

# Economic Policies During The COVID – 19 Recession

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Summer Intensive: The New School For Social Research

June 2 – June 22 Meets every weekday 10:50 am -12:50 pm New York Time

Welcome to our first, intensive, summer course on an unfolding national and world crises. We will be learning in a new way about an unfolding economic issue. Yes, the pandemic is a political, social, and health crises. We are examining the economic policy related to the novel-coronavirus infectious disease. The form of this class is a “flipped” class. You can watch my taped lecture on at your convenience (watch before class). The class will be a one-hour discussion. To reiterate, I will record my lectures before class and we will meet to discuss for one hour. There are ten students so each student will have a turn preparing discussion questions – I will help. The main output for the class is your policy memo. You will be graded on participation and policy memo due June 23. See resources on policy memo writing in Canvas. Before class please listen to the lecture and read the materials on memo writing. To make policy change, John Kingdon describes catching a wave. Read about this famous approach to [policy making](#).

## Issues Surrounding: The Pandemic. Global, National, And Micro. (Listen To Lecture Before June 2)

Here are five readings that don't require economic expertise.

**Introduction:** Of the many prisms to view the pandemic we are seeing it through the economist who is advising government, employer, and labor partners. Some professional economists, I am one, have been asked to help. My very [short blog](#) “Will the US Pandemic Response Strengthen Workers?” Mar 25, 2020 wrote in March. [Harvard's James Stock](#) describes the expedited research in a new family of epidemiological-economic models aiming to provide guidance about how best to reopen the economy. Here are the requirements:

**Collective** Behaviors to stop spread; **Protect** workers; **Eliminate** high contact/low value activity; **Mitigate** costs of second lockdown. CPEM “[Reopening the Coronavirus-Closed Economy](#)” James H. Stock for Brookings May 2020.

### **Part One: The Economic Recession, Harms from Recession, and Scarring From**

**Recession:** Recessions have permanent effects, especially on young entrants to the labor force. The economic fallout from the coronavirus crisis is disproportionately hitting young people? International Labour Organization, found big drops in labor force participation. Economic research assesses costs from recessions. Jesse Rothstein the University of California, Berkeley found students who entered the workforce right after the global financial crisis in 2008 are doing worse, both in terms of their employment rate and wages, almost 10 years later compared with peers who graduated either right before them or after the recession was over.

Millennials wealth accumulated hampered by two recessions, See report from [St. Louis Federal Reserve](#) Graduating just before or immediately after a downturn has a scarring effect on the generations affected. See Financial Times, US graduates in crisis: ‘entry level jobs are not safe at all’ -- Courtney Weaver in Washington <https://on.ft.com/3d8S5uC>

### **Part Two Characteristics of the Novel- Coronavirus Pandemic and COVID-19**

I will discuss our baseline knowledge. Modelling the disease using the S.E.I.R models. Look at this brilliant short video from the math site [3Blue1Brown Simulating an epidemic](#) Mar 27, 2020 and here is a reading on what [flattening the curve](#) is from Live Science “Coronavirus: What is Flattening the Curve and will it work? Spector, Brandon. March 16, 2020. Lethality of COVID-19 and age and race. [What explains Covid-19’s lethality for the elderly? Scientists look to ‘twilight’ of the immune system](#) Immunosenscence is a key concept. *Sharon Begley March 30, 2020* We saw that low socioeconomic status people and blacks (independent of economics) are more affected. Malcom Kelly and Jina Sawani Univ. of Michigan, Health Lab, May 04, 2020 [Racial Disparities in the Time of COVID-19](#) See this National Academy report [Covid-19-and-health-equity](#)

## **Reopening Is Couched In Cost Benefit Decisions (June 3)**

New data show that the government stay at home orders didn’t have as much effect as we thought. Using UI claims as a proxy for economic activity during the weeks of March 15-21 and March 22-28 and school closures as a proxy for strict measures and cases as a proxy for the disease. Economic activity slumped where the disease was high, not with the restrictions. Policy makers should know that the disease will cause economic loss and that delaying school closings (and other measures) would not have saved jobs. There is more correlation with disease was largely across-the-board and occurred in all states. This suggests most of the economic disruption was driven by the health shock itself. See: *Is the Cure Worse than the Problem Itself? Immediate Labor Market Effects of COVID-19 Case Rates and School Closures in the U.S.* by Rojas, Jiang, Montenovo, Simon, Weinberg, Wing [NBER Working Paper No. 27127](#)

**May 2020**

Another similar paper -- *Health vs. Wealth? Public Health Policies and the Economy* During Covid-19, Lin and Meissner NBER [27099](#) -- found that “stay-at-home” orders had, sadly, little impact on the economy nor on local public health. Stay-at-home is only weakly associated with slower growth of Covid-19 cases. Job losses have been no higher in states that implemented stay-at-home during the Covid-19 pandemic than in states that did not have stay-at-home. Covid-

19 pandemic is a common economic and public health shock. “The tradeoff between the economy and public health in a pandemic depends strongly on what is happening elsewhere – need coordinated economic and public health responses.

A paper on the jobs lost in California for a life saved in March and April reveals a typical cost-benefit analysis from economists. “*Did California's Shelter-in-Place Order Work? Early Coronavirus-Related Public Health Effects*”, Andrew I. Friedson, Drew McNichols, Joseph J. Sabia, Dhaval Dave, NBER Working Paper No. [26992](#) April 2020. I wrote “*When Economists Take a Back Seat to Virologists*” which shows the decisions to constrict was not controversial. The essay is in *Canvass*. In this recession economists are taking advantage of the variations across states and in the pandemic of 1918 to decide what policies make sense.

Read this paper which says behavior was more important than policies. No one believes that.

The CDC’s recommendations on re-opening the economy are in four phases and they are locally-based and depend upon the following three things: Trend, Prevalence, Exposure

## What was the economy like before for the COVID recession? (June 4)

Before the recession we already were facing rising deficits and low investment. Before the 2020 recession we had a 11-year expansion and rising deficits because of the 2017 tax cuts and scant no productive investment. Investments are not stimulated by tax cuts but anticipated demand. Profits increased because of low labor power and accommodating federal policy to increase profits. Consumption moved away from public goods to private goods. Government spending for college, for example, substituted away from direct government spending to private student loans. Not much investment and automation. That’s too bad because it’s always good when labor becomes more productive by applying more capital. One of the most important phenomenon is the concentration of capital and changing shares between capital and labor. Read Bakai’s [paper](#) that swept the academy and the news. Read from the conservative but reformist observations from [University of Chicago](#). And it was quite noteworthy the “capitalists” were quite worried about the social and political consequences of wealth inequality. Are they not as worried? Here is the link, and it’s an article written by Ray Dalio, titled, “[Why Capitalism Needs To be Reformed](#)” published on a mainstream blog site.

## How Is This Recession Different From All The Other Recessions And How It Is Alike?

### Unemployment: (June 4 and June 5)

June 4<sup>th</sup> is Teresa On a Panel with 3 other economists. See time for webinar. LINK

June 4th, 2:30 - 3:30 pm Eastern Time (New York Time) “**Employment and Unemployment During the COVID-19 Pandemic**” **Speakers:** [Eileen Appelbaum](#) (Center for Economic and Policy Research), [Teresa Ghilarducci](#) (New School for Social Research), [Susan Helper](#) (Case Western Reserve University), [Michael Piore](#) (MIT) **Moderator:** [Peter Berg](#) (Michigan State University), [Click here to access C3 community for discussion thread \(available to registered attendees\).](#)

## June 5 is Jobs Friday

Every first Friday the [U.S. Bureau of Labor Statistics](#) issues the employment report at 8:30 am Washington DC time, which may be the most favorite report among economists, financial analysts, media, and policy makers.

It is so bad it looks like an excel error. The [Federal Reserve noted](#) in [May](#) that 40% of those earning under \$40,000 will lose their jobs in the Covid-19 recession. There are ways people are affected by job loss. Most analysts just look at two states of the world for workers -- people are either have a job or don't. References to come. We will look at three kinds, so different because of the deadly virus.

People are on the frontlines and face exposure to COVID. Some jobs got more dangerous than others. Frontline workers at all socioeconomic status are more at risk for infection Sidelined by losing your job. This recession has not affected industries equally take a look at Table B6. The federal reserve assessment of the socioeconomic status of people who's lost their jobs

Safe Jobs: these are jobs that can be done at home or safely with others. New reserch estimates this is about 35% of workers and they are not distributed equally.

Another odd phenomenon, odd because wages and salaries usually fall or remain stagnant when there is surplus labor. Average workers' [pay \(see the BLS employment Situation report news release\)](#) actually increased in April, though in March and April there were more people looking for work than jobs available.

In April, average hourly and weekly earnings rose from \$804 a week to \$841 because low income workers disproportionately lost their jobs and high income workers kept theirs. When I dive into the first Friday jobs report I go to [Table B-6](#) (From the BLS Friday report) which reports where workers lost their jobs by industry sector. The low-paid leisure and hospitality lost half of their employment, the finance sector lost hardly any jobs. In this recession, the worst since the Great Depression in the 1930s, high income workers are more likely to keep their jobs -- the COVID-19 recession is causing more inequality. High income workers are usually a bit more secure in recessions, but economies are interdependent and in the last recession high-paid workers especially in Finance lost their jobs. The diffusion in this recession is quite high. Fed chief Jerome Powell, needed to point the growing inequality.

An Unemployment Crisis after the Onset of COVID-19, Nicolas Petrosky-Nadeau and Robert G. Valletta, Federal Reserve Bank of San Francisco, The COVID-19 pandemic has upended the U.S. labor market, with massive job losses and a spike in unemployment to its highest level since the Great Depression. How long unemployment will remain at crisis levels is highly uncertain and will depend on the speed and success of coronavirus containment measures. ... unemployment could remain severely elevated well into next year.. [www.frbsf.org/economic-research/publications/...](http://www.frbsf.org/economic-research/publications/...)

[NBER](#) 42% of Americans won't have jobs to go back to [Robert Reich](#)

## What is typical government policy over a business cycle.

**Review** and assessment of the 2008 government response. (Monday June 8)

a. Please review what the US and G7 nations did in response to the 2008/2009 recession. The paper I assigned here analyzes how fiscal and monetary policy typically responds during

downturns. Are discretionary fiscal responses to downturns timely and temporary (and targeted)? Comparing fiscal policy to monetary policy shows that though it is slower discretionary fiscal policy is more timely and stronger than monetary policy.

IMF Working Paper Fiscal Affairs Department [Fiscal and Monetary Policy During Downturns: Evidence from the G7](#) 1 Prepared by Daniel Leigh and Sven Jari Stehn  
Authorized for distribution by Manmohan S. Kumar March 2009

Keynesian economic stabilization includes monetary and fiscal policy. We will review aggregate demand and aggregate supply curves and liquidity demand curves.

b. The theory behind fiscal and monetary stimulus. Please refer to your *favorite textbook* and the several chapters on aggregate demand and supply. Read the

[Federal Reserve indicators](#). I depend on the Richmond branch of the Federal Reserve here, make sure you get the most recent report.

We will review  $C + I + G + X - M = GDP$ . What happens in typical recessions is that productivity falls because employers retain their management employees and choose to lay off the people that they can easily hire back or hire back their substitutes. We will review the cyclical trends in productivity. How productivity changes over the recessions and who are the first ins and the first outs (observe racial gaps changing over the cycle.) We will also review the sectors that have lost the most jobs in recessions. We will review what are typical countercyclical and cyclical industries.

c. What happens to consumer demand over the cycle? How will the demand of afraid and suffering consumers change? Think of consumers in Reich's four categories: the essentials, the remotes, the unpaid, the forgotten. What happens to investment demand, government demand, government demand, and exports net of imports over the business cycle?

d. Define automatic stabilizer and examine the federal budget to show what percentage of the expenditures are automatic and which ones are discretionary. The lesson here is to view government employment as an automatic stabilizer.

Macroeconomics Text book can be found on the Web [Macroeconomics](#), Blanchard and Johnson 6<sup>th</sup> edition <http://home.ufam.edu.br/andersonlfc/MacroI/Livro%20Macro.pdf>

## How Was The Government Response To This Recession Different Than In The Other Recessions And How Is The Virus Affecting The Financial Markets (Tuesday June 9).

Fiscal policy is on overdrive. Most economists are gobsmacked on how much bipartisan support there is on the stimulus. Here are the policies so far, here is a complete [NPR](#) story on how the bills affect each part of the economy.

[Here is a nice graphic of everything Congress and the President have done to mitigate the COVID recession.](#)

If you want a good reference to the four bills here is a report that embeds the links for each bill, links are highly detailed: [H.R. 6074: Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020](#) — Enacted March 4, 2020. Provided \$8.3 billion.

[H.R. 6201: Families First Coronavirus Response Act](#) — Enacted March 18, 2020. Guaranteed free coronavirus testing, established paid leave, enhanced unemployment insurance, expanded food security initiatives, and increased federal Medicaid funding.

[H.R. 748: Coronavirus Aid, Relief, and Economic Security Act](#) — Enacted March 27, 2020. A \$2 trillion coronavirus relief bill,

[H.R. 266: Paycheck Protection Program and Health Care Enhancement Act](#) — Enacted April 24, 2020. A \$484 billion relief bill that went to replenish the Paycheck Protection Program (PPP) for small businesses and to public health measures such as virus testing and hospital funding. <https://www.govtrack.us/covid-19>

Compare the Fed policy in 2008 from the Fed policy in 2020 (reference coming) and discuss the four acts and the HEROES ACT not yet passed.

The economy, world and national, will operate way below potential if governments don't spend money. There is no better way to describe what we are facing but quote a from a [Financial Times](#) headline – “an absolutely enormous output gap is forming.” According to [Guggenheim Investments](#) report on forecasting the [next recession](#) — look at their picture and catch your breath— there is no V shape anywhere in sight. If we don't do anything we will have a \$12 trillion [output gap](#) of lost jobs, lost goods and services, more hunger, less innovation. So, we should do something. The debate is what and how. Take the temporary increase of \$600 per week in unemployment insurance authorized by the Federal Pandemic Unemployment Compensation program (FPUC) in the (CARES) Act passed on March 27. This additional \$2,400 per month to individuals who were collecting unemployment compensation from their state programs often meant the low-income workers losing their jobs (and some having suddenly to home-school their children) were earning in their jobs. The extra benefit will end soon on July 31, 2020.

The HEROES Act – not yet passed by Congress — proposes to extend the benefits until the end of January 2021. Shahar Ziv, writing in [Forbes](#), points out many are worried that extending benefits creates a disincentive to go back to a job that pays less. Makes sense. So I dug deep into a June 4, 2020 report by the bipartisan Congressional Budget Office (CBO) requested by Republican Senator Grassley about what would happen if the \$2400 per month was extended six months through January 31, 2021.

The [CBO](#) ran their own model and cultivated other research to conclude extending the extra UI for 6 months boosts the economy, good and reduces labor force participation, bad. But the CBO didn't model what happens if we increase pay at the same time we keep unemployment benefits.

The CBO found that if UI was extended the effect on output and employment are the net results of two opposing factors. 1. An extension of the additional benefits would boost the overall demand for goods and services resulting in an increase output and employment.

But, the extension would also weaken incentives to work as people compared the benefits available during unemployment to their potential earnings, and those weakened incentives would in turn tend to decrease output and employment.

The weird result is that employment fell among low earners and rose among high earners. Low earner UI benefits keeps high earners working!

Preventing the suppression of labor supply is easy. We can extend the benefits, keep the economy going in the pandemic by raising pay and — through OSHA regulations — make [jobs](#)

[safe](#). We can increase labor force participation by making the jobs worth going back to. The recipe for staving off the deep recession includes extending unemployment benefits and raising pay for low income workers.

3. Summary of Guggenheim Investment’s view of the output gap. “[an absolutely ENORMOUS output Gap](#)”

4. [Progressive ideas to counter the recession. The three ways fiscal policy can be used to fight COVID-19](#) [https://equitablegrowth.org/the-three-ways-fiscal-policy-can-be-used-to-fight-covid-19-and-the-coronavirus-recession/...](https://equitablegrowth.org/the-three-ways-fiscal-policy-can-be-used-to-fight-covid-19-and-the-coronavirus-recession/)

5. [How other countries are dealing with this. “Policy Responses to COVID-19 - International Monetary Fund”](#)

[www.imf.org](http://www.imf.org) › [Topics](#) › [imf-and-covid19](#) › [Policy-Responses](#)

## Do Government Stay At Home Orders Work? And, Are Cities Doomed? (Wednesday June 10)

I. Poor New York (Tokyo, London – all urban cities. What to do about density?! *The Subways Seeded the Massive Coronavirus Epidemic in New York City*, Jeffrey E. Harris (NBER Working Paper [27021](#)), New York City’s subway system was a principal transmission vehicle of the coronavirus infection. The near shutoff of subway ridership correlates strongly with the substantial increase in the doubling time of new cases in this borough. They conclude the shutdown on April 12 was “too extensive” but a partial shutdown should remain in place through July. Here is some critique, [critique of subway](#) COVID paper; might be good to have us debate or break down the differences.

II. Here is an uncomfortable paper. Assumes that the elderly lose when there is economic opening and the young win. What happens if the “young” pay off the elderly? Does the gain of reopening pay for the “costs” to the elderly. *You can pay off the elderly Health versus Wealth: On the Distributional Effects of Controlling a Pandemic* Andrew Glover, Jonathan Heathcote, Dirk Krueger, José-Víctor Ríos-Rull, NBER Working Paper [27046](#)

III. Interview with Prof. Richard McGahey 10 minutes on whether economic opening will spur a second wave of COVID-19 illness. Read his 2 minute blog [here](#): Interview questions (add if you want): **1.** What did officials learn from epidemiologists about what works to reduce deaths due to a predicted on-slope of COVID-19? **2.** How can a society get “Social Distancing”, Stock calls it Collective Action, without SIPO? **3.** Tell me how Gov. Kemp of Georgia misunderstood the tradeoff between health and wealth in Georgia? **4.** What regulations do we need as we reopen the economy. You told me a story about the well-meaning and futile behavior of a store owner.

Here is a reading on social distancing behavior so necessary for the economy to be open AND to stay healthy. Relying just on collective behavior and not regulation seems hopeless, like relying on people to not litter, without penalties -- [Social Distancing During the COVID -19 Pandemic: Who Are the Present and Future Non-compliers?](#) 22 May 2020, that uses survey data from sample U.S. residents (n = 1,449), finds [race, age and gender are poor predictors](#) compared to

individual attitudes and media diets. People who consumer TV and radio are less likely to currently engage in social distancing or are less likely to envision themselves sustaining strict social distancing for several weeks or months

## Two sleeper issues in reopening: Older Worker Safety and State and Local Budgets (Thursday June 11)

1. The new workplace is a sleeper issue impeding the recovery if we don't get it back. Older workers exposure (remember immunosenescence) pose a real threat to reopening. Worker safety is the sleeper issue in reopening the economy given that older workers are projected to be over 50% of the additional workers hired in the next ten years --its demographics! If we don't get the safety right not only will there be absent workers and sick workers productivity will fall. See Stock's paper and my blog. What we need in the new workplace is an area of rich economic research. [Trump's OSHA Endangers Workers and the Economic Recovery](#) in Forbes May 31.

2. The second sleeper issue is the strange case of state budgets that impose austerity. Teachers will be fired if the Fed doesn't bail out states. Ted Fisher in the Atlantic writes that State Budgets can hamper the recovery. Should we have the Feds pay for Medicaid? – why stimulate the economy through fiscal policy only to have the states impose austerity National Council of State and Local governments. Isn't it folly to stimulate the economy through fiscal policy only to have the states impose austerity [National Council of State and Local governments](#).

Are there other sleeper issues?

## How Do We Pay For All This—Limits (If Any) of Government Debt. (Friday June 12)

In the United States there's an unusual silence of among the austerity advocates [UK austerity](#). *No Fight Over Red Ink Now, but Virus Spending Will Force Tough Choices* to [New York Times](#)

Here is a bold statement. The U.S. Government can and should pay for the stimulus to stave off a major depression. Debt will increase; but its good debt. Economists argue we can monetize the debt because the US debt in desirable US dollars. Monetizing the debt works for a hegemonic currency, such as the US dollar. We also expect higher taxes on capital, higher capital gains rate, and perhaps a digital dividend tax. Here is a concern about “big government [Which Post-Pandemic Government?](#) May 22, 2020 Rajan, Raghuram G. Project Syndicate

Deficits: Rana Foohar on Taxes in the Financial Times “Monetize or [Tax](#)” FT Foohar

As you scan [this table on sovereign bond rates](#) think about these issues

1. How can you tell that Brazil will have a harder time mitigating the consequences of shutting down the economy to save lives? Do you think that their liberalized SIPO that will increase death is because they may not be able to borrow enough to mitigate the costs of shutting down?
2. Do you think nations that have to pay higher rates on their debt will have higher death rates? (independent study anyone? )
3. Now look at this table on the [debt levels of actual nations](#). Do you think the debt levels influence the yields on their debt?
4. Here are the [bond ratings](#) by nation. Poor Angola they will have to pay a high interest rate if they borrow money to bail out firms that shut down to save lives. Which nation has a higher rating than the US? How much are the ratings correlated with actual market rates and government [debt per GDPt](#)?

Sources:

Bond rating <https://www.bloomberg.com/markets/rates-bonds>

Read this article from PEW Charitable Trust about how the Coronavirus will [increase](#) debt.

In a textbook framework you would see aggregate demand is independent from supply conditions. Most textbooks do this though Barro tried to popularize --in the mid-80s – and succeeded in RBC theory or some sort of DSGE variant). I will present a version of the textbook because it won't be set up to deal with a situation like this. I will tell a sort of 'impulse/response' story, where the initial impulse (the onset of the COVID-19 shut down) is presented as a disequilibrating shock, that takes the model away from its equilibrium due to an 'artificial' (externally imposed) restraint of production/trade. I will then show how, had the virus been limited (to China, say), the recession might have been V-shaped: release the artificial restriction and the system snaps back to equilibrium, because the underlying economics 'fundamentals' (as represented by the structure of your AD and AS curves) haven't changed.

BUT -- the virus wasn't limited, so here comes the curve shifting. I will note a few cost influences on supply conditions associated with re-opening production and trade. Also there is terrible negative impact on demand of a massive increase in uncertainty, causing households and firms alike to cancel C and I expenditures for fear that future income will evaporate due to unemployment (households) and profits won't materialize (firms).

A textbook should make C and I explicit functions of animal spirits/liquidity preference. We can easily see that. The sad fact is that the likely duration of the recession stems from both medical factors (we fail to control COVID-19) and/or economic factors (we control COVID-19, but fear reigns supreme, no-one's buying, demand is persistently depressed).

We need to talk about debt servicing (always a popular topic!) and the problem that depressed demand will become self-reinforcing if debtors default, credit dries up, and so forth. We probably need a bigger government.

## Smart Re-Opening the economy and the Post Covid 19 Recession Economy (Monday June 15)

When the economy opens human interactions transmit COVID-19. People do not internalize the costs they impose on others. This paper shows that people perceive the cost an additional infection to be around \$80k, when the social cost is more than three times higher, around \$286k. This mis-evaluation has stark implications. We can flatten the curve of infections, but the disease is not overcome until herd immunity is acquired. The economic cost is high; an initial sharp decline in aggregate output followed by a slow recovery over several years—Nike swoosh. If public policy contained the disease and quickly eradicate a milder recession would happen. *OPTIONAL READING Read Covid-19 Infection Externalities: Trading Off Lives vs. Livelihoods Zachary A. Bethune, Anton Korinek NBER Working Paper No. 27009 April 2020 Pandemic Recession: L or V-Shaped? Victoria Gregory, Guido Menzio, David G. Wiczer (NBER Working Paper [27105](#))*

Read: *Reopening Scenarios* by Baqaee, Farhi, Mina, Stock, (NBER [27244](#) May 2020) A complicated model using data on individual actions and non-pharmaceutical interventions in the weeks ending March 8 – May 16, 2020 finds a decision-maker (governor) following reopening guidelines, with information on personal proximity and ability to work from home by sector, make it possible to construct a GDP-to-Risk index of which sectors provide the greatest increment in GDP per marginal increase in R0. – a classic economic tradeoff, Conclusions - a strong economic reopening is possible; a “smart” reopening, preferencing some sectors over others, makes only modest improvements over a broad reopening. All depend on retaining strong restrictions on non-work social contacts. “If non-work contacts – going to bars, shopping without social distancing and masks, large group gatherings, etc. – return only half-way to the pre-COVID-19 baseline and a second wave.”

## More Concentration Of Capital And Increased Costs. (Tuesday June 16)

My goal is for you to nail the macro economic concept of what could happen to the economy as a result of the pandemic. My emphasis is not on the costs of production will increase and put pressure on profits. The cost of production increase after the COVID recession, supply curve shifts in.

Who will pay? Will profits decrease if workers and government demand safer work? The Upside is that perhaps work will become safer.

The controversies about getting back to work and the need for business liability and OSHA requirements. Workplaces will have to be reconfigured and that will be an expense like we had the pollution abatement expenses in the 1970s. Link to the environmental restrictions on Clean air and water acts which increased business cost expenses and caused a recession in the 1970s. Model this is a shift in the supply curve.

Another effect on production costs are supply chains getting shorter. Will this mean more production closer to home? If supply chains are shorter than we will change one aspect of globalization.

Straight text book explanation of the [supply curve](#) – 2 minutes but it goes fast. The supply curve goes up because expensive producers will only be able to produce if the price is high enough. And this [one](#). Think of shifters. What is the government action that will affect producers.

Now think about the [long term supply curve](#).

Short reading how the clean water regulation caused supply to shift in. <https://www.khanacademy.org/economics-finance-domain/macroeconomics/aggregate-supply-demand-topic/macro-changes-in-the-ad-as-model-in-the-short-run/a/shifts-in-aggregate-supply-cnx>

[There is controversy](#) is whether the Clean Water Act's benefits have exceeded its costs, which have been enormous. Since 1972, government and industry have spent over \$\$1 trillion to abate water pollution, or over \$\$100 per person-year. This is more than the United States has spent on air pollution abatement. In the mid-1970s, Clean Water Act funding of municipal wastewater treatment plants was the single largest public works program in the United States ([USEPA 1975](#)). These costs were large partly because the Clean Water Act had ambitious targets: to make all U.S. waters fishable and swimmable by 1983; to have zero water pollution discharge by 1985; and to prohibit discharge of toxic amounts of toxic pollutants. President Richard Nixon actually vetoed the Clean Water Act and described its costs as “unconscionable,” though Congress later overruled the veto.. Large costs could be outweighed by large benefits.

#### CONCERNS LEADING TO INCREASED COSTS

1. Cleaner workplaces and public places
2. Shorter supply chains
3. Changes in health care sector and public health
4. Higher cost of Goods and Services that have unhygienic production processes
5. Higher taxes

#### REASONS FOR HOPE ABOUT SECOND ORDER EFFECTS

1. Permanent changes in work to make it more efficient
2. Productivity increases (sources)
3. Changes in private consumption

## **Equity Effects of the post Covid recession (Wednesday June 17)**

What the post – Covid Economy will look like depends on what view you have of this recession.

It's a novel recession. The cause comes from policy to shut the economy, not an embedded persistent lack of demand, or secular stagnation, or a falling rate of profit, or a Minsky moment of financial overreach. IT was a pandemic. The virus was an exogenous shock. But did it have novel effects. The COVID-19 Recession could be:

1. ORDINARY Create conditions that are ordinary conditions of a recession
2. ACCELARATIONIST Speed – up that which was preexisting
3. STRUCTURAL Create a whole new form of demand that is permanent.

**Racial Equity. ACCELARATIONIST** *If the Police Don't Kill Us COVID will.* [FT article June 5, 2020](#) on the differential effects of criminal justice and the pandemic on American Blacks. (Behind pay wall, get it through library.)  
Interview with epidemiologist Prof. Tiffany Green, May 22, 2020 in [Medical News Today](#) about differential effects of SARS-CoV-2 on Black Americans.

SKIM Academic paper looking at all “racial” categories. [Disparities in Vulnerability to Severe Complications from COVID-19 in the United States](#). Wiemers, et. Al NBER Working Paper June 2020 This paper provides the first nationally representative estimates of vulnerability to severe complications from COVID-19 overall and across race-ethnicity and socioeconomic status. Using the Panel Study of Income Dynamics (PSID) they found large disparities across race-ethnicity and socioeconomic status in the prevalence of conditions, including hypertension, which are associated with the risk of severe complications from COVID-19. Moreover, we show that these disparities emerge early in life leading to higher vulnerability to such complications. Particular attention should be paid to the risk of adverse outcomes in midlife for non-Hispanic blacks, adults with a high school degree or less, and low-income Americans.

SKIM **ORDINARY Gender Equity:** The political economy of stay-at-home orders means that unpaid care work is in overdrive. Who wins and who loses use feminist economist views of care work. The effect on unpaid care labor is a production effect. Gender Equity. The Impact of COVID-19 on Gender Equality Titan M. Alon, Matthias Doepke, Jane Olmstead-Rumsey, Michèle Tertilt (NBER Working Paper [26947](#)) Hawaii Women's group.

**Education equity. STRUCUTRAL** Not all children are affected equally by online education – the laptop gap.  
[Research Shows Students Falling Months Behind During Virus Disruptions](#)

**Longevity Inequality: ACCELARATIONIST** Another effect of the recession [longevity inequality](#) is also likely to grow. Those most at risk of not living a normal human life span are being much more severely affected by this recession than in others because of the virus effect on those with diabetes and Other comorbidities which is correlated with socio economic status.  
<https://www.medicalnewstoday.com/articles/a-no-win-situation-expert-weighs-in-on-covid-19-racial-disparities#Infection-control-measures-not-extending-to-POC>

**Wealth Inequality:**

**ORDINARY** The wealthy will become more wealthy. Look at the effect of recessions on wealth holders who can now buy cheap assets. The wealthy are always more likely to win in recessions, see the [study](#) by NYU economist Edward Wolff. After recessions wealth and income inequality grows. And households with some debt and the poor are affected much more by business cycles, Berkeley economist [Hillary Hoynes](#) studies, review recessions and their uneven effect. See Ghilarducci, Forbes. [Billionaires Win in Covid Recession](#). How is the government response affecting equity. How can we expand the welfare state in a way that closes income and wealth gap. Billionaires have done [well](#) between March 18 and May 19 according to the Institute for Policy Research.

The Joint Economic Committee and the Center for Responsible Budget's report on the distributional analysis of the legislative packages have revealed the package of legislation was greatly tilted towards the wealthy and corporations. See this point made in a FT article June 18, 2020 see references to original sources. *Financial Times*, [Why the US pandemic response risks widening the economic divide](#)

The fiscal response to the crisis has been vast but many measures for low-income families could be withdrawn. Politi, Fontanella-Khan, and Aliaj June 17, 2020.

## Health Care After COVID 19 Capacity **Thursday June 18**

Guest who will answer questions about reopening and the economy. Dr. David Ghilarducci, Medical Health Director for San Benito County and Deputy Medical Director for Santa Cruz County.

What kind of health system can deal with infectious diseases? Not one that is privatized argues a new paper by [Assa, Jacob & Calderon, Cecilia. \(2020\). Privatization and Pandemic: A Cross-Country Analysis of COVID-19 Rates and Health-Care Financing Structures. 10.13140/RG.2.2.19140.65929](#). shows the profit motive hurts health: " the privatization of healthcare as one key determinant of explaining differences in COVID-19 case count. They use a sample covering 147 countries with the latest available data. Controlling for per capita income, health inequality and several other control variables, they find a 10% increase in private health expenditure relates to a 4.3% increase in COVID-19 cases and a 4.9% increase in COVID-19 related mortality. It finds, "higher hospital capacity (in beds per 1,000 people) is significant in lowering COVID-19 mortality. The findings in Assa and Calderon suggest caution regarding policies which privatize healthcare systems in order to boost efficiency or growth in the short-run, as these reduce countries' long-term preparedness for dealing with pandemics.

**II. Effect of COVID-19 and government response on the shares of incomes going to labor and capital. Friday June 17** Ghilarducci, Teresa US Coronavirus Stimulus. Project Syndicate DISCUSSION

**III. Monday June 22: Student round – up and where we go from here.**

Each student presents their elevator pitch - -aim for 1 minute. This will be recorded.