

A professor of economics at Harvard University from 1983-1991, Lawrence Summers served as chief economist of the World Bank and secretary of the Treasury before returning to Harvard University as its president in 2001.

In this interview, Summers discusses the battle of ideas, globalization and its backlash, the Asian financial crisis, and Clinton's economic strategy.

The Significance of Ideas and the Transformation in Economic Thinking

INTERVIEWER: From your perspective—both working in academics and in highest levels of government service—how do economic ideas translate into practice and into the lives of ordinary people:

LAWRENCE SUMMERS: Ultimately it is ideas that shape what it is that happens, whether it's the change in thinking among economists from the idea that budget deficits drove an economy forward to the idea that budget deficits slowed economic growth and kept an economy down; whether it's the shift from the idea that central planning will get the best allocation of economic activity to the idea that a decentralized market will work; whether it's the idea that the best way to stop pollution is to have government production of industry; [or] whether the idea the best way to stop pollution is to charge people who pollute. All of these are new ideas that were unconventional thoughts once and became conventionalism. Keynes was right about many things but never more than when he said that "the rhetoric of policy-makers is the distilled frenzy of academic scribblers." That was then. In the world of today, with the fax machine and all of that, the lags are shorter and often, rather than the distilled frenzy of academic scribblers, it's faxes from a think tank or of a policy school or the results of the op-ed column. But ultimately what I was impressed by my during my years in government was how much the intellectual climate and the prevailing intellectual notions constrained and represented the universe within which the discourse took place.

INTERVIEWER: How?

LAWRENCE SUMMERS: There were only a certain scope of ideas that were acceptable to talk about, and that was very much framed by the results of research and analysis. So the idea that a huge spending program is the way to stimulate the economy, or the idea that the way

to get better at high tech is for the government to take over the technology industries, these kinds of ideas basically have become passé because they've been disproven; they don't represent a reading of experience. So the debates that we have are within paradigms that are set by research, whether it's how best to use marketing incentives to help the environment, [or] whether it's how best to have fiscal policies to help the economy. The political debates take place within a universe that is shaped by the development of new ideas. Of those new ideas, none is more important than the rediscovery of Adam Smith and the idea that a decentralized system relying on price signals collects information and provides much more insurance than any kind of centrally planned or directed type of system.

INTERVIEWER: Talk about your own intellectual involvement as a young graduate student. What did you think of [Hayek] and Friedman?

LAWRENCE SUMMERS: In many ways Milton Friedman was a devil figure in my youth, [in a] Keynesian household of economists. I grew to see the issue as more nuanced as I was in school and ultimately have come to have enormous respect for Friedman's views on a range of questions. That's a respect that is born of the power of his arguments as one considers them more and more deeply. But it's a respect that's also born of the lessons of the experience of the success of decentralization in a place like Silicon Valley and of the failures of centralization in places like Central Europe and Russia. In many ways some of the ideas of [Hayek] and Friedman about how markets best provide incentives, and best provide information, and best collect information may in a sense be even more true today, because of the changes that information technology is bringing, than they were at the time when they were propounded. If you think about it, it cannot be an accident that it is the same 15-year period when communism fell, when command-and-control corporations like General Motors and IBM had to be drastically restructured, when planning ministries throughout the developing world were closed down, and when the Japanese model of industrial policy proved to be a complete failure. There is something about this epoch in history that really puts a premium on incentives, on decentralization, on allowing small economic energy to bubble up rather than a more top-down, more directed approach, that may have been a more fruitful approach in earlier years.

INTERVIEWER: What was that something?

LAWRENCE SUMMERS: It's not altogether clear. My guess is it's just a greater availability of information, which encourages the empowerment of people lower and lower in [the] decision-making chain and makes the losses from trying to centralize the information and decision-making authority much greater than they once were. But I think it will be one of the greatest questions of enquiry whether this is part of a long cycle or whether this represents an irreversible trend and just why it is that all of these events happened in this 15-year period. I think it's a profoundly important question, and I don't know the answer.

INTERVIEWER: During much of that 15-year period you were in high levels of government service. Did you know what was going on at the time?

LAWRENCE SUMMERS: I sensed with increasing force as time went on that the world was changing very rapidly. When we came in in 1992, the dominant concern was that the United States was going to fall behind Germany, Europe, and Japan. There was a sense that those societies that were more investment-oriented, more oriented towards manufacturing production, had fewer lawyers, more scientists were directed in industrial success as their central motivation, were disciplined and tightly controlled, were the societies that were likely to succeed. And increasingly that view in 1992 now looks increasingly like the view that many people had in 1958 after *Sputnick*, that Russia would overtake the United States based on the same kinds of argument: high investment, emphasis on production, lack of emphasis on consumption and leisure, lots of emphasis on science rather than on law. It was a similar intellectual error both times, and it was something we gradually came to predicate. By 1994 I was able to feel that it was likely to be an American decade rather than a Japanese decade, but at the time that was [a] rather unconventional view. It became a much, much more conventional view with the passage of time as the evidence came in.

INTERVIEWER: Let me just back up on Friedman before we carry on with that. Why was he such a devil figure in your youth?

LAWRENCE SUMMERS: Because he seemed, with his emphasis on individualism, freedom, and markets, to be so unconcerned with fairness and with the needs of the collective. I think what people came to appreciate is that there is a kind of ethic of "finders keepers" which says the people are entitled to what they produce, which also enters into concepts of fairness. Many of

the ideas that were put forward in the name of redistribution and fairness seemed to do far more to hurt those who were well-off than to help those who were poorly off. And it was those losses, those attempts to be fair and redistribute, that led to some greater skepticism about the scope for government to direct and plan economic activity.

INTERVIEWER: So have those concerns gone away? And if you admire some of what Friedman's done, what's happened to those concerns? How do you reconcile those concerns about Friedman's lack of concern?

LAWRENCE SUMMERS: I think we've come to find that market-oriented mechanisms can do things to increase equity. The availability of private insurance provides tremendous insulation for millions of individuals. But I think we've also come to see that an excessive emphasis on equity can result in a leveling down rather than a leveling up, and what's important is to find ways of leveling up our income distribution. That's probably led to much more emphasis on the importance of education relative to the importance of income transfers than would have been the case a decade ago, and I think that's welcome.

INTERVIEWER: So when you were in the Clinton administration you began to sense that there was something big going on. How did you translate that sense into policy?

LAWRENCE SUMMERS: I think it shaped many aspects of our approach. It shaped our emphasis on physical discipline. If the returns to private investment were steadily increasing and were greater than they'd ever been before, that made it all the more important to the government not to crowd out private investment. If the government was in a stronger position to increase the size of markets through international trade agreements, that became a particular imperative in a new economy. As you looked at the market evidence on how much people earned [if they] went to college and how they earned if they didn't, it became an increasing imperative to get more people to college, which shaped our emphasis on education. I could go on talking about basic science as another example. As we saw more and more it was a knowledge economy, we realized more and more traditional strategies of demand-side economics, of relying on budget deficits, of not emphasizing necessary public investments, really weren't going to make it in terms of doing everything the public sector could do for economic growth. At the same time we came to an increasing awareness of the dangers of

stifling private initiative, because you can't know what form it will take and therefore if you stifle it there's the risk that you're going to have very large losses from stifling something very promising.

The Importance of NAFTA

INTERVIEWER: Generally how important was the [Clinton] administration's decision to stand by NAFTA?

LAWRENCE SUMMERS: I think the decision to support NAFTA was a crucial one because it was really a watershed as to whether America was going to stand for larger markets, was going to stand for forward defense of our interests by trying to have a more integrated global economy [in] which countries were growing. So [a] watershed in our relations with Mexico and establishing a real partnership with a country with whom we had a 2,000-mile border. I think it resulted in a profound change in the internal political dynamics in Mexico in favor of the progressive forces that believed in the market and friendship with the United States as opposed to the forces that believed more in socialism and opposition to the United States. And NAFTA didn't cost the United States a penny. It contributed to the strength of our economy both because of more exports and because imports helped to reduce inflation. It didn't cost the budget anything. It was a very worthwhile investment for our country.

INTERVIEWER: But was it difficult to sell NAFTA politically in certain parts in the Democratic Party and to the public in general?

LAWRENCE SUMMERS: It certainly was difficult to sell NAFTA because it's always difficult to sell open markets. There's a basic cost of open markets, [such as] somebody losing a job, [which is] particular or very obvious, [but] the benefits are much less clear. Who said on Christmas Day, "Gosh, thanks, without open markets I would have been only able to buy half as many toys for my kid"? Or whoever says, "You know, I'm not that great a worker, but they really had no choice to promote me given the surge in export demand"? On the other hand, every job loss that can be remotely connected to international trade, people do. So this problem of invisible beneficiaries and very visible losers is one that bedevils the political economy of trade.

Why America Came to Mexico's Aid in Its Economic Crisis

INTERVIEWER: One of the more dramatic moments for an outsider was the pace of crisis and how you all dealt with that. When did you first become aware [of] what was going on, [and] what did you do?

LAWRENCE SUMMERS: It was an unfolding tragedy beginning in late December of 1994 but culminating in early January of 1995, when it appeared that without a substantial commitment from the United States, Mexico would go into default on all its debt, be forced to impose comprehensive exchange controls, and really shut down its economy. President Clinton made a very brave decision. He asked those of us who were advising him two questions. First, he said, is there a real risk that if we don't help, Mexico will have an economic collapse that will have global consequences? And we said yes. Second, he asked is there a chance that by providing substantial assistance we can prevent that crisis? We said yes again. He said, I don't care what the public opinion polls say. He knew that 80 percent opposed any kind of support for Mexico, but he decided it was very much in America's national interest. That was a controversial decision, but in the end American taxpayers made a \$500 million profit. The forces of democracy and market-oriented reform are stronger in Mexico than they were six years ago. And the U.S.-Mexican relationship, because we were there at a moment when they needed it, was strengthened by the experience. So on issues directly affecting the American people, from jobs to drugs to immigration to the value of their savings, our investment in Mexico had a very high return for Americans, not to mention the profit the government actually turned on it.

The Significance of Historical Market Failures Applied to the Mexican Crisis

INTERVIEWER: As someone [who has] studied financial crisis, [what gave you the sense that a crisis in Mexico was imminent?]

LAWRENCE SUMMERS: There is a vision as to how financial crises should be managed which says that outsiders shouldn't take on any role. As Calvin Coolidge famously said, "They hired the money, didn't they?" That kind of thinking was tried in Europe and in the United States in the late 1920s in the early 1930s, most famously in the case of the bank failure at a major bank in Austria. I think that it would be a summary [of] the international experience to say that it was laissez faire thinking that made the Depression great.

INTERVIEWER: Was that knowledge of history in your mind at the time?

LAWRENCE SUMMERS: Absolutely. Ultimately sometimes you know it, sometimes you don't, but I think that it is examples and past practice that have an enormous influence on policy makers, just as I expect the response to the Mexican crisis and the successful response to the Korean crisis will be influential in the future.

INTERVIEWER: And when you were Deputy Secretary there, knowing that [Mexican] crisis happened, that you would face [another] one sometime from somewhere, you thought, "When it comes, this is what I might do"?

LAWRENCE SUMMERS: In some ways. But Tolstoy famously said that every happy family is the same and every unhappy family is miserable in its own way. There's a sense in which every successful economy is the same, and every economic crisis has its own characteristics, so there's a limit to the capacity for prior planning. But certainly we had devoted very considerable thought to making sure that there were adequate resources available that could be deployed in time of crisis. But the types of economic crisis that can happen are so diverse that there's no cookie-cutter recipe book that you can look to [in order] to find the right response to any particular crisis.

The Phenomenon of Contagion

INTERVIEWER: About that next [crisis] with contagion, when did you get a sense of what was going on, and, as it unfolded, what was your [thinking about it]?

LAWRENCE SUMMERS: Contagion has become very much a phenomenon, and it's a phenomenon of globalization. Contagion is very much a feature of this new world. It's a reflection of globalization, it's a reflection of information technology. When bad things happen in one place it affects other places for any number of reasons. People who are in financial trouble have to sell other assets. Countries whose currencies fall in value put pressure on the currencies of other countries. People who look at one situation wonder whether something similar couldn't happen in another situation. So I think it's very important to recognize the phenomenon of contagion, and that will often mean that the best forward defense with respect to a problem is prevention by stopping the initial impulse. That's part of why we put such

emphasis on the capacity to deploy resources quickly based on tough [conditions] as part of the response to financial crisis.

The Significance of the Asian Financial Crisis

INTERVIEWER: When you had a sense that Thailand was in trouble, what did you do?

LAWRENCE SUMMERS: We convened with other countries and were part of working out a large IMF support program and an extensive dialogue between Thailand and its creditors to ensure that Thailand was able to maintain its financial solvency.

INTERVIEWER: And as the crisis began to spread elsewhere, was it of a different nature to other crises?

LAWRENCE SUMMERS: I think the global and pervasive nature of the 1997-98 crisis was something new, and it was not something that we fully foresaw. I think it is a reflection of technology and globalization that the crisis happened in the way that it did.

INTERVIEWER: As you were living through it, did you have a sense that you were seeing something?

LAWRENCE SUMMERS: We had a sense that this was a new phenomenon, [that] this was probably the way the world was going to be, with markets increasingly interlinked, even if it had not been the way markets had always been. That was one of the things that encouraged us to take bolder kinds of responses, of not being prepared to allow—because we frankly feared it would throw us so far into the unknown—a moratorium on Korea's debt, which looked like a very real possibility at the end of 1997.

INTERVIEWER: What would have happened had you not have been there, say, for Korea? What were the stakes involved for the global economy?

LAWRENCE SUMMERS: Oh, I think the stakes could well have been an enormous erosion in capital flows to all of the Third World, very substantial consequences for financial institutions in the major countries, substantial interference in the pattern of global growth, not to mention

the security consequences for the United States of upheavals in South Korea. I think all those things were on the line.

INTERVIEWER: And as it spread to Russia and ultimately [elsewhere], was it a sense that it was moving faster and quicker and around the world in a way that we've never really seen before? Did that catch you by surprise at the time?

LAWRENCE SUMMERS: I think the virulence of the crisis was a surprise and was not something that observers expected, but it was something that we came to deal with. And it was part of what shaped our decisions to pursue more aggressive rather than less aggressive approaches.

INTERVIEWER: Was technology affecting the speed of contagion?

LAWRENCE SUMMERS: Certainly technology and globalization makes that possible. For example, because they both had currency boards, there were close connections between what happened in the markets in Argentina and what happened in the markets in Hong Kong—two markets that would have been completely separate 20 years ago [and] which would have had very little influence on each other.

INTERVIEWER: Just on the contagion, we interviewed William McDonough [president of the Federal Reserve Bank of New York], and he said that he didn't think we'd seen the final effects of that. What's your sense of the long-term impact of that crisis?

LAWRENCE SUMMERS: I think that the history of Indonesia 15 years from now will be very much affected by the tragedies of that crisis. I think that that crisis may well represent an important change in direction and a beneficial direction for Brazil. So I think those events are going to cast a very, very long forward shadow for any number of economies, and they really remind one of the overwhelming importance of finance in shaping what happens in history.

The Likelihood of Future Financial Crises

INTERVIEWER: I was reading one of the speeches that you gave in Hong Kong a few weeks ago where you were saying that we're going to see more financial crises in the future, possibly happening more quickly than some in the past. What's your sense of where that's going?

LAWRENCE SUMMERS: I think it's very hard to say. There are some favorable indications. Countries have more reserves than they used to. Floating exchange rates allow market forces to operate more than governments trying to arbitrarily fix exchange rates. But it does seem to me that the incidence of financial crises may well be greater over the next 25 years than it has been over the last 25 years. In many ways that goes with technology. Jet planes brought more spectacular airplane crashes. They also brought an enormous number of benefits, and overall the air travel system and the transportation system work better because of them. Modern financial markets have some of the same character. There's more capital that flows, probably flows in better ways. On the whole there's probably more stability, because financial innovation permits hedging and permits diversification of a variety of kinds. But there's still the reality that when there are accidents, they're probably that much more spectacular.

The Need for New Rules of the Game

INTERVIEWER: And are the rules of the game up to date? Do we need new rules?

LAWRENCE SUMMERS: I think we're getting there. If you look at the history of the American capital market, there's probably no innovation more important than the idea of generally accepted accountancy principles. Transparency is good because it avoids surprises and shocks that cause crisis. Transparency is good because, as someone once said, "conscience is the knowledge that someone's watching," and it discourages bad behavior. We have that on our American capital market. We need a lot more of that globally, with respect to governments who borrow, with respect of private companies in other countries, with respect to the flow of capital across international borders. So the rules are catching up, but whether it's on the norm of transparency or the procedures for bankruptcy when a multinational entity goes broke, these are all things where there is going to be a great deal to do in the future.

INTERVIEWER: How should the rules be written, who writes them and what institutions oversee them?

LAWRENCE SUMMERS: The idea of general accepted accounting principles is a good one. There's no formal government legal institution that oversees that. There are groups in the private sector who are supported in various ways by the SEC who bring that about, but there's no single organization that enforces those rules. I think we're going to need to see the formation of global institutions, particularly around this objective of transparency, and I think they would be institutions that would bring together the private sector and the public sector working in their mutual interest. I don't think they'll be new legal regulatory agencies.

INTERVIEWER: As Treasury secretary, were you working to try to accomplish this?

LAWRENCE SUMMERS: We worked very hard on the objectives of transparency. We worked very hard on the objectives of modernizing regulation. We worked very hard on the objectives of changing the procedures of the IMF so that it was in a position to respond to this new kind of financial crisis based on confidence and large-scale withdrawals of capital. It seems to me that one of the crucial questions is going to be having a set of financial policies that are as modern as the markets.

The Arguments For and Against Globalization

INTERVIEWER: When the Seattle demonstrations hit, do you think that the contagion crisis somehow fed a sense of anxiety that brought that about?

LAWRENCE SUMMERS: I don't know that the Seattle protest against globalization, how linked [those demonstrations] are with some of the financial questions. I find them very sad because it seems to me that there's an enormous amount of very valuable moral energy that is being very, very badly misplaced. People in many, many poor countries produce goods under conditions that are revolting and would be unacceptable to citizens in the United States. On the other hand, they chose those conditions because they represent the best available alternative. It seems to me that for us to seek to take away that best available alternative by not liberalizing trade, by not being willing to accept imports, by not opening markets, seems to take on an enormous moral burden of denying poor people the choices that they would prefer to make. If that's a judgement that people are advocating on grounds of our interests, I don't think they're right, but that's an argument that can be made. But it seems to me very deeply wrong to do what many in Seattle wanted to do, which was to oppose free trade on the

grounds that would hurt those who are so ardently seeking it. Those who are so ardently seeking jobs in poor countries, to deny them that chance seems to me to be taking an enormous moral burden. So I am very troubled by the demonstrations in Seattle.

INTERVIEWER: It's a very important point, one that we're going to explore in the film. You talk about best available alternative. What does that actually mean for those people? What are the alternatives, and why is it the best?

LAWRENCE SUMMERS: There are children who are working in textile businesses in Asia who would be prostitutes on the streets if they did not have those jobs. There are children and there are adults working in different parts of the world in cities who would be forced to go back to land that doesn't have the capacity to grow enough food for them and their families, and [who are] able to fully feed all the people there [in the villages] only because they went off to cities. There are people who chose these jobs because the alternative jobs in their country involve even more onerous conditions. Why do people choose the jobs if they're not the best available alternative? Of course we should be appalled by, revolted by, and turn absolutely against slave or coerced labor of any kind, but where goods are produced by workers who are free and who make their choices, [it] seems to me very wrong for us to say that those choices are wrong and to limit them.

China's Opening Up to the World

INTERVIEWER: With respect to China, you often hear the argument that trade engagement in the long run not only improves people's lives, but has a political impact as well.

LAWRENCE SUMMERS: I think it's probably right. My guess is the most powerful force liberalizing China will be the Internet. When I was there I asked about e-mail messages and censorship and so forth and they basically told me everybody under 30 knew how to evade all the censorship. [With] the passage of time, that will be everybody under 40, and everyone under 50. My guess is that over time that will have a profound impact on Chinese society.

The Backlash Against Globalization

INTERVIEWER: With respect to Seattle, when it happened, did it catch you by surprise?

LAWRENCE SUMMERS: A little bit, but I think there were ample warnings that there was this very strong current of opinion, and to think it's misguided is not to think that it's not strong.

INTERVIEWER: What did you advise the president to do politically, or what did he do politically in response to that?

LAWRENCE SUMMERS: What's very important is to make clear that this is not about helping rich people at the expense of poor people, and to emphasize that we share the concern as much as the people that demonstrated in Seattle that the air be cleaner, that workers be treated decently. Their concerns are our concerns. The difference is over what the best means are for pursuing and advancing those concerns. The difference is particularly acute where proposals are made that basically are counterproductive from the point of view of poor people in poor countries.

The Need for China to Be Included in the World Economic System

INTERVIEWER: Could you just give us a summary of the administration's approach to China, particularly with regard to trade issues?

LAWRENCE SUMMERS: We believe that China represents a large commercial opportunity for the United States. We believe that no global economic system can be complete without one-fifth of humanity. We believe any country that enters the global economic system has to do so respecting the rules of the road, and therefore that it is in our interest and in China's interest to see China increasingly part of the global economic system at a pace that's measured with their willingness to accept its rules of the road. That's what the WTO negotiation was about. I think there will be more jobs for Americans, better prices for American consumers, and a safer and more secure world because China is being admitted to the WTO and has a chance to participate in the global economic system. We tried an experiment with a rising Asian economic power that was seen by many as ruled by an unpleasant elite and that encountered very substantial protectionist barriers. That was the story of Japan in the 1930s, and what followed was very unfortunate for all of Asia and for the United States. It seems to me that we dare not make that mistake again. That is why it is important for us to engage with China. Not forgetting our differences, not failing to express concern over very legitimate issues about

China, but recognizing that we're much better off with China under the global tent than with China outside the global system.

INTERVIEWER: The stakes are that high?

LAWRENCE SUMMERS: The stakes are. Probably no issue is more important for global stability and chances that our children will be drawn into conflict than the relations between United States and China.

INTERVIEWER: So that political relationship has an enormous economic consequences.

LAWRENCE SUMMERS: There are enormous both political and economic consequences, and I think that what many people fail to appreciate is how much a sound economic relationship can do not just to the economic areas, but also in the political arena.

The Link Between Democracy and a Free Economy

INTERVIEWER: It goes back to the power of ideas.

LAWRENCE SUMMERS: It goes back to the power of ideas, it goes back to the benefits of posterity. Almost every country in the world with a proactive income above \$10,000 is democratic, and the vast majority of poor countries are not democratic. When we create the conditions for more rapid economic growth, we also created the conditions that make democracy more likely.

The Need for America to Avoid Isolationism

INTERVIEWER: I want to get your sense of where the Bush administration might be heading, and whether you feel like there is a danger of some kind of disengagement or less emphasis on global economic issues and what the consequence of that would be.

LAWRENCE SUMMERS: I think economic internationalism is the best possible forward defense of our interests, whether it's combating infectious diseases in the countries where they first start to spread, whether it is encouraging countries to reduce their contribution of global pollution, whether it is containing financial problems before they spread to many countries [in]

global markets, [or] whether it is bringing down trade barriers on a substantial scale. These things benefit our economy, but by creating a larger community of commonly concerned countries they also benefit our deep security interests. So it seems to me that selective disengagement is an enormously risky policy for our country, and that that the late 1920s and early 1930s and the Depression that followed speak very eloquently to the dangers of economic isolationism.

INTERVIEWER: We don't know what's going to happen with the economy, but do you sense that there might be a danger of that kind of disengagement?

LAWRENCE SUMMERS: I hope that the United States is able to avoid the mistakes of turning inwards that are very common among great powers after great conflicts. And now, after the Cold War, the United States' challenge is to avoid that turn inwards. We met that challenge after the Second World War, but in many ways we met it as much because of the Communist threat as because of its global importance. And now that we no longer have that Communist threat, our challenge is to meet it again.

Story About Changing Technology and the New Global Economy

INTERVIEWER: Let me just finally ask you a question about a story that I've heard, the first time you used a cell phone when you were river rafting in Africa [and] talked to Secretary Rubin.

LAWRENCE SUMMERS: In 1997 I took a trip to Africa to work on debt relief. We visited a village three hours outside of Abidjan [in Cote d'Ivoire]. We took a kayak there, took a large kayak back. As we were coming back from that village that had just gotten its first water well, somebody stuck a cell phone in my face and said Bob Rubin has a question for you. And indeed it was Bob Rubin. All I could think about was that we were in Africa in the middle of nowhere, three hours from the capital city, and there was this cell phone. Only nine years before I had been in a car with a cell phone in Chicago, and that was a sufficient novelty at that time that I called my family and I called my friends to say, "Look, I'm in a car with a telephone." Nine years later, in the middle of Africa, what does it show? I think it shows a hallmark of a new economy. Globalization, the world is coming together as one. Technology, that's what that cell phone was. And the power of markets, because it wasn't the state-owned

telephone company that had put that cell phone service there. It seems to me that the nation, the businesses, the individuals that succeed in the next century will be those that grapple effectively with these three forces of globalization, technology, and the power of markets.

The Battle of Ideas and the Influence of Keynes and Hayek

INTERVIEWER: What is the role today of Keynes and Hayek?

LAWRENCE SUMMERS: Keynes was a profoundly important economic thinker, and his notion that the right public policies created the environment in which markets could work and markets could flourish remains a valid one and a powerful one to this day. The particular concerns that Keynes focused on as he wrote the general theory of a demand-short economy with very low interest rates are not the dominant economic conditions that prevail anymore. For that reason, many of his specific policy prescriptions in terms of large budget deficits to chronically increase demand appear much less relevant today. But there's no question that Keynes was in all likelihood the most important economist of the 20th century, though in part he was important because of the ideas that he stimulated in others and the reactions that he stimulated as much because of his own policy prescriptions.

INTERVIEWER: The reactions of those opposed to or in support of his ideas?

LAWRENCE SUMMERS: The opposing reactions that he stimulated. Without Keynes there wouldn't have been Milton Friedman. In the same way, without the Keynesian point to oppose, I suppose Hayek's writings would have played out very, very differently.

INTERVIEWER: Do you want to say a word about the influence of Hayek in general?

LAWRENCE SUMMERS: Hayek's ideas that the price system is a consolidator of information and a distributor of knowledge, as well as simply a way of assuring efficiency and exchange, is probably as penetrating and original an idea as microeconomics produced in the 20th century. He is a man who is very much ahead of his time in his warnings with respect to totalitarianism, and he is a person who, through his disciples, has probably influenced far, far more people than have ever read his book.

INTERVIEWER: Who were some of his big disciples?

LAWRENCE SUMMERS: Friedman, George Stigler, the Chicago School of Economics was very much influenced by Hayek. Certainly Thatcher, and [Anatolii] Chubais in Russia, Vaclav Klaus in the Czech Republic. Hayek has probably the best book expressing the critique of communism as an economic system because it assumed benign motive and still showed how things go wrong, and moved beyond the emphasis on personality Stalin, Mao, and so forth as the source of villainy within communism.

The Outcome of the Battle of Ideas

INTERVIEWER: What do you think of the left parties—Democrat, Labour—what does it mean that they've moved to accept the market?

LAWRENCE SUMMERS: I think in many ways truly progressive parties have moved beyond some of the old debates. The old debates were about what the role of the market was, what was the role of the state. I think it's now generally appreciated that it's the market that harnesses people's initiative best, it's the market that best takes advantage of people's natural self-interest, gets goods and services produced best. The real focus and progressive thinking now is not how to oppose and suppress market forces but how to use market forces to achieve progressive objectives. Progressive objectives like better healthcare, progressive objectives like better education, progressive objectives like a fairer income, like a fairer distribution. Progressive objectives like giving everyone a chance to work no matter where they live. It seems to me that the change in progressive thinking is from seeing the market as an end to be debated, which they no longer do, to seeing the question as being about means and how best to use markets to achieve given social objectives.

The Asian Financial Crisis: What If There Had Been No Intervention?

INTERVIEWER: In political layman's terms, describe the rest of the contagion crisis.

LAWRENCE SUMMERS: You could have seen perhaps as serious an economic downturn as we'd seen any time since the Great Depression if that situation had been allowed to get out of control. You could have seen a breaking down of traditional security structures between North and South Korea, within Latin America, in Southeast Asia. You could have seen financial

COMMANDING HEIGHTS

Lawrence Summers

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difficulties in Japan. It could have led to very substantial conflicts and financial risks to the United States. We had a close call, and without an activist international policy I think that we could have had a situation that would have impacted on job prospects of a large fraction of Americans. It's fortunate that we avoided that, but it's not something we can take for granted. That's why we need to continue to understand the dynamics of financial crises better, and that's why especially the United States needs to be prepared to take a lead in working to contain financial crises.