

THE UNIVERSITY OF CHICAGO INSTITUTE OF POLITICS & CNN PRESENT

# THE AXE FILES

## The Axe Files - Ep. 98: Larry Summers

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[00:00:01] UNIDENTIFIED FEMALE: And you're going to go straight -- you want him to go straight through this stuff

UNIDENTIFIED MALE: Yes, yes. Except I have to take momentary breaks, wait, Kelly (ph), let me have the -- thank you.

UNIDENTIFIED MALE: So we have breaks, and we'll stop at 5:35, right?

UNIDENTIFIED MALE: Yes.

UNIDENTIFIED MALE: Is that --

UNIDENTIFIED FEMALE: That's good.

UNIDENTIFIED MALE: Here we go.

UNIDENTIFIED MALE: OK, all right. Let's go change --

LARRY SUMMERS, FORMER TREASURY SECRETARY: And what -- and then what happened, you just put this on some website and people download it? And you --

DAVID AXELROD, "THE AXE FILES" HOST: iTunes. And CNN is a co-producer, so they push it out.

UNIDENTIFIED MALE: Oh, so CNN pushes it out. I see.

AXELROD: Yes.

UNIDENTIFIED MALE: So this is --

AXELROD: Its co-thing of my institute and CNN so --

UNIDENTIFIED MALE: Got it.

AXELROD: Which is my -- yes.

UNIDENTIFIED MALE: But we were getting -- we were -- this existed pre-CNN partnership. So we started at our own company.

AXELROD: Yes. They grabbed it because they thought it had -- I may do a T.V. show now too that serve an interviewee shows. So we're -- I'm about to sign a new contract with them.

UNIDENTIFIED MALE: You like-- you've liked CNN.

AXELROD: Oh, yes, they've been great to me. They've been great. Ready to go? OK, yes, OK. All right, we go. We go.

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I'll do an introduction after, so I'm going to jump right in. Larry Summers, my old friend and colleague. I -- you know, I always wonder how much one's life is predetermined and my mom was a journalist and then she went into qualitative research. She always said she named my sister and me thinking that our names would look good in bylines. And, you know, you like to think you have freewill but I went into journalism. And then I went into politics and I was heavily into qualitative research. You know where I'm going here.

SUMMERS, David.

AXELROD: You were born into sort of economics royalty. Your parents were both distinguished economists. You had relatives Nobel Laureates in economics. Did you -- was it -- did you always sense that you were going to follow in that path?

SUMMERS: Not always. My -- neither of my brothers went into economics. One of my brothers is a doctor and one of my brothers is a lawyer. And I wouldn't say my parents ever tried to push me into economics. In fact, when I was a kid I thought I was going to be a mathematician or a physicist. And as a kid, I was very interested in math and physics, and science.

And then two things happened. One is I got very turned on to public policy and I saw economics is a way that I could be analytical and scientific, and also engaged with thinking about policy questions which are the questions that excited me most. And the other, frankly, was that I got to MIT and I saw what real mathematicians and real physicists were like and I decided probably be better to do something where I was relatively good, then something where I was struggling.

But then when I was at MIT, I was very much on the debate team and I was engaged by that and most of the people who did that ended up going to law school. And so I fought pretty hard about being a lawyer because I like to --

AXELROD: Arguing.

SUMMERS: -- to argue. Exactly.

AXELROD: Yes.

SUMMERS: I thought --

AXELROD: I learned that myself.

SUMMERS: I love to argue but I decided that as a lawyer for every hour, you spent arguing, you spent 10 proofreading. And then, I didn't want to have a boss. And that being an academic meant you didn't have to have a boss. And so I ended up deciding to go to graduate school in economics. Maybe in some deep sense it was fated. But I didn't experience that it's fated along the way.

AXELROD: So when you were -- you went to MIT like when you were 16 years old. Were you interested --

SUMMERS: Yes.

AXELROD: -- in public policy before that, like when you were a young kid?

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SUMMERS: Yes, I was interested in --

AXELROD: But these issues we're talked about around your table?

SUMMERS: These issues were always were talked about. Not so much technical economic issues but politics and all of that. When I was a very young kid, I was interested in baseball but I was also all over following Johnson beating Goldwater when I was 10 years old and I was completely transfixed --

AXELROD: Yes.

SUMMERS: -- by the 1968 election. And so I was always very, very interested. And I came to have a sense of the moral significance of economics. I remember that the late Art Okun was a close friend of my father's. And I remember the story seems kind of weird to sell now.

[0:05:02] AXELROD: You should say he was CEA --

SUMMERS: He was the CEA Chairman under Lyndon Johnson --

AXELROD: Right.

SUMMERS: -- and was a kind of prominent economic adviser in subsequent years. And I remember as a child probably just after Art left the CEA hearing the story of how there had been a publication of a Commerce Department called BCD, Business Cycle Digest. But the Johnson administration had renamed it Business Conditions Digest because they thought we didn't need to have a new -- a business cycle anymore because economists had figured out how to fine tune the economy and avoid recession. Well, it didn't actually work out that way but it did leave me with a sense that doing what economists do could really have huge effects on the lives of millions of people.

AXELROD: It's kind of -- it's in keeping with the ambitions of that entire era. You know, you had these people who are flushed with winning World War II, who have this confidence that there was no problem we couldn't muster and so the war on poverty and some of the other initiatives of the '60s, you know, Johnson saying we're going to wipe out poverty and so on. Yet, it turns out to be more complicated than it seemed back in those heady days.

SUMMERS: The world is a complex place but I think it's a good idea sometimes to look at things not everyday or every week or even every year. And one does see progress whether it's in the length of people's lives, the extent to which they are able to read, the extent to which violence diminishes. I'm somebody who sort been the principle of why I studied economics and in many ways, been as kind of abiding faith of mine that with the better analysis and a generous spirit and a lot of determination, the world can be made a better place. And I think --

AXELROD: Yes.

SUMMERS: -- with all the problems the world is much better place that it was when I was a child and America is a much better place --

AXELROD: Of course it --

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SUMMERS: -- than it was when I was a child.

AXELROD: Good analysis and generous spirits are not always in abundance in all our precincts but you got involved in politics after you got your PhD at Harvard. You, in the '80s, began to advise candidates Mike Dukakis, the Governor of Massachusetts run for president. You helped advised him.

SUMMERS: I became interested in -- I became very interested in policy and all of that and it shows the --

AXELROD: Was the academy too confiding?

SUMMERS: I don't know that the academy was too confining but I always felt that if you were going to understand the nature of truth, that was a great thing to do. But if you are going to work on investment incentives or bank capital or tax policy, what was the point if you weren't connected to the actual debates in the world where those things were going to be decided? And it was my immense good fortune that I had been -- I think I worked pretty hard at and I think I've been successful at being helpful to a student at Harvard, Jack Corrigan who --

AXELROD: Yes.

SUMMERS: -- struggled a bit at some stages when he was an undergraduate. And six years later, he was Mike Dukakis' deputy campaign manager.

AXELROD: Yes. I want -- he's great, great Massachusetts's pal, Jack Corrigan.

SUMMERS: Politically, yes, absolutely. And it was his job to locate an economic advisor for the campaign and he didn't study hard enough to know that many economists but he knew me. And so there I was and I was given a chance and I learned an immense amount about politics and certain amount about economics doing that and that was when I met a lot of people who subsequently made a big difference in my life, like Lloyd Bentsen and like Bob Rubin and like Gene Sperling and like Sylvia Matthews and Tom Donilon, a whole variety of people --

AXELROD: It's like a who's who of --

(CROSSTALK)

SUMMERS: People who still have been very important in Democratic administrations.

AXELROD: And Obama. Absolutely.

SUMMERS: And I realized -- I realized from that experience something I often tell young people, that being connected and having relevant experience is just worth a great deal.

[0:10:18] There aren't that many people who've given economic advice during a presidential campaign and if you've done it once that puts you way ahead of people who've never done it all. And so, having those kinds of experiences are really very, very valuable if public service is something you want to do as some part of your life.

AXELROD: So you spent some time at the World Bank as the chief economist there. I should take just a slight departure here and ask you about the World Bank and about international institutions because they

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seem to be under siege right now.

What did you learn from your experience there about the significance of these institutions in terms of maintaining global economic growth and particularly lifting those nations that needed help?

SUMMERS: Before I went -- the first thing I learned was that global poverty is a very different phenomena than what we think of is poverty in America. During my time at the World Bank, I went places where -- and saw people where a bicycle was an immense luxury, or where access to clean water was something that was desperately craved. And I came to realize the very special place of the United States because it was very clear that what the United States thought had a very disproportionate effect on what happened at the World Bank.

I also saw that these institutions at their best literally can change the fate of hundreds of millions of people. During the time that I was at the World Bank, there was a major budget and financial crisis in India, and to the point where India, at that point, had only \$1 billion of gold. And they had to put it on a ship and send it to London so it could be collateral for \$1 billion so that the government would be able to meet its payroll. And the World Bank was able at that time to lend it \$3 billion which made an immense difference in putting India on a trajectory where people actually started for the first time to see very rapid growth in living standards.

So I'm a believer that the world is getting smaller, that they're going to be difficult problems and that we need international institutions where people don't just talk, they do, and where what they do doesn't have to do with fighting a war. And I think the special feature of institutions like the World Bank, like the other development banks, like the international monetary fund is that they're places where countries come together to cooperate and actually do things, not just talk about things. And the things they do can educate girls in societies where they otherwise wouldn't get educated, develop power sources that don't do immense damage to the environment, prevent kids from being in places where the heat comes from indoor charcoal and does like the equivalent of packing -- of smoking two packs a day.

So I -- these are profoundly important institutions and I'm very fearful that we're not going to maintain in the next generation the kind of support that the United States has given them in the past.

AXELROD: Well, part of the problem is that you have -- you -- I'm sure there are people who -- if they heard you say what you just said in this country would say listen, I'm just trying to get by here and I'm less concerned about lifting people out of poverty somewhere else and not falling into poverty myself. And that's the tension that, you know, that the right-wing populism has capitalized on.

SUMMERS: Right. And I relate to that concern. On the other hand, the contributions the United States makes to the international financial institutions, all in, is way under a tenth of 1 percent of the U.S. budget.

[0:15:05] AXELROD: Which is not understood.

SUMMERS: Nobody -- people don't -- people aren't able to see that. Each dollar we give, because those institutions can borrow money and because other countries contribute as well is levered 10 plus times over, and look these things are forward defense of U.S. interests.

If a better job had been done of economically developing Afghanistan, we might not have had the trillion-dollar quagmire that's been Afghanistan for the last of 15 years. If we did a better job of economic development in North Africa, there might not be the refugee crisis of the magnitude that we are seeing. If

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we had been more successful in supporting economic reform in Russia, we might not be in the new Cold War that we're facing.

So I don't think of the work of these institutions as altruism. I think -- I don't think of them as soft power. I think of them as forward defense of U.S. interests.

AXELROD: Since we're talking about capital, it seems like a propitious time to take a break for a word from our sponsor. We'll be right back with Larry Summers.

You obviously put a huge role in the Clinton administration, first as deputy treasury secretary, then as treasury secretary. Before we get into some of the specifics of what you did there, you know, I was thinking about this the other day, how much luck plays in presidential cycles.

You guys, not to diminish anything that you did, a very -- president risk -- President Clinton risked a lot of political capital, raise taxes early in his administration to try and fight deficits and you guys did a series of things that were really important. But you also had kind of an upsurge in the economy led by the tech bubble.

And so the question I guess is how much does this stuff cycle on its own and how much does -- do presidents impact on them.

SUMMERS: David, I think the presidents get more blame for bad stuff that happens and less -- and more credit for good stuff that happens than they deserve. I came to the view after -- I came to the view, initially, it always seemed quite odd to get as much credit for some of the good stuff that I think was caused by the vicissitudes of the business cycle and the strength of the private sector. And I guess I've come to the view in life that since I get blamed and --

AXELROD: You'll take it.

SUMMERS: -- the presidents I worked with, get blamed for all sorts of things they didn't do, it's only fair to take credit for all kinds of things that have many causes.

But I also think that Vince Lombardi got it right when he said you make your breaks and --

AXELROD: Yes, he said luck is where preparation and opportunity meet.

SUMMERS: Yes, that's another one.

AXELROD: Yes.

SUMMERS: Another observation is some -- I don't remember who it was, one of the famous golfer said, you know, odd thing, the more I practice, the better the breaks I get.

AXELROD: Yes.

SUMMERS: And so I think it's also fair to say that we did have a big boom. Part of the reason we had a big boom was that we had surprisingly low interest rates and they spurred a lot of investment. And that had a lot to do with the tough choices that Bill Clinton made regarding the budget deficit in an era that was completely different than the one we live in now, in an era where the problem really was excessively high

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costs of capital.

So, I think the president is surely entitled to a great deal of credit for the good economic performance that took place in 1990s.

AXELROD: And when you were there, you had -- you were involved in a series of sort of international crises involving the finances of other countries, Mexico, Russia, some of Asia, and you played a big role in resolving those, and you helped modernized, kind of antiquated financial structure.

[0:19:57] One of the issues obviously that has arisen and is -- about like Bernie Sanders and debates would constantly raise Glass-Steagall. I always wondered whether people actually knew who Glass and Steagall were and what Glass-Steagall was, but the deregulation of the financial industry has been hotly debated. And I know you have reflected on some of that --

SUMMERS: So look, David, here's kind of what I think. With the benefit of foresight because obviously -- benefit of hindsight is much that I think could have been -- would have pursued different priorities and maybe some of it should have been foreseeable at the time in some ways. Certainly, all there is things in Dodd-Frank, if they had been legislated during the 1990s or have been legislated in the period between 2000 and 2008, would I think have been helpful in mitigating the financial crisis.

On the other hand, I think that it's much too broad brush to speak of this in terms of regulation versus deregulation. Not all deregulation is bad and not all regulation is good. Glass-Steagall, the idea that banks and investment bank should be separated, had nothing to do with the 2008 financial crisis, nothing. If you think about the major institutions that were involved Lehman Brothers, AIG, Bear Stearns, Fannie Mae, Freddie Mac, none of them were combined banks and investment banks. And in fact, the ability to combine banks and investment banks, like when Bank of America bought Merrill Lynch, was actually very helpful in resolving the crisis.

The country that came through the financial crisis best was Canada. And Canada has always had a banking system based on -- for the whole country having five large banks that do banking and investment banking. So I think the idea that it's all about the combination of banks and investment banks, I don't think that's a plausible view to have.

Could more have been done with respect to derivatives? Yes. Was it imaginable that it would be done with a Senate that had Phil Gramm as the chairman of the banking committee? I don't think so but certainly if I had to do over again, we would've been caught trying harder on some parts of those issues.

AXELROD: You know, there were --

SUMMERS: I think we did. I think we did and I don't think this gets -- story gets told enough. If you look at almost everything that is raised in connection with mortgages and predatory lending Andrew Cuomo and I pushed hard --

AXELROD: Andrew Cuomo was the HUD --

SUMMERS: Was the HUD secretary at the time, pushed hard for all fixing that. Given the attitudes of the Fed at that time and given the Republican Congress, we didn't get anywhere.

If you look at what was actually the biggest failure, the failures and the need to bail out Fannie Mae and

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Freddie Mac, their problems of being undercapitalized was something I'm proud to look back and say that I was able to warn against while I was Treasury Secretary.

AXELROD: You know --

SUMMERS: Frankly, the political pressures on both sides of that one were immense.

AXELROD: A lot of Republicans now say well, that was the cause of the crisis, Fannie Mae and Freddie Mac, and the GSEs were really leading the way on that. That the counterargument is that some of private concerns that were involved in mortgage lending got into deeper water than Fannie Mae and Freddie Mac. But I'm eager to hear what your response to that. It seems too glib.

SUMMERS: I don't think it's reasonable to say that Fannie Mae and Freddie Mac caused the crisis. On the other hand, we did have to put hundreds of billions of dollars in to bailing them out which we would not have done if they had been adequately capitalized.

AXELROD: Didn't they follow the industry into the --

SUMMERS: No, no. They made very important imprudent lending and mostly they had virtually nothing in the way of reserves and they were allowed to operate with very little capital because of the perception that the government was --

[0:25:07] AXELROD: Backing them up?

SUMMERS: -- guaranteeing. They had much less in the way of reserves and capital than any other financial institution would have. And frankly there was a kind of unholy alliance of their shareholders who didn't want to have to hold large amounts of capital.

And people who wanted to see large amounts of lending come from them and it was a kind of dangerous situation that shouldn't have been allowed to fully metastasize. But, there's nothing you could have done just about Fannie and Freddie that would have prevented these problems. I think if you had addressed that, if you had addressed predatory lending, that would have been helpful.

I also think that, and I think this is fair that the people who had regulatory responsibility from 2000 to 2008, as the crisis approached, bear very substantial responsibility. And I remember being appalled to see the Bush administration have some kind of summit on financial regulation. And the photo op of the summit was the -- all the regulatory officials standing with the kind of saw, used to cut wood, sawing through books of regulation to signal their attitude towards regulation.

AXELROD: Well, guess what? It looks like the same crowd is getting their tools out again.

SUMMERS: And I think we've got huge risks that you can quibble with aspects of Dodd-Frank. But if you went back to the pre-Dodd-Frank world, you would be taking immense and systemic risks of another financial crisis, so --

AXELROD: How deeply concerned are you about that as you look at some of the rhetoric and some of the names that have surfaced in terms of --

SUMMERS: I think some of it is very, very scary. I think that the Congressman Hensarling, for example,

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who's been mentioned as a possible Treasury Secretary has a very systematic record of opposing most of the major steps that in my view are constructive in terms of making financial crisis less likely, others don't have as clear a record on financial regulation. But the idea that we would repeal Dodd-Frank --

AXELROD: Was something that Trump -- that Donald Trump promised during the campaign.

SUMMERS: I think that would be a catastrophic kind of error. There can't be any question that banks need to have a bigger cushion of equity to protect against risk than they used to have. That they need to have more cash in the vault to deal with whatever may come, given what we've seen may come that there need to be much stronger protections for consumers, and all of that is in Dodd-Frank.

Are there some rules that burden community banks excessively? There may be. Reforming those could be the right thing. Are there other rules where there's just too much bureaucratic intrusion into the details of banking? There may be, as you know because we argued about it.

AXELROD: Yes.

SUMMERS: At the time, I was never much of an enthusiast for the so-called Volcker Rule--

AXELROD: Right.

SUMMERS: -- which stops various kinds of trading activities of banks, because I thought by making there be fewer and fewer players in the markets, you might make them more unstable, and I didn't see how that would really do much to make banks safer. And I think now that we have the Volcker Rule, we do have more concerns about instability in markets.

And so I'm not sure whether we should repeal it, given all that's going into it. I probably wouldn't favor that. But at the same time, I don't think the responsible position is to say that every single jot and tittle of the 2700-page Dodd-Frank legislation should be treated as some kind of biblical text that can't be altered. But right now, the dangers are all on the side of the pendulum swinging too far back and I think that's very scary.

[0:30:02] AXELROD: This is by way the first time in all the year that we've been doing this podcast that anybody has said jot and tittle on the podcast, so let that be noted.

I want to talk about you when we first met, two aspects of it. The first is the crisis. You came in a, you know, at a time when it was this tidal wave was sort of headed our way. And I remember sitting in a room with you and you telling the president-elect that there was a one in three chance of a second Great Depression. How frightening was it to be sitting in -- I mean found it frightening but I was not -- I was not an economic advisor. Did -- How frightening was it to you and the economic team to see the forces that was massing, the wave that was coming?

SUMMERS: Certainly it was by a wide margin the most frightening professional experience of my life. During the 1990s I had been involved in huge financial crises for a number of emerging markets; Mexico, Korea, and so forth. But, it gave me kind of empathy for the policy makers I dealt with then that I probably hadn't had at the time because it feels very, very different when the crisis is in your country than it does when the crisis is in another country, yes.

You know most of the time things in economics and things in the world work like thermostats. When

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there's a push in one direction there's a pushed back in the other direction and so the room gets back to normal temperature. Every once in a while you have a phenomenon that's more like an avalanche where the worse it gets the worse it gets even faster, and that's what the economy felt like from about September of 2008 to March or April, maybe May of 2009.

I think the president gets immense credit for having produced the sharpest one quarter change from way negative growth to significantly positive growth, the biggest change from one quarter to the next that the United States economy has experienced since we had quarterly GDP figures. And some of that credit to some of the policies that we advocated. I think a huge amount of it is a credit to the sense of steady resolve and confidence that the president was able to project and it was a remarkable display for me of leadership capacity.

AXELROD: Yes, you know, I look back at that, I mean I remember coming to work each day wondering whether we could keep the balloon in the air, and, you know, there are obviously some very freighted questions what to do about the banking industry, what to do about the auto industry. But we look -- I think that we have a kind of collective amnesia right now about exactly where we were eight years ago and just how fragile things were. What were the things that -- you sort of projecting, confidence was one thing, from a policy standpoint what were the things that were done that were absolutely critical to pulling America away from the abyss and what are the things that should have been done or could have been done better?

SUMMERS: I think we did three big things right. We committed through the Recovery Act a major injection of funds into the economy, over \$800 billion, and a commitment to do what was necessary. There are people who said it should have been bigger and in a purely economic sense it should have been bigger. I remember saying to many people at that time, I was a good deal heavier than I am now and people --

AXELROD: Yes, you're looking quite felt.

SUMMERS: And people would say how big should it be? And I'd say "Look, I suppose I could lose too much weight and become anorexic, but it doesn't seem like a relevant risk starting where I am now. And it doesn't seem to me that there's any risk that we're going to over fiscally stimulate or expand this economy." I actually think and I give you -- give you David and Rahm Emanuel and Phil Schiliro and others who worked with the president's credit.

[0:35:01] I think we got every dollar that was extractable from the Congress that we had at that moment.

AXELROD: Yes, I don't think that -- I think that wasn't well-appreciated --

SUMMERS: If we pursued a different strategy I think we could easily have gotten less money later. And so, I think the -- I think the judgments there were all political and I have not heard -- I've heard people second-guess convincingly things that people have said on the economic side. I haven't heard any coherent political analysis suggesting that those of you who are on the president's political and communications teams could have done something differently that would have gotten us all a larger stimulus.

AXELROD: Yes, I think histories can be very, very good to him when that period is reexamined.

SUMMERS: I think on that -- second thing second thing and, you know, hear I give immense credit to

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Tim Geithner, we found an approach. It was a combination of things stress test, certain announcement --

AXELROD: Recapitalism (ph).

SUMMERS: -- variety financial facilities that were enough to give confidence to the system to enable the banks to continue to function without getting involved in actually the government taking over the banks, you know, the British did that, and the British government still hasn't been able to get out of the banks.

AXELROD: What about the idea --

SUMMERS: That it took over. So, I think Tim found a very good balance on that, and the president gave him support it was --

AXELROD: -- what about the idea -- what about the idea, Larry, and I agree and in fact it's not well-understood that all that money came back and then some from the support that was given to the banks. But what about the idea that no one paid a price for that the bankers essentially came back and or have or back and fat and sassy but there are still people all over the country who haven't recovered from the --

SUMMERS: Well first of all the people who -- it varies from bank to bank, but the people who owned stock in Bear Stearns or in Lehman or WaMu or in Marcovia (ph) or AIG essentially got wiped out. The people who own stock in Citigroup or Bank of America, they lost 90 percent of their money --

AXELROD: How about the players who run these programs --

SUMMERS: The CEOs of the banks that were in serious trouble, they all got knocked out -- they all got fired and most of them had -- most of their net worth wrapped up in their financial institutions. You know, one thing people say I can't evaluate from the perspective that I have, which is, how come people didn't go to jail?

Well you know -- and it maybe the people should have gone to jail and that maybe there were wrong decisions made, I just can't judge that. What I do know is that stupidity is not a crime. And whether there were actual crimes committed and what actual crimes there were, I can't -- I'm not in a position to judge that the right decisions were made on that or the wrong decisions were made. I'm not -- but that's obviously an issue that legal historians will want to go back and look to in this.

I think there is one other aspect of this, which is, we always put it at the time was, you can have a just war, and there can be victims in a just war where there's no justice. And in the same way in a financial crisis with the basic objective is to restore confidence. There're maybe some people who benefit who don't deserve to benefit and those unjust beneficiaries are the same -- or the other side of unjust victims in wars, but at some level we made a decision and I would defend this decision totally. That if you had to choose between the restoration of confidence to allow the economic system to function and the achievement of vengeance that probably the confidence was the more important thing and it's very easy now after we've achieved confidence to say there could have been more vengeance. And it's still would have achieved confidence and, you know, we'll never know whether that's right --

AXELROD: The question is whether it's -- what you call vengeance others --

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SUMMERS: I'm quite prepared to say it is, justice. And I'm quite prepared to say that there was some cooperation with the arsonists in putting out the fire the problem is that the arsonists are the only people there.

[0:40:02] And you have to put out the fire, it's hard not to -- it's hard not to cooperate. So, in the whole of it the shareholders lost their money, the CEOs of the institutions who got into a mess lost their lost their jobs --

AXELROD: Though many with fairly comfortable --

SUMMERS: In some cases --

AXELROD: But let me go -- we don't -- I don't want to belabor this, I just want to take quick break and then I want to ask you about another aspect of your work that seems very relevant now.

The first time I remember meeting you was at a meeting advising the President when he was a senator and running for president, and you made a very strong case for the predicament of the middle class and that they needed to be more of focused on this. And you and I were talking before we started recording about these fundamental trends that -- in fact you could argue that part of the economic crisis had to do with technology as well because the repetity with which trades were made were almost impossible to detect, they were happening so fast, and they were all mechanized and so on.

But work is now being mechanized and you identified this a long time ago at a prodigious rate, and a lot of jobs that were good-paying jobs are now disappearing. That seems -- that was a motivating factor behind a lot of the rage that you saw on the electorate and particularly among non-college-educated white working-class voters that redounded to Donald Trump's benefit. Where is this all going in our economy? And what do we do about because technology is churning faster than ever?

SUMMERS: Start with this David. In 1965 1 in 20 men in the United States between the ages of 25 and 54 weren't working. Today, even after eight years of recovery it's only one in seven, one in seven men between the ages of 25 and 54 who aren't working. And if those trends continue, by 2050, if easily be one in four or one in three men between the ages of 25 and 54 --

AXELROD: So a third of men --

SUMMERS: Who aren't working.

AXELROD: -- in that category are not working.

SUMMERS: Not working and, you know, that's got staggering implications for families, for what kind of role models kids have, for what happens in terms of crime, for the health of communities, for the risks of drug addiction. So I think that finding work for everyone is going to be the central challenge of our politics over the next generation. We're not going to solve that problem by scapegoating trade agreements, you can argue their merits in either direction, but to say that the trade agreements we've had are the main reason or a large reason why this is happening --

AXELROD: How much is trade versus technology will cause --

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SUMMERS: Most -- The point I want to make first is that most of what is caused by trade or globalization is not caused by trade agreements. What Americans do not understand is that most of -- most part United States didn't have any important trade barriers 30 years ago before these trade agreements. People could sell their products here, really before NAFTA. People in Mexico could mostly sell whatever they wanted to sell in the United States --

AXELROD: Well, of course since where about these factories moving --

SUMMERS: -- so it's not trade agreements and we didn't have any laws that said factories weren't allowed to move. And so the question really is what we can do to make ourselves as attractive an environment as possible? And what does that come down to? We need to make sure we have big strong market, and that means we need macroeconomic policies that don't fetishize inflation, but instead focus on achieving adequate demand. That's why I felt it was so important that the Federal Reserve keep interest rates down, and that we engage in fiscal expansion.

We need to have projects that put people to work. It is crazy that a country that can borrow money at 2 percent for the long-term in a currency that it prints itself, that has one in seven men out of work, that has very low materials costs lets LaGuardia Airport languish in the form that it is in less there be 30,000 --

AXELROD: And this is been vow between the President and Congress throughout now Donald Trump says --

SUMMERS: Donald Trump maybe on the right side of it. It's hard to tell. He's --

AXELROD: You've said that the way he's talking about infrastructure, the way they're fashioning this is not going to be helpful.

SUMMERS: If it's all -- if it's all privates -- if it's all through tax credits for infrastructure projects that earn a toll, that's not going to be most of the important infrastructure projects, that's not going to be fixing the potholes, that's not going to be fixing the schools, that's not going to be repairing the escalator at LaGuardia -- at LaGuardia Airport.

[0:45:22] So, they're scoped to do something but the details are going to have to evolve a lot. And of course the last part of this is our education system and we don't put enough resources into it. Teaching isn't the kind of valued and honored profession it should be. We don't have the kinds of accountability and standards. And I don't know that we've even thought about what kids need to learn in a modern way. Every 11th grader in America learns trigonometry, well we don't do surveying anymore and so the cosine of an angle really isn't very important. But there's no --

AXELROD: I don't think it was that important when I was forced to study --

SUMMERS: Right, it probably wasn't -- it probably wasn't when you were there either. But there's no job, nothing that I've done since I left school and I'll bet, David, nothing you've done since you left school were you able to do a loan? It didn't involving working with other people, and coordinating with other people and cooperating with other people. And we don't put nearly enough emphasis on teaching that in our schools.

So I think the government is going to have to take a much larger role in assuring that everybody is prepared for work. And, you know, one thing that -- one thing I've missed in our debate, one thing where I

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kind of think our party has gone a little wrong is we are concerned about the burdens of college debt and we're right to be concerned about those burdens --

AXELROD: Yes. But what about the --

SUMMERS: -- but, you know, the half the population that doesn't get to go to college, they have an even bigger problem.

AXELROD: Right.

SUMMERS: And I think that if we're going to be progressive and if we're going to commit ourselves to the people who traditionally been the constituency of the Democratic party, I want to see what we're going to do to support the transition to work and the transition to adulthood for the people who don't have a chance to go to college or the people who don't choose to go to college. And I think that is a huge, huge imperative for us going forward. So --

AXELROD: Let me ask you just to finish up on where we're at. Trump has -- and Congress appears ready to move on an unfunded tax cut of fairly big magnitude. He has thought -- we mentioned infrastructure, he said he will not touch entitlement program, social security and Medicare. How does this -- how does this happen without massive new debt, and I just remembered back when we were being lectured, you and I would go over to Congress sometimes and get lectured on how burdensome debt was. How does this -- how does this happen without massive new levels of debt?

SUMMERS: It doesn't. At today's interest rates, today's low interest rates I don't think austerity and reducing debt is our central priority. I think our central priority is getting the economy grow.

AXELROD: Right.

SUMMERS: What I'm worried about though is that we're going to do tax cuts that are going to cripple government for a generation. Think about for example the proposal that's been made to eliminate the gift and the estate tax. If you do that then every billionaire in America is going to setup their next five generations of their family in trusts over the year after you do that. And even if you raise the estate tax and the gift tax back after that the money is all going to be gone and the tax base is going to be gone for another generation.

And so, I'm not just worried that we're going to do imprudent things, I'm worried that we're going to do irreversible and imprudent things that will cripple us for a generation going forward. And so, I think the challenge for those of us who are going to be resisting moves in the wrong direction is going to be to distinguish between many, many things that we don't like. And to put all the energy we can into the things that are irreversible and will compromise the country for a long time. Yes, into fighting and resisting those and making the case for their economic illogic.

AXELROD: I just want to ask you two more questions and I'll let you go, which I don't -- we'll edit that out. But -- One I should have asked earlier, Mary Jo White announced her resignation as head of the Security Exchange Commission, that was interpreted as opening the door to a rush of -- were you concerned about that news and do you see that as a harbinger of deregulation?

[0:50:25] SUMMERS: Look, presidents of the United States fairly quickly are able to choose the regulators they want. Barack Obama was able to choose regulators who were serious and vigorous and

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to get them into place in the first few months of his administration. So while I was disappointed to see Mary Jo White's resignation, once I saw the election result I had processed that we were going to get the kind of regulation that Donald Trump preferred and that makes me very, very nervous. And I hope that sometimes people surprise, I remember many, many years ago people like you and me, David, were very upset about Surgeon General Everett Koop.

AXELROD: Yes, I remember.

SUMMERS: And we thought he was going to be a conservative who was going to undercut all kinds of values that we had and he turned out to be a huge and effective fighter for public health. And I think that wasn't the story -- that wasn't the usual story in the Reagan administration but it was the story in his case. We're going to have to hope for some of those stories.

AXELROD: I must say the repeal of Dodd-Frank and ramped rapid deregulation is a strange kind of populism. And you got to wonder whether the people who elected Donald Trump saw this as their mission.

SUMMERS: I've made a -- I've, David, I've -- over the period when Donald Trump has been running and with more intensity in the week since his election, I've been reading about the history of populism around the world and, you know, the most virulent forms of it are in Latin America. And if you look at Juan Peron in Argentina this is exactly what it was, a lot of rhetoric of national pride about the middle class and then a lot of giveaways to the friends and cronies of the president. So I think often this kind of nationalist populist appeal comes with a set of policies that subvert the interests of the very people on whose behalf --

AXELROD: But it's on the rise. We're on the rise all over Europe and all advanced economies.

SUMMERS: And I don't think it's not -- it's not just that it's going to be bad for the economy overall, I think the people who were going to lose most are the people who in whose name these policies are being pursued. And that's why I worry very much about the situation of the American middle class.

AXELROD: Larry Summers, thank you so much --

SUMMERS: Thank you.

AXELROD: -- for your time, for your friendship and --

SUMMERS: Thank you.

AXELROD: -- and we look forward to hearing from you down the line. OK.