

# COVID-19: Economic Implications and Policy Response

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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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- **This slide deck was authored by:**

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- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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## Resources

- **Schedules of Major Economic Releases**

- Economic Calendars at
  - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
  - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon\_cal)

- **DIY Real Time Data:**

- [Track the Recovery](http://tracktherecovery.org): (tracktherecovery.org)
- [Federal Reserve Economic Database \(FRED\)](http://fred.stlouisfed.org): (fred.stlouisfed.org)

- **Data Visualization and Coverage**

- Some examples at [Tableau](http://Tableau)



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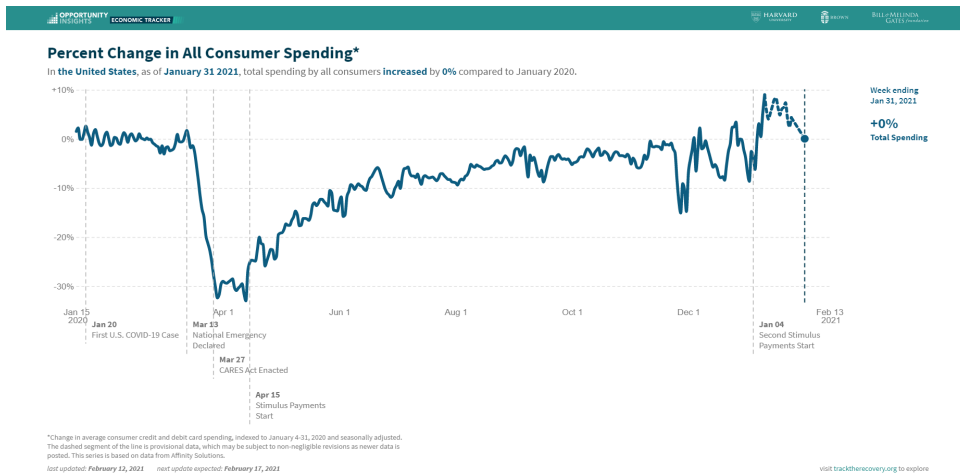
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# Outline

- What is the current state of “the economy”?
- What have been the effects of policy?
- What are the risks to recovery?
- Is progress equitable?

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# Spending Collapsed in March 2020



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# The Situation in Nevada

OPPORTUNITY INSIGHTS ECONOMIC TRACKER HARVARD BROADMAN GATEWAY

## Percent Change in All Consumer Spending\*

In Nevada, as of January 31 2021, total spending by all consumers decreased by 11.1% 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: February 12, 2021 next update expected: February 17, 2021

visit tracktherecovery.org to explore



<https://tracktherecovery.org>

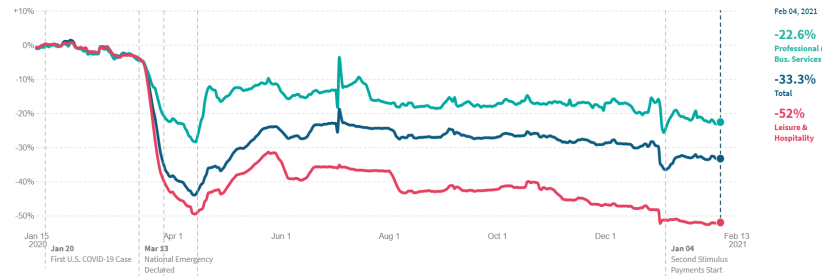
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# Implications of Reduced Spending

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## Percent Change in Number of Small Businesses Open\*

In the United States, as of February 04 2021, the number of small businesses open decreased by 33.3% compared to January 2020.



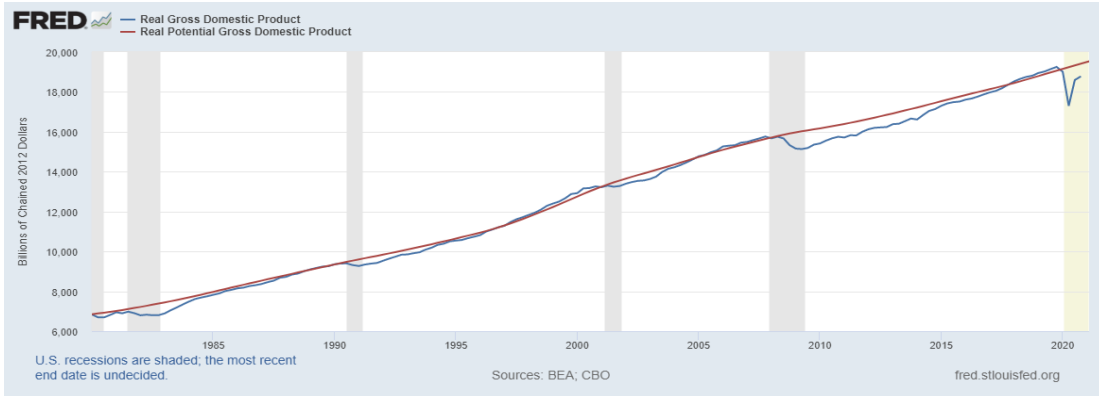
\*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Wormly.  
last updated: February 12, 2021 next update expected: February 15, 2021

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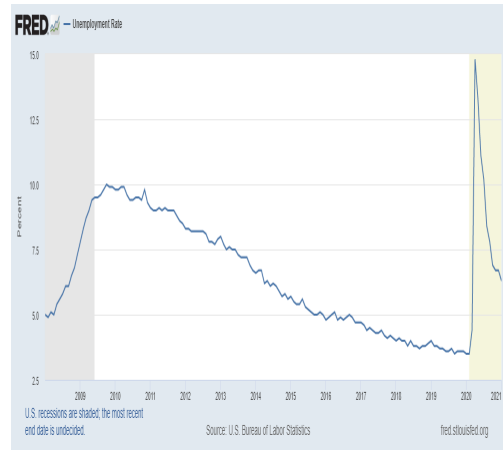
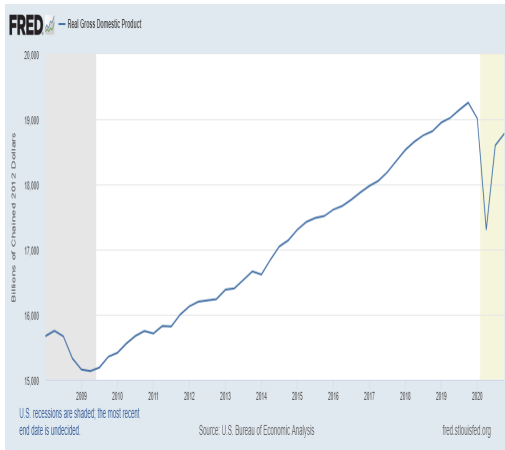
# Where are We ?



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

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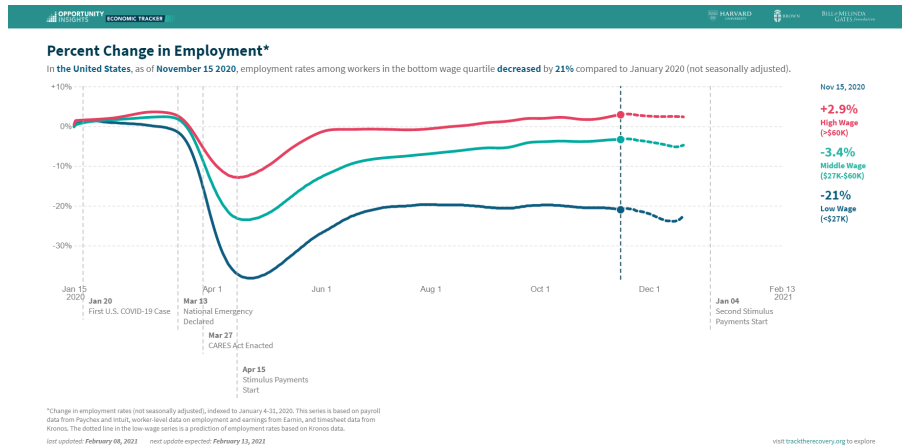
# Where are we? What kind of a recovery?



As of February 2021: Looks "V" shaped to me! Could it become a W or K shaped recovery?

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## Employment Rates by Income



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## Where are we now?

### Executive Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Cash injections from government have increased household personal income (+)
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many Americans – both men and women - have left the labor force (Men 69.3% to 67.5% and Women 57.8 to 55.7%) (-)

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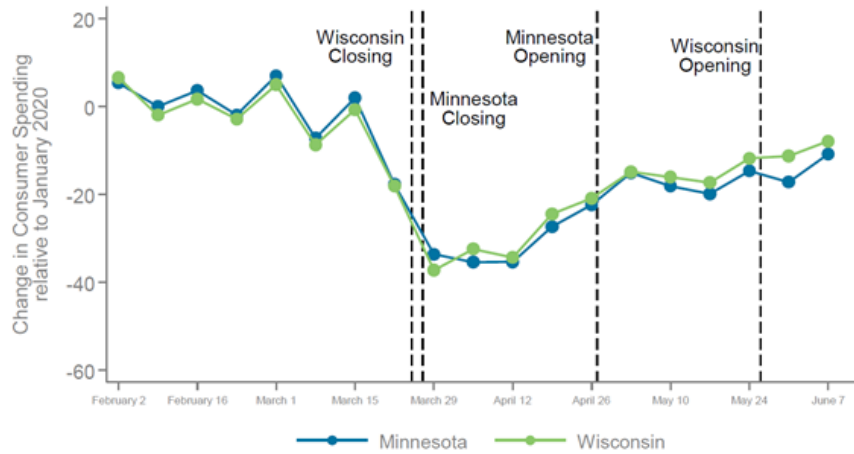
# A Tale of Three Policy Efforts

- Social policy: Social Distancing
- Monetary Policy
- Fiscal Policy

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# How impactful is government? – Social Policy

Causal Effects of Re-Openings on Economic Activity: Event Studies  
Case Study on Business Re-Openings: Minnesota vs Wisconsin



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# Monetary Policy – Federal Reserve

**Primary objectives:**

- Stabilize the economy
- Maintain liquidity of the system

Date	Policy Action
March 3	Federal Funds Rate
March 15	Federal Funds Rate Discount Window Lending Quantitative Easing Forward Guidance
March 17/18	Primary Dealer Credit Facility (PDCF) Commercial Paper Funding Facility (CPFF) Money Market Mutual Fund Facility (MMLF)
March 23	Primary Market Corporate Credit Facility (PMCCF) Secondary Market Corporate Credit Facility (SMCCF) Term Asset-Backed Securities Loan Facility (TALF)
April 9	Paycheck Protection Program Liquidity Facility (PPPLF) Main Street Business Lending Program Municipal Liquidity Facility

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# Federal Funds Rate and Balance Sheet

Shading indicates U.S. recessions; the most recent one is ongoing.

Source: Board of Governors of the Federal Reserve System (US)

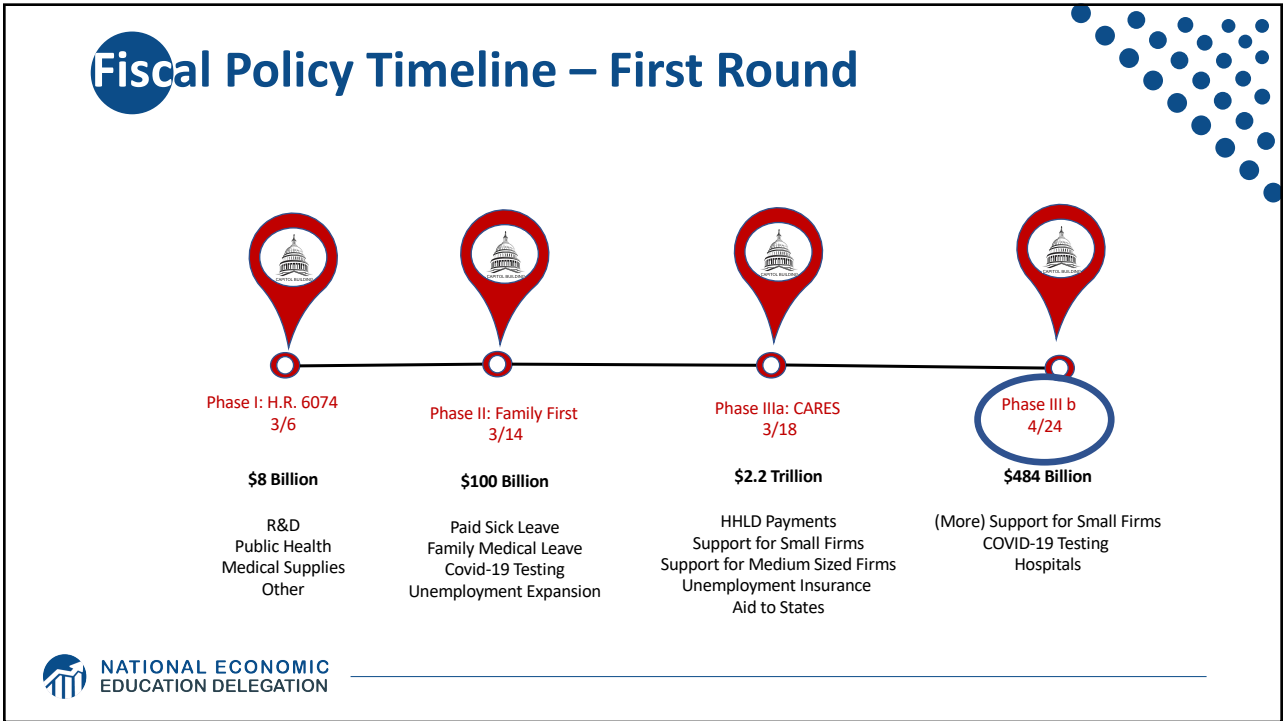
fred.stlouisfed.org

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.

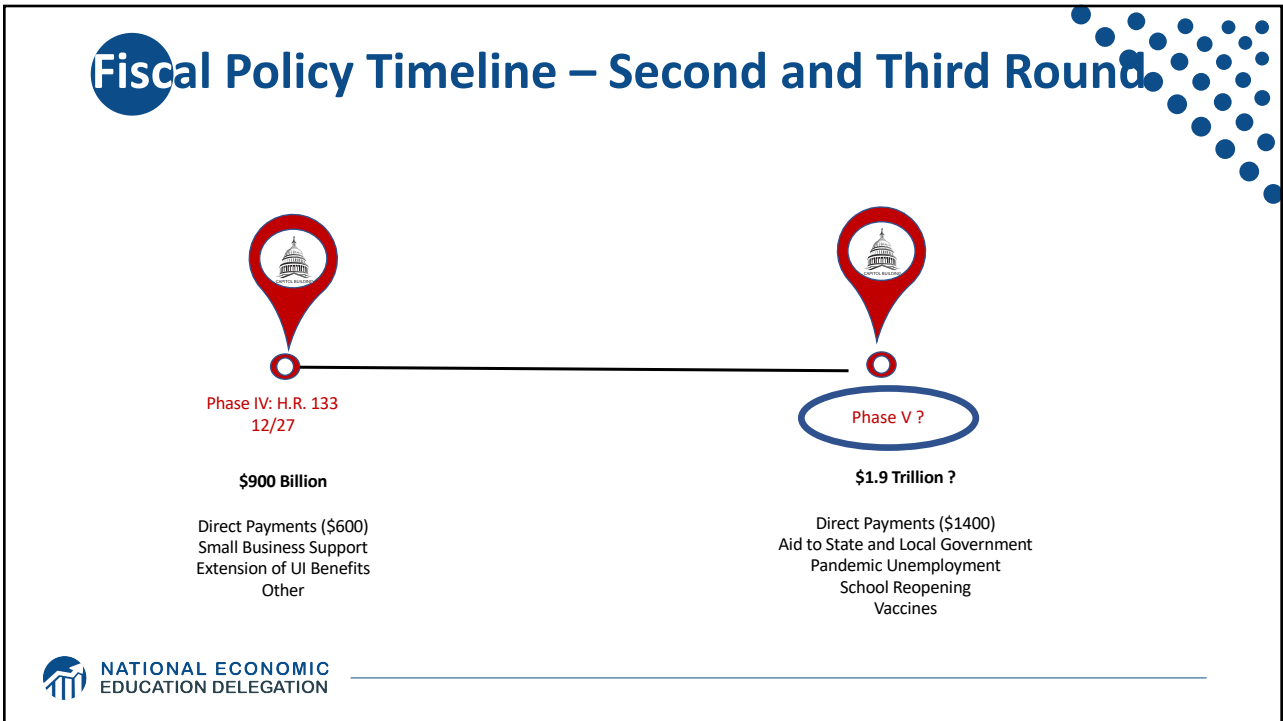
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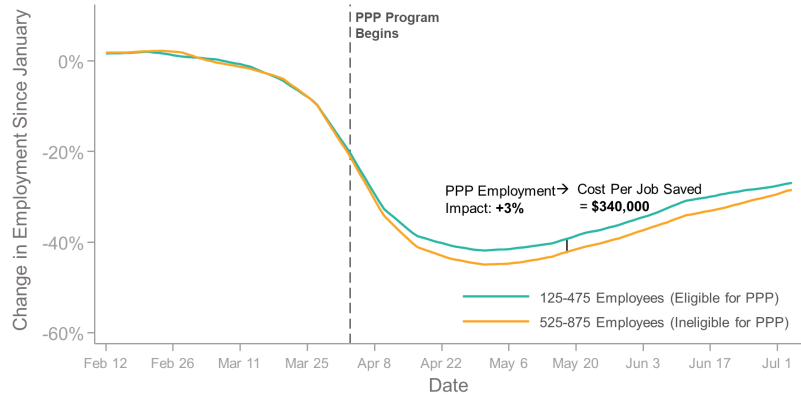


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# Did PPP Mitigate Job Losses?

## Key Takeaway:

PPP had a relatively small impact on small business payroll (but it did help!)



# Comparing Two Rescue Plans

Comparing Two Rescue Plans

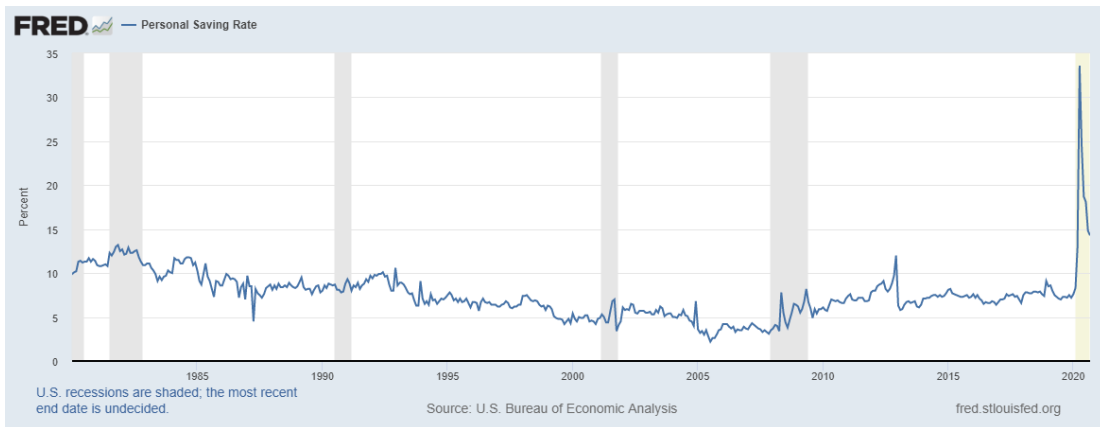
	American Rescue	Republican Plan	Difference
Direct Payments	\$465 billions	\$220	\$245
Aid to State and Local Governments	\$350	0	\$350
Pandemic Unemployment	\$350	\$130	\$220
School Reopening	\$170	\$20	\$150
Vaccines	\$160	\$160	0
Expand Child Tax Credit	\$120	0	\$120
Rent and Landlord Support	\$30	0	\$30
Child Care Providers	\$25	\$20	\$5
Other	~\$200	\$68	\$132
<b>Total</b>	<b>\$1,870</b>	<b>\$618</b>	<b>\$1,252</b>

# Fiscal Policy: This Shock is Different

- **Classical response: Stimulate the economy!**
- **This economic shock is different: “health shock”**
  - with large macroeconomic consequences.
- **Response should be:**
  - target the cause of the problem
  - provide targeted financial support for individuals, firms and states
- **When the health crisis is under control -> classical stimulus if needed.**

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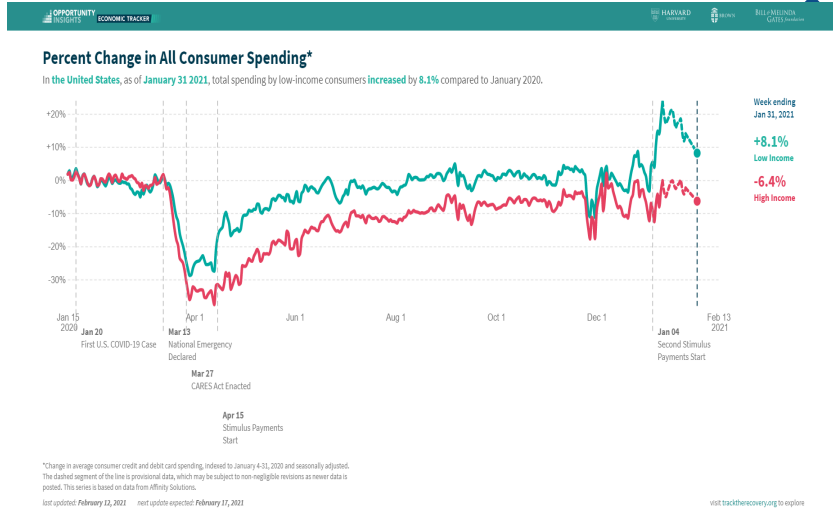
# Personal Savings Rate – impact of Fiscal Policy



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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.

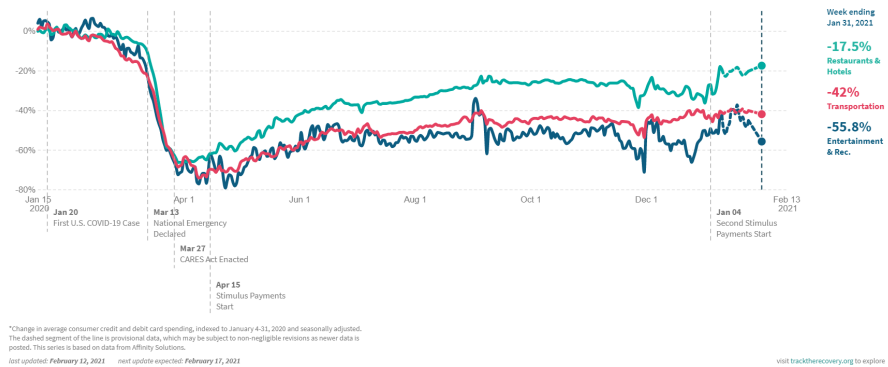


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# Hard Hit Sectors – uneven recovery among industries

## Percent Change in All Consumer Spending\*

In the United States, as of January 31 2021, arts, entertainment, and recreation spending by all consumers decreased by 55.8% compared to January 2020.



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## A “K-shaped” recovery?

### Executive Summary

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation
- High income earners (>60k/yr) have largely kept their jobs; middle and low income earners have depressed employment rates
- Women are (slightly) disproportionately exiting labor force
- Food insecurity is at an all time high
- Specific industries (vaccine reliant) are hit particularly hard

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## Causes for Optimism

- **There were no short-run macro problems at the start of the crisis**
  - The only obstacle to a quick recovery is damage that is being done while the pandemic continues (and the pandemic itself)
  - Main concern: temporary disruptions turning into permanent ones
- **Things are not as bad as they could be**
  - Federal Reserve prevented collapse in financial markets
  - Congress + White House prevented complete collapse in labor/productive markets; second and third rounds of stimulus will help
  - Aggregate household balance sheets in good position
- **Vaccine rollout should alleviate pressure on service industry**

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# What are the risks to recovery?

1. Continuation of the virus with mutations and insufficient vaccine roll-out (like 1918)
2. Lack of additional and appropriately targeted fiscal support to prevent debt default, evictions, and business failures (like 1929)
3. Damage to State and Local Budgets leading to cuts in job and discretionary spending (like 2009)

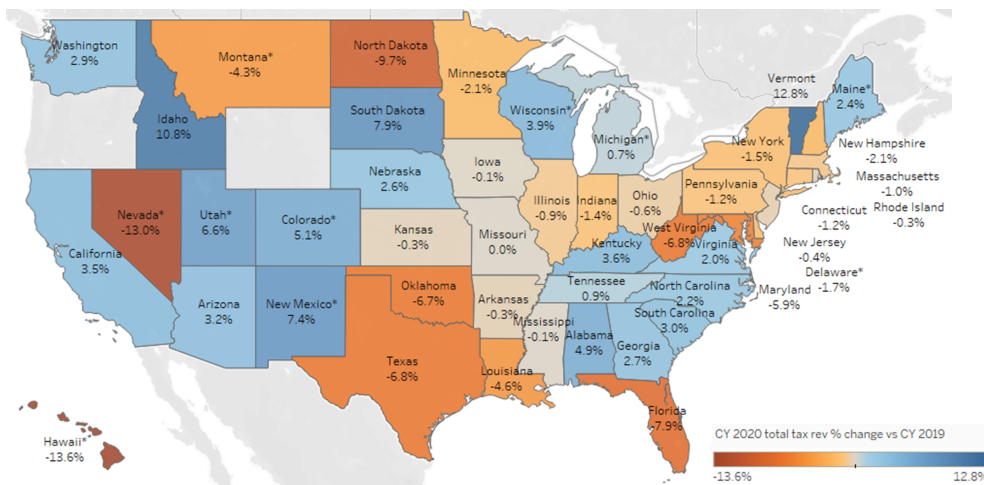
**Key Risk #1: Temporary economic downturn becoming permanent**

**Key Risk #2: An inequitable recovery**



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# 2020 State Tax Receipts Relative to 2019

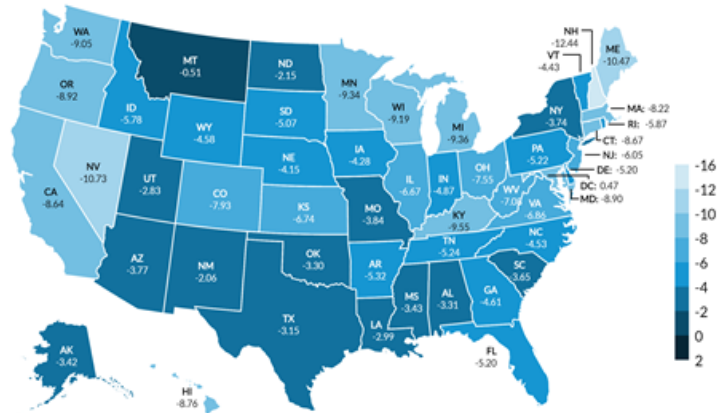


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<https://markets.jpmorgan.com/research/email/9oirrqa/jA9jthJ33avL4Z96Lz3vA/GPS-3630418-0>

# Employment Losses Don't Match Revenue

PUBLIC  
**State and local public employment, December 2020**  
*(percent change year over year, seasonally adjusted)*



Source: Bureau of Labor Statistics via the State Economic Monitor URBAN INSTITUTE

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## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **GDP contracted 2.5% in 2020, much less than anticipated.**
  - Positive growth will likely return in 2021
- **Significant structural changes.**
  - Telecommuting, telehealth, retail decline, other business failures. Increased concentration of market power.
- **Policy gap and economic reallocations have created hardship.**
  - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects: Educational opportunities, labor force participation changes, reallocations that require retraining, increasing inequality.**
- **Wide agreement that an 'American Rescue Plan' is needed, but debate over the size of additional fiscal stimulus to 'building back better'.**

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**Thank you!**

## Any Questions?

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