Economic Resilience: A Choice, Not an Entitlement

Remarks
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I want to thank the Truman Library Institute, the Economic Club of Kansas City, and the Henry Bloch School of Business for the honor of receiving the Truman Medal, which recognizes President Truman's role in creating the White House Council of Economic Advisors. In receiving this medal, I am reminded that President Truman famously had a tense relationship with the Federal Reserve. However, they were able to find common ground and resolve their differences because both parties knew that doing so was in the best interest of the country. It is in that spirit that I tell you how much I admire the courage and integrity of previous recipients of this award, like Paul Volcker, and that I accept it with great humility.

The theme of the Economic Club of Kansas City's programming this year, resilience, is well chosen as it is at the heart of the economy's long-run success. In keeping with this theme and in the spirit of "give'em hell Harry," I have entitled my remarks this evening *Economic Resilience: A Choice, Not an Entitlement.*

Economic resilience is about strength. It is the ability to take a hit and still move forward. It demands clear goals, a regimen that builds toward those goals, and the discipline to stay with the regimen. Too often, policymakers – me included – look to policies that address immediate problems, while giving too little attention to their longer-term effects. In recent years, U.S. policymakers have chosen large deficits and printing money to enhance short-term results, the cost of which is falling unevenly on current and future generations.

I recently took note of a Wall Street Journal article documenting how Americans overwhelmingly still desire all the traditional trappings of the American dream – owning a home, having a job and family, and looking forward to a comfortable retirement. However, the article noted that fewer believe they can achieve it. This sense of lost opportunity is confirmed by the rising disparity of wealth. The Federal Reserve estimates that as of 2024 the top 10 percent of U.S. household controlled nearly 70 percent of household wealth. This was up from 60 percent in 1989. The bottom 50 percent of households' share of wealth was 2.5 percent. As the Journal noted, there is a growing divide between higher-income Americans and most everyone else.

While there are many causes of this wealth gap, this evening I will identify two contributors that need to be addressed lest, I fear, for a downward spiral in the social cohesion, political polarization and economic prospects of our country. First, is the Federal Reserve's massive printing of money, or quantitative easing (QE), and the deliberate extended suppression of interest rates, which favors the debtor and speculator over the saver. Second is the short-horizon choices of our Congress that adopt budgets with too little concern for the weight of debt that future generations must bear.

In 2010 the Federal Reserve institutionalized QE as a mainstream component of its policy tool kit although it was intended for use only in crises. Normally, when the government spends more than it receives in revenue it must borrow from those who have saved dollars. Since the amount of savings is limited, this traditionally has served as a constraint on Congress' penchant to spend indiscriminately. However, the Federal Reserve has the unique, unlimited authority from Congress to create new dollars to buy this debt as it sees fit. Under the rubric of QE, the Federal Reserve can fire up this printing press to address any perceived need, even funding the government's expanding debt. Basically, the Federal Reserve has given Congress a credit card with no credit limit.

While this policy is well intended, if used too readily it can have serious unintended consequences. With the Federal Reserve's extended response to two separate crises between 2007 and 2022, its balance sheet ballooned from $900 billion to $9 trillion. This burst of money, accompanied by low interest rates, expanded through the economy, dramatically and arbitrarily raising asset prices while productivity and real wages remained dormant. As history has warned, the policy's effect was to ignite asset inflation, redistribute wealth, and artificially create economic winners and losers.

With the advent of high consumer price inflation, reaching at least 9 percent in 2022, the Federal Reserve finally raised interest rates and paused QE. Since then, inflation has moderated toward the Federal Reserve's target of 2 percent. Our national income is increasing moderately but steadily. The unemployment rate is just over 4 percent – low by historical standards. On this good news, the Federal Reserve has recently lowered

interest rates and is promising more cuts in the near term. This is an appealing near-term outlook.

However, if we look beyond this moment and over the horizon, we should see that our nation is at an economic policy crossroads. Hard choices remain regarding the Federal Reserve's printing press and Congress' spending habits. If we hope to have a resilient economy, our growing federal debt problem must be addressed. In doing so, the Federal Reserve and Congress must come to an understanding of their respective roles in addressing this problem. The Federal Reserve's QE program has become intertwined with fiscal policy by making it easy to borrow and, as a result, U.S. debt and the interest on the debt have exploded. Our national debt has increased nearly 155 percent, from a mere $13.5 trillion in 2010 to $35 trillion today. Over that period, our debt-to-GDP ratio has increased from 90 percent to 122 percent. The interest we pay on that debt is nearly $1 trillion and is among the government's single largest expenditure. I know that talking about debt in the trillions of dollars has lost its ability to shock. I am here to encourage you to be shocked. It matters.

If the growth in our national debt continues to go unchecked, there will be enormous pressure for the Federal Reserve to use QE to buy this debt. Doing so will undermine the economic health of future generations. Consider the outlook of Congress's own, non-partisan Congressional Budget Office (CBO). The CBO projects that, under current spending laws and very favorable assumptions, the U.S. gross debt will exceed $50 trillion in a decade. The deficit alone will exceed 6 percent of GDP. U.S. productivity will slow, causing real GDP to decline from an average of 2.2 percent currently to 1.8 percent through the decade. In real wealth terms, this means the U.S. is sacrificing more than $1 trillion in future wealth. The implications of these projections are profound. It means that Americans in the lower half of households in terms of wealth will fall further behind. It means that the economy will be measurably less resilient. It means greater social unrest.

The question is, can we reverse these trends? Of course we **can**. But **will** we? Doing so will require that we discipline our impulse to spend ever-greater sums, accumulate

massive debt, and print dollars to buy the debt. This will not be painless. Solutions require good policy, not merely good intentions. So, what might that policy be?

First, Congress must get its houses in order and bring its budget into better balance. Whether that means spending cuts or tax increases, or a combination of the two, lawmakers must choose to act. This will require study and compromise. The United States has done this twice since the end of World War II. At the end of that war in 1945, our debt was 120 percent of GDP. Over the next two decades it was brought down to near 30 percent. As recently as 1996 to 2000, a Republican House of Representatives and a Democratic President literally balanced the budget and brought the debt-to-GDP ratio back below 55 percent. What's most impressive is that real GDP growth was approximately 4 percent in each of those years. Once businesses and consumers were confident that policymakers were committed to a sound budget, to be achieved in a cautious but deliberate manner, the economy prospered. This is not a state secret. It's possible.

Second, the Federal Reserve should retire QE except temporarily during the most severe economic crises, as it was intended to be used. The Federal Reserve's mission is to "promote effectively the goals of maximum employment, stable prices, and moderate **long-term** interest rates." Too little attention is paid to the long-run part of the mandate and the discipline demanded to achieve it. Too often the Federal Reserve acquiesces to the notion that "it is the only game in town" to justify its money printing as a substitute for Congressional action. The Federal Reserve has made it easy for lawmakers to avoid their responsibilities, becoming the enabler to a famously gridlocked Congress. The Federal Reserve should not be a market maker – the dominant buyer – of our national debt as an ongoing policy tool. This choice distorts the market and invites asset and price inflation.

I am confident that if Congress brings the budget into better balance, and the Federal Reserve focuses its long-run mandates, this will change the course of our national economy for the better over the next decade.

I will close with a Greek proverb: "A society grows great when its leaders plant trees whose shade they know they shall never sit in." I hope that our nation has leaders

willing to roll up their sleeves and get their hands dirty planting such trees that address our monetary and fiscal challenges. Importantly, these leaders will require the support of we, the people. Someday, I expect to read news articles touting that a broad swath of U.S. citizens has a renewed faith in the American Dream and confidence that it is within their grasp. That, of course, is what resilience is ultimately about.