The Daily Dish

Please Stop Saving the Economy

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Eakinomics: Please Stop Saving the Economy

As the *Washington Post* is reporting, some Senate Democrats have evidently concluded that the $1.9 trillion American Rescue Plan does not constitute enough support. The senators sent a letter asking the president to "include recurring direct payments and automatic unemployment insurance extensions tied to economic conditions in your Build Back Better long-term economic plan." Recurring payments are just that: periodic (how frequently they are sent is not specified) checks (no amount indicated) to qualified (no discussion of targeting) individuals. Automatic unemployment insurance is the notion that more generous (e.g., with a federal bonus) or long-lasting (past the usual 26 weeks) unemployment insurance (UI) would stay in place until the unemployment rate fell below a specified level (the "trigger"). In some cases, the duration and generosity of the UI would steadily diminish as the unemployment rate fell.

It is hard to understand the point of these proposals. After all, they are argued to be part of the post-recovery economic policy. Why should the government be sending additional checks? After all, the Bureau of Economic Analysis reports that real personal disposable income (in the aggregate) is up 13.3 percent over January 2020, one reason that real spending on goods is up 9.9 percent. Granted, real spending on services is down 7.0 percent, but this is an artifact of COVID-19 fears. Moreover, the data in tracktherecovery.org show that this decline is concentrated in affluent zip codes. Spending in lower-income zip codes is up over last year.

What economic problem is this largesse supposed to solve?

My concern with adding automatic UI is the political logic. I understand that the ivory tower crowd believes it can write down a blackboard formula that will work in the unforeseeable future; a formulaic, automatic policy would certainly be better than anything done by the incompetent Congress that such a policy is trying to circumvent. But let's think about it. Right now, the federal bonus being proposed is $400 per week, which leads to 50 percent of workers being paid better on UI than on their previous job. That figure is too high, and there is no reason why the political crowd won't make it even more generous when setting up the program for a hypothetical future. Similarly, they will worry about "pulling the rug out" too soon and so set the trigger for reducing UI at far too low an unemployment rate. The upshot will be a UI system designed to inhibit labor-market participation and job creation.

None of these ideas has any real merit because they do not address a real problem. The existing fiscal response has succeeded in restarting economic growth and job creation. The only remaining impediment is conquering the threat of serious COVID-19, at which point the economy will be cleared for takeoff.