The Economic Club of New York

ESTABLISHED 1907

The Economic Club of New York

116th Year
701st Meeting

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

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

April 12, 2023

Webinar

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 701st meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. The Economic Club is recognized as the nation's leading nonpartisan forum for discussions on economic, social, and political issues, and we've had more than 1,000 prominent guests appear before the Club over the last century. And we've established a tradition of excellence that continues up to today.

I'd like to quickly extend a warm welcome to students from Mercy College, Columbia Business School, Harvard University, and the Gabelli School of Business at Fordham University who are joining us virtually today, as well as members of our largest-ever Class of 2023 Fellows – a select group of diverse, rising, next-gen business thought leaders.

Today, we're honored to welcome back two of America's leading economists, the ECNY Club members, R. Glenn Hubbard and Lawrence H. Summers. Although they need no introduction, I'm going to just quickly introduce them to our newer members and guests today.

Glenn is the Russell L. Carson Professor of Finance and Economics at Columbia University. He previously served as the Dean of Columbia University's Graduate School of Business. He was also Chair of the U.S. Council of Economic Advisers and Chair of The Economic Club of New York, by the way. Currently, he's on the boards of ADP, BlackRock Fixed Income Funds, co-Chair of the Committee on Capital Markets Regulation, and MetLife where he is actually the Chair.

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

The format today will be a conversation and we'll end promptly at 1:15. Any questions submitted to the Club in advance have been shared already and may be addressed during the conversation. In addition, the chat box is available to you. You can enter questions directly for their consideration time permitting. As a reminder, this conversation is on the record and we do have plenty of media on the line. Gentlemen, if you're ready, I'm happy to pass the mike over to both of you.

Conversation between R. Glenn Hubbard and Lawrence H. Summers

R. GLENN HUBBARD: Thanks so much, Barbara. Thanks everyone for joining, and yes, if you do have questions, please feel free to submit them for the conversation. Larry, I think we've got to start with banking. It's clearly the elephant in the room with SVB and Signature. You know, Warren Buffett's famous aphorism that you don't know who is swimming naked until the tide goes out. Truly one form of tide is a margin rapid increase in the federal funds rate which, of course, we have seen. When you look at the problems of SVB and Signature, from your perspective, is this an isolated problem? Or is this a bigger problem of regulation, supervision and process?

LAWRENCE H. SUMMERS: It's both in a certain sense. SVB screwed up in ways that are Banking-101. They had an unstable set of liabilities on one side of the balance sheet and a problematically-valued set of assets on the other side of the balance sheet, and then the two things came together. Almost every alarm that should have been clanging was – uninsured deposits, very rapid growth in deposits, substantial losses in the hold-to-maturity portfolio. And yet management didn't do much and the regulators gave warnings that in retrospect seem rather plaintive.

Now, in fairness, there were some who were short the stock, but there were many analysts who also hadn't noticed that there was a problem. So I think it was a pretty

extreme error at SVB. And if you look at other banks, SVB and Signature and perhaps a couple of others, stood out for how much of a problem they had on these dimensions. So in that sense, there were a range of special factors here.

On the other hand, there's also an important 13th chime of a clock here. If regulators managed to miss this problem and not act on it, there are probably other more subtle complicated problems that they can be relied on to have done. I think a bunch of this is intellectual. It is incredible to me that Fed stress tests in 2022, like 2021, like 2020, like 2019 did not include scenarios involving spikes in interest rates. Nor does the main stress test for 2023 involve spikes in interest rates, even though in 2022 it should have been obvious that that was perhaps the most important major risk scenario to explore.

So I think there are real conceptual issues in the design of stress tests, real conceptual issues around bank accounting rather than mark-to-market accounting that were pointed out here. I think there were also real issues of culture. It continues to be troubling to me that the CEO of SVB was a major member of the board of the San Francisco Federal Reserve Bank. Now, I'm aware that that board has no involvement in supervision, but it certainly does have a role with respect to the President of the San Francisco Fed.

So I think there are a whole set of questions about the culture of supervision that require

attention. More than once I've heard people involved in supervising a given bank use the pronoun "we" to refer to that bank. That all seems to me to be suggestive of a problem. So there are both specific and generalizable issues here, Glenn.

And the last thing I would say, and maybe it's the most important, is often when an extreme event occurs, it's at one level, extreme and irregular, and at a different level, it points up a much broader issue. And I think we have probably been insensitive in general to the extent to which the economics of the banking industry depend upon the willingness of people to hold cash at return levels that are well below those that are available on Treasury bills in the marketplace. And I think as we look at the banking industry going forward, we're going to have to think about how long that's going to persist.

In a sense, we are at the beginning of the era of super-digital finance meets high interest rates. And what that's going to mean for the traditional structuring of banks, and particularly the structuring of mid-size banks that are too big to be in the warp and woof of communities making loans to the biggest business in town and too small to exploit economies of scale associated with information technology, I think is a profound question for the industry going forward. And because contraction comes with consequences for customers and those who depend on customers, has real consequences for the economy going forward.

R. GLENN HUBBARD: Yes, I agree with that. And I want to pick up in a minute on your last theme. For myself, I think this is really a failure of supervision. It's only modestly a failure of regulations per se, but I think it's supervision. It's a classic. I do worry how many other banks are facing mark-to-market losses that could compromise them. As you say, you know, the tip of an iceberg often can foretell an iceberg below.

I wanted to pick up, though, on the follow-on effects that you suggested. Let me start with one in particular about the business of banking. Banking is a maturity transformation business. And, as you say, a lot of, at least in the modern era, the profitability of banking has depended on people's willingness to hold deposits at fairly low rates. One of the things that concerns me a bit is the potential for a credit crunch if deposits flow from small and mid-sized banks either above to very large banks or to say money market funds, how worried are you about credit crunch implications in the heartland for lending?

LAWRENCE H. SUMMERS: The sign is clear. The magnitude is unclear to me. But the answer is I'm worried. I think the great question in this moment is whether this is the equivalent of 100 basis points of fed funds or is the equivalent of 35 basis points of fed funds. My instincts are slightly towards the higher part of that range, but that's a very low confidence kind of judgment that I'm making.

And I am always extremely mindful of one of the great erroneous financial pronouncements of the last 20 years made by someone who made very few erroneous pronouncements, Ben Bernanke's suggestion that $250 billion sub-prime wasn't that much in the grand scheme of it all. And so the ways in which even initial impulses can be magnified if, for example, reduced lending to commercial real estate means lower values of commercial real estate means more reduced lending, you can get quite dramatic results from fairly limited initial impulses. And I think that is a real risk in the current kind of situation.

I think the odds are extremely high that a year from now we will look back and think that the Fed made a mistake, but whether we will think that the mistake was that it panicked and overreacted in response to some ultimately transitory stresses in the banking industry or whether it is that in the face of a gathering credit crunch, it persevered trench warfare-like on its initial strategy of worrying about inflation, I'm more confident that they'll make a mistake because of the difficulty of the task than I am in the direction of the mistake that they will make.

R. GLENN HUBBARD: Well, indeed if you drive in the fog, you can have an accident if you go too fast or too slow. And for Club members, I would note that Ben Bernanke's statement that Larry made was actually made at the Club. I was Chair at the time and gave him a quizzical look because it depended on two things – what's built on those

securities and then the denominator of the calculation he was doing.

I certainly agree with you on the high side. I'm a little bit worried about a potential credit crunch. And it raises two questions, you mentioned one – a short-run question of what's the stance on monetary policy. But in the medium or long-run, it also seems to me to raise the question of what we want banks and the financial system to do. Who is going to do this commercial and industrial lending and commercial real estate lending? And I wanted to take that observation to get your views on commercial real estate, whether that's another shoe to drop for one or both of two reasons. One is just rates. But the other is this credit crunch implication on new lending or on refinancing. Thoughts on commercial real estate?

LAWRENCE H. SUMMERS: I think it's; I'd be very, I would be happy to sell almost any commercial real estate property at its current value as appraised by its current owner. I would be happy to sell it short whether that's a developer approaching a bank, whether that's the owner of a fund. And I think to understand why gates are going up in a variety, or gate constraints are binding is perhaps a fairer way to put it, in a whole variety of real estate funds, I think that's what you have to know.

I think the more difficult question to make a judgment about is public market valuations of rates and how indicative they are. They are, on the one hand, liquid and prone to

adjust. There's even the possibility, because they're the one way in which you can escape or hedge or get short, that those prices may have overreacted.

I think my best guess, Glenn, is that my view about commercial real estate is correlated with a much broader view that I have. I look at the market for Treasuries and I see that as pricing in on the order of eight Fed cuts in the next two years. I think about the kind of events that would require eight Fed cuts over the next two years. And those do not seem to me to be priced into the stock market, priced into credit spreads, or priced into much else. So I kind of think there's likely to be a disappointment to assets, either because things are going to happen to the numerators of valuation formulas as the events that force eight Fed cuts take place or because those things aren't going to happen, and as a consequence, the eight Fed cuts are not going to happen.

Now, the other side of that, which I take very seriously is that there was an element in 2009 of all kinds of people licking their chops for another moment like the post-S&L crisis moment and that there was going to be spectacular opportunity because there was going to be, all this stuff was going to be disgorged. But it turned out that the ratio of chop lickers to disgorgements was sufficiently high that the kind of immense excitement of opportunity that was anticipated didn't actually take place. And I think there may be some element of that in the current moment so I reach judgments with an element of hesitation.

I also think that it is easy to engage in a wrong syllogism if one is being sloppy, which is commercial real estate equals offices, and commercial real estate is mostly not offices. And offices are under substantially more stress than other forms of commercial real estate are, and that's worth keeping in mind as well.

R. GLENN HUBBARD: Yes, I would agree with that. I think that in this case, if you're a current owner of office property, it's probably not a good time to be such. Yet when repricing occurs, I don't see anything terrible going forward that's different from the usual factors of rates or credit. There are two other questions I did want to, though, put on the table in this banking discussion.

One is about non-banks. Before Silicon Valley Bank or Signature, I think it was the view, certainly of central bank and regulators, that banks weren't going to be the problem if we had an issue. It was going to be non-banks. Should we take the current situation as telling us, no, we were wrong, it's really banks? Or is there a shoe to drop for non-banks too?

LAWRENCE H. SUMMERS: I have been very widely, and with some legitimacy, criticized for a comment I made at Jackson Hole 18 years ago in which...

R. GLENN HUBBARD: About Raghu

LAWRENCE H. SUMMERS: Raghu had written a paper that was critical of deregulation in finance. And I had used the term Luddite to refer to some of his views. And with the benefit of hindsight, I think he was prescient in some ways that I was not, and I would not have used that term. But I did have a much more specific point in mind in making that comment that I don't think is adequately appreciated. And what I was referring to was less a judgment about whether we had too much regulation or too little regulation and more a judgment about new-fangled finance versus more traditional financial models.

And one important difference in them is the pervasiveness of mark-to-market accounting. And I think there is a tendency to think that if I loan 90 or 95% with two-day margin to a holder of Google stock or the holder of a mortgage-backed security, that's all highly levered speculation and problematic. Whereas if I loan for five years with no margin and reserve accounting 60% against a shopping center, that's sound traditional banking. And I think that that is more wrong than right. I think you're likely to have larger insolvency risks, larger risks of bad cycles emerging out of the second kind of lending than out of the first.

And the reason I rehearse all this history, Glenn, is because I think that much in the shadow banking industry has much more a short-term financing mark-to-market rapid truing up aspect than in the traditional banking sector. And I think there is a bias within

traditional thinking about financial regulation towards liking traditional banking relative to these other things that involve more short-term financing and higher levels of leverage that people see as speculation.

And so I think one of the problems is that the traditional financial regulatory community feels a bit partnered with banks and is perhaps overly respectful of their model and can be overly critical of alternative models. So I guess the answer is I think the risks are real. There are real risks in the shadows, and there are things that are significantly misunderstood, but I think in some ways that point is overdone. And if I think about all of the history of carnage, whether it's the Depression, whether it's Japan after 1989, whether it's the Nordic banking crises, whether it's the S&L's, associated with traditional banking models relative to more shadow banking models, I think the conventional wisdom in this area overdoes it a bit in its aversion to the shadows.

R. GLENN HUBBARD: Yes, I think while there are clearly some risks outside the banking sector, I broadly agree with what you say, the mark-to-market features are a little more reassuring. If I were to pick a sector to worry about its business model going forward, it might be more, at least deposit banking.

There's one small coda I want to ask you, though, to finish this discussion and move on to capital markets, rates and so on. It's about deposit insurance. I'm worried that we had

a very unsure reaction in terms of deposit insurance here. So it seems to be off the table as the actual law, the status quo ante that up to $250,000 you're insured, above that not. An alternative that doesn't strike me as plausible long term is just unlimited deposit insurance because the financing of that is quite costly. Where are we going to wind up here? In principal, you could imagine a higher limit that takes into account some payrolls or something like that. But where do we draw the line so that uninsured depositors still have an incentive to monitor and the system is cost effective given the uncertainty we find ourselves in now?

LAWRENCE H. SUMMERS: Glenn, as people who have heard me on these calls know, I think it's fair to say that I usually know what I think. And I may be right or I may be wrong, but I've got a reasonably strong view. This is one of those times when I don't. On the one hand, I'm really not impressed by my own ability to judge the health of an institution when I make a deposit in it, in any remotely useful way. I'm not impressed by the typical medium-sized business' – with $500,000 of cash flow a day making deposits – ability to evaluate the creditworthiness of a bank.

So I think it's easy to overdo the virtue of market discipline. I also think that in the current environment where I think it's fair to say that policy is very supportive of various arrangements in which I provide funds – I provide $20 million to somebody and they put my $20 million in 80 different banks, all of which are insured, and indeed in which banks

engage in give-to-get transactions, in which they steer their customers to such providers with the understanding that while they will lose deposits from those customers, the providers will bring new deposits. The equilibrium of a system with 7,000 banks, cheap intermediation, and good organization is once again that all deposits will be insured.

And notice that if I'm the big, sophisticated player who is breaking up accounts into $250,000 and putting them in 1,000 places, because it's all insured I have no incentive, despite my sophistication, to monitor the banks. So I'm pretty underwhelmed with depositor discipline as a basic model for having banking operate. On the other hand, Glenn, I sort of appreciate the force of what you say. I don't think taking $250,000 to a million dollars is a consequential act that will change the basic dynamics and threats.

I think the big question involves what kind of insurance there should or should not be for transaction accounts of companies. And I think that that is also, I am, I think, a bit more sympathetic towards more movement to broader deposit insurance that is de jure accepting the need that will come with it for more regulation than the average of the people who follow these things and have opinions. But I'm not at all highly confident that I'm right in that judgment or that I would be prepared to act on that kind of judgment.

R. GLENN HUBBARD: I'm probably more sympathetic than you to market discipline, but I agree that I don't have an answer, but where the line should be drawn, I do think we're

in a bad spot by making the line uncertain. And if deposit insurance is going to be broader, it should be so de jure. Without answers, I'm left with two questions though. Do we have the supervisory and regulatory apparatus for that world? I'm not sure that we do. And second, is that a world that pushes much more toward greater asset liability management than we've had today in the banking system? And if that's true, I go back to the question of what's the business of banking? But I think we've kicked this one around a lot.

LAWRENCE H. SUMMERS: I was just going to say one thing, one thing very quickly. I think you and I are in complete agreement on market discipline. And I think you and I are in agreement on skepticism about the ability of government employees to do market type tasks well for all sorts of public choice kinds of reasons. I think the question is whether the best devices for achieving market discipline involve asking depositors in banks to be disciplined which feels a little bit like asking me to figure out whether the 747 I'm going to board is safe or whether the best schemes involve more in the way of subordinated debt instruments of various kinds where it's professional market participants who are making judgments about health rather than amateur market participants.

R. GLENN HUBBARD: That's a good point. I want to pivot to rates, recession, and rocky inflation if I might. On rates, I was concerned to see the IMF just recently, in the

context of the meetings, come out with a view that we are going to revert to a world of secular stagnation and lower rates. I was not a big fan of secular stagnation before. I know you were. But I'm certainly not a fan that we're going to be entering a low-rate world in an environment where we have demographic challenges, fiscal challenges and other. How concerned are you about the IMF's views on what we would think of as a risk-neutral interest rate?

LAWRENCE H. SUMMERS: So we were not in the same place on secular stagnation before and I think, I do think in retrospect it's pretty clear that there were some pretty fundamental macroeconomic forces pushing down equilibrium rates over the decades from the mid-80s to the pandemic, and that that explains a lot, both about bubbles and about sluggish growth and about limited deflation.

So having been a big pusher of the secular stagnation doctrine, there were worse things from my point of view than the IMF saying it was going to be even longer-standing in its effect than I had supposed. That said, I did not find their analysis persuasive with one caveat. My judgment is that on net, the fact that we and the rest of the world have substantially larger government debts and substantially larger flow deficits and substantially larger investment needs around resilience and green transformation, I think the upwards impulse to real interest rates from those things plus a bit of a generalized tendency in the world towards mean reversion on the secular stagnation

factors makes me think that the .5% real neutral long-run interest rate, that is the Fed's current view strikes me as the low end of plausible rather than any kind of sense of best guess.

And so I think that the IMF got that wrong. And since I've been very focused on this subject, I read the IMF report pretty carefully and I had the reaction, if this is the best you've got, than I'm even, and you have had, you know, a dozen PhD economists working on this for six months, and this is your best case for low real interest rates, than I'm even a little more confident in my skepticism about the Fed's estimate.

The one qualification that I would append is you and I have kind of agreed in the last half hour that financial intermediation is going to be complicated by some very substantial pressure on traditional banking models. And more sludged-up financial intermediation means lower safe rates and higher risky rates. And so that is a factor that I think is going to operate in the direction of pushing down neutral rates. And that qualification, which is not what the IMF study was about at all does give me a little bit more pause than I would have had if we had been discussing this two weeks before Silicon Valley Bank. What do you think, Glenn?

R. GLENN HUBBARD: Yes, I mean putting aside, I agree with the qualification, but putting it aside for the moment, let's say you thought that the neutral real rate were, say

1½ instead of 0.5 and the inflation target is 2% but missing that, call that 2½, is that telling us the range of mid-term nominal rates we should be looking at?

LAWRENCE H. SUMMERS: Yes, I mean I think I would have done your kind of arithmetic, 1½ plus 2 ½ plus 50 basis points of term premium. So I would have thought 4½ as an average of the ten-year Treasury over the next decade-plus would have been closer to my kind of guess. And by the way, these things feed on each other. I think I'm roughly right in saying that the latest CBO document, which is not itself overwhelmingly encouraging on the long-run picture assumes a 2.8% ten-year rate and a 2.2% short rate and with 100% debt to GDP ratio, a little more than that, each one point of error there adds 1% a year to the flow deficit.

And maybe it's true that defense spending, as the CBO assumes, is going to be constant or declining as a share of GDP over the next decade, but on my reading of the national security threats the country is facing, that would be a quite inappropriate place for it to end up, and I suspect it won't ultimately end up there. So I think that another thing that's coming down the road is some growing concern about the medium-term fiscal picture.

R. GLENN HUBBARD: Totally agree with that. Maybe we'll get to it a little bit later. The CBO forecast isn't, it's not only not reassuring, I don't think it's remotely right. But I want

to pivot from rates to recession. It seems to me that with the lagged effects of the current monetary policy hikes, perhaps credit crunch effects on top of that, it's hard to see avoiding a recession over the next year or so. What do you think? And if you agree, how severe?

LAWRENCE H. SUMMERS: I tend to agree with you. I've said it, I think often, on these calls that what Samuel Johnson said about second marriage, that it represents the triumph of hope over experience, seems to me to be a good doctrine for thinking about soft landings as well. So I think the odds are probably two-third plus on a recession. It begins this year. I would be surprised if we had a recession and unemployment didn't get to the point where it was 6 when rounded to the nearest integer.

On the one hand, I think that's a pretty substantial set of events relative to where we are now. On the other hand, that's really not like what happened after Covid or the 2008 financial crisis or the 1982 Volcker disinflation. So I would think about the post-Nasdaq bubble and the S&L recessions of 2000 and 1990 as indicative for thinking about the kind of recession that we might be looking to.

R. GLENN HUBBARD: Let me turn, if I might, to inflation because we just had a print this morning in New York on the core inflation and CPI inflation. Somewhat welcome news but still the inflation genie remains out of the bottle. There are two views on this.

One, that inflation is going to smoothly settle relatively quickly, core back to at least 2½%. Another is that it's stickier. I would put myself in the latter camp, looking at wages. What do you think? And depending on that answer, do you think that 2% is still the right target for inflation?

LAWRENCE H. SUMMERS: Assuming there's no credit crunch, I would put myself where you put yourself, that X the effects of any credit crunch that we have, I think the right broad model is that we substantially overstimulated and corrected too late and in the process turned ourselves into a roughly 5%, maybe 4½% inflation country, that there were a whole variety of special factors that caused that to look like 7 or 8 at some points. And when those factors mean-reverted, caused it to look like 2 or 2½, that wage inflation is a good measure of super core, that when real interest rates are zero-ish, and the vacancy and unemployment ratio is near record highs and the quit rate is considerably greater than it was. The last time the unemployment rate was 3½%, not much reason to think that it's all going to come under control, barring a downturn.

So I would be two-thirds confident, maybe 75 or 80% confident on that. Without going into details, nothing in this report changes my mind about that judgment. We may get the downturn and the recession out of the credit crunch, and if we do, I think that could be significantly disinflationary. I would never have announced a 2% target. My high school chemistry teacher taught me that in areas where you can't be very precise, it's a

bad idea to leave the impression of spurious precision. So I would have used the Greenspan formulation of price stability is when people aren't thinking about inflation all the time and left it at that.

But policy is path and history-dependent. And after ten years of constant assertion of a 2% inflation target, I would certainly not abandon it in favor of a different number just because it was difficult to attain. So I would not favor any attempt to change the target explicitly. I think we already have sort of gone through a process, Glenn, where that 2% target used to be a kind of average target with the idea that sometimes we'd be below it and sometimes we'd be above it. And I think now we're in a world where it's kind of a floor. And nobody is contemplating any idea that because we've had a lot of inflation above 2, we should now go forward and have a lot of inflation below 2. And so we've already morphed that target into a kind of floor and we've already vagued up the time of arrival at that target, and I think that's probably sufficient adjustment for me in terms of the target.

R. GLENN HUBBARD: Yes, I think it's a bad idea to change the inflation target for the reasons you mentioned. Of course, what a difference Covid-plus makes because we were running below target before that. But I want to change the subject to what seems very long term but is in the news all the time right now which is ChatGPT. I'm not too worried that Harvard and Columbia students are going to use it for their papers, but I do

think people seem very vexed by this. And I must say I begin by, yes, accepting it, but wondering why? In creative destruction, people think about destruction but there's also the creation.

We've been through a lot of technological change since 1970, the pace of which is accelerating. This is a recent manifestation. You know, David Autor's work, among others, suggests that since 1970 the middle-income jobs fell by about 15 percentage points relative to low-skilled and very high-skilled jobs. This is nothing new. How worried should we be about ChatGPT. To me, the idea of a moratorium sounds silly, but how do you think about our approach?

LAWRENCE H. SUMMERS: So on the call I was on before, which was to discuss various aspects of planning for the course that I'm going to be offering in the fall, the head teaching fellow reported that we may want to reconsider our take-home final exam because he had given last term's take-home final exam to ChatGPT and it would have been in the top 5% of the class of fairly advanced Harvard students. That would be the first thing I'd say.

The second thing I would say is my perspective was influenced by an essay I got the other day from a student who was responding to a column that Paul Krugman had written that was echoing a quite conventional analysis. Krugman echoed the analysis

that these innovations take a very long time to factor into the economy drawing on Paul David's work about electricity and productivity at the beginning of the 20th century and the famous discussions of Bob Solow saying computers are everywhere but in the productivity statistics.

And what my student pointed out, and I hadn't really thought about it this way before, was that it really was a big deal to build a generator, that it was really a big deal to retrofit a factory for electricity that had previously been relying on a steam engine, that it was really a big deal to retrofit your whole payroll system and everything to take proper account of computers – but he was doing all kinds of remarkable things with GPT in his dorm room – and that this had been the fastest diffusing thing in the history of technology in the three months that it happened. And so it could be much more pervasive, much more quickly than most things, than most innovations were. And I thought that was a very important point.

I don't think a six-month moratorium is particularly feasible. I kind of suspect that some of those advocating that moratorium may have had in mind that they were six months behind and thought that they could rush to catch up during the six-month moratorium. So I am less worried about the job destruction, who is going to be winners, who is going to be losers aspects than others. I think this may, you know, I think this is going to, I think ChatGPT is actually going to come for the cognitive class and that this is going to

disrupt doctors making diagnoses more than it's going to disrupt nurses providing care. I think it's going to disrupt traders before it's going to disrupt salespeople in the financial services industry because it's not going to make relationships in the same way.

So I'm not so worried about how this is going to reinforce inequality and leave behind the less-skilled. I'm more worried about its capacity to promote manipulative marketing and communications in ways that corrode social interaction and in ways that corrode society. The important issues about the tech companies, in my view, are not the Lina Kahn issues having to do with whether they've got monopoly power for some interval or not or whether they're slowing innovation.

The important issues have to do with, you know, what's this going to mean for the body images of young women given the communications they're going to receive? What's this going to mean for the capacity to manipulate elections and all of that? And so those are the kinds of issues that I worry more about. And I guess I think that we have an increasing problem in our society that we all seem to agree that war is too important to leave to generals. But I kind of think derivatives are too important to leave to derivative traders.

And some of these technologies are probably too important to leave to the technologists who deal with them. But the question of how we find sufficient expertise that is objective

to think through how we're going to regulate these technologies is, I think, a very profound one.

R. GLENN HUBBARD: I agree. A few thoughts on that. One, I've thought for some time Paul Krugman used ChatGPT to write his columns because they all seem somewhat similar to me. To your student's point, I think that a fair reading of the history of GPTs, general purpose technologies, and their penetration, whether it's electricity or mainframe computing or the internet, isn't so much about retrofitting things physical, it's about business organizations and their sluggishness. So I guess I would still not anticipate this being quite as fast as people think. But I absolutely agree with you on the social and political elements of this as being by far the most important.

I know we don't have a lot of time left but we've already mentioned fiscal policy. And, of course, we do have an action-forcing event, i.e. the debt ceiling. So I think we probably both agree that it's silly to use the debt ceiling to force a lot of economic uncertainty in the country. The question is, at this point what should our political parties be serving up as a conversation? Is there some reasonable leverage that can be used from a debt ceiling to discuss, you know, whether it's returning unspent Covid funds or discretionary spending adjustments or some kind of an idea to at least put entitlement spending on the table? What do you think? Is there a moment here, putting aside the theater of the debt ceiling?

LAWRENCE H. SUMMERS: I think that the risks of messing around with the debt ceiling far exceed any potential benefit in the current pre-2024 presidential election environment. And so I think the most useful thing is for the climate of opinion to be adjusted to a realistic assessment, especially given that a number of cards will have been turned over with respect to the economy over the next year and a half.

I would support getting the debt ceiling behind us with minimal fuss and muss. And I think attempts to lever that into something have risks that substantially exceed the benefits. I think we need a realistic framing of what our national security expenditure needs are likely to be over the next five years, the next ten years, as an input into any consideration of the long-run fiscal picture.

I do think we need to recognize, Glenn, that amidst all the things that are problematic, we have been much more successful as a country in containing healthcare costs than anybody would have expected a decade ago. I look at the nursing shortages everywhere and I wonder whether that's going to last, but I'm not sure what the answer is. But I think I would be oriented to looking at this through the prism significantly of healthcare at this point.

R. GLENN HUBBARD: Yes, I guess I would just add to that quickly, I do wonder, agreeing with you on the theatrical problems of a debt ceiling, what would bring parties

to the table to discuss higher defense needs, higher interest payments, and problems in social spending absent that. But I see Barbara has appeared. That's likely the cane for the two of us.

PRESIDENT BARBARA VAN ALLEN: Well, thank you both. Just a terrific conversation and thank you for covering the waterfront. I think you hit every issue that I think our members wanted to hear about. I guess there are always a couple – we didn't get to China and Ukraine – but we can't do everything in one hour.

I want to just mention tomorrow at noon we have Dr. Ella Washington, an organizational psychologist, Professor at Georgetown's McDonough School, talking about inclusive leadership and the evolution of workplace cultures. April 18, next week, we have Lee Ainslie, Managing Partner at Maverick Capital, and a Club board member. On the 25th, we have a webinar with Chair and CEO of Merck, Robert Davis, on the future of biopharmaceuticals. On April 26th, we have a complimentary Prospective Member Event where we invite members to bring qualified candidates to meet Club leadership and learn more about the Club. On May 9th, John Williams, our Chair as well as President of the New York Fed, will be joining us for a Signature Luncheon. And on May 23rd, we have Henry Kissinger. We'll be celebrating with him his 100th birthday, and he will be in a conversation with Marie-Josee Kravis. And there's much more to come, by the way, so please keep your eye out online and for our emails with more events as they're

confirmed.

And then, as always, I want to take a moment to thank members of the Centennial Society joining us today as their contributions continue to be the financial backbone of support for the Club and our programming. So thank you everyone for joining us and please have a great afternoon. Thanks again, Larry. Thank you, Glenn.