Europe

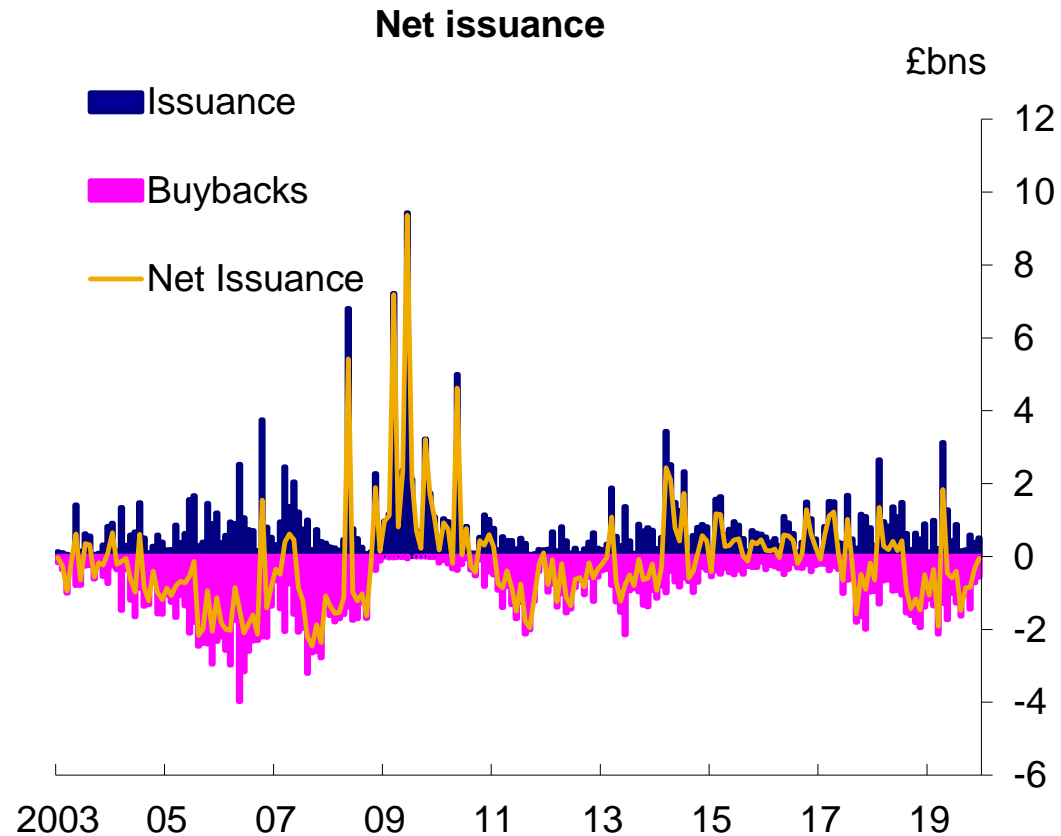


Source: The Guardian.



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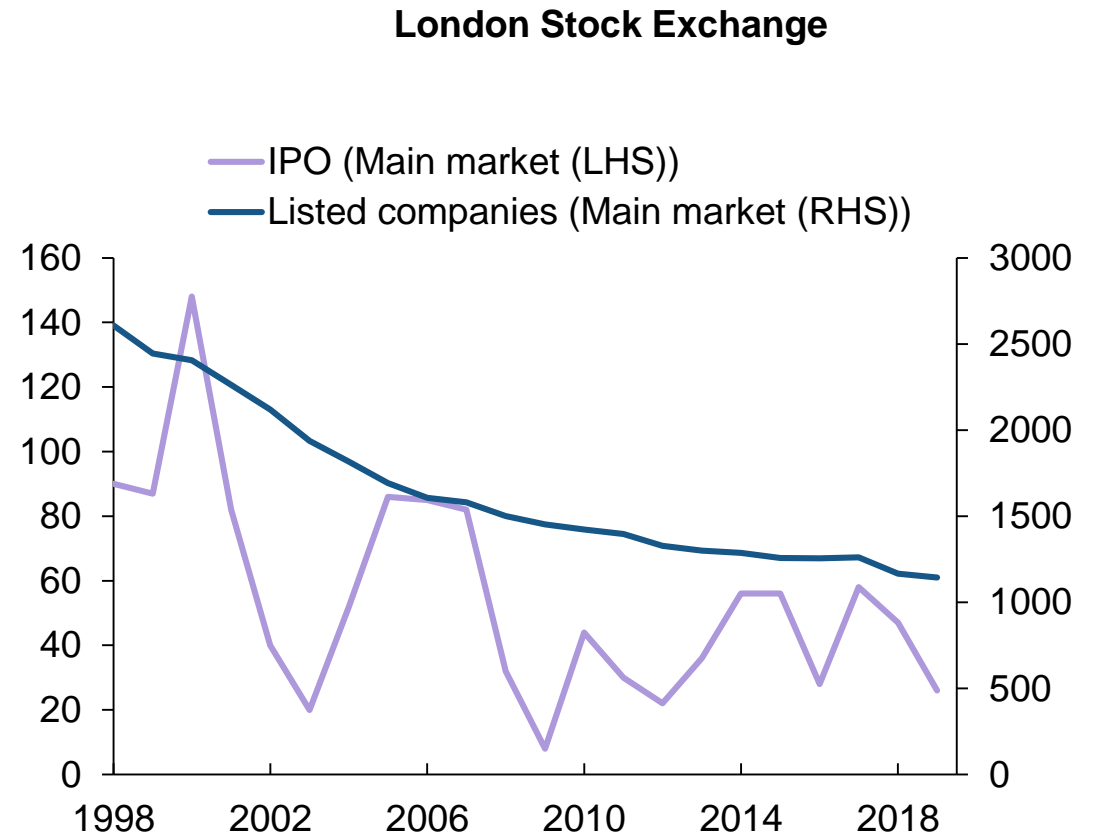
Death of the Public Company?



Source: Bank of England and Bank calculations.



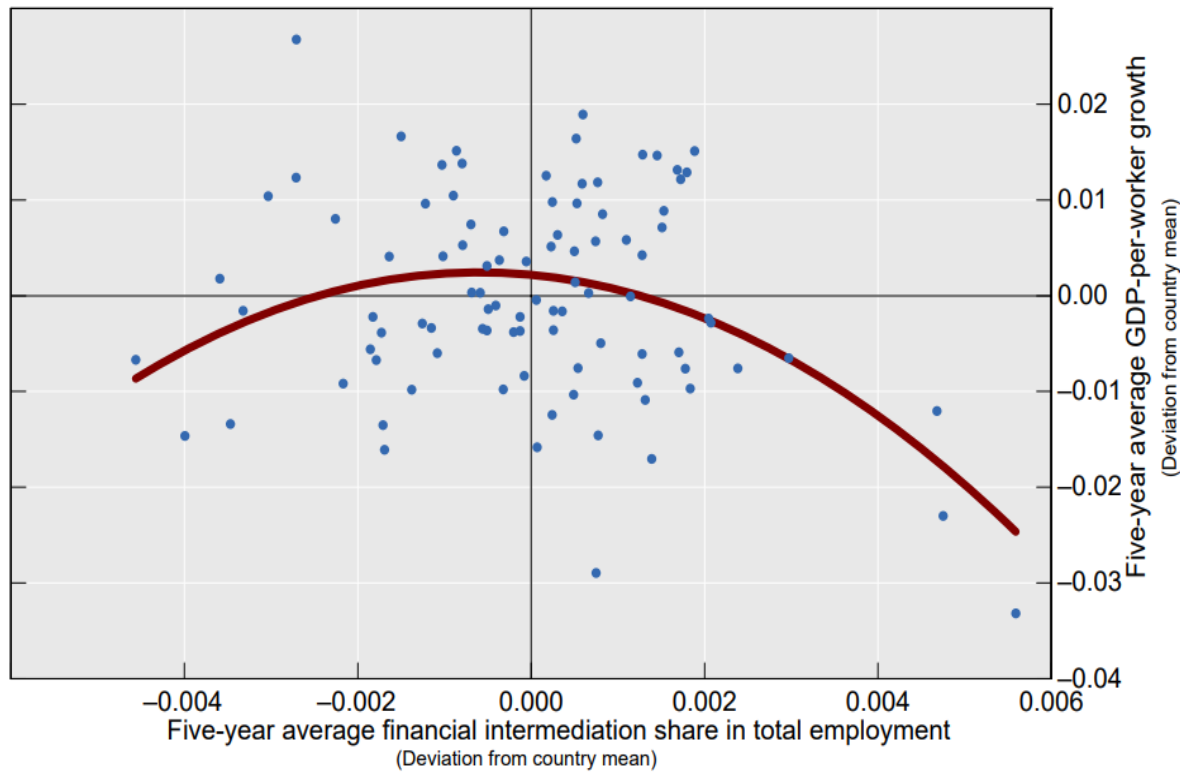
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Source: London Stock Exchange and Bank calculations.

Banking for Everyone?

Financial sector share in employment and growth

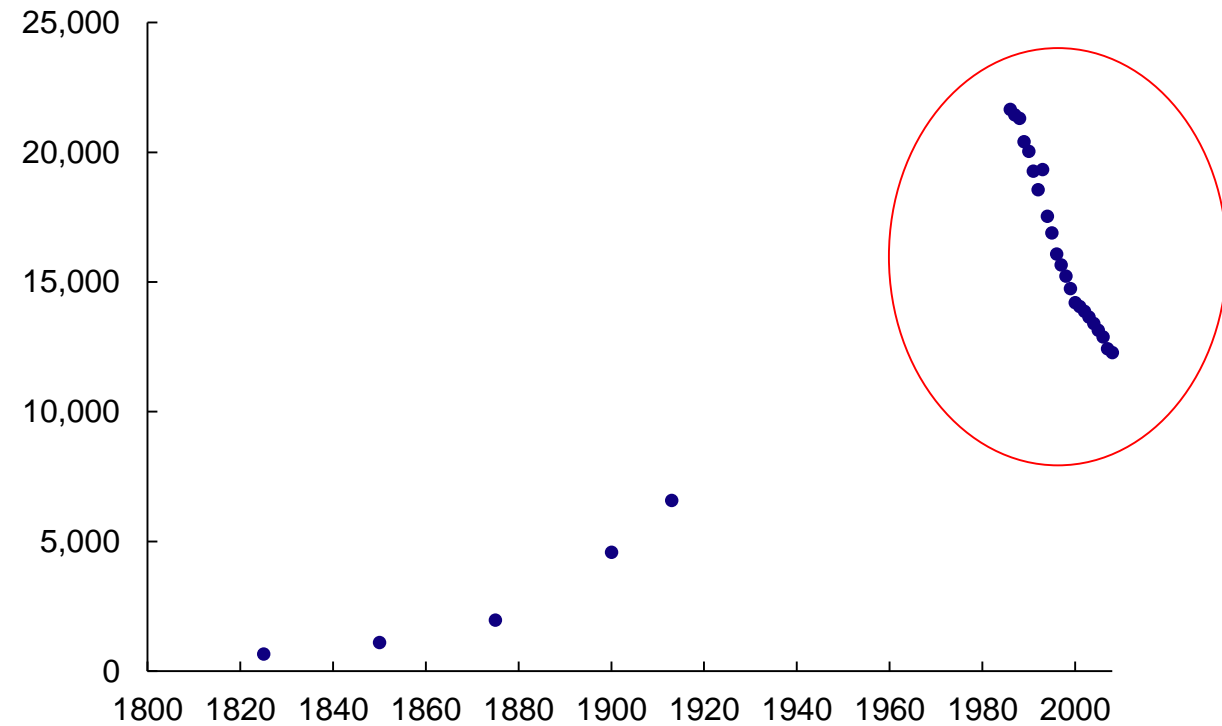


Source: Cecchetti and Kharroubi (2012).



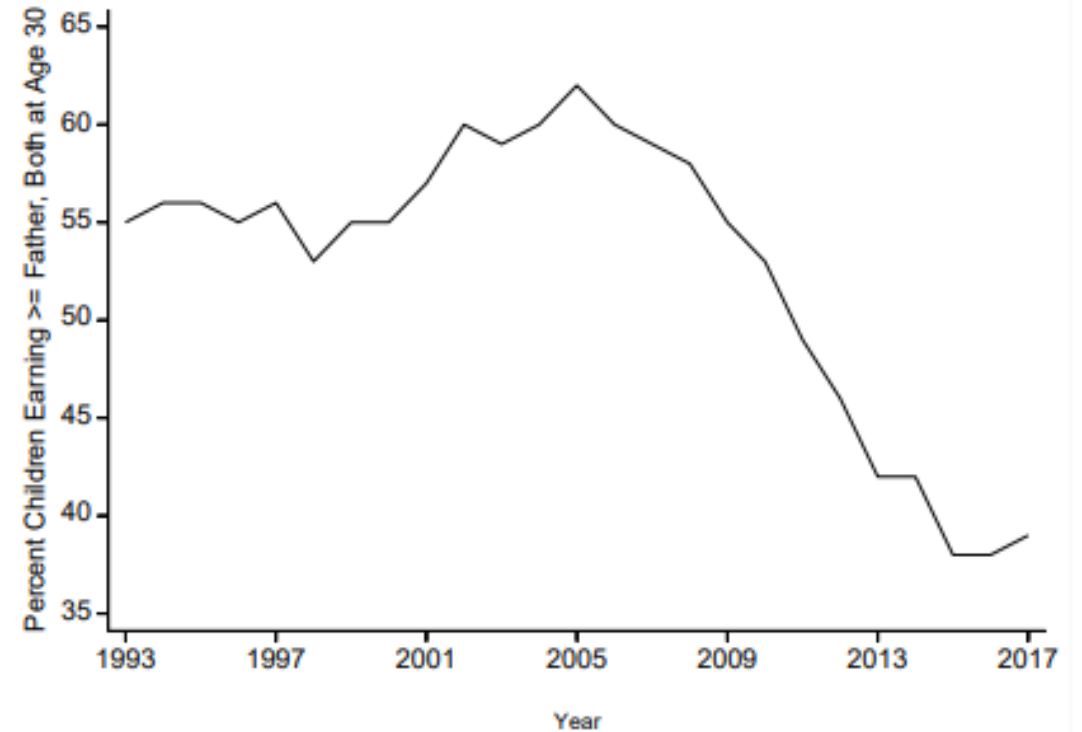
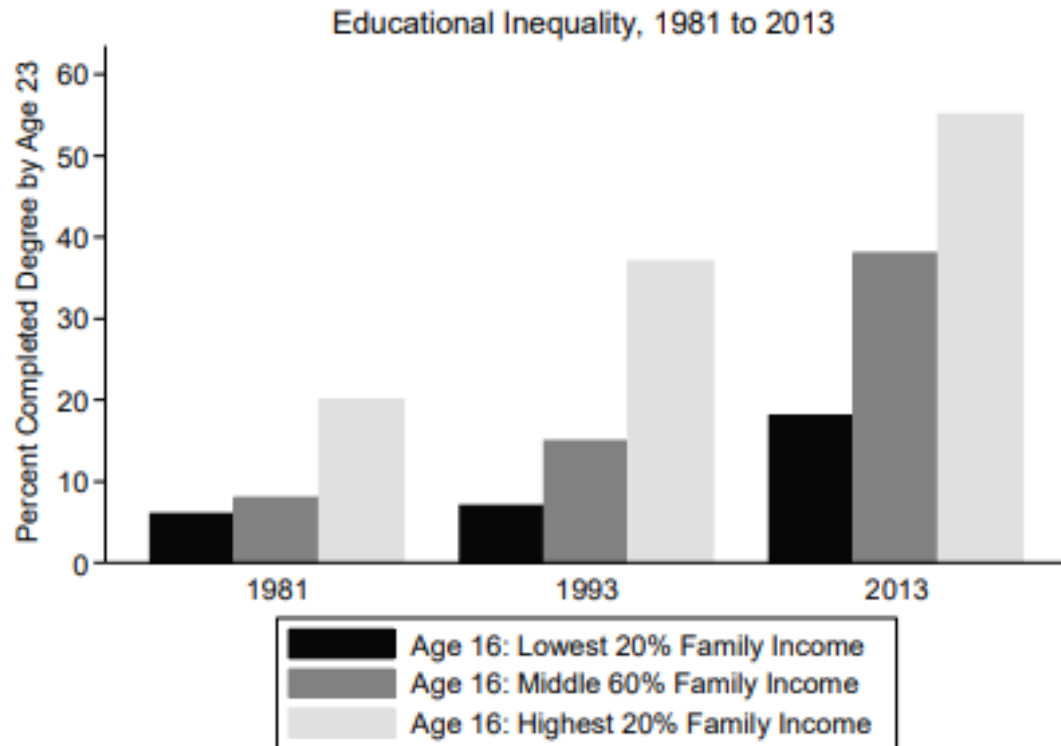
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Number of bank branches



Sources: Collins, M., & Baker, M. (2003) for 1850-1913 and House of Commons Library (2020) for 1986-2019

Education for All?

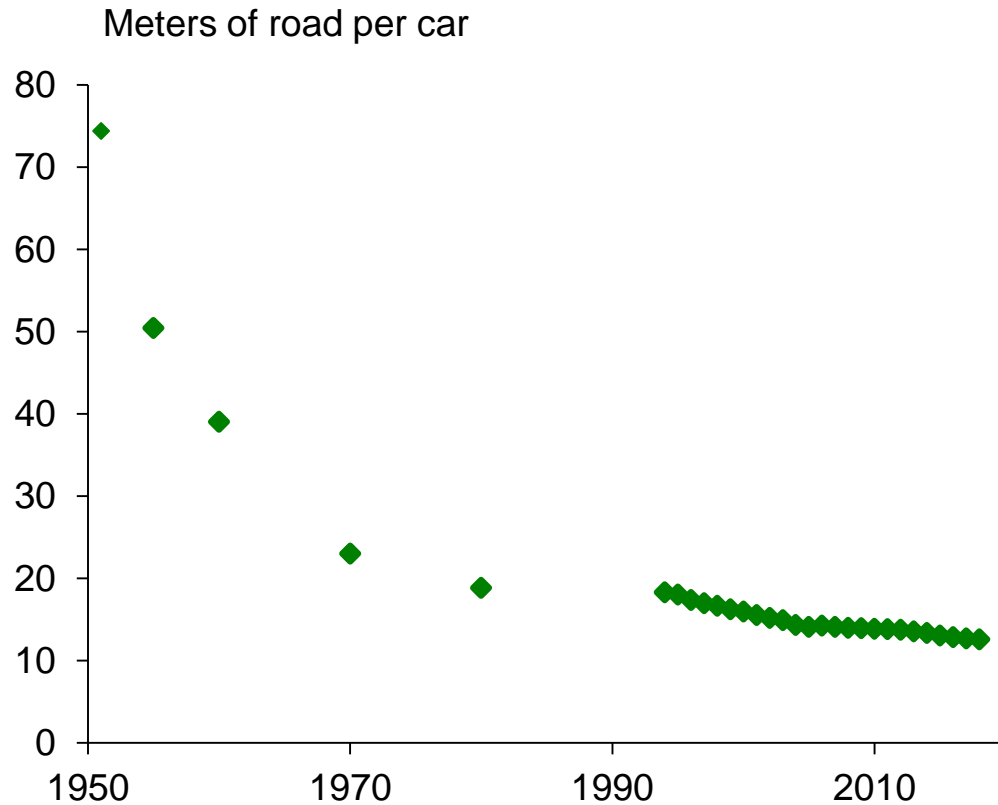


Source: Elliot Major and Machin (2019).



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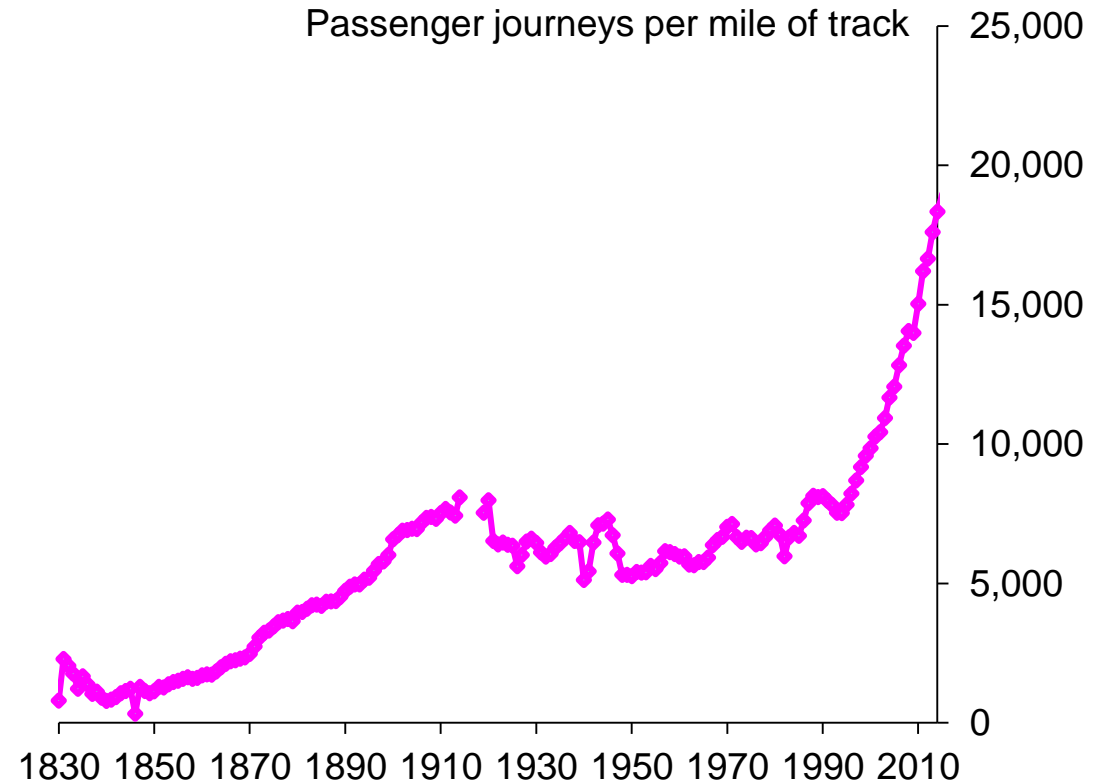
Creaking Transport Infrastructure?



Sources: Department for Transport and Bank calculations.

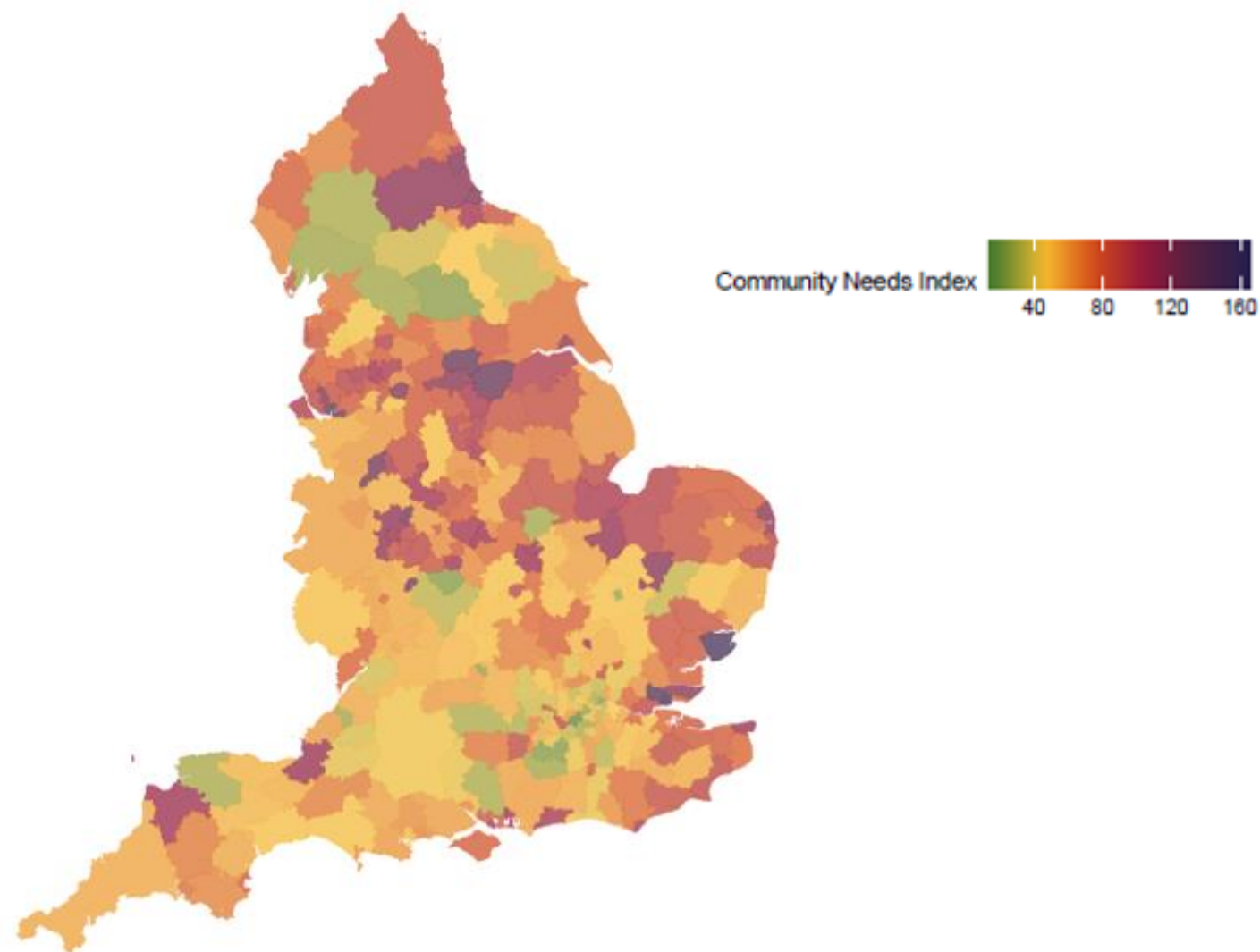


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Source: Cambridge Group for the History of Population and Social Structure, Office of Rail and Road and Bank calculations.

Social Infrastructure Creaking?

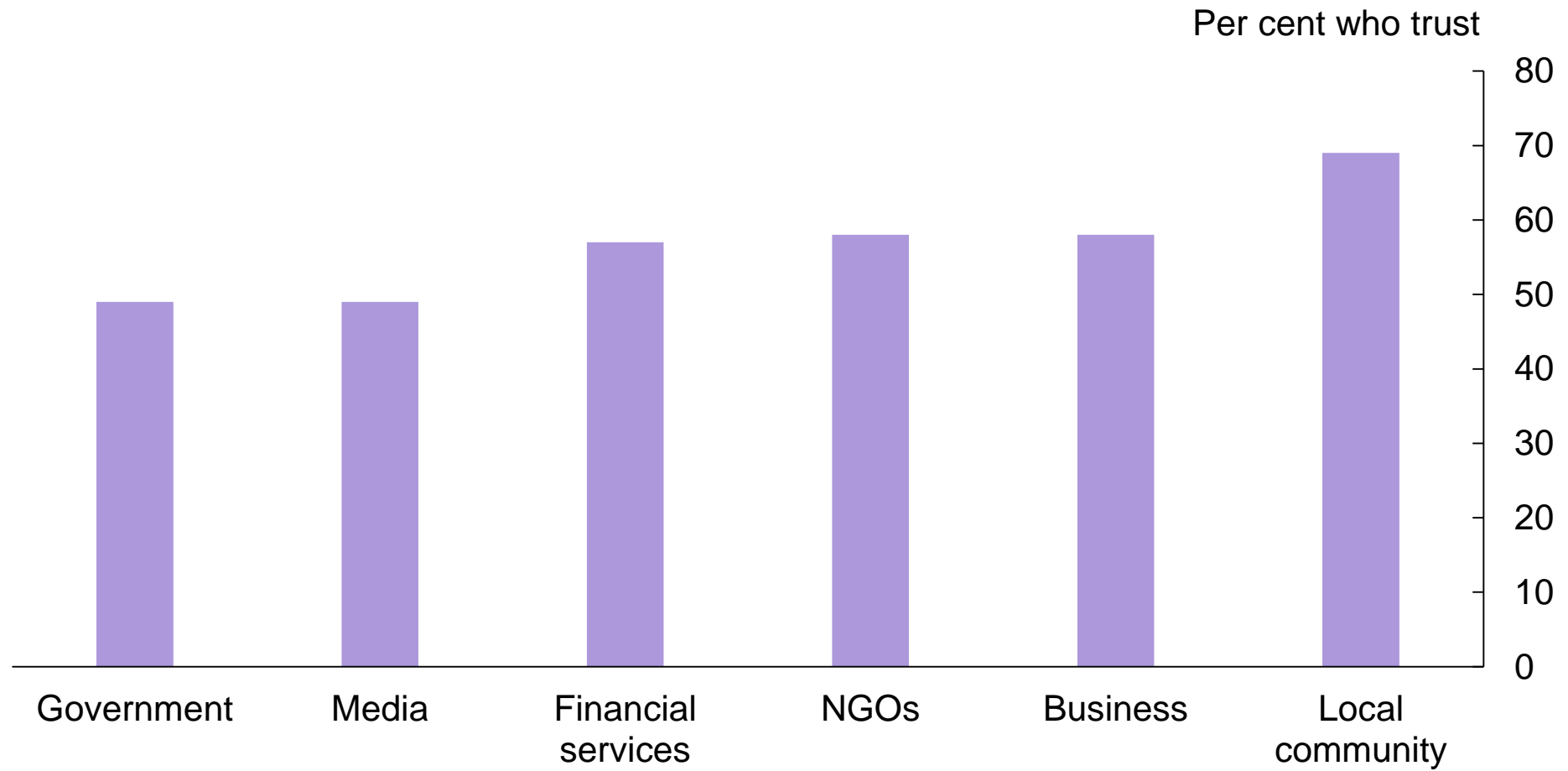


Source: Local Trust and OCSI.



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The Trust Deficit



Source: Edelman Trust Barometer.



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The New Model?

- More market?
 - Populist right
- More state?
 - Populist left
- Whither Third Pillar?
 - Raghu Rajan
- Is there a non-radical alternative?
 - Embraces all three pillars
 - Repurposes them for 21st century, Smith-style
 - Reconstruct the six pillars of success



Purposeful Companies

- Primacy of the shareholder?
- Companies as a social, not a legal, contract
- Plural set of stakeholders— shareholders, staff, customers, creditors, society, environment
- ‘B’-corporations, statements of purpose, corporate governance codes
- Is a new Companies Act needed?



Purposeful Banking

- Is banking socially-purposed?
- Banking as a utility service/network?
 - Branches
 - Digital banking/payments
 - Central bank digital currencies
- Financing companies/households
 - Regional banks?
 - Infrastructure banks?
 - Development banks?



New Measurement Systems

- **Companies**

- Beyond 'P+L'
- ESG reporting
- Integrated reporting

- **Economies**

- Beyond 'GDP' – well-being metrics
- From Bhutan to New Zealand
- Keeping score of 'success' – education, health, transport, economy



New Educational Model

- 150 years – academic education of the young
- Next 50 years
 - Teaching all ages
 - Academic, vocational, interpersonal
- Making lifelong learning a reality
- Educational passports, lifelong educational credits



New Public Infrastructure

- Re-investing in existing public infrastructure
 - Road, rail, bike
 - Digital infrastructure
- Investing in new public infrastructures
 - Open data commons
 - Digital twins
 - ARPA (Advanced Research Projects Agency)?



New Civil Society

- Back to the meaning of “work”
- Making lifelong civic contributions a reality
- Recognising and rewarding civic contributions
 - Volunteering passports
 - Volunteering credits



Conclusion

The stakes are high ...

“If [justice] is removed, the great, the immense fabric of human society [...] must in a moment crumble into atoms.”

Adam Smith (Moral Sentiments (1759))

The opportunities are too ...

“The core goal of public policy should be to facilitate the development of institutions that bring out the best in humans.”

Elinor Ostrom (Nobel Lecture (2009))

