The Economic Club of New York

117th Year
770th Meeting

Philipp Carlsson-Slezak
Managing Director & Partner
Global Chief Economist
Boston Consulting Group

September 16, 2024

Webinar

Moderator: Frank Brosens
Co-Founder
Taconic Capital

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 770th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. And we're honored to be here with all of you today for this Author Series event. Recognized as the premier nonpartisan forum in the nation, The Economic Club of New York stands as the leading platform for discussions on economic, social, and political matters. For more than a century, the Club has hosted over 1,000 preeminent guest speakers contributing to our tradition of excellence which continues up through today.

I'd like to thank the students who are joining us virtually from the Gabelli School of Business at Fordham University, the NYU Stern School of Business, and Rutgers University as well as members of our largest-ever class of ECNY Fellows – a select group of diverse, rising, next-gen business thought leaders.

It's my honor to welcome our guest today, Philipp Carlsson-Szlezak. Philipp is the Global Chief Economist at Boston Consulting Group and a Managing Director and Partner in the firm's New York office. He runs the Center for Macroeconomics at BCG Henderson Institute as well. Prior to BCG, he was Chief Economist at Sanford Bernstein, where he covered the economy and markets for institutional investors in the global asset management industry.

Earlier in his career, he spent more than 10 years advising financial institutions and governments at BCG, as well as the Organization for Economic Cooperation and McKinsey & Company. With longtime collaborator Paul Swartz, he regularly publishes technical research for clients and is a frequent contributor to the Harvard Business Review, World Economic Forum, Fortune, and other business publications. Today, we're thrilled to discuss his latest book, *Shocks, Crises, and False Alarms: How to Assess True Macroeconomic Risk,* a very timely topic.

The format will be a conversation in which we're honored to have Member and Former Trustee of the Club, Frank Brosens, Co-Founder of Taconic Capital Investors, as our moderator. As a reminder, this conversation is on the record as we do have media on the line. We're going to end promptly at 12:45 p.m. And with time permitting, they will take listener questions in the chat box. So without further ado, I'm happy to pass the mike over to you, Frank, to get the conversation going.

Conversation with Philipp Carlsson-Szlezak

FRANK BROSENS: Thank you, Barbara. And thank you, Philipp, for joining us today.

PHILIPP CARLSSON-SZLEZAK: Thank you for having me.

FRANK BROSENS: Your book, *Shocks, Crises, and False Alarms* is refreshing in that it emphasizes the importance of not relying too heavily on traditional economic models or simple rules that often promise quick conclusions about the economy or markets. And instead, it provides readers with a guide to understanding and navigating economic risks and coming to their own common-sense conclusions. In our conversation today, what I'm hoping is that our audience gets some insight not only into your views today about the markets and the economy, but also leaves with a better understanding and a different framework on how to think about risk management generally.

But the kickoff for discussion, Philipp, maybe if you could share a bit about your background and how your experiences have shaped your views and the approach you take in the book.

PHILIPP CARLSSON-SZLEZAK: I'd be happy to. I've worked in the economic space for close to two decades. Started out as an economics undergraduate student, eventually going to grad school. But I think the timing of when I first encountered economics as a discipline is important. It was around the turn of the century, being an undergraduate at the London School of Economics at the time.

And that was sort of peak economics, if you will, when economics as a discipline was riding high. There was a certain infallibility about the discipline. We can solve a lot of problems. We can fix economies the way that surgeons and doctors treat a patient. And often that was brought back to models and a lot of mathematics. And as a student at the time, I was certainly exposed to that, but also very skeptical of it. Even then, that didn't feel quite right, even as it was still about six, seven, eight years until the Global Financial Crisis at that time, right? So that was still some time off, an event that kind of dinged the discipline significantly. But even then, it felt a fairly reduced version of the world.

So after going through economics, I worked in business. I worked in finance. And through the years, as I became a publishing analyst and author, over the years I continued to look past the boundaries of economics and tried to be a little more multi-disciplinary, bringing in adjacent views, and always wary of particularly top-down forecasts and the ability or the pretense that we can actually boil this down to single indicators. So there's a bit of a history there in how I've grown up in the discipline and working in economics, all of which comes into the book, which I co-wrote with my co-author Paul Swartz, who has a similar history of engaging with economics. We think very much alike on that.

FRANK BROSENS: When you talk about peak economics, which is a little bit of what you grew up with, as you say, at the turn of the century, you're talking about peak dependency on models being able to predict the outcomes.

PHILIPP CARLSSON-SZLEZAK: Absolutely.

FRANK BROSENS: And it reminds me of, I think it's Andrew Lo, who said something on the order of, in physics you have three rules that define 99% of the world, and in economics you have more than 99 rules that define less than 3%. And it seems like that's the approach that you've taken.

PHILIPP CARLSSON-SZLEZAK: So true. It's a great quote.

FRANK BROSENS: You know, having talked about three rules, your book talks about three interesting principles for navigating economic risks. Number one, you mentioned not sticking to just one model. Number two, tuning out the doomsayers, and then third, embracing what you describe as economic eclecticism. Can you share a little bit more about what each of those three means and the role that it plays in the way that you look at forecasting?

PHILIPP CARLSSON-SZLEZAK: Yes, you know, master model mentality is what we call it in the book. And it speaks to this desire to think of economics as a natural science. You know, where you have stable relationships of causes and effect and where you essentially can reduce things to measurable developments and can also forecast with some precision.

What we argue in the book is that master model mentality is really a fallacy because economics isn't constructed like that. And we're certainly not the first ones to make that point. This goes far back. It goes back to the Austrian economist. Ludwig von Mises made the point that we shouldn't treat economics as a natural science. Keynes made similar arguments. And Hayek, we quote Hayek repeatedly in the book, in the 70s particularly. He made the case that there's a big danger here of leading to erroneous forecasts, erroneous results. And certainly we agree with that. And so we say embrace the uncertainty that economics brings. Don't try to sort of minimize it compulsively. You will never minimize that uncertainty entirely. You can't have the forecasts that work and deliver each and every single time so you have to start to embrace that uncertainty and look beyond it.

The second point, which is about the doom-saying slant of economics as a discipline is really the observation that the way public discourse is constructed, the way we run this is slanted to the downside. So the business model of financial news is heavily dependent on our clicks and our eyeballs, and so there is a constant stream of coverage and commentary that plays up the risks and is skewed to doom-saying narratives.

You know, we can revisit some of those over the last few years if there's interest, but clearly we don't usually get a rational discourse of the distribution of risk and weigh those against each other. We usually jump to the edges of the risk distribution on financial TV saying we drag them to the center of the risk distribution and we pretend that the economy is perennially, perpetually, you know, at the cliff edge and just about to fall to its economic death.

And then the third habit that we point out, the third theme of how we can navigate all this better is what you mentioned, economic eclecticism, which is really just a fancy word for saying multi-disciplinarity. Economics is not a great soloist, we write in the book, but it does play well in a band. So if you combine it with adjacent insight from other disciplines, whether that's finance history, political science, political economy, that will enrich economics, and the analysis it can provide, and it will lead to better results if you do so.

FRANK BROSENS: I think maybe dig in a little bit on each of the three. The first, I think of as really to avoid using one model to reach a conclusion. And I think of examples perhaps like the Sahm Rule or inverted yield curve is too. But is that what you're thinking through?

PHILIPP CARLSSON-SZLEZAK: Yes. These are great examples. The book takes some of these to task. The yield curve has a checkered history. I mean it's not just the last two years where it sent incorrect signals of recession. Even 2018, 2019, I mean it was pretty clear that often the recession signal that you can derive from an inverted yield curve is scrambled or polluted or just not very clean and clear.

And the Sahm Rule that you mentioned is just sort of an iteration of that history, and it's just a new chapter in that. You know, by the way it's designed, there's a lot of fact testing. It looks good on the surface, but I think Claudia Sahm herself has come out and said, look, I mean it was triggered, and supposedly we had a recession. But she doesn't actually believe that.

And that just goes to show you will not be able to capture the complexity, the multi-disciplinary complexity in a single number. And if you then take such a number and derive conclusions and actions from it, you're quite likely to be caught out or wrong-footed. And it could be costly to do so.

FRANK BROSENS: Another quote that I like is, I think it's Box's that said all models are wrong and some are useful. And effectively the some are useful is it plays well in a band.

PHILIPP CARLSSON-SZLEZAK: I couldn't agree more.

FRANK BROSENS: In terms of ignoring the doomsayers, what you're describing is one where doomsayers tend to get more press because it's easier to sell. Is that kind of the primary driver of why you think the negativity tends to be more pervasive? Or is it something else?

PHILIPP CARLSSON-SZLEZAK: It's part of it for sure. I think it would be unfair to claim the audience doesn't want part of that. I mean it's thrilling to hear about all these existential risks that are supposedly so close all the time. So I think it's both supply and demand. But when we think about what plays well on audio, visually on TV, elsewhere in the Podcast sphere, I think there is an interest to tell the really big risks, the stories about the really big risks and evaluate how close are we or how bad is the damage going to be. It's just the way, the way the culture is playing out, our discourse, the way we conduct it. And I don't think this will change.

So it's really incumbent upon the audience, executives, investors, to be very cognizant of that. What the book argues is to say, like you have to develop a habit of looking past the doom-mongering. Ask who is speaking. What are their interests? Where's the perch they're speaking from? What is their history of making such forecasts? Often you'll see a lot of doomsayers have a grand history of making many, many doomsday predictions and occasionally they're right, but is that the broken clock proverbially, that is right twice a day? Or is that genuine insight and forecast? Usually it's the former and not the latter. And so it's really upon us to just be very aware and cognizant of this and develop some tools and habits to discount some of that doom-mongering.

FRANK BROSENS: The third one you describe, you know, economic eclecticism, I think you described it as depending on a multi-variable analysis or a multi-factor analysis. Maybe the best way to probe there a little bit more is to go back to, I believe it was March of 2020, in the depth of the Covid crisis, where you wrote a bullish article on the economy in Harvard Business Review. I'd like you to describe a little bit, what went into that constructive view at the time?

PHILIPP CARLSSON-SZLEZAK: Yes, you know, March 2020 was shelter in place and then the lockdowns. And quite predictably it led to an overshoot on the doomsday narrative side. I think a lot of, obviously worrying and scare was warranted, and it's not like this was certain to be a good and strong and fast recovery. But what was interesting was the habitual willingness to immediately spin this into a worst-case scenario.

So what was very common at the time, the conventional wisdom was this will be a very lengthy slow and arduous recovery, maybe taking six or seven years. Lots of commentators were even willing to go back in time to the 1930s, so it was not just as bad as 2008, they said the Global Financial Crisis, they even linked it to the Great Depression of the 1930s.

And a lot of this stemmed from actually the master model mentality of looking at key indicators, in this case unemployment, which went to 14% very, very rapidly of course because of the lockdowns. And say, well, we've had 10% unemployment in the past and that took eight, nine years to recover fully after 2008, and saying now we have 14% so it's going to take even longer on the recovery side. And so there was really a confluence of master model thinking, the doom-saying narrative that is so dominant in public discourse, and that gave you predictions of the recovery time that were far off the mark.

What was feasible at the time was not to pound the table and say, hey, this is going to be recovered within 18 months or two years, but what was feasible was to step back and look at this with a broader lens. Not look only at the unemployment rate, but say, well, what does it take to get a really poor recovery, such as after 2008? What are the coherent drivers that give us that kind of outcome? And do we have a coherent narrative today that such drivers will be dominant?

And if you did that, you look not just at the unemployment rate and model-based recovery times based on history, you ask very, very quickly, even in March 2020, what is it that policy can do? What is the amount or quantity of help we need? Is there a need for policy innovation of how we deliver this? Is there feasibility, both the ability and willingness of policymakers to do that? And if you looked at that, as we did in March 2020 in that article you mentioned in HBR, we arrived at the conclusion that this is not a foregone conclusion of doom and a very lengthy recovery. This can actually be pretty tight and policy can be mobilized to turn this around pretty quickly.

And so, yes, I do agree with you. It is an example of all of these things – the master model mentality, that set us up into doomsday narratives and I think the multi-disciplinary eclecticism kind of helped to take a calmer take on the situation then.

FRANK BROSENS: So you looked at not just what are the drivers that could make it a disaster, but also what are the potential drivers, primarily economic and monetary, or fiscal and monetary stimulus that could turn the narrative the other way. How did you have the confidence that fiscal and monetary stimulus would actually politically be feasible and be enacted?

PHILIPP CARLSSON-SZLEZAK: In the book, we treated the topic of stimulus at some length. There are three chapters in total on stimulus. And over the years, Paul and I, we've published on the history of stimulus and two different types of stimulus that we see in the broader landscape.

The first is existential stimulus, which is when policymakers rescue the economy wholesale, backstop, the really bad systemic downside, which is something we've seen a number of times, 2008, 2020, sort of big, big programs. And they require the willingness and the ability of policymakers to do so. The ability comes down to funding. Are financial markets going to finance extra debt for this? The willingness is really about politics. Are we coming together to pass legislation to backstop the economy?

Well, when the house is on fire like in 2020 or in 2008, actually the willingness falls into place sooner or later. In the book we go into TARP in the Global Financial Crisis, $700 billion, which seems like a small ticket from today's perspective. But I had to remind readers, that was voted down initially, TARP, in Congress. And the market sold off and it convinced politicians to come together and pass TARP, and it did in the end, and that was a big piece of the recovery. That is existential stimulus and we think that is essentially still in place. We think that is healthy. If we encounter another big crisis, which inevitably at some point we will, we have significant confidence that in the U.S. and many other wealthy economies, that ability to mobilize this existential stimulus is strong.

That is separate, however, from what we call tactical stimulus, which is more of a frivolous history of continuously always choosing the cycle, always pushing the economy. We've called it also the compulsive stimulus model in the past. So there's a whole 60-year history in the book that we walk through of how we've gone from initially just debt finance in the 80s. Actually under Reagan that really took off. And then later we were tolerating bubbles, which spurred wealth and consumption. And then we tolerated super-low interest rates. And there were multiple cycles of just pushing and pushing, either actively or tolerating dynamics that just pushed a lot of stimulus and always kept the economy moving forward through tactical stimulus.

And the more tactical side, which is driven by politicians and policymakers is very different from existential stimulus. That one is constrained now. Why? Because we have a somewhat different inflation environment. The risks are skewed to the upside necessitating more often, we think in the future tamping down such pressures. We don't think of runaway inflation at all, but sort of an upside pressure on the price side. And that makes it much more difficult to have these somewhat indulgent and sometimes frivolous tactical stimulus ploys that have historically pushed the economy.

FRANK BROSENS: So two types of stimulus. Existential stimulus, which it sounds like you wholeheartedly back, which is what both the Federal Reserve, from the standpoint of monetary stimulus, and the administration in terms of fiscal stimulus, need to do to get the country out of a crisis if it goes into it.

And then secondly, tactical stimulus, which I think of as fine-tuning to try and prevent minor hiccups in the economy perhaps to try and smooth out what would otherwise be a normal economic cycle. It sounds like you are less favorably inclined towards tactical stimulus but recognize that it's there. Or is it something different?

PHILIPP CARLSSON-SZLEZAK: It's there. It's just the ease with which it can be deployed is more constrained. I mean think about, on the monetary side, the infamous Fed put. You know if markets are jittery, if the economy looks a little weak, the first thing you do is signal policy rate cuts or an easier rate path, which we had pre-Covid, not long before Covid came. So going from the end of 2018 into 2019 was such a classic situation. The Fed was hiking. Markets didn't like it. The economy had some question marks. And they reversed course and cut rates into 2019. That is a very easy thing to do when price growth, inflation is as low as it was in the 2010s, essentially struggling with the 2% target from below. So we were mostly missing the 2%. When price growth is that contained, that kind of monetary policy posture is essentially costless.

In a world where you are more likely to live above the 2% target and where you're more likely to be required to push down price growth through monetary policy, it's a very different calculus. That kind of Fed put, that kind of, you know, discretionary handling of the cycle is a lot harder. And I don't want to say the U.S. is at risk of situations that we've seen in the past, for example, in the U.K. So remember the Liz Truss fiasco where on the fiscal side they were pushing, switching from the monetary to the fiscal side, they were pushing a big budget increase, and markets sold off in response and they had to retract that.

I think this is, this is not necessarily sort of an easy or likely thing to happen in the U.S. But certainly it's part of the risk distribution that is worth watching. How much fiscal can be done? How much monetary juicing can be done? And those tactical questions are now different than they were in the 2010s because of the underlying inflation pressures.

FRANK BROSENS: I think of, to some extent tactical stimulus as not eliminating the business cycle, but at least to some extent smoothing out the business cycle or preventing the normal ebbs and flows of economies. But it reminds me of Hyman Minsky's point, stability breeds instability. And to some extent, if you eliminate the natural cycles that exist in an economy, do you set yourself up for something much larger later? How do you think about that?

PHILIPP CARLSSON-SZLEZAK: Yes, the longevity of cycles that comes with continuous compulsive stimulus, tactically, the longevity of ever-longer expansions probably does feed into the likelihood of financial hiccups and financial buildup of imbalances, which can then unwind rapidly and give you, not just a plain vanilla recession, but those financial recessions then tend to be more pernicious, more impactful, and more difficult to recover from.

And in that sense, I think that is an important observation. I agree with that. And I would add also, you know, when we say smoothing out the cycle, that sounds very noble and benign, but in reality when politicians compulsively push the economy, well, why do they do that? For political and purposes of elections. And so, you know, it's not just only a matter of smoothing out the cycle. It's typically for a particular purpose and on a particular political end.

FRANK BROSENS: I want to switch back to the doomsday discussion. There's a question that came from the audience about a lot of doomsday discussion right now on the real estate crisis and demographic challenges that China faces. In your view, is that doomsday fear-mongering? Or are the issues real? Where do you come out on that?

PHILIPP CARLSSON-SZLEZAK: In China specifically?

FRANK BROSENS: Yes.

PHILIPP CARLSSON-SZLEZAK: I don't look at the Chinese economy nearly as closely as the U.S. economy, but clearly there is a real estate problem. There was too much capital investment. It was overextended, overbuilt, too much leverage. And they're going through some form of debt crisis. It seems to be pretty controlled. It hasn't blown up in a spectacular, rapid fashion although it's always difficult to gauge just how much is actually happening on the ground. There isn't the same level of transparency as we have here.

I think the bigger story, though, is would that impact the U.S. economy? Is that something that could be contagious or could that have negative impact here in the U.S.? And I think what happens in China, even if they get a bigger escalation of their real estate problems, in the end their debt is local. Their leverage is local. It isn't similar to, say the Asian Financial Crisis of the late 1990s where creditors were outside and then when you had the cascade of defaults, it sort of cascaded across the whole globe and even landed on our shores rather rapidly.

I think this is more contained. Also their policy, ability to counteract problems is strong. Their political system plays to those situations favorably in the sense that when it comes to allocating losses in society, they have the ability to do so given the way their system is set up. So I don't think of that crisis or that problem rather, however big it may actually be, I don't think of it as a primary risk for the U.S. economy or as radiating easily into the U.S. economy.

FRANK BROSENS: So there's some serious issues. They have the capacity to deal with it. Whether they have the political desire to deal with it is another question, but regardless, the implications for the U.S. global economy are relatively contained.

PHILIPP CARLSSON-SZLEZAK: More than we often assume, I think, yes.

FRANK BROSENS: You also wrote an article in *Fortune* in early '23. At the time, I think there was considerable concern about inflation and a potential recession, either or both being inevitable. And at the time you advocated for benign inflation and the possibility of a soft landing. I think of you being one of the very few that viewed that as a majority probability. What led to that conclusion?

PHILIPP CARLSSON-SZLEZAK: One thing we always did in those articles and in the book, we differentiated between two types of inflation problems. There is structural inflation, which is a very, very big systemic problem and something to be feared and to be afraid of. And then there's cyclical inflation, which is more idiosyncratic, situational, and not rooted in how the system operates.

And what happened early on in our inflation crisis, and I will readily call it an inflation crisis, but what happened is that public discourse conflated almost from the start the structural inflation problem, like in the 1970s, which is rooted in unanchored inflation expectations and sort of runaway spirals of wages and prices. And that was conflated with what is clearly a more situational, tactical, idiosyncratic problem that squeezes prices higher. But if those drivers dissipate, you will also see the reverse. And we essentially said this looks to us a lot more like the latter than the former. Not a systemic story, but more of a situational story.

What was that particular situational problem? You had a confluence of a lot of mismatches. You had a demand side that was very, very strong. So that was the overshoot that came with fiscal stimulus and pent-up demand. At the same time, you had supply constraints, not just from value chains and bottlenecks and trade. But you also had a convoluted labor market, later the Ukraine war came that had knock-on effects in commodity prices, etc. So there was really a confluence of drivers on both the demand and supply side that was not forecastable. So if people pointed to Biden's stimulus, thinking of people like Larry Summers, and said that would lead to inflation, well, it contributed, but clearly there were a lot of supply side things that made the squeeze to 9.1% at the peak.

Now, what we really looked at then, we said this extraordinary situation of way too much demand and way too little supply, it confers a lot of pricing power on firms. Normally, you raise prices, you lose market share. So there's a constraint on raising prices. But when demand is through the roof and nobody really has a supply, then everyone gets to raise prices without anyone losing market share. And that is what squeezed prices higher, but when that excess demand waned, and when the supply side was rebuilt, then the conditions for that price squeeze were also dissipating quickly and that's how inflation came back down rather rapidly, almost symmetrically to the way it went up in the beginning.

And so essentially it comes back down to, it comes back to a willingness to differentiate between a systemic structural reading of inflation versus a tactical cyclical one. When those two narratives were conflated, then we were blessed with headlines of the 1970s, and forever inflation, and wage price spirals, and all these narratives that clearly haven't held up. And I think it was certainly feasible to have a more realistic reading of inflation's path in '22 when inflation spiked so high.

FRANK BROSENS: I think of a summary of your views perhaps being the pejorative temporary inflation as opposed to more structural inflation.

PHILIPP CARLSSON-SZLEZAK: I strain to avoid the word temporary. But honestly, if we fast-forward 30 years and imagine looking back at this episode, will "temporary" still be such a dirty word to describe what happened there? I don't think so. But I'm fully cognizant of just how big a taboo the word temporary is, so I try to avoid it. You're absolutely right.

FRANK BROSENS: Let's move, fast-forward to today. You know, I'm very curious as to your views about the current environment. There are obviously concerns that the Fed might potentially be behind the curve. They're talking about 50 basis points because it's now viewed that perhaps not raising, not lowering the rate by 25 basis points in July might have been a mistake. Obviously, there's a lag, or I believe there's a lag between the effect of monetary policy on the economy and so it may take a while for them to course-correct. How do you view it? And what do you think of the odds of a policy error?

PHILIPP CARLSSON-SZLEZAK: I'm pretty relaxed on that front. It's always easy to criticize and bash the Fed. Their job is an unenviable one. It's extremely hard to do what they're doing. And the actual path they choose will always be sub-optimal, particularly with hindsight. Could they have cut in the summer, earlier this year? Yes. But remember, there was a bit of a re-acceleration of inflation in the spring that made that less defensible. Can they cut once or twice on Wednesday? Both will be fine.

I don't think with hindsight we will ever look at that decision as super consequential. I don't think the economy is teetering on the brink of recession at all. What we offer in the book early on is a recession risk analysis framework. So instead of looking at the top-down Sahm Rule and yield curve inversions, we're advocating for looking at three different types of recessions that you can get. Either driven in the real economy, driven by consumption, investment, etc., labor market, or a policy error that you mentioned, Frank, as a second type, or the third one being more than a hiccup problem, a crisis in the financial system that delivers the recession.

You look across those three, the policy error certainly looks the most plausible, but keep in mind after this blistering rate path, we're at the top of this, we're looking towards easier policy rates. So the worst is behind us. There are lags. For some firms actually, you know, interest rates might get higher as they sort of roll into, their current debt expires, they refinance into higher interest rates. All that is possible and correct. But I still believe, as we go down, as the rate path is going, leading us lower, the worst is already behind us. And I don't think that having avoided the policy error here thus far, I don't think it's now going to catch up with us easily.

FRANK BROSENS: So constructive both on the path for inflation, but also the path for the economy as well. In the book you describe kind of good macro and really describing that we've been in a good macro environment for 40 years. I'd like, if you can, kind of describe what you mean by good macro. And would you have been able, had you had this approach in 2007, to identify 2008 coming in?

PHILIPP CARLSSON-SZLEZAK: So first off, good macro is a term of ours that we use to describe almost a mindset that a lot of investors and executives currently, you know, that's how they grew up – the last 30, 40 years where inflation was structurally anchored. I still think it is and still think it will be. But you had a confluence of drivers in the financial economy that were benign and the real economy, you know, recessions became less frequent. Cycles became longer. The global economy converged on a model that was essentially a liberal market economy model and you saw more assimilation and proliferation of value chains, institutions that underpinned all this.

And so, you know, anyone under the age of 55, 60 today essentially grew up with that, you know, post-Cold War window of what we call good macro. There were setbacks. There were hiccups, like 2008, no doubt. But even then, policymakers stepped in, existential stimulus again that we discussed earlier, and they delivered the longest expansion on record after 2008. So clearly there was, you know, this worked, and for that reason, macro wasn't always sort of top of mind for executives in boardrooms. It wasn't always top of mind for investors. And macro has gained a lot more significance now that there's so much volatility in all of these dimensions that I just mentioned, so on the inflation side and there's physical economy disruptions we hadn't before. And obviously in the global dimension we see a lot of gyrations and volatility also.

So essentially what we argue in the book, this good macro regime is changing, but we don't think it's over or done with. There's still a lot of very good underpinnings that will allow firms to be profitable, investors to make money. That change is significant and requires a much greater attention to be paid to what's happening. But we don't like this reading that because of the succession of shocks and crises we had, that now good macro has flipped into bad macro. We don't see it that way. On the contrary, we make a pitch in the book that the 2020s, to us, looks like an era of tightness that delivers strong growth and certain pressure cooker-type economic environments.

I think that was the good macro part. You also mentioned 2008 and whether that was forecastable. First off, I didn't, at the time also I didn't really publish in that sense. There will always be surprises. There will be exogenous shocks. There will be endogenous shocks that you don't see. A lot of them are very hard to spot, particularly in the financial system. The financial system is opaque. It is complex. You know, SVB was a reminder that this can come out of nowhere and rise to the top of the agenda and rightly so. It was also a reminder that, that stimulus and policymakers are powerful. They did de-risk SVB quite successfully.

There are sort of knock-on effects. We've had a few other hiccups in that regard, and there may be others. We can also discuss commercial real estate, which however I think is contained as a risk. It's just a reminder that, yes, there will be another hiccup in the financial system. There will be another failure. There will be another thing. Could it be something that is truly ugly and systemically relevant? Yes, absolutely. But it's also so hard to see that with any degree of confidence and transparency to make the case, this is the next thing that's going to happen. I'm going to go out there and warn you about it. Then we're just sort of inches away from the doom-saying narrative, to pick one of those. I couldn't do that with a good conscience and therefore I don't do it.

FRANK BROSENS: You talk in the book about geopolitical risks. Obviously, there are more facing us today than usual. Is that likely to be one of the crises that you foresee? Or how do you think about geopolitical risks generally?

PHILIPP CARLSSON-SZLEZAK: In the book, we cast geopolitical risk as systemically, routinely overstated. Not because it can't do damage. It can. But the bar is quite high. And we remind people that everyone's a bit of a hobbying geopolitical analyst. And often we have this assumption that crises in the geopolitical space feed through the economy, like cleanly. But actually they don't. And we have lots of historical evidence for this.

But also just in the present day, I mean think about Ukraine, which is a true tragedy, and a humanitarian disaster, and a reshuffling of the geopolitical landscape, particularly for Europe, but it did not deliver a recession in the Eurozone, despite everything. The spiking energy prices did not trigger that meltdown that was almost universally predicted at the time. And similarly, you could argue that with the onset of the Hamas War and the attacks initially on Israel, oil prices have not signaled an unraveling of global economic conditions. On the contrary, oil prices have been lower every single day since the start of this conflict than they were before its start.

And so there are several chapters in the book that try to re-calibrate how we view geopolitical risk. It’s very tempting to ascribe a lot to it. In reality, I think we need to be very careful and ask very hard questions. What are the transmission channels from geopolitics to the U.S. economy or another big economy that generally will give you a draw-down and maybe a recession? The bar is higher than you might think is the argument in the book.

FRANK BROSENS: We only have a few minutes. I just wanted to close, and there are a number of questions, and I’m going to incorporate those questions into the last question for you. There’s a question here about nuclear threats, the black swans, you know, private equity shadow banks, you know, are they a threat? Are there enough guardrails, post SVB, to prevent another bank issue? Is oil no longer a geopolitical risk? I’d like to just take all of those and effectively ask you, how do you think about the greatest economic risks that we face today and how best to prepare for them?

PHILIPP CARLSSON-SZLEZAK: I think all of these are interesting and some of them are valid, but nuclear risk, how will you assess that and draw an investment conclusion on that? Are you going to restructure your portfolio? Are you going to re-jig your firm that you run because you have a new assessment on nuclear risk? It’s a high bar to do that. It’s a risky maneuver to do. And there won’t be time to go through all the others that you mentioned.

I think, coming back to your question, how do we do this? We like to look at the tactical risk of recession through this framework that I mentioned. We want to see coherent narratives that either say the real economy is in trouble or you get that policy error, or you get the financial system meltdown.

Beyond that, there is a very, very long list of exogenous shocks and risks that can happen and some will happen. Almost nothing you can do to predict that. You can think about scenario analysis to prepare for such eventualities and outcomes, and that's absolutely worthwhile and good exercise. Again, I'll come back and say, yes, if you want to predict a nuclear war, that's anyone's prerogative to do that. There's limited use, in our view, to sort of obsess with such tail risks and pretend that they're dominant in how we should do business or investment today.

FRANK BROSENS: Phil, thank you. I'm going to turn it over to Barbara.

PHILIPP CARLSSON-SZLEZAK: Thank you so much, Frank.

PRESIDENT BARBARA VAN ALLEN: Well, Philipp and Frank, what a great conversation, and what a fascinating book. Thank you both for sharing those insights with us.

I just want to share with our audience that we do have a robust lineup of speakers coming up, including tomorrow. We have Michael Strahan, who is obviously a TV host and former NFL player, and a very successful entrepreneur. And he'll be in a conversation with Terry Lundgren. And the rest of the calendar is there in front of you. So please know we're also working very hard to secure a date for Vice President Kamala Harris to also join us, and there's a lot of behind the scenes work to try to make that happen. So please know that it would be wise to continue to check our website and your email for updates in the coming weeks. And as always, we encourage you to invite guests to our events, whether they're online or in-person.

As we always do, I'd like to take a moment to recognize those of our, actually the number now is 375 members of the Centennial Society, several joining us today, as their contributions continue to provide the financial backbone of support for the work that we do at the Economic Club. Thank you again to everyone for attending today. Thank you, Philipp. Thank you, Frank. And we look forward to seeing everyone again soon. Hopefully tomorrow. So have a good day.