

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

Hello and welcome to The Intelligence from The Economist.

I'm Jason Palmer.

And I'm Aura Okunbi.

Every weekday we provide a fresh perspective on the events shaping your world.

China's Communist Youth League is kind of like a training ground for becoming a party member or even leader.

President Xi Jinping has made beefing up the league a priority and he's succeeding with help from, among others, a rap star.

And an Australian cartoon called Bluey has spread far beyond its homeland.

It's now watched in 60 countries.

We look into why the animated shorts, centered on the way parents and children play games together, has been such a rollicking success.

First up though.

Today, a vote for a new Speaker of the House will be top of the agenda for lawmakers in Washington.

The American people deserve to have their Congress, their House representatives working.

And we can't have that happen to a speaker so we need to do that.

Republican Jim Jordan, who won the conference nomination on Friday, will be hoping to garner the 217 votes needed to secure the job.

It's the latest round in America's long-running federal budget saga.

Once again, a row over what needs to be funded and how, almost led to a government shutdown late last month.

The bill is passed and without objection, the motion to reconsider is laid on the table.

It was avoided, but only temporarily.

And without a new deal, federal government funding will expire one month from today.

But the looming deadline isn't the only threat America should be concerned about.

The country's budget issues are being exacerbated by the rising cost of debt, and it's a problem that isn't limited to just the U.S.

The cost of borrowing in financial markets for governments is going up.

Henry Kerr is our economics editor.

It's been going up more or less since the spring, fairly steadily, and then the pace at which it's risen has increased over the past few weeks.

And we've now reached a point where people are really beginning to ask whether we're in a new era of so-called higher-for-longer interest rates and higher-for-longer bond yields and borrowing costs.

So what do these higher borrowing costs mean for government budgets?

If you're having to spend a lot of money on debt interest, then that means you have less money for everything else.

And ultimately, you have to find a source of funds to pay for everything in your budget, including debt interest.

You need to have less government spending, higher taxation, or you need to come up with some other way of servicing your debts.

And that could in the long run mean more inflation, because inflation inflates away your debts.

Where this ultimately leads could be quite painful.

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

And why has the cost of borrowing gotten so high?

It's a few things. So the impetus for bond yields to rise originally was the fact that central banks are putting up interest rates to fight inflation.

And bond yields are pegged down by interest rates.

Now, for a long time, we've had a so-called inverted yield curve, which means that short-term borrowing costs are higher than long-term borrowing costs.

And that's because people expect central banks to cut interest rates.

Now, investors are asking whether interest rates are going to be high for a long time.

And that means that long-term borrowing costs have to be high too.

And in addition to that, investors are becoming a bit nervous.

They're becoming nervous about the fact that government borrowing is so high,

they're becoming nervous about the fact that politics in the U.S. is fractured.

And so there's a general sense of unease in bond markets.

And while the U.S. has been the locus of this, the U.S. financial markets set the pace for the whole world.

So higher yields, higher bond yields in the U.S. have been spilling over globally.

And that's created worry in Europe about whether the most indebted governments, and in particular,

Italy's, can afford these higher borrowing costs in the financial markets.

And are these higher yields uncommon?

If you zoom out and take a long-term view, these levels of bond yields of sort of high 4s to 5% aren't unusual.

We saw them last in around 2007.

The reason that it's worrying is that government debt is much higher than it was before the global financial crisis.

So in the U.S. in 2007, overall government debt was about 35% of GDP today.

It's about three times that.

If your debts are three times as big, the impact on you when interest rates go up is three times as big when you have to roll over those debts.

So the potential implication for government finances is much greater than it was last time yields were this high.

Okay, and it sounds like these responses that were seen from governments, so more borrowing, more tax to kind of fund this debt servicing, more cuts on public spending, these then create their own problems in turn.

Yes, that's right. There's a circularity to this, which is that when your debt interest bill goes up, if you don't plug the gap with higher taxes, then you end up borrowing still more, and your interest rate ultimately goes up further.

So that's difficult.

Increasing taxes obviously weighs on your economy and is unpopular with voters.

The next big fiscal decision that the U.S. government faces is whether to renew Donald Trump's tax cuts from his term in office.

A lot of them expire in 2025, and it's quite likely that whoever's in office, a significant portion of those tax cuts get renewed,

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

and that's going to make the forecasts for America's public finances look even worse, because at the moment those forecasts are based on the default law, which is that those tax cuts expire.

If you were to let those tax cuts expire, it would mean a big fall in the amount that Americans can earn before paying tax.

It would mean less generous tax credits for parents.

You know, it would be quite significant.

In the long term, if you're trying to get America's budget into order, you're looking at less pension spending, less Medicare spending on healthcare for the old, and all these things are painful, balancing budgets is painful.

With the tussle in Congress over approving a new budget, are we likely to see increased taxes nonetheless?

Well, the interesting thing is that the tussle in Congress over whether to shut down the federal government

is a fight over quite a small portion of America's budget.

So it applies only to what's called discretionary spending, which is spending that runs through the various departments of America's government.

That is about a quarter of the total.

The real pressure on spending in the long term is coming from mandatory spending, which is on pensions, social security, and on Medicare, and so on.

So even if the Republicans in Congress extract spending cuts, it will be on quite a small portion of the budget.

It's not going to deal with that long-term problem.

So I'd say this is going to be a theme that's going to run significantly beyond the current political cycle.

And you mentioned earlier about the spillover into Europe.

Is this problem of rising government bond yields a common one that we're seeing across advanced economies?

So it's true that bond yields are rising in tandem across advanced economies.

If you wanted to point to an exception, you'd say Japan.

They've gone up, but they're still much lower.

They're still less than 1%.

And that's because Japan's central bank caps bond yields.

It intervenes in the market to stop them rising above its target.

The big difference between countries is how indebted they are.

So Germany's bond yields have gone up a lot, but Germany is much less indebted than Italy.

So no one really doubts Germany's ability to pay its debts.

Italy is at the other extreme because it's so indebted.

And then you have intermediate cases like Britain.

Britain is more indebted than Germany, less than Italy.

It did face a crisis in bond markets last year when the trust government temporarily proposed unfunded tax cuts.

And then there's the US, which has much higher borrowing capacity than other economies

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

because it is so large and so important in financial markets.

But nonetheless, there is ultimately a limit somewhere.

So the upward pressure on borrowing costs is universal,

but the effects are different depending on where you look in the world.

So then what is the solution?

What should politicians be trying?

Ultimately, I think they're going to have to take budget deficits seriously again.

There was a moment in the early 2010s where everyone was very concerned about government budgets.

Then it turned out not to matter so much, essentially, because interest rates were low.

And it was much less politically important in the late 2010s,

which is why you got things like the Trump tax cuts.

And in the pandemic, you got really aggressive fiscal policies and the handouts to households.

Politicians are going to feel the pinch again in a world of high interest rates,

and they will have to work out how to balance spending and taxation.

And I think the really interesting question in the long run is whether there's more inflation to get out of it.

But we're just going to move back into an era, and we have to move back into an era where people realize that there are trade-offs.

You can't have your cake and eat it too when it comes to writing a government budget.

Henry, thank you so much for joining us.

Thanks for having me.

We'll see you next time.

To mark China's national day, which was on October the 1st, the Communist Youth League.

That's an organization for young people that is under the supervision of the Communist Party, sent a video on Weibo, which is a microblog platform, to its nearly 18 million followers.

James Miles is the economist's China writer at large.

It was a staunchly patriotic video and full of the kind of expected syrupy Communist Party language.

With this patriotic messaging were images of a beautiful and industrializing China.

What was surprising about it, however, wasn't this nationalistic message.

It was the singer and his style.

It was someone called Guy, which is spelled G-A-I, a rapper whose early songs about drugs and violence

once were deemed unfit for public airing.

But now it seems Guy has turned a new leaf and he's now the Youth League's emcee.

Recruiting people like Guy has helped the League, clearly, to spread the message that it is the representative of China's nationalist spirit.

And a huge amount of effort is being made by the Party now to remold the Communist Youth League,

to dispense with its fuddy-duddy image and to make it seem an organization that is much more in tune with the youth of the country.

Well, first of all, let's wind back a bit. Tell me more about the League. What's the backstory?

Well, it's a vast organization. It has roughly 74 million people compared with 98 million in the Party

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

itself.

But this is a group that essentially grooms people aged between 14 and 28 to, in some cases, become Communist Party members.

It helps the Party to identify those who will go on to become political high fliers.

And, crucially, it helps the Party to maintain ideological control amongst a key section of the population.

Those who are at high school or university in particular have always been regarded by the Party as a politically risky group.

And you'll remember that it was precisely people of that kind of age who were at the forefront of the Tiananmen Square protest of 1989.

So when Xi Jinping came to power in 2012, he set about beefing up the Communist Party itself, but also, very importantly, revitalizing the Communist Youth League.

And we've ended up talking a lot on the show in the past few years about how many of China's youth are unhappy with how things are.

I guess the league's job is that much harder now.

Well, it will be. And that's where these rap videos come into it.

They're all pushing out a kind of feel-good message, as well as, of course, a lot of criticism of the West and Western-style democracy,

trying to portray China as a much more successful place with a much better political system.

It's a really tough task.

However, unemployment is rife among young people. Housing costs are sky-high.

Many young people are so worried that they're putting off the idea of getting married if they're getting married at all,

or unwilling to have children because it's simply so expensive.

There is a lot of worry among this age group about the way the country is likely to develop over the next few years.

It's not going to be the boom years that we've seen for much of the past two or three decades, a slower-growing economy, much less certainty in the years ahead.

And Xi Jinping really understands the importance of loyalty among the youth.

He has been trying ever since he took control of the Communist Party to instill ideological orthodoxy and discipline across the country,

but doing so among young people is especially important as he sees it for the Communist Party's grip on power.

So aside from anointing a rap star as part of this patriotic effort, then what's going on to kind of rehabilitate the League?

Well, first of all, it's trying to turn the organization into a more elitist one, you could say.

Indeed, membership has been dropping under Xi Jinping,

and that's partly because the party has been telling schools that they can't simply sign up entire classes to become youth League members.

That was once the common practice, but also social media are a big part of this effort.

The youth League has set up numerous accounts.

Every provincial, lower-level League branch has set up its own account, and these are pumping out propaganda.

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

Some of this is using people like Guy, whose real name is Zhou Yan, the rapper, who made a name for himself on a Chinese reality show, kind of like American Idol.

It pitted rappers off against each other to find the most talented, and he became exceedingly popular.

Slick videos are pumping out messages, which of course are full of praise for the party and the country.

Sometimes they're even in English, like this one, which among other things, explains the party's stance on Taiwan.

These people are probably also confused about a situation in Taiwan, as you know the relationships between an animal and actually for normal cities,

we just want us to be united as one because we think we're from one family the same.

But on the motivations though, if I'm a young Chinese person, why don't I just see this as a sort of hemphisted way for the party to tailor its message to me

by chucking some, you know, cultural gougos at me like this rapper? Why am I going to buy this message?

Well, for one thing, it plays to what you enjoy and are free to do, which is express your nationalism. China's internet is so controlled that really the only area where people are pretty well free to say what they like is in the nationalist domain.

People can criticize the West, heaps scorn on democracy in any way they like, and the party will never intervene,

as long as they're not calling for protests on the street. And people enjoy that, it gives them an opportunity to let off steam.

But there's another crucial thing that's going on here, and that is that young people are also very pragmatic,

and they do see, rightly so, that the Youth League is a crucial channel for entry to the Communist Party,

and membership of the Communist Party confers great advantages. It's difficult to get into the party, usually anyway.

But once you're in it, you have a much better chance of getting a job in government or in a state-owned enterprise,

and growing numbers of young Chinese want those kind of jobs, because it confers stability.

But for Xi Jinping, of course, the stakes are much higher. It goes far beyond injecting new blood into the party.

This is a way, essentially, of ensuring that the party dominates debate about Chinese nationalism, that it's the party's view that prevails, and crucial to that view is the notion that loving the country must involve loving the party itself.

James, thanks very much for joining us.

Thank you, Jason.

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Blue is this animated series for kids about four Australian blue-heeler dogs, and it turns five years old this month.

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

Sarah Burke is our bureau chief for Mexico, Central America, and the Caribbean, and is a doting mother.

And it's really a celebration of the creative games that adults and children play together.

Hello!

I'm the doctor.

Oh, hello, doctor. My name is...

Ouch!

Oh, brave boy.

What was that?

A needle! Now, what seems to be the matter?

Why did you give me a needle before asking me what's the matter?

Because I'm very busy.

Now, what's up?

So, in that episode that you just heard a clip from, Bandit, who's the daddy dog, is shown lying on a pile of cushions on the floor.

He's being prodded and poked, and this is Hospitals.

It's the game, or one game, that the Healer family play together.

For others, there's Daddy Robot, in which Daddy gets bossed around to do tasks as a robot.

There's Hotel, where the kids set up a hotel in their parents' bedroom.

And creator Joe Brum wanted Bluey to be the answer to Peppa Pig for Australia, but to be much better.

It's now watched in over 60 countries.

In America, more than 23 million hours of Bluey were streamed in a single week in July.

And that's pretty impressive, because every episode is about seven to eight minutes long.

And why do you think it has had this seemingly global success?

It's fun. It's fun for the whole family.

It's pretty surreal.

I mean, anyone who's seen little kids play will know that they know some things about how the world works,

but they make up a lot of stuff.

And it's often pretty hilarious.

And there's also this nice sort of premise.

Everyone's happy, they're respectful of each other, they get along.

But it's not unrealistic. They also have their fights.

But it's just a family that clearly likes each other and likes playing together.

And at the same time, kids seem to like it because it teaches them something.

It maybe tells them that they can't win every time they go to a birthday party and play past the parcel.

Hi.

I'm sorry you didn't win past the parcel, Bingo.

It's okay, I don't mind.

Really?

Yeah.

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

When Lula is happy, I'm happy.

Oh, Bingo.

Maybe next time.

You know what, Bingo?

It's also beautifully designed.

Kids stuff is just loud and there's colors coming up at you.

The music's rather nice.

It's just quite relaxing.

But the show does have critics too.

What do the critics have against all of that?

I mean, they have to work pretty hard to find stuff, to be honest, Jason.

They say, you know, it's a standard two-parent, two-child unit when families are often much more diverse these days.

They also say, and there's some truth to this, that there's still gender stereotypes.

The dad and mum dynamics are not fully equal.

I mean, both work, but mum works part-time.

And dad's often portrayed as the fun one who plays with the kids.

Hello.

Is Becky almost ready?

It's coming.

Whereas mum is often the one who's sort of saying,

come on, let's get this done, or I need to do this, or as a family, let's do this.

And really, this last one seems a bit scrooge-like as a criticism,

but they say there's too much pressure from the program on parents to play with children.

It sets a bad example.

Exactly.

What is it that drew you to this story?

This is not your normal fare.

What captivated you about Blueie?

My kids watch it, but my kids watch very little TV,

and I'm always looking for stuff that's short and sweet that they can watch.

And I'm done with Peppa Pig.

I've seen so many episodes of that.

And so Blueie came up.

It's hard not to have heard of it, because everyone with kids has heard of it.

They love it, and I thought it was fun and funny.

It's the one thing where instead of just popping in front of the TV and going to do something,

I often actually sit down and watch with them.

So that you too can learn those lessons?

Yeah, but it's just the surreal stuff that's there for me.

So funny watching them just make up this stuff of what happens in a cafe or what they think happens in a hotel.

It's funny.

[Transcript] The Intelligence from The Economist / Invaluable bonds: rising borrowing costs

So you empathize with Bandit, the dad dog, and Chilly, the mom dog, who times just don't want to play with their kids, and they try and run away. Chilly at one point is shown walking on her own, and the kids are asking, why is mom on her own? And Bandit is like, well, because she likes being on her own. It's also the marriage. You see them kind of bicker about who has to play with the kids, which, you know, any parent knows that that happens if you have a co-parent. But they're also good parents. They're role models. They're things for those days when you're just so impatient with your kids. That's most days for me. They're much more patient. So there's one episode where they let their kids make an omelet, and you can imagine how many eggs that takes and what a huge mess it takes. How many eggs are in an omelet? Oh, no, honey, the shells don't go in. Let's try again. OK. And they let them do it because they're good parents. And so when it comes to cracking the recipe for a happy family, Bluey has it. Sarah, thanks very much for joining us and happy onward watching. Thanks, Jason. That's all for this episode of The Intelligence. To thousands of you who have already signed up for Economist Podcast Plus, thank you. But if you haven't taken the plunge yet, you'll be pleased to hear that our half price offer on the year-long subscription has been extended until October 31st. So follow the link in our show notes now or search Economist Podcast Plus online to get in on the app. And we'll see you back here tomorrow. Please play responsibly. Must be 18 years older to purchase, play or claim.