

MMITM Ep 22 - The Coronavirus Economy with Economics Professor Dean Baim

Announcer: From Curtco Media, what are you gonna do about.

Bill Curtis: Hi. It's almost hard to focus these days. While you and I are coming to terms with the idea of so many people sickened or worse, with hospitals overwhelmed, doctors at risk and all of us, well, socially distant. I'm sitting in a full embrace with a fresh bottle of Clorox disinfecting wipes, and I'm only a single pump away from that satisfying squirt of Purell. Anyway, we here at Politics Meet me in the Middle, find ourselves feeling rather distant from our usual concerns. Elections, primaries, debates, delegates, climate change, guns, education and a myriad of heady Supreme Court cases. But now, from a politics perspective, while it's even harder to separate ourselves from a bit of fear, worry, stress and anger, often partisan anger, we find ourselves blaming some or we point fingers at others and we seek out anyone who can answer our questions or maybe even display some true leadership. All we want is to be reassured and inspired and maybe we want to just plain old feel safe. This more than anytime I can remember, is a time for all of us to meet in the middle, to work together, to save as many people as physically possible, to strongly support and reward heroic health care workers and yes, to reconstruct our economy so we can all go back to work and provide for our families. To that end, Welcome to a Coronacomomy edition of Politics. Meet me in the middle. I'm Bill Curtis. I'm here with Ed Larson, actually. Wait. That's a lie. He's here from home, virtually connected to us by a touch of remote technology and some telephonic bandwidth. But I digress. Our co-host Ed Larson is a Pulitzer Prize winning historian, professor, worldwide lecturer, author of numerous books. His new book, Franklin and Washington The Founding Partnership, can be found, of course, on the bestseller list today. Come to think of it, that would be a good thing for all of us to do while we're at home. Ed, it's on Amazon, right?

Ed Larson: Yes.

Bill Curtis: Welcome, Ed. Are you healthy?

Ed Larson: So far, so good.

Bill Curtis: Great. And Dean Baim, he's here and he's also connected through the marvels of remote recording. He's been teaching economics for more than four decades. And he's the divisional dean of business administration and professor of economics and finance at Seaver College, Pepperdine University. Welcome, Dean, and thanks for connecting with us.

Dean Baim: I'm glad to be here.

Bill Curtis: Ed, as usual we want to start with you and ask you to give us a bit of history to chew on. What in our country's past is most like the economic condition we're experiencing today in this coronavirus economy?

Ed Larson: One would be the Spanish flu that we're hearing so much about, the enormous epidemic that swept America, closing businesses, driving people inside, causing social distancing. It was a, had three surges. It first came in the spring. Much about this time of 1918, came back with a flurry in the fall. A second wave that was actually worse than the first and then a third wave the following spring. Two thirds of a million Americans died. Millions and millions were sickened. And people, businesses shuttered, people were driven home. And the obvious economic consequences resulted. The second one would be the Great Depression. The Great Depression happened slower, but it drove even more people out of work. Those are probably the two situations, both in the last century that were most like the economic conditions we are experiencing today.

Bill Curtis: So with those. Ed, what leader in our history was most pivotal in inspiring and rebuilding the country we love, from an economic perspective?

Ed Larson: Well, certainly Franklin Delano Roosevelt, he did everything right with the Great Depression in the sense he came in with a bold plan and he took office after Herbert Hoover had been dawdling with half measures that didn't satisfy anything. And things only got worse.

Bill Curtis: And, you know, we've now been ordered to stay home for another month now. And who knows how long that's going to be. And certainly there's an effect on our

whole infrastructure. Can you describe what would seem like a domino effect here? What happens to our domestic economy as a result of this stay home order.

Dean Baim: I think that we're probably going to have a very, very strong ramifications. So a lot of people are comparing this to the 2008 financial crisis. It's completely different. That was started by banks and financial institutions who made some risky bets that didn't pay off. This is happening at the more of the grassroots level. There was a survey that was out last week that 30 percent of the restaurants in California said that they will probably fail because of this. Now, that may have been some talk to try to get some aid, but you know, 30 percent may not be that large an overstatement. And so I'm not optimistic about what's going to happen once we get back to work.

Ed Larson: I agree with Dean. So many industries and so many ways as the months add on to other months add on to other months, there's going to be ripple effects throughout the American economy of the type that Dean is talking about. They're predicting 30 percent unemployment, which would bring it in line with the Great Depression.

Bill Curtis: Dean, tell me a little about how you see the role of government in managing this type of economic crisis.

Dean Baim: Well, that's a good question. And again, we're in uncharted territory. You know, you can't go out and pull down the principles of macro-economic textbook and say, oh, yeah, the last time that we were running a 3 trillion dollar deficit, which if you add the 2.2 trillion dollar bailout from last week, we're pushing three and a half trillion dollar deficits. The last time that we had everyone ordered to stay at home and this is what worked. We don't know. They're doing the obvious things. With respect to interest rates the Federal Reserve has done pretty much all that it can do. But then again, what happens when you have a deficit that's right now at close to a third of the gross domestic product of the United States. And if there is going to be another bailout of another two trillion dollars, I don't know what the lasting impact of that will be on the economy.

Ed Larson: The president and the Congress, they extended unemployment compensation, and they increased it. So basically, many people at the lower end would

be making as much unemployed as employed. I fear that was a very short sighted way to go. It's not the way they're going in England, it's not the way they're going in Denmark. They're instead of extending and expanding unemployment, they are taking over the payment of the employer's obligations. And so they're keeping people employed. It really wouldn't cost much more. Now are two advantages to that. If you keep people on employment, if they're getting their checks through their employer as it's happening in Denmark and England, then they're still employed and they have the hope and expectation of a job when they get back. In fact, that's part of the provision. Also, they don't have to worry about health care insurance. In America. when you go on unemployment, you lose your health care insurance. And when you need health care insurance more than right now, we're disrupting the economy in ways we don't need to. People are losing their jobs. They have no idea if they'll be brought back when this is over. Sure, they're taking care of for a couple months. So I think we could have done this in a much smarter way.

Bill Curtis: How do you see something like this turning around? Are people just going to get snapped right back up when the virus appears to be gone and and be back to full employment? Or is it going to be a slower, more arduous process?

Dean Baim: You know, 30 percent of the restaurants go under. So each one of those restaurants hires five to 10 people. And so those people now are without income. Maybe they'll get some benefits. Even the companies that make it through, if they're getting these business loans, they've got to pay those loans off. So they're going to be even more fragile. I think what we might be seeing, particularly if this lasts another couple of months, you might be seeing a change in attitudes. I went three months without going out to eat. Maybe I don't need to do that anymore. May even begin to see businesses change and that if I could have all my workers work remotely, why do I need this big office? And so real estate may be affected as well. Yeah. I don't even know if there's any way that you can judge the impact this is going to have on all the different sectors of the economy.

Bill Curtis: So with a long term domino effect like you're talking about, tell us a little about how the banks are going to handle small business loans, mortgages, medium and big business covenants. How does that do anything other than explode months from now, causing further devastation?

Dean Baim: Now you end up with a bank that has a balance sheet where its assets aren't equal to their liabilities. So you could end up with the Federal Reserve coming in or maybe the federal government at some point come in and just buying the bad assets. If the Fed or the federal government comes in and buys it for eighty thousand dollars, then the bank still has some bank equity in it. So that may be a little easier to solve if we get to that point. If that ends up being the hitch.

Bill Curtis: Well, let's take a quick break and we'll be right back.

Jenny Curtis - promo: Hello out there. This is Jenny Curtis. I am a human of the world, a podcast producer at CurtCo Media, a performer, a creator, a very sensitive soul, as I've sometimes been told. And I am currently sitting alone in a very empty podcast studio surrounded by hand sanitizer. And I'm recording this in an effort to reach out. It's not an easy time right now. I think a lot of us are thrown completely off balance by this sudden shift into isolation and anxiety. We don't know what the day to day is going to look like for the next few weeks or even months. So I'm proposing something. Let's all make something together. We're launching a new podcast called A Moment of Your Time. These are bite-sized episodes. And each one features you out there. You've a statement to make? Make it. A story to tell? Tell it. A song to sing? Sing it. An open letter to read, a comedy bit, a place to share your hopes and fears, A poem, a peptalk to yourself. We just want to have a place where people can express themselves, where you can listen to each other, where you can support one another. If you have questions or to submit, just email amomentofyourtimepodcast@gmail.com. We may have to stay apart but let's create, together.

Announcer: What are you gonna do about.

Bill Curtis: Well, we're back. And I'm here with Ed Larson and Dean Baim. Let's go to you, Dean. You authored a piece called Olympic Driven Urban Development in Olympic Cities.

Dean Baim: I did.

Bill Curtis: So very apropos here. So let's start in Japan, where Prime Minister Shinzo, he's executing his own stimulus package. But however, they've been banking, sorry, on the Summer Olympics. Tell us a bit of what must be going on with their preparation, their businesses large and small, with the idea that the Japanese government now is waiting an extra year before their Olympics and they've spent, what, twenty five billion dollars preparing for this Olympics? Who's going to bail them out?

Dean Baim: Well, the most of the preparation is already done because the Olympics are supposed to start about four months from now. So the buildings are built there for the most part. The railways, if there were any additional railways, were dug. What's going to be the sector of the economy that probably hurts the most will be the sector that's hurting around the world and that's going to be hospitality. They were looking for or perhaps no more than they normally have. Olympics, oddly enough, don't usually draw higher occupancy rate in hotels than a normal year. But the people who are there pay a lot of money to stay in the hotels. Corporations will rent out the entire hotels to keep their award winning staff happy when they win a trip to the Olympics and so forth. So the hospitality area is going to get hurt. Not only, you know, they were banking on big spenders coming in. They were hoping to get a group of people who will be happy to be there. Now, those are all going to be gone three months in a world where no one is traveling, they're going to have to try to find some replacements. And I don't see that that's going to be something that they can do.

Bill Curtis: Let's go international, guys, because I'd like to understand a little of how this is affecting trade. Is trade virtually on hold right now, internationally? And what does that mean?

Dean Baim: Every indication is that international trade is suffering. You've got factories in China that weren't able to be operating for a long period of time. You now have trade being restricted between countries for concern that virus might be spread. The results that I've heard are that down here in San Pedro, the shipping, receiving and outgoing has dropped dramatically.

Ed Larson: Overall, demand has just plummeted. And if demand plummets, that means foreign trade plummets because much of those things that we buy come from overseas. But it hurts us because exports too. Think of Europe, demand's dropped there, demand

has dropped in Asia and then think of the developing countries. They're facing a collapse that makes ours look like we're in Disneyland.

Bill Curtis: Let's take a look at supply chains for a minute. Where so many manufacturers get some of their parts from abroad and they've gotten so good at just in time manufacturing that they get their parts, assemble them and ship out a car or television or a boat or plane or whatever it is they are building. Tell me about what is likely to happen to American businesses, even in a kind of a restart where the supply chain has been so broken as it is now?

Dean Baim: Well, on that, that's part of the problem with the automobile industry. But even if the parts are assembled here in the United States, the parts come from all over China, Korea, Germany, Mexico. And if those supply chains have been interrupted then you're not going to be able to assemble a car because you're going to be missing parts. I think one of the reasons why you're seeing car companies volunteer to make the ventilators is. They don't have the wherewithal to make the cars anymore. No one wants to buy them anyway. No one can go to car dealers and so forth. So next best thing is let's make something else, we'll make ventilators.

Bill Curtis: At a time where all countries are focused on not drowning from this virus internally, what happens to the countries that are only borderline stable in good times?

Dean Baim: It's going to be destabilizing. You can expect probably political, economic. And to add to this, some of the countries, at least in their initial response or where the United States was, say, four weeks ago, said eh it's no worse than a cold. And the learning curve seems to be necessary in each country. And Brazil ends up sending a lot of car parts and things like that to the United States. So to the extent that they will experience a spike, that's going to be a kink in the supply chain.

Ed Larson: And Mexico is doing the same thing as Brazil's. The president is saying, oh, it's just like the flu. Don't worry about it. Everybody stay out. Everybody keep going out. He's going out. He's still hugging people. When this hits Mexico. Mexico is just integrated right into the center of everything that America produces. I've heard the other day the entire country of Mexico only has 1500 ventilators.

Bill Curtis: Will the U.S. stop international aid?

Dean Baim: I have long since given up trying to figure out what the United States will do.

Ed Larson: My guess is we've already recalled the Peace Corps, wisely, from the entire world. And when we cut back on aid and let these countries go on their own, we cut back American influence.

Bill Curtis: So prior to this pandemic, we were looking at issues like Iran with sanctions that were designed to place a chokehold on their economy and influence the nuclear negotiations. But that was then and this is now. So. So now what?

Ed Larson: Actually, there are very mixed reports. And it's hard to see the United States as having much ability to react now because the Navy is in a very awkward position because those ships are like cruise boats. Many of the sailors are getting sick. Reports indicate we're pulling out of bases in both Iran and in Afghanistan because the virus is spreading in those areas. So how can we move our military safely in to do anything when these are the situations?

Bill Curtis: So I can't help but put you on the spot, Dean, for our listeners who are in various positions ranging from staying home because they're in a salaried job that has suggested that they stay home or maybe that they work by the hour and they're not getting paid right now. And they're looking at some of these relief promises that they see on television and they're hoping that helps them out. Tell us, what do we do right now? What's your advice on how we should handle our day to day, week to week existence and optimize our family's future?

Dean Baim: You know, as far as where to put my money, should I go buy something? I'm not sure that there's any sort of general advice to give, but my thinking is if we can get our arms around it at a distance of six feet or course, get our arms around this virus, the quicker we'll be able to resume something that resembles what we did before.

Ed Larson: Let me just underscore what Dean is saying, because it was truly emphasized by a report that came out just today from two top economists at the

University of Chicago. They looked at this situation and they said, yes, just as Dean's saying, you got to solve the health problem first and that if you try not to do those things, you're going to cost the American economy eight trillion dollars.

Bill Curtis: We've got to bring ourselves back home just a little bit, because from an economic perspective, there are things you have to do. You should talk to your banks. Believe it or not, nobody actually wants to go out of their way and talk to their bank. It's a scary thing to do, but you should talk to your banks and find out whether your mortgage is with one of these banks that is actually looking to develop a closer relationship with you and allow you to take a vacation paying your mortgage. You should check that out. And believe it or not, banks are allowing people to take a two or three month vacation from paying their mortgage. So when we turn on CNN, when we see stuff about two trillion dollars here, six trillion dollars in the future, a fourth stimulus package, all of this stuff just gets blurry when you're trying to think of how are you going to buy food for your family, pay your own mortgage and survive.

Dean Baim: Too often things are us against them. Me against them. That the bank is against me. The bank is my enemy. Not really. The bank is in this with you. And oftentimes banks would much rather renegotiate a loan, would rather for-bear some back payments and so forth, rather than try to write the loan off. So I think talking to people with whom you owe money, explaining your situation, truthfully, I think people would be very willing to work with you if they have any flexibility to do so at all.

Bill Curtis: Well, for our listeners, we want to thank both Ed Larson for joining us again and Dean Baim. Thanks for coming in. And I'm not sure you cheered us up very much today. But then again, I didn't want to present a false hope either. And all I can say is that until the next time that we remotely meet on Politics, Meet me in the Middle. You guys stay socially distant and hopefully gainfully employed. Be well.

Bill Curtis: If you like what you hear, please tell your friends and let us know how we're doing by leaving a comment. It really helps if you give us a five star rating and we really appreciate it. You can also subscribe to the show on Apple podcasts, Stitcher or wherever you listen to your favorite podcast. This episode was produced and edited by Mike Thomas. Audio Engineering by Michael Kennedy. And the theme music was composed and performed by Celeste and Eric Dick. Thanks for listening.

Announcer: From Curtco Media. Media for your mind.