Economic Roundtable Response
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The corona crisis has obliterated, one hopes for all time, certain shibboleths of the economic textbooks and the Congressional Budget Office. Among these, especially, are crowding out, deficit and debt thresholds, and the natural rates of interest and unemployment. If the pseudo-Keynesian notion of "stimulus" and the habit of relying on debt and stock booms to drive growth can also be buried under the avalanche, our chances of surviving the aftermath will improve.

In the United States, 3.3 million workers filed for unemployment insurance last week – about five times more than in any previous week in history. Gross Domestic Product will crash this quarter – also perhaps by more than ever before. These events are measures of the effectiveness of the lockdown. They are also a sign of the fragility of what was there before, and the difficulty – the impossibility – of going back to the world that existed before this pandemic.

Deficits are going through the roof: with spending soaring and taxes collapsing, they could rise to twenty percent of GDP this year or even more – more than in the vast mobilization of World War II. But this is a good thing. Nor is any sane person worried about interest rates: they are near zero and they will be there indefinitely. Crowding out, the notion that private investment will be deterred by public deficits, has been debunked by catastrophe. Anyone still teaching such ideas should be ashamed.

The public debt is net private financial wealth – to the dollar – and that is why the stock market went up, not down, when the big bill cleared the Senate. But the stock rally was a sign of nothing good. Those gains reflected the corporate bailout and measured how much the paper losses of wealthy shareholders are being repaired. That's a temporary and excess benefit; it will prompt many caught out in the first wave of losses to dump their stocks. Investors know that industries hit early and hardest – among them airlines and aerospace, hotels and leisure – will not recover from this, at least not in the form they took before this crisis. It's not just that travel restrictions will endure. It's not just that people won't have the money. It's that even if they do, ordinary customers won't soon resume old traveling habits while the danger appears to lurk.

Anyone who says this new public debt must be repaid later with more cuts to basic services and social insurance is obviously a fool. We're in this debacle because we listened to such people for far too long. Notoriously, hospital beds per capita in this country are about half what they were 40 years ago, and one-sixth what they are in Korea. Critical supplies are desperately short. Private health insurance is melting down. The millions thrown off payrolls – unnecessarily – are now faced with the choice of scrambling for bridge coverage, or roughing it uninsured in a pitiless system, while the companies are swamped with claims. Meanwhile in Britain, millions including the Tory Prime Minister, Boris Johnson, stood on their doorsteps to cheer the National Health Service, and medical teams from Cuba and China have set up field hospitals in Lombardy, one of the richest places in the European Union. *Do we get this, finally?*

Part of the new bill is called "stimulus," perhaps the most offensively stupid word ever applied to an economic problem – the quick-fix reflex. One such stimulus is already in place: a program of cash rebates through the tax system. The idea is supposedly Keynesian, but it doesn't come from Keynes: his idea, and Roosevelt's was to *hire the unemployed and put them to work on useful tasks*. In the present situation the notion of stimulus is especially wrong-headed: the economy cannot use stimulus when there is nothing to buy except food! You do not fight a war by cutting taxes or sending out checks.

Even as a bare-bones system to support people in need, tax rebates are badly flawed. They are based on 2018 (sometimes, 2019) tax returns, which are out of date. Babies are born, weddings and divorces happen, people gain and lose jobs all the time. So the payments will be haphazard and that will breed resentment. As for those without direct deposit – especially the low-income unbanked – the approach is far too slow. Those folks need paper checks and because of simple printing bottlenecks it could be weeks or months before the last ones hit the mails. But the poor need food money right now. And those who do not file taxes – because their incomes are too low, or because they are undocumented – get nothing from this anyway. They are still here, they are still at risk, and they still need to eat.

Payroll replacement through employers – proposed also by Glenn Hubbard – is much better than a tax rebate and could be put in place instantly for workers not yet laid off. The big bill provides a weak incentive: a 50 percent tax credit for payroll expenses for those staying home, with a cap of $10,000. The credit should be refundable (if it isn't); it should be bumped up, and banks should be required to make a zero interest loan to their business customers to cover the float. With a full rebate for 70 or 80 percent of payroll up to $20,000 per worker, the idled wage workforce would be decently covered for up to three months. The unemployment insurance system could then concentrate on self-employed and gig workers, made newly eligible, so that they too can stay home. Unlike the tax rebate scheme, these measures do not discriminate by status.

Another fast way to give most households some extra dollars each month is for the government to pay all the telecommunications companies to cover the cost of basic internet and cable and telephones. Why not? People need to be connected, and they need to stay indoors. Giving them that much for six weeks or two months is not big money but in a low-income household it will matter, and it could be done overnight. This idea is also non-discriminatory.

However money is distributed, there is a crucial need to keep a balance between purchasing power and the very limited range of goods for sale. The danger is that extra income may prompt people to go to the groceries or more than they need, and fuel panic buying, shortages and profiteering. Stores are already limiting purchases of essentials per shopping trip, but that will not defeat a determined profiteer. If big black markets develop, social distancing will break down. So if community spirit and informal rationing does not hold – and it may yet! – then wartime measures of rationing and price control must be imposed. Whatever it takes, for as long as it takes, the supply chain must hold out.

There is another danger to supplies, which is that critically-needed workers in the most exposed positions may at some point just quit their jobs. This can happen if too many co-workers get sick. It can happen if the incentives to keep working are not right. Stores cannot function without stockers, checkout clerks, and security. The right solution is *to raise those wages and provide protections* to these workers, such as masks, gloves and disinfectant. A stiff emergency wage supplement for them, full medical coverage, and personal protections with a priority just after medical staff should be added to the next bill. Instacart workers are already rightly striking for decent treatment – and their action illustrates just how fragile the supply chain may be.

Most important, as we confront the crisis, people must be safe and secure in their homes. A fast and efficient way to meet that goal is to block evictions, foreclosures and utility stoppages. Water and power must be turned on. Debt collections and wage garnishments must be stopped. A ban on new homelessness must be absolute and unconditional; collecting mortgage payments, rents and debts is secondary. People should be able to defer fixed monthly bills if they need the money for food or medicines.

Meanwhile, there are management issues that are just as vital as the economics of social balance. Top priority: the ongoing chaos in medical supplies must be brought under control. Michael Lind and I have proposed a Health Finance Corporation to rationalize the medical supply chain. The Defense Production Act should be ramped up for masks, test kits, reagents, ventilators – the crucial medical supply needs. The supplies now flowing from China are hugely welcome, and open up new possibilities for mutual aid and cooperation. The National Guard and the Army can set up field hospitals, as is already happening in New York. Ireland has nationalized all hospitals to ensure equal treatment for all patients. An open-source respirator design for under $500 just emerged in Canada. These and other measures will only support what the health authorities tell us is necessary: a shutdown long enough to break the chain of transmission. They are not there to "stimulate" – but to *manage* a rapid conversion to an economy of social self-defense.

What happens afterward, is a problem for another day. But we already know that some people – very rich, very powerful – got an immense bailout from their early losses. A few even got very much richer by selling short. Many more have immense losses, both income and wealth, and while their fixed bills may be deferred for now, those debts have not been forgiven. They are piling debt on debt. And just as the public debt now being incurred will never be repaid, the private debts now piling up will be unpayable if income flows continue to flag. In the aftermath, this will translate into easy pickings and fire-sale liquidations of homes, businesses, land – anything owned by anyone caught in the squeeze. Do not expect this will go down easily.

And those debts – like the vicious circle of war debts and reparations after World War I, will be a vast barrier to economic revival of any sort. So there will be a reckoning later on. That much is inevitable already – and it means a clash between the legal rights of the wealthy and basic interests of a civilized society, let alone a supposed democracy. With the fresh experience of the pandemic, it is not likely that people will tolerate a new round of neoliberal austerity, wealth concentration and plutocracy; social order will collapse before that. So we'll need a general reorganization, a new priority to the common good, and a general write-down and reset of the financial system – including perhaps a capital levy and land reform to reset the distribution of wealth.

Fortunately, to come back to Keynes, Versailles and its aftermath are not the only historical example. There is also the model of debt cancellations after World War II – as fiercely advocated by Keynes as he'd opposed the Carthaginian Peace in 1919. And this set the stage for the thirty-year phase of successful welfare-state social democracy that followed that war.

In short: The pressing needs right now are to provide critical care and to break the chain of transmission of Covid-19, while keeping the population supplied and calm, for as long as it takes to get the job done and build sufficient capacity in the medical system. Compared to these tasks, our economic numbers – and the stale nostrums that used to go with them – do not matter at all.

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