Do We Need a Coronavirus Stimulus?

DOUGLAS HOLTZ-EAKIN | MARCH 9, 2020

Eakinomics: Do We Need a Coronavirus Stimulus?

The health threat from the coronavirus is a pandemic threat. The need for an aggressive public health response is thus very real. This, combined with an emergency Fed rate cut and equity markets imitating a yo-yo, has raised a further question: do we also need an aggressive economic stimulus?

For the left, the answer is reflexively “yes.” It has given up on the notion of private sector-driven growth and believes that a spending bill is a growth policy. This was a cardinal error of the Obama Administration, which seemingly believed that having passed a stimulus bill it could subject the economy to any sort of torture from its labor, green, and social policy agenda and still get growth.

Wrong, but it built on a bipartisan series of attempts at discretionary fiscal micromanagement over the past 20 years. To provide “stimulus,” the federal government sent checks in 2001, cut taxes in 2003, had a repatriation tax holiday in 2005, sent checks in 2008, and had a huge stimulus in 2009. (The 2017 tax cut would also provide stimulus, but was primarily focused on tax reforms.) Despite this – or perhaps because of it – the 2000-2020 period is largely characterized by disappointing economic performance. This stands in sharp contrast to the 1980-2000 period, where fiscal policy was set for long-term growth performance and short-run responses were left to the Fed.

So, as a general matter I think it is time to be skeptical that stimulus is always the cure for what ails us. Nevertheless, Obama-era Chairman of the Council of Economic Advisers Jason Furman has already opened the old playbook and called for a big stimulus.

There are some important considerations to sort through in thinking about whatever economic policy should come next. First, Congress and the administration have *already* put stimulus in the 2020 pipeline. In December, the pithily named Consolidated Appropriations Act, 2020 and Further Consolidated Appropriations Act, 2020 became law. The combination of spending increases and tax cuts in the two laws will add nearly $400 billion in additional tax cuts and spending, front loaded to include $60 billion in 2020 alone. What seemed excessive at the time may turn out to be entirely fortuitous.

On top of that, there should be a fair amount of money delivered via the public health response. There is already $8.3 billion, but it is easy to anticipate that price tag going up as states and localities deal with the fiscal fallout of addressing the crisis.

Second, the mechanics of the impact of the pandemic are not always susceptible to being fixed by tax cuts or sending checks in one disguised form or another. A tragic impact of a pandemic is the loss of life, which in raw economic terms is a pure loss of productive capacity. No stimulus will offset this downdraft.

As we have already witnessed, the pandemic is throwing supply chains into upheaval and making it harder to deliver final goods and services. We had a similar experience in the aftermath of the terrorist attacks on 9-11, where the nation had to "harden" economic activity against terrorist attacks. It was an expensive supply shock and none of the Bush-era fiscal stimulus efforts worked to offset it. Giving the customers more money won't mitigate this supply shock either.

In some cases, there are declines in demand, but not declines that a stimulus can offset. You can send $100 billion in checks to Americans but I doubt that international airline travel, cruise ship bookings, or the conference industry would recover a bit. In those situations, it may be necessary to provide targeted financial support directly to the affected industries. (The White House is reportedly looking at these options.)

The third point is that some of the extreme uncertainty will resolve itself fairly quickly. We still know very little about the prevalence, propagation, and perniciousness of the virus. We will learn more about the pandemic in short order.

We will also learn more about the economy. Each week there are data on new claims for unemployment insurance. A sharp spike in such claims would be an indicator suggesting that the cumulative impacts were leading to layoffs the might limit the ability of some households to maintain their purchasing power. If there is a sharp move up, and if it is sustained, and if it is large enough, Congress may wish to take additional steps. But it has a chance to become informed and think about options first.

It would be silly to rule out the need for additional fiscal policy before the coronavirus episode is in the rearview mirror. But it strikes me as premature at best to pull the trigger on an ill-designed $1 trillion check-writing effort.