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Intelligence Squared U.S.

Central banks can print prosperity

For the Motion: Roger Bootle, Simon Johnson
Against the Motion: Edward Conard, Andrew Huszar
Moderator: John Donvan

AUDIENCE RESULTS	
Before the debate:	**After the debate:**
29% FOR	**35% FOR**
31% AGAINST	**54% AGAINST**
40% UNDECIDED	**11% UNDECIDED**

Start Time: (18:45:57)

John Donvan:
We're delighted to have you here. And we're, as always, going to begin our debate by bringing Bob Rosenkranz to the stage. Bob Rosenkranz is the reason that Intelligence Squared U.S. came to New York City in the first place those 114 debates ago. And what we usually do at the beginning is he comes out for a couple of minutes and we have a quick chat about the topic and sort of the "why now" and what we hope to achieve. So, please, spontaneously, let's welcome Bob Rosenkranz to the stage.

[applause]

John Donvan:
So, Bob, as I said, a lot of times we talk about why we're doing this debate, why now. But we're going to do something a little bit differently tonight, based on the fact that among the many things that you have done in your life, you have been an economist. And you are going to give us a little bit of a primer about this dangerous-sounding phrase "quantitative easing" and what it all means. So, the floor is yours.

Bob Rosenkranz:
Okay. Well, that's terrific. And I'm told I'm going to have some visual aids as we go through this.

18:46:58

So, the basic idea is that central banks print money. And what they do with the money that they print is buy bonds from financial institutions. The bonds they buy are typically government bonds. So, the bonds that the government issues to finance its deficit end up owned by another branch of the government -- the central bank. And ordinary commercial banks have money in their bank accounts. And then, what happens next is that the banks -- because they have all this money -- drive interest rates down. And they have both available cash and relatively abundant opportunities to get people to lend money to people, and people will borrow -- more businesses will borrow more, because money is cheap and available.

18:48:03

And then, the effect of that, finally, is that people who borrow money are going to spend it on consumer goods. Businesses who borrow money are going to spend it on creating jobs in various ways -- building factories, investing in their business, and so forth. And that all serves to boost the economy. And that is the theory of quantitative easing.

John Donvan:
And what triggered its use in our recent lifetime?

Bob Rosenkranz:
Well, what triggered it was really Ben Bernanke in the aftermath of the financial crisis of 2008 -- found that zero interest rates and government spending stimulus wasn't really working. And he was looking for some new policy tool. And the idea of quantitative easing -- or money printing, in plain English -- was very radical.

18:49:02

It was thought at the time to be highly inflationary and not really to be a sound technique for central banks to use. And frankly, it -- the controversy over it remains to this day, because that theory is not necessarily what happens in practice. Banks might well decide not to lend money, in part because maybe bank regulators make it very difficult or costly, in terms of capital for banks to lend -- one part of the government pushing in one direction, another part pulling it in the opposite direction. And then, people may not want to borrow. Businesses may not want to borrow, even though interest rates are very low and money is available. Folks may feel like they had -- just have too much debt already.

John Donvan:
So, we have, in a sense, just lived through a very long experiment.

Bob Rosenkranz:
We have. And I would say we're in the middle of a very long experiment. And I think we have some qualified debaters who might tell us how that experiment is likely to turn out.

18:50:04

John Donvan:
And they're going to disagree.

Bob Rosenkranz:
I suspect they will.

John Donvan:
Let's welcome them to the stage and thank Bob Rosenkranz.

[applause]

John Donvan:
All right, we're going to begin. And I would like this to be yet one more time that you spontaneously applaud for all of us. Thank you.

[applause]

So here is what we all understand about money in our own lives. We understand that we cannot just wish it into existence for ourselves. If we want to get money, we're going to have to work hard for it or invent something that we can sell for it or we're going to have to inherit it or we're going to have to steal it.
18:50:57

There is just no way to go, "One, two, three, poof," and suddenly you have more money. Unless, of course, you happen to be the Central Bank of the United States, also known as the "Fed," which has since 2008 -- in order to head off financial crisis, has put almost $4 trillion into the hands of banks to stimulate lending and, hence, business activity. And where did the Fed get that money from? Well, poof, they wished it into existence. And does that sort of financial incantation actually make sense? Does it work or does it do more harm than good? Well, that sounds like the makings of a debate. So let's have it, "Yes," or, "No," to this statement, "Central Banks Can Print Prosperity," a debate from Intelligence Squared U.S. I'm John Donvan. We are at the Kaufman Music Center in New York City with four superbly qualified debaters on the stage who will argue for and against this motion, "Central Banks Can Print Prosperity." As always, our debate will go in three rounds, and then our live audience here in New York City will vote to choose the winner.

18:52:05

And only one side wins. Our motion, again, "Central Banks Can Print Prosperity." Let's meet the team arguing for the motion. Please, let's welcome first Roger Bootle.

[applause]

Roger, welcome from the U.K., just off of a plane yesterday. You are executive chairman of Capital Economics, author of the book, "The Trouble with Europe." You are well known for your crystal ball powers. You have forecast major events in market movements like the real estate bubble and sustained low inflation, which we're living through now. You are also winner of the first Wolfson Economics Prize. You beat out over 400 people by coming up with the best plan for doing away with the European currency known as the "Euro." And is that also a prediction you're making? Is it going to happen?

Roger Bootle:
You bet. I think the Euro's been a complete disaster and has got to break.

18:53:03

I think it will break, but I'm not sufficiently good a forecaster to be able to tell you when it's going to break or indeed which country's going to leave first.

John Donvan:
Well, we will check back in with you a little bit later.

[laughter]

Thank you, Roger Bootle. And --

[applause]

-- and can you tell us who your partner is?

Roger Bootle:
Yeah. My partner is the distinguished Simon Johnson.

John Donvan:
Ladies and gentlemen, Simon Johnson.

[applause]

Simon, welcome back to your second debate now with Intelligence Squared. You're also arguing for the motion that "Central Banks Can Print Prosperity." You are a professor at MIT Sloan School of Management. You are former chief economist of the IMF. You are an expert on financial and economic crises. You wrote a book called, "13 Bankers," which detailed the 2008 financial crisis, which has been described as essential reading. 2008 was quite a while ago. Is that crisis over?

Simon Johnson:
The crisis of 2008 will always be with us, John.

18:54:03

[laughter]

John Donvan:
And not in a good way, I take it?

Simon Johnson:
Not usually in a good way.

John Donvan:
Okay, ladies and gentlemen, the team arguing for the motion, "Central Banks Can Print Prosperity."

[applause]

And we have one team arguing against the motion. Please, first, let's welcome Edward Conard.

[applause]

Edward, also, thank you -- welcome back to your second debate with us. You're a visiting scholar at the American Enterprise Institute, author of the forthcoming book, "The Upside of Inequality: How Good Intentions Undermine the Middle Class." You also wrote another financial bestseller, "Unintended Consequences." What are the odds that either of your books is going to be made into a really exciting movie?

[laughter]

Edward Conard:
I suspect the closest my books will ever come to becoming a movie is the 30 minutes I spent debating Jon Stewart on his show.

John Donvan:

Oh, that's pretty cool.

Edward Conard:
And I do think that the highlights reel on my website is well choreographed. So you can see that at edwardconard.com.

John Donvan:
All right. Ladies and gentlemen, Edward Conard and .com.

18:55:01

[applause]

And your partner is?

Edward Conard:
My partner is Andrew Huszar. He was an eyewitness to quantitative easing as a member of the Federal Reserve.

John Donvan:
Ladies and gentlemen, Andrew Huszar.

[applause]

Since it's the first time I'm mentioning your name, and since we get to edit things together, I'm going to pronounce your name correctly on the first time. I'm going to say, ladies and gentlemen, Andrew Huszar.

Andrew Huszar:
Thank you very much.

[applause]

John Donvan:
Andrew, you are a Senior Fellow at Rutgers Business School and a former managing director at Morgan Stanley. You have an interesting backstory in relation to this topic. In the spring of 2009, you were working on Wall Street when you got a call from the Federal Reserve, asking you to come back to work for them. What were they asking you to do?

Andrew Huszar:
Yes. I got that 2:00 a.m. phone call where they asked me to basically coordinate the spending of $1.25 trillion.

John Donvan:
Wow. What kind of party did you throw?

[laughter]

Andrew Huszar:
Actually, I was eating lunch at the time, and I almost threw up.

18:56:04

[laughter]

John Donvan:
Okay. Ladies and gentlemen, the team arguing against the motion, that Central Banks Can Print Prosperity.

[applause]

Now, this is a debate. It is a contest of ideas, and wit, and persuasion. And you, our live audience here in New York City, will act as the judges of this debate. By the time the arguments have been made, you will have been asked to vote two times -- once before you've heard them and once again afterwards. And the team who will be declared the winner will be that whose numbers have changed the most in percentage point terms between the two votes. It's the difference that makes the difference here. So, we're -- let's go ahead and have you register your preliminary vote. If you go to those keypads at your seats, you can register your first vote. Take a look at the motion: Central Banks Can Print Prosperity. If you agree with this motion, push number 1. If you disagree, push number 2. And if you are undecided, push number 3. You can ignore the other keys. They're not live. And you just hold that thing down until the number registers for you.

18:57:05

And then you know your vote is locked in. And you can correct a misvote, if you want to. Okay. It looks like everybody has completed that. So, again, we're going to reveal that vote at the end and the second vote at the end. And again, I want to emphasize, it's the difference between the two numbers that will declare -- that will determine our winner. Let's move on to Round 1. Round 1, opening statements by each debater in turn. They will be seven minutes each. Our motion is Central Banks Can Print Prosperity. And here to argue first for the motion, let's welcome Simon Johnson. Do I have the order correct? You are -- no. I flipped one page over.

[laughter]

Oh, everybody's still here. Good. All right. I thought maybe you jumped back outside for a little drink at the bar.

18:58:03

Here to argue first for the motion Central Banks Can Print Prosperity, Roger Bootle, founder and executive chairman of Capital Economics and author of "The Trouble With Europe." Ladies and gentlemen, Roger Bootle.

[applause]

Roger Bootle:
Thank you. In this debate, I'm going to expound the case for the motion, in favor of central banks being able to print prosperity. And then my colleague, Simon Johnson, is going to hone in on the two keywords in this motion. That's to say: can and prosperity. This is a debate about the merits of central banks printing money to escape from or prevent a monetary collapse. In the jargon, the name given to the policy is quantitative easing, or QE for short. Under this policy, to be clear, the central bank buys financial assets in the markets -- usually bonds -- with money that it itself creates, thereby increasing both its assets and its liabilities.

18:59:08

In practice, usually, hardly any extra notes are actually printed. Rather, the money is created electronically. The extra money corresponds to extra deposits at the Central Bank. But since such deposits are freely interchangeable with notes, it's a -- I think, a fair approximation to discuss and describe this policy as printing money. And that's the convention I'm going to accept. This policy sounds extraordinary, even exotic, hence the apparent whiff of danger, doubtless soon to be puffed up –

[laughter]

-- by the team sitting opposite. But in fact, this policy has featured in the standard economic textbooks for generations. Some of you may have read those textbooks -- looking around the room, some of you may even have written them -- under the name "open market operations."

19:00:04

Moreover, this policy has been advocated by many great economists, including the great Milton Friedman, the arch proponent of monetarism. Mind you, let's be clear about this. Printing money is not the answer to a maiden's prayer. There are limits to what it can achieve. And it's not for all seasons. It will not improve your sex life or fix your gammy leg.

[laughter]

More prosaically, it won't even raise the long-term sustainable rate of economic growth. We know the factors that are responsible for that determinant. That's to say, the real factors; hard work, investment, technological progress and organizational efficiency. But these all-important real factors operate through a financial and monetary system. And every so often that financial and monetary system breaks down -- sometimes in spectacular fashion.

19:01:04

And when that happens, all these wonderful real things like hard work and technological progress and capital investment -- all that stuff, there is nothing. They're swept away from the tsunami of monetary collapse. There are three examples of monetary collapse in recent history: the 1930s, pretty much everywhere throughout the industrial world, Japan from the early 1990s onwards, and the financial crisis of 2008/9. Let's concentrate, first of all, on the 1930s. In the Great Depression in the U.S. in the 1930s, let's recall -- some of us remember -- U.S. output fell by 30 percent. Unemployment rose to 25 percent of the work force. And, interestingly, the money supply contracted by 25 percent. This monetary contraction played a huge role in creating and sustaining the Great Depression.

19:02:06

At the time, the Federal Reserve did little to stop the process. Indeed, it probably exacerbated it. By contrast, after the events of 2008/9, the deflationary process was halted by QE here and in the Eurozone and in the UK and in Japan. Halted by central banks printing money. Now, although we refer to the years after 2008/9 as the Great Recession, the fall in output during that period, that downturn, was only about 4 percent. What could have been a rerun of the Great Depression, or even worse, was stopped in its tracks. Now, of course, the critics will say that this is all very well, but the policy will end in failure because inflation will pick up dramatically. In fact, there's no need for inflation to pick up dramatically. QE can be set into reverse. The central bank can impose reserve requirements, and indeed it can also raise interest rates.

19:03:09

The oft quoted example of Zimbabwe, which is -- which has suffered from hyperinflation, is simply not apposite at all. This is not a case of QE gone wrong. Rather, it's a result of gross government incompetence in bringing taxes to balance with expenditure. The U.S. isn't and can never become Zimbabwe. Other critics point to distortions in the economy created by the policy of QE. But to some extent, this is fair. There are some distortions created. But where are the distortions sufficient to outweigh the creation of 13 million U.S. jobs since the downturn? The greatest distortion is in fact in the critic's sense of balance and perspective.

19:03:59

Other critics argue they accept the idea that QE has saved the economy from something like the Great Depression. But interestingly, against the other bunch of critics, they say it would have been better if we had had a repeat of the Great Depression. Collapse is good! It would have purged the system. And what would have emerged at the end of all this would have been something stronger. Well, all I can say is that this purging of the system didn't exactly bring great benefits in the 1930s either in this country or indeed in Germany. The conclusion is clear. When the need arises, not only can central banks print prosperity, but they must. It is their bounden duty.

[applause]

John Donvan:
Thank you, Roger Bootle. And our motion is Central Banks Can Print Prosperity. And here is our first debater speaking against the motion, Andrew Huszar. He is a senior fellow at Rutger's Business School, and a former Federal Reserve official who helped manage the Fed's first round of quantitative easing. Ladies and gentlemen, Andrew Huszar.

19:05:04

[applause]

Andrew Huszar:
Thank you. I wish I had a British accent, I think it would sound better.

[laughter]

Andrew Huszar:
Good evening. I feel very privileged to be here tonight with these distinguished colleagues. I feel very privileged to be discussing a central bank like the Fed. In the case of the Fed, I have a great respect for the institution. These are smart, well-intentioned people. I know this because I worked with them for over 10 years. Indeed, as I hinted to you before, if you want to see what a central bank money printer looks like, you're looking at one right now, although just to level some expectations, most of them have a lot more hair than I do.

[laughter]

My main argument tonight is a practice of a theory won. I, too, once believed that central banks could print prosperity, and I was assigned with the task of actually spending the Fed's money. Now, even in this debate, you will see that my partner and I come at this topic from somewhat different perspectives. But where I know that Ed and I both strongly agree is that central bank money printing, activist monetary policy, is an unproductive tool when it comes to creating prosperity.

19:06:04

What I'd add from my own perspective is that I believe that if it works at all, activist monetary policy has become counterproductive. It's potentially impairing future prosperity. Let's be honest about something to begin with. You guys all deserve a gold star for being here. Monetary policy is a very arcane subject. Discussing it in class in Rutgers is the closest thing I've found thus far to prescribing Ambien to my students.

[laughter]

Also, there's quite a bit of history. You can talk about the Burns Fed, you can talk about the Greenspan Fed. But I submit to you that what we're debating today is what the Fed and other central banks around the world began to do as of late 2008. Let me briefly take you back there. In the fourth quarter of 2008, the U.S. economy was contracting by 2 percent in just three months alone. 2 million Americans were losing their jobs. Enter the Fed. Before and around the collapse of Lehman Brothers two months earlier, it had already extended more than $1.5 trillion in emergency loans, which along with Congress' TARP, stabilized Wall Street. Now on Black Friday, 2008, on the day after Thanksgiving, the Fed launched something known as quantitative easing, the largest economic stimulusprogram in world history.

19:07:08

The Fed was attempting a new experimental approach to try to help the larger economy, not just Wall Street. What is QE? Well, we've talked about it a little bit already. QE is basically a central bank like the Fed printing electronic money, known as reserves, and using those reserves to buy bonds, existing credit from Wall Street banks. The goal, essentially at the beginning, the Fed was pumping cash into banks with the intention of stimulating a new wave of Wall Street credit creation in America. By both artificially making credit cheaper while freeing up lending capacity within the banks, the Fed was hoping to get more credit into the hands of citizens and businesses struggling from the economic downturn. In fact, before quantitative easing, Chairman Bernanke first called the initiative "credit easing." That's where I came into the picture. I was asked by the Fed to run a task with executing QE therapy's program, that $1.25 trillion initiative. And that's where, quite frankly, I started losing a lot more hair. My perspective today is shaped by what I saw inside the Fed.

19:08:05

And what I saw inside the Fed is that in practice we were basically pushing on a string with our money printing. What does that mean? In the end, from 2008 until 2014, when QE ended in America, the Fed printed and spent almost $4 trillion. What happened with that cash? Well, two out of every three dollars has ended up sitting idle in Wall Street banks. Today, specifically, $2.6 trillion of the Fed's cash sits in the big Wall Street banks, being banked like them at the Fed for interest like you and I might have a savings account. What happened to the other one-third of the cash? My own program is instructive. With our bond buying, we were specifically trying to stimulate U.S. mortgage lending by Wall Street banks. More home loans and more refis. But from the first day of the bond buying to the last, while we were pumping $1.25 trillion in reserves into the banks, the banks consistently cut their mortgage lending. By the end of the program, U.S. mortgage lending was down by 33 percent. And yet at the same time, what we saw on the desk was that instead of lending, Wall Street banks began to use whatever cash they did deploy speculatively, investing it. J.P. Morgan, Citi, Bank of America, Goldman Sachs, you name it.

19:09:11

They were using the cash mainly to pile into stocks, bonds, and commodities. This wasn't illegal. It was simply unproductive. It was the Fed pushing on a string with its cash. The Fed wasn't inducing consumption or real business investment in the economy with QE. What was the ultimate impact of Fed QE? Well, just to start with, 2009, the first full year of QE, was the most profitable revenue year ever in Wall Street history. Let me repeat that. The most profitable revenue year ever in Wall Street history. It's incredible. Today our "too big to fail" banks are 37 percent bigger, generating 40 percent more income annually than they were before 2008. Much of that remains fueled by their massive speculative investments in the financial markets, which may be distorting those markets, as Roger has alluded to. By 2010, in fact, the Fed began to speak with the impacts of QE differently. It starts adjusting that QE was benefiting America by artificially stimulating the financial markets and generating the wealth effects, fueling consumption by making more well-off Americans wealthier.

19:10:09

Basically, that's trickle down economics, Fed style. And yet the claim of QE, helping average Americans, remains dubious. In 2013, McKinsey, the consulting firm, put out a study on the impact of Fed money printing, saying that for every $1 that Wall Street was being subsidized by QE, the average American household was losing $2.50. The existential problem with Central Bank money printing is how the tool works. The transmission mechanism, pumping cash into Wall Street banks, is inherently flawed. It doesn't create prosperity, or even if it does so marginally it's basically creating prosperity for people who don't need the help, the Jamie Dimons and Lloyd Blankfeins of the world. It's not really helping that two thirds of Americans that are now living paycheck to paycheck. And unfortunately post financial crisis, what that really means is that money printing has only served to reinforce the reality of a chronically underperforming U.S. economy.

19:11:04

In the end, Central Banks don't print prosperity. If anything, over time, money printing has only helped us kick the can of desperately needed reform further down the road. Thank you.

[applause]

John Donvan:
Thank you, Andrew Huszar. And a reminder of where we are, we are halfway through the opening round of this Intelligence Squared U.S. Debate. I'm John Donvan. Our motion is this, "Central Banks Can Print Prosperity." We have two teams arguing for and against. You have heard the first two debaters, and now on to the third. Let's welcome to the lectern Simon Johnson. He is the Ronald A. Kurtz professor of entrepreneurship at the MIT Sloan School of Management and former chief economist at the IMF. Ladies and gentlemen, Simon Johnson.

[applause]

Simon Johnson:
Thank you very much, and thank you for coming out to listen to this debate. Actually I hear that Intelligence Squared Debates are a very good date night, is that correct?

[laughter]

There's some nervous laughter from the back.

19:12:01

You know, this may seem arcane to you. And Andrew said it is arcane. I don't think it's arcane at all. I think this debate and this particular question goes to the heart of the nature of the American republic. I do have one of those strange British accents. I will concede that, but I do know also a lot of American history. And by my account, this is the sixth time in American history when there has been an intense public debate on exactly this question. Perhaps the wording was slightly different before. It was debated at the beginning of the republic. It was debated intensely under Andrew Jackson in the 1830s. It was debated before the Fed was set up in 1913. It was debated absolutely in this city in the 1970s, and here we are after 2008. And the question -- the question, it's really of fundamental importance to focus on the question before us. And the wording matters, "Central Banks Can Print," that's the first part. And I think we agree, and I think Andrew said he'll do some more printing for you at the back, if you're interested afterwards.

[laughter]

So we know they can print, but what is it they are printing?

19:13:06

And we don't even print money. I mean, that's obviously -- and my partner explained to you exactly the mechanics of that. But what does it mean in an economy when the Central Bank prints money? And, remember, this is not the economy of the 1780s or the economy of Andrew Jackson or even the economy of New York City at the turn of the -- beginning of the 20th century when people began to realize that industry was developing, commerce had become more complicated, and you could have crises and panics, and the private sector couldn't necessarily take care of that by itself. That was the beginning of the thinking that led to the Central Bank. But is it prosperity that the Central Bank can bring you by printing? Well, this question was answered directly in very -- as close as you can get by looking at history to the relevant facts and a parallel to today's experience -- in the 1930s.

19:14:04

In the 1930s, people like our opponents today, distinguished practitioners, people with an immense amount of experience, and people to whom the nation looked for guidance on complex monetary matters, almost all of those people in the 1930s said categorically, based on an enormous amount of experience -- they said in the 1930s, "The Central Bank cannot print prosperity." And the Central Bank didn't. The Federal Reserve didn't. The Federal Reserve, which had a particular version of that in its mind that was linked to a belief in the gold standard, did not respond to the crisis, did not respond to the panic, did not respond to the run on banks, did not do what Milton Friedman said. Milton Friedman, not a man of the left, a great University of Chicago economist, his history -- "Monetary History of the United States," with Anna Schwartz, is a must-read -- okay, maybe not on a date night -- but it's a must-read.

19:15:04

Friedman and Schwartz said, "The Federal Reserve made a big mistake. They should have printed money and they didn't." And you got a Great Depression with cataclysmic results. Now, what happened after 2008? That's the question Andrew put to you, and I think he put it to you very fairly. I understand it was frustrating, Andrew. I understand it was difficult. But I would like to say -- and I'm on this podium, on this stage today, at this podium right now to say, “Thank you” to Andrew. Thank you to people from the

New York Fed who I know in the audience. Thank you to those other officials at the Federal Reserve. Thank you to Ben Bernanke. I have not agreed with these people on all matters. I do not agree with them on issues related, for example, to financial regulation. And I'm not happy with the fact we had a crisis. And I think it was a disaster for many -- or most people in this country. A disaster that stays with us forever, John, lasting impact. But in -- I'm the former chief economist of the International Monetary Fund, okay?

19:16:03

And I've worked on crisis for 30 years. When you're in a crisis, when everything is going to hell, you have to step up if you're the Central Bank. You have to save the day. The option is to rerun a version of the 1930s. And if you want to do that, then take control of the Federal Reserve, put them in a straitjacket -- this is actually a proposal right now in Washington, D.C. -- and prevent them from responding to the next crisis. You will get another Great Depression under those circumstances. We need flexibility. We need pragmatism. We need people like Andrew and his colleagues when they were at the Fed. Smart, creative people who look at the situation and try to prevent it from getting worse. And I think that's the prosperity that I want to focus on, Andrew, which is -- yes, I understand it was difficult. I understand you didn't get everything you wanted. You didn't get everything that any of us wanted. I understand it felt like you were pushing on a string some days. And I understand you lost some hair. And I'm sorry about that too.

[laughter]

That may be -- maybe nothing I can do about that one. But what would have happened if the Federal Reserve hadn't done that?

19:17:07

Interest rates would have been higher. It would have been much harder to borrow. Credit would have been completely disrupted. This is not the 1830s. This is not 1913. It's not even 1930s. Credit is in every -- you have credit in your wallets. You have credit connected with your mortgage. You have credit in every single part of your business life, your personal life, your financing of education, how you plan for your children's future, your retirement -- it's all intertwined. If you let the credit system collapse -- and that's what my partner emphasized to you -- that is what would have happened. And that is what has happened in countries where the central bank has either not been willing to do this, or has refused to do this, or has been prevented by circumstances beyond their control from doing it. In the United States and in other leading industrial economies, central banks can print prosperity. If you let them do it under those circumstances, in the face of the crisis, you get a better economic outcome than you would otherwise. The options -- the alternative is very, very bleak.

19:18:06

So, it's not perfect, and we're surely not recommending that you do this every day and all day. But under these circumstances, when faced by a crisis and a panic -- such as that one faced in the U.S. in 2008, such as that faced by the U.S. in the 1930s -- central banks, under those circumstances, can, should, and must print prosperity. Thank you.

John Donvan:
Thank you, Simon Johnson. And that's the motion: Central Banks Can Print Prosperity.

[applause]

And here to make his opening statement against the motion -- let's welcome to the lectern Edward Conard. He is a visiting scholar at the American Enterprise Institute and former founding member and managing director of Bain Capital. Ladies and gentlemen, Ed Conard.

[applause]

Edward Conard:
Don't let our opponents hijack this debate. This is not a debate about whether the Fed should act as a lender of last resort in a run on the banks. We all agree with that point that they have made. And that's why they've taken this position, because you can't disagree with it.

19:19:09

This is a debate about radical monetary policy that tries to print money in order to stimulate growth after a bank run in a recession. This is not QE1. This is QE-infinity. It's easiest to understand monetary policy by considering a simple corn economy. We can plant the corn. That's investment. We can eat it. That's consumption. Or we can store the corn in a silo and exchange it for a piece of paper that says, “I owe you a bushel of corn.” That's money. Recessions occur when people get scared and start storing corn instead of eating it or planting it. Growth slows and unemployment rises. It's important to recognize the Fed doesn't grow corn, nor can it teleport corn back from the future and spend it today. All it can do is print IOUs. By printing more IOUs, monetary policy tries to change your behavior today. It motivates you to stop saving and start spending again.

19:20:04

It does this by threatening the value of your savings with price inflation in the future. With more IOUs outstanding, you should logically run to the bank, to the silo, withdraw your corn and use it before the economy recovers, people start exchanging IOUs for corn, and the silos run low on corn, when prices rise and the dollar is worth less. But here is the rub. The Fed increased the monetary base from 800 billion to 4 trillion, an unprecedented fivefold increase in the monetary base, and it had no effect on anyone's sphere of inflation whatsoever. No one ran to the banks to spend their savings. The money sat unused, neither lent nor borrowed, creating neither growth nor inflation. Why? Because the Fed has promised to prevent inflation by contracting the money supply before the economy recovers and people start exchanging IOUs for corn. With hard fought decades of successfully defeating price inflation, the Fed has earned its credibility. And with the Republicans threatening the Fed's independence if it doesn't fight inflation, the Fed's promise has even more credibility.

19:21:06

Advocates of quantitative easing pretend that we can have our cake and eat it too, that we can scare savers into spending by printing money without needing to inflict the cost of inflation on the economy after it recovers. But it didn't work when we needed the stimulus. Even Ben Bernanke now admits quantitative easing will only work if it's permanent, if it's guaranteed to inflict inflation on the economy. But nowhere does he advocate making quantitative easing permanent because of the damage it inflicts. And the Fed increased the monetary base while the government was pumping $6 trillion of fiscal stimulusinto the economy, increasing debt from 30 percent of GDP to 70 percent. That's six times more than the trillion-dollar stimulus Krugman initially complained was too small. And even with aggressive fiscal stimulus, which advocates of stimulus contend is far more powerful than monetary stimulus, we saw no bounce back in growth whatsoever. Instead, we've seen tepid growth of a permanently lower base for six years and counting.

19:22:06

It's true the Fed has recovered faster than Europe. But the U.S. has been growing faster than Europe for decades because of Silicon Valley and entrepreneurial risk taking. And for three decades and counting, Japan has tried the same thing; large fiscal deficits and near zero interest rates with nothing but slow growth to show for it. Now advocates of monetary policy insist, if the Fed recklessly throws the steering wheel out the window and balloons the monetary base to 9 trillion, that will scare everyone into spending. Perhaps it will. But the truth has been revealed. It takes a massive amount of monetary inflation to produce a miniscule increase in demand, enormous risk for little, if any, benefit.

No mainstream economist takes these reckless proposals seriously. Our opponents will ignore these risks and claim only that lower interest rates and wealth effects stimulate investment, despite Ben Bernanke's admission that, "Quantitative easing works in practice, just not in theory." But the economists in the audience know that after decades of research there's no consensus whether interest rates, especially short-term overnight borrowing rates, affect real long-term investment.

19:23:11

Why? Because unused corn lowers interest rates and makes investment cheaper, not more paper IOUs. Roger speculates in his op-ed the quantitative easing may account for about an additional one-third of a percentage point reduction in the interest rate. Who believes a reduction in interest rates, especially a measly third of a percentage point, determines how fast Apple develops the next generation iPhone? Like all companies, Apple can't afford not to innovate and invest as fast as it can, no matter the interest rate. Real increases in wealth might stimulate investment but nobody's fooled by equity prices inflated by low interest rates at an increased risk of inflation. If the Fed does nothing more than print IOUs, who here believes that increases wealth? Phony IOUs increase risk. Risk reduces wealth. The economy may not be perfectly rational, but business leaders who create prosperity aren't stupid either.

19:24:07

They surely don't increase investment and risk taking in the face of increased government spending and the risk of inflation. They dial back. There is simply no compelling evidence that fiscal and monetary stimulus increases real business investment. If anything, the evidence shows the opposite, a dial back in business investment in the face of risky stimulus. And no surprise, in the wake of $3 trillion of monetary stimulus and $6 trillion of fiscal stimulus, lackluster business investment and unusually slow productivity growth have been chief reasons for the slow recovery. Financial speculators, many who borrow short to buy long-term financial assets may be sensitive to short-term rates, doubly so given the amplifying effects of herd mentality. But financial arbitrage is a zero sum game that does nothing to grow the economy. Quantitative easing doesn't work in theory. That's why it doesn't work in practice either. After $4 trillion of quantitative easing, Ben Bernanke has reconsidered his view.

19:25:04

Last month in the Wall Street Journal, he admitted, "The Fed cannot print its way to prosperity because the Fed has no control over long-term economic fundamentals." Don't let these guys fool you. There's no free lunch. Don't give reckless monetary policy a Band-Aid. Only hard work, investment, innovation, successful risk taking create prosperity. Side with Ben Bernanke and vote against the motion, Central Banks Can Print Their Way to Prosperity. Don't let these guys hijack the debate and make it a debate about whether the Fed should have bailed out the banking system. I was on TV last week telling everybody that the Fed needed to bail out the banking system. There isn't a serious economist on the planet who disagrees with that. And the reason why they've taken the debate there instead of to QE-infinity, what has occurred for the six years after the bailout in the crisis is because it didn't work, and they know it. Vote against quantitative easing will create prosperity. It has created no prosperity.

John Donvan:
Thank you, Ed Conard.

19:26:03

[applause]

And that concludes round one of this Intelligence Squared U.S. debate, where our motion is, Central Banks Can Print Prosperity. Now we move on to round two. Round two is where the debaters address one another directly and take questions from me and from you in our live audience here in New York. We have two teams debating this motion: Central Banks Can Print Prosperity. On the side arguing for the motion, Roger Bootle and Simon Johnson. We have heard them say that in times of absolute economic crisis, financial system breaking, a tsunami of collapsing credit, it is absolutely the responsibility of the central bank to print money to rescue that situation. They also say that it has been effective in our own time and that the absence of such a policy during the 1930s is largely responsible for what happened during the Great Depression, that the credit system can respond to these sorts of stimuli from the Fed and that they are critical, useful, and effective.

19:27:11

The team arguing against the motion, Ed Conard and Andrew Huszar are obviously taking the opposite point of view, calling it an unproductive tool in creating prosperity and actually saying that it can be inter -- interfere with the development of future prosperity. They have said that in our very recent experience, that the Fed's quantitative easing program, begun in 2008, did not induce investment or spending and in fact had unintended consequences such as moving assets to the wealthy, hoping for a trickle down effect to the average citizen which did not happen, that quantitative easing does not work in practice, and it does not make sense in theory either. I want to go to the team arguing for the motion that central banks can print prosperity. Just this argument that your opponents just made that even the theory behind it doesn't make sense. Simon Johnson, your response to that?

19:28:02

Simon Johnson:
I think that's a fascinating and completely false claim. Milton Friedman was the preeminent monetary --

Edward Conard:

Ben Bernanke said it, I might add.

[applause]

Roger Bootle:
He did not say that.

Male Speaker:
[unintelligible].

Simon Johnson:
So Milton Friedman was the preeminent monetary theorist of his or any generation. He's the person who created the way we think about money in the world today. And his central argument regarding the Great Depression was that the Federal Reserve should have printed money. And he's got plenty of theoretical papers that back that up. So it's the claim that there's no theoretical basis for this approach to thinking about money and credit is simply false.

John Donvan:
Ed Conard.

Edward Conard:
We can -- in a bank run, people run to the -- they get scared, they run to the bank to pull out their money. We can let the whole financial system collapse, or the Fed can print money, hand it to depositors, let them hold it for a second. The panic goes away. They redeposit the money in the bank, and we burn the money. If that's what we're going to debate, there's no debate here.

19:29:05

The reason why we've gone there instead of to $4 trillion sitting -- 3 of the $4 trillion sitting in the bank unused is because it's much more difficult to win a debate about whether this can create prosperity. It's like stick a gun to my head. And I say, "I could kill myself, but I didn't." See? It creates prosperity, okay? Yes. Milton Friedman was right, okay? We did stupid stuff.

[applause]

John Donvan:
Roger --

Edward Conard:
We did stupid stuff in the 1930s that we all agree should not be repeated. What we want to debate today is whether or not, after that happens, and we bail out the banks,

can we, through radical monetary policy, quantitative easing, which has increased the monetary base from 800 billion to 4 trillion because the Fed didn't burn the money after the money was returned to the banking system. They tried to create prosperity that way. The question is --

John Donvan:
All right. Roger Bootle.

Edward Conard:
-- whether or not it worked.

John Donvan:
Roger Bootle.

Roger Bootle:
Yeah, you're spewing out all these numbers as though you're a central bank printing money.

19:30:04

Actually, you completely misrepresented Ben Bernanke's position. He has not recanted. The notion that he's given up on what he spent his life's work writing and doing, it's quite frankly absurd. What he meant by saying, if those were exactly the words he used, about Central Banks not being able to print prosperity was exactly what I was talking about earlier on. That's to say the contrast between the real sources of economic growth and the notion that Central Banks can't change those things dramatically. Of course they can't conjure up massive amounts of technological progress or whatever. We all know that. That's not the issue. The issue is are there times when the monetary and financial system is on the brink of collapse? Answer. Undoubtedly, "Yes." I'd like to know the answer. Undoubtedly, "Yes."

Edward Conard:
Don't let these guys go there. There's no --

Roger Bootle:
And the second question is --

Edward Conard:
-- data on that by any means [spelled phonetically].

Roger Bootle:
-- the second question is when those occasions happen, what do you think you should do? Sit there and do nothing?

Edward Conard:
No.

Male Speaker:
No, no, no. I --

Roger Bootle:
The answer is, "No." You should print money.

Edward Conard:
Don't be silly. Of course not. You're setting up a straw man [inaudible] --

John Donvan:
Andrew Huszar, Andrew Huszar.

Andrew Huszar:
So, I mean, I was sitting there.

19:31:04

And I was money printing. So, I mean, let me just tell you, I think we -- I --

Roger Bootle:
--bully for you.

19:31:09

[laughter]

Andrew Huszar:
I think we really need to be clear about what we're debating because I think we could go on for half an hour to having this same debate. Are we talking about the first $1.75 trillion of Fed monetary policy of quantitative easing or are we talking about the whole kit and caboodle?

John Donvan:
Why do we need to choose?

Andrew Huszar:
Because the --

John Donvan:
The motion -- the motion can cover both.

Andrew Huszar:
It can cover both [inaudible] --

John Donvan:
And I think it would be more interesting if it did.

[laughter]

Andrew Huszar:
True.

Edward Conard:
No disagreement on the first, so…

John Donvan:
You would concede [unintelligible], you concede -- you concede that the --

Andrew Huszar:
Yeah.

[talking simultaneously]

Male Speaker:
Uh-oh.

Andrew Huszar:
Yeah, I mean, I -- if you look at my writing or speaking, I've always said it should have been QE1 and done. So the reality is the fact is the Fed ended QE1 at the beginning -- during 2009, and then it said, "We're done. We're about to perhaps start raising rates very shortly." And then a few months later when the stock market fell another 20 percent, the Fed came back and printed another -- over the next five years another $2.5 trillion of cash.

19:32:07

So QE ended in America at the end of 2014. I would not argue that the financial crisis ended in 2014. We've had successive quarters of political economic growth. The Fed was actually advocating that a QE was a way to create jobs and create economic prosperity. And that's why I think we can start with one part, but I think we really need to go to the next.

Edward Conard:
This is a very thing he was saying when he said "It doesn't work in theory --"

[talking simultaneously]

John Donvan:
Simon Johnson.

Male Speaker:
"-- only in practice."

John Donvan:
Simon Johnson.

Simon Johnson:
So the motion is, "Central Banks Can Print Prosperity." Andrew just conceded the motion on the QE1. Now we'll work on Ed.

[laughter]

John Donvan:
Yeah, let's -- no, no, no.

Andrew Huszar:
I conceded that banks -- that the Fed can help stabilize banks but ultimately that in terms of a larger prosperity, in terms of central banks around the world having printed over $7 trillion and still printing more money, we are not doing the job in terms of actually helping the average person.

19:33:02

We can go on more about distortions, but I think we just first need to get the key players --

Simon Johnson:
Andrew, what did Milton Friedman say about the Great Depression and about the monetary cause of the Great Depression? And are you saying that Milton Friedman was wrong about the monetary cause of the Great Depression? Andrew.

Andrew Huszar:
I don't think--

Simon Johnson:
Andrew --

Edward Conard:

-[unintelligible] believe in Milton Friedman's theory anymore, I to tell you the truth. And, by the way, when you really go back to the 1930s, why did employment go up? We conscripted everybody and sent them to the Second World War. We really got lousy growth throughout the 1930s no matter what we did, because when we talk about monetary policy, after we solved the bank run, it is highly debatable about whether it works. And Ben Bernanke was talking about "It works in theory, not in practice." He was talking not about bailing out the banks. He was talking about "Afterwards will it stimulate growth?" And even in his book today he argues, because he's trying to justify his position, that "In an economy that is not at full capacity can we scare everybody with inflation into spending their savings in order to get back to full capacity?" He was not debating bailouts, okay? And the reason why these guys are going to stick to bailouts and stay there is because they don't have a good argument on the more interesting part of this issue.

19:34:08

The audience can let them hijack the debate. I predicted in the first sentence of an opening before we even started this debate.

John Donvan:
All right, let me -- let me -- let me let Roger Bootle come in on this.

Roger Bootle:
Well, I think I've said what I wanted to say on this, and there's no doubt, whatsoever, that Ben Bernanke has not changed his position. He's not recanted. The opposition are trying to suggest that he's undergone a complete *volte-face* which is total and complete nonsense. Now, of course, there are different sorts of QE. There are different stages in QE. The motion doesn't say, by the way, "This House Believes That Central Banks Can Print Prosperity Limited to QE1 or 2," or whatever.

John Donvan:
Right, it does not.

Roger Bootle:
It says, "Central Banks Can Print Prosperity."

John Donvan:
Yes.

Roger Bootle:
Why are you narrowing it down to some particular episode?

Andrew Huszar:
Because --

Roger Bootle:
To distort the debate?

John Donvan:
I want to hear the answer to that. Why are --

Andrew Huszar:
Well, first of all, I want to have a good debate. So let's --

John Donvan:
Oh, you want to win the debate?

Andrew Huszar:
Yeah, but -- no, but I -- but let's look at the numbers. I mean, what we're -- if you really want to talk about QE, the stages of QE, the first stage of QE that was the, "Let's put out the fire," stage of QE ended in basically -- in 2010.

19:35:12

And we've gone on -- we went on for four more years. And so, I think, from a time perspective and from a money printing perspective, the vast majority of money printing happened when we all agreed that the crisis was over and the central banks around the world have begun to try to stimulate growth and stimulate employment. And I think that's where we've seen --
John Donvan:
Okay.

Andrew Huszar:
-- massive distortions --

John Donvan:
All right.

Andrew Huszar:
-- and massive opaque Wall Street subsidies.

John Donvan:
All right. So, you've given a good answer for why you frame it post first QE. So, I want to ask Simon Johnson to respond to that, that their critique of the program -- more, say, of the last five years, as opposed to the last seven years.

Simon Johnson:
If this were a Woody Allen movie, Ben Bernanke would walk out on stage now, I think.

[laughter]

That would be actually quite good.

John Donvan:
[inaudible] --

Simon Johnson:
It's certainly straightforward. It's very straightforward. This is a debate. There are rules. There's a motion. The motion is very simply --

John Donvan:
All right. But -- no, no, no. I --

Simon Johnson:
I -- let me -- I'm answering the question.

John Donvan:
[inaudible] --

Simon Johnson:
The last time I was here, John, you cut me off at a critical moment a couple of years ago.

[laughter]

So, let's not go through that again. The motion is --

John Donvan:
So, that's the reason you lost last time? You're blaming me?

19:36:09

Simon Johnson:
That was -- oh –

[laughter]

[applause].

John Donvan:
I'm sorry.

Simon Johnson:

That was the main reason, yes.

[laughter]

Actually, also, I was critical of Wall Street. Somehow that didn't play well in this room.

[laughter]

So, the motion is Central Banks Can Print Prosperity. And you know, we're arguing not on the margin, not in some irrelevant details, but actually, on the central issues. And I think we're agreeing with -- at least with Andrew on this. The central issues of the past decade are there was a major crisis. The financial system was in deep distress. And by the way, this is not a hypothetical or somehow academic discussion. This is a very real discussion in Washington, D.C. and other capitals in Europe, in the European union today -- which is what can central banks do? And under what circumstances? And there are plenty of people who want to go back to an older-fashioned view, the view of the 1930s and before, the view that central banks cannot print prosperity. And we think that's a dangerous view to hold. And that's why we want to have this argument with you.

19:37:08

Edward Conard:
Okay. The way I would think about this let's say we're --

John Donvan:
Ed Conard.

Edward Conard:
-- playing chess. Okay? And I say a queen is more valuable than a pawn. And you show me a position where I can sacrifice my queen and save the pawn. Say "See? Pawns are more valuable than queens." Okay? They have found a position which we all agree with, that we need to bail out the banks in a crisis, okay? We -- you can let them hijack the debate and have the point. We agree with the point. Nobody debates the point. Some crazy guys, you know, in the Republican primary might debate the point. I don't know.

[laughter]

John Donvan:
All right. I --

Edward Conard:
Nobody --

John Donvan:
I have to -- I have to --

Male Speaker:
They don't disagree. They believe it.

John Donvan:
But -- I have --

Edward Conard:
What we're really engaging in --

John Donvan:
Wait. Ed -- Ed --

Edward Conard:
-- is money printing --

John Donvan:
-- you --

Edward Conard:
-- to create growth.

John Donvan:
Ed, you said it seven times. All right? I think they get it. I just want -- it's not very satisfying to take sterile positions about the language means this and the language means that.

Edward Conard:
We agree with the --

John Donvan:
If you need to win -- to do that to win, fine. But I think the audience is here to sort of explore the issue through your adversarial conversation here.

19:38:07

And there are still ways to slice it up that would make it interesting. For example, to take the first QE2 and talk about that. You can see that it worked that time. All right.

Edward Conard:
Every time.

John Donvan:
In your very technical, dry sense of the motion, they just lost because they said it worked that one time. Okay. You can go ahead and do that --

Edward Conard:
If you let them hijack the debate.

John Donvan:
Right. So –

[laughter]

[applause] --

Edward Conard:
And the reason they're hijacking it is because it's really tough to --

John Donvan:
Ed --

Edward Conard:
-- defeat the other --

John Donvan:
Ed, I'm going to have to ask you to –

[laughter]

Male Speaker:
[unintelligible] Carly Fiorina?

John Donvan:
We're going to put a sign in front of you that says, “They hijacked the debate.”

[laughter]

What I would like to do is actually explore, on your side, if you would be willing to take into that spirit, conceding that you've already won in that technical sense because they conceded in that one time, because they hijacked the debate –

[laughter]

-- take on the issue of what your opponents are talking about, of more the last four or five years, where, as they describe it, most of the $4 trillion which was not strictly focused on putting out a burning fire, but was trying to revive a neighborhood that was not doing very well -- that that sort of -- that sort of QE backfired in two ways, they say.

19:39:25

One is that it -- that the benefits accrued to the wealthy, and there was little trickle down to the ordinary person. And secondly, that not very much happened in terms -- that most of that money, two-thirds of that money, they said, is still sitting in bank vaults, not getting used in any particular way. It's an interesting point, and I would love to know what your response is to it, now that you've won the debate.

[laughter]

Let's take it -- Roger Bootle.

Edward Conard
I don't think the moderators should say they won the debate.

[laughter]

John Donvan:
Well –

[applause]

Roger Bootle:
Well, first of all, on this point about the money still sitting on the books of the banks -- this is a simple theoretical point you've got to get clear. The banks can't get rid of the money.

19:40:03

Whether the policies worked or not work -- the money is going to sit there on the books of the banks. So, you saying, you know, the money is sitting there on the banks' books means nothing whatsoever. Now, on the point where --

John Donvan:
Let me stop you just a minute for --

Roger Bootle:
[unintelligible].

John Donvan:
I just want clarification from what he means by it. It means nothing whatsoever? You have 30 seconds, and then we're going back to Roger.

Andrew Huszar:
Give me something.

John Donvan:
What --

[laughter]

Andrew Huszar:
All right?

John Donvan:
Wait. I'm coming back to Roger, are you going to --

Andrew Huszar:
[unintelligible] trillion dollars in the U.S., of 4 trillion has been printed and is sitting in the banks. And actually, the banks are making, right now, about $8 billion a year just by banking at the Fed. So there is a -- there is an actual consequence. There's some bonuses going out because of it, at a minimum.

John Donvan:
Okay. Let's bring it back to Roger.

Roger Bootle:
Well, this is just basic monetary economics, I'm afraid. The banks collectively cannot get rid of the stuff. Bank One tries to get rid of it by betting down for deposits or lending it or buying securities. What does that do? It passes it on to other banks. There's no way that the banking system collectively can extinguish the money. So simply saying that the money's still sitting on banks' books does not advance your argument at all.

Edward Conard:
But there's very few ways to measure this.

19:41:09

Roger Bootle:
No. Now, the notion that it hasn't worked very well, it certainly hasn't worked perfectly. I must say, it would be a rather strange expectation, I think, to have a broken financial system. You pump money in and whoosh, suddenly everything works perfectly. Of course, it didn't work perfectly. But in looking back at the evidence, you'd think that

America was feeling recession. In fact, what happened is you've had a pretty decent recovery. You've had millions of jobs created. Okay. There are bankers that have earned obscene and absurd amounts of money. And I am no defender of that and I'm pretty sure Simon isn't, either. But you mustn't conflate these two.

John Donvan:
Okay.

Roger Bootle:
Just -- just because the central bank has created money that hasn't automatically gone into --

John Donvan:
All right. Now, we are going to play with the language of the motion. The word, "prosperity," is there, describing prosperity. Edward Conard.

Edward Conard:
I think we can measure how much money has been used. It's very easy, and it gets to the question of prosperity. One is to look at business investment as a percentage of GDP. It's been tepid. We've seen no rebound. In it, it has gradually come back slowly over seven years.

19:42:09

If this works, quantitative easing, or fiscal stimulus, we should have seen a rebound. We saw no rebound whatsoever. We can also look at mortgage lending as another example, which is what banks predominantly do. Mortgage lending is way down from where it was in the past. We can look at business lending from the banks. There hasn't been a lot of business lending from the banks. And so by real measures of the economy, we know that the economy is down. And it's not like we saw in normal recessions, a rebound and then growth. We went down unusually to a very low base, and we have had below average growth from that base onward. So we have seen no rebound off the lower base. And if you're going to make the argument that quantitative easing will create more lending, it will create more business activity, it will stimulate business investment all the things that create prosperity, you have to show some evidence that in fact it has accomplished that.

19:43:01

But we have seven years, six or seven years of data that we can look at, and we can see –

John Donvan:
But --

Edward Conard:
-- nothing.

John Donvan:
To Simon Johnson.

Simon Johnson:
So now I think Ed is conceding the substance of the motion to us.

John Donvan:
I don't think so.

[laughter]

Simon Johnson:
So -- so let me explain. Let me explain why. Let me explain why. Let me explain why, John. So we agree -- he just stated very clearly, that there has been -- or he said -- he discussed the consequences of the greatest financial crisis since the 1930s. That it was the crisis that brought down investment that brought down employment, that destroyed businesses. I would remind everyone that in the fall of 2008, there was no credit to be had on reasonable terms for almost anyone, individual or firm in this economy. And that was the financial crisis. The response to financial crisis, Ed mentioned lender of last resort. What that means, and I think we would agree on that is, when you lend to firms that are about to fail. So specific lending to specific firms. That was part of the response in 2008. But the real response was to push back and to resist the collapse of credit.

19:44:06

This is where the printing of money -- so the printing of money, the creation of money that goes into the financial system, eases credit, makes credit more available, lowers interest rates of various -- makes it possible to get a mortgage, makes it possible to have a credit card, take out a student loan. All of that comes from the monetary system and the financial system. And the response at the Federal Reserve is what Andrew was doing, and he was working very hard on, and I know it was frustrating, and it didn't go as well as it might have, but it was the biggest financial crisis since the Great Depression.

John Donvan:
All right.

Simon Johnson:

One more word. So that was the exactly the response was printing money to get a better outcome than you would have otherwise. It has been unpleasant. It has been a difficult recovery because it was such a massive crisis.

John Donvan:
Andrew, I want to give you a second to respond, but first, after your answer, I want to start going to audience questions. And I just want to explain that very briefly. To ask a question, raise your hand. I'll call on you. We need you to stand up, tell us your name. If you're with a media organization, please tell us the name of your media organization. Wait for the microphone to reach you so that the audience at home can hear you.

19:45:08

Hold it about this far away from your mouth and ask a question, tightly and tersely. I'll give you about 30 seconds to do that. Go ahead, Andrew.

Andrew Huszar:
So I want to make a really sort of pragmatic point, because I think a lot of times when you have debates like this, you get into high theoretical, very well intentioned debates. But I want to talk about the actual transmission mechanism. I think Ed made a really good point, which is that you actually – someone has to explain how quantitative easing works. And when I was in the Fed, it wasn't just that I was losing hair or getting frustrated. It was the reality that what we were seeing was we were pumping a lot of cash into the big Wall Street banks with the intention, potentially, of credit easing, of improving the credit conditions for the average American. And what the banks were doing instead and what they've continued to do over the last seven years, effectively, is to use that cash for their own speculative purposes. And so in terms of the actual knock-on impact and knock-on benefits to the man on the street, those did not actually manifest themselves.

19:46:08

So if you look at that -- I have a couple of facts. So basically, over the last seven years, you've seen the big Wall Street banks basically increase their lending from 7.3 trillion to 8.1 trillion, so about 10 percent. And you've seen them actually just increase their bond holdings, their speculative bond holdings from 2.1 to 3.7 trillion. That's 75 percent. And that's not even the stocks that they're buying and the [unintelligible] that they're buying.

John Donvan:
What's your bottom line on this point?

Andrew Huszar:

The bottom line is that the trans -- as well intentioned as QE is, it's actually -- and I would go back to the category that Roger put at the beginning, it's distortionary, in that it's actually subsidizing Wall Street and not really benefiting sufficiently, the rest of us--

John Donvan:
Okay. All right. Powerful enough to point that before we go to an audience questions, I want to let your opponents response. Either of you, would you like to? Roger? Roger Bootle.

Roger Bootle:
Yes, the fact that the banks have used some or even indeed all of the money to buy bonds doesn't prove anything at all, frankly.

19:47:05

It doesn't negate the transmission mechanism of monetary policy whatsoever. In buying bonds, adding to the demand for bonds in the market, they've raised the price of bonds, lowered the rate of interest on bonds. And of course, they bought the bonds from someone or other. And that's pushing the monetary impulse all the way through the economy.

Andrew Huszar:
If the price of credit is going down, and they're not lending on some level, again, we're seeing that there's not a -- we're pushing -- pushing on a string, right?

Edward Conard:
I disagree.

Andrew Huszar:
-- not able to be done on consumption or on investment.

Edward Conard:
I disagree with both these guys. What makes lending easier -- what makes lending easier --

John Donvan:
We're going to get you another table.

[laughter]

Edward Conard:
I'll take it. What makes lending easier is corn in the silos, not printing IOUs, okay? You can print all the IOUs you want, and they're going to sit in the bank unused, the money, the real savings, are sitting in the bank. They haven't been loaned out. They haven't

been used to fund business investment. They haven't been used to increase mortgages, to raise construction. We see no increase in construction what banks traditionally do. Okay? It's not printing IOUs that makes loans cheaper and easier to get.

19:48:09

It's having real savings and a real economy. It's not accounting. Accounting can facilitate it in weird ways like, for example, in a financial crisis, when everybody's grabbing their money trying to withdraw it from the bank. But on an ongoing basis, what the Fed has tried to do over the last six years, okay, is print IOUs. It hasn't created a nickel of bushel of corn in the silo. It has not made it easier or harder to lend.

John Donvan:
Simon, I'll give you 15 seconds because I want to go to questions.

Simon Johnson:
Yeah. Ed, are you in favor of the gold standard? These are --

Edward Conard:
But, no, of course not.

Simon Johnson:
-- exactly the gold standard --

Edward Conard:
This is another example of setting up the silly strawman and trying to debate against a strawman. And the reason for it is --

John Donvan:
I -- I actually --

Edward Conard:
-- because they can't defend QE --

John Donvan:
Let's go to audience questions.

Edward Conard:
-- beyond their bank run.

John Donvan:
I'm sorry.

Edward Conard:

And that's why they've stonewalled with these.

John Donvan:
Right down the aisle. So the mic's coming from behind you.

Male Speaker:
Thanks. I have a question for the against team and maybe you can help me --

John Donvan:
Can you tell us your name, sir?

Male Speaker:
Andrew Medvedev. I think you've all established pretty conclusively that Federal Reserve cannot help Apple make the next iPhone.

19:49:07

But that’s the supply side. Doesn't the demand side affect my ability to buy the iPhone in a credit crisis? Isn't credit creation somewhat affected? And if so, can the Fed act on the demand side by helping spur my ability to buy. Now, whether or not --

John Donvan:
Okay, now, I'm -- you -- that was a question mark right there. Perfect. So go ahead.

Andrew Huszar:
So what I would say --

John Donvan:
Andrew Huszar.

Andrew Huszar:
I just have a very quick response to that which is, again, if we want to talk about the knock-on impacts and the real numbers, since 2008 in America we have a 70 percent consumer spending economy, right? We all know this. In America, over the last seven years, the rate of growth of consumer spending has been 1.7 percent, which is the most anemic consumer growth on record in the history of the United States. So to the extent that we not only have fiscal stimulus, but we actually have had massive money printing. Apparently, it's not really trickling down to the people who are actually buying things.

19:50:02

John Donvan:
Other side. Simon Johnson.

Simon Johnson:
The questioner is exactly right. It's exactly about credit and the role of credit in the economy, including stimulating innovation through the mechanism you described. Can I ask, what you -- and, Andrew, what you're saying is, we started up here, now we're down -- here, and we're upset and frustrated, and money was no good. But the reason we fell was the financial crisis. That was the disaster. Then the question is -- this is the question, John, the key question, all right? And we are not deferring the question. We are not hijacking the debate. Please stop saying that.

[laughter]

John Donvan:
What's the real question?

Simon Johnson:
These are very cheap, rhetorical techniques. I'm disappointed that a New York audience would fall for this. Anyway…

[laughter]

So we -- the economy collapsed. The economy -- we had a very deep financial crisis --

Male Speaker:
Yeah.

Simon Johnson:
-- and now they're saying, "Look, investment is lower," or, "Consumer spending is lower." It's been growing anemically --

John Donvan:
What's the question?

Simon Johnson:
-- that's the result of the crisis. If you hadn't had the monetary policy response that you had, you would have had a more anemic response. It would have been much harder for all [unintelligible] to function, including for the buying of --

Edward Conard:
If it would have worked, we would have seen a rebound like we see in every other recession --

John Donvan:
Ed Conard.

Edward Conard:
-- and then we'd have pretty average growth from that level. We saw no rebound, and we've had below average growth from that level.

19:51:07

Male Speaker:
No, no, [inaudible] --

Edward Conard:
A little -- a little hard to make the argument that fiscal and monetary policy had a big impact on growth when it's atypically slow growth off a much lower base. No one is debating that the financial crisis caused the economy to go down. Of course it did. The question is whether everything we did afterwards stimulated any growth, and nobody can find it.

Simon Johnson:
This is a new argument. Quantitative easing slowed the recovery. Andrew, do you agree with that?

Andrew Huszar:
I do not agree with that.

Male Speaker:
That's what I just said.

Andrew Huszar:
I think it was -- I think it actually had basically no impact. And -- but -- and I will even say the Fed itself --

Simon Johnson:
Zero impact, quantitative easing had zero impact [inaudible].

[talking simultaneously]

John Donvan:
Andrew Huszar.

Andrew Huszar:
Now we're getting to the real question. During QE2, the Fed actually changed the rationale for basically what it was doing. It stopped talking about credit easing because it actually wasn't stimulating credit creation to buy your Apple iPhone. It started talking about the fact that it was generating a wealth effect, that it is actually -- by pumping

money into Wall Street banks and seeing all of these speculative investments, it was actually--and buying assets itself, it was actually increasing investment demand for assets, and pushing up prices of all assets, all the stock markets, all the bond markets.

19:52:12

And basically that's been the argument of the Fed basically since QE2 started. And, ultimately, I would argue that reflects partially the failure of QE1 to do what it was supposed to do beyond stabilizing the banks, and, two, it shows you basically where there's much more distortionary effects basically over time. And we can get into that.

Simon Johnson:
Andrew, are you saying quantitative easing had zero effects on the economy?

Andrew Huszar:
No. What I would say is that it actually benefitted the Lloyd Blankfein and Jamie Dimons of the world, and I would say that actually in -- if it actually did make any impact by increasing stock markets in the U.S. in which 20 percent of Americans own, the top 20 percent own 80 percent of stocks or where it actually potentially is increasing income inequality, and it's potentially where savings rates have -- you know, where all of us -- our savings accounts are basically at zero.

19:53:06

McKinsey has estimated has actually penalized average Americans over $400 billion in forfeited savings on their savings accounts. So I would actually argue maybe it's actually hurting the middle class and obviously disproportionately benefitting the rich and the banks.

John Donvan:
Okay, I want to -- I want to stop this exchange because I want to go to some audience questions now, right back back -- in the back, sir. Yes. The mic's coming to you. I need you to stand up. Tell us your name and ask the question. I need you to wait for the mike. It's being handed to you now. Thanks.

Male Speaker:
What does the panel think about the idea of, "Too big to fail"?

John Donvan:
Okay, I'm going to pass on that question because it doesn't get us to our motion about whether or not to print money, sir. Actually I want to do some -- I apologize -- a gender shift, because I've just done three men in a row and it's time for -- four men on the -- five men on the stage. I got to fix that. So, thank you.

[laughter]

I'll come back to you.

Female Speaker:
Hi, my name is Melissa. My question is for the, "for team."

19:54:10

What do you think that quantitative easing after stabilizing the banks during crisis --

John Donvan:
Could you just pull the mic a little bit to the right? Yeah, thanks.

Female Speaker:
What do you think, beyond stabilizing the banks during the crisis, that quantitative easing did for the average American making $40,000 or $50,000 a year?

John Donvan:
Roger Bootle.

Roger Bootle:
Well, I think what it did was it helped to make credit more freely available. It boosted confidence and activity in the financial system. And the process of that boosted probably both consumption and investment spending. In other words, it strengthened the forces of economic recovery in the country. Now, that hasn't been a benefit to every American, but look at the number of jobs created. You've got to take a view on what the situation would have been like without this assistance. As Simon said, we'd experienced the worst financial crisis since the Great Depression. We've had a recovery.

19:55:02

During that process of recovery, what's the policy been? Actually the policy has been not just to keep interest rates very low but to pump money into the economy, and for all sorts of ways, which is there in the textbook, which has been explained this evening, that policy works to increase the flow of credit, increase demand in the economy. The previous question was exactly right. The point is about demand, not supply. With increased demand that enables the economy to grow more strongly.

Edward Conard:
I think --

John Donvan:
Ed Conard.

Edward Conard:
I think you're reduced, Roger, to, "I think it did. I don't have any data. I can't really make an argument. But in my opinion, it did." That's what you're saying. Okay? Because when we really get down to the brass tacks of this, it is very difficult to find any effect from quantitative easing after the financial -- after the bailout of the banks.

John Donvan:
Well, then he --

Edward Conard:
And when we say that it --

John Donvan:
And what do you -- I think more specifically what your opponent is saying is that things would still be a lot worse today -- not just with QE1, but with QE2 and QE3, that things would not be as good today as they are.

Edward Conard:
I under -- I -- what --

John Donvan:
So, what --

Edward Conard:
-- was that, in his opinion, he --

John Donvan:
He's saying it's without data and without facts.

Edward Conard:
I'm saying, he's just giving an opinion, because he doesn't really have an argument that he can make here.

19:56:05

And what I tell you is the reason why we say the theory doesn't work -- it only works in practice -- is because despite them telling you that it's in all the textbooks, the theory is exchanging one IOU, a bushel of corn, for another IOU, a bushel of corn -- government debt. You have to go, "What's the big deal on the exchange?" And when they pretend that writing IOUs improves credit, no. What improves credit is having corn in the silos available to be used. Not printing phony IOUs, which causes everybody to go, "Oh Oh. I need to be very careful here. I need to dial back my spending. I need to dial back investment. I need to slow down and be very careful here because there's no more corn in the silos than there was yesterday. There's just a bunch of phony IOUs out there. And I need to be concerned."

John Donvan:
Simon --

Edward Conard:
And the theory is, you'll run to the bank and pull your savings out, and spend it --

John Donvan:
Okay.

Edward Conard:
-- because you're worried about inflation.

John Donvan:
Simon Johnson.

Simon Johnson:
So, as I think, Melissa, you're asking the right question. You know, what does it do for the middle class? What does it do for middle Americans? And the answer is, "Not enough."

19:57:02

And you know, and we have a lot of inequality. And perhaps this policy exacerbated that. I take Ben Bernanke at his word when he said this policy was for Main Street, not for Wall Street. But we have an extremely skewed financial system, and you know very well how it works and who benefits the most, both on the downturn and on the upturn. But honestly, if you put the central bank in a straitjacket -- and this is the real agenda here; this is where this is going in the broader debate in this country -- you put the central bank in a straitjacket, that is not going to be good over the cycle that were faced by these crises, for exactly middle class Americans.

John Donvan:
Okay. Another question? Right down in front here. And the mic is coming down from your left-hand side.

Male Speaker:
My name is Serge Adevela [spelled phonetically]. And this question is for both sides. If a significant amount of the money that is primarily meant to prevent a major financial crisis, which the private sector cannot prevent, goes to Wall Street, does that mean that we -- that because we have had a recovery at all, and printing money has worked to

some extent, we have to admit the majority of the recovery has gone to the top entities in the country?

19:58:04

John Donvan:
I think that we just discussed that. And everybody says yes, basically. So I'm going to --

Andrew Huszar:
I mean, 5 percent of Americans have gotten 95 percent of the benefits. And I would say this has exacerbated that.

Edward Conard:
What really happens is it lowers interest rates. So, anybody who's saving for their child's retire -- for their child's education, or their retirement, or they're a senior living off their interest -- all those people have been hurt by zero interest rates, if you think that that really controls interest rates. And it's -- and so, it might transfer money from one group to another, but it's not creating prosperity by writing “I owe you a bushel of corn.” Corn creates --
Male Speaker:
No, no, no --

Male Speaker:
-- prosperity.

John Donvan:
All right. Simon -- Simon Johnson.

Simon Johnson:
This is wrong and it's starting to get very dangerous. 13 million jobs created, right? Where did the jobs come from? How do you create the jobs with no credit in the economy? You don't. You wouldn't get your job.

Edward Conard:
There'd be plenty of credit in the economy.

Simon Johnson:
The -- look, there they go with distraction again. Focus on the jobs. What helps the middle class Americans? What do middle class Americans need more than anything else? They need a decent job at a decent wage. It's a struggle -- as it is. If you destroy the credit system, and if you don't let the central bank respond to that, and to keep supporting the credit system in the way they've tried to do -- it's not perfect, but that's how you get the jobs back.

19:59:10

Andrew Huszar:
So, I mean, here's what I would say. Again, I would say the Fed in Washington stabilized Wall Street, post 2008. We have seen -- we'd have a financial crisis where basically the average American had had stagnating wages for over 20 years, had taken on more Wall Street credit to try to maintain the same standard of living. What we saw in 2008, ultimately, was that the average American wasn't able to sustain that level of Wall Street credit. We had a big financial crisis. And after the stabilization, what the Fed has effectively tried to do is pump money through Wall Street banks in order to create prosperity, right? And ultimately, that is like a doctor prescribing a medicine that, on some level, kind of works, but has a lot of unintended consequences. You know, it's like so much Viagra that at some point, you start having these erections that last more than four hours.

[laughter]

Okay? And the reality is what you're having is -- you're having massive Wall Street subsidies and you're having -- you know, perhaps the rich are getting richer. But really, we're not seeing wealth effects trickle down to the average American.

20:00:11

In fact, I would argue, we're seeing these wealth effects by pumping up the the stock markets, by all these -- all this money printing. It's ultimately --

John Donvan:
All right. Andrew, you raised some good points. Let's let Simon Johnson respond very briefly.

Simon Johnson:
Look, I'm not a friend of the big banks. The last time I was on this stage, I was arguing to break up the big banks. That was a position of the motion that I was supporting. That's what -- that's what I lost on, okay? This is not about Wall Street. This is not about Wall Street and helping --

John Donvan:
I thought it was all my fault.

[laughter]

Simon Johnson:

Well, you contributed, John. You contributed. This is not -- don't be distracted. This is a strange kind of populism you're encountering here. Do not be distracted by this. Do not be distracted by this. This is about middle class and the middle class jobs exactly -- exactly what the questioners are asking about. You have got it right. That is the question. And that is what the central bank was trying to do and the outcomes you got and you're getting today are better than they would have been otherwise because of what the central bank of this country, the Federal Reserve did.

20:01:06

John Donvan:
I want to remind you that we are in the question and answer section of this Intelligence Squared U.S. debate. I'm John Donvan, your moderator. We have four debaters, two teams of two, arguing it out over this motion: Central banks can print prosperity. Sir. Oh, actually, I'm going to come back to you. I've got a mic already set up over here. I forgot.

Male Speaker:
Hi. I'm Jeremy Greenfield. I'm an editor at The Street in New York. And one of the things that has happened over the past few years, leaving aside QE1, is that large publicly traded firms have borrowed huge sums of money not to make investment but to do stock buybacks and dividends, which largely benefit investors, which are all of us, but largely the top 10, 15, 20 percent. Is that what the team that is for means by "prosperity"?

John Donvan:
Roger Bootle.

[applause]

Roger Bootle:
No. I don't think that amounts to prosperity, and I'm not convinced indeed that it adds to prosperity.

20:02:07

There's a strain in this debate, whereby someone says, look, there are all sorts of problem in America that haven't been solved. You know, my garage door doesn't work. You know -- you know, go back to the gammy leg and the gammy [unintelligible]. You know, what did QE do for me? Yeah, yeah, yeah, yeah. We know that there are all these problems in the U.S. economy. Most of them have got nothing whatever to do with the monetary system. That's not the question. The question is, given all that, all those awful things eating away at jobs, diminishing the middle class incomes, given all that, what should monetary policy have done? And has monetary policy contributed to ameliorating those problems in some regard? Has it made them worse, or has it left them completely unaltered? And I think the evidence is pretty clear what monetary policy has done. It hasn't solved all those problems. It couldn't possibly do it. What it's done is helped to sustain the growth of demand and exactly, as Simon says, in the end, that amounts to jobs, the most important thing of all.

20:03:04

John Donvan:
Let me bring in Andrew Huszar.

Andrew Huszar:
So just to level set here, but the bank of -- QE was also undertaken in the UK. The Bank of England did its own report. They did about a trillion dollars of QE. I can't do an English accent. But I will tell you what they actually wrote about sort of the monetary policy and its impact in the macro economy. It says "the benefit of wealth effects --" which is what we're talking about " -- will accrue to those households holding the most assets. Distributional consequences and its benefits will not be shared equally among all individuals." And that's the problem, right? We do actually have to talk about the transmission mechanism, how these tools actually work.

John Donvan:
Okay, sir.

Male Speaker:
John, John. Jeremy --

John Donvan:
Sir, why don't you get yourself set up while Simon finishes his question -- his point.

Simon Johnson:
The Independent Community Bank of America recently voted me one of their Main Street heroes. Some applause would go over there.

[applause]

It was not because I was supporting more inequality or more money for the big banks or even stock buybacks.

20:04:06

It's because I was supporting a better credit system which, as you know, has many different parts that are interconnected. You're talking about one manifestation of the ease your credit policies pursuing, and you're right, that was one manifestation. But the credit system, as you know, is much broader than that, has a lot of small banks, has a lot of small business lending, has a lot of lending to households and to individual consumers. That's part of what was supported by the Federal Reserve also. And I'm sorry your garage door is still not working, Andrew, at least what I heard.

John Donvan:
Give us your name as well.

Male Speaker:
Name is Eric, and my question is for Andrew on the against team. Bernanke has been very firm about two things post retirement, it seems to me. One, I think you just disagreed with. He said that the policy has been making things better than they'd otherwise be, even though they're not as good as they could be. And it sounds like despite the 13 million new jobs you disagreed with that. So I have to ask you about your point of view on the second thing, and that is that this experiment, as imperfect as it is, is as necessary as it is because congressional leadership, driven mostly by the republican party, wouldn't permit a more expansionary fiscal policy.

20:05:11

So my question is, do you agree or disagree with that?

John Donvan:
Andrew Huszar.

[applause]

Andrew Huszar:
I agree. So, first of all, there has been job growth. I mean, I think I'm very heartened by that, as we all are. Again, I think you have to ask yourself, over 6 or 7 years how much of that would have happened organically at a certain point. But in terms of -- I think this is -- this is what the Fed's perspective inside is, right? These are smart, well-intentioned people. And what they think is, listen, the rest of Washington is dysfunctional, and at least we're doing something to help. And the real question is whether what they're doing to help, over time, is actually helping, or whether actually perhaps is creating more distortions and perhaps by -- if it is pumping up financial markets, it's actually creating some complacency about an America in which more than half -- two-thirds of American is are living paycheck to paycheck.

20:06:02

And I think, you know, Goldman Sachs, which is no bastion of reform, you know, had a quote basically where it said -- a couple weeks ago, it had an article just about this in my report. And it said, basically central bank support create opportunities for other economic actors to shirk their responsibilities. And I think that's a huge issue that we have to ask ourselves. By pumping so much money into Wall Street banks, are we ultimately helping or are we just kicking the can down the road in terms of more reform, and perhaps even, as Simon Johnson would lament as well, are we actually enabling the further growth and power of the U.S. financial sector to the expense of other parts of the economy?

John Donvan:
Ed Conard.

Edward Conard:
I think there is important political questions about how big the government should be, to what extent should we redistribute income, to what extent should the government stimulate demand, and whether or not we should let politicians control the money supply. Long ago we decided it was not a good idea to let the politicians control the money supply. But I think on the other issues, you might be frustrated with what Congress has come up with.

20:07:01

But what you're proposing is taking the power away from Congress and giving it to the head of the Federal Reserve who is accountable to nobody. I think in the long run, if you damage democracy in that way, I think it's naive to think that that's going to create prosperity in the long run. And to have an end-around by the Fed and try to usurp the Congress' power and take it away from the people and give to it one guy who's accountable to nobody, and that somehow in the long run is going to increase prosperity, because maybe it had some brief short-term effect.

Male Speaker:
[inaudible]

Edward Conard:
I thought I did. I think it's a really bad idea that's going to damage prosperity.

John Donvan:
Simon. Simon.

Simon Johnson:
I'll answer the question. Two questions, very good questions. The first -- and actually I'll answer the second one first by dealing with what Andrew said. So do you really think that if the central bank had done nothing or done much less that somehow the -- honestly, the Republicans in Congress who, as you know, control the House of Representatives since 2010, you really think that they would have changed their stance

on fiscal policy in any way? No. That's not how American politics work today. You know that very well. And I was a student of Ben Bernanke's in the 1980s.

20:08:10

I followed his work closely. I wish I could say that I'm a friend of Ben Bernanke's, but in fact, I've been quite critical of him on bank regulation, on bank capital, which those are the key issues you need to address in terms of the power of the banks. But I've Ben Bernanke on the macro economics, on the monetary policy, say exactly what you heard him say. I've heard him say that the policy made it better than it otherwise would have been. I understand it's a bit of a subtle statement and understand perhaps there's a bit too much noise there.

John Donvan:
All right.

Simon Johnson:
-- for some people, but that's the right way to think about it.

John Donvan:
Here's what I want to do. We have a technique that we call the volley round in which we try to zero in on a specific point that's gone back and forth repeatedly without resolution, to just zero in and see if everybody can summarize their position on this in 30 seconds. The way it works, I have a little bell. I'm going to put this question out there. It relates to Ben Bernanke. And each of you gets 30 seconds in turn. It goes back and forth. When your time is up, the bell gets rung. You have to stop talking and give it to the other side. The question is this, is about Ben Bernanke. Why is Ben Bernanke on your side? Why is Ben Bernanke on your side?

20:09:03

Ben Bernanke -- Ben Bernanke, the former Federal Reserve chairman who was the enactor of QE2, famously referred to as "Helicopter Ben" because of a statement he once made about situations such as this. You want to drop money by helicopters into the situation to rescue, to put out the fire. So I want to go to this side first. Which of you would like to speak first? Your 30 seconds, Simon Johnson, starts now.

Simon Johnson:
Ben Bernanke went to Milton Friedman's 90th birthday party. He said, with regard to the Great Depression, "we did it. We were responsible, the Federal Reserve. We're sorry, and we won't do it again." And he meant that the Federal Reserve had not created money in the face of that financial panic. And everything that came after it, including the collapse of real activity. And they didn't do it again. Ben Bernanke and his colleagues saved the day. Now, it was a mess. It was a disaster. Ben Bernanke talks

about that too. But it was better than it would otherwise have been. That's what Bernanke says. Bernanke's absolutely -- we're on Bernanke's side.

John Donvan:
Andrew Huszar.

Edward Conard:
Oh, I'm sorry, I thought Ed was going to go first.

John Donvan:
All right, fine. Ed Conard.

Edward Conard:
I think Ben Bernanke flat out says that printing money cannot create prosperity.

20:10:10

He says it works in theory, but it doesn't work in practice. And now he says QE will only work if it's permanent if it actually inflicts inflation on the -- if it's guaranteed to inflict inflation on the economy in the long run. I think he's backed way off of his position that got him the name, "Helicopter Ben." You can read the New Yorker Magazine on Adair Turner's book, and it says, "He no longer mentions the theories that he put forward in the past." You can read his book, 500 pages of what he has to say about quantitative easing now, and you'll see that the things I said are true.

John Donvan:
Roger Bootle.

Roger Bootle:
Yeah. We heard earlier on that if this were a Woody Allen film, Ben Bernanke would suddenly appear. Well, unfortunately he can't appear, but he has taken the trouble to tell me what he really meant --

[laughter]

-- what he would have said had he been here, which is that he did absolutely the right thing. The policy made things an awful lot better than they would otherwise have been. And he hasn't recanted at all.

John Donvan:
Okay. Andrew Huszar.

20:11:03

Andrew Huszar:
So, you know, Ben Bernanke, before the financial crisis, talked about how this was the great moderation, how activist monetary policy was going to save the day and would never really allow for a financial crisis to happen again. We saw how that went. Post financial crisis, he started talking about how we see how monetary policy works in -- doesn't work in theory, but it works in practice. And basically all the statements since have been similarly confused.

John Donvan:
All right. That concludes our volley round, the spirit of Ben Bernanke, and that concludes round two of this Intelligence Squared U.S. Debate, where our motion is, "Central Banks Can Print Prosperity."

[applause]

So we're about to move on to round three. And, remember, again, right after round three, we have you vote the second time, and it's the difference between the two votes that determines the winners of this debate. So our motion is, "Central Banks Can Print Prosperity," closing statements by each debater in turn. They will be two minutes each. Speaking first in support of the motion, Roger Bootle, executive chairman of Capital Economics.

20:12:04

Roger Bootle:
I think Andrew was saying earlier on that the fact he's lost so much hair was some indication of just how hard he worked in order to boost the money supply and the policy of quantitative easing. As you will have noticed, he has no monopoly in this regard.

[laughter]
I find it very interesting that usually supporters of printing money are caricatures falling into one of two really very different groups. The first is that we're all supposedly supporters of the banks and are bankers and opponents of bank reform, happy to boost and protect the pay packets of senior overpaid bankers. This is nonsense, frankly. Neither Simon nor I believe that. It's quite possible to believe in the policy of printing money and also that the banking system needs radical reform. These two things are not in opposition. The second group that we supposedly fall into is that we're raving lefties, we're opponents of the free enterprise system just like Milton Friedman was.

20:13:03

Well, here's one opponent of the free enterprise system, the professor of entrepreneurship at MIT, and I'm the other one. I actually left a comfortable job at HSBC to set up my own business in the basement of my house. Now, it's a small business, but it's my own, employing 120 people around the world. I call myself an "entrepreneur," and I'm happy to do so. Some lefty, some raver. I mean, the truth of the matter is that sometimes, in order to protect and promote the free enterprise system, you have to be able to deal with what happens when it implodes for financial and monetary reasons. In other words, what you have to be prepared to do is to print money to create prosperity.

John Donvan:
Thank you, Roger Bootle.

[applause]

And that's our motion, "Central Banks Can Print Prosperity." And here making his closing statement against the motion, Andrew Huszar, senior fellow at Rutgers Business School.

Andrew Huszar:
Two years ago this week, I wrote an op-ed in the Wall Street journal in which I apologized for my role in quantitative easing and argued that the Fed was literally papering over the issue of a chronically underperforming U.S. economy.

20:14:11

Ladies and gentlemen, the U.S. continues to register devastating declines in the underlying conditions for economic growth. We are now 15th in the world in infrastructure, 19th in the world in college graduation rates. The quality of our Tax Code is rated among dead last among all 34 OECD countries. The list goes on and on. After my op-ed, many friends from inside the Fed expressed confusion. Didn't I see the dysfunction in the rest of Washington? Wasn't it better that someone was doing something rather than nothing? Again, I respect the Fed and the people inside, but what I responded to them is exactly what Ben Bernanke himself has said, that QE is not a panacea, or as Simon Johnson’s old employer the IMF, has repeatedly warned, an overreliance on accommodative monetary policy without stepping up the pace of structural reform is unlikely to lead back to normal growth. The ultimate tragedy of money printing is not that it might disproportionately benefit Jamie Dimon or Lloyd Blankfein, as unfair as that may be.

20:15:08

It's that if it does work at all by artificially stimulating banks and financial markets, it's sowing complacency about the crumbling economic welfare of the average citizen. In other words, I'd submit the narrative here in America is not that the Fed did something while the rest of Washington did nothing. It's that over time, the Fed did so much that the rest of Washington could get away with doing so little. And please feel free to insert the capital of Japan and Europe into that sentence. Ladies and gentlemen, before you vote, I ask you to think about what prosperity really means. Is it more prosperity for all? Or if money printing even works, is it more prosperity for just the most privileged, at best? And I implore you to vote against the motion. Thank you.

John Donvan:
Thank you. Andrew Huszar.

[applause]

And the motion is Central Banks Can Print Money. And here summarizing his position supporting the motion, Simon Johnson, professor at MIT Sloan School of Management.

20:16:05

Simon Johnson:
I sat recently before a committee of the House of Representatives that was considering a version of exactly this question. And the way that works is actually very similar to this room, except you down low, an audience not quite as big as this audience, is up above you, looking down on you. And the people next to me -- well, unfortunately, Roger wasn't there -- everybody sitting next to me, on both sides, actually, was expressing some version of the views that you're hearing from Ed and from Andrew. And you know, sometimes you may see these hearings, you may hear about them, and you think, “Well, that's kind of strange and it's somewhat abstract” and so on. But this is really where policy gets debated and where you see policy being made. And this hearing went on for hours. And it went on for hours because one side of the room -- and let me say, it was the right-hand side of the room –

[laughter]

-- wanted to repeat and reiterate exactly these points. And they wanted to hammer me with the same kind of criticisms that have been thrown at us tonight -- and much worse, I have to say. Much worse.

20:17:06

You know, I think tonight, when you vote, right now -- you will send a message. And the message will either be that even in New York, people have lost confidence in the central bank, the Federal Reserve system, and its power should be curtailed. And you will give -- if you do that, if you vote that way, you will give great support to the people who right now -- right now -- are proposing legislation, that are going to put really binding constraints on monetary policy and on the Federal Reserve's ability to act and respond to crises. I urge you to vote in favor of the motion, Central Banks Can Print Prosperity.

Can, under some circumstances, print prosperity. That's what we've been arguing. That's what the world needs to hear from you tonight. Thank you.

John Donvan:
Thank you, Simon Johnson.

[applause]

The motion: Central Banks Can Print Prosperity. Here summarizing his position against the motion, Edward Conard, visiting scholar at the American Enterprise Institute.

20:18:08

Edward Conard:
Liberal Berkeley economist Brad DeLong recently described each side of the motion we're debating. About our opponents' view, he said, “Even though the Fed printed much more money than economists would have thought necessary to offset the impact of the financial crisis, a fivefold increase in the monetary base, from 800 billion to 4 trillion, it wasn't enough. Bernanke balked taking the next step, more than doubling the monetary base to $9 trillion.” End quote. Roger has publicly described a far more modest U.K. Proposal as dangerous and delusional, arguing that, quote, “Sometimes the sovereign has no alternative to inflationary finance, but this always has significant costs. And it's never the place to start or end.” Our view of monetary policy -- Berkeley's DeLong said, quote, “Larry Summers and Paul Krugman argue that there is little evidence that monetary policy will ever restore full prosperity.” End quote.

20:19:06

DeLong admits, he doesn't know which one of these views is correct. Why doesn't DeLong know which one of these views is correct? Because $3 trillion of printing has produced no discernible effect on the economy. And if it had, DeLong would have seen it and he would be urging more. Our opponents can't bring any more evidence to the debate that central banks can print their way to prosperity than what Summers, Krugman, and DeLong have already considered. If the evidence hasn't persuaded even those ardent advocates of stimulus, why should it persuade you? Bernanke now flat-out admits central banks cannot print their way to prosperity. Our opponents have the burden of proving the motion through a very tough burden in this case. They haven't made a convincing argument, because no one can make a convincing argument on this issue. I urge you to vote against the far-fetched motion, Central Banks Can Print Their Way to Prosperity. And I would point out that I believe that our opponents have tried to corner the debate –

[laughter]

-- okay? But when we broaden -- but wait.

20:20:08

When we broaden the debate to the real issue, they were able to do little more than offer their opinion that it had --

John Donvan:
Okay.

Edward Conard:
-- more positive effect --

John Donvan:
Ed Conard, your time is up. Thank you very much.

[applause]

And that concludes round three of this Intelligence Squared U.S. debate, where our motion is, Central Banks Can Print Prosperity. And now it's time to learn which side you believe has argued the best. We're going to ask you again to go to the key pads at your seat and vote as you did at the opening. If you support the motion, Central Banks Can Print Prosperity, push number one. If you disagree with it, push number two, if you remain or became undecided, push number three. We'll give that about 15 seconds to complete.

20:20:56

Okay. So while we're waiting for the results to come in, I just want to say -- okay, we've locked out the voting, and I just want to get your attention back, please, because I want to say this about the quality of this debate. It was -- it was technical and abstract and I -- I enjoyed pretending that I understood everything that was going on back and forth. I -- the corn thing gave me something to hold onto.

[applause]

I understand corn. But the -- the spirit that all of you brought -- and, Roger, you also just off a plane, the energy you brought, the energy all of you brought and the civility is exactly what we aim for at Intelligence Squared. So I want to thank you, all of you, for how you did this. Thank you.

[applause]

John Donvan:

And also to all of the questioners who got up, including the questions that I didn't take.

20:22:09

it's not that they're not interesting. They're just a little bit off point. But we -- we encourage, and we're pleased to see people have the guts to get up and ask a question. So to everyone who actually stood up for a question, thank you very much.

[applause]

John Donvan:
And I -- I just want to take this moment to remind those of you who don't know that we are a nonprofit organization. The podcasts that I've been talking about and the radio broadcast is something that we give away to an audience of millions of people. It is heard and used now as an educational tool in literally thousands of schools. But 60 percent of our funding, nearly 60 percent of our funding comes from individuals supporting the program, including people who are in the audience here tonight. So I want to, first of all, say we are very, very grateful for that support. And I want to encourage those who are inspired to do so by having been here and seeing what we do, to go on to our website and make a contribution as well. Just talking briefly about some upcoming debates.

20:23:04

Right now we have the Supreme Court is again looking at affirmative action this term. And we're going to decide to do -- we've decided to do that as well. We've been doing a series of debates in partnership with the National Constitution Center in which we take a very, very specific and narrow look at an issue through the lens of its Constitutionality. Does this accord with the Constitution or not, in very specific terms. And we are -- in other words, we are going to be looking at the affirmative action issue again not from the point of view of policy and impact on individuals and on educational institutions, which we have done. But we're going to be debating whether racial preferences in university admissions are Constitutional and whether they violate or do not violate the equal protection clause. These debates are -- have been all in Philadelphia so far, but we're going to be doing it in New York. And these have been some of our most interesting debates because the lens is so specific and the lines are so, so clearly drawn that they shed light in a way that is enlightening to everybody who goes to the debates, whether they're lawyers or not.

20:24:07

That's going to be here on December 3rd, here at the Kaufman. And tickets are available at IQ2US. Our spring season starts January 13th. We're going to be doing a debate on the question of the U.S. obligation to take in Syrian refugees or not. Details on that debate will be -- we don't have the language quite worked out, but we're close. But the details will be available pretty soon for that and all of our spring season next month. And again, I want to remind you, if you can't get to the live debates, there are a lot of other ways. We've been live streaming throughout the evening through our website and FORA.tv. You can also download the IQ2 app on Apple and Android mobile devices, and you can search for Intelligence Squared in iTunes or on Google Play. All of the debates we've ever done, this is now 114, I think, correct? -- are available both to watch and to listen to on the app as well as transcripts and the research that we do for the debate is all posted there.

20:25:05

It's a very, very -- it's a beautiful app and very elegant, but it's really full of stuff. So, that's that. So I now have the results. They're all in. Remember, it's the team whose numbers changed the most between the first and the second votes who will be declared our winner. The motion is this, "Central Banks Can Print Prosperity." On the first vote, 29 percent agreed with that, 31 percent disagreed, 40 percent were undecided, which is high for us. So those are the first results. Again, the difference is what makes the victory for one team or the other. So the team arguing for the motion, their first vote was 29 percent. Their second vote was 35 percent. They pulled up 6 percentage points. That is the number to beat. The team against the motion, their first vote was 31 percent. Their second vote was 54 percent. They pulled 23 percentage points. That means the team arguing against the motion, "Central Banks Can Print Prosperity," is the team that's won this debate. Our congratulations to them. Thank you from me, John Donvan, and Intelligence Squared U.S. We'll see you next time.

[applause]

20:26:16