THE CASE FOR PROGRESSIVE STIMULUS:

HOW SPENDING NOW CAN DRIVE LONG-TERM AND EQUITABLE PROSPERITY

FOREWORD BY **SUZANNE KAHN** | DECEMBER 2020

As we look to 2021, the Roosevelt Institute believes that the intertwined health and economic challenges posed by the COVID-19 pandemic must be met with bold, stimulative action. Nine months have elapsed since Congress passed the CARES Act: a period of tragic inaction that has unnecessarily deepened the pain and insecurity of the nation's most vulnerable people. Now, with COVID-19 cases and job losses again rising, many economists are predicting a "double-dip recession."

We need stimulus now. And any stimulative action must address long-standing, structural problems that long predated COVID-19.

In three new issue briefs, Roosevelt staff and fellows explain why investing in our future now, rather than implementing blunt austerity measures, is vital for an equitable recovery—one that begins today and sets us up for long-term success.

The papers present two key principles for future stimulus spending:

1. Stimulus dollars must be large enough and long-lasting enough to effect structural changes to our economy and public institutions; they should help to rebalance power in the market through more broadly accessible public provisioning.
2. To that end, stimulus dollars must be "stapled to policies." In other words, funds should be conditioned on states and other recipient institutions implementing policies that actively fight corporate concentration, empower workers, dismantle racist institutions, and decarbonize our economy, along with other progressive priorities.

Unfortunately, these principles were not front and center in the design of the CARES Act. As a result, fossil fuel companies were able to use CARES funding to off-load bad debt and, after years of debate about the urgency of bringing down the cost of higher education, universities and colleges received billions of dollars without any discussion of bringing down costs. As importantly, although the

CARES Act made critical investments in our economy and social welfare state, it was not long-lasting enough to effect structural change.

We are seeing now that without these two key principles, we short-change our recovery. Tragically, the health and economic consequences of COVID have already fallen disproportionately on Black and brown communities. Adopting a fiscal austerity mindset going forward and refusing to invest in further stimulus spending will only further widen racial inequality. Stimulus dollars will end up in the wrong hands, as they did last spring. States, which cannot deficit spend in a crisis, will be forced to either cut their budgets or find new sources of revenue. Years of potential and innovation will be lost.

In *Preventing Another Lost Decade: Why We Need Deficit Spending Now*, J.W. Mason argues that the infusion of cash into the US economy from a robust spending bill would be as essential a step toward economic recovery as the individual programs on which that money is spent.

The following two issue briefs—*A Green COVID-19 Recovery: Lessons from the ARRA* by Rhiana Gunn-Wright and Kristina Karlsson and *A New Deal for Higher Education* by Suzanne Kahn, Jennifer Mittledstadt, and Lisa Levenstein—look at examples of specific policies that would advance progressive structural reform through stimulus spending. Gunn-Wright and Karlsson explore the lessons the 2009 American Recovery and Reinvestment Act offers for investments in clean energy infrastructure through stimulus funds. And Kahn, Mittlestadt, and Levenstein explore how the progressive values behind the free college movement—for example, remediating racial inequality—can be applied to any federal spending on higher ed.

These three briefs are by no means a comprehensive accounting of what needs to be done to stimulate and restructure the economy. But, taken together, they are illustrative of the approach to economic relief that policymakers should embrace: a substantial investment in immediate economic recovery through measures that build toward systemic reform. They call attention to the ways that, long before COVID-19, structural problems in our economy and a patchy network of public goods left Black and brown communities particularly vulnerable to disruptive macroeconomic events.

The approach embodied in these papers is the same as the approach we called for in August, when we released *A True New Deal: Building an Inclusive Economy in the COVID-19 Era*. Since then, the economic and health crises facing our country have only deepened. Yet policymakers have increasingly expressed concerns about the cost of future stimulus funds at the federal level. Meanwhile, states, facing deep budget shortfalls without further federal funding in sight, have already begun to implement austerity policies.

As Mason explains in detail, this is a dangerous moment for our economy. Economists generally agree that fiscal austerity at the federal and state levels slowed the recovery from the 2009 recession. Based on the post-2009 experience, economists estimate that for every dollar states cut in spending, there is a drop of between $1.50 and $2.50 in GDP. Moreover, recessions can lead to lasting reductions in the economy's productive potential—a phenomenon economists call "hysteresis."

In the Great Recession, fiscal austerity not only slowed recovery but exacerbated existing inequalities. When states cut their budgets, important public programs—from childcare to housing—lost public funding, and individuals were left to bear the cost. These increased costs hurt everyone, but they had particularly pernicious effects on communities that already struggled to make ends meet.

Higher education and student debt provide a clear example of how austerity deepens existing racial inequality. States slashed higher education budgets after the 2008 financial crisis, and schools made up the lost revenue by increasing tuition. This, in turn, led students to take on more debt. But, while debt levels grew across the board, the rise was especially sharp for Black students, who, by and large, have fewer family resources to turn to.

Between 2000 and 2018, median student debt for white borrowers nearly doubled, but for Black borrowers, it quadrupled. Not only are Black borrowers more likely to take on more debt, but because they graduate into a racially discriminatory job market, they have more trouble paying those debts back. Twenty years after graduating, the median white borrower had paid off 94 percent of their student debt, while the median Black borrower still *owed* 95 percent of theirs.

The student debt crisis offers just one illustration of the ways that fiscal austerity widens existing racial inequality, and, indeed, distorts the effects of public institutions meant to serve as engines of mobility and equality. For another example, we can observe how cuts to the public sector workforce—cuts which almost always follow state budget shortfalls—reverberate through Black communities. Public sector jobs are a critical source of high-wage, highquality jobs for Black workers. Black workers compose 20 percent of the public sector workforce (compared to 10 percent of the private sector workforce), and a disproportionate number of Black workers hold a public sector job. These jobs are much more likely than private sector jobs held by Black workers to come with benefits, including retirement savings. Black workers who hold them are more likely to own houses and move into the middle class. Reductions in the public sector workforce narrow one of the most widely available pathways to the middle class for Black workers.

While some fear growing the nation's total debt, the lesson of the 2009 recession is that instead of total debt levels, we should focus instead on the debt-to-GDP ratio and invest in projects that lower the ratio by increasing GDP. As Joseph Stiglitz argued in October, "With real returns to investments in technology, education, and infrastructure—including the green transition—far exceeding the (negative) real costs of borrowing, such recovery spending strengthens the nation's balance sheet."

Instead of austerity, we must meet the current crisis with spending that stimulates the economy in ways designed to actively narrow inequality, take meaningful steps toward decarbonization, and advance progressive policy priorities such as universal access to higher education. Together, these issue briefs point a way forward.

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