The Business and Economic Impacts of COVID-19

Kenan Institute of Private Enterprise and UNC Kenan-Flagler Business School Press Briefing Transcript

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The COVID-19 pandemic is spurring a host of grim projections: more than a million hospital beds potentially needed for patients in the U.S., world financial markets down by nearly 30 percent, countless small businesses folding and service industry workers left jobless.

To help separate fact from fiction and legitimate concern from panic, the Kenan Institute of Private Enterprise and UNC Kenan-Flagler Business School convened six top faculty researchers to discuss the likely effects of the pandemic on business and the economy. This is the transcript of that conversation.

Perspective On: Hospitals and Healthcare

Brad Staats, Faculty Director, Center for the Business of Health; Professor of Operations, UNC Kenan-Flagler Business School, on the ramifications for hospitals and healthcare:

Today I want to talk a little bit about the business impact on hospitals of COVID-19. We know the kind of reports of stresses on the U.S. healthcare system already, and as we look at critical resources, in particular things like beds and intensive care units and ventilators, there's concerns about whether we're going to have enough as the epidemic grows, assuming it follows similar paths to what has taken place in Western Europe and in China. Just in the U.S., estimates of ventilators necessary for respiratory diseases like this are around 160,000. For total hospital beds, around a million. For ICU beds around 100,000. And unfortunately we're likely to need far more than this even in a moderate pandemic.

But in particular I want to focus on not just the operational implications, but also the financial implications as we think about hospitals. These are businesses that function often with single-digit profit margins, close to 2% for our nonprofit hospitals, and when we look at COVID-19, it's likely to have some very significant impact on hospital finances. There are both revenue implications and costs.

We start on the revenue side. First, there's simply the cost of caring for COVID-19 patients. There are immense uncertainties right now as we look at that. So the revenue will come in, but exactly how much is an open debate. What will Medicare end up paying for from the federal side? In addition, there's likely to be significant uncompensated care – folks who come in either lacking insurance or underinsured and consuming significant resources appropriately, but that revenue gap then is lacking.

In addition, a big concern for hospitals is that the U.S. surgeon general has recommended hospitals stop elective procedures. This is understandable. Delaying non-urgent procedures if it keeps patients and staff safe, freeing up potential needed capacity. However, the issue is that elected procedures are often what pay the bills at hospitals. McKinsey analysis found that elective care only made up about a quarter of revenue but around 75% of operating profit.

And so what that means is taking away that operating profit is likely to push hospitals into the red, into losses. In addition, on the cost side, there's some really significant implications. There's this need for new equipment as one thinks about ventilators and other products. But that's, of course, only if they can get it. In addition, there's a surge in volume. So a need to cover the staff that is going to be required often working overtime and significant overtime. And then finally given the infection rate of coronavirus, hospitals likely to be paying staff on quarantine. And so often paying twice for the one kind of doctor or provider role that's in the hospital.

And so when we look at all of this implication, it means that there's significant pressure for hospitals, likely to result in meaningful losses. This is particularly concerning for rural hospitals. Our colleagues at the Sheps Center for Health Services have shown that over 70 rural hospitals have closed in the last decade, almost 700 are vulnerable and at risk of closure. As so the worry is the strain this puts on the healthcare system. It has a chance to continue to negatively impact the care and the structure of the overall system.

I guess the final positive note I'll end on is there is the potential, given all of this change, given the potential shortage that we could see, kind of some speeding up of innovation. Things like hospital at home, where at the moment regulatory needs have prevented widespread use, but we may have to grow more creative.

So with that I'd love to hand over to my colleague at Jim Johnson to talk about the impact of the COVID-19 on individuals.

Perspective On: The Working Poor

Jim Johnson, Director, Urban Investment Strategies Center; William R. Kenan Jr. Distinguished Professor of Strategy and Entrepreneurship, UNC Kenan-Flagler Business School

The coronavirus pandemic is particularly problematic for the nation's working poor, especially those with school aged children, who face the double whammy of lost earnings due to business shutdowns and heightened food insecurity from mandatory school closings. The working poor includes not only the millions of hospitality workers whose jobs have disappeared, but also a host of public sector workers whose full-time jobs do not pay them enough to live an above-poverty-level existence.

These are the people, civil servants, whose jobs are to protect public health and safety in our communities and educate our children. They include police, fire and other emergency personnel, as well as other civil servants, including most notably public school teachers. Because their full-time jobs do not pay a living wage, some are homeless and most moonlight in part-time jobs, in some instances in more than one, in the various sectors of the economy where business shutdowns are occurring due to the coronavirus pandemic.

Making matters worse, a significant number of the working poor live in multigenerational households and have caregiving responsibilities, either for their own children or some other family member that is typically an older parent or grandparent. Food insecurity was already a problem prior to the coronavirus pandemic, which is now magnified as school closings have left their children without the benefit of school-based nutrition programs, and the strain that the pandemic has imposed on food banks and other community-based nutrition programs makes it difficult for older adult family members to receive the daily nutrition that they need to provide. Moreover, the children potentially can be infected but asymptomatic.

For the working poor, the pandemic introduces challenges that are not only financial, they are also social and psychological. But those who are fortunate enough to still be gainfully employed, role strain or role conflict may be a major problem, especially for those whose job requires direct interaction with the public. The emotional toll of simultaneously trying to do that job and look after the wellbeing of their own families can be enormously stressful and in some instances debilitating. Not to mention their fear of exposure to the coronavirus. A scary proposition says 70% of low wage workers do not receive paid sick leave, and many do not have the option to take unpaid sick leave.

To be sure, many governmental and private sector efforts are underway to address these issues, but if there ever was a time for our nation's business schools to step up to the plate, the time is now. We can contribute in two ways. We teach our students that three things matter in the world of business today. Speed, agility and flexibility. The coronavirus pandemic affords us the unique opportunity to leverage the enormous talents that exist in our faculties and students to develop both businesses and social purpose ventures aimed at addressing a host of economic social welfare challenges that we now face as a state, as a nation and as a global community.

We also are strategically positioned to issue, if you will, a call to action for business leaders, encouraging them to extend their leadership skills to benefit society at this critical time in our history. This is the kind of leadership young people expect and we all need today. Thanks very much.

Perspective On: Global Economic and Financial Markets

Christian Lundblad, Director of Research, Kenan Institute of Private Enterprise; Levin Distinguished Professor of Finance and Associate Dean of the Ph.D. Program, UNC Kenan-Flagler Business School

Let's be perfectly frank. I mean, there's no point in really beating around the bush. What we're witnessing is a very painful – what is and then, frankly, will be – a very painful decline in U.S. and global economic activity.

Some aspects of this crisis are necessarily temporary, given the unusual nature of this health shock. But we're almost certainly going to enter a global recession, and probably experience a really deep cut in second-quarter GDP. Early data from China also suggests significant declines in economic activity. And I don't really expect any difference for the affected areas of the European Union.

So in light of all of this, what can policymakers do? And the reality is, there's some things that we've just got to confront in the spirit of appreciating the magnitude. So number one is, monetary policy efforts are just going to be necessarily limited in their effectiveness. The Fed has already fully returned us to the aggressive medicine of the financial crisis. Other central banks around the world are moving in a similar fashion. These are probably necessary, but the reality is, central banks really don't have exactly the right tools for this unique job. It's no fault of theirs. It's just an entirely different animal that we're talking about. And, in fact, it's even weirder than that really. The social containment that is required to address this health crisis, it's necessarily slowing down human – and hence economic – activity.

So, in some sense, it's almost like a reduction in GDP is required. Now, that having been said, despite this slowing medicine, there is a role for fiscal policy. A massive federal bailout of our economy is required. That's unambiguous. It's not about left or right. It's not about fiscal conservatives or Green New Dealers; the time for those arguments is later. Right now, we've got to think deeply about how best to keep severely impacted businesses and households afloat. The reality is, many Americans, as Jim was pointing out, don't have the ability to be at home without a paycheck. An extended quarantine, interacted with things like food insecurity and other vulnerabilities that he articulated, risks semi-permanently dislocating components of our society.

Just think about the fact that the general service sector, this employs millions of American hourly workers. They're facing exactly these risks. They're increasingly closed for business. So one thing we can do is, and it has been proposed, is just send a significant check right now to every American making less than some reasonable amount. We can argue about what that amount should be, but this is exactly what fiscal policy is for. Other industries, they also need help. I mean small businesses, the often-heralded backbone of our economy. It's very vulnerable, the dislocation. They need working capital, as an example. And the touch point is there to their employees and the subsequent transmission of economic challenges, so to speak.

The transport industry. It's another hard-hit example. It's employing hundreds of thousands of Americans. The longer this persists, this industry and its employees are also in serious danger. Just to be clear, the shocks aren't usual. It's what we as economists call exotic, meaning it's properly external to the economy and hence it's not permanent, and it will run its course. But there are these deeper vulnerabilities in society. There's certain industries, certain households and they can engender what we would call, sort of, negative multiplier effects. They can amplify the economic impact of this virus.

So we need to avoid seeing industries pushed into irreversible negative trajectories, and hence creating a lot of collateral damage, by employing very targeted support. And in normal times, let's be perfectly honest with ourselves, our government has no problem borrowing endlessly for a host of questionable activities. Here's an undeniably important endeavor. We need to do it.

Now to be clear, regardless of the decisions we make, general economic uncertainty is not going away and financial market volatility is here to stay for a while. That's going to be the topic of conversation for my colleague Greg Brown in just a moment. And this is going to get worse before it gets better.

However, while the cut will be deep and the opportunities for amplification quite real, this will pass. We're going to get through this, and, in fact, we control some of the aspects of the rate at which it can get better. And I have sort of one last appeal, if you'll indulge me just for a moment. I'll conclude with a little bit of a different perspective.

I would like this to be an opportunity for us to kind of turn this catastrophe into a chance, maybe an extraordinary one, to begin to knit our society back together. This is our time to step up. History is calling upon us to make a positive contribution to our families and our communities, our country and the world, for that matter. It's not about left or right as I've mentioned. In fact, I would even say this kind of caustic intergenerational divide that we've been witnessing, particularly in this election cycle, also requires a very specific pause.

Rather than being cynical, speaking to the older folks, trust the authenticity of our younger generations. Trust their ability to deliver here. I mean, they're your legacy and they can do this. And then to the younger folks, history is disproportionately calling upon you here. I mean you who passionately express a desire to affect change and make a difference. Here it is. This is your time.

Not only do our most vulnerable need you to help contain the spread right now, but if this does indeed become catastrophic, you will be called upon to lead, to step up while the older and more vulnerable folks are in deep distress, and those are your compatriots and those are your loved ones. So this is an opportunity, perhaps, to change the popular internet meme of "Okay, boomer," into something a little bit more reflective of our current challenge, and I think that is, "Okay, boomer, how can I help?" Thank you.

Perspective On: Personal Finances and Retirement Portfolios

Greg Brown, Executive Director, Kenan Institute of Private Enterprise; Sarah Graham Kenan Distinguished Professor of Finance, UNC Kenan-Flagler Business School

Obviously, what's happening with the human tragedy right now is the most important aspect of the crisis, but I think there are important, real ramifications for what's been happening in financial markets as well.

I just want to give a very quick recap of what's been happening in financial markets, and then think about what the implication is for a typical household. So, we know yesterday was one of the very worst days in stock markets, ever. If we look at cumulative returns in the U.S. market, it's down about 25% year-to-date. Things are improving a little bit today, but we know that it's been huge ups and downs for the last couple of weeks. European markets had been off a little bit more, down about 35% year-to-date. And surprisingly, Asian markets have not been as hard hit, only down about 20% overall. The world markets as a whole have been down about 28%.

Now, in contrast, there's been a big flight to quality, as people have sought out safe havens in financial markets. That typically means bonds. There's been a huge rally in U.S. treasury bonds and other high quality, typically government-backed, bonds.

But on the flip side, a big part of the bond market in the U.S. is mortgage-backed bonds and corporate bonds, which have not fared as well. So overall, the bond market is up, but it's just up a little bit, up about 1% year-to-date. So, if we think about a typical investor that might have a portfolio that's 60% stocks and 40% bonds, they would be down about 15% year-to-date.

So, why is this important to talk about right now? I think it's very important to think about what's happening in financial markets, because now more than ever, individuals are responsible for their own retirement savings through defined contribution plans. The days of government pension funds and defined benefit plans have waned. A relatively small percentage of the population is now part of a corporate- or public sector-defined benefit plan.

This is a really big responsibility for people, because most folks don't have investment expertise on their own and only access to very limited expertise through their employer or through commercial providers. So, the sudden decline in market here is a big risk for people, because some people panic – and panicking right now runs the risk of selling at the bottom. We saw quite a few households do this in the 2008 and 2009 market decline, as well as after the dotcom bust in the 2000-2002 era.

And then what happened, as markets stabilized and people saw markets going back up, they got back into the market and set themselves up for the next downturn. So people's fear and their instincts can really hurt their retirement prospects. So I just want to talk very briefly about what it is people should be doing.

First of all, people should have a good feel for what their risk tolerance is. It's maybe too late to deal with that in the current situation. But hopefully people have some notion for the amount of risk they should be taking. A commonly used rule of thumb is that someone should be allocating about 100(%) minus their age. So, for example, a 40-year-old should be allocating about 100 minus 40, or 60%, of their assets to risky things like stocks. And then the other 40%, say, to bonds.

So regardless of whether this is exactly the right rule for you, investors really should not be taking more risks than they can tolerate when the market takes a dive. And what do we mean by a dive? We're poised right now for the market taking a dive by historical norms. We can think of a peak-to-trough decline in markets of around 50%, so having a stock market value is a dive. And while that sounds like a lot, we've had two instances in the last 20 years – both the dot-com bubble bursting and the financial crisis – where stocks had been down 50%. So, as a practical matter, I think people should only be allocating as much to risky assets as they're willing to tolerate if they go down by 50%.

So, to go back to our 40-year-old person. Hopefully they've started the year with a portfolio that was 60% stocks and 40% bonds. Well, with the market decline, they're now only 53% stocks, so in some sense they're actually underweight in the target allocation. Ideally, they would have the courage at some point in the near future to sell some of their bonds, which have appreciated slightly, and buy stocks to get back to that 60% target.

Now, of course, this is a very scary thing to do. And it's also the case that things could get worse before they get better; the market could go down another 25%. So it isn't that investors should be trying to time the market. It isn't that they need to be looking at the market every day, or every week, or even every month. But I think they should get comfortable with the idea that it's okay to rebalance each quarter, or a couple times over the year, and most importantly not panic. So they should be thinking, "Okay, right now with the market decline, I don't want to be selling stocks. I want to be thinking about buying stocks so that inevitably when the recovery does come, I'm well positioned to benefit from that."

And the empirical evidence suggests that this is good advice, this actually works – that when markets are dislocated like they are right now, when there is a very negative sentiment about what's going to happen to financial assets, then future returns are actually higher than average. This could be fair compensation for taking on additional risk, or it could be that markets tend to get oversold as people get very pessimistic, unduly pessimistic, about what the long-term prospects are for returns of financial assets.

Perspective On: Business Infrastructure and Procedures

Lauren Lu, Professor of Operations and Edward M. O'Herron Scholar, UNC Kenan-Flagler Business School

I'm going to take the perspective of individual businesses and pretty clearly talk about the implications of this pandemic on companies' supply chain management.

For most businesses, the coronavirus pandemic is unprecedented in terms of the scale of the threat to their employees, customers and suppliers. The situation is evolving quickly. And there is a great deal of uncertainty in the next few months, as the full impact of the pandemic on the world economy is taking shape. As the situation unfolds, companies around the world need to act quickly to develop an action plan in response to the crisis. First and foremost, the coronavirus pandemic is a humanitarian crisis; worker safety is the priority of all employers. Making arrangements to enable employees to work remotely, adopting technologies to ensure efficient collaboration, or temporary shutdown of facilities, would give workers the option to perform their jobs and protect their own safety and health.

Beyond these worker protection measures, businesses need to maintain essential activities, in order to not only survive the crisis financially, but also contribute to the continued functioning of the global economic system and society. From the perspective of supply chain management, what are the key steps companies can take to ensure business continuity? I'm going to share some thoughts on three major areas of supply chain that need immediate actions.

First, supplier management. Companies should actively engage current suppliers to ensure supply. Supplier managers need to keep a close eye on inventory levels and inbound shipments to spot any anomalies. Any drastic drop in shipments should get immediate attention and be alerted to higher management. Supply managers should also maintain an active communication channel with key suppliers. Once supply disruption does occur, companies would need to develop workarounds with suppliers or negotiate alternative routing of the suppliers' network to secure continuous supply.

Many industries have already experienced a sudden drop in customer demand caused by the pandemic. And some companies have already phased in a shutdown as part of their operations. Those small-to-medium-sized suppliers are struggling the most in terms of cash flow. In this situation, companies may consider offering financial help to these suppliers if they are critical to the business.

Aside from these immediate actions, as a long-term strategy, companies should develop a geographically diverse supply base and proactively seek backup suppliers. Even in a pandemic like this, not all countries and regions are hit hard at the same time. If your company hasn't adopted a global sourcing strategy to diversify your supply base, it's probably time to do so.

The second area I'm going to focus on is demand management. As the coronavirus crisis is spreading to almost every region of the world, all businesses will need to revise their short-term and medium-term demand forecasts. To do so, they will need to get more precise estimates from their customers, and also gather marketing intelligence to accurately estimate customer demand. Companies should also monitor customer orders closely to identify early struggling signs. They might consider offering trade credits to finance orders for those customers who are facing a short-term cash flow crunch.

The last area I'm going to focus on is distribution and logistics. The impact of the current pandemic is not uniform across a company's supply chain. Based on the newly identified demand and supply shifts in their supply chain, companies should re-optimize capacity and inventory allocations in their distribution networks to respond to these changes. Companies should also secure alternative transportation modes and routes to ensure continuous material flows in the supply chain. Looking into the long term, companies should consider investing in automation technologies in their warehouses and logistics centers, which will help them hedge against the risk of labor shortages during future pandemics.

To summarize, companies should respond quickly to the current coronavirus pandemic by establishing remote and flexible work arrangements for their employees. They should also dissect their existing supply chains and develop an action plan to ensure business continuity. Meanwhile, they should invest in building a resilient supply chain to keep them competitive in future disease outbreaks, or any other types of large-scale supply disruptions.

Perspective On: Stress and Resilience

Mike Christian, Sarah Graham Kenan Associate Professor of Organizational Behavior and Academic Director of Leadership, UNC Kenan-Flagler Business School

We're in a time of enormous uncertainty. And the science suggests that, in times of uncertainty, we're at risk for stress and anxiety, for poor performance, and for making riskier decisions. The good news is that we have an emerging understanding of human resilience, and there are several recommendations that I'm planning to make based on this understanding.

We understand that there are three representations of human energy that help us to maintain our resilience, and I'll refer to them as the mind, the body and emotions. And each is important to the other, and they're interlinked, and we should be actively cultivating each of the different strategies to be intentional about each. So, I have five recommendations to help people to be more resilient during this crisis.

The first is to take care of your mind. I encourage everyone to think about what you can control, and what you can't control. Make a list if it helps. So, be intentional about focusing on what you can control: things like limiting your exposure, staying home, washing your hands, calling family members if you need to connect. Do the best that you can in your own sphere of influence. Don't overly focus on the million factors that are spinning around you that you have no control over. We're tempted to stay on the news 24-7 right now. But I would assert that staying glued to the iPad, the computer or the TV is doing more harm than good. The main reason is that as individuals, we have no control over any of what's happening on a global or population scale. So the result is anxiety and stress. Of course, it's important to stay informed about the situation, so instead, check in with the news on a schedule that works for you.

A second point is to take care of your body. Getting a good night's sleep can help us with a lot of benefits. In the current situation, we can keep our energy up and make sure to do our best to make good personal choices, such as eating healthy, keeping alcohol consumption low, keeping up a fitness routine. And this all starts with good sleep. Sleep has immunological benefits; it's good for us, which is important in a time like this. But our studies also indicate that it's associated with self control. When you get enough sleep, you have more ability to override your short-term temptations in order to make choices that benefit you in the long term. When we get a good night's sleep, the prefrontal cortex – that’s the part of the brain that's responsible for executive control and the regulation of our emotions, our thoughts, and our actions – is more effective. So by sleeping intentionally, we can lay the foundation for keeping ourselves healthy and our energy up.

The third point is that we can take care of our emotions. And by this, I mean actively seek social support, and actively give it to those who need it right now. People have a basic need for connection. And as you hunker down, you're essentially isolating yourselves. So call your parents, your kids, your friends, and your loved ones every day. And keep a sense of social connection alive to keep feelings of isolation at bay.

My fourth recommendation is to take care of others. We have a moral and a social responsibility to stay physically apart from other people. Some people, particularly younger people, aren't worried and are not appropriately social distancing because they might not be at high risk themselves. So, we need to ensure that we not only take care of ourselves, but also consider it to be a moral imperative to think about the health of others. So, the best that we can do is keep distance from others by staying out of public, and I see this as a moral social responsibility.

My fifth point is to give yourself and your employees a break. So, if you're feeling sick, focus on getting healthy. You're not going to function at your best, anyway. We have to contend with the notion that many people could have to work while feeling sick. And although the majority of COVID-19 cases don't require hospitalization, they do result in symptoms that require management. The easiest way to think about the effects of working while sick are that when we're sick, our energy is less available to us. Our studies show that pain and sickness demand attention. And this means that people who are working sick aren't as focused or engaged in their tasks, and it means that the cognitive resources that we usually have free are being used up as we think about how we're not feeling well.

For this reason, we find that employees are less likely to engage in extra role behaviors such as helping others or going above and beyond their personal responsibilities; employees who feel sick will just focus on just getting by. And so I think that leaders and managers need to adapt their expectations to the realities of the situation. Deadlines that can be moved should be to the extent possible. I recommend managers help employees prioritize what the most important tasks and goals are right now and what can we table for a little while.

So, in summary, what are the things that we can control as we hunker down?

We can take care of our own personal energies: our minds, our bodies and our emotions. We can work to take care of others by staying home. And we can give our employees the ability to control what they can.

Q&A:

Q: What do you think an ideal aid package for individuals and small businesses would look like?

A: Christian Lundblad

Clearly, one thing we're going to need here is to come up with ways that smaller businesses can stay afloat and manage their working capital. These are organizations that disproportionately run on very thin temporal margins from that perspective. And so this is really about just finding a way for folks to manage through what are going to be the next couple of very, very tricky months.

And so that, in my sense, is almost one of the pockets of any legislative effort that cannot be ignored. It's not simply about just the airline industry, or just making sure that we jam liquidity through the banking system. It has to be something that's really targeted to the small business sector, where we can find ways to extend credit, or capital, or something, in some form, to help those guys manage working capital needs, which, in large part, are our payroll, to make sure that this doesn't persist.

A: Greg Brown

I was actually just talking with some folks up in D.C. about proposed legislation that would affect small businesses. I think there's two things that we need to keep in mind. One is that there really is an emergency need for cash right now. Small businesses are basically starved for working capital. They're going to have a hard time making payroll at businesses that have essentially been shut down by the government. There's a lot of small businesses that support travel and tourism events, certainly restaurants, there's people in the consumer services sector around personal fitness, basically anything where people are going to congregate that have been de facto shut down. They are not going to be able to make payroll without revenues. I think there's really an emergency need for capital right now over probably the next, call it, 30-60 days, to make sure that these businesses don't fold.

It's in no way a fault of their own that they're facing the current situation, and it could be permanently disruptive to the economy if you have these businesses fold because of short-term liquidity constraints. So I think whatever is written into legislation essentially needs to be providing some sort of emergency funding. This could be done through direct action by the federal government, more likely done through some sort of guarantee for payroll lending through Small Business Administration programs, some notion of trying to accelerate licensing for new SBA loans, new SBA lenders and SBIC programs, but also providing accelerated approval of SBA loans.

I think that there's also an intermediate-term need for small businesses, let's call it the two- to ten-months horizon, where I think they're going to need additional capital infusion, because we are in for an economic slowdown. Here we can think about, I would say, expanding existing types of programs, providing more capital through SBICs and SBA loans in a more traditional sense. One thing that's been proposed is a revolving facility that would look sort of like a matching program for venture growth funds, where the government – the SBA in particular – would come in as sort of a restricted limited partner into existing funds. They would seek a rate of return, sort of a minimum rate of return, and then exit as an LP. But this would be a way to channel capital into the existing investment infrastructure for small businesses. And it can be done, I think, at a relatively low cost and kind of accelerate the capital deployment abilities that the federal government has.

Q: I wanted to talk about the fiscal stimulus by way of just sending checks. I'm wondering if you can talk a bit more about that, in terms of the size of that stimulus and the cost. Because we've seen economists, a couple of politicians, flagging this idea, and for some reason it's actually just now

making its way into legislation. So, if you can, talk a bit about the size of that kind of program, the benefit versus something like tax cuts, and why it's necessary right now, as well as the cost.

A: Christian Lundblad

Sure. The kinds of numbers you've seen bandied about by a few different politicians, that's what you're referring to. Again, we're talking about anywhere from a $1,000 to even more per American. And then some have argued that maybe that should just be for a targeted set of folks below a certain kind of threshold. So, take your favorite number in there and multiply it by the number of people we're talking about, and obviously you're talking about serious money. But that having been said, we're looking at conversations around $800, $900 billion right now. So, it's relatively modest compared to that and could easily be shoehorned into something like that. The reason this is urgent, in this particular form versus some of the others, is precisely because of some of the reasons that were articulated by my colleagues about insecurities in households. Here's the danger, which is: we cannot get to a point where the implications of this particular virus trigger certain kinds of irreversible effects that impact either businesses or households.

And indeed, a significant fraction of American households are vulnerable to falling below some threshold that's going to be almost semi-permanent and very difficult to move above. And one of the challenges there is, okay, we can talk about trying to target something through the tax cut avenue. I think that's perfectly fine, but it's a piece of a larger thing, and it's only going to hit a certain number of folks who are actually working. And so if there are folks that aren't working for whatever reason, either because they haven't been, or because their hours have been chopped, or what have you, then the ability to jam that through and make sure that it's hitting the people that are most disproportionately affected by this particular thing, and avoiding that kind of cascade effect of households falling below the threshold from which they can't easily recover, that's really important.

So, my view is, this is one thing we can do in concert with many others. None of these are mutually exclusive. And this is one thing we can do to make sure that we get this quickly to households that are disproportionately affected and maybe less likely to be as obvious a recipient of either funds that are going directly through the industry side, or things that are finding their way through to the tax cut side, that maybe aren't going to touch them as directly.

Q: Why do you think that it's been such a hard go of it? Why are politicians so reluctant to put this through if, as you're saying, it's not nearly as expensive? We're talking about $900 billion. Also, so many economists, particularly on Wall Street, are looking for this, just sending checks. And we've done it before, as a country.

A: Christian Lundblad

Yeah, we did it under a Republican president a long time ago. Well, not that long ago. But I don't know, I think it's hard for me to separate out how much of this is partisanship, how much of this is philosophical differences, either about the role for fiscal policy, or general government intervention, or something else. To me, I think that the time for philosophical discussion about the appropriate amount of budget balancing that we do or don't do, is not now. There isn't any fiscal conservative that I'm aware of, anyway, that exists on either side of the aisle right now. So, in some sense, we're more than happy to borrow and spend immensely on all sorts of things.

Here's an opportunity where we absolutely have an urgent need. This is one thing that we can do. Why isn't this gaining more traction? I'm not sure. But the way in which we turn what should be a V-shaped recession into a U- or an L-shaped recession is where we cross certain kinds of thresholds. Where affected industries that are maybe suffering from a high degree of leverage or working capital problems, or households that are suffering from degrees of insecurity that are going to be difficult to emerge from...If we push them over the trigger, then suddenly we've engineered something that is much more long-lasting than just the nature of the shock itself, which is clearly going to be deep, but temporary. But to answer the spirit of your question, I'm not quite sure why we can't just engineer this, along with plenty of other things that different philosophical traditions might get behind.

A: Greg Brown

I just want to throw a couple of numbers out there, just to kind of make it real. About 40% of U.S. households have income below $50,000. So let's just pick $50,000, it's a round number, for who's going to be most vulnerable. Let's say that's 50 million households, and let's say that we can send them a check for $5,000. That's about $250 billion, which, of course, is a lot of money. But it's only a third of the numbers that are currently being discussed in terms of the overall size of a certain bailout package.

Q: Brad, you spoke to the operational squeeze that hospitals are going to see by moving their elective procedures out. I'm wondering how much additional squeeze you're expecting with, as we've been talking about, obviously, the challenges in the public markets coming from their income, their investment incomes?

A: Brad Staats

It's a great question. I think, in the short term, the answer is, "Probably not so much." I was talking to an executive earlier today who kind of made the remark that he knows what all of the earnings calls are going to look like for executives, regardless of what's going on. And so I think that the short-term funding crunch is probably okay. I think it does beg the question about those that are not a part of the big system, that have those same liquidity crises that Greg and Christian have been talking about, that are likely to make things even more dire. And so, while we're getting the first pass about the airlines and the casinos being out, and putting their hands forward for support, I think we're going to see a lot more throughout the healthcare system, but with the hospitals, in particular, needing that for all of these dimensions that I talked about, as well as the invested income.

Q: Mike Walden at NC State was quoted as saying that he's expecting layoffs in the five digits, so I guess 10,000 or more going forward in North Carolina, in particular. I was just curious as to whether you all thought that sounded correct? And maybe Jim can speak to this, but it would seem like those might be disproportionately felt by low income workers.

A: Jim Johnson

I don't think those are unreasonable numbers, and I think you're correct – those layoffs would be disproportionately concentrated among low-wage workers. Although there could be some externality effects that impact some white collar workers too, who are in jobs that support low-wage occupations and the like. But I think it would be disproportionately concentrated among low-wage workers, what I call "the working poor."

A: Greg Brown

I think 10-20,000, that's the low end. I think if we're in lockdown for two months, which doesn't seem unreasonable at this point, based on the experience of Europe, that we could be looking at 100,000, 200,000. And again, it's going to be disproportionately in consumer services. So it's going to be people in the travel industry, it's going to be people in restaurants, and people that are typically of lower income, such as Jim mentioned.

Q: What does that mean for the unemployment rate, then? We've been near a 50-year low for awhile now. With that number of layoffs, how high could that unemployment rate go?

A: Greg Brown

I think that depends on how long it takes to get the medical situation under control. If we're looking at as long as two months, potentially, before we're able to return to a normal economic activity, I think you could easily see the unemployment rate increase to the eight- and nine-percent range. I'm not sure we're going to go back as high as we did during the global financial crisis, which was around 10%. But I think it's not unreasonable, in a worst-case scenario, to expect something that's in the high single digits.

Q: You all are probably aware that the governor ordered bars and restaurants in North Carolina to close for in-person dining starting tonight at 5:00. I think you all have spoken to this a bit. But it's a step that, I guess, a handful of other states have taken at this point. And it would seem like that could stimulate this fall in the economy, I suppose, locally.

A: Greg Brown

Yeah, no doubt. And that's just one of several consumer service sectors that's going to be really hard.

Q: I'm just wondering if you all could maybe give some broader thoughts about where this fits into financial crises, or economic downturns, in American history? Thinking about 2008, yes, lots of people lost their jobs, and there was a housing market crisis, but people were still able to go to those jobs if they weren't able to hold on to them. Where does this fit into other economic downturns in American history?

A: Greg Brown

Yeah, I think we had a steep downturn during the double-dip recession in the early '80s. Both the Gulf War recession and the dot-com recession were fairly mild, from a consumer standpoint, with fairly modest increases in unemployment, and fairly modest declines in GDP. And then you sort of eased into them and eased out of them. I think this one's going to be sharper. And we'll see a very significant contraction in Q2, probably on the order of 5% declining GDP in Q2. And then I think there's just a tremendous amount of uncertainty about what's going to happen in Q3 and Q4.

If we are able to get a handle on it and take the medical risk seriously, which it seems like we are now, then it could be that things start to bounce back in Q3, and it's a proverbial V-shaped recession. But if we have a hard time getting a handle on the medical situation, and there is not a short-term remedy to get us through the next few months, then I think we can be in for a U- or L-shaped recession. And that could elevate it to the type of downturn that we saw in the early '80s. Again, I don't expect something as severe as the global financial crisis, but probably more severe than the Gulf War or dot-com recessions.