

COVID-19: Economic Implications and Policy Response

Dec 2, 2020
 The Rotary Club of Boston #7
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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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- **This slide deck was authored by:**
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- **Disclaimer**
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 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



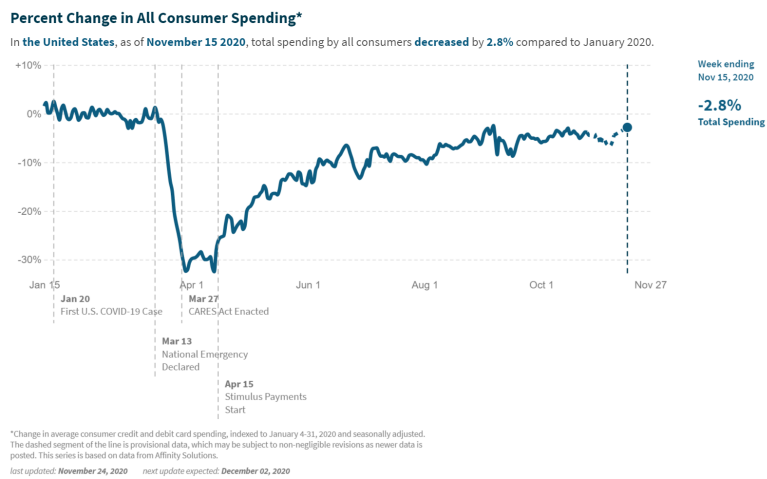
Outline

- Where is the recovery now?
- How has policy affected the recovery?
- What are the risks to a continued recovery?

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Spending Collapsed in March

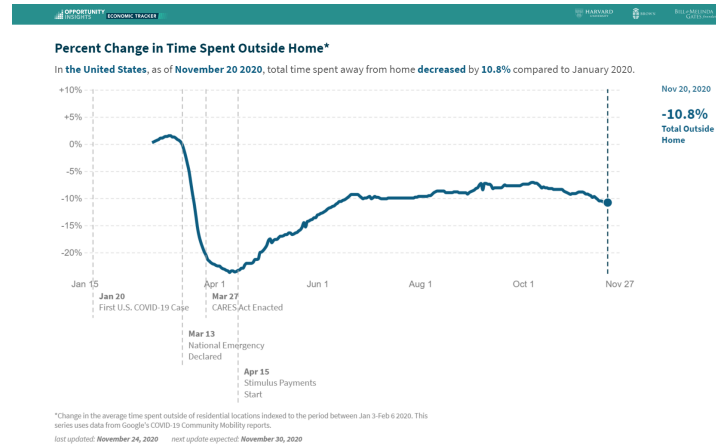
OPPORTUNITY REFINITELY ECONOMIC TRACKER HARVARD UNIVERSITY AFFINITY SOLUTIONS RESEARCH AND CONSULTING



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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



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Is the GDP Glass Half Full, or Empty?

Headlines on 10/29

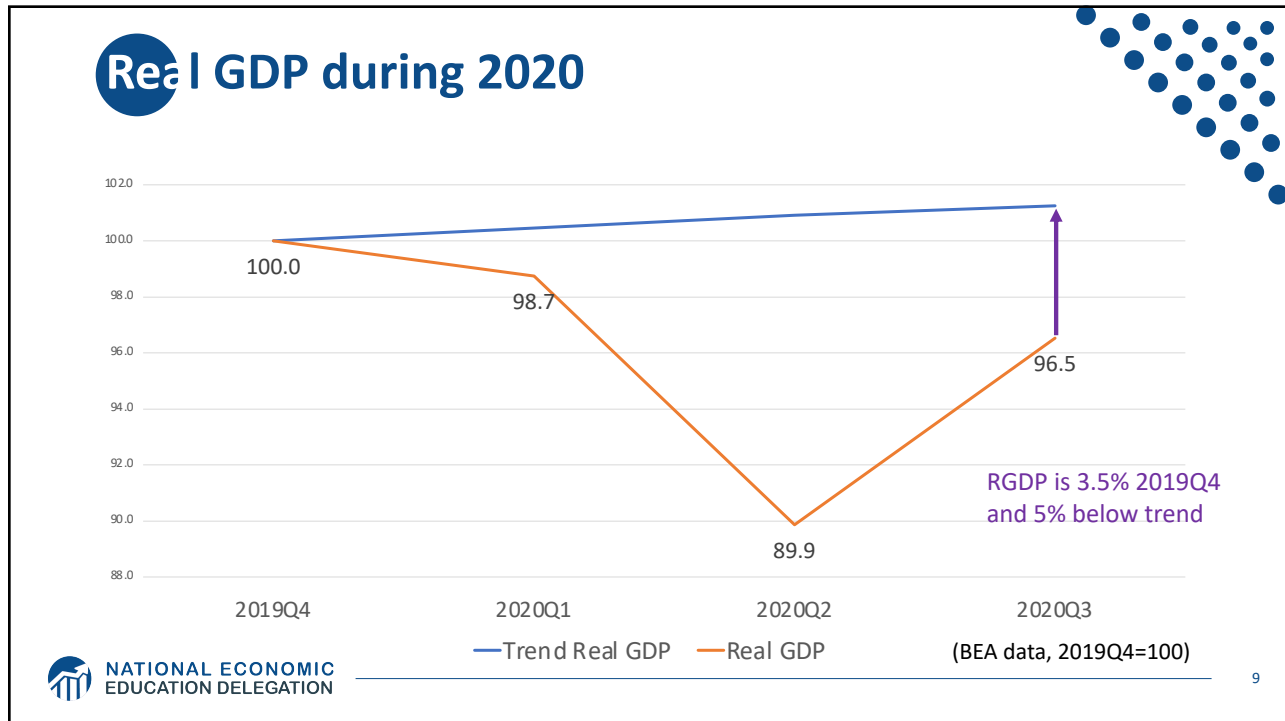
- GDP roared back at record 33.1 percent in third quarter, *Washington Times*.
- Economy's Big Rebound Leaves a Shortfall as Progress Slows, *NYTimes*.

Keys to Understanding:

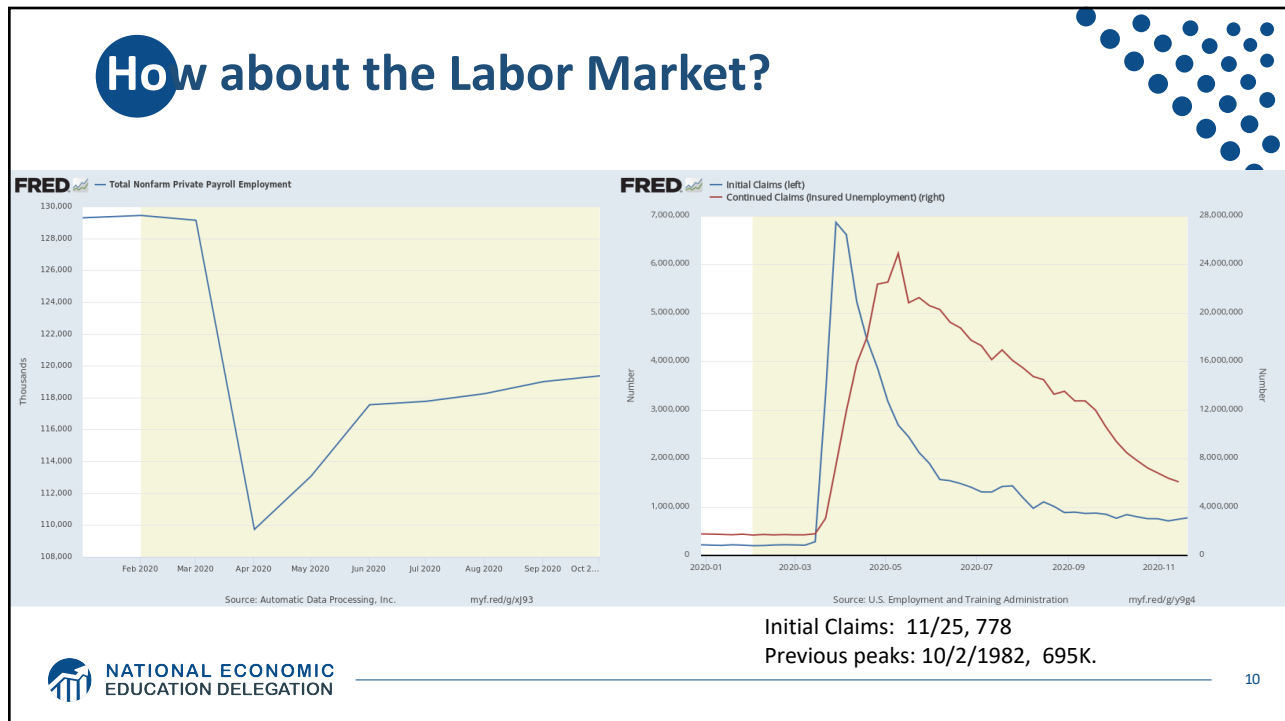
1. 33.1% is at an *annual* rate (which makes sense in normal times).
2. Growth in the second quarter was -31%, also a record.

Bottom line: the economy has made up a lot of ground very quickly, but we still have a ways to go: 5% gap is \$1 trillion in lost output

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Aggregate Data Looks Encouraging

- Recovery has been *unexpectedly* rapid, albeit incomplete.
- Why: There were no **short-run** macro problems at the start of the crisis.
- The only obstacle to a continued recovery:
 1. Resurgence of the virus.
 2. Economic damage due to prolonged job losses and business failures



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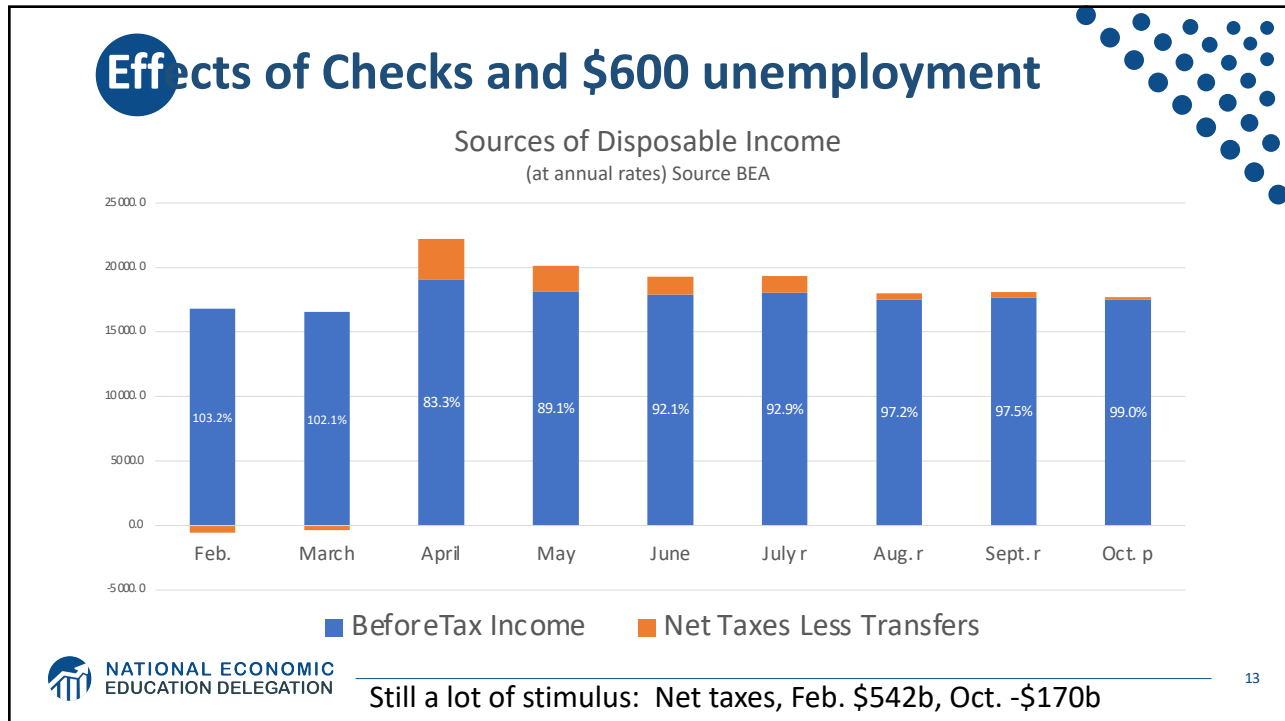
What Have Been Policy Effects

- Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to 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)

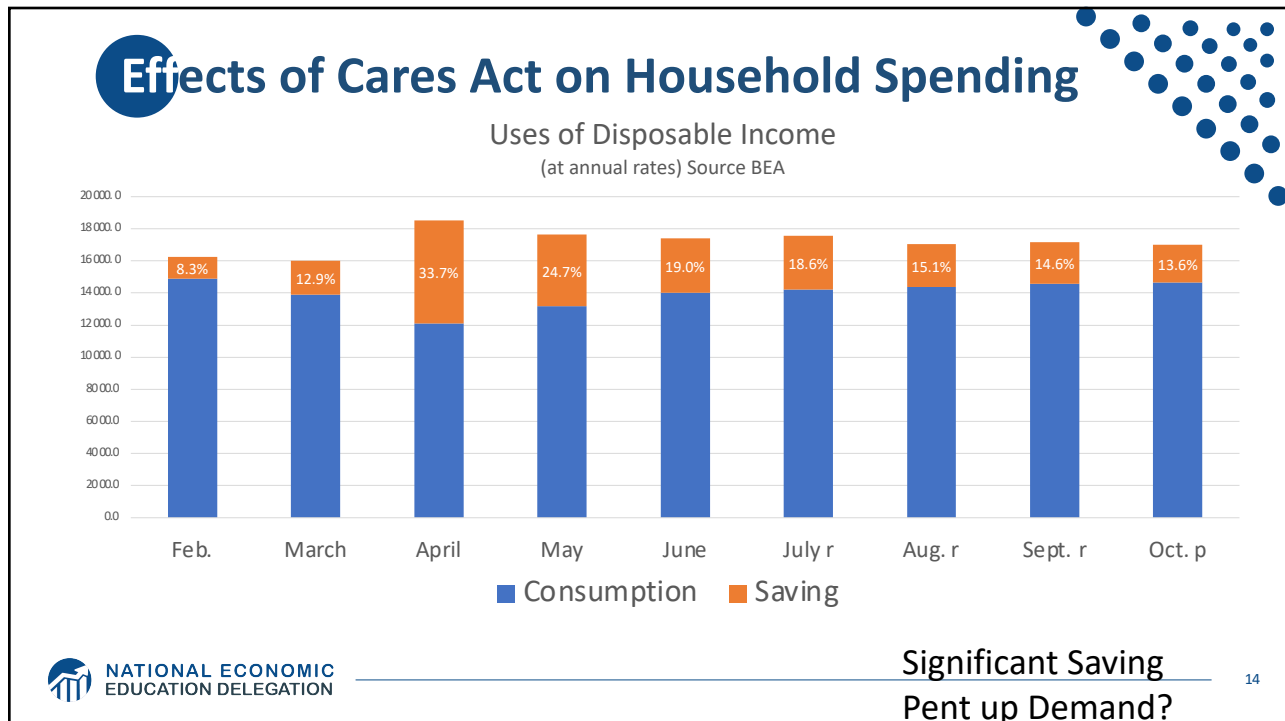
Big Caveat: Much of the Fiscal Stimulus ended in July



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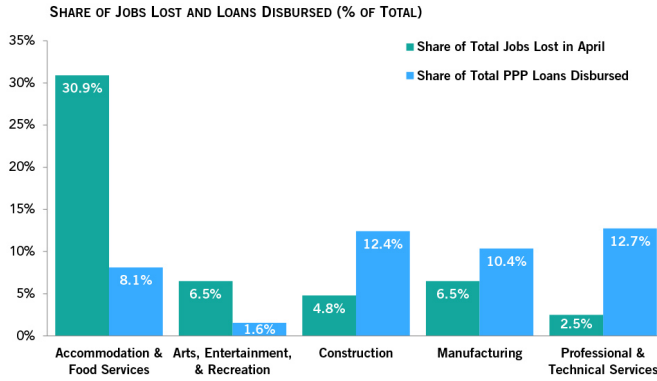


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PPP, Not so Good: Didn't Go to the Right Firms



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

Could a new PPP be better administered?



How Did This Happen; Can it Continue?

Percent Change in All Consumer Spending*

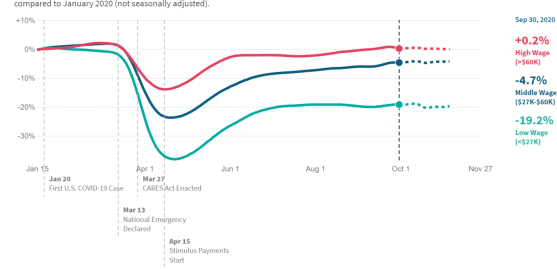
In the United States, as of November 15 2020, total spending by middle-income consumers decreased by 2.6% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 1-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as more data is provided. This series is based on data from Affinity Solutions. Last updated: December 24, 2020. Next update expected: December 01, 2020.

Percent Change in Employment*

In the United States, as of September 30 2020, employment rates among workers in the middle wage quartiles decreased by 4.7% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 1-31, 2020. This series is based on panel data from Payscale and Initial, worker level data on employment and earnings from Earnit, and Unleashed data from Kinross. The dashed line in the low wage series is a prediction of employment rates based on Kinross data. Last updated: December 28, 2020. Next update expected: December 01, 2020.

Prolonged Job Losses?



Suffolk County Real Time Data

Percent Change in All Consumer Spending*

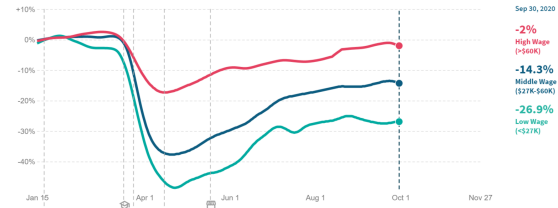
In Suffolk, as of **November 13 2020**, total spending by all consumers **decreased by 5.8%** compared to January 2020.



*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 received. This series is based on data from Affinity Solutions.
 Last updated: **November 24, 2020** next update expected: **December 02, 2020**

Percent Change in Employment*

In Suffolk, as of **September 30 2020**, employment rates among workers in the middle wage quartiles **decreased by 14.3%** compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Inatal, worker level data on employment and earnings from Ceris, and timecard data from Kronos. The dotted line in the low wage series is a prediction of employment rates based on Kronos data.
 Last updated: **November 18, 2020** next update expected: **December 01, 2020**

Cares Act Supported Spending of Low Income

- **But, as of August 8, no more**
 - Stimulus Checks
 - PPP loans
 - Extra \$600 weekly benefit and
 - many, many workers have exhausted benefits.
- **Net Effect on Household Income of taxes and government aid:**
- **February, -3%; April, +20%; but declining steadily to Oct. +1.0%**
- **How do low-income households continue to spend, and remember consumption is 2/3rds of GDP.**
- **It gets worse: "Fiscal Cliff" the day after Christmas.**

Fiscal Cliff

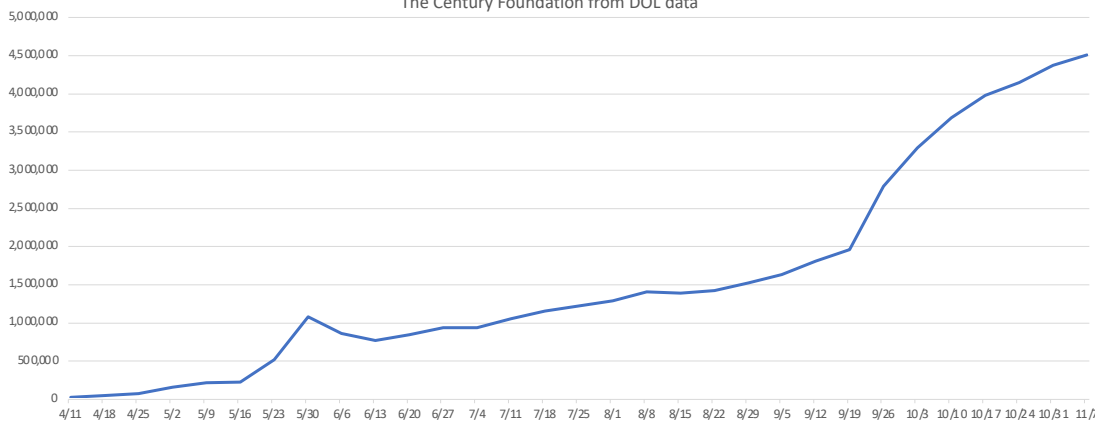
- In addition to the regular unemployment insurance programs there are two other pandemic programs. As of last week:
 1. Pandemic Unemployment Assistance (Self employed), 9.1 million.
 2. Pandemic Emergency Unemployment Compensation (more than 26 weeks), 4.5 million.
- New Century Foundation: 12 million to lose benefits (<https://tcf.org/content/report/12-million-workers-facing-jobless-benefit-cliff-december-26/>)
- And CDC eviction ban ends on 12/31



And Damage Is Already Occurring

Pandemic Emergency Unemployment Compensation

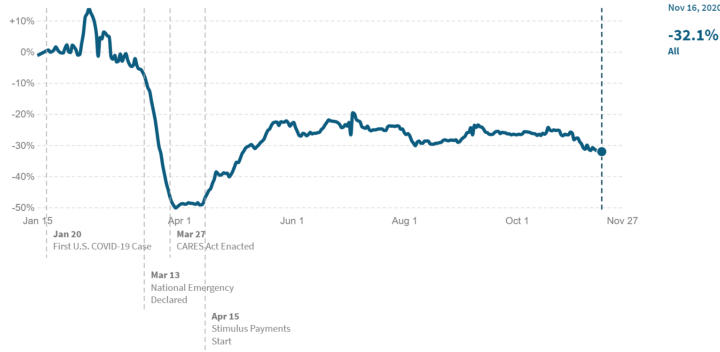
The Century Foundation from DOL data



Small Firms (over 40% of all jobs)

Percent Change in Small Business Revenue*

In the United States, as of November 16 2020, total small business revenue decreased by 32.1% compared to January 2020.

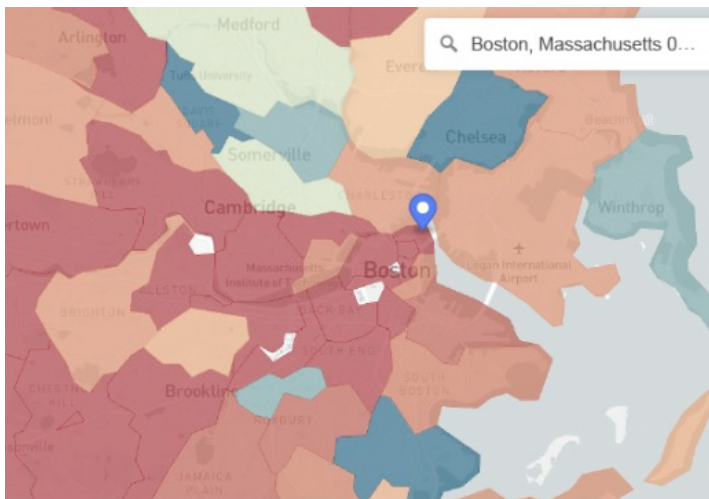


*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.
last updated: November 25, 2020 next update expected: December 04, 2020

Business Failures?

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Real Time Data by Zip Code



Womply Net Revenue (Seasonal Adj.)

Change Post-COVID

- 49% or lower
- 49% to -37%
- 37% to -29%
- 29% to -22%
- 22% to -15%
- 15% to -8%
- 8% to 0%
- 0% to +11%
- +11% to +31%
- +31% or higher

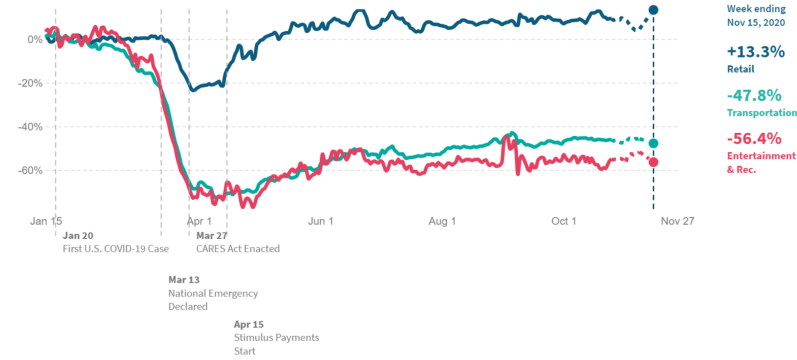
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Hard Hit Sectors

OPPORTUNITY HIGHLIGHTS ECONOMIC TRACKER HARVARD UNIVERSITY BILL & MELINDA GATES FOUNDATION

Percent Change in All Consumer Spending*

In the United States, as of November 15 2020, retail spending (including online purchases, excluding groceries) by all consumers increased by 13.3% 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 24, 2020 next update expected: December 02, 2020

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Evidence of Damage: Corporate Bankruptcies?

- According to Edward Altman, leading expert on bankruptcy and professor emeritus at NYU's Stern School of Business, there are liable to be 60 corporate failures with liabilities over \$1b Bloomberg, 7/15
- **Notable Bankruptcies 2020**
 - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chesapeake Energy, Chuck E. Cheese, Brooks Brothers, Ann Taylor, Lane Bryant, et. al.
- **Many, Many Small firms just close their doors.**

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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



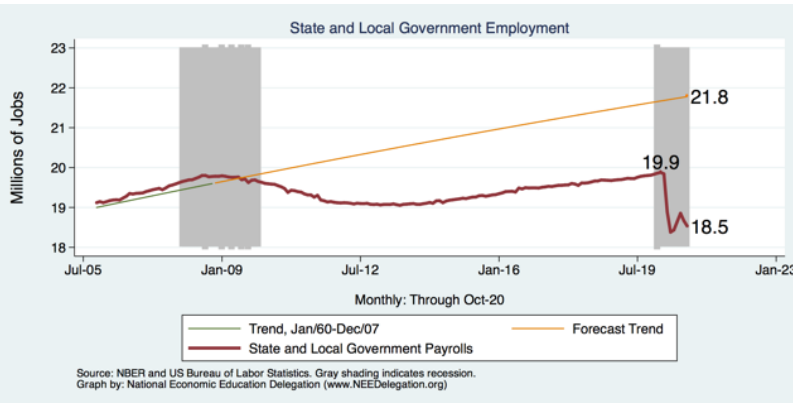
* Estimated based on CBPP calculations
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Recent Estimates of Revenue Losses Have Come down a Bit

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State and Local Employment



Source: NBER and US Bureau of Labor Statistics. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Between March and Oct net loss of 1.4m jobs (from a low base).

Prospects if there is no general federal aid this year?

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Stumbling Blocks to Stimulus Package

- **General Aid to State and Local Governments.**
- **Liability Protection for Firms against Covid law suits.**
- **Can a stimulus bill of more than \$1 trillion pass the Senate?**

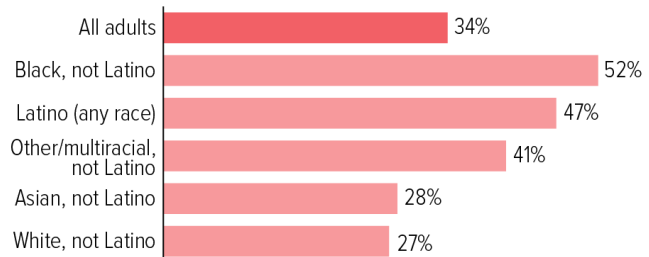
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The Outlook: My View

Resurgence of the Virus and no Stimulus. And, people are hurting.

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

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Business Community's View

- **Much More Optimistic**
 - WSJ Economic Forecasting Survey, 11/6-10: 4% growth.
 - Phil. Fed Survey of Professional Economists, mid Nov.: 4% growth
 - Conference Board, 11/13: 2.2% growth
- **Remember, all of that saving during the summer.**
- **My concern is that the poor, who have lost their jobs and face the fiscal cliff are going to cut way back**
- **I hope I am wrong, but no matter what we need more stimulus.**



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Some Hopeful Signs on Stimulus

Bipartisan Senate Proposal, \$908 billion to fund relief; extend benefits to April 1, and recycle \$560 billion in Cares Act funds.

- **\$288 b for small business loans through PPP.**
- **\$180 b for unemployment benefit, including extra \$300 per week.**
- **\$160 b for state and local governments.**
- **\$82 b for education funding.**
- **\$45 b for Airlines and Amtrak.**
- **\$25 b for rental relief.**
- **Covid Liability Protection.**



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Leadership Responses

- Mitch McConnell dismissing bipartisan proposal: "We just don't have time to waste time. We have a couple of weeks left here. Obviously, it does require bipartisan support to get out of the Congress, but it requires a presidential signature."
- Chuck Schumer and Nancy Pelosi, "..., in the spirit of compromise we believe the bipartisan framework introduced by Senators yesterday should be used as the basis for immediate bipartisan, bicameral negotiations."



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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

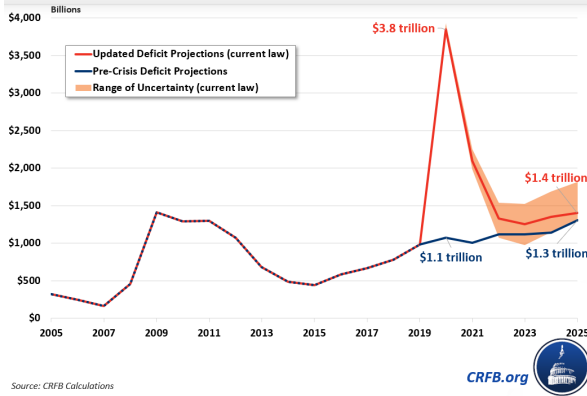
Become a Friend of NEED: www.NEEDelegation.org/friend.php



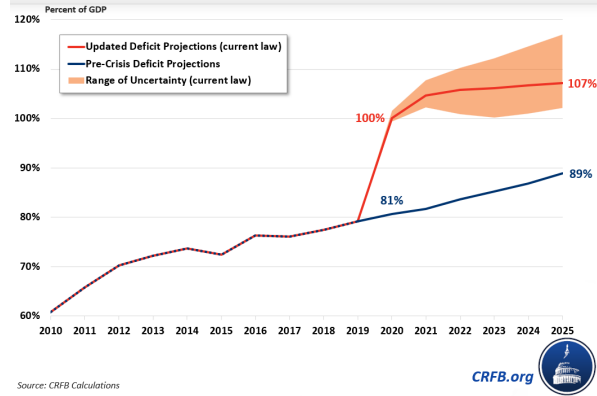
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How Do We Pay for This?

Federal Deficit Will Reach Record Levels



Debt Will Equal Size of Economy This Year



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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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