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PARTICIPANTS:

Welcome:

ADAM POSEN
President, Peterson Institute for International Economics

DAVID WESSEL
Senior Fellow and Director, Hutchins Center on Fiscal & Monetary Policy,
The Brookings Institution

COVID-19 and the Near Term:

WENDY EDELBERG
Senior Fellow and Director, The Hamilton Project
The Brookings Institution

DOUGLAS ELMENDORF
Dean and Don K. Price Professor of Public Policy, Harvard Kennedy School

MICHAEL STRAIN
Director of Economic Policy Studies and Arthur F. Burns Scholar in Political Economy, American Enterprise Institute

ADAM POSEN, Moderator
President
Peterson Institute for International Economics

'What About the Federal Debt' Presentation:

JASON FURMAN
Professor of the Practice of Economic Policy Harvard Kennedy School

LAWRENCE SUMMERS
Charles W. Eliot University Professor and President Emeritus, Harvard University

Discussion:

BEN BERNANKE
Distinguished Fellow in Residence, Hutchins Center on Fiscal & Monetary Policy

OLIVIER BLANCHARD
C. Fred Bergsten Senior Fellow, Peterson Institute for International Economic

PARTICIPANTS (CONT'D):

JASON FURMAN
Professor of the Practice of Economic Policy, Harvard Kennedy School

KENNETH ROGOFF
Professor of Economics and Thomas D. Cabot Professor of Public Policy, Harvard University

LAWRENCE SUMMERS
Charles W. Eliot University Professor and President Emeritus, Harvard University

LOUISE SHEINER, Moderator
Senior Fellow and Policy Director, Hutchins Center on Fiscal & Monetary Policy
The Brookings Institution

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P R O C E E D I N G S

MR. WESSEL: Good afternoon. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. On behalf of the Hutchins Center and the Peterson Institute for International Economics. Welcome to our very timely event, "Fiscal Policy Advice for Joe Biden and Congress."

As we gather today, we congratulate our Hutchins Center colleague, Janet Yellen, who is Joe Biden's choice for Treasury Secretary. Janet, you'll be leaving us but that doesn't mean you will be spared our advice. Today we confront major decisions on fiscal policy at a very unusual time. One might even say unprecedented if that word hadn't already been worn out. Fiscal policy showed its power with the CARES Act in March, which prevented the COVID pandemic from doing even more harm to the economy and the welfare of Americans than it did. But the CARES Act has essentially been spent. Millions of people are about to lose the emergency benefits that expire December 31st unless Congress acts, and unless Congress acts fiscal policy soon will be a drag on growth. Even with a vaccine on the horizon, there are still more than 11 million people still unemployed by the official count. Most economists, and certainly those we've gathered here today, agree that more fiscal support is necessary. And today on Capitol Hill, there are some signs that Congress is about to act or at least thinking about it. So our first panel moderated by Adam Posen with the Peterson Institute, will focus on how big and what form that near term fiscal package should take. Adam will introduce the speakers, Doug Elmendorf, Wendy Edelberg, and Michael Strain.

Following that discussion, we'll turn to an issue that predates the pandemic and one that will persist once it recedes, how to think about the federal debt in an era of very low interest rates. As you know, the federal debt is large by historical standards and growing at an unsustainable pace. There is little sentiment among economists, certainly among those we've gathered here today, for doing anything about that right now, but there is a debate about how -- about when and how best to address that debt going forward, how to balance the risks and costs of too much debt with the risks and costs of too little fiscal support for the economy and too little public investment. So we'll visit that issue with the paper posted on our website and that of the Peter Institute by two veterans of economic policymaking, Larry Summers and Jason Furman. After their presentation, my Hutchins Center colleague, Louise Sheiner, will moderate a discussion with the authors Ben Bernanke, the former Fed chair and now at the Hutchins Center, Ken Rogoff of Harvard, and Olivia Blanchard of the Peterson Institute.

And now, I'll turn the virtual stage over to Adam Posen. Adam is president of the Peterson Institute. Not only has he led the institute to new heights in his nearly eight years as president, but he has written and spoken widely on an impressively broad array of global economic policy issues, Japan, U.S. monetary policy, trade, currencies, and the long-term costs and opportunities presented by the COVID pandemic. So Adam, the floor is yours.

MR. POSEN: Thank you very much, David. And let me thank not only all the participants, but as we start my video, okay. Thank you very much, David, and let me not only thank all the participants, but thank you and the Hutchins Center for this joint event. It is not the -- it is the first time we're doing this formally and I hope not the last, but it's especially appropriate because on our sides of Massachusetts Avenue across the street from each other including many of the people participating today, there's been a bit of a revolution in fiscal policy, some would argue just in time. And we're looking forward to talking about that in both sessions today.

Please let me introduce our distinguished panelists in alphabetical order. First is Wendy Edelberg, who is the director of The Hamilton Project at the Brookings Institution as well as senior fellow there. She joined Brookings earlier this year as The Hamilton Project director after recently being the chief economist of the Congressional Budget Office. Wendy has a distinguished career in public service having also served as the executive director of the Financial Crisis Inquiry Commission and worked at the president's Council of Economic Advisors and the Federal Reserve Board.

Also in alphabetical order going to Doug Elmendorf. Douglas Elmendorf is of course dean of the faculty of the Harvard Kennedy School and the Don K. Price Professor of Public Policy. Doug served as the director of the Congressional Budget Office for six years from January 2009 to 2015 before joining the Kennedy School in 2016. He broke into that period at CBO with (inaudible) at Brookings including as previous director of The Hamilton Project. He was junior faculty -- I shouldn't say junior, he was faculty at Harvard and then with CBO and the senior economist at the White House Council of Economic Advisors. And of course, is widely recognized for his nonpartisan leadership of the CBO during that period.

Third alphabetically is Michael Strain. Michael is the director of Economic Policy Studies and the Arthur F. Burns Scholar in Political Economy at the American Enterprise Institute. He covers a wide arrange of topics that David kindly said about me, overseeing work on economic policy, financial markets, international trade, welfare economics, healthcare policy. He had a new book out earlier this year, "The American Dream is Not Dead but Populism Could Kill It," and writes a column for Bloomberg, which I am among many thousand others read regularly. He also has previously worked in the US Census Bureau and Federal Reserve Bank of New York also as a public servant.

So let me start right in on the first topic, which is again, very short-term, looking at the possible bill coming out of Congress to extend or replace the CARES Act. What are your thoughts, Doug, in terms of timing, in terms of size? What is the guidelines for this if they follow the guidelines?

MR. ELMENDORF: Thank you very much, Adam. And thanks to all of you for coming. I'm delighted to be on this panel with Adam and Wendy and Michael, all of whose views about fiscal policy and other aspects of economic policy I take very seriously.

When I look back on the financial crisis and great recession over a dozen years ago, I see fiscal policy being stimulative in 2009 and 10, but then retreating in 2011 and 12 and 13 and 14, to a position of restraint. That premature tightening of fiscal policy was one of the greatest mistakes in macroeconomic policy of the past half century, in my view, and I am afraid that we are on the cusp of making a similar mistake again. We should at this point go fast and go big. We should go fast because as David Wessel noted, there are millions of Americans who are about to lose unemployment insurance benefits. There are many, many businesses that are trying to hang on through very hard coming few months. There are families that will lose income on which they are dependent for food and other necessities, and we see some of the pressures there and already increasing lines at food banks in this country.

If we don't respond quickly, we will have committed two important -- inflicted two important harms. One is that we will make people who are hurting hurt more today and the days to come. The second harm is we'll be undermining the foundation for a strong recovery. If we keep household income supported and keep business operations going, not only will people be better off over the next few months, we will be in a better position for a recovery, a really strong and effective recovery once vaccinations are widely available.

We also need in my view, to go big. There are back of the envelope calculations I've seen suggesting that trillion dollars of fiscal stimulus might be enough. There are other calculations that Wendy Edelberg has done with Louise Sheiner showing that, in my view, $2 trillion will be a more appropriate amount of stimulus. I'll let Wendy speak to those analyses if she would like. The point I want to emphasize is that we're much better off erring on the big side than the small side of fiscal stimulus.

Macroeconomic forecasting is very inexact. We do not know what's going to happen. So there's going to be a risk of doing too much and a risk of doing too little. But the risks of doing too little are much greater. If we have too much stimulus in a macroeconomic sense so that demand for business services is too high, the Federal Reserve can readily respond to that by raising interest rates a little bit or withdrawing some of the other ways in which they've tried to support the economy. But if demand is too weak, people aren't finding jobs, the Federal Reserve cannot respond readily to that because the funds rate is already down to zero and they're already deploying a lot of other tools.

In fact, we'll be better off, we'd have a more robust, less risky, more balanced economy if we could achieve full employment with higher interest rates. So from a macroeconomic policy perspective, we're much better off aiming a little higher than we need, ending up a little higher rather than ending up short.

The second main reason that we need to go big is because the social and human costs of people being out of work are really high. What we saw in the last few years of this expansion was that very low unemployment rates put people to work who couldn't find jobs otherwise and support faster wage growth, particularly in the bottom half of the income distribution. That's really important for those people and really important for increasing those peoples' faith that the economic system in this country is working for them and that policymakers are working for them, which they doubt. And so if I had to choose between unemployment rate that pushed lower than, might be optimal for a smooth economy or too high, we're much better off pushing for something that's a little bit too low. So the risks of doing too much are much smaller, in my view, than the risks of doing too little. That's why we should aim big. I'll stop there, Adam.

MR. POSEN: Thank you very much, Doug. Concise and clear. Is it persuasive? Michael, is aiming big the issue? Is the timing the issue or something else to be taken into consideration?

MR. STRAIN: Well, I think you want something that's big enough, but I think the most important consideration is the speed, getting this done quickly. And you know, the optimal size I think is ambiguous and policy occurs through a political process, and so I would rather see something that's a little bit smaller but that could pass this week or next week, rather than wait for something that's a little bit bigger but that won't pass until say, February. You know, if you look at the output gap, I think $1 trillion is a reasonable figure for the next round of stimulus. I think Democrats should be willing to take a couple $100 billion less than that. Republicans should be willing to take a couple $100 billion more than that. You know that is a lot of money, particularly on top of the CARES act, which was around $1.8 trillion and passed in March.

And so we are talking about a sizeable amount. I mean, you know, I don't think $200 billion in December is better than $1.5 trillion in February, but kind of in the range of consensus estimates, I think you know anything in that range of say $700 billion to you know $1.5 trillion or something like that, I think we should just take what we can get out of the political system as soon as possible. You know, for the reasons that Doug said, that if you don't do this now, then businesses and households that really need support in December, need support in January, aren't going to get it, and that's a pretty long time. You know, to just take a quick step back, I think that this is an unusual recession and that the needs of fiscal policy are unusual.

A primary objective of fiscal policy in this situation in my view should be to preserve the productive capacity of the economy. That is not a typical objective in a typical recession. In a typical recession, there's a macroeconomic imbalance. There's some sort of policy error. There's something wrong in the economic system. And it is in the economy's interest that unproductive enterprises go out of business and that capital and labor resources can be allocated to better use. And you really don't want the government mucking up that process.

In this case, the threat to the economy has occurred from outside the system. The threat to the economy is this virus. And so businesses that would otherwise be viable and that are healthy and that are productive and that have relationship and networks and all sort of capital that can't be easily replaced, you know, could go under. They would go under because households don't have enough income to spend with them, they could go under for -- you know, because social distancing restrictions limit the ability of people to frequent them. And so you want to support household income. You want to support those businesses. Part of supporting household income in my view, is grants to state and local governments so that state and local governments don't lay off a bunch of workers. And you really want to keep everything that's good about the pre-pandemic economy in place, or as much of it as possible until we're on the other side of this and people can take a vaccine, and then we can let businesses sink or swim once the pandemic is behind them.

And so I think that really speaks to doing something that is, you know, in the ballpark of the optimal size as quickly as possible because you know, eight weeks is a long time and a lot of damage can be done in that time.

MR. POSEN: Thank you, Michael. Again, clear and pressing. Wendy, maybe you have a different angle on this timing issue because I know you've written about issues of sustained fiscal policy both in the context of this crisis, but in general. So maybe you can give a different perspective.

MS. EDELBERG: Indeed, I do think that the support that we need for the economy right now needs to be sustained. I don't want that to take the place though of doing something urgent. So let me just first start there and say we have an urgent need for -- I don't see myself on the screen but I'm just going to trust that the system is working.

MR. POSEN: You're on screen and heard. Please continue.

MS. EDELBERG: Excellent. So, we have an urgent need right now for Congress to act. I am in a near panic about the lapsing of unemployment insurance benefits, that according to Department of Labor numbers could mean that for upwards of nine million people on December 26th, they abruptly lose all of their unemployment insurance benefits. And that's just of crisis proportions. So I don't want anything that I'm saying about a size of a package or how sustained a package should be or my concerns about the long-run economy to crowd that point out. That is just an urgent issue that Congress needs to take up immediately.

All right, now that said, I want to make three broad points. One, I want to talk about where I think the economy is today, where I think the economy would go if we didn't see any additional stimulus, and then what I think additional stimulus could do. So where the economy is today -- so I think both Doug and Michael talked about what's happening in the labor market. We have -- I mean just of the many statistics that one could point to, there's almost four million people who now say that their previous jobs are permanently gone. Those people are sometimes referred to as the permanently unemployed. They're not permanently unemployed. Someday, hopefully they will find employment, but they will find employment in different jobs than they had previously. And so people who say that their previous jobs are permanently gone, so unlike people who are on temporary layoff, are in much worse circumstances. They leave the labor market at much higher rates and they're much slower to be employed. And some numbers like that, we're on track to have the same number of people say that their previous jobs are permanently gone as we saw post Great Recession. Numbers like that are alarming and suggest that without a lot more fiscal support, this recovery, particularly in the labor market, is going to be painful and protracted, much like the recovery was post Great Recession. And that is not a labor market recovery that we want to emulate.

There is, of course, widespread pain in small businesses, so the rate of closures of small businesses is running at about three times its normal pace. That's of course worrying and as Michael stressed, will leave our economy with less productive capacity once we are post pandemic than we had pre-pandemic. And that's even a greater problem given how many millions of people are going to be looking for employment post pandemic. So we will have reduced labor demands that will take a long time to recover.

So right now, if you think about what we've seen in terms of job openings, the number of unemployed people per job opening right now is roughly double than it was pre-pandemic. So we see a lot of pain in the labor market. We see a lot of pain in small businesses. We know that there's a huge amount of heterogeneity. A huge amount of dispersion and who's feeling this pain. Some people are basically back to, financially speaking, back to their lives that they had pre-pandemic in terms of labor income, in terms of wealth. There's some businesses that are doing well, and then we know of course for millions of people and hundreds of thousands of businesses, the pain is quite acute.

So now let's talk about what the economy might look like without any additional stimulus. Even the more optimistic scenarios suggest that the gap between where GDP might go in let's say 2021, relative to where we thought it would go, relative to what our projections looked like pre-pandemic, that gap looks like it might be about $1 trillion in 2021, in nominal dollars without any fiscal support, and maybe about half that size, maybe about a $0.5 trillion in 2022. Those are very large numbers. And so here's the issue with what that means for how much fiscal support is necessary right now.

So a well-designed package should be able to have a bang for the buck, which is to say how much it will boost GDP per dollar of federal costs. A well-designed package should have a bang for a buck of about one. We're lucky if we can get something bigger than that, maybe 1.2, but we could also be unlucky and get something smaller than that. So let's say for argument sake because that is an easy number and we have a bang for the buck of about one.

MR. POSEN: We're going to have to move in a second.

MS. EDELBERG: I'm sorry?

MR. POSEN: Wendy, we're going to have to move to the next question in a moment.

MS. EDELBERG: Okay, so let me go very quickly. So the problem with the bang for the buck of about one is that it doesn't happen right away. So the problem is it takes at least a year and a half for us to get that effect on GDP. And so in order to fill a hole of $1 trillion next year, we will need a package past right now of considerably larger than $1 trillion and probably given what I just described, a $1 trillion hole in 2021, a $0.5 trillion hole in 2022. That leads us to needing of a package of about $2 trillion to fill this hole.

MR. POSEN: Great, thank you, Wendy. I just want to make sure we get multiple topics covered in.

MS. EDELBERG: Sure.

MR. POSEN: So sort of picking up on something Wendy was just saying and starting with Michael. If we're worried about speed and we're worried about overdoing it, what kinds of design aspects would you want in this package? I mean some people talk about triggers that the package should go. My colleague (inaudible) has written about this in European context that the stimulus should go on until a certain benchmark on employment say, has hit. How realistic and how useful do you think those kinds of proposals are? Do you have something else or should it be done on an ad hoc basis to respite conditions?

MR. STRAIN: It's an excellent question. I appreciate in theory the role that those sorts of triggers can play. You know, I think it's difficult because every recession is unique in some important ways. This recession, for example, the unemployment rate has fallen significantly faster than professional forecasters and other economists thought it would even after the CARES Act passed. So if you look at forecasts of the unemployment rate that were issued in April and May, even in August, you know months and months after the CARES Act passed you see that they expect that the unemployment rate would be higher for longer. There was a lot of talk over the summer of triggers that would keep unemployment benefits extended until you know the unemployment rate had dropped below 7%, I don't think that is a trigger that a lot of people would want. I think the unemployment rate is you know, in that vicinity, but people think that there's still a need for extending unemployment benefits. And so I think that triggers make some theoretical sense, but if you actually try and design them in such a way that you know, they apply to recessions more broadly than for any individual recession, you're just not going to get what you need.

We have a program in the unemployment insurance system that has triggers. We have a program called Extended Benefits that automatically kicks in based on an unemployment rate in the state and there's widespread agreement that, that program doesn't work very well and that's why Congress in both the Great Recession and the pandemic recession passes special ad hoc unemployment benefit programs. I don't see why an additional program with additional or different triggers would lead to a better result. So I think what we need is just for Congress to kind of you know, size up the situation and pass something reasonable. To its credit, Congress disease a great job in March and what Congress passed in March was a really well designed really appropriately sized package, and the compromise that's being discussed right now on Capitol Hill and the outlines of which, you know, have been clear for months is also -- would be a well-designed package. And so you know, I don't think we need to remove the legislative function of Congress and put it on auto pilot.

In this particular case, just very briefly, you know I think the right trigger is for a lot of these programs is you know after a vaccine is in wide distribution and we want to return the economy to a situation where businesses sink or swim on their own and where households have to rely on earned income as they would in a normal situation. Now, we're not going to need to switch to that point immediately once a vaccine is out, but relatively shortly thereafter, that isn't that far away in the future.

MR. POSEN: Yes.

MR. STRAIN: And so, you know, I think there's even less of an argument for triggers now that we're already so close to a vaccine.

MR. POSEN: Thank you very much, Michael. Let me -- I know Doug wants to come in but let me go back to Wendy first. Wendy, I think you, based on your writing, have a somewhat different view on this triggers issue. Could you give a different take?

MS. EDELBERG: Absolutely. So I agree with Michael that the triggers incorporated into the unemployment insurance system are at least the fallback ones that states have to use, are horrendously designed and then the reasons that states don't adopt the more reasonable ones which they could adopt is because those cost the states money. And in fact, what we see right now, just to pause on this for one second, what we see right now is that while the federal government is doing 100% funding of extended benefits, the states have actually adopted the better triggers. A number of states have actually adopted the better triggers to leave extended benefits in place. Four states actually on December 31st once that 100% federal financing goes away and drops back down to 50%, four states are giving up on the more reasonable trigger and going back to the unreasonable trigger so that extended benefits immediately lapse.

So triggers can work, they just have to be well designed and they can't shove the financing onto the balance sheets of states that are doing -- that are in dire straits right now. So you know, Doug talked about the -- some of the terrible fiscal restraint we saw post 2008 and a lot of that was because of completely insufficient support for state and local governments. So all of those issues are tied up together. No, I strongly think that triggers make more sense than the arbitrary calendar cutoffs.

MR. POSEN: Thank you for that. Doug, you wanted to come in and also just you and your term running CBO, and of course Michael and Wendy have seen this as well, but you in your term had to cope with a lot of proposals for reform of fiscal rules or things like that. If you could also just give a mention to what your experience has been with those kinds of proposals. You're muted, Doug. Please unmute.

MR. ELMENDORF: Thank you. Thank you, Adam. So I will also respectfully disagree with my friend, Michael, about triggers. I think Michael, it's noted that the forecast of what would happen over the course of this year has not been very accurate. That's true for macroeconomic forecasts for almost every year. I've spent about a dozen years of my life deeply engaged with economic forecasting for the Federal Reserve Board and later at the Congressional Budget Office. (inaudible) with Wendy part of the time, so maybe it's just Wendy and me, but we seem to have trouble getting the forecast to be very accurate. That's the -- lots and lots of smart people are trying really hard in government agencies and elsewhere to do a better job, but it's just really difficult. And at the same time, fiscal policy is just not nimble. I mean, we're having a discussion here in December of a bill that might get passed, but the kind of bill I think all of us and most economists and experts studying this would have said four months ago should be passed. So we're living through -- maybe the Congress will now act with support from the administration and will do something and that would be good because the CARES Act is a positive sign of fiscal policy reaction and maybe we'll do a second one. But maybe not. That's why we're having this discussion. And we've seen this in passed down terms as well.

I think the fact that recessions are all different is actually an argument for triggers, because it emphasizes why it's so difficult for economists to predict how long a recession will be, how deep a recession will be. And even other recessions, Michael you mentioned earlier, many recessions have some structural imbalance that needs to be fixed. So if you look back a dozen years now, that we were building too many houses in this country for the demand for housing that you could support. So there had to be some reallocation of workers. But even then, many, many people who lost their jobs lost them not because they were in one of the sectors that needed to change, but because the people in those sectors, in that sort of sector couldn't pay any more for the meals out or the appliances or whatever it was they couldn't do. So there's always a kind of spillover effects, and triggers are a great way of responding early and then also sticking with it until the problem is really done.

Any of this can be designed. Jason Furman and I wrote about this in the beginning of 2008. Karen Diamond and I wrote a paper last fall that had a set of triggers for payroll tax changes. Jason's written about triggers for Medicaid. So I think the ideas are out there. I think for the Congress, what they don't want is just what Michael alluded to before, which is they don't want to be taken out of the picture. They wanted to respond. I think the main point that emphasizes here is that Congress can still respond and should still respond with policies that are specific to the given down term. That could be a housing finance a dozen years ago, it's the Paycheck Protection Program which Michael was a key architect this time. That's still there, but the question is can you compliment that with a sort of more regularized response. I think the answer is you can do both. Congress I guess is going to want to act. Congress wants in part to take credit for acting. So they'll need things to do, but there's plenty that they can do even if you had triggers in the system now or in general in the future.

MR. POSEN: Thank you, Doug. We have come from talking about the immediate present situation and the risks and not just risks, the harm that you all agree on, to talking about some design principles and what each of you would want. But each of you in ongoing ways are very aware of the realities in Congress and you know, a fact is that the Republican Senate majority in divided government seems at least likely to be objecting to or blocking a number of potential initiatives. I'm not talking necessarily about the deal that may come this week or this month. I understand that deal may be done along the lines Michael has said, but I mean in terms of any large budget initiatives or even simply the next budget that would be normally coming in just the next month or two. So maybe we could talk a little bit about how you see that playing out and also more generally, you know, Michael, what do you think is possible to get a, maybe not bipartisan but at least an agreed upon and passed bill that's something other than a continuation agreement? Wendy, what do you see from a Democratic or Hamilton Project kind of side of what you should be -- what Pelosi or others should be advancing in this situation? And finally, Doug, with your -- not that our colleagues are partisan, but you with your sort of nonpartisan CBO hat on, you know, what is it -- does it really matter that we have divided government in this sense? So, I'm trying to keep the time restraint, so I'll shut up now. Michael, over to you.

MR. STRAIN: Well, you know I -- so I expect that there will be difficulty in passing another economic stimulus measure in February. I think that the odds of something passing in December are significantly higher than the odds of something passing in February, and I think that Democrats who -- Democrats in Congress who are hoping that they can get something better with President Biden than they'll be able to get with President Trump and therefore, are willing to wait, I think are making a significant mistake. Republicans are going to be much less eager to give President Biden a win in his first few weeks in office than they will be eager to give the president a win in his last few weeks. And by the time we get late January, early February, you know we will already have you know 20, 30 million people vaccinated at least according to what the public health officials are saying right now, and a vaccine in wide distribution is going to be just a couple of months away or just a few months away. That's going to really make it difficult for a good number of Republicans in the Senate to support anything with a $1 trillion price tag on it. So I think counters should be eager to do this sooner rather than later, and ideally this week or next.

In terms of you know non-COVID related spending, you know I obviously could be wrong about this, but my expectation is that the Biden administration, the Biden White House will scale their ambitions to the reality of a Republican-controlled Senate, even if the Georgia runoff gives us two Democratic senators in Georgia. You know, it's still going to be difficult to pass you know many of the programs that the more progressive wing of the Democratic party would like, and the people the President Elect is selecting to be in the administration are all pros and they understand that policy happens through a political process. So you know, my expectation is that President Biden will get some significant wins. And you know, I don't think he'll get done everything he wants to get done and I think what he tries to get done will be different than it would be if there were 56 Democrats in the Senate, but I expect that you know by the time we are talking about the 2024 election, we'll look back and see you know one or two significant legislative accomplishments.

MR. POSEN: Thank you, Michael. It's good to have an honest forecaster, despite all the difficulties that Doug and others have mentioned. Wendy, so if you're advocating stuff not for Biden but in the more of that camp, how do you think they should be responding to the divided Congress and do you share Michael's, let's call it optimism that there will be a couple of accomplishments before this term is out?

MS. EDELBERG: So let me start where I think the urgent needs are and I think they're well known. And I'm hoping that something happens long before January, which is getting more help to workers, getting more help to firms, getting more help to states, getting more money out to deal with the healthcare crisis related to the pandemic and the vaccine distribution, and helping food security. So those are all just urgent needs and will also offer fiscal support for the economic recovery.

The one place where I can actually see something where there's bipartisan support that will serendipitously also provide fiscal support and improve the recovery is infrastructure. So I can imagine a world where early in Biden's presidency all the sides were able to come together and agree on a what I would hope to be a pretty big infrastructure package that has a lot of benefits, first of all and you know most primarily it improves the public infrastructure in this country which definitely needs more investment. It also provides fiscal support at a time when the recovery still may be week. And finally, it comes back to what your first question was for me Adam, which is sustained. So investment in infrastructure takes time and so the fiscal support that is created by more investment in infrastructure generally plays out over quarters, if not years, and that will benefit the economic recovery. So my hope is that that's a place where Congress and the president can come together and do something big.

MR. POSEN: Thank you, Wendy. So Doug, I mean if you wish to forecast on what's going to be coming out of the fiscal process over the next couple of years, I'm sure people would welcome that. But just more generally, as an observer, I mean how do you think these kinds of deadlocks play out? How much harm do they do or are they just markets, discount them and it doesn't really matter in the end?

MR. ELMENDORF: So I think we have divided government because we have a divided country. All right, and the precise number of Democratic versus Republican senators or Democratic versus Republican members of the House depends on a lot of specific things that happen in individual states or congressional districts, the way we draw district lines, who's an effective campaigner and so on. But fundamentally, we have a country that seems pretty evenly divided between the Democratic and Republican parties. And so I don't think this is just some -- the problem is I think there are problems with divided government, but it's not just the kind of technical fix in the way we sort of vote for something else. We need to find a way to go forward in a country where there are very serious divisions. And I worry a lot about those divisions. For example, I would cite the de-immigration reform from half a dozen years ago. There was a bipartisan group in the Senate that put together a bill that was I think nobody's individual person's idea of the best possible bill, but it was the best they could agree on. If that bill had some to a vote in the House at that point, I think it's widely agreed that bill would have passed in the House. So basically, it could have passed the Senate and it could have passed the House and the president would have signed it.

It didn't come to the floor in the House because Speaker Boehner thought that I think correctly, that the majority of Republicans would not support that bill and if he brought it up then risked his speakership. And so I think a problem we have in divided government is not people come with different views, but that there isn't enough willingness to compromise on something that we can move forward with. In some sense, I think the political parties in the Congress are being pulled too much by voices in those parties that are a burst to compromise and that we'd be better off as a country if there was more legislation that was willing to be done that involved a bunch of Republicans and a bunch of Democrats in the Senate or the House and so on.

I'm not sure how to accomplish that, how to move us toward that, but I think that's what's important. I think there are some issues where this is at least possible. So Wendy mentioned one important one, which is infrastructure investment. I think widely supported by people by leaders, infrastructure investment is now about the smallest share of GDP it's been in my lifetime. And so there are lots of good reasons to do more.

I think another example and something that's a more fundamental policy challenge for the country is what to do to increase economic opportunities for lower and middle income Americans, many of the without college degrees, not interested perhaps in having college degrees, but who can contribute to our economy and our society, want to contribute to our economy and our society, and they deserve a better chance to do that with then an opportunity to support their families to feel like respected important members of the community. We haven't done a very good job, I think, we as policy advisors and policymakers. We have not done a very good job at providing those kinds of opportunities. That doesn't have to be a partisan issue and there's some specific things you know, with the earned income tax credits being expanded over a number of years in a pretty bipartisan way. We could do more with the child tax credit today. We could think about how to train people more effectively for jobs or link them to jobs. I don't think these things have to be Democratic or Republican. And they are at a central need in this country. And you know, there are struggling communities that are more Democratic and some --

MR. POSEN: I'm pausing you, you're getting off our topic about what your personal preferences are. I may happen to share it, but that's not the topic of today.

MR. ELMENDORF: Well I appreciate your indulgence, Adam. I think there are places where the parties might come together, and I hope that they do in the year or two ahead.

MR. POSEN: Terrific. Thank you. We do have a couple of minutes left and so I wanted to return to all three of you. When David Wessel set up this event and both literal in the general sense but also in the opening remarks, he mentioned the unsustainability of current levels of deficits but the universal agreement among the economists and clearly by implication among all three of you that we don't need to move into austerity in the next six months. But I would like you to discuss whether there are any things that in the next say three to 12 months, the short term, would cause you to worry on the debt side or interactions with the federal reserve in some fashion that might be worrisome to you because there is a lot of chatter if you go out into the markets along the conspiracy internet about worries about excessive cooperation between the Fed and Congress on fiscal policy. So I mean, if your answer is simply this is all fine, don't worry about it, that's very reassuring. But you know, is not -- without going to Peso problems, tiny probability things, are there things that might be concerning about the rise of the debt or about the interactions with the Fed for debt watchers in the next several months or a year? Wendy, why don't we start with you.

MS. EDELBERG: So, I -- maybe I'm spending less time on the dark web than you, Adam, but I -- so I don't see concerns on the horizon in the way that the Fed will respond to fiscal policy or anything -- I guess what I wanted to say, what I should have started with is I think that there are certain signs that we should be looking for and that we should be paying very close attention to, to see whether or not there are indication of worry on the horizon. I think the clearest place to look is for example the 10-year treasury yield, which is at historic lows right now, and that everything that I see in treasury markets suggest that there's essentially no concern about the federal debt or even the trajectory of federal debt going forward right now, and so I would take a lot of comfort in that. I'm looking carefully at what's happening to exchange rates. I'm looking carefully at what's happening to inflation expectations.

So I think we have a lot of canaries in the coal mine that will tell us long before we actually have really urgent problems that will take, you know, draconian action. I think we have a lot of canaries in the coal mine that we can be watching.

MR. POSEN: Sorry, I'm mute. Thank you. Thank you, Wendy, and just for the record, I don't spent time on the dark web, but I do get a lot of weird emails. So let me turn to Doug and then Michael for the last word on this topic and then we'll be shifting over to Louise Sheiner to introduce the next session. So Doug.

MR. ELMENDORF: I basically agree with Wendy. I think if interest rates rose by a lot, this year, next year, the year after, I would worry -- start to worry much more about federal debt. I don't think that's at all likely.

MR. POSEN: Just to push you slightly, so both of you and Wendy are speaking as though you know, there could be a spike in interest rates or there could be maybe not a spike but something exogenous, that the Congress and the Fed don't need to worry about them somehow causing an untoward spike in interest rates.

MR. ELMENDORF: I don't think so, no.

MS. EDELBERG: Let me -- so I'll take that bait and just say that I think financial markets do respond to congressional action and it is possible that Congress could start contemplating some package that spooks financial markets that is -- that's not anywhere in like the central tendency of my forecast, but that's possible. But again, that would be something that then we can respond to. We have a lot of tools to respond to that if we see that congressional action is spooking financial markets.

MR. POSEN: Thank you, Wendy. Michael, I'm not asking you to say anything if you don't want to for the sake of contrariness, but if you happen to have a different view it would be interesting.

MR. STRAIN: Well, I mean I don't really have a different view, but let me be contrary and even though you're not asking me to be. If you want to look for something to worry about, the stock of money shot up dramatically during the pandemic recession in a way that it did not during the Great Recession, and if you believe that the price level response to the money supply, then there are reasons to be concerned about inflation today that were not nearly as big of a concern as they were in the Great Recession. Another reason to be concerned about inflation today that was much less of a concern in the Great Recession is of course that there are significant supply chain disruptions that have been a consequence of the pandemic. You know, that should put upward pressure on prices. And finally, an additional reason to be concerned is the divergence between asset markets and broader measures of economic performance like GDP and like the unemployment rate. It is you know very reasonable to argue that we are introducing significant financial instability in our attempt to support aggregate demand during the pandemic. So those are three reasons I think if you're looking for things to be worried about, that you should be worried.

MR. POSEN: I'm afraid we're going to have to cut it off there. That was very useful, but we want to keep this moving. We know how much Zoom people like to be on and off on time and we have an even more superstar panel perhaps if that is possible, to follow. So please everyone join me in virtually thanking and in my case sincerely thanking Michael Strain, Douglas Elmendorf, and Wendy Edelberg for the discussion with the Hutchins Center and Peterson Institute on short-term fiscal issues, advice to Biden and Congress.

MS. SHEINER: Great, so I'm up next. I'm not sure I got -- I got disconnected, but I'm very pleased to move to the next part of the discussion, which is to think more about these long-term issues and we're going to start with a presentation by Jason Furman of work that he's done with Larry Summers on the reconsideration of fiscal policy in the area of low interest rates. So Jason, all yours.

MR. FURMAN: Great. Thank you so much for this great even. Thanks to the first panel, which I thought was terrific. Larry and I released a discussion draft of a paper today. It's about 50 pages long. I'll try to summarize some of the main implications of it in the next 15 minutes using these slides to help out with that process.

Our starting point is that we're in an era of low interest rates. I think perhaps no chart better captures just how stunning, surprising, and important this fact is in this one. In 2000, when Larry was Secretary of the Treasury, I was at the National Economic Council. We were on track to pay off the national debt, looking ahead 10 years it was basically going to be gone. And real interest rates, the 10-year tip was 4.3%. In February of 2020, the economy was in a similar cyclical position about 10 years into an expansion, but now the debt was on track to exceed the economy a decade later and despite all of the additional debt, real interest rates had fallen to 0.1%.

This decline is something that can't be explained by a set of errors made by central banks that have artificially created low interest rates because the trend predates the financial crisis. The trend continued and was very strong with economies at or near full employment prior to the COVID crisis. And the scene across a range of countries, a range of times. So a lot of different explanations that have been given for this, a lot of them are increased supply of saving. For example, more inequality gives money to people who save more. Less demand for investment, a massless economy, financial, etc. The important thing for the purposes of our fiscal discussion is that almost all of these are long-term trends that are likely to persist.

Looking forward, the Congressional Budget Office expects that the 10-year interest rate will rise to three percentage points over the coming decade. This in nominal terms. If the CBO is correct, that will still be a very low interest rate by historical standards. The CBO has only made errors in one direction in forecasting interest rates for some decades now. Economic forecasters more generally, it's not a criticism of CBO, have only made those errors. When I was doing forecasting in the administration, we only made those errors. We only projected interest rates higher than they turned out to be. At most of those stages, financial markets were actually yelling out that they didn't foresee the same magnitude of increase in interest rates.

If you look at market implied rates for the 10 years, they only rise to 2% at the end of the decade and options prices imply a 72% chance that the Fed funds rate is still zero or negative or becomes negative five years from now. The Fed thinks the long run Fed funds rate is 2.5. The market thinks it's going to get to something more like 1.4, which is notable because it would be a negative real interest rate as I said, the nominal 10-year is 2% a decade from now.

It's an enormous amount of uncertainty in interest rate forecasts. There's an enormous amount of uncertainty in many aspects of budget forecasts. I'll come back to that in the discussion. All the budget numbers are going to show -- use the CBO forecast for the interest path as the starting point. This is just to say if anything I think interest rates are more likely to be below that and above that, at the very least interest rate risk in so far as there is some, is symmetric.

Low interest rates pose three challenges. The first challenge is there's less scope for monetary policy in recessions. We've seen an average of a 630-basis point cut in the Fed funds rate in past recessions. If the Fed funds rate is only 1.5% or even 2.5%, when the next recession hits we won't be able to cut it nearly as much. You can rely on quantitative easing and forward guidance and other unconventional policies, but all of those have questions about their efficacy when they rely on getting long-term rates even lower, which already start out to be quite low and also on their side effects in particular a side effect of low interest rates is increased financial stability risk. As you get increased risk taking shifting into riskier assets to preserve your yield, and increased fragility for banks which face squeezes on their interest margins.

Finally, low interest rates raise the possibility that we have demand short falls in even normal times. The experience of the United States in 2018 and '19 is instructive in that the stance of monetary and fiscal policy, if I just told you what fiscal policy did and what monetary policy did in those two years, you would have thought we were in a recession. In fact, you would have thought we were in a decent sized recession. The Fed funds rate was cut to 1.15 percentage point. The fiscal expansion was

2.6% of GDP. Those are among the largest we've done in response to a recession in the last 50 years.

I should say imagine what had happened if Bowles-Simpson had actually been passed in 2010 with interest rates at zero for most of the period since Bowles-Simpson, fiscal policy couldn't have made up for the drag on demand it would have created. A monetary policy couldn't have made up for the drag on demand it would have created, and fiscal policy would have essentially been hampered. One of the arguments I should say is in the side for something like locking in debt reduction now, is the claim that it gives you more space to respond to future emergencies as we've all seen and just discussed on the previous panel, United States even though it has a debt that's about 100% of GDP, has had no limitations at all in the space it has needed to respond to the COVID crisis.

Low interest rates though aren't just a bad thing. The term secular stagnation, which Larry introduced or revived, was taken by some as sounding just bad. But low interest rates create a lot of opportunities if we make policy choices to take advantage of those opportunities. I'm going to go through all three of these in greater detail, but just to quickly list them, the first is the active use of fiscal policy as an essential to maximize employment and maintain financial stability. The second is that lower interest rates necessitate new measures of a country's fiscal situation. And the third is that there's more scope for and need for public investment.

So now let me take you through the three of these a little bit, in a little bit more detail. The first implication of low interest rates for fiscal policy is that countries cannot afford not to undertake fiscal expansions in recessions. You ask, our debt is high, can we afford it? The answer, this is based on the model the Federal Reserve uses, the FRB/US Model, as run by David Reifschneider and Larry, is that when you do a physical expansion in conditions like we're in now, debt goes up, GDP goes up, and as a result the department falls relative to GDP. So by this metric of fiscal sustainability it improves.

The result isn't special to the FRB/US Model. You find it in the IMF models, the paper by (inaudible). You find it in both of the large scale macroeconomic models, the OECD uses find the result that fiscal expansions reduce the debt to GDP ratio, and the paper that Alan Auerbach and Yuriy Gorodnichenko did as well. That last paper also checked as did the OECD modeling, that this worked in countries even at relatively high debt levels.

Demand, as I said is something that we are concerned about even in normal times. The interest rate that might be required to absorb all of the savings might be an unattainable negative nominal number. We need to gear the economy towards greater demand to prevent that slow growth in normal times to prevent the risks associated with low interest rates. One way of doing that and was just discussed on the previous panel, is automatic recession insurance. I'd love to spend hours talking about all the ways we could design triggers. Let's just say there's many -- there's no shortage of ideas, we just need to do it. It's especially important in the United States where the automatic stabilizers are relatively weak, largely because of the relatively small size of our government as compared to other ones.

The second is there's a lot we can do to increase demand in a budget neutral manner. The balance budget multiplier says raise spending, raise taxes, and that's fiscally expansionary. More progressive fiscal policy would curb the amount of excess saving from high income households. Expanded social insurance would reduce precautionary saving by middle income households, all of which would take some of the downward pressure off of interest rates, create upward pressure for aggregate demand.

Let me now turn to the second implication, which is that we need to rethink the way that we measure a country's fiscal situation. The most common measure, and I've used it hundreds and hundreds of times myself and my guess is I will continue to use it from time to time in the future, but always with a bit of guilt, is comparing the amount of debt a country has to the amount of GDP that a country has. The reason this measure is so misleading and problematic and some of the misleading and problematic aspects of it are really exposed by the situation of low interest rates, is that debt is a stock. It's a total amount accumulated at a point in time and it's backward looking.

GDP is a flow. It's a total amount of income earned over a period of time, usually over a year. We did the relevant stock concept, it would be the net present value of US GDP, which according to the Social Security trustees is $3.9 quadrillion, not something you see in presentations every day. Or if R is permanently less than G, then the net present value of GDP is even larger. It's infinity. So if you take the debt, which is about $20 trillion and compare it to GDP, you get 100% debt to GDP ratio. If you compare it to the present value of GDP, you get something more like 0.5% of GDP.

The reason this is important is that when interest rates come down, the present value of GDP goes up. This shows the debt as a share of GDP. It gives the familiar number that the debt has nearly tripled as a share of the economy from the mid 30s when that first table I showed you started, to around 100% of GDP now. If you looked at this chart you'd think the United States was in a worse fiscal position today than it was 16 years ago, but now just for sort of illustrative purposes and there's a lot of problems with these numbers and I have a lot of disagreements and this wouldn't be the featured number I'd use. The feature number comes one slide later. Let's take the debt at every point in time and divide it by the Social Security trustee's estimate of the present value of GDP at that point in time. That gives you debt as a percentage of infinite horizon GDP and you see it's roughly flat and in some ways actually is a little bit better than it used to be.

The reason of course is that interest rates lower, the present value of GDP has gone up and it's gone up by as much, if not more than the debt has gone up. And so when you compare the debt to it, it has remained roughly constant. That's a sense of what it would take to repay the debt over time because you don't need to pay the debt off all at once. That's what this picture is capturing. It's relatively easy to pay the debt off if you spread it out over time.

This is not my preferred metric because the infinite horizon is incredibly speculative. So I would prefer, we would prefer to look at a flow metric. Again, you see the debt going up quite a lot, but now let's add in real debt service as a share of the economy and those real interest payments are falling as a share of GDP even as the debt is rising as a share of GDP. This is real net interest because that's the economically relevant concept. It takes into account that some of the debt is inflated away each year and so effectively, that's like negative interest on the portion of the debt that is inflated away and that's taken account in this picture.

We're going to see this on display very strikingly over the next four years if the Congressional Budget Office is right. Each one of the next four years, the nominal debt in the United States is going to rise, but in each one of the next four years, nominal interest on the debt is going to fall as more and more of the debt gets refinanced at lower interest rates.

I can't help myself but do a technical side. We have a box on this in the paper, maybe too fast if this is not a concept you've been thinking much about. But all of the numbers that we use in the paper, all of the numbers that most analysts use overstate debt and interest by using analytically improper concepts. It's much better to look at debt net of financial assets. The United States used to guarantee student loans, not it makes direct student loans. In once case that adds to the debt, and the other case it doesn't. Both of them are economically equivalent. If you take the value of those in account, the debt would be lower. Also, we should think about the federal government's consolidated balance sheet. The federal government pays some interest to the Federal Reserve. That's just within the government. The Federal Reserve pays some interest to the public on its reserves. That goes outside the federal government, not counting the first, adding the second. You basically bet the Fed's remittances and that lowers net interest payment sums. So an ideal measure would take these into account.

The third issue with debt to GDP or any of these measures is that you want to be forward looking. The latest CBO baseline says that over the next decade, the debt is jumping up, but then it's relatively stable as a share of the economy. You don't over the next decade see debt spiraling. You see debt being relatively stable. You could look out over 30 years and in the CBO baseline you see the debt rising after about a decade. If you use a proper definition of current law that includes the fact that Social Security needs to be reformed because it can't pay benefits above the amount it takes in, that also is relatively stable.

Real net interest payments, same story. They are quite low compared to where they were historically. They rise up still comfortably within their historic range.

We'll talk hopefully on the panel more about uncertainty. What I just want to show you here is if you're trying to forecast the budget deficit, that's not shown on this slide, four years in advance, your forecast is going to be plus or minus about six percentage points of GDP just to get a 90% confidence interval. The deficit in four years from now, we might balance the budget. We might have a 10% of GDP deficit. If you add that up and look at the debt, the debt in 2050 could be anywhere from you know 180% of GDP to nearly the lowest it's been in history.

How we respond to that uncertainty depends partly on the cost of acting too soon. If you make large irreversible changes, you don't want to do that in the fact of uncertainty. There's an option value of waiting. It also depends on what's the cost of delaying. There is some cost associated with not having a smooth adjustment in taxes. I think in most cases that cost is relatively low. So to me, this uncertainty is an argument if anything, for doing less, not for doing more. I think it's certainly not an argument for doing dramatically more.

The third implication of low interest rates is that the scope and need for public investment has greatly expanded. We talked about how fiscal expansions can improve the debt to GDP ratio. From a supply perspective, investments in children, infrastructure, research, and development can all at low interest rates actually repay themselves so that the upfront costs are eventually recouped in the form of higher taxes or lower benefits.

So what do we do going forward? What Larry and I recommend is that we have a fiscal framework that's a combination of something that's optimal, understandable, and achievable. You don't know exactly what's optimal, so we do place a certain amount of weight on what's understandable and achievable. And to conclude our proposal, is that the context is interest rates are dangerously low. The debt's projected to be stable. Real debt service is projected to be low. More fiscal expansion is needed. Our objective should be growth and financial stability including avoidance of recessions and stronger long-term growth. We propose a new guide post that we look at real interest payments and we try to make sure they're not rising sharply and that they're not projected to exceed around 2% of GDP over the next decade, and we argue that this goal could be achieved in the United States with a three part -- three sets of guidelines. Temporary emergency should not be paid for as discussed on the previous panel. Take a broad definition of those. Second is long-term programs should be paid for, but we have room for broad exceptions both because of our fiscal space and because many of them pay for themselves over time and we need to do more to improve the composition of government, collect taxes that are owed, reform Social Security, improve the health system to support demand and efficiency. So with that, I look forward to the feedback that we get from the panel.

MS. SHEINER: Thank you so much, Jason. Am I on, yeah. Okay so now we're going to start our panel which is going to include Jason and Larry although Jason might have to leave for a little bit. Ken Rogoff, Olivier Blanchard and Ben Bernanke. Those three panelists, of course, need no introduction. They're well known to everybody watching I'm sure so I will not waste time with an introduction.

What we're going to do is I've given them about five minutes each to do some remarks about their views on how to think about the debt going forward. And then we're going to just all get on together to have a discussion that I will moderate. In order to make sure we have time for a lovely discussion, let's please try to keep those remarks down to about five minutes. We're going to start with Ben Bernanke and then Olivier and then Ken. So Ben, all yours.

MR. BERNANKE: Thank you, Louise. Thank you, Jason, for a great presentation. Really good paper. I agree with the main conclusions about the accounting certainly. I agree there's lots of fiscal space now. I think we should be proactive, as the previous panel said and I think that going forward, we should have a deficit bias, exceptions for emergencies, all the things that Jason was talking about.

I guess I'll take a few minutes and not surprisingly to defend monetary policy just a little bit. Because I think there's a tendency to rule it out completely as being of any interest whatsoever. Let me make two points. The first is that monetary policy has actually been in the United States at least pretty effective in the last couple of years. We did actually reach 3.5% unemployment with a positive federal funds rate and a trade deficit. So, we're our exporting our demand. I think that Powell's Fed with their pivot, with their insurance cuts did in fact bring us to full employment and that was something that happened of course before the pandemic.

When the pandemic hit, you would have expected it to be a situation where the Fed would be pretty ineffective because with shutdowns and public health problems, r-star is quite low. Obviously, the Fed can't do anything about the virus. Also, sectorally, the economy is kind of at a -- it's a very unusual recession because instead of being led by housing and durables and investment it's being led by services where the pandemic is creating the most problems. So again, you would think that this would not be a good recession for the Fed to have some benefits on.

But, in fact, while I of course acknowledge that we're still in a very deep hole and I again, once again reaffirm what the first panel said about the need for assistance, the recovery thus far has been a lot faster than was anticipated as of even June. We're only about perhaps 2% real GDP for the year which is a lot better than was expected.

And where has the strength been? The strength has been primarily in housing, in capital investment, in trade, in durables, cars, automobiles, intra sensitive sectors. So, I would argue that at least part of that is due to the Fed's response as well as the good functioning of credit markets and the financial markets generally which again, the Fed can take some credit for.

So, I don't want to overstate this but, you know, I'm reminded of the 1960s fiscalist monetarists debates and I think both extreme views are wrong. I think that good policy is going to use a combination of monetary and fiscal response. So, that's the first point I wanted to make is that monetary policy while certainly is confronting the problem of the zero lower bound, still has some ammunition left and has been beneficial in the last couple of years.

The second point is I think that in making these interesting normative discussions, Larry and Jason don't take and think hard enough about the political economy of fiscal policy. I mean, whatever you might say about monetary policy, it is run by a non-partisan, independent, professional organization which can respond quickly and sensitively to changes in financial economic conditions.

Fiscal policy is, for political economy reasons, we all know about can be slow and in fact sometimes can be very counterproductive as we learned after the last recession. In fact, it seems like the only time that fiscal policy can respond countercyclically is in grave emergencies like 2009 and 2020. The ability sustained fiscal support doesn't really seem to be there. And certainly, the unwillingness to, for example, to have triggers or to have more automatic stabilizers is also a question about the political economy.

So, I just wanted to make that point. There's a lot of other things to talk about. I hope I'll get a chance to talk about the global savings glut and how that relates to all this at some point. But I would just say that one way of thinking about this is that yes, well maybe fiscal policy can become the go to stabilizer.

But one benefit of fiscal expansion can over a period of time, is that the neutral interest will go up, inflation will go up. And that one of the side benefits of that should be to make monetary policy again more effective both here and also in Europe and Japan. So anyway, I wanted to just try to rebalance that discussion just a bit while again, acknowledging the strength of the paper and the very good points that Jason raised.

MS. SHEINER: Thanks very much, Ben. Okay Olivier, are you going to try to share your screen?

MR. BLANCHARD: Yes. Can you see it?

MS. SHEINER: Yes, we do, awesome.

MR. BLANCHARD: Very good. Okay I'm going to try to make six points in five minutes. It's a tough discussion because I'm basically in total agreement with Jason and Larry so I had to think of things to say. The first three points is just restating in a slightly different way what I think the conclusion is.

The first one is, if you just have secular stagnation then you have constraints on what you can do with the interest rate. Then this implies that that has a very low opportunity cost both in fiscal terms but also in economic and welfare terms. Now when you complicate things and you have secular stagnation plus the effective lower bound and these are distinguished and these are different constraints so that R, the interest rate cannot be as low as the neutral rate, so-called r-star.

Then there's the argument that Jason presented very well which is there's a need for more spending and then the tool is a fiscal deficit. So, when you have the combinations of one and two, then you have lower cost of debt on one side then you have larger benefits of deficits and that's really the world we're in now.

So, I think the implication for the U.S. at this point is we should be ready to run deficits post-COVID if needed. We don't know and there's a chance, I think, that we'll manage stronger but we can't be sure. And in this case, we have to allow for further increasing debt. It seems to me that we cannot exclude that. So, with a footnote that I think Jason mentioned which is that there might be other ways of increasing demand through structural measures on investment and saving and we should probably be more creative there.

Now let me take two minor points. The first one is on debt sustainability. I really don't like the stock stuff but it looks like Jason doesn't like it either because, you know, present value is when R is less than G a bit of an issue.

I think the way to think about it when you start worrying is basically you have to finance debt. So, you look at debt service which has a lot of uncertainty in it looking forward then you say, can I generate primary surplus so that even if things go bad, debt service is unexpectedly high I'll be able to finance it. And I think that makes you think about the right issues and it can be done in an empirical way.

The second point is to reinforce something I think that Jason kind of said on green investment. And this is the context in which green investment makes a lot of sense. It's useful directly, it's green investment, it may help, you know, fight global warming. It's useful indirectly through aggregate demand even if it's not financed by debt. And I think it's in the paper and I think it's important.

Governments should not get a pass to finance all of green investment by debt if there are no fiscal revenues. It's great stuff but you still have to worry about the debt implications. I think there's a lot of space.

Then the last point I had to kind of come up with some criticism and the question is about future r future interest rates. And here as we know, markets are nearly sure. Jason gave the numbers for option prices. I just checked them and they're exactly right. And we have a long list of potential culprits for a large decrease over the next 35 years of the interest rate. But as I say, we have culprits we don't have indictments. And we don't know whether it's saving and investment, global saving a lot low investment or whether it's a demand for safety for safe assets. It's a mix of the two, we don't exactly know the proportions.

And so, the fact that we really don't know worries me a little bit. I mean, we have a good list but I can think of things which might change. And I take two examples, the first is probably a bit exotic but when COVID is over, we might actually all feel good about life and start spending like crazy. They spend up demand would probably not last for very long but would put pressure on it, right?

Then, I think, when I was going through the list, I thought of something else which came up in a discussion I was in yesterday. Which is a lot of global savings growth comes from the recommendation of reserves and the high saving rates in China. It's one of the reasons not the only one. And here China is putting in place health insurance. It's putting in place all kinds of social insurance. And the saving rate is coming down and it could come down much more. It's still very high when achieved to other countries.

So, it could happen. Green technology may actually have major breakthroughs with large implications for productive investment. So, we can't quite be sure and I suspect that the markets are a bit too sure of themselves here. But this being said, I agree with everything which was said by Jason and Larry.

MS. SHEINER: Thank you so much, Olivier. And finally, Ken.

MR. ROGOFF: Thank you. Thank you to Brookings for having me join this distinguished panel and following the great earlier panel, this is an excellent paper by Larry and Jason. I think it's a little bit provocative which I think is a very healthy and good. And I nevertheless, agree with a lot of their points.

Rather than repeat everything that Ben and Olivier said, let me just try to hit on a few points maybe they didn't cover. One is I do think the maturity structure of debt matters. I mean, what you would do in an emergency if you were trying to stimulate the economy one way or the other, you're limited by Congress and make debt very short term, you know, great.

But one might think as you're expanding the level of debt, you might want to extend the maturity structure. Or when you combine the Federal Reserve and the Treasury as you should to look at our overall debt, you should integrate their balance sheets as kind of short.

So, you know, that is something that can't change quickly and interest rates, they might take five or 10 years to change but I think Congress might take 20 or 30 years to respond and so that's part of how, you know, we're not going to ever default. It would be inflation, I think, would be the outcome. But it's been mentioned about pension liabilities I think has to be thought about in this picture but I don't have time.

I think a point Ben made which is essential is fiscal policy is extremely political and I want to pick one thing in particular. A key element of Larry and Jason's proposal are automatic stabilizers because the United States has less -- triggers less automatic stabilizers than Europe.

I don't know, when I was Chief Economist at the International Monetary Fund what we observed was Europe never let the automatic stabilizers work. They didn't like it because the parliament wanted to decide what was going on and if there was pushback from the public about how much debt was going up, they responded. So, I think in every World Economic Outlook I did during my years, we would have a phrase, Europe needs to let the automatic stabilizers work.

You can't get around the fact that it's political. In a very small way, the Federal Reserve has done a great job of doing this, of doing its fiscal arm which is really what quantitative easing is to do things that Congress would like done probably but they'd argue about it and it gets done.

The question is, you know, how much can you make it technocratic. But, you know, we read Larry and Jason's paper, it's very calm and logical and, you know, if they could be in charge, maybe things would run that way. But we have this very political system, Michael emphasized this in the previous panel.

Just a couple other points. Infrastructure, we all agree with that. I was arguing that from the beginning as people in the Obama White House know that that, you know, would be a very good idea, it lasts a long time. I have to say, we -- and I still argue that and I agree with Larry and Jason.

But you must be aware that micro economists have a very different view then we macro economists. You can read the recent NBR conference and I think Jason you may have participated. Where there's quite a debate about, you know, what exactly is infrastructure, what's a good project.

And I think a very excellent proposal the Obama administration had was for having a national infrastructure bank to try to put some technocratic expertise in this. But, you know, I'm in Boston over the big dig, New York had its Second Avenue subway. We could go on and on. I think the big dig was still worth it at ten times the originally estimated price, personally but, you know, it's one of the reasons it's very controversial.

Just finally, you know, we need to think -- we don't understand why interest rates are so low is a global phenomenon. It's not just about what the U.S. data is it's much more going on. I have a suspicion, as Olivier does, that the wave of Asia growing has had an enormous effect on this. Ben talked about it as part of his global savings glut and there are many reasons including demographics why that could be different. Thank you.

MS. SHEINER: All right, thank you all. So, now we're going to start our panel with Larry and Jason while he can be here. And I want to start actually with what you just talked about, Ken and Ben just talked about the global savings glut. So clearly the most important question behind all this is how sure can we be that interest rates will stay low.

And, you know, and is the reason, do we know the reason that they're low and do we understand whether or not those things will persist. So, I just want to know how your perspective on that -- what your perspective on that is, Ben.

MR. BERNANKE: So, the key word in global savings glut is global, as Ken was saying. The way I think about this now and it's evolved is that there's three key elements. The first is that demographics and rapid growth of the middle class globally has greatly increased desired saving, one.

Secondly, and I think this is something that Larry pointed out and Jason and Larry talked about is that to a historically unusual degree, the productive investments in the world are in the public sector, our public goods as opposed to private sector. Which means that to finance them, you need to have fiscal borrowing capacity.

So, the third point is that for economic and political reasons, many countries either won't borrow like Germany or can't borrow like many emerging markets in large quantities. And so, a net you have a global savings glut which is driving down real interest rates.

Now, the U.S. actually a special role here. Any sort of story that is sort of U.S. focused has to recognize that we are the shock absorber because we're the low saving, high borrowing country, we have the fiscal capacity but we don't save much. And so, we also have the benefit of having the global reserve currency, the dollar. So, we can borrow a lot, we have a trade deficit, capital inflows and lots of fiscal space which is what we're talking about now and why we should use that fiscal space.

But if we want to ask the question about what could happen and I think I agree with Jason, Jason had the interesting forward rates and so on. Those things need to take into account term premia and so on before you actually figure out what the implied future rate is. But putting that aside, the global savings glut story does tell you how things could change.

One obviously is demographics and growth and emerging markets could slow in a way that reduces savings demand. Secondly, you could have increased borrowing capacity in other countries which would compete with us. And then third, ultimately, I think there is some imperfect substitution. I think ultimately there would be satiation of potentially of holdings of U.S. government debt.

So, I think there are stories in which real interest rates would rise over a long period of time. These are just stories, possibilities but I would agree with Olivier that, you know, we should have a plan that looks at, you know, what is the probability that our r-star is above a certain level. As opposed to what is the median forward path that takes into account, you know, what do we do in those kind of tail situations.

MS. SHEINER: Larry, do you want to get in there?

MR. SUMMERS: Let me make a few points. First, with respect to the global savings glut, Lucas Racial and I looked pretty carefully at that issue. Over the last 25 years, the current account deficit or surplus of the OECD countries has moved within only a 1% range. So, if you think about the real interest rate of the industrial world, there hasn't been a change that was significant in the Ag and you think of that as an integrated economy. There hasn’t been a significant change in its current account surplus.

It is possible, I suppose, Olivier, that China could go into substantial current account deficit. But unless it did, what it did with respect to health insurance wouldn't have bearing on the interest rates in the industrial world. I think it is hard to tell convincing stories about likely changes in emerging markets that are quantitatively large for the average real interest rate in industrial countries.

Second, the criteria that we proposed which emphasizes looking at the real interest burden associated with debt is precisely designed to allow for these contingencies. An approach that focuses fiscal policy on assuring that that doesn't get too big is a criterion that will push fiscal policy to be stabilizing in the event that real interest rates were to rise significantly.

Third, there is a I think a fallacy that runs through much of this which is the assumption that interest rates are plausibly an important source of uncertainty for the level of deficits in debt in the future. If you think back to Jason's chart highlighting that a confidence interval five or 10 years out is 10% wide for the level of deficits, suppose there was a 2% increase in the real interest rate which would be a very significant move. That is only a very small way through that confidence interval. The risks associated with phenomenal like secular stagnation protracted recession for the accumulation of debt are actually much greater than the risks associated with fluctuations in interest rates.

And I guess the last point I would want to highlight because I think it's important to understand that the points of agreement and the ways in which we're I think largely in agreement on what the fundamental problem is. Is that if Simpson-Bowles which everybody, virtually everyone was in agreement that having something like Simpson-Bowles and having the fiscal policy path that went with Simpson-Bowles would be a good thing.

Some people thought there was too much entitlement cuts, some people thought there were too much tax increases. There were a million arguments about the components. But there was no appreciable argument at the time about the goal. And if that goal had been achieved and if that goal had been maintained, the consequences would have been catastrophic.

Had we had a 4% of GDP fiscal contraction sustained for the half dozen years after 2011. Ben, I take your points about the efficacy of monetary policy. But I don't think you'd want to argue that monetary policy would have been in any position at all to offset a consistent maintained 4% of GDP fiscal contraction in the years after 2011.

Yes, the economy was strong in the last couple of years but that had a lot to do with fiscal policy as well as with monetary policy. And, of course, in today's world if fiscal policy stimulates demand, I believe that the level of income is a much more important determinate of investment and anything about interest rates once you're starting in a world where interest rates are essentially zero.

MS. SHEINER: Jason, I think wanted to get in here. And just to be clear, you guys can jump in. Like there aren't that many of us and so if you want to jump in go ahead so we can keep this discussion going.

MR. BERNANKE: For the record, Larry, I was for fiscal expansion in 2010.

MR. FURMAN: We often cited you, Ben. We thought like cause, you know, God from on high was saying it would automatically happen.

MR. BERNANKE: Yeah, unfortunately.

MR. FURMAN: That's not how the world works and the Fed Chair is saying that same point now and it's not how the world works. I loved all the comments, I just wanted to clarify --

MR. BLANCHARD: Can I add a comment before you actually run over them or not?

MS. SHEINER: Yeah, go ahead, Olivier.

MR. BLANCHARD: No, I'm not going to disagree but I think there's still a whole lot of exposed rationalization which is that put yourself in 1985. And I tell you a number of things about what's going to happen and I ask you to predict what's going to happen to the interest rate. And I think you'd have a hard time predicting what happened.

You know, when it comes to demographics and longer life expectancy leads to more saving not less saving. I mean, there are all kinds of issues. I must say that I was struck by one remark that Ben made which I had not heard before and I think it's very important. This is the decline in the profitability of private investment which seems to be part of this story.

And Ben made the point that maybe what has happened is that the nature of technology has changed basically the fact that it actually makes public investment more productive and private investment more difficult. This might actually be a very interesting angle. I have not seen it exposed before. Let me stop there.

MS. SHEINER: Jason.

MR. FURMAN: Yeah, so I love the comments. Let me just say three things. One, and this almost comes right off of what Olivier just said. In some sense, we don’t need to know exactly what caused it. Was it a global savings glut, was it inequality, was it demography, etc.?

The important threshold question is how likely is it to continue. And if it was caused by the financial crisis, it's not likely to continue, I think we can rule that out. If it was caused by mistakes by central banks and once we get better central bankers they'll stop making the mistake it's not likely to continue. I think we can all rule that out. And the fact that it was gradual across a range of places says, I think your best guess is it will continue. And then we can debate why it is and again, that's a best guess.

Second thing, Ben, 100% emphatically agree that I think there is scope for monetary policy. I certainly don't want to sort of demean it at all. I think there's a big difference between someone who comes along and says, there are limits to monetary policy therefore do nothing and suffer which would be an unfair caricature but only slightly unfair of certain views out there. Versus there's limits to monetary policy so we need to do a lot of fiscal policy. And that's certainly what we're trying to argue.

MS. SHEINER: So, can I talk a little bit about secular stagnation and this idea that we will need fiscal policy just to keep demand up. You know, what you'll hear from all the people who are really worried about the debt is well, you know, we've got to be fixing the debt while the sun is, you know, fix the roof while the sun is shining.

Larry is one way of characterizing your view on secular stagnation that you agree with that but you just don't think the sun is going to be shining anytime soon? And like if you were like how would you know? Like okay fine, things are better than I thought maybe we should address the debt. How do you think about that?

MR. SUMMERS: The first thing to say is to just repeat what I said. Which is if we had done it the last time when there was a consensus that we should do it at the time of the Bowles-Simpson commission recommendations they would have been a grave error in terms of what their consequences would have been unless reverse. That's, I think the first thing to keep in mind every time one hears that suggestion.

I think the second thing to say is that I think there are good reasons, not certain reasons, for believing that an economy with a positive neutral real interest rate is going to be a healthier, safer more productive and more financially stable economy than an economy with a negative normal real interest rate. And so, maintaining a posture of fiscal policy that permits a positive real interest rate is, I believe, in general the healthier strategy.

Then the only constraint, and I believe that the low real interest rate is also telling you something. The low real interest rate is a kind of measure of the risk adjusted productivity of capital. And when it's zero, that's telling you that in private investment that you crowd out is not a very costly kind of investment to crowd out.

So, then the question comes to the question of sustainability. And I think one should worry about sustainability. The question for countries with flexible exchange rates that do what I think we should do and this is a subpoint but I agree with Ken on the desirability of issuing debt with relatively long maturity. And as a consequence, I would much rather have my stimulus come from fiscal policy finance with long live debt then from monetary policy that takes the form of QE which reduces the horizon of the outstanding debt. Then it is a question of sustainability.

Ultimately while I am sympathetic to what Olivier said about the infinite horizon and such, I think the crucial point is does a nation like the United States have the capacity with its tax base? If it is absolutely imperative to do so, to mobilize an extra 2% or 3% of GDP and I find absurd the suggestion that it does not.

And therefore, I find the notion that there's some risk of an inherent financial crisis to be highly implausible. So, I don’t worry that it's going to be -- that there's a plausible scenario in which the ability of the nation to meet its debts is going to come into substantial question. And look, this experiment has been run. This experiment has been run.

The policies that Japan has run which are a very large version of the kind of more relaxed approach to fiscal policy that Jason is running, there would have been universal agreement 15 years ago. That if you ran the debt up to 200% of GDP, you would be in a grave situation. In fact, Japan's got lower unemployment, has done very well in terms of per capita output relative to the rest of the world and the reasons have to do with the fact that they've been prepared to run very substantially expansionary fiscal policy.

And so, I think Japan stands as an example of the use of fiscal policy. Now should they have done things that were more efficient then a lot of the infrastructure they did, are Ken's points right about infrastructure, yes. Those points are right and I would agree with them.

Could the interest rates change in 10 or 15 years, absolutely they could. But if you ask me about the risks in a world that 12 years ago had a huge financial crisis that this year has had a massive pandemic. If you ask me about the risks to the fiscal position of the United States, I don't think that plausible fluctuations in real interest rates are an important part of them.

Olivier is absolutely right. That in 1985, I would not have forecasted a downwards trend that happened and that could happen again. But we need to maintain some robustness with respect to two standard deviation events. But that is very different from planning on the assumption of two standard deviation events.

So, I believe we should make our plans on the assumption that the economy would be catastrophically short of aggregate demand with zero interest rates and balanced budgets. Because that is what all the evidence is telling us right now and it may turn out to be different in the future. But we need to think about fiscal policy in the context of the idea that deficits are a necessity for achieving the goals of full employment and financial stability and quite possibly, very substantial deficits.

MS. SHEINER: Ken, can I ask you how you think about the risk for higher debt of sustainability? Is it about a financial crisis, is it about just well maybe the (inaudible) capital is high so we're hurting future generations. What do you think about 150% of GDP as something we should be comfortable with?

MR. ROGOFF: Well, I mean we're talking about the United States which is different than -- the risks, I think, there's a lot of evidence now that, you know, higher debts associated with lower growth. But I think that, you know, emphasis is that well maybe interest rates are even lower and so who cares.

I mean, that's -- and I think there are risks of a crisis. We defaulted in the '30s, we had the inflation of the '70s which was a screw up I think but it happens and it could happen again. If we look at our political system, I mean, just to assume that it's some technocratic thing that's going to run things very smoothly.

I first wanted to come back to something Jason had in his slides I think is a very important point. That if you had more redistribution of income, more progressive policies, social insurance, that would A, directly address the number one problem underlying what we saw in the pandemic and inequality. And I suspect would have a pretty strong boost aggregate demand.

And you're going to say well, that can't happen because there isn't political consensus. But I mean I think, you know, if we're approaching this from a technocratic point of view, that would just seem like the first thing to try.

A mention on the interest rate being very low, we -- it did drop a lot after the financial crisis and again at the pandemic. We've had two once in 70, 80 year shocks back to back. And I think some of what's going on in the interest rate profile reflects that.

And then lastly, I would challenge the notion that Japan presents a model for how the United States should run itself. I think it’s per capita income is a fraction of the United States. I don't know, 70% or, you know, at the moment. And, you know, I think we need an emphasis on, continued to be on also things we do well.

And infrastructure if done well and we include the electric grid, we include, you know, ways to do better education, making our economy green, this is great, definitely a great use of the moment of the low interest rates with, you know, with that. I don’t think Japan made great use of the moment and I wouldn't want to trade futures with Japan.

MR. SUMMERS: Just very quickly. I agree with Ken on everything he said about the micro economics of Japan. I was only addressing the macro economics of a fiscal policy strategy. And our calculations about interest rates all use February of 2020 before there was COVID. So, there's seven years into a period of expansion.

Look there are all kinds of mistakes that are made going into crises. I think that among the most important things to do is to make sure that we don't have a sustained period of slow growth. Which, I think, is a very substantial risk if we are providing insufficient impulse to aggregate demand. Which looking at the judgement of markets, looking at the current level of interest rates, strikes me as being the largest of the risks for the next several years though certainly not the only ones.

MS. SHEINER: So, we talked a little bit about infrastructure but the other thing that you focused on, that I focus on a lot is --

MR. BLANCHARD: Can I come back to -- can I add something?

MS. SHEINER: Sure.

MR. BLANCHARD: Two things. I think that's a point that Larry made I don't think made it to David has made it in the past. Which is what we need on the secular stagnation is to increase demand, private demand. And the most natural way of doing it is a fiscal deficit. It's not the only way.

And it seems to me, social insurance and, you know, if we provided healthcare to the U.S., if we basically had tuition free college, education, all kinds of things like this, this would make a very major difference to the private saving rate. And I think we have to be much more creative about that and there are good reasons to want to do it in the first place but it would help.

The other point I would make and I suspect Larry probably misspoke. We actually have to think about two standard deviation events. We don't want to be caught. We don't want to do it just based on the baseline. We want to do it based on two standard deviations. We want to be sure that if we have a lot of debt and the interest rate increases by two percent, say this is a two-standard deviation, we're ready.

I think the conclusion is still the same which is we're fine, right. But it seems to me uncertainties something that we have to take into account. We just can't go on the basis of expectations baselines.

MR. SUMMERS: I'm sorry. What I intended to say and I may well have misspoken was we should devote -- we should focus more on the mean than on the two-standard deviation outcome. But of course, as we focus on the mean, we should assure that we have a robust strategy for dealing with the two-standard deviation income.

Look, none of this is new. When Keynes came to the Treasury in 1942, he told everybody that the Social Security system was a terrific idea. Because it would replace private savings with Social Security entitlements and therefore maintain demand and therefore prevent a post-war depression.

And so, this idea which I've been saying in one way or another for a while that tax financed social insurance or tax financed redistribution will provide aggregate demand and that the correct conclusion is that you need to use the government budget in ways that will expand aggregate demand. Which is a different proposition then the proposition that the government needs to run a larger budget deficit.

One way, one most direct and obvious way of maintaining aggregate demand is through a larger budget deficit but it is by no means the only one. We could also be referencing use of credit guarantees in various ways. If we were in a world where costs of capital were higher, tax incentives for private investment would be something that we would be mentioning. In a current context, I don't think they make much sense but support matching grant type support for public investment by state and local governments would be another use of fiscal policy to promote aggregate demand.

The main point here which I think we're all agreed is that the maintenance of aggregate demand needs to be a crucial priority or fiscal policy if we're going to absorb what's likely to be a chronic excess, private savings over private investment.

MS. SHEINER: So Larry, you were talking about aggregate demand which is not what we need is completely not consistent with a balanced budget which no one really is contemplating. And what we're looking at is increasing deficits over the next 30 years. I was actually a little surprised that your current law base line included Social Security reform which was funded either by a benefit (inaudible) tax increases.

So, as a new administration is starting, if you were to give advice to them, you know, is Social Security reform something you think that they should be focusing on? You know, how do you think about the long term budget problems not just whether or not we should be like paying down the debt or, you know, worrying about austerity right now.

MR. SUMMERS: So, I think it's important to understand that if we do nothing, there will be Social Security reform in 2033 or whatever the year is, there will be across the board benefit cuts. So, our assumption was simply that we didn't implement the reform of general revenue financing of current Social Security. We were careful to be talking about current law.

I don’t think there's any case really for cutting benefits in the current context. I think there's plenty of room to raise payroll tax ceilings in ways that would finance the maintenance of current benefits. And I think there are probably some other ways of strengthening the social insurance function of Social Security and those would-be things that I would support.

Whether this is the current political moment for those things, I'd leave that judgement to other people. But I think what I think is most important is that we have the paradigm shift to the view that having a fiscal policy that absorbs all the savings and maintains demand. And therefore, we get to points of full employment without having the kind of financial conditions that we had in 2007.

I think that is the central thing we need to understand and then you can work through exactly what the right things are. But the idea that our main problem is to save more in order to be more virtuous or to have less government borrowing in order to be more virtuous, I think what's crucial is that we move beyond the sibilates.

MS. SHEINER: So, let me and we don't have very long, we have eight minutes left. What I am going to do is ask each of you that same question. Which is like let's think about the advice you might give to an incoming administration. Would you tell them to go with this, you know, interest rate as interest payments as a share of GDP as a guideline. Would you give them a debt to GDP target? Would you recommend that they start tackling the long-term budget problems, you know, whether or not that's higher revenues or Medicare or Social Security reform. Let's start with you, Ben.

MR. BERNANKE: Well, that's easy. I think nobody on the panel is going to say we should be trying to balance the budget anytime soon. The is some obvious priorities, you know, one way of thinking about this in a more optimistic way is I'm glad Olivier liked my point about public investment. Because you can think about a lot of things, you can think about climate, you can think about inequality, you can think about healthcare, infrastructure. There's any number of things that could use up resources and if you think about this instead of saving investment, think about it as total demand and total supply there's a lot of things that could use those resources. And so, that's the things they should be pushing for in the median horizon. The restraints on that are going to be political, obviously and there's nothing that they can get through the Congress the next couple of years that is going to be threatening any kind of debt criteria.

MS. SHEINER: Ken, how about you? Would you tell them not to worry about the deficit at all and just worry about investment or, you know, not to go down the Medicare Social Security reform route. What would you say?

MR. ROGOFF: Well, I mean, I still think this is much worse and the risks are worse than the financial crisis. And it's not over yet and we'll see how it goes. It could be just great but I think for the foreseeable future, we're in a war time situation still particularly when it comes to small businesses.

MS. SHEINER: I definitely mean after. So, I'm sorry like once we're past COVID, we've got the recovery and --

MR. ROGOFF: Well, I mean, hopefully they'll be looking very good in two years. You know, that's so far away to be talking about it I don't think it's a near term thing. But yes, infrastructure but I think it's important that infrastructure ideally be productive something, you know, plausibly productive and have a broad notion.

Going back to what the micro economists think, I mean, they've been saying forever that the most efficient expenditures on transportation are on repair. Because in the advanced economies, all the good places it's been built. There's a not a lot of big new projects. But there are new projects in, you know, things like I think the future of education, putting things online in the grid, green energy.

So, yeah this is clearly would be fantastic. I'm echoing what Ben said to be able to build up in these areas. And there might be bipartisan consensus. You don't need 20 senators to go along with you, just a couple.

MS. SHEINER: Olivier.

MR. BLANCHARD: I think first no debt target makes no sense. I mean, you can announce one if you want like 0% and just ignore it. The second is do all the public investment which makes sense. But that doesn't imply, that doesn't say anything about debt. Maybe you finance some of it with taxes, maybe you finance some of it for debt, it's not the issue.

And the third is use as Larry has said, use fiscal policy to make sure that you maintain demand and potential output. And we understand that that probably means large deficits if needed but let's be creative and find other ways of pushing private demand. That would be the advice.

MS. SHEINER: Great, thank you. And Larry, do you want to have any more comments that you wanted to get in?

MR. SUMMERS: Just to respond to your question. The central principle is that in a period of extraordinarily low interest rates that can be locked in for 10 to 30 years provides an unprecedented opportunity to address profound and longstanding investment deficits. Failing to take advantage of that opportunity is putting our children at risk and is putting our long term fiscal position at risk by weakening our potential for inclusive growth.

Low interest rates take advantage of the moment to address investment deficits exactly as Olivier said. Use as condition as one observes what's happening and what's happening to interest rates. The fraction of that investment that should be tax financed versus debt financed is a judgement that will need to be made on an ongoing basis.

But there is only the most negligible of probabilities that anything will happen in the next five years that will call into question the proposition that a careful, thoughtful, attentive to the details effort to remedy the investment deficits is what our economy requires right now.

MS. SHEINER: Terrific. And I just wanted, I was going to talk about this before, I thought I was going to run out of time. You mention this in your slides but, you know, we've been talking about investment as infrastructure. You talk a lot about these really very high rates of return that we do know we can get on investments in children and poor families.

I think those are sort of in my view like clearly, they solve all of the problems that we face and we know the micro evidence is very good there as opposed to the physical infrastructure. So, I like the fact that you've brought into that and I just want to add that that's my view is that I would be proposing is really, really go very, very strong in on those kinds of investments. They both effect inequality as well as have a high return. Okay, we are out of time. I really would like to thank all the panelists for what was a really interesting discussion. We seem to have a lot of agreement which is interesting. And hopefully, it will influence what happens in Washington. I'd like to thank the Peterson Institute for this first of hopefully many, as Adam said, cooperation's between the two of us. And thank you very much to the audience for watching. Thank you.

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