The Economic Club of New York

113th Year
567th Meeting

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

and

R. Glenn Hubbard
Dean Emeritus
Russell L. Carson Professor of Finance
and Economics
Columbia Business School

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Webinar

Introduction

Vice Chairman Michael O'Neill

Good afternoon and welcome to the 567th meeting of The Economic Club of New York in our 113th year. I'm Mike O'Neill, Vice Chair of the Club. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. This mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation. We proudly stand with all communities seeking inclusion and mutual understanding.

I'd like to take a moment to recognize those of our 312 members of the Centennial Society attending today as their contributions continue to be the financial backbone of support for the Club. A special welcome to members of The Economic Club of New York 2020 Class of Fellows, a select group of rising business thought leaders. Please note that applications for the 2021 Class are now open. Any member interested in nominating a fellow can visit our website for more details. We'd also like to welcome graduate students from Columbia Business School, Gabelli School of Business at Fordham University and the Graduate Center at City University of New York.

Today we're honored to welcome back two of America's leading economists and both Economic Club of New York members – Lawrence H. Summers and R. Glenn Hubbard.

Our members and guests have thoroughly enjoyed their previous engagements with us this past year and more of their time continues to be highly requested. Let me briefly introduce them.

Larry Summers is President Emeritus at Harvard University. He has served in a series of senior policy positions in Washington, D.C. including the 71st Secretary of the Treasury for President Clinton, Director of the National Economic Council for President Obama, and Vice President of Development Economics and Chief Economist of the World Bank. He is currently the Charles W. Eliot University Professor at Harvard University and the Weil Director of the Mossavar-Rahmani Center for Business & Government at Harvard's Kennedy School.

Glenn Hubbard is the Russell L. Carson Professor of Finance and Economics at Columbia University and previously served as the Dean of Columbia University Graduate School of Business from 2004 to 2019. He was also Chairman of the U.S. Council of Economic Advisors from 2001 until 2003 and Chair of The Economic Club of New York from 2007 to 2010. Currently, he's on the boards of ADP, BlackRock Fixed Income Funds, and MetLife, where he is the chair.

The format today will be a conversation and will end promptly at 3:15. Any questions that were sent to the Club from members in advance were shared with both speakers. As a reminder, this conversation is on the record as we do have media on the line.

Gentlemen, if you are ready, I'm happy to pass the baton to you to discuss the implications of our as-yet not finally decided elections. As I said to you earlier, we may have to test your improvisational skills here if we learn anything during the course of the next 45 minutes.

Conversation between Lawrence H. Summers and R. Glenn Hubbard

R. GLENN HUBBARD: Great. Thanks Mike. And do keep us posted if something does waft in. Larry, I know you and I were both teaching today. The topic of today's conversation is very much on students' minds. You know elections are a lot and a little in terms of the economy. The election results – so far as we can interpret them – that we've now received, do they shift your outlook in any way? How does it change your outlook for the economy or in terms of output and employment over the next year or so? Any big change?

LAWRENCE H. SUMMERS: Glenn, I've – as you know and the group knows if they've heard our conversations before – have believed in the secular stagnation hypothesis, broadly the idea that private saving is naturally far greater than private investment and that there's a major savings absorption problem that's going to define macroeconomic policy going forward. That that's the reason why interest rates are so low now and projected by markets in the future, that that situation has been exacerbated by the uncertainties, repression of consumption associated with Covid. That theory points towards the desirability of very substantial fiscal expansion of aggregate demand. That can come through higher budget deficits, but it can also come through increases in taxation matched by increases in spending or effective subsidies to promote public investment or the implementation of greater social insurance programs.

From that perspective, the major two things as to what government can do to bring things under control or to help the situation are whatever is done on the Covid side. I'll leave that to the epidemiologists. I don't think I think anything very different about that than I did a few days ago, though I think it may well be that a Biden presidency will be less denying of the problem and therefore more successful in promoting mask wearing and spreading testing and bringing down the rate of spread.

And the other thing it depends on is the ability to mobilize that fiscal expansion. And certainly relative to outcomes that I might have hoped for, I think it's going to be more difficult in the political environment that I see ahead to generate as much fiscal expansion. I don't know that it's going to be as fully appreciated in Washington as it should be that our major problems now involve the absorption of saving and that if we think in conventional ways where we focus on reducing the size of the government budget deficit and we don't focus on other measures to promote demand, we may have an even greater sluggish recovery problem than we had after the crisis. But Glenn, what would your view be on what's different or how you might have modified a forecast relative to three days ago?

R. GLENN HUBBARD: Well, I broadly agree with what you say, Larry. I don't think there's much reason to think that we're in a fundamentally different economic track. I do think there's still some likelihood of reasonable fiscal stimulus. I think it's necessary. In fact, stimulus isn't even the word I should use – a fiscal support package. And I think even starting at the level that Majority Leader McConnell mentioned is at least a good start. I would say that if we could center on aid to states, continuing to shore up unemployment insurance and thinking hard about some new kind of program for businesses, that to me would be an excellent package.

I don't see why, given the considerations of a new Congress and a new president, one couldn't think hard about an infrastructure program as well, whether that's physical infrastructure or a technology broadband infrastructure. But I think politically that's going to be, that's going to be more difficult.

So I think that I'm not pessimistic about a package but I think it's going to be more modestly sized than maybe people had hoped in a "Blue Wave" kind of scenario. And something you said caught my attention which is about ways to use fiscal expansion and you talked about matched tax increases and spending. Why raise taxes at all right now either for recovery interests or just in the interest of doing a greater short-run fiscal expansion? Why raise taxes?

LAWRENCE H. SUMMERS: I don't think we're in, I think we're in very substantial agreement in the short run and I think we're probably in a little bit more disagreement in the medium and long run. I think in the short run all the risks are on the side of too little fiscal stimulus and too late fiscal stimulus, and there's some tension between those two objectives. If people hold out for all the fiscal stimulus they want, it may come way too late. If people are in too much of a hurry to make some deal, it may be an insufficient deal. And that's the balance that has to be struck.

I think the elements that you identified in terms of support for state and local government is just right. I think the element that you identified in terms of more support for people who are unemployed is just right. I think it can be designed better than the previous round of that was designed. I think I'm a little less enthusiastic about business relief than you are. I think we need to be very careful about indiscriminate bailing out. I think, for example, that if airlines are going to get financial assistance, which quite possibly they need, that should come with very substantial warrants and opportunity for the government to share in upsides and I think that should be a more general principle than it has been so far in business assistance.

I agree with you on infrastructure. Frankly, I think that some of the Democratic priorities in terms of devoting more resources to it, in terms of moving beyond traditional infrastructure categories like highway to take more emphasis on green infrastructure issues are appropriate. I think some of the Republican concerns about making sure there's private sector involvement, making sure that there's efficient procurement and that there aren't things that get in the way of efficient procurement, making sure that there's not unreasonable delays, that we meet environmental requirements but we meet them expeditiously, I actually think both sets of priorities are right and that that is an area for potentially very large bipartisan accomplishment.

Where I suspect you and I may have some difference in view, but perhaps not, is I think as you look to the medium term, you look to a period when we've had a vaccine and we put Covid behind us, people have run down the excess savings they've accumulated, I think we're looking at an economy that is going to be problematic in terms of growth with normal budgets and with even interest rates near zero. And I think those interest rates near zero are going to be an ongoing challenge to financial stability because they're going to blow up asset prices to potential bubble levels and they're going to promote levels of leverage that are asking for problems down the road.

And so I think the question that we are going to have is how are we going to give the economy sufficient impetus with healthy financial conditions. And that's going to come back in some way to structural policies that encourage business investment, but it's also going to come back to fiscal policy. And, of course, if the government spends and just increases the deficit, then potentially you're going to run into questions of just how much debt you can accumulate. If the government taxes and spends, you're getting on net a fiscal impulse and you're not running into an unsustainable dimension.

And here's another place where we may have somewhat different views. I think there's a lot that we need to do. I think there are very, very large needs in the infrastructure area. I look at the states, states and localities on a longer-term basis. I look at the fact that still even after Obamacare, there are tens of millions of people without healthcare. I look at the economic insecurity that's increasingly associated with old age and I think will become much more serious when returns start to be low as goes with the zero-interest rate environment. And I see very productive areas for public investment and I recognize that we can't finance 100% of that indefinitely by borrowing. I also see some things in the tax reform area that I think are just good to do apart from a need to raise revenue. I've written a lot about the tax gap. There's $6 trillion that are owed but not paid projected over the next ten years. And I can't believe we can't capture 15% of that which would be a, would be a trillion dollars.

Where would you be on this question of where do you think we'll be two, three years from now, assume that we've somehow got Covid mostly in the rearview mirror? Do you think the neutral rate will be extremely low? Do you think it's okay for the financial economy to run it with a very, very low neutral rate? How do you see all of that?

R. GLENN HUBBARD: Well, I do think the neutral rate will be lower than people thought about in decades past. I don't think, however, it needs to be rock bottom. I may be a little more optimistic about growth prospects for the country, you know, somewhere, say in the mid-2s as a possibility given an outlook for productivity growth. So, to my mind, that's inconsistent with a zero-interest rate going forward.

I do think there are financial stability challenges, which is why I come back to fiscal policy. And I would see it really in three steps. I think you've highlighted some of these. One is a large fiscal package in the near term, both for Covid and for some of the one-and-done kind of opportunities like infrastructure. I agree with you that if you want to start new things you need to pay for them. And so that is, you called it tax and spend. Those are words that always send shivers up my spine, but I understand what you're talking about.

But I think we're going to have to pretty quickly get to reform because you can't start new programs and pay for them by raising taxes on the rich. I'm not making that as a political observation. It's just there's not enough money there. So if we're going to have a serious expansion of the state, we would have to raise taxes more broadly, like a consumption tax or something like that. And I don't really sense the political will for that Stage Three. I mean I sense the upfront package, maybe some incremental tax and spend which could be on the corporate rate or taxes on higher income people, but in the long term to have a bigger government, as you know, the math says you need a consumption tax or some kind of broad-based tax. And I'm not sure we're there politically although I think it's a good discussion to have. What do you think?

LAWRENCE H. SUMMERS: I don't think...Joe Biden has said quite emphatically that it's not his intention to raise taxes on anybody making less than $400,000. I don't think that's a place that the political debate is going to go anytime soon. I would agree with you on that. I think I'm probably a little bit more optimistic about the revenue potential from what I would think of as a modest reform package, raising the corporate rate. Not anywhere near the 35 it was but raising the corporate rate from 21 to the mid-high 20s, going after various, what I think are fairly abusive situations where companies earn and report substantial profits year after year and somehow are enabled to not pay any taxes in any year.

I think there's quite a bit of shelter activity that is supported by low capital gains rates and particularly things like like-kind exchanges and carried interest. So, you know, there are big sums of money and small sums of money. I don't see why there isn't $2 trillion over ten years that is raiseable or perhaps $2 to $3 trillion a year from a combination of the tax compliance that I mentioned and a basically anti-abuse and shelter package that isn't breaking any previous norms among high-income tax payers And I think there's a lot you can do that is productive and very important for the society with that. I think that if we learned anything from the election, there is not a mandate to turn the United States into a version of Western Europe. And I don't think that should be or frankly is very likely to be the way in which things move. So I think that's basically the path that I would emphasize.

I think that nobody knows and people did not get the last set of movements and might well not get this set of movements, but potential growth at 2 ½ and a neutral real interest rate well above zero seems to me, real interest rate well above zero seems to me to be something to hope for, not to expect. And what markets now have is an expectation of very, very substantial debts and they still are projecting really quite low interest rates even without making a further subtraction for what's traditionally in rates, which is term premiums.

So I think I have much more of a sense, I mean let me put it to you this way, I think there's an interpretation of the financial crisis that should get more attention than it does, which is, and it goes back to these ideas around savings absorption. Through the decade of the 2000s, even with the rather substantial fiscal expansion associated with the Bush tax cuts, the Iraq war and the prescription drug benefit, it was necessary to push interest rates to extremely low levels to maintain the forward motion of the economy – it's not that we had spectacularly low unemployment or spectacularly rapid growth.

We had to push interest rates to very low levels and at those very low levels, we set off a whole range of financial behaviors that contributed to the financial crisis. Yes, we have better regulation now, but I worry about trying to operate in an environment of very, very low interest rates for the long term in terms of what that will mean for financial stability. So I tend to put more emphasis on public investment solutions. Somebody else might want to put more emphasis on the promotion of private investment.

Let me change the subject a bit and get your view on something I've wondered about. Everybody was worried that the election wouldn't be resolved on Election Day and that we might get a lot of stock market volatility. Things came along and the election wasn't resolved on Election Day and the VIX collapsed. We got an outcome that people weren't labeling as a great outcome and yet the stock market has risen very substantially. Usually when you have risk on, interest rates rise. Longer term interest rates have fallen quite substantially. I have some ideas of my own, but what's your interpretation, Glenn, of what's happened in markets?

R. GLENN HUBBARD: Well, I think markets have been processing the election for some time as one might expect. And there had been a view of a so-called Blue Wave as meaning massive fiscal expansion. I always felt markets were, in that event, putting too little weight on large tax increases on capital. So I thought maybe they were a little over their skis in love for a Blue Wave. If what has happened is a revision of probabilities that it would be hard to enact major fiscal initiatives of one form or another, hard to depart too much from the status quo, that may be market-positive. It maybe not be good for the economy. The markets have looked at basically a discounted cash flow for the country and said, look, we have this bad period, we don't think the future is impaired, I think they would share your view that interest rates will be low, discount factors are low, risk spreads are low. And, of course, the stock market itself isn't the American economy. It's dominated by large firms in some sectors which have market power as well. So I don't think the stock market is crazy in its response to the election, but I'm not sure I infer from that much about the real economy.

LAWRENCE H. SUMMERS: I think that's broadly right and I probably put a fair amount of emphasis on the lower interest rates in explaining the movement in the stock market and in particular explaining why the big tech companies, which in some sense are longer duration assets than most of the stock market, have behaved in such a disproportionate way.

R. GLENN HUBBARD: Can I ask you about trade, Larry, because it's something that obviously came up a lot in the election? And on the one hand, you'd be tempted to say, well, in a certain sense President Trump won. Neither party has been exactly chomping at the bit for free trade. But I think I would count myself a little more optimistic than that. It should be possible for the U.S. to improve its engagement with China with allies, not to go back to sort of a neo-liberal free trade nirvana, but to have a more constructive relationship and discussion. Do you think I'm wrong in that optimism?

LAWRENCE H. SUMMERS: I think it's easy to stand for the proposition that the United States should work more closely with allies to engage with China. And that as part of it, it should manifest less ongoing truculence towards its regular allies, towards the Canadians, towards the Europeans. And that as a consequence we will be able to approach China more effectively because, more collectively, I believe that very much. I think that only takes you so far.

Also, I think you have to ask the question, approach China with what objective? If the objective is to approach China to cause it to be less competitive in producing high technology goods or less productive and less successful in generating the next version of TikTok or whatever social media, good luck to us. I don't think they're going to stand down so we can continue to win. If the objective is to somewhat increase the performance of multi-national corporations that fly under the flag of the United States and China, I think we can probably generate some modest improvements, but I don't think it will show up in the U.S. GDP or employment statistics in any particular way.

If the objective is to assure a continuing major American presence in the Pacific, I think we need to think very carefully about how we use our capital and to remember that we have relatively scarce influence capital and to use it on the matters that are most important to us as a nation. I think in general there's an American tendency to confuse a strategy with a wish list. And some substantial part of what I read about how we should think about China going forward consists of an articulation of the author's wish list and I share most of the wish lists. But it seems to me that a strategy has to be about what they'll concede, it has to be about what you'll concede, and it also has to be about what leverage you have. And I find us sometimes with a tendency to never lose the first point.

R. GLENN HUBBARD: But what about TPP in that context? The original motivation for TPP was much less about big economic gains for us, but much more about an economic ledge in the region. I realize TPP itself sounds unpopular. Call it PPT if you want, but something to revive that spirit.

LAWRENCE H. SUMMERS: I'd be surprised. I think there's not going to be a lot of political capital and using that political capital on an internationalist project like TPP would seem to me to be a very consequential decision. I'm not sure that the economic benefit to us from TPP is quite as large as was sometimes supposed. And I would imagine that any potential TPP partners would be rather wary given how far we took them last time and then in a sense left them at the altar when we weren't able to get it through Congress and the ability to rely on Washington coming together and get things done.

I mean you tell me, Glenn, the traditional coalition that passes trade agreements has probably been, in the Congress 75% Republican, 25% Democrat if that, even when there's been a Democratic Congress. Is that kind of coalition available from Donald Trump's Republican Party going forward in the foreseeable future? The question would be if you name a number for what fraction of a vote could plausibly be Republican and I name a number for what fraction of the vote could plausibly be Democrat, and we add the two numbers up, are we going to get to a number as high as 100? I wonder.

R. GLENN HUBBARD: I wonder if we're going to get to a number as high as 50. So I mean there's a flip side of that that's kept me up since the election which is lessons about Trumpism. I worry that the lesson Republicans would draw from this election is whether or not President Trump is successful in victory, Trumpism should be the theme of the party. If he lost it will be by very narrow margins in a handful of states and did better than people think. You can never depart from that. To me, that's a mistake. I think it misses an opportunity to help the very people who were part of the populous wind in the sail.

The flip side of that coin is I fear Democrats draw a different and also wrong lesson that, well, Trumpism is yesterday and so we'll just go back to pursuing an agenda we wanted to pursue. I think that too doesn't get at the real pain. I say this to you, going back to the trade discussion, that traditionally as economists we've had what I would like to think of as an outside-in discussion of trade and the economy. We want to agree to a lot of wonderful trade rules and agreements and then we'll go inside and sell it as opposed to an inside-out view that says let's make sure we can bring more people along and then we'll think about those outside arrangements. So I worry both sides have missed the lesson of the election, one, by saying it's just Trumpism, screw the agreements. Another says, well, Trumpism, that's gone and so we'll do what we want. What do you think?

LAWRENCE H. SUMMERS: I think there's something to that. I think it's important to distinguish between what the political lesson is and what one's preferred policy is. And I think you and I would disagree on many things. That's why you served for Republican officials and I served for Democratic officials. But we would also support the policies of a broad center. And I continue to believe that those policies will, in very general terms, be the policies that will best serve the vast majority of the American people. Obviously, from my perspective we need much more Keynesian policies than I would have judged ten years ago. We need to devote much more attention to issues of fairness than we did ten years ago. But nothing I've seen has led me to be more enthusiastic about the policies on either extreme of either political party. So I would agree with you there, Glenn.

But at the same time, I'm not sure that there's a mandate in these election results for the traditional bipartisan centrist Simpson-Bowles and whatever its international version is. There may be some continuing rightness in aspects of that but it may be a little difficult to read a mandate for that stuff into this election result.

R. GLENN HUBBARD: I agree with that, which is why, rather than thinking about Simpson-Bowles, what if one thought of policies aimed at the sources of populous discontent in the country? So I'm thinking of support for training, support for expansion of the earned income tax credit, or even direct subsidies for labor demand – as you've written recently – on place-based aid in some occasions to some communities. Isn't there an opportunity for the two sides, for different reasons, to see that as a wedge?

LAWRENCE H. SUMMERS: Look, I hope that we will recognize that the principle barrier to global integration is local disintegration. And that whether it is opioids or whether it is place-based economic policies or whether it is support for re-training, or whether it is more sophisticated and more generous policies of adjustment assistance, I think it's the right program to move the country forward. I am all for it. Will we find a basis for bipartisan cooperation on it? I sure hope so. I think it is the right thing to do.

And I guess to come back to where we were, I would not recommend – I may see things or hear things before long that cause me to change my mind – but on the basis of what I know now – I would not recommend the United States moving forward on some major new global trade agreement of any kind until I felt confident that we were locking in progress on the agenda of combating local disintegration that you and I talked about.

You know in my course on globalization, Glenn, we talk about the history. We talk a fair amount about history and we highlight, of course, as a great success, the post-World War II period with the Marshall Plan and the formation of the Bretton Woods institution and so forth. And what I've become convinced of is that an important part of the political strategy that enabled Americans to rally behind that was the GI Bill, was the Treaty of Detroit, was the building out of the suburbs. And so it seems to me that a strategy of generous support for socially ensuring and investing in the middle class is essential.

But I think the question that I would put to you is that at a moment when healthcare costs go up faster than the GDP, at a moment when a lot of it has already happened, but there's more aging to come, at a moment when there's probably not going to be immense scope to cut national security outlays, especially when you take account of the greater global agenda, that's not the military that we're going to need, if we're going to do this in a meaningful way, doesn't that mean we need to accept the idea that the government's share of GDP, federal government's share of GDP is going to be higher than it's been traditionally in order to accommodate this new activity that you and I are agreeing on? Or is there some category where you see substantial economies as possible?

R. GLENN HUBBARD: Well, you know, it's a tough an important question, Larry. I think that the size spending for the agenda that we were just speaking about is very small compared to what we currently spend on entitlement programs. To me, I would begin in healthcare by moving much more toward a uniform support system, a voucher system. Everybody gets a voucher. Its rating depends on age, pre-existing conditions and other things with subsidies for that that depend on your income. We don't need the kind of open-ended tax preference. I don't have, I don't know of anybody who has a silver bullet to the question of the growth of healthcare costs as opposed to taking a slice out of the level of healthcare costs. But I do think we can reduce entitlement spending for the well-off in the country. In fact, I can't imagine a fiscal solution that doesn't.

The final answer to your question would be the hardest part politically, if we decide as a nation that we want all of those things, then of course we must pay for them. And there is no way but a large consumption tax or some other very broad-based tax.

LAWRENCE H. SUMMERS: I think, I really don't think, respectfully, that you're quite right there. I think on the agenda that I just described 1% of GDP would enable us to do a substantial amount of re-training...

R. GLENN HUBBARD: Oh, yes, I agree. That's much smaller.

LAWRENCE H. SUMMERS: And 1% of GDP is attainable from tax compliance and upper income tax posture. I wonder if we can't not talk about big, new consumption taxes because they're not going to happen and you and I can agree that over the next few years, though not immediately, we should be moving towards a – invest in the middle class...invest in supporting the middle class agenda – with a total scale on the order of 1, perhaps 1 and a bit percent of GDP that will ultimately have to pay, we'll have to pay for, perhaps on slightly different timing depending on the business cycle, but we'll have to pay for it at some point around raising taxes, not really much by raising marginal rates, but by making other tax changes that would bear on people with incomes over half a million dollars a year.

VICE CHAIRMAN MICHAEL O'NEILL: I am sorry, I'm going to have to bring this to a close. It's been very interesting. We could go on for a long time, but we are out of time. And so I thank you both for a very interesting conversation and hope to have you both back when we have a little more clarity about the direction of things. Thank you.

R. GLENN HUBBARD: Thank you Mike.

LAWRENCE H. SUMMERS: Thank you.

VICE CHAIRMAN MICHAEL O'NEILL: Before departing here, let me tell you about some of the upcoming sessions that we will be having here at the Club. Lots of interesting things. The next few weeks, Dana Shuler, Senior Director of Player Affairs and Development, NFL Players Association will be joining us with a nine-year NFL veteran, Erik Coleman who played for the Jets. James Gorman, the Chief Executive of Morgan Stanley will be here. Mark Zandi, the Chief Economist at Moody's Analytics, Jay Clayton, Chairman, U.S. Securities and Exchange Commission, LL Cool J, Chief Executive Officer of Rock the Bells and Mellody Hobson, the co-CEO and President of Ariel Investments. So we encourage you to bring guests and, needless to say, this is a very interesting period and we look forward to seeing you on future events.