



COVID-19: Economic Implications and Policy Response

Lifeguard Wealth, LLC

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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: 48 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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- Jon D. Haveman, NEED

- **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 does economics offer?**
- **Economic implications**
- **Vulnerabilities**
- **Evidence**
- **Policy**



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What Does Economics Offer?

- **Insight into the transition of the virus from health to the economy.**
- **Data on the magnitude of economic vulnerability.**
- **Cost benefit analysis of social distancing.**
- **Insight into government response:**
 - Appropriate targets of government policy
 - Evaluation of current measures
 - Fiscal and monetary policies
 - What else might be done and why?



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Perfect Storm for the Economy

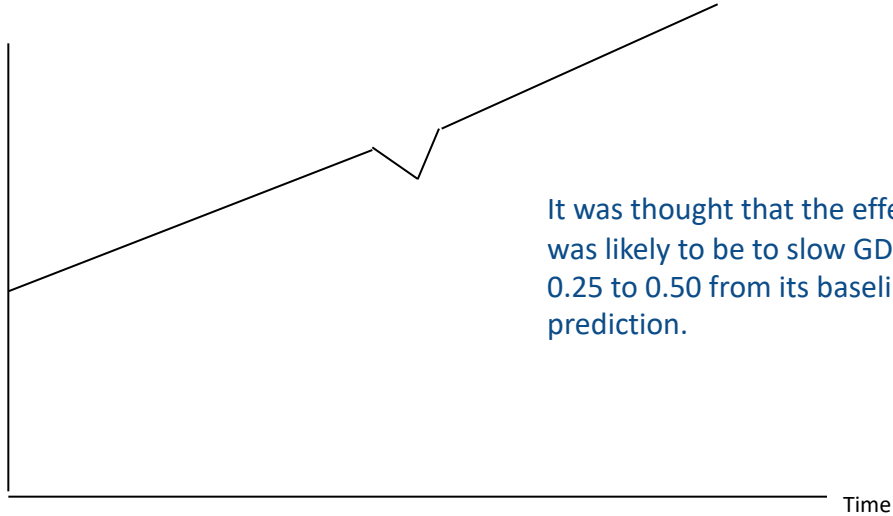
- **Supply side**
- **Demand side**
- **Financial**



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Modest Impact on GDP of COVID-19

GDP per Capita



It was thought that the effect was likely to be to slow GDP by 0.25 to 0.50 from its baseline prediction.

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The Escalation of the Economic Effects



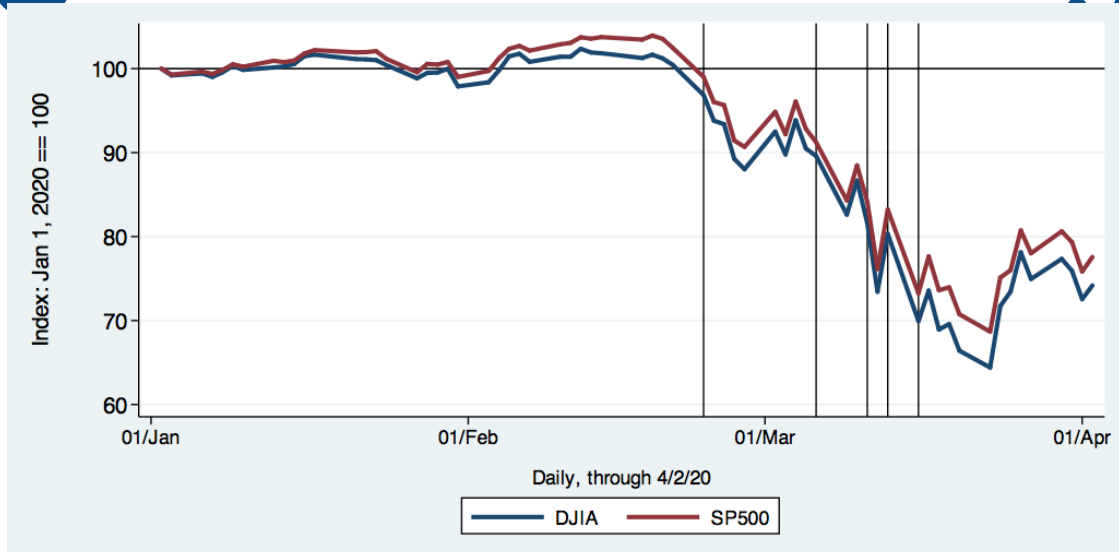
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Coronavirus: Demand Side

- **Stock market**
 - Postpone major purchases
- **Event cancellations**
 - More broadly tourism
- **Universal pseudo-quarantine**
 - Work from home
 - Eat at home
 - Watch movies at home

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DJIA and S&P 500



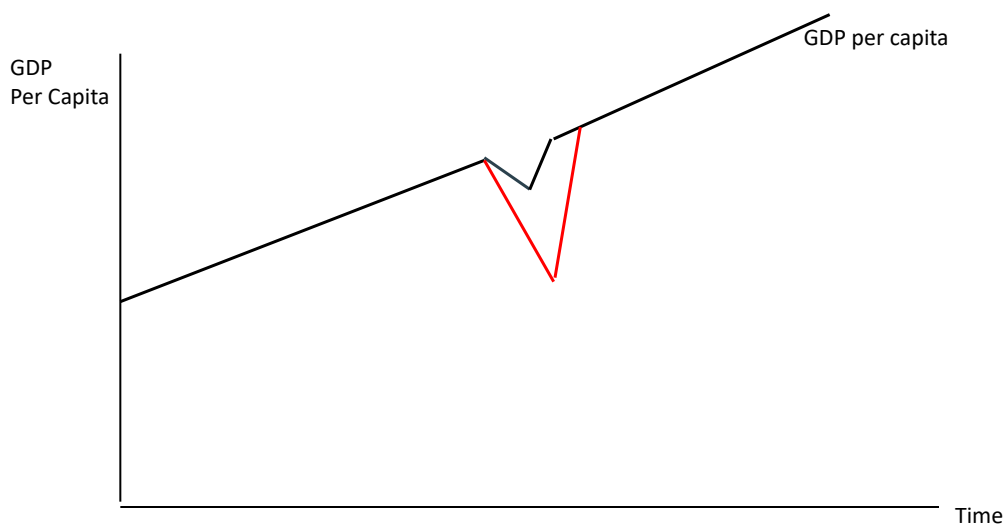
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Particularly Vulnerable Industries

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
Total	50.2

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Impact on GDP of COVID-19 – No Social Distancing

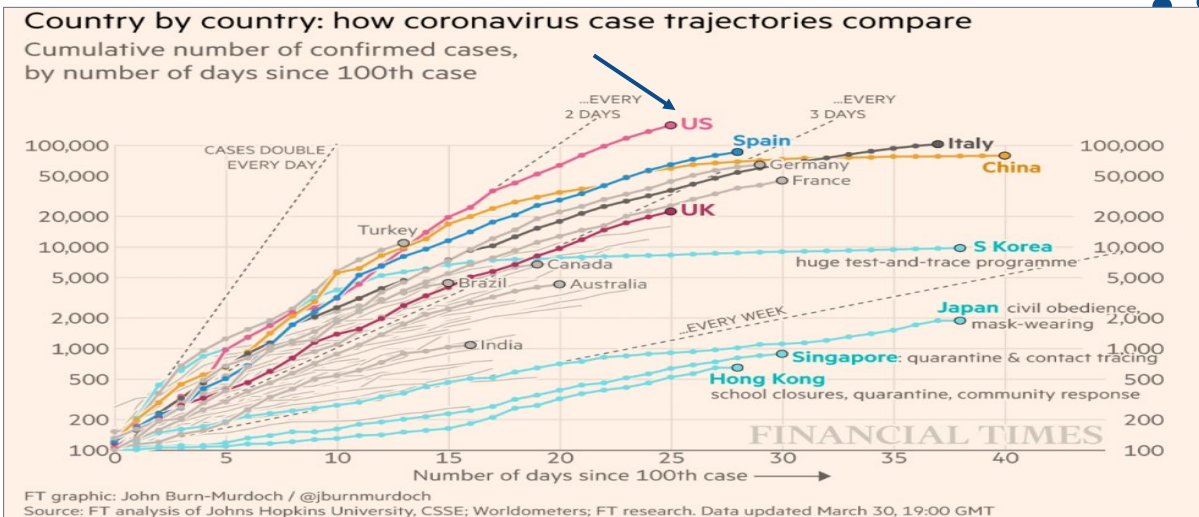


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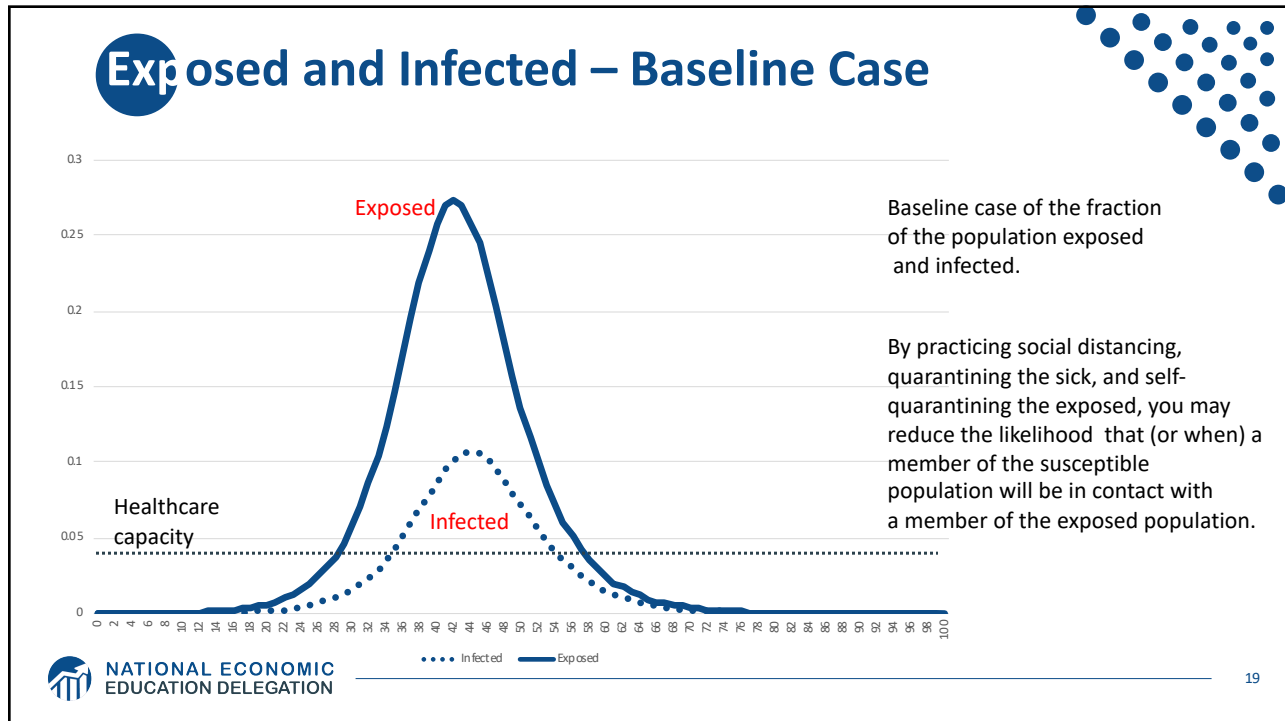
Social Distancing

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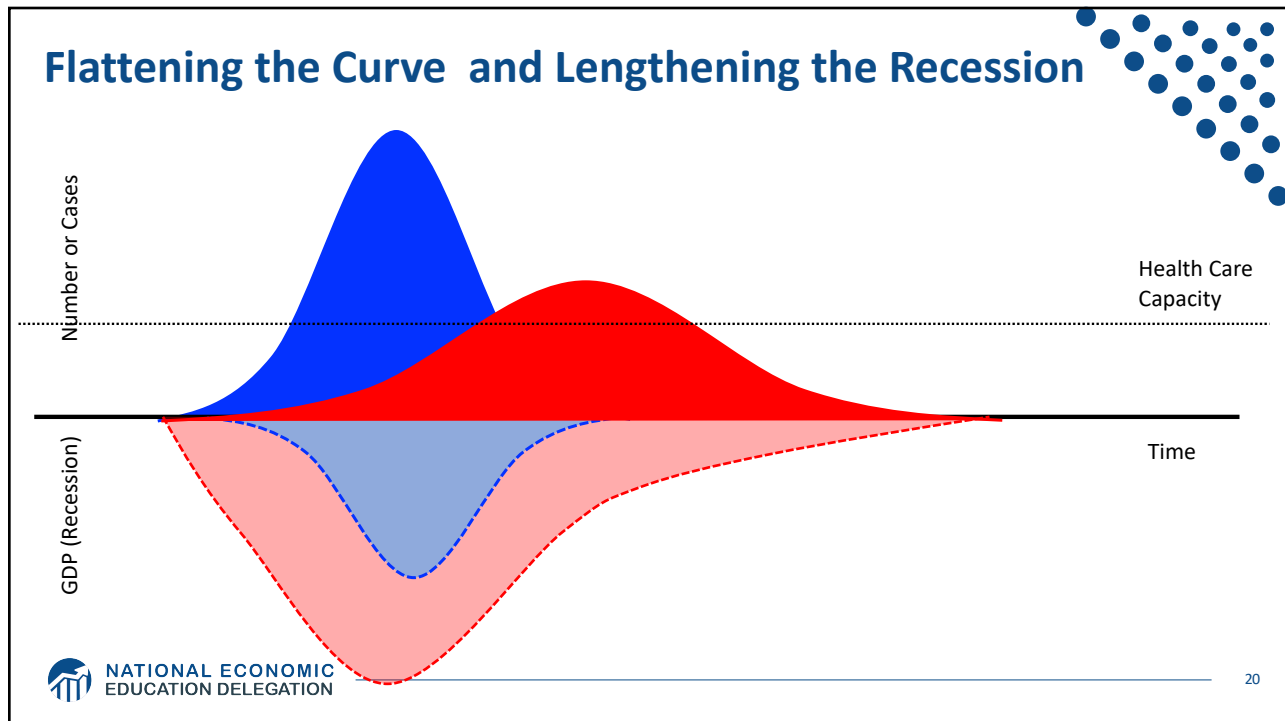
Confirmed Cases by Country



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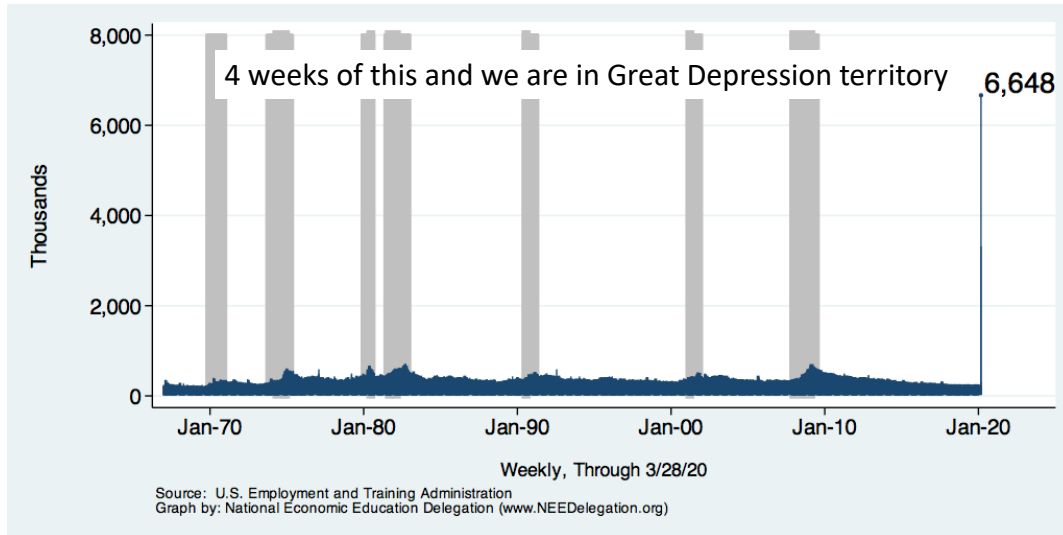


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Weekly New Unemployment Claims

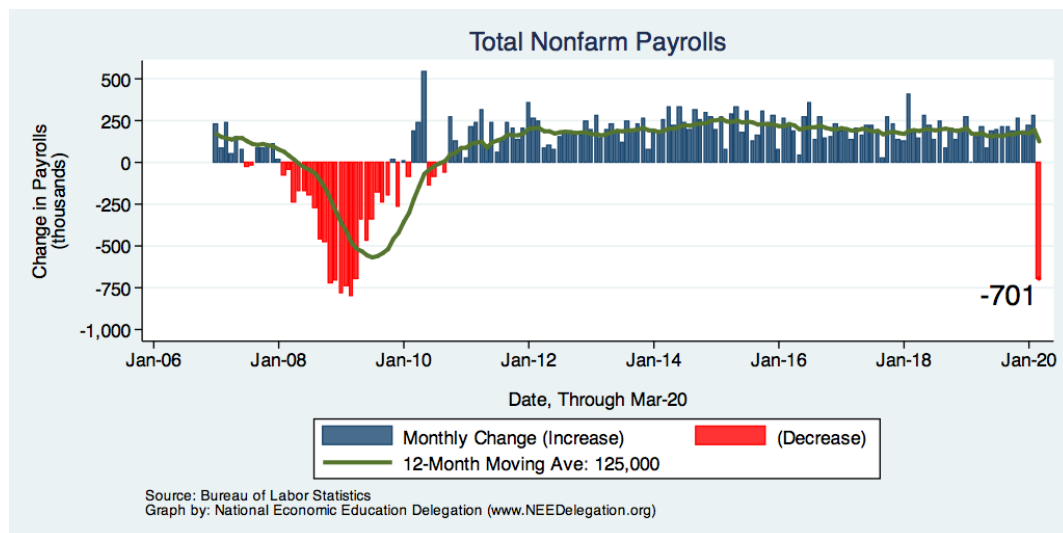


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Monthly Changes in Nonfarm Employment

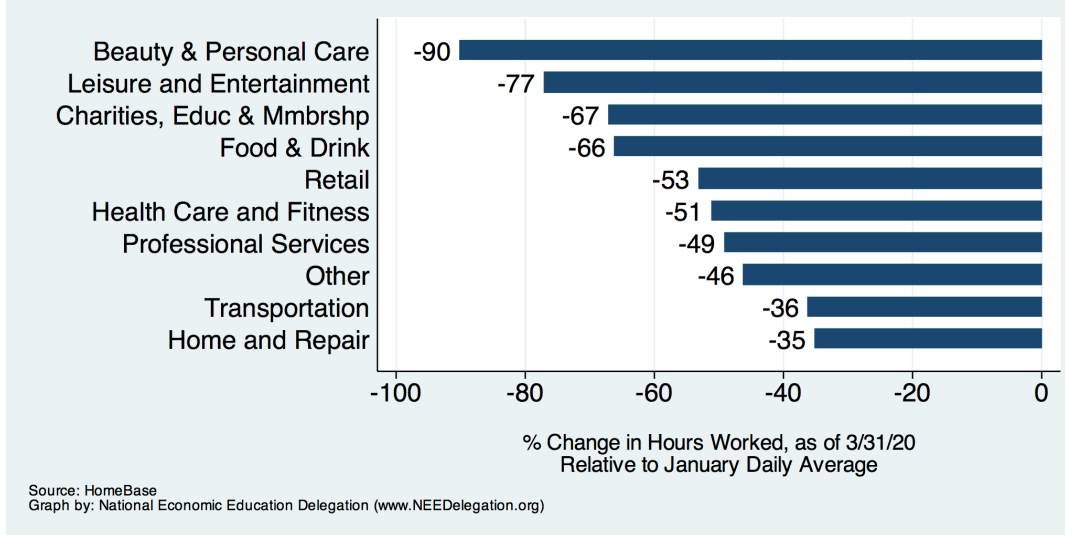


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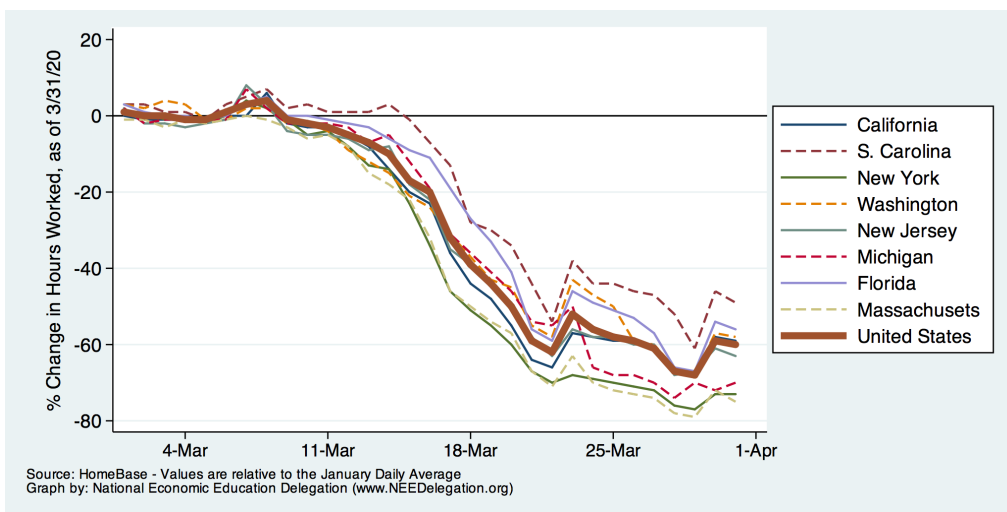
Percent Change Hours Worked: Nationwide



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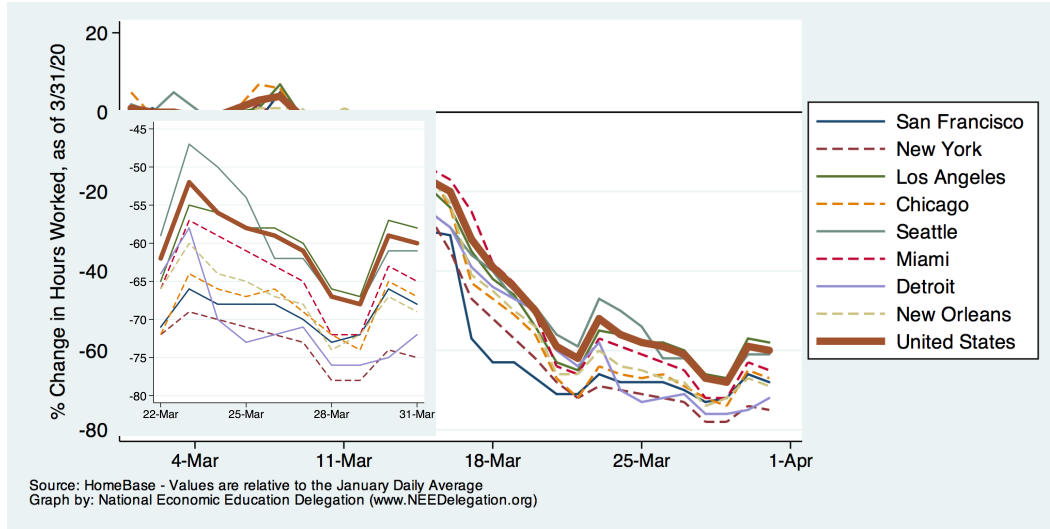
Change in Hours Worked: States



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Change in Hours Worked: MSAs



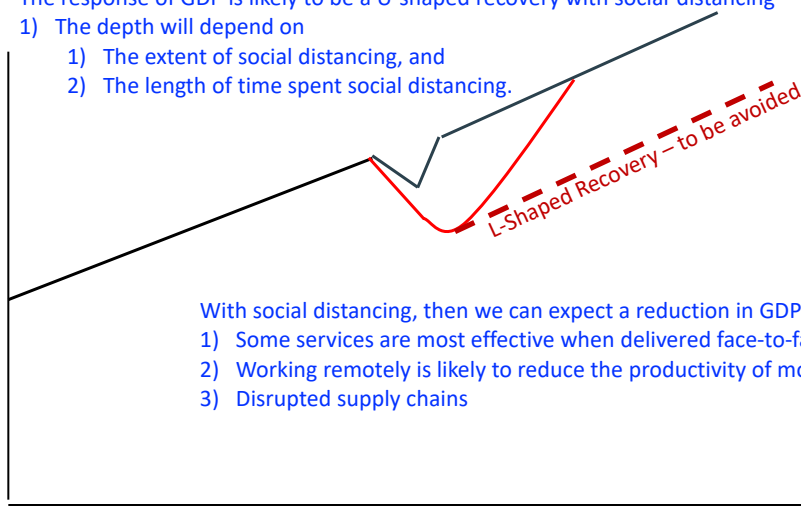
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Impact on GDP of COVID-19 – W/Social Distancing

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

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

GDP Per Capita



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

Time


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Cost Benefit Analysis: Tradeoffs

- **No containment policies**
 - Reduced economic activity
 - **More** coronavirus deaths
 - **Non-coronavirus deaths**
- **Stringent containment policies**
 - **Dramatically** reduced economic activity
 - **Fewer** coronavirus deaths
 - **Non-coronavirus deaths(?)**

↑ _____ ↑
???


Analysis of Containment Policies
Reduced economic activity < value of additional deaths
Complicated equation – both numerically and philosophically

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Cost Benefit Analysis: Some Additional Info

- **Value of a statistical life: \$5-14 million**
 - Depends on what the right value of a life is.
 - Depends on net difference in # of deaths.
- **Size of the economy: ~\$2 trillion per month**
 - Depends on economic impact
 - Of containment policies
 - Of unabated virus

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BOTE Cost Benefit Analysis

BOTE: Back Of The Envelope

- If we evaluate the the value of a statistical life at \$7 million, and
- we think that social distancing reduces the number of deaths by 600,000
- Benefit of Saved Lives is: \$4.2 Trillion
- Survivors may face long-term health effects – 2 million valued each at \$500,000
- Survivor Cost: \$1 Trillion
- **Total Benefit of Social Distancing: \$5.2 Trillion**



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

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BOTE Cost Benefit Analysis

BOTE: Back Of The Envelope

- Cost of “Shelter in Place” or “Lockdown”
- The cost of a non-workday reduces unadjusted quarterly GDP by about 0.4%.
- There are about 60+ workdays in a quarter and we lost about 1/8 or March.
- **The cost of a “lockdown” is roughly \$1.3 Trillion**

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

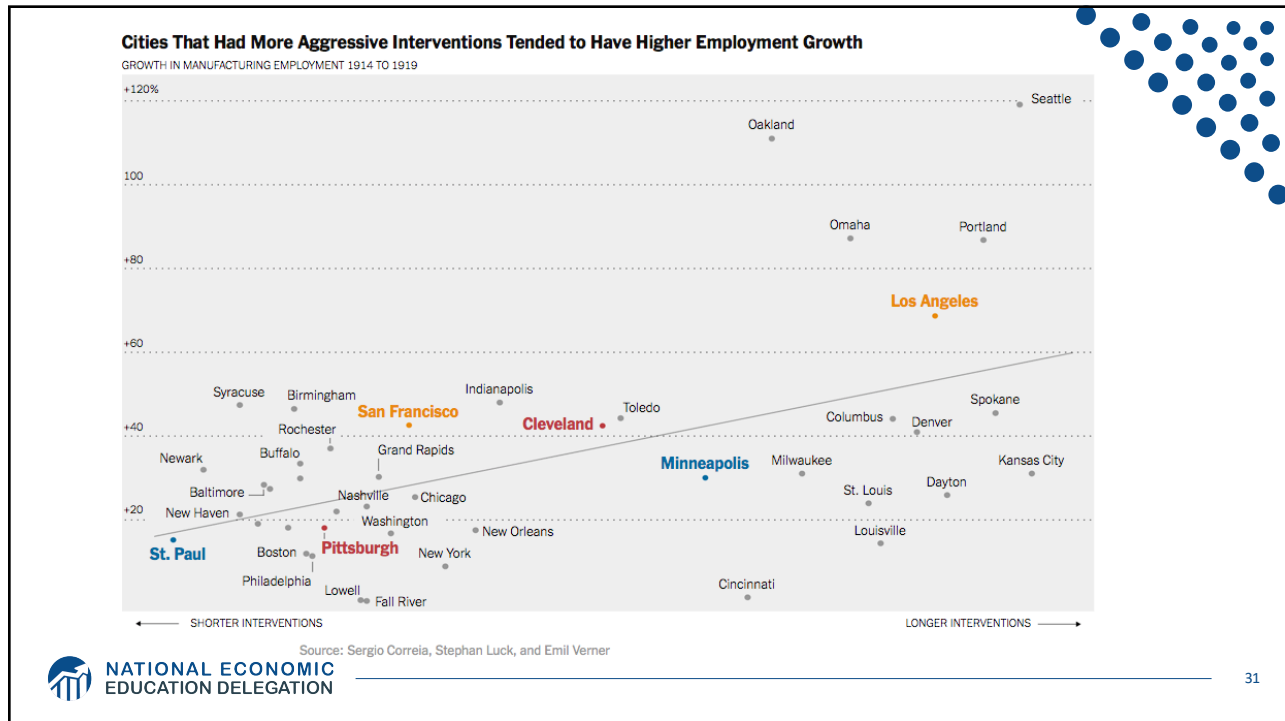


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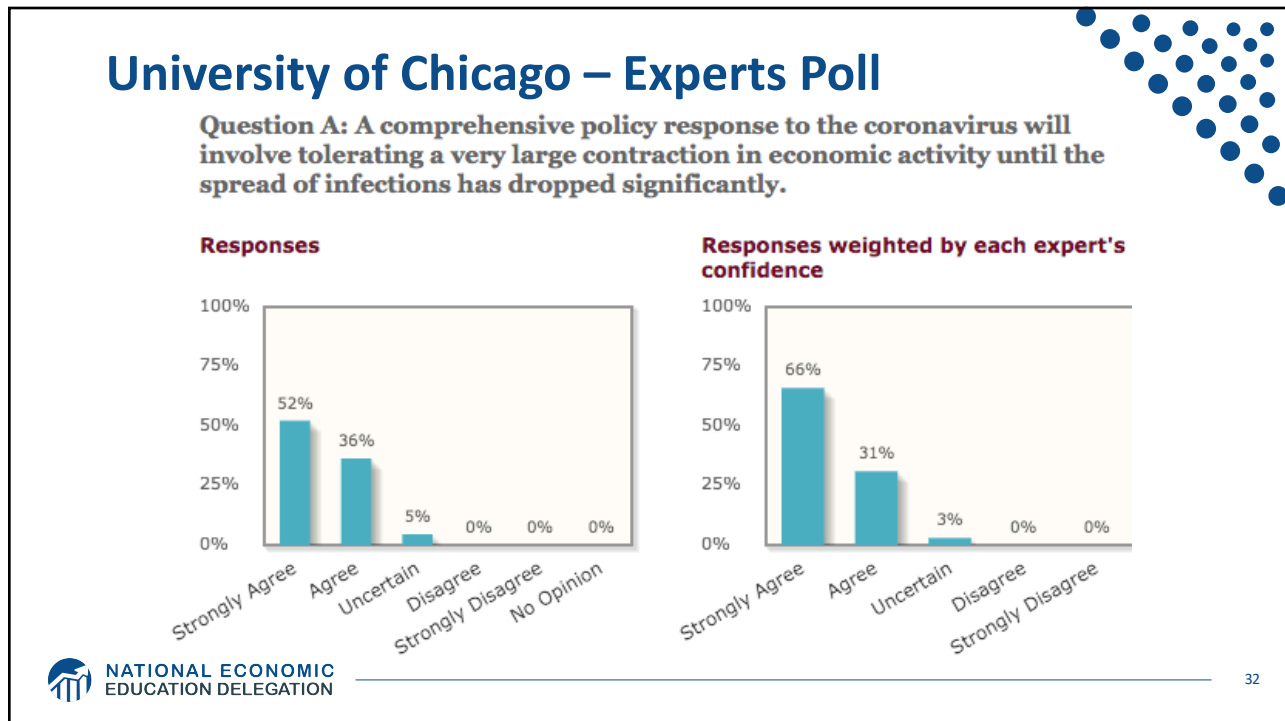
<http://caseymulligan.blogspot.com>

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Economic Crisis Tools

Fiscal and Monetary Policy



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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
Phase 1 March 6	\$8	Emergency response, health care, vaccine development, prevention
Phase 2 March 18	\$100	Paid sick leave, unemployment insurance, free virus testing
Phase 3 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	
TOTAL	\$1.5-2.5 Trillion	7-12% of GDP


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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).
 - 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.
 - We can deal with it later.



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The Most Important Roles of Monetary Policy

I. Macroeconomic Stabilization

- Raise aggregate demand by lowering interest rates.
 1. Federal Funds Rate
 2. Quantitative Easing (QE)

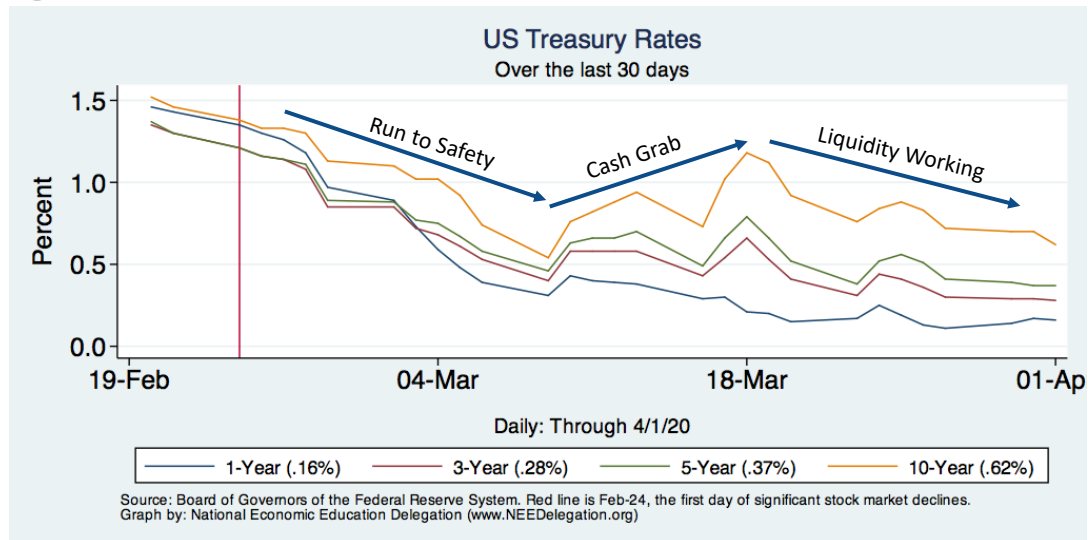
II. “Lender of Last Resort” - Insuring Liquidity in Lending Markets

- The Fed has unlimited access to dollars and can:
 1. Make loans directly or buy new debt issues (“market liquidity”)
 2. Provide loans to intermediaries (“funding liquidity”)

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

US Treasury Rates: A Safe Haven?



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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?
 - More automation?
 - More telecommuting?
- **Broadly speaking: How quickly can things bounce back?**
- **What will the overall economic cost be.**



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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".



Conclusions

- COVID-19 is a health crisis that has extreme economic implications.
 - Negative GDP growth likely for several quarters
- Fiscal and monetary response:
 - First: targeted at health crisis.
 - Second: income and employment maintenance.
 - Third: stimulate the economy when health crisis is over.
- Broad agreement among economists: Cure < Disease
- Entirely likely that the economy will be stronger on the other side.
 - Might take some time to get there.



Thank you!

Any Questions?

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