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COVID Relief and the Inflation Warriors

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Newly elected President Biden has surprised us with a bigger-than-expected relief package to total almost $2 trillion. It seems the Democrats are keen to avoid the mistakes of the Great Recession. The Obama administration's fiscal package of around $800 billion was clearly inadequate, leading to a jobless recovery that left many behind and helped fuel the rise of Trumpism. The unemployment rate climbed rapidly to around 10 percent by November 2009 but only came down to its prerecession level at the beginning of 2017. One of the reasons for Obama's timidity was the fear of deficits and rising national debt. This time, the Democrats are not falling for the deficit bogeyman. Instead, it is the inflation worriers who are out in full force, claiming that more government spending will cause inflation.

While some have labeled Biden's proposal a stimulus package, it is designed to provide relief, not stimulus. Back in 2009 the economy needed stimulus—probably two or three times greater than what the administration asked for ($1.7–1.8 trillion according to Christina Romer, the chief White House economist)—because there was a lack of spending. The COVID crisis, on the other hand, hit the supply side of the economy first, as people could not go to work and businesses stayed closed, leading to falling production and incomes. The first two rounds of government spending have kept the economy on life support by providing relief. And while rising vaccination rates will help get people back to work, households, firms, and state and local governments will continue to bear the burden of nearly a year's worth of unpaid bills, depressed income and revenues, and extra burdens imposed by the pandemic. Biden's proposal goes a long way toward providing relief.

The inflation worriers' objection seems to be largely over the "stimulus checks." While we prefer targeted spending in normal times (and prefer pay for work over transfer payments), these are not normal times. The extra $1,400 (above the $600 already approved) will *and should* go to most families to help cover those bills. The propensity to consume out of these checks will not be high, as most people will use them to pay down debts or replenish savings (only 29 percent of the first round of checks was spent on consumption, while 34 percent was used to pay down debt and the rest was saved). What little boost to consumption they will provide can be handled without inflation, as production around the world has rebounded sufficiently.

The proposed boost to unemployment compensation (to $400 weekly) will help those who qualify, and the argument that this might replace all or even more than all of the income earned by those with the lowest wages is not a justification for reducing the size of the checks. Low-wage workers have disproportionately lost jobs, and those kinds of jobs (in the service sector) will be among the slowest to come back—if they come back at all, given that many businesses have closed for good and others will replace them with COVID-immune robots.

Biden would also extend the eviction moratorium and provide $350 billion to state and local governments, plus $170 billion to help replace lost tax revenue (and cover the expenses imposed by the pandemic). The latter will hopefully prevent state and local governments from reducing spending or raising taxes to balance their budgets, which will be contractionary for the economy and lead to cuts to social services. He would also provide $50 billion for COVID testing and $20 billion for a vaccination partnership. None of this should be seen as a "stimulus"—it is obviously relief. The proposed child tax credit of $3,000 ($3,600 for children under age six) will help families struggling to care for children who have essentially become involuntarily "homeschooled," often with one parent forced to stop working to oversee the education. This should not be seen as a stimulus either, and as the only developed country that currently does not provide a child allowance, it is about time the United States stepped up to help support families.

The latest employment report showed the economy created only 49,000 jobs, while 400,000 left the labor force, in January. The labor force participation rate stands at a dismal 61 percent—wiping out the gains we enjoyed up to 2000. In truth, even before the pandemic hit, the employment picture still had not fully recovered from the global financial crisis. Yet the inflation warriors are already warning of the potential of an overheated economy, something we did not see even pre-COVID as the unemployment rate decreased to historical lows in the longest recovery ever. Instead, since 2008 the economy's estimated potential has been continually downgraded, as austerity (combined with deference to runaway Wall Street financiers) has kept the economy on a slow growth path, depressing our potential.

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