



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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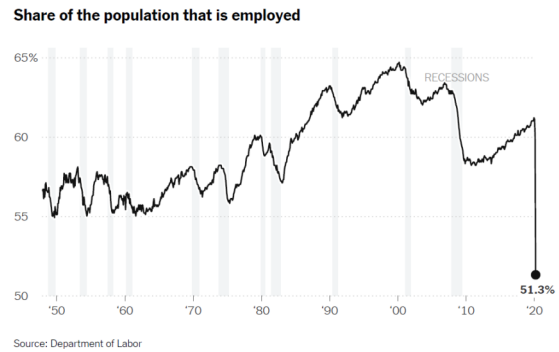
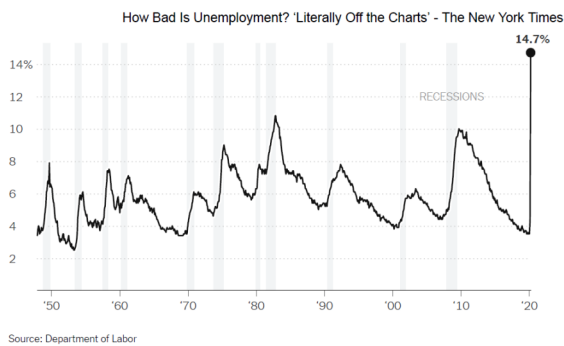
Outline

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

Monarch Notes Version

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Hot off the Press

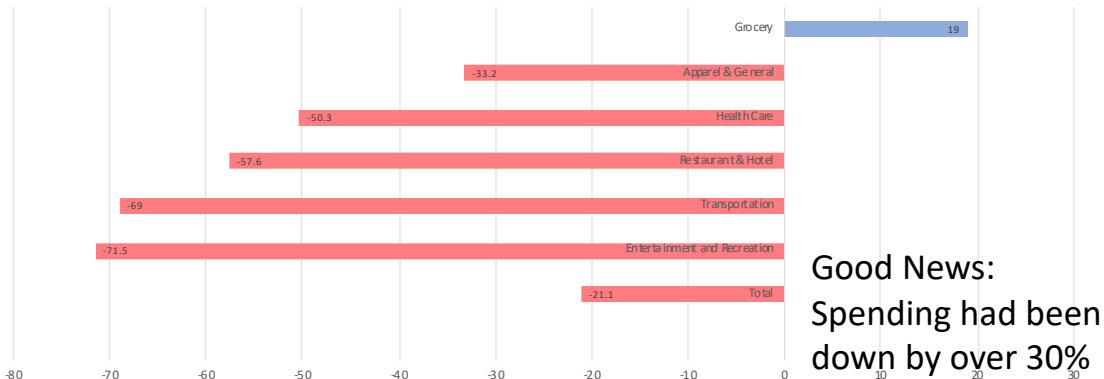


And, Department of Labor warns these are underestimates!

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Spending Has Collapsed

Estimate of Change in Consumer Spending, from Early January to End of April
<https://tracker.opportunityinsights.org/>



Good News:
 Spending had been down by over 30%

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Employment: The Word of the Month

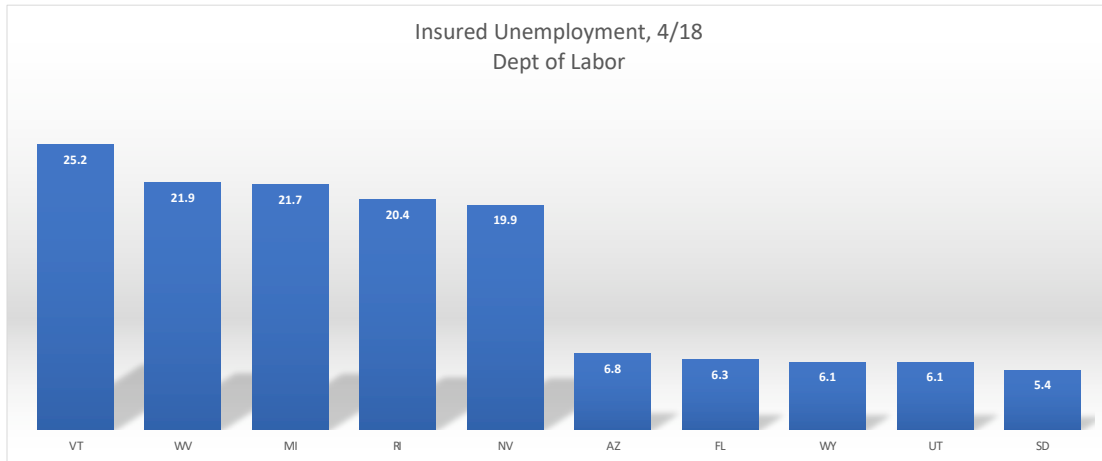


“Job losses of this scale are **unprecedented**. The total number of job losses for the month of April alone was more than double the total jobs lost during the Great Recession,” said Ahu Yildirmaz, co-head of the ADP Research Institute.

Biggest % Losses at Smallest Firms:
 SM: 21.5%; MID: 17.4%; LG: 13.4%

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Unemployment Is Hitting Different States



CO: 8.6%

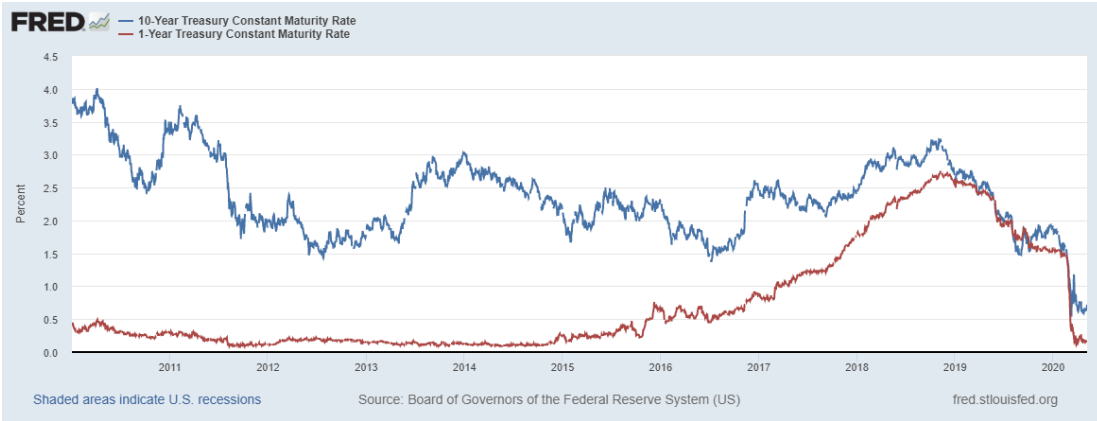
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Financial Markets Take a Plunge



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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?

CBO Projections, 4/24

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
<i>Real GDP growth</i>	-0.9	-11.8	5.4	2.5	n.a.	n.a.
<i>At Annual Rate</i>	-3.5	-39.6	23.5	10.5	-5.6	2.8
<i>Unemployment Rate</i>	3.8	14.0	16.0	11.7	11.4	10.1

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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 you can't leave your homes these policies won't work – Go on a cruise because of lower interest rate?



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What Economic Policy Can Do in this Crisis

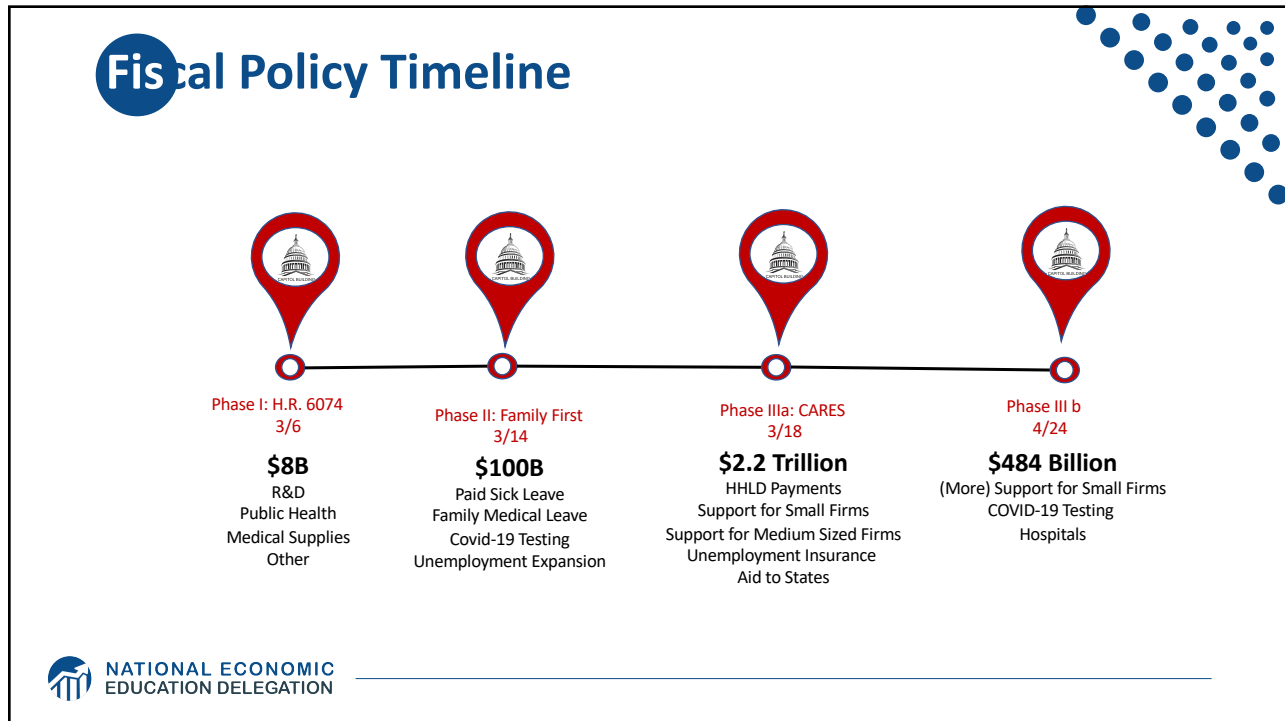
- Aid households, firms, state and local governments and credit markets in order to *survive* the crisis.
- In this way, the goal of policy is to minimize long-term damage caused by the crisis.
- When the pandemic is under control, the economy can regain former strength as quickly as possible.



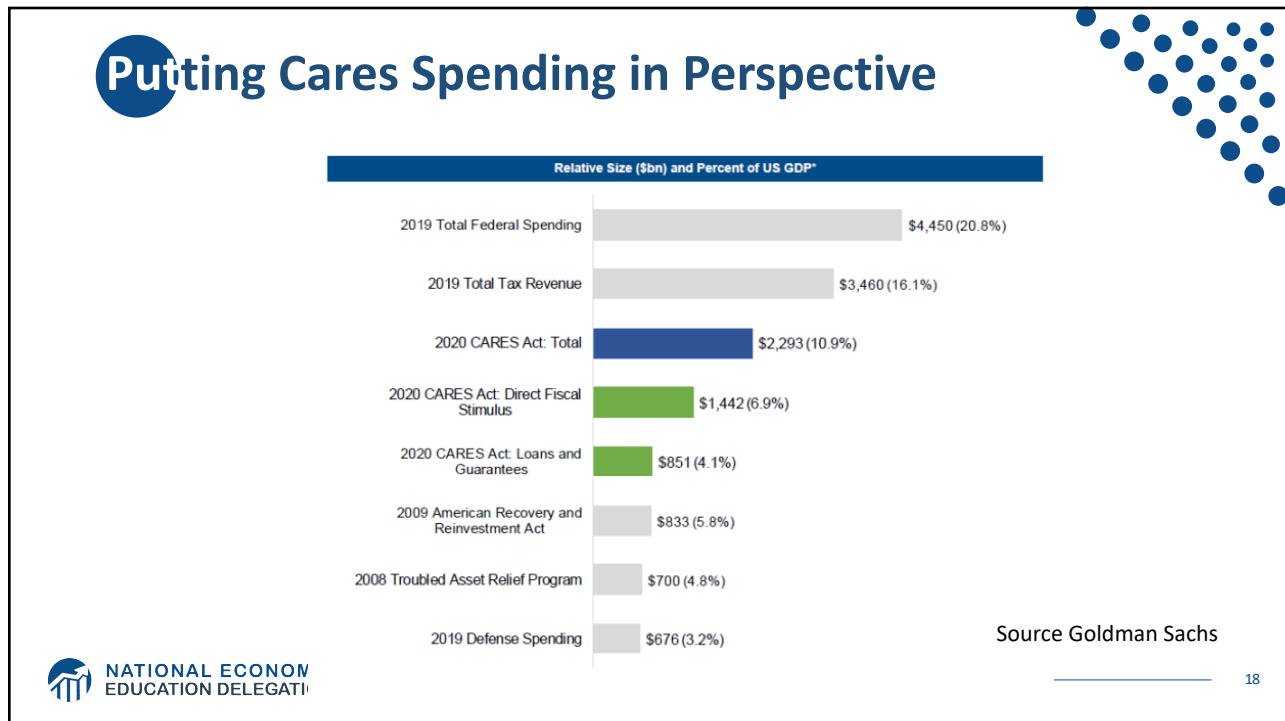
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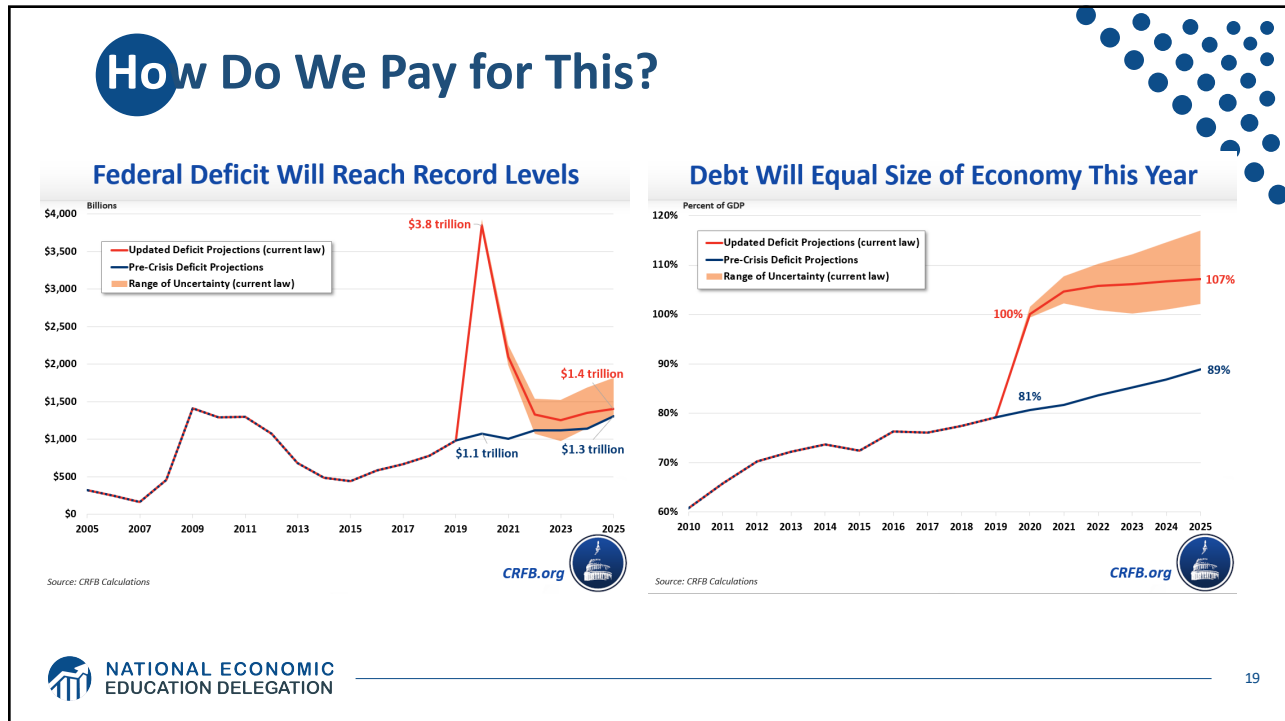
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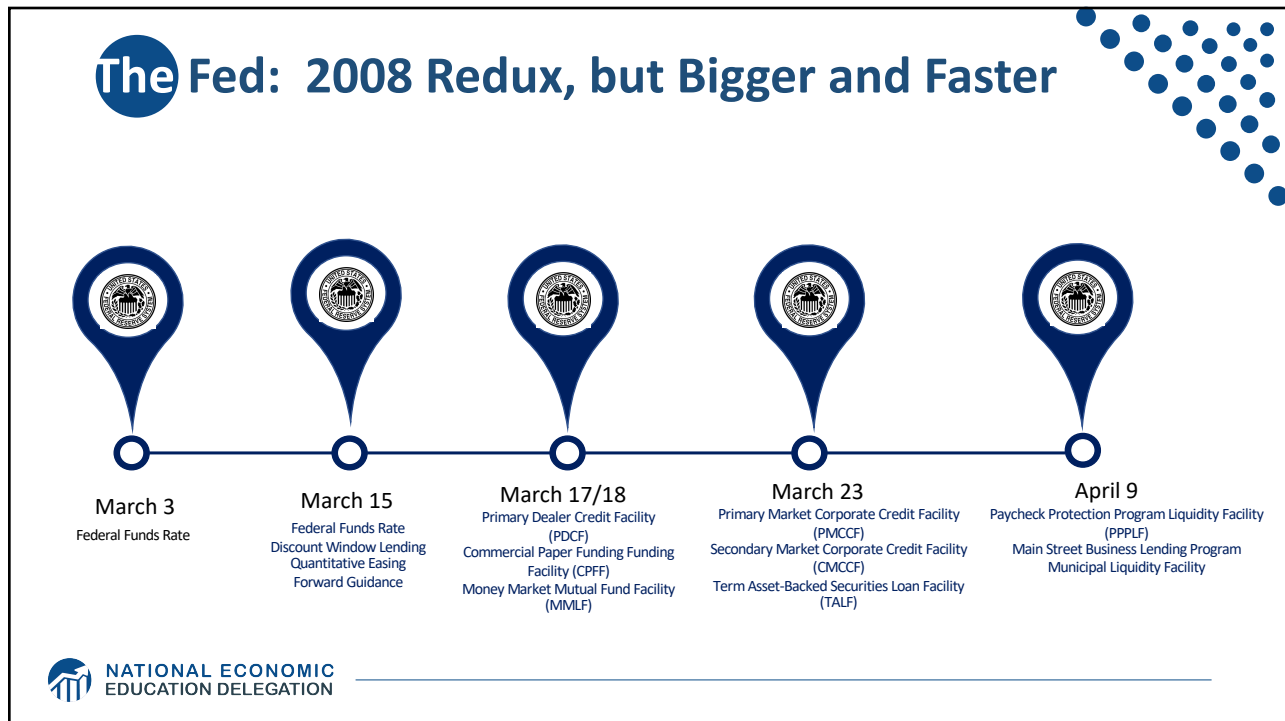
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Combined Fed & Treasury Measures

- **(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??**



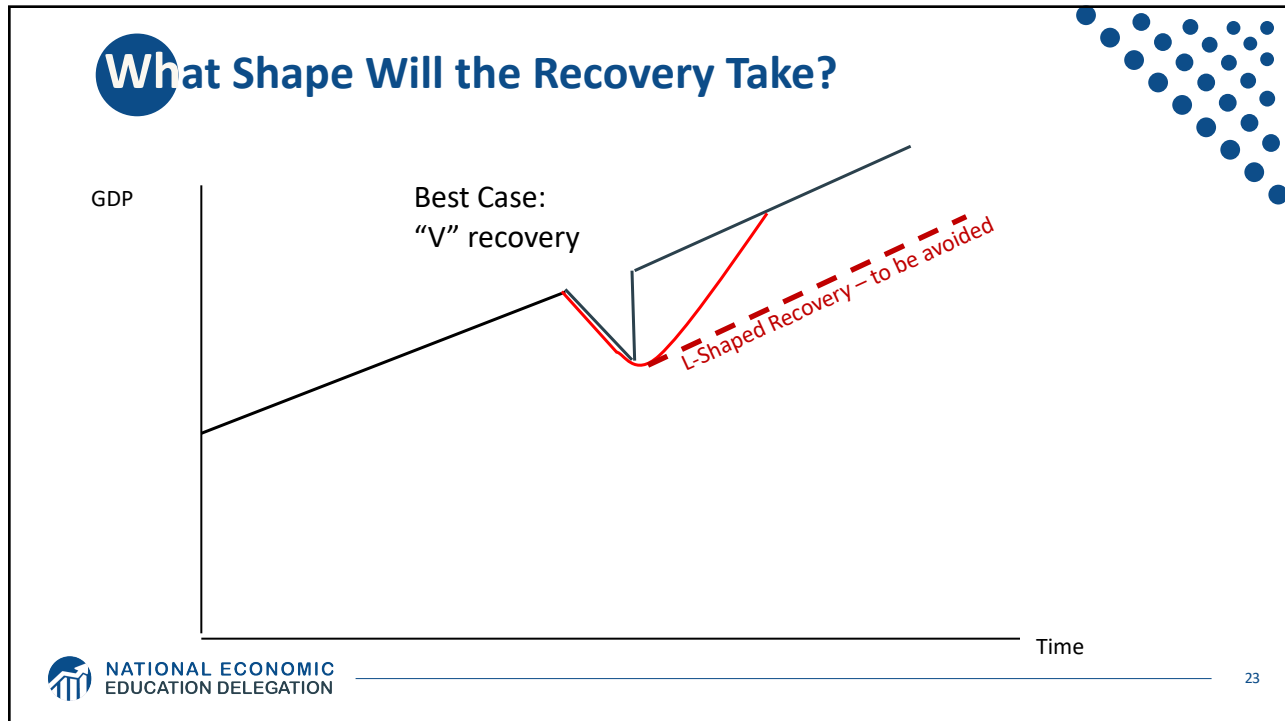
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Thoughts on Policies to Date

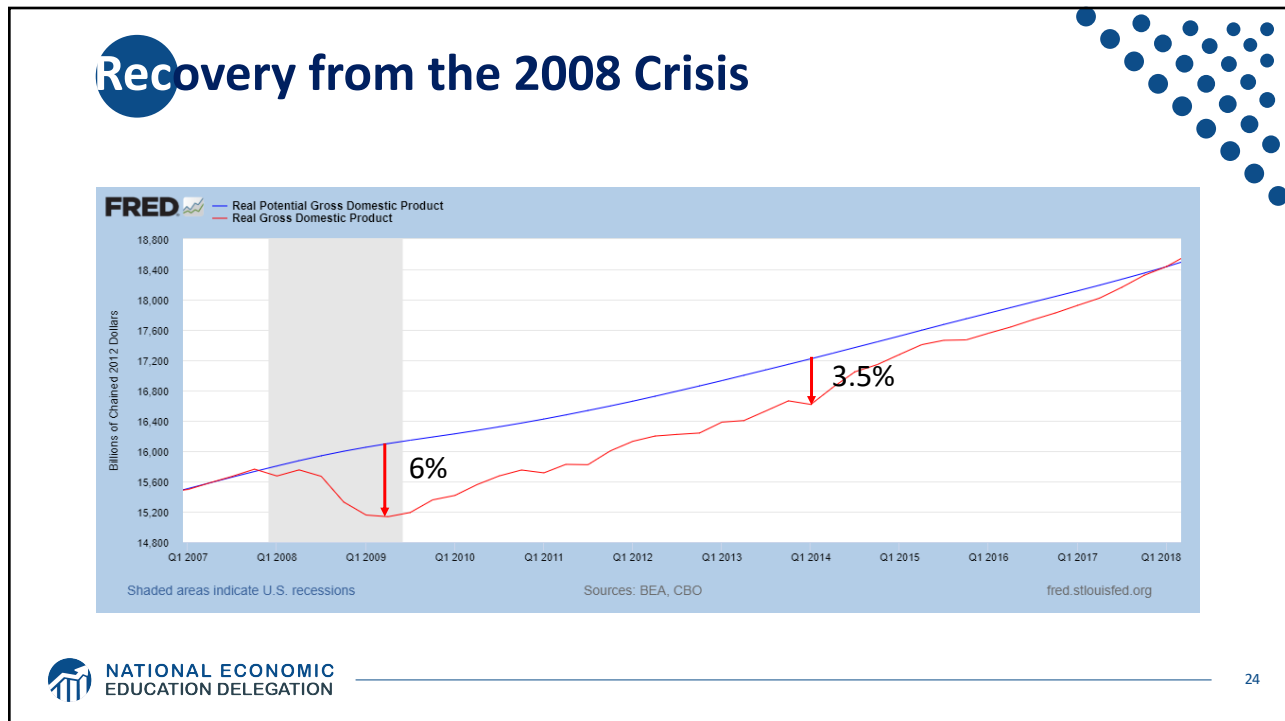
- **Costs are enormous, but we are doing the right thing!**
 - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic, A+!**
- **Fiscal policy grade: Emergency Pass**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Are we getting loans to the right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



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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.
- Pent-up demand at some point will kick in



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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 bankruptcies?
 - What is the future of companies that bring many people together?
 - Cruise Lines.
 - Theaters.
 - Sports.
 - Malls.
 - **Looming State and Local Fiscal Crisis**
 - **Bankruptcies of Small Firms**



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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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SBLA Gets It Right on Second Try

First Round PPP Loans as of 4/16, \$342B		
	Number	Dollars
under 150K	74.0%	17.0%
150K to 350K	13.5%	14.7%
350K to 1M	8.4%	23.6%
1M to 2M	2.5%	16.7%
2m to 5 m	1.3%	18.8%
more than 5M	0.3%	9.0%

Second Round PPP Loans (\$176B, as of 5/1)		
	Number	Dollars
under 50K	70.9%	16.2%
50K to 100K	13.8%	12.3%
100K to 150K	5.5%	8.4%
150K to 350K	6.3%	17.5%
350K to 1M	2.7%	16.6%
1M to 2M	0.6%	10.6%
2M to 5M	0.3%	10.3%
more than 5M	0.1%	6.1%

Distribution of PPP Eligible Firms			
	No. of Firms	Employment	PPP Loan Size (est)
under 5	61.9%	9.8%	\$16,985
5 to 9	16.9%	11.0%	\$57,239
10 to 19	10.6%	14.0%	\$121,470
20 to 99	9.1%	35.3%	\$387,137
100 to 499	1.5%	29.9%	\$2,248,253

But Is It Enough?
Loans: are for 8 weeks

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Thank you!

Any Questions?

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