

# COVID-19: Economic Implications and Policy Response

Nov. 17, 2020  
 Rotary Club of Broomall  
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## Who Are We?

- **Honorary Board: 47 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



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## Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



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## Outline

- Where is the Economy today?
- What have been the effects of policy?
- What are the risks to a rapid recovery?
- Possible long-term effects?



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## Meeting the four-way test



### THE FOUR-WAY TEST

of the things we think, say or do

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?



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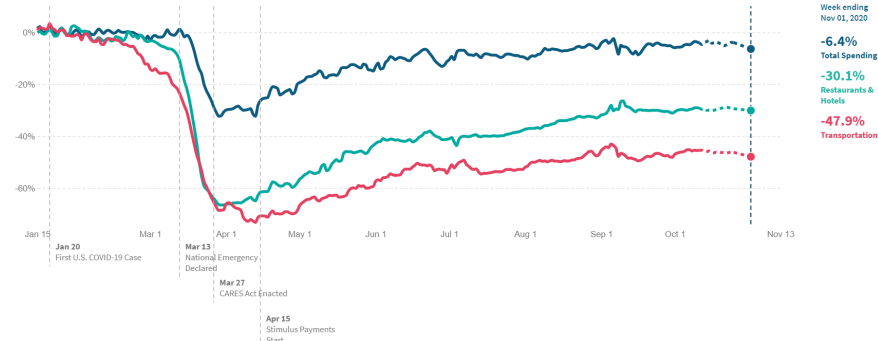
# Spending Collapsed in March

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

HARVARD UNIVERSITY BILLY MULLINIA CENTER FOR LEADERSHIP

## Percent Change in All Consumer Spending\*

In the United States, as of November 01 2020, total spending by all consumers decreased by 6.4% compared to January 2020.



\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
 Last updated: November 16, 2020 Next update expected: November 16, 2020

visit tracktherecovery.org to explore



<https://tracktherecovery.org/>

# Why Did Spending Collapse?

At least initially, the spending collapse was due to health concerns.

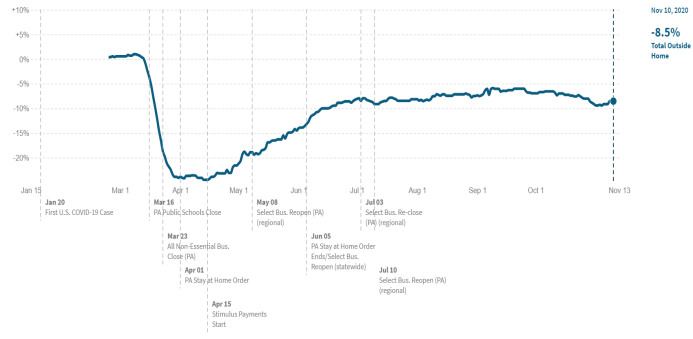
Over time, loss of income will also play a role.

Consumer spending reduction due to supply shock – businesses unable to provide services.



## Percent Change in Time Spent Outside Home\*

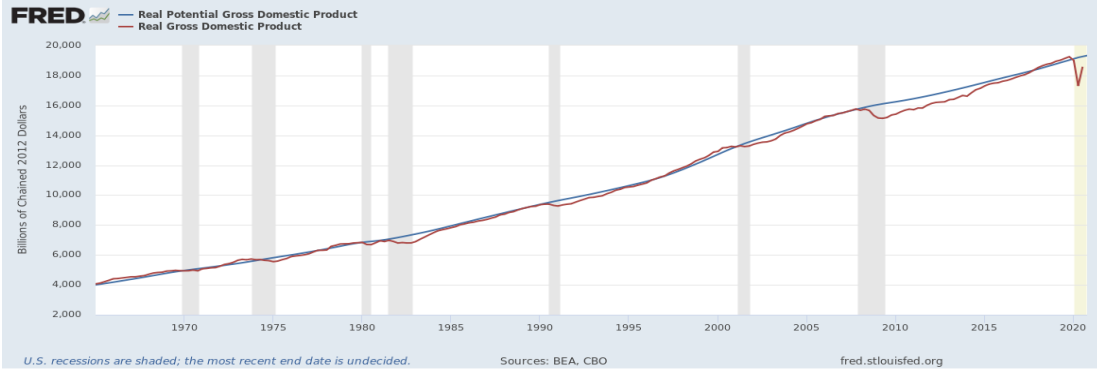
In Pennsylvania, as of November 10 2020, total time spent away from home decreased by 8.5% compared to January 2020.



\*Change in the average time spent outside of residential locations indexed to the period between Jan 3-16-4 2020. This series uses data from Google's COVID-19 Community Mobility reports.  
 Last updated: November 13, 2020 Next update expected: November 13, 2020

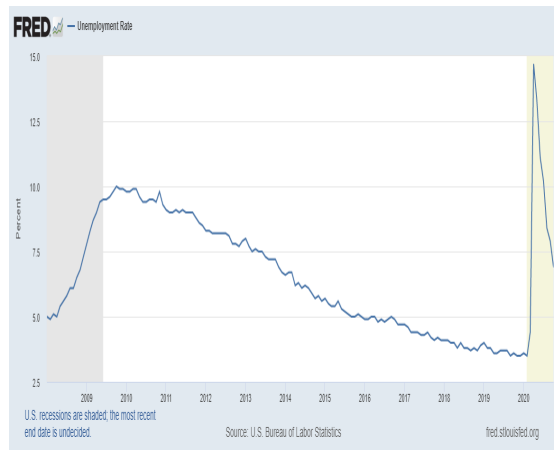
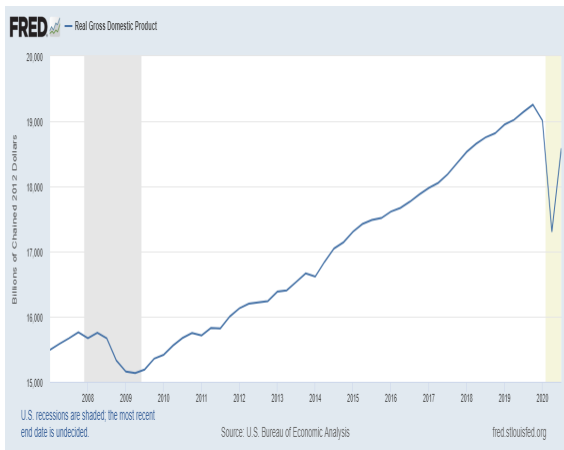
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# Where are We



Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

# Where are we?



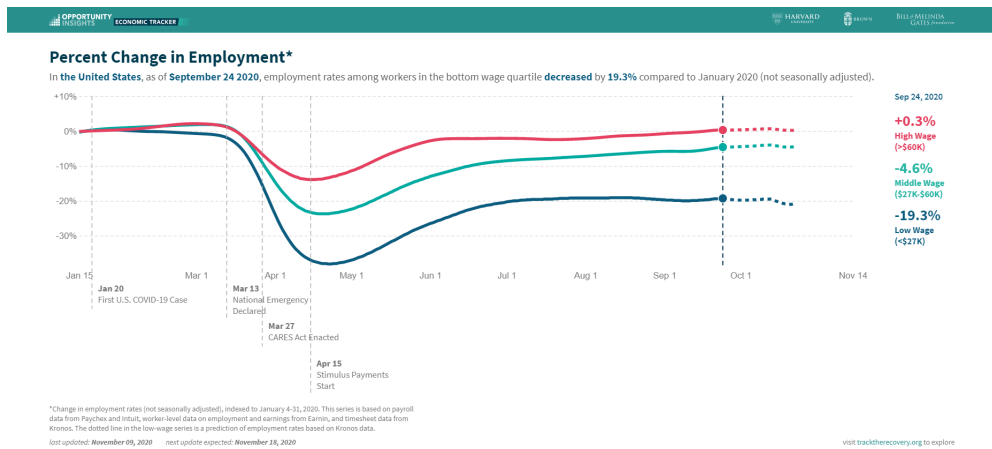
As of November: Sure Looks "V" shaped to me! Could it become a W?

# The Good, the Bad, and the Ugly

- There were no **short-run** macro problems at the start of the crisis. Looks like a V-shaped recovery with current data.
- In the short-run a rocky transition between administrations may prolong the health crisis.
- Possible long-term damage: economic disruptions due to prolonged job losses and business failures, diminished educational opportunities.
- Some pre-existing structural problems have been magnified, specifically income and wealth inequality.

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# Employment Rates by Income



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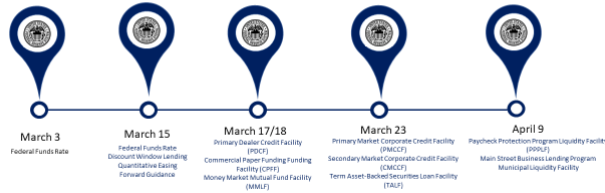
# Raj Chetty Slide – Can executive orders restore economic activity?

- Event Study of Reopening Minnesota versus Wisconsin

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# Monetary Policy – Federal Reserve

## The Fed: Very Rapid Action



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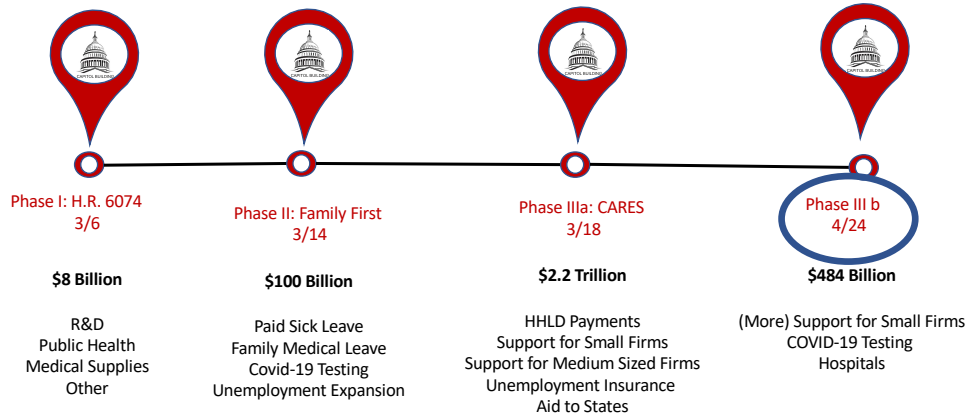


# What Have Been the Monetary Policy Effects

- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.**

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# Fiscal Policy Timeline – Social Insurance



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# What Have Been the Fiscal Policy Effects

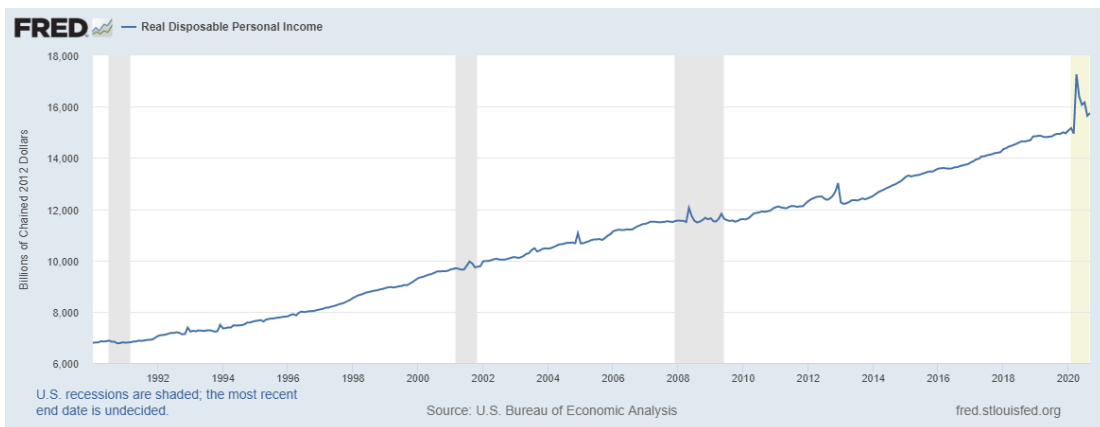
- **Fiscal policy acted quickly, but inevitably made some mistakes.**

- Stimulus Checks, A (\$268b)
- Expanded Unemployment, B (\$268b)
- Paycheck Protection Program, C (\$525b)

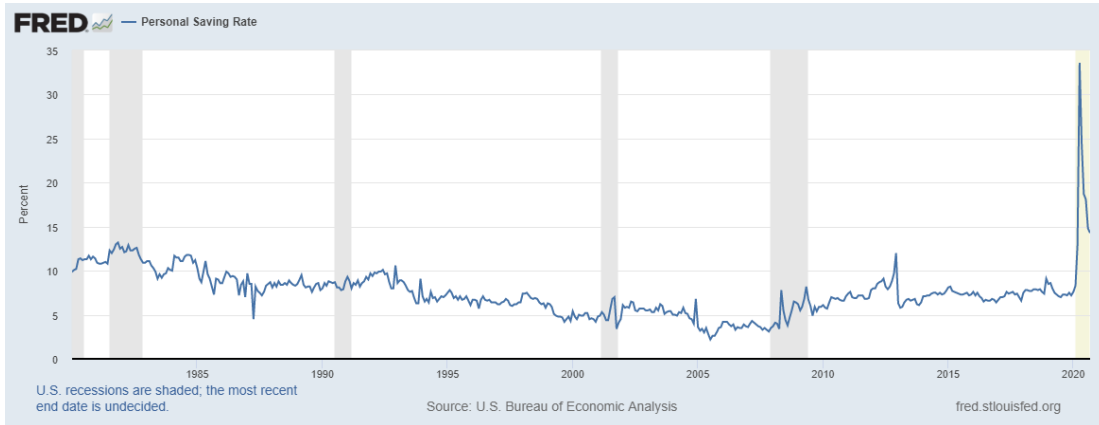
**Big Caveat: Much of the Fiscal Stimulus ended in July and there is no new stimulus program within reach.**



# Real Disposable Income – Income after taxes and transfers



## Personal Savings Rate



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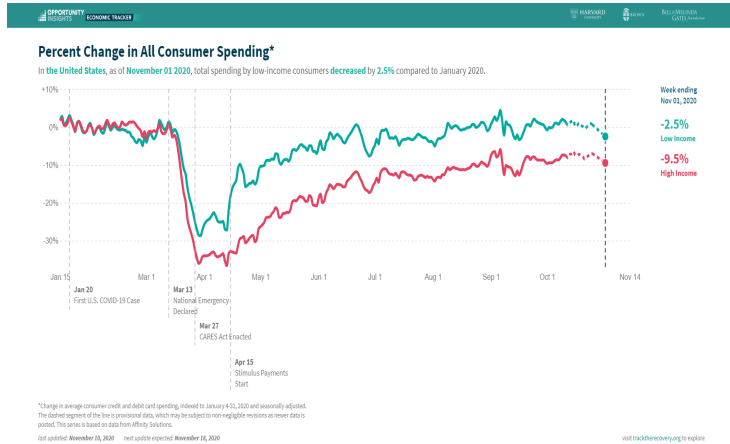
## Rebound in Consumption Faster than Expected

- As Consumption goes so goes the economy (C is 2/3 of GDP),  
Growth Rates:
- GDP: 2019Q4, **2.4%**; 2020Q1, **-5.1%**; 2020Q2, **-31.7%**; 2020Q3, **+33.1%**
- CON: 2019Q4, **1.6%**; 2020Q1, **-6.9%**; 2020Q2, **-34.1%**; 2020Q3, **40.7%**

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# Yes but was it the Checks and \$600?

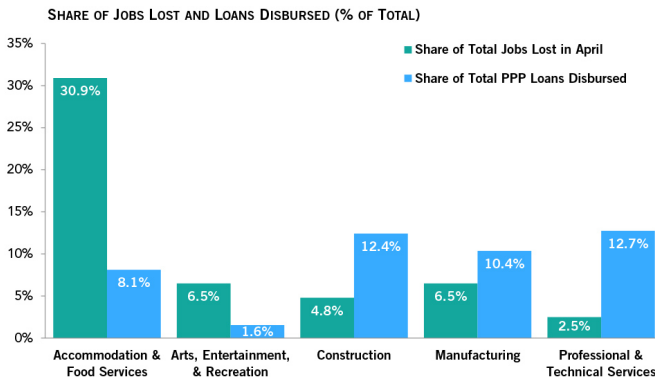
Low Income Households were able to increase spending in response to the stimulus programs. High income households chose not to spend as much as before the lockdown.



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# PPP Loans Didn't Go to the Right Firms

**PETER G. PETERSON FOUNDATION** The distribution of PPP loans has not matched levels of unemployment



In addition, first round loans went disproportionately to predominantly white Congressional Districts  
*Bloomberg, 7/30*

SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.  
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# What is the shape of the recovery?

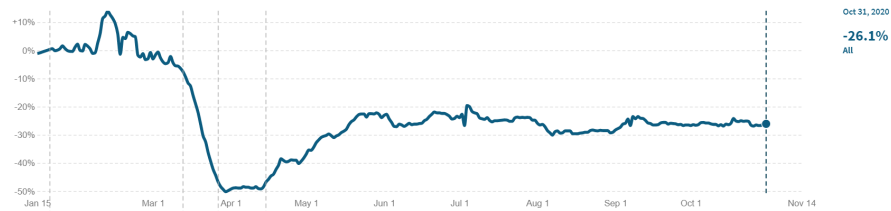
1. Aggregate Data look good because of the Cares Act (at least until the end of September)
2. But, it doesn't look good everywhere.
  1. Small firms.
  2. Restaurants and entertainment
  3. Low Income workers

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# Small Firms (over 40% of all jobs)

### Percent Change in Small Business Revenue\*

In the United States, as of October 31 2020, total small business revenue decreased by 26.1% compared to January 2020.

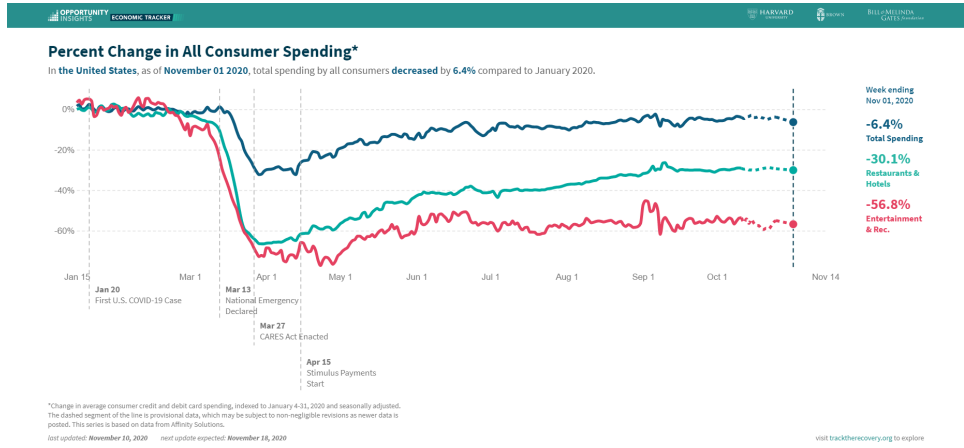


\*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.  
last updated: November 11, 2020    next update expected: November 17, 2020

visit [tracktherecovery.org](http://tracktherecovery.org) to explore

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# Hard Hit Sectors



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# There is an Enormous Fiscal Policy Gap

- The last time Congress acted was April 24.
- Unemployment payments are not sufficient going forward.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing budgets.

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# Another Round of Fiscal Stimulus Needed

1. General Agreement on PPP and some form of expanded unemployment.
2. The biggest stumbling block is general aid to State and Local Governments

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# 4. State and Local Budgets

FIGURE 1

## COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars



\* Estimated based on CBPP calculations  
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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## Thoughts on Policies to Date

- **Costs are enormous, but we were doing the right things!**
  - And we were doing it **VERY QUICKLY!**
- **Monetary policy: Heroic! A+**
- **Fiscal policy grade: Emergency Pass**
  - Direct cash payments
    - Are they really getting into the hands of those most in need?
      - Corporate or otherwise?
  - Right strategy to maintain employee-employer ties? (Europe – Kurzarbeit)
  - What about states and local governments?



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## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **GDP will likely contract between 4.0 and 5.0 percent this year.**
  - Positive growth will likely return in 2021
- **Significant structural changes.**
  - Telecommuting, telehealth, retail decline, other business failures.
- **Policy gap and economic reallocations will create hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects: Educational opportunities, labor force participation changes, reallocations that require retraining,**



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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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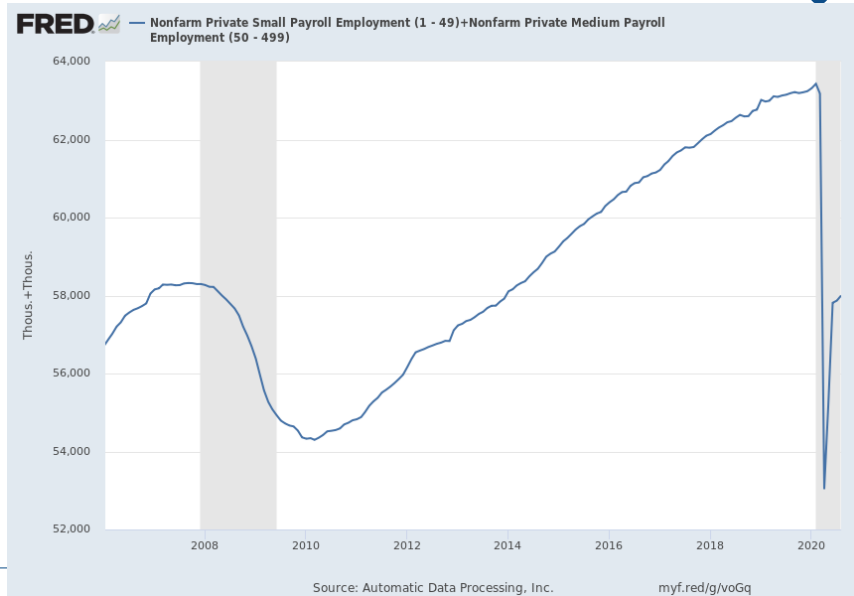
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# Employment at Small Firms (40% of total jobs)

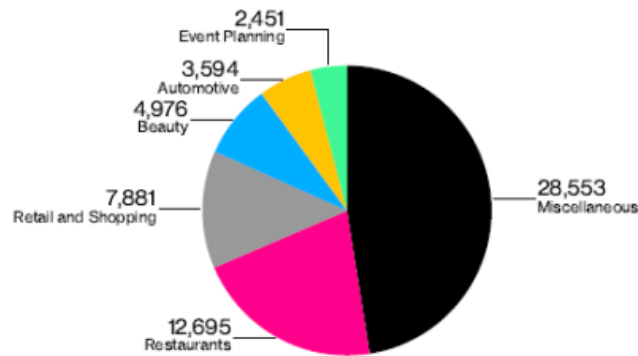
Between February and July, net loss of 5.4m



## Yelp's Breakdown of Permanent Closures

**Business Busts**  
Restaurant industry leads with most local business closures

Failures particularly hard among Black owned firms. 19% closed; 4 times the rate of white owned firms. *Bloomberg, 8/18*



Yelp Inc.  
Data from March 1 to July 25

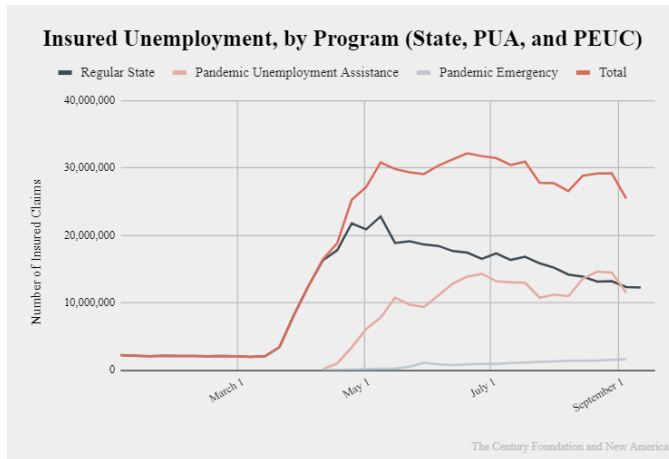
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## 3. Business Failures

- **Large Firms (e.g. Brooks Bro. Cirque de Soleil, Hertz, Lord & Taylor): Ch11 (restructuring) filings are up by 30% through July.**
- **Small firms (30 million, 47% of all jobs)**
  - Bankruptcy Numbers Can Be Misleading: Just close the door and turn off the lights.
  - Real Data to the rescue!

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# How many People are Collecting UI?



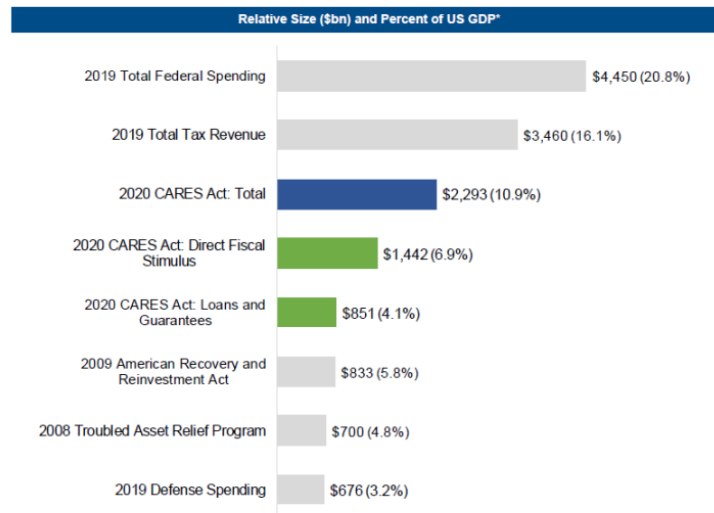
CA:	9/5	8/29
Reg. State	2,724k	2,926k
PUA:	3,375k	6,388k

California is a big state?

But the adult population is under 30 million!

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# Putting Cares Spending in Perspective



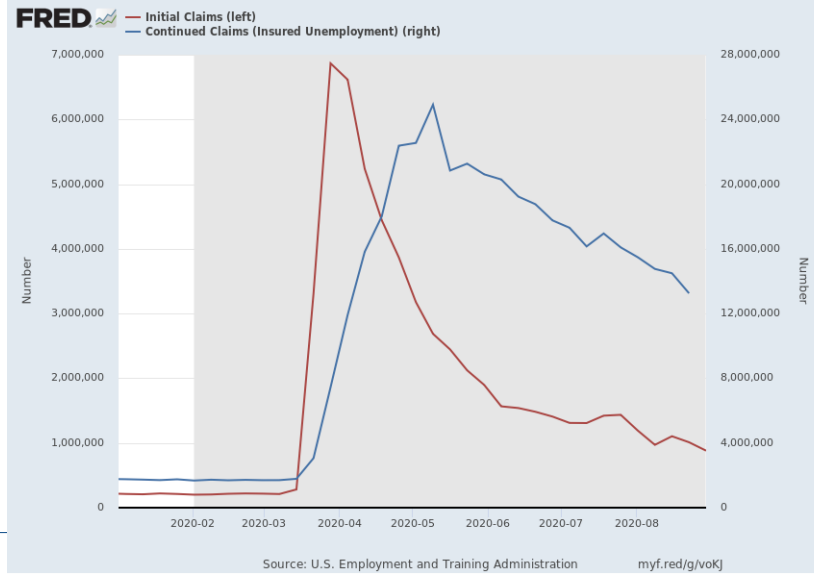
Source Goldman Sachs

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# Unemployment Claims (weekly)

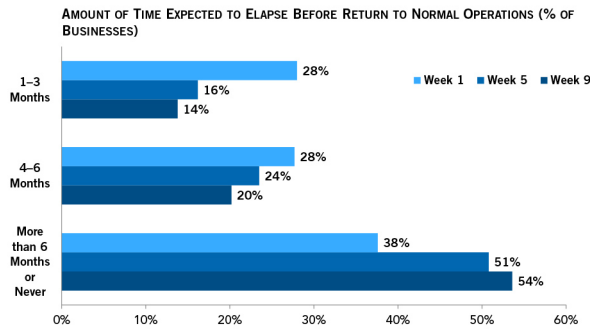
Yikes!  
 Since March 21<sup>st</sup> 57 million people filed for unemployment

At its peak, 25 million, or an “insured unemployment” rate of 17.1%



# Pessimism is Growing at Small Firms

PETER G. PETERSON FOUNDATION Small business owners are increasingly pessimistic in their outlook



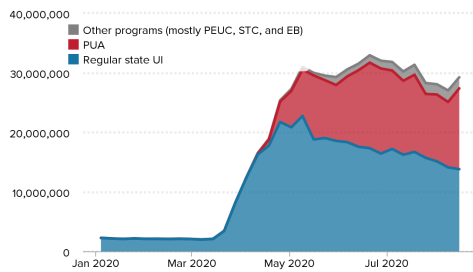
SOURCE: U.S. Census Bureau, Small Business Pulse Survey, June 2020.  
 NOTES: Data for Week 1 was collected April 26–May 2, Week 5 was collected May 24–May 30, and Week 9 was collected June 21–June 27. Responses are for the question: “In your opinion, how much time do you think will pass before this business returns to its normal level of operations relative to one year ago?”  
 © 2020 Peter G. Peterson Foundation PGPF.ORG



# Wait a Minute. MSNBC said unemployment is at 30million this morning?

## Continuing unemployment claims in all programs

January 4, 2020–August 15, 2020



PUA Data Issues:  
Since April: 15.2m claims;  
13.6m continuing on 8/15

Regular: 47m claims;  
14m continuing

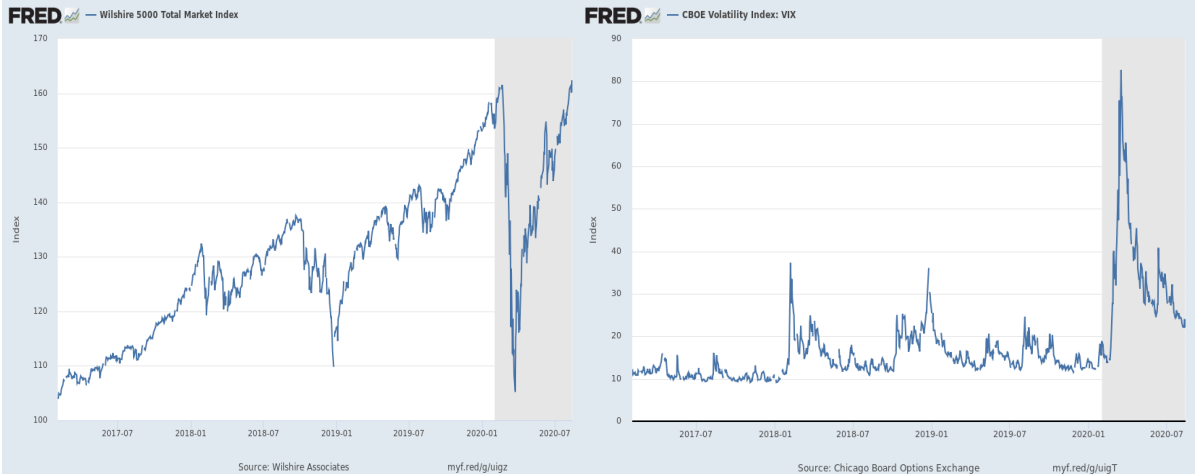
**Notes:** Data are not seasonally adjusted. Pandemic Unemployment Assistance (PUA) is the federal program for workers who are out of work because of the virus but who are not eligible for regular state unemployment insurance benefits (e.g. the self-employed). "Other programs" includes PEUC, STC, EB, and others; a full list can be found in the bottom panel of the table on page 4 at this link <https://www.dol.gov/ui/data.pdf>.

**Source:** U.S. Employment and Training Administration, Initial Claims (ICSA), retrieved from Department of Labor (DOL), <https://oui.doleta.gov/unemploy/docs/persons.xls> and <https://www.dol.gov/ui/data.pdf>, September 3, 2020.



Economic Policy Institute

# The Effects (most) due to the Fed

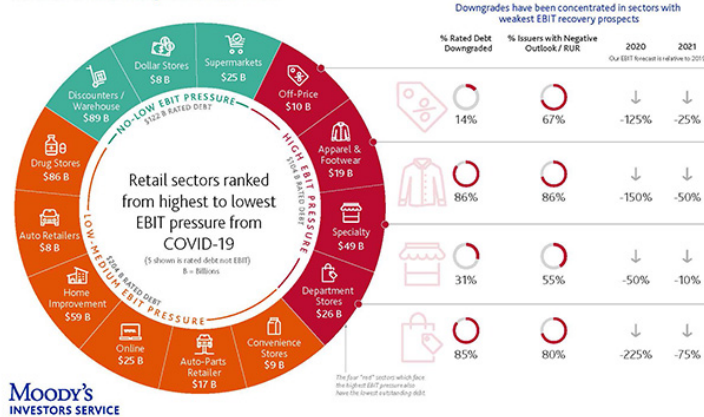


# 5. Structural Changes in One Slide!

For more information, visit [moodyys.com/retail](http://moodyys.com/retail)

## COVID-19 is accelerating the structural shift in US retail

Trends that permeated the retail landscape prior to COVID-19 have intensified, including a pronounced rise in online shopping and increased bifurcation between stronger and weaker sectors



# Three Measures of Unemployment?

- None is a perfect measure:

- Insured Unemployment
  - o Most accurate number because it is a numerical count.
  - o Administrative delays in processing claims and not all unemployed are eligible to collect
- Household Survey: 60,000 households
  - o Disruptions to survey
  - o Ambiguity of some of the classifications
  - o Survey are done mid-month
- Establishment Survey: 145,000 businesses about 700,000 employees
  - o Response rate fluctuated recently
  - o Survey done mid-month

# Making Sense of Unemployment Numbers

## Two Data Reports:

### 1. Depart of Labor *Unemployment Insurance Weekly Claims*

1. Weekly, Thursdays at 8:30
2. Initial Claims
3. Continuing Claims or Insured Unemployment

### 2. Bureau of Labor Statistics (BLS), *Employment Situation*

1. Monthly, First Fridays at 8:30. Surveys done midmonth
2. Household Survey: Unemployment Rate
3. Establishment Survey: New Jobs Created

## For Perspective on Numbers, as of 2/2020:

**Labor Force, 165m; Employed; 159m; Unemployed, 6m, or 3.5%**

**Total New Jobs added per month: round 225 thousand**



# \$600 Extra Per Week

Unemployment Insurance Benefits			
	Weekly Earnings	Regular Benefit	Expanded Benefit
<b>Income Quartile:</b>			
<b>25%</b>	\$445	\$231 (52%)	\$831 (187%)
<b>50%</b>	\$688	\$346 (50%)	\$946 (138%)
<b>75%</b>	\$1,207	\$456 (38%)	\$1,056 (88%)

How bad a “problem” was this?

Recent Yale study suggests it may not be very bad

<https://news.yale.edu/2020/07/27/yale-study-finds-expanded-jobless-benefits-did-not-reduce-employment>

Should it be corrected?

Here’s How: Expanded Benefit a % of earnings;  
phased out as unemployment falls.



## Highly Uncertain

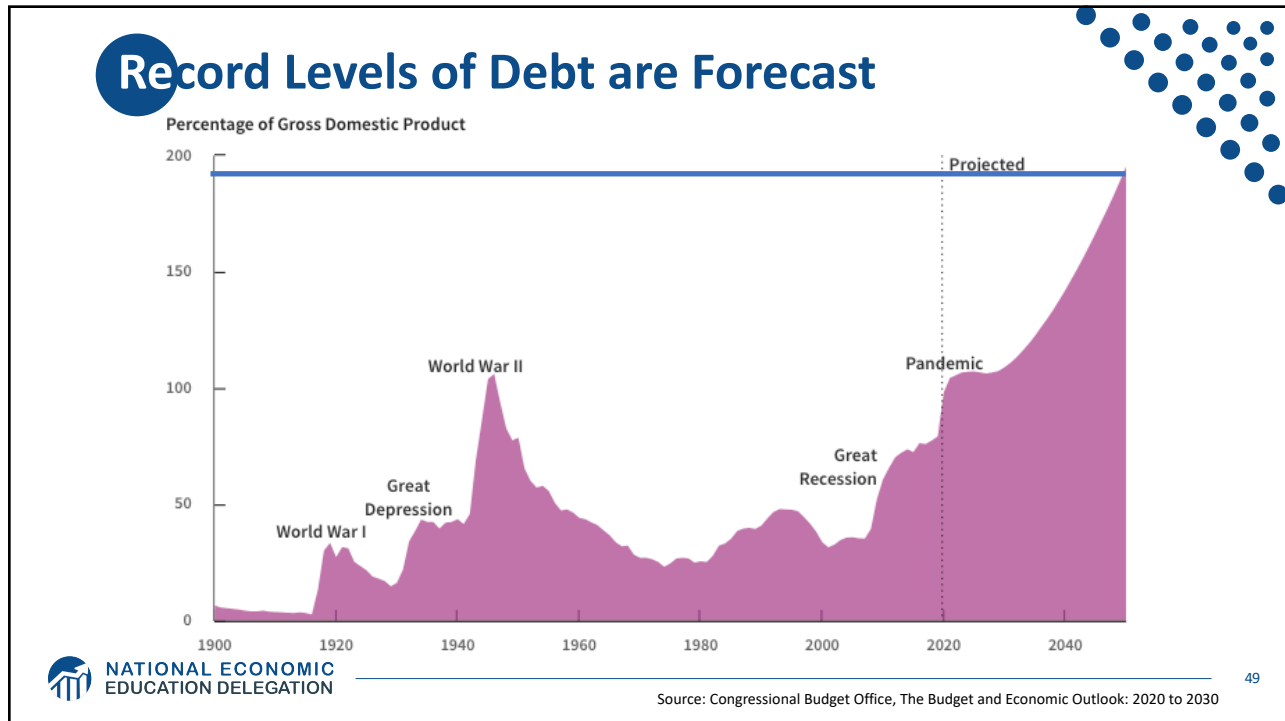
Forecasts for Real GDP Growth in 2020Q3			
Forecast Date	Top Quartile	Bottom Quartile	Difference
2/2020	2.35	1.69	0.66
5/2020	20.31	0.98	19.33
8/2020	21.83	15.53	6.30

The unemployment numbers are a key statistic that economists and the press track to gauge the recovery

## Controversies Over Expanded Unemployment (which ended 7/31)

- **Cares Act: Let's Get the money out the door as quickly as possible:**
  - States calculate unemployment benefit the way you normally do and then add \$600
  - For most workers in most states this ended up providing unemployment benefits in excess of wages.
  - 3 University of Chicago Economists ran the numbers:  
<https://bfi.uchicago.edu/insight/blog/ui-calculator/>





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## From a Republican Deficit Hawk

- “I’m a fiscal hawk from way back, and all of my heebie-jeebies are going off when I see these numbers,” said Douglas Holtz-Eakin, a Republican who used to head the Congressional Budget Office and is president of American Action Forum. “But then I look at the scale of the problem, and I think, yeah, that’s that. Gotta do it.” *Politico*, 4/29

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