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Budgetary Courage to Face the Double Crises of COVID and Climate Change

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The Biden Administration has skillfully finessed a razor-thin Senate majority to install key political appointees. The withdrawn nomination of Neera Tanden for Director of the Office of Management and Budget struck many observers as a rare misstep. However, few if any could anticipate whom the fickle Joe Manchin would decide was too "toxic" to participate in the Cabinet. Moreover, in the broader sphere of budgetary policy, Biden's team has taken action that is refreshingly bold compared with the Obama Administration's response to the global financial crisis.

Several factors account for the much larger crisis response in 2021 compared with 2009. First, the threat is more severe. Financial crises may be devastating, but a trusted lender of last resort can restore order to markets. COVID has posed a more fundamental challenge to the real economy, disrupting schooling, public transport, commercial real estate, retail, and many other sectors in ways that reflected far more risk in basic social activities. Nor can everything be set "back to normal" via vaccinations. Misinformation has left a sizeable plurality of the U.S. population vaccine-hesitant or outright opposed to basic public health measures. As the pandemic rages in India and Brazil and more variants emerge globally, cautions among the majority will persist. But the efficacy of such cautions will sometimes be in doubt. Experts are not certain about how long immunity lasts post-vaccination—yet another real challenge to pre-pandemic modes of social life. All this adds up to a force for upheaval poised to last well beyond the recent waves of mass illness and death.

Second, many Democrats are more ambitious now because they look back on the relatively anemic American Recovery and Reinvestment Act of 2009 as a double failure. It did not raise living standards enough to keep millions of Americans from losing their homes. Economic distress in turn contributed to a Democratic wipeout in 2010. Republicans' sweep of Congress and state legislatures led to gerrymandering and voting rights restrictions that may well hand permanent GOP control of several legislatures that had been contestable. The ghost of

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2010 haunts Democratic strategists looking ahead to 2022 midterms. And as voting rights restrictions proliferate in state legislatures in 2021, democratic governance's margin for error is further reduced.

Third, there has been an intellectual sea change regarding the perils, and potential, of government spending. In 2009, far more economists worried that fiscal expansion and loose monetary policy would provoke so-called "bond vigilantes" to stop buying US Treasuries, or to demand high interest rates for doing so. The rise of negative interest rates in the ensuing decade in many regions, as well as waves of quantitative easing in the U.S. and other sovereign nations without significant interest rate rises, eased those fears. Democrats have also stopped resigning themselves to playing a budgetary "clean-up" role after GOP tax cut profligacy, breaking the fetters of fiscal constraint that hamstrung both the Clinton and Obama Administrations.

Ideas matter. Perceived by elites as merely a fringe nostrum in the 1990s, Modern Monetary Theory (MMT) gained increasing respectability in intellectual and policy circles throughout the 2010s. In the best-selling *The Deficit Myth*, Stephanie Kelton has eloquently argued that government spending is constrained by real resources (rather than tax revenues or bond markets). Many members of the emerging law and political economy movement have been inspired by that insight.

MMT's emphasis on government's central role in the economy recalls Keynes's *General Theory of Employment, Interest, and Money*. Keynesianism took root amidst a global depression, when unemployment sparked enormous personal suffering, as well as political upheaval reminiscent of the current resurgence of authoritarianism. The current Keynesian revival is unsurprising, given ongoing joblessness, and the decades-long worsening of work conditions for those suffering the indignities of "fissured workplaces."

But MMT in its most recent incarnation makes some important deviations from Keynesian orthodoxy. One reason Keynes's work became a foundation for modern macroeconomics is the studied neutrality of his doctrine. Keynes could joke that it mattered not whether a state spent money on burying and exhuming bottles, or building a new pyramid of Cheops, in order to put its citizens back to work. In our time, the disastrously pollutive effects of much consumption are well known. So the political face of MMT now is not simply an argument for a "people's quantitative easing," or a universal basic income. Rather, it is a Green New Deal (GND), an investment in the types of productive capacity that can decarbonize the atmosphere while enhancing our ability to efficiently satisfy human needs and wants. This substantive emphasis is a major advance past classic Keynesian doctrine. It recognizes that the earth has limits, that we are on the brink of surpassing them, and that we must now work to undo the damage.

To his great credit, Biden has announced a $2 billion infrastructure package (spread over several years) designed to reduce fossil fuel climate impacts and promote stably remunerative employment for millions of Americans. The package also addresses a "care crisis," facing up to the failure of public programs to keep up with the needs of so many elderly and disabled persons (which may grow markedly as the long-term consequences of the opioid epidemic and COVID pandemic continue to unfold). These are "green collar jobs," less carbon-intensive than many of the manufacturing and mining positions they are poised to replace.

To be sure, this package is not enough to make up for the climate inaction of the past three decades. The U.S. should spend far more to do its part to avoid catastrophic warming—and the investment would more than pay for itself by reducing deaths and illness due to particulate pollution. But Biden's twin COVID relief and infrastructure packages are much bolder than most commentators expected, and that is something to celebrate.

One great intellectual challenge in coming years will be better understanding what the real resource constraints are on ambitious government action to address climate change, health needs, and other vital issues. While President Trump's COVID response was disastrous in general, the decision to invest in a wide range of vaccines has paid off handsomely. COVID vaccines were developed much faster, and with much greater efficacy, than most experts were predicting in mid-2020. Every day the U.S. can move up the effective end of pandemic dangers, billions of dollars of economic value (and, of course, the priceless saving of hundreds of lives) is achieved.

What other opportunities for vast returns is the US's entrepreneurial state missing? Biden's infrastructure plan offers many answers. Investment in professional caregivers may give harried friends and relatives a chance to be more productive in the formal labor market. Renewables may grant the US energy independence without the climate burden of the shale revolution. Mass transit investments can make travel and commuting less stressful. All these initiatives will dramatically improve citizens' daily lives. After the Trump Administration's manifest disregard for climate policy, it is a relief to see the Biden economic team recognizing the long-term value of investing in sustainability.