Transcript: Pandemic recession: How bad is it?

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Find the video here: https://youtu.be/YzVbG87hO08

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We're in a pandemic recession. How bad is it compared to downturns of the past? How long will it last? When will it be over and what will the world look like when it is over? To frame answers to these questions, we're going to look at the current downturn in historical perspective, comparing it to the Great Depression and the Great Recession and all of the economic downturns since World War II. Is this time different? The pandemic recession has had a faster employment drop compared to the Great Depression. It has had a deeper employment drop compared to the Great Recession. It has caused the greatest government economic stimulus since World War II, and we've had the fastest bounce back ever, but that bounce back has not been bouncing far enough, fast enough to get us to the bottom of the Great Recession. So the pandemic recession: How bad is it? And when will it be over?

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To measure our current economic situation against the past, I want you to have a picture in your mind. Imagine that this is a swimming pool.

(02:10):

And this swimmer is standing at the edge of the pool, getting ready to dive down under the water. And the level of the swimming pool water represents the peak employment prior to a downturn and the swimmer is the economy. And when the swimmer dives down underwater, it's like the economy is underwater. And at the bottom of the swimmer's dive is the bottom of the loss of jobs associated with the economic downturn. And eventually that swimmer rises back up to the surface. And when the economy, represented by this swimmer, breaks the surface, that economy is back to the peak employment that was being experienced just prior to the economy turning down. To exemplify this, let's begin with a recession profile. Here's the economy, and right here is peak employment prior to the downturn. So let's fill up this swimming pool, and here is the profile of the 1948 recession.

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And the economy followed that profile down until more than 5% of all jobs have been lost. And then the economy bounced back and it took 25 months for the economy to make it back to where it was in 1947 before the downturn. So this was a two year downturn that resulted at the bottom, a 5% loss in jobs. And here is that same story without the swimming pool analogy. This is the 1948 recession. This was peak employment at the beginning of the downturn. This was a path followed to the bottom of the downturn at 95% of all the jobs that were at the previous peak. And this is a pretty sharp bounce back back to go, back to the surface, back to the level of employment that the economy had prior to that downturn.

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Now let's go through all of the downturns and recoveries, or recessions, from World War II to the present. And as we go through them, we're going to look at some patterns and how those patterns change during different periods of the economy from World War II to now. So this is the 1948 recession, and this is the 1953 recession. And as you can see, they're shaped roughly the same way, a sharp downturn and a sharp recovery. And these kinds of downturns, economists have come to call V-shaped downturns. And the length of the 1953 recession was pretty much the same as the 1948 recession, about two years. And here's the 1957 recession. It is also a V-shaped recession, and it also lasted about the same time and had about the same depth of job losses as the previous two recessions. The 1960 recession begins to change shape of recessions in the sixties and seventies.

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They still retain the V shape, but they are shallower. The job loss wasn't around 4 or 5%, but around 3%. And then the 1974 recession also lost about 2-2.5% of all jobs, but it was shorter in length than the 1960 recession or all of the other sort of two-year long recessions prior to that, after World War II. And then in 1980, we had a very shallow and very short recession and taken together all of these recessions 1948, 1953, 1957, 1960, 1974, 1980, all of these had a V shape to them in that the downturn was abruptly sharp and the bounce back was abruptly sharp as well. However, something happened in 1981 that surprised everyone. And that was, there was a recession right after the previous recession. So the 1980s recession was short and pretty mild, this green downturn here, but the follow-up recession was back to fairly deep and was longer than any of the previous downturns since World War II. And that was very concerning at the time because the problems of a recession are associated both with its depth and with its length. And we'll talk about that more later. In 1990, we had a downturn and this downturn and the 2001 downturn had a different shape. They were not V-shaped, the downturns were not abrupt, they were slower and the recoveries were not quick. They were slower. The 1991, this brown line here, took two and a half years. And the 2001 took almost four years to get back to the level of employment that we had at the beginning of that downturn.

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So the shape of downturns went from the sharp, V-shaped recessions to a more mild downturn, but much longer downturns. So we started trading off depth for length and that ended up creating new kinds of problems. But in 2008, we got the worst of all worlds. In 2008, the downturn was sharp and the recovery was slow. So here we had the deepest downturn since World War II and the longest downturn since World War II, the economy turned down in early 2008, late 2007. And it only got back to the level of employment of 2007 in 2014. So this was a six-year downturn, and that really raises an issue about what are the problems that downturns create. And the answer is downturns can be deep and that's bad. They can be long and that's bad. And when they're deep and long, that's worse.

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In a moment, I'm going to talk about how deep downturns create problems and how long downturns create different kinds of problems and how deep and long downturns taken together double down on those problems.

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But first, let's review the downturns since 1981 to see what we're dealing with. And the 1981 downturn was deep. The 1990 downturn was long. The 2001 downturn was longer and the Great Recession was deep and long. And what do we have today? This is the pandemic recession.

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The fall in jobs was the most abrupt ever. It wasn't as deep as the Great Depression; the Great Depression lost about 25% of all jobs at the bottom. And the pandemic recession has lost about 15% of all jobs at the bottom. And the bounce back from the pandemic recession has been extraordinarily quick associated with the government stimulus that was implemented last spring.

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Now we already know how deep the pandemic recession has been. We have already seen that at the bottom. It was twice as deep is the Great Recession. What we don't know is how long this downturn is going to last and to get a feeling for that, I'm going to simplify this graph. So, we're only looking at the downturns since 1980. This dotted red line shows that at least in November, we're just a little bit below the job loss of the overall economy during the Great Recession, a job loss of 6%. And we're kind of experiencing a job loss at the moment of around 7%. And I'm going to do something very simple. I'm going to draw a line, but connect the bottom of job losses with where we are now. And then I'm going to take that line and I'm going to keep its direction and just see if we continue to recovery at the average rate of the recovery so far, how long it would take to get back up to the surface of the swimming pool to get back up to the job level of last January. And then I'm going to recognize that this speed of recovery was driven in large part by the mother of all stimulus, which was twice as big as the stimulus associated with the Great Recession and was roughly comparable to the kinds of stimulus associated with war production during World War II.

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And then I'm going to recognize that another stimulus of the same size may not be in the cards. And I've got a notice that the job recovery that we've been experiencing has begun to slow down. It was fastest here. It slowed down a little bit between here and now it's slowing down a little bit more. So I'm now going to change the angle of this arrow to match the slope of the recent period that reflects a slowdown in the recovery. And when I do that, the projected length of the recovery between go and now, between March and now I'm sorry, between March and the projected time when jobs will get back to where they were in February lengthens. So you can see that if we assume a recovery, the speed of which is the average speed between the bottom and now the projected length of the downturn is relatively short. But if we assume that the speed of the recovery is going to look more like the recent speed and not the speed from the bottom, then the length of the downturn kind of almost doubles. And then I'm going to make another assumption. And I'm going to say, well, it might be that the speed of the recovery won't even be that fast because there's a tendency when recoveries are deep and start to get prolonged that negative feedbacks enter into the economy. We'll talk about those in a little while. And those negative feedbacks will slow down the recovery. And if the downturn's recovery speed is the same rate of recovery as the Great Recession, so I'm now going to make this projected recovery line parallel this slope, then the recovery gets really, really protracted and we're in for a very long downturn.

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So it could be as short as a 14-month downturn. And we're already on the clock having pretty much used up about half or a little bit more than half of that time, or it could be as much as two years, or it could be as much as five years, depending on what's going on right now. Are we experiencing a rapid recovery like what we have just had? Is that recovering slowing down, or is that recovery likely to get locked into a series of negative feedbacks and really slowed down and looked like the prolonged recovery of the Great Recession?

(18:25):

I am a labor economist. And I've thought of trends in the labor market pretty much on a daily basis. And back in March where the pandemic recession got going, my stomach just got filled with butterflies and anxiety, like I had been in an elevator and somebody had cut the elevator cable. The loss of jobs was so rapid and seemingly so unending. It was terrifying, but then something happened back in the middle of May. That was totally unexpected all of a sudden, no, it wasn't an elevator cable that got cut. We were on a bungee cord and we've been thrown off a bridge. The economy was falling, but then we hit the elasticity of that bungee cord. And we started recovering almost as fast as we had been falling in the first place. And what made that downturn change from being a cut elevator cable to a bouncing back bungee cord was the most powerful stimulus from deficit spending from the federal government that we have seen since World War II.

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And that stimulus, it was associated with support to businesses, support to households, support to employers, uh, purchases directly by the government that just exploded across the economy starting to bring those jobs back. And there are essentially three scenarios to talk about when we think of this recovery as the bungee cord recession. The first scenario is the notion that we're going to be experiencing a bungee cord bounce back that'll take us back up to the level of jobs we had last January fairly quickly sometime next summer. And the reason for that are two: first of all, that stimulus was the mother of all stimulus, or at least the mother of all peace time stimulus. And it was very powerful and it has created pent-up demand. People have been hunkering down because of the pandemic. They haven't been going to restaurants.

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They haven't been going to sporting events. They haven't been going to theater and the stimulus has put enough money in enough people's pockets and brought back enough jobs that there is pent-up demand that once the pandemic recedes, because of a vaccine or because of social behavior and wearing a mask and social distancing, or just because the pandemic runs out of gas, whenever that happens, this pent-up demand will reinforce that powerful stimulus and bounce us back up. And that's the most optimistic scenario, the bungee cord bounce back scenario.

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But a more probable story is that the bungee cord is losing energy. There is political gridlock, so that there's not going to be any supplement to the original stimulus, or if there is a supplement it's going to be too small to really continue putting energy into that bungee cord. The pandemic itself is not going away anytime soon, and it's going to be constantly interfering with an economic recovery either because there is a necessity to create partial shutdown to the economy, to slow down the pandemic, or just because people are afraid of getting infected and they're not going to restaurants, and they're not going to movie theaters and they're not doing things would take you out into the public in sufficient numbers to continue to energize that bungee cord.

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And that also we're headed into a new world, that the advent of Zoom meetings and working from home and shifting from brick and mortar retail to online retail, all of these kinds of potential changes in the character of jobs that are out there has been sped up by this pandemic in ways that are going to require lots of people to make lots of adjustments to pick up on new skills, to find new areas of employment. And that just takes time. And that time is bleeding some of the energy out of that bungee cord and spoiling the recovery. And so, we're looking at getting back to the level of jobs of last January sometime in 2022. Now the third story is that the bungee cord is broken. And what that means is that when you have a downturn that is so deep and a recovery that begins to slow down, the depth and the length of that recovery initiates a set of negative feedbacks in the economy that eventually take over. People are not able to pay their rent or their mortgage. Evictions take over, people lose their jobs and they're not able to buy things.

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Businesses go out of business, declare bankruptcy and the loss of businesses, the loss of jobs, the loss of demand for goods and services set in a spiral or a negative feedback where they lead to other loss of jobs and other loss of businesses. And that then becomes relatively independent of the pandemic itself. So even if the pandemic goes away, these negative feedback loops in the economy don't go away or don't go away fast enough. So that it almost feels like not only are we not on a bungee cord that are bringing us right back up to the surface right away and we're not on a bungee cord that is bringing us back up, but in a slow and frustrating way, but the bungee cord actually broke. And the path to recovery is prolonged, protracted and difficult.

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Not that a recovery won't ever take place, but it won't take place anytime too soon, and we're looking at something like 2025. So here we are, confronted with three possible bungee cord futures in economic recovery: a quick and fast, a slow, but relatively steady and a slow and stumbling recovery. So, are we talking about next summer? Are we talking about 2022 or are we talking about 2025? Now I can't claim to know the answer to that. My suspicion is that we're looking at 2022, but there are smart people that have chosen any of these three potential scenarios. And so it's an open question. What I can do for you is to lay out the parameters of we're seeing in front of us. It could be quick, it could be slow, it could be protracted and you've gotta be ready for those possibilities. So we're in a horse race, a horse race between pent-up demand that is driving the economy forward and negative feedback loops that are slowing the recovery down. And I can't tell you which of these horses is going to win.

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So I don't know how fast this recovery is going to come, but I do know that we're not headed to yesterday. We're headed to a new tomorrow. We're more likely to have a quicker recovery if there are solid fiscal and monetary policies practiced by the government that are well-targeted, well-timed, globally coordinated and of sufficient size. We're more likely to recover more quickly if there is a syncopated global recovery where local expansions in Europe and in Asia and in North America reinforce each other and where the pandemic fades everywhere. Our recovery is more likely to be protracted if the pandemic persists, if it keeps creating a stop start, stop recovery, if there is global decoupling that forces time-consuming structural changes in supply chains and business organization.

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And if the pandemic downturn segues into a financial crisis, which is always possible, and that businesses and households get locked into a set of negatively reinforcing bankruptcies, if there's a divergence from the financial and real economy that creates a bubble that pops, any of those financial problems could also make the recovery protracted and slow.

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Is a successful vaccine a magic bullet? There certainly are promising vaccines that are on the horizon. And certainly they're going to help. Obviously there's going to be problems with distributing the vaccine and getting sufficient numbers of people willing to take the vaccine, but however helpful and successful those vaccines are, change has already been baked in to the economy based on this downturn and the way it has changed people's habits and practices. Face to face jobs are changing and will change. Work at home has expanded and will expand more. There will be more telemedicine, more teleconferencing, more takeout food, more telemarketing, more telecommuting, less brick and mortar retail, less commercial offices, more outdoor tourism, less indoor tourism and a whole host of other changes that can be listed or imagined that we are going towards a new normal and not an old normal. And the question is, if your life has been shaken by this downturn, and if you are facing potential changes in your life, how do you handle that?

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One of the best things that Muhammad Ali ever said was, when he described his success in the boxing ring, is that he floated like a butterfly and he stung like a bee. And that might be your motto for facing the potential challenges and changes that this downturn has and will create. You need to educate yourself so you can see the things that are coming and the things that are coming at you and the things that are coming for you and the things that are changing with you. You need to get skills that open you up and not lock you in. Those are the kinds of skills that provide a diversity of capabilities so that you can do a wide range of things well, but most important, you need to channel your creativity and your passion into areas that reinforce your sense of wellbeing. You cannot compete in this economy if you're dragging yourself down with what you're trying to do. So choose paths that keep wind in your sails, keeps enthusiasm in your heart and keeps getting you up in the morning, willing and ready to take on the day. So float like a butterfly and sting like a bee, that's a formula for success in any kind of fight, including the fight that has been created and forced on us by this pandemic and its subsequent economic downturn.