

Politics: Meet Me in the Middle Episode 38 – The Economy Explained
(Finally!) with MIT Economist Daron Acemoglu

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Voice-over : From CurtCo Media. (singing).

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Bill Curtis: Welcome to Politics, Meet Me in the Middle. I'm Bill Curtis. Do politicians really affect the economy, your economy, not some number you see on the news or the Dow Jones industrial average, but as we move through this pandemic, what are the real economic trends and their likely effects on all of us? And as we approach this election, can we expect the results to affect our economy longterm versus whatever the media touts or the politicians promise? Today we've brought in one of the most lauded economic minds in the world, Daron Acemoglu. He is said to be headed for a Nobel Prize for his work researching the relationship between social and political factors and their economic impacts. He will help us make some sense of all this. So let's introduce our panel. Firstly, our cohost Pulitzer Prize winning historian, bestselling author, worldwide lecturer and the widely quoted human historical and political encyclopedia, professor Ed Larson. Nice to see you Zoomed in, Ed.

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Bill Curtis: Thank you so much and welcome to the show.

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Daron Acemoglu: Thank you, Ed.

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Bill Curtis: Also Zooming in Jane Albrecht. She's an international trade attorney who fought for US economic and business interests to high level government officials all over the world. Hi Jane. Nice to remotely see you too.

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Jane Albrecht: Always good to be here and it's an honor to be here with you.

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Daron Acemoglu: Thanks Jane. I'm looking forward to the show.

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Bill Curtis: And Daron Acemoglu, he's a Turkish born Armenian American economist, who has taught at MIT since 1993. Although his awards are just too many to list here, he did receive the John Bates Clark Medal, which is awarded to young economists judged to have made the most significant contribution to economic thought and knowledge. Daron is best known for his work on political economies and he has

authored hundreds of papers and books like Why Nations Fail and The Narrow Corridor.

Last Year Bloomberg stated that Daron is one of a tiny handful of economists whose work is destined for a Nobel Prize. Daron, we are honored to have you join us today.

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Daron Acemoglu: Thanks Bill. My pleasure.

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Bill Curtis: So let's just dive right in. Define for us what specifically is meant by the economy and what does it entail?

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Daron Acemoglu: Well, the economy is about all of the interactions between human beings that involve production, consumption, trade and all of the social and economic corrolaries of these activities. So when you are going to work or when you are engaged in investments for your business or when you are acquiring education and skills for later use in the labor market, those are all economic activities.

So the narrow conception of economy, when people talk about whether the economy is in a good state or not, is often summarized by these measures, but actually it's undergirded by a much richer tapestry of interactions between humans, between firms and within the entire US society.

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Bill Curtis: So taking kind of a macro economic side, how does the economy and the health of the economy affect each one of us individually?

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Daron Acemoglu: That's actually a pretty deep question because one of the shortcomings of the indices that many journalists focus on is that they tell you something about the average. For instance, they will tell you what's going on to the overall gross domestic product of the American economy over the last four or five years. It's been growing very rapidly. But that's really not indicative of the experiences of most people. Wages, for example, in the US economy have stagnated for most workers. So there is a complex relationship between the aggregate of the economy and what's going on two different groups of people. And it turns on the critical issue of whether a rising tide lifts all boats or not. That's one of the issues that policy determines and we've had very different experiences over the last two decades or three decades versus before, for example, in the US economy.

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Bill Curtis: After saving lives, how can we best proceed to save our economy? And of course the people who would be most effected by it longterm?

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Daron Acemoglu: There are both short term and longterm aspects, but in the short term, I think you put your finger right on it. Saving lives, protecting the public health is a first priority, but we want to do that while minimizing the adverse economic effects. And I think that has two dimensions. How do we minimize the GDP losses, the entire output of the economy going down the drain is not something that anybody wants to see. But then also how do we protect people who are most vulnerable, the low wage workers who've lost their jobs, et cetera.

So if you look at the scorecard of the US policy, I think overall there's broad agreement that we've done pretty badly when it comes to health measures, testing, containing the virus, et cetera. But on the whole, on the protection of the workers, we did reasonably well after March with unemployment benefits and other programs that provided much needed support to people losing their jobs and poverty, for example, in the US didn't actually decline, despite the fact that we had probably the largest drop in output in any given year in the US recent history.

So I think in terms of protecting the most vulnerable people, we have to continue what we started in March, 2020. Make sure that people who are forced out of their jobs don't suffer unduly. US government has the fiscal capacity to do that, but we also have to make sure that the economy gets going again. I think better testing, ways of contact tracing, which some companies themselves are doing, but still federal government support for this is very limited, but there are also more complex issues. For example, whether we should allow a younger individuals who are less susceptible to the virus to go back to work at higher rates than people who are more vulnerable.

I think there are some specific policy issues that we have to bring expertise, data, and the best state of the art knowledge. But suffices to say, I think there are a lot of policy issues on which we need better study, better policymaking.

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Bill Curtis: Ed Larson. Let me ask you a question about our history, a little in this country. Have there been other times where we seem to have to create a balancing act between public health and the health of the economy and jobs?

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Ed Larson: Probably the most famous one of the last century was the Spanish Flu, which was much more dramatic than anything we have now. We had a third of the population back then, and we had four times as many deaths as we've had so far, and it hit all ages. It wasn't concentrated among older people. It hit people in the prime of their life. And how to balance that with an ongoing war effort and an election that went on in the middle of it. And the economic effects of the Spanish flu, which our guests probably knows far better than I, we're absolutely dramatic. Not only in the United States, but worldwide because it was even a bigger killer in Europe or where his family was originally from, Turkey and Armenia. It was devastating in those areas and it completely flipped the economy and whole new businesses rose up and a whole other businesses went down. And the federal government is doing more now than it did back in 1918. We're going to be a different economy coming out of this over time.

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Bill Curtis: Daron, if you could just lay out for us the circumstances where in the past politicians had to make a decision between the idea of saving American lives and allowing the economy to not crash or allowing the economy to flourish in some fashion.

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Daron Acemoglu: Well, I think the example that Ed zeroed in on is the best one. Although the lessons are not completely parallel. During the Spanish Flu epidemic, the places that clamped down early and produce some sort of curfews to limit the spread of the flu, introduced masks, did very well economically relative to other places because they contain the flu. Now, in the case of the COVID-19, it's a little bit more complex because the mortality is lower, as Ed said. You can take actions that prioritize the economy at the expense of sacrificing some more lives. Some people interpreted what Sweden did, for example, early on in that light. But it looks like the Swedish experiment was not a complete success. It's not a big failure either. I think it's a mixed thing.

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Bill Curtis: Describe for us what their strategy-

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Daron Acemoglu: Their strategy was is that they didn't have a complete lockdown. They started with small measures that encouraged people to do limited social distancing. Later on

they encourage mask wearing, but any public health policy can be thought of as falling into one of two buckets. You either go for herd immunity or you wait for the vaccine. By waiting for the vaccine, what I mean is that you actually keep the infections to a low level with continued measures that include social distancing and lockdowns and other limitations on economic and social activity. And you only lift them once an effective vaccine comes.

Or going for herd immunity is that you let the virus spread in the population so that it's sufficiently high fraction of the population gets immunity. Something like 70%. Even the numbers for COVID-19 may be enough for the virus to sort of rapidly disappear thereafter. So the Swedish case was essentially going for herd immunity that they're not going to restrict the economic activity. And there's some other developing countries where without being extremely explicit about it, I think they're going for herd immunity, given that they don't have the fiscal capacity or the ability to withstand long, long, long lockdowns. But pretty much every other rich country is waiting for the vaccine.

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Bill Curtis: So if you were establishing US policy for the next year or two, what policies would you implement to minimize the impact of this pandemic and facilitate our quickest recovery?

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Daron Acemoglu: After he got the Nobel Prize the famous economist Bob Lucas was asked, "What would you do if you were in charge of the fed?" And he said "Resign." So if that's an option, I'll consider that.

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Bill Curtis: Let's take a look at what a picture of our recovery post pandemic might look like. But not really longterm. Let's take a look at the next couple of years after the pandemic is dealt with.

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Daron Acemoglu: The economy will naturally recover. And any politician who's in charge of that will take a lot of the credit. So I'd love to be in charge at that point.

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Bill Curtis: Just not this point.

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Daron Acemoglu: Just not this point. Although I think if you look at it from a socially responsible point of view, it is

this point where a lot of policies really do matter.

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Jane Albrecht: Daron, before you go further, you said that the economy will just sort of bounce back, but isn't it going to be very uneven? I mean, aren't there going to be a lot of jobs that are permanently lost? As we pretty universally recognized the commercial real estate sector is going to be hit hard. So is it going to bounce back that quickly and that clearly?

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Daron Acemoglu: How quickly, that's really hard to know. But you're a 100% right on unevenness. And that's what I see as part of the longer term. Why did the US do so badly in terms of number of cases and number of deaths and also economic fallout from it? I think it's not unrelated to our economic model. We have a very unequal society. In the US it's like the number of estimates will vary a little bit, but the median estimate is that 40% of the US population is obese. That creates a huge risk, as some high fraction of the US population suffers from respiratory problems. Those are not unrelated to the inequality. So in our current age, such chronic conditions are conditions of the poor. Many of the jobs that the poorer Americans used to have are going to be the slower ones to come back.

Why? Because they're in the hospitality sector, they're related to fast food, restaurants, hotels, and things like that. And they're going to come back. They're not going to disappear. But they may not come back fully. So there'll be somewhat less travel. There'll be more work from home, a density in some places that supported large service economies is going to decline.

But more fundamentally, I think the direction of technological change is fundamentally affected by COVID-19. It's no surprise that the tech sector has actually boomed during this period. During the pandemic our dependence on digital technologies has increased. The prestige of the tech companies has increased because we've seen the government not able to do certain things and the tech companies have done a better job. I think leaving things to business as usual will actually have various inequality and perhaps long run growth consequences. So I certainly did not mean to minimize those when I said the economy will bounce back. But the economy will bounce back in the sense of GDP.

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Bill Curtis: Okay, we're going to take a very quick break. And when we come back, I'd like to talk to you about some of the other aspects of this pandemic, such as the multi

trillion dollar stimulus checks we're writing and the national debt. We'll be right back.

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Bill Curtis: We're back, and Daron, I wanted to talk to you about some of the stimulus packages that we've seen. The concept of stimulus, isn't that a highly short term view of what to do about a pandemic?

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Daron Acemoglu: Well, it is a short term view. Absolutely. I think properly interpreted a stimulus is something you insert into the economy to deal with a short term problem.

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Bill Curtis: But the problem isn't really as short term as the stimulus was?

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Daron Acemoglu: I think the lack of it, the stimulus, could make the problem even more longterm. The great depression, for instance, which turned out to be hopefully much more severe than what we are experiencing with COVID-19, was partly caused by the fact that both monetary and fiscal authorities did not deal with the initial impetus. So the stimulus is there in order to lessen the impact, both on the people and on the economy at the macro level.

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Bill Curtis: But the stimulus ends.

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Daron Acemoglu: The stimulus ends. And it may end too soon. If you ask me, this would be absolutely the wrong time to remove the stimulus. US is in a very fortunate position when you compare it to developing nations, we have the fiscal capacity and the ability to borrow and keep up the support that we give both to the most vulnerable people and to some of the businesses. Now, of course the stimulus will have to end, but that hopefully happens after the economy starts recovering. And then we can think about what is the best way of dealing with the additional responsibilities on the

shoulder of the federal government.

During periods like world war one and world war II when the government shouldered in greater responsibilities, some of them did persist. The government did not go back to what it used to do after those transformational events. But it is now getting to the other longterm issue, which is critical. What sort of trust in government, what sort of democratic participation we are looking forward to after the pandemic is gone. I think those are critical questions that we're not really thinking enough about.

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Bill Curtis: As well as what does the debt mean to us longterm? So if you don't mind me just going to Ed for just a minute. Ed give us a little bit of a history lesson, the genesis and use of national debt for the United States.

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Ed Larson: Well, America was founded on the idea of Hamilton creating a national debt. The debt was used to construct things and develop various things such as the frontier policy, building a Navy, national roads, harbors. That is how the original debt was used. The debt grew enormously during the depression and then skyrocketed during World War II. And the fact that that was not let up after World War II, because we adopted programs like the GI Bill and enormous spending after the war, that kept the economy going, even though we built a huge debt.

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Bill Curtis: Daron, I wonder if you could help our listeners understand. I've got some friends who just think that the added national debt is just funny money. It's just the government writing checks and printing cash, and they don't realize where the money comes from. So maybe you could describe that a little bit. And also how does the debt actually affect the quality of our individual lives?

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Daron Acemoglu: Well look, Bill, all money is funny money.

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Bill Curtis: That's not the answer I expected.

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Daron Acemoglu: We trust in the US dollar because you believe that other people are going to honor it. And why do you do that? Well, part of the reason, a large part of the reason, is because it's backed by the US government and in particular with the taxation power of the US government.

National debt is backed by the taxation power of the US government too. We are not at a level of debt that the US cannot pay it back quite easily. So there are reasons to worry about high levels of debt. This is what economists called crowd out. If the government borrows a lot, it pushes up interest rates, it discourages private investment. It may reduce people's trust in the government's ability to pay back when you get to levels such as the ones in Italy, for example. But the US is nowhere near that. So I think your friends may want to bring down the debt ultimately, but they have nothing to worry about in terms of the US having a run on its debt or the US currency being funny money any more than it was any time in the last 200 years.

But debt is always a political issue. And it's always been interwoven with our institutions. And I think that's really a critical point that we need to bring. What sort of democracy, what sort of government, what sort of responsibilities we are expecting from the US government in a post COVID world. If it's a government that's going to look after corporations and not do enough for the healthcare of the average Americans or the incomes of the average American, you would have probably more to worry about that debt. Or if it's a government that we cannot control, if it behaves like Venezuela or even Mexico or Argentina, you would have a lot to worry about. But if it's a government that's going to behave and we're going to make it as citizens behave like the Scandinavian countries or Germany, then it's our debt.

We control through our voting decisions, what politicians do with the debt and the money that they have. And then it might actually be a little bit more tolerable. So I think it's very much interwoven with the politics of it, which I think is really the big elephant in the room that we're not talking enough about. We have seen US institutions really at their worst during this crisis, and before. And we've got to do something about that as well.

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Bill Curtis: Well, what do you mean by we've seen them at their worst?

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Ed Larson: The point I think he's stressing, and I would agree completely, is, is that taking on a debt, is it making us stronger? Or is it making us weaker? During World War II we could take on an enormous amount of debt because we knew it was making America stronger. You had more faith in the ability to repay. During the Cold War that was true too. If we're using it for infrastructure such as the highway system. So the question is, is we're taking on this

debt. Are we doing it in a way that in the long run is making our country stronger? And that's the question for the way we spend money for the pandemic.

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Bill Curtis: Daron, today interest rates are practically zero. Our government has the ability to print money and cause inflation. So over the course of time, what does that debt really mean anyway? I mean, don't we basically legislate our way out of it?

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Daron Acemoglu: Well again you could, as a sovereign country, you could even cancel the debt.

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Bill Curtis: I don't mean destroying our credit. I just mean with interest rates so low, the debt doesn't cost us very much.

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Daron Acemoglu: Right. I was going to say that part of the reason why those sort of the crowd out type of issues are not so important and the markets are so tolerant of that is because A, they believe that US government can repay it. And we are in a general low growth period where interest rates are low. People are not rushing to make new investments, which is what low interest rates are signaling.

So this is actually a particularly good period for the government to use its future fiscal power to borrow and use that money. Both for infrastructure, as Ed said, and for dealing with the fallout of COVID-19. Inflation is not a problem right now, precisely because when you look at prices they are not increasing. But will it be a problem 10 years from now? Again, that's a policy question. That's an institutional question. But right now there is no danger that there's going to be high inflation, let alone hyperinflation in the United States.

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Bill Curtis: The restaurateur who gets a check that helps them keep their employees for an extra two or three months, comparing that effect, which is profound and current. And they can feel it. Comparing that effect to, well, the fact that we hear on the news that our federal debt has risen to almost the same as our GDP. Does that really matter to us, or what really matters is helping our small businesses and our citizens have jobs a little while longer?

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Daron Acemoglu: First of all, income is what really matters. There's a finer discussion to be had about what's the best way of providing that. If you look at some European countries, they went for pure unemployment benefits. Whereas US as well as some other European countries went for propping up existing firms. There's a calculus to be had there. Certainly it is true that some part of the hospitality sector is not going to come back.

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Bill Curtis: What's the economic impact of these decisions one way or the other?

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Daron Acemoglu: Well, I mean I think if we are unable to pass an extension of the stimulus, the economic impact would be pretty bad. First of all, there will be an increase in poverty. Some people will suffer much more at this stage of the pandemic, even though the pandemic is less severe than they did early on. But it would probably delay the recovery as well because more businesses would go under. There will be more hardships. Some people might actually be forced to go back to work, even when more controlled increase in employment might have been a good idea in many states because of the potentially exponential growth of the pandemic. I think the cost of a stimulus in terms of greater debt is not huge given the zero interest rates and the ability of the US government to actually be able to pay that back.

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Bill Curtis: I'd love to talk to you about the stock market versus the economy. The relationship between the Dow Jones or S & P stock average, we've all heard it every day on the news, and the actual health of our economy. Can you draw a correlation there? Or is there one?

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Daron Acemoglu: During normal times? Yes. The stock market is meant to be representative of the corporate sector and the corporate sector rises and falls together with the economy. But there are important reasons why the stock market isn't the economy and those have become more relevant for the current period. First, the stock market is about large companies. The US has been for quite a while on a trend where small companies are suffering, wages are not increasing, but big companies are being very profitable. So that has a lot to explain why the stock market has boomed while say, for example, wages haven't really increased in the United States.

But during the recent period what we have seen is that the

stock market is doing very well, especially the tech sector is doing very well because the pandemic is a reallocation in favor of the tech sector. We are using digital technologies more than before. The big tech companies are taking over just like Amazon, just like Uber from other companies. And their share price is increasing. Lots of mom and pop stores are going under, but they're not in the stock market anyway. Lots of the competitors of Amazon are even on a smaller margin today, they're not in the stock market anymore. So this is a particular era where the stock market is not a good gauge for how the overall economy is doing.

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Bill Curtis: So for this next election, where politicians want to point to the stock market, you feel like we should be looking at other indices.

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Daron Acemoglu: We should be looking at always a dashboard of indicators.

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Bill Curtis: That would include ...

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Daron Acemoglu: Median wages. What's going on at the bottom of the distribution. What are workers making \$ 11 or \$ 12 an hour typically, those who have a high school degree. What is their labor market doing? It would include small companies as well as large companies. It would include what's going on with labor force participation. Unemployment, for example, was very low before COVID. That was great, but there were still a lot of discouraged workers who had left the labor market because they thought, given their skills, there were no jobs for them.

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Bill Curtis: So when this administration took office a few years ago, the first thing that they did is basically pulling back from years of trying to balance environment and business. And has that mostly affected the stock market? Did that affect the economy? Did that affect our individual jobs?

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Daron Acemoglu: Well, the issue of regulation is a complex one. Certainly some of the EPA regulations do cost money to companies and do cost some jobs. But I don't think that any of the economic success we've experienced over the last three years has anything to do with those regulations being lifted. The stock market has boomed partly because some of those

lifted regulations help large companies. There were huge tax cuts for capital, especially, that immediately multiplies the stock market value of large corporations. Right now in the US we essentially don't tax capital. That's a great advantage to corporations. So it's not a surprise that the value of those corporations has skyrocketed. And job creation, if you look at it, has been on a pretty even trend over the last eight years after we hit the bottom, flattened out around 2010, 2012. And then the employment level in the US has been increasing. So I don't think dismantling those regulations has really fueled the economy all that much, but it has had fairly large environmental effects.

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Bill Curtis: Especially in the time of an election, Daron, I have to ask you if taxes in fact are not as direct a correlation between the health of our economy, the jobs, the overall pay rate, then what really is the economic impact from the upcoming election?

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Daron Acemoglu: Oh, taxes matter greatly. I mean, I would say get rid of a lot of the additional tax incentives we have given to capital, and instead use that revenue to cut payroll taxes, and that would be more expansionary and it would help workers and it will help wages at the expense of corporate profit.

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Bill Curtis: But you don't think they'd just go payback national debt?

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Daron Acemoglu: I don't think this is the right time to pay down the national debt. That would be in three or four years time once the economy is really in a much healthier state. You don't want to start doing that too soon otherwise you will choke the recovery. Tax policy matters. Environmental policy matters greatly. I think the direction of technological change matters greatly. So a key question of the justice department and the administration will be how do we treat big tech giants? Do we create even more of a permissive era where they're going to be able to take over and grow further, or are there going to be antitrust action or limits on their ability to dominate markets? What are we going to do about the future of technology? If you look at the defining technologies of the 20th century, the internet sensors, antibiotics, nanotechnology, the fingerprints of the US government is all over them.

The US government was the one who set the agenda. They

purchased them, they finance the R and D. We've completely given up on that role. We spend less on R and D, but more importantly, the leadership of where that money goes has now shifted to big tech. They set the agenda on what AI is and where AI will go, what AI spending will be done. So again, there are really very consequential decisions we'll have to make. And then most importantly, I think, also the future health of our democracy is something that we'll have to decide. Look, the US has always had a very weird democracy. We have a democratic government that is very proud of its democratic heritage, and it's very large, but on the other hand, it's very constrained in what it does. Federal government is very limited in its ability to fight poverty. Again, we have delegated a lot of power to state. On the other hand, there are aspects of the federal government that are much, much more unconstrained than in other democracies. We're seeing that in the current election, we are going to have an election where there are a lot of debates about voter fraud or legitimacy, et cetera, but in pretty much everywhere, it is partisan politicians who are overseeing the election because this country gives a lot of power to governments to have political appointees do a lot of important functions. So there are a lot of decisions that are about the institutional details that go to the heart of how democracy works that we might actually need to consider in the future.

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Bill Curtis: We're going to have to put a pin in it right there. And Daron Acemoglu, we want to thank you for being part of this and beg you to come back because you help us understand some of these complex issues in a way that is really appreciated.

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Daron Acemoglu: Thank you, Bill. Thanks Jane. Thanks Ed. This was great pleasure.

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Bill Curtis: Daron, how do people follow you?

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Daron Acemoglu: I have a website. I write for Project Syndicate and sometimes for other foreign affairs and foreign policy, and people can always reach out to me via email.

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Bill Curtis: Daron Acemoglu, thank you for joining us. Of course, Jane Albrecht, Ed Larson, thank you for coming today. And our producers, Mike Thomas and AJ Mosley, thank you guys

too. And our sound designed by Michael Kennedy. Music for politics, Meet Me In The Middle is composed and performed by Celleste and Eric Dick. Please send this show to your friends and then Zoom with them and talk about these issues. This is important stuff, and until next week, be sure to listen to the other side before making up your mind. Catch you next week.

(singing).

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