Larry Summers was a key Democratic Party advisor 28 August 2023 4080 words

Eric Christian Bruun, Ph.D.

After reading one of his recent academic papers, I want to question why Larry Summers is once again being consulted by the leaders of the Democratic Party (White 2022).

Anna Stansbury and Lawrence Summers both of Harvard University published a paper in 2020 entitled *The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy.* This paper is trying to explain how the reduced power of wage workers versus capital explains trends in the income in the labor segment of the total economy. They finished the paper without any definitive list of factors that explain how labor's share of productivity gains has stagnated; wages used to move in parallel up to the late 1970s. There are a full 11 pages of references, almost all from economic journals and a token few about political economy and sociology. But none from fields in which I am familiar and might be pertinent like urban planning, rural versus urban development, modern supply chains, or in general, mathematical modelling outside the silo of academic economics proper but may well imbed economic principles.

First, I want to show where the "head space" of a famous contemporary high-level economic advisor like him is to be found. Lawrence Summers grew up in Penn Valley, a very affluent neighborhood in Lower Merion Township, outside the City of Philadelphia. Both of his parents were faculty at the University of Pennsylvania located within the City proper. One of his uncles was Kenneth Arrow, a famous economist, the other was Paul Samuelson, author of the most used economics textbook in the USA for decades. He no doubt got lots of positive reinforcement about what a good boy he was and he left to MIT at the early age of 16. He had Penn as his safety school since he would have been accepted as a legacy. He had no need for financial aid when he decided to follow in his relatives' footsteps.

Thus, in addition to not living amid the poverty of Philadelphia or attending its underfunded public schools, after finishing high school he began at MIT. He never faced financial aid uncertainty stemming from personality conflicts with advisors who approve financial aid or research/teaching assistant slots that can end even excellent graduate students' progress. Sailing smoothly through his academic degrees, all in economics, to tenure, he had job security for the rest of his life if he wanted it. After his stint as President of Harvard University, he joined the hedge fund D.E. Shaw as a managing partner where he became very wealthy. His three (?) years at the hedge fund are nowhere to be found on his CV (Summers 2023). This is his only non-academic work experience. He has no experience at all, let alone deep knowledge, within any particular industry other than their money-making potential.

But this does not stop elected officials from appointing him and others like him with very siloed backgrounds to advise on policies that steer the future directions of engineering, biology, education, or the interdisciplinary fields that combine engineering or the sciences with the social sciences and humanities. Examples include urban public investment evaluation or rural economic development planning or eco system management where their neoclassical economics informs only one part of the picture.

I am only one year younger than Dr. Summers and also went through an academic pipeline, but we could not be farther apart in our upbringing and careers. Clearly this has strongly influenced our impressions of how well the US economy works. My parents were both immigrants from Finland. My mother had to bring up five children while my father was an outstanding structural engineer at Boeing Commercial Airplane Company in Seattle. Nevertheless, even his job was periodically in danger due to the boom or bust nature of the airliner industry. Especially so when the Boeing SST was cancelled and the near simultaneous introduction of the Boeing 747, Douglas DC 10 and Lockheed 1011 created a massive capacity glut in the early 70s. I was very sensitive to what the fate of one large corporation could do both to individuals and to the city in which it was the major employer. In the Seattle region, over one hundred thousand other workers had families connected to Boeing and its many suppliers. Indicators must also attempt to measure how efficiently people actually physically live their daily lives, the financial and health security of their children, and what other options are available to workers if crises like the Boeing near collapse or coal mine closures hit.

I started as a mechanical engineer but discovered that transportation engineering and operations research was much more interdisciplinary. I returned to school to develop my analytic skills as a consultant, thinking that I was too old to start on an academic track. Over time, I started to identify where the holes are, not just in consulting, but in academia, that I might try to fill. It seemed clearer and clearer to me that cities could not be evaluated well enough by the types of indicators economists like to compile and analyze. I could study indicators about the built environment and how they must include relative demands on limited space and physical resources stemming from public investment decisions. As examples, the space dedicated to various transport modes, allowed building heights, sizes of parks, remain important for decades. Professor Summers does not seem to have any awareness of how physical design affects the urban economy. This is preliminary to investigating factors affecting labor rents.

So let me provide some explanatory factors for the relative power of labor versus capital that fall outside neoclassical economists' set of tools and concepts. To summarize my explanation, the roughly top 20 percent have a creditor/debtor relationship with the roughly bottom 80 percent in a two-tier economy. The majority in the USA face the world's highest medical and dental procedure costs, highest pharma costs, and other cartel prices. These all limit the disposable income available while health insurance limitations, drug tests, travel distances and options, and more recently, background checks even for non-sensitive jobs like bus drivers, credit checks on persons with medical debts, and other restrictions can further tie a person to one employer. No compete clauses have recently been recognized as a restraint and the FTC is trying to remove this one (more on this later).

Further, government competition policies or lack thereof can undermine choices of employers. One is the lack of enforcement of the Robinson Patman Act of 1936. It is supposed to forbid wholesale prices from being different when the cost of selling to a retailer is not different. Without this, WalMart can squeeze almost all of the profit out of a wholesaler from dealing with them and also undercut smaller competitors. This has driven smaller stores out of business and hence the number of potential employers while also emptying downtown buildings not based on having a moat of parking around a big box. The almost total lack of enforcement of the Sherman Antitrust Act against megamergers has further limited the number of potential employers. Even already huge grocery chains like Kroger, Albertsons and Safeway seek to merge. This is not just for greedy fee opportunities or asset stripping, as is often assumed, but perhaps a necessity to compete by driving down their wholesale costs too, since bigger creates more purchase negotiating power, to compete with Walmart and Amazon. The two Acts should reinforce each other. Grocery stores are only one example of ever more concentrated industries.

The 80 percent in the lower tier also face restrictions on employment opportunities due to lack of public services more readily available in most peer countries. Overdependence upon family members for unpaid childcare because there is not public childcare and car dependency because there is little or no transit can make work life very difficult. Combine these with the aforementioned unrelenting sprawl and increasing concentration of corporations and it should be no surprise at the weakness of labor and stagnant wages for most.

But, wait there is more, as they say in television commercials. House purchase and rental prices have been increasing even in places that do not have increasing populations so it cannot be explained only by supply and demand. Years of Quantitative Easing (QE), defined as the Fed buying up marginal and toxic assets, was done as a way to inject money into the economy. It has allowed banks, hedge funds and private equity groups to speculate in housing, mergers and acquisitions, and even art instead of productive investments in the industrial sectors. Roughly 20 percent of all residential housing is now owned by financial institutions instead of traditional landlords. Until very recently, money could also be borrowed by financial institutions at close to zero interest rates. But now with interest rates jumping to about 5 percent this is suddenly further indebting home borrowers who do not have fixed rates. Thus, the cost of housing when relocating can also be a huge barrier to new employment.

Many of the more recent post Covid-19 news stories showing ads offering higher wages reflect attempts by individual companies to solve their own staffing issues. This cannot compensate for the real causes. Namely, speculative “investments” and decades of neglect by government at all levels of sound urban planning principles, neglect of public services, and toleration of employer oligopoly power.

This phenomenon where some people barely earn enough to live and are in debt, while others earn high incomes with good benefits, even for the same job description, is the so-called dual economy. An example is how lower-tier restaurant employees must often sign no compete clauses as if they are going to share a secret sauce recipe. They cannot accept another job offer in their own neighborhood. Meanwhile, upper-tier persons can go through a revolving door between government and private companies even for jobs requiring a Top Secret clearance. Unionized State of New York employees at the Metropolitan Transportation Authority receive so-called Cadillac health plans that are virtually free and earn lots of overtime if they want it, while city and county employees must contribute and make copays using after-tax income. A state cap on property tax increases of 2 percent regardless of actual local/county needs militates against both benefit increases and overtime.

The dual economy has long been recognized by some economists. But it has continued to intensify as the majority are now almost entirely without either political or union representation. A recent and blatant example is how Amtrak is further upgrading their very expensive services designed for the well-off upper tier in the Northeast Corridor with new trains. Meanwhile the intercity bus stations used by the lower-tier in Philadelphia and other cities have been closed down with little political interest in replacing them. For most, there is no longer any countervailing power, to use John Kenneth Galbraith's term from *American Capitalism*. Senator Chuck Schumer is on record as saying that he doesn't mind losing working class voters as he is gaining suburban voters instead.

The federal money during the Covid-19 pandemic which had started to alleviate this situation is no longer flowing. Summers and others have expressed concern that this is a major source of current inflation. Many locales are now unwilling to help the unrepresented or unable out of their limited tax base to restore services. Particularly important to job seekers, transit operating and maintenance expenses are reverting from the feds back to state and local governments. Therefore, badly needed services to reach jobs will be cut in many regions just when they are needed to increase the labor pool. Also hard hitting to potential employees, the federal government's failing to renew the popular child support means that many, especially women, will have to stay home.

Parallel to this, the recent increasing stock market probably reflects that the upper tier who hold the vast majority of stocks and bonds want in on the feeding frenzy of higher profits from collecting the ever-increasing debt payments from sudden higher interest rates on a variety of types of loans. This is removing discretionary income from the lower tier at the same time more money is needed to support the cost of taking jobs, like the ability to purchase cars, which now stands at $1.55 trillion in debt (Alexandric 2023). Furthermore, there will be more relocations to remote locations in search of lower rent such that travel distances to employment keeps steadily increasing again just when better access is needed to expand the labor pool. At the time of this writing, student loan forbearance during Covid-19 is also about to expire, estimated at $1.7 trillion, just to add fuel to the fire.

The combined result is the outright depression visible in many communities despite the recent higher GDP growth rate. One reason for the discrepancy is the concentrated activity in few overheated locations; one foot is in boiling water, the other in freezing water, but on average the temperature is going up. Another reason for GDP growth is that some portion of higher interest payments is improperly viewed as productive goods and services in the computations of GDP rather than financial overhead.

Thus, this current drive to tame inflation on the theory that slowing the economy will reduce the demand for lower tier wage workers and hence drive down wages is based on a huge misunderstanding of the actual physical situation facing millions of wage workers and would-be workers. Economists like Summers who are advising politicians live in luxury and are clueless about how the lower tier live. The typically quoted U3 unemployment statistic includes only people eligible for unemployment compensation and also actively seeking work. The U6 stat which includes all of those in the 16 to 65 age group is a better indicator and much higher. Even before Covid-19, people in the 16 to 65 age group were dropping out of the work force because the pay minus the cost of taking the work was too little for so many. Taking into account the increase in population between 2000 to 2020, and with a working age population in 2020 of about 214 million, there are roughly 10 million fewer people in the workforce than there would be in an economy without this apparent increase in obstacles and disincentives (Rogers and Wilder 2020).

Then there are the factors on the employer side that make the terms of employment worse. Hours have become more erratic both in number and in the days of the week. Erratic hours prevent the taking of second jobs. Walmart, the leading employer in 22 states, specifically caps work at 28 hours per week to avoid triggering health insurance requirements under the Affordable Care Act. Many jobs do not give any overtime while one is waiting unpaid and further prevent doing second jobs. An example is trucking where a driver might have to wait hours for a load to be ready. Summers on the other hand is guaranteed a nine month salary no matter how much or little he produces, with a choice of either a long vacation or outside consulting. And apparently, he can have a residence in Connecticut even though his place of employment is Cambridge, Massachusetts.

Economists should stop acting like physicists and be more like anthropologists and sociologists. Then they would not have to wonder about the factors that are or are not increasing the labor rents about which they claim to be concerned. They will discover that life is truly hard for over half the U.S. population and that there are explanations already known to many. There are no teleportation devices like in Star Trek removing commute times and expenses. There are no SciFi devices where children can be placed in suspended animation like Michael Jackson requested. All too often, there are not even sidewalks or safe bicycle paths, so parents must act as chauffeurs in between their several jobs.

They could also visit with the lowly administrators in city governments who struggle to find the budget to provide even the most rudimentary transit services so that residents can reach at least a modest percentage of job sites. Then there are the more expensive items, like trying to find the budget to take the disabled to stores and medical appointments a few times per week or to pay cartel prices to hire psychiatric care for the increasing number of people who cannot hold a job or stay out of jail without some help.

Life is not tough for everyone, and of course this is the tier in which Larry Summers and everyone with whom he associates lives. It includes a lot of professionals who back in the 50s were predominantly Republican. Now this is much of the base of the Democratic party and both parties compete for them. The historian Thomas Frank has written bestsellers documenting this evolution. It includes physicians, dentists, tenured faculty, military sector professionals, pharmaceutical sector professionals, consulting engineers, etc. But it also includes quite a few wage workers in the sprawl-construction complex, defense and aerospace unions, even some public sector unions. Such people perhaps do not even see themselves as in the upper tier. The recent Bipartisan Infrastructure Act and misnamed Inflation Reduction Act both target their formula funds and incentives to corporations increasingly owned by hedge funds and to projects employing the upper tier. This is the modern version of a political machine pitting a loyal bipartisan minority against the majority of voters.

In recent TV interviews Summers said that he sees infrastructure spending as something that should be paced so as not to overstimulate the public sector, diverting workers from presumably more worthy private investments. But infrastructure is now far from being a matter of merely maintaining and modernizing an existing asset base. Strategic investments must urgently be made for resilience under global warming. In the age of industrial capitalism before financial capitalism, public investment in infrastructure was seen as something modern nations had to do because it could lend a competitive advantage to a region or an entire nation by lowering the costs of doing business. Dams built during the Great Depression provided cheap electricity. The Interstate Highway and Defense Act of 1956 had wide support, at least the intercity part. (Freeways through the heart of cities was quite another matter.)

Cities were also understood to give us the further benefits of agglomeration and were thus seen as something to be nurtured. Concentrating people in cities enabled both skilled workers and the professional staff in similar industries to move from firm to firm as contracts ebbed and flowed. Nowadays under financial capitalism, there is a deliberate policy of outsourcing to cheaper countries, or dispersing industries over green fields within the USA to shop for tax giveaways, and to weaken labor through jobsite de-agglomeration. The auto industry did not just move to Mexico it scattered itself all over the Interstate 81 Corridor and Appalachia (Weisbrod 2015).

The USA lags far behind almost all of its peers in urban public investment. It has been 30 years since the first segment of the LA Red Line metro opened under downtown and it has still not reached UCLA at the west end. Large metros like the Philadelphia region have seen no transit expansion for 40 years. The NYCT subway has only expanded by 11 stations in the last 50 years. Larry Summers bears significant blame for this as President Clinton’s economic advisor, Deputy Secretary of the Treasury, and then Secretary of the Treasury. His team viewed the budget surplus in the late 1990s as a good thing. The annual federal deficit is a mirror image of the private savings in the economy. When the borrowing, largely for the dot com bubble, used up the savings, it created an unstable situation. At some point it could go bust when credit dried up as the loaners realized virtually all savings and thus collateral was gone. The bust did indeed come, but only after the Democrats lost the Presidential election. To use the cliché of the economics textbooks, it was time for the federal government to give the “punchbowl” back.

Putting money back into the financial system to prevent this bust through spending on public infrastructure contracts could have competed with the dot com hysteria with many attractive private sector opportunities. Well-chosen projects could have created many jobs in depressed areas improving the lives of many voters and potential voters. The 2000 election might never have even been close enough for the Supreme Court to intervene. Ultimately the much-touted surplus was dissipated in 2001 without productive use on infrastructure and better social services. Instead, to stimulate the economy after the bust, Clinton's successor created money for war in Iraq and Afghanistan and stimulated those in upper income brackets with tax cuts. He also created money for giveaways like Medicare Part D to big pharma in 2003.

Did Summers' advice under the Clinton presidency ever come back to haunt him? To the contrary, he was appointed Assistant to the President for Economic Policy when President Obama was elected in 2008. After the anger over the bailouts of banks instead of mortgage holders after the 2008 crash, his advice to earlier administrations should have been entirely discredited. Did his advice come back to haunt him this time? Apparently not so much, as he was approached by Democratic Party leaders in 2022 and is currently being regularly interviewed on how to deal with renewed average inflation, my motivation for writing this article. In a nutshell, he recommends that the lower tier be pressured rather than the upper tier, does not support public investments that actually might increase labor rents and does not even understand the factors. Nor does he see global warming as urgent enough to justify stimulation of public investment despite any labor impacts, whatever they might be. I rest my case that the bottom 80 percent are unrepresented now that Summers is once again in the inner circle.

What do other high level academic economists think of the analysis in this paper? Numerous critiques are summarized at the end of the paper. Again, almost all comments are mild using the same reference concepts and indicators internal to the economics profession. But a couple of comments are particularly revealing. The first is from Professor Greg Mankiw, author of a widely used economics textbook, *Macroeconomics*. From the Comments and Discussion summary:

> (Mankiw) suggested that if it is true that worker power has declined, perhaps instead of reversing this trend we should applaud it as it might signal that labor markets have become more competitive. p.95

This is from a person who is exempted from even the most token periodic competition for his position. Let us see how he feels about competitive labor markets if he must compete for his position periodically against challengers, like it was apparently in 16th century Italy when mathematics faculty had to compete with challengers. Or if he had to teach at several different schools each with one-year contracts like adjunct faculty.

Professor Bob Hall of Stanford University apparently thinks that there should be no minimum wage as it creates a "poverty trap" that blocks people from employment. Is there even a hint of awareness of urban planning? Maybe the layout of Palo Alto where Stanford is located is such that the cost of taking a low wage job there is too high. Apartments are all but zoned out so one must own and operate a car and endure a long and stressful commute to a less selfish community. Is the fact that similar situations exist for millions of people not something that distinguished economics professors should include in their exploration of labor rents?

Is it really an overstatement that courses by professors like these two are brainwashing from persons floating on clouds? These two along with Summers should all go to retire in luxury with their banker friends and leave the policy advice to others.

References

ANNA STANSBURY and LAWRENCE H. SUMMERS. 2020. The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy. Brookings Papers on Economic Activity, Spring.

Summers Lawrence. 2023. Curriculum Vitae. Available at: https://apps.hks.harvard.edu/faculty/cv/LawrenceSummers.pdf, accessed 21 August 2023.

Rogers Luke and Kristie Wilder. 2020. Shift in Working-Age Population Relative to Older and Younger Americans. US Bureau of the Census. June 25.

White Ben. 2022. Larry Summers emerges as the unlikeliest Democratic hero. Politico. 15 August. https://www.politico.com/news/2022/08/15/larry-summers-emerges-as-the-unlikeliest-democratic-hero-00051433

Weisbrod Glen. 2015. Estimating Wider Economic Impacts in Transport Project Prioritisation from Ex Post Analysis. International Transport Forum-OECD, Paris, France. November 10. See especially: https://www.itf-oecd.org/sites/default/files/docs/weisbrod_presentation.pdf

Aleksandric Milica. 2023. Car Loan Statistics 2023: Average Debt, Payment and Default Rate https://finmasters.com/car-loan-statistics/ updated 28 July.