

Economic Outlook and Economic Vision

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Remarks at CERAWEEK Energy Conference

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March 11, 2010

I want to talk to you tonight about the economic strategy that President Obama is pursuing in a number of areas at what I think is a critical time for the United States and the world.

What are our priorities? President Obama's first priority upon coming into office was controlling and containing the most dangerous downward vortex our economy had faced since the Depression.

We faced a combination of vicious cycles. All kinds of financial markets where people sold, and then the price went down, and then leveraged sellers had to sell more, and the price went down more. A weakening financial system that led to a weakening economy that led to a still-weaker financial system. Lower incomes led to lower spending, led to lower employment, led to lower incomes. Turning those vicious cycles around was our first priority. There was a real prospect of a downward spiral that could at least have been in the direction of what we experienced in the 1930s.

We have a very long way to go. No one can be satisfied with where the American economy is. But, you know, plus-6 percent growth in the fourth quarter is really very different from minus-6 percent growth in the first quarter of 2009. A 65 percent increase in the stock market from a year ago is a reflection of a judgment that all that was feared is not going to materialize. A renormalization in credit markets is an important step in the road towards recovery.

That didn't happen because of the self-stabilizing powers of the market. It happened because we stepped up and supported the economy with a strong program of public spending and tax cuts. It happened because of the transparency we brought to major financial institutions, and the pressure that was brought to bear for large-scale private capital-raising. It happened because it wasn't a purely domestic effort, but a global effort at stimulating demand.

We've got a lot more to do. The Recovery Act spending that the President put forward has taken place to about a 50 percent extent so far. We've still got extraordinary support for credit markets underway, and over time it will have to be phased out, but phased out in a very careful way.

We are, I believe, very close to the point where the job losses we have seen will give way to job growth. If you look historically at recessions, the first thing that happens is GDP turns. The second thing that happens is hours per worker turn. The third thing that happens is employment starts to grow. And the fourth thing that happens is that the unemployment rate starts to fall. We are moving through that sequence. But job number one was containing the incipient depression.

Job number two: the country's finances. Make no mistake: it cannot be forever that the world's greatest borrower stays the world's greatest power. We face a profound mismatch between our desire to collect revenues and our felt imperative to spend revenues.

At this moment, when private-sector demand for credit is way down, when households are not borrowing, when businesses are not borrowing, having a government budget deficit is the way to support the economy and the way to push the economy forward. But as recovery comes, it will be essential to contain spending and bring revenues and spending back towards balance.

The President's health care proposals actually take some substantial steps in that direction. They specify the largest cuts in Medicare that have taken place since the program began. They institute a set of procedures that remove the questions of reimbursement and judgments about what's going to be purchased from the political process, by referring it to an independent board that Congress has to muster a large majority to overcome. And in a variety of other ways, they provide the tools for cost control.

That's not all the country's going to have to do if we're going to get our debt and our borrowing in a sustainable relationship to our income. That's why we look forward to the bipartisan panel that the President and the Congressional leaders in both parties have agreed to support, and whose recommendations they have agreed to bring forward for a rapid Congressional vote.

In a sense, macroeconomic policy and finance can't make you a great economy. If you mismanage finance, you could have a catastrophe. That's what we saw in the Depression. That's what happened in Japan. That's what we saw to a substantial extent over the last two years.

But no matter how well you manage monetary and how well you manage fiscal policy, that's not going to give you a prosperous and strong economy. So the other parts of the President's agenda go to what in a sense are the more fundamental and more long-term issues of restoring and reforming the great systems of our economy: innovation and education, health care, energy, and the workings of a financial system that hasn't been very effective in recent years.

Let me say just a few words about each of those things and then submit myself to your questioning.

Innovation and competitiveness. The twentieth century was an American century. The reason the twentieth century was an American century was that we led the world in science and the application of science to new products in every sphere – and because we had the most educated and capable workforce in the world.

The largest question hanging over our prosperity and competitive position in the twenty-first century is whether that's going to be true in the twenty-first century or not. That's why we have set as a goal a major increase in the share of the country's resources devoted to research and development, enacted the largest increase in NIH funding in history, committed major resources to innovation in every sphere, and especially in the renewable energy sphere.

And that's why the President has vowed that he is going to do what we have talked about for a long time in this country and support serious efforts at measurement and accountability in America's public schools, along with giving those schools the resources that they need. It is not a small thing that yesterday, the 50 governors agreed to move towards common standards for what constituted achievement in public schools all across this country. It is not a small thing that we have made the kind of commitment to rebuilding schools that we have made.

You know, when I was Treasury Secretary, whenever I went to a city, I used to visit a public school in that city. And I will tell you that the question I kept asking myself is, I would explain to the kids that there was nothing more important to the future of our country than their education. But when I was explaining that in a classroom where the paint was chipping and falling off the walls, I couldn't figure out why the kids should believe me.

And that's why we are making a commitment to do what those who are more conservative want, which is insist on a lot more accountability from our teachers, do a lot more to reward those who are good, and to not reward those who aren't doing so well, and at the same time put the resources in to make this system work.

Health care. You can argue about many, many aspects of the bill that is now in its final stages before the Congress. But can anyone really argue for inertia? Can anyone really argue that 45 million, going on 50 million, going on 55 million people who get their care primarily in emergency rooms because they have no insurance is the right way for the United States to work? Can anyone seriously argue that no overall effort at cost containment is the way to make the health care system work?

If this bill does not pass, what will happen is the effort of major health care reform would be abandoned for another decade or another two decades, as it was between 1993 and 2009.

If this bill does pass, the tools will be available to make sure that the average person in this room is no longer paying \$1,100 a year for the uncompensated care of those who don't have health insurance. The framework will be in place to have the procedures that prevent insurers from eliminating those with poor health from the pool of insurance, thereby increasing income security. And as I already indicated, a framework will be in place that will let the largest purchaser of health care in the country operate to bring down costs for the first time in its history. It offers a way forward.

Third: energy. I hesitate to say too much about energy to this audience since I think almost everyone in this room knows more about it and is more specialized in it than I am. So I will just say this: We have announced ourselves to be on an unsatisfactory path of borrowing money from one continent to buy oil from another continent for more than a generation. We have not done very much about it, and the trends have continued to move in the wrong direction.

I would suggest to you that doing the right things about energy is a three-fer.

It is – because there's a lot of productive investment in the right market framework – potentially a major job creator.

It is an important national security issue, and becoming a more important national security issue, given the evolution of the world oil market.

And it is potentially something not that our children will read about, but something that our great-great-great-grandchildren will read about, in terms of the significance of our energy policy in averting what may not be certain – it may not even be high probability, but what I would suggest to you are real risks to the way this planet functions.

That's why President Obama has supported and will continue to support comprehensive legislation that, yes, seeks to put a price on carbon at long last; that seeks to take advantage of the remarkable opportunity that has been created by all the natural gas that we didn't know we had five years ago, but now we know that we have; that seeks to move down the learning curve and get us to competitiveness globally and get us to much lower costs in key renewable sectors; that recognizes that, yes, nuclear power has to be part of our future; and that seeks to expand opportunities for the production of fossil fuels and to build out whatever possibilities exist with maximum energy for clean coal.

If ever there was an issue where we should move from either-or to both-and, I would suggest that it is in energy. Instead of debating between the various items that I just discussed – should we have nuclear or should we have renewables, should we seek to expand opportunities to identify fossil fuels or should we have more emphasis on energy efficiency – the right answer to all those questions is that we should have both.

And that ought to be something that – after decades when one of our political parties is for one set of energy set of policies, and another of our political parties has been for the other set of energy policies – we ought to be able to come together on the full set of energy policies.

Final thought. It's the area that I've perhaps worked most directly in. You know, the function of a financial system is to distribute and spread and allocate risk. The function of a financial system is not to create risk.

And yet, if we think about the last generation – 1987 stock market crash, S&L debacle, Mexican financial crisis, Asian financial crisis, Russia and LTCM, tech bubble, Enron, now this. Roughly every three years, a financial system has mal-fired in some way that has meant that hundreds of thousands – if not millions – of people who had nothing to do with that system lost their jobs and lost their sense of security.

I would say to you that as a country, we can do better. The financial industry is an industry that receives in some years 40 percent of corporate profits and that this year will spend over \$1 million per member of Congress on lobbying.

We can find ways of having a more stable and better-functioning system.

And that's what the great debate that has been taking place and will take place this year about financial regulation is all about. It's about whether we're going to set up procedures so that big financial companies can fail. So that governments no longer face the choice between bailouts of the kind that were provided to A.I.G., and catastrophes of the kind that followed the failure to bail out Lehman. That we can adopt a standard that you would be amazed that we had not adopted decades ago. That if you are so big and so complicated and so interconnected that if you fail, the whole financial system will be at risk. That if you are a company that meets that test, there is someone, somewhere, who's accountable for your being regulated on a comprehensive basis. That would seem an elementary test, and we have not met it as a country, but we will if we pass the right kind of financial reform legislation.

This is a broad agenda. It's an ambitious agenda of renewal. Some people think that it's an agenda that's about more government, and that it's an agenda that is somehow anti the market. I don't think so.

I think it's an agenda that, in the deepest and truest sense, is about supporting market institutions. Because I think that the market system, which is what has brought us our current prosperity, will thrive best in an environment where the risks like the ones we saw in 2008 are contained. Where it can be said with credibility that every kid has the same kind of chances that the kids of the people in this room have. That health care costs are not on a trajectory to absorbing a third of the GDP. And where market forces are driving us to more, not less, energy security.

Doing these things right, undertaking these steps, is not fighting the market. It is ultimately working with the grain of the market to support the greatest experiment in market-based democracy that the world has ever seen.

Thank you very much.