# COVID-19: Economic Implications and Policy Response

**Sep 25, 2020**
**Novato Rotary Club**

**Geoffrey Woglom**
**Professor of Economics (Emeritus)**
**Amherst College**

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# Who Are We?

- **Honorary Board: 47 members**
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - 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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- **This slide deck was authored by:**
  - Scott L. Baier, Clemson University
  - Jon D. Haveman, NEED
  - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
  - Jon Haveman
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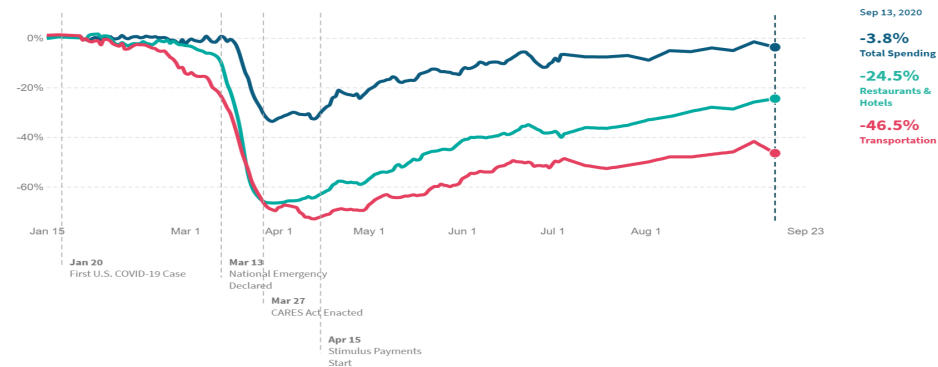NATIONAL ECONOMIC
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# Outline

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

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# Spending Collapsed in March

OPPORTUNITY INSIGHTS   ECONOMIC TRACKER                          HARVARD      BROWN      BILL & MELINDA GATES foundation

**Percent Change in All Consumer Spending***
In **the United States**, as of September 13 2020, total spending by all consumers
decreased by **3.8%** compared to January 2020.

Sep 13, 2020

**-3.8%**
**Total Spending**

**-24.5%**
**Restaurants & Hotels**

**-46.5%**
**Transportation**

Jan 15        Mar 1        Apr 1    May 1    Jun 1    Jul 1    Aug 1        Sep 23

**Jan 20**
First U.S. COVID-19 Case

**Mar 13**
National Emergency Declared

**Mar 27**
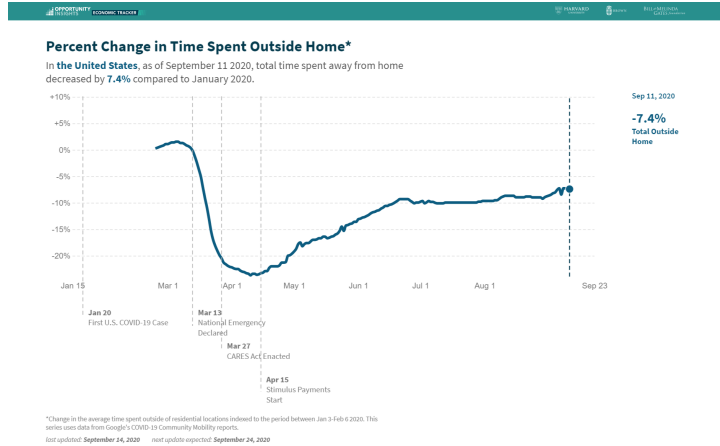CARES Act Enacted

**Apr 15**
Stimulus Payments Start

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted.
This series reflects daily data through July 5th, 2020 and weekly data after July 5th, 2020. This series is based on data from Affinity Solutions.
*last updated:* **September 22, 2020**     *next update expected:* **September 29, 2020**

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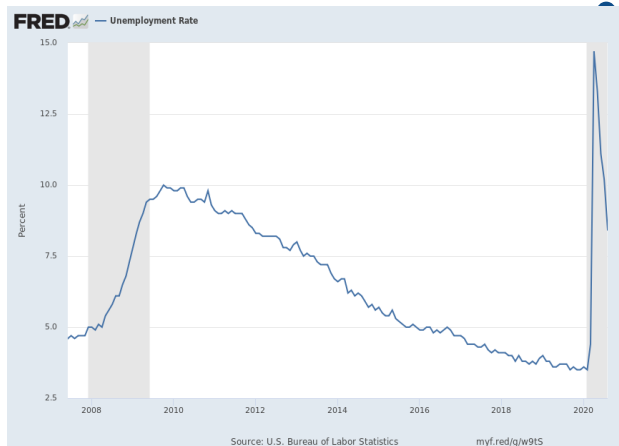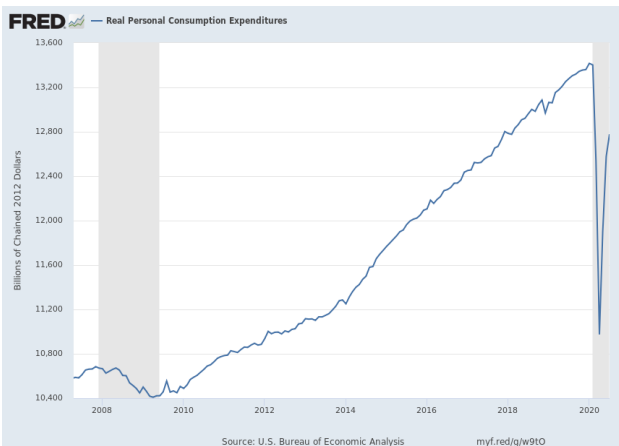https://tracktherecovery.org/

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# Why Did Spending Collapse?

At least initially, the spending collapse was due to public health restrictions and nervous households.
Over time, loss of income also plays a role

### Percent Change in Time Spent Outside Home*
In **the United States**, as of September 11 2020, total time spent away from home decreased by **7.4%** compared to January 2020.

Sep 11, 2020
**-7.4%**
Total Outside Home

**Jan 20** First U.S. COVID-19 Case

**Mar 13** National Emergency Declared

**Mar 27** CARES Act Enacted

**Apr 15** Stimulus Payments Start

*Change in the average time spent outside of residential locations indexed to the period between Jan 3-Feb 6 2020. This series uses data from Google's COVID-19 Community Mobility reports.
*last updated: September 14, 2020*    *next update expected: September 24, 2020*

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# Where are we?

Real Personal Consumption Expenditures — Source: U.S. Bureau of Economic Analysis — myf.red/g/w9tO

Unemployment Rate — Source: U.S. Bureau of Labor Statistics — myf.red/g/w9tS

**As of August:  Sure Looks "V" shaped to me!**

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# More Good News (Sort of)

- **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**
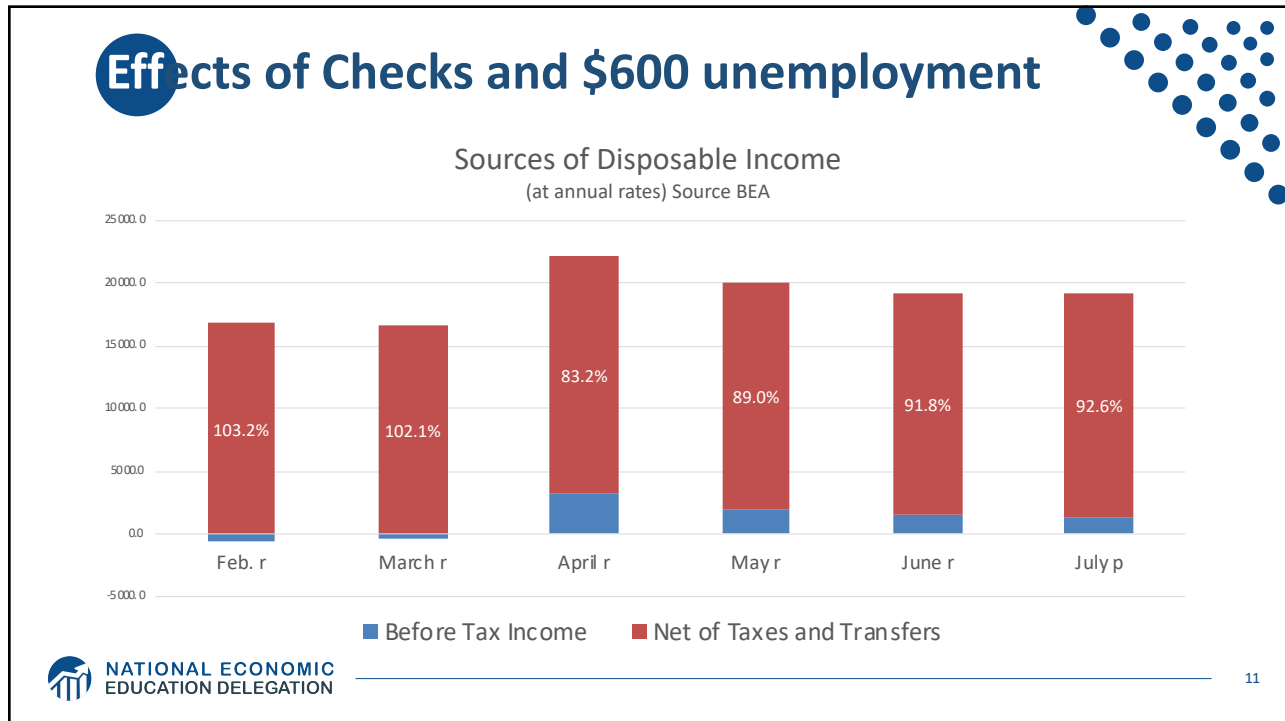- **Possible damage:  economic disruptions due to prolonged job losses and business failures**
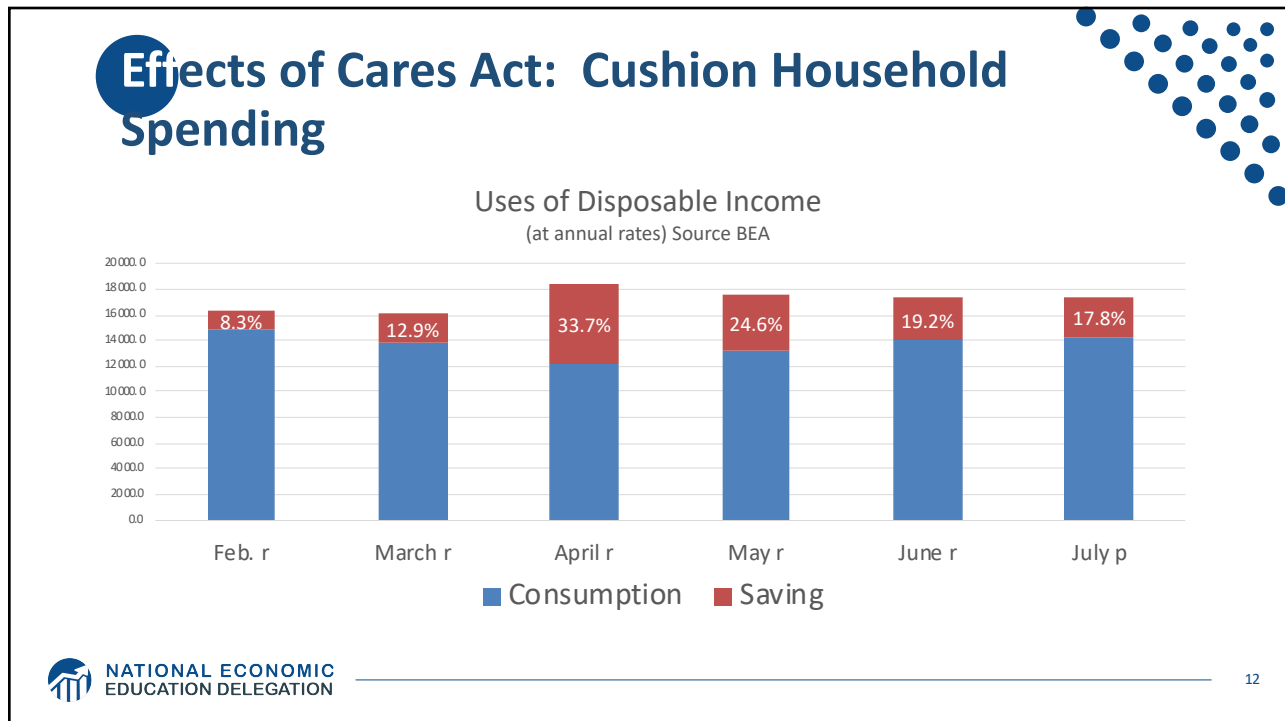
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# What Have Been Policy Effects

- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing.  But the Fed lends and does not spend.**
- **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**

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# Effects of Checks and $600 unemployment

## Sources of Disposable Income
(at annual rates) Source BEA

- Before Tax Income
- Net of Taxes and Transfers

Bar chart labels: Feb. r, March r, April r, May r, June r, July p

Percentages: 103.2%, 102.1%, 83.2%, 89.0%, 91.8%, 92.6%

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# Effects of Cares Act: Cushion Household Spending

## Uses of Disposable Income
(at annual rates) Source BEA

- Consumption
- Saving

Bar chart labels: Feb. r, March r, April r, May r, June r, July p

Percentages: 8.3%, 12.9%, 33.7%, 24.6%, 19.2%, 17.8%

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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, ?**
- **CON: 2019Q4, 1.6%; 2020Q1, -6.9%;  2020Q2, -34.1%; 2020Q3, ?**
- **But if C stays at July level for August and September,  2020Q3, 40%**
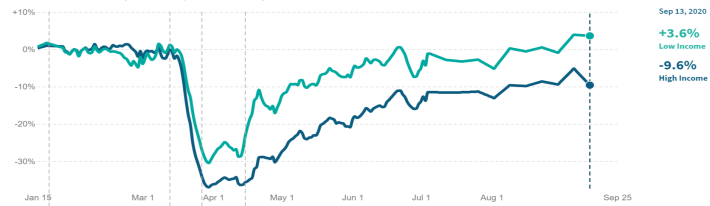- **This is in spite of the fact that 2020Q3 would be 4 % lower than it was in 2019Q4**

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# Yes but was it the Checks and $600?

The Treasure Trove of "Real Time Data"

Low Income Households Spending is Income Constrained



Percent Change in All Consumer Spending*
In **the United States**, as of September 13 2020, total spending by high-income consumers decreased by **9.6%** compared to January 2020.

Sep 13, 2020
+3.6% Low Income
-9.6% High Income

Jan 20 First U.S. COVID-19 Case
Mar 13 National Emergency Declared
Mar 27 CARES Act Enacted
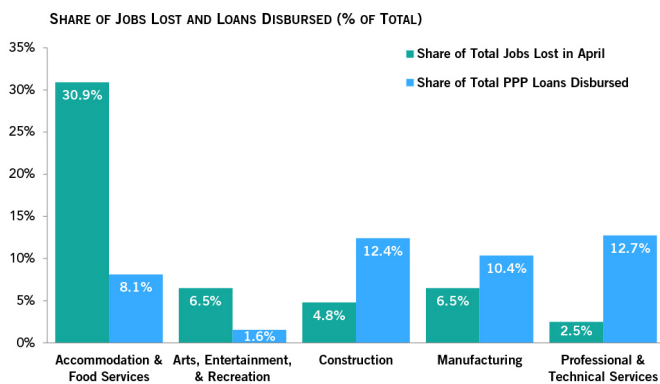Apr 15 Stimulus Payments Start

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through July 5th, 2020 and weekly data after July 5th, 2020. This series is based on data from Affinity Solutions.
last updated: *September 22, 2020*   next update expected: *September 29, 2020*

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## PPP Loans Didn't Go to the Right Firms

**The distribution of PPP loans has not matched levels of unemployment**

PETER G. PETERSON FOUNDATION

SHARE OF JOBS LOST AND LOANS DISBURSED (% OF TOTAL)

■ Share of Total Jobs Lost in April
■ Share of Total PPP Loans Disbursed

- Accommodation & Food Services: 30.9% / 8.1%
- Arts, Entertainment, & Recreation: 6.5% / 1.6%
- Construction: 4.8% / 12.4%
- Manufacturing: 6.5% / 10.4%
- Professional & Technical Services: 2.5% / 12.7%

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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PGPF.ORG

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

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## Is it a V or a K shaped recovery?

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

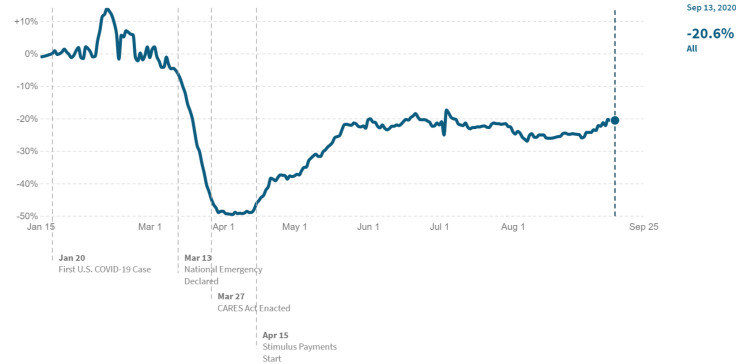**NATIONAL ECONOMIC EDUCATION DELEGATION**

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# Small Firms (over 40% of all jobs)



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# Hard Hit Sectors



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# How Did This Happen;  Can it Continue?

**Percent Change in Employment***

In **the United States**, as of July 29 2020, employment rates among workers in the bottom wage quartile decreased by **16.1%** compared to January 2020 (not seasonally adjusted).

Jul 29, 2020
**-6.8%**
Total

**-16.1%**
Low Wage
(<$27K)
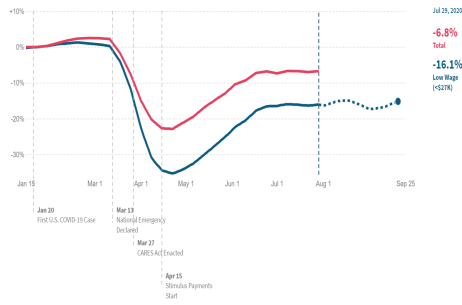
*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

*last updated: **September 22, 2020**    next update expected: **October 02, 2020***

**Percent Change in All Consumer Spending***

In **the United States**, as of September 13 2020, total spending by high-income consumers decreased by **9.6%** compared to January 2020.

Sep 13, 2020
**+3.6%**
Low Income

**-9.6%**
High Income

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through July 5th, 2020 and weekly data after July 5th, 2020. This series is based on data from Affinity Solutions.
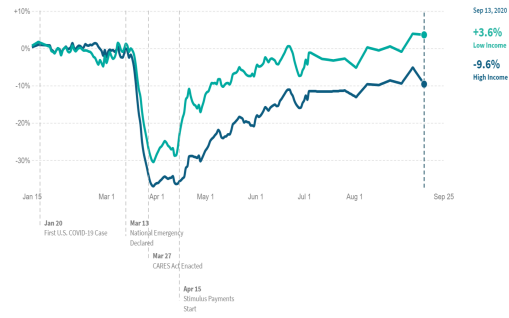
*last updated: **September 22, 2020**    next update expected: **September 29, 2020***

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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
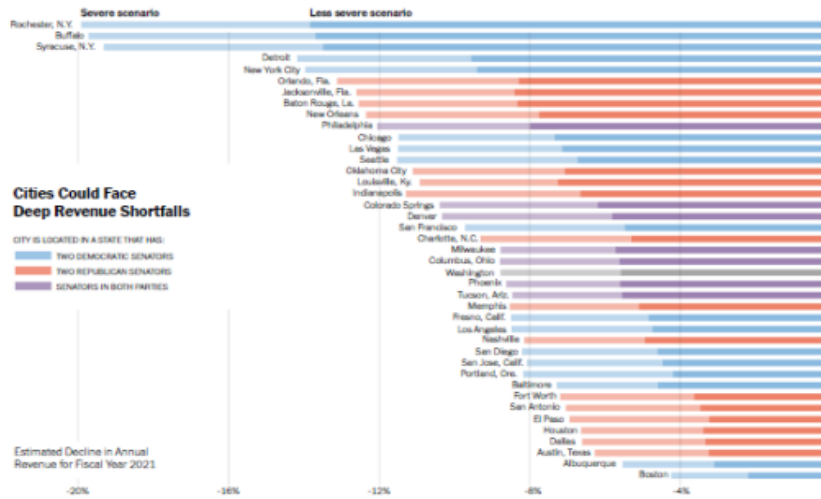


* Estimated based on CBPP calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations
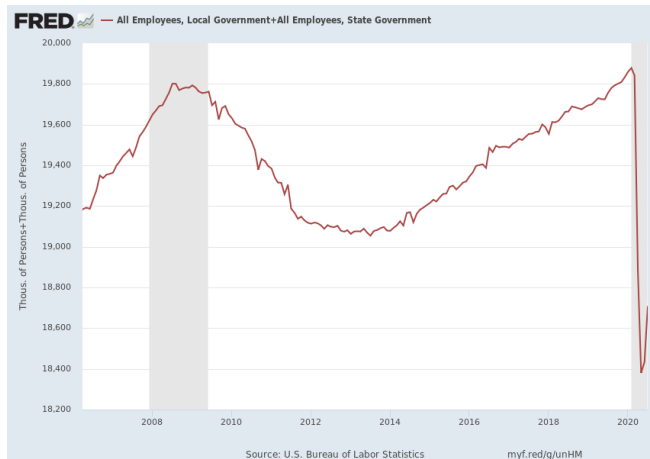
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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## Projected Municipal Revenue Shortfalls



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# State and Local Employment



Between March and July net loss of 1.1m jobs.

Prospects if there is no general federal aid this year?

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# Tracking the Recovery

- **Major Economic releases between now and November 3 (all at 8:30 AM)**
  - Weekly, Unemployment Insurance Weekly Claims, Thursdays (DOL)
  - Monthly,
    - o Personal Income and Outlays for August, Thursday, 10/1 (BEA)
    - o The Employment Situation for September, Friday, 10/2 (BLS)
    - o First Estimate of GDP for 2020, third quarter, 10/29 (BEA)
    - o Personal Income and Outlays for September, Thursday, 10/30 (BEA)
- **Real Time Data: Track the Recovery: https://tracktherecovery.org/**

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## Thank you!

# Any Questions?

www.NEEDelegation.org
Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php

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

Between February and July, net loss of 5.4m



FRED — Nonfarm Private Small Payroll Employment (1 - 49)+Nonfarm Private Medium Payroll Employment (50 - 499)

Source: Automatic Data Processing, Inc.    myf.red/g/voGq

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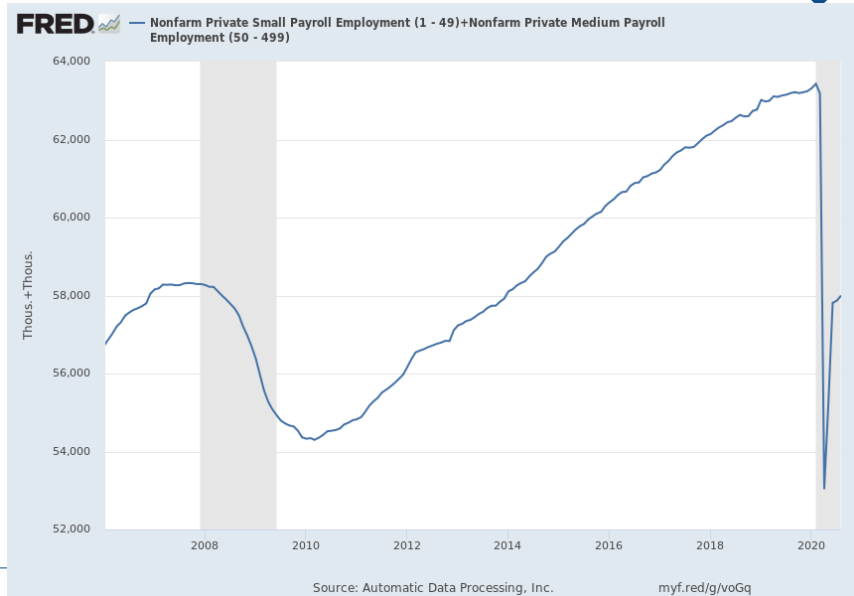
## Yelp's Breakdown of Permanent Closures

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

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

2,451
Event Planning

3,594
Automotive

4,976
Beauty

7,881
Retail and Shopping

28,553
Miscellaneous

12,695
Restaurants
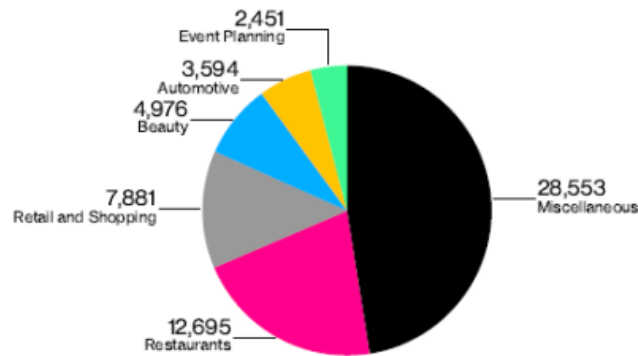
Yelp Inc.
Data from March 1 to July 25

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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?



Insured Unemployment, by Program (State, PUA, and PEUC)

The Century Foundation and New America
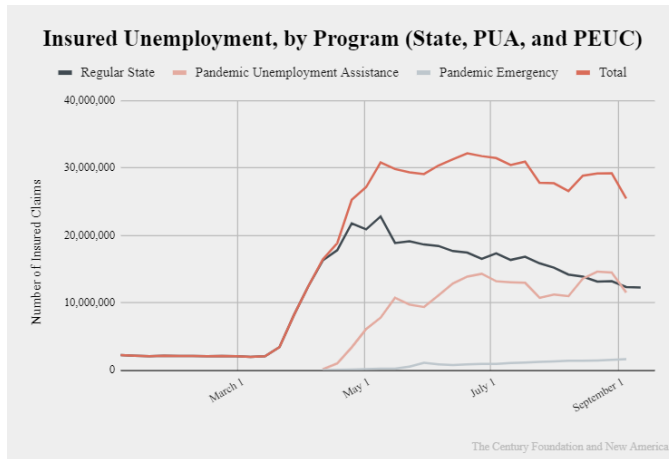
| CA: | 9/5 | 8/29 |
|---|---|---|
| Reg. State | 2,724k | 2,926k |
| PUA: | 3,375k | 6,388k |

California is a big state?

But the adult population is under 30 million!
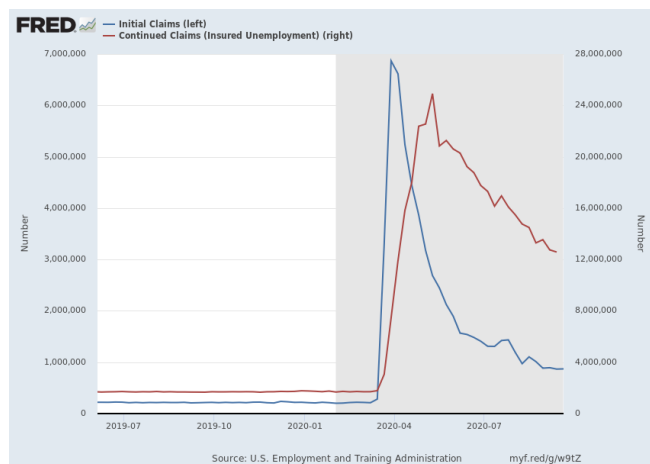
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Source: U.S. Employment and Training Administration    myf.red/g/w9tZ

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# Highly Uncertain

| Forecast Date | Forecasts for Real GDP Growth in 2020Q3 | | |
|---|---|---|---|
| | 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 |

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# Putting Cares Spending in Perspective



Source Goldman Sachs

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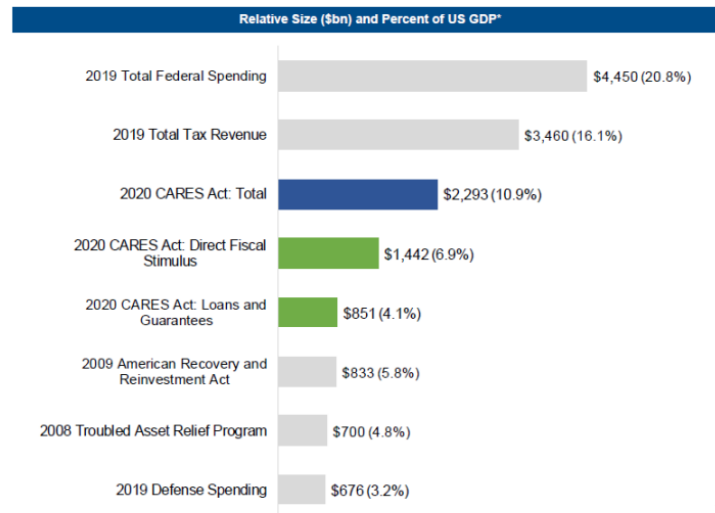
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# **Un**employment Claims (weekly)

Yikes!
Since March 21st 57
million people filed for
unemployment

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

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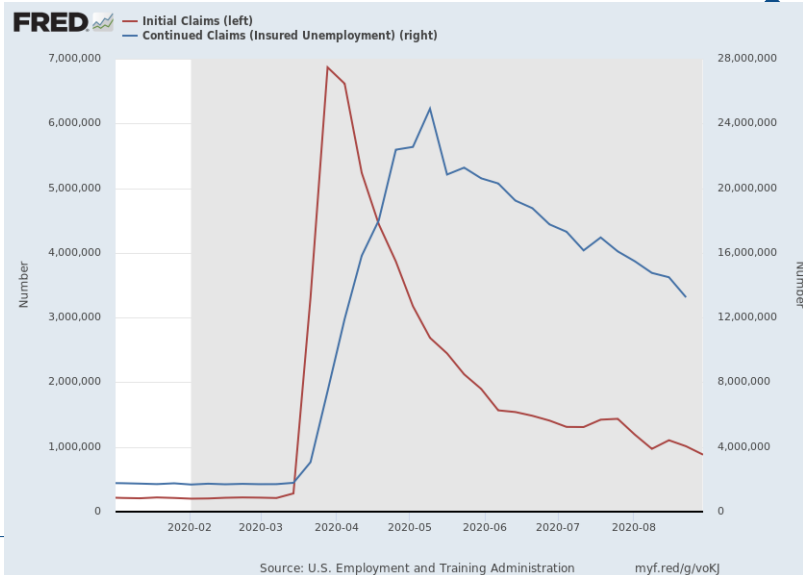
# **Pe**ssimism is Growing at Small Firms

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## Insured versus Headline Unemployment (Monthly)



Sources: BLS, U.S. Employment and Training Administration    myf.red/g/voLu

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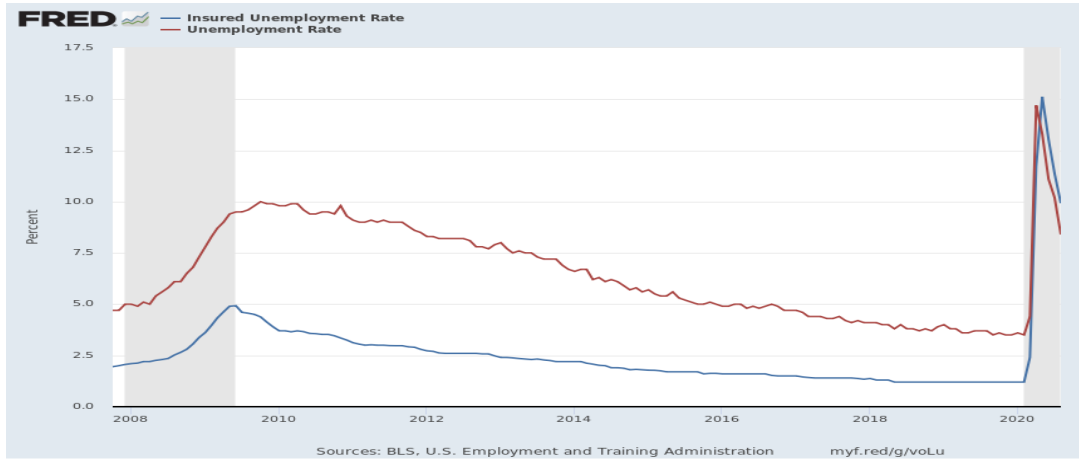
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## Job Creation:  Glass Half Full or Half Empty?



Source: U.S. Bureau of Labor Statistics    myf.red/g/voLP

Full:  Between April and August over 10.5m jobs created

Empty:  Between February and August over 11.5m jobs lost

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

**Continuing unemployment claims in all programs**
January 4, 2020–August 15, 2020



- Other programs (mostly PEUC, STC, and EB)
- PUA
- Regular state UI

**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

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

Regular: 47m claims;
14m continuing

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## Annual Forecasts

| | Real GDP (%) | | Unemployment Rate (%) | |
|---|---|---|---|---|
| 2020 | -5.6 | -5.2 | 10.8 | 9.0 |
| 2021 | 3.1 | 3.2 | 8.1 | 8.0 |
| 2022 | 3.2 | 4.1 | 6.2 | 6.0 |
| 2023 | 2.2 | 2.2 | 5.1 | 5.3 |

**N.B: Unemployment Rate in March of 2020 was 3.5 percent!**

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## Policy Responses to Public Health-Economic Crisis

- **P. Krugman, "Right now the economy is in the equivalent of a medically induced coma…" (*NYTimes,* 4/16).**
- **We are trying to keep the patient alive, while macroeconomic policies are aimed at limiting the damage.**
- **The Fed:**
  - Lower Interest Rates
  - Keep Credit Flowing in All Sorts of Markets
  - "Backstop" financial institutions to prevent meltdown
  - But the Fed "lends and does not spend"
- **Congress: Cares Act**
  - Protect the most vulnerable households and firms
  - Stimulus Checks; Expanded Unemployment; PPP loans (grants) to small firms

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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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## The Effects (most) due to the Fed

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## Putting "Awful" in Perspective



Lost Output
Blue Measured
Red Forecasted

Sources: St Louis and Philadelphia Feds

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## 5. Structural Changes in One Slide!

For more information, visit moodys.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

Retail sectors ranked from highest to lowest EBIT pressure from COVID-19

($ shown is rated debt not EBIT)
B = Billions

Dollar Stores $8 B · Supermarkets $25 B · Off-Price $10 B · Apparel & Footwear $19 B · Specialty $49 B · Department Stores $26 B · Convenience Stores $9 B · Auto-Parts Retailer $17 B · Online $25 B · Home Improvement $59 B · Auto Retailers $8 B · Drug Stores $86 B · Discounters / Warehouse $89 B

NO-LOW EBIT PRESSURE $122 B RATED DEBT · HIGH EBIT PRESSURE · LOW-MEDIUM EBIT PRESSURE

The four "red" sectors which face the highest EBIT pressure have the lowest outstanding debt

**Moody's INVESTORS SERVICE**

**Downgrades have been concentrated in sectors with weakest EBIT recovery prospects**

| | % Rated Debt Downgraded | % Issuers with Negative Outlook / RUR | 2020 | 2021 |
|---|---|---|---|---|
| | | | Our EBIT forecast is relative to 2019 | |
| | 14% | 67% | ↓ -125% | ↓ -25% |
| | 86% | 86% | ↓ -150% | ↓ -50% |
| | 31% | 55% | ↓ -50% | ↓ -10% |
| | 85% | 80% | ↓ -225% | ↓ -75% |

**Retail's migration online is accelerating**

ONLINE SHOPPING

For the 2nd Quarter 2020

US Retail **Online Sales +25.2%** ($47.7 B)

US Retail **Brick & Mortar Sales -8.2%** ($97.9 B)

Source: US Department of Commerce
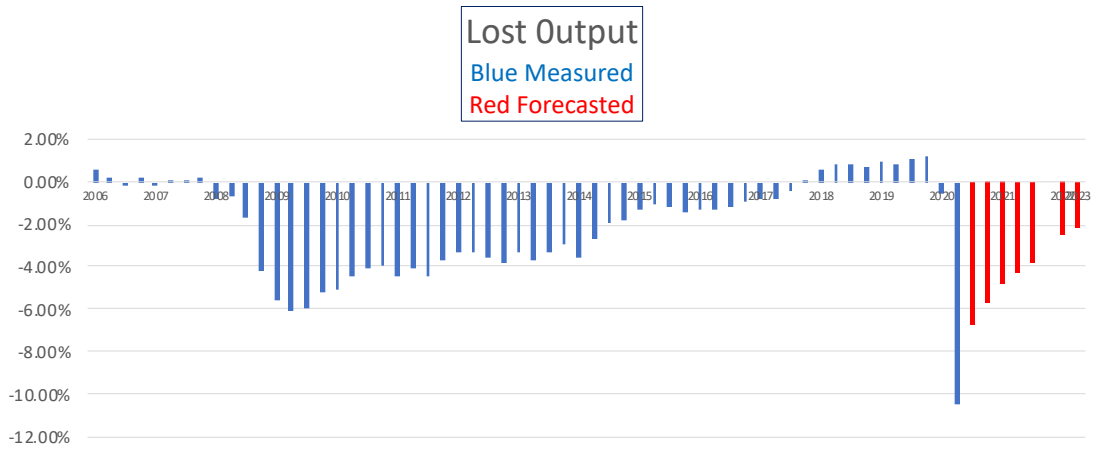
US retail speculative grade default forecast shows peak in December 2020

8.9% December 31 2019* · 19% June 2020* · 23.5% December 2020

After peak, will ease to 12.6% in June 2021

Exceeds 2008 recession high

10 companies defaulted YTD June 2020 representing $15.6 B of rated debt

*December 2019 and June 2020 are the actual default rate

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## Impact of Stimulus Payments on Consumer Spending, by Income Quartile

Seasonally Adj. Pct. Change in Spending

The Treasure Trove of "Real Time Data"

Low Income Households Spending is Income Constrained

Stimulus Payments Issued

Q1 Apr 15-21: -10.3%

Q1 Apr 7-13: -28.1%

Q4 Apr 15-21: -29.8%

Q4 Apr 7-13: -36.3%

— Bottom Income Quartile
— Top Income Quartile

Jan 7 · Jan 21 · Feb 4 · Feb 18 · Mar 3 · Mar 17 · Mar 31 · Apr 14 · Apr 28 · May 12 · May 26 · Jun 9

0% · -10% · -20% · -30% · -40%

https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf

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## **M**aking 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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## **$6**00 Extra Per Week

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

How bad a "problem" was this?

Recent Yale study suggests in 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?
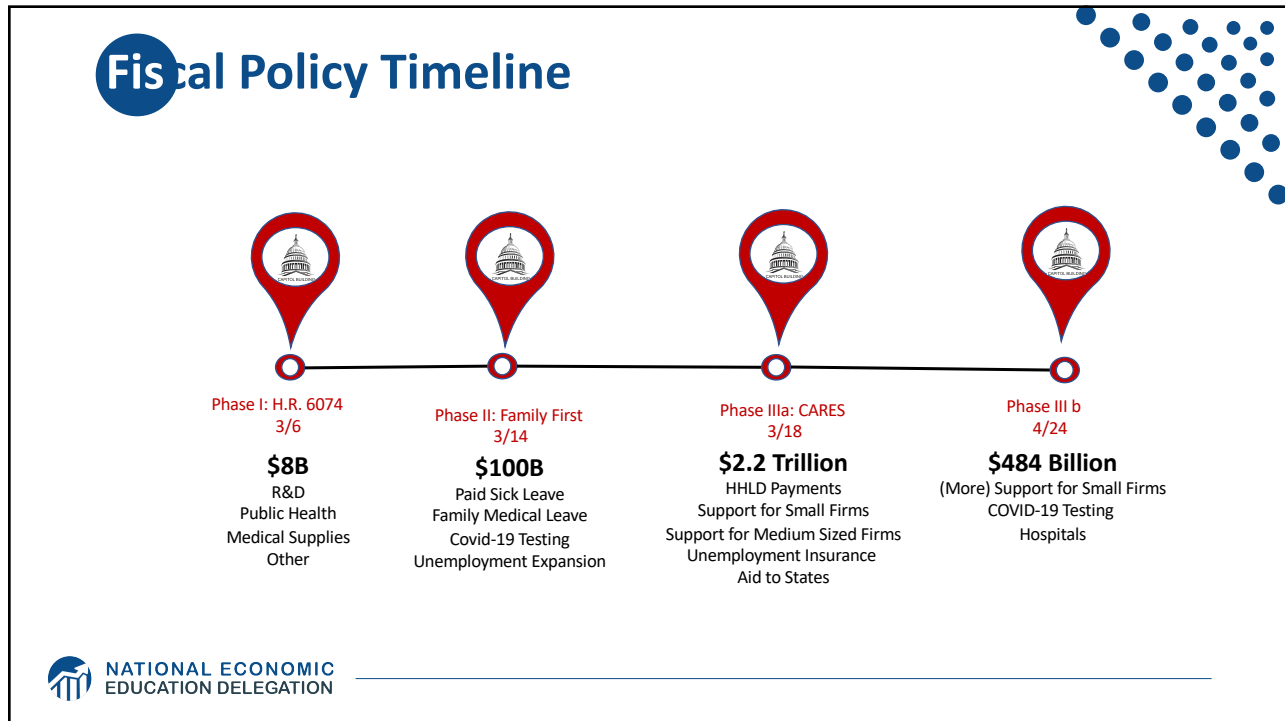Here's How:  Expanded Benefit a % of earnings;
phased out as unemployment falls.

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## Highly Uncertain

| Forecast Date | Forecasts for Real GDP Growth in 2020Q3 | | |
|---|---|---|---|
| | 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

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## 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.
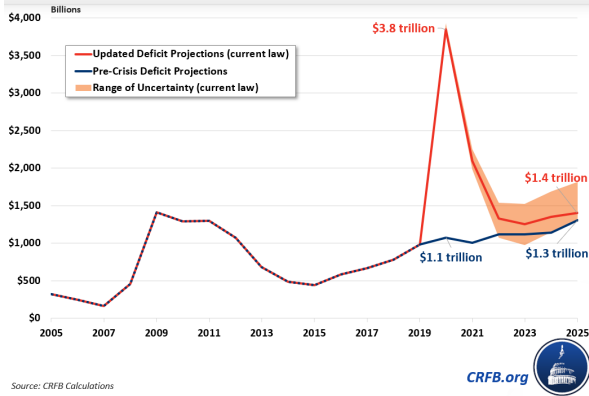  - 3 University of Chicago Economists ran the numbers: https://bfi.uchicago.edu/insight/blog/ui-calculator/

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## Fiscal Policy Timeline



Phase I: H.R. 6074
3/6

**$8B**
R&D
Public Health
Medical Supplies
Other

Phase II: Family First
3/14

**$100B**
Paid Sick Leave
Family Medical Leave
Covid-19 Testing
Unemployment Expansion

Phase IIIa: CARES
3/18

**$2.2 Trillion**
HHLD Payments
Support for Small Firms
Support for Medium Sized Firms
Unemployment Insurance
Aid to States

Phase III b
4/24

**$484 Billion**
(More) Support for Small Firms
COVID-19 Testing
Hospitals

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## The Fed: Very Rapid 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 Funding
Facility (CPFF)
Money Market Mutual Fund Facility
(MMLF)

March 23

Primary Market Corporate Credit Facility
(PMCCF)
Secondary Market Corporate Credit Facility
(CMCCF)
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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# How Do We Pay for This?

**Federal Deficit Will Reach Record Levels**

**Debt Will Equal Size of Economy This Year**
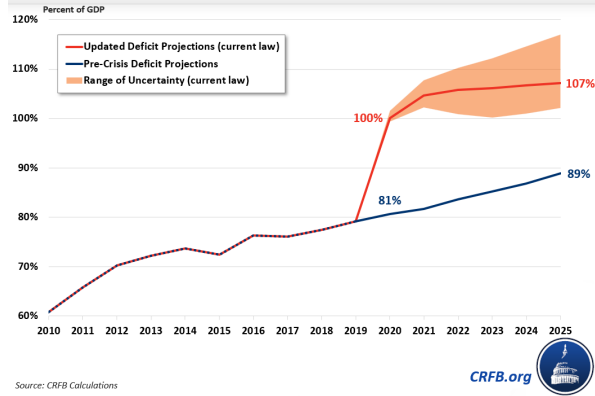
# From a Republican Deficit Hawk

• "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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