David M. Rubenstein Says the World Has “Changed Forever” and “We’re Going to be in a (non-technical) Recession for Quite a While;”
Why He is “Reasonably Optimistic” for a COVID Vaccine but “We’re Likely to Have More and More of These Kinds of Things”

The Carlyle Group Co-founder and Co-Executive Chairman speaks with IHS Markit Vice Chairman Daniel Yergin for the latest CERAWeek Conversations – available at www.ceraweek.com/conversations

WASHINGTON, D.C. (July 9, 2020) – The Carlyle Group Co-Founder and Co-Executive Chairman, David M. Rubenstein, says in the latest edition of CERAWeek Conversations that the United States is going to be in a (non-technical) recession for “quite a while” and that it is “going to be a different economy” when it comes back; that “you can’t have free money forever” and that when interest rates go up from near-zero levels it will precipitate some hard budgetary decisions.

In a conversation with IHS Markit (NYSE: INFO) Vice Chairman Daniel Yergin, Rubenstein says that globalization has been “an overall plus” for the global economy but not everyone has benefited; that the deterioration in U.S.-China relations will take time to repair; he talks about his devotion to what he calls “patriotic philanthropy;” lessons in leadership, and more.

In addition to his role at The Carlyle Group, David Rubenstein is chairman of the boards of trustees of the John F. Kennedy Center for the Performing Arts in Washington D.C. and the Council on Foreign Relations. Until recently, he was the chairman of the Smithsonian Institution. He hosts The David Rubenstein Show: Peer to Peer Conversations on Bloomberg TV and PBS, and Leadership Live with David Rubenstein by Bloomberg Media. Along with medical research and education, he has focused his philanthropy on preserving the history of the United States via a practice he has coined “patriotic philanthropy”.
The Carlyle Group is one of the world’s largest and most successful private investment firms, with investments in over 260 companies around the world and more than $215 billion under management. It was founded in 1987.

The complete video is available at: www.ceraweek.com/conversations

Selected excerpts:
Interview Recorded Monday, June 29, 2020

(Edited slightly for brevity and clarity only)

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• **Views on the global economy:**

  “There’s no doubt we’re in a recession in the United States, and I think more or less in Europe as well, and some parts of the emerging markets are in recession now. I think China is not in a recession. The pandemic is the obvious precipitating factor. But in the United States we haven’t had a recession for 11 years. Typically, we have one every seven years. So, we’ve gone a long time and the business cycle might have been ready for one, but the pandemic pushed it into the recession.

  “I think we’re going to be in a recession for quite a while. While technically we’ll get out maybe by the third or fourth quarter, we are not likely to get back to where we were before the recession for a couple years. Typically, in a recession it takes about three years to go back to where you were at the peak before you went into the recession in terms of the size of the economy. We might take a little bit longer now because this pandemic is so deep, and the recession is so deep in terms of unemployment.

  “When the economy comes back, it's going to be a different economy. The world has changed; it's changed forever. Many employers are nervous about when the recession will really be over so they're going to gingerly hire back their employees. But also, many people are going to be working from home in the future and many companies realize they can be more efficient by having people work at home. The business environment that we go back into is going to be much different than the business environment all of us have been used to over the years.”

• **On the long-term risks of near-zero percent interest rates:**

  “Our children and our grandchildren and our great grandchildren are going to pay for it.
There's no way that we're going to be paying for it because it's going to take a while to be paid off.

“You can’t have free money forever. At some point you’re going to get bubbles, you’re going to get assets at such high, inflated values that something is going to go wrong. At some point I think we will have to have higher interest rates. But right now, the U.S. government, as well as European governments and other governments around the world, are afraid of the economic consequences of having higher interest rates so they’ve been basically artificially keeping it down. I don’t know how much longer that can continue. It is a problem though down the road because when the world does come back, we're going to have a lot of debt.

“When I left the White House under Jimmy Carter, the total indebtedness of the United States was under $1 trillion. Today it's $26 trillion and our deficit this year is going to be about $4 trillion out of an $8 trillion budget.

“Right now, let’s say we're annually borrowing around $3 to $4 trillion a year. If the interest rate is almost zero, it's not that expensive. But when that goes to, let's say, 4% interest rate, that's going to be very expensive. It's going to squeeze out other parts of the budget—the defense budget and particularly the entitlements program. So, at some point the budgets are going to have to be re-shifted.”

- **On pros and cons of globalization:**

  “Globalization has been helpful. The Chinese have taken about 700 million people out of poverty over the last decade or so. To some extent that was helped by globalization and other factors as well. There's no doubt that poverty has been reduced by globalization. On the other hand, some parts of the world have not been helped by it. Some parts of the world regard globalization as “Americanization” even though, ironically, people in the United States who are often unemployed because of cheaper products made from Asia or elsewhere don't feel globalization has helped them.

  “Globalization has been overall a plus for the global economy, but it's been a plus for some percentage of the 7.5 billion people on the face of the earth, not for everybody. We still have about a 1-1.5 billion people living in poverty or the equivalent in this world, so they haven't benefited.”

- **On U.S.-China relations:**

  “The U.S.-China relationship is without doubt the most important bilateral relationship in the world. We are the two biggest economies in the world, and the two biggest geopolitical powers as well. Throughout the course of history, it's never been the case that the two biggest geopolitical powers and the two biggest economic powers got along
swimmingly—they're always competing with each other. Fortunately, in recent times, we have not been competing militarily in a direct sense.

“The Chinese are now saying: we're going to be the biggest economic power in the world, and we want the geopolitical and other benefits associated with it. The United States, by contrast, is saying: since WWII we've been the dominant power in the world and we kind of like being the dominant power in the world; why all of a sudden are we less significant than we were before? Nobody that has power likes to give it up and people that feel they should have power want to get it. You have that tension and I think it's going to go on for quite some time.”

- **On the path ahead for the United States and China:**

“The Chinese should recognize, and the American people should recognize, that between now and the time of the election, the bashing of China is going to be unbelievable. I would discount much of what you hear in the campaigns.

“Then after the election, I would bring together the next president of the United States and the president of China for a serious summit which tries to address some of these issues that exist. But it’s going to take a period of time. You don't get into a problem overnight and you don't get out of it overnight. The best way to avoid long term mistrust is continuously talking.”

- **Outlook for a COVID-19 vaccine as a philanthropist in medical research:**

“I am reasonably optimistic that a vaccine will be developed. There are roughly 130 companies today around the world working on vaccines. Many of them are using traditional techniques like the polio vaccine. But this is a situation where we have to recognize that traditional virus vaccines take roughly four to seven years to develop and perfect. We don't have four or seven years, so the U.S. government has decided to accelerate this process by picking five companies out of the 130 that are doing this around the world and having them use a new technique that the companies have developed, which is essentially an artificial way of solving the problem: you insert this synthetic material, messenger RNA, into the human body and it hopefully would have the antibody reaction that you would get.

“I suspect by the end of this year one of those five will have produced a vaccine that works and there will be opportunities for those people to get the vaccine but it's going to take a lot of time to get it distributed.

“On the other hand, people should recognize two things. Viruses often change. They mutate and it could be that this virus that we currently have, COVID-19, could mutate and it could be COVID-20 or COVID-21 and so we have to get a new vaccine just like
every year we have a flu vaccine that's different than the previous year, because each of these flus are different than the previous one.

“Another factor people should recognize is that this is going to continue for some time. Because of the zoonotic impact of these animals, you have what is called “the spillover.” Spillover means, increasingly, because humans are interacting with animals more and more, we're likely to have more and more of these kinds of things.”

- **When Carlyle started in 1987, did a private equity industry already exist?**

“It actually did not. In those days there were buyout firms. The phrase private equity had not yet been invented. There were about 250 venture and buyout firms in the entire world then. Today there are probably 8,000 to 9,000. It is a different industry.

“Private equity is a concept under which you are investing, theoretically, to get a rate of return. Historically over the previous hundreds of years, people who had companies would buy something and they would add it to the existing company and the company would become bigger. This is a business where you're investing typically for third parties—their money—you're trying to get a certain rate of return that's higher than they could otherwise get and you're going to exit the investment in three, four, five or six years.

“While you want to make the company better and help the economy that you're living in, you are driven principally by the rate of return that you're trying to get, which is different than what happened before private equity was really invented; and private equity is designed to get a very high rate of return.”

- **On the decreasing number of publicly listed companies on U.S. exchanges:**

“About 20 years ago we had about 7,200 publicly traded companies in the United States on the NASDAQ or New York Stock Exchange. Now we have about half that many, about 3,600. Why is that? Being public is more expensive than it used to be—a lot of regulatory requirements.

“Secondly, you have a lot of activist investors who make life more difficult. Third, many people recognize you don't need to go public anymore in order to get capital. The theory behind going public was you got capital to grow your firm. But with so many private equity firms out there willing to take minority stakes, not necessarily control stakes, you can get money to grow your company and keep going without having to go public.”

- **On his involvement in “patriotic philanthropy”:**

“I've been focused on the area that I call patriotic philanthropy, which is to remind people
of the history and heritage of our country. The theory is: if you don't know the history of your country, you might be condemned to relive the mistakes of the past. I want to remind people of the good and bad. There are some great people who helped our country get off the ground like Thomas Jefferson and George Washington, but they were slave owners and how do we assess the slave-owning aspect of their lives versus the good things that they did? So, it's a complicated issue and we're obviously struggling with that in terms of monuments and memorials right now. What I've been trying to do is let people know more about the history of this country."

- **Although one of the leaders in private equity, how Rubenstein became better known as host of a popular television interview show:**

  “I became the president of the Economic Club of Washington and my job was to get speakers. I decided I would start interviewing them to maybe make it a little livelier. The process worked and then Bloomberg gave me a TV show and it's been syndicated and so forth, and I enjoy it. Maybe I've always liked to interview people and ask questions and maybe I'm just doing what I've always been doing my whole life: try to find out information and learn more.”

- **On what is the story of his book *The American Story***:

  “I wanted to educate members of Congress about history. I said I'll host a dinner at the Library of Congress once a month. Only members of Congress can come; they have to sit with people in the opposite party and in the opposite house and I get a great historian and I interview him/her. And so, I took the best of those interviews and put them in a book called *The American Story*.”

- **On his upcoming book, *How to Lead*, and common themes for leadership:**

  “One, you have to have some luck. Two, hard work works more than luck. Three, you have to know what you want to do and take yourself somewhere and take your followers there; you have to want to be a leader; you have to be not afraid of failing.

  “You have to focus on one skill, so you really have one skill perfected. You have to learn how to communicate—learn how to talk orally well or write well or lead by example. You have to have integrity. The best leaders have integrity. Humility helps. I think the best leaders are people that have some humility to them.

  “The most effective way is to lead by example. When George Washington was with the troops in Valley Forge in 1777, he could have stayed at a Ritz Carlton or a Hyatt down the street perhaps. But he said, no, I'm going to stay with my troops to show I am really one of them. Leading by example is the most effective way to get things done.”
“In the end you have to want to give back to society. You're not doing this only to make yourself famous or rich, but you're doing this because you want to do something more significant with your life than just making money.”

About CERAWeek Conversations:

CERAWeek Conversations features original interviews and discussion with energy industry leaders, government officials and policymakers, leaders from the technology, financial and industrial communities—and energy technology innovators.

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