TRANSCRIPT
The Truth of the Matter

“Global Economic Outlook”

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Bob Schieffer: I’m Bob Schieffer.

Andrew Schwartz: And I’m Andrew Schwartz of the Center for Strategic and International Studies, and this is The Truth of the Matter.

Bob Schieffer: This is a podcast where we break down the policy issues of the day, since the politicians are having their say, we will excuse them with respect and bring in the experts, many of them from CSIS, people who have been working these issues for years.

Andrew Schwartz: No spin, no bombast, no finger pointing, just informed discussion.

Bob Schieffer: And to get to the truth of the matter on the future of the global economy, we’ll talk today to CSIS’s Stephanie Segal. Ms. Segal is a senior fellow of the Simon Chair in Political Economy at CSIS. Previously, she served as Co-Director of the East Asia Office at the U.S. Department of the Treasury. Prior to Treasury, she was senior economist at the International Monetary Fund, where she covered a range of emerging market and advanced country economics. Stephanie, welcome. World leaders convened in Davos this week for the World Economic Forum, so I’d like to start by asking you, what were your takeaways?

Stephanie Segal: Well first, it’s a pleasure to be with both of you today. And right, as you mentioned, so we’ve got, kind of the world’s movers and shakers in Davos this week. And it really is, to my eye, kind of a story in two parts. So we had, President Trump was there, making a speech yesterday, where he really touted the outlook for the U.S. Some people have called it kind of a victory lap, given how well the U.S. economy has done last year. And at the same time you’ve got a lot of the, both corporate leaders and world leaders that are there worrying about much longer term issues, worrying about the environment, worrying about social instability stemming from rising income inequality, and then the geopolitical risks, which if anything, seemed to be heightened relative to where they were last year. So you kind of have a story in two parts, strong growth in the U.S. and the U.S. really taking a lot of credit for that, and then these longer-term worries.

Bob Schieffer: And then he also brought up maybe putting more taxes on European cars, and some other European products, like he is about to replicate what he did in the original trade war, for want of a better term-

Stephanie Segal: Right.

Bob Schieffer: -that he instigated. Now he’s bringing Europe into it. What do you make of that?

Stephanie Segal: Right. So part of Davos, this is something that a lot of different leaders and global institutions will use, the opportunity to kind of give their latest and greatest assessments. So the International Monetary Fund gave their update to the global forecast, where they said on the one hand, things seem to be
turning the corner a bit. They've got growth actually forecast to increase slightly in 2020 versus where it was in 2019, but they said that if anything, risks are still to the downside. And one of the key risks that they highlight is trade tensions. So we think of U.S.-China trade deal being signed, that should actually reduce trade tensions. But as you just mentioned, the outlook for trade, and in particular U.S.-EU trade and rising tensions there, is really something that could threaten to kind of increase uncertainty again, and derail what could be a stabilization of growth.

Bob Schieffer: Can I go back to the trade agreement? Because well, the farmers are obviously going to love it. There are a lot of things left undone there. After you've had a couple of weeks to look at that now.

Stephanie Segal: Mm-hmm.

Bob Schieffer: What's your assessment of what really happened?

Stephanie Segal: Well, I have a mixed assessment. So there are multiple parts to this phase one agreement. A big piece of it, as you mentioned, was the purchases. So if what was really at the core of Trump's frustration with the relationship with China is the bilateral imbalance, so the fact that the United States has a huge trade deficit with China. A big piece of the deal were these purchases. So $200 billion in purchases over two years from China, in agriculture, in manufacturing, in services, and in energy. But now evaluating the deal, there is a lot of skepticism about whether or not China actually has the capacity to buy that much. And then secondarily, there are a lot of people that are quite uncomfortable with this whole idea of managed trade.

Stephanie Segal: So we in the United States tend to think that markets are the best way to manage the economy, this is the opposite of that. You're not really letting markets decide where is the most logical and cheapest source of goods. It's an arrangement. And among those, going back to the point on rising trade tensions with Europe, among those that are potentially going to lose out are those that are having trade diverted from them because China now has to take up increased purchases from the U.S. So the purchases, in a very narrow sense, will it help address this bilateral imbalance that we have with China—that's good. The way we're getting there, I would argue, is actually unlikely to succeed and potentially destabilizing for the global system.

Bob Schieffer: And I must say, what little I know about it, a lot of other economists agree with you on that very point. What we're doing here is trying to find a way, that a market-driven economy can compete with a state-driven economy.

Stephanie Segal: Right.

Bob Schieffer: And we don't know the answer to that yet.

Stephanie Segal: And then to get... So there are different parts of the deal. So there's that purchases part, which is a big piece of it. There are--I would actually give the
administration a lot of credit for what they’ve accomplished on the IP side. So there are others that have analyzed this agreement and noted the language of “China shall...”. So it an obligation on the part of China—not, “it may,” “it might,” — "it shall." So it’s a firmer commitment that they’re making there than this idea in the past that there always had to be parody. So if China commits to something, the U.S. commits to something, that was kind of the framework under past dialogues, the strategic and economic dialogue, and the strategic economic dialogue that was kicked off in the Bush administration and then continued in the Obama administration. That framework was very much, China will do something provided the U.S. does something. This agreement had, much more in the way of commitments that China was making, kind of accepting that the U.S. didn’t really need to do much. That’s not how it’s going to be characterized in China, but that is the truth of this agreement. So I think some of the commitments on intellectual property are probably—if China executes, and that’s a big if—are positive.

Stephanie Segal: And then that gets us to the enforcement mechanism. And here I’m, again, of kind of mixed views because I think the enforcement mechanism, it is bilateral. So champions of the WTO and wanting to have a rule-based global system, this is not a good development. It’s basically, we say that you’re going to meet these agreements and if you don’t, in our judgment, we can penalize you, and if you retaliate, then basically you’ve just withdrawn yourself from the agreement, and all bets are off.

Bob Schieffer: So some good stuff, but to be continued.

Stephanie Segal: Yeah, I mean, the good stuff is, there is a greater likelihood that China does what it’s committed to do because there’s a real penalty that doesn’t have to go through a multilateral arbitration system —yes. But is that in-and-of itself potentially more destabilizing? And does that set up a world where might makes right? Which is really the problem here for all other countries that are not China or the United States, I think that’s a real possible downside.

Bob Schieffer: Let’s bring in Andrew Schwartz.

Andrew Schwartz: Thanks Bob. And it does sound like you know a lot more about this then you’re leading on Bob. I think you know a lot about this actually. Stephanie, I want to ask you, Davos was intended to be a lot about climate change, another big theme was income inequality. President Trump showed up and started talking about how the United States’ economy is “a roaring geyser of opportunity,” and that U.S. prosperity had come “thundering back at record speed,” since his election. Why do you think he was talking about those things and not really the themes of Davos?

Stephanie Segal: I think there are a few potential explanations. But I think one is, if you just look at the headline numbers and how the U.S. economy is performing, I would be taking credit for that as well.

Andrew Schwartz: Yeah, he’s right.
Stephanie Segal: He’s right.

Andrew Schwartz: So is this the right forum for him to take credit for it?

Stephanie Segal: Well and so that’s a different question, because one could assume that, I mean the U.S. does benefit from higher rates of global growth, but if the U.S. is growing really well, buying things from other countries, but other countries are not growing as rapidly, and not able to buy as much stuff from us, that’s not good. So you could see one potential explanation is he wants other countries to do what we’ve done here, which is very lax, macroeconomic policy, very loose monetary policy, very loose fiscal policy, even though we’re growing at a rate above potential, and deregulation. So I think he is presenting a case of “this is the recipe that has allowed U.S. growth to exceed growth rates in other advanced economies, and so why doesn’t everybody else do that? Follow our lead.”

Andrew Schwartz: So this is his version of showing global leadership.

Stephanie Segal: I think that is likely a very plausible explanation. It could also be, though, if what leaders gathered in Davos actually want to talk about the environment, or want to talk about income inequality, in the context of a country that has actually just cut tax rates, I think it’s a much harder discussion and conversation for the U.S. to have. He’s playing to his strengths, right?

Bob Schieffer: Let me just say, add this, and then we’ll go back to the questions. This is in the great presidential tradition. I do not know of an American President who didn’t take credit for an uptick in the economy-

Andrew Schwartz: Right.

Bob Schieffer: -and it happened on his watch.

Andrew Schwartz: Not to mention in an election year.

Bob Schieffer: He may have been there only five minutes.

Andrew Schwartz: Right.

Stephanie Segal: Right.

Bob Schieffer: But if it goes up just a tick, the President’s going to take credit for it.

Stephanie Segal: Yeah. Yeah. On this point though, I’d like to bring in something, going back to Andrew’s question on the environment. So Mark Carney – Bank of England Governor, who’s been very outspoken on climate change and the need for everyone, including the financial sector, to do something—he has coined this phrase, the tragedy of horizons. That basically says, you have costs that are going to be paid well-down the road, and the actors that actually need to do something now don’t have the self-interest to do something. And this is kind
of the fundamental question and issue when we talk about the environment. I think leaders in Davos actually want to take on this tragedy of horizons and start to bring forward the action and bring forward this realization of we’re going to start paying the costs now, the costs are going to be greater if we don’t start acting now, and having that discussion. That’s not a discussion that the U.S. President wants to have.

Andrew Schwartz: Right. So while the IMF may have predicted that the global economy is going to increase from 2.9% in 2019 to 3.3% in 2020, what we’re talking about with climate change is that global growth may really be stagnant because the costs of climate change, in the long term.

Stephanie Segal: Yeah. Exactly, the long-term. So what are the costs going to be over the next few generations? As you all know, it’s really hard to get politicians that are worried about the next election to face a cost that’s so far down the road. In particular, if some of the solutions to the problem entail a short-term cost.

Andrew Schwartz: As Bob and our friend, Sam Nunn, always say, they tend to kick the can down the road.

Bob Schieffer: Mm-hmm (affirmative).

Stephanie Segal: Exactly.

Bob Schieffer: And on climate change. There’s no issue that they have been more anxious to kick it down the road-

Stephanie Segal: Yeah.

Bob Schieffer: -than that particular issue. And yet it’s very difficult to find anyone who seems to know anything about this whole science, climate change. Did this not say we got to do something, and we’ve got to start now.

Stephanie Segal: Yes. And so I think if we set aside the U.S. position on this, I’m actually cautiously optimistic that there’s a willingness. There is, as you’ve said, kind of across the board agreement that humankind has something to do with the change in climate, and there needs to be action now because we are starting to see the cost now. And tragically, I think the fires in Australia and elsewhere, United States, are actually focusing attention in a way that it hasn’t been focused before. And you have had, recently, statements coming from BlackRock CEO, for example, that this is something that they’re going to be taking into account in making their investment decisions. They’re going to be holding accountable CEOs and the companies that they invest in, and they’re making a commitment to their investors that this is something that they are going to prioritize. So that’s one example, but I do think that there is starting to be a critical mass of initiatives and a recognition that this is a real issue, and that the cost of delaying further is really too high. And I’m actually hopeful that the younger generation is going to hold all of us accountable to that.
Andrew Schwartz: Well Greta certainly is.

Stephanie Segal: Yes.

Andrew Schwartz: And she, at Davos the other day, said, "You guys got to get off your duffs, and do something," so-

Stephanie Segal: Yep. Yep.

Andrew Schwartz: She said it a lot more eloquently than that.

Stephanie Segal: Yes, and more than one observer has noted the irony of the prioritization of climate change in Davos, and then the fact that the majority of participants have arrived there on their Gulfstream, which begs the question-

Andrew Schwartz: Right.

Stephanie Segal: ... you got to match the talk with the actions.

Andrew Schwartz: Let me ask you about income inequality. So the rest of the world seems more focused on it than we are here in the United States. Is that right?

Stephanie Segal: Well, I think rising income inequality is a global issue. It is certainly true in the United States as well. You just look at the debates that are going on in the Democratic Party right now. You do have, I would say across the board, candidates both from the liberal wing and the more moderate wing, are both acknowledging this as a real issue. So I think there is a debate going on in the United States, and recognition of the issue where we do not have alignment, is what do you do about it? I think there's belief that a rising tide raises all boats. So what you really need to do is just keep the economic engine growing, and you just keep unemployment low, and you're going to have wage increases. What we've seen over the past year or two is those wage increases are actually going more to the lower end of the wage scale, and that's a good thing. But there isn't necessarily, with that group, much appetite for the idea of redistribution to address income inequality, higher taxes, and redistributing those taxes.

Stephanie Segal: The Democrats are much more interested in solutions that get at redistribution. So increased taxes and then investing those tax revenues in things like education that will help get at the inequality issue. So on the one hand, I think there is recognition that this is an issue, and we're seeing that in our politics, but we don't really have agreement on how to get at the issue.

Bob Schieffer: Let me ask you about something that nobody seems to talk about much anymore, and that is debt.

Stephanie Segal: Mm-hmm (affirmative).
Bob Schieffer: The national debt. The growing deficit. I came to Washington in 1969, and if a day went by that, and generally it was Republicans or conservative Democrats, who are saying, "We got to stop living on the credit card."

Stephanie Segal: Mm-hmm (affirmative).

Bob Schieffer: "We've got to reduce the debt." Then I remember during the Bush administration, Vice President Cheney said, "It doesn't matter anymore." How do you judge that? What is the state of the American economy if you take the growing debt and the growing deficit into consideration?

Stephanie Segal: I am very glad that you asked that question, because I agree with you. It used to be something that there was a lot of focus on worrying about our deficits, and our overall debt burden, and are we going to be able to pay it off at some point? And that focus has disappeared from both major political parties right now. One of the interesting things that the IMF's Managing Director said in Davos was that we should be ready for the next downside risk, be ready to act in the event of a downside risk materializing. And that then speaks to, well, what powder do we have left to respond in case there is an economic downturn? Monetary policy is already very accommodative. We've already cut rates, they're quite low. So, fiscal policy. Normally at a time when you have full employment and economic growth that's above potential, you would not be adding additional fiscal stimulus. You wouldn't be spending more. We've done the exact opposite in the last few years. And this is one of the reasons that instead of our debt declining at a time when we have healthy economic growth, our debt is actually increasing because we've been continuing to borrow. Are we eventually going to have to pay a price? I tend to think that gravity ultimately prevails, and we will have to reckon with the consequences of having debt on this growing trajectory. How we have to reckon with that, is a question.

Stephanie Segal: Right now, because we have such low interest rates, it doesn't really cost a lot to maintain this debt. But what happens if interest rates were to spike? That could put us on an unsustainable path. On the other hand, if the central bank said, "We'll just continue to buy that debt. We'll keep interest rates really low." What does that mean for savers? What does that mean for pensions that actually have to earn positive rates of return, and their sustainability? So my bottom line on this is that it's not good that we are seeing an increase in debt burdens, and I think that it ultimately distorts financial markets and distorts economic behaviors.

Bob Schieffer: So would you then say that the economy is in pretty good shape right now?

Stephanie Segal: I think the economy is in pretty good shape right now. It is growing, as we were discussing, at a high rate. We've got very low unemployment. We are starting to see wage gains. And then the question is, are we doing the things that we would need to do to rebuild those buffers? And are we making the investments in ourselves that we need to make in order to ensure that we are going to continue to grow at a rapid pace? And it's on that second piece,
the where are we making the investments, where I am a bit more skeptical. So I don’t think, I mean infrastructure week is now a joke in Washington. We’ve been talking about getting some big bill passed where we can start to invest in infrastructure that can actually add to the productive capacity of the economy, that hasn’t come to pass. We know that our educational system, while we have some of the best universities in the world, and those at the very upper end of the scale are getting an excellent education, the average American is not necessarily getting such a good education. So we’re not doing a very good job educating the average American, and we’re not doing a very good job in particular on science and math education.

Bob Schieffer: It’s interesting, isn’t it? This point you bring up. Everybody in the world envies our university system.

Stephanie Segal: Yeah.

Bob Schieffer: Everybody wants to come to an American university, and yet, we have some of the worst high schools, some of the worst elementary schools.

Stephanie Segal: Yeah.

Bob Schieffer: Some of the worst primary schools.

Stephanie Segal: Well, what I-

Bob Schieffer: In the world!

Stephanie Segal: What I would love to see us do, so we’ve been talking about headline GDP growth, economic growth, looks really good, unemployment looks really good right now. I like the idea of measuring results, but I would like to see us start to measure and hold ourselves accountable to the more micro-measurements. So how are our educational outcomes? We spend on average, about the same as other advanced economies on education per pupil. But if you look at our test scores relative to other advanced economies, we’re actually on the lower half of that grouping. If we look at how we spend our money on healthcare, we spend more than any other country per individual on healthcare, but our health outcomes-

Bob Schieffer: We spend about as much as the rest of the developed countries combined.

Stephanie Segal: It’s astronomical. And again, if you’re fortunate enough to be able to pay for the very best care, it’s right here in the United States. Unfortunately, the average American is not able to get that very best care. And that’s why you see the United States, among advanced economies, we’re the only one that actually has a declining life expectancy. So that statistic alone, to me, speaks volumes. And again, when we think about things like income inequality, how is the economy working for the average American? That statistic alone says, we actually have a long way to go.
Andrew Schwartz: Stephanie, let me ask, you mentioned interest rates. Let me ask you this, can world economies continue relying on central banks and monetary policy for future growth?

Stephanie Segal: Well that is a great question. Just to kind of add a little bit of meat to the question itself, so this idea of how is it that the global economy dealt with the uncertainty of the trade war? The answer is in monetary easing. So one of the data points that the IMF gave us this past week is that monetary easing was responsible for about a half a percentage point of global growth last year. And there were 71 interest rate cuts by 49 central banks as part of the most synchronized monetary easing since the global financial crisis. So across the board, central banks all over the world, cut interest rates to sustain global growth. How long can you do that, is a great question. So we already have two of the largest central banks, the European Central Bank and the Bank of Japan, with negative interest rates already. Can they continue doing that? I think it’s a political economy question, as much as anything else. Right? Because when you have negative interest rates, what I was mentioning before, you’ve got savers that are not earning returns on their savings.

Andrew Schwartz: Right.

Stephanie Segal: So I think there are limits to what the population will be willing to accept. And I think there are also questions about how effective –you keep interest rates low, if you think that it’s stimulating growth. If it’s not really being effective, you don’t have kind of unmet credit demand, so it’s not stimulating growth. Then you need to look for a different tool to stimulate growth, and if you talk to the fund and other economists, they will say, what’s really needed are wise investments that boost growth and structural reform. The stuff that’s really hard to do because it’s politically very difficult.

Bob Schieffer: Are the Chinese still one of the largest buyers of our debt?

Stephanie Segal: They are still among the largest holders of our debt.

Bob Schieffer: Yes.

Stephanie Segal: They are not, not to get too technical here, but we know that we had a big row with the Chinese over currency policy, the fact that they were intervening for a long time to keep their currency low, they intervened by buying U.S. treasuries. They’re not doing that anymore. So they buy other U.S. assets, they’re not buying U.S. treasuries.

Bob Schieffer: What do you mean other assets? What would they-

Stephanie Segal: Well they are investors in all sorts of, as any other foreigner would be, investing in U.S. equity market-

Bob Schieffer: I see.
Stephanie Segal: U.S. bonds. Up until a few years ago, the Chinese really ramped up their foreign direct investment in the United States, and that’s something that has now been kind of turned away a bit. But they are not large buyers of new issuances of treasuries, because they’re not intervening in the market as much anymore.

Bob Schieffer: Stephanie, one thing that’s a little off track, but will this virus coming in from China, does that have any kind of economic impact?

Stephanie Segal: That is a great question, and it’s one that we were just talking about earlier in my program. So we know now that the virus has spread, that it’s possible to spread between humans.

Andrew Schwartz: First case in the United States reported in Washington State.

Stephanie Segal: Yep. Yep. And a lot of people are thinking about the experience back in 2003 with SARS, and what that did at the time to global growth. There are some estimates that that shaved off as much as half a percentage point from global growth back then. So it’s really too early to tell what the impacts are going to be, how widespread this potentially is, globally. But I would say for China specifically, China’s already under quite a bit of pressure. It’s uncertain there, but the timing is particularly bad. We’re going into a holiday period in China where hundreds of millions of people tend to travel during this time, and there is anecdotal evidence that some of those plans are being canceled. And so going into this holiday season at a time when rather than go out and travel and spend money, people are staying at home, that’s just another hit to growth in China. So I think this is something that is certainly a downside risk, and we’re just going to have to watch and wait and see what the end results going to be.

Andrew Schwartz: Well, not to mention that already in the United States, our airports are starting to screen people coming in.

Stephanie Segal: Right.

Andrew Schwartz: So the impact on global tourism.

Stephanie Segal: Yeah, I mean I would say relative to 2003, if there’s an upside to that experience, it forced us and other countries to put in place mechanisms to really figure out how to get a handle on something like this happening. And again, we don’t really know the extent of the problem yet. But at this time when we’re saying that growth is just turning the corner, but we should be mindful of the downside risks, this is certainly one of them.

Bob Schieffer: Stephanie, thank you very much for bringing us the Truth of the Matter on this very important, and I would also add, very complicated subject. You have helped me to have a better understanding of what’s going on here.
Stephanie Segal: Well it was my pleasure and I hope next time we’ll be able to really solve some of these issues.

Bob Schieffer: Well that's always our hope. I'm Bob Schieffer.

Andrew Schwartz: And I'm Andrew Schwartz.

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