

Announcer:Ladies and gentlemen, please welcome Gillian Tett, US Managing Editor Financial Times and Lawrence H. Summers, president emeritus and Charles W. Eliot University professor, Harvard University.

Gillian Tett:Good afternoon everybody. Good afternoon everybody and apologies for breaking into your lunch.

Larry Summers:No mic.

Gillian Tett:Okay, right. Great. Isn't technology a wonderful thing.

Larry Summers:Won't happen again.

Gillian Tett:Good afternoon everybody and apologies for breaking into your lunch but I have something that is well worth breaking into your lunch for, the chance to hear from Larry Summers, Professor Summers who is a man who I think is known to all of you. An esteemed economics professor at Harvard, somebody who has graced the code of the power in Washington for many many years, worked inside the administration.

Somebody who is a Financial Times Columnist and what higher honor could there be than that. Somebody who always has provocative views on politics and economics. Larry, if I may or Professor Summers.

Lawrence:Larry is fine. I think, we'll see. We'll start out with Larry and we'll see what you ask me.

Gillian Tett:If he turns into Professor Summers I know that I've got a bad grade, there we go. Professor Summers, when you look at the economy today and this was a subject of a panel that I shared earlier today. When you look at the economy today, lots of gloom around. We just had comments from the [latent Fred Millets 00:02:02] indicating that they are getting more concerned about the global economy. You yourself said in January this year that there was quote, "A one in three chance of the US economy going into recession." Do you still believe that the chance of recession is that high and how worried should we be about the global economy?

Lawrence:I think one in three was a reasonable thing to say in January. Since that time the economy has been okay for a couple of months. Since that time there has been significant repair in markets. If you had to say for the rest of the year, you would certainly say some number less than one in three, perhaps one in four or one in five for the rest of this year. The core dynamic in different contexts, that I've called secular stagnation of relatively slow growth in the United States substantial difficulty in even getting inflation up to the two percent target and a lot of sluggishness in the global economy, I don't see a sign that that basic picture has changed Gillian.

I think the real risk for the global system is that, whatever exactly your judgment to the current moment is, I think it's hard to avoid the view that the chances are quite good that there will be a recession in the next two or three years. Normally the way we get out of recessions is that the federal reserve lowers interest rates by four to five hundred basis point or four to five percentage points. There's next to no chance that there will be anything like enough room to do that when the next recession comes. I think we are in a path where we're growing too slowly when things are good and when things are bad, we don't have the usual tools to fix them. I think that is a concern for the industrial world.

Gillian Tett:Right. Well you started off optimistic and then went rapidly downhill.

Lawrence:They do call it the dismal science.

Gillian Tett:I'm curious, imagine January 2017 and you are suddenly back again as treasury secretary working for President Clinton, President Sanders, would you?

Lawrence:My wife's view is that I won't work for any presidents and that we've had enough. Why don't you ask a question about whoever is president, if my advice were sought.

Gillian Tett:You are working for a president, maybe even President Trump who has suddenly decided he wants to be bipartisan, can you imagine that?

Lawrence:No. In all seriousness, not that much seriousness, I think he's really dangerous in a way that I have not thought anyone who ran as a serious major party candidate for president before was dangerous. I've had strong views about US elections but I think Trump is in a category with George Wallace, Joe McCarthy, and Huey Long of American Demigods. He is the one that's gotten closest to being president. I don't think he will become president and it looks substantially less likely than it did three weeks ago. I think that is very different from, I'm a progressive and I think conservatives are very dangerous, conservatives think progressives are dangerous. We haven't had presidents who encouraged violence against their opponents. We haven't had presidents who threatened to take money from news papers who wrote things they didn't like before. We haven't had a president who dismissed and dispensed with the idea of thinking reflectively about policy. This would be something out of a very different tradition than we've seen. It's profoundly dangerous in my view and I think we will avoid it. The odds that he will become president are very low. That he could command so much support is I think a measure of the fact that there are very serious and un-addressed concerns in our society.

Gillian Tett:Before I ask you about fiscal policy, do you consider Cruz to be dangerous?

Lawrence:Not in remotely the same way. I think his monetary policies are ... Fiscal policies violate the laws of arithmetic. His attitudes on church and state, issues on church and state seem to me deeply inconsistent with American tradition but he is a political figure who will function within the domain of our political system and the various checks and balances that it has. While I would strongly oppose his election as president, I wouldn't call it a danger to the American traditions in the way that I would with respect to Donald Trump.

Gillian Tett:Let's play this thought experiment that you're sitting in the treasury under President Clinton or ...

Lawrence:You keep trying to populate and locate me, let's leave that part of it out. We're not going to talk anymore about me.

Gillian Tett:No it's called personalizing an issue, it's 101 journalism.

Lawrence:Maybe Trump had a point about those libel suits.

Gillian Tett:Believe I spend my career trying to make geeky financial stuff compellingly interesting, so you need to personalize.

Lawrence:Well you've got very hard work. It's very hard to work with me I know.

Gillian Tett:Not that hard.

You're treasury secretary, what is your top priority to revitalizing American economy right now and combat that's tied of populism?

Lawrence:You got to make it work for people. You got to see everything through the prism of middle class families. Not through the prism of abstractions about market forces. Not through the prism of the interests of global corporations is important as those interests are in supporting economic growth. Not through the prism of social justice. Not through the prism of posterity. You've got to see it through what will affect people that are living right now. I think the most important thing that the new

president could do is launch a major initiative to renew and rebuild America's infrastructure.

Is there anyone in this room who is proud of LaGuardia Airport? I ask you this question. A moment when money is free. A moment when material costs are extraordinarily low. A moment when the fraction of the population working is way less than it was a decade ago. Is there a better moment to fix LaGuardia Airport? I cannot think of a better moment. LaGuardia Airport is not an isolated example. If you look at federal infrastructure spending as a share of GDP, it is at a record low. If you subtract appreciation from federal infrastructure investment, it is zero. How can that possibly make sense? Renewing the infrastructure puts people to work in the short run, expands the economy in the medium run, and takes a burden off our children in the long run. I'm here to tell you which is going to be a bigger burden on my children when they grow up, debt that accumulates at the interest rate of one or two percent in a currency we print ourselves or a deferred maintenance burden that festers year after year. It is a win-win-win strategy.

It's a very fundamental thing about power, when there are more jobs than there are people to fill them, life works out well for working people. When there are more people looking for jobs than there are jobs, life works out especially well for employers. We have been on the wrong side of that for some years now. I think a focused, large scale, sustained infrastructure investment program, financed with a combination of borrowing initially. As the economy expands, taxes on carbon or taxes on gasoline would make our economy much stronger and more competitive and I think its the most important, most rapidly acting thing we could do to push the economy forward.

Gillian Tett:Just to be cynical, I think talking about rebuilding LaGuardia Airport is the economist equivalent of apple pie and motherhood for this group. It's something that we can all agree to agree on and what I find fascinating is having spent time with people who report to the Trump advisors right now, this is exactly what he's saying except for the fact that he probably finance it partly through not just borrowing but repatriation of overseas corporate cash files. Two questions; one is would you like to repatriate overseas corporate cash and use that and two if you did get the next government next year talking about a build America campaign which is what my betting is on, do you think there's scope for some kind of bipartisan initiative, could somebody come up next year and start talking about an FDR style policy to try and work with congress and actually enact any of this stuff?

Lawrence:Let me take the second part of that first. Winston Churchill famously said about the United States, that the United States always does the right thing but only after exhausting all of the alternatives. We've been working our way through a bunch of alternatives for some time. In all seriousness, it's the great strength of the United States that we have this resiliency, we have this capacity for self denying prophecy. There was a hopeless malaise when Jimmy Carter was president, we somehow got through that. In 1991 the view was that the Cold War was over and that Germany had won and we somehow got through that. Patrick Henry declared in 1792 that the spirit of the revolution has already been lost, well that didn't seem to work out that way. I think we will get to the right place, not as quickly as I'd like us to and probably not exactly the way I would like us to. I think it's the great strength that there is

this clamber, there are these emerging concerns and then eventually they get dealt with.

On corporate earnings, our corporate tax code as currently structured and the way we are having our corporate tax debates, makes no sense. You'll see this analogy in just a minute. Think about a library that had a lot of overdue books, really a lot of overdue books, it might make sense to give some kind of amnesty on overdue fines so people brought the books back. It might make sense to say that there will never be an amnesty so you better bring your books back because otherwise you're going to keep accruing fines. Only an idiot would put a sign on the library door saying, "No amnesty right now but we're thinking about one next month." If you think about the US corporate tax reform debate, that is what we've done. Who would ever bring money back in this environment when there's always such prance that there will be some reform next year that will bring the money back. I think we should move to a reformed corporate tax system that distinguishes less sharply between profits that are repatriated and profits that are not repatriated and then taxes the profits that are not repatriated at some level and taxes the taxes the profits that are repatriated at some level way below the current rate in the mid thirties. I think that's clearly the right thing to do. I think it would bring money back into the economy and it would strengthen the economy. I'm a little more careful in my economic reasoning than Donald Trump so I understand that just because money comes back into the United States, that doesn't mean that the government owns one hundred percent of it and gets to use it finance infrastructure. Just like I understand that just because we have a trade deficit with Mexico, that doesn't mean that moneys available to build some wall. You can't just do that. There are principles of arithmetic and rules of laws and stuff and they're really actually important in making policy.

A second key thing is that we need a comprehensive tax reform particularly on the business side that closes a variety of loopholes and breaks and levels the playing field. I think there is a significant increases in confidence and growth that are achievable in that way. I think if we can get past all of the heat and the politics ... Let's just be clear about something, over the last three years, there's this idea that we should build a wall between the United States and Mexico. People who want to build that wall want to think about the fact that yes, there's been a lot of Mexicans that come from Mexico to America, but actually more people have gone from America to Mexico over the last three years that have gone from Mexico to America. Cutting off the flow across the border doesn't seem like such a great idea in terms of their objectives.

Public investment, tax reform, rational immigration reform, focused energy and environmental policy, active promotion of exports, if we can do those five things, there is no reason why the growth rate of this economy cannot be significantly accelerated. Accelerating the growth rate of the economy is central to whatever it is you care about. If you want to reduce the federal debt burden, far and away the most important determinant as to how fast the economy is growing and just what that means for tax collections. If you want to help the poor, far and away the most important determinant of whether that will happen is how much revenue there is for new programs and how tight the economy is. If you want to be strong and active in maintaining a presence, an influential in the world, the power of our economic example is the most determinant and

most important determinant of that. Whatever you care about creating, a broad based economic growth has to be the center of achieving it and it's not some kind of black magic how that should be done.

Gillian Tett: The one thing you've not mentioned in that list is trade.

Lawrence: I said export.

Gillian Tett: Oh I take it back, sorry. I was too busy thinking of my next question which is this, it's very easy to laugh at Trump about the war and yet the reality is that not even four dozen of the democrats in congress actually came out and supported strongly the recent trade deals. How on Earth do you persuade your own political side to get on board and fully embrace and support free trade right now?

Lawrence: I think we do have to think about this in some new ways. I'm for TPP. My reading of the evidence is that what we gain in terms of the greater ability to sell American products in foreign markets substantially exceeds anything that others gain in terms of access to our markets, mostly because our markets have always been very very open. I'm for TPP essentially on those grounds. The people out there are right, that we have taken an approach to economic integration into managing global economic issues that has been partial and selective. The United States and other major countries have invested, I would guess, thirty times as much political capital in this trade agreement as they have in going after the hundreds of billions of dollars of ill gotten gains that have been documented in the Panama papers. The agenda forward on international integration has to be an agenda that puts the prevention of racism to the bottom at the center of the agenda rather than as a peripheral item to support the achievement of the objectives of large multinational companies, who in many cases have objectives that don't have a terribly strong relationship to US levels of employment. I think we have to be intellectually honest. A great deal of what we're talking about in trade agreements in the twenty first century is not actually about the economic theory of free trade.

Mutual tariff and quota reduction, I will be for that and I think almost every economist is for that and they should be for it and it is right. If you're talking about how long should patent protection last in other countries. If you're talking about what should the capital requirement be on a foreign bank. If you're talking about what's the definition of antitrust rules on a global corporation. Those issues are very complicated issues and I think in a vast majority of cases the position that the administration has taken has been the correct one. That's not some open and shut case like tariffs and quotas, that's a case of balancing, competing, and competing equities and competing issues? I think we need to stop labeling economic harmonization agreements as free trade agreements and assuming that they're sort of motherhood level good because we call them free trade agreements. We need to recognize that once we engage in harmonization discussions, we can engage in them for the benefit of everybody and not just for the benefit of some very specific business interests. I think if we move forward in that spirit we can rebuild a broad political constituency for an engaged economic internationalism. I think the current paradigm is very much on it's last legs.

Gillian Tett: Wow. Well thank you very much indeed Professor Summers. I think I will join many people in the room in hoping that many of your ideas, if not your person, do appear in the next administration but only

after you've written them for the Financial Times first. Thank you very much indeed.