



# Rebuilding the Global Economy

*A series outlining policy priorities and solutions*

## MEMORANDUM ON

# PRIORITIES FOR ECONOMIC POLICY

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**To: The Director of the National Economic Council**

**From: Jason Furman**

**October 2020**

**Background:** The global economy is reeling from a pandemic that has exposed and exacerbated some of the previously growing weaknesses in the international economic order. Your first priority is fixing the US economy—both jump-starting the cyclical recovery and also addressing the deeper structural problems that were evident even in the relatively strong economy prior to the pandemic. At the same time, it is critical that you—and the Deputy for International Economics who also serves as the G20<sup>1</sup> Sherpa—restore US leadership in the collective project of the global economic community, enlisting it to strengthen the US and global recoveries.

## KEY PRIORITIES

- **A global program of fiscal stimulus to strengthen demand and protect households and other priorities.** With interest rates stuck at zero across the advanced economies, fiscal stimulus has powerful spillover effects that when done collectively will help reenergize both US and foreign growth. While a fully coordinated fiscal approach is impossible, returning to the mutual commitments to fiscal stimulus at the onset of the global financial crisis would have a salutary effect. The form will vary from country to country and in the United States should include unemployment insurance, nutritional assistance, and fiscal relief for states and localities—ideally all made a function of the unemployment rate so they last as long as needed.
- **Making the US economy work for families is critical in its own right and also to give Americans the security and confidence to participate in greater global integration and a greater US role in the world.** Many elements go into this, but if you had to prioritize one, it should be investments in children, which not only provide direct assistance today but have long-run benefits in the form of increased work, higher earnings, better health, and less imprisonment. The 2014 G20 included a goal of increasing women’s labor force participation; consider whether a similar goal of investing in children would make sense for the G20 going forward.

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<sup>1</sup> The members of the G20 are Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States.

- **Reforming the tax code—and furthering international tax cooperation.** You will need to raise more revenue given that just prior to the pandemic the tax code was raising the lowest amount of revenue for that stage of the business cycle in more than half a century. Raising individual taxes on high-income households is one part of that agenda. But you will also want to raise and reform corporate taxes, something that would work much better with international cooperation given the mobility of US companies, the tax competition in some jurisdictions, and ad hoc digital and other taxes on US companies in other jurisdictions. The Organization for Economic Cooperation and Development’s Base Erosion and Profit Shifting (OECD BEPS) project has the potential to build on a reformed version of the US global intangible low-taxed income (GILTI) provision and also have it substitute for more bespoke digital taxes being contemplated around the world.
- **International cooperation on climate change.** As the United States steps up its efforts to combat climate change, there is a risk that some of the benefits will be offset by leakage as manufacturing and other industries move overseas. Border adjustment would not only address this leakage but provide an incentive for other countries to accelerate their own carbon abatement policies. Additional trade measures on top of pure border adjustment could further these incentives, creating the “climate clubs” advocated by Nobel Prize Winner William Nordhaus. All of this will require clarification or changes to World Trade Organization (WTO) rules and is best done in collaboration with other countries. In addition, geoengineering will likely need to be part of the climate solution, and the United States will need to engage through the United Nations on global governance.
- **Competition policy and digital competition.** The United States has the right goal for competition policy—maximizing consumer welfare—but it has not been faithful in living up to that goal. New legislation will be needed, but until then greater enforcement using existing law can help prevent both excessive mergers and monopolization actions throughout the economy. The digital sector is a special case where a pro-competition regulator, along the lines of the Digital Markets Unit being established by the United Kingdom, would be a welcome addition to the US policy landscape. Although the policies in this area will and should remain national, increasing the convergence of the competition and regulatory approaches across the major economies is critical to give companies the predictability they need to operate around the world while also effectively protecting consumers. The French put this issue on the agenda of the 2019 G7<sup>2</sup>, the first time finance ministers and central bankers had discussed it, and the United States should continue to push it.

## WHAT TO STOP AND REVERSE

- **All limits on immigration should be halted immediately and replaced with policies that are as permissive as possible under existing law.** The US economy is sustaining long-term damage from restrictions on immigration that are deterring talented people from coming to the country and contributing to US economic growth. Immediately ending these and replacing them with more open policies is essential. Ultimately legislation will be needed, but until that time, take advantage of your administrative discretion.

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2 The G7 countries are: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

- **Be tough on China, but change your methods and goals.** US economic policy has gotten tougher on China in recent years but with little to show for it, as China is falling well below its purchasing commitments set in the US-China phase one trade agreement. The US-alone strategy is not working, so enlist the aid of allies and work through international institutions where possible. That will entail dropping unnecessary and frivolous trade disputes with allies, including rescinding steel and aluminum tariffs. It will also require changing US goals—Germany will not help the United States persuade China to buy more Boeing jets. Instead goals must be more principled: that China adhere to global rules and norms in economic policy.

#### NEGLECTED ISSUES

- **A global effort to identify and take out insurance against tail risks.** The people of the United States are likely to support greater global efforts on pandemics and climate change because they have seen how much damage these challenges can inflict. A lesson of this experience, however, is that it would be prudent to launch a global effort to identify other tail risks like solar flares, asteroids, and the like and understand how we can better insure ourselves against them—something that would be a global public good.

#### ACTIONABLE TO-DO LIST:

- Work with Congress to draft fiscal stimulus bill that includes expanded unemployment insurance, nutritional assistance, and fiscal relief for states and localities, and work with the G20 to coordinate stimulus efforts across the globe.
- Promote investment in programs that equip children to be life-long successful members of society.
- Draft a reform of US tax code and work with international bodies to coordinate effective and fair collection of corporate taxes.
- Engage with the international community to promote global governance on climate change solutions.
- Give consideration to forming a regulatory body to handle the special characteristics of competition policy in the digital economy.
- Develop and implement a new strategy on both China and immigration that will strengthen American economic growth.