

FISCAL POLICY FOR THE COVID-19 OUTBREAK

The internet is full of ideas for dealing with the economic problems associated with the outbreak of COVID-19. As usual, the first suggestions are for tax cuts to protect the corporations facing problems. I assume tax cuts for business entities like the airlines are the logical outcome of my general rule that the point of neoliberal capitalism is to protect the interests of capitalists. But tax cuts are the only bipartisan policies possible, because Republicans only care about tax cuts and have no interest in sound policy; while Democrats are happy to oblige their donor class, and wring their hands about the mean Republicans who won't let them do anything for their voters. Another widespread idea is a payroll tax cut; that would benefit people who keep their jobs in the downturn.

Good policy starts with the identification of the problem. At a first approximation, I think the problem involves the following:

1. Sick people. They require medical care, and many can't afford it, even if it's available, and even if they have insurance.
2. Unemployment. There will be an uptick in unemployment. Maybe employers close down, maybe business is slower, maybe people don't want to be out in public and around possible vectors of the illness.
3. Shortages of goods. This will include many of the goods we get from China, but it will also include medical supplies and equipment, and drugs. There will be spot shortages of other goods.

Tax cuts aren't going to address those problems. Sick people don't have income, and tax cuts won't matter to them. Unemployed people won't have income either. Increasing the amount of money in the hands of consumers and businesses

will only create inflation in goods in short supply if the money is spent. Using the money to pay down debt will stabilize some companies and people, but any money used to buy stocks or bonds will not stimulate anything except the wallets of Wall Streeters. I doubt that people will increase their spending on restaurants or movies or other public activities because of fear of contagion even if they have more money from the tax cuts.

The thing that will work is direct government spending on infrastructure. It puts the unemployed back to work. It won't increase prices for goods that are not in short supply. For goods in short supply, increases in prices will encourage businesses to expand to supply the new needs. Hopefully this will include mostly resources we have here in the US, or can set up here in reasonably short order. We don't need vast amounts of plastic crap, more computers or smart phones, and other tech goods. What we need are roads, efficient electrical transmission lines, more solar power, better internet service, and other basic electronics that rely mostly on simple sturdy chips. We need new schools, new state and local agencies for a variety of purposes, more buses and subways and light rail, more affordable housing especially in urban areas, more research facilities, more drug manufacturers and a long list of things I don't know about.

This is a public crisis. Therefore we have a social responsibility to pay for all medical treatment for infected people, all testing, and all necessary medicines. No one should be bankrupted or financially hurt by the cost of treatment of COVID-19. Also we should build public facilities to provide that treatment.

But alone, this isn't enough. If people use the income from these jobs to bid up the prices of consumer goods in short supply, we will see an increase in inflation. Therefore the goal is to get people to pay down debt and to save the extra income for the future. This should be

relatively easy. The fear induced by this crisis should make it obvious that things are going to change, and conservative finances are the best protection for all of us.

One more thing. I don't believe in pay-fors as a general rule. But the fact is that almost all politicians either actually do believe or pretend to believe in them. This is a great time to demand higher taxes on the 1%, not because we need the cash, but to reduce their obscene domination of our politics (I'm looking at you Michael Bloomberg). Raise taxes on the rich to cover the costs of at least a portion of the expenditures I have described. That means at least the amount of payroll tax cuts, medical treatment for infected people, increased research into viral diseases, vaccines, and production of vaccines, and any additional cuts for corporations and other business entities.

So there's my take. Please treat this as an open thread on these issues.