

Strengthening the Business-Government Relationship

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Remarks to the Citizens Budget Commission Annual Awards Dinner

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March 2, 2010

Thank you very much. It is an honor to receive this award from a group that, I believe, stands for what is the best in this country.

When de Tocqueville came to America early in the nineteenth century and reported back to Europe, he wrote that “nothing is more deserving of our attention than the intellectual and moral associations of America.” He cited the social connections and cooperative spirit that resulted as one of our country’s great strengths. Nearly two centuries later, that remains the case.

If you look around the world, at countries with economic challenges – I’ve had the opportunity to see my fair share – one of our great strengths is the presence of groups like this one that bring together people in the private sector and the public sector to cooperate in solving some very important problems.

On behalf of your fellow citizens, thank you for everything you do.

You participate in this organization not because responsible budgets are of immediate relevance to the operations of your businesses, but because you feel obligations as citizens and because you recognize that, in the long term, we are all better off when the communities we live in flourish.

Tonight, I want to talk for a few minutes about an issue that is at the heart of your work, that is particularly vexing at a time of economic turmoil like the present. That is the relationship between business interests and government.

This is not a new subject for the United States. Indeed, as one considers the frictions that are perhaps inevitable, I think a little bit of historical perspective is helpful.

In 1834, Andrew Jackson is reported to have said of the individuals running the Second Bank of the United States, and I quote: “You are a den of vipers and thieves. I have determined to rout you out and, by the Eternal, I will rout you out.” And I suspect the focus group had not been yet invented.

A century later tensions flared again. Not that they had not flared in between. Franklin Roosevelt, speaking just a mile from here, in 1936, observed of the financial community: “They are unanimous in their hate for me – and I welcome their hatred.”

Indeed, in even more recent history, within the memory, I suspect, of many in this room, at another time when soldiers were fighting abroad and the economy at home was under strain, there were frictions between a President and the business community. It was 1962, and the nation’s leading steel producers announced an increase of, get this, 2.5 percent, overriding an intricate deal brokered by the Kennedy Administration.

President Kennedy told the nation that this was the result of a situation in which, and a quote, “a tiny handful of steel executives whose pursuit of private power and profit exceeds their sense of public responsibility can show such utter contempt for the interests of 185 million Americans.”

Attorney General Robert Kennedy subpoenaed expense accounts, dispatched F.B.I. agents to interview the executives, and made preparations for antitrust and tax investigations into the firms and their leaders. The steel industry backed down.

These types of approaches, to be sure, have been controversial from the start. And certainly there have been confrontational statements going in the other direction, from business to government. And there have been different approaches, pursued at different times, by different governments.

But I think it's fruitful, at a moment like this – with what has happened in the financial sector, with the need for public policy toward the financial sector to be reformed – to reflect briefly on the relations between business and government. I would suggest three propositions for your consideration.

First: The United States will achieve none of its objectives as a country without robust economic growth, and it will not achieve robust economic growth without strong, prospering, world-leading businesses.

Look at the relationship between economic growth and other objectives. Looking across countries, looking across time periods, there is a near-perfect correlation between economic growth and the income growth of countries' poor, middle class, and wealthy populations.

No thoughtful account of the emergence of the United States as a leading world power in the twentieth century fails to acknowledge the central causal role of our emergence as the world's strongest economy.

More generally, as my Harvard colleague Ben Friedman argued in *The Moral Consequences of Economic Growth*, societies that prosper are those where economic growth takes place and helps to foster democratic values, promote tolerance, expand the reach of opportunity, help the poor, and create the conditions for improvements in the environment.

It may not be true that the success of business is a sufficient condition for all of these objectives, but I would suggest to you that it is a necessary one.

Can anyone suppose that the difficulties of the major cities of the industrial heartland are unrelated to the difficulties of leading industrial companies in a world of increased competitive pressure and a shortfall of aggregate demand?

Conversely, if you look at the remarkable, successful transformation over the last generation in this city of New York, in my home city of Boston, or in Silicon Valley, can anyone doubt that successful leading businesses played a critical causal role?

To suggest the importance of economic growth and to suggest the dependence of economic growth on successful businesses is not, of course, to license any form of undue subsidy or break for businesses.

This brings me to my second proposition: A strong government – one that responds to market failures, provides social protection and equal opportunity, regulates potential business abuses, and supports stable economic conditions – is undeniably in the long-run interests of major businesses.

No one likes paying taxes. No one prefers to have their discretion circumscribed. And so it's not hard to understand why there is often antipathy toward government. Nor is it hard, in a world of progressive taxation, to understand why that antipathy is often most pronounced among those who are most fortunate.

And yet history teaches that active government is a necessary force, not just for the broader population, but for the success of leading businesses. This lesson has been demonstrated powerfully during the last year and a half.

It is no exaggeration to suggest that we faced a real prospect of a depression scenario. Without large-scale government fiscal actions stimulating the economy, without government guarantees on the liabilities of financial institutions, without the government measures that forced the recapitalization of troubled financial institutions, there are few, if any, major financial institutions that would have survived.

Let us not forget that just 18 months ago, the leading companies in this country were reduced to borrowing money overnight because they were unable to borrow money for a week. Without major interventions by government, not many major nonfinancial companies would be healthy today.

Certainly, anyone inclined to be critical of excessive government involvement or regulation should remember how much extra market value exists today because of the extraordinary public steps that were taken. To take just one example, the nine financial institutions that were initial beneficiaries of TARP capital today have a combined equity market value approaching one trillion dollars. Think about what it would have been in the absence of that support.

There is, I would suggest, a different respect in which strong government is very much in the interest of business.

The vast majority of those in business have high ethical standards. They have no desire to compete unfairly or promote their products in duplicitous ways, or to pass burdens on to the public. Yet without regulation, a kind of Gresham's law of ethics becomes inevitable – where races to the bottom cause bad businesses to drive good businesses out of the market.

How can honest businesses represent their products fairly and profit, while others represent comparable products unfairly?

If others undercapitalize in reliance on government guarantees, how can those who are responsible deliver returns that meet the market tests?

Good regulation favors honest businesses. Without proper regulation, I would suggest to you that it is almost impossible to reconcile conscience and profit in a capitalist system. And I would suggest to you the events in the financial sector of the 2004 to 2007 period bear out that proposition.

That is why President Obama has called on Congress to pass comprehensive financial reform.

At one level, this subject is mind-numbingly complex. At another level, it's not that hard.

It cannot be right that huge financial institutions in our country aren't regulated at all with respect to the systemic risks they pose.

It cannot be right that we have no procedure in place for resolving non-bank financial institutions when they face failure.

It cannot be right that we lack restrictions on excessive risk-taking by firms that benefit from the government safety net.

And it cannot be right that we do not have effective oversight of consumer practices in the areas that brought us to the brink of financial calamity.

This is a system that has not worked for most businesses or for the American people.

Unfortunately, working today, there are more than four lobbyists per member of Congress working on this bill. Let us hope that the public interest, and the interests of many in the private sector, can and will carry the day.

Business has other stakes in strong and active government. No business can take responsibility for the basic skills of its workforce. And yet an insufficiently educated workforce is perhaps the greatest threat to our long-term economic security.

And I would suggest this. Today, as we speak, one in five American men between the ages of 25 and 54 is not working. For those who have not gone to college, the figure approaches one in three.

I would suggest to you that the continued faith, reliance, and emphasis on our market institutions depends on our ability to address that problem effectively as a country. The New Deal was at one level a progressive success, but it was at another level a conservative success, because by addressing the harshest outcomes of the market system, it permitted the market system to continue in the United States in a way that it did not continue in much of Europe.

These points may seem like abstractions. But it's actually quite interesting to look at data on how business has fared under progressive governments and other, more conservative governments in the course of American history.

You can look at the share of profits in GDP. You can look at the returns on the stock market. You can look at the data from the first half of the postwar period. You can look at data in the second half of the postwar period.

What is striking is not just that the economy has performed better when government was stronger, but actually if one looks at success of corporations, measured by profits or measured by the stock market, it has been stronger during periods of progressive governance. And I would suggest to you that there is a lesson in that.

Strong progressive government is good for the American people and good for the American economy. It is also good for American business.

This brings me to my third proposition. Business and government have important mutual obligations. Government must recognize the importance of building the foundations for businesses to succeed and ensuring a stable business environment. Likewise, businesses must carefully consider their obligations to their fellow citizens.

Luigi Einaudi, an economist and former president of Italy, made a zoological remark that all of us involved in economic policy would do well to remember. He said capital has the memory of an elephant, the speed of a hare, and the courage of a deer.

Prudent governments know that their actions will have consequences, that what they do in one sector will be watched by those in other sectors, and that the precedents they set will live on. They know also that the cheapest form of economic stimulus is increases in confidence and reductions in uncertainty.

It was this recognition that shaped the efforts of your honoree last year, my good friend Secretary Geithner, to bring about the rescue of the financial system that I described. There were many people who believed in precipitous action of various kinds. Some, including at least the leading newspaper in this city, called for some form of nationalization. That increased uncertainty, and it did not increase taxes.

Secretary Geithner's approach was an aggressive one, but it was a different one. It emphasized that in a moment of tremendous uncertainty, achieving increased transparency through stress tests was central to reducing uncertainty and increasing confidence. And he emphasized that the best and healthiest form of capital was not capital provided by government, but capital raised from the private sector.

A wise government understands that supporting confidence and reducing uncertainty is central to success. But there are two things that, as part of this compact, I believe business needs to think about.

The first is the need to support rather than thwart the workings of effective government.

You know, there's a lot of talk about gridlock in Washington. It's easy to understand why there is. There are plenty of mistakes made in Washington. But I think those who want to take not the view about what's best for their businesses in the next quarter, but what's best over the long term, need to think about those four lobbyists – on one issue, financial service reform – for every Congressman.

Think about what they are doing and whether it is supporting wise, rational, long-view investment, or whether it is doing something else. Because – and this is a bridge to the second point – the Supreme Court recently held – and it's out of my field, and I'm not going to comment on the decision – that corporations as citizens had various First Amendment rights associated with making campaign contributions. The President spoke to his views on that in the State of the Union address.

But I want to just highlight that if there are rights associated with citizenship, there are also obligations. And those go to supporting workings of the government, rather than seeking to thwart those workings.

I believe they go to something else, which needs, increasingly, to be a subject of dialogue as we confront the issues associated with globalization. And that is the question of national obligation.

Here's the challenge: capital, especially financial capital, is extraordinarily mobile. It can mangle, it can move quite quickly, and it can move easily.

The vast majority of our citizens and their ability to work are relatively immobile. They can't move.

Now, it's a tenet of the logic of taxation that you tax what's immobile, not what's mobile. And people say all the time, "Well, you can't tax business, you can't tax corporate profits, you can't tax various kinds of financial activities, because they'll just move overseas." Well, at one level, that's right. It's true, in at least one way.

At another level, how do we go to our fellow citizens and explain to them, "Oh, by the way, globalization is really challenging, and we're facing increased competition from around the world. But, in addition to that, actually we can't tax the people who are moving. So we have to cut their taxes, because otherwise they'll move, and we'll be in real trouble. So we have to increase taxes on you"?

Somehow we have to find a way through that. Part of the answer lies in much greater efforts at international cooperation, to avoid the kind of races to the bottom that I talked about. Part of it goes to thinking about the obligations of corporations as citizens to our country, rather than citizens of some vast global people.

Because we can accomplish most things in this world. I've had a chance when I had international responsibilities at the Treasury, and since, to travel a great deal. And I can tell you that, as significant as our challenges are, I would not trade our challenges for the challenges facing any other country in the world.

Whether it is the work ethic of our labor force, the dynamism of our entrepreneurs, the science and technology and innovation that comes out of our universities, the resilience of our economic system, we have fundamentals and economic potential that are second to none. And by the way, your city is a central part of that.

But we will only realize that potential if we are able to forge the right kind of constructive relationship between business and government.

Thank you very much.