The Economic Club of New York

114th Year
607th Meeting

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Charles W. Eliot University Professor
President Emeritus, Harvard University
71st Secretary of the Treasury

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Webinar

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Good afternoon. This is Barbara Van Allen, President of the Club. Thank you for joining us this afternoon. We're going to get started in exactly one minute.

Introduction

Chairman John C. Williams

Well, good afternoon and welcome to the 607th meeting of The Economic Club of New York, and this is our 114th year. I'm John Williams. I'm the Chair of the Club and the President and CEO of the Federal Reserve Bank of New York. As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and our mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation.

A special welcome to members of The Economic Club of New York's 2021 Class of Fellows – a select group of diverse, rising next-gen business thought leaders. A welcome to the graduate students from Columbia Business School, the Gabelli School of Business at Fordham University, Rutgers University, and the City University of New York Graduate Center.

So today we're honored to welcome back two of America's leading economists and

ECNY Club members, who need no introduction – Lawrence H. Summers and R. Glenn Hubbard. Our members and guests have thoroughly enjoyed your previous engagements with us this past year and more of your time is continued to be highly requested. So let me briefly introduce our guests today.

Larry Summers is the Charles W. Eliot University Professor and President Emeritus of Harvard University. He served in a series of senior policy positions in Washington, D.C., including the 71st Secretary of the Treasury for President Clinton, Director of the National Economic Council for President Obama, and Vice President of Development Economics and Chief Economist of the World Bank.

Glenn Hubbard is the Russell L. Carson Professor of Finance and Economics at Columbia University and previously served as the Dean of the Columbia University Graduate School of Business. He was also Chairman of the U.S. Council of Economic Advisers from 2001 to 2003 and Chair of The Economic Club of New York from 2007 to 2010. Currently, he is on the boards of ADP, BlackRock Fixed Income Funds, co-Chair of the Committee on Capital Markets Regulation, and MetLife, where he is Chair.

So the format today will be a conversation and we'll end promptly at 2 p.m. Any questions that were submitted to the Club from members were shared and may be addressed during the conversation. In addition, we'll be using the Chat Box for this conversation so you can enter questions directly for consideration. As a reminder, the conversation is on the record and we do have media on the line. So, Glenn, if you're ready, I'm going to pass the microphone to you.

Conversation between Lawrence H. Summers and R. Glenn Hubbard

R. GLENN HUBBARD: Thanks, John, and greetings to everyone. Hello, Larry. What we'll do is I'll be throwing out a series of questions on economic topics and Larry and I will each weigh in on them. And Larry, I wanted to start out with what is probably the elephant in the room for a lot of people in the audience – macro policy – and then I'll dive in to tax underneath that, budget and Fed. In general, how risky do you think current fiscal and monetary policy stances are and what are the best ways you see of mitigating that risk without adverse consequences for the economy?

LAWRENCE H. SUMMERS: Thanks, Glenn, and it's a privilege to be back with you and to be with members of the Club at what I think is quite an extraordinary moment in economic history. I find myself with a view that's sort of ironic to have, which is this. Unless the forces of secular stagnation are substantially stronger than I ever imagined them to be, I think we're in a quite problematic place.

If you think about the year or two ahead, we are looking at interest rates at zero, long rates held down artificially by expectations of future policy and by quantitative easing. Very substantial infusion of liquidity into the situation and near-term real interest rates in the range of negative-2 alongside comfortably double-digit deficits in an economy that has a $2 trillion savings overhang, that as measured by vacancies is already at full employment, that as measured by trend potential GDP will be at full capacity by the end of the summer. And we've got the monetary accelerator and the fiscal accelerator both pressed to the floor. So I think that the risks that that kind of environment is going to be inflationary for something, probably wage and product prices, quite likely also asset prices. I think those are the disproportionate risks.

I was just reviewing some forecasts that were made in February, consensus-type forecasts of where we are now. Consensus-type forecasts in February were saying that through the calendar year 2021, CPI inflation would be in the low 2s. We've already had 1.8 of those low 2s at this point. Something in that direction is true for wages and, as I look at the various business surveys, most of them are suggesting that their pricing power is likely to increase and their inflationary pressure is likely to increase from there.

So I think we had reason to think we were in a problematically inflationary place. All the surprises have been essentially on the side of more demand-supply collision sooner, and I think policy is in a pretty problematic place. I think it's always the case that it's painful when you slow down the vehicle, and you can avoid pain by deferring that but you magnify the pain down the road.

So I think we need to recognize clearly that overheating is the dominant macroeconomic challenge over the next several years, that the Fed needs to move off what I think is the highly implausible position that none of this surprises us because we thought there was going to be transitory inflation and admit to having been surprised and reassessing. And I think fiscal policy needs to be made with an awareness that whatever you think about long-run deficits, there's a significant overheating issue over the next several years. And so saying we're going to have back-loaded tax increases to pay for contemporary spending may address long-run budget concerns in a reasonable way but it doesn't address short-run overheating risks in a major way.

So I'm, I don't know whether the number is two-thirds or 75%, but in that range of the view that we're going to have a significant overheating problem by early next year. And whether we'll deal with it by accepting higher inflation or whether we'll deal with it by having some kind of slowdown, I'm not certain of.

I find the claims that come from some that if we do have inflation and we do generate excess inflation, it's a comfortable problem that we have the tools to deal with to be highly, highly, highly optimistic. It seems to me that almost every time we hit the brakes because we decided we had too much inflation, the economy has skidded into recession. And if we have a new doctrine, which is we don't do preemption, it seems to me it's even more likely that something like that will happen. So I'm quite concerned about where we are now. How about you?

R. GLENN HUBBARD: Yes, I would broadly agree with that, Larry. I'll get later to some budget and tax items where we may not agree, but I agree with you on the risks. I think that we're in an environment where there are still important supply constraint and structural problems, where policy is overly focused on demand. I don't think either fiscal or monetary policymakers are cognizant, enough at least, at least in public about overheating risks and their consequences.

I'm unnerved for a couple of reasons – by fiscal policy because of the concern that nothing is too big. I'll come back to that in some questions. And I'm unnerved by the Fed for some of the reasons you are. The notion that it's easy to define something as transitory. I mean to the mind of God our lifetime is transitory. It would be helpful to know what transitory really means and whether we think the Fed has the tools without being proactive to really bring inflation back in line. So I think both fiscal and monetary policy need a retooling.

I do see it as risk management problems. I don't think the cat is out of the bag, that disaster lies necessarily around the corner, but I'd be more comforted if I thought either party cared more about risk management. From the fiscs perspective, that would be about lower levels of new spending unless the government wants to propose how to pay for that. And then from the Fed's perspective, I think it's acknowledging the risks, as you said.

And I don't see an argument for the continued approach in buying mortgage-backed securities, long-term Treasury securities without telling the public what an exit path is going to be. And I think failing to do those things really does risk problems. There are already risks of financial stability problems in my view. We are obviously seeing overheating in parts of the economy. Whenever one talks to business executives, I see them primarily concerned about overheating issues, labor shortage issues. And the government obviously seems in a different place. So I agree. My approach would be focus on risk management. Stop pretending that there's no concern. But I want to go deeper...

LAWRENCE H. SUMMERS: Let me just pile on slightly with three points. One, you're completely right about risk management. I think the Fed thinks it's doing risk management. I just think they're misreading all the risks. They still think the risks are somehow a slowdown and deflation when the risks are obviously disproportionately on the side of overheating and they still will not explicitly acknowledge that.

Two, you picked up on the QE. With the housing market that is epically on fire, I think future financial historians will be mystified by why we were spending $50 billion a month buying mortgage-backed securities in the face of a housing price explosion.

And three, I think that you emphasized, and I kind of think you're right, the lingering supply problems associated with Covid. Just to be very clear for our listeners, my statement that we'd be at an overheat and back to trend GDP by the end of the summer presumed that there were no adverse supply factors. If, and I agree with you, there are adverse supply factors, that just reinforces and strengthens the argument. But what I think is important to understand is, even if you think there are no adverse supply effects that on any conventional model, aggregate demand is overdoing.

R. GLENN HUBBARD: I agree. I want to dive in deeper in three areas – the budget, tax, and the Fed. So on the budget, if you take the American Rescue Plan, the American Jobs Act, and the American Families Act, what do you think is "too big?" And do we need new budget rules or even less than that, maybe a rule of thumb, guiding the budget going forward?

LAWRENCE H. SUMMERS: Look, I think it is important to distinguish the two. Jason Furman has said at a number of places recently that no economist thought the American Rescue Plan was appropriately sized, that it came out of political considerations and that there was general agreement that it was too large. That was certainly my view. I think fiscal stimulus should be attuned to GDP gap estimates and it was completely mis-attuned.

I think that the question of appropriate fiscal policy with respect to rescue from Covid, where I think it's very clear we did too much for too long, for which we will quite likely pay a meaningful price, should be separated from the question of investment going forward. And I think in fairness, it's important to recognize that whereas the Rescue Act was basically, the Rescue Act plus the December measures, was 14% of GDP, largely spent out over a year, what's being contemplated in the Families and Jobs Act is more like 2% of GDP partially offset by tax increases. So it's a much, much lower order of fiscal stimulus.

I would like to see us paying attention to containing the interest burden of the debt relative to GDP even on relatively pessimistic interest rate forecasts. And I would like to see us analyzing fiscal policy in the context of near-term economic developments. I think both of those things would push you towards more tax increases sooner than I think is likely to end up with.

I think that I support a whole variety of public investments but I do think that there are some sharp pencils that should probably be taken to aspects of these programs. I am all for an electric vehicle infrastructure in the United States, but I think the private sector did a pretty good job of providing gas stations across the country and I wonder why it can't do the same thing with respect to charging stations to take just one example.

But my guess, Glenn, and correct me if I'm wrong, is that you and I are probably in agreement that we don't need a lot of incremental deficit fiscal stimulus from here, and we're probably in some disagreement with my being more sympathetic to tax increases to finance spending increases and you're being more sympathetic to less spending increases and less tax increases.

R. GLENN HUBBARD: I certainly agree with that. I want to come to that. But on your general point about spending, I do agree on the Families and Jobs Acts. And at the beginning, obviously containing Covid was important. I do think we spent too much, but I'm even willing to step back and say I will understand the fog of war, the need to look even maybe beyond the current output gaps, the fears about scarring. I may be a little bit less critical there. But I do worry about the spending going forward.

I don't think the infrastructure bill is infrastructure the way I would understand that term. I think it's a lot of social spending. And I think if we want to have new social spending, which is a political decision to make, we do need to pay for it. And so I would agree with you, if we want that level of spending, we do need to pay for it. I personally would maybe take a different approach on the spending, but I do think that's going to be important.

And I think one budget rule or rule of thumb that you're hinting at is at least going forward kind of rule, let's not make it worse and think about interest costs over GDP. I certainly agree with you there, but I wouldn't just look at current interest rates. I think your view about pessimistic is a good one. If there's any kind of mean reversion or even a zero or slightly positive real rate and a 2% inflation target, it would still give you a much different answer than where we are, where we are right now.

But I want to go deeper next into an area where I expect we do disagree, which is on taxes, and I want to do this in multiple parts. One, I think we've both hinted at already is the use of taxes that complement spending plans. But I want to also ask you what kind of taxes, so the President has talked about corporate tax, capital gains tax, state tax, some other individual tax items. How would you do it? Do you think there's a scope in those tax increases to pay for anything like the new spending that's being proposed?

LAWRENCE H. SUMMERS: I do not think that we are going to achieve a substantially more progressive vision of government involving a substantial transformation of the way in which government interacts in the economy with taxes only levied on the top half a percent of the population. I think if one looks at European welfare states, they all actually have less progressive tax systems than the United States do because middle-class taxes pay for middle-class benefits, heavily but not exclusively on the value-added tax. So I think the idea that we cannot tax anybody with incomes under $400,000 and at the same time achieve a seismic transformation of the role of government to the society is probably not one that will stand up over the long term.

That said, Glenn, I think there is considerably more scope than I suspect you do to raise revenues at the top end with very little or no consequence for economic performance. I think it's clear that we've got a large tax gap. It's clear that we don't require reporting on categories of income where we could. It's clear that the extent of auditing or income reporting matching that's taking place for the incomes of the kind of people who are on this call has been cut way back over the last decade. And I think the evidence is overwhelming that we could raise – I don't know whether the number is $600 billion or $1.2 trillion, but big money through increasing the tax law, enforcing the tax law better, and I think that's 100% a good thing.

I think it is pretty clear that we should have a change in our economic philosophy from trying to win a race to the bottom in corporate taxation to trying to have a globally cooperative regime where corporate income is taxed. I think relative to when I was in graduate school and studied this stuff with Marty Feldstein, it's a pretty substantial change that roughly 80% of the stock in U.S. corporations is owned by people who don't otherwise pay any U.S. taxes.

And so in that context, and in the context where we have 100% write-offs for essentially all corporate investments – so the government is your partner when you made the investment, the government is your partner when you get the fruits of the investment, it's basically neutral – I think in that context and in the context of zero cost of capital, I think if we are able to bring about an internationally cooperative regime and we raise our corporate rate to some number in the 20s, I think that is all good. I think no reasonable person can question that there are several industries in which huge levels of profit are showing up in the Cayman Islands and Ireland and so forth and that governments ought to be capturing more of that.

Would I favor every bit of the Biden program? Probably not. Is the broad impulse that the Trump tax cuts were overdoing it and that there's substantial revenue that can be raised without damaging investment? Is that broad impulse right? I would answer resoundingly yes. Capital gains, should we have a regime that is more taxing with respect to those who are able to convert their income into capital gains form? I think the answer to that question is yes too, in part because of what it does to collect revenues, in part because it backstops the conventional tax system which causes compensation to be converted into carried interest, which causes people to be paid in various kinds of equity form that translate into capital gains that promote a whole range of sheltering type activities.

So would I favor capital gains reform? Yes. Would I have proposed realization at death as distinct from stepped up basis, I would have preferred eliminating carryover basis or imposing carryover basis and eliminating stepped up basis for sales by heirs. Would I have favored taking the rate all the way to 43? No, I probably would not have favored taking the rate all the way to 43 on capital gains.

But I think the board impulses behind the Biden plan are right. I think that in most respects the Trump tax cuts were a step backwards and their substantial repeal is therefore appropriate but I think that this kind of program is kind of what you can do to raise taxes at the high end. And it’s 1% of GDP-ish, maybe it’s 1 ½%, maybe it’s even 2%, but it’s not 4% of GDP program. And so if one wants to see transformations in the role of government, then one has to be prepared to think about looking ultimately to other sources of taxation.

R. GLENN HUBBARD: You know, I would agree with that. Just first on the 2017 Tax Cuts and Jobs Act, I’m always eager to meet a high-income person whose taxes were cut. I mean mine went up during the Tax Act and I certainly support the corporate tax cut. But to go to what you said, I think that there’s two important elements.

One is what do you want the tax system to do? If the goal is to raise the revenue to finance the government you want, I agree with you 100%, this tax system and tweaking the rates cannot fund the government the Biden Administration seems to want. To do that, you would need a value-added tax. You want to talk about a carbon tax in the middle, something other than taxes on personal or capital or corporate income.

If your goal is to make sure that everybody is paying their fair share or paying taxes, that's hard to dispute. And I agree with you that going after the tax gap makes sense there. For the corporate tax system, I would think it's moving to things like a cash flow tax whose burden would fall precisely on the rents and profits that you described from large tech companies and others.

I do think that the estate tax needs some reform to meet, like you, I think carryover basis is the right answer. If I build a business with no basis and I pass it to my children and they basically don't pay tax on the gain that I generated during my lifetime, that's very different than the situation of a high-income professional person who has paid taxes. So I totally get all that. But we just can't be confused that that's anything other than cleaning up those elements of the tax code. It really can't be a way, except around the edges, of paying for the new spending.

On the corporate side, the world certainly wouldn't end with a modestly higher corporate tax rate, but I do think we want to keep our corporate tax rate in the range in which we're competitive. I think the original international tax proposals from the Biden Administration had a much too high coordinated rate. It wouldn't have been coordinated. It wouldn't have been stable and the U.S. would be uncompetitive. So if you wanted to do that, you would need a rate probably even lower than the current compromise rate to make that work. But it's certainly, it's certainly possible.

So I think tax is a vigorous discussion, but I think it really has to be separate from budget alone because budget alone isn't the reason to do all these things. There's just not enough money to do them as pay-fors. Indeed, the CBO tells us the Biden budget is going to add $7 trillion in deficits over the next ten years with barely okay economic assumptions. I don't think these tax changes around the edge are going to help there.

LAWRENCE H. SUMMERS: So I think we're, I don't think we're all the way to being in raging agreement, but I think we're in substantial agreement. I think where you and I would probably not quite be in the same place is I would say that if you take compliance, you take a reasonable program of corporate taxes that agrees with your desire not to see the U.S. be uncompetitive, but addresses that desire in part by helping other countries raise their corporate tax and stops the more egregious corporate tax cutting for transitory advantage strategies, and you make relatively modest adjustments in the income tax rules – and yes, as you suggest, you go after the estate taxes – I think that program raises 1, 1 ½% of GDP. I don't think 1 to 1 ½% of GDP fundamentally transforms the role of government to society, but I think it does...(Audio Issue)...

R. GLENN HUBBARD: Are you frozen?

PRESIDENT BARBARA VAN ALLEN: Glenn, while we're waiting, maybe we could go into the Chat Box...

R. GLENN HUBBARD: Yes, unfortunately, since I had to log back in, I've lost the chat, but I will offer one comment while you're looking that up, Barbara. On the tax issue, just to close that out, one of the concerns is the promise to not have tax increases on people who make less than $400,000 a year.

So let's take the corporate tax and the capital gains tax, the corporate tax has to show up in one or both of two places. It either affects investment, which affects capital accumulation, productivity, and hence wages. That is, it's borne by all workers. That's what the CBO would say or the Treasury Department, hardly the stuff of academic lore. So that won't work. The capital gains tax is, of course, a transactions tax so it's very inefficient and many non-rich people hold securities themselves. So the capital gains tax is also going to be borne by people making less than $400,000 a year. So that won't work.

But maybe we can go to some of the chat questions here while we're seeing if Larry can come in.

PRESIDENT BARBARA VAN ALLEN: There is one here about the increase in taxes and the impact that's having for some cities in terms of flights to other geographic areas.

R. GLENN HUBBARD: I think this is definitely a headwind but I don't think it's unsolvable. So if New York ceases to be a magnet, it will be New York's fault. In other words, New York, either from the infrastructure broadly defined that it presents, or the tax and business attitude it has, will have done it to itself. It remains to be seen post-Covid where people who have moved to Florida or somewhere else are really as happy there as they would be back here.

What to me is more interesting from a business perspective is how will the work-from-home, remote work-hybrid mix, change where one can live. If you tell me I only have to be in the office in Manhattan three or four days a month, well, that really broadens where I can live. So it's not just a question of do I go to Florida for some reason, but just do I leave New York City? So I think cities really do have to think hard about their value proposition.

PRESIDENT BARBARA VAN ALLEN: Just jumping back, we were talking about infrastructure, do you think – and this is another question from a member – there's a relationship between the climate change policies and infrastructure and challenges tied up in that?

R. GLENN HUBBARD: Well, there can be. I think the administration is on the wrong foot on climate. I support the need for putting a price on carbon. I think that is the way to give the private sector the right incentive. The administration seems more focused on government infrastructure and on subsidies for technologies. I think most economists would say that's less efficient than using a carbon tax. You could make a carbon tax progressive depending on how you use the money that you raise. So I think there's some infrastructure in that. But I would, a lot of that would be provided by the private sector. If you get the right price on carbon, people will reallocate capital and build that. So I'm less persuaded the administration has the right answer there, and I'm a little baffled as to why we're not hearing about a carbon tax. If we needed to raise revenue from an administration that takes the, rightly takes the issue very seriously, what about a carbon tax? That's the obvious thing.

So I see Larry's back. Okay, Larry, I'm going to give the Fed a break because I was going to go to that but given the hour I want to move to another topic of income and wealth inequality. So obviously inequality, we've already talked about it a little bit this afternoon, is a key policy and political concern. So give me one of each. What's the most important inequality problem facing the country? And what can or should policy do about it?

LAWRENCE H. SUMMERS: The most important problem is the increasing exclusion of men, who in an earlier era, would have worked with their hands and their inability to find meaningful work that enables them to support a family. And that problem is behind the failure to make progress in poverty, failure to raise median incomes as rapidly as we would like, a whole range of social problems that cause us concern. It is a problem. It is that reality that is a substantial contributor to widening racial divides, but it is a problem within ethnic groups as well as across ethnic groups. So I think that's the most important inequality problem.

I think the long-run solutions run through human capital, run through education, run through developing skills. And there's a tendency for all of our education policies to be developed by the highly educated and often they're substantially wide of the mark in terms of the aspirations and in terms of what makes good sense for the people who are the most important clients of those policies. I think in the medium term, because education policies inevitably work with a substantial lag, that the most important low-hanging fruit is probably in place-based policies because these problems are substantially greater in some parts of the country, a heartland that stretches from Minnesota through, cutting across to South Carolina, and that we – as a country – have substantially underinvested in appropriate place-based adjusted policies.

When the fundamental transformation of the economy was to the reduction in the number of people who were or should be employed on farms, we pursued a whole set of policies over decades. It came too slow and there were enormous costs of the adjustment along the way. But I don't think we have thought about that de-industrialization that's associated with technology in equally sweeping and visionary ways.

R. GLENN HUBBARD: I broadly agree with that and I want to ask a follow-up. So, the sense to which I agree with it, I don't really care how many billionaires there are, as long as people are making money and starting great businesses, I could really care less how rich people are. I really care a lot about a lack of opportunity. And I think you identified a key group. It's not the only group facing that issue. And I think economists sometimes are too blithe and just saying, well, let's use education because that's a big word. And places like Harvard and Columbia are neither the solution nor the problem in this debate.

I think of things that we could be doing in the here and now is really going back first to an orientation – you hinted at this – to interventions we've done in the Morrill Act, the land-grant colleges, and the GI Bill, where we really increased our capacity to train people for something new, and it was principally centered around agriculture to industrial transitions and to the contemporary economy. We're doing too little of that now. In terms of how to do it, it probably is the case that community colleges are a better investment than major universities in that regard. Bolstering work with a much stronger earned income tax credit, and the use of applied research centers around the country. One of the benefits of the land-grant colleges and the Morrill Act were reinvigorating local economies with very applied things, not so much basic research, which ought to be done wherever the best scholars are, but in applying that research to local problems.

And I agree with you on place-based aid. I suspect both of us twenty years ago might have been more suspicious of place-based aid as any kind of a tool, but I think done in a proper way and making sure it's flexible and in block grant form so it could be adaptable, I certainly agree.

But I want to ask you a follow-up that's both on my mind and it came up in a couple of audience chat questions. The Fed talks a lot about these words too. Does the Fed have anything to do with this? Is there's something they should be doing about it or is this not part of their job?

LAWRENCE H. SUMMERS: I think that it's interesting to me that we have had major,

major, hugely profound issues around the legitimacy of our system of law enforcement and around what police departments have done, police practices and all of that and no one has tried to get the Supreme Court involved. And the Supreme Court has not tried to involve itself even though the Supreme Court would be an institution with enormous prestige and power around that. And I think the reason we've reached that outcome is because there's been an understanding on both sides that if the Supreme Court stays apart from even vitally important problems of the moment, it will have more credibility and capacity to do the things that only it can do and that the nation needs it do.

And I think a similar kind of respect and restraint about temporary critical issues, even continuing critical issues that we show as a society towards the Supreme Court, I would like to see more of it with respect to the Fed. I think it is appropriate to debate the extent to which a high-pressure economy versus price stability should be an objective of the Federal Reserve and what its capacity is over the long term to achieve a higher-pressure economy versus its capacity to influence the rate of inflation, I think those are important debates to have. But when I see the Fed moving into things that some people would read as targeting relative unemployment rates of different groups, I become concerned about the Fed's involvement in things that are structural.

If there are real systemic financial risks associated with the pace of the green transition, I think it is entirely appropriate that the Fed monitor those financial risks. But if there is a belief that more pressure in financial regulation will contribute to more rapid greening and that more rapid greening is a good thing, I worry about that as an extension of the Fed's mandate. I think one of the lessons that is, I think, very important to understand in life and in policy is that there are errors of omission and that there are errors of co-mission. And one needs to be careful to guard against both of those sets of errors.

R. GLENN HUBBARD: Yes, it seems to be the Fed is learning what we sort of knew to be true that a high-pressure economy will help disadvantaged people. If you look at 2019, so pre-Covid, the least well-off among us were doing better than they had been in recoveries. It's not wrong to look at that and value that and perhaps weigh that in your tradeoffs – as you say – between a high-pressure economy and inflationary pressure. But I agree with you, it strikes me as difficult, if not impossible, for the Fed, given the tools that it has, to have more granular objectives.

And indeed, if inequality writ large were the topic, many of the tools the Fed might use to create a high-pressure economy would considerably make the very better-off better off, i.e. increasing asset prices which would reflate the wealth of the already well-to-do. So I think these are interesting topics. They're important topics that are probably more logical for fiscal policy tools and other structural instruments than they are from the Fed. So that the Fed is talking about it, I don't find troubling, but I'd hate to see the Fed spend as much time on it simply because I don't think they have the tools to really do it.

I want to switch gears a little bit and talk about digital currencies, which are very much in the news. I know you've offered some commentary on this recently. I want to ask about both the future of digital currency writ large, not a question about bitcoin, but digital currency writ large and in particular central bank digital currencies – U.S. versus other alternatives.

LAWRENCE H. SUMMERS: I usually know what I think, and my view is right or wrong. This is one where I'm not actually sure what the right answer is. I am sure that I think that the central bank ought to be studying this very actively and aggressively and that they should be asking, there should be a set of people within the Federal Reserve System who are answering the question: if we were going to have a central bank digital currency, how would we do it? What would it look like? What would its rules be? I'm pretty sure of that.

I'm not at all sure whether it is a good, whether it's a good thing or not. I am inclined to think that in a market-oriented economy if the government doesn't need to do something, it needs to not do that thing. And I'm inclined to think with respect to payments and money transfers and storing value, we have a financial system that is able to do it, and so I'm not sure why the government needs to take on those functions directly. And so that's a presumption that would have to be overcome.

I am not impressed by the argument at all that because the Chinese decide to have a central bank digital currency, in part so they can monitor precisely all the spending activities of their citizens, that that's a reason why we should have one. I have some sense of the issues that are at play in what currencies are used in denominated international trade, storing global portfolios and wealth, and those are issues to which U.S. policymakers should be attentive. I think they've got roughly nothing to do with a digital currency that's used by the mass of the population. So I certainly don't think we should have one because someone else is having one.

I think the ambiguities in the area, and I have had all the different feelings one could have in this area, are suggested by an analogy. It is a fact that with respect to Social Security, 98 cents or 99 cents of every cent that is contributed is paid out to a beneficiary. With respect to IRAs and 401Ks and all the marvelous private sector, it is a fact that the friction is less like one cent than like a dime or twenty cents.

And so some people believe that that's a kind of inefficiency that would cause us to benefit from more public activity in supporting retirement savings. Other people believe that Social Security is one fixed inflexible program and what the private sector is offering is a lot of different variety and a lot of different choice and people are deciding that that choice is worth the frictional 15 cents. And I think you can see that argument, both sides. The pro-public sector argument taken too far becomes Stalin's view that he can produce cars really efficiently. There was only one kind and one color. It was black, and that's the way it was. I think we all know that that is wrong. But where that balance be struck, I don't know.

I think my bottom-line position would be surely do not be bullied by emulating the Chinese. Require there to be a strong presumptive argument before you do it but be open to the possibilities that the network effects are so strong that you're really going to pick up some substantial efficiency for the benefit of regular citizens from having a central bank digital currency.

R. GLENN HUBBARD: I broadly agree with that. I think that there are a lot of tradeoffs here. People are focused on bitcoin, but I don't think bitcoin has much to do with this. It's a highly speculative instrument. It's not a stored value in any real sense. The questions about stable coin or central bank digital currency, the positives, I think, would be blockchain and distributive ledgers, I can see lots of commercial and financial uses for. Whether the central bank needs to be involved is less clear to me.

I guess for advanced economies, I'm not clear about the use case for a central bank digital currency. If we were having this conversation in Venezuela, I guess I could pretty much see the use case. One of the things one hears from policymakers is a concern about the un-banked, but while I haven't studied this a lot, I wouldn't have thought of the un-banked as being natural digital natives for the CBDC. And I do see a lot of problems with criminal activity, ransomware, which draws its breath from these opportunities. So I'm not sure it's an obvious intervention.

It's also a question for a central bank because once one makes this available at a retail level, and let's suppose I say you can have these accounts with the central bank but they have to be small, let's say $1,000 or something like that, if the central bank does a good job, there's pressure on that to get bigger and that, to me, raises the questions you mentioned. What does that mean for legacy banks and payment systems and what they do, and importantly for the conduct of monetary policy, not just for the health of those financial institutions? So this is one where I hope the Fed is spending a lot of time studying, but I don't know that the Fed needs to rush just thinking this is a China Sputnik moment.

LAWRENCE H. SUMMERS: We're in the same place, Glenn, but I think that we owe it to also say that a lot of soul-searching on the part of our wonderful, dynamic private sector is in order. My wife had occasion to want to transfer $1,000 to a lower-income person and was going to call our bank and ask them to wire $1,000 into that person's account. The person for whom $1,000 was a substantially meaningful sum pleaded with my wife to write a check instead so she would not be charged $20 in order to receive a wire into her account.

Any of us who have had the experience of needing to wire money to our children when our children were in some exotic place, the private sector actually, I think, does a rather poor job of meeting the financial needs of people whose transactional scales are a zero or two short of what some of the people on this call would think of as familiar.

And so I share your enthusiasm for private sector solutions, but I think we do need to ponder, you know, is it really the case? Does it really make any sense that if I put my American Express card down for a $300 bill at a restaurant, or my Mastercard or my Visa card, that $7 or $8 get taken out for the service of what's being provided? And when I hear my private sector friends explain about the glories of capitalism and the inappropriateness of socialism and the government being involved, I think what needs to temper one's view with some awareness of the frictional costs of the way we do things in our current private sector system being pretty large.

R. GLENN HUBBARD: I want to move on, but I will say this in defense of our dynamic private sector, it is dynamic, so those pain points that you mentioned are already drawing in enormous fin-tech or other investments that compress, interchange and other margins. And I have no doubt that if there's that much pain, the private sector will step in.

I was just about to give a last, great closing question, but I see the face of none other than John Williams. So he's probably going to tell me don't give that question.

CHAIR JOHN C. WILLIAMS: Well, you read my mind, Glenn. Unfortunately, we're at the end of the hour now and so I'm going to have to just say thank you to you and Larry for sharing your valuable time and insights with us on a wide-ranging set of topics. I really appreciate it; I'm sure the membership appreciates it as well.

So I'm pleased to report that we have many great speakers lined up for the summer. And as always, we encourage you to invite guests to our events. On June 1st, we have Lael Brainard, a member of the Board of Governors at the Federal Reserve System. Then on June 8th, we have the Metropolitan Opera General Manager, Peter Gelb, and Lincoln Center for the Performing Arts President and CEO, Henry Timms. On June 9th, we have Andrew Yang, the mayoral candidate for New York City. On June 10th, we have Connie Evans, President and CEO of AEO. On June 17th, we have Henry Kaufman, President of Henry Kaufman & Company Inc. And then on June 22nd, we have Henry Louis Gates, the Alphonse Fletcher University Professor and Director of the Hutchins Center for African and African American Research at Harvard University. And so, of course, as we've been saying throughout this year, we have many, many more events planned for the fall and later. So please, if you joined as a guest and you'd like to become a member, please email the Club at the address on the screen.

And finally, I’d like to take a moment to recognize the 335 members of the Centennial Society joining us today as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming both now and in the future. So thank you again, and please stay healthy and safe.