

FAREED ZAKARIA GPS

Obama Interviewed; Economic Situation; U.S. Infrastructure Woes

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[Obama interview omitted]

ZAKARIA: Oil and food prices are sky-high, world markets are down, and the American economy seems to be slinking into a long slump. Just how scared should we be?

Well, I've gathered three of the top economists in the world to talk about all of this.

Lawrence Summers served as the United States' secretary of Treasury, then as president of Harvard University. Paul Krugman is the must-read op-ed columnist for the "New York Times." And Columbia University professor, Jeffrey Sachs, has spent years giving emergency assistance to economies around the world in the form of advice.

The first question to you, how scared should we be? In other words, are we in the phase of a crisis where the pain has been felt, and there's going to be a long, slow working out of this pain? Or are there more unpleasant surprises to come?

You know, what innings are we in?

JEFFREY SACHS, DIRECTOR, THE EARTH INSTITUTE, COLUMBIA UNIVERSITY, ECONOMIC ADVISER TO GOVERNMENTS: I don't know if Paul and Larry agree exactly, but one thing that could be added to this is the question of whether there's a way to counteract the downturn itself, not whether one should pump up the economy, and so forth. But is a recession at this point unavoidable? This is going from, you know, gloom to gloomier.

But I would say yes, and that the attempt early on in the next presidency to have a big stimulus and keep pushing, and do everything we can to avoid the downturn, would actually prove to be fruitless at this point, because there are so many imbalances that have been built into the U.S. economy in the last decade, and especially in the last few years, and now added to the -- now added on by the global markets -- that consumers really are going to have to adjust.

They've not been saving for years. The housing market is not going to be the way the economy is going to recover. There's going to have to be a lot of structural change in the U.S. economy. There's going to

have to be export-led growth to an important extent, because we've been borrowing on an amount that we will not continue in the future...

ZAKARIA: So, (UNINTELLIGIBLE), a recession will actually have an effect of cleansing the system. It will take out some of these unsustainable imbalances.

SACHS: No, what I'm saying is that, the idea that there really are enough gears right now to just keep that headline measure of the total size of the economy growing at some positive, close-to-normal rate, is just not the case. We don't have tools like that, that can do that.

And there are so many problems that need adjustment right now, and such a legacy of imbalance, that I think that heroics to stop a downturn wouldn't work.

LAWRENCE SUMMERS, FORMER U.S. TREASURY SECRETARY, FORMER PRESIDENT OF HARVARD UNIVERSITY: Jeff, we've been friends for 35 years, and I've never heard you say such a fatalistic thing.

I don't disagree with you about the difficulty, the challenge. And I think, no matter how brilliantly policy is carried on, the next three or four years are not likely to be three or four particularly favorable years in American economic history.

But I think it's a serious mistake to suggest that we should somehow accept our recession like a man, and that if we just do that, we'll cleanse the imbalances...

SACHS: No, but, I didn't use the word...

PAUL KRUGMAN, OP-ED COLUMNIST, "NEW YORK TIMES": But there's a definite...

SACHS: Come on, look, Larry.

KRUGMAN: But I think, look. OK, fair enough. But that's not what you're suggesting...

SACHS: Fareed asked me that, and I said that that was not what I was saying here.

ZAKARIA: That was my Herbert Hoover...

SACHS: That was not what I was saying.

KRUGMAN: ... Andrew Mellon. Liquidate the farmers, liquidate the workers. It will purge the roughness from the system.

SACHS: What I was saying is that, after many years of heavy borrowing, low saving rates, a mess in the housing sector, a mess with the dollar, inflationary risks, and so forth, we just don't have the tools.

That's all I'm -- I think I'm saying, is realistically, it's not heroism to the rescue that is going to enable us to have normalcy, or close to normalcy.

ZAKARIA: It's kind of a long...

SACHS: That's all I'm saying.

KRUGMAN: Yes. No...

ZAKARIA: What you're saying is it's a long slog.

KRUGMAN: So, there is a case -- I think there is a case for another stimulus package. The next president might very well want to do something that tries to pump up demand -- probably a better stimulus package, something that actually does some stuff that we need, like repairing infrastructure, as well as just, you know, putting checks into consumers' mailboxes.

It probably is not going to be possible to avoid a fair bit of hardship on the way. But, you know, you don't want to just be fatalistic. You don't want to -- and by the way, if things really do tip -- you know, and tip -- look like they're tipping into something much more serious, then heroic measures are called for.

I mean, it's not the case that you never want to do something very dramatic. It's not -- it's one thing to say that it's not going to be easy. It's another thing to say that we should just stand back and let this thing happen.

ZAKARIA: Larry, you've been there. The president comes in. The economy is looking very weak. The Fed is doing what it's doing.

What realistically is the president going to have at his disposal? And what would you advise?

SUMMERS: You know, it's eight months off, and it's difficult to know what the world will look like at that point.

I think there's a strong case for more fiscal stimulus, because I think more unemployed resources, more problems in the financial system isn't going to serve any constructive purpose. And as part of the transition, I favor that fiscal stimulus.

ZAKARIA: And it would be a big infrastructure...

SUMMERS: And I think infrastructure's got to be an important part of it.

You know, one of the features of the structural changes in the economy, particularly the fact that there's

not going to be a lot of construction for a long time, is that a core group in our society -- men who haven't been to college -- are really bearing the brunt of this downturn. And the right kind of infrastructure program can do a lot to provide them with opportunity. And I think that's very important for the country.

I think the next president and his colleagues are going to have to take a serious look at the financial system, at the way we regulate the financial system, at the so-called government sponsored enterprises.

We're going to have to make sure -- and it is not going to be easy -- that that system has enough capital in it to support a robust flow of credit. And making sure that that happens, rather than a vicious cycle of liquidation, has got to be a crucial priority for the next president.

There's going to be more to be done to prevent foreclosures. The house prices are going to have to adjust, and we're not going to be able to stop that. But there are things we can do that prevent foreclosures and prevent the tremendous waste that's associated with the foreclosure process.

SACHS: A new president has a new chance for a longer term agenda. It would be very easy for the short run to overwhelm the next administration.

If the president comes in and says, "My God. We've got unemployment rising. We've got to do something. We're going to give another tax cut," for example, which will be very easy to be top of the agenda, fiscal policy will tie itself up in knots, we will not get to a long- term perspective, which we need to solve long-term problems in this country.

And I think an administration that starts with the desperation to avoid what is unlikely to be avoided, will not find a way to address longer term challenges, and would end up, you know, unsuccessful, I would say.

So, we've drifted so badly in this country, in this administration. Everything of seriousness for the long term, starting from a fiscal structure that takes account of the demographic changes in this country, what we're going to need in the long term, the health sector, as Larry said, the energy sector, climate change, and a host of other extraordinarily serious long-term problems have been neglected.

And yet, we will face what will be looked at as a traditional short- term business cycle problem. And it could overwhelm the administration and overwhelm our politics.

If we spend most of our time on what we're going to do immediately about the housing crisis, what we're going to do about this, what we're going to do about another tax cut, and so on, we will not get to the things that really need addressing right now.

And a lot of what needs addressing is global. And we've gotten so bad at doing anything serious with the rest of the world, that those basic linkages internationally have to be recreated, and a president is going

to have to spend a lot of time seriously on that. That's also going to cut against the grain of an economy in a big slowdown, and probably in an outright recession.

SUMMERS: I think there's -- Jeff and I...

ZAKARIA: Let me ask -- yes.

SUMMERS: Where Jeff and I agree is on the ends, that we've got to address the current situation, but that there are long-run issues that are absolutely critical to address in an effective way.

Where I think we do have a nuance of disagreement is that my concern is that, if the recession is not contained to the extent possible -- and I don't think, either, that it can be fully contained -- then I think it's going to be very difficult to do anything right for the long run.

And I think the prospects of..

ZAKARIA: So, you're more scared in a way than he is.

SUMMERS: ... maintaining the United States as a force for openness, as a cooperative nation working with other nations on these global issues of energy, on these global -- on these global issues that are of such concern -- I think those chances are much greater if we're doing all we can to make the American economy work for the American people.

And so, I think it would be a mistake for any administration to lose sight of the distress that Americans are feeling, because of the things that we've discussed.

And so, I think it's a matter of finding the right balance.

KRUGMAN: Well, actually, let me -- I don't even think -- I think these things can go together. I mean, I always think of the New Deal model, FDR, where a short-term crisis acted as a justification and a stimulus for long-term reform.

And we came out of the Great Depression with Social Security. We came out of the Great Depression with the Trade Agreements Program, which paved the way for the global economy of later generations.

We can come out of this crisis, actually, with an enhanced case, enhanced prospects for health care reform, with an enhanced prospect for a rational energy policy, which could also slide into a climate change policy.

I mean, what we really want is, we want the next president to say, "We have all these big problems. Some of them are short term, but they're wrapped into a long term. And here are the things we can do to fix them."

And we come out in 2013 with a much better society, a much better thing -- partly, you know, exploiting the crisis, exploiting the crisis to do the right things.

ZAKARIA: We've had a somewhat gloomy discussion, but on that optimistic note, we're going to have to end.

Thank you, gentlemen. Thank you very much.

(COMMERCIAL BREAK)

ZAKARIA: This week 78 years ago, construction began on the Hoover Dam. Rising 726 feet above the swirling waters of the Colorado River, it was considered a miracle of modern engineering.

The dam was one of dozens of major infrastructure investments made by the U.S. government during the 1930s. The Golden Gate Bridge, the George Washington Bridge and LaGuardia Airport are three other examples.

In fact, from Thomas Jefferson's roads and canals to the interstate highway system of the 1950s, America has had a great tradition of building the world's best infrastructure. But as anyone who has traveled in America recently knows, that tradition seems well and truly dead. Collapsing bridges and levees, crowded airports, clogged highways and a dysfunctional train system have become the hallmarks of modern American life.

The United States now spends less as a percentage of GDP on infrastructure than any other industrialized country, a mere 2.4 percent compared with five in Europe and nine percent in China.

The American Society of Civil Engineers estimate that we would need to spend \$1.6 trillion just to bring existing roads, bridges, highways and airports into good repair. Then, we need to plan for the future. If not, projects like the Hoover Dam will become symbols of an America that could once think big and big tall, an America that is no more.

That's it for GPS this week.

But before we go, I want to thank you again for all your e-mails. Last week I asked: What else, other than the Declaration of Independence, happened in 1776?

Many of you chose the one specific event I was thinking of -- the publication of Adam Smith's economic classic, "The Wealth of Nations," a 1,000-page book that became an instant bestseller, and could fairly be described as the intellectual foundation of modern economics.

Lots of you also noted that Thomas Paine published his famous revolutionary call to arms, "Common

Sense," in 1776.

For this week, we've talked about the Hoover Dam. What is, in your view, the most impressive man-made structure in the world?

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See you next week.