LARRY SUMMERS

On November 30, Maria Figueroa Küpçü, a Brunswick Partner who is New York Office Head, hosted a gathering of business leaders in the firm's Midtown board room. These leaders came to hear former US Deputy Treasury Secretary Neal Wolin, now Chief Executive Officer of Brunswick, interview his former boss, Larry Summers

PHOTOGRAPH: ANDREW HARRER/BLOOMBERG

NEAL WOLIN: Larry Summers needs no introduction. So I'll be brief. In chronological order, Larry has, among the many things he's done, been the Chief Economist of the World Bank. In the Clinton presidency, he was the Secretary of the Treasury. He was the President of Harvard. Came back to public service in the Obama Administration. Was the head of the National Economic Council at the White House in the midst of the financial crisis. He is now the Charles Eliot Professor at Harvard. And he is, it's fair to say, a leading public intellectual on a ridiculously wide range of topics concerning economic policy, and public policy more generally. So thank you, Larry, for being here.

LARRY SUMMERS: I had the very good fortune when I was the Secretary of the Treasury to have Neal as my general counsel. In that capacity, Neal was crucial in the negotiation of a very complex standstill on $100 billion-plus of Korean debt. When for a brief moment it appeared that there would be some overall agreement between the government and the gun manufacturers, Neal was its architect. And Neal also had the unfortunate responsibility of having to enforce the Treasury's ethics codes.

I well remember when I arrived at a United Airlines counter as the Secretary of the Treasury, with my secret service detail. And United Airlines reacted to my presence by offering an upgrade.

My chief of staff called Neal to inquire whether I could accept the upgrade, and Neal inquired whether there were any spaces available in coach. Unfortunately, there were spaces available in coach. So Neal opined that I was not permitted to accept the upgrade. I did not take it well. (Laughter)

NEAL WOLIN: Obviously, that's not a way to endear yourself to a Treasury Secretary. (Laughter) I want to start with what seems like the topic of the moment, which is tax reform, and its potential growth effects. Earlier in the week, 137 economists wrote an open letter saying there would be all kinds of growth effects. What is your judgment about the chance either in the short term or the long term that tax reform would actually lead to incremental economic growth?

LARRY SUMMERS: You can't rule out the possibility that the tax cut will lead to a substantial acceleration in growth. But it's not anybody's sensible best guess. If you read that letter you just referenced, you'll see that the conservative economists who wrote it quoted three studies. And the quotations are just badly wrong from two of them. And when I say badly wrong, I mean that if a Harvard student did what they did – citing only the high end of growth estimates in the sources being quoted – I would call it dishonest.

NEAL WOLIN: You've been a strong proponent of this idea of secular stagnation. We've got inflation that seems to be anchored substantially below 2 percent. What do you make of it? And what set of things that are politically achievable are likely to bring us out of this dynamic?

LARRY SUMMERS: It's a bit of a mystery. You would have thought that when the unemployment rate was this low and there were this many people saying they had vacancies to fill, that there'd be more wage pressure. And if you had told me every other variable and you'd ask me to guess the inflation rate, I would've guessed higher than what's played out. My guess is that people are more fundamentally scared by the combination of the recent recession experience, the possibility of their job being outsourced to India and the possibility a robot will start to do their job, that you just have very quiescent labor and with very quiescent labor

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you don't get wage pressure. And without wage pressure, you don't get inflation.

That said, what we all just need to get used to is that for the last 40 years, even 60 years, the labor force has grown reasonably fast. It's grown reasonably fast because we've had significant immigration. Because people used to average having three kids. And because more and more women were entering the labor force. The adult labor force was growing at one and a half percent-ish a year. Going forward, the adult labor force is not going to grow. If the economy works as well as it used to, it is going to grow substantially slower than it used to. And that's just life. It's OK. It's sort of more like GDP per person that we care about, than it is the total quantity of GDP. In that sense, slower growth is baked in demographically.

On top of that, there's much less call for physical investment than there used to be, because people shop electronically rather than go to malls, because a law firm that used to need 1,400 square feet of space per lawyer now needs 700 square feet because it stores things in the cloud. Because of whatever it is that's causing our leading tech companies like Google and Apple to be rolling in cash – without full uses for cash.

All those things combined with rising saving, because people are living longer, because more capital's coming from abroad, because more of the income's going to rich people, all that means, you got a lot of savings. You don't have much investment. That means low interest rates. That means high asset prices, because the savings flow into the existing assets. That means limited demand pressure. Which means a tendency to sluggish growth. And it means a tendency to low inflation.

And it raises the question whether when you have good growth under these circumstances, is it financially sustainable?

In the 2000s, we had the mother of all housing bubbles. We had a vast erosion of credit standards. And it's not like the economy was on fire. The economy was kind of OK. The sense of rapid growth over the last couple of years, is that some new strong sustainable foundation? Or is that something that goes with stock prices going up 20 percent a year? And if in order to grow at a reasonable rate, you need to have stock prices go up to 20 percent a year – well, hello, that's not going to keep happening for five or 10 more years.

There's a question whether the economy is more brittle than many people imagine. We have a playbook for fighting recessions in the United States. That playbook is the Fed cuts rates by 500 basis points, by 5 percentage points. Given where rates are now and given where people think they're going, it's going to be a very long time before there's anything like 5 percentage points of room to cut rates in the event of a recession.

I kind of feel like we're living on borrowed time. But if it turns out that inflation drifts up to 2 percent, things stay moderate, debts don't accumulate, the markets are kind of broadly stable, not rallying and growth stays great for another decade, then I'll have been wrong. And I don't preclude that possibility at all.

NEAL WOLIN: What policy would help push things in that direction?

LARRY SUMMERS: I look around and I see that the average American pays the equivalent of a 60 or 70 cents-a-gallon gasoline tax, in extra automobile repairs, because we don't do a good job of maintaining our roads. The Democrats say a bunch of it is an unwillingness to allocate money. And they are right. The Republicans say that the regulations are so crazy that it takes years to build a simple bridge. And they're right, too. I mean, people estimate that the Second Avenue subway cost five times as much to build per mile as the subway in Paris. You know, the French, they have unions, they have all the stuff we don't like. And they did it for one-fifth of the cost per mile as what we did.

NEAL WOLIN: To widen the aperture, what do you think of the path the US is taking in its engagement with the world, especially in the economic sphere?

LARRY SUMMERS: You have to come to a judgment. Do you think the 70-some years since World War II have basically been good years for the US or do you think they've been bad years? It seems to me it's pretty obvious that they've been good years. There hasn't been another war. Americans really live vastly differently than they used to. And they've been fantastic years for humanity as a whole. And that's had a lot to do with a relatively open international system in which there was big growth in trade, big growth in the flow of capital, big growth in the flow of ideas.

I think it's pretty obvious that it was the right strategy. And while I have, in past years, bitterly decried the policies of the presidents I didn't serve, I think if you take the large view, what I just described has been something that's been

US Deputy Treasury Secretary Neal Wolin, far left, stands with Secretary Tim Geithner and First Lady Michelle Obama in 2010. She was speaking to Treasury employees in Washington, DC.

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supported in a broad bipartisan way since World War II. And that is under challenge.

Gary Cohen and H.R. McMaster, who would be viewed as the establishment edge of the Trump administration, took to *The Wall Street Journal* some months ago to proclaim that there's no such thing as an international community. There's only the constant struggle between nations. That seems to me to be a very dangerous idea. And ultimately that hurts American business when it tries to do things abroad. It leads other nations to retrench and focus on their own advantage rather than cooperation. It causes us to be excluded.

NEAL WOLIN: Do you buy the argument that international economic complexity plays into the PRC's hands? Is this all just good news if you're the People's Republic?

LARRY SUMMERS: This system of basically open global markets, opportunities to export, foreign investment, ability to send hundreds of thousands of people to US universities to learn how to do artificial intelligence and go home and start companies doing artificial intelligence, this liberal system has really been pretty good for China. So if that system collapses, I'm not sure it's going be quite that terrific for them.

NEAL WOLIN: What politically viable options are there for us, as a country, to try to make important headway on the persistent problem of inequality?

LARRY SUMMERS: My suspicion is that this trend toward increasing inequality may not – of its own volition – change. This is why we need more progressive taxation, not less. This is why we need to be doing more about the geographic element, both putting more capital and more things that are new into the decaying parts of our country, and at the same time, making it easier for people to move into more productive hubs and hot spots in our economy.

We are surely making a big mistake as a country by spending much less on the education of the 70 percent of our population that is not going to graduate from college than most other countries do. There is a lot that one can do that is enormously productive and enormously satisfying without a college degree. Germany in particular does a great job in respect to this problem. But we don't do it.

People take it as a given that technology helps the skilled. But you know, technology will replace Wall Street traders long before it replaces gardeners.

NEAL WOLIN is Chief Executive Officer of Brunswick, based in Washington, DC. He was Deputy US Treasury Secretary under Secretaries Tim Geithner and Jack Lew. Additional reporting by **LIZ DAHAN**, a Director in New York.