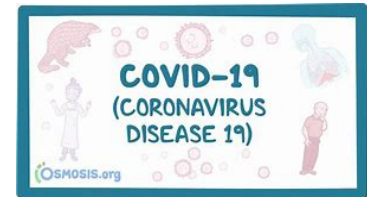




COVID-19: Economic Implications and Policy Response

SF1 Cocktail Party

April 23, 2020
Jon Haveman, Ph.D.
Executive Director, NEED



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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.

2

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

3

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:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University

- **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?**
- **Evidence of Impact**
- **Government Policy**
- **What to expect going forward**



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What is this?

- **A natural disaster – with important twists**
 - Global
 - Duration is unpredictable
 - Economic toll is enormous and potentially durable
- **A health crisis with enormous economic implications.**
 - A perfect storm of economic difficulty
 - Supply side
 - Demand side
 - Financial
 - Without a culprit



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Process for Dealing with a Natural Disaster

- **Mitigation of effects**
- **Tend to the vulnerable**
- **Short up structures**
- **Rebuild**

This crisis requires the same approach and sequence.

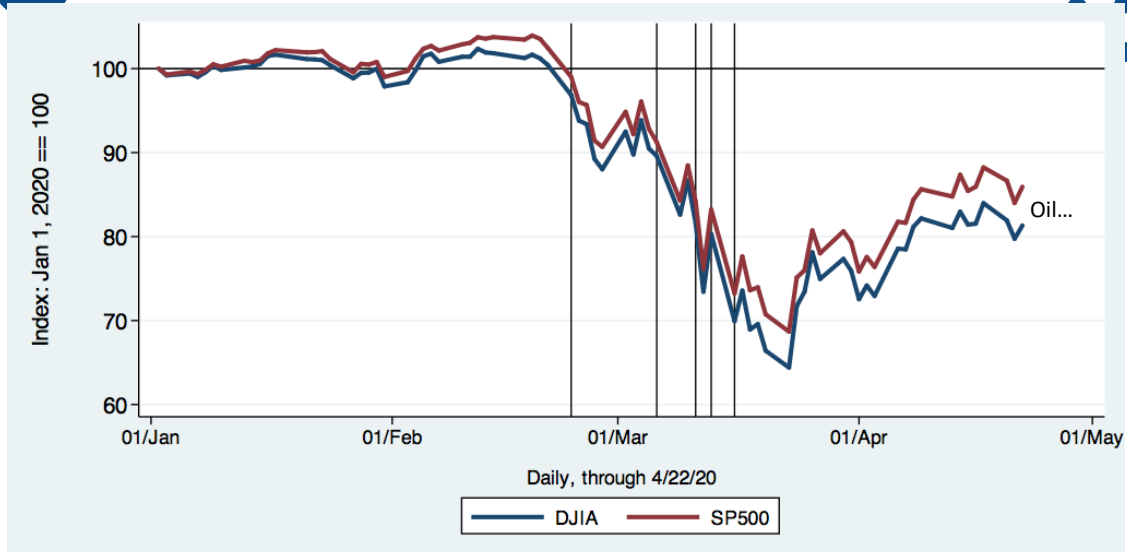


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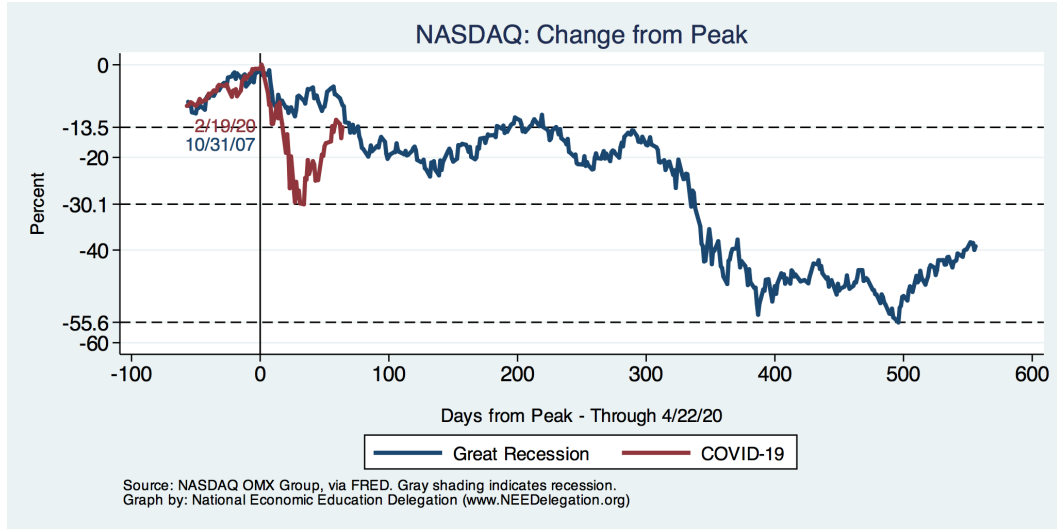
Evidence of Impact

- Really too soon to tell.
- Early metrics:
 - Stock markets
 - Unemployment
 - Car and Truck Sales
 - Retail Sales
 - Housing Starts
 - Inflation

DJIA and S&P 500

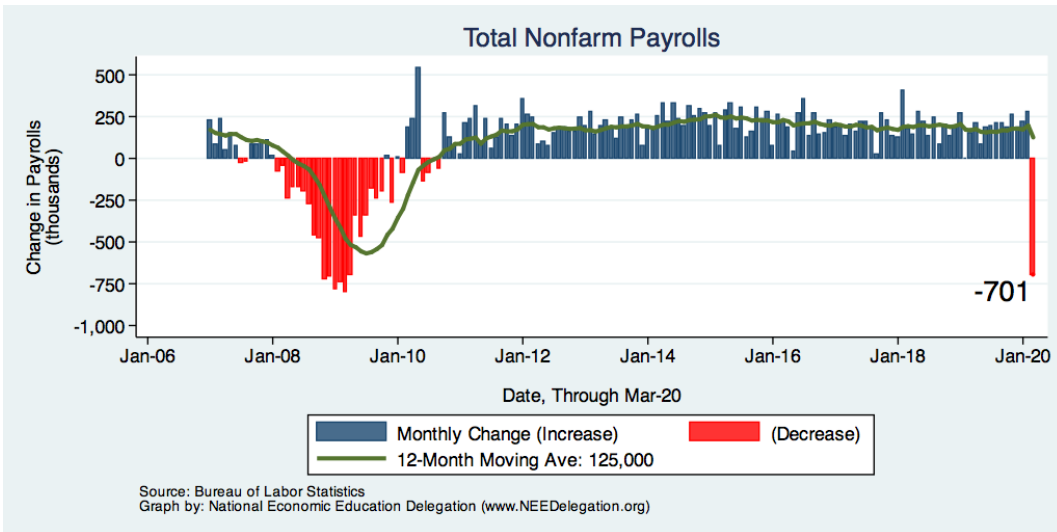


NASDAQ: Then (Great Recession) and Now



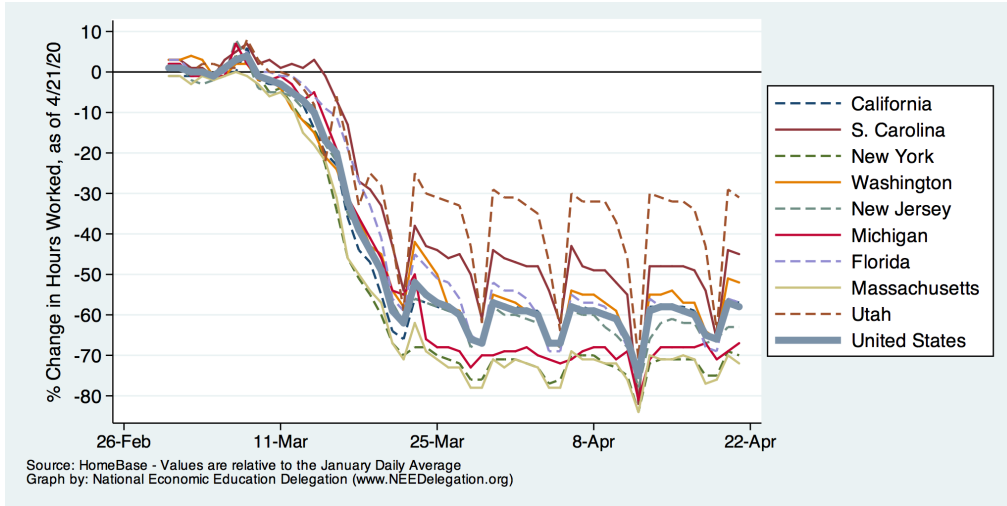
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Monthly Changes in Nonfarm Employment



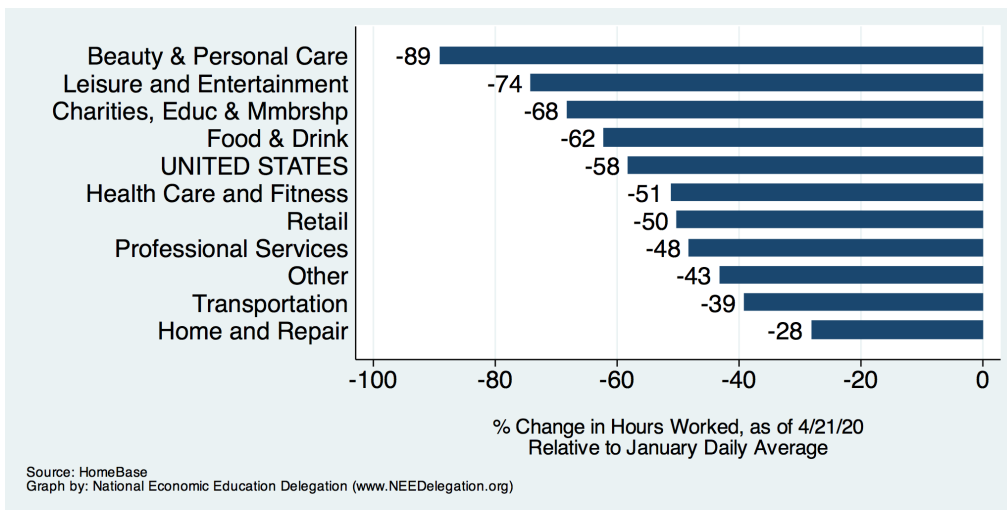
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Change in Hours Worked



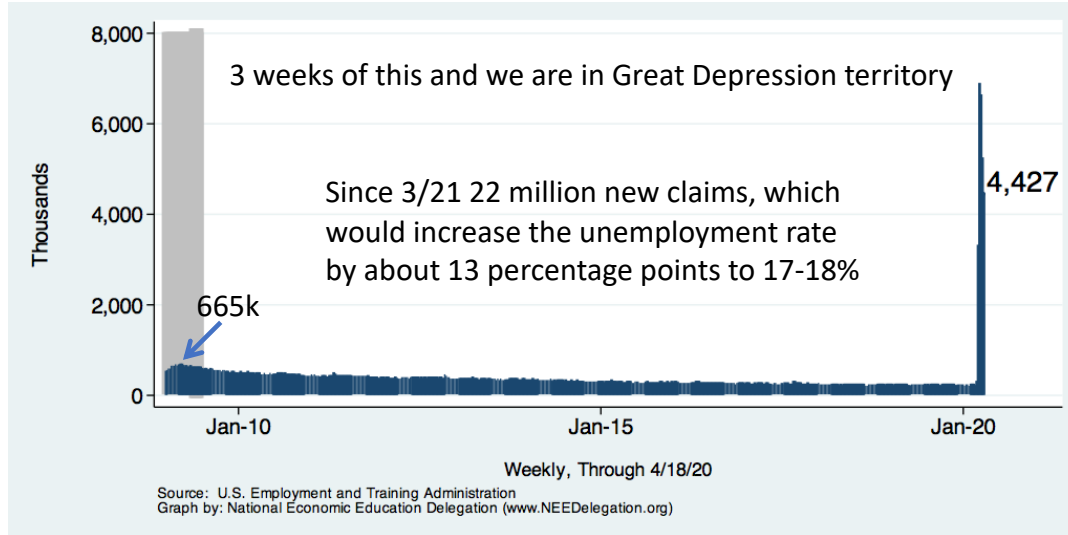
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Change in Hours Worked



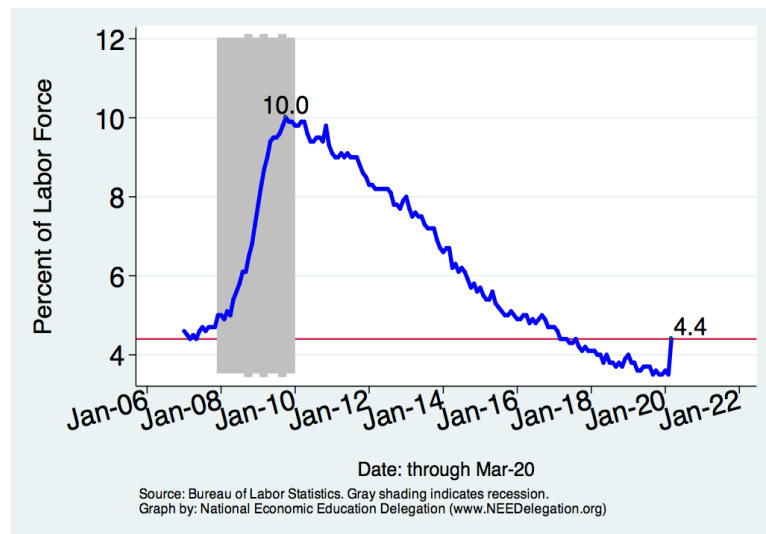
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Weekly New Unemployment Claims



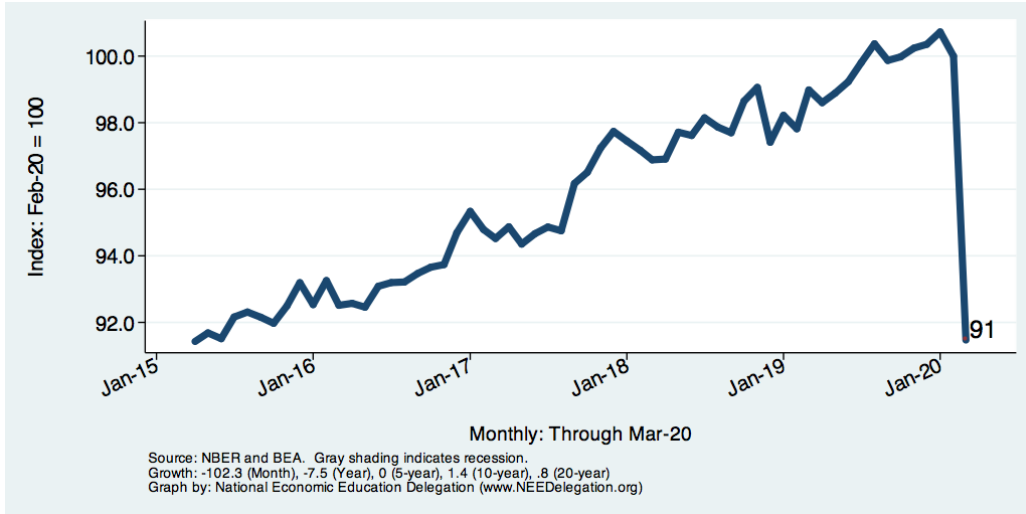
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Unemployment Rate



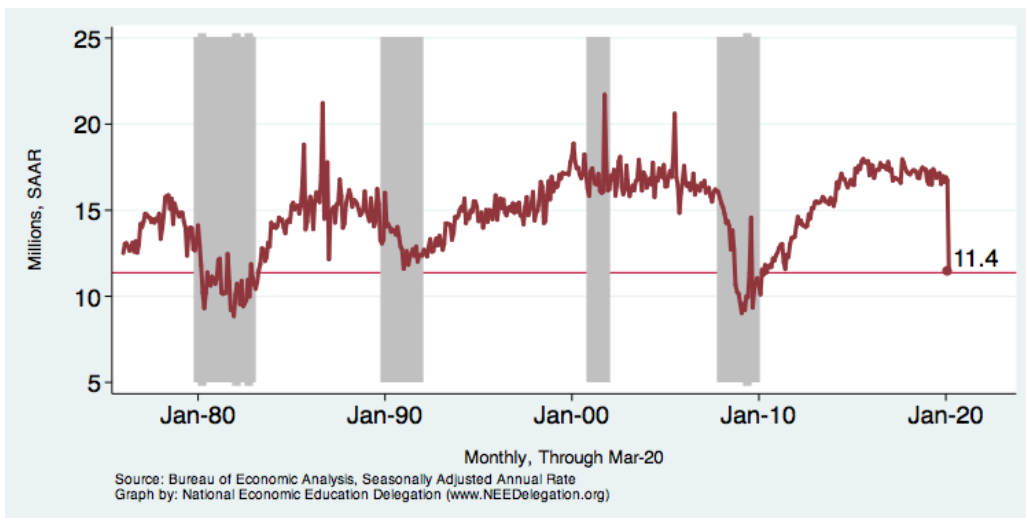
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Retail Sales



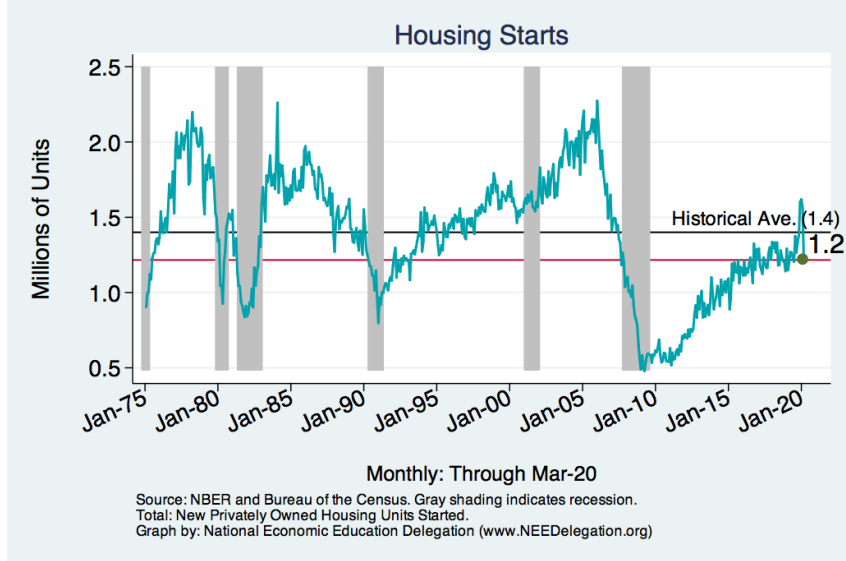
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Automobile and Light Truck Sales

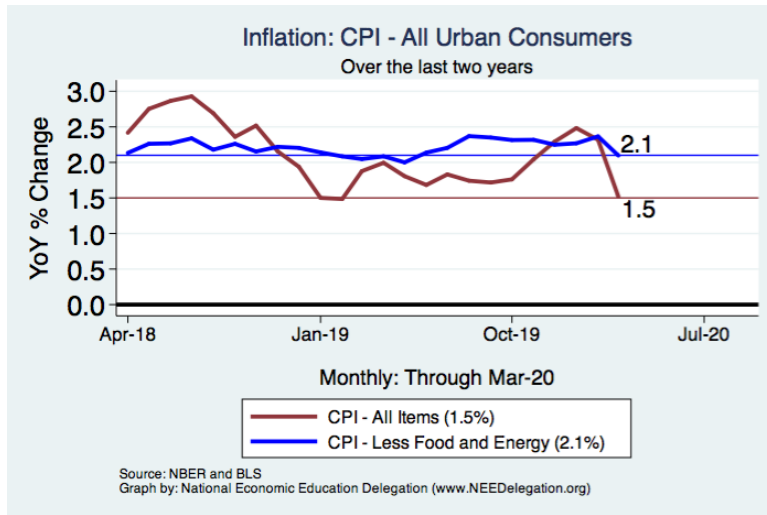


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Housing Starts Plummet: Down 25% in March



Inflation – Deflation is More Likely



Policy Response



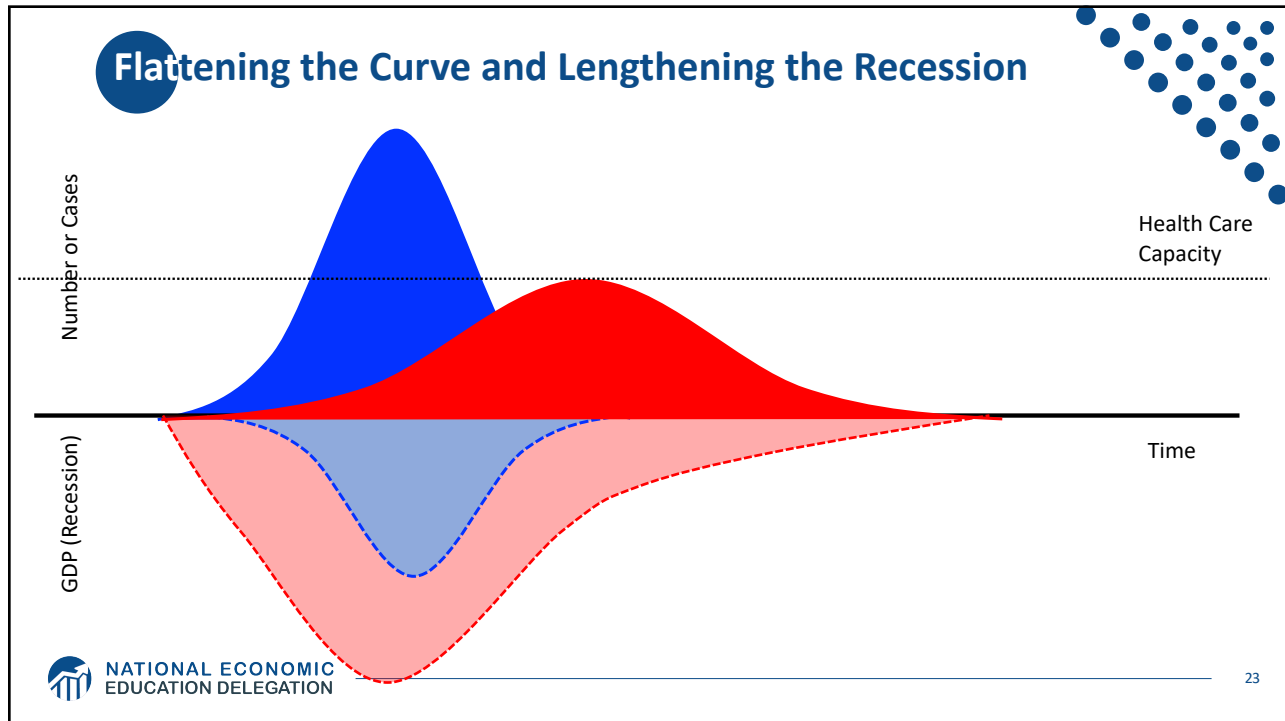
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A Tale of Three Policies Efforts

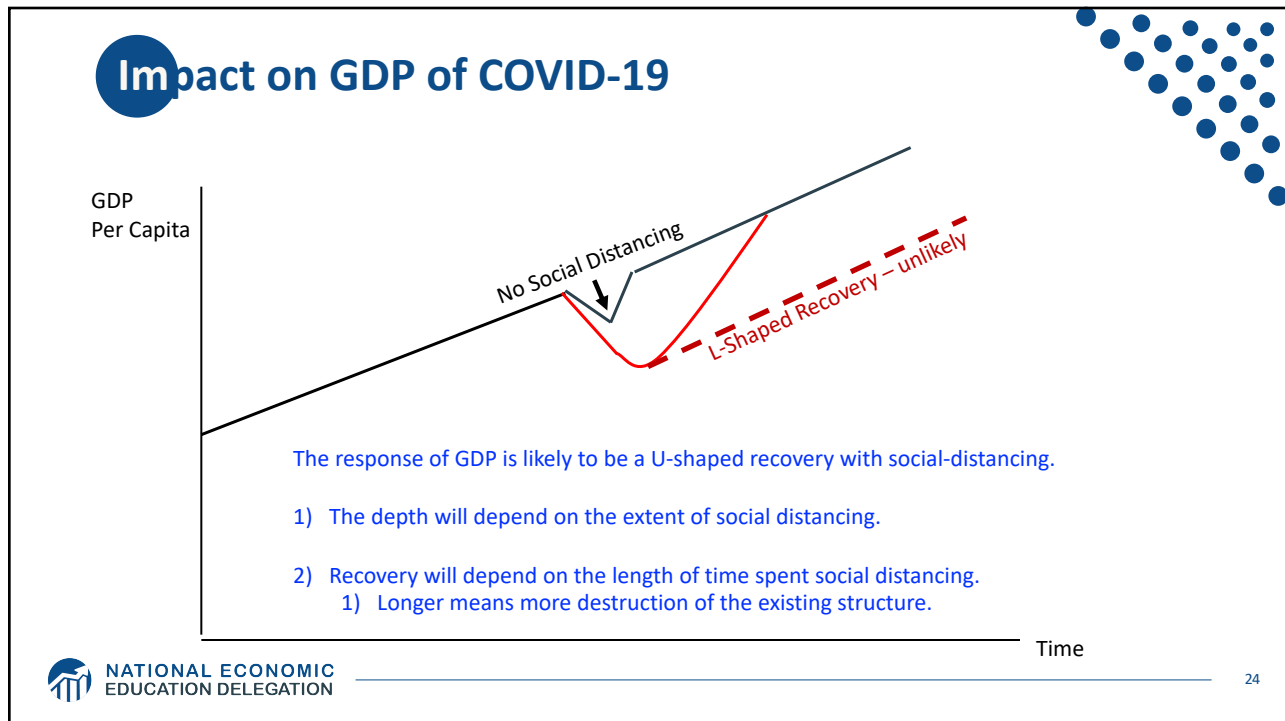
- **Social policy: Social Distancing**
 - Shutdowns in some industries
 - Furloughs and lay-offs result
 - Vulnerable populations now more vulnerable
- **Fiscal Policy**
 - Health care support
 - Business and taxpayer supports
- **Monetary Policy**
 - Back to Zero interest rates
 - Managing markets and inflation is out with the bath water



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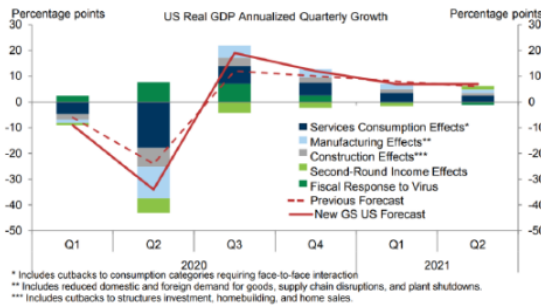
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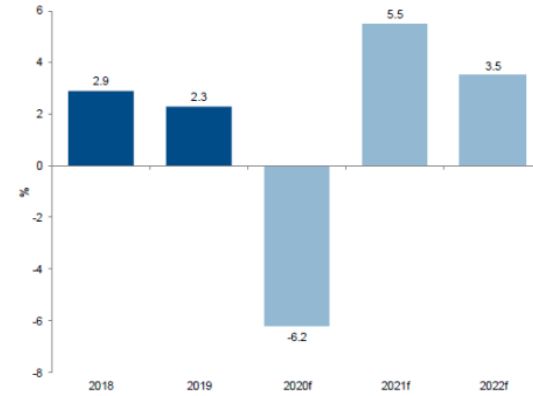
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Goldman Forecast

1. GIR: US Real GDP Annualized Quarterly Growth Forecast



2. GIR: US Real GDP Annual Growth Forecast



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 8 in March).
 - **The cost of a “lockdown” is roughly \$1.3 Trillion**

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

Priorities for Government 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 structure of the economy**
 - Help firms stay in business, maintain ties with workers.
- **Policies to stimulate aggregate demand (rebuild)**
 - Long run – once the economic switch is turned back on.



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Fiscal Policy - Congress

- **Phase 1**
 - \$8 billion – to mitigate the crisis
- **Phase 2**
 - \$100 Billion – get people to stay at home, safety net
- **Phase 3**
 - \$2.2 Trillion – support individuals and businesses
- **Phase 4**
 - ???



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Expanded Phase 3 From Congress

- **Features**

- Hospitals \$ 75B
- Testing \$ 25B
- Paycheck Protection Program - \$310B
- Small biz emergency loan program \$ 60B

\$484B

- **Issues with the first round:**

- Very slow to get money out the door.
- Lots of evidence that it is going primarily to large companies

- **Questions about this bill:**

- Have the kinks in the system been ironed out?
- Will it go where it will do the most good?

What About States and Cities? Bankruptcy?

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

Coronavirus and Inequality

- Resources to weather the storm.
- Jobs at risk.
- Racial inequities.
- Educational inequities
- Health insurance at risk.
- Telecommuting
- Restrictions on the use of government funds.



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Financially Insecure Before Coronavirus

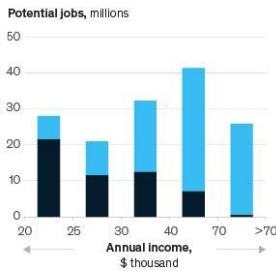
- 40% of Americans don't have the cash to pay for a \$400 emergency expense
- 25% have no retirement or pension savings
- Less than 60% can answer at least three basic financial literacy questions correctly.
- 1 in 5 of adults knows someone impacted by the opioid crisis.
- About 25% of borrowers who attended a for-profit college are behind on student loan payments compared with about 10% who attended a public or private college



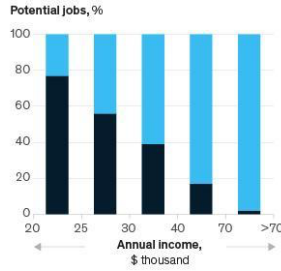
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Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

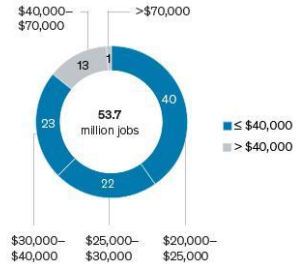
Level of job vulnerability,¹ by income band



Potential Jobs, %



Vulnerable jobs by annual income band¹ %

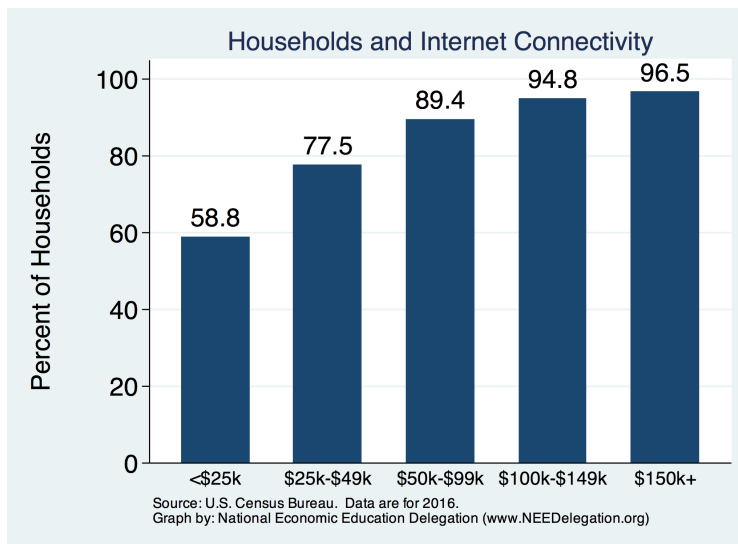


Note: Data may not sum to 100, because of rounding.
¹Vulnerable jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis.

McKinsey & Company

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Home Schooling - Access to the Internet



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Monetary Policy – Federal Reserve

- **Two primary objectives**
 - Stabilize the economy
 - Maintain liquidity of the system
- **Actions in three forms:**
 - Inject cash into the system
 - Traditional interest rate stimulus
 - Shore up existing debt and structures



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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: concerns**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Payments to large corporations:
 - How effective are these at maintaining the structure of the economy?
 - Technical issues – trouble getting the PPP money out.
 - Enough to maintain employee-employer ties?
 - Enough for medical care?
 - The amount spent fighting the virus is relatively small.



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What does the future bring?

- **We won't need "shades" for quite some time.**
- **Further government policy**
 - Buoy individuals, financial sector, and structures.
 - Ultimately stimulus – but not soon.
- **Structural changes to the economy?**
 - More telecommuting
 - More rapid adoption of technology
 - The way we purchase things



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Big Open Questions

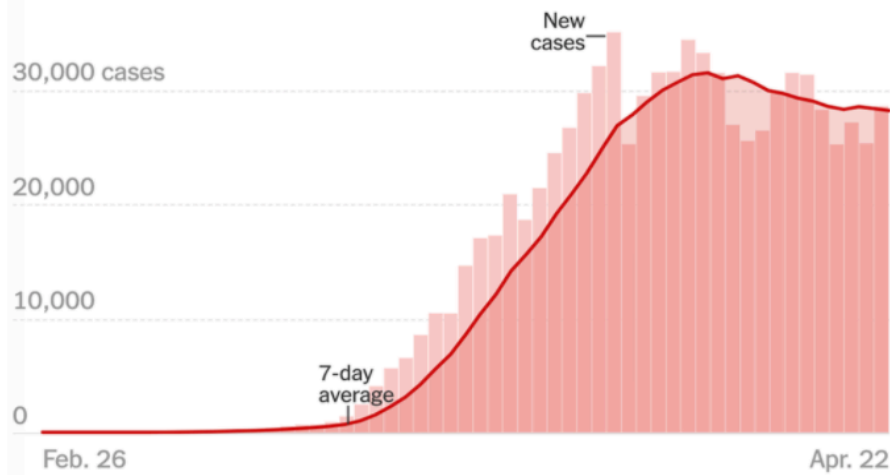
- **When will the dust settle?**
- **When the dust settles:**
 - Ties be between businesses and their pre-CV employees?
 - How much will the business environment change?
- **Broadly speaking: How quickly can things bounce back?**
- **What will the overall economic cost be?**



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It All Hinges on Infection Rates

New reported cases by day in the United States



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Source: NYTimes

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Resuming Activity Too Soon

- **We don't know nearly enough about infection rates.**
- **If the virus is not contained:**
 - Coming out will lead to a reemergence.
 - With reemergence comes a retrenchment.
 - This will cause economic recovery to happen twice.
 - Economic recovery is difficult and costly.
- **It is better to err on the side of caution now.**



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Thank you!

Any Questions?

www.NEEDelegation.org
 Jon D. Haveman
 Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

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

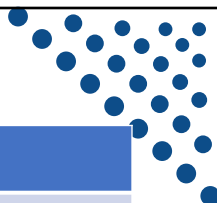
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Fiscal Policy Timeline

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 March 27	\$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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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