Thinking about the COVID-19 Recession

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Civic Caucus

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• Pictures
• Words
• Numbers
A helpful labor force flowchart

Civilian noninstitutional population

- Labor force
  - Employed
  - Unemployed
- Not in the labor force
Labor Participation and Employment
(percentage of the population)
March 1981 through May 2020
A helpful labor force flowchart

Civilian noninstitutional population

Labor force

Not in the labor force

Employed

Unemployed
A Typical Recession

Shock → Fall in spending by households and businesses → Decrease in employment

Shock → Decrease in employment
A Typical Recession – Policy response

- Increase in spending by households and businesses
- Federal Reserve reduces interest rates
- Increase in employment
Pandemic Recession

Shock → Decrease in employment → Fall in spending by households and businesses

Shock → Decrease in employment → Fall in spending by households and businesses → Shock
Pandemic Recession – Policy Response?

Shock

Decrease in employment

Increase in spending by households and businesses

Federal Reserve reduces interest rates
Fiscal policy

• Direct support for businesses
• Direct support for households
• Direct support for state and local governments
Fiscal policy

• Borrow from the future
• 2% growth ➔ Income per person doubles in 35 years
• Take a bit of that future output and use it today.