# WILLIAM J. CLINTON PRESIDENTIAL HISTORY PROJECT

## FINAL EDITED TRANSCRIPT

## INTERVIEW 2 WITH LAWRENCE SUMMERS

April 14, 2008
Washington, D.C.

**Interviewers**

*University of Virginia*
Russell L. Riley, chair

*University of Maryland*
I. M. "Mac" Destler

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**Russell L. Riley:** You know the game rules, but I'll go back over them. You'll get a copy of the transcript. We are not free to repeat anything out of chambers, so you own your words until you let us use them.

**Lawrence Summers:** When you use them, how do you use them?

**Riley:** In transcripted form. That means the transcript will be available in two capacities: one through the Web site of the Miller Center, which will be linked to the Clinton Presidential Library. Second, hard copies will be at the Miller Center Library at Virginia and at the Clinton Library. We anticipate that the cleared archive will become available probably sometime late next year, although that depends on Senator [Hillary] Clinton's success. We have not received from you a cleared copy of the original transcript.

**Summers:** You'll give me that back?

**Riley:** Yes. In fact I'll probably give you both of them at the same time. We've all reviewed that as preparation for this. The same ground rules apply there: we're not free to divulge anything to anyone. In the last interview, you said that you would like to give us your impressions of the Vice President, of Secretary [Robert] Rubin, and of the other core members of the economic policymaking team during the Clinton administration—what their strengths and weaknesses were, what they brought to the policymaking team.

**Summers:** Bob Rubin was the heart and soul of the Clinton economic team. He was very much the center of the team. He set the tone in terms of his emphasis on collegiality; in terms of his emphasis on a rational, analytic framework for making every decision; in terms of his inclination toward highly disciplined activism, where you were very fastidious about risk minimization and you were therefore able to take more risks because you were very fastidious about risk minimization; in terms of an optimization of doing the right thing, and then testing it against political constraints rather than commingling—

**I. M. "Mac" Destler:** Of course starting with the political constraints.

**Riley:** Where did his political sensibilities come from? He hadn't been actively involved in politics.

**Summers:** Oh, he'd been very active. He'd been involved in financing Walter Mondale's campaign. He'd been involved in one way or another in every Presidential campaign since the 1980 [Jimmy] Carter campaign. He was a close friend of Bob Strauss. He was an aficionado of politics. He had risen to the top of a complex Wall Street partnership with many people with enormous egos. So he had very substantial skill in both small-p and large-P politics. In many ways, he was the most important actor on the economic team.

Gene Sperling was the workhorse of the economic team. He carried the torch for the President's passions and interests. He brought enormous experience with how things would play in the broad political context, with an extraordinary degree of economic knowledge and a prodigious appetite for hard work. He was very often the best informed person. At a large number of meetings, he was the best informed principal.

**Destler:** He would know the numbers?

**Summers:** Yes. He would understand the details. He was into things in enormous detail. He was willing to stay all night, in a way that most others were not, if it would be constructive.

The Vice President picked his shots, was not there as a matter of routine, was very involved in his [Albert] Gore [Jr.]-[Viktor] Chernomyrdin Commission work, and was very involved with issues that linked economics and the environment. He took the RIGO [reinventing government] efforts, in which he was involved, very seriously. He was, in general, a voice for doing the right thing, particularly on questions of fiscal rectitude.

I'm not sure the administration would have gotten off to the start that it did without Lloyd Bentsen's contribution. Lloyd brought a maturity, stature, experience, and wisdom to the administration in a way that most of the rest of us, particularly early in the administration, were not able to. I'm not sure we would have had a successful 1993 budget agreement without him.

**Destler:** Did Gore back off a little bit on trade in the second term?

**Summers:** I remember him as being fine on PNTR [Permanent Normal Trade Relations] for China. That was the main trade issue I remember.

**Destler:** I remember that about fast track.

**Summers:** I don't remember vividly the fast-track debate during the second term. I don't remember very much frustration on that.

**Destler:** Talk a little bit about your relationship with Rubin. Somebody might have thought you two were an unlikely pair, different styles.

**Summers:** I think it was probably Rubin's strength that he recognized that he might make a better team with someone who had a different set of strengths than he did. I don't know about any strengths I had, but I think my weaknesses probably lined up pretty well with his strengths. I probably didn't have the keenest small-p political instinct. I probably didn't have the most instinctively judicious manner of speech. But I like to think that I at least brought a certain boldness of vision and a creative energy and a capacity for analytic skepticism. I think Bob valued that if I was for something, I probably could provide the most powerful set of arguments against what I was for. I think that built trust.

**Destler:** And he asked you to do that?

**Summers:** Yes, he would ask me, "What are the arguments against it?" Once he saw that I was being thoughtful about it, he would tell me to do what I wanted.

**Riley:** Could you assess the OMB [Office of Management and Budget] and the Council of Economic Advisers? Were they players intermittently?

**Summers:** I didn't experience, to be honest, the CEA [Council of Economic Advisers] as having much influence. Joe Stiglitz's claims for the role of the CEA go substantially beyond anything I remember. I was very active in the process of introducing the index bond, for example. I think it's true that Joe favored the index bond. At a certain point, Bob Rubin didn't; then at a certain point, Bob Rubin did. I had favored it fairly consistently. At a certain point I persuaded him. Then we did the index bond along with Darcy Bradbury and the other people who were working on it. I don't remember the CEA, for example, ever having been large in the issue.

I think they had a certain influence in framing the administration's thinking around the analytical aspects of climate change. I think they had a significant role on that issue. They were a voice for freer trade in trade debates. I remember that the CEA was opposed to the privatization of the USEC, the United States Enrichment Corporation. That caused the process to be delayed somewhat longer than it otherwise would have been, but it seems to me that there is a plausible argument to be made that the administration got to a different place because of the CEA.

I think that the OMB, particularly in the periods with Leon Panetta and Jack [Jacob] Lew, was the spear carrier for the negotiations that took place on the Hill on a wide range of issues, for all the policy that got made, and for the content of the appropriations cycle. My sense is that Leon Panetta was a crucial actor in the 1993—

**Destler:** He then carried some of that role over when he became Chief of Staff.

**Summers:** Yes. During his time as Chief of Staff and during Alice's [Rivlin] time as head of OMB, I think Leon was rather in the lead, reflecting his experience with those issues. I think the 1997 budget deal was probably a John Hilley production, as much as probably any individual, from his role in legislative affairs. Then I think the content, after Frank [Raines] went to Fannie Mae, was very much Jack Lew's. I don't mean to minimize. I mean, Frank and Alice obviously did a great deal in the context of the cycle and in setting the President's budget and so forth. But in terms of driving the deals to conclusion, Leon and John, both as OMB director and as Chief of Staff—John Hilley with Erskine Bowles and Frank and Jack, along with John Podesta—were probably the key actors.

**Destler:** This relates to your becoming Secretary. Was that pretty much a consensus decision within the administration? Let me re-raise the personality questions for the record. Two things people agree on: there's a rap on you, as you said, in terms of political sensitivity and outspokenness. These might be handicaps.

**Summers:** As Bob wrote in his book, the President, Bob, Erskine, and I had a clear understanding at the beginning of the second term, when I became Deputy Secretary, that Bob would leave at some point during the term, because that was his plan, and that I would succeed him. We had reached that agreement. I obviously was not without anxiety that it would all actually happen.

**Destler:** Of course.

**Summers:** But I don't remember it. By the time Bob left, I think it was pretty clear what the path would be. I don't remember it as controversial.

**Destler:** I don't remember any controversy.

**Summers:** The confirmation was quite smooth.

**Destler:** I wanted to expand on the question of the evolution of financial markets and of financial-market deregulation during the Clinton administration, now seen through a unique perspective of late. First, we saw an explosion in securitization during the 1990s, and second, a big increase in the derivatives markets. What were you thinking about with these developments at the time? Were they unmitigatedly good things in your mind, or did they carry vulnerabilities? Did you weigh the dangers?

**Summers:** Until probably 1997, I was not much involved in questions of domestic financial deregulation. For the first two-and-a-half years, I was Under Secretary for International Affairs before becoming Deputy Secretary. Bob came out of a culture where he knew a lot about them, having worked with [John] Jerry Hawke [Jr.], who handled them. So it was only when we got to the second term that I thought of them as being very much within my concern. I don't recall us having enormous anxiety either about derivatives or about securitization, per se.

We were concerned about a set of issues in the [Carter] Glass-[Henry] Steagall repeal, but I think we felt that that was mostly about the industrial organization of the financial sector issues. If you allowed more kinds of competition between them, what kinds of enterprises would benefit consumers? Insofar as it had safety-net consequences, our view was that the government was writing puts, and it was better to write a put on a portfolio than to write a portfolio of puts. Systemic risk was somewhat likely to be better contained in that way. In the aftermath of LTCM [Long Term Capital Management], there was some concern about the degree of leverage in the system. There were some initiatives that were directed at work. But they were Fed led, directed at reducing prime brokerage margin levels through the regulation of banks that functioned as prime brokers. Again, until I became Secretary, these were not issues of primary focus for me.

When I became Secretary, we had five regulatory foci during my time. One was the completion of the Glass-Steagall repeal, which we did. Second was a set of initiatives that made a certain amount of progress but got nowhere with the Republican Congress. It didn't get far with the Fed. They were directed at predatory lending and at a range of dubious lending practices in the mortgage sector, very much like the current cleanups on subprime lending, where we tried to amend HOEPA, the Home Ownership and Equity Protection Act. We tried to amend it in a variety of ways, working with Michael Barr and Andrew Cuomo. We worked together on abuses in subprime and predatory lending. I think we had a rather thoughtful approach.

Third, I raised substantial concerns about Fannie Mae and Freddie Mac, about the high degree of leverage they had and about the contribution they potentially made to instability in housing markets and to the degree of government subsidy. I focused considerable attention on that, and I negotiated an agreement toward the end of my term with the GSEs [Government-Sponsored Enterprise] that, for example, caused them to issue subordinated debt, which they had never done before, that would explicitly not be part of any bailout. So there was a marked indicator of how we were doing.

Fourth, we cooperated to pass the Commodity Futures Modernization Act that clarified legal certainty for OTC [over the counter] derivatives, which previously was an important source of systemic risk. It provided a legal framework for the establishment of clearinghouses, which we pushed hard to create, but we ran out of time. I think it would have been constructive in the current context if those clearinghouses had been created and had established a legal framework for OTC derivatives.

Finally—and this is at the edge of financial regulation—we had a program of initiatives directed at what I, as Secretary, called, "the dark side of capital mobility," which was money laundering, tax evasion, and regulatory arbitrage. They sought to establish a stiffer set of requirements around those issues. It seemed to us that there were some serious race-to-the-bottom kinds of issues.

**Destler:** Why do you think these ideas about preventing predatory lending didn't get more traction?

**Summers:** I think there was a balance to be struck. We had Michael Barr, Greg Baer, and Andrew Cuomo. A couple of Andrew's colleagues at HUD [Housing and Urban Development] had what I thought was an example of government at its best. We went back and forth about, if somebody who doesn't have good credit and who doesn't have that much money gets to own a house because he pays a higher interest rate than someone richer and more credit-worthy would, is that a desirable innovation that is spreading home ownership, or is that predation taking advantage of people?

**Destler:** The answer is yes.

**Summers:** The answer is yes to both questions, but I think we found some ways of distinguishing and insisting on better transparency and so forth. It didn't happen, because nobody was very worried. The Republicans didn't want to do anything that involved regulating banks in the last year of the Clinton administration. I think there wasn't a big appetite at the Fed for more regulation in those areas. I think there was a concern that we probably would have favored more regulation on the grounds that yes, these are consenting adults but they wouldn't be doing it if they understood, so it's better to ban it. But it was a question of balance.

We issued a report. We engaged in a certain amount of direct consumer education around this kind of thing. I wish we had been able to accomplish more. I think if Gore had won and I had stayed, we would have made it a priority on the domestic side. But in the context of a last year of a President's term with a minority Congress, we probably took it about as far as we could.

**Destler:** If Gore had won, was it a possibility in your mind that you might stay?

**Summers:** He and I had had conversations; indeed we had conversations after the election. I think there was a good chance that I would have stayed if he had become President.

**C. Randall Henning:** Did you run the thought experiment of what you'd do if one of the large firms in the center of the derivatives market had gone belly up, how you would have handled that, unraveling all those transactions?

**Summers:** We didn't contemplate that, and I'm not sure in retrospect that we should have, given that the CDS [Credit Default Swap] market didn't exist at anything like its current scale, given that the degree of complexity in mortgage-backed securities was very different from what it is today. During our period, the banks always looked very well capitalized. In 1998 it appeared that Lehman could fail. It appeared that way for about six weeks in 1998. I don't know if the probability was one in ten, one in three, or one in two, but Lehman was on the ropes. Our feeling was that, again, as it is today, it was primarily an issue for the New York Fed. But our feeling was that, given the health of the banking system, a failure of Lehman was a manageable event, and it certainly would not have been our instinct to extend the safety net to Lehman.

I suspect that the degree of intertwining was somewhat less at that time than it is today, and I think you had a situation in the wake of LTCM where there were significant interferences with the lending markets and with the securitization markets. But the banks had plenty of capital, and the banks were in a position to lend in a strong way. You didn't have the simultaneous problems in the securitization sector and the banking sector that you have today.

**Destler:** At the end of the last interview, you mentioned that you might have more to say about tax policy.

**Summers:** I can't remember what I said. Have I said much about tax policy?

**Destler:** You didn't say much about tax policy. I'm not sure if you addressed it. Not so much the IRS [Internal Revenue Service] but tax policy reform.

**Summers:** Let me do the IRS first because I think my thoughts are more composed there. When I became Deputy Secretary, it was pretty clear that there were serious problems at the IRS. The computer-modernization project had spent several billion dollars, and they did not have an enormous amount to show for it. The IRS didn't have people with enormous experience or whose life experience was such that you'd expect them to have a feel for how to manage a large computer-modernization project. The commissioner, Peggy Richardson, was a terrific person, but her experience was as a tax lawyer. The senior executives of the IRS were experienced IRS executives, but doing multibillion-dollar procurement, thinking about information-technology architectures, this was not their skill.

There were various horror stories. There was a plan that was brought to me probably in the fall of 1995 when I was Deputy Secretary. I don't remember exactly what it was supposed to do, but it was a modification of some form that would offer refunds in a different way. I, in my way, asked a reasonably aggressive set of questions, and it was clear that the quality of the contingency planning, the quality of the experimentation was nonexistent. Not that I knew exactly how to do it, but I knew enough to know that the problems were serious. Meanwhile Congress was quite restive, in part on legitimate grounds of inefficiency and incompetence in the procurement, in part on less legitimate grounds of wanting to eviscerate enforcement by pointing to the kinds of enforcement abuses that were inevitable in an organization with 100,000 people.

We formed an internal treasury board to manage the IRS and to force the IRS to an external discipline and monthly reports and such. I think it had a moderately constructive impact. Then we did something that I think was quite important as part of a lasting legacy: we decided—and it was very controversial at the time—that when Peggy Richardson stepped down at the end of the President's first term, that we would not—there is, by the way, no provision in this for obita dicta, that somebody could see this 20 years from now but not now, is there? That's not part of this project, is it?

**Riley:** Yes. When the transcript comes back to you, you're given the right to hold on to passages for as long as you want.

**Summers:** What do you mean by "hold on to passages"?

**Riley:** It wouldn't circulate. It would stay in our vault for as long as you want it to.

**Summers:** So I can say that.

**Riley:** Absolutely.

**Summers:** We asked Peggy Richardson to step down at the end of the first term. If history cares 30 years from now, I'm happy to have that out there. But I don't want to cause her pain now.

**Riley:** Of course.

**Summers:** We made a judgment that we were going to appoint an experienced business person, rather than a tax lawyer, who knew how to manage a large IT [Information Technology]-procurement process. I spent a lot of time recruiting. We had several interesting candidates, but we eventually settled on Charles Rossotti, and I think that template has now been firmly established, that the IRS has a different kind of person as its leader. We worked with Congress to pass legislation. We were focused on a variety of authorities to help the IRS manage better. They were focused on a certain amount of independence of the IRS from the Treasury Department. Bob Rubin became very invested in the aspects of the IRS reporting to Treasury.

The legislation was portrayed as a defeat for us. In a sense, that was right. Bob Kerrey and others got more IRS independence than we preferred. On the other hand, we got a variety of salary authority to hire different kinds of people, to break Civil Service norms. We had a different kind of leader. I think the IRS has been very substantially improved. Senator [William] Roth held a set of hearings that were very damaging for morale in the IRS around the Taxpayers' Bill of Rights, taxpayers not getting what they should, abuses in enforcement. But the pendulum has now swung to the recognition that there is a need to enforce the tax code. I think we're in a better place.

I think we brought about a fair amount of change in the IRS acting from main Treasury. I don't think we would have acted if there had been no Congressional pressure. But once we picked up on the Congressional pressure, I'm rather proud. I think it reflects in part the fact that Rubin was there for quite a while, that I was there for all eight years, and that we made more of a commitment to institutional improvement than people usually make.

Tax policy. There were periodic efflorescences of interest in fundamental tax reform during the Clinton years, but each time, it foundered on the politico-economic arithmetic of the fact that if you considered the degree of political pain that was necessary to achieve even limited reductions in marginal rates, it never appeared attractive relative to tax credits for matters of concern to citizens. In an environment where spending programs were very difficult, the way to do what we wanted to do, which was to make life better for middle-class families, tended to be through tax credits. I think there's more a case for that than most tax-policy analysts are prepared to acknowledge. Often it's cheaper to have one system to enforce things, which is the IRS, than multiple systems. Potentially there's less distortion and inefficiency when you reduce taxes than when you collect taxes and then spend the money. But the tastes of agencies that can't generate new spending for tax credits to achieve their mission is unlimited.

So there was a creative tension between the rest of the government on the one hand and the Treasury tax area on the other, with me and the White House more moderate than the rest of the government but trending in the same direction, and with me more moderate than the Treasury tax policy area but trending in no direction. There was a creative tension that was worked out each year in terms of the administration's proposals. I referred at one point to the danger of turning a tax code into a theme park for each of the agencies' preferred rides.

On one occasion, I remember two terrific, young, dedicated tax lawyers coming to my office when the President was focused on the Hope Scholarship. They gave me a long lecture about why the Hope Scholarship was a terrible idea and why it was better done through the expenditure system. Then they gave me another long lecture, and I said to them, "I think I get it. You guys have seven objections. Do you think any one of these seven objections is sufficient to make this a bad idea? One through seven. Do I get it?" [*laughter*] "Now that we've established that I get it, here's another way of thinking about this: the President got elected with 40-something million votes. We didn't. His judgment is that this is what he wants to do.

"In the current political environment, the only way that families across America will get any more money to send their kids to college is if we do this. You have a chance to make an important difference, because this is probably going to happen. If you use all the talent you just used to explain to me seven reasons why it would be better if this happened in some other way to then figure out the best way to make the tax code do it, you could make a very substantial contribution to America. So why don't you come back tomorrow, and we'll discuss the best way to do this?" They did, it passed, and I think the world is a better place because of it.

**Henning:** I'd be interested in picking up on an issue that was left for you by the first [George H.W.] Bush administration as they were leaving office. This has to do with the China currency-manipulation question. In the May 1992 exchange-rate program that was issued by the [Nicholas] Brady Treasury, they designated China for currency manipulation and then proceeded to conduct two sets of negotiations. That was where things stood when you and the rest of the Clinton team took over. The Bentsen Treasury maintained that designation until December of 1994, at which point it was removed. Given the importance of this issue, currency manipulation, for the past couple of years, I wanted to ask you a little bit about your experience with that, whether you thought you had been given a hot potato, what your experience in negotiating with the Chinese was on this.

**Summers:** In all honesty, I don't remember. Until you told me what we had done about naming China as a currency manipulator, I didn't remember.

**Henning:** Your predecessor.

**Summers:** I didn't remember what we had done in 1993. I remember a lit bit of discussion around those reports, and I remember testifying on one occasion. Senator [Donald] Riegle was rather sharply critical of the position that we were taking, but I was quite unenthusiastic about the unilateralist approach that was embodied in that legislation. I had some difficulty with the concept of an exchange rate that had not changed being manipulated.

**Destler:** That was the problem with that too, a semantic problem.

**Summers:** I don't remember the details, but whatever China's bilateral surplus with the United States was, I don't think it was in a substantial global-surplus position. So I didn't have an enormous taste for the unilateralist approach that was implicit in the legislation. I don't think the strength of the argument that the renminbi was being manipulated was of nearly the strength that it is today.

I think the fact that the next important set of currency events involved a concern that the renminbi would be devalued is retrospectively suggestive that it may not have been massively undervalued at that moment. So I don't think we regarded this as an important thrust of policy. It came in the context of the early Clinton administration's carrying through, for the first year of the administration, on the President's withdrawal of MFN [Most Favored Nation] over human rights. It didn't seem that an extra bid of potentially protectionist, somewhat unilateral aggressiveness was likely to be highly constructive.

I had a view that the thrust of the policy in the early Clinton administration, which was to think of international economic policy principally through the commercial dimension, was to promote exports and sell more stuff. Good international economic policies were about getting orders for American businesses, which was a policy that found its apotheosis in Ron Brown's call to Yasser Arafat asking him to buy AT&T. I always found that unattractive as a general thrust of policy, so I sought to mitigate the more demanding aspects of Super 301 threats, vis-à-vis Japan, and in general to reduce the emphasis on commercial outcomes as being what our international economic policy was about instead of it being about a mutually beneficial, well-functioning system.

**Henning:** Did you consider revoking the manipulation designation as soon as you got to the Treasury Department, or shortly thereafter? The manipulation designation wasn't removed until the end of '94.

**Summers:** As I said, I didn't remember what we had designated it as, so I don't remember. My best guess is that I didn't think much of the manipulation designation, and that I was advised that maintaining the manipulation designation and not doing much with it was not an enormously consequential policy, and that revoking it would likely generate a fair amount of excitement.

**Destler:** Probably right at the time that the MFN tensions were high.

**Summers:** Political tension of a kind that we probably didn't need. Therefore we maintained it, but I honestly don't remember. Do you know the answer?

**Henning:** I don't know what the internal discussion was about whether to rescind the designation.

**Destler:** You know it was rescinded.

**Henning:** I know it was rescinded in December of 1994.

**Summers:** What explanation was given for why it was rescinded?

**Henning:** It was related in part to the unification of the exchange-rate regime in January of 1994, which coincided with an official devaluation at that time as well. The designation wasn't rescinded in the report immediately afterward because there was some dissatisfaction with how foreign banks were treated in that new regime. But it was rescinded in December of 1994.

**Destler:** Two issues related to taxes: one, the Republicans were interested in reducing taxes, and then Clinton or somebody came up with the Social Security lockbox, or something like that, as at least a rhetorical protection against tax reduction. The other was, it seems to me, that this was when a reduction or elimination of the estate tax, the so-called death tax, became prominent. I remember you being quoted as saying something that I rather admired, that this reflected the greed—I'm not sure; you may have backed off of that a little bit because it may not have been fair to well-motivated people who wanted to remove this thing. But anyway, is there anything important that you remember about these two issues?

**Summers:** Saving Social Security first was a product of a rolling NEC [National Economic Council] set of meetings on how to protect the surplus from the ravages of the Republican Congress. I think it proved to be an effective rhetorical device. At the time, the President was engaged in how much logic there was to taking a surplus in the aggregate budget and recycling it back into the Social Security program. The precise merits of that kind of manipulation of the accounting conventions could be argued, but as a political device for focusing on the entitlement problems in the long run, I think it was very effective.

I think a question that history will debate is whether, in retrospect, it would have been better to have had more of the kind of tax cuts that the Democrats could have achieved rather than to have maintained the budget surplus for the kinds of tax cuts that [George W.] Bush legislated. The estate tax was being pushed by the Congress; we just didn't hear the validity of it. We didn't see why there should be the constituency that there was for a tax that would only apply to about one percent of estates. I thought I was off the record when I said that it was motivated by greed. It's very rarely a good idea in political arguments to impugn another's motives rather than to challenge their argument and their logic. That's why I regretted the statement. I made clear afterward that I had regretted the statement. I never backed off the view. It was a pretty awful idea to repeal the estate tax.

It took a certain amount of effort, more than I would have expected, to maintain support for the estate tax even among Democrats. I learned some things from it. I learned that newspapers are privately held. So when you had liquid assets, you had a big problem when they passed, because it was hard for people to pay the estate tax if they didn't want to borrow.

**Riley:** I have a question about your overall assessment of President Clinton and economics. What kind of student did you find him to be?

**Destler:** By the way, a small footnote: I was in Little Rock last weekend, and I went to the Clinton Library. It was a wonderful exhibit. There's a lot about international economics in visible displays. It's quite interesting.

**Riley:** I wanted to get your take on how you found Clinton as a politician with an interest in economics. You deal with a lot of bright students and faculty members. How would you assess him? How steep was his learning curve when he came in? Did he have blind spots about economics that we should know about?

**Summers:** I think he is an extraordinarily intelligent man. I've spent my life in environments with people who are very smart. I haven't run across many people who had the capacity to absorb, process, and synthesize information across a dazzling array of fields with the speed and clarity that he did. I pretty much kept up with him when the topic was the last week's *Economist* magazine, but that was my life at the Treasury Department, and it was one-tenth of his life. So he was quite extraordinary in his understanding and in his capacity to master complex subjects.

Like most politicians, I don't think he had an economist's instincts. I think he had a deep sense that global integration was a good thing: people would trade together, they'd get to like each other, it would make for a more peaceful world, and people who were behind would be pulled up for integration. He had a conviction that global integration was a positive sum game. I think he had a conviction that international institutions bringing the world together would create more of a positive sum game. He had both a sense of America's responsibility, given its large role in leading and driving that, and a sense that, given its capacity to move in many directions—across the Atlantic, across the Pacific, to the South—in a way that other regions didn't, it was to America's advantage for there to be a more globally integrated system. I think he had that very much in his heart.

I think he came over time to see that we had lower inflation, lower unemployment, relatively low capital costs, and strong markets, and that all of that was related to the fact that the globe was integrating and that it was supportive of domestic economic performance. So he had extraordinary intellect and a deep sense of the importance of global economic integration. He had a strong sense that somehow you had to make it work for the people if you were going to keep this thing going.

I don't think he had an economist's instincts that financial markets were providing a profoundly important service by linking people's need to save for their retirements with other people's need to finance the inventories of their stores, or an economists' instincts that a properly functioning price mechanism internalized all sorts of costs and drove efficiency. So his natural modes of thought were not, *Well, gosh, all profit opportunities must naturally get eliminated. Let's* *understand things in those terms.* He had more of a sense that actions were caused by actors rather than that actions were caused by price mechanisms, which is the normal economic habit.

He was a careful and close reader of the *Economist* magazine. I remember when Dani Rodrick wrote his IIE [Institute for International Economics] book. The President had read it. He said he didn't understand all of the regressions, but he thought he got the general drift, and what did we think of it? There were three or four of us standing around. Fortunately I had read it. I don't remember who else was there, maybe Erskine Bowles. Bob probably didn't know it. He would do that across every field. I never felt that economics was a particular passion of his. He had a similar capacity for engagement with people who were in charge of almost every one of his departments. It was quite remarkable.

**Destler:** We talked last time about why we didn't lend money to Thailand at the beginning of the financial crisis. As the thing broadened in Asia—and I don't mean what we did to Korea or what we did in Indonesia, Pacific countries, but concerns about Japan, concerns about China—what were the worst-case scenarios the administration was going through at that time, and did you take action to reduce the chance of Chinese devaluation, whether you got the Japanese to do something or whether you think we wrote it out and everything turned up, with obviously the Fed taking—that's a fairly large question and may be unfair.

**Summers:** I think governments tend to respond rationally and shrewdly to events more and to work out elaborate contingent scenarios less than people watching governments outside tend to assume.

**Destler:** Fair enough.

**Summers:** We didn't have a lot of people working out nightmare scenarios of Asian catastrophes with macro-econometric models. If people had been inclined to do that, I don't think we would have regarded it as a good use of their time. We would rather they try to understand the more particular policy problems that we faced.

Pretty much from the beginning, I think we were focused on the Japanese aspect, focused on the sense that a Chinese devaluation would be a problem. We had a certain amount of contact over in Manila. We were in the annual meetings in Hong Kong, and then we were in Manila a month or two later, and then we were involved with Korea. Then I was in Asia in January visiting all of the countries. David Lipton was in Korea several times. Tim [Geithner] was in Malaysia for the ASEAN [Association of Southeast Asian Nations] plus meetings. So I think we were very actively involved in each of the places, pursuing those objectives. But there wasn't a lot of nightmare-scenario planning going on.

**Riley:** You've been good to give us the extra time. It was very illuminating, and I'll get you a copy of this.

**Summers:** Thank you so much.

[END OF INTERVIEW]