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The Impact of Covid-19 in the United States: An Analysis of Alphabet-Shaped Recovery

Wali I. Mondal
National University
Professor, National University
United States of America

Pani Chakrapani
Professor, University of Redlands
United States of America

Abstract

On March 11, 2020, the World Health Organization (WHO) declared Coronavirus Disease 2019, otherwise known with its acronym COVID-19 as a Pandemic. In terms of global comparison, the Pandemic resulted in proportionately higher number of people infected resulting in the highest number of deaths as a percent of population in the United States. As a result of lock-down and other preventative measures, the U.S. economy plunged into a deep recession. Starting in late November 2020, United States adopted a more aggressive and all-out efforts at containing the Pandemic. A significant part of the U.S. government's efforts at reducing the impacts of the Pandemic was massive infusions of two stimulus packages. While the government's efforts appear to be successful to a great degree, the path to recovery, especially the shape of the recovery curve remains unknown at the present time. The objective of this paper is to analyze the alphabet-shaped economic growth curves with a view to predicting the exact nature of post-COVID recovery.

Introduction: Even before the WHO declared COVID-19 a Pandemic, the severity of the virus was being felt across the United States; however, the government downplayed its impact. As a result, the impact of Coronavirus was disproportionately higher in the United States than the rest of the world. United States contains approximately 4.2 per cent of the world population; however, at its peak, over 25% of total cases of COVID-19 and over 20% of deaths attributed to the virus was reported in the country.

The furious spread of Coronavirus in the United States may be attributed to a number of factors. The slapdash way with which the deadly virus recognized coupled with chaotic policies of the Federal, State, and local governments accounted for wild-fire type spread of the virus and countless preventable deaths. On the positive side, efforts of the scientists in developing a vaccine were bolstered with speedy tests and eventual emergency use authorization of a novel vaccine known as mRNA vaccine. Table 1 below summarizes the unequal burden of COVID-19 as of January 2021:

Table 1: The Unequal Burden of COVID-19: Global Perspective, January 2021

Country	Population (millions)	% World Pop.	Deaths	% Global Death
India	1380	17.7	157435	6.16
USA	**331**	**4.24**	**513071**	**20.08**
Brazil	213	2.73	257361	10.07
Russia	146	1.88	87823	3.43
U.K.	68	.87	123783	4.85
France	65	.83	87093	3.41
Italy	60	.77	98637	3.86
World	7800	100	2554694	100

Source: Compiled from WHO and CDC data

The COVID-19 Recession, 2020

On June 8, 2020, the National Bureau of Economic Research (NBER) declared that the U.S. economy entered into a recession ending the longest peace-time expansion of 128 months or 10.5 years. COVID-19 pandemic has had a significant effect on unemployment in every state, industry, and major demographic group in the United States. The major measure of a recession, unemployment rate, peaked at an unprecedented level, not seen since data collection started in 1948. In April 2020, unemployment rate hit 14.8% before declining to a still-elevated level of 6.7% in December. Current-dollar GDP decreased 2.3 percent, or $500.6 billion, in 2020 to a level of $20.93 trillion, compared with an increase of 4.0 percent, or $821.3 billion, in 2019. Measured from the fourth quarter of 2019 to the fourth quarter of 2020, real GDP decreased 2.5 percent during the period.

The government's efforts to revive the economy began in March 2020 with the passage of the first stimulus bill known as the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act of 2020. It was a $2.2 trillion economic stimulus bill passed by the 116th U.S. Congress and signed into law on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States. The economic relief plan includes direct payments to Americans, strengthened unemployment insurance, loans to businesses and increased health-care resources. The provisions of the first stimulus package appeared to be targeted more to the wealthier segment of the population. The cash stimulus in the amount of $600.00 per person for low and middle-income families was perceived to be too small to create a significant ripple effect. Below is a summary of the impact of the CARES Act, 2020 as it related to the employment situation:

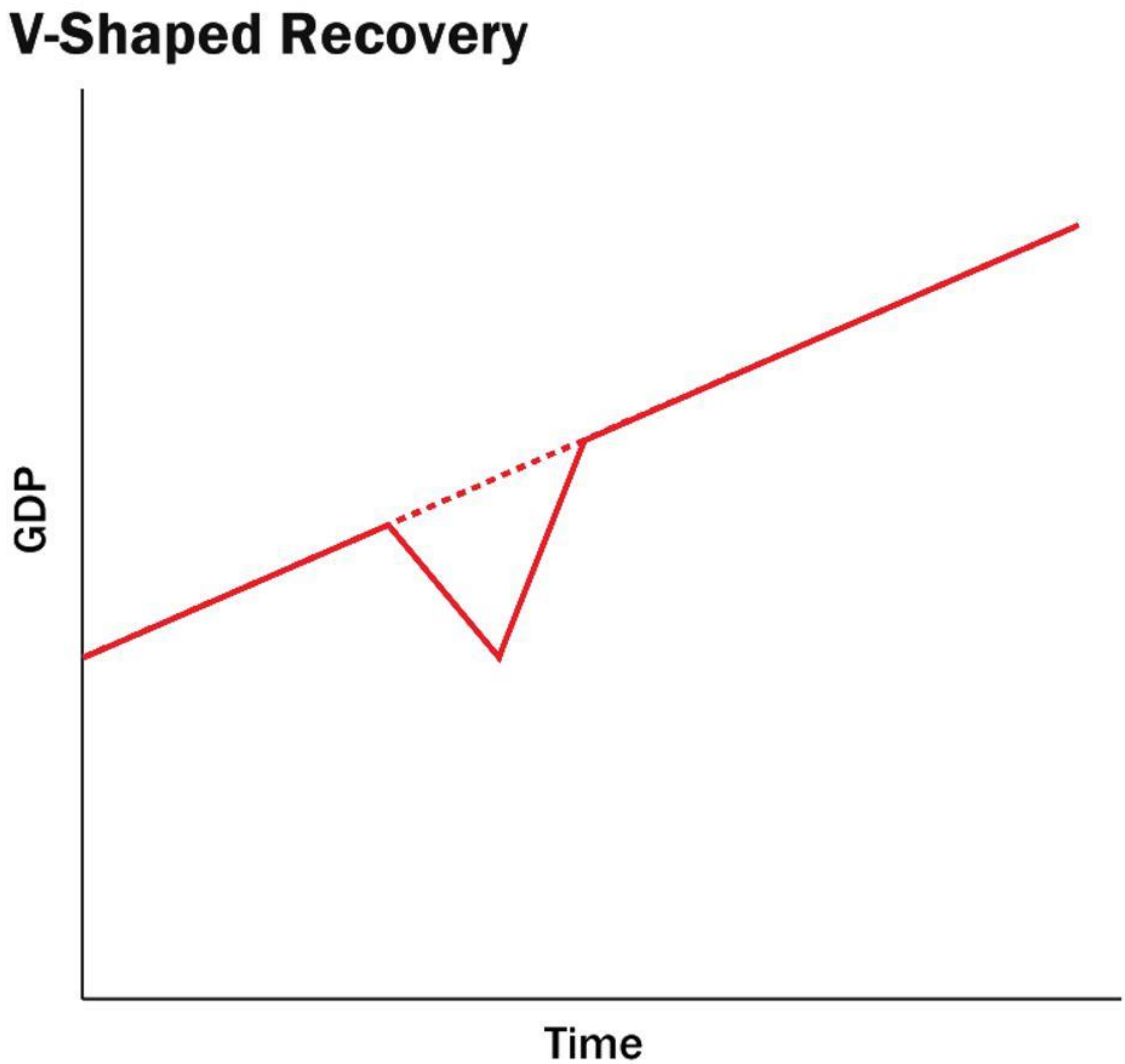
- Young workers, women, workers with low educational attainment, part-time workers, and racial and ethnic minorities had relatively high unemployment rates. In the early months of the recession, unemployment was concentrated in industries that provide in-person services. Notably, the leisure and hospitality industry experienced an unemployment rate of 39.3% in April, which gradually declined to 16.7% in December.

- Part-time workers experienced an unemployment rate almost twice that of their full-time counterparts in April (24.5% vs. 12.9%), but this gap has since effectively closed.

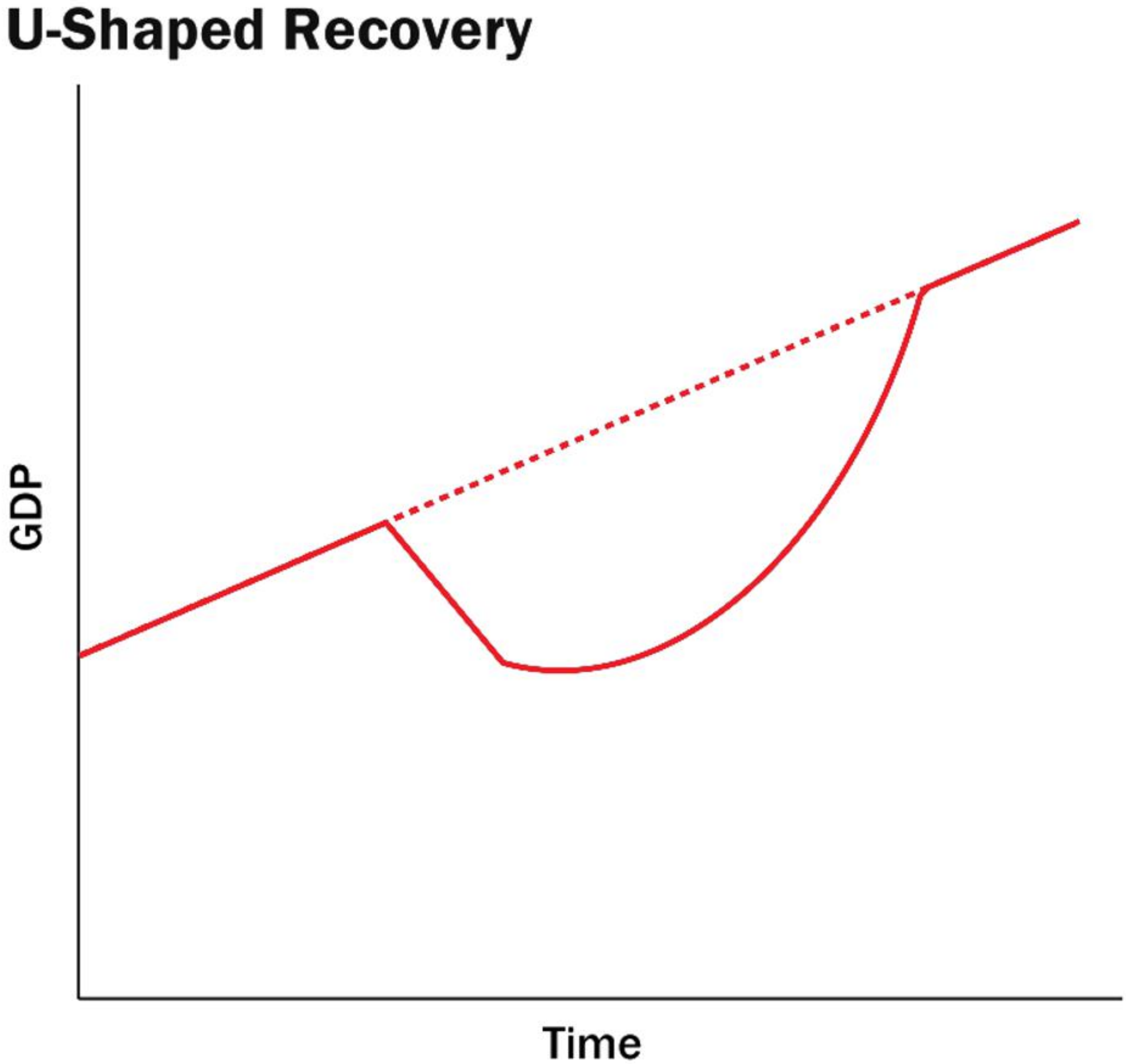
An early evaluation of the stimulus package prompted economists to evaluate various shapes of economic recovery curves. The following section summarizes the discussions of economic recovery with particular reference to specific recovery curves.

ALPHABET -SHAPED RECOVERY: V,U,K,W, AND L

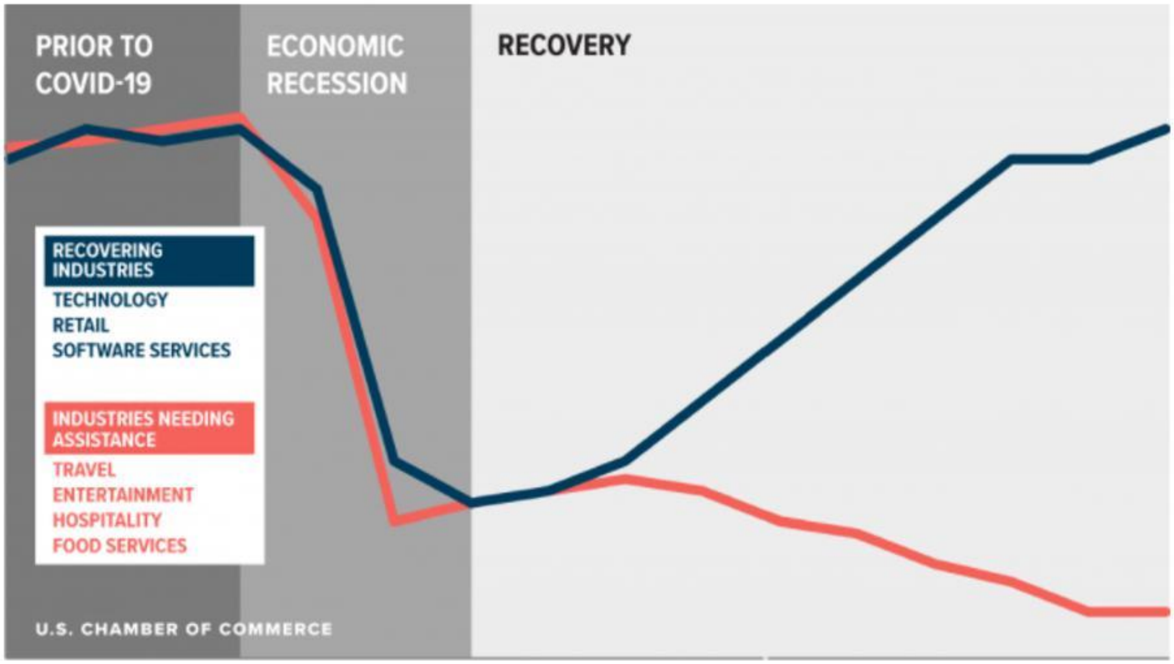
THE V-SHAPE RECOVERY: The economy bounces back quickly to its baseline before the crisis. Growth continues at the same rate as before. This is one of the most optimistic recovery patterns because it implies that the downturn did not cause any lasting damage to the economy.



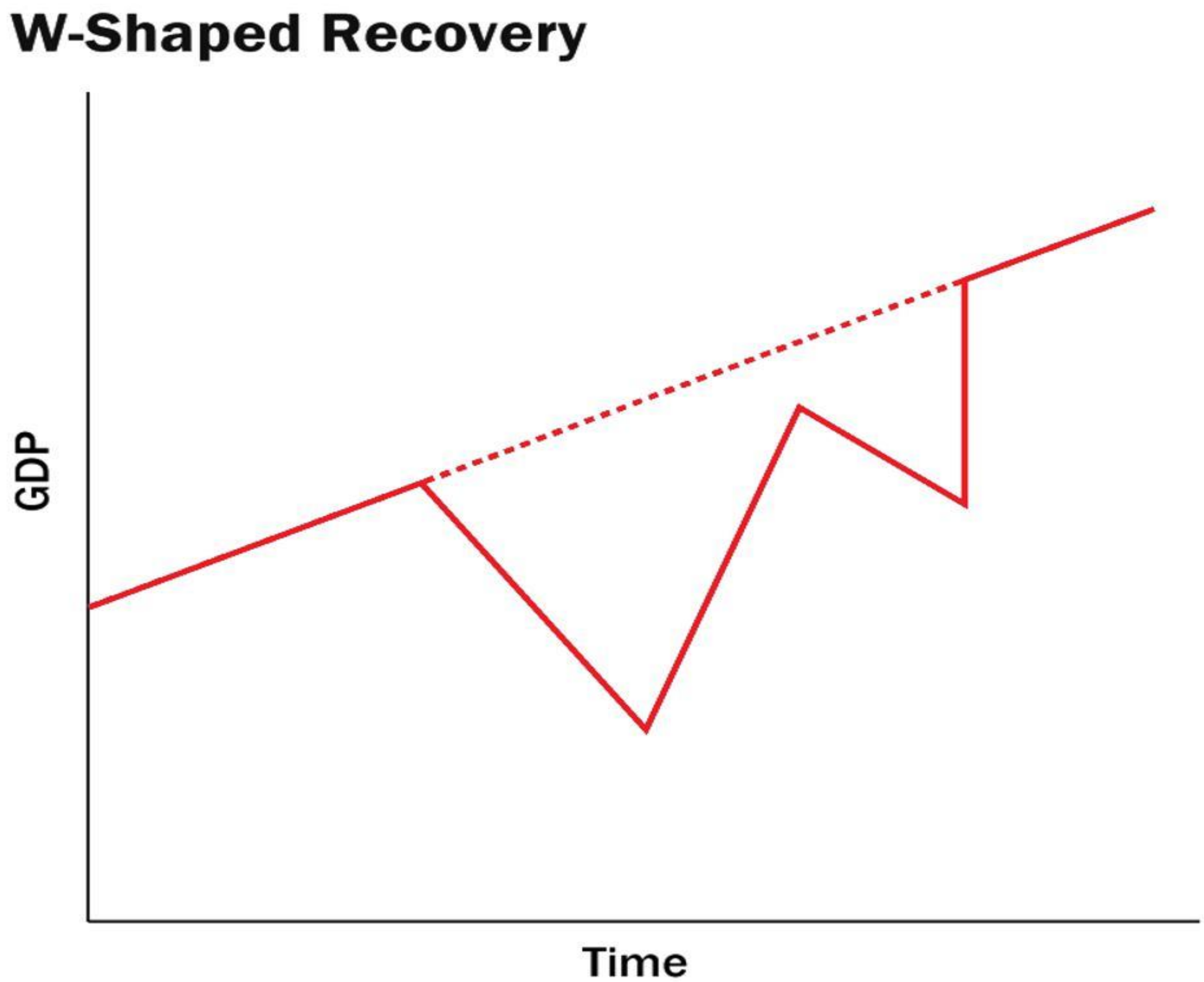
THE U-SHAPED RECOVERY: The economic damage lasts for a longer period of time before eventually reaching the baseline level. The economy bounces back, but the damage at the bottom lingers for a while**.**



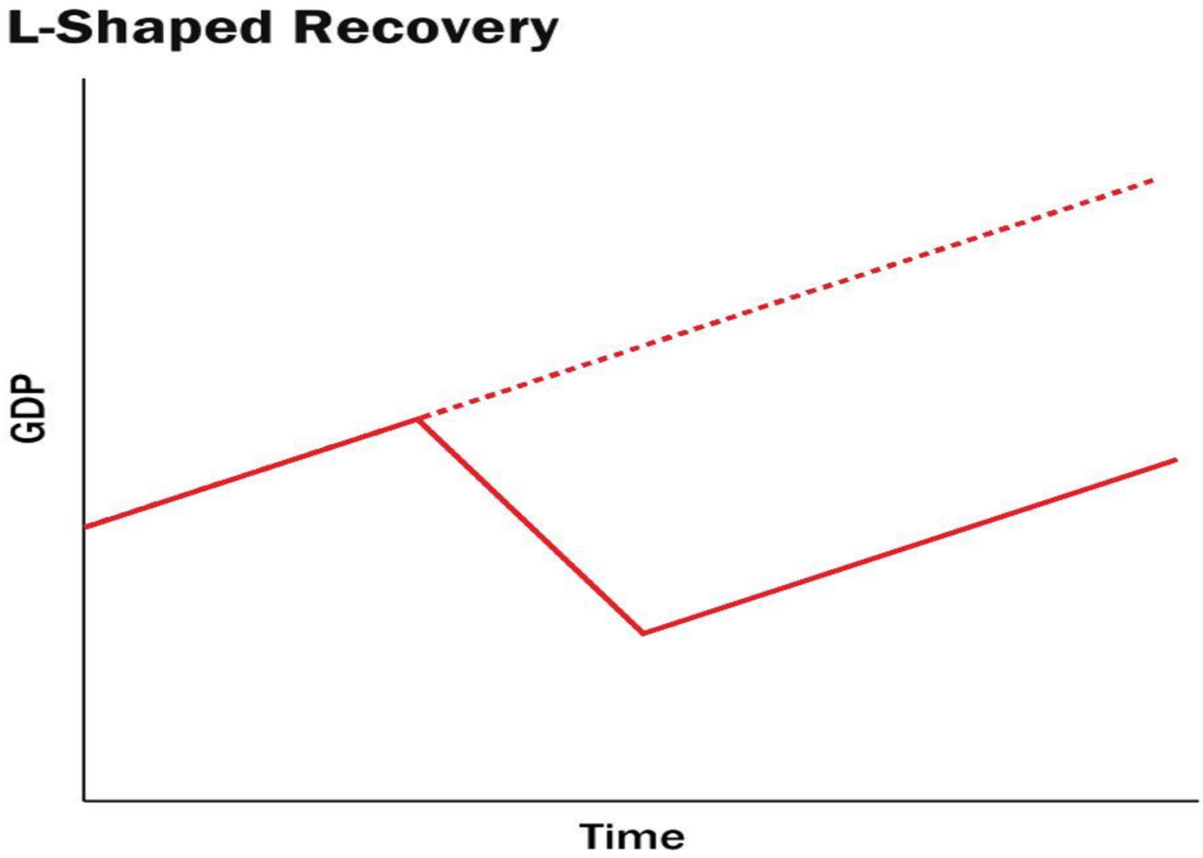
THE K-SHAPED RECOVERY: A ‘K’ means an unequal recovery – wealthier Americans do well but poorer Americans remain stuck in recession**.**



THE W-SHAPED RECOVERY: In a W-shaped recession, also called a double dip, the economy moves beyond a recession into a period of recovery before falling back down into another recession. The initial recovery is sometimes known as a bear market rally**.**



THE L-SHAPED RECOVERY: An L-shaped recovery is the most pessimistic scenario where the economy recovers to a certain degree from a steep drop, but growth fails to reach pre-crisis levels for years. A period of economic stagnation follows.



An Early Evaluation of Fiscal Stimulus Packages: In order to revive the economy, the government enacted three major stimulus packages between March 2020 and March 2021. These packages are the CARES Act of 2020, the Consolidated Appropriations Act of 2020 and the American Rescue Plan of 2021. The cash incentives of these three packages created a total impact of $5.00 Trillion broken down as follows:

- CARES Act of 2020 $2.2 Trillion
- Consolidated Appropriations Act of 2020 $.9 Trillion*
- American Rescue Plan of 2021 $1.9 Trillion

* The Consolidated Appropriations Act of 2020 was worth $2.3 Trillion, of which $.9 Trillion was targeted for direct payment to families and businesses.

The combined cash incentives of the three stimulus packages amounted to 23.89 per cent of U.S. GDP at current prices in 2020. The highest impact of the stimulus is created from direct expenditures of household. However, as Table 2 below shows it, direct expenditures of household progressively declined as additional stimulus was provided after the CARES Act of 2020.

Table 2: Differential Spending Patterns of Households of Three Stimulus Packages

Share of Expenditure (%)	CARES Act	Consolidated App. Act	American Rescue Plan Act
Direct Expenditure	74	22	19
Payoff Debt	11	51	49
Savings	14	26	32

Source: U.S. Census Bureau: Household Pulse Survey, April 2021

Adapted from: Peter G. Petersen Foundation
https://www.pgpf.org/blog/2021/05/how-did-americans-spend-their-stimulus-checks-and-how-did-it-affect-the-economy

The above results led to the speculation by some economists (Kelley, 2020) about the positive impacts of the stimulus packages. Kelley points out two negative aspects of fiscal stimulus, including Ricardian Equivalence Theorem and Crowding out Effect. Ricardian Equivalence Theorem states that fiscal stimulus may not increase aggregate demand since consumers believe such infusion of resources will lead to increased taxes. As a result, consumers will resort to higher savings. The Crowding out Principle is a critique to Keynesian argument of boosting aggregate demand through fiscal stimulus. There is some evidence that fiscal stimulus financed through public debt results in lower private sector investment and higher interest rate. It is not the objective of this paper to dwell on these arguments except to mention these criticisms. Still others predict that the shape of the recovery will be differential across economic sectors leading to a K-Shaped growth (Lipsky and Biyani 2020). However, as the first quarter growth of the U.S. economy suggests, these predictions are pre-mature.

Current Evaluation of the State of the Economy: The U.S. economy bounced back during the first quarter of 2021. According to the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real GDP of U.S. grew by 6.4 percent largely due to increases in personal consumption expenditures, nonresidential fixed investment, federal government spending, residential fixed investment and state and local government spending that were partly offset by decreases in private inventory investment and exports.

Summary and Conclusions: Within months of the onset of the COVID-19 Pandemic, the U.S. economy dipped into a recession in February 2020. This prompted the government to create fiscal stimulus packages during 2020 and 2021. Three fiscal stimulus packages were enacted within the span of a year. The combined size of these packages equaled approximately 24 per cent of GDP. The massive infusion of fiscal stimulus resulted in a significant increase of aggregate demand as evidenced by the real growth rate of GDP by 6.4 per cent during the first quarter. Even though it is too early to predict the shape of the recovery, particularly when the Pandemic has not been declared to be over, the first quarter growth rate of the GDP indicates a V-Shaped recovery is likely.

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