

COVID-19: Economic Implications and Policy Response

May 16, 2020
 Geoffrey Woglom
 Professor of Economics (Emeritus)
 Amherst College



NATIONAL ECONOMIC
 EDUCATION DELEGATION

1

1

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



NATIONAL ECONOMIC
 EDUCATION DELEGATION

2

2

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

3

Credits and Disclaimer

- **This slide deck was authored by:**
 - Scott L. Baier, Clemson University
 - Jon D. Haveman, NEED
 - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
 - Jon Haveman
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

4

Outline

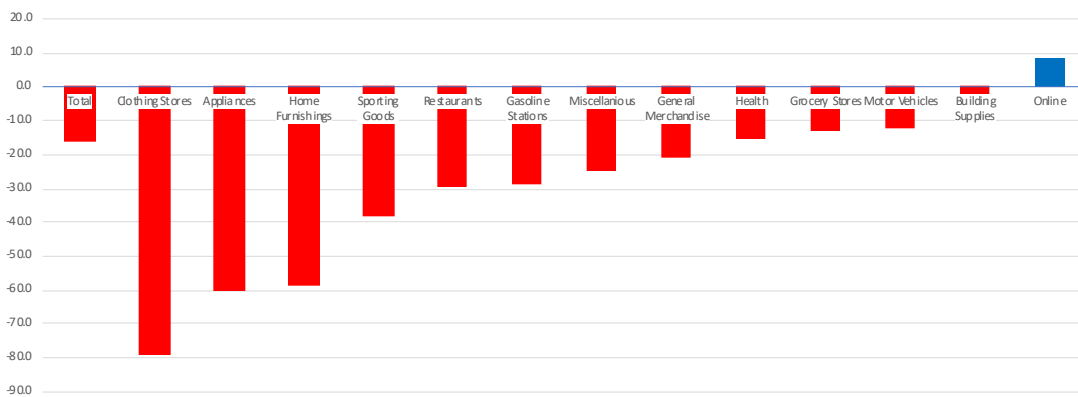
- Economic Dimensions to this Crisis
- Why this Crisis is Different
- What Fiscal & Monetary Policies Can Do
- Prospects for Economic Recovery

Monarch Notes Version

5

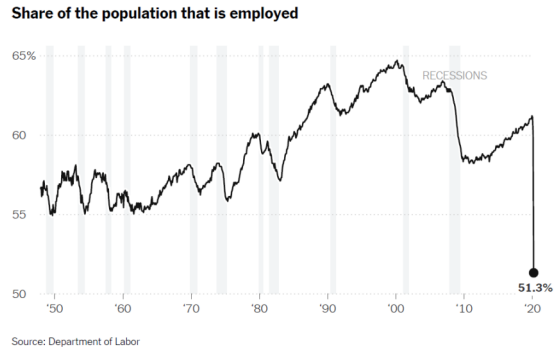
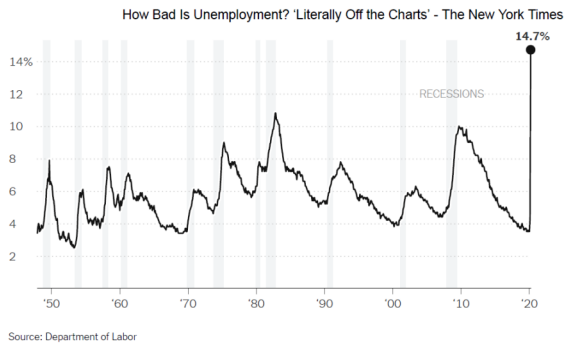
Spending Has Collapsed

Change in Retail Sales March to April
Dept of Commerce



6

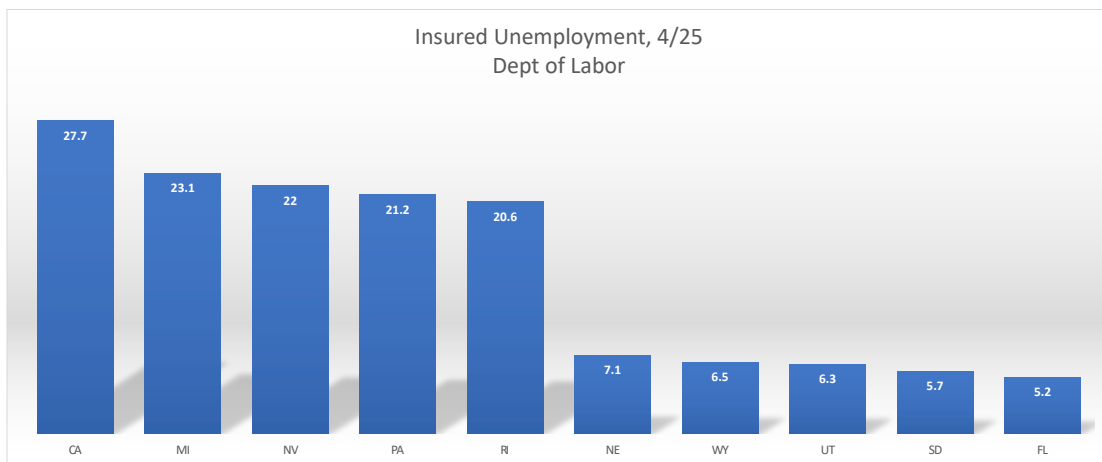
Unemployment is "Off the Charts"



And, Department of Labor warns these are underestimates!

7

Unemployment Is Hitting Different States

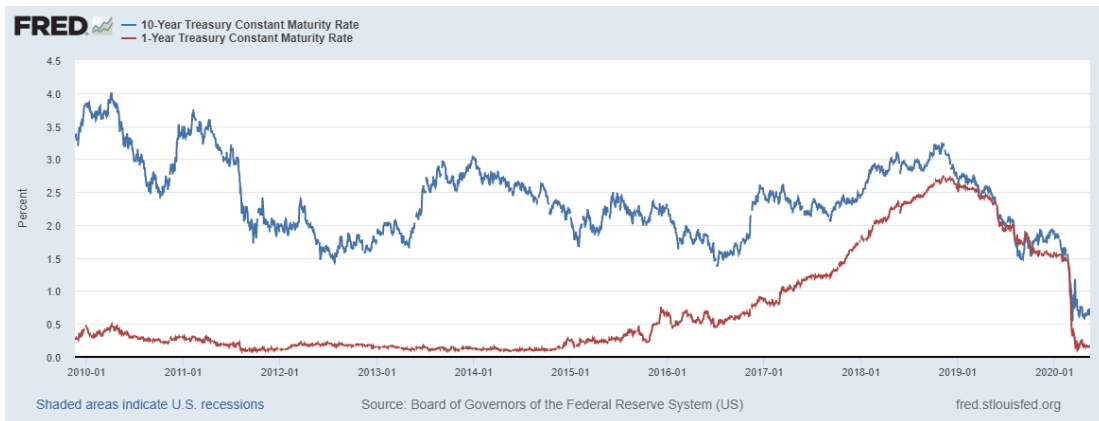


8

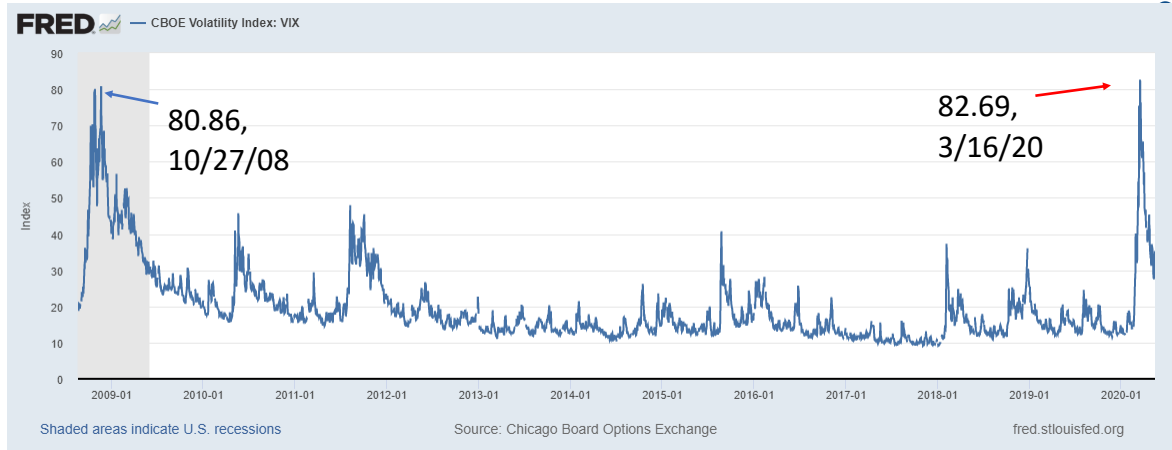
Financial Markets Take a Plunge, but Rebound



But You Have to Put Your Money Somewhere!



The Fear Index: the VIX



11

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

12

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**



13

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



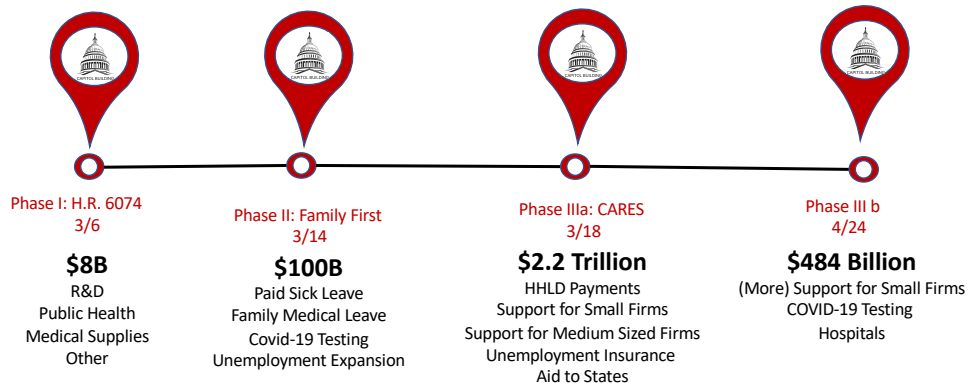
14

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.

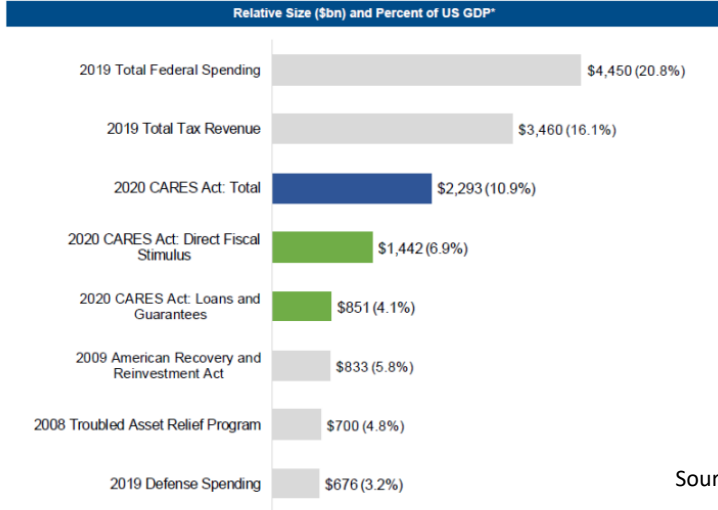
15

Fiscal Policy Timeline



16

Putting Cares Spending in Perspective

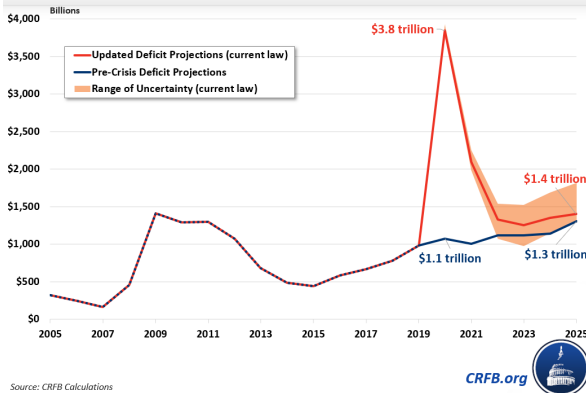


Source Goldman Sachs

17

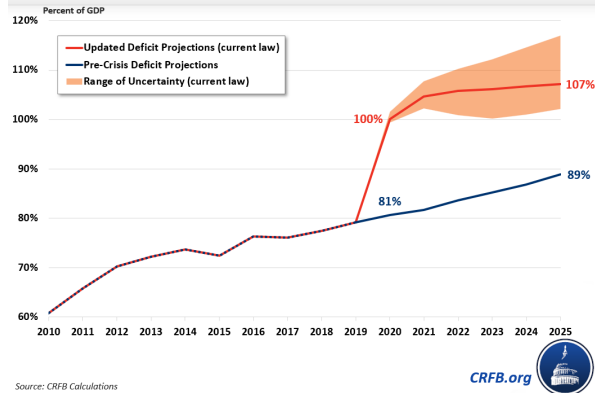
How Do We Pay for This?

Federal Deficit Will Reach Record Levels



Source: CRFB Calculations

Debt Will Equal Size of Economy This Year

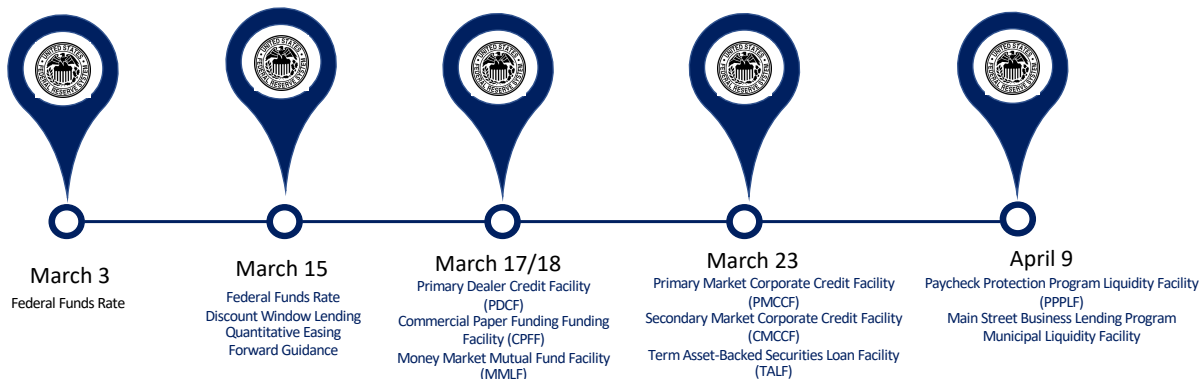


Source: CRFB Calculations

Alan Blinder, *WSJ*, 5/14, says follow Scarlett Ohara: "I'll think about that tomorrow."

18

The Fed: 2008 Redux, but Bigger and Faster



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??**

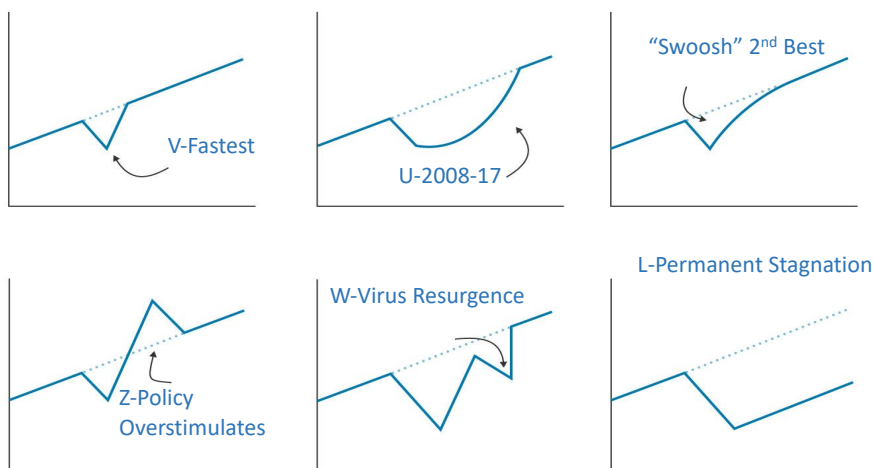
Thoughts on Policies to Date

- **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?



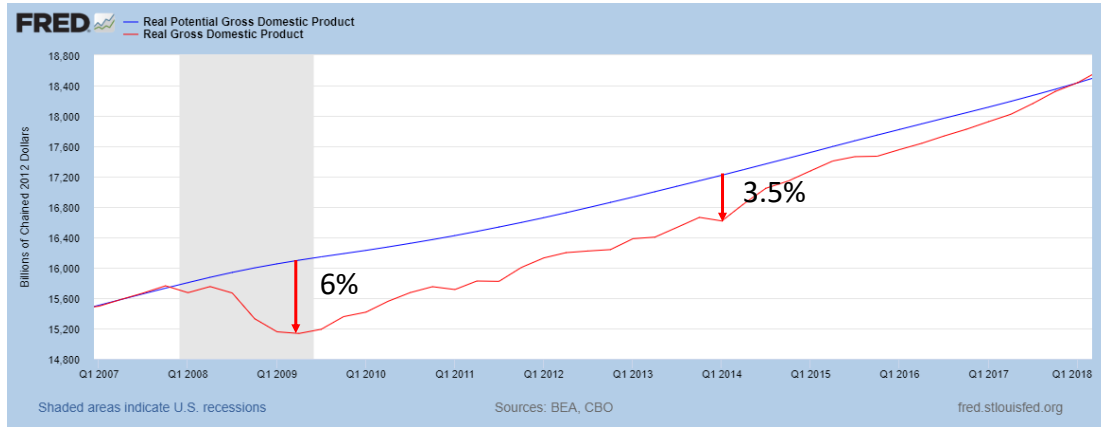
21

What Shape Will the Recovery Take?



22

Recovery from the 2008 Crisis



23

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



24

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

Projected State Budget Shortfall Unprecedented

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

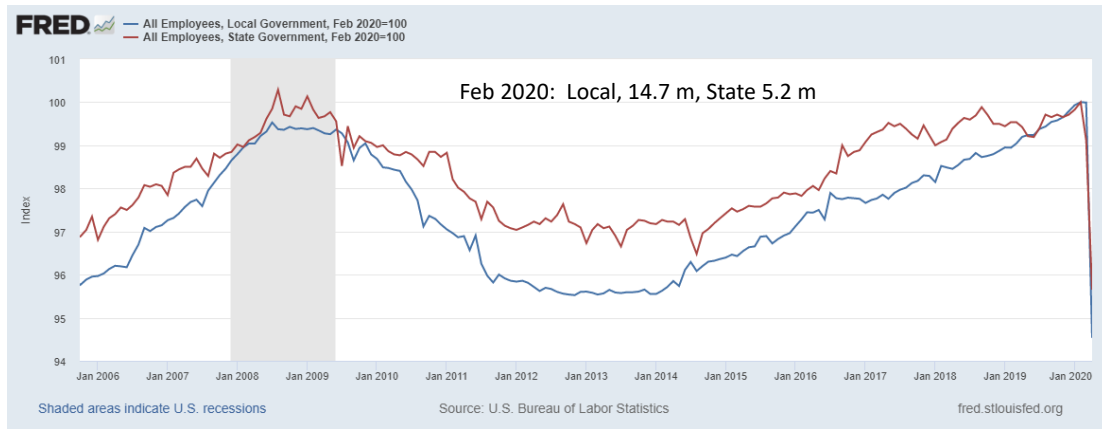
Total state budget shortfall in each fiscal year, in billions of 2020 dollars



* Estimated based on CBPP calculations

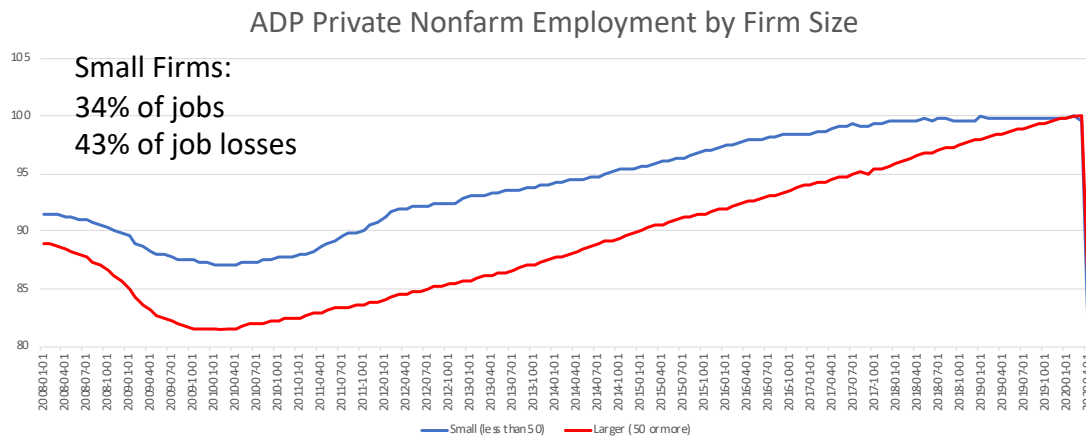
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

State and Local Employment



27

Small Firms Are Being Hit Hard



28

Thank you!

Any Questions?

www.NEEDelegation.org

Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php



NATIONAL ECONOMIC
EDUCATION DELEGATION

29