3 Takeaways Podcast Transcript
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Ep. 173: At A Time Of Great Global Volatility, The U.S. Economy Is Far Outperforming All The Other Major Countries. Listen And Learn Why.

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INTRO (male voice): Welcome to the 3 Takeaways podcast, which features short, memorable conversations with the world's best thinkers, business leaders, writers, politicians, scientists, and other newsmakers. Each episode ends with the three key takeaways that person has learned over their lives and their careers. And now your host and board member of schools at Harvard, Princeton, and Columbia, Lynn Thoman.

Lynn Thoman: Hi, everyone. It's Lynn Thoman. Welcome to another 3 Takeaways episode. As The Economist has noted, if there is one thing that Americans of all political stripes can agree on, it is that the economy is broken. The only thing is they're wrong. America is outperforming Europe and Japan by huge margins in economic growth, in employment, in average income, in patents, and in stock market returns. If you look at America's share of the world economy, in 1990 America accounted for a quarter of the world's economy and it still does 30 years later despite China's huge economic growth. America's outperformance is even more dramatic compared to the largest countries such as the Group of Seven.

LT: The G-7 is the world's largest economies and includes Canada, France, Germany, Italy, Japan, the UK, and the US. Back in 1990, the US accounted for about 40% of the Group of Seven's GDP. Today it accounts for about 60%. As for jobs, America has about a third more jobs than 1990, whereas Europe and Japan have only about 10% more jobs. Even the income of the poorest fifth of Americans has outperformed rising by over three quarters in the last 30 years thanks to the growth of benefit payments. I'm excited to be joined today by Gillian Tett, the US Editorial Board Chair of the Financial Times, and the newly named Provost of King's College, Cambridge [University]. I'm excited to find out why America is outperforming and what's happened to the UK since Brexit. Welcome, Gillian, and thanks so much for joining 3 Takeaways today.

Gillian Tett: Delighted to be on the show.

LT: It is my pleasure. In what ways and by how much is the US outperforming?

GT: Well, the US is outperforming on a number of metrics in terms of the raw growth numbers, which have been some of the best, if not the best, in the G-7. Really very impressive and much stronger than almost all commentators had forecast. It's also outperforming in terms of the employment record and the very low levels of employment at the moment. And although inflation numbers are scary to most voters right now, the brutal reality is that inflation has been recently running between 3.5% and 4%. That number is also much better than most of the rest of the G-7 right now.

GT: So, from that perspective, the macroeconomic data, the US has been outperforming. But to my mind, one of the most fascinating metrics is if you look at the ranking of companies globally in terms of market cap and revenues, and there you see an even more stark discrepancy. In that American companies absolutely dominate the league tables of the big global companies, and their footprint has actually increased significantly, not decreased, in recent years. And that's partly due to tech companies basically, becoming the only game in town as far as much of the stock market is concerned. The so-called seven big tech companies are driving a lot of the stock market outperformance. But actually, if you look across the wider corporate spectrum, what you see is that corporate America is just a lot stronger right now than anything seen in Europe or, even frankly in Asia. And that's helping to power the growth as well, albeit in a way that's not as obviously visible.

LT: Can you explain the G-7 and can you compare some of the performance numbers of the United States to those other countries?

GT: The G-7 is the Group of Seven, it's the big industrialized countries. And essentially, if you look at a country like Britain, which is where I'm sitting right now as the Provost of King's College in Cambridge [England], where you've seen inflation really a lot higher than the US, you've seen growth a lot, lot slower. There's almost no growth right now in the UK. Technically, the UK is hovering on the edge of recession. And the employment rate is not bad by historical standards, but not good at all and a lot worse than the US. When you look at the issue of the corporate league tables, Britain is absolutely nowhere these days precisely because the American companies have become bigger and bigger in terms of their footprint.

LT: And that's also true of the major European economies as well. The US has outperformed in terms of income growth and in terms of employment as well.

GT: Some people might say that's because they were much more dependent previously on Russian gas and oil, which has been cut off, and that energy hit has dragged down growth. That's certainly true. But at the same time, the European financial system has been slower to recover from the 2008 financial crisis. The European economies, in general, have been less dynamic, partly because they're perceived to be less flexible, but also because, as I keep saying, the big US companies dominate the corporate league tables globally today.

LT: And how does employment compare for the US and for some of the other major countries?

GT: The unemployment rate is lower in the US than it is in most of the other G-7, Group of Seven big industrialized countries, you might say just as well, because the US safety net has historically been a lot weaker. But again, another thing that's very striking about what's happened in the last three, four years is that on the one hand, during COVID, you had big transfers of support from the government to the population as a whole in the form of the checks that were handed out during COVID. That has really improved the balance sheets of lots of households, made them feel and actually be a lot richer. If you look at what's been happening to the bank balances of the poorest segments of Americans, they are basically much healthier than they were five years ago, partly because of that COVID cash, partly because the unemployment rate has been a lot lower. So that's really quite striking in terms of what's been happening with the wealth of the poor Americans and the job opportunities. And another fascinating detail that doesn't get much attention is that income inequality has actually slowed down quite remarkably in the last two or three or four years compared to previous decades, partly because of the impact of the COVID support, but also because of a wider range of government support programs.

LT: What do you think has powered the US outperformance compared to the other major countries?

GT: The US outperformance has been partly powered by the fact that it acted slightly more swiftly in terms of trying to fix its financial system after the 2008 financial crash in Europe. That has definitely helped to stabilize things. You've had very, very loose monetary policy, negative rates, for a long time. But the biggest reason, in my view, why you've had this recovery is because of the role of the corporate sector again, and the way that companies, particularly, tech companies, have been generating jobs, generating earnings, and providing dynamism in that way. More recently, you've had things like the Inflation Reduction Act, giving a real boost to manufacturing and green technologies as well.

LT: Gillian, you've written about the huge increase in asset prices, especially real estate and stock prices. Can you start by putting that increase in perspective and then explain why it either worries you or doesn't worry you?

GT: Well, the era of quantitative easing, which lasted for the best part of a dozen years, really did inject a lot of liquidity into financial markets, and it drove a lot of growth, a lot of some consumer price inflation, but also particularly a lot of asset price inflation. So, you've seen stock markets, bond markets, real estate markets all jump up really very sharply and in a way that I've long been concerned about and did not think was sustainable. So, it's no surprise we've seen all of those markets come off as central banks have begun slowly to tighten monetary policy and reverse QE. That's a slow process. It's going to take a long time, but you're beginning to see essentially some of the more extreme forms of asset price inflation beginning to slowly modify. And I would predict that will continue for some time.

LT: You've recently moved back to Britain to become the Provost of King's College at Cambridge University. Can you talk about the promises of Brexit and how the promises compare to the reality of what's actually happened?

GT: In terms of the promises and the reality, I'm in the camp of people who thought that Brexit was a disastrous idea from day one. I was beyond shocked that the public voted for it. That showed in so many ways how I'd become elitist and detached from what ordinary voters felt in terms of their level of anger towards the system. But I was always of the view that Brexit was an incredibly bad idea and nothing that has happened since then has in any way convinced me otherwise, in that it has sucked out a huge amount of energy, focus and dynamism from the UK economy. People have wasted a huge amount of time and money trying to both implement it and essentially arguing about what kind of shape it should take. It's been a huge distraction. It's been a real blow to anyone who's trading with Europe because they now have this insane bureaucracy on every level to actually deal with European Union. It's been a disaster for anyone who's trying to build a career by hopping back and forth between the European Union and the UK, and that's having real impact on talent.

GT: In a university context like Cambridge [University], it's meant that although we used to have lots of super bright European Union students, it's now much harder for them to come. So, to my mind, Brexit makes my blood boil by the sheer utter stupidity and self-inflicted sabotage that occurred. And the thing that's really tragic is that the majority, two thirds of the British public, now think it was a bad idea. So, whether you blame that on misinformation, on voters being misled, on the fact that you had an elite who were just too out of touch with what voters wanted, it happened, it was not presented correctly to the population, and tragically it's had all the bad consequences that people like me thought would come to pass.

LT: I am shocked as well. What major trends and forces are you seeing in the world today?

GT: Wow. Where do I start? The major forces for the next year will be, one, the withdrawal of the quantitative easing policies that have shaped the last 15 years of monetary policy and financial system. That is a big shift, which we have barely begun to see the consequences of. So, a world with interest rates of 5% is radically different from a world where interest rates are zero, and that will be shaping the way the financial system takes place in the next year. The second big theme is the retreat from globalization, at least in a rhetorical sense, if not in reality. Globalization can be measured in four ways: movement of people, movement of goods, movement of ideas and movement of money. And if you look at the movement of money, that slowed down after the financial crisis and since then more or less plateaued. The movement of people has been surging. It slowed down in COVID. It's now returning. The movement of goods? Trade has definitely slowed down in many ways. And you're no longer seeing the explosive growth we saw two decades ago. The movement of ideas via the internet, that is a really interesting one because you've seen that one continue to grow rapidly in recent years, but the rise of the splinternet and things like that could begin to challenge that.

GT: But if you add that together, globalization as a whole is not collapsing, but it's not advancing. And that's the other great thing that people are going to have to contend with. The other two I'd point to would be the shift in geopolitical power and the rise of geopolitical stress and war. And the fact you've got actual wars happening around the Middle East and Ukraine, to name but a few, you've got threatened wars happening in Asia, you've got trade wars, tech wars, cyber wars galore. You're beginning to see the hints of a capital war in China too. So that's a very important theme. And the other one that I point to of course is climate change and the degree to which that is both shaping government policies and threatening to impact on companies and investors as they try and prepare for the future.

LT: Why do you think there's so much more conflict and war and seemingly stress in the world today?

GT: I think what you're seeing is a confluence of several things. Firstly, you're seeing a shift in power from West to East as countries like China rise in economic might and want to flex their muscles, not just in a political sense, grabbing a bunch of islands in the East China Sea, but also in a symbolic sense, showing that there's an alternative to the Washington consensus about how to run economies. Secondly, I think that you are seeing quantitative easing and the collapse of quantitative easing contribute to stresses around the world. And you're seeing, ironically, rising income inequality inside countries in the West, but you're seeing diminished inequality between countries in a way that's given the parts of the Global South the ability to challenge the West more really for the first time. And that's sort of again, fostering conflict and fostering challenges.

GT: On top of that, you have the rise of the internet, you have the rise of light arms, miniaturized consumer electronics, fueling things like drone wars, fueling things like... all manner of small arm complex and things like that. And then last not least, you've had a swing away from the sunny optimism after the Cold War that basically delivered the collapse of the Berlin Wall and a view that actually liberal orthodox economics had won and democracy had won, The End of History to quote

Francis Fukuyama, using the end of that great optimism and a recognition that actually the Bretton Woods Institutions that were created post World War II are not really fit for purpose in a multipolar world. They were predicated on the West being in charge, and now you have a much more balanced geopolitical order and we don't have the institutions to cope with that. So, you put that all together and you have a world that tragically is marred by a lot of conflict right now. A lot of strong men, a lot of backsliding on the democracy side. The Bertelsmann Index, which tracks democracies around the world, reported that for the first time since 2004 last year, there were more autocracies than democracies, 70 to 67 to be precise. So, you're seeing a backsliding on that front as well. So, it's turbulent times, tragically.

LT: Tragically. Before I ask for the three takeaways, you'd like to leave the audience with today, is there anything else you'd like to mention, Gillian, that you haven't already touched upon?

GT: I guess the obvious one is that everyone right now is stressing about artificial intelligence and what it will do to people. To my mind that's a really important question to ask, but the other question is, what has digitization already done to us in terms of connecting us globally, speeding up processes, giving people the ability to customize their identity and their consumer choices and change a lot of our social fabric. And to my mind, that's one of the most fascinating things that anybody involved in this should be thinking about.

LT: What do you think the impact is so far?

GT: It basically has pushed down prices to a large degree. It has fostered contagion, but it's also fostered more cyber tribalism because cyber platforms actually increase social tribalism and group think rather than actually fight against it often.

LT: What are the three takeaways you'd like to leave the audience with today?

GT: The three big takeaways are that, one, the world faces what people are calling polycrisis, which is crisis on many fronts today, both environmental and geopolitical and technological, and is likely to face more financial shocks over the next year. My second big takeaway is that people today think that's shocking and weird compared to the last few decades, but actually if you look back over the sweep of human history, the last few decades have been the oddity and the odd one out, not the current moment of tremendous volatility and fear. Most of human history has been deeply volatile and deeply fearful. So, in some ways we're seeing a reversion to the norm right now.

GT: Third big takeaway is that if you are an investor or a company executive or just a small time retail investor, it's important to realize that the most important things that matter right now are the things that are not really on the balance sheet of companies. So, companies that create profit and loss statements with great tunnel vision, that is part of the Milton Friedman ethos of just caring about shareholders. But it doesn't work today because things that were not on the balance sheet two decades ago, like environmental risk, like geopolitical tensions, like social risk, like gender relations, like rapid technological change, those are the most important things that investors need to think about. And if I'm allowed three and a half big takeaways, when they look at those issues beyond the balance sheet and remember that actually what we're living through now is normal, not weird, compared to most of human history. You then also learn that there's still a huge amount of opportunity in the current world, even if it's scary.

LT: Gillian, thank you. This has been terrific and congratulations on being named Provost of Kings College.

GT: Thank you very much indeed, and it was delight to be on your program.

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