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The Right Honorable George Osborne
Chancellor of the Exchequer, United Kingdom

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Questioners: Ruth Porat, Vice Chair, Economic Club of New York
Executive Vice President and
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Introduction

Abby Joseph Cohen

Ladies and gentlemen, good afternoon. Ladies and gentlemen, welcome. I am Abby Joseph Cohen, Vice Chair of the Economic Club of New York and Senior Investment Strategist at Goldman Sachs. Welcome to the 442nd meeting of the club in our 107th year. The Economic Club of New York is this nation's leading nonpartisan forum for economic policy speeches. More than 1,000 guest speakers have appeared before the club and have established a strong tradition of excellence. I would like to recognize the 218 members of the Centennial Society who have contributed to ensure a sound future for our club. We'd also like to welcome students from several universities and colleges. This includes Stony Brook, West Point, and Manhattan College. Their attendance today is made possible by our members and Jerry Speyer, our former trustee.

We are especially honored today to hear from George Osborne who became Chancellor of the Exchequer in May 2010. He was the youngest chancellor to take office since Randolph Churchill in 1886. As Chancellor he controls Her Majesty's Treasury. He has been a conservative MP for Tatton, Cheshire since June 2001, the youngest conservative member of Parliament in the House of Commons. Mr. Osborne worked as Political Secretary to the leader of the opposition before being elected to Parliament. In 2005 he successfully ran David Cameron's campaign. Mr. Osborne was born and educated in London and studied Modern History at Oxford University. Chancellor, the floor is yours.

The Right Honorable George Osborne

Well, Abby, thank you very much for that introduction and for inviting me here today. You compare me to Randolph Churchill. He was unfortunately a lousy Chancellor of the Exchequer. He made the grave mistake of offering his resignation to the Prime Minister and that resignation being accepted, but he did leave the world his son, Winston Churchill, so he did a pretty good job overall. But thank you very much for having me here today and for that warm welcome.

And you mentioned that I had studied Modern History at Oxford University. And I got a bit of history the last time I was here in the U.S. in October, I went to Philadelphia and visited Independence Hall and I was reminded that British Chancellors of the Exchequer have not always been so welcome here in the United States. Indeed it was the stamp taxes imposed here by one of my predecessors that set in train the events that ultimately led to the Declaration of Independence. No Taxation Without Representation was their cry. What I've learned after almost five years in this job is that no taxation – even when they have representation – is a pretty effective rallying cry as well.

Now for some time after independence, the relationship between Britain and the US remained a difficult one. And I want to tell you about something that is happening next month, in January next year, that marks the 200th anniversary of the Battle of New Orleans – fought between our two armies in the not entirely accurately named War of 1812. And that was the war that included

the minor matter of burning down your White House.

What's interesting about the Battle of New Orleans and its anniversary next month is that it also marks the last time that our two nations went to war with each other. In January, therefore, we are commemorating not just the casualties of that battle, we also celebrate 200 years of friendship and peace and extraordinary partnership. And to mark that great alliance I can tell you the British government is going to fund, with local businesses, hopefully with the state of Louisiana, a permanent memorial in New Orleans to the lives lost and the friendship began there.

It's a friendship built on our shared values of democracy and liberty. A partnership which has again and again been called upon to defeat the forces of tyranny. And I mention this today, in a speech to the Economic Club of New York, for this very important reason; we can promote those shared values and provide the defense to protect them because of the economic strength that our countries have built up over those 200 years.

The industrial revolution, new technologies free enterprise, open trade, the rule of law, sound money. These are the foundations of our prosperity and the guarantors of our values. But that economic strength is now being questioned. Both the UK and the US are recovering from the biggest financial crisis in living memory and the deep recession that followed it.
In the UK that recession was half as big again as it was in the US – and was the deepest since the Second World War. Our deficit, already high going into the crash, ballooned to over 10% of our

GDP.

In recent years, the pessimists, the pessimists argued that we couldn't escape the recession without massive fiscal stimulus and even higher deficits. But instead our two economies have grown faster than almost any other advanced economies.

A partnership of activist central banks and fiscal consolidation – more intentional in the UK., I'll grant you than in the US – came together to restore confidence, secure growth and reduce unemployment rolls. Now the same pessimists argue that our two countries are condemned to secular stagnation and that our best days lie in the past. And today I want to argue that they are wrong. And I want to argue the case for optimism. And argue that if we apply a consistent and long term economic plan we can rise to the challenge and ensure that our best days lie ahead.

So what is the economic evidence in support of this optimism? Well, since some prominent economists in the US warned of "secular stagnation" just over a year ago, the US economy has grown by 2.4%. The UK economy has grown by 3%. The unemployment rate has fallen by a further 1.2% in the US and 1.7% in the UK. And in the case of the UK, new revisions to our historical data this summer show that our economy has grown significantly faster than previously thought – by more than 8%, the third fastest in the G7 since 2010.

It has also been clear over the last year that the global recovery has continued to be uneven, with

Europe getting weaker as the UK and the US have got stronger, and we're seeing weaker growth in some emerging economies too. And I think we can draw an important lesson for policy from this pattern of recovery around the world. I believe we've been able to make progress here and in the UK because we've followed an approach with three crucial ingredients, and these remain the key ingredients to the future.

First, a commitment to activist monetary policy that will do whatever it takes to sustain sufficient demand in the economy. Second, a credible commitment to sustainable fiscal policy so we eliminate deficits, reduce high debt, and make ourselves less vulnerable to unexpected shocks. And third, an ambitious attempt to improve productivity with supply side reform to support enterprise, innovation and openness. In other words we take the difficult decisions to stay in the front ranks of the economic nations of the world.

Let me consider each of these three elements in turn. First, the experience of the last few years suggests that, to put it simply, activist monetary policy works. I believe strongly that political systems should give their central banks the space and the independence to do their job. And I want to pay tribute to Mervyn King, former Governor of the Bank of England, who has been a huge support to me in those early years in office. We worked well together, but also he served as a great public servant in Britain's darkest economic hour. And Mervyn, it is fantastic to see you again here today.

The most obvious contrast is between the recent strong performances in the UK and the US, where central banks are now considering decisions about the timing and speed of exit from extraordinary stimulus, and the situation in the Eurozone, where inflation is now extremely low and unemployment remains stubbornly high.

And I fully support Mario Draghi's efforts to ensure that the ECB does whatever it takes to meet its inflation mandate. And I agree with him that the Eurozone needs to do more to strengthen its institutions and deliver on its commitments to structural reform.

Recent falls in the oil price should provide a boost to all of our economies, but as Ben Bernanke has argued in the past, the full macroeconomic benefits of lower commodity prices depend on an accommodating monetary policy response. Activist monetary policy also depends on strong financial systems to ensure that the transmission mechanism between policy and the private sector financial conditions is not broken. Again the US and the UK were swifter to act on this front. We've both used tough stress tests to recapitalize our banks. And I'm hopeful that the recent stress test and Asset Quality Review in the Eurozone should now provide some support.

Now there are perfectly legitimate concerns about the financial imbalances associated with activist monetary policy, but I think these can best be addressed with well-designed macro-prudential policy. And in the UK we've put in place a world leading new system for macro-prudential control, with a new Financial Policy Committee in the Bank of England which is

tasked with overseeing financial stability.

And it represents a whole new of weapons in the fight for economic stability and our new policy committee has already acted to tighten mortgage underwriting standards and limit loan to income ratios in our housing market, so that this time the punch bowl does get removed before the party gets out of control.

Activist monetary policy is the first crucial ingredient of any successful economic plan for recovery. The second is a credible commitment to sustainable fiscal policy. At every stage over the last five years I have been confronted with the argument that fiscal consolidation is incompatible with economic recovery. And for five years I have consistently argued that credible fiscal consolidation plans are not only a crucial foundation for effective monetary policy, they are a necessary precondition for sustainable economic recovery. And the evidence has shown this to be the case.

In the US, spending cuts, imposed, as I said, more by the separation of powers than by coordinated design, have still not choked off the recovery in the way that many thought they would. And I know the path of fiscal policy in the UK has been the focus of some interest in the American debate, so let me briefly set out our approach and the thinking behind it.

Following the general election which brought this government to office in May 2010, we were

faced with a double digit budget deficit, a Parliament where no party had a majority, a banking system four times as large as our GDP, and none of the advantages that the role the dollar provides as the world's reserve currency offers to the United States.

What's more, across the English Channel and the Irish Sea some of our nearest neighbors were teetering on the brink of a sovereign debt crisis. In these circumstances fiscal credibility was vital for economic stability, let alone economic recovery. And so we moved quickly to set out a multi-year deficit reduction plan and we legislated for it.

The pace of our fiscal consolidation over the last four years has been steady, with an average annual reduction in the cyclically adjusted primary balance of around 1.6% of GDP – according to the IMF, that is the largest and most sustained of any major advanced economy.

In response to the acute crisis in the eurozone we made no significant changes to tax policy or spending plans, so the underlying stance of fiscal policy remained unchanged. But the fiscal credibility we had earned meant we could safely allow the so-called automatic stabilizers to operate through lower than forecast tax receipts. The net result is that since 2010 fiscal consolidation has been accompanied by the third fastest GDP growth in the G7 and the fastest employment growth of any major advanced economy in the world. Indeed, our participation rate, far from falling has now risen to a near record high.

And following our recent data revisions we now know that business investment has grown significantly faster than previously thought – by almost 27% since we enacted deficit reduction – and is now at over 6% above its pre-crisis peak, and very similar to the US where it's around 7% above its peak. And all of this has happened despite repeated warnings from some that our determined pursuit of our economic plan made that impossible.

Now we must finish the job we have started. Our deficit is forecast to be down by a half as a share of GDP by the end of this year; but our goal should be to eliminate it altogether over the next couple of years. Today, in the United Kingdom, we are publishing a Charter of Budget Responsibility and we will ask our Parliament to vote on it. It commits us to getting debt falling as a share of GDP by 2016-17 and to get the cyclically adjusted current budget into balance by the following year.

And there are those who say we should wait longer, until the end of this decade – and by implication must borrow much, much more, £50 billion more in annual spending and borrowing by the end of the decade. This would destroy confidence and drive away jobs.

Let me be clear. The new Charter of Budget Responsibility means £30 billion pounds of deficit reduction. It commits us to finishing the job – and getting our national debt falling. For if after seven years of growth we don't start reducing our overall debt, around the world people will ask, "if not now then when?" Mañana is not a credible fiscal plan. Once we've got rid of the deficit

and have debt falling, we should be then committed to running an overall budget surplus.

International experience has shown this is the only reliable way to reduce high levels of public sector debt when inflation is low – Sweden and Canada provide examples of countries that have used surplus or balanced budget rules to deliver resilient public finances following a fiscal and financial crisis. The alternative would be to leave our debts for our children to pay off and leave our economies dangerously exposed to the next crisis – and we know better now than to assume there won't ever be another crisis.

Now British Treasury analysis shows that limiting our ambitions to the current budget balance, rather than a surplus of 1% of GDP, would mean a national debt bigger by half a trillion pounds in 20 years time – almost £30,000 for every working household in Britain.

And imagine the situation that the UK and the US would be in now if we had entered this crisis with public debt ratios of 80% of GDP, the levels we see today – we would still be in crisis instead of recovery. You can't build a better future on a mountain of debt. This time we will fix the roof while the sun is shining.

Now those who have lost the public argument on current borrowing have now turned their argument into the case for unrestricted borrowing for capital investment. They say it is a "free lunch" – but the benefactors of this Economic Club know there is no such thing as a free lunch.

Productive capital investment is important for growth. And we should acknowledge that right across the political spectrum. It was a Republican President who built the interstate network here in the United States. In the UK it is a Conservative Prime Minister and a Conservative Chancellor that is funding the largest road building program for 40 years.

Indeed I've said that as well as running a surplus in normal times, public capital spending should grow at least in line with the economy. But capital spending should be paid for by lower public spending in other areas or by the private sector putting the right frameworks in place. Otherwise capital spending is just higher government spending, and that means higher government debt. So credible fiscal policy is the second crucial element of any successful economic plan for recovery.

The third, and the last element I want to talk about, is a comprehensive and ambitious program of supply side reform to support enterprise, innovation and openness. In the long run, after all, productivity is everything.

This final element is becoming more important than ever in countries like the US and the UK where unemployment has now fallen significantly – indeed even some of my more prominent critics here now acknowledge that the supply side, rather than fiscal policy, has the potential to be the binding constraint on growth.

What you do hear, however, from economists like Robert Gordon is that recent innovations do

not have the transformative potential of the great 19th and early 20th century inventions like the railways. But again I believe the case for optimism is more compelling.

The most notorious thing about that battle I told you about, the Battle of New Orleans 200 years ago is that it was fought on the 8th of January 1815, after the peace agreement between the US and the UK was signed two weeks earlier on Christmas Eve 1814. And why? Because communication at the time was so slow that the news of the peace did not reach the armies in the field.

And back then they could not have imagined the idea that they, and the rest of the world, could learn about a peace treaty on Twitter within seconds – or that the rest of the world would let the politicians exactly know what they thought of that peace treaty in pretty robust terms.

Now there's no reason why we and our descendants will not see similar transformations over the next 200 years – that are unimaginable for us today. Technological innovation has not been exhausted. The human thirst for improvement is not slaked. And there is nothing to suggest that countries like the US and the UK need to accept long term decline.

The statement that "everything that could possibly be invented has been invented" is often mis-attributed to the nineteenth century US patent commissioner Charles Holland Duell, but it was a view widely shared at the time. In fact he believed that the discoveries of the time would appear

insignificant compared with what was to come, and he was right.

Today the scientific breakthroughs of the past century have created an explosion of technological applications, which are in turn stimulating new advances in fundamental science. Just as improvements in optical lens technology and better microscopes led to huge leaps in germ theory and medicine, today we cannot even imagine the advances in all areas of science – from genetics to materials – that high powered computing will make possible in the years ahead.

We're already on the cusp of a life sciences revolution – the first complete human genome was sequenced in 2003 at a cost of $3 billion; today it can be done for as little as a few thousand dollars per person, and it gets cheaper all the time.

And the scope for positive surprises is not just about the long term. Even just a few months ago very few people predicted the full scale of the impact that US innovation in shale gas and oil extraction would have on oil and gas production, and, through the oil price, on the entire global economy.

Now the challenge for this generation of politicians, business leaders and policymakers is to embrace innovation and to make the case for the economic reforms that can harness its potential. So we should be encouraging the potential of new genetic technologies, not fear them; in Europe, we must make the case for GM crops instead of giving in to the hostility and the protectionism;

and all of us need to invest in the application of new discoveries such as graphene – discovered in the UK – instead of allowing our competitors elsewhere in the world to overtake us.

In the UK we are building on our historical strengths in science and innovation. According to the most recent index, four of the world's top six universities are in the UK. We have 1% of the global population, 3% of global R&D spend, but over 11% of citations and 16% of the world's most highly cited articles. Indeed, I'm afraid to say we have just overtaken the US to rank 1st by field weighted citation impact which is an indicator of research quality. And the Global Innovation Index shows the UK now ranking 2nd in the world, up from 14th in 2010.

But if we really want to turn new ideas into faster productivity growth and higher living standards we need to help our economies adapt to the new business models and new forms of economic activity right across the country that they enable. That means for example holding the door open to disruptive intellect innovators of the sharing economy and resisting the lobbying from the older business models that they challenge.

It means resisting protectionist sentiment in all its forms, so let's prioritize that Transatlantic Trade and Investment Partnership between the US and Europe, and explain why standing in the way of jobs, and trade, and mutual prosperity is wrong. It means continuing the hard work of economic reform, whether that's reducing welfare transfers, increasing state pension ages or making our tax systems more competitive.

In the UK we have saved half a trillion pounds over the next forty years by setting out a timetable for future increases to the state pension age. That is the single biggest saving we have made. And from April next year, our corporation tax rate will reduce to 20%, the lowest in the G20, down from the 28% rate we inherited. And if we are to spread the benefits of innovation and productivity growth to everyone in our society then we must build the ladder of opportunity for people to climb. Again, in the UK we are putting this approach into practice.

We have dramatically cut the tax burden on the low paid; we are raising school standards with radical reform and the UK equivalent of charter schools; and we are replacing our complex web of working age entitlements with a single Universal Credit so that it always pays to work. None of these reforms have been easy. Many have been bitterly opposed by entrenched and vested interests. But I have learned one thing, above all, doing this job – that it is often the most economically essential that is also the most politically difficult.

So these are the three crucial elements of a successful recovery plan – activist monetary policy, credible fiscal policy, ambitious supply side reform. And the evidence shows that if you can get all three of these elements working together then your plan will be stronger than the sum of its parts because you will command the confidence of the world.

This is what we have attempted to do in the UK, with increasingly strong results. We cannot

know what the future holds – and there will no doubt be new shocks and more crises to contend with. But if we in the US and the UK retain our ambition to be at the front rank of the economic nations of the world, then we can be confident that our values will be as relevant to the next 200 years of human endeavor as they have been to the last 200.

And we can look our fellow citizens straight in the eye and say with confidence: our best days lie ahead. Thank you very much.

QUESTION AND ANSWER PERIOD

ABBY JOSEPH COHEN: Chancellor, thank you so very much for sharing some lessons of history, but also describing ways in which both economies, yours and ours, can rise to the very significant challenges being faced. As is the custom of the Economic Club of New York, two of our members have been selected to question Chancellor Osborne. Ruth Porat, Vice Chair of the Economic Club and Executive Vice President and CFO of Morgan Stanley, and also Ralph Schlosstein who is CEO and President of Evercore Partners. In addition, if people who are here have questions, you may email them to our President Jan Hopkins at the usual email address which is: questions@econclubny.org. And we are going to begin the first question with Ruth Porat.

RUTH PORAT: Thank you Chancellor for those comments, very encouraging, and I do agree

the trends in the US and the UK are pointing in the right direction, but obviously there are always execution challenges and risks along the way. So I want to start with oil, an area which is one in which the UK clearly has a heavy investment. You commented on it very briefly in your opening comments. The collapse in crude oil prices has been dramatic and swift and now there's uncertainty about the path going forward. Morgan Stanley research estimates that oil prices will remain at about these levels in 2015. But there's a bear case trough down to 43, and underscoring the uncertainty about the path forward, there's a bull case upside at about 88. So with the UK as both an oil producer and importer, first, what are the consequences for the UK in your view? And then second, going back to where you started your comments, the link to foreign policy, what do you see as implications for foreign policy, in particular with respect to two challenging exporting nations, Iran and Russia?

THE RIGHT HONORABLE GEORGE OSBORNE: That's a big question, and rightly so. Look, I will cut to the chase. I think that the fall in the oil price is basically a very good thing for the US, the UK, and Europe. Although of course we have important oil and gas industries here in the US, in the North Sea of the United Kingdom, nevertheless, this is really a big boost to American consumers and British consumers and businesses. So I think, you know, it is a net positive. I also think that it's going to be particularly welcome on the continent of Europe – at a time when things are very difficult there and not all the economic policies are working as they would hope – this is an unexpected but nonetheless very welcome bonus which I think will be felt on the continent of Europe over the next year. What does it mean for the oil and gas producing

industries? Well, it's, you know it's clearly a challenge. I mean I wouldn't, you know I don't claim to be an expert in shale gas and oil extraction, but what I understand is there are much shorter investment cycles there than the traditional oil extraction. So that actually might be helpful in helping the US cope with the sharp fall in the oil price. In the UK we are taking preemptive action so two weeks ago in a big financial statement I had in the House of Commons, we acted immediately to start reducing headline taxes and tax rates on our oil and gas industry in order to get ahead of the impact on that industry of the sharp fall in oil price. And our challenge in the UK is that the North Sea is a mature basin. We've now passed the point some years ago when we were a net exporter of oil. But we are acting quickly, rather than waiting around, to try and get the tax burden down on the industry. So all that said, and I don't underestimate the challenge, I still think it's overall a good thing, as I said, for the Western economies. What does it mean for the sort of geopolitics? Well, let me, I'll focus perhaps on Russia. I mean I think it puts, bluntly, I think it puts a lot more pressure on Vladimir Putin. I think people were saying a few weeks ago, well, you know, are Western sanctions working? Can Putin ride this out so as not cause disruption to Russian financial markets and their currency? Nevertheless, with the strong oil price, can he, you know, as I say, ride this out? I don't think that looks so clear now. The Russian budget is heavily dependent on a high oil price. And the Russian economy has not, sadly, made the investments and the supply side reforms that we would all want to have seen over recent years. And so he might well be exposed by the falling oil price and I think that's got to only be a good thing for those of us who are trying to enforce the rule of the law in Europe, not least the rule that you shouldn't invade a sovereign nation next to you.

RALPH SCHLOSSTEIN: Yes, Mr. Chancellor, I may go off-piste here a little bit. I had a question, but I was struck by your comments and the extraordinary coordination among monetary fiscal policy and supply side type reforms to stimulate productivity and innovation. And I just wonder, it made me very envious of the parliamentary system, and I wonder what advice you might provide to us with our somewhat more messy checks and balances system that might be useful in developing a similarly coordinated policy across monetary fiscal and structural issues.

THE RIGHT HONORABLE GEORGE OSBORNE: Well, I think we are partly to blame for giving you the idea. There was this fellow called John Locke who had lots of thinking on the idea. And look, I wouldn't presume to give advice to the United States. I think, I mean I would say that my comments on monetary policy, I was very clear to say, and it's certainly the case in the UK as in the US, these are independent central banks. We've preserved their independence. But part of preserving the independence is to give them the space to do what they feel they need to do and make their own judgments about that. And I don't think, you know if you look at the continent of Europe, that's always been the case. And really what I was saying there is the politicians of Europe, of the continent of Europe, or the Eurozone, you know, should allow the ECB and Mario Draghi to do what he feels he needs to do. And I don't, I guess I don't side in the American political debate with those on the center right, while I absolutely agree with them on almost everything I've said today is about lower taxes, credible fiscal policy, I guess I don't side

with those who have been opposed to quantitative easing or expansionary monetary policy. So I think we should create the space for the central banks. When it comes to fiscal policy, well, obviously there's a big advantage in having a parliamentary system whereby definition you have a majority, because that's why you are the government. But interestingly enough, I mean as I've mentioned a couple of times, the US system has through fits and starts, and I guess through the very separation of powers that Jefferson and Co. would have wanted to see, actually it has brought the US deficit down. And as I noted in my speech, has not led to the severe consequences for the economy that you might have seen predicted here a year or two ago. Finally, I think there is this, again I'm not an expert on the US political system, there might be an opportunity with a President in the last couple of years of his term in office, a Republican Senate, to get some agreement actually on the Transatlantic Trade and Investment Partnership and there might be a meeting of minds there between the administration and the Senate which is arguably perhaps more positive than would have been the case six months ago. And I would really urge everyone in this room who can bear influence on that to encourage the US to make that happen, get the fast-track authority, get the deal done, before we get into the next round of not just US elections but some of the continental elections in Europe. You know this is the moment. We've got a window now of about a year to get this done. And it would be, it wouldn't just be a boost in sort of, just sort of basic, you know jobs numbers and the like, it would also show the world that the West can act in coordination to improve its economic performance. So I think it would have a bigger psychological impact than just a sort of, you know, pounds and cents of a good trade deal.

RUTH PORAT: So turning to Brexit, the Conservative Party has promised that if elected, re-elected in 2015, there would be a referendum by 2017 as to whether the UK will remain a member of the EU. And so in the betting on Brexit, as you call it, and by the way I tried to go on to a UK betting site this morning to see what the current odds are, but it's illegal in the US. But I did find from friends that expectations are the vote would be quite close. And there's the obvious challenge with the inter-relationship between the UK and Europe, many foreign investors and businesses in the UK view its membership in the EU as a key factor that attracted them to the UK in the first place. And two years is very long time for uncertainty. So I have a two-part question. One: how do you reduce the potential near-term drag on investment, investment decisions, given uncertainty about this referendum in 2017? And assuming that the vote were yes, what would be the process for planning and organizing an exit after the referendum?

THE RIGHT HONORABLE GEORGE OSBORNE: Well, first of all, since setting out this policy, and I'll explain why it's, I think, the right policy, we've seen an increase in investment in the UK. Indeed, we've now got more investment by distance than any other country in Europe, and indeed on some measures we've got more investment than almost any other country in the world. So businesses are voting with their dollars and investing in the UK. And I think that's because we've got a strong economic policy but also I think we've got a sensible European policy. And that brings me on to the European policy. What we would like to see, what I would like to see, what David Cameron, our Prime Minister, would like to see, is Britain remaining in a European Union that has been reformed. Reformed to make sure that the continent of Europe is a

place where jobs are created and business is welcome and enterprise takes place. Reform to reflect the fact that Britain is not part of the euro, but we are a large member state and we should have our interests properly protected. Reform to address the concerns that the British public have and indeed other European's public have around things like the entitlement culture for newly arrived immigrants. So we have a, you know, we have a set of concerns which are concerns shared by the British people. I think they are concerns that if they were addressed would make the UK and the European economy stronger. And that is what we are fighting for and arguing for. And then we would put it to the British people in a referendum to validate the reforms that we had achieved by 2017. And that policy is ultimately where I think the bulk of the British people are. That is, of course there are people in Britain who want to leave the European Union and there are those who want to go deeper into the European Union and join the euro. But I think the mainstream majority of the British public are, is that they want to stay in a reformed European Union and we are setting out to deliver that and get the popular consent for it. And I would just sort of draw in the end, finally, a parallel, which is when it came to Scottish independence where all my political life, the Nationalists are those who have argued for Scottish independence in Scotland have been taking their case forward, increasing in popularity, winning bigger majorities in the Scottish Parliament. And people said, you know, are you going to risk confronting that? Well, we did confront it. David Cameron took the decision, the House of Commons supported him on that, in having a referendum on Scottish independence, and we won that referendum. And now that issue is settled, at least for my generation. And for the first time, again in my adult life, the kind of march of separatism has been checked. So it comes back to

what I was trying to say in the speech which is sometimes the right things are the most difficult things to do in politics but ultimately you get the reward in the economic security and stability you bring your country.

RALPH SCHLOSSTEIN: A question on the economic and inflation outlook. If you look at ten-year bond yields in the UK, they've dropped roughly 20 basis points last week to 1.8%. The FTSE was off 7% last week. Oil prices, which we've talked about already, have plunged 40% in the last six months. These movements in the market suggest that UK inflation may very well fall below the key 1% trigger. How do you assess this risk? In other words, how likely is it to occur? And were it to occur, how should fiscal, or monetary and fiscal policymakers respond?

THE RIGHT HONORABLE GEORGE OSBORNE: Well, I'm going to do something that I think you're allowed to in the US which is take the Fifth.

RALPH SCHLOSSTEIN: That must be a good question.

THE RIGHT HONORABLE GEORGE OSBORNE: And the reason I'm going to take the Fifth is two-fold. One is, you know, we are very clear in our country that monetary policy, the remit that has been set by myself to the Bank of England is one that the Bank of England or this Monetary Policy Committee is independent to pursue. So I shouldn't be anticipating how they might react to inflation data. The second very good reason to take the Fifth is that tomorrow we

have an inflation release which I happen to know what it is under our pre-release requirements and so it is best when you have that information in your head not to talk about the subject at all.

RALPH SCHLOSSTEIN: It's the first time I've ever heard a British politician invoke our Constitution.

RUTH PORAT: Some lessons learned, you spoke a lot in your opening comments on the very important steps taken in the UK. And I think very importantly when we turn back the clock, six years ago, given the oversized nature of the financial sector in the UK, the rate of progress really has been quite impressive. And the metrics today, whether it's GDP or unemployment relative to Europe similarly, as you went through them, are quite impressive. Two questions again. What are the most instructive lessons for Europe that you would say for the economies that are still struggling with low growth and high unemployment? And then second, in the recent budget statement you proposed further fiscal consolidation and you've spoken quite a bit about that here today, but that would take public spending down to levels not seen since the 30's. And so the question there is how would you respond to skepticism that that kind of leg down, again another five years of austerity, is actually manageable?

THE RIGHT HONORABLE GEORGE OSBORNE: Well, first of all, on the continent of Europe, you know, I think what's required and many of these challenges face the UK as well so I'm not seeking to preach here, is as I said, the European Central Bank needs to do what it needs

to do, but then these domestic economies to put their houses in order and for them to have capacity of tax policies that attract investment, for them to back innovation, science, and research. And we have extraordinary battles in the European Union about whether to allow shale gas exploration, for example, or whether certain forms of genetic crops can be pursued in Europe. We have, you know, not sufficient support, I think, for fundamental science and innovation in Europe. And after all, this was the cradle of innovation and science for many, many hundreds of years. And I think all of, I think, Europe needs to collectively take a view that we are not prepared to see the decline of our continent. We want to be in front ranks just as we have been in the past. And we're going to take the supply side and tax decisions and budget decisions required to deliver that. Applying that to the UK, we face this choice which is we are running a 5% budget deficit. It's the 10% or more that I inherited, but it's still a 5% budget deficit, one of the higher in the world. Are we prepared to go on taking difficult decisions to bring it down? It's largely a structural deficit. And if you are prepared to do that, how then do you deliver that consolidation? Now I think the case for big tax increases is not a very compelling one. I think it would hit the living standards of families. I think it would deter investment into the UK. I'm all for dealing with aggressive tax planning and the like and making sure we continue to get the revenues that we expect. But I think largely this consolidation can be achieved through further difficult decisions in public expenditure. And people told me four or five years ago that this was impossible to deliver in the UK, that it would lead to damage being done to public services. In fact, on the indicators of the performance of these various public services, things have improved. We need to carry on at the same pace we've been doing this for

the next few years. I'm not asking to speed up. I'm not saying we should slow down. And I think we can do that. And it would only return real government spending to the level it was in 2002. So that's the reality of it. And indeed, even on the measure of public expenditure as a share of GDP, the projections are it would reach 35%. Well, it reached 36% in 1999. So, you know, I think this is all within the context of what is deliverable and I think it's necessary for the UK to get its public finances in order, live within its means. I think that's been a very important part of inspiring confidence from the rest of the world and indeed from businesses in the UK to make those investment decisions that create jobs.

ABBY JOSEPH COHEN: Ralph, you have the final question.

RALPH SCHLOSSTEIN: Well, since I was totally unable to get an answer to my last question, let me try again with one that's a bit more cheeky. Boris Johnson, the mayor of London, recently observed that London now had 72 billionaires. More than New York or Paris. He went on to say proudly, "that London was to billionaires like the jungles of Sumatra were to orangutans." Now without commenting on the analogy of billionaires to orangutans, can you let us know if you are comfortable with these remarks? And are these non-tax domiciled residents making a sufficient contribution to the UK tax coffers?

THE RIGHT HONORABLE GEORGE OSBORNE: Well, of course, Boris is an American-born import. But look, I think it's, I grew up in London and I think it's one of the great features of

London, indeed the United Kingdom, that we welcome people from around the world. It's a very exciting place to be at the moment, a lot of exciting things happening in our capital. And we have a huge number of Americans and other Europeans and people from Asia. And that's a country that is performing well economically. Now, of course, you know we want wealthy individuals who make an investment and contribution to the UK economy. We do ask that they make a tax contribution. And one of the things I've introduced, and increased, is the charge that we levy for people who take a non-domicile tax status. Now it's still a very tax-advantaged regime. It's still much more attractive than many others in Europe indeed, and in the US. But we do ask for an annual charge and actually two weeks ago I increased that annual charge for the next Parliament, the next, for the rest of this decade. So I think you can do this in a sensible way. I think you can say, of course, people are going to make a fair contribution, but we don't want to drive people away. And I think we are getting that approach right as witnessed by the very substantial investment into the UK. I think one of the interesting, and I'll end on a, you know, sort of challenging note here in New York, I mean one of the things we are also doing is attracting a lot of Chinese investment. And we are very open to that Chinese investment. We've developed in the city of London quite an active now offshore RMB market. And I think ultimately for China, for all the challenges of dealing with China, one of the best things we can do is ensure its prosperity and bind it into the global financial system and the institutions that were created to bring peace and stability. So we go out of our way to attract that investment just as we go out of our way to attract lots of investment. And it's a good note to end because I know, looking around the room, there are people who are great supporters of the UK economy. Lots of institutions

represented here that have big presences in the UK. Can I say, you're all very welcome and our best days lie ahead. Thank you.

ABBY JOSEPH COHEN: Thank you, Ruth and Ralph, for your thoughtful questions. And of course a very special thanks to Chancellor Osborne for your outstanding participation today at the Economic Club of New York. Ladies and gentlemen, let me now invite you to enjoy your lunch, and we all look forward to seeing you in the New Year.