

# WHAT TO DO, WHAT TO AVOID AS COVID-19 THREATENS THE AMERICAN DREAM

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Two norms govern what needs to be done in the present crisis: the health of the American people and their economic security. By its very nature, a norm is two dimensional. The first dimension addresses what needs to be done. The second warns what needs to be avoided.

The two dimensions of the first norm come directly from specialists in epidemiology, infectious diseases, pulmonology, primary care, and biological research. The second norm and its two dimensions are constructed on the foundation of past and present lessons from the Obama Administration's \$787 billion stimulus package, the Great Recession bank bailouts and "too big to fail," the economic threats originating in China, Russia, and Saudi Arabia, stock and bond trading based on algorithms, and the performance of state unemployment insurance programs over the last 80 years.

Even though we can measure the economy in great detail -- production of goods and services, national income, capital expenditures, consumer price index, trade deficit, and the like --, it is not a living, breathing, existential actuality. The economy is a thing. Thus, for our purposes, we present no norms that relate directly to the economy. A stimulus package that is sold to the public on grounds that it is necessary to restore economic growth *misrepresents* the problem. It's not a weakened economy that's the essence of the problem. It's millions of workers, business owners, retirees, moms and dads, lenders and borrowers, suppliers, teachers, restaurateurs, and countless others who are struggling to make ends meet from one day to the next. It's most fundamentally a *human* problem.

## **The Norm of the Health of the American People**

Both dimensions of this norm – what to do, what to avoid -- are best addressed by health authorities. For example, those authorities already have told the American public that they should wash their hands often and avoid large gatherings. Because the health of the American people depends critically on the health and well-being of the healthcare work force, every

measure which helps protect the health of persons in the healthcare system and assures that they have every means necessary to carry out their tasks must be priority #1.

Given how swiftly the coronavirus can spread across the entire population, all Americans are at risk. It follows that the best way to reduce that risk is to follow the instructions coming from our health authorities. It also follows that persons who ignore those instructions or behave in ways that are contra-indicated expose themselves to a higher risk of contracting the infection and passing it on to others with whom they are in contact. Managing this risk in a society that prizes freedom and individuality is more difficult than in a society that subordinates the individual to the state. At minimum that kind of reckless behavior should be publicly shamed.

### **The Norm of the Economic Security of the American People**

This norm relates to the economic security of the American people. What needs to be done begins with immediately re-establishing the manufacturing of prescription drugs in the United States. This initiative has two positive outcomes. First, it reduces dependence on China and India where most drugs used by Americans currently are produced and where FDA inspections are problematic (for details, see Katherine Eban's *Bottle of Lies*, HarperCollins, 2019). Second, if U.S. pharmaceutical firms need financial support from the federal government, stimulus targeted to this purpose helps align the health of the American people with their economic well-being.

*Stimulus Package.* What needs to be avoided is a stimulus package that sprays economic assistance across the entire American population based on the *presumed* need of the population rather than their *demonstrated* need. In other words this shotgun-like stimulus package is wasteful for the simple reason that many of those getting a check from the government likely do not need it because they have earnings from a job that is not threatened or other sources of secure and sufficient income. Warren Buffet, Bill Gates, and Jeff Bezos do not personally need this kind of handout. Joe six-pack does.

In 2009 President Obama's \$787 billion stimulus package included the following: \$153.5 million to the Association for Research in Astronomy; \$203.6 million to the University of Michigan; \$716.5 million to the California State University System; and \$985.5 million to the University of California Regents. The eight Ivy League colleges got a total of \$716.3 million. Remember "shovel-ready" and "cash for clunkers"? As financial journalist Michael Lewis observed a few years later, "Something for nothing. It never loses its charm."

*Unemployment Insurance.* What needs to be done is to let the need-based aid flow through the state unemployment insurance programs that were established for that express purpose and have been meeting the basic needs of jobless Joe six-pack for more than 75 years. However, a February 2020 federal government report identified the UI trust funds in 22 states including California, New York, Ohio, Pennsylvania, and Texas as falling below the recommended minimum solvency standard. Federal funds should be targeted to shore up those funds so that they are able to offer benefits to the coming surge of claimants. If necessary, any federal loans

already extended to these trust funds might be forgiven. The various state UI systems already have in place procedures to avoid paying benefits to those claimants who are not eligible -- those who are employed (working violators) and those who are not looking for work (nonworking violators). Paying benefits well in excess of the current maximum weekly benefit amount is sure to incentivize abuse and drain state UI trust funds.

State legislatures can provide relief to their employers by reducing the UI tax rate temporarily thereby helping them meet payroll, make payments on borrowed funds, and pay other urgent expenses. Those rates can be raised to pre-crisis levels once the present crisis has passed.

Senate Minority Leader Charles Schumer wants the federal government to provide full pay for all jobless workers. He calls it “unemployment insurance on steroids.” His proposal would lift the limits on state UI programs in place for more than 80 years ago. Limits on weekly benefit amount (no more than 50 percent of average weekly wages) and on benefit duration (+/-26 weeks). Those limits along with taxes paid by employers into an earmarked fund from which benefits are paid to their own *specifically identified* employees on layoff create a social-insurance structure for the system. Schumer’s proposal is not “unemployment insurance on steroids.” It’s full-blown unemployment *assistance* that puts American workers on the dole and puts the federal government in control. The state UI systems performed acceptably during the last two flood of claimants: the conversion from a wartime to a peacetime economy following the end of WWII and more recently the Great Recession. Even so, Schumer’s proposal would create another precedent for turning away from state governments in a crisis to the federal government. It’s one more giant step down the road that leads to the socialist state.

“*Too Essential to Fail.*” For many employers who are in deep financial trouble, lower UI taxes are insufficient to help them survive. We have seen this problem as recently as the Great Recession. It became known as “too big to fail.” As we witnessed then, big companies which are essential to national security and national defense must be bailed out. Though bankruptcy offers the benefit of forcing a company to get its house in order, this action applied to very big essential firms may be too drastic. Bailing them out means that even though taxpayers do not participate in the firm’s profits, they are forced to cover its losses. Losses that could have been covered had public corporations not already used their cash reserves to buy back their own stock in order to pump up share prices and market capitalizations which in turn allowed them to claim credit for their improved performance. From the perspective of the essential firm, “too essential to fail” simply means “heads we win, tails you lose.”

In 2014 finance specialist Edward Kane proposed a remedy for “too big to fail” banks that get into trouble due to poor decision-making. We are revising his proposal to apply to any essential firm that gets bailout cash. Our modified proposal calls for recognizing that the taxpayer cash used to bail out an essential company creates a taxpayer equity position which in turn justifies requiring that firm and others in the same position to set up a common trust fund to manage that

new equity position with income from the dividends declared by the participating essential firms. That trust fund would be tapped in any future situation where bailout is necessary, thereby reducing the amount that comes from the taxpayer.

Our Kane-like proposed reform is experience-rated in that the dividends paid to the trust fund would be higher for a firm that operates recklessly. In that way, senior managers are incentivized to be more prudent in their decision-making. “Heads we win, tails you lose” is replaced by “you win when we win, you lose when we lose.” The details for setting up a single trust fund covering all essential firms would be left in the hands of the management and shareholders of essential firms on grounds they know better than anyone else how to operate their businesses. Should they fail to act, it would be left to the federal government.

Requiring essential firms to pay dividends into a trust fund to be tapped in an emergency has the added beneficial effect of forcing firms to think twice about petitioning Congress for designation as essential so they can qualify for a federal handout paid entirely by the taxpayer. No privately-owned firm that operates freely in a market system has a *right* to demand that taxpayers cover its losses. That includes GameStop, medical cannabis dispensaries, and others that are petitioning to be designed as essential and silently murmuring to themselves *The Temptations’* 1974 hit recording “Ain’t too proud to beg.”

The trust fund remedy might apply as well to the stock market which of late is driven by a flight to cash sending share prices tumbling across the board that even circuit breakers have not been able to arrest. Even the remedy that “now is a good time to buy because prices are cheap” is not working. What is missing is an organized private-group effort to purchase shares not for the purpose of snatching a bargain but to bring order and stability to a market that is dominated by fear and uncertainty. Cooler heads must prevail especially on cable TV business channels where “stream-of-consciousness” babble does more harm than good. In the present crisis, saying nothing is better than saying something stupid.

*Cooler Heads Must Prevail.* A trust fund could be built from the trading gains achieved by traders that would be used judiciously to stop and reverse a free-fall of share prices if the funds were deployed early in an emergency. The fund would be set up by a memorandum of agreement among traders and managed by representatives elected by the members. The trigger point calling for intervention could be reached before the first circuit breaker is triggered at 7 percent. Perhaps at 4 or 5 percent. At that point the trust fund managers would decide how best to deploy monies from the fund to purchase specific shares. The effectiveness of this strategy does not depend entirely on the amount of funds available for deployment. It would help demonstrate that cooler heads know that a market running out of control serves no one’s best interests and they are prepared to act. Not even the interests of those traders who are bottom feeders who cannot survive in a wild, wild west stock market.

## Other Important Considerations

*The Saudis and the Russians.* Other more extreme remedies might be considered and justified as necessary under the norm of the economic security of the American people. To deal with the Saudi-Russia price/production war that has dropped oil prices well below the cost of production for U.S. oil producers, forcing them to shut down operations and lay off workers, the federal government might undertake two aggressive steps. First, as long as they continue to battle with Russia over oil production, deny Saudi Arabia access to any American-made military equipment in the pipeline and to U.S. made spare parts which the Saudis need to service and repair that equipment. In addition, refuse to support or assist them in any struggle with a rival nation until they declare an end to this disastrous war over oil. Second, impose severe sanctions on the Russians until they end this war with the Saudis. Peacemaking sometimes calls for a heavy hand

*Treasury Securities.* Instruct the Treasury to no longer sell new issues of Treasury securities to Chinese interests on grounds that their present holdings, which exceed \$1 trillion, represent a threat to American interests. For example, the Chinese could initiate a massive sale of Treasuries just to destabilize bond markets and in turn the entire U.S. economy. Any hard currency the Chinese would receive in exchange then could be used to draw into their sphere of influence third-world countries in need of support for their economic development projects.

*Moral Crisis.* The present crisis is not just a health crisis, a financial crisis, an economic crisis. It is a moral crisis because for years we have shipped manufacturing jobs to China so that we could import cheap goods for sale to price-conscious American consumers and producers. We traded American jobs for lower prices and higher profits. We are now dependent on a supply chain that originates in China and can be interrupted by events there with severe consequences here. We failed to learn from our own military history regarding the risks involved in long and insecure supply lines.

*Not Free Trade or Fair Trade. Fiendish Trade.* We have enriched the communist state of China that increasingly represents a real threat to freedom and democratic rule worldwide. President Trump has initiated a national dialogue on this issue by imposing tariffs on Chinese goods in order to force them to re-negotiate the terms of trade. That's not enough. What is needed is a second national dialogue that holds companies like Wal-Mart, Apple, BestBuy, Amazon, Office Depot, and others accountable for selling products made in China, especially computers and electronics, and effectively destroying American manufacturing jobs. That dialogue could begin with the implementation of the stimulus package, trimming any bailout to a firm that traded American jobs for lower prices and higher profits.

The Chinese are able to offer very attractive prices for their products not just because their wages are lower than U.S. wages. The Chinese communist government subsidizes firms and manipulates its currency in order to push the prices of their exports to a point where none of their international rivals can compete. The result is that nearly all of the computers and electronics

sold in the United States originate in China. Trade with China is not *free* trade or *fair* trade. It is *fiendish* trade because it enlists the support of American importers and consumers in advancing its goal of dominating international trade.

*The Real Economy.* The long-standing distinction between the real economy (product markets, human and material resource markets) and financial markets is misleading. Cable television allows real-time access to the minute-to-minute performance of financial markets that at times fuels “irrational exuberance” and at other times triggers fear and panic that spill over into product and resource markets. The wealth effect of a booming stock market stimulates consumer spending which in turn increases capital expenditures. The loss-of-wealth effect from a tumbling stock market makes some retirement wannabes with 401k plans continue working instead of retiring. All markets -- product, resource, and financial -- are part of a real, global economy.

*The Visible Hand.* The so-called invisible-hand doctrine, with its appeal to fantasy rather than reality, no longer serves us well in understanding global economic affairs. It’s not the invisible hand of the market that has driven crude oil prices down to \$20. It’s Saudi Arabia and Russia. It’s not the invisible hand that has propelled China into a global powerhouse. It’s the Chinese communist government.

It’s not the invisible hand of U.S. health authorities and providers who are trying to treat and defeat coronavirus. It’s the visible hand. It’s not the invisible hand of the federal government that is trying to rescue American businesses and workers. It’s the visible hand. It’s not the invisible hand of millions of proprietors across the United States who are trying to hang on until the crises runs its course. It’s the visible hand.

*Algorithms.* The algorithms that send buy and sell orders to the financial markets are designed for one essential purpose: to produce gains for the traders who use those algorithms to cut out the market analysts who in the past controlled buy/sell orders and were rewarded with enormous bonuses. Algorithms in effect transform the visible hand of human traders into an invisible machine-like device. Today they are producing outcomes that instill fear in the very traders who built those machines. Just as airline pilots in an emergency may have to disengage the auto pilot and take control, it’s time to turn the machines off and take more direct human control. The algorithm machine was not programmed to take account of a pandemic that is disrupting supply chains and hammering businesses that are struggling to survive in a pandemic which has isolated them from their customers and wiped out the sales revenues they need to survive. When the problem is fear and panic, the remedy is courage and composure.

*“Politics Ain’t Beanbag.”* About 150 years ago Chicago journalist Peter Dunn characterized the rough and tumble world of political campaigning as “politics ain’t beanbag.” So true then, so true now. Just recently China removed the credentials and expelled journalists from the *Wall Street Journal*, *New York Times*, and *Washington Post* in response to the Trump administration not allowing more Chinese nationals employed by state-run media to work in the United States.

The *Washington Examiner* suggested recently that the Chinese government may be threatening to stop the supply of drugs and ingredients produced there for export to the United States on grounds that those drugs and ingredients are needed in China.

When the Chinese play hardball, perhaps the U.S. government should reply in kind. For example, it could inform the Chinese that it may not make interest payments on their considerable holdings of U.S. Treasuries or redeem them when they mature. In other words, threaten them with default. China is not a trusted partner like Canada, Japan, and the United Kingdom. It is a communist state that understands full well what Chairman Mao meant by “political power grows out of the barrel of a gun.”

### **The Remedy is Cooperation**

Americans youngsters learn from an early age that economic affairs are organized by competition -- the human disposition to undertake certain tasks individually for the individual reward. For the most part, it works pretty well. However, today public health authorities are telling us that we can defeat the coronavirus only when we cooperate, when we turn to the human disposition to act together because the task at hand cannot be managed successfully when we act alone. That does not mean that we must cast aside competition. It means that we have to subordinate competition to cooperation when necessary to defeat the coronavirus.

Healthy Americans cooperating with public health authorities. Sick Americans cooperating with health care providers. Federal government cooperating with state governments to assure that their unemployment insurance trust funds remain solvent as claims increase in the weeks ahead. American pharmaceutical companies and the federal government cooperating to claw back drug manufacturing from India and China.

Managers of firms that are essential to national security or economic security cooperate when they agree to set aside a portion of their profits into a trust fund so that when they are threatened in a future crisis they will not have to rely entirely on the federal government to bail them out. Stock market traders cooperate when they pay into a dedicated trust fund from their own gains to be used judiciously when share prices and bond yields begin to collapse precipitously. American consumers, knowing how the Chinese manipulate the prices of their exports, cooperate when they set aside their own individual self-interest and think twice before buying a product made in China.

Cooperating isn't always free. For some it means putting aside their own personal wants and desires and accepting the burden of acting together order to deal with a crisis. For others, it means finding solutions to their own problems without depending on the federal government to bail them out. For some, it means negotiating a loan, or accepting bankruptcy, instead of adding to the taxpayer's burden by taking a government handout. For U.S. senators and representatives cooperating means doing what's best for the American people in this crisis not what's best for

their personal political futures, not what's best for their party in terms of prevailing in the November elections and seizing control of the federal government.

Political economist Elinor Ostrom used case studies to show that common-pool resources such as pastures, fisheries, water, forests are being managed successfully by private group action, trust, and cooperation, without having to turn to government agencies to regulate those resources. Her field work challenged the conventional thinking in economics that in the end all cooperation is collusion. Ostrom was awarded the Nobel prize in economics in 2009. She was the first woman to achieve that distinction.

Supply chains are cooperative arrangements. United Way is cooperation in action. Vender partnerships are forms of cooperation. Abebooks (Advanced Book Exchange) operates on the organizing principle of cooperation. So do Responsible Care, LOOP (Louisiana Offshore Oil Port), and Saint Louis Construction Cooperative. Land o'Lakes and Ocean Spray are producer cooperatives. Grape-growers and wine-makers in California cooperate in sponsoring annual festivals to raise money for worthy causes. Cooperation works.

Hospitals are workplaces governed largely by independent physicians and administrators cooperating in decisions regarding the specific services provided, the kinds of medical equipment needed to provision those services, the number and types of beds available, the scheduling of surgical procedures.

Americans today are positioned at a fork in the road where the one to the right leads to the preservation of private enterprise through private group action grounded in cooperation, and the one to the left leads to a socialist state where federal bailout money determines which firms survive and which ones fail. The choice depends importantly on whom we trust. Our friends, our neighbors, our fellow workers, our local business owners, joined together to eradicate this virus? Or, our senators, our representatives, our presidential advisors, our cabinet secretaries and their armies of federal bureaucrats, scrambling for control over our lives? We will know which road we've taken by election day November 3.

