

# COVID-19: Economic Implications and Policy Response

March 16, 2021  
Kiwanis Club of Fargo, ND  
**Geoffrey Woglom**  
Professor of Economics (Emeritus)  
Amherst College

# 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**

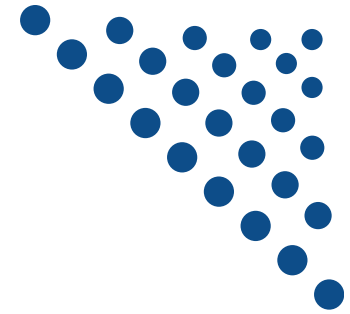
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

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

- Aid in slide deck development



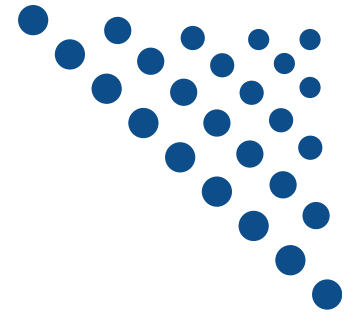
# Available NEED Topics Include:



- 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

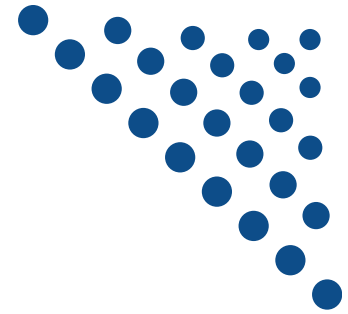


# Credits and Disclaimer



- **This slide deck was authored by:**
  - Jon D. Haveman, NEED
  - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
  - Jon Haveman
- **Disclaimer**
  - 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).

# Outline

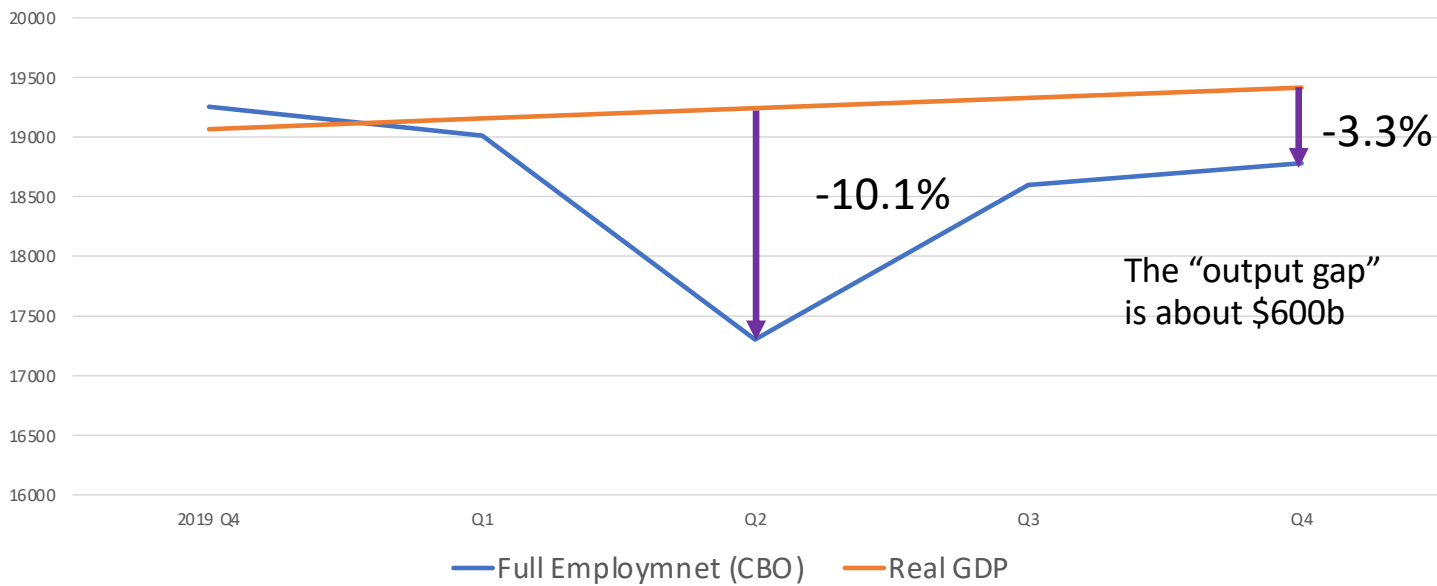


- **Where is the recovery now?**
- **How has policy affected the recovery?**
- **How big should the next package be?**

# Real GDP during 2020

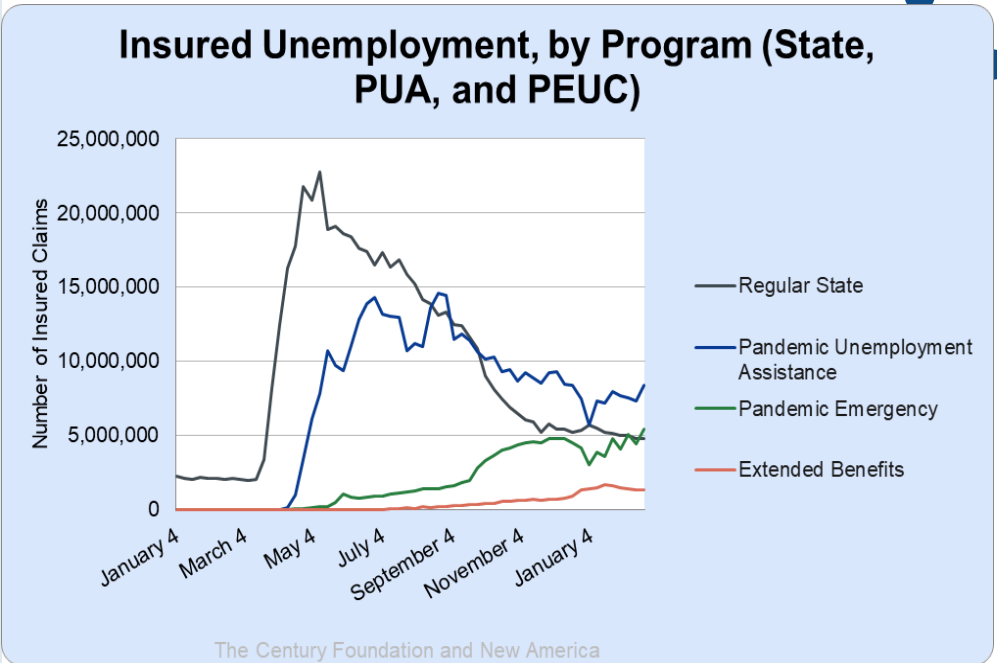
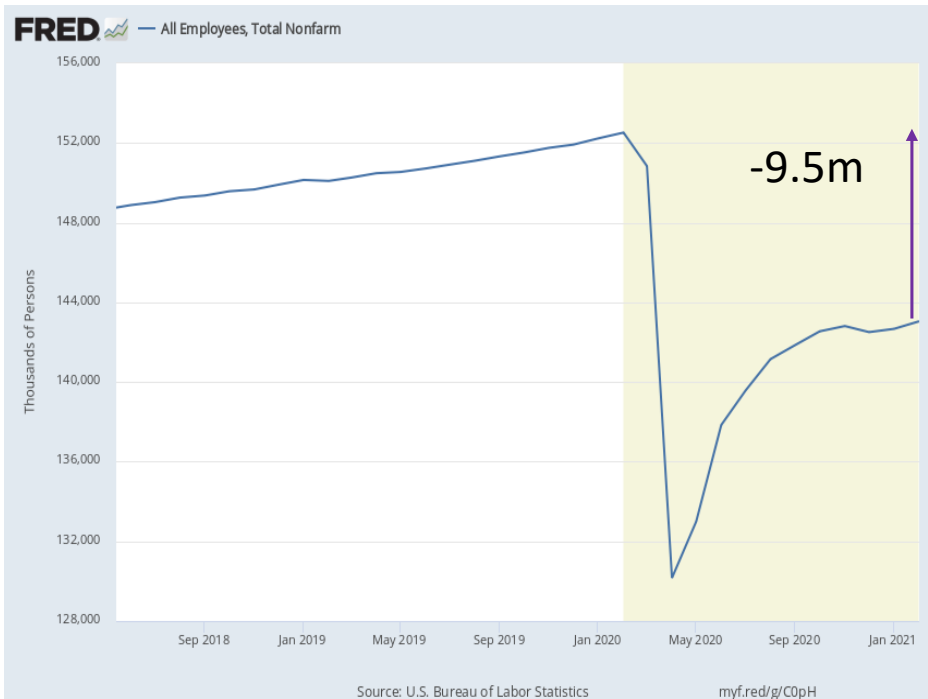


### GDP during the Pandemic



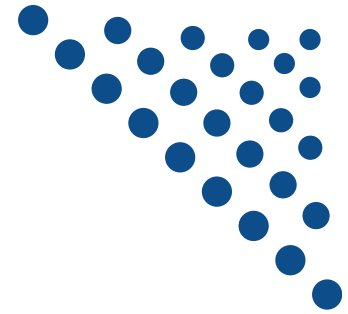
Source: Bureau of Economic Activity  
<https://www.bea.gov/>

# How about the Labor Market?



Initial Claims: 2/20, 709K. Previous peaks: 10/2/1982, 695K.  
PUA Initial Claims: 478K

# Aggregate Data Looks Encouraging



- Recovery has been *unexpectedly* rapid, albeit incomplete, and has recently slowed.
- Why so rapid: 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 in specific sectors





# What Have Been Policy Effects

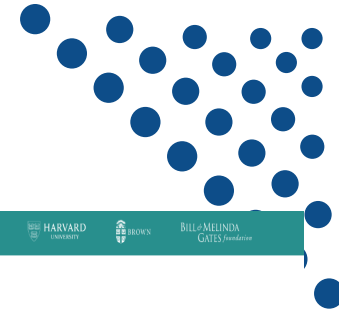


- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy acted quickly, but inevitably made some mistakes.**
  - Stimulus Checks, A (\$268b)
  - Expanded Unemployment, B (\$268b)
  - Paycheck Protection Program, C- (\$525b)

**December and March Packages another \$2.7b Why?**

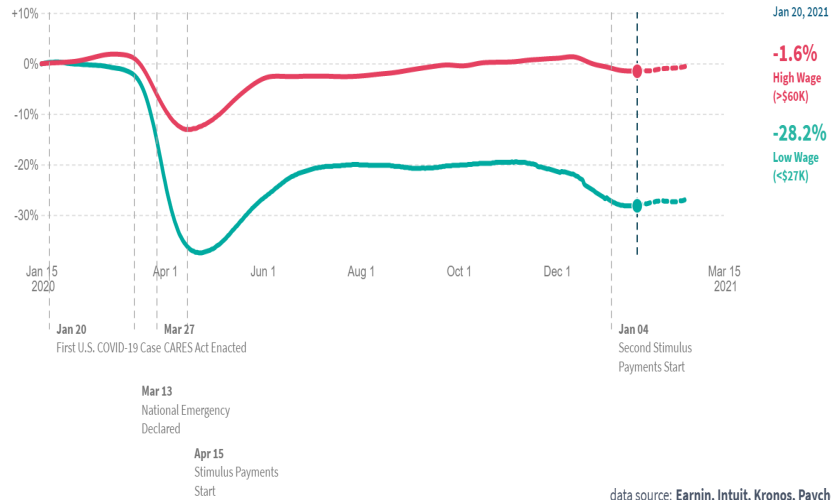


# K-Shaped Recovery



## Percent Change in Employment\*

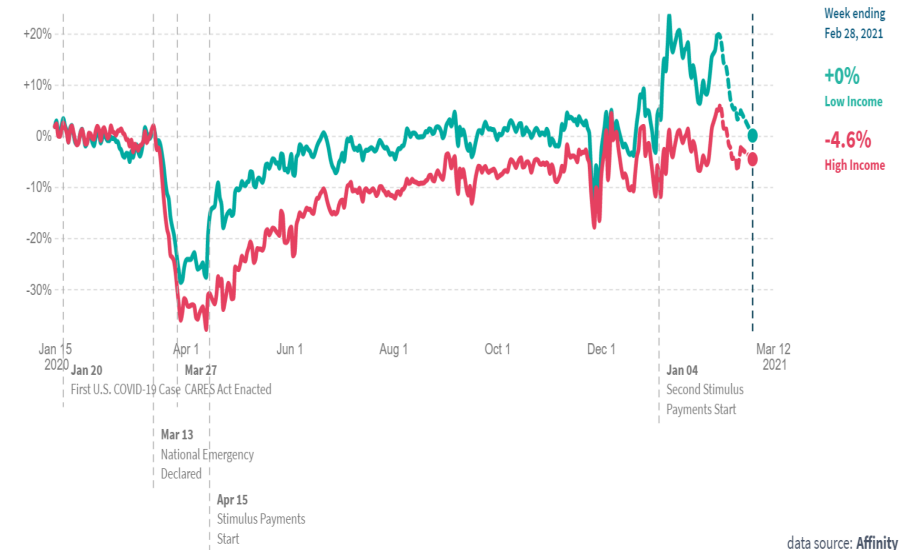
In the United States, as of January 20 2021, employment rates among workers in the bottom wage quartile decreased by 28.2% compared to January 2020 (not seasonally adjusted).



\*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.  
last updated: March 15, 2021 next update expected: March 19, 2021

## Percent Change in All Consumer Spending\*

In the United States, as of February 28 2021, total spending by low-income consumers increased by 0% compared to January 2020.

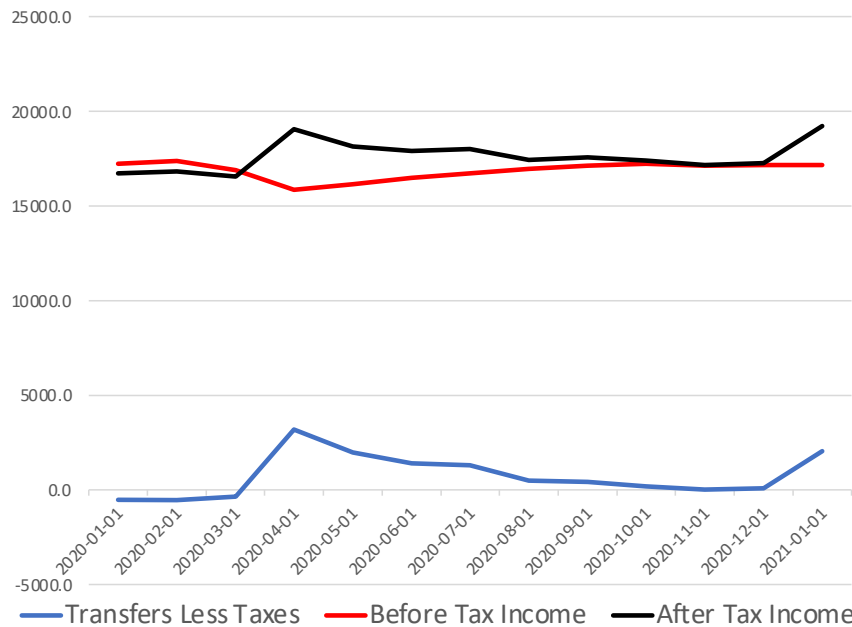


\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
last updated: March 12, 2021 next update expected: March 17, 2021

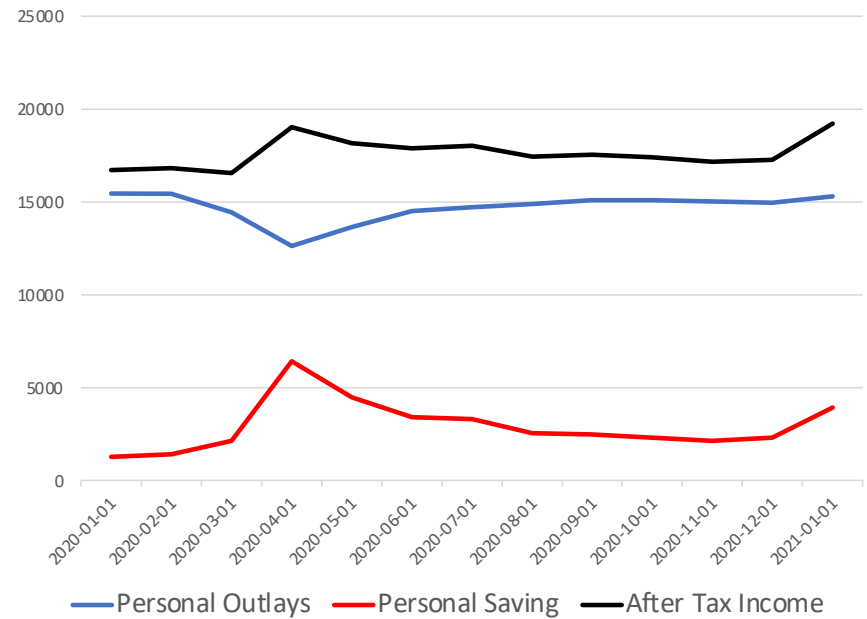
# Consequence of Fiscal Stimulus So Far



Sources of After Tax Income  
(Billions of \$s at Annual Rates, BEA)

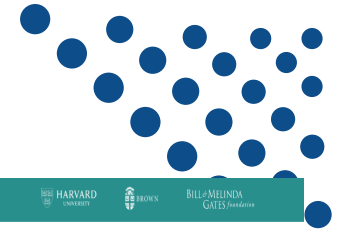


Uses of After Tax Income  
(Billions of \$s at Annual Rates, BEA)



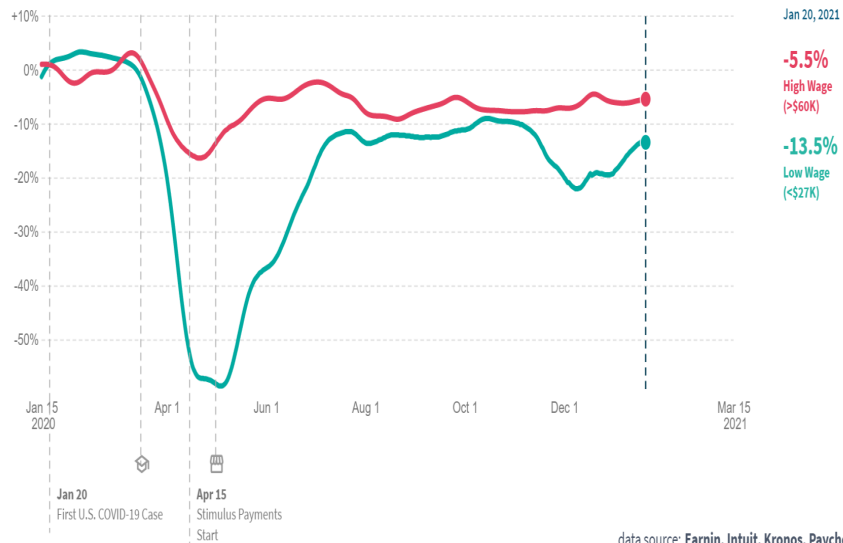
“Extra” Personal Saving ~\$1.6 trillion

# Conditions Closer to Home



## Percent Change in Employment\*

In **North Dakota**, as of **January 20 2021**, employment rates among workers in the bottom wage quartile **decreased by 13.5%** compared to January 2020 (not seasonally adjusted).

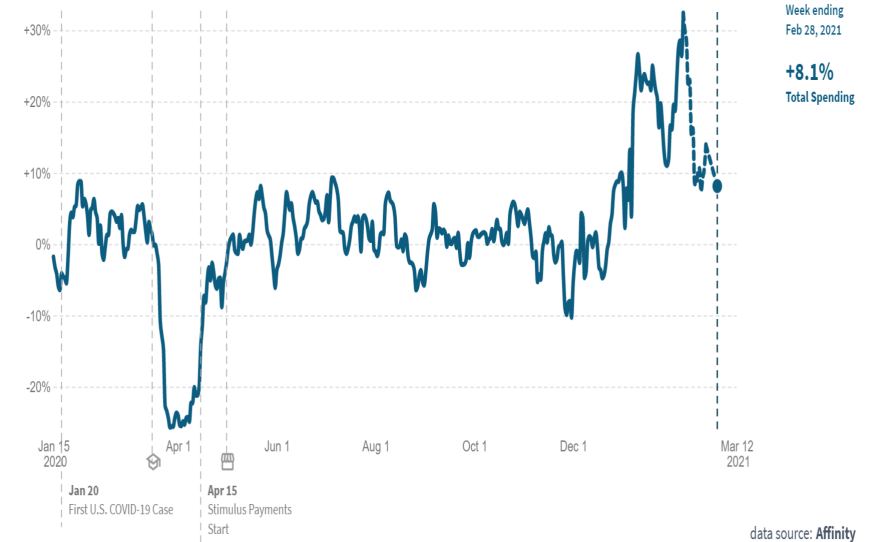


data source: Earnin, Intuit, Kronos, Paychex

\*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 is a prediction of employment rates based on Kronos and Paychex data.  
last updated: **March 15, 2021** next update expected: **March 19, 2021**

## Percent Change in All Consumer Spending\*

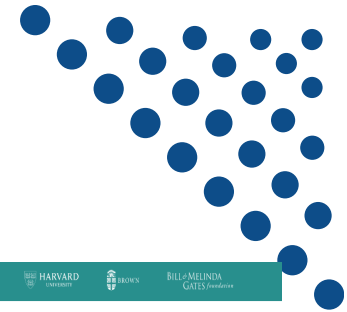
In **Cass**, as of **February 28 2021**, total spending by all consumers **increased by 8.1%** compared to January 2020.



data source: Affinity

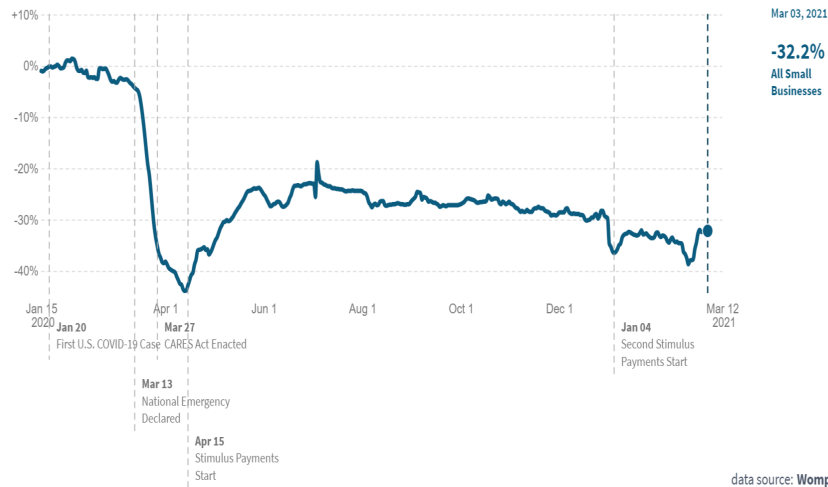
\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
last updated: **March 12, 2021** next update expected: **March 17, 2021**

# Another Hard-Hit Sector: Small Business



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

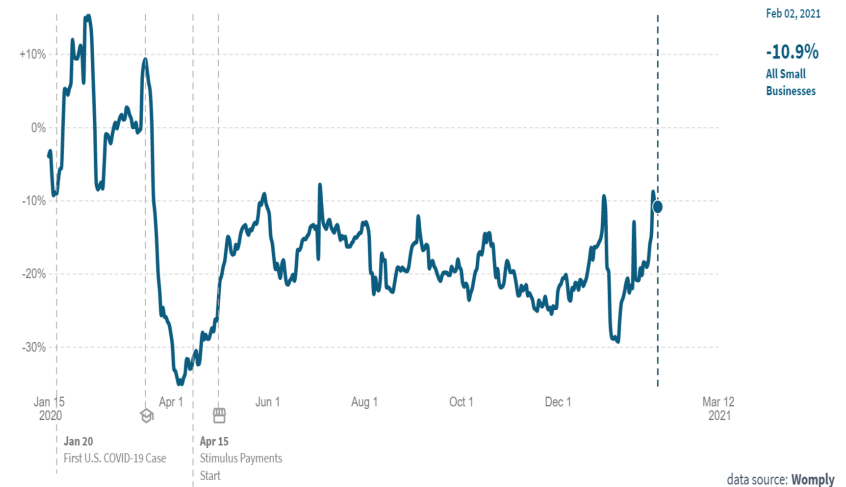
In the United States, as of March 03 2021, the number of small businesses open decreased by 32.2% compared to January 2020.



\*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 Womply.  
last updated: March 12, 2021 next update expected: March 19, 2021

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

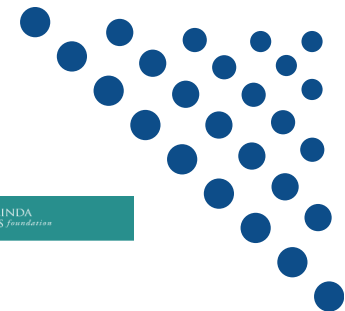
In Cass, as of February 02 2021, the number of small businesses open decreased by 10.9% compared to January 2020.



\*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 Womply.  
last updated: March 12, 2021 next update expected: March 19, 2021

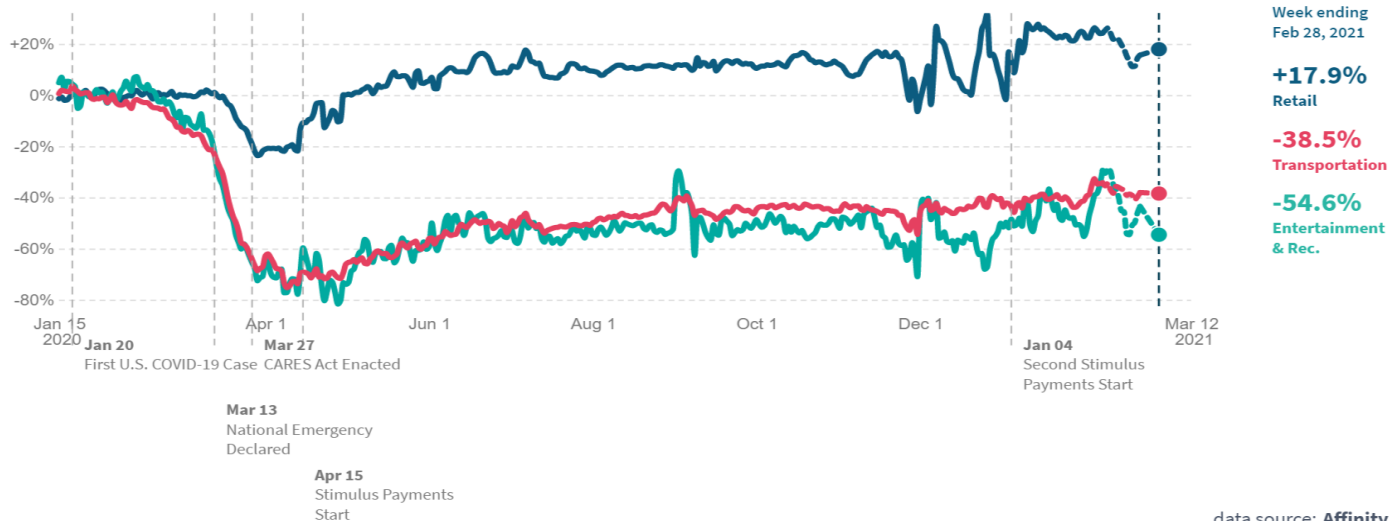
40% of all jobs are at small firms

# Other Hard-Hit Sectors



## Percent Change in All Consumer Spending\*

In the United States, as of February 28, 2021, retail spending (including online purchases, excluding groceries) by all consumers increased by 17.9% compared to January 2020.



data source: Affinity

\*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: March 12, 2021 next update expected: March 17, 2021

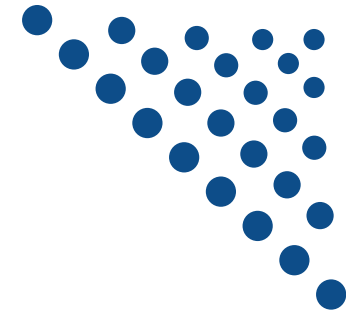
# Evidence of Damage: Corporate Bankruptcies?



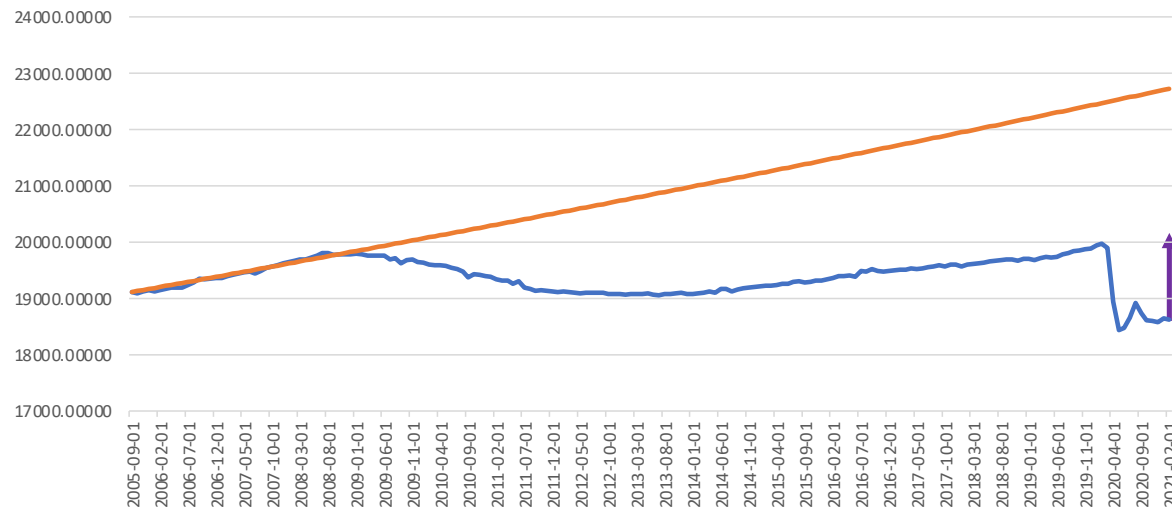
- According to Edward Altman, leading expert on bankruptcy and professor emeritus at [NYU's Stern School of Business](#), there are liable to be 60 corporate failures with liabilities over \$1b Bloomberg, 7/15
- **Notable Bankruptcies 2020**
  - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chesapeake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



# State and Local Employment



State and Local Employment



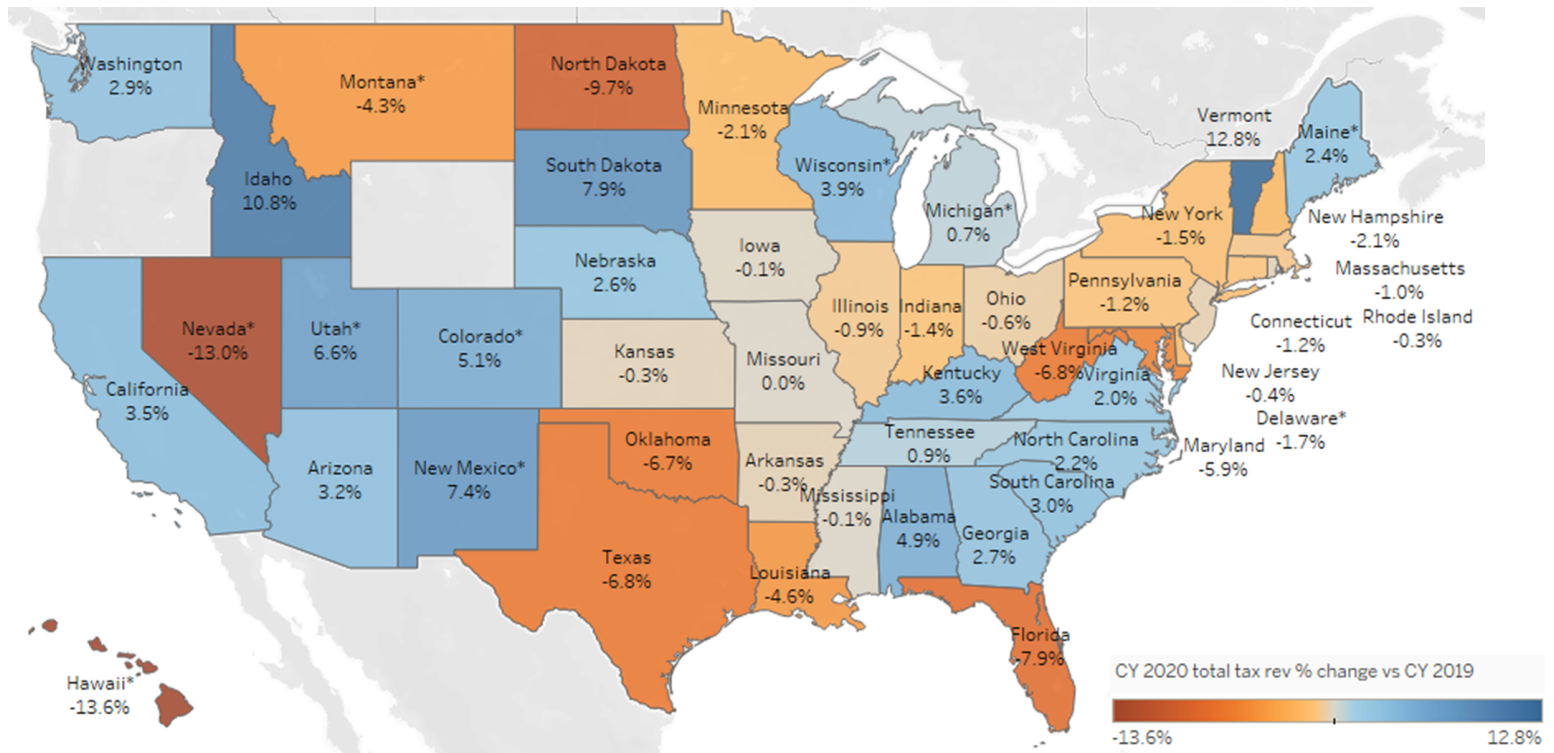
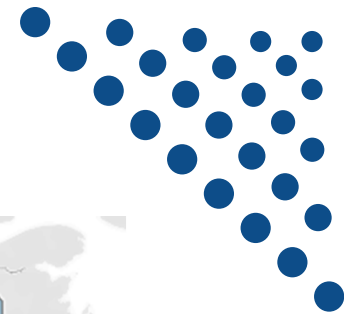
Since February, a net loss of 1.35m jobs (from a low base).

Prospects if there is no general federal aid this year?

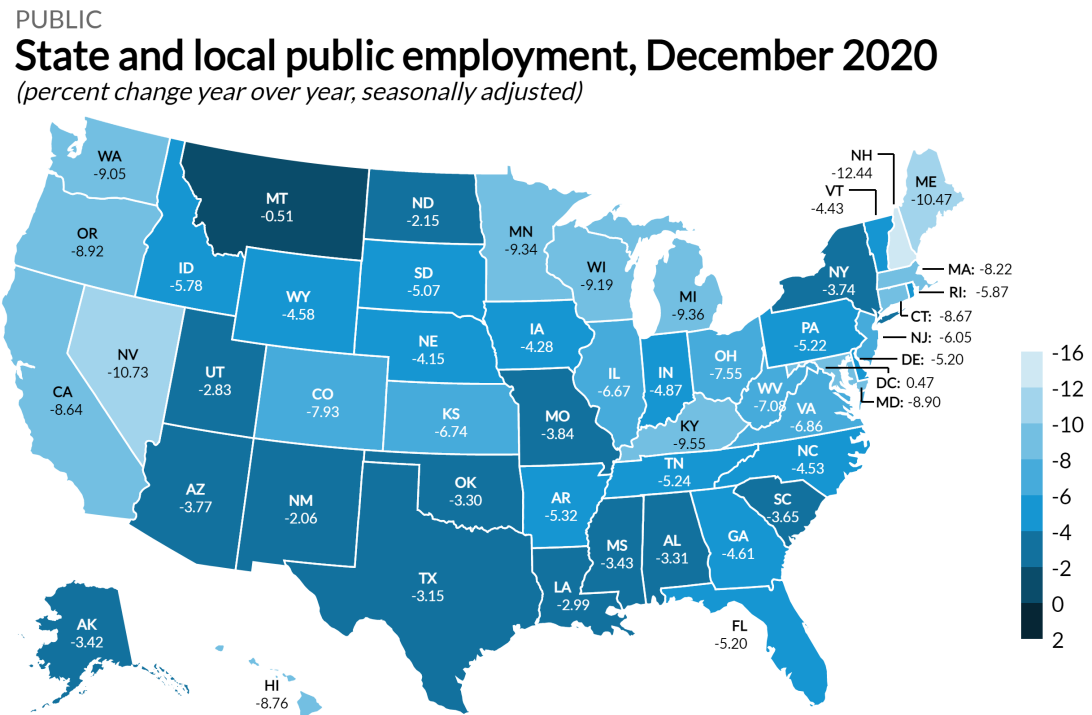
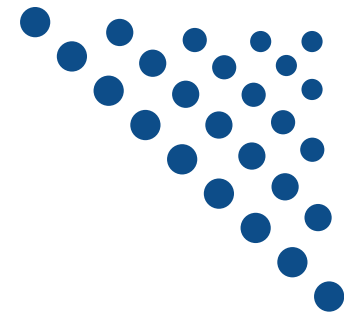
— State Local Employment



# 2020 State Tax Receipts Relative to 2019



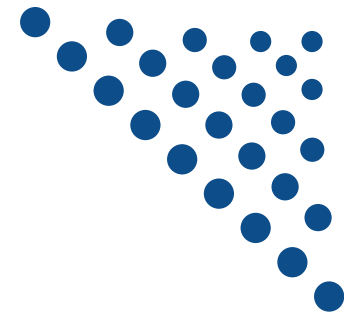
# Employment Losses Don't Match Revenue



Source: Bureau of Labor Statistics via the State Economic Monitor

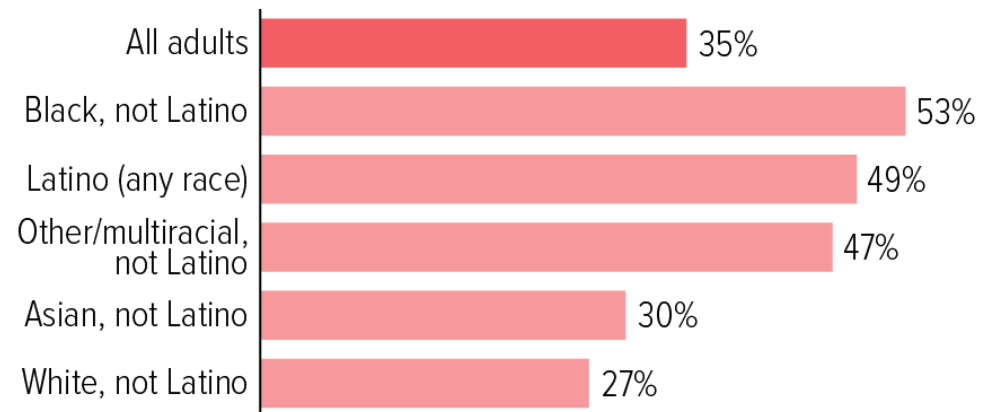
URBAN INSTITUTE

# And, People are Really Hurting



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

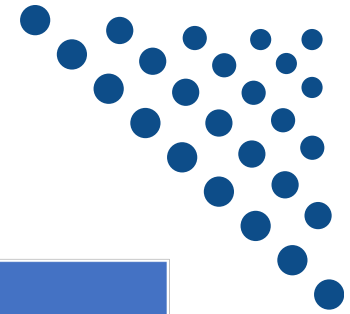
Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



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 February 17-March 1, 2021

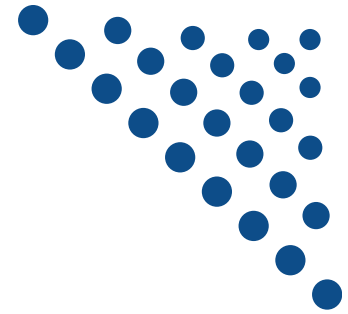
# So, What's The Problem: Go Big!



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
Total	\$1,870	\$618	\$1,252



# Democratic Economists Disagree



- **Too Big (Larry Summers, Clinton Secretary of Treasury)**

1. The “output gap” is only \$600b
2. There already is about \$1.6 trillion in personal saving waiting to be spent.
3. Needlessly adding to our debt and deficit problems.
4. Reignite inflation: Replay of 1968
  1. Inflation breaks historical norms of 1-3%.
  2. Monetary policy reluctant to raise interest rates.
5. Because of 3 & 4 less room for needed public infrastructure investment.

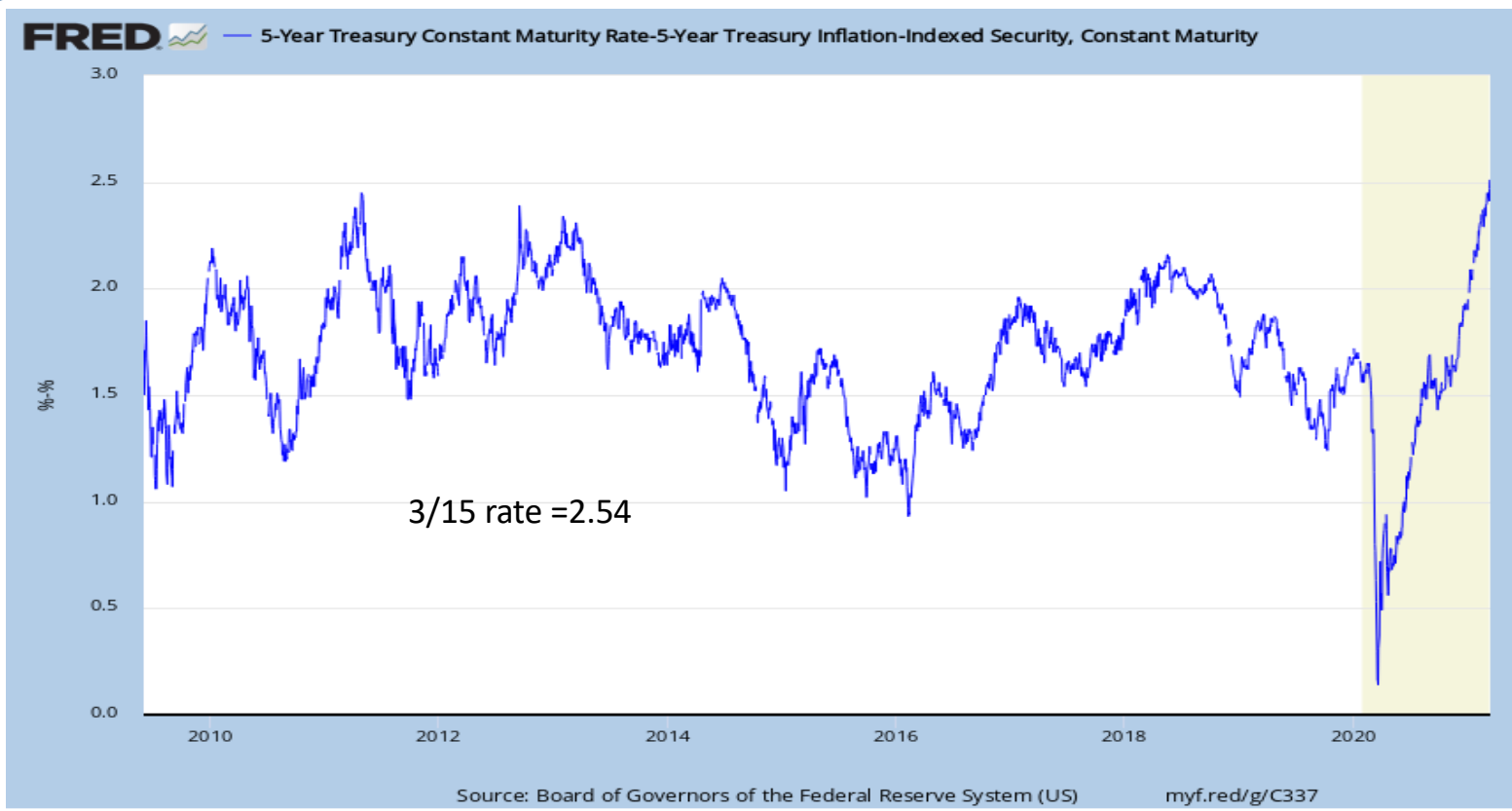
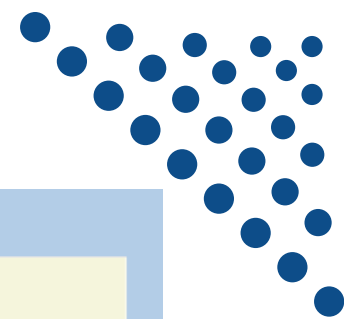
# About Right (Paul Krugman, Nobel Prize 2008)



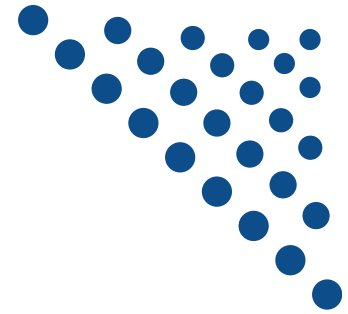
1. Protection against a Double Dip.
2. You only get one bite at the apple: take care of yourself Senator Leahy!
3. Prolonged economic scarring.
4. People in true need cannot be left out.
5. Any inflation is likely to be temporary: replay of Korean War, not Vietnam. And, there has been no inflation! (Fed has the tools)
6. Roaring economy will provide political capital to enact reform



# Inflation Dragon Stirring?



## **My** Advice for Joe



- **Priority should be to control the pandemic.**
- **Don't criticize Jay Powell if the Fed needs to raise interest rates.**
- **Pursue Needed Infrastructure Investment.**
- **Develop a politically feasible plan to raise revenues and lower spending over the longer term.**
- **Listen to Janet Yellen.**
- **And, most of all: Lots of Luck!**





**Thank you!**

# Any Questions?



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

Geoffrey Woglom

grwoglom@amherst.edu

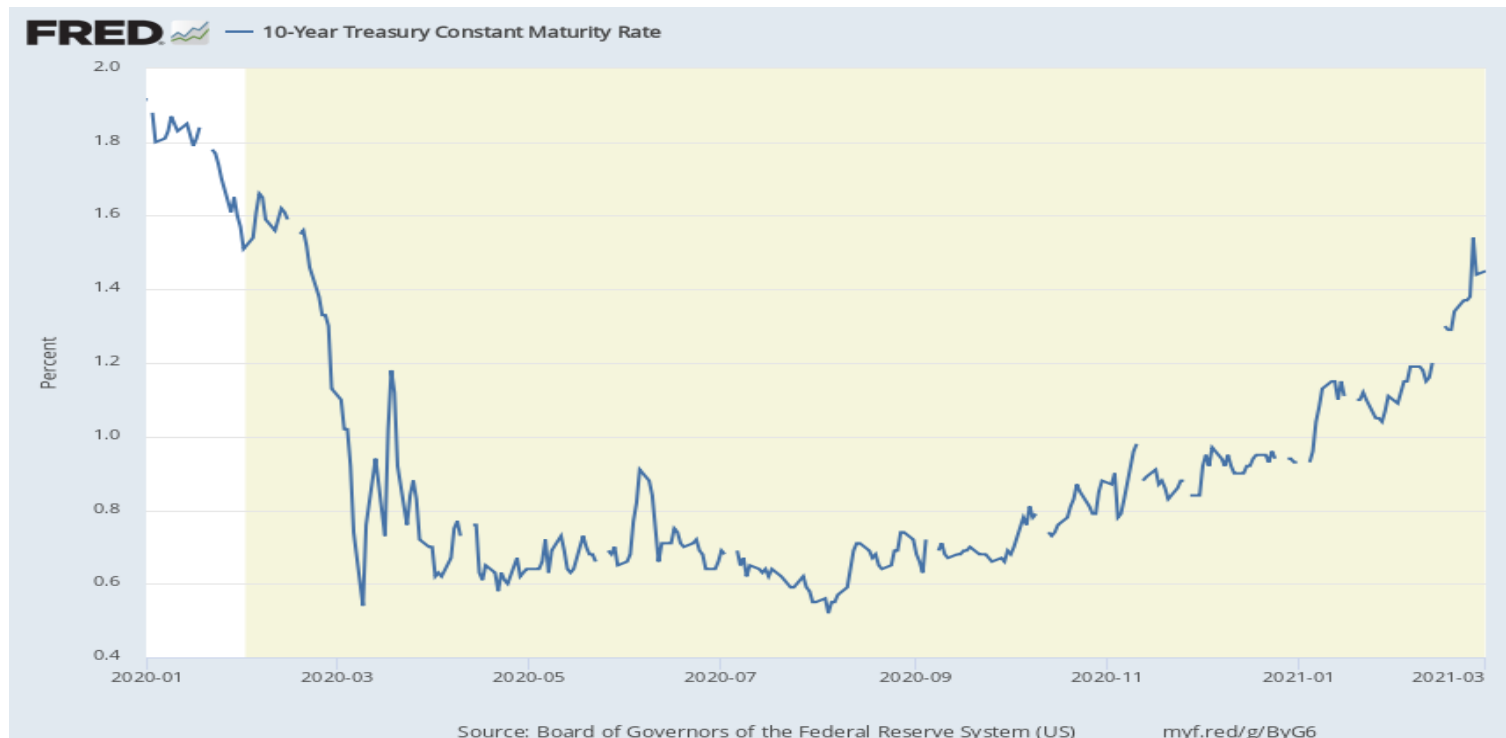
Contact NEED: [info@needelegation.org](mailto:info@needelegation.org)

Submit a testimonial: [www.NEEDelegation.org/testimonials.php](http://www.NEEDelegation.org/testimonials.php)

Become a Friend of NEED: [www.NEEDelegation.org/friend.php](http://www.NEEDelegation.org/friend.php)



# Financial Markets See A Recovery



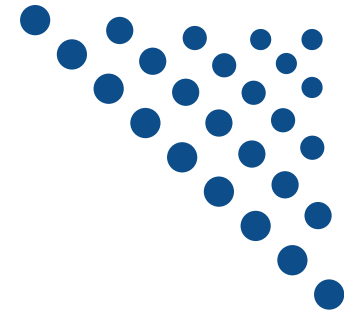
# UI Replacement rates and Expanded Benefits



Unemployment Insurance Benefits				
Income Quartile:	Weekly Earnings	Regular Benefits	Expanded (\$300)	Expanded (\$400)
25%	\$445	\$231 (52%)	\$531 (119%)	\$631 (142%)
50%	\$668	\$346 (50%)	\$646 (97%)	\$746 (112%)
75%	\$1,207	\$456 (38%)	\$756 (63%)	\$856 (71%)

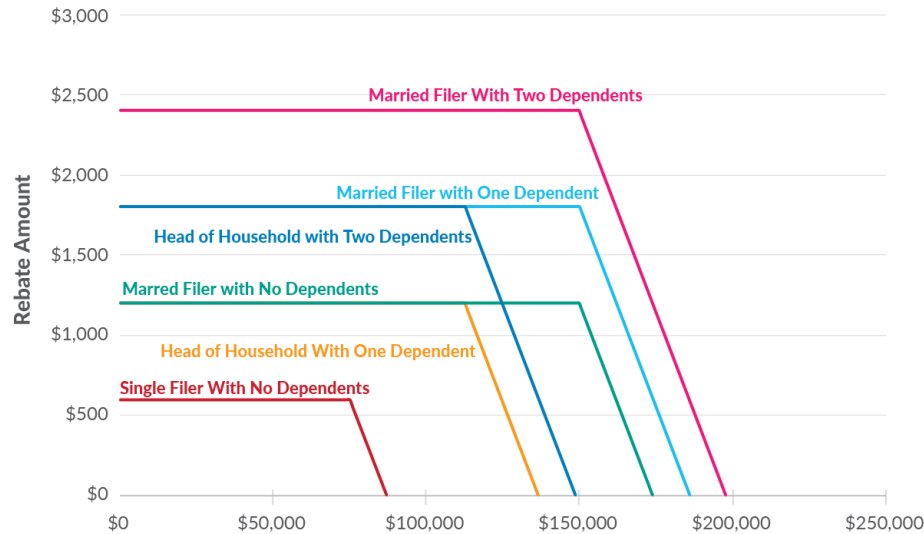
P. Ganong, P. Noel, and J. Varva, "US Unemployment Insurance Replacement Rates During the Pandemic, Working Paper 202-62, BFI Institute

# The Problem with Stimulus Checks



## Relief Rebates in the New Coronavirus Relief Package, Dec. 2020

Individual Economic Relief Rebate by Filing Status



Source: Consolidated Appropriations Act, 2021.

TAX FOUNDATION

@TaxFoundation



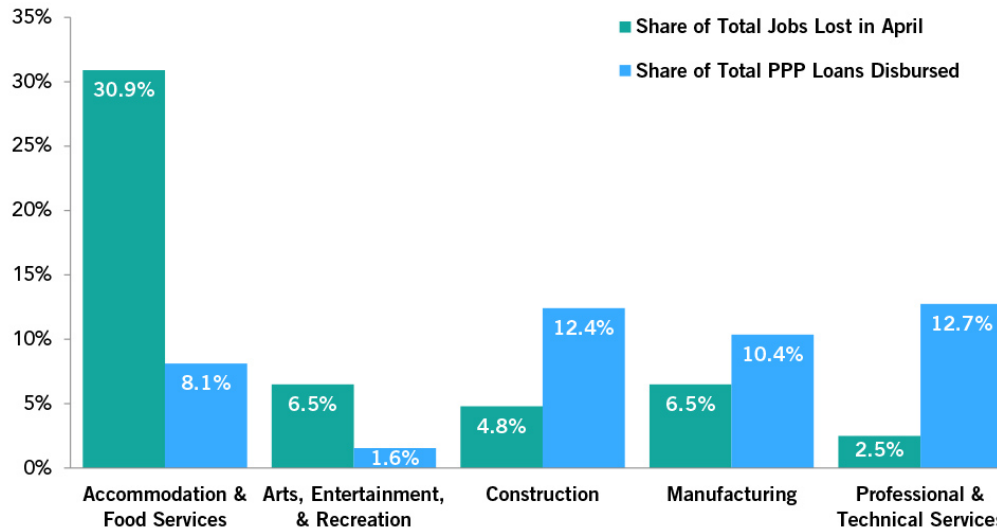
NATIONAL ECONOMIC  
EDUCATION DELEGATION

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



The distribution of PPP loans has not matched levels of unemployment

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



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*

Could a new PPP be better administered?



NATIONAL ECONOMIC EDUCATION DELEGATION