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Time to Move On from COVID Capitalism

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One year ago, I wrote: "Returning to normalcy after the coronavirus epidemic is going to take a concerted and programmatic effort — it is going to be a political project of some consequence. And it will be resisted." We are, it seems, at the beginning of the end of this horrible plague, and so it is time to begin unwinding many of the extraordinary measures that were in many (but far from all) cases appropriately adopted in these extraordinary times.

Expect resistance.

The politics are, as they almost always are, on the side of a state of semipermanent semi-emergency: Politicians like power, and people like getting checks. Right-wing populism and left-wing populism often end up landing in the same place.

The basic dynamic is described in Robert Higgs's *Crisis and Leviathan*: In times of emergency, government expands its powers — financial powers, police powers, surveillance powers. When the emergency passes, those extraordinary new powers are relinquished — but only in part. The effect is that of a ratchet: At the end of World War II, federal spending was 11.4 percent of GDP; by the 1980s, it had doubled to 22.9 percent of GDP, with the deficit hitting a post-war high of 5.9 percent of GDP in 1983. In the decade leading up to the financial crisis of 2008–09, federal spending was never above 20 percent of GDP; in the years since, it has never been below 20 percent of GDP in spite of changes in the makeup of Congress and control of the presidency.

Spending is politically addictive, and it is politically easy — it is far, far easier to get a bipartisan consensus to spend money than it is to forge similar broad-based support for any other policy. That is why the most recent, $1.9 trillion stimulus package was passed even though the economy already was so stimulated that many economists, including sober-minded progressives, worried that the measure would prove inflationary rather than salutary. The popularity of spending freely and widely is why during the epidemic we have spent a relatively large sum of money sending "stimmy" checks to people who do not need them and relatively little on the far smaller number of people who need extra unemployment support. The spending spree predates the epidemic: Before the coronavirus hit, the federal government already was preparing to spend almost 21 percent of GDP in 2020 — more as a share of GDP than it was spending at the height of the Vietnam War, leading up to the moon landing, during the Arab oil embargo, or during the Iraq surge. The federal government spends more today as a share of GDP on Social Security alone than it spent in *total* before the New Deal and World War II.

We may be done stimulating for the moment — or we may see proposals for more stimulus in the run-up to the midterm election as bribing the people with their own money becomes an institutionalized political habit.

But while the spending is a real problem — one that is, with the national debt pushing $30 trillion, getting realer every day — that fantabulous sum of money is mostly only the grease in the machinery of coercion. And coercion, economic and otherwise, is the real long-term issue.

The United States has flirted with various forms of “economic nationalism,” implemented with varying degrees of coercion, since at least the time of the Wilson administration and its “war socialism.” The New Deal was a frankly nationalist program executed by the frankly nationalist government of Franklin Roosevelt. Nation-building had been a lively concern in the late 18th century and throughout the 19th, when we really were building a nation in a way that created strong demand for big government investments in infrastructure (“improvements,” as Abraham Lincoln called them) and for corporatist public–private entrepreneurship, most notably in building the railroads.

The virtues and efficacy of central planning were assumed by progressives, including by progressive, big-business Republicans who took to heart the 19th-century industrialists’ complaints about “destructive competition” and “overproduction.” Conservatives eventually recoiled from that position with the rise of socialism abroad and New Deal corporatism at home, but the ancient faith — that American industry could thrive behind a wall of protective tariffs and under the administration of a benevolent state that would direct the market toward its highest ends — survived on the populist right, bubbling up in the Ross Perot campaign, the Pat Buchanan movement, and, most spectacularly, the 2016 Donald Trump campaign.

But the same kind of thinking could be found among the Left’s leading lights: Barack Obama gave speeches about “economic patriotism” and denounced Mitt Romney as lacking that quality in his campaign against him. (Everybody knows that real patriots don’t work in private equity — they work in community organizing!) A lot of dopey old white-guy Democrats who wanted to be president have made a lot of speeches that could have been given by Donald Trump: Compare former Ohio governor Ted Strickland on China, John Kerry on “Benedict Arnold CEOs,” Bernie Sanders on immigration, etc., with Donald Trump or Pat Buchanan on the same subjects. One of those dopey old white-guy Democrats was elected president in November, and his version of economic nationalism is very close to his predecessor’s, seeking to protect politically sensitive blue-collar industries and blaming domestic economic difficulties on wily Chinese operators and the American politicians who are, we are given to believe, in their pockets.

In this case, the populist position is also the bipartisan consensus — and that is always dangerous.

That is the political reality that you have to keep in mind when evaluating proposals such as federal attempts to manage private-sector supply chains and policy tools such as the Defense Production Act (DPA), which, owing to its recent political popularity, deserves some especial attention.

The DPA contains a great many provisions, but two come into play most often: Title I gives the federal government the power to hand down “rated” orders, which private-sector firms must accept and prioritize over other work; and, second, Title III, which authorizes appropriations meant to fortify federal investments in particular areas in order to expand the productive capacity and actual supply of critical goods — for example, to bolster vaccine-manufacturing or the production of personal-protective equipment needed for the coronavirus response.

The DPA has been invoked repeatedly over the course of the coronavirus epidemic, to mixed results. Vaccine manufacturers, for example, report that the acquisition and installation of certain equipment that might have taken years under normal circumstances have been completed in months. That is a good outcome. But it also has resulted in the interruption of production of other critically necessary medical goods, including pharmaceuticals used to treat certain thyroid diseases and cancers. These may be necessary trade-offs, but we should make them in an informed way. It's one thing to interrupt the production of sildenafil citrate, and a very different thing to muck up supplies of breast-cancer medication. But the DPA is a pretty blunt instrument, and those nuances often do not make it into DPA decision-making. Both in political rhetoric and in practical effect, the DPA makes the president a kind of boss of bosses, which inevitably invites abuse.

The DPA was used to prioritize the production of ventilators when hospitals feared they would be overwhelmed by demand for them, but the stepped-up production continued for months beyond what was needed, with President Trump boasting that the United States had become the "king of ventilators." Thousands of them piled up in warehouses, and thousands more were donated to wealthy countries that didn't need them and to poor ones that couldn't use them because they lacked trained technicians or necessary supplies. Some of the ventilators donated to remote island nations could be serviced only in Palm Springs, Calif. The "king of ventilators" campaign was in no small part a publicity stunt; ProPublica reports that the project was described within USAID as "the POTUS donation of ventilators," as though the president had been making a personal gift of them.

Even if we concede that an epidemic is a national-*defense* crisis, we cannot ignore that money allocated to DPA projects has had a remarkable way of wandering away from the coronavirus epidemic: A congressional report found that hundreds of millions of dollars appropriated to the Department of Defense for health resources had been redirected to "defense industrial base investments," with money being spent on projects only very distantly related to the epidemic response: space-based weapons, textiles, aviation, shipbuilding, drone projects, microelectronics, and rare-earth minerals among them. According to the congressional report, *most* direct DPA funding went to nonmedical projects. The military–industrial complex always gets paid.

So do politically connected crony capitalists. Under the DPA, the DOD facilitated a $765 million loan to the Eastman Kodak Company "to support domestic pharmaceutical production," even though the firm (once known for its camera film, now primarily a printing and packaging company) has no background in pharmaceuticals. Kodak shares were bid up 1,000 percent on heavy trading the week before the loan was announced, and some executives received stock options the day before the arrangement became public. Investigations into the episode continue.

President Joe Biden has repeatedly stated his intention to keep leaning on the DPA. He also has signed an executive order expanding on existing "buy American" provisions in federal law and has ordered a government-wide review of supply-chain resilience. Some of that is potentially good and useful, especially when it comes to identifying points of failure that could derail production of critical goods. But Biden conducts his political business as though it were a hostage situation in which the administration is both hostage and hostage-taker, and so his supply-chain review is being pulled in a hundred different directions at once, incorporating concerns from education spending to climate change.

A great deal of effort is being put into solving a supply-chain problem that does not quite seem to exist.

The United States is a large consumer and producer of pharmaceuticals, medical equipment, and medical supplies, and it is both a large importer and a large exporter of them. In fact, the United States is the world's second-largest exporter of medical equipment, behind Germany. As Scott Lincicome shows in a paper for the Cato Institute, the myth of the deindustrialized United States is especially misleading when it comes to medical supplies. He cites a 2020 Federal Reserve study which found that before the coronavirus epidemic, more than 70 percent of the U.S. supply of "essential medical equipment" — from face masks to life-support machinery — was provided by U.S. producers. In 2001, U.S. firms and researchers spent about $10 billion on pharmaceutical research and development; by 2017, that number had grown to $66 billion. The trade-heavy sectors of the economy have proved to be among the most resilient.

What the United States experienced in the early days of the epidemic was not a supply-chain failure but simply an unprecedented and unforeseeable spike in *demand* for things such as N95 masks. "U.S. N95 mask producers supplied 80 percent of the domestic market in 2019," Lincicome writes, churning out some 30 million masks a month. Domestic firms were able to ramp up output sixfold — but demand increased tenfold. "Imports of medical goods, especially [personal-protective equipment (PPE)], helped fill the gap between domestic supply and demand, which in many cases exceeded historical volumes by several orders of magnitude," Lincicome writes. "Import sources were widely varied overall, with China the dominant import source for only surgical masks and medical gowns. Although some shortages did exist in the first half of 2020, they were mostly alleviated in subsequent months (though PPE supply remains tight). Only rubber gloves continued to be a concern going into 2021, mainly due to the limited availability of natural rubber (sourced primarily from Malaysia) and artificial alternatives."

We do not have to reorganize the entire U.S. economy to handle a clog in the rubber pipeline.

In fact, U.S. producers have been so effective in increasing production of things such as hand-sanitizer and face masks that there is a glut in the market large enough that Democratic politicians (notably those in states with big producers of such goods) have been petitioning the Biden administration to buy up the excess. And the extension of emergency economic measures already has turned into a complex dispute at the World Trade Organization and other forums, with the United States, the European Union, Canada, Australia, Brazil, and China each challenging the others' coronavirus-era subsidy regimes.

The populist remedies put forward by the Trump and Biden administrations — more rigorous "buy American" rules, carrot-and-stick projects to discourage overseas production, tenuous "national security" rationales for corporate welfare — all preexisted the coronavirus epidemic. Like Republicans' tax cuts and Democrats' proposals to increase public-school spending, they are eternal panaceas, ever at hand, awaiting a crisis to call them forth. And they are mostly bad policy.

Those bad policies advance inch by inch during emergencies, and the thankless job for conservatives is to repeal them inch by inch during more tranquil times. That should begin with narrowing the scope of the DPA, especially the Title III spending provisions that permitted money allocated for coronavirus control to be redirected to drone development and space weapons — if Congress wants to spend more money on those things, let Congress appropriate the money in the ordinary way. Conservatives should also keep a close eye on the Biden administration’s supply-chain review, encouraging the development of useful economic intelligence but pushing back against its being pressed into service for the climate-change agenda, a raising of the minimum wage, an entrenching of union privileges, or any of the other 10,000 items Democrats hope to wring from the coronavirus emergency.

And Republicans ought to take the opportunity to press for some needful changes that align with their own principles, especially on the state and local level. With a large share of the workforce having shifted to part-time or full-time at-home work, the issue of occupational zoning is going to be of acute interest in many cities and communities. Occupational zoning prevents Americans from operating many kinds of businesses out of their homes, from child care to hair care. These rules can and should be relaxed in many places, and Republicans looking for common ground with black, Latino, and urban voters should pay careful attention to this issue. The majority of people who lost jobs and wages because of the coronavirus epidemic were black or Latino, according to Cato’s Michael Tanner, and some kinds of home-based businesses are more common in black and Latino neighborhoods. Ideally, easing up on home-based businesses would be accompanied by a more general liberalization of the regulation of such businesses, beginning with child care. The revitalization of business districts and communities hollowed out by the coronavirus shutdowns ought to provide state and local Republicans with a chance to shine, and the epidemic also has intensified the demand for housing reform, a problem for which free-market proponents have good solutions.

But the most urgent problem may be urgency itself — Washington is going to find it very difficult to move on from the emergency and go back to the mundane business of normal life, and incumbents in state capitols and city halls will necessarily feel the same temptation. Reputations are built on crises, not on decades-long stretches of quiet good government and piecemeal reform. But that is what we need.