Using Poetry for Economic Analysis

Using Poetry for Economic Analysis:

Economics Meets Literature

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PART 1

THE ECONOMICS OF CRISIS AND THE CRISIS OF ECONOMICS

1

SNOW FALLING IN THE VILLAGE OF CHAGALL: THE AFTERMATH OF THE COVID-19 RECESSION

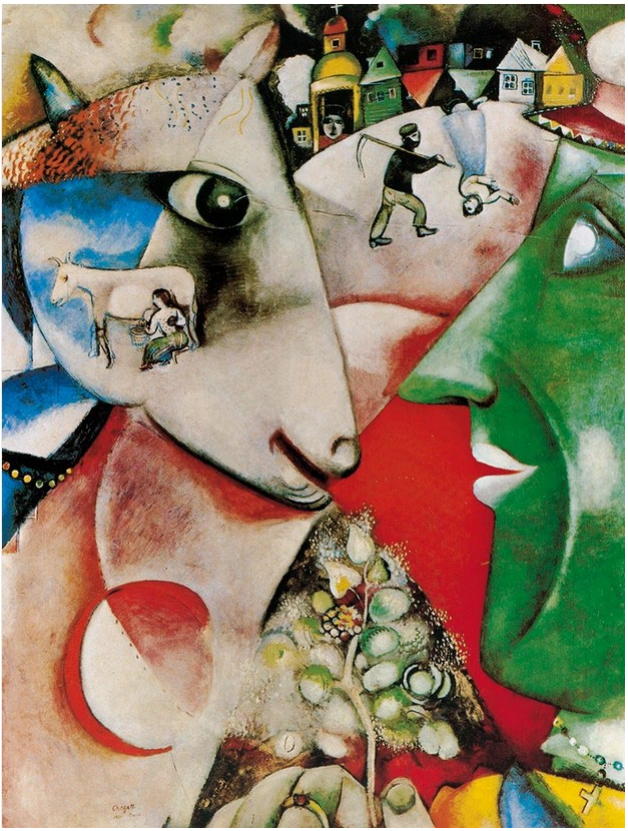
A dark age swooped down on the Earth in 2020 when the coronavirus invaded the planet. Since the first coronavirus case was reported on December 31, 2019 in Wuhan, China, the world has been seized with fear and panic. No human being on the planet could escape from the sphere of influence of the COVID-19 crisis. It is not an exaggeration to say that the COVID-19 pandemic has divided the human history into BC (before the coronavirus pandemic) and AC (after the coronavirus pandemic). As the world was filled with darkness, human activities also froze, and economic activities stopped beginning March 2020: Production slowed down, and consumption cooled down. As the economy stepped back, unemployment rose, and income fell. The economy was faced with a cold wave as if it snowed in the village of Chagall in March.

The poem, <Snow Falling in the Village of Chagall> was published by Choon-soo Kim, a famous Korean poet, in 1969. In that poem, he sings the vitality of spring as follows:

It snows in March in the village of Chagall.
On the temples of a man who stood hoping for spring
New veins tremble.
To the temples of the man who trembles
Rubbing the new veins,
Snow with tens of thousands of wings
Falling from the sky,
Cover the roofs and chimneys in the village of Chagall.
When it snows in March
The color of the winter fruits of the size of a pellet in the village of Chagall
Turns into olive again.
At night,
The women kindle the most beautiful fire of the year in the fireplace.

<Snow Falling in the Village of Chagall> is evaluated as a 'poem of meaninglessness' in that it attempted to convey the vitality of spring as an image rather than as a meaning. In fact, it is known that Kim Choon-soo drew the inspiration for the poem from the painting <*Moi et Le Village*> (I and the Village) (1911) by Marc Chagall, an expressionist painter. As is well known, Chagall was a surrealist painter. He was born in Russia and went to Paris to study art at the age of 23. In the painting <*Moi et Le Village*>, you can see the view of the village in the distance, where the head of a large horse, a human face, and a large tree of life painted in red, green, blue, and yellow dominate the canvas. It looks like a fairy tale village landscape that is surreal. Kim Choon-soo may have experimented with a meaningless poem from Chagall's surreal painting that emphasizes images.

<Painting> *Moi et Le Village* (Marc Chagall)



However, it is not right to say that his poem contains only images. Many people may accept snow falling in the spring as a cold snap in the flowering season. But snow falling in the spring may be welcomed by farmers as auspicious snow. When it snows in March, winter plants will bear appetizing fruits that will be colored in olive, and women will light a burning fire to warm the cold night air. We have often been told that when it snows a lot in winter, the land becomes fertile, and farmers produce a good harvest in that year. Freezing cold weather with snow in March does not necessarily bring only coldness and depression. Kim Choon-soo's poem symbolizes the positive image of snow falling in the spring and sings hope.

Shocks such as typhoons and hurricanes can sometimes bring a virtuous cycle to the ecosystem. Some studies have shown that if a typhoon blows hard and stirs the seawater from the bottom, the ecosystem of the sea becomes healthier. This virtuous circle can work not only in natural ecosystems, but also in economic ecosystems. Economic metabolism takes place. When an economic crisis hits, in the short run, it can scratch the economy like a typhoon scratching nature, but in the long run, it can make the economy stronger by strengthening the structure and functioning of the economic system. It is in a similar vein to the saying that "every cloud has a silver lining". At the time of the Great Depression in the 1930s, there were some worries that the market economy capitalist system would end, and that the communist revolution would take place in the United States, but the American-style market economy became even stronger after the Great Depression.

The COVID-19 economic crisis is quite different from the previous economic crises in many respects. What has made the COVID-19 recession distinct is that the world has been growingly integrating into a global village, and the coronavirus pandemic made the whole world stand still in one moment. During the COVID-19 crisis, we were on a path we had never taken before, and the world economy suffered a chain reaction it had never experienced. The world economy is now a structure that prevents any country from escaping this kind of crisis. When the Great Depression broke out in the 1930s, many Asian countries remained quite tranquil. The COVID-19 recession is particularly serious in that the shock wave on the demand side has been intertwined across countries, and the global supply chain has collapsed. Until now, there have been few crises in which both the supply-side and demand-side shocks have hit the economy at the same time. The Great Depression of the 1930s, the Great Recession of 2008, and the Asian financial crisis of 1997 were economic recessions caused mainly by shocks on the demand side of the economy, and the recessions caused by the oil shocks in the 1970s were economic downturns caused by shocks on the supply side of the economy.

<Figure 1.1> University of Michigan Consumer Sentiment Index, 2006~21

Sources: Haver Analytics; CEA calculations.
Note: The red line denotes start of the pandemic.

As the COVID-19 crisis deepened, the world economy rapidly cooled off. The Consumer Sentiment Index surveyed by the University of Michigan began to nosedive. It dropped from 103 in January 2020 to almost 70 in March 2020. The world economy grew at the annual rate of 3.3% from 2013 to 2019 prior to the COVID-19 crisis, but it contracted by 3.4% in 2020. The U.S. economy was no exception. U.S. GDP decreased by 5.1% in the first quarter of 2020 and by 31.2% in the second quarter. As a matter of fact, U.S. GDP decreased only for two months in March and April 2020, but the decline in GDP in March and April was so large that the quarterly GDP growth rate was -5.1% in the first quarter and -31.2% in the second quarter of 2020. The U.S. unemployment rate soared from 4.4% in March 2020 to 14.7% in April 2020, which was the second highest after the Great Depression. The stock price (Dow Jones Industrial Average) plunged by 37% from its pre-pandemic peak of 29,551 (February 12, 2020) to 18,592 (March 23, 2020). The comparison of U.S. quarterly GDP growth rate between the prior- and post-COVID 19 crisis speaks volumes for the severity of the crisis:

<Table 1.1> U.S. Quarterly Growth Rate During the COVID-19 Crisis

	Q1	Q2	Q3	Q4
2019	2.4%	3.2%	2.8%	1.9%
2020	−5.1%	−31.2%	33.8%	4.5%.
2021	6.3%	6.7%	2.3%	7.0%

Other major economies, except for China, also experienced negative growth in 2020. The euro-zone countries witnessed a decline in their GDP by 6.5% in 2020, which was a sharp decline from the annual growth rate of 1.9% from 2013 to 2019. Japanese GDP increased at the annual rate of 0.6% from 2013 to 2019 but shrank by 4.6% in 2020. The COVID-19 crisis had the most devastating effect on the U.K. economy. The British economy grew at the annual rate of 1.5% from 2013 to 2019, but its GDP decreased by 9.7% in 2020. The Indian economy was also hit hard by the COVID-19 crisis. The Indian economy grew at the annual rate of 6.8% from 2013 to 2019, but its GDP retracted by 7.3% in 2020. In contrast, the Chinese economy grew at the rate of 2.3% in 2020, although its growth rate in 2020 was much lower than the annual growth rate of 4.3% during the 2013-2019 period.

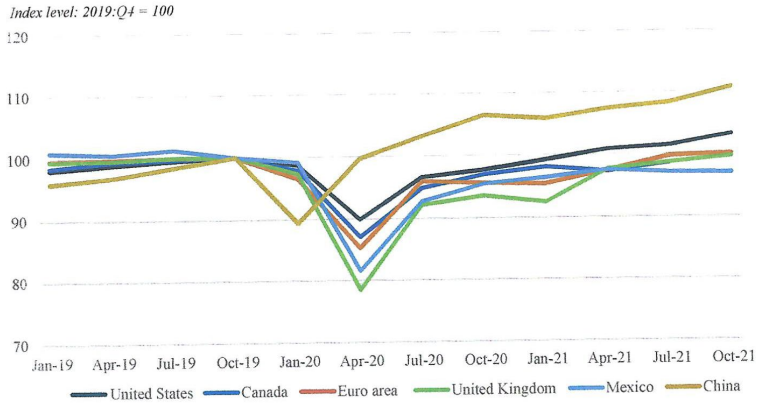
<Table 1.2> Economic Growth Rates and Forecasts for Major Economies

Country[1)]	2013~2019	2019		2020		2021	2022 (Forecast: OECD)
	Growth rate (%): Average	GDP (in Billions)	Growth rate (%)	GDP (in billions)	Growth rate (%)[2)]	Growth rate (%)	Growth rate (%):
World	3.3%	$87,265	2.8%	$84,298	-3.4	5.6%	4.5%
United States	2.4%	$21,439	2.3%	$20,937	-3.4	5.7%	3.7%
Euro Area	1.9%	$18,705	1.3%	$17,508	-6.5	5.2%	4.3%
China	4.3%	$14,140	6.1%	$14,723	2.3	8.1%	5.1%
Japan	0.6%	$5,154	0.7%	$4,975	-4.6	1.6%	3.4%
United Kingdom	1.5%	$2,879	1.7%	$2,757	-9.3	7.4%	9.5%
India	6.8%	$2,936	4.2%	$2,623	-7.3	8.9%	8.1%
South Korea	2.9%	$1,647	2.2%	$1,631	-0.9	4.0%	3.0%

Data: IMF

Interestingly, the world economy, including the U.S. economy, began to revive rapidly in the third quarter of 2020. The world economy could be out of the woods thanks to the act of pair trawling by the government and the central bank in major countries. The U.S. economy began to turn around in the third quarter of 2020, achieving the astonishing growth rate of 33.8% in the third quarter. As a result, the growth rate of the U.S. economy increased from −3.4% in 2020 to 5.7% in 2021. The U.S. unemployment rate also steadily fell, reaching its pre-pandemic level of 4.2% by November 2021. The stock market also regained its pre-pandemic record on September 2, 2021. Most major economies also exhibited a V-shaped recovery. The growth rate of the Chinese economy increased from 2.3% in 2020 to 8.1% in 2021. In particular, the recovery of the Indian economy is very impressive. The Indian economy grew at the rate of 9.4% in 2021, which was a quantum leap from deep negative growth (−7.3%) in 2020. Overall, the world economy grew at the rate of 5.6% in 2021, which was a significant improvement from negative growth (−3.4%) in 2020.

<Figure 1.2> Real GDP by Country



Sources: National data organizations.
Note: Data are seasonally adjusted.

The most important contributor to the rapid recovery of the world economy from the COVID-19 recession was massive spending programs initiated by the governments and central banks in almost all countries. In the United States, the Biden Administration embarked on its major spending program (Infrastructure Bill) on November 15, 2021, which requires the spending of $1 trillion. Of course, the Trump Administration also spent a lot of money to cope with the COVID-19 crisis.

On the other hand, the Federal Reserve System (for short, the Fed), the central bank of the United States, continued to lower its benchmark interest rate (federal funds rate) from 1.50% to 1.00% by 0.50% point on March 4, 2020 as the COVID-19 pandemic was looming. The Fed lowered the federal funds rate again from 1.00% to 0% by 1% point on March 15, 2020 as the dark cloud of the crisis was on the horizon. The Fed also implemented its Phase 4 quantitative easing (Q4) on March 15, 2020 and purchased $700 billion worth of long-term government bonds and mortgage-backed securities. The Fed's bond purchase programs poured $2 trillion into the U.S. economy by the summer of 2020. This is the Fed's fourth quantitative easing policy. The Fed previously implemented the three phases of bond-purchase programs (Q1, Q2, and Q3) during the global economic crisis in 2008. Other countries also poured huge amounts of money into the economy through quantitative easing and government spending programs. This kind of policy mix (combination of monetary and fiscal policies) has proved to be effective in extinguishing the impending fire. However, such a spending spree has boomeranged to the U.S. economy and the world economy in the form of inflation.

There have been four major economic crises in modern times since the Great Depression. These include the Great Depression, the oil recessions in the 1970s and early 1980s associated with the two oil crises in the 1970s, the global economic crisis (also called the Great Recession) during the 2008 ~ 2009 period and the COVID-19 recession in 2020. There is no question that the Great Depression during the 1930s was the worst economic crisis in U.S. history. During the Great Depression, the unemployment rate soared to 24.9% in 1933. In 1929, just before the Great Depression, the unemployment rate was 4.0%. The Great Depression lasted for more than 10 years, leaving a deep scar in American life. Which of the crises was the second worst economic crisis after the Great Depression? In the early stage of the COVID-19 crisis, people were worried that the economic crisis would develop into a major economic crisis that was comparable to the Great Depression.

The COVID-19 crisis was the most severe in terms of the strength of the shock, but the shortest in terms of the duration of the shock. Four months after the occurrence of the COVID-19 crisis, the U.S. unemployment rate rose from 3.5% in February to 14.7% in April 2020, the highest level since March 1933 (24.9%). The unemployment rate during the oil recessions hit 10.8% in November and December of 1982, the third highest unemployment rate in U.S. history. The unemployment rate during the Great Recession climbed to 10.0% in October 2009. Thus, in terms of the level of unemployment, the COVID-19 recession was the second worst recession in the United States.

<Table 1.3> Stock Prices Before and After the Crisis

Recession	Highest before the Crisis	Lowest during the Crisis	Rebound to the Prior Highest
Great Depression	381 (9/3/1929)	40 (8/8/1932)	380 (11/20/1954)
Great Recession	14,066 (10/5/2007)	7,170 (3/12/2009)	14.010 (2/1/2013)
COVID Recession	29,551 (2/12/2020)	18,592 (3/23/2020)	29,101 (9/2/2020)

<Table 1.4> Comparison of Major Recessions in the U.S.

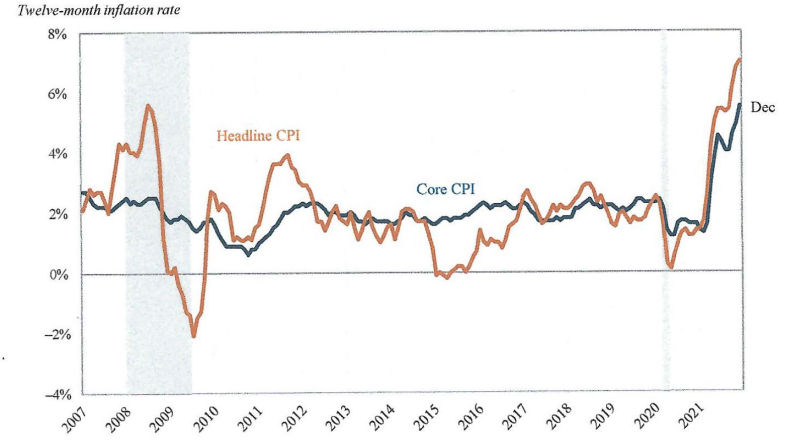
Economic Crisis	Starting & Ending Dates	Recession Duration (Months)	Unemployment Rate (Highest)	Inflation (Highest/Lowest)
Great Depression	8/1929 ~ 3/1933 5/1937 ~ 6/1938	3 years & 7 months 1 year & 1 month	25% (3/1933)	-10.7% (10/1932) -4.1% (10/1938)
Oil Recessions	11/1973 ~ 3/1975 1/1980 ~ 7/1980 7/1981 ~ 11/1982	1 year & 4 months 6 months 1 year & 4 months	9.0% (5/1975) 7.8% (7/1980) 10.8% (11,12/1982)	12.3% (12/1974) 14.8% (3/1980) 11.8% (1/1981)
Great Recession	12/2007 ~ 6/2009	1 year & 6 months	10.0% (10/2009)	-2.1% (7/2009)
COVID 19 Recession	2/2020 ~ 4/2020	2 months	14.7% (4/2020)	7.4% (1/2022)

However, the COVID-19 recession lasted only for two months, whereas the Great Depression lasted for more than 10 years. The oil recession lasted for 38 months (11/1973 ~ 3/1975: 16 months; 1/1980 ~ 7/1980: 6 months; 7/1981 ~ 11/1982: 16 months), and the Great Recession lasted for 18 months. Thus, as far as the duration of recession is concerned, the COVID-19 recession was the shortest. The U.S. stock market also behaved differently during each crisis. It took more than 25 years for the Dow Jones

Industrial Average (DJIA) to recover its previous level during the Great Depression. It took almost six years for the Dow Jones to regain its previous level during the Great Recession. However, it took only seven months for the Dow Jones to reach its previous level during the COVID-19 recession. Thus, the COVID-19 recession could be characterized as a mini-recession. The COVID-19 recession ended up in anticlimax.

The U.S. government and the Fed succeeded in resuscitating the economy from the COVID-19 crisis, but the success met with mixed blessings. As the COVID-19 virus subsided, inflation began to go viral. The U.S. annual inflation rate had never exceeded 2.5% except for 2011 (3.2%) since 2009 until the COVID-19 crisis. The Fed has made every effort to maintain its target inflation rate of 2.0% over the past several decades. However, the annual inflation rate in 2021 soared to 4.7%, and the consumer price index (CPI) rose by 7.5% in January 2022 and by 8.5% in March 2022 compared with a year ago. The March 2022 inflation rate has been the highest in 40 years since 1982. At last, the Fed began to reverse its monetary policy position by raising its policy interest rate from 0% to 0.25% on March 15, 2022. The federal funds rate was raised for the first time in 3 years and 3 months. The last interest rate hike was made on December 20, 2018 when the Fed raised the federal funds rate from 2.00% to 2.25%. The Fed continued its battle against inflation by raising its benchmark interest rate from 0~0.25% (March 15, 2022) to 4.25~4.5% (December 15, 2022) seven times in 2022 alone, and the federal funds rate reached its highest level in 15 years.

<Figure 1.3> Consumer Price Index (CPI) Inflation, 2007 ~ 21



Sources: Bureau of Labor Statistics; National Bureau of Economic Research.

2

THE NEW MILLENNIUM AND IRRATIONAL EXUBERANCE

January 1, 2000 is a point in the eternal flow of time. However, people were excited to give a special meaning to the first day of the year 2000, which breaks once every millennium. When people celebrated the first day of the year 2000, they would dream of good fortune as the bells of the year-end night sounded. On January 1, 2000, they were bustling, waiting for the bright sun to rise from the horizon. However, they did not see dark clouds coming from the other side of the dazzling sun.

The Information Technology Revolution, which began around the mid-1990s, heightened expectations for the new millennium. The IT Revolution advanced to the realm of the real economy, ringing a fanfare for a new economy. Productivity began to increase noticeably. Workers worked the same hours and produced more output. Companies hired more workers because they were more productive, and the unemployment rate continued to decrease. Inflation fell while wages rose. Workers earned higher wages because they were able to fully compensate for their wage increases with high productivity. Thanks to this virtuous cycle of productivity, the U.S. unemployment rate fell to 3.8% in April 2000. This was the lowest level since the unemployment rate reached 3.5% in December 1969, the last golden era of the U.S. economy.

Now, the U.S. economy saw hope for the future that had never been experienced, such as the coexistence of low unemployment and low inflation. The U.S. economy couldn't have been better. The coexistence of low unemployment and low inflation was called the New Economy. The U.S. economy grew at the full-employment level of output with no inflation during the second half of the 1990s (1996 – 2000). The U.S. full-employment rate of unemployment was estimated to be 5.0% during this period. Here are some statistics: