

The Global Economic Outlook

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Remarks at a Panel Discussion at the World Economic Forum

Moderated by Martin Wolf

Lawrence H. Summers

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MARTIN WOLF: ...Thank you very much, and again underlining, at least for the developed world, this extreme sense of uncertainty – very much a contrast, of course, with the very different challenges we see facing Indian and Chinese policy makers. Finally, in this round I would like to turn to you, Larry. How does the U.S. now look, and particularly in the global context you've seen set out?

One issue that I'm particularly interested in your comments on: the sort of growth rate forecast we are seeing for the U.S. at the moment, and for Europe as well, do not suggest any significant tightening in the labor market. Will there continue to be a hangover of high unemployment – very high unemployment in the U.S., in a way reflecting the extraordinary flexibility of its labor market, and the rapid rise in productivity? Does that concern you, not only as an economic policy matter, but even as a political matter in terms of maintaining the general thrust of an open, integrated world economy?

LAWRENCE SUMMERS: Martin, thanks for being here, and thanks more or less for that question.

WOLF: It's my job.

SUMMERS: What we are seeing in the United States, and perhaps in some other places, is a statistical recovery and a human recession. We're gratified by the most recent GDP figure. It suggests that the policies to contain economic collapse have been successful. My judgment, and I think most-people-who've-looked-at-it's judgment, will be that GDP growth will continue at least at a moderate rate for the next several quarters.

What is disturbing is the level of unemployment. This is not just a cyclical – though it is heavily a cyclical phenomenon – but a structural phenomenon as well. Just to put it in a way it's not usually put, one in five men in the United States between the ages of 25 and 54 is not working right now. A reasonable extrapolation would be that following a reasonable recovery, it will still be one in seven, or one in eight, who are not working. That is in contrast to the mid-1960s, when 95 percent of men between 25 and 54 were working.

That suggests quite profound issues that will ultimately impact politics, that impact the decisions that businesses make, and underscore what President Obama emphasized in his State of the Union address a few days ago – the primacy of jobs. I might also suggest, the primacy of maintaining the flow of credit to medium-sized businesses, as a policy objective.

I am very optimistic about our support for an integrated global economy. I think for a whole set of reasons – diversity of its population, the openness of its institutions, the way in which it serves as a magnet for people from all over – I think the United States is very, very well positioned to gain from increased global integration, but it's going to have to work for people if it's going to be politically sustainable. That's why the jobs and the credit agenda are so very crucial.

I might just also say that while I believe very strongly in the importance of growth-oriented policies today, because no one is going to have a healthy fiscal situation in a global economy that is not growing at a reasonable rate. I think it is also essential to recognize – and maybe this is a segue to our medium-term discussion – that in the United States and in other parts of the industrialized world – you know, we're

somewhat unique in the United States in doing every six months a careful 10-year budget projection and so our problems become particularly salient. Those aren't done in most other countries, but if they were done in most other industrial countries in the same way our Congressional Budget Office does it, it would not be pretty. And our ability to maintain confidence over the short and medium-term will depend not on taking overly rapid fiscal consolidation, which I think could be quite problematic, but in finding ways to provide confidence that over the medium-term we are not on trajectories where debt grows indefinitely at rates more rapid than income, and so that too is a crucial part of the American macroeconomic policy picture and I think needs to be kept in mind as a general issue.

WOLF: Let me just before – I would feel remiss if I didn't address this issue now, so it fits actually sort of interface between them, which is how the external environment, what's happening in the external environment, particularly relating to the so-called imbalances problem, which is also being addressed, and – I don't think it's an issue we can avoid – exchange rate policies around the world, including those of China; how relevant you feel those sorts of questions are for the short to medium-term prospects of the U.S., or how much, essentially, this is all still fully within your own domestic control, that there is no – that the external environment is in no sense a constraint on your ability to deliver the sorts of outcomes that you need, not only in terms of GDP, but in terms of obviously generating jobs for these people, I presume many of whom had lost jobs in manufacturing.

SUMMERS: Is that for me?

WOLF: That's for you.

SUMMERS: I will leave exchange rates to the Secretary of the Treasury, but I will relate very well to Dominique [Strauss-Kahn]'s comment, that not everyone can have export-led growth. And the way we get to that picture, I imagine, Dominique, is that the countries that have traditionally had export-led growth desire to continue that export-led growth, and the countries that haven't had export-led growth and have been substantial borrowers desire to reduce their borrowing, and there is an adding-up problem.

And I think it's quite a serious adding-up problem, and we do need some policy reorientation if we are going to maximize two things: we are going to maximize the adequacy of demand and its location in the global economy to push growth forward; and if we are going to maintain support for the global open trading system and maintain resistance to protectionism. You know, one of the last points he made in his writings before he died was, Paul Samuelson emphasized that strong as robust as it was, the principle – some of the most important qualifications to the standard economic arguments for free trade went to situations in which there was significantly unemployed resources and aggregate-demand shortfalls and went to situations in which mercantilist policies were being pursued in some parts of the world. So I think this rebalancing issue is important both, to use IMF-type lingo, in a conjectural or cyclical context and in terms of the medium-term growth paradigm.