



# COVID-19: Economic Implications and Policy Response

Stephen Hart's Econ Class – Redwood High School

October 6, 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.

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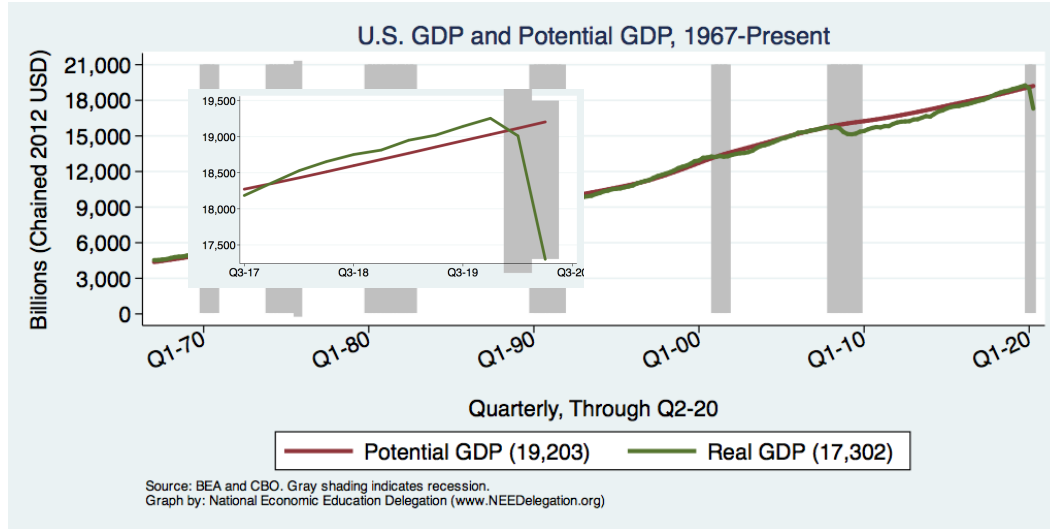
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## Outline

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

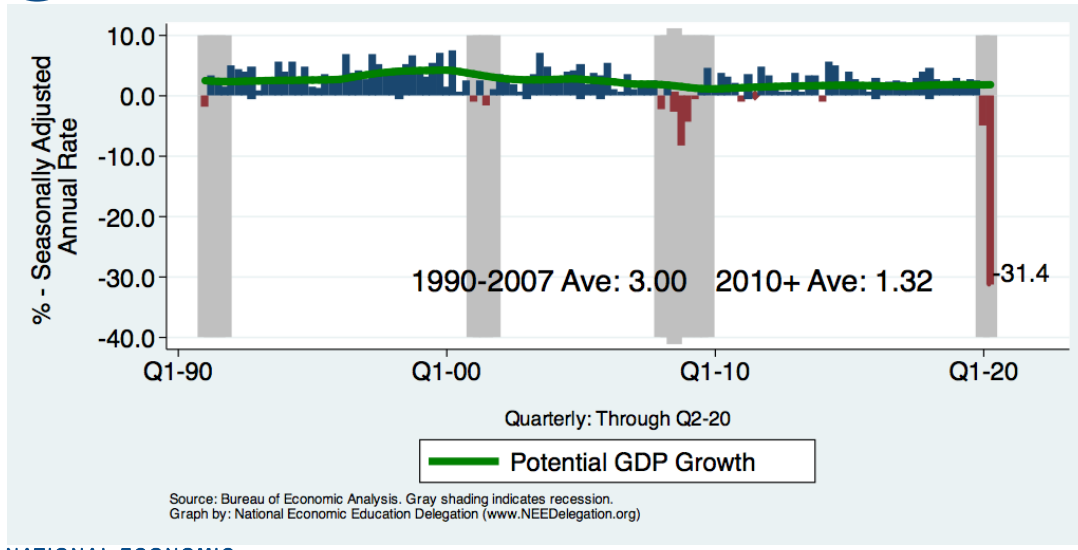
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# GDP Trajectory: Recovery to Pandemic



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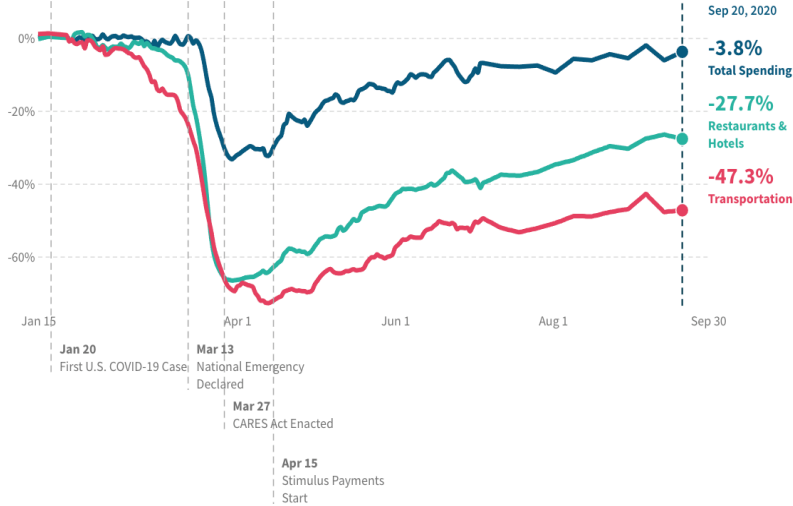
# GDP Growth: Recovery to Pandemic



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# Spending is (was?) on the Rise

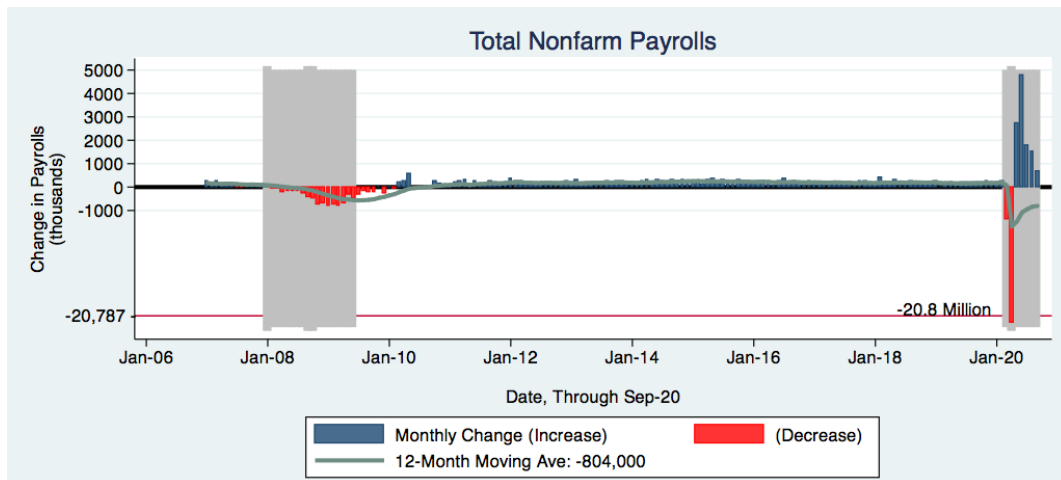
In the United States, as of September 20 2020, total spending by all consumers decreased by 3.8% compared to January 2020.



Source: <https://tracktherecovery.org/>

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# Monthly Changes in Nonfarm Employment



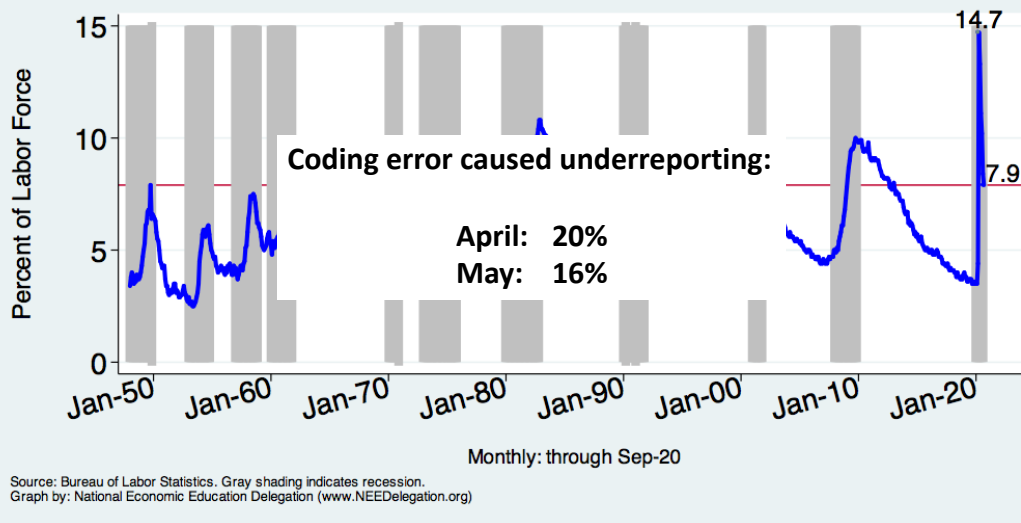
Source: Bureau of Labor Statistics. Gray shading indicates recession. Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))



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## Unemployment Rate



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## How is the Unemployment Rate Calculated?

- It is not a simple thing: 
$$UR = \frac{\# \text{ Unemployed}}{\text{Labor Force}} * 100$$
- Why is that not simple?
  - Because it can go up or down for a variety of reasons:
    - If the labor force shrinks – UR goes down
    - If employment grows – UR goes down
  - Not all employment is created equally
- Not a good indicator of the overall well being of the US economy.

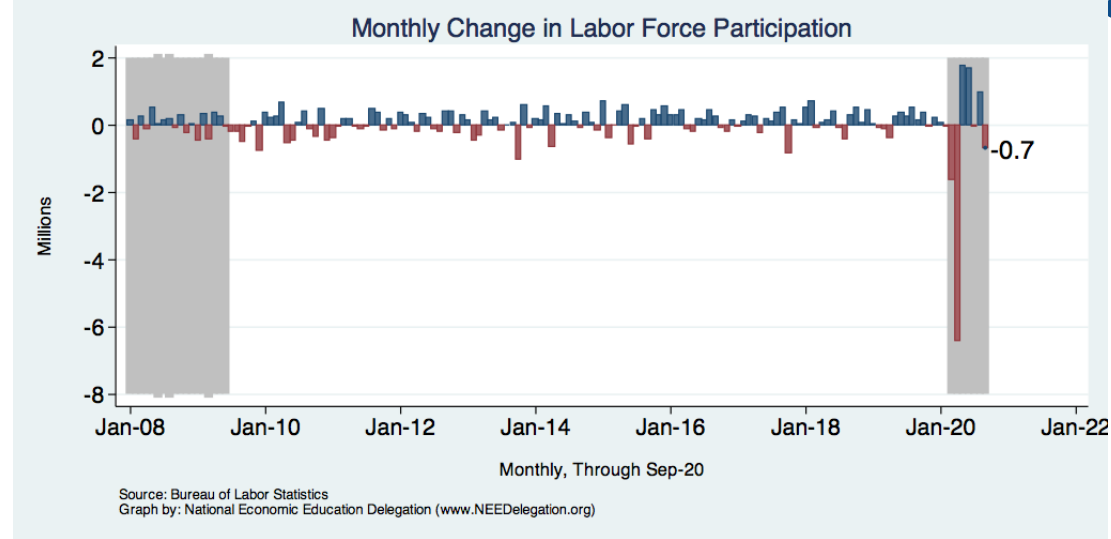


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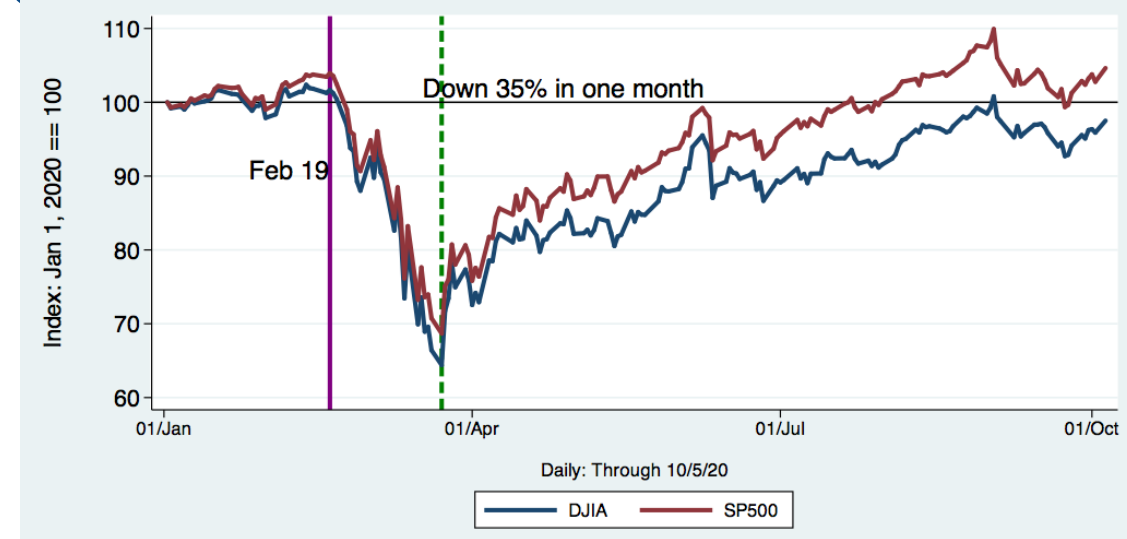
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# UR Affected by Labor Force Participation?

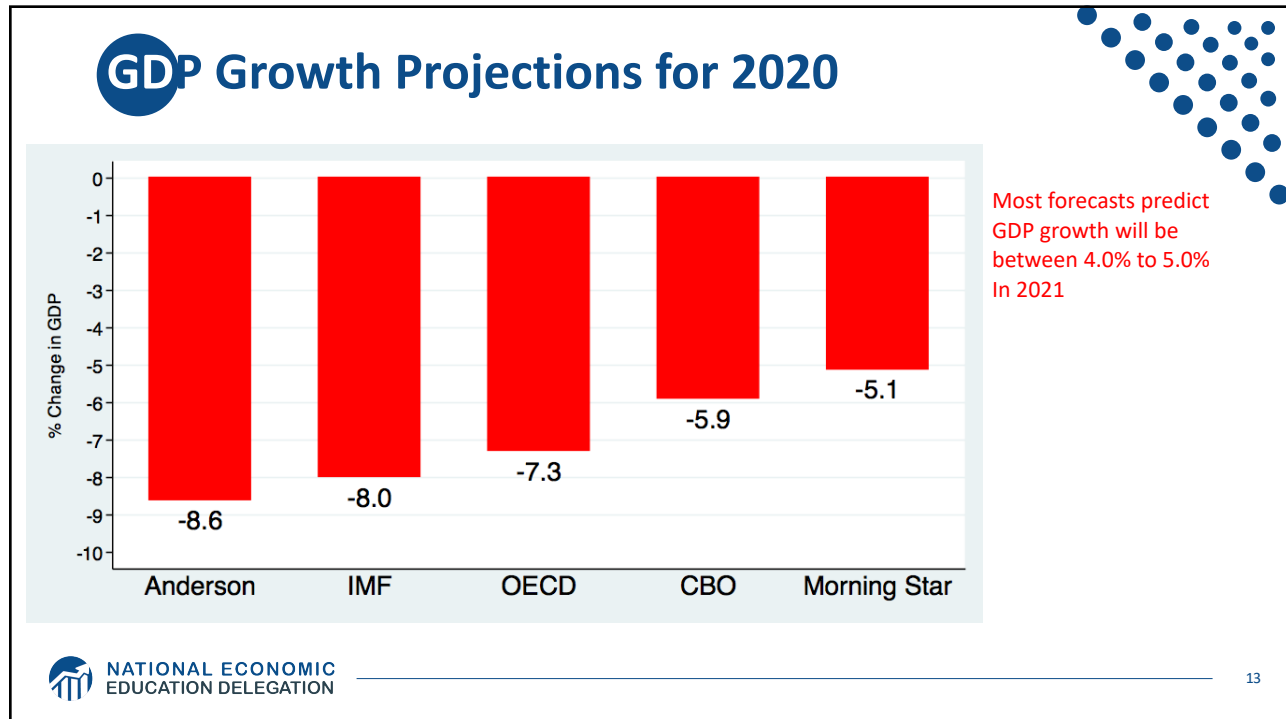


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# DJIA and S&P 500



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## Summary

- **Massive hit to the economy!**
- **Maybe halfway to recovery.**
- **Many of our economic statistics are not helpful.**
- **Stock markets are not the economy.**
- **Duration is partly under our control.**

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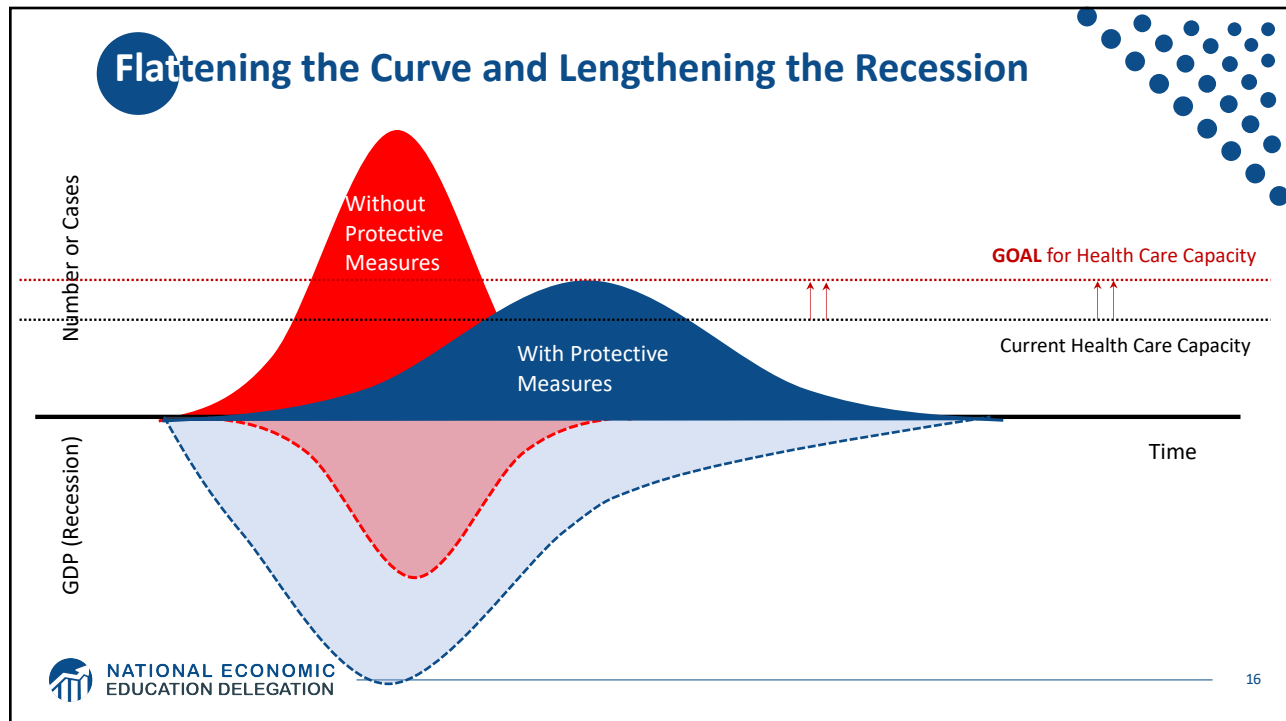
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# A Tale of Three Policies Efforts

- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy

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# Flattening the Curve and Lengthening the Recession



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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**

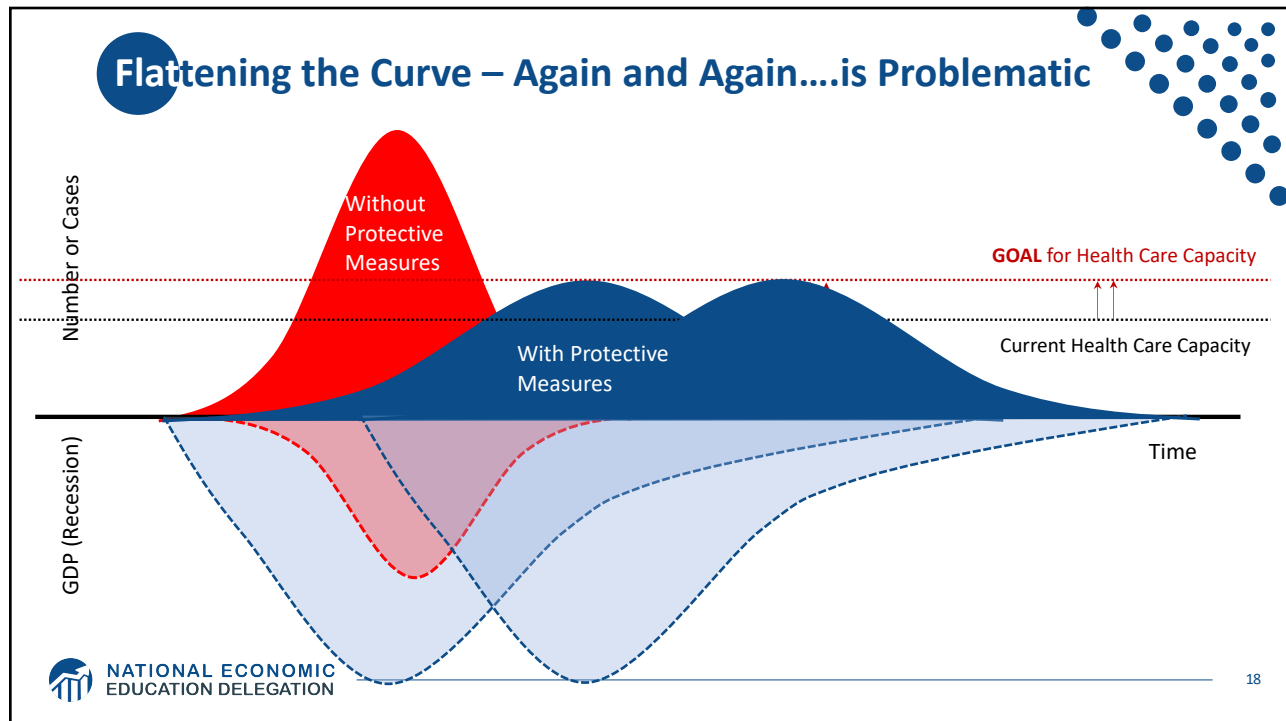


<https://twitter.com/BetseyStevenson/status/1242180499566669828>

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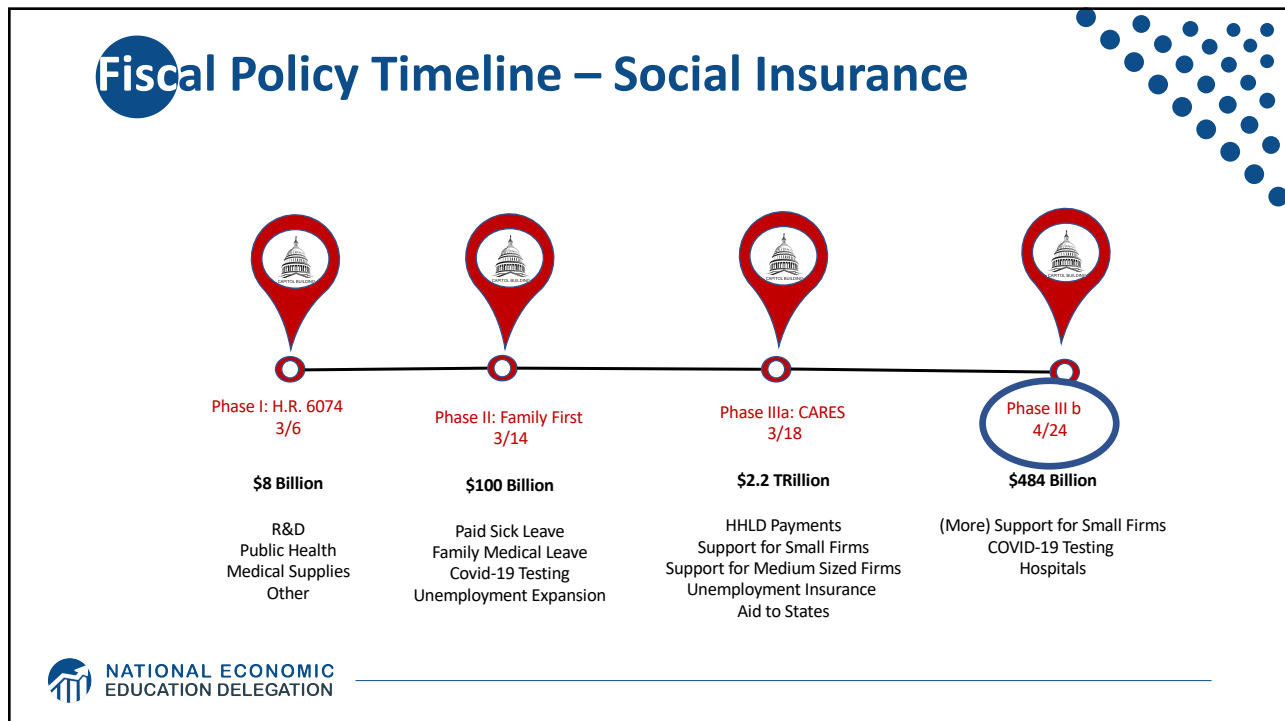
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# Flattening the Curve – Again and Again....is Problematic



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## There is an Enormous Fiscal Policy Gap

- The last time Congress acted was April 24.
- Unemployment payments are not sufficient.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing budgets.

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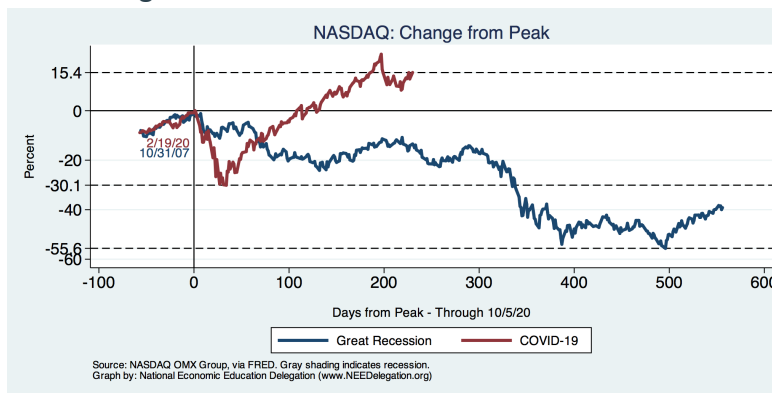
# Monetary Policy – Federal Reserve

- **Two primary objectives**
  - Stabilize the economy
  - Maintain liquidity of the system
  
- **Actions in three forms:**
  - Traditional interest rate stimulus
  - Inject cash into the system
  - 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!**



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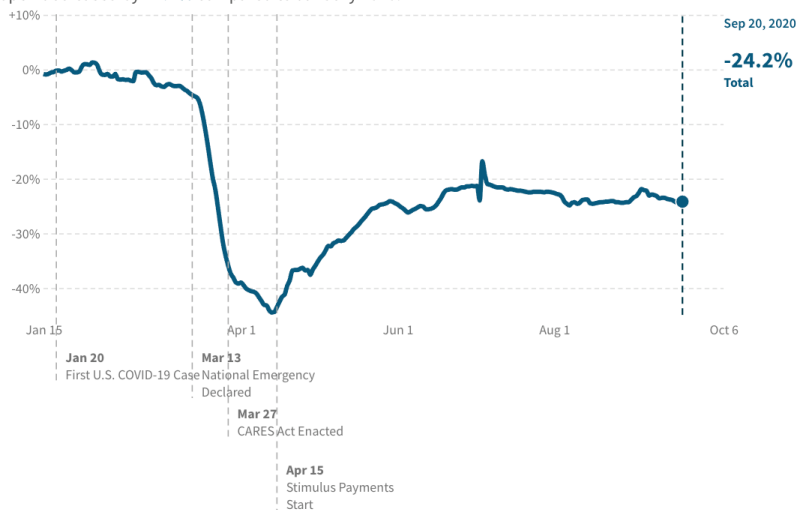
## Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
  - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic! A+**
- **Fiscal policy grade: Emergency Pass**
  - Direct cash payments
    - Are they really getting into the hands of those most in need?
      - Corporate or otherwise?
  - Right strategy to maintain employee-employer ties?
  - What about states and local governments?

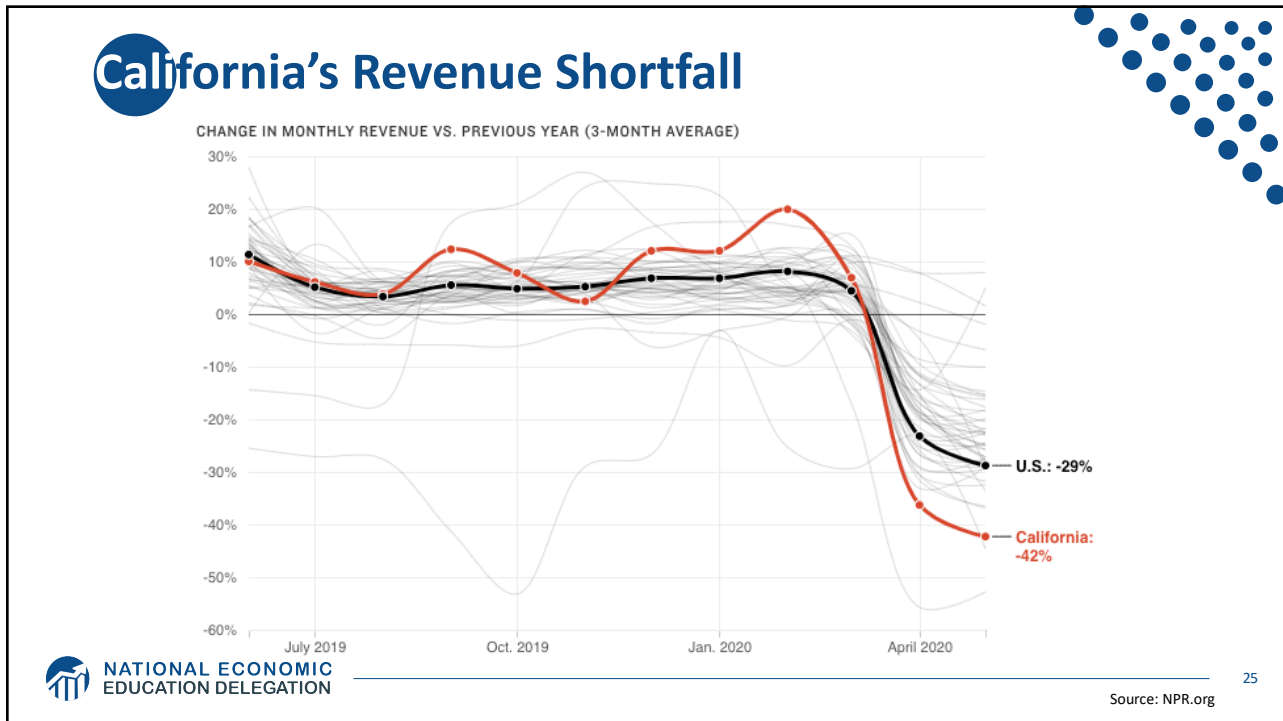
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## Small Businesses are Struggling

In **the United States**, as of September 20 2020, the number of small businesses open decreased by **24.2%** compared to January 2020.



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## Coronavirus and Inequality

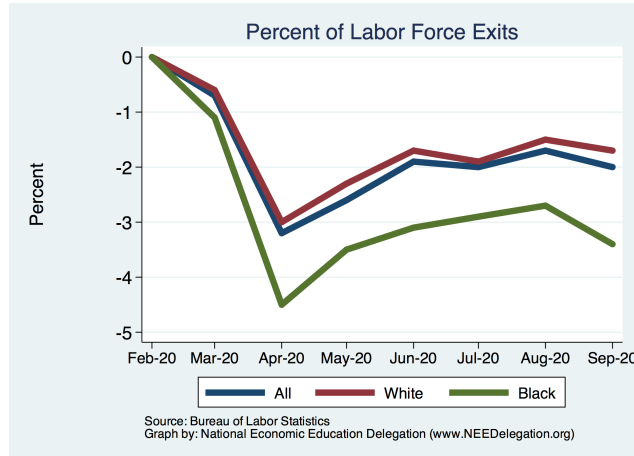
- **Racial inequities**
- **Telecommuting**
- **Primarily low wage jobs are at risk**
- **Resources to weather the storm**
- **Educational inequities**

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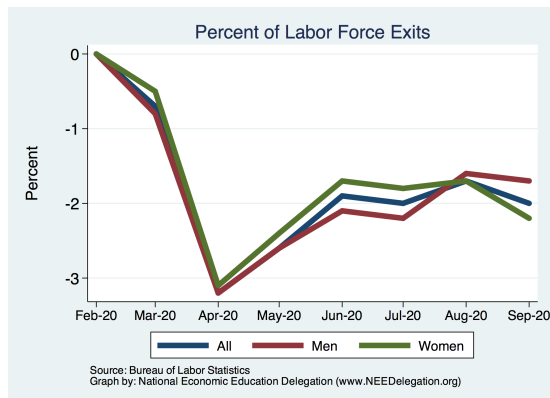
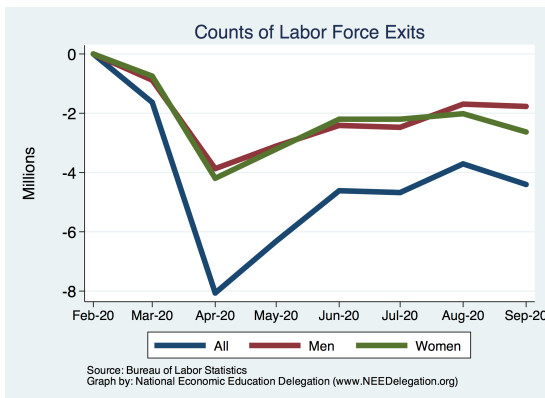
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# Inequities: Labor Force Exits by Race

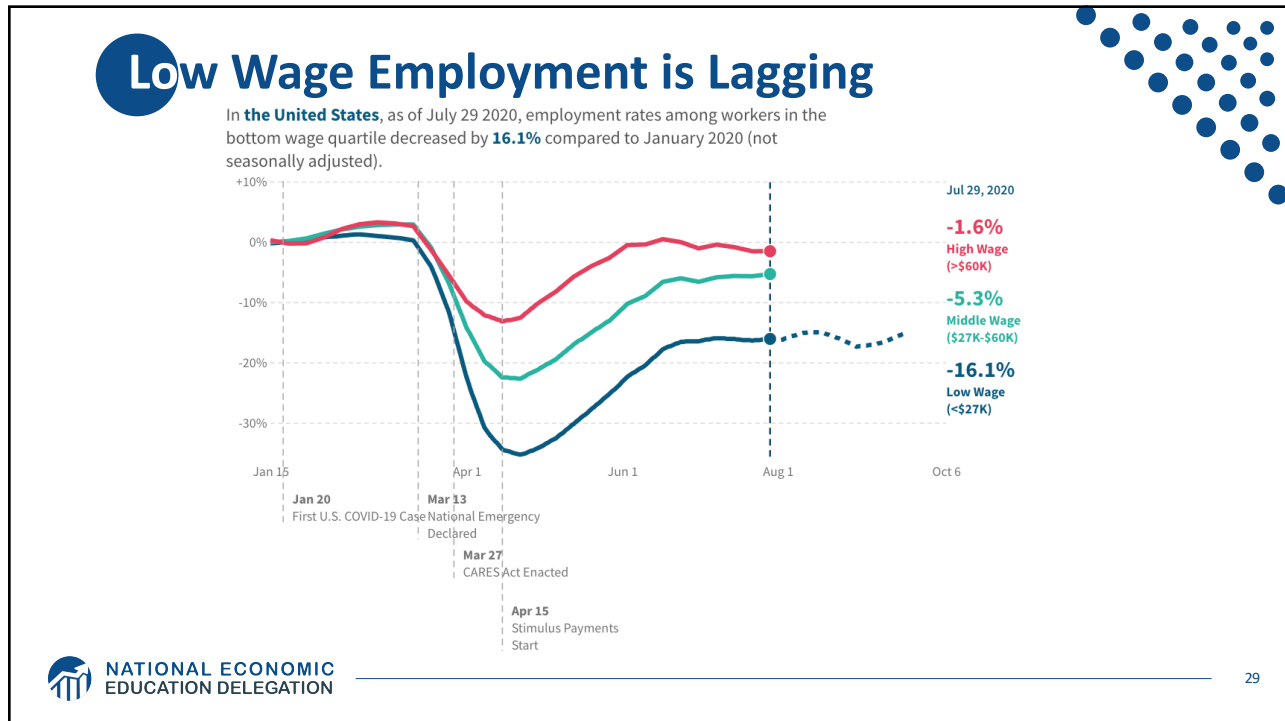


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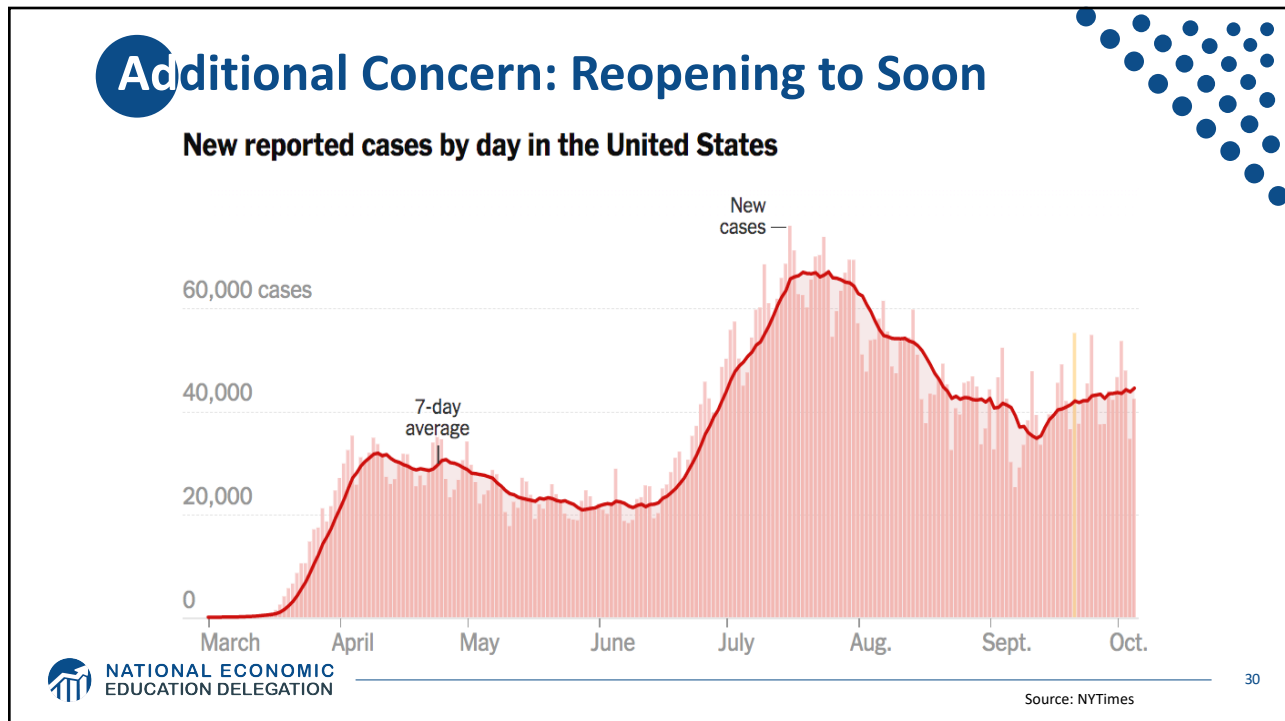
# Inequities: Labor Force Exits by Gender



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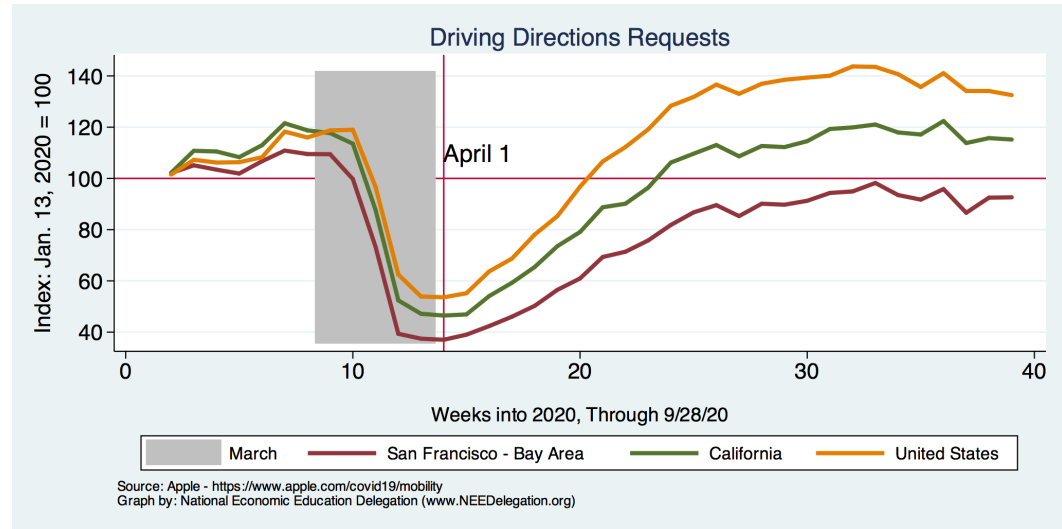


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# People Stayed at Home Just 3 Weeks



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# It's Not This Simple



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## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **GDP will likely contract between 6.0 and 9.0 percent this year.**
  - Positive growth will likely return in 2021
- **Significant structural changes.**
  - Telecommuting, telehealth, retail decline.
- **Policy gap will create enormous hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
  - Loss of GDP: 4-5%                      Unemployment: up 4-5 pts.
- **It might just be time to shut down again.**
  - For both our health and the economy.



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## Thank you!

## Any Questions?

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Jon D. Haveman

Jon@NEEDelegation.org

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