

## View from the Beltway

# A Changed America

BY OWEN ULLMANN

### *Life after the pandemic.*

As the United States struggles to return to some semblance of normalcy from the coronavirus pandemic, economists and political scientists are trying to assess the extent to which this once-in-a-lifetime event will change the nation over the long term.

At this juncture, even year-end forecasts of conditions are hazardous given all the uncertainty about the persistence of the virus and the development of successful treatments and a vaccine. Optimists see a swift health recovery and economic bounce-back, while pessimists warn of dire times for years to come. Reality usually occurs somewhere between those two extremes.

Based on what we already know about the virus, it's safe to say that the pandemic will have a lasting impact on the economy, our health system, and our government. The changes won't be as jarring as those that followed the Great Depression, which lasted more

than a decade. And the extent of permanent changes will be determined by the fall election: If President Trump is re-elected and he retains a Republican majority in the Senate, he will push to

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restore the pre-pandemic era. A sweep by former Vice President Joe Biden and Democrats in Congress will usher in a more activist government, particularly in the area of health care.

No matter who wins, significant changes seem inevitable. Here's an overview of what to expect:

**The economy.** The damage to date is unprecedented in our lifetimes and the recovery will be slow, many

forecasts conclude. The Federal Reserve's Federal Open Market Committee predicted on June 10 that the economy would grow a robust 5 percent in 2021 after a jarring 6.5 percent drop in 2020. It projected unemployment at 9.3 percent by the end of this year and 6.5 percent at the end of 2021. That outlook is more bullish than many private projections and seems in line with the optimism on Wall Street, which saw a remarkable rebound in stocks this spring, fueled in part by a far better than expected unemployment report in May. Still, the high unemployment the Fed sees lasting into 2021 suggests a continuation of depressed demand and financial trouble for many struggling businesses, which continue to fail on a daily basis.

"I think we'll begin recovering in the second half of this year, and it could rebound quickly for a while as

*Owen Ullmann is TIE's executive editor.*

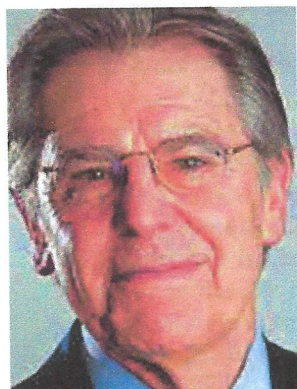


businesses re-open, but that will be limited. After that, it's going to be slower than people will be happy with," predicts Donald Kohn, a former vice chair of the Federal Reserve Board of Governors and now a senior fellow at the Brookings Institution. (See *TIE*'s interview with Kohn on page 44.) "It's going to be a very long time before we get back to that beautiful place we

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were in a just a few months ago—3.5 percent unemployment, lower-income workers getting bigger raises, and more prime-age workers being sucked back into the labor force."

"We entered the coronavirus shutdown in a great position as an economy. It might take way more than two years to get back to that position," Kohn added in a forecast consistent with the mid-year outlook by the FOMC. "In the meantime, we'll need to adapt to a number of factors that will scar both the demand and supply sides of the economy." By that he means massive unemployment that suppresses demand and the huge supply disruptions and trade contraction experienced by businesses, many of which have been forced to



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close permanently. "It's going to be a tougher slog for business that have been shut for months or are operating on a much smaller scale."

Even with a decent recovery, the economy will not look the same. "The private sector will be very different," said Peter Wallison, White House counsel to President Ronald Reagan and now a senior fellow at the American Enterprise Institute, where he specializes in financial deregulation. "Companies will see that people can work just as well at home. That means many, many more businesses will decide their workers should stay home. There will be less commercial space, less driving, less carbon emissions. Restaurants and other services will go where people are living. More women will be able to work because someone is staying in the house with the children. All of that will produce some major social changes in how the United States works."

Wallison's observation about more people working remotely applies as well to business meetings and small conferences. Cash-strapped companies will forego expensive out-of-town travel in favor of digital connections, which means a continued blow to already hard-hit airlines, hotels, tourist attractions, car rental and ride sharing companies, and restaurants that cater to expense-account customers. Less travel also means a continued deep slump in the oil industry.

An executive with a Washington-based trade group said his association is canceling quarterly meetings this year in favor of online conferences.

He noted that a recent digital meeting that replaced the usual spring confab in New York was just as effective as an in-person meeting at a big savings.

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Chicago Professor  
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Retail stores may never fully recover from the loss of business to online sites, as evidenced by the string of bankruptcy filings by dozens of iconic names, from JCPenney to Neiman Marcus. Add to that, the continued plight of in-person entertainment, such as movie theaters and amusement parks, where continued high unemployment and reduced capacity to accommodate social distancing will guarantee depressed revenue for a long time.

Not everything about the post-pandemic U.S. economy will be negative, predicts Michael Mandel,

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an economist with the Progressive Policy Institute: "I think there is going to be a V-shaped recovery. We'll see the productivity boom spread from the digital to physical sectors, resulting in wage increases we haven't seen in years. But not everyone will make the jump. For those left behind, we will need to bolster the safety net."

**Health care.** The United States, which lags most of the world in failing to provide some form of universal health care, has been debating the issue for a century, and the most recent step in that direction—the Affordable





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Care Act—remains as controversial politically as when it was enacted as a signature early achievement of President Barack Obama. Until now, a stalemate has prevailed in Washington, where Democrats want to expand or replace it with Medicare for All, and most Republicans vow to scrap it.

With the unemployed ranks in the 40–50 million range, the number of people who have lost health insurance is staggering. That reality will help propel a public mandate for expanded government-provided health care. “Ordinary Americans will view that there has been an egregious violation of trust or a big hole in how things are expected to go. It cannot be that you have life-threatening health shocks,” said Austan D. Goolsbee,

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who chaired Obama’s Council of Economic Advisers in 2010–2011 and is now a professor at the University of Chicago’s Booth School of Business. “This attitude is likely to have a big step-up in the role of government as health insurer of last resort.”

Goolsbee cautioned that the presidential election will be the determining factor in deciding the fate of

federal health care policy. “If Trump is re-elected, it will be interpreted that people want to burn down Obamacare,” he said, “If Vice President Biden prevails in a big victory, it will usher in a mandate. If that happens, an expansion of government in health will occur.”

Kohn agrees that some expansion in that area is likely. “It’s clear that our health care system is not prepared for something like this pandemic. We need to have a health system that’s up to the standards that we should expect and can rise to the occasion,” he said. “I’m not in favor of single-payer or Medicare for All, but the system itself and people’s financial and physical access to it need to improve.”

**The role of government.** Federal spending as a share of the economy has averaged a remarkably stable 20 percent for the past sixty years, rising several percentage points during times of war and recessions, falling slightly during times of peace and prosperity. This year, however, federal spending could top 40 percent of GDP, matching the peak during World War II, because of the combination of the huge stimulus already passed by Congress, more pandemic emergency spending likely to win approval, and the collapse in GDP. The size of the budget deficit and debt as a share of GDP also will soar to unimaginable peacetime levels.

What’s unclear is the extent to which federal fiscal policy will revert back to a normal range as the health crisis ebbs, or whether we will witness a new era of bigger, more activist government as occurred under President Franklin Roosevelt during the depth of the Great Depression.

Aside from an expansion of health care benefits, there appears to be little public support for new, big government programs like those

that were created in the 1930s. A big reason is that Americans don’t hold the federal government in anywhere close to the high esteem it enjoyed back then. Blame Watergate, the Vietnam and Iraq wars, corruption, political polarization, and incom-

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petent handling of the coronavirus outbreak. The result is that few Americans have a great deal of trust in Washington—fewer than 20 percent, according to some polls.

“It won’t be a replay of 1933, it will be more targeted,” said Mandel. “I think we’ll see some form of industrial policy. It turns out much of what we need for this pandemic was made overseas, which put us at a great disadvantage. I expect to see more willingness on the part of the government to encourage a shift to shorter supply chains in the United States and cleaner production. I expect to see more innovation, a faster productivity boom, and a pro-growth, pro-industry policy that also addresses climate change.”

Goolsbee noted that it takes an extraordinary event—such as a war or depression—to change the nature of the social contract in a fundamental



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way and prod Americans to support an expanded government role. "How much the pandemic changes society depends on how long it continues," he said. "If we suddenly had a vaccine, we will go back to the way it was. If not, this could be knocking at the door as a generation-defining event like wars and depression."

One "wild card" change that could be lasting, he added, is more anti-trust scrutiny and regulation of business because so many small businesses are being wiped out and corporations are getting bigger to fill the void.

Kohn hopes the emergency will lead to more public respect for competent government filled with knowledgeable and decent people: "I hope there's less fear of the so-called Deep State. It's the Deep State sitting over there at the Federal Reserve designing these facilities to keep the financial markets and the banking system running. It's the Deep State down there at the Centers for Disease Control and Prevention and the National Institutes of Health helping us get through.... I hope that people will recognize that shrinking the government and disrespecting the people who work for it are not in the long-run interest of the United States."

Others worry that the political polarization gripping the country will only be reinforced, as is seen already between those who resent the damage to the economy and those worried about the threat to public health.

Former Fed Governor Jeremy Stein, who now chairs Harvard University's economics department, admitted he worries that the public reaction to reports of fraud and misuse of the emergency funds appropriated

by Congress will fuel resentment. "In retrospect, will it cause people to be even more distrustful of our institutions?" he asked. "It's hard to determine what the impact will be on public attitudes."

Rutgers University political science professor Ross Baker, who has written extensively about the presidency and Congress, predicts that the outcome of the presidential election will determine what direction the government takes more than will the repercussions from the pandemic.

"Trump is in the process of dismembering the federal government limb by limb," he said. "If he is re-elected, I could see an effort to take apart the establishment in Washington and disperse it around the country and take it away from the protectors in Congress. With a Biden election and a majority Democratic Senate, the most you can hope for is a repeat of 2009—a struggle for a recovery package."

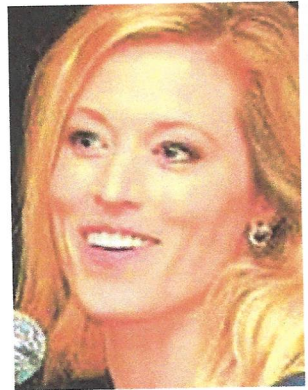
The reason for such incremental change at best, he said, is that the

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country is in the midst of such fierce political warfare and he doesn't see a truce: "This society's chasm is so wide and deep that a single election won't change things."

It is true that no matter who wins in November, there will be great

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bitterness among those on the losing side. And the widespread protests prompted by the death of George Floyd, the latest case of an unarmed African-American male killed by a white police officer, add to the combustible stress everyone has experienced during this once-in-a-lifetime calamity.

Public opinion polls in mid-June showed a significant drop in support for Trump because of both the damage caused by the pandemic and anger over Floyd's death. But Biden's growing lead could evaporate by the fall if the economy rebounds at a surprisingly swift pace, scientists develop a cure or successful vaccine against Covid-19, and investors go on an optimism-driven tear.

"In all honesty, it's too soon to tell who will win," conceded Abby Melone, CEO of Capital Analytics in Miami. "Every day I get surprised by new developments. I don't know what to think about this election," she added, agreeing that the United States would embark on two very different paths depending on who wins.

No matter the outcome on Election Day, there is no denying that the United States—like the rest of the world—is living through a time of great change, the magnitude of which may not become apparent until everyone looks back at where they had been. The near future will be vastly different, and we can only hope it is better. ♦