



TRANSCRIPT

Key Conversations with Phi Beta Kappa

Former Obama Advisor Joseph Aldy on How Climate Change Policies Can Bolster the Economy Post COVID-19

Former Special Assistant to President Obama for Energy and Environment, Professor Joseph Aldy is an expert in thinking creatively about how climate change-friendly policies can bolster the economy in times of crisis. He reflects on lessons from 2009, and looks ahead at how we can build an American economy that is more resilient to risk in a post COVID-19 era.

Fred Lawrence: This podcast episode was generously funded by two anonymous donors. If you would like to support the podcast in similar ways, please contact Hadley Kelly, at hkelly@pbk.org. Thanks for listening.

Hello and welcome to Key Conversations with Phi Beta Kappa. I'm Fred Lawrence, Secretary and CEO of the Phi Beta Kappa Society. On our podcast, we welcome leading thinkers, visionaries, and artists who shape our collective understanding of some of today's most pressing and consequential matters. Many of them are Phi Beta Kappa Visiting Scholars, who travel the country for us, visiting campuses and presenting free lectures that we invite you to attend. For the Visiting Scholars schedule, please visit pbk.org.

Today, it's a pleasure to welcome Dr. Joe Aldy, professor of the practice of public policy at the John F. Kennedy School of Government at Harvard University. Professor Aldy is a University Fellow at Resources for the Future, a Faculty Research Fellow at the National Bureau of Economic Research, and a senior advisor at the Center for Strategic and International Studies. His research focuses on climate change policy, energy policy, and regulatory policy, and he's exploring ideas about how to integrate climate change investments, clean energy spending, resilient infrastructure and the like, into a future economic stimulus and recovery program.

Welcome, Professor Aldy.

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Joe Aldy: Fred, thanks for having me.

Lawrence: Good to have you here. So, we've got a lot of interesting economic and environmental questions to cover, but I want to take you back to the beginning, or almost the beginning, to your interest in environmental law. Now, if I have it right, when you were in the first grade, you won an America the Beautiful contest for a poster against littering. Is that right?

Aldy: That's right. So, back in the day, there was this America the Beautiful campaign intended to reduce the amount of littering we saw on the roadsides around the country, and I had a poster of Stan the Can. He was a trashcan and he wanted you to put your trash into him, as opposed to throwing it outside say your car onto the roadside.

Lawrence: Was this a general interest in the environment looking back on it? I mean, you wouldn't have called it an interest in environmental policy at the time as a little boy, but do you draw a line back that far, do you think?

Aldy: Well, I think there were a couple things growing up. One, I grew up on a farm, and so I was accustomed to being outdoors, seeing how we worked with the land. It was a small hobby farm. It wasn't a large farm. But you gain an experience about what it's like to be in nature. And growing up, we had a lot of family trips to go on day hikes, or to go on overnight camping trips, and I think part of that just gave me this experience about how magical it is at times to be able to escape our cities and to get a change of pace, and to refresh and re-energize in nature, but also to realize at times how vulnerable nature is, given the kinds of activities that we undertake as a part of our civilization.

So, I think there was that sort of growing up experiences that helped inform and influence how I wound up working on environmental issues today.

Lawrence: Is there a teacher or couple of teachers who said the right word at the right time, opened the door that took you down a certain path?

Aldy: I think there's a couple of moments. One was in high school debate, and I remember, I think it was my sophomore year of high school, the debate topic that year was oriented around Latin American political stability. And one of the cases that we spent a lot of time on focused on the problem of deforestation, and both how that was a reflection of some of the weak governance in a number of Amazonian countries, but also how the risk associated with deforestation could further destabilize the region, or even have adverse global impacts, and that's when I first started learning more I think about climate change.

And then I would say it was really influential starting off college. I knew I had an interest in the environment, but I had a professor in my international environmental policy course who both inspired me, but also sort of kept me focused on what I needed to do in terms of my coursework, Professor Marie Lynn Miranda, who's now recently become the provost at Notre Dame University, someone who went from professor, to advisor, to mentor, and now friend. And in fact, we as researchers have co-authored together. And

it's one of those things where you learn, I think early on in your college experience, that there are these opportunities to develop what become lifelong relationships with people who have the expertise in the areas that really attract you, and motivate you, and excite you as a college student.

Lawrence: You were working as a special assistant to President Obama for energy and environment in 2009 and 2010. What were the challenges and takeaways from that? I mean, that's a time that then, that was the economic crisis of the century. We've subsequently overtaken that, but at the time it felt like the world was disappearing under our feet.

Aldy: When we were looking at sort of what was happening to the economy, and how fast over the course of really late summer into the fall of 2008, I would say the economic evidence that was coming out with every new data release was more and more scary, and worse and worse than we thought. I'd started working on what was then referred to as the quiet transition team, so this was the pre-election transition team. And we were being asked early on to start thinking about some ideas for how you might do sort of energy oriented or clean energy oriented economic stimulus.

In early fall, we were thinking about the need for a stimulus package that might be measured on the order of say several hundred billion dollars. And then by the time we start meeting the weekend after the election, and then move into the transition team offices, I think there's a sense in November that we're probably looking at least a half a trillion dollar economic stimulus. By the time we're starting to negotiate with congressional staff in late December, the idea is that we're probably up to 600 or 700 billion, and a month later, by the time the House of Representatives is voting on a bill, there's a sense that that initial bill, which was probably going to be on the order of \$900 billion or more might not be enough.

Lawrence: What did it feel like to be in these discussions when \$100 billion, which is itself plenty of money, starts to grow up towards a trillion dollars?

Aldy: We had not experienced anything like this since the Great Depression. Political benchmarks, like are you willing to run a deficit measured in \$100 billion, in \$200 billion, is now dwarfed by the economic stakes we're facing then. And you're looking at how bad the unemployment rate is getting, and you start to think about what that means for people going hungry, what that means for people losing their houses, what that means for people losing their health insurance. It's not just there's a lot of less money in the economy moving around. It's not that we're running a huge deficit this year, which means we're accumulating debt that we'll have to pay down over time. It does mean that people's lives are worse off. It means that some people are going to be much worse off.

The challenge is you're facing this incredible uncertainty as the economy's falling faster than anyone had experienced before. Politics doesn't like uncertainty. Politicians don't like uncertainty. And the idea that you say, "It could be this bad or could be a lot worse," they don't like to sort of manage in that environment. And I think part of it is the challenge we faced, and I think it's actually one of the important lessons when we think

about where we are now. Things moved so quickly in the end of 2008 and early 2009, and we had to pull together. Most of the work we did as an administration on working with Congress to craft that piece of legislation occurred before the president was inaugurated.

Lawrence: In the president's decision making, for President Obama, how granular was the evidence that he was working on? How granular was the proof that you were putting in front of him for the propositions you were making?

Aldy: Well, you know, I think this is one of the challenges a president faces, which is they need information to make their decisions, but there's a risk of being paralyzed by too much information. And I would say in this case, we were going through sort of a list of different budget items, and thinking through sort of what our spending priorities would be on them, and in some cases he wanted to understand not just sort of what's the spend on this program or that one, like if we're scaling that back, what are we giving up?

Lawrence: Thus far, you've been talking to us as an economist would, but your particular value add in the Council of Economic Advisors was from the environmental side. So how do environmental factors come into the equation? How does that one decide that that's one of the things we are going to include, as distinct from one of the things that, as you said, is just a luxury, that although it's something that would be important, that it's not going to get into the discussion. What's the way in which the environmental factors actually get included in that environmental discussion?

Aldy: It began with the president. He made a decision to do this on clean energy spending. So, part of it then is our challenge is to figure out what makes sense that is both good for reducing emissions of greenhouse gases, that promotes investment in clean energy technologies, like renewable power and energy efficiency, but also can happen quickly, so that you're able to stimulate economic activity and create jobs in the very near term. In fact, that's one of the challenges, is that there are a few things in the clean energy space that make sense from a climate standpoint, that just doesn't move very quickly, and just would not make sense from an economic stimulus standpoint. So, you might say... In fact, there was a lot of talk back then about the nuclear power renaissance, that as it turned out never really happened in America. But in the end, we decided not to do a big spend on nuclear power, because building a nuclear power plant takes a long time to go through the licensing process.

Another big issue is how much you invest in transmission lines. You know, the challenge of only thinking about wanting to reduce the carbon intensity of the power we produce in America, a lot of our best places in the country for solar or for wind are in places where there aren't many people. So, some of the best wind power in the country is in the Dakotas, and some of the best solar in the country is in the desert Southwest, so you need long-distance transmission to get that electricity to where the people live. But building transmission lines is another one of these things where you have to go through a lot of different permitting, and licensing. There's the NIMBY problem, that people will challenge wanting to have a big transmission line built through their property or near

their town. Not in my back yard. And so, that creates challenges in being able to make that investment happen quickly.

So, that's part of it, is in the near term, you're trying to think through, we know we have to have an economic stimulus package. We know we have to think about this as a part of the American recovery effort. What can we do that satisfies both objectives? To be able to stimulate job creation and invest in climate-friendly technologies.

Lawrence: I remember all the talk in 2009 was for shovel-ready projects. So, can you give us a good example of one shovel-ready project that made its way into the Recovery Act that you played a role in?

Aldy: So, I would say the sort of biggest impact we had on clean energy in the Recovery Act was in promoting the investment in wind and solar technologies. So, today in America we have about four times as much wind power capacity as we did in 2008. We have about 100 times as much solar capacity now as we did in 2008. Solar looked attractive to us because we looked at residential installation of solar and we thought about the kinds of workers who would be employed for those tasks. Many of them had the same skills as those who were involved in homebuilding, and with the housing market collapse that helped precipitate the financial crisis, we saw homebuilding demand decrease significantly.

So, we thought this is a way to absorb people with those skills and those trades into something that is a clean energy investment. So, I think that's an example of one where we saw a lot of solar installations go in, a lot of wind power being built out. I think they have also helped sort of reduce the cost of these technologies. So, now it's much cheaper to install solar on rooftops, or to build a solar farm for a utility. It's much cheaper to build a wind farm today. And I think by creating the market for these technologies, we enabled the manufacturers to learn and drive down their cost, and so we're able to enjoy the benefits today of some of the investments we made back in 2009.

Lawrence: So, now we're a decade later, and I suspect you never thought your expertise of thinking about climate change investments in times of economic crisis would be needed again or relevant again quite so quickly. You're not sitting in the oval office in meetings right now, I gather, but you are doing a lot of interesting work about climate change investments in a future economic stimulus and recovery program. I guess I'm asking you two sets of questions. The first is to offer evaluation and critique of what's been done, and then the other is on the assumption that Minority Leader Schumer, Majority Leader McConnell sat down with you, with Speaker Pelosi, and they said, "Joe, tell us what to do. What should be in the bill?" Let's start with the first piece. How would you evaluate and critique the stimulus legislation that's been done so far, and particularly in terms of opportunities for climate change investments?

Aldy: So, I think the first thing that's important is to distinguish between what I would describe as disaster relief and what I would describe as stimulus. And that is to say stimulus, we're trying to get people who are unemployed and at home out of their

homes and at the workplace, being creative and productive with their labor, earning a paycheck, being able to pay their rent or pay their mortgage, and feed their families, and contributing to economic output. In this case, because the pandemic is ongoing, some of the initial efforts of spending were intended to create an incentive for people not to go to work and increase the risk of exposure, or their risk of exposing someone else to the coronavirus.

The fact that we're still in the midst of the pandemic, what's going to be continued opportunities for spending is really to help I think families and businesses deal with short-term cash flow needs when we're actually hoping, from a public health perspective, to reduce some of that economic activity that contributes to the risk. I want to distinguish sort of what we're doing now, what we've been doing since March, as really kind of a disaster relief. It's kind of like an aid that you're giving, like you might do after a natural disaster, except that it's a nationwide natural disaster. Once we've been able to manage this pandemic, then we're going to find ourselves in a situation where the unemployment rate's probably gonna be higher than what it was in 2008-2009, where we're gonna face a lot of bankruptcies among businesses, and then I think we need to think about a major economic recovery and stimulus package.

Now, some of my friends in the environmental community have been frustrated that what we've been spending and what I describe as disaster relief has done very little that's oriented towards investments in climate. But in general, I think it's too soon to really be thinking about strategic investments one wants to make to address climate change in the disaster relief phase, as opposed to when we move forward in the economic recovery phase.

Now, when we go to that economic recovery phase, in a sense we have an opportunity here that's even stronger, makes a stronger case for doing this than we did in 2009 for two reasons. One, the risks of climate change I think are much more dire now because of the lack of meaningful progress over the past decade in the United States and around the world in reducing greenhouse gas emissions.

I think second, we recognize that there's value in investing in improving our resilience, in reducing our vulnerability to climate change, so there's something we could do on infrastructure that makes a lot of sense. The third reason is an economic reason. It's really cheap for the federal government to borrow money now. The real rate on long-term bonds is negative. This is the time to borrow money and then pay it back in the future, because what it costs to the federal government to finance that spending is really, really cheap. This is a time in which you might want to have a long stimulus program. You might even have a stimulus program that moves into an infrastructure program, so long as those interest rates stay really low.

Lawrence: Let's assume there's a little more stimulus coming before economic recovery. Is there going to be political capital and economic capital for another substantial package, this time economic recovery, as you suggest?

Aldy: I think that's a really important and hard question. From an economic standpoint, with low interest rates, it's not going to cost us that much to service the debt that's associated with a big recovery package. I think people have become a little bit nervous with the price tags when they're looking at trillion dollar estimates from the previous bills and probably bills to come to try to keep the economy sort of going to some degree, to help households make ends meet and to keep businesses going. But with low interest rates, this really is the time to do that kind of spending. The challenge, though, is I think politically, we're already getting some hints of this from Washington, and I think some of this may be a function of what happens in November, there may be a push back against a large economic recovery package in the new year. And concerns about the debt being out of control is probably gonna rear its head again even after about four years where we haven't heard much of that argument.

Lawrence: And some of this is going to be a dynamic issue in a dynamic time, because between now and the fall, we'll find out many things about who controls both houses of Congress and who controls the White House, and that will probably influence all of this as it rolls into 2021.

Aldy: That's certainly true, and then depending on what happens in the Senate, we'll have this kind of debate over what's going to be the future of the filibuster, and what that means for a legislative program going forward. But I think we're going to find ourselves in a situation where we're going to have really consequential debates on a number of issues that are really about what we are as a nation and what we want to be. And I think about that when I think about some of the threats I've seen to our democracy in recent years, and how we try to address those in the next administration, but also what does it mean in terms of how we think about an American economy that is more resilient to risk, whether it's a future coronavirus, or whether it's climate change, and how do we think about building that new economy and that new society that is also more inclusive to address I think a lot of the societal concerns that've been raised over the course of 2020.

Lawrence: So, Joe, let's talk a little regulatory policy. Now, I know for many of our listeners at this point, they think to themselves, "This is the part that's gonna be dry and uninteresting." But of course, the truth of the matter is for most people, this is the space where they interact with the federal government more than any other, whether they know it or not. You have written eloquently about the ways in which cost-benefit analysis is not only an important part of regulatory policy, but it's actually necessary for democracy. What do you mean by that?

Aldy: Well, I think the important thing when we think about the role of regulation and the role of governments basically saying the markets aren't working, they're not doing as good as we'd like them to do, and so we're going to intervene in that market. We're going to bring a regulation to bear. We're going to change the way businesses operate. Ideally we're doing that in a way that actually makes the economy stronger, it increases the welfare of our society and makes us as people better off. And the challenge, though, is that if you are say a business, or a trade association, or someone who has a stake in a

regulation, you have an incentive to try to influence the regulator to do your bidding, to deliver some kind of economic value in your interest. And the challenge is, this is what we sometimes refer to as the problem of regulatory capture.

And so, the opportunity though that benefit-cost analysis provides us is to be able to sort of shed light on what government is doing when it decides to design and implement a new regulation. Is it doing something just to benefit some business cronies who give money to a political campaign? Or are they doing it because when they look at the evidence, this regulation actually makes our society better off? Meaning the benefits are greater than the cost.

So, I think there's this value and this kind of transparency in the analysis.

Lawrence: Let me take you from the domestic policy context now and into the global policy context. Can we in the 21st century meaningfully talk about environmental policy in a domestic sense? Or does it have to be global policy and involve global engagement? I know you were involved in the Kyoto Accords back in your first stint in government in the late nineties. Is there any way to talk about environmental policy without talking about it globally today?

Aldy: It's an important two-way street. We have to, in order to deal with the threats by climate change, work with major countries and small countries alike around the world. Eventually, we're going to have to get the world's emissions of greenhouse gases down to zero, and potentially on net negative. We actually have to start sucking CO2 out of the atmosphere because we've pumped too much of it already up there. So, we have to work with countries around the world. No single country is going to be able to solve this problem.

But in order for us to be credible as a partner with other countries around the world, we have to get our own house in order. We have to be serious about what we do domestically in reducing our emissions. We have to be, I think, serious domestically about how we make investments in the research and development necessary to have better, more effective, lower-cost technologies that we will use, but also that can be used by people around the world to help reduce their emissions. So, we're not going to be up to the challenge of climate change unless we're able to sort of work with and partner with countries around the world, but we're not gonna be able to really make meaningful progress with those peers unless we're able to say, "We understand the problem and we're doing what we can here at home." And that's been I think one of the major setbacks over the last three-and-a-half years, is the complete denial of both the science and the politics. It's not just that the current administration has had a number of climate skeptics who say climate change is a hoax, or doesn't merit any meaningful action, but it denies the politics of what's important to other countries around the world and how we need to work with them on issues that are important to them, so that they will work on issues that are important to us.

And so, I think it's a failure to understand both the science, and the politics in international relations of climate change that makes it all the more important going

forward that we have a thoughtful, progressive, coherent strategy, both for domestic action and international engagement in the next administration.

Lawrence: I know you have taught regulatory policy, environmental policy issues, so I'm going to give you the chance to create a little syllabus now for all of my listeners. What are the two or three environmentally-related books or climate change books that you think an engaged citizen who cares about these issues should have read?

Aldy: So, the first book I would say is Climate Casino by Bill Nordhaus. Bill Nordhaus recently received the Nobel Prize in Economics for his contributions to understanding the macroeconomic impacts of climate change, and I think that book is a very well-written book, that's accessible to a broad audience, about how an economist thinks about climate change. My friend Scott Barrett at Columbia University has written a really nice book, it's been out for a while now, about how we think about negotiating international environmental agreements, and talks about just how hard it is, and goes through the history of international environmental agreements. So, whether it's on international whaling, or prohibitions on hunting of seals, to dealing with stratospheric ozone depletion under the Montreal Protocol or climate change, and so I think it's also an excellent book as an economist who thinks about the challenge of getting everybody together to tackle this problem.

I'll give one more economics book, and that is by my former colleague Marty Weitzman and Gernot Wagner, Gernot, who's now at NYU, where they really help us better understand the economics of climate change but understand catastrophic risk. And this is something where we start to sort of push up against the limits of economics. I think it's actually quite insightful for them to help us think through where economic reasoning makes sense and when we might need to think beyond economics. I think it gives us a better understanding too about why this problem is different than virtually any other kind of risk we've had to deal with in the past.

So, I think all these give one a better understanding of the economics of climate change and the risk of climate change, and then some ideas about what might be our policy response going forward.

Lawrence: Joe, thanks so much for being with us today.

Aldy: Thank you, Fred. It's been my pleasure.

Lawrence: This podcast is produced by Lantigua Williams & Co. Cedric Wilson is lead producer, Virginia Lora is managing producer, and Hadley Kelly is the Phi Beta Kappa producer on the show. Our theme song is Back to Back by Yan Perchuk. To learn more about the work of the Phi Beta Kappa Society and our Visiting Scholar program, please visit pbk.org. Thanks for listening. I'm Fred Lawrence. Until next time.

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