Conversations with Bill Kristol

Guest: Lawrence Summers, Professor and President Emeritus, Harvard University
Secretary of Treasury in the Clinton Administration
Director of the White House National Economic Council in the Obama Administration

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I: The 1994 Mexican Peso Crisis (00:15 – 25:26)

KRISTOL: Hi I'm Bill Kristol. Welcome to CONVERSATIONS. I'm very happy to be joined today by Larry Summers, Professor at Harvard, former Harvard President, Treasury Secretary, White House advisor to President Obama, a top economic advisor.

I want to begin with a crisis I remember you handling – I'd met you a little bit before that but I remember suddenly you had a prominence that maybe at the time you were not so eager to have. Suddenly, you were thrust into the middle of this major economic crisis at the end of 1994, the Mexico Peso Crisis.

I didn't much now much about it honestly, and I was, I guess, launching the magazine, *The Weekly Standard*, and talking to someone who had served in the Reagan or in the Bush Administrations in economic policy – this is after you guys resolved it – saying, they really did a good job, it's something they won't get much credit for because it's very complicated, and once it's solved everyone forgets how dangerous it was before it got solved.

And there was political sales job involved with it, obviously, with the Republican Congress, as I recall. Were you then already Deputy Secretary or where you still Under Secretary?

SUMMERS: I was actually the Under Secretary for the International – I was the point –

KRISTOL: How does that work? Tell people about that.

SUMMERS I was sort of on point on that one. And I was extra on point, as it turned out, because Secretary Bentsen left at the end of December. Towards the end of December of 1994. The Mexicans found themselves forced to de-value their currency and heading towards a kind of economic apocalypse, the Department had no permanent Secretary for several weeks after Secretary Bentsen left, before Secretary Rubin was confirmed.

So there was a stretch when I had the misfortune to be a bit home alone with the problem.

KRISTOL: The Republicans had won Congress; it wasn't clear they were going to support –

SUMMERS: The Republicans had won Congress, and they were not, in every respect, rooting for success. I worked through that Christmas holiday very, very closely with Chairman Greenspan, diagnosing the problem and understanding it.

The first part of it was understanding what was going on. You know, Mexico had been substantially less than transparent with the markets. And had only been a little more transparent with us, despite NAFTA. So it was not entirely clear what – it was clear that bad things were happening but just what the financial forces involved were was not clear. We came to the judgment, and it was an analytical economic judgment, that Mexico was experiencing something that had very much the character of a bank run on a country.

As you know, Bill, even the healthiest bank will become unhealthy if everybody tries to take their money out all at once. And because Mexico had said it would never, never de-value and then been forced to de-valued, and because Mexico had done a number of other things that were living on the edge, it found itself with this profound confidence crisis. And Mexico was at that time – at that time, you have to think back, the whole idea of an emerging market, vocabulary was just shifting from developing country to emerging market, and the poster child for a successful emerging market was Mexico.

And so, if Mexico collapsed, that wasn't just going to be about Mexico. People were going to think that if the best emerging market was really a submerging market, then they couldn't really trust any of the rest of the emerging markets, and this wasn't long after – it seems like a long time ago now – this was only 10 years after the whole wave of Latin American defaults in the 1980s. So it seemed a perilous moment.

And so it was a perilous moment, and there was this bank-run phenomenon going on with respect to Mexico. And the question was what to do? And the world has a sort of known answer to bank runs, which is the provision of liquidity on a large scale. If there's a bank – if there's a bank run at Summers Bank, and really Summers Bank is okay, and it's just a confidence crisis, then if the Federal Reserve takes the assets of Summers Bank and loans against that collateral, then everybody can relax and they can stop running.

And so my colleagues and I made the diagnosis that this was a bank-run type phenomenon. We made the diagnosis that it was really, importantly, a problem a confidence. It wasn't that Mexico couldn't over time service all of its debts, but it couldn't service all its debts in three weeks, as they were coming due.

So the recommendation was that what Mexico needed was a very large amount of liquidity. Unfortunately, the amount of liquidity that Mexico needed was far beyond the then-present capacity of the IMF. And so really the only alternative was that that liquidity come in some way from the United States. That was the conclusion that I came to, and that in discussion with Chairman Greenspan that we came to, and as Secretary Rubin moved to becoming Secretary, when we discussed it extensively with him, that was the conclusion that he came to.

And, you know, we hoped that as Mexico tried to settle its affairs and explain its situation the confidence would return, but as with a bank run once things are past a certain point it doesn't really matter what the bank does. People aren't really thinking about the bank they're thinking about the other people who are trying to get their money out, and that was the situation in Mexico. And so, in early January, actually the night that Secretary Rubin was sworn in, a group of us were in the White House, called into the Oval Office, and discussed this, presented this, to President Clinton.

Secretary Rubin set the stage for it briefly. Then, as was his way, he turned to someone else, namely me, to explain the situation in more detail and our proposal. And I said that I felt that $25 billion was required, and one of the President's political advisors said, "Larry, you mean $25 *million*." And I said, "No, I mean $25 *billion*."

KRISTOL: This is right after his midterm defeat –

SUMMERS: There was a certain pall over the room, and one of his other political advisors said, "Mr. President, if you send that money to Mexico and it doesn't come back before 1996, you won't be coming back after 1996."

And the President – I mean, he like any President, like any of us, he's a person with strengths and weaknesses, but on that occasion, I thought his response was quite remarkable. He let the conversation go on for a little while and then he said, "Alan (Greenspan), Bob, Larry, I really just have two questions. Do you think there's a substantial risk that if we don't do this there will be really grave consequences, if Mexico fails, that will have serious consequences for the United States and for other countries?" And we said, "No certainties, but yes."

Then he said, "There's nothing like a guarantee I realize that and there are no certainties, but do you think there is a reasonable chance that if we act we can prevent that?" We said, "Yes, we think – we don't know just what that chance is, but yes, there is a substantial chance that if we act quickly we could avert the bank run." And then he said, "Well, then there's no choice, no question what the right thing is. It may have political consequences, but that's what we're here for. We're here to make on really important questions the best decisions we can, and this isn't chicken shit." And he named some other issues that he thought were chicken shit. "This is really important, and there's no question what we need to do. I'm going to call the Congressional leadership tonight and ask them to come to the White House, and I'm going to ask them to join me in supporting legislation that would give authorization for us to guarantee loans on a large scale to Mexico."

I stayed with him that night, and he placed the calls. I would say he got willing but substantially less than enthusiastic reactions from the Congressional leadership. I only heard his side of the conversations, but you could see that these were experienced political figures who were calculating. "On the one hand, I can't not go along with what the President of the United States says is an important matter of national security; on the other hand, this is a substantial and risky step, and if it fails, let it not be on me." And so they had modulated responses that reflecting their situation, they attempted to do. There was a meeting in the White House the next day, and then there was an announcement coming out of the White House.

What then happened was a quite disturbing stretch. It appeared immediately that if the President of the United States was for this and Congressional leaders were more or less for it, then the Congress would legislate it. But as happens people had all sorts of ideas. Your friends, Bill, in the Republican Party didn't understand why if we were going to lend $25 billion to bail out Mexico in its period of need, Mexico needed to continue to support Castro and wanted to impose conditions about Mexico's involvement with Cuba. There were people on my side who had been dissatisfied for a long time with certain practices Mexico had towards unions and they thought this was a good time to change those rules.

The Mexicans were desperate for this support, but they also had their pride as a country and the idea that they were a democracy, and they didn't see how this support could become the occasion for the United States to redesign fundamental policies of their country. And so what ensued was a roughly two-week period of negotiation between the Mexicans, us, the Democrats in Congress, the Republicans in Congress, with the market watching and evaluating the likely outcome every day. And the markets' evaluation of the likely outcome was deteriorating almost every day.

And after two weeks or so, it became relatively clear that it was unlikely that this legislation would pass. And so the question was, and the markets again were at a point of panic with respect to Mexico – Frankly, I wouldn't have known before it started to collapse what the name of the currency of Thailand was, but I learned in those two weeks it was the Thai Baht and that it was very vulnerable to what was happening in Mexico.

And then the suggestion was made, and it was one we had thought about but rejected, but by Congressman Bennett – Senator Bennett from Utah, a Republican and really in my view a great public servant, he said, "Look, Congress isn't going to get there. You all have the authority through something called the President's Exchange Stabilization Fund." The Exchange Stabilization Fund was designed for when the dollar was fluctuating too much against the Yen to intervene to keep the dollar stable.

It was not designed for bailouts of developing countries, but its language in a legal sense basically did give the authority quite broadly to the Treasury or the Secretary with – if it was a large loan, and it was in this case – the President's approval. And so the question arose and we debated it, whether this was some kind of usurpation of Congressional authority or whether in some sense Congress was encouraging us to do it because it wanted this to be done, but it wanted this to be done without it being its responsibility.

Ultimately, President Clinton and Secretary Rubin decided to use the Exchange Stabilization Fund, and so the Exchange Stabilization Fund was announced as the vehicle. At that point, there were a lot of people saying, "This is on the President's hook," and all of that. It was then our task to negotiate an actual agreement. Because we weren't going to give this money to Mexico without conditions.

There was going to be what's known as traunching; stages of the money. And, of course, there was a very difficult balance because from the point of view of the markets and the market's confidence, you wanted there to be as much money as quickly and as firmly and as clearly as possible. From the point of view of motivating the Mexicans to stop making policy mistakes and to pursue sound policies, you wanted the sense that the money was going to be delayed and was going to be contingent and you couldn't give one message to the Mexicans and a different message to the market since they were both paying attention to everything we said.

We wrestled with that balance, and over several weeks, I was on the phone with Mexican Finance Minister four or five times a day, and one point when the negotiation looked very difficult, a couple of colleagues and I took an Air Force plane to Mexico City, arriving at six in the morning and in secret went to spend several hours with President Zedillo because it was important to us to see whether Mexico as a whole was completely behind this program and to evaluate the situation.

KRISTOL: I remember this –

SUMMERS: But if there had been a sense that senior officials of the United States were coming to Mexico to negotiate this. that would have been very problematic politically in Mexico so it was more cloak-and-dagger, hush-hush than anything I had previously been part of.

We completed an agreement, Bill, and there was a rather odd ceremony because this wasn't exactly a happy event, but it was a historically significant event. And Secretary Rubin and a Mexican Finance Minister were on a podium together in the Treasury Department when we announced the completion of this loan agreement.

We're now mid-late February. And the market, the Peso fell six percent the day we announced this agreement and was at a very low, was at a very, very low level. And it didn't look like what we had done was going to be sufficient to restore confidence.

That night I went, after everybody had gone home, 7:00 or so, 7:30, 8:00, I went into Secretary Rubin's office and I said, "Bob, this doesn't look like this is working, and somebody should have to take responsibility, and this had been my idea and I don't think it was an unreasonable or stupid idea, but it is an idea that appears to have failed, and so perhaps I should resign." And, I'm perfectly prepared to resign. I recognized that there are larger interests here. And he responded by saying that it was an admirable sentiment that I had expressed in his view, but that many of us had been involved, including him, had been involved in taking the decision and that there was no desire to leave me holding the bag with respect to this decision. And that more fundamentally, things took time to play out, and you didn't know what the consequences was going to be over time. And that I would be much more useful to the team if I wasn't exhausted and a little bit overwrought, and that I should go home and get a good night's sleep and come back, and we'd see how things played out.

Several weeks later, for some variety of reasons, some having to do with the markets, some having to do with Mexico, matters turned. And the market turned and ultimately five, six months later, Mexico actually paid back a portion of the loan early at a profit to the United States.

The White House political operation did not allow that event to go unnoticed, to put it mildly. And it was regarded as an important success for the Administration because a major problem had been forestalled because the President had acted with great political courage. The loan he approved without Congressional support was supported by about nine percent of the American people, with about 80 percent in opposition. But ultimately, something very important happened, and it had an important effect that, I think, is carried forward to this day on US-Mexican relations.

From my point of view, it was sort of an experience in making decisions and contributing to the decision-making processes under great stress. I remember saying to a friend at the time it feels like my human capital is now denominated almost entirely in Pesos. And that may not be a good currency to have one's human capital denominated in.

But, that – every story is different, at one level, in its particulars. But the elements that you had to understand the underlying substance of the policy. That you had to understand the various cross cutting political forces. That at some point you had to make a decision, and you had to stick with the decision. That you had to advocate the decision in as persuasive a way as you could. And that you had to hope that things broke your way. Those elements, I think, are fairly common to the experience of trying to get involved in public policy in senior positions in Washington.

KRISTOL: Sometimes, they even have a happy ending.

SUMMERS: Sometimes, they do. Not always, but sometimes, they do.

Chapter II: An Economist in Government (25:26 – 47:14)

KRISTOL: With such a great resume, I have to ask you which was your favorite job? Or at least your favorite public-sector job?

SUMMERS I've loved every one of them, and I've been very glad to have all the variety that I've had because you come to learn different things and see the world in different ways from having different jobs.

But probably the thing that was most satisfying was the time I had as Secretary of the Treasury because I really felt that I had the privilege of leading a remarkable group of people and I had the ability to put into effect what I'd spent most of my life to that point studying, which was various aspects of economics and how economics can be used to make the world better.

So whether that was working on African debt relief or the future of the World Bank. Or how the United States could handle a budget surplus, which we did have while I was Treasury Secretary. Or ways in which the tax code could be made more efficient. Or ways in which the Customs could do a better job of facilitating a trade. There were so many important questions where you could use or, at least, I felt you could use the things I knew and the kind of capacities I had developed studying economics to make the world better that I found that probably the most satisfying of the various times that I was in government.

KRISTOL: Let's go backwards. I myself worked in Washington for quite a while, I was in government, and I'm not sure I know everything the Treasury Secretary does. I think people would be fascinated to know what does it mean? How are you Secretary of the Treasury? What do you do? What does it mean?

But let's go backwards for a minute since you mentioned having been an economist. So you were an academic, a distinguished academic economist. You'd worked in Washington some as a young economist, as I recall. In the White House, I think?

SUMMERS: I studied – I went to MIT thinking I was going to be a mathematician or a physicist because I'd been pretty good at math and physics in my high school, and then I saw what some real mathematicians and physicists were like at MIT, and so I just decided that was probably not the direction for me. I also wanted to do something that contributed to making the world a better place in a more direct way.

I was drawn to public policy, and the combination of being interested in public policy and being interested in scientific and analytical methods is what drew me to economics, and I've also got a lot of economists in my family so that may have contributed as well. I worked one summer for Martin Feldstein, and I saw that you really could figure out the answers to important policy questions by using statistical techniques, and that the results of studies could really move the world.

And so I decided to become an academic economist. I studied economics at MIT, and then I did my graduate work at Harvard. Taught at MIT and then came back to Harvard as a professor. But always thinking that at some point I was going to want in some way to use what I knew as an economist. As luck would have it, when I was a graduate student, I had worked with a young undergraduate who was a great guy, but probably not one of Harvard's greatest students. I had been there at three in the morning before an economics exam or two because it seemed like the right thing to do for him.

He ended up being Michael Dukakis' deputy campaign manager. And not being the most fantastic economics student there ever was he didn't know that many economists but he knew who got him through his final exams. By this point, I was pretty young, I was in my early 30s, but I had been lucky enough to become a professor, and he drew me into the campaign as an advisor, and the whole thing was a new world for me.

KRISTOL: Had you done any political campaign stuff before?

SUMMERS: I'd done nothing. I'd worked a little bit with Marty Feldstein when he had been in Washington, but doing technical economics. I thought, for example, that well, what was a campaign? A campaign was something where you figured out your policy positions, and you announced your policy positions.

So I remember being shocked to discover that the campaign had 10 or 11 departments and only one of the departments was policy, and policy was not one of the more important departments in the campaign, and that came as a complete shock to me. But I decided that when in Rome do as the Romans do and that I would probably be more useful if I listened to the political people about what kinds of needs they had from the perspective of their imperative, which was causing Governor Dukakis to be nominated or causing Governor Dukakis to be elected, and tried to be responsive with such expertise as I had to their needs.

That was a different approach than some of my fellow economists who were perhaps a bit more oriented to telling the political people what they *should* think. You know, I don't think I had quite imagined – I remember one day that President Bush had – Vice President Bush who was the candidate – you were probably working for him in some way at the time, Bill. He was doing something or other about the American flag and how Governor Dukakis had the wrong attitude towards the American flag, and the political geniuses in Governor Dukakis' campaign wished to point out that most of the flags being sold in the United States were in fact produced outside of the United States. And so they were looking for data on the importation of flags. This was not quite what my image of being an economic advisor to a campaign was, but several students and I endeavored to find data on flag production, and it told you something about what the process was like.

The campaign did, the campaign did not succeed, but I learned a great deal and I met many people who I subsequently worked very closely with – Lloyd Bentsen who was the Vice Presidential candidate who I worked with in the Treasury Department. Bob Rubin who was involved in that campaign, George Stephanopoulos who was involved in that campaign, and many other – many other people.

When the campaign ended –

KRISTOL: I myself accidentally sort of, like you, got involved in a couple of campaign. I really learned a lot. I always encourage young people, especially more academic ones. You learn a ton doing it.

SUMMERS: I tell people they will see something that is not like what they imagined it will be. That they will find it both very exciting and very, very frustrating. And they will get a sense of whether this sphere in all of its importance, all of its democratic grandeur and all of its chaos and messiness is attractive or appealing to them.

But I tell people to go to work on campaigns, but I tell them the story about doing research on flag imports when I was a professor at Harvard to make the point that they need to not go with too ennobled a sense of self because the entry-level jobs in campaigns are not defined by being either hyper-intellectual or extraordinarily glamorous.

KRISTOL: I felt I was much better in government after I'd run a campaign than I – I was in government first, and I didn't really know electoral politics much, and then I did a little campaign, which lost, and I came back in as the Vice President's Chief of Staff under the first Bush White House, and I really felt I had a better understanding of the people I was working with and really the actual imperatives of governing. It's not just something – a campaign is not just something you have to – a hurdle you have to get over, I mean you have to keep consent and support while you govern, right?

SUMMERS Political leadership in a democracy is about leading people in a way that they approve of. The idea that you should be doing the things that people want and you should be explaining what you do to people in a way that leads them to approve of it. That's like a central part of the system, and campaigns are that in a particularly crystalized form. So I found that I learned a great deal in that process.

KRISTOL: I don't remember, were you involved in the Clinton '92 campaign?

SUMMERS: I returned to – or I never left Harvard, but I was at Harvard throughout the campaign, and I stayed at Harvard.

A couple of years later, I was lucky enough that Barbara Conable, who had been a distinguished moderate Republican Congressman – the kind of Congressman we don't really have anymore, in many ways Republican, very supportive of business, but very much establishment-oriented and very oriented to making deals rather than making points – had been named by President Bush as the President of the World Bank.

And the position of Chief Economist of the World Bank became open, and he offered that position to me. I was in some ways, I was suppose, an unlikely choice. There were Republicans who didn't quite understand why a Democrat's presidential campaign economic advisor was being given a position in an international institution, and the World Bank's primary concern is, of course, the – to help developing countries develop. And my primary work had been on American economic policy issues.

But Barbara Conable decided that I was the right person, and I thought that it was an extraordinary opportunity to make a contribution to the developing economic, developing countries economics, to learn a whole set of things that I didn't – certainly didn't know. And to have a kind of experience that I had never had before and that I wasn't sure that I would ever have had in my career, which was being a leader and a manager. As the Chief Economist of the World Bank, I was the Vice President. I was the Vice President of the World Bank in the training and research areas of the World Bank; there were three or four hundred people that worked there, and I was at one level a temporary visitor from academia, but at another level I was their boss.

And so I had the experience of management and leadership, which wasn't a type of experience that I thought, in many ways, I ever would have in my career. I imagined that I would study economics, and at perhaps at some point, I would be called on to provide economic advice, but I didn't really envision having leadership experience, and having that kind of experience, in many ways, changed my – changed my life and changed the set of options that were open to me and changed my views and values about what I wanted to do.

So went from – I served at the World Bank. We – I found myself, from time to time, as has been the case ever since, getting involved in some controversies, but we did a couple of things that, I think, were very important. Working with Sheryl Sandberg, who now, of course, has gone onto great things at Facebook, but then had just graduated from Harvard College. I published a study making the case that universalizing education, primary and secondary education for girls, was the highest return investment available in the developing world.

I went to Pakistan to present that study, and I'll never forget someone, the reaction to it when I presented it. On the one hand, there was a woman who asked some question, but began by explaining with tears in her eyes, that finally there was someone from the World Bank saying something relevant rather than talking about liberalizing banks. On the other hand, there was a guy who said, literally, "This was the kind of thinking that explained why there were so many latchkey children and juvenile delinquency in the United States." And, that this was, in my method of doing quantitative analysis, was the kind of reason why so many people had died in Vietnam.

It was a sort of learning experience that social science can arise – can arouse passions. We also, while I was there – because I went back to what in some sense had drawn me to economics in the first place, which was this idea of quantitative analysis as a way of making the world better – we did a report that advocated various kinds of cost-benefit analyses and rigorous analyses in the area of global health and made the case that if you really followed analytic precepts, there was tremendous low-hanging fruit in terms of the ability to influence public policy down the road.

The Bank prints 120,000 copies of those reports, and so they're fairly widely read, but I think in the case of that report there was one reader who was probably more important than the other 120,000. That was Bill Gates who credits that report for having drawn him toward the interest he's had in global health.

KRISTOL: That's great.

SUMMERS: To take up the thread of your question, Bill. So I'm in Washington, and there's a presidential campaign going on, and it's very exciting. As an international civil servant, I'm not taking any active role in a US political campaign. On the other hand, I have a fair number of friends, most of whom I met during the Dukakis campaign, who are very involved in the Clinton campaign, so I'm involved a bit behind the scenes. And when President Clinton won, then-incoming Treasury Secretary Bentsen asked me to serve as his Under Secretary for International Affairs, which is the point person in the Treasury Department for all international economic questions.

At that time, Japan was, what was seen as the rising Japanese state and its threat to the United States was a major international economic issue. The question of in what way the United States was or was not was going to mobilize substantial support for President Yeltsin was a large issue. The whole question of emerging markets was just getting started.

KRISTOL: And NAFTA –

SUMMERS: NAFTA became a very big issue. The trade, the Uruguay round was a big issue. And it was a whole set of revelations for me to be in – to be in the Treasury Department, to be in the middle of this bureaucracy. The way I have said it to the people is, "As a professor, the worst thing you could do was the sign your name to something you had not written yourself." On the other hand, as the Under Secretary, it was a measure of effectiveness to do so as frequently as possible. You weren't doing your job right if you weren't doing it on an entirely routine basis.

I remember being terrified because I was going to go off and negotiate with other countries about the reduction in Poland's debt. And I was going to represent the United States of America and how much was the United States going to reduce its debt, and how much they were going to reduce their debt, and what was the position that I was going to take in the negotiation?

I remember realizing at some stage that within some broad parameters that had obviously been set by the Secretary, had been set but the President, I wasn't really supposed to ask anybody, I was supposed to decide. I was supposed to decide was this a sufficient deal, was this not a sufficient deal? My job was to negotiate a deal and then come back and tell the Secretary what it was. Not come back and ask him about it, to come back and tell him what it was. And I remember for somebody who spent his life writing articles and directing research and doing analysis, having that experience of being supposed to be the decision-maker and having that responsibility was, at first, terrifying. Then daunting. Over time, it actually came to be quite satisfying to feel that I was being entrusted with that kind of responsibility.

Chapter III: Lessons from Government Service (47:14 – 55:05)

KRISTOL: Any special tips you would have for people? I was at a much lower level position of having been a professor and suddenly being in government and having to do things and take responsibility for things. Any advice anyone gave you that was particularly useful? Any book you read that you would tell some 35-year-old Harvard or anywhere else professor who's now going into the next administration to think about? Or just your own advice?

SUMMERS I'd say some lessons I learned, Bill, are people – you should maintain a very strong presumption that people are acting reasonably by their lights. And that if it seems to you that somebody's taking a position that's completely stupid or unreasonably, it's probably not because you're smart and they're stupid and you should just explain it to them.

It's probably because given where they sit, given where they sit as part of the government of Japan or given where they sit as part of the Department of Commerce, or given as where they sit as part of General Electric, or given where they sit as a person with responsibility for getting reelected in six months, and that you will achieve your objectives much more effectively if you try to understand why other people are taking a position different than yours. Rather than just simply tell then they should take your position and take more arguments.

That was probably the most important lesson that was uncongenial to me. That in academics what you do is your persuade people with intellectual argument, and what I realized was people probably were taking positions that corresponded to their interest and you had to figure out how to make it work given their interest. That was probably the most important initial lesson learned.

Second lesson I learned was you really can't do it yourself. All yourself and you have to do it with a lot of other people. I watched later in the process, Bob Rubin, his time as Secretary, and I realized that he more or less had a rule that he didn't do anything that somebody else could do. He as a Secretary so there – I was Deputy Secretary – but there were some things. You know, advising the President, signing the dollar bill, appearing and representing the Department, delivering a major declaration on behalf of the Treasury Department, setting a policy that only the Secretary could do.

Whereas my instinct as an academic was you tried to publish as many articles as you could and to have as much influence as you could, his instinct as a leader was the to do the things that he was required to do and then try to empower other people to do all the other things. And he realized that he would have a much more effective department if it was seen as a department with a variety of highly capable people, each of whom were taking on a set of substantial responsibilities in a particular area.

The principle of empowering people was a second principle that I sort of learned through osmosis, through making mistakes, and, of course, a corollary of the principle of empowering people is surrounding yourself with as many good people as you possibly can and surrounding yourself with people who have different strengths than you do. And I was very lucky in those days, the young Tim

Geithner was my Special Assistant when I first entered the Department, and of course, he ultimately rose to be the Secretary. A little later, the young Sheryl Sandberg was my Chief of Staff, and there were many other people who were extremely talented, and so the principle that you try to surround yourself with as much talent as you can was another principle that I sort of learned, and then you try to empower people as much as you can.

KRISTOL: The Treasury's a high-class department, which already probably has considerably better than average senior civil service. Some of the other departments –

SUMMERS: Treasury had a terrific civil service, but we also brought in a set of very talented people, and you know, I also learned – and there are moments when I've done this with more success in my life and moments where I've done this with less – that you want to establish a culture where people are comfortable telling you that you're all wrong.

That if you're not comfortable, if people aren't comfortable telling you you're all wrong, then you're going to make mistakes that you won't make if you're forced to confront people who are very critical of your judgments and so we tried – and this was something that Bob Rubin really led and I tried to continue during my time as Secretary, to have a culture where anybody was free to object to anything or question anything, to really keep at it for a long time if they felt strongly.

But that once a decision was made everybody tried to rally round that decision. And so, the whole set of questions around establishing the right culture of decision-making, that was something that during my time as a professor hadn't really ever occurred to me. I thought – my time as a President, it was a complicated issue. Should we approve the loan at the World Bank, should we not approve the loan at the World Bank? How should we design the debt-management program? These are what the questions were, and when I realized that success in government was, did involve thinking well and carefully about questions like that, but at least as much it involved establishing organizational patterns and cultures and approaches that led to those decisions being made well and that good process would tend to produce good policy and bad process would be much more likely to produce bad policy. And those kinds of questions were not things I had ever thought much about during my time as an economics professor.

Chapter IV: In the Obama Administration (55:05 – 1:18:09)

KRISTOL: So you leave Washington in January of 2001, I guess, as the Treasury Secretary with a budget surplus, or at least having had a budget surplus, well-regarded economic policy of the Clinton Administration.

You come back eight years later, and without assigning blame at all to any party or administration, suddenly you're President Obama's top economic advisor. Very different circumstances. You're in the White House, not running a department; you're an advisor, one of the very few senior advisors to a President after a huge financial crisis. What was that like? How was the White House contrast to Treasury? How did President Obama contrast with President Clinton?

SUMMERS: The biggest difference, actually, Bill, is it's very different for the crisis to be in another country and for the crisis to be in your country. It wasn't something – during the 1990s, I had worked on the Mexican financial crisis, which we just talked about. There were financial crises in Brazil. There were a set of financial crises in Asia, and that had been a central part of what I had done, but it was financial crisis in other places where the United States was helping out.

It's very different to contemplate the possibility of a depression-like event in your own country. And that's what President Obama was contemplating and facing after he was elected. If you look at any, almost any economic indicator, and you look at a graph from the fall of 1929 through the winter of 1930 and then you look at a graph from the fall of 2008 through the winter of 2009, the latter period was worse. Unemployment, industrial production. The sense that the financial system had almost collapsed in September. And that that could happen again was palpable and real. So you had a very different kind of rhythm of policy-making.

The first question that I found myself involved in even before I had been formally named to my position, because of the gravity of the situation, was what was going to be the role of the new incoming Administration during the transition? On the one hand, a great deal of financial policy is confidence, it's guarantees, it's assurances, and a lame-duck administration was not going to being in a very strong position to do very much of that. On the other hand, as we said at the time, America can only have one President at a time, and that President was going to be George Bush until January 20th. And so we spent a great deal of time being involved, with engaging with the Bush Administration, with Treasury Secretary Paulson, with members of their economic team.

But what was quite extraordinary and different, I suspect, than most Presidential transitions, was in most Presidential transitions, it was a matter of preparing to govern when it's your turn. Here there were banks in extremis. There was, for example – it became clear that if nothing happened General Motors would have quite likely found itself unable to pay its bills in December. So the question was what was going to happen, who was going to take responsibility for what happened, and how was that going to play out? That was the largest difference, that you had this ongoing financial crisis.

It's also very different to be a Senior White House Advisor than to be a member of the Cabinet. On the one hand, a member of the Cabinet is the person in charge of a very large building in which a very large number of people work with a very large staff of people who do everything from handling relations with Congress to a dozen people who handle relations with the press, to a photographer who takes photographs of anything that happens in the building, who sits in an office not as large as a gymnasium but in that direction.

Whereas a member of the White House staff has none of that. My office as the Director of the National Economic Council and the Presidential Economic Advisor was substantially inferior in any physical attribute to my office as a professor at Harvard. On the other hand, in real estate, they say it's location, location, location, and something like that's true in politics as well. In the modern presidency, things very much radiate out from the White House.

My experience was in the Treasury Department, and we were very much integrated with the White House during the Clinton Administration. As Secretary of the Treasury, I attended the President, the White House Chief of Staff's morning senior staff meeting. We were present and involved, it felt like in everything in the White House. That was quite unusual for the Treasury Department, and you know, there are many Cabinet Secretaries who go months, if not quarters, without having any personalized contact with the President. Whereas as a member of the White House senior staff, you are in nearly constant contact with the President and with the President's other senior advisors. One has a sense of connection to the pulse of the presidency that is quite different in the White House senior staff. One has access to informal moments and connection with the President in a way that one doesn't as a Cabinet member.

And then of course, President Obama and President Clinton had some things in common, but they also had respects in which they were very different. President Clinton was unlikely to begin a meeting on schedule, but he was even less likely to end it on schedule, so you were likely to get a little more than your allotted time. President Obama, meetings could begin early and so you needed to be in your office and ready to come downstairs in case he wanted to begin a meeting early. You had better be pretty sure that you were able to say what you had to say quickly because when your time was over, your time was over, and he was going to move on.

President Clinton was less than 100 percent certain to have read your memo. But if he hadn't read it he would read it as you summarized it for him, and he would master it very quickly. President Obama was virtually certain to have read your memo and to have read it extremely thoughtfully.

President Obama brought a focused discipline. He didn't want to talk about things that the President didn't need to get involved in. If his economic advisor couldn't figure out the difference between subordinated debt and preferred stock, he certainly didn't think it was his job to help. President Clinton was prepared to try to do his job, but was also prepared to offer you a tremendous amount of advice on how to do your job.

President Obama was focused on how, whatever particular issue was being discussed, related to the rest of the issues in his Presidency and the rest of the factors that were present in any political situation. President Clinton was focused on those things, but was likely also focused on things he had read somewhere or conversations he had had at some point in the past. I remember his once telling the Secretary of the Transportation at substantial length about new developments in environmentally friendly concrete and how that needed to be considered. President Obama's approach was a more sharply focused approach.

And I guess, Bill, what I learned from watching the two of them, they each had their own ways, as I've tried to give you a sense. But I learned two things about leadership from watching both of them that I certainly hadn't appreciated as well before.

One, and I don't think this is said often enough in discussions of leadership, is you have to do it in a way that's true to your character. I don't think President Clinton would have been very good in doing it in the more methodical, disciplined, and focused way that President Obama did it. And I don't think President Obama would have been as successful if he had tried to be as loose and in many ways open as President Clinton was. You have to be successful as a leader, you have to do it in a way that's true to your personality and character because things that go against the grain ultimately won't work and ultimately they'll be inauthentic, and a sense of genuine authenticity is enormously important to effectiveness as a leader.

Second thing I learned watching them – and something which probably the failure to appreciate it in earlier stage contributed to some of the mistakes that I made as President of Harvard – is that as an effective political leader, goodwill is like capital. You really do need to build it up because there will be times when you need to make decisions that aren't popular and aren't appreciated. But, as with capital, there's really no ultimate point in building it up if you're never prepared to spend it.

So President Clinton and President Obama would both sometimes do the expedient thing, but they wouldn't do the expedient thing because they just wanted to be expedient, and they wouldn't do the expedient thing just because they wanted to be elected, although they surely did. Or they wouldn't do the expedient thing just because they wanted to have a higher poll rating, though they were not indifferent to their popularity.

They did it because they realized that they had to build up goodwill. In order to be able to do hard but necessary things. Hard but necessary things like bailing out Mexico, in President Clinton's case, to take the area where he and I intersected. Doing things like supporting the rescue of the banks, which was necessary to maintain financial stability, in President Obama's case. That idea that politics is not some grubby necessity, that interferes with the making of proper policy, but is actually necessary and integral to successful functioning in a democracy, was something that I learned from watching the two of them and the way in which they led.

KRISTOL: What's it like day to day being at such a senior level of the White House staff and such a big crisis of '09? I mean, I was at the White House as the Vice President's Chief of Staff, which is a cut or two below being the top economic advisor to the President. There were crises obviously, the end of the Cold War and stuff, but I didn't have direct responsibility for any of them really. I worked hard but it must have been just crazy.

SUMMERS For the first few months, it was you got in as early as you could, and you left when you felt you needed to go to sleep – you left when you felt you needed to go to sleep, and there was never enough time to do all the things you wanted to do. It was a moment when I was modestly well served by some of the lessons I had learned during my time at Treasury. As about the importance of – importance of delegation.

You know, I tell this story of – there was a meeting that would take place on Saturdays for several hours in the Chief of Staff's office to talk about the President's schedule to which every part of the White House was expected to send a representative. There would occasionally be economic issues, but more frequently they would discuss questions that were important but to which I didn't feel I had a great deal to contribute, like should the President do Jay Leno's show or David Letterman's show? Interesting to hear what they had to say but I didn't feel I had a great deal to contribute.

And I realized at a certain point that if I sent my deputy to the meeting and I didn't go, everybody would be happier. I would be happier because I'd have a little time to myself to think about economic issues, my deputy would be happier because he would be participating in an inner White House council, and the White House would be happier because when they wanted to do something that was a bit political I would be a kind of heavyweight of conscience questioning it, probably to some excess, and that my deputy would deliver the same positions a little bit less forcefully, and perhaps that was more appropriate.

In terms of navigating the situation, the experiences that I had had at an earlier stage working in the Treasury Department were helpful. I found, and this was probably especially, this is always a tension if you work in the White House, and might have been a little bit more of a tension in my personal situation, there are two functions in some sense you have.

One function is to be an honest broker and to help all the Cabinet members get their views to the President and to pursue their priorities and to represent them accurately and honestly. And the other role was to give the President the benefit of your own wisdom and judgment. And that was something that needed to always be balanced and because I had been Secretary of the Treasury and because my experience was as an economist, I probably had stronger opinions.

And so I would find myself in some tension from time to time with Cabinet agencies where they would want to get their views to the President as quickly as possible. I would say, "I am happy to move your views to the President right away; absolutely, I will never block your access to the President. I happen to think your views are wrong, and I will share that I think your views are wrong, or we can keep talking about it and see if we can find a common view." That seemed, on the one hand, sort of reasonable to me for me to do. On the other hand, their point of view, they kind of wanted their views transmitted, not evaluated. That was not an entirely unreasonable view for them to have, and I think, for the most part, we worked it all through quite successfully.

But the job in the White House is less to run your own thing, and it is not entirely in a job like the one I had, which wasn't just economic advisor but was Director of the National Economic Council, was to support processes that led to good decision-making.

KRISTOL: You think on the whole – I mean, it was such a tumultuous two years and all the political opposition, not so much – well, there was opposition on the stuff you worked on, but particularly on healthcare and the more partisan types of things.

Do you think we can feel, as Americans, given that we had this terrible financial crisis, which maybe could have been averted but wasn't, do you think the system worked pretty well? That is, should we feel pretty good about our form of government and about its capacity and competence? I'm asking that question honestly, and not as a partisan matter.

SUMMERS: I think you have to say that if you look at what happened this time compared to what happened after 1929, it is day-and-night different.

KRISTOL: And you think that's a fair comparison –

SUMMERS: If you look at – well, it may or may not be a fair comparison. If you look at us versus Europe or you look at us versus Japan, I think you have to say the fact that we had the sharpest "V" down and then up since the Second World War in the second quarter – at the end of the second quarter of 2009. I think you have to say that that's a pretty good – that that is a pretty impressive and pretty good record.

Now, has economic growth been everything or most of what we all would have hoped at that time over the next five or six years? I think that's a very real question, and there are a lot of issues that you can raise, but if you take the question of the response to the crisis, I would say by the standards of historical responses in the United States, or responses in other countries, it is hard to find one that was as rapid and effective as the one that President Obama and Secretary Geithner and Chairman Bernanke were able to –

KRISTOL: I suppose you would say the last few months of Bush, too, really, right? Mid-September – you wouldn't differ with what they did?

SUMMERS: Absolutely. Absolutely. I think you would say they stepped up. There are – battlefield medicine is never perfect, and in a different setting I could talk at length of tactical decisions that could have been made differently. But I think net, you have to say that the system held.

KRISTOL: Well, on that encouraging note, thank you for spending time. We'll have to continue this conversation another time. Thanks, Larry. And thank you for joining us on CONVERSATIONS.

[END]