The Pandemic and the Economy: Update # 3

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Our last update was 5 months ago:

That was then

This is now
The economy is perking up strongly.

Payroll employment

Feb-April 2020: −14.5%
Feb 2020-Mar 2021: −5.5%

Real GDP (level)

2019:4-2020:2: −10.1%
2019:4-2020:4: −2.4%
Something worth noting:

• The real GDP declines (10.1% and 2.4%) are noticeably less than the employment declines (14.5% and 5.5%).

• This is one indicator of the “K” shape (not just a K-shaped recovery).
“Forecasted” growth rates of real GDP

- 2021:1: 7-8% (Remember: The first estimate will be based on partial data.)
- 2020:4-2021:4: Average of 6.4% in recent *WSJ* poll of economists
- In short, it looks like we’re in a boom period. (Fastest year since 1983.)
Why such a rapid snap-back?

1. Vaccines!!
2. Resilience of the US private sector, assisted by…
3. Enormous fiscal expansion
4. Enormously supportive monetary policy (see Dudley)
A remarkable note on the Fed’s interest rate cuts:
The two most interest-sensitive components of GDP
The massive fiscal expansion in a nutshell

1. CARES Act (March 2020)—about $2¼ trillion.
   ▪ Sloppy, but big and fast.
2. Consolidated Appropriations Act (December 2020)—included about $0.9 in Covid relief
3. American Rescue Plan (March 2020)—about $1.9 trillion

**Note: That’s already $5 trillion, and there’s more TK.**
4. American Jobs Plan (recently proposed, over $2 trillion)—What will pass? How much will be “paid for”?
5. The “American Family Plan” (?)—When? Another $2-$3 trillion? Same two questions!
Something to remember:

- These numbers are generally for 10 years.
- So $2 trillion is $200 billion per year, which is less than 1% of GDP.
Some observations on the fiscal response

- Congress acted **fast** in March 2020 and March 2021.
- It’s **huge** by world standards—or by any standard.
- Some large components, like PPP and the “checks,” were **poorly targeted**.
- Started strongly **bipartisan**, now totally **partisan**.
- All this (actual and projected) debt has not driven up **long-term interest rates**. *(see next slide)*
10-Year US Treasury Rate, 2020-2021
(the wrong way to look at it)
10-Year US Treasury rate, 2018-2021 (the right way to look at it)
Some observations on the fiscal response

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• It’s huge by world standards—or by any standard.
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• All this (actual and projected) debt has not driven up long-term interest rates. (see next slide)
• In case you’re wondering: The Fed has bought about 55% of the Treasury debt issued since the crisis struck.
Which leads naturally to....