

Peterson Institute for International Economics

Third Annual Richard N. Cooper Memorial Lecture Featuring Kenneth Rogoff

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[00:05:20.10] - Jason Furman

Okay, should I start? Okay, we are really excited to be here for the third annual Richard Cooper Memorial Lecture. The first one was given by Larry Summers. I had a chance to do the second one. And we're trading up for the third one with Ken Rogoff, which I'll say in a moment. But let me just say a few things about Dick Cooper. And I know Ken is going to say more as well. He was a scholar of remarkable breadth and relevance. Had a career that spanned a half century and started on international macroeconomic cooperation, then became one of the leading people you needed to read and think about if you wanted to work on climate change, international development, exchange rates, national security at the intersection of economics, and so many other issues. He did this as a scholar. As a senior official in government, as an academic administrator, as a public intellectual, and most important to me personally, he did it as my next-door neighbor. When I moved back to Cambridge 8 years ago, moved next door to Jin— more about her in a moment— and Dick, my children would throw balls over the fence into their yard.

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We'd end up in their house. Sitting with him surrounded by piles of books, piles of old FTs, piles of articles that he was still writing for Foreign Affairs and other places, just extraordinary, exciting, stimulating, wide-ranging conversations up until the very end of his life. An important part of those conversations is the person that is sponsoring this lecture series and has made all of this possible, which is his widow, Jen Cooper. Why don't you wave to everyone, Jen? Who is also a regular attendee at economics seminars at Harvard, a regular conversationalist about all of these topics. On Sunday night, she was over for dinner, asked me what I thought of stablecoins. And I told her the definitive answer to that question, which is ask Ken Rogoff. And that brings us to our speaker today. Everyone knows Ken Rogoff, the Moritz-Boas Professor at Harvard University, former Chief Economist of the IMF. He basically established modern international macroeconomics, contributions in everything from the theory of central banking to

the practice of Chinese real estate, and is the author of numerous books, including most recently the tour de force that just brings all of that together in just a really, really amazing way, *Our Dollar, Your Problem*.

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And so Ken, I think you're going to speak for about 20 minutes. We're going to talk for a bit together and then open it up to everyone's questions. So thank you in advance.

[00:08:37.00] - Kenneth Rogoff

Thank you so much, and thanks to Jen, Jason, Adam, and this audience for coming. It's a great privilege to speak here. Dick's work on international policy cooperation was very influential on my work, hence the title. I got to admit, we're not in a great period for international economic policy cooperation right now, but That's another point. I knew Dick for actually 50 years. I knew him as an undergraduate at Yale. But he was, as Jason said, an incredibly vibrant colleague. And just one point I want to make is that he was a very vigorous debater. When he thought he was right, he thought he was right. Explain it to you or to hapless students who are presenting a seminar. And I'd actually say, particularly in today's environment and what's gone on, I think, for a long time in universities and the profession, a thing that Dick was really good when he debated you is he would try to be very clear about what are you trying to say? Is that your point? Point, and then he would disagree with it as opposed to use polemic misrepresentation, selective citation, et cetera, which has bled over into the profession, particularly in some of the public debate.

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And just one final point on that. So we had different views about the risks of the US current account. I won't get into it, but we were both at the World Economic Forum in Switzerland, and somebody thought it would just be a great idea if we had a debate. And it was an interesting debate. He made a lot of great points. Maybe I made a couple. But what I really noticed was afterwards, the audience of very few academics They just thought it was hysterical that the two Harvard professors disagreed with each other. Like, how could that be? But there you have it. So I'm going to talk basically based off a few points from my book, *Our Dollar, Your Problem*. I actually finished this book before I knew who would win the election. And I'm grateful for that because I don't know what I would have done. I had thought of changing the title at the last minute to *Our Donald, Your Problem*. But it would have been very hard to follow him. I actually was concerned about both sides. I thought the progressives had a lot of nutty ideas and were

trying to implement them And so many of the things I talk about, central bank independence, problems with fiscal policy, to me, it didn't matter who won in that particular sphere.

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I'd say the reason I wrote the book was to— I did feel we were at a hinge moment in history. I mean, little did I know, but I I felt that in kind of looking over where the world was going geopolitically, economically. And I thought it was sort of a good moment to take stock and try to give historical and analytical perspective. And just speaking again of Dick, whenever graduate students would present a mathematical model, he'd be pushing them to do that. And so I think I was taking a page out of his book. And I think in some cases, I change my mind about things I thought for a long time. In other cases, I give new interpretations. I also think I wrote it because I just had an idea about how I wanted to write the book. You'll have to read it to see what it is. But I think it's quite unusual, you will find, for an economics book. I use personal anecdotes, but it's certainly not a memoir in order, first of all, to make it so that AI couldn't have written it yet. And also, no offense to the journalists, but a journalist couldn't have written it.

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But also, I felt I had something I wanted to say. And if you don't write it in a way that anyone wants to read it, they won't pay attention. And I would say if there's a theme in the book in terms of the economics, it's I feel the profession has forgotten political economy that I think is very central to thinking about issues. They just think it's like setting a thermostat. And you could come from fiscal policy to central bank policy to international policy cooperation. There are a few specific issues that I'd worked on a lot the last 10 years, where I felt I wanted to emphasize them more in this way. And one of the issues is China, I'll come to. Another issue is how to think about interest rates and debt. And certainly another one is the dollar. Each of these pieces based on various strands of my work. And in a way, I used the last theme as the way to try to hold it together. And I have— I think it's very important to look at history. And I have so many people say to me, oh, the dollar is never going to go away.

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Everything's going to be the same. Who are you kidding? And actually, when I was telling colleagues And people who I guess are in tech or financial markets about this, as late as January, they were just, oh, who would care? And then, of course, Liberation Day came, and everybody said, wow, your timing was great, and made me feel like I'd understated some of the cases. And I'm just going to show you a map from my work with Ethan Elzytsky and Carmen Reinhart, where we have an exchange rate classification algorithm. I won't get into the details,

but you could look We've got a lot of different ways to look at it. Red is places that are dollar-centric. This is 1950. Europe's dollar-centric here. That's after World War II, when the United States was sort of the last country standing, accounted for, who knows exactly, but about 40% of world GDP. And the Bretton Woods system, that's the fixed exchange rate system that came, after the war put the US at the center and everyone else was supposed to fix. But of course, it wasn't the whole world. I mean, Russia, China were doing their own thing. There were many countries in blue, the light blue are countries in the French franc zone.

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Green is the UK. There were countries still on the pound. I mean, these things, Didn't happen overnight. And if you read the book, you'll see there are these ebbs and flows. The title of the book comes from one of the downshifts in the dollar. In 1971, the US went off the gold standard once and for all. Of course, in 1933, in the early '30s, the US stopped redeeming Treasury bills for gold. That was a default. That's another story. But the system after World War II was that everybody had to— everybody being really the very limited number of countries in red there, nobody else was playing the game. But everybody was supposed to fix to the dollar and have dollars to do that. And the US was supposed to give them gold for the dollars if they asked. I'll come to that later. And at some point that didn't work, I would say much earlier than most people thought. And in 1971, Nixon went off the gold standard and the Europeans were furious because back in those times, they were holding reserves of a comparable level as a share of their income to what the Asians are holding today.

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And they're looking at us inflating Nixon sent John R. Connally over to meet with them. Connally had been governor of Texas and actually was in the car the day John F. Kennedy was shot. He was badly injured but recovered, became Treasury Secretary, very tough Texan. And he confronted his European colleagues and he said, well, it's our dollar, it's your problem. And I think that always spoke to me because, first of all, I don't like that arrogance, I believe in cooperation is better for us in the long run. I think it's a big mistake to reject that. But also, it was our problem. When we got rid of the gold standard, we hadn't invented independent central banks yet. Almost no one really had an independent central bank, maybe Germany and Switzerland, the US a little bit later. And we had the big inflation of the 1970s. Because of this. So if we fast forward to 2015, which in my book I regard as the peak of the dollar standard, Europe is actually gone. And that's a point worth noting. They're on the euro, of course. And I've got— this is again from my paper with Ethan and Carmen, where countries that literally anchored to the dollar or their monetary policies follow it very closely.

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And it's just a sea of red there in the whole world. I'm not going to show you another graph because I'll come to it. My book was not allowed to have color graphs. It would raise the price too much. It's a university press. They did a great job, and it ended up selling quite a lot of copies anyway. But I want it— I don't have a color version of this. But it's diminished a lot. I mean, obviously, Russia is not on it. China has loosened quite a bit since 2015. And you can look at other measures, like reserves and stuff, and it's gone down. So let me just briefly say, why is it so great being the dollar? There are a few different reasons. I think they're not totally appreciated. One is, of course, you get a lower interest rate for a given amount of borrowing. It doesn't just say the US gets a lower interest rate than Germany. It says the US gets a lower interest rate controlling for borrowing. The second one is that the— part of this is because of dollar dominance. The US is the back office to the financial world.

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A lot of clearing goes through the United States, and that gives us a lot of information. That's why our sanctions are so effective. And of course, one of the reasons that I think eventually China just can't stick with the dollar is eventually they're going to try to acquire Taiwan and we're gonna put financial sanctions on them as much as we can. They know that and they're preparing for that. And I think a lot of other countries feel that way. I don't have time in the limited space to talk all of the issues around exorbitant privilege, but it's not— there's one concept is the low interest rate you get on debt. Another is that the United States has been the banker to the world, and we were able to invest a lot in the rest of the world at a time. And when Giscard d'Estaing, who was then prime minister and later became president of France, coined this phrase, exorbitant privilege, what made him mad was not so much just having to hold the Treasury bills, but Americans seemed to be buying up Europe, building factories, getting very big profits from these factories. And one of the pictures I couldn't put in the book, 'cause it just wouldn't be good, not in color, was my— Aunt Henrietta actually was one of these people.

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She, uh, uh, designed shoes, or she aspired to, but it was too expensive to make them in New York. She moved to, uh, Italy and produced shoes there, which she imported back into the United States. And I tie this to a lot of other things, but this is actually a picture of her shoes from McCall's magazine in 1952. Done by Andy Warhol, which she commissioned. And I follow through in the book, had she only bought this picture instead of treasury bonds, which she had in the 1970s, she would've been a lot richer. So I think there are a number of moments where the United States was lucky or aggressive or good, you can decide to maintain this dominance that it had. And I think one was the case of the Japanese yen, where it's one of the episodes I

give of having changed my mind. I think this happened in 1985, the Plaza Accord. I see Ted Truman here, you know, was very involved in that. I was in a little way writing some background papers, and I talk about it. And the accord itself didn't do everything, but the accord and the period that followed was a huge screw-up for Japan.

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This is the yen falling from 260 yen per dollar to down— it hit almost 120. It fell by more than in half in a short period. And the intention of the Plaza Accord was a 10% depreciation. What everyone had marked and didn't quite work out that way. You can also even go back to the Soviet Union where I'm old enough to remember when we didn't know how badly it would do. And I talk about my professors at Yale, Samuelson's book, everything predicting with a lot of confidence that the Soviet Union was going to do better. And frankly, it might have in a different history. There were the Brezhnev-Kosygin reforms in the mid-'60s. Which were quite a bit like what China did much later, but, you know, that fell short. The yen's an example. The euro is another example where the euro actually had a bigger market share before the euro crisis, and then it declined, of course, in the euro crisis by almost any way that you try to measure it. And I think it may come back. I will advertise a paper not yet public probably, so I can't say too much about it, that's coming out next week's Brookings by Tarek Hassan, who's an amazing professor at Boston University, who's another student of mine, who basically makes the point that if you make the tariffs much higher, the US just won't be the reserve currency.

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It will be the euro. And I had a paper 25 years ago with Maury Obstfeld showing that if you raise barriers to trade in general equilibrium, it hurts you a lot in everything. It hurts you also in capital markets. Another, I think the euro made this huge mistake of bringing Greece in. I think if it hadn't brought Greece in, we'd just be in a different world with where the euro is today. It made it much harder to get rid of. I had an interesting debate about all this with Otmar Issing, who was the first chief economist, also board member in the European Central Bank. He had a lot of power as being chief economist. He came to my office, and he didn't like some of the things I was saying. And I always credit— again, like I said with Dick— he was very civil about it. I mean, he really didn't like what I was saying. I think I had given a press conference where I was kind of implicitly critiquing the ECB by asking— we were in a recession, would there be recovery? And I said, well, if Europe— will there be a recovery in Europe?

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And I said, well, if Europe wants to see a recovery, they'll have to watch it on TV. And the United States was having a recovery. But he presented me this book, and I still have it. This is a novel by Steven Zweig. It's called *The Royal Game* in English, a chess novel in German. And I tried for a while to figure out if there was some symbolism of it, because the theme of this story is that this person becomes a prisoner. Plays chess in their head and goes crazy. Actually, if you've ever seen— was it *Fight Club* with Ed Norton? It's basically the same idea. But I later determined he just wanted to disagree. I go on to talk about China, where I think they stuck with the dollar for too long. They were wrong, I think. And I think they're paying part of the price for this. This is another picture I couldn't put in the book. This is the Chinese Executive Leadership Academy in Pudong. I gave a talk there in 2005. And that's where you go to move up to a higher job. It's like their business school, and you get retrained.

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And I was shocked because people would ask, very candid questions. I couldn't believe it in front of everybody. And I was told, here, you're allowed to say anything. And I think about that again some days in our environment. So I did, as Jason mentioned, I had been very concerned that China would have a growth slowdown based on real estate. But until I met Yuan Chenyang, who's now at the IMF, who came as a graduate student visiting Harvard. I didn't know how to put meat on that. And she's just amazing. And we did a series of papers together, which when they first came out were rejected by the China scholars, rejected by the journals, and just thought to be crazy, saying that China was running out of steam. This was our first papers were in 2019. I was called, you know, how the— about the China housing bubble and infrastructure bubble. One of the most striking statistics we had was just how much they had built in China, the overbuilding. And this is a measure of per capita housing space that we had. And another shocking thing is This is a measure of the— it gives both 2022 and 2023, but the value of the Chinese housing stock at market prices compared to their everything else.

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And of course, if you have a housing problem there and people think housing prices are going down and everybody thinks housing prices are going down, it has a tremendous effect. We not only had trouble steering this through academics, it's eventually done very well and we have a Brookings paper coming. We also, of course, were— Chinese didn't want to hear about it, but that's changed. So Yuan Chen was censored. The IMF let this through, but with like a year delay and everything. When she got there. I mean, for understandable reasons, but she was just awarded this prize given every 2 to 3 years in China for the top young economist in China. So that's totally official. This is basically her body of work. And so it's really remarkable that I go from— you'll see this episode in the book where I'm in 2016 talking about this to the China

Development Forum and wondering if I'm going to be allowed to leave the country. And now I think it's more accepted. There's also crypto. The world underground economy, according to World Bank estimates, is over 30% of GDP in developing countries and 17% of GDP in the advanced countries.

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The underground economy is tax evasion. And there's illegal activity. Terrorism, everything, but tax evasion's the big one. There are many different ways to try to estimate this. I have one that I think is kind of cool that just came out in a paper this year, which looks at Europe, looking at how much value-added taxes they collect and what they ought to be collecting based on surveys that they do, the European Commission does in different countries. And this is just a little table giving our mean estimate for what the tax evasion is. And then we actually give annual estimates. That's the standard deviation. They correspond remarkably to what people have gotten completely different methods. They're not all the same, but they correspond remarkably. However, my— Stephanie Stancheva, who's just won the Clark Medal in the US. She's French-Bulgarian, has a lot of family in Bulgaria. And so you see Bulgarians, 20%. She decided, that's not right. You just don't know what you're talking about. I said, what do you mean? It can't just be 20%. It has to be something a lot larger. I spent a lot of time there. Nobody pays taxes. But I make this point because— That's the market for crypto.

[00:32:14.21]

There's a big market. And I have some papers about this with Carmen Reinhart and Clemens Graf von Weizsäcker, showing that crypto is being used for capital flight using some, I think, kind of cool methods. In the process of doing— Sorry, in the process of doing this, Clemens was in Lebanon for a while, personal reasons. So he was in Lebanon for a period and couldn't get any cash. And he actually had Bitcoin. And so he wandered around Beirut to find a place where he could exchange it. And he found this place. I've actually— I didn't put this in the book. I'll explain why. But I've taken as much identifying marks out of the picture as possible. He wanted to trade Bitcoin and found himself in a very sleazy part of Beirut. And so he got cash. And he later— he's able to see at least one of their wallets. They're doing \$100,000, \$1 million. He can see what's going in and out of it.. And there was only one guard. And they're using cash, paper cash that you're being handed for your Bitcoin back and forth. And there was only one guard outside. And he later realized, oh my God, this is a Hezbollah bank.

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And this is how they're laundering money. And the reason I took all the identifying remarks out, and I didn't want to put it in the book, is I'm definitely very pro-Israel. But I didn't want to give them a bombing site that they would have. So let me just conclude with talking about the US. I apologize, Jason, I've ran a bit over. So there's something called the Triffin paradox, which is— it was a prediction of Robert Triffin at Yale, who was actually there when I was an undergraduate, and I unfortunately didn't take his course. But he basically said the US is getting a smaller and smaller share of world GDP, and our gold stock's not really rising at that rate. So how can you guarantee the dollar's good as gold? Eventually it blew up. There's this notion of a modern-day Triffin paradox where you look at US debt held abroad as a share of GDP. It's about 30% now. And the US share of global GDP has been steadily declining, and there are concerns that it may, you know, that it may cause problems. I won't talk about it here. But one of the themes I pick up is that I think what's changed is that we go through very long cycles in interest rates.

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This is from the American Economic Review a year ago, a paper with two other former students, Barbara Rossi and Paul Schmelzing. I said, again, as with all my other students who far surpassed me in their technical competence and everything, but we look at 8 centuries of data. And if you look at the US and the United Kingdom individually, as I do in the book, you get a similar view where the— it's very, very volatile. It's not as volatile as it looks because if you stretch out 8 centuries, they don't look as volatile. And then the blue line is an attempt at a smooth curve. And it's declining, although if you go back starting about 1900, it's not so obvious that it's been declining. And I draw a little circle there about what I call the Rachel Summers period. That's a wonderful Brookings paper by Lukács Rachel and Larry Summers written in 1919, where they focused on that period where I've drawn the circle. And just declared there's a declining trend in global real interest rates. I'm trying to speak quickly, and I apologize. This is a measure of the long-term real interest rate here. And I had debated that with Larry around the world saying, you know, there was a financial crisis, Green under Volcker, they raised the interest rate a lot.

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I mean, I don't know if this is a trend. I lost every debate. One thing people say now, there was very smart people who still think the interest rate is going to get lower and lower. There are very smart people who are not so sure, Larry Summers definitely now being one of them, where our August AER paper drew— looked at the correlation between demographics and the real interest rate and read the real interest rates in blue Red is demographics. And you can see that over most of time, and you can break this down a lot more, it's not so obvious. And we can talk about

the economics aren't that obvious either. Now, it's true we could have AI and also spend quite a bit of time on that in the book. The thing I— and that could provide great growth. But the thing I would say, a caution about that is aside from there could be— it could take a lot longer. I played the first great chess program in mid-1970s when I arrived at MIT, and it really took another 40 years before, you know, they got the way really good, or certainly 30 years and 40 years.

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And I wouldn't be surprised of having a similar cycle here. There are other things like electricity, copyright law and other things. But above all, I would say if you're thinking about tax collection and growth, it's a lot harder to tax capital than it is to tax labor. Capital is mobile, just aside from the simple point the tax rates are lower. So we're in a world where labor share is just going to decline and decline, very hard to resist that. It's been going on from globalization, but I think it'll continue. So anyway, this is when we have military spending coming. This is actually a game— someone's here from the Norwegian embassy. This is an exhibition game I played against Magnus Carlsen, who back then and still today is by far the best player in the world. And I hadn't played in— 30 years. But this was an exhibition game for charity. And I actually made a draw, which is another story. And I just wanted to show it. And one other thing to finish with. I did a debate with Brad DeLong in 2016. And Brad's actually been kind of on the forefront of some of these ideas.

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I thought it was Chatham House rules. And Jason's shaking his head as there's no such thing with Brad. Yes, I thought it was— I was told it was Chatham House rules. And so the next day, I find myself quoted on his blog. And he's drawn a picture. That's the— blue is the Treasury bill rate. 10-year, that's the one I've been drawing. Red is the inflation rate, and it's just about come to zero. And I was saying, I've seen God with chess. I think with AI is coming. And I also think the financial crisis was responsible for part of why interest rates are low. And in my debates with Larry, I'd said a year earlier, we did a debate in front of the G7 finance ministers and central bankers. And I said, in 10 years, no one is going to be talking about secular stagnation. And of course, I lost the debate. But Larry is— no one can win a debate with Larry. But with Brad, I said 9 years because I said, well, I said 10 years a year ago with Larry, so I got to say 9 years. He quoted me. And of course, this I do put in the book.

[00:40:33.19]

And I thank Brad immensely for memorializing this discussion which I'd been saying, but anyway. And this is my earlier book, *This Time Is Different* with Carmen Reinhart. And there's

some elements of similarity here in trying to— people extrapolating what are really short-run trends, which maybe aren't without taking some perspective on longer history. So let me stop there. I ran way over.

[00:41:20.10] - Jason Furman

So that was terrific and amazing to me how much you compressed into such a short period. Your book has a thesis, a little bit like the other— your earlier book that's quite pessimistic. So you write, the era in which the dollar was utterly dominant and reliably stable may have passed its peak. The likely result will be a rise in the number and intensity of debt, inflation, financial, and exchange rate crises. There was another way to read your book that you didn't really call out, which is just this incredible accumulation of knowledge through research— research you've done, research your students have done. Experience with things like the East Asian crisis, all of this getting embodied in an institution, the International Monetary Fund, which is, for whatever its failings, is sort of unfailingly rational and takes this on board. And so that today we understand things like flexible exchange rates, central bank independence, inflation targeting, the right and wrong use of capital controls, et cetera, et cetera, much better. And so we're all sort of in better shape and safer. And that's why, for example, during COVID when I'll be impolite enough to say we had you as a guest, you were talking about global financial crisis.

[00:42:40.12]

And other than one or two countries, we didn't. So is there a more positive story and a positive story in which you're sort of the hero?

[00:43:06.09] - Kenneth Rogoff

Can you hear me now?

[00:43:10.47]

Oh, great.

[00:43:11.06]

Sorry. Apologies. Yeah, I mean, the developing world is just in horrible shape. Never been worse. They've stopped converging. They're all basically in default. And we've had a lot of frontier economies which are in default. But yes, absolutely, it surprised me. I was just talking to Jerry Caprio, who's here and done important work on documenting financial crises. And yeah, absolutely, I was surprised by that. I certainly think—

[00:43:48.10] - Jason Furman

But how much do you think that actually does reflect that the combination of ideas and experience, good advice from the IMF, and things like when Sri Lanka had its crisis, that didn't spread anywhere, very different from Thailand in 1997.

[00:44:02.10] - Kenneth Rogoff

No, I think, just in brief, I mean, I think we have to give the IMF credit for the fire prevention of actually putting in sprinkler systems and making sure doors open the right way and stuff makes a difference. And very concretely, I think there was a move to domestic debt. There was a lot of reserves. Now, you have to say, I mean, there are other sides of this. They haven't grown, maybe partly because of this. But yes. If you say my book's depressing, not if you're China or Europe. I mean, I think they have wanted a more— multipolar system. Historically, we've often had long periods of multipolar systems. But the transition— part of what I think the problem is, I worried a lot about central bank independence in the book. And I'm a big fan of central bank independence. I think I wrote the first paper about it, explaining how it would work and how you should use it. But there's been this period where if you look at what the left was doing, trying to get central banks to do everything, I describe it as mission creep. Scott Bessant has recently described it as gain of function.

[00:45:24.36]

But either way, I mean, I saw problems in that, and I saw problems on the other side. And as far as deficits go, you know better than anyone, neither side really wants to hear about it. And so we haven't made any adjustments. So yeah, I'm prepared to be wrong, although I would want someone to— and you did— take what I said as opposed to misrepresent what I said, which I certainly experienced in spades.

[00:46:00.34] - Jason Furman

And you just said China and Europe are happy about it. I mean, I was in Europe. Last week, and they all seem incredibly pessimistic about their productivity growth, their economic trajectory. None of them seem to be looking at the United States' self-immolation as they're going to rise comparatively. They think they'll just be dragged down with it. You talked about all the problems that you documented, that you unearthed with China. Do you think it's sort of zero-sum, and the dollar falls and they rise versus nothing else rises and it doesn't work as well?

[00:46:35.29] - Kenneth Rogoff

Yeah, I mean, they're not happy about— the US chaotically turning the global order upside down. But Europe and China have both been looking to build their own back office, basically. Europe's doing this a different way, but they're both trying to do that. And I mean, the Chinese, clearly it's intolerable to have the US control so much information. And my impression is the Europeans don't like it very much either.

[00:47:11.32] - Jason Furman

And how much is that a national security issue versus this some other benefit to China establishing this? And maybe they're ultimately the same if we can't punish them economically.

[00:47:25.28] - Kenneth Rogoff

Power. Yeah, no, it's national security/power. When Europe didn't want to go along with us on Iran. I happen to think we were right about it, but they didn't want to go along. We forced them to in 2014 through our financial system. And we can see what we're doing, trying to do to Russia, to other countries. But oh, money is power. There's no question about that. In fact, one point I have a lot on is this whole idea that you could be the reserve currency without being a global military power is a joke. I mean, there are lots of reasons for that, very crude reasons, some subtle ones.

[00:48:07.52] - Jason Furman

So Larry Summers has the famous argument for why we're going to keep our reserve status, that Europe is a museum, Japan is a nursing home, China's a jail, and Bitcoin's an experiment.

[00:48:18.02] - Kenneth Rogoff

And we're not—

[00:48:18.49] - Jason Furman

I can't remember when he first said that, but everything's just trended in those directions relative to when he said it. Europe is sort of more of a museum. Japan is older. And China's walls have gotten a little bit higher.

[00:48:34.01] - Kenneth Rogoff

Well, Japan's not the competition. I mean, it's really China and Europe.

[00:48:39.29] - Jason Furman

But it sounded nice in the quote.

[00:48:40.58] - Kenneth Rogoff

No, I think forcing military— so that's a really great, tremendous quip of Larry's. Certainly, we're forcing Europe to militarize, which I think ultimately will add to their geopolitical heft and ultimately make the euro stronger as a reserve currency. China's moving its own way. And the United States is— I think whichever party had won, going in a direction that's very anti-technocratic, anti-sustainability. Look, if we had Jason Furman running the economy, either the Democrats or the Republicans, I personally would feel very good.

[00:49:33.23] - Jason Furman

Thank you.

[00:49:34.03] - Kenneth Rogoff

But we don't. Scott Bausen's pretty reasonable. Might be not the whole team, but I met a team of Jason Furmans. And we don't have that. I think our politics won't deliver that for a while.

[00:49:52.46] - Jason Furman

And one more question about the dollar and then go to other topics is Steve Meeren argued that it being the reserve currency actually hurt us, that we were paying a price for that. Not getting a benefit of it. I want to hear what you think about that. I think we know. And one argument I don't remember you addressing in your book is an argument you hear from the more globally skeptical left and right, which is that the dollar's structurally overvalued. That hurts manufacturing, hurts blue-collar jobs, and distorts the whole structure of our economy. And we'd be better off with a weaker dollar. Could get there without being a reserve currency.

[00:50:36.22] - Kenneth Rogoff

Yeah, so Steve Mirren wrote his paper in November. My book was done. And I didn't— if I'd heard the idea, I wouldn't take it seriously, but I would have mentioned it. I don't— I would just say—

[00:50:48.23] - Jason Furman

Pointing at the manufacturing argument in particular, which has been around for a while.

[00:50:52.12] - Kenneth Rogoff

Yeah, and so there are lots of reasons that the dollar goes up and down. We're very good in tech. We're very good in biotech. We're very good in engineering. We're very good in intellectual property rights. All these things put upward pressure on the dollar and make it harder to have manufacturing. You don't produce everything. That's gains from trade. I mean, it's just normal. But actually, the first time I had to focus on this was I did Ezra Klein's podcast. And he doesn't tell you what he's going to ask you. And he just wanted me to explain what they were thinking. And I said, I don't know what they're thinking. It's polemics. They're just trying to make a reason to have tariffs. And I finally reached back and satisfied him by pointing to the fact that I was quite a bit older than him, and in the 1970s, When I was watching political ads, everybody was complaining about the loss of the farmer. All the ads you saw about the manufacturing was about the farmer with their tractors. It was so terrible what was happening to America. And of course, the United States is an agricultural superpower, but there's no jobs.

[00:52:12.16]

And it's going to be the same in manufacturing. I mean, it's got— whatever we might have done in 1980 to slow it down, just doesn't matter at this stage. It's just not going to work.

[00:52:24.49] - Jason Furman

I want to talk about the deficit. You talk about it a bunch in the book. You also have a terrific new piece in Foreign Affairs that's probably the scariest version of where we're going. You gave us what you thought 10 years ago compared to where we are now. I don't know that you put your thoughts on the record in the year 2000, but if somebody had come to you and said something as crazy and outlandish that 25 years from now, the United States is going to have a debt-to-GDP ratio of 100%, the deficit is going to be 6% and rising, and no one seems to care about it, what would you have thought the 10-year interest rate would be? What would you have thought the economy looks like? And insofar as it's different from that, how do we need to update?

[00:53:10.50] - Kenneth Rogoff

Yeah, I mean, I didn't predict this. I mean, I'm not going to pretend I would have known what was going on. I think I would say if you look at longer periods, which I might have— Carmen and I had started to back then— you couldn't really predict real interest rates very well a long time in advance. So I would hesitate to put too much weight on that. But yeah, I think—

[00:53:38.23] - Jason Furman

But just the fact that the 10-year is at 4%, it's not an economic crisis, the sun's shining. Everything seems fine.

[00:53:45.02] - Kenneth Rogoff

Well, I think a thing we realized later was that it's not so good for growth, that having a really high debt— people point to Japan and say, oh, Japan's just fine. Well, no, they're not. There are lots of things that happened to Japan. But one of the things that happened is they were arguably equal to us in per capita income. They were richer in terms of land or equity. And now, with all apologies to my Italian friends, they're like Italy, which is poorer than Mississippi. They haven't done very well. And just while we're on the topic of debt, there was this attack against us in 2013 saying Carmen and I had written a short conference paper after our book using our debt data and showing that really high debt was associated with lower growth. And these UMass scholars came along and said, there are many errors in it. It's just completely wrong. Debt doesn't matter. And there was one error in it, which actually we had— didn't appear in the full version of the paper in 2012 where there are no errors.. And we get the same results, but they ignore that in 2013. And nor do we say in the paper that debt, when you go over 90%, is the end of the world.

[00:55:17.11]

We compare it to cholesterol levels and speeding limits and stuff like that. And nor do we say that just because debt's a problem doesn't mean you want to use stimulus. But I think a thing I thought of later— I explain that in the book. I think a thing I think of later that I wish I had thought of is when someone, perhaps you, says to me, ah, our debt doesn't really matter for growth. I would say to you— let's call our debt 120% of GDP. I would say to you, what if a debt fairy came, waved a magic wand, and we all woke up? And our debt was 60% of GDP, and the debt fairy said, I have made your debt 60% of GDP. Knock yourself out for the next 30 years. You can have an extra 2% a year of stimulus. You would say, I think, wow, that would be fantastic. And I mean, of course, that's only capturing one aspect of debt. But there's an option value too if you need to build up your military spending And I think to think that there's not an option value, you really have to believe that there's just no upper limit where you run into problems.

[00:56:32.19]

And I'm not saying that we know what that is, but I think it's an illusion to think that we don't have it.

[00:56:40.55] - Jason Furman

I mean, for the record, I think it does lead to higher interest rates, less investment, lower growth, but it's also the case that I've revised up how much debt I think is okay and how much I think is a problem. I mean, in the year 2000, we were trying to get the debt-to-GDP ratio down from 35% of GDP and thought it needed to be even lower than that. That seems maybe to have been a mistaken view in retrospect.

[00:57:07.32] - Kenneth Rogoff

We'll see, you know, going forward. I think Japan's having problems now. Even France.

[00:57:16.30] - Jason Furman

Great. So I have one last question for you, unless Jin, you want to ask Ken about stablecoins. Otherwise, I will ask your question. OK. So tell Jin what she should think about stablecoins. And in particular, I think like 99% of them are tied to the dollar. Is there a chance that this becomes a great way for us to extend dollar dominance? We're much more dominant in stablecoins than we are— in any other sphere.

[00:57:45.40] - Kenneth Rogoff

I certainly think stablecoins have been the killer app of blockchain and certainly crypto version of blockchain so far. I, however, think that what we're doing with regulation is nuts, that we want to regulate stablecoins in a way where they're not just a substitute for cash, they're substitute for debit cards, credit cards, but they're very difficult to trace the expenditures. There are— you can hold— once they go out in the wild, they're Bitcoin. And yeah, I know they're on the blockchain, but anyone who's worked in this realizes that actually, if you invest, you have to invest a lot of resources. So there were ways to do it where there's more of a backdoor. I've been told by actually some of the people who invented zero-knowledge proofs that they could have done that. We didn't. And so they're basically like \$10,000 bills and \$100,000 bills. That's great.

[00:58:48.31] - Jason Furman

And remind us, you wanted nothing more than a \$20, right?

[00:58:52.37] - Kenneth Rogoff

I had a book saying we should phase down to \$20s. But yeah, I mean, people are going to use— tax evasion in the US and crime is not zero either. In my estimation, I've given an earlier book and other papers, about half of all our massive cash supplies held here are tax evasion.

Just forget crime, which is also super important. It's massive. And you provide people with this back door. Is this making money for the early investors in Bitcoin and some of these cryptocurrencies, or is it making money for the Treasury? And I would argue it was pennywise and pound-foolish. I can't believe they did this in such a rush. Maybe they can fix it later. I'm not sure. So we've kind of declared war on the world in putting this out. Everyone's panicked about it for lots of reasons. But stablecoins, at the end of the day, I don't know that they're better than central bank digital currencies are a great idea. But they need to be regulated. We've sort of, with all of these crypto legislation, appear to have put the industry in a room to write what the regulations would be. Done very well for the president's portfolio.

[01:00:14.00]

But I mean, I think it was just a huge mistake. It's been way underplayed how big that mistake is. People focused on runs on stablecoins, but I think that's— not as big a deal. I think the really big deal is— OK, so you can have stablecoins without our writing a genius act. That was our legislation. But by expanding the network effects for Bitcoin, for Ethereum, for everything, it makes it much more competitive with the dollar and other things. And why are we doing that? I think Donald Trump in 2021 said something quite sensible about this, about why would I want to empower Bitcoin and have it compete with the dollar and lose revenue and all of that. But I guess he was talking about national revenue.

[01:01:11.56] - Jason Furman

Fair enough. Your questions. There's a microphone there. Oh, there's a microphone roving too. Dan, and introduce yourself even if everyone knows you, Dan.

[01:01:24.40] - Audience

I'm Dan Yergin. Ken, obviously, central bank independence is a central theme of your work and of the book. A not totally theoretical question, would you ruminate on the erosion of central bank independence, what it means either as a scenario or in terms of worry?

[01:01:45.40] - Kenneth Rogoff

So I'm going to be a little bit generous to the Trump administration here in answering this. I mean, I think central bank independence is very important. And what happens if you don't have it is that on average over very long periods, not right away, you're going to have more problems with inflation because there are just moments the politicians want interest rates to be low and they shouldn't be. This may or may not be such a moment. I don't know. On the other hand—

[01:02:15.03] - Jason Furman

Do you think that maybe they should be 1%?

[01:02:18.46] - Kenneth Rogoff

Not that low, but they may be— I think I agree with Larry that real interest rates are probably— long-term real interest rates are probably more likely. And by the way, therefore agree with myself from 10 years ago and today. Long-term real interest rates are as likely to go up as down over any long period. And I think if you look at the longer end of the curve, the market kind of thinks that. But near term, they could go down. So we could get inflation is really the concern. On the other hand, again, appeal to having Ted here. He doesn't like being called my first boss for some reason, but he was my first boss. Ted Truman. You're OK with that? OK. OK. Or that I embarrass him. When I got to the Fed at the end of 1979, people were talking about the glory days of the Treasury. All the great thinking was at the Treasury on going to flexible exchange rates. All the papers were citing. And of course, today, it's very hard to maintain anyone at the Treasury for reasons you know, especially since starting with Carter, but then especially since Reagan. They just don't pay anything.

[01:03:43.40]

And you can't have a technocratic elite. One of the reasons the Fed is so powerful, and central banks in general, is treasuries are starved in paying people. And so you have more of a technocratic elite. At the central banks. I think a very good thing to do, which neither party wants to hear, is to raise salaries a lot and probably have more of a scale in salaries, but that's another question, and reestablish having really good people in your finance ministries and your treasuries. And I'm not saying there aren't— Caroline Atkinson here. I'm not saying that there aren't, but it's harder. It's harder. And so part of the gain of function, the mission creep, has been precisely that treasuries have been somewhat paralyzed by lack of having people. And that's what I would— I'm not sure I'm saying anything favorable. I don't think Doge is planning to raise salaries at Treasury. I think we need to— we should raise salaries at Congress too, by the way. OK, I think—

[01:04:59.37] - Audience

Hi, Ken. So—

[01:05:01.58] - Jason Furman

Also for everyone streaming doesn't know who you are.

[01:05:05.02] - Arvind Subramanian

Arvind Subramanian from the Peterson Institute. So I want you to kind of maybe look globally around the world because you mentioned convergence, as we documented, happened from about the '90s, but it slowed down again. But if you were to use chess as a metaphor for convergence looking ahead—

[01:05:26.33] - Kenneth Rogoff

Well, India is doing great.

[01:05:28.20] - Arvind Subramanian

No, it's not just India. So the question for you is the following. It's not just India. I mean, the old monopoly of the Soviet Union and the US has been broken. And you have grandmasters from Turkey, Argentina, all over the world. And the thing is that what this shows is that it doesn't matter who creates the technology, but if people around the world have access to it, then chess shows that you can get convergence with a vengeance. So should we be optimistic about the future with using chess as a metaphor?

[01:06:04.48] - Kenneth Rogoff

Well, I mean, I think what India has done is incredible and would suggest that the talent there is just incredible that could be expressed in many things. I certainly agree with that. There are cases in other places, but it's really extraordinary there. On the other hand, part of why Russia was so good at chess was you wouldn't go into finance or other things. I mean, it was just limited. It was one of the ways that you could rise. And I think in some extent, there are economic incentives going on. I mean, it's just that we— you have the Center for Global Development sister organization. It's just depressing what's happened over the last 10 years where there are hundreds of millions of net new people coming into the labor force despite the aging demographics in the advanced economies. And there's just no obvious pathway for them. Picking on India, what did India do? They're working in subsistence farming, a lot of them. I mean, and it's a tremendous problem for the world.

[01:07:19.26] - Jason Furman

So I think that clock's wrong, but we're going to pretend it's right. It says 1:58, so we have time for one last question.

[01:07:28.42] - Audience

Oh. May I proceed? OK. John Hanson, retiree from the World Bank. Worked all over the years, all over the world for years. Came home and was shocked to discover that my own country had a trade deficit as a share of GDP that was twice as big as the worst, most suffering country I worked on, which was Sudan. Since then, I've been studying it, working on it, and just last night, I was looking at the figure, the Fed figures on debt instruments. They've dropped the TCMDO and gone to total debt securities. They have gone up from an average of about 5% of GDP in the period '50 to '70. Fourfold increase in the ratio of debt to GDP. We're now running in the order of 20 to 25. The breakpoint, I think, is very telling. It was in the '70s when the Bretton Woods—

[01:08:39.55] - Jason Furman

Oh, sorry, you'll need to be faster with the question so we can have time for the next one.

[01:08:44.28] - John Hanson

Okay, okay. The US is getting \$90 trillion a year, 3 times GDP, in foreign inflows. There's so much money that it's pushing down the value of the current countries. We cannot compete. What do you think we should do to restore real production vis-à-vis the finance sector and to bring our budget into balance, not necessarily balance, but sustainable levels.

[01:09:17.32] - Jason Furman

So I think we'll— be very— yeah, I think— why don't we just go to Ken to— you could write a whole new book on that, but give us the short version.

[01:09:25.47] - Kenneth Rogoff

I'll give a quick answer. If you want to bring down the— current account deficit or the trade deficit in this environment, by far the simplest way would be to close the budget deficit because there's a lot of economics here, but basically it's the sum of the public deficits and the private deficits. Having tariffs is probably going to accomplish fairly little. However, having tariffs puts up this wall which is going to make it harder to finance our deficit. It's going to make our financial sector smaller. But no, there's no magic bullet to this. What about taxes?

[01:10:11.06] - Jason Furman

Well, we're going to have to continue that later. This is just— Jin, thank you so much for really getting this started. This has been a real testament to the memory of Richard Cooper. And I

think exactly what he would have wanted this to have been. And thank you for making that happen, Ken.

[01:10:29.41] - Kenneth Rogoff

Thank you, Paul.