

COVID-19: Economic Implications and Policy Response

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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

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:**
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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).



4

Outline

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

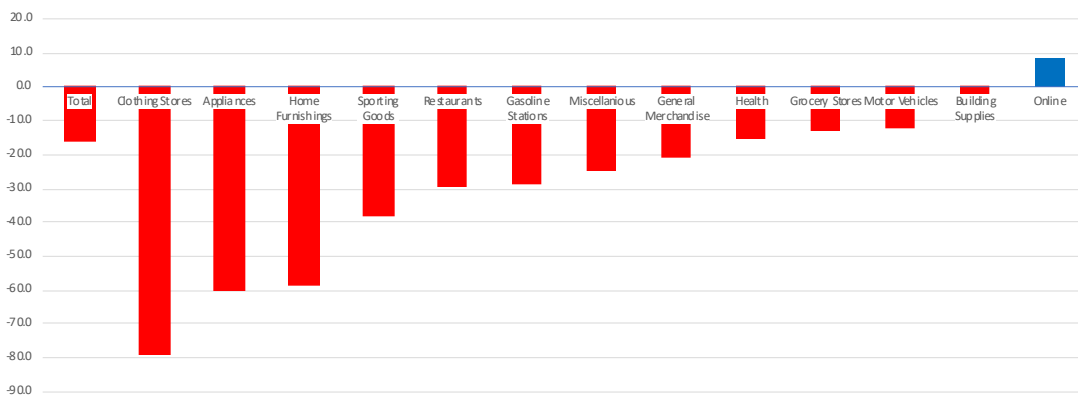
Monarch Notes Version



5

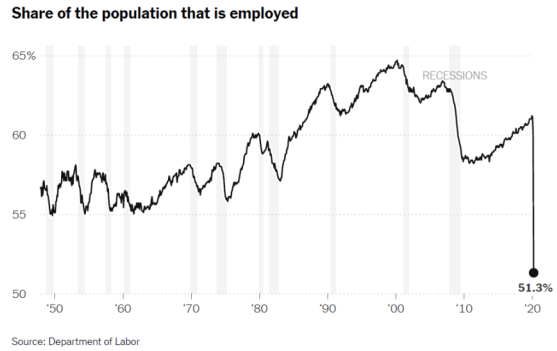
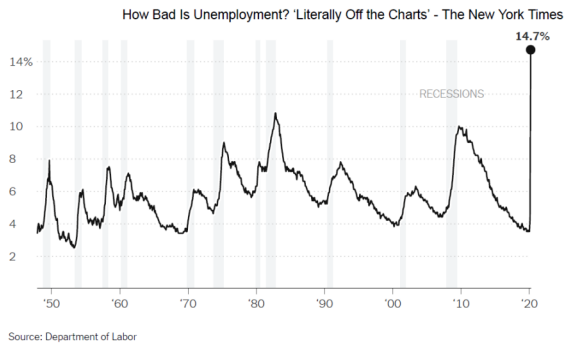
Spending Has Collapsed

Change in Retail Sales March to April
Dept of Commerce



6

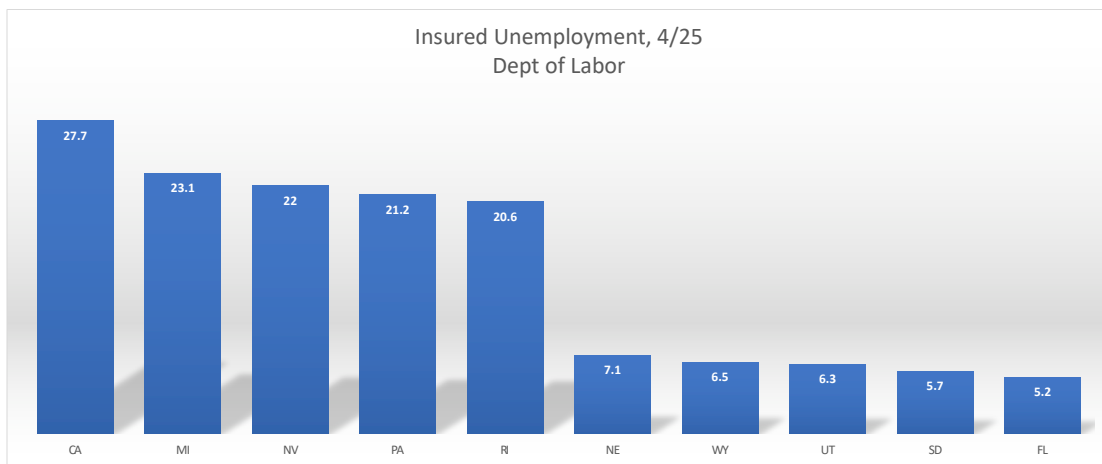
Unemployment is "Off the Charts"



And, Department of Labor warns these are underestimates!

7

Unemployment Is Hitting Different States

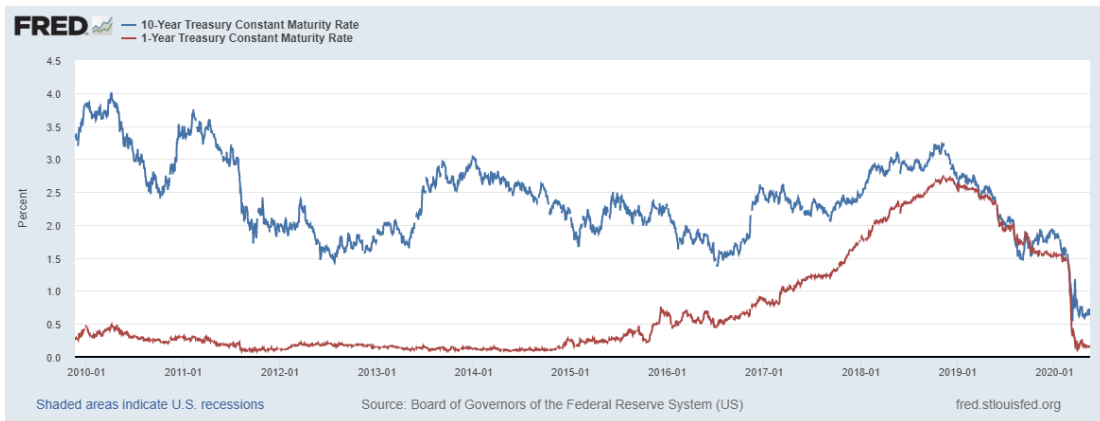


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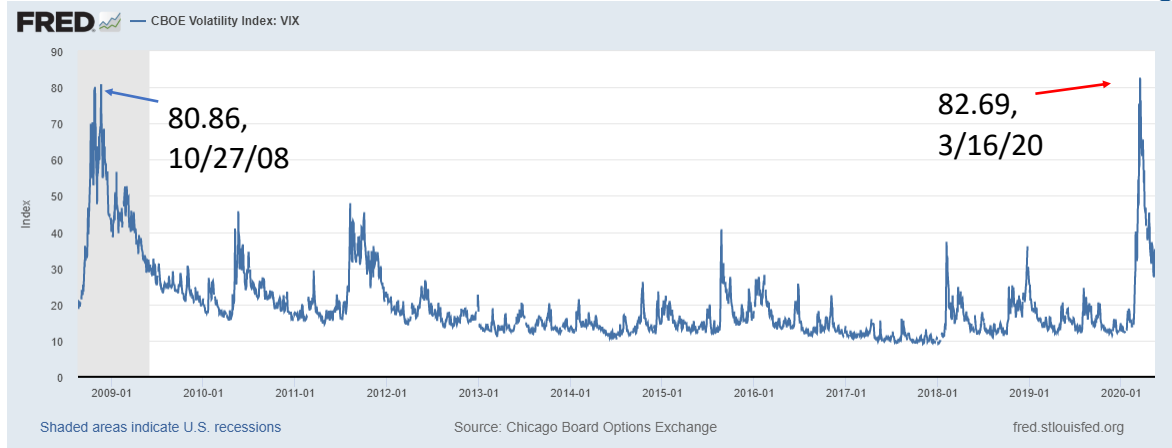
Financial Markets Take a Plunge, but Rebound



But You Have to Put Your Money Somewhere!



The Fear Index: the VIX



11

How Bad Could it Get?

CBO Projections, 5/19

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
<i>Real GDP growth</i>	-1.2	-11.2	5.0	2.5	n.a.	n.a.
<i>At Annual Rate</i>	-4.8	-37.7	21.5	10.4	-5.6	2.8
<i>Unemployment Rate</i>	3.8	15.1	15.8	11.5	11.5	9.3

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

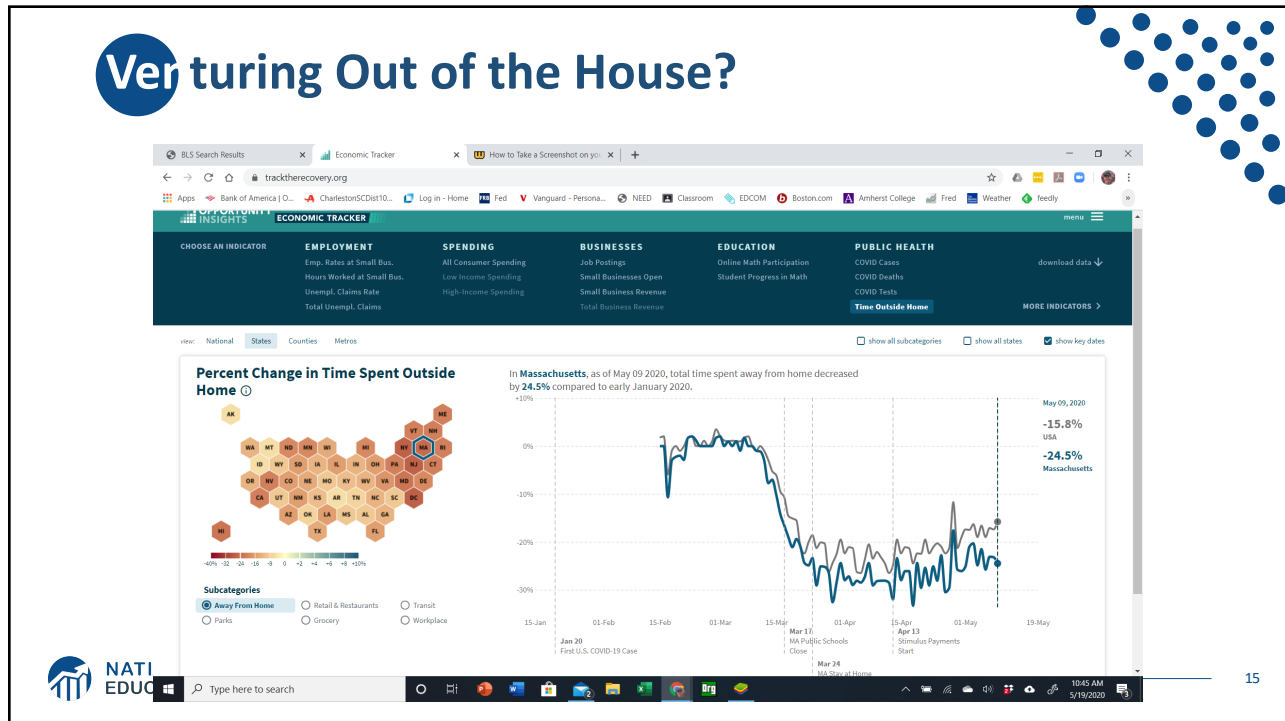
- **Typically, Monetary and Fiscal policies fight recessions by increasing aggregate demand (total spending)**
 - Fiscal:
 1. Tax cuts
 2. Increased spending
 - Monetary
 1. Reduce short-term interest rates
 2. Reduce long-term interest rates using (Q)uantitative (E)asing

**But, if you are afraid to leave your home these policies won't work –
Go on a cruise because of lower interest rate?**



14

Ver turing Out of the House?

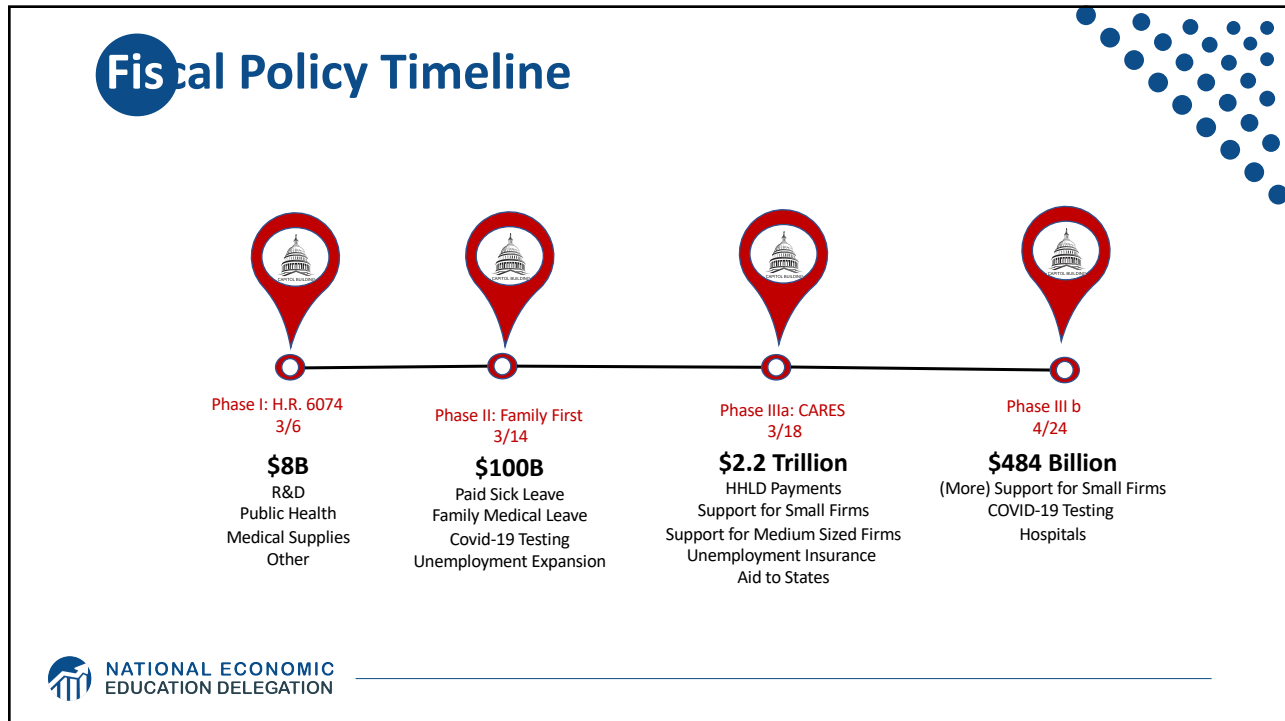


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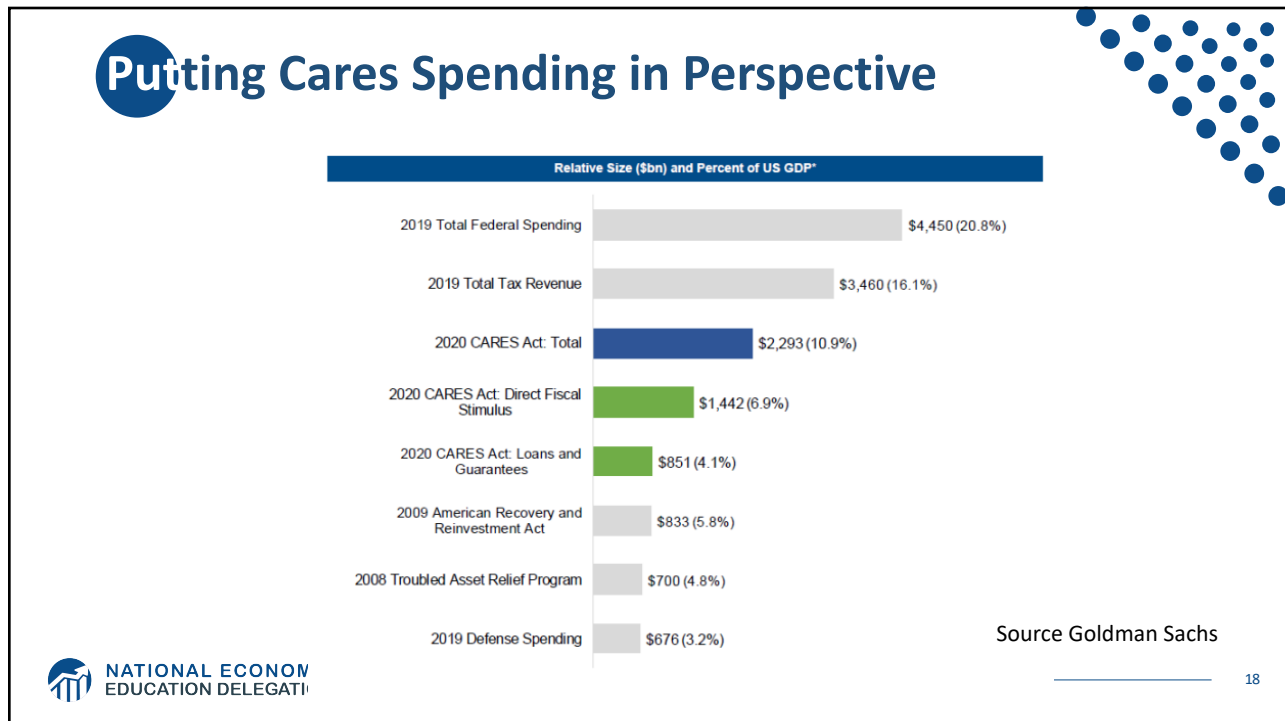
What Economic Policy Can Do in this Crisis

- 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.

16



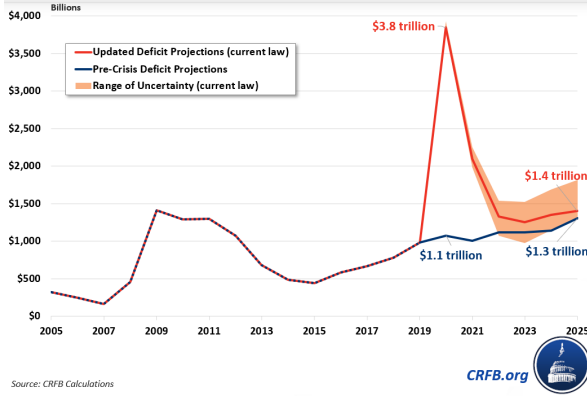
17



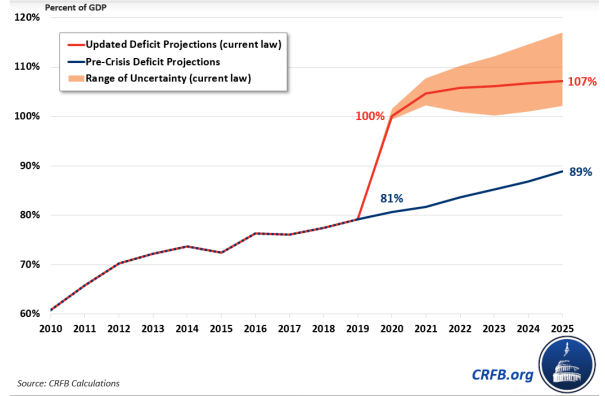
18

How Do We Pay for This?

Federal Deficit Will Reach Record Levels

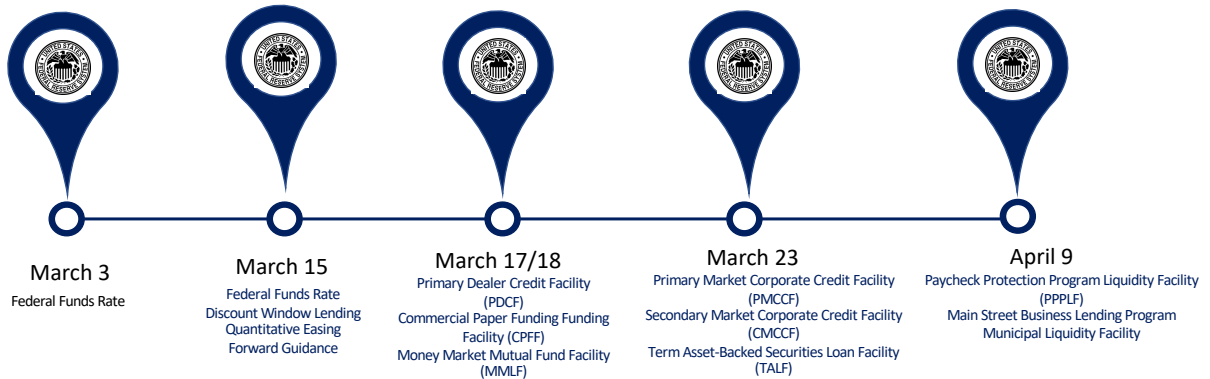


Debt Will Equal Size of Economy This Year



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

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 forgivable, losses to the Treasury
- **“Main Street Lending Program” 4-year loans to firms with under 10,000 employees \$600 billion**
 - Loan losses borne by banks and Treasury up to \$75 billion
- **Congressional Oversight??**



21

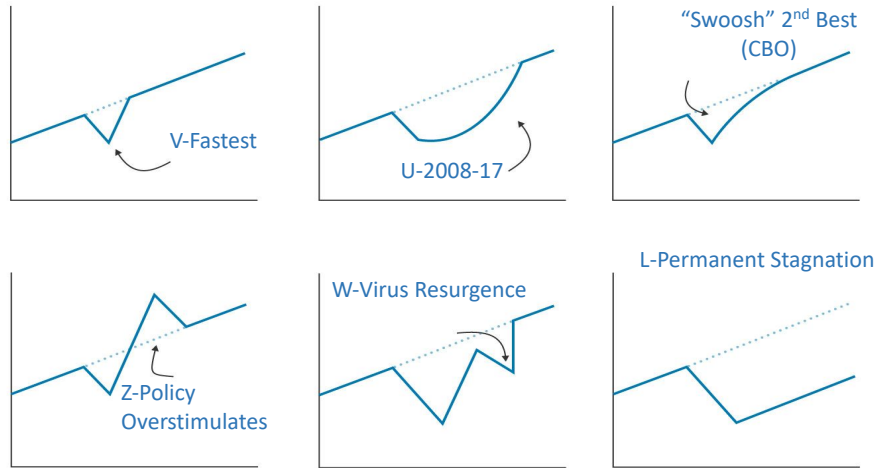
Thoughts on Policies to Date

- **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?



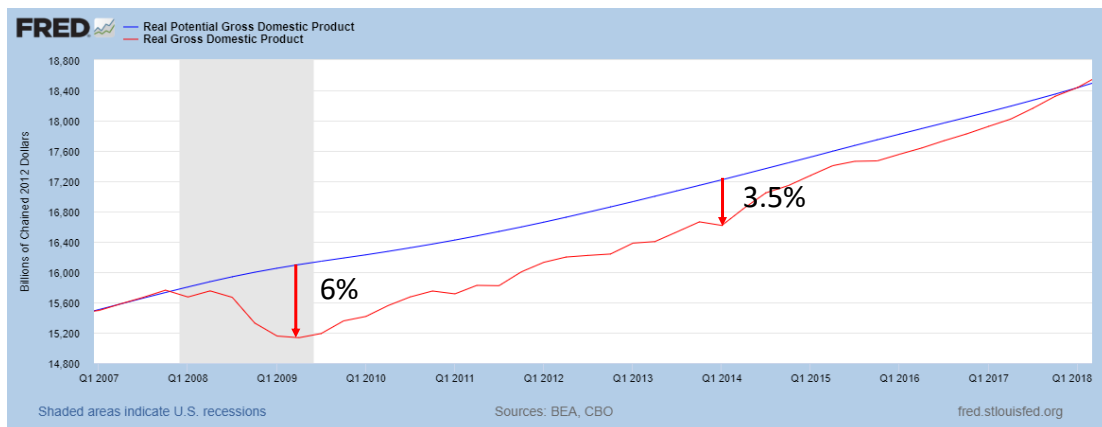
22

What Shape Will the Recovery Take?



23

Recovery from the 2008 Crisis



24

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



25

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



26

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

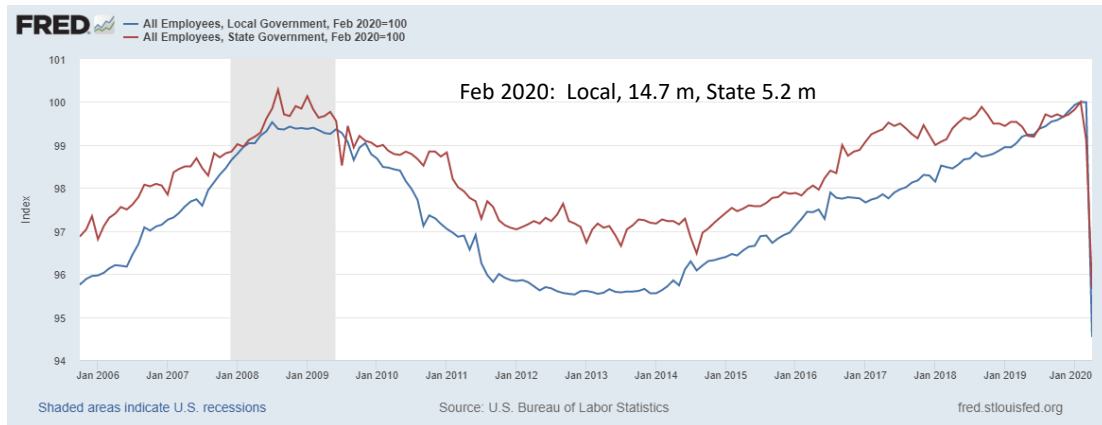
The Boston Fed Estimates (4/22) that MASS Revenues could fall by as much as \$4.5b (15%) in fiscal 2020 and \$7.2b in 2021



* Estimated based on CBPP calculations
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

27

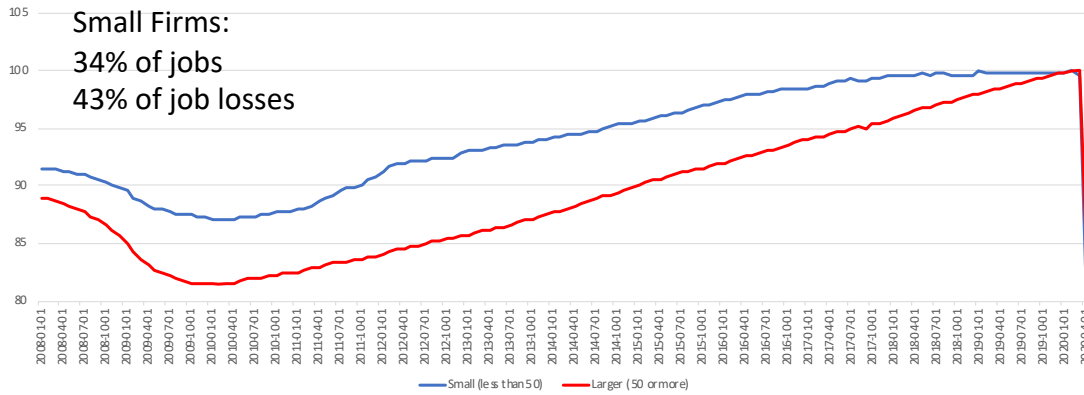
State and Local Employment



28

Small Firms Are Being Hit Hard

ADP Private Nonfarm Employment by Firm Size



29

Thank you!

Any Questions?

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30

SBA Gets It Right (better?) after the First Round

Second Round PPP Loans (\$513B, as of 5/16)		
	Number	Dollars
under 50K	63.7%	10.1%
50K to 100K	14.8%	8.9%
100K to 150K	6.5%	6.7%
150K to 350K	8.5%	16.1%
350K to 1M	4.6%	21.9%
1M to 2M	1.2%	14.3%
2M to 5M	0.6%	14.8%
more than 5M	0.1%	6.9%

	Distribution of PPP Eligible Firms		PPP Loan Size (est)
	No. of Firms	Employment	
No. of firms			
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