

## Cut the Politicians' Pay

The government-mandated shutdown of business, and the massive drop in economic activity it is causing, may actually do more harm to the United States than the coronavirus itself. Early estimates suggest the U.S. economy will contract at a staggering 20% annualized rate in the second quarter, and the number may move even higher. Despite multiple recessions, global wars, the avian flu, SARS, 9/11, and natural disasters, the U.S. hasn't experienced a quarterly drop in activity like this since the Great Depression.

The unemployment rate is likely to double from 3.5% to 7% in the coming months, representing a loss of more than 5 million jobs. And the longer the shutdown lasts, the further that number is likely to rise. Few businesses have cash hoards that can tide them over for this drastic a decline in activity. People are coming up with creative solutions, stopping rent and loan payments, but there isn't enough money in most business coffers to survive a trillion-dollar drop in economic production. The greater the number of businesses that don't survive, the slower the path to recovery when this global tragedy passes.

Tax payments to federal, state and local governments will fall precipitously, and many government entities will face serious financial challenges (if they didn't already). Illinois, for example, still has billions of dollars of unpaid bills, not to mention a severely underfunded pension system. A 10%-to-20% drop in tax revenue makes these problems that much worse. And every extra day the shutdown continues, the deeper the hole is dug.

The Federal Reserve -- never one to stand on the sidelines -- has pumped trillions of dollars into the economy. But let's face it, low interest rates and cash can't fix a virus; they are simply a stopgap measure to keep markets liquid while business and asset prices decline. Congress is working on what could be a \$2 trillion bailout package that would grow the size of federal government spending by 45% this year -- money that will eventually have to be paid back.

The government's reaction is being driven by models that are highly uncertain. Fear and panic by the masses are amplified by poor reporting of the data. For example, we hear that coronavirus cases in the U.S. are doubling every "x" number of days. While technically correct, this is also misleading. We have significantly ramped up testing, and as should be expected, we are finding cases in larger numbers, rapidly. The data show us how fast we are finding cases, not how rapidly the virus is really spreading.

The governor of California said the other day that 25.5 million (56%) of his state's citizens will get the virus. This is a model-based estimate, generating a number that no country in the world has come even remotely close to realizing. Add in the changes in behavior and shutdowns of activity, and it looks logically preposterous. But politicians have an incentive to use the worst-case models, and assumptions of unusually high and long-lasting spread rates, even though we know every virus follows a bell-shaped curve. I don't disagree with those who say "one life lost" is too many. But we don't stop driving because of the chance, albeit small, of serious injury or death when behind the wheel.

We have to start trusting individuals, as we do in so many other areas of life. We have all learned that our most effective measures to prevent the spread of disease are to wash our hands, not touch our faces, and stay away from others if you (or they) are sick. What individuals can't do is fight a massive recession. You can reduce the odds that your family is affected by a virus, but when you lose your job because the government shuts down the economy, your problems are far more likely to multiply. The government does not create wealth -- it never has -- and cannot possibly offset every dollar of damage.

We know that recession and unemployment hurt the health of citizens -- emotionally and physically. At the same time, the shutdown of the economy will reduce the wealth of the U.S. over time, grow the government, and lead to fewer resources in the long run to deal with future economic problems. This is one of the issues facing Italy and other countries, which have been growing slower than the U.S. for decades, and which, as a result, have underinvested in health care.

The sooner we open America up for business, the less the economic damage, and the better off we will be in the long run. Viruses kill people every day. If not this one, then another. Giving up our freedom due to fear is a price we will pay for generations. The secondary economic effects, too, could be significant. We are holding back the supply of goods, while the government sends money out to stimulate demand. This will likely lead to price increases, then government price controls to fix "price gouging," which in cases like Venezuela have been shown to increase "hoarding" and further reduce supply.

To focus the minds of our politicians who are shutting down the economy, we should stop paying them as long as the shutdown lasts. Government employees keep getting paid, while millions of Americans will lose their jobs. They

“solve” the problems they helped create, by spending other people’s money. Businesses – free markets -- are chastised, destroyed, casualties left in the wake. But they are the only ones that, if they can weather the shutdown, will be able turn the economic tide.

Our politicians and bureaucrats need to get creative. Let experimental drugs move ahead rapidly. Allow restaurants to open at 50% capacity, increasing the distance between tables. Allow people to create safer working environments on their own, letting only a few shoppers in at a time, wiping down counters, etc. The government needs to focus on

building up hospital capacity, protecting those who are at high risk – the elderly and those with underlying conditions - - but we need to let others get back to work.

Remember, unless we stop all personal interaction, we are essentially deciding certain risks are necessary. Shutting down “non-essential” business slows the spread of the virus but does not stop it. The same calculus needs to be done for the risk coming from economic damage. Unfortunately, unless we can share the economic damage with our politicians, they won’t be willing to make that calculation.