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The Future of the Euro

KATHRYN ACKMAN

Almost a decade after the worst of the sovereign debt crisis, new challenges to the European project have reared their ugly heads. Christine Lagarde and the ECB are up against the ongoing Covid-19 pandemic tearing through European economies, fading competitiveness in crucial sectors, and the existential threat posed by global warming. What the ECB does in the coming months to respond to these problems will have a decisive impact on the lives of millions and the future of the Euro. If there's anything that the ECB has learned from past crises, '08 in particular, it's that long term success hinges on short-term crisis management by the block as a whole. In light of that, the EU's pandemic response has been characterized by unprecedented solidarity in the face of crisis. Right away, the ECB turned to quantitative easing to give relief and the EU put into place their largest stimulus package ever with the NextGenerationEU initiative 1 . This collective approach to aid--issuing bonds backed by all 27 member states--points toward a bright future for the euro. Focusing the allocation of funds on grants to economies that have suffered the most shows an understanding of the hard learned fact that, for better or for worse, the eurozone succeeds and fails as a team. While the EU's banner economies may be able to get themselves through this pandemic with manageable losses, that success means relatively little if weaker economies are once again left to fight an uphill battle alone.

These groundbreaking measures to mitigate the economic destruction done by Covid have inspired confidence in the euro, but not without cost. The euro has strengthened significantly against the dollar since March 2 , damaging EU exporters' access to their largest import market: the US. Short of carrying out more QE, which the US will almost encounter, the ECB can't do much to weaken the euro without accusations of unfair currency manipulation. Considering Lagarde's limited options to weaken, it may be best to focus on weathering the pandemic and keeping prices stable.

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Rideshare companies and Taxi Medallions—An Analysis

YEAN KIM

During the past several years, rideshare companies such as Uber and Lyft have entered the markets in many cities, benefiting consumers by increasing competition. However, these companies have resulted in increased traffic in cities and have harmed traditional taxi drivers that own medallions, principally due to the decrease in the value of their medallions (among others).

This situation would be a classic case of a nuisance. Property can be described as a bundle of rights, and a nuisance is basically where the rights in one's bundle conflict with the rights in another's bundle. In this case, the rideshare companies have a right to their operations, and the users of the roads have a right to a stable and regular/normal amount of traffic. This stable amount would be normal amounts of traffic that is in line with previous years and normal population increase, road construction, etc. However, after ridesharing started for companies such as Uber in 2013, traffic in major cities such as New York and San Francisco increased significantly, more than normal compared to previous years, implying that the 2 bundles of rights intersected (clashed), causing a nuisance.

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Even when Europe, and the world, collectively returns to 'normal' post-pandemic, the EU will still have the pressing issues posed by climate change to contend with. In efforts to reform the way the ECB responds to issue areas like global warming; Lagarde has begun publicly questioning the central bank's principle of market neutrality. The idea of market neutrality governs how the ECB buys assets, so as to avoid undue influence on outcomes, by structuring purchases to closely resemble the market. However, with 260 billion euros in corporate bonds and trillions spent buying debt in stimulus efforts, the ECB is already deeply embedded in the market. Accepting this fact and moving, albeit slowly, away from market neutrality could give the ECB a real chance to act on its promises to fight the climate crisis. Lagarde has already floated efforts to promote clarity in the bond market and ensure that the bonds in ECB purchases finance projects that meet EU decarbonization standards. Critics, especially the Bundesbank, bemoan Lagarde's unelected political aspirations, but her efforts to take a more active role are consistent with the ECB's objective to support EU economic policies. MEP's and ECB policy makers alike have come out in support of a more active ECB, warning that inaction by the central bank on pressing social issues will threaten crucial independence and credibility. Going forward, the euro has a better chance at success than ever--despite gloomy short term projections. The understanding that poorer member states cannot be left behind in crisis coupled with a focused response to the pandemic and gradual ECB reform will serve to only further assert the euro's position as one of the world's favored reserve currencies.

Sources for information in this article can be provided upon request

A Bipartisan Proposal to Revamp the Child Tax Credit

JEREMIAH NGUYEN

With all of the debate surrounding COVID-19 relief packages, another topic has made news recently: the Child Tax Credit. Earlier this February, Senator Mitt Romney (R-UT) introduced a plan to replace the Child Tax Credit (CTC) with a more substantial package. Currently, the Child Tax Credit is 15% of a household's adjusted gross income (AGI) after $2,500 up until $2,000 per child. The credit is partially refundable up to $1,400 and is reduced by 5% after adjusted gross income is $200,000 for a single household and $400,000 for married couples for every $1,000 above the threshold. There is also a $500 nonrefundable credit for nonchild tax credit dependents. The tax credit and refunds are paid out once per year.

Romney's plan would replace the Child Tax Credit with monthly cash payments. It would provide parents of children up to five years old with $4,200 per year ($350 per month) per child and parents of children 6-17 with $3,000 per year ($250 per month) per child. There would be no income minimum requirement or phase-in and cash payments would be available up to 4 months before the birth of a child. These payments would phase out for households over $200,000 for single filers and $400,000 for married filers. They would be administered through the Social Security Administration instead of the IRS, meaning these payments would only be available for children with social security numbers.

One of the most important parts of Senator Romney's proposal is that it would be deficit-neutral until 2025, pleasing many fiscal conservatives and others worried about the federal deficit. To offset the increased costs of child cash payments, Romney's proposal would make five changes to help offset $66 billion in spending. These changes would be to (1) eliminate the Head of Household filing status, (2) eliminate the Child and Dependent Care Tax Credit (CDCTC), (3) eliminate Temporary Assistance for Needy Families (TANF), (4) make changes to the Supplemental Nutrition Assistance Program's (SNAP) categorical eligibility requirements, and (5) eliminate State and Local Tax (SALT) deductions. His proposal would also reform the Earned Income Tax Credit (EITC) to help offset the cost.

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As for the declining value of the taxi medallions, it is unfortunate that taxi drivers are experiencing financial troubles, resulting in several deaths. However, as a citizen, it is important that one think economically before getting emotional. Although cities should do something to help alleviate this situation (discussed below), governments should not guarantee the value of the taxi medallions, which the drivers bought as an investment (just like stocks or bonds). As the government did not compensate investors during the dot-com bubble or stop foreclosures when the subprime mortgage bubble burst, it should not do so for the taxi medallions, which should be treated like other investments.

However, there is one area in which cities can help this situation. Much of the current problems result from no cap on the number of rideshare vehicles on the road. This causes increased traffic, declining earnings for taxi and rideshare drivers, and decreased the value of taxi medallions. To solve the problem, the cities should reconsider the purpose of taxi medallions—to constrain the number of taxis on the road, reducing traffic and maintaining a livable wage for taxi drivers. It also makes sense that they could be bought and sold, just as carbon pollution permits or other similar licenses can be traded. Then, as taxis and rideshare are basically in the same market, it is obvious that some restraint is needed to put taxis and rideshare on a level playing field. This can be done by also imposing a system of medallions on rideshare like the system with taxis. This solution would help decrease traffic by decreasing the number of rideshare vehicles and alleviate some of the taxi drivers' problems by reducing the supply of cars on the road to match demand, increasing their wages.

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Under Romney's plan, the maximum value of EITC would be $1,000 for single households and $2,000 for married households filing jointly, independent of the number of child dependents. It would be simplified through larger family benefits that don't vary depending on the number of dependents. It would also eliminate marriage penalties and, as Romney claims, create better work incentives by slowing benefit cliffs. These programs either overlap with, such as SNAP changes, or are rendered obsolete by, such as the elimination of CDCTC, the policies in his bill proposal, which is why Romney proposes cuts or eliminations to them.

Romney isn't the only one proposing major changes to the Child Tax Credit. President Joe Biden has also created a plan to be included in his $1.9 trillion COVID-19 relief bill. Biden's plan would give a temporary one-year increase to the maximum CTC to $3,000 from $2,000 for each child under age 17 and up to $3,600 for kids under age 6. The credit would be fully refundable and, at the time of this writing, may be paid in either monthly or quarterly installations. However, Biden's plan would be deficit-funded.

So what would be the effects of the Romney and Biden proposals? A Niskanen Center analysis found that the Romney child allowance would reduce U.S. child poverty by roughly 1/3 (nearly 3 million) and deep child poverty by 50 percent (over 1.2 million) until at least 2025. On the other hand, Biden's plan would result in similar reductions, but only for a year. It would temporarily lift nearly 40 percent (nearly 3.5 million) of children out of poverty and 50 percent (1.2 million) of children out of deep poverty. Romney's plan has a stronger impact on deep poverty than Biden's plan due to young child benefit and larger EITC to childless workers, as current EITC is targeted at people just below the poverty rate, exaggerating its effect on poverty. It is important to note that Romney's plan is spending neutral until 2025, while Biden's plan would be deficit funded and only good for a year.

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Romney's proposed reforms to TANF, EITC, and the Head of Household filing status would also help simplify the US welfare system. By replacing TANF with monthly child allowances, financial disparities, especially among poverty-stricken families, would be better remedied. Abolishing TANF grants would also allow states to divert more resources to "common programs," relieving administrative burdens for a program that has been largely gutted in recent decades. For EITC, its main problem is due to its intention of being an earnings subsidy and child benefit. Romney's plan would simplify EITC and about double the maximum EITC for childless adults. It also eliminates the marriage penalty, which can affect 15-25% of family income. And the Head of Household filing status is currently a regressive policy that has no impact on the poor.

While Biden's plan to revamp the Child Tax Credit with cash payments will be beneficial to the poor, Romney's proposal would go even further with higher and more targeted cash allowances paid monthly. Furthermore, Romney's proposal would be deficit-neutral until at least 2025, while Biden's proposal would be deficit funded and only a temporary, one-year increase. Practically speaking, Romney's plan would probably be more bipartisan, with fiscal conservatives willing to vote for a separate bill without increasing the federal debt and many Democrats in favor of more generous cash allowances to families. With such a divided Congress and country, Romney's plan to replace the Child Tax Credit with monthly cash payments to families would be both beneficial to poverty-stricken Americans and popular among both parties.

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UPCOMING EVENTS:

Spring Quarter Events: In Spring Quarter the EUB will be hosting various events, and will be conducting its annual recruitment. Keep an eye out for them in your email.

Economics Tutoring: The EUB offers free tutoring every weekday at various times every quarter! Check the schedule on the EUB website to see tutoring times.

Economizer Submissions: The Economizer will be seeking guest writers for our Spring Quarter issue. Interested writers should check their emails from the department in early Spring quarter for submission instructions.

2021 Economics Undergraduate Survey: The EUB is currently conducting its annual Undergraduate Survey. This survey is a great opportunity for students to voice their thoughts on the Economics department, including what they are enjoying about their experience, and any issues they may be having that the EUB could take action on to improve in the future.

We would like to thank all those who filled out the survey so far. For those who have not participated, the survey link is listed below: https://forms.gle/2aVUbaZrBY59roQh9

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