The Economic Club of New York

115th Year
649th Meeting

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Russell L. Carson Professor of Finance and Economics
Columbia Business School
Former Chairman, U.S. Council of Economic Advisers

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Webinar

Introduction

President Barbara Van Allen

Good morning. Welcome to the 649th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here today with all of you in a milestone year, our 115th anniversary. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and we feel this mission is as important today as it's ever been. A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse, rising, next-gen business thought leaders. We also have joining us today grad students from a number of universities, including Rutgers, Fordham and the CUNY Graduate Center.

Today, I'm honored to welcome back two of America's leading economists and ECNY Club members, Glenn Hubbard and Lawrence Summers. Although they need no introduction, I want to briefly introduce them for anyone that is new today.

Glenn is the Russell L. Carson Professor of Finance and Economics at Columbia University. He previously served as the Dean of the Columbia University Business School from 2004 to 2019. He was Chairman of the U.S. Council of Economic Advisers from 2001 until 2003 and Chair of our very own Economic Club of New York from 2007 to 2010. Currently, he's on the board of ADP, BlackRock Fixed Income Funds. He's co-Chair of the Committee on Capital Markets Regulation, and MetLife where he is Chair.

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

I'd like to mention the format today is a conversation. We're going to end promptly at 11:30. Any questions that were submitted have been shared and may be addressed during the conversation. And, in addition and importantly, we're going to use the chat box for this conversation, and you can enter directly questions in the chat box, which they will consider based on time permitted. As a reminder, this conversation is on the record and we do have media on the line. Gentlemen, if you're ready, I'm ready to pass this over to you. Thank you again for joining us.

Conversation between R. Glenn Hubbard and Lawrence H. Summers

R. GLENN HUBBARD: Thanks so much, Barbara. Larry, it's great to see you as always. You know, when we had these conversations before, we thought the pandemic was the significant event we would be talking about for a very long time. That's still a significant event, but it's no longer THE significant event.

There's a lot to discuss and let's just get to it. You and I had talked about a number of topics in advance, but I think we would be remiss if we didn't start with Ukraine. Obviously a horrible humanitarian and geopolitical crisis with both short-run and long-run effects. I'll turn to you first and then come back. What do you see as the key short run economic effects here? And what are some of the longer run questions that we may be not talking about enough?

LAWRENCE H. SUMMERS: Glenn, it's good to be back here with you. One thing we thought – at least I thought – on some of these calls before that certainly does not look right is that crucial national security challenges were switching from those involving balancing power among nations to fostering cooperation among nations. The latter, fostering cooperation, continues to be vitally important, and I don't think we've seen the last in your lifetime and mine of major pandemic threats, Glenn. But certainly I underestimated the risks of return to situations of great power, military conflict.

For the short run, I think this is serious but manageable. The effect of the war primarily and the sanctions secondarily will be an adverse supply shock, manifest in higher oil prices and higher commodity prices more generally reminiscent, at least qualitatively, of the 1970s at a time when, given inflation threats, we very much didn't need that. And so the echoes of the 1970s when mismanaged and excessive aggregate demand were followed by very bad breaks on the supply side seem to me what one needs to think about in the short run.

Obviously, for the Russian economy this is going to be an epic calamity given that our goal is to inflict pain and we are likely to succeed. What I would say from a global economic point of view, if one thought about supply shocks that were very substantial but not on the current reading as severe as those of the 1970s, in part because the prices aren't going to spike quite as much, and more because the economies are less energy and commodity sensitive. That's how I would think about it.

I think if history remembers this and this is a prominent episode in history books fifty years from now, it will not be because of the economics and it will not be because of the humanitarian costs in Ukraine, grim as they are. It will be because of what this means for global order. Global order is in many ways like the air. We take it for granted until it is absent. And I think we, in the United States, need to be pondering what this is going to mean for a broad set of our relationships. Russia and China, at least potentially, are going to be more allied than we imagined, although that is in some doubt.

We highlight the fact that at the United Nations we won a decisive vote in the General Assembly, but if you count votes weighted by people, we actually lost quite badly. India, Brazil, a number of powerful nations have not been terribly sympathetic to our perspective. And I think this question of what kind of world order is going to be created coming out of this episode is the really profound question.

It may not be too early for us as economists or our friends who are international relations specialists to begin thinking about the post-post-Cold War world. The interval between the end of the Cold War with the fall of the Berlin Wall and now is considerably longer than the interval that existed between World War I and World War II and not that much longer, not that much shorter than the post-Cold War era. So I think the really important implications are around world order.

R. GLENN HUBBARD: I would agree with that. I mean certainly in the short run, we will feel pain from higher energy prices, although as you said, rules of thumb about the effect of oil prices on the economy were largely drawn from the 70s. Contemporary examples are a much smaller effect, so they will be painful but not likely devastating. Probably more feeling would be supply chains and things like nickel and palladium and commodities like that, that Russia plays a role in. Aluminum as well. Food prices may be a biggest short run deal, not just prices but the scarcity aspects for Africa and the Middle East are certainly a big deal.

But I agree with you, the big deal is the long run. And I think too much attention maybe being placed on, say, what's the future of the dollar, given how harsh the sanctions have been. Will people try to evade that? I don't know what your take is. I'm more sanguine that the dollar remains simply because there's really no meaningful alternative to it to store massive amounts of wealth for large countries.

But I think, to pick up on something you said, there's been too little attention paid to the need for defense. There was a peace dividend at the end of the Cold War that was largely recycled into domestic spending, tax reductions and other things. And I think all large economies in the west are going to base the need to spend more on defense, whether it's explicit defense or cyber or private investments. And, of course, particularly in Europe where fiscal choices are already tight, this really poses questions of what are the offsets? Are we going to cut some other spending? Are we going to raise taxes? Those are politically uncomfortable things.

I get a little worried, certainly even in this country, to hear the President say the goal is for Americans not to feel pain. Well, we will feel pain. And we will feel it in our hearts, but we will, importantly, as economists, feel it in markets and in these longer-term questions. But I don't know if you had further thoughts on the world order.

LAWRENCE H. SUMMERS: Glenn, I think we're mostly in raging agreement here. Let me pick up on three things you said. First, accept sacrifice. I've been sorry to see the degree of emphasis on protection against rising gas prices. Even if gas prices go to, even if oil prices go to $200 a barrel, the price of driving a mile will not be higher than it was in the 1970s because cars are much more fuel-efficient and because of the inflation that's taken place since that time. The previous generation sacrificed much more than higher gasoline prices for freedom and this generation ought to be as well.

I've seen a lot of bad ideas in my time. Among the worst are the proposals circulating in Washington for windfall profits taxes on oil companies and for gas taxes. They're really terrible ideas.

Secondly, I would agree with you on the dollar. I thought Sebastian Mallaby had a very perceptive column making the point that nobody is going to move, nobody is likely to move into euro or yen because they're worried about what's going to happen in the dollar since at the same moments the dollar is sanctioned, euro and yen are likely to be sanctioned. And I think a breakdown of norms and an increasingly hostile world is not going to be a world where people are going to want to hold their most secure assets in RMB. And you can put your resources into bitcoin, but for your resources to be useful, you have to be able to take them out of bitcoin and that brings you back to questions about the dollar. So the dollar has risen in this moment of trouble as it always does in moments of trouble, and I think we can afford to be quite serene about the dollar.

I would agree with you on increased defense spending. I would be surprised if defense spending as a share of GDP towards the end of this decade isn't half a percent or more higher than current projections that call for it to decline would have it. I would emphasize, ask you to emphasize, in addition to cybersecurity and private investment, the importance of collective security investments around pandemic protection and around climate change. These are real national security issues in my view. And we make a mistake and will make a mistake if in our rush to concern about what is happening in Eurasia, we lose sight of those challenges in which we have underinvested.

R. GLENN HUBBARD: I agree with that. I'd like to go back to something you said on gas taxes and windfall profits taxes. This is certainly not a time to be cutting or eliminating gas taxes. One key problem with the windfall profits tax here is that for swing producers like U.S. shale, marginal extraction costs are very high. So if I now have a tax regime that says if the price gets above that threshold, I simply tax it away, it's very hard to encourage that kind of investment.

I agree with you on climate change. And this is one area where I think there may be an in-concert action between this crisis and climate change, which is the high prices for oil and for natural gas also are encouraging at the same time the development of renewables and alternatives. And rather than thinking about capping prices, we might even be wanting to think about opportunities for even price floors that encourage this kind of investment.

Certainly in Europe, if Europe is to develop the kind of LNG storage it's going to need should it choose to move away from Russia, there would have to be some kind of state guarantees or supports on prices. Otherwise, you're not going to have that kind of private investment in a volatile market. So I agree with you, I think we're in really early innings on thinking about this and it would be better to see less sloppy thinking and a little more long-term thinking.

LAWRENCE H. SUMMERS: The key proposition about windfall profits taxes is that they're not. No matter how they're designed, they will, in expectation, bear on new investments and, therefore, they will operate in the wrong direction. I think we do need to credit more than I would have a few years ago policies directed at subsidizing and mandating renewables.

I was not widely enthusiastic about CAFÉ standards because I thought, you know, it would be better to just tax gasoline. I had a set of standard economic arguments. But I think if one looks back at CAFÉ standards, what one should say today is two things that I underestimated at the time. The first is that when you mandate that people do something, they figure out how to do it. And so they had a substantial technology forcing impact and compliance ended up being far cheaper than was generally believed even by the advocates at the beginning of the last decade. And the second is that we are more insulated from what is happening right now because we can drive much further on a mile of gas and that would not have happened without the CAFÉ standards.

So I think we need to be very open to the possibilities around subsidy policies and regulatory policies directed at what I think are the twin pillars of addressing these problems – clean up electricity and electrify as much as you can. And I think that those two mantras are now larger in my thinking relative to just get prices up than would have been the case some years ago.

R. GLENN HUBBARD: I agree with you certainly that standards like CAFÉ are a much better idea than specifying techniques and ways to comply. And I do think that this is going to have to be a menu of choices. While I certainly favor, I suspect you do too, the introduction of a carbon tax, I think it’s unlikely in the near term or maybe even the medium-term political environment. And so some mixture of tax policies, subsidies, regulatory policies are probably necessary, both for energy and for climate.

I do want to pivot, though, to inflation, something that both of us have been talking a lot about. And I would note that only a year ago the FOMC's median dot suggested basically no rate increases essentially until about 2024. Inflation, of course, actual inflation has been running very high no matter how you measure it, CPI, PCE, Fed measure of PCE, PPI, it doesn't matter.

And if you look at estimates, at least consensus estimates, for this year and next year, it's still running very high. Yesterday, the Fed Chair gave remarks which could be a pivot, it could be St. Paul's conversion on the highway, I'm not sure what, but a much more vigorous discussion of inflation. And, as I was saying to you before we started, I reached into my drawer to pull out – I don't know if the audience can see it – a genuine Whip Inflation Now button from the Ford White House, which was a period in which we blamed almost everything for inflation except its true underlying causes. So because this is such a big topic, I want to peel the onion slowly here. Let's start with just, what is the inflationary outlook? And how behind the curve is the Fed?

LAWRENCE H. SUMMERS: I think the inflation outlook is pretty grim and I think the Fed is a fair amount behind the curve. There are lots of ways of analyzing inflation. Here's one that I like to use. Look at what's happening to wages since ultimately wages are the primary cost in the business and since wages take out used cars and semiconductor chips and oil and wheat and what have you. So wage inflation is, in some sense, the ultimate core measure of inflation.

You look at what I regard as the best wage measure, the Atlanta Fed's measure, which looks at the wages of the same worker today and 12 months ago. So you're not confusing yourself by saying that wages have gone down because a lot of teenagers got hired. And you look at that measure weighting, so if there are more men in the population, you weight by more men, and if there are more older people, you weight by more ___. That number is currently running at 6½% and has been accelerating at about 1% a quarter. At this moment, the labor market is, as Jay acknowledged yesterday, far tighter than we've ever seen before if you look at job openings relative to the number of unemployed people. And it's predicted to get substantially tighter over the next six months. So in my view, that 6½% wage inflation is much more likely to rise to 7% or more.

How do you get from wage inflation to price inflation? In the short run, the relationship is kind of volatile because oil prices might go up or down or used car prices might go up or down. But in the medium run, price inflation is equal to wage inflation minus productivity growth. Productivity growth is in the range of 1 or 1½, possibly 2%. So if we're going to be at roughly 7% wage inflation, we're going to be at roughly 5% product price inflation. And the only way to break that arithmetic is to argue that we're going to have a slowdown of wage inflation.

Now, one place where in an otherwise strong speech, I thought the Chairman went wrong yesterday, was he explained how, for various reasons, the Fed expects labor force participation to increase. Now it's true, if labor force participation increases and that leads to an increase in unemployment, that will lead to restraint on wages. But if labor force participation increases and that leads to an increase in employment, which is what the Fed is forecasting because they're forecasting 3½% unemployment forever, if that's what happens, then more people will be working and more people will be spending and there will be no positive impact on inflation. So I start by looking at the labor market and saying the labor market is pointing to inflation out of contact with the 2% target.

Then the second thing I say is, is the Fed behind the curve or ahead of the curve? And here I think the Fed makes another analytic mistake in some of its statements. Much attention has been devoted to the concept of the neutral rate. And the idea is that there's some neutral rate of interest and if you raise interest rates above the neutral rate, then you're restraining the economy. If you reduce it below the neutral rate, then you're accelerating the economy. The neutral rate, though, should be thought of as a neutral real interest rate. That is, as a difference between the nominal interest rate and the real interest rate.

The Fed says we think inflation in the long run is 2% and we think the neutral rate in the long run is 2½%. And then they pat themselves on the back for planning to raise rates above 2½%. The problem is that a super 2½% rate is only above neutral if inflation is 2%. So this becomes “assume a can opener” economics. The right way to think about it is, are they raising real rates above an estimate of the real neutral rate which they think is about half a percent? And if you look at the bond markets, the answer is not close. Not this year, not next year, not two years from now, not five years from now.

So, in my judgment, the Fed is moving in the right direction, but if they want to restrain interest, restrain the economy, they are going to need to raise rates considerably more. It’s possible that forces other than monetary policy will create a big downturn. That psychology will be hugely adversely affected by the Ukraine war, that they’ll be a break in markets, some of which look bubbly to many observers. And if that is true, we will not need to raise rates as much. But I think the probability that the Fed will achieve the kind of soft landing that it forecasted last week with unemployment at 3½% for the next three years and inflation falling to close to 2%, I think that is way, way odds off.

R. GLENN HUBBARD: I would agree with that. If you think about sort of pre-February 24th world, I think it was fair to characterize the U.S. economy as being in an inflationary boom. The consensus real GDP growth at that time was sort of in the mid-3s. Even looking at oil price effects of the terrible events in Ukraine and the geopolitical fallout, that alone isn’t enough to change those numbers materially.

The issue for the Fed, I think, and you articulated this very well, is, was inflation ever transitory in the sense in which I think the Fed must have meant it, which is that it would roll over on its own. The staff forecasts would seem to suggest that, that basically there's going to be something that brings everything back into line, whether it's financial market normalization or something else. But I agree with you that that seems very, very unlikely.

But there seems to be a confusion, even sometimes in markets, between people who talk about changes in rates and levels in rates, levels of rates. So, you know, just saying the Fed should raise rates, well, that's an argument about a level, a change. But raise them to what? And, as you said, if you're going to have even a neutral real rate of interest, we're very unlikely to get that far. And I guess, I had another thread there, but I wanted to ask you what do you think the likelihood is that the Fed could raise rates enough to get to sub-par growth but not a recession? In other words, take that pre-Ukrainian consensus, is it possible for the Fed to do the right thing and get growth down to, say, 1 to 1½% but not a recession, and bring inflation and inflationary expectations down?

LAWRENCE H. SUMMERS: I think anybody who has watched the last couple of years or anybody who has been around for a while knows that the answer to the question, is it possible, is yes. So I'm certainly not going to say it's impossible. Here's the problem. I think it's very unlikely. I think it's very unlikely for two separate kinds of reasons.

One, it's like my trying to hit a golf ball to a green that's only ten yards deep. I just don't have the precision to have a very high probability of success. That's the first point. And the second and more fundamental point is if you think about a reduction in growth to, say 1%, it's plausible that after two years, that would raise the unemployment rate to 4½% . And I don't know why anyone would think that 4½% unemployment for a year or two would be sufficient to bring underlying wage inflation down from the 6, 7% range to the necessary 3, 4% range. I think that the shiny object of the supply shocks has been diversionary for many people. And if they kept their eye on what was going on with wage behavior, they would have a clearer sense of the gravity of our situation.

You know, Glenn, the Chairman yesterday in, I had last week been very skeptical of soft-landing theory, and the Chairman – not related to anything I said, I'm sure – took on the soft-landing idea yesterday. And he cited work suggesting that in 1994 and 1984 and 1965, we had had soft landings. I have studied those episodes and I certainly don't think they are probative for today. In none of them did we have inflation remotely approaching current levels nor did we have labor market tightness remotely approaching current levels. And in all three of them, the Fed had an explicit policy of preemption of inflation.

It had an explicit policy of anticipatory action before there was an inflation problem. In what I think will be remembered as a historic blunder, the Fed in 2020, in August of 2020, renounced the idea of preemption and indicated that it would under no circumstances raise rates until the inflation rate was above target. And even if the inflation rate was above target, they would not raise rates until it had been established that the economy was at full employment and that the definition of full employment was not just a conventional definition of full employment but was one that recognized the particular non-monetary issues of a variety of groups within the society.

So whatever could be said that a soft landing was achieved in 1965, 1994 and ‘84 was coming from a philosophy and approach that had been renounced and was not the one that has been pursued by this Federal Reserve. I mean to use an analogy from a different sphere, there are hikes of choice and hikes of necessity, just as there are wars of choice and wars of necessity. Soft landings are preceded by hikes of choice. We haven’t had any hikes of choice. We have had belated hikes of necessity. And I don’t think we have any examples of belated hikes of necessity being associated with soft landings.

R. GLENN HUBBARD: I agree with at least two of the three examples you cite from the Chair’s speech on ‘84 and ‘94, the Fed certainly had significant credibility based on another approach. It’s certainly possible that the central bank is very credible to try to roll back expectations quickly, but as the Volcker episode showed, getting your credibility back is very, very hard. I wanted, though, to segue to markets that seem to have a different view. So if I look at, let's say 10-year yields, they have certainly risen, but not to the point where market participants appear to be seeing very high and rising rates going forward. Thoughts?

LAWRENCE H. SUMMERS: So I think it's a good and fair question, Glenn. It's a question we've discussed on the predecessors of these calls. And on the previous calls, I've said that I'm not in the business of giving investment advice, but if I was I'd probably be recommending bond puts. And that would be among the 51% of my views that have turned out to be right over time. So I think we've still got some distance to go in terms of the level of yields.

I think in a different sense, markets are actually bearing out our views that the Fed forecast is not going to happen, is not going to work out. I think the right way to read markets is as saying that the Fed is going to push us into recession and therefore inflation is going to be in control. And the evidence for that is that if you look at the forward yield curve, that is the projection of where the yield curve will be six months or a year from now, it is projecting as inverted, which is a traditional market indicator of an expectation of recession.

So I think the anomaly in the pattern is that the market's view is that the Fed is going to push us into a recession. There are two oddities with respect to that. One is I don't think that view is as present in equity markets as it is in debt markets. And that's something that equity investors need to consider. The other is that I'm the guy who was a big fan of the secular stagnation doctrine. And the essence of the secular stagnation doctrine, as you know, was that the neutral real rate was very low. So I'm sympathetic to the idea of a very low real rate.

And the corollary of that is you don't have to raise rates that far to push the economy towards recession. But what's being priced into markets is a kind of secular stagnation on steroids view. It's a kind of view that you can push real rates up to negative 1% and if you push real rates up to negative 1%, that will be enough to push the economy into recession. That seems to me, even as a proponent of secular stagnation, to be a surprisingly aggressive view.

So, yes, I'm surprised by what's happened in markets. I think that so far markets have seen yields rise much more rapidly than was priced in. And so the view that markets were wrong has been correct. I think my instinct is that that will continue to be the case, but every investor has to make their own judgment.

R. GLENN HUBBARD: Yes, I agree with that. The only way to make sense of the debt and equity markets at the same time would be some sort of view about the Fed rolling over too fast or the economy rolling over too fast for the reasons you suggested. I think that's unlikely. I personally am also worried, going back to my Win button, about modern versions of the Win button. I'll put some out and see what you think too, that this is all just price gauging from everything from food manufacturers to energy companies or its monopoly power rearing its head as if monopolists didn't have a reason to rear whatever power they have at any other time, or even Putin himself. How do you think about those as alternatives to the Fed plus, you know, dare I say it, also fiscal policy being too stimulative?

LAWRENCE H. SUMMERS: Glenn, I think that...(Audio Malfunction)

PRESIDENT BARBARA VAN ALLEN: It looks like he froze. Let us check on his line. Glenn, while we're waiting for him, maybe you want to take a look at the chat box. There are a couple of questions there.

R. GLENN HUBBARD: Yes, okay, I thought it was me. Maybe it was just Larry.

PRESIDENT BARBARA VAN ALLEN: We're checking on Larry.

R. GLENN HUBBARD: Okay, I've just opened the chat and the questions that were there seemed to have disappeared, because I reopened.

LAWRENCE H. SUMMERS: ...is to divert us from what are the real and most fundamental and important problems. So I would agree with you that FTC investigations of the oil industry, presidential statements complaining about the level of gasoline prices, White House blogs about the composition of minor industries, this is all basically foolishness.

On the other hand, I do think that if you go back and you study something that you and I would tend to think was a good thing, the decisions that were led by Alfred Kahn and the administration, Senator Ted Kennedy, and pre-Justice Steve Breyer, around airline deregulation, and you study that, they did derive political momentum from the fact that there was inflation and getting prices down in some sector was therefore a salient and attractive thing to do. So I think that no one should confuse microeconomic policy with anti-inflation strategy, no one ever.

At the same time, I think drawing on the energy provided by inflation to accomplish desirable microeconomic policy is, I think, a legitimate strategy. And I do think there are issues around concentration that we need to address. I wish that the administration would put some more focus on pro-market, less regulatory approaches to reducing prices. What a good time this would be to repeal the Jones Act and reduce shipping costs when there's a shipping cost crisis. What a good time this would be to reform government procurement so that we can purchase less expensively rather than more expensively. What a good time this would be to bring down tariffs which could reduce the price level by 1% or more. So I do think that it's reasonable to have inflation influence microeconomic policy, just not to confuse that with anti-inflation strategy.

R. GLENN HUBBARD: I agree with that. As somebody who has fought against the Jones Act and the Davis-Bacon Act for decades, these are issues. But I want to ask you a couple of longer-term questions that worry me about inflation. One of the reasons that I'm very concerned about high inflation is not just everything we talk about in economics, that high and variable inflation has economic costs, I'm worried about it feeding both the trust people have in institutions and populism in the country. And I wanted to hear your thoughts on that.

LAWRENCE H. SUMMERS: You know, it's a very difficult question. What's clearly true is that dangerous populism and high inflation are correlated. But one would have to be a closer student of Argentine economic history than I am to decide whether Argentine populism caused inflation or Argentine inflation caused populism. My guess would be that there is some of both. But I do think that it is pretty unlikely that we will run a sustained high rate of inflation in the United States without further substantial erosion of trust in government and in social institutions more broadly and more generally.

And that's why I was so concerned about the excessively expansionary policies that I felt were being pursued through 2021. And I think in many ways we are reaping what was sown during that period because I think that inflation doesn't do much for, does negative things for trust in a society. But I think we also have to acknowledge, Glenn, that recession does very adverse things for trust in society. And so the best way to solve this problem is not to have it. And once you have it, the choices become very difficult. My own instincts are very much on the side that deferring dealing with this makes it that much more expensive and painful.

I think the ray of light in the situation is the point that's made by the most thoughtful critics of the kinds of views that you and I have expressed here today, Glenn. They point out that inflation and inflation expectations for the next twelve months are very high, but if you look at expected inflation starting a year from now, expectations are still relatively low and anchored. And they use that to suggest that inflation may be really quite soluble. I think they're too optimistic.

But I think they do make an important point and the point goes to the urgency of moving rapidly because that gap between short-run inflation expectations and long-run inflation expectations is surely a wasting asset for policy. And the longer we allow inflation to stay high, the more that gap will erode as it did in the 1970s. And so I think that gap constitutes an argument for acting relatively rapidly rather than an argument for deferral and complacency because it's about preserving an asset that we have.

R. GLENN HUBBARD: I think, let me take a break from the FOMC and go to China, if I might. You know, we're focused, because of Ukraine, obviously on Russia's being a military and a nuclear threat, but China, of course, is a far greater economic and strategic adversary for the west than Russia. I wanted to ask and get some thoughts on both near term and long term. So in the near term, sanctioning China strikes me as very different than sanctioning Russia. Russia is a commodity producer with many fewer linkages in world commerce and world financial markets than China, so clearly how hard is it to sanction China?

And then longer term, it struck me, we walked away from an opportunity with the Trans-Pacific Partnership, which never was really about the United States per se. It was about building support and knitting things together in Asia. Do we need to think harder about sanctions for China and how they would work were they necessary? And then what's a better longer-term approach for dealing with China and Asia?

LAWRENCE H. SUMMERS: I wish I had a highly sound answer to that question. And if you can't completely convince yourself, it's hard to convince others. I think that we will find that sanctioning China without burdening ourselves very substantially is really quite difficult. And I think we need to be cautious with respect to our aspirations in that area.

My own suspicion, and I can't prove it and it could turn out to be wrong, is that just as the Samuelson textbook was badly wrong in its views about the future of the Russian economy in 1960, and most of the discussions at The Economic Club of New York in 1990 were badly wrong about the prospects of Japan, that there is a tendency towards excessively extrapolative forecasting, that leads us to assume that the Chinese tree is going to continue to grow to the sky.

And as I look at a society where the average woman has only one child, as I look at the magnitude of the real estate and financial difficulties in China, as I look at the magnitude of the challenge associated with a Covid exit strategy in China, I think that China is less of an economic threat for supremacy than many suppose. And I worry that an excessive effort to contain, punish, restrain, threaten and coerce China, will drive China towards a posture of truculent nationalism that will not serve our interests, will not serve Asia's interests, and will ultimately not serve China's interests.

And so I would prefer for us to pursue strategies based on a more limited selection of red lines and focal issues, strategies that place greater emphasis on showing respect for China and Chinese perspectives and strategies that focus on building on our own strengths rather than seeking to tear down China. I think those strategies are more likely to be effective in achieving our objectives. And I worry that for the sake of harmony and a certain measure of domestic harmony we are pursuing policies that are excessively alienating to the rest of the world.

I am inclined to agree with you with respect to TPP, but I would qualify that with the observation that a challenge that statesmen have to meet is taking their publics as fast as they can go and not faster. And if we had never launched TPP, it would be much better than to have launched it and then let all our partners down because of domestic politics. And so we need to measure before we cut with respect to purporting to lead the world on bold new trade initiatives.

R. GLENN HUBBARD: I certainly agree with that. China does have very significant longer-run economic challenges. I think people with different areas of expertise than you and I who focus on international relations, that makes them actually worried that it narrows a window for China to try to accomplish something that might not be in our interests geopolitically. I definitely agree that if we are for rebuilding globalization, even regionally, we’ve got to do more to bring the domestic public along. While it is true that technologically advancing globalization have made this economy, even small economies, much better off on average, that they have certainly left some people and some places behind. And it’s very hard if domestic politics doesn’t focus there to then, as you say, carry the water for TPP or any other major trade agreement.

LAWRENCE H. SUMMERS: Yes, I think you and I are in the same place on that. I wrote some time ago on the topic of place-based policies. And I think that we need to embrace that as a concept much more fully than we have as a, that we have as a country, and if we are to maintain political support for openness.

I also think, and here I have the conviction more than I know what to do on the basis of the conviction, I think there is a tendency in fora like this one for people like ourselves, Glenn, to say, well, you know, there's that wonderful globalization and it's fantastic and it's really great for us. And yes, there are losers and we need to pay off the losers so they'll accept it. And I think our fellow citizens who are more the victims than the beneficiaries of globalization don't like thinking of themselves as losers who need to be paid off.

And I think we need to think about a paradigm other than compensation that will, if we are to bring people along, that drives one towards, to use a distinction that my progressive friends like to use, policies that emphasize pre-distribution rather than redistribution. And many of those policies make me, as an economist, uncomfortable because they seem to involve substantial distortion or substantial and costly interference with markets. But I think we do need to recognize that there's a very large challenge of political economy here.

R. GLENN HUBBARD: I would agree with that, and before Barbara wraps us up. I mean, to me, we should stop using words like transition costs and winners and losers and go back to what classical economics taught us which is mass flourishing. But Barbara, I see you're here to give us the cane.

PRESIDENT BARBARA VAN ALLEN: Yes. Well, many thanks to you both. This has just been terrific. The two of you never disappoint. And once again, you've given us a great conversation covering, I think, most of the topics that folks had wanted to hear from you today.

I would like to report that we have many additional speakers lined up this spring, and we encourage you to attend and to bring guests. Next up, we have Esther George, the President and CEO of the Federal Reserve Bank of Kansas City. That's March 30th. And then April 4th, Roger Lowenstein who has written a fascinating book on the *Ways and Means, Lincoln and His Cabinet and the Financing of the Civil War*. And he will be in a conversation with Greg Mankiw, another very prominent economist from Harvard, on April 4th. On April 11th, we have our next in-person/hybrid event and Thasunda Brown Duckett will be joining us, the President and CEO of TIAA. On April 13th, we're going to get into supply chain issues with Brad Jacobs, the CEO of XPO Logistics. And that will be, again, April 13th. On April 14th, we're going to get an update on Covid and the new sub-variant from Dr. Rochelle Walensky, the 19th Director of the CDC. We have Charles Evans joining us, and this will be an in-person Signature Luncheon, the President and CEO of the Federal Reserve Bank of Chicago, April 19th. We have John Rogers, Chair, CEO of Ariel Investments on May 16th. And Arvind Krishna, the CEO of IBM on June 7th. And believe it or not, there are many more actually in the works so stay tuned.

I want to recognize just quickly those of our 345 members of the Centennial Society joining us today who represent the financial backbone of the Club and help us bring this programming forward. And there are their names on the screen. And again, I want to just remind folks that you will receive today an emailed post-event survey. We would really appreciate it if you took a couple of minutes to fill that out as it helps us continue to improve our events. And again, many thanks to Glenn and Larry, a great conversation. And for everyone, please enjoy the rest of your day. Thank you.