

May 9, 2020

## Aggregate Demand Again

On March 23, your blogger wrote an entry “Forget the Great Recession - Think the Great Depression.” Regrettably it was prescient. Neil Irwin of the New York Times wrote (yesterday):

April 2020 — more technically, the period between the second week of March and the second week of April — was the worst month for American workers at least since the Great Depression and possibly in the history of the nation. (<https://www.nytimes.com/2020/05/08/upshot/virus-jobless-rate-demand-collapse.html>)

A recovery will depend on the revival of aggregate demand for goods and services in the economy. Millions of people have lost their jobs and their incomes. They are not paying rent, and they are buying less of everything. Almost no one is traveling, and just about all purchases of anything discretionary have dried up.

The “bounce back” in industries that serve large numbers of consumers will be slow. Looking in a mirror, your blogger traveled in Europe last year, went to symphony orchestra concerts, dined out occasionally (but well). Four years ago, he had his kitchen renovated. Opening up restaurants, permitting concerts, or lifting travel restrictions does NOT mean that people will start demanding them. Availability of “aggregate supply” does not mean that the “aggregate demand” will absorb it. Many (your blogger included) do not plan to go to group gatherings until the group is safe. Only a vaccine will provide this safety.

There is no good fix for the aggregate demand at the higher end of the wealth distribution, who for now may have endured only minor pay interruptions, and who may have seen retirement account values bounce back ... at least some. Even so these people must be convinced that they are safe. For those tens of millions at the lower end, it is essential to provide them with the purchasing power for what they need. The “one shot” stimulus payment of \$1,200 was inadequate and grudgingly distributed. At least one more, and probably two or three more are not only necessary, but essential.

Otherwise, forget the Great Recession ...

Allen C. Goodman  
Professor of Economics