



Project Syndicate: Coronavirus & America's Economy: Waiting for Bounce-Bank

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HASNEXTSTEPS:

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I. Waiting for the Mechanical Bounce-Back

U.S. national income and product in the first quarter of 2020 was 1.25 percent below what it had been in the fourth quarter of 2019—October through December. In the second quarter it was 9.5% below what it had been in the first quarter. That made it a 12% income and output gap in the second quarter of 2020.

What can we expect in the U.S. for the third quarter? We might be lucky. But it would be rational and prudent, I fear, to expect little good.

A. Fear, Lockdown, & Depression

Listen to hypercompetent economists Austen Goolsbee and Chad Syverson, who found that consumer self-protection rather than legislated restrictions most affected consumer behavior in the U.S. in the spring: “If repealing lockdowns leads to a fast enough increase in COVID infections and deaths and a concomitant withdrawal of consumers from the marketplace, they might ultimately end up harming business

activity...” <<https://www.nber.org/papers/w27432.pdf>> Repealing lockdowns did lead to a fast increase in COVID infections. Thus to forecast the future of the U.S. economy requires, first, forecasting the future of the coronavirus plague. What can we say about it?

B. Tracking the Virus

There are many, many charts and graphs and tables of the coronavirus. Almost all of them are nearly useless. Confirmed coronavirus deaths tell us how the virus was spreading a month ago, while forecasting needs to know where the virus is now. Confirmed cases catch only those who have been tested, and right now catch only those who have been tested with a lag that has grown to weeks. We need to be testing five or ten times as many as we are in proportion to true virus cases—like Canada, the European Union, and Japan are doing—in order to have a good handle on the situation.

C. Forecasting the Virus

If we did have a good testing infrastructure in place and working, what would it show right now?

My guess is that it would show that weekly true—not measured, true—new cases increased 2.5-fold from mid-June to mid-July—from about 600,000 new cases a week (if we can accurately infer true cases in mid-June by multiplying weekly mid-July confirmed deaths by 150, a very big “if”) to about 1.5 million as the second wave hit the sunbelt. Since then it is much less clear. It is still the case, as it was in mid-July, that 1-in-12 tests comes back as a positive case. It is still the case, as it was in mid-July, that we are finding 200 confirmed cases per million people. But we are testing no more now than we did then. And the reporting date of a typical test is now lagging substantially behind the administered data: perhaps three weeks after the disease is actually caught, rather than the

one week during the early May to late June lull that was the trough between the waves.

If we have been lucky, the extra fear and the extra social distancing and mask-wearing generated by the consciousness that there was a second wave in the sunbelt has stabilized new nationwide true cases at 1.5 million per week. If we have been unlucky, true cases have continued to grow and now approach 2.5 million per week. We will not know where we were today until the tags are attached to the toes in the mortuaries in late-August: then we will know whether deaths merely doubled from 4500 to 9000 a week as the second wave rolled in and then plateaued in mid-July, or whether deaths kept on rising as the wave got bigger and bigger.

II. Implications

A. Still Flying Blind

America's testing failure means that we are still flying largely blind. We have no good idea how big the risks from, say, opening up schools, or indoor dining, or choral music recitals are **because we do not have enough tests** compared to our caseload.

B. Lagging Our Yardstick Competitors

Right-wing commentator David Frum spent the spring in New York and is now in Toronto, where:

to walk around a city of 2.8 million with fewer than 5 cases a day feels like the onset of recovery. It's earned.... The mayor of Toronto is a moderate Conservative. The premier of Ontario is a very right-wing Conservative. The prime minister of Canada is a left-leaning Liberal. They all wear coats when it's cold; they all wear masks in midst of an airborne pandemic. Heeding the best scientific advice is not a partisan matter. Empathy for the sick, provision for those who have lost work or

business, planning for the long term is not only good policy—it's good politics...

Canada, and Europe, and Japan are highly likely to see substantial economic recovery this late summer and fall.

C. A Prudent Forecast

The U.S.? There will be a mechanical bounce-back from the second quarter to the third quarter: continued unemployment insurance claims peaked at 24 million but were down to 17.5 million at the start of July, and that was the base from which the third quarter began. But continued claims rose by a million from July 5-11 to July 12-18, and there is every reason to fear that rise has continued to today—which means this week, August 2-8, continued claims might be back up to 20 million. And claims at that level continued into the fall would shave substantial amounts off of the mechanical bounce-back.

D. Is Anything Doable?

Politicians and economists who want a real economic recovery in the U.S. in the rest of this year—who are not satisfied with the mechanical bounce-back—need to prioritize (a) stomping the virus, so people are once again confident spending their money on activities which bring them into close indoor contact with others; or (b) putting those who have lost their jobs in hospitality and other indoor close-contact occupations to work, either providing services over the internet or in investment goods sectors that do not require close contact with many customers. We could do this—we have the resources. And if it could be made to happen we could afford it: the market would be willing to pay bountifully for it, for as John Maynard Keynes liked to say “what we can do, we can afford”. But it would require governance more competent than the level we first saw in New Orleans during the horrible week of Hurricane Katrina.

Notes, etc.

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