



GRANOFF
FORUM

2009

on International Development
and the Global Economy

CONTENTS

WELCOME

Rebecca Bushnell

Dean, School of Arts and Sciences
Thomas S. Gates, Jr. Professor | Professor of English

1

WELCOME:

Michael Granoff

Chief Executive Officer, Pomona Capital

2

INTRODUCTION:

Rebecca Bushnell

6

ADDRESS:

Lawrence H. Summers

Director of the National Economic Council
and Assistant to the President for Economic Policy

8

Q&A:

Lawrence H. Summers

20

WELCOME

REBECCA BUSHNELL

Dean, School of Arts and Sciences
Thomas S. Gates, Jr. Professor | Professor of English

Good afternoon, everyone, and welcome to the 2009 Granoff Forum on International Development and the Global Economy. I'm Rebecca Bushnell, and I'm Dean of the School of Arts and Sciences.

Drawing on Penn's strength in international relations, economics, and business, the Granoff Forum is designed to explore the globalization process and the ways in which it is transforming the world's economy. The forum's mission is to give our students an opportunity to learn directly from some of the most influential leaders and decision-makers of our day.

First I'd like to thank Michael Granoff, the SAS alumnus who established the forum in 2000. I'll invite him in a moment to offer his own words of welcome. Michael's

generosity has made possible not only this year's forum, but lectures by former President Bill Clinton, financier George Soros, and former World Bank President James Wolfensohn.

Michael graduated from the College in 1980 with a degree in biochemistry, and he holds a law degree from Georgetown University. He's the founder and Chief Executive Officer of Pomona Capital, a global private equity investment company. Michael's also deeply committed to public service. Prior to his business career, he served as a staff member in Congress and was a member of the 1992 presidential transition team. It gives me great pleasure to introduce Michael Granoff.

WELCOME

MICHAEL GRANOFF

Chief Executive Officer, Pomona Capital

Thank you, and welcome to all of you to this year's forum. I'm very grateful to my friend Larry Summers for taking time out of his incredibly hectic schedule to be with us today. I also wanted to thank Dean Bushnell, Jean-Marie Kneeleay, and everyone else at Penn who worked so hard to make this forum a success.

In 2000 we began with an idea. Economic issues were playing an ever more central role in global development. Business people didn't seem to know much about public policy. And public policymakers maybe did not know enough about business and economics. There seemed to be a great need for leadership, both in the short term and in the long term. I had been fortunate to spend some time in the private and public sectors and thought maybe I could help in some small way by bringing

people I knew and admired here to discuss those topics. Because, you see, Penn and institutions like it are the answer to the need for leadership over the long term. My hope has always been that Penn would become a leadership laboratory so that some of you in a few years will be in a position to help deal with issues that have not even yet arrived on the scene. A couple of years ago, after one of the forums, a student came up to me and said, "This is why I came to Penn." And it was the best return on investment I could imagine for a former Penn molecular biology major.

The world has changed a lot since we began in 2000. 9/11 changed the way we look at our own personal security, the security of our country. And we're still trying to figure out the elements of a successful post-

9/11 international security policy. The current debate about what to do in Afghanistan and Iran shows how hard it is, even eight years later. The great recession of the last year has tested our views on markets, systemic stability, and international contagion and also has raised questions for each of us about our own economic security. The common thread, I think, between these two events is that they connected each of us personally to bigger macro events. And that's why they're so real, so palpable, and, yes, even so frightening. But it's also why they can be managed.

These events have galvanized us to do things that we would not have done in calmer times. We can't control events, but we can have a lot to say about outcome. And that's where leadership comes into play. Challenging times demand our collective best. They demand real understanding and ability to execute. In many ways our recent presidential election was, in my mind, far less about ideology and more about competence, hard work, and engagement. 9/11 and the great recession provided a lesson to all of us that, whatever government does, it better do it well. Today we face an economic situation that's more complicated, more threatening, and more global than any of recent memory.

Almost a year ago we stared into an economic abyss. Governments around the world took unprecedented aggressive action. Fortunately, today things are beginning to look better. But serious questions remain. Have we weakened the architecture of the global economy as we moved to stem the crisis? Have we created a moral hazard issue that results in a "heads I win,

tails you lose” financial system? Has the government chosen winners and losers, undermining the market economy? Over the next few years we’ll need to match up our short-term actions with long-term policy in order to provide a more resilient foundation for the global economy and for each of us.

Just to give you a flavor for how important these issues have become, the President of the United States now gets a daily economic briefing in addition to his security briefing. And the person who does the briefing is today’s speaker. So Larry is in a position to both understand the nature of our economic situation as a prominent economist and, most importantly, to do something about it as the Chief Economic Advisor to President Obama. He and I go back a little ways. I first met him when I was working on the presidential transition team at the Treasury Department in 1992. Yes, we’re both that old. Larry was the incoming Undersecretary for International Affairs. And for our first meeting he invited me to brief him at his home one night. While the questioning was polite, it certainly wasn’t very easy. He



hadn't even started the job yet, and he understood the issues with much more depth than the person who was supposed to be briefing him.

So I went home to work and started Pomona, and Larry went on to become the Secretary of the Treasury and the President of Harvard University. I decided it was easier to be on the same side as Larry, and we both became involved with an economic policy initiative called the Hamilton Project, which incubated many of the ideas and policymakers of the current administration. One day I was with Bob Rubin, and we were discussing some kind of policy question. And Bob looked at me, and he said, "You know, I really don't understand this." The only way out was really that we should call Larry. Well, today we're all going to have that same opportunity. I'm always happier asking Larry questions than answering them.

I think that you'll find that the most important issues are also the most personal. And so for me this forum is dedicated to my parents, who set an example to live by, and to my wife and daughters, inspiration to work for a better world. Thank you all so much.

INTRODUCTION

REBECCA BUSHNELL

Thank you so much, Michael. We are delighted to have with us today Lawrence Summers, Director of the National Economic Council and Assistant to the President of the United States for Economic Policy. In this role, Dr. Summers is the lead economic advisor to President Obama and a key architect of the Obama administration's blueprint for economic recovery in the wake of the global economic downturn.

Dr. Summers brings to the White House role an extensive track record of service in senior academic and public policy positions. He is a highly distinguished economist who has written widely on economic analysis and policy and published more than 150 articles in professional economic journals. He is a member of the National Academy of Science and the 1993 recipient of

the John Bates Clark Medal, awarded to the outstanding American economist under the age of 40.

From 1999 to 2001 Dr. Summers served as the 71st United States Secretary of the Treasury, following his earlier service as Deputy and Undersecretary of the Treasury and as Chief Economist of the World Bank. He is on leave from his position as the Charles W. Eliot University Professor at Harvard, where he also served as President from 2001 to 2006. And President Obama appointed Dr. Summers to his current position in November of last year.

Economics is a field that is very much in Dr. Summers' DNA. Among the many eminent economists in his family tree are his parents, whom we like, of course,

to recognize as long-time members of the Penn faculty. His father, Robert Summers, is professor emeritus of economics in SAS. And his mother, Anita Summers, is professor emerita in the business and public policy department at Wharton. So, while Lawrence Summers may not be a Penn alumnus, he is in a different sense a son of this institution, which makes his presence today here all the more special. So please join me in welcoming Lawrence Summers.

ADDRESS

LAWRENCE H. SUMMERS

Director of the National Economic Council
and Assistant to the President for Economic Policy

Rebecca, thank you very much for those overly generous words. Michael, thank you very much for those overly generous words. I often, when people introduce me too generously, say I wish my parents had been here for that. My father would have appreciated it, and my mother would have believed it. And today I have a chance to put the proposition to a test. I'm delighted also to have my brothers and my nephew, Sam, a sophomore in SAS, who reports to me on a fairly regular basis, Rebecca, on just how good a job you and your faculty are doing. So I may not be an alum, but I still feel free to have opinions. I'm sure that's just what you want – no money and plenty of opinions.

I'm delighted to be speaking here in a series supported by my good friend, Michael Granoff. I think one of

the great strengths that the United States has is that there are so many people in our business sector who are so oriented to public issues, to promoting public understanding, and to pursuing objectives that go beyond the success of their own businesses. And Michael with his longstanding interest in development, with the passion he brings to issues around energy and research and development, is an example of such a person and seems to me in many ways to be a model for what all of us in higher education hope will turn out to be the careers that our students have. So I'm especially glad to have the chance to be here with him.

It's a sense of privilege I actually feel standing here in this auditorium. You might say coming from my family I was exposed to economics when I was four years old,

and I suppose that's true. But one of the first memories that I have of really thinking about economic policy came attending a set of lectures here that must have been in 1968 or 1969 – so I must have been about 14 – that were given by Arthur Okun, a close friend of my father's who had served as a principal economic advisor to Lyndon Johnson, in which he explained in very powerful ways how these ideas about budget deficits and monetary policy and the like could really be the difference between millions of people being employed and millions of people being unemployed.

That was a moment that I think back to when I think about the career choices that I've made. It really started here, literally in this auditorium. Penn may not have me as an alum, but it's contributed importantly to my education because that really was a formative experience.

A question that I think is always important to ask in thinking about public policy and thinking about leadership challenges is what will all this look like when history writes about it or considers it many years from now? I think a question to begin this reflection is when history writes about our quarter century, say from the 1990s through 2020, 300 years from now, what will it say? The first thing to remember is that it will actually say very little in ways that people will remember. How many people in this room could distinguish in a useful way the history of 1700 to 1725 from the history of 1675 to 1700?

So what will history say? What will the big stories be? What will the biggest story of all be? Some people would suggest that it will surely be a large story, that this was the era that saw the end of the Cold War, saw the fall of communism, saw the end of the 50- or 60-year struggle between the United States and its allies and the Soviet Union and its allies. And that will

surely be an important story. But I think if you think about it with a 250-year or 300-year view, the end of a 50-year struggle between two great countries is an important story, but may not be likely to be the most important story. Perhaps the story that history will record will go in some way to the relations between the Western world and the Islamic world, the events of 9/11, all that follows. That could happen.

But as important and as pressing as those events are, right now if you ask for a judgment in 300-year historical perspective, one wonders whether that will be the major story of our times. We surely can't know. But I would suggest to you that the likelihood is that the major story of our times will be the rise of developing countries and their rapid ascent to economic modernity during this period, and what it meant for the world order.

Think about it. There is a debate between historians about the level of standards of living in ancient Athens and the level of standards of living in Britain in 1800. Some people think they were the same. Other people think that growth increased by 75 percent over 2,300 years. Growth accelerated following the Industrial Revolution. Over the course of the Industrial Revolution, growth averaged a little bit faster than 1 percent a year. And so a person could reasonably expect that at the end of their then-40-year lifespan, a single human lifespan, you had seen progress of 50 percent. Growth accelerated as it spread more widely and spread to North America and the United States. And if you looked at the most rapid periods of American growth, they averaged a little bit more than 2 percent a year. And so it was possible that over a 50- or 60-year lifespan, one might see standards of living rise by a factor of three, or even a factor of four.

If one looks today, not at small and isolated examples like Singapore, which is today 50 percent richer than Britain, but at China, at India, at a number of

other large emerging markets, one sees the standard of living not rise at a rate of 75 percent over 2,300 years, not rise at a rate of 75 percent over a human lifespan, but rise at rates like that in periods of considerably less than one decade. Indeed, it's possible to imagine that within a single 70-year human lifespan, at 7 percent a year growth, people will see standards of living rise a hundredfold within a single human lifespan – and that for more people than live in the United States, Europe, and Japan, even if the growth does not spread beyond China.

That change, a hundredfold change in living standards – the difference between walking and a bicycle in one decade, a bicycle and a motorcycle in the next, a motorcycle and a car in the next – all this for billions of people will, I suggest, be the dominant story that history records from our time. It



has the potential to be a staggeringly positive story of human emancipation and betterment, of women whose feet are no longer bound, of children no longer with lives condemned to illiteracy, of the spreading of freedom

and the ability to participate in the world, of the end of hunger and other deprivations.

But history also suggests that periods of profound structural change are periods that come with great instability and come with risk – that revolutions, wars, traumas are rarely things that emerge spontaneously and all of a sudden out of static societies, but are much more commonly the result of dynamism that is not well contained. And so I would suggest to you that the prism through which history will judge all of us, that will judge our time, that will judge America's leaders, will not be just how rapidly the next recovery will be; will not even be just how forceful and effective we are in bringing about necessary structural changes in healthcare and education in our own economy; but will be on how the global system accommodates to these tectonic shifts which are underway.

What are the challenges, more concretely, and what are we trying to do about them? First, a globalized world requires a global approach to decision-making. Think about everything from the swine flu to global climate change, which I'll say more about, to the reality that China accumulated more reserves in the last three months than the World Bank has capacity to lend over the next eight years. Let me say that again. China accumulated more reserves in the last three months than the World Bank has the capacity to lend in the next eight years. If we are going to forge cooperative relations, if we are going to address global challenges, we need global fora.

That's why one of the most important things that's happened since President Obama took office was the shift from the G7 as the world's central forum to the G20. The G7 is an important group of countries – the United States, Canada, Britain, France, Germany, Italy, Japan. But it is a set of traditional stakeholders in the global system, a set of societies not

undergoing the kind of double-your-economy-in-a-decade transformation that's underway in large other parts of the world. And that's why President Obama worked so hard to build on the G20, instituted some years ago as a forum for finance ministers to get together to create a global body that could address global economic questions at a time when you're not seriously addressing them, if you're not addressing them globally. It's already taken important steps – the commitment of all the major countries to stimulate their economies, to avoid the errors of the last depression of protection, to allow for joint monitoring and surveillance of each other's economic policies so as to help to push cooperation, and to provide some \$500 billion in new support for the International Monetary Fund so that countries are in a position to avoid the kinds of failures of confidence that took place in Mexico and in Asia in the 1990s.

You know, if you think about it, one of the more remarkable features of the period of economic crisis that we have been through is the shoe that did not drop. Unlike in the 1980s, unlike in the 1990s, you didn't hear about any developing countries that faced default or bankruptcy or needed to be bailed out. That's substantially a reflection of the sound policies that those countries have pursued. But it is also, importantly, a reflection of the policy that was put in place through the IMF to enhance our capacity to support those countries. We have a long way to go. There are issues that loom very large as to what should an international financial institution be. How many seats should Europe have? How many seats should Asia have? Is the group of five countries on the Security Council that was the right group of five countries right after the Second World War the right group today? But we have made a very important start on the creation of a global architecture at this moment of tectonic change.

A second issue that we're facing and that will be critical in the months ahead is the issue of global climate change. I think it's important to be clear. The science has now progressed to the point where denying that mankind's activities through greenhouse gas emissions affect the climate is a claim equivalent to denying that tobacco is adverse for human health. There can no longer be serious doubt about the proposition. Nor can there be serious doubt that changes in the global climate on a significant scale carry with them very significant risks. No one can know fully what all the effects will be. After all, there are people who will find advantage that sea routes that were closed, and would otherwise be, will become open in cold, icy climates that will be less cold and less icy.

But the greater and clear preponderance of evidence I think points towards the risk. And we simply do not know about what the consequences will be of allowing this process of greenhouse gas emission and global climate change to unfold. We've seen in our economy in the last weeks and year how vicious cycles can cause a system that usually equilibrates itself normally to stop equilibrating itself normally and become massively unstable. You know, we saw it with people lost their jobs, and then they couldn't have their incomes, and then they didn't spend, and then other people lost their jobs, and so forth. And so you needed radical action to contain the situation. Well, you have all the same kinds of effects as ice melts and stops reflecting sunlight, and that means it gets warmer, and ice melts more, reflectivity goes down and so forth. Those are real risks.

We also saw something else this year. China became the world's largest emitter of greenhouse gases. If you look at the trend in greenhouse gases, the lion's share of the growth in emissions is coming from the developing

world. After all, when people who didn't have refrigerators get refrigerators, when people who didn't have TVs get TVs, when people who weren't wired up get wired up, when people who didn't ever travel in motorized vehicles travel in motorized vehicles, the use of fossil fuels goes way up. If the United States and Europe froze and cut their emissions of greenhouse gases tomorrow – tomorrow – there would be only a modest impact on



the path of the global climate, unless there was change in the pattern of global emissions from the countries where those emissions are growing most rapidly.

And so the test for us is going to be whether we are able to establish an international system in which there are major efforts by all countries to contain and constrain these emissions. That will not be easy. Think about how it looks from the developing world: "Excuse me, all the stuff that's there came from the traditionally industrialized countries. The traditional industrialized countries are still emitting five times as much per person

as we are. While we are a very big economy because we have a lot of people, our people are on average only a fifth or a tenth as rich as you are. And you're telling us to stop using energy?" You can understand the perspective. And yet, if we don't find cooperative solutions, we allow this to be remembered, not just as the historical period when global emissions increased, but also as the historical period when mankind for the first time could affect the terms of life on this planet, and did it for the worse. That's what's at stake in the process of global negotiation going forward.

Here, too, I think we're making some very important progress. There was an agreement reached in Pittsburgh at the second meeting of the G20 that got almost no attention – I'll bet not one in 10 people in this room knew about it – but I think is really historically important. The countries of the world all agreed on what in some sense has to be the first step, to eliminate subsidies to fossil fuels. After all, before you worry about penalizing them, the least you can do is stop subsidizing them. That's actually a big deal. Globally there are \$300 billion a year in fossil fuel subsidies. Those \$300 billion a year – and think about that: that's \$50 per person on the planet – that \$300 billion in subsidies per year accounts for nearly 12 percent of greenhouse gas emissions. And eliminating those subsidies, without doing anything else, gets you 25 percent of the way to the 2050 goal for reduced emissions. And that's good economics, even if there weren't any environmental problems. There are a lot of issues in enforcing that agreement. We're going to need to monitor. But it's a historic step.

It will also be a historic step if we can very substantially increase our commitment to an area that Michael Granoff has been very focused on over the years, which is energy research and development and the development of new renewable technologies. We simply do not have the carrying

capacity for everyone to live in the way that people in this room traditionally have. It is not tenable to say that, if you got there first, you have high standards of living, and if you got there late, you can never have those standards of living. Therefore there is no alternative, whether it's the development of electric car technology, fueled by renewables, whether the progress comes in other forms, to major global efforts at innovation in this sphere.

And here, too, the commitment has gone way up. We're going to double renewable energy in the United States. And of course ultimately we're going to have to raise the price because it's not enough to eliminate subsidies. If we really want to discourage this, the price is going to have to go up, and that of course goes to the whole environmental legislation that has made its way through the House and ultimately will come up in the Senate. It's a second large challenge if we're to meet this historic moment.

The third and maybe the deepest and most profound is what all of this will mean for working people everywhere. For some, it is the most fantastic thing that ever happened. For the great entrepreneurs, for the great thinkers, the world was always their oyster, and now it is a much larger, much richer oyster because of all of this progress. The capacity to sell, to apply technology everywhere is a boon to standards of living throughout the developing world with enormous benefits.

But the long-run economic question of our time will be this: What about the people who aren't Bill Gates, who aren't going to lever the Indian market or the Mexican market or the Chinese market, who aren't going to be powerful global entrepreneurs, who aren't going to travel in the wake of globalization to great prosperity in the way that I suspect a large fraction of the graduates

of this university will? People who aren't quite going to be that, but people who also desperately fear the prospect of competing with people who live in countries where wages are still a dollar or \$2 or \$5 or \$50 a day. Where are they going to find opportunity? And what is the relationship going to be between the leaders of our great companies and our broader citizenry, at a time when often innovation and business success take the form of elite design here and production there, and relatively limited job creation, especially for those who are less skilled, here.

It is, I would suggest to you, an irony of our time that our ability to promote global integration, our ability to take advantage of the tremendous economic opportunities that the big world presents, will depend on our ability to contain and constrain local disintegration. It will depend on our ability to make sure that basic protections people count on – healthcare, opportunity for their kids – are available for all our citizens. It will depend on developing an economic strategy that starts from strength and creates opportunities for us to export. You know it can happen. One of the more remarkable statistics of the last few months was the report that, for the first time in a half century, the United States is now a net exporter of steel. Not because we protected the steel mills of the traditional image, but because we found new ways, guided by information technology, to make steel much more efficiently than we had in the past.

And so the third and final challenge that I want to stress is the economic challenge of managing this transition, of assuring that the developing world has a larger impact for us as a new market than as a new competitor. It can be done, but it can't be done without a public commitment to protecting and assuring basic opportunities for all Americans. And that's why these

issues – healthcare, education – are so important. Speaking to a university audience, I'll stress just this one. If you look at the history of American economic growth over the last century, economists and scholars disagree, but education's an important part of the story. And yet if you look at this cohort of Americans, the cohort that my children are part of, it will not be in the top 10 in the fraction of students who graduate from college. That surely cannot be the right way to prepare ourselves for this new world.

So I would conclude where I started, that the single story of our time will be this transformation in the developing world, if it continues. That it has the prospect to literally be the best thing that ever happened for humanity. But that is not something we can take for granted. It is something that comes with real risks, the environmental and economic challenge I posed, the various security challenges that I could have talked about. And that's why the choices we make and the understandings we have of this new global system, the values that forums like this one are designed to promote, are really so profoundly important to the future of our country.

Thank you very much.

Q&A

LAWRENCE H. SUMMERS

QUESTION: Dr. Summers, thank you for speaking to us today. I would like to ask a question about the stimulus package. I think a lot of Americans are a little bit frustrated that there weren't more tax cuts in the stimulus package. I know that you were one of the top people in the administration trying to get as many tax cuts as possible. My question to you is, why couldn't the Congress make it happen so that we could get more tax cuts for the American people? Because I believe that it came out that we could have cut the income tax for an entire year at the final price tag. Thank you.

LAWRENCE SUMMERS: The question was, why not more tax cuts in the President's recovery program. Because of two judgments. The first was a judgment that, in terms of actually propelling the economy forward and generating more demand, measures on

the spending side were likely in many cases to be more effective. Think, for example, of the funds that avoided the layoff of 250,000 teachers, or the commitment to weatherize most federal buildings at a time when that's an investment that's got a return that pays the money back in five years. So part of it was the effectiveness of measures that were available on the spending side. And another part was a judgment on what we as a country could afford at a moment when we have very, very substantial budget deficits and where it is important for the medium and longer term to start the process of bringing down those budget deficits. We did provide significant tax relief to middle-class families. But the President's judgment, and I think experience has borne this out, was that the most potent stimulus would come in other forms.

QUESTION: This is more of an international development question, not domestic. I'm wondering why one third of foreign aid is going to a country as small as Israel, that uses a lot of its military purposes for things like a massacre in Gaza ... instead of all this money going for international development and for countries in Latin America and in Africa that need this money for humanitarian and development purposes. Thank you.

LAWRENCE SUMMERS: I'll tell you what. I think I'm just going to make clear that I would not accept the tone of your question as regards political issues in the Middle East, but not argue the case. What I would say is that there is a balance in foreign assistance policy of the United States and in other countries.

One way of thinking about foreign assistance policy is that it's a hundred percent about having maximum humanitarian benefit. And that is obviously a crucial purpose of foreign assistance. Another way of thinking about foreign assistance policy is that it's directed at advancing a country's strategic objectives and a country's broad security objectives.

Let's take an issue that's perhaps less freighted than the one you raised. You know, if you think about it, after the Second World War, the United States made massive transfers through the Marshall Plan to rebuild Western Europe. At the time it did that, terrible though the devastation of World War II was, people in Europe were much richer than people in Africa or people in much of Asia. Did that mean that the Marshall Plan was an error? Did that mean that the Marshall Plan resources should have been allocated elsewhere? I rather doubt it. I think the Marshall Plan was an investment of a different sort, not just in achieving a humanitarian purpose, but in cementing and promoting peace.

Now, you can reasonably argue about a whole range of U.S. foreign assistance policies and whether they are the right objective in security terms, and that's a separate argument. But I do think it's important to understand that a significant part of every country's foreign assistance budget is directed at promoting its broad strategic interests in stability and peace in the world, rather than in calculating what will generate the maximum humanitarian benefit. Often that goes wrong. We supported all sorts of bad guys in the name of they weren't communists, in ways that were probably a mistake. So those judgments need to be looked at and scrutinized and carefully disciplined. But I think a sophisticated approach to thinking about foreign assistance requires recognizing that there's a very important strategic component in the decision-making, as well.



QUESTION: It seems like the definitions that you're using for progress and growth and development are based on tangible goods and Western values-based services. Is it possible to have growth and development in a country that is culturally contextual and based on intangible ideas like health and community?

LAWRENCE SUMMERS: Yes.

QUESTION: So how do we go about that?

LAWRENCE SUMMERS: Yes, yes, of course. And clearly, you know, the GDP of a country doesn't measure the health of its people or the joy in its families or the fulfillment of its marriages or the quality of its air or a large fraction of what people may find most important about it. So I would accept where you are to a point. But I would also say to you that what a very large fraction of the world's people want is to live better, is to be able to buy more things, to be able to have the kind of contact with the world that a television screen brings. I think that we need to be very, very attentive to what people's own preferences are in the values that we create, but I also observe some tendency of people who have never suffered the tedium and backbreaking character of rural life in a desperately impoverished country to somewhat romanticize village life and its traditions.

And so where people don't want economic growth, they shouldn't have it. Where we think about development, we should not be mechanistic about thinking only in terms of GDP. We do need to think about a broader range of things and what it means for everyone. But I detect – and it's something I detect a little more in universities than in other places – some tendency, sometimes (not usually in the economics department, by the way), to celebrate the lack of the material in a way, but that a lot of people who lack the material would actually rather like more material goods and services. And I think we have to be very careful about imposing that value in our policies.

QUESTION: What improvements in the standard of living which you spoke about earlier, bringing up Singapore as a place with good standards of living,

have anything to do with the infrastructure? And if so, why isn't more money spent on infrastructure when it's deteriorating faster than it's being repaired?

LAWRENCE SUMMERS: You know, a country's roads, a country's power plants, a country's telephone systems, the quality of a country's physical facilities in its universities and schools, these all have a lot to do with what the country's capacity is for developing. An area in which we're importantly behind in the United States is infrastructure. Go to Kennedy Airport, and go to some foreign destination that you can get to from Kennedy Airport, and ask yourself why Kennedy Airport should be the way it is, and the other airport you flew to should be the way it is, given that we're the world's richest and most powerful country. And, that's a metaphor for something very powerful. But it's very hard because I think people often frame these questions as more infrastructure or less infrastructure.

Let me give you some other words: earmark, congressional pork. Those are kind of negative words. But they're infrastructure, too. And so the challenge for us as a country – and it's something we're trying to do in the administration, it's something we tried hard to do in the stimulus bill, but it isn't easy – is both to have more infrastructure where we need more infrastructure, and to invest much more wisely. But there are strong political pressures towards roads between places that people don't go between that often, and away from some of the highest priority projects.

But I think when people look at the story of American economic growth over the next two or three decades, infrastructure is going to be a very important issue. When people look at security – look, there's exaggeration in what I'm about to say, but not total exaggeration – the stability of significant parts of the world depends on what happens in Pakistan. Stability in Pakistan



depends importantly on what happens to its economy. What happens to its economy depends crucially on whether there's electric power to support growth. And whether there's electric power to support growth depends crucially on infrastructure policies and investment. So I take very much the spirit of your question, that while infrastructure is not a word that gets many people's hearts palpitating, it actually stands for hugely important issues.

QUESTION: How do you believe the massive government deficit will affect our economy in the medium term?

QUESTION: Many Americans are concerned about the effectiveness of the stimulus package and the ability of the government to implement it. What do you see as the most effective part of the stimulus package? And how do you see Obama's healthcare reforms as something that would improve the economy?

LAWRENCE SUMMERS: With respect to the deficit, it depends on what we do about it. Right now, deficit's the right thing to do. If we didn't have it, we wouldn't have enough demand in our economy, and the vicious cycle of people losing jobs and then losing income and then not spending and then losing jobs would just get worse. The deficit is really government borrowing replacing private borrowing that's not happening because of the economic and financial crisis. So it's the right thing to do and the right thing to have. What its impact will be will depend on whether we as a country have the wisdom to bring that deficit down as our economy recovers. That's one of the reasons why healthcare reform is so important, because that's far and away the most rapidly growing part of the federal budget.

Another reason why it's so important is that it goes so critically to living standards for our people at a time when rising benefit costs mean that firms

can't compete and give their workers raises in the way they once could. And ultimately healthcare is a moral question. Should it really be the case that life expectancy is higher in Bangladesh than in Harlem? Should it really be the case that the chance of living to the age of five is greater in Shanghai than in New York City? We can do better. And that's part of what healthcare is about, as well.

I can't tell you what the most important part of the recovery program is. History will be the judge. I think we're doing a lot of very important things. We talked about healthcare. Right now in the United States the average doctor's office uses less information technology than the average 7-Eleven. And medical errors associated with lack of medical records, clear medical records, are thought to account for 50,000 deaths a year. We're taking advantage of this moment when there are unemployed resources to fix that. I think there are a lot of kids whose lives are going to be different because of those 250,000 teachers who would have been laid off without the recovery program. Who knows what the largest growth in energy R&D in the country's history will produce down the road. There's a prospect that it'll be something that'll be very important in how the world avoided global climate change.

Will there be things in the stimulus that won't work? Yeah, there will be. Will there be mistakes made? Yeah, there will be. In fact, I'd even say that if we don't do anything that doesn't work as well as we hoped, we probably weren't ambitious enough in trying to meet the challenges of this moment.

It's been a real pleasure to be with all of you. Thank you very much.