

Episode 80: Larry Summers

ERIK TORENBURG, host: Hey everybody, I'm Erik Torenberg, and welcome to another episode of Maker Stories; where we explore what makes the makers, what drives them, what they're scared of, how they make sense of the world, and everything in between. This week's episode is with Larry Summers. Larry is the former Secretary of Treasury, former Chief Economist for Barack Obama, former president of Harvard, and current board member of companies like Square, and Lending Club. This was a fantastic, fantastic episode. This episode we talk about his approach to government, academia, tech investing, the rise of Donald Trump and what that means, Barack Obama's legacy, the future of higher education, and much, much more. If you liked what you heard, definitely check out Larry's Blog at larrysummers.com. Alright, let's get started.

(Start of Interview)

Erik: First off, thank you for joining me on the Product Hunt podcast.

Larry: Happy to be with you.

Erik: Obviously, you're very well known as a Treasury Secretary, president of Harvard, an economist, but what doesn't seem to get as much play is your successes in tech investment. And, you know, you're on the board of Square, on the board of Lending Club, so I want to ask you questions about that. First, i'm curious, how did that start, when did that transition happen? And two, i'm curious, how did you sort of change your mindset as a tech investor, you know, being an academic, an economist, and in government, how have you (inaudible)...in those realms help you as a tech investor? Or how have you had to change your approach?

Larry: I decided after I left government in 2011, that I had substantial experience in academia, substantial experience in government, substantial experience in two of my county governments working with large companies, and in terms of things that were important to the future, important to the economy, I had less involvement and exposure with technology. So, I became interested in learning more about technology and spent some time out here talking to others who i knew, speaking with Sheryl Sandberg who I worked with at the treasury in the 1990's, (who) obviously went on to have great success. So I talked to alot of people, you know, and a fairly substantial range of oppportunites came my way and all the opportunities I chose to take advantage of. (inaudible 2:52) of Lending Club and Square, and what i thought was so exciting about them was that they both represented financial innovation for people, rather than financial innovation for banks(? Inaudible 3:08), they're doing a great deal of financial innovation directed at better kinds, new kinds, I don't know if they're better or not, new kinds of derivatives, different kinds of

hedging online. And at their core, Lending Club and Square both have the mission of removing frictions so that people can get their deals.

Erik: Did part of you think that the tech world or even just private business in general was a better way to see the financial change that you wanted to see happen than via government, or other levers? (inaudible 3:44)

Larry: I think they're just different. I think there's a bit of a hubris out here that somehow companies can do things that governments can't. I don't find that's a helpful perspective. I think the role of companies and the role of governments are to do quite different things. The primary role of government is to do things that companies can't, that there's no incentive formula that would lead companies to do. So I don't think of it as competitive in that way, and people say that we can kind of just do away with government and you know, have Bitcoin replace the federal reserve, and have for-profit schools in place. Public schools have sensors replace traffic cops (4:33), I think that's more often hubristic nonsense than real substance. On the other hand, I think there's a huge amount that disruptive businesses can do to better serve consumers, to provide better opportunities for employers and employees, and that's been an exciting part of being part of it out here.

Erik: What do you think of Bitcoin as a viable future 3rd currency?

Larry: I think there are a number of arguments that people at various points have proposed for Bitcoin that are nonsense. The idea that Bitcoin will permit the evasion of capital controls is clearly wrong. If governments want to control Bitcoin, they will succeed in controlling Bitcoin. The idea that we're on a road to monetary production and headed for hyperinflation and Bitcoin will be of reliable storable valuable I think is foolish. Ideas evidenced by the very low rates of inflation that now exist almost everywhere. I think the Blockchain, the underlying technology for Bitcoin, offers the prospect of substantial economies in the management of the payment system, particularly with respect to microtransactions, transactions over long distances, and I think there's some real substantial prospect there. You know, the great question in a way is, will history look back on Bitcoin today as being where the internet was in the mid-1990's, something that took off spectacularly, or will history look at bitcoin as being second life? Or something that for an interval generated great excitement.

Erik: And the jury's still out on second life in terms of, you know, it itself didn't succeed but it might be a precursor to other things like it in virtual reality.

Larry: It might well be a precursor, and that's why, if you ask me, will something about the blockchain prove to be important at some point?

Erik: Is it more fun than government or academia? Have you ever thought about it doing full-time? I know you're an advisor to Andreessen Horowitz; ever thought about being a tech investor?

Larry: I like the life that I have. I get a lot of satisfaction from teaching students, I get a lot of satisfaction, from doing economic research I get a lot of satisfaction, from thinking about broadened lives, public policies, and that has always been my primary orientation. And while I'm excited to have the chance to be involved with startups, and I think I've learned a great deal from doing it. I hope I'm able to make a contribution to serving some objectives I care about, like making financial services more widely available.

Erik: What would need to be true for you to get back to government again?

Larry: You never know what's going to happen in those things. I've had hugely exciting chances to work at the Treasury during the 1990's, a time where our country performed very very well. Economically, I've had the chance to work with President Obama, I had a time when the economic situation more serious than anytime since the depression. So, you know, there are not many people who serve at high levels. I got the chance to serve at high levels at the federal government for 10 years.

Erik: What would cause you to change your mind on whether we are currently in a secular stagnation?

Larry: The secular stagnation view as I put it forward is a particular view about the relationship between demand and interest rates. (it) basically says that to maintain adequate demand we need much lower interest rates than we've needed historically and that has a set of consequences for monetary and fiscal policies. If we were to observe the nominal interest rate at 4% or the real interest at 2 or 2 ½ % with a rapidly growing U.S economy for some substantial interval, that would be inconsistent with the views I've put forward. I don't think that's gonna happen, but I appreciate the question because I think that if one wants to be thoughtful talking about any issue, one should always be prepared to specify what one could possibly see in the world that would lead to change one's mind.

Erik: What do you think the next chapter, the next big chapter, what do you hope the next big chapter in your life is?

Larry: Oh well that's, you know, we'll have to see. I spend a lot of times these days thinking about the impact of technology on job creation, the impact of technology on inequality, how we can maximize the benefits of technology while not taking, while living with fewer of the costs that seem to be present. I think the widely schisms (inaudible 10:48) within our society manifest, for example, I think the most (inaudible) indicator is what's happened to life expectancy for the kind of people that live in Silicon Valley, or that work in tech companies with high education and high incomes has been rising almost 3 months every year for the last 25 or 30 years. Whereas for those in the lower of the income distribution we've seen essentially no progress. And so, that's a huge deal. I mean that's the equivalent of over the last generation elimination cancer 2 times over for the high-income people, and we've seen very little progress for those with lower

incomes. And so I think that is a a very basic kind of indicator of cleavages and social distress, and I that's hugely important to address.

Erik: What's that an unpopular policy you'd like to see implemented?

Larry: I think the most obvious and glaring deficiency in current American policy is massive public underinvestment. We can borrow money cheaper than any time in history. We have very low materials cost, we have large numbers of construction workers without work, and we are investing in infrastructure at the lowest rate we have since the second World War. Indeed, on a net basis, taking out depreciation, infrastructure investment is close to zero. That can't possibly make any sense. And you see the results everywhere. You see it in children poisoned in Flint Michigan where the water supply is in much lower quality than its chinese equivalent even though China has a fifth of the incomes that we do. You see it in paint crumbling off the walls in thousands of American public schools, you see it in Laguardia Airport or Kennedy Airport, I mean these are gateways (inaudible 12:59) that calls itself the greatest city in the world. And yet, they are terrible. You see in the air traffic control system in the United States that basically doesn't use GPS technology, and as a consequence planes circle , planes are often not enabled to take off or to land, accidents are far more likely. So I think we just got a major failure of infrastructure provision. And if we addressed it, we'd put people to work in the short run, we'd expand the economy's capacity in the medium run, and in the long-run, we'd remove a huge burden from our children. Because while people talk about the deficit that's a burden on our children, the truth is that nowadays debt compounds at an average interest rate of about 1%. When you defer maintenance for a decade the costs cumulate and compound at a rate far, far greater than 1%.

Erik: When you were a young person, not to say that you're not longer a young person, did you think that you'd be doing what you've done today? Who were your heroes back then? What did you think in high school or college?

Larry: I knew that I wanted to do economics from the time I was a freshman or sophomore. In college I knew I was drawn to economics, and I--

Erik: Just being in class and just like---

Larry: I come from a family with a number of economics, always found it fascinating when I was a kid, and realized that I was more interested about thinking scientifically about problems that people had than thinking scientifically about just natural phenomena, and so I gravitated to economics because it combined a combination of a concern with policy and people's welfare. We have the capacity to be very analytical and empirical (inaudible) were the two things I was drawn to.

Erik: Your last post was about Trump and the sort of consequences about what will happen geopolitically and various other ways if he wins. And before that you wrote a

piece on Sanders, or at least on some of his policies that was, you know, somewhat critiquing them but in some ways sympathetic to the view or the ethos behind them. It seems that you're somewhat sympathetic to Sanders; would Larry Summers in 1990's be as sympathetic to Bernie?

Larry: I don't think I would put it quite that way. I kind of believe in looking at particular issues and trying to come to the right judgement to respect to them rather than signing on to political movements or, particular candidates. During the 1990's I worked very hard along with (inaudible) who was then the Secretary of (inaudible) on predatory lending. And most of the practices that came to grief in the middle of the last decade we actually tried to outlaw. We didn't get very far given that there was a republican congress at the time, and given that the fed had a rather libertarian view about mortgage lending arrangements. But I certainly worked hard on those issues during the 1990's. I worried during the 1990's and spoke out about the so called government sponsored enterprises Fannie Mae and Freddie Mac, and the dangers they posed and the risk that they would collapse because they were insufficiently capitalized. I worried about the impact of money interests in regulation, in (audible), and so in those ways I think I'm on the progressive side of financial reform issues for a long time. We fought very hard to force banks to basically focus more on depressed communities, and in particular on something I worked very hard on was the issue of financial inclusion. A number of Americans lose large amount of money to payday lenders because they don't have a bank account seemed to be a problem that government needed to focus on. Would there be things particularly in the derivatives area that metastasized after 2000 that we didn't see? Yes. Do I wish we had seen them? Yes. I guess I think it may be self serving that if you look at where those derivatives where in 2000, most of what metastasized that led to the catastrophe happened after 2000, and I'm pretty confident that if we had been there we would've acted as it metastasized.

Erik: In what ways would Larry Summers today disagree with the Larry Summers of 5 or 10 years ago?

Larry: I guess the way to put it is that economic conditions change, and if you have constant values, then as the realities change the best way to achieve those values will change. So in the early 1990's it appeared that America suffered from low productivity growth, due to substantially o limited investment, due to high capital costs, and bringing down high budget deficits seemed like a way of reducing capital costs, increasing investment, and spurring productivity growth. And indeed that was the key to Clintonomics, which was substantially successful. Today the problem is very different with interest rates essentially at zero. There is not capital cost problem. With inflation predicted to remain below the 2% target for a decade by markets, there is clearly a problem of inadequate demand. So with the need for demand with the financial stability risks of low interest rates, and with capital costs not a problem, the policy implication seems to me to be increased public investment. So I got a very different set of views on policy than I would have 20 years ago. Say 20 years ago, I would've put dominant emphasis on increasing the growth rate, and while I regard that as central now, I think it's also clear that we've seen that what is happening to the distribution of income also has a very important impact on middle income families. So that would be a larger part of my concern.

Erik: Are you terrified of a Trump presidency? Do we think it'll never, ever get to that? How do you explain, you know, as someone who's been around so long, how is this even happening?

Larry: I think he's unlikely to actually become president. But it's not inconceivable. It'd be very interesting to politics in Europe changes in light of what happened in Brussels. And it can't possibly lead to changes for the better, I think that whenever risk wants to (inaudible) a week ago, what has (inaudible) substantially greater risk, to (inaudible) this morning. And you never know what's going to happen that could affect U.S politics. I think when someone's close to getting the nomination of one of our two major parties, it would be irresponsible to not take seriously the prospect that that person would become President of the United States. I regard right now the greatest threat to American national security and to American prosperity the prospect of Donald Trump as president. It is a much scarier prospect to me than anything about ISIS. And Trump has demonstrated a disdain for facts, a disdain for civility, a reluctance to engage in a civil way with adversaries that suggests a set of character traits that would make him an enormously dangerous man with his finger on the nuclear button, with control of the armed forces, with the vast powers of the presidency.

Erik: You almost couldn't make this up in like House of Cards or even a show where--

Larry: You know, I've watched the plot of House of Cards and they seem absurd and you think about what it is that is going on in our country. You know there are 3 historical figures in the 20th century who Trump bring to mind: Huey Long, Joe McCarthy, and George Wallace (FIX). And they had a common populist appeal focused on anger as elites that appealed to the baser parts of the nature of their supporters. The difference is that there was never a moment where McCarthy or Wallace looked like the likely nominee of a major political party.

Erik: What do you think Obama's legacy will be?

Larry: I think history will judge him very well. He came into office at a time where every economic statistic that was interesting was performing worse than in the fall of 1929, and while there's much to criticize about America's economic performance in recent years, it is nothing like what happened after the fall of 1929. He achieved universal health care and at the same time he's slowing the growing in the growth rate of total health care costs of a kind that most analysts regarded as inconceivable in 2010. With more than 1 dollar in 6 going into health care, having that system work much better than it did 8 years ago is a huge achievement. When he was president, when he became president, U.S energy independence and \$2 gas both seemed almost inconceivable. Today we take for granted that the U.S will ultimately displace Saudi Arabia as the flywheel in the world's energy system. And, we'll have the capacity to use the influence that brings for global good. We've seen huge progress on questions like gender equality, gay marriage, during his years in office. I think it's harder to know what his foreign

policy legacy will be , and it's something that is very much debated right now. I have a suspicion in the same way that Eisenhower was viewed much more positively in foreign policy today than he was when he left office, Obama will be seen as having had some very important achievements, a transformation in our relationship with Cuba, a satisfactory mode of addressing Iran without a war, and that the United States has substantially withdrawn from both Iraq and Afghanistan, and there have been many opportunities to make huge mistakes that were not taken. It was Eisenhower in historical memory, Eisenhower is remembered for having missed many opportunities to get the United States embroiled in wars.

Eric: (laughs) right. So you were the President of Harvard a few years ago. In terms of how you think about the future of higher education, if you were the President of Harvard today, what would be your biggest goals and opportunities?

Larry: There's no idea more important for the future than that societies should be based on the authority of ideas, rather than the ideas of the authority. That's part of what's so threatening about Trump, that's part of what's been so important about the American example in the world. There are no institutions that so embody that idea as American universities. They are places where as a matter of routine, as once happened to me, 17-year-old student who's been there for 2 months feels entirely free to tell a senior professor that their ideas are all wrong. It doesn't matter who's old or who's got a higher rank, it just matters who's right and who can win the argument. That's a gift that American universities have given to the world that's of immense value. The challenge for American universities is that they far too often look inwards rather than outwards, and that they are at one level sources of great ideas, but at other levels so traditional and so conservative. Let me take some examples; the median age of Harvard faculty, professors at Harvard, is now approaching 60. That would not be true at any other kind of institution. The job of a professor is to have great new ideas and to work with young people. It can't possibly be right for them for me to be older than the median faculty member. When one thinks about the scale of these institutions, can one imagine Harvard had 1,600 students admitted in the mid-1970's and you try (inaudible 29:59) and it still has 1,600 students admitted. Can one imagine that almost any other type of institution so successful and so iconic would have failed to grow in a large way so as to spread its impact? One of the things I was very proud to have done as President of Harvard was to make it possible for any student with a family income under \$65,000 to come to Harvard paying nothing at all. But those types of initiatives need to be extended throughout American higher education, and American universities need to do much more to strengthen the quality of America's public schools on which America's future ultimately depend. The really transformative thing where I believe unis are still just scratching the surface is the potential of tech to enable to reach not thousands of students, not tens of thousands of students, but hundreds of thousands or millions around the world. What online education makes possible is two things that very, very rarely go together: On the one hand you can reach vast scale. On the other hand, you can achieve far greater customization. You can set up lectures as hypertext so that people can pursue the areas that are most interesting to them. You can give problem sets that branch and provide one kind of question for students who are moving through the material quickly, and another for students for whom it is more challenging. And so, greater

scale and greater personalization usually are in opposition. This is an area where they have the potential to complement each other, so I believe that universities have vast and great potential. But that they are governed far too much for the convenience of their faculties, and they therefore function too much like exclusive clubs and too little like great potentially world-transforming institutions.

Eric: You're writing a lot about technology right now. Are there certain spheres of industries within technology, whether it's, we talked about Bitcoin before, whether it's virtual reality, whether it's artificial intelligence, whether it's something else that you're particularly long on, or you know, interested in getting involved in?

Larry: I, you know, I've been particularly excited about financial technology in part because I have background in financial questions. I'm particularly excited about the applications of big data and artificial intelligence because that seems to me to represent the further of empirical methods to (inaudible) great benefits.

Eric: What's it like working with someone like Barack Obama, but also someone like Jack Dorsey? How do you sort of compare the best in tech with the President?

Larry: Very very different people in very very different roles, and I'm sure that either of them would particularly see the comparison as apt. I think the difference is, I think the difference between a business entrepreneur or for that matter a professor and a president, is a professor or entrepreneur gets to choose the problem he works on. And if the problem is too hard, you work on a different problem where you can make progress. And a great challenge of being a President is that you don't get to choose the problem you get to work on. The economy is collapsing or the economy is not collapsing. Our adversaries are attacking us, or our adversaries are not attacking us. And so I think the great challenge to the public responsibility and the thing that those who criticize public leaders tend to greatly underestimate is that they have to confront the problems they confront rather than having the great privilege of looking around the world and finding a single challenge, and focusing on that single challenge.

Eric: Right, thank you for being on our podcast.

(cue outro music)