

COVID-19: Economic Implications and Policy Response

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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

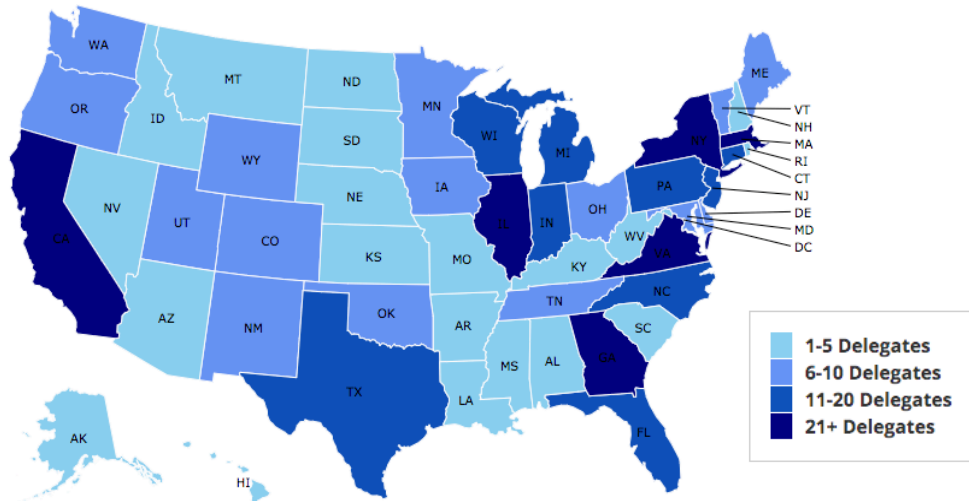
• Global Partners: 45 Ph.D. Economists

- Aid in slide deck development



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Where Are We?



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Outline for the Talk

- Early Impacts and Beliefs of the Economic Impacts
- Epidemiology and its Relation to the Economic Impacts of COVID-19
- Flattening the Curve and Widening the Economic Impacts
- Impact on GDP – State of Economy and Impacts on GDP components
- This Shock is Different.
- Government Response: Fiscal Authority
- Government Response: Monetary Authority
- Private Sector Response
- What's Next Fiscal and Monetary
- Lessons Learned and Conclusion



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GDP Shares

Countries	Share of World GDP	Manufacturing as a Share of GDP	Services as a Share of GDP
United States	24%	11%	77.4%
Canada	2%	10%	66.7%
UK	3%	9%	71.0%
Germany	5%	20%	61.8%
France	3%	10%	70.3%
Italy	2%	15%	66.3%
Spain	2%	11%	67.7%
Japan	6%	21%	69.1%
China	16%	29%	52.2%



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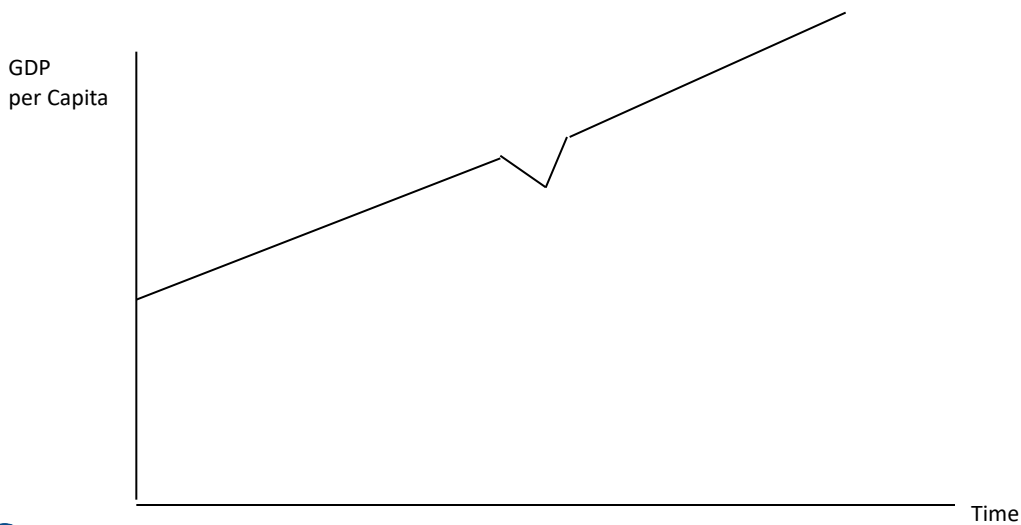
Originally, believed that COVID-19 would be largely contained within a few countries and would disrupt manufacturing supply chains.

The more a country's manufacturing relied on these supply chains the bigger the impact on GDP.

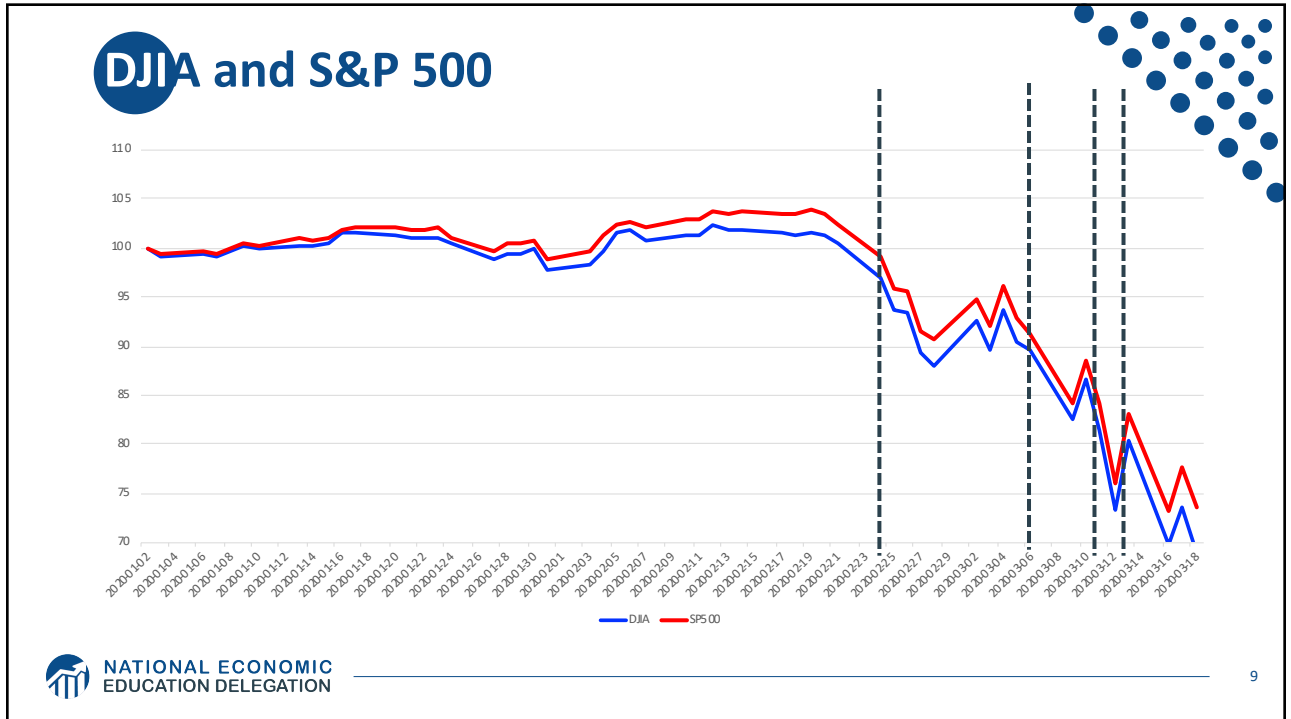
Still the effect was likely to be to slow GDP by 0.25 to 0.50 from its baseline prediction.

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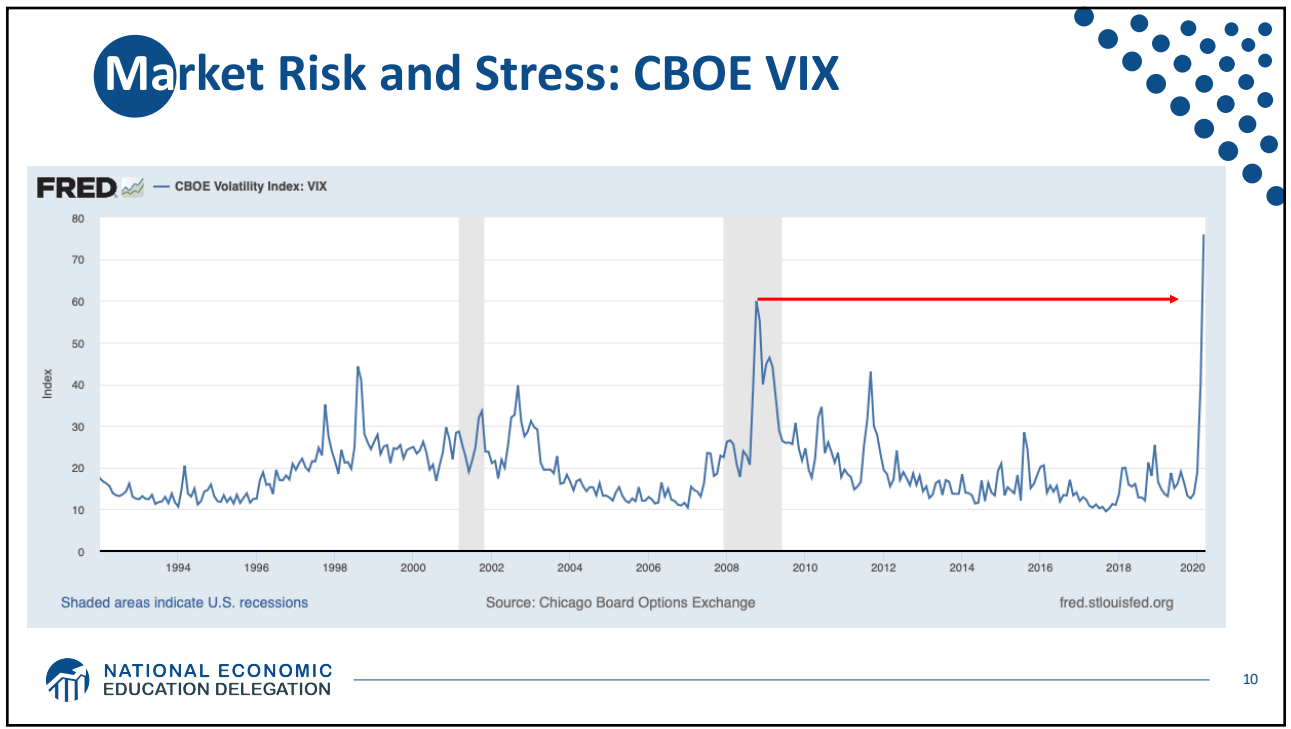
Modest Impact on GDP of COVID-19



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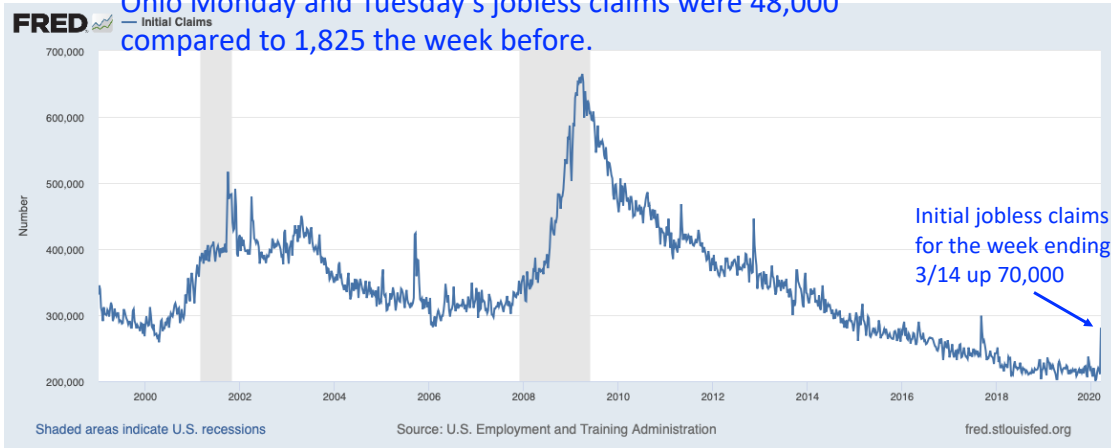
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Initial Jobless Claims

Next week's jobless claims are likely to be notably higher; for example, in Ohio Monday and Tuesday's jobless claims were 48,000 compared to 1,825 the week before.



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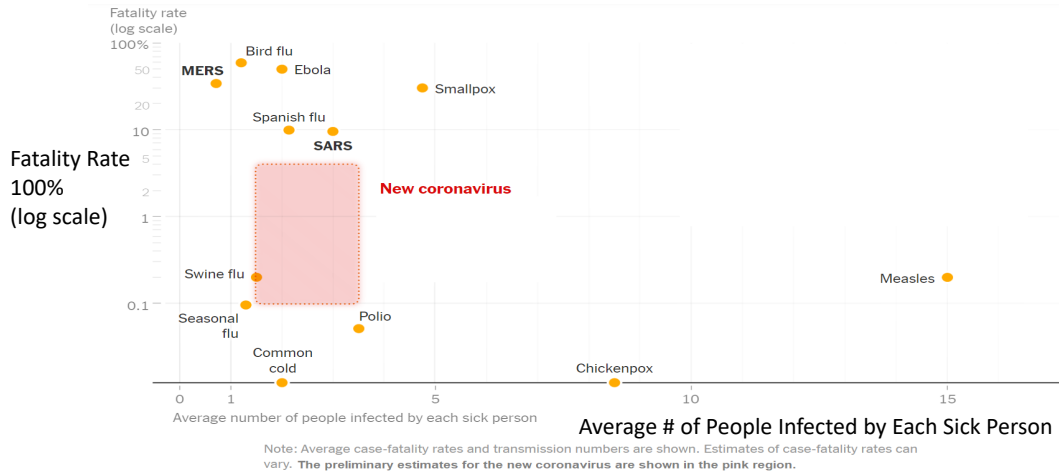
The Escalation of the Economic Effects



Epidemiology

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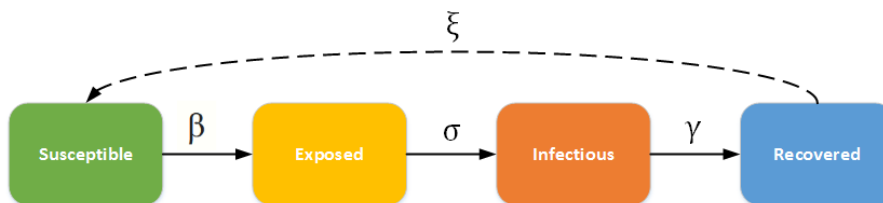
Comparison of COVID-19: Fatality an R0



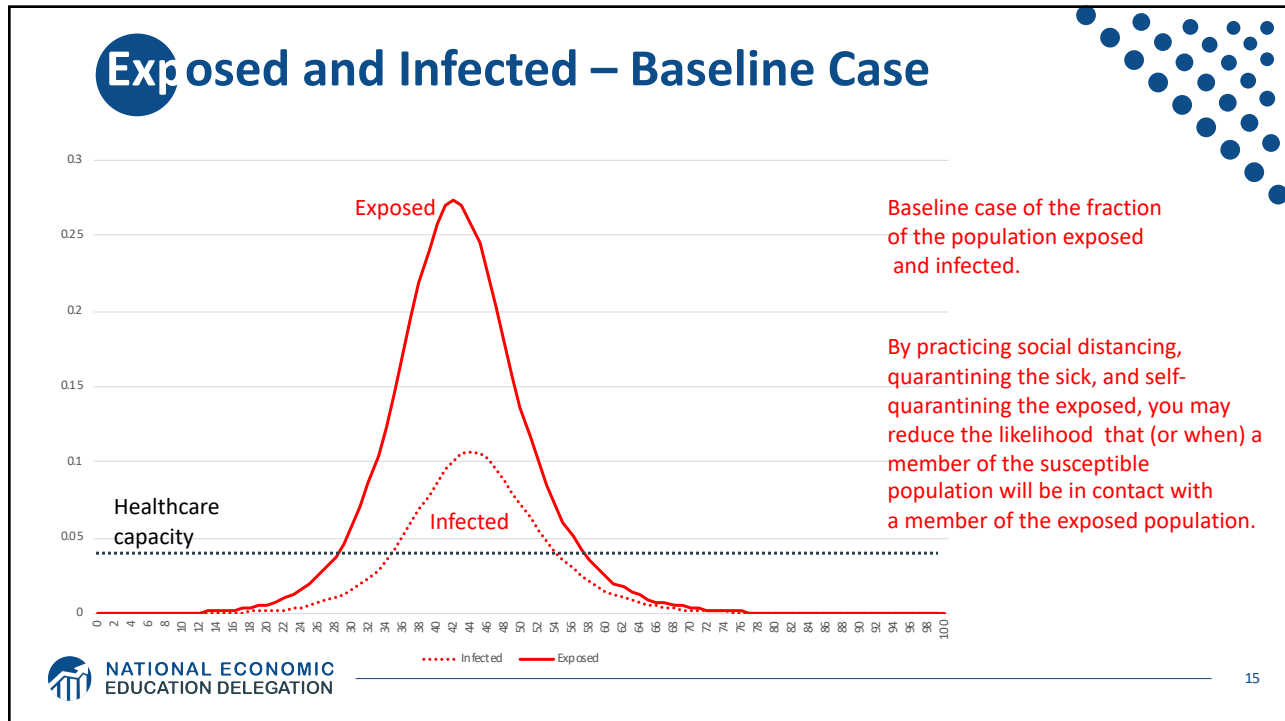
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Epidemiology and Flattening the Curve

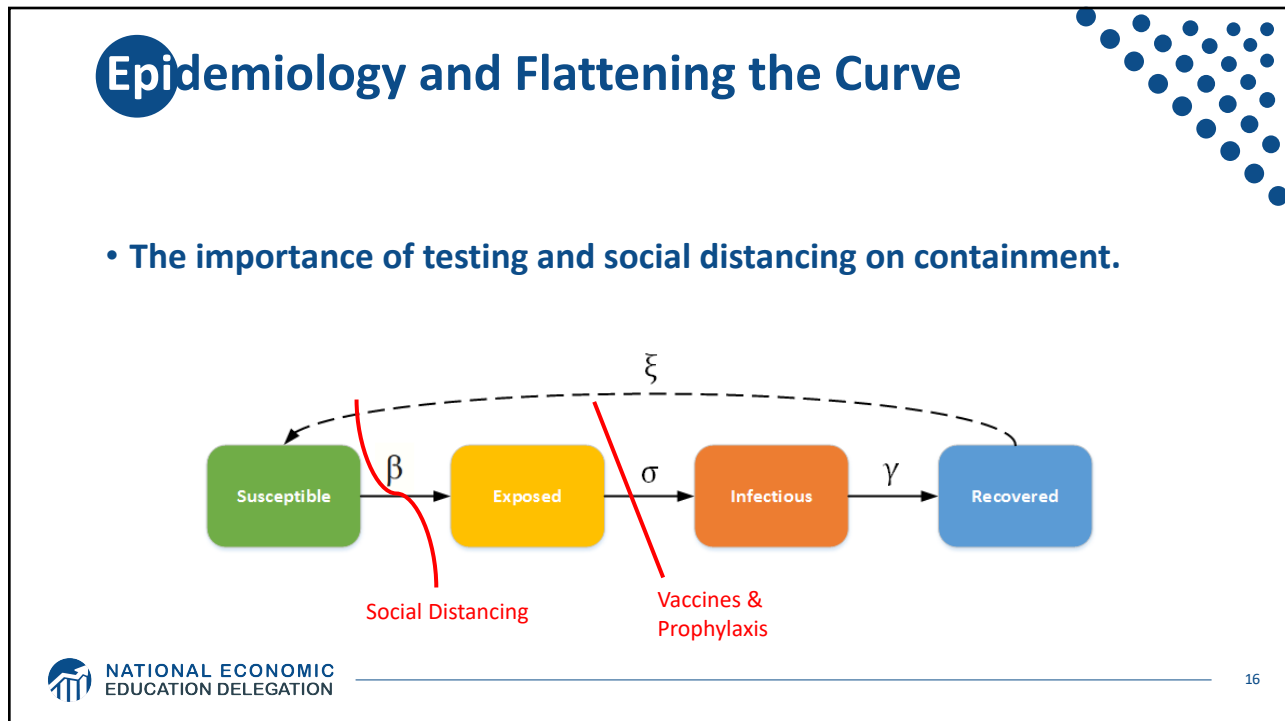
- In order to understand the economic response, we need to understand the nature of the shock and COVID-19 spreads.



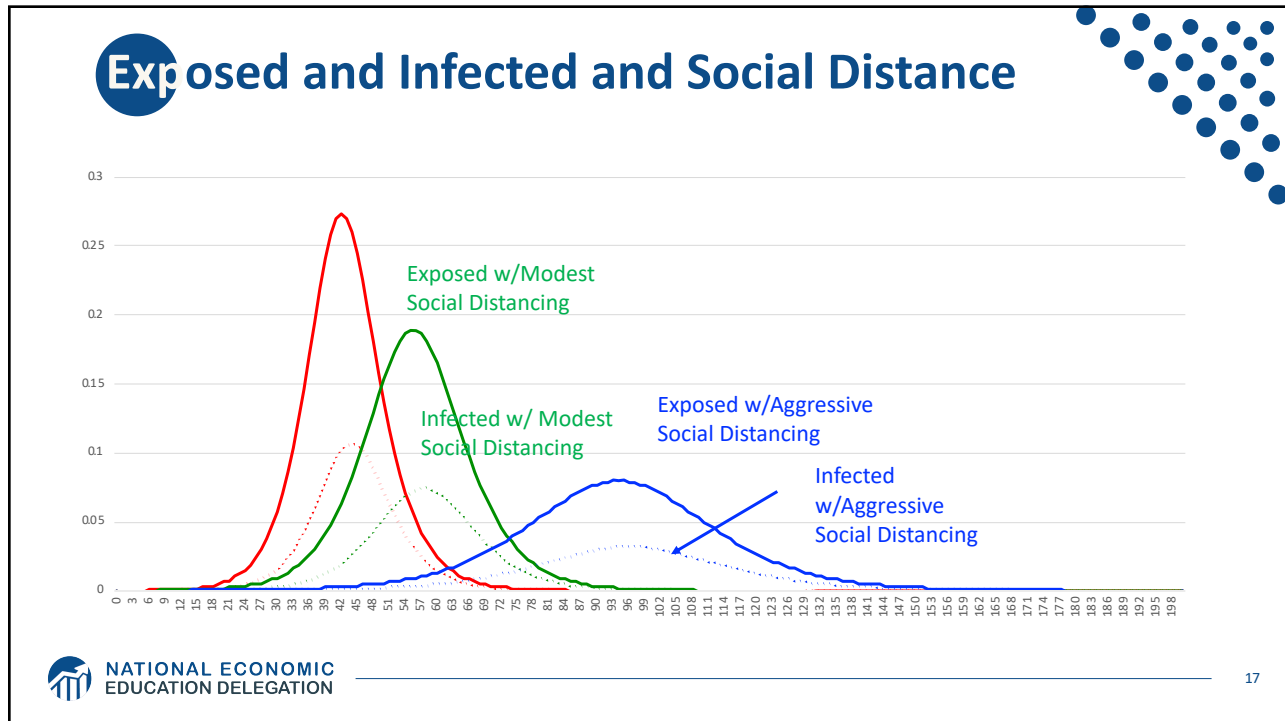
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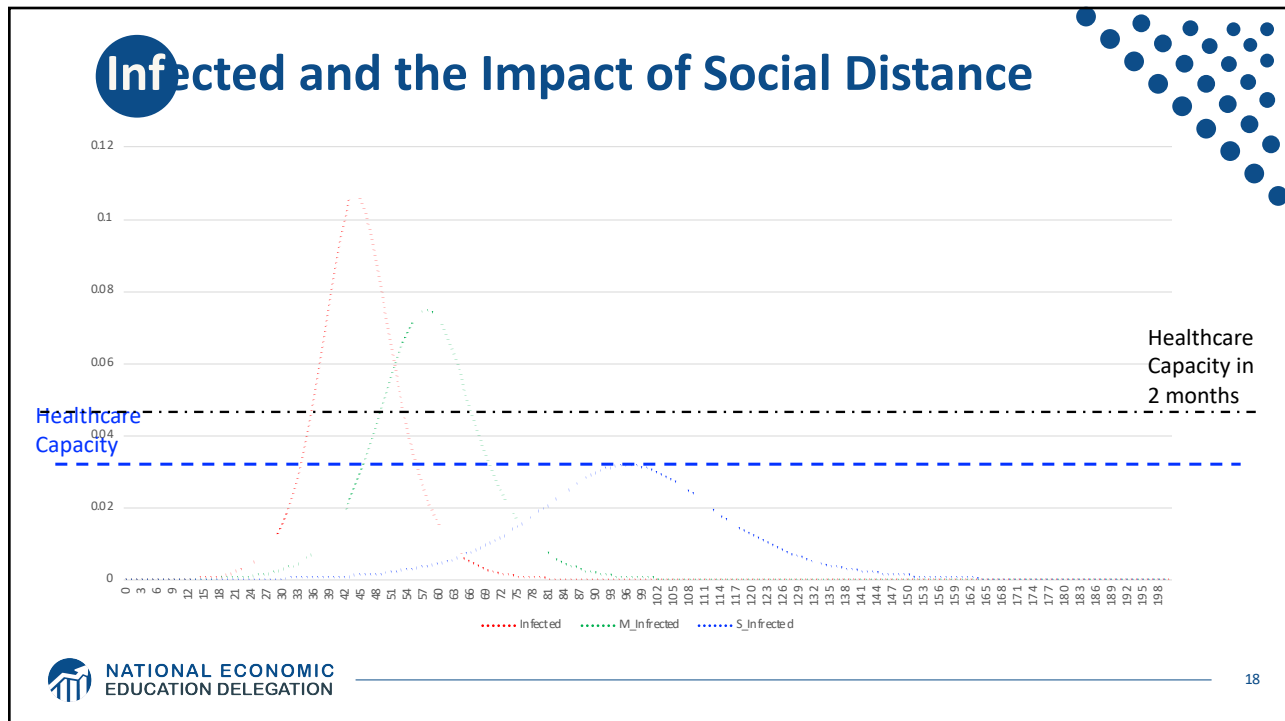
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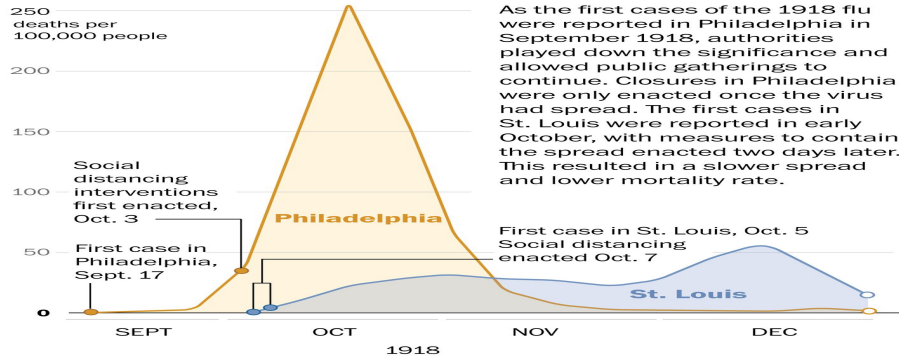
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Effective Social Distancing

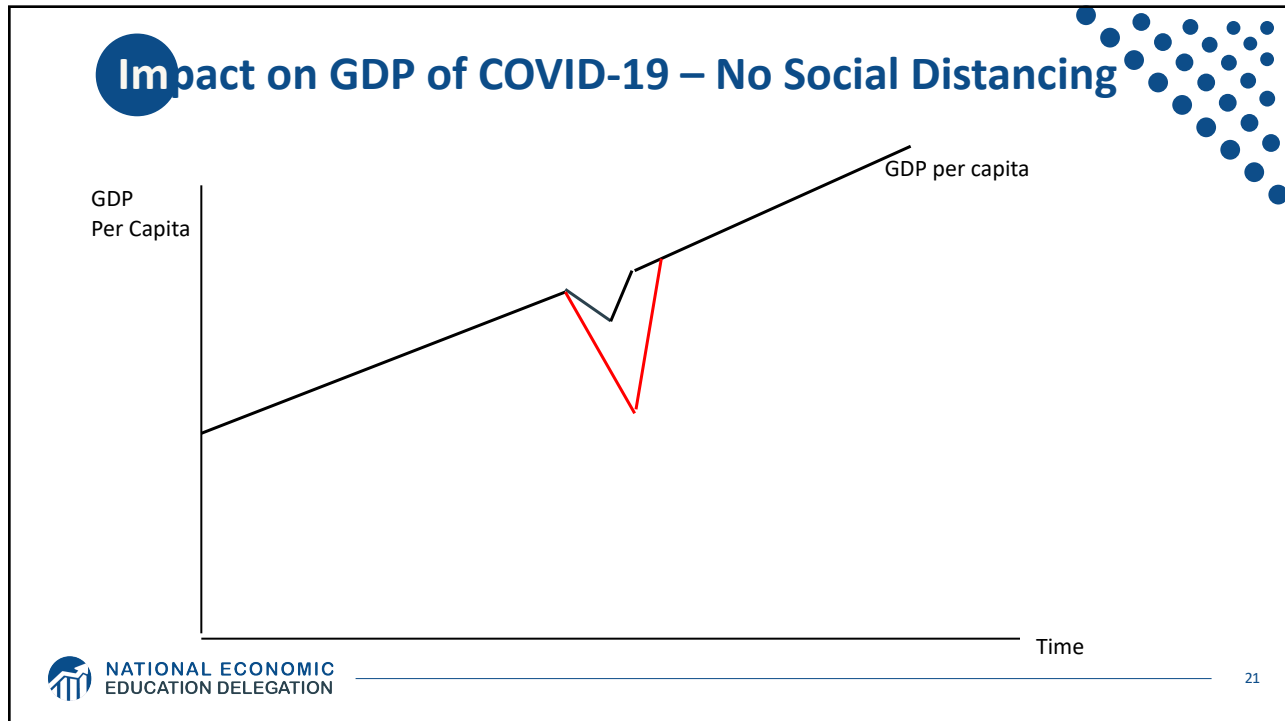
Effects of social distancing on 1918 flu deaths



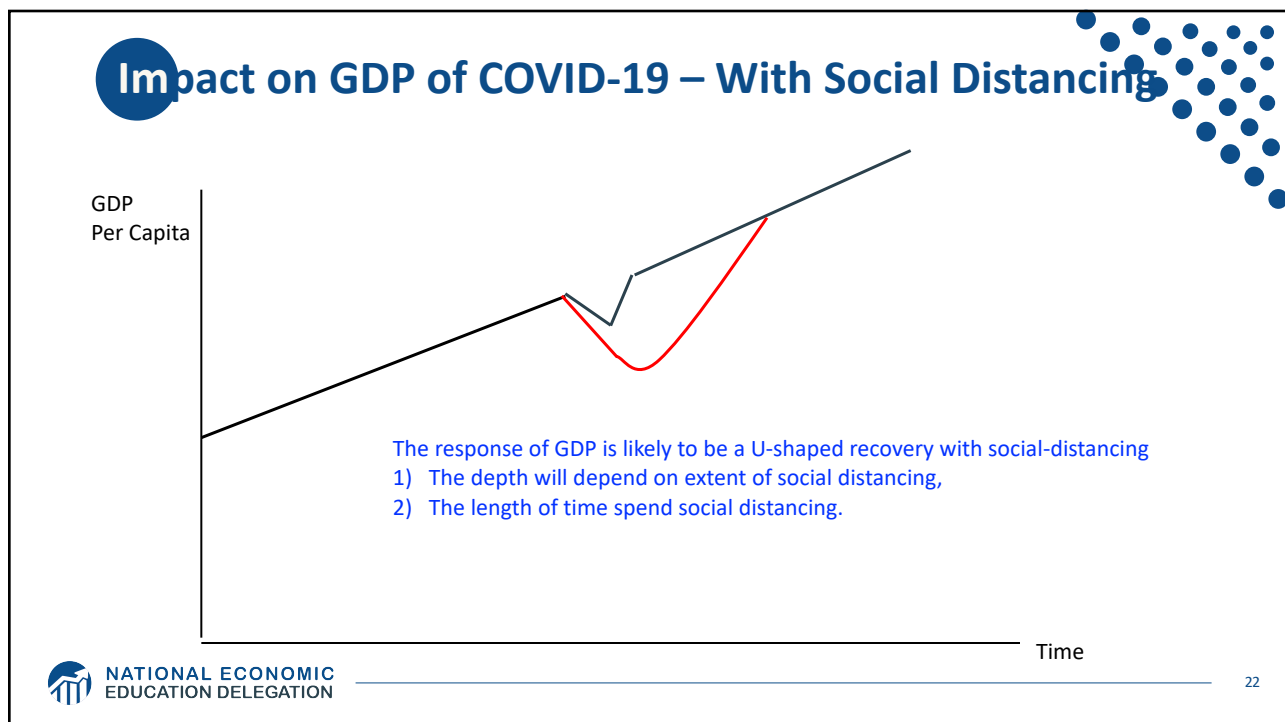
Sources: "Public health interventions and epidemic intensity during the 1918 influenza pandemic" by Richard J. Hatchett, Carter E. Mecher, Marc Lipsitch, Proceedings of the National Academy of Sciences May, 2007. Data derived from "Public health interventions and epidemic intensity during the 1918 influenza pandemic" by Richard J. Hatchett, Carter E. Mecher, Marc Lipsitch, Proceedings of the National Academy of Sciences May, 2007.
TIM MEKO/THE WASHINGTON POST

GDP Shares and Sudden Demand Stops

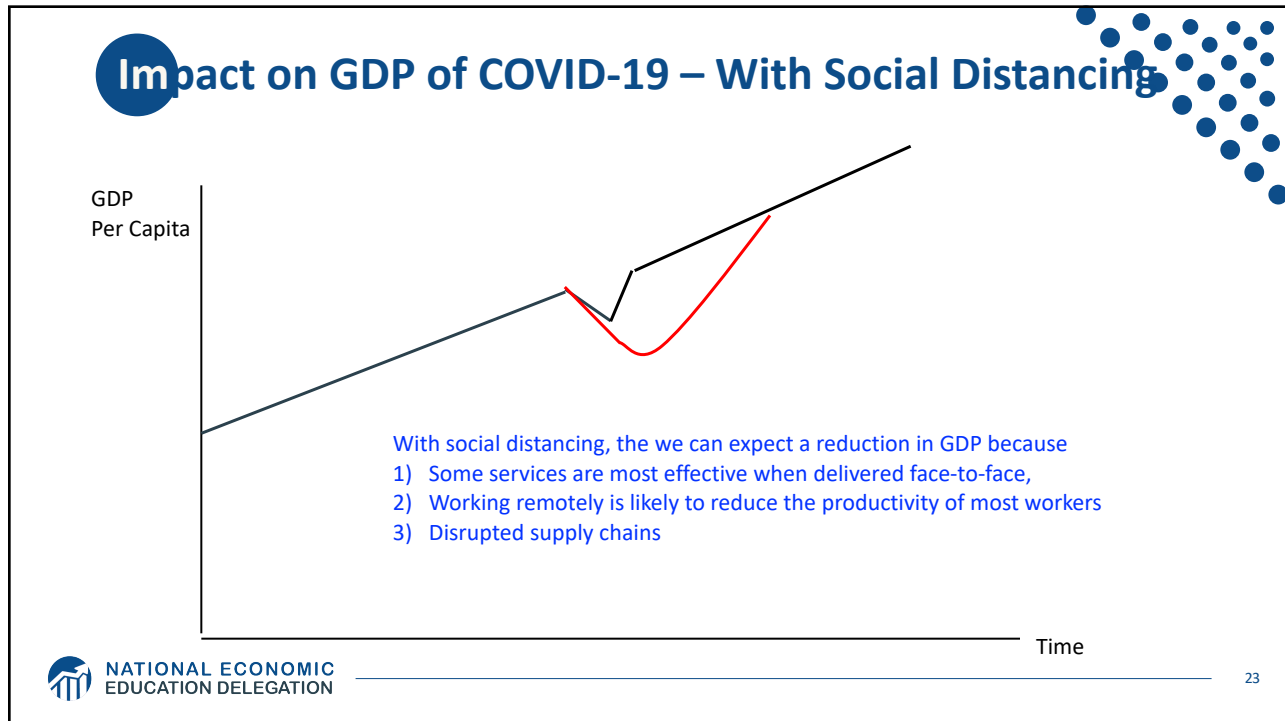
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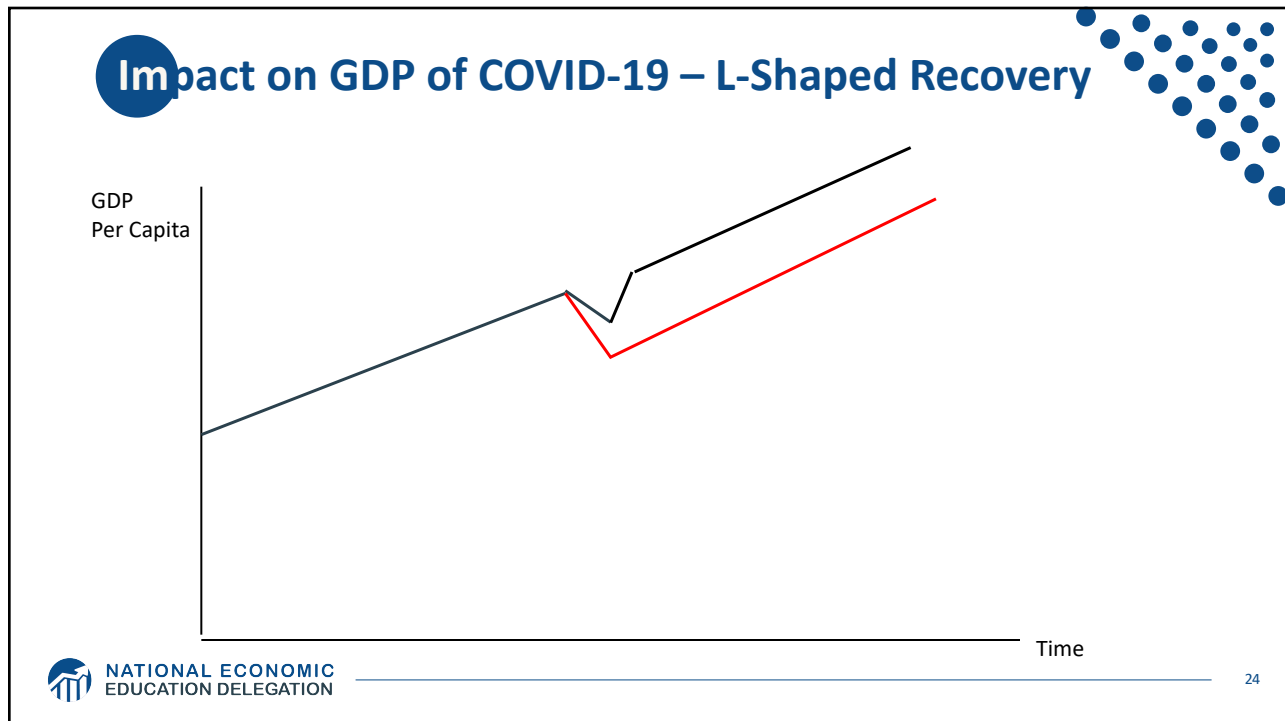
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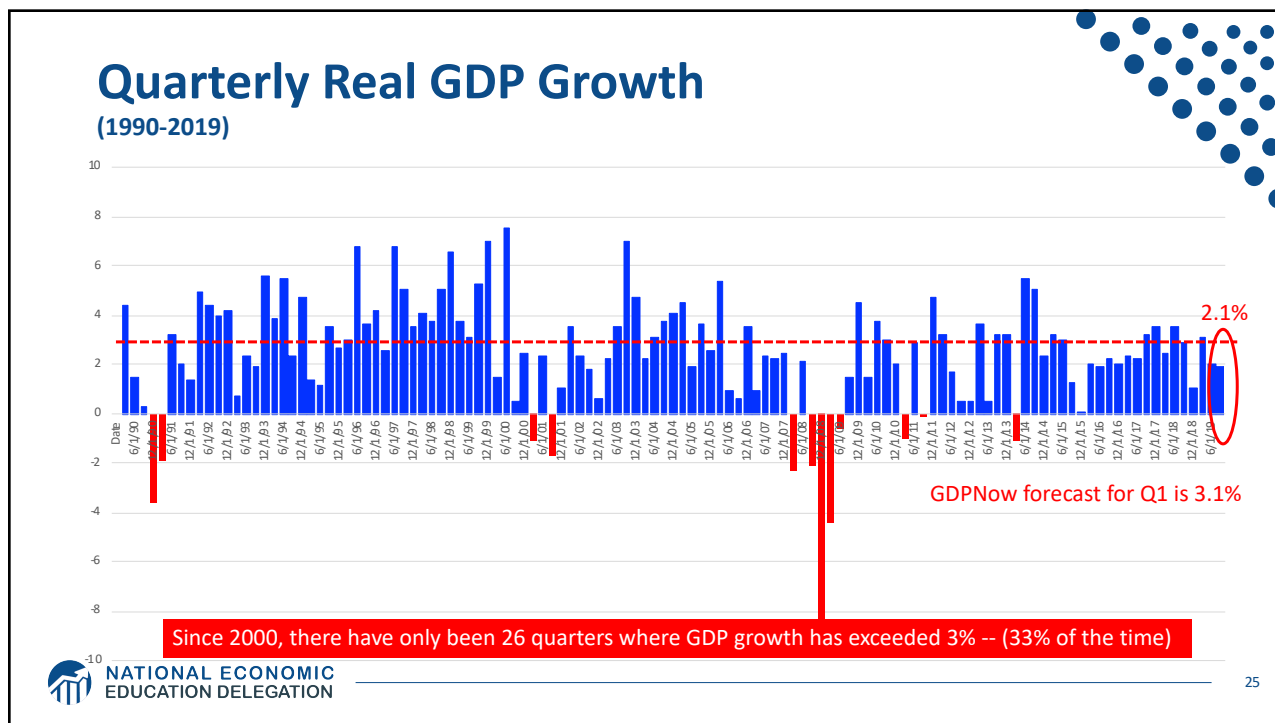
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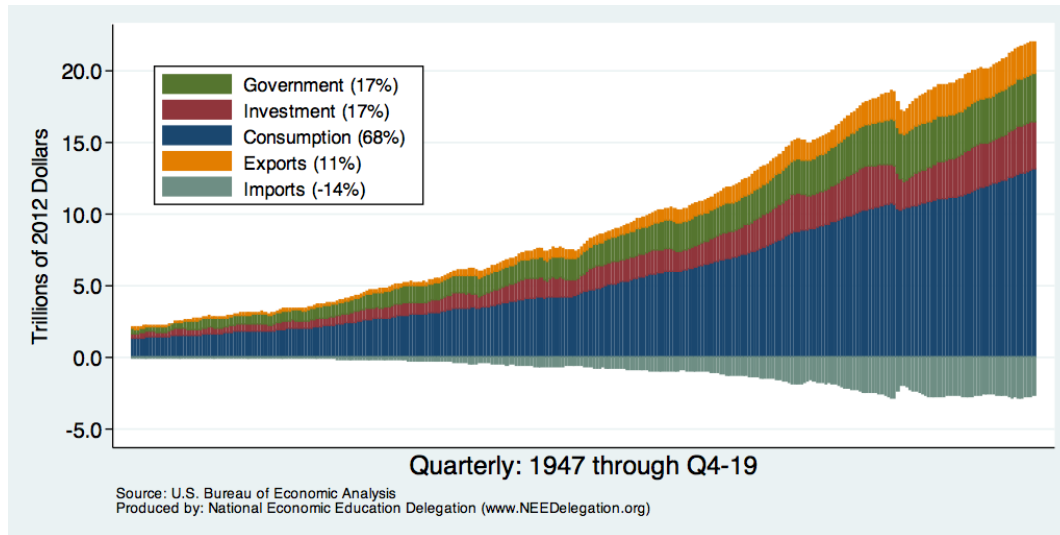
What “Accounts” for GDP Growth?

- **Expenditures Relationship to GDP growth.**
 - GDP is the sum of four categories of spending:
 - Consumption (**C**)
 - Investment (**I**)
 - Government spending (**G**)
 - Net Exports: Exports – Imports (**NX**)
- **Productivity and Inputs as Drivers for GDP Growth.**
 - Employment Concern: Supply side -- slower growth from disrupted value chains.
 - Productivity Concern: Demand Side -- Sudden Stop fueled by increased difficulty in transactions that typically require face-to-face interactions as well as uncertainty (economic and policy)

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Composition of Real GDP



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Composition of GDP

- **Slow growth in any of these categories will slow overall GDP growth.**
- **How does each component account for changes in GDP growth pre- vs. post-recession?**
- **What explains current trends in each component?**



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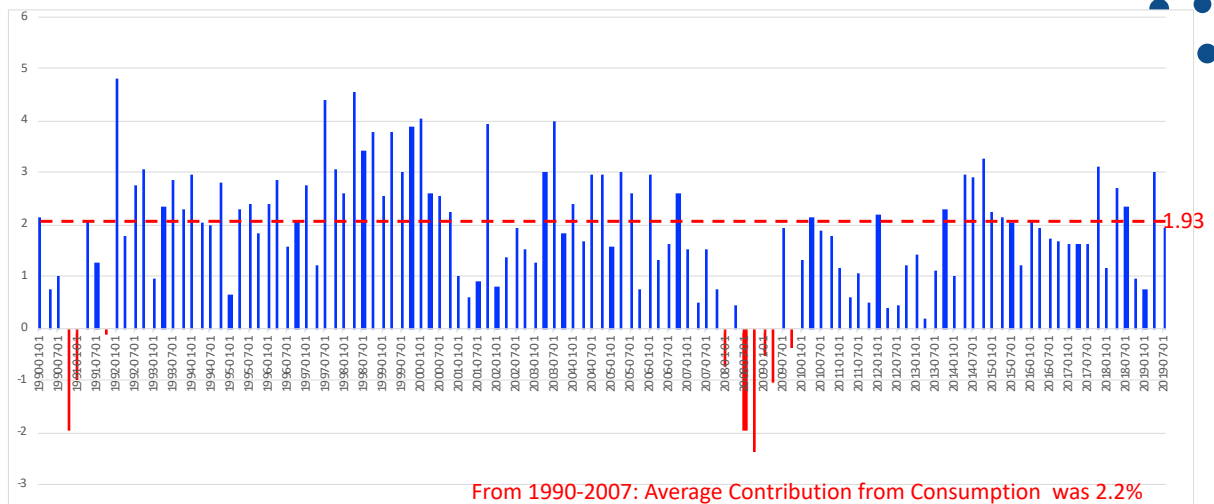
Understanding Contributions to GDP Growth

- **GDP Growth is a combination of the growth in its components:**
 - Consumption, Investment, Government, and Net Exports
 - It's a weighted average of these components

- **For example: Consumption**
 - If consumption accounts for **2/3** of the economy,
 - If consumption grew by **3%**,
 - It implies that consumption growth accounts for **2 percentage points** of GDP growth; that is, $2\% = \left(\frac{2}{3}\right) * 3\%$.

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Contribution to GDP Growth: Consumption



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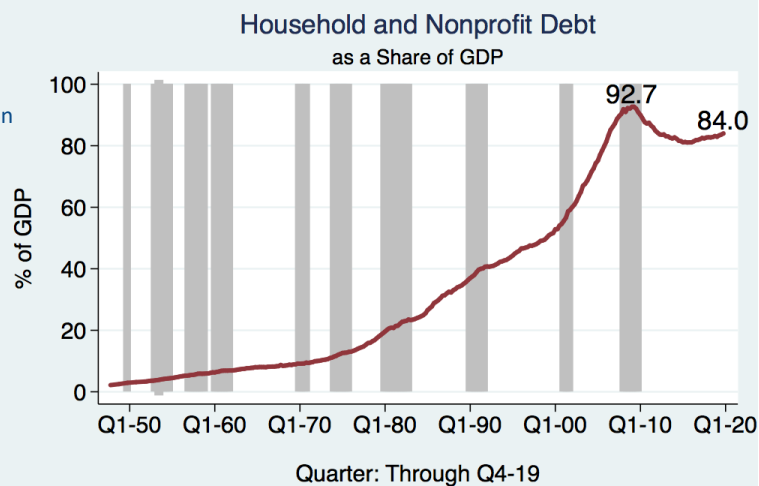
Personal Consumption Expenditures

- **Consumption has been slow to recover.**
 - Pre-Great Recession average contribution of consumption expenditures is 2.15 percentage points.
 - Post-Great Recession contribution is 1.7 percentage points.

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Household Debt as a Share of GDP

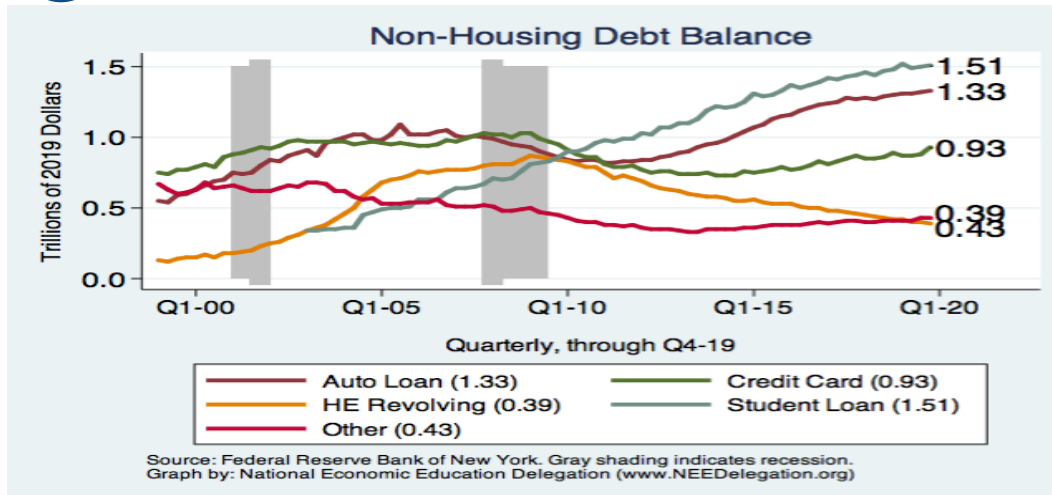
While households are in better financial position than at the start of Great Recession, overall debt relative to GDP is still high by historical standards.



Source: Federal Reserve Board. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Household Debt: Other Sources

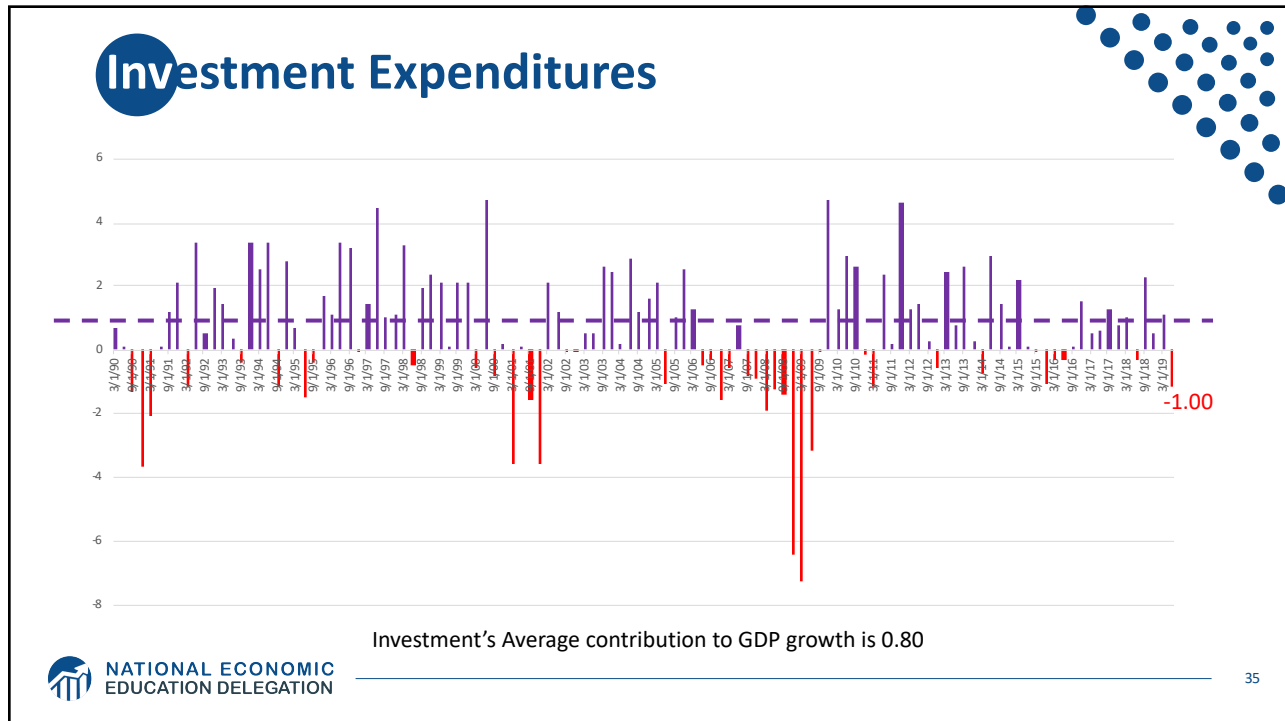


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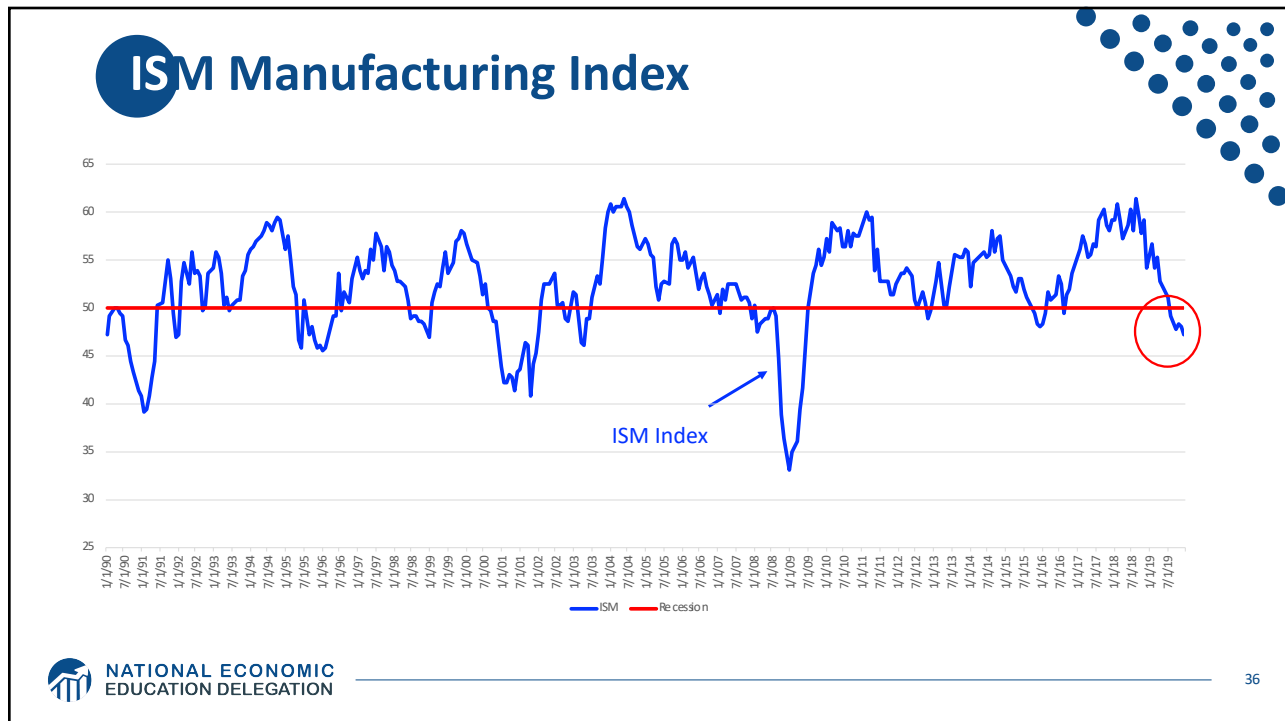
Investment Expenditures

- Investment expenditures are composed of residential and non-residential spending.
- Residential spending refers to purchases of new homes.
- Non-residential spending refers to capital purchases and new inventory accumulation.
 - Tools, machinery, new factories, commercial real estate.

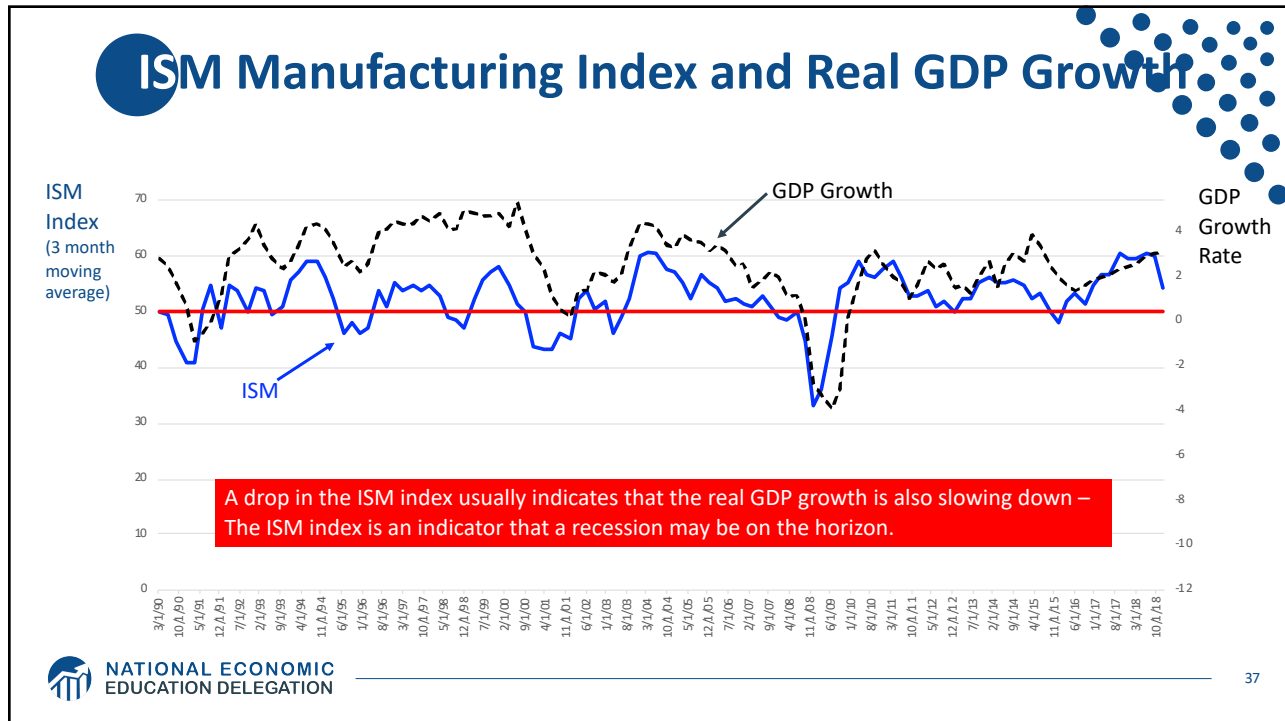
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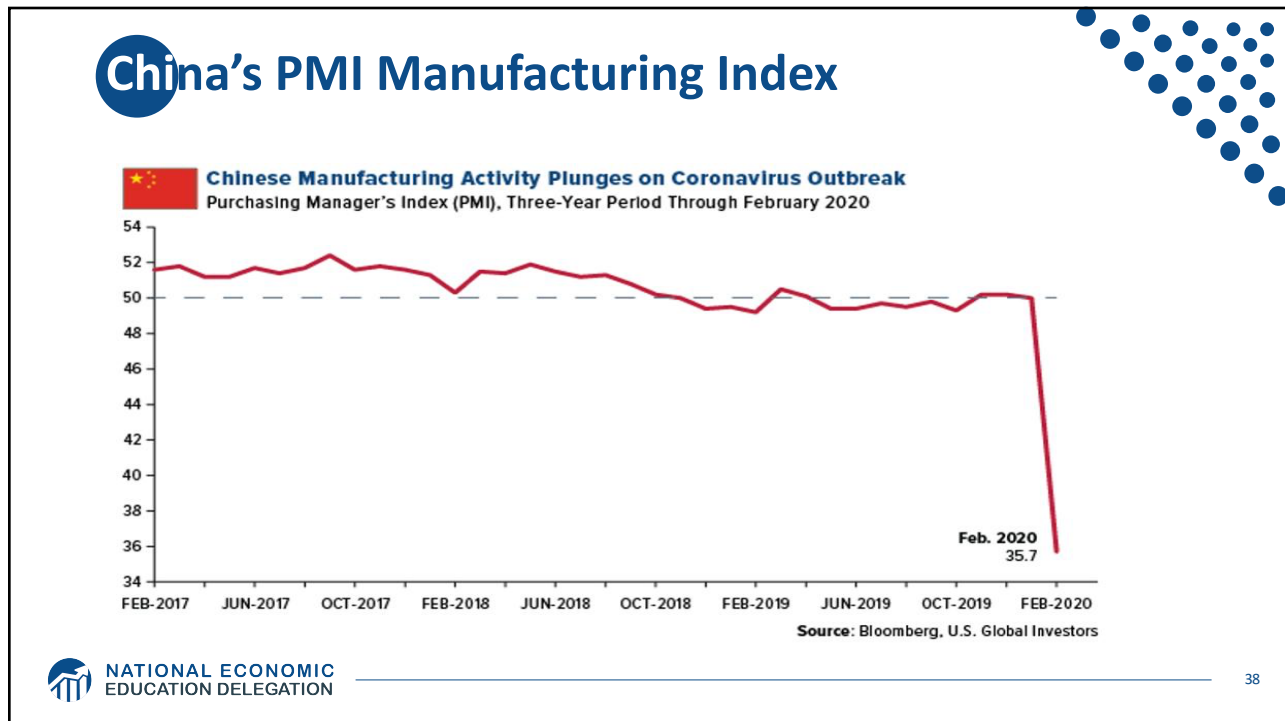
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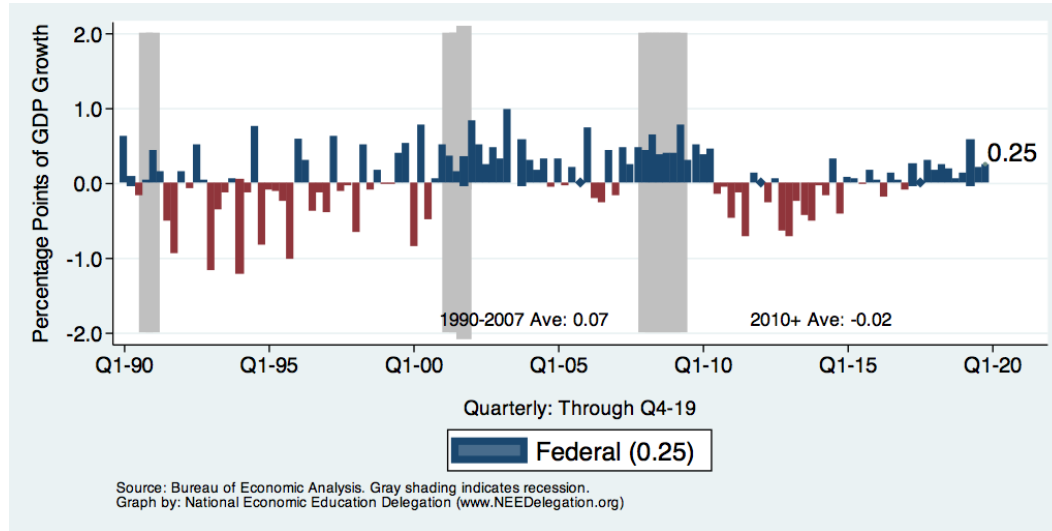


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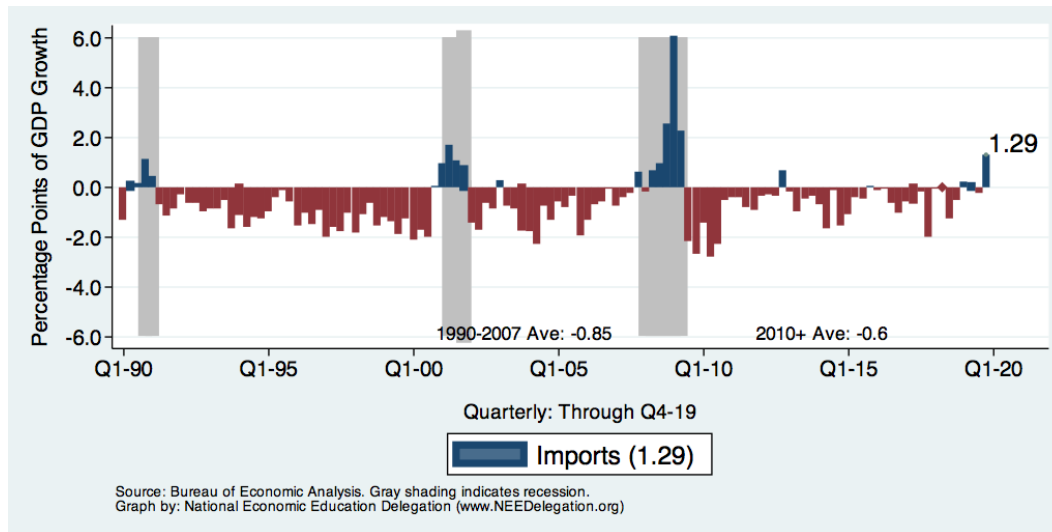
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Contributions to GDP: Government



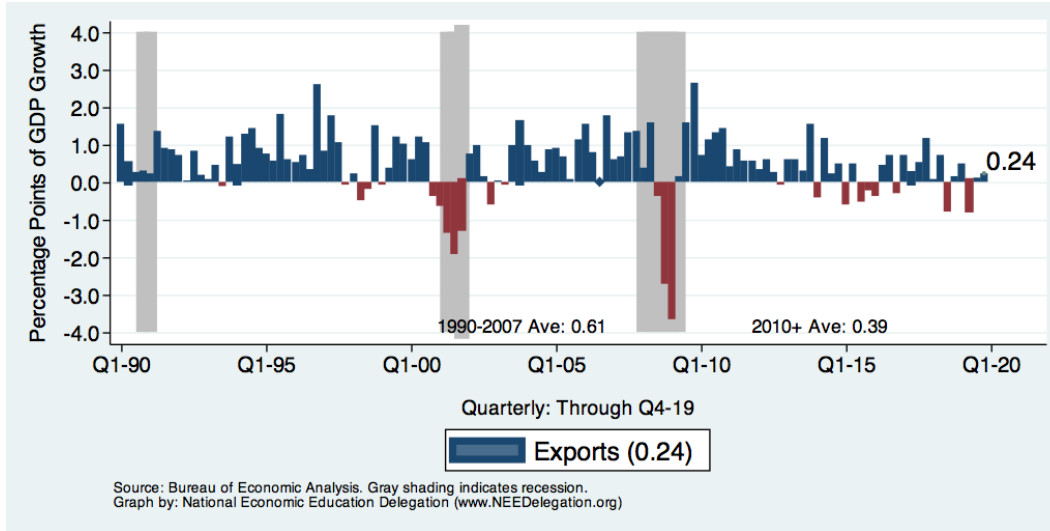
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Trade's Contribution to GDP: Imports

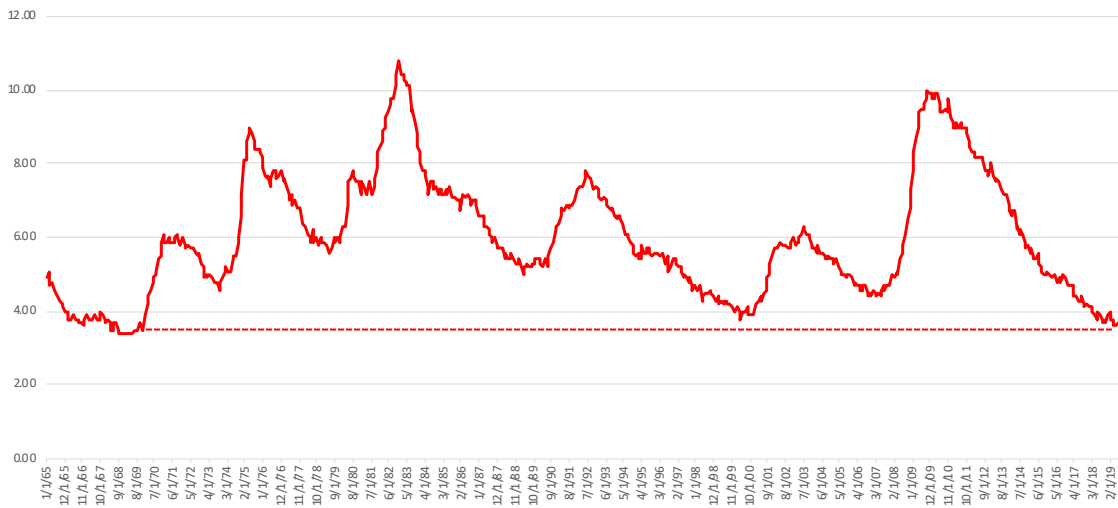


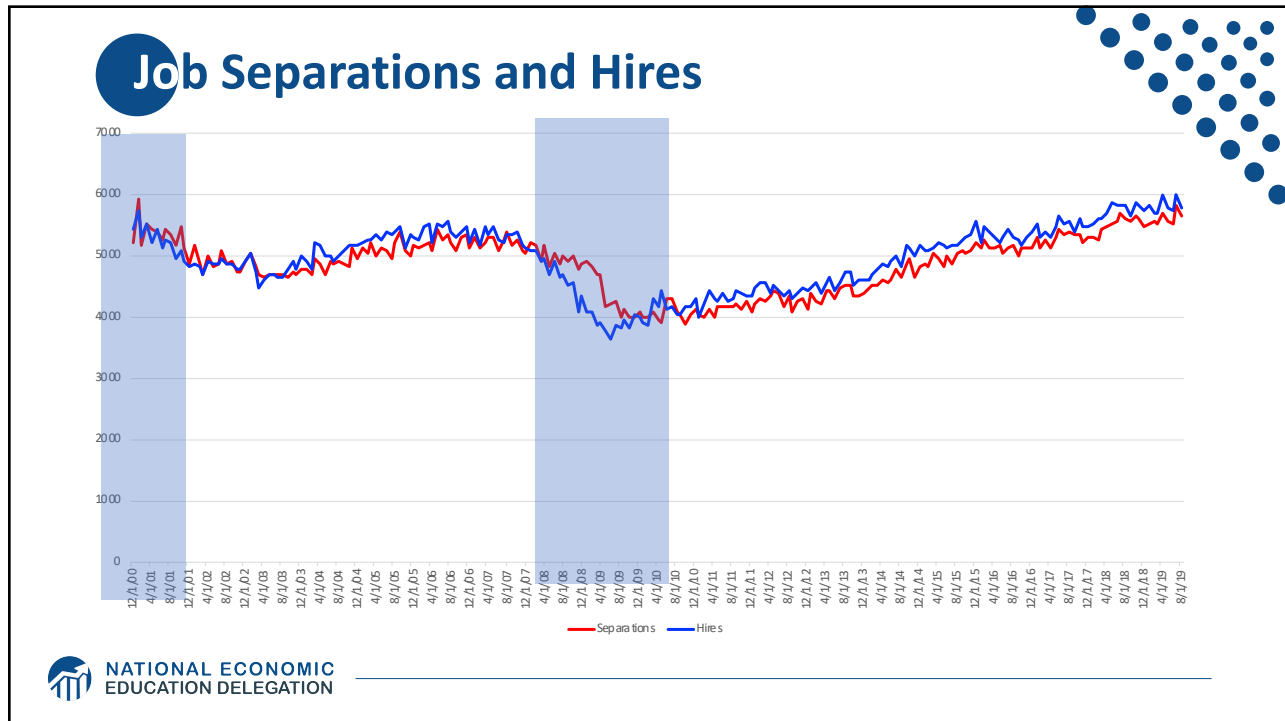
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Trade's Contribution to GDP: Exports

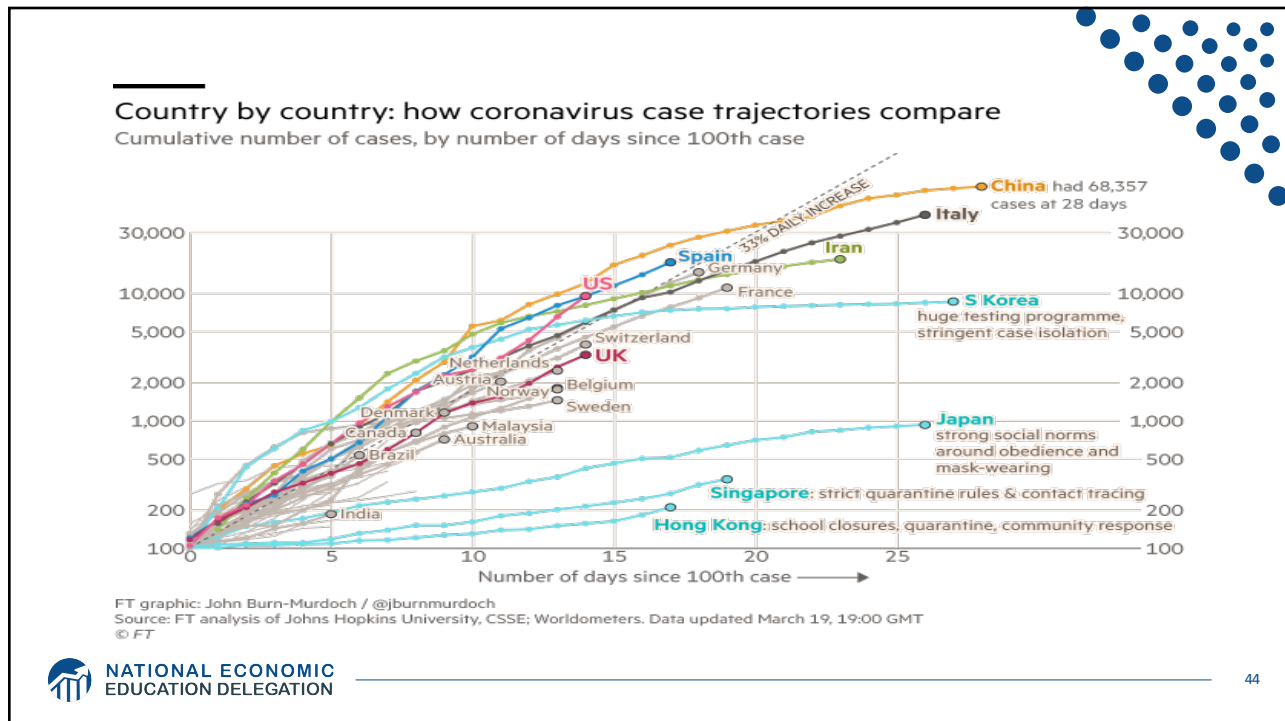


Unemployment Rate: 1965-2020





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GDP Shares and Impact of COVID-19

Countries	Share of World GDP	Manufacturing as a Share of GDP	Services as a Share of GDP	Confirmed Cases	Deaths
United States	24%	11%	77.4%	9,415	155
Canada	2%	10%	66.7%	727	9
UK	3%	9%	71.0%	2,644	103
Germany	5%	20%	61.8%	13,093	31
France	3%	10%	70.3%	9,058	243
Italy	2%	15%	66.3%	35,713	2,978
Spain	2%	11%	67.7%	15,014	640
Japan	6%	21%	69.1%	924	29
China	16%	29%	52.2%	81,154	3,245

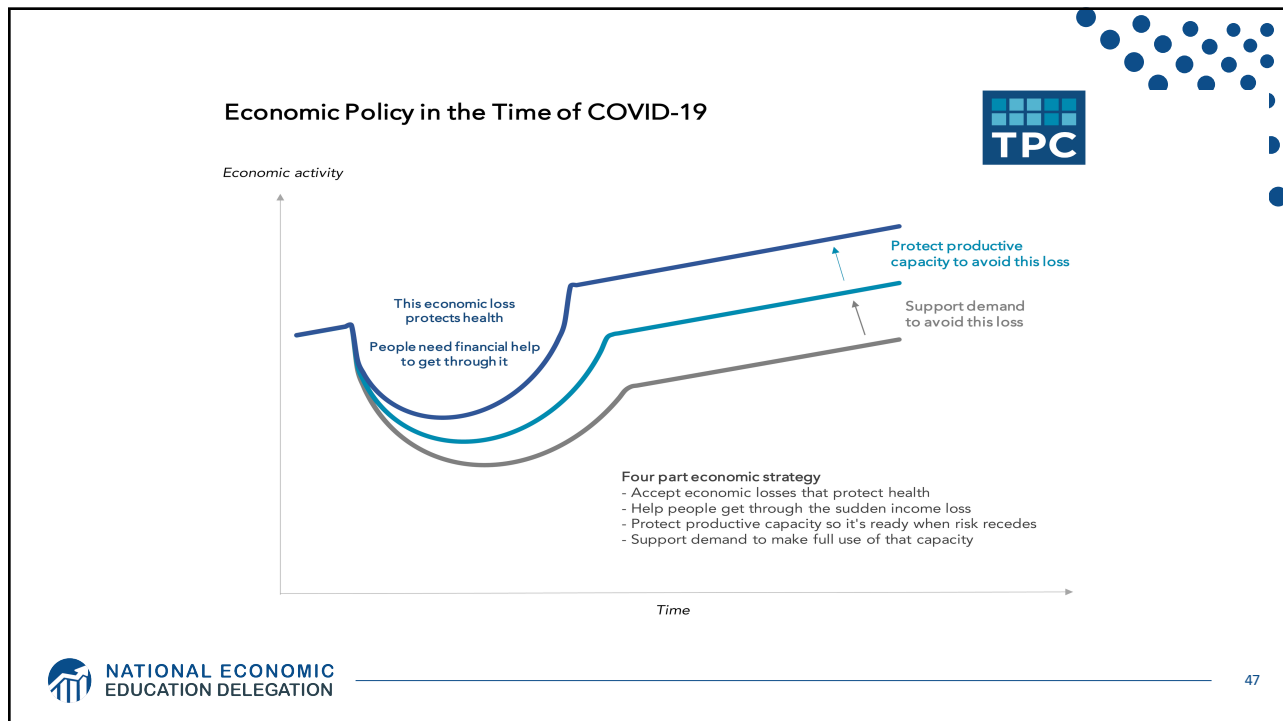
Source: World Bank, Johns Hopkins Coronavirus Resource Center, Worldometer

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Government Response: This Shock is Different

- **This economic shock is a “health shock” with externalities that have (large) macroeconomic consequences.**
- **The fiscal and monetary response is not one where we can or should think about Keynesian versus Classical Solutions.**
- **Response should be to target the cause of the problem and provide income support for individuals and some financial support for firms.**
 - Cause of the problem is COVID-19 and its contagion.
 - Social distancing reducing income and production
 - (We hope) The economic shock is not structural and on the “other side” structurally things will be the same; therefore, we would like to preserve employment-employer matches.

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Government Response: Fiscal Response

- Respond to the impacted sector(s) – health crisis,
- Provide income support for the lower income and most vulnerable,
- Provide support to maintain employer - employee matches, and
- Provide support for the sectors that are most exposed to the shock.

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Government Response (Phase 2): H.R. 6201

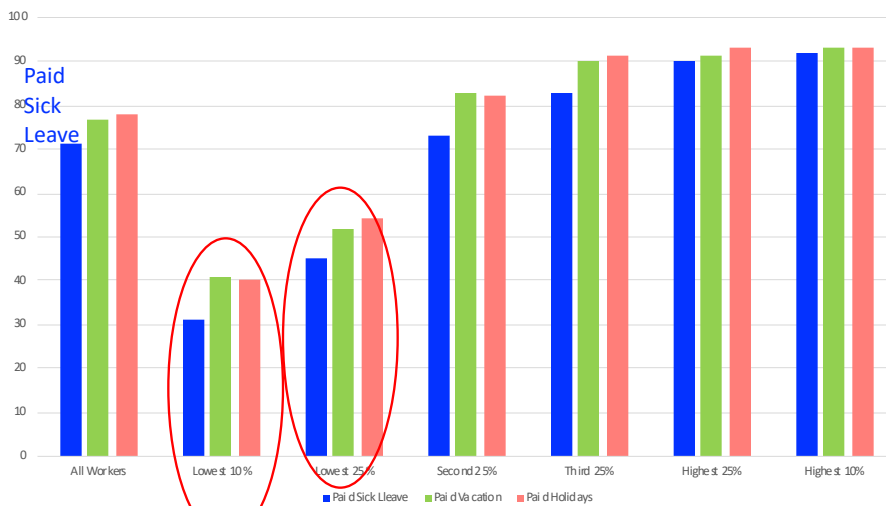
- Free testing for anyone whose doctor recommends it
- Expand family and medical leave
- Paid emergency sick leave
- Additional unemployment benefits

Clearly this is designed to increase testing and support social distancing and (self) quarantines

Food assistance: Supplemental Nutrition Assistance Program (SNAP) and Home-Delivered Nutritional Services

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Paid Leave by Income Category



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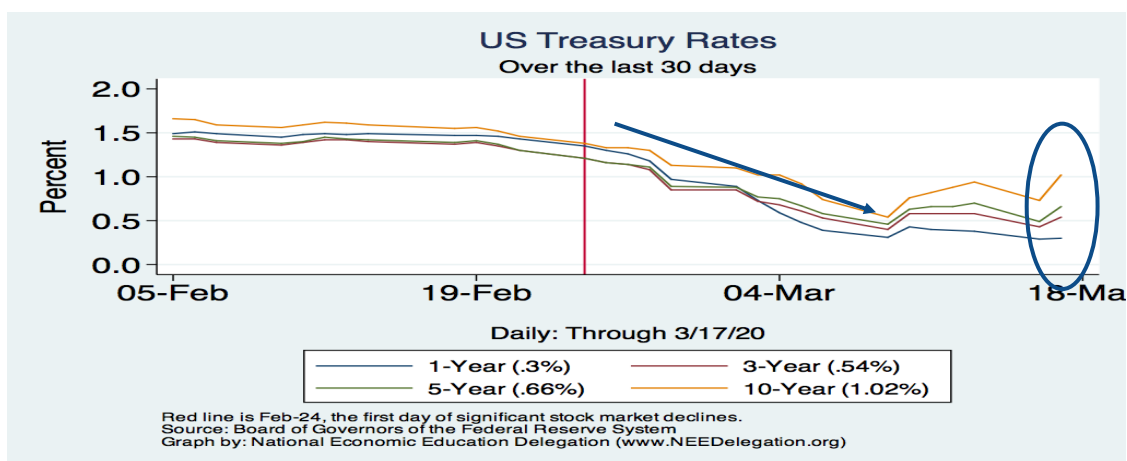
Fiscal Response: What is Next?

- **Direct payment to households \$1,000 for every adult and \$500 for every child – similar to the 2008 rebate but purpose is different.**
- **Small business loans -- \$300 billion**
 - <500 employees and designed to cover six (6) weeks of payroll.
- **Assistance for airlines and other industries where revenues have been impacted -- \$50 billion.**
- **Additional support for distressed industries -- \$150 billion**
- **Payroll tax cut (not in any recent proposal).**



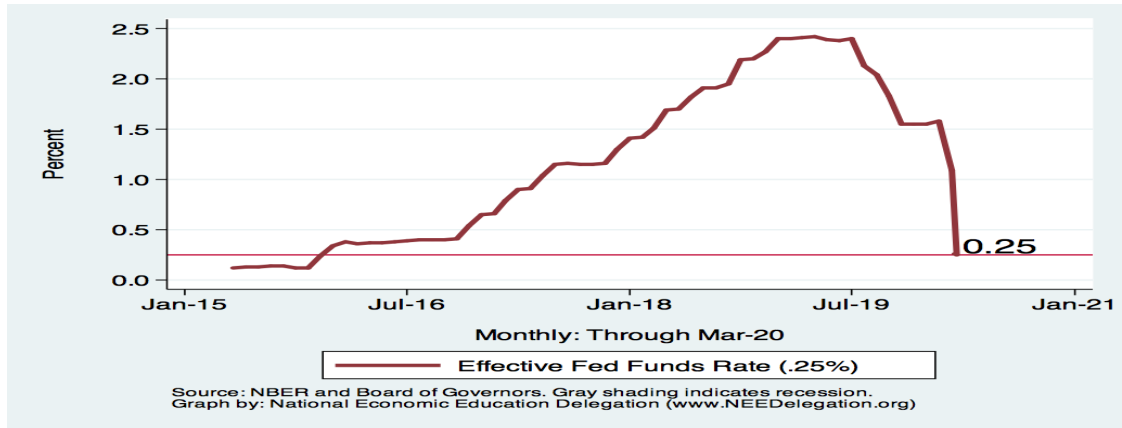
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US Treasury Rates: A Safe Haven?



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Federal Reserve Response: Federal Funds Rate



Runs Again



Government Response: Federal Reserve

- Lower (targeted) Federal Funds Rate and “Forward Guidance”.
- QE-2020: Buy \$500 billion of Treasuries and \$200 billion of Mortgage Backed Securities.
- Discount rate cut to 0.25%
- Encourage banks to use intraday credit
- Loan guidance: encourage banks to loan to firms and HHLDS
- Eliminates reserve requirement.
- Create the Money Market Mutual Fund Liquidity Facility designed to help meet the demands for redemption by households and firms.



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What is next and what else can be done?

- **How do we pay for it?**
 - Run larger deficits
 - Run the printing press MMT
 - Firms and/or individuals borrow through Treasury (Cochrane)
- **Additional fiscal measures**
 - Buyer of last resort (Piketty and Zucman)
 - Employer of last resort (MMT)
- **Additional cash disbursements**



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Private Sector Response

- Some firms have committed to maintain employment and continue to pay hourly workers.
- Some firms and individuals have committed to use resources to help support the health crisis.



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What have we learned? Positive Take-Aways

- May improve enhance 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



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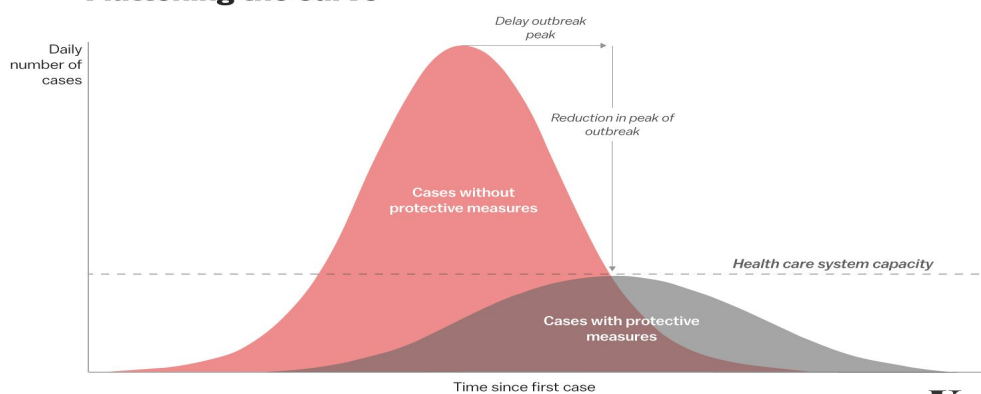
Conclusion

- COVID-19 is health crisis that has macroeconomic implications.
- The macroeconomic effects are derived from supply-chain disruptions and "sudden-demand" stops.
- Fiscal and monetary response should be targeted at health crisis first and income and employment maintenance.
- Negative GDP growth 2020:Q2 seems likely.



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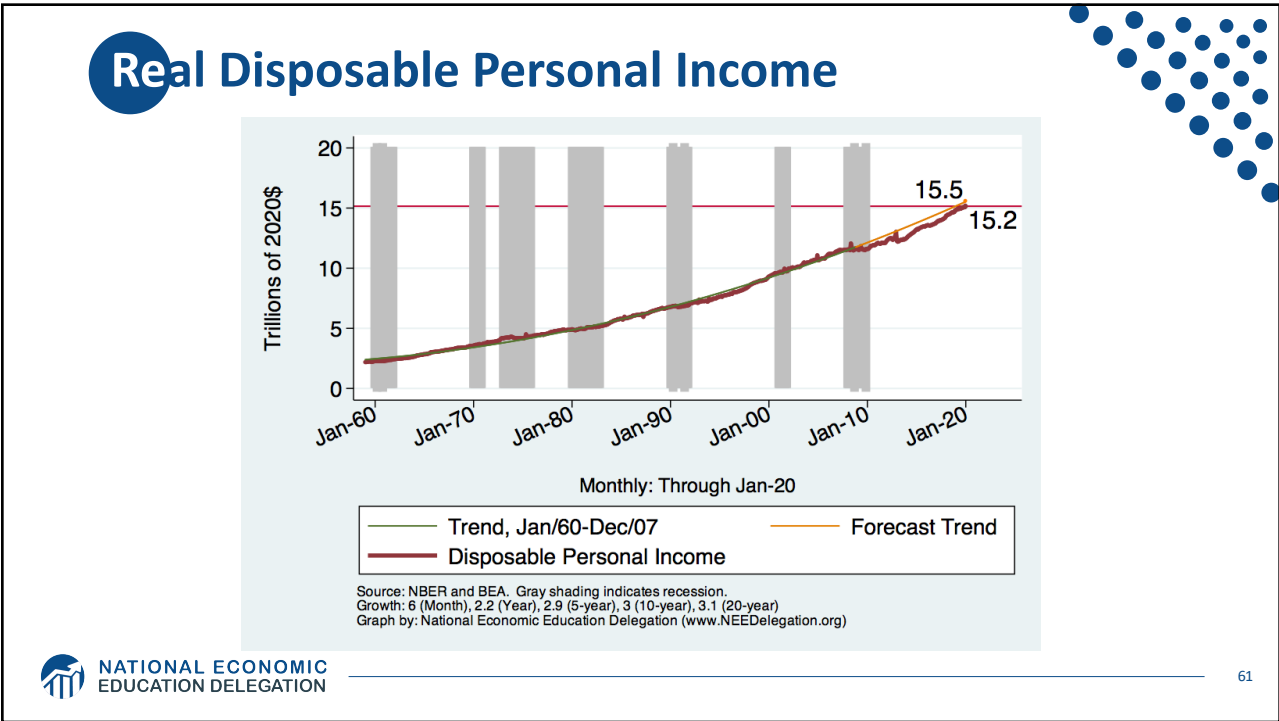
Flattening the curve



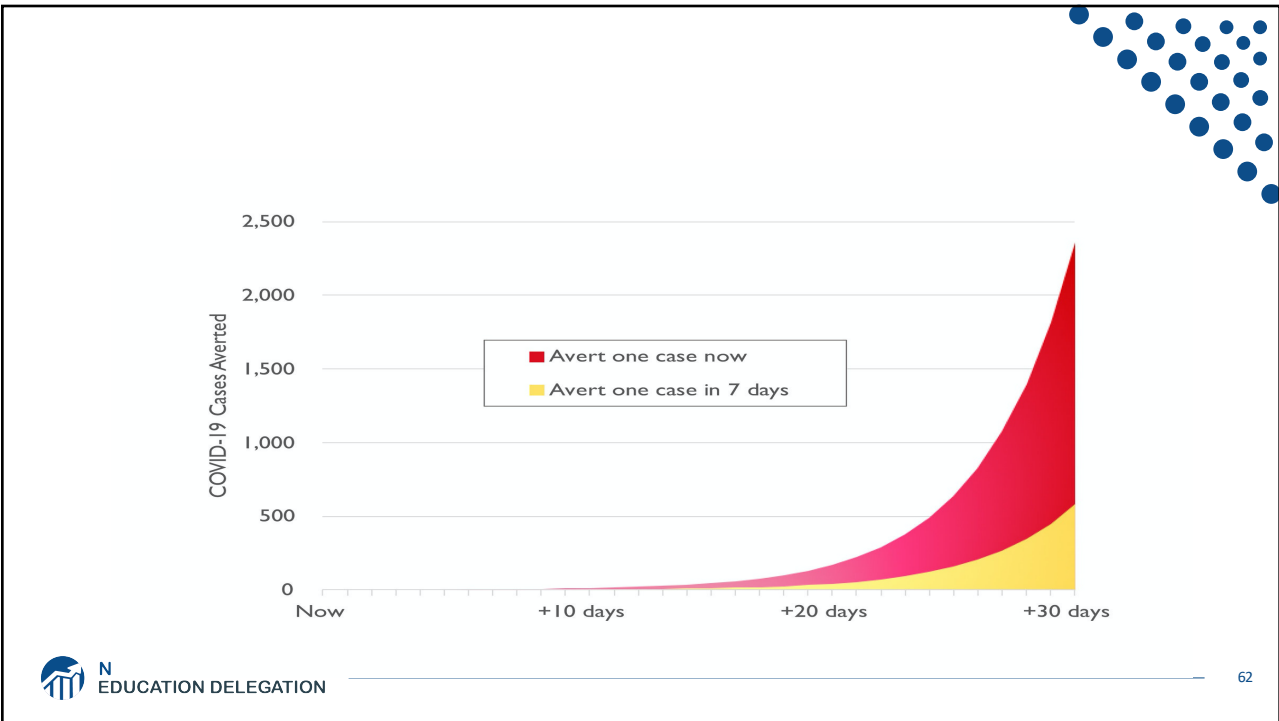
Source: CDC



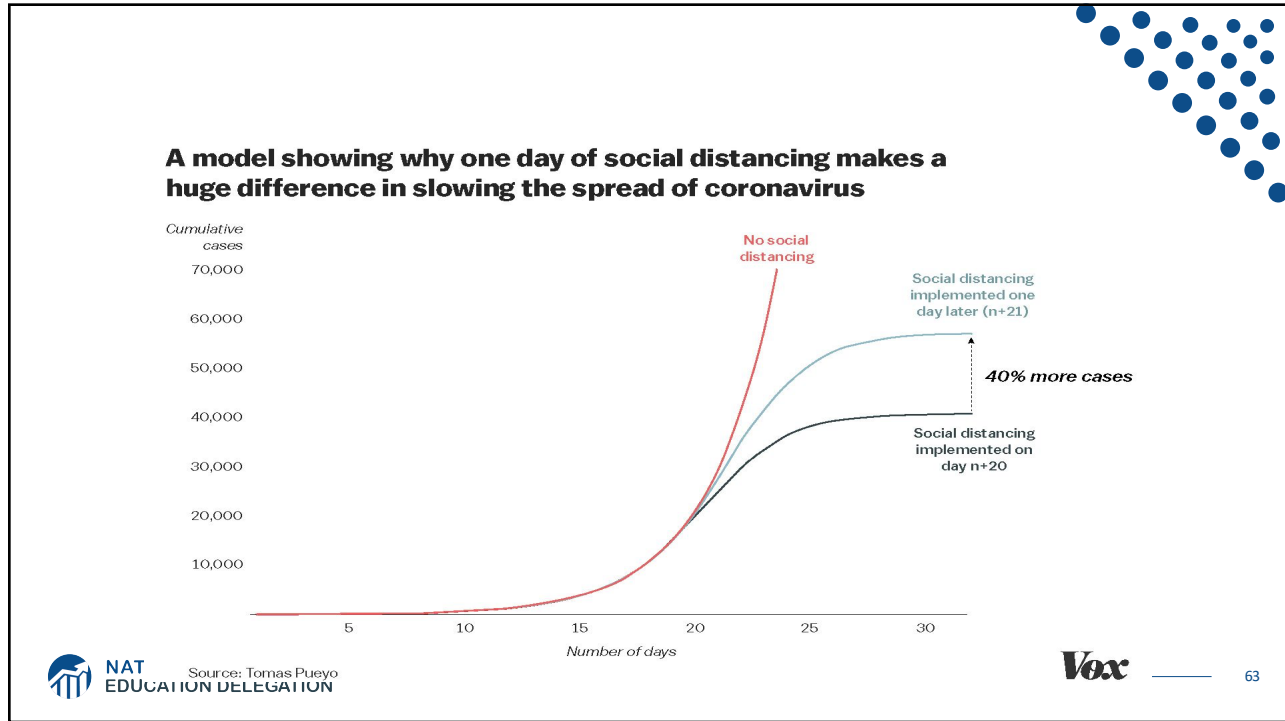
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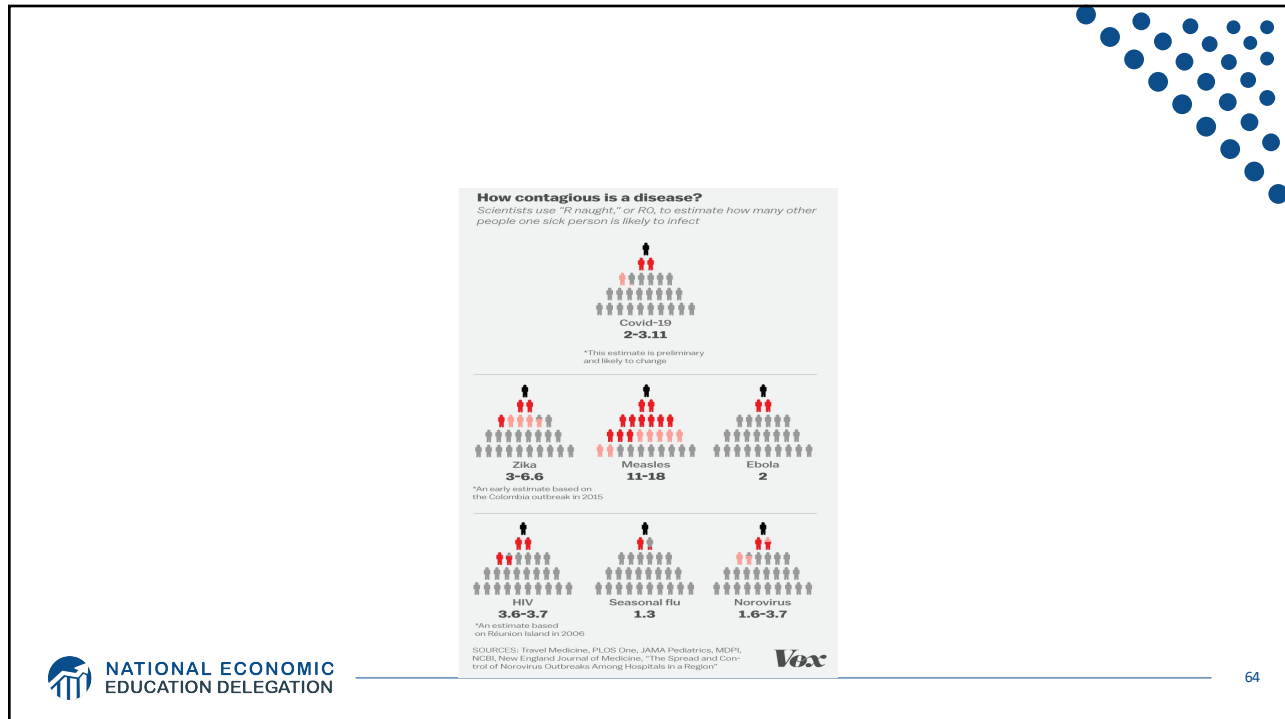
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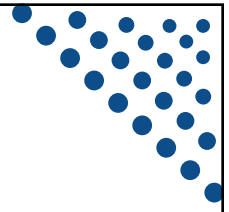


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Thank you!



Any Questions?

www.NEEDelegation.org

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Contact NEED: Info@NEEDelegation.org



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