

# US Presidential Election and Future of China-US Economic Relations<sup>1</sup>

Robert Rubin

Huang Yiping CF40 Member

**Abstract:** *Regarding the U.S. economic outlook and Federal Reserve monetary policy, Mr. Robert Rubin believed that while the U.S. economy continues to grow, its pace has slowed, and a recession is unlikely. It is expected that the Federal Reserve will cut interest rates by 25 basis points in September, with future policies to be determined based on subsequent data.*

*Rubin also noted that the U.S. faces serious fiscal challenges, but its strong economy provides the capacity to manage its debt issues. However, the current political environment is not conducive to addressing this problem. Rubin said that a second Trump administration would pose multiple risks to both the U.S. economy and society, as well as to the global. He further acknowledged the validity of U.S. concerns over supply chain security, though the challenge lies in determining the appropriate lines between security risks and other risks. He advocated for disciplined tariff policies, limiting them to areas genuinely necessary for supply chain protection, while criticizing politicians for often overstepping reasonable boundaries with their tariff policies.*

*On the issue of capacity in the green transition sector, Huang Yiping's "Global South Green Development Plan" aligns with U.S. economist Brian Deese's "Clean Energy Marshall Plan". Rubin suggested that if the U.S. and China could somehow overcome the mistrust of each other and work together, and recognize that some areas we're just not going to agree on and maybe even disagree strongly, but there's so many other areas in which we can benefit, then this is a good example.*

*Regarding AI, Rubin highlighted the enormous potential of AI to drive economic growth while acknowledging the real risks it entails. He stressed the importance of joint efforts by the U.S. and China to develop a global mechanism. Huang Yiping emphasized the need to carefully manage the technological development process, enhance retraining and reemployment efforts, and strengthen social safety nets to provide basic living support for the unemployed.*

**Huang Yiping:** Let's start with the US economy. Last year around May, I joined CF40 delegation to the US, and we visited the Fed's office in DC. In fact, the staff there told us that the US might experience a milder

recession, which they also told Chairman Powell, but he actually disagreed. A few months later, that risk somehow cleared, and so we thought that the US economy was doing pretty fine. But as you saw about a month ago, the stock market actually tumbled--the Dow Jones, NASDAQ, but also international stock market. So people start to worry if something was wrong with the real economy in the US. What happened? What is your take of the US economic situation?

<sup>1</sup> Robert Rubin is the 70th Secretary of the Treasury of the United States and co-Chairman Emeritus of Council on Foreign Relations. Huang Yiping is the Dean of National School of Development, Peking University. \* This article is the transcript of a dialogue between Mr. Rubin and Prof. Huang at the opening ceremony of the 6th Bund Summit on September 5, 2024.

**Robert Rubin:** I think that was a momentary market event. We still have momentum, but it has slowed some. Although that could happen, the odds are we'll not have a recession. It would be healthy if it turns out that we have achieved the soft landing that people often talk about but seldom achieve.

**Huang Yiping:** So your take is that the real economy is still doing reasonably well, right?

**Robert Rubin:** Yeah, reasonably well. Not great, but reasonably well.

**Huang Yiping:** One of the policy matters that everybody look at, even here in China and in Asia is the Fed's monetary policy.

There's been lots of discussions about the tightening and the possible easing. We have been expecting the Fed to ease, but it didn't happen. In fact, one investor told me one of the reasons of a decline of the stock market was because the Fed didn't cut the rate. I'm not sure what you think the Fed would want to do, but at the end of August, Chair Jay Powell delivered a very high profile speech at the Jackson Hole conference, and he explained the ideas, the thinking and the policy logic for the Fed. It looks like that we might see easing reasonably soon. What is your assessment of what the Fed has done so far, including during the pandemic time, but also now? And what is your anticipation for the future?

**Robert Rubin:** Well, I think when we had inflation coming out of the pandemic, we were in a difficult position. Because on the one hand, we could have gone into something very serious, and on the other hand, we instead had more inflation than we wanted to have. And I think the Fed was somewhat a slow actor. Having said that, they did, and I think they have done a good job since. If it was me, I'd probably have a small interest rate cut, say 25 basis points. Then I'm going to look at the data and see what happens. And my guess is, that's what they're going to do. But I have no idea. I have zero knowledge.

**Huang Yiping:** There were lots of criticisms, both in the US and probably in other parts of the world, that the Fed was probably a bit too slow in tightening the rates, especially during 2021 when inflation was rising very quickly. I remember Powell himself said this inflation in the US was simply whipping through the economy, so shouldn't worry too much. Are we seeing some consequences now, or they have done the job in catching up in terms of the time?

**Robert Rubin:** Yeah, he used the word "transitory". I think that was really an unwise thing to be said. I like J Pal. He's done a good job. But I wouldn't have said that if I had been him. In hindsight, I thought that at the time. I think they got their feet on straight up. I'm pretty comfortable about them actually.

**Huang Yiping:** What is happening now?

**Robert Rubin:** Well, differently. I think we're still got some, as I said, reasonable growth, but it is slowing, and I think they're doing about the right thing. You know, they have a FOMC meeting later. And my guess would be, but I have no knowledge that they'll probably lower rates by 25 basis points. That's what I would do if I were them.

**Huang Yiping:** I argue that if the Fed acted earlier in hiking the interest rate, therefore inflation rate would come down a bit earlier. We are seeing the CPI is slightly below 3%, so it's moving toward the target. But since it came down a bit later than some people would have hoped, we are probably seeing a higher cost of living as a result, because price went up for some time before it came down. And so the price level is relatively high because of a slower reaction. Would you agree with that?

**Robert Rubin:** Well, I think it's higher for a number of reasons, such as a lot of supply side shocks. Peter Orszag, CEO of asset management firm Lazard, submitted a paper to Brookings. I haven't read it, but he told me that supply side was a big factor. Just as you said, Fed was slow to act, but there are also other factors. For example, COVID decreased consumption, so there were pent up savings that came into the system, and the release of that

accumulated savings has also drove up inflation. So it all came in at the same time.

**Huang Yiping:** One thing that the US economy enjoyed and I think that's the advantage of the US economy, both during the pandemic and after the pandemic, that's something we don't have here in China, was that the household and the corporate balance sheet were very strong in 2019. Some people said actually, it improved during the pandemic time. That's why the spending were very strong, and once the pandemic was over, the economy became stronger. But that's related to another policy factor, fiscal policy. I'm sure this is closer to your heart. We all remember when you were Treasury Secretary, one of your greatest achievements was to quickly balance the budget.

**Robert Rubin:** Yiping, if I may say so, if President Clinton were here, he would say that was one of his greatest achievements, on which we all work. Go ahead.

**Huang Yiping:** Okay. Anyway, the budget was balanced. But then quickly, the debts widened again. I'd like to ask for your assessment or view about what is happening at the fiscal front. I think the government responded very aggressively, both during the subprime crisis but also during the pandemic time, for a good reason. But unlike monetary policy, if you expand the monetary policy and once it's over, you unwind the easing or the cut of the rate; for fiscal policy, you can start to expand less, but we are left with very high public debt to GDP ratio, which I understand is around 125%.

**Robert Rubin:** No, the publicly held debt in federal government right now, Yiping, according to Congressional Budget Office, is about 100% of GDP.

**Huang Yiping:** 100%, okay. I actually Google it this morning, so it was probably a wrong source.

**Robert Rubin:** No. What they were giving you was the total debt, including the debt in the Social Security Trust Fund, which is basically just government owing the government.

**Huang Yiping:** Okay, I understand. But even with this 100%, sometimes it creates some issue, right? We constantly see that the debt ceilings need to be lifted, and with huge political cost of a transaction. What do you see the future trajectory? I mean, it's very difficult for the debt GDP ratio to come down, even though the fiscal deficit can be reduced. Some people argue that with the strength of the US economy, you can actually raise debt forever. I'm sure you would not agree with that, but what is your prospect of the fiscal outlook for the US economy?

**Robert Rubin:** I think you're exactly right. We have a real problem. You know, the Congressional Budget Office projects that over the next 10 years, the debt to GDP ratio will go from roughly the 100% today to 120%, but I think most realistic estimates are higher than that, quite a bit higher actually. There are a variety of reasons, and I won't bore you with it. But I don't think it takes adequate account of various factors that are likely to increase it, including interest cost, defense costs and adaptation for climate change. We have a strong enough economy, so we could deal with this through the tax increases, and through health care reform to get our health care costs down in the federal purse, and through spending cuts, including entitlements in ways that affect benefits. The problem is political, and that is a really difficult problem. And I think you're exactly right. It's a serious problem, and the politics right now are not good with respect to dealing with it.

**Huang Yiping:** I remember OECD used to have rough rules for fiscal policy that your fiscal deficit should no bigger than 3% of GDP and public debt option no more than 60% of GDP. Are these rules over, or should we actually still be serious about these rules?

**Robert Rubin:** You talked about domestic rules, I suspect, but I thought that does seem very arbitrary and not very meaningful to me. I still think your point is correct. We have a serious problem, but we have a strong enough economy that we could deal with it, and deal with it without doing us any material damage, and in fact, continue to have good growth. But it is a politically difficult thing to do, and at least right now,

the politics are not good. Going back over the economic history of our country, including President Clinton, at least in the past, we've always risen to meet our difficulties. Even though it may take time, I believe that will happen again. I think the odds are high it will happen, but nevertheless, it is an issue as you correctly say.

**Huang Yiping:** Let's turn to another very exciting topic, that is the US presidential election. We saw the change of the Democrat candidate from Biden to Harris. I remember when we met in April, you quoted to me the saying by somebody else, saying that if Mr. Trump is reelected, it could be the greatest setback in US history since it's established. Right, not your original word.

**Robert Rubin:** The election of Donald Trump would be the gravest threat, that was the word, the gravest threat to the United States since our founding, except for the Civil War. Maybe that slightly overstates it, but I think he poses multiple risks to our economy, our society, and, I might add, to the globe.

**Huang Yiping:** For the Democrat candidate, we honestly know very little about Kamala Harris. But she suddenly stepped in and look like she's doing reasonably well if we look at the polls and the funds raised. What is your evaluation assessment? Do you think Harris is up to the job if she is elected? And particularly, I'd also like to ask you if there would be a significant departure in terms of economic policy from the current policy.

**Robert Rubin:** I only met her once in my life, so I don't know. There are four people who inside the campaign are involved with the economic issues. I know three of them pretty well. Fourth, I don't know. And they speak well of her. They say she's thoughtful. They say that she learns, she listens, and she weighs and balances. So I have a good feeling about her. But we have a tough campaign ahead. The question for Biden. Look, you'll have to lay out what her economic program is. As I said, I know three of these four people pretty well, and I know some of the outside people who deal with this team, I know them too, and I have a good feeling about it and about her, as relates to economic issues.

But she's got to lay all this out either now or maybe after the election. We also have an election coming up, and election is going to be tough.

**Huang Yiping:** So looks like there is a high probability of continuation of majority of the current economic policies if she's elected. Not sure?

**Robert Rubin:** My guess is, look, the answer is, I don't know. But she's going to have to decide what she wants to do going forward. All I can say is that she was part of something that worked and the people around her speak well of her.

**Huang Yiping:** Okay, well, that's a good point. She is a part of what is happening now, and you think a large part of it works. There is one policy, however, we're not particularly sure, that the US is doing -- its China policy. When President Trump started the trade tension or conflict by significantly raising the tariffs, we economists like to think that's counterproductive. Because when you look at the export numbers, especially if you included indirect exports from China to the US, it had very limited impact over all exports from China to the US. What I am not sure is if this is a transitory situation or it's a continuous situation. But to be honest, when the US administration say, "we don't want to decouple and we want to de-risk," for some business people here, de-risk is not too different from decouple. Because you see the potential risk going forward. So the tariffs and also the small yards and high fences and so on, we feel that they are really hurting economic activity, probably welfare for people in China, but also in other parts of the world. But are these policies above working for American people? Are manufacturing jobs really coming up? Are tariffs lifting the cost of living in the US?

**Robert Rubin:** Yiping, this is my view, and I'm not saying anybody else's view in the administration or anybody else. I think there are legitimate concerns about having secure supply chains, chips and various other matters that are essential either for our national security or economic security. Those are externalities, I think, in other words. I've talked to Tim Geithner a lot

about this, and I think the question is where do you draw the lines? And I think that remains to be seen. I think there are legitimate uses for tariffs, but I also think trade is a tremendous benefit to your country and our country. So I think those should be limited, and limited with a lot of discipline to the areas where you really need to protect your supply chains.

But then I want to add one other thing, Yiping. The danger is that politicians will go beyond what are reasonable boundaries, and that's the disadvantage of us, and I think everybody else. Now, there is a perception in this country, and I don't know if it's correct or not, but that the Chinese policy now is to promote growth to investment in manufacturing, which leads to overcapacity, and then to be sold into the rest of the world. In fact, I'm not saying it's happening or it isn't happening. I have no idea. It's the perception, but if that actually happens, then I think you'll get a reaction to that, if it happens.

**Huang Yiping:** When Janet Yellen visited our school at the Peking University in early April, she raised the same question you just mentioned, the overcapacity problem. I suspect, in addition to the worry about government subsidy, another issue is that China is just very huge. So when you build some competitive industries, you have a large country effect. When you export massively to the international market, there will be reactions globally. I just want to mention to you about this new green energy products China is producing, and the US and Europe are a bit worried about our overcapacity, especially the EVs, electronic vehicles and so on. I want to mention to you, at the end of May, I made a proposal, the so called "Global South Green Development Plan". It's a little bit similar idea of the Marshall Plan, i.e., we support the developing countries in their green transition and we grew together, and hopefully could also help absorb some Chinese green energy capacity. Very interestingly, I think last week or two, Brian Deese wrote an article in *Foreign Affairs* the latest issue, and proposed the idea of Clean Energy Marshall Plan for the US. I want to have your reaction to proposals like these, like US or China, we help the developing countries in their green transition, and hopefully we can do it together. What do you think?

**Robert Rubin:** Actually, I've not read his article, and I have not seen your proposal, Yiping. But on this specifically and also more broadly, I think if our countries could somehow overcome the mistrust of each other and work together, and recognize that some areas we're just not going to agree on and maybe even disagree strongly, but there's so many other areas in which we can benefit, then this is a good example. I mean, if you and Brian both put forth proposals and if those proposals met reasonably well, that's a tremendous opportunity to do something.

**Huang Yiping:** Thank you. I will also want to touch another very interesting topic. I know you're spending lots of time on artificial intelligence AI development. What is your take of the global development? And do you have any view on the global situation, especially the US, vis-à-vis other countries, including China, like what is happening at the moment?

**Robert Rubin:** Well, as you know, Yiping, it takes a massive amount of money to train one of these systems. I'm talking about vast amounts of money, and so China and the United States are in a position to do that, and we both have strong technology capabilities. So I think our two countries will continue to move ahead. I think as you get beyond that, it's going to get more and more and more difficult, and I don't know what the developing countries are going to do. It seems to me an enormous issue, complex issue. About a year ago, I think I told you Yiping, I decided that artificial intelligence looked to me like it was going to be really important. So I started taking the tutorial. I think the potentials are enormous for our economy. And by the way, that could help with our fiscal problems too. Some people are now estimating that AI could increase our trend growth from the roughly 2% people now think to 2.5-3%. Well, that could have a real effect of fiscal offsets in that too. But there are also real risks, and I think it's really important for the United States and China to try to work together and see if we can develop some kind of a global approach. Because otherwise we're going to be competing with each other. We're all going to be lowering standards, because each one's going to be afraid the other one run ahead.

**Huang Yiping:** Well, right, I agree, cooperation will be very important. But the point you just made is also very exciting. If AI can really lift the trend growth of the US from 2% to 2.5%, it will be tremendously positive for not only the US and for everybody else. However, Bob Solow once said: "At the time when computer was widely adopted in our society, we see computers everywhere, but not in the productivity numbers." At the moment, we are seeing AI, like everybody is talking about AI, but we haven't really seen hard evidences about the productivity growth, profit, or the earning numbers. Do you think it will come?

**Robert Rubin:** Yeah, you know, there are a lot of debates about this. Your friend Larry Summers and I have talked about that a lot. Who knows, but remember this is an instance. Solow's paradox has its qualified context, namely the proliferation of computers, but the process changes required to install them are more complex than those required to introduce AI applications. I don't have any wisdom on that. Some people think it's going to be a little slower, while some people think a little faster. I saw a clip the other day of a remarkable thing. I think it was an Amazon warehouse, and all of the moving and everything around the warehouse are done by AI robotics. It was an amazing thing, Yiping. So I don't know, time will tell. Whatever happens, whether it'll go a little slower, a little faster, I don't know, five years from now, there's gonna be real difference.

**Huang Yiping:** Yeah. Well, I actually agree with you. I think AI eventually will lift productivity. If you look at the Solow Paradox, the way they resolved the paradox was they actually found it took a little bit longer for the numbers to show up in the productivity. And there are measurement issues involved. Some of the gains were not reflected in the traditional economic measures, and that's why you need to expand the scale.

But there is another structure issue. I'm not sure if you have read the recent book by Daron Acemoglu from MIT. It's called Power and Progress. Basically, he was arguing that technological innovation is good, but sometimes it creates a structural issues, like leading to some job losses because they replace it, and not necessarily immediately lifting the living standard.

That's reminded me also what Janet Yellen told us when she was here. She said the US government needed to work hard to bring jobs back to these blue collar workers in small towns. I guess that's just a structural issue of the globalization policy. Globalization is good, but some people were left behind and it caused a serious problem. I suspect we might see similar problems with AI development. Is there anything we can do in mitigating that problem?

**Robert Rubin:** Oh, yeah, personally, I think you're absolutely right. It's the same problem as with respect to trade. I don't know what's happening in China, but we've done a relatively poor job in terms of retraining, placement and social safety nets. And those are solvable problems, but you need to have the political will to do it. Like everything else, I think this country has enormous strengths, but we have hugely consequential challenges to make policy changes, and that's going to depend on our political system. And you just outlined a very important one.

**Huang Yiping:** In China, we also have similar problems. In parts of the economy, technology is advancing very rapidly. But in some cases, when labor workers were replaced, there certainly a question that whether they can find a new job somewhere in parts of the economy. If they cannot find a new job, then it creates a big social-political problem.

**Robert Rubin:** Don't you also have a bit of a youth unemployment problem?

**Huang Yiping:** That's right, and this is why I think we needed to balance between the employment challenge and the innovation. Some technological innovation would replace the workers. That's why I think the process needs to be managed very carefully, both in terms of retraining for reemployment, but also, I guess, the social safety net. When people lose job, we should make sure that their lives are supported.

**Robert Rubin:** I totally agree, but those are political problems that both of our countries should be able to deal with.

**Huang Yiping:** Yes. And on that we should also work together.

**Robert Rubin:** Oh, look, Yiping, you and I have discussed this for many years. I think there's a tremendous, important opportunities and also issues for the two countries to work together. And I think cooperation would be tremendously beneficial to both. We should recognize there's something we just can't agree on, then put those aside and try to deal with those as best we can in the context of overall cooperative relationship. But unfortunately, there's just been a real loss of trust, I think, in both of our countries with respect to each other.

**Huang Yiping:** Right. But still, we want to encourage people to work hard going forward. This is the fifth time we have this dialog. I am sure I told you before and I will tell you again--I always tremendously enjoy your insights, vision and wisdom. And many participants told me also before that. This dialog is a highlight of the important Bund Summit. So Bob, I look forward to have at least another five dialogues with you in the future.

**Robert Rubin:** Yiping, I look forward to the same, but much more than five. 🙏