Milton Friedman famously likened recessions to strings on a musical instrument.\(^1\) The harder you pluck a string, the faster it snaps back. Adapted to the economy, Friedman’s plucking model says that sharp recessions lead to rapid recoveries – a “V-shaped” path in the parlance of forecasting. Fast in and fast out.

Many recessions fit Friedman’s view;\(^2\) some do not. The financial crisis of 2007-08 brought a deep recession, trailed by a long, slow recovery. We fear the same, or worse, could happen this time. If you pull too hard on a guitar string, it warps, frays or breaks. You get a feeble snapback or none at all. Likewise, a severe shock to the economy can produce an “L-shaped” slump rather than a short recession and quick recovery.

Why are we so concerned? Large parts of the economy are in full or partial shutdown. The one-third of us who can work from home\(^3\) are often sharing space with kids and spouses, coping with inferior equipment, and using slow internet connections. The makeshift conditions undercut productivity.

For the longer term, we fear a steep drop in innovation and a rupture in human capital investment. Universities, government labs, and commercial facilities have shuttered non-COVID research projects. Schools have sent students home, and universities are making do with remote classes. Most job training programs have stalled. Immigration and trade, facilitators of innovation, have shriveled.

On the fiscal side, huge deficits will push government debt-to-GDP ratios to their highest levels in 75 years or more. There will be confidence crises in some countries, and incentive-sapping tax hikes in almost all countries.

How can policy makers lessen the near-term pain and stave off a long-term slump?

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Provide unemployment benefits to cushion income drops for job losers. Here, design details matter. Letting gig workers and the self-employed into the unemployment insurance system makes sense. As does relaxing job search requirements while the pandemic persists. The CARES Act does both for the U.S.

Unfortunately, the Act also raises benefit levels above what most workers earn on the job. For taxi and Uber drivers with no passengers, the CARES Act says: Don’t deliver groceries and meals to elderly folks who are highly vulnerable to Covid-19. Don’t take one of the hundreds of thousands of new jobs at Amazon, Wal-Mart and other growing businesses. Instead, stay home and collect a bigger paycheck, courtesy of the government.

To the restaurant owner who contemplates a shift from dine-in to take-out meals, the Act says: Don’t try to save your employees’ jobs. Instead, lay them off, so they can collect a bigger check from the government. To those who stay on the job in hospitals, nursing homes, grocery stores, and other essential activities – often risking their own health and that of family members – it is terribly unfair that others get paid well for not working.

The government should also backstop low-interest loans to businesses, so they can survive the cash-flow crunch and ramp up operations as the pandemic recedes. Loans are better than grants and bailouts, because they are less costly for taxpayers. Well-designed loans encourage viable businesses to sign up for assistance. In contrast, even businesses with dismal prospects want grants and bailouts.

Some want to condition support for businesses on the preservation of jobs. The goal is a quick return to the pre-pandemic economy and the restoration of nearly all lost jobs. That’s a pipe dream, and a costly one if we chase it.

Consumer spending on airlines, hotels, rental cars, and movie theaters is down 75-90 percent in the wake of the pandemic. Nothing short of a safe, effective, widely

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5 See, for example, “Coronavirus Pandemic Compels Historic Labor Shifts,” Ruth Bender and Matthew Dalton, Wall Street Journal, 29 March 2020; and “Amazon Hired 100,000 People Last Month. Now It’s Hiring Another 75,000,” John Koetsler, Forbes, 13 April 2020.
deployed vaccine or a safe, simple cure for Covid-19 will restore a semblance of normalcy in these and dozens of other sectors.

Even with a vaccine in hand, consumer and business spending won’t fully revert to pre-pandemic patterns. Concerns about infectious disease will linger. Millions of households are learning how to purchase almost anything online, and many will stick with it. Business people are learning how to travel less. Much of the shift in business practices and spending patterns will persist.

The sooner we recognize that many lost jobs are gone forever, the sooner we can get about the business of creating new jobs. Policy should aid that process, not stand in its way.

A key first step is to restore unemployment benefits to sensible levels. Put the right incentives in place, and markets will respond. Supermarket chain Kroeger has already created an exchange with Sysco and Marriott hotels to hire workers laid off from food-service and hospitality companies.7 CVS Healthcare is seeking to recruit 50,000 new staff by partnering with the Hilton hotel chain, clothing retailer Gap, and Delta Airlines.8 Uber now lists job openings at 7-Eleven, Amazon and McDonald’s for its unemployed drivers.9

Second, be generous with funding to spur development of coronavirus tests, treatments, and vaccines. Accelerate regulatory approvals. Pay companies well to produce and deploy tests, treatments, and vaccines as they become available. Nothing will more quickly resuscitate the economy than an effective, widely deployed vaccine.

Third, selectively relax the lockdown. Many jobs in construction, manufacturing, warehousing, landscaping, gardening, auto repair and more can be readily adapted to safe social distancing practices and routine health checks.10 Starbucks coffee shops in the U.S. adopted practices first developed and deployed by Starbucks in China: aggressive cleaning, paying workers to quarantine, and an emphasis on take-out offerings.

Fourth, governments must promulgate best practices in sanitation, hygiene, virus detection, and contagion control. Multinational firms like Starbucks have the resources and knowledge to identify and adopt best practices. Smaller businesses do not. National and local authorities have a vital role to play in telling businesses, employees, and customers what it takes to operate safely in the new world, so we can all get back to work – in old jobs or new.

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