



Economic slowdown? Chief Economist Laurence Boone looks ahead

Access the podcast at:

<https://doi.org/10.1787/98fa841b-en>

Please cite this podcast as:

OECD (2019), "Economic slowdown? Chief Economist Laurence Boone looks ahead", *OECD Podcasts*, Duration: 16:59, OECD Publishing, Paris, <https://doi.org/10.1787/98fa841b-en>.

Host: Rory Clarke

Speaker: Laurence Boone

Duration: 16:59

Date: 14 January 2019

All podcasts express the opinions of the interview subjects and do not necessarily represent the official views of the OECD and/or OECD Member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.

**Economic slowdown? Chief Economist
Laurence Boone looks ahead**

Intro [00:00:02] Thank you for choosing OECD Podcasts.

Rory Clarke [00:00:09] Welcome to OECD Podcasts, Our policy meets people, 2013 was an uncertain year for the global economy. OK, there was no recession to speak of, but consumer and business confidence is fragile, to say the least. In fact, many economists, including at the OECD, have revised down their economic forecasts, blaming tensions over world trade in particular. The question everyone is asking is, could things get worse in 2019, is the world economy living dangerously, as one newspaper put it, or just as spring follows winter, will the clouds soon lift? I'm Rory Clarke. And to help me pick through some of these issues, I'm joined by Laurence Boone, who is the OECD chief economist. Thanks for coming in.

Laurence Boone [00:00:54] Thank you. Thanks for having me.

Rory Clarke [00:00:56] Let's start with the numbers, shall we? Economic growth is set to average around three and a half percent roughly over the next two years, year or two. That's according to the latest OECD economic outlook, which you issued in November. That's not that bad, is it?

Laurence Boone [00:01:10] It's not that bad. And growth has probably peaked and is now slowing down. And that's normal at this stage of the cycle. Jobs are high, so we have a good situation, but there are risks and these risks mostly come from the way policy is shaped and designed, namely trade tension. You also have financial tightening, which has spill-over on the emerging markets, and they are a lot of political risk out there, Brexit and some others in Europe. So what we are concerned about is how to get the best policy to minimise the stability that risk materialises.

Rory Clarke [00:01:54] Are there any other signs out there, apart from just policy indicators, anything happening out there that is not performing like you'd like it to?

Laurence Boone [00:02:02] Well, take trade, for example. So we've been following the traffic across parts of container because those represents about 80% of the volume of trade in goods. So that's a super powerful indicator. And when it was growing at a rate of 6% in 2017, it's now only growing at 2%. That's a very strong indication that the trade tension actually taking a toll on trade. And when we look more in the aggregate, we estimate that trade tensions have already shaved off about point one to point two percentage point of global GDP growth. And looking ahead, you know, all this uncertainty about the discussion on trade, they're holding off firms investment plan and that's holding off on employment and you hire. So what we are seeing, and in particular in the November economic outlook is policymakers should get back to the negotiation table, address the trade issues and reduce uncertainty so that investment and employment can pick up again.

Rory Clarke [00:03:15] What about jobs? Many people would say jobs are the real test of economic performance. How's that performing?

Laurence Boone [00:03:21] Well, on the job front, it's like on OECD, OECD a wide level. We are actually doing great. Unemployment is very high. Unemployment is at record low in the U.S. It's gone back to crisis level in Europe. So the picture looks good. But then, you know, we're never happy with a global

aggregate picture. We're looking to the details. And when you look into the details, what we are seeing is, for example, youth unemployment is still too high. Some older workers are still not back in the labour force and they are pocket of poverty. And we also see wage growth, which is still a bit sluggish. So we think there's more to do on this front.

Rory Clarke [00:04:08] Again, in the OECD outlook, you underline that if there is a decline, then the challenge is to engineer a soft landing. That's easier said than done, isn't it?

Laurence Boone [00:04:18] Yeah, somebody said that soft landing is a term created by economists, but it doesn't really exist in practise. I think it's probably an economist way of talking, but what we are trying to say is we have passed the peak of the recovery and monetary and fiscal policy which had supported the recovery, are now normalising. And this is always challenging. And it's especially the case because Central Bank have been super creative to help lift the world out of what could have been a massive depression. So now they also have to be super creative to nominate things and these are always challenging time. So if we get back to what I was saying before, we don't need additional risk like politics or attention when we are trying to actually ensure that growth lands on a sustainable and long lasting pathway.

Rory Clarke [00:05:18] You wrote about this in the Financial Times before in December, the need for cooperation. How important is that? And also how much room do policymakers have have not spent all their efforts. Solving the crisis,

Laurence Boone [00:05:32] so there are two questions in your questions. One is the need for cooperation and the other is margin for manoeuvre and they both need win. The margin for manoeuvre are still low. Take interest rates right there below zero. In Europe, they're still below 2% in the US in the short term, take fiscal policy. It's true that we have elevated debt. So it looks like are we trapped? Well, what we are saying is, no, we're not SLAPP, we are not tribe. If we can actually look at those things and prepare ahead in case the slowdown is faster or larger than what we expect. And for that we need not only to expand our toolbox, but also to make sure that we talk to each other so that everybody act in the same direction. There are two things. One is what we know is that when fiscal authorities act together like they did in 2009, so that's not science fiction, then the impact of the fiscal stimulus is much higher than when they act individually in their own corner and not in the same direction.

Rory Clarke [00:06:44] So fiscal stimulus would be what, for example,

Laurence Boone [00:06:46] public investment and sharing also lifting some people out of poverty through redistribution. So that's one thing. And the second thing is, you know, when you talk about trade policy makers always have the feeling that you have losers and winners. But when you talk about public investment in a coordinated way of supporting your population, there are no losers everywhere. You win from that, which is why we believe that cooperation is feasible.

Rory Clarke [00:07:15] But how are you managing to get people to listen to you right now? I mean, the public mood, the political trend seems to be towards inward looking protectionism, some even nationalism, even amongst some major OECD countries.

Laurence Boone [00:07:28] Countries are very integrated. You have the global value chain like an iPhone. You know, the manufacturing of an iPhone starts in Asia and in the U.S. You look at Airbus in Europe, it goes through the U.K., Spain, Germany, France. So they are trade powerful trade linkages. They are also powerful financial linkages. So when as we used to say, even like the OECD, when the US sneezes, the rest of the world may catch a cold. So everybody has interest that global growth continues for all its it's a common public good. And that's how you get people to sit at the same table. Look at the G20 and like, what's

Rory Clarke [00:08:13] G20 is

Laurence Boone [00:08:14] the G20, the group of the 20th richest economy of the world, and they represent the largest of sizeable share of global GDP. So people were quite pessimistic that they could come to an agreement on migration, climate, financial safety net at the end of November in Argentina. And yet they did. So I'm hopeful that if need be, we can sit together and move ahead.

Rory Clarke [00:08:41] How do you explain the US's strong, relatively strong performance? Do you think that's sustainable?

Laurence Boone [00:08:46] So there are two things. I think the US started the recovery following the financial crisis faster and with more momentum because they did the right policy at the time with the right sequencing, address financial issue, support the economy by cutting rates and by spending a bit more public money. And that was good. Now there has been, again, some fiscal injection of public money last year in 2018 and this year when the US doesn't really need it because it had the peak of the cycle. So it's boosted growth further its risk in sparking some inflation. And after 2019, when this injection of public money disappears, then we're at risk to see growth actually slowing a little more sharply. So we're in a cyclical, difficult situation in the US because part of the excess growth, if you wish, has been artificially created.

Rory Clarke [00:09:50] And what about your own country, France? We're seeing some government reforms leading to some quite violent clashes on the streets. Is that deja vu or is this something different this time?

Laurence Boone [00:10:02] I think what's interesting is it's this is not a French issue. Pearcey we have gone through since the late 80s through a wave of globalisation and digitalisation. And although it has been good, there's no doubt about that. A third of the planet has been lifted out of poverty, which is magnificent. But at the same time, more locally, it has impacted some people in some sectors where work was displaced, for example, or where their skills were not required anymore. And collectively, I think we've made the mistake of not paying attention to that. And that's what we are seeing now. It's the cost of having left inequality developed between, say, 85 and 95 and then stagnate afterwards. We also observed that redistribution has lowered. So we have not paid enough attention to the individual and especially those who are the less well-off. And that's the big lesson for us as an advising body to policymaker. How can we help those people and make sure that everybody has the same opportunities and chances in life?

Rory Clarke [00:11:17] But do you think globalisation can change to become a little bit more locally oriented?

Laurence Boone [00:11:22] I think policy can help a lot to ensure that the benefits of globalisation are more equally spread throughout the population. That's to ensuring that everybody has the same access to good education, good health care, good housing, little pollution, public transport, public services. It's a matter of rebalancing the policy that we were putting in place.

Rory Clarke [00:11:52] Turning to you last June, you took up your role as the OECD chief economist and I think it was July 2018. It must be exciting, but any feelings of trepidation?

Laurence Boone [00:12:03] Yeah, I'm super excited about the job. First, it's working for the general interest. The OECD has been at the forefront of the lessons from the past two decades in caring and working to address inequalities of revenues and opportunities with better policies for better lives. He's a superb motivation. Second, OECD staff is fabulous, coming from all member countries hugely committed by dynamic, innovative, striving to deliver policy recommendation that will actually enhance the welfare of people in the short and medium term. So I feel privileged and now to support them, to make the best of their work and promote it with policy makers and ensure that policymakers can actually also strive to get better life for the people.

Rory Clarke [00:13:01] Of course, you already work to the OECD early 2000s, late 90s, early 2000s. We even work together, I think, in those days. But since that time, you spent several years in the private sector as an economist, leading economist, chief economist, as well as the OECD changed since that time.

Laurence Boone [00:13:19] As I said, I think the OECD has gone a tremendous way from being very far, being seen as a very liberal, mostly liberal institute to an institute that provides policy advice, which are a lot more balanced today between lifting growth, but ensuring that everybody benefits from it. I think the OECD has been really one of the leaders in making this shift looking ahead, and this is helping us because we have been able to prepare a lot of the work that we not all, but a lot of the work that we need to actually give better advice.

Rory Clarke [00:13:57] And, of course, the OECD in international government organisation. And your experience in the private sector must bring some new insights, hopefully.

Laurence Boone [00:14:07] And I, I think the two things one is the private sector taught me a very entrepreneurial spirit, but also the experience of delivering. You know, it's great to have some ideas, but how do we make something concrete out of it? How do we serve our customers, our clients and our clients today, our governments. So that's one thing. Be concrete and try. There's never any harm in trying. We should do it soon. As you know, I worked as an adviser to the former French president. So on the policymaking side and I think this is invaluable to help identify their concern, strike the right balance between short term and medium term objectives, improve communication, avoid jargon, and also be ambitious in policy advice. But humble. They are elected. They talk to their people. They are concerned. We have to take that into account and design our recommendation to take care of the concerns they have about individuals.

Rory Clarke [00:15:15] And finally, back to the future of the world economy. Do you have an optimistic message for our listeners for the year ahead? Will spring follow winter?

Laurence Boone [00:15:24] I think you put exactly the right question in the right spot. Taking a long term view is a reason for optimism. Welfare has tremendously improved overall over the past decades with the third of the planet that's now, you know, nearly growing at the same pace with the same wealth as advanced economies. So that's super impressive. Climate concern is now central to our policy design. And the COP 21 success should remind us that multilateral cooperation on long term issues is possible. So we are navigating challenging waters. Some are suffering more than others and we must help them. But although, like Fukuyama said, I think the humanity continuously improves and taking a longer term view actually helps to be more optimistic. I'll address those long term challenges and the short term one.

Rory Clarke [00:16:24] Lawrence Boone, thank you very much. Thank you. I'm Rory Clarke, thank you for listening to OECD Podcasts. You can find more OECD Podcasts on [SoundCloud.com/OECD](https://soundcloud.com/oecd) as well as iTunes, Spotify, Google Play and on a range of OECD platforms.