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Larry Summers and the Economists' "Greed Exception"

Why do we assume those who study money cannot be corrupted by it?

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It is said that the late economist Milton Friedman was once asked how much money it would take for him to change his position that humans are primarily motivated by greed, which was at the core of his free-market fundamentalism. Friedman wisely dodged the question. He understood that if he said he could not be bought, it would undercut his economic theory. In order to avoid doing so, he would have had to admit that he, like everyone else, had his price.

Lawrence Summers is certainly not a Milton Friedman conservative. But of the top candidates to succeed Ben Bernanke as chairman of the Federal Reserve, he is the leading exponent of free-market dogma. He was an architect of financial deregulation, and champions unfettered global trade and limiting government intervention in the economy. He has also become wealthy selling his services to corporate bankers and brokers who benefit from such policies.

Summers and his supporters insist that his ties to Wall Street would have zero influence on his decisions at the Fed. As Harvard economist Robert Lawrence explained to The New York Times: "There has to be a distinction between talking to people, even for payment, and doing what they want you to do." Apparently, Summers is an exception to an otherwise universal rule: money talks.

Summers says he is not paid for his political influence, but for his brilliant advice. Perhaps. But when the Times asked the CEO of the Learning Club—a consumer-credit company on whose board Summers sits—for an example of Summers's expert contribution, he replied that Summers told him to make sure "the people getting the loan had the ability to repay."

You should not conclude that the Lending Club is wasting its money. The firm is an unregulated high-interest lender (charging 19 percent or more on over a third of its loans) in a partnership with a regulated bank that seems to skirt close to the edges of banking law. According to a fellow board member, Summers has urged management to "share its story" (a genteel synonym for lobbying) in Washington, where coincidentally Mr. Summers has a few connections.

Most economists are exempt from the suspicion that the sources of their wealth could influence their policy views. From the morning paper to the nightly business broadcasts, economic-policy debates are typically presented as differences between disinterested experts, tinged, perhaps, with ideology. The idea that the views of economic pundits might be connected to their own financial self-interest is simply too vulgar for high-minded policy discussion.

Several years ago I attended a meeting hosted by a prestigious foundation to encourage a dialogue between journalists and Washington think-tanks. At one point, the foundation president asked what questions journalists should, but do not, ask of economists. I suggested that they should ask where the economists were getting their money. The then head of the economic libertarian Cato Institute—where economic self-interest is the reigning ideology—erupted angrily. He said he was “offended” by my suggestion that he or other truly professional economists could be influenced by the sources of their income. The subject was quickly changed.

To be fair, most economists do not crudely auction their views to the highest bidder. The way the system works is that the deep-pocketed special interests promote the careers of economists whose views tend to support those interests. The mechanisms include large speaking fees, consultant contracts, university tenure tracks, and privileged access to the media. In effect, the economists chosen by the wealthiest of the special interests are plugged into the most powerful public amplifiers.

Moreover, although economists specialize in studying the effects of money on human behavior, they are supremely uninterested in looking at its effect on their own. I recently searched the Internet for phrases connecting “economists” and “corruption.” With one exception, the result was page after page of references to economists studying corruption in other people, usually in other countries.

The one exception was a reference to the documentary Inside Job, which contains the extraordinary set of interviews with prestigious economists at Harvard and Columbia universities who in the years before the crash of 2008 had been taking money from Wall Street firms while assuring the public of the soundness of the stock market.

One would have thought the sight of those “scholars” squirming with hypocritical outrage as their conflicts-of-interest were exposed would have made the media more sensitive to the connection between pundits’ pockets and pundits’ pronouncements. Think again: economists financed by corporations, including many of the same people, are still cited as disinterested experts.

Greater transparency for economists could be a slippery slope. What about health-care experts paid by drug companies? Environmentalists supported by oil companies? Or journalists who enjoy speaking fees, fellowships, and otherwise benefit from corporate largesse? One can understand the instinct to let financial sleeping dogs lie.

Without more disclosure, the public debate over economic issues will continue to be framed by the extraordinary theory that greed is what motivates everyone—except those who make that case.