Fed Unfiltered
Neel Kashkari, Interview: Aspen Economic Strategy Group's 2022 Annual Meeting, 8/10/22

Speaker 1:

Oh, hey. We got it, right now.

Dan Porterfield:

Hello, everybody. Welcome.

Speaker 1:

Hold on.

Dan Porterfield:

Welcome. Thank you for being here. Good afternoon. I'm Dan Porterfield, the president and CEO of the Aspen Institute. The Aspen community programs, McCloskey speaker series, and Aspen Economic Strategy Group are pleased to bring you today's program.

Speaker 1:

[inaudible 00:00:20].

Dan Porterfield:

And I'd like to thank both the McCloskey family and the Economic Strategy Team for making this great event possible. Thank you all.

Dan Porterfield:

The Aspen Economic Strategy group was founded in 2017, by our present and past board chairs, Jim Crown and Bob Steel. It is co-chaired by Hank Paulson and Tim Geithner, and it works to develop evidence based solutions to significant U.S. economic challenges, to clarify the lines of debate on emerging economic issues, domestic or global, to facilitate cross party dialogue, brainstorming, partnership, and understanding. And it's really been working.

Dan Porterfield:

My thanks to Melissa Kearney and Amy Ganz for their leadership in pulling together this incredibly accomplished and diverse group of economic thinkers and leaders. Thank you, Amy. Melissa, thank you. So the group just finished its 2022 meeting. And I can assure you they were working around the clock and they're very productive discussions. And today's topic, inflation, was a central focus.

Dan Porterfield:

So today we feature five of the group's members, none of them strangers to this group. Neel Kashkari is the president and CEO of the Federal Reserve Bank, in Minneapolis. And, in 2022, as an alternate member of the Federal Open Market Committee. Larry Summers is the Charles W. Eliot university professor and president emeritus at Harvard University. Larry Fink is chairman and CEO of BlackRock, the world's largest asset manager. Melissa Kearney is the director of our Aspen economic strategy group and the Neil Moskowitz professor of economics at the University of Maryland. And, last but not least, our moderator Greg Ip, is the deputy economics editor and chief economics commentator at the Wall Street Journal. Over to you, Greg, and thank you.

Greg Ip:

Thanks very much, Dan. And welcome, everybody. And I've been covering economics for 30 years now, and I can't recall a time when I had so much to write about and think about than just over the last few years. It's been one thing after another, but I want to get right into the topic of the panel, which is: Is the U.S. headed for stagflation? I'm going to start with you, Larry, because stagflation is one of those terms that's often warned of but never actually happens. But this time does kind of feel different. We have, basically, negative, or flat, growth for the last six months, and we have very high inflation. Is this stagflation? How is this like the seventies? How's it different? How does it end?

Larry Summers:

We talked a lot about stagflation in the seventies. We haven't talked about it much... Can you hear me?

Audience:

Yeah.

Larry Summers:

We haven't talked about it much, since we brought inflation under control with determined policy, with Paul Volcker, in very late seventies and early 1980s. And we, basically, had inflation under control for 40 years, despite the fact that the price of oil fluctuated, despite the fact that there were all kinds of supply shocks. We lost the thread, along with many other countries, about a year and a half ago, with massively expansionary policies relative to the size of the GDP gap. The fiscal stimulus was five times as large as it had been during the financial crisis. And, at the same time, massively accommodative monetary policies, with the Fed growing its balance sheet rapidly and maintaining very low real interest rates, even as the inflation rate accelerated. The consequence is that we now have a very substantial inflation rate.

Larry Summers:

Some of it is almost certainly transitory, but, relative to our target of two, I don't see how you could argue that we have an underlying inflation rate below four and a half percent. And I think five, or five and a half, would be a better guess. History teaches something quite clearly, and that is that soft landings represent what George Bernard Shaw said of second marriage, the triumph of hope over experience. We just don't have them, historically.

Larry Summers:

Every time we have had unemployment below four and inflation above four, we have had a recession within the next two years. Every time the unemployment rate has gone up by half a percent, it has gone up by more than two percentage points. So the odds that the exit from this will involve a completely soft landing are, I think, quite low. The odds that we will get a mixture...

Larry Summers:

Because what policy makers have to do, when they have to balance uncomfortable things, is accept pain on both dimensions. And so we're likely to have inflation not get all the way back to the stated absolute goal of 2%. And, at the same time, in the effort to reduce it, we're likely to have some slowing of the economy and a recession. So I think that a best guess, not a certainty, but a best guess, would be that there will be a stagflationary tendency in our economy for the next several years.

Greg Ip:

Oh, well, it's encouraging. Larry Fink, I have to say that, notwithstanding the deeply pessimistic outlook that we just heard from Larry Summers, the markets seem to be in a pretty good mood, I mean. So, today, we had some news: The inflation rate, in July, dropped to 8.5%, from 9.1%, in June. The core inflation rate, which excludes food and energy, was lower than markets expect. And, as a result, last I checked, the Dow was up around 500 points. Bond yields have eased down a little bit, and they're all done a lot, in the last month or two. So, I mean, to me, it looks like the stock market doesn't believe we're in a recession, or going into a recession, and the bond market doesn't seem to think we have an inflation problem. Are they right?

Larry Fink:

Well, I think they're saying two different things. Let's start off with the fundamentals. There's still a lot of money in the system, and we're seeing large inflows by insurance companies buying the long end in the 10-year area. So I think we have to look at the fundamentals, not just what's going on economically. But the markets are acting pretty calmly. I mean, we're still down... What? Fourteen percent on the year. And there's still possibilities that we could fall another 10 or 15%, depending on geopolitical issues.

Larry Fink:

But I wanted to add what Larry said. Because we're in a position where we are going to have the Federal Reserve, who's going to have policies and raising rates, whether it's another 125, or another 225, to bring down inflation in, which would cause a recession. But the problem is, from my vantage point, the recession is not just because of aggressive monetary policy.

Larry Fink:

The inflation that we're facing is so much policy oriented. Our policies of movement away from consumerism to populism is inflationary, and policies have been built around those, the domestic issues that we have today. But, more importantly, we've eliminated a large component of legal immigration.

Larry Fink:

This country is based on legal immigration. So, if you look at the legal immigration rates, from 2000 to 2017, and the legal immigration, from '17 to '22, we're down two and a half million legal immigrants, one of the reasons why we have such job needs. We have ten and a half million job openings right now and five million unemployed. So we have this mismatch. We're seeing rising wages across the board. The whole issue in the energy transition, we were, as a country, mitigating supply without mitigating demand and changing demand. And so all these issues are confronting us.

Larry Fink:

And these issues are not going to go away, when the Federal Reserve tightens, because these are policy oriented issues. And, if we just put all the pressure on our central bank and every other central bank, we may put the economy into a recession. We may bring down some inflation, but some of this inflation that we have can only change if we change policies.

Greg Ip:

Those are a lot of really big thoughts. There is a lot to take in, and I'm going to try and come back to each of these items. But I think one of the things I do want to touch on is: We just heard you run a company that runs more money than anybody else in the world. And one thing we know from the seventies is stagflation was a terrible period for investment returns, stocks, and bonds. Can we expect something similar, several years of really difficult times in the markets for investors?

Larry Fink:

I mean, it's certainly one of the outcomes, one of the probabilities, if we do not change some of these policies, if we don't manage the energy transition in an effective way. We'll create elevated inflation, and it will create more issues and more displacement of jobs. There is a real possibility. I mean, I wouldn't call it 50%, but could we have a three- or four-year-period, where we're going to have really uneasy markets and... But I look beyond that, and I try...

Larry Fink:

We're the largest retirement manager in the world. It really doesn't matter that much what's going to happen in the next two, three years. You have to have a belief that, in the next 20 or 30 years, we're going to be better off. And, if you don't believe in that, then, obviously, keep your money in cash, or buy bitcoin, or whatever. But, yeah, there's a real possibility markets could be down another 20, 30%. I don't see that as an outcome, but I certainly see that as a probability, just as much as I see a probability that we can resolve these issues. We are going to create new technologies that are going to stimulate up new economies, new parts of the economy. They'll create jobs, so-

Greg Ip:

Very-

Larry Fink:

... I don't believe we're as dire as some people are predicting.

Greg Ip:

But it's very much conditional on us getting a lot of things right, including our policy frameworks right.

Larry Fink:

And I don't think we've gotten a lot of things right. I mean, the polarization of politics in America, it's the short-term-ism of America. We're not focusing on some major subset of long-term issues.

Greg Ip:

So let's talk about one institution, which has a lot on its hands when it comes to inflation, that's the Federal Reserve, Neel. So I was a Fed reporter for many years. So I can't resist asking you about the latest data point, today's inflation numbers. What's your reaction to them? So we had... The market thinks the core numbers were a bit better than expected. Fed Chair Powell, has said the Fed won't stop tightening, until it's seen evidence that actual monthly inflation ratings have begun to moderate. Does today's number qualify? What does this mean for your view on the size of the rate increase, if any should be appropriate, on September 21, your next meeting? And what do you think where the markets are pricing now? Do you think you're going to stop tightening, when we get to three and a half percent, and then start to ease? That's a lot to take in, but give me your take on all those things.

Neel Kashkari:

I mean, I was certainly happier to see an inflation surprise to the downside, in what we've been experiencing for the past year. For the past year, almost every inflation reading has surprised us to the upside, which is really problematic, if you are the Federal Reserve. And so I'll welcome. I'll take it. But far, far, far away from declaring victory. I mean, this is just the first hint that, maybe, inflation is starting to move in the right direction. But it doesn't change my path.

Neel Kashkari:

So, in June, in the summary of economic projections, where all the FOMC participants put in their own projections of interest rates for the next few years, I recommended being at 3.9%, by the end of this year, and 4.4%, by the end of the following year. I haven't seen anything that changes that. And so that... There's more data to come in, between now and September.

Neel Kashkari:

But, at least speaking for myself, we are a long way away from saying we're anywhere close to declaring victory. We have to get back to 2%. We said we have a duty to get to 2%. My colleagues in the Federal Reserve and I are serious about it. We're united in that commitment. And we're going to do what we need to do to get inflation back down to 2%.

Larry Fink:

Neel, can I ask you a question though? Why not three? Why? What's so magical about two?

Neel Kashkari:

It's magical because... You're right. If we had picked three-

Larry Fink:

Yes.

Neel Kashkari:

... Ten years ago, that would've been a reasonable thing, but our credibility is now on the line because we committed to two. We set the expectation for two. And, if now we say, "Well, you know what, three's okay," then what that means is you can't really trust us. And, because we set this commitment, we have to deliver two. At that point, if the public and the Congress wants to have a debate, maybe, it should be three, going forward, let's have that debate. But I, for one, am not willing to say, "Well, let's just get to three and declare victory." I think that'll do long-term damage to the credibility of the institution.

Greg Ip:

But, when you see how market rates have come down in the last few weeks, including a little bit today, and the view that you're going to start easing very soon, early next year, at a point lower than what you just projected, do you believe... Is there a disconnect between the Fed and the markets about exactly how much has to be done to solve this inflation problem?

Neel Kashkari:

Well, there's a disconnect between me and the markets. I don't want to speak for all of my colleagues at the Federal Reserve. I think a much more likely scenario... Because, if you look at the projections that we put out, in June, the median projection is that inflation is going to be above our target for all of this year, all of next year, all of 2024, and sometime into the future. The idea that we are going to start cutting rates early next year, when inflation is very likely going to be well, well, well in excess of our target... I just think it's not realistic. I think a much more likely scenario is we will raise rates, to some point, and then we will sit there, until we get convinced that inflation is well on its way back down to 2%, before I would think about easing back on interest rates.

Greg Ip:

Melissa, I want to come to you now, because some of the issues that Larry touched on sort of speak to structural issues in the nature of the economy, especially labor supply. He touched on immigration, for example. And I say that one of the things that people are puzzling over is we have this extremely tight labor market. Unemployment rate equals three and a half percent, equals to the lowest in 50 years. But labor force participation, the number of people working who want to work, actually, has not recovered to where it was before the pandemic. Why is that? I mean, we've heard various explanations. It's people are afraid of COVID. People have to look after their small children, or whatever. What's going on? And, if you could, there's a Fed angle to this too, because Fed Chair Powell has... One of the reasons he's hoped for a soft landing is he thinks people are going to come back in the labor market, take some of the pressure off wages. So what's your take? Is that happening?

Melissa Kearney:

So right. So we have a very tight labor market, which is, in part, driven by the fact that people left. They didn't just leave their jobs, when COVID hit, but they left the workforce. And, sometime during the pandemic, they left the workforce. They stopped looking for work. So now we have more openings than jobs, or than workers who want to take them. I do think people will start coming back to the workforce more quickly now. I think that mostly because we threw a ton of money at households, long after the initial spike in unemployment and closures, in spring of 2020, households were in a very good position. There was deferred spending. So people accumulated a lot of savings, and that allowed people to stay out of the workforce longer than I think most of us would've liked them to.

Melissa Kearney:

But that increases worker bargaining power. So there is a good element to that. I think the idea that a lot of people were going to return to the workforce, last September, when schools finally reopened... That was overblown. People were hoping for that, but the truth is parents kept working during the pandemic. So there was this idea that the pandemic kicked all these mothers out of the workforce. Really, it just meant mothers were working around the clock, taking care of their kids and kept their job, which is why we didn't see the bump up in work, in September, that some people were hoping for. But, as household balance sheets decrease, people will come back to the workforce. There's two caveats. A lot of the return and the jobs have sort of returned in different industries and sectors than where we lost them. So, if it feels like, "Why am I seeing job numbers return but I still feel like I can't get a server at a restaurant, or there's no housekeeping at hotels," that is accurate. Jobs are way down in certain sectors, service, leisure and hospitality. They're up in others, warehousing and transportation.

Melissa Kearney:

So, while we do see people returning, we see them returning in different places. But you also point to underlying challenges in the labor market. Even if we return to 2019 labor force participation rates, labor force participation rates are very low, by historical standards. So only 85% of men, between the ages of 25 to 54, were working before the pandemic. So, even after these challenges resolve, we're still going to need to deal with low labor force participation rates, in order to generate a more dynamic, productive economy.

Greg Ip:

Larry, would you want to weigh in on what you just heard?

Larry Summers:

I agree with Larry Fink and with Melissa, that, way beyond inflation, there are profound structural issues that our country faces, and we're not going to have a happy outcome on inflation and unemployment and that stuff, if we don't address some of those profound structural issues. And, to just underscore what Melissa just said, the fact that, in 1960, one out of 20 men were not working, of working age. And, today, it is three out of 20. That is a lot of tragedies. That is a lot of lost economy. That is a lot of unhappy families. That is a lot of children who aren't being brought up as well as they could. And it is a profound issue.

Larry Summers:

But I want just to go back to the wonky stuff about inflation and labor force participation and so forth. We're losing the thread into optimism a bit, in two respects. First, how many people here have rethought the way they're living, in some significant way, because of COVID? How many are living just kind of the way they were before? Okay. So it's about half and half. So, if half the people have rethought-

Greg Ip:

If half, then no.

Larry Summers:

What?

Greg Ip:

If half-

Larry Summers:

But wait.

Melissa Kearney:

It's getting a little-

Larry Summers:

I don't want to be more or less. Okay. But wait. Wait. Wait. I'm making, as much as I ever do, a serious comment. If half the people are kind of rethinking their lives, it shouldn't be that surprising to people that 1% of the people, 2% of the people who are rethinking their lives, are rethinking their lives towards not working, when they did before. So why we would think that there was some law of gravity that said the labor force participation rate's going to go back to where it was before I can't imagine. So I think, probably, we just have less labor force participation. And so, if you have a big bathtub, you put a lot of water in it. If you have a little bathtub, you put a little water in it.

Larry Summers:

And the Fed just kind of has to understand that. The other thing is... And I'm no doctor. I'm no epidemiologist. But, from what I read and from my set of acquaintances, most people who have COVID get better, and it's all fine. But 5% of the people, 10% of the people... I don't know what the number is. ... Get some kind of long COVID. And I imagine a lot of them don't work, or at least don't work for six months. And so I don't have this optimism that labor force participation is rushing back, point one. Point two, there's just a basic confusion in the economics, which is... Let's say a 100,000 people more come back and work. Well, that'll increase labor supply, but they'll also earn money, and they'll also spend, and they'll buy something, and they'll be people involved in producing that. So that'll increase labor demand.

Larry Summers:

Now, the increase in labor demand may not be as much as the increase in labor supply was but almost. So, one, I'm not sure participation is coming back. Two, even if participation does come back, it's not changing the supply-demand balance in the labor market in a profound way. Here are the just facts: On average, in the American economy, for every 10 unemployed people, there are seven vacancies, today. The highest it has been, before this episode, ever, is 15 vacancies. Right now, after vacancies have come down, it is 18 vacancies, for every 10 unemployed person. And, every time, historically, that they vacancies have fallen by more than 20%, unemployment has risen by two percentage points, whether it started from a high level, or whether it started from a low level. So, look, anything can happen.

Larry Summers:

Statistical patterns break. I'm not saying anything's a certainty. But why anybody would say that their best guess was that we were going to be able to get all these vacancies to go away without any substantial increase in unemployment and have a soft landing... I mean, I'm going to play golf later next week. Now, this weekend, I hope I shoot 80, but it probably won't happen, based on the last hundred times I have played golf. It's nice for me to say, "I hope." I say to my wife, "I hope I'm going to shoot 80 today." So it's great for the Fed to say, "We hope we're going to have 4% unemployment," but I think, if you want to be credible, it's really important also to be realistic around where the best guesses are. And I don't think any reasonable best guess is that we get out of this with a soft landing. We may. We may. I'm not saying it can't happen, but it's not, I think, the best guess.

Larry Summers:

And I think one of the reasons why we have some of the deep problems we do, of lack of faith in public institutions, is that people have just wanted to make people happy, and so they give optimistic forecasts because they think it's good to inject confidence into the situation. And that's kind of a shortsighted thing. You and I have never discussed this question, Larry, but I am super confident that you would rather underestimate how good it's going to be and over-perform, when you make public statements about BlackRock's prospects, than the opposite.

Larry Fink:

Yeah.

Larry Summers:

And I think we need that mentality in our politics, and we don't have it.

Greg Ip:

Well, let me bring this back to the Fed, Neel. Now, I've listened carefully.

Neel Kashkari:

I've been waiting.

Greg Ip:

Yeah. Yeah. It always comes back to the Fed. I've been a careful listener to the press conferences, and I think it's notable that, when Chair Powell gets asked the recession question, he doesn't say, "There won't be a recession." He doesn't say, "We're doing everything we can to avoid recession." He says, "We hope to avoid a recession," which seems to be the kind of thing you say if you are trying to avoid being pinned down on a specific forecast.

Greg Ip:

But I think one of the points that Larry and Melissa are getting at, with respect to these dynamics in the labor market and somebody dropping out, is we're trying to grow towards what is the new normal in the labor market. And, in 2019, we had an amazingly good labor market, with the three and a half percent unemployment rate and low inflation and rise in real wages. And you, as a policy maker, were especially vocal that the Fed had a responsibility to maintain this good situation to the best of its ability. It had a dual mandate, not just stable prices, but also full employment, in that it had a part to play, and that this could do a lot of positive things for a lot of people. Well, here we sit with that same three and a half percent unemployment rate, but inflation way higher, real wages falling. Will we ever get back to that world of 2019? And, if not, what's the new normal look like?

Neel Kashkari:

I'm optimistic that we will. But I think the transition from where we are, in this high inflation environment, to that is not going to be linear. I mean, there's going to be... We may be in a recession, in the near future. I don't know yet, but I agree with Chair Powell. We're going to do our best to avoid it, but we are going to get inflation back down to 2%. The transition is the part that's the most uncertain. Once we get there, I don't see any reason why we cannot have a robust economy with low unemployment, with real wage growth, with decent economic growth and low inflation. So I don't see any reason why we shouldn't be able to get there, but I agree that the transition period, from here to there, is going to be challenging.

Greg Ip:

Let me actually ask you directly: If getting back to your 2% target involves a recession, will that deter you from doing what is needed to get back to that 2%?

Neel Kashkari:

It will not deter me from advocating that we do what is needed. And I sit in the FOMC meetings. I listen to my colleagues very carefully. All I can say to you is that we are united in our determination to meet the goals that Congress has assigned to us, which is long-term, maximum employment and 2% inflation. And so we're going to do everything we can to get there.

Greg Ip:

Larry, I want to come back to you, because you've touched on the energy thing. And I think BlackRock has done a ton of work, in terms of corporate governance on ESG and so forth. And here we sit, today, with an energy crisis. In fact, there are those who say this is worse than the 1970s because it involves not just oil, but also natural gas and electricity, in a variety of ways. So how did we get here? And, given what you see today, is the green transition something that we've spoken of in almost a theoretical fashion? Is it still plausible? Is it going to cost us a lot more than we thought? Is the energy picture going to be a sustained source of upward pressure on inflation, downward pressure on standards of living, for some time to come?

Larry Fink:

Yes, to everything.

Greg Ip:

Oh, God.

Larry Fink:

No.

Greg Ip:

Throw me a bone here, man, I'm looking for something.

Larry Fink:

We always knew, to get to a decarbonized world, it's very inflationary. The green premium, depending on from steel, or cement, or any other mechanism, or molecule for power, is just very expensive. We don't have the technology. Now, obviously, we have wind and solar that is very competitive, but it's intermittent. And there's been a lot of money plowing into that.

Larry Fink:

I'd need to step back in first and say, "All the money that we manage is not our money." So it is the client's choice. Some clients want to really move forward in a decarbonized portfolio. Other clients do not wish to do that. And so we are trying to inform all our clients of what our views are. And we do believe long-term climate risk is going to represent investment risk. And so how do you weave that? And that's a very delicate issue.

Larry Fink:

I write these letters to CEOs every year. We've always said that the transition is going to be messy. It's not going to be linear. We have this green premium and that we're experiencing this right now. The problems that we're facing now, once again, are heavily policy. I mean, we have always been a big believer that gas is going to play a major role in the transition. We have more gas than almost any country in the world. We just can't get it out because we refuse pipelines.

Larry Fink:

We could be working with our allies, right now, and helping them, as an alternative to Russian gas, today, if we had pipelines from the Marcellus, in Pennsylvania, to the Northeast, or what we could possibly do in Alaska, too. So there are things we can be doing to bring this down. Look, every transition has to have this whole concept of navigating the entirety of an economy. The displacement of jobs, in the movement to more decarbonized technology, is going to be very rough, in some communities. More importantly, there are going to be, as we move there... As we're witnessing higher gasoline prices and heating prices, it really has had a severe impact on the underserved people of our country. And so you have all these big social issues. And those so social issues today are more prominent than the desire to decarbonize tomorrow.

Larry Fink:

And getting back to one of my statements earlier, these are all long-term issues. And the problem is we have two-year, four-year, six-year voting cycles. This transition is a 30- to 50-year transition, and it's going to be very uneven. It's going to be very lumpy. It's going to have some communities accelerate for it, and some communities in America that are going to are going to be troubled by that. So it requires things called long-term planning. There is enough capital, right now, to accelerate the movement, the amount of interest that we are seeing from investors, in terms of de-carbonization. You wonder why food prices are up so much and why restaurant prices are up so much, here in Aspen. I mean, fertilizer prices are up 150%. Why? Fertilizer is, basically, created by gas; you convert gas to ammonia. And so, all these things we have, these are consequences that we should have predicted, and we need to have a plan.

Larry Fink:

We need to have a plan working together. But I am very confident, despite the polarization of views, right now, that we will find the solutions. But the reality, right now, in the political atmosphere that we're living in, today, in America, is you have the far left attacking that we're not moving fast enough, and you have the far right attacking that we move too far.

Larry Fink:

The reality is we are trying to work with every investor in the world, saying, "It's your money. Here's the information that we can provide to you. We're trying to inform you of this. We could help you invest in whatever outcome that you're looking for." And I do believe we're going to move forward in getting this done. I am, personally, very committed in being an advocate for the whole concept of de-carbonization over a long period of time. I was pleased to see that we have the bill that, hopefully, will be passed by the president, that we're going to move forward. And, as a few, I would say, senators, who've embraced this new bill, it is a combination of moving forward in de-carbonization but making sure that we have an energy transition that we can all afford, and we could all be working together.

Melissa Kearney:

Can-

Greg Ip:

There's actually a point in this... Unless I can see where-

Melissa Kearney:

Can you see?

Greg Ip:

I hope this is we're thinking the same thing, because he talked about the human transition.

Melissa Kearney:

Yeah.

Greg Ip:

Right? So there's a lot of people who'd rely on the fossil fuel industry, in one way, shape, or form for their living. What is in store for them, in the scenario, that Larry just laid out, and what do we do about it?

Melissa Kearney:

Exactly. So, in addition to the higher prices that people are going to have to bear, as we transition to a greener economy, this is something we talk about in the Economic Strategy Group. This has the potential, if we don't do the long-term policy planning, to be the next China shock. And the non-college educated workers, in particular, in these affected communities will be displaced by the transition and are going to need to be entering different jobs, different industries. And that's going to require us, as policy makers, paying attention to that and make sure that there's training available to them and that those people can make that transition. We can't have that same experience we had from the China shock, which... Imports from China are great for the country. Everyone has lower prices. But some communities were really distressed. And this gets back to the men out of work, the decline in two-parent families, the social malaise in those communities. And so we have to be careful to avoid that.

Greg Ip:

Have we shown, at all, an ability to get this right? I mean, with respect to this shock, coal power. Look at coal. I mean...

Melissa Kearney:

I think we've shown that there are things we could do, if we're committed to it. I mean, community colleges are everywhere in the country. They work with local community businesses. They're available to train people. They're underfunded, but, when they work well, they work really well. And the Aspen Institute has a whole program dedicated to excellence in community colleges. That's one place. There's promise there. So it's not just like, "Oh, we don't know. We have no idea what to do."

Greg Ip:

In fact, productivity, in the last year, is down two and a half percent, which is, actually, the worst annual performance since we began the data in 1950. So my question to you is: What's going on here? Apart from all the cyclical issues that we've dealt with, is the secular stagnation that you warned about a few years ago, still operative? Is that what awaits us, whenever we get through the current cyclical problems with inflation?

Larry Summers:

I'm going to say three things. First, the energy stuff is really important to do right. And it's really important to keep the reliability of the fossil fuels going. And it's really important to make a transformation. And it's really important to care. But it's also important to have some perspective. There are only 50,000 coal miners, in the United States of America, right now. That is one-sixth of the number of manicurists, in the United States of America. There are 4 million people who change jobs every month. So let's absolutely figure out the right community adjustment programs, but let's also understand that, if we want to be America, we've got to have a dynamic economy. And, in our concern with not having transformation protection, let us also not become snowflake nation, and let us make sure that we do all the things that we need to do but also that we are driving forward with dynamism. Because I think that is enormously important, in terms of the creation of jobs.

Larry Summers:

Look, I think we have latent economic energy in this country that is second to none. If you look at where the ideas are, if you look at where the capital is... I used to say 20, 25 years ago... And it's still almost true. ... That this was the only country in the world where you could raise your first hundred million dollars before you bought your first suit. And you still can't raise your first hundred million dollars before you buy your first suit, in Europe, but you can, in China, now. And that's a serious issue. But we've got huge natural resources. We have huge advantages. We really do.

Larry Summers:

But I just came back from Brazil. Relative to Latin America, relative to developing countries... They say the same thing in Brazil. They've got entrepreneurs. They've got natural resources. They've got huge... I mean, they all make a joke about it in Brazil. Brazil's the country of the future, and it always has been. That's the standard thing they say in Brazil. And what's happened is that there's all this great stuff, but the policy and the politics and the institutions and the polarization... It doesn't always work. It doesn't mostly work. It hasn't mostly worked, historically, there.

Larry Summers:

And so the answer is: Yeah, we can do it. There's no reason why we are condemned to a fate of secular stagnation, but it is not self-actualizing that that will happen. It will require the right kinds of public policy decisions, and it will require the right kind of community spirit. And, to say something that's maybe particularly appropriate to say in Aspen, to touch on something where I'm not so proud of everything I've done in my life and where I think a lot of us could soul search a little bit, is: The connections between elites and the broader population. And we just need to recognize the fact that most of a large fraction of the American population doesn't trust anything in the elites.

Larry Summers:

They use the phrase, "up there," "all the people who are up there," "up there at Harvard," "up there in Washington," "up there in Aspen," "up there in corporate life;" "They're working for themselves. They're not working for me. They're not delivering. I don't trust them. Screw it. We've got to do something different." And that anger is very much at the heart of why it's so hard to do the things that we could all agree on, on this panel, or in the Aspen Economic Strategy Group. And I think that's a question for all of us to face.

Larry Summers:

Yeah. The example, the thing that occurred to me, when I was on a panel here, a couple weeks ago, with Zoe Baird, who's done such fantastic work on community colleges, was that, if every one of us who had some connection with a great university gave 10% as much money to the local community college and 10% as much time to the local community college as they gave to the great university that we'd had some affiliation with, that would add up, over time, to make a big difference. And you could say the same thing about tertiary hospitals and primary hospitals. You could say the same thing about prep schools and vocational training centers. And it's not just about philanthropy, but I think there is this huge need to engage with the vast majority of our fellow citizens who do not trust us as on their team.

Greg Ip:

Melissa?

Melissa Kearney:

Yeah. Larry ended where I wanted to jump in. I don't want to be misunderstood as saying... Of course, the fact that some people are left behind... And these transitions are hard. Those are not arguments for not doing them. But I think the mistake that we've repeatedly made, as economists, as policy makers, is saying, "Trade is good. Energy transitions are good. I mean, immigration is really good. All of these things are really good for the economy." But the fact that we haven't paid enough attention to the small concentrated groups, for which it's not that great, at least in the short term, is why we have such anger in certain places. They're geographically concentrated. We no longer can just say, "Well, places are going to converge. Those people are going to move to where the jobs are." That's not what's happening. People are just stuck in distressed communities. And if we don't pay enough attention to the people who are harmed in the short term, during the transition, politically, it's going to be harder to make these investments in transitions, going forward, that we all think are good for the overall growth of the economy.

Greg Ip:

Now, I asked Larry whether he thought we would be returning to secular stagnation, and he responded effectively, "I hope not." But Larry also told me, a few minutes ago, that, in economic policy and golf, what one should hope for and what one should expect are not the same thing. And there are certain things about the outlook, which are probably somewhat insensitive to policy interventions in the short, possibly the long, term. And one of them is demographics. Indeed, when Alvin Hansen first coined the term, in the 1930s, it was based on the very low birth rates that had prevailed in the United States for some time. And, Melissa, you're all over this stuff. If demographics are destiny, what is the U.S. destiny? You've looked at this carefully. What's in store for us?

Melissa Kearney:

Yeah. So this is another long-term challenge we're facing, which is the plummeting of fertility in the U.S. So I'll appeal to a different magic number two. So you refer to the 2% inflation target. If we need... I should be careful how I word this. If, on average, women have 2.1 children, over their lifetimes, then our native born population remains constant. If women have fewer than two children over their lifetimes, on average, then our population shrinks, without immigration. Women in the U.S., now, are, on average, having 1.65 children. I mean, no one's having 1.65 children, but you know what I mean? Right. So, so that's-

Greg Ip:

That word, average, is doing a lot of work there, Melissa.

Melissa Kearney:

But that projection means that our population is going to be older, and our working age population is going to be smaller. And that results in a less dynamic, less productive economy, unless we take steps to address it.

Greg Ip:

Thanks very much. Neel, staying on the topic of what we can expect, versus what's actually in store, it would be great if things came together, that we could have that Goldilocks economy of 2019 back again. But a term you often hear, nowadays, is that we've gone through a regime shift, regime where we had all these tailwinds holding inflation down, to tail headwinds that are working the opposite direction, supply shocks, COVID, war in Ukraine, a shortage, the green transition, and all that. Are we, in fact, looking at a decade, or so, of a reverse, a new regime, where the trade-offs are just a lot harder, and it's going to be much harder for you, as a policy maker, to basically deliver both stable inflation and full employment, and then American people need to be prepared to be disappointed that it's not going to be like it was before the pandemic?

Neel Kashkari:

Hard to know. I don't want to say it's impossible. Where does inflation come from? Let's just go back to inflation for a moment. It comes from demand exceeding supply. So, if it turns out that the economy's supply potential is lower than we thought it was, is lower than the prior trends, because of these repeated shocks that keep hitting us, then that means we, at the Fed, are going to have to do more work to bring demand down into balance with that smaller supply. Now, I hope not. But we will see. I don't want to declare that right now and say that's a certainty. It's far from a certainty, but we need to keep our eyes open.

Neel Kashkari:

One of the things that I've heard that's a slightly different story, from several banks... Brian Moynihan, the CEO of Bank of America, has been saying this publicly for quite a while, that, if they look at their cash balances of their lower income consumers, their cash balances keep going up. So I had thought all the stimulus was being put in the economy, that you would see customer balances declining as they spent that down. Well, right now, what's happening is it seems to be an ongoing phenomenon. It seems to be self-sustaining. So that's not an issue of self-sustaining supply shocks. That's a issue where maybe we're in a high pressure regime that is consistent with a higher inflation rate than 2%. If that's the case... And I don't know yet. ... Then, again, we have to do more work to bring the regime back to a regime consistent with 2% inflation. So there's a lot of uncertainty about what the economic future looks like, but, regardless of what it is, I think our job at the Fed, at least, is quite clear.

Greg Ip:

[inaudible 00:46:07].

Larry Fink:

Can I just say one thing?

Greg Ip:

Yeah.

Larry Fink:

What Neel just said... You said demand outpaced supply, but much of the supply issues was... For 30 years, as we globalized the world, we created these incredibly efficient supply chains, and what we have realized, during COVID and, now, with the war in Ukraine, that these supply chains are not as efficient. And many supply chains have broken down. At the same time, during COVID, we changed our investment and our consumption appetite. We bought more goods, less services. And that created all the supply shocks. There is no question that corporate America is reevaluating all the supply chains, and they realize, now, that we're going to need more redundancies in our supply chains. All of that is going to take three, four, five years. But, during that transition, this is ultimately going to create more deflationary pressures, as we move towards more redundancies.

Larry Fink:

And so I actually believe this transition that you were talking about, Neel, is a transition of how we reimagine our supply chains, how we reimagine our work, how we make sure that we're delivering to our clients the things that we offered them, where you don't have to wait seven, eight weeks for a part for a car, if you have an accident, or something, or a refrigerator, or whatever it may need. But every company is now reevaluating that, and I think this is going to be a time. And this is that transitional period. At the same time, we have a transition in energy. We have a transition in so many other areas. And I think that's what's confronting so many Americans.

Greg Ip:

Larry, you wanted to-

Larry Summers:

I have a plane I'm going to have to catch, but I want to say just two things here. The first on this question that Neel and Larry were discussing of: Is it supply? Is it demand? Can you control the demand down to the supply? All that. Here's the way I think about that. Think about people's weights, and think about their metabolism. Whether you have a fast metabolism, or whether you have a slow metabolism, if you eat right, you can have a healthy weight. And that's Neel's point: That, if the supply side of the economy is working badly, then the Fed's going to have to print less money, in order to do it. It's also true that, if you have a fast metabolism, it's easier to be thin than if you have a slow metabolism. And that's Larry's point about the absolute importance of getting the structural things right and doing a whole set of these things.

Larry Summers:

I think the thing that hasn't been said on this panel and I think is very important to say is that our history, as a country, is of resilience. Our history, as a country, is that we have this tremendous capacity for the germ-eyed, for people to warn that it's all falling apart. Jimmy Carter talked about the crisis of the national spirit. In 1968, the country was so divided, after assassinations and Vietnam War, that the president of the United States could only speak on military bases for a year. People who came from the kind of places that I come from thought that McCarthyism, by purging rationality, was eliminating the case for thoughtful progress. FDR was told by a substantial majority of his advisors that he needed to declare dictatorial powers because democracy wouldn't be up to overcoming the depression.

Larry Summers:

Patrick Henry said, in 1792, that the spirit of the American Revolution had already been lost. And so I think there's a message, which is: It is precisely our capacity to become so alarmed that is why, as Churchill did not say... But it's a good line. But Churchill did not actually say it: America does the right thing always but only after exhausting all the alternatives. And I think the fact that so many people come to participate in discussions like this, because they're so concerned, is part of a broad dynamic that, for all the things we see that discourage us, make us, ultimately, very, very resilient.

Greg Ip:

Thanks, Larry. We have just a few minutes for some questions. If you have a question, please raise your hand. We have mic runners who will bring you a mic, and then I'll see what we can have. We can start with you, sir.

Audience:

Thank you. Okay. We all understand we have the aging population and the low birth rate and so forth. And we all understand that immigration is important. Can you discuss the illegal immigration that has occurred, over the last two years, of maybe two million people who have come in? How do they fit into our workforce and make it a better country?

Greg Ip:

Melissa, do you want to take that?

Melissa Kearney:

Yeah. Only what I could say to that is I do not know what the real numbers are, in terms of how much illegal immigration there is now, versus before. I know a lot of the people who are here illegally are overstaying their visas. My understanding of the issue is we have tremendous backlogs in the system. So people aren't getting processed. We have very tight immigration caps. That means many more people want to be here, would like to be here on permanent employment tracks, than we permit. And so, until we're committed to really reforming this system and allowing more people here legally, which, as you were alluding to, would help address both our working age population and our declining population growth problem, then we're not going to make headway on it. But you're absolutely right to suggest that addressing the immigration problem will help a lot of these other challenges.

Greg Ip:

Larry, I know you feel strongly about immigration. Did you want to make a few observations on it?

Larry Fink:

I feel strongly about legal immigration, and I feel strongly that we have to be... We're educating a few million foreigners every year, in our universities, and it's hard for them to stay in our country now. And so we're educating the world without getting the benefit. And so there are many things that we should be doing, related to legal immigration, to make it more robust and more resilient.

Greg Ip:

That sounds good. I think I had a question up here.

Audience:

This question is for Mr. Fink.

Greg Ip:

It's okay. Just go ahead. I can hear you.

Larry Fink:

Why don't you stand?

Greg Ip:

Repeat the question. Yeah. Yeah. We can hear you.

Audience:

This question is for Mr. Fink. You've talked about how you're making long-term investments with retirement funds. And you also talked about climate change, in that it's a left versus right issue. But, in fact, it's the U.N. scientists that say that we have seven years left. And we just saw a bill passed, where $400 billion said that we could cut greenhouse gas emission by 40% by 2030, You run a pretty large investment company that makes investments in things like clean energy. And you see how cheap it is, in order to get closer and closer to zero emission. What kind of things do you think are possible from the private investment sector, in order to accelerate investment, so we could get off of the fossil fuels that are creating so many of these droughts?

Larry Fink:

Well, thank you for the question. Once again, our clients are the ones who are making the decision where they want to put their money, but there are large... Where there's trillions of dollars of money that is looking to put money to work, in a combination of de-carbonization technology and infrastructure. I believe where we are going to see new technologies, very rapid change, is going to be in the form of hydrogen. We just invested in a hydrogen company, in Nebraska, that is converting gas into ammonia for farmers in the Midwest. We see real opportunities in hydrogen as a major power source for big machinery. We will be able to use the same pipelines, gas pipelines, to get a retro-fit, because hydrogen's very corrosive. But we're seeing large pools of money that is looking to seek out these type of opportunities. And I do believe the next hundred unicorns are not going to be food delivery companies.

Larry Fink:

There are going to be companies that are focusing on new technologies related to bringing de-carbonization technology, accelerating that and moving it forward. But, at the same time, the interconnectivity between our power base in the world is still so highly dependent on hydrocarbons. And, if we don't have the whole world moving together, even if the United States moves very rapidly, if we cannot change the emerging world faster... And I don't see any good outcome at the moment for the emerging world, in terms of moving forward. That is why, this year, with higher energy prices, coal utilization is higher this year than it was last year and the year before. So it's not just having a U.S., or a European solution. It's having a global solution.

Larry Fink:

Talking about capital, if we're going to really move capital to the emerging world, we have to reorient the way we do international finance. After Bretton Woods, we created the IMF and the World Bank. They're the big intermediaries for capital going into the emerging world. It is estimated we need trillions of dollars every year to de-carbonize the emerging world. And, right now, we have a fraction of that going into the emerging world. And so we have to really start thinking about how can we deliver capital there safely, in respect to our retirees, that their returns are going to be strong, and we're going to get our full capital back, plus the return.

Larry Fink:

We have to have better protections, if we're going to be really investing our clients' money in these parts of the world. And so it's a mistake that we're not talking about how to deliver a better financial system so more capital can move towards those areas. So there's no question in my mind that we are moving forward. We strongly see evidence that climate risk is investment risk, over time, but, at the same time, this transition is very hard and, politically, it is a very broad and angry conversation right now. Correct, Greg?

Greg Ip:

Yeah. Yeah. You could say that about a lot of topics. We had a question up there. Yeah. Thank you. Yes.

Audience:

Hi. Can you hear me?

Greg Ip:

Yes, we can hear you. Yeah. Thank you.

Audience:

Yeah. Okay. I just feel like we didn't touch on tax policy at all during this conversation. And my bias would say that we sort of sugared ourselves up for this inflationary moment, given the tax policy of the previous administration. And we never talk about that, in terms of contextualizing what's happening now. And I guess the other thing would be that Professor Summers advised us to look to our better angels and give money away philanthropically. Is there some kind of statement that could be said that it was a redistributionist moment that he had there and maybe there should be some reflection of that in tax policy? I don't know you guys are [inaudible 00:58:46].

Greg Ip:

Well, we actually have a bill that is supposed to pass the House, on Friday, which actually does raise some taxes on corporations. Anybody on the panel want to comment on the appropriateness, or the effects, of that?

Melissa Kearney:

Am I allowed to say in Aspen that I wish the carried interest went through? That would have raised a lot of money, very progressively.

Larry Fink:

Can I echo that? It's a crazy tax. It's crazy.

Melissa Kearney:

The loophole.

Greg Ip:

The loophole. The loophole survived.

Melissa Kearney:

The loophole has survived.

Greg Ip:

Okay. Yeah.

Larry Fink:

It's insane.

Melissa Kearney:

So, if you're feeling philanthropic, stop lobbying anyone you know. Ask them to stop lobbying for that provision to be maintained.

Greg Ip:

Neel, it's fiscal policy. Are you allowed to talk about taxes?

Neel Kashkari:

I will defer to my esteemed colleagues on that one.

Greg Ip:

Okay. That was a good note to end on. Okay. We're at the time limit. Thanks very much for being a terrific audience.

Neel Kashkari:

Thank you.

Greg Ip:

Good work. Great conversation. It was great conversation. Thank you. Yeah. Sorry, I couldn't... Yeah.