

Q&A: The unique recession amidst a global pandemic

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expect in the coming months.

The U.S. economy officially entered a [recession](#) in February as the viral pandemic started its sweep across the nation. That determination earlier this month by the National Bureau of Economic Research officially ended the longest economic expansion in American history.

Penn Today spoke with economists Francis Diebold and Jesús Fernández-Villaverde to learn about recessions, what makes this one unique, and what to expect in the coming months.

What exactly is a recession?

Fernández-Villaverde: A recession is a situation where the economy is producing fewer goods and services than under normal circumstances. So, it's not about, for example, asking why Mexico in 2020 is poorer than the U.S. in 2020. It's about why the U.S. in 2020 is going to be poorer than the U.S. in 2019 and trying to understand that.

Diebold: A recession is a period of negative growth in real economic activity, broadly observed across many indicators, including GDP, [personal income](#), industrial production, sales, various employment indicators like payroll, initial jobless claims, and so on. Accurate recession tracking requires blending those indicators to separate the "signal" from the "noise."

What is unusual about this recession?

Diebold: The speed with which it hit, and the intensity of the shock, were largely unprecedented. In just three weeks in late March and early April, initial jobless claims rose by roughly 15 million people. Fifteen million people. That's almost unfathomable. With near certainty the

pandemic recession will wind up being the deepest on record. Not the longest, but the deepest.

Fernández-Villaverde: Recessions that we have seen in the U.S. after World War II were usually demand recessions. Demand recession are situations where the demand of consumers for goods and services falls below normal, and then we don't produce the services. But this recession we are in is a supply-side recession. Basically, businesses cannot supply the goods and services because of the virus, and it was very sharp and very sudden. However, these types of supply-side recessions tend to be much easier to recover from.

Some experts say it could be brief? Is that realistic?

Diebold: Yes, actually. There's massive uncertainty, of course, but there's some evidence that the U.S. resumed positive growth by late May as the economy started reopening. If so, the pandemic recession would be the shortest in history. On the other hand, the U.S. has performed poorly (compared to the eurozone, say) in flattening the COVID curve, which might put a long-lasting drag on recovery.

It's not just the U.S. in a recession, but there's a global recession as well. As countries reopen for business and Europe reopens its borders will we see some relief?

Fernández-Villaverde: Economic activities coming back in Europe relatively fast is going to help, but it's not going to be a silver bullet for the U.S. At the end of the day, the main problem in the U.S. is that many economic activities are not feasible because of health restrictions. It's very difficult to produce. In addition, as the crisis continues a lot of households and firms are going to be very cautious with their decisions.

Things like hiring freezes will slow down the economy.

Once the health crisis is over, it will probably lead to a relatively fast recovery, but it's not going to happen overnight. It will take a few months, but that's why I think many economists think that if the health crisis is over in the next few months, the recovery in 2021 should be relatively fast.

Is there anything the average American should be doing differently now?

Fernández-Villaverde: The best we can do is to follow all the health recommendations because the faster we are able to control the virus, the faster we can come back to normality. Taking seriously social distancing and everything related with the control of the virus not only has an impact on your own personal health and on the health of the people that you contact, it also has an aggregate effect of controlling the damage in the economy and helping it recover as soon as possible.

Diebold: With respect to the COVID crisis and the ensuing economic crisis, it's important to remember that there's really no such thing as an "average American." There's a huge amount of heterogeneity, and it needs to be respected in a smart reopening. What's right for New Jersey isn't necessarily right for North Dakota. But I think the single most important prescription is universal: Eliminate/avoid "super-spreader" events—large gatherings of almost any kind. Unfortunately, super-spreader events tend to be fun events, like parties, concerts, weddings, and parades. Leave it to economists to argue for moving to a "no-fun economy," but it's the right prescription at present.

What can the government do to alleviate the pain from the recession?

Diebold: The federal government's response to COVID-19, which caused the recession and will continue to drive its progress, has been poor. At present we have a nearly complete leadership vacuum at the federal level, and that vacuum needs to be filled. The public needs to hear continuously: Avoid super-spreader events, wear masks, keep six feet apart, and trust science.

Fernández-Villaverde: The countries that have been doing very, very well are countries that are professional and politically independent. So, New Zealand and Denmark are countries that have made the most progress in really eliminating the virus. Their institutions are doing a great job at looking at the evidence and making decisions that make a huge difference. Nobody's perfect and, when you're making decisions in real time with limited information, sometimes you make mistakes. That's impossible to avoid. But when I look at the track record on what the [Centers for Disease Control and Prevention] has done, I see serious lack of judgment. The U.S. should also be able to run all the agencies in the same way.

What is your outlook for the next few months or years?

Fernández-Villaverde: The issue will be how good places like Texas, Arizona, and other states particularly in the West are able to control the epidemic. What people sometimes forget is that the U.S. economy is so large that it amounts to a continent. We have the situation where some states are not handling the epidemic well right now, as opposed to Pennsylvania and New York, for example, which, as far as we can tell given data as of today, are getting it under control.

So, because the East Coast, I think, has made more progress in controlling infections, I imagine that the second half of 2020 will be

relatively benign for areas east of the Mississippi. The West is going to have a harder time.

Diebold: There is a huge amount of uncertainty regarding how quickly and with what pattern we will emerge from the recession. But we will eventually emerge, GDP will eventually recover, and so on. Perhaps more interesting is how the "new normal" will look in terms of the composition of that GDP and the input mix used to produce it.

Provided by University of Pennsylvania

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