The Economic Club of New York

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The Economic Implications of the COVID-19 Virus (Part 2)

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Introduction

President Barbara Van Allen

Welcome. Thank you for joining us. Barbara Van Allen here, President of the Club, and in another minute, we'll get started. Thank you.

Chairman Marie-Josée Kravis: Good afternoon and welcome. I'm Marie-Josée Kravis, the Chair of The Economic Club of New York and a Senior Fellow at The Hudson Institute. And we continue to learn very much about the economic impact of the coronavirus and The Economic Club of New York feels a special responsibility in these very troubled and uncertain times to try to bring to you the most relevant information regarding both the health crisis and its economic and political implications. And I'd like to extend a special welcome to members of The Economic Clubs of Chicago and Washington, D.C. as well as those from the New York Women's Forum who were also invited to join the call today.

But before we begin, I'd like to extend a special thanks to all of the front-line workers who make our lives safer and easier during this time. And notably, the healthcare workers but also many workers in public positions, whether they be transportation workers, truckers, grocery store employees, and so on - a number of workers who are in public positions and who make our lives much, much easier and, of course, much safer.

And we thank you for your commitment and devotion to the country, and we'll continue to have you and your families in our thoughts and prayers.

Today, we're honored to welcome – by special request from our members – to welcome back two of America's leading economists and Economic Club members, Lawrence Summers and Glenn Hubbard. We heard from you last month. It was just a few weeks into the lockdown. Much has happened since then and, in fact, the economic data have continued to deteriorate. But your previous engagement with us was so enjoyed by members that you were highly requested. So it's wonderful to see two such prominent and interesting economists come back, and we look forward to receiving your updates on the economic implications and also some of the political implications of the Covid virus since we last spoke.

Larry Summers is the Charles Eliot University Professor and President Emeritus of Harvard University. During the past two decades, he has served in a series of senior policy positions in Washington, including the 71st Secretary of the Treasury for President Clinton. He was Director of the National Economic Council for President Obama, and Vice President of Development Economics and Chief Economist of the World Bank. He's currently the Charles W. Eliot University Professor at Harvard University and the Weil Director of the Mossavar-Rahmani Center for Business and 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 the Columbia University Graduate School of Business from 2004 to 2019. In addition to writing more than 100 scholarly articles in economics and finance, Glenn was Chairman of the U.S. Council of Economic Advisers from 2001 until 2003. He was also Chair of The Economic Club of New York from 2007 to 2010. Currently, he's on the boards of ADP, BlackRock Fixed Income Funds. He's co-Chair of the Committee on Capital Markets Regulation and MetLife where he is Chair.

The format today will be a conversation and will end promptly at 3:30. I remind you that this meeting is on the record and there are media on the call. I have tried to incorporate and send to Glenn Hubbard in advance a number of questions that were sent to the Club from members. There's been tremendous interest in this conversation so a number of questions were forwarded to Glenn Hubbard. And on that, I will give the microphone to Glenn to start this conversation.

Conversation with Lawrence H. Summers

R. GLENN HUBBARD: Well, thank you Marie-Josée, and thanks everyone for joining. Larry, a month's gone by. Our hair has gotten longer. The economic situation has evolved. The last time we talked about V's and L's and U's and W's and Nike swoosh. Let's open with your general sense of the situation. Where are we in the economy and prospect for recovery?

LAWRENCE H. SUMMERS: I think on a medium-term basis, I feel worse today than I did a month ago, Glenn. I feel worse because it seems to me that this is going to be with us for quite some time, and I feel worse because I don't think public policy is rising to the challenge in some important respects.

I think the place to begin is with the recognition that ultimately this is a story that's going to be told very much by the virus. If people aren't able to go out, if people aren't able to go to work, if people aren't able to shop, it's not going to matter just how low the interest is or just what the budget deficit is. And I'm worried about the approaches we are and are not taking with respect to global health.

I would put it this way. There's a parameter that we've all come to know in talking about this epidemic, Big R. Big R measures how much, if one person gets it, how many other people it will be transmitted to. There's a lot of argument about the details, but I think it's fair to say that there's a very strong consensus that Big R was some number in the range of 2.5, perhaps more than that, before we began lockdown. That is, in the way we all lived, on average if a person got the disease, they would transfer it, spread it to 2.5

more people.

There's vast amounts of research and debate among epidemiologists about what Big R is right now, but nobody thinks that it's less than .7 and most people think it's in the range of .9 to 1. So let's think about what that means. If Big R is greater than 1, the epidemic is growing. If Big R is less than one, the epidemic is shrinking. The fact that the epidemic is kind of plateauing is why we think it's a number less than 1, but pretty close to 1.

But what does that mean? That means that if, let's say it's .9, that means if we go a quarter of the way back to 2.5, it will be 1.3. And that's a rate at which the pandemic is exploding, at which it's doubling every two and a half weeks. And that's if we go only a quarter of the way back to normal. And so if we went halfway back to normal, it would be that much more explosive. And so the unfortunate truth is that if we all we do is revert back towards normal, we have almost no room to go safely.

Are there things that could make the calculation better? It may be better over the summer because it may be that the warmer climate and the fact that we're outdoors reduces transmissibility a bit. It may be that there's some evolution of the virus towards being less lethal. That tends to happen with viruses during pandemics. It may be that there's some distribution among us and those who are most susceptible and most prone to contagion have already got the disease and the remainder of the population will be less prone. It may be that because some fraction of us have had the disease, some of those instances of contagion that otherwise would have happened won't happen. Those are all factors one can point to. I find it almost impossible to make an argument that they add up to a huge amount. And so I think we're going to have a very hard time going more than 10 or 20% of the way back to normal unless we're doing something else that's very important, that is containing the transmission.

There are things we could be doing, but we're mostly not. We could – as in a number of Asian countries – have everybody wearing masks every time they're in the presence of somebody other than their family and the people we live with. We are mostly not doing that and not likely to be able to sustain doing that.

We could have an aggressive program where whenever we discover that somebody had it, we traced everybody who they had encountered in the previous ten days, regarded them as a potential source of contagion, and tested and if positive, quarantined them, and if tests weren't available, just quarantined them. We don't have that kind of apparatus in place essentially anywhere and we don't seem to be moving to it very quickly.

We could have – and this is what I think is probably the best bet – a very large testing program where we tested people, figured out who was at more risk, tested them, and then quarantined them immediately if they became, if they tested positive, and thereby reduce the transmission. But so far, we are testing health workers and we're testing a very limited number of other people, mostly people who we already think have it and who we probably should be quarantining anyway. We're doing very little testing of the general population.

We could have carefully designed strategies for segmenting the people who are at most vulnerability, people who are older, people who have various medical conditions. We're mostly not doing that. We've mostly framed the problem as a choice between the 14th century solution – everybody stays apart from everybody else – and the social Darwin solution – everybody just goes about their business and we all hope for the best. And we seem to be evolving from the first strategy to the second strategy on the basis of hope.

The president, who has hardly been a person who is prone to err on the side of social protection and on the side of keeping the economy shut down, laid out criteria several weeks ago for when it would be safe to reopen. The essence of those criteria was that the incidence of the disease had to be falling and have fallen to a low rate. Those criteria have not been met and yet we are quite widely opening up. If there were no mitigation measures, I'm not sure what the right choices would be. What I am sure of is that there are the mitigation strategies that I described and we are pursuing them inertly and incoherently as a country, and that there are immense costs to that.

Think about this number as a rough approximation. This costs the economy $100 billion a week or $15 billion a day or $500 million an hour. At that price, anything that accelerates – even negligibly – our path to the other end of this, will pay for itself a zillion times over. And yet, when we talk about testing, we talk about small numbers. If we ordered ten different tests for $5 billion apiece and tried to scale them up, and five of the tests proved to be utterly worthless, and so we had wasted $25 billion, it would be a pittance compared to what we're spending on compensation and stimulus, let alone the GDP loss.

R. GLENN HUBBARD: Larry, on that point, if I can...

LAWRENCE H. SUMMERS: Spending much, much more on all the health aspects.

R. GLENN HUBBARD: Yes, let me jump in on exactly that point because, as you know, there's a proposal from the Safra Center at Harvard for testing, tracing, and supporting isolation which embodies much of what you said. Their estimate for a couple of years, years, not the months you mentioned, is $350 billion to your cost-benefit point. Do you think that a first order part of any recovery package ought to be giving funds like that to the states to do this testing since that's approximately where the funds would be distributed, or not? How important is this as part of a fiscal discussion?

LAWRENCE H. SUMMERS: I think it's, look, I'm familiar with that proposal. My guess is that if you were smart about it, you could do with half the testing they say and if the experience in World War II with mass producing bullets, soldiers' uniforms, planes, liberty ships is any guide, when you produce your 100 millionth of any item, it's a lot cheaper than when you produce your first 100,000th of that item.

So my guess is that that $350 billion number is way high and that the number is really more like $100 billion. If we spent $100 billion over two years, we will – on the current path – have spent $4 or $5 trillion on the various compensation and stimulus programs. If we spent 2% of that on something that would enable us all to live safely, I think it would be a fantastic investment.

But what it takes, what it takes is a – I'm not sure, by the way, that it should be spent at the state level. I mean some of it should be in terms of directly administering the tests. But in terms of procuring the right tests, that should probably be done in a central way. And, by the way, and we're starting this, and this is something the president said, and I thought he was right. The president said, you know, we're going to start producing vaccines before we know whether they're safe because if they turn out to be safe, we will have saved four or five months. And if they don't turn out to be safe, we will have spent some number of billions of dollars.

The basic thing that we have not gotten straight, that General Groves and Mr. Oppenheimer got straight during The Manhattan Project but we do not have straight as a country, is that if something is important and profoundly important, you don't want to be business-like and efficient about doing it. You want to just try all the possible routes. And that's what we should be doing with respect to developing tests and that's what we should be doing with respect to the search for vaccines and trials. Conventional economic efficiency is not what you do during a war and it shouldn't be now.

R. GLENN HUBBARD: I agree with that. And before we get to actual policy, I think a Malthusian or negative implication of what you just said is that unless and until we do that, can we really manage our way out of this? Do we have the fiscal capacity absent doing something like that to keep going for an extended period?

LAWRENCE H. SUMMERS: You know, Glenn, there's been a lot of controversy about the so-called PPP Program and it's kind of taken two forms. It's taken some form of why are the Los Angeles Lakers and the Ritz Carlton getting it? And it's also taken a different form – and I may be unfair and putting words in your mouth – but in the form that you would have liked to have seen it at least at one stage a month or so ago. You would have liked to see a version of it where we were spending a trillion dollars a quarter. I think spending a trillion dollars a quarter for two years would be a highly, highly problematic thing to do.

R. GLENN HUBBARD: Indeed.

LAWRENCE H. SUMMERS: I think your idea was that we could spend a trillion dollars for one quarter or perhaps two and then things would be in a different place and we would have preserved all these enterprises so they could reopen. But I don't think suspended animation for two years is really a viable strategy for a large number of businesses. And so unless we're able to do something like this, I think we need to become less ambitious in terms of our strategies of business preservation.
And I don't see the theory under which – on the current trajectory – we're going to be in a vastly better place come the fall. I mean there's so much uncertainty that I'm not going to say it can't happen or it couldn't happen or that it's impossible, but I don't see a basis for betting given the underlying arithmetic that we're starting with a Big R of .9 and normal is 2.5, I don't see the basis for thinking that we're going to be able to return very far without real problems on the health side. And, by the way, I think that there is an idea that some people have which I think is more wrong than right which is, well, we may have to have real problems on the health side, but at least we'll get the economic benefits. I don't think so because I think if we're having real problems on the health side,

it doesn't matter.

I mean I ask myself, and I've had this conversation with a couple of people, suppose the government wasn't making any rules, how would I live my life differently? You know, Massachusetts is banning people from playing golf. I probably would, on my own or with one other person, wearing a glove on both hands, go play golf if the state of Massachusetts permitted it. But I wouldn't go to a restaurant. I wouldn't go shopping for a new t-shirt. I wouldn't go on the beach if I was going to be near anybody else. I wouldn't go to a seminar at Harvard if I was invited to it. So I don't think this is mostly about the rules. I think it's mostly about the underlying health situation. So I think that the dash for herd immunity strategy will be very problematic on health grounds and you won't get that much economic benefit, if any.

R. GLENN HUBBARD: Yes, I agree. I think we're in agreement that the first thing is control of the virus and we probably don't have the fiscal ability to just keep blindly moving forward unless and until we do that. I want to get to actual policy. I want to get to government and the Fed in that order. What kind of grades would you give the government, the Congress, the president, for the CARES Act, for follow-on packages, for dealing with the situation we're dealing with at that time? Then we'll turn to the Fed.

LAWRENCE H. SUMMERS: You know, normally when professors are asked that question, they always give the same answer which is incomplete. But in some sense, I think that's more wrong than right here. I'd give them high grades for speed of response. All things considered, the quarantining, the social distancing should have started several weeks earlier and certainly much more should have been done in January and February so I don't mean that. But in terms of Congress' ability to organize itself to do a $2 trillion thing rapidly, I think that is quite extraordinary. It's the first time you've seen sort of Pearl Harbor-like speed around a non-military kind of event. And I would give high grades for that happening. I would give high grades for a basic judgment that overkill was better than under-kill in terms of fortifying the economy. I think that was an important judgment and was made right.

I would give lower grades in terms of details of policy design. I think that there are a variety of things in the design of the PPP, in the design of the unemployment insurance reforms where the goal of giving larger benefits than normal, much larger benefits than normal was right, but the means were problematic. I think that there have been a lot of revisions by the Fed in the design of the facilities. And so I think the consequence of working fast was not working so accurately. But I think in fairness, I wanted the speed and some need to reconsider and reflect was probably inevitable when you were working at that great speed.

Where I would give much lower grades is to the absence of an aggressive, comprehensive health response. You know it's interesting, it's sort of the opposite of what we economists, I mean you were in government, I suspect – it was a different administration – but I suspect you felt the same way. You know they're talking about the foreign policy issues. Well, let's think about the international economic issues. They're talking about the healthcare needs. Let's talk about the economic aspects. Usually we economists feel that the economic aspects are not getting sufficient attention from the domain specialists.

Here, I almost feel that our national response made the opposite mistake. Roughly every kind of category of lending we've reinvented and fortified. We've invented huge numbers of fiscal activities, though there are some gaps that we'll get to. But we haven't really been as aggressive as we could about the core public health – testing, contact tracing, masking, vaccining, and curing. In each of those areas we have been much too much like business as usual in my view.

R. GLENN HUBBARD: On the government policy though, before we get to the Fed, going forward if we can't continue the massive approaches of the CARES Act with PPP, do we go cold turkey or are there some partial wage supports or business supports or expanded social insurance? What's in the middle of cold turkey and full indemnification? Anything?

LAWRENCE H. SUMMERS: Broadly, I would be in support of turning unemployment insurance into employment insurance by making it more generous, by causing it to cover substantial amounts of work-sharing. If people are working part-time, they get partial unemployment insurance. By using it as a subsidy for people who rehire workers who have been laid off, providing it for the foreseeable future until we're out of this mess.

So I would focus on protecting people and protecting their incomes. I would look at – whether I would pull the trigger on it, I don't know – support for those whose incomes had gone down very substantially because I don't think this is as common as only having a limited amount of work. But if people are only able to get work for 30% of what they were paid previously, I would be looking at providing some further kinds of employment support. I would be much, much less ambitious in terms of support for business enterprises. I would, of necessity, be putting more behind informal work-out mechanisms – the restaurant doesn't pay the landlord – of that kind. And I would recognize that there was going to be a certain amount of slow pay. And I would be standing behind the financial system and its ability to keep lending with capital infusions if necessary.

But I think the number of cases, I think with the business protection ideas, I always thought they were problematic, not because there wasn't substantial need, but because you would end up putting so much money into situations where there wasn't need, but that looked like situations with need. You know I'd be eligible for money for people who help me with my consulting. I thought there would be so much of that kind of thing that it would end up somewhat problematic and it becomes that much more problematic the longer that we're going to be in this thing.

I would also be starting to think about measures which dovetail better with a long-run strategy. Maintaining highways and fixing potholes is an activity that takes places outdoors that employs the people who are most adversely affected by this and which leaves a constructive legacy afterwards. So I would start a transition process of policy towards those kinds of investments.

R. GLENN HUBBARD: Let's turn to the Fed. You mentioned the Fed has stood up any number of brand-new lending facilities in almost every area of credit markets. How do you grade those interventions? And, in particular, is there any risk in some pockets that by just making leverage more easy, that the Fed may be adding to future problems rather than subtracting from them?

LAWRENCE H. SUMMERS: Look, I think in the fullness of it, we had a financial system that was having, you know, in the years since the Depression, I think there have been three brushes with some kind of collapse of the financial system. In 1987, in the intermediate aftermath of the crash, the period, the multi-month period following the demise of Lehman, and the period in early March of this year. There was a real risk of collapse and it was avoided.

So in some sense, everything else is a bit of a detail and I don't want to be seen as criticizing or attacking the Fed. That said, it does seem to me that we had as an important problem, excessive debt and excessive leverage in the economy. And what we are doing is basically placing a very soft mat under all of the leverage. In all honesty, I think Boeing should have had to turn to the government for financial assistance given the seriousness of its problems and it should have had to accept the various conditions that would have come or should have come with government financing. I'm not sure why it isn't appropriate when enterprises are being substantially backstopped for there to be warrants taken in those enterprises or at least for the lending to be senior.

And so the breadth of the safety net that is being placed under corporate borrowing seems to me to be a bit breathtaking. Or to make the point in a somewhat different way, I ask myself what we, at the Treasury Department, would have thought if in the 1990s one of the countries affected by the emerging markets crisis had had its central bank buying on a large scale high-grade debt...low-grade debt, high-yield debt, and the equivalent of exchange-traded funds on local countries stock market and have done it in close dialogue with the captains of the local financial industry. And I think we would have been very skeptical as to whether that was appropriate policy.

Well, what do I think today? I probably think that we might have been too tough on those countries' heterodoxy given the extremity of the problem they faced. That's one part of it. But I also think that we may be slipping into a kind of central bank socialism that is problematic. I'm not talking about when they buy Treasuries, but when they buy substantially risky, substantially risky securities. I think that if the Fed concentrated a little less on the breadth of the promises that it was making with respect to its own purchases and a little more on assuring that in a highly uncertain environment, financial institutions remain well capitalized, don't continue distributing what would be capital that could otherwise support lending, I think that would be a better focus for some part of their activity.

And if there were more pressure on enterprises to – non-financial enterprises – to cut back on dividends to conserve capital and even to issue equity albeit not on terms that their shareholders would find enormously attractive, but that would reduce the obligation, the risk that society has of their failure, I think that shoring up the financial system in that way rather than just with the provision of liquidity would be healthier.

I'm also concerned, I would also say, Glenn, that, and you know I think of what Marie-Josée said at the beginning about the debt we all owe to those who actually have the essential jobs and keeping our society functioning, but certainly aren't compensated in a way that reflects how essential those jobs are, I am struck how universally corporate needs are being met by our financing, but that in a number of areas – I'll mention two – there are rather gaps in the financial safety net being provided.

For millions of families, the mortgage rate is a central number. Reducing their mortgage costs is a very important variable in their monthly budget. If you look at Treasury rates in the relevant horizon, three to ten years, they've come down well in excess of 100 basis points since all this began. And there's been essentially no pass-through to mortgage rates. Well, that is a complicated phenomenon but it's got its roots in some failure to provide credit to mortgage servicers against the payments they may have to front when payments by the mortgagees are deferred. It might also have to do; it probably also has something to do with difficulties in expanding the refi businesses in current circumstances. That's not an area where the government has clearly shown much energy at all, and I think it's a very important...

R. GLENN HUBBARD: I completely agree. This was an area, as you know, in '08 it was a big deal when those spreads had blown out. And here, you know, post-Dodd Frank, a sort of unwitting consequence was mortgage servicing left the big banks to non-bank entities and we may be in some sense reaping a whirlwind. On the Fed, you didn't touch on the Main Street Lending Facilities. So let me take your comments even further downstream from the Boeings of the world to mom and pop or at least the larger mom and pops. Is this the right area for the Fed? And if so, what should the Fed be doing?

LAWRENCE H. SUMMERS: Well, I think, let me separate two questions if I could, Glenn. One is in an ideal world, what would be the central, what would the central bank be doing and what would the government be doing? And then the second is forget the exact allocation of responsibility, what should be done?

I think we're a long, I think we've moved a very long way in terms of what central banks are doing that's basically fiscal activity. It's basically spending money that on any plausible theory has an expected value cost. And I think it's fine for the, it's fine to argue that there's something special and sacred about controlling the stock of money and resisting inflation that should be insulated from politics. But when you're talking about lending money to some enterprises and not other enterprises, when you're talking about how you should think about the allocation across geographies, how you should think about the allocation across sizes of enterprises, I think it's much more problematic for those to be decisions that are made by a central bank.

On the other hand, and the argument people will make is, well, that's fine, but it's more important that they get made than that they get made in the right place. I think in general I am worried that we are going too far with the Main Street Facility, that we're going to end up providing very large subsidies to places that aren't so attractive to provide subsidies to and generate a substantial backlash and that we're somewhat underestimating the capacity of informally worked out bankruptcies or formally worked out bankruptcies to keep employment going and to keep enterprises functioning.

That having been said, I don't want to reach my judgment too strongly because errors in one direction may be more costly than errors in the other direction. And so, in general, I have tended to favor excesses of containing financial doom loops rather than insufficiencies of containing financial doom loops. But I am worried, particularly as I envision this crisis going on longer than I had previously, that traditional distinctions between liquidity and solvency are falling away here and we're providing large scale liquidity at non-penalty rates to be in trouble.

R. GLENN HUBBARD: Let me, can I take you to another example...

LAWRENCE H. SUMMERS: It's a doctrine that is a little bit, it's a doctrine that I'm worried about.

R. GLENN HUBBARD: Well, let me take you to another example of that as it involves the Fed and your distinction between what the Fiscs should do versus the Fed and whether inaction is good. So let's look at the state and local sector. I think you and I might agree that there's a need for some sort of block grant support for state and local governments from the federal government for a variety of reasons. The Fed, of course, has also said it will be engaged in the municipal bond market. Should we be bifurcating that and saying, no, this is really for the Fiscs to go worry or is there room for both? How do you think about that role for the Fed in the muni bond market?

LAWRENCE H. SUMMERS: Look, I think quite apart from anything about the intertemporal aspect involving borrowing, it seems to me self-evident or near self-evident that there should be some substantial counter-cyclical grant finance provided by the federal government to state and local governments. The easiest way to see that is to just say we have the principle right now that there's cost-sharing in the Medicaid program.

Whatever the right cost-sharing was three months ago, when there are pandemics hitting local hospitals, when states have balanced budget amendments, and when states have limited capacity to raise revenue because people can flee to other states, and when those incentives have been sharpened substantially by the change in the SALT rules, it seems to me whatever you thought the right cost-sharing was under Medicaid three months ago, you surely – for the remainder of this crisis – should be for a much more generous federal cost-sharing role.

It can't be right. You can argue about whether we should be trying to have countercyclical infrastructure spending as a country now. It can't be right that we're having pro-cyclical infrastructure spending because it's done by state and local governments and they have to cut it back. So I like to start with the things where I'm sure what I think rather than the hard questions. And it seems to me that on any theory we should be providing a substantial amount of money to state and local governments for the year or two associated with this crisis because we don't want them slashing their budgets.

Beyond that, I think what I would say is that I'm not sure, there are some constitutional issues or some regulatory – exactly the way statutes are phrased issues – which I'm not quite, I don't have exactly clear in my mind. But leaving those aside, I would say the high yield market is an important financial market in America. The securitization market is an important financial market in America. And the municipal bond market – state and local bond market – is an important bond market in America.

So I would think that the central bank's efforts should be roughly comparable across those markets in terms of how much they're doing to promote stability. I expressed the concern that with respect to the corporate markets, they might be doing, they might be erring on the side of excessive aggressiveness. I suspect they're erring a bit on the side of insufficient aggressiveness with respect to the municipal market. But my primary focus in thinking about state and local governments would be on the provision of direct grant, direct grant support.

R. GLENN HUBBARD: Let me turn the attention to the stock market. So after the news of the crisis hitting on a global scale, equity markets in the United States and elsewhere declined substantially. They have since recovered part of that. And their decline is nowhere near the outlook that I think either one of us might have for the economy going forward. Now, there are a number of possibilities. One, that the market is forward-looking and pricing a different scenario. Another that the market is wrong. Or one that, at least I'm attracted to – I'd like your views – that two other things are going on. Massive central bank intervention obviously affects asset prices and the stock market really isn't the economy. The handful of stocks that dominate the stock indices are not representative of the kinds of businesses necessarily that we've been talking about. Why is the stock market doing so well relative to the outlook we've talked about for the real economy?

LAWRENCE H. SUMMERS: So I am substantially confused by that. And if you had given me, if you had put me in isolation for the last two months and then you'd awaken me and you had shown me all the newspaper clippings bearing on the real economy and even bearing on what the Fed had done and you had asked me to guess where the S&P would be, my guess would have been way low relative to where it is.

I've looked reasonably hard at the multiple different stock hypothesis. You can say the market's down 15% but that's got a bunch of heterogeneity and if you take out the big tech companies and the special cases, then the market's down 30%. But if you actually say, given the magnitude of the recession that we're going to have, to have the general run of companies be down 30% isn't actually that much. So you get somewhere with that, but I don't think you get anywhere near all the way with that.

I think the market is probably wrong. So I would have more conviction that the market was high relative to where it was going to be at some point in the future. I can only think of a couple of moments in the last 30 years when I would have had as high a conviction as I do right now that the market was wrong. I think that's one important part of it.

I think you're right about the Fed and that probably is a big part of it. But I worry when, I worry when the market seems way high and my best explanation is the central bank because I've got a pretty deep conviction that central banks can't levitate markets forever. And so the more confidence and complacency there is induced by the central bank, I worry that we're setting ourselves up for a pretty big problem down the road and that there are limits to what central banks can do.

But I think it's also fair to say that markets shouldn't be entirely discounted. And I think there is a view – it's obviously not my view from what I've said – there is a view that, as somebody put it to me this morning, the lockdown is the black swan, not the pandemic. And that we will work our way through all of this, that it may – from a variety of humanitarian terms – be terrible. But in late 2021, the economy will be more or less in the same place that it would have been if none of this had ever happened and maybe we'll have learned a whole set of things about information technology that will drive further productivity growth. And that's kind of what the market's pricing. It seems very unlikely to me, but it's not a zero percent event.

And I go back and try to recheck my thinking more often than I would if the market was kind of consistent with my health and economic judgments. But I think we're likely to see a very interesting experiment in the power of central banks to maintain all levels of markets without generating huge amounts of microeconomic inefficiency. I'm not hugely optimistic about that. I'm pretty pessimistic about that experiment, but I'm not certain about that experiment.

CHAIRMAN MARIE-JOSÉE KRAVIS: We have time for one last question and it's a question to both of you given the points that both Larry and Glenn have just made. And let me ask you, do you think the taxpayer is going to pay a bigger share of this burden, of the burden of this crisis than the investor?

R. GLENN HUBBARD: I think almost surely the taxpayer will, and in many cases that's probably correct. In some cases it's not. So, for example, for very large businesses seeking aid from the state, they really should have to pay that with a positive upside to the taxpayer. That, I would agree with. But in general when you have tail risks, part of why we have a government is to take massive tail risks off the table. We'll all pay for that in the future, investors, all the rest of us who are taxpayers. But, yes, the taxpayers are going to shoulder the burden of it.

LAWRENCE H. SUMMERS: I'm less worried, I'm probably a little less worried than Glenn is about the burden that's going to fall on future taxpayers because I think the real interest rate is going to be very low coming out of this. I think it was reasonable to think that the neutral interest rate was pretty close to zero before this, perhaps it was half a percent. And I think coming out of this with the extra uncertainty, possibly the extra inequality that will result, I think the neutral real interest rate will be zero or less than zero. And that means, and I think that that will be the case for a very long time. And that means that the government will be able to roll over the debt and that any costs will not be that large.

Let me put it this way. Take a number that seems inconceivably large, that this is going to add 200% to GDP to our national debt. That's a number that's almost inconceivably large. And assume that the real interest rate is 1% which is a number that's far higher than, you know, the relevant indexed bonds markets are pricing in a negative number for the next 30 years. That's 1%. But assume it's positive 1% of 200% debt to GDP ratio. That's 2% of GDP in higher taxes. That isn't nothing. But that is not a huge amount relative to the amount the economy is likely to grow.

My largest concerns about this are that a substantial part of why the American economy has been so successful has been that we've had a well-functioning financial system, all things considered, not in its stability aspect, but in its allocation of capital aspect that has caused us to be more successful at starting the Microsofts and the Googles of this world and also more successful about putting less successful enterprises out of their misery and that we are going to put that at substantial risk for half a generation with the things we do. I am more worried about that than I am that this will turn itself into inflation or into a crushing burden on the backs of my children. I actually think responding aggressively to this is probably a better thing for my children and their children than some kind of austerity mentality would be.

CHAIRMAN MARIE-JOSÉE KRAVIS: Yes. I'm sorry. We could go on and maybe that's a suggestion for the future. Maybe we need to do this once a month because your insights are so valuable and informative, and I know that our members would love to hear from you again. So I just want to thank both of you for sharing your time and your insights. And I should say to our members that going forward these events will continue to be scheduled as we make decisions about Club events on a month to month basis.

So please check our website and be safe, wash your hands, social distance, be vigilant and thank you again for joining us today. Thank you, Glenn and Larry.