The COVID19 Economy

Presented to:
Health Policy Issues Group Forum
April 8, 2020

Charles L. Ballard
Department of Economics
Michigan State University
East Lansing, MI
ballard@msu.edu

We are now experiencing the most sudden, sharpest economic downturn in American history.

Moody's Analytics calculates that, nationwide, daily output is 29% lower than a few weeks ago.

For comparison, national output dropped 26% between 1929 and 1933.

From March 15-28, 9.93 million Americans filed an unemployment claim.

Economists' estimates of the ultimate number of job losses range up to 28 million.

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

While some emergency rooms are nearly overwhelmed, ordinary visits to the offices of doctors and dentists have dried up.

From February 12 to March 23, the Dow Jones Industrial Average lost 37.1%.

However, by April 6, it had regained more than one-third of those losses.

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, it 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.

At first, policy responses in the U.S. were woefully slow.

One study estimates that China could have prevented 95% of covid-19 infections if action had been taken three weeks earlier.

The United States was even slower. We wasted six precious weeks.

In early March, policy makers finally started moving in the right direction.

The Federal Reserve dropped an interest rate that it controls to close to zero.

But the Fed can't stop the spread of the virus, and it can't fix broken supply chains.

Markets continued to fall after the Fed's actions.

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.

The massive stimulus package is an attempt to keep businesses from failing, and to keep households from becoming destitute.

Markets reacted very favorably on March 24 and 25.

Features of the Stimulus Package

- Direct payments to individuals, $1200 per adult, $500 per child
- Hundreds of billions of dollars in loans and grants to businesses
- $150 billion for state and local governments
- $100 billion for hospitals; $50 billion for other healthcare
- “Unemployment insurance on steroids”

For these policies, what would success look like?

- Businesses that have to cease production are able to keep one nostril above water, so they can re-open quickly.

- Individuals avoid eviction, or having water or electricity turned off.

Will it work?

- **It’s a huge logistical challenge for banks, the SBA, and other agencies.**

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

- **But it’s a lot better than nothing. I am cautiously optimistic.**

Hopeful scenario:

We get the virus under control reasonably soon, and this ends up as a very deep but short downturn.

My view is that everything turns critically on controlling the virus.

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

But a lost life has a real economic cost.

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

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.