

On Friday, April 10th, as part of the [UC Berkeley Conversations](#) series, the [Goldman School of Public Policy \(GSPP\)](#) hosted a discussion with key GSPP and O-Lab faculty on the economic impacts of COVID-19 and what the crisis is revealing about our ability to use economic policy and safety net protections to protect those hardest hit by the crisis. Below, we have included an edited transcript of the discussion.

A full video of the conversation can be found at the [O-Lab website](#) and [the GSPP website](#).

Dan Mogulof – *Those unemployment numbers that have captured the headlines and added to the fears and uncertainties of people are stunning. They’re being called unprecedented, dramatic. Unpack the data for us.*



Jesse Rothstein – It is enormous. It is unprecedented. We’ve never seen anything like this that’s anywhere as rapid. This is going to be the deepest hit to the labor market that we’ve seen since the Great Depression. It’s probably not too surprising that when you tell the economy to shut down the economy shuts down. And we’ve learned that there are a lot of workers who can’t work remotely. If you tell people they can’t come in, and customers can’t come to the businesses, they’re out of jobs. So it’s incredibly important that we get aid to people to keep them afloat and we get aid to businesses to keep those businesses afloat so people have jobs to come back to.

Mogulof – *Ellora, from your vantage point, what are the most significant economic developments that you’re tracking?*

Ellora Derenoncourt – I’m a historical labor economist and we haven’t seen a crisis of this scale since the 1930s and 40s. We already had vast inequality leading into this moment, and now it’s widening into something we haven’t seen in recent history. For particular groups, their experience captures the depth of this tragedy and its dual economic and medical nature - I’m thinking of black Americans, Latino Americans, low-wage workers. Based on the preliminary data we have from New York City, [black and Latino Americans are dying at twice the rate from COVID-19 as white Americans](#). Layered on top of that is the economic burden. As Jesse pointed out, most American can’t work from home, and that’s even more true for black and Latino workers. So they’re really bearing the brunt of this crisis.



Mogulof – Hilary, what are you seeing?

Hilary Hoynes – We have this unprecedented period where we have these numbers showing up through unemployment claims. What we know is that the numbers don't even tell the whole story about the reduction in earnings. We know that not everyone ends up on unemployment claims due to lack of eligibility and other factors. What we know more generally is that economic recessions always disproportionately hit disadvantaged workers. We know those with lower skill and wage levels tend to be harmed more when an economy enters a recession. We have to reason to think that the same is true in the current situation - perhaps more so than is typical. We know that many workers are not able to work from home. It will be important to discuss what actions should be taken by Congress and in my view the most disadvantaged in America are currently really left out of a lot of the activity taking place.

**Mogulof – Gabe, broaden our horizons a bit and talk about not just what's taking place nationally but on a global scale.**

Gabriel Zucman – The way the U.S. is responding to the crisis is different than what we are seeing in other countries. The unemployment rate is rising fast in the U.S. and millions of jobs are being destroyed. In most other countries, governments are trying to protect jobs. They have payroll protection programs and short-term wage programs where workers remain formally employed. Employers keep paying a normal wage, and government then reimburses employers for that wage. [Sometimes up to 100% like in Norway, 75% like in the U.K., 80 to 90% like in France.](#) The unemployment rate is not rising as much as in the U.S., and jobs are being preserved for the time being. I'm concerned that the U.S. path may not be optimal, millions of jobs that are being destroyed, some won't be recreated when the shutdown is over, and I'm worried about the possibility that the recovery will be slower in the U.S. than in European countries or in Canada.

**Mogulof – As a result of the U.S. approach, the damage from this crisis may be permanent?**

Zucman – At least it will take longer for the economy to fully recover once the shutdown is over, because people are losing their jobs. Some of them will start working again for their former employers but millions of employers will also remain unemployed for weeks, for months, maybe for years while the countries that try to protect jobs by keeping people on payroll, keeping workers employed, it's possible their recovery will be faster.

Mogulof – Henry, add that layer of politics, your specialty.



Henry Brady – What Gabe is getting to here is the degree that an economy is a giant jigsaw puzzle and, once it gets completed, it sits there, and there's a tremendous amount of matching of people with jobs and firms with customers. We've taken that jigsaw puzzle in the United States and shaken that up and it'll be very hard to put it back together. The European approach has been more to try to keep the jigsaw puzzle in place by keeping people in their jobs.

I'm struck by two things with respect to government. On the one hand, it's working really hard to solve these problems in the public health field. There's been extraordinary leadership from the CDC and by governors. I'm also struck by how government will incur enormous costs because of lost revenue. It's going to come out of this weaker than it was before. We need a strong government and a government able to solve these problems. One bill that was in the Senate that didn't get passed was going [to provide \\$250 million additional to small businesses](#), and the Democrats said, "No no, we also have to provide money to hospitals and states and local governments, that are essential to making this system work." That's where it foundered because the Republicans at least at this point were not willing to agree to that.

Mogulof – One of the things characterizing this moment is uncertainty. Jesse, where are we headed now, something at the depths of the Great Depression, the Great Recession of 2008 or 2009, or something in between?

Rothstein – We're definitely headed for something much deeper than the Great Recession comparable to the Great Depression. What we don't know yet is whether we can bounce back quickly or whether this lingers on for a decade like the Great Recession did. Some of this has to do with the degree we can keep workers attached to their firms, and keep the firms afloat. But this is an experiment we've never tried before. I manage a building on campus that has an old boiler and during the shutdowns, we never shut down the boiler because we weren't confident we could turn it back on again. We just shut down the economy but we hope it'll turn on again and be just as good.

Mogulof – Hilary, what are you seeing? Recession, depression, uncertainty?

Hoynes – I think it's too early to tell. The analogy in the Great Recession is like a bathtub. We entered, had loss of jobs, and it took a while to make our way out of that recession. The question now is: are we going to be in a V-shaped recovery or are we going to be in a very very deep bathtub, deeper than the bathtub that we saw in the Great Recession. For me, the most optimistic thing I can say is that while Congress is not done with the policies to aid with relief and stimulus, it did move quickly relative to how fast Congresses has moved in the past. I think continuing to move at that pace is absolutely critical.

Derenoncourt – I think one potential historical period to look to is World War II. And while we should be cautious about drawing analogies - that was a very different situation - but it's another moment of extreme economic challenge that also showed surprising quick reversion back to the pre-war-time economy and, even better, the post-war boom. I think there are other moments when we had shocks as big and that's part of the advantage of being an economic historian: something



that seems unprecedented in recent years, if you turn back the clock far enough, we've seen other times when governments and economies have responded to large shocks.

Mogulof – I'm going to push back a little bit. To me, from a layperson's perspective, this seems quite different from World War II. Mobilizing armies around the world required an uptick in manufacturing, people engaged in frontlines or home front. Here, this is a full shutdown.

Derenoncourt – We should be cautious in looking at that historical episode. One clear analogy is that the economy had to be redirected or wound down. Production for consumption, for civilian consumption, was turned down to a bare minimum to redirect production to the war effort. So there is somewhat of an analogy to say we need to shut everything down and keep everyone home to deal with the current crisis. There's [a good piece in Vox](#) on what lessons we can learn from World War II from [Gillian Brunet, an economic historian at Wesleyan](#). So if we can draw some lessons from this time period, a key thing to look at is how aggressive government policy was in taking control and directing the economy during this time. That surely could be used more today.

Mogulof – Gabe, I'm wondering what you see globally and if you're seeing the differences, some countries heading into dire depression-like straits and other countries might do better.

Zucman – I think it's too soon to tell. This is a global crisis that's evolving incredibly fast. Billions of people are on lockdown - this has never happened in the past - so we have to be extremely cautious in terms of making predictions. There's a fundamental uncertainty about the disease itself - how long it will take to get a vaccine, can people be re-infected once they get COVID-19 once - there are many things we don't know. In the end, what will be essential is the government response, the scale, the rapidity of response.

Mogulof – Henry, tell us about what you think of the government response so far. As they say, "2.5 trillion here, 2.5 trillion there- you're almost talking about real money."

Brady - It's a \$22 trillion economy, so a \$2 trillion stimulus bill—that's 10% of the economy. But it looks like a third of the economy is shut down. So 10% vs 33%. We're clearly still not doing enough. A lot more needs to be done. The big question is whether the federal government has the capacity to do that. The Fed really can't lower interest rates a lot more. The fed can do some of what they're doing, which is buy a lot of debt. And there's just the question of how much deficit can the federal government absorb. The deficit was already headed to a trillion or more before the COVID epidemic. Now it's probably headed to a \$3 trillion deficit and maybe more. That's a very big deficit for the federal government. And the state governments too are facing dire straits, because they're going to have tremendous reductions in tax revenue. California will probably have on a total budget of about \$200 billion, they'll probably have a reduction in tax revenue of \$20 billion to \$50 billion in tax reduction.

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-Henry Brady



Mogulof – Hilary, a lot of your [research and work focuses on the safety net](#). What’s your assessment on the extent to which the federal government has taken that into account to date and what other actions will need to be taken for the most disadvantaged?

Hoynes – If you look at the [CARES act](#), phase 3, there are two important elements of the aid package for ordinary working Americans. The first is the dramatic expansion of unemployment insurance, which includes a top up of \$600 per week for all unemployment recipients across the states. The second is the direct payments, which includes \$1,200 for single adults or \$2,400 for married couples. Those two elements are the strongest elements of the relief package to date.

Three things that need to show up from the federal government: aid to the states; increasing benefits through the food stamp program; and starting to address issues around rent.

-Hilary Hoynes

One very important thing we want to include in the next phase, that is very targeted and very timely would be to expand benefits under the food stamp program, SNAP

nationally or CalFresh here in California. So I would say, three things that need to show up from the federal government is aid to the states, increasing benefits through the food stamp program, and starting to address issues around rent for the many many members of our society who aren’t getting helped by advantages afforded to those who are owners.

Mogulof – Ellora, you also singled out the black community where the impact of the crisis is much greater. Why is the impact much greater and what does it suggest in terms of the government policy that can address that?

Derenoncourt – Based on the data we see coming out, the numbers are astonishing in terms of the disproportionate mortality of African Americans in cities like Chicago and Detroit. What we’re seeing in those cities are the result of decades of local government decisions that have effectively prioritized investment in police and the criminal justice system as opposed to investments in public health, schools, sanitation and other infrastructure. And these cities have also faced a historical legacy of persistent racial segregation, and we know that’s associated with black children being more exposed to pollution and higher rates of asthma. There are these layers of economic and health effects that act as – the phrase is “inequality as a comorbidity”, worsening the impact of COVID 19 on black communities.

Racial segregation is associated with more exposure to pollution, higher rates of asthma – these health and economic inequalities...worsen the impact of COVID-19 on black communities.

-Ellora Derenoncourt

Mogulof – In terms of economic policy responses, and thinking about what’s been passed so far, what’s missing?

Rothstein – We keep calling the bills stimulus bills, but these aren’t stimulus bills. These are “keep people from drowning” bills. It’s the right thing to do right now. The main thing missing is we have not been aggressive enough in getting testing which would minimize the length of the shutdown. That’s a huge problem. Every extra day this lasts is costing us tens of billions of dollars in wealth. And anything we can do to get the health system ready to allow us out of our homes is worth doing.



The next thing is aid to states. There was some in the last bill, but not nearly enough for the shock they're facing. They are the ones that will have to deliver services we'll need through this. There are other things missing: one that's come up in this discussion is: we didn't have programs in place for keeping people on their payroll. We have programs like that but they've been designed so their primary goal is making sure no benefits go to anyone who doesn't need them rather than making sure they can scale to people who do need them so they don't scale well. The main concern I have is all bills were written with the idea that we knew how long this would last, so they'll only provide eight weeks of support, but that means that every time we extend this, we have to go back to Congress to get another thing through and it's not easy to get things through Congress. So the main thing in the next bill is triggers so the funding lasts as long as we need to get us out of here. Then we'll need to come back with stimulus bills once we let people out of their houses.

Mogulof - Can we afford this? We're talking about trillions of dollars. We're heaping debt upon massive amounts of new debt on what was already a high level of debt. Is it possible to bankrupt the country?

Rothstein - We can afford this. This is very costly. Every day they don't go to work because they're not allowed out of their house is lost wealth they could be generating. The choice is do we take that [cost] right now, or do we spread that out over the next 20 or 30 years. Clearly the right answer is to spread it out and that's what taking on debt is. We can afford it as much as we need to get through this. All arguments about debt being too high just don't apply to this situation.

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-Jesse Rothstein

Mogulof - Are there policies being enacted by other countries right now that you think we should be emulating that are adaptable to the American context?

Zucman – All countries and wealthy nations have universal health insurance. The U.S. doesn't. The U.S. could have universal coverage for COVID-related care, [a COVID-care for all program](#). The clear commitment by the federal govt is that no matter your employment status, no matter your immigration status, no matter your age, any health care related to the virus is going to be covered by the federal government. I believe this will help millions of Americans needing health care today. We need more because many millions are losing their jobs today and are used to getting health insurance through their jobs. We've seen stories already of people who died because they didn't seek treatment because they were worried about the cost because they didn't have insurance. That's something you only see in the U.S. and that's something the next bill should tackle.

Hoynes – Gabriel brings up important things that differentiate the U.S. from other rich countries, like universal health insurance. Another aspect that really becomes clear in times of recession is the U.S. has built its assistance system on a conditionality that families must work to get the assistance they may be eligible for, through providing assistance to low-wage families through the [Earned Income Tax Credit](#) which is like a top up to your earnings rather than to a more unconditional system. That is a feature of the U.S. system that is not shared by other countries. So if you build a social safety net based on an assumption of work, is it surprising that it doesn't do well when we don't have work? It's not surprising at all.



Brady – We can afford it, and it's very important not to lose our nerve. There's real evidence that when Franklin Delano Roosevelt came in in 1933 he started to stimulate the econ. That helped and brought the level of unemployment down and then for a variety of political reasons, the country lost nerve and did less and ultimately it was only World War 2 that brought the country back. There's also evidence we didn't do enough in 2008 and 2009 and we should have had another big stimulus bill after the first one. So the evidence is pretty clear that doing things big can really have an important long-term impact that will save us money in the long run and make this a happier and better country.

Zucman – People focus too much on the debt to GDP ratio and not enough on another ratio, which is more meaningful, which is government interest payments as a fraction of GDP as a fraction of national income. Because interest rates and government debt are very low, government interest payments are at a historically low level. From that perspective, we can absolutely afford to have an ambitious government response to this crisis.

Hoynes – I wanted to add one thing. States are not able to borrow, so many of us have mentioned the central importance of delivering aid from the federal government to states. That's \$150 billion but we need a lot more for the states. The reason that's so critical, Henry talks about the situation in California and our projected decline in revenue. We can't borrow to make that up, and so that that's where the federal government needs to come in and help states get over this shock. Because the alternative is dramatic cuts to meet the balanced budget requirement.

Mogulof – *A question from one of our students: The graduating seniors in college and the classes below us, the question is how this affects job prospects?*

Rothstein – I've been working on a study on [the effects of the Great Recession on people who graduated then](#). Unfortunately the news isn't good. Recessions are very bad for outcomes of people having to find jobs. This is different from any other recession and the more we can make sure this is a V-shaped recovery, that we can bounce right back, the less damage this will do, but if this goes on for years and years because we lose our nerve and stop stimulating our economy to where it needs to be, this will have long-term consequences.

Brady – A federally funded internship program might be something worth thinking about, something that would provide students with a bridge over the next six months to a year so they get work experience. Because part of what Jesse's research shows is what people lose when they don't get into the job market after graduating is a rung of the ladder; they're always one step behind everyone else.

Mogulof - *What about poorer countries who don't have the kind of wealth or support levels we're talking about? Are we also looking at a huge degree of global inequality and disparities?*

Zucman - We are seeing that emerging economies are hit by the virus and are hit by the huge financial crisis at the same time, which is a complete collapse of international capital flows. So the massive outflows of money out of developing countries, governments in these countries are not in as good a position as governments in the U.S. and other countries to borrow money, so there's going to be a need for international solidarity to help other countries to weather the storm.



Hoynes – The other factor is the fact that the most basic things we know are important for limiting the spread, washing our hands, is something less developed countries simply do not have in every household, so that’s going to make the spread of the virus much more difficult to contain. Although one positive element, I was listening to an interview yesterday with [Esther Duflo](#), who was part of [the team that won the Nobel Prize this year](#) for doing research in less developed countries and she was raising the point that many in these very poor countries actually have a very sophisticated system of financial infrastructure through cell phone banking that we don’t use dramatically in the U.S. and that presents an opportunity for doing relief on a wide scale and in a really low cost way. That’s a bit of glimmer of hope in that setting.

Emerging economies are hit by both the virus and a complete collapse of international capital flows. They are not in as good a position as governments like the US to borrow money, so there will need to be international solidarity to weather the storm.

-Gabriel Zucman

Mogulof – ***We’re also getting questions from the audience [about] whether the rescue package is geared toward Main Street or Wall Street. How much is this just a wealth transfer to the largest corporations and high income individuals? What do you see now? What are sources of hope and sources of concern?***

Derenoncourt – I want to bring back a point that Hilary raised earlier about this question of renters versus homeowners. It captures this sense that with large corporations, government will help make them whole more than Main Street. We need to talk about renters. If we’re talking about mortgage moratoriums, what about people who pay rent? What is going to stop the hemorrhaging, of people who are no longer able to go to work in terms of their finances? I think the important take-away is that the more we invest in Main Street, the better a recovery we would expect to have. If people leave this crisis more in debt, it’s going to be really hard to restart the economy and stimulate demand so we should really be focusing our efforts on making people whole.

Zucman – Concerns of distributional aspects of the crisis and of government intervention are very legitimate. The best way to address the concerns in my view is through the tax system. Some companies are going to exploit loopholes in government relief plans. Others are benefiting from the pandemic. Manufacturers of ventilators and medical equipment are making quite a lot of money, these windfall gains. They have a fair and comprehensive solution, one that’s been applied many times historically, which is to tax excess profits. You can define excess profits in many ways. We know the identities of firms that are going to make much more profits in 2020 or 2021 as compared to 2019 or 2018. These excess profits could be taxed at high rates, just like the U.S. did during World Wars I and II and the Korean War. These types of excess profits taxes are common during periods of national crisis. And in my view they’re the most powerful way to address windfall gains that might occur during a crisis

Mogulof – ***There have been charges that politicians are following too closely the [Rahm Emanuel dictum of never letting a crisis go to waste](#). They’re trying to load in policy objectives that are not actually related to what this crisis demands. Henry, what’s your assessment of the politics of the moment?***



Brady – The first \$2 trillion bill looked like a bipartisan effort and that was good. It looks like that’s already breaking down and we’re seeing breakdowns too with respect to such things as how we should run elections. With Mr. Trump opposed to mail balloting and the Democrats pushing mail balloting, that’s based partly on misconceptions on the part of Republicans who think there are necessary disadvantages by bringing about a greater turnout that might occur with respect to mail ballots. The research is actually not clear who benefits. Given the situation we’re in, going to a mail ballot makes a heck of a lot of sense. It could protect more people. There’s not really significant evidence of fraud and to the extent there are concerns about that there are things we can do. I’m worried that for short periods of time we may get bipartisan approaches but that quickly breaks down with each side having their own particular interests and pushing their interests.

Mogulof – *We have a number of questions from viewers about undocumented workers.*

Hoynes – What you see is that the American social safety net is subject to limitations we talked about earlier and the undocumented population is not eligible for the many protections and benefits we talk about today. The thing I would point out on the public health side is that California has been more aggressive about dedicating public funds to expand eligibility for Medicaid or Medical to the undocumented population, paying out of our own state funds rather than with federal matching funds. We’re not all the way there, and there’s lot of people talking about now is the time to go further.

Brady – This is a moment where we realize we’re all in this together, and one hopes there’s some reflection upon that fact and recognition that you have to think about everybody and get beyond our prejudices. And as Hilary has shown in her work, it turns out when we do good things for people, like providing children with food stamps, they turn out to [have better lives as they go forward](#) and society is better because of the better lives children have.

Mogulof – *Ellora, let me ask you about service and retail employees. Many of them are working in businesses that have been deemed essential. These are the same people who have faced stagnating wages and declining labor protections. Do you think there’s a possibility of these workers gaining protections from employers that can be lasting?*

Derenoncourt – I really think this is a watershed moment for [workers in services, transportation, retail](#), but it depends on what choices are made both by policymakers and what worker organizations are able to do. Just yesterday, Unite Here, the large union that represents hotels and restaurant employees, announced that 98% of their 300,000-plus workers are out of work. We already had only 7% of private sector workers having union coverage and membership, I don’t know if we come out of this with 2% or zero. This is a moment when we have to think about how workers are protected. These workers are in a unique position of being considered essential, and from that perspective they ought to have additional bargaining power over protective equipment, hazard pay, etc. Government policy is critical in terms of protecting workers and protecting their ability to organize, which is going to take unusual forms now because unions are not as big a player. One example: I do know some members of Congress [sent a letter to Amazon inquiring](#)

This could be a watershed moment for workers in services, transportation, and retail. But it depends on choices made by policy-makers and by what worker organizations are able to do.

-Ellora Derenoncourt



[about their firing of an employee who was organizing a protest over safety](#) - actions like this that indicate government may step in on behalf of workers when they take these actions, that's really important.

Mogulof – *I want to close by asking about a central conundrum: If we open the economy too soon, that could lead to additional mass deaths, deaths many might see as unnecessary and unavoidable. But if keep the economy shut down too long, we could produce mass suffering. Is there a false choice between saving lives and the economy?*

Zucman – I think it's mostly a false choice. There's no way to reopen the economy without controlling the outbreak of virus. You can only reopen once the outbreak is controlled. The economy will reopen only once the outbreak is controlled. Most economists agree with that, so this tradeoff doesn't really exist. Controlling the outbreak, the lockdown today is what's good for the economy and will enable the economy to reopen and recover quickly.

Rothstein – When economists worry about tradeoffs, the first thing you look at are ways to push out frontiers. The way to push out the frontier here is on the public health side of things - investing in protective equipment, investing in ventilators, investing in hospital capacity, and investing in testing. We have not had enough focus on that from our national leadership. It's put us behind where we could be, and we need to make sure we do everything we can to speed that up.

Hoynes – I attended a virtual conference of macroeconomists who were presenting models on the combination of the public health piece and the economic piece and the interactions. It's very clear there is not a tradeoff, so in a word: yes, it is a false choice that's being presented. The one thing I would add is that in addition to investments that we're behind on, we also need an exit strategy. We need to have a plan in place to safely move away from shelter in place. It will require lots of testing and antibody tests to figure out who has already been exposed.

Derenoncourt – I'm not sure the language of tradeoffs is really appropriate. We have a binding constraint of minimizing deaths from this pandemic. Given that we are shutting down the economy, as Keynes wrote in terms of World War II: in a free society, we need to think about how to distribute a pie that's now fixed given the constraints of addressing the pandemic. And how we distribute that pie determines the exit strategy as well.

Brady – I want to talk about the future. The politics of the future I hope will deal with the question of resiliency. We've built an economy that's a Ferrari. Some people can afford a Ferrari, some people can't. I don't know if it's a great car. I don't actually think it's a great car to move the family around. We have to build a society that carts the whole family around and it has to be a resilient society and we have to recognize the fact that being more equal and being more concerned with everyone, we will become more resilient for family outings if maybe not for the race track.

