Unedited Transcript

Implications of a new US foreign economic policy: A conversation with Lawrence Summers and Robert Zoellick

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Adam Posen: Hello, everyone and welcome back to the Peterson Institute for International Economics. I'm Adam Posen, the Institute's President, and we're delighted to have with us today for a special live event Robert Zoellick and Lawrence Summers.

We have been privileged, I've personally been privileged to work with them as members of the Board of Directors while serving on the Executive Committee of our Board and Larry as our Vice Chair. But of course they come to discussions of US foreign economic policy as thinkers and policy makers of long experience, high influence, and deep insight.

Larry was the US Treasury Secretary under President Clinton as well as the Director of the National Economic Council during President Obama's first term and served previously as Chief Economist of the World Bank. He's currently the Charles Eliot University Professor and President of the United States Department of Commerce.

Bob has served as the US Trade Representative, as President of the World Bank, and as Deputy Secretary of State. He has had a distinguished career going back to the late 80s and played a key role in German unification, among many other things, and currently is writing a new book, which we are looking forward to.

His new op-ed on the positive trade agenda, not just tariffs, for the Trump Administration appeared in the Wall Street Journal today. It's available on our website. People are here virtually to hear the two of you speak, so let me ask, big picture, what should be the goals of US economic policy towards China?

There are so many issues, decoupling in terms of trade, market access, technology, cooperation on climate. How do you prioritize? What do you emphasize?

Robert Zoellick: We should let our guest, Larry, go first.

Adam Posen: Larry, how do we prioritize? What do you emphasize in US relations with China?

Lawrence Summers: Ultimately, the objective of US-China economic relations should be the objective of our relations with any country. It should be a more peaceful and secure world in which Americans enjoy greater prosperity. We should always keep those things as touchstones in our economic relations with any country.

With respect to China, that means some don'ts and some do's. It must not appear that our objective in economic policy towards China is the suppression of the Chinese economy or the denial of China's ability to grow and flourish towards the objective of greater prosperity for its people.

That is something that if it ever seems to be the objective of US economic policy, is likely to be highly destabilizing, is likely to generate responses that are highly counterproductive. We must always pursue important US objectives, but never in a way where we seem to be denying China or any other country with whom we are not engaged in active hostilities the opportunity to succeed.

It certainly should be the objective of our policy to ensure the robustness and resilience of our own economy. It certainly should be the objective to make sure that in a genuinely small yard, we seek to protect US technological supremacy. Those are legitimate objectives of US policy.

It should be the objective of US policy to maximize living standards for the American people with a strong and clear awareness that real wages, if I might indulge in the slightest bit of mathematics, means maximizing the wages of American workers divided by the price that American workers pay for the goods that they buy.

We increase real wages either when we increase the wages that American workers receive or reduce the prices they have to pay for the goods that they buy. And so, we want to assure and work to assure that there's fair market access for American producers in China and in other countries. But we should also make sure that we maintain a strong awareness of the benefits to American workers of low prices for the goods that they buy.

That means pursuing active trade negotiations directed at assuring mutual market access. I do not find the concept that somehow we should be maximizing the number of jobs in the American economy to be a helpful one. For the most part, in a fully employed economy like our own, when we create more jobs in one sector, we are drawing people out of employment in other sectors.

I do not find the concept that we should somehow maximize the size of our manufacturing sector to be a helpful one because more jobs in one place mean fewer jobs in other places. I think the objective of benefiting American standards of living, protecting fundamental security interests, avoiding creating an impression that it's our objective to suppress other economies, these seem principles.

If I might engage in a broader metaphor with respect to what I think we need to do in our relations with China, and perhaps it's too negative a metaphor, but I think it's right. We need to get to a uncontrolled Cold War model of the kind that prevailed within the relationship between the United States and the Russians in the late 1950s and early 1960s to the kind of more managed competition in which we seek to constrain away from catastrophic outcomes of the kind that prevailed in the second half of the Cold War.

We need to make that kind of transition without the kind of catastrophically frightening events that occurred in Berlin and with the Cuban Missile Crisis. We need to make the transition that occurred after the Cuban Missile Crisis without having to be scared by catastrophically risky events as we were in the early 1960s. That's what I hope we will find our way to in our relations with China.

Adam Posen: Bob, how do you prioritize?

Robert Zoellick: So, I think when you think about economic policy, Adam, you have to expand it to what's your overall policy with China. We're in an environment now where I find on economic topics, it kind of shrinks the other way. It's going to say, okay, how can I use tariffs?

And so, frankly, if your only tool is a hammer, everything looks like a nail. So, you smack, smack, tariffs. I would start the China policy by saying you need a strong US military as part of your deterrence. I think we probably should invest more. We certainly need to modernize our capabilities. Second, one of our strengths is to do this with our allies in the region.

So, that would suggest as a matter of economic policy, you certainly don't want to get into economic conflicts with them and maybe even make some incentives. So, whether it's the Trans-Pacific Partnership or as I wrote today about digital reports, what's the attractive power going forward for the United States?

But then with China specifically on economics, I think one could try to work towards a new type of reciprocity in relations. So, what I mean by that is, as Larry mentioned, there will be export controls on various technological materials. However, in putting those on, you need to be aware, it's not going to keep the Chinese down forever. It may buy you four or five years.

And guess what? China can do the same thing as we discovered today with antitrust actions against Nvidia, where Nvidia makes, say, 15% of their revenues. So, this could go two ways. So, I think if one could say to the Chinese, look, there will be certain areas that because of the security anxieties, we've got to protect. But then find other areas where, as opposed to just suffering, you can manage, hey, there's some mutual interest here.

So, look, we're still going to be concerned about climate. The Chinese, they're very efficient producers of solar panels and wind turbines. I have yet to meet anybody who can explain to me the national security criticality of having solar panels. So, if I want to expand our ability of alternative energies, work with the Chinese on that.

President-elect Trump even made the bold move, which I agree with, to say, look, maybe the Chinese EV producers could come in the United States. You saw this with the Japanese. So, that brings some of the technology, the experience, you know, for people that are concerned about the jobs, it adds to sort of the job basis.

So, you could try to strike a new arrangement where you recognize that it's not going to be the typical sort of trade economic arrangement. There'll be some things that are limited, but you can also emphasize some of the positive aspects. And if you think about, you know, for American producers, the more uncertainty we create, if you're a farmer with soybeans or corn or wheat or others, if you look at the export profile going to China, that becomes very vulnerable.

Now, last time Trump put on tariffs, we basically poured subsidies into farm country. But the farm income statistics that I saw were coming down a little bit. So, if you create an environment where what we sell, the Chinese can't be certain that they're actually going to keep selling it, well, then they'll go to Brazil for soybeans or they'll go somewhere else.

So, it's a way of spelling out a little bit where Larry ended, as opposed to kind of the late 50s sort of Cold War logic. And China, I think Larry would probably agree with this, China is a much more integrated player in the world economy. For the Soviet Union, it was basically energy.

And so, in this case, how can we try to find some combination of interests while using other tools, military, alliance relationships, and something we've almost totally lost sight of, which is the attractive power of the US economy. Can't that be a positive? Why does everything have to be kind of a notion of how I use tariffs to hit somebody?

Adam Posen: Thank you, Bob.

Lawrence Summers: Can I just follow up if I could? I think Bob and I have come out of different political parties, but I think that I've been over many years in the moderate end of my party, and I think Bob over many years has been in the moderate end of his party.

And I think we may use some slightly different words, but I think we're in very broad agreement. We're in very broad agreement on a number of things that Bob just articulated. We're in agreement that given the nature of this moment, the United States needs to be increasing inflation adjusted defense spending, not reducing it.

We're in very broad agreement that the United States needs to be strengthening allies, alliances with countries who broadly see the world in the way that we see it. We're in very broad agreement that we need, with respect to large numbers of issues, to be promoting international integration rather than trying to achieve economic disintegration.

And that we need to be, with respect to China, managing the relationship, recognizing that there are fundamental differences. But I think we need to be rejecting any idea that the whole strategy is to suppress China's success. We need to reject any idea that the more decoupling there is, the better it will be for American workers or consumers.

And we need to recognize and distinguish those areas where we need to have a certain degree of separateness from those areas like the solar panels or electric cars that Bob mentioned, where it's very much in our interest to be buying at lower costs from China.

Robert Zoellick: We also agree on vaccines for flu and cold and all the things that Larry seems to be celebrating.

Lawrence Summers: That's right. Thank you for your sympathies, Bob. I think those are areas where we need to be finding very much common ground. Look, I take something where Bob and I, I think, are probably in general agreement. I think that the economic research -- that very powerful economic research done by my Cambridge, Massachusetts colleague, David Autor, with others, that showed some very important things.

What he showed in that research was the areas where what they were producing was something that China produced more effectively than Americans. The areas where that happened did much worse in the American economy relative to the areas where that didn't happen. And that showed something that was very interesting and I think useful.

But the conclusion that has been generally drawn, that somehow the overall American economy would be better if we were more decoupled from China, I think is a classic example of the fallacy of composition. If one person stands up at a football game, they see better. If everybody stands up at a football game, except at the most exciting moments, there's no overall better visibility of the football game and everybody is less comfortable.

Similarly, to confuse the finding that the places that were most affected by China suffer with some conclusion about separation from China being better, misses all the issues around more exports to China, misses all the issues around lower priced inputs that make all kinds of American producers more competitive, misses that lower prices enable more expansionary policies which enable a stronger economy, and fundamentally fails to understand the nature of the economic relationship with China.

To somehow think of commerce with China as something that has imposed an enormous burden on the American economy or American workers is, I think, a fundamentally confused way to think about the economic relationship with China. And I think the Peterson Institute has, over many years, in a variety of ways, done very useful work countering that kind of zero-sum economic thinking.

Adam Posen: Thank you for your support of our doing that. But Bob, just picking up on Larry, there is in both parties now a lot of support in Congress for withdrawal of China PNTR, Permanent Normal Trade Relations. If you could speak to the collective non-wisdom of Congress, what would you say to them before they pass a threat to revoke China Permanent Normal Trade Relations?

Robert Zoellick: Yeah, this is very timely. And frankly, one of the Congressmen that was one of the proponents of this, and I spoke last year, and I started out the way I'll start my answer to you, is I said, look, do you understand what PNTR, which is Permanent Normal Trade Relations, that was a name for MFN, because everybody, MFN is most favored, but because everybody was treated the same way when Congress passed PNTR, they said, well, it's the normal trade relations, which it is.

And frankly, they don't understand what they would be doing. So you can make a judgment, but at least you need to know what you're doing. It starts with the fact that when China joined the WTO, what most people are unaware is that the United States did not change its trade practices one iota. Okay, we kept everything as it was.

What changed is China agreed to a whole series of steps to open, not only for the US, but for others around the world. And as Larry kind of alluded to, I think it was the leading, the fastest growing export market for 15, 16 years until the Trump [inaudible 0:22:27]. Now, what we did do was we said, as opposed to giving you normal trading relations each year, we'll make it permanent.

And that clearly had an effect on investors deciding that they were going to put production facilities in China. And so if you remove PNTR, what you're really saying is the rest of the world can get all the advantages of exporting to China, but we no longer will, because China doesn't have to give us the benefits that we negotiated for.

So question number one, why would you want to undermine all the US exporters? And I've mentioned some of them, whether they be agriculture or semiconductors or energy or a whole series of that electrical process. The second is, what happens if you're not in normal trading relations is you bounce back to the regular tariff schedule.

And the regular tariff schedule, you may not be aware of, is the 1930s [inaudible 0:23:27] tariffs. They're kind of high. So you've just imposed really high tariffs across the board. Now, frankly, if you want to impose tariffs on China, why do it circa 1930? So one of the interesting things, when Trump imposed tariffs the first time, I think this was Kevin Hassett who was working for him, kind of maneuvered them so a lot of them were for intermediate goods.

They didn't show up as much on the consumer prices. So number one, why not sort of pick your shots as you [inaudible 0:23:58]? And then second, which ones do you want to try to emphasize? So I'm not suggesting you should raise tariffs, but why would you undermine your exports? And why would you decide, I would like the US economy in 1930, which, by the way, I didn't think was such a good economy.

So actually, Larry mentioned this, I went back and saw that the Peterson Institute did some very good work on this, I think in September, where you sort of go through the details of the effects of this. So in a sense, it's performance fault. It's basically saying, as Larry kind of alluded to, let's cut off China, let's teach them a lesson, let's shoot ourselves in the foot.

Adam Posen: Larry, just to move on to a slightly different topic. Another thing where large numbers in both parties seem to be concerned is about international imbalances. And that seems to be a code word for China cheating. There's a lot of concern about both China's trade surplus and China's bilateral trade surplus. With your Treasury Secretary hat on, how would you talk to Congress people or to people in the government, how they should think about those kinds of imbalances?

Lawrence Summers: So first of all, thinking about bilateral trade, bilateral relations in a global world is kind of silly. Take the Summers family. The Summers family probably shouldn't have too big a deficit. We probably shouldn't borrow too much more than we search and spend too much more than we earn. But isn't it the natural and normal order of things that we run a very large trade surplus with Harvard?

Harvard buys a lot from us, my services as a professor. We buy hardly anything from Harvard. A few books from the Harvard University Press each year, maybe a Harvard sweatshirt or two. And then we run a deficit with the grocery store. They buy hardly anything from us, like nothing, and we buy a lot from the grocery store.

And so trying to say that everybody should be bilaterally balanced with everybody else really isn't the right way to think about the whole thing. So focusing on the bilateral relations, I think, makes very little sense at all as a way of thinking about economics.

Then there's a second point, which is what about deficits and surpluses? Me, I'd rather live in a country that the rest of the world wants to invest in than live in a country where nobody who lives there wants to invest in the country and everybody wants to invest abroad. So I think that being in a country that the world wants to invest in, which means that if we're going to be net recipients of investment, just as a matter of arithmetic, we have to import more than we export.

I kind of think that's better than the alternative. And I don't especially envy places like China, where their own citizens feel like the best investment opportunities are abroad. So yes, past a certain point, and I'll say something about that in just a second, when there can be excessive imbalances, but as a very general matter, let's be a place that capital wants to invest in.

What's the principal exception to that? The principal exception to that is that if the capital is being sucked in, not by great investment opportunities in the United States, but by the fact that the government is running deficits in a sustainable way, that's something that we should be seeking to correct. But gosh, that's an argument for a set of issues that both parties have been slow to recognize around US fiscal policies.

And yeah, I think we should absolutely be putting the federal budget deficit in a more sustainable place. But apart from the distortions caused by an excessive budget deficit, I like the idea that we're able to import more than we're able to export. I like the idea that we've got a currency and we've assets so valuable that people are happy year after year after year to send us goods to perform services for us, and we just give them these pieces of paper that carry real interest rates of 1%.

I think that's something that's fundamentally in our interest. What about the fact that other countries are prepared to sell us things at very low prices? I think we need to be careful about how restrictionist we want to be with respect to that. Yes, there may be some issues where, for some kind of temporary advantage at some cost to us, there's excessive subsidization of foreign products.

But gosh, for the next few years, I think our problems in the United States are much more likely to have to do with inflation than they are to do with the fact that there aren't jobs. So, as a general matter, if people want to sell us goods at low prices, I think we need to be very careful about the idea that that is something that we should be fundamentally resisting.

I do not have much sympathy with the view that there's some kind of systemic crisis associated with the fact that the United States has too large an international imbalance caused by things that the rest of the world is doing. I think for the most part, you shouldn't worry about it, and to the extent you should, the principal problem is what we're doing in having too much government borrowing.

Robert Zoellick: Can I add a little bit on this? I think, particularly for a PIIE audience, I think they're going to hear more about this issue, because Scott Bessent, who's the Treasury Secretary nominee, one of Larry's successors, I expect, has been, people have been referring to his work as an economic historian and his concern for imbalances.

There was a piece, I think, written in the Financial Times by one of his former colleagues that said, he's going back and looking at the model of the sort of the Baker coordination in [inaudible 0:32:21]. I was in the [inaudible 0:32:24], but what's fascinating about this to me is they got it exactly backwards.

So in other words, Baker and the Reagan administration was concerned about rising protectionism because the dollar was too strong, and the Peterson Institute was a great contributor to the certain thinking about this. So the idea was to have cooperation, by the way, not confrontation. So as to sort of ease the value of the dollar, so as to deal with the large current account deficit, making US exports more attractive and imports more costly, but rather slowly and in a cooperative fashion.

So it was to keep the US market open. The way that this is being proposed is, let's propose tariffs to somehow change the imbalances. Okay, well, and the first thing you have to then sort of ask yourself is that, at least most economists believe if you apply tariffs, you'll probably strengthen the dollar.

Okay, so you're going to go the other way. And as Larry said, if you want to deal with the fundamental problem, you have to deal with the saving of the fact that the US Congress is running big deficits. And at least so far from what we've seen in the Trump administration, proposals for budget, they're not going to make that better. So that's going to sort of exacerbate the effect.

And then the other piece of this that sort of then sort of comes back home is then, okay, how will all these, the use of the tariffs, remember my principle that once you've got a hammer, you sort of apply it everywhere, will this lead to actually less cooperation, more barriers for more people? And the only way it actually gets you out of the imbalances problem is the way that we found in the 30s, which is we had a nice surplus in the 30s.

We also had 25% unemployment. The solution, if you don't like that surplus, is have a recession, we'll buy less, that way our imbalance will go down. So, but I'm flagging this because I can see this coming. I can see people are sort of starting to go back and say, well, how can we have a devaluation of the dollar? And they better look closely at how their policies are going to achieve that.

Lawrence Summers: Bob, you were there. Correct me if I'm wrong in the following slightly simplistic statement of all the subtle things you just said. The motivation for Jim Baker's Plaza Accord was to take the energy out of US protectionist forces. What's going on now is we're trying to have US protectionist forces and push them along.

I think the more relevant precedent for the kinds of things that are going on now is not the Plaza Accord. It's the Nixon shock in 1971, which had a populist political impulse leading to confrontation with other countries, where John Connolly famously said, “It's our currency, but your problem,” and the imposition of tariffs.

So, I think if people are looking for analogies for the way things -- where things seem to be going, it's obviously imperfect in a lot of ways. I'd be interested in your reaction, Bob, but I think the 1971 shock is probably more indicative.

Robert Zoellick: It's a good point. And just to add one other point on the 1980s, remember the Reagan administration was trying to get Congress to pass what was then called Fast Track, and then moved on to become trade promotion authority. So they could have the Uruguay Round of negotiations and further liberalize.

So, not only were they trying to stop protectionism, they were trying to get Congress to grant them authority to further liberalize. I agree on the 1970s experience, and this is why Larry and I, as august board members, keep encouraging the use of economic history, because it's going to get misused now.

Adam Posen: No, absolutely. Thank you both for the important historical perspective. One last thing on this tariffs point, though, if I could. You've mentioned Scott Bessent, and you've mentioned Kevin Hassett, who are going to be key economic policymakers in the next administration.

Nothing about them personally, just they've repeatedly said to various audiences, well, the tariffs are a negotiating tactic. I think Bassett at one point said, it's a maximalist position that will back up. In your experience as cabinet members, as White House advisors, do you think that makes sense, that this is a good negotiating tactic?

Robert Zoellick: Well, in general, this goes back to, do you like attractive forces or sort of threatening forces? You first try to find a common ground and sort of common interest. We've been doing that over 80 years, and we've developed a set of rules that -- and so the starting point for tariffs is, where tariffs sometimes play a role, is if other people kind of violate the rules.

You can follow various processes, you can use tariffs in a targeted way to go after sensitive items to try to get them back on sort of board with the rules. And so there are circumstances where you can use tariffs as part of the negotiation. It's very tempting, however, once you put the tariff on, and the interest of the protected industry has been taken care of, to never get it off.

So I mean, at least Trump has blown all this up, but our tariff on cars is 2-½ percent, on small trucks it's 25 percent, because going back to a dispute with chickens in Europe. We put on a temporary 25 percent tariff. By the way, that's one reason why people drive SUVs, because they get categorized as sort of small trucks.

There's one other category, and I'll be slightly heretical on this, but I remember Fred Bergsten and I discussed this. There are times that industries need adjustment, okay, and so there are provisions called safeguards, section 201 of the trade law, and it's supposed to be permitted under the WTO. I think the WTO is too restrictive, where you can put on tariffs while a industry adjusts.

Now, the benefit if you do that properly is, it's transparent, it's for a limited period of time, and it's supposed to force them to be able to make the changes. So as Larry described, sometimes the global economy washes over industries really quickly, and it makes sense as a matter of political economy to have some cushions.

Rather than do tariffs willy-nilly, or dependent on kind of who your cronies are, or the protected industry, it makes sense to do it in a sort of transparent, sort of organized fashion, and I've always felt that safeguards could play a role.

Adam Posen: Our Peterson and Harvard colleague Robert Lawrence is a big advocate of the idea that safeguards should have been used more aggressively.

Robert Zoellick: And by the way, one other point, because this has also come up, and it's important that we nail this. Another argument is, okay, we're going to use tariffs to raise revenue, so we don't need the income tax, okay? And this runs into this little fallacy called data, okay? So it turns out that tariffs, I think, provide about 2% of federal revenue, it's about 80 billion dollars a year on a 4.4 trillion dollar sort of revenue budget.

To give people, again, a historical example, up to the First World War, tariffs still provided about 45% of federal revenue, okay? And then we had this thing called the income tax, which I've always sort of regretted, but nevertheless, it became a constitutional amendment in 1913. We wouldn't have been able to fight World War I if we didn't have the income tax, okay?

So the income tax provides about 49% of the social security under 35, 30. So if you wanted actually to have tariffs overcome the ability of the income tax. I think I saw one analysis, this assumes there's no negative economic effect, you have to have tariffs of about 70%. Well, that's pretty high. It was -- the smooth high was 59% as an average. So this idea that it's going to solve your revenue problem is not credible.

Lawrence Summers: I want to, I just want to say this. I generally agree with what Bob is saying. You can't be arguing simultaneously for tariffs as leverage and tariffs as revenue. Even leaving aside any idea of eliminating the income tax, if tariffs are going to be part of the pay for in your budget package, then the tariffs are going to be there forever.

And if tariffs are temporary, then you can't use them as a pay for. And so I think that before long, advocates of tariffs are going to have to decide which side of this they want to choose. I do want to say though, because I want to be fair, Adam, that just as diplomacy is best, but diplomacy works much better when there is credible leverage coming from military capacity.

I think that those of us in the economic realm, and particularly those of us who are probably more academic as economists, do need to recognize and understand that the ability to make threats and exercise leverage is sometimes an important element in economic diplomacy. So I don't want to entirely discard the notion that you do engage in a threat.

But I think that the prudent are very careful to think about whether the threat is a threat to shoot them or a threat to shoot yourself in the foot, and are very careful to think about whether it's actually going to be credible to adjust one way and then adjust back the other way. And that just needs to be part of the analysis as a strategy is set.

Robert Zoellick: Well, and one other thing to add to what Larry is saying is when tariffs have been useful and the threat of a penalty, it's often because you recognize that the other government also have differences. They've got people who want to protect things, and they've got people who want to get the benefits of open markets and export things.

So you can strengthen the hands of those who want to open markets and support exports sometimes if you can sort of target. So you'll notice that at various points with the Trump tariffs, people focused on, I think, Kentucky sort of liquors because of Mitch McConnell, right? And so this is a tactic. But as Larry said, whenever you have tactics, you have to keep in mind what's the underlying strategy.

Adam Posen: So thank you both. Going back to the underlying strategy question, beyond China, we have a world of allies and non-aligned. How much should, in the spirit of the credible threat you were just talking about, how much should the US be using economic measures or economic linkages to get change of behavior and foreign policy?

I don't mean so much like sanctions on Iran. I mean things like linking trade to European military spending or trade to commitments to Ukraine or trade to alignment on China. How much should these things be linked?

Robert Zoellick: Well, it's just like when we started with China. You got to have clarity of objectives. You don't start with the tool and say, "Ah, well, Europe got a tool. What can I do? What's your objective?" So in Ukraine, the United States and Europe should have a common interest in trying to support Ukraine as a self-sustaining democracy with an economic future that can help defend itself.

And so, as Larry and I have written about, the one thing that I expect there's going to be more attention to is, well, can you transfer the $300 billion in frozen Russian assets to help the Ukrainians? What sort of military supplies and defense industrial base can you build?

My guess is with the Trump administration, if they don't cut a weak deal, which I think they have to be a little careful about because they have the Afghan precedent riding over them. They don't want to have an Afghanistan. The Europeans are going to probably have to step up and do more on the ground.

The Brits already have technical advisors who might take the troops on the ground, so on and so forth. And then Trump can declare it instead of a victory. Well, notice I haven't said, well, how do I hit them with tariffs? I'm basically trying to find sort of the common interest. I think where you start to also talk about how you could cooperate on things like, for example, there's a discussion of US-European policy, US-European policy towards China.

Again, I would suggest you target it. So if you're going to try to use, say, export controls on areas like advanced semiconductors, frankly, the key players are Taiwan, US, Japan, the Netherlands, Korea. Now, at the same time, if you're going to, frankly, hurt some of their industries, as we will as we're going to hurt ours, it's probably not such a good thing to bash them somewhere else.

So again, if you want to try to kick your shots, you want to focus on the areas where you really want their cooperation. And frankly, it's good if you build some trust. The part that I'm actually increasingly worried about for the US economy and others is we're creating very high degrees of uncertainty.

And so investors over the long term have to figure out, okay, if I can't rely on the US as a supplier, if I can't rely on how I'm going to be treated in an area, that's going to impede investment that focuses on growth for everybody. And again, this is important recognition.

The sort of tariff mercantilist logic that is dominating these peers, the administration, incoming administration, too, is a zero-sum idea. We benefit, they lose, you know, as opposed to what most of the economics has been, which is how can you try to find win/win solutions.

Adam Posen: Larry, you've spoken out, including at Peterson, about -- and you mentioned it earlier, about the need to increase defense spending in the US and the West more broadly. From a fiscal policy point of view, given what you've said about the sustainability of the debt path for the US, what are the guidelines you have?

How do you increase defense spending while addressing the fiscal issues? Is there any common principles or collaboration with our allies where this would help? Or is this up to each country to make their own path?

Lawrence Summers: Look, I think there are two parts to that, Adam. One is, I think that US presidents have believed that other nations should contribute more to the global defense effort for as long as I've been paying attention to these things. I think that President Trump was probably right to bring more energy and more force behind that than some of his predecessors have.

I think that should be and is a legitimate interest of the United States within NATO and beyond. I do think that it's just hard to believe that whatever the right share of GDP was on defense before the Russia-Ukraine war, before the Middle East was on fire, before you saw the extent of Chinese activities that we've seen in recent years in the Pacific region, maybe we were spending much too much then.

But unless we were spending much too much then, it's hard to believe that we shouldn't be spending more now. I think we've got to do that within a framework where budget spending is where we're paying for incremental spending.

Look, here's, I think, the real truth of what is happening big picture fiscally in our country. Five things have changed since the 21st century began. We are a far more aged population than we were. We have substantially more security needs than we used to have. The relative price of what the government buys, largely services, has gone substantially up.

We have more needs for redistribution because inequality has gone up, and we have a lot more debt on which we have to pay interest. Whatever your view about the right size of government was 25 years ago, if you want to have that level of government services today, it's going to be 5% of GDP or so more expensive. The country has to make a choice.

It either has to have a lower level of government than people have become accustomed to, or it has to have a higher level of taxes than people have become accustomed to. There's no way to go back to the golden days by having more efficiency because we just have these things that have happened, like an aging society. I don't think anybody in political leadership has really recognized that explicitly and explained it.

Therefore, there's no acceptance of a scaling back of the level of government services that people had expected, or of the need for taxes to be more burdensome relative to incomes than they have been in the past. Until we can get to some common understanding as to how we want to resolve that, I think we're likely to have continuing fiscal challenges. As I think about resilience, people talk a lot about the resilience of the American economy.

Being as indebted as we are with the associated difficulty in the need to engage in large-scale expenditures. If some kind of emergency arises, whether it's a military emergency or a pandemic or what else, that's the non-resiliency in the American economy that troubles me most and leaves me wondering for just how long can the world's greatest debtor remain the world's greatest power.

Adam Posen: Thank you, Larry. We have just a couple minutes left. I don't want this to be just a makeup shot, but both of you served with distinction at the World Bank. We're in a world where a few of the largest emerging markets, notably India, Indonesia, Brazil, Mexico, less so Mexico, have done reasonably well over the last few years.

The vast majority of low-income economies have not been able to bounce back at all from COVID, have debt issues, and so on. For this new administration, what role should those concerns play in the overall foreign economic policy of the United States, and what can you do or should you do?

Robert Zoellick: First, Americans understandably are preoccupied with things in the US, but sometimes they overlook their wider effects. Number one, the US return to protectionism and subsidies is probably not a very good example for other countries that we're trying to encourage on growth strategies.

By the way, if they grow, this will help us grow and also help deal with some of the problems, because if they break down, then you're going to have problems over borders, you've got disease issues, you've got some climate issues, you've got security issues. That's point one.

Point two, it actually goes back to a word that Larry mentioned. What I find with developing countries at this point, because they're getting hammered for this is they want to develop resilience. They want to have elasticity. One aspect of that, obviously, is they've had these debt buildups that have reduced their ability.

Some of this is China-based, some of this is their own policy-based. We've had some experience over time of learning how you can return to growth paths. Obviously, this requires certain reforms, but by the way, those reforms tend to conflict with what we're doing at home, which undermines us. Also, you want to create an environment, ultimately, where you have private capital.

I just had lunch with some people who helped building cities in Kenya, and the growth in Kenya, and by the way, the connections here potentially with AI and other things. Again, it looks at the opportunities in the system. But the other piece that I want to come back to, since you mentioned the world bank, there's this view in the United States that multilateralism's time has passed.

Keep in mind, just because we dropped out of this stuff doesn't mean that everybody else drops out. In fact, it's a dynamic system. They'll keep adapting, whether it's the World Bank, the IMF, or others. We weaken ourselves by not playing in these institutions. You're not going to win all the time, but you want to try to shape them.

In particular, each of them has their own culture and structure. But for the World Bank and IMF, these can sometimes be a neutral ground where you can help bring parties together to try to come up with a cooperative agenda, and with the benefit of the sophisticated technical staff, come up with solutions.

Ultimately, for pragmatic Americans, the idea is you want to see things get done better, whether it's going back to George Bush [inaudible 0:56:13] HIV-AIDS program, malaria, tuberculosis, whether it's development and growth. So, again, I think we have to be very careful where the debate in the United States is, A, becoming, how can I hit you to force you to do whatever I want?

Notice the tariff threats against Mexico and [inaudible 0:56:31] that were not on trade. It was on immigration or it was on drugs, as opposed to how we can find some win-win solution here. And then also, it's kind of at the cost of our reliability and sort of whether, with the USMCA, which by the way was negotiated by Trump, you can rely on it in some [inaudible 0:56:50].

This will eventually undermine the United States, because, I mean, going back to the Cold War, the US success in the Cold War was in part defense and military, but partly it was the attractiveness of our system. People wanted to be part of this. They didn't want to be part of the Soviet Union. So, the part that drives me a little crazy with the frenzy of China is, you know, people are trying to imitate China. Why do we want to be like China? Our strength is our openness to ideas and people with capital and goods.

Adam Posen: I call that the suction, not sanctions agenda. Larry, last word on development and what the US should be thinking about in this area.

Lawrence Summers: I agree with Bob, but I'm going to maybe try to be less nuanced than he was. The art of the deal is a good thing. The United States Congress can appropriate a dollar through the IMF and the World Bank, and if you do it right and you do it in the right system, that can catalyze $20 of things that happen in countries that are potential allies with our getting a fair amount of the credit for what happens.

I don't know why we wouldn't think that was a really good thing for us to do to be advancing our interests, and I think we should be doing more of it. As we do that, we should be insisting that these institutions change and evolve. N.K. Singh, a former Indian official, and I wrote a report under the auspices of the G20 about all of this.

We basically said that these institutions needed to be bigger, because the global economy is getting bigger and God knows the needs are getting bigger, but they also need to be better in the way they do things. They need to do much more work in cooperation with the private sector than they have traditionally, and they need to be able to move faster and get out of their own way to get things done more strongly than they have.

But I think these institutions are terrific tools of US diplomacy, and we should be making more use of them as components of a robust international economic policy. Look, I go back to a conversation that I had with a former African minister a few years ago, and he said to me, “Larry, we like you better. We really do. We're more comfortable with you. We trust you more, but we like airports better than we like lectures, and the Chinese give us airports, and you give us lectures.” I think there's a very important lesson for American policy makers in that.

Robert Zoellick: On a positive note, Ajay Banga, the current head of the World Bank, has just managed to corral a commitment for IAEA, which is for the very poorest countries, to either grants or long-term loans of interest of $100 billion. Now people have to deliver on that, including the US Congress. So this is a good example of the policy of 2025 that's going to determine the answer to your question. [Inaudible 1:00:51]. Thank you.

Adam Posen: Well, on behalf of everyone watching and the Peterson Institute community, let me thank you both for bringing your personal history, your insights, your analyses, your historical thinking to what the US can and should be doing for its foreign economic policy.

We will be returning to aspects of this throughout the coming years, and we're grateful for your service on our board that helps guide us into making useful contributions in that effort. Thank you, Robert Zoellick. Thank you, Lawrence Summers.

Robert Zoellick: Thank you, and thanks to the Peterson Institute.

Lawrence Summers: Thank you.