Biden's $1.9 Trillion Stimulus Is A Vital Beginning For A New New Deal

President Joe Biden

In his first three days in office, President Joe Biden signed no less than 30 executive orders and memorandums, many of which dismantle Trump's policies. This is an impressive achievement by any standard, but only so much can be done with executive orders and it is all but certain that most legislation will be blocked by Republican senators, thanks to filibuster, and with the possible help of some Democrats. In the meantime, Biden has proposed a $1.9 trillion stimulus for the coronavirus-hit economy which includes, among other things, a third relief check, extending unemployment benefits, setting aside $400 billion for a nationwide vaccine program, expanding the child tax credit and raising the minimum wage to $15 per hour. One could say that Biden's economic plan is inspired by FDR's New Deal because nothing like it has ever been introduced during peacetime. But what exactly does this economic plan mean for households, for business and for climate change? What will be the impact of the stimulus on public debt? And what about reforms for the financial sector, which continues to reap huge profits when millions of Americans are struggling? Two progressive economists, Robert Pollin and Gerald Epstein, co-directors of the Political Economy Research Institute at the University of Massachusetts at Amherst, address some of these questions in an exclusive interview for *Truthout*.

C.J. Polychroniou: Bob, the pandemic, in addition to having killed more than 400,000 Americans so far, thanks to Trump's reckless response, has had a severe *impact on the U.S. economy: business closures, massive unemployment, huge decline in the gross domestic product, increase in multiple kinds of inequality. Obviously, with those disturbing realities in mind, Joe Biden has released an economic plan to combat COVID-19 and get the country back on track which, according to many analysts, is inspired by FDR's New Deal. Can you talk a bit about Biden's economic plan and offer your assessment with specific reference to how it will support individuals, households and business through the pandemic?*

Prof.dr. Robert Pollin

Robert Pollin: The Biden administration has introduced a $1.9 trillion short-term economic stimulus program. It targets six main areas of spending: $1,400 in cash payments for people whose income is less than $75,000; $400 per week in supplemental unemployment insurance for laid-off workers; major support for state and local governments that are right now staring, collectively, at budget deficits of $500 billion or more; a major increase in spending on distributing COVID vaccines; and expanding the tax credit for families with children.

The total package amounts to about 9 percent of the economy's overall level of activity — i.e., gross domestic product (GDP). This proposed Biden stimulus would also be on top of the $900 billion measure — equal to about 4 percent of GDP — that Congress and the Trump administration passed in December, as well as the $2 trillion package — equal to 10 percent of GDP — that was implemented last March. So, if the Biden proposal passes, it would mean that over the past 10 months, the federal government stimulus would add up to roughly 23 percent of GDP. And on top of that, since March, the Federal Reserve has purchased over $3 trillion in bonds — a 74 percent increase over their holdings as of last February — from Wall Street firms to bail them out and to keep pushing interest rates down on home mortgages, business loans and government bonds.

Overall, this level of economic stimulus since the COVID pandemic spread last March — which would amount to more than one-third of total GDP if the Biden proposal passes — has been historically unprecedented during peacetime. The only comparable level of government intervention was during World War II, when government deficit spending reached as high as 25 percent of GDP. But, of course, that spending was focused on fighting a world war.

The point, however, is that this level of public spending included in the current Biden proposal is absolutely necessary and, for that matter, will not be sufficient given the severity of the current economic crisis. Over the past nine months, 74 million people have filed to receive unemployment insurance. This is equal to fully 45 percent of the U.S. labor force. Meanwhile, as of the most recent data, nearly 20 percent of all U.S. households with children report that their families didn't have enough to eat over the past week. That figure rises to 24 percent for African American households. Similarly, 26 percent of households with children report that they are unable to keep up with their rent. Amid all this, the Dow-Jones Industrial Average stock market index is up an incredible 68 percent since the initial stimulus program passed in March, thanks to both the stimulus and the Fed bailout having successfully propped up Wall Street.

Combating climate change seems to be one of the central objectives of Biden's administration. How does Biden's plan compare to the Green New Deal, especially the version of a "green economy" you have been fighting for over a decade now?

Pollin: The combined government spending injections since last March — totaling to roughly one-third of all spending in the economy if the current Biden proposal passes — don't include a single dime to address the climate crisis. This is while we now know that 2020 was the second-hottest year on record. Biden has emphasized that he is going to take major action to address the climate crisis. Specifically, he has said that he will introduce a huge public investment-led program soon, that will be over and above the short-term stimulus measure to fight COVID and the ongoing recession.

On Wednesday, Biden signed a series of executive orders that will, among other things, suspend oil and gas leasing on federal government lands, transition the federal government's stock of automobiles and trucks to an all-electric fleet, and create an Environmental Justice commitment in federal policies that will "address the disproportionate health, environmental, economic and climate impacts on disadvantaged communities." Most broadly, Biden's climate directive commits his administration to move the U.S. onto "an irreversible path to a net-zero economy by 2050."

Nevertheless, for the most part, Biden has still not laid out his full-scale program for achieving the net-zero emissions goal. For now, we still need to look at what Biden proposed during the presidential campaign as a guide. That included both some positive as well as some seriously negative points. On the positive side, first, the overall level of investment spending that Biden proposed to deliver a zero-emissions economy by 2050 is in broad alignment with what I, as well as other researchers, have suggested is necessary. That is about 2-3 percent of GDP every year until we have built a clean energy infrastructure in the U.S., as well as contributed in a major way to building it throughout the rest of the world. For the next couple of years, that would mean about $400 billion per year in investments in the U.S. alone, including from both private as well as public sources.

Biden's campaign proposal did also recognize the fact that building a clean energy economy will be a major new source of job creation throughout the economy, for people working in all kinds of jobs. Within this framework, Biden emphasized that labor unions will need to play a major role in ensuring that the jobs that are generated — upwards of about 4 million new jobs in total in the initial years — will be good-quality jobs, with decent wages, benefits and working conditions, and that women and people of color are included in getting their fair share of these newly generated opportunities. Finally, Biden's campaign proposal did include just transition policies to support the workers, as well as their families and communities, who are now dependent on the oil, coal and gas industries for their livelihoods. Biden did also reemphasize this focus on creating good-quality union jobs in Wednesday's directive. So far, so good.

On the down side, the Biden campaign proposal gives high priority to so-called carbon-capture technology and nuclear energy as major new sources of zero-emissions energy supply. Under carbon-capture technology, we keep burning coal, oil and natural gas to provide energy, but the technology entails literally capturing the carbon before it enters the atmosphere, and transporting it into gigantic underground storage areas, to presumably remain there for all time. The fossil fuel companies love this idea, since it keeps them in business. But at best, the technology remains unproven at commercial scale, despite decades of trying by the companies who desperately want it to work. Nuclear energy also presents huge public safety problems as well as being very expensive, despite having operated as an electricity source for 60 years now.

We need to insist that the centerpiece of the Biden climate program be investments to dramatically expand the supply of clean renewable energy sources — including solar, wind, geothermal, small-scale hydro and low-emissions bioenergy — along with investments to dramatically raise energy efficiency standards with public transportation, electric vehicles running on renewable energy and net zero energy buildings. That is the cleanest, cheapest and safest way to deliver a zero-emissions economy, and to do so in a way that greatly expands job opportunities.

Jerry, Biden's plan for sparking the economy has some folks concerned because it will obviously increase the public debt, although Treasury Secretary Janet Yellen played down the debt issue in her confirmation hearings. Is there a need to be worried about deficits and a public debt surge when the economy is weak and millions of Americans are struggling? Moreover, how would you assess the Federal Reserve's response to the COVID-19 crisis so far, and what else can the Fed do to revive the U.S. economy?

Prof.dr. Gerald Epstein

Gerald Epstein: Rich countries, especially those like the United States that can easily borrow at home and abroad in its own currency (the U.S. dollar is the main global currency), have a great deal of capacity to borrow for public spending. This is especially true when the cost of borrowing (interest rate) is well below the likely return on investment, as measured, for example, by the rate of growth of the economy. And now, U.S. interest rates on government debt is at historically low levels, below 1 percent in many cases. Keynesian and progressive economists have long understood this fact, but it has taken two major economic crises in the span of little more than a decade to convince even centrist and liberal economists and Democratic policy makers of this truth. Of course, Republicans, at least since Reagan, have understood that, when they are in power, they should have the government borrow a lot to fund tax cuts for the wealthy and subsidies for their pet constituencies, and then they should become austerity hawks when the Democrats are in power to block their initiatives and popularity. And of course, true to form, that is exactly what Mitch McConnell and the Republicans are doing now with respect to Biden's spending initiatives. And, as usual, some of the right-wing Democrats are parroting these Republican talking points.

It is important to note that this capacity to run deficits and borrow is not absolute; it is best to be used to help achieve full employment, to deal with national health and other emergencies, to invest in green transformation and the positive support for the poor, people of color and working class. And it is many of these targets that the Biden administration and Democratic leadership in Congress are trying to reach with their spending initiatives. (Of course, they continue to propose spending excessive amounts on the military, as well.)

The financial costs of borrowing relative to the great value of appropriate spending demonstrates the folly of deficit phobia. As the Congressional Budget Office (CBO) notes, "The interest the government pays on debt held by the public has remained low as a percentage of GDP, even though that debt has risen to historically high levels." In rare instances, interest rates on some U.S. government debt have gone negative! In fact, net interest outlays now are about 1.5 percent of GDP compared to around 3 percent during the presidency of Ronald Reagan. Looking ahead, the CBO projects that, even if the interest rates go up by more than they expect, net interest payments as a percent of GDP will go up less than 3 percent, the Reagan average, and if interest rates remain where they are now, then government interest payments will fall to only 1 percent of GDP, despite a continued increase in government borrowing.

Of course, much will also depend on what the Federal Reserve does. The Fed, like the European Central Bank and other rich country central banks, has pledged to keep interest rates low during the crisis. More than that, the Federal Reserve, in a potentially important initiative, has announced that they will try to keep interest rates low even in the face of modest increases in inflation in order to promote higher levels of employment, especially among workers, including nonwhite workers, who are often hired last. A policy that has long been promoted by progressive activists and economists, this policy could significantly contribute to bringing more workers out of poverty while helping to enhance their job skills and experience. The proof in the pudding here will be in the implementation, since we might be a long way off to increases in inflation in our depressed economy.

In addition to this change in policy framework, the Federal Reserve expanded its purchases of financial assets (quantitative easing [QE]) and set up special lending facilities, designed to help businesses and banks (including hedge funds and private equity funds), financial markets generally, small businesses and municipalities. In terms of QE, between mid-March and early December, the Fed's portfolio of securities grew by $2.7 trillion. General support for the financial markets by promising to lend money to financial institutions, support money market funds, support the repo markets, etc. were extensive. For example, it is offering $2 trillion in support on an ongoing basis. The Fed was much stingier with its support of state and municipal government: it set terms so high that very few borrowed.

Moving forward, the Fed should continue to work cooperatively with the Biden administration's fiscal policy. This cooperation is likely to be enhanced with Janet Yellen, former chair of the Fed, as treasury secretary. But in addition, the Fed should revive the special facilities, such as the state and municipal lending facility and the small business lending facility, and make the terms easier and the facilities easier to use. Equally important, the Fed should figure out how to play a bigger role in two areas: helping to finance the Green Transition, and helping to provide support and infrastructure for publicly oriented financial institutions, such as public banks, community banks, and so on. The Fed has spent trillions bailing out the Wall Street Banks. Now it should re-orient itself to support banking for the rest of us.

Biden and some of the people around him have suggested that there is a need for tougher Wall Street oversight. What sort of financial reform is actually necessary to tame Wall Street's aggressive posture of risk-taking and thereby ensure no repeat of the 2007-08 financial crisis?

Epstein: As you know, the key precipitating cause of the great financial crisis of 2007-2008 was the reckless behavior of mega banks in the U.S. (and some abroad) abetted by a whole financial ecosystem of mortgage lenders, ratings agencies and other financial institutions that facilitated these destructive financial activities. All of this destructive behavior was enabled by financial regulators such as Alan Greenspan, chair of the Federal Reserve, and politicians who, either for ideological or financial reasons (or both), pushed for financial deregulation in the 1980s and '90s, and then paid no attention as massive risk built up in the financial sector.

It all came tumbling down in 2008 and 2009, causing more than [$14 trillion in damage to the economy] and requiring as much as an estimated [$29 trillion bail-out by taxpayers]. The financial meltdown stripped workers (many of them people of color) of their modest but only wealth — their homes — and ushered in a long period of slow economic growth and lots of political resentment. In response to the crisis, in 2009, the Obama administration and Congress passed a major financial regulation law known as the [Dodd-Frank Act]. The Obama administration, led by Treasury Secretary Timothy Geithner, was pushed kicking and screaming by newly mobilized financial reform activists and labor unions centered around Americans for Financial Reform (AFR), Better Markets and progressives on Capitol Hill to pass financial regulation with real teeth. The Act was a compromise between these forces and the financial industry lobbyists who had plenty of leverage with Geithner and Obama but did have some teeth: higher capital, leverage and liquidity requirements on large banks; serious regulation for the first time of derivatives such as credit default swaps, which Warren Buffett had called weapons of mass destruction; limiting banks' speculative activities (so called prop-trading) through the Volcker Rule; restricting the ability of financial traders to keep ill-gotten bonuses from destructive trades (bonus claw-backs), creating competition for the ratings agencies like S&P and Moody's; creating a framework for regulating the "shadow banking system"; placing some limits on commodities speculation; creating a new supervisory oversight committee — the Financial Stability Oversight Council (FSOC) — headed up by the treasury secretary with heads of the financial regulatory committees; and last but far from least, creating the new Consumer Financial Protection Bureau (CFPB), the brainchild of Elizabeth Warren, designed to protect consumers from financial exploitation and fraud.

Dodd-Frank's structure was very problematic: one major flaw is that it left open the details of many of its provisions to final rule-making by various regulatory agencies, thereby giving enormous opportunity for financial lobbyists to water down key rules. Despite this, a number of key provisions remained potent, including capital, liquidity and leverage requirements, derivatives regulation, aspects of the Volcker Rule against prop trading and the creation of the CFPB.

With Trump's election, an army of mega bankers and their hired guns filled the ranks of the regulatory agencies and started a relentless assault on Dodd-Frank. Many but the largest banks were exempted from the strongest capital requirements, derivatives legislation was watered down, the FSOC stopped its regulation of financially dangerous nonfinancial firms and the shadow banking system, neutered the CFPB, and more. They were not able to completely eliminate added restrictions on the biggest banks, but they left their fingerprints on weakened enforcement and more loopholes just about everywhere (see Better Markets).

So, what should the Biden administration do? As with so many other aspects of policy, simply restoring the Obama policies, though in some cases a step in the right direction, will not be enough. Among the good ideas that were rejected in 2009 and should now be implemented include: breaking up the mega-banks by instituting asset size limits or instituting a 21st-century "Glass-Steagall Act" to separate commercial from investment banking; bringing all financial institutions, including private equity, hedge funds, fintech (the shadow banking system) under strict regulation and monitoring; a financial products regulatory mechanism to ensure that new financial products are safe and effective; creating a level playing field of support for community and publicly oriented banks, especially those serving underserved communities and communities of color.

But for any of this to happen, the first order of business must be to clear out the regulatory agencies of big bank hired guns and Trump administration lackeys and replace them with competent, progressive leaders and members of the key financial regulatory agencies, including the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the Office of the Comptroller of the Currency (OCC), the CFPB and the Federal Reserve.

So far, the Biden administration is indicating a mixed start in this regard. Biden has nominated Gary Gensler, former Goldman Sachs banker-turned-tough-financial regulator, who had been head of the CFTC under Obama. He has been strongly endorsed by many progressives, including Elizabeth Warren. "He is a tenacious regulator who stood up to the industry titans to rein in their risky behavior," the Massachusetts Democrat tweeted. "He will be an excellent SEC Chair during this economic crisis." Biden has also nominated Rohit Chopra, who helped Warren set up the CFPB and is aligned with her policies, to be head of the CFPB. On the other hand, Biden [is] rumored [to be considering] former Obama official Michael S. Barr to head up the key regulatory agency, the OCC, one of the most powerful of the regulatory agencies. Progressives have been pushing for Mehrsa Baradaran, a law professor and expert in community banking and banking for poor communities and communities of color.

And then there is the key role of Janet Yellen as secretary of the treasury. Yellen, of course, is much more progressive than her predecessor. But the finance industry still has a great deal of political power over Biden, Kamala Harris and the Democrats. Reporting on only the tip of the iceberg, according to the Center for Responsive Politics, political action committees (PACs) raised over $227 million for Biden-Harris, $148 million of which are linked to financial interests. Looking more broadly at overall Biden funds, the finance, insurance and real estate sector spent $202 million, only somewhat behind liberal groups who raised up to $294 million to pursue ideological/single-issue causes. In fact, the amount spent by the industry was significantly higher than the $117 million spent on Hillary Clinton's 2016 presidential race. This is in contrast to the 2020 campaign of Donald Trump, for whom the finance, insurance and real estate sector "only" spent $84 million. Similarly, Senate and House Democrats also receive big money from finance. The figures for the 2020 election show that the 425 PACs of the finance, insurance and real estate sector "only" spent $84 million. Similarly, Senate and House Democrats also receive big money from finance. The figures for the 2020 election show that the 425 PACs of the finance, insurance and real estate sector contributed $34 million to Democrats, only slightly less than the $42 million they contributed to Republicans.

This reliance on big pocketed financiers will be a continuing obstacle to truly reorienting finance to serve society, rather than to continue as the other way around.

One final question for both of you: How can progressives ensure that Biden puts an end to "business as usual," which was the Obama administration's strategy and may have indeed been responsible for the rise of Donald Trump to power?

Pollin: In fact, nothing can be assured. But we can be almost certain that the Biden administration could very easily lapse into the Clintonite neoliberal pattern of allowing Big Capital — including Wall Street and the fossil fuel corporate giants — to call the shots. The only way to prevent that, and to enact truly transformative progressive economic programs, will be for progressives to fight very hard for them right now and in the coming months.

Epstein: To follow up on my earlier discussion, among many other things, progressive institutions will have to increase their support and attention to following and trying to influence the nitty gritty detail of government policy and government structures. In terms of financial reform, for example, there are relatively few organizations with relatively little financial resources who are attempting to monitor and help influence these important, but somewhat technical issues: for example, Americans For Financial Reform, Better Markets, Public Citizen, the Center for Responsible Lending, and a few others. Progressive financing institutions and individuals should step up and make sure these institutions and others have the funds to act as watchdogs and advocates to counter the enormous money and power of finance in these battles.

This interview has been lightly edited for clarity.

C.J. Polychroniou is a political economist/political scientist who has taught and worked in universities and research centers in Europe and the United States. His main research interests are in European economic integration, globalization, the political economy of the United States and the deconstruction of neoliberalism's politico-economic project. He is a regular contributor to *Truthout* as well as a member of *Truthout*'s Public Intellectual Project. He has published several books and his articles have appeared in a variety of journals, magazines, newspapers and popular news websites. Many of his publications have been translated into several foreign languages, including Croatian, French, Greek, Italian, Portuguese, Spanish and Turkish. He is the author of *Optimism Over Despair: Noam Chomsky On Capitalism, Empire, and Social Change*, an anthology of interviews with Chomsky originally published at *Truthout*and collected by Haymarket Books.