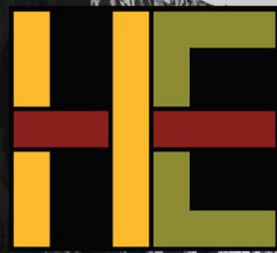


ON THE OTHER HAND

THE NEWSLETTER OF HARVEY ECONOMICS



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Reflections on COVID-19

This Harvey Economics (HE) newsletter will address a topic I had never even heard of six months ago. First and foremost, we hope that you, your family and colleagues are healthy and safe. We at HE are doing fine, busily working on HE business from home and waving the HE flag from our rooftops. Phone calls and mail are being forwarded from our office to Jess for distribution to the rest of us. We are fully embracing the challenges of this current work environment.

This letter might have addressed many topics, but there seems to be only one thing on people's minds right now. You correctly recognize us as economists and moreover, folks who project all sorts of socioeconomic and business phenomena. So, I cannot escape this elephant in the room; we must offer our reflections on COVID-19.

Let me say outright that all forecasting is based on what exists or is known to have happened in the past. The epidemiological models, the economic models, the public sector responses, and our own personal reactions to it all seemed new in the beginning, so the stumbling and inconsistency we saw was understandably bad, while only the Virus seemed to know where it was going. But we are getting our sea legs now, and true leaders are stepping up, backed by thoughtful science.

The foundation of our economies, local to worldwide, are composed of simple transactions of one party selling or trading something of value to another party. The number, speed, and nature of those transactions determine the size and health of an economy. When these transactions recently slowed to a crawl, it was as if blood had stopped flowing in our economic body. Governments are now attempting a mass transfusion.

Having spent much of our adult lives on the topic of impacts, you may ask what will be the socioeconomic impact of all this? Again, we have no models or past experience to accurately estimate this unknown future. However, we can offer some observations based on our knowledge and what we see happening:

1. However well intentioned, the public sector response will falter because it has never taken on something like this before and in the U.S., we have thinned out government at all levels. As a result, the "transfusion" will come late, too late for some individuals and businesses.
2. Countering this effect will be the profound ability of individuals, businesses and organizations to adapt. We often underestimate this extraordinary adaptability in very difficult times.
3. The central question will be forbearance. Money owed and debt obligations will hang out there. To avoid a very serious economic dislocation, these obligations must be stretched out across all sectors. The Federal Reserve appears to be emerging as the guarantor of last resort.
4. There are 250 plus pharmaceutical efforts and many great minds across the globe working 24/7 to find a treatment or vaccine. COVID-19 will be corralled. And lessons will be learned around the world as to how to wrangle other similar viruses in the future.

So, economically, there will be very substantial, widespread, temporary impacts, but we can expect to muddle through.

The social part of this socioeconomic impact is most interesting. World wars changed the social fabric around the world. Katrina changed the social fabric in New Orleans. The COVID-19 effect on living patterns will last long enough that individuals and businesses might come out of this experience with different sensibilities. Shifts in priorities and value judgements are possible. We should be prepared for these changes and their economic ramifications long term. And, perhaps, there might even be some long-term positive benefit from this terrible Virus. Let's hope so.

The Harvey Economics team is charging forward on all cylinders. We are here for you now and throughout this pandemic, as we all adjust to this new world. We wish all of you a smooth transition and good health.

Ed, Susan, Jess, Kegan, Cae and Jackie

