



WILLIAM J. CLINTON PRESIDENTIAL HISTORY PROJECT

FINAL EDITED TRANSCRIPT

INTERVIEW 1 WITH LAWRENCE SUMMERS

October 17, 2002
Washington, D.C.

Interviewers

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Russell L. Riley: First, we want to thank you for taking time out of a very busy schedule to come be with us. I thought I would begin by asking a global question to get things started, actually it's a two-part global question, the first of which I'd like to hear from you and the second of which you may want to answer right now, or you may want to think about as we go through the course of the day.

Before we start talking about all of the actors on the stage and the things they were doing during this eight-year period, it's important to set the stage itself. In some of your speeches you talked about some of the important global developments that set the stage during the time that Bill Clinton was in office. In fact, in the Davos speech I think you had indicated that you thought historians 200 years down the road would find that the Cold War was the second most important development of the time, that emerging markets was probably more important. I'm wondering if you could take that and run with it a bit and help us understand what you think historians will find most important about this eight-year period in terms of the stage it set.

The second part of the question builds on an idea that Abraham Lincoln once noted with respect to his actions on slavery, where he said, "I confess not to have controlled events but that events have controlled me."^{*} I'm wondering to what extent you think Bill Clinton in particular, and more generally the administration, had an influence on these important global developments during your time in office, as opposed to the extent to which those global events controlled what the administration did.

Lawrence Summers: One's thinking evolves over time, so it is not entirely easy to set the stage and to recover the *gestalt* we all had at the beginning of the administration. I would say that at the time the administration began I had the view—and it always seemed to me that the President had a similar view, though he would have put it in rather different ways—that the challenge for our time was really the challenge of getting it right after the Cold War. The world had gotten it badly wrong in a whole variety of respects after World War I with respect to the vanquished powers, to achieving a sustainable economic system of international economic integration, to promoting a healthy evolution of the countries that were involved. America, which was in a position to lead at that time, had failed quite completely to do so, and what followed was catastrophic. At the end of the Second World War, spurred in no small part by the Cold War, we had done the right things with respect to the vanquished powers, with respect to promoting

^{*} Lincoln's actual quote reads: "I claim not to have controlled events, but confess plainly that events have controlled me." Letter to Albert G. Hodges, April 4, 1864.

international economic integration, and with respect to creating an environment that would avoid major conflict despite large changes in the economic balance of power. Our challenge at the end of the Cold War was to do it right, as we had done it after World War II, not wrong as we had done it after World War I.

It seemed to me that that was a drama that was going to play itself out very substantially in the less-developed world. It was already clear that there were countries seeing rates of growth that caused them to grow in a decade more than the United States had ever grown in a generation. It was clear already at that time that all of the world's labor-force growth over the succeeding period was going to come in the developing world. It was clear at that time that a substantial part of the world's major problems were—whether they were environmental problems, whether they were military conflicts into which the United States might be drawn, I don't know that we focused as much on terrorism then, but problems of drug trafficking—that all of these problems had important roots in the Third World. So it seemed to me that creating a regime in the world increasingly of shared prosperity, after the Second World War, was a defining challenge that needed to animate everything that we did.

It seemed to me at the time that the First World War/Second World War parallel also had domestic resonance, that the ability to maintain a strong foreign policy was dependent on that success, that the system was working for middle-class Americans to an extent that was greater than historians usually say. The G.I. Bill of Rights was part of the Marshall Plan system, and the interstate highway system derived rationale from national security. So the efforts to get the economy moving again for the middle class seemed to me to be very much part of this international economic order. It seemed to me that the declinist U.S. rhetoric at the time had been rather overdone. I was fairly unique early in the administration in being “unscared”—

I. M. “Mac” Destler: That the Japanese were going to eat us—

Summers: —by Japan. We had more to fear from a weak Japan than a strong Japan. I certainly didn't expect the American economy to perform as well as it did. But there was a “remove-the-cobwebs” kind of agenda that seemed very important to us and was part of what contributed to the discussions of the budget deficit.

I think there was also a sense of respect for the market system. I remember very early on our reaching the decision that fiscal contraction would be expansionary. That was a—

Destler: Anti-Keynesian—

Summers: That was an anti-Keynesian, and to some, controversial kind of view.

Did we shape events or did events shape us? Who knows? I think there are two perspectives that one can take, and if you take either alone you miss the basic truth. One is that I think it is fair to say the world sets your agenda. If anybody writes about any of the things that I was involved in or we were involved in 50 years from now, they'll be writing about the Asian financial crisis, the Mexican financial crisis, the spectacular takeoff in U.S. asset markets and increases in productivity growth during the 1980s. They won't be writing about our decision to launch legislation to propose debt relief for African countries, significant though in its way that is. So in a sense—

Destler: Or the framework talks with Japan.

Summers: Or the framework talks with Japan. So in a sense, the agenda is something that is provided. If you look at the history of Presidencies—whether it is John Kennedy and the Cuban missile crisis, whether it is F.D.R. [Franklin D. Roosevelt] and the Depression and the war—most Presidents are not remembered by what they campaigned on. They're remembered by how they dealt with what history served up. In that sense Lincoln was right.

The other side of it, which I think is also very important, is what scientists, mathematicians, call the butterfly effect and what others might call “hinges of history.” It is a property of certain types of equations and indeed of the equations that describe weather patterns. If you extrapolate them out, a change in the tenth decimal place from where you start has a radical impact on where you are somewhat down the road. This is illustrated by saying a butterfly flapping its wings over Tasmania can affect hurricanes in Florida. And in just the same way it seems to me, decisions—and not always the most major decisions—through processes of cumulative causation can have very profound effects on what happens. I think there are moments of “hinges of history” where things could have gone in multiple different directions. So in that sense, while the agenda was in some sense served up by history, I don't feel that we were passive before history.

Destler: That leads to an obvious question. What were some of these hinges and what were some of these decisions? And were they made with a consciousness of what the alternative storms might be?

C. Randall Henning: Meaning the two, three, or four big contributions that you'd like history to see as the contributions of the Clinton administration.

Destler: That's a closely related question.

Summers: That's a more grandiose question than the one I think I will answer. I think there are three that come—four that come to mind, the fourth of which was really a set of smaller decisions. The decision to make fiscal consolidation the centerpiece of the economic strategy, which I believe produced a substantial break in psychology of a kind that a model can't really accommodate and which contributed substantially to getting the economy growing again and laying the basis for the prosperity of the 1990s. The decision to adopt a commitment to open markets as an approach to—with a lot of rhetoric to the contrary—not to carry out the specific targets on the Japan agenda, to drop the human rights linkage on China MFN [Most Favored Nation], to pursue to completion NAFTA [North American Free Trade Agreement], to push the Uruguay round along as rapidly as possible.

I think the decision that basically a Democratic administration was going to be oriented to continuing progress toward free trade was a second decision that could plausibly have gone either way. Might have had major effects.

Destler: Certainly NAFTA arguably is the linchpin because the President could have decided—

Summers: The President could easily have decided not to do NAFTA. The President could have decided to have turned trade policy more generally over to Dick Gephardt and over to the

Democratic base. If he had, he wouldn't have done NAFTA. He would have gone in with substantially greater truculence vis-à-vis Japan and China with uncertain ultimate consequences.

Destler: On the question of Japan and China, arguably you started out trying to have it both ways. If the Japanese had agreed to some export targets, the administration would have taken them, presumably. And if the Chinese had played along with the first round of efforts to balance MFN with moderate human rights conditions, everything would—

Summers: Yes, I don't want to say that on a continuum between what might have been the labor positions on these issues and what I might call the Bretton Woods positions—the Treasury, [Robert E.] Rubin and I certainly were always trying to pull the administration toward the Bretton Woods side on these issues—I wouldn't want to say that we always got everywhere we would have wanted to go. But I think, situated where President Clinton was, he could have plausibly been imagined to have taken a substantially more truculent posture vis-à-vis Japan and China and certainly could have been imagined—

Destler: When he was forced to go one way or another he could have arguably gone—

Summers: That's right.

Destler: —gone a different way.

Summers: That's true. I think the third cusp is, we made a decision that the United States, working through the IMF [International Monetary Fund], would try to intervene aggressively to maintain financial stability in the world, most dramatically in Mexico and secondarily and subsequently through the Asian financial crisis countries. There would have been a different broad regime that would have been possible, which was the strategy that was followed during the 1980s, which was let's do the minimum necessary to make sure that no U.S. institutions fail, and whatever happens in the rest of the world happens in the rest of the world.

Destler: Okay.

Summers: I think if we had adopted that strategy, it would have been ultimately highly adverse to our own economy, highly adverse to the economies in question, and ultimately I think very adverse to the market system. We were certainly influenced by a reading of history that suggested that particular mistakes of passivity in the late '20s and early '30s had been very substantial contributors to all that had followed from it. So that's really a sequence of decisions.

Riley: One hinge you omit that some people might suggest is equally important is in the personnel area. Bill Clinton decides to select Larry Summers to come into the administration, who has an influence on policy in each of these subsequent areas. Let me ask you to go back—

Summers: Can I complete my answer by just saying—

Riley: Surely.

Summers: I think a fourth hinge where we could have taken things a different way was in being supportive of Boris Yeltsin and the process of reform in Russia. I would say the fifth was by

adopting a basically pro-market approach to economic policy generally. We pretty consistently avoided heavy-handed regulatory approaches. We supported particular kinds of deregulation in the right places, contrary to what I felt was the dumb article in today's *Wall Street Journal*. I think the pro-market strategy we pursued—which again, was a real choice for a Democratic administration—could have taken us to a different place.

Riley: All of these we'll want you to elaborate on much more, but let's go back to your earliest associations with Clinton. Tell us how you got to know him and how you came to understand these things about him that you've already discussed, his sense of his place in history and what he intended to do with the administration. How did that evolve?

Summers: I was a good friend of Gene Sperling's coming out of the time we had worked together in the [Michael] Dukakis campaign. And I'd also gotten to know Bob Rubin and Roger Altman quite well through that campaign and also gotten to know Lloyd Bentsen a bit. I was at the World Bank during the course of the campaign, so I couldn't be involved in partisan political activity, but I did talk a fair amount with Gene Sperling through 1992, particularly the period as he was putting together the "putting people first" document.

Riley: You were talking with him about policy or about personnel or about the direction the campaign was—

Summers: About policy, about the budget plan, things that should be taken—it didn't end up happening—the incremental investment tax credit that the President talked about a fair amount during the campaign was something that I had pushed in some work before I had gone to the World Bank and we talked more generally about. Gene and I talked a certain amount more generally about putting together a budget.

I met Bill Clinton twice during the campaign—

Destler: Those were the first times you met him?

Summers: Those were the first times I met him. Once at a meeting in mid-August in Little Rock where he had a number of economists just to talk about the economic situation and to discuss his various ideas with respect to the economy. And again at a meeting in a Washington hotel sometime in September or October that was around international economic policy.

Riley: How did he strike you at these early meetings?

Summers: He was extraordinary—I was struck—he was extraordinarily knowledgeable about the issues. He gave a summary of the various issues associated with the budget deficit, various perspectives on the budget deficit. The way I understand this is there are some people who think he laid out position A, and there are some people who think he laid out position B, and there are some people who think he laid out position C. Then he said, "I guess where I am and where we are is . . ." and he laid out one of the positions and explained how there was a little validity in one of the other positions, but it was very sharp and clear and incisive, which is how I found him pretty consistently in everything that we did.

Riley: A quicker study than Dukakis?

Summers: Oh, yes.

Destler: Did he do that in ways that encouraged other people to talk or in ways that tended to shut it off or make people worry about whether they were clicking with his views?

Summers: I found that he was very quick on the uptake, and he didn't want to be told what he already knew. But he was pretty much willing to listen to anybody who was saying something that he had not thought about before, until he had assessed it and decided whether he thought it was relevant and important. Yes, certainly, the most knowledgeable and intellectually able political leader I've worked with. Through his Presidency, he would come in having read the *Economist* magazine and give his economic team a run for its money. Then the economic team would leave, and he would come in having read *Foreign Affairs* and give his foreign policy team a run for its money. And it was that way through the day.

I noticed another thing. People would from time to time pass out tables at meetings, and they'd be complicated tables and sometimes the numbers would fit together in a certain way, in patterns: column 9 was the product of the numbers in rows 1 and 3. And as somebody who had spent his life as an economist doing this, I was pretty quick to be able to pick up a table and understand what was going on. He would very frequently be the quickest person in the room to grasp what was in a set of data, a numerical table that was being handed out.

Riley: This surprised you originally. Or had Gene Sperling prepared you that this was somebody who was—

Summers: I don't know that at that point I'd had enough experience with enough politicians to know precisely what to expect. I don't know that surprised is the word. It certainly incredibly impressed me.

Henning: One of the things that we had heard with respect to the President's approach to these issues, especially in the early period of the administration, was that it was kind of an ongoing seminar. The President was interested in doing these things so that he could better understand the issues and the substance involved. I guess that leads to the obvious question: Is that accurate? How much of this discussion was for his enlightenment? How much was organized around a particular policy agenda and particular decisions that he was going to have to make?

Destler: And the downside conventional wisdom was that the President loved to kick issues around but often didn't come to closure.

Henning: Couldn't come to closure.

Summers: I was in the sub-Cabinet, not the Cabinet, and initially the sub-sub-Cabinet in the sense that it was Bentsen and Altman who had very substantially more access and I wasn't involved in—I was involved in the transition activities around the budget where the basic decision was made that we were for long-term deficit reduction as our strategy. But the formulation of the budget and the economic message and all of that in the first months of the administration was where there was the greatest of that seminar tendency. I wasn't there. So I don't have an ability to comment on that.

There were so many matters where the President would delay in making a decision, but I don't particularly recall them as being in our sphere. There were certainly moments when personnel decisions came very slowly, when there were conflicting pressures with respect to what should be done. There were certainly moments when positions were not 100%—where there would be vacillation in a situation, where there would be negotiation. But if I think about the decisions that I was involved in in the early part of the administration, the decision that the basic strategy would involve fiscal consolidation, the decision that we would try to complete the Uruguay round by the end of 1993, the decision that we would make a substantial commitment to Russia early on, the—

Destler: NAFTA also?

Summers: That's a little later. The decision that we would go ahead and push NAFTA. The decision that we would adopt the so-called framework approach with respect to Japan. None of those decisions did I experience as being agonizingly delayed and made.

Riley: Could I direct you back to complete the story about how you ended up in the administration? I'd gotten you off track a bit by asking some of these questions about your impressions of Clinton in those early periods. I'd like to get on the record how it is that you actually come in and what you took your role to be, how those understandings developed about what your role would be among the other economic actors in this team.

Summers: I wanted to get a job in the administration; I was eager to work in the administration. I had been prominently mentioned as a candidate to be Chairman of the Council of Economic Advisors. The President selected Laura Tyson for, I suspect, a variety of reasons starting with her extraordinary qualities. I think that both the buzz that had surrounded the memo I had signed when I was at the World Bank and the desire for an economic team that looked more like America worked against me.

With the encouragement of Bob Rubin and Roger Altman, drawing on the experiences I had at the World Bank, Lloyd Bentsen offered me the job as Under Secretary for National Economic Affairs with the understanding that I would be the Treasury point person on international economic issues. While international economics had not been my primary field, as an academic I'd gained some experience with those issues when I was at the World Bank. I thought it was a place where I could make a contribution. I liked Lloyd Bentsen very much and so was eager to go to work with him.

Riley: So your conversations and communications were with Bentsen rather than anybody in the White House at this point.

Summers: Little discussions with Rubin and then a little discussion with Altman once he'd been selected alongside Bentsen, but I did not talk to the President in the process of being offered the job.

Riley: Okay. The World Bank memo keeps coming up in the materials that we got. I wondered if you wanted to elaborate on that, get your story on the record about what happened there since this seems to have some importance in your placement.

Summers: I was at the World Bank; I was running a research section. There was a report being written on trade in the environment that was, in my judgment, muddleheaded in the way it talked about the set of tradeoffs involved there. I asked a young Ph.D. on my staff, Lant Pritchett, to work with the people who were writing that report, who were career bank officials, bureaucrats, to make that report into something that was intellectually coherent. He spent time talking to them, came back and reported with some frustration that they weren't really paying close attention: "They're blowing me off, Larry."

I said, "Look, why don't we write whatever it is they need to do to make this intellectually coherent. Why don't we write it as a memo from me and then they'll have to pay attention."

Lant wrote a ten-page memo, the first two or three pages of which highlighted discrepancies between table two and table four and matters of that kind. I skimmed the memo, didn't read it, I initialed the memo and we sent it along. I didn't think of it as being one of the five most consequential things I did on the day on which I did it.

Riley: Was this one of those butterflies fluttering its wings over Tasmania?

Summers: The memo was clearly irritating to the people who received it and somebody, with almost certainly a malicious agenda, sought to leak the memo to the press. I had a problem, which was that I didn't feel it was right to blame someone else who had done, albeit not quite the way I would have done it, what I had asked him. The right thing for me to do was to take responsibility for what I had signed. So I did take responsibility for what I had signed, and the rest of the story played out.

I think it is fair to say that even as Pritchett was writing it, he was not literally suggesting the dumping of toxic wastes near poor people but was noting the kinds of tradeoffs that were involved. It certainly did occur to me subsequently that there was some irony in the fact that no small part of the state of Arkansas' economic development strategy relied on having less burdensome regulation in a variety of environmental spheres than other states did.

It was a learning experience. Clearly, knowing what I now know, having been in the position of having signed the memo, I would have—whatever the morals, I think I did the right thing with respect to the ghostwriter—I would have repudiated the memo and its content much more aggressively than I did at the time. One learns from experience.

Destler: It had a larger life than you thought.

Stephen Knott: There were some reports I think at the time that this particularly upset Vice President Gore. Did you have any conversations with him about this memo? Did this ever come up explicitly between the two of you?

Summers: At the time it didn't. Subsequently, over the course of the eight years, we got to be very friendly, and we would joke back and forth about it. I'd say, "Mr. Vice President, I have a really interesting policy proposal you might consider in that area including toxic wastes." Or he would say, "Larry, do you have any more of those really creative, out-of-the-box ideas like the one you came up with at the World Bank?" But at the time I think that he and a number of his constituencies in the environmental community were very bothered by the content of the memo.

Destler: Do you remember it as being a big thing when you came up for confirmation? I know that a bunch of people and organizations put in statements against you—

Summers: I actually don't know the facts. One of the things that surprised me reading Stacie's [Pettyjohn] briefing book was this sentence, derived from some article in the *Washington Post*, that said that 50 organizations—in a first for a Clinton administration appointee—50 organizations had opposed me. I didn't remember that and I'm actually not sure it's true. My recollection was that there was a bunch of "needs to question closely to assure that he will be of sound view on these questions." I don't think it was quite "you should vote no." At least, that's my recollection.

Just so we're clear, what you wrote is an entirely faithful rendering of what's in the *Washington Post*.

Riley: That's on the permanent historical record now.

Summers: But I'm not sure—that was not my recollection—

Destler: And much of what's in the *Washington Post* is accurate, but not all.

Summers: There was the confirmation hearing. Obviously we had focused on this prior to the confirmation hearing, and we had arranged for a Democratic Senator to put the question sympathetically. I had a little prepared statement making clear my commitment to the environment and making clear my not sharing the sentiments as they had been interpreted in the memo.

One of the environmental organizations had gotten to Senator [John Hubbard] Chafee, who asked me to come back for—so I had my hearing and then I was asked to come back for a subsequent brief hearing where we got to talk some more about the memo. I do not recall ever being in serious doubt as to whether I'd be confirmed. I was much more worried that something could go wrong in the confirmation the second time when I became Deputy Secretary in the midst of the Mexican—

Destler: And you had a Republican Senate and—

Summers: And we had a Republican Senate. In the end there was no roll call vote on my nomination.

Destler: On the first—

Summers: On the first nomination.

Riley: So you moved into the administration. What were your highest priorities when you came in, and then how long were you able to sustain a focus on those priorities as opposed to the things that were impinging from outside?

Summers: My priorities were—one hesitates, the priorities that fell away quickly one may forget were ever priorities. It would probably be better to read my confirmation hearing

testimony, which I no longer recall, to get an honest answer. I don't think it is in there, maybe it is. As I recall it today, my priorities were global economic expansion and the G7 [Group of 7] process, support for Russia, and working to promote a more open international trading system in its various manifestations. And fourth, a kind of global development, shared prosperity, international assistance, international financial institutions priority. I would say that we did pretty well in those priorities. I think I probably came with more of a belief in more formal policy coordination of the G7 economies than I left with, or that I had over time, for a combination of reasons.

I think that experience led me to substantial skepticism about the ability to manage exchange rates with rhetoric in a world where central banks had become substantially more independent. The capacity to coordinate what central banks did seemed to me to have been substantially diminished. Viewed from the inside, the political realities of policy, country by country, were large relative to the imperative of international coordination. So I would say coordination for expansion was probably a larger part of my initial vision than it was part of what we ultimately did. Although I would say that we were quite aggressive in using the process at various stages to push Japan along—not always terribly successfully—with respect to correcting its various policy errors.

Henning: Maybe this would be a moment to elaborate a little bit about Japan and the points at which you recall pushing hard and the points where maybe the G7 process served your purposes or didn't serve your purposes in that effort.

Summers: There was a range of views. There was quite a bit of fervor in the administration to do something about trade with Japan. That manifested itself primarily in two forms, neither of which I ultimately came to think was terribly healthy. One was a managed trade, industrial policy semiconductor agreement as a template for trade policy at its best; voluntary export restraints as a template for trade policy at its worst. Our guys are concerned: let's negotiate a deal that will be better for our guys. That was one thrust. And then there was an alternative thrust, which was macroeconomic; that it is ultimately the macroeconomic conditions in the two countries that have much more to do with determining what the overall trade balance is than the specific product-by-product stuff.

I at some point contributed the observation that some of the economists at the time had been saying that since savings minus investment determines the trade deficit, trade flows, trade policies didn't matter. Which was wrong because if you opened up the other country, even if savings minus investment determined the trade deficit, trade policy would determine the real exchange rate at which that trade deficit was achieved and would therefore affect real incomes. But there was a lot of confusion around this set of issues.

The difficulty on the macroeconomic side was that while there was a certain impact to more expansionary policy in Japan, it was, we came to see quite quickly, very problematic to have a devaluationist use of the exchange rate as a tool of trade policy to improve competitiveness. So we very quickly sought to move away from a competitiveness-based approach to exchange rates.

Destler: The exchange rate in fact—the dollar moved down and the yen moved up until what, mid-'95, didn't it, or is it—

Summers: The dollar moved, yes, but we—

Destler: But in terms of policy actions—

Summers: In terms of policy actions, Bentsen made a statement very early on that was interpreted—from which we never fully recovered—

Destler: The President made a statement too.

Summers: The President made a statement. There were a number of statements made early on, from which we never completely recovered until Rubin became Secretary of the Treasury, in which we said that, “You may not want to see a weaker yen, but we want to see a stronger dollar,” or “We don’t want to see a weaker dollar, but we want to see a stronger yen,” you know, we have to work to improve U.S. competitiveness. But that was uncomfortable on U.S. financial stability grounds as well. So there was a real conundrum in terms of how to deal with Japan.

My own view was that the most productive and constructive approach was urging Japanese expansion, and that fiscal expansion was more likely to come along with increases in imports than monetary expansion, and therefore an emphasis on fiscal expansion was appropriate. The complete absence of a Keynesian tradition in Japan made the dialogue around that a difficult one. And I think over the years there was more fiscal expansion and more impact than there would have been without our consistent pressure, but as where we are today illustrates, there certainly wasn’t enough.

Destler: Just a quick question on the exchange rate issue. Was there a problem early on in sorting out the notion of whether the President himself ought to be saying things about the exchange rate? I’m just remembering, I think it was the [Kiichi] Miyazawa news conference where he said something intellectual like, “If the dollar goes down, U.S. trade will improve.” He didn’t say it as an objective, but of course the markets read that—was that a one-timer, do you remember?

Summers: The President—

Destler: Do you remember this as being a concern in the early years at Treasury about whether the President would talk about—and disciplining the President, as it were?

Summers: Our view at the Treasury was that it wasn’t “presidential” for the President to speak about these mere details. In general, we felt it was very important that others not speak.

Destler: Yes, sometimes that happens.

Summers: Because it tended to produce a rather blurry message, and I remember several heated conversations with colleagues in the government who had moved the exchange rate significantly with their comments. I remember being rather amused by efforts of some of the publications targeted at hedge funds to track these carefully organized sequences of statements [laughter]—by [Mickey] Kantor and Bentsen and Tyson, when in fact, there had been no planning whatsoever.

It got to be a bit of a joke in the administration, and at one point Mickey Kantor had spoken to these matters. I had been quite upset that he had spoken and he said, “It didn’t make any difference anyway. It doesn’t make any difference.” I came into the next meeting with a graph that showed the exchange rate—

Destler: Pre- and post-Kantor?

Summers: Pre and post his remark at 2:37 and said, “Mickey, at the Treasury we call these Kantor clefts [laughter] in the dollar.” And the Kantor cleft was a fairly consistent joke that ran throughout.

I think what we gradually came to appreciate was that the market could seize on almost anything and that one spoke at one’s peril. I remember in Naples in the summer of 1994, the President delivered a soliloquy involving his own theories of the workings of the exchange rate, and on the brink of the G7 summit took 2% off the value of the dollar against the yen. It wasn’t that the things he said weren’t true or accurate, but they were disturbing to a sense of confidence.

I remember it was just before the summit and the President had spoken and then the market had fallen, so that there was a certain amount of commentary suggesting that the President had been amateurish. So the White House staff was exercised. Since the exchange rate was Treasury’s department, and stuff about the exchange rate was embarrassing the President, they were sort of exercised in the direction of the Treasury Department—

Destler: Advising the President—

Summers: —even though the President had spoken out. I remember George Stephanopoulos said to me, “Larry, we said that there wasn’t going to be any substantial exchange rate event at this summit. We said that a few days ago to make that clear to everybody. So why did the President saying that, here at this summit, cause the market to fall by 2%?”

I said, “Well, George, there was a view in the market that that might have all been just creating an expectation, that this was all a bear trap and that we were going to come together with a substantial agreement this weekend. But now, after what the President has said, they have taken that possibility out and that’s why the market has fallen, because they have concluded that there won’t be a bear trap.”

He said, “Larry, your friends in the market don’t think this administration can organize a two-car funeral. Why do they think we could or would organize a bear trap on the entire world capital market?”

Riley: The President’s commentary on something like this would be completely unprompted, or were there people in places other than Treasury spurring him to get out there and say things?

Summers: I think for the most part it was unprompted. I never heard him say anything that I wouldn’t have assumed he would have known from his natural knowledge. I’m sure he was exposed to people who would say to him, “You know, those guys at Treasury, they’re just fixated on something and they should be worrying about how it could be more competitive vis-à-vis that.” But I don’t think he was being fed particular points at particular moments. I don’t think

he bought into the idea. I think he thought as President he could and should occasionally address all issues of national import.

Riley: You mentioned Mickey Kantor a little while ago. Can you tell us a bit about the formal as well as the informal relationship between your operation and the trade representatives' office?

Summers: There was the NEC [National Economic Council], there was a group of people who met, the NEC would meet, various subgroups of the NEC would meet, the principals, the deputies would meet to discuss trade policy issues. Obviously USTR [U.S. Trade Representative] would have a central role in those discussions. But there wasn't much in the way of bilateral process between Treasury and USTR with the exception of negotiations and financial services.

Treasury was in charge of financial services negotiations. They would play a part in the overall trade picture, so there would always have to be coordination between Treasury and USTR, which by and large worked reasonably well. Since USTR wasn't involved in the financial services negotiations and they didn't hear from industry, they had a tendency to want to *give* on financial services in order to *get* on other things that were of concern to them. Since our only trade negotiation was financial services, we tended to want to take a more hard-line position on financial services than others did. But that dynamic worked out with reasonable good will.

Mickey and I were together until very late at night in Geneva in December of 1993. I remember Mickey calling the President, it must have been three in the morning our time, to describe the final parameters of the deal he wanted to strike to conclude the Uruguay round.

Henning: Before we got too far away from this exchange rate question and the involvement of the President on the exchange rate issue, I recall another time in which the President was apparently directly involved in the exchange rate discussions was in mid-1998 when the yen was dropping. And he had a telephone conversation with [Ryutaro] Hashimoto after which there was an agreement to—I believe there was an intervention to support the yen, contrary to what Bob Rubin had said was his inclination in Senate testimony about a week or ten days before that. I'd be interested in hearing a little bit about that case, whether this is again an example of presidential involvement in this issue.

Summers: Bob and I and Alan [Greenspan] were all of the view that exchange rate intervention was a tool that should be used only extremely infrequently. It was more of a psychological tool than something that actually affected underlying market dynamics. And you could lose your credibility very quickly, becoming overly involved in exchange rate intervention. Bob did not intend to be making a consequential statement in that testimony. He intended to be reiterating what was our long-expressed attitude toward currency intervention as a general matter. It was heard in a somewhat different way and did influence the markets a little bit.

We came to the view, in that period, at Treasury, that with the yen really falling quite sharply, with Japan in an extremely difficult situation, with the situation still quite unsettled in Asia, that it was worth giving them an opportunity to seize some initiative with respect to fixing their banking system and stimulating their economy through what we at the time called a window of opportunity.

So we crafted a strategy and there was a great deal of bilateral back and forth between Sakaki Bara and myself in which we would intervene. We would schedule a G7 deputies' meeting immediately after, basically for the purpose of upgrading Japan and moving the reformers along. We would schedule an Asian financial group meeting basically with the same objective, so we would seek maximum theater to convey *gaiatsu* to the Japanese. There was an element in the equation that I think was secondary—more secondary than the press reports at the time suggested—of a concern about the downward pressure on other currencies, particularly the Renminbi coming from the falling yen at a time when the President was going to go to China. But this was a decision that Rubin and I, [Timothy F.] Geithner and [David] Lipton and Carolyn Atkinson, Ted [Edwin] Truman had all been kicking around in both directions. I'd initially been an advocate and Rubin had been skeptical. Then I became rather skeptical and Rubin became an advocate. We had been going back and forth, and then we all met in my office late one afternoon or early evening and decided we should do it the next morning. Rubin and I went over and talked to the President, probably we talked to Sandy [Samuel Berger] at some point before then and suggested that the President call Hashimoto to say what was going on.

But that was really something that was driven—the President's call to Hashimoto was an important part of the *gaiatsu* and an important part of the symbolic pressure that was being brought to bear. But that was something that was really driven out of the financial process.

Henning: After the decision to intervene was taken, apparently.

Summers: Yes, yes.

Henning: I was going to pick this up and take it in a slightly different direction, about the NEC both as a channel for coordination and as a channel for influencing or affecting presidential decisions as opposed to going direct or going various other ways. Could you just talk a little bit about—obviously the NEC had different manifestations under different leaderships both in terms of its overall effectiveness and overall role and in terms of how much it did international issues as well. I wonder if you could talk a little bit about how you and how Treasury linked to the NEC and how this changed over the administration.

Summers: It was always somewhat confused, a somewhat complicated set of relationships because on the one hand Treasury, given what we did, had a kind of greater natural affinity and loyalty to the NEC than to the NSC [National Security Council]—

Henning: Right.

Summers: Where the feeling at Treasury was always that it didn't understand, didn't relate to, didn't adequately take account of economics—

Destler: The NSC.

Summers: The NSC. On the other hand, we at Treasury always felt there was an element that the NSC knew about things we didn't know about and could do things we couldn't do. Whereas the NEC was mostly people whose areas of expertise overlapped with ours, so provided less in the way of complements—

Destler: Less value-added from your point of view.

Summers: —than we needed. I think for the most part the process worked okay. International economic issues tended to be handled by a combination of the NSC and the NEC, and at most moments there were combinations of people who worked reasonably well—Sandy Berger and Bo [Bowen] Cutter for a while, Dan Tarullo, subsequently in the middle period and Gene Sperling and Sandy Berger during the Asian financial crisis period. I don't know that it was the cleanest imaginable administrative structure, but I think on most issues people were brought together to hash out the different perspectives. So I think it was all right. We would tend, at the Treasury, to get our backs up with people who seemed to us to be trying to challenge what we wanted to do, who didn't really have much beyond attitude to bring.

There were moments of that kind. I suppose there were probably also moments when we were high-handed. You know, it's the only process I ever worked with, so I'm not sure I have a great deal to compare it with. I didn't tend to find that there were people who had well-worked-out alternatives that they were in favor of with respect to a variety of the questions we faced.

Riley: How often were you drawn into meetings in the White House with either of these two councils, given your portfolio at Treasury?

Summers: All the time, throughout my time, in my different portfolios. I think, at the beginning there tended to be more meetings of these councils, and as time passed there tended to be more meetings of the groups of individuals working on particular issues.

Destler: This is a standard evolution in an administration.

[BREAK]

Henning: ...NEC and interagency conflict and negotiation over policy questions. One way to measure the effectiveness or usefulness of the NEC and White House-based process for coordinating agencies is what happens when there is a conflict between agencies. So I thought we might ask you to address that with a particular example of the Asian financial crisis.

Summers: You know, conflict is a funny term there. It was never clear to me what exactly the views of other agencies were other than a desire for involvement in a major issue. There were occasional pushes from commercial agencies to try to use the situation for commercial leverage. You know, Can we put conditionality in to open some markets? The people at USTR would ask and by and large that was the wrong thing to do, and by and large we didn't do it. And I think by and large they came to accept that that wouldn't be a good idea.

The State Department tended to have a general attitude in favor of more money and fewer conditions, because that would make the governments of the countries happier, but they didn't really profess to have expertise on which economic policies were and were not necessary to achieve stability. So they would observe that there were economists who thought that the policies

the IMF was pursuing represented too much austerity. And they would feel that if there were economists who were disagreeing, they thought the ones who were for less austerity were right and the ones who were for more austerity were wrong. But it's not that they really ever had anything that could have been called an informed view on the question.

So we had meetings with substantial frequency in the White House, convened first by Dan Tarullo and subsequently by Gene Sperling, at which we would discuss the general alternatives. There was an odd character to the debate because we had policy and detailed knowledge, and they had more in the way of attitude than alternatives. It wasn't an entirely unfamiliar role. There would be issues on trade policy where I'd have the attitude that USTR ought to worry more about the national interest and less about the interest of particular U.S. producers that were lobbying them, but wouldn't quite have an alternative process for how they should conduct their negotiation. Somehow, when the issue was civil aviation, the State Department tended to be a little less of the view that there should be an entirely transparent laying-out of every aspect of every issue before each round of the negotiating session.

I think there was a fair opportunity for that attitude to be expressed, and there was a fair opportunity for the political consideration to be fed in. I think often the people who had knowledge of the political consideration thought it was more relevant to the decision than it actually was. We were trying to avert a financial catastrophe in South Korea by doing the things that would most effectively avert a financial catastrophe in South Korea. A precise elucidation of why it was important that South Korea do well at that moment, given developments in North Korea, didn't really have much bearing.

Destler: People tended to agree with that.

Summers: The policy question of how best to prevent a financial meltdown. So I'm not sure I'm the best one to judge the process since it is true that almost all the steps that were taken in Mexico, and subsequently in the Asian financial crisis, reflected what the Treasury thought the right steps were to take in these situations. But I don't think they were taken in ignorance of views anywhere else within the government, and I don't think there were terribly meaningful alternatives that were put on the table and rejected—certainly not alternatives that would have been better. Not in terms of the outcomes.

Destler: Play the tape backwards a little bit to Thailand, which is the first—

Summers: That's probably—

Destler: There is a choice here. Retrospectively, there is a choice about does the United States put its own money into a package—and we didn't, at least when Thailand was Thailand alone. Is that treated as a no-brainer decision? Is this something that is argued about? Is there an interagency process on that, because obviously there could be. I mean, there could be political arguments from a State Department point of view that this is the time the United States needs to be showing it's on Thailand's side in its hour of need, et cetera, because this is a huge event in their history.

Summers: That's probably the best single example that the people from the diplomacy side would have in raising questions. I'll say a word about the policy, and I'll say a word about the

process. The Treasury judgment was that by pushing for an expanded IMF program with co-financing that provided \$17 billion, we had provided an amount of money that was appropriate to the situation and provided for rapidity of disbursement that, along with strong Thai policy, had the prospect of reversing the situation. The maximum contemplated additional U.S. contribution was on the order of a billion dollars.

Destler: Yes, that's right.

Summers: I don't think there's any serious argument that anybody thoughtful or serious would make that the difference between an \$18 billion package and a \$17 billion package was meaningful with respect to the prospect of success. Nor do I think there's any meaningful argument that the U.S. didn't have a substantial role in shaping the overall strategy toward Thailand despite not having put a billion dollars on the table. The argument in favor of putting the billion dollars on the table was that the failure to do it marked our not being part of a process in Asia in ways that had substantial symbolic negatives for us. That was the argument *for* putting the billion dollars on the table. The argument *against* it was that we simply didn't have the capacity under the Exchange Stabilization Fund to put money in on terms that were parallel with the IMF, and that for us to have put money in on the terms that we could, where it was subject to being called every few months, would then invite every other country to do that so that they were not on less preferred terms. And this would actually leave Thailand substantially behind and would lead to substantial new restrictions on the IMF.

I think the latter argument—Bob Rubin felt very strongly that the latter argument was the right one—was clearly right, and I think he was correct in that judgment, though I had wished we had the kind of capacity to participate in these arrangements that other countries did on a more flexible basis. Given U.S. law and the U.S. political dynamics, I think it would have been a real mistake for us to participate. While that decision was not the subject of a formal interagency meeting, that decision was discussed with economic officials in the State Department and economic officials and senior people at the NSC. We said, “We’re taking the lead in assembling a large IMF package. There are suggestions that we participate through the ESF [Exchange Stabilization Fund], but we feel we really can’t do that because—” and the response was, “Oh, okay.”

Subsequently, as the crisis got worse, there was a certain amount of bad feeling in Asia around our failure to participate, there was some failure to recall those *okays* in parts of the foreign policy team, and there was, of course, a complete failure to appreciate the set of issues having to do with the need to be *pari passu* with the IMF and the difficulty of doing that through the Exchange Stabilization Fund and how it would mess up the rest of the world's effort. Subsequently, we came up with the whole second line of defense concept as a way of providing for U.S. bilateral participation on terms that worked for everyone but that didn't come together quickly enough for us to do anything other than be pulling everybody back so we could participate.

I think we took the right decision. I think we took it in a reasonably informed way. I don't think if there had been a formal interagency meeting that I can imagine we could have come to a different conclusion. I think there's a reason why the statute—you know, these things are quite carefully done—the statute gives the U.S. Trade Representative the authority, when it was in

place, to put a Super 301 action in. It gives the Secretary of Commerce certain authorities with respect to dumping. It gives the Secretary of the Treasury certain authorities with respect to the Exchange Stabilization Fund, and the reason those things are placed in particular places is because they want a particular perspective to inform their use.

Destler: Yes, that's right.

Summers: And the perspective that they wanted to inform the use of the Exchange Stabilization Fund was a perspective of financial stability bearing on U.S. interests, not good will building on diplomatic involvement. So in the context of what this issue was—which was something that for a reason was anchored primarily in the Treasury Department—I think the process we followed of consultation with everyone was the right one.

Destler: You made a brief reference to political considerations. Was that a legacy of Mexico or was that separate—

Henning: You mean domestic political—

Destler: Domestic political you said, as an additional reason for not putting U.S. money in Thailand.

Summers: Oh, I'm sorry. There were two different issues. The standard use of ESF was money that was all tied up in a lot of ways. The standard use was bridge loans for an hour and a half that were collateralized along with currency interactions. We pushed the absolute edge of that with the type of loan that was involved in Mexico, which was semi-collateralized through an oil pledge, at a premium interest rate, subject to being called every three months. It would have been a very substantial further push, of questionable legality and disastrous political ramification, to have said, "Same deal as the IMF, we'll just go in *pari passu* with the IMF. If the IMF decides to roll over its loan, we'll roll over our loan. Whatever the IMF decides is good enough for us, no additional security for us beyond the IMF."

I think it would have been almost impossible for us and—you know, depending on just how we structured ours, it would either screw up the international aspect or, if we maintained the international aspect in a way that would be more okay, it would have been extremely problematic politically from a domestic point of view, coming out of the [Alfonse] D'Amato restrictions on the use of the ESF.

Destler: Do you remember the President being a player on this in an important way or just basically everybody agrees we need to do something and he agrees with what you come up with.

Riley: Mac, is that a general question or about Mexico?

Destler: We're still in East Asia, but we do want to get to Mexico.

Summers: Each time we did anything that involved the ESF we would meet with the President and go through it and explain why we wanted to do it. In fact, on large usages of the ESF—large being defined in terms of some combination of the sum of money and the duration—the President's approval is required.

Yes, we would discuss it. There would be a meeting or several meetings with him. There were certainly a number of meetings with him on Mexico.

Riley: What I'd like to do is get you to dial back and I don't know if I'm interrupting a string of questioning here, because we really would like to get your start-to-finish description of what happened in the case of Mexico. This is an administration that has been criticized in some quarters for poll testing about all kinds of decisions, relating to things as trivial as the President's vacation. But this is an instance where truly there seems to have been a profile in courage, and you were a central actor here. So I'm hoping maybe you could take a portion of time here and explain to us how this came about, how it came to your attention, your relations with the President on this point, and just get the whole story on the record at this stage.

Summers: NAFTA. NAFTA passes end of '93. Happy times in Mexico. Considerable concern in the winter of 1994 that the Mexican peso is going to appreciate outside of its band. Discussion of how to manage the problem of excessive capital inflows into Mexico, but concern that Mexico is of questionable competitiveness at the exchange rate, rising current account deficit, fixed exchange rate. Feels like a prescription for a problem.

March, [Luis] Colosio is shot. We organize a sort of contingent commitment to the U.S.-Mexico swap line in an effort to add confidence to the situation, make other supportive statements. Through the spring the Mexican economic situation looks more problematic, the exchange rate is looking weaker, but we are headed into the election. Further supportive statements with respect to Mexico—

Destler: You mean the Mexican election?

Summers: The Mexican election. But it is looking really quite problematic on the viability of the Mexican exchange rate. It is our firm words from the U.S.: "This thing's got to get under control or you guys have to do something after the Mexican election." Mexico is in fact issuing tesobonos on a very substantial scale, dollar-denominated liabilities as a way of keeping capital in. There's not a full appreciation of the significance of that phenomenon, either in the markets or with us during the course of that year.

The Mexican election doesn't get much better. Brief respite for the peso after the Mexican election. Doesn't get substantially better. Back into trouble through the fall. Mexican officials basically ostriching. With the phenomenon, [Pedro] Aspe wants to go out with his head held high. [Carlos] Salinas doesn't want to hear about this problem.

I have a very difficult dinner with then-finance deputy Guillermo Ortiz in Madrid in October of '94. I go through all the reasons why we're very concerned. He says, "Yes, you're right, you're right. But Pedro won't hear it. He won't hear it, but you're right."

I orchestrate some Aspe-Bentsen contact to apply pressure with respect to it. Bentsen delivers the message that we're very concerned, we're appropriately sensitive to the fact that they're a sovereign country. Aspe's a high-quality guy, they've had a good track record. It's their currency. There's a limit to what we can do. They are losing reserves quickly. We are getting increasingly nervous.

At a key juncture in November when the Fed tightens, they don't fully tighten to keep track. Then it is just really all hemorrhaging and quite quickly. They do a disastrous—they devalue in a terribly inept way in late December, December 19th, no complementary policy in place, no clean announcement, probably a fair number of insiders tipped off. Really hugely messy.

They announce that they're going to devalue by 15%. It holds for three days. They lose another half of their reserves, they're downgraded. They have a meeting at the New York Fed [Federal Reserve Bank] with the private sector. They have no good answers to any of the questions.

Riley: You're in attendance at that meeting?

Summers: I'm in attendance, yes. The private sector walks out and sells. The situation is now looking really very grim. They're still saying no IMF because that's got the feel of calling the oncologist and we need to restore confidence. Ortiz—actually I've lost track of when Ortiz replaces Serra [Jaime Serra Puche] but it is sometime right in here. A day or two after Christmas a group of them—Serra, Ortiz, [Miguel] Mancera, the head of the Central Bank, come up and see Greenspan and me. They explain the tesobono problem, \$30 billion in tesobonos, they're worried about the ability to roll over the debt. The problem becomes much more serious. We become very concerned.

I have the idea that perhaps what we should do is no-cost loan guarantees with a premium that can be scored as no cost because there is a premium interest rate, which was a device we used in various contexts in the Middle East, and that that would provide inflow. I ask Greenspan what he thinks. I think of it as a very hard problem, but I raise the possibility that it could get to the point where we need to do this. I ask Alan about it. I sort of expect him to regard it as a bad idea on interventionist, moral hazard, gimmick grounds, but he's clearly very troubled by what's happening in Mexico and thinks it's a good idea. We work developing it at Treasury as a contingency option, all the while encouraging Mexico to make the kind of strong policy announcements that are necessary.

Mexico has great difficulty getting itself organized and together. The President is scheduled to give a beginning-of-the-year major speech laying out an economic plan, the whole thing—

Riley: President Clinton or—

Summers: [Ernesto] Zedillo. The speech gets postponed seven times while they negotiate with *pacto*. There are all kinds of rumors about the Zapatistas. The currency is plummeting. We're sort of engaged all the time with Ortiz. Ortiz is saying, "You know we need some major step that will get confidence." We send him to the IMF. The IMF is talking about giving them \$5 billion or \$7 billion. It feels like it's spitting in the ocean. Rubin still isn't confirmed so we're without a Secretary of the Treasury, so I'm sort of leading this effort but Greenspan is really leading it. Rubin is by now very much involved. A bunch of us are spending a few hours a day talking about this problem. January, I think it's the 10th, Rubin gets confirmed. We decide that it really is the right thing to do, we might have to do something with respect to this. Rubin gets confirmed. Everybody claps, says, "Congratulations, Bob." We exit.

Bob's wife, various other people associated with Bob's confirmation from the Oval Office, and Bob and I and Leon [Panetta] and George Stephanopoulos and Laura are there. I don't remember who all—

Destler: Sandy Berger.

Summers: Sandy I'm sure is there. I imagine Tony [Lake] was there, Pat Griffin is probably there in the Oval Office. Bob gives a three-minute explanation of the situation to the President then turns to me. I give a five-minute elucidation.

The President says, "Look, I've got two questions. Is there a reasonably good chance that this will be disastrous if we don't do anything?" I say, "Yes." He says, "Is there a reasonable chance that our intervention will succeed if we do seek to intervene in this?" I say, "Yes." "Well, then," he says, "I couldn't sleep at night if we didn't. We should do this."

At one point when they say how much, I say, "\$25 billion." Somebody says, "You mean million." [laughter] There's uneasy laughter in the room. At another point Leon Panetta says to the President, "You know, if you send this money down there and it doesn't come back, which these guys are saying it might, it might cost you the next election."

After this meeting several of us are hanging around because the President is going to call the congressional leaders, and the President says, "You know, this is what we're here for. If we do this right it will be good. If we make mistakes, I may pay a political price for that, but that's how the system should work and I should. This is what it's all about. This is why we're here to try to make our best judgments to make the world a better place. It's very different from all this chicken-shit that we're dealing with with Roger Altman and all this stuff that people are getting put through."

The President makes the decision, he calls the congressional leaders. We all go up there the next day. We all being Bob, Alan, and me. It's a pretty ragged ride. Once this idea that we're going to give tens of billions of dollars to another country doesn't pass immediately, it's a state of war and everybody starts getting in the act. The thing gets loaded down with: We don't like what the Zapatistas are doing. How come Mexico recognizes Cuba? How come they still export illegal narcotics to us? Why don't they let the customs come in with their airplanes and shoot people down in Mexico? Surely if we're doing this, Mexico can do this for us.

So it becomes a Rorschach test for everything about the United States and Mexico, for everything about NAFTA, for everything about the Wall Street conspiracy.

Riley: This presumably is the first set of significant interactions with the new Congress. This is '95, right? So the Republicans are—

Summers: Yes, so you have—

Destler: The leaders are basically endorsing it, right? And everybody else is—

Summers: Yes, but the leaders go a little squeamish in the face of all this. So it is basically going badly. Then, the right basic law of Congress, I learned over my eight years, was that it was

a huge power of inertia. The good news was that all kinds of stupid stuff would look like it was very popular. We would worry that Congress would take an insane act—

Destler: And they don't.

Summers: But in the end, by the time you had the committee in the House and the committee in one body and the other body and the conference and so forth, stuff that was polemical and stupid was checked and balanced in the system. The problem was when you actually needed stuff positively to happen. All those checks and balances could be, and were in this case, extremely hard. After several weeks we concluded that this was not going to happen. The Mexican exchange rate, which had plummeted and then rocketed following the announcement of our plan, plummeted again and Mexico was again on the brink of default by late January.

At that point we did what some of us had been talking about for some time but had rejected as just too bold in a certain sense, which was use of the ESF with congressional winking but no congressional vote. The President again called the leaders together and, basically supported by a fairly weak statement from the leaders, used the ESF. It was the first time, I think, that we had a kind of national security-like presidential power—"trust me, this is the country dynamic"—with Congress vis-à-vis an economic issue. And it had its humorous moments.

I remember Tom Daschle asked at one stage, how come, if we did this, wouldn't we use up the dollars in the ESF and then wouldn't we not be able to intervene to protect the dollar. And I explained about warehousing and the associated swap transactions with the Fed. The President let me go on for about 60 seconds and said, "I'm sure that's clear to all of us, Larry. But we do know that you and Bob know what you're doing." [laughter]

Destler: Interesting. There was a story a little while later. Richard Lugar was saying, "Some of these new members don't understand. This is the sort of thing the administration is supposed to be doing to get us off the hook." These were the ones that were complaining and calling hearings. "They don't understand, this is the way the game is played."

Summers: Meanwhile, nothing is going very well in Mexico.

Destler: Yes.

Summers: Ortiz is enormously feeling the pressure, markets are doing badly. The rest of the world is outraged, just outraged with us for our *chutzpah*. [Michel] Camdessus comes through with \$17 billion—announces that the IMF is going to put \$17 billion in but there is a lot of ambiguity as to the definition of \$17 billion. He is going to subtract other countries' contributions. Our understanding of our agreement was that other countries' contributions to be subtracted had to be in the form of money on IMF terms. He starts trying to subtract window-dressing provided through the BIS [Bank for International Settlements]. We say, "We'll cancel the whole program if you do that." He backs off, but with a lot of drama along the way.

G7 meeting in Toronto, we're profusely apologetic to [Hans] Tietmeyer, who is just very upset with this lack of multilateralism. Painful negotiations telling the Mexicans they've got to tighten money in order to restore confidence. Event in the cash room announcing the signing of the

framework agreement for doing this between the United States and Mexico. The cash room is the big celebratory room of the Treasury.

Market responds to the announcement by falling another 5%. I tell Rubin that if he wants me to resign it's okay with me. He says, "A thousand years from now nobody is going to remember any of this. You're doing your best." [laughter]

Riley: A thousand years.

Summers: That's helpful. Yes. You're doing your best, that's all any of us can do and none of us are going to be any good to anybody if we just don't make these decisions one day at a time and carry through as effectively as we can.

We go forward, it's really awful. Nothing good, just nothing good is happening. We're getting pummeled in the press. The *LA Times* poll says it's 80/20 that this was the wrong thing to do and that was before it had started to fail. The dollar is falling sharply.

We have a guy who is helping us, who we have asked to talk to people in the market to get their sense as to how they're viewing it. He comes in one day and we say, "What's the latest from the markets?" "Mexico, Larry, is a terminal short." [laughter]

Destler: Terminal short.

Summers: The thing plays along. Exchange rate reaches 8 pesos to the dollar. We're getting to the point where we're supposed to make our first disbursement, but it looks really ragged. We ask ourselves whether we should pull the plug. Rubin is really thinking about whether we should pull the plug. I talk to Greenspan, he talks to Greenspan. A group of us at Treasury talk. We all troop over to Leon's office. Rubin treats pulling the plug or not pulling the plug as a real issue but concludes that we should go ahead.

The White House and Rubin clearly have a different perspective on this. Rubin thinks that if things have changed to the point where this won't work, then you pull the plug. But things haven't quite reached that point, fortunately. The White House thinks if you've made a big commitment, you carry through, so pulling the plug is not an option anymore.

Riley: By the White House, do you mean the President too?

Summers: No, I mean Panetta and the gang. The next day Rubin and I testify before some committee—I don't remember if it was the Finance Committee or the Foreign Relations Committee—on this. We're sitting there testifying. They're beating the bejesus out of us. Meanwhile, a combination of the fact that we had disbursed and Zedillo had gotten himself together the previous night to give a good speech, a good speech with a strong framework laying out a set of policies. We're sitting there and Linda Robertson, our legislative person, is sitting behind us, and they're handing us the exchange rate every 15 minutes. It's 8, 7.60, 7.20, 6.80, 6.50, 6.10. I write Rubin a note saying, "This caper might actually work." [laughter] He writes back, "Yes, it actually might." We earnestly answer their questions and onwards we go.

Henning: Do you tell them what's happening in the markets?

Summers: No.

Henning: You figure that will speak for itself.

Summers: Speak for itself, exactly. Mexico picks up, it is still pretty funereal at the Inter-American Development Bank meetings in Jerusalem that April, but we've disbursed our last by May. In September Zedillo visits, and they pay us back a billion dollars as a symbol of the fact that we've made progress. And we, in the best Clinton administration way, do not allow this event to go unnoticed. We don't quite stand there and count each dollar of interest the country earned, but we are doing our best to declare victory.

There's a relapse in August. In October when the currency collapses, the currency falls off again, but the drama works itself through. By January of '97 all the money is out. All the U.S. money is out, it's out early. The United States has earned a few hundred million dollars on the deal. Mexico is far more loyal to the United States than it was before. A flood of immigration has been avoided and the dream of market-oriented reform and democracy has been achieved.

The story, I think, ends in the fact that in 1994 Mexico had a financial crisis. In 1988 Mexico had a financial crisis, in 1982 Mexico had a financial crisis. In 1976 Mexico had a financial crisis. And before that it didn't really have an economy with enough finance to have a financial crisis. In the year 2000 Mexico had a presidential election in which there was a transition of power from one party to the next, and it was a non-event in the markets.

Today, we have seen a major economic dislocation throughout Latin America, a recession in the United States, a dramatic fall-off in U.S. asset values, a generalized increase in risk aversion and, at least so far, Mexico has not been caught up in all of that. So, in a real sense, Mexico has transited from the Third World to a different world. And I think NAFTA and the programmed response to the financial crisis had a great deal to do with it.

Destler: Interesting. The President is basically—decides to do this and basically stay the course so far as he is involved in it?

Summers: The President is completely *stay the course*. There are several points when he calls Zedillo. I think the President had the general view that if it involved spending money and it was prudent enough for Rubin, it was prudent enough for him. So he didn't—

Henning: He didn't have to do the math.

Summers: So we would come to him at the stages of disbursements and so forth, but the prospect wasn't that we would be eager to do more than he would be eager to do. I think, frankly, another thing that ultimately affected the dynamic was the fact that Bob and I had favored an aggressive, large, and creative response to the Mexican financial crisis, which meant that at other points when we said stuff wouldn't work, it wouldn't be prudent to do this, you really can't do that, I think we had a kind of credibility that we were more than green eyeshades lacking vision, that we would probably not have had as we dealt with things in Asia, if the Mexican crisis had not happened.

Riley: Interesting.

Destler: Is this an important point in terms of your relationship with the President? Are you more in with him? Are you more a person to him than you were before?

Summers: I think so, I think probably. I didn't ever have a close personal relationship with the President. I think he had concluded fairly early, in the course of the early interactions we had on Russia and on other things, that I knew my stuff, and he respected that. And I think he had also concluded early on that I didn't necessarily have all the requisite political sensibilities. He probably had formed both of those judgments. I always felt that he listened attentively when I was speaking and was pleased. He listened more attentively because I think he found it more sharply put and worldly than some other economists.

Destler: Yes.

Summers: As I addressed or gave him information on economic issues, I think he listened respectfully. I don't think, particularly in the early part of the administration, that he was more comfortable getting information from me than he was getting ultimate judgments from me. I think over time his thinking probably evolved in some way.

Destler: He was more comfortable getting information than judgments early—

Summers: Than ultimate judgments early on, I think.

Riley: In Rubin's case there seemed to have been a sense of trust in the judgment as well as the information. How do you account for that extraordinary degree of trust that he placed in Rubin? That had to have preceded the Mexico situation for him to have leaned on him in the way that he did here, right?

Summers: He worked very closely with Rubin at the NEC. I think he knew that Rubin was naturally cautious, so if Rubin was urging a bold course it was probably was a prudent one—

Destler: He wasn't some academic—

Summers: —since it wouldn't be Rubin's instinct to flail into boldness. Apart from that general aspect, I think Bob had established himself as a person who was extraordinarily judicious. So if Rubin was advocating this view, there weren't a range of very viable alternatives that could be contemplated in the situation. I think Bob had served him well on a range of issues from NAFTA to debt reduction and had shown himself to be someone who assimilated both the economic and the political aspects.

Henning: I wanted to ask a similar, a parallel question about your and the administration's relationship to Congress on these issues and how that evolves as a result of Mexico, Congress being very difficult to guide and manage in this sense. Of course, we have the D'Amato amendment and we had the very specific kind of constraints on the use of the Exchange Stabilization Fund for a while, but beyond that, there is this lingering political problem of getting congressional support for international financial stabilization and for the International Monetary Fund reflected in lags in getting congressional assent to the quota increase and to the new arrangements to borrow and other things that are going to be important in '97, '98.

Riley: Could I ask a predicate question to that, which is the congressional shift in '94. One of the questions we're asking everyone is, did that come as a surprise to you and how did you feel that that was going to change the reality of the Washington that you were working in? It may be hard to separate from Mexico because all of this was going on at the same time.

Summers: I think it came as a jolt to the administration. My own sense was that we were going to do badly, so I was not shocked. But I think it came as a real jolt to the administration, how bad it was. It was worse than the administration expected it to be.

I remember thinking at the time—and in some ways this proved out in the long run but not in the short run—that this might not be the worst thing in the world since some things would happen well and some things would happen poorly, and we could blame them for the things that happened badly. They were in control, and we couldn't do that if we were in control.

Riley: And people were questioning your political sensibilities at this time? [laughter]

Summers: I actually remember arguing with people that maybe it wasn't so bad to have lost the Congress. Ultimately I think that view looked pretty good, but that was not the view at the time. In the international sphere—unlike if you were a domestic Cabinet secretary for whom your appropriations bill was your major event—it was a smaller part of life than where I was. The good old congressional Democrats, if the sphere was international economics, weren't so good, since they were mostly against free trade.

I said subsequently that it seemed to me foreign policy was only durably conducted on a bipartisan basis, and that as long as there was one political party that could not generate a majority for any trade agreement and another political party that could not generate a majority for any international organization, it was rather difficult to have much in the way of durable international economic policy.

So I think that Congress was very difficult, but I don't think in the international economic area that Congress' primary problems have come from being overly partisan. For my tastes, Republicans tended to be somewhat more congenial on trade and Democrats tended to be somewhat more congenial on participation in international organizations.

I gave a speech toward the end of the administration in which I said that the greatest threat to our national security was the malign neglect of our broader international interests, and in it I stressed that it wasn't just the quantity of our international engagement that was degraded, it was the quality of our international engagement, when our international engagement had to take the form of pursuing a variety of rather parochial interests that were necessary to mobilize what little domestic support we could generate for international economic policy.

So on the one hand, we were glad to have the support of those who benefited from World Bank procurement for World Bank funding. On the other, having the U.S. agenda at the World Bank be driven by the procurement lobby was not without its problems in terms of our ability to promote the World Bank's work in development. I did not appreciate how seismic it was, and I don't know that I can construct the scenario—I don't have an easy way of constructing in my mind the sort of "Mexico scenario" with [Tom] Foley and Daschle as the Speaker and the Majority Leader.

Henning: Sorry, I missed—you say that it would have been difficult to construct that?

Summers: I don't mean that it would have been a hard scenario. I mean, I'm not sure I can quickly bring to mind the theory as to how it would have played out in that situation.

Riley: Randy has some specific questions about how that played out with respect to D'Amato's amendments.

Henning: Yes, the moving forward, when we need to go back to the Congress to get the quota increased, get NAB [New Arrangements to Borrow]. Then there's a flap over the use of IMF gold for the HIPC [Heavily Indebted Poor Countries] initiative late in the administration. All of these are areas, situations where the weakness of congressional commitment to these organizations in particular and use of funds is problematic. I'm wondering what lessons you draw from that, what strategies you're grappling with.

Summers: I think the reason we got the IMF through, when we got it through in the fall of '98, was that nobody could say what was going to happen to the economy, that there might well be severe trouble ahead. If they didn't pass the IMF, and if severe trouble came, you could blame them. And if they did pass the IMF and severe trouble came, they'd be in a better position to blame us. That was sort of without regard to whether the IMF would or would not help the situation, just with regard to who would be positioned to be on the offensive because the other side had been responsible for driving the train. I think that dynamic was what helped us, and it is probably better for fear to do the work of reason than for the work of reason not to be done. When you rely on fear to do the work of reason, it's a problematic strategy in a variety of respects, and I don't know quite what the answer is.

The rest of the world always wanted to help us by bringing their influence to bear on Congress. My view always was that the 30% of the Congress that cared what they thought was already in favor of what they were for, and for the remaining 70% it was at best neutral and quite possibly counterproductive to learn that France felt strongly about a given issue. So I don't know what the answer is. You guys probably know more about this than I. I kind of suspect that, in a way, the greater democratization of the Congress is the problem. Nobody did a focus group on the Marshall Plan, and if they had it probably wouldn't have done very well, but it was a time when elites in wood-paneled rooms could drive things. By and large we like democracy relative to elites in wood-paneled rooms, but when it comes to international organizations, that's a complex—

Destler: This is another issue. I mean, the other element of it is bizarre and it's actually coming out a little bit now in the Iraq debate. The public isn't against international organizations, at least by any survey measure you can make. Now certainly, activist groups within the public are, but—

Summers: The only people who care passionately about international groups are people who see them as symbols of aspects of modernity that they don't like, whether it is capitalism or international integration, or infringement on traditional American freedoms. There is a set of groups that are passionately against them, and then there is a set of tweed-jacket-type groups who don't tend to have much passion or large numbers or great ability to mobilize or any real sense that they will swing based on the outcome, who are ineffectually supportive of

international organizations. In a calculus where intensity counts, that operates against international organizations. Is that a fair—

Destler: It is a commonly held view that I think is—I don't entirely agree, but that's not relevant. My views are not relevant.

Summers: But give me the two-sentence version of why you disagree.

Destler: The two-sentence version is, basically, I think this is actually becoming a little bit manifest in the Iraq thing, where you find a lot of the form of opposition to Iraq is, "we ought to do it through the United Nations." You can say this is just a cover for people who don't want to say they're really against it, but I think it's very hard. I was involved in a project, in writing a book called *The Myth of a New Isolationism*, which basically was a lot of survey research, trying to get members of Congress and staffs who were convinced that the real gut feeling among those who cared deeply was isolationist, trying to get them to formulate poll questions that would work and would, in fact, generate this. It is just very hard to find. In terms of people who feel strongly, in terms of people who are active in Congress, you find that they tend to be more internationalist. They tend to be at least equally supportive or more supportive of paying our U.N. [United Nations] dues.

Now it is quite bizarre in the sense that the fix on the Hill has been consistently what you say, the way you characterize it, but it is just very hard to find it if you try to do sophisticated public opinion research. And I agree with you that the political dynamic in Washington has been as you state. I think it is part of this fact that actually members of Congress don't read the public that well, they often don't have to. They respond to cause groups that support their own factions. But anyway, this is a longer conversation.

Summers: Can you send me the book? Do you have a copy of the book? To go back, isn't there an average marginal problem; that is, if you ask a lot of questions in a hundred different ways of the form, should the United States be internationally engaged, people will give the right answer, which is yes. If you ask questions of the form, should the United States be more internationally engaged now, at the expense of much of anything—if you ask the American public should we raise or cut the foreign aid budget—

Destler: Yes, and of course if you ask them how much the foreign aid budget is—

Summers: They're clueless about that, but suppose you simply ask the question, "Should American foreign aid be increased, decreased, or about the same?"

Destler: The usual answer is it should be decreased.

Summers: So if you want to know why the people on the Hill think what they think, that's the answer.

Destler: I'll send you the book.

Riley: A couple of the reports that we read said you had developed a kind of unusual relationship with Dick Arme and Phil Gramm on the Hill. Is that true?

Summers: Well, I don't know, what's an unusual relationship? [laughter] I think that because we would be comfortable talking in economic vocabulary, and as an economist I'm a strong believer in markets and they're strong believers in markets, we were able to talk with less partisan baggage than the encounters that some of my colleagues in the Clinton administration had with them. So my interactions with both were always very friendly.

Riley: So you had a better rapport with them—

Summers: Friendly and civil.

Knott: How would you characterize your relationship with Newt Gingrich? Anything that stands out?

Summers: He was very intellectual. In the midst of the Mexico crisis we had a conversation where he talked about the relationship between tesobonos and gold-linked silver-denominated bonds that had been issued in the early 1890s. Then I went back and read Friedman and Schwartz's *Monetary History of the United States*, the relevant sections, sent him the relevant passages, called him and we talked about it, with respect to a range of these issues. We would keep up a conversation.

[LUNCH BREAK]

Riley: I posed a question about the President's confidence in your work with respect to Mexico, and that he had developed a level of confidence because of the work you'd done on Russia. I thought maybe the thing to do is to go back and ask you about that work and then give us your own account of your activities with respect to Russia, particularly as it relates to the President's interaction. Then we can just try and move down through the—

Destler: Starting early and then moving forward to the crisis, Russian defaults, that period.

Summers: The paradigm we came in with and that the President came in with was really something I articulated at the Little Rock economic summit where I gave a little four-minute presentation or whatever it was on Russia, that integrating them into the global economy and managing their transition, supporting them in a good transition, was probably the central security issue for the United States. We at Treasury were very much influenced in our judgment by the Polish experience. David Lipton had worked hard on that and had also worked with Jeff Sachs in Russia. He came into the administration very early and I teamed up with Strobe Talbott very early, and it was clear that this was something the President wanted to do quickly and to make a mark on quickly and in his first several months.

We began a process of pushing the IMF to step up its efforts for Russia. We were instrumental in creating something known as the STF, the Systemic Transformation Facility, which was basically a vehicle for the IMF to provide money without the full standard set of conditions for transition economies that were transforming themselves.

The President got very involved prior to his first meeting with Yeltsin in Vancouver. There were a number of meetings, briefings to prepare him for that in which I participated alongside Lloyd Bentsen. Since that wasn't something where Bentsen had enormous substantive expertise, I was allowed to make a portion of the presentation to the President. At that time it looked quite scary with the possibility of hyperinflation, with the possibility of fissures within Russia, and so forth.

We rode that ride through all the time, always trying to remember that our stake was in successful outcomes there. That money that supported into debt for Russia and little consumption for Russian people and little policy reform in Russia was going to make Russia poorer, not richer, even if they wanted it at the moment. But we were also aware that there was a diplomatic imperative that the United States and the West be seen as being on Russia's side. There was a constant titration of support, of provision of funds, conditions attached, that reflected these competing considerations, reflecting the institutional interests. Treasury tended to be pushing the IMF toward doing more and tended to be supporting the IMF in doing less than the State Department and the foreign policy team would favor.

You can ask all kinds of questions about whether at particular moments the precise conditions were right. Some of the protests, it always seemed to me, constituted desires to sort of repeal the laws of arithmetic. David Ignatius subsequently had a column in the *Washington Post* saying we'd all gotten it wrong. We imposed too much austerity on Russia. We had put too much money in that had been diverted, and we had supported them in opening their capital market and letting them take on too much debt. Those were the three central flaws of our policy. It always seemed to me that there was a kind of arithmetic law, which was that maybe we'd done any one of those things, but it was a little hard to see how they could have had more spending, less taxing with less money from us, and lower borrowing from creditors. That kind of problem it seemed to me ran through our criticisms.

So I thought of us as always being positioned between critics on both sides who thought we were putting money down a rat hole and others who thought we weren't seizing this world-changing opportunity with sufficient force by putting more in behind the Russians.

I don't think in the fullness of it all that our record in the early/mid-period looks bad. I think if I had it to do over again, if we had provided somewhat more support somewhat earlier, it probably would have been better in the sense that it might have avoided some of the backlash against [Boris] Fyodorov and [William] Greider that took place earlier. I think we were on the right side of loans-for-shares. It was pretty awful; we knew it was pretty awful, we said it was pretty awful.

Would we have wanted to walk away, walking into a presidential election and [Gennady] Zyuganov over that? Much easier judgment to assert after the fact, after you know that Yeltsin won and Zyuganov lost, than it would have been to have implemented it at the time.

Should there have been tighter controls on some of the outside activities of the Russian Central Bank? Of course. Was there a technical error that the IMF made, probably too much abetted by us in allowing the exchange rate to become hardened as much as it did during '97 and '98? Yes, probably. The Russians were very intent on it. The problem was that there was enormous capital inflow pressure. It would have caused an even larger appreciation. We warned them that it was

very problematic, that they were in real trouble if they weren't able to get confidence. I went over twice carrying letters from the President to say that it was a very difficult situation.

With the benefit of hindsight do I wish we had pushed harder to get them off that exchange rate, which then led to the very high interest rates, which then compounded their mess? Sure. With the benefit of what we knew at the time with the potential destabilization that would have resulted, do I think that the judgment was a poor one? No, I think it was a reasonable judgment that we would probably make again.

It started to get very dark in the late spring and early summer. I think in retrospect by then the situation was probably hopeless in the sense that there was going to be a big discontinuity in Russian economic policy. Was it sensible, given the size of the stakes involved, to take a chance at bringing it all together and hoping you could make it work, given that it wasn't like we were giving money away, the money was going to come back? Yes, I think it probably was a sensible attempt to make. Were we under any illusion that there was a 75% chance of success? No. We thought it was well under that. Did we advertise that at the time? No.

Destler: You can't.

Summers: You can't if you need confidence. We had a formulation that we used in many contexts, which was, "This program should work with strong implementation."

Destler: If the stars align themselves—

Summers: Those words were carefully chosen to be positive but not inaccurate with respect to our beliefs. We used that formulation on a variety of occasions.

Do I think we did the right thing in not putting in another major last round of something as the whole thing was collapsing in early August? Yes. I think it would have gone right down a rat hole and left them with more debt and more mess. Could there have been a better orchestrated devaluation earlier that would have preserved more solvency and been fundamentally healthier for Russia? Yes, but not one that the Russians were willing to undertake.

There is a profound problem with fixed exchange rates, which is that in order for them to work you have to be committed to them. If you commit to them and you opportunistically leave them, you've destroyed your credibility and your capacity to function. If you don't leave them until you have no choice but to leave them, it is sufficiently late in the game that your departure from them is catastrophic. So once you're in—

Destler: So Mexico, Russia, Argentina—

Summers: Once you're in a fixed exchange rate regime, the situation is inherently extraordinarily problematic. If the fixed exchange rate regime is so weak, if it's so low an exchange rate that there is no possibility that you're going to get forced off it, then it's probably too low most of the time and you're going to have all sorts of problems managing all the capital inflow. Fixed exchange rates are just a very problematic thing in the context of today's world.

Did we see coming what would happen in Russia? What would happen after Russia defaulted in terms of the systemic consequences? Not completely. One of the questions that economic history of this period will find itself determining is how much was the LTCM [Long Term Capital Management] problem caused by the Russia problem? What were the roots of the general liquidity problem? It all contributes, but just what the precise magnitudes of the linkages are isn't something that I've got a settled view about. LTCM was more the Fed's thing than it was our thing. We were kept posted. We were, I think, rather skeptical certainly as to any infusion of money into LTCM, but even trying to leave that more to the private sector, I think my own judgment is that what Bill McDonough did was very important and that it was actually an extremely dangerous moment for—

Destler: Is that a retrospective judgment or current judgment at the time?

Summers: It's both. At the time I thought there were two issues. There is debate that I don't know the answer to and there is continued debate that exists to this moment as to whether, if the Fed had been tougher, there would have been a private sector buyer or not. I'm sure that having the Fed do what it did and mobilize everybody was better than just letting the situation go.

Destler: Okay.

Summers: Whether Warren Buffet and Hank [Maurice] Greenberg would have bought it on terms that would have been much less desirable to [John] Merriweather and his friends, if the Fed had just been steelier, is a question that some critics have raised, and I don't have an informed view one way or the other.

Let me say finally on this that a milestone for me was the moment in the fall of 1999 following a set of revelations about the scandals in Russia and the money laundering and so forth, when the Republicans launched a major assault on the administration's Russia policy, derived in part from conviction, derived in part from a desire to invalidate the Vice President. I made a judgment, we all made a judgment, that the best strategy for us was for me to offer to be the first witness in the hearing, to try to state in a nuanced way the administration's position and why we had done what we had done, before they had a chance to organize themselves completely for the attack and as a way of getting the story out.

Of the many congressional appearances I had, it was the one for which I had prepared the most and been most focused. We had four or five hours before the House Banking Committee. It turned out to be quite successful, because I think I was able to counter the critics who said we should have done more with the critics who said we should have done less so as to make the case that we had found at least a reasonable middle and that we needed to stay engaged.

And in a way, if it is true in American politics that the fact that the Social Security system and AFDC [Aid to Families with Dependent Children] survived the [Dwight D.] Eisenhower administration unscathed was in a sense a confirmation of an ultimate victory for Roosevelt and the New Deal policies, in the same way, the fact that six months after the default in 1998, [Yevgeny] Primakov and the Russians were back to controlling the money stock, to try to control inflation, and allowing prices to fluctuate and not imposing wild capital controls, was in a sense a confirmation that the transition, as painful as it was, had become irreversible.

Riley: Were there any in-house critics in the administration that routinely tangled with you on Russia policy?

Summers: There was an ongoing tension between—but I would say good-natured 90% of the time, 95% of the time—between Strobe and me over the management of this titration, with Strobe always feeling that the imperatives of a good relationship between Russia and the United States dwarfed, exceeded whatever exigency of a particular bit of economic policy we were concerned with at a particular moment. We would work those out, usually in a Russia group that Strobe would chair.

Not that in eight years nobody ever raised a voice, but I would say the degree of trust was very high and we rarely, if ever, found ourselves in a situation where we were coming to the President to get our dispute resolved as to what we should do, though there was a sense of, at some moments, presidential pressure to be doing more rather than doing less. There was a lot of jockeying over the question of Russia in the G7, which the State Department wanted to do because it was a benefit for Russia, and we couldn't imagine having serious economic policy discussion around the range of currency coordination and other issues in the presence of Russian officials.

Eventually Russia got pretty substantial status within the head summits without setting a template for the finance ministers' summits. But that got to be a bit of a joke. The rest of the administration would call it the G8 [Group of 8] process because of the G7 finance ministers and Bob Rubin would call it "the G7 finance ministers' process with intermittent Russian participation." It got to be a bit of a joke after a time. There was quite substantial—there was some tension when I was Secretary, probably in the summer of 2000 when the Russians were quite intent on insisting on debt relief, wanting debt reduction. And the President was potentially quite interested. We regarded it as absurd, a complete nonstarter. Gene felt that it wasn't a complete nonstarter and needed to be seriously—

Destler: This is debt relief for—

Summers: Russia—needed to be seriously considered, and there was some heat back and forth. I don't remember whether it ever got brought to the President exactly or we just said we weren't going to push other countries on debt reduction and it wasn't going to happen anyway. I can't remember—we didn't have that large a share of the exposure and the Europeans did. I remember that there was quite a bit of heat back and forth between Treasury and the NEC over this question. And I remember that we didn't do debt reduction.

Destler: But you don't remember quite how—

Summers: But I don't remember precisely how, and I don't think we had a showdown with the President where the President said no debt reduction.

Destler: Just quickly on LTCM to clarify. You were saying that at this time you saw this—leaving aside the questions of whether the resolution was the absolute best one—you saw it as a very serious threat. Was the President per se involved in this? Was there a sense of that and you guys were basically just watching what the Fed did and benignly encouraging—

Summers: We were talking to the Fed with some frequency. We sent Gary Gensler to Greenwich, and we subsequently decided for a variety of reasons that it was probably better for us not to be in the room as it was worked out. It was one of the rare cases where Bob and I had different initial instincts, with his being more activist than mine.

Destler: It was a little bit his territory.

Summers: That may have been a part of it. I thought there would be a variety of vulnerabilities associated with our being in the room, but we were there briefly and then we decided not to be. We would keep the President posted. We would call. A number of times Bob and I got on the phone. There were several meetings. The President felt very strongly at the beginning of September in 1998—more in the wake of the Russian default, the stock market was falling, the weight of general concerns—that he needed to be out there showing leadership. There was an element of wanting to be involved in major international issues as distinct from some of the other things that were playing out on the domestic scene at that moment as well.

Destler: Right, we'll get to that.

Summers: I suspect. And we worked, we went over to the White House one Sunday night for two or three hours, Bob and me and Gene and—I don't remember who else was there. Sandy must have been there; maybe Madeleine [Albright] was there. Out of that came the speech that he gave at the Council on Foreign Relations talking about some new ideas for the international financial architecture, talking about how there needed to be a change in the policy bias toward expansion.

Henning: That was when the CCL [Contingent Credit Line] was announced?

Summers: Yes.

Destler: Just a quick question. Have you read Paul Bluestein's book?

Summers: I have skimmed Paul Bluestein's book.

Destler: Just curious whether it looks like fact or fiction.

Summers: Fifty-fifty.

Destler: You can scratch that from the transcript if you want, I was just curious.

Henning: I was going to ask whether there were particular passages you remember from the Bluestein account that you want to correct the record on.

Summers: It's a legitimate question. Are we going to do this more than once? Is this it?

Riley: If you're open to it, we'll spend as much time as we can get with you.

Summers: Well, maybe we'll do it one more time. I'm not unwilling to do that, but I'm not able or ready to do it now.

Henning: But on the fall of 1998, a subject that you wanted to cover was the impact of the distraction that the [Monica] Lewinsky scandal must have had on the President. From the standpoint of your perspective at Treasury, it seems to me that there are a number of possibilities. One would be that it actually increased a desire to show leadership on some of these issues. The other possibility was that it was a distraction on other issues and maybe the effect was neutral, I don't know.

Summers: The President had a remarkable ability to compartmentalize. I saw virtually no evidence in the intensity of his connections with us and degree of interest that he took in issues of his being—

Destler: Embattled.

Summers: —embattled over Monica Lewinsky and all of that. I didn't perceive any difference in his tendency to be angry in anything through that period, and I was in quite close contact. I was very frequently in quite close contact with him. There was only one time when it impinged at all. Usually when there would be press there would be a general briefing and then the substance people from the particular issue would leave, and there would be some brief discussion of him with the more political and personal questions that might come up.

On one occasion when Joe Lockhart wasn't around, I think it was in Japan, they rehearsed with him or discussed with him some of those questions in the presence of a larger group. You could see the enormous tension and frustration and anger that it caused him, probably in part that this discussion was taking place in the presence of the whole group of us.

Destler: Yes, I see. He didn't want you to see it.

Summers: But that wasn't something we normally saw. Nor was it something that we thought was a good thing. Nor was it something that enormously affected the United States' ability to—I don't think the IMF was thinking about this. I don't think the other G7 deputies were thinking about this especially.

Riley: They weren't concerned about his political viability in the country and the possibility that an impeachment might happen, and what that would mean for markets or institutional relationships?

Summers: I think there was a sense of a fair amount of continuity. There was a period in September when people would have thought the odds were less than 50-50, were in the range of 50-50, that he would serve out his entire term. But it was a quite brief period, and there was never a period during the impeachment when anybody was in much doubt as to how it would play out.

Destler: Because you weren't going to get two-thirds of the Senate.

Riley: Was there any recognizable difference in the way the rest of the White House was functioning? You've spoken to the President's remarkable ability to compartmentalize. Did that transfer to—

Summers: The jobs were pretty compartmentalized. My world didn't interact with the White House Counsel's office. My world didn't interact much with the range of his more political advisors. I'm sure it had some impacts on Leon, on Erskine Bowles and Leon Panetta's life, but not enormously.

Riley: Would you say the same is also true of your congressional relations? Were they in any way appreciably affected by these other events?

Summers: I don't think so. In a way, even though it was the sixth year of a presidential term, the fact that we won the 1998 congressional election and actually gained seats is telling you something about what the underlying political dynamics were. It's not that the Democrats were on the ropes. The Democrats were in much better shape in 1998 than they had been in 1994.

Knott: I realize this is outside of your portfolio, but do you have any reflections on the whole atmosphere, almost from day one, when you had these highly charged partisan attacks coming from the Hill and this constant focus on scandal? What is your take on all that ultimately leads to this failed impeachment effort? What do you attribute that to?

Summers: I don't actually know. There's a theory that I've heard—and I don't know enough to know whether it is an intelligent theory or not—that the people most hated are the successful triangulators. [Richard M.] Nixon co-opted a fair amount of the left agenda and was much hated, and Clinton co-opted a fair amount of the right agenda, whether it was crime or welfare reform or fiscal responsibility. It's the people who do that co-optation who are hated, who don't win great loyalty from their own side because they're consorting with the enemy, and make the enemy particularly mad because they're stealing their stuff. So that's an aspect of this.

Destler: That's interesting, that's a piece of it.

Summers: I wonder whether it has validity. It may also have to do with the fact that there are certain character traits that cause you to be a triangulator. Having those character traits may also tend to cause you to upset people in other ways.

Destler: That's interesting.

Summers: There's a certain amount of toxicity in the environment. I would say that an aspect of life that I wasn't smart enough to understand, didn't know enough to understand when I went into Washington, was that I hoped and expected to have a great experience in Washington, in government. I thought it was possible that I wouldn't be very successful, and if I wasn't very successful I'd serve my two years and make my way back to Harvard. I was certainly hoping to be more successful than that, but that was my sense as to the negative outcome. I understand now that in fact there was a one-in-six or a one-in-ten probability of my being substantially embarrassed. If not before the country—

Destler: At least before your peers.

Summers: —before my peers and friends. If I look at what happened to Roger Altman, or Cliff Wharton, or Les Aspin, or Phil Heymann, or a number of people who were on the White House staff early, there's a fair-sized risk of—

Destler: That you come out a lot worse than you went in.

Summers: You come out worse. I did not understand that that was a risk I was taking. In retrospect maybe it was a little stupid, given the World Bank memo, not to have been smart enough to have figured that out. But maybe the fact that I was going in *despite* the World Bank memo suggested to me that one could keep going. But yes, there's a kind of paranoia in the environment. You get used to it after a while, and in some ways you only fully notice once you're not part of it.

When I was at Harvard, after a few weeks, a prominent Harvard alumnus sent me a couple of very good bottles of wine. I said to my secretary, "What do we do with this?" [laughter] You know, I was habituated to assume that there would be lawyers and ethics officers and they would send a crate over and maybe in the end I'd get to drink it and maybe I wouldn't, but it would be the subject of extensive prying. She looked completely dumbfounded. So there are a variety of things that you lose sight of as you think about this.

Riley: Are your colleagues at Harvard less likely to come to Washington now than they would have been ten years ago, or is the allure still so strong that people take the wager and think, *It can't happen to me*.

Summers: I would guess the allure is a little less, it's hard to know. My colleagues at Harvard tend to be Democrats so—

Destler: There's no present pressure for—

Summers: You'd have to look at the data. I think there are conflicting things. On the one hand, I think there are some increasing costs to taking on the experience, the confirmation process, the delays, and so forth. And there's a generally increased reluctance in American life to move your family, because your spouse is more likely to be working than was the case a generation ago. Thirty years ago, forget Washington, forget government in Washington. Thirty years ago academics all the time would pick up the spouse and the kids and go be on leave in another university. The kids would be in fifth grade in a different school than they'd been in fourth grade and than they'd be in sixth grade. It was just part of the way it was.

Today, there's a sense that that's more traumatic for the kids. The spouse's job is less likely to be mobile. So those two things operate toward less—

Destler: This is why I didn't come to the University of Virginia 15 years ago.

Summers: —people being in government. On the other side, there's a big academization of government. Basically there's more respect for expertise than there used to be. So if you look at the size of the Harvard contingent in the Clinton administration, it is four or five times the size of the Harvard contingent in the Kennedy administration, even as the Kennedy administration was famous for the Harvard intellectuals and so forth. But if you actually say, name five in the Kennedy administration, you'll say [McGeorge] Bundy, you'll say [John Kenneth] Galbraith, you'll say [Arthur, Jr.] Schlesinger—

Destler: They had some Yalies too.

Summers: I'm saying, you'll run out fast. And if you do the same thing at Harvard—

Destler: [Carl] Kaysen was at Harvard or at MIT [Massachusetts Institute of Technology] at that point.

Summers: Yes, Kaysen, you're right.

Destler: But you're right, it is a small number. Of course, there were just a smaller number of—

Summers: Some of it was that there was a smaller number of jobs in general.

Riley: Let me bounce one other question or notion off you. I'm not endorsing this—but you're trained as an economist. There were some who made the argument at the time during the Clinton administration that the outcome of that episode proved the amorality of economics, that part of the reason Clinton survived is because the country was happy with the economic progress that the administration had fostered. And they were consequently willing to overlook his personal indiscretions in a way that they probably would not have done had the economy been in the tank at the time. Do you have any reflections on that notion?

Summers: I don't know that the country was all that remarkably content, and I don't necessarily think the greater discontent that would have attended times that were less good would have been a big boost to the President's popularity, would have been what changed people on those ethical issues. It doesn't seem right to me. It would be a good study for some political scientist. He'd probably find some way of scaling congressional attitudes toward what he did, looking at economic popular attitudes, looking at different parts of the country and seeing whether there was a correlation once you controlled for conservatism and liberalism. To be a testable hypothesis—I think I'd bet against it.

Henning: This subject of Russia and the follow-on to Russia leads to the subject of the summits. You had mentioned the summits in the G7 context and the G8 context. I wanted to take a couple of minutes to get your reflections on the G8 summits, the G7 and the G8 summits overall. What was the President's approach to the summit process? Did he regard this as a useful exercise or was it just one of those regularly scheduled events that he had to show up for? Did you see the summit process as a useful way to advance your agenda items, or were you just trying to keep Treasury's issues off the agenda so the politicians didn't mess with it?

Summers: I think the President saw some value. I think their main value was as a deadline for forcing everybody to come to agreement. I don't think much ever got worked out at the summit that was especially new or constructive. Over time the leaders developed a taste for having "leader schmooze" with fewer staff present and less structure. And they probably derived a range of benefits and increased understanding from having those experiences. So where it used to be that simultaneously the ministers, finance ministers and foreign ministers, would all meet as a gang, over time the situations shifted to the point where the leaders would meet and the foreign ministers and the finance ministers would meet the week before.

We tended to see the summits both as occasions for deadlines for things we were trying to push, but also, quite considerably as, we need to make sure that the political stuff doesn't screw up our financial stuff. And there tended to be a bit of a White House imperative of, "Let's get some W's

in the win column, let's get some W's for the President here. You guys got any ideas for what we can call a W for the President?"

And we would be torn between being helpful and wanting to support the President in an initiative and thinking, *Come on, can we do stuff for its own sake rather than looking for a W?* So I would say they were not the stuff of IIE [Institute for International Economics] books nor probably should they be. But if you asked whether if we didn't have them we'd need to invent them, the answer is probably yes.

Destler: Did the President use them—were they often used for bilateral stuff or not very much? Would you target if you had a bilateral issue?

Summers: Most years there'd be a bilateral with Russia and that would be one of the many meetings we had with Russia. There would be considerable focus on our bilateral issues. There would fairly frequently be a bilateral meeting with Japan where we would make our set of concerns known about the situation, the Japanese economy. I would say that was moderately constructive. I don't recall meetings with other leaders, with the Europeans, that were hugely salient in terms of what they did, though I do remember meetings with the Germans or with the French.

Henning: I'm a little surprised by the bottom line: "If we didn't have these summits already, we'd probably have to invent them." So you saw enough value in them that you reached that conclusion.

Summers: Yes, they served as a vehicle for the G7. On our side of the—they gave extra legitimacy to the G7 finance ministers' process, and the G7 finance ministers' process was in turn an important aspect of creditor control of the IMF. And successful financial institutions have the character that they are controlled by the creditors and not by the joint judgment of the creditors and the debtors. The reason the IMF and the World Bank get money and the U.N. doesn't, is the creditors have disproportionate authority in the IMF and the World Bank, and it is one person, one vote in the U.N., so it is not entrusted with money.

I think they made a contribution in those regards in that they gave useful impetus to things. If you didn't have them there'd be a tendency for things to sort of putter along more slowly. And the connections that were made at the summits and through the summits were useful, whether they need to be every year or every 18 months or what I don't know. I wouldn't have a strong feeling.

Henning: I would ask you whether you would re-create them in a different form. There were certainly times over the course of the Clinton administration when reform of the summit process was up for consideration in terms of the frequency, but also the size, the number of people included, whether the communiqué should be published, whether there were—

Summers: I always had the view that there were people with ideas about how to make the world a better place and there were people without ideas about how to make the world a better place, and that the latter group tended to focus on talking about process issues. So I had a certain general disdain that may have caused me not to be appropriately attentive to the very valuable ideas that were being bootled about regarding summit process.

I came increasingly to think that the ideas that were brooded about in the name of vision, to replace the G7 process with G-lots, including Nigeria and China and India, were to create a forum that would have even less ability to take decisions on anything of consequence than we did. We did take a fairly substantial initiative in the financial area to establish the G20 [Group of 20], which was as a counterpart to the G7, to discuss a range of financial questions. That turned out to have two benefits: It led to much more regular contact between the G7 and other finance ministries, and it served as an impetus to what had been called the interim committee, now called the IMFC [International Monetary and Financial Committee] of the IMF, which is called to do a better job in actually taking meaningful policy steps and being less of a show-and-tell endeavor.

On the summit process issues, I thought the expansion in the name of vision was sort of empty and would probably be diluting the possibility of having real impact. I couldn't get very excited about the agenda of having shorter communiqués. It seemed to me that if the people who were working on fisheries conservation derived benefit from having fisheries conservation mentioned in the context of the summit communiqué and that deadline served a purpose, I didn't see any harm in it. I didn't see any great virtue in narrowing—

Henning: You were trying to keep the focus on the—

Summers: —the communiqué to only the things that the leaders had actually had substantial debate about so I couldn't get—

Destler: And you didn't want to narrow it to the economic coordination issues that arguably it was created for in the first place.

Summers: With all due respect to our issues, it seemed to me that if a war in Bosnia was on and the President of the United States and the heads of the major European countries were all together, it seemed crazy to not have that be part of what was discussed.

Destler: Yes, fair enough.

Summers: If Pakistan has just nuclear proliferated, it seemed to me crazy to not have that be an important source of discussion at the summit.

So I guess the summit process ideas on larger agendas struck me as being bad ideas; on narrower agendas struck me as being “why?” I didn't believe that the failure to do bond-like agreements whenever had to do with the fact that people nowadays think bond-like agreements are a bad idea rather than that the agenda was too crowded and there wasn't enough time to do them.

The idea of having secret communiqués struck me as goofy. Why not give people some report on what we've done? Indeed, the public communiqué seemed to me to perform a useful function. I related to the leaders' desire to have more free-flowing conversation with people like them and to have the whole thing be a little less extensively staffed. But it didn't seem easy to get hugely excited by the precise manner in which it was held.

Destler: There were two other summits, at least, two recurrent ones that Clinton participated in. One was the APEC [Asia Pacific Economic Cooperation] ones, which he went to almost every

year and the other, I guess less frequent, were Latin America summits. You have any memories about those at all or any thoughts about those in terms of importance or otherwise?

Summers: Bob Fauver said something to me in 1993 as we were in a very boring Sherpa meeting, and I registered my boredom. He said, “You know, there’s a choice in the world between talk-talk and bang-bang, and talk-talk is really much better.” So I came to think that these fora were valuable in a projection of soft U.S. power sense, valuable in a fostering of connections and mutual engagement sense.

We did our fair share with the G20. We created the APEC finance ministers as a regular group. We created the Latin American finance ministers.

I came to think that the basic notion of a complicated architecture in which there were groupings where everybody got to talk and get to know each other and share views and experiences, and other groupings that wielded more authority that were more narrowly focused, that that was a good architecture for the world to have. I thought the danger in the whole thing was that the demand for deliverables tended to produce a proclivity to the foolish. So whatever the merits of regional trade, some of what propelled regional trade was the desire to have regional deliverables, regional summits, which seemed to me to be a bad reason. Similarly, I don’t think much of most plans for regional financial cooperation, but the existence of regional summits tends to create a reason to do it.

I also think there is a tendency to get more wrapped up in these things and grow these organizations, to use them as bits of chips. I remember negotiating with [Anatoly] Chubais at one stage and the State Department had agonized and concluded—it didn’t actually take much agonizing by the State Department—that they would be willing to let Russia into APEC.

Destler: They are in the Pacific.

Summers: At an appropriate moment I indicated to Chubais that the United States would, if we worked things out, be prepared to support Russia’s entry into APEC. He looked at me and he said, “Larry, that’s helping me if we’re members but we don’t have to come if we don’t want to. And that’s hurting me if we have to come if we’re members.”

So I think there’s a question as to whether these groups don’t have a routinization that can be a problem. Someone has a phrase, “the routinization of charisma.” There’s a sense in which these groups have a tendency to begin with charismatic leadership and excitement for the fact that they’re coming together. So the first meeting is, “Gosh, we’re together,” and the deliverable is “It’s been so great that we’ve committed to meet again.” And the second meeting tends to be, “We’re now an institution.” And the third meeting tends to be, “We’re establishing structure, we’re going to have a secretariat function and this is how we’re going to have a staff because we’re not just a free-floating meeting, but we are part of an important network.” The sixth meeting tends to be, “We need to get this group back to its informal roots, real interaction among policy.”

So you look at an APEC ministerial, you look at an OECD [Organisation for Economic Cooperation and Development] ministerial, which nobody much wants to come to anymore, and you see that as the APEC ministerial of the future.

Riley: Do you have any additional recollections from any of the summits you went to that you'd like to get on the record to help us with some empirical evidence about cases where you found them to be particularly valuable, cases where unforeseen problems arose, cases that are just memorable vignettes on some of the leaders you had the opportunity to witness in action?

Summers: Let's keep going. You could elicit that better if you prompted me.

Riley: Turn to my colleagues, any in particular.

Henning: Let's move to trade.

Destler: Let's move to trade. We talked about trade in general and a little bit about NAFTA and, as it were, the glory days of the Clinton administration on trade. We haven't talked much about fast track failure or, for that matter, about China PNTR [Permanent Normal Trade Relations], formerly MFN, and wonder what your memories are. Trade was one of the areas where Clinton, particularly in '97, got a bit of a reputation for being very reluctant to bite the bullet and for a lot of people wanting a proposal. And he did the "I'll get to it when I can focus on it" sort of thing. And the whole thing then didn't work.

Summers: It was very hard. I think the first thing to say about trade is that a lot of what reduces trade barriers is better transportation, better communication, more multinationals in more places, and foreign direct investments and the spread of deregulation. And a ton of trade liberalization is about trade agreements.

If you look at the changes in Mexico that were made under their structural adjustment program, they dwarf what Mexico did under NAFTA. If you look at what India did with the IMF following 1991, it dwarfs anything India ever did with respect to the WTO [World Trade Organization]. So it is a mistake to equate the progress of more liberal trade with the creation of free trade agreements.

A discussion of the late years of the Clinton administration, which is not the world's happiest story, needs to put a fair amount of emphasis on all the things that did *not* happen, in the face of a rising current account deficit, in the face of a steel industry that was in trouble. The United States engaged in relatively little structural protection.

Destler: That's true.

Summers: Compared to what happened in other things, it happened less. Bill Clinton was the first President of the United States, admittedly late in his term, to talk at some length and with considerable force about the consumer benefits of free trade and actually made a case for free trade that wasn't the mercantilist case for free trade emphasizing—

Destler: Imports can be good too—

Summers: —emphasizing that imports can be good too and purchasing power and all of that. I think if you look at the volume of world trade, if you look at growth in trade relative to income during the Clinton years, it is a quite impressive story. It is a mistake to see the whole thing in terms of whether we got fast track and whether we had a treaty. Indeed, it was mindless

treatyism that caused ideas like—I fought a battle every year before APEC for, I think, the last four, against the Chile-Singapore-Australia-New Zealand-U.S. free trade agreement. It seemed to me to be an advertisement for trade diversion rather than trade creation and a bizarre hopscotch of a global trading system. And every year it would be proposed, we'd say no. Then there would be a discussion, then there would be hints to its advocates, "Oh, there's no possibility of it," and there'd be a lot of hush-hush emergency stuff while they were at APEC and then we'd say no again—

Destler: And so the President ends up playing golf and doing Singapore bounce.

Summers: Right. So we avoided doing a lot. So I thought we had a better record than we get credit for, in that some of our accomplishments involve not doing things we could have easily done that were quite bad, and we did set our sights too high. We raised aspirations somewhat unrealistically with the FTAA [Free Trade Area of the Americas] by 2005, and I think we raised aspirations unrealistically with whatever it was we did in Bogor that I could never understand—

Destler: Open regionalism.

Summers: I could never figure out what it was we thought we were doing in Bogor.

Knott: Could you explain what that is? I have no idea what that is.

Summers: Bogor was the 1994 APEC summit. Having agreed to some kind of free trade area in Latin America, a bunch of our visionaries wanted to agree to a free trade area in the Pacific. We hadn't fully gotten over the idea that we were not going to trade with China because they violated human rights and it was the biggest country in the Pacific. We weren't going to get to free trade in the Pacific any time soon, so the idea was to set a horizon that was way out there. It was never clear why you'd want to have free trade in the Pacific on any terms other than you'd want to have free trade with the rest of the world, with the world as a whole.

So the thing seemed fairly feckless and not likely to go very far, and any agreement that was in particular products across particular groups of countries, it was quite unclear whether it was net increasing the efficiency of the trading system or decreasing the efficiency of the trading system. And the fact that the people who had factories in Malaysia would always be for it—because that way their stuff could come in at a better price than the people who had stuff in Europe—seemed not to have a lot to recommend it. I never could relate to what our strategy on that was at all.

Destler: All right, fair enough.

Riley: Do you agree with that?

Destler: The argument for it is really that it's a push for global free trade, somehow you get things going, moving in a direction—

Summers: Then why don't you—

Destler: Somehow that puts pressure on the Europeans because they worry and then it's—

Summers: Yes, but I thought that given that we didn't have fast track and everybody else did—

Destler: Yes.

Summers: It wasn't like they were slowing it up so much relative to us that the problem was for us to organize ourselves to make commitments about what we were going to do in 2020. I thought it was pretty empty.

Destler: Okay.

Summers: The IIE thought that since it was an agreement between countries—

Destler: Give us a little bit of your take on not getting fast track.

Summers: Not getting fast track was terrible. It is a hard argument to make. Fast track sounds bad. Every other kind of law can get amended, why can't this law get amended? There's nobody really *for* fast track. Basically, what you're looking for is legislation to increase your own turf. It is always hard to get it, because there's a natural presumption against the person who is seeking legislation to increase his own turf.

What the executive branch is looking for when it's looking for fast track is authority to increase its own turf, so you get to have a battle on the principle of free trade without hearing from any beneficiaries of free trade in the fast track debate. That's why it's hardest to get fast track. The people who are against it are right in their own terms because they correctly recognize that, at the end of the day, if the President negotiates a trade treaty and he doesn't screw it all up, Congress is going to have to accept it.

Destler: Yes, it's up or down.

Summers: So they're right to take their stand at fast track, and fast track isn't a bad place for them to take their stand. As long as Democrats are as protectionist as they have become in recent years, it is going to be very hard for Democratic Presidents, because Republican Congressmen aren't going to want to save Democratic Presidents' bacon from the political inconvenience of facing down their left. So I wish we had been able to be firmer on these things.

Destler: In the process of trying to get fast track in '97, how important within the administration were the views of labor and the left, views of "why should we be taking these guys on?" Among the political people, what is the urgency of this?

Summers: As distinct from?

Destler: As distinct from other people saying, "This is the time; we wanted to get it in '94, we didn't get it." I mean the economic people, the trade people, the foreign policy people all believe in it basically. But the political people, the Democrats say, "Wait a minute, why are we going to battle with our own—"

Summers: The administration was most excited about the 1997 budget agreement in 1997. It was second most excited—I mean, the administration as I saw the administration.

Destler: Yes, that's what we're asking.

Summers: My world of the administration thought that the budget agreement was really hugely important and super at consolidating and planning for its surpluses and really a historic thing.

We thought that mounting a good response to the Asian financial crisis was hugely important. We thought that getting funding for the IMF and beginning that process was hugely important. We thought that fast track was really a good idea. We were for fast track, but we regarded fast track as being less important than these other things. I suspect the political calculus probably entered into it a bit, but I don't know that that was the dominant thing.

Riley: You mentioned earlier that one of the things we should pay attention to is the kind of legislation that *didn't* happen, the protectionist—isn't this a case in which you actually were advantaged by having a Republican Congress?

Summers: How so?

Riley: Well, if you'd had the Democrats in control of Congress, the protectionist instincts would have been much more prominent, and there would have been pressure from the Hill to do some of the things that you as a free trader would not have wanted to do. Or am I misreading the Republican Congress?

Destler: You still had a two-to-one House vote for steel quotas, but whether you take that seriously or not is another question.

Summers: I think you have two effects. And the reason I don't think it is quite as obvious is Democrats are more protectionist than Republicans, on average, in this period. But Democratic leadership of the Congress is more oriented to causing the Congress not to do things that will embarrass and stick it to a Democratic administration.

Destler: Exactly.

Summers: So if you had Democratic leadership you'd have two effects: You'd have more bad guys relative to—more protectionist guys relative to liberalizing guys, but you'd also have more considerate leadership. And I'm not sure—

Destler: That's fair enough.

Summers: —where the net effect is. I think the net effect is probably more on the side of the more considerate leadership.

Riley: Was that true of the NAFTA debate with David Bonior and Gephardt?

Summers: Yes, Gephardt basically took a dive on NAFTA. Gephardt opposed NAFTA, made clear his opposition to NAFTA, but did not put the arm on anyone else to vote no.

Riley: Okay.

Destler: And then Foley was still Speaker.

Riley: Right.

Destler: China. The thing the administration did do on trade in its last year was get the permanent PNTR and at the end get the prior agreement with the Chinese on the WTO, which was the precursor to that, and that of course had a couple of tranches. One was the Chinese proposal of the spring of '99, which was rather publicly not accepted, and then a follow-on negotiation leading to its acceptance.

Summers: I don't think the spring of '99—

Destler: Am I getting the chronology wrong?

Summers: No, you're getting it exactly right. I was saying I don't think the spring of '99 was the administration's finest hour.

Destler: Yes, okay.

Summers: It was a moment of intense political difficulty for the administration around trade. USTR was playing a complicated game. They were trying to negotiate with China. They were trying to demonstrate their fealty to their domestic constituencies. They were not entirely untransparent to the press. And for some combination of reasons that I no longer recall, we had a situation where it was expected that the agreement would not be reached.

Destler: Yes.

Summers: And then, all of a sudden, it looked like it might be reached.

Destler: The Chinese offer more than we thought, probably.

Summers: It was sort of an assumption that we weren't going to bring it to conclusion. It looked like we tried to bring it to conclusion. Then the Chinese made a set of concessions. Then we tried to harvest all the concessions without having the agreement by making it all public. So we delegitimized the Chinese. Considerably. So they were absolutely outraged with this, quite justifiably I thought, and then we bombed their embassy in Belgrade.

Destler: Just to make the point clear.

Summers: Six weeks later. Obviously by accident. So it was a case of third and very long for PNTR by late summer. Then the President went to APEC in Auckland, and I don't know what exactly happened. There was some interaction with the Chinese and it was sort of mixed. There was a fair amount of unhappiness by this point. The President wanted his agreement badly; he really wanted to do this. The more political side of the administration was decidedly ambivalent. USTR was a little unclear, wanted to have it a lot of ways. I went in October with a mandate from the President to make clear that this was really important to him and that he would make sure we weren't going to fuck around the second time and that we were going to get it done. And if they were prepared to do it, we really would do it and I had some other bennies—I don't

remember what they were, I had an export control thing that was separate and wasn't linked but that I was going to tell them about as a show of good will. I was going for the financial framework talks that we had with the Chinese but we went to an Economic Committee, it was called.

Zhu Rongji was on what I call his "old markets tour" of rural China. He was in a city called Lanzhou, which is sort of the El Paso of China. They gave us one of their air force planes and flew us to Lanzhou. I spent two-and-a-half hours with him and then another hour-and-a-half at lunch. We talked about economic development in poor areas, and we talked about the Asian financial crisis, and then we talked about WTO. We had a very small session where basically it was he and I and the translator. I made clear that this was something that was really important to the President, and—I don't remember precisely what words I used—but I said, "I appreciate, and I know the President does, the difficult position that the Chinese found themselves in after the events of last spring, and I think there is a very clear commitment to that not happening again."

Destler: You mean, we're not going to bomb your embassy again.

Summers: To that not happening again, and he ranted and raved a fair amount directed at them and I empathized. I went significantly further than USTR would have in contrition for what had happened and then he sent back a message that was really quite encouraging. Subsequent to that I spoke with Charlene [Barshefsky] and Gene went over.

Destler: Right, I remember that.

Summers: And they were able to conclude the deal. And then it became a big struggle and lots of excitement with the Congress and we had rallies and went around and talked to the Council on Foreign Relations, meetings in 65 cities, and there was a certain amount of excitement around it all. But I was never in much doubt that we were going to win.

Destler: Yes, I thought you had it.

Summers: And we did in fact win. And I think it was actually quite an important thing.

Destler: It was good that it was done when it was.

[BREAK]

Riley: I thought what we would do is try to close down the interview ten minutes or so early, so we can talk about what might be on the agenda for a follow-up, what you think is important maybe that we haven't talked about, and also do a little brainstorming. That way we can get some things on the record, and I think in a morning or afternoon session we'd be able to knock off anything that we can't cover.

Summers: Okay.

Riley: So we have about an hour left here. Does that meet with your approval?

Summers: Sounds fine.

Henning: We thought we might begin this part by focusing on the question of the U.S. bubble economy and irrational exuberance. I guess the questions that come to mind are, in the presence of this trend, which was salient in the second administration, what was the character of the internal administration dialogue or discussion on this issue? Was there a particular point where the pros and cons of trying to grapple with this were discussed? Was there ever a decision to *not* do something? Were there people who were pushing on this? How did things play out?

Summers: The Treasury was—we felt that there was an excessive decline in this conversion. I used to observe fairly frequently that the main thing we have to fear is the lack of fear itself. [laughter] I said that publicly a fair amount, actually. There is always a major risk after a period of protracted expansion that economic actors will lose sight of the risks inherent in economic life and that if they do, the consequences can be excessive asset prices, the imprudent extension and taking on of credit, excessive capacity creation. I made a list of unsustainable spending plans.

Destler: Take a few random ideas.

Summers: I'm on record as having said that with great frequency through '98 and '99 and the first part of 2000. And Rubin is on the record saying things—less pithy and imperative in sentence construction—saying similar kinds of things, expressing concern.

You have to remember through much of this period the problem was, God, we could have the stock market crash and the world economy could collapse because of the Asian financial crisis. You've got to remember the context. It doesn't look that way if you think about the U.S. experience now, but it was deflation and slowdown and interest-rate cutting that was the issue—

Destler: In '98, yes, right.

Summers: —through '98, and the market peaked in early 2000. So when you're talking about the bubble, the bubble as the primary object of concern, we're talking about 1999 primarily.

We worried about it a lot. We worried about it when Jordan issued debt at 300 basis points over. I came back one year talking about how some textile company in India had issued a century bond, a 100-year bond, and it seemed bizarre. We worried about it a lot at Treasury. We had our people compute various denominators for stock prices. The price-earnings ratio, the price cyclically-adjusted earnings ratio, market value to GNP [Gross National Product], market value to book value assets. We had a set of bubble indicators that we would compute every month and we'd look at and we'd worry.

Destler: You were worried.

Summers: They all looked very high. So we were worried. We looked at technology and non-technology. We tried to give some sense that people needed to worry about it. We actually didn't try to push the Fed around with respect to monetary policy. Certainly Alan, Bob, and I, and subsequently Alan and I, would talk with great frequency about these kinds of issues, but we

didn't ever have a formal policy process about breaking the bubble. Nor did it seem to us then, nor does it seem to me now, that there is much in the way of instruments that are potentially available for that purpose.

Targeting monetary policy on asset prices is one possible approach. I think for a variety of reasons, while there might be circumstances in which it could be availing, I think on balance an effort to target monetary policy on asset prices at current levels of understanding would be counterproductive.

Arthur Levitt, Alan Greenspan, and I, and Bill Rainer did discuss various adjustments to margin requirements and the possibility of them, which is something that is under control of the Fed. Alan was very unenthusiastic on the grounds that they were really there for prudential reasons and the prudential reasons could be satisfied in other ways, and why shouldn't you let people borrow money if they want to borrow money and how do we know. He was unenthusiastic about the use of this as a signal, and basically the Fed didn't want to do that. So that closed off that.

We did orchestrate, as a way of expressing concern, a set of warnings from the exchanges to their broker dealers in February of 2000 directed at sending a signal that there's a climate of uncertainty and volatility here. That coincided, in fact, relatively closely with the peak, although I don't think our warning had a great deal to do with it. We were very careful about cheerleading so we never went. Never. I mean, the President was asked, Rubin was asked, I was asked more or less constantly to ring the bell at the New York Stock Exchange. And none of us ever did it because we thought that film clip would be there the day the market collapsed. We didn't want to leave behind that film clip, and we didn't want to let the stock market be the judge of the economy.

Destler: So you didn't want to do it on the way out because you—

Summers: We didn't keep score of the economy on the stock market. We made clear that the stock market wasn't the measure of economic success.

We did a whole set of things of that kind. I think those were the right decisions. Obviously I've asked myself what else we could have done. If there are things that the people who have been critical talk about, where I could give a perspective, I'd be happy to try. Other than "Gosh, it was a bubble era" and monetary policy, which we didn't try to influence or I don't think it was the right thing, and the margin requirements thing, which we did talk about but the Fed had strong views about, I don't know what other tools were potentially available.

Destler: I'm not sure this was in your portfolio. Were there any glimmers about the whole corporate accounting fiasco, which obviously was going on at that time, but were there any hints focused on this?

Summers: I was very focused when I was there on the problem of corporate tax shelters, and I thought there was a lot of abusive stuff going on.

Riley: This was as Secretary or before?

Summers: Before, but particularly as Secretary. On the problem of corporate tax shelters, I thought there was a lot of sleazy stuff going on and I'd heard enough anecdotes of sleazy stuff. I thought the accounting firms were the epicenter of the sleaze. The meeting with the private sector that most offended me with its selfish disregard for the lack of public interest was the meeting I had with the major executives of the accounting firms around the tax shelter marketing issue. So it made me very sympathetic to Arthur Levitt's concerns about the accounting firms in other regards. That was a bit of a hint.

I was also troubled by the way the business community had rolled the FASB, Financial Accounting Standards Board, with respect to stock option accounting early in the administration, and since the only people who cared about the issue were people who were on the wrong side of it, it wasn't an issue I chose to talk about a lot. But when I would go to Silicon Valley, I would get lectured on stock option accounting and I would get lectured on pooled interest accounting for mergers. I would always tell them that I wasn't going to delve deeply into the substance of their particular things, but they were crazy if they thought it would serve their long-run interests to have accounting politicized, and that it was much better for accounting to be more like the Fed was operating.

So we were aware of it. I want to say, for the record, that having spent quite a bit of time talking about this, I am aware of no credible argument that the repeal of Glass-Steagall or the deregulation with respect to OTC [over-the-counter] derivatives contributed in any way whatsoever to any of the problems that have been unearthed since. The principal sins identified on Wall Street, having to do with so-called research being promotional or having to do with the allocation of IPOs to privileged customers, are all activities that can be and indeed were carried on within the investment banks and have nothing to do with the banking/investment banking divide.

Similarly, the proposals to allow OTC derivatives to be traded with legal certainty and to reduce the need for an exchange on which they can be traded but to permit informal clearinghouses has nothing to do with Enron's use of OTC derivatives in their business activity. And indeed, the best available evidence is that the remarkable thing that happened was a major player in that market collapsed and that market remained completely intact. The provision of liquidity started to happen elsewhere, something that quite likely would have been impossible without the deregulation of OTC derivatives.

Riley: You mentioned just a moment ago the notion that they might have been better suited following the example of the Fed and being depoliticized. I'm not somebody who has spent a great deal of time in my career focusing on relationships between the White House and the Federal Reserve, but I've been struck in listening to your comments today and also in reading the briefing book how much interaction there was between Treasury and Alan Greenspan.

I'm wondering if you could tell us a little more about that relationship and also tell me, is that common? Is that kind of interaction pretty much an everyday feature of Washington and just something that stays out of sight? I guess this also relates to this question about your making the comment that you didn't try to influence him on monetary policy and yet there seems to have been a fair amount of interaction on a number of other policy areas.

Summers: For the eight years that we were there, the Secretary of the Treasury and the Fed had a weekly meeting, usually a breakfast or lunch, alternating between the Fed and the Treasury. For most of the time, when I was Deputy Secretary, I would participate in the meeting along with Bob Rubin. Frequently Stu Eizenstat participated along with me when I was Secretary, when he was there and didn't have some other responsibility.

My impression is that such things occurred with some frequency in the past, although the weekly meeting between Greenspan and Nick Brady had been canceled because they didn't get along and were very angry with each other. And Greenspan also had a monthly, maybe quarterly, meeting with the members of the CEA [Council of Economic Advisors]. There was also, and this is a long-standing tradition, a Treasury-Fed lunch, which takes place on Wednesday afternoons at which one or two Governors preside and key staff from Treasury and key senior staff from the Fed participate, ten or twelve people in toto—

Riley: Monthly?

Summers: Weekly. When I was Under Secretary, I would attend that lunch fairly regularly and Alan, I think, attended. Alan and I tended to attend at the same times. My impression is that when I became Deputy Secretary and started meeting alongside Rubin, with Alan, that he came to attend that other lunch less. But that institution is an institution of Treasury-Fed cooperation.

Destler: This is a general discussion? It has an operating agenda?

Summers: It does not have an operating agenda. I think it has its roots in a debt-management agenda. Debt-management issues would arise from time to time, but it was not an operational agenda, though the conversation tended to be about—

Destler: You would talk about the economy, domestic, international—

Summers: Economy, policy issues—

Destler: Right, sure.

Summers: And there was no formal agenda for our meetings with Alan. We would get there, chat for a couple of minutes, identify whether there were any specific issues people wanted to address. Depending on how many of them there were we would do those issues, but we'd also chat about the economy or about politics or about what was happening in Washington. We never said, "We think you should do X about monetary policy," in the course of those eight years. I can never remember having said that.

Destler: Did he ever say, "I think we're going to need to do X with regard to monetary policy"?

Summers: He would prepare us for—I certainly could have traded profitably in the Fed fund. That is, we were—

Destler: You would have done better than you previously would have done at predicting what the Fed was doing.

Summers: Yes, he would talk to us about the way in which things might well move. It was not that we pushed hard for information. He would not infrequently have an analysis of some aspect of the economy that had been done within the Fed system, and would go through it with me and go through it with us. Sometimes we would pose a question in one direction or the other.

Riley: If I'm looking at this relationship from the outside, I have to raise the question of how one from the outside can be sure that there isn't some tacit effort made to lobby the Fed in one direction or another. You said you never told him that you thought X or Y needed to be done, but surely in the course of your discussions it must have been evident to him that there were certain directions you felt they ought to go.

Summers: By and large I don't remember a moment when I thought monetary policy was—there was no moment when I said, "I can't understand why they're not tightening," or "I can't understand why they're not easing," or "I can't understand why they're tightening."

What would have happened if the instinctive path of the Fed had been something that seemed just odd to us is an interesting question that I don't know the answer to. That's not something we experienced. Is it possible that the conversation would have influenced the Fed? I suppose it's possible. Did we go into them with an agenda: let's see if we can get Alan to tighten? Let's see if we can get Alan to ease? No, we never went into it with that agenda. Was there any sense of sort of crude political pressure? No. Not that we engaged in.

Riley: A question slipped my mind, one I wanted to raise about the debt management because that became an issue during the government shutdowns earlier, where Rubin had to do some creative things to keep the government working. Were you involved in that process at all? Can you tell us a little about it?

Summers: We saw it coming. Just as the Republicans were prepared to use shutting down the government as a lever for their agenda, they might be prepared to use the need for an increase in the debt ceiling and the federal government's ability to pay its debts and remain creditworthy as an agenda item. We saw that coming. Obviously no one wanted there to be a default. Obviously it was a bit of a game of chicken. Probably nobody could politically afford to bear responsibility for a default. The question was whether they could create a situation where our failure to sign something had caused a default or we had put in a position where their failure to take a necessary action had created the pressure.

Riley: They being the Republican opposition.

Destler: Congress.

Summers: Congress. I think they were in the less good position because our position could be, "Look, we're happy to keep working on these budgetary issues, just give us an extension of the debt limit so the country stays creditworthy. Why are you taking hostages with this other stuff?" So we had the higher ground position in the thing. Defusing the thing required our taking some emergency steps involving using trust funds, none of which had any real economic consequence, to keep current on all the debt and keep funds going. That effort, which involved some careful interpretation of the law—although interpretation of the law largely followed things the previous Treasury Secretaries had done—obviously generated a certain amount of controversy. And

when, at some points, the Republicans felt that they had the administration dead to rights—there was going to be a default unless you agree to X and Y by such-and-such a date—we were able to dance away by saying, no, we're turning to the such-and-such fund.

We were very careful never to say, until it came to be true, that we were out of tricks and if you don't give us this by this date, the country will be put in default. They were foolish enough to do some claiming that being put in default would be okay, which brought the wrath of the bond market down upon them.

Riley: Were you involved in the domestic budget-making area from Treasury in other ways than the debt management problem as it related to the shutdown? Can you tell us a bit about—

Destler: Particularly in the last half of '95 when the confrontation—

Riley: When those confrontations and the shutdowns—

Summers: I was a minor player. I was there a fair amount.

Riley: You were essential personnel?

Summers: Yes, I was essential personnel, and I was the person who oversaw the technical tax people at Treasury. So I was there involved in tax policy questions along with Bob Rubin, and I had a ringside seat for most of the activity in Leon's office through that time period. It was clearly a case where I think the Republicans historically overplayed their hand because the offer that we had made them between Christmas and New Year's was, from their point of view, quite a remarkable offer in terms of the amount the taxes were cut, in terms of the amount of government spending that was being cut. And if they had been able to declare victory and take it, it would have been a staggering political victory for their agenda and probably would have done a lot of damage. Probably would have done a lot of damage to the country but it would have been a big victory for their agenda, but they thought they could get more.

Destler: Right.

Summers: What made the election outcome become relatively clear was that once they were shutting the government for six weeks, you had a sense of meanness and craziness. And they set up the M-squared, E-squared strategy: Medicare, Medicaid, Education, and Environment, we're for them, they're against them. And that was our basic strategy. If you give the other team that in politics you lose, and they gave us that.

Riley: Were you involved in the meetings with the President when the decisions were being taken about whether to press this to the point of actually shutting down the government?

Summers: Some, not all. And one of the challenges was that the President's instincts are always to find common ground. And so—

Destler: So whether he won or not, that's a judgment, but historically it looks like he did and got credit for standing his ground, which was not always easy.

Summers: It was not always easy and indeed, I think probably the majority of his advisors felt that he had given away too much. Now, whether he gave away so much because he wanted to, because he just did, because that would be okay to get a deal, he wanted to be cooperative, or whether he was shrewd enough to know that they wouldn't take anything he'd give, and therefore he was giving them more rope by giving more isn't something I can fully judge.

Riley: Do you know who within the administration was trying to put steel in his backbone on holding—

Summers: Panetta, Rubin, Bowles, [Franklin] Raines.

Riley: So there's quite a group then.

We've occasionally heard that there was some concern, and this tracks from what you just said, that if you put the President at a table with Newt Gingrich they had a kind of interesting interpersonal dynamic that led both of them to try to reach some kind of common ground. This is something that you witnessed and can confirm?

Summers: Yes, it was a very strong "help the President remain steely." There would be concern about the President on the phone with Newt Gingrich. The President on the phone with Bob Dole or Trent Lott. But I think the feeling was that the President was very eager to move things forward, so the "reinforcing the steel" aspect was something that was seen as very important.

Riley: And you were then involved in managing the government during the period of time that it was shut down because of the—

Summers: Yes, I was. I thought it was an interesting commentary on government employees that everyone wanted to be essential. People talk about government employees as lazy and so forth, but it was clear to me as somebody, when I was Deputy Secretary, who was involved in reviewing the lists of who was essential and who wasn't. What I was enormously impressed by was the number of secretaries and others who wanted to be essential. To whom it was very important to their sense of identity that they be essential. And this was a situation where anybody with any sense knew that when this ended people were going to get back pay.

Destler: Yes, right.

Summers: So it really was people who wanted to come to work—it was very interesting. It made me feel better about government employees.

Destler: Did you have anything to do with closing government through a huge snowstorm after the deal was finally made? It seems to me in early '96, just as the backdown happened and everything, there was that massive snowstorm.

Summers: You know, the government was closed, then there was the snowstorm, there were snowstorm days when we told nonessential people not to come. I observed this experience of "I want to be essential" both vis-à-vis the government shutdown and vis-à-vis snowdays, but I don't have a particular recollection of that snowfall.

Destler: I always remember it coming right on the heels of the shutdown.

Riley: The question that had slipped my mind when we were talking about Greenspan was his reappointment in 2000. Was there ever a chance—

Destler: There were two reappointments during the administration. They're four years, right?

Henning: There would have been one in '96.

Riley: —in '96, was there ever a chance that he was not going to be reappointed? Were there other significant names in consideration?

Summers: I don't recall any other significant names at any point. In conversation with John Podesta and with the President, I was involved in talking to Alan around Christmas time saying he would be reappointed, the President would want to reappoint him and just what the timing was. Then I think at a certain point the President called Alan, and I knew the President was going to call him and then I congratulated him on his reappointment.

Riley: And some of this would have been testing out his receptivity to make sure he wanted to stay on or had he—

Summers: Yes, but I think there were questions of when, not if.

Henning: Speaking of appointments, the appointment of the managing director of the IMF is interesting. I thought it was interesting for two reasons: one having to do with the management of the fund and its leadership, but also it is important with respect to U.S.-EU and U.S.-European bargaining and negotiation, in this case over a personnel matter. Could we get you to talk a little bit about that and about your perspectives from Treasury on the candidates and the durability of the convention that the IMF managing director should always be a European?

Summers: Who knows what the convention will be? It was a convention. I thought it not an unreasonable convention. Its reasonability as a convention depends in part on whether the Europeans can be relied on to choose a reasonable person. What became quite unfortunate was that for the Europeans this became more of an intra-European political thing than a substantive economic question.

Destler: Not who is the best European to do this or who are the best three Europeans to do this—

Summers: It became which nationality. We could have been comfortable with any of a number of first-rate European finance ministers or other key officials. In the event, Europe decided to defer to Germany, with a lot of complaining. Germany's first candidate was Caio Koch-Weser, who was their G7 deputy and who had previously been a vice president to the World Bank and had no real background in things monetary and macroeconomic, and who was generally regarded as not being up to the job. And there was a great deal of unhappiness about his candidacy although Europe treated it as a matter of honor that it be a European.

We basically told the Germans we couldn't support it. The risk in that strategy was always that it would lead them to another German, and they'd probably chosen their best German the first time. The rest of the world was pushing Stan Fischer, who probably was the most competent

person to do the job. We never believed that we could be behind that at all, because the system just wasn't going to want an American and certainly wasn't going to want an American pushed by America. At some stage, this became a major point of pride for Chancellor [Gerhard] Schroeder, and after it looked like Koch-Weser would not make it, he moved to proposing Horst Koehler. And ultimately the President didn't feel that he could reject a second German, though he had grave reservations about Koehler. And I think to some extent some of our reservations have proved out.

Henning: Do you think that if the President had been willing to accede to overturning the convention Stan Fischer could have been elected?

Summers: No. I don't think it would have been reasonable to contemplate two Americans in the position for a substantial length of time.

Destler: You mean, having the World Bank position, too.

Summers: Yes. I don't see the scenario that would have gotten us to the—

Destler: With the terms the same length at the same time—

Summers: —that would have gotten us to that point. I think Stan Fischer would have done a terrific job as managing director of the Fund. But I don't actually think that the expected value of the person you get, searching for the best European, is all that much worse than having the convention that you choose the best person from America for the World Bank and the best person from Europe for the IMF, rather than that you choose the best person from America and Europe for both of them.

Henning: Or Japan or Asia.

Summers: Or Japan or Asia. I'm much less impressed that having a broader ambit of search for each of these positions is really going to be decisive than having the people who have responsibility for the search doing the search in a way that is oriented to making the institution best, rather than a way to—

Destler: You didn't have it either way.

Summers: —solve their own internal political problems.

Destler: Yes, yes.

Riley: Were you paying much attention to the European Monetary Union and its evolution when you were in office?

Summers: Yes, we were watching. We were a little skeptical that it would happen smoothly, that it would actually happen on time. We would have guessed at a number of points—not at the end obviously, but at a number of points along—we would have guessed that it would not happen. People would always ask us what we thought about it, and I would always say that as far

as the United States is concerned, the buck stops here. [laughter] As long as we maintain our currency, maintain the fundamentals of our economy right, the dollar will do just fine.

Riley: Right.

Summers: Come what may with respect to the Euro. It always seemed to me that there were two kinds of concerns people talked about. Sometimes they said, “The Euro is going to become the new reserve currency and displace the dollar, and it is going to be so strong that the dollar is going to turn into toilet paper.” And sometimes they said, “The problem is that the Euro is not going to have confidence, the Euro is going to be weak, and the Euro is going to fall. That will lead to the competitive advantage of European exporters, so what we have to worry is about a weak Euro.”

It seemed interesting to me that as time passed, the second became the larger concern relative to the first. But I thought to some extent these two concerns were self-canceling. The other thing we used to say was, “If it works for Europe it will work for us,” meaning that an increasingly open, increasingly prosperous Europe serves every important American interest.

Riley: Were there any transatlantic consultations as this was being developed or was that just viewed as that’s literally their business and we don’t have any role in it.

Summers: They would discuss for the G7, WP3 [Working Party No. 3 on International Cooperation], they would discuss the progress they were making. There was lots of energy that went into the question of how Europe would be represented in the G7 and what would be the role for the ECB [European Central Bank]. The more diplomatic types found those matters to be of nearly infinite interest.

Destler: What about the fiscal targets, criteria for convergence, and the plausible impact on European growth?

Henning: Yes, the question being, were you worried that at some point the stability pact could be constraining in a way that would be disadvantageous not only to Europe but to the rest of the world as well? Such as, arguably, we’re in now.

Summers: We didn’t think the stability pact was a model of counter-reciprocal understanding.

Destler: Not surprised.

Summers: And it wasn’t. On the other hand, we were a poster child for success through fiscal consolidation, so it didn’t seem appropriate—and it was their country, their region, their debts, and their currency union. So we certainly didn’t have an initiative. We certainly didn’t ever celebrate the fiscal stability pact, but we were never focused on trying to undo the fiscal stability pact. I think we looked good on that.

Henning: At the risk of overtaxing your interest in the diplomatic question of the organization and representation of the Euro area, do you think that, after much negotiation, there was a formula, there was agreement on representation? Do you think that served the G7 and discussions in the G7 well? Was it a mistake, would you have done it differently?

Summers: No, I did it. I, in fact, started that negotiation.

Henning: In retrospect?

Summers: No, I think we got it about right. I think the crucial imperative for the United States was that intra-European harmony not be achieved through the further disproportion of European representation. That was basically the only principle I had in the thing.

The problem was—and we started two years early sort of laying predicate for this—that they were going to say, “Well, now we have the head of the ECB, he has to come.” And we said, “Well, groovy, but if he has to come, then why don’t I bring the head of the New York Fed and the Dallas Fed.” And they said, “Well, but if [mumbling] different competencies [mumbling] happy to do it like the platoon system.” You can bring different people in for different issues if you want, but you either get your national central banks or you get your European central banks. And then they had a bunch of stuff about the commission, which I no longer can even recall what it was exactly, and about the Presidency.

We gave them a very hard time, which turned out to be right, about “let’s both see if we want to have an intervention. What’s the plan if we want to have an intervention? Call the Presidency? Wait, you tell me you want me to call some Finnish guy whom I’ve never met and who has never met Tietmeyer? I’m supposed to call him up and tell him we need to intervene in two hours and he’ll just front run the thing. We can’t do that.”

I can’t remember the details, but eventually we put pressure on them to develop some protocol for the procedure for discussing intervention, but it was pretty ragged.

Henning: How did it—there was actually then an intervention later, I believe it would have been the autumn of 2000 and with this structure in place.

Summers: I don’t remember. How’d we do it, who’d we talk to?

Henning: That was going to be my question, who in Europe, how did this get set up and—

Summers: By then I was Secretary so I didn’t talk. People talked, Tim [Geithner] would have talked.

Henning: My guess is that this would have gone through [Jean] Lemierre, who was chairman of the—

Summers: Yes, that’s right, whatever they called it, that’s right. Was it Lemierre then or was it Mario Draghi?

Henning: Well, I think it was close to the switch, but I think Draghi followed, as my recollection and my understanding that that would have been the first point of contact they would consult on their side and try to pull together a consensus behind—

Summers: Yes, the Monetary Committee.

Henning: Yes, the name of it is now changed, right, to the Economic and Financial Committee actually.

Summers: But it was called the Monetary Committee in my day.

Henning: Well, before the Monetary Union was created it was called the Monetary Committee.

Summers: No, these are important questions. Probably we did talk to—I'm sure Tim did talk to Lemierre, but just what the role of the Fed was with the ECB, I don't remember precisely. Then there were problems—the details of which I no longer recall—having to do with sleazy stuff by the European central banks. There was a little front running that would go on with respect to the interventions by the local central banks, it looked like. There was some episode involving the Bank of England that was just an atrocity on one of the interventions, where they intervened and then they bought back their intervention a day later, quietly, without telling anybody.

Destler: Hm, they made some money?

Summers: Which is completely against the rules.

Henning: This was post-EMU [European Monetary Union]? I see. In this September, October intervention 2000, the U.S. participated once, the ECB intervened a couple of times. I remember that at the time it was reported that you all were surprised because this was prior to the election, and it appeared as if Treasury didn't want to be seen promoting a weaker dollar and weren't willing to say that they had abandoned the "strong dollar policy" at which the Europeans took umbrage. There was public exchange over this—

Summers: Oh yes.

Henning: There was public exchange over this, which completely undercut the effect of the intervention in the markets.

Summers: Oh yes, I remember this. No, no, we got a bum rap. That was a bum rap. The Europeans, because their thing was collapsing, wanted an intervention. We had run economic policy for seven-and-three-quarter years successfully on a strong dollar policy. We had a situation of considerable uncertainty in the stock market and a slowing economy by this point. We were not going to put at risk the way we ran monetary policy, the principles of our successful policy, in order to help the museum curators. That's going to get struck from the transcript. We weren't going to do that.

So we told them—and I no longer remember just who told who and how—but I remember being absolutely emphatic on this point, and Alan was even more emphatic on this point, that we will do this, but we will reaffirm that the strong dollar policy continues to be in effect. That is less good from your point of view than our doing otherwise, and if you want to not intervene jointly with us, that's perfectly okay. But the only terms on which we intervene are that we are reaffirming the strong dollar policy.

Destler: Or declare a policy that leans against the intervention.

Summers: Well, yes, we had intervened previously with respect to the weak yen. And I don't actually think the distinction is that difficult between the fact that to say we have a strong dollar policy is not to say that we don't participate in rescue operations. The problem was they didn't want to call their thing a rescue operation. They also had the problem that everybody with a weak currency has, it's kind of a dignity thing, they don't want to admit that they have a weak currency. They want to say everybody else has a strong currency.

So the problem was in part our strong dollar policy, the problem was in part that it was a kind of dignity thing for them. So we were, to my clear recollection, excruciatingly at pains to make clear that we would do this if they wanted, but what the statement was going to say was that—and I remember Alan and I talking about, you know, there's going to be a lot of bitching after the fact, because we did tell these people clearly, but they're not going to tell everybody else that this is the deal on which they agreed to have the intervention.

Destler: Right.

Summers: And so everybody else is going to be mad and then they're not going to say, "Well, we agreed to this," so they're going to pile on and be mad too. I actually have almost no sympathy with their position on this, in the sense that in the regime that was operating at the time, we would have been crazy, in the context, to call into question our basic policy thrust at that moment. If we had done what they wanted and not reaffirmed the strong dollar policy after six years of every Secretary of the Treasury statement on exchange rates saying, "A strong dollar is in the national interest," if we had done that it would have been crazy.

Riley: Right.

Destler: At what point does the President get on board with a strong dollar policy, or is he always on board?

Henning: This story really highlights the difficulty of coordinating this kind of thing with the Europeans. If you're going to send a clear message to those that are supposed to be representing the ECOFIN [economic policy council of E.U.] and they don't communicate it to their counterparts, and then they're surprised afterwards when they see the public statement, I mean, it is really a damning episode for intra-European coordination.

Riley: I don't know whether you want to respond to that. I was going to intervene and simply say usually during the course of an oral history interview when the respondent begins asking the questions of what they did, that's the sign that we've driven the interview about as far as it ought to go. So did you want to respond to that?

Summers: No, leave it at that. Wait, did I ask you what we did? What do you mean?

Riley: A few minutes earlier when you were trying to be prompted about what had actually happened in this episode of the European issue, you stopped to say, "I don't remember, tell me where we were."

Summers: I think we've probably exhausted this topic. You were reminding me of the names of the entities. You were bringing to mind the episode, but now that you've brought it to mind, I

actually do have a very clear memory of the episode. The other thing was that there was a lot of byplay back and forth over the fact that we were simultaneously intervening on the Euro and there was involvement in the oil market. And I had written a memo saying that the use of the SPRO [Strategic Petroleum Reserve Office, U.S. Department of Energy] was a bad idea. Somebody leaked my memo and then Clinton and Al Gore decided to use the SPRO.

Destler: Oh right, yes, okay.

Summers: And then I decided, well, proper and prudent use of the SPRO could be consistent with the national interest—

Destler: Having thought the matter over more carefully.

Riley: Anyway, if you're up for it, do you want to take four or five minutes to discuss what we might talk about if we get another three or four hours together in a morning or an afternoon session at some point? Are there some things that come to your mind at the end of a very long day that we haven't covered?

I can see that there are a couple of things up here. We really haven't talked about your appointment as Secretary of the Treasury or what your understandings were with respect to that.

Destler: We haven't really talked about your appointment as Deputy Secretary either.

Riley: That's true.

Destler: For what that's worth.

Summers: We haven't talked about that, and we have not talked about tax policy through this period. I want to talk about the tax policy and the IRS [Internal Revenue Service], which were moderate-sized issues to this. We haven't talked about issues related to the structure of the financial system, Glass-Steagall, deregulation, we haven't talked about policy toward the poorest countries, the World Bank, HIPC, debt relief. And we haven't talked about—and I don't know whether you do this—this is the kind of thing I might want to do on a longer horizon. I don't know whether you ask major players their impressions of other major players.

Riley: That is at the core of what we do, so if you're interested in doing that—

Summers: I'm not sure I'm going to do everybody, but I'd do my impressions of the Vice President, I'd certainly do impressions of Secretary Rubin. I'd certainly do stuff on the culture of our Treasury team.

Riley: Absolutely. This may be more than three or four hours. You may be in for another day if you don't watch it.

Summers: I don't know about that. How long do you do with most people?

Riley: A day and a half is the ideal, so we're looking at basically completing what we usually do with other folks. But we have the advantage of being able to process this information and to

think and put our heads together about how to use another session most economically. Mac, are there some things on top of this that—

Destler: The only thing we didn't talk about a lot, but we did talk about some and maybe we talked about it enough, was Japan during the second term and the interplay between Japan and East Asia in terms of the problems, their tax increase—

Summers: There's more to say.

Henning: Economic problem, link to the Asian monetary fund proposal.

Summers: There's more to say.

Riley: Randy, anything from your end?

Henning: We did originally mention briefly the Bluestein account and whether there were thoughts and corrections you wanted to make there.

Summers: Yes, I'll look at that.

Riley: If there are other secondhand accounts out there in circulation that you would like to comment on, I think this is important for the historical record. If you don't get your observations on the record here—that's the kind of stuff that students 20 or 30 years down the road will likely look at as authoritative. So I'll ask each of the interviewers, too, if things come out in the interim, there may be magazine accounts. Actually there's something—is it an *Atlantic Monthly* piece—that has just very recently come out on the Clinton economic legacy, written by an insider and I can't remember—

Knott: Stiglitz?

Summers: Joe Stiglitz?

Riley: Exactly. That might be something worth getting your observations about as well. Do you think we've exhausted the strong dollar?

Summers: I think we've probably said most of what there is to say. Randy, it's a question of what's worth your time. I think you have a sense from this of where my memory is good and where my memory is bad, which is that if you jog me into a particular episode, I tend to be pretty good, but I can't take myself through an account. An exercise that the two of you could do that probably would take half an hour of interview time, but would take more of your time, would be just identifying the four or five major intervention points, like we did on the European intervention. We did two of them. We did the '98 intervention, but there was an April '95 intervention. With a Lexis search or whatever, you could identify the major interventions.

Riley: And the specific—I'd asked you a question about summits earlier and if we could get a roster of summits and what happened there put together. I don't know whether you consider that fruitful or not.

Destler: The question is whether there are specific episodes.

Summers: Stacie, if you put together—I think this wouldn't be difficult for you given the efficiency with which the rest of this was done. If you put together three pages of press clips summarizing the major stories coming out of each of the eight summits—

Destler: That's an interesting way to handle—

Summers: That wouldn't be that hard for you and it would—

Destler: You didn't say the communiqués.

Summers: No, not the communiqués, the press clips. That would jog my memory with respect to things that were there. We didn't discuss the international financial architecture, which is a substantial topic.

Henning: Let's be sure to cover that.

Riley: Okay, I think that's a sizable agenda for another meeting.

[END OF INTERVIEW]