

# Inquiring Minds Topic - 19 June 2020

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## Economic Issues of the Pandemic

Claudia Sahm, Director of Macroeconomic Policy for the Washington Center for Equitable Growth and a former Federal Reserve Principal Economist in a May 18, 2020 essay, says that:

- **We can avoid a depression if Congress can act with courage.**
  - But Speaker Pelosi's proposed \$3 trillion additional relief package seems to have sent Senator McConnell and the rest of the Senators home for vacation so according to him, the Senate can 'wait and see' about giving further help.
  - Meanwhile, already before most states started to open back up, the Consumer Price Index for April was falling faster than any time in the Index's 70 year history. Continuing months of falling prices may usher in a depression when people hoard money, while thinking prices will be lower if they wait to make purchases. Businesses then make less money and lay off more workers. A downward spiral starts which makes the entire economy fall into a depression or severe recession.
  - Already the unemployment rate has hit 14.7% but is likely really~20%. Many businesses have failed and more are on the way. There may be no job for workers to return to when a business fails. In April 2020, [10 percent of moderate-income borrowers](#) from the Federal Housing Authority were 30 days late on their mortgage payments, double the number in March.

- Expanded jobless benefits are helping but the President and Senate want to cut the extra benefits back. All this is happening in spite of Congress having passed an earlier \$~2.8 trillion economic bill. The Federal Reserve increased lending and back-up funding to banks for trillions more, helping to avoid so far a financial crisis on top of a pandemic crisis. .
- States and local governments need, at least \$1 trillion more just ‘to [staunch their budget crisis](#) and before they lay off tens of thousands more workers and cut essential services.’ States also need \$500 billion to continue the [higher federal share of Medicaid](#). They need \$2 trillion to continue to [enhance jobless benefits](#). Senator McConnell suggests states should ‘file for bankruptcy’.
- This amount of help will need to continue until unemployment gets back to 5.5%, according to Sahm.
- Speaker Pelosi’s \$3 trillion package doesn’t sound so large when you consider the size and repercussions of the problems outlined above.
- Neil Irwin, NY Times economist, on May 11, 2020, points out how long it takes downstream problems to work their way out of an economy when it goes into a recession or depression:
  - In the 2008 downturn, bank failures didn’t peak until 2010, causing a shortage of credit to businesses even when the economy was comfortably expanding. State and local governments, after experiencing a collapse of revenue, didn’t stop slashing jobs until early 2013.
  - ‘The potential for thousands, or even millions, of smaller businesses to close permanently stands out as a potential

multiyear headwind to the economy. It may take years for these owners and employees to find suitable work again.’

- ‘A business is also a set of relationships: between skilled labor and suppliers; physical assets like equipment and intellectual assets like a brand name; and employees and their base of regular customers. If a company fails because of the pandemic, another company may ultimately emerge to fulfill its economic role, but it could take years to rebuild that complex web.’
- Claudia Sahm, who was Federal Reserve section chief during the Great Recession, says;
  - ‘Policymakers must apply every lesson learned from the Great Recession and repeat none of their mistakes.’ The mistakes were Congress doing [too little, too late](#) and walking away before the recovery was complete. These mistakes resulted in ‘millions of long-term unemployed’ who became the ‘forgotten’ voters of the 2016 election.
  - **‘Complacency in Washington will push us into a depression. It is avoidable if Congress has the courage to act.’**
- However, there are many who would not agree with Dr Sahm’s assessment.
  - Sahm says ‘Former Federal Reserve Chairman Ben Bernanke assures us [no depression](#) is coming. I worked for Ben, from the summer of 2007 until his tenure as chair ended in 2013. He was right about many things. He is wrong about the threat today. A fast recovery is not guaranteed. I see no reason, after 20 percent unemployment and businesses going under, to expect a recovery any faster than the last decade-long one after the Great Recession.’ Bernanke’s opinion is from an early April Brookings webinar.

- Paul Krugman is quoted 5/24/20 by the NY Times saying there is a good chance we will not have an economic depression. ‘If the virus hangs on that long, even if we don’t have a revolution, I suspect people will learn to live with it. Somebody said, if you don’t think Americans can live with the constant threat of mass death... school shootings. It’s just become part of the background.’

Now it’s Inquiring Minders’ turn to express their opinion on these issues:

- We live in this protected environment of Shell Point with our fixed income and right now have limited contact with working people, especially the unemployed/furloughed, those who line up at food banks and those who are ceasing social distancing to work or enjoy themselves. But we have children, grandchildren and people we know who are doing it tough. A lot of these predictions, of course, depend on the virus, medical breakthroughs and luck. But, given these caveats, what do you think? :
- Are Dr. Sahn and Neil Irwin exaggerating things?
  - How long does it take to snap back from 20% unemployment, small business failures, and lost business, pay and tax revenue?
  - What about the issues of deficit spending and the growing national debt? Can we afford these suggested measures?
  - Has Federal pandemic response exacerbated the economic pain and loss? Can we trust or expect an adequate Federal response to the health issues and the economic ones? Whom will they help workers, small/medium sized businesses or the wealthy/big businesses?
  - How long does it take for fear and destroyed trust to heal so that people will trust what their government tells them? What will it take for us to respond compassionately when we have been spared so far the brunt of the economic pain? Will we have the courage, ourselves, to vote for courageous and compassionate political representatives the next time around?