Fiscal policy to tackle the Covid-19 crisis in the USA

Based on lessons from past economic crisis, what could have been different ways for the American government to solve the Covid Crisis in the USA ?

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Introduction

Economists are constantly learning from the successes and the failures of the dealing of economic crisis through history. The study of history is of major importance for economic research to find the more relevant policy advice to solve current crisis. Therefore, we will tackle the following issue:

Based on lessons from past economic crisis, what could have been different ways for the American government to solve the Covid Crisis in the USA?

So, we will focus our intention on fiscal policy, in the USA and linked with the Covid-19 crisis.
We will start by explaining the impact of the Covid-19 crisis on the American economy. Then, we will focus our intention on inflation, to look at governmental ways to resolve a supply-side problem, a controversial issue in economic research. Afterwards, we will discuss the learning from the different economic crisis of the 20th century to deal with the one linked to Covid-19. Finally, we will propose concrete governmental policies to implement during the Covid-19 crisis based on social dialogue and social help to see what the effect of this policies on the economy are.
The pandemic is a public health crisis, and it also has a major impact on the American economy. The Covid-19 crisis has plunged the American economy into a historical recession after 10 years of uninterrupted growth. *Forbes* claimed that the decrease of GDP due to the pandemic had not been seen since the Great Depression in the USA. Furthermore, citizens faced unemployment and lowering of their income. According to *Udalova*, the pandemic erased more than ten years of consistent employment growth in the United States population and unemployment hit its highest rate since the WWII era (see fig 1, 2 and 3 in the appendix).

Effect of the Covid on inflation

The covid-19 crisis has, like most economic crises, an effect on inflation. We can anticipate that raw material imports are more expensive because production has dropped, and imports have become more complicated. Then we will see a downward shift in the price curve. As we saw with oil in the 1970s, an increase in the price of raw materials pushes the price curve down. A typical company uses imported raw materials in its production process. With higher raw materials costs, the firm's profits can remain unchanged only if real wages fall. At the level of the entire economy, the national pie that must be divided between owners and employees becomes smaller when more must be paid for imports. Then a rise in raw materials prices creates a bargaining gap and leads to a wage-price spiral through its effect on the price level. Firms raise their prices to protect their profit margins when the cost of imported oil rises. Firms in the economy will behave this way, so the price level will rise. This reduces the real wages of employees, and the price curve shifts downward. At the initial employment level, a bargaining gap appears between the real wage on the price curve and the real wage on the wage curve. As long as employment remains at its pre-crisis level, inflation will rise in each period. And then, as unemployment rose, inflation fell, and vice versa, according to Phillips curves. However, as the crisis of the 70's showed us, we must not forget that for other reasons the two can be positively correlated, over a short period. To finish on inflation, we could also expect a deflation, because as during the crisis of 1929, if people consume less because of some measures that would slow down consumption (lockdown, impossibility of tourism ...) then we will attend a deflation, given that the quantity of good produced is higher than that consumed. However, this last possibility seems much less likely because the supply seems to be more affected than the demand during the crisis of Covid-19. However, we will remember that this crisis is much more likely to increase inflation. Looking at the data we have today, with hindsight, we can see that inflation has been high as expected (see fig.4).

What we learn from past crisis

Demand crisis in 1929 and social help

In 1929, the United States was plunged into a period of economic crisis and recession called the Great Depression. To restore the American economy, President F. D. Roosevelt, elected in 1932, implemented the New Deal, an interventionist program to support the poorest Americans, reform the financial markets and, above all, revitalize the American economy, which was marked by unemployment and bankruptcy.
The first hundred days of the New Deal consisted of measures to stabilize the American economy. Then, a Second New Deal was put in place, in which the economic aspect was replaced by the social aspect, which was just as important to revive the economy of a country. This second New Deal was aimed at restoring the confidence of the American people, who had been hit hard by unemployment, and giving them better expectations for their future.
The first programs that were set up were designed to support employment and reduce unemployment. Several agencies were created such as the Federal Emergency Relief Administration, or the Civil Works Administration, an agency that allowed the direct hiring of unemployed workers and that gave jobs to four million Americans as early as January 1934.
Roosevelt also placed a new emphasis on union freedom. He created the National Labor Relations Board, an independent agency to handle union elections and investigate illegal labor practices. This agency helped to calm relations between business leaders and unions and to partially restore the economy after the strikes that broke out in 1934 to protest against the refusal of bosses to recognize unions.
Roosevelt also addressed the issue of pensions and welfare, to provide Americans with means to protect themselves from sudden drops in income due to unemployment, disability or old age. This was done thanks to the Social Security Act in August 1935 : it established a system of social protection, including retirement for people aged 65 and over, unemployment insurance and assistance for the disabled. This laid the foundations of the Welfare State, and progressively covered a larger part of the population (sick people, disabled people, etc.).
We can therefore see that in order to successfully emerge from the Great Depression, American public policies did not focus only on businesses and a reform of the banking system, but also on the social component, which was essential for the recovery of the American economy.

Supply crisis in 1970 and social dialogue in Scandinavia

The covid-19 crisis is close to the crisis of the 1970s because they can be both considered as supply crises. As we saw with oil in the 1970s, an increase in the price of raw materials (related to Covid-19) pushes the price curve down. This is why it seems interesting to draw parallels between these two crises. During the crisis of the 1970s, some countries were much less affected than the United States, notably the Scandinavian countries. This can be explained partly by the different reaction of the unions in these countries during the crisis. In the U.S. and most high-income countries, unions were strong enough to defend their share of the pie even after oil prices rose, and they chose to do so. In terms of the model, wages stayed above the new price curve. Cutting profits led to lower investment and slower productivity growth. While in Sweden, for example, powerful labor unions have limited demands for wage increases in order to maintain profitability, investment and high employment. Unions therefore have a major role to play in major supply crises.

Concrete policy to implement facing the Covid-19 crisis: focus on the social dialogue

Social help

The Covid-19 spreading was so high that many governments, including the USA, decided to put the population under a lockdown. This is a situation that profoundly affects households' habits. Many parents had to take care of their children while working at home, and this phenomenon particularly impacted women.

In this unprecedented situation, the government could implement fiscal policy to reduce parents' unpaid care burden. For instance, the government could promote flexible work arrangements, care provision, and sharing of unpaid care and domestic work.

To be concrete, flexible work arrangements mean that the employers could allow some more time for the employee to take care of his children. This undone work time could be compensated by money from the state to the firm and the employee. These flexible work arrangements would have to be adapted to the type of household concerned by the situation. For instance, significant help would be needed for a single parent with children. We could imagine that this single parent could receive from the state the equivalent of his salary and that the firm could be compensated for the lack of work of one of its employees. This would need the flexibility of work arrangements. This could be facilitated by more social dialogue (see below). For the provision of care, we could imagine that the government could organize some daycares, as the French government did for the children of the caregivers. With all barrier actions respected, we could imagine that small groups of children could be taken care of in some part of the school day. This could enable parents to have some more time. Finally, the government could think of sharing unpaid care and domestic work by revaluing the unpaid care. This is in line with the work of the Sibylle Gollac and with the movement #coronaelternrechnenab in Germany, in which mothers present the bill for keeping good care of homes after calculating the amount of time they spent on household chores but also on childcare when schools, kindergartens, and nurseries were closed. As so, the government could think of the value of domestic work and revise its financial system to compensate the parents financially for the work they do by taking care of their children. All these fiscal policies increase a lot the government debt but, in time of crisis, it could impede the economy from collapsing. Moreover, increasing the debt is not very worrying for the U.S. knowing that the FED (Federal Reserve of the United States) has implemented a monetary support policy in response to the Covid-19 crisis. Interest rates are therefore between 0% and 0.25% during the Covid-19 crisis.

Number of parents	1	1	2 or more	2 or more
Number of children	> 3	< 3	> 3	< 3
Number of free time to take care of the children / week	20h	10h	5h	3h

Table presenting the number of free hours an employee should get from a flexible contract to take care of their children

Social dialogue

As we saw during the 1970 crisis, trade unions have a fundamental role to play in a company's political and economic decisions. They must have some power to defend the interests of the workers, but they must also be able to discuss with the employers and understand their own problems. It was the case in the Scandinavian

countries during the 1970's crisis. They accepted the decrease of the wages because they knew that it was necessary for the safety of the firm and thus of the workers. A lack of dialogue and a refusal to negotiate can lead to quite dramatic consequences in the economy.
The *ILO Centenary Declaration on the Future of Work* recognized that: "Social dialogue contributes to the overall cohesion of societies and is essential for a well-functioning and productive economy." Social dialogue is mandatory, especially in the age of Covid, to maximize the impact of crisis responses on the needs of the real economy.
The problem is that the Covid pandemic has destroyed the social bond between employers and workers. Fear of job loss, inflation, health risks due to illness, or the risk of going out of business creates social tensions. Then, the negotiation can be a tripartite process, with the government as a formal party to the dialogue, or it can be a bipartite relationship between workers and employers' or a trade union and employers' organization.
The social dialogue is more effective during general meetings, company meetings, and crisis units. It is during these moments that solutions are going to be voted on and put in place to solve a problem. In times of crisis such as the Covid crisis, tripartite cooperation between governments, employers, and unions is inevitable and viable. To support this point, we have noticed that in countries where social dialogue is weak, firms tend to adapt to the crisis by laying off workers. At the beginning of the pandemic, more than 2 million people in the USA lost their job in 2 weeks. With the critical slowdown of international trade, unions must stand up and be counted on to avoid this.
We propose that, during a crisis meeting of a company, the government should force or at least put pressure on companies to include trade unions in their meetings to better defend workers' interests in this challenging period of epidemic. Indeed, the larger the company is, the more influence employers will have on decisions involving workers (FTN). In big companies, it is therefore necessary to have influential unions with more power than those of small companies to assert the rights of workers in the upper hierarchy of the company.
Limits need to be set for different things: the first one is to make the firms having a minimum of hours dedicated to exchange with unions, depending on the size of the company. The company should also give a place to a share of representatives of union in general assemblies.
If those conditions are not respected, the firms will receive fine from the state, once more depending on the size of the firm. You can find all those measures detailed in the table below. We know that these fines could prove counterproductive by reducing corporate profits and therefore reducing investment. This could increase inflation. However, we assume that these fines are a deterrent and that companies will accept this social dialogue. Nevertheless, if these fines were to be paid, they would be redistributed to the employees and to the unions that act in these companies. This would increase the bargaining power of the unions, increase the consumption of employees who might have been affected during this crisis, and thus boost economic growth.
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Size of the company	Hours per week dedicated to exchanges with unions	Share of representatives of union in general assemblies	Amount of the fine if conditions are not respected (in terms percentage of the company's revenues)
Less than 100 employees	1	5%	2%
100-1000 employees	3	10%	2%
More than 1000 employees	5	20%	5%

Table presenting concrete measures to make the firms include more the unions

To give a more precise example, during the general meeting of a company of more than 1000 employees (like a supermarket chain), we propose to set a limit for the presence of 20% of members of union, including workers themselves, because they are the ones who know the reality of the job and what the employees live. Then, they can request things like protections against the Covid, and they can justify it by the fact that they live the situation every day, so they know the reality of the situation of the Covid.

Indeed, workers are on the front line against the virus during this crisis. It is often thought that it is the doctors, but the staff can be much more impacted because they are not protected as much as the doctors. Examples of these workers are cashiers, teachers, and nurses. In the case of teachers, the social dialogue would be between the unions and the government. The trade union could impose more protections on employees to protect them (request for masks, sanitizers, etc.). It is also in the company's interest because if all its employees get sick from Covid and must stay home, it will not have enough workers to meet the demand.

A perfect example is a hospital. During Covid, they are all overwhelmed, and the fact that nurses get Covid and cannot go to work causes a gap between the demand for health care and the supply (in terms of workers) that hospitals can provide. Too many patients for not enough doctors. With a social dialogue, the unions should also ask for an increase in the salaries of those who work on the front lines. These employees are more likely to get sick and must be treated. The idea would be to ask for an increase in salaries according to the risk of being contaminated by Covid, the financial situation of the person, and his health condition (obesity, heart or lung problems, etc.). The objective of including the trade union in the general assembly is finally to restore the social dialogue that could be cut by the crisis and to ensure good protection and inclusion of workers' rights and their dignity, often threatened in times of crisis.

Conclusion and perspectives

In conclusion, after reviewing the various ways in which the U.S. government could have solved the Covid crisis, we cannot really say what it should have done. Each measure has its advantages but also its disadvantages, especially in terms of budget or ease of implementation. The measures we have presented to you are only hypotheses and suggestions, which try to take more into account the social aspect of the economy. It is also important to remember the lessons of past crises and to understand that history has a lot to teach us, on all subjects. The economy varies over time and in different places, but we can always use the tools and knowledge of the past to help us deal with current issues.

To conclude this policy brief, we wanted to make a quick comparison between the United States and another country that had to deal with this global crisis: France.

The Covid crisis has had different consequences on these two economies, as you can see on fig.5. But they are similar on one point: these two countries, like others in the world, have not only put in place measures to help companies but also measures based on social aid.

Here are some examples for France: the government has extended the duration of unemployment compensation. It has set up a specific scheme for intermittent workers in the entertainment industry and for employees who have resigned for another job due to the crisis and the confinement. The State has also made the use of the short time working scheme more flexible and simpler.

For companies, here is a comparison in terms of budget. The United States spent $1052 billion on business support measures in 2020, while France spent 247.5 billion euros, or about $267 billion.

Appendix

The economic crisis in the US

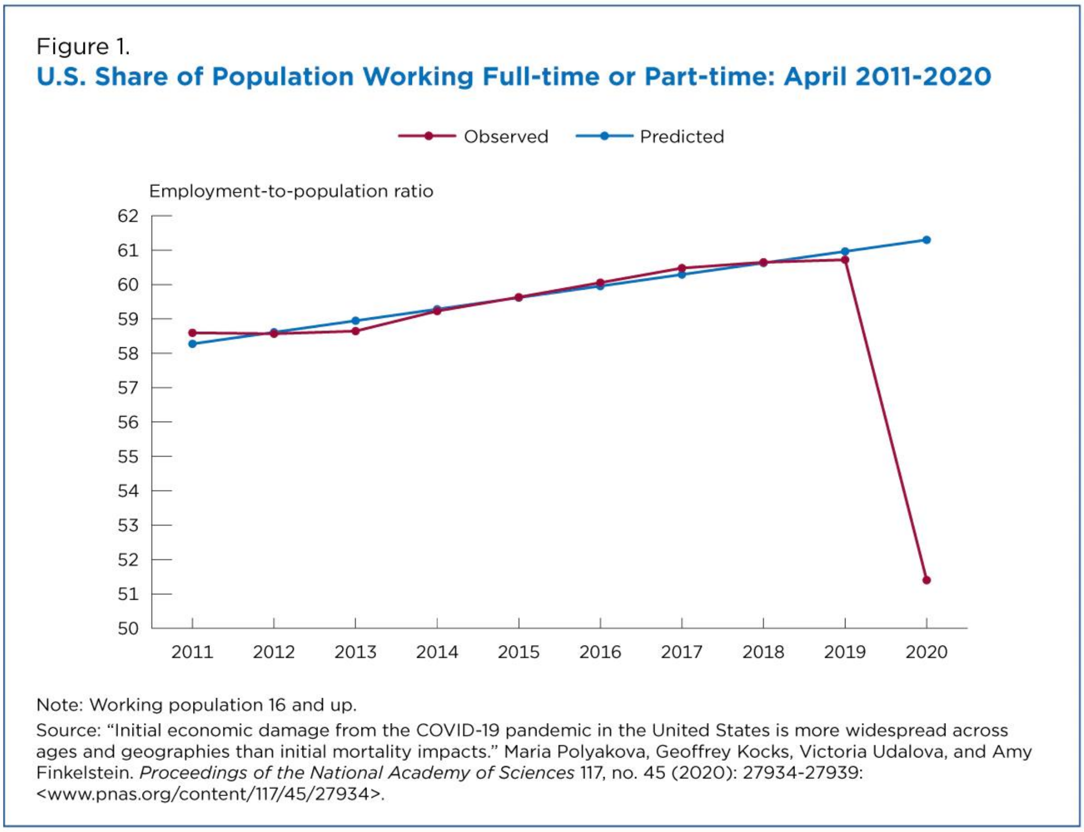

Figure 1: U.S. Share of population working full-time or part-time: April 2011-2020

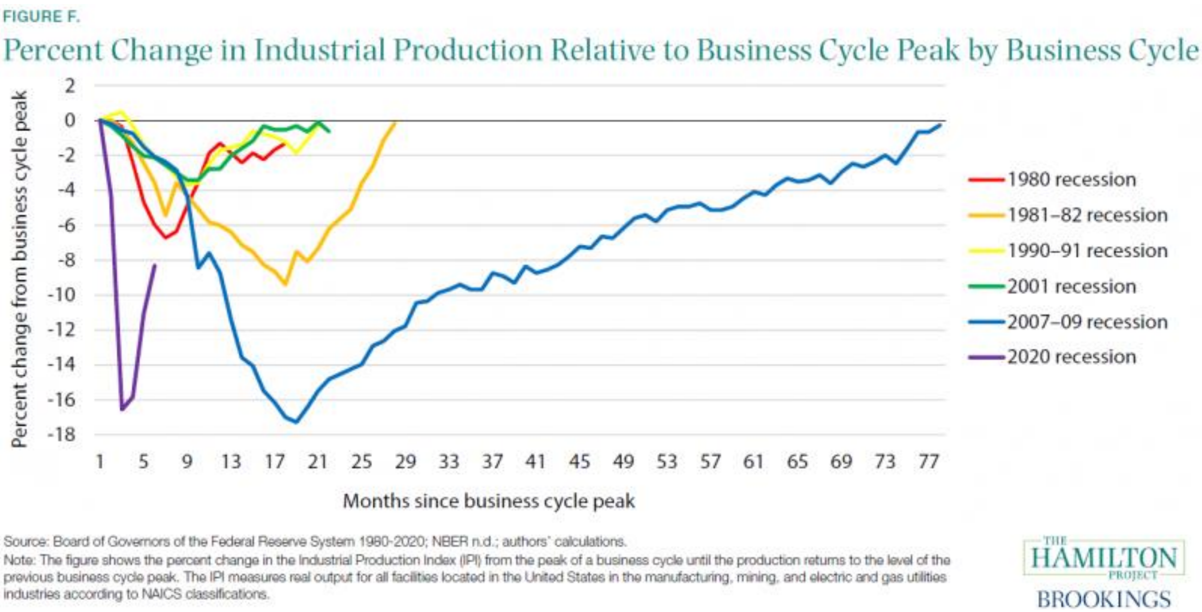

Figure 2: Percent change in industrial production relative to business cycle peak by business cycle

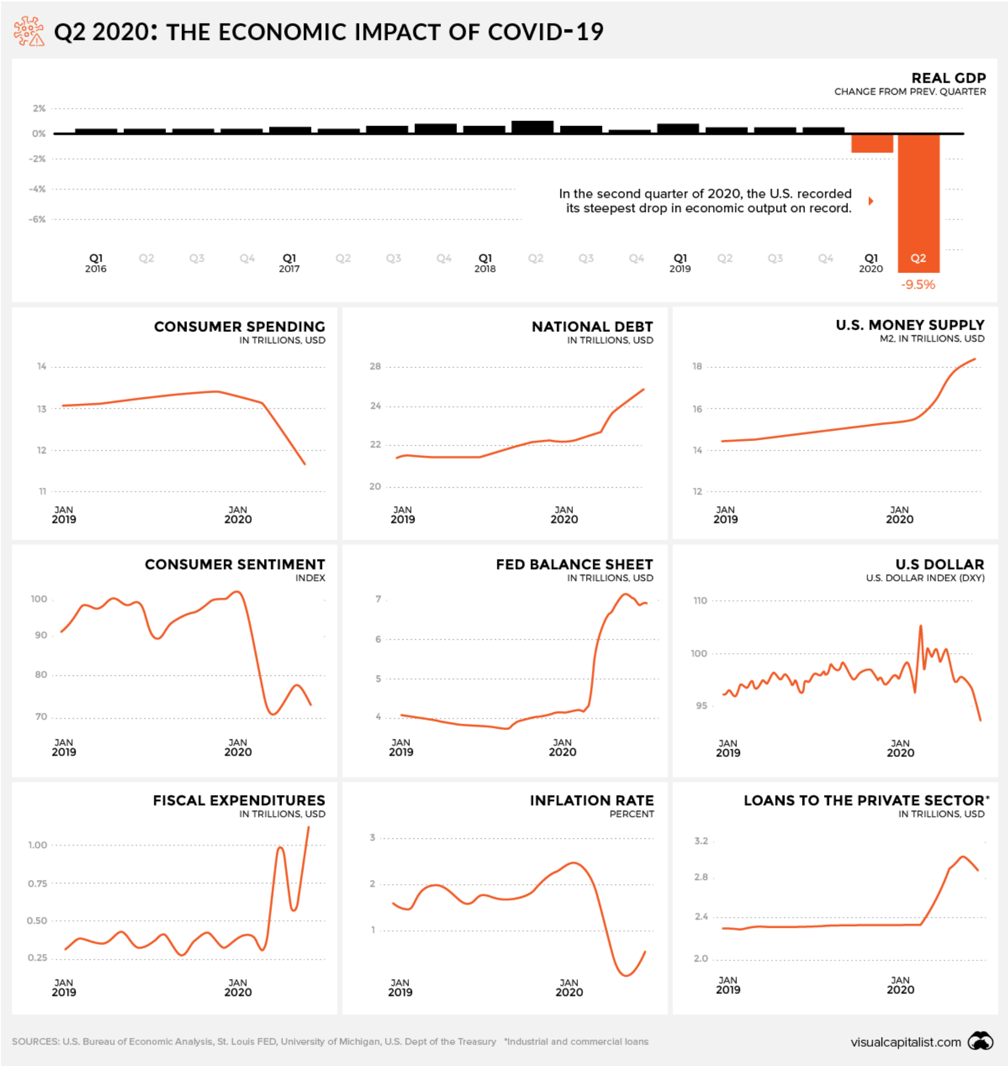

Figure 3: The impact of Covid-19 on the economy at Q2 of 2020

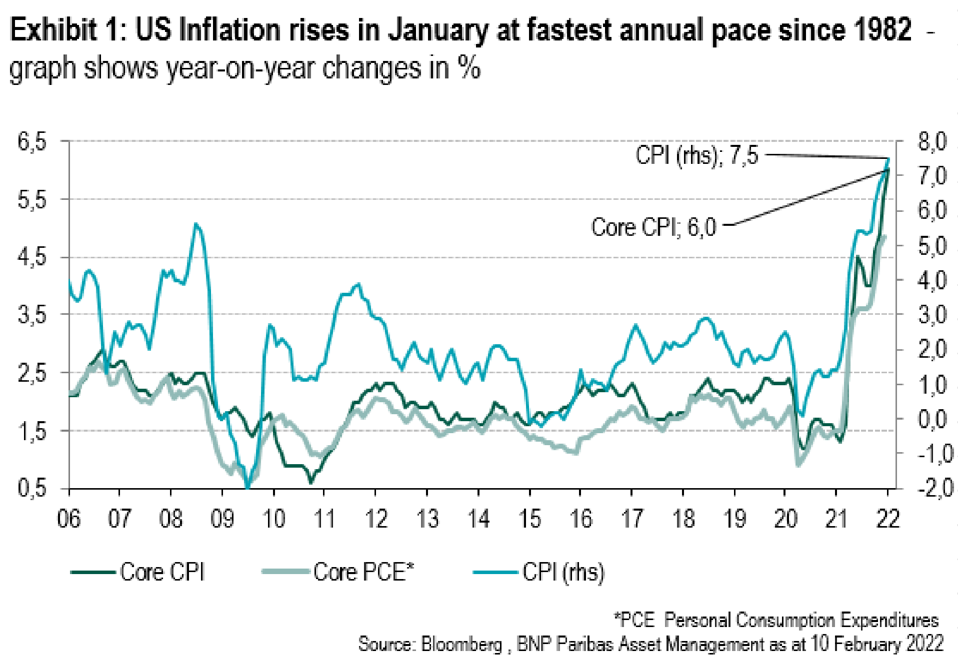

Figure 4

(source of the graph : **https://www.bnpparibas-am.be/graph-of-the-week-us-inflation-higher-and-more-persistent-again/**.)

Criteria	Change in GDP			Unemployment rate			Public deficit		
Country	End of 2019	End of 2020	Evolution	End of 2019	End of 2020	Evolution	End of 2019	End of 2020	Evolution
United States	2,30%	-7,30%	-9,60	3,70%	11,30%	7,60	7,30%	15%	7,70
France	1,50%	-11,40%	-12,90	8,40%	11%	2,60	3%	10,40%	7,40

Figure 5: Comparison between France and the United States

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