

# Summers op-ed sparks controversy over Biden stimulus package

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Democratic policymakers have rushed to the defence of the Biden administration's \$1.9 billion stimulus package following an opinion piece published last Friday in the *Washington Post* by US treasury secretary in the Clinton administration and economic policy adviser to Obama, Lawrence Summers. In the article, Summers raised concerns that the stimulus measures could spark inflation.

Summers has previously warned of secular stagnation, a term first coined in the 1930s to describe continued deflation, low growth and sluggish investment. In last week's *Washington Post* commentary, he began by expressing support for the Biden program.

"Its ambition, its rejection of austerity orthodoxy and its commitment to reducing economic inequality are all admirable," he wrote. He agreed with the "general consensus" that it would have been better if the Obama administration had advanced a bigger stimulus package at the beginning of 2009.

But bold measures "need to be accompanied by careful consideration of risks and how they can be mitigated," he added.

Summers warned there was a chance that "macroeconomic stimulus on a scale closer to World War II levels than normal recession levels will set off inflationary pressures of a kind we have not seen in a generation, with consequences for the value of the dollar and financial stability."

A second concern was that if the stimulus package is approved, Congress will have committed 15 percent of GDP, leaving no room for spending on public investment "in everything from preschool education to renewable energy."

The response from the Biden White House was immediate. In a briefing with reporters on Friday, Jared Bernstein, a member of Biden's Council of Economic Advisers, said Summers was "flat out wrong" in his suggestion that the administration was underplaying the

dangers of inflation.

He said, "Janet Yellen is our treasury secretary, OK? She knows a little something about inflationary risks and has tracked that economic issue forever."

He added that the administration believed it was important to "hit back hard," and there was "complete consensus" on the size of the stimulus package.

Yellen then entered the fray. She said she worried about "all risks to the economy," but the "most important risk" was failing to address the economic impact of the pandemic on workers.

She acknowledged that inflation was a "risk we have to consider," but added: "I've spent many years studying inflation and worrying about inflation. And I can tell you we have the tools to deal with that risk if it materialises."

Other comments from the broader Democratic milieu have been vitriolic. Writing in *The American Prospect*, "left" economist Robert Kuttner said he had advised in an earlier piece that Summers be kept far away from the Biden administration and "mercifully Team Biden agreed."

He said the *Washington Post* article had proven the point, adding that "he's also proven again that he's a vindictive SOB."

The *Nation* weighed in on Tuesday with an article titled "Larry Summers is still worth ignoring," echoing the denunciations of him in Democratic circles. The author said it was a "heartening fact" that Biden was the first Democratic president in nearly 40 years not to employ his services.

However, the *Nation* noted that there were still Democrats in power who respected Summers, and warned that his "alarmism could be contagious." It cited a report by *Politico* that stated: "Everyone in the West Wing is reading a Larry Summers op-ed being circulated among liberal policy wonks. Why? Summers put down on paper what many liberal wonks have been whispering about for

weeks. That President Biden's stimulus bill may be too big."

The significance of the controversy can be grasped only when it is placed within the context of the unprecedented speculative boom in US financial markets and fears that the bubble could burst, giving rise to a crisis on a scale far broader and deeper than that of 2008-2009.

The markets continue to hit record highs, fuelled by the inflow of trillions of dollars from the Federal Reserve and the expectation that still more money will be provided to buy up the Treasury bonds issued by the government to finance its stimulus measures.

Every day brings a new twist in the orgy of speculation. On Monday, in what could be characterised as speculation on steroids, Elon Musk, the head of barely profitable Tesla, announced that he was spending \$1.5 billion to purchase the crypto currency bitcoin, and that he was considering using it as a means of payment.

The announcement sent the price of bitcoin soaring by 15 percent to \$44,000, followed by a further hike yesterday that saw the price rise to nearly \$50,000, bringing its total increase since its March low to 1,150 percent.

Tesla's move into bitcoin is the result of previous speculation. As the *Financial Times* noted, the investment amounted to "a recycling of billions of dollars Musk has been able to raise from stock market investors on the back of Tesla's booming share prices," compared to the situation two years ago when it "flirted with bankruptcy" and was "bleeding money."

There is no question that emergency relief measures are needed to alleviate the disastrous economic situation confronting hundreds of millions of workers and to finance the rollout of vaccines against the coronavirus.

As the COVID-19 death toll continues to rise, economic conditions worsen and anger mounts in the working class, the Democrats recognise that failure to initiate any measures will have far-reaching political consequences.

But Summers is warning that the very measures being adopted to try to create political stability will result in economic instability, particularly in the financial markets.

Rising inflation will bring demands for higher wages and an intensification of the class struggle, which could bring about a collapse of the Wall Street bubble.

At the same time, the increase in the supply of government bonds, lowering their price and raising their interest rate, or yield (price and yield have an inverse relationship), threatens to bring about a collapse of the speculative bubble, which depends above all on rates

remaining at record lows.

Since the stimulus package was announced, there has been an upward movement in the interest rate on long-term Treasury bonds, the market for which forms the base of the financial system. The 10-year bond rate has risen from 0.92 percent at the start of the year to 1.16 percent, and the 30-year year rate has risen from 1.65 percent to 1.97 percent. Last April, 10-year bonds were trading with a yield of only 0.51 percent.

Because of the massive increase in debt throughout the economy, it would take only a small rise in rates to set off a crisis. It has been estimated that a one percentage point rise today has the equivalent effect of a three or four percentage point rise 20 years ago.

As the *Sydney Morning Herald* economics columnist Stephen Bartholomeusz noted: "Given the 'debt trap' the US finds itself in, with federal debt already over 100 percent of US GDP and rising rapidly... even a modest movement [in interest rates] could cause a recession and even another financial crisis." The debt trap that had been created was of "such magnitude" that trying to escape from it "could trigger something worse than the experience in 2008."

The controversy over the Summers op-ed underscores the fact that there is no way out of the economic and social crisis triggered by the pandemic within the framework of the capitalist economic and financial system.

The solution does not lie in the endless printing of money, as favoured by the "left" Democrats. Whatever the necessary but short-term and very limited relief it may provide only creates the conditions for a financial crisis.

The only viable and realistic solution lies in the fight for a socialist program, in which the vast resources of the economy, created by the labour of the working class, are taken out of the hands of the financial oligarchy and utilised to meet human needs—economic, social and health—rather than the dictates of the profit system.



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