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Lawrence Summers, Charles W Eliot University Professor, Harvard University,
Kennedy School of Government

INTERVIEWER: Martin Evan Jones, Editor, Research, HKTDC
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Martin Evan-Jones (MEJ)

The Asian Financial Forum 2013 welcomes Dr Lawrence Summers, Professor, Harvard University Kennedy School of Government. And he joins us from the United States. He was, remember also, a major economic figure with the Obama and Clinton administrations. Dr Summers, thanks indeed for joining us. Could I start by asking you about the US economy, which appears to be looking a bit better at the moment. But does that harbinger well for an economic revival globally?

Lawrence Summers (LS)

I think there's a global-economy recovery underway and I think the US economy has been in a recovery phase and continues to be in a recovery phase. The question really is what the pace of that recovery is, and will that recovery be sufficient to grow the economies. I think the answer to that question is yes. Will it be sufficient to close the substantial gap that exists with potential production in the United States, with potential production in the industrialised world? There, I think the answer is less clear. Growth is likely to continue, assuming there are no foolish errors made with respect to the fiscal cliff, but how rapid that growth is going to be, that remains to be seen.

We have still got some substantial debt imbalances to be worked off, particularly in the household sector, and depending on the decisions that are made about fiscal policy, you could get excessive fiscal contraction that would pose a threat to the possibility of the recovery accelerating.

(MEJ) There have been these three phases of “quantitative easing” there in the United States, and that’s along with this low interest-rate regime. But do you think that’s justified, given problems that causes in other countries, particularly in Asia – in places like Hong Kong, like Singapore, like Japan?

(LS) Well, I by longstanding treasury secretary habit, don’t either predict or prescribe for the federal reserve. I do understand the concerns in other countries, on the other hand, I think the virtue of a floating exchange rate system like the one we have between most of the major economies, is that each country gets to pursue a monetary policy based on its own interests. And I think it’s appropriate for the United States to pursue a monetary policy that’s directed at promoting non-inflationary growth in the United States. And I think when one considers the size and the scale of the US market, and in ways they might not fully appreciate, other countries have very substantial stakes in the United States getting its economy growing more rapidly again.

(MEJ) So could I turn now Dr Summers to the European Union, specifically the Eurozone, which seems to be causing quite a number of headaches at the moment. Do you see there being a regeneration of the Eurozone, perhaps based on the fact that there is this federalisation of that zone and maybe that’s going to be the way going forward?

(LS) Look, I think the European process has always been one that moves forward, but moves forward in rather jerky ways. Some steps forward, some steps backwards, and I suspect that would be the process that continues. I think a nearly irrevocable decision having been made in favor of a single currency, it will inevitably drive greater economic integration and greater federalism in a variety of respects. And I suspect banking supervision will be one of them. Just what the mechanism will be, just how rapidly it will come, just how retroactive it will be – as distinct from – forward-looking, with respect to issues that will arise in the future, that remains very much to be seen.

(MEJ) I’d like to now ask you about your feelings of the relationship between China and the United States. China doesn’t look as though it’s heading for a hard landing at the moment, but what about the middle distance, and what do you see as China’s policy direction as you see that going forward?

(LS) You know, China has had a remarkable three decades. And after those remarkable three decades, actually a third of a century now since 1979, one has to be very cautious when making negative predictions about what will happen in China. On the other hand, I think one has to also recognise that a growth model, that has been fueled not just by high investment, but by rising investment share, is a growth model that has a variety of problems and challenges in terms of its sustainability.

So I would have considerable concerns that there will be some kind of discontinuity at some point in the next few years in China. If you look at some experience of the other Asian rapid-growth countries – at a certain point, there was a major interruption to growth. And I think the challenges – financial, the challenges economic in terms of the necessary reallocations from investment to consumption; the challenges political, given an increasingly restive and better-informed population; the challenges governmentally around the questions of corruption, questions of accountability – I think all of these questions will loom large for China in the years ahead.

(MEJ) So, looking at the US policy towards China, do you see there being a distinctly anti-China approach in Washington, particularly where it comes to China companies really buying up assets in the United States?

(LS) Look, I think that issues involving China are becoming increasingly tension-filled in the United States. That's probably inevitable given China's rapid emergence as an economic power. And given distressing signs in a number of respects, of Chinese firms behaving in ways that perhaps are not maximally constructive – from the point of view of respect for intellectual property rights, or from the view of standing up for an open, global system. I think we are going to see more of those tensions ahead. That doesn't mean there can't be an economic relationship that greatly benefits both countries. That doesn't mean that the United States doesn't have a stake in China's economic success.

But I think whether it's questions involving either natural resources, questions involving protection of intellectual property, questions involving cyber activities – I think there is a challenging agenda that has to be worked through between the United States and China.

(MEJ) Dr Summers, I seem to remember you saying once that most everyone including economists were followers of Milton Friedman and therefore of open markets. But do you think really that where it comes to Hong Kong, where it's a model of the open market, that things may have to change – due to Hong Kong's demographics and indeed due to Hong Kong's new economic position?

(LS) Well, I'm not sure you quite characterised my views with respect to Milton Friedman. But with respect to Hong Kong, look, I think Hong Kong is one of the great success stories of the last quarter of the 20th century and the first part of the 21st century. It's a place of remarkable dynamism, remarkable energy. It has people who have an enormously productive spirit. It is, in many ways, an important demonstration of what post-industrial prosperity can look like.

So I have very positive feelings about Hong Kong and I think its basic model – predicated on strong, free markets; great respect for property rights, and a government framework that protects that respect for property rights; that respects openness to trade, makes fundamental investments in educating its citizenry - I think that model that Hong Kong has followed is a very powerful one.

(MEJ) Dr Summers, you are a guest here at the Asian Financial Forum 2013 – which you will be attending. What are the kind of issues that you see coming up at the forum so far as your concern and which you will be particularly interested in?

(LS) We will be looking to a new US presidential term. That new US president will be defining the US role in the global economy. I suspect that challenges in Europe will have evolved, but will remain in important ways. And we may, as we get to the end of the new year have a little more transparency into how things are going to happen in China.

But the United States, Europe, China – these are the three largest pillars of the global economy, and it's going to be a busy fall for all three of them. And so I think there is going to be a great deal to talk about at the Financial Forum and I am very much looking forward to my participation.