

Ed Louis: Thank you Fred for that, for giving me some questions for Larry as well. Larry needs no introduction, I have a slight bias. I used to be his speechwriter when he was treasury secretary. So I'm going to be more tough on him than I would otherwise be in case you think that gives me a bias. He needs no introduction I think it is worth saying that within the two, three years since he left the administration he's given his brain to the public as a public intellectual and I think whether you agree with Larry or not nobody finds him uninteresting, nobody finds what he has to say un-germane and I don't think today will be any exception. Larry let me kick off by asking a big scene setting, thumb sucking kind of question about globalization. We are 100 years anniversary, as many people remarked including yourself, of the great war then as now a period of great global integration and of rapid growth. We've been seeing though in the last few years something very new which is trade growing at a slower rate than economic growth. We see nationalism as Fred mentioned rearing out in all corners of the world we haven't had a smooth wholly kind of tariff protection as backlash yet. But we've got people nibbling at the edges of the globalization agenda? My question to you is, is globalization safe?

Larry Summers: Globalization is going to keep happening look they are going to be more adults with smart phones. There will be more smart phones than there are adults on planet earth by the end of this decade. No matter where you are you are going to have essentially all the information that's in the library of congress at your disposal. You are going to have more ability to communicate with people than a president of United States with the white house communication system did 40 years ago. In a world like that globalization is going to keep happening, yes it's true that the manufactured goods that are a large part of trade keep going down in price relative to services which are harder to trade. So that makes the trade share of GDP go down but there is more integration I mean look at the storms that exist in some countries because of carbon emission from other countries. Look at the risks to the entire financial system and look at the way markets hinge on what's happening on the Russia- Ukraine boarder. There is plenty of integration. The question is whether it going to be successful integration. You know there were three wars that ended in the 20th century. World War I ended and there was an attempt to establish a new global system and it failed dismally, and that's why people sometimes and some of the most sophisticated historians treat World War I and World War II as one big conflict with a long truce. World War II ended and with American leadership we have the most successful 60 years that humanity has ever known and we won the cold war. And the threat we thought, of communism that kind of totalitarianism was seen off. And then the cold war ended and it was the third war and I would have said a few years ago that it was clear that the world had met that post war challenge in a way that was much more like the way it met the challenge after the second world war than the way it met the challenge after the first world war. And I still think that's right but it's in much more question, if you look at the expansionism coming from Russia, if you look at the very chilly peace in North East Asia if you look at the cauldron that is the Middle East and if you look at what the country that failed to be a guarantor of the global system by not joining the league of nations after Versailles by allowing cruel and unreasonable reparations to be exacted against Germany. The country that succeeded in being the guarantor of the global system after the second world war underwriting the IMF, the World Bank, the United Nation and systems of global integration. If you look at its distressing signs of fatigue with the world, most demonstrated by a reluctance to support international organizations, a distressing difficulty in mobilizing political consensus for trade agreements to promote integration. A failure to do what's self evidently in the interest of American workers and support the EXIM banks-- see Fred I am there for you. A failure to a concern and a desire to ramp back military spending in a world where our potential adversary's military spending is growing rapidly. A reluctance to become embroiled in foreign challenges because they are too hard. Ultimately whether we, we are ultimately...be judged by history to have won the peace after the cold war as we did after the second world war, is in more doubt today than would have seemed likely five or 10 years ago. In part it's the, conventional security challenges, the conventional economic integration challenges that I have talked about, it's also the challenge of global public goods and global public bads. The world is not moving on global climate change. It is, I don't know how to describe it but is profoundly wrong, that at a moment when the science becomes ever more clear, year by year the climate change is a critical problem that the fraction of American people who believe that climate change is a critical problem has gone down over the last five years. You have to look at what was agreed in, was agreed in 1994 with regards to nuclear proliferation and Ukraine's giving up its nuclear weapons and see what is happening now and think that the world's nuclear proliferation regime is threatened to a substantial extent. So I think we are at an absolutely critical juncture not as to whether global integration will continue there is no question about that what matters in one country is going to matter for other countries more than it ever has before. But whether that global integration is going to be successfully managed and whether it is going to be successfully managed by the only country that can plausibly aspire to leadership on a global scale. The only country that maintains a serious presence

with respect to Europe, with respect to Latin America, with respect to the Middle East, with respect to Asia and that is the United States and that is what is very much, at issue over the next several years and if I might say I think the reaction and the behavior of people in the business community like the people in this room is going to have a great deal to do with where we come down as a country. If you recognize that and push and insist, that the United States has a great stake in, and you as businesses have a great stake in our success in maintaining leadership of the global system that is one thing. If you abdicate that responsibility and focus only on the issues that are of narrow and specific and immediate concern to your commercial interests that is a different thing. The United States investment in the IMF has paid off 100s to one in financial stability and in crisis averted. We are going to spend hundreds of millions of dollars as we support it as we measure it, in order to guarantee one billion dollars of loans to Ukraine. And yet we cannot at this point get the US House of Representatives to approve legislation that would enable a smaller measured outlay to support hundreds of billions of dollars mostly of other people's money leveraged to support financial stability around the world at a time when there is plenty of insipient volatility. So yes globalization and global integration will continue whether it will continue successfully depends on the United States and depends on the United States broad commitment to international leadership and my most important wish is that a period of economic distress and a certain fatigue the most dangerous possibility is that that will cause the United States to turn inwards, at a moment when the world has needed the United States to be engaged more than ever before.

Ed Louis: Is this a crisis of leadership as well?

Larry Summers: It's a crisis of America, it's a potential crisis of American leadership there is... if this were a different kind of conversation and I were a different kind of person we could discuss how much should be attributed to this part of the White House, this part of the Congress and so forth I'm not going to go there, I am not going to go there but this has its roots in a much broader set of attitudes. This has its roots in what public opinion polls say about United States international engagement, this has its roots in what issues bring CEOs to Washington, how much is it that their companies parochial issue and how much is it national issues of broader international concern. This has its roots in our willingness as a country to be ultimately strategic about where our national interests are. We surely cannot do everything, we surely cannot respond to every outrage, we cannot respond to everything that is morally problematic but the ability to draw lines in support of a system on which our prosperity and our security depends, nothing is more important to our ultimate national interest or if you take not a two year view but a 10 or 20 year review our economic success.

Ed: Let me suggest one possible explanation for why there is this crisis of world leadership, call it what you want. Thomas Piketty has recently come out with a book *Capital in the 21st Century* that looks at growing inequality, that talks about a return to the pre second world war era where the returns to inherited wealth to capital are greater than economic growth where the patrimonial capitalism is in the ascendant...and clearly that has a political impact. First of all do you agree with Thomas Piketty's diagnosis of where we are worsening inequality, and secondly if you do agree what are the impacts of growing inequality on America's economic growth prospects as well as its political climate?

Larry Summers: Piketty wrote a great book. It's a hugely important book, it's a monumental piece of scholarship, I can't think of an economic book that has been as galvanizing of the debate in a very long time, and certainly not one that's full of tables, figures, and mathematical models. His core proposition that the share of income and wealth that is going to a very small fraction of a population has risen precipitously over the last generation and those trends appear to be continuing is I think completely compelling. I'm not sure I buy his whole hypothesis about patrimonial capitalism in an iron law of the market system. His idea is that because capital earns a return greater than the growth rate, the capitalists will ultimately take it all over to over simplify. I think it's a much more dynamic process, you know Forbes went back and looked and those on the Forbes' 400 in 1982 only 36 were still on the Forbes' 400 in 2012. I think it's a much more dynamic process and that the way to understand increased inequality is to think about how much easier it is to be a Mark Zuckerberg and it was to make that kind of fortune quickly in the economy of 30 years ago. I think the way to understand is to ask yourself about the greater opportunities that have come to exist for good or for ill in the financial...growing financialization of the economy. Piketty's focus is on the process of capital accumulation but if you look at what's happened to the top one percent it's much more about their labor incomes than it is about their capital incomes. So I think he doesn't have the primary mechanism driving US inequality and therefore I am less fatalistic than he is. He basically argues that unless we can have some kind of global wealth tax we're doomed to this kind of inexorable change. I think if we can rebuild labor bargaining arrangements, if we can find ways of giving workers a greater share in their firm's success, if we can strengthen the systems of education and

human capital that prepare people for the kinds of jobs that are going to exist, if we can have a tax system that has more cheese and less hole in the Swiss cheese, that we can do a great deal to address inequality, so I have much more a view that these are problems that are addressable with the right kinds of actions and so I don't think he has quite the right theory even though the data he has presented and the debate that he has given new energy to is a huge, huge, and positive accomplishment. You know I bring...to go to the second part of your question I'm struck by the change in the tone of our politics. John Kennedy, first political speech I ever listened to and remembered when I was six years old, asked Americans not what they could do for their...not what their country could do for them but what they could do for their country. Today we compete to talk about different kinds of middle class bills of right that are all about what our country can do for people. Why that change? Some of it undoubtedly goes to broad social forces that an economist like me can't understand but some of it goes to the fact that when John Kennedy said that we had delivered for the middle class over the previous 15 years in a spectacular way. Better schools for their kids, support for home ownership for the first time in their lives, universal...near universalization of employer based health insurance, rapidly rising real wages in median family incomes. And so we could ask them what they were going to do for their country. When that's not being delivered for them it's much harder to ask what they can do for their country. The FHA, the GI...the GI bill all of that was part and parcel of what made the Marshal Plan and Breton Woods possible and so the agenda of the international leadership and the agenda of support for the middle class are not opposing political priorities they are necessarily compliments that have to come in tandem with each other and that's why as I said many times I think the fixation with the deficit as the central economic issue facing the country over the last four years has been so dangerous and misguided. I'm worried about deficits; I'm worried that we are bequeathing our children a deferred maintenance deficit when we massively under invest in our infrastructure. I'm worried about deficits, I'm worried about an education deficit when the paint is chipping off the walls in 25,000 American schools and kids are getting the signal about how much we do or do not care about their education from that. I'm worried about the deficit in scientific leadership when at a time of unprecedented promise in science, at a time when the 21st Century is going to be a Century of the life sciences just like the 20th Century was a Century of the physical sciences, the atomic bomb, the semiconductor, the Internet those were physical sciences. Life sciences are going to be like that in the 21st Century and we have cut the budget of our country for basic research in the life sciences by 25%. Jim Watson when he discovered the structure of DNA was 26, the first...the average age at which people get their first grants as scientists now in the life sciences are 42. We are...that's leaving a deficit behind too. You know if we increase the growth rate of this economy by one quarter of one percent that will eliminate the whole fiscal gap as the CBO estimates it. Shouldn't that be our objective, isn't that where our priority should be if we want to make this system work? Are we really going to rebuild confidence in the security for the future that lets people take an outward looking and broad minded view of international problems, by having more debates about cutting social security benefits which never, never no matter what you do get past \$36,000. Cutting those benefits 20 years from now, should that really be the focus of our national political debate, I don't think so. I think the focus of our national political debate should be on growing the standards of ... by putting people back to work and growing the standards of the middle class and that kind of debate will ultimately yes address the deficit down the road but it will also build the secure foundation for American leadership in the world at a time when that has never, never been more necessary.

Ed Louis: Let me take a line from Monty python and trying to look on the bright side of life. There is an energy revolution going on in the United States and there are many people representing companies here that see a big manufacturing opportunity coming from this...from the shale gas revolution and the tanked oil revolution and so forth. What's the potential for American growth in general and manufacturing in particular from this energy revolution in your view?

Larry Summers: When you don't achieve because you can't achieve, it's sad, when you don't achieve because you won't achieve, it's tragic, and that's the way to think about this. If we open up the possibility of exporting natural gas, we open up the port more fully, we open up the possibility of exporting crude oil. If we regulate strongly and soundly but also decisively and quickly, we have the potential to change the American economy and to change the world. We have the potential there is no question within the next decade for America to have the kind of influence in the world because of its ability to export fossil fuels that Saudi Arabia has had for the last several decades. And think about what that means for our influence in the world, think about what that means for our capacity for prosperity? That is within reach. The geology is there, the fuels have been found, it's a matter of finding the will to take the necessary steps. Can it conceivably make sense, even on the environmental grounds in the 21st century for the mode of transportation of oil to be trains and trucks above ground, can that possibly make sense? No, but if we are going to move past that we need to be able to build an appropriate kind of flexible pipeline infrastructure and

that means we need to get past the NIMBYism that has too constipating of our economy and our society for too long. This has the potential to create jobs in the millions, this has the potential to change the geopolitical formulation and as you noted in your question it's not only the energy sector, even when we fully export natural gas to our potential, all of this is going to mean that domestic energy is still going to be far cheaper than energy in Europe or Asia, at a time when because of what robots are doing, the relative importance of energy costs and labor costs is changing profoundly in manufacturing. So this is a huge opportunity for us and the question is will we take advantage of it? And anyone who believes in US competitiveness has to believe that when you have got a massive advantage, and a new opportunity you need to be able to export it, that's what we have told every other country in the world for the last 50 years and we need to tell it to ourselves and that means more permitting for the export of natural gas and it means moving to permit the export of crude oil.

Ed: I don't know whether there will be time for questions or not because I haven't got my Iphone on up here but a quick last question for me before we go to audience questions, America has growth potential and clearly the energy picture is part of that, is under great scrutiny in 2014, we have had four, five years of two percent growth way lower than you expect coming out of a recession. We have had no medium income growth, we still got a chronic long term unemployment problem and interest rates remain zero, what does this suggest to you, all the good things happening in energy notwithstanding, what does this suggest to you about America's growth rate. Are we in a new normal or is...or are we going to escape velocity sometime in the next year or two?

Larry Summers: All the good things in energy Ed could happen. But it depends upon the posture of public policy, it depends upon what we do about regulation and nimbyism, it depends upon whether we allow the export of oil and natural gas on a full basis so that is potential, that is not all firmly established. And I guess I think to a substantial extent it's like that more broadly. You know usually, basically in all the macroeconomic classes I taught until I went to Washington to work with president Obama in 2008, the idea always was that macroeconomic policy had a trade off. You wanted less unemployment and you wanted less inflation and so you sort of needed to hit the accelerator if you wanted to do something about unemployment and you needed to hit the brake if you wanted to do something about inflation and so it was really a complicated balancing act. Now we have inflation that is below our target, and unemployment that's above our target. So whatever you look at, you need more of the accelerator. I don't think we know what the potential of this economy is, until we have enough demand for all that we can produce. It may be as pessimists fear that there has been some decline in the growth of the economy's potential. But we will not put that proposition to a test, as long as we allow there to be substantial unused capacity, substantial unemployment above normal and enough slack in the economy that we have such low and continuing inflation. So we may have supply problems and I would be the last to say confidently that we don't but right now it is demand rather than supply that is holding this economy back and that's why it has been a grave mistake to be slashing public investment these last years that's why I'm relieved that the slashing is not going to continue on current projections at the same rate over the next couple of years. But we still don't have an aggressive program of renewal in place and if we want to maximize our potential for the middle class on which everything else depends, and our potential for leadership in the world, that's what we need, a serious commitment to renewing this economy.

Ed Louis: But just to pick up on that, the monetary implications of that, we have a fed meeting next week, if you assume there is not going to be any great new demand action from the political side in the next year or two, the onus will continue to be our monetary policy. You have talked about secular stagnation, the fact that negative interest rates might be the equilibrium, very, very low interest rates might the equilibrium at the US economy, going forward, what can a central bank usefully do, knowing fiscal policy has been switched up?

Larry Summers: Old treasury secretary have its die hard, so if you understand the rest of the answer I'm about to give, that would mean you miss... If you think you understood the answer I'm about to give that would mean you misunderstood what I have, what I have said. Look the core of this is that inflation is too low and unemployment is too high and that means a policy bias needs to be towards expansion. And that is the core interest here. It is in my judgment much more healthy that that come from the side of support for private investment come from the side of direct support for exports, come from the side of public investment rather than trying to blow up asset prices which is what monetary policy can do. But to fail to support growth in this economy would be to allow millions extra people to remain without work and experience suggests that when people have been without work for a substantial time they lose their capacity to get back into work and so it's not just a short run cost but a long run blight. So I think the emphasis on policy needs to be on the side of expansion.

Ed: Right, I think we have got time for a couple of questions, we've got a lot of hands, I'm not sure what the mic system is but the lady in the front, second from the front table and is there somebody with microphones there is a mic being raced over. Could some charitable soul tell what the time is? Alright, we'll end in... this question and one more and relatively brief answers.

Jane: Thank you very much. Thank you secretary, my name Jane [inaudible] the voice of Vietnamese-Americans, I'll pick up from where you just, the statement you just made. The key isn't expansion. Expansion of growth, expansion of market and expansion of our standards of the free market I would hope. So now the president is travelling to Asia in the trip looking to secure the TPP and in October Beijing will be hosting the APEC. What is your vision and what did you think need to happen for the TPP to be successful so we can grow the expansion of jobs, of market and we can level the playing field with the biggest market, second market in the world which is China. I haven't heard you discuss about China including the currency situation, the inflation, the job market, everything that we suffer now.

Larry Summers: Okay.

Jane: Thank you.

Larry Summers: Look I think we've obviously got to watch very carefully what happens in China and we've got to watch very carefully what happens going forward with respect to the currency, we've got to watch very important, very importantly what happens to barriers to US products. We've got to negotiate a TPP that is about fundamental US economic interests in job creation in the United States. Not an amalgam of a specific commercial concerns of a variety of businesses that have particular commercial issues that they are pushing on the USTR agenda. It's got to be anchored in middle class jobs and if it's not about US jobs it shouldn't be a major US negotiating priority. That's how we should think about negotiating the TPP. But the most important negotiation for the TPP is not going to be the negotiation that takes place in Asia, it's going to be the negotiation that takes place along Pennsylvania Avenue and I hope that we can find the will to pass a TPP agreement that's going to be critical for the United States role in Asia.

Ed Louis: A final very quick question the madam here in the front table. And keep it short please.

Person: That I can do, I was just interested in what you think the changes in the education system here in the United States need to take place. What changes need to take place in order to achieve this economic growth particularly for the middle class and I'm particularly interested in the role of alternative higher education and your opinion on that topic. So apprenticeships, vocational education.

Larry Summers: Education, I would say a few things. One the essence of the market system is that providers try to make customers happy and try to give customers what they need. The essence of the communist system is the opposite. For too long in too much of education it's been run for the convenience of the teachers and the professors and the schools rather than for the benefit of the students and we need a fundamental change in attitude on that question. Two we need directly... we need to make a core decision, it's a very fundamental decision, it's a decision for kindergartens and it's a decision for colleges. Do you believe that self esteem comes from achievement or do you believe that achievement comes from self esteem? And I believe that in too much of the United States we have embraced the latter philosophy to our great peril. If you look at tests around the world, Americans rank terribly in their capacity to do mathematics. If you look at comparisons on the question are you good at math, we think we're number one. You laugh but it's a serious deal and we need to change in that philosophy. And third we need to focus on the whole of the population. Where we do worst in this country is with those who are not headed towards our leading colleges which are the best in the world but those who need a practical useful kind of vocational training and we need to renew and revamp our systems in that regard. But we need to do it in a way that recognizes that it's a very different economy that we are headed into and that's not about preparing people for the jobs we wish existed in the... like the ones that existed in the 80's but it's about preparing people for the kinds of jobs that are going to exist going forward and there are jobs like that. I mean just to say one last thing I talked about the potential for energy. And I think what I talked about in terms of the various regulatory questions and the ability to export is the most important barrier towards our fulfilling that vision. But a shortage of people who can weld on the gulf coast is also an important barrier as well and we are not investing in preparing and training those people and if we were we'd have a lower unemployment rate, we'd have a stronger middle class and we'd have more exports and a stronger economy. John Kennedy said, it's this thought... it's this two thought's that I want to leave you with. He said that

man's problems were made by man. And that's true with every problem we've discussed here this morning. He said also it follows that they can be solved by man. And that's true too. And it's also true and this I'm sorry we didn't get a chance to talk more about it that for all the concerns and challenges that I've talked about, if you think about the capacity to produce the Elon Musk's of this world. If you think about the energy resources, if you think about the kind of concern what the future of public policy that the 1,000 people in this room represent. For all our challenges, having spent the last three years since I left government, traveling around the world. I would rather have the challenges and the opportunities that the United States faces than those of any other country in this world. Thank you very much. (applause)