Happy Friday the 13th!

The pandemic is now raging out of control.

This is not a nice-looking graph!
Yet the economy is *not* tanking again, as it did in March-April. (At least, not so far.)

Feb-April: −14.5%
Feb-Oct: −6.7%

2019:4-2020:2: −10.1%
2019:4-2020:3: −3.5%
Why not?

1. No lockdowns this time?
Timeline of social activity—back then
(Source: Farboodi, Jarosch, and Shimer (2020))

Google Community Mobility Reports - US States

To read these graphs
One grey line per state
Black=national average
Red=shutdown index
Why not?

1. No lockdowns this time?
2. Familiarity breeds … less alarm? (You can get used to anything.)
3. Quarantine fatigue? (“I’m sick and tired, and I’m not going to take it anymore.”)
4. Lower death rate (deaths/cases); better medical treatment?
5. Trump, Fox, etc.?

I’m still surprised!
Let’s round up the usual suspects (for rescuing the macroeconomy).
What have you done for me lately?
Monetary stimulus

- The Federal Reserve did an enormous amount—and incredibly quickly—in the first months.
- There are not many bullets left (see Dudley).
- That’s why Jay Powell is practically begging for fiscal action.
- To the extent that Congress fails, the Fed will have to step up with more. But what? (see Dudley)
- Sad truth: Its remaining ammunition is not powerful.
What have you done for me lately?
Fiscal “stimulus” (really relief)

- The CARES Act (March 2020) was enormous-- around 11% of GDP.
  - Another metric: It was equal to about half of all federal spending in FY2019.
- Yes, it was big and sloppy--but BIG was the important thing.
- Most of that is gone now. (And moratorium on evictions ends December 31.)
- The “debate” over CARES II has been “going on” since May.
- What, if anything, will happen during the transition? Waiting until February is not a good idea.
Why McConnell *may* want a “skinny” deal in the lame duck session:

- Because he’s genuinely worried about the deficit? (Don’t be silly!)
- To avoid a bigger package in the new Congress.
- To help the two senators from Georgia win their run-offs (by including some things they want).

- BTW, the Pfizer vaccine is *not* a reason to end the relief programs. (It won’t immunize the population fast enough.)
And about that federal debt....

- The increase has been huge—and in just a few months.
- We have proven that we can increase the debt/GDP ratio, and expectations of where it is heading, enormously without raising interest rates.
- BTW, the Fed has bought about half of the newly-issued debt.
  - At the June 9th briefing, it was most of it.
- The appetite for US Treasury debt in world capital markets looks gigantic.
- But how much? And for how long will it last?
- My guess: a long way. (We are going to find out!)