A Forward-Thinking Policy Response to the Coronavirus Recession

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INTRODUCTION: WE MUST RESPOND QUICKLY, AND IN MULTIPLE WAYS, TO THE ECONOMIC CRISIS

The coronavirus outbreak has led to a collapsing economy. The economic situation is deteriorating so fast that people are struggling in real time to understand fundamental questions and policy objectives.

This is our overview of where things stand. We focus on the nature of the economic crisis, and also assess the wisdom and viability of short-term relief efforts and the long-term need to build a more resilient economy.

The Economic Situation Is Dire. Immediate Federal Relief and Stabilization Are Essential.

Goldman Sachs is projecting a 5 percent decline in GDP this quarter. Initial unemployment claims have come in at seven times normal rates. A recent survey finds that 18 percent of households have a person who has been fired or had their hours reduced since the outbreak began. Unfortunately it is impossible to have comprehensive real-time data on what is happening, which means we won't know the full economic impact for quite some time.

The current economic collapse is more sudden and wide-ranging than any slowdown in at least a generation. That means policymakers need to be thinking big as they try to address the situation. Economists and market analysts across the political spectrum agree that federal relief packages in the $1 to $2 trillion range are required. It is rapidly becoming conventional wisdom that the risk of doing too little economically far outweighs the risk of doing too much.

WE HAVE THE TOOLS AND THE CAPACITY TO ACT

Five Elements to Slow the Recession and Limit Its Impacts

1. Help people directly by providing cash (while recognizing that cash alone is insufficient for the moment we're in).
2. Support workers by ensuring that they have the protections and supports they need, including more in immediate unemployment insurance.
3. Help states and municipalities, which will be facing an unprecedented downturn, through a combination of fiscal and monetary policy.
4. Prevent business collapse during the downturn, which will require loans and other backstops.
5. For industries that go bankrupt, implement mechanisms to make sure they can recover.

Note, importantly, that any government support to industry must come with significant guarantees: no layoffs, and processes to halt extraction (e.g., stop financialized practices of stock buybacks) and begin governing companies differently (e.g., less rampant executive compensation at the expense of

paying workers a living wage). This is to ensure that companies themselves operate in ways that make them and their workers more economically resilient.
We explore each of these five elements in turn, below.

1. Provide Cash and Other Direct Assistance to Help People Right Now

The first objective requires stabilizing demand and addressing the immediate needs of every person who is in economic distress due to sudden unemployment or underemployment. This requires multiple steps. First the federal government can and should send checks immediately to all households, on the order of $2,000 per adult and $1,000 per child. This would cost approximately $580 billion dollars, or 2.7 percent of GDP, and would provide an immediate backstop to free-falling family budgets. We currently see a debate between universal payments—which are quickest and easiest to administer—and payments targeted to people and families below 60 percent of income distribution.

Other immediate financial assistance should be adopted in addition to direct cash. This should include at minimum a moratorium, and maximally a cancellation, on student debt payments. This would support individuals most in need, and increase the stimulative effects of cash aid. Note that student debt relief or cancellation likely does not require legislation.

Any relief measures or expansion of the safety net—including expanded unemployment insurance—must automatically renew. There has been good work done on setting triggers for spending programs that allow programs to continue as long as a recession is ongoing. This is important as a matter of economics, as we won't know how deep the recession is until later this year, and it is difficult to predict when it will be over. But it also matters politically. Congress is slow-moving and can only work with so much bandwidth, and as a result, we don't want to use valuable time in 2021 and beyond relitigating the same law. To really drive lasting recovery and resilience, Congress will need to work on new agenda items and not revisit decisions made now. Again, the risks of doing too little right now far outweigh those of doing too much.

2. Protect Workers' Health and Economic Security: Paid Leave, Unemployment Insurance, Strengthened Bargaining Power

Workers face enormous and growing pressures. Some are or will be faced with deferred paychecks or layoffs, while others are being forced to continue work, including those essential to the emergency response and those whose employers are continuing operations despite the health risks doing so may pose. Congress must center workers in its response. Any response that fails to account for the potential for substantial worker exploitation, given workers' diminished bargaining power, is insufficient.

In addition to more direct forms of financial assistance, Congress should require all employers to provide paid sick, medical, and family leave for all workers. In the near term, the costs of this package to businesses should be fully replaced through an efficient payment mechanism that can put it in effect immediately. Current proposals, however, will leave many workers on the sidelines. Congress should cover all workers, including those at large businesses, and should require employers currently engaged in the illegal classification of their workforce to provide paid leave to these workers (i.e., those who work in the gig economy).

For workers who lose their jobs, Congress should immediately extend the duration of unemployment insurance and increase its wage supplement. This is a critical and needed complement to direct cash supports to help stabilize the economy and provide workers with the security they need.

Congress should also adopt clear anti-retaliation and whistleblower protections for workers who are taking precautionary measures or who are reporting employer practices that put public health at risk. The potential for worker exploitation during this time is high, and the government must take meaningful, enforceable steps to increase the power of workers to protect themselves and their communities.

3. Direct Aid to States: Increase Federal Medicaid Payments, Purchase State and Municipal Debt

It is essential to support states, which will be on the frontline of the health and economic crises. States will be under significant economic stress because they will face a quadruple bind. The first is declining revenues from decreased economic activity. The second is extraordinary spending obligations, including state and local emergency responses, to meet urgent health needs. The third is additional expenses from people accessing social safety net programs. The fourth is state requirements to balance their budgets, which means they have little economic capacity at a time when action is required.

In order to respond to this, the federal government should step in and take over payments on Medicaid and other related joint spending. This is the easiest way to ensure that states can meet the demand they will face. The Federal Reserve should also begin purchasing state and municipal debt at low rates, in order to prevent a state funding crunch from spiraling. The Federal Reserve has several avenues capable of addressing this need, but the key is to open a zero-interest loan window similar to the program the Fed is providing the financial sector.

4. Help Business: Federal Loans to Small Businesses, Consider Federal Government Act as "Demand of Last Resort"

Businesses, especially small and medium-sized, require significant support as their customer bases drop precipitously. Many details about how best to provide that support are still being discussed, but the government should have a strong preference for loans, even loans on very generous terms with forbearance, rather than for cash payments.

One option discussed is to use the Small Business Administration (SBA) to provide emergency loans to small and medium-sized businesses. However, the SBA is small, and almost certainly not up to the task before us. Another option is to create a new agency, modeled on the Reconstruction Finance Corporation, to quickly execute a series of payments, in coordination with states. These payments could, as suggested by economist Arindrajit Dube, provide an emergency-modified form of unemployment insurance, where the government pays to keep people employed for a short period. Other proposals, suggested by the economists Emmanuel Saez and Gabriel Zucman, include asking the federal government to act as a "buyer of last resort" given the demand shortfall, with the minimum condition that those businesses do not lay off workers. Whether these kinds of programs help all workers, including gig workers or others in fissured workplaces, remains unclear, but we should still consider them strongly as an important tool.

5. Structure Industry Bailouts with Important Terms: No Layoffs, Prevent Future Extraction by Executives at the Expense of Workers

Some industries, like airlines, will be so hard hit by the collapse in demand that special consideration will need to be taken in order to ensure that they survive. The political instinct will be to quickly bail them out, by offering them cash in the form of financial instruments that can be paid back later. This is similar to how many of the financial sector bailouts in 2008 occured. Helping industries is important. But we cannot repeat the mistakes of 2008 and give corporations bailouts without also requiring that they restructure and govern so they are responsible for more than short-term financialized needs (e.g., their stock prices).

Any bailout must require that businesses keep running and maintaining payrolls. This is critical to mitigating economic effects and the duration of any recession. Additionally, any bailout should be conditioned on a set of reforms that make workers and businesses more resilient to future external shocks, and to prevent the kind of broad-based political distrust that followed from the poorly structured bailouts during the financial crisis.

These could include requirements that recipients adopt codetermination structures in which workers are represented on the board of the company; raise wages to a certain level ($15 as a floor is a necessary start); enact responsible scheduling policies; and remain neutral toward unionization efforts.

In heavily fissured sectors such as hospitality and food service, bailouts could also include requirements that companies take responsibility for working conditions among subcontractors and franchisees. Firms would need to have strict requirements on their corporate financing policies, most notably requiring them to stop any stock buybacks, and limiting the amount of dividends they can pay shareholders when they come out of the bailouts. Any bailout should also require strong clawback provisions and other enforcement mechanisms to guarantee compliance with these conditions.

BUILDING A MORE RESILIENT ECONOMY

The coronavirus and subsequent recession have revealed that the American economy is fragile. At the same time that we work toward immediate relief for workers and struggling businesses, we must also lay tracks now for two important pieces of economic restructuring:

1. "Permanent stimulus" at 2 percent or more of GDP. This would best be structured as a Green New Deal: the building of green infrastructure, led by public investment in areas hardest hit by the current crises, and focused on the economic and environmental needs of communities. This is a win-win-win-win: creating new jobs, building economic and environmental resiliency, developing new markets, and driving essential economic transformation away from fossil fuel dependence.

2. Developing lasting economic security. Our social safety net is far too thin and fragile. We must rethink "poverty-era" programs—from unemployment insurance to health care to retirement—so that vulnerable people (well over 60 percent of all Americans) are no longer so fragile economically that they cannot afford an unexpected $400 expense.

BUT CAN WE AFFORD TO DO THIS? AND WILL IT WORK?

Yes, we can afford to do this. Concerns about a federal budget deficit are in no way checks on what needs to be done economically. Today real long-term interest rates are near zero or even negative. Financial markets are willing, in effect, to pay the US government to borrow money with little to no fiscal cost. Interest rates have fallen this past year, reflecting preexisting worries about a recession and weakening economic conditions.

This decrease in interest rates is a longer-term trend. In August 2019, for instance, the Congressional Budget Office lowered its long-term projection of government interest rates by nearly a percentage point. The market believes that the deficit and debt are not an economic hindrance and do not require any immediate corrective action. In other words, there are no long-term budgetary concerns that suggest a measured response to the massive, immediate economic challenge we are facing.

It is true that a lot of this is immediate relief (unemployment insurance, cash, business loans) and then stimulus. But all current conditions suggest that relief and stimulus will work in the immediate term. A short-term infusion of cash will help people make rent and buy groceries now. A stimulus immediately following what public health experts believe will be, minimally, a three-month period of economic inactivity would help spur needed spending and prevent a more sustained, permanent scarring of the economy.

This has all the signs of an immediate demand-side recession. Expectations of future inflation have collapsed, consistent with a sign that the market does not think our primary problems will be on the supply side. We saw the stimulus work during the Great Recession, both in terms of spending programs that were executed and also, even more significantly, in the underestimate of the damage austerity would cause.

There are, however, some areas where supply is currently or could become a significant concern; to date, the primary supply-side challenge we see is with the supply of medical resources necessary to fighting the disease. To address this, a type of pandemic industrial policy may need to be executed to meet immediate health needs. This, in turn, will mitigate the duration of economic inactivity and loss.

CONCLUSION

The nation and world face unprecedented challenges as a global pandemic rapidly spreads and economies collapse. The days, weeks, and months to come are filled with uncertainty, and it is very likely that the situation is going to get worse before it gets better. Policymakers right now have the chance to put forward a response that meets the moment we're in: one that is large in size, broad in scope, and sustained over time. There is little risk in doing too much to stabilize the economy; the danger is doing too little.

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