



COVID-19: Economic Implications and Policy Response

Ann Tepovich's Econ Class – Redwood High School

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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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- **This slide deck was authored by:**

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- Geoffrey Woglom, Amherst College (Emeritus)

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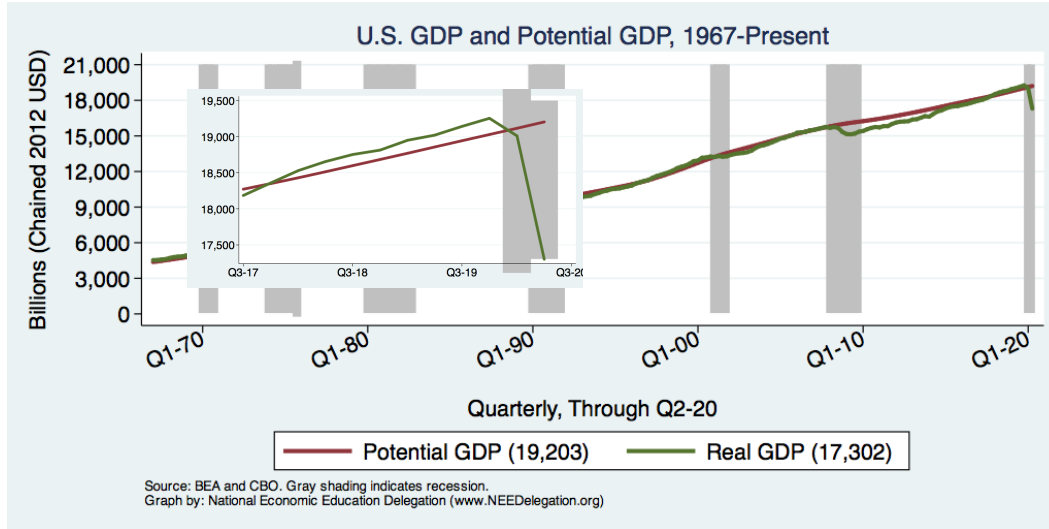
Outline

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



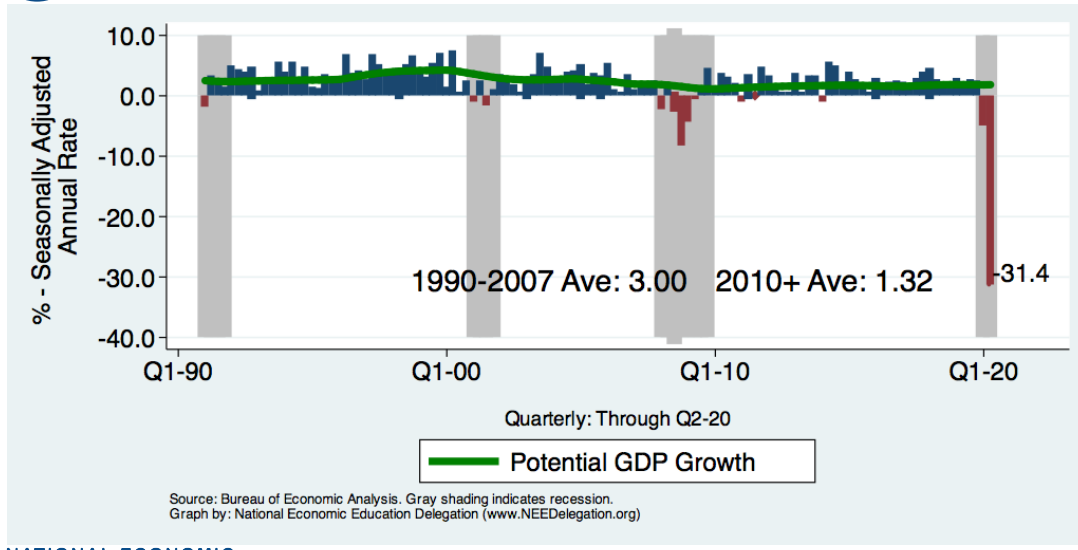
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GDP Trajectory: Recovery to Pandemic

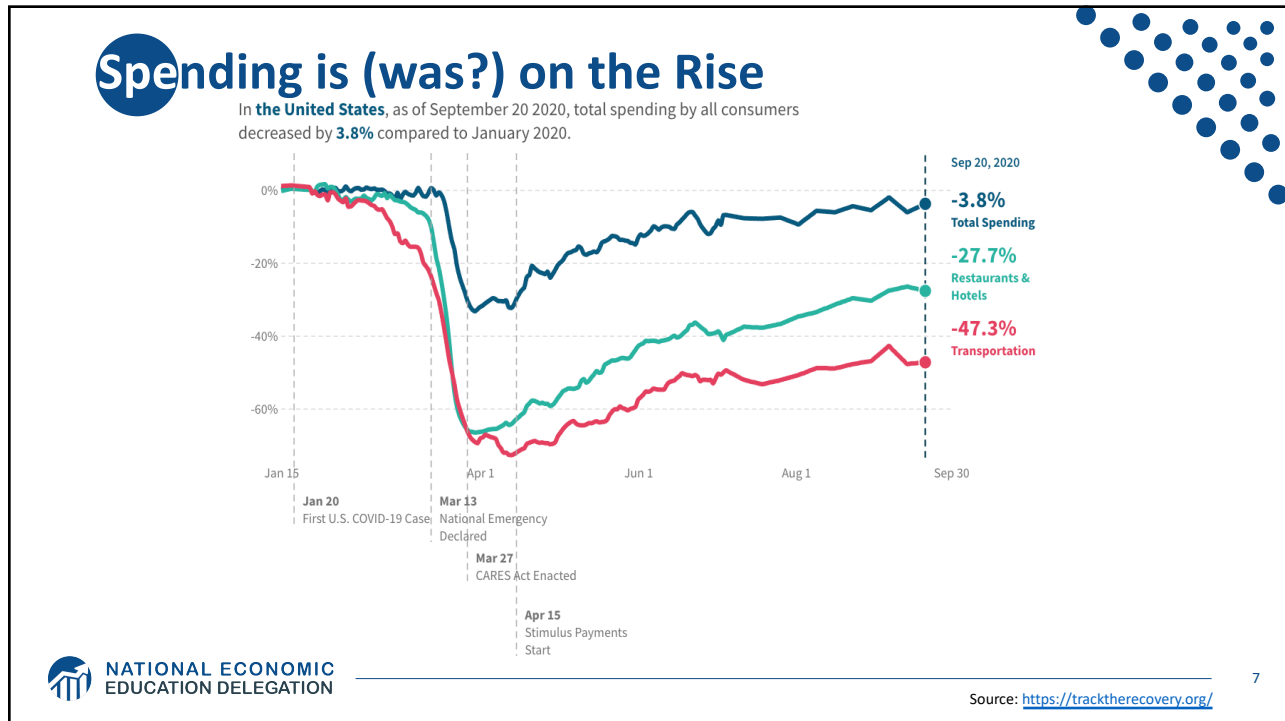


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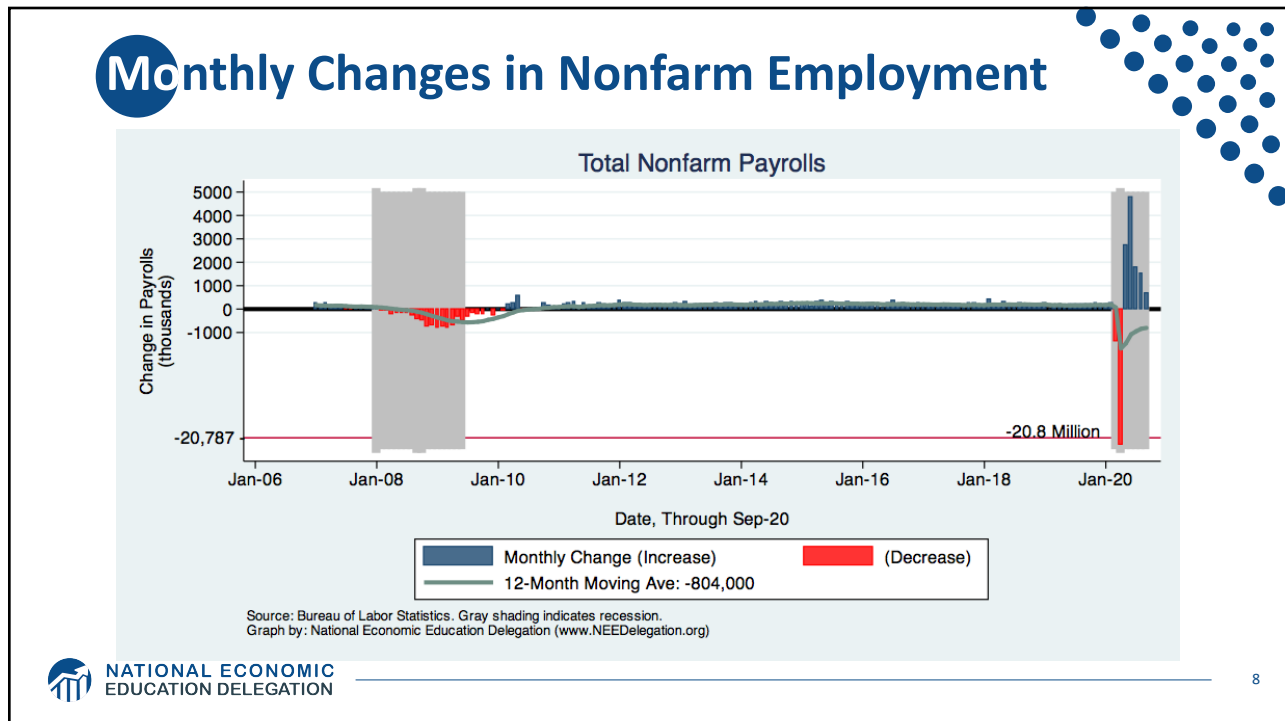
GDP Growth: Recovery to Pandemic



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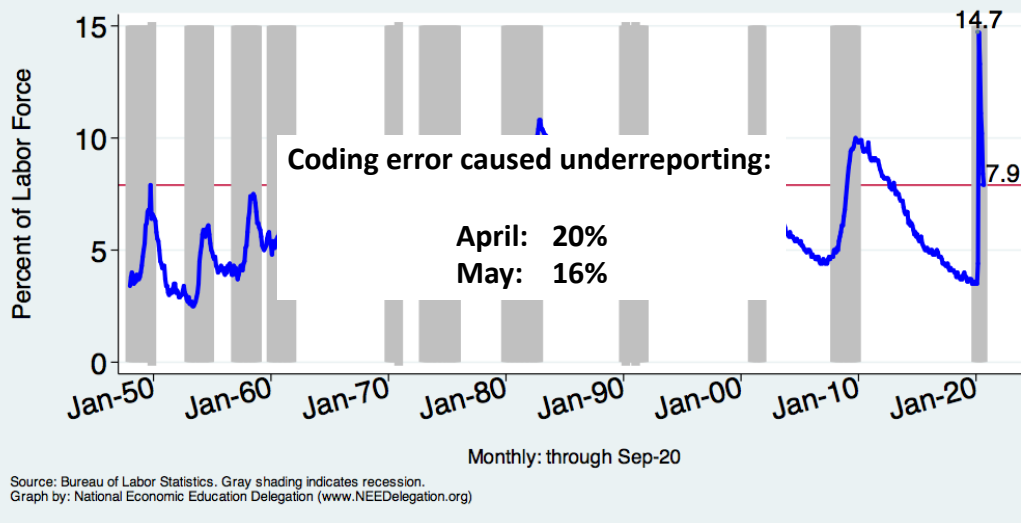


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Unemployment Rate



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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.

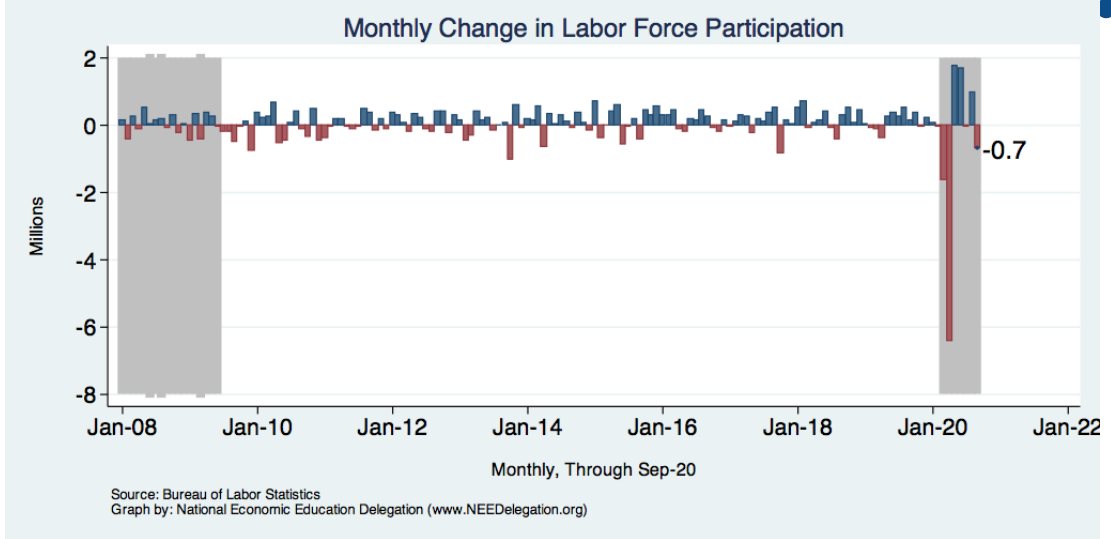


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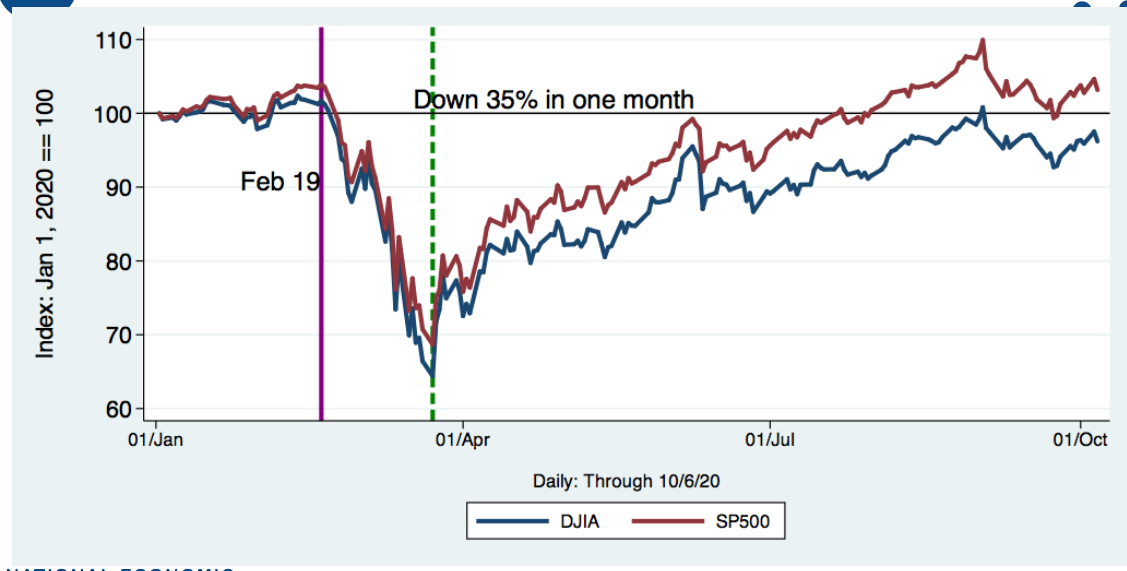
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UR Affected by Labor Force Participation?

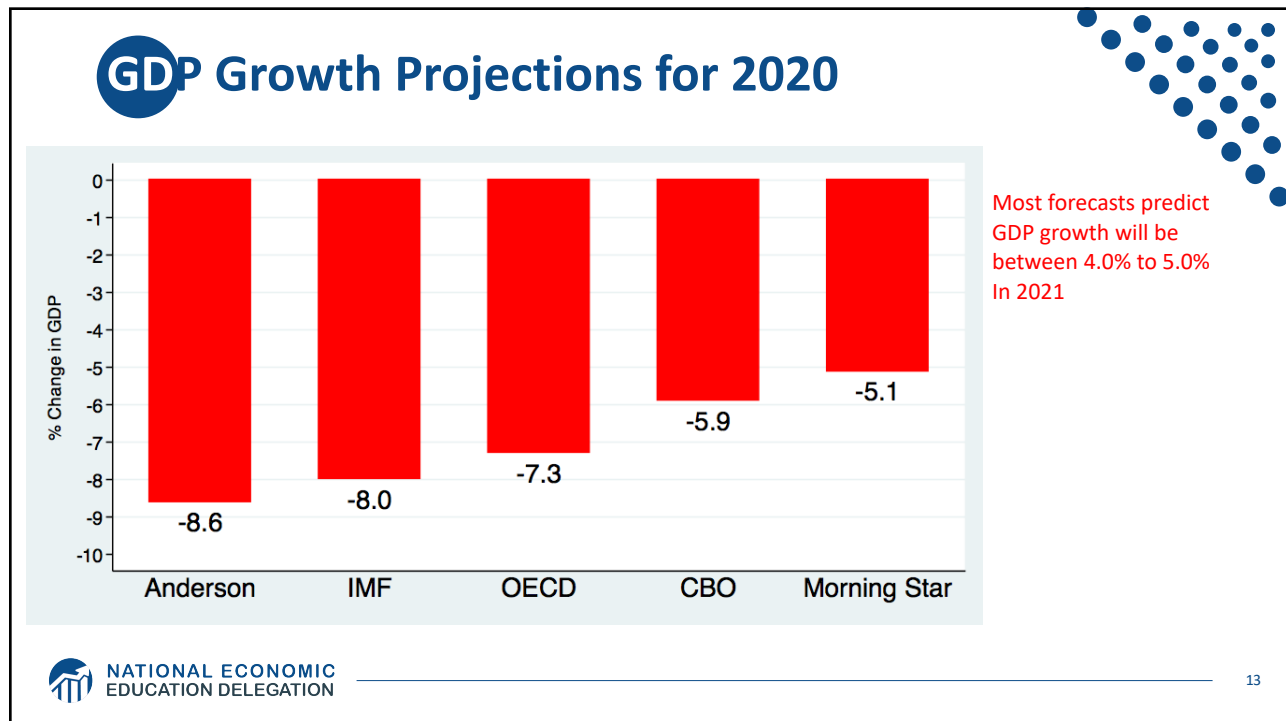


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DJIA and S&P 500



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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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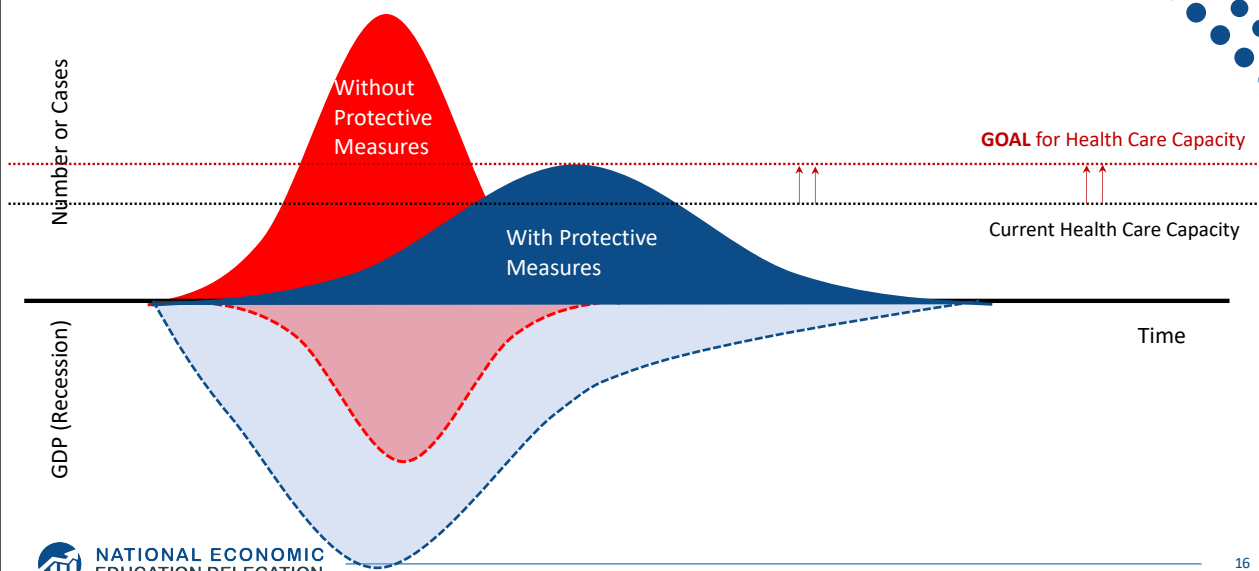
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A Tale of Three Policies Efforts

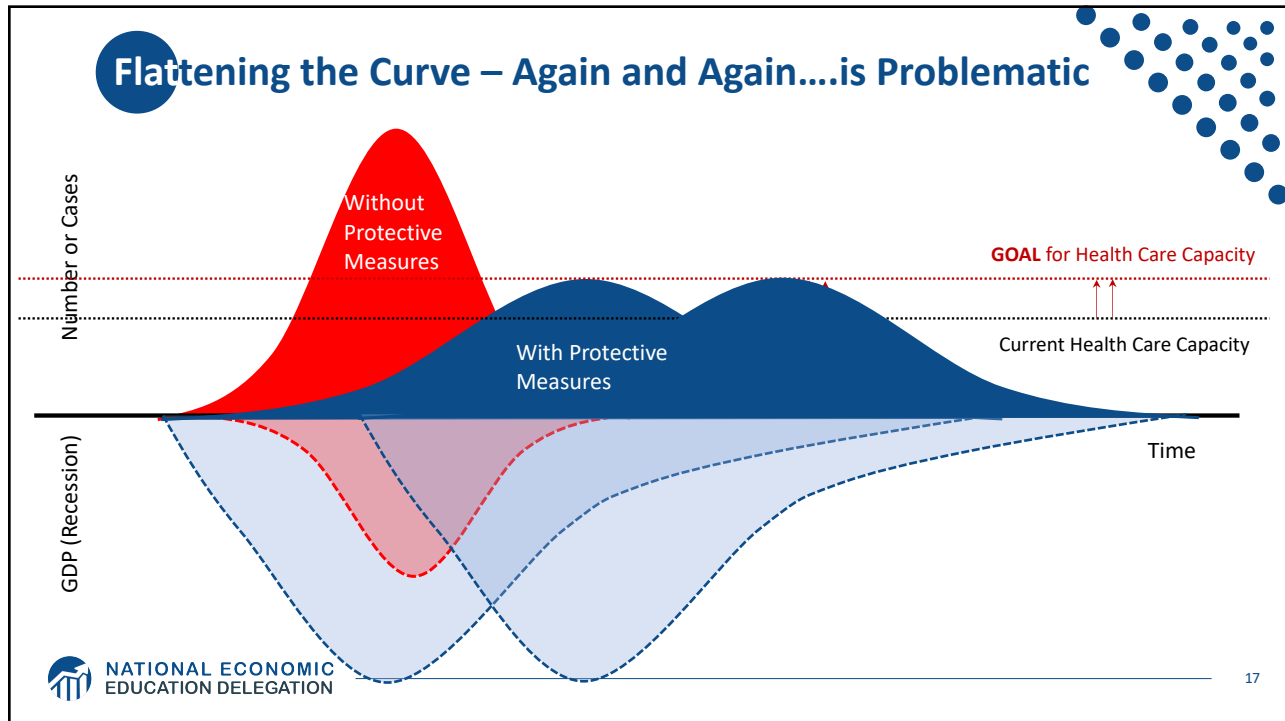
- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy

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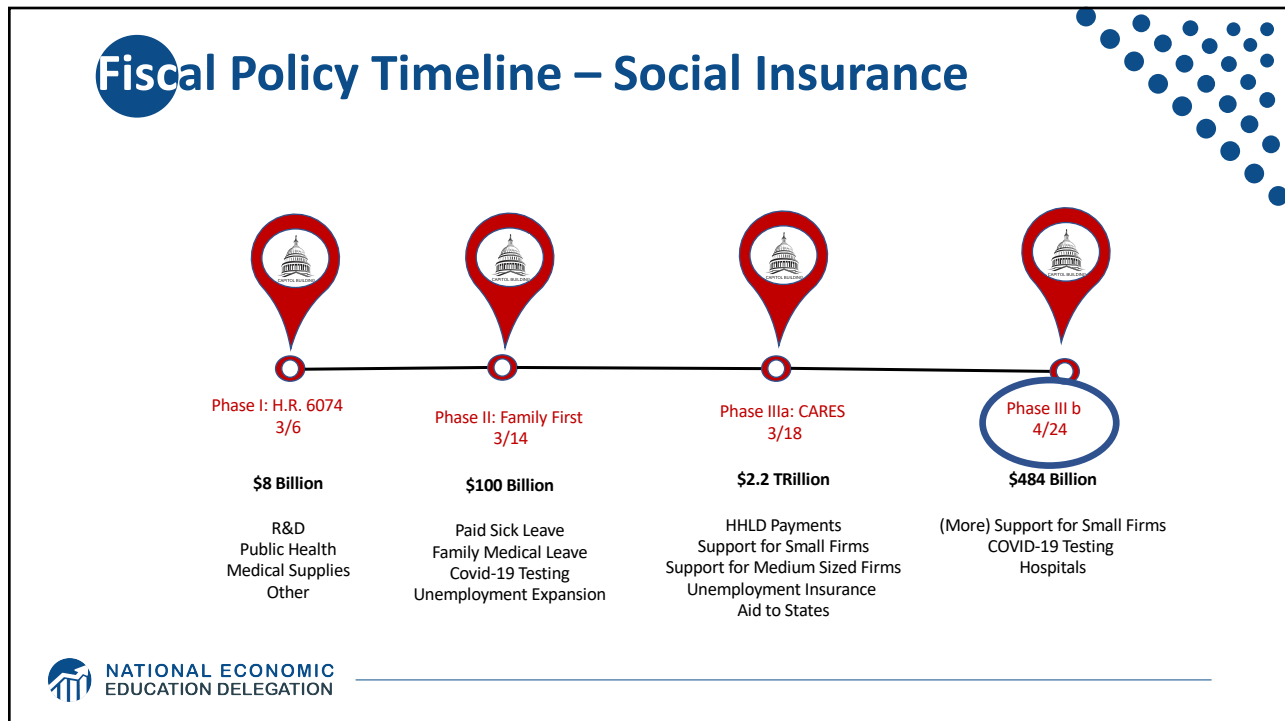
Flattening the Curve and Lengthening the Recession



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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.



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



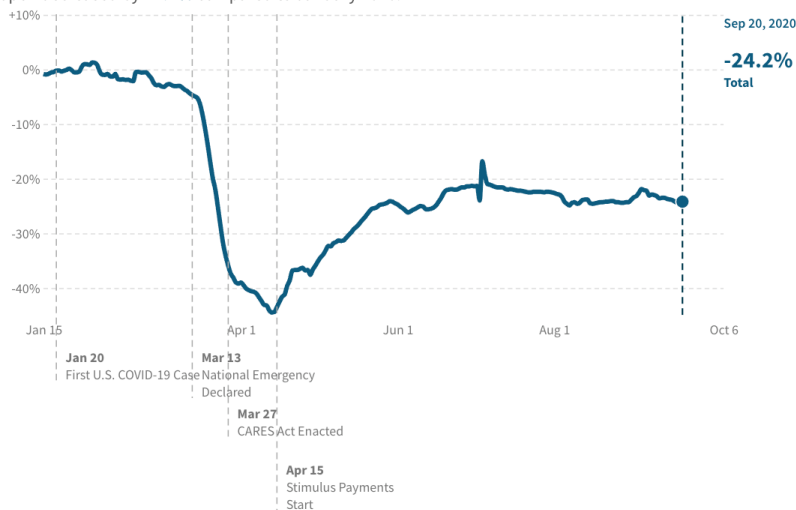
Thoughts on Policies to Date

- **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?

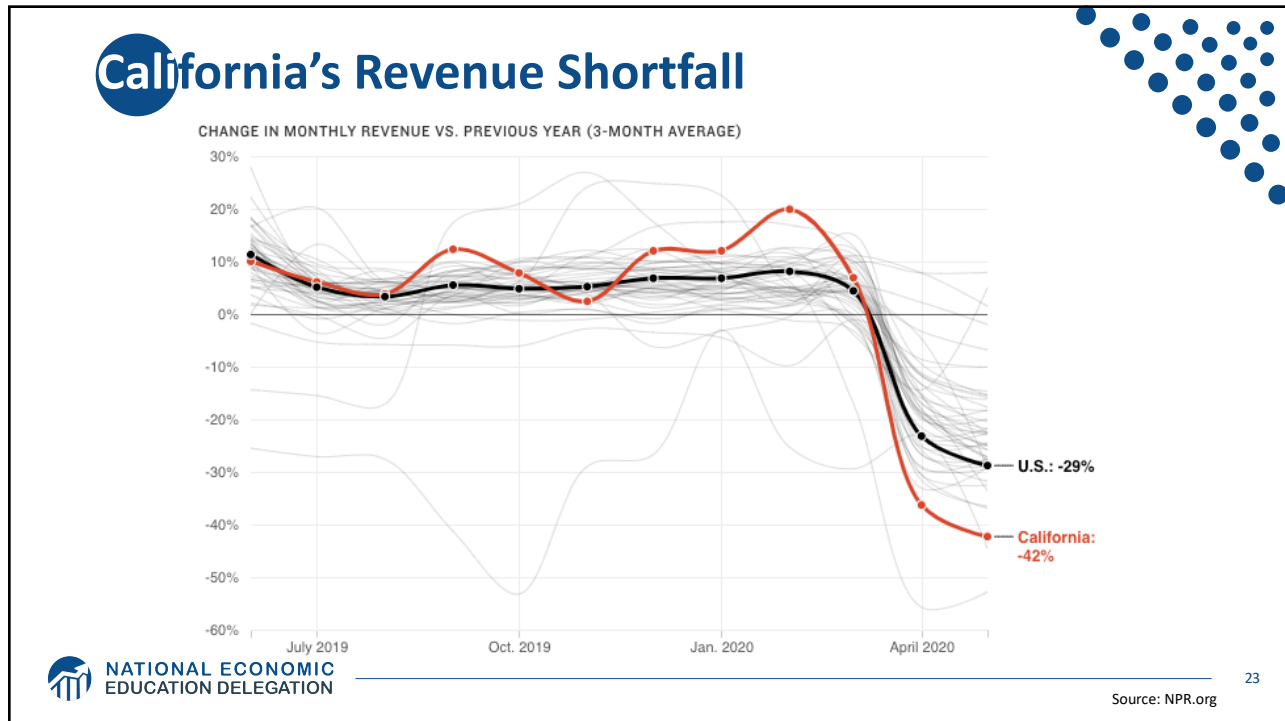
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Small Businesses are Struggling

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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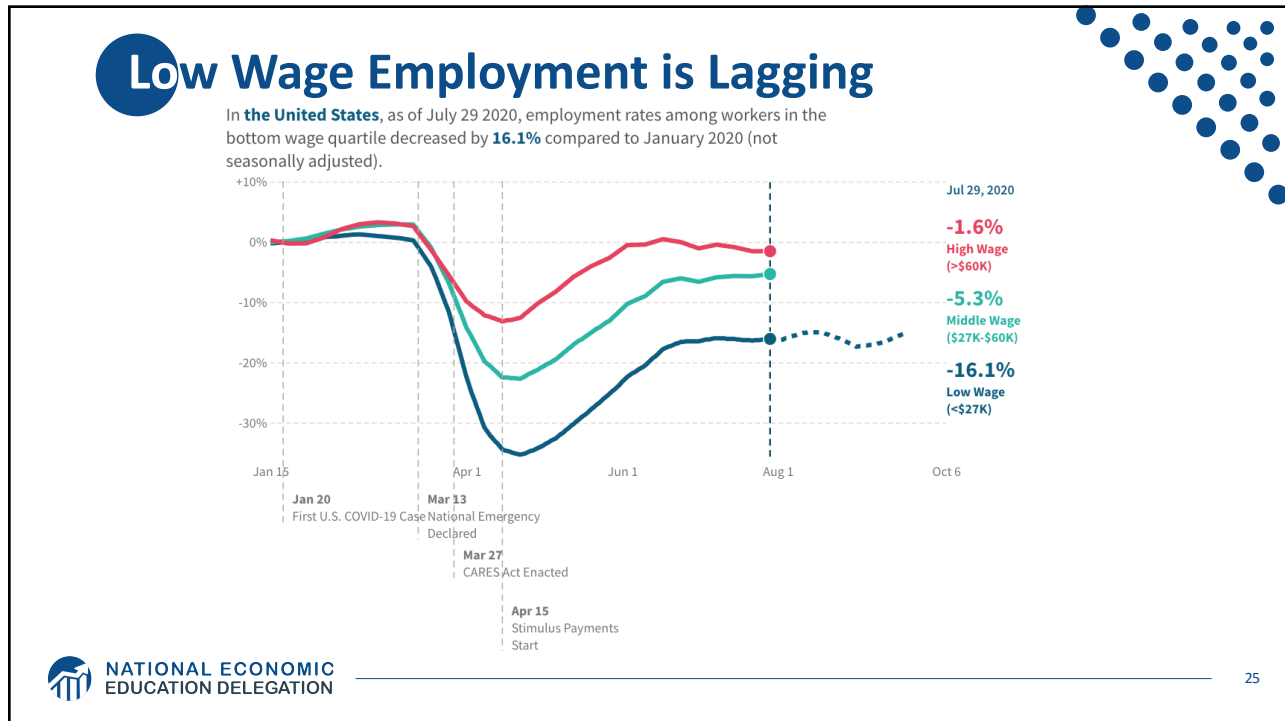
Coronavirus and Inequality

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

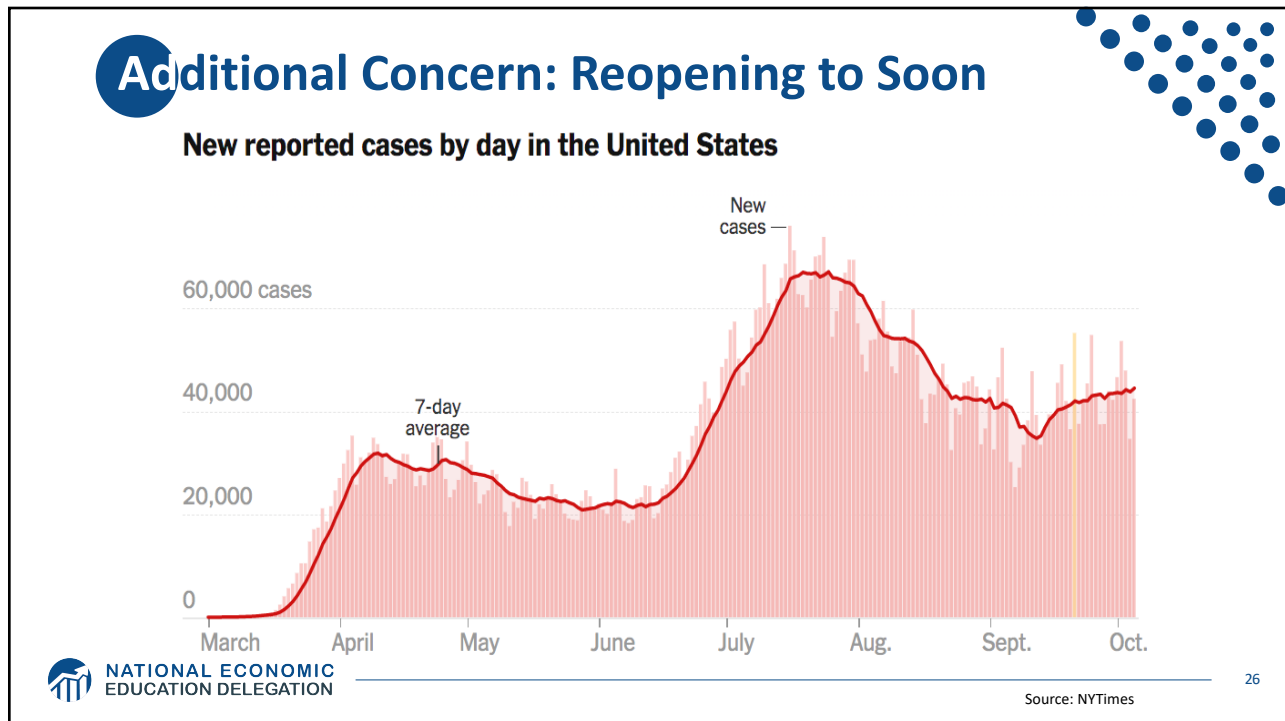
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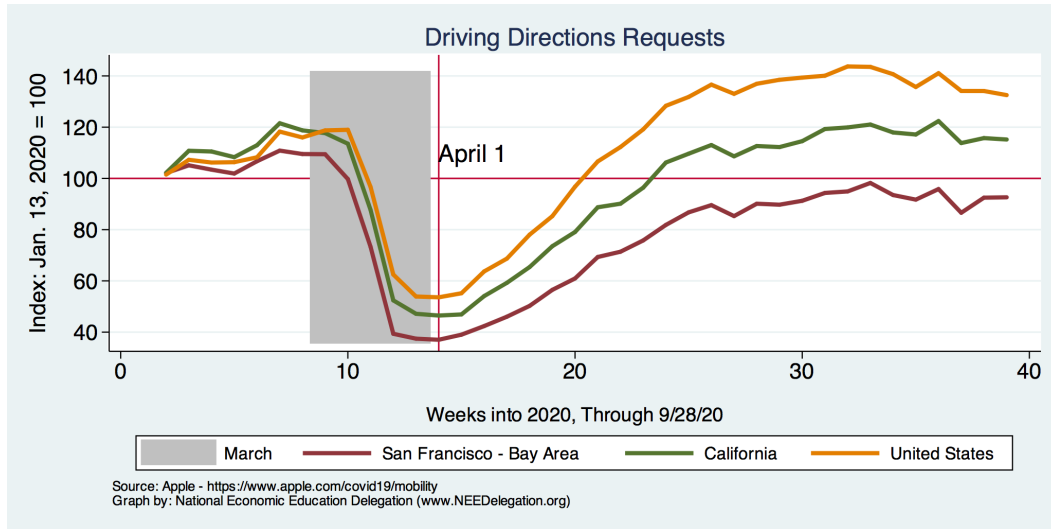


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People Stayed at Home Just 3 Weeks



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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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