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Intelligence Squared U.S.
Unresolved: America's Economic Outlook

Host & Moderator:
John Donvan

Debaters:
Jason Furman, Dambisa Moyo, Simon Johnson, Gillian Tett, Stephen Moore

Start Time: (00:00:00)

John Donvan:
Some of the economic promises that a candidate named Donald Trump made are actually being kept now that he is president. He promised there would be tax reform, and now we have tax reform. He promised that regulations would be cut, and regulations are being cut. When it comes to trade policy, we are not sure yet where that is going.

But what is the upshot? Who is feeling great and who is not feeling great, and who might yet feel great? Well, in all of this, we think we have the makings of a debate, and so that's what we are going to do. I'm John Donvan, this is Intelligence Squared U.S., and the name of this debate is "Unresolved: America's Economic Outlook." For this one, we are using the format that we call "Unresolved," in which five debaters, each superbly qualified but ready to disagree with the other, will argue independently, in other words, there are no teams in this debate, and not on just one resolution, but on a series of them.

00:01:00

So, please, let's welcome to the stage our esteemed debaters. First, Jason Furman.

[applause]

Hi, Jason.

Jason Furman:
Hi John.

John Donvan:

Gillian Tett.

[applause]

Stephen Moore.

Dambisa Moyo.

And Simon Johnson.

And I'd like to start with a little chat with our debaters, starting with Jason Furman. Jason, welcome back to Intelligence Squared U.S. You spent eight years in the Obama administration. You were one of his chief economic advisers, in fact, chairman of the Council of Economic Advisers. You're now at the Harvard Kennedy School, senior fellow at the Peterson Institute for International Economics. Jason, just a little bit of a little flashback for just a second. When you look back at the Obama administration, we're just curious what policy -- what economic policy you think will be most influential in defining his legacy?

00:02:06

Jason Furman:
I think the Affordable Care Act wasn't just about health insurance. It was a really important step in a large fraction of the U.S. economy which will be felt in years and decades to come.

John Donvan:
Okay, thanks very much. And I want to turn to Gillian Tett. Gillian, you have been writing about the global economy for more than two decades, including at the *Financial Times* where currently you are U.S. managing editor. You are a best-selling author. Your most recent book, *The Silo Effect*, which looks at the global economy through the lens of cultural anthropology, which sounds fascinating. Also fascinating, whether everybody here knows it or not, you were the person who famously interviewed President Trump when he declared that he was ready to go unilaterally against North Korea in he had to. Big, big headline at the time. But when it comes to the economy, Gillian, if we're to make reference in this debate here to the president's core economic philosophy, do we even know exactly what that is?

00:03:00

Gillian Tett:
Well, nothing quite as dramatic as finding Pyongyang on a map. But I'd say probably make American real estate great again.

John Donvan:
I think we've heard that before.

Gillian Tett:
Exactly. And create lots of jobs for Trump supporters.

John Donvan:
All right. And Stephen Moore, welcome back to Intelligence Squared. You're a senior fellow at the Heritage Foundation. You advised President Trump during his campaign. You are also one of the architects of the GOP tax reform that we're going to be talking about. And in recent months, you've been critical of the mainstream media, Stephen, and how it's covered President Trump. In a nutshell, what do you say -- think that commentators are getting wrong about the president?

Stephen Moore:
I think that the main fallacy of Donald Trump in terms of the coverage -- and I think a lot of public perception about Trump -- is my advice is, look what he does and don't listen to what he says because I think his actions speak louder than words. I'm one of these people who would love to take his thumbs away, so he couldn't tweet so much. But, look, I mean, his actions I think were -- are important and not his words.

00:04:03

John Donvan:
Okay. Thank you, Stephen Moore. And Dambisa Moyo, a global economist, another best-selling author. We have a lot of them on the panel tonight. Currently, you're serving on the board of Barclays Bank, Barrick Gold, and Chevron.

You have a book coming out: “Edge of Chaos: Why Democracy is Failing to Deliver Economic Growth, and How to Deliver It.”

It’s coming out in April. In one sentence, just a preview. What’s the new book about?

Dambisa Moyo:
So, my book offers 10 radical reforms. That’s 10 radical reforms to meaningfully change democracy, liberal democracy, so that we can actually generate sustainable long-term economic growth in a more equitable fashion.

John Donvan:
Thank you very much, Dambisa Moyo. And finally, Simon Johnson. Again, welcome back. You’re a professor at the MIT Sloan School of Management, Simon, a senior fellow also at the Peterson Institute, former chief economist of the International Monetary Fund. Your book, “White House Burning: The Founding Fathers, Our National Debt, and Why It Matters to You.” Simon, in a sentence, why does the national debt matter to me?

00:05:02

Simon Johnson:
Because, John, great civilizations have been brought down by issuing too much debt in an incautious manner. Let's not do that.

John Donvan:
Okay. Might be a topic that comes up tonight. Ladies and gentlemen, one more time, our panel of debaters.

[applause]

John Donvan:
To remind us all again of how this is going to work, we're going to be working through a series of resolutions, three of them, one at a time, and on each of these motions the debaters will asked to state their position in the moment, yes or no. They each have 90 seconds after they make that declaration to tell you why they stand on that position, and if they hit the time limit they're going to hear this sound.

[buzzer]

John Donvan:
So, that means when you hear that you have to stop talking. The first speaker will be chosen at random, and after that, in each round the order will go clockwise.

2018 begins with a new world of taxation, thanks to the just-passed tax reforms, whose detractors call it a gift to the rich, whose supporters see it as the starting point for a new era of spreading prosperity.

00:06:04

Well, which is it? Our first resolution: The GOP Tax Reform Bill -- now law -- Will Improve Our Outlook for Growth. Our first debater is Simon Johnson. On this resolution -- The GOP Tax Reform Bill Improve Our Outlook for Growth -- do you declare yes or no?

Simon Johnson:
No.

John Donvan:
You have 90 seconds to make your argument.

Simon Johnson:
John, I think that the way to think about this tax cut -- I think the word "reform" is somewhat overused in this context -- this tax cut is focused on old capital. There's two kinds of capital in this economy. There's new capital; there's new investment. That's what builds companies; that's what builds jobs. I'm a professor of entrepreneurship at MIT. That's -- I work with

entrepreneurs all the time. They're unimpressed by this tax cut. Gary Cohn, who's a senior economic adviser to Donald Trump, spoke to a group recently, a group like this, and asked them how many -- actually, a group -- this kind of numbers -- a group of CEOs -- asked them how many of them are going to increase their investment and create new jobs as a result of the tax cut.

00:07:02

Very few of them raised their hand, and he was shocked. But the reason is that this GOP/Republican tax cut is focused on old capital. If you own a building -- for example, a large building with a lot of apartments in New York City, should you be so lucky, then you're going to do very well from this tax cut. That's old capital. That's capital that's already in place. The new capital, the capital that builds companies, the capital -- the support that we get for research and development -- that is not going up. I think that's going to get actually squeezed when you take the entire tax picture.

And when you consider, John, all of the issues here, including the distributional impact, including the incentives to ordinary working people to go to college, to get more education, to invest in themselves in order to participate with new capital as partners in economic growth, this tax reform at best is a zero. I think it could be somewhat negative. If you own a building around the corner or down by Central Park, congratulations.

[applause]

John Donvan:
We move on to Jason Furman. Jason Furman, on the resolution "The GOP Tax Reform Bill Will Improve Our Outlook for Growth," do you declare yes or no?

00:08:06

Jason Furman:
John, I declare no. Let me get out of the way. This tax cut's going to shovel $200 billion into the economy this year.

That will help the economy this year by a small amount and a transitory amount. What it won't do is improve our outlook for long-run growth. Simon got to the very core reason for that. It's a windfall for investments people have already made. It's not very much of an incentive for new investments. The United States already had a very high corporate tax rate, but also had a lot of loopholes, and that meant that the effective corporate tax rate wasn't actually very high. In fact, under this bill the tax rate on research and development will go up, and so we're going to have less innovation and less research. In addition to that, this tax bill will balloon the deficit. The deficit next year will be more than a trillion dollars.

00:09:01

It will stay more than a trillion dollars going forward. We've had large deficits before when fighting wars, in very deep recessions. We have never, ever had a deficit anything like this as a share of the economy in peacetime.

So whatever benefits you get from the rate reductions will be more than outweighed by the deficit reduction. The last thing I'd say is this isn't just my judgment. This is the judgment of the FOMC, which hasn't changed its long-run outlook. None of the major investment banks have. A survey of 42 economists -- zero of them said it would have a large impact on long-run growth, because they all understood it's a benefit for old capital that will swell the deficit and cost us in terms of research.

[applause]

John Donvan:
The resolution, The GOP Tax Reform Bill Will Improve Our Outlook for Growth. Gillian Tett, how do you declare?

Gillian Tett:
Well, I'm going to declare yes, partly because I want to make this debate a bit more interesting, but also because --

John Donvan:
We so appreciate that.

[laughter]

00:10:00

Gillian Tett:
But also because I'd like to shift the perspective. As it happens, if you look at the long run I share many of the concerns that Jason and Simon have raised. I think many aspects of the tax bill are not desirable.

It is indeed very slanted towards, as Simon says, making American real estate great again, particularly in New York. However, I would also like to say that in the short term there are benefits coming down this year. I do think it has helped to ignite animal spirits [spelled phonetically]. And as someone who did indeed train as a cultural anthropologist, not an economist, as somebody who's in the information game and spends a lot of time as a journalist overseeing a newspaper, looking at sentiment, I actually think that sentiment matters a lot. This has helped to ignite animal spirits. It has also helped to create a sense of optimism, and there's also a sense of narrative around what's going on with the economy. There hasn't been a sense of clear-cut narrative for a long time.

00:11:03

So, for all those reasons I do actually think that, in the short to medium term, it's already delivering a boost. However, I do share the concerns that they have echoed about the long term. So, that's a kind of qualified yes, at least to inject a bit more debate and dynamism into this debate, and I'm sure the next speaker will have a thorough yes.

John Donvan:
Thank you, Gillian Tett.

[applause]

John Donvan:
The next speaker is Stephen Moore. Stephen, on the resolution the GOP Tax Reform Bill Will Improve Our Outlook for Growth, are you yes or no.

Stephen Moore:
I'm going to say no. No, I'm only kidding! I'm only kidding!

[laughter]

Stephen Moore:
I helped write the bill, so of course I'm a yes. Look, I think that giant sucking sound you're hearing is the United States is sucking capital from the rest of the world. I agree with these two gentlemen that capital is the name of the game. Whoever has the most capital wins. We have made dramatic improvements in our global competitive situation.

00:12:02

When we started writing this bill two years ago the whole idea was, how do we make American businesses more competitive? I do believe that our highest-in-the-world corporate tax rate was one of the dumbest things in the world. It was a head-start program for all the countries that we compete with. We've fixed that big time. We've gone from the highest statutory tax rate in the world to below the average. That's going to bring a lot of jobs and factories back to the United States. We did the repatriation, so countries can bring -- companies can bring -- we don't know how much, $1 or $2 trillion dollars back to the United States. That's a huge benefit in terms of money being invested here in America rather than being in invested in India or China or Mexico or other countries. The -- we also reduced the small business tax rate, so right now, as of -- prior to January 1st, the highest tax rate on small businesses was 40 percent. It's now down to 30 percent. There's an old saying: "When you tax something you get less of it; when you tax something less you get more of it."

00:13:02

We're going to see a lot more jobs, we're going to see a lot more investment, and I think that confidence that you talked about, which I agree with -- that optimism is in no small part a result of this tax bill.

John Donvan:
Thank you, Stephen Moore.

[applause]

Dambisa Moyo, on the resolution "The GOP tax reform bill will improve our outlook for growth" -- yes or no?

Dambisa Moyo:
I'm going to go with no. The -- of course, one of the problems with being the last speaker is that a lot of the comments have been made. But perhaps let me just underscore what I think is a lot of smoke and mirrors with short-term focus, which is driven, really, by a political cycle that actually rewards and encourages people to focus on the short term. If you focus on the short-term, as a household or as a corporate, you are missing the broader point. The future generations are going to grap -- are grappling or will grapple with a tremendous suite of challenges many of them we're fully aware of.

00:14:00

What I'd like to do very quickly is just list for you -- and I'm sure a little bit later I'll be able to go in great detail -- of some of the challenges that we're facing today. Technology and the jobless underclass. The risks of income inequality widening. The fact that demographics are growing at rapid clip around the world. We have 8 billion people -- it will be 11 billion people by 2100 -- and we don't know how to manage that population. Issues around natural resource scarcity, concerns around debt -- which were alluded to earlier. It's burdensome and it's not helping us in long-term, in terms of how we generate long-term economic growth. And then finally, the fact that productivity has declined in many of the most developed countries around the world. It's these suites of -- this suite of problems that are continuing to be a drag on long-term economic growth. And if you believe that a short-term tax is going to actually solve these problems or, actually meaningfully turn things around, you're sadly mistaken.

John Donvan:
Thank you, Dambisa Moyo.

[applause]

00:15:02

And now we talk -- now we talk for 10 minutes, and it's much more free-form, and we're going to go a little bit more into depth on the things we are just hearing about. Some interesting phrases coming up: ballooning the deficit. I really liked "ignite animal spirits." We heard about smoke and mirrors. What I want to do is we have three nos and two yeses, and I think an interesting thing about this format is that all of the people who are saying no are not actually saying no for precisely the same reasons and the yeses are not yeses for the same reason. So, that allows for a little bit more nuance in this conversation. But a thing that I kept hearing about the long-term versus short-term impact of this. And Jason Furman, you talked about the deficit being ballooned. And I didn't think that Stephen Moore responded to that, and I kind of would like Stephen to -- for you to respond to the concern that many of your co-panelists raise, that not -- in the not too distant future, there's going to be hell to pay for this tax plan. Can you take that on?

Stephen Moore:
Certainly.

John Donvan:
And again, I -- in the interests of letting everybody in --

Stephen Moore:
Sure.

John Donvan:
-- to be kind of as terse as we can.

00:16:01

Stephen Moore:
So, I'm of the view -- and I don't know if Donald Trump agrees with this -- but that growth is everything, that growth solves all the problems -- and the very problems that you're talking about. It may not solve every problem you're talking about, but if you have faster economic growth and prosperity, it makes all these problems easier to solve. And the deficit is, you know, Exhibit A is on this. The forecast, when Donald Trump entered office, was we continue to have weak economic growth, as we did for the last 10 years. It was 1.8 percent growth forecast. We went to Donald Trump and said, "Donald, if we get 1.8 percent growth for the next 10 or 20 years, we're screwed." And we have -- we can't -- we're America. We can't live with 1.8 percent. We got to get it up to 3, to 4 percent. I believe we're going to do that with this bill. I think we can get -- we already have had 3 percent growth. And the debt, as a share of our economy, does not go up every year. It goes down every year if we can get to 3, to 3.5 percent growth. And that's -- that would be my kind of response to this issue of -- that you both raised about debt.

00:17:01

John Donvan:
Jason, can you respond back to that?

Jason Furman:
Sure. First of all, we have to understand the sources of our growth. The primary source of our slower growth than we had in the past is demography. In the 1980s, the baby boom generation was going through their prime working years. Starting in 2008, the first baby boomers turned 62 and started to retire, as they became eligible for Social Security. If we were able to reproduce the same exact productivity growth that we had under President Reagan, under today's demography, we would have a 1.7 percent growth rate. Thinking you can have a 3 or 4 percent growth rate is a ludicrous fantasy. If a company did that, it would go bankrupt and out of business. The United States is big, strong, able to borrow quite a lot. But I wouldn't want to test the proposition of what it would be like [inaudible]. The second thing I'd say is to say that this tax cut pays for itself is to make a statement that has zero support in the economics profession. It's akin to saying --

John Donvan:
Let me stop you --

Jason Furman:
-- the earth is flat.

00:18:01

John Donvan:
And let Gillian respond. As a yes, do you dispute that point?

Gillian Tett:
No. I was going to say one thing about the other way to get around big rapid growth is to have lots of migration. If you don't have lots of babies --

Male Speaker:
Oh, of course.

Gillian Tett:
-- you need lots of migration. And that policy's not exactly on the table right now.

Dambisa Moyo:
Especially if you come from “s-hole” countries like I do.

[laughter]

Dambisa Moyo:
Oh, I'm sorry. I meant house.

John Donvan:

But thank you for the abbreviation because now we can stay on the radio.

[laughter]

Gillian Tett:
Exactly. I had one point to make about the debt, which is, the other aspect about debt that people just are not talking about at the moment is that the only reason why debt has been moderately manageable recently is because interest rates have been incredibly low. If you believe that there is going to be growth of the sort that you are arguing there is going to be, then interest rates will almost certainly go up. And if interest rates go up, if they go from 1.8 percent to 3 percent, say, you're basically looking at a doubling of the annual cost of the servicing that debt.

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Anyone in the room has got credit card debt or mortgages knows how it works. And so, there's a fundamental intellectual conviction. If you think that there's going to be great growth, rates go up, and then the cost of serving that debt gets harder and harder.

John Donvan:
Simon Johnson.

Simon Johnson:
So just to develop that point. Animal spirits, Gillian rightly emphasizes, come in two forms. One is, let's invest -- and we may see that in stock prices. There's also animal spirits in the bond market. So, what does the bond market say? The bond market is worried about inflation for exactly these reasons. When the bond market worries about inflation, interest rates go up, and that's pressure on Steve -- I hope you're right, Stephen, because then we're all going to live better. But I fear you're up against the same economic realities, the same constraints as we've all been up against. And by the way, the Obama administration broke 3 percent -- in fact, broke 4 percent growth for at least two quarters I think in 2014. Quarterly growth tells you nothing. The long-run growth, that's what we're talking about, is exactly as Jason said, is driven by demographics. And the budget's going to matter. The debt is eventually going to catch up with us [unintelligible].

John Donvan:
Dambisa Moyo, you made the point that the set of real problems are way larger and much more complicated than a tax cut can address.

00:20:09

Have you heard anything from the people on the other side of this resolution tonight who have made a persuasive case to the contrary?

Dambisa Moyo:
Not at all. And I think just picking up on the demographic point, just to underscore how difficult and how challenging this is in the U.S. context, we need to think about not just the quantity of people in the work force, but also the quality of the people in the work force. You don't have to believe me. Go and look at the OECD PISA [spelled phonetically] statistics. This is a survey that the OECD, which is a club of wealthy advanced countries around the world, that basically looks at how these countries are forecasted to grow over long periods of time. They have an annual survey, the PISA survey, that looks at how people, young people, perform in mathematics, in science, and in reading. The United States, 10 years ago, was in the top three. Today, it's ranked in nearly number 30 around the world.

00:21:03

This is not an investment -- this has not been an investment particularly in minority groups who will be the majority in this country by 2050 by some estimates. And you cannot have a country long term that is expected to be successful just because you have the short-term tax cut. When you have underinvested in a population that, if you expect is going to contribute to long-term economic growth.

John Donvan:
So, let me -- let me bring your point then to Stephen Moore. Stephen, again –

[applause]

Stephen, does this tax cut actually do something to ameliorate the challenges that Dambisa is just speaking about?

Stephen Moore:
Well, which challenge are you talking about, I mean, in particular? That the --

John Donvan:
The applause line just --

Stephen Moore:
I am of the belief that we are at the beginning of a productivity revolution, you know, that we could see the greatest period of, you know, productivity in history. I mean, we're seeing it in automation, we're seeing it in robotics.

00:22:03

And that is part of the -- I think the explanation about how you get to higher growth. I think you're going to see, you know, dramatic rates of increase in productivity. Productivity is related to capital investment. Now, of course, we need more human capital investment no question about it. And the other point I would make -- and this is where I, you know, probably disagree with Donald Trump -- we -- look, we can have an increase in our labor force. There's 7 million Americans who would be and should be working but aren't working because we've seen the decline in our labor force participation. We've got to find ways to drive those people back into the workforce. But also, I mean, you hinted at this. We have an opportunity now to attract the best and the brightest and the smartest people from all over the world to the United States. Donald Trump, I think, quite correctly, wants to move us towards a merit-based immigration system where we can get, you know, the people who have the highest skills, highest talents, the people who have excellence in whatever area it is. That gives us a great advantage to achieve this high rate of growth.

00:23:01

John Donvan:
Let me bring Jason in and then Gillian to finish this section.

Jason Furman:
I mean, first of all, I think it --

[applause]

John Donvan:
You can -- wait. Let him have his moment. I stepped on Stephen's applause. Sorry.

Jason Furman:
On Dambisa's point. I mean, how you're going to address an issue like preschool, where the United States is 22nd out of those OECD-rich countries behind some less than rich -- fully rich countries like Mexico and Chile that have gotten into the club without having adequate resources. It's not something we can do. I want to get back to the animal spirits question, because that's going to come up in the session; I'll bet the next one as well. Animal spirits -- first of all, they're not self-sustaining. They can help you for a bit, but then, if they're not justified by real activity, they can send you crashing back down. They're a little bit dangerous. Second of all, I'm not so sure how much of them we do have in the United States. John, I don't know what you invest in; maybe you invested in U.S. equities over the last year. If you did, you did pretty well in the U.S. stock market. You would have done even better in the U.K. stock market, the German stock market, the French stock market, the Canadian stock market, the Japanese stock market.

00:24:02

U.S. growth this year came in faster than anyone expected, which is a great thing. Came in four tenths higher than what the IMF was projecting. Germany, France, the U.K., Canada, Japan -- they all came in six tenths, eight tenths, 1.1 higher.

John Donvan:
Jason --

Jason Furman:
So, you've seen a lot more animal spirits in the global economy.

John Donvan:
Okay.

Jason Furman:
To say it's all due to a tax cut here in the United States I think is [inaudible].

John Donvan:
Thank you. I wanted you to circle it back to that tax question. And I'm going to give the last word on this section to Gillian Tett.

Gillian Tett:
I just want to come back to this issue of animal spirits again, because I have enormous --

John Donvan:
Define it for us, what you mean by that?

Gillian Tett:
It basically means how you feel. If you get excited, you want to rush out and buy a new car, a new Jacuzzi, whatever else, start investing, that kind of stuff. And I have great respect for economists and their wonderful models and all their numbers and all their data, but at the end of the day, most of us live economics through not just our wallets but through stories.

00:25:02

And I strongly believe that one reason why the Democrats lost the last election was they had no clear-cut story. Trump, for better or worse, had a story that he could tweet out, if you like. And I do think when I talk to business leaders today that what is going on in their minds is a story about American growth coming back on to the radar screen. When I talk to, you know, households, when I talk to people, you know, who are not grown-up economists sitting in debates like this, there's a sense of, actually, the story is changing. And you might disagree with that; you might say the data doesn't back that up; you might say they're going to be disappointed. But right now, if you look not just the stock market, if you look at polls of consumer confidence and corporate confidence, it has risen dramatically, and that is a story that really matters.

John Donvan:
Thank you, Gillian Tett, and that is a wrap on this resolution.

[applause]

John Donvan:
The GOP Tax Reform Bill Will Improve Our Outlook for Growth. The resolution now is this: Deregulation is Driving the Booming Economy.

00:26:04

Gillian Tett, on the resolution, Deregulation is Driving the Booming Economy, do you declare yes or no? No?

Gillian Tett:
I would declare no, because I think it's one factor that is fed into that story, but certainly not the only one, and not necessarily the major one. I have sat in the Commerce Department; I've seen the flashy plans, the statistics, you know, being tossed around about how many rules they're going to rip up left, right, and center. The first point I'd make is that, actually, for the most part these rules are being certainly ripped up, some of them, but it's a very small portion of the overall total. And when I talk to companies and ask them, "Are you actually seeing practical changes yet?" I don't think it's dramatic as of yet. But I think the other thing that's very important is that, yes, deregulation's important, because there was a creeping sense under the last few years that excessive regulation was trying to, if you like, dampen down growth.

00:27:02

But if you talk to companies about which regulations they really care about, the picture is so mixed right now that I certainly don't see that as a major factor driving investment plans, or at least not compared to the other elements which are contributing to the optimism.

John Donvan:
Thank you, Gillian Tett. We move on now to Stephen Moore. Stephen Moore, on the question Deregulation is Driving the Booming Economy, are you yes or no?

Stephen Moore:
Well, I'm an emphatic yes. I think that when you ask the question, why did we hit this inflection point -- and I don't think there's any question as we look back. There was an inflection point in the economy, and it was November 7, 2016. And you saw what happened to the stock market; the stock market rose 700 points the day after the election. And the -- and it's, you know, been on a boom ever since. We've ratcheted up growth from 2 to 3 percent. I think we can get 4 percent this year. And that didn't happen by accident. I think it happened because of -- partly because of the anticipation of this tax cut. But I think an even bigger factor was that, as my buddy Larry Kudlow likes to say, on November 7th, 2016, the war against business was over in Washington.

00:28:07

And that is -- a good example of that is what Trump has done with regulations. And it isn't even so much the pullback of regulations -- because there haven't been -- that many regulations have been pulled back, but some important ones. It's more that Trump has just slammed the brakes on the regulatory process in a very, very efficient and productive way. And that has, I think, unleashed a lot of activity by businesses in terms of their capital spending, in terms of their hiring, and so on. Look, regulation can strangle businesses, and it was excessive under Obama. This is a president who is -- if you ask me one, you know, one word about Donald Trump, he is pro-business. He is pro-American business. He wants to make us number one. Pulling back on those regulations will be another factor that has a very positive impact on our future growth in this country.

00:29:03

John Donvan:
Thank you, Stephen Moore.

[applause]

Dambisa Moyo, on the resolution, "Deregulation is driving the booming economy," do you declare yes or no?

Dambisa Moyo:
I declare yes, but not emphatically.

[laughter]

And this is going back to what we talked about a moment ago. This is, to me, once again, smoke and mirrors. We were promised a group of policy changes which actually swept Donald Trump into the presidency. We were promised infrastructure reform. We were promised tax reform, including repatriation by corporates at a discounted rate. We were promised healthcare reform. And on the back of that, we have basically seen the market decide that the promises of deregulation were going to be so aggressive that they were going to support, at least in the short-term, economic growth. The truth of the matter is, as I mentioned earlier, these are Band-Aid solutions.

00:30:00

We have not yet heard much in terms of infrastructure. And just to put a finer point on it, Japan -- just to remind you, the -- candidate Trump promised aiming for a trillion dollars of spend. The Congress -- well, certainly the Republicans were saying that they only wanted 600 billion. I just want to remind you that Japan had multiples of that, in terms of infrastructure spend, and it did not translate into economic growth. We have not even yet heard anything about that infrastructure promise. Today, a lot of people are hanging around, saying monetary policy is loose. We're still seeing lots of promises in terms of fiscal policy and the path of deregulation. And that, to me, is not founded on a solid ground. I believe that the deregulation is the promise; it's not yet actually happened. And therefore, I believe that deregulation will be ultimately the downfall of this economy.

John Donvan:
Thank you, Dambisa Moyo.

[applause]

Simon Johnson, Deregulation is Driving the Booming Economy. Are you yes or no?

00:31:04

Simon Johnson:
No. I agree with Stephen that there has been an inflection point in this economy recently. It was in early 2009, when the Obama administration turned the corner -- with a great deal of help from the Federal Reserve -- and we pulled out of the greatest recession --

[applause]

-- we had. You're reading [spelled phonetically] into my 90 seconds.

[laughter]

We have the greatest recession since the 1930s. We pulled out of it. The stock market came back. If President Obama had a fault, it was that he didn't talk about the stock market enough. That was the greatest recovery you've ever seen in your lifetimes. That was the most consecutive quarters of job growth you have seen -- anyone has ever seen in American history. That was the inflection point. And in the midst -- how did they make that recovery happen? They did a lot of things. But I tell you, one of the things that -- to do with it is they fixed finance. Yes. They regulated finance. They took a hard look at consumer protection and the way people had been ripped off. They looked at systemic risk and the way that some of our very good friends in the city had got too big to fail, and they tried to grapple with that.

00:32:06

They regulated finance in a way that did not destroy or disrupt that long-lasting boom. So, it's not deregulation driving growth today, it's the responsible moderate regulation of finance, along with sensible short-term and reasonable -- but not sufficient, perhaps -- long-term growth measures that's given us this opportunity that President Trump and his advisors are now about to squander. Thank you.

[applause]

John Donvan:
Thank you, Simon Johnson.

[applause]

Jason Furman, Deregulation Driving the Booming Economy. Do you declare yes or no?

Jason Furman:
I declare no. I was going to establish my credibility by criticizing President Obama. Simon already made one of the criticisms. He was terrible about tweeting about his stock market record. Even though the year after his re-election, the stock market went up more than it did under President Trump on there were precisely zero tweets from President Obama in that year, not something President Trump could say.

00:33:05

Another thing is, if he was at war on American business, he did a very bad job as measured by the stock market valuations, as measured by the longest consecutive job growth that we've seen in our country. If you want to tout up what's happened under deregulation under this administration, you have two choices of sources that I'm aware of. One is the White House did a report that documented the total cost reduction from all their regulations. They said it was $570 million. That's .003 percent of GDP. It's a White House number. I divide it by two.

[laughter]

The American Action Forum is a conservative think tank. They said 378 million. That's .002 percent of GDP. I'd also divide that number. The last thing I'd say is the key to a successful economy is not to be pro-business, it's to be pro-market.

00:34:01

And being pro-market often means regulating businesses, having antitrust, having competition, having rules so that people can play fair, compete in a way that's good for the economy, not just for their shareholders. Thank you.

[applause]

John Donvan:
Thank you, Jason Furman. One thing that's a little bit unclear to me as we have three nos and two yeses on the motion, ""Deregulation is Driving the Booming Economy." Are you all saying that you don't think there's actually been any significant deregulation undertaken yet in a meaning way? I'll go first to you, Stephen Moore. You said -- you made the point, "Not much yet." But to some degree --

Stephen Moore:
I'll just -- I'll just mention one, you know, that I think has had a -- is going to have a very positive impact on the economy, and that is something that the Federal Communications Commission did about two months ago, which was the rollback of what's called the net neutrality rules.

Now, that, by some estimates is -- that, by some estimates -- and it gets to Simon's point about, you know, more capital investment.

00:35:03

There’s good indications that we could see 4, 5, $6 billion of new infrastructure spending by Verizon, AT&T and other companies as a result of that one deregulation. So, if you want to see the real-world effects of a deregulation, that's one. I'll just mention one other is the coal. You know, everybody said the coal industry is dead in America. Donald Trump is lying to the American people when he says he can bring that up -- bring that back to life through easing some of the EPA regulations under Obama. The coal industry is back big time. We've seen something like 50,000 increase in coal jobs. We've seen a 12 percent increase in coal production in the United States the last year. That doesn't sound like a dying industry. And that industry is back in part because of deregulation.

John Donvan:
Simon Johnson.

Simon Johnson:
Yeah, the -- the change in net neutrality --

John Donvan:
You stick by your guns up there.

[laughter]

00:36:00

Simon Johnson:
The change in net neutrality, which is a huge deal, and which I -- which I think is nowhere near as favorable to the economy as Stephen said is not deregulation. That's changing the nature of regulation to favor some very big incumbent players. So, it's a redistribution.

[applause]

That -- that's -- that's the theme of the policies here. The tax changes we've just been talking about are a redistribution. Four-fifths of all the tax changes -- cuts will end up going to the top 1 percent. Net neutrality being abolished is the equivalent in communication policy space of exactly the same thing. Redistribution towards the top end, towards people who are already rich. That's not deregulation.

[applause]

John Donvan:
Jason?

Jason Furman:
Let me -- let me talk about one deregulatory action that I think actually has helped the stock market. There's a chance it would have a miniscule positive for growth, but it's a terrible idea. That's something called the Conflict of Interest Rule, or the Fiduciary Rule, which it used to be that a retirement broker could give you advice based on kickbacks they were getting rather than your own self-interest.

00:37:08

Obama made a rule against that. That's a practice that cost middle class families $17 billion a year. Our rule is going to end up costing -- would have ended up costing, on the brokerage, it's probably about $1.5 billion a year. So, for middle class families, this rule was a really good idea. But by delaying and potentially gutting that rule, the Trump administration will take money from the middle class, give money to corporations. You might see the stock market go up. You might see some tiny help to growth, but people are going to be much worse off as a result of that. And that's why no regulation is based on just looking at the cost side. You balance the costs and the benefits, and things like this are enormously on the beneficial side.

John Donvan:
Dambisa?

[applause]

Dambisa Moyo:
So, I think it would be crazy if anyone here said that the idea of no regulation at all is a great equilibrium.

00:38:06

And I think no one here is saying that. This is -- we're talking basically of the balancing act. As someone who spent a great deal of my life in the financial industry, I would like to defend it a little bit. Please don't boo and heckle yet.

[laughter]

And the point is, I think governments have gotten away with a narrative that is not completely accurate. Government asks the banks and the financial institutions to help support the housing for all policy in the United States, which has been supported by both Republicans and Democrats alike over many, many decades. This is the idea that Americans should be entitled to have access -- to basically own their home. Sounds like a great goal. The fundamental problem was that at a time when the economy was growing, we knew real wages were on the decline.

00:39:00

We knew that the debt, which today in every single class, government debt, corporate debt, household debt, credit card debt, auto loan debt, student loan debt is over a trillion dollars. We knew this was going to be a problem, and yet, the government encouraged the banks by making promises -- and I'm not saying the banks were not culpable through the derivative markets, et cetera. But they did ask the financial institutions to make loans and to provide lending support to people -- Simon is shaking his head emphatically. I sit on the board of a bank. I know what was going on. We were asked to essentially lend to people that you would not lend to ordinarily to help support a public policy initiative, which is not one that I would say was a bad idea. But the bottom line is we have to take responsibility for what government -- the choices that governments make. And so, I think it's really -- I think this whole issue you've deregulation -- yes, should there be regulation? Absolutely. Companies are not in the business of going out of business. That is not a good initiative.

00:40:02

And yet we have banks that have gone out of business because they did make loans to people and to -- into sectors where they -- that were sub-prime. It was never the initiative or the goal of those institutions to do something that would actually ultimately cause them their life.

John Donvan:
I want to -- I want to let --

[applause]

Gillian Tett.

Gillian Tett:
Yeah. I just wanted to make a general point before Simon and Dambisa start having a sort of private argument about banking rules. And the problem is this: That regulation is fantastically complex and in the weeds. And deregulation is also fantastically complex in the weeds. And the reality is we don't really know exactly what is going on, let alone what the net cumulative economic effect is going to be. And we won't know for a long time because, you know, I've learned to treat the Trump administration as being something like an Agatha Christie novel or

film in that you know, whenever you get a commotion in the kitchen, you start looking for a body in the library.

00:41:00

[laughter]

And what the president's doing with his tweets is the ultimate weapon of mass destruction. It really is. You know, the journalists start scurrying into the kitchen and forget about the body in the library. And right now, you know, in the last week or two – *ProPublica* just did a great piece about this, looking at all the things that have happened in the last week where we've been distracted by the "s-hole" comment. And when it comes to deregulation, things are happening in the weeds or not happening in the weeds. The one thing that's very clear, though, and this is a cost that no one's talking about, is that as we start ripping up rules, as we start talking about ripping up rules, for businesses, the climate just got a bit more uncertain and confusing. And whether if you're trying to work out --

John Donvan:
And none of it -- and that's never good.

Gillian Tett:
That's never good, no. Whether you're looking at what's -- what the new rules are for M and A, I mean, yes, on the one hand, they're having -- ripping up net neutrality. What about AT&T? Where are we going with all of that? For many businesses on the ground, what's happening is uncertain.

00:42:03

John Donvan:
Okay, let's let Stephen Moore respond to that.

Stephen Moore:
So, look, I think there's a narrative that's going on by people who, like some of the people at this table, who, when Donald Trump was running for election said that if Donald Trump is elected he will cause a financial crisis and the world -- you know, we could have a second Great Depression. And every policy that Trump wants to do is against growth and so on. And, of course, exactly the opposite has happened. You know, we've seen this -- the stock market is up 42 percent since November 7, 2016. That's $6 1/2 trillion increase in wealth. We've seen a growth rate -- you know, Simon, I mean, you guys talk about the growth rate under Obama. Yes, we recovered from a -- from the recession. It was the worst recovery since the Great Depression. We were $3 trillion below what we would have had if we had had a Reagan-style recovery, so it was an anemic recovery. That's the reason I think Hillary lost the election. And now we have this booming economy, and every single statistic -- I would

challenge any of you to show any statistic that isn't positive right now with respect to the economy.

00:42:03

And now liberals have to come up with some kind of alternative narrative as to why the policies they said were going to fail have been such a success.

[applause]

John Donvan:
Let me go to Jason, then I'll come to you Jason. Jason Furman?

Jason Furman:
If you were doing a clinical trial for medicine, you wouldn't just give it to one patient and look at them. You'd compare them to how the others were doing.

Stephen Moore:
Well --

Jason Furman:
This is the second time you brought up the stock market, but the stock market has done better in most every other country in the world --

Stephen Moore:
Well, why is that?

Jason Furman:
-- than it has in the United States --

Stephen Moore:
Why is that?

Jason Furman:
-- over the past year.

The stock market did better in many years under President Obama than it's done in the last year. And you go on about this anemic recovery, ignoring the fact that the demography was completely different. So, the working-age population is growing at 2 percent a year under President Reagan, zero percent a year under President Obama, who, by the way, we went through a massive financial crisis.

00:44:00

So, you need to find some other argument for how Trump has made things better than they've made them in Canada, the U.K. -- well, the U.K. is growing less than us, but the stock market's better -- Japan, France, Germany --

Stephen Moore:
Just one second.

Jason Furman:
-- all these other countries.

Stephen Moore:
Can I answer that question? The United States is the hub of the world economy. When we get it right, the rest of the world starts to get it right. There's no -- it's the same thing that happened --

[applause]

Stephen Moore:
It's the same thing that happened in the 1980s. When Reagan rebuilt the American economy the rest of the world got their act together, and we had a 25-year period of the greatest period of prosperity in the history of the world.

Jason Furman:
But, Steve, our growth rate was actually higher than all the other advanced -- most of the other advanced economies from 2012 through 2016.

Stephen Moore:
Right.

Jason Furman:
This past year it's been lower than most of the other advanced economies.

John Donvan:
We haven't heard from [unintelligible].

Stephen Moore:
The economy grew at 1.6 percent in Barack Obama's last year in office. It was declining. The economy wasn't growing faster, it was decelerating, and now it's accelerating. I mean, how do you -- how do you --

John Donvan:
I want to bring in Simon, who hasn't spoken in a while, and then Dambisa. Simon, you're up.

00:45:02

Simon Johnson:
George W. Bush had some good years, too. The best way to get growth is to deregulate the financial sector. Gillian knows all about this. She and her colleagues cover this around the world all the time. Deregulate finance, let the banks do what they want, let them take more risk, let them have less equity on their balance sheet, let them go crazy. And they did go crazy -- Dambisa, no fault of yours -- they did go crazy in 2003, 2005, 2007. Were they aided and abetted by the government? Yes, sure they were, but that's deregulation. That's what it meant to deregulate. And, by the way, the Clinton administration was involved in that also from the 1990s, so don't get too smug out there, okay?

[laughter]

Simon Johnson:
But if you pump up your economy, if you do juice your economy with this, if you juice your economy with fiscal stimulus -- I read *The Wall Street Journal*, and, yes, I do read the editorial page sometimes, but what it tells me, if I juice my economy, if I run up the debt, if I get the financial sector fired up I will get short-term growth. And then? What happened, Stephen? What does the Wall Street Journal say will happen? They say that you will have a downturn. They say you will have a crash.

00:46:00

Now, if Stephen Moore is willing to say here today and for the record that as long as the stock market goes up everything is good, and Trump is doing fine, and as soon as the stock market turns down we have to reevaluate, I'll take that. I'll walk away very happy this evening. Because you know what? Prices go up, prices go down, Stephen.

Stephen Moore:
[unintelligible] the stock market.

John Donvan:
Dambisa Moyo.

[applause]

Stephen Moore:
And I don't think -- I mean, Simon, I agree with you. I don't think Donald Trump should, you know, judge his record by the stock market, because you're right, the stock market is a roller coaster --

John Donvan:
Let's save the stock market, because we're going to talk about that in a couple of minutes, and I don't want to talk it out too much. But, Dambisa, you were --

Dambisa Moyo:
Yeah, I don't want to eat into too much time, because actually I was --

John Donvan:
That’s okay.

Dambisa Moyo:
-- preparing myself to go to battle against Simon, but actually I think we actually largely agree, which is that excessive deregulation is not an equilibrium that you want to seek, and that the governments were in many ways complicit, aided and abetted the financial crisis. I do think some regulation is required and is important, but I -- again, we're speaking to a smart audience here. Don't listen to us.

00:47:02

Go and lift the lid, and see what is actually going on in the bank balance sheets. Go and look and see what the governments are doing to really understand the situation. A lot of what is on bank balance sheets, even to this day, are massive loans that were made to government and municipalities, and to local authorities, and education, and particularly in Europe. By the way, how else did they finance their big welfare and social programs? It was because the banks were, through license to trade and regulation, were forced to make loans that, actually, they knew were not going to long term be sustainable.

John Donvan:
So --

Dambisa Moyo:
So, there is a middle ground.

John Donvan:
-- we are talking a lot about financial regulation and deregulation. But there was -- environmental also came up very briefly, and the mention of coal. And I just want to throw that into the conversation as well, because I think people have a very tangible sense of what that is. Jason Furman, is President Trump's program, to the degree that there is one, of deregulation of environmental rules, driving the economic boom?

Jason Furman:
First of all, if you look at the energy sector, the biggest factor there is prices.

00:48:03

So, the price of oil is up 40 percent. With that, employment in the oil industry, investment in the oil industry is up. Those go up and down together. If you'll look at the shift from coal to natural gas, a lot of that was reflected in relative price changes in those two. That is an example where I do think there are -- you could have deregulation that is a very small plus for the economy and a very large minus for society as a whole. And that's why, when you do regulation, you don't do cost analysis. You do cost benefit --

John Donvan:
And there are ways to put a price tag --

Jason Furman:
-- analysis.

John Donvan:
-- on that?

Jason Furman:
What?

John Donvan:
There are ways to put a price tag on that.

Jason Furman:
Well, there are, absolutely. You can put a -- the companies are very good at putting a price tag on what it's doing to them. And you can do things, like, a ton of carbon. We have a National Academy of Sciences blessed [spelled phonetically] methodology for figuring out each ton does about $40 of damage in present value. And then you weigh, what's the cost of dealing with carbon versus what's the cost of this?

00:49:02

And by the way, the cost of dealing with carbon is a lot lower if you do it today with notice, than if you wait ten or twenty years and do it without notice. It's a lot cheaper to not build a new coal-fired power plant than to build one and then 10 years later be told you can't use it anymore.

John Donvan:
Gillian Tett, if you want it, you have the final world.

Gillian Tett:
Oh, wow. Well, this will be a segue way into the trade debate, because the point I'd make is that if you're looking at the cost of environmental regulation and deregulation, it's worth putting that into an international environment, because one of the great areas right now is -- even as the U.S. deregulates or goes backwards in some ways, on the environmental side, countries like China are moving forward, and you know, essentially eating America's lunch at things like solar panel technology. So, it has to be seen within a much wider context than just

the U.S. economy. And if Donald Trump really does want to make America great again, maybe he should be looking at the competitive aspect of making America green again too.

00:50:02

John Donvan:
And that is a wrap on this resolution --

[applause]

-- Deregulation is driving the booming economy and we are now moving onto this resolution: The Stock Market is Too High.

The first person is to take on this issue is Dambisa Moyo. Dambisa Moyo on the resolution, the Stock Market is Too High. Do you declare yes or no?

Dambisa Moyo:
I declare yes. Some of the arguments have already been made. The underlying growth prospects -- which should support corporate activity and long-term investment -- are getting much weaker over time. But perhaps the most important indicator that the stock market, to my mind, is overvalued or is certainly run overseas -- is the fact that the dividend to retained earnings ratio, which is the ratio of how much money corporates are giving back to their shareholders versus what they're retaining for more investment, has been over 100 percent in virtually every sector over -- through -- over 2017.

00:51:06

This means that our CEOs -- the very same CEOs who are at the helm of many of the -- America's greatest corporations -- do not believe that there's a long-term prospect for investment that is actually going to generate returns above the cost of capital. So, in that respect, I am concerned that the stock market has been -- has gone much further than it should have. The risk-reward in many of the stocks is now actually deteriorating. And more than that, I would say, we do know that a lot of the support has come from low interest rates, loose monetary policy -- and to the extent that we are expecting or that the market is expecting a pricing and three rate hikes this year, and that means there will be a drain on liquidity in the system, I think that we'll start to see quite a significant correction.

John Donvan:
Thank you, Dambisa Moyo.

[applause]

00:52:01

The Stock Market is Too High. Simon Johnson, do you declare yes or no?

Simon Johnson:
I say no. I'm an immigrant to this country. I see a couple of immigrants on the panel with me, and I -- how many people in the audience here are immigrants, who were not born in the United States? So, it's --

John Donvan:
Can you do a round of applause so people can hear you?

Male Speaker:
Only in New York.

Simon Johnson:
Yeah.

[applause]

Well, I see about a quarter -- about a quarter of a hen's drop [spelled phonetically]. What a -- what an incredible country. What an incredible country. They can bring people here, they can give them opportunity, they can put them to work, and they can have them pay tax. That's a combination. That matters here. No one else in the world can do this. No one else in the world has been able to do this in the past, not like this. And no one -- no other country in the world will be able to do it in the future. What is the stock market? The stock market is the value of the profits, the future profits, expected profits of all the companies that are based in your country. It's based, though, that the fundamental value of that is you. It's you as consumers, it's you as -- it's you as producers. It's you as workers. It's you as families. Now, we may disagree. For example, Stephen and I have about exactly what it would take to get growth higher.

00:53:02

And that's a fantastic debate. And I'm from a country that prides itself on its democracy. This democracy is a lot better than the one I came from. We have the discussions, we work things out, we have the problems. Now, I happen to think that the policies of this president, if I may use a technical term, as he -- the kind of term he likes to use. I think his policies are rubbish. It doesn't matter. We're having a discussion. We will work it out. We will be a greater country, a bigger country with more profits. And eventually that drives stock prices, eventually, not commenting on short-term stock prices, ever. You will get there after this president.

[applause]

John Donvan:

Thank you, Simon Johnson. "Stock Market is Too High," Jason Furman, do you declare yes or no?

Jason Furman:
I'm going to declare no for exactly the opposite reason that --

[laughter]

-- Simon declared no, both grounded in the same equation, which is the stock market is the present discounted value of corporate profits.

00:54:02

Corporate profits are the fraction of GDP that goes to corporations. That fraction has risen a lot in the last 15 years. I would expect that fraction to rise more still, things like the corporate tax cut that we've seen will raise that fraction. So, without any increase in GDP at all, just a larger fraction, about 30 percent more than historically going to corporate profits justifies a higher stock valuation. The second thing that justifies a higher stock valuation is the denominator in that equation, which is the discount rate that's taking things from the future, moving them back to the present. The way you do that is you look at what your alternatives are. And your alternatives right now are bonds which have an even lower rate of return. And so, when you're taking those things to the future, you're comparing how you could do in the bond market to how you could do in the stock market. All of a sudden, it makes that little extra return look attractive justifying a high valuation as well.

00:55:05

The flip side of this high valuation, though, is a low expected return in the stock market going forward. It costs us about $27 for each dollar of future earnings that we're generating. That's an underlying rate of return closer to three or four than the 8 percent we've gotten historically in the stock market.

John Donvan:
Thank you, Jason Furman.

[applause]

Gillian Tett, "The Stock Market is Too High," yes or no?

Gillian Tett:
Well, because it gets more debate, I would say yes because one reason why the kind of numbers that Jason has been talking about makes sense is, if you believe that interest rates are going to stay low for a long, long time. As I said before, if you think you're going to have growth, then it's hard to keep arguing indefinitely that interest rates will always stay low. And

if you think that interest rates are going to stay low, then you have to believe that central banks will keep pumping up the global economy by keeping policies super loose for a very, very long time.

00:56:06

Asset prices of all sorts around the world have been elevated by an incredible tsunami of liquidity from central banks. I mean, around $10 trillion have gone into the global economy or the financial system under some measures. And that is a lot of money. So, I think that sooner or later central banks will be forced to start reining that in. When that happens, I think people will be shocked. I think we've been living with this impression of calm for a long time, which has been partly pumped up by what central banks are doing. And I think that as interest rates do go up, then stock markets will start to look a lot less attractive. And if you want to find a sign of just how much spare liquidity is floating around and, as Jason says, just how hard it is to find places to put your money if you're worried about stocks, just take note of the fact that right now my 14-year-old daughter has friends in her class who are busy buying Bitcoin because such is a mania.

00:57:04

If you're a teenage boy, Bitcoin is big right now. And that to me is a sign of a frothy financial world.

John Donvan:
Thank you, Gillian Tett.

[applause]

John Donvan:
"The Stock Market is Too High," Stephen Moore, do you declare yes or no?

Stephen Moore:
Well, I'm going to say a non-emphatic no. First of all, let me say I can hardly improve on what you said, Simon. I agreed with virtually every word you said except the stuff about rubbish and Trump. Ha. But other than that, no, look, I think you put it very well. You invest in the stock market because you're investing in America. You have optimism about this great country. And I think Simon put it so well as an immigrant. So, I have no idea what's going to happen with the stock market next week, next month, or even a year from now. I don't have a clue. But I do know that the long-term rate of return on the stock market for the last 120 years is 7 percent real.

00:58:00

How many of you in this room are under the age of 40 in my -- the single piece of most important advice I can give -- how many of you are under 30? The most important advice I can give you is start investing in the U.S. stock market right now, right now. If you want to become a millionaire, a pension millionaire, invest 10 or 15 percent of every paycheck you earn in the stock market, and you will get rich. The stock market -- it fluctuates, it's a rollercoaster, but its long-term trend is up, and that trend will continue. But the only -- the final point I want to make about this is it's a point that Simon made earlier, which I think is true. Donald Trump ultimately will not be judged by voters in terms of what happened to the stock market. He will be judged as to whether he can improve the real economy for people in those states like Pennsylvania and Ohio and Wisconsin and West Virginia and Kentucky, people that, frankly, didn't feel recovery under Obama. And if Trump is to be a success, he's got to bring hope and economic development to those areas.

John Donvan:
Thank you, Stephen Moore.

00:59:01

[applause]

Let's discuss -- I'm interested in the last point you just made, Stephen Moore, and I want to bring it to Jason Furman, that you do not feel that President Trump will be judged by how folks do in the stock market. Jason Furman, do you agree with that?

Jason Furman:
Absolutely. About half of the country is not invested in the stock market at all, directly or indirectly. I agree with Steve's financial advice. I'd make it a globally diversified portfolio. And I don't just say that for the points I made earlier. I would have said that a year ago as well. What people care about are jobs and wages. And wage growth right now is -- real wage growth's about 0.4. That's slowed from the real wage growth that we had had in the last four years of the Obama administration. Unless that real wage growth picks up it's, you know, not going to be very pretty for a lot of people in this economy.

John Donvan:
We heard a lot in all of your comments about the role played by interest rates and how they've been low for a long time.

01:00:00

Gillian Tett, you made the argument that you think people kind of think that's normal because it's been going on for such a long time. But outgoing Fed chair Janet Yellen said that the weakness in 2017, inflation ratings are not going to be permanent. So, should we be worried about inflation in 2018, Dambisa Moyo? And should we be worried about interest rates as a result of that?

Dambisa Moyo:
So, we're already seeing inflation in some places. The UK has already seen an impact -- an uptick in inflation. There is a reason the market is pricing in potentially three rate hikes this year. People are concerned about a reduction in supply of labor, supply of other inputs into manufacturing and into businesses. So, I do think we are going to see inflation. There's a lot of reports swirling around, certainly in my email box, of where the inflation has been hiding, and where -- where we actually might see an uptick in that. I mean, the truth of the matter is I believe we are on borrowed time.

01:01:00

If you look historically at booms and busts, certainly through the 20th century, on average -- and I'm sure my colleagues here will correct me -- the sort of trough to growth is -- was around a six-year cycle. We're now, as far as I'm concerned, eight years into this. You know, the stock market has in the past been supported by the baby boomers who are doing exactly what Stephen suggested. They were invested. Those are now in retirement. They're now taking their money out of the stock market. There's lots of evidence of that, moving it into bonds. But more fundamentally, I think that the inflation picture and the risk of inflation does mean that we have a series of rate hikes, not just in the United States, but I think the prospects of interest rate hikes and inflation around the world will mean that there is -- there's sort of a setup for a more challenging economic picture.

John Donvan:
Gillian, your take on that same question?

Gillian Tett:
Well, I would agree with what Dambisa says. To my mind, you know, if you want to believe that inflation is going to be low forever, and rates are going to be low forever, you have to basically believe that this time is different.

01:02:06

And that technology and computers and this magical little device here called an iPhone or smartphone has somehow ushered in a world of enormous [unintelligible] mediation, where all the prices will keep falling online, and that will have an impact in the real world. And maybe that's true. Maybe we're all going to have the “Uberization” of our economy. Maybe we're all going to end up, you know, competing in the labor force with everyone else across the planet because of internet. Maybe we'll all find ways to go shopping very cleverly and price-compare for everything online, and that will keep suppressing prices forever. But if you believe that, it's very hard to keep, you know, painting a picture of a permanently booming economy where everyone feels that their job’s secure and they have a lot of confidence as well. So, there’s a kind of intellectual contradiction in what's going on. And I come back to this core point:

01:03:00

Somehow, very stealthily, very quietly, central banks have slipped an extra $10 trillion into the global financial system, and almost no one's noticed. They've done it so slowly and so gently over so many years that we've kind of got used to this kind of a new normal. And they've essentially taken a patient who was addicted to heroin -- i.e., private sector credit, all those subprime mortgages -- and weaned them off that by giving it morphine instead, and eventually that is going to have to come to an end, and withdrawal is never nice.

[applause]

John Donvan:
Simon Johnson?

Simon Johnson:
I liked it better when Gillian was talking about Agatha Christie.

[laughter]

Simon Johnson:
I thought that was much, much, much more upbeat.

Gillian Tett:
Tell it to --

Simon Johnson:
-- in the library and so on. Look, the central banks saved the day. Please, I understand that forgetting history is an American pastime. I get that. But, please, it's not that long ago when we were seated at [unintelligible] like this, discussing and debating how the world was about to end in the fall of 2008 because of the financial crisis.

01:04:08

Because of the ways in which big banks and a lot of other people had got over-leveraged, and the whole house of cards was coming crashing down. Central banks saved the day. Now, did they provide enormous amount of [unintelligible]? Yes. Did they break every single record multiple times? Of course. Do we now have many questions about how we withdraw this? Yes. Have the central banks behaved with extraordinary responsibility to this point and with a great deal of caution? These are very serious people. And, full disclosure, most of them got their PhD's at MIT, so, you know, we need to diversify that. But they've been extremely careful. They've done a good job. There are many risks ahead. Prices go up; prices go down. You know, Stephen and I are absolutely agreeing on that. There are risks, and I don't think anyone at the back should take from this discussion any idea that stock prices would ever under any circumstances go up in some linear fashion at any particular rate. We have volatilities. We have risks. You should read the *Financial Times*.

01:05:00

Gillian Tett:
Thank you.

John Donvan:
Jason Furman?

Gillian Tett:
Absolutely.

Jason Furman:
Yeah, I mean, I think Gillian is exactly right, that if you want to answer this question of if the stock market is overvalued or not, what you want to know is where interest rates are going to be five years from now. If the 10-year Treasury is five or six percent five years from now I'm going to be wrong, and I think that's a distinct possibility. If they're more like three or four, I'll probably be right, and I think that's a little bit more likely. To decide between the two of those you have to ask, "Do you think central banks are all powerful, creating reality, or do you think they're being handed a reality and accepting it?" I think the model for interest rates is a little bit more the second than the first. If you look, interest rates were falling from the early 1980s steadily through 2007. This isn't some new function of monetary stimulus. This is an underlying decline in the equilibrium interest rate worldwide, a combination of people saving more, partly because of inequality, investing less, partly because of lack of competition, driving down the rate of return.

01:06:06

I think the central banks, for the most part, have just been accepting that reality, and there's quite a good chance that that'll be persistent. Part of why I think that is economists don't have a very good track record at predicting. On interest rates, have always, always, always predicted too large an increase. They've always come in below what was expected for 40 years now, and I think it's more likely that will happen than the opposite. I'm not positive, though, and so Gillian could be right --

John Donvan:
Stephen Moore, would you like in on this?

Stephen Moore:
So, you all probably think I'm a know-it-all, so I'll tell you that I've been wrong on the inflation and the interest rate story for the last six or seven years. When you guys came into office I predicted there would be inflation, a result of this monetary action, and it didn't happen. So, I

was completely wrong on that story. And you know, I've told -- I talk to financial groups all the time. I've always -- we have said for the last six or seven years, you know, the one prediction I can make with certainty is that interest rates are going up; they're not going down.

01:07:03

But I've been wrong [laughs] every year, because they just keep going down lower and lower.

Jason Furman:
Don't be too hard on yourself. It's a common mistake.

Stephen Moore:
[Laughs]. Well right. So, just a couple quick points on this. I -- it gets to your point about, do you believe that technology can keep, you know, lowering prices? And I do believe the two powerful forces in the universe right now, economically, are international trade and technology. And those are the factors that have really led to stable prices, which is a very good thing. The other point I would make is here we're fretting about, "Gee, do you think the, you know, inflation rate will go from 2 percent to 2.5 percent or 2.5 percent to 2.75 percent?" I mean, how many of you are old enough to remember, you know, 14 percent inflation under, you know, Carter and 20 percent mortgaged interest rates? We're not in that kind environment anymore. I don't think it's coming back. The two areas where I care a lot and worry most about inflation are education and healthcare, the two industries that have had runaway inflation and the two industries that are run by government.

01:08:02

John Donvan:
I have one final question --

[applause]

-- one final question for someone on the panel. I think I heard from you, Simon Johnson, that your argument against the motion that the stock market is too high was a sort of general core optimism about America, and that ultimately, it might be a little bit high now, and might pull back a little bit, but it's going to go, and go, and go, and go, and grow. And someday --- whether it's not really justified today, 25,000, 26,000 -- which it passed today -- is going to be justified. I'm wondering if anybody thinks that's naive, or do you all buy into Simon's argument that the stock market really can't be too high because this is a great country and a great economy?

Dambisa Moyo:
I'm going to risk it, especially since I'm an immigrant. I'm --

John Donvan:

Dambisa Moyo.

Dambisa Moyo:
-- risking getting carried out here.

[laughter]

So, I feel like some of my colleagues are actually being a little bit schizophrenic, because in the earlier conversation, they expressed a lot of concern about long-term economic growth in this country.

01:09:01

And if you think about the three key ingredients for economic growth -- capital, how much money you have -- labor, which we alluded to earlier, the quality and the quantity of the labor force -- as well as productivity, it would seem to me that there's a lot of scope and reason for concern. In terms of capital, we've talked about debts and deficits. In terms of the labor market, we've talked about not only the reduction in terms of the work force, but we -- I mentioned to you earlier the OECD PISA statistics around the quality, especially in a world where immigration is becoming much tighter. And by world, I mean U.S. And then finally, this question of productivity, which I again mentioned earlier, is really -- if you look at many economic reports, this is the largest contributor to economic growth of the three. We don't know why, but productivity has been declining quite considerably. Even though we've seen significant advances with the advent of technology. So, to me, I'm not here to say this is the end of America and it's never going to ever recover.

01:10:00

But I think it's a little bit naive to be so optimistic that the stock market will continue to go up -- and I'm not saying that there's -- you know, I understand that there is volatility as we move from one place to another. But I do think that it requires a lot of caveats, because I do think that America is in a very precarious and different position than it has been in the last several decades.

John Donvan:
Okay. I'm going to do a one-minute extension to let Simon respond. I just want to clarify that when I was talking today, as we took the stage, the Dow Jones Industrial Average broke a new all-time record, crossing 26,000 -- pulled back a little bit. But that's the trend that we're in. Simon Johnson to respond to Dambisa Moyo, and then we're going to wrap.

Simon Johnson:
John, thank you for letting me clarify this, because you -- it's very easy to get misquoted on this. My view is that discussions of short-term or immediate prospects for stock prices are absolutely fascinating. I can sit and listen to them all day. They are totally meaningless. Prices

go up, prices go down. We don't know. We don't know what's going to happen anymore than you do. Good luck out there, okay? But -- but there is a very serious issue, which Dambisa was starting to get at, and I hope we can explore in the remaining section, which is the long-term.

01:11:06

And the long-term is about the country, and the long-term is about people. Now, it's a bit -- or even importantly -- about the distribution between people and across people. That's the point that Jason made. And you know, Jason, Stephen, and I may have different views on that. Fine. But do you believe in America, as a place for people, to have families, to get educated, to be innovative, to build companies, to pass money onto -- and wealth, and ideas onto their children? If you believe in that, then you're believing in the [unintelligible] of America. By the way, not all of them, unfortunately, are the stock market. We get too fixated on the ones we already listed. We should fixate much more on the new businesses that are being created and have not yet been created, or don't get created because something gets in the way. But, does enterprise prosper in a way that that's prosperity's shared with everyone across America, including, as Stephen said, people who are forgotten, people who are in places or types of places that have been forgotten of late, that that's the agenda.

01:12:00

And I hear that as the shared agenda tonight across this panel. And with your applause, you can make it shared across the room.

[applause]

John Donvan:
And I am going to call that a wrap on discussion of this resolution, the resolution, "The Stock Market is Too High." Simon just alluded to this. We've added a little -- a very brief coda section in which we just want to hear from each of these economists who were, by the way, just terrific in how respectful and civil and informative you were. We really appreciated it. And, in fact, even, Stephen, the fact --

[applause]

-- that -- that you told us repeatedly how wrong you were was very refreshing and much appreciated. And that sort of candor is --

Stephen Moore:
So now can we take the gloves off?

John Donvan:
Yeah. That's -- I just want to thank them for -- for what they brought here tonight.

[applause]

But you each come from a -- from different places, from different professional backgrounds, from different ideological persuasions. So, as we finish up this evening of debate, I just want to put a question to each of you.

01:13:01

It's not necessarily debatable, although maybe we'll see where it goes. But I want to ask you -- and I'm going to start, go to the last of the cards. I'm going to start with Stephen Moore.

The question I want to ask all of you is, what is the biggest challenge facing the economy in 2018?

Stephen Moore:
You know, I think that's a tough question, but I'm going to go with, I'm very worried that we're making the same kinds of mistake in the housing market that we made in 2006 and 2007 and 2008. Fannie Mae and Freddie Mac, which I think were at the center of the crisis providing a hundred percent guarantees on mortgages with 1, 2, 3 percent down payments was a catastrophe. And guess what, ladies and gentlemen, we learned nothing. We learned nothing from the financial crisis. Fannie and Freddie and other, you know, units like Federal Housing Administration are doing the same thing. And I worry that we could see another housing panic. And I fervently hope that I'm wrong about that. But, you know, my housing policy should be -- I'm old-fashioned. You know, if we just had a policy 10 percent down payment, there would -- there would never be another housing crisis again.

01:14:04

[applause]

John Donvan:
Dambisa Moyo?

Dambisa Moyo:
So, I'm kind of going to go against my profession as an economist and say I think that the biggest risk we have is geopolitics. I have to say it's become a veritable Jack-in-the-Box. Every day, you wake up, God knows what's happening, in particular from the United States. And this has to do with every aspect of public policy in terms of -- really, I don't know where we're going in terms of education policy, in terms of healthcare policy, but also more generally. I mean, this is "the" leading economy of the world in terms of GDP, but also in terms of, really, ideology, certainly in the post-Washington Consensus world and until China emerged. And we do look, from around the world where 90 percent of the world population lives, looks to the United States to be a beacon in terms of showing us the right path for not just economic success, but political success also.

01:15:02

And my concern right now is that there's been a lot of credibility lost. I think there's a lot of skepticism around the democratic process. There's far too much short-termism, really pandering and courting and catering to short-term interests to try and garner votes with little consideration for the long term which we've already talked about here. So, I will just say that the geopolitical environment really -- I say "geopolitical," but I really mean from the leader -- from the leading nation in the world, the United States, is of deep concern to me and I think of many people around the world also.

John Donvan:
And do you see that echoed in other countries?

[applause]

Dambisa Moyo:
Say it again.

John Donvan:
Do you see the -- do you see those tendencies echoed in other countries or --

Dambisa Moyo:
Yes, absolutely. So, I've been very fortunate. I've traveled to over 80 countries around the world. I think even places like China, a lot of people talk about China. China is the second largest economy in the world in GDP terms. But in per capita income terms, you know, some rankings put it at number 100, you know, worse than many countries in South America and Africa and places in Asia.

01:16:04

They've got enormous issues that we have -- they're grappling with. And we need guidance. We need guidance in environment. We need R and D. We need innovation. Those things cannot come from places where people are just trying to eke out a living. They come from places where there's ability to flex your mental muscles and to have the opportunities to -- to, you know, collaborate and to debate. And unfortunately, I think that I liked this idea of distraction that Gillian touched on. I think that we are too distracted right now with trivialities. And what is at stake is enormous. I think it's actually human progress.

John Donvan:
Simon Johnson.

[applause]

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Simon Johnson:
I'm not sure the last time you had the opportunity to visit the perhaps greatest icon of American democracy. I'm speaking, of course, about the Statue of Liberty in New York Harbor. The last time I was there not too long ago, it did not say on the inscription, "Send us your well-to-do people who are already well-educated and from nicely run democracies."

01:17:07

[Laughter & Applause]

You know what this country is about because you either came to this country or your parents came to this country or your grandparents came to this country or someone who you remember and reference and speak about came to this country. And you know what? It wasn't easy for them. It was hard work, and they were not necessarily always welcome, although there have been moments when immigrants were more welcome. But there have also been moments when it was more difficult or as difficult for Irish people or Italian people or Jewish people to come to the United States. The greatest danger or my greatest fear for next year, John, and going forward, is that we will go massively into an anti-immigrant phase. Immigrants help move this country forward.

01:18:01

Immigrants -- more immigration will help -- and done in a responsible way, will help get you to the growth targets that Stephen rightly dangles before you. If you turn against immigrants -- and there is a proposal on the table, supported by President Trump from two Republican senators, to cut legal immigration from a million to half a million. If you do that, your growth targets, Stephen, are going to disappear --

Stephen Moore:
You're right.

Simon Johnson:
-- like sand through your fingers.

[applause]

John Donvan:
Jason Furman.

Simon Johnson:
The best line -- the best line, John, naturally, comes from that other icon of American culture, the musical "Hamilton." I think I've got this right. "Immigrants, we get the job done."

Dambisa Moyo:

That's right.

[applause]

John Donvan:
And Jason Furman.

Jason Furman:
That reminds me of a panel I was on with a German CEO that creates a lot of jobs in America, has a lot of plants in America. He said he was having a really hard time dealing with regulation in America, had to hire several more people to navigate all of the way we're applying our immigration rules now.

01:19:00

And because of that, he was creating less jobs in America. So, if you can still vote on the regulation one, factor that one into your vote. I have -- my concerns, like Dambisa and Simon's are about the long term. I'm less concerned about 2018 than just about any year in the last decade. In part, that's because if something bad happens, it won't be my fault.

[laughter]

But it's also because we're going to have hundreds of billions of dollars moving into the economy. We have a certain amount of momentum. We have a certain amount of global momentum. But if you ask me to actually answer the question of what I'm worried about in 2018, it's the lack of fear that I have and so many others have. The price of risk right now is very low. Expectations are very high. If those get disappointed, there's some chance of a Wile E. Coyote moment where you look down and there's nothing beneath you, and you keep going down. That's not my prediction for the year. But if it happens, you can say I put a 30 percent chance on it and told you here tonight.

01:20:04

And if it does, I think it'll happen in Gillian's way. It'll happen not with three or four rate hikes from the Fed, which is fine, and we can handle. It would happen with a much more dramatic revaluation of interest rates across the board, something that governments, businesses, and private investors aren't fully prepared to handle.

John Donvan:
Thank you, Jason.

[applause]

John Donvan:

And Gillian Tett.

Gillian Tett:
Well, I would echo much of what Jason and Simon and the others have all said. But I'd like to basically finish by going back to where I started, which is with Pyongyang because we now know that President Trump knows where Pyongyang is on a map. He might even be able to spell it. But Pyongyang stands for this incredible geopolitical risk which is rising right now. I was very struck because I was reading a book about a year ago about the preparations the U.S. had made for nuclear war back in the 1950s or ‘60s called *Red Mountain*.

01:21:05

It's a fabulous book, if any of you want to read it. I remember reading it and thinking, “Well, this isn't a very well-timed book, is it?” And now you look at that, and you think about how the discussion has changed in just a year in terms of the threats to the geopolitical order. You look at the magnitude and the number of threats. If you start thinking about the type of cybersecurity threats, and think for just a minute what would happen if suddenly the internet was switched off for a week, if you think about the fact, well, we all live at the moment assuming the internet’s going to be connected as a single global whole, and, in fact, if you look at what's happening in the weeds, it’s going into the splinter-net, where different regions are increasingly taking different approaches towards it, and try and imagine what that will mean in the future. If you look at things like the fact that Bridgewater -- big hedge fund -- calculates that proportion of the vote in the West that's going to populous candidates has jumped up from about 7 percent in 2010 to 35 percent in 2017.

01:22:09

And the only time that swing has ever been seen before was just before World War II. When you look at all of those different issues it's very clear to me right now that hopefully none of them will come to bite this year, but I suspect that if anything's going to derail the sunny economic picture over the next year, it's not going to be about economics, and it's not going to be something that anyone's going to predict with an economic model. So, read the FT.

[laughter]

[applause]

Gillian Tett:
I had to say that.

John Donvan:
Thank you, all of you, for sharing those insights. Those of you who are, again, our regulars, thanks for coming, and I want to thank the newcomers for joining us, too. And I wanted to let

them know this about Intelligence Squared U.S. We are a nonprofit organization. We produce this event, and we put it out to the world through the podcast for free.

01:23:02

They get used in schools; they travel all over the -- literally, around the globe. I meet people constantly in this country and a few times overseas who love what we're doing, and what they say is, “I really appreciate the fact that there can be a rational conversation in the middle of argument.” That’s the -- that's our special sauce, and the gift we put out there. But we can't do it --

[applause]

John Donvan:
Oh, thank you. I'm sorry, but that was a commercial, because I want to ask those of you who can do it -- and large and small donations make a huge difference to us regardless -- if you can go to our website you can make a donation, IQ2US.org. Or, now that you all have your phones in your hand, you can text the word “debate” to 797979, and you'll get a prompt to make a contribution. So, that’s “debate” to 797979. Okay, we've asked you to vote two times, both before you heard the arguments, again afterwards, to see what arguments ultimately you found most persuasive, so we want to check in on those numbers.

01:24:05

On the first resolution that we looked at, The GOP Tax Reform Bill Will Improve Our Outlook for Growth, the side arguing against swung over the most people by 15 percent. It was 37-22, then it was 63-78. That was a net swing of 15 percent to the no side. The GOP Tax Reform Bill Will Improve Our Outlook for Growth.

[applause]

John Donvan:
The resolution: Deregulation is Driving the Booming Economy. The first vote, it was -- 27 were yes and ~~16 --~~ 73 were no. In the second vote, it was 16 were yes and 84 were no. It was an 11-point swing to the no side.

[applause]

And finally, the Stock Market is Too High. The first vote was 35 percent of you saying yes, and 65 percent no. But in the second vote, it was a 50-50 split.

01:25:00

50-50, which means the swing went towards the Yes side, that you all here feel the stock market is too high; so, let's worry. Listen, I want to --

[laughter]

-- I want to thank all of you for taking part in this. Thanks to this panel. I'm John Donvan from Intelligence Squared U.S. We'll see you next time.

[applause]

[end of transcript]