

*Matthew Fienup & Dan Hamilton*

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We do not envy decision makers in local, state, and federal government. They have exceedingly difficult decisions to make, under extreme pressure, with human lives literally hanging in the balance. At the same time, the suspension of economic activity that has resulted from social distancing and shelter-in-place orders issued by these decision makers is simply breathtaking. The costs imposed by government-mandated closures fall overwhelmingly on the economically vulnerable among us – in particular, hourly workers and families living paycheck to paycheck.

Given the uncertainty about the trajectory of disease transmission and the policy responses to it, California Lutheran University's Center for Economic Research & Forecasting (CERF) has developed a range of forecast scenarios, including a baseline forecast as well as optimistic and pessimistic scenarios. It may surprise readers to learn that the primary driver of our forecast and the various scenarios is not the rate of disease transmission, directly. The primary driver is how long shelter-in-place orders last. If they last long enough to drive a large number of small businesses into insolvency, then we are in store for a very deep recession, one considerably more severe than the Great Recession. We encourage readers to visit our [March 20 Coronavirus Update](#) for a detailed discussion of these forecast scenarios.

We have also thought long and hard about the potential fiscal and monetary responses and their impacts. We conclude that the government cannot prevent recession at this point. In fact, the government can do little to reduce the severity and the length of the recession but can do much to prolong it.

Fiscal and monetary policy were already on a crisis footing. Policy makers failed to unwind extraordinary interventions undertaken during the last crisis, including ultra-low interest rates, interest on reserves paid to commercial banks, quantitative easing, and trillion dollar budget deficits. The federal government has already exhausted conventional tools, and we are still early in this crisis. We shudder to think what unprecedented, poorly-understood, and impossible to unwind interventions policy-makers will try next.

In addition, the government seems to be fighting the last crisis, not the one in front of us. The Great Recession saw massive personal mortgage defaults which drove a collapse of consumer demand. We are currently experiencing a collapse of supply, as countless small businesses are shuttered as a result of social distancing and shelter-in-place orders. This supply shock threatens to precipitate a small business default crisis.

Cutting a government check to every American will not prevent the widespread collapse of small businesses that will happen if shelter-in-place orders are still active in 6-8 weeks. After that, workers will not have jobs to return to once the spread of the disease has

slowed. Putting money in people's hands will also not help if many of the businesses where people usually spend money are shuttered.

Policy makers are not doing enough to address the plight of small businesses confronted with government-mandated closures. As a result, policy makers are threatening to impose severe and long lasting impacts on economically vulnerable people in our communities. If shelter-in-place orders last long enough to drive a large number of small businesses into insolvency, then we are in store for a very deep recession, one considerably more severe than the so-called Great Recession. Given the plight of hourly workers and lower-income families under this scenario, we may even experience what can rightly be called a Depression.