

COVID-19: Economic Implications and Policy Response

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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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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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Outline of the Deck

- 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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The Thing About the Coronavirus

- Supply side
- Demand side
- Financial

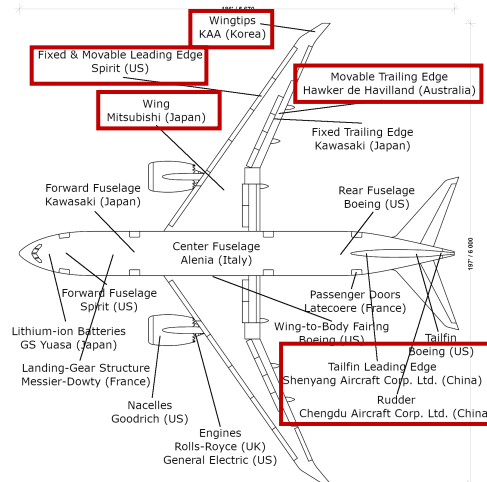
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The Escalation of the Economic Effects



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Coronavirus: Supply Side



- Boeing 787 Dreamliner
- Parts and components from suppliers all over the world:

- Japan
- Italy
- China
- Australia
- ...

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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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Particularly Vulnerable Industries

- Transportation
- Tourism
- Entertainment
- Hospitality
- Manufacturing

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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%
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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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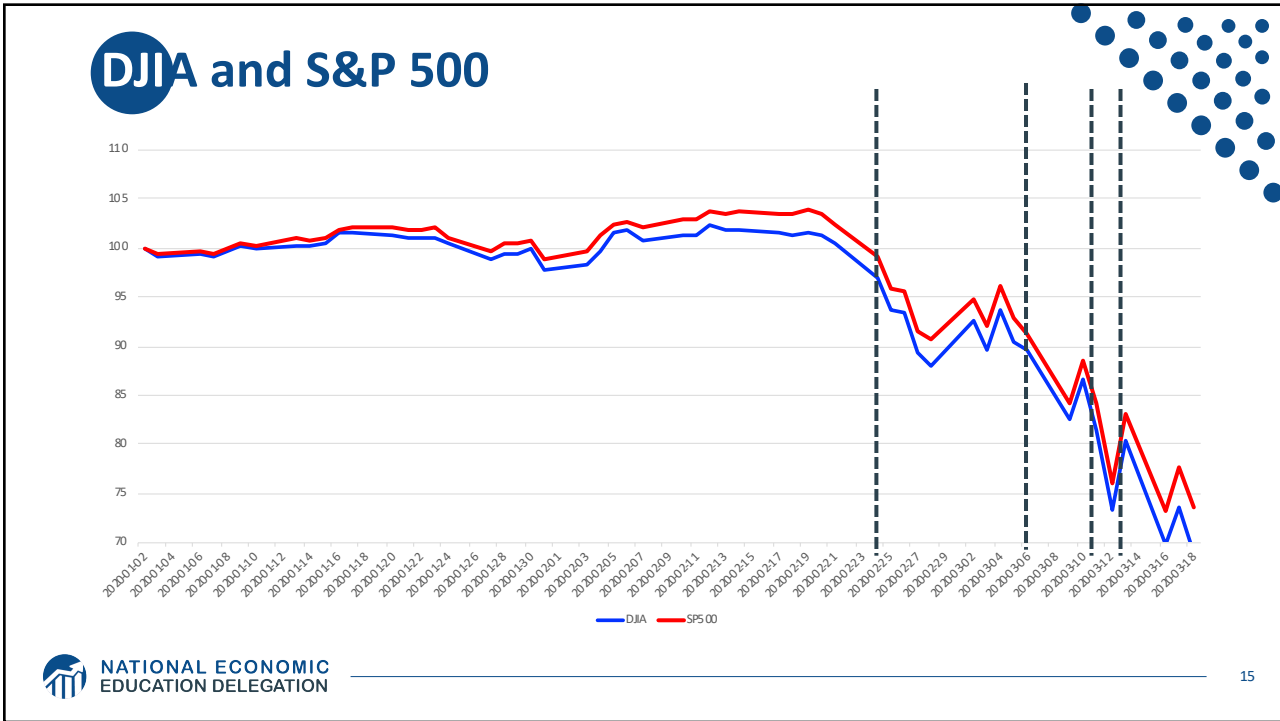
Modest Impact on GDP of COVID-19

GDP per Capita

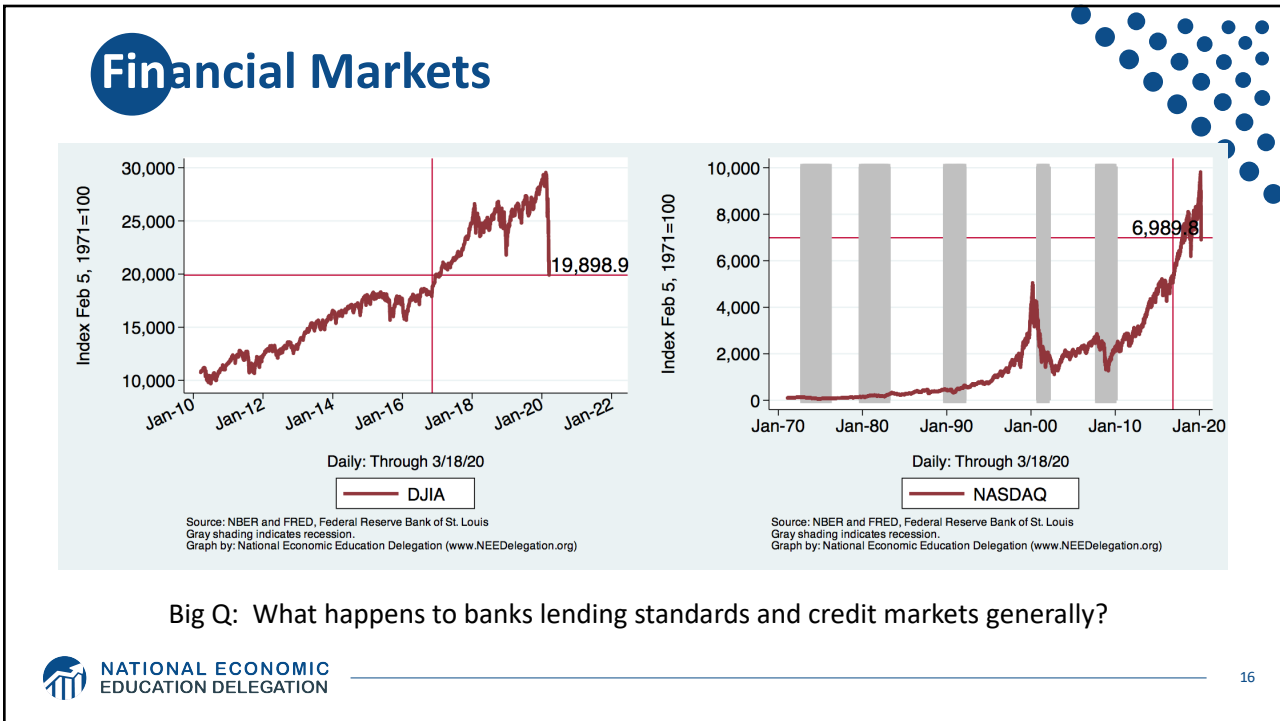
Time

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Market Risk and Stress: CBOE VIX



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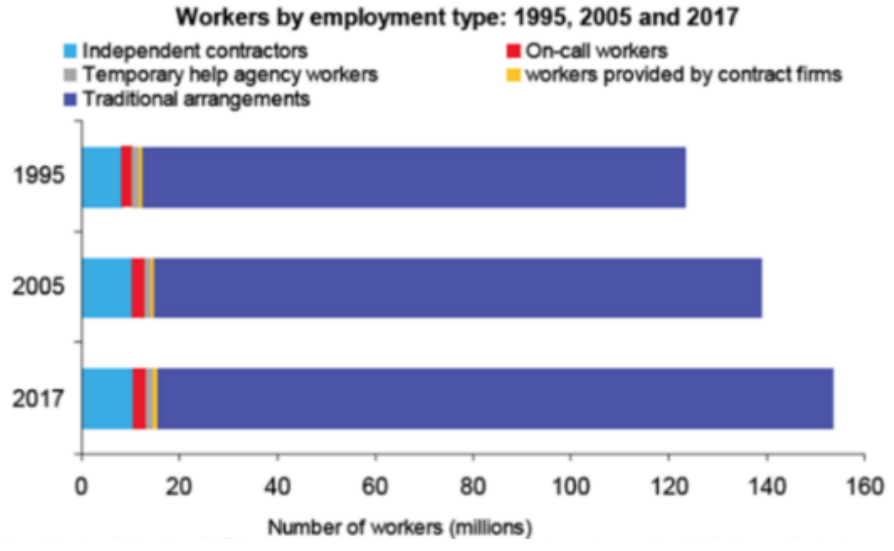
Initial Jobless Claims

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.

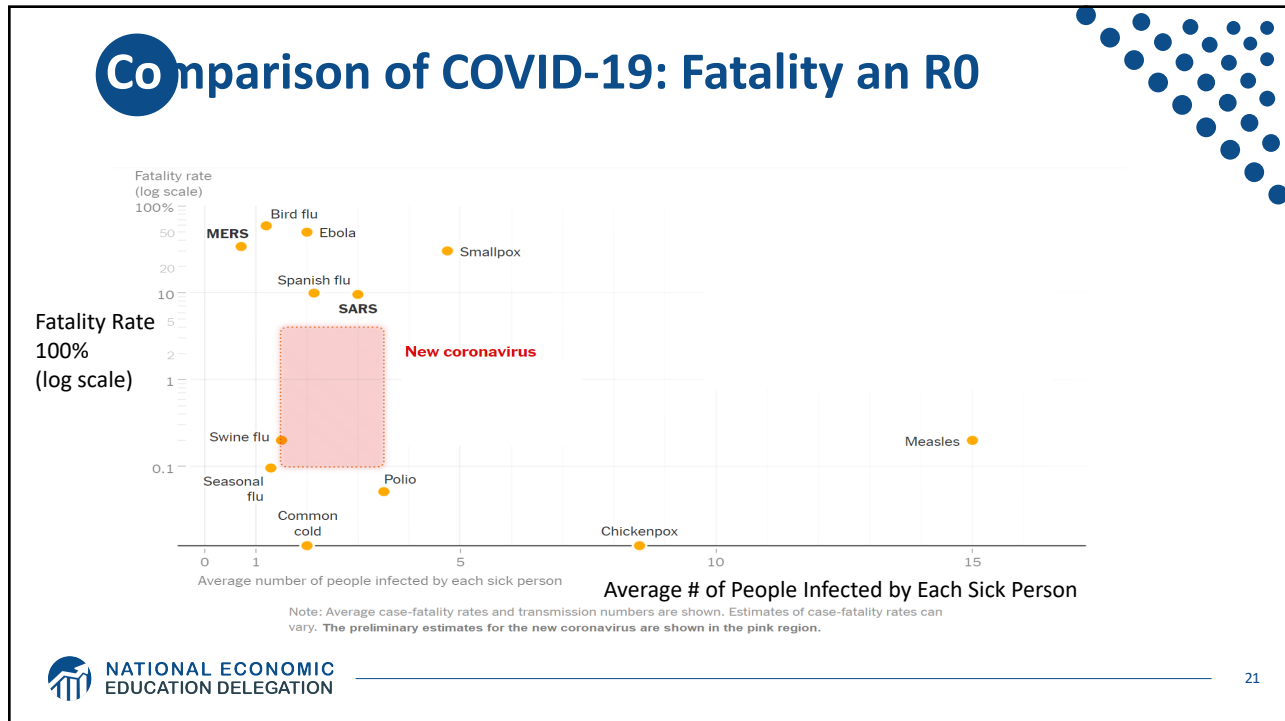


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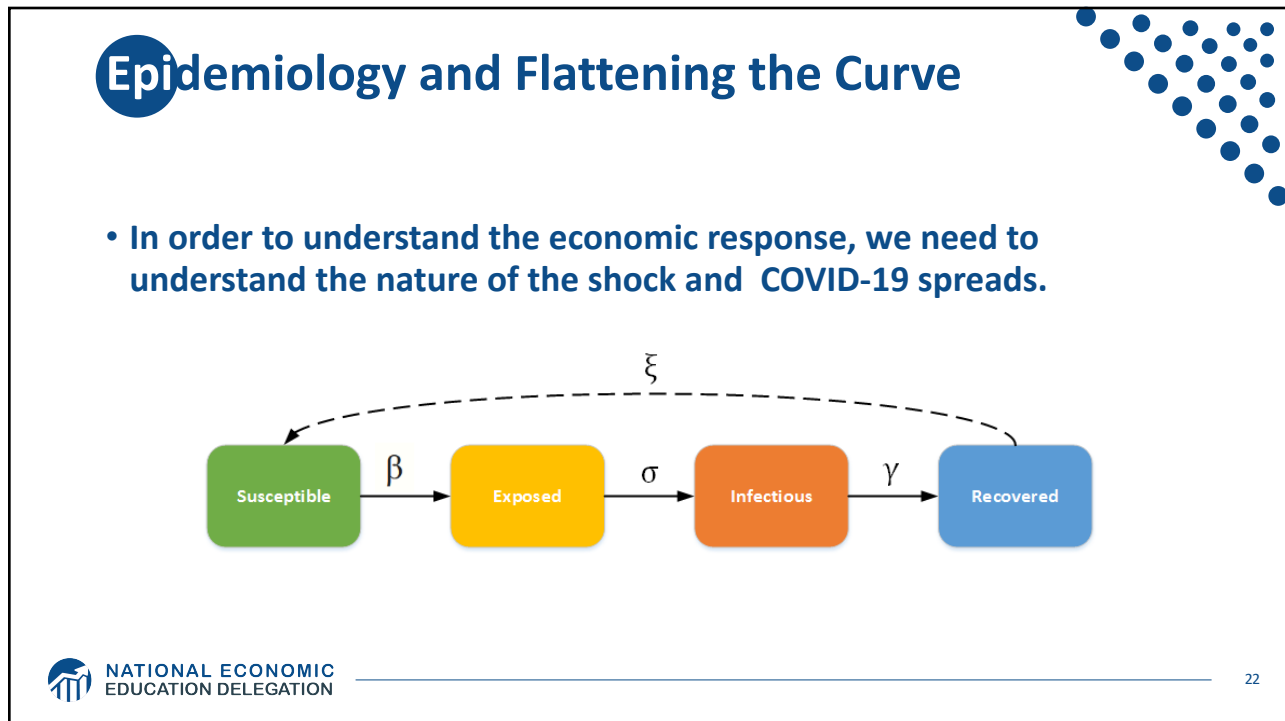
Particularly Vulnerable Workers



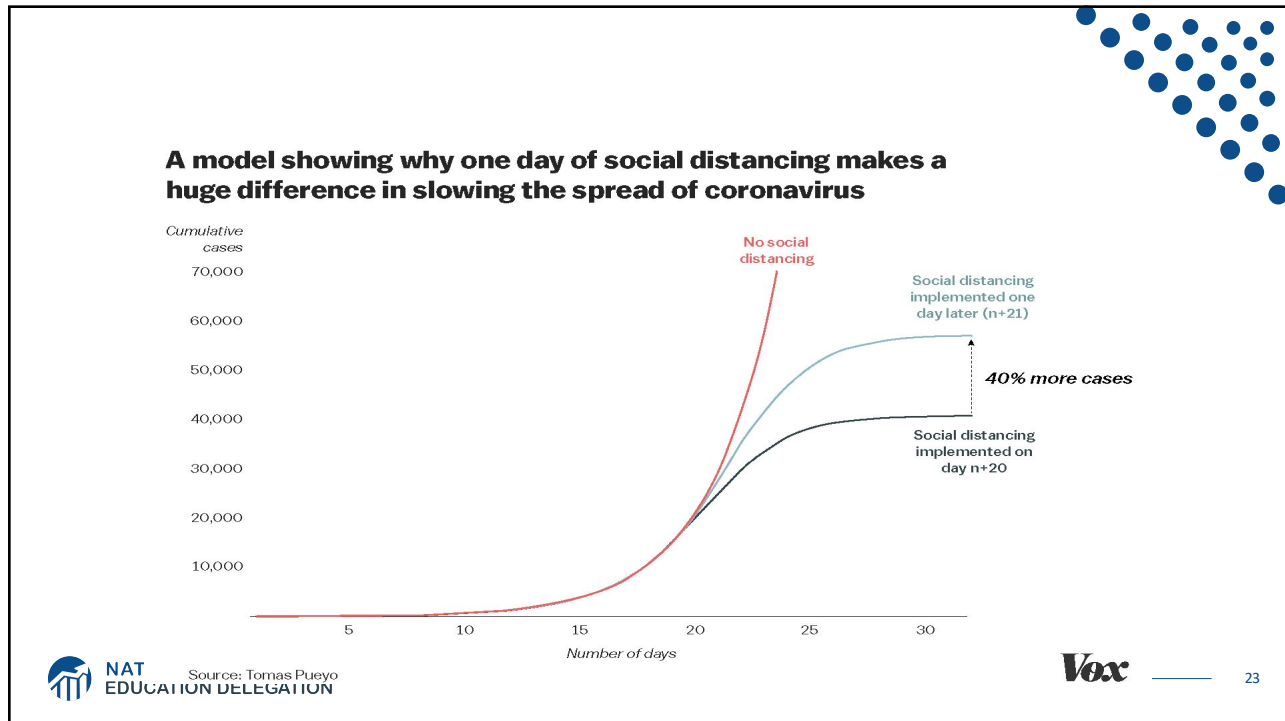
Epidemiology



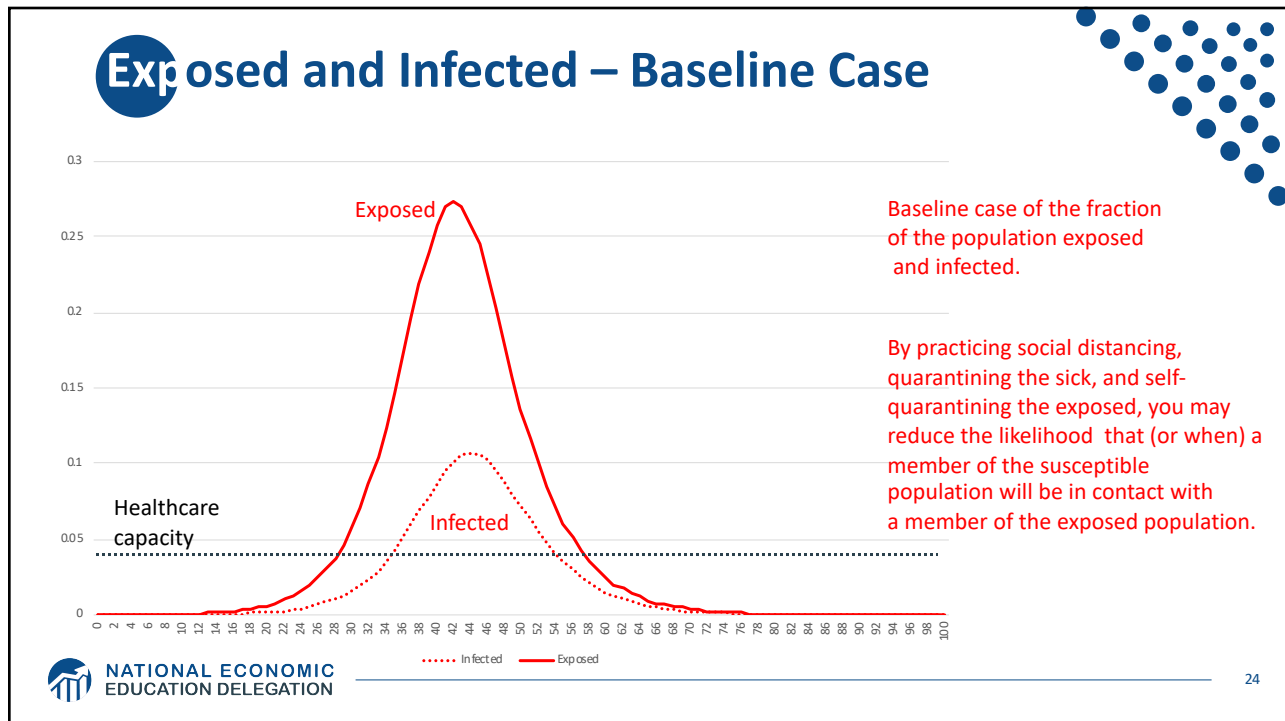
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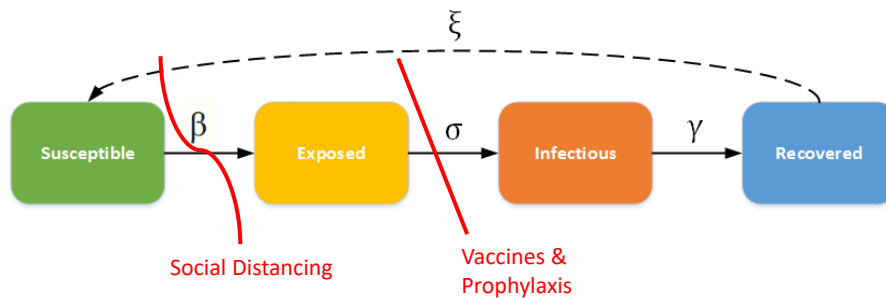
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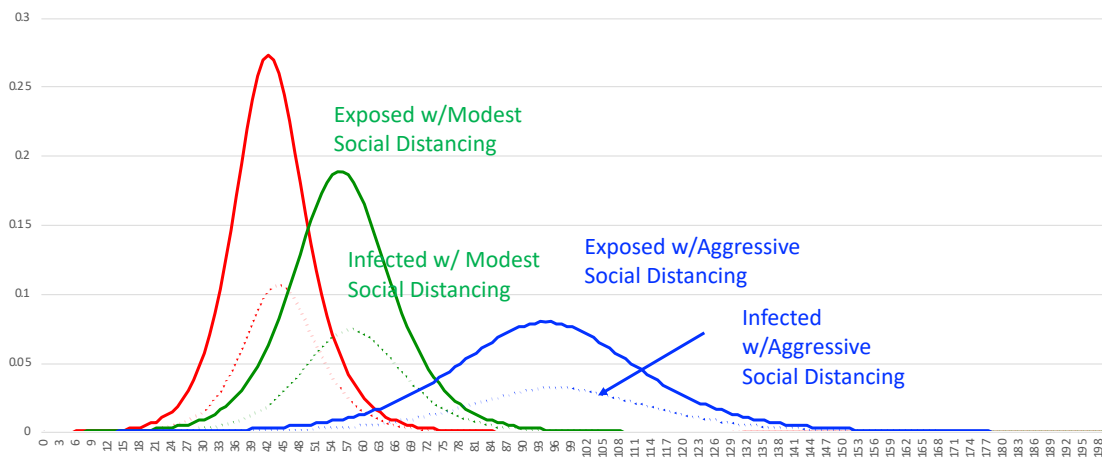
Epidemiology and Flattening the Curve

- The importance of testing and social distancing on containment.

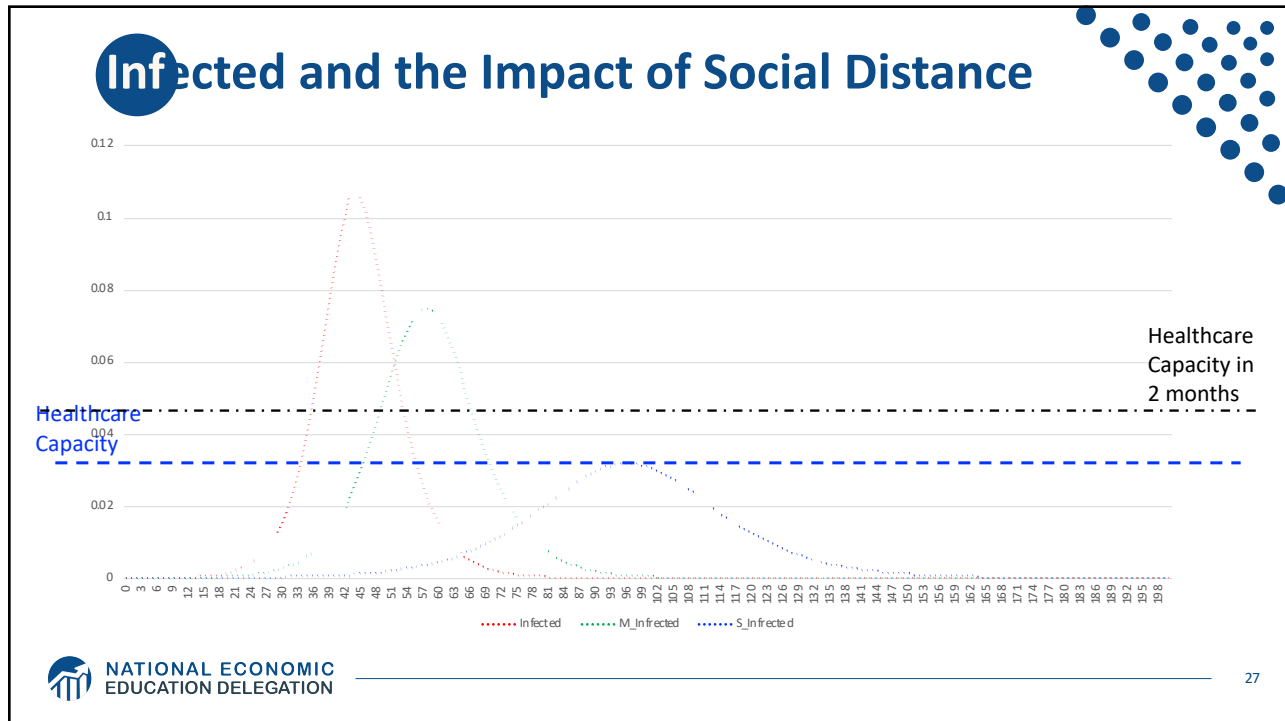


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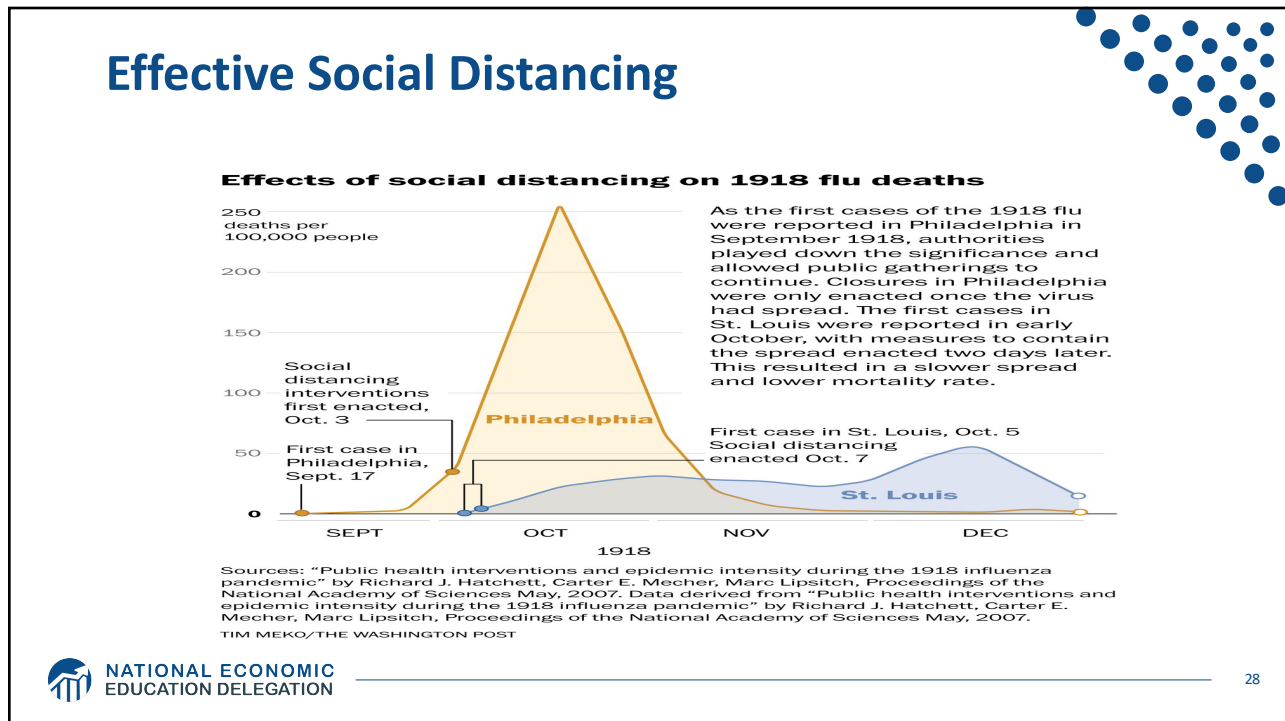
Exposed and Infected and Social Distance



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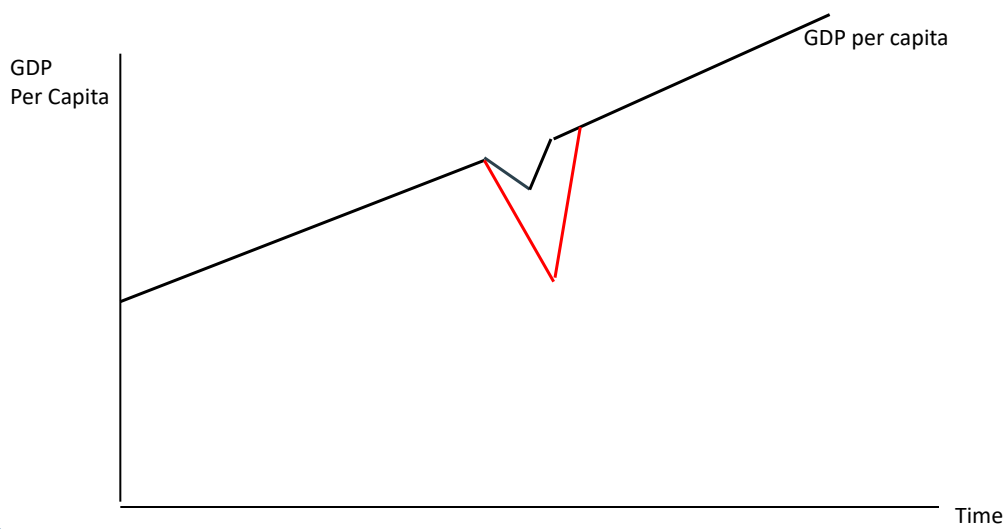
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GDP Shares and Sudden Demand Stops

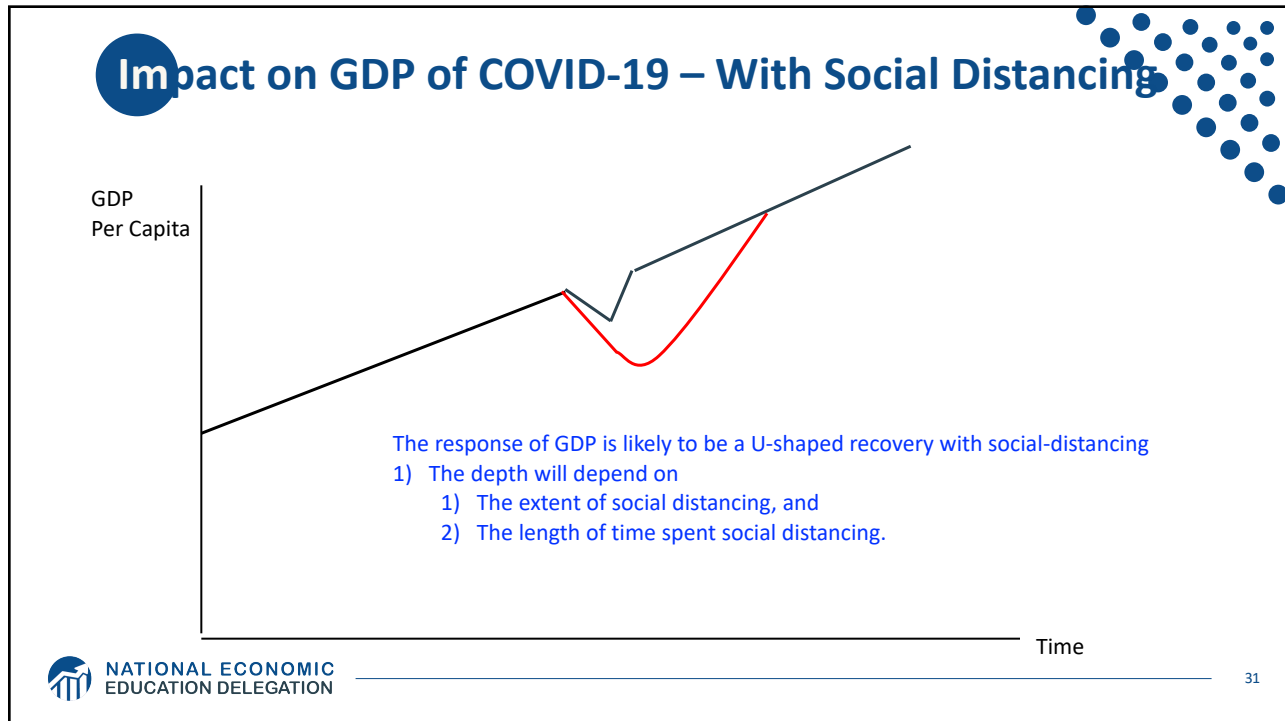
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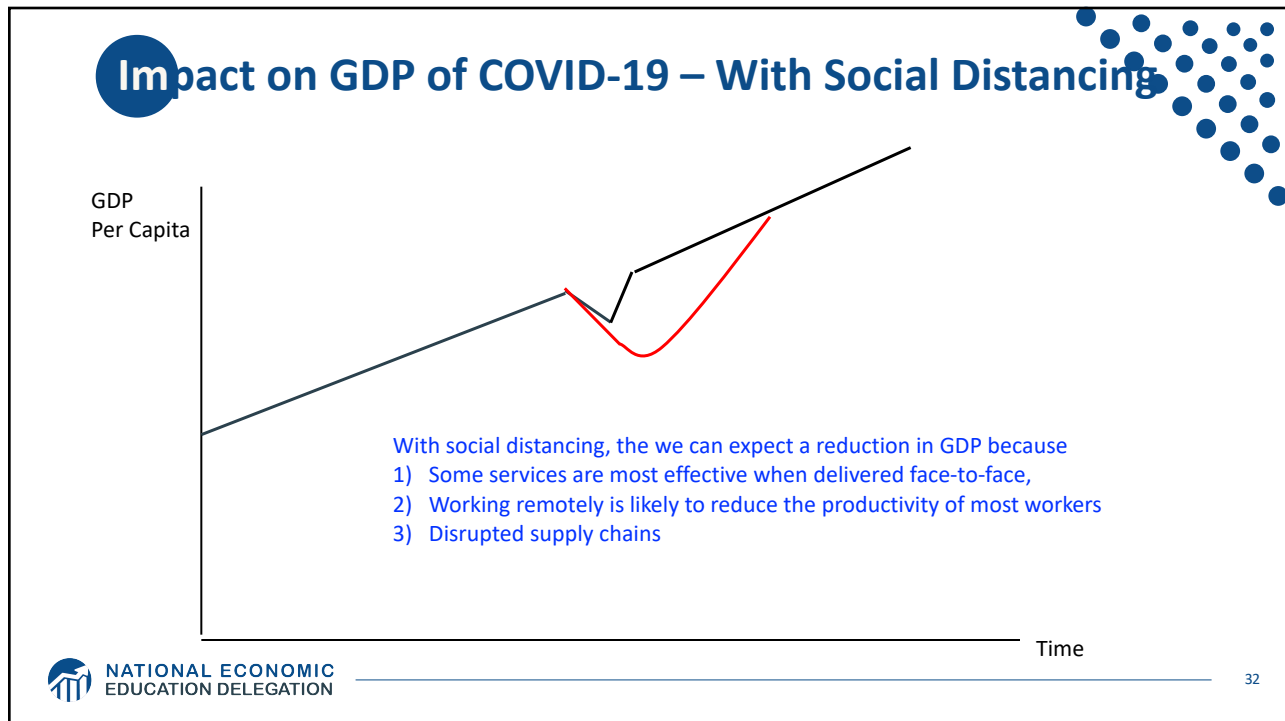
Impact on GDP of COVID-19 – No Social Distancing



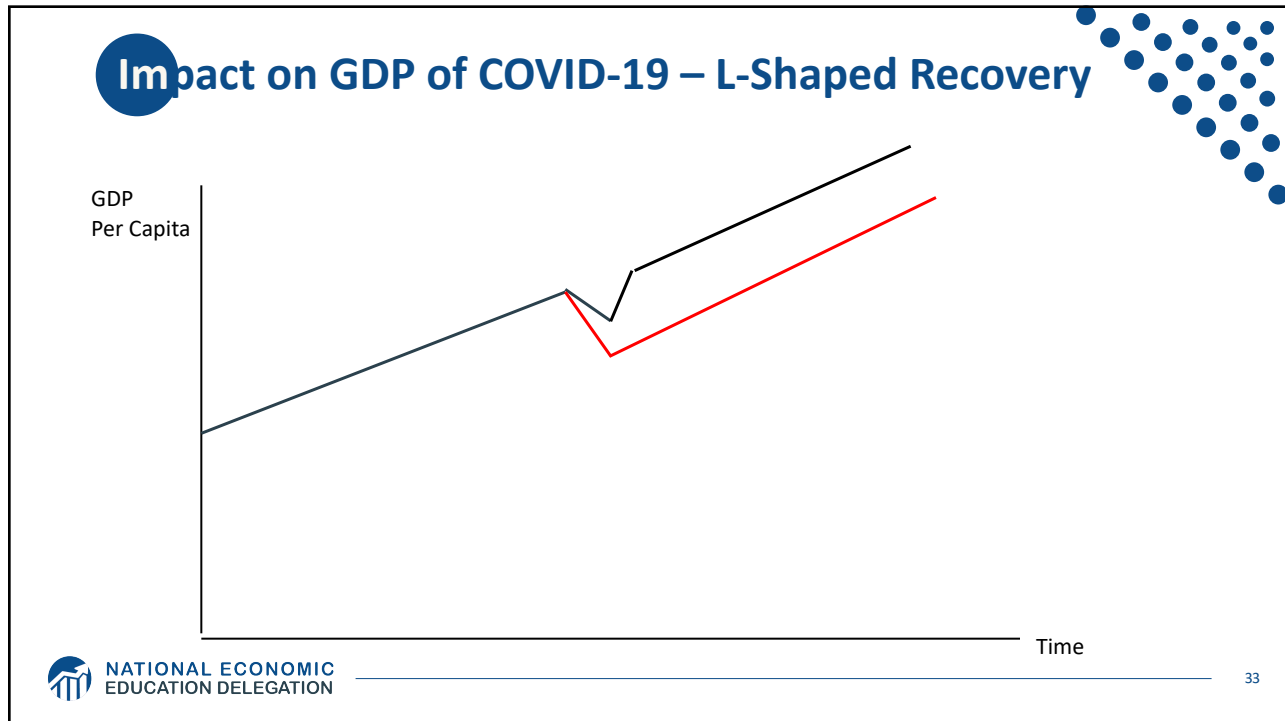
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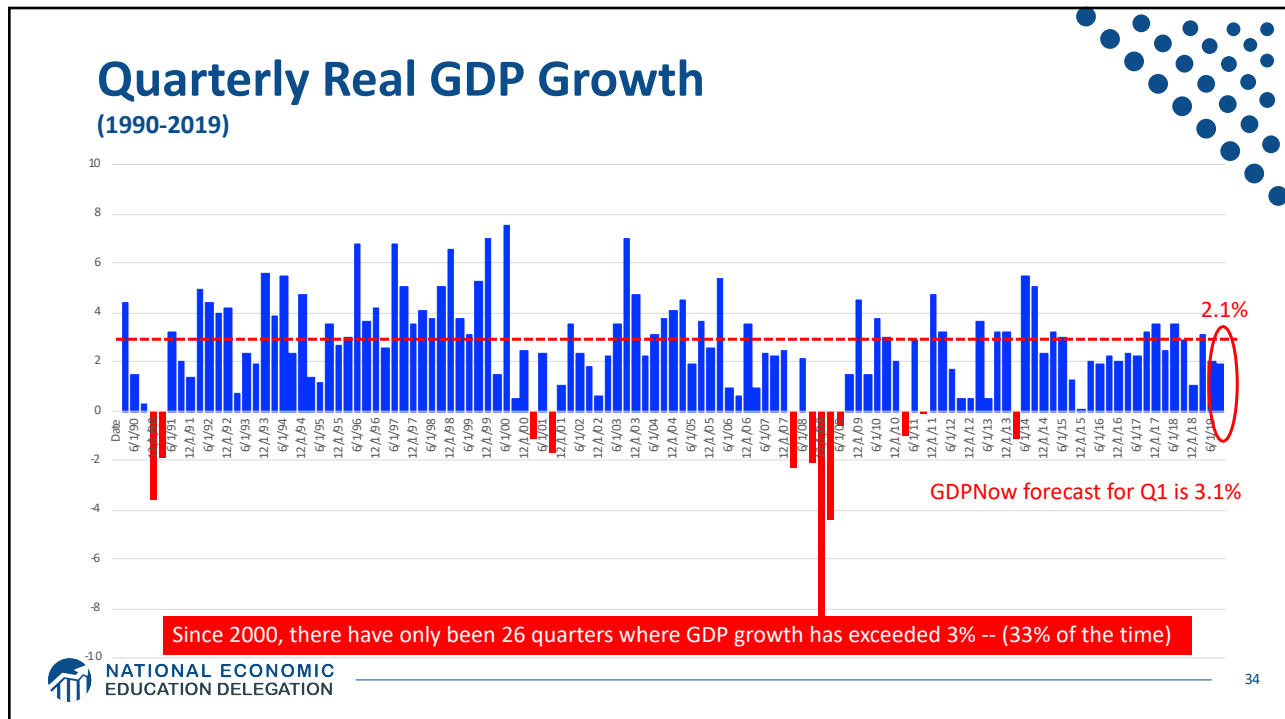
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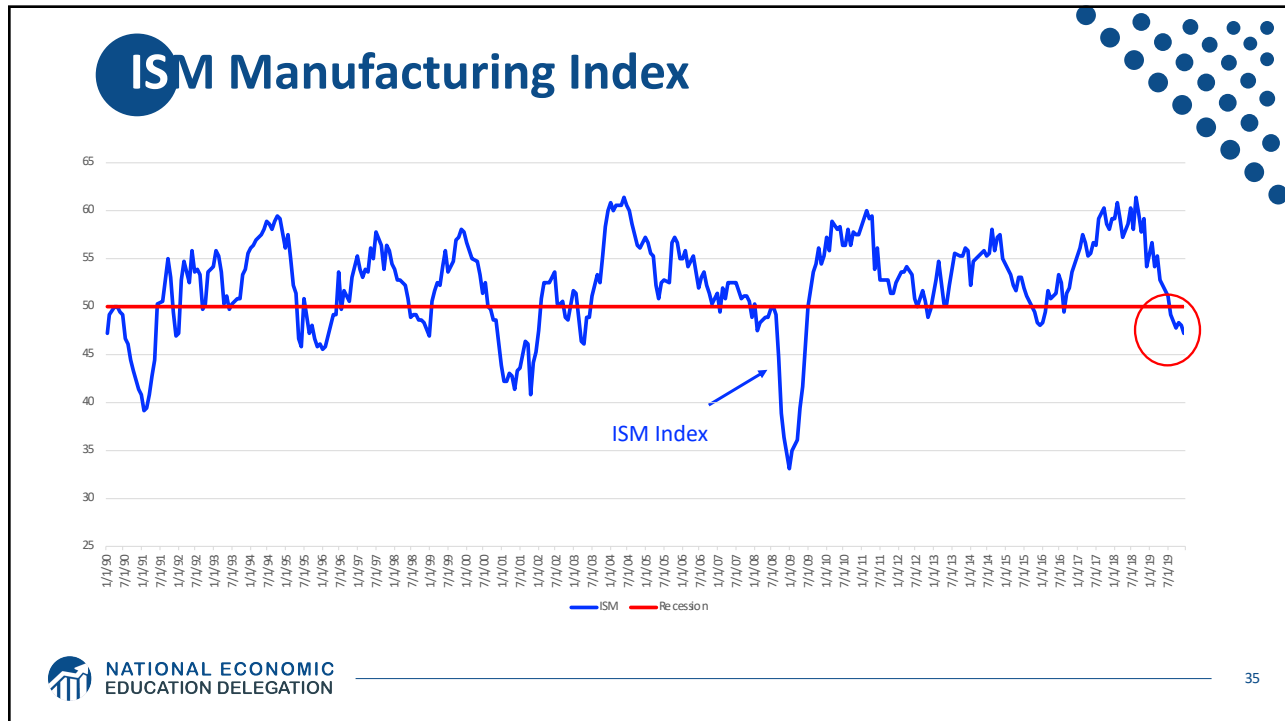
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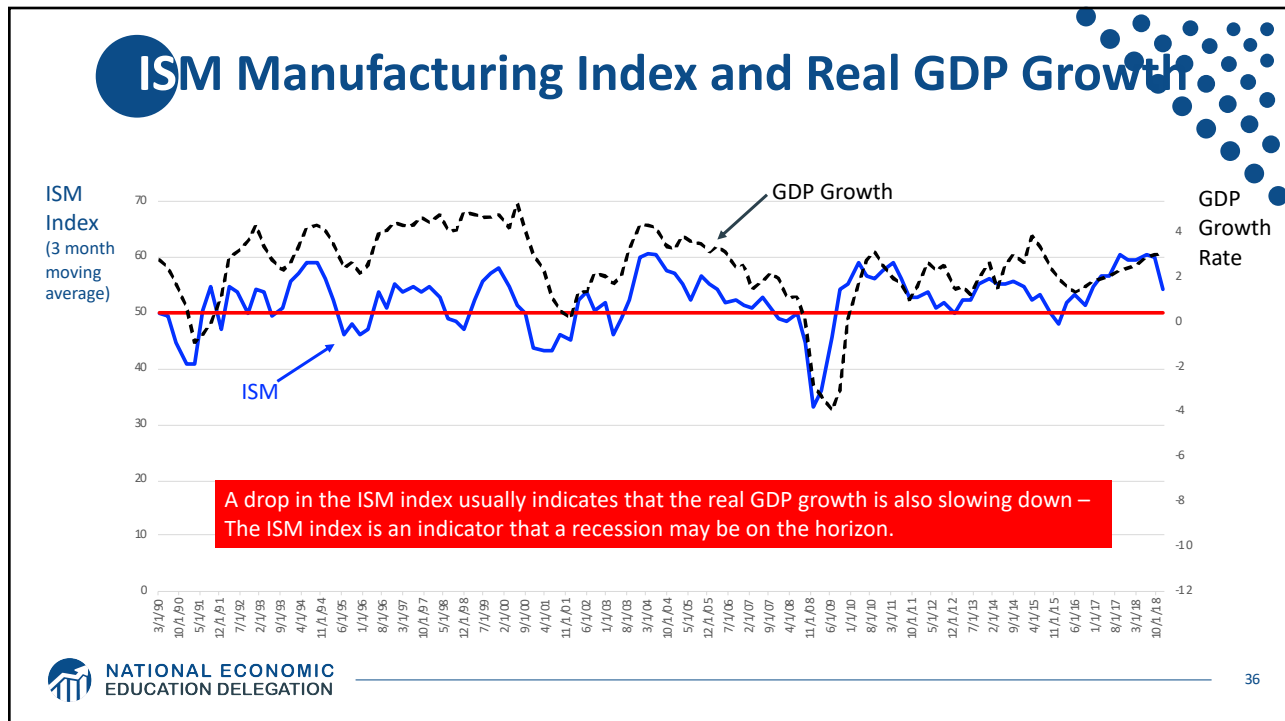
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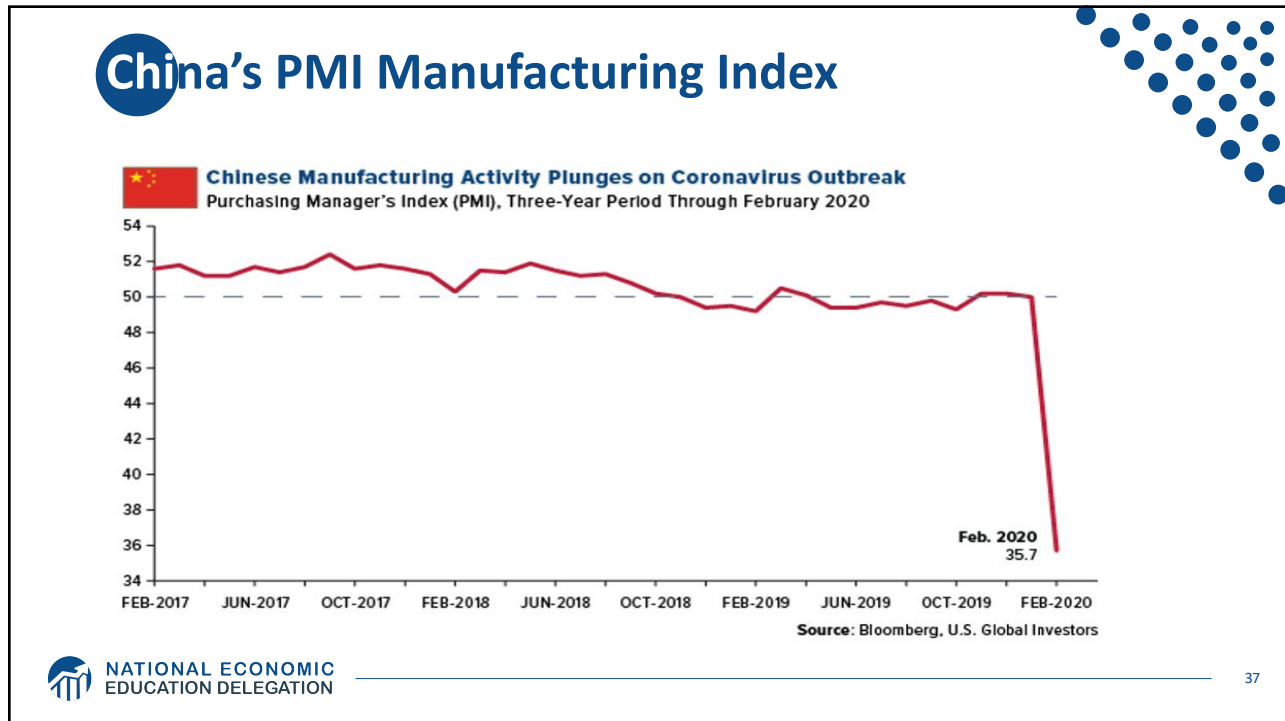
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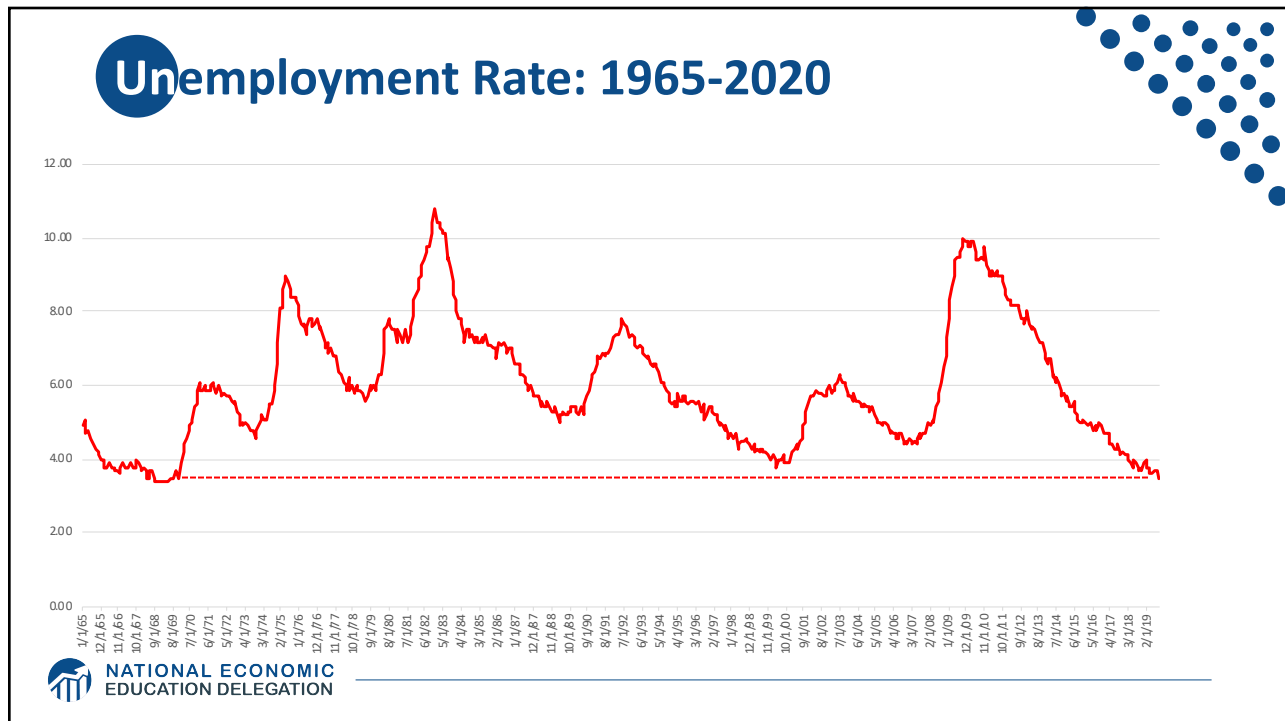
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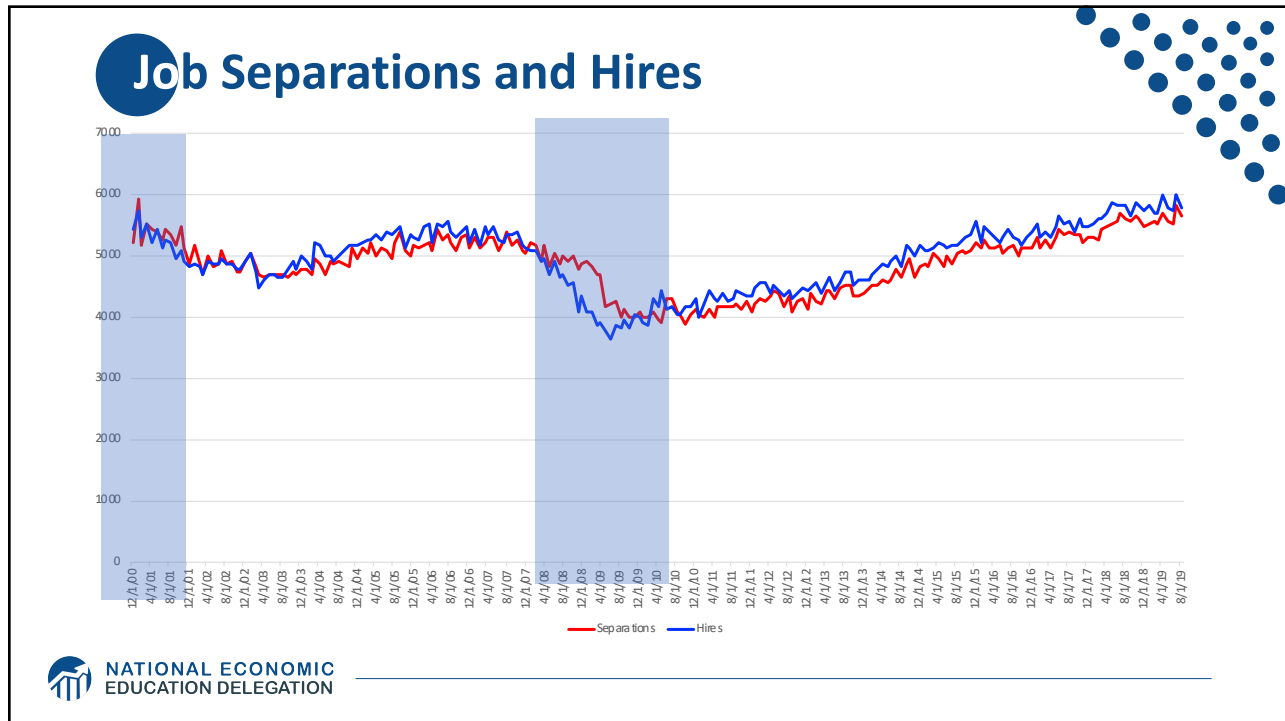
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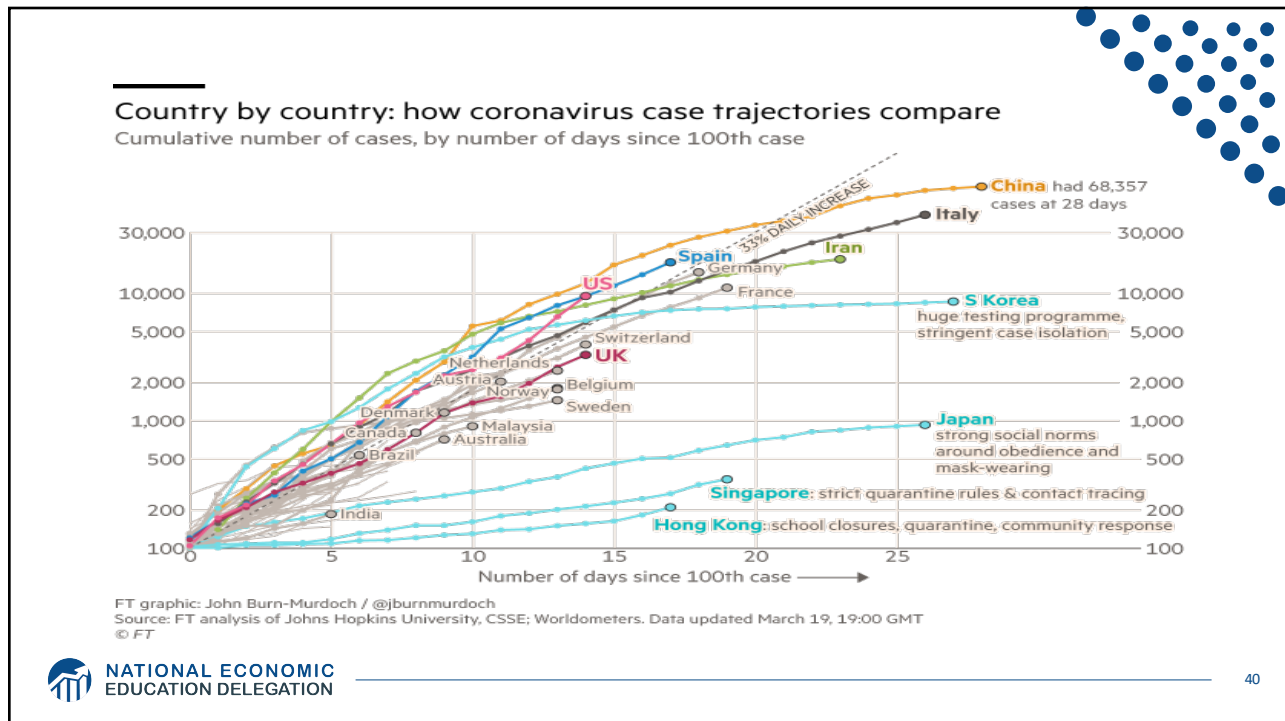
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GDP Shares and Impact of COVID-19

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

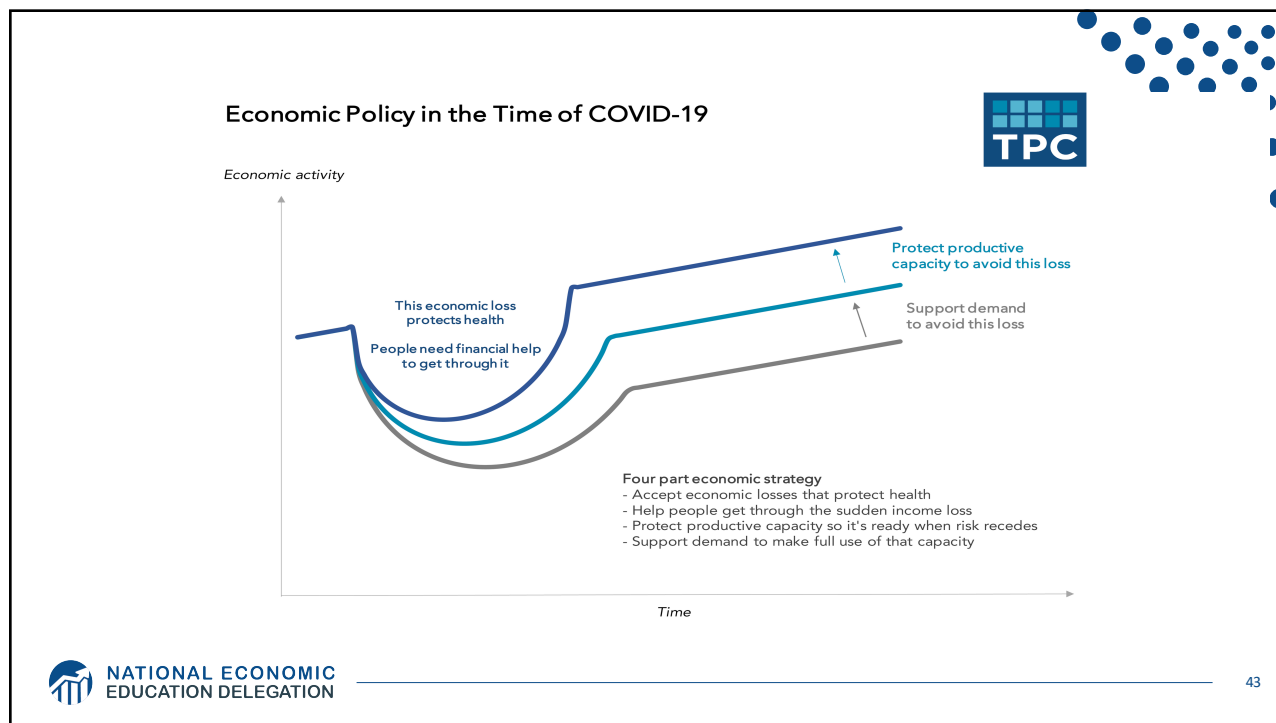
Source: World Bank, Johns Hopkins Coronavirus Resource Center, Worldometer

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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

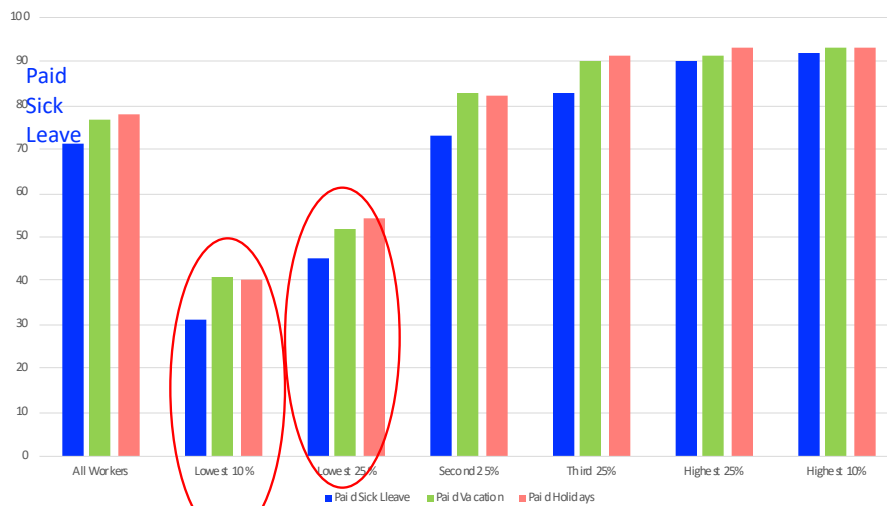
- Free testing for anyone whose doctor recommends it
- Expand family and medical leave
- Paid emergency sick leave
- Additional unemployment benefits

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



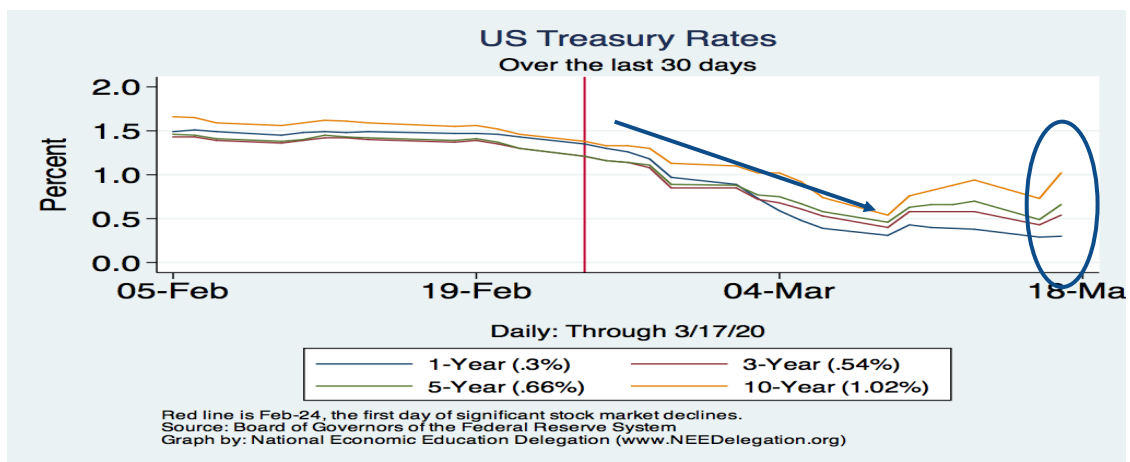
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Fiscal Response: What is Next? (Phase 3)

- **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).**

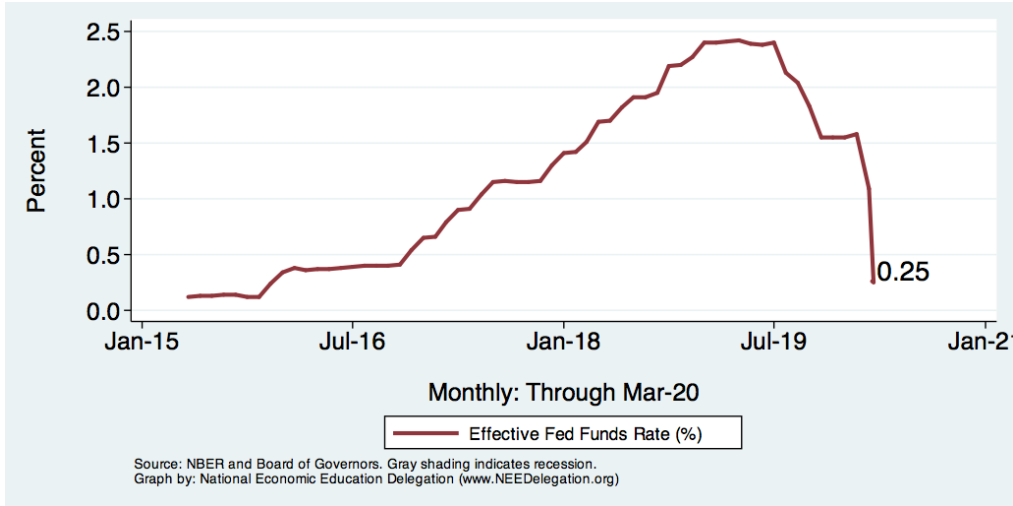
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US Treasury Rates: A Safe Haven?



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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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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



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.**



Thank you!

Any Questions?

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