# Ep42: Is COVID – 19 Driving the Economy into a Depression?

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PATTI BRENNAN: Hi everybody. Welcome back to the "Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Joining me again is Gregg Stebben. Greg and I just had a wonderful conversation about how the coronavirus is impacting all of you listening today and watching today, and Americans in general. How is it affecting your view on your health, your finances, and your family?

We changed the way we do this podcast. Greg Stebben is an amazing interviewer. He has interviewed presidents, Mikhail Gorbachev. He's interviewed actors, members of congress. I think last week he just did an interview with Marco Rubio. This guy is it when it comes to service journalism.

What a privilege it is to have him with us again today. Gregg, thanks so much for joining us.

GREGG STEBBEN: It is great to be here, Patti. I feel like you are going to be the one doing the service journalism today because you mentioned to me in an off-the-mic call and then in an email that what's happening today in the economy because of the corona virus, you don't think we're headed for a depression.

I have to tell you, I want to hear every thought you have on this. I know lots of other people do too. Talk to us about that because I think it's a great fear for a lot of people. Help calm our fears.

PATTI: Certainly, there is when you hear on TV and read in the newspapers that unemployment is going to go up to 35 percent and that GDP is going to crash. You know what, Gregg? We should be prepared that that's probably going to happen.

The world has stopped. This is the ice age. Nobody is going out of their homes. Nobody is really spending much money. It's a very difficult time and a lot of uncertainty. Isn't this what leads to a depression?

I do not believe that we are going to go into a depression. Yes, it's going to be ugly. Yes, the market is going to continue to be volatile because it's always volatile when there's this much uncertainty. With uncertainty comes fear. People just don't want to deal with it.

However, let's all take a step back and compare what's going on now, maybe what happened during the financial crisis, and then what happened in the Depression.

GREGG: Before you go on, I want to ask a technical question.

PATTI: Sure.

GREGG: Is there actually a textbook definition of what a depression is versus what a recession is?

PATTI: Recession is defined as two back-to-back quarters of negative GDP. I think a depression is when you have negative GDP for an extended period of time. That's what we're really worried about – is, how long is this going to last? What's life going to look like afterwards?

Now, there's a couple of really fundamental things that I want to explain to you. First of all, let's first define commerce. Commerce is defined as the exchange of dollars.

If I provide a service to you, Gregg, you're going to pay me some money. I'm going to retain my profit. I'm going to go and pay Doug. Doug is going to provide his service, sell me his goods, retain his profit. Basically, what we're doing is we are exchanging dollars.

What do we have right now? We don't have much exchange of dollars. There's no revenue coming in. That's really scary. Here's the thing. Let's go back to the Depression. Again, we had no exchange of dollars. Unemployment during the Depression got up to 25 percent. Isn't this going to be worse because it could go up to 35 percent?

Here's the difference. During the Depression, there was no such thing as unemployment insurance. If you lost your job, Gregg, you had no cash flow.

Now, it's going to take a while for them to figure this out with unemployment, but not only are people going to be able to continue to get an income, that income is ramped up. You get not only the normal unemployment, but they're adding another $600 per week.

By the way, it's going to last for an additional 13 weeks to give people money to be able to continue to consume, pay their rents, and take care of their families.

That's number one. Now, to compare this time to the financial crisis, unemployment also got up very high, 10, 11 percent. The problem with the financial crisis is it took a long time for people to get back to work. They didn't juice up the unemployment insurance.

What they found was that during the financial crisis, they were too slow, and they were too timid. I found it interesting. Neel Kashkari did a great interview on 60 minutes two weeks ago.

I so appreciated his transparency because he came right out, because he was very much involved during the crisis, and he said, "We made the mistake of being very concerned about only helping the deserving." He said, "The problem with that is our programs were too targeted. When you're going through a crisis, you got to get the money out there."

We need to get money out to the deserving and maybe even the not deserving and keep commerce moving forward.

GREGG: In other words, better to overshoot than be too preoccupied with hitting the target and the bullseye.

PATTI: Exactly. You're hearing that from so many different leaders. Inside government and even outside, we have to overreact. It's very important.

We can always trim it back, but right now we have to literally flood America with cash and cash flow, number one, for the basic, fundamental things that we all need but also for confidence because when people are insecure, oh my goodness, they pull back even further. They don't pay their mortgages. They don't care about their FICO score. They don't pay their rents.

We have to give them a feeling of confidence that we are going to get through it. That was the first thing.

Again, during the Depression, we did not have this thing called unemployment insurance. In addition, there was no such thing as FDIC insurance. If you had money in a bank and the bank went under, you lost all of your money.

What's different about today versus the financial crisis in 2008 is that our banking system is in much better shape. Our banking system and the financial system is sound. What they did after the crisis from a regulatory perspective, the banks were screaming, insurance companies were screaming, "It's too restrictive. We can't conduct business. We're not going to have the profits."

Guess what? Because of those regulations, our banks are in great shape. We don't have an issue that is literally threatening the system that we all rely on.

I've got to tell you as a sidebar, yes, I'm worried. I'm a lot less worried today than I was during the financial crisis. That was, I thought, a lot scarier than today. I am very confident we're going to get through this.

It's going to get ugly. It's uncomfortable. Our lives are different, but we're going to get through it because the fabric of how we live life, and our economic system, and the way it works, that's not being threatened as it was during the financial crisis.

GREGG: I want to ask a question about this, Patti. It actually refers back to a previous interview you and I did. We talked a lot about how good things could come out of this coronavirus crisis, not the same thing as saying we're glad it happened, but it is happening. We have no control over that. Good things are going to come of it.

Could it be said that the soundness of our banking system today is a good thing that came out of the economic crisis or the financial crisis of 2008?

PATTI: You better believe it. Absolutely, because again it comes down to confidence. The fact that we can be this confident about our banking system is a really good thing that came out of that crisis. I also think that the way that the government and the Federal Reserve handled the financial crisis is giving our current leaders a playbook.

When Ben Bernanke was doing these, he lowered interest rates. He did QE1, QE2, and QE3. Everybody was very uncertain because everybody was worried that that much liquidity sloshing around the system was going to lead to rampant inflation. Everybody's brain started going back to the '30s when inflation was so incredibly high or the '70s when it got up to 14 and 15 percent.

That was a very bad economic outcome. At the time, everybody was very concerned about this. However, it didn't lead to rampant inflation. This time, Jerome Powell could literally go on the shelf and pull these things off. This time, Jerome Powell didn't do it onesie, twosie, threesie. He did it all at once.

He's flooding the system with so much liquidity. It's still going to take a little time for that to get through the economy, but mark my words, Gregg and everybody listening to this, it is going to work. It's already working in the bond market. That is a really important thing.

The Federal Reserve has basically told us, "Look, we're going to do whatever it takes for as long as it takes to get us out of this." That's important because the Fed, they can. It's not QE1, 2, and 3. It's QE infinity. As long as we know that, we can say, "OK. We're going to work this out."

GREGG: In our previous interview together, we talked a lot about your background. In a previous career, you were an ICU nurse.

I'm wondering if there's an analogy to be drawn here between what happened in the 2008 financial crisis and what the Fed is doing today. It seems to me that sometimes when you go to the doctor, it's such a bad thing, a virus perhaps. I'm not a doctor, so if I get this a little wrong, at least roll with the analogy.

PATTI: I'm rolling.

GREGG: Sometimes, we try something and see how it works out. Sometimes, your doctor says, "We have to just kill it with antibiotics or kill it with chemotherapy. We have to do everything we got in our bag to kill it and kill it right now." It sounds like there is a medical analogy here, how the Fed is behaving now versus how they behaved in 2008.

PATTI: It's a great analogy, Gregg. Think about it this way. If you go to the doctor, and the doctor diagnoses cancer, the doctor is also probably going to diagnose chemotherapy.

They're probably going to tell you, "Look, this stuff is going to make you lose weight, throw up, and lose your hair. It's going to be awful, but it's the only thing that I know that can cure you."

That's what we're going through right now. It's very uncomfortable. We are getting our chemo. We're getting this medicine. They're doing it behind the scenes. I will tell you that, frankly, later on, not right away but be prepared a few years from now, our taxes are going to go up. Somehow, we've got to finance this.

Although, I think it's pretty interesting that they're talking about bringing back the war bonds. I don't know about you. I'm finding, looking around, there's a lot of patriotism that's happening right now.

Even though we can't hug each other, even though we're not together like we normally are, there's this basic human need to feel that presence of another human being. Granted, we can't touch right now, but we want to touch in different ways. Americans are doing that right now.

I think everybody does understand that eventually we're going to have to pay for this. This is what the federal government is there for. This $2.2 trillion bill they just passed is a very big deal. They've never done that. Guess what? They're not done. That bill is 10 percent of our GDP. That is a huge deal between that and what the Fed is doing.

Now let me break this down for you because I think it's important for everybody listening to know. The Federal Reserve, they can't restart the economy. The Federal Reserve's role is to contain the damage. The Treasury's role is to restart the economy. That's why you're seeing two packages.

The Fed has their fire hose on. They're putting tons of liquidity into the economy. The federal government has come out with this $2-trillion package.

Now, most people believe because this has been so dramatic and deep that it's really not a stimulus bill, it's a relief bill. Guess what? It is going to provide relief to small businesses, to people. We're going to get our checks eventually. We've got to just get through this period of throwing up and losing our hair.

GREGG: The cancer analogy becomes very useful here because if my wife came home today or one of your kids came home today and said to you, "Mom," or to me, "Honey, I have cancer. It's going to take 10 percent of everything we have to fight it," I'm going to spend the 10 percent.

PATTI: There you go.

GREGG: If it's 20 percent, 30, but I'm going to spend every dollar it takes to kill the cancer. What you're describing is a cancer on our economy.

PATTI: You know what, Gregg? I love how you just took that one step further because, in the end of the day, I think that's what's going to happen. At wartime, it's typically closer to 30, 40 percent. That's what ended up getting us out of World War II.

As a sidebar to get back to the Depression, a lot of people believe that it was actually World War II that got us out of the Depression. You want to know what? Guess why? Because the government basically came out with all the spending. It was this wartime. They went through 30 to 40 percent of GDP to get us through the war.

GREGG: All of a sudden, there was jobs. There was a budget. There was a pressing need, like cancer, that, "We have to do this. We don't have any choice. We can't spend a lot of time talking about it. We just need to act now. Our lives are at stake."

PATTI: Exactly. That's what's happening now. Let's put politics aside. We have to give credit where credit is due. These leaders, whether we like them or not, are actually finally, again, we say after three weeks finally, but they are coming up, and they're rising to the occasion and doing everything that is necessary to get us through this as a country.

The other thing, Gregg, if I may say to take this, remember, let's go back to the beginning of the show. We talk about commerce, the exchange of dollars. Why am I so confident that we're not going to go into a depression?

Here's another thing. Go back to the Depression. There was no such thing is Medicare. There was no such thing as welfare. To me, one of the biggest reasons is this pay-as-you-go income tax that we all love to hate, that didn't exist back then.

Here's the deal. You did have to pay taxes. In fact, they were due in October. How did you do your taxes? You filled in the numbers, and you sent it in. Gregg, it is the Depression. What do you think compliance was like?

There was no such thing as a computer. The federal government was not in a position to do what they are doing today. They just weren't.

They didn't have the cash flow. We were not the reserve currency of the world as we are today. We couldn't print money. We can today. It's also been tested.

We, as human beings, are learning animals. Guess what? We've learned. Ben Bernanke got his PhD from Princeton because of his work studying the mistakes that were made during the Depression. He did exactly the opposite.

During the Depression, the Federal Reserve choked off credit. Hoover was influencing the Fed. It wasn't a separate body as it is today.

Hoover was freaking out because he thought that having a balanced budget was the most important thing a government could do, and so the Federal Reserve choked off credit.

You ready for this, Gregg? Guess what? You know what they did during the Depression? Not only did they not lower taxes, they increased taxes because they didn't have the revenue, because people weren't compliant. They increased tax rates on the only people that were making any money.

The other thing is that prior to the Depression, the Roaring '20s, if you had a stock market account, chances are you had 90 percent of that account on margin.

GREGG: Yes.

PATTI: Debt, especially as it relates to investments, is a really scary thing. What happened is when the market crashed in '29, everybody got these margin calls, which means that they were forced to sell their stocks maybe when they didn't want to, and that's what really led to the significant and permanent losses that were experienced in the Depression.

Today, you can't do that. You can only go 50 percent on a margin account. Frankly, people aren't doing margin like they used to because Americans in general, especially after the financial crisis, you should see the figures from the Fed. It's amazing how Americans have reduced their debt load significantly.

They don't have the mortgage debt going 90 percent on your home. That doesn't exist anymore. The credit card debt has decreased. People aren't going out and getting these car loans like they did. Household debt has plummeted. It's really been a very, very good thing.

Now that's the good news. The bad news is corporate debt has risen, so that's something that we have to be aware of. Frankly, this crisis is going to catch a lot of those companies that were overleveraged, and most of them, or many of them I should say are going to fail.

As many of them that fail, there are going to be others that will thrive. We're already seeing that. We're hearing about companies that we never heard of before.

They are innovating. They're coming up to the table. They are repurposing themselves, stepping up, making masks and ventilators and the PPE equipment that I, as an intensive care nurse, so needed when I was taking care of those patients with AIDS and other viruses, that not only saved my life but the lives of the people that I love.

People who are working in the hospital, my friends, they don't have the equipment that they need. That's the bad news. The good news is that companies are coming forward and providing it, even if it isn't what they used to do.

GREGG: I want to jump in here for a minute. Let's talk about that a little bit more. I, too, have been watching that phenomena and I'm fascinated by it. It seems to me that when companies like GM are forced...not forced. There's not a gun to their head, I don't think.

Forced because of circumstance to transition from what they're normally accustomed to making – cars, to making ventilators or masks – I think one of the great outcomes of that for them as a company and for the people who work there is that they discover a nimbleness in their business and their capabilities that they probably never would have discovered.

Frankly, the lack of nimbleness was probably hurting them and was going to continue to hurt them over time.

It seems to me that even at a corporate level, this can turn out to be a blessing in spite of the fact that it's also awful at the same time.

PATTI: How insightful that is of you to realize that. I have four kids, Gregg. I will tell you that when they were little, I would force them to do their homework, and I would force them to study for their tests.

GREGG: Play the piano or the violin or the...

PATTI: Exactly. They didn't want to do it, but they did it anyway because they had to do it, like GM and 3M and those companies. They didn't want to do it, but they were being forced...

GREGG: Maybe they did want to do it, but they never would have done it if they weren't in dire circumstances.

PATTI: Well, that's a good point. Actually, we should give those leaders some credit as well. I think that they are being...Well, that's a whole sidebar, but anyway.

You think about the kids. Now I will tell you, my youngest, I would force him to do his homework and all that kind of stuff. Guess what he discovered? He's really good at math. He's a senior in college. He's majoring in economics. He's acing those classes.

God only knows what his life is going to look like, and it all comes down to the fact that he did his homework. He learned Excel. He wasn't intimidated with those very complex, 10-page formulas that he had to do because he learned. He wouldn't have known what he was capable of unless he had to do it.

GREGG: He listened to his mother.

PATTI: Sometimes, Gregg.

GREGG: You're bringing up a really interesting point, and I'm surprised we haven't talked about this yet.

What is the impact of technology on whether we will or won't? You're making a very strong case for why we won't have a depression.

How does technology play into all of this to enable us to avoid a depression under these circumstances?

PATTI: It's a good question. I think when you go back to the Depression, first of all, our population was much lower. There weren't as many people.

This whole aspect of this shutdown, the isolation, it's the technology that is allowing us not to feel that far apart. Again, even something we take for granted, like the telephone.

People didn't have phones back then. You couldn't talk to people over a telephone. What was that? That was just beginning to be mainstream, but it really wasn't what it is today.

We're doing this on a video. We can FaceTime the people that we love. We can actually conduct our business. Yes, I'm a small company, but frankly, we've got one of the largest wealth management firms in the country. We have not missed a beat because of technology.

That's pretty cool. That's why it's very different. I think you're right. Technology is making all the difference. It's another reason why those companies are probably going to thrive.

GREGG: Well, and it's also interesting that during the Depression, or even if you go back to the 1918 Spanish flu, if people had to stay home, there was no money being spent. I don't know about you, but making me stay at home actually makes me spend more money.

Dollars can continue to flow through our economy even if we're sheltering in place in a way that wasn't even possible 20 years ago.

PATTI: That's exactly right. The dollars are just different, right? The spending on gasoline, for example, is down 50 percent.

We're not driving. We're not spending as much money on gasoline. That's going to have an impact on that industry and the companies that operate in that industry.

On the other hand, look at Amazon. They can't hire enough people. They can't get the stuff that people want fast enough. Amazon's going to do very well, as will the products that we all want.

There's a lot to be said for retail therapy. I've been engaging in it myself, right?

GREGG: Oh, it's not just me?

PATTI: Oh, no. No, no, no, no. It is Americans, and that's OK. You know what? That's OK. Whatever it takes. We can all go outside and walk. I've met more people, Gregg, in the last three weeks than I ever did.

I'm not a walker. I will tell you, I'm not a walker. I'm not a meditator. Anybody that knows me, knows I'm not sitting still long enough to meditate, for crying out loud. Walking just isn't fast enough.

Having said that, [laughs] I will tell you that I have just needed to get outside for fresh air because I've been cooped up in the house like everybody else.

I've met more people. Granted, we're across the street, but I'm seeing the same people over and over again, now. It's fun. It's cool. Things are going to come out of this that are very good. We are connecting. That's the most important thing.

GREGG: I want to ask you, really two last things. One is, is there anything more about your belief that...Are there any other thoughts you want to share with us about why we're not going to enter a depression?

On top of that, I want to hear you talk for a minute or two about the conversations you're having with your friends, your family, your clients, and your team members, about the other kind of depression.

How people can be concerned about money, but what I think you've done here, is really give people a lot of hope for all the things there are to be concerned about that, if there's a sick loved one in your family, or a sick friend, or just in your community at large, because there's a lot of people that are going to get sick.

Can you say a few words just to relieve the part of our brains that are worried about our money? You are very hopeful that it's all going to work out. I'd love to hear you address that.

PATTI: It is very interesting. My mom, one of the most...the wisest woman I have ever known, used to say to us when we would go through those bummed-out periods, she'd say, "You know what? When you feel bummed-out, go out and help somebody."

Give of yourself. Whether it be your money, your time, your intellectual intelligence, your ideas, give it away. There's a powerful thing that happens in our brains when we do those things. This is why volunteerism is so powerful.

Studies have shown, Gregg, that people who volunteer, that the impact on them physically, is equal to exercising four times a week. What happens is, when we do something for another human being without any expectation of anything in return, like what you and I are doing today, we're not going to get anything out of this.

You have time for this like a hole in the head. I could be doing a few other things but we want to make a difference in the people that are listening. What is that doing to us physiologically? Guess what? Your dopamine is going through the roof, as is mine.

Our brains are secreting oxytocin. Dopamine is a feel-good type of thing, as is oxytocin. It's a wonderful feeling.

When we get that just general good feeling, it gets us out of our own skin. It helps us to realize that, "You know what, we don't have it so bad."

There are other people who have it a lot worse than us. All we have to do is reach out to another human being who maybe doesn't have it as well as we do, and to remember that.

Keep that perspective. Don't just keep the perspective, do something about it. That's what I'm telling people.

GREGG: I want to thank you so much for this conversation. You have relieved me and many of my fears about what's happening. The depth at which you've thought about this and shared those thoughts with us, I find to be very, very useful.

Patti, thank you so much for letting me come on your show and interview you.

PATTI: Gregg, thank you so much. This has been a great exchange. You have a way of asking questions and pulling out of me stuff that comes from inside. We didn't practice. I had no idea what you were going to ask me.

As I said in the beginning before we went on air, I said, "OK, Gregg, we're just going to wing this, right?"

I hope that it was helpful to everybody listening. I'm so grateful to all of you for taking the time to listen to this today. If you have any questions, if you'd like more information. Why don't I believe that we're going to go into a depression?

Feel free to visit our website. Ask a question. Reach out to us. Call us. I'm happy to help any way I can.

Remember, that's my brain on steroids. My dopamine receptors are going nuts right now. That's what we're here for.

Gregg Stebben is the leader in service journalism. I hope that when this is all said and done that people look back at this and look at us as we're in the service of Americans as it relates to not just their wealth management, but also their health, and their family, and providing security in all areas of your lives.

Thanks so much for joining us today.