PANEL ON COVID-19

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MACROECONOMIC EFFECTS OF THE PANDEMIC

➤ Guerrieri, Lorenzoni, Straub, Werning (2020):

\[ \text{pandemic} = \text{asymmetric shock to high-contact intensive sectors} \]

➤ A pandemic can be a Keynesian supply shock = propagates to other sectors through demand shortages

➤ Two key ingredients:

1. complementarities across sectors (through preferences or input-output linkages)
2. incomplete markets

Short run: deep recession
Medium run: recovery
Long run: after pandemic
THREE SOURCES OF SCARRING EFFECTS

1. Households’ balance sheets
2. Job destruction
3. Business exit
HOUSEHOLDS’ BALANCE SHEETS

➤ Key question: how much of the shortages in demand are due to sectoral complementarities and how much to incomplete markets?

➤ If incomplete markets effects are strong, rich households end up doing more precautionary savings and poor households increase their debt

➤ When the recovery starts, the poor with high MPC won’t be able to catch up quickly with demand...

➤ **Targeted transfers** can help both dampening the demand shortage and speeding up the recovery by reducing debt accumulation of poor households!

➤ **Forbearance** avoids loss of borrowing capacity for consumers

➤ CARES Act includes both and seems to have worked well so far...
A. Seasonally Adjusted Spending Changes by Income Quartile

Chetty, Friedman, Hendren, Stepner, Opportunity Insights Team (2000)
CHECKING ACCOUNT BALANCES

This figure plots both average dollar balances and year-on-year percentage change in checking account balances by income quartile. Balance increases are larger in dollar terms for high-income households (who have higher pre-COVID balances), and in percent terms for low-income households (who have lower pre-COVID balances).

This increase in savings for the poor very likely reflects the fact that stimulus checks and expanded UI benefits provide a disproportionate increase in income for these households. This also means that this shift may reverse in the near future if stimulus is reduced; indeed, savings for low-income households are already trending back towards normal levels in the 6 weeks after EIP payments.

The magnitude of the additional spending drop induced by initial disease avoidance and social distancing restrictions may also dominate the consumption response caused solely by income loss. This could lead to an increase in savings, even for those experiencing job loss, but it might again not continue as social distancing is relaxed.

Appendix Figure A.1 decomposes checking account balances into inflows and outflows. These results suggest that for the highest income quartile, increases in account balances are primarily driven by declines in spending, while for the lowest income quartiles, increases in account balances are primarily driven by increases in income.

Finally, Figure 15 shows liquid balance growth by industry of employment. While increases are again pervasive, we find that grocery store and department store workers have the largest growth in checking account balances. This is directly in line with checking account growth by income, since these...
LABOR HOARDING TO PRESERVE JOB MATCHES

➤ Another drag for the recovery are the potential losses from job destructions

➤ Labor hoarding iff

\[-w + \frac{1}{R} V_1 \geq 0\]

➤ Incentivize labor hoarding may help both with social insurance and with a faster recovery!

➤ Examples of policies in this direction: Kurzarbeit, Cassa Integrazione, PPP, Main Street Lending

➤ Possible negative effect: slow down structural transformation...
BUSINESS EXIT CASCADES AND DYNAMICS

Demand locus

Firm exit locus

Consumption

Number of firms
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