The Economic Club of New York

740th Meeting
117th Year

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

R. Glenn Hubbard, Dean Emeritus
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Columbia University
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Webinar

Introduction
President Barbara Van Allen

Good afternoon and Happy New Year. We're just kicking off 2024 with this event. It's actually our 740th meeting of The Economic Club of New York, obviously in over a century. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here with everyone.

The Economic Club, as you all mostly know, is the leading nonpartisan forum for discussions on economic, social, and political issues. We've had more than 1,000 prominent guests appear before the Club, and we've established a strong tradition of excellence that continues up to today. I'd like to extend a warm welcome to students joining us today from Rutgers University, the Gabelli School of Business at Fordham, and Mercy University. A reminder to members, if you're planning to sponsor a 2024 Fellow this year, the deadline is approaching. So please do assist in getting those in. Applications are available on the Club website or through the Club's offices.

Today, we are honored to bring back by popular demand two of America's leading economists and ECNY Club Members, Glenn Hubbard and Larry Summers. Although they need no introduction, let me briefly introduce them to our new 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 the Columbia University Graduate School of Business from 2004 to 2019. He was also Chair of the U.S. Council of Economic Advisers from 2001 until 2003, and Chair of The Economic Club of New York from 2007 to 2010. Currently, he's on the boards of TotalEnergies, BlackRock Fixed Income Funds. He's co-Chair of the Committee on Capital Markets Regulation, and he Chairs MetLife's board.

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

Currently, he chairs the board of the Center for Global Development. He serves as Vice Chair of the Peterson Institute for International Economics. He is an adviser to businesses and investors and serves on the boards of Block, Doma, OpenAI, and SkillSoft Corporation.

The format today will be a conversation and will end promptly at 1:00. Any questions that were submitted to the Club from members were shared and thank you for those. They may be addressed during the conversation. In addition, we'll be using the chat box for this conversation, and you can enter questions directly in the box for their consideration, if time permits. 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 this time over to the two of you.

Conversation between R. Glenn Hubbard and Lawrence H. Summers

R. GLENN HUBBARD: Thanks so much, Barbara. Larry, I hope your new year is off to a good start. I'd like to dive in, if I might right at the beginning, on the U.S. economy and Federal Reserve policy. So this morning we got a CPI print that may have been somewhat unwelcome news in some quarters in thinking about where we are in the path of disinflation. Thoughts first on, are we headed still toward a soft landing, a mild recession, no landing, where are we?

LAWRENCE H. SUMMERS: Look, Glenn, I think you've articulated the three possibilities – a hard landing, a soft landing, and no landing with no landing very likely followed by an even harder landing later. I have been saying for a long time that soft landings historically in the United States have been like second marriage according to Johnson – the triumph of hope over experience.

I think a fair-minded person has to say, though, that sometimes hope does triumph over experience and that a soft landing probably looks more likely today than it has at any point since the massive stimulus was launched in early 2021. I don't think it's by any means assured. I think that the evidence of slowing that we're seeing could give way to a sharp decline at some point this year, though it doesn't seem to be as yet. And I think there's probably more of a possibility than markets currently see that the apparent disinflation we're seeing has more to do with mean reversion from prices that shot up than it has to do with the achievement of fundamentally low inflation.

I look at wages in particular and still see wage growth and labor cost growth that looks to me distinctly above what would go with a 2% inflation target. And I wonder whether that return to 2% as a new durable state is quite as secure as many people suppose. So my instincts are soft landing now, certainly a very real possibility though very far from something that we can rely on. Probably a bit more medium-term inflation risk than markets see. It seems to me markets are a bit ahead of themselves on how much cutting the Fed should do or likely will do over the next few months.

I think the broad, Glenn, we basically took Team Permanent or Team Hawks' recommendations on monetary policy and the Fed has tightened much more than people expected two years ago, vastly more. And we've gotten an outcome closer to Team Transitory's prediction. And that makes it a little hard to interpret the whole situation.

R. GLENN HUBBARD: I want to come back to the Fed in a second, but I broadly agree with what you said. I think that sometimes market participants forget a soft landing is still a landing. And I still think there's a very good chance of a mild recession. But transition to what some people call the new monetary order, I actually think of it as the old regular order of more normal levels of interest rates that are much higher than we were used to. I still think with lags, it could have a significant effect, so I don't think you can rule it out.

And to your point about the Fed, which I want to pivot to, I think it's highly unlikely that the Fed begins aggressive rate cuts early this year. We already saw today a cutting back of the probabilities in market participants' minds given the inflation print this morning. So let me ask you, on that front, what do you think about the outlook over the next year or so for Fed rate cuts? And then separately, movements in the 10-year Treasury.

LAWRENCE H. SUMMERS: So, look, I think relative to what markets think, I think the neutral rate is now higher, and I think the interest sensitivity of spending is now lower than people think. That's the only way to understand why we've had such dramatic tightening of monetary policy with so little impact so far. I think a combination of more fiscal expansion, more green investment, a population that is aged rather than simply aging, meaning significant de-savings, I think all of that means that the neutral rate is considerably higher than the Fed's 2.5. And therefore, the gap between the fed funds rate and the neutral rate is smaller than many people suppose.

I also think that there's an underestimation of the extent to which structural changes in the economy, a lower share of goods relative to services, reduced durability of investment, think cell phones rather than factories, increased accumulation of debt, short-term government debt, which gets more payments when interest rates go up. All of that means that I don't think that the bite of monetary policy is as great as people tend to think it is. And those two sets of phenomena explain to me why I think that interest rates can have risen by 500 basis points and we can still have an economy that's chugging along with job growth that runs ahead of natural population growth month after month.

In that environment, short of a recessionary dynamic taking hold, short of some kind of dramatic financial event, I don't think the warrant is quite as large as many people suppose for substantial rate cutting. So I look at market forecasts of five or six rate cuts this year, and that could happen, but it seems to me that two or three rate cuts are a much more likely scenario than 10 or 11 rate cuts outside of very dramatic downturn in the economy. And so I think the market is a big overpricing the number of Fed cuts that are likely.

I think in that regard, that as I think about the 10-year going forward, I say to myself real neutral rate 1½, underlying inflation on a CPI basis, which is what's priced into TIPS, 2½, in part because of the normal wedge between the CPI and the PCE, term premium between fed funds and the 10-year, 100 or 100-plus basis points. And so I look for rates to run more in the 5 range for the 10-year over time than in the 4 range. So my guess is that we're going to see some normalization of yield curve slope over time, and I think a fair amount of it is going to happen in the 10-year to a greater extent than it is now factored into markets.

R. GLENN HUBBARD: I think that's right. If you start with the 10-year and work back, the 10-year, as you say the elevation of r-star, I think it's somewhere between 1 and 1½ real rate. Add in inflation. I would also add in, in addition to the slope of the term structure you mentioned, concerns about government debt, which I want to come back to as potentially adding a premium there. So rates in the high 4s, low 5s at the 10 don't strike me as implausible at all. I share your view that rate cuts, Fed rate cuts would be fairly few in the near-term, that services inflation is still running close to 5% on 3-month, 6-month, one-year horizons. I take the Fed at its word. It's trying to get to 2% fairly quickly.

I did want to pick up on something you said on the monetary transmission mechanism to unpack it a little bit. So is it that we're just much less interest sensitive or other things are going on? To wit, if you look at the housing market, which we know is very interest sensitive, Fed policy is having exactly the effect that you might imagine. But as you mentioned, we still have offsetting factors from fiscal policy, from savings from the pandemic and so on. Are we fundamentally changing the monetary transmission mechanism or is something else going on?

LAWRENCE H. SUMMERS: I was quite conscious in calling attention to both possibilities and not being sure what. My sense is that the tone of market discussion, and I was somewhat guilty of this in my emphasis on secular stagnation a few years ago, has been r-star moves a lot. And so when we see monetary policy move and we don’t see big impacts on the economy, we say that means r-star must have moved as well. So r-minus r-star didn’t change that much. I think that is part of the story.

But I have come to think, there’s another important part of the story, which is movements in the transmission mechanism. And I do think that the impact of changes in interest rates are less than we might have supposed. And so some of what I was inclined to interpret as, gee, maybe the neutral rate is zero in 2018 or 2019, I think today I would interpret as, and maybe the IS curve, the sensitivity of demand to interest rates, has been reduced, has been reduced as well.

I think if you’re sitting where the Fed is and you’re looking at the current level of financial conditions, which on some measures are about as loose as they were when this whole process started, that's got to give you some pause in doing substantial rate cutting absence evidence of a substantial real activity problem or evidence of inflation falling below the 2% target, neither of which, I think, we have. I would very much agree with you, Glenn, on your observation about government debt feeding into a higher level of 10-year rates. In a way, I was thinking of that as being one of the determinants that was driving the term premium.

R. GLENN HUBBARD: Yes, a couple more questions in this general area. You mentioned the Team Transitory versus Team Permanent. I think we both could agree, I think most people would agree that the Fed was quite behind the curve in starting but has become much more aggressive. Even John Cochrane wrote an Op-Ed piece basically giving the Fed a pat on the back. What's your grade right now for the Fed?

LAWRENCE H. SUMMERS: You know, in contemporary public education where we try to be positive, we look for a lot of awards to give people, and one of the awards is Most Improved Player. And I think the Fed gets Most Improved Player for the period 2022 mid-2022 onwards. I think they went from some very poor performance to vastly better performance. And I think that redemption is likely, is being rewarded to some extent.

R. GLENN HUBBARD: Yes, I would agree with that. There still may be some issues with communication leading to loosening financial conditions that undermine where they are, but broadly I would certainly agree with that. Greatest risk for the U.S. economy in 2024, given this outlook and discussion of the economy, monetary policy, both on the up or the downside, what are the risks?

LAWRENCE H. SUMMERS: I think the downside risk is fear of politics leading to a shift to a wartime type commodity price, all of that outlook changing the whole picture. And I think the upside risk is that we're in the early mid-90s and that productivity takes off, and in that context, there's actually room for substantial growth, low unemployment with comfortable inflation, and that we see 1990's type surprises.

R. GLENN HUBBARD: Yes, I think both of those are right on point, but geopolitics, I would actually add domestic politics within large economies, including our own. We can come back to that. And on productivity, I do think I'll come back to this with you, given one of your new roles, generative AI is a potential game changer for productivity at a speed that may be much greater than economists are used to. In previous general-purpose technologies, it took quite a while for organizations to adapt, even going all the way back to electrification, mainframe computing, internet and so on. The speed here is just much faster. I'll come back to that. But I think those are exactly the right risks.

Before we pivot out of the economy, though, if you take this set of outlook for the U.S.

economy, let's talk about emerging markets and Global South in this macro-setting in the United States.

LAWRENCE H. SUMMERS: I am worried. I would say that relative to what most of us expected three years ago, the debt problems of developing countries have been less serious. There has been less financial trauma in the developing world. But if you look at that, it has less to do with the problems having been less serious and more to do with the countries having defaulted to their children and defaulted on a variety of their social obligations than one might have hoped and expected.

And I look at the geopolitical environment. I look at the assistance environment. You know, in a climate where the United States is having very, great difficulty even managing to mobilize resources for Ukraine, I worry about what that's going to mean for resources for the Global South. And in that context, I think it's likely to be a pretty difficult period in the Global South. I think a lot of people are counting on a major respite on interest rates. And for the reasons we've been discussing, I don't think that a major respite on interest rates is necessarily likely to be forthcoming. So, as I look at substantial parts of the Global South, it's with real concern.

R. GLENN HUBBARD: Yes, I would definitely agree with that. I want to take us, though, to the broader question of geopolitical order. So you mentioned Ukraine. So we have hot conflicts in the Ukraine, obviously in Israel, Palestine as well and throughout the world. We have isolationist tendencies in, not only our own country, but in many advanced democracies. The Chinese leadership – and I know you've just recently come back from China, so I'm very interested in your perspective here – the Chinese leadership is perhaps less focused on economic outcomes than some of its previous leader types. So as you look at this kind of geopolitical order, what does all this mean for the economy? Is it just a higher equity risk premium? Is it changes in the structure of public spending? What should we be expecting out of this change in geopolitics?

LAWRENCE H. SUMMERS: So, look, I think the post-Cold War era is over, and we're in some kind of new ongoing conflict era. Whether the right term is new-Cold War, I don't know. But I look at the array of powers – Russia, China, Iran, North Korea – arrayed against the United States and its allies.

And I think we are now in a world that has similarities to the pre-1989 world, and a world that is very different than the world of the last 35 years. And that's just something, whether it's the funding of science and universities, whether it's the power of the American example through civil rights, whether it's the size of defense spending relative to the overall economy, whether it is the approaches to civic education, whether it is the nature of relationships between businesses and governments, I think that we're headed into a period that is going to be very, very different than the period that we have been in.

For economics, I think that the popular mind substantially underestimates the extent of national security spending, and therefore, all budget projections are excessively optimistic right now. I think the bipartisan consensus that it is impossible to reduce entitlements or to raise any tax on the bottom 99% of the country is untenable in light of the national security challenges that we face. And I think that we are going to have to reckon with a period of more uncertainty. Whether that will manifest itself in the equity risk premium, I don't presume to judge. But I do think that over time we're headed into a new normal of elevated geopolitical risk, and that there's a tendency right now to think of ourselves as in a special moment because of Ukraine, because of Gaza. And I think we are headed into a world where the current kind of moment is going to be much the more normal moment.

R. GLENN HUBBARD: Yes, I think that we are in a changed order. I think of three things personally. One is having to do with the structure of public finances, and you alluded to this. Let's say in the U.S. if we had to spend even one percentage point of GDP more on defense each year, in a budget already stretched, something has to give. And for the U.S. and its allies, we're going to have to rethink the mix between public goods defense and social insurance and transfers. And it's not a political comment, it's just math.

The second is a, you'll miss me when I'm gone feeling about globalization, that we've gained a lot, a lot more than people realize from globalization. And rolling it back or attenuating it into smaller regional situations is probably pretty costly. And the third is really domestic politics. In this kind of world, even thinking of geopolitics as the challenge, we may have to think harder about our domestic politics. To wit, what are we doing about immigration? What are we doing about opportunities for less-skilled native-born Americans? Those may seem remote from what's happening in Ukraine, but I think they're actually directly tied.

But I want to go to Ukraine with you in a couple of aspects. One, what do you think the implications would be, just speaking as economists, for a failure of the U.S. and its allies to fund Ukraine? And then I want to get your thoughts on whether the U.S. and the E.U. should seize Russian central bank assets for Ukraine?

LAWRENCE H. SUMMERS: So I'm going to take those in the opposite order. I think the first thing, I am a strong advocate of deploying previously frozen assets to compensate Ukraine and others for the damage that Russian aggression has done. The international legal case has now been argued by a variety of leading international lawyers and leading domestic legal figures, like my Harvard colleague, Larry Tribe. My partners in pushing this policy for the last year have been Bob Zoellick and Phil Zelikow, neither of whom are known for a tendency to, for enthusiasm for hair-brained schemes, both of whom are committed to caution and soundness in policy.

I think that the most important thing for people to understand is that these assets have already been taken from the Soviet Union. If that undermines the Euro, if that undermines that dollar, whatever it is, it's already happened. No one thinks they are going back in any foreseeable horizon. And so the question is whether those assets are going to be productively deployed to support internationalism, both to support necessary Ukrainian economic reconstruction, and I think critically to enable Ukrainian economic reconstruction without starving broad efforts around global public goods like climate change and pandemic, like the development of the poorest parts of the world.

I think it is important to be crystal clear that this is not a substitute for the military support that is now being sought from the U.S. Congress. That with enormous rapidity of effort, the legalisms associated with these mechanisms would take six months before money actually flowed. And the legal theory points towards compensation which means funds for economic reconstruction, not support for weaponry. So anyone who resists supporting Ukraine militarily, by pointing to this as an alternative funding source is being disingenuous, if not dishonest.

If we fail to support Ukraine, we will usher in much greater global anarchy. We will accelerate nations' non-reliance on each other, and we will pressure international norms against unilateral aggression, and we will make for a much more dangerous world. It will have been the ultimate false economy because the increase in defense spending that we will have to engage in will be a substantial multiple of any money we save by not funding Ukraine.

R. GLENN HUBBARD: I couldn't agree more on that. The reason I asked you the two questions together – you already highlighted this in your response – I worry that there's some U.S. politicians that have suddenly become enamored of central bank reserves because they see them as a substitute for the U.S. FISC and military. That's just wrong-headed.

One institutional thing I would add too is probably the need for some kind of Marshall Plan-like structure for the distribution ultimately of those reserves. But I do agree these are two different questions, and I worry that our political elites on both sides of the aisle frankly aren't necessarily connecting the dots between what would happen by a failure to rearm Ukraine and to global risks.

If that's kind of the geopolitical situation, let me turn to the upside risk we talked about, which were productivity surprises, particularly from AI. Let me just put a thought on the table and see what you think. I think that the case for a strong productivity gain from generative AI is definitely there as a general-purpose technology. And as I said before, it's one that's likely to move much faster.

I'm not as sure about jobs. So traditionally, if we think about tasks or jobs, when we've had technological improvements, the just general productivity effects that Adam Smith himself talked about with technology, or the creation of whole new things led to new tasks and jobs, that all happened fast enough to replace whatever is lost. I think that will happen again here, but I'm a little bit less sure. I wanted to get your take. Productivity gains don't necessarily have to translate into employment. So what do you think?

LAWRENCE H. SUMMERS: Well, first of all, there are those who know they don't know and those who don't know they don't know. And I'm in the camp of those of one who knows that he doesn't know. Second, Glenn, I think it's important, people have tended to blur this up. It's kind of unquestionable that there was a substantial productivity acceleration in the 1990s and it was associated with IT. My read is it was probably not associated with the internet. It was probably associated with the IT investments that had been moving forward for the previous 15 or 20 years.

So I think that one can very easily overdo the estimates of the impact that AI is going to have on productivity in the next few years. If we get a productivity acceleration, I suspect it's going to be more a lag response to a lot of things that have been happening over 15 years than it's going to be an immediate response to the GPT and to some of the other things that have been introduced in the last year or two.

I think these things are ultimately going to have very profound effects. Somebody said something very powerful to me. He said this represents a new way of knowing in the same way that the scientific method represented a new way of knowing. And that kind of example points you towards believing that the effects are more profound but not necessarily more rapid than one might have supposed.

I also think it's important to remember in assessing all this that what AI does overlaps with what people who write articles about technologies do. And therefore, we may be quicker to see all its effects than we are when there are innovations that are transformative but not for people who write articles for a living. And I think that's important to remember.

I am guardedly optimistic that because this is going to come for EQ before it comes for IQ, that it may be more egalitarian in its implications than many of the previous revolutions in technology that have taken place. And that it may well facilitate there being more time spent in human contact with patients in hospitals and the like. So I would be surprised if this came without dislocation, but I would also be surprised if it was a different level of dislocation than we have experienced before. But it is something that we are going to need to be very carefully monitoring as we move forward.

R. GLENN HUBBARD: Do you have any thoughts on our own little, narrow world in teaching in universities. I was at the American Economics Association meetings last week and there were sessions decrying ChatGPT and cheating. I always thought that that was kind of a smallbore subject. The bigger thing is just the question of how do you evaluate students and lead performance – it doesn't have to be in a classroom setting – in this world? Any thoughts on that?

LAWRENCE H. SUMMERS: Look, I think the big thing, the big thing in education is if you think about it around the world, there are probably 150,000 lectures given every fall on what it means to take a derivative in introductory calculus. And surely, there is a better way of communicating that information than to have 150,000 people give lectures. And that better way involves much more figuring out the best way, best ten ways to communicate the material connecting everyone with those materials and having everything else be much more individualized and in groups.

So when I think about IT in education, including AI in education, I think the cheating issue is a third order issue. There was a time, I'm old enough to remember when there were many people who felt that you really got insight from working something out on a slide rule in a way you didn't get insight when you worked it out on a calculator. I remember being told that to take a currently obsolete art, that there was real pedagogical value in learning to take a square root with pencil and paper. I don't think that is real.

If you go back, there are people to decried the evolution of reading relative to listening and speaking as a mode of transmission of knowledge. So I would be amazed, Glenn, if we don't find a new synthesis in which people learn to use AI as a tool in producing knowledge as an input to the work they do as students. That doesn't mean that educators aren't going to have to think carefully, but I think of this as being a low, low-end problem. I would worry about false apparent knowledge. I would worry about problematic addiction. I would worry about anomie from attachments to machines rather than people. I would worry about many, many things before I worried about that particular educational problem.

R. GLENN HUBBARD: I certainly agree with that. We'll leave Durkheim, and dYdX, and slide rule for the moment. But I'm going to ask you an economic policy question with AI. We don't know what this transition will be, both to a higher productivity or to whatever the new employment world looks like. Do we have the right labor market and economic policies in place to help that transition?

LAWRENCE H. SUMMERS: No. We have an educational system that has been importantly misguided for decades. One side of our political process has been more indifferent than it should have been to the less cognitive half of the population. And the other more progressive half of our political system has been captured by cognitive elites who see their path as the only path. And so the whole area of vocational education, of careers where enormous skill in using one's hands and one's instruments rather than purely one's intellect is a way of contributing has been neglected in our country. And I think there's an enormous task ahead in thinking about universalizing the provision of opportunity rather than having it be all or nothing around the kind of college educations that the people on this call had.

R. GLENN HUBBARD: May it be so. Neither side of the aisle seems as interested as they should be at that prospect, but I hope that's true. The same high school math teacher that focused me on the slide rule hated shop and vocational education and I think she was wrong probably on both.

I want to change gears, though, and go to fiscal policy. Everybody in Washington seems fixated on the machinations between Speaker Johnson and Leader Schumer in the Senate over some potential funding deal that may involve a tweak here and a tweak there and a sprinkling of COVID funds to hit defense and non-defense targets. I'm not sure that deserves as much attention as what we're not talking about, rather I am sure it doesn't deserve as much attention as what we're not talking about, which is – as we both know and everybody on the call knows – we're in an unsustainable fiscal path. That point is obvious. But (a) how do we change the channel to that? And (b) how do we start addressing it?

LAWRENCE H. SUMMERS: So, look, Glenn, first of all, people, what you should pay attention to depends on how you're situated. The likes of you and I should not be spending our time on this deal because we don't have any real capacity to affect what the deal will be and because ultimately there will be some sort of deal and the precise details of that deal will not be of ultimate historic importance. So I think you're right to focus us on the longer run.

Here's what I think is not yet internalized. We have had intermittent high deficit anxiety in the United States, now for 40 years. We had it in the aftermath of the Reagan tax cuts. We had it in the Clinton administration period. We had it prominently after the financial crisis during the Simpson-Bowles period. Mostly, the anxiety did not materialize, and mostly the anxiety did not materialize in part because policy steps were taken. But even more because of phenomena that we touched on earlier, the multi-decade trend towards lower real interest rates basically operated as a bail-out for the indebted. Most importantly, the Federal government.

If one believes as I do that that trend is over and is quite likely headed into reverse, and if one believes that we are, for the first time, going to face the fiscal challenge of a need for a major set of national security investments and a reality of a major set of built-in social insurance commitments, then the fiscal situation right now is far more serious than it has been. I was, if you look back, never bought into the high degree of anxiety around Simpson-Bowles. I felt at that time that this was a matter of better hygiene but that actually the country's underinvestment in its less-advantaged children, its underinvestment in its infrastructure, its underinvestment in science represented substantially more severe deficits. So I am not a chronic, habitual deficit warrior. And I think I don't have a cry wolf problem on this issue the way, frankly, many people I think do.

But whether people have a cry wolf problem or not, now is the time to cry because the path is not tenable. I don't see a way through without significant increases in revenue and more increases in revenue that can plausibly be generated from tax increases on those who the political process can regard as plutocrats. That does not mean that progressive tax reform shouldn't be a crucial part of the agenda. I think it absolutely must be. It should be preceded only by substantial efforts to increase tax compliance. That's why the measures that further cut the IRS budget in the proposed legislation seem to me to be so catastrophically misguided.

But I think we are going to have to find our way to more serious efforts to contain healthcare costs, ways of raising revenue from a broader category of our nation's citizenry than we have historically. And we're going to have to accept that in a world where we have more defense needs and in a world where the relative price of education and healthcare has gone way up relative to television sets and many of the things people buy, we're going to have to accept a larger government as a share of GDP than we have historically.

R. GLENN HUBBARD: Perhaps, but I think that in the long term, if you look at forecasts, much of our deficit and debt problem remains an entitlement spending problem. The problem, of course, is fixing that is very slow and gradual in any sort of political economy sense. So it strikes me the right balance is making those adjustments long term, but while putting in more revenue in the near-term. The two things that would occur to me, one you mentioned, which is compliance, which I think is very important to invest in. And the second are things like a carbon tax that are necessarily temporary if they're effective, i.e., they are reducing carbon intensities. I think we're going to have to think outside the box, not just on the usual bean counting from the CBO budget outlook, but on thinking about what's the long-term problem, what's the near-term, and how we sequence them? I'm going to use the couple of minutes we have left...

LAWRENCE H. SUMMERS: I don't disagree with anything you just said.

R. GLENN HUBBARD: I want to switch gears to our little world of the university. You and I have spent our whole lives essentially, more or less in universities. We both have been senior administrators. You've been president of our nation's storied, most storied institution – I say it because it's my alma mater. We're at a moment, and I want you to, not in the specifics of what happened at Harvard or anything like that, but characterize this moment for us. And one of the things I'd been worried about that has surfaced in this moment is a flagging of perhaps a need to expand intellectual diversity in universities. I just want to get a sense of where you think we are in the moment in elite higher ed.

LAWRENCE H. SUMMERS: I think in some important respects our leading universities have gone off the rails. I think it's important to remember that they are still the leading institutions in the world. But I think words that seem to me to be central to what universities should be – excellence, truth through debate, merit, progress. Those words are much less a part of the discourse in universities. They are much less the values that universities are seeking to uphold than they once were. And that universities have increasingly venerated particular conceptions of social justice as supplements to and even replacements for excellence and the search for truth.

I think that has reflected the internal dynamics within them. I think that there has been increasing homophily of belief which has tended to center around a particular set of what regard themselves as progressive conceptions. Some of that is because there's discrimination in faculty hiring but much more of it, Glenn, I think is because of a root dynamic.

If you're a person who believes strongly in capitalism, you have many, many choices in life. You can work for a company. You can work for a university. If you're a person who hates capitalism, you have many fewer choices in life, and therefore, it's natural that those who end up in universities tend to come with a certain ideology. But they have too often perpetuated that ideology rather than tried to ensure diversification away from that ideology.

But I think this will be remembered as a period of abdication by the trustees of universities who ultimately are the fiduciaries for those institutions and for their long-run future. And as loyalty oaths to particular concepts of diversity have come to be a prerequisite for hiring, as those concepts of excellence and truth have been denigrated, too often fiduciaries have been cheering the trends on or oblivious or unresponsive to the growing danger. And I think it will be remembered as a costly set of errors, and I hope that the broader society will bring pressure on those who have fiduciary responsibility to exercise it more wisely than they have over the last quarter century.

R. GLENN HUBBARD: Agreed, this is, of course, what Schumpeter worried about, about intellectuals. Barbara, we've taken from the U.S. economic outlook to almost Cardinal Newman-like takes on the idea of the universities, so we'll give it back to you.

PRESIDENT BARBARA VAN ALLEN: Well, thank you both. And the two of you never disappoint, and today was another good example of just a terrific conversation. Thank you.

So, I'm pleased to say this year is shaping up to be an exciting one. We've already confirmed a number of events, and I just wanted to share what we've got and of course encourage you to stay tuned. We just confirmed a digital event on the 24th of January with Joe Davis up at Vanguard. He's their Global Chief Economist. That will be followed on the 29th by Ian Bremmer, the President of Eurasia Society. We have many speakers actually next month, February. Tom Barkin, the President and CEO of the Richmond Fed, will join us. And then we're very fortunate that we're going to have a breakfast conversation with Kai-Fu Lee of Sinovation Ventures. We're very excited about that one. And on the 21st of February, we have Melissa Kearney, the Neil Moskowitz Professor of Economics at the University of Maryland, on her new book all about the important and under-told story of the important economic impacts of family.

And then we're going to step outside our normal kind of swimming lane a little bit and host our first event ever outside of New York City that I'm aware of in 117 years. We're going to go down to southern Florida, outside of Miami actually, and we are going to host the Seven-Time Super Bowl Champion Tom Brady. And we'll have a conversation about his career. We'll have a conversation about the NFL. We'll have a conversation about sports and money as well as his entrepreneurial endeavors. So that will be a dinner for the first time in Miami. If you're not able to attend in person, you're welcome to invite guests for that.

On the 26th, and before Super Tuesday, we're going to have a webinar with Charlie Cook of the Cook Report, which we always look forward to. We'll be having him in person in the fall. And we're going to finish out the month with the 82nd Attorney General of the United States, Eric Holder, Jr. Looking ahead into the spring, we have a number of exciting folks coming, including Jamie Dimon is confirmed. Susan Collins, the President and CEO of the Boston Fed, John Williams of course, and David Ricks, the CEO of Eli Lilly. So all these events are listed on the website. We're getting the invites out as quickly as we can. We're lining up many, many more.

And as always, we just want to take a moment to recognize those of our 372 members of the Centennial Society joining us today as their contributions continue to provide the financial backbone of support for the Club. So thank you, everyone, for attending today. We look forward to seeing you soon. And many thanks, Glenn and Larry, for a great conversation. Thank you.