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No Rapid, Full Economic Recovery from COVID-19 Here in America

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The United States: 4% of the world's population and 21% of confirmed COVID-19 deaths; 25% of the global north's population and 50% of excess mortality that we attribute to COVID-19. Current cumulative cases per million are four times what they are in the European Union. Current cumulative deaths per million are twice what they are in the European Union. And the U.S. continues to lose 1000 people per day to COVID-19, while the European Union loses 300, and the Asian members of the global north lose almost nobody. And it is not a North American thing, COVID-19 in the global north: Canada has 10 COVID-19 deaths per day.

All this is well known. But what does it mean for economic recovery?

The first thing to note is that recovery from the COVID-19 depression is already 60% or so accomplished. The prime aged employment rate fell from 80.5% to 69.5% during the virus panic crash of the spring. It is since recovered to 75.5% as of August, and is probably at 76.5% as of the end of September. This is, now, not vastly deeper than the depths of the 2007-9 Great Recession: this is about as deep.

The second thing to note is that there is very good and strong reason to fear that this is about all of the recovery that we are going to get.

One reason to fear is that this recovery takes place in the shadow of the recovery from the great the recession when the economy was also at the zero lower bound on interest rates. That recovery was not a recovery in production at all: production stayed as far below the pre-Great Recession trend as it had been at the unemployent rate peak; the recovery in employment took place only very slowly, as productivity did not only not catch up to its previous trend, but fell further and further behind it. And with a constant production lag a greater productivity lag meant an employment recovery—eventually. Modern global north market economies seem to require not just the normal workings of entrepreneurial capitalism but an additional goosing from another spending channel to generate a production catch-up to previous trend. At the zero lower bound that additoinal goosing cannot come from interest-rate ease. And it did not in the Great Recession and is highly unlikely in the future to come from expansionary fiscal policy.

An additional reason to fear in the United States is the prevalence of the virus. 1000 deaths a week means 10,000 true new cases a day. If 3% of the population engages in non-social distanced activities on any given day, that means that the virus risk from such is 1% per day. That amount of virus risk will continue to make consumers in the United States cautious—cautious in a way that they will not be in Japan, in Canada, or in Germany, where virus prevalence rates are much lower. Even if we could count on a rapid recovery and a rapid reknitting of our societal division of labor and employment in the absence of the virus, its presence at the high levels found in the United States leaves us with no clear road to rapid and complete recovery since the consumer will not stand up. Business investment is not standing up either. That leaves only the government. But Trump is definitely not there: his core advisors regard high unemployment and waves of small-business bankrupcties and shutdowns as salutary and healthy improvers of the work ethic in the long run. And Biden is not yet at the point of accepting the federal government's role as employer of last resort in a pandemic.

The rest of the global north may well be recovered from the COVID-19 depression by March 2020. I do not see a possible future in which that is true for the United States

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