Why Secular Stagnation?: Larry Summers and Monopoly Power

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Eight years ago the United States collapsed into the Great Financial Crisis. When the American housing market tumbled, a chain reaction exposed the fragilities in the global financial system. Complex chains of debt made the entire financial system vulnerable and an alphabet soup of exotic financial instruments intended to reduce risk turned out to concentrate it.

In 2008 The Economist told its readers “The world economy is plainly in a poor shape, but it could get a lot worse.” The Economist asserted, “history teaches an important lesson: that big banking crises are ultimately solved by throwing in large dollops of public money.” The special report went on to describe the “large dollops” of money needed to be in the tens of trillions of dollars.

Seven years ago the US recession was officially declared over. “Dollops” of tens of trillions of dollars have still left the US economy and economies across the globe stuck in an “endless crisis.”

The “Endless Crisis”

Economies throughout Europe gasp and stammer. The European Commission projects that growth rates will be below 2 percent for the Eurozone for several years. The German economy, once Europe’s leader, now may become its laggard, functioning as the European anchor of stagnation. The IMF warns that emerging markets face increased challenges and growth slowdown. Latin American economies have been plagued with thirty-five years of recurring financial crises and highly unstable economic conditions.

China is sputtering. Economic indicators and recent economic analysis suggest a high possibility of a Great Chinese Financial Crisis. After three years of Prime Minister Shinzo Abe’s economic revival plan the Japanese economy continues to hobble along in its state of secular stagnation that it has been in for two decades and counting.

East Asia and Pacific accounted for almost two-fifths of global growth in 2015. The World Bank warns the “region’s growth prospects faces a challenging backdrop: slow growth in high-income countries, a broad slowdown across emerging markets, weak global trade, persistently low commodity prices, and increasingly volatile global financial markets.” The IMF warns the possibility of “a sharper slowdown for China,” weak growth in Japan, and tightening global financial markets “dim Asia’s growth prospects.” The high leverage of multinational oligopolies “could amplify shocks, and lower commodity prices will also hurt corporate investment.” Bottlenecks and labor unrest in India, and “weaker growth” of other major
trading partners are likely to generate “hysteresis effects” (i.e. stagnation), and “hinder private investment” throughout Asia.\textsuperscript{13}

The U.S. economy eight years after the Great Financial Crisis is showing weakness in nearly everything but employment.\textsuperscript{14} But even the slow steady march of US job creation is plagued by unusually high levels of temporary positions, low wages, stagnate wage growth, high underemployment, and significant worker precariousness.\textsuperscript{15} The underutilization of today’s workers, not only create hardships, it generates the conditions for worse economic performance and hardships in the future.\textsuperscript{16} There is increasing evidence that it is the working class that pays the highest costs for enduring secular stagnation, economic instability, and inequality.\textsuperscript{17}

Workers are not only unable to mediate stagnation by themselves; their attempts may make the macroeconomy worse. Brown University and Federal Reserve economist Gauti Eggertsson calls this the “paradox of toil.” He has warned that when the economy stagnates and people seek extra hours of work, the result is paradoxically a reduction in aggregate employment, and consequently aggregate demand. This is because as everyone seeks more work it puts downward pressure on wages and leads to wage stagnation or even wage deflation. Stagnate and falling wages curtails consumption, the fall in consumption is a lost sale, thus investment lags, the curtailment of consumption and investment causes stagnate growth. Eggertsson’s emphasizes that the paradox of toil is a function of a stagnate economy.\textsuperscript{18} In a phrase, stagnation sows the seeds of stagnation.

Thus, if Eggertsson is correct there is reason to believe that in a stagnate economy, worker precariousness is self-reinforcing: precariousness and stagnate wages generates more precariousness and stagnate wages. What makes the paradox of toil so urgent is that economies across the globe are in a circumstance of secular stagnation.

Some of the biggest names in economic policy and economic theory have generated tremendous attention in their attempts to explain these dismal and desperate economic circumstances by invoking the very term from Alvin Hansen,\textsuperscript{19} which he had employed to understand the contradictory manifestations of the 1930s and 1940s: \textit{secular stagnation}.

There is little agreement between these economists on what might be the cause of secular stagnation and less agreement about policy to address it. Nevertheless, \textit{“North America’s Lost Decade”} has become a reality.\textsuperscript{20} To be sure, the persistence of the “Endless Crisis” following the Great Recession poses great challenges to economic growth. Conventional wisdom contends that an economy should recovery to its pre-recession trend as soon as the financial frictions are corrected. There is mounting research to demonstrate the growth slowed well before the Great Financial Crisis.\textsuperscript{21} This begs for an explanation.
Plausible answers could be that banking crises persistently lower total factor productivity (Huber), via debt hangovers caused by pre-crisis overleveraging (Rogoff), build-up of excess savings (Bernanke), or a shift toward pessimistic expectations of investors (Benigno and Fornanro). Robert Gordon argues there have been structural shifts on the supply-side of the economy. Larry Summers and others have persuasively argued that there have been structural shifts but the most important shifts have occurred on the demand-side.22

What is clear is that the very notion of secular stagnation has brought scrutiny toward the nature of the current political economic order.

**Oligopolies: The Shocking “Profit Problem”**

In 2013 Larry Summers shocked the economic world by resurrecting Alvin Hansen’s notion of secular stagnation. He is at it again. Summers has embraced The Economist’s opining of the entrenchment of monopoly power throughout the US and global economy.23

*The Economist* points to the fact that the returns of capital are at near record levels. While the level of investment is “pretty normal,” the cash flows of oligopolies are so high “that they still have pots of cash left over after investment: about $800 billion a year.”

Typically returns to capital are justified with explanations of technological change that increases capital productivity, trade advantages and lower costs from globalization and capital mobility, and the decline in trade-union membership. *The Economist* contends that these accounts fail to “explain the most troubling aspect of America’s profit problem: its persistence.”24

America’s “profit problem” is best explained, according to *The Economist*, by the increasing degree of monopoly (to employ Kalecki’s terminology).

There is an increasing concentration of ownership and a consolidation of market shares within industries. Since 2008 American firms have engaged in more than $10 trillion dollars of “deal” volume regarding mergers. 2015 was the biggest year ever for mergers and acquisitions, more than $4 trillion dollars globally.25 These are not yester-decades clunky conglomerates, but giant firms specializing in various forms of market dominance. Many have been able to create “a moat” around their industry dominance that provides them pricing power and profit stability at high rates of return.26

The oligopolization of the economy was high before, but in the last two decades it has increased.27 The record setting pace of mergers is indicative of greater oligopolization, or what Marx called centralization of capital. The biggest beneficiaries of the merger and acquisition boom are investment banks. In 2015 they racked in an estimated $21 billion from advising
takeovers and mergers. Goldman Sachs Group Inc. advised on $1.6 trillion of deals, J.P. Morgan Chase & Co. $1.5 trillion, and Morgan Stanley $1.4 trillion.\textsuperscript{28}

MIT Professor Simon Johnson told us in 2010 that the financial crisis of 2008 “was primarily a result of reckless risk-taking by world’s largest banks.” “You could argue they” were then “too big to fail.” “Now, post-crisis the surviving banks are definitely too big to fail”\textsuperscript{29} and still getting bigger. There is worry from the Federal Reserve that increasing financial concentration may lead “to more financial instability.”\textsuperscript{30} Part of the reason for this is because when firms are especially large, a particular shock to a single firm (what is called in the literature, an “idiosyncratic shock”) can have enormous consequences on the entire economy. Idiosyncratic shocks are of special importance in finance.

As NYU economist Xavier Gabaix explains, “many economic fluctuations are attributable to the incompressible ‘grains’ of economic activity, the large firms. I call this view the ‘granular’ hypothesis. In the granular view, idiosyncratic shocks to large firms have the potential to generate nontrivial aggregate shocks that affect GDP.”\textsuperscript{31}

What large firms do has consequences for and real effect upon the dynamic of the macroeconomy, growth, and personal well-being. These are exactly the points made by Baran and Sweezy in their theoretical “sketch” in 1966.\textsuperscript{32} Since 1966, the historical processes of concentration and centralization are becoming more relevant and increasingly detrimental to the stability of the American and global economies.

Precariousness of workers and macroeconomic instability amplify centralization. In 1997 72% of industries were non-oligopolized, as defined as less than third of the industry market controlled by the four largest firms. In 2012, only 58% are non-oligopolized. This has manifest “sticky profits” and rent-seeking activity. Many oligopolized firms are able to achieve “exceptional” levels of profits equivalent to a third of all taxed operating profits. The Economist contends that the lack of competition means these firms need not pass these gains on to their consumers. Instead they are attempting to increase their domination through aggressive political lobbying efforts.\textsuperscript{33}

The authors of an important recent paper have shown 90 percent of US industries have experienced an increase in concentration levels in the last four decades.\textsuperscript{34} These authors found that firms in industries with the largest increase in product market concentration have achieved the highest profit margins, more profitable M&A deals, and positive abnormal stock returns.\textsuperscript{35}

The authors’ write that their “results are consistent with the idea that the systematic decline in the number of public firms allows firms to generate abnormal profits by increasing market power, rather than by creating an incentive across firms to enhance the efficiency of their existing assets.”\textsuperscript{36} At a micro level, monopoly capital and market power changes how firms
behave and industries function, fundamentally changing the relationship between firms and managers, and between managers and workers. At a macro level, the degree of centralization throughout the economy determines how the macroeconomy performs, or more accurately – how the macroeconomy stagnates.

In a very impressive paper, Einer Elhauge of Harvard Law School, shows market concentration or what Kalecki called the degree of monopoly, needs to further consider “horizontal shareholding” or the practice of a common set of investors owning significant shares in corporations that are competitors in a product market. Elhauge finds horizontal shareholding has non-benign “anticompetitive” effects.

Elhauge argues that horizontal shareholdings help to explain the rise of inequality (pp. 1291 – 1300) and the lackluster recovery from the Great Recession in spite of the fact of very high corporate profits (pp. 1281 – 91). Elhauge writes:

Perhaps the explanation is that horizontal shareholdings are now pervasive because more and more stock is in the hands of institutional investors, but so far there has been no antitrust enforcement against horizontal shareholdings because the anticompetitive problem had not been appreciated until now. With such horizontal shareholdings, firms acting in the interests of their shareholders have incentives to constrain output rather than expand. The high profits they reap are not a signal to competitively expand individual firm output. Rather, the high profits are a symptom of the fact that they have successfully constrained overall market output. This could help explain why high corporate profits have not led to expansion and higher economic growth and employment levels (1283).

Elhauge believes current law and antitrust enforcement could curtail horizontal shareholding and market power (pp. 1301 – 16). The Economist is far less sanguine regarding the ability of regulators to slow down industrial concentration, rent-seeking activity, and exceptional profits of mammoth firms. They argue the current intellectual climate is toward deregulation and to keep government small and weak. Moreover, the legal structure “lacks the scope” to address consolidation and rent-seeking activity.

**Monopoly Power?: Summers and His Interlocutors**

Larry Summers embraces the monopoly power argument. The best explanation, according to Summers, for the exceptional profits is not an increase in productivity, or an increase in risk-taking behavior, “but instead reflects an increase in monopoly power.”

The curious thing is that the dominant economic theory would contend that exceptional profits should necessarily translate into growth. This should occur either through financial markets, and/or some sort of process of creative destruction. If the dominant economic theory was
correct, these conditions of high profits would cause some trouble to Summers’ secular stagnation argument.

More specifically it might favor the alternative theories of Summers’ Harvard colleague Kenneth Rogoff and his notion of deleveraging and “supercycles” or former Federal Reserve chairman Ben Bernanke’s argument that we are in a “global saving glut.” Thus, the question comes down to whether the global system can absorb these high profits. Summers worries that the system will fail to fully absorb profits. Bernanke and Rogoff, for quite distinct reasons, believe that the system, with the correct policies implemented, will over time absorb these profits.

{I believe Summers is correct. He is also correct to point to the importance of monopoly power to reconcile the notion of high profit margins with secular stagnation [Summers has not articulated the position of monopoly capitalism, however, he has laid out well the policy issues and contradictions involved with combating secular stagnation. To reconcile his position fully will require a questioning of capitalism itself, currently he is questioning the structural foundation of the current system, and in this sense is perhaps closer to Palley’s position than is he to Monopoly Capital Theory].}

Former chairman of the Federal Reserve and Princeton University economist Ben Bernanke took issue with Summers’ notion of Hansenian secular stagnation. Ben Bernanke believes there is a better argument to explain the global slowdown, a global saving glut. The agreement between secular stagnation and global saving glut is that growth rates and the real interest rate are both quite low.

Bernanke first began warning about the global savings glut in a series of speeches in 2005. He warned that there is something deeply problematic when too many developing countries are investing in the West and the United States rather than investing their wealth in their home country. The financial instability of the developing world in 1980s and the Asian crisis in the 1990s induced many countries to invest their wealth in the more stable and more liquid financial markets of the United States.

This inflow of foreign capital into the US decreased interest rates and generated a massive wealth effect, whereby Americans feeling rich due to the low interest rates felt secure to take on debt, started building homes, and consuming more. The capital inflows strengthened the US dollar which depressed US exports and increased imports.

Thus, according to Bernanke Summers’ focus on depressed investment and lower consumption misses the insight that it was depressed exports and increased imports that caused the domestic stagnation in the US.
Moreover, Bernanke contends that Summers’ secular stagnation hypothesis is a word too many. This is because even with zero or negative real interest rates somewhere in the world there will be positive returns on investment. “All else equal, the availability of profitable capital anywhere in the world should help defeat secular stagnation at home.”41 In other words, stagnation of domestic investment and consumption are not secular but temporary.

According to Bernanke international investment opportunities are not arising because of uncertainty, high risk, and other barriers to the flow of capital and goods. In Bernanke’s analysis Summers’ infrastructure and fiscal response to “temporary stagnation” misses the culprit of international barriers. In this sense, according to Bernanke, Summers has failed to pay adequate attention to the international dimension.

Bernanke further contends that there are a number of non-secular or temporary “headwinds” such as a sluggish housing recovery, state and federal policy that are too restrictive which are to account for the sluggish growth.42

In more recent posts on his blog Bernanke takes aim at Paul Krugman’s worries over the liquidity trap. Bernanke claims we are not yet in a liquidity trap, and can avoid it with the proper combination of monetary, fiscal and “unconventional” monetary measures.

The primary “unconventional” monetary measure would be negative short-term real interest rates.43 In addition, he explains the Fed could also lower long-term real interest.44 Nonetheless, if a liquidity trap arises, and people begin to hoard money, the Fed could, as a monetary policy of the last-resort, do a Friedman “Helicopter” drop of money. In this case, the actual mechanism would not be dropping money from a helicopter, but rather an increase in federal spending of some sort and/or tax rebate to the public, but it would be financed not by issuing public debt, but by increasing the US Treasury’s “checking account” at the Fed by the same amount as the spending.45

To summarize Bernanke rejects the secular stagnation hypothesis. He thinks it is unrealistic to claim a prolonged crisis in investment because somewhere in the world there are profitable investment opportunities. If these are not being exploited there must be some barrier that is blocking the flow of capital. The incorrect policy response, according to Bernanke, is domestic fiscal measures. The correct policy response is to implement international trade policy that increases the flow of investment capital and goods, and to reduce exchange rate manipulation. In Bernanke’s view the problem of low growth, inequality, and instability is more a function of market distortions caused by bad government policy decisions.

In 2011 Paul Krugman embraced the possibility of a global savings glut. In 2015, responding to the exchange between Bernanke and Summers, Krugman agreed with Bernanke on the global
saving glut. However, he disagreed with Bernanke’s discounting of domestic secular stagnation.\textsuperscript{46}

Krugman reasons from a counterfactual example. Japan has experienced secular stagnation since the 1990s. If Bernanke is correct than “the availability of profitable capital anywhere in the world should” have defeated secular stagnation in Japan. “So why didn’t capital flood out of the Japan in search of higher returns” and end Japan’s secular stagnation? Krugman’s (partial) answer is the real rate of return in Japan (nominal interest minus inflation) was equal to the return in the rest of the world because of Japanese deflation.

Krugman accepts that there is a global saving glut, but parts company with Bernanke concerning secular stagnation. The possibility of a liquidity trap is very real. Japan is the empirical example that most all economists accept. Krugman believes that Europe and US are in, or very close to, a liquidity trap.

Krugman had theorized a return of liquidity trap in a provocative article in 1990s and then expanded on these Keynesian themes in his book \textit{The Return of Depression Economics} (1999). His chief argument was the liquidity trap conditions prevailed in 1998 Japan and were a real risk to economies around the world, along with capital-flight-generated crises.\textsuperscript{47}

He urged then (1999) and urges today, austerity is not the answer.\textsuperscript{48} Monetary policy had become useless in Japan, but could (and today can) be a powerful policy option in an economy not in a liquidity trap, and would \textit{not} cause inflation. He further contends, then and now, aggressive fiscal policy will \textit{not} cause crowding out. Instead, aggressive fiscal spending would immediately boost aggregate spending and simultaneously stimulate private investment.

Rather than increase the flows of goods, Krugman urges the need for particular capital controls. Importantly, this position is primarily based on the insights of Krugman’s Nobel Prize-winning work on international trade, of oligopolized dominated global markets and “New Trade Theory.”\textsuperscript{49}

Regarding domestic policy, Krugman argued in 1999 that the stagflation of the 1970s had central banks overemphasizing the fight against inflation. Krugman argues that central banks were too successful in pushing inflation to 3 percent and lower. This success generated a specific weakness, namely monetary policy would be enfeebled in case of an economic downturn. Worse, if the financial instability (as witnessed in Japan, East Asia, Argentina, Mexico, etc.) or purposefully created bubbles (e.g. housing) burst, a liquidity trap situation is likely.

Today Krugman claims he was right. Krugman in 1999 called for a return of Keynesian fiscal policy, higher inflation targets, and the need for unconventional monetary policies. Today he
argues for aggressively expansionary fiscal policy. He contends worries of inflation are illusionary, and inflation targets should be set higher. However, it is not clear to what extent Krugman sees stagnation as secular. Krugman has great faith to forestall stagnation with the right fiscal policy. It was only in 1997 that Krugman declared “the unemployment rate will be what Alan Greenspan wants it to be, plus or minus a random error reflecting the fact he is not quite God.”

Kenneth Rogoff has put forward an argument for “debt supercycle” as an alternative explanation to Summers’ notion of secular stagnation. Rogoff argues we have experienced a highly typical and all too common credit boom and bust as he and Carman Reinhart document. “As credit booms, asset prices rise, raising their value as collateral, thereby helping to expand credit and raise asset prices even more. When the bubble ultimately bursts, often catalyzed by an underlying adverse shock to the real economy, the whole process spins into a harsh and precipitous reverse.”

The evidence of this, according to Rogoff, “is not simply the deep fall in output and subsequent very sluggish U-shaped recovery in per capita income that commonly characterise recovery from deep systemic financial crises. It also includes the magnitude of the housing boom and bust, the huge leverage that accompanied the bubble, the behaviour of equity prices before and after the Crisis, and certainly the fact that rises in unemployment were far more persistent than after an ordinary recession that is not accompanied by a systemic financial crisis. Even the dramatic rises in public debt that occurred after the Crisis are quite characteristic.” Again these characteristics of a supercycle are well documented in Rogoff and Reinhart 2009.

Rogoff in the late 90s embraced Krugman’s worries of a return of liquid traps. However, he claimed then that long-term 15-year higher inflation targets are “unorthodox” and “truly radical.” In 1998, Rogoff contended higher inflation targets may only need to be in place “just for two or three years.”

Similarly, today Rogoff claims the stagnation is not secular, but temporary and highly transitory.

Rogoff urges the financial crisis could have been mediated, and even avoided, with the proper (macro) policies to prevent procyclicality in financial markets. Rogoff accepts that fiscal measures are needed and supports infrastructure development, and (temporary) higher inflation targets. He further contends there has been “too much focus on orthodox policy responses and not enough on heterodox responses that might have been better suited to a crisis greatly amplified by financial market breakdown. In particular, policymakers should have more vigorously pursued debt write-downs (e.g. subprime debt in the US and periphery-country debt in Europe), accompanied by bank restructuring and recapitalization.”
Rogoff chides that had inflation targets been increased before the crisis the problem of the zero lower bound interest rates “might have been avoided.” In other words, stagnation and liquidity traps would not have appeared. He warns that Krugman/Summers fiscal measures would generate greater public debt, which likely would lead to slower growth. Rogoff further warns that Summers’ and Brad Delong’s argument for the expansionary effect and low cost of fiscal policy is both “superficial and dangerous.”\(^57\)

Rogoff does believe there are some secular factors that could generate slow growth. However, he contends these are primarily supply-side phenomena whereby the efficacy of fiscal policy would be very poor.

Summers’s analysis is quite close to Krugman. However, Krugman seems to have far more faith in the ability of old Keynesian policy to overcome the problem. Summers seems to be intuiting a much more severe demand-side problem. Nevertheless, he has not been fully convincing in the arguments with his interlocutors.

Likewise, Berkeley economist Brad Delong\(^58\) also has strong sympathy toward Summers’s position but believes “secular stagnation” to be the wrong term for the position Summers has staked out. Nonetheless, according to Delong it “is to Summers that we have to look to see why this confluence of Depression economics symptoms has emerged now.”\(^59\)

Against Delong’s reservations, Summers is exactly correct to resurrect the apropos notion of secular stagnation.\(^60\)

To be sure Summers accepts Bernanke’s insights regarding the importance of the global order (Summers has a formal model to address it).\(^61\) Likewise, he would include most of Rogoff’s insights of debt supercycle. However, Summers seems to be sensing a much deeper structural conundrum obstructing the aggregate demand-side of the economy, which in turn is generating endogenous impediments to the supply-side of the economy.\(^62\)

Where there is some shared agreement is that (1) investors have low expectations which is decreasing investment, (2) expected profitability is depressed (3) real interest rate are very low, (4) corporate profits are high, (5) corporations and financial firms are hoarding, i.e. saving glut, (6) inequality is rising, and (7) the financial system is dysfunctional.

Whereas, Bernanke pinpoints the problem on bad governmental policy, Krugman, Rogoff and Summers have underscored the financial system is subject to overleveraging, bubbles, and bursts. When the system is dysfunctional businesses cannot get liquidity for real business growth.
Rogoff believes if the dysfunctions of the financial system are fixed secular stagnation would be averted. Krugman and Summers believe this position to be over optimistic.

In addition to government induced distortions and financial dysfunctionalities, Krugman and especially Summers are insisting on additional and deeper structural dilemmas that have the system “stuck in neutral.” Summers has further insisted that although his position has similarities to Krugman’s liquidity trap they are different in that the liquidity trap is “a temporary phenomenon” whereas his notion of secular stagnation is “a potentially permanent state of affairs.”

The core problem of secular stagnation, according to Summers, is that the neutral real interest rate is too low and monetary policy is not capable of increasing it. Summers urges for “secular stagnation to be a plausible hypothesis, there have to be good reasons to suppose that neutral real interest rates have been declining and are now abnormally low.”

Summers identifies the several reasons for “abnormally low” real interest rates. First is the current tendency toward capital-conserving technology. This has meant a much slower growth in labor force participation. In addition there has been slow growth in the labor force, disinflation of capital goods, and tight credit. The income inequality in developed nations has contributed to an increase in propensity to save and reduction in the propensity to invest. Inequality has also caused uncertainty regarding retirement and the availability of benefits. Households and firms have a more difficult time borrowing and foreign central banks and sovereign wealth funds have increased their accumulation of assets.

Rogoff’s international financial policies may be capable of reducing financial fluctuations and may reduce uncertainty, but they do very little or nothing to address the problems of slow growth in the labor force, disinflation of capital goods, and capital conserving technology.

Summers is claiming that the Great Recession caused damage to the labor force that is permanent. Summers and Olivier Blanchard warned back in 1986 that when workers are out of work for long periods of time they lose skills they once had and fail to develop skills that would have otherwise developed had they remained in the labor force. The natural rate of unemployment increases and labor productivity is curtailed. The consequence is a permanent lower growth rate because of labor “hysteresis.”

More recently Summers and Brad Delong have shown that when the extent of hysteresis are significant there is an impact on potential output even after normal conditions are restored. In other words, financial crises and demand-induced recessions may have permanent negative consequences on aggregate supply.
Thus, Summers is arguing in concert with Rogoff and Krugman the current financial structure is liable to overleveraging, bubbles and bursts. When this happens a liquidity trap, or zero bound on short-term nominal interest rates, can arise and severely limits the efficacy of monetary policy. Fiscal policy becomes constrained by the cyclical induced debt-GDP expansion. A prolonged recession and weak recovery has permanent negative consequence on aggregate supply. These circumstances are the basis for a drag on planned investment. When investment drags there emerges excess savings. The excess savings tends to keep the nominal interest rates in zero bound conditions and the inefficacy of monetary policy persists. Lacking fiscal intervention, the excess savings can lead to bubble formation or prolonged or even permanent condition of underemployment of resources. The underemployment of resources additionally creates further hysteresis for physical capital and labor. This can be a self-perpetuating vicious cycle of secular stagnation.

Recall from *The Economist* that corporate profits are high. DeLong warns there are not enough “good” private investment opportunities in America. The US financial system as failed to mobilize the risk-bearing capacity of the country and its instability has created a lack of “good relatively safe private investment opportunities.”

Summers contends that an expansionary fiscal policy can reduces excess savings, raise real interest rates, and stimulate growth. DeLong and Summers argue that zero bound nominal interest rates have a positive impact on the spending multiplier, whereby fiscal policy becomes very effective. The private savings glut means that the crowding-out effects that economists worry will arise from government intervention are avoided. Moreover, the already zero bound nominal interest rates and saving glut allows governments to borrow cheaply. Fiscal expansion raises employment and output. In the short-run fiscal expansion raises the federal deficit, but simultaneous increases potential output, thus reducing federal debt in medium and long-terms. According to Summers and DeLong, the long-term hysteresis effects justify fiscal expansion because the long-term benefits compensate for the short-run costs.

Summers has contended that structural changes have permanently lowered the real rate of interest. He has deep concerns that the dysfunctional financial circumstance is unlikely to generate private investment spending to the degree needed to achieve full-employment. Laurence Ball, Brad DeLong and Lawrence Summers have, in a series of papers, recommended a combination of (1) income redistribution, (2) financial reform aimed at the mobilization society’s entrepreneurial risk-bearing capacity, and (3) infrastructure fiscal expansion policy can avoid secular stagnation.

In a moment of self-criticism DeLong worries that “the [US] government isn’t sufficiently competent or is too encumbered by interest groups to make” the above needed polices work. According to DeLong, the problem of aggressive fiscal policy is not economic but political.
Delong is surely correct to worry about the political sector’s capacity and ability to carry out successful fiscal measures. But there is a further concern that they have not fully appreciated the deeper structural contradiction of the monopoly-finance capitalism.

**Secular Stagnation and Market Structure: Monopoly-Finance Capitalism**

There would be a great benefit to this debate to fully appreciate the institutional emphasis of Alvin Hansen’s notion of secular stagnation. This is not the place to unfold Hansen’s contribution. However, in contrast to Hansen’s institutional emphasis, so far the resurrected debate regarding secular stagnation has failed to fully analyze the institutional and market structure of American capitalism. The analysis of institutional and market structure of American capitalism involves a study of the restrictions to technology, price-wage rigidities, and excess capacity of capital and underemployment of labor. It is especially the latter that is constraining private investment opportunities and increasing entrepreneurial risk.

The debate of secular stagnation will need to confront the oligopolization of the American economy and global economic order to fully understand why real interest rates have fallen. The concept of excess capacity as developed by Steindl, Kalecki, and Baran and Sweezy, changes how we conceive obstacles upon, and the added risk to, private investment spending.

Taking account of oligopolization of the American economy allows us to understand “the adverse influence” planned excess capacity has on investment. Steindl argued that in mature capitalism with oligopolies, profits margins become inelastic downwards. In other words, in an oligopolized capitalism when there is a shock to the economy big firms can resist successfully a decrease in their profit margin by reducing capital utilization. A shock occurs, big firms in oligopolized industries will attempt to maintain profit margins “via a reduction in utilisation” leads to a reduction in investment and employment.72

Facing a shock, such as a financial recession, a firm experiences a decrease in demand for its product(s). If the firm has economies of scale and excess capacity and is in a dominant position within its industry, the firm can maintain profit margins by decreasing production, which in turn increases “undesired excess capacity” and discourages investment and employment.73

Price adjustments are the rule in a competitive capitalistic system. In an oligopolized capitalism where competition is reduced to a few very large firms “a new type of cumulative process becomes possible: any reduction in capital growth will lead to further decrease in the rate of growth. […] the effects of monopoly will not only be to make profit margins more rigid, it will be to raise them, and moreover, entrepreneurs will have a greater fear of [undesired] excess capacity […]. For both these reasons there will be a tendency for the rate of growth to fall. Utilisation will be lower than it was before monopoly became dominant, and moreover the
investment attributable to the influence of any given level of utilisation will be lower owing to
fear of excess capacity.”

Steindl develops an endogenous institutional theory of development by taking account of the
well-known structural change of the oligopolization of industries. His theory synthesizes price
rigidity, monopoly-like power, excess capacity and the degree of utilization to explain the
tendencies of secular stagnation in investment spending and growth.

Analyzing the institutional situation begs the question on whether Summer’s proposed policies
are a solution to stagnation. Michal Kalecki and Paul Sweezy provide some provocative and
important insights.

Like Steindl, Kalecki and Sweezy put capacity utilization and tendencies toward underutilization
of productive capacity and labor at the center of the contradiction of modern capitalism.

Kalecki maintained that oligopolized capitalism fundamentally transformed the structural
dynamic and its development. Kalecki recognized modern capitalism was made of an
oligopolized segment and a more competitive segment. In agreement with Steindl, Kalecki
maintained that for the oligopolized segment profit margins were inelastic and for the more
competitive segment profit margins fluctuate.

Big firms in oligopolized industries compete not through prices but via productive capacity.
During a boom they easily meet the increase in demand and build-up their excess capacity. For
Kalecki in an oligopolized economy the “tragedy of investment” kicks in during the boom. As
part of production it adds to profits; but investment is also fixed capital which adds to
productive capacity. As part of productivity capacity, it has the potential to turn to undesired
excess capacity, unless demand keeps up with the desired (inelastic) profit margin, new
investment will turn quickly to undesired excess capacity and an oligopolized-magnified
negative multiplier effect kicks in to end the boom.

In oligopolized capitalism the trend of the business cycles continue to be expansion and
recession. But the mechanisms generating the trend are now less price adjustments and
instead place excess capacity at the center of system’s contradictions. In addition, the
tendencies toward instability and inequality become more pronounced.

Kalecki’s explanation is that the inelasticity of oligopoly profit margins means the cyclical
slowdown is met by a reduction in output and employment. In turn, this turns ‘desired’ excess
capacity into ‘undesired’ excess capacity. Whereby there are further reductions in output and
employment in a multiplier-like fashion, that are further compounded and magnified by the
excess capacity and inelasticity of oligopoly profit margins.
The more competitive segment of the economy is constituted by primarily producers and distributors of consumption goods. The unemployment in oligopolized segment (compounded by the manifestation of undesired excess capacity and inelastic profit margins) causes a fall in the demand for consumption goods. These firms experience the slowdown in the economy but their prices and profit margin are elastic, whereby prices and profits fall. However, the corresponding decline in output and employment is less in the more competitive segment than in oligopolized segment.\footnote{75}

Sweezy expressed this explicitly in terms of a strong tendency of disproportionality between a society’s productive power (Department I goods) and a society’s consuming power (Department II goods). According to Sweezy after a society goes through the initial industrialization, capitalist development reaches a stage whereby a gap tends to result between departments. Sweezy reasoned that the gap could be closed if there were a fall in the rate of profit sharp enough to lower the profits in Department I relative to the profit rate in Department II, inducing a social shift toward consumption goods.\footnote{76}

An oligopolized economy has tremendous difficulties in the recovery phase of the business cycle. Kalecki argued that wage cuts in an oligopoly dominated economy have particularly negative consequences. The inelasticity of both profit and prices of the oligopolies leads to severe cuts in production and employment.\footnote{77}

In a more competitive economy when a slowdown occurs prices and profits adjust downward. If the fall in prices and profits is greater than the fall in wages, this should generate a compensating rise in real consumption via increase in real wages. But this is exactly what is denied in oligopolized capitalism. Instead, there is rigidity in oligopoly prices and profits. The latter is important, because rigidity in profits necessarily implies rigidity in excess capacity and unemployment.

Oligopolies when confronted with an economic slowdown react to the immanent deficiency in effective demand by reducing output, employment and investment, rather than reducing prices or the profit margin. By maintaining profit margins oligopolies generate a widening underemployment problem and hinder growth in spite of (and due to) their excess capacity.

The normal condition of oligopolized capitalism is a tendency toward excess capacity and an overabundance of productive capability and labor productivity than can be employed to absorb the profits being generated.

In such a situation we would expect a saving glut and low interest rates; we could expect to find oligopolies with high profits and excess capacity. This is exactly the scenario to which Bernanke, Summers, and \textit{The Economist} together have highlighted. Summers has the most
comprehensive analysis. What is lacking in his analysis is a focus on monopoly power, excess capacity, and surplus formation.

**Monopoly Power: Areas for further analysis**

So can Summers-inspired policy avoid stagnation? The short answer is a qualified yes. However, the contradictions of monopoly-finance capital persist. Here are six points of concern.

First, Delong brings attention to the political dimension. Monopoly power amplifies these concerns. As indicated above, oligopolies are likely to experience full employment fiscal policy as ‘unsound financial policy.’ The relationship between oligopolies and the political system requires far more study. In 1967 John K. Galbraith argued that there had emerged a more or less productive and cooperative relationship between big firms and their leadership and politicians and their policies which he dubbed “The Industrial State.” If this existed in 1967 it certainly does not exist today. The relationship is now geared toward the “revolving door” and rent-seeking activity (endnote).

Second, following this debate importantly highlights the various dimension of the global order. Bernanke has underscored the context of this global order; Rogoff the importance of the financial system; Robert Gordon supply-side issues; Summers, Krugman, and Delong demand-side issues. The upshot of this debate is the symbiotic relationship underscored by especially Summers and Delong who have insisted upon the various symbiotic dimensions of the structure of the America (and global) economic system. Summers has provided an impressive attempt to be inclusive and integral in his approach. However, as indicated above, monopoly power, inelasticity of oligopoly profits, and excess capacity need to be further considered and developed.

Third, extending from the above point, Paul Baran in the 1950s and 1960s warned that heavy public intervention to abate the tendencies toward secular stagnation would likely be inflationary. But the changing nature of capitalist development may very well be on the side of Delong and Summers, i.e. inflation is unlikely to emerge. The primary mechanism involved here seems to be some version of the “paradox of toil.” Eggertsson’s version of this concerns high levels of unemployment, which are currently not present. I am contending there is to something analogous at work regarding the extremely high levels of underemployment. Thus whereas Eggertsson’s version has unemployment increasing as more unemployed people seek work, I believe wages fall and stagnate as more and more skilled workers seek to match their high-skilled abilities. As such, labors weakened circumstance has put the brakes on inflationary pressures.
Nonetheless, Summers policies have some immanent constraints which have been so-far underanalyzed in the debate. In desperate brevity, as Sweezy pointed out, to abate stagnation any new investment, whether it be new technology or public intervention, needs to be “sufficiently numerous and important” to keep the system at “full capacity.” Infrastructure and Green technology development, and progressive redistribution may very well qualify as temporary abatement from secular stagnation. Nonetheless, excess profitability and savings from surplus generated by mega-multinational corporations still haunt the system, along with excess corporate power, and excess capacity and underemployment. To be sure it is excess profitability and excess saving that makes financial system dysfunctional. Thus, there is a question to how “functional” the financial system of a mature oligopolized capitalism can regulated to become. Dysfunctionalities may be inherent (citations).

Fourth, the class struggle is radically underanalyzed so far in the secular stagnation debate. Even if we can overcome Delong’s worry of government capacity to carryout aggressive infrastructure policy, and even absent of Baran’s worry of inflationary pressures of fiscal policy, aggressive fiscal policy is likely to affect the class and distributive structure. When the class and distributive structure shifts, it is likely oligopolies would retreat from full employment policy on grounds that full employment policy constitutes financially unsound policy that decrease profitability and increases financial risk. The infiltration of oligopolies into the American political system and the manifestation of, what James Galbraith calls, the Predator State implies if oligopolies abandon full employment fiscal policy, so too do politicians.

Fifth, there is an important distinction between Summers’ analysis of structural condition of the US economy and the Hansen-Steindl-Kalecki-Monthly Review tradition. Delong’s and Summers’ so called “eta” variable and labor hysteresis are phenomena that occur because of the slowdown. Their policy recommendations at least under-address, if not fail to address, the institutional and market structure contradictions of monopoly-finance capital as constitutive of American corporate capitalism. The causes of the crisis itself remain. They are on the right track to suggest that the oligopolization and monopoly profits are something that deserves far more attention.

A final area of comment concerns the overall reading of the debate. As indicated above, the views of Summers and his interlocutors go back to at least the late 1980s and early 1990s. If the concerns of the 1980s and 1990s are connected to the concerns of today then we are certainly addressing a deep structural dynamic. This is an aspect of the debate that has been not been fully scrutinized and explored. Moreover, there was a deeply serious debate between secular stagnationists and profit squeeze theorists that extend these similar themes to the early 1970s. Moreover, the vast debate which Alvin Hansen initiated certainly means that there were similar concerns and similar structural macro dynamics in the 1940s and 1950s. Modern
capitalism structurally developed and matured to become monopoly-finance capitalism. Monopoly-finance capital theory has developed a powerfully to explain the contradictions of oligopolized capitalism and its intrinsic tendency toward secular stagnation and institutional manifestations to circumvent it.

To reformulate Delong’s insights on this debate, it is to both Summers and the Monthly Review Tradition “we have to look to see why this confluence of Depression economics symptoms has emerged now – and why it is turning out to be such deep and stubborn problem.”

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Hansen argued that his notion of secular stagnation was an extension of Keynesian underemployment equilibrium. This is an important point. It is a misunderstanding of the notion of secular stagnation to simply base it on growth rates of GDP. Hansen’s primary point concerning secular stagnation was full-employment of resources becomes more and more difficult as a capitalist economy develops and matures. If Hansen was correct, secular stagnation would become increasingly more important. This is exactly what Larry Summers has come to appreciate.

This is not the article to fully present Hansen’s comprehensive and persuasive argument. To be sure some of Hansen’s arguments were not fully convincing, there were items he was unsure and even something incorrect. However, taken as a whole, history has proven to be very favorable towards Hansen’s notion of secular stagnation. If Hansen was correct, secular stagnation would become increasingly more important. This is exactly what Larry Summers has come to appreciate.

Any commentary on Summers’ invoking of secular stagnation is sure to do two thing, contribute the term to Alvin Hansen and immediately had something to the effect, “of course Hansen was wrong.” The history of thought on the topic is far more interesting. Hansen’s theory of secular stagnation was sophisticated and multifarious.

Hansen believed the economy was entering a slow growth epoch for four reasons. First there had been demographic changes that had slowed population growth, especially in Europe. Second, there were reasons to believe technological change would not generate the buoyant economic expansion that railroads, steel, electricity and automobile industries had achieved in nineteenth century. Third, and most important for Hansen, was the notion that capitalistic development is subject to problems of employment and insufficient profitable investment opportunities.

Schumpeter would dub this “a situation of vanishing investment opportunity” (CSD, p. 395). This is roughly correct, but can easily be misunderstood. The key for Hansen was profitability.

Hansen’s explanation for the lack of sufficiently profitable investment was: (a) diminishing importance of “great new industries,” (b) diminishing new frontiers, (c) a bias for labor-saving technology, (d) a rising propensity to save and the institutionalization of savings, (e) an increase in risk for new investments, (f) the lessening of the entrepreneurial spirit because of corporations, (g) the oligopolistic market structure, (h) distribution between wage and profit/interest incomes, and (i) a tendency for business cycle recoveries to become weakened.

Hansen argued that his notion of secular stagnation was an extension of Keynesian underemployment equilibrium. This is an important point. It is a misunderstanding of the notion of secular stagnation to simply base it on growth rates of GDP. Hansen’s primary point concerning secular stagnation was full-employment of resources becomes more and more difficult as a capitalist economy develops and matures.

In summary, a defense of Hansen can easily point to the aggressively successful fiscal interventionism of the welfare state, the “great compromise” between corporate capital and labor that mediated the class struggle, and continued war economy spending post-WWII. With emphasis, these favorable conditions hid the secular stagnation forces, they did overcome them.
There is a related neo-classical literature concerning the fall in total factor productivity (TFP). The data is unambiguous: labor productivity is falling in the last five decades. The primary debate in the literature is whether there is a significant degree of mismeasurement (see Bernstein 2016 for a simply guide to the debate).

Aside from the “mismeasurement” debate, the slowdown in productivity is remarkably consistent with the theory of secular stagnation in particular and finance-monopoly capital theory more generally. The determinants of TFP include education, health, infrastructure, institutions, competition, openness, imports, financial structure, geographical considerations, and capital intensity (including excess capacity). Neo-classical growth theory typically underscores the “human capital” considerations of education regarding the massive slowdown in TFP, whereby institutions of education and teaching personal become the ‘whipping boy’ for a faltering TFP.

I suggest when engaging this literature to recognize that the data in these models and measurement of TFP include concentration and centralization of industries, excess capacity, and the financial structure which are at the core of finance-monopoly capital theory. To give a rather simple and exaggerated example, when a farm has 100 tractors and one farm hand, labor productivity is impressively low. This is the problem of excess capacity. A second example is the explosion in bureaucratic, administrative, and sales effort forces. Staying with the farm example, let’s assume 100 tractors and 125 farmhands, productivity would go up handsomely, but now consider an additional 500 sales personnel and 25 farm managers. We again see that output per worker plummets because of economic “waste” that becomes necessary in the realization process and managerial bureaucrats. Finally, anytime there is a significant degree of rent-seeking and interest-seeking activity productivity necessarily falls.


24 The Economist, “Too Much of a Good Thing.”


26 The Economist, “Too Much of a Good Thing”

27 Ibid.

33 The Economist, “Too Much of a Good Thing”
36 Grullon at el. “The Disappearance”
39 The Economist, “Too Much of a Good Thing”


52 Kenneth Rogoff, “Debt Supercycle”

53 Ibid.


56 Kenneth Rogoff, “Debt Supercycles”


58 Delong has most recently published a book, with Stephen S. Cohen, intended for a non-specialist audience that provides a provocative and persuasive historical analysis of the American economic system as having historically been constituted by pragmatic public infrastructure development as the fundamental success of American economic growth and prosperity, Stephen S. Cohen and J. Bradford Delong, Concrete Economics: The Hamilton Approach to Economic Growth and Policy, (Cambridge: Harvard Business Law Press, 2016). Although Cohen and Delong do not address secular stagnation or specifically the policy recommendations of Summers, my sense from reading the text is that they believe if public fiscal infrastructure projects are conducted properly we need not worry about secular stagnation.


60 Delong “The Scary Debate Over Secular Stagnation,” p. 48, reduces Hansen notion of secular stagnation to declining population and productivity growth. As such he has presented Hansen as a supply-side secular stagnationist. This is a mischaracterization. Hansen’s position evolves overtime, his position is an extension of Keynesian underemployment and a demand-side secular stagnation theory. In phrase he could be dubbed an institutionalist-Keynesian theory of secular stagnation.


63 Lawrence Summers, “The Age of Secular Stagnation.”

64 Ibid.

65 Ibid.


67 J. Bradford Delong and Lawrence Summers, “Fiscal Policy in a Depressed Economy”


Ibid, p. 137.


Michael Kalecki, “Reduction of Wages during Crisis.”


