Can Sanders Do it?

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After creating a massive movement of younger Americans in the 2016 Democratic primaries, Bernie Sanders can no longer be ignored. The democratic socialist US senator from Vermont has offered a comprehensive economic-policy program that has already expanded the public's notion of the possible.

AUSTIN – US Senator Bernie Sanders has emerged as a plausible Democratic nominee for president in 2020. This has been clear for some time to those paying attention to his organization and fundraising, and to the sequence of the early primaries, where small states (New Hampshire) favor him by geography and large ones (California) favor him by name recognition. *The New York Times*, *Politico*, and quotable Democratic Party insiders all now admit that Sanders may well be the party's nominee to face President Donald Trump in November.

If nominated, Sanders has a fighting chance of being elected. In fact, his chances may be better than any of the other primary contenders, considering the states and voters that he would need to tip back into the Democratic column. According to the *RealClearPolitics* compilation of national polls, Sanders has held a consistent lead for nearly a year, with only a brief interruption in December 2019, when Trump benefited from a transient backlash against his impeachment. His nine-point lead over Trump in a hypothetical matchup is the largest among the remaining Democratic candidates. More important, Sanders is well positioned to take back a sufficient number of working-class voters in the critical states of Wisconsin, Michigan, and Pennsylvania.

Is Sanders a plausible president? Leave aside the fact that Trump himself is the least plausible president the United States has ever had. Sanders would bring to the job 40 years of experience as an elected official and intimate direct knowledge of Capitol Hill and the workings of the federal government; his legislative experience is rivaled only by that of former US Senator Joe Biden, and it is more recent. But Sanders is also an idealist, capable of embracing positions well to the left of the prevailing political mainstream. That is very much to his advantage in the Democratic primary, and it might not even hurt him in the peculiarly polarized circumstances of this year's election.

The big question is whether Sanders's program can form the basis of an effective economic and social strategy for a first presidential term and beyond. Do Sanders's proposed policies make sense *in economic terms*? I can offer an extended answer to that question from the perspective of a distant adviser to Sanders's campaign.

THE STARTING POINT

By any standard, Sanders's proposals are more ambitious than anything seen since President Franklin D. Roosevelt's New Deal in the 1930s-1940s and President Lyndon B. Johnson's Great Society in the 1960s. The New Deal was a vast and aggressive program of experiments, particularly in scaling up programs pioneered at the state level, notably by the Progressives in Wisconsin and by Roosevelt himself as governor of New York. The Great Society was developed in the era framed by John F. Kennedy's New Economics – an American version of Keynesianism – and came at a time of broad prosperity, international monetary obligations (under Bretton Woods), and incipient inflation, all of which dictated a measure of policy restraint.

The lingering difficulties of that era gave rise, in turn, to ideological counterrevolutions: monetarism and supply-side economics. These mutually inconsistent doctrines rationalized the high interest rates and tax cuts of the early Reagan years, which produced first a deep recession and then a timely recovery. The broad historical lesson is that any ambitious economic program needs to be considered in light of the circumstances within which it is applied.

Among the circumstances likely to face a Sanders administration in 2021 are those left over from the 2008 financial crisis, which gave way to a decade of slow but steady growth, accompanied by a broad reduction of unemployment. The decline in the unemployment rate partly reflects an aging workforce and decreased immigration, but mainly a large increase in new service-sector jobs paying mediocre wages. As a result, an ever-growing number of US households have come to rely on multiple earners to make ends meet.

Meanwhile, neglect of public investment has accelerated physical decay in many parts of the country. Mitigating and adapting to climate change demands major investments, and a large share of the available physical resources will need to be committed to carrying out a successful transition to a clean-energy economy. Obviously, this has not happened under Trump.

On the bright side, America's human resources are plentiful; energy costs are low for now; and technological possibilities have been expanding. The country's financial position – low long-term interest rates, low inflation, and the high value of stocks and the dollar – remains remarkably strong.

The question, then, is whether the Sanders program falls within the capacity constraints facing the country as a whole. Will his plans break the national bank, or risk running up the trade deficit, weakening the dollar, and triggering inflation? Much would depend on how the various elements of Sanders's plan work together when they are implemented in concert. Each piece has a role to play in shifting resources, energy, and manpower toward addressing critical problems.

THE CORE SANDERS

The "Core Sanders" program is highly progressive, and oriented toward the young Americans who gave Sanders his initial, unexpected boost to the national stage during the 2016 Democratic primary. Many of its central components have since been adopted by other candidates, notably US Senator Elizabeth Warren, and thus will feature prominently in the 2020 Democratic platform and beyond, regardless of whether Sanders is the nominee. More important, these components are actually *not* expansionary with respect to their likely effect on economic activity and employment. On balance, the Core Sanders program would in fact be likely to *reduce* overall economic activity.

Of the main policies, possibly the *most* expansionary is a proposal to raise the federal minimum wage to $15 per hour, though this would have little if any effect on federal spending or taxation. A minimum-wage hike amounts to a transfer from profits to wages, and from high-saving to low-saving individuals and families. It is likely to bring about higher consumption spending on the part of working Americans, of whom about 30% would receive a raise. But this effect would not be very large, partly because the pay increases for this group would be fairly small, and partly because there might be an offsetting loss in spending out of profits.

In any case, the major benefits of a higher minimum wage are social: it would reduce inequalities, improve the quality of services for low-income consumers, and reduce demand for low-wage undocumented immigrants (because documented workers would be more readily available for certain jobs at the new minimum wage).

The other mildly expansionary element of Sanders's core agenda would eliminate tuition in public colleges and universities, presumably substituting a federal payment to cover most of the costs. The obvious benefit here is to students (and their parents) who would otherwise be saddled with tuition fees. Many of these families would increase their other spending. But there would be an offsetting effect on the spending of public colleges and universities, which would be more dependent on federal and state funding than they were before, and therefore more vulnerable to legislative squeezes on their budgets.

At the same time, Sanders's proposal to raise marginal income-tax rates would have a dampening effect on economic activity, because it would curtail the high-end luxury spending (known as "plutonomy") that makes up a growing share of total household spending in our radically unequal world. More progressive taxation and curtailment of billionaires' Gilded Age extravagance should be welcomed. But without clear offsets in the form of increased federal spending or lower taxes for lower-income families, the net effect on employment and total output would be negative.

Sanders's proposal to break up large banks and reduce the claims of Wall Street on the economy also would reduce overall economic activity in the short run – even though a strong case can be made that much of the economic activity associated with Big Finance is worthless or detrimental anyway. Starting around 1980, the rhythms of the national economy have been governed largely by the ebb and flow of bank credit, from the NASDAQ boom of the late 1990s and bust in 2000, to the mortgage boom of the mid-2000s and the financial crisis of 2007-2009.

Since then, the economy has been driven forward largely by household and personal debt – auto loans, credit cards, and student debt – all of which generate profits for banks. Breaking up the banks into smaller units, regionalizing the resulting institutions, and regulating them more strictly could reduce the sector's overhead, as well as its outsize political influence. Compared to the present environment of dangerously easy credit, this new dispensation would reduce, rather than expand, overall activity.1

And then there is "Medicare for All," the major benefit of which would be to place the entire population into a single insurance pool, eliminating the need for most private health insurance. Again, this would be a good thing that nonetheless reduces economic activity. The savings in reduced health-insurance costs from Medicare for All would amount to several percentage points of the 18% of GDP that America currently spends on health care. If US health-care costs (beyond insurance costs) were reduced to French, Italian, or even British levels (though Sanders does not claim that his plan would do this), a major decline in total output and a reduction in health-related jobs would follow.

It is therefore a misunderstanding, constantly repeated in the media, to speak of how the "cost" of Medicare for All would be met, as though shifting the function of insurance from the private to the public sector and reducing the scale of health care would entail an increase in the real cost of health care. The reality is the opposite: Medicare for All is a cost-saving program. By changing the basic health-care funding model, it would eliminate unnecessary expenditures and waste – not least the profits of insurance companies – while rationalizing the delivery of services.2

Finally, in 2016, Sanders promoted a substantial program of new spending on infrastructure and the environment, which could in principle have offset some of these aforementioned effects. That commitment, as we shall see, has since taken a new form.

THE EXPANDED SANDERS

As of 2019-2020, the Core Sanders has been supplemented by an "Expanded Sanders" program comprising the Green New Deal (GND), a federal job guarantee, a wealth tax, and a plan to abolish and forgive student-loan and medical debts. Of these four policies, the first two would be expansionary or stabilizing in their economic effects. The third is, in my view, impractical, and the fourth is perhaps more far-reaching than is generally appreciated.

The GND has become a global rallying cry. In spirit, it evokes Roosevelt's New Deal, which featured comprehensive social and economic reforms, an expansion of worker rights and minimum wages, the creation of the welfare state, the introduction of effective financial regulation, and large-scale federal spending on infrastructure, conservation, and the environment. In its new incarnation, the key proposals largely target the energy sector, covering both production and consumption of fossil fuels and renewable alternatives, especially solar and wind. There are also proposals to rebuild the electrical grid, weatherize houses and office buildings, move toward all-electric ground transportation, ban hydraulic fracturing ("fracking") for natural gas and oil, and more.

Whether these implied technological changes are even possible is a vital question, and it remains to be seen if they would accord with globally agreed targets for reducing fossil-fuel emissions. As with any major initiative, success is not guaranteed. But the same was true of the New Deal and of the mobilization to win World War II. The GND, then, is best considered in the spirit of a presidential campaign. It represents an earnest commitment to meet the climate crisis: $16.3 trillion in new spending over ten years, and the creation of 20 million new jobs. Obviously, what matters for the climate are the results; but, either way, the effort will count as economic activity.

In a $21 trillion economy, $1.6 trillion per year would amount to just under 8% of additional activity, not counting "multiplier effects." After applying the "balanced-budget-multiplier theorem" – according to which a $1 increase in federal spending, offset by a $1 tax increase, *boosts* GDP by exactly $1 – the additional overall activity from Sanders's proposed GND would come to roughly 9-10% of GDP. By itself, the GND would have a strong expansionary effect, sufficient to absorb the deflationary effects of reducing the role of the financial and health-insurance sectors.

The GND would also support employment. Although the jobs created would be quite different from those lost, and in many cases different people would get them, GND-related projects could be sited in such a way as to revive decaying industrial regions, thereby restoring some geographic balance to the national economy. As with all economic change, some disruption would be inherent in the transition.

GOING GREEN

It is important to recognize, however, that the GND is a program for *investment* spending; it would not create new consumption goods to go along with the increased income and new jobs. Most of the effort would go toward improving the environmental consequences of existing output. The GND is thus a way to trade cheap but non-renewable and unacceptably destructive carbon-based energy for energy that is (broadly) costlier but also more sustainable.

By boosting incomes without creating new consumption goods, the GND is similar to an industrial mobilization for war. The increase in income from GND-related activities will be partly offset by a decrease in wasteful finance, private health insurance, and excessive medical provision (somehow defined), as well as reductions in military spending consistent with ending America's forever wars.

On balance, there would probably be a net increase in personal incomes relative to consumption. One consequence, then, would be rising imports, a channel that would have to be monitored closely, and curtailed if necessary to protect the position of the dollar. The other risk is price inflation, which would have to be the target of specific measures as it arises.

An economy where rising incomes outrun the supply of new consumption goods is a manageable problem, as John Maynard Keynes showed in his 1940 pamphlet, *How to Pay for the War*. The wartime US managed this problem with a combination of long-term bonds issued directly to households, long-term interest rates managed and kept stable by the Federal Reserve, and comprehensive price and wage controls, under the Office of Price Administration (directed by my father, John Kenneth Galbraith).

These measures were firm, if not drastic. But the fact is that in an emergency and for a finite period – namely, the time it takes to shift to a new energy and resource system – the problem can be managed. Better yet, one long-term consequence of addressing the problem correctly is that US households would emerge with sound balance sheets and the capacity to take advantage of the new infrastructure in ways that enhance their quality of life, while reducing their dependence on Big Finance. That is what happened after WWII.

WORK, DEATH, AND TAXES

In this context, Sanders's proposed job guarantee would act as a stabilization measure. It is designed to provide jobs at a relatively modest living wage to those who want them, when they want them, and not otherwise. In the context of a broadly strong economy with high employment (bolstered by the GND), the demand placed on the job guarantee would be small. Most people, even those released from prisons, would already be working in better jobs with higher wages and better career prospects. Only when the private economy falters – when the credit boom gives way to a credit crunch – would the alternative of a public job become attractive to more people.

In terms of the "costs," it is important to remember that spending on the job guarantee would replace unemployment compensation, welfare, and some disability insurance as the safety net of choice for people who are able to work, because having a job is the best indicator of future employment prospects. So, in general and under normal conditions, the job guarantee's expansionary effect on economic activity would be positive but modest. The virtue of the program is not so much in its effect on total activity, but that it creates a reserve capacity for dealing quickly with the human consequences of crises.

This brings us to the wealth tax, which occupies a somewhat anomalous position in the Sanders policy mix. It did not originate in close consultation with the progressive economists most closely associated with his campaign. Rather, it was picked up from Warren, who herself got it from economists like Emmanuel Saez and Gabriel Zucman of the University of California at Berkeley, and Thomas Piketty of the Paris School of Economics. The resulting proposal would require annual appraisals of capital wealth for families above some specified threshold, and the conversion of some part of that wealth to cash for tax purposes. In cases where wealth is concentrated in corporate equities, provision would be made to transfer stock, presumably at the market price, in lieu of cash.

The most serious problem with the proposal is not that such a policy would weaken economic activity, but that it would be impractical. To enforce it, the US would need to create a new tax administration aimed entirely at assessing and valuing all forms of wealth as of a certain date each year. Because many forms of wealth are illiquid and not easy to appraise – while others are volatile and also difficult to appraise precisely on a certain date – the policy would be an enormous boon to the tax-preparation industry. For everyone else, including the federal government, it would be a huge headache. As such, one can disregard this plank of the platform; it is a political gesture at best.

But how, then, would the GND be funded? True "financing" is a matter of real resources, not scrounging for tax revenue. As noted above, those real resources would come from cutting back on finance, health insurance, unnecessary medical provision, and the military, and by mobilizing residual unemployed and underemployed workers toward more useful and necessary activities. Tax revenue would then come from these workers' earnings, and from more effective levies on the profits of the companies that employ them.

That said, tax measures to curtail oligarchy are certainly needed. On this issue, Sanders's original instinct was to strengthen the existing estate and gift taxes. This approach, which remains a part of his program, is sound. Estate and gift taxes target dynastic wealth, and have the advantage of providing a strong incentive for philanthropic donations, giving life to universities, museums, hospitals, churches, and other socially useful institutions. It also requires only one appraisal, which comes at a time when the disruption to ongoing activities is minimal and the assets can be frozen until they are appraised.

ESCAPE FROM DEBTORS' PRISON

Finally, we come to student-loan and medical-debt forgiveness. Specifically, Sanders advocates canceling student debts owed to the government and repaying debts owed to private institutions. The former move is clearly expansionary, since the cash flows otherwise used to pay down the debts would be directed to other spending, which itself would fuel new economic activity and job creation. The effect of debt repayment isn't as clear, because paying off the capital value of a loan early deprives the lender of interest income.

In any case, the more pressing question is what impact these measures would have on the provision of additional credit in the future. With so many customers newly liberated from debt burdens, would lenders be willing to extend new loans for other purposes? Or would lenders expect further debt forgiveness, and perhaps a rolling write-down of existing debts, including those owed to them? Many might assume – not unreasonably – that if student loans and medical debts should be written down, so, too, should some other categories of debt.

Here, the social dynamics of revolutionary economic development begin to come into play. In the grand scheme of things, a wide-ranging program of debt relief for American families and households would be a very big deal. Private debt has acted as an effective instrument for social control and discipline at least since the financial deregulation that began in the 1970s, which launched the era of credit cards, installment buying, and increasingly unstable and speculative mortgages. Most Americans are affected by this system of debt peonage, yet few think to question it, let alone recognize it as a form of social oppression.

The underlying radicalism of Sanders's outlook is manifested in his embrace of bold proposals, which are already expanding the public's notion of the possible. As the far-reaching potential of a Sanders presidency seeps into the public consciousness, the vast segment of the electorate that currently feels disenfranchised and demoralized will begin to think differently about the future. Debt is a weapon of the oligarchy. It is not entirely unreasonable to see in debt cancellation the mobilizing trigger for a broader social movement in favor of still deeper social-democratic and socialist reforms.

SANDERS CAN DO IT

Whether an economic program as a whole succeeds or fails largely depends on how its various components add up. Based on a general evaluation of Sanders's agenda, it appears that a reasonable answer to the question of whether he can do it if given the chance is: *Yes, he can*. The Sanders movement is growing, and the candidate's program is popular. Equally important, the Sanders agenda is largely coherent as a matter of basic economics, broadly balanced between elements that boost economic growth and those that free up resources, and largely consistent with the broader conditions, domestic and international, that the next US president is likely to face.