A Proposal for Immediate Coronavirus-Related Economic Mitigation Measures

Dr. Robert Hockett,
Edward Cornell Professor of Law, Cornell University,
Visiting Professor of Finance, Georgetown University
- and -
New Consensus

The plan in a nutshell

The Coronavirus crisis calls for an emergency supply-side and demand-side economic mobilization, financed using debt-free mechanisms as were used during the Great Depression and WWII, to prevent catastrophic economic collapse during the Coronavirus crisis. The plan calls for:

- Debt holiday covering all types of short-term debt and rental payments.
- $1,000 biweekly in universal income support, delivered through existing IRS/EITC mechanisms and direct deposits into bank accounts and digital wallets where necessary. (The $1,000/month proposals currently gaining support will still leave many families cutting spending and contributing to the negative demand spiral.)
- Direct support for small businesses, manufacturers and other sectors of the economy to prevent a wave of bankruptcies, protect against permanent destruction of productive capacity, and head-off any inflation concerns.
- Investment in building up stockpiles of needed goods and supplies.
- Temporary suspension of relevant tariffs and other trade impediments.
- Finance using emergency mechanisms such as negative rate Treasury issuance, Fed 'helicopter money' for taxpayers and government agencies, and/or 'rollable' Fed Discount Window lending to small businesses.
- Suspend requirement that Treasury issue new debt to finance operations.

Introduction

The temporary social distancing measures that our national Coronavirus response requires will extensively disrupt productive activity and, with it, both the supply and the demand sides of our macro-economy. It will accordingly be crucial, both as a matter of social justice and solidarity, and as a matter of limiting longer-term harm to our economic well-being, to address both sides at once in mutually reinforcing ways. It is thus critical that the following demand side, supply side, and public financing measures be taken with all deliberate speed.

Demand-Side Measures

The aim of demand-side measures should be to maintain Americans' capacity to afford essential goods and services, including medical supplies, over the duration of the pandemic, both in order to maintain themselves and their dependents, and to maintain consumer demand and associated productive activity in the macro-economy. The following measures are geared toward that end.

(1) *Debt Holiday*: All periodic debt and utility payments – weekly, monthly, bi-monthly, etc. – should be suspended for at least twenty-four weeks, with the possibility of extension should the national pandemic not be fully contained by the end of August. This should include credit card debt, other forms of consumer debt, student debt, mortgage debt, lease and rental payments, utility bill payments (power, water, etc.), small business debt, and all other forms of short-to-medium term debt which taxpayers and firms adversely affected by the pandemic might owe. Similarly, there must be a nationwide moratorium on debt and mortgage foreclosures, evictions, and like penalties stemming from debt and payment distress of the kinds just enumerated. Once the crisis passes and the holiday becomes no longer necessary, it must be understood that any resumed payments will simply pick up where they previously left off – there will be no acceleration of post-holiday payments to 'make up for lost time.'

(2) *Income Support*: All citizens and residents of the United States should receive at least $1,000 every two weeks from the Fed or Treasury for the next six months, with the possibility of expansion or extension should the national pandemic not be fully contained by the end of August. The easiest modalities through which to commence these payments will likely be those chosen by individuals for receipt of refunds or EITC credits from the IRS. If need be over a lengthier period of time, however, additional disbursement modalities should be quickly developed - e.g., smartphone-accessible digital wallets or prepaid debit cards for all Americans. Though there is a temptation to means-test these payments, any means-test would undermine social support for the proposed measures, while adding complexity in execution and achieving only limited savings. Means-testing should accordingly be

forgone unless, in spite of the supply side measures elaborated below, inflationary pressures at some point emerge.

(3) *Health Coverage:* We must cover all Americans' medical expenses for the duration of the emergency that are not already covered by insurance policies. It is important to cover all medical expenses, not just Coronavirus related expenses, because while the entire healthcare system is being pushed to its limit, there is a danger of distorting incentives in the diagnosis and treatment of Coronavirus-like illnesses such as the seasonal flu.

Supply Side Measures

The demand-side measures just described will be of little avail if essential productive activity ceases or substantially slows. For one thing, in the absence of such activity the debt, income, and medical relief just laid out will have little material significance, for in such case there simply won't be sufficient supplies of essentials to purchase with the financial resources thereby afforded. For another thing, even before such a point is reached, shortages of essentials accompanied by income and related forms of financial support will simply result in inflation of the prices of those essentials rather than relief. It will be necessary, then, to take the following supply-side measures along with the demand side measures just described.

(1) *Mobilization of Production*: It is critical that supplies of essentials – masks, ventilators, and other equipment; medicines and medical supplies; basic foodstuffs; fuel, water, and energy; etc. – continue to be produced and supplied in adequate quantities to meet all national needs. To whatever degree concerns about viral contagion among workers impede production and distribution of these essentials, *anywhere* along supply-chains, it is critical that the public step in to *eliminate* all relevant impediments. This will include supplying effective facemasks and other protective gear and equipment to producers, delivery personnel, store employees and other distributors. It will further include ramping up our manufacturing capacity to produce these and other essentials that the market is currently failing to supply in required amounts. If need be, this can be accomplished, as it was during World War II, with military and other federal agencies footing the bill for new (or newly converted) plants to be leased to and operated by manufacturers with relevant expertise. Depending on how extensive and long-lasting the pandemic turns out to be, we should also be prepared to consider temporarily instituting an inter-agency 'Pandemic Planning Board' by analogy to our War Planning Board that coordinated productive mobilization during the Second World War, or to our War Finance Corporation that performed similar functions during the First World War.

(2) *Assistance to Small Business Production:* Countless small businesses that supply us with essential goods and services are being squeezed by a sudden contraction in aggregate demand for what they produce. America's entrepreneurs

can adapt and even thrive during this pandemic, but they need access to funding - again, just as they received during World War II. The temporary collapse of financial markets is radically shrinking the money supply by drying up credit and temporarily deleting trillions in paper wealth. We have a tide-over tool that is already available to large corporations and must now be made available to all businesses: The Fed must open its Discount Window lending immediately to small businesses, with indefinite 'rollover' of the commercial paper those businesses issue until the crisis is passed. Not only will this give businesses the credit they need to adapt their modes of production and delivery – to do things as simple as, for example, restaurants' and grocery stores' purchasing supplies and hiring staff to convert from on-location serving and selling to at-home delivery – it will also stimulate productive activity and the supply of essential goods and services by getting businesses back to work.

(3) *Strategic Stockpiling*: It is possible that supply disruption, like the spread of Coronavirus itself, 'will get worse before it gets better.' In that light the White House task force handling the Coronavirus outbreak, or a Pandemic Planning Board like that mentioned above, must begin coordinating with state and local officials at once to designate sites for the stockpiling of surplus supplies of essential medical goods, foodstuffs, and fuels for use in the coming weeks in the event of serious production, distribution, or other supply chain interruptions. The same goes for electrical power generation and grids, water supplies, and other critical infrastructures. All of these must be attended to with heightened care in light both of their crucial significance and of the strains they could come under as the Coronavirus pandemic runs its course.

(4) *Temporary Tariff Exemptions*: It is possible that some essential goods and services whose domestic production and distribution proves temporarily inadequate will be obtainable from foreign suppliers. It is also possible that some such suppliers might at present be subject to tariffs, import quotas, or other trade restrictions. In such case, any such restrictions should of course be suspended – at the very least, over the duration of the pandemic. This can buy crucial 'breathing space,' where essential supplies are concerned, while domestic production is being mobilized and ramped up.

Financing Measures

The Coronavirus pandemic is slowing and even shutting down economic activity on a scale not seen since the Great Depression. And while the latter took several years to develop, the Coronavirus Crash is happening 'in real-time' before our eyes over an astonishingly brief matter of weeks. Many large employers have already announced layoffs of most of their paid personnel. State and local governments are ordering bars, restaurants, and other businesses to close. Public and private events, schools, shopping centers, movie theaters, and a host of other sites of human congregation for production and consumption are being canceled or shut down.

No sector of the economy is unaffected by this massive systemic contraction. This is already bringing a classic downward demand and supply spiral: laid-off workers without paid sick leave, savings, or safety net access can't spend, thus contracting consumer demand and thereby causing yet more employers to lay off yet more workers with each successive iteration of the unwinding – a cycle that cannot end itself and cannot end at all without concerted external intervention that restores demand and ensures adequate supplies to *meet* restored demand.

Congress therefore must act to enable the Treasury and Fed to fund all of the measures detailed above through fiscal and monetary expansion that does not heighten debt burdens. Non-debt monetary expansion is a critical part of how we and other advanced nations have financed nearly every national emergency response in modern history. Often in the past, decisions to finance emergency responses in this way have come too late to be optimally effective. And right now in America we have arcane post-WWII rules that impede our capacity to finance operations in this way - the way we financed our Great Depression and World War II mobilizations themselves.

Congress must accordingly take emergency action to suspend or permanently change these laws and allow our national institutions to inject and direct spending power where it is urgently needed to avert economic disaster. By far the greatest part of our national money supply lives in the form of credit extended by banks and other decentralized financial institutions and markets. Businesses make payroll and productively invest through lines of credit extended by these institutions and markets. In moments like the present, credit from these sources dries up because decentralized banks and other financial institutions, which lack the power to rescue the decentralized markets in which they operate, become understandably pessimistic about lending. That is how the money that entrepreneurs need to do business disappears in 'credit crunches' like the one underway now.

Our government instrumentalities have the power to slow down or shut down human interactions and businesses in crises, but arcane rules then deprive our government of its natural capacity to offset these shutdowns by directing money to citizens and small businesses with a view to stimulating demand and production directly without adding trillions to private and public sector debt.

The rules in question require our government either to lend rather than pay, or to issue debt for any payments it makes over and above tax and other revenues. In ordinary times, these rules are justified by the goal of maintaining a stable money supply that neither inflates nor deflates. But in extraordinary times like those of the Great Depression, the Second World War, and the present pandemic, when the money supply suddenly and radically contracts to the point that businesses cannot obtain the funding they need to survive and ordinary Americans cannot buy essential supplies or even groceries, there is *no* compelling rationale for prohibiting our governmental and financial institutions from furnishing our people and our productive businesses with the 'fuel' - that is, the funding - they need to keep the economic engine running.

It is accordingly urgent that we suspend the rules and practices that require our Treasury to sell new debt on the capital markets for every dollar that it spends. It is urgent that we open the tap, in other words, to what is called 'non-debt monetary expansion.' With yields on already issued Treasury securities now below zero in real terms, the Treasury is effectively being paid to hold investors' money. At the very least, this should be rebated to Americans in their hour of need through massively expansionary fiscal and monetary policy. At the same time, spending power must be conveyed directly to the population, as prescribed above, in ways that do not leave individuals indebted or unnecessarily increasing the national debt. There are multiple mechanisms through which to do these things, including the following:

(1) *Suspension of Treasury 'Overdraft' Prohibition with the Fed*: At present, when the Treasury spends money out of its accounts with the Federal Reserve, it is legally required to 'replace' that money by raising tax revenues or selling Treasury securities (bonds and bills). This prohibition must be suspended at least for the duration of the present national emergency. The only reason we impose this requirement in ordinary times is fear of inflation. But right now, every government and central bank in the world is struggling to fight *deflation* and return to normal production and low-level *in*flation. Even measures taken on the scale of those proposed above are quite modest relative to the magnitude of the crisis we face. They restore only a small portion of the aggregate economic activity now being frozen by the Coronavirus. What is proposed here is thus a *lifeline*, not an *add-on* with the power to stoke inflation. Moreover, by kickstarting *both* supply *and* demand through the measures detailed above, we will render the prospect of inflation all the more remote. Finally, if inflation *were* to pick up, the Fed and Treasury still would have all of the tools they have long had at their disposal to squelch it. And *some* inflation in any event would be a sign that the economy is picking back up, hence a signal that the demand-side measures laid out above can be slowed or suspended.

(2) *Suspension of Prohibition on Direct Fed purchases of Treasury Securities*: At present, the Fed is not permitted to purchase securities 'directly' from the Treasury, but must instead operate through a convoluted process of purchasing such securities from 'primary dealer' banks that themselves purchase securities from Treasury. This too generally forces our Treasury to issue new securities for sale on the capital markets to finance new spending. This prohibition as well, then, must be suspended at least for the duration of our national emergency.

(3) *Debt-Free Fed 'Helicopter Drops' Directly into Taxpayer Bank Accounts or Payment Cards*: The most direct way to inject purchasing power - purchasing power that will actually be *exercised* - into our economy is to credit taxpayers and other citizens and legal residents directly with Fed-issued money. 'Helicopter money' of this sort has been proposed in the past by economists and policymakers of all political persuasions, from J.M. Keynes and Irving Fisher through Milton Friedman and Ben Bernanke. In a sense, current temporary UBI proposals are of the same form, while ignoring the mechanisms through which we might fund such measures. There is no reason that the Fed could not commence 'drops' of this sort immediately. It could do so, for example, by directly crediting the deposits that Americans have in banks, directly crediting Americans' PayPal, Venmo, or other such 'wallets,' and/or issuing prepaid debit cards to those lacking such accounts. In the future, we should probably instruct the Fed to open digital wallet accounts for all Americans for purposes such as these - a measure that is now being considered in the State of New York. But for the present, when money injections are needed *immediately*, we will have to make do with our existing payments architectures.

It bears emphasis that the recommendations made here do not exhaust what will likely be needed during the weeks ahead. But they are a critical start that must start immediately.

Contact information:

Demond Drummer, Executive Director, New Consensus, info@newconsensus.com
Saikat Chakrabarti, President, New Consensus, info@newconsensus.com
Dr. Robert C. Hockett, rch37@cornell.edu

Robert Hockett

Robert Hockett is the Edward Cornell Professor of Law at Cornell University School of Law, Visiting Professor of Finance at Georgetown University's McDonough School of Business, and a Fellow with New Consensus. He has previously worked at the Federal Reserve Bank of New York, the International Monetary Fund, and a boutique Manhattan investment bank, and serves in an advisory capacity with a number of federal and state legislators and regulatory agencies.

New Consensus

New Consensus was formed as a non- partisan policy and planning workshop to develop in-depth policy proposals and plans (like the Green New Deal) to support economic development and transformation, to organize a broad coalition of climate experts, economists, business leaders, union and labor leaders, policy leaders, and other experts around an emerging new consensus in support of economic development and transformation, and to produce educational material to popularize and build broad public and political support for this new consensus. New Consensus aims to play a role in the 21st century that was filled in the 20th century by groups such as the Mont Pelerin Society and the Foundation for Economic Education. These groups successfully transformed the world's understanding of how economies operate. But the economic models they advanced can't deal with today's unprecedented environmental and economic challenges: climate change and rising economic inequality. A new consensus is emerging around the idea that these crises are interrelated, and that the challenges they pose need to be met with a single, yet comprehensive strategy that, among other things, leads the transition to a green economy, closes wealth and income gaps between communities, spearheads innovation and research, kick-starts new high wage industries, and more. The Green New Deal is precisely that strategy.