

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/beating-the-coronavirus-is-the-best-stimulus-11586214481>

OPINION | COMMENTARY

Beating the Coronavirus Is the Best Stimulus

Directing businesses to fight the pandemic would help workers more than an infrastructure splurge.

By Roman Frydman and Edmund S. Phelps

April 6, 2020 7:08 pm ET



A seamstress trims a protective mask in Budapest, March 26.

PHOTO: ANADOLU AGENCY VIA GETTY IMAGES

The ink had barely dried on the \$2 trillion Covid-19 rescue package enacted March 27 when congressional Democrats and Republicans, along with President Trump, hinted that it wouldn't be enough. After signaling that the largest "stimulus" package in history would be inadequate to redress the pandemic's economic fallout, lawmakers suggested they were turning their attention to a huge new infrastructure plan to boost "job creation."


The government's approach is ill-suited to the crisis. The stimulus isn't merely the wrong dose, but the wrong medicine altogether.

Instead of boosting public employment or seeking to stimulate demand, lawmakers should focus on mobilizing the private sector to combat the public-health crisis. We don't dispute the need to improve America's highways, airports and other infrastructure. But that would do nothing to address the specific causes of today's crisis: self-imposed lockdowns to stop the spread of disease.



America's 10 Million Newly Unemployed



00:00 / 25:50 

SUBSCRIBE

The scale and lethality of this pandemic demand that all levels of government attend to fighting it—not spend resources organizing works programs for locked-down populations. And instead of letting the private sector stand idle, more should be done to mobilize enterprises, large and small, in the fight against the pandemic.

The disconnect between the government's response and the nature of the crisis was already apparent in the design of the Cares Act. Of the law's \$2 trillion, only about \$150 billion was allocated to health care. In contrast, it provided up to \$500 billion in loan guarantees for large firms like [Boeing](#).

The good news is that these loans cannot be used for many unproductive uses like stock buybacks, dividends and bonuses, as happened with bailout funds after the 2008 financial crisis. Still, the government has failed to condition its corporate loans on companies' commitments to play certain roles in the pandemic response and recovery. To the extent possible, borrowing companies should be tasked with repurposing their resources to produce goods and services that are in short supply, such as personal protective equipment or logistics support.

Another crucial error is that Cares Act lending terms don't require most large firms to retain the bulk of their employees. In effect, the loans guarantee employment for managers while freeing them to lay off their workers, who lose wages and health insurance. The Federal Reserve Bank of St. Louis estimates that layoffs may push unemployment as high as 32%, compared with

3.5% before the lockdowns. To put that figure in perspective, the peak unemployment rate during the Great Depression was 24.9%. Ten million people have sought unemployment benefits in the past couple of weeks.

Lawmakers earlier provided \$260 billion for extended unemployment insurance. Now that they have left the door open to massive layoffs, the planned public works program would merely be employing those the Cares Act left vulnerable to dismissal. It would also move employees who might eventually have returned to their industries away from their workplaces, making it difficult to restart the economy once the pandemic is over.

There is a better way to mitigate the economic distress caused by the Covid-19 crisis. In fact, a large part of the initial \$2 trillion package points the way. It earmarks \$360 billion for guaranteed loans to small businesses. In contrast to the provisions for large firms, these loans include strong conditionality: They turn into outright grants if the business does not lay off its employees. This provision provides an explicit incentive for firms to limit layoffs and, when possible, repurpose capacity or innovate to participate in the fight against the pandemic.

Other developed economies of varied political orientations, including Denmark, France, Germany and the U.K., have already implemented policies that require or create incentives for large and small firms to use government funds to retain employees and pay a substantial part of their pre-pandemic wages.

Consider Denmark, where such policies have altered the way firms work with one another, and where their employees have mobilized for the collective effort needed to fight the pandemic. Danish authorities encouraged beer producer Carlsberg to divert 17,200 liters of beer and cider base to another firm, where it will be transformed into alcohol needed to produce hand sanitizer, which is in short supply.

Another Danish firm, Idé-Pro, which employs 200, has repurposed its capacity to produce plastic containers for food and other goods, as well as visors for medical personnel. Remarkably, it took the firm only two days to start producing 210 visors an hour. As Idé-Pro's CEO explained: "We had super support throughout the organization, so from Friday noon we worked 24 hours a day."

Large foreign firms are also innovating rapidly. The shipping giant Maersk has announced the creation of new "air bridges" between China and Denmark to transport supplies, devoting 24

airplanes to the initiative. Why shouldn't American airline companies, in exchange for the \$60 billion bailout they've been allocated, be required to fly medical equipment to the states hardest hit by Covid-19?

Americans are no less innovative than Danes, and they are equally ready to mobilize enthusiastically to fight the pandemic. It is high time our leaders enacted policies that enable, encourage and support industriousness and creativity, instead of forcing people to collect unemployment benefits, or build roads and airports, while tens of thousands die and the economy implodes.

Mr. Frydman is a professor of economics at New York University and a co-author of "Imperfect Knowledge Economics" and "Beyond Mechanical Markets." Mr. Phelps, the 2006 Nobel laureate in economics, is director of Columbia University's Center on Capitalism and Society and author of "Mass Flourishing" and "Dynamism."

Copyright © 2020 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.