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Growth looks good but markets face volatility, warns Kenneth Rogoff

Former International Monetary Fund CEO Kenneth Rogoff cartoon

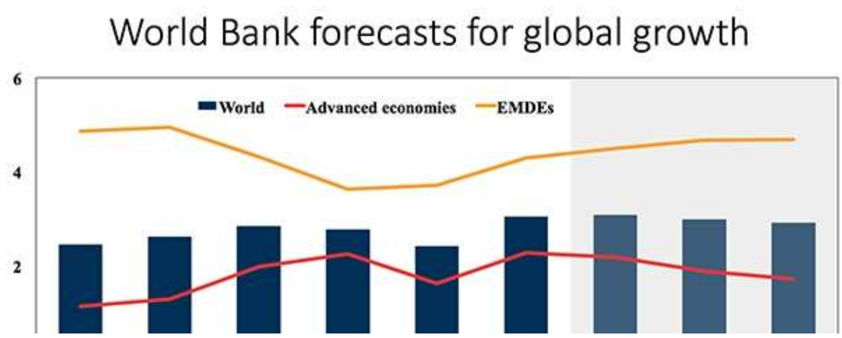
by **Jacob Greber**

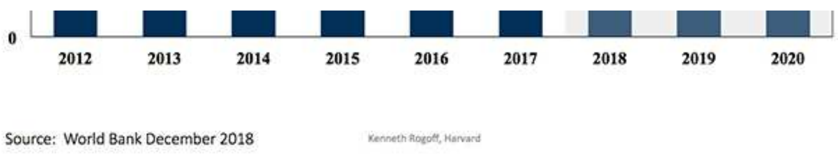
A strong global economic upswing likely to be super-charged by belated productivity growth, Donald Trump's tax cuts and rising business investment don't make financial markets immune to volatility, warns Kenneth Rogoff.

"I'm very sanguine about global growth - I think it'll be pretty good - but markets are different," said Professor Kenneth Rogoff, visiting Australia for the first time this week.

"Volatility could go up".

Nominating as his greatest fear that President Donald Trump might undermine the independence of the US Federal Reserve, the Harvard economist indicated much of the turmoil could be triggered by faster-than-expected inflation leading to four interest rate cuts this year.





World Bank forecasts for global growth. **Kenneth Rogoff**

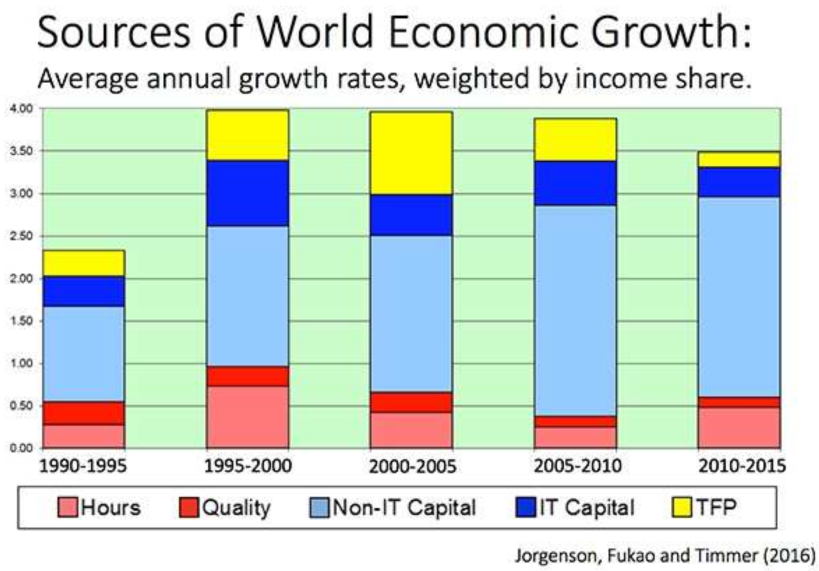
An increase in bond yields - at least 1 percentage point higher over the next 12 months - could produce a combination of forces that he described as "pretty ugly".

Professor Rogoff warned the sudden rise in inflation could "unnerve global investors" particularly those reflecting on the US government's "reckless" plan to run deficits of 5 per cent of gross domestic product to fund corporate tax cuts.

"We have very high debt - unlike your pension system, ours is basically unfunded - so we're pretty vulnerable to interest rates going up," he told The Australian Financial Review Business Summit on Tuesday.

While the US would not face an "Argentinian-style" debt crisis, there will be tensions between a US Fed seeking to deal with rising inflation through higher rates and the Trump administration's desire for high rates of economic growth and booming stock markets.

"Surely when Donald Trump was interviewing people for the chair of the Federal Reserve you can bet the main question was 'are you going to raise interest rates and ruin my beautiful stock market'," Professor Rogoff said.



Source of world econimc growth By?Kenneth Rogoff **Supplied**

While Professor Rogoff said he would much rather have Australia's budget position compared to the US's, he warned that rising interest rates would hurt the Australian property market.

"If you're worried about your housing boom, that would certainly temper it pretty dramatically," he said.

He noted Australia's exposure to China, which was struggling to balance the inherent contradiction of trying to diversify away from export dependence by decentralising its economy at a time when the political system is becoming more centrally controlled.

"The Chinese authorities have done an amazing job managing the economy for so long. Things that are growing at phenomenal rates with lots of debt do tend to run into trouble.

"That's going to be a challenge to their growth model and that will effect Australia."

Asked during the summit how technological change and the future of work would impact the economy in future, he said higher growth was one of the likely consequences.

"You see these estimates by McKinsey and others, of artificial intelligence replacing 30 per cent of jobs globally. I don't have a glib answer to that ... [but] it scares me frankly to think of how society is going to evolve.

"My friends, their kids ... they're not saying there's no growth and no technological change. They're incredibly anxious ... about where it will hit."

Speaking close to a decade after the global financial crisis, Professor Rogoff said too many in financial markets are betting on a long period of sub-par growth.

After financial crises you don't come out after a year or two; you might come out after eight or 10 years, he said, referring to his 2009 book with Carmen Reinhart, which studied more than 100 deep downturns.

"When we wrote it it was considered crazy and we took lots of flack [for saying] that growth would be slow for a while. But the conventional wisdom has morphed into 'we're never going to grow'.

"But we've had financial crises for 800 years and the world goes on."

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