Mike Kearney: Welcome to Resilient. My name is Mike Kearney, the Risk & Financial Advisory CMO. When I started the Resilient Podcast way back in 2016, the inspiration was get to the stories of leaders who had previously led through crisis, risk, and disruption. Kind of our tagline. But as part of this new series on the Resilient Podcast, we are hearing the stories real time as we make our way through the COVID-19 pandemic. Today I am talking with Dr. Ira Kalish, Deloitte chief global economist, who brings a comprehensive perspective of the impact that COVID-19 is having on our economy.

We have lots to cover today, including the most significant risks to the economy today: The impact of government measures to sustain the economy, lessons from the past that may help us recover, and what we should be paying attention to over the next month or two. So just like other conversations in this series, we are doing these conversations virtually, and I have to say, the audio is actually sounding pretty good. So without further ado, let’s get to my conversation with Ira Kalish.

Ira, I want to start this conversation like I have all of the other conversations—on a lighter note. And that’s the fact that obviously COVID-19 is having an impact on us working at home. And it’s really important that we take care of ourselves during these challenging times. So my question for you is: What are you doing to manage your well-being? Over the last, I think we’re in our sixth week now, which is just incredible. What are you doing?

Ira Kalish: Well, every morning my wife drags me out of bed and forces me to go for a run as the sun is coming up and, I’m like, I don’t want to do this. But then after I do it, I feel much better and that makes the day go a lot better. And then late in the afternoon between, phone calls, she drags me out of the house and makes me go on a long walk. And again, I don’t feel like doing it, but once
I do it, I feel much better. So that's how I'm staying well.

Mike Kearney: So your productivity is totally dependent now on your wife, and you fighting back at her every morning and afternoon. Okay. So let's move to a serious note. I'm going to mark the date given the fact that many of your responses, Ira, are going to be contingent on where we're at. So today is April 21st and I'd love to start off with what are the most significant risks that you see to the economy today and on a go-forward basis?

Ira Kalish: The goal of policy has been to basically put the economy into a place so that people don't interact with each other. And in the process, we suppress the virus and hopefully make it go away. And then use the tools of government to spend money to protect people in businesses from the economic ravages. And that's what we've been doing. And I think it's been largely successful so far. I think the risk is that we move away from that policy too soon. And there's already talk, not only in this country but in a number of other countries, of quickly easing restrictions on economic activity. And with good reason because people are frustrated. We've seen a massive increase in unemployment. People are worried about the impact on the economy and on human beings, but the reality is that if we lift the restrictions too early, the virus could come back and then we'll suffer grievous economic consequences in addition to the public health consequences. I see that as a big risk at this point. The health professionals tell us we should do it once we have in place the ability to engage in mass testing and tracing, which would then be the next way to suppress the virus.

Mike Kearney: Would it be safe to say that you are pretty positive on the CARES Act [Coronavirus Aid, Relief, and, Economic Security Act] and the impact that that's going to have on sustaining the economy?

Ira Kalish: I think the CARES act was a good thing. And as you know, there's, as we speak today, there is already action taking place in Congress to expand on it and there will likely be a fourth bill, and maybe even a fifth bill, to expand some of what the CARES Act did. But I do think it is the right thing to do because it does help to protect households and small businesses, especially from failure. And you know, it will be especially effective if the outbreak of the virus is relatively short lived. So if we're successful through lockdowns, and other things, in suppressing the virus, and then we can begin an economic recovery in the not-too-distant future, then the CARES act will have enabled us to weather that storm. The risk, though, is that if we have a much longer outbreak, or multiple outbreaks that come in waves, the CARES Act alone won't be sufficient. And even if we spend more money, there may be a limit to how much money government can spend to keep a business active if it has no revenue. I think we'll be best off if the lockdowns are successful in suppressing the virus, if we invest heavily in testing and tracing and use that going forward, should the virus come back.

Mike Kearney: Do you see other relief coming on the horizon?

Ira Kalish: I think these are the things that are needed to be done in this country. And, of course, the Federal Reserve also did a major job of trying to protect the financial system and unplug the financial system and prevent it from seizing up. What the Fed and the Congress have done are appropriate for this country.

But there are risks from what might happen outside of this country. For example, we're looking at the possibility of a severe outbreak in many emerging countries. And they need help because they don't have the resources we do. They have, in many instances, a greater population density, not only in big cities, but even in people's homes. There's a greater risk of a serious outbreak and a greater risk to economic failure and even starvation. So I think it will be necessary for the rich countries to support those countries. And there is talk of the G20 [Group of Twenty] providing debt relief to emerging countries. The IMF [International Monetary Fund] and the World Bank are planning to provide financial resources to poor countries. They're at risk, not only from the virus, but of an economic downturn. We're already seeing food insecurity in many of these countries with a rise in the number of hungry people, and that could come back to haunt us because the virus could come back to us from emerging countries. And if there is a huge spike in poverty in those countries, there'll be a greater impetus of people to migrate to countries and, in the process, bring the virus as well. I think the next step really is to do what we can to suppress the virus around the world.

Mike Kearney: Ira, I think I read somewhere that even if in these emerging countries they don't have that virus outbreak, or maybe to the extent that's expected, they still potentially are at risk. Is that what you are seeing as well?

Ira Kalish: I think they're at risk in a number of ways. They're at risk of the virus outbreak in part because they don't have the right medical infrastructure. In part, because it's more difficult for governments to enforce the lockdowns that have been put in place, and in part, because there's greater population density. On the other hand, many poor countries are in tropical climates where if this virus turns out to be temperature sensitive, and we don't yet know if it is, then they may be less at risk. In poor countries you have smaller elderly populations and those are the people most at risk. And the elderly tend not to live in urban areas as much as young people do. There are a number of mitigating factors, but even absent a big outbreak many of these countries, such as India and South Africa, have imposed lockdowns. There will be serious economic consequences from that. These are countries that also are already highly exposed to other types of contagious illnesses. There's a potential for serious problems of a wide range in those countries. From a humanitarian point of view, but also from a self-interested point of view, the rich countries should be paying attention to that and trying to do something about it.

Mike Kearney: Ira, I think it would be safe to say that we're in the middle of a financial downturn, but I'm curious, what indicators are you tracking to understand the severity?

Ira Kalish: The problem with this crisis is it happened so quickly that the usual...
economic indicators, the usual monthly data, doesn’t show what’s going on until a month after it happened. It’s better for us to look at higher-frequency data. Things like new claims for unemployment insurance, which are way, way up. There is data available from specific industries showing what’s going on in those industries such as air travel, and restaurant reservations, and electricity generation. And all of these things are showing catastrophic drops in economic activity. And then financial market data shows us a lot. For example, early in this crisis, we started to see indications that financial markets were starting to seize up. We saw a rise in risk spreads, a rise in the prices of credit default swaps, a drop in the prices of asset-back securities. And it was at that point that the Federal Reserve took unprecedented action to try to unclog financial markets. And it was effective in that those indicators started to reverse. Some of the indicators we’re seeing, like the drop in activity in airlines and restaurants and so on—it’s because of lockdowns. It’s because the government has engineered a drop in economic activity with the intention of suppressing the virus. As a consequence, one of the most important indicators to look at is the number of new infections and the number of deaths from the virus.

The good news is that in those countries that started with a policy of lockdowns, like China and then Western Europe—in China, we saw the almost complete suppression of the virus. In Western Europe, we’ve seen a flattening of the curve and a sharp drop in the number of new cases. And the data for here in the US is that we’ve passed the peak. And while we haven’t flattened the curve yet, we seem to be on our way and there appears to be some light at the end of the tunnel. I guess you could say that the most important indicators to look at for the economy are the epidemiological indicators.

Mike Kearney: You mentioned China. Is there anything that we can learn from China’s recovery, which I think is a couple months ahead of the US? Is there anything that you’re looking at that obviously will portend to, what we may see in the US?

Ira Kalish: What we did learn from China is that lockdowns work because they had very draconian lockdowns in China. That did lead to an almost complete suppression of the virus. While we’re seeing pockets of the rebound of the virus in different geographic locations in China, for the most part, it seems to be under control. And that was a result of a lockdown that also resulted in a very sharp drop in economic activity. But once that happened in February, by March, we were able to see a gradual easing of restrictions and a gradual rebound in economic activity. It’s very gradual because there is the recognition that the virus is still out there and could come back. They’re not going back to normal behavior. Factories are not operating at full capacity because within the factory buildings they’re trying to maintain a degree of social distancing. Restaurants are open, but from what I understand, people are not coming back in big numbers. The government is being very cautious in China about easing restrictions as well. I think what that’s teaching us is not to expect a “V-shaped” recovery. That when the economy starts to recover, it’s going to be very gradual. And I think we’ll only really pick up speed when we hit the point where we’re fully convinced and confident that the virus is behind us.

Mike Kearney: I wish I could ask you when that’s going to be. Can I ask you that, Ira?

Ira Kalish: We’ve been working with multiple scenarios because nobody really knows the answer. There is a lot we don’t know about this virus. We don’t know if it’s seasonal. We don’t know if when people become infected, if they become immune to it. There are some indications that people are getting it again. There’s a lot we don’t know about the virus itself. We also don’t know how effective the policies are, how well they’re being implemented or enforced. These are all questions. It’s hard to make a prediction. Instead, we have a variety of scenarios that we’re working with. Each is a different epidemiological scenario and has different implications for the economy. I’d say the best-case scenario, here in the US would be that the lockdowns persist, are effective, and that by late May, early June, we’re at the point where the virus is mostly suppressed and we can start, in a significant way, to ease economic restrictions. Then have the economy kind of bottom out in the summer and start to grow by the fourth quarter. Then, hopefully at that point, if the virus starts to come back in a big way, that we would have in place the infrastructure to fight it without having to shut the economy down again. That would mean mass testing, tracing, surveillance, and so on. We’re seeing that in some countries. In China, they’re doing that. In South Korea, in Singapore, and in Germany. It seems to be effective in that it allows you to suppress the virus to some extent without having to completely shut down the economy.

Mike Kearney: Do you say that was the best-case scenario? Or was that what is likely? What’s your sense?

Ira Kalish: I’d say that’s the best case. I’m hoping it’s likely. I guess it depends on what happens with the policymakers. As I said at the beginning, perhaps the biggest worry that I see right now is that we ease restrictions too soon. And again, it’s fully understandable. It’s very frustrating to be in this situation, and certainly for the 22 million people who’ve lost their jobs, it’s horrendous. But if we ease the restrictions too soon, we risk prolonging this crisis. That is what the public health officials have been telling us almost in unison.

Mike Kearney: The next question, I think the answer is going to be a lot, but I would imagine that the way that businesses are going to recover from COVID-19 is going to be very different from crises of the past. But is there anything that you would be looking at or you think is going to be very different from how businesses respond and recover?

Ira Kalish: It could be a fairly quick recovery if, for example, a year from now there is a vaccine and it’s widely produced and widely distributed. At that point we know the virus is behind us. At that point, we can fully ease whatever restrictions are in place and businesses can get back to business. At that point we could have a very rapid recovery. All the people who lost their jobs in non-food retail stores, and restaurants, and airlines, and hotels, and automotive factories, all those people could go back to work pretty quickly, I would think. This is not
a recession that was driven by inadequate demand, or inadequate income, or onerous conditions in credit markets. Rather, it was driven by a government mandate to shut down, as well as fear. For example, a very sharp drop in sales of automobiles, that’s not because people didn’t have money to buy cars, or they didn’t have access to credit. It’s because the economy was shut down. Once it’s up and running, there will be pent-up demand for those cars. And there will be people who will have money to buy cars, and they will. Again, we could have a pretty robust recovery, but only once we’re convinced that this is truly behind us. There there’s likely to be a transition period where we can start to ease up, but we’re still worried about the virus being around. We haven’t developed a vaccine yet, and it’s during that transition period that I would expect to see fairly slow economic growth and continuing to operate somewhat below capacity. I think the longer-term question is whether the changes in lifestyle we’ve very rapidly seen in response to this crisis will persist.

It’s possible that when this crisis is over, there’ll be more impetus for people to work at home, and that would have implications. There’d be less traffic congestion. There’d be less demand for gasoline, less business at downtown restaurants. Could be the case that we’ll have more meetings electronically rather than traveling to go meet with people. That would have implications for airlines and hotels. There are things that might change permanently. It’s hard to know. But this is sort of an inflection point in the history of the global economy.

**Mike Kearney:** Are there any previous shocks to the economy or crises like this that we could look back to for some guidance?

**Ira Kalish:** Yes. A lot of people lately have been comparing this to the Great Depression because we’re looking at a catastrophic increase in unemployment—and that’s correct. But I prefer to compare it to World War II. There, we had a situation where we had an enemy that had to be defeated, where the government threw everything it had at that enemy and took on a massive amount of debt in order to do that, where the entire economy was completely disrupted. We didn’t have mass unemployment. Instead, we actually had full employment. Everybody was involved in the war effort, but it was a transition. It did require huge resources. It did mean the accumulation of a massive amount of debt. That’s what we’re doing now. In fact, many people have asked me, “What’s going to happen when we have all this government debt at the end?” And, and the answer is, “Let’s look at what happened after World War II.” Over time, our economy grew at a good pace. The debt didn’t increase because the debt was taken on only one time for a temporary period, but very large expenditure that went away. Over time, the debt-to-GDP [Gross Domestic Product] ratio fell and became not so onerous. And I suspect the same will be true going forward. This is a one-off increase in government expenditure, a one-off disruption of our economy, hopefully. Hopefully the virus will ultimately go away. I guess the worst-case scenario is that it doesn’t go away, but I don’t think that will be the case. That would be very different from what we’ve seen in human history. I would compare it mainly to what happened during the War.

**Mike Kearney:** Were there any learnings from the Spanish Flu [of 1918]? I think I read something that you wrote about comparing the aftershock of that to the current pandemic that we’re going through. Obviously a very different time, a hundred and two years ago, but I believe that there was a study. Any lessons from that?

**Ira Kalish:** There are a number of lessons that come from that. There have been debates recently suggesting that there’s a trade-off between suppressing the virus and having a strong economy. And that maybe we should just go for a strong economy at the cost of having a slightly worse outbreak of the virus. If you look at the experience from 1918, we’ve learned that that’s not the case, that if you let the virus get out of hand, you’re going to have negative economic consequences anyway. So it’s not as if there’s a trade-off. There was a study done by some economists at the Federal Reserve Bank of New York recently where they looked at what happened during the influenza of 1918.

We had similar things happen a hundred years ago with some cities having lockdowns and some not. Some implementing them early on, and some implementing them later. What the study found was that in those locations, where a lockdown was implemented early and sustained over a longer period of time, the virus was suppressed more quickly and the economy recovered more quickly. In other words, in those places where they didn’t have a lockdown, or they had it too late, or released it too early, the outbreak was really severe. The number of people who died was horrendous. That, in turn, had a disruptive effect on the economy leading to a slower and more delayed economic recovery. One thing we can learn from the 1918 influenza is—it makes sense to persist with lockdowns until we’re confident that we’ve got this thing behind us.

The other lesson we learned from that episode is that when restrictions were lifted too early, a lot of people died. For example, in Australia they had a strong maritime quarantine for a long time. While the rest of the world was being ravaged by the virus, Australia had no cases because they weren’t letting anyone into the country. In the rest of the world, when the virus started to abate, Australia decided, okay, we’re home free now. Let’s release the maritime quarantine. They started to allow people to enter the country by boat, and then there was an outbreak of the virus and 10,000 people in Australia died. It just goes to show that, from my perspective, it makes sense to err on the side of caution.

**Mike Kearney:** It’s like they were so cautious up front, and then in the 11th hour they lifted them, and then they obviously had a significant impact with 10,000 deaths.

**Ira Kalish:** Right. Getting the timing right is tough. There is clearly a desire to avoid economic catastrophe and that’s entirely understandable. These are difficult decisions for policy makers to make, but today our public health officials are telling us the best time to remove restrictions on economic activity is when you’ve both flatten the curve, but also put in place a mechanism to test and trace people, so that going forward, if there is another outbreak, you can deal with it.
Mike Kearney: One of the benefits of the time that we live in is the ability to do things like this. Do our work virtually. We've talked to people about a virtual close of financial reporting. The fact that all of these large organizations—Fortune 500 companies—are able to close their books just boggles my mind. You know, finance has been a domain within organizations that traditionally you have to be in the office. We're obviously figuring it out. Question I have for you is—is there any way to measure the impact that that has had on the economy over the last couple of months? The fact that we could actually work at home virtually, not everybody, but a pretty large sector of the economy?

Ira Kalish: I don't know how you measure it because it's hard to separate out the impact on companies just from the economic downturn, separate that from the impact of the change in the way we actually work. I think it is notable that in our line of work, in professional and business services, as well as financial services, and all the corporate headquarters in almost any type of business, people can work from home. We're lucky we have the technology to be able to do it. I was thinking, what would have happened if we had a pandemic 30 or 40 years ago, before there was an internet, before there were cell phones, before any of this technology existed. I think it would have been much more disruptive to the economy than what this has been.

Mike Kearney: What parts of the economy do you see coming back sooner rather than later?

Ira Kalish: It depends on the sequencing of the release of economic restrictions. For example, if a government somewhere says, okay, you can open non-food stores, then they'll open up and they'll rehire people. If you can open up restaurants, then the restaurants will open and they'll rehire people. It really depends on the sequencing. Then, as you get more people employed and then there's more income and people spend more, then the economy will lift up, but it really depends on the nature of how we reboot the economy.

Mike Kearney: Beyond everything that we've talked about, kind of the shock of the pandemic, are there any longer-term side effects that you think we should be paying attention to?

Ira Kalish: It's hard to say. There are things we don't know about this virus. Does it have long-term consequences for personal health? We just don't know. I would say that, if this outbreak turns out to be relatively short lived, then the governmental policies we have in place should mostly protect people in businesses from failure. We should be able to get back on our feet reasonably well. The danger is if the outbreak persists over a longer period of time, or it comes in waves and we continue to have economic disruption, then we're likely to see more business failures. And we're likely to see a continued weakness in business investment, and that slows down productivity growth. Then with more business failures, you could get more financial market stress and more problems in credit market activity. In that situation, during a recovery, it could be more difficult to recover because it would be sort of like 12 years ago where you have kind of seized-up financial markets and it takes longer to get things moving. And businesses will have to have access to credit and borrow money in order to invest in reactivating supply chains, and things of that nature. The longer this goes on, the more difficult it will be to get things up and running. At this point, if the virus is behind us by this summer, for the most part, I think economic recovery won't be too onerous.

Mike Kearney: I have to say, Ira, you're giving me a lot more hope for the future than I had earlier today. I think I know this, the answer to this final question but there's so much out there, whether it's media or politicians. What would you say we should be paying attention to over the next month or two? My guess is you're going to talk about, to a certain degree, kind of us flattening the curve and some of these other measures, but what would you add to that?

Ira Kalish: I think that would be number one, pay attention to what happens epidemiologically. Pay attention to what's happening in credit markets. If there is more credit market stress as indicated by things like risk spreads and credit default swap prices, that would suggest the Fed needs to take more action. If they do and it doesn't help, then that suggests that the credit markets are damaged to a degree that can't easily be fixed. I don't expect that to happen, but it's something that could happen. I would look at just the overall economic indicators—employment, new claims for unemployment insurance, indicators of activity in different industries, electricity generation, things of that nature—just to see what's actually happening in the economy. I would also look to the experience of others. As I said earlier, we've learned something from what happened in China.

We're likely to learn something from Europe because this came to Europe earlier. They acted on it earlier. They're now starting to come out of it earlier. It will be interesting to watch how the Europeans manage this process because we're starting to see efforts to ease economic restrictions in some European countries. We should pay attention to what they do. See what works and what doesn't work, what leads to a revival of the virus. What leads to better economic performance. Also, look at the experience of countries when it comes to testing and tracing. For example, Denmark is now in the process of significantly easing economic restrictions because they believe they have in place a sufficient capacity to test people so that they can, in a targeted manner, fight the virus without shutting the economy down. Let's look and see what they do and how successful it is because hopefully we can learn from that.

Mike Kearney: Ira, thank you for your time. Hopefully, if we ask you back in a month or so, you'll oblige and come back on because this has been unbelievably helpful, so thank you.

Ira Kalish: I'll be happy to. Thanks for having me.

Mike Kearney: Ira, that was fantastic. As I indicated, I think you've given me more hope about the future, and I want to thank you for your insights. A few that really stood out for me is the fact that testing, it's critically important—that we need to flatten the curve, not only to get everybody healthy, but to help restore the health of the economy. I also heard this is likely not going to be
a “V-shaped” recovery, but if we stick to what the experts are suggesting, it will be a slower recovery. If we will emerge late in the calendar year or maybe even next year. I also heard that we absolutely, as a country, need to be paying attention to emerging markets. Finally, China and Europe will be helpful to us in gaining an understanding of how we may emerge.

We have covered a lot of topics over the last month and we have an incredible backlog of guest that we’re going to continue to bring to you. If you have any that you think we should be speaking with, hit me up on LinkedIn or Twitter. For more insights across all aspects of COVID-19 just go to deloitte.com or our COVID page.

You can also listen to the Resilient podcast on Apple podcasts, SoundCloud, Stitcher, Google Play, and even Spotify.

And until next time, stay safe and remain resilient.

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