

January 1, 2021

The Economy in the New Year

It is January 1, 2021. To date, 355,361 Americans have died of COVID-19 (<https://www.worldometers.info/coronavirus/country/us/>). With a few days left in December, according to the [University of Minnesota](#), over 65,000 Americans had died in December. Several vaccines are now available. Although the “roll-out” has been slow, observers hope for large scale immunization to occur sometime within the next six to twelve months.

Your blogger’s partner has asked him what the economy will look like for 2021. Will things “snap back” to the heady growth that we enjoyed through most of the last decade?

Paul Krugman thinks “yes”. In a *New York Times* column [this morning](#), he writes that he expects “rapid growth once people feel safe going out and spending money.” He thinks that will be soon. He is also optimistic about the job-creating capabilities of new technologies, which he likens to the surge information technology in the early 1990s, leading to the productivity surge from 1995 to 2005.

Certainly there is a lot of savings waiting to be spent, so the potential demand is there. However, there is major uncertainty about the economy’s ability to absorb the spending. For example, many businesses have told their employees to continue working at home through June 2021. No major spending increases there.

Travel budgets and plans will almost certainly be on hold through 2021. YB has been invited to two weddings in the western United States in August/September 2021. If they occur, they will almost certainly be smaller, with fewer guests. YB and his partner have made hotel reservations (fully refundable), but no air travel plans.

Conventions and pleasure travel will also be curtailed. International travel will recover only slowly. Detroit residents used to go across to Windsor Canada for Chinese dinners. The fastest way to drive from Detroit to Boston is through Canada. Vacation plans for Canada, Europe, or anywhere across an ocean, will be very slow in 2021.

Moreover, although face-to-face contact remains essential for many activities, many have discovered that it is much less essential than we once thought. The Economics Association meetings used to function as a major labor market event, where eager graduate students met eager employers. The shift to Skype/Zoom had already started in the past couple of years before it hit the profession like a two-by-four “upside the head” this past year. For this next year’s meetings, even with a vaccinated population, there will still be demand to participate “from home”; this next year, and perhaps indefinitely.

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The term “almost certainly” jumps out at us. How safe are restaurants and bowling alleys? How do customers feel about being served by wait staff in masks and rubber gloves? How safe are large weddings? Will Jewish couples and their celebrants be able to “dance the hora” at their weddings? Probably some day, but *almost certainly* not in 2021.

Almost certainly there will be hiccups. Schools will reopen in the fall, and have to close down because of COVID-19 outbreaks. Office and retail facilities previously considered “safe” will have to be refitted at the costs of billions of dollars. Sports teams may be allowed bigger crowds, until new outbreaks occur.

The year 2021 will be a year of adjustment. It will be better than 2020, but a major resumption of pre-pandemic spending activities will *almost certainly* wait until 2022 and beyond.

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