Exchanges at Goldman Sachs
'Bidenomics': Evolution or Revolution?
David Brady, Professor, Stanford Graduate School of Business
Jason Furman, Professor, Harvard School of Government
Dean Baker, Co-founder, Center for Economic Policy Research
Host, Allison Nathan
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Allison Nathan: This is Exchanges at Goldman Sachs. And I'm Allison Nathan, Senior Strategist in Goldman Sachs Research and Creator and Editor of the firm's Top of Mind Report.

In this episode, we focus on President Biden's economic agenda, or what people are calling Bidenomics as it takes center stage in Washington DC. The agenda extends recent progressive policy shifts. It increases spending on infrastructure and green investments, financed both by larger deficits and higher taxes on corporations and the wealthy. And uses government stimulus more broadly to support the economy. And given the progressive nature of these proposals, some observers have even characterized it as potentially ushering in a new progressive era in the United States.

We take stock of how big a shift in US economic policy Bidenomics truly represents, the political landscape President Biden will have to navigate to see it enacted, and the implications of all of this for the economy.

To put Bidenomics into perspective, I first turned to David Brady, Professor of Political Economy at the Stanford Graduate School of Business, to discuss where it falls on the progressive spectrum relative to the policies of past administrations.

President Biden's economic agenda is being portrayed as highly progressive. And perhaps, ushering in this new progressive era in the United States. Do you agree with that portrayal? How does this compare to past eras that you did feel were authentically progressive?

David Brady: Well, it's not as progressive as the New Deal because if you think about the New Deal, the argument was about should the government be involved in more of the management and regulation of the economy? Should it be involved in taking care of some of the problems of unemployment? Unemployment, insurance, old age. And so, the Democrats were on the side of, yeah, we're going to do something about that, the government's going to get involved. And the Republicans were no.

And the way that was resolved ultimately was the Democrats became the party of more government, more regulation. And Republicans were not anti those things, but they were less regulation.

And Obama had a progressive agenda. Well, he got the Affordable Care Act. But most of the rest of it didn't get through. So, Biden is, I think, more progressive than Obama. Less progressive than Roosevelt. But I don't think in an election where you got a very small majority in the House and a 50/50 Senate, I don't think it's a progressive mandate.

Allison Nathan: I then turned to Jason Furman, Head of the Council of Economic Advisors in the Obama administration, as well as Dean Baker, Co-Founder of the Center for Economic Policy Research who disagree somewhat on the degree to which Bidenomics marks a meaningful policy shift. Here's Furman.

Jason Furman: The gross size of the Biden proposals is larger than the gross size of anything Obama or Clinton proposed. So, both the 4 or 5 trillion dollars of new initiatives in areas like infrastructure and the Families Plan: childcare, education, and the like, and the tax changes are larger than the magnitude of the changes proposed by Obama or Clinton. That reflects a frustration with decades of perceived underspending in those areas.

The tax increase is relatively large. Taxes as a share of GDP under the plan though aren't that much higher than were in the second Clinton term. It's just taxes have been cut down so far you need these types of changed just to get them back as a share of the economy to where they were 20 years ago.

The composition of those taxes is very different though, because over the last 20 years we've consistently cut taxes on the middle class. President Biden purposes to keep all of those middle class tax cuts. And so, he's making up for all the lost revenue by raising taxes even higher on high income households and corporations than they've been before. But President Biden has continued to have a framework where things are paid for. So, in that respect, there hasn't been a complete sea change in the way fiscal policy is conducted.

In some senses, by the way, my own economic judgment is that he hasn't gone far enough. For his infrastructure plan, I think we could add more of that to the deficit than he is proposing to do. I think there is more fiscal space in a world of low interest rates for unpaid investment.

So, I think the rhetorical claims of paying for things are more than needs to be done at the current moment.

Allison Nathan: And here's Baker.

Dean Baker: I think it's a very large shift in two ways. One is the focus on getting to full employment quickly. This is, you know, simply referring to the size of the recovery package, 1.9 trillion. That was very large. I was, frankly, quite surprised he actually got that through. I mean, the contrast between that and the stimulus that President Obama put forward is just enormous. That was a little over 700 billion. I realize we're a bigger economy, but even if you adjust for that, maybe a trillion, maybe 1.1. So, it's a much, much bigger stimulus. And we were in a much bigger hole then.

So, it was saying, okay, we're going to push to full employment quickly. And that should get the economy back to something that's going to look a lot like full employment, if not by the end of this year, then somewhere early in 2022.

The other thing is trying to deal with some big structural issues that have been problematic for a long time. So, the Child Tax Credit is, in the scheme of things, a relatively cheap way to give a lot of kids a step up in life. Another thing along those lines in the Recovery Package was the increased subsidies in the Obamacare exchanges. Hasn't gotten anywhere near the attention I think it deserves. That many had complained, rightly, that for certainly middle income people, the exchanges are still very expensive. So, we've expanded Medicaid. And if you're a low/moderate income person, healthcare is pretty affordable now through the ACA. But if you make 60 - 70,000 a year, you're looking at a pretty big tab if you're looking to get your health insurance in the exchange. And now, he's capped that at 8 percent of income. It's still not cheap, but that makes it affordable. So, these are really big things that are in the Recovery Act.

The other parts that are in his Investment Plans, the Family Plan, again, these are addressing needs that have been longstanding. Addressing climate change. We have to do something. And this is a big first step. I know many people have argued it's not enough. It isn't. But I suspect President

Biden's view, get a foot in the door. Start on electric cars, shifting over the grid more rapidly to clean energy. And we can get more later. So, that's huge.

And then addressing some of the other needs. Childcare, again, we're way behind other countries in providing affordable childcare. And we see this in women's labor force participation. The US used to be one of the leaders. The Nordic countries were always ahead of us. But if you compare us to Germany, France, we were well ahead of them if you go back 30 - 40 years. Now they're ahead of us. Even Japan is ahead of us. So, this is a longstanding need that the Biden administration has tried to address. So, these are very big steps that would have a very big impact on the economy if he's able to get them through.

Allison Nathan: In all of these conversations though, a key underlying question is who is really in the driver's seat in the Democratic Party when it comes to policy making today? Are progressives running the show? Or do the moderates have the upper hand? Here's what Furman had to say about this.

Are the progressives driving policy right now? Or is that narrative overblown?

Jason Furman: When it comes to the fiscal issues, that narrative is overblown. What are two of the top priorities of the progressive wing of the Democratic Party right now? It's student loan debt relief and Medicare for all. Biden has not proposed either of those. And if anything, has been somewhat negative and spectacle of both of those. Modern monetary theory, MMT, he hasn't embraced that. MMT would say you don't really need to pay for anything. That is not the view that he's taken.

I'm not arguing that he represents the center wing of the Democratic Party either, but a simple does whatever Bernie Sanders wants him to do is pretty dramatically contradicted by looking at the proposals.

Allison Nathan: And here's Baker.

Dean Baker: Certainly, you've seen the increased prominence of the progressive branch of the party. Obviously, it's not the majority of the party. I mean, Biden won, no doubt about that. He beat Sanders decisively in the primaries. But the point is that's a very substantial portion of the Democratic constituency.

The traditional Clinton Democrats, the Wall Street Democrats, they've been discredited. Obviously, the financial sector is important. I don't think anyone dismisses them. But the idea that we're going to have economic policy determined by what the financial sector wants, I don't think that's any more okay with a large sector of the party.

And that they've appointed a lot of progressives to top level positions. So, clearly, they're an important voice in the administration. But it would be wrong to say they're running the show. There are clearly plenty of people that you wouldn't consider progressives that certainly are in on all of these discussions and they're going to have their say.

Allison Nathan: And here's Brady's answer to the question of who's running the show, as well as his broader perspective on how US political parties and power dynamics have evolved in recent years, and how the midterm elections might impact all of this.

David Brady: That's the $20 million question. It seems to me in the next month or two we're going to have the answer to that, how much the progressives have taken over. If the Infrastructure Bill and other bills don't pass and they get modified, say the Infrastructure Bill gets something like what the bipartisan group of senators came up with, then I would say Biden is a moderate. If at the end of that what they really try and do is say, "Okay, nope, we're going for reconciliation. We're going to try and push this through," then it's the case that he's been taken over by the progressive wing of the party. And I don't think we know the answer to that yet.

Allison Nathan: There is also a narrative about Manchin and how powerful he is as a swing vote. And that he, potentially, will move policy more moderate. Do you see that playing out? Do you think he's the dog or the tail?

David Brady: Well, he's a crucial vote. But he's not the only one. There's Krysten Sinema from Arizona. Jon Tester from Montana. There is a cluster of moderates in the party. And so, the question is, what are they going to be able to bring? Are they going to be able to change policy? I think they've already changed it. And they are going to pull the policy back away from the progressive.

Allison Nathan: If we ask about that more broadly, has the Democratic Party gotten more progressive or has the progressive wing just gotten louder and more power? How has the party changed?

David Brady: What's happened is the political parties have sorted. This has been a progression since 1980. So, if you look at 1980, about 40 percent of people who said they self identify as conservatives were Democrats. And 20 - 25 percent of people who said they were liberals were Republicans. And what's happened over time is that sorted out so that there are a few conservatives now in the Democratic Party, but basically, it's a party of liberals and very liberal. And the same is true for the conservatives.

Now, about 70 to 75 percent of Republicans consider themselves very conservative or conservative. And the number saying very conservative is up over the Obama period. And the conservatives are down a bit. And for the Democrats, the very liberal is up and liberal is up.

The difference is that the Democrats are a more heterogeneous party because they have more moderates than conservatives than the Republicans have moderates or liberals. That's related to education. If you ask if I'm very liberal or liberal, those people are well educated, they make more money than people who say they're moderate Democrats or they're conservative Democrats.

Allison Nathan: Do you see a difference in this, by the way, between the House and Senate? Or this is just in general across Congress?

David Brady: Well, the main difference is in the House, there are many more state districts because you don't have that many people in the district. And over time they've redistricted these things. So, maybe there are 30 to 40 seats that could swing one way or another. But on the Senate side, you get elected by the whole state. So, there are many more states that could swing. And therefore, the House tends now to be more liberal or more conservative depending on who's in control. Where the Senate appears to be more moderate, regardless.

So, if you think back, it was the Senate that killed the repeal of the Affordable Care Act. And it's the Senate where the Biden administration has trouble with their legislation.

And one last thing I'd say on that is there are still a lot of moderates in the United States. There is an excellent study by a political scientist out of the University of California Irvine. And what she found was that when she went out and looked at state legislators, which is a great source of people running for the United States Congress, turns out that only the liberals and the conservatives are willing to run for Congress. And the answer is, essentially, because money. If you're a liberal or a conservative, you can get a lot of money. There is money out there on the right and the left to gin up, "are you going to run?" It's tough to be a moderate and generate the kind of money. So, what we have is a series of factors that are giving us candidates that are left and right. And not candidates who come from the center.

Allison Nathan: Is it more likely that the progressives become more entrenched, less entrenched in the midterm elections?

David Brady: So, first of all, I don't think it's going to be a wave election. And let's call a wave election where you get 40 seat swing or make it 35. I don't think there is going to be a big swing in House seats. But then it doesn't take much does it? See, there are seven seats that shifted away from Democratic to Republican. Texas picks up two. Montana picks up one. Florida picks up one and so on. And so, the Republicans, I think, are going to do well on the basis of the reapportionment.

The second thing that's going to happen is it doesn't take but a very few seats to swing that back. And so, the Republicans, actually, have control of the House of Representatives. That's without any big national trend. That's just local elections plus the reapportionment kicking in. And you get a change in the House of Representatives.

On the Senate side, however, I think the Democrats will have a better chance to pick up a seat or two than the Republicans do. But it all depends upon how Biden is seen. In my view, the more moderate he gets, the more likely it is that the Democrats do better in the midterm elections.

So, I look at it like this. In 1994 and 2010 who were the Democrats who lost? Bernie Sanders, AOC, and others in the Democratic Party say, "Gee, in 1994 we didn't go big enough. In 2010 we didn't go big enough." The evidence is absolutely counter to that. The Democrats who lost in 1994 were Democrats from moderate districts that supported Clinton over 75 percent. If you came from the same district and you didn't support Clinton that much, you didn't lose. And in 2010, Democrats who came from competitive districts and who voted for the Affordable Care Act and voted for cap and trade, they lost overwhelmingly. So, if you're from a center state and your party pulls you left, or right for the Republicans, they're the ones that suffer in the midterm. So, the extent to which Biden and the progressives don't pull too many people away from those districts, then I think the Democrats will do better.

Allison Nathan: With all of that in mind I asked Bray just how difficult it will be for Biden to get his agenda passed compared to recent Democratic administrations.

David Brady: It's going to be tougher for Biden because Obama had 60 seats in the Senate, and he had a bigger margin in the House. So, Biden comes in. And basically, if you look at the 2020 election, in my view, the 2020 election was a referendum on Donald Trump. And Donald Trump got turned out of office. But below that, the Republicans gained seats in the House of Representatives. And they would have control over the Senate had President Trump not come in and did what he did in Georgia, say the election was a fraud, didn't work. And what happened was Republican voters didn't turn out in the runoff. And they lost.

So, down ballot, it was not like the Obama win in 2008 at all. So, Biden has a tougher time. However, I think it's important to note that one thing Donald Trump brought into the Republican Party a huge number of white people who don't have a college degree. And this is the first time in 2016 and 2020 that majorities of people without a high school degree voted Republican instead of Democrat. That's an interesting thing in the Republican Party. Because those people are in favor of taxing people who make over 250, taxing them more. They're less opposed to a higher minimum wage because it suits their interests.

So, Biden has a chance at getting some support among the public for some of these economic policies. But certainly not all of them.

Allison Nathan: And here's Jason Furman reflecting on his experience in the Obama administration relative to today.

Jason Furman: 95 percent of Democrats are thinking bigger today than they were thinking in 2009. And so, Biden has that going for him relative to what Obama had in 2009. But he needs 100 percent of Democrats to do things at least in a party line way. And President Obama never needed 100 percent of Democrats.

The American Rescue Plan, I've never seen anything pass that big, that quickly. Almost exactly what the President proposed. And it's possible that could happen again. That it becomes the only solution to the next bill is do what the President says because if the progressives get their way or the centrists get their way the whole thing falls apart. So, it could be he gives you the only landing pad that could possibly work and the choice is between defeat and what he proposes. So, I think the narrow margin gives him a little bit of an asset, but creates a huge, huge challenge to getting anything done.

Allison Nathan: So, what would be the economic implications of much of Bidenomics does get done? In the near term, the impact on inflation seems to be the most hotly debated. Furman's concerned that the stimulus already implemented in response to the pandemic crisis through last year's American Rescue Plan will be inflationary. But Baker is less so. Here's Furman.

Jason Furman: The American Rescue Plan erred by having too many dollars per month and not enough months. So, I wouldn't have minded a $3 trillion plan. I think the country could have afforded a $3 trillion plan. But what it couldn't handle was that much money injected in the economy that quickly with nothing as much permanent to show for it. So, in the near term, I definitely have a higher inflation forecast. I think there are some dangers, more than there should be, about expectations becoming deanchored. There are many sticky prices and wages that haven't moved yet and will start moving. And that over the next year, demand is going to exceed supply. So, there are reasons to worry about inflation right now. But those should be the Fed's worry. And the Fed should take care of it.

Allison Nathan: Do you think the Fed is going to have to react sooner?

Jason Furman: I think the Fed will certainly raise rates faster than it thinks it's going to raise rates. And I wouldn't be shocked to see a rate increase in the second half of 2022. The employment gains are going to be a lot faster going forward than what we've seen in the last couple months. And I think the inflation is going to be more persistent than many forecasters think because more of it's built into wages and the like. And so, the Fed could end up with a more compressed schedule between the onset of tapering and lift off in terms of rates.

Allison Nathan: And here's Baker from the Center for

Economic Policy Research.

Dean Baker: We've seen explosions in prices in some sectors. Lumber is one that's gotten a lot of attention. Lumber prices have plummeted in recent weeks. Clearly, that huge surge was a temporary blip. Used car prices, they were a huge part of the inflation story. They accounted for close to half of the inflation in May. And that's clearly not going to persist. I mean, we know about the semiconductor shortage. How long will that take to fully remedy, I'm not sure. Most of the car assembly plants, at least to my understanding, they're back up and running.

So, I think what we're mostly seeing are temporary shortages associated with the economy reopening in the US and the rest of the world, which are likely to be alleviated in the next few months and for the most part by early 2022. So, the fears that we're back in 1970, spiraling inflation, I think those are completely unfounded.

One of the things I think that's gotten way too little attention, if you go back to the '70s inflation, a big part of that story, at least in my view, was the slow down in productivity growth. So, we come off this long, quarter century of very high productivity growth, 3 percentage points a year '47 to '73. And have lost about 1 percent in the rest of the '70s, '73 to '80. So, I think that was a big part of the story.

So, if you look at productivity growth 2009 to 2019, it was just [UNINTEL] up 1 percent a year. In the last year, it was 4.1 percent. Now, obviously there's a pandemic. A lot of weird things going on. No one thinks we're going to continue at 4.1 percent. But it truly is possible that we're going to have, let's say, 2 percent productivity growth, something more rapid than what we had. It's very plausible that companies are restructuring, they're reorganizing the workplace. And if we have that, that will hugely mitigate the risk of inflation.

Allison Nathan: But despite his concerns about inflation in the near term, Furman is less worried about the inflation implications of Biden's longer-term spending proposals laid out in the American Jobs Plan and American Families Plan. Here he is again.

Jason Furman: I just would not analyze the plans going forward in terms of inflation. Inflation was a legitimate way to think about the American Rescue Plan because that was a ton of money all at once. This is spread out over time. It gives the Fed more than enough time to react if it wants to react. A lot of it is paid for, so it's not even as inflationary as the totals would make you think. And I think from a fiscal policy perspective, it's like a one-sided bed. If secular stagnation is true, then this will help us. If secular stagnation is not true, then the Fed can just undo it. And so, in one case it's a win. In the other case it's neutral. So, I'm not at all worried about inflation on this.

Allison Nathan: And neither Baker or Furman are concerned about the bigger deficits and higher debt levels associated with Bidenomics. Here's Baker.

Dean Baker: I just think there's a lot of misunderstanding about how that imposes a burden. So, people are running around, "Oh my God, the debt to GDP ratios are hitting the records we hit after World War II." Well, if you look at the interest burden, it's still very low. It's a little over 1 percent of GDP, 1.5 percent of GDP. In real terms it's actually negative.

If you go back to the '90s, the interest burden was about 3.5 percent of GDP at the start of the '90s. Debt was not a serious impediment to growth. No one thought of it as a huge burden. And the government also creates debt in other ways. That's going to be much larger under almost any plausible scenario than what we're going to be paying in debt service.

Allison Nathan: And here's Furman.

Jason Furman: I am relatively unconcerned about the debt level. And I think there are some arguments, even, that the debt level is too low, not too high. The debt needs to stabilize. I completely agree with that. The question is where does the debt need to stabilize? For a large open economy like the United States, in the low-interest rate world that we're in, I think for the debt to stabilize at 125 - 150 percent of GDP would be completely fine. Why do I say that? Because I don't look at debt as a share of the economy. I look at debt service as a share of the economy. I look at that adjusted for inflation, because you want to take into account that some of the debt is inflated away. And you look at a forecast over the next decade and it has debt service as a share of the economy adjusted for inflation rising to about half a percent of GDP.

We have often in the United States and other countries around the world had real debt service as high as 2 percent of GDP without any problems at all. So, we have room for interest rates to rise to 3, even 4 percent on the ten year. We have room for the debt to rise and all of that still being consistent with interest staying stable.

Now, some adjustment needs to be made eventually. I hope that when it comes down to it, we do address Social Security. I'd do it more with revenues than spending. But that it gets addressed. But the debt bouncing around at around 115 percent of GDP over the next decade is not high up on my worry list.

Allison Nathan: And finally, both believe Bidenomics would be positive for longer-term growth. Here's Furman again.

Jason Furman: I think the mild positive for economic growth and a larger positive for other goals like climate change, economic inclusion, helping families balance, and investing in opportunities for children in the longer term. From a growth analysis, there is, broadly speaking, three factors you'd want to take into action. One is the overall macro stance. And there I think it's a bet with some upside. If there's secular stagnation, this is the medicine for it. If there's not secular stagnation, the Fed can offset it. So, I think there's, from the macro stance, a small positive.

You then want to look at it from a micro perspective. How much will you expand the supply side of our economy if you have children that go to better schools? I think that's a positive and it's a positive that grows over time. And then there's the tax changes that are paying for all of it. Which I think are, you know, on the negative side of the ledger. I think they're a pretty small negative. Even some of the modelers from pretty conservative organizations have found that it would be less than one tenth of 1 percent per year reduction in the growth rate. Which you put all three of those together, the macro is a small positive, but more importantly, I judge it from will it help climate change? Will it help inequality? Et cetera. And I have a resounding yes on all of those.

Allison Nathan: And here's Baker.

Dean Baker: Absolutely, it's a net positive. What people can point to are the negatives are, on the one hand, some people will opt not to work, say, with the Child Tax Credit. That's true. And the other net negative, I'm enough of a traditional economist, I believe in general that higher taxes mean less investment. But I think those impacts are very, very small. We had the tax rate at 35 percent until 2017. Now, I understand, everyone understands, very few companies paid that. So, the effective tax rate was somewhere around 21 - 22 percent. So, if we get to 25 percent as the nominal rate, the effective maybe again will be around 21 - 22 percent. The stories that this will have some devastating impact, you just flip it over and you go, okay, is there any evidence that the tax cut had some big impact on investment? And I was following the data closely. You really can't tell that story. There's just no evidence in the macro data that there was any uptick in investment in 2018/2019 due to the tax cuts. So, raising the tax rates back to where they were pre tax cut, it's hard to see that as a problem.

And it makes much more sense to have a lower rate that you're actually collecting. If you have it at 35 percent but you're only collecting 21 - 22 percent, that means a lot of companies are jumping through a lot of hoops to game the system. And that's just a complete waste. And the flip side of that, if we have good childcare, some home health care for seniors or people who are disabled, that's going to allow a lot more people to work. Preschool education, we won't see that in the next five years or ten years, but 20 years out we'd see that. Free community college. We could see that much more quickly. And the other parts of the infrastructure package in terms of jump starting clean energy, electric cars, huge boost to growth. So, I absolutely think it's a net positive.

I was struck when the Biden administration came out with their budget, they had a very modest boost to growth, one or two tenths of a percent ten years out. I think that's a very, very conservative estimate. But even that, if you accumulate that over 20 years, that makes a big difference.

Allison Nathan: As aspects of Bidenomics continue to be debated and moved through Congress, we'll be closely watching the implications for policy, the economy, and markets.

I'll leave it there for now. If you enjoyed this show, we hope you subscribe on Apple Podcasts and leave a rating or comment. I'm Allison Nathan. Thanks for listening to Exchanges at Goldman Sachs and I'll see you next time.