Your money or your life?

By Paul Krugman
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Back in 2009 the economists Carmen Reinhart and Ken Rogoff published a very good book with a brilliant title: “This Time is Different: Eight Centuries of Financial Folly.” They were, of course, being sarcastic: During every financial bubble, as debt rises to levels that historically have portended trouble, investors eagerly assure themselves and each other that old rules no longer apply, only to suffer ruin when the usual things happen.

This time, however, really is different. Economic data are only now beginning to show what the financial markets have already priced in, a dramatic slump over the next few months. But while the slump — the coronacession? — is definitely coming, it’s going to be different from previous recessions. Among other things, while we usually measure the success of economic policy by what happens to real G.D.P. — the total value of goods and services the economy produces, adjusted for inflation — this time G.D.P. will be both a poor measure of success and a bad target for economic policy.

To be sure, there will be many parallels with the financial crisis of 2008 and the Great Recession that followed. Now as then, financial markets are being disrupted, with crazy asset pricing driven by financial stress. Now as then, there will probably be a lot of gratuitous unemployment, as consumers curtail their purchases and workers lose their jobs — gratuitous unemployment in the sense that it could have been avoided if Congress and the Trump administration had moved quickly to provide adequate economic stimulus. (Spoiler: they won’t).

What’s different this time, however, is that some of the things we want to be doing, indeed must do if we don’t want hundreds of thousands of unnecessary deaths, will temporarily reduce G.D.P. And that’s OK.

Most obviously, we want and need sick or potentially sick workers to stay home, limiting the spread of the virus. Some of these homebound workers will be able to do their jobs remotely, but even in 2020 most jobs require physical presence. As a result, we’re going to lose the G.D.P. those workers could have produced. So be it. Production isn’t everything.

A slightly more problematic issue involves jobs lost because of the social distancing we need to slow Covid-19’s spread. People won’t and shouldn’t be going to restaurants, doing nonessential shopping, and so on; that leaves people who would normally be working at these establishments idle.

The reason this is slightly more problematic is that given time, service workers in the affected sectors could be re-employed in substitute activities: fewer servers, more people making deliveries. In fact, Amazon says it needs to hire 100,000 more workers to keep up with surging online demand. If extreme social distancing were to become the new normal, there’s no fundamental reason we couldn’t still have full employment; it would just require a different mix of jobs.

But that can’t happen overnight, and if we think the worst will pass in a few months, it actually makes sense for most workers in the afflicted sectors to stay where they are and not work for a little while. That also means less G.D.P., but again, so be it.

So what’s the role of economic policy here? Two things. First, reduce the pain. Universal sick leave at close to full pay should just be the start; we should also be doing what Denmark is doing, and subsidize firms that keep paying wages. We should also dramatically increase aid to the unemployed.

Second, we should be funneling money into the economy to sustain spending on things that shouldn't be affected by the virus. Job losses brought on by inadequate overall demand serve no purpose.

None of this would or should prevent at least a few months of economic contraction. But we could do a lot to make this plague less painful economically. I wish I had any confidence that we'll do more than a small fraction of what we should.