



COVID-19: Economic Implications and Policy Response

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Who Are We?

- **Honorary Board: 47 members**
 - 2 Fed Chairs: Janet Yellen, Ben Bernanke
 - 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
 - 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin
- **Delegates: 500+ members**
 - At all levels of academia and some in government service
 - All have a Ph.D. in economics
 - Crowdsource slide decks
 - Give presentations
- **Global Partners: 45 Ph.D. Economists**
 - Aid in slide deck development

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Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



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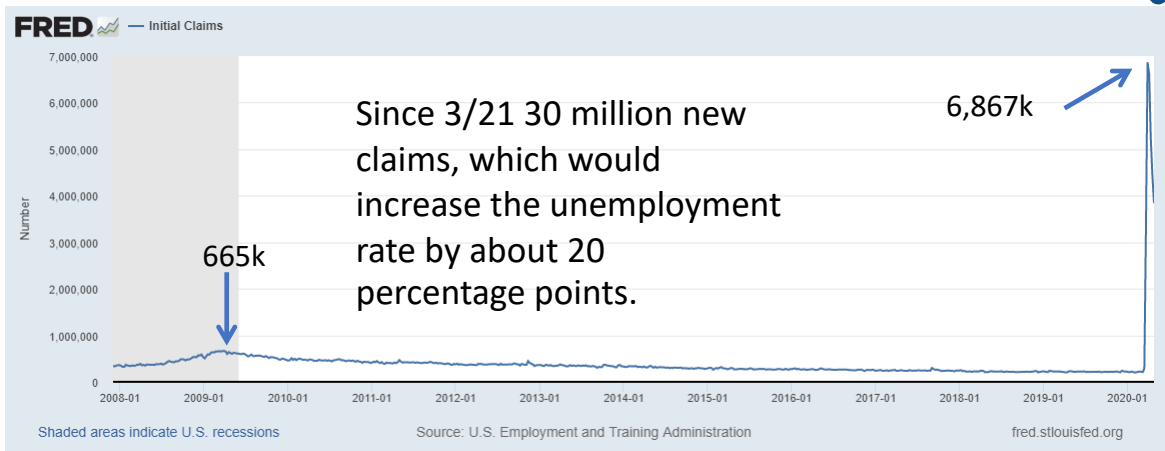
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Outline

- Economic Dimensions to this Crisis
- Why this Crisis is Different
- What Fiscal & Monetary Policies Can Do
- Prospects for Economic Recovery

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Initial Claims for Unemployment



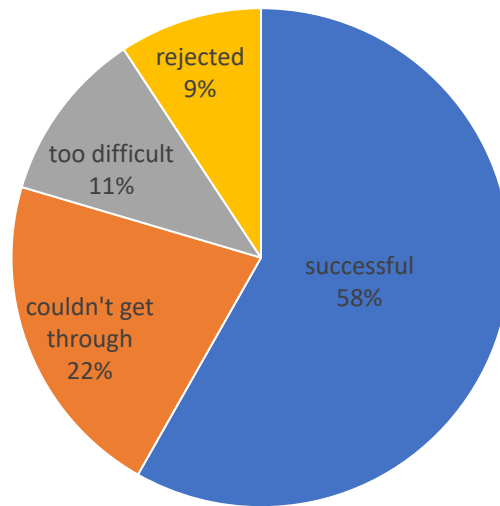
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But these numbers understate the changes in uncertain ways

- **Initial claims for unemployment are based on the number of successful applications**
 1. States unemployment offices have been deluged with large backlogs.
 2. Employment Status isn't obvious anymore – you aren't working but you still have your job
- **Survey-Based Monthly Unemployment Data will be worse (May 8th)**

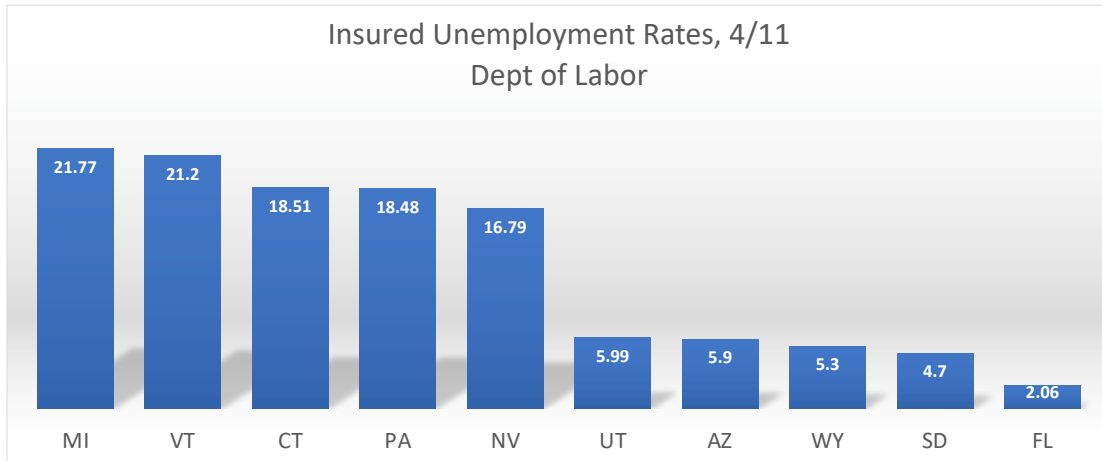
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Economic Policy Institute Survey of Workers Reporting Eligibility for Unemployment Insurance, 4/14-24



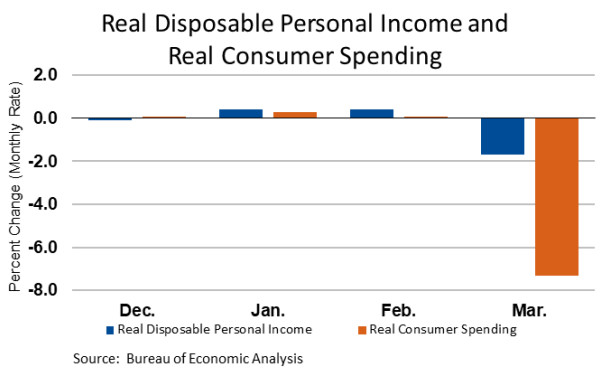
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Unemployment Hitting Different States



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Consumer Spending is Collapsing



If consumption remain this low until June (optimistic?), the consumption component of GDP (70%) will fall by about 20 percent at an annual rate between Q2 and Q1

Breakdown: Durables:-14.8%; Nondurables: 4.3%; Services -9.5%

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Change in Sales is probably more reliable

Retail Sales -- Monthly Percent Change

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Total	0.2	0.0	0.8	-0.4	-8.7
Ex.-Autos	-0.2	0.5	0.7	-0.4	-4.5
Ex.-Autos, Ex.-Gas	-0.2	0.4	0.9	-0.2	-3.1
Retail Control*	-0.3	0.3	0.6	-0.2	-3.5
Autos	1.6	-1.8	0.8	-0.5	-25.6
Gasoline	0.6	0.9	-0.3	-2.9	-17.2
Clothing	-0.1	2.8	-1.1	-1.6	-50.5
General Merchandise	0.1	0.1	0.5	-0.1	6.4
Nonstore**	-0.4	-0.5	0.3	0.7	3.1

* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.

** Primarily online and catalog sales; also includes sales by fuel-oil dealers.

Source: U.S. Census Bureau via Haver Analytics

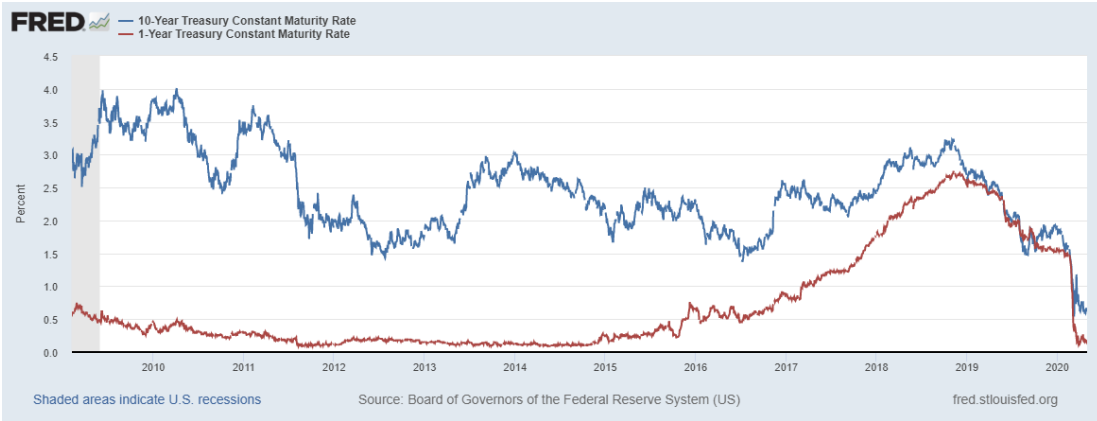
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Financial Markets Take a Plunge



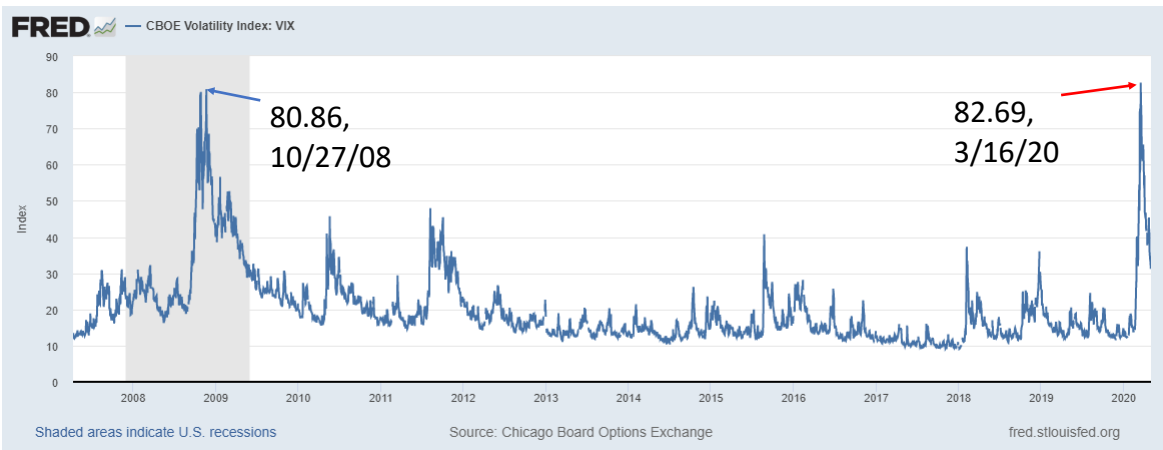
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But You Have to Put Your Money Somewhere!



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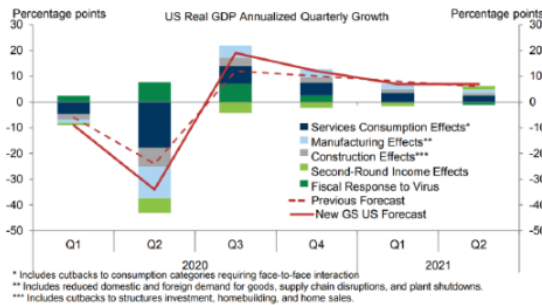
The Fear Index: the VIX



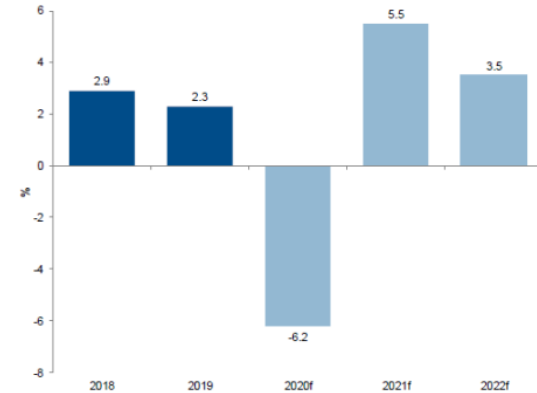
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How Bad Could it Get?

1. GIR: US Real GDP Annualized Quarterly Growth Forecast



2. GIR: US Real GDP Annual Growth Forecast



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This Time is Different

- **Great Depression and Recession (Demand Shocks)**
 - A Financial Crisis due to inadequate regulation, which led to
 - A Collapse of demand with persistent high unemployment
- **Oils Crisis of 1975 due to a sharp rise in the price of oil (Supply Shocks)**
- **Prior to the pandemic none of the above:**
 - Financial markets were not in trouble.
 - Real GDP growth was strong buoyed by strong consumer spending.
 - Unemployment and inflation were both low.
 - Oil prices were falling.
- **“Health Shock:” public health requires cessation of economic activity**



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What Economic Policy Can't Do in this Crisis

- Typically, Monetary and Fiscal policies fight recessions by increasing aggregate demand (total spending)

- Fiscal:

1. Tax cuts
2. Increased spending

- Monetary

1. Reduce short-term interest rates
2. Reduce long-term interest rates using (Q)uantitative (E)asing

But, if people can't leave their homes changing these policies won't work – Go on a cruise because of tax cut or lower interest rate?



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What Economic Policy Can Do in this Crisis

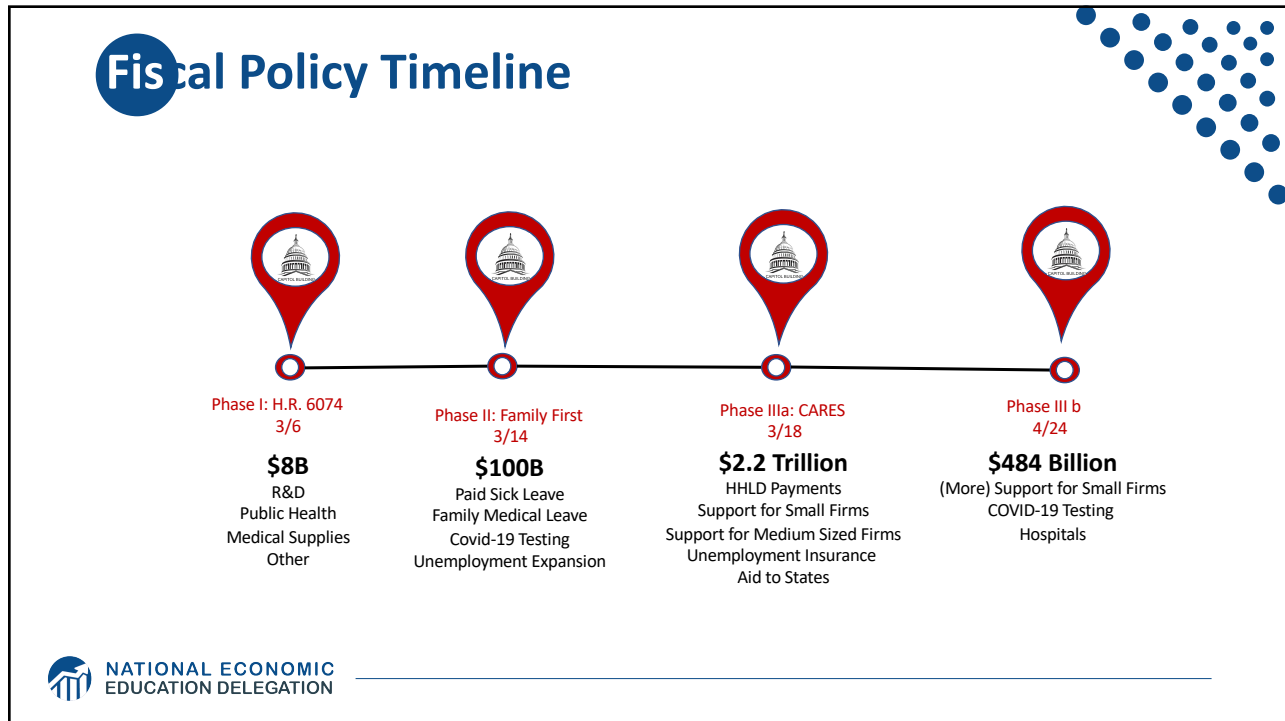
- Aid households, firms, state and local governments and credit markets in order to *survive* the crisis.
- In this way, the goal of policy is to minimize long-term damage caused by the crisis.
- When the pandemic is under control, the economy can regain former strength as quickly as possible.



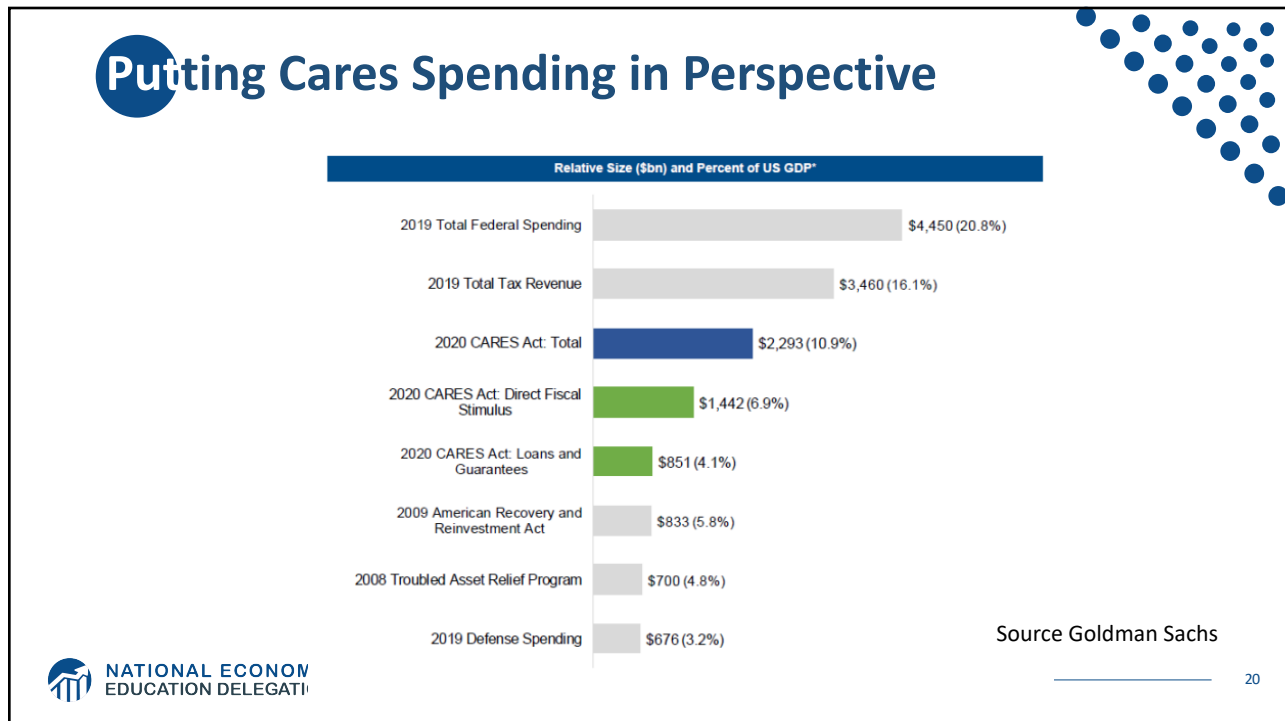
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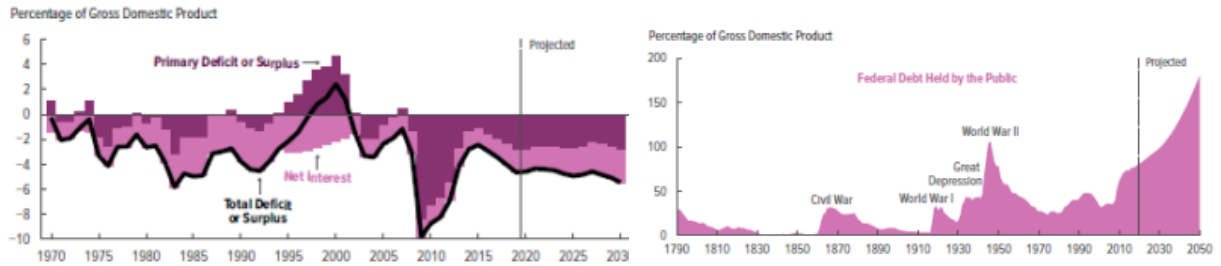
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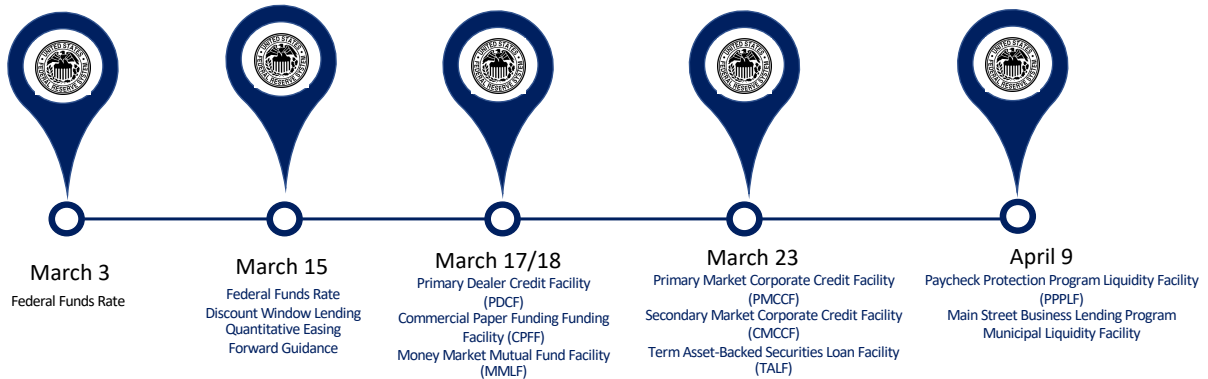
How Do We Pay for This?

- Good News: Treasury Interest Rates are Near Zero
- Bad News: The Long-term Budget Outlook was already a Mess



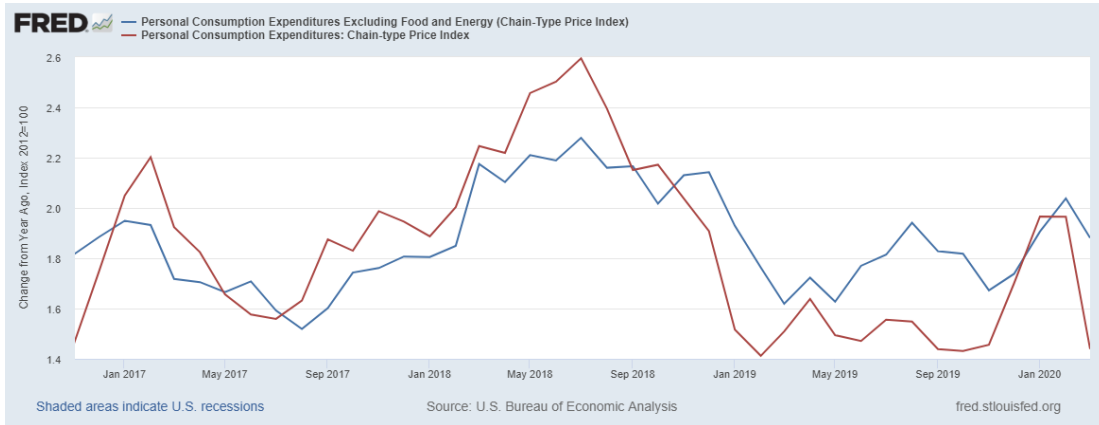
CBO (as of 4/24) projects that the 2020 federal deficit will rise from 4.6 percent of GDP to 18 percent, causing the relative debt to rise by the end of the year from 80 percent to 101 percent of GDP

The Fed: 2008 Redux, but Bigger and Faster



Too Much Money Chasing Too Few Goods?

Unlikely



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Liquidity Measures

- In a Financial Crisis, nobody wants to lend, which can lead to panics, bank runs and the destruction of credit markets.
- The Fed must act as the “Lender of Last Resort” to keep credit flowing and to minimize long-term damage to these markets.



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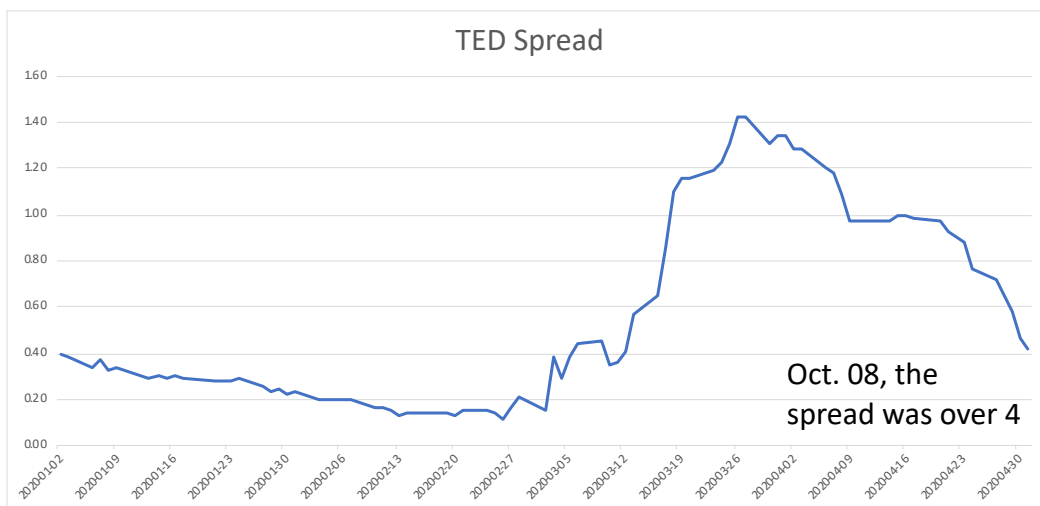
In Contrast to 2008, Quick Fed Action

I. The Fed saw emerging panic during Mid March

1. Liquidity all of a sudden became scarce in the Market for US Treasuries (*NYTimes*, 3/12/20)
2. The next week institutional investors withdrew 11% of their holdings of money market mutual fund shares. (*WSJ*, 3/21)

II. In the current crisis the Fed acted immediately to provide liquidity to a myriad of credit markets and to encourage continued bank lending

Bank Credit Risk Recently



Combined Fed & Treasury Measures

- **(P)aycheck (P)rotection (P)rogram \$650 billion to firms with 500 or fewer employees (in 1 location!)**
 - Loans made by banks, Fed will acquire 95%
 - Loans forgivable, losses to the Treasury
- **“Main Street Lending Program” 4-year loans to firms with under 10,000 employees \$600 billion**
 - Again loans made by banks, Fed acquires 95%
 - Loan losses borne by banks and Treasury up to \$75 billion
- **Congressional Oversight??**



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Don't Add Apples and Oranges

- **“White House economic adviser Larry Kudlow on Tuesday projected that the total economic stimulus to be enacted by the federal government will reach \$6 trillion.” *National Review*, 3/24**
 - \$4 trillion from the Fed in “liquidity measures”
 - \$2 trillion from Congress
- **Apples: Loans which we hope will be repaid (e.g., Main Street Lending)**
- **Oranges: Tax Cuts, Grants and Other Spending (e.g., PPP)**
- **In the 2008 crisis the Fed made money on its crisis lending**



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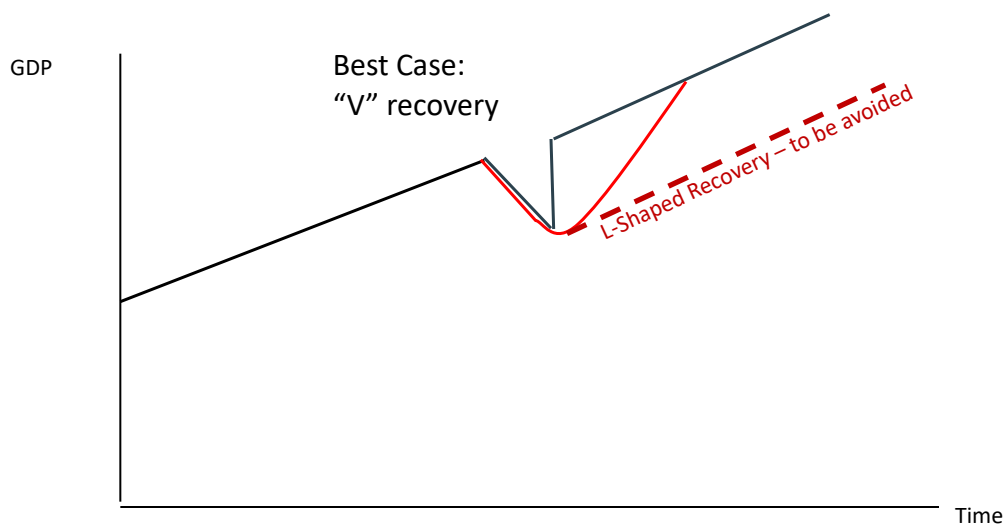
Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
 - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic!**
- **Fiscal policy grade: Emergency Pass**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Right strategy to maintain employee-employer ties?
 - Has there been enough aid to States, facing a collapse in revenues?



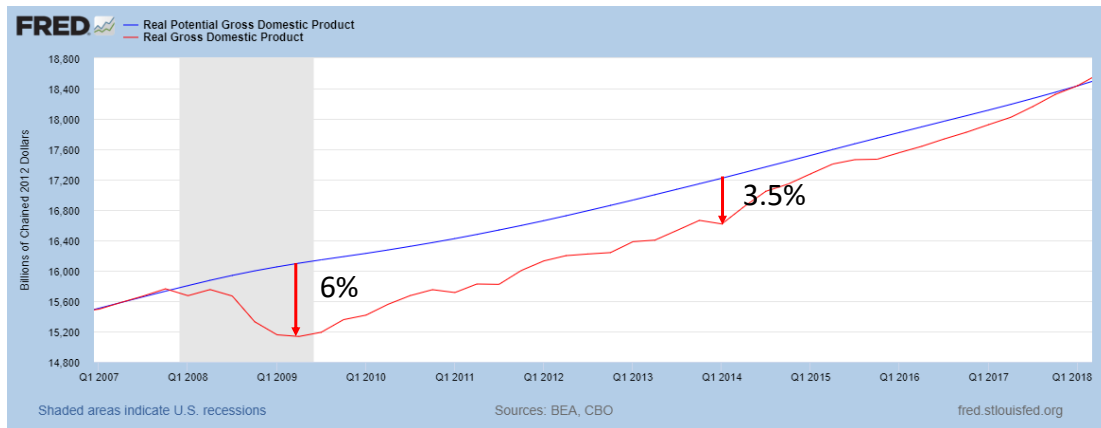
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What Shape Will the Recovery Take?



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Recovery from the 2008 Crisis



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Lessons from the Last Recovery

• Reasons for Optimism

- 2007 economy was rife with unsustainable financial speculation: housing bubble.
- Financial markets and institutions badly damaged by the crisis.
- Fiscal and Monetary policy responses could have been quicker and bigger.



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Some Big Concerns

- P. Krugman, “Right now the economy is in the equivalent of a medically induced coma...” (*NYTimes*, 4/16).
- We are trying to keep the patient alive, but damage is being done;
 - How many personal and business bankruptcies?
 - What is the future of companies that bring many people together?
 - Cruise Lines.
 - Theaters.
 - Sports.
 - Malls.
- Looming State and Local Fiscal Crisis

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Projected State Budget Shortfall Unprecedented

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars

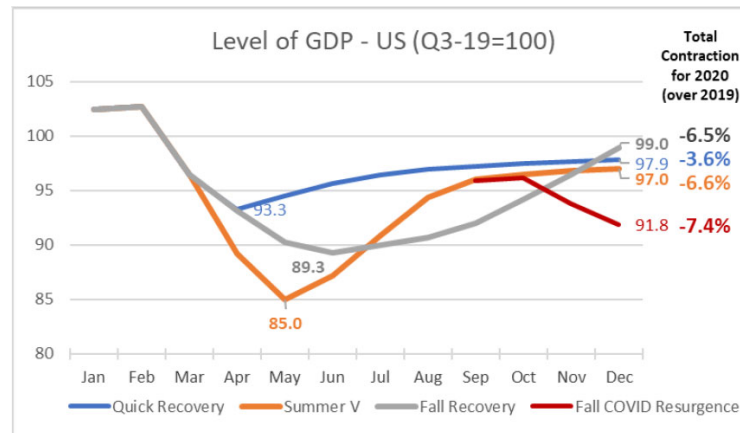


* Estimated based on CBPP calculations

Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

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A Lot Depends on the Course of the Disease



Source: The Conference Board, April 2020



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Economics and the Reopening Decision

- Choice is about Tradeoffs.
- Rational Deciders take actions with benefits in excess of costs.
- In virtually, all cases the best action is neither extreme.
- Given uncertainty take small, reversible steps.
- Choose the steps with the highest expected benefit relative to cost.



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Thank you!

Any Questions?

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