Regime Change at the FED
What Happens Next - 10.28.22

Larry Bernstein:
Welcome to What Happens Next. My name is Larry Bernstein. What Happens Next is a podcast which covers economics, finance, history, science and politics. Today's session will be Regime Change at the FED.

Today's podcast is a conversation that includes former Fed Governor Kevin Warsh and my old boss Nobel Prize winner Myron Scholes.

There is no free lunch and Kevin will explain how excessive government spending has resulted in a surge in inflation and changed the behavior of ordinary Americans on how they spend, save, and take risks. The inflation genie is out of the bottle, and to get inflation under control will require a regime change at the Fed. This will not be an easy battle to fight, and you should expect chaotic market movements.

Buckle up.

I make this podcast to learn, and I offer this program free of charge to anyone that is interested. Please tell your friends about it and have them sign-up to receive our weekly emails about upcoming shows. If you enjoy today's podcast, please subscribe so that you can continue to enjoy this content.

Ok, let's start today's session with Kevin Warsh.

Larry Bernstein
Kevin, tell us about your paper that you wrote with your co-author John Cogan from the Hoover Institute entitled Reinvigorating Economic Governance: A New Framework for American Prosperity.

Kevin Warsh:
To summarize it, the 21st century has been decidedly unkind to most Americans. A series of shocks have shaken their American ethos. The policy making response has been extraordinary with both positive and negative connotations.

It's changed expectations for policy going forward. And it certainly caused the rest of the world to look at us differently.

Those shocks: First, 9/11 led to a series of wars. The global financial crisis where I still have the scars from my 10 years in government. Third, the pandemic. And the fourth shock is the Russian invasion of Ukraine.

Now I would say we're living through a new era of price instability. Not because that means we're in a time where inflation will be permanently higher, but I'd expect there to be large variances around what we'd think of as stable prices in the decade ahead.

I begin the paper with one of my favorite lessons from Myron, which he used to call the ice cream truck.

What happens is there's kids on a playground. Some are on the jungle gym, others are playing, doing their thing. And then Myron's ice cream truck comes by and rings the bell. They get an ice cream. The ice cream truck leaves and you'd think they go back to the place in the playground where they were before. But they never go back; It's changed. The environment's changed, the ecosystems change, their wants and preferences have changed. And that is a metaphor for what's happened to the US economy during these shocks.

We begin the paper with a quote from Hayek, where he says, “If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations.” Well, that's what we tried to do.

I've been hanging around Hoover since I was 19 years old, and it's my 30th reunion this weekend. For places like Hoover that believe in free markets and limited government, it is one thing to go back and say, “Oh well, what did Ronald Reagan do?”

We have enduring lessons from that era but this isn't a cut and paste exercise.

The world is different. The G2 rivalry with China is different than the rivalry with the Soviet Union. Our economy is different.

What is it that was born out of the enlightenment that is still valuable today? And we created what we call a triptych, three panels on a wall. And what we say is that the core of the American experiment and its leadership in a peaceful world has three I’s: ideas, individuals and institutions. And these three I’s have to be applied to the conduct of public policy in Washington: fiscal policy, trade policy, monetary policy, regulatory policy.

But we need a framework.

The first were ideas. Paul Romer reminded us that ideas are different than goods. They're non-rival goods. There's no fixed pie of ideas where one slice of that idea for you means less of a slice for me. The promulgation of ideas is the key to American prosperity in the 21st century. And is the conduct of economic policy suppressing these ideas by keeping rates at zero for more than a decade, is that really the right price to give rise to new ideas? That's the first part of the triptych.

The second is individuals. Cogan and I maintained that individuals are different. They're the core of civil society. They're not cogs of a machine. They have a set of preferences and inclinations that are unique to them.

But if we treat individuals as part of groups, are we going to extinguish the flame that would cause them to create new ideas? Connecting the other part of the triptych. We wonder whether the culture, to use a loaded word, is civil society doing harm to individualism.

The third is institutions.

Ben Bernanke's work for which he received the Nobel Prize, where he'll be standing having his picture taken with the likes of Myron.

He brought institutions back into an understanding of financial crises and the Great Depression. Cogan and I fear there's a conflation of roles of institutions between the public sector and the private sector where we think there's a very red line that should separate the roles and responsibilities. And inside the public sector our government trying to compensate for the failures of other institutions in government. An example, whether the Fed has become an appeals court for broken fiscal policy and has wandered in areas that are outside of its remit. Cogan and I worry about that institutional creep and it happened to coincide with this period of price instability.

Larry Bernstein:
Let's start with Myron's ice cream truck metaphor. I want to give two examples. I had Vittorio Assaf, the founder of the restaurant chain Serafina, on my podcast at the beginning of COVID. He was in tears when he explained that he had had to terminate 1000 of his employees who worked at his restaurants after the COVID restrictions were enacted. I asked Vittorio if he could rehire the workers when COVID ended. He said it would be impossible to reassemble the team. Employees would physically move away. Some would leave the country. They would get new jobs and pursue new interests. He wouldn't even know where to find them. You cannot put Humpty Dumpty back together.

His restaurants have reopened post-COVID, and he hired new employees and created a new Serafina that was successful. But these restaurants are not the same; they are different.

The second example, which I think is the purpose of why you are using Myron's ice cream truck metaphor, is that when the government spent $1.9 trillion on a stimulus program, it changed ordinary American's economic behavior. Some might save less for a rainy day, there is an expectation that the government will protect us when we fail in the future and that impacts risk taking, investment, and consumer decisions. After the ice cream truck left the playground, the economy is now radically and permanently altered.

Kevin Warsh:
The size and scope of these shocks have changed expectations among businesses, households, participants in financial markets, and told them that there will always be a backstop. The Fed will always be there to ensure rates are zero, quantitative easing will become not the exception but the rule. When the extraordinary becomes ordinary, we can lose the sense of the magnitudes of these events.

Larry Bernstein:
What does that mean in the context of having year over year inflation running hot at nearly 9% when the Fed's inflation target is only 2%?

Kevin Warsh:
It's quite a shock because the Federal Reserve isn't able to hit that normal button, they've been hitting for 20 years. Rates can be zero. We could be at a regime change in the conduct not just monetary policy, it's fiscal policy.

Too long after the pandemic's darkest days, after we knew that vaccines were going to mitigate the morbidity. In 2021, just last year, the US economy was booming. Real economic growth was 5.7%. The country was moving on from lockdowns. And yet we had massive stimulus. And importantly, the Fed bought 54% of all the net new issuance from the Treasury Department.

And I go back to the dark days of the 2008 financial crisis with Chairman Bernanke when I was sitting by his side. And quantitative easing was debated. We weren't sure about its efficacy. We were certain of one thing, Larry, it was really only to be used in break the glass times. But I've lost track of how many times the G-20 central banks have used quantitative easing. Why is it that the spending in Congress became so profligate both among Democrats and Republicans because they didn't have to internalize the cost of their spending. The Fed was a price insensitive buyer pinning down yields. And the players are expecting the government to act like it has in the last 20 years that looks difficult and recent events in the United Kingdom might be illustrative.

Larry Bernstein:
Myron Scholes, how do you think about your ice cream truck metaphor in the context of governmental pandemic policies?

Myron Scholes:
Yeah, I agree with what you're saying, Kevin. I think that in my way of thinking about the ice cream truck is when the kids leave the ice cream truck, then the teachers intervene and they say, Okay, go over here. Don't go over there. You don't go back to your various places. So that consequence of this intervention, which Kevin has been talking about, is that they don't return to the previous spot and go from there. They get new locations or new spots. And as a result of that thinking, the economy is going to go back to where it was before. It's fallacious. It's going to be on a new trajectory, a new path, new things are going to happen. So, when the teachers intervene, what's the consequences of intervention? That's what I was always thinking about. The consequence of intervention could be positive. The consequence of intervention could be negative, and the consequences could be time dependent and time interdependent.

Larry Bernstein:
Kevin, in your opening remarks, you mentioned that Quantitative Easing should be used rarely, that you should only break the glass under certain circumstances. During the financial crisis, ECB governor Draghi stated that the ECB will do whatever it takes, and that became their mantra. How do we put whatever it takes, back into a box with a glass seal?

Kevin Warsh:
It's a great question. I'll remind your listeners when we were enduring the darkest days of the financial crisis when you're referencing Mario Draghi announcing from the scribbled notes on his speech that day, “we will do whatever it takes, and it will be enough.”

I believe that is the role of central banks to do extraordinary things in extraordinary times.

Larry Bernstein:
Is that shorthand for Walter Bagehot's idea from the 1870s when he said that the appropriate role of the Bank of England was to "lend freely, at a penalty rate, against good collateral."

Kevin Warsh:
Yeah. And how did we go from that to providing overwhelming liquidity and free money in all seasons?

And for all reasons! I fear it's because the profession thought there was a free lunch to be had that's what quantitative easing was. If you can just buy debt from your government, it's almost like it goes away until it doesn't. We could be in the early innings of trying to put that genie back in the bottle. But the markets and financial intermediaries and households and businesses have gotten used to it. And the idea that it's going to be linear or smooth, that somehow, you'll have a garden variety global recession, asset prices move down steadily.

This is going to be a new regime. Regime changes happen with discontinuities. This is a broad shift in the conduct of policy made necessary by the inflation surge. Policymakers broadly around the world misunderstood the risks of inflation and were late to react to it. And the later they are, the more work they're going to have to do to bring about price stability.

Myron Scholes:
To what extent does this interdependence now of the Fed and the fiscal authorities make it more difficult for the Fed to affect policy?

Kevin Warsh:
Is the Fed independent? It's up to the Fed Chairman. Powell gets to decide whether they're independent. They can invite him to the Oval Office and browbeat him. But what does he do when he goes back to the Fed?

The independence is today in the Fed's hands. They're sitting on a $9.1 trillion balance sheet, which they grew until five and a half months ago. Myron, they've been shrinking this balance sheet since September 15th, just some weeks ago at the speed that they had promised. And the question is, can they ever get back to a slimmed down balance sheet? They probably have about $5 trillion to come. Will the markets permit that? Will the fiscal authorities permit that? And is the Fed prepared to bring the Fed Funds policy rate somewhere to the fives? They've promised quantitative tightening is now going to happen on autopilot, leading to a runoff on of their balance sheet of more than a trillion dollars a year, presumably for the next few years.

Through the best of intentions, the fiscal and monetary role have been conflated. Since the immediate post-war period when the Fed and Treasury figuring out how to conduct themselves. We broadly stuck with that accord with some imperfections until the current period. I wonder whether we're at a moment where a new accord needs to be struck, and whether at some level of interest rates will become non-serviceable, even by the government of the United States.

Events in Britain but for the grace of the US dollar go. Now the US obviously has strengths and a depth of the economy, a depth of our markets that the United Kingdom doesn't have. I'm not dismissive of events of the last few weeks.

Larry Bernstein:
I think one of the incredible surprises was how low and how stable inflation was for the period between 2008 and 2020. It was below 2% with a very small variance. Why is inflation nearly 9% now and its variance so high?

Kevin Warsh:
Congress told the Fed that they should ensure price stability. Congress didn't give the Fed a number. Chairman Bernanke wanted to come up with a number so that markets would understand what price stability really is. And the number that the Fed came to was 2.0% <laugh>. I use the decimal point there just for jokes among friends. When we in the economics profession look to the right of the decimal point, we are confusing economic science with physics. I was always skeptical of the prudence of a hard certain inflation target.

Price stability and the number associated with it changes over time. I liked the definition of price stability that Chairman Greenspan used to use that we want the change in prices in the US economy to be such that no one's paying attention to it.

Households and businesses aren't talking about inflation. Your question makes that so painfully clear. There is barely a kitchen table or a boardroom where the change of prices isn't paramount to discussion. We have an inflation problem. This is a period of price instability.

Now to your question, how is it that during that long period we had stable prices? And who deserves the credit? Well, some credit belongs to the Fed. The Fed I joined in 2006 had inherited this price stability legacy, which began with Chairman Volker and continued through Chairman Greenspan. Markets came to think that central bankers deserve substantial credit for it, and we broadly knew what we were doing to ensure it.

I'd say the third are the structural factors. Starting in the early 1980s, the integration of the global economy was bringing new competition, the emergence of China, both factory workers to keep prices of final goods low and a vast consumer market for exports that drove structurally lower prices. Demography and other factors had something to do with it. I want to give some credit to the world central banks, to the regime that we inherited, in the regime we practiced, but also to some structural factors.

What about now? What happened? The misconduct of monetary policy, but I'd also say the structural factors are moving in the opposite direction. In the last several years, we took an integrated global supply chain, integrated product markets, service markets, integrated financial markets, and they're being ripped apart because of this G2 rivalry. It's happening. And as we rip apart this into two big spheres of influence, that's perhaps not inflationary in the long-term, but that'll take several years. Structural factors are important.

Why do we have inflation now?

We first saw an inflation in asset prices and then inflation for goods and services. In August of 2020 at the Jackson Hole Conference, Chairman Powell announced quite explicitly a regime change in Fed policy. We're going to now have fair average inflation targeting. The other thing he said, “we are not going to get off of zero rates or massive quantitative easing unless and until we achieve our 2.0% inflation target.” And we get not just to full employment but inclusive full employment at the time inflation was running at around 1.7% on official estimates.

To paraphrase the Fed at the time, deflation and disinflation will be the paramount challenges for this generation of central bankers.

Oh my, that didn't last long. This contribution of both structural and cyclical factors amid a booming economy led to this surge of inflation in the US and around the world.

Milton Friedman used to say, “The only thing we know in economics, we teach in Econ 1, everything else is made up.” And he was a Nobel Prize winner, like Myron here. And I remember thinking, I was 20 at the time when I heard that, maybe the old man has lost it. Well, no, it wasn't until the 2008 financial crisis. I said, Milton has it exactly right.

We goosed the demand side of the economy with massive stimulus, massive transfer payments, long after the vaccine was there. You goose demand, you shrink the supply side by making it harder for capital to be deployed, by reregulating, by encouraging a lot of workers not to work. I don't know what else you'd expect. And then inflation moved higher, and it was commented on by most of our colleagues that it's transitory and temporary and has to do with pandemic this and war that. But it's now become quite pervasive. It's now found its way into the fabric of every one of those kitchen table and boardroom discussions.

The median measure of inflation is continuing to move up even as the global economy is softening. And inflation is not just because of the change in policy in August 2020. That was a catalyst. It was long in the making. The models that we use in economics, including at the central banks, have always thought that inflation would go back down to 2.0% because it's happened before. But when you change policy this time, there's no reason to think that those past behaviors would repeat themselves.

Myron Scholes:
Milton Freedman said, “If you give the checkbook to the Treasury, then that's akin to helicopter money.” Do you think that the inflation surge that we've had is because the checkbook was given to the Treasury?

Kevin Warsh:
We're certainly tightening the helicopter drop in the form of quantitative tightening. And I worry that as quantitative easing became the default policy amid an economic boom, whether we've created a situation where the Fed and the Treasury have a hard time acting independent of each other as the Congress had originally intended.

Myron Scholes:
If you have quantitative easing, you get trapped. A short-term policy becomes a long-term policy?

Kevin Warsh:
We had this fight in the Fed in 2008 about whether to do quantitative easing. We hardly thought that it was going to be as successful as it was. As Chairman Bernanke likes to say, QE worked in practice, but it doesn't work in theory. He said that "How could it possibly be that if one part of the government issued debt, the other part of the government buys that same debt later that week that things are miraculously better?" To Myron's point, we made a risk management judgment. When the world was coming undone in 2008, it was worth the risk.

And in my judgment, we also made a pact when the world financial markets were functioning again, we'd get out of that business. Until about three or four weeks ago, we stayed in that business. I don't think we should be surprised that the value of every asset everywhere in the world, they've come undone.

As we started quantitative tightening, the average equity price in global markets is down about a third from their highs in a very short period of time.

If there's a wealth effect in one direction, doesn't the wealth effect go in both directions?
By some broad measure in 2022 global equities, we've lost about $30 trillion of wealth. My current boss slash partner, Stan Druckenmiller asked what happens when a stock price goes down? What happens to that wealth? He answered, "It just disappears. It's gone forever."

I'd be hard pressed to suggest that somehow this move of asset prices broadly around the world is over, especially as the Fed has admitted in recent days that they still haven't broken the back of inflation. They still haven't even gotten it to plateau. And we are seeing business confidence plummeting everywhere. And we can say this has to do with the virus and the war. And I'm not trying to dismiss that, but it also has to do with a regime change that's been required by an inflation surge.

Larry Bernstein:
The nominal interest rate is the sum of the real interest rate and the expected inflation rate. And looking back two years ago, the 10-year real interest rate would've been negative. And the inflationary expectations would've been just over 2%. And since we had this radical increase in inflation, this big surprise in the last 12 months, we've seen an increase in the real rate, for 10-year notes by 2% a year. But the inflationary expectations are stable and firmly rooted, calculated as the yield difference between nominal treasuries and TIPs securities.

Why haven't inflationary expectations risen? Why have they been so well anchored, at least embedded in the differential between these Treasury securities? Why has nearly all the change in interest rates been in the real interest rate? I would've thought that if there had been mistakes in monetary policy that we would've seen material changes in inflationary expectations.

Kevin Warsh:
There has been a massive change in inflation expectations. These TIPs markets, they're indexed products that aren't revealing what we see every day when we talk to neighbors and businesses. It is comforting for policy makers to look at these implied inflation rates and say, “We don't really have an inflation problem. That's anything but transitory.” Between 2019 and 2021, what percentage of the indexed inflation bonds did the Federal Reserve buy? The answer is 138% of them <laugh>. Setting prices in these markets, and then saying, “Look at what these markets are telling us?” As if they're giving us any forward guidance.

We are starved for forward looking information. Contrary to what the Fed believed a couple years ago in Jackson Hole, monetary policy works with long and variable lags, and none of us are perfect forecasters. None of us have great crystal balls. We're all risk managers in policy. The beauty of financial markets, if they are not being interfered with by government authorities, is that they can tell us something.

Equity markets, bond markets, foreign exchange markets can reveal something that we might not know. They're not perfect either. They can tell us something about the future. But when the world central banks decide to set prices in the most important risk assets like the treasury market, we're then blinding ourselves of the information we need so that we can be better forecasters and better risk managers.

My view is those prices are polluted. Quantitative tightening in the US is starting to reveal those prices. This explains why the long end of the curve is moving up just as dramatically as the short end. Cause that's turning out to be a market price. We might have normally thought heading into a global recession, which I think is quite probable, the Fed and other central banks are raising rates at the short end, but the long end would say global recession coming, long term yields should be falling. But the buyers of these long-term assets might well be saying that you could be entering a new period of pricing instability.

Larry Bernstein:
The Eurodollar futures market has priced in that the Fed will raise interest rates until the middle of 2023 and then the Fed will quickly begin to cut rates. The rate cuts are expected to be sizable at 100 basis points over the following two years. Do you think that the interest rate market forecast is reasonable?

In the past 50 years, the Fed has raised rates, and then cut them 6 to 9 months after they stopped raising rates presumably because of economic downturns and a reduction in inflation. Are these historical examples relevant to what will happen next?

Kevin Warsh:
The conduct of policy has been so extraordinary since we emerged from the global financial crisis. You raise rates, you're late, then the economy rolls over and you cut rates. That could be how it works. I respect markets, but I'm not so sure.

Remember the core of the Fed framework is the Phillips curve, which is embedded in the Fed's models.

Even if we learn coming out of the seventies and eighties that there is no cruel choice between inflation and unemployment, the models still think there is. The Fed models and many economists believe, including our friend Larry Summers, the way to get inflation to fall from 8% to 2% is to get the unemployment rate to go from 3.5% to 6% to 7%.

Do I think putting a lot of people out of their jobs could push inflation down? Well, I do, but I sure don't think it works like the Phillips curve would have us believe. I think we should believe empirically that the Phillips curve is much flatter.

Larry Bernstein:
For listeners at home, the Phillips curve is an economic concept that inflation and unemployment have an inverse relationship that is stable over time. And the Phillips curve implies that if you want to get inflation down, unemployment must go up. When Kevin insists that the Philips curve empirically is flatter than expected, he means that the increase in unemployment must be greater than the model predicts to reduce the desired amount of inflation.

Kevin Warsh:
The unemployment rate has been below what most economists thought the natural rate was for the last couple of years, what the was the Fed doing keeping rates at zero if their model is hot labor markets lead to inflation?

The Fed would say a couple of years ago, what we want is a hot economy so there's jobs for everyone, and they wouldn't be the first central bank who asked for a hot economy and asked for a little more inflation, got the hottest labor market and a lot more inflation.

I don't think the key to solving this inflation problem is to throw Americans out of work and somehow think that's going to fix it.

Policy makers should be modest about our theories. I think inflation has something to do with money. That's why we call it monetary theory. This experiment in the last several years has run amuck.

I don't say we're at a permanently higher level of inflation. We're in a new period of price instability. And the thing that is least likely is that we will asymptotically achieve the 2.0% price stability target that the Fed wants us to achieve. We are in unchartered waters.

They will be raising rates until they see inflation rolling over and falling in the direction of 2%. But it might be that they raise rates in the US until the financial instability risks become so paramount that they decide that they're going to have to make some uncomfortable tradeoffs between what level of inflation are they willing to accept versus financial instability, market dislocations and dire economic development. My guess is that this is not smooth, but I'm not interested in what these forward rates have to say.

Myron Scholes:
A lot of data mining occurs. We say what happened in the past, we’re going to have going forward. And there's many other variables that come in. The labor market being strong, the

participation rate being much lower are different from what has happened in the past. And two is that we've also have this international issue with supply chain difficulties, Ukraine war and decarbonization, which increased cost dramatically. It's very hard for me to believe that it's all a monetary phenomenon.

Kevin Warsh:
Here's a 2022 version of the Lucas critique. If you conduct policy radically different than you conducted policy previously, what makes you think that the results would somehow comport with history?

Myron Scholes:
Back to 1982, when Volker was the Chairman of the Fed, my reading of history is that he stopped raising rates and then inflation roared back again, and then he had to increase rates again. It wasn't a continuous policy. Do you think that Powell, if he's read history, will continue to raise rates because he's worried about the Volker effect? The second part is that Reagan, in his policies, deregulated which freed the economy to produce more and have a greater pie that brought down the inflation rate.

Kevin Warsh:
Chairman Volker was an awfully tough man. When he took the job as chairman, he'd run the New York Fed before. I didn't come to know him until I was joining the Fed in 2006 and had a wonderful relationship with him until the end. Tough Paul Volker was a great Fed Chairman, saved the country and the institution, even he paused, even he got cold feet.

They've started acting like Paul Volker only at the most recent Jackson Hole conference of August 28th. We're only in October guys. This is new. But if you do want to bring inflation smartly down to 2%, it will require an enormous amount of courage.

They acted so late, they only started this in March begrudgingly.

Paul Volker deserves an enormous amount of credit for beating inflation. Milton taught us that inflation is always a monetary phenomenon. But I would say if Milton were with us today, especially if he saw the conflation of fiscal and monetary policy like we've discussed, he would say, the way these guys are running policy, fiscal matters a lot too.

I think he would amend his famous aphorism.

Question is can we have an expansion of the supply side of the economy, a deregulation in product markets, new incentives for workers. If we have that, the Fed would have a much more successful effort in bringing inflation down to target. My objective assessment, the broad conduct of monetary policy is not productivity enhancing. It is not expanding the supply side of the economy.

A further contrast with the Reagan-Volker era, we're expanding the demand side of the economy. Presumably that will come down some in the year or two. But are you really working to expand

the supply side of the economy? Or is it contracting because the output gap is looking worse and worse, adding to more and more inflation.

What would you do to be disinflationary and more growth oriented?

The expansion of the supply side of the economy is about creating production in its most efficient place. We're talking about how to make GDP and potential GDP as big as possible because of our view that the fruits of that would be high. What is potential GDP?

It's simply the calculation of hours worked and the productivity of those hours. So, the broad conduct of policy is in some sense asking how do you get hours worked up? How do you get more people to work hours? And in fact, even though the unemployment rate is at three and a half percent right now, hours worked, has rolled over, hours worked is lower than it was some months ago. And the other piece is important, is how do you make those hours more productive? The way to make those hours more productive is to have that incredible mix of capital and labor, new ideas that make the factory floor more efficient, that give that worker the best tools at his grasp so that he can be more productive. And history says when he's more productive, his wages are going to move up smartly. His company's going to be more efficient, we'll have bigger advantages, and we're going to have a more prosperous nation.

Larry Bernstein:
I end each session on a note of optimism, Kevin, what are you optimistic about?

Kevin Warsh:
The 21st century requires economic strength. And that's not just going to make us richer. That's going to take some of the divisions that we see and feel in our society, and it's going to mitigate those.

How do we have a more peaceful, prosperous civil society? Where there's more opportunity, more people want to be part of the American experiment. Instead of where we find ourselves now where politics is pervading every aspect of our lives. We can once again look at politics and central banks on the front of the newspaper every day and say they don't matter so much because our communities are stronger, and we feel safer and more prosperous. That's really the objective function of what we're trying to do. And the economics we've talked about really are just a prerequisite to getting there.

Larry Bernstein:
Thanks to Kevin Warsh and Myron Scholes for joining us today. If you missed last week's session, please check it out. The topic was how to build the perfect stock portfolio and our speakers were some of the giants in finance. The discussion was held in honor of Myron Scholes for his 80th birthday.

Our first speaker was Andy Lo from MIT's finance department who spoke about the benefits of diversification both across asset classes like stocks, bonds, real estate, but also across firms and geographical locations. Our second speaker was the Dean of Stanford's business school Jonathan Levin who spoke about Myron's contributions to finance including his options pricing

model. Then we had Bruce Tuckman speaking about the benefits of derivatives to our economy, Victor Haghani on the importance of properly sizing your investments, and finally Myron Scholes on how to maximize returns for your portfolio while minimizing carbon emissions. The topic for next week is the economics of sports.

Our first speaker will be Stanford economist Paul Oyer who will discuss his new book An Economist Goes to the Game: How to Throw Away $580 million and Other Surprising Insights from the Economics of Sports. Paul will discuss which sports your kids should play. Why South Koreans dominate women's golf. And when should Michael Jordan take the last shot or pass the ball to another player?

Our second speaker is my fraternity brother Jeff Luhnow who is the former general manager of the Houston Astros and the current owner of two soccer clubs in Mexico and Spain. Jeff will tell us about the importance of data analytics for the draft, trades, and ongoing player improvement. Our final speaker will be Stefan Szymanski who is the author of *Soccernomics* and our discussion will focus on the economics of all things soccer including why owners lose money, and why the top players get rich.

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