The COVID-19 Pandemic and Small Business Employment
Webinar Press Briefing
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MacKenzie Babb: Today marks the third in a series of press briefings we're offering on different aspects of the economic and business ramifications of COVID-19....It is my pleasure to hand things over to our guest speaker today. She is Grant Thonrton's chief public policy officer, and I'm very proud to say also a fellow UNC alumna, Mary Moore Hamrick.

Mary Moore Hamrick: Thanks, MacKenzie. I will tell you, having spent 30 years at the intersection of business and government in Washington, we are certainly in unchartered waters here. The small business economic crisis that we're reaching out to address today is really self-inflicted wounds, as government seeks to stave off this COVID-19 healthcare pandemic. It's very different from the bailouts that we've seen of years before. The causes are different. So our challenge is, how do we keep small business on life support while it suffers a medically induced coma?

Today, while it's not like the 2008 sub-prime mortgage crisis, I can tell you that are three lessons learned that Congress has shown from that 2008-2009 timeframe. The first lesson learned was certainly speed. In 2008, we went through two administrations in almost two years in order to pass the three bills that resulted in the TARP or Troubled Asset Release Program. And this time we saw Congress act three times, pass three bills within three weeks. So they've learned speed.

The second thing they've learned is size. This Phase 3 COVID Aid, Relief, and Security Act, or CARES Act, is $2.3 trillion. And with the assistance of the Federal Reserve, it has the capacity to add an additional $4 trillion in support of the economy. This is the largest government package in U.S. history. It's estimated to be almost half of what we take in in U.S. tax revenues each year.

And the third lesson learned is bipartisanship. The Senate passed this vote on a 96-0 vote, and over 218 House members drove in the middle of the night to ensure that we had a quorum to pass this very important initiative. The one unknown as it applies to small business is the infrastructure, meaning the process that we're going to push out these monetary resources through direct loans, grants to virtually every facet of our society.

Let me address the Paycheck Protection Program, which is the $350 billion in 100 percent government loans that are guaranteed to small businesses that can be converted to grants. That's the important thing to understand. This is really a grant program for small businesses. And the idea is to keep small businesses like Bridges Barbeque in my hometown of Shelby, North Carolina, or the many family-owned trucking businesses or sock manufacturers in Hickory, North Carolina, how do we keep those businesses afloat, not shuttered, so they can be up and running at the end of this pandemic?

First of all, who can apply to this program? If you're a small business as the SBA defines it - 500 or fewer employees, you're not for profit, you can be self-employed, you can be a sole proprietor, you can be an independent contractor - you can apply for this loan. All you have to do is self-certify that this loan is going to be used for three things: payroll, which is defined as salary, hourly wages, cash in tips, paid sick leave and group health insurance premiums. So it's a hefty definition on salary. Number two, it can cover mortgage payments or lease payments. And number three, can cover utilities to keep the lights on. And you verify that that's what you're using the money for. It can cover a period of businesses that were in place from February 15th of this year for their payroll through June 30th. And, if once you seek your loan, get your loan and you verify that those expenses were made for those three areas, it converts to a grant. You can borrow two and a half times your payroll cost over a two and a half month period, up to $10 million per business.

Here's the tricky part. Where does the money come from? This is processed through the existing SBA 7A loan lending program, with the help and assistance of all the banks that are approved by Treasury. And Secretary Mnuchen has said that he hopes to certify as many banks as possible by the end of this week to administer these loans.

The reason the banks are important is the SBA, which has not had a good track record of pushing out loans, they're not known for that in an efficient manner. The size of this deal is the equivalent of three times their annual deal flow that they'd have to push out in two months in an effective manner. So it's the infrastructure of the aid by the banks and community banks that will be part of this program that's the key to this.

I think the question posed here is, during a hurricane, only about 40 percent of small businesses survive. So the question for us is, have we put the infrastructure in place to provide the much-needed lifeblood of capital to small businesses so they can survive this hurricane coronavirus?

And with that, let me hand it off to Christian Lundblad, who will share his insights into the needs of small business, and are we meeting their needs as we move forward? Thank you.

Christian Lundblad: Thank you very much. I'm Christian Lundblad. I'm director of research here at the Kenan Institute and a finance faculty member at the Kenan-Flagler Business School.

When we think about the challenges of all of this, the now-certain economic recession that's unfolding in the wake of this unprecedented health shock, this has monumental implications for our economy, our nation's workers. You know, what are we looking at possibly for Q2? Some of the most aggressive of the downside forecasts are something like 30 percent annualized reduction in Q2 GDP. And then some of the attendant questions are, what does the recovery look like, in some sense?

And that's really what I want to talk about, and the role for small business in that conversation. Some aspects of this crisis, thankfully, unambiguously, are temporary. But I personally am increasingly nervous about this shock serving as a trigger to expose some deeper vulnerabilities in our economy. So the relevant question really is, is this going to be sort of a V-shaped and a deep V-shaped, obviously, economic trajectory, or is it instead going to be something more U-shaped, elongated, or worse, a sort of L-shaped recovery? And that's really going to come down to the sense in which these shocks really trigger something deeper.

What are some places that I'm nervous about? Number one, on the financial vulnerability side: We have a lot of leverage in our economy. A fair amount of non-financial corporates have a lot of debt explosion that they've engaged in. And indeed, half of corporate bonds out there are sitting right at the threshold of investment in speculative grade. And to the extent that this engenders financial distress and downgrades and such, that has a lot of technical implications for our economy that could be more long lasting than just, we're allowed to go back out and shop, in the way that we all anticipate.

Where else? On the political side, it's already getting very difficult for me to envision what the human cost of this is going to mean for American optimism, cohesiveness. And we've got a presidential election coming up in a few months' time. And how is that going to play out? I haven't any idea, but I could imagine some divisiveness, actually, again, elongating the process as well.

But here is the conversation for today, which is the American worker. So labor dislocation. That engenders pretty significant and pervasive economic and human costs. And that's going to be the topic of conversation from my colleague, Professor Paige Ouimet, in just a moment.

There's been a lot of conversation in the political arena about bailing out large corporations, airlines and such, a big role for the Federal Reserve, as was just mentioned. But I think it's critical to remember that it's the small businesses that are the often-heralded backbone of our economy. They're extremely vulnerable to dislocation and they really matter for this conversation. Businesses with fewer than 500 employees account for more than 60 million jobs in the U.S., and that's half of our overall labor force.

What's interesting, I think, in Washington, is there's sort of an interesting and critical philosophical debate that's going on. It's revolving around whether to attend first to businesses or to laborers. And we saw this despite the speed and bipartisanship, which (unitelligible). And frankly, it's informed by pretty sharp disagreements about the lessons learned from the global financial crisis, Main Street versus Wall Street and all of that. And it's a really important debate and there's plenty of nuance. I think there's a scope for disagreement among well-meaning people. I'm certainly not here to lecture on any of that and definitely not to demonize anybody, but rather, I want to identify small business distress as an important vector through which business hardship transmits directly to a vulnerable hourly worker.

Many of those workers for the small business community are disproportionately hourly workers and they don't really have the ability to be at home without a paycheck. So an extended quarantine, a self-imposed one, this risks fueling personal bankruptcy, food insecurities. And this can semi-permanently dislocate a large component of society.

I recently had a study that showed that four out of 10 Americans don't really have the capacity to absorb a $400 unexpected cost. I mean, this is where you get a U- or even worse, an L-shaped recovery, where certain amounts of Americans just aren't back in play when we start to recover from the health component of this crisis.

In the face of these record high jobless claims figures that we saw last week, Congress indeed responded in an unprecedented fashion, as we saw. And the objective there really is to battle against this risk of pervasiveness. And the component that we saw and was just mentioned is sort of targeting this $350 billion to make sure that hundreds of thousands of restaurants and retail shops and beauty salons and such can put their existing workforce in place to hold them steady as we navigate this, and then ultimately be ready to pounce on the back end to reengage with economic activity and such - so the targeted loans designed to pay for your payroll and rent and other operating costs, possibly forgivable under various circumstances.

There's details there, there's rollout questions, and I'm sure we can talk about that as well. But this ultimately is the objective of a place where I think the proximity between labor and business it's very tight. Honestly, it may be too late in some cases. We saw the claims figures and they were historically high. It may also be too little, as this evolves. There's things that we can do to govern the timeline of this, obviously distancing is part of that conversation, but the virus ultimately is deciding the timeline. But it's the right vulnerability to target. So, again, the intention is to keep businesses whole and have them ready to emerge quickly once our society can open back up.

So what's coming? Number one, government statistics aren't yet that helpful. We're going to get a first look at the unemployment figures on Friday. They're going to be backward-looking. They probably aren't going to tell us very much about the depth of this crisis. A perhaps more interesting report on Thursday will be a fresh print on the jobless claims figures. Bloomberg media forecasts about 3.5 million. So that actually eclipses the number that we saw last Thursday, and probably will internalize some numbers that have already happened that, because the reporting challenges, weren't able to get into the previous report. Nevertheless, you know, for any policymaker in times like these, it's pretty difficult to gauge where we are and certainly where we might be going. That's particularly elusive.

But what do we have that's kind of interesting to give us at least a little bit of a window, we have some interesting real-time survey data that I want to talk about, that then is going to inform some unemployment calculations that my colleague will mention. These allow us to build some estimates of current layoffs that may have actually transpired, but aren't yet in the government's statistics, and anticipate fewer layoffs that could happen over the next several months, as small firms struggle to cover various costs.

So to begin, the Small Business Investor Alliance, with some data analysis provided by us at the Kenan Institute of Private Enterprise, released a survey on March 21 of Small Business Investment Company-backed portfolio firms. So these are small business firms that are of the type eligible for this kind of support. It reflects relatively real-time responses from over 700 small businesses, each of which provided information about immediate layoffs, and sort of roughly corresponds to the same time period over which those claims figures were released. And the survey respondents provided some insight into the extent to which they anticipate future layoffs, if the crisis continues without government assistance.

And the situation is pretty dire. Eighty percent of the respondents identified serious cash flow concerns. One hundred percent of the respondents in the entertainment and hospitality industries identified this as a major business vulnerability. Over 40 percent of the respondents did not have cash reserves or access to capital to sustain the business for the next 60 days, and two-thirds cannot remain operating beyond 60 days without assistance. And more critically, we can learn a little bit about the layoff propensities as well. Twenty-one percent of respondents had already initiated significant layoffs, with the average layoff already at about one-quarter of their employee base. And 64 percent of the respondents who had not yet begun layoffs anticipated laying off 30 percent of their employee base going forward, if the crisis were to persist.

While this reflects a reasonably small sample of respondents, it nevertheless does span industries and geographic regions. And using these layoffs and the propensities perhaps, we then extrapolate data to layoffs for the entire U.S. business landscape. Those which have recently occurred but are not yet fully incorporated into government statistics, or worse, those that could occur in the absence of effective government support.

This is kind of a worst-case scenario, in that we don't internalize the hoped-for effects of the spending bill, and we assume that none of these employees subsequently find alternative employment, which is a relevant part of the conversation. My colleague, Professor Ouimet, will discuss these calculations and lay out the vulnerabilities for the small business worker, both in the U.S. broadly and in our state here in North Carolina at the moment. But the conclusion that I want you to take away from that is that we need to continue to target the components of our society that are most vulnerable to significant hardship. U.S. small businesses employ tens of millions of workers for which (unintelligible) potentially catastrophic.

If we aggregate all of this up to the macroeconomic level, this is a large fraction of our labor force and pushing them into financial distress is really what endangers turning what could be a relatively temporary and important shock into something that is more long lasting. At the business level, the loss of company-specific human capital imperils the ability of pursuing healthy growth opportunities on the back end. And these growth opportunities will certainly exist. We had a relatively healthy economy in the months leading up to this crisis, so that the pouncing back, as it were, becomes potentially difficult.

And then finally, individual economic dislocation. This only compounds an already terrifying time. It's a colossal psychological cost. So for that reason, significant and effective and efficient targeted assistance to the small business community is an important mechanism by which our government can directly help vulnerable households. This proximate relationship between firms and American workers. That having been said, $350 billion will likely be the beginning of what is necessary.

So to hear a little bit more about some of our calculations and some of these attendant costs, I'll pass this off to my colleague, Professor Page Ouimet.

Paige Ouimet: Good morning, everyone. My name is Paige Ouimet, and I am an associate professor at Kenan-Flagler School of Business.

As we all know, unemployment is going to increase. There's 3.3 million new jobless claims that the Department of Labor reported last Thursday, and that is unfortunately just the start. Echoing the comments of the two previous panelists, I expect that most of these layoffs are going to occur at small businesses.

If we think small businesses as a group account for approximately 50 percent of total U.S. private sector employment, with all else equal, we would expect to see about 50 percent of the layoffs occurring at these small firms. However, all else is not equal in this case. For one, we know small businesses are particularly vulnerable during economic downturns. They tend to shed jobs faster during periods of economic contraction.

There are a number of reasons why this happens, and I think Chris highlighted on the main one, which is that small businesses tend to operate with a relatively small level of cash reserves. And so as revenues decline, they need to immediately reduce costs. How are they going to do this? They're going to do it through layoffs.

Also, I want to emphasize that this particular recession that we're now entering, induced by the COVID-19 pandemic, is going to hurt small businesses more than previous recessions have. That's because the particular industries that are being hardest hit - so let's think of restaurants, entertainment - these are industries where employment in small businesses is disproportionately represented.

So if we think about this impact on small businesses, it's relatively hard to get a handle on anticipated layoffs. For larger firms, I think it's a little bit easier. We can look at some of the press releases and announcements from some of these big firms, but that's not possible with small businesses.

And so what we've done, and this is work with the Kenan Institute, is we used this survey that Chris already discussed, which is a survey of small businesses, to be able to extrapolate to get to national unemployment estimates. Put simply, what we did is we took from the survey estimates within each industry the expected layoffs for that industry, and then simply applied these to national estimates of the number of workers in small businesses in each of these different industries.

And so what do we find? Well, if we define a small business as a company with less than 500 employees, then we expect these firms as a group will have done immediate layoffs impacting up to 6.6 million Americans. We anticipate layoffs across all sectors, but some industries are going to be hit harder than others, in particular, the hospitality and entertainment industry. We expect small businesses in that industry to lay off approximately 40 percent of their employees immediately. And this will translate to 4.3 million displaced workers, and account for the majority of the first wave of layoffs.

Without effective governmental support, we expect this wave of layoffs to continue and even accelerate. Our survey results suggest that jobs for up to 12 million additional Americans working at small businesses are vulnerable in the near term. We expect the second round of layoffs to be more evenly spread out across all industries, as the costs of the economic slowdown are felt in all parts of the economy. We could see an additional 2.7 million layoffs of employees at small firms in the hospitality and recreation industry. We could also see large employment losses in the private education, professional services, wholesale and retail trade sectors.

Now, if we make this assumption that all of these layoffs occur - and as Chris said, I also think about these as sort of the worst case scenario - and we assume that all of the employees who are laid off are unable to find alternative employment elsewhere in the economy, then the aggregate impact will be to add 11.5 percentage points to the unemployment number.

So looking at North Carolina specifically, we could see immediate layoffs impacting nearly 200,000 North Carolinians who used to be employed at small firms. As with the national estimates, we expect to see the largest immediate layoffs at businesses in the hospitality and recreation industry, potentially impacting over 131,000 North Carolinians. And more layoffs will follow. We could see additional layoffs by small firms in North Carolina of 345,000 when aggregating across all industries.

Most critically, what these results say is that we need to act now, and we need to act decisively to support small businesses and to reduce as many of these layoffs as possible. Employed workers are going to help to support other parts of the economy. And on top of that, layoffs are associated with very large and long-lasting costs to the impacted employees.

And so I want to spend the rest of my time talking about some of these human costs to layoffs, starting with the economic costs. When we think of a layoff, sort of by definition, wages are going to drop down to zero. But what's important to keep in mind is that, when this employee subsequently finds new employment, it is not that we just go back to that same level that they were prior to the layoff, on average. What we tend to see is that the next time that employee is employed, wages tend to be about 30 percent lower. And we call this gap in wages wage scarring. And it tends to be persistent. In a well-cited study, in looking even 20 years after the original layoff, comparing two otherwise equivalent workers earning the same wage, but one worker happens to have been impacted by layoffs and the other worker wasn't, that worker who had the layoff earns on average 20 percent lower wages.

We can also consider this in present-value terms, if we assume that this layoff occurs during middle-age years, then the equivalent of accounting for the immediate job loss in wages as well, as these long-term effects, equals to a loss of 2.8 years of pre-layoff earnings. And on top of everything, we do see that workers who are impacted by layoffs realize greater income instability.

It is also important to emphasize that these costs are not equally borne by all workers. As Chris is emphasizing, it's actually the workers at small firms that are particularly vulnerable to these costs. We know low-wage workers tend to see greater dips in their earnings following job losses during recessions, and this can primarily be explained by the fact that these workers have very low bargaining power when they're looking for new jobs, coming out of a recession.

And so, again, this gets to this point that the more jobs we can support, the more economic opportunities there are for laid-off workers to find coming out of the recession, this will help reduce the economic costs borne by individuals who happen to have been laid off.

I can also add that the negative impact of a job layoff is not limited to lower earnings. There are also significant non-economic costs. Clearly losing a job, particularly now during this period of high anxiety, is going to add a lot of stress. Past studies have shown a number of psychological implications of layoffs, including a 15-30 percent increase in rates of anxiety and depression disorders. Job losses also have been linked to decreases in physical health, which is a particular concern right now, given our healthcare system is already overburdened. One well-cited study documents a 50-100 percent increase in mortality in the years immediately following the layoff. And while this effect diminishes over time, it is persistent. The study finds that even 20 years after the layoff, there is still a 15-20 percent higher rate of mortality among the workers who were laid off earlier. And so, if we think of this ina a cumulative effect, and again assuming the layoff occurs in middle age, this leads to a decrease of 1-1.5 years in life expectancy.

These non-economic costs also spill over into families. We know there are higher rates of divorce following layoffs. These also impact children. Numerous studies have documented lower rates of educational attainment for children and families that have experienced a layoff. And job loss can also be associated with residential mobility, which can disrupt schooling and social networks for the impacted children. So in sum, these costs are very large. So we need to do everything we can to support small businesses. Keep them to keep as many of these workers employed as possible, particularly through this period of quarantine, so that as we come out of it, these workers are able to continue to support the economy as a whole, and we can mitigate some of the larger costs of the economic impact of the COVID-19 pandemic.

From here I'll pass it back to MacKenzie.

MacKenzie Babb: Thank you so much, Paige. At this point, we're going to move into Q&A. We're going to start off with a two-parter from Zach Eanes from the Raleigh News & Observer. The first is: With Amazon, Wal-Mart and some gig companies hiring hundreds of thousands of employees, many of them from small business that have had to lay off employees, at least temporarily, are you concerned about small businesses struggling to rehire employees, if and when they are able to reopen?

Paige Ouimet: I can take that question. This is great news that we have some employers out there that are hiring. But from the sheer numbers so far, these new hires at the Wal-Marts and the Amazons of the world are not going to be able to offset the vast majority of layoffs that we're seeing at small businesses. On top of it, for different structural reasons in the labor market, a lot of workers are not going to be able to take advantage of these opportunities. A lot of the new jobs we're seeing are being posted at warehouses. For an individual who is unemployed to be able to access it, they need to be able to reliably commute to these warehouses. On top of that, a number of individuals in the labor force right now are unable to seek external employment, either due to the health concerns from social contact, or because they need to stay at home to tend to small children or to help with a family member that is ill.

Christian Lundblad: I'll add something to that as well, which is, just to put the study that we've been doing in context, this is focusing on the small business community because we think this is particularly consequential and vulnerable to this kind of disruption as we've articulated. But that's only part of our economy. We also have large firms and such. And so the number that we're giving out here, in terms of the possible contribution to the unemployment rate, is only partial. So that should be pretty stunning, in some sense, if you put that in context. And unfortunately, also, we're obviously losing jobs from larger firms as well. I mean, we just had a number of announcements from some large retailers. There's news even just yesterday about layoffs or furloughs that are in the hundreds of thousands.

So, it's great if an Amazon is going to come in and try to bring on 100,000 folks or what have you, but that is a piece of a much larger problem.

And so I think the best thing that we can try to do is to keep laborers attached to where they are, or to minimize some of the costs that Paige articulated, and then also to give us the best hope of, indeed, observing a kind of V-shape, or at least a more muted U-shaped, recovery, because then that gives folks the chance to quickly get back to doing what it is they were doing before. So to the extent that that's the intention of the legislation, that's great. But obviously, this has got to be done very efficiently and quickly. And that's going to be a challenge in terms of exercising upon them.

MacKenzie Babb: Thank you, Christian. The second part of the question from Zach was, is there anything that we can do from a policy standpoint to encourage landlords to be patient with their tenants that might be struggling to pay their rents?

Christian Lundblad: That's why I think the requirement here is that the legislation is extremely broad-based. And indeed, that's what we've done in the first step. So we've attended to supporting financials through things that the Federal Reserve is doing. And then that's going to hopefully bleed down in some sense to some of the people that are being asked about right here, as well as attending to the challenges of large firms and all of the attendant political conversation, small firms, the health care industry and the like. But the reality is, this has to be very big and (unintelligible), which Mary Moore can discuss more. And so basically, you have to support all of these different pieces of the landscape, and this is one that I think is equally important. And so to the extent that the Federal Reserve can help to alleviate some of the funding challenges in such different parts of our economy, that's an equally important component, I would say, as well.

Mary Moore Hamrick: Let me speak a little bit about what I think we'll see unfold in the policy process. I mean, this is a very iterative process. Congress is in recess until April 20th. And it is very much any insights, any lessons learned, survey statistics like this that these excellent professors have - getting that information into the hands of policymakers of what's working and what's not, as Christian described squeezing of a balloon, this is gonna be a very messy process because it involves not only the federal government, but the state governments and the local state municipalities that have different jurisdictions over these different laws and regulations.

So it is very important that any insights, lessons learned, problem areas are highlighted quickly and efficiently with suggested policy recommendations to be considered. Because that's what's going to happen between now and April is, we've got this large bill that's been put in place and now it's being implemented. How do we implement it more efficiently? What are the recommended solutions? And that's where, I think, that you need everyone - individuals, universities, businesses and policymakers to collaborate. It's very important that we come together with solutions that solve these problems. And it is going to be messy. It will be messy.

MacKenzie Babb: Thank you for that insight. Mary Moore. And while we've got you with your mic open, we did have a question from you from Katia at Bloomberg: You mentioned the list of 800 approved lenders earlier in the briefing. Is that a list that you would be able to share with the reporters on the line?

Mary Moore Hamrick: I would go to the SBA web site. And I would go to the Treasury web site. There are some excellent documents there. I have also seen listings from the

U.S. Chamber of Commerce that's working with each local chamber of commerce to push out and educate local chambers. There's a vast education effort on who can you go to to get these loans from? That's an excellent question. And I do encourage the media to include those resources. And I would say go first to the SBA web site, and second to the Treasury web site, because the goal is to add those financial institutions as quickly as possible.

MacKenzie Babb: A follow-up from Katia: What does the SBA need now to get these loans and grants out? And is it Treasury's responsibility?

Mary Moore Hamrick: That's a great question. It is a partnership. We know that the SBA has limited resources that are currently in place. And so by pairing them with Treasury that can approve the banks, the lenders, if you will - many small businesses already have lending relationships, payroll relationships with their banks - and so the thinking is, if they've already got this relationship in place, let's use it. And so the money will be pushed out through those banks in partnership with Treasury and the SBA, and the small business. So this really is a coordinated effort of working on this together. Has it been done before? No. But we know that direct deposits and efficiencies can be had through our current banking system.

Christian Lundblad: Let me add to that. The efficiency and the speed with which this transpires is absolutely critical. So Mnuchen has promised that this is going to get going by Friday, which is, I think, pretty bold. As Mary Moore definitely articulated, we've never done anything like this before, through either the SBA or frankly, through anything really, to these kinds of participants. Particularly something that's kind of unusual. And so I think we're still learning about how this is actually gonna happen. We just got word from some insiders that we're gonna even learn more tomorrow about some of the specifics. So there have been some reports of hiccups and web page challenges and such, and I think getting that squared away is challenge number one, because it can't be a situation where it's sort of commensurate with some of these individual paychecks that are supposed to go out with a three- or four-week timeline. This has to be right now, because we need to keep these laborers attached to their current businesses. Doing this is is gonna be hard. But I think it's challenge number onefor the administration to pull off.

MacKenzie Babb: We have a question in from Katie Peralta at the Charlotte Agenda. Katie says, Do any of you have projections of how many small businesses won't be able to recover from this at all? In other words, how many, even if it's just a percentage, do you expect will permanently close their doors as a result of the shutdown? That's nationally. And then what about specifically here in North Carolina?

Christian Lundblad: I don't, to be perfectly frank. That's obviously a pretty tenuous situation during any downturn for this component of our society. But this is running on a timeline that we don't really know. Again, as I mentioned, the shock is necessarily temporary, because this is a health crisis. It's something that we economists like to call clearly exaggerates. It wasn't caused by the participants in the economy. And so it's coming from outside, and it will run its course. But what we don't know is how long that's going to take. If the president is issuing a stay-at-home order at least until the end of April, and many epidemiologists say it may extend beyond that...These guys have 30- and 60- and 90-day windows over which they have to make very, very critical payments to not only their labor force, but obviously to other operating costs. And so to the extent that this runs longer and longer into the summer, I think we could see a very sizable fraction of our small business community permanently shuttered. But anyone that pretends to know that is pretending to know something about the timeline of the virus. And I think that's pretty unknowable at this point.

MacKenzie Babb: Christian, while we've got you with your mic open, question for you just to level set. There was a question earlier about the study that you were referencing. I just want to confirm that all of the stats that you cited, all the data that you mentioned, is available in the fact sheet that we shared or in the Fed report that I believe we link to. But I'll be sure to include it in a follow up to reporters. Is there any other source of data that we need to be sure we share with our reporters on the line?

Christian Lundblad: Yes. We have a fact sheet that we made available that has the key calculations that Paige talked about. And then also after this conversation, we will be posting a Kenan Institute Insight, which walks through some of the things that Paige and I discussed. That also has links to the fact sheet and some of the key data items, as well as the survey of several small businesses that I mentioned as well. So everything will be there and easily accessible, and we'll post that after our conversation.

MacKenzie Babb: Great. And I believe all of you should be on the list for that. That will go out tomorrow morning at 10:00 a.m. If you have any specific questions on data that was cited that you'd like to confirm with me, you can do so. E-mail me or call me after this. I'll be happy to connect you with the right folks to confirm any facts you need. Next question up is from Chris Cortina from JP Morgan. And it's for you, Christian: Generally, is what you discussed priced into the market now? You mentioned corporate bonds and leverage. Spread on high yields are higher than they have been in 10 years. Will CPFF and MLFF bring that back to normal?

Christian Lundblad : In this briefing, I don't want to get too deep into the weeds on that one. But I did mention this alternative concern about vulnerability, which is sort of the leverage nature of our economy and, in particular, this colossal amount of debt, which sits at a critical threshold between investment and speculative. And so what's coming for sure? Obviously, to the extent that there's distress broadly felt across our economy, there's going to be some downgrades for sure. Those are corporate bonds, so we're talking more about larger firms in this context. And then, obviously, there'll be similar distress recorded in loans and such that are going more broadly to the economy.

So the issue is whether that has any implications for debt holders, for market pricing, for the lenders and such. And the reality is, for the moment, everybody is is throwing all the chips in to try to support this stuff. The Federal Reserve is buying stuff they never bought before, including corporate bonds, to support this. And they may even be doing so into more of the high-yield space. That conversation is happening as a possibility. It's not in place right now.

Mary Moore mentioned the expansion of the Federal Reserve's efforts here. We're probably looking at a Federal Reserve balance sheet that might be north of $9 trillion at the end of all of this, which is almost impossible to fathom in an earlier time. What does that mean for market pricing? I think there may be some temporary price dislocations and some weird things, as certain players are forced to maybe sell off some instruments in the bond space. But to the extent that this is going to be supported by the Fed, I think those will sort themselves out.

That has big implications for the long run and the appropriate pricing of risks and the appropriate allocation of our scarce financial resources, and that's a totally different conversation. But for the meantime, I think the market, whatever we're talking about - stock market, bond market, what have you - is appreciating the efforts of our central government and our central bank. And I think that's why, despite all the crazy numbers that are being reported, there seems to be still some reasonably healthy valuations in both those places.

MacKenzie Babb: Thank you, Christian. Our next question comes from a rural economic development researcher who we have on the line, who wants to know if you can describe, from a small firm's perspective, how they might best position themselves to receive federal support and how to decide between the different options, for example, PPP (Paycheck Protection Loan) versus EIDL (Economic Injury Disaster Loan).

Mary Moore Hamrick: One source that you might work with is your local accountant that you're working with. I know the AICPA has been doing educational resources. You can certainly consult with the SBA in reading the EIDL items, which might be confusing. You can consult with your local bank. I would work with my usual local advisors in your communities to sort through this, because they're going to want to be doing this for a number of businesses in their rural communities. I certainly hope that the banks and the CPAs are pushing that advice out to their clients. And so I think I would have a conversation around that, and then see what works best for you, and then to keep being mindful of what new programs may be coming out. I think that the appeal of the grant nature of the Paycheck Protection Program is pretty strong, and something that is new in this last bill and should be considered. That would certainly help to use those payments not only for payroll, that will address the question from the person that said, "What about people not paying their leases?" Because leases, utility payments and mortgage payments are considered part of that program that's a free grant. So, I would encourage taking a serious look at that, and working with your your local business advisors.

MacKenzie Babb: Thank you, Mary Moore. We have a question from a tax researcher, Courtney: As I understand it, firms that receive a CARES Act SBA loan or grant will be ineligible to take advantage of other relief elements of the CARES Act, such as employee retention tax credits. Given the difficulties of administering the loan program itself, what support can small businesses expect when figuring out how to choose between the SBA loan or grant and other available relief options?

Mary Moore Hamrick: That's a great question, and that is the part of the infrastructure that's needed. That's where I think you do need to speak to a tax advisor. And I will tell you that part of it is the need of Treasury to push out guidance and the IRS to share that guidance as to how many of these programs work from a tax perspective. So when I say federalism is messy, this is all part of that messy process, but it's something we'll all have to work through. Those are excellent questions from Courtney. And I think I would seek the best tax advice and then be patient, because this is where government sometimes is slower than what is needed in reality.

MacKenzie Babb: Excellent. Christian or Paige, anything to add on that or any of the other questions that have been posed thus far?

Christian Lundblad: No, not from me. I'm certainly not going to give tax advice. I'll leave that to the professionals in that space. I do point out that something pretty pointed that Mary Moore said is, this is iterative. And so to the extent that there is a problem that is materializing, we're going to learn a lot very quickly about how this is and isn't working. So there's an opportunity for there to be changes or augmentations or pullbacks or whatever, because this is the beginning of what's going to be a messy process. Expediency here is winning over caring and thoughtfulness, and that's appropriate. But there's also gonna be an opportunity for us to adjust on the fly.

MacKenzie Babb: Excellent. I just got in one more question that I've been wondering myself. At the end of the day, who's going to end up footing the bill for the stimulus?

Christian Lundblad: Well, that's gonna be the American taxpayer, of course. But let's be perfectly frank. The American taxpayer has been making promises to itself for decades now. There really isn't much in the way of a fiscal conservative left in Washington, as near as I can tell. We have one side of the aisle that plays rather fast and loose with where they think resources are going to come from. And then we have the other side of the aisle that's willing also to pervasively spend beyond our means. So across administrations and professed philosophical differences, we've basically been borrowing well beyond our means for a long time. Any of my students that might be on the line have been hearing me complain about that pretty much forever. I've been complaining about it as long as I've been teaching.

But now is actually not the time to have that conversation. To be perfectly honest, a government is for this moment. That's what its job is. It's a compact that we have amongst ourselves. And here is an opportunity to exercise the power of the fiscal purse, in the Federal Reserve, as it were, to try to get through something that's very challenging. I would like this to be an opportunity for us to have a deeper conversation about how we employ the scarce resources of our nation. And I think there's a good opportunity for the left and the right to try to come together. I don't profess to have any hope that's going to happen. But right now is not the time for that. Becoming a fiscal conservative right now is not really the right moment. Instead, this is the opportunity for us to make sure that Americans can get through what is a very, very trying time, and no fault of anyone, actually. It just isn't. And then maybe we can come back to have this conversation about how we employ our scarce resources on the back end of this. I would cherish that conversation.

Mary Moore Hamrick: I would also add that the American taxpayer is going to pay for this one way or another. And if we don't provide it in the form of this stimulus and helping small businesses to retain employment, we're going to be paying for it with higher rates of unemployment insurance in the long run. So one way or another, we're paying for it. So I do think it is in our best interest to make this as efficient as possible, which I believe it is through supporting small businesses and retaining their employment.

MacKenzie Babb: Excellent. I think this is going to be the last question we have time for, but we've just gotten one in from Sonika Singhal. She wants to know, what can an individual be doing right now as the next right thing to help? I think there's been some conflicting advice on, we want to support small businesses in our communities, but also want to be mindful of the health risks of going out, even for takeout. What are some ways that people can wisely support small businesses in such a challenging time?

Christian Lundblad: Well, I don't pretend to know the epidemiological risks and such. I think maybe a balance to strike is the extent to which we can try to help those businesses that we care most about individually. That maybe take out or something like that. This pertains to a question that was asked earlier, that is that some of our cherished restaurants and other small businesses may not be there at the end of all of this. I think that's a very real risk. And so I certainly don't want to condone people going out. I think the lesson that we have learned here is there's an opportunity to affect the timeline of this, and, indeed, the degree to which this overwhelms our healthcare system, by doing a good job and practicing the distancing that's incumbent upon us. But whatever we can do within that context...To try to fight the impulse of being particularly thrifty right now, which is a real one, because we're all freaked out. To try to make sure that the pieces of the community about which we care the most can survive is valuable. But that's a careful balance that we have to strike. Don't go outside. That's not what I'm suggesting. But the extent that we can find ways to to engage the laborers of these small businesses is, I think, important.

Paige Ouimet: I would just add that the scale of this is immense. The needs are immense. And so we are going to need to see most of this help come from the federal government. But I think the one thing individuals can do is, a lot of these small firms that have had to do large layoffs have also set up GoFundMe campaigns. So that is one way to directly support the workers without necessarily incurring any sort of social risk.

Mary Moore Hamrick: I think that there are many lessons learned and lessons to be learned. And if each of us can share any intelligence, lessons learned, ways to to bring together communities like this - education, institutions of higher learning, the public policymakers and the businesses in our community - is this sharing of lessons learned and collectively trying to lift all of us up in this iterative process with the most positive attitude that we can in these dire times. That's what I think will pull us out of this as best we can. So I thank the Kenan Institute for this sharing opportunity.

MacKenzie Babb: Thank you, Mary Moore.

We are right at time. I want to thank all of our experts for being here today. Thank you all for your thoughtful questions. As I said, we will be doing this again next Tuesday, so please plan to join us at 11:00 a.m. Eastern Time. I know we did not get to all the questions, so if you'd like any follow-up conversations with any of the experts you've heard from today, or if I or any of my colleagues can be a resource to you and your coverage of this crisis, please don't hesitate to reach out. We will be more than happy to help. Thank you again for joining, and we hope to see you next week.