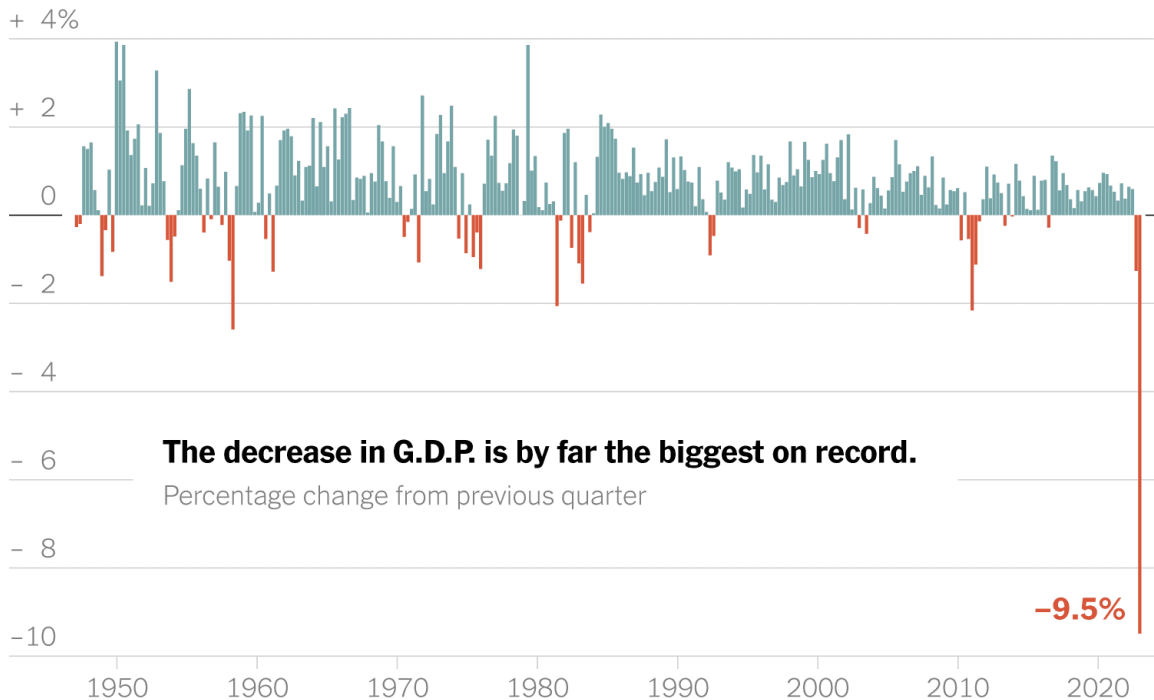


August 1, 2020

Forget the Great Recession

When your blogger started in March 2020, one of his first columns admonished readers not to think of the impending downturn as another “Great Recession.” He admonished the readers to think of major stimulus packages. In one he spoke of a stimulus of \$1,000 per month.

The following diagram comes from the July 30 New York Times. It shows a downturn in GDP that is unprecedented in the United States, at least since World War II. The United States is not unique. Western Europe had a drop that was at least as large.



Source: <https://static01.nyt.com/images/2020/07/30/us/gdp-2q-change-promo-1596113580367/gdp-2q-change-promo-1596113580367-threeByTwoMediumAt2X-v3.png?quality=75&auto=webp&disable=upscale>

This picture is a snapshot of something that happened a couple of months ago, and the third quarter may show an increase, because activities have reopened. It will almost certainly be trumpeted as a success, because we will have produced more than before. It will not be good, and 2020 will not be good... in fact it will be really bad.

YB has predicted that the economy would be slow to reopen – not because of recalcitrant governors, but because it is hard to reopen. Private businesses have not returned to full production, in part because they cannot control the coronavirus, and in part because the demand for their goods is not

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there. YB has already (several times) talked about the reopening of schools. There is almost no federal guidance, and only a little more state guidance.

This morning YB read about an Indiana school district that reopened and already had their first positive test for COVID-19. Major League Baseball will almost certainly shut down in the next couple of weeks because they cannot deal with the logistics of running their business during a pandemic. Can you really believe that the Miami Marlins “voted” to play even though two-thirds of them were infected – and their owners let them do it – Derek Jeter really is impervious to criticism. No one knows what will happen with college football.

What is to be done?

1. Congress MUST continue the Paycheck Protection Act (protecting employers) and re-up the CARES act (protecting employees). Not only do these acts allow businesses to stay open, but they support aggregate demand.
2. Recognize the CARES act for what it is – a long overdue increase in the federal minimum wage.
3. Impose a carbon tax on toxic COVID-19 emissions. Private markets do not generally handle “non-point-source” (we don’t know where it came from) pollution. We cannot depend (right now) on the “profit maximizing” goals of business to determine the right amount of output.
4. Provide another \$1,200 stimulus grant to households who need it. The targeting was roughly right before. Do it again!
5. Stop, or at least put a pause on, our trade wars. Our supply chain is seriously compromised, we are imposing additional costs, but reducing foreign input into our goods. Many economists point to the Smoot-Hawley tariff of 1930 as a prime contributor to the deepening and continuing of the Great Depression. Don't do it again!

There is still time to get things right, if the adults in the room can start acting like adults. Otherwise, forget the Great Recession ... think the Great Depression.

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