PANEL ON COVID-19

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MACROECONOMIC EFFECTS OF THE PANDEMIC

Short run: *deep recession*

Medium run: *recovery*

Long run: *after pandemic*

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

  pandemic = 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

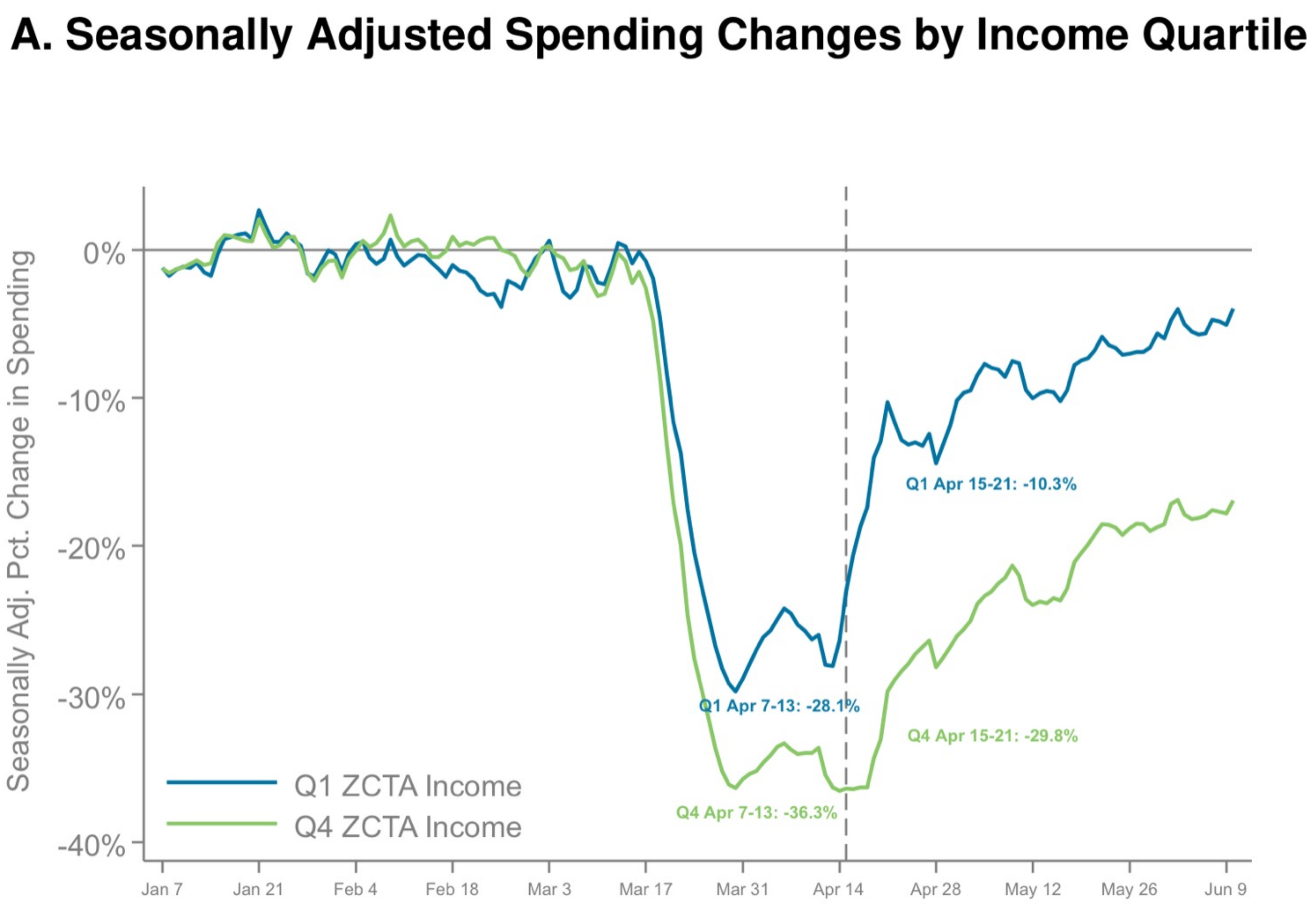
THREE SOURCES OF SCARRING EFFECTS

1. Households' balance sheets
2. Job destruction
3. Business exit

HOUSEHOLDS' BALANCE SHEETS

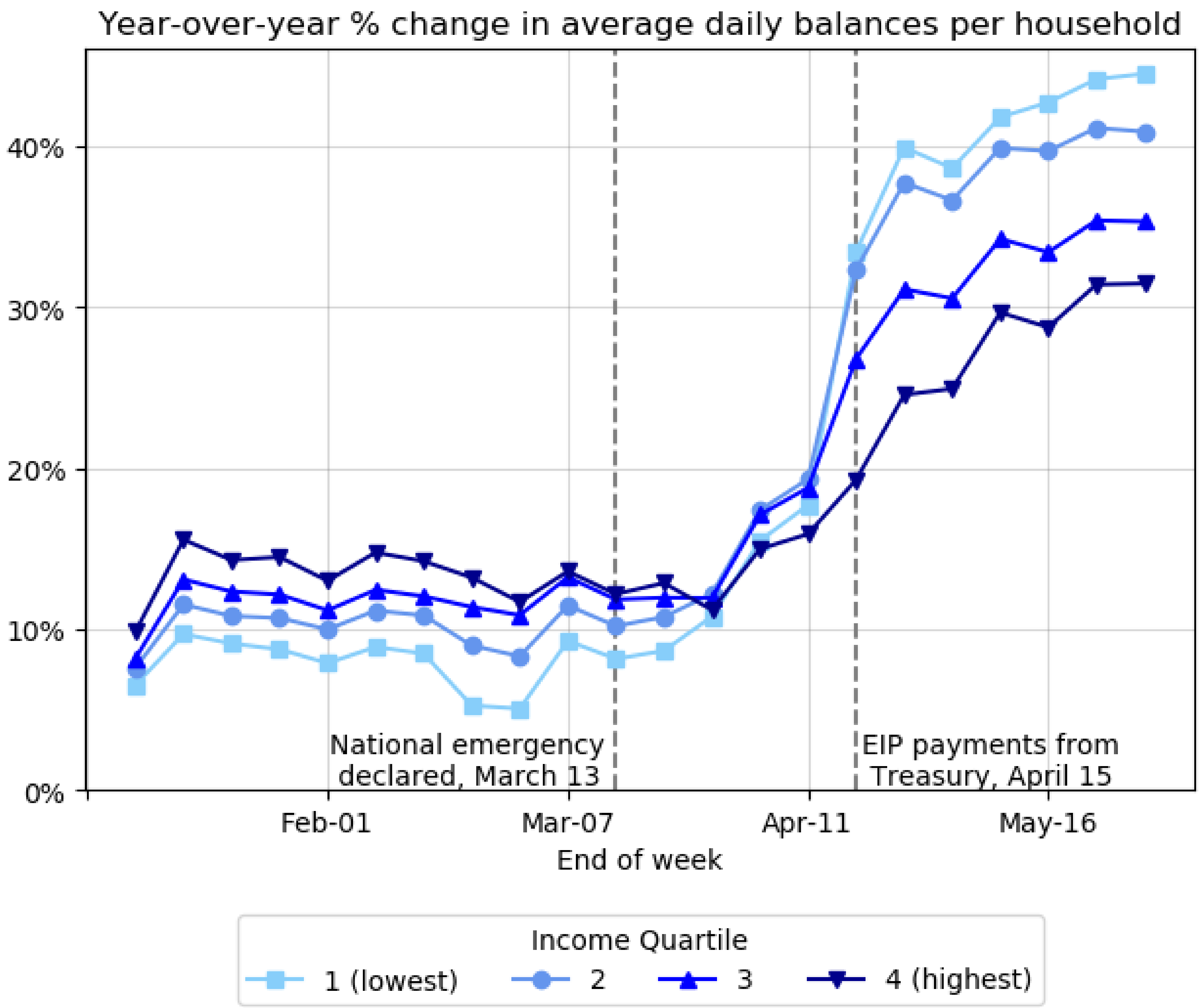
- Key question: how much of the shortages in demand are due to sectoral complementarities and how much to incomplete markets?
- If incomplete markets effects are strong, rich households end up doing more precautionary savings and poor households increase their debt
- When the recovery starts, the poor 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…

SOCIAL INSURANCE AT WORK



Chetty, Friedman, Hendren, Stepner, Opportunity Insights Team (2000)

CHECKING ACCOUNT BALANCES



Cox, Farrell, Ganong, Grieg, Noel, Vavra, Wong (2020)

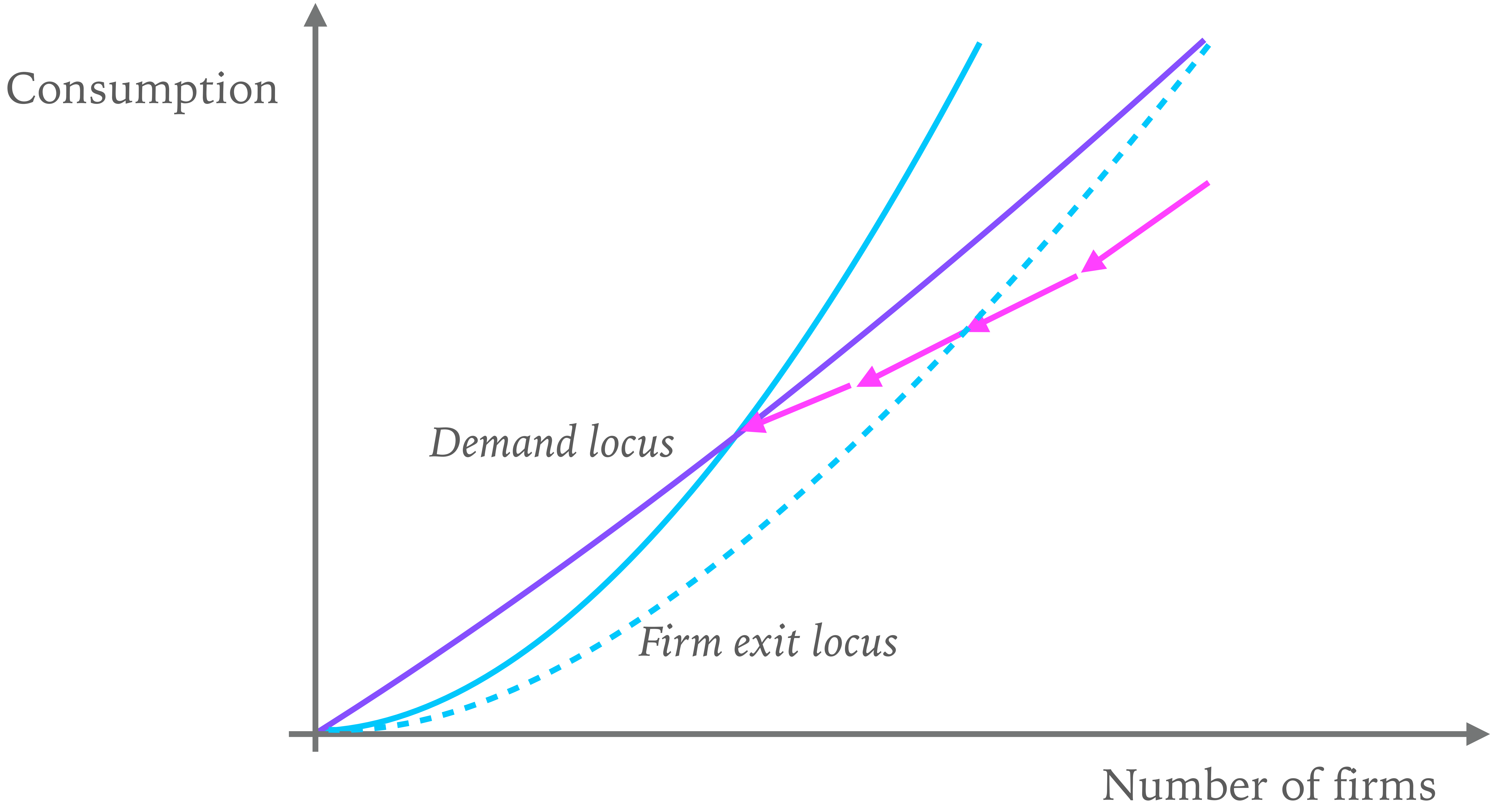
LABOR HOARDING TO PRESERVE JOB MATCHES

- 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



BUSINESS EXIT CASCADES AND DYNAMICS