



The Daily Dish

A Post-CARES Policy Platform

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Eakinomics: A Post-CARES Policy Platform

The 2nd quarter of 2020 will experience a dramatic economic collapse, with gross domestic product (GDP) falling at rates in excess of 20 percent (annual rate). The Coronavirus Aid, Relief, and Economic Security Act (CARES) is designed to provide an economic lifeline across this chasm, with the Payroll Protection Program and Federal Reserve loan facilities preserving businesses and jobs past the peak of the pandemic. (Other aspects of CARES will bolster the newly unemployed through this period.) Thus, the 3rd quarter will hopefully arrive with the economic infrastructure largely intact. If so, this will represent an enormous policy success.

Nevertheless, any growth will face headwinds. There may be aftershocks as the virus re-emerges, and businesses will not be focused on expansion and growth. Instead, they will be retrofitting workplaces, providing redundant offsite capabilities, and otherwise fortifying their operations against a future viral disruption. These are supply shocks that raise the cost of doing business.

Demand-side stimulus – checks, government spending, etc. – does nothing to offset such supply shocks. Instead, the policy platform should include permanent, supply-side growth policies. Since the federal government will be beginning from a position of high debt and a large deficit, these initiatives must be paired with a strategy to slowly stabilize the ratio of debt to GDP.

Such a platform could contain four key planks. Plank 1 is the pro-growth policies. Examples include making permanent the Tax Cuts and Jobs Act individual tax rates and other provisions, making expensing permanent, and reversing the planned amortization of R&D expenses. It could also include a *disciplined* infrastructure initiative targeted at national economic connectivity (e.g., a modern air traffic control system).

Workers and firms will likely have to adapt to a different work environment, with more telework, some physical distancing, and some redundant capabilities in case of lockdowns. Plank 2 is adapting the work environment to the continued presence of the virus. It could include such things as a tax-free wi-fi/broadband benefit for those who work from home (analogous to travel/commuting allowances now) and a tax credit for COVID workplace testing.

Plank 3 is an acknowledgement that the United States will have to enhance the medical capabilities that may be brought to bear on a future public health threat. It should contain a focus on tests, therapeutics, and vaccines through an increase in the R&D credit for advanced medical products, an expanded “patent box” for the overseas sales of advanced medical products, and an enlarged national vaccine stockpile.

The aftermath of the peak of the pandemic will likely have tens of millions more uninsured individuals. And it will feature a hospital sector that will be politically empowered to claim more reimbursements. It will be imperative to promote policies that offer choice and competition in the delivery of care and greater options to cover individuals.

Finally, the pandemic has revealed some real rigidities in policy toward providers. Plank 4 is to make permanent the recent reforms related to telehealth, occupational licensing, physician supervision, and more. Similarly, the Food and Drug Administration has moved toward more rapid deployment of testing, treatment, and prevention. These should also become a permanent part of the landscape.

Notably *not* part of my approach is a “phase-4” stimulus or “rebuilding the economy.” As noted above, the former does nothing about the supply of aggregate income or health care goods and services, while the latter raises the specter of DC-oriented central planning. The economy will grow and reshape, but these changes can be driven by market forces that have lowered the return to providing cruise ships and theaters and raised the value of public-facing, front-line workers across the economy. Policy should support growth while these natural adjustments occur.