Grasping Reality with Both Hands

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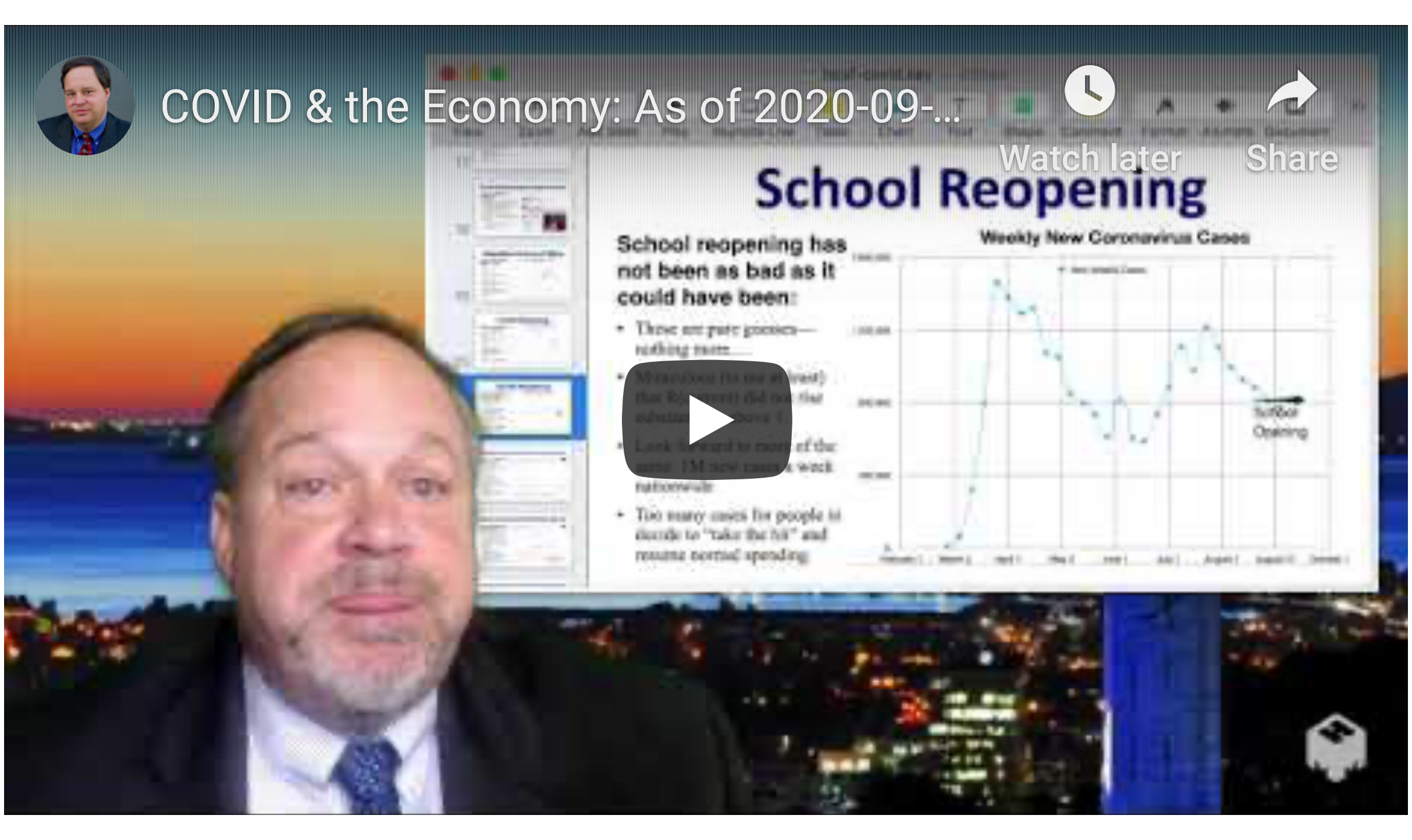
COVID & þe Economy: As of 2020-09-09 || Lecture

What can we say about the economy? That depends on the course of the coronavirus plague. So what can we say about the coronavirus plague? We can say, it turns out, little that is good. (22 minutes).



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Economic & Other Consequences of COVID-19

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Good late afternoon. The topic is: economic and other consequences of COVID-19: where are we, and how did we get here? I thought I would talk for 20 minutes or so, and then we would go into questions and answers. Some of your questions I will know the answers to. Others I will not.

Where are we? With respect to the disease, we now here in the United States have one in 1700 people dead of it, heading for one in 1000 dead by—to pick a date at random—January 21, 2021. That would be 330,000 deaths.

Those countries that I think of as our peer countries, the ones to whom we should be comparing ourselves in assessing our performance in dealing with this plague, have many many fewer deaths. They are on a trajectory that will bring them only a few more deaths looking forward. Canada's total death toll currently is one in 4000. All of Ontario had only two coronavirus death's last week.

An intelligent man I think of as a rabid right-wing hyena, David Frum—he who coined the term “Axis of Evil” for President George W. Bush, the biggest Iraq War booster I knew—has an interesting column in the Atlantic this week. He muses on crossing the border between New York and Canada. He calls the U.S.’s response to the coronavirus plague a “state of denial”. I made a tinyurl link to it—http://tinyurl.com/dl-20-09-09aa. Or simply google “David Frum” and “I crossed back into a state of denial”.

It is worth reading—if only for what we could have done and be doing to deal with this first serious plague epidemic in a century.

On to the economics. The rhythm of employment in the American economy is this: Each year starts with about 3 million net jobs disappearing as the economy steps down from the Christmas rush and construction shuts down in the north. Then throughout the spring the US economy adds workers, only to see a net of 1.5 million jobs disappear when summer begins. Employment then picks up as fall approaches, reaching a crescendo with the Christmas rush. Then the cycle resumes again.

Other, smaller disturbances are superimposed on this seasonal cycle. The so-called “Great Recession” of 2008-09, for example: There was no fall hiring boom, but rather a loss of a million jobs in the fall of 2008. Then there was no net hiring to recover from the post-Christmas slowdown until after Christmas of 2009.

But March of 2020 was the first time ever, since the payroll employment data series began, that the seasonal cycle was swamped by something else: the collapse of employment in the United States at the start of last spring, when in one month 20 million people lost their jobs in March—and only a third of those managed to return to work in April and May.

And, starting in June, the bounceback essentially ceased. If you had not gotten your job back by the end of June, the odds are high that you still do not have it.

It is instructive to look at levels as well as changes. Consider the workers in the 25-54 age range. These are all people who are too old for large numbers of them to still be in education, and too young for large numbers of them to have retired. The seasonally-adjusted share of American 25 to 54-year-olds who have jobs fell by 5%-points—from 80 to 75%—in the Great Recession of 2008-9. That was a big deal.

That share fell from 81 to 69%—by 12%-points—in the early spring of 2020. It has only recovered 1/3 of the way back to where it was in February.

The fall in employment naturally carried with it an enormous fall in production. By July production in the U.S. economy was more than 10% less than it had been in January. We will, by the end of September, have made back half of this decline—if we are lucky. However, it really looks like there the recovery is likely to stall—unless Americans decide to simply take the hit, and spend and work as though there were no coronavirus plague, or unless our government policy changes in a way that brings our performance much closer to those of our peer nations.

I try to track what is going on with the economy right now with four series: the weekly new unemployment-insurance claims series, the weekly continued unemployment-insurance claims series, the monthly disposable personal-income series, and the monthly personal consumption-spending series.

New UI claims shows the collapse of employment in March. And the series also shows us that layoffs are still running at a very elevated rate. But now it is no longer businesses shutting down temporarily as they hunker down, hoping to reopen soon after the virus passes. It is businesses throwing in the towel, declaring bankruptcy, and permanently vanishing from the stage.

I had huge hopes back in March and April that we could quickly beat the virus and get back to our February normal. Those hopes were vain. That is not going to happen.

You could try to take continued UI claims as painting a more optimistic picture. Unfortunately, they are falling not because people are gradually going back to work in large numbers, but because people are running out of benefits.

It is important to note that the economy experienced and is now suffering from not just a supply shock but a demand shock. It is somewhat but not very much the case that because of the plague there is less work that it is worthwhile to do, and so people are preferring leisure to non-worthwhile work. But there is plenty of work to do.

What we have not managed to do is to move those who lost their jobs in March into some of the work that was then undone but worth doing, and is now very much worth doing.

There is not the demand to support such a large transfer of workers from sector to sector.

Why is there insufficient demand? Because when the hunker-down began, people decided to postpone a lot of spending until the day when they can resume normal patterns of activity without fear of coronavirus. And so we went from an economy that had $1.5 trillion per year of personal savings to an economy that had $3.0 trillion per year of personal savings. The government stepped in with the now-expiring CARES act to boost people’s incomes. But that was not enough to fund a great worker sectoral transfer. Business investment did not boom to do it. We could boost government purchases to do it, but this administration is not interested in an "infrastructure year" or an "infrastructure quarter” or even an "infrastructure week.”

As we all know, different people face very different risks from catching the coronavirus. It is not just a flu—it is much nastier than a normal flu in many dimensions. But it is also not that deadly to the young and healthy. For the young and healthy, catching coronavirus is about as likely to kill you as is riding in an automobile, like a normal American, for a decade.

We could have decided to organize ourselves and simply bull through the coronavirus. A functional society could have decided to competently shelter the old and other vulnerable from close human contact and thus from infection, and otherwise take the hit. It would have been very costly and expensive. But economic lockdowns are expensive too. And it would perhaps have been not totally and obviously insane, as a thing to do.

Indeed, that may have been the policy of the Trump administration toward coronavirus.

But it never organized the sheltering of the old and vulnerable.

And it never said that was its policy—if, indeed, the Trump administration can be said to have had a policy.

On the one hand, the Trump administration certainly highlighted its epidemiologists with their calls for suppressing the virus as Japan, Korea, Taiwan, China, and Australia managed to do. On the other hand, you could be forgiven for thinking that maybe, inside the Oval Office, the decision had been made to give lip service to the epidemiologists, but otherwise to simply take the hit. If this was the decision and the policy, the reasons would have been that the virus ripping through the population of would, all in all, not be that damaging, while the economic damage from steps to retard spread was very costly indeed.

Here the Trump administration was I think, very very badly served by its economic advisers—Kevin Hassett, Larry Kudlow, Tomas Philippson, Casey Mulligan, Tyler Goodspeed, and company. Truth be told, the epidemiological models did the Trump administration preferred to rely on were not the best. They were way optimistic. But the economists then decided that they could fit data better than the epidemiologists. They then cranked up optimism as to when the plague would pass to the max.

I still do not have an explanation of why they were so eager to take on issues. They were really not in their wheelhouse at all. Yet they acted as though they were.

One major problem is that we are not really sure where we are with the coronavirus plague, even now. We should be testing as many people as we can for free. We should be getting test results back within 24 hours. We need that to figure out where and how much the epidemic is and thus what, realistically, our options are. But we aren't. We think we are catching only about one in 15 cases. So all we have, really, is guesses about the true spread of the disease. For what it is worth, here are mine.

Back in February and March, because of our complete failure to understand the situation—especially that the bulk of the spread was being done by people who were shedding the virus in large quantities but were not yet coughing and sneezing, and did not yet have fevers—the virus was tripling in numbers every week. It looked as though we were heading for a world in which half the American population would wind up catching the disease in short order. Thus we went from a negligible number of cases in February to a peak March week in which perhaps 1.4 million Americans caught the disease, and ambulance sirens ceaselessly filled the air in New York City.

Our collective decision was to respond with panic—justified panic. We knew next to nothing about the spread and little about the deadliness of the disease. Hence the lockdowns. And the crash of the economy. Truth be told, only about 1/3 of the economic crash was a cost of the panic lockdown. 2/3 of the economic decline came from people’s deciding to postpone spending until they could resume normal patterns of activity without fear of catching the disease.

The lockdowns pushed new cases down by 60%, but no further, by the end of May. Then we were still having 600,000 people a week catch the disease. But we detected very few of those, and so we had a little sense of how many and where those cases were. And deaths were declining—not to the near-zero that Kevin Hassett’s and Larry Kudlow’s curves-on-graphs had suggested they would, but declining.

And so, as soon as deaths began to follow cases on a downward trajectory, Donald Trump and his administration began to call for declaring victory and for “liberating” the country from evil and power-mad—Democratic—governors, like Michigan’s “witless Whitmer”. “Don’t make the cure worse than the disease!” Was what I kept hearing. “Don’t exaggerate the situation!”

And so, come June 1, the second wave began. It now looks to me like the number of true cases doubled in a month and a half. And it is in June and July that Massachusetts, Connecticut, the rest of New England, and New York begin to diverge from the rest of the country in a good rather than a bad way. They now look much more like Canada, or Germany, then they look like the rest of the United States. End of the state governments that could have recognized in mid-June that cases were no longer on a downward trajectory turned into ostriches. As did Trump’s White House and his people at the CDC.

And then in late July we had our second turn. Yes, we had some governors shutting bars again. Yes, we had some governors pleading with people to wear masks and stay more than 6 feet from others and avoid going in to anything that looked like the batcaves that coronavirus involved in and loves us so much. But mostly it was Americans figuring out that while wearing a face mask probably would not protect you it would protect those you came in contact with during those three days while you were infectious before you had symptoms. And so by the end of August I think the weekly new caseload was back down again, not all the way back down to 600,000 a week but maybe 800,000.

And then the school year began. I have been pleasantly surprised by the fact that school opening does not appear to have triggered yet another doubling of the caseload. But there has been a slackening of mask and social distancing discipline across the country. And there are a lot of young people crowding together in schools catching the disease and they will then transmit it to old people, some of whom will die. Professional sports with near infinite money cannot keep a firm lid on this. So I believe we look forward to a fall of more of the same: about 1 million Louis true cases a week, but because we catch only one in 15 of them with our inadequate testing we do not really know where or how many in time to take effective even semi-fine tuned efforts to put the virus again on a downward path.

And with those 1 million new true cases a week, it looks as though those risks of infection are too great for the people who have cut back on their spending to decide that it is time to "take the risk", take the hit, and resume normal spending. So I do not see where a further economic recovery this fall will come from.

Stepping back, so far our performance relative to the countries I think of as our peer countries has been absolutely disastrous.

The United Kingdom is the only peer country that has done as badly as we have. Yes, Italy and Spain have done worse, but “not as bad as Spain” in terms of public health and economic performance is something I would have thought of as a low bar. Australia, Japan, Canada, Germany, Switzerland, Norway, & c.—all look to have this thing effectively suppressed, and all look likely to have very strong economic recoveries this fall. As I said at the start: Ontario. Two coronavirus deaths last week.

And they test enough to catch their cases. We do not. And until we do, until we have rapid comprehensive free immediate response testing, we will not be able to understand where we are with the plague in time for us to effectively manage it.

Suppose we wanted to match the performance in handling this plague of her peer countries. What should we do? Well, if Trump had been smart, last February he would have reached out to Harvard's Jim Stock, who had been one of Obama’s economic advisors, who is the best and broadest economic statistician I know—better at figuring out what data to look for and then teasing out what conclusions for policy it supports.

The Kudlows and the Hassetts were really out of their depth. As one of my acquaintances in the Trump administration said: What did you expect? Kudlow made his career telling investors what they wanted to hear, and Hassett telling politicians what they wanted to hear. That’s not what President Trump needed last February and March—or needs today.

We do not need to lockdown the country. We do need to work from home as much as possible. We do need to spare no expense to protect the elderly and the vulnerable. And we do need to make all of our jobs as far away from being people-in-close-contact-in-a-batcave. And we do need masks and social distancing—those do a lot to prevent trouble during the three initial days of asymptomatic transmission.

But if we were as a country, doing that—and, by the avoid-batcaves principle, avoiding bars and large social gatherings—we could be Canada in a month without another full lockdown.

Plus we would need testing, contact tracing, and quarantining at a level intensive enough to actually do good.

I told you at the start to read David Frum. Now I am telling you to go read Jim Stock: http://tinyurl.com/dl-20-09-09bb; or google “James H Stock” and “Lockdowns are too blunt a weapon against Covid”.

One final point: I sometimes hear: “The stock market! It’s really high! Yes, it’s a horrible disease. But if it were really bad for America as a whole, why is the stock market so high?” But a high stock market can mean that the future is bright, or it can mean that the future is crap and so it is worth paying a fortune for anything that promises to give you even some income in the future. Current values are high. Expected cash flows as a proportion of capital invested—are those high? Really? That, I think, is the measure to watch.

Thank you, and I have talked for more than long enough…

3039 words

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