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Global economic outlook

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Former IMF senior economist, Professor Ken Rogoff, discusses the aftermath of the global financial crisis and how long the recovery is likely to take.

Transcript

EMMA ALBERICI, PRESENTER: Here is an assessment of the global economic outlook.

There is increasing optimism that the worst is behind Europe and the United States.

On the eve of president Barack Obama's State of the Union address we're joined by the former IMF chief economist Ken Rogoff.

He's now Professor of Economics and Public Policy at Harvard and co-author of the highly regarded book This Time is Different: Eight Centuries of Financial Folly.

Ken Rogoff, it's very good to have you there. Thanks for joining us.

KEN ROGOFF, FORMER IMF CHIEF ECONOMIST: Thank you.

EMMA ALBERICI: If we can start with the US economy. Tell us what can the president say in his State of the Union address that will provide some comfort to the people of America that he has a credible plan to fix the public finances?

KEN ROGOFF: Well I think it's very hard because he doesn't control Congress and they don't seem to have come to any agreement. I think what he's probably going to do is try to propose his vision and try to sell it to the American people and hope that he can get some piece of it done. That's really the challenge. Also he gave I'd say a fairly left-leaning inauguration address and he's probably going to try to balance that a bit in this address.

EMMA ALBERICI: How does the US economy look in February, 2013 compared, say, to August, 2008?

KEN ROGOFF: Well, I think the numbers have continued to be stable, but not exciting. There's not a lot of growth going on in the US economy. It's going along at maybe 1 per cent, which is not very good. There are projections that it's going to get up to 3 per cent by the end of the year, which is more normal, but still not great.

There are a lot of unemployed people. It's stable, but growing slowly, and president Obama needs to present a vision of how to pick up that growth over the longer term.

EMMA ALBERICI: Is the threat of recession behind you?

KEN ROGOFF: Yes, I don't think there's a big threat of an immediate recession, certainly not a serious one, but there's also not a big threat of galloping growth and that's the problem. There are a lot of people unemployed. We are still coming out of the 2007-2008 crisis and we're still digging our way out. My book with Carmen Reinhart suggests that it might be several more years before it's really normal.

EMMA ALBERICI: Indeed, I think Bill Clinton actually telephoned you during the election campaign to seek your counsel. Can you tell us something about how that phone call went?

KEN ROGOFF: Well, I don't know, he has spoken about it on the campaign trail. I try to play it close to the vest when someone like that calls me. But he had quoted me in one of his recent books and we'd exchanged books and he called me to talk about it. I was of course deeply honoured. He's an incredibly brilliant man.

EMMA ALBERICI: In his election pitch, president Obama said he needed four more years to fix the US economy. Can it actually be done in that time?

KEN ROGOFF: Yes, I think four years is a long time, so I don't know about fix everything about the US economy, but with some luck, we will be growing normally at the end of four years, the job market will have stabilised. The US has a lot of strengths. I think the political system is not one of them at the moment. It's very divided. It's not the politicians, it's the public - they're very evenly divided and they completely disagree. You can look at gun control as an example where some people think, you know, the kindergarteners should have semi-automatic weapons and some people think all guns should be banned. There's a lot of disagreement.

EMMA ALBERICI: Now, the US has a debt of $16 trillion. It now represents I think around 100 per cent of your GDP. And just to give Australian viewers some perspective, our Australian debt represents around 9 per cent of GDP. How does America even begin to pay that amount off while also trying to grow the economy?

KEN ROGOFF: Well that is a very tough question. So, every measure of debt you look at, not just the Government's debt, but private debt, is really at or near record levels. By the way, your private debt is pretty high. And as we know from the financial crisis, that's ... (audio problems) ...

Some people, certainly the Democrats, want to keep entitlements very strong. The Republicans want to keep taxes low. They both seem to have won that argument and so we run these big deficits, which are likely to get a lot worse over the next 10 years.

We need to cut another 6 or 7 per cent of GDP, of income from our deficit. That is very painful over the next 10 years. That's the nature of this fiscal cliff, this disagreement in Washington.

EMMA ALBERICI: And so, as we know, the US didn't fall over that fiscal cliff. It seems though that the cliff was just moved further away. How are those negotiations going between the Republicans and the Democrats?

KEN ROGOFF: Oh, I think they're not. I mean, I think they're moving from benchmark to benchmark, from month to month. There is such a deep fundamental disagreement where the centre has been hollowed out in US politics at the moment.

The Democratic Party has become more liberal, the Republican Party's become more conservative and they just don't see eye to eye on what to do about this. They both talk about the debt, but they both want their way. As long as the markets are willing to lend the United States money at very low interest rates, nothing'll happen.

But these things eventually, you know, come to a head. The US is the reserve currency; everyone in the world wants it, but that only goes so far. So the US has maybe has 10 or 15 years to deal with this. It seems like forever, but it moves very quickly, as we all know.

EMMA ALBERICI: Now I wanted to talk to you about Europe too because you've been quite a pessimist on the future of the euro in particular. Is the single currency in your view on a more steady footing than it has been of late?

KEN ROGOFF: Well certainly what the European Central Bank Governor Mario Draghi did, which was basically guarantee all the government debt of the 17 governments of the eurozone, helped stabilise the situation.

But in the long term you can't make those kind of transfers between Germany and Portugal and Spain and Italy and Greece and Cyprus - that can't go on forever without some kind of political union. I think they need to look a lot more like a real country than they do now within say 10 to 15 years or it will blow up.

I'm optimistic that that will happen, but I don't think all the current members of the eurozone will necessarily be in the first tier when that happens. There may be an outer orbit of countries, perhaps protected by capital controls, which don't have the same degree of political integration immediately.

I mean, it's not easy to forecast these things. It's hard to understand someone else's marriage from the outside - it's hard to understand from the inside, and that's a little bit like trying to predict European politics.

EMMA ALBERICI: But there's no real appetite, is there, for political union, for having some kind of United States of Europe?

KEN ROGOFF: But they're forced by economic forces to try to do that because these transfers that are implicit in the European Central Bank's guarantee, that are implicit in the short run strategy, they just can't go on forever. They've been very opaque. They've not been transparent. It's not easy for the voters to understand.

But as it unfolds, it'll be clearer that they need some kind of system for deciding how they're gonna send money around. You can't just have a few elites make these huge decisions with huge budgetary implications for Germany and perhaps France.

EMMA ALBERICI: When it comes in particular to Greece, you've said before that you think it would actually be best if Greece defaulted on its debts. Is that still your view?

KEN ROGOFF: Well, they've been - you know, their debt's been taken away so there has been a default on Greek debt, that's happened and it's gotten more massive by the day. So that's certainly taken place.

The question is: what's going to happen with Ireland, Portugal, Spain. Ireland was recently given a sort of under-the-table restructuring which is going to help it a lot, but still I think throughout the world the United States and Europe, these levels of debt are very high, I don't think you can get out of it just with austerity and belt-tightening.

We're going to need to see some substantial debt write-downs around the world. It may be done through financial repression, under the table, through inflation, I don't know, but I don't think growth is going to be good enough over the next decade to just wish this problem away.

EMMA ALBERICI: OK, now just before we go, I wanted to get your views on the Australian economy in a global context, because of course we all see these things through the prism of what happens every day in our own political atmosphere. Tell us what you see from where you sit.

KEN ROGOFF: Well, obviously Australia's had a good period compared to everybody else thanks to high commodity prices. But, you know, you have your vulnerabilities. The economy's become increasingly imbalanced with the mining sector, the commodities sector maybe having such a large share that you're vulnerable.

If China has a crisis, for example, that'd lead to a sudden drop in commodity prices and you don't have the flexibility to quickly move into education, tourism and, you know, other things like that - services which might cushion the economy.

So Australia has these problems. And then there are hidden problems; consumer debt's very high, housing prices are high, so it's fine, but what if suddenly they're not? And then you have a lot of state and local debts which are implicitly guaranteed by the Government.

So, sure, there are plenty of things to be done even though Australia's in a good position compared to many other countries.

EMMA ALBERICI: Ken Rogoff, unfortunately we've run out of time. It's been a great pleasure speaking to you. Thanks very much for your time.

KEN ROGOFF: Thank you.

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