The Economic Club of New York

113th Year
544th Meeting

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

June 24, 2020

Webinar

Moderator: R. Glenn Hubbard
Professor, Columbia Business School
Former Chairman, U.S. Council of Economic Advisers

Introduction

Hello there, this is Barbara Van Allen, President of The Economic Club. Thank you for joining us today and we're going to get started right away. Marie-Josée...

Chairman Marie-Josée Kravis: Thank you, Barbara, and good afternoon and welcome to the 544th meeting of The Economic Club of New York. And I'm Marie-Josée Kravis, the Chair of The Economic Club of New York and a Senior Fellow at The Hudson Institute. As you know, The Economic Club is one of the nation's leading nonpartisan forums for discussions on economic, social, and political issues. And I think our mission is as important as ever as we try to separate fact from noise and continue to bring together people as catalysts for conversations on innovation, progress, and the future of our country. We proudly stand with all communities that seek inclusion, tolerance, and respect.

I want to wish a special welcome to guests of our members and also to members of The Economic Clubs of Chicago and Washington who have joined us today. And I'm also delighted to have joining us today members of The Economic Club of New York 2020 Class of Fellows as well as graduate students from Columbia Business School and NYU Stern School of Business.

So today we're honored to have, to welcome back two of America's leading economists and Economic Club of New York members who need no introduction – Larry Summers and Glenn Hubbard. And I'm really happy to have you here for, in fact, the third time. And our members so enjoyed having you that you've become a regular feature of these webinars and I want to thank you.

The format today will be a conversation and it will end promptly at 12:30. And questions that were sent to the Club from members in advance were shared with Glenn Hubbard. I'm going to start this off and turn the conversation to Glenn, but Larry, just to tie into our discussions at the last webinar, you were insisting very much on the fact that the virus is going to tell the story and that the R factor was probably the most important indicator to watch. And looking at the numbers and the evolution of Covid-19 and its transmission, especially in the United States, I would suspect that you believe that more than ever. But to you, and then to Glenn.

Conversation with Lawrence H. Summers

R. GLENN HUBBARD: Thanks Marie-Josée. Before I turn it over to Larry, that's a great opener and I wanted to add a little bit to it before tossing the ball Larry's way. And good morning everybody. Larry, certainly key months have passed in this conversation, both about the virus itself and about the response in the economy and in public policy. To Marie-Josée's question about the physical elements, where do you think we are in terms of managing the pandemic in the U.S.? And here I'm talking about as a health policy matter and we'll get to the economy in a minute. Where are we?

LAWRENCE H. SUMMERS: I think we're playing mediocre Whack-a-Mole. My concern last month was that we had about, when we were locked down R-0 was about .8. In normal life, R-0 was about 2.5 and therefore we couldn't move back very far towards normal life without having fair-sized problems.

And I think broadly that's kind of looking about right. I think where things are, I think I underestimated in talking about it the degree of heterogeneity there was between different parts of the country. But I think if you look at the broad picture now, 30% of the U.S. economy has an R-0 substantially greater than 1 and will need – if the pandemic isn't going to go critical – to either shut itself down back down through private individual actions because they're scared or through government actions that reimpose lockdowns.

And as I look ahead, so the period between now and a vaccine, I think we're going to be playing Whack-a-Mole. There are going to be places that are going to be getting out of control that are then going to crack down on themselves either privately or publicly. And then there'll be outbreaks in other places and so I think we'll have this game of Whack-a-Mole going on where the national average will be about 1, which means that things are going to run like they're running now.

You know whether the right way to think about the data right now is that we have 800 or 900 deaths a day or whether the right way to think about it is 600 deaths a day, I'm not altogether sure, but that's kind of the range that we're in. It may get a little better because we're going to get better at treating the disease. It may get a little better because as more people have it, they'll have had it. There may be a little drift down in terms of the effective R-0 as the fraction of the population with it goes up. But fundamentally, I think we're headed into a new normal of periodic outbreaks in parts of the country, complacency that then becomes self-denying as it creates problems and risks that are kind of like the risks we're now living with.

I think the bounce-back that we saw from the extreme has kind of happened and we're not going to see a lot more bouncing back until we get, until we get a vaccine. The last thing I'll say, I think odds are that we will avoid a huge second wave because we'll catch it incipiently when it's happening, faster than we did the first time. But the odds that we're going to have the outcome we were hoping for, which is that we bring this under very much control at a very low level nationwide, I think that's also looking pretty unlikely.

R. GLENN HUBBARD: I agree with that, and I think the heterogeneity point is important.

You know, here in New York City where I sit, where the Club is, things have gotten much better. That's obviously not true in the U.S. south. I want to go from the virus, though, to the economy. So given what you just said, does that alter your outlook going forward for output and employment as to when you expect output or employment to be back to pre-crisis levels?

LAWRENCE H. SUMMERS: Let me say on that that I think the biggest surprise in general to the policy community, and I kind of think in retrospect it probably shouldn't have been as big a surprise, is that policy is less important than people think. That in truth you had New York where things were pretty locked down and you had Georgia where things were pretty unlocked and if you look to consumer spending, you couldn't really see the difference. Something very much the same was true if you compared Sweden with the other, with the other Nordic countries.

So I think the decisions that policymakers make about locking down are less crucial economic variable than policymakers – both who were for a lot of locking down and who were against a lot of locking down – actually thought. I guess I think that those of us who have been in government or are near government tend probably to overstate the impact of policy choices rather than broader forces on what happens.

I'm a subscriber to the Jason Furman collapse-bounce-back-slog, three-part theory of economic recovery. And I think the surprise we've gotten is that bounce-back was earlier and faster than we thought it was going to be. And I think the next surprise we're going to get is that it's also going to be shorter than we thought it was going to be because it's going to turn out that there isn't any big trend towards the disease going away until we generally have a vaccine.

So I think that we will see, for perhaps another month, improvements in employment. I think second quarter GDP will not be quite as bad as I would have guessed six weeks ago, but I think third quarter GDP will not be quite as good as I would have guessed six weeks ago. So a view that we will get back to, we will get back to previous peak levels of GDP six to nine months after we've been fully vaccinated would be the kind of view that I would have. And I actually think it's probably more sensible to make statements like the unemployment rate will – whatever one thinks – get back to 5% X-months after we've been fully vaccinated is probably a better way to express a view about the economy than to say I think it's by the spring of 2022 or fall of 2021 or whatever because I think it is going to be very sensitive to when we're vaccinated.

My read, and this is a lower confidence read than my reads about other things, is that it's starting to come into focus more that it's a kind of lengthy process from the time when we have a vaccine that's a scientific success to the moment when the American population has been effectively vaccinated. That's a longer set of lags and people first tend to think, you know there was an old line, it's no longer sensible and it's a bit dated but you'll remember it, Glenn, for the first 30 years of yours and mine careers it would have been a reasonable thing to say that shale oil will become economic at the current price of oil plus $10. And that was kind of the way it always was, and I think something sort of like that is going to be operative and that this vaccine process is going to be slower than we would have hoped.

R. GLENN HUBBARD: I agree with that, Larry, and it gets me to another kind of policy. You talk about policy in the regulatory sense, do I lock down the economy? I want to think about fiscal policies to support the recovery. Now you've made a statement with which I agree, it's a highly uncertain recovery and so committing to some particular path is hard. What do you think about policy, both in the – to use your example – before the downturn and then the slog, did we make the downturn better? Did we speed it up as a result of policy? And then the slog, how should we be structuring a "next package" if there is to be one to deal with the slog as opposed to a V-shaped recovery?

LAWRENCE H. SUMMERS: So there's a tension within my thought that I would certainly recognize which is I tend to be more enthusiastic about the view that we need a big fiscal package to move the economy forward than I tend to be enthusiastic about the various particular measures that might comprise it. And that's a tension which I don't know that I have fully resolved. I think part of my answer is that we need probably to be doing fiscal stimulus that's not derived from a Covid theory but that's derived from a strength in the economy in the short run and the long run theory.

So what would I think was important going forward, I would think that we surely need more support for state and local governments. And the level of laying off that's taking place in state and local governments has got to be crazy. I wouldn't have ever imagined it, but I think it's pretty clear that we need general support for the healthcare sector. The fact that people were going to be scared to go to hospitals and therefore hospitals were going to have, the economics of the hospital sector has had an aspect that's much more like the economics of the hotel sector than I would have figured out was going to be the case. So I think support for state and local governments and support for the healthcare sector I think is something that's very important.

I think support for, support for those without jobs and for the getting of jobs is also very important. I think the $600 top-off to all unemployment insurance was not well designed, and that's a relatively polite way of putting it. Some of that is because somehow here in the 21st century we have managed to have IT systems in unemployment insurance that couldn't handle anything that had any complexity to it. You could give everybody $600 more a week but you couldn't add 20% to their benefit check, whatever their benefit check was. And that's a kind of egregious IT failure that is a reflection of a broad kind of under-investment in government, in the public sector, at least from my point of view.

I don't know just what the right answer is in terms of re-fashioning the employment money to take the $600 down because of its disincentive effects, to do better on part-time work than we have done historically, and to provide more support for some kind of employers and employees to have more to promote employment. You all, you were part of an Aspen Institute group, Glenn, that recommended some kind of expansion of the EITC. You might be right; I had the reaction that that was kind of a bipartisan thing that people in general liked and so it seemed easy for you guys to default to that in favor of employment. But I wondered whether the EITC, which is basically money to people to top off their checks was actually the right thing or whether some combination of support for employment to employers and employees, some more employer side EITC, if I can use that term, wouldn't be a better idea.

I'd tick off two other things. I think we should be, I think we should have a rule that all stimulus packages have to have 2% of their content devoted to addressing the disease, addressing Covid, whether it's testing, therapies, insurance, that it can't make sense somehow not to be devoting 2% of the money to the disease itself when the disease itself is costing the U.S. economy somewhere in the $60 billion a week range and is likely to do that.

And the last thing I would say is I think we should, for reasons that both relate to the near-term imperative and longer run views I have about secular stagnation, we should be taking advantage of a moment when we can issue ten-year indexed bonds at a yield of negative .7%, negative .7%, to be strengthening the infrastructure broadly defined in our country. I think those should all be elements of the next, of the next package.

R. GLENN HUBBARD: I wanted to pick up on exactly that theme but let me pull the infrastructure thread first. So you would include infrastructure then in this next package?

LAWRENCE H. SUMMERS: I would. There's kind of a problem about infrastructure which is that the painful truth is that it's not that fast and that when you commit infrastructure money, it doesn't get spent out with incredible speed. That is true. But it's a little bit like the famous story that Jean Monnet used to tell about the European Union about the man who asked his gardener to plant a tree and the gardener said, you know, this type of tree, these types of seeds, you really won't see anything for ten years and it won't be a real tree for a century. And the guy said to his gardener, really, you're sure about that? Well, then plant it this morning.

And I think that it is the case that you're going to have to, we need more infrastructure as a country and I think that the fact that forward real rates are now significantly negative, more or less as far as the eye can see, is also telling you that we're likely to need measures to absorb savings and promote investment for a very long time to come. And I think some of the best of those measures involve infrastructure investment.

R. GLENN HUBBARD: Yes, I would agree with that 100%. The way I think about infrastructure is much less about stimulus, as you said there aren't really shovel-ready projects, but it is a floor on demand. And so if you tell businesspeople that for a very, very long time this will be there, whether you're somebody like me who believes it's important for improving productivity, or somebody like yourself on secular stagnation, either way the right answer is the same. I want to take you to the future.

LAWRENCE H. SUMMERS: By the way, by the way, Glenn, I welcome you. Your statement that it's really valuable to put a long-term floor under demand so as to promote business confidence and support private investment, I welcome. I'm going to steal the phrase long-term floor under demand and I'm going to use the rule I learned from Lloyd Bentsen, which is when you steal somebody's phrase, give them credit the first three times.

R. GLENN HUBBARD: You can have it.

LAWRENCE H. SUMMERS: I will do that for you. But I'm delighted, that is getting very close to the secular stagnation set of ideas that there's a chronic kind of problem around absorbing all the saving and maintaining demand which I think is, which I think is very important for thinking about macroeconomic policy going forward.

R. GLENN HUBBARD: I agree. In fairness, though, my first use of that phrase was actually in an Op-Ed in 2008 when I encouraged another administration to think that way, but we'll put that aside. I want to take you to the future. So you've already talked a little bit about secular stagnation but I want you to think about the future path of both fiscal policy and monetary policy. So I can imagine a number of challenges – high debt, I can imagine exit from very expansionary and very accommodative monetary policy. I could imagine the possible need for a larger government going forward given the aging of the population. I can imagine all these things. Sketch for me and for the group how you think about first fiscal and monetary policy going forward. What are the big challenges?

LAWRENCE H. SUMMERS: So let me, let's do this in a couple of different parts. So I think the first thing that's out there that I think is insufficiently recognized is that we are going to have a more aged society and the government is basically a pension and old age health insurer with an army at this point, a military at this point. And so as the, whatever values you have, hold constant your values. You might like a larger government. You might like a smaller government, all things considered. But whatever your values are, if we have an older society, you're going to have to be for a larger government than we did before. And, by the way, this is more driven by the reductions in fertility than it is by the rising life expectancy. So even if we indexed every retirement age to life expectancy, the same thing would be true. That's number one.

Number two, we have more inequality. And part of what government does is redistribute. Some people like a lot of redistribution. Some people like less redistribution. But whatever your taste for redistribution, when the market is throwing out more inequality, that's a reason why you're going to need a larger government.

And third, and I think this is actually probably most important and least appreciated, there has been a staggering change in the relative price of the things that the government does and that the private sector does. My favorite example is to just look at the consumer price indices and look at the components of the consumer price indices and you'll find that since the early 1980s there's been a change by a factor of more than 100 in the relative price of a television set and a day in a hospital or a year in a university. And so for all those reasons I think we are fated to have a larger government, independent of the sort of ideological battles that will exist at any moment, the backdrop pushes towards larger government. That would be my first broad comment.

The second is that I think the defining macroeconomic problem of the period 1970 to 2000 was restraining the political temptation to demand and inflate that brought short-run problems, well, short-run benefits and long-run costs. And those were the great errors of the 1970s. That's what brought about the Milton Friedman natural rate revolution in macroeconomic thinking. That was the great accomplishment of Paul

Volcker and others in restoring the notion of, the notion, that was the defining challenges of that period.

In today's world, after a decade of sub-target inflation everywhere, after a period of epically large budget deficits, but still real interest rates that are negative everywhere, I think the defining challenge is absorbing all the private saving at full employment. And if you don't do it, you have some combination of slack and unstable finance. And so we have been living for two decades now in a period where we have moved between inadequate demand and sluggishness and periodic excesses of borrowing, excesses of asset prices, and incipient financial instability.

And the challenge with respect to fiscal and monetary policy is going to be doing better. And what we've had is a world where we've relied primarily on monetary policy and when we rely periodically on monetary policy, the monetary policies that are necessary to balance the real economy overinflate the financial economy. Just like the monetary policies that are necessary in Europe to balance the European economy overinflate the northern core of Europe's economies.

And so I think we will need a paradigm that will focus more directly on absorbing private saving and stimulating investment. Part of that is going to be using fiscal policy to do more of the work of stabilization and that's why I think we need the equivalent of a

Taylor Rule for fiscal policy that becomes internalized by the policy community and maybe even legislated into action through some programs. That's why I think we need a government presence substantially supporting public investment, infrastructure investment on a larger scale.

Apart from the supply side benefits it brings which, by the way, also create the wherewithal for its repayment, I think it also contributes to the maintenance of demand. That's why I think that other things equal, if we can reduce inequality, we will tend to stimulate spending because of differences in the propensity to consume between the poor and the affluent. That's why I think a stronger social insurance system will enable people to spend on a larger scale. That thrift is not what we need more of at a moment when the ten-year real interest rate is negative. That is telling us something very powerful, that the marginal bit of saving isn't even – if it has to be kept safe – maintaining its value. And that's telling us something about the need to be stimulating other kinds of investment and to be enabling people to spend today.

I am not one of those who is worried about the current level of the debt to GDP ratio. I certainly recognize that the kind of World War II level deficits that we're running literally at this moment are not something that we can come close to sustaining as a country. But given the low level of long-term real interest rates, the idea that we would have 150% debt to GDP ratio which would cost us, with a half a percent real rate which would be a substantial increase from where we look to be headed, which would cost us three-quarters of a percent of GDP in taxes for debt service, that is not something that is alarming to me.

The size of the Fed balance sheet in an earlier era when money didn't pay interest and it was the hot potato liability, if you had too much of it, there would be a need to, as people tried to maintain the velocity with which it turned over, that could be a significant inflationary problem. But in today's world where money is effectively paying interest and so people are kind of indifferent between money and government debt, I don't worry about the size of the Fed's balance sheet either. So what I would worry at fiscal and monetary policy too, what I think is the new paradigmatic economic problem, which is the absorption of all the private savings that the economy is generating.

R. GLENN HUBBARD: Let me, that's all very good. I agree with most of it. I want to break it up, though, into three parts. So let's start with your views on the Fed, then we'll talk about the Taylor Rule, your so-called Taylor Rule for fiscal policy, and then the size of government. So taking the Fed first, you talked about various bouts of financial instability partly because we are relying excessively on monetary policy and not enough on fiscal policy. Do we need to change that? Are we asking too much of the Fed right now in this particular crisis? Do we need to put it back in the box? What are you tangibly suggesting for the Fed?

LAWRENCE H. SUMMERS: So I think we need to recognize, look, there's a basic logical issue. I think what's happened and what we've sort of implicitly but not explicitly recognized is in economics parlance, the IS curve has become more vertical. In lay parlance, reductions in interest rates do less to stimulate spending than they once did. So we've got more of a pushing on a string issue and that's because housing is a smaller part of the economy, durable goods generally are a smaller part of the economy. Below a certain point, marginal changes and costs to capital don't matter. They don't matter as much. There are a whole set of reasons.

So there's question which is when you have an instrument, a stabilization instrument, and it's less powerful than you thought, what should you do? And there are two views. One which is kind of suggested by the phrase pushing on a string is you should go find another stabilization instrument because your stabilization instrument doesn't work as well as it used to. And the other view is, well, if the multiplier is only half as large, I need to do twice as much of the policy. And I think we have implicitly gravitated to the second view that we're going to do ever more dramatic kinds of monetary policies. And that's kind of logically right except that if the instrument has toxic side effects, then using it more and more dramatically is going to have more and more problematic aspects.

So I think we need more monetary policy humility and more pushing of responsibility to government and to fiscal policy. I think that on technocratic grounds, around monetary and fiscal policy and I think it on democratic theory grounds. I mean to use a kind of extreme example and it's sort of too extreme to make sense, but I think it does make my point, we're seeing terrible, terrible problems in our country around police conduct, in justice and injustice.

If the government asked the Supreme Court to take on the task of bringing police to more appropriate procedures in apprehending criminals, on the one hand the Supreme Court would have a kind of credibility that no attorney general has. It would reduce political responsibility by politicians who would like to do it. And it's plausible that the Supreme Court would actually be kind of more competent at the details of the task. But I think the Supreme Court would not go near a request like that because it would understand that even if it would do a good job and would do better in the short run, it would change profoundly the way the Supreme Court was seen and would make it more difficult over time for it to do its core mission.

And when you have the Federal Reserve trying to get involved in deciding which company is going to get a loan, and by what standards particular companies are going to get loans, and you have the, you know, Main Street Lending Facility as a kind of – you worked in government and I suspect in this respect Republican and Democratic administrations aren't that different – Main Street Lending Facility is the kind of term that a president's political adviser would make up. You know, can we have something called the Main Street Lending Facility because Main Street has positive evocations in contrast with Wall Street. I don't care exactly what it is, you economists figure out like what exactly you want to do, but we'd really like to have a Main Street Lending Facility.

That's like the kind of thing that White House Chiefs of Staff would, in either party, would tend to gravitate to. I think that's a little worrisome when you're starting to get the central bank involved in that kind of thing. So I think both in the technocratic sense and in the broad political sense, we need to have some stepping back by the central bank. But it's very hard for them to do unless we have some stepping up with respect to fiscal policy.

R. GLENN HUBBARD: Well, that's what I want to turn to. So one way of stepping up is your Taylor Rule which I think you mean – correct me if I'm wrong – is some sort of real strengthening of automatic stabilizers or putting triggers into policy responses so we don't have to go back to Congress every time and play political games. Is that what you mean by a Taylor Rule?

LAWRENCE H. SUMMERS: Well, I was kind of careful in the way I phrased it. At a minimum, so there's, there would be the minimalist position and there'd be the intermediate position and there'd be the maximalist position. The minimalist position would be just like there are a million analysts out there who are looking at their version of the Taylor Rule and looking at what the Fed is doing and thinking about whether monetary policy is too easy or too tight in that context and that's something the Fed's looking at and they're thinking about.

At a minimum, the economics profession hasn't produced a way of looking at fiscal policy and saying relative to the kind of the way it ought to be and the way it's been historically, and more importantly the way it should be, right now is U.S. fiscal policy too expansionary or too contractionary or what? So at a minimum, we don't even have evolved norms that can shape the debate over appropriate discretionary policy. And that, it seems to me, is just a gap in what the economics profession has put out there for broad discussion.

If you look at the amount of research attention that's gone into monetary policy relative to fiscal policy, it's two orders of magnitude more on monetary policy with a lot of the reason being that there's a lot of central banks in the world and there are a lot of regional central banks in the United States and there's a staggering size research staff in the Fed and there are no research staff – you know, there are hundreds of researchers, hundreds of people whose job is, at least half, to do research in the Federal Reserve System – and first approximation, there's nobody so configured in the Treasury Department. And so what do we get research on? So I think that's the first sense in which I meant.

Second, I think there's a pretty compelling case for some program-by-program automaticity. Let's have triggers for expanding and lengthening unemployment insurance that go beyond the ones we do and let's have something similar attached to some of our tax credits and some of our welfare programs. I think that case, it seems to me, is pretty compelling.

And then there's a third argument which is we should have some broad governance by feedback rule that creates a default that we're going to institutionalize a set of things that will cause the overall budget deficit to move with the Taylor Rule, a Taylor-equivalent fiscal rule. And I'm less certain as to whether I think that's a good idea just because I think there are all kinds of contingencies and hard-wiring rules seem to me to be problematic. I've, in general, thought it was a very good idea for the Fed and the broader financial community to look a lot at Taylor Rules. And I've, in general, opposed ideas that Congress legislate a Taylor Rule for the Fed. And so I'm more skeptical and I wouldn't rush to number three, but I would rush to number one and two with respect to fiscal policy.

R. GLENN HUBBARD: I want to take you to the size of government point, because those pressures are there. I think nobody can disagree. How would that government be financed? This will be a political story obviously this fall, but it's a longer run equilibrium story. If you're going to have a large government, I think theory and experience would tell us that consumption taxes are probably going to finance much of that government. And, of course, those are borne by everyone. How would you finance this larger government?

LAWRENCE H. SUMMERS: So I think starting where we are right now in the United States, there is significant capacity to raise taxes in very progressive ways that will also make the economy function more efficiently. Those would not primarily involve or might not even involve at all increases in overall top rates, but they would involve things like stepping up compliance which I think over ten years can raise over a trillion dollars.

You know there was a remarkable Treasury Inspector General Report that came out a week or two ago that said that there were 100 people who didn't file any return between 2014 and 2016. The IRS, because of its lack of budget and whatever, made no effort to go after them at all. And the combined revenue loss from 100 people who didn't file and we didn't go after was $10 billion. And that is the very small tip of a very big iceberg.

So, compliance, more equitable taxation of capital gains. I think corporate tax rates were much too high in the United States but I think the business community's original proposal for 25% corporate tax rates would have been fully adequate to meet the need. I think we should be doing much more in the global tax cooperation area and I was surprised – surprised and disappointed – to see us pull out of the global cooperation effort with respect to digital taxes.

Natasha Sarin and I have put together a program for The Hamilton Project that gets us to about $3.5, $4 trillion over ten years without any increases in rates. And I would defend all of it as making the economy more efficient by closing tax shelters. But that's 2% of GDP roughly, a little more than 2%, actually that's about 2% of GDP. If I'm right about the size of government needing to expand, not because we embrace a new progressive vision, but just because we keep the same vision we have and respond to change in relative prices, then I think we are going to have to move to broad-based taxes.

Whether the right instrument there is a carbon tax or some type of energy taxation regime, whether it's what the rest of the world does with a value-added tax, whether it's increased reliance on payroll taxes, those are very complicated issues. But I don't think, I think it's right to say that relative to the current political debate, we can raise a large amount of revenue progressively and with efficiency. I think that's right. But I would certainly recognize that we can't raise 7% of GDP from the top 1% and that if we're going to have a larger, if we're going to actually have the larger government, that we're going to all have to pay for it and we're going to need to think about the progressivity in the context of thinking about both the taxes and the transfers. You know, it's the point there.

One of the main reasons that I was very critical of Saez and Zucman was they observed the fact that between the 1950s and now we greatly enlarged the Social Security program and raised the payroll tax and drew the broad conclusion that we now had a more regressive tax system than we used to because the payroll tax was more regressive and took no account of what it was financing, which was the benefits which were highly progressive. And so I think we're going to need to move to a more holistic view of government that thinks about both taxes and programs.

R. GLENN HUBBARD: I agree with that. And I like what you say about raising revenue with little efficiency cost, but the actual tax plans that are surfacing in the political process don't quite look like that. They would look like very large increases in marginal tax rate and they're about the same amount you're talking about. So, are you suggesting maybe we should substitute your plan for what we're hearing?

LAWRENCE H. SUMMERS: You know I don't, I think that plans at this stage in campaigns are highly indicative, but yes, I think that we should be paying more attention to broadening the base and less attention to raising rates than most people are in the political process. I think some of this error is aided and abetted by the technical community which, because it's been burned on issues like tax compliance before, tend not to give budget scoring credit for a variety of base-broadening measures that I actually think there's pretty overwhelming evidence would generate substantial, would generate substantial benefits. And I think that this issue – and you and I have both grappled with it at different points and I think probably you, like me, Glenn, have been on both sides of it depending on the issue – of how you think about the feedback effects of policies and what you give credit for.

You know, the healthcare costs trend line has moved by far, far more than the CBO regarded as imaginable when it was scoring various things associated with Obamacare. And how we deal with those kinds of contingencies in making budget plans is, I think, an important issue, but the way the scoring mechanisms work tends to push us towards economic inefficiency. You get credit for base-broadening, excuse me, you get credit for higher marginal rates but not for compliance and base-broadening. You get credit for direct controls but not credit for improved incentives.

R. GLENN HUBBARD: But let me take you here toward the end, to our own sector in higher education with a couple of questions. One is all that we're going through in technology right now in higher ed, whether you expect that in the future? And second, many of the structural opportunity issues in the nation today are in part a reflection on our sector too. So how do you expect higher ed to be evolving both in terms of delivery and in addressing opportunity?

LAWRENCE H. SUMMERS: I think the two things go together. I'm going to talk about it by talking about Harvard because that's what I know best, but everything I'm going to say would apply to some range of top institutions. I'm very proud of the fact that I put in place a set of policies during my time as President of Harvard that was widely emulated.

It basically said if your income was below $60,000 or $80,000 you didn't have to pay a cent to come to Harvard. And that changed the composition of the Harvard student body. It changed the composition of the Harvard applicant pool and it influenced what a number of other universities did and it was a really good thing. But, you know, it was, maybe it changed 5% to 10% of that class and so maybe that was 100 people. And if it happened at ten other schools, maybe that was 100 people at each of them and so it was 1,000 people each year. Well, that's good, but relative to the issue of opportunity in America, 1,000 people is more than symbolism, but not that much more.

And so if our leading universities are really going to matter for opportunity in the United States, it's going to be because they operate on a completely different scale than they used to. And if you think about it, any institution in the private sector that was a quarter as successful as Columbia University would have expanded by far more over a half century than Columbia has or Harvard has or any of these universities. Universities, unlike businesses, define their success by who they exclude rather than by who they include.

And the great opportunity that's before us is that technology in education cannot just be a cheaper way of providing product but it can be a better way of providing product. It can enable students sitting each at home doing their reading to be in dialogue with each other about the reading. It can enable each person watching a lecture to watch it at their own pace with digressions into whatever interests them most. It can make possible, when you're preparing a material that's going to be viewed by 20,000 people, for there to be an entirely different level of expense created in making it entertaining and enlightening than would be possible for a calculus lecture to 171 students in a lecture hall.

And so the question is: who is going to take this opportunity, which is like the opportunity that was open when people figured out that video didn't just have to be putting a camera in the back of a theater but provided all kinds of opportunities that were previously unexploited. And is that going to be, who is going to do that? Is it going to be the current leading universities? Is it going to be the tech companies moving into our sector? Is it going to be partnerships? Or is it going to be upstarts?

The history of American capitalism – as my late Harvard colleague, Clay Christensen, always emphasized – suggests that the prospect that it will be America's leading universities acting on their own to disrupt and profoundly change their own sector is not very high. And everything we know about disruptive technological progress suggests that when organizations are run by generally inclusive committees, as universities are, it's even less likely that they will have that kind of disruptive change. So I'm not all that optimistic that it's going to come, but it will come from somewhere and I think it will represent a huge, huge opportunity. My guess is that it's going to, that after 50 years of basic stasis, higher education is going to look very, very different 15 or 20 years from now than it does today. And the question is who is going to drive that change?

CHAIRMAN MARIE-JOSÉE KRAVIS: I'm sorry, alas, both Glenn and Larry, I have to interrupt you. We've run out of time but thank you so much for sharing your time and your valuable insights and for presenting such an informative and provocative discussion and we end with Larry's set of questions. Hopefully, we will have you again in the future to pursue these discussions.

To all our members, thank you for attending, all our members and guests. And as you may have noticed, the Club Calendar of Events will extend through the summer this year and I'm pleased to report that we have many terrific speakers lined up. And as always, we encourage you to invite guests to our events. On Monday, the 29th, we have Kristalina Georgieva, who is the Managing Director at the IMF. And then on July 14th, James Bullard, the President and CEO of the Federal Reserve Bank of St. Louis. And on the 15th, Dr. Stephen Hahn, the Commissioner of the FDA. So thank you. I hope you will join us regularly and wishing you all a terrific day. Thank you.

LAWRENCE H. SUMMERS: Marie-Josée, thank you very much for your leadership. Glenn, it's a great pleasure to engage in these dialogues with you and I know I speak for Glenn in saying that we are flattered that those of you on this call have chosen to join us for this occasion.

R. GLENN HUBBARD: Thank you.

CHAIRMAN MARIE-JOSÉE KRAVIS: Well, thank you again.