



# COVID-19: Economic Implications and Policy Response

Jesse Stoner's Cocktail Party  
April 6, 2020



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## National Economic Education Delegation

### • Vision

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

### • Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States

### • NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession

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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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## Credits and Disclaimer

- **This slide deck was authored by:**

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- **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).



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## Outline

- **What is this?**
- **What does economics offer?**
- **Economic implications**
- **Vulnerabilities**
- **Evidence**
- **Policy**



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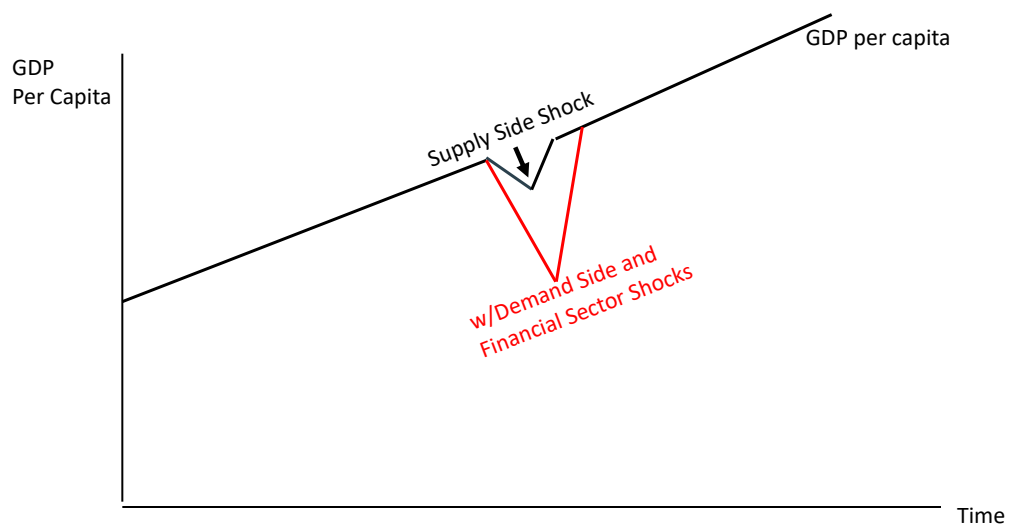
## What is This?

- **A health crisis with enormous economic implications.**
- **It is:**
  - A perfect storm of economic difficulty
    - Supply side
    - Demand side
    - Financial
  - Without a culprit

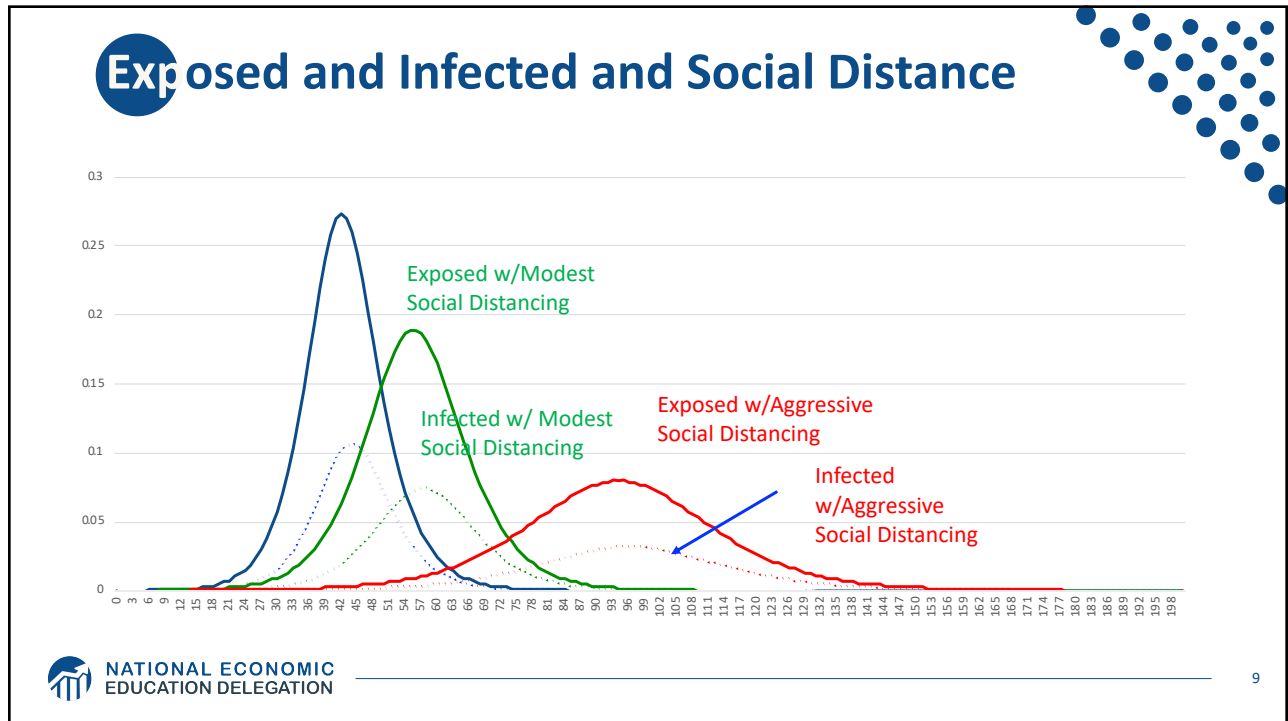


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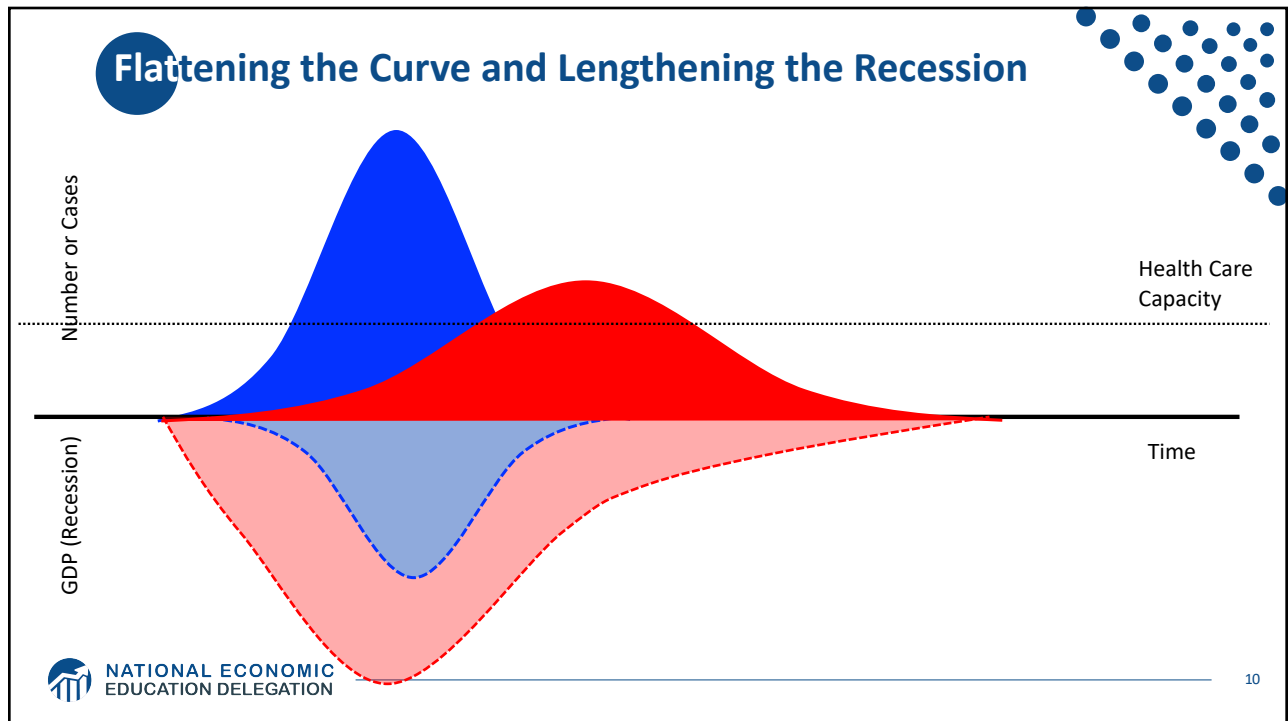
## Impact on GDP of COVID-19 – No Social Distancing



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## Potential Economic Costs of Shutdown

- **Unemployment**
  - About one-quarter of workers are affected by stay-at-home orders.
  - Unemployment on this scale has not been seen since the Great Depression.
  
- **Cascading bankruptcies of small and large businesses.**
  - Businesses face revenue shortfall and are unable to pay their fixed costs and service debt.
  
- **Long term: disruption from previous growth path.**
  - Perhaps permanent.



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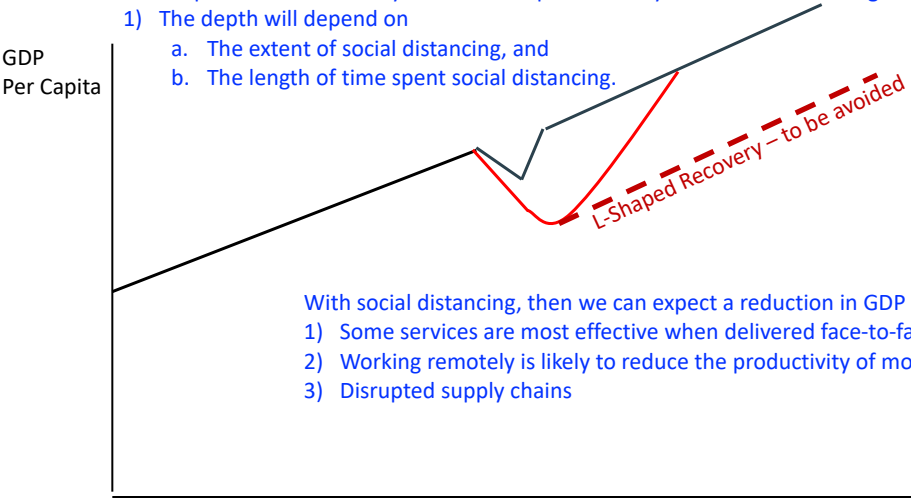
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## Impact on GDP of COVID-19 – W/Social Distancing


The response of GDP is likely to be a U-shaped recovery with social-distancing

- 1) The depth will depend on
  - a. The extent of social distancing, and
  - b. The length of time spent social distancing.



With social distancing, then we can expect a reduction in GDP because:

- 1) Some services are most effective when delivered face-to-face,
- 2) Working remotely is likely to reduce the productivity of most workers
- 3) Disrupted supply chains



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## BOTE Cost Benefit Analysis

*BOTE: Back Of The Envelope*

- **BENEFITS of social distancing:**

- \$7 million/life and 600,000 lives saved (\$4.2 trillion)
- Long term health issues avoided: 2 million at \$500,000 (\$1 trillion)
- **Total Benefit of Social Distancing: \$5.2 Trillion**

- **COSTS of “Shelter in Place” or “Lockdown”**

- There are about 70+ workdays in a quarter (plus March).
- **The cost of a “lockdown” is roughly \$1.3 Trillion**

**Benefit: \$5.2 trillion > Cost: \$1.3 trillion**



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<https://twitter.com/BetseyStevenson/status/1242180499566669828>

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## Depth and Duration



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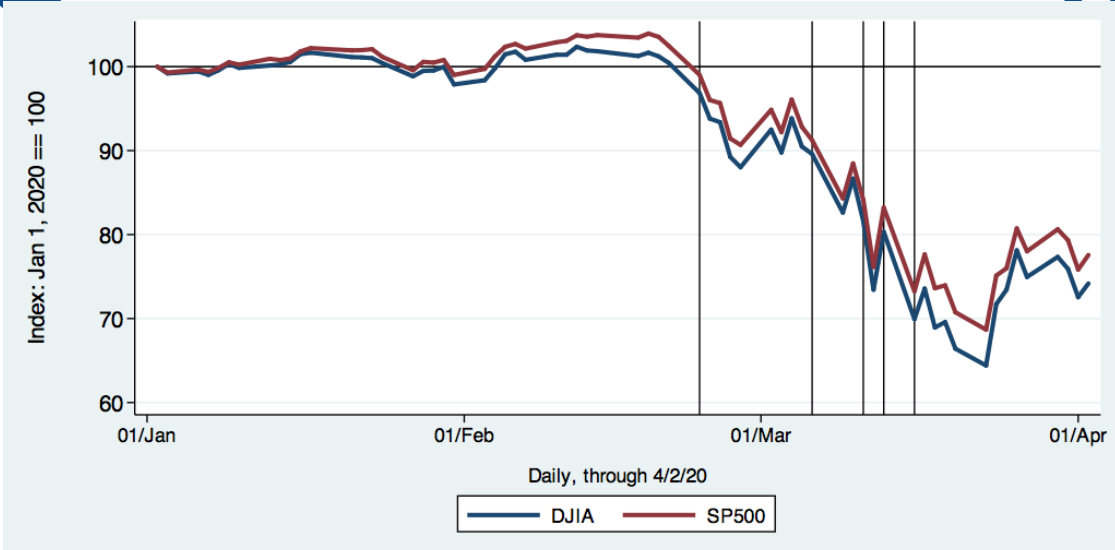
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## The Escalation of the Economic Effects



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## DJIA and S&P 500



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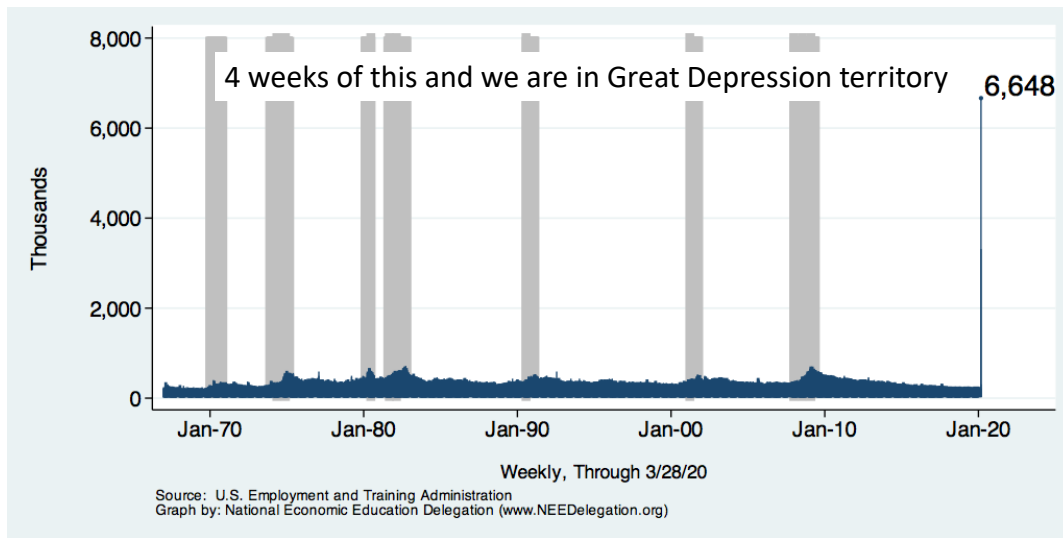


## Particularly Vulnerable Industries

Industry	Share of GDP
Arts, entertainment, and recreation	1.1
Management of companies and enterprises	1.9
Other services, except government	2.1
Accommodation and food services	3.1
Transportation and warehousing	3.2
Retail trade	5.5
Educational services, health care, and social assistance	8.7
Manufacturing	11.3
Real estate and rental and leasing	13.3
<b>Total</b>	<b>50.2</b>

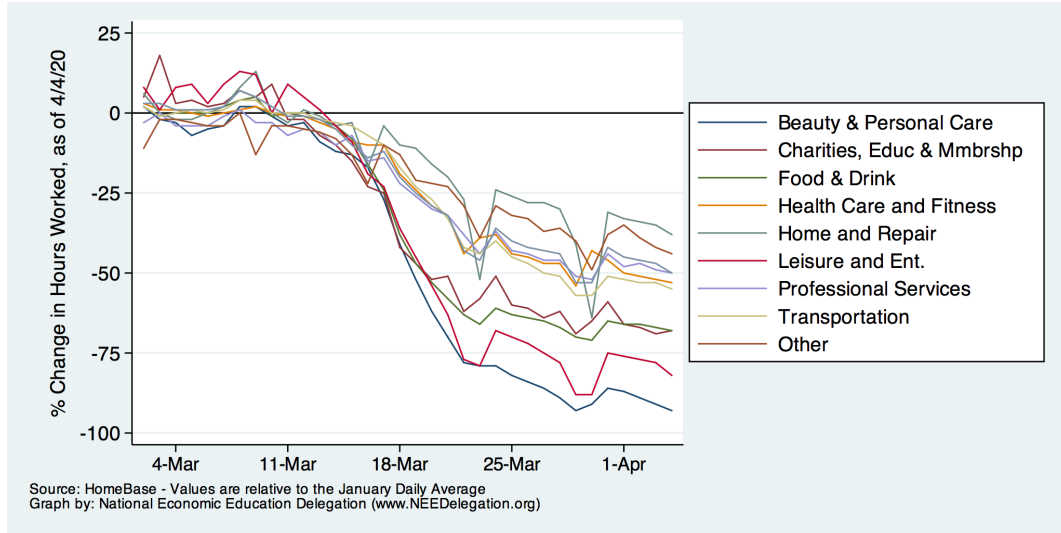
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## Weekly New Unemployment Claims



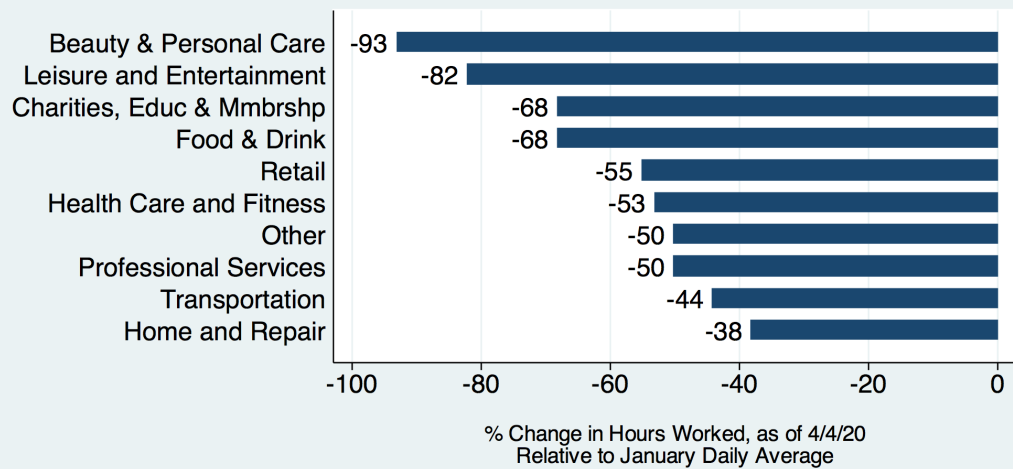
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## Percent Change Hours Worked



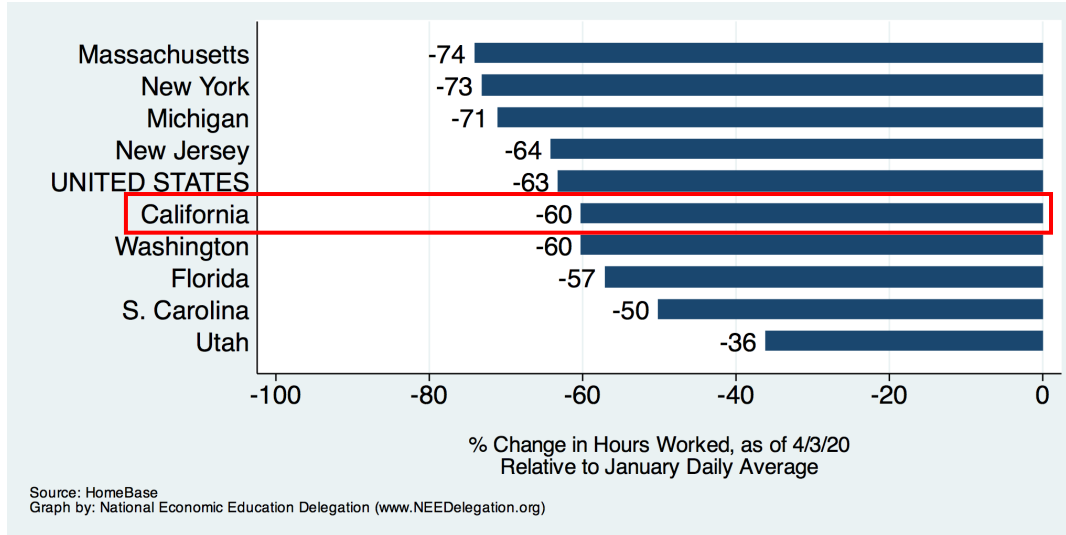
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## Percent Change Hours Worked



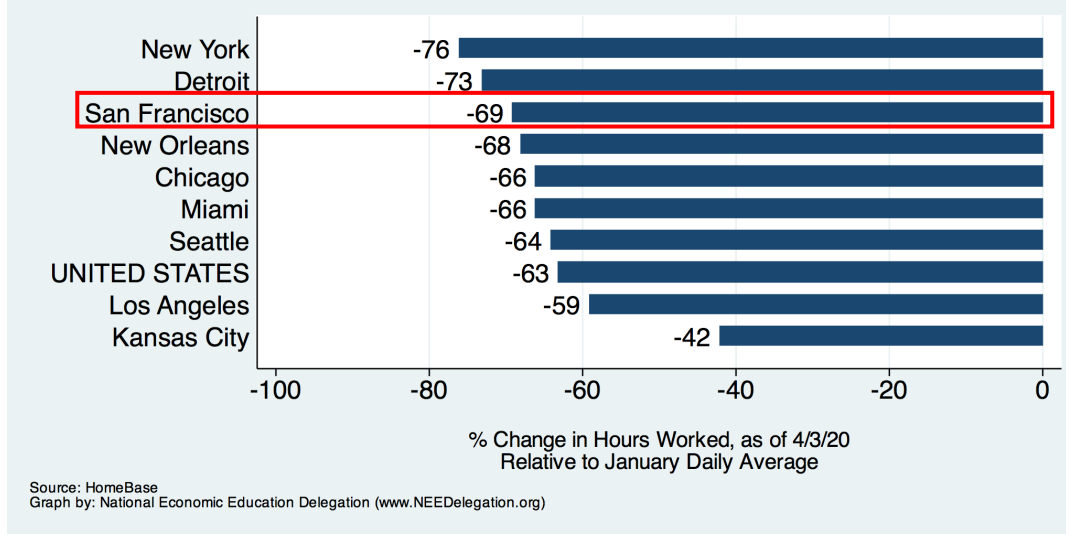
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## Percent Change Hours: States



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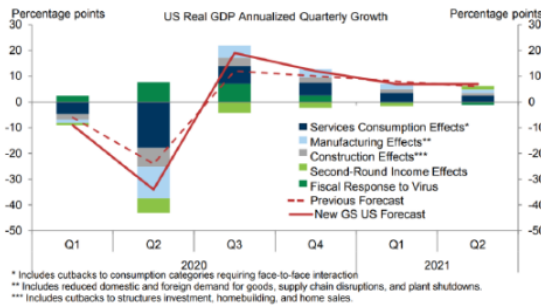
## Percent Change Hours: MSAs



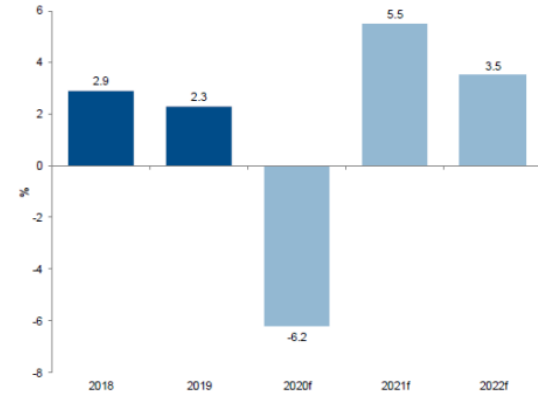
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# Goldman Forecast

1. GIR: US Real GDP Annualized Quarterly Growth Forecast



2. GIR: US Real GDP Annual Growth Forecast



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# Municipal Concerns

- **Taxable sales fall**
  - Visitor flow reduction (Bed Tax/TOT basically a sales tax on hotel rooms)
  - Car sales reduction
  - Manufacturing taxable sales for use tax
  - General reduction in non-essential retail (consumer durables)
- **Construction slowdown**
  - Job engine slowdown (with economic impacts)
  - May be good if housing market shock comes
  - Bad for taxable sales and local jobs and fees to be paid
- **Watching for property tax shock**
- **Costs on social assistance side likely to rise**
  - Public safety and also unrest may come
- **Unfunded liabilities becoming true liabilities?**
  - Retirements, delays and equity markets

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# Policy Response



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## Reactions: A Tale of Three Policies

- **Social policy**
  - Shutdowns on some industries versus others
  - Furloughs and lay-offs result
  - Vulnerable populations now more vulnerable
- **Fiscal Policy**
  - Business and taxpayer supports
  - Low-cost way to engage policy, but building danger later
- **Monetary Policy**
  - Back at the Zero Lower Bound
  - Managing markets and inflation is out with the bath water



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## Priorities for Policy

- **Policies to protect public health**
  - Long run benefits for the economy.
  - Though there may well be short run pain.
- **Policies to protect the economically vulnerable**
- **Policies to maintain resiliency of the economy**
  - Help firms stay in business, maintain ties with workers
- **Policies to stimulate aggregate demand**
  - Long run – once the economic switch is turned back on




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## Fiscal Policy Timeline

Phase	Amount (\$ bn)	Action
<b>Phase 1</b> March 6	\$8	Emergency response, health care, vaccine development, prevention
<b>Phase 2</b> March 18	\$100	Paid sick leave, unemployment insurance, free virus testing
<b>Phase 3</b> Pending	\$250	Direct cash payments to families with income cap; \$1,200 per adult, \$500 per child
	\$250	Enhanced unemployment benefits
	\$350	Small business loans up to 250% of monthly payroll
	\$100	Corporate tax changes
	\$17	Community lending
	\$500	Loans & loan guarantees for businesses, incl. airlines
	\$180	State and local governments & Education
\$100	Hospitals	
<b>TOTAL</b>	<b>\$1.5-2.5 Trillion</b>	<b>7-12% of GDP</b>



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Source: J.P. Morgan Asset Management. Data are as of March 23, 2020.

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## Thoughts on Policies to Date

- **Direct cash payments**
  - Are they really getting into the hands of those most in need?
- **Payments to large corporations:**
  - Airlines and car and airplane manuf.
  - How effective are these at maintaining the structure of the economy?
- **Enough to maintain employee-employer ties?**
- **Enough for medical care?**
  - The amount spent fighting the virus is relatively small.
  - Offer to pay for all coronavirus related health care expenses?



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## Fiscal Policy: Phase 4

- **Stimulate the economy or more economic support?**
  - Duration of “shelter in place” will determine the answer.
- **Stimulate: Plenty of options:**
  - Spending for government programs:
    - Infrastructure, worker training, social programs
  - Expanded unemployment benefits.
  - Cash payments to individuals and businesses.
- **What form should it take?**
  - Depends on why the economy is slow to recover.
    - Supply side: businesses having trouble flipping the on switch?
    - Demand side: consumers reluctant to spend?



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# OHMIGOSH: How Do We Pay For It!

- **Controversy: Can we afford it?**
  - Deficit is already running at \$1T/year.
  - Debt forecast to increase to 180% of GDP by 2050 (80% today).
    - o How much debt is too much?
- **Most economists agree: It doesn't matter!**
  - Priority #1: protect public health.
  - The added debt will be a problem later.
    - o We can deal with it later.

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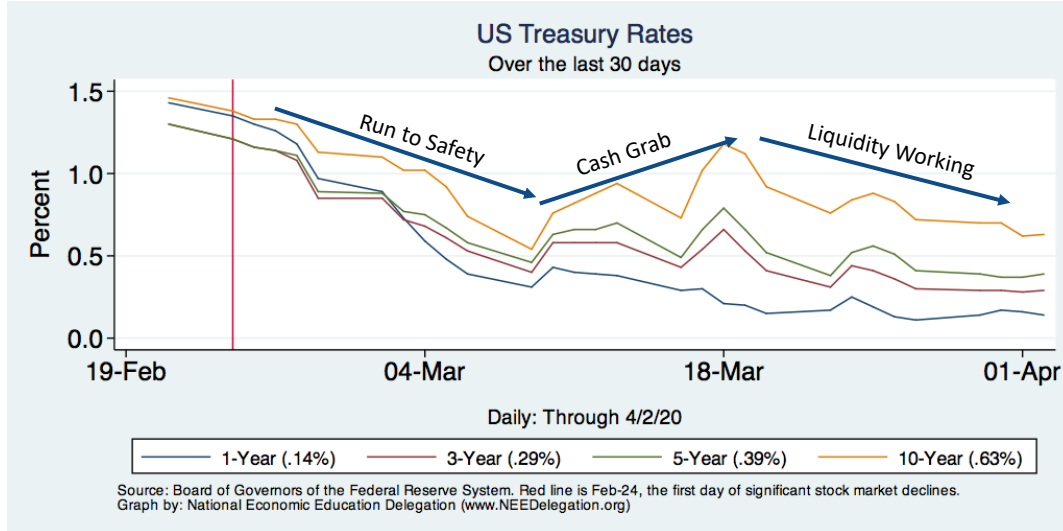
# Monetary Policy Timeline

	Date	Action
Stabilization	March 3	Fed Funds Rate Lowered 1.75-1.5 to 1.25-1
	March 15	Fed Funds Rate Lowered to 0.25-0 Announced QE of \$700 billion
Liquidity	March 17	Commercial Paper Funding Facility Primary Dealer Credit Facility
	March 18	Money Market Mutual Fund Liquidity Facility
	March 23	Primary Market Corporate Credit Facility Secondary Market Corporate Credit Facility Term Asset-Backed Securities Loan Facility Unlimited QE
	TBA	Main Street Business Lending Program

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## US Treasury Rates: A Safe Haven?



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## Short-term Indicators of Change

- **Labor market changes**
  - Initial claims for unemployment insurance
  - Job openings
  - Average hours worked
- **Epidemiology: what we need to see**
  - Cases in US peak and also Italy
  - General peak across US: duration and depth
- **Policy: more social now than anything**
  - Watch the urban areas



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## What have we learned? Positive Take-Aways

- May improve the delivery of some services.
- Encourage firms, households, governments to have a business continuity plan.
- In an integrated world, this will likely not be the last pandemic...
  - Improve social insurance for these types of events.
  - Allow more flexibility to governments and firms to respond.
- Potential learning to be carried forward:
  - Telecommuting
  - Telehealth
  - The value of the "walk around the block".



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## Big Open Questions

- When will the dust settle?
- When the dust settles:
  - How close will ties be between businesses and their pre-CV employees?
  - How much will the business environment change?
    - o More automation?
    - o More telecommuting?
- Broadly speaking: How quickly can things bounce back?
- What will the overall economic cost be?



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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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