

# COVID-19: Economic Implications and Policy Response

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Kiwanis Club, Newberg, OR

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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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- Geoffrey Woglom, Amherst College
- Doris Geide-Stevenson, Weber State University

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- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- 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)

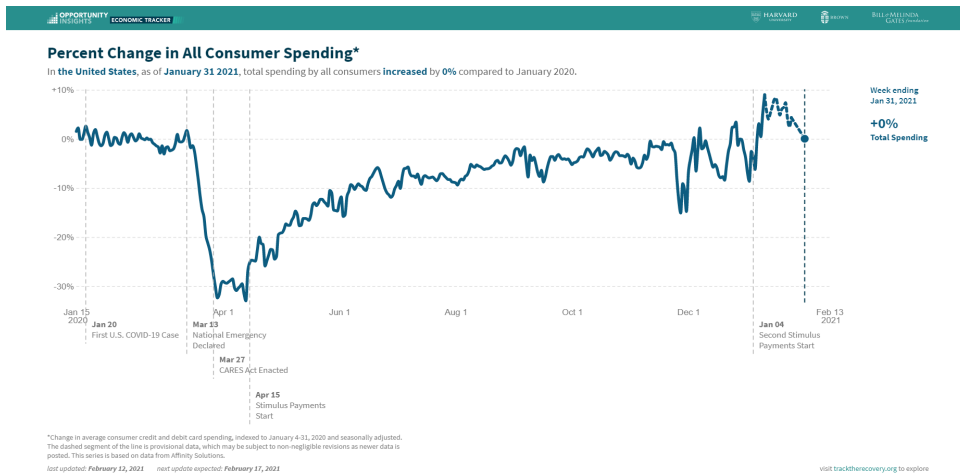
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# Outline

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

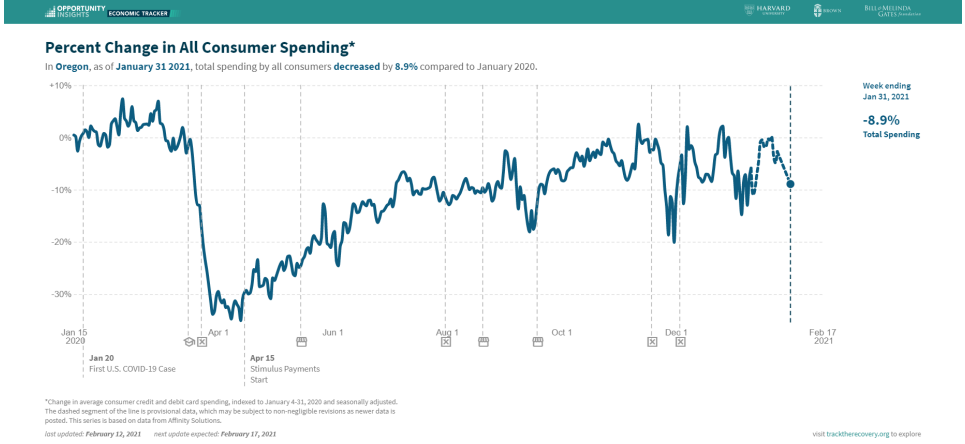
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# Spending Collapsed in March 2020



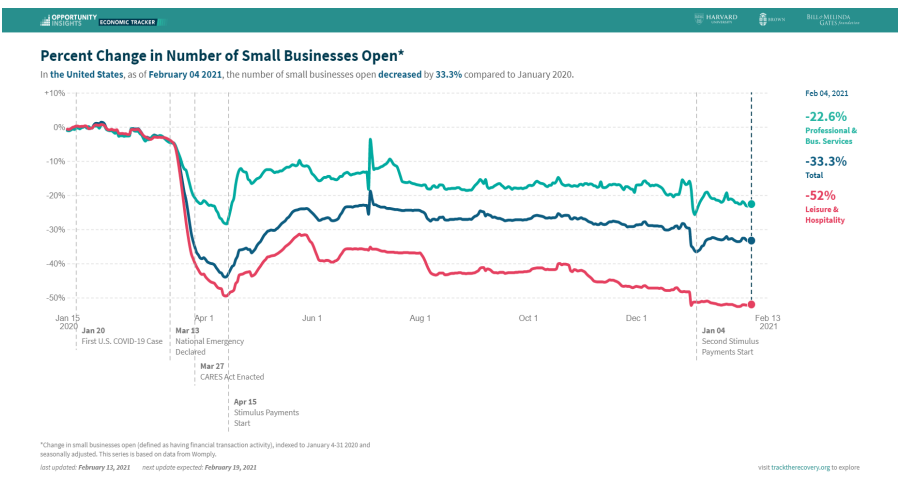
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# The Situation in Oregon



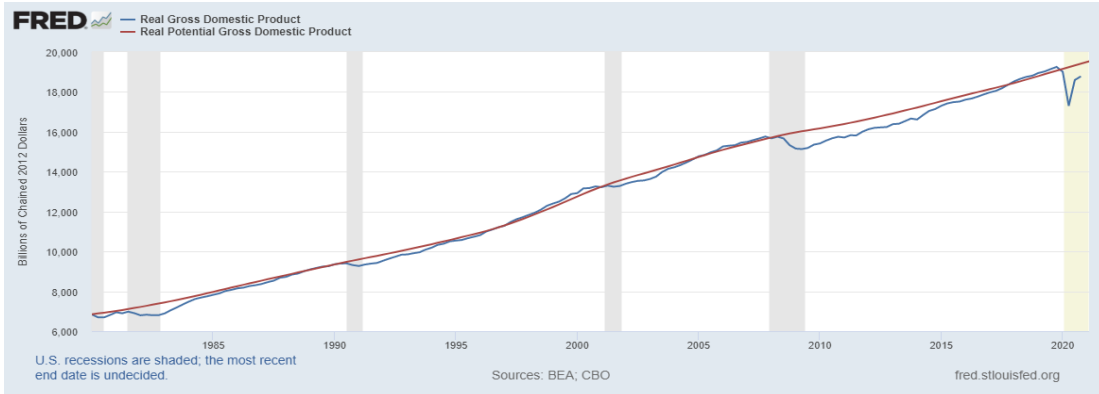
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# Implications of Reduced Spending



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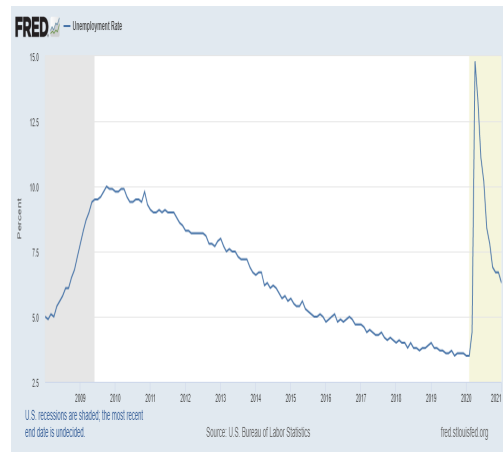
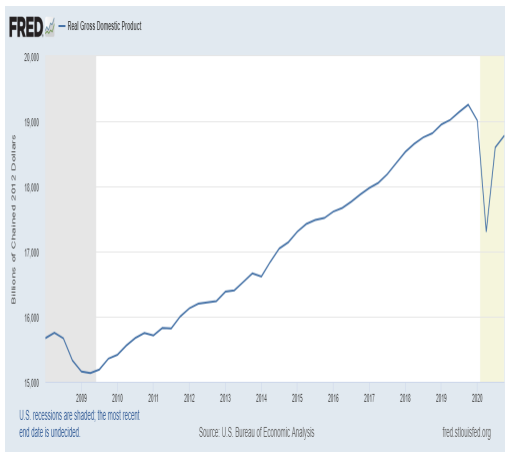
# Where are We ?



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

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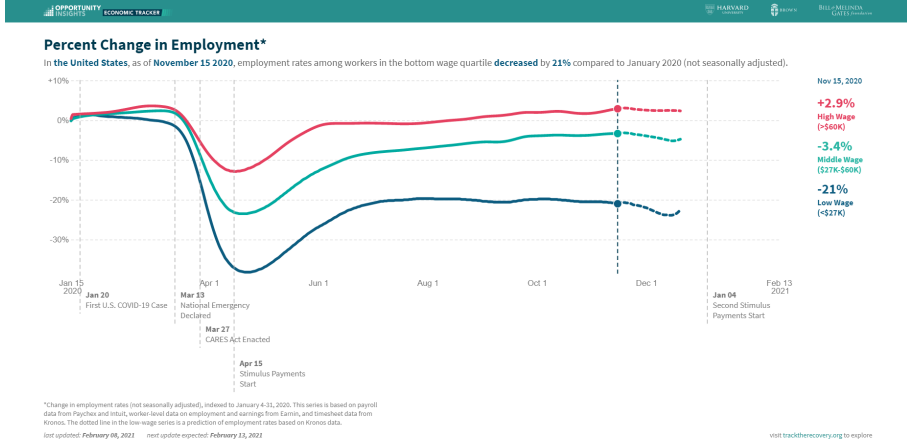
# Where are we? What kind of a recovery?



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

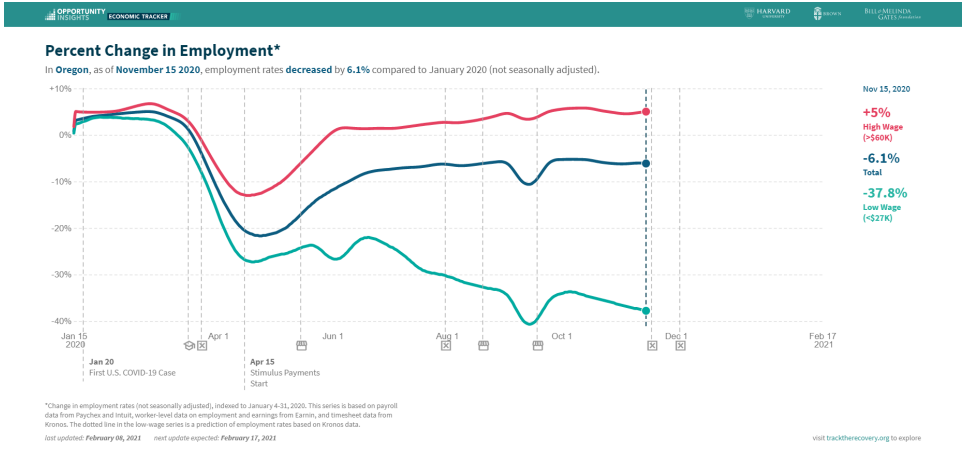
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# Employment Rates by Income



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# Employment Rate by Income - Oregon



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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 individuals – both men and women - have left the labor force (Men 69.3% to 67.5% and Women 57.8 to 55.7%, 2.5m women versus 1.8m men) (-)



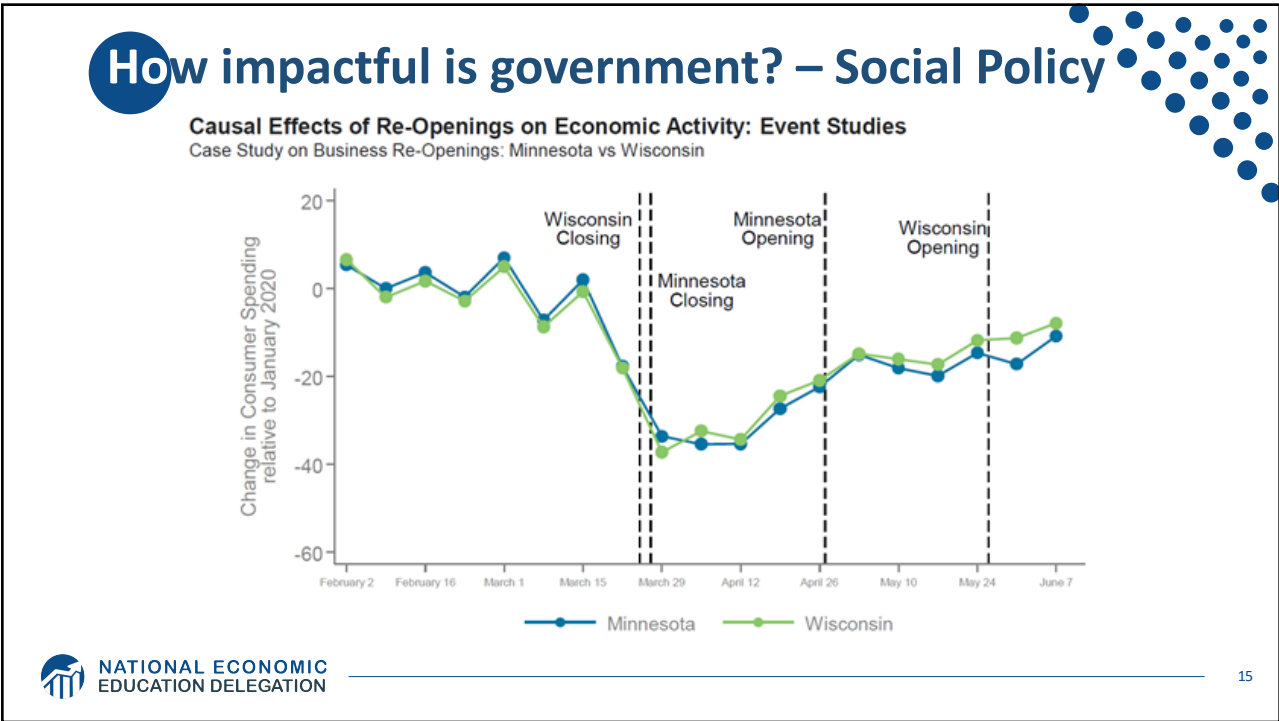
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# A Tale of Three Policy Efforts

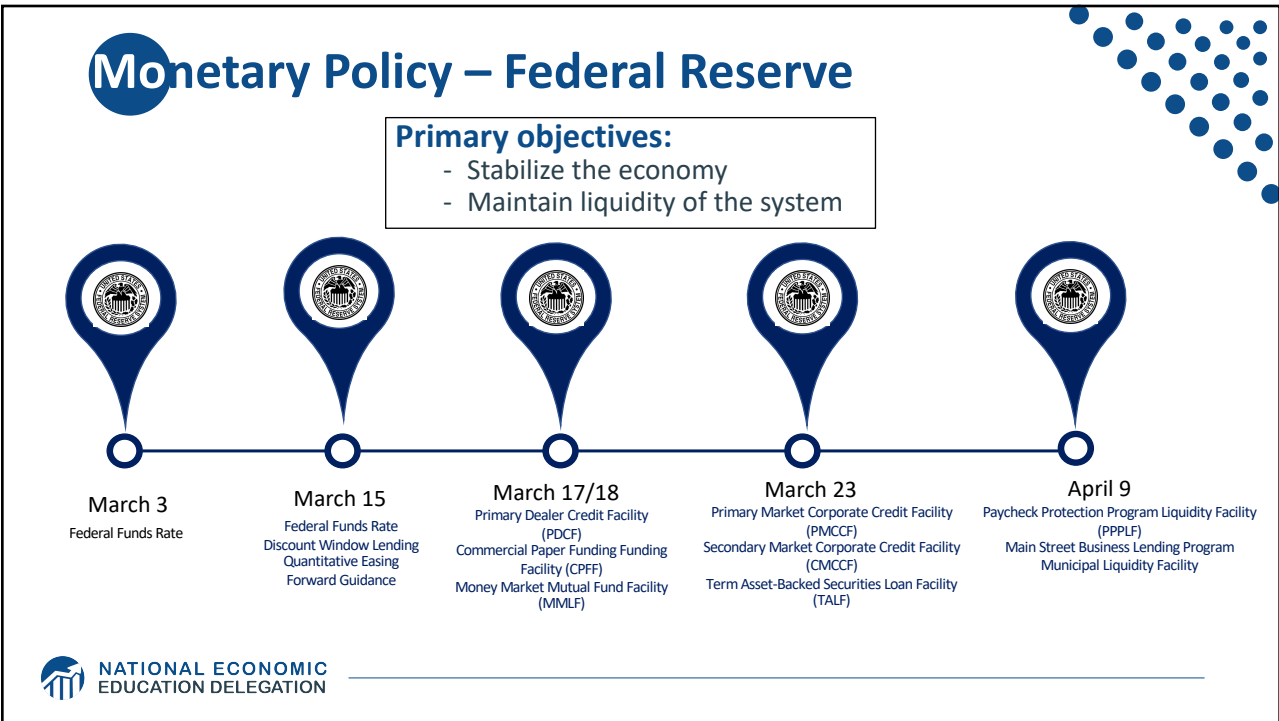
- **Social policy: Social Distancing**
- **Monetary Policy**
- **Fiscal Policy**



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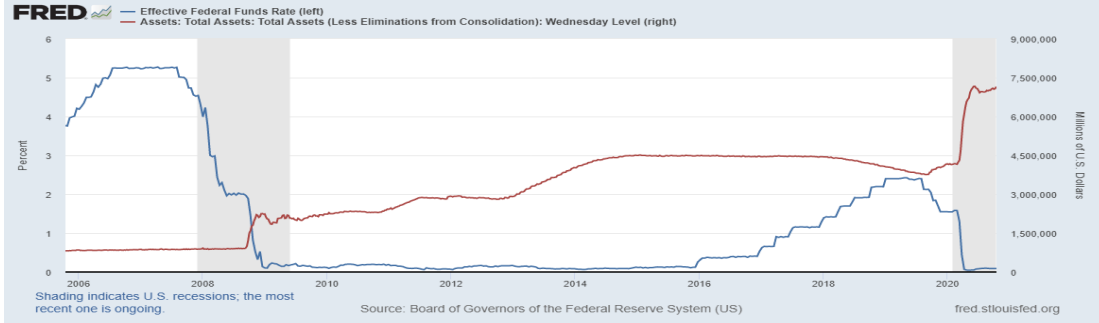
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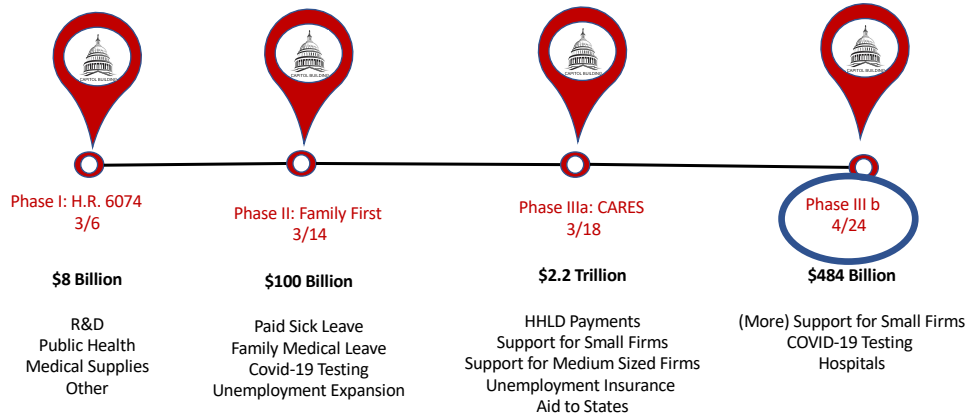
# Federal Funds Rate and Balance Sheet



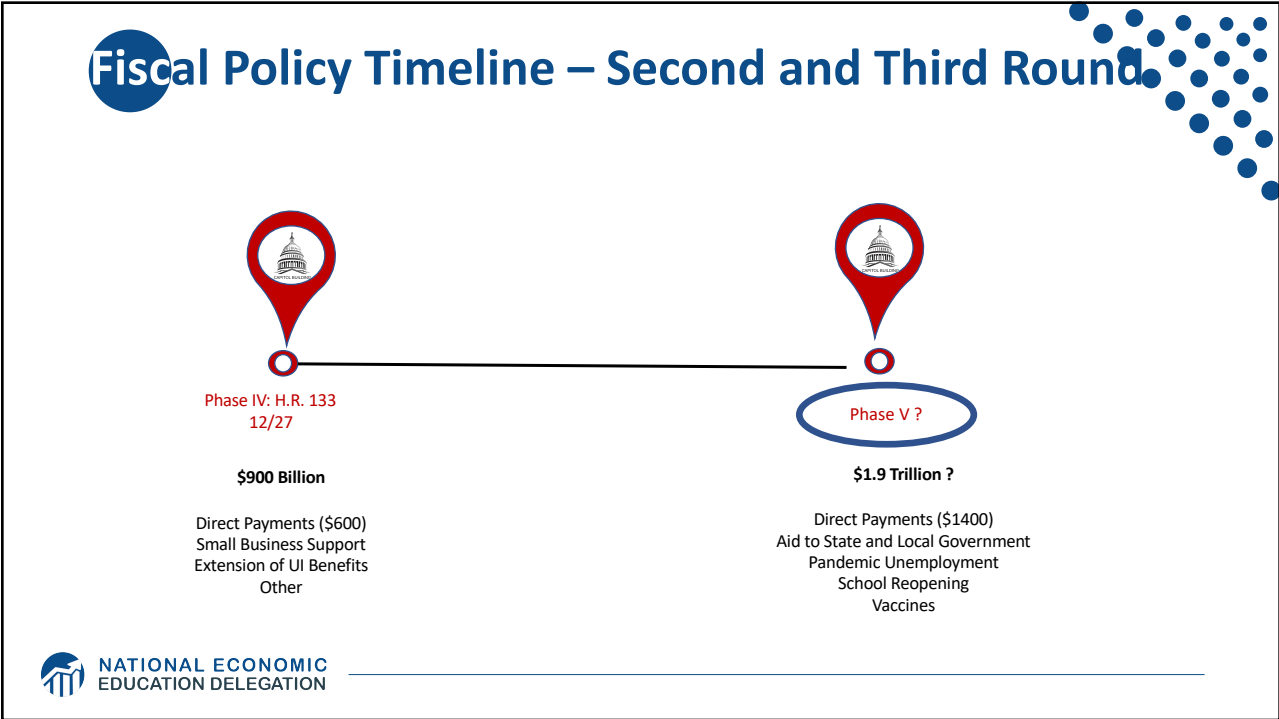
Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

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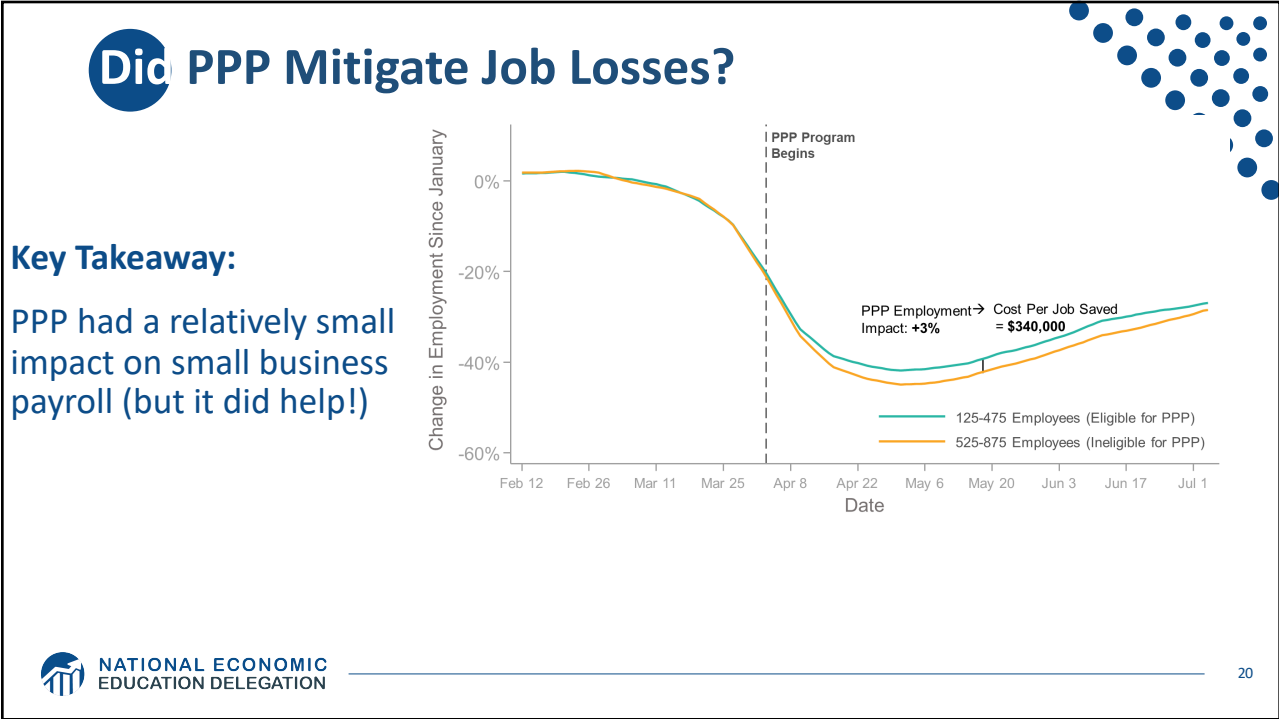
# Fiscal Policy Timeline – First Round



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# 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 – Direct Pandemic Response	\$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>

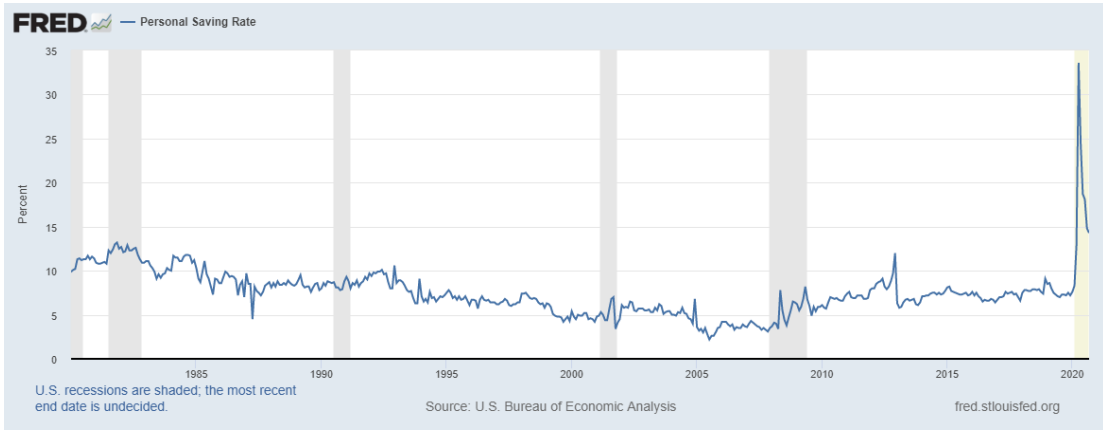
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# Fiscal Policy: This Shock is Different

- **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?

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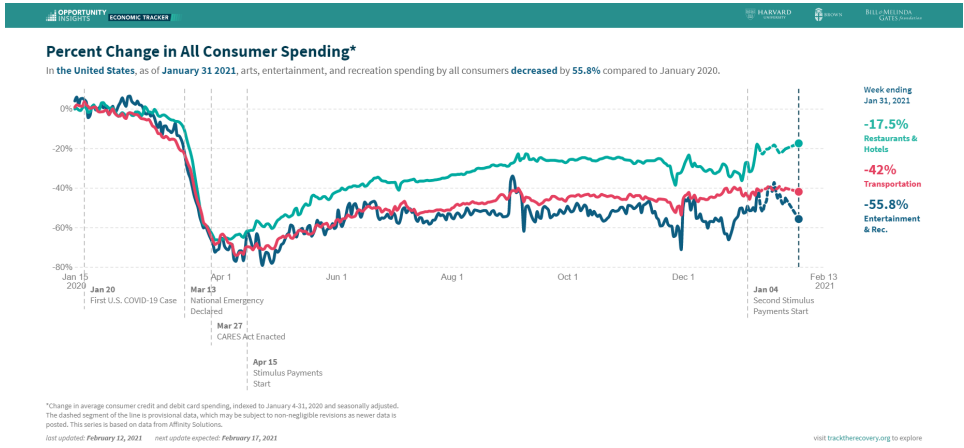
**Percent Change in All Consumer Spending\***  
 In the United States, as of January 31, 2021, total spending by low-income consumers increased by 8.1% compared to January 2020.



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



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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***

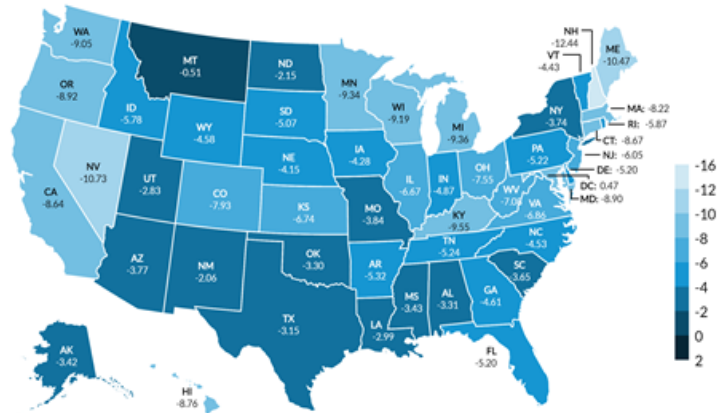
**Key Risk #2: *An inequitable recovery***



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# 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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## Causes for Concern

- **Economic inequality is worsening**
  - Elevated/persistent unemployment + rising asset prices
  - Does not show up in aggregate data (problem of “averages”)
- **State/local governments may face deep budget shortfalls (13% of employment)**  
<https://www.brookings.edu/events/the-covid-19-pandemic-and-state-local-budgets-past-present-and-future/>
  - Often the largest employers within a state
- **Eviction/foreclosure moratoria are shifting burdens to future as well as a drop in bankruptcies during the current recession**



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## Thoughts on Policies to Date

- Costs are enormous, but we were doing the right things!
- Health/Social Policies to address the Pandemic: F grade
- Monetary policy: A grade
- Fiscal policy grade: C+ grade
  - 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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## Gains by American Billionaires

**WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS**  
March 18, 2020 - December 7, 2020

First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020	Source
Jeff Bezos	\$113.0	\$184.4	\$71.4	63.2%	\$131.0	\$53.4	40.8%	Amazon
Elon Musk	\$24.6	\$143.1	\$118.5	481.7%	\$22.3	\$120.8	541.7%	Tesla, SpaceX
Bill Gates	\$88.0	\$118.7	\$20.7	21.1%	\$96.5	\$22.2	23.0%	Microsoft
Mark Zuckerberg	\$54.7	\$104.8	\$50.1	91.7%	\$62.3	\$42.5	68.3%	Facebook
Warren Buffett	\$67.5	\$86.5	\$19.0	28.1%	\$82.5	\$4.0	4.8%	Berkshire Hathaway
Larry Ellison	\$59.0	\$82.0	\$23.0	38.9%	\$62.5	\$19.5	31.1%	Oracle
Larry Page	\$50.9	\$79.8	\$28.9	56.9%	\$50.8	\$29.0	57.2%	Google
Sergey Brin	\$49.1	\$77.6	\$28.5	58.0%	\$49.8	\$27.8	55.8%	Google
Steve Ballmer	\$52.7	\$72.9	\$20.2	38.4%	\$41.2	\$31.7	77.0%	Microsoft
Alice Walton	\$54.4	\$69.0	\$14.6	26.8%	\$44.4	\$24.8	55.4%	Walmart
Jim Walton	\$54.6	\$68.8	\$14.2	25.9%	\$44.6	\$24.2	54.2%	Walmart
Rob Walton	\$54.1	\$68.4	\$14.3	26.5%	\$44.3	\$24.1	54.5%	Walmart
MacKenzie Scott	\$36.0	\$59.8	\$23.8	66.2%	N/A	N/A	N/A	Amazon
Michael Bloomberg	\$48.0	\$54.9	\$6.9	14.4%	\$55.5	-\$0.6	-1.1%	Bloomberg LP
Phil Knight	\$29.5	\$52.1	\$22.6	76.5%	\$33.4	\$18.7	55.9%	Nike
<b>SUBTOTAL</b>	<b>\$846.1</b>	<b>\$1,322.8</b>	<b>\$476.7</b>	<b>56.3%</b>	<b>\$821.1</b>	<b>\$501.7</b>	<b>61.1%</b>	
<b>ALL OTHERS</b>	<b>\$2,101.4</b>	<b>\$2,689.0</b>	<b>\$587.6</b>	<b>28.0%</b>	<b>\$2,289.9</b>	<b>\$399.1</b>	<b>17.43%</b>	
<b>TOTAL</b>	<b>\$2,947.5</b>	<b>\$4,011.8</b>	<b>\$1,064.3</b>	<b>36.1%</b>	<b>\$3,111.0</b>	<b>\$900.8</b>	<b>29.0%</b>	

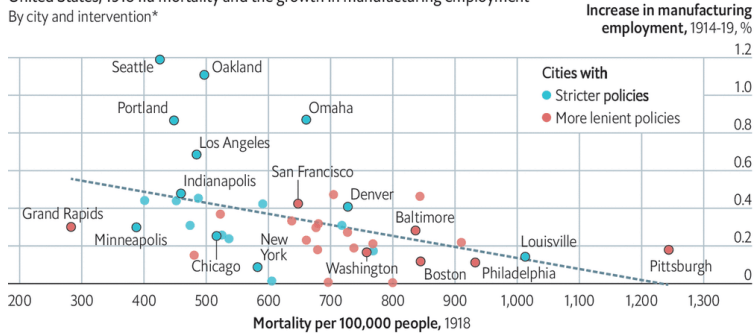
Sources: All data in table is from Forbes and available [here](#). March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires," March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Wealth and Losses" accessed Dec. 8, 2020; Feb. 8, 2019 data: Forbes, "2019 World's Billionaires."

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# Public Health versus the Economy? Lives versus Livelihood?

## Necessary precautions

United States, 1918 flu mortality and the growth in manufacturing employment  
By city and intervention\*



Source: "Pandemics depress the economy, public health interventions do not: evidence from the 1918 flu" by S. Correia, S. Luck and E. Verner, 2020

\*Non-pharmaceutical measures, e.g. social distancing, closing schools and churches, mandatory face masks

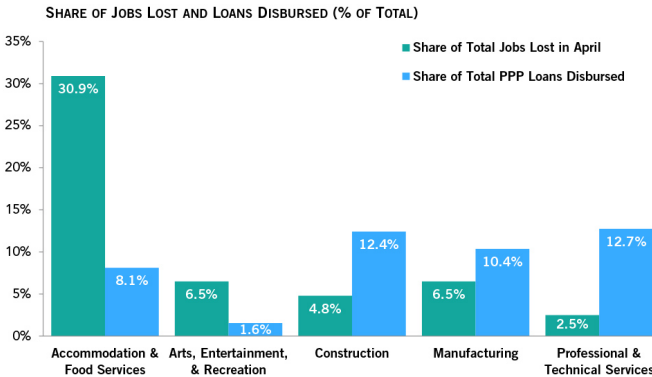
The Economist

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# PPP Loans Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment

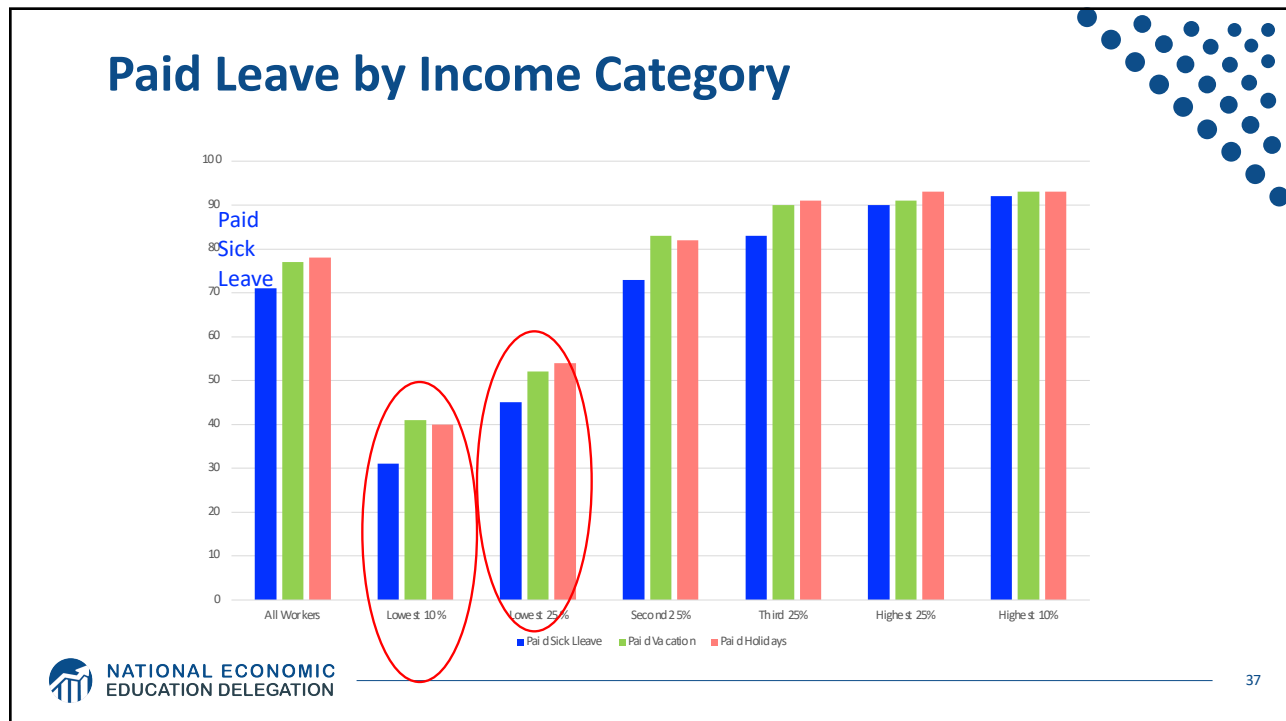


SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.  
© 2020 Peter G. Peterson Foundation PGPF.ORG

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

Improvements to the program in the second stimulus bill

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## Monetary Policy – Current State and Impact

- **Fed Funds Rate at 0%** → newly issued debt very cheap
  - Good for borrowers
- **Balance Sheet grew from \$4T to \$7T**
  - Large volume of liquidity + few high yield, high quality savings vehicles → risky asset price bubbles
- **Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**
  - High inflation + low nominal rates → negative real returns
  - Difficult period for fixed-income households

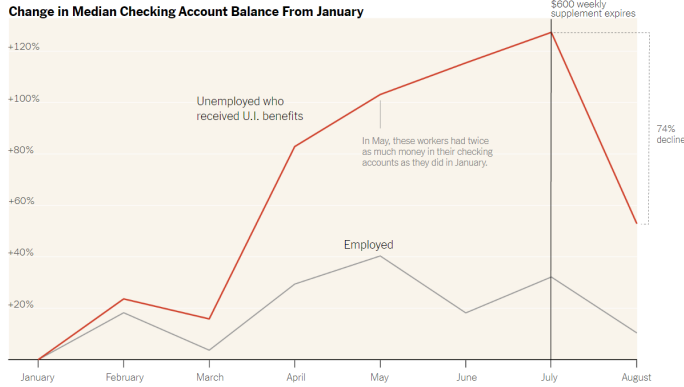
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## Did \$1200 checks and \$600 PUC create buffer?

Change in Median Checking Account Balance From January

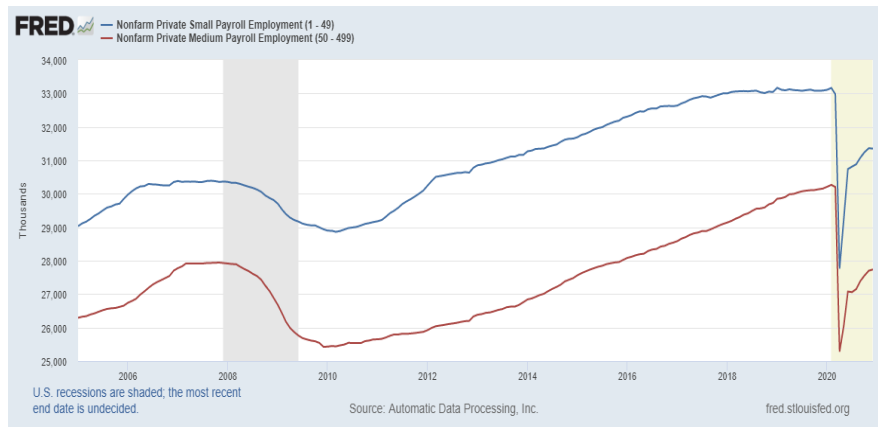


### Key Takeaways:

1. \$1200 checks + \$600 PUC allowed households to build cash buffer
2. Expiration of \$600 PUC caused sharp decline in balances of unemployed relative to employed

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

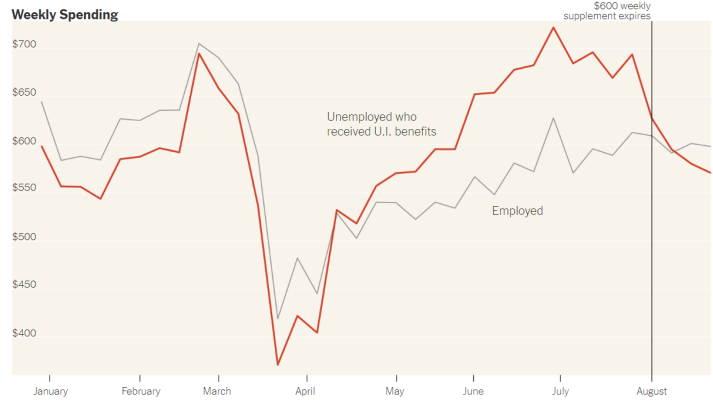
Between February and April 2020, net loss of 10.4m losses, by Dec. 2020 'only' 4.4m jobs lost.



## Did \$1200 checks and \$600 PUC induce spending?

### Key Takeaways:

1. \$1200 checks + \$600 PUC allowed all households to spend similar to pre-COVID level
2. Expiration of \$600 PUC caused sharp decline in spending for unemployed relative to employed

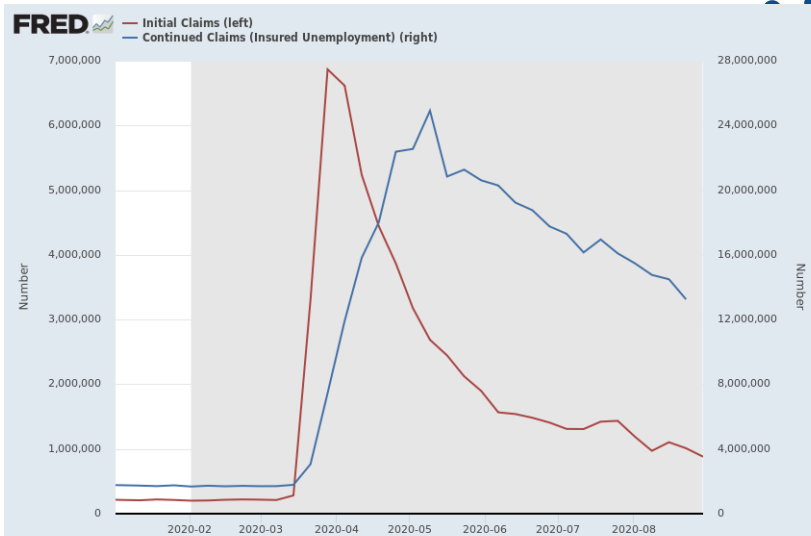


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## Unemployment Claims (weekly)

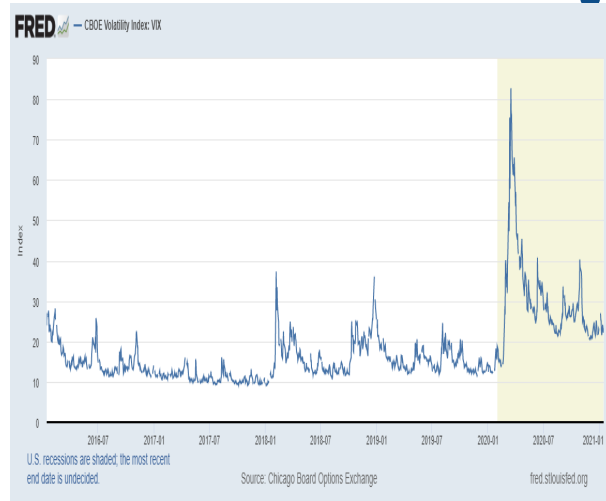
Yikes!  
Since March 21<sup>st</sup> 57 million people filed for unemployment

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



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## Stock Market Impact



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## 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



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# 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%**

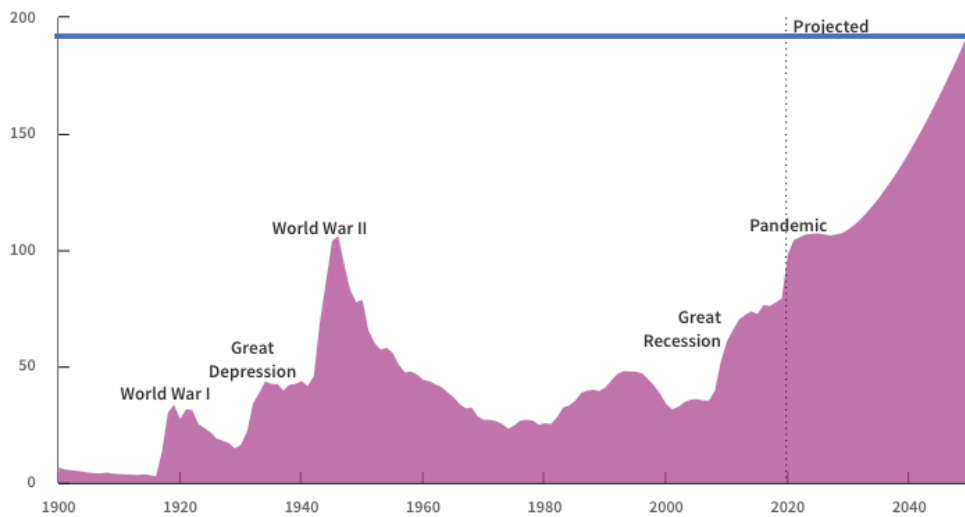
**Total New Jobs added per month: round 225 thousand**



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# Record Levels of Debt are Forecast

Percentage of Gross Domestic Product



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Source: Congressional Budget Office, The Budget and Economic Outlook: 2020 to 2030

# 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



# Real Disposable Income – Income after taxes and transfers (impact of Fiscal Policy)

