A New `New Deal': Building a New Economy instead of Rebuilding the Old One

By Matthew O. Jackson

As the world begins to open from the first wave of the coronavirus, it will become increasingly clear that this virus and its human and economic damages will be with us for a long time. We already see the highest unemployment rate since the Great Depression; as well as a number of retail, tourist, and service related businesses in default. In fact, to find parallels to the rapid drop in production driven by the lockdowns, one has to look beyond the Great Depression to previous pandemics. Moreover, we now depend on global supply chains in which one broken link can cripple a whole industry, and which put us at risk due to the lack of coordination across countries in their health and economic policies. This crisis is exacerbated by a vacuum in international leadership, with finger-pointing, mistrust, and conflicting agendas – from the growing chasm in US-Chinese relationships, to the increasingly divergent views among and within European nations.

The combination is incredibly volatile, and the extreme drop in employment is leading to a significant drop in demand just when the economy needs it most. If unaddressed, the subsequent wave of defaults (personal, business, and sovereign) will lead to a credit freeze, lost investment, and possibly even another financial crisis.

Still, there are reasons to hope that we may avoid a protracted depression. First, our understanding of contagion is far more advanced than in any previous pandemic. Even with a vaccine potentially far off, with very aggressive and systematic testing and great care in heeding the directives of health care experts, we can get our economies partly back to where they should be. Second, we have some minimal economic safety nets in place that did not exist at all in previous pandemics and depressions – including various forms of unemployment insurance, medical insurance, and social security and other savings. Third, we have learned economic lessons from previous depressions and financial crises, and understand that massive government intervention is needed to keep an economy from spiraling downwards due to a feedback between unemployment and contracting demand.

A lot hinges on whether or not we can overcome political polarization to agree on how to spend the trillions of dollars that will be needed, and which should be carefully targeted and quickly deployed. Earlier spending has more of an impact, stopping the feedback loop before it gets going, or at least before it gets out of control.

The growing economic toll will involve what economists refer to as ``creative destruction''. It is a term that sees the silver lining in a very unpleasant phenomenon. Just as the disease is most deadly among those who already had health problems, the economic fallout can accelerate the demise of businesses that were already in decline before the pandemic. This aspect of destruction means that there are important but difficult choices to be made. It is an opportunity to build a new economy if one can resist the urge to rebuild the old one. It is also a

chance to reverse pernicious trends, such as the rising inequality that was reaching record levels even before this crisis began.

Despite the emergency loans and cash that have been provided (with unprecedented speed), there is a rapidly growing need to address the large unemployment and withering demand and to stimulate the economy via large-scale government spending. This suggests a new `New Deal' that has three goals: acting quickly and substantially to save us from economic ruin, targeting some of the relief to help improve mobility and reduce inequality, and providing a foundation for a new economy. In many cases, these three objectives dovetail nicely. Here is a list of clear priorities.

1. **Infrastructure.** This is a no-brainer: it not only provides a short-term job and supply stimulus, but also has a long-term multiplier in benefits. It is one of the few things that enjoys bipartisan support. This includes modernizing water supply and treatment systems and other decaying utilities, rebuilding airports, and improving roads with an eye to emerging driverless technology. There is never a better time to do this than when usage of roads and airports is already low. It is also a chance to help reduce carbon footprints, by repairing and extending public transportation systems and improving pedestrian and bicycle access in urban areas, as well as investing in greener power sources, storage and delivery.
2. **Preschool, Primary, and Secondary Education.** Education is essentially our human infrastructure. Building out a high-quality preschool system that is available to all children is another no-brainer that delivers on many dimensions. It helps working parents, some of whose hourly wage is below the cost of quality childcare. Moreover, this has one of the highest returns to public investment of all. There is tremendous evidence that improving children's language skills, and a variety of non-cognitive skills, improves their later learning and gives them a brighter future. This not only reduces inequality and mobility, but also leads to a more productive society overall. And, as the crisis has led many parents to more fully appreciate, teaching children of all ages and keeping their energies positively focused is no easy task. Better support for our education system is badly needed.
3. **Higher Education.** Growing inequality is succinctly captured in the widening gap in wages: in 1950 people with a college degree earned roughly 50 percent more than those without, while now they earn more than 100 percent more, on average. There is a glut of workers working in jobs with low skills that are under pressure from automation; and a relative shortage of workers who have the skills that are enhanced rather than replaced by new technologies. We can close that gap by moving workers out of the lower-skill and into the higher-skill category via improvements in higher education. In particular, we are faced with under-funded and over-crowded community colleges and state universities. That leads to less than stellar graduation rates: only sixty percent of students who start at four-year colleges finish a degree within six years, and less than thirty percent of those starting two-year colleges finish a

degree within three years. The crisis has also given us a chance to rethink how education is delivered, as it has highlighted the question of whether we can take greater advantage of the advancements in distance-learning.

4. **Research and Science.** It is hard to find any investment that pays higher dividends for a society than investment in fundamental research. This century will be a golden age for advancements in biology and medicine. Also, social sciences are developing deeper understandings of many human behaviors, which help us address social problems, including pandemics. Beyond the long-term benefits and short-term stimulus of supporting such research, we need to be better equipped to handle future pandemics, especially as the world's increased population density and travel patterns make them an increasing challenge.
5. **A Flexible Safety Net.** Over the course of the twentieth century our economy developed a more flexible workforce in which people change jobs and employers with greater frequency. Recently the growing gig economy has led some workers to become completely untethered. The US healthcare system is still trying to catch up with these changes, as it was traditionally tied to employment, along with unemployment insurance and social security. This is a time to redesign these systems, in tandem with restructuring a baroque and antiquated tax system. We need to better support a flexible and modern workforce, so that a large portion of it can stop having to work at multiple jobs just to afford healthcare, childcare, education, and other basic necessities.
6. **Trade and Immigration.** Economic crises lead populations to turtle up: to blame others and to shutter themselves in. Globalization and international trade have been one of the most important drivers of the ten-fold drop in the frequency of interstate wars that humanity has enjoyed over the past century, as well as the more than four-fold drop in the world poverty rate over the past forty years. The fissures in that are already developing between the US and China, and within Europe, threaten to push us backwards. We have to work to sustain the trade that builds our strengths rather than protecting our weaknesses.

As the damages from the virus become increasingly evident, we have a chance to put aside political differences in order to save ourselves from short-term disaster while aiming for a better future. The above package provides benefits for everyone, thus making it a political possibility. It is intended to make use of the workforce and resources idled by the crisis, to have synergies between its arms, and to look ahead. Let us unite to build our new economy to be better than the old one.

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