

Grim As It Is Now, Larry Summers Guesses Recovery Could Be Faster Than Anticipated

VF [vanityfair.com/news/2020/04/larry-summers-guesses-recovery-can-be-faster-than-anticipated](https://www.vanityfair.com/news/2020/04/larry-summers-guesses-recovery-can-be-faster-than-anticipated)

Larry Summers, *Vanity Fair*, April 2, 2020



Larry Summers—a former president of Harvard, Treasury Secretary, National Economic Adviser, and unsuccessful candidate to be chairman of the Federal Reserve—hasn't been shy about what he thinks should be happening in the face of both the health and financial crises America is facing. He has an active Twitter presence. "People were appalled by Katrina and the failure of preparation in basic infrastructure that it represented," he [tweeted](#) on Monday. "This negligence and failure now dwarfs that." Still, he sees certain reasons for optimism once the virus is brought under control. Summers (who was the subject of the first piece I wrote for *Vanity Fair* in 2009) has been holed up in Truro, Massachusetts. We spoke yesterday by phone. Our conversation has been lightly edited and condensed.

***Vanity Fair*: How bad is this? This isn't your first rodeo, you know, whether it's Asia, Mexico, the 2008 financial crisis. How bad is this looking economically?**

Larry Summers: I think the peak to trough decline is overwhelmingly likely to be worse than anything I've seen by a significant margin. Something like a third of the workforce is not going to be able to work during the current period of social lockdown. The people who can work now are the people who can work at home and the people that have to work outside. Economists are an example in the first category, ambulance drivers are an

example in the second category. But a third of the people—the dental hygienists, people who work in bookstores, the people who sweep the floors in office buildings—who neither need to go outside nor are able to do their job from home—will suffer by no longer being able to do their jobs. And that's an immense loss of labor input and of output.

And so by that metric this is going to be the worst thing we have dealt with so far. The two huge questions are: How long is this going to last? And how fast can the economy recover? I think dealing with it more aggressively up front probably means a faster recovery and a shorter total time spent suffering, just as is true with financial bailouts. I have the optimistic guess—but it's only an optimistic guess—that the recovery can be faster than many people expect because it has the character of the recovery from the total depression that hits a Cape Cod economy every winter or the recovery in American GDP that takes place every Monday morning.

That's a humorous analogy but I see your point.

And so I think that if we're able to get the public health under control that normality will return more quickly than it does after financial crises or normal recessions, but I'm not sure of that.

Do you think the inflection point has to be the slope of the curve beginning to flatten? Which it clearly has not done but other countries obviously have and we haven't; is that the inflection point in your mind where people can get back to work and start to interact with each other again?

I think the statistics we see around the number of people who die are probably relatively accurate statistics but are three weeks into the rearview mirror about when people were getting infected. The statistics we see on the number of cases are probably almost impossible to interpret because they have to do with the rate of testing as much as the underlying disease.

Who's actually infected, right.

I would think from the time when a decline is firmly established—so it's not the first day we see a decline—but from the time a decline is firmly established, in two to three weeks we can begin a process of letting up on restrictions. But that process of letting up on restrictions is a process that begins with important activities being possible to take place outside and then goes to people being able to get a very long-needed haircut, and it's probably six weeks from there until a movie theater is allowed to open or a restaurant is operating at a profitable density. But when those things have happened, I think the recovery is going to be quite rapid. If we have a modestly successful management of the crisis, which depends on the biology and depends on our competence in being appropriately patient and keeping people disciplined about their social distancing for as long as necessary—

Advertisement

What you have called “our social-control investment,” a phrase I love...

If this fall we're able to open schools in significant part I would expect that GDP would get back to its fourth-quarter 2019 level by mid-2021. It would still be below the path it otherwise would have been, but I'd expect it to get back to it and I would expect we would be looking at relatively normal unemployment rates by the end of 2021. But that's a scenario that depends on there being no more bad surprises from the virus, that depends upon Americans being capable of being relatively disciplined, it depends upon policymakers not letting up or taking off the restraints too rapidly, and none of those things are certainties. So there's much more room for downside scenarios relative to that than there are upside scenarios.

Do you think colleges, universities, and schools will open in the fall?

I think it's in the neighborhood of 50-50 on colleges and universities. I thought when universities first said that they were closing for the spring, most people around me thought of course they would be open in the fall. And I thought it was 25% or a third that they would be open in the fall, and now as I have watched and come to a better understanding that even in places like Italy you can aspire to bring about a turn, I think it is more likely than I previously thought but I still think it's in the neighborhood of 50-50.

So, the Fed. Once upon a time you might've been Fed chairman, and recently you tweeted, you know, the Fed has—or said something like the Fed has “limited ammunition, you have to conserve it.” What do you think about the Fed's response, which has been seemingly quite overwhelming?

When I tweeted that it was when the Fed moved to zero interest rates and it was completely overwhelmed by events and nobody much had noticed. And my view at the time was that they were going to end up having to do things of the kind they have done and it would've been better to have moved to zero and to have done those things all at same time. I think as things have evolved, I don't think it was terribly consequential that they did it early rather than doing everything together. I think the question is going to be how much money is going to move under all these facilities, and once the magnitude of the sticker shock has been absorbed, what the consequences are going to be for the economy. As we saw with the TARP [the 2008 Troubled Asset Relief Plan], there are a lot of issues involved between committing money and actually having the money be delivered.

Right.

Finding a formula that's going to get significant sums of money to millions of small businesses with high speed and without unacceptable levels of fraud is going to be very challenging. The number of people currently working within the Fed building or the Treasury building who have ever factored a receivable or been near factoring of a receivable is extremely small. It's quite small. Standing all of this up is going, I think, to not be easy. Laws of this kind are anything but self-actualizing, but I admire the

approach of trying a large number of things and figuring that some of them will work out and that others will not work out. I think we need to be careful about being clear about what it is we are protecting. Society is taking a loss, a fundamental loss of hundreds of billions of dollars of income here that could translate into wealth because the GDP is going to be substantially depressed. Those losses don't go away because you borrow money or because you print money. They are borne by somebody. I think we need to be careful about how hard we work to protect shareholders with these programs or to protect bondholders with these programs rather than protecting working people. If Boeing's shareholders are not substantially diluted in the context of any public bailout of Boeing, it will be outrageous.

I don't see why airline shareholders should not also bear a substantial part of the burden of the fact that there is less demand for air travel, just like automobile-company shareholders are going to bear the burden of the fact that there is reduced demand for cars, and Disney shareholders are going to bear the burden of the fact that there is less demand to go to Disneyland. Where governments should be acting is where there's the potential for substantial losses that will hurt the economy going forward, that valuable enterprises that would make a major contribution to the economy when things go forward would otherwise be liquidated, but we have a variety of mechanisms in a capitalist economy—bankruptcy, debtor-in-possession financing, lending, corporate reorganizations—that are designed to prevent very wasteful liquidations. It's important that it be clear that the focus of the bailout efforts be the protection of workers and the maintenance of the capacity of the economy to function, not the alleviation of all economic pain, particularly economic pain that is being borne by shareholders. The reason shareholders get paid on average much higher returns than people who hold money or hold treasury bills is because they are agreeing to be last in line when times are tough.

But it's an act of God, Larry.

And we need to make sure they stay last in line.

But it's an act of God. Right? Isn't that the counterargument? It's not like a bad balance sheet—

Recessions are acts of God. When there are a lot of rainstorms in Florida it's an act of God. If you own an amusement park. There were issues of sharks that reduced the desire to come to Cape Cod and hurt the occupancy rates of some hotels in Cape Cod. We can't make these risks go away. The question is whether people who sign up to take these risks in return for higher returns and who've received higher returns in the periods where the risks didn't happen should bear them or whether taxpayers as a group should bear them? I'm for safe loans that provide liquidity and I think the Fed's done the right thing by committing a large amount to that.

I'm for protecting the owners and employees of pizza shops. But large companies that are seeing their profits go way down because of an event that no one anticipated, the owners of those companies should be the primary bearers of that risk.

And what's your view of the quote, unquote "stimulus package" or as Paul Krugman calls it "the life-support package," "the medically induced coma package"? Once upon a time you thought the Obama stimulus package wasn't enough. Now with \$3 trillion, some people say \$6 trillion, you leverage the \$500 million of equity. Is it enough? Should there be more?

I think right now I am more worried that we will have trouble moving the money we have committed quickly enough and that we have not committed enough money quickly. Depending upon how all this plays out, I would not be surprised if we need to commit more money two or three months from now.

I think there is a substantial lacuna in the support we've provided with respect to something that's actually very, very important. Money that could have moved very quickly is money to state and local governments which, among other things, could be supporting first responders and nurses in municipal hospitals. It is a tragedy that doctors' incomes are being cut and there isn't money to fully compensate nurses in some municipal hospitals, that there isn't enough money to pay for making some kind of information technology available for kids who can't go to school. I would like to immediately see a substantial increase in the funding available to states and localities.

How about personal protective equipment and ventilators and all that?

That goes without saying. My sense at this moment is that the problems in masks, ventilators, and all that go more to logistics than the lack of money. But anything that can be done with respect to testing, contact tracing, treatment, treatment facilities, provision of treatment, any barrier having to do with a lack of money should be immediately removed.

One final question then. Any thoughts on how this event, this crisis, will change American society or the way we interact with one another and global societies?

I think it may be the end of the Reagan-Thatcher libertarian wave. I don't think anybody after this is going to be saying that there's "no such thing as a community," as Mrs. Thatcher did. I don't think anybody after this is going to be saying as a blanket statement the government is the problem, not the solution. We are seeing that there are ways in which we are all in this most extreme tragedy, that there are ways in which we're all bound together and that is going to lead to a substantial change in public philosophy.

So I think just as the 1929 Depression was a final act with respect to a variety of things that had been in process, and just as there were a whole variety of elements that brought us to 1979 and 1980 and the oil-price lines and inflationary chaos of the late

1970s catalyzed a change in public philosophy, I think this is going to be seen as a vivid part of signaling a change in public philosophy that was already underway.

Do you think we'll ever shake hands with one another again?

I'm sure we'll bump elbows. Whether we'll shake hands depends on how flatteringly you write this interview up.

- Trump Awakens to the [COVID-19 Danger](#)
- Could [Wall Street's Coronavirus Tsunami](#) Get Worse?
- Jared Kushner Told Trump the Coronavirus Was [Fake News](#)
- Tucker Carlson on How He Brought His [Coronavirus Message](#) to Mar-a-Lago
- The 12 Most Insane Moments From [Trump's National Emergency Presser](#)
- How a [QAnon Coronavirus Conspiracy](#) About Oprah Went Viral
- From the Archive: Inside the Week of Hurricane Katrina, Revealing the Foolishness, Fear, and Politics That Turned a Natural Disaster Into [a Man-Made Catastrophe](#)

Looking for more? [Sign up](#) for our daily Hive newsletter and never miss a story.