The Economic Club of New York

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Phil Gramm
American Economist
Former U.S. Senator - Texas

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Webinar

Moderator: Kathleen Camilli
American Economist
Camilli Economics

Introduction

President Barbara Van Allen

This is Barbara Van Allen, President and CEO of the Club. Thank you all for joining us today. We are going to just jump ahead since we've lost a little time. I do want to again thank members of the ECNY 2022 Class of Fellows – a diverse group of rising next-gen business thought leaders who are joining us as well as some students from the CUNY Graduate Center, the NYU Stern School of Business, and the Gabelli School of Business at Fordham.

Today, I'm absolutely honored to welcome our special guest, Phil Gramm, American Economist and Former U.S. Senator from Texas. Phil served as Vice Chair of UBS Investment Bank from 2002 to 2011. At UBS, he provided senior leadership in such landmark IPOs as Visa, the Bank of China, the China Merchants Bank and LG Phillips in Korea. He was instrumental in the follow-on equity offering for the Industrial and Commercial Bank of China, the privatization of Telstra in Australia and the sale of 20% of Akbank in Turkey to Citibank.

He served six years in the U.S. House, which I remember well – I was a staffer back then – and 18 years in the U.S. Senate. Phil's legislative record includes landmark bills such as the Gramm-Latta Budget Bill, which reduced federal spending, rebuilt national defense, mandated the Reagan tax cut, and the Gramm-Rudman Act, which placed the first binding constraints on federal spending.

As Chair of the Banking Committee, he steered through legislation modernizing banking, insurance and securities law, a first frankly in Congress at that point for some 60 years. The Gramm-Leach-Bliley Act allowed banks, securities firms and insurance companies to affiliate as part of a Financial Services Holding Company. Phil is a Nonresident Senior Fellow at the American Enterprise Institute.

And we're pleased today that he'll be sharing insights into his newly released book, *The Myth of American Inequality*, *How Government Biases Policy Debate.* The format today will be some brief opening remarks from Phil followed by a conversation. And we're so fortunate to have fellow Club member and one of the nation's leading economists, Kathleen Camilli, doing the honors of moderating. In addition, the chat box will be open for you to use and they will certainly take those into account, time permitting. As a reminder, this conversation is on the record. With no further ado, Kathleen, thank you for your patience, I pass this over to you.

Opening Remarks by Phil Gramm

KATHLEEN CAMILLI: Phil, I'm going to give you the floor.

PHIL GRAMM: I'm sorry people can't see my ugly face because I'm technologically-challenged, but fire away.

KATHLEEN CAMILLI: So, Phil, why don't you start with some opening remarks about your book and why you chose to write this book now. I've only been through the first three chapters, but I think it's a well-worthwhile addition to the discussion we have out there on the condition of America at this time.

PHIL GRAMM: Well, Kathleen, first of all, thank you very much. For about the last 20 years, I have sensed that there was something fundamentally wrong with our statistical measures of well-being. At first, I thought the problem was my eyes and thinking the world I saw was different than the world portrayed by government statistics on well-being. But finally, I started working with a guy that had twice been Assistant Commissioner of the Bureau of Labor Statistics, John Early. And we started looking very closely at our fundamental measures of well-being, the most important one being household income. It's used to gauge changes in income. It's used to measure poverty. It's used to measure income inequality. And it's clear that it has very significant problems. I'll give you one example.

The Census puts out a measure of household income and it puts out income by quintiles. The Bureau of Labor Statistics puts out data on how much each of those quintiles consume. And for the last decade, the bottom quintile of household earnings in America has consumed roughly twice what it had bought. The second quintile has consumed about 10% percent more than it had earned. And the top quintile has consumed only half of what it has earned, though there's no evidence that the (INAUDIBLE) that half. How did that happen?

Well, it happened because beginning in 1947, the Census came up with the way it was going to measure household income. And over the years as new benefits have been provided by the government, it's made a series of decisions that have produced a situation where the government is counting only one-third of all transfer payments made by those state or local governments as income for the beneficiaries that got the benefits. It's counting about .9 trillion of $2.8 trillion of benefits. And it doesn't count, for example, earned income tax credits, when you get a check from the Treasury. It doesn't count food stamps when you get a debit card. It doesn't count over 100 other federal programs, from food stamps to rent subsidies to Medicaid, I mean from Medicaid to housing subsidies where the government actually pays the bill.

The Census also incredibly, in calculating income inequality, doesn't count taxes. So the basic finding of the book in the second chapter is that when you look at, when you take all transfer payments, net of transfer cost, and you count them as income to the people that got the benefit, and when you take taxes paid away from the income of the people that pay taxes, inequality in America is not 16.7 to 1 from the top to the bottom quintile, but 4 to 1. The poverty rate is not 12%, but 3%.

Those are the kinds of findings you get when you get the facts straight in terms of counting all transfer payments as income to people that received it and all taxes paid as income lost.

KATHLEEN CAMILLI: Okay, so Phil, I'm going to stop you there because I have a whole list of questions myself. I want to open it up to the floor. Please put your questions in the chat box.

PHIL GRAMM: Let me just make, before you do that, Kathleen, let me make a couple of points. We find that whereas the economist tells us that it is universally accepted that income inequality is high in the West and rising, and Bernie Sanders tells us that the rise in income inequality is obscene and unsustainable, we show that when you count all transfer payments as income to the people that got the benefit, and you count all taxes as income lost to people who paid it, that rather than income inequality rising by 22% since the Second World War, it has actually declined by 3%.

So we're having a big public policy debate about inequality when, in fact, the statistics when you count all income sources and you take away taxes paid, income inequality is actually slightly lower today than it was in 1947. We look at the super-rich, do they pay their fair share of the taxes? We look at mobility. These liberals would like us to measure the effectiveness of the economy and income inequality, but America never promised equality of outcome in the competition of life. In the words of Abraham Lincoln, it promised a fair chance and open way for your industry and intellect. We show based on mobility that competition, the American Dream, are alive and well. That's a summary of the book, Kathleen. Go ahead.

KATHLEEN CAMILLI: Okay. So I want to, first of all, as an economist, as a business economist myself, I really want to know how Census got away with this. Because clearly when you look at the Bureau of Economic Analysis, National Income and Product Accounts, and you look at total personal income and disposable personal income, you can see all of the transfer payments. You can see all of these line items all added up.

I like to watch, when I watch the economy, I like to watch overall personal income. Quite frankly, it's been doing quite well even during these lasts two decades when other people claimed that income inequality has grown. It's keeping more in pace with, above inflation. So I don't know how we kind of got ourselves into this situation of letting Census drive this discussion when clearly we have the data. And clearly in your book, you've decided to put it all together.

PHIL GRAMM: That's right. And look, what happened, in 1947 when they started doing household income, there weren't many benefits that were paid in kind. Very few people got hospital insurance through their job. Government welfare programs were in cash. And so the census simply counted income as cash payments.

KATHLEEN CAMILLI: Right.

PHIL GRAMM: Then over the years, as benefits were added, especially after 65 with the war on poverty, it made the decision not to count those benefits because they weren't paid in cash. It also decided not to count taxes so that an earned income tax credit, a refund, like we just paid, where President Biden said it would cut the poverty right in half, that decision was made not to count taxes. So refundable tax credits, where you get a check from Treasury didn't count. So they've collected this data. They report it elsewhere, through government agencies, but they don't tell it.

Now, how did it happen? The hardest thing about this book is that it is so hard to believe that Census has gotten away with it and that we've had a (INAUDIBLE) since 1965 where the numbers have become increasingly unreliable. That's the hard part to believe.

KATHLEEN CAMILLI: Right. And I don't know who would be in charge of having the

Census change the calculation. I don't know who would be in charge of that.

PHIL GRAMM: Well, we suggest in our final chapter that Congress mandate that the Census Bureau count all sources of income, including transfer payments, and that they adjust for taxes in any comparison of income.

KATHLEEN CAMILLI: Right.

PHIL GRAMM: Now what Census normally does, Kathleen, is that if somebody raises an issue, they do a study. And sometimes they put out a supplemental measure which they did on child poverty as a result of the President saying that it was going to cut it in half. But they don't change the official number and years from now we'll be debating as if child poverty did not change when we gave a massive refundable tax credit.

KATHLEEN CAMILLI: So I think that I didn't get to your final chapter, but I think that it's something that Congress should move forward on so that we can have an accurate picture of what's going on in the country.

PHIL GRAMM: Well, the Bible says you shall know the truth and the truth will make you free, but the Lord leaves ferreting out the truth up to us.

KATHLEEN CAMILLI: Yes, of course.

PHIL GRAMM: And the goal of all that is making government agencies count all the facts, all the income, and all the taxes in reporting economic data on our well-being. Leave how well-off we are, obviously how we feel, but in looking at statistics about the poverty rate, income distribution, those kinds of statistics are important in forming opinions, and our perspective on history and the present has a big impact on the future. And we're not arguing in this book. Some critics have said, well, these people just hate welfare. They want to cut these programs. We don't want that. We argue we've got to get our facts straight. Let's debate the facts.

KATHLEEN CAMILLI: So how do you think we can get this knowledge that you've put together in your book out there and have it become more mainstream? I mean obviously, yes, getting Census to change the way they do the calculation would be great. But your book is very dense, and it needs to come into popular discussion on television shows and in the press. The press needs to read it. I read a couple of commentaries about your book online and they were mostly, you know, leaning either conservative or liberal and nobody wanted to take the argument straight down the middle and be factual the way you are in the book. So how do you think we can move the ball forward to get people to talk about this in plain factual language?

PHIL GRAMM: Well, part of it is getting the most famous person that makes estimates about what's going to happen to the economy in the future to interview you for The

Economic Club of New York. That's why I'm doing this and I'm sorry that I'm so technically backwards that I couldn't get on the Zoom with you.

KATHLEEN CAMILLI: That's quite all right. But, yes, so yes, we do need more people, other than me, to talk about it. And we need economists who want to talk about facts. So what else can I ask you about the book?

PHIL GRAMM: Let me say one other thing. The book has numbers and graphs, but it requires only the ability to add and subtract. Since we're trying to convince people that government statistics are wrong, you've got to provide the proof. You can't say it, and it's not your word against somebody else's. And I think in the book we do a good job of proving our point. You may not like what we show, but nobody has come out and said you're wrong.

KATHLEEN CAMILLI: Well, there you go.

PHIL GRAMM: And I've presented this at Stanford, at the Hoover Institute. I presented it at AEI, Washington. I presented it in a lot of places and I'm going to do more of it.

KATHLEEN CAMILLI: That's good. This is nonpartisan. This is nonpartisan, which is what we need.

PHIL GRAMM: Well, one of the authors of the book worked for George McGovern. Another author voted different than I did in the last two presidential elections. But one thing we share in common is we want to get the facts straight. What has happened in America is, it used to be that people who wanted more government wanted to get the facts straight. I could debate Senator Byrd or Senator Kennedy about how much we should spend on welfare and talk, try to get facts straight, because they wanted to know what the facts were. Now you've got people who simply want their program and whatever they've got to do to get it, they want to do it. It's (INAUDIBLE), but I think it's true.

KATHLEEN CAMILLI: Right. So why don't we, Barbara wanted to ask, was hoping we would have time to ask you a question about how we can get Congress back to a place where it was 20, 30 years ago where you, you know, shook hands across the aisle and made deals to solve problems in our country instead of screaming and shouting at one another. Go ahead, please.

PHIL GRAMM: Well, I think part of it is that we need to enforce the rules of the Senate especially. The idea of members impugning each other's motives was unheard of when I was there. There's no way we could have gotten away with it. Secondly, I don't think it's all Congress's fault. We're now debating issues that are far more important and it would have a far more profound effect on society than we debated when I was in the

Senate 20 years ago.

Senator Byrd and Senator Kennedy wanted government to play a bigger role in American society but they didn't want to tear up the economic system and start over. And it's this big division that is so difficult. Debating marginally how to change American policy is something you can get people to do, but if people have very different visions of the country they want, and there's no compromising between, you get the kind of gridlock we have. And quite frankly, from my point of view, until we get the facts straight and until America decides what it wants, the constraints we have served us well.

I think it's clear in the last two years, under Trump, at the end of his administration, that last stimulus package was ill-advised and irresponsible. And the spending under Biden has been totally irresponsible. In fact, by all outward and visible signs, the administration and the Congress, the Democrat majority have simply taken the view they want to spend as much money as they can spend. And you increase spending by 50% in one year and then people marvel that prices go up. What else could have happened? No possibility could have produced any other result, especially when supply was constrained.

KATHLEEN CAMILLI: The explosion of the transfer payments, when you look at it on a graph, is enormous. When you look at it laid over the money supply explosion in 2020, it's enormous. So all that's happening now, we're sopping up the money, sopping up the money and the Fed will have to continue to sop up the money to get the inflation rate under control. So that will be a painful process. You've been around a long time. I certainly have been an economist since 1981. I remember the decade of the inflation. I lived through it as a teenager. And that's difficult for people to deal with, but it is what has to happen now.

PHIL GRAMM: Inflation is a huge problem and it's hurting working people. Real wages are falling. And government spending and monetary policy are responsible.

KATHLEEN CAMILLI: Yes, well, keeping quantitative easing in place for a decade was, in retrospect, probably not the right thing to do. We probably could have stopped QE after the second round. But, you know, we can always look back and analyze and make better suggestions.

PHIL GRAMM: Well, look, it's what we do in the future. When I came to Congress in 1979, we were coming off a nine-year, well, we were in the midst of a nine-year period where inflation averaged 9.2%. Inflation was 13.5% the day Ronald Reagan became president.

KATHLEEN CAMILLI: I remember it well.

PHIL GRAMM: Mortgage rates were 21.5%. And we stopped it. And how did we do it?

KATHLEEN CAMILLI: Well, we had Paul Volcker as Chairman.

PHIL GRAMM: Yes, we had Paul Volcker as Chairman. Despite the fact that Reagan increased defense spending initially, he cut spending as a percentage of GDP over the eight years. He reduced regulatory burden. And he provided incentives for people to work, save, and invest. And sure enough, it worked. They saved and they invested. And one of the negative impacts of this explosion in transfer payments that I present in the book is that we have now, transfer payments have grown so rapidly to low-income people that they far outpace real wages of middle-income Americans. And so you now have a situation where the bottom 60% of the people in the country have basically the same income. And so only 36% of the prime work-age people that are poor actually work, from 68%. And this explosion of spending in the last two years has started to affect the labor force participation rate among middle-income Americans. When everybody's riding in the wagon, who is going to pull it?

KATHLEEN CAMILLI: Right. So I was going, that was one of the questions on my list. You know, we have a 3.9% unemployment rate. We've got a participation rate at 62.9. We have baby boomers that are leaving the labor force with a smaller cohort of younger workers entering, not enough of them entering the labor force. And so who is going to do the work? I mean businesses, I serve on two boards of directors, and businesses are straining to find employees. And when they do find them, the turnover rates are high because they jump ship. Some people don't want to work.

PHIL GRAMM: Now, look, have you been into a restaurant or a store lately that doesn't have a Help Wanted sign?

KATHLEEN CAMILLI: Right. And that's not just in the U.S. That's in a lot of other countries as well.

PHIL GRAMM: True. And again, we, if we had the labor force participation rate among low-income people, if it was today what it was in 1965, we would have a huge number of additional workers, and if we could get back the people who dropped out of the labor market in the last two years. And I think that there are two things we need to do. One, we need to have a work requirement if you're going to receive means-tested benefits.

KATHLEEN CAMILLI: Right. Exactly.

PHIL GRAMM: If we don't do that, we're going to have more and more people drop out and we've got to provide incentives for older people to stay in the labor market. Give them the choice of lower taxes. There are many things we can do that would encourage people that are healthy, that don't feel 66, they would continue to work if they had incentives to do it. We need to provide the incentives.

KATHLEEN CAMILLI: That's right. I couldn't agree with you more. So, and while we're at it, we might as well talk about immigration because clearly there are people outside of the U.S. who would love to be in the U.S. working, and we've shut our borders. So what's your view on that? What should we do there?

PHIL GRAMM: Now, listen, we need to open up our programs to let skilled people into the country who want to come here and work. We ought to dramatically increase the quotas where we're letting in people in H-1B programs. The tightening up on legal immigration was a tragic mistake. And no one was more responsible than Trump, but Biden has continued basically the same program.

KATHLEEN CAMILLI: Yes, he has.

PHIL GRAMM: We need talented people in America. Now, we don't want people to come here and live off somebody else's labor and go on welfare. But we've got, there are many skills we're short of. We've got talented people all over the world that want to come. We need to allow people to come that have talent and come to work. And as I've said my whole political career, America can't be America without immigrants. It's the story of America. And we've got plenty of room for people that have skills and want to work.

KATHLEEN CAMILLI: Yes, plenty of room. And we also have businesses that are willing to provide the education and the training for people who want to work.

PHIL GRAMM: Well, look, you look at the number of applications for an H-1B visa which we give to people that have specific skills we need, a huge number of applicants, and we give relative few spots. That doesn't make any sense whatsoever.

KATHLEEN CAMILLI: Well, it sounds like you and I could solve the labor force issue in a few minutes.

PHIL GRAMM: They ought to turn it over to us, Kathleen. Maybe more to you than me. I had my chance.

KATHLEEN CAMILLI: Barbara, I'm sorry we didn't have many questions in the box there, but Phil and I certainly had a nice dialogue.

PRESIDENT BARBARA VAN ALLEN: Yes...

PHIL GRAMM: Kathleen, if I can just say one thing. Look for the book in the bookstores. If it's not there, order it on Amazon. Read it. I guarantee you that it will provide you with knowledge and insight that will help you better understand the country you live in. And again, what we're arguing here is let's get the facts straight. And when you get the facts straight, America, the American economy has provided a cornucopia of goods and services that have, in fact, been widely distributed and you live and benefit from living in a country that is much better than the government statistics show it is.

KATHLEEN CAMILLI: And Phil, I want to see you on as many news shows as possible talking about this book, as many as possible.

PHIL GRAMM: Well, if we reform welfare and if we improve primary and secondary education, we could dramatically increase opportunity in America.

KATHLEEN CAMILLI: Absolutely. No question.

BARBARA VAN ALLEN: All right. Well, many thanks. It was a great conversation. I'm sorry we got a little bit of a late start, but many insights.

PHIL GRAMM: Well, it was my fault, and again I'm sorry that I wasn't able to do this with a picture. But anyway, thank you so much. You did a very nice job. And I appreciate you doing this.

PRESIDENT BARBARA VAN ALLEN: Great. So, Kathleen, he's right. You did a great job. And as always, it's great to get the senator's perspective on the economy and what's going on. I want to again thank you both. And I want to move to our schedule, our upcoming schedule, and we'll bring that up on the screen.

Next, we have a webinar with Nancy Sims, who is the President and CEO of the Toigo Foundation. That will be October 3rd. She's going to talk about that same issue of training our workforce to ensure they're prepared for the opportunities that the economy is presenting. Followed by the Chancellor of the New York City Department of Education, David Banks. He's going to talk on October 6th about education for the children of New York and his plans. Loretta Mester, the President and CEO of the Federal Reserve Bank of Cleveland, will be speaking on October 11th. And that will be an in-person event. Followed by Ruth Browne, President and CEO of the New York Ronald McDonald House, on October 13th. Charlie Cook will be joining us again, and once again interviewed by Bob Rubin, Secretary of the Treasury and an Economic Club lifer. That will be October 18th. That will be in-person. And just a reminder, guests are welcome to attend with a member at the member rate. So it's a special offer for that particular event, in-person, October 18th. We have invited both candidates for Governor of New York. And so far we have been able to confirm Lee Zeldin for October 26th. That will be also virtual. Steve Squeri, the Chair and CEO of American Express, will be addressing the Club on October 27th. That even is going to take place in-person at the New York Stock Exchange. And then you can see that we have our big anniversary dinner. We're going to celebrate the 115th, we'll have a very nice panel there, former chairs and John Williams will be the moderator. That will be November 14th. And we've got a lot of other surprises planned for that night. Arvind Krishna of IBM will be joining us for a luncheon in person on November 17th. And then we'll have a, we're going to hear from John Williams on the economy, November 28th, by webinar, and that will be at noon on November 28th. And then Michael Wirth, the Chair and CEO of Chevron, is coming December 1st for a luncheon – we're excited about that – to give insights on the current energy situation. And then, of course, we have our closing dinner on December 8th featuring another U.S. Senator, Joe Manchin of West Virginia. We actually have a couple other fairly large events that have not been announced. So please stay tuned to our schedule. Check our website because we are always updating it. And thank you again to members of the Centennial Society who have joined us today who help to ensure that we have a strong financial backbone of support for the Club.

And for everyone again, thank you for joining us. I apologize for the technical challenges. I'm glad we were able to make the conversation happen. And again, thank you, Kathleen. Thank you, Senator. And everybody, have a good rest of your day.