The Brookings Institution
Dollar & Sense podcast
How can Biden fulfill his 'Build Back Better' agenda?
Monday, November 7, 2020

DAVID DOLLAR
Senior Fellow, Foreign Policy and Global Economy and Development Programs and the John L. Thornton China Center
The Brookings Institution

JASON FURMAN
Professor of the Practice of Economic Policy, Harvard Kennedy School and the Department of Economics at Harvard

****

DAVID DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast, Dollar and Sense. The theme today is “Build Back Better.” My guest is Jason Furman, a professor at the Kennedy School at Harvard and a veteran of the Obama administration. Jason has just published an article in *Foreign Affairs* called "The Crisis Opportunity: What It Will Take to Build Back a Better Economy." So welcome to the show, Jason.

JASON FURMAN: Great to be here.

DOLLAR: So, your article starts by noting that Joe Biden will walk into the White House next month in a situation that has a lot of similarities to January of 2009 when he walked into the White House as vice president, but you argue there are three important differences. So, can you explain what the differences are and why they really matter?

FURMAN: Yeah, well, thanks so much for having me as part of this discussion. We will obviously have a terrible economy in January 2021, just like it was a terrible economy in January 2009. Three important differences are, first of all, our best days will be ahead of us in 2021. Our worst days were still ahead of us in 2009. The unemployment rate kept rising in 2009; it didn't fall back below its inauguration level until Obama's second term. This time, it should be below the inaugural level within months of the inauguration, certainly by the summer.

Second, the United States has even more fiscal space to respond this time than it did in 2009. That might sound weird and paradoxical to you because there is more debt today than there was in 2009. The reason we have more fiscal space is that interest rates are much lower. In fact, the real interest rate adjusted for inflation is negative. It is very easy for the government to borrow, and the debt level is very sustainable that we have right now.

Finally, the third difference is that, in 2009, you could argue that the United States had blown up the global economy. The United States was initially suffering the worst of almost any country. Now, no one could argue this is the fault of the United States, the U.S. economy is doing a bit better than the economies in Europe and Japan, and there will be a hunger for U.S. re-engagement with the global community that could give us an even bigger global role than we had last time around.

DOLLAR: There are a number of striking statistics in your article. I like your choice of data. One of the ones that really jumped out at me is that in the second quarter of this year GDP fell by nine percent, which is just really breathtaking, but at the same time disposable personal income went up 10 percent. So, how is this possible? What led to that outcome?

FURMAN: Yeah. It's actually one of the amazing lessons of the experience over this past year that you can't necessarily avoid a recession in the sense of GDP falls and unemployment rises. You can actually make a policy choice to avoid a recession in terms of household income after taking into account government transfers falling. You can protect people from the recession, and that is what the CARES Act did. It gave people an extra 600 dollars a week for unemployment insurance. It did checks that were 3,400 dollars for a family of four. And it had a Paycheck Protection Plan program for small businesses that maintained employment and wages. The combination of all three of those meant that instead of incomes going down after taking into account those benefits, incomes actually went up a lot in Q2. And for the year as a whole, this will be among the highest income growth that we have seen in decades. Moreover, that income growth is actually more at the bottom-end than it is at the top-end. It was quite progressive. Millions were left out—millions that didn't qualify for these programs—so there is a lot of suffering out there. But in aggregate, we actually did a good job of protecting incomes.

DOLLAR: So that CARES Act is a good example that we can get some bipartisan action from time to time if there is enough of a threat to the economy. But it seems to me that the measures in the CARES Act, the things you were just discussing, are largely running out now. We just got a very disappointing jobs number from November. The two parties are negotiating over additional stimulus. So, how important is it to get additional stimulus now during this transition period? And what would your priorities be for the stimulus bill?

FURMAN: I think additional measures are really important. They are partly important for human beings— families that are suffering right now, that are losing their jobs, that don't know how to feed their families. And it’s partly important for macroeconomic reasons so that we don't have an air pocket in the economy— we don't have a big reduction in the demand that, so far, has kept the economy from being worse than it might have been. And in fact, those two rationales— helping families and helping the macro economy— actually lead to the same policies, because if you give money to people who are most likely to spend it, that will be a good way to expand aggregate demand and output.

My priority first would be additional unemployment insurance. Second would be money for states and localities so that they don't need to cut back on what they are doing and they can afford the emergency spending they need for schools and the like. And then after that is a range of other things that might be nice, like additional nutritional assistance, some more small business lending, and the like.

DOLLAR: So those measures would all help in the short-term, which is obviously quite important, but I also like the part of your article that talks about probably permanent changes in demand for different types of labor, the structure of the economy. It's hard to predict exactly what the change will be, but certainly there is likely to be long term change in the economy. You write about the importance of infrastructure investment as a way of creating good jobs, how that could be linked to climate change. Presumably, there are complementary policies that would be needed for that to really generate the kind of labor market outcomes we want. So, what's the more long-term vision you have?

FURMAN: Even before this crisis, even with a 3.5 percent unemployment rate, which is incredibly low, we still have the employment rate for prime age men had not recovered to what it was before the financial crisis. In some respect, men were still in a recession. Women's participation in the workforce, which had been rising for decades, had flattened out, and so there were serious concerns there as well. The pandemic, in addition to the short-run problems it has created for the economy, also will lead to different types of reallocation of labor. At the simplest, the restaurant around the corner from me, an Indian restaurant, it goes out of business. There will probably be another restaurant there— maybe a different cuisine— but the workers who lost their jobs will need to find their job somewhere else. They may not get hired by that restaurant.

Second, changes that were already happening might be accelerated. A switch from brick and mortar to online retail, a switch to more online and the like. That will lead to a reallocation that in some ways is even harder because workers need to find jobs not just in a new business in their industry, but in an entirely new industry, potentially an entirely new occupation. And then finally, there's reallocation just in the sense that this has accelerated some of the trends toward replacing humans with automation, with machines, that was already underway before and, if anything, this will continue.

So, we had a problem in our labor markets in January 2020. We are going to have a bigger problem in our labor markets even after we solve the immediate pandemic recession. What can you do? Things like community college education. That's one of the best ways to make people flexible, able to change jobs. Keeping people in jobs with measures like wage insurance to help protect them, protect their wages if they take a lower wage job. And then creating new sources of demand and new types of jobs in areas like infrastructure and a clean energy transformation.

DOLLAR: We are already seeing some members of Congress, Republican members, shift toward being deficit hawks, which is a little bit hypocritical because they were not worried about the deficit when they were cutting taxes. You alluded to this briefly, but our debt is now about 100 percent of GDP. If we use debt financed expenditure in order to promote infrastructure and other programs, can we really afford this? I mean, do we have to worry about some of those debt dynamics turning against us?

FURMAN: I think we can't afford not to do something big for the economy right now. And that, I think, is a broad consensus of economists. In very plausible models that you see at the Fed, the OECD, and the IMF, in the situation we are in now where interest rates are zero, where the economy is operating below its capacity, if you expand debt you can actually lower your debt to GDP ratio. The reason is that the debt goes up, but your GDP goes up by even more. As a result, you are reducing the indebtedness of your economy.

More broadly, I think we need to switch to a new way of thinking about fiscal sustainability that centers not on how big is your debt because you can pay your debt off over time. The question is how big is your debt service, or how easy will it be to pay your debt off over time. Looked at that way, right now, debt service is extremely low. It is going to fall over the next few years as debt is refinanced at lower interest rates. And even if interest rates start to go up over the next decade, it will still remain relatively low. So, I think in the short run, all economists agree— maybe not all, most economists agree, a large majority— that we can definitely afford to do things in the medium and long run. Economists are increasingly migrating to the view, although it's still debated, but there is relatively little to worry about in terms of debt sustainability in a world of low interest rates.

DOLLAR: You know, I share your assessment that probably real interest rates will remain low and there is a lot of potential for the U.S. to take on more debt. Did you have a view about why real interest rates are so low other than the recessionary environment? Why is that likely to continue? What's changed in the world that real interest rates are so different than they were during most of your career and my career?

FURMAN: Well, it's important to understand, David, that the interest rates started falling in the late-1980s, early-1990s, way before the financial crisis. And interest rates continued to fall and were very low at the end of 2019 when we were at or near full employment. So, this is not a story about the financial crisis. This is not a story about the recession. It also happened in lots and lots of countries. So all of that makes us believe that there is probably something structural about this and makes it more likely that those low interest rates will persist.

In terms of what the structural story is, economics teaches you this is all about supply and demand. So, what has increased the supply of saving? Inequality has; rich people save more of their money. Maybe the entry of China into the global economy. The Bernanke global savings glut story. And then a reduction in the demand for investment, an increasingly massless economy where you can produce things without needing to spend lots of money building a large factory because it is digital and the like. But importantly, the precise reasons don't matter except insofar as they rule out that this is some very transitory thing related to the recession or related to the behavior of central banks.

DOLLAR: If I could quote directly from your article, Jason, you write that a Biden administration should "take [the] opportunity to reinvigorate the cooperative system of global economic governance that the United States created and has led ever since the end of World War II." So, I agree with that basic idea, but I would like to push you to go into a little bit of detail about what do you mean by reinvigorating the cooperative system of global economic governance? Where would you put the priorities?

FURMAN: Dealing with climate change and dealing with the pandemic are two areas where we need global cooperation. Confronting China on economic issues is another area where we are going to need global cooperation. And to do all of those you have to change what goals you are prioritizing. So, for example, vis a vis China, if the main thing the United States is trying to achieve is to get China to buy more things from America, we are not going to get global cooperation on that. Japan is not going to help us sell Ford Motor Vehicles to China. Japan might help us get China to do more to respect intellectual property. It might join us in having China respect various trade rules, but it has to be more of an agenda that is about getting countries to abide by rules rather than to just ad hoc buy stuff from the United States.

DOLLAR: What about Biden administration trade policies? Where would you put that as a priority, and do you have particular issues you would push like rejoining the Trans-Pacific Partnership or new trade agreements?

FURMAN: Yeah, I mean, if it were up to me, I would immediately eliminate all the tariffs on countries other than China. That would be a tax cut. It would help American consumers. It would help build partnerships for the United States around the world. I would immediately enter discussions to reenter the TPP, which I think we can do on largely the terms that had been negotiated before we left it, and I think those would be perfectly fine. And I would start to bring some WTO cases against China and pivot the negotiations with China away from the shopping list we have given them before and toward a more principled set of concerns for a phase two of discussions. That's what I would do. The Biden administration, I think, might be less active on moving trade in that direction than I might like, more active on trying to figure out ways to do buy American than I might like, but I do think that they will be an improvement over the Trump administration in being more multilateral and less picking fights with allies than we have seen in recent years.

DOLLAR: You mentioned removing all the tariffs except the tariffs on China. How would you deal with China then? Would you try to negotiate that away or just leave that in place while the U.S. focuses on other things?

FURMAN: Well, I very much would try to negotiate that away. I don't think it makes sense for either country to have the tariffs we have on each other right now. I just at this stage would not get rid of them unilaterally without getting something in exchange for it. I don't know what the exact list is, but it goes more toward areas like not requiring American companies to produce in China, to sell in China, not having our intellectual property stolen, having more symmetric rules-based treatment of sales and investment in the country, and the like.

DOLLAR: My last question, Jason, is where do you think we will be in about four years or so? Your article is very positive in the sense of imagining a better economy. Where do you think we will actually get in about four years?

FURMAN: I am decently optimistic about where we'll be in four years. I mean, that's a long time away to predict. I think part of it is that the Federal Reserve has really grasped the ways in which the economy has changed. I think fiscal policymakers have not. I think they need to understand a lot more about how fiscal policy is different in an era of low interest rates. I think monetary policymakers do understand that the Fed has the right goals and that will help us continue to make progress towards full employment, which is the most important ingredient for raising wages at the bottom. Where I am more pessimistic is the types of longer-term investments we need to make like everything from early childhood education to infrastructure. Will we have gotten this done, or will that be something that a Republican Congress, Republican Senate, is unwilling to do? That's more of a question mark.

DOLLAR: You know, I like your title, "The Crisis Opportunity." You have probably heard the cliché that the word for crisis in Chinese is a combination of danger and opportunity. So, we definitely seem to have an opportunity to deal with various weaknesses. And I very much agree with your point that we really do now have the fiscal space—because servicing costs are so low, we have the fiscal space to do a lot. There are a lot of interesting ideas about particular investments and programs. Then the question is, can we actually deliver on that over the next few years politically.

FURMAN: Absolutely. Agree with you on that.

DOLLAR: So, I'm David Dollar, and I've been talking to Jason Furman about his new article in *Foreign Affairs*. I encourage you to take a look. Thank you, Jason, for walking us through that and for having an optimistic take on how we might turn this crisis in a positive direction. So, thank you very much.

FURMAN: Thank you.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, please subscribe wherever you get your podcasts and stay tuned.

Dollar & Sense is part of the Brookings Podcast Network. It's made possible by support from Chris McKenna; Anna Newby; Camilo Ramirez; our audio engineer, Gaston Reboredo; and other Brookings colleagues.

If you have questions about the show or episode suggestions, you can email us at BCP@Brookings.edu and follow us on Twitter @policypodcasts. Until next time, I'm David Dollar, and this has been Dollar & Sense.