The Economic Club of New York

115th Year
668th Meeting

Peter G. Peterson
Leadership Excellence Award Dinner

Roger W. Ferguson, Jr.
17th Vice Chairman of the Federal Reserve System

Stanley Fischer
20th Vice Chairman of the Federal Reserve System

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In-Person/Hybrid Event

Moderator: John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of New York
Chairman, The Economic Club of New York

Introduction

Chairman John C. Williams

Good evening everyone and welcome to the 668th meeting of The Economic Club of New York in our 115th year. I'm John Williams. I'm the Chair of the Club and President and CEO of the New York Fed. So with a distinguished history, since 1907, many of you know The Economic Club of New York as the premier nonpartisan forum for timely discussions on a wide range of issues facing New York, the United States, and the world. This evening's event is quite unique and very special. And on behalf of the Club, we sincerely thank you for joining us and for your continued support.

As Chair of the Club, it's my privilege and honor to take part in something today that has only been done five times in the Club's rich history, and that's the bestowing of the Peter G. Peterson Leadership Excellence Awards, which today will be presented to two very deserving men, Roger Ferguson and Stan Fischer. Roger is here with us tonight and will take the mike in a few minutes. But first I have about 45 minutes of opening remarks before that. (Laughter) Stan is not here in person but we understand he'll be watching this, and we'll share the recording of this special evening obviously with him and his family.

Now, before we begin I'd like to give you a little background on the honor that we're

bestowing this evening. The Leadership Excellence Award was inaugurated in 2011 through a generous personal gift from the late Peter G. Peterson, former Chair and longtime member of this Club. This past year, the award was renamed in honor of his contributions. This award has been presented to prominent individuals who exemplify the very best in leadership in economic policy and public service. The recipients have been nominated by our Award Committee, consisting of current and past members of our board, prior to a full vote of the Board of Trustees of The Economic Club of New York.

Going back through the previous recipients, they include former Secretary of State, George Shultz, former Chair of the Federal Reserve, Paul Volcker, former Vice Chair of the Federal Reserve, Alice Rivlin, former Chair of the Board of Governors of the Federal Reserve, Alan Greenspan, and Dr. Henry Kissinger.

Now, a little background on a mentor of mine and a mentor to many of my colleagues, Stan Fischer. Stan Fischer, of course, is an acclaimed economist and policymaker throughout his career. He's helped to shape modern economic theory. As an academic, he trained many future policymakers and put his ideas in practice in a series of roles culminating in the role that he took at the center of the response to the 2008 Global Financial Crisis.

Prior to taking up his position as the Governor of the Bank of Israel where he was during the financial crisis, he was Vice Chair of Citigroup, and also served as the first Deputy Managing Director of the IMF. And, by the way, by the end of this introduction, you'll be asking which jobs did Stan not have, which I think is actually easier than my job of listing all the ones that he did have.

Stan was a member of Economics Department at MIT, including being the Chair of the department, and he served as Chief Economist at the World Bank. So it's in that context, I'll tell a personal story about Stan Fischer. I think everyone has their own one. But Stan Fischer, as a student of economics, was well-known in his research, and when I was applying to PhD programs in economics, there was a fierce competition between the top PhD programs.

And when you get accepted to them and you talk to them, the first thing they do is they badmouth the competition. And I was fortunate to be accepted to MIT back then and the first thing that people said at other schools who were telling me why I shouldn't go to MIT was, you know, Stan's on leave. That was my introduction to who Stan Fischer really was. He's at the World Bank so you're not going to get the real MIT experience. Now I have to admit that pretty much everybody played that game. So that was my introduction to Stan, besides his research, his standing in the profession.

My second introduction to him was realizing that pretty much everybody else in the monetary policy world did go to MIT. And they all were, what they call students of Stan. And I'll name a couple you may have heard of, obscure economists like Ben Bernanke, Mario Draghi, who continues to play an important role in world affairs, and many of my colleagues at the Fed. And I realized at the time that that decision I made before meant that I really didn't have the firsthand experience.

But fortunately, President Barack Obama, in 2014, appointed Stan to be Vice Chair of the Federal Reserve Board of Governors, a capacity he served in until October 2017. And during that time, I got to work closely with Stan in a number of things. Besides the FOMC, he chaired the FOMC's Communications Committee that's always there during, you know, every Chair puts together a Communications Committee so that we can improve our communications and that's where I really got to know Stan at the FOMC. And then one of the things I realized after those three years working with Stan, that I actually was, like all of my colleagues, truly a student of Stan, learning about his leadership, his careful thought and advice, and his knowledge and experience during very challenging circumstances.

So his extraordinary career as a central banker, a thought leader, a teacher to all of us, and as I mentioned, you know, some his students have taken very high positions, like Ben Bernanke and Mario Draghi. It's an honor for me on behalf of the Club to

acknowledge the impactful career and contributions of Stan Fischer.

So now I'm going to talk about you, Roger. This is the part that takes most of the time. I'm happy to talk about Roger Ferguson, my friend and also colleague from back in my days at the Fed. He's the Steven A. Tananbaum Distinguished Fellow for International Economics at the Council for Foreign Relations. Immediate past-President and Chief Executive Officer of TIAA, the leading provider of retirement services in the academic, research, medical, and cultural fields and a Fortune 100 financial services organization. We're very pleased to have the current President and CEO of TIAA, Thasunda Brown Duckett, on our Board of Trustees here at the Club.

And, of course, Roger is the former Vice Chair of the Board of Governors of the Federal Reserve System. During that time on the Fed, he represented the Fed on several international policy groups and served on key Federal Reserve Committees including around payments, Reserve Bank Operations, Supervision and Regulation, and was highly respected throughout the Federal Reserve System.

Now I will tell a very brief Roger story experience. You won't remember this. But when he joined as Vice Chair of the Board of Governors, I was a staffer at the Board at the time, in a research function. And the Board of Governors back then was very formal, stiff, I don't know, maybe there's other words he might bring up in terms of how we

interacted. And when staff met with governors, you always had, you had to have your boss and your boss's boss, and you had to go through the whole org chart because there was this nervousness that we, economists or other staff members, might bring up something that hadn't been approved with one of the actual policymakers.

And so we met with, I think you were asking us about productivity issues, obviously something you had worked on, thought about a lot before you came to the Fed. And we came into the room, typical economists, we had just clipped our ties on and put on our coats. And we sat down and he brought us into his office, and one our colleagues was delayed, and Roger said, I just saw all of you in the cafeteria and none of you were wearing ties or coats. Why did you put them on to come talk with me? You don't need to do that. We're just here having a conversation. I want to hear your best thinking.

Of course, we're at a loss because we have the Federal Reserve Board policy manual memorized where we have to wear a tie if we go onto the second floor. And so we immediately did what, of course, we all do, we followed the policy, the new policy that new Vice Chair Ferguson put in. We took our ties off. (Laughter) About five minutes later, our colleague who was delayed a bit, came into the Vice Chair's office and looked at all of us sitting there virtually unclothed, no ties on, our coats off. And he said, what's going on here? No one told me that we weren't supposed to wear a tie.

And that's a true story. And it did reflect, it reflected, I think, a part of, a small part of, an important part of changing a culture and really bringing in the approach of inclusive, bringing people together, hearing the different views, and treating people with respect. And also supported what did end up changing over time was that leadership like you, Roger, and others, for management to realize, you know, maybe it's not such a bad thing for the staff to meet with the policymakers. Maybe if we trust our folks, they'll do the right thing and they'll bring the best and they'll behave. So it was a little part of a change that happened in an organization that I, of course, love and have a great deal of respect for. It was a change that helped make us better and it continues to this day.

Now, Roger is also, more importantly, maybe known for his actions during the fateful events of 9/11. Roger was the only governor in Washington, D.C. at the time of the attacks. He led the Fed's initial response to those attacks and really brought a voice of calm and action to make sure that the Fed was operating, the U.S. financial system continued to operate, and reassured the global financial community that our economy, our financial system would get through this. And it was a moment that I remember during your, Roger, your retirement journey through various reserve banks, it came up a lot about during times of crisis having leadership such as that – the importance of our mission, importance of bringing calm and stability to the economy is so critically important.

Now Roger has a very long and distinguished career that I could go through in detail. It's probably easier to say the things you haven't done. Now, back to the things you have done, serving on President Obama's Council on Jobs and Competitiveness, and its predecessor, the Economic Recovery Advisory Board, co-chairing the National Academy of Sciences' Committee on the Long-Run Macroeconomic Effects of the Aging U.S. Population. Since I just had my 60th birthday, it's a topic that's very important to me. And Roger, after such a remarkable career at the Fed in the financial sector, you continue to share your wisdom and your time and your extraordinary judgment with many of us, including the boards you serve on and with me and my colleagues as we carry out our task in challenging times.

So I cannot be more delighted than to see us present such a significant honor to such a great and exemplary leader. And with these illustrious careers, both recipients, we just want to honor the illustrious careers that both of the recipients have. So please join me in a round of applause for Stan and Roger. (Applause)

Now, it's my honor and privilege to have Club member and one of the children of the late Peter Peterson, and Chair and CEO of the Peter G. Peterson Foundation, Michael Peterson, to join us this evening and to present the award.

Presentation of Awards by Michael Peterson

Well, first of all, I want to thank John and Barbara and the board and members of the Economic Club for the kind gesture of naming this Leadership Excellence Award after my father. I know he would be very honored by this and very happy about it. And the reason I know he would be happy is that I am currently the Chair of the Peter G. Peterson Institute for International Economics and I'm also the CEO of the Peter G. Peterson Foundation, which operates an entity called the Peter G. Peterson Center on Healthcare. So when it came to naming things, my father was very creative. (Laughter) And your naming this award after him is just the type of creativity that he would have appreciated. I would also add that his name being so close to the word excellence would be just fine with him as well.

So in all seriousness, my father loved the New York Economic Club and was very proud to support its work. And the reason my father cared about the Economic Club is because he cared about ideas. To him, ideas matter. He felt deeply that it was very important to exchange and share ideas and analyze and debate ideas. And in the current environment, ideas are more important than ever. Fact-based research and analysis has been under challenge. And in many circles, long-formed thoughtful discussion has been replaced by Twitter battles on social media.

Now everyone here understands that it takes longer than a tweet to debate an idea. And that's why we all support the substantive gatherings that we have at the Club. In my view, the discussions we have represent an essential part of the national dialogue on critical economic issues that affect every American.

In terms of this Leadership Excellence Award, the Club has certainly done a great job selecting honorees who have made major contributions to our nation and economy, including George Shultz, Paul Volcker, Alan Greenspan, Alice Rivlin, and Henry Kissinger. And with the addition of Roger and Stan, this group is beginning to look like Monument Park at Yankee Stadium. Roger and Stan both exemplify qualities that are important to all of us – principled leadership, research-based decision making, and commitment to public service.

Stan could not be here today so we will honor and admire him remotely – something we've gotten used to recently. Stan's storied career spans decades and includes a wide range of posts with influence around the globe. His impact is felt throughout the field of economics. So please express your appreciation and congratulations to Stan. I know you're watching and we'll accept the award on your behalf. So congratulations, Stan. (Applause) It's pretty heavy, Stan.

Roger is, of course, here with us and we will have the pleasure of hearing from him

shortly. Roger is an example of principled leadership and wise counsel in business and in government. He's a problem solver with a steady hand at the highest levels. And I would I just like to note that Roger is the only person who serves on the boards of both the Peterson Institute and the Advisory Board of the Peterson Foundation. So now that you've gotten this award, you've hit the Peterson trifecta. So congratulations.

In all seriousness, Roger, my father deeply admired you and held you in the highest esteem. And after my father's passing, I'm extremely grateful to you for the support and advice you've given me. You've helped me navigate complex issues at the intersection of fiscal and economic policy and have an invaluable sense of how philanthropic efforts can help enable better policymaking to support inclusive economic growth and a more efficient global marketplace. So, Roger, on behalf of my father and all of us here at the Economic Club, congratulations, and thank you for all you have done and continue to do in your service to the nation. So, please welcome Roger to the stage. (Applause)

Acceptance Speech

Peter G. Peterson Leadership Excellence Award

The Future of Global Capitalisms

Roger W. Ferguson, Jr.

Well, thank you all very, very much. I'm going to speak just for 45, 50 minutes at most. But seriously, I'm really grateful and humbled to be honored by this incredible award, the Peter G. Peterson Leadership Excellence Award. And to know that it's coming from The Economic Club of New York really is very important to me.

You've heard a number of the reasons why I'm humbled already. One is it's named for Peter G. Peterson, a distinguished citizen, philanthropist, citizen-statesmen, Wall Street leader, and a person I came to know reasonably well towards the middle to end of his career, the beginning of mine, but a phenomenal thinker about economic problems. And he's obviously bestowed that on his son, Michael, as well.

I'm also humbled to be honored with my good friend and mentor, though I did not go to MIT. I went to that other place in Cambridge, the lesser MIT known as Harvard. But like everyone else in central banking, my career is heavily shaped by Stan Fischer, a great friend, colleague. And to be fair, I tried to recruit Stan to the Federal Reserve a few times. I failed, but President Obama finally convinced him to take the job. I think he had to wait for me to leave to get a job that he deserved which was to be the Vice Chairman of the Fed. And so, to Stan, if you're watching, it's really an honor for me to be honored with you for this award today.

And then finally, I'm humbled because we've heard the names of the other recipients –

a phenomenal set of leaders, two or three of whom I've worked with. I didn't know Henry Kissinger very well, or George Shultz, but the other three, Paul Volcker, Alan Greenspan and Alice Rivlin, all friends, all of them great leaders in the world of economics.

And so today actually I will take just a few minutes to talk about just this topic, which is the world that they created, those early recipients, is the world that we have today. And that is a world that is the world of global capitalism. So to put this in context, those earlier recipients helped to set the pace for, set the structure for, and ultimately set the outcome for something that became very important, which was the symbolic falling of the Berlin Wall, the end symbolically of the Soviet Union in 1989. And those individuals helped usher in a new era that we've been benefitting from all along, and that is an era that I'm describing as a period of global capitalisms.

And so I'd like to reflect on the world of global capitalisms, what it looks like, how it has emerged, and importantly with you, what the future might be. And I will be very clear by saying I don't have the answer to the question that I'm posing: what is the future of global capitalism, what is capitalism in general? But I think if there's any group that will be come to that answer, it will probably be in The Economic Club of New York.

So let me start with what we all understand about what this thing is that we call

capitalism. At its core, it clearly involves the private ownership of most property and business enterprises that are then operated on a for-profit basis in the interest of their owners. So that's obviously sort of the essence of capitalism as we understand it. It accepts that private ownership is protected by laws and that the owners of capital invest that capital primarily for private gain.

And additionally, I'd say adherents of the capitalist system generally believe that forces of supply and demand should determine prices, and those prices determined through forces of supply and demand should serve the best interests of society. And similarly, I'd say in a capitalist system we all believe that the forces of competition, with businesses rising and then also necessarily being destroyed or going out of business, are thought to enhance both short-term private welfare and also long-term societal welfare. And then finally, those of us who believe in capitalism believe in the very important, the freedom of choice for all economic actors when it comes to everything – consumption, investment, production, etc.

In that world, we will say the role of government is really very important, though, because the government does a few things. First, creates and enforces the law that protects the rights of the capitalists. Yes, we understand that. Importantly, governments also fill in where markets don't work. So one of the things that Stan Fischer would have thought all of us or any economists would have learned is there are goods, public

goods, goods with great externalities, part of the role of the government is to sort of provide those goods and services to make sure they get done in an equitable way. And then finally, obviously governments step in in places where the capitalist society doesn't work as smoothly as we'd like by creating regulations and enforcing those regulations. So in the capitalist world, there clearly is an important role for government to play.

Importantly, the post-1989 world, the fall of the Berlin Wall did not usher in a single form of capitalism but I would argue with you that it ushered in six forms of capitalism, a surprisingly large number. Clearly, here in the U.S., and I would say in the post-Thatcher era in the U.K., we've had what I would describe as regulated free-market capitalism. Again, the government being involved in appropriate levels of regulation. We debate how much that regulation should swing back and forth, but no one doubts the role of the government in doing that.

Some of us would call our capitalism "liberal market capitalism." Western Europe, I would say, might best be described as having a strong safety net. So there, our Western European friends, while being strong capitalists, believe that the government has a role in maybe a more aggressive redistributionist approach, avoiding extremes of wealth and poverty.

In Japan, and perhaps some other Asian countries, since World War II, they've created

a kind of thing I would call uniquely “collective capitalism” or some have described it as “coordinated market capitalism.” Their economic actors may exchange information in non-market ways and societies and organizations through cross-holdings of shares for example. But additionally there are some notions of things such as lifetime employment that also help to make the societies perhaps more closely knit around their type of capitalism. And India has come with what I would describe as sort of a “mixed capitalism” – large private enterprises flourishing alongside large state monopolies.

So those are sort of four types of capitalism. What I find as fascinating is in the post-Berlin Wall era of 1990 or so, both Russia and China that had been the big experimenters with the, you know, contrary theory of how to organize economic activity known as Communism, they both swung to a type of capitalism. In Russia, one might describe it as “crony capitalism.” Clearly imperfect, but activity that had been done in the hands of the state, transferred, maybe in an imperfect and unfair way, to a small number of individuals close to the government. So one might describe that as crony capitalism.

And in China, they had been experimenting with moves away from Communism for a period of time starting with Deng Xiaoping in the mid-80s but culminating importantly in a series of very important reforms, again in the 1990s, that led to “capitalism with Chinese characteristics” as they call it or I would maybe describe it as maybe “state–

controlled capitalism." So those are the six constituent parts of the global capitalism that we've dealt with since the 1990s.

So what can we say have been the results of this big trend where almost all economic societies and literally billions of people lived under a version of this thing called capitalism? Well, it's well understood that literally hundreds of millions of people in various parts of the globe came out of abject poverty into something that might be described as roughly a middle-class income and lifestyle in many of the societies that we've talked about, China being the most famous, but India as well.

We've also seen the rise of some major global companies that have changed the way we deal with fundamentals, things such as information. So think of Microsoft, think of Apple, think of Google. These have all literally, and they're all literally about 20 or 30 years old, and they've transformed the way the world lives. And life expectancies until recently have been generally rising almost everywhere. So when we look at this period of global capitalisms, you say, well, not badly done. There are a lot of positive things to say about that.

At the same time, critics also point out some major failures. So most notably, late-20th century capitalisms have contributed to a dramatic increase in income and wealth inequality. Within the United States alone, we have seen that so-called middle-income

has maintained basically a stagnant income level in real terms since roughly 1974, 1975, certainly since the 1980s. At the same time, those of us who were fortunate enough to be in the upper income areas have seen that our incomes have grown roughly at 6% compounded annually since 1980. Wealth income, both wealth inequality, both here and around the world, is much more starkly divided as well.

Some economists and other observers point out that some of the major challenges in this world of externalities that I talked about have become much worse of late. So thinking about climate change and the loss of biodiversity and many people argue that's a failure of capitalism as we've dealt with it in the last 30-plus years, that we haven't really confronted those issues.

And then there are other voices in economics, Anne Case and Sir Angus Deaton, in their book, *Deaths of Despair and the Future of Capitalism*, argue that capitalism in its current form is literally destroying the lives of many working-class people. I don't necessarily subscribe to that, but a typical quote from their book, "over the past two decades," – the period I'm talking about – "deaths of despair from suicide, drug overdose, and alcoholism have risen dramatically, and now claims hundreds of thousands of American lives each year." So while we look back and say capitalism has brought literally hundreds of millions of people out of poverty, there are clearly some areas in which capitalism is thought to have failed, and in some cases failed miserably.

Perhaps the single most compelling set of statistics highlighting the threat to the system of global capitalisms that has existed for the last 30 or so years comes from our friend – I think he's probably a Club member – Richard Edelman, who publishes an annual Trust Barometer. So the Edelman Trust Barometer fields an online survey across 28 countries and receives more than 36,000 respondents.

In the 2022 version most recently released, a full 52% of respondents agreed with the following statement "Capitalism as it exists today does more harm than good in the world." So 52% of these respondents think that the capitalism that we have experienced since the end of the Berlin Wall does more harm than good. Now that's a slight improvement, as bad as it is, versus the 57% that agreed with that statement just a few years ago. An astonishing 33% from the 21 democratic countries that Edelman surveyed, so think the U.S., think of Western Europe, etc., agreed with the following statement, "centrally-managed economies do a better job than free-market economies." So 33% of the respondents living in our kind of society thought that another model, centrally-managed economies, would be better than the free-market economy.

The Edelman Trust Survey shows that only 51% of all respondents around the world expect their families to be better off five years from now than they are now. But interestingly, and depressingly in the most advanced economies, the number that agreed with that statement ranged from 15% in Japan, so only 15% thought their

families would be better off five years from now than today, and only 43% in Singapore felt that.

Here in the United States, 40% of the respondents felt that their families would be better off five years from now than they are today. And that, in the U.S., has declined from about 43% in 2020, 46% thought that things would be better for their families five years hence than now, that was back in 2021. And you have to go back to 2019 to see it break even, roughly at 50/50 where about half thought my family will be better off and half thought that would not be the case. And so clearly, you know, capitalism, if one listens and believes this Trust Barometer, has lost adherents almost around the world. The last time they asked the following question in 2020, 18% answered yes to the question, “the system is working for me” while 48% said no, “the system is failing me.”

So clearly, I say here in the halls of The Economic Club of New York, we are confronting a crisis in the global capitalism system that has prevailed for the last 30-plus years. It seems to me the question of the future of capitalism is squarely on the table, and I would say it’s squarely on our table because clubs, such as The Economic Club of New York are and, I think, must continue to be an important part of this dialogue.

So, in the most immediate future, or actually I would say in the present, our societies are asking if we can conquer the scourge of inflation, which erodes the earnings and

savings of average citizens and is currently a challenge in almost all major economies. And we want to know, can we avoid that scourge? Can we put that back in the bottle without tipping into global economic decline? Most recently, the World Bank published its "*Global Economic Prospects.*" I think the headline of that press release really summarizes the outlook as they saw it. And the headline was, and I quote, "Stagflation risk rises amid sharp slowdown in growth."

So the World Bank now expects global growth to slump from about 5.7% in 2021 to about 2.9% in 2022, which is significantly lower than the 4.1% that the World Bank had anticipated back in January. The report also notes that global inflation is expected to moderate next year, but importantly, the World Bank expects that inflation will remain above inflation targets in many economies. And they say if inflation remains elevated, there's a likelihood of a repeat of the resolution of the 1970s stagflation when Paul Volcker had to take on that challenge. And they said that it could possibly translate into a sharp global downturn along potentially with fiscal crises in some emerging market and developing economies. So this is clearly a dour assessment, noticeable both in the degree of concern and the rapid reassessment from earlier, much more optimistic prospects that the World Bank had for the global economy.

So it seems to me, and I think you would agree, clearly the next few years, how well policymakers handle this question of inflation puts potentially an even larger dent into

the already dented prospects and trust and confidence that the average citizen has in our economic system and potentially in those who lead it. But importantly, I don't want to describe this as purely a crisis of the current conjuncture because it's much broader than that. And capitalists, by which I mean managers, owners of large pools of capital – business leaders, asset managers, asset owners, etc. – are not oblivious to the challenges of the global capitalisms system that we are confronting. Perhaps they recognize that the public really trusts them to fix these challenges. So again, going back to the Edelman 2022 Trust Survey, trust has declined to below 50% in government and media, not to mention political leaders. It turns out according to the 2022 survey that business leaders are the only trusted institutions, the only trust individuals left, scoring roughly 61%.

So the business leaders, and they're often in this room, are clearly now empowered to lead the charge to think about how we reform the role of business to consider more explicitly the kinds of failures that capitalism is accused of for the last 20 or so years, 20 to 30 years. So we already know that the Business Roundtable has started this process of redefining the role of business, thinking more about stakeholders. Importantly, business leaders are joining together in groupings such as the Council for Inclusive Capitalism to take concrete actions to make capitalism much more inclusive. And so there's some reason to be hopeful that the business leaders themselves are taking on this challenge.

Equally importantly, I would say asset owners and asset managers, those to whom the business leaders report, are also very much attuned to the issues of capitalism. And I think there we see three notable trends in this group of capitalists – asset managers and asset owners – that are all attempting to revive trust, and with that presumably performance of the economic system that we've talked about.

So what are some of those trends? First, we have the emergence of a broadly defined and accepted concept of shareholder activism that's coming from asset managers and asset owners. That group of asset managers and asset owners, mainly pension funds such as TIAA, the company I had the privilege of leading, foundations, endowments, but more recently, index funds and other passive investors. They all recognize that they are unlikely to be willing to sell their shares in major corporations in the U.S. and around the world so they've taken on a more activist role of engaging both with directors, who are their legal representatives, and also the managers of the companies that they are owners of.

So TIAA, you've heard the company mentioned many times, I was fortunate to be, and honored to be the President and CEO there from April 2008 until May of 2021 and handed it off Thasunda Brown Duckett, who is one of the trustees here. That company, my company, was one of the first to recognize that it needed to engage with both directors and corporate managers to influence behavior in matters such as climate

change disclosure and board diversity. And others now have joined TIAA in becoming these activists and fully engaged investors. And I think, personally as a former CEO of TIAA, welcome them, and I'm pleased to see so many other asset managers now taking up the call to be more engaged in this kind of activist approach. That's one of the major trends.

Another major trend obviously is around the government involvement in disclosure in these areas. So our own SEC has proposed climate-related disclosure that would greatly increase the amount of climate-related information that companies would have to provide in registration statements and annual reports. So this is the "E" part of ESG. And they have gotten roughly now 3,400 comments so we'll see exactly how the final rules come out. But clearly the regulators – I mentioned there's a role for the government and regulation in the capitalist system – have become very focused on these topics.

Additionally, Chairman Gensler has indicated that he wants to issue rules on the "S", the societal part of ESG as well, asking the SEC staff to work on a proposal related to human capital disclosure. And according to Gensler, this could include a number of metrics such as workforce turnover, skills and development training, compensation, benefits, and demographics. So more to come in the interaction of the government and the private sector on this important topic.

The other thing that we're seeing, and many of you may be involved in this, is not just the activist investment in the sense of talking to directors or managers, but in the space of ESG, we're obviously seeing that more and more of these managers and owners of assets are leveraging their pools of capital to directly improve outcomes by adopting a more assertive stance on the use of an ESG approach to investing. That's sort of the second trend that we see in this space.

And this notion that ESG is sometimes called sustainable investing, it's an investment discipline that considers environmental, social, and governance factors to generate long-term competitive returns. And it's important to note that those who are now engaged in this type of investing are saying there's no tradeoff between good ESG performance and good financial performance. And that's really quite a sea change in the way asset managers and asset owners have been thinking about these topics.

So, to give you a sense of how large this is, this new trend, according to a *Report on U.S. Sustainable and Impact Investing Trends* from the SIF Foundation back in 2019, at year-end 2019, roughly one in every three dollars under professional management in the U.S. – about $17 trillion – was managed in an ESG strategy. So this is not just a fad. This is an entire new asset class. Because that number that I just gave you, $17 trillion, is roughly a 42% increase over the $12 trillion identified just two years earlier in 2017, and obviously has continued to grow quite dramatically. In fact, the latest statistics show

that there are roughly 836 mutual funds, variable annuities, closed-end funds and ETFs with ESG assets and 905 private equity, venture capital, hedge funds, etc. as I'm sure that many folks in this room and in The Economic Club of New York understand how really competitive this space of ESG investing has become.

And then the third trend that I want to talk about in terms of how capitalists are trying to make capitalism better is something relatively new in scale, which is actually using markets themselves to overcome some of the imperfections, or at least to mitigate some of the imperfections that we've talked about. And let me bring just two of them to your attention. Obviously one of the major challenges that capitalism is forced to reckon with and I think is thought to have failed to recognize thus far is climate change. But there have been a couple of market developments that I think suggest that capitalists are at least aware of these challenges and are attempting to mitigate them.

One is an area, not very well known, but I'm sure there are a few in The Economic Club of New York who have been involved with catastrophe bonds or Cat bonds as they're called. They're one of the oldest of these instruments. They were started in the mid-1990s. And they basically want to use markets and insurance companies in particular to create private pools of capitalism and capital to mitigate the effects of climate change, things such as hurricanes and earthquakes, etc. That is still a relatively small market, about $30 billion of debt outstanding, but it is an example of capitalism trying to create

mitigation tools and use the power of capitalism to fix some of these externalities.

More recently, there's another market that's starting to emerge, and it's one that really is focused in on the market for carbon offsets. So the theory of the case is companies that have to burn and use a lot of carbon in their activities, hopefully they'll start to reduce the carbon footprint that they have, but they'll be an irreducible minimum and then they might buy carbon offsets. So this market has been around for about two decades, but it's struggled to grow due to a lack of standardization and due to a lack of oversight. And I would say confidence in the market there has been negatively impacted by concerns about things such as "greenwashing" that some of you may be familiar with. But progress even there is on the horizon through efforts of newly established organizations.

And there are a couple of them, one of them is called the Integrity Council for the Voluntary Carbon Market, the ICVCM. And the other one is the Voluntary Carbon Market Integrity Initiative, the VCMI. The first one of those, the ICVCM, addresses integrity issues in the supply of carbon credits and how they trade, while the second one addresses how they can be used. So these markets, we think, have a potential to increase 100-fold by the year 2050 and have a meaningful impact on accelerating our transition to net zero.

I've talked a little bit about the challenge and the future of capitalism and some of the efforts that capitalists themselves are undertaking to fix these problems. I cannot stand here today and say that I'm sure that all of this will resolve itself in a way that helps to answer some of the general questions about capitalism. But I would say, as a voice of optimism, if one thinks about economic history, we point out that this is not the first time that capitalism has been under threat. And we've seen in the past, with the help of government intervention in the form of new rules, new regulations, even new markets, that capitalism can, in fact, right itself. And here I'm thinking primarily of the Progressive Era in our own history that featured rules on things such as work conditions and child labor and working hours. All of that helped to create and extend the life of capitalism.

So I'm optimistic that capitalism will continue to be the way we organize ourselves for many generations to come. But regardless of my optimism about that, I am 100% certain that The Economic Club of New York will be one of the places where we look to find the future of capitalism. And for that reason, I'm really honored to take and be recognized with the Peter G. Peterson Leadership Excellence Award. So thank you very, very much. (Applause)

CHAIR JOHN C. WILLIAMS: I hope my mike is on...yes, it is. Thank you very much for your remarks. They were very thought-provoking and covered a wide range of issues. And I thought, we'll spend a few minutes with some questions. I can moderate the

discussion here. Please, towards the end of the hour we're going to open it up to the room, and hopefully you can ask a couple of questions before we finish at 8:00 and then everyone gets to eat.

ROGER W. FERGUSON, JR.: So we're standing in the way of their...

CHAIR JOHN C. WILLIAMS: I think that's exactly right. But, you know, I want to start right where you ended. And you highlighted a number of challenges, you added to the list of challenges, and then you added a few more to the list of challenges. But you did end on a positive note, and that was that the American people look to business leaders for solutions and the way forward through these difficult times. And obviously you emphasized that The Economic Club of New York needs to play that role. So you were Chair of the Club, you know, eight to ten years ago, what do you think the Club should be focused on now? What are the issues that the Club really should be helping, kind of on this front?

ROGER W. FERGUSON, JR.: Well, I'll pick up exactly where I left off, which is the Club has for a long time, in many ways, celebrated the success of capitalism, I think appropriately. We've talked here about a number of issues having to do with central banking and other things. But I think one of the great things that's happened is that the Club has now become much more diverse in terms of the topics covered, the kinds of

people who get to speak at this podium.

And so I would say, you know, instead of themes around just this topic, what's the future of capitalism? And importantly, what's the role that, say New York, but the markets, can play in that. And recognize the diversity of New York with obviously financial services, but healthcare, higher education, technology, entertainment, media, all these things that have a home in New York. And so this notion of New York being, as it always has been and will continue to be, sort of a beacon of the future and a place where we create this future, and much of that will take place in rooms like this.

CHAIR JOHN C. WILLIAMS: That's terrific. I couldn't agree more. We've talked about your career, and you've had a number of important roles. And so the question that I think a lot of people have when they hear about this is, like talk a little bit more about how you got started. How did you get on your career path? And maybe, here's a question for you, so if you could go back in time and talk to the young Roger Ferguson, give him some career advice, what would it be? And we've got a bunch of our fellows here, The Economic Club of New York fellows. I'm sure they're going to want to hear this.

ROGER W. FERGUSON, JR.: So, let me tell you a little bit about my career. I was very, very fortunate in that...is my mike on, can all of you hear me?...So I was very fortunate

that I grew up in a household that I thought was normal, but I now discover was little unusual, which was my father was very interested in financial markets. He was a child of the Depression. Unlike some people – the Depression affected everybody in some fundamental way – the way it affected him is he became fascinated with banks and interest rates and how these big things had failed and suddenly, you know, 25% unemployment rate.

My mother, equally influential in my life, was a big believer in education and always said education is the one thing they can't take away from you. So I grew up in this household where we talked about interest rates the way some people talk about box scores and the results of sporting events. I know very little about sports. I know a lot about interest rates.

CHAIR JOHN C. WILLIAMS: It seems like a normal household.

ROGER W. FERGUSON, JR.: It's a normal household. And so that's the story of my life. And, you know, that's how I got very engaged in this and I suddenly realized there's this thing called economics that allowed me to study all these topics. And that's been my core passion since I was very, very young.

The advice to the young Ferguson, you know, it's a little hard looking back. What I've

realized now is the thing I set out to do was really very aspirational and no one else had done it. I got a law degree and a PhD. I didn't know anyone who had ever actually done that. And I guess the message there, in a more positive sense, is feel free to take reasonable risks with your career at a young age. And, you know, the cliches about follow your passions and if you do what you love, you'll never work a day in your life, you know, that's – in my case – proven to be true.

CHAIR JOHN C. WILLIAMS: Okay, so we talked a lot, you talked a lot in your remarks about the important role that leaders, business leaders, leaders in the public sector play in shaping our economy and our country. So what do you view as the greatest opportunities and challenges for CEOs and leaders today? And on a more personal note, given your experience as a CEO and as a leader throughout your career, what challenges, what leadership, kind of aspects of leadership have you found most challenging? How have you kind of overcome that?

ROGER W. FERGUSON, JR.: So my theory of leadership is you can't be a leader if no one wants to follow you. If you look over your shoulder and no one is back there, you're sort of...it's a little awkward, as my 30-year-old son would say. And so my theory of leadership is you have to have four traits, and they get progressively harder in some ways.

So, one is expertise, right? You don't get to a place where you can even be thought of as being a leader if you don't have a certain amount of expertise. Expertise can be technical. It can be cultural, institutional, whatever. So you've got that one. Obviously the general sense of where you want to go. Well, that's pretty obvious. The other two I find less obvious. Well, one, is obvious but difficult, one less obvious. So the one that's obvious but difficult is fortitude. So you talked a bit about my leadership during 9/11 and said nice things about it. But you can only imagine how challenging it is during the course of a crisis to be sort of the voice of stability. And so this notion of fortitude is really important.

And I had the same situation a bit when I took over at TIAA, then known as TIAA-CREF in 2008, and suddenly responsible for the retirement of 5 million Americans and we had a staff of roughly 13,000 colleagues at that point, if that's right. And so, you know, projecting calm during turbulent times is pretty tricky. And then the one that's really hardest, though the most important, is empathy. People never think about it as something that a leader has to have, but you can't get people to follow you if you treat them disrespectfully as though they're cogs in your machine. And I think a lot of leaders have trouble figuring out how to be appropriately direct but also being empathetic.

CHAIR JOHN C. WILLIAMS: And when we talk to employees, what they look for in a leader, they look to people being what we call EQ and also a leader who inspires in that

way. Okay, I know we're low on time and I want to give people the time to ask questions. So, you brought up the importance of New York City in this whole thought leadership and figuring all of this out, but a lot of people here are wondering what's the future of New York City itself? You know, people have moved away. We've had the pandemic. Some people think the city has lost something. Well, your reaction is pretty strong already.

ROGER W. FERGUSON, JR.: Yes, my reaction is pretty strong, which is, look, great cities, I think have been an important part of the history of individuals going back millennia obviously. And there are lots of economic theories as to why that's the case, but the reality is individuals like to gather with like-minded people. There are all these things that you know called network effects. Different economists have come up with all these great theories. And New York is without a doubt one of the great global cities. It will change in ways that are unpredictable.

We may not, all these great buildings may not have the same purpose going forward that they did in the past. But I believe that, you know, we have, human beings have a strong need to be in groups of people who are both like themselves, different from themselves. This is a phenomenal magnet. It will always be such. And so I think New York will certainly change and evolve but I see no reason why it's going to go into decline. Anyone who has been around New York as long as I have has seen these

cycles of ups and downs.

You know, the smartest move one could have made in New York was to buy a Park Avenue apartment in the 1970s when people thought it was practically over for the city and they were proven clearly wrong. So I don't believe any great agglomeration of the financial talent, the intellectual talent, the energy, the young people, the immigrants, all these things that bring New York together is going to do anything other than figure out how to thrive through whatever the next cycle is going to be.

CHAIR JOHN C. WILLIAMS: I agree 100% with that and for all those reasons. So let's, we've got a couple of minutes here before we finish up so we'll take the first question. We'll bring a microphone. I have the light right in my eyes so if you're over there, you're going to have to shout or something. Go ahead.

QUESTION: Hi, I'm Nili Gilbert, the Vice Chairwoman of Carbon Direct. So, many congratulations to you, Roger, and also to Stan, this evening. My question for you is back to your thesis on the six global capitalisms as it intersects with behavioral economics. Especially at this time where we're working to manage inflation expectations around the world, not just the data but the expectations about the data, it feels like behavioral economics and therefore cultural differences across the global capitalisms starts to matter more. I wonder how you think about, thinking back to your time as a

policymaker, how policymaking intersects perhaps differently across the global capitalisms especially at a time like this? Thank you.

ROGER W. FERGUSON, JR.: It's a tough question, Nili. And knowing you, I guess I should have expected that when you grabbed the mike, it was going to be one of those hardball questions. So, look, I think, two or three things. Obviously, different, of the six capitalisms I talked about, the regions I talked about, very different economic challenges clearly. And importantly, that calls for different tools.

So when I think about what the Europeans are dealing with, they are dealing with inflation for sure. They are dealing with the risk of a slowdown that comes from a supply shortage in a way that's hard for us to imagine, if you think about giving up Russian gas in Germany or Italy, etc. But they're also challenging, dealing with the challenge of an incomplete economic union, right? So one of the things that they're doing that we don't have to deal with here is, you know, differential interest rates across the various bonds in their different jurisdictions. And they worry a great deal about that. You know, China, a different view of the world obviously in terms of how it affects in a way that's not true in other places because of the approaches they're taking. So the first thing you recognize is while there may be six capitalisms, and I think there are, they all start at this challenge from a slightly different place in terms of the way it works or the challenges they're dealing with.

Secondly, I think one thing that is very important is this great tool called communication and expectation management. And so, though they are dealing with different challenges, you know, it's quite clear that the Fed has a point of view and has been quite clear about an intention to be quite single-minded about focusing on inflation. I don't quite know how things are being communicated in other places other than Europe, but they're being very clear about what they're going to do. And so I think this notion of communication being this pretty standard tool is something that, while they start at different places, they share in common.

And I think the final thing is this is, in each one of these jurisdictions, and I think even Russia, incredibly complex because central banks can only deal with the demand side of things as you know. We've got two of three forces that are driving what's going on now being very supply-oriented. Russia is a bit of an exception there. And so I think the ultimate challenge here is a relatively small number of pretty blunt tools up against a set of internal and external factors that often not in the control of central bankers or policymakers anywhere. And so it's a complex, I think a very complex story. And I think that sort of explains the dramatic shift in the World Bank outlook and explains a bit of the challenge that is ahead for all of our friends and colleagues in that space.

CHAIR JOHN C. WILLIAMS: So I have, we only have time for one more question. Okay, we have one there. While we are giving you the mike...okay, go ahead.

QUESTION: First of all, congratulations, and just very humbly, thank you for setting a good example even just as a good person. (Applause)

ROGER W. FERGUSON, JR.: Thank you. It's sort of, thank you, it's sort of a sad comment that being a good person has to get applause these days...(Laughter), but that's where we are.

QUESTION: No, but you're a gentleman. It's a lost art. So let's say, for example, you know, Churchill saying capitalism is the worst form of government, except for all others. And then Lenin, you know, decades go by where nothing happens and then within weeks, decades happen. And let's say we end up somewhere in the middle which nobody knows, it's not binary. Your presentation was super-detailed, clearly as expected. And actually John may not remember this, but I asked him this question before Covid, what solutions would you have? And one of the things that you mentioned was actually education.

My question is what are your suggestions? So, for example, you have huge amounts of experience but, you know, let's say, as a policymaker working at the Fed, philanthropy as a business CEO, are there any short-term to medium-term solutions that you think can help solve this problem, because a lot of people do feel left out? So that we don't get to, you know, a bad place. And that was kind of my question.

ROGER W. FERGUSON, JR.: It's a great question. First, I'm always a believer in education. That's not the answer to your question. I think this just as a general matter.

AUDIENCE MEMBER: I didn't mean to put education down. I was just hoping to get more answers as well. I'm just curious.

ROGER W. FERGUSON, JR.: I understand. So a couple of points I've made. One, I think, empathy. I think a lot of people who are left behind are feeling as though the rest of us have ignored them and don't understand that they actually have been left behind. I do this presentation for my college class. I graduated from college in 1973. And that was one, that's when this income inequality just first started to show up. So I tell my college classmates, it's really your fault that we have this problem. But I think a recognition that you have 50 years of something that's been corrosive and apparently we sort of didn't recognize that in these policy circles.

I think the second thing you have to do is be a little humble about what doesn't work. So, we, in economics, have a strong point of view that I happen to believe that free trade is probably far better than mercantilism. We have to add to that the fact that it may be true generally doesn't mean it's true for every person. And so recognizing when the theory and the experience of economics are quite different is again, I think, really important. So both of those are basically to start with the recognition that there really is

a problem.

The final point I'd make is we're going to have to figure out appropriately the role of government in resolving all of this. So I briefly mentioned, you know, one of my great heroes is Teddy Roosevelt. He came in with progressivism, created brand-new thoughts about what government should be. And I think we have to recognize there's a really legitimate role for government to play here. And, you know, getting that balance right, because I don't want to leave out those who want a smaller government versus a larger government. But let's start with the fact that government has a legitimate role to play and then figuring out what that might look like.

And so, you know, I think all of those things are important. I think learning, you know, from what hasn't worked so well. And why is it that some of the old programs didn't work is important. And the last thing I'd say is, because I'm a big believer in capitalism, I actually think some of these new initiatives around markets and making markets more efficient, having greater integrity, all of that is going to be really quite important. So none of those are specific and no one is going to fix a 50-year-old problem in the next 50 weeks or 50 months. But we've got to fix it before the next 50 years for sure.

But I think it just starts by saying, we've got a real problem here, and being honest about that. People at least want to hear that leaders, folks like the folks in this, the

people in this room, you know, recognize that there are challenges out there and we, one of the downsides in New York is we may be too optimistic about how things emerge because New Yorkers tend to control themselves, their destinies, and drive things forward. We have to listen to the rest of the country and understand how it feels if you're not in such a great metropolis and be really honest about that. I don't know if that's helpful but it starts with a little bit of empathy and little bit of modesty and hopefully an awful lot of great analysis.

CHAIR JOHN C. WILLIAMS: Well, thank you so much, Roger, for sharing your perspectives with us today, this evening. This has been absolutely terrific. You know, I got a lot of cool things that come with my job. One of them, literally, is tonight, to be able to recognize both you and Stan and see you get this very important award from the Club. So this has been a really great conversation. I wish, obviously you and Stan, the very best.

And, of course, we're going to get fed as soon as we sit down. But I do, Barbara makes me, as the Chair of the Club, and you remember this when you were the Chair of the Club, we've got to look out for our finances here. So, in the last two minutes of this, I'm not going to send around a plate for money, but am I going to mention that, you know, we do have a lot of really good events coming up and so I'm going to do this quickly.

On July 13th, we've got Glenn Hubbard and Larry Summers talking about the economy. Inflation might come up there. We have Sara Armbruster, President and CEO of Steelcase on July 21st discussing remote working, a very important issue for all of us. Then looking ahead to the fall, we've got David Benson, President and Interim CEO of Fannie Mae on September 12th. We have David Malpass, the 13th President of the World Bank, coming in on September 19th for a Signature Luncheon Hybrid Event. And we have another event with the Honorable Joe Manchin, Senator from West Virginia, coming in October 13th. And we had to reschedule but looking forward to Club Trustee, Arvind Krishna, Chair and CEO from IBM, in the future.

So, of course, I want to thank everyone for attending today, but also our 347 members of the Centennial Society. Of course, their contributions continue to be the financial backbone of support for the Club enabling us to have this wonderful and diverse programming both today and through the rest of the year. Again, thanks to everybody for attending this event. Thank you again, Roger. This has been terrific. And now I think we can proceed to our dinner. (Applause)