The Daily Dish

Making CARES Work

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Eakinomics: Making CARES Work

The United States needs to channel its inner Denmark, according to Emmanuel Saez and Gabriel Zucman – the People's Republic of Berkeley economists who gave us the Sanders and Warren wealth taxes. (By the way, why do New Age socialists always pick Denmark, which has the population of Alabama, the gross domestic product of Tennessee, and the heterogeneity of a loaf of Wonder Bread?) Specifically, they argue that workers should be kept on the job with the government picking up, say, 80 percent of the costs and the guarantee of returning to their jobs. (This is the main course; there is an appetizer of CovidCare for All – a precursor to single-payer – and a dessert of excess profits taxes.)

Specifically, "The next congressional bill needs measures to protect employment for the duration of the shutdown," and "several nations with no experience in that area – like Britain, Ireland, and Denmark – were able to introduce brand-new employment guarantee programs on the fly during the epidemic."

There are (at least) two problems with that argument. First, by the time the *next* bill is law, large swaths of the economy will lie in ruins. This is a classic example of academics who would rather be right than useful. Second, the Coronavirus Aid, Relief, and Economic Security (CARES) Act largely takes care of the underlying employment challenge. The challenge is to make it work.

To begin, CARES provides aid to the airlines equal to their average payroll that can only be spent on employment costs and that carries the requirement that there be no layoffs. That is, the government will pay 100 percent of the payroll costs for the peak of the pandemic. CARES contains a $350 billion Paycheck Protection Program that consists of loans to small businesses to cover their payroll costs. If employers do not lay anyone off (and they must rehire those they recently let go), the loan is forgiven. That is, the government will pay 100 percent of the payroll costs for the peak of the pandemic. Starting to sound familiar? (It is true that the loans to larger businesses do not require maintaining payroll, but that would be the main use of those monies in any event.)

There are other virtues of the design of the CARES loan program, such as the voluntary participation, but the main issue is making the program work. Specifically, AAF's Dan Bosch, Dan Goldbeck, and Thomas Wade highlight the extraordinary demands being placed on the Small Business Administration: "The SBA's capacity presents a major potential implementation challenge. Across its lending platforms, SBA approved $28.2 billion in loans in FY 2019 – 8 percent of what it is being asked to distribute in short order. In order to overcome these challenges, the process will have to be streamlined to an extraordinary degree. In addition, the agency's budget request for 2020 was $820 million, of which less than half would support direct lending assistance. $349 billion effectively equals roughly *one thousand times* the usual annual guaranty amount, delivered in only two months." Somebody better call in the cavalry!

The point should not be to change the strategy; the goal should be to make it work.