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Webinar

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Senior Fellow, Vice Chair of the Board of Trustees  
The Hudson Institute  
Chair Emerita, The Economic Club of New York

## Introduction

President Barbara Van Allen

Good morning and welcome to the 642<sup>nd</sup> meeting of The Economic Club of New York.

I'm Barbara Van Allen, President and CEO of the Club. And it's an honor to be here with all of you in a milestone year, our 115<sup>th</sup> anniversary. More to come on that.

The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. And I'd like to make a special welcome today to students from Columbia Business School, CUNY Graduate Center, Fordham University, NYU School Stern School of Business and Rutgers University who are joining us.

It's really a pleasure for me to welcome back our Chair Emeritus of the Club, Glenn Hubbard. Glenn is the Director of the Jerome Chazen Institute for Global Business, Dean Emeritus, and the Russell L. Carson Professor of Finance and Economics at Columbia Business School. In addition to writing more than 100 scholarly articles in economics and finance, Glenn is the author of three popular textbooks, as well as co-author of *The Aid Trap: Hard Truths about Ending Poverty*, *Balance: The Economics of Great Powers from Ancient Rome to Modern America*, and *Healthy, Wealthy and Wise: Five Steps to a Better Health Care System*. His commentaries appear in *Businessweek*,

*The Wall Street Journal, The New York Times, the Financial Times, The Washington Post*, as well as many other television and radio outlets.

He was previously Chairman of the U.S. Council of Economic Advisers. And in the corporate sector, he is on the boards of ADP, BlackRock Fixed Income Funds, and MetLife, where he is chair.

Today's program will begin with opening remarks from Glenn followed by a conversation on his new book. And we're very fortunate to have Club Emerita, Marie-Josée Kravis, co-Chair of The Hudson Institute, as our moderator. We will end promptly at 11:45 and, as a reminder, the conversation is on the record and we do have media on the line. So with no further ado, I turn it over to you, Glenn.

#### Remarks by Glenn Hubbard

Well, thanks so much. Thanks everyone for joining and thanks to Marie-Josée for joining especially. I just wanted to take a second, and Marie-Josée and I had talked about this and say a little bit about why I wrote the book and then mainly have a conversation with her and you.

We are at a pivotal time, I think, in the economies of advanced nations, particularly in

the United States, where social support for an economic system that we all would take as a given is not given. I wrote a piece recently where I noted that even my MBA students at Columbia, business school students at an elite business school, have some skepticism about capitalism. The point of the book is that this comes from the fact that growth and disruption are like a coin with two sides – a heads and a tails. And in the economics profession and the business community, we talk a lot about growth and its benefits, but less so about disruption and its cost.

The problem is getting rid of the disruption part means getting rid of the growth part. That's not a surprise. Adam Smith, to whom this book is really a love letter, taught us that a long time ago when he wrote *The Wealth of Nations* advocating for openness and for competition. The issue, though, is this, that disruption creates a demand – if you will – for adaptability. And the supply – sorry for demand and supply, but I'm an economist, that's the only way we talk – the supply has to come in two forms – walls and bridges.

Walls are ways the political system tries to protect the past, to say you can have a job or an industry or a system that you used to have. Bridges is a little more complicated. It's a way of either getting you to somewhere we're going or reconnecting you if you've fallen out of the boat. In the Smith analogy that's like marrying *The Wealth of Nations*, for which Smith is famous with *The Theory of Moral Sentiments* that he wrote a couple of decades prior where the goal of an economy and a society really is mass flourishing.

In our world today, the big tectonic plate movements are about technology principally and globalization secondarily. Those have improved the lots of millions of people in the United States and hundreds of millions of people around the world. Yet they've also created enormous disruption.

In the book, I used the metaphor of Youngstown, Ohio, in many places as a place that was buffeted by both technology and by globalization. The policy response tended to be either protectionist. I tell a story about steel tariffs in the book, in which I was involved, not in putting them on, by the way, but arguing that they shouldn't be, and lost. And also small beer policy responses like trade adjustment assistance. The modern Smith, if Smith were alive today, would say don't just talk about competition, talk about the ability to compete. Build bridges. Tell me how you're going to prepare people for the world that is and will be and how you're going to reconnect them.

Just to kind of wrap up, you know, we've once done this. I talk about, at great length, the land-grant college movement that Lincoln started with the Morrill Act and Franklin Roosevelt's GI Bill. One is a preparedness example, the other a reconnection example. But there were times in our nation where we did this in a middle, by the way, of obviously big things going on. I'm sure Marie-Josée and I will talk about these so I won't belabor individual policies, but I try to suggest a set of policies that a bolder America might do today to get this right.

The issues I talk about in the book, I think, are going to become more important, not less, in the next decade. The rise of artificial intelligence, of climate change adaptation, will create again both growth opportunities and disruption in labor markets and in product markets. And the bottom line, the real bottom line is that social support for our system is not a given.

And I think while economics has a lot to say, economists, as well as policymakers need to wake up to the example that neoliberalism alone can't be the answer. We need to put the liberal back in neoliberalism and take a journey back to Adam Smith. So I'll stop there, Marie-Josée, mainly to have a conversation with you which is much more fun.

#### Conversation with Glenn Hubbard

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Well, thank you, Glenn, and congratulations on your new book, which I gather is coming out tomorrow. This is really a great preview to very important issues that you've raised. You make the point and I can't help but quote your wife, Constance, who distinguishes between two kinds of people – economists and real people. And it seems to me that you're trying to bring the economists into the real world and challenge, not Economics 101, but to go beyond it and to look at how these notions can really apply to more structural problems or deeper-rooted problems.

And one of the points that you make very early on is that in many instances, in the U.S. and that's true in most of the industrial world, public assistance is focused more on helping people through recessions, but not in dealing with more deep-rooted and more permanent changes. And I just wonder how you think we can shift minds, because of course there will always be a short-term political agenda and political time table for dealing with recessions, growth, recovery and oftentimes what gets lost in that are the more deep-rooted problems?

GLENN HUBBARD: I couldn't agree more and it's a great question. You know, to economists first, to me the most perceptive question during the entire financial crisis and its aftermath wasn't asked by an economist. It was actually asked by the Queen of England when she went to the London School of Economics, spoke to a group of economic-worthies and said, why did nobody notice? Why did nobody see it coming? And I think what the Queen was asking is how could something so big as the financial crisis have escaped people?

And I think part of the question about structural problems is because they're slow-moving and long-lasting, they tend to get less political attention and economists need to step up to the Queen's question and notice. What can you do about it? I think it means two things. One feature in the book I talk about is opportunity. You really need to step up more in a structural sense and prepare people.

So the genius of the land-grant colleges in America was at a time where it was transitioning from an agricultural economy to a more manufacturing economy. The land-grant colleges really helped prepare men, and maybe surprisingly to some, even women – which was rare in higher ed in those days – for that new economy. We need to do that again.

The other is social insurance. You know our labor market policies are from the 1930s. They're designed to fight temporary layoffs. We need to be doing much more for supporting work. I mean in the U.S. we have a program called the Earned Income Tax Credit that is a work support program but it has become more of a family support program. I can talk about it more if you'd like. I think it could be much re-engineered. My colleague, Ned Phelps, who is a Nobel Prize winner, has argued for supporting labor demand in the European context as well. And I talk about other ideas to facilitate transition to work.

One metaphor I have is that Smith's idea about mass flourishing is about mass participation. So there's a not-so-subtle emphasis on work in my book that participation in the economy and dignity in the economy means being tied to work. And so that's why the social insurance reforms and preparation focus there.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: One of the, I mean going back to the land-

grant, and I guess there is an analogy that you draw with the community colleges. And you refer to the need for community college block grants. We hear very much these days about free education, but isn't that the approach of the past?

GLENN HUBBARD: It's really interesting. I'm very glad you asked that because, you know, the free tuition movement misses something that the land-grant colleges got right. Part of the brilliance of the land-grant colleges was that they provided resources to increase the supply of higher ed. Here, community colleges today are woefully underfunded relative to the four-year counterparts in their state.

Some work that Melissa Kearney and Austan Goolsbee and I had done a few years ago makes that point. And the federal block grant to community colleges that's tied to outcomes is a way of expanding resources. Making tuition free doesn't add to the resources of community colleges. A nice thing about community colleges too, like the land-grant colleges, is in each local area they can partner with major businesses and employers for the skills that are needed. And if you think about people in the economy most making the transition in technology and globalization, it's really community colleges that are going to be the foot soldiers of that. At places like Columbia, we're not the problem and we're also not the solution.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Well, to that point, you also talk, in your

book, very much about place-based aid in general and, you know, having more flexible block grants and more, I guess, local responsibility and local involvement, local engagement in trying to prepare the workforce, support business. How do you see that evolving?

GLENN HUBBARD: Well, I came to place-based aid with a lot of skepticism. I, like many economists, sort of grew up on the idea that you move people to jobs. And so if, let's say the Midwest has issues but Orlando, Florida is booming, then people should move to Orlando. That's the solution.

For a variety of reasons, geographical mobility in our country is probably not what many people think, even many policymakers. We have in mind a kind of "go west young person" mentality of how America works. That's not really what's going on in mobility. Place-based aid to areas that have had, been hit by very long-term unemployment can bring in new business if it's targeted toward business services and block grants with flexibility in local areas.

We know around the country some places have reinvented themselves successfully. Others have not. And I think we can learn from that kind of experimentation. So, whereas I once might have been very dismissive of place-based aid, I think it plays a role here, both in the location of perhaps applied research centers around the country

and the community college programs but also direct aid to communities hard-hit.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But when one thinks of mobility, and you do point out that geographic mobility has been declining, in fact, in the U.S., one of the barriers to greater mobility, not only the two-income household but also credentialization, regulations are so different. And I don't see any trend towards a greater streamlining of credentials, regulations and so on in any job, whether it be in any, service jobs especially, but it's prevalent in almost any job. So it's very difficult for people to move and set up businesses.

GLENN HUBBARD: It's a very big point. And I think while most of this is a state-level issue, there's still much for the federal government to do simply by highlighting it and giving place-based aid in a way that encourages that kind of change. We may need to do more as well to subsidize mobility if people want to do it. There are high fixed costs of geographic mobility and the tax credits we've used in the past have been relatively small.

One theme that goes through a lot of these ideas is that like the land-grant colleges or the GI Bill, we cannot think of a series of band-aids. An idea has to be that this is a big deal, that many Americans are not connected to the productive economy. They've been asked to bear risks that are larger than they can bear. And it's going to be expensive.

Cheap, by the way, compared to what people are talking about in Washington now, but expensive by traditional standards.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Which brings us to healthcare also, healthcare is often tied to employment and there are tax subsidies that don't encourage the mobility that we require or the coverage that would be required to prepare people, prepare a workforce and encourage people to move to different locations or move to different jobs. That's again another huge reform, and I don't hear very much support in Washington for reopening this whole question.

GLENN HUBBARD: I agree. And it's unfortunate. I mention in the book, and I draw on some earlier work I did with John Cogan and Dan Kessler at Stanford of trying to move healthcare more toward voucher support with tax subsidies that wouldn't be tied to a particular employer. So it would neutralize the tax treatment whether I get my insurance from my employer, Columbia, whether I choose to buy it myself. Also if you go this route, there's nothing special about being poor or old. Instead of having a complicated Medicaid program, we would be funding vouchers, the same with the Medicare program. So I think there's a lot that we can do to improve mobility. It does ruffle political feathers and it is different but there have been politicians in both parties over the years that have talked about these things.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Do you find that politicians are becoming more open to this idea of structural reforms versus the band-aids and the attempt to find quick fixes that really don't make a lasting impact?

GLENN HUBBARD: I do, but I worry. So the "I do" part is I think people realize that the band-aids really don't work. So in the book I talk about the trade adjustment assistance program which came about actually in President Kennedy's time when we were liberalizing the U.S. economy to make sure that we provided assistance to people left behind by foreign competition.

The problem is if I'm somebody losing my job, does it really matter whether I lost my job because a French firm came into the United States or because technology displaced me, or for that matter, some superior group of firms in the United States displaced. Either way, I still have to be helped. And I think trade adjustment assistance was almost never tried and frankly the only times that politicians spoke about it was when they wanted trade promotion authority or things that were more liberalizing for trade and so the public might rightly be skeptical.

My fear, and the reason I say I worry, I think politicians get that that isn't working. My fear is that what I'm talking about is harder than talking about walls. So in Youngstown, every four years political leaders of both parties – it's a bipartisan mess – have come to

town saying I will bring back the past. I will bring back those jobs that in September of 1977, many decades ago, left Youngstown. Now that's not true. That's not going to happen. And yet it's a very seductive thing to say. And as we talk about technology changing the economy even more, the demand for walls – be they physical or more likely metaphorical – is going up.

Bridges, while I think they're the superior answer, they are the Smithian answer, are harder. There's no silver bullet. So unlike somebody who comes to town and says I'll bring your job back, I don't think a bridge builder can honestly go to a town and say I'm going to completely make your life perfect by next year. It's not going to happen. And so I think the best way to do this is to get a national conversation going and get business people involved.

You know, as I've said to friends at the Business Roundtable, they have a dog in this fight. We can't take social support for our system as given. Business can't just sit on its hands. They need to push the government harder to think about how to create meaningful middle-class work.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Well, it's interesting that you mentioned the Business Roundtable because not so long ago the Business Roundtable evoked the idea of stakeholder capitalism and of more public-private partnerships and more

involvement of the business community in addressing the social and political and, of course, economic issues. And the question that arises from that is, you know, that it seems fine and it seems very inspiring, who sets the priorities?

GLENN HUBBARD: Exactly. In the book, I have a chapter on Adam Smith's schooling, some modern trends, and I talk about trade and I talk about the fascination with manufacturing in Washington. I talk about stakeholders. So on the stakeholder point, obviously business people need to be engaged on the larger stage. I totally agree with that, what I just said. And they need to be engaged in the communities in which they do business.

Having said that, when you say stakeholders, you run the question that you posed, you know, who watches that watcher? You know when we have accountability to shareholders, which Milton Friedman wrote about 51 years ago, I know whether the CEO is doing a good job or not, he or she has maximized or not the value of the firm. Friedman's admonition was taken as cold-hearted and neoliberal. I argue in the book that with some tiny twists, it's actually quite refreshing and modern if you just say long-term shareholder value maximization, insert the phrase "long-term", the adjective "long-term," I think Friedman is pretty much spot on.

I couldn't be successful as a CEO if I weren't also taking into account my workers,

suppliers, communities, not out of a charitable impulse but out of a strong impulse of wanting them to be tied to me and my firm and the success of my firm. So I think it's a mistake to say just go be stakeholders and do whatever you want. But I do think the idea of working more with local areas can be important.

Two examples I cite in the book – Massachusetts in the early part of the 20<sup>th</sup> century and Pittsburgh right after World War II – were examples in which it was business leaders, not politicians that really sat down and said, okay, we've got to remake this economy. We can't pretend it's going to be the same. How are we going to do it? How do we work with educational institutions and others to do it? That's the kind of conversation the BRT can lead.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But don't you think globalization has made that much more complicated and much more difficult because it's not a choice between Pittsburgh and Massachusetts and another, but it is another part of the world?

GLENN HUBBARD: It is, and so...

CHAIR EMERITA MARIE-JOSÉE KRAVIS: And much more complicated.

GLENN HUBBARD: It's much more complicated. And that's why in the book I talk again

and again about the modern Smith. You know, while Smith's ideas are relevant, we have to bring them forward from 1776 until now. For globalization, the answer has to get back to what aspects of the growing world economy do we think the United States and its firms and its workers can be good at? And I don't think we want to be trying to compete in industries that we were once good at unless we somehow have niches of comparative advantage. We need to figure out how to do things better.

So, first it means not tying our hands behind ourselves. We don't, shouldn't have a tax and regulatory policy that's pushing things outside our borders. It means preparing our workers and communities for the modern world. And it probably means massively supporting some kinds of work. You know the transitions in work, particularly in these globally disrupted sectors, might mean people taking lower wage jobs as they rework their way up. We need to do much more to support those incomes, which gets back to the earned income tax credit or labor demand subsidy alternative than we're doing now if we're serious about adapting in a globally changing world.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Well, two ideas that you put forth are wage insurance and then the personal re-employment accounts. Could you elaborate on those, how they might work?

GLENN HUBBARD: Sure. Personal re-employment accounts are something that many

Republican, either presidents or presidential candidates have talked about. George Bush had, George W. Bush had an experimental version, Mitt Romney, Jed Bush, in their campaigns had a version. The idea is that you would give a grant to each presumptively long-term unemployed individual for individual training and support. How do you know who that person is?

Well, when you go to collect unemployment insurance, you're already assigned a propensity score that tells you whether you're likely to be long-term unemployed. So rather than directing you into one of a myriad of federal programs, how about individualizing the support and then getting local businesses and community colleges to work with people. I think that's a fundamental change. You could also include, as I've suggested in the book, re-employment bonuses to get people more quickly reattached to work.

Wage insurance I think of principally for older workers. So let's suppose I'm in my 50s and I lose my job, the chance of my being able to complete training and get up the wage gradient back to where I was, may be much smaller. So we may want to consider for older workers a form of wage insurance. And if it goes through people's minds, gosh, that sounds expensive, think about what we're doing right now. So the same workers are now going through the front door or the back door of disability. So they're either showing up on a federal roll, which is taxpayer's money, or private insurer's role, which

is spreading costs through the benefit system. So we're not, we're spending this money now. The question is whether we can spend it in a way to keep people more attached to productive work.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But we have lived through two decades, almost three, of very uneven gains to openness and growing income inequality and stagnant wages. Do you think that people trust both the business community and the government when they offer long-term solutions or they try to change the mindset to long-term thinking? Because long-term, they haven't done so well.

GLENN HUBBARD: I couldn't agree more. You know, the latest Edelman surveys say that people don't really trust anybody, business or government, maybe a little tiny bit, the military, but not very many. I think what has to happen is to go back to noticing first. So when I think about the rise of populism in many advanced economies, successful political leaders have appeared to notice problems that others simply haven't noticed. I don't think what's on the mind of most people who feel that structural change has left them a bit behind, I don't think it's a concern about the super-rich.

So I don't think it's an income or wealth inequality concern as much as it's a concern of, am I going to have the opportunities to be as well-off as my parents? Will my children have the opportunity to surpass me in what they do? I think that's the existential fear.

And I think that rather than trying to say, trust me, I have a long-term vision, if politicians just came up with credible ideas that prepared people more for work and training and income support, then I think perhaps that trusts get built over time.

The alternative is the populist call that I'll make it better, I, alone can build these walls that will protect you. That's a siren song. And I think the answer can't be simply, on the one hand, neoliberalism, trust us in the economics profession, that's not going to work, I humbly say. And nor is it going to work to say, trust us, we have this grand long-term plan. I think it's the individual pieces that will matter. And this is going to be a marathon, not a sprint. I wish it were otherwise.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: So a marathon requires a lot of preparedness, and I'm going to take you to Washington to first set the stage or set the table. When you're talking about building bridges, if there's one place where people are not connecting and, in fact, erecting walls more in partisan ideas than they are on trying to find solutions, it's Washington. And I wonder how such, I mean these are really interesting ideas, but they are transformative and they take us to a very different place than we've been in the last 30 years, how this happens in the current context of really, I would say growing partisanship, and even meanness?

GLENN HUBBARD: It's a huge question. I mean to think about it, first, with the longest

sweep. We have done this even at times when our country was quite divided. I mentioned Lincoln and the Morrill Act, but, you know, in the same Lincoln administration agenda, was also the Homestead Act and the Trans-Continental Railroad. The idea Lincoln had, and emancipation was obviously the most obvious, but in general Lincoln had a bigger idea about government's role as a battering ram for opportunity. Roosevelt's connection to the GI Bill, people who know about the bill's history, it was also controversial. It took a lot of political wrangling to get the GI bill through, particularly because of its cost, but it happened.

Some of the ideas I talk about have been favored by people ranging from Paul Ryan on the right to Barack Obama on the center-left. In the past, politicians of a variety of stripes have talked about this. I think the way to do it is to really focus on the individual ideas and the communities they help and also by noticing. I'm not naive enough to believe that Washington changes its stripes overnight, but I will observe that there is a politician out there – I don't know who he or she is – who will find out that doing something meaningful for the lives of many middle-income Americans is actually a politically winning strategy, not just an economically better strategy. So I'm optimistic. But then I have to confess to you that I'm always optimistic. So I'm not sure what that says.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But then in the context of this Washington,

and not only Washington, it's also at the state level and even at the local level, this political dysfunction, are there parts of this program where you have found more receptive ears?

GLENN HUBBARD: Sure. I do think on the preparation side things running the gamut from community colleges to encouraging applied research centers around the country, there's a lot of interest by sort of center-left Democrats and center-right Republicans. Part of the polarization, of course, that we see in Washington is that on the right, some is entirely just about a culture war. And on the left, some are about policies that aren't at all connected to work. And sort of the thesis here is that work is important, that we could fix people's incomes, but without work we don't really have what the enlightenment thinkers like Smith talked about with flourishing. There's no way, without my being important in society, how could I possibly flourish? So I do think there is a middle ground on some of these policies, and I think the question is, were a politician to imagine a wrapper that he or she would put around some of those.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: So you think that, for example, you mentioned in your book a change on estate taxation. That seems to me that that's, I don't want to say an easy one, but one that's more easily tackled than some of the more complicated...

GLENN HUBBARD: It's interesting because as someone who has spent a lot of his academic career and policy career on tax questions, there are two tax reforms that I think offer something to both sides. So on estate taxation, if the concern is that many people could build large estates without having paid taxes, I agree, that would be a concern. But the way to fix that would be something very simple. It's kind of in the weeds, but carryover basis in taxation.

So if I spent my life building up a business, so I don't have any basis in the assets, it becomes successful, I hand it to my two sons, you know, rather than stepping up that basis and getting rid of the gain, why not just give them my basis and the tax is ultimately paid. Also cash flow taxes tend to fall on the rich and on monopoly interest. The right should like them because they're also neutral to investment and capital structure and things like that.

So the problem is, back to Econ 101 and economists, it's not that we need a new economics, we actually know how to do all these things. The question is getting economists to hone that message in a way that gets through to politicians. I expect the reason my wife has long talked about economists and real people is that economists don't always speak the language of and relate to real people.

And, you know, in the book I tell the story of Bush and me on steel tariffs, where I lost.

And in retrospect, I think I'm the one that learned the lesson, not the president. I learned that he was actually thinking bigger than I was when he made his decision. I wonder how many economists have that kind of aha moment.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But I think many in Washington would argue that. And you make, you refer to Henry Kissinger saying, you know, what is Europe's phone number? And the question many would ask you is, if you're calling for bridges and mass flourishing and more connecting and more reconnecting, who would answer the call in Washington?

GLENN HUBBARD: Well, it's very interesting. I've spent a little bit of time on this in the book, for anybody on the webinar who is interested in this, you know, the way we organize domestic and economic policy is very siloed in Washington. You have a series of ad hoc groups, so if there's a currency crisis or a financial crisis, you can pull people together. If this is a problem that's big enough, we need a structure within what would now be called the National Economic Council or the Domestic Policy Council to focus on it and to be able to advise the president on precisely these issues.

You know, there's an expression from the eminent, late business historian, Al Chandler, that in strategy and structure, even if we had the strategy, we don't have the structure, and I think there's more we could do on that. Because you're right, government as it's

set up now, even if the president came in and said, I'm interested, he or she wouldn't have the structure to deliver.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: So we can't, we were talking about this, but I can't let you go without talking about the current economic context and ask you, is it harder to tackle these issues, develop these structures, revamp programs that we have in a climate of very high inflation, pandemic uncertainty, you mentioned distrust in institutions, is it much more difficult? And isn't inflation also something that's eroding again the middle and working classes?

GLENN HUBBARD: Completely agree. I'm going to give a classic economist answer to your question. On the one hand, yes, and on the one hand, no. So on the one hand, yes, inflation is a problem. And while folks in Washington can talk all day long about, it's only a supply chain problem, it's much more than that. It is a demand problem. In a time of a pandemic with primarily supply issues, we kept adding to demand in a supply constrained economy with very accommodative monetary and fiscal policy. Milton Friedman, decades ago, talked to us about long and variable lags in policy, and lo and behold, that inflation has come and it will affect trust and it makes it harder to do things.

Now, the sense in which I'm more optimistic is, while it makes it harder to add to the deficit, which I don't think we should do – everything I talk about in the book, I talk about

ways to pay for – but I do think there's a kind of 52-card pickup, if that's the right example, moment in Washington now when you have this much disarray, there may be times to reform, streamline and advance some new ideas. So I do think that it's possible.

But again, going back to where I think you were starting the discussion, inflation gives us a chance to once again return back to cyclical frequencies, and our thinking we've got to get inflation under control. And we do. But the structural problems are big and they're the ones, if inflation lasted a long time, it too would threaten the economic fabric. I don't think the Fed will allow that to happen. But these longer-term structural problems left unchecked will tear at the social fabric and that's why they should remain near the top of our list even though inflation is a problem.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But you have not really been able to convince your wall-building colleagues, have you?

GLENN HUBBARD: No. But I think one has to keep at it. I think the goal, if economists want to get engaged, we've got to get back in the fight and talk about, as I provide many examples in the book, the failures of walls historically and today, whether they're physical walls or other kinds of walls, and then talk about ways that we can bring people together. If anybody on this call took Econ 101, the professor, I'm sure told you that

technological change, globalization leave the economy better on average, but I bet he or she also told you that not everybody was going to win, but the gainers could compensate the losers.

So it's the gainers compensating the losers part that the professor might have said under his or her breath, you might not even have heard it, and in Washington, we haven't been doing that. And so I think returning to that part of Econ 101 is where the conversation starts. And there ought to be enough in there to bring the right and the left together, and by right and left, I mean what I used to call right – center-right, center-left. What's still going to be hard are the \_\_\_\_.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: But there has been a gainers compensating the losers mentality. Tax the Rich is very much en vogue in Washington.

GLENN HUBBARD: But does that really help the losers? I mean I don't think many people in communities that are distressed, and I've taken business school students to places in the heartland, I don't hear a lot about, I wish we would go after rich people. What I hear more about, why isn't there more of an investment in opportunities for people like me? And I don't hear people asking for handouts. I hear people asking for meaningful work. And so I think while politicians love the idea of stoking fears of inequality, and yes, it becomes levels of inequality that are unacceptable, but I don't

think that's the concern most people have. And besides which, there's not enough revenue of "Taxing the Rich" to fix our fiscal problems and pay for all this.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: So, Glenn, we're running out of time. Just in closing, your book comes out tomorrow. I think you're launching in Washington appropriately.

GLENN HUBBARD: I am. It's a hard time, you know, in a primarily virtual world, trying to get out and do some physical events, if anybody is saying to themselves, you know, there were 1,000 people on my Christmas list I didn't buy something for, this book, that's my suggestion, *The Wall and the Bridge*.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: That's a great pitch. And if you were to, let's say choose three things out of your book that you think are absolute priorities in getting this moving and building this, beginning to build bridges, what would they be?

GLENN HUBBARD: I think the first is really noticing and going back to the Queen of England's question. And by noticing, CEOs, political leaders, economists – people need to notice. The second is to try to champion at least one big idea in either of these two modern Smith buckets of preparation and reconnection. To my mind, that's probably something like community colleges and a much expanded and reformed earned income

tax credit program. I think those are things that people ought to get behind. But unless and until we start noticing, and noticing all the time, not just when we want something, we're going to be behind.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: So we all need to become real people.

GLENN HUBBARD: We all need to become real people. I'm working at that. It's a challenge, but I'm up for it. When the Queen of England can even trump me, I need to – not that she's a real person either – but I'll try.

CHAIR EMERITA MARIE-JOSÉE KRAVIS: Well, thank you, Glenn, and thank you, Constance, for reminding us about economists and real people. And thank you. And as you mentioned, I encourage everyone to read the book. I've read it with great interest and it really opened my eyes to many possibilities and that's really what we want to achieve in this country. So thank you very much, and I'll turn it over to Barbara.

PRESIDENT BARBARA VAN ALLEN: Well, many thanks to you both. What a great conversation. Glenn, I think you should get 435 copies to the House of Representatives and 100 to the United States Senate. We do encourage everyone to think about getting the book. And up on the screen, and by the way, I don't know if anyone's mentioned the name of the book and I probably should have at the outset. *The Wall and the Bridge*:

*Fear and Opportunity in Disruption's Wake*. And it's available starting tomorrow and there is a little discount code, which is great, and you can see the code. And thank you, Glenn. And again, thank you, Marie-Josée, for just a great conversation, full of insights.

I just want to mention that – you can leave that slide up a minute so that folks have a chance to get that down – just so you know, we have a lot of events coming up. We have Charles Phillips and Frank D'Souza, the Co-Founders and Managing Partners of RECOGNIZE, joining us on January 31<sup>st</sup>. We have our annual Women in Business conference on March 7<sup>th</sup>, where we'll be looking at the State of Women in the Workforce: Winners and Losers. And we'll be doing that again with the French and Canadian governments. Michael Saylor, the Chairman and CEO of MicroStrategy, will join us March 14<sup>th</sup> for a Signature Luncheon event, which will kick off our new Cryptocurrency Series. So a lot more to come on that. And then Thasunda Brown Duckett, the relatively new President and CEO of TIAA, and a member of our board, will join us on April 11<sup>th</sup> for a Signature Luncheon. We're also working to bring other prominent speakers, some of whom are members, like Henry Kissinger and Eric Schmidt, to join us this spring or summer. So we look forward to that as well. So do keep track of the event calendar online. We're adding events all the time.

Finally, I want to take a moment to recognize those of our 344 members of the Centennial Society who are joining us today as their contributions continue to be the

financial backbone of support for the work that we do at the Club. So again, thank you for joining us. Everyone, please stay healthy and safe and have a good week. Thank you. Again, thank you, Glenn. Thank you, Marie-Josée.