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Figures in Focus

Half a million lives
Estimated number of American lives that will be saved by economically disruptive public health measures, such as social distancing and business closures

21,649
Number of new initial unemployment claims filed in Maine in the week ending March 21, a new record

61,000 jobs
Estimated number of jobs expected to be lost in Maine by June, more than triple those lost in the entire Great Recession

24 to 34 percent
Projected decline in US GDP in the second quarter of 2020

Coronavirus and the Economy

New recession will be unlike any other, demands bold policy response

by Sarah Austin, Policy Analyst | April 1, 2020

The coronavirus pandemic has triggered a sharp reduction in economic activity. Available indicators forecast a new recession triggered by the spread of COVID-19, with the economic damage poised to hit harder and faster than any downturn in recent memory.

The rapid spread of coronavirus and the strain on the health care system were bound to affect the economy. Absent a cure or vaccine, the only options to limit the spread of COVID-19 have exacerbated the slowdown and triggered an unprecedented spike in unemployment.

Social distancing has brought a sharp decrease in demand for many goods and services. To limit virus transmission, many nonessential businesses have closed their doors, either voluntarily or under orders from state or local officials. Near-entire sectors of workers have been sent home to shelter in place.

While the arrival of coronavirus is the precipitating event for this recession, it has also laid bare the cracks in the economy that will make it harder for many Americans to weather the storm.

Pandemic makes a new recession unavoidable.

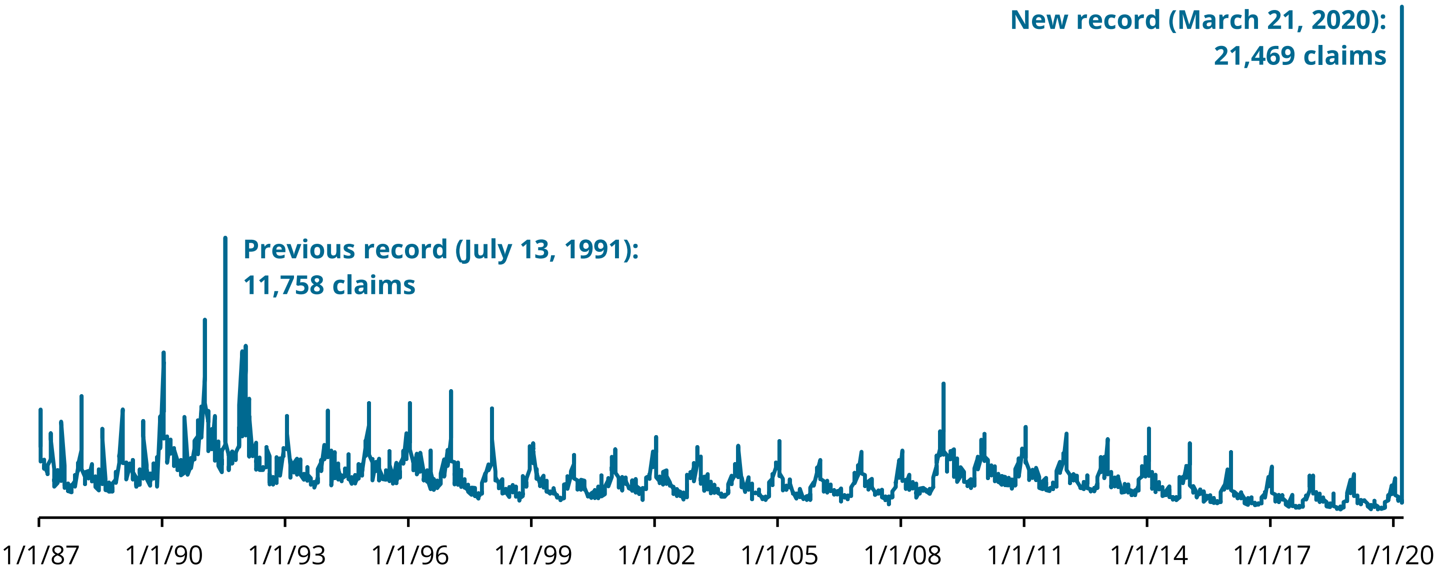
But the extent of harm to families and small business is up to policymakers.

Many Americans were already on shaky ground before the virus struck. Austerity budgets and wasteful tax cuts have weakened the public health infrastructure and the safety net. Insufficient worker protections and poor job quality have brought low wages and limited-to-nonexistent paid leave for large swaths of working Americans. The new recession will be more severe as a result.

But the length of the recovery and the amount of human suffering will be determined by the choices of lawmakers and administration officials at the state and federal level, and how well their policies support families and small businesses during an economic slowdown that's necessary to slow the virus and save lives.

While federal and state policymakers have enacted some emergency measures to protect Americans' health and livelihoods in the short term, bolder policy solutions are needed to limit the human toll of the pandemic and the coming recession. The best policy solutions also will create a more fair and resilient economy in the future.

Chart 1: Coronavirus outbreak spurs record one-week unemployment claims in Maine



Source: One-week unemployment claims, Maine Department of Labor.

Coronavirus puts squeeze on supply and demand alike

The coronavirus and the steps to contain it are causing shocks to both supply and demand, a recipe for a complex recession with no silver bullet for recovery.

On the supply side, public health measures reduce the supply of workers as Americans self-isolate, sick individuals are quarantined, and parents are pushed out of the workforce to care for children whose schools and daycare facilities are closed.

Efforts to break transmission chains have also broken global supply chains, as factories and ports have shut down to mitigate the spread of the virus.[1] A factory that may otherwise be able to operate might be unable to produce goods if they are relying on a part supplied from an area on lockdown.

Demand shocks are a natural result of sudden mass unemployment and social distancing, with sectors such as leisure, hospitality, and retail hit particularly hard.[2]

Consumer demand for most goods and services are declining, even in households where individuals still have jobs, because those individuals aren't able or willing to go out and spend money as they normally would. The immediate surge in grocery sales as families stock up on essentials is outweighed by decline in spending on live entertainment, theaters, tourism, hotels, eat-in restaurants, and other purchases — all of which is off the table for most consumers.

This recession will hit harder, faster than previous ones

Early signs show the speed and depth of the new recession to be unprecedented.

Recessions are typically defined by two consecutive quarters of negative GDP growth, but economists at large forecasting firms are already declaring a new US recession based on GDP forecasts.

Economists at JPMorgan are forecasting a 10 percent decline in GDP in the first quarter of 2020 and a 25 percent decline in the second quarter, even after considering the effects of the recently enacted $2 trillion federal stimulus bill.[3] Goldman Sachs estimates a 34 percent decline a for the April-June quarter.[4]

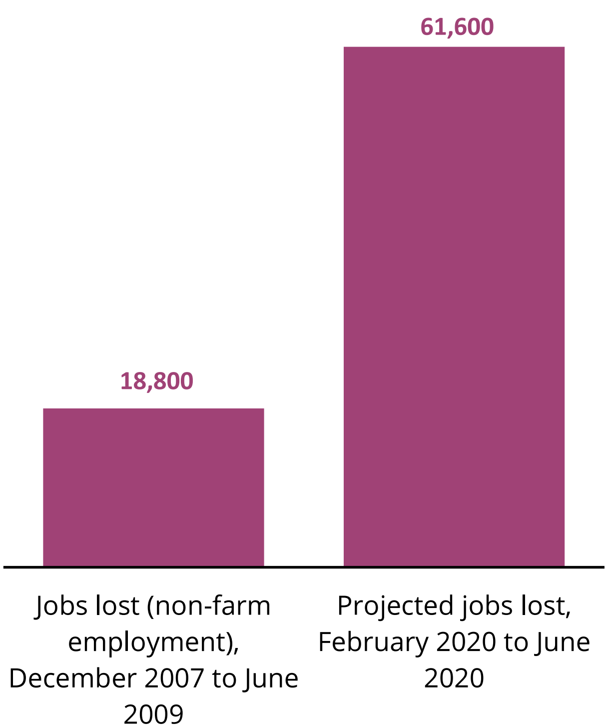
By comparison, the largest quarterly GDP drop in the Great Recession was 8.4 percent in the last quarter of 2008.[5]

A record-breaking spike in unemployment claims is also a signal that the nation has likely entered a new recession.

In the week ending March 21, nearly 21,500 Mainers filed for unemployment — an 82 percent increase over the prior record from July 1991, when all but a small number of state employees were laid off as a result of the state shutdown.[6] (See Chart 1, previous page.) Nationally, 3.3 million workers filed for unemployment insurance, similarly shattering previous records.[7] Unemployment claims are expected to continue coming in at high levels for the next several weeks.

Economists with the Economic Policy Institute estimate that the country will lose 14 million jobs by summer.[8] EPI also modeled state-level estimates, which indicate Maine will lose 61,600 jobs by the end of June.[9]

Chart 2: Maine jobs lost by June expected to more than triple Great Recession losses



Source: EPI analysis of Bureau of Labor Statistics Current Employment data; job loss data not seasonally adjusted.

These job loss numbers would dwarf job losses during the Great Recession, when Maine lost 18,800 jobs over the course of a year and a half.[10] The job loss figures for the new coronavirus recession are more than triple that over the course of just a few months.

Recession unavoidable, but economic disruption will save lives

If the new recession is unique because of the speed and severity with which it is arriving, it is also different than previous recessions because of its necessity.

During the pandemic, economically disruptive steps are necessary to ease the overloading of our health care system and lower the death rate of COVID-19 — ultimately, to save lives.

However, it's important not to imagine a false choice, wherein a recession could be avoided if public officials and ordinary Americans forgo dramatic steps to limit infection.

Evidence suggests that a recession was inevitable as a result of the pandemic, even absent social distancing, sheltering in place, and widespread closures and cancellations.

The difference between a scenario that includes containment measures and one that does not is the number of lives lost.

In a working paper published by the National Bureau of Economic Research, researchers modeled the economic impact of containment efforts, comparing those to a scenario in which no effort was made to limit the spread of coronavirus.[11]

When comparing health outcomes, the researchers found that in the model without containment, overloaded hospitals and increasingly scarce health care resources caused a spike in mortality rates.

On the economic side, they found that the deepest decreases in consumer spending and working hours were roughly equivalent in both scenarios, with and without containment measures. However, the containment scenario did lead to a longer recession.

It also saved half a million lives.

Insufficient policy response can exacerbate economic damage

Lessons can be learned from the policy response to the Great Recession. Stimulus packages in 2008 and 2009 helped the economy recover but did not go far enough. The recession lasted longer as a result.

Insufficient federal action and wrongheaded austerity politics at the state level resulted in painful cuts to programs and services. In Maine, that included a hollowing out of the very public health infrastructure necessary to fight epidemics.[12]

There are lessons to be learned from the policy response to the Great Recession.

Policymakers must prioritize health care spending and income supports to limit the economic damage to families.

The response by state and local government exacerbated the economic harm from the Great Recession. Across the country, state and local governments filled about three quarters of their budget gaps with spending cuts.[13] A conservative estimate shows those spending cuts directly reduced GDP by 0.7 percent in the third quarter of 2012, when per-capita spending was at its lowest.[14]

If federal and state policy had continued to bolster the economic recovery, jobs could have recovered faster. EPI research indicates that if the policy response to the Great Recession had looked more like the response to the recession in the early '80s, jobs would have returned to full employment around 2013.[15] Instead, the national economy didn't regain its pre-recession jobs levels until the summer of 2017,[16] with Maine one of the last states to fully recover.

Policy decisions in a recession can also further entrench economic inequality. Absent appropriate policy interventions to help low and middle income hosueholds recover, inequality gets worse. The wealthiest households are better equipped to recover from economic crashes because their savings provide a cushion to insulate them from harm during the downturn.

After the Great Recession, the average income of the wealthiest 5 percent of households was fully recovered in four years. By contrast, it took the middle-fifth of families nine years to return to their pre-recession average income. Meanwhile, the poorest families still hadn't recovered after 11 years.[17]

The policy response to the Great Recession fell short of what was needed at the time. But it also failed to fundamentally rebalance the equation for working families with low wages. Those families had to wait longer to fully recover as a result, and were more exposed to economic headwinds caused by the current pandemic.

This unique recession requires uniquely bold interventions

In a normal recession, the goal of policymakers is to increase consumer spending to get the economy growing again as quickly as possible. That won't work in the face of coronavirus, which punishes normal economic activity with greater transmission, infection, and death.

Federal and state policymakers must focus first on containing the spread of the virus. That requires providing families and small businesses with the financial resources necessary to comply with public health experts' recommendations to limit economic activity — to stay home as much as possible.

That means ensuring all families can afford health care, food, housing, and other essentials, even if their jobs are on hold and their children's schools are closed. It also means ensuring small businesses, which have lower cash reserves than large corporations, can afford to cover their expenses and avoid layoffs even as consumer demand shrivels.

Meeting these goals will require direct financial assistance to families and small businesses. Federal and state policymakers have already acted to meet these objectives.

Congress has enacted a record $2 trillion stimulus package that expands unemployment eligibility and benefits and sends direct stimulus payments to most households in the country. This follows previous legislation to create a first-in-history US paid leave program to ensure some continuity of income for workers at small and medium-size businesses who are out sick or on extended emergency medical leave.

While these policy developments move in the right direction, the end of the public health crisis is not yet in sight. More relief will be necessary as the coronavirus continues to spread and the economy heads deeper into recession.

The human toll from the dual crises of pandemic and recession will be determined by our federal and state policy response. If the solutions proposed fail to meet the moment, the suffering of families and our economy will likely be unprecedented.

But if leaders craft smart, bold, policy solutions designed to meet the unique needs of this moment, we can minimize harm to families and put our economy on secure footing for recovery.

About MECEP

The Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

About the author

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Endnotes

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