

Government Purchases Might Speed the Recovery: Steuerle

By Eugene Steuerle Thu, May 14, 2020

'When government simply puts a dollar of tax cut or transfer increase in our hands, but without purchasing anything, we often simply tuck that dollar under the mattress, so to speak, in which case there is no increase either in demand or supply,' writes our guest columnist, a fellow at the Urban Institute.



The current recession derives from two sources: demand and supply. On the demand side, consumers are purchasing fewer durable goods (e.g., automobiles) and spending much less on services such as all forms of transportation.

On the supply side, there has been a massive decline in supply of goods and services as workers stay home and supply chains break, leading to a collapse of trade networks, further disrupting firms that can't get the physical or worker inputs they need to produce their own output.

Accordingly, some writers, including my colleague, Howard Gleckman, have criticized the extent to which stimulus packages so far have emphasized the demand side of the market, particularly with rebate payments to almost everyone, regardless of need. My purpose here isn't to measure the extent to which that criticism applies to all the provisions enacted so far, but rather to ask how future legislation can better be oriented toward increasing supply and demand at the same time and, thereby, increasing employment. The short answer: increase government purchases.

Basic economic theory teaches that under certain conditions government purchases do more than tax cuts or increases in transfers to stimulate the economy. That's because a dollar of purchases effectively creates a demand for that purchase, leads to an increased supply of labor to fulfill that purchase, and then leaves a dollar of income in the hands of the those who supply the goods and services purchased. This is especially relevant in today's economic downturn.

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Consistent with health concerns, therefore, Congress should strongly consider which types of stimuli are most likely to help minimize supply disruptions and more immediately

increase employment.

You can see such concerns expressed partly in the efforts of Congress to keep people on the payrolls of existing firms. Along the same lines, the President and others have also suggested ramping up spending on infrastructure. Of course, implementing this type of response requires some thought as to what can or must be produced, consistent with minimizing additional health threats to those involved.

Here are a few examples:

We will need many additional healthcare workers who, with minimal training, could perform routine functions, whether testing for the coronavirus in the tens of millions rather than tens of thousands, as now, or giving tens of millions of vaccine shots when they become available.

Government should start training more people to perform those functions now. Bill Gates has already suggested that we need to build the facilities now that will be able to generate billions of vaccines worldwide when that opportunity becomes available. Those production efforts and the training of health care workers are complementary actions.

Among the hardest hit of all sectors, restaurants deserve special attention. If we want to keep more of them viable, the government could give people vouchers that can be spent on take-out restaurant meals. Normally this would be quite inefficient, but it's probably more efficient than simply paying restaurants to hang onto staff who have few functions to perform. More educators could be hired now to develop better online tools for teaching, not just for the short-term needs arising from social isolation, but for the longer-term opportunities that information technology provides.

State and local governments clearly have rising needs to serve their citizens even as their revenues start to plummet. Congress should ensure, to the extent possible, that much of the federal support given to those governments goes toward currently purchasing additional goods and services, as opposed to being saved to offset the tax increases or transfer cuts these governments may need to impose down the road.

Even independently of federal help, states facing balanced budget constitutional restrictions should realize that additional state and local purchases, even if offset by temporary tax increases or cuts in salaries, still increase output in times of high unemployment.

Charities need resources to deal with increased demands. The recently enacted \$300 tax deduction for charitable contributions offered to non-itemizers in the CARES Act probably

won't increase either charitable giving or charitable output by much at all. Government instead could take steps to purchase more services from charities. Every dollar spent that way will increase charitable output by roughly the same amount, a much more efficient result.

Infrastructure may be hard to begin immediately; "shovel-ready" projects were hard to find in the Great Recession. However, the ramp-up could start now, particularly if the longer-term financing needed to support these projects was put into place when the projects were authorized.

While none of this is easy and certainly doesn't address health and other welfare issues, the next tranches of Congressional legislation should increasingly give due consideration to the stimulative impact of additional purchases of goods and services in bringing workers back into the productive economy.

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