

# The Pandemic and the Economy: Update # 2

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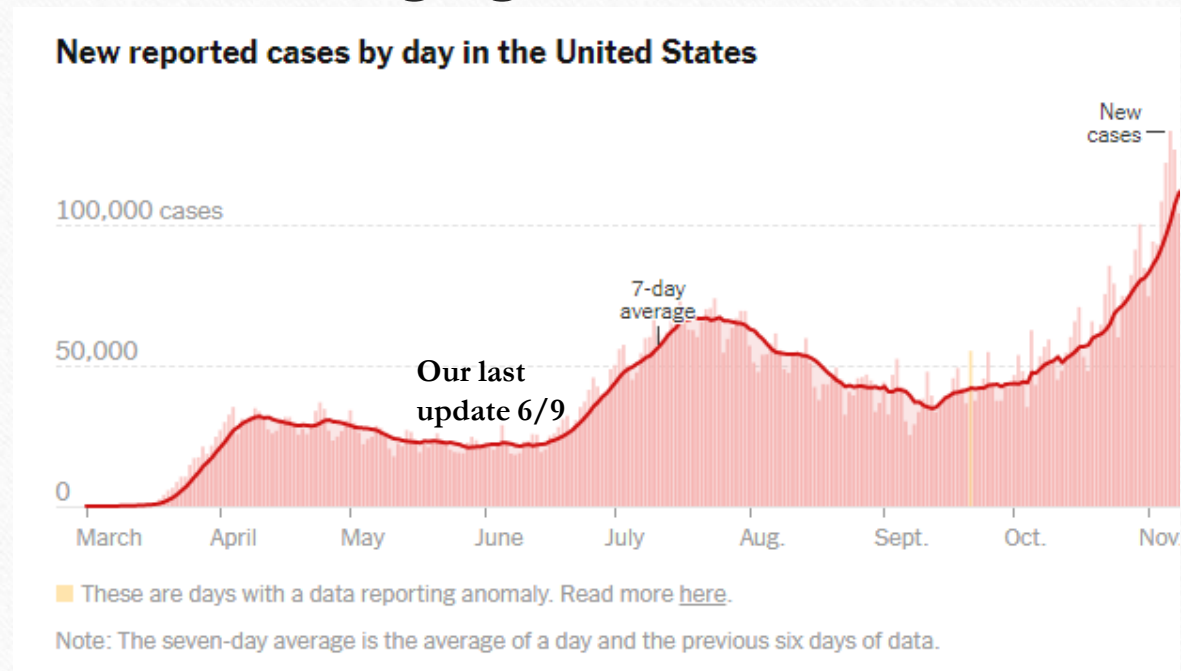
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# Happy Friday the 13<sup>th</sup>!

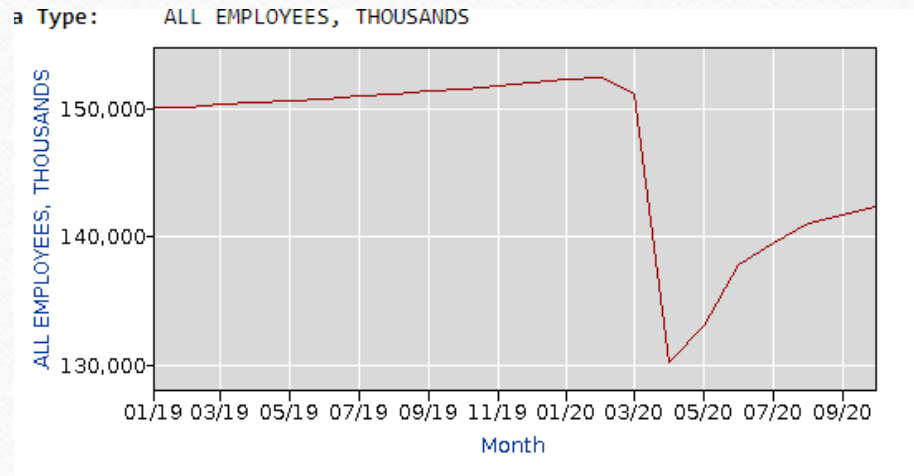
The pandemic is now raging out of control.



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?

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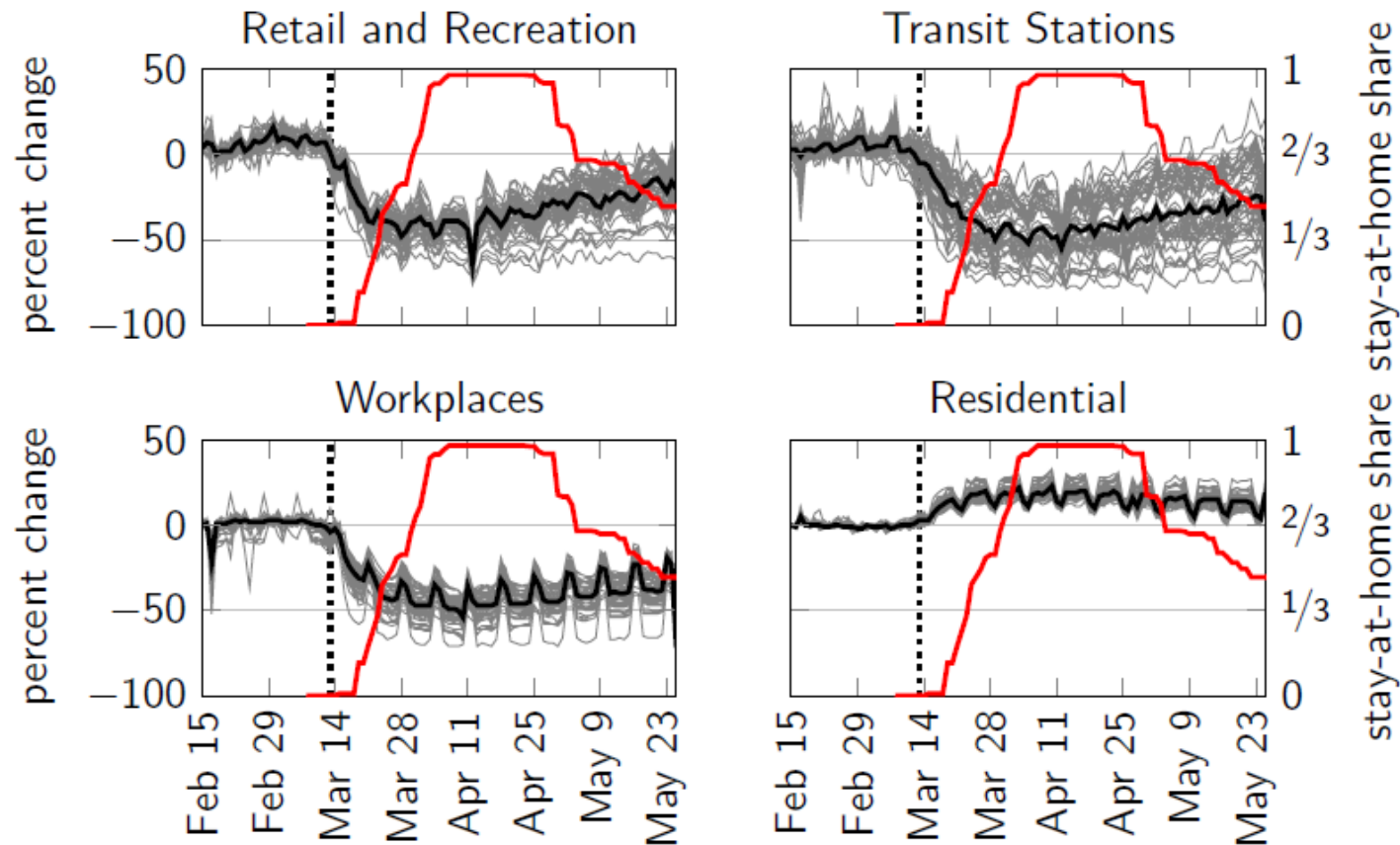


1. No lockdowns this time?

# 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?

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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).

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# What have you done for me lately?

## Monetary stimulus

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- 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*)

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- 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:

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- 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 9<sup>th</sup> 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!)