The U.S. Economic Outlook

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Moderated by Charlie Rose
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CHARLIE ROSE: …This man has probably worn more hats at Davos than anybody in this room: Harvard professor; World Bank economist; member of – Secretary of the Treasury and Deputy Secretary of the Treasury in the Clinton Administration; president of Harvard; private citizen in 2007. When he came here and he said you have nothing to fear but not fearing, that was a year – two years ago. He's now – joins us as a principal economic adviser to the President, President Obama.

I want to begin, because there is news from Washington of the fourth-quarter results from 2009, and use that as a pathway to what's happening in the American economy and how it fits and what it suggests about the global economy. So tell us what the numbers are and what they mean.

LAWRENCE SUMMERS: Today's GDP figure was – was a favorable figure. It confirms what we've recognized for some time, that the President's policies have moved the economy back from the brink of depression and have created a basis for economic growth. But it certainly doesn't suggest that we're in any position to pop any champagne corks; that we're in any position to be satisfied with where we are.

We have a profoundly serious problem of unemployment, of slow growth in middle-class incomes. And that's going to take a great deal more effort in the months, the quarters, the years, the years ahead. But I think today's number does suggest that in terms of the original objective of our policies, which was to contain the gathering storm of depression forces, that that objective has been achieved. And while we've got some distance to go and while we're going to need to do a lot more, the experience is that first comes the GDP growth; then a turn in GDP growth; then comes increases in the number of hours people are working; then comes changes in the level of employment; then comes changes in the level of unemployment.

And this suggests that we are moving through that process, albeit not nearly as rapidly as we would like to –

ROSE: Was there –

SUMMERS: – which is why the President devoted so much of his State of the Union address to talking about the imperatives of job growth and income growth.

ROSE: Was there one single reason having to do with the stimulus or something else that gave it that kind of number in the fourth quarter?

SUMMERS: You know, people will analyze the interstices of the report. Clearly a period when there was very substantial inventory – inventory buildup, and that has to be borne in mind when interpreting the number.

It reflects the fact that the President's stimulus is having the objective that the jobs that have been created, building highways, retrofitting federal buildings for energy efficiency, the extra funds that have been given to consumers that support consumption, the global effort of the G-20 to spur trade. But all of that and the export number was a significant number in the GDP – in the GDP announcement; that all of that is having the desired effect. But again, we've got a long way to go.

ROSE: You have said that a number of times – a long, long, long way. Do you believe in this idea of a "new normal"?

SUMMERS: I think it depends on what's meant. If you look at the fundamentals of the American economy – people who work harder and with more determination than almost anywhere else in the world; tremendous capacity for innovation and science around the world's leading universities and research labs; a capacity for flexibility and resilience that's unique among developed countries; an ability to welcome people from all over the world and assimilate them into our economic system – those fundamentals have not been affected by anything that's happened.

And so the fundamental capacity of the U.S. economy to produce, to provide for rapid standards of living, no, I don't believe those things have been changed.

Indeed, the remarkable performance of productivity suggests that we've got enormous technological capacity. But clearly, after a financial crisis of this magnitude, getting the economy back to its full potential is going to be a substantial challenge and is going to be a challenge that is going to be with us for several –

ROSE: Okay, but I don't –

SUMMERS: – for several years to come. But there's no reason why we need to lower our sights. Indeed, the President ran for president because he believed that if we renew the crucial systems in our economy – health care, education, energy, if we contain the financial forces that have led so often to disruption over the last generation – that we can actually provide much better outcomes for the middle class in the future than we have over the last decade.

ROSE: And for the overall economy.

SUMMERS: And for the overall –

ROSE: Much better than you have –

SUMMERS: And much better than the –

ROSE: Up to –

SUMMERS: Much better than the performance we've seen over the last decade. If you look at total job creation over the last decade, we created essentially no jobs. If you look at the total performance of the market, we created essentially no returns. If you look at the total performance of incomes, we produced very little real income growth for families.

We as a country can do much – can do much better than that. The basic objective of the President's policies is to unlock our potential to do just that. And I would be very surprised if when somebody compiles the figures for the period 2010 through 2019, they don't look a lot better than the figures for 2000 to 2009.

ROSE: From 2000 to – looking at good and bad figures.

SUMMERS: I think the next decade will be a better decade than the last decade, in part because starting where we are, short of potential, we'll see significant growth as we return to potential.

ROSE: All the talk is about the Volcker rule. Is the President, is Larry Summers, is Tim Geithner, is Paul Volcker on the same page? And what is that page? Help us understand exactly what to expect.

SUMMERS: I've got to step back and talk a little bit about financial reform, and then I will come – and then I will come to the Volcker rule, Charlie.

Look, we've been discussing these issues for years at Davos. If you look over the last generation, you know, the 1987 stock market crash; the S&L debacle; commercial real estate problems; the Mexican financial crisis; the Asian financial crisis; Russia and LTCM; the NASDAQ tech bubble; Enron; and now this.

It works out to about once every three years there's been a financial crisis where a financial system that was supposed to manage and distribute risk has, in fact, been a source of risk that has wrenched the lives of hundreds of thousands, if not in some cases millions of people who were unemployed. And that's a system whose regulation needs to be profoundly reformed.

At the center of that regulation are some pretty clear imperatives.

- There's got to be basic protection for consumers of the kind that was missing in a lot of the products that were bought around subprime mortgages, around mortgage products more generally.
- There's got to be a system where we recognize that we can't have a failsafe system unless it's safe for the failure of any individual financial institution and where we have ways of managing the failure of even big complex financial institutions, not just small banks.
- There's got to be an end to the loopholes and the regulatory arbitrage where institutions choose their regulator that could enable tens of billions, if not hundreds of billions of dollars of complicated derivative instruments to sit at AIG with essentially no public official feeling any responsibility to monitor the situation.
- And perhaps most crucially, there have to be rules that constrain the amount of risk that large financial institutions take. One crucial aspect of those rules is limits on leverage, requirements for substantial capital holdings. Another component – and this is the point that the Volcker rule introduces – is constraints on activity where that activity is taking place in institutions that are potential beneficiaries of public support where they receive the benefits of access to the payment systems, of access to the discount window, of deposit insurance to go in the banking system.
Nobody's saying you can't make a loan. Nobody's saying that you can't buy a bond. Everyone recognizes that financial institutions need to engage with customers in all sorts of ways to provide for hedging, to provide liquidity, to handle the complex financial interactions. But there's no need for activities that don't have any nexus with customers, that are really purely speculative, to reside within institutions that receive the special privileges that banks receive.

And that's the Volcker rule principle. And that goes to the role of hedge funds within banking institutions. It goes to the role of private equity firms within banking institutions. And it goes to trading that is purely proprietary and unrelated to any effort to serve a customer. It's a principle that's part of what is the central objective of constraining how risky these institutions can become.

And along with increased capital, along with increased closing of loopholes so that institutions can't play one regulator off against another within a country or can't play regulators in one country off another, we believe that in the context of the American system, these kinds of constraints will further serve to reduce risk taking without in any way interfering with the ability of these institutions to serve their customers in all the many ways that modern banks serve their customers.

ROSE: Do you think they believe that? That it will not interfere with the way that they have been conducting their business and the way they serve their customers?

I mean, are you saying that this will have no serious implication for a bank on the one hand like J.P. Morgan or on the other hand like Goldman Sachs? That their business model will essentially remain the same?

SUMMERS: I'm not certainly going to talk about the situation –

ROSE: I don't mean specific –

SUMMERS: – of any individual institution –

ROSE: But you know what those institutions do.

SUMMERS: And I'll let others – I'll let others speak for what their perception is. What I am able to do is state what the policy is. And the policy is a constraint on purely proprietary trading. It is not a constraint on doing business with customers. So it does not by definition, therefore, interfere with their ability to serve their customers.

If it is the objective of an institution to benefit from the lower cost of funds that comes because you have access to the discount window or because you have access to the insured deposit safety net; if it is the intention to take advantage of that lower cost of funds to get greater leverage on purely speculative activities, yes, this policy would constrain that type of activity. But I believe that that would be very much a positive thing.

ROSE: Tell me –

SUMMERS: In terms of constraint, in terms of constraining – in terms of constraining risk taking.

ROSE: Primarily because of the less leverage, more so than whether they were managing their own money or not.

SUMMERS: Managing – taking advantage of leverage not to serve customers, not to make available capital to businesses, but simply in order to trade back and forth. The process of trading back and forth is enormously important. It's what makes our markets liquid. It's what enables them to function. It's a crucial part of a modern financial system, but it doesn't need to be supported by government. It doesn't need to be supported by guarantees provided by government.

And so the idea here is simply to separate those activities that are directed at providing capital to customers and supporting business activity, basic banking functions, from a different class of activities and saying that that class of activities where there isn't a customer nexus needs to take place in institutions that are outside of the special privileges that banks receive.

ROSE: And where is "too big to fail"?

SUMMERS: Too big to fail is in many ways the central challenge here. Because when institutions are too big to fail, they gain a competitive advantage from the sense of government support. And so – and that gives them an unfair competitive advantage. They are then able to take risks without market discipline, and when they take those risks, then they fail. And if they're too big to fail, taxpayers are on the hook and the rest of the economy suffers, as we've seen.

So the approach I've outlined goes after too big to fail, not in one way but in multiple ways. Through stronger capital regulation and reductions in leverage that mean that institutions are able to withstand larger shocks without calling into question their ability to service their debt first.

Second, through the restrictions that we just discussed in the context of the Volcker rule that limit one source of risk-taking, that could be a potential – that can be a potential source for failure.

Third and in some ways most crucial, in terms of too big to fail is something I emphasized before, resolution authority that stops the current situation where when a large financial institution fails, if it's not purely a traditional bank, government has no choice but to allow a chaotic and destabilizing Lehman-style unwind, or to commit huge quantities of taxpayer resources to try to patch the situation together.

ROSE: Why did it take this Administration so long to come to the point of agreeing with Paul Volcker?

SUMMERS: This has been an evolution. What always happens, Charlie, in legislative processes is that over time, things are spelled out in more and more detail.

So if you look at the legislation that was passed by Congressman Frank, what the Administration advocated many months ago, it was provisions that would give regulators the capacity to require any financial institution to divest any activity that was thought to contribute to its systemic risk. It was reasonable in the face of that – of that obviously creates uncertainty. What will the rules be? Which activities will they – will they eliminate?

And what this announcement did was provide greater clarity with respect to that question. So this is not some new thunderbolt of a different approach.

ROSE: That's my point.

SUMMERS: This is –

ROSE: The idea was always there, but all of a sudden – we didn't see Paul Volcker sitting next to the President, standing next to the President until about two weeks ago.

SUMMERS: This is what always happens. Paul Volcker has been an adviser to the President since well before he was elected as president. He's been a close adviser to the President over time. He's maintained an active dialogue on a range of issues, both through the Economic Review Advisory Board and more privately. All of us on the economic team have been discussing these issues with Paul for quite some time.

And just as in the consumer area, we have elaborated on what our approach is, just as the Basel group is elaborating on what's meant by the principle of higher capital standards. In each of these areas as the legislation moves forward, as the process moves forward, details are always filled in. And that's what – that's what has been provided here.

ROSE: Are you satisfied with what the banking industry has done in Washington with respect to financial reform? Or are they spending a lot of money lobbying that puts financial reform in jeopardy?

SUMMERS: I think the President's going to succeed. I think we are going to put in place a set of reforms that will make a real difference.

You know, it's interesting to look at the broad history of this. I went through, a few moments ago, the financial crisis record of the last generation. And it isn't such a happy one. It's not always like that. If you look at the first 30 years of the postwar period, the incidents of financial crises was much, much lower. And the system that was put in place during the 1930s of financial regulation held. And over time, it came to hold less and less.

Well – and our challenge now is to put in place a new system, not that will hold for all of eternity, but will hold and substantially reduce the risk of crisis for a generation. We're prepared to work with, and the President has been very clear, with anyone who shares that objective. And there are many –

ROSE: Okay, but that –

SUMMERS: There are many in the financial industry who've been very constructive in thinking through these various issues of how you manage capital, how you set up a regulatory regime that contains systemic risk.

But yes, I do have to tell you that when there are three lobbyists per member of Congress employed by industry – per member of the 535 members of Congress, three lobbyists per member of Congress – and when some of them are frankly advocating for provisions like the ability to jack up credit card rates without letting customers know; when institutions explain how important financial innovation is, and then their innovation is a computer algorithm that when somebody has written a lot of checks for more money than they have in their account, figures out what order to sequence the checks so that you can calculate the maximum possible number of $37.50 overdraft fees – when that's financial innovation and people lobby to defend that as financial institutions, yes, that does make people dissatisfied with the process and I think it should.

ROSE: So therefore this question: You have said we were there for the banks. They need to be there for us and for the country. What did you mean? What do they need to do?

SUMMERS: They need to think very carefully about their obligations to their customers in terms of fair and clear disclosure and not preying on the ignorance and inability to understand sophisticated financial things of some of their customers. They need to think hard about their obligations to communities in which they operate when they contemplate their lending decisions. They need to think hard about their obligations to contain risk as beneficiaries of the discount window, of the safety net that a financial – that a financial system provides.

None of us want to see anything other than a free market financial system. But we need to remember that because of not any political figure's desire to get involved in banking, but because the system was brought to the brink of collapse by reckless lending decisions, government had to become substantially involved. And in that context, there is an obligation on the part of those who benefited from government's involvement to carefully consider their obligations to all of their stakeholders of which the broader economy is – clearly has an enormous stake in what happens.

ROSE: And are you satisfied they're doing that?

SUMMERS: I think there have been very productive discussions. But I think in some areas, at some times, there has been a reluctance to do all that could be done.

Let me give you an – an example if I could, Charlie. I don't understand when – I understand the argument that if you are – if you pay out cash, then you've paid out cash and you have less capital and you are in a weaker position to lend and that that will reduce lending. I understand that argument. It may well apply in some circumstances.

I don't understand how you can logically maintain that paying out bonuses in large quantity has zero effect on lending because capital isn't the constraint on lending, and then maintain that a financial fee that would cost only a small fraction of what's paid in bonuses would somehow cost $1 trillion in lending to the economy – though that's what some have maintained.

I would have thought that the concept that after all that had been done for the financial sector, as a consequence of efforts to strengthen the economy, the idea that the financial sector would, through an appropriate fee, would bear the cost – the limited cost because we have been very successful in getting the money paid back – but would bear the limited cost, I would have thought that was a sound principle that one could reasonably expect financial institutions to agree to if they feel that the environment is now sufficiently healthy that they're able to go back to normal compensation practices and normal dividend practices.

And so when there is a resistance on the one hand to anything for the public sector, but a lack of resistance on the other side, that I think is something that is questionable. And I think it's right to point up that there's a problem.

ROSE: There is also a Massachusetts election, and there's also a 2010 election, and there's also the Administration's decision that the President's talked about to try to get some of the TARP money back. How much do you think you can get back?

SUMMERS: Well, I think it's important to be clear that the vast majority of the TARP funds that were extended have already been paid back. If you look at the major banking industry, if you look at the largest bank – banking institutions, the so-called TARP nine that gathered at the Treasury on that famous Monday in September of 2008 – they have all essentially paid back the capital that was – the capital –

ROSE: So what is this fee about?

SUMMERS: – that was invested in them. There are still other funds that are outstanding with respect to AIG, with respect to the automobile companies, with respect to our efforts to support the housing market where we clearly have a lot of work – a lot of work to do going forward. But I think we've made very good progress. I think we do need to keep making progress.

I think we do need to levy a fee. That's not, by the way, some idea that I thought of or that the Obama Administration thought of. The original statute that authorized the TARP required that the President propose a fee on the industry to cover any costs that were incurred. And so I think we're doing only the responsible thing by meeting that obligation.

ROSE: Are we likely to see in the public discourse and the politics of 2010 with midterm elections, a kind of populist attack against Wall Street and financial institutions?

SUMMERS: Charlie, I try to stick to the economics and finance, because they are – because they are hard enough.

What I've been trying – what I have been trying to say here is that there's a substantial problem from all the instability that has come from the financial sector. There's a remarkable thing that was done in terms of how much was done, how much wealth exists today – literally probably half a trillion dollars of market value exists today that would not have existed if the government hadn't taken extraordinary provisions.

With half a trillion dollars of market value that exists, the notion that a fee that is some single-digit number of billions of dollars each year is somehow an impossibility is something that I would find – that I would find hard to accept.

But look, our focus is not on trying to pick a fight with anybody. Our focus is on getting this economy growing again, and above all, maximizing job creation. Financial institutions have an important role to play in that regard and that's why we're spending a lot of time thinking about financial institutions. And financial regulatory policies have a great deal to do with making sure that we don't have another instance of disruption like the one – like the one that we just saw and like the many that we have seen over the last generation. And it's that that is motivating what the President is – what the President is doing.

ROSE: Because there's been so much government intervention, as you well know, and because it was a necessity in order to prevent something worse – which is always the rationale – there has nevertheless developed a perception about the President, an understanding which you see in the election results and see in the polls. What is the biggest misperception, because you work with him every day, about the President and his attitude about the economy and the way it works?

SUMMERS: I will just tell you – I don't know what the misperceptions are. I will just tell you what's true.

The President is every morning focused not on any ideological principle, but is focused on asking all of us who work with him to think as widely and as pragmatically as we can about what will make more Americans be working for higher incomes, month by month and ultimately year by year. And what will cause him to leave behind, when he's finished being President, an economy that rests on a much firmer foundation for the market economy, for the private sector, than the one that he inherited.

He inherited an economy with trillions of dollars of debt and massive deficits. He inherited an economy on the brink of financial collapse. He inherited an economy where every year fewer people had health insurance and health-care costs grew twice as rapidly as incomes. He inherited an economy that had no systematic policy around energy. He inherited an economy in which educational achievement was slipping. And he is determined to pass on an economy that rests on a much firmer foundation than the one that he inherited.

ROSE: Tell us how you think this new global order is shaping up – especially since emerging countries are leading the recovery.

SUMMERS: Here's I think the key thing to understand: There's a – I think when people write history 300 or 400 years from now, what they will remember from this 25-year period is not this financial crisis, probably is not even the fall of the Berlin Wall. What they will remember is this is the moment when standards of living in places where a third of humanity live grew at a rate where living standards doubled in a decade, and increased 50- or 100-fold in a human lifetime. That's the signal economic event of our time.

Now there are two ways to conceptualize that as an American or as a European. One to which many people gravitate is that it is somehow a threat. That somehow that success in other parts of the world must necessarily come at our expense, our expense in terms of influence, our expense in terms of prosperity. That's a view, and we no doubt could find policies to follow that would turn that view into a self-fulfilling prophecy.

But I don't think it's the right view or the view that has to hold. I think it can be an enormous opportunity – an enormous opportunity in the form of a much larger markets for our products; an enormous opportunity in terms of much stronger and more robust partners to collaborate with on challenges ranging from security to the environment; an opportunity to have a much richer and more interesting and more satisfying world.

And our challenge is to craft the institutions, to craft the systems that will enable this growth to take place in a positive-sum way rather than a zero-sum way.

That's why I think one of the really important events of 2009 was the decision to allow the G-20, which includes the major emerging market countries, to emerge as the major political forum for addressing global economic issues. Because ultimately, what we have to do is find a system that works in a positive-sum way for everybody.

The G-20 is the international instantiation of that strategy. But the other part of that strategy is that we will never see global integration continue if it is everywhere seen as associated with local disintegration. And that means providing for the security of the middle class in my country and in all of our countries.

You know, if you look back at the last time the world order was reformulated in a profound way – you look at the period after the Second World War – I would say to you that measures like in my country, and there are similar measures, and other measures – in other countries about which the same could be said – measures like the G.I. Bill of Rights, measures like the FHA that made mortgages generally – generally available; measures that supported the life that middle-class people wanted to live and to which they aspired were an integral part of the broad national strategy that also contained the Marshall Plan, the founding of NATO, the establishment of the Bretton Woods institutions.

And so the challenge today, and why this renewal of our institutions that I talked about and why, you know, the first half hour of this, Charlie, I talked almost entirely about what was taking place within the United States. And I do that in part, because it's what I am involved in working with President Obama, but I do that in part because I think our ability to meet global obligations will depend very much on our ability to meet obligations to our own citizens.

ROSE: Do you believe that there is also a need in terms of the kind of reform for there to be more coordination, more cooperation, and more mutuality with respect to both developed nations and emerging nations in terms of some kind of understanding about what the rules are for the future?

SUMMERS: It will take – it will take –

ROSE: So it won't vary so much from Ireland to Britain to the United States.

SUMMERS: It will take – it will take time and it will differ from issue to issue.

I think for any horizon that I can imagine, the curriculum, the educational curriculum that nine year olds are taught will be something that will be determined domestically rather than internationally. And I think there is no reason why that needs to be harmonized in every country, though we can learn from each other. Conversely, I think that we're going to have to get very quickly to a system where we have much more harmonization on, for example, the capital rules for financial institutions.

ROSE: And how do you create harmonization?

SUMMERS: Because otherwise we'll see – otherwise we'll see as we've seen, races – races to the bottom.

You know, we had – there was launched in the United States in the mid- – I don't remember if it was 2005 or 2006 – a big overhaul of financial regulation. But the whole purpose of it was competitiveness with London, and it was all in the direction of reducing regulation.

Well, that clearly can't be – it can't be that if every country does that, we're going to get to any kind of very good place, so that is what the Basle Committee is about. That's what the FS- – that's what the Financial Stability Forum has been about. That's the increasing role of the international financial institutions in bringing about this kind of harmonization.

ROSE: Okay. But I don't have that much time. The president of France on this stage says we need a new Bretton Woods, number one. And two, we need a different kind of – we do not need to have the dollar as the reserve currency of the world.

SUMMERS: You know, the reserve currencies will be chosen by – will be chosen by the market. They will be chosen by the form in which market actors choose to transact. They will be chosen by the place where governments and other institutions with large pools of capital –

ROSE: Do you think it's likely, then, that the dollar –

SUMMERS: – wish to – wish to hold.

I believe the dollar is going to have a very central role in the international financial system for a very long time to come. And what we in America can do about that is pursue the strongest possible policies that support the strongest possible fundamentals. That's why the emphasis on budget deficit reduction is – was such an important component of the President's – of the President's State of the Union, Charlie.

ROSE: Also, there obviously was a tension between spending because of the needs of 10 percent of the people unemployed and the social needs, versus – because some countries are now talking about, as you well know, austerity programs and dramatic reductions in spending.

SUMMERS: Different countries are in different – different situations.

ROSE: Sure.

SUMMERS: For the United States, I think the President's been pretty clear and pretty consistent over the last year. For the near term, our priority has to be getting the engine of job creation and the economy going. If we do not do that, there is no – no prospect of a healthy American budget with 9 percent unemployment. It is not an arithmetic possibility. Establishing self-sustaining growth has to be the first priority.

At the same time, if you look at the projections, establishing growth is necessary, but it is not sufficient for our fisc to be on a sustainable path. And that's why the President's proposing further measures in trying to initiate a broader national discussion about the kinds of structural reforms that are necessary. There's no contradiction between doing what's necessary in the short run and also doing what's necessary in the long run.

ROSE: We have a relationship with China in which we borrow and they lend. Is that going to be the rule for the foreseeable future? And does it – and will it continue to benefit both countries?

SUMMERS: Charlie, I think that if you ask is the – if you mean by that literally is the United States likely to have a current account deficit over the next several years, and is China likely to have a current account surplus, I think most forecasters would say yes, those things are likely to happen.

But I think that if you look a little bit beneath the surface at what's happened, you see two things that I think are encouraging. You see a commitment that the G-20 countries reached to global rebalancing, which means less borrowing by the United States and less export-led growth in other countries. And you see that while there's obviously still plenty to be worried about, that China's trade surplus has come down very substantially over the last year or two.

And so there are some signs of progress with respect to global rebalancing, but it's going to require constant vigilance and a lot of effort in all countries.

ROSE: You gave a speech – and I close with this question – you gave a speech to Harvard students, I think – and this may have been as you were leaving that presidency of Harvard – in which you basically said, you know, what I want you to do and what I want you to remember is not necessarily the conventional wisdom and the consensus, but I want you to find the essential truth and make sure that you are – your allegiance is to the essential truth.

When you look at all that you have seen in this role, tell me what essential truth is prominent to you.

SUMMERS: I feel like that's a question that may be better addressed to a philosopher than to a humble –

ROSE: But it was a philosophy you were presenting to those students as you left Harvard.

SUMMERS: – than to a humble economist.

I guess the answer I would give, Charlie – and in some ways it is a trite answer – is that if you look over longer periods of time, countries that are successful in causing those in the large middle of their population to experience themselves year by year – five-year period by five-year period – as having better lives, and being confident that their children are going to have better lives than their parents, tend to have a whole range of other things work out, okay – including in their relations with the world. And that if you don't meet that basic test, you can do a lot of other things right, but over time, the outcome is not likely to be very good.

And so I think that what I've perhaps come to appreciate more is that successful governments rest on satisfied, optimistic middle classes. And that that overall priority, rather than this particular security treaty or that particular regulation or that particular reform, is really where a great deal about the ultimate success of countries resides.

ROSE: On behalf of this audience and the World Economic Forum, our thanks to Larry Summers.