

The COVID-19 Economy

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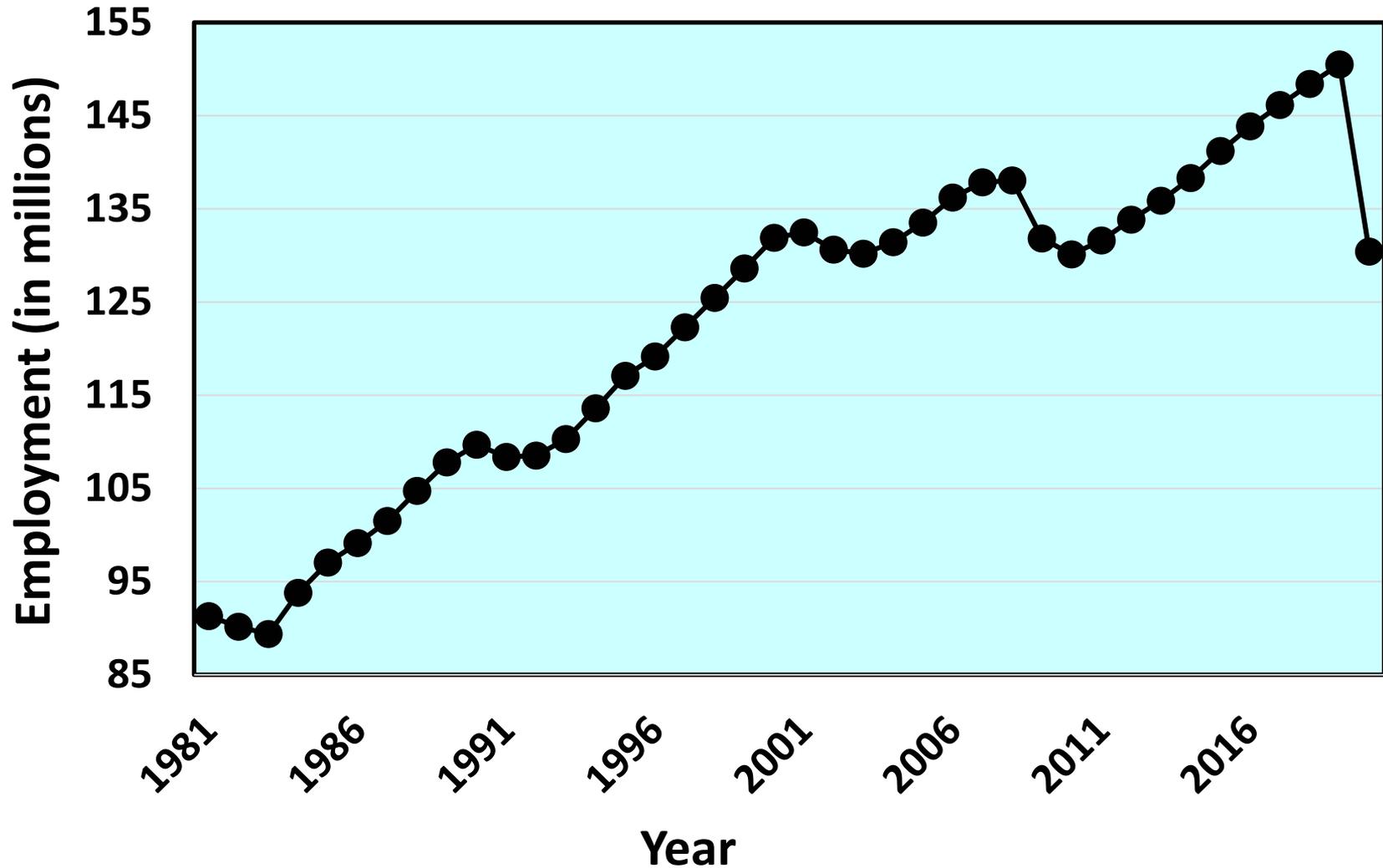
History is replete with epidemics, but this kind of rapid global transmission is relatively new, due to:

- **Population**
- **Urbanization**
- **Rapid transportation**

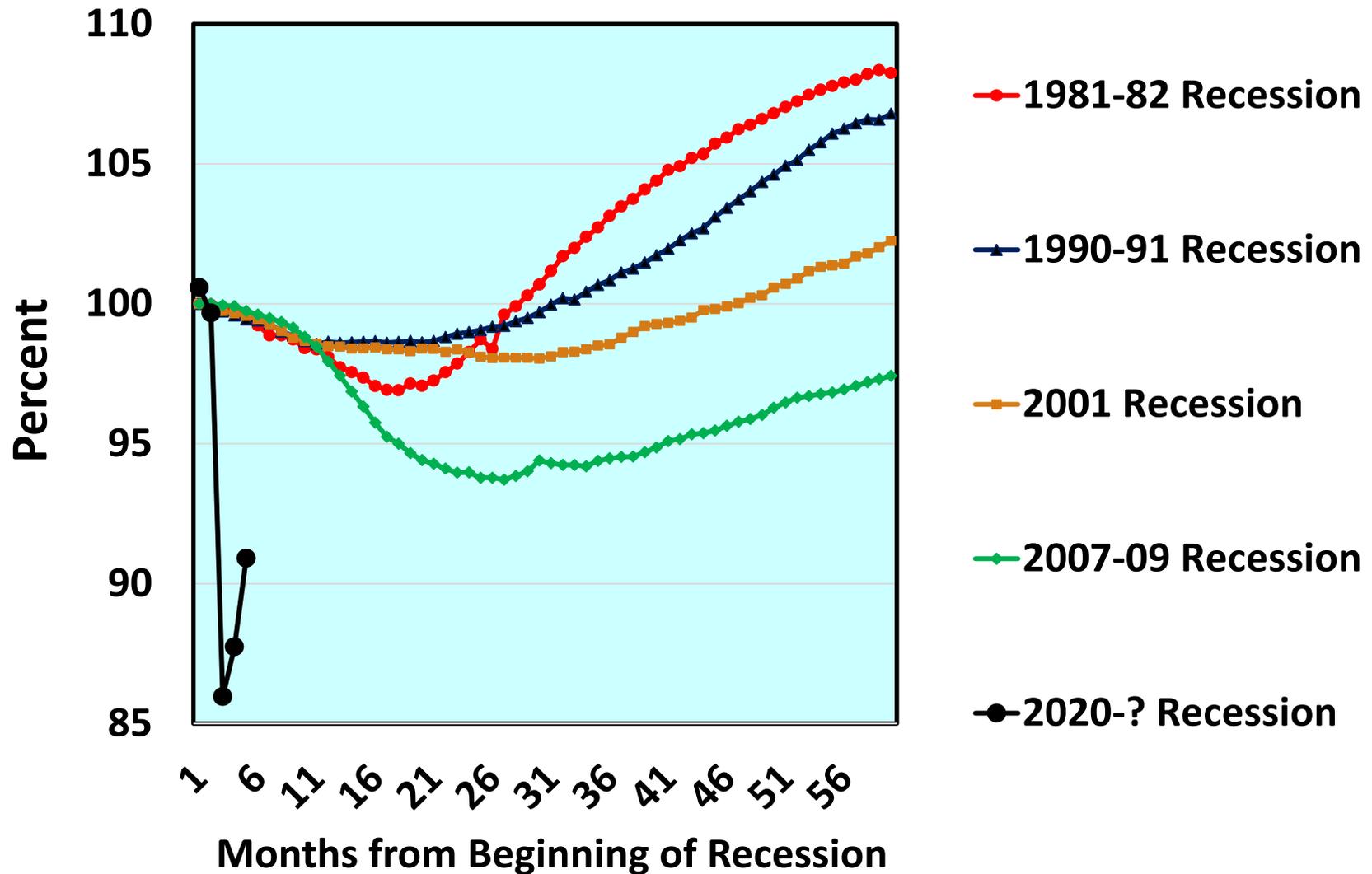
**In 2020, we have
experienced the most
sudden, sharpest
economic downturn in
American history.**

Employment dropped by more than 20 million in April, erasing the gains of the previous 10 years.

Employment in the United States, 1981-2020 (Data for April in Each Year)



Employment in the United States, as Percent of Employment at the Beginning of Each of the Last Five Recessions



Even after a substantial recovery in May and June, employment was still down from February by 4.8 million in leisure/hospitality, and 1.3 million in retail trade.

Those who lost their jobs were disproportionately:

■ **Female**

■ **Hispanic or Black**

■ **Low-wage**

Women are 77% of the workers in occupations that require close personal contact.

Those who lost their jobs were disproportionately from low-income households.

Percent of households with at least one job loss:

Income < \$40K:	40%
Income between \$40K and \$100K:	19%
Income > \$100K:	13%

Ironically, we have seen large job losses in the health-care sector.

While some emergency rooms have been nearly overwhelmed, ordinary visits to doctors and dentists reduced dramatically.

**Many millions of
Americans have lost
their health insurance
in the last few months.**

We have seen huge shifts in consumer purchasing patterns:

- **The long trend away from brick & mortar retail, toward online shopping, has accelerated.**
- **Reduced demand for travel, along with the general reduction in activity, have led to large decreases in sales of petroleum-related products.**
- **Restaurant spending has plummeted; grocery spending has soared.**
- **Spending has surged on home improvement, trampolines, bicycles, etc.**

As consumer spending plunged, so did Gross Domestic Product.

GDP fell at an annual rate of 5 percent in the first quarter.

Some silver linings come from comparing with previous crises:

COVID 19 was preceded by more than a decade of economic growth. If the virus had arrived in the winter of 2009, its economic effects would have been even worse.

We are much more affluent than we were at the time of the Great Depression.

Antibiotics were not available during the influenza epidemic of 1918-19.

Policy responses fall into two categories:

1. Public health policies

2. Policies to respond to the economic fallout.

On the public-health front, our policy response from late January to mid-March was simply abysmal. For six precious weeks, we did close to nothing.

**In the last four months,
public-health policy and
behavior have been
somewhat better, but
still inadequate.**

Responses to the economic fallout began on March 3, when the Federal Reserve began to drop interest rates.

In 2008-2009, credit markets completely froze, and this exacerbated the Great Recession.

The Fed has been injecting hundreds of billions of dollars into the credit markets, in an effort to avoid a repeat.

Financial markets came close to collapsing in mid-March, but we didn't go over the edge.

The Fed can't fix broken supply chains, and can't stop the virus, but if it can keep credit markets from seizing up, it will reduce the severity of the recession.

Features of the Stimulus Packages

- **Direct payments to individuals**
- **Loans and grants to businesses**
- **Aid (not enough so far) for state and local governments**
- **Aid for hospitals and other healthcare**
- **“Unemployment insurance on steroids”**

These fiscal and monetary policies have worked moderately well.

● **Some of the money has gone where it is needed; some not.**

● **Some of the channels through which fiscal policy is usually expected to work are unavailable.**

● **But these policies are a lot better than nothing.**

**But long-term
economic success
ultimately depends on
defeating the virus.**

**Some have drawn a dichotomy
between “the economy” and
“saving lives”.**

**But a lost life has a real
economic cost.**

We all hope for a swift economic recovery. But....

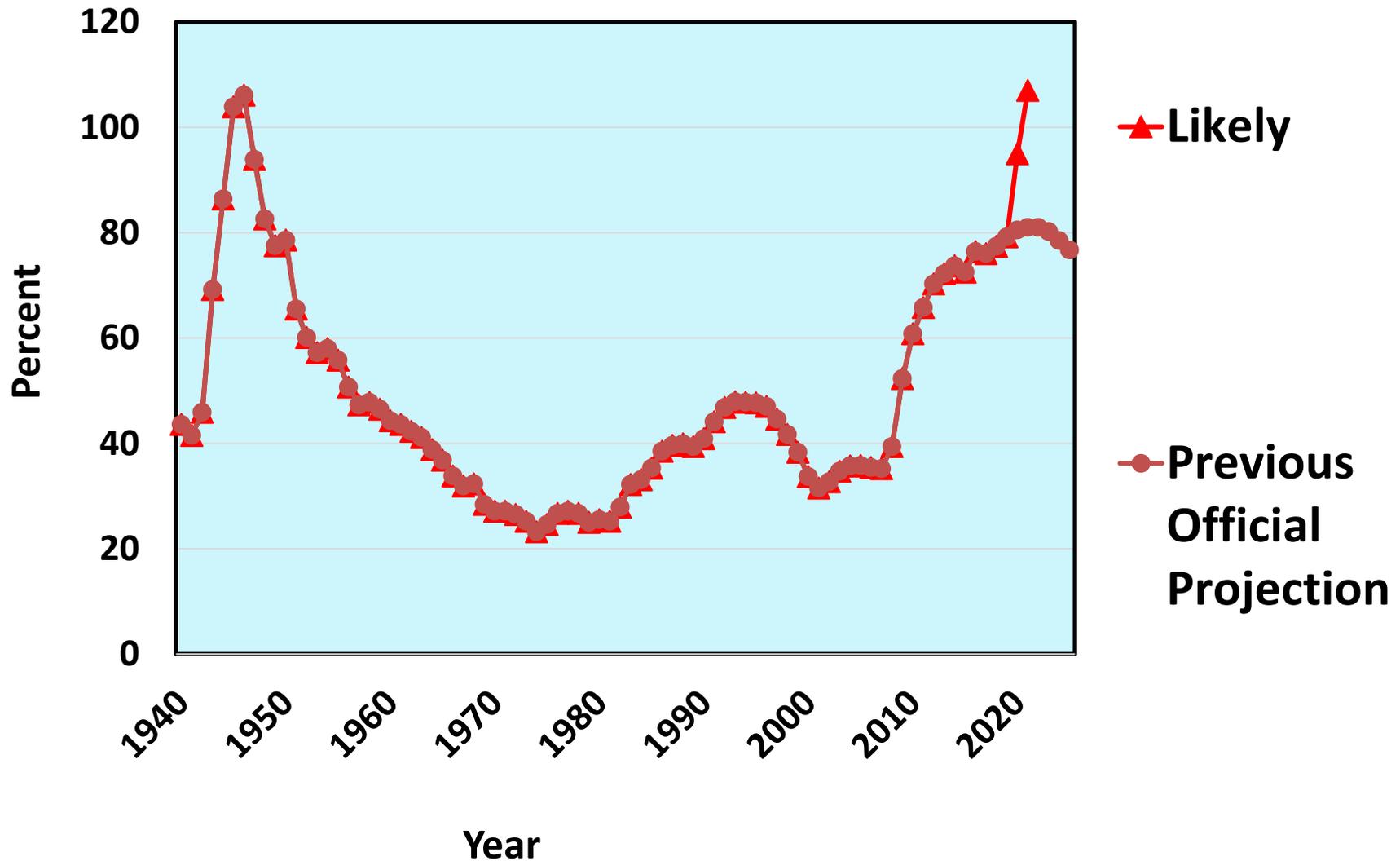
Front page headline, *Wall Street Journal*, July 20, 2020:

“Businesses Are Gearing Up For Longer Road to a Rebound”

In the midst of this weird mess, we all need to be thinking about what we will do when it's over.

**We will emerge from this
with mountains of debt,
which will probably slow
down the recovery.**

Federal Debt Held by the Public, as Percent of Gross Domestic Product, 1940-2019 and Beyond



Millions of American children don't get a good education in normal times.

They are getting less education now.

How we respond to that will tell a lot about who we are.

Some tentative predictions:

- 1. The White House Pandemic Response Team will be rebuilt.**
- 2. Health-related supply chains will be changed, and stockpiles of medical equipment will be rebuilt.**
- 3. The debate over how to organize health insurance in the U.S. will continue.**
- 4. There will be a further push for universal high-speed Internet, which will further stimulate remote diagnosis.**