

COVID-19: Economic Implications and Policy Response

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SIR Branch #35

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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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Credits and Disclaimer

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



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Outline

- Where is the Recovery Now: “V” or “K”?
- What have been the effects of policy?
- What are the risks to a continued recovery?

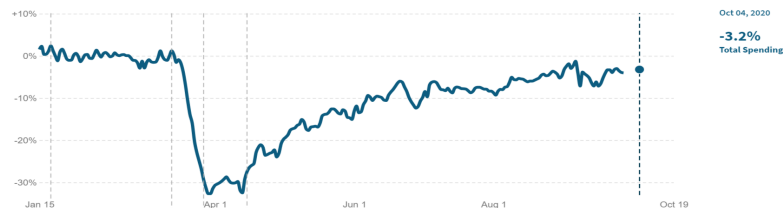
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Spending Collapsed in March

OPPORTUNITY ECONOMICS TRACKER | HARVARD | BOSTON COLLEGE

Percent Change in All Consumer Spending*

In the United States, as of October 04 2020, total spending by all consumers decreased by 3.2% compared to January 2020.



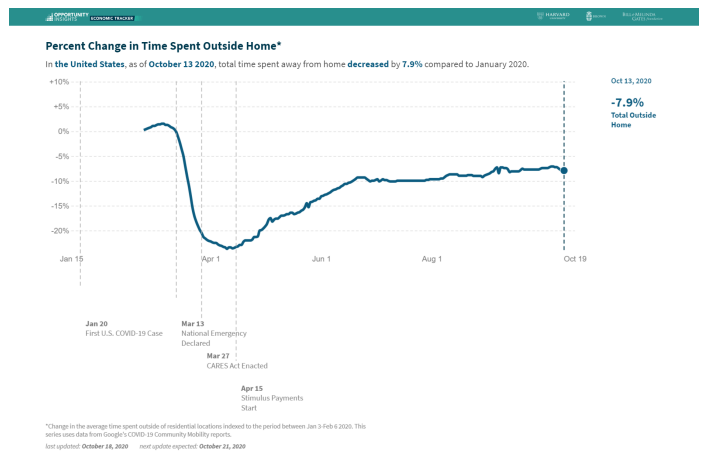
Jan 20 First U.S. COVID-19 Case
 Mar 15 National Emergency Declared
 Mar 27 CARES Act Enacted
 Apr 15 Stimulus Payments Start

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data until the most recent week of data posted, and the weekly average for the most recent week. This series is based on data from Affinity Solutions.
 last updated: October 16, 2020 next update expected: October 20, 2020

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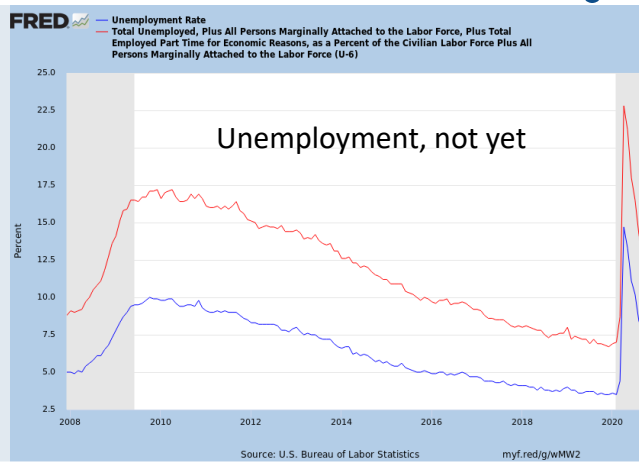
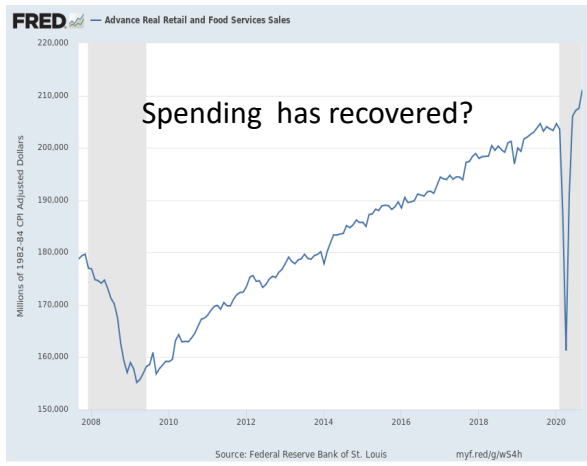
Why Did Spending Collapse?

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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Where are we?



Sure Looks "V" shaped to me!

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Aggregate Data (whole economy) Looks Good

- **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 disruptions due to prolonged job losses and business failures

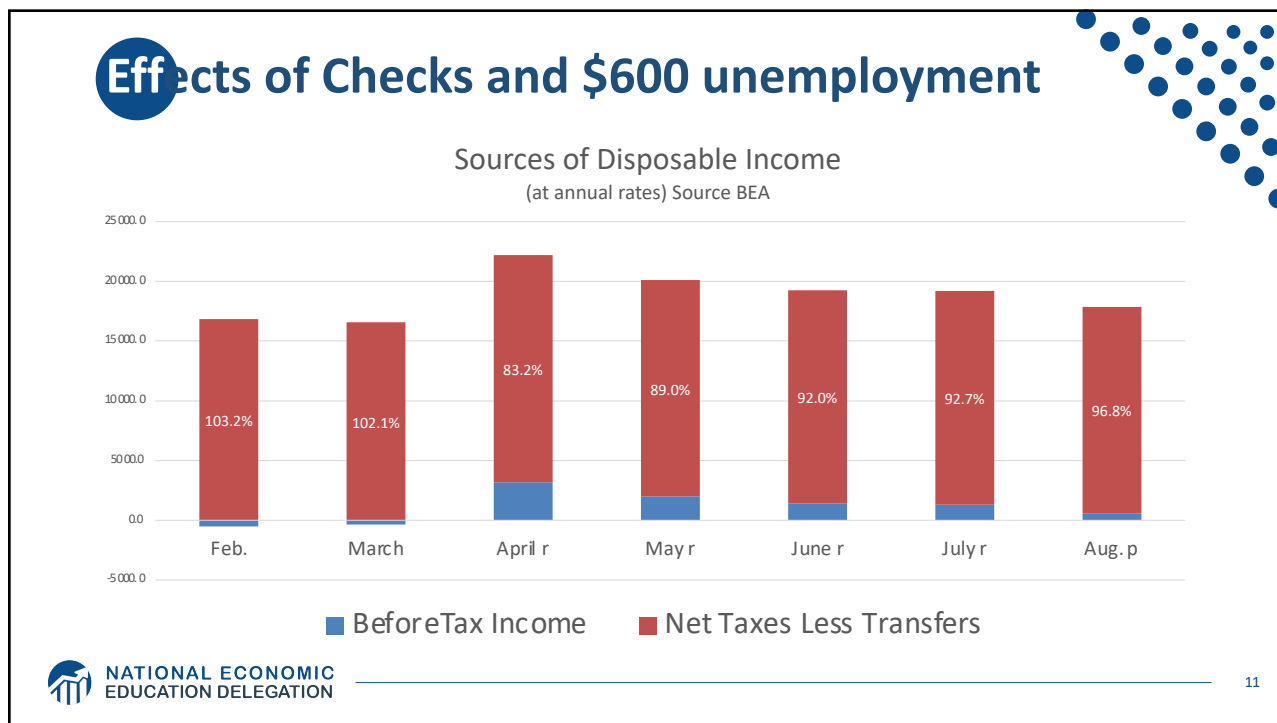


What Have Been Policy Effects

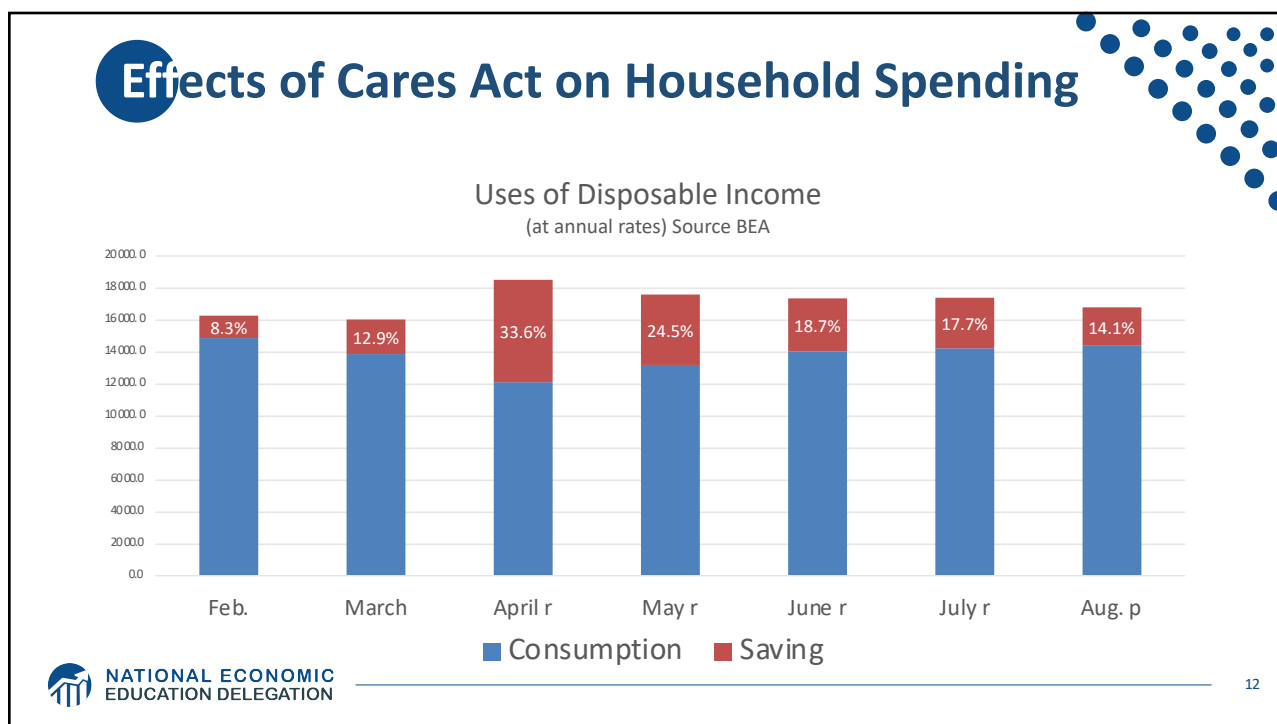
- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B- (\$268b)
 - Paycheck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

Big Caveat: Much of the Fiscal Stimulus ended in July





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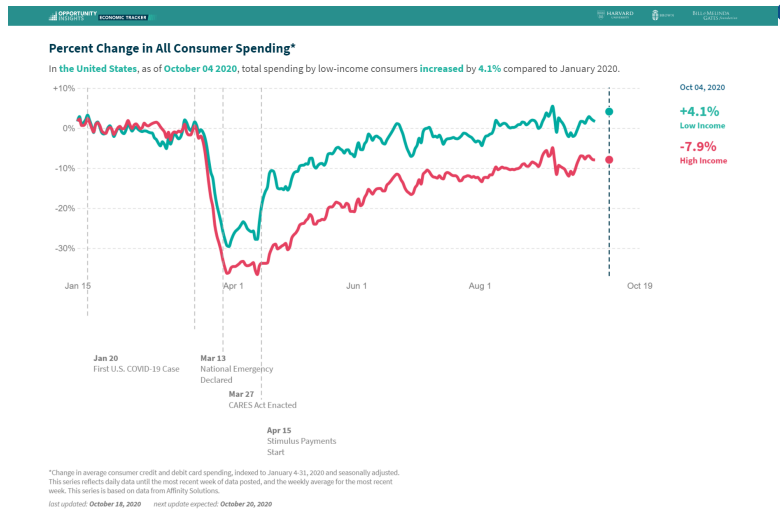
Rebound in Consumption Faster than Expected

- 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 CON stays at August level during September, 2020Q3, **40%**
- This is in spite of the fact that 2020Q3 would be 3 % 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 was initially Income Constrained

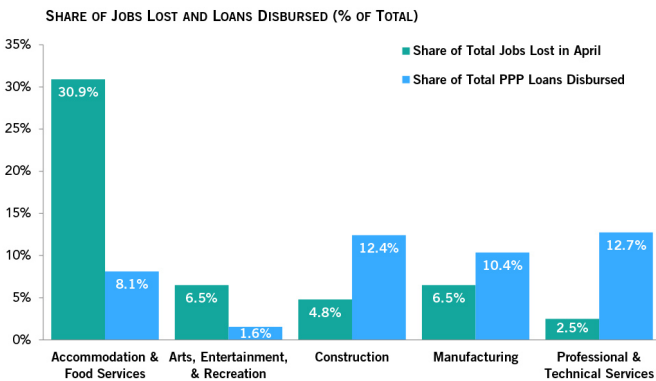


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PPP, Not so Good: Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



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

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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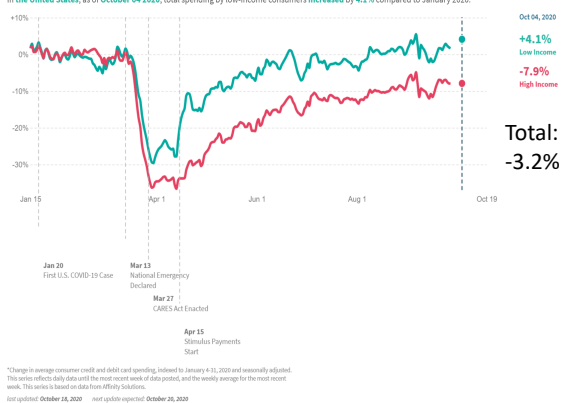


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How Did This Happen; Can it Continue?

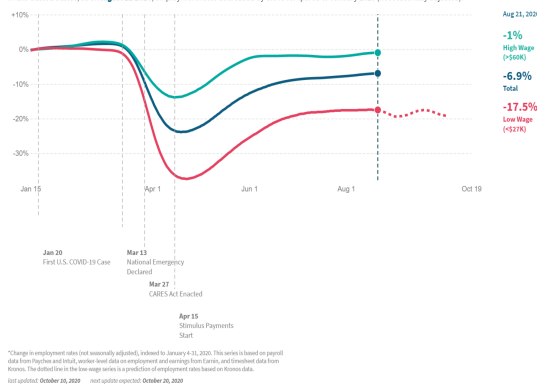
Percent Change in All Consumer Spending*

In the United States, as of October 04 2020, total spending by low-income consumers increased by 4.1% compared to January 2020.



Percent Change in Employment*

In the United States, as of August 21 2020, employment rates decreased by 6.9% compared to January 2020 (not seasonally adjusted).



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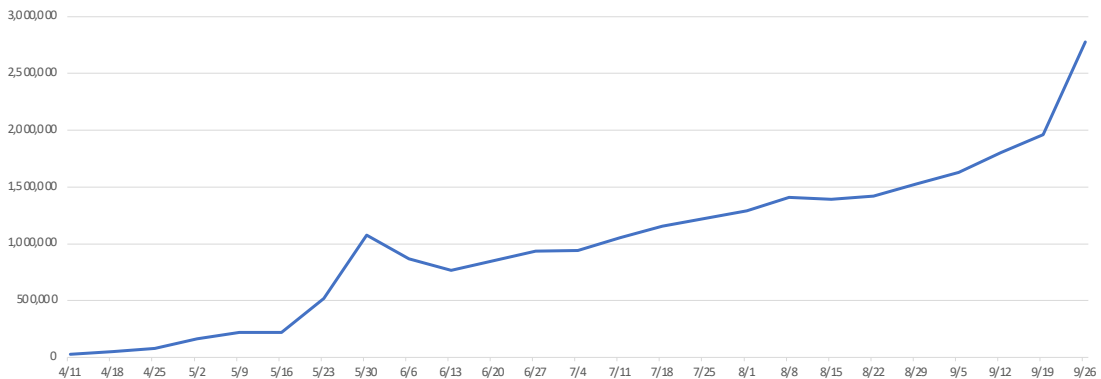
Is it a V or a K shaped recovery?

1. Aggregate Data look good because of the Cares Act (at least until the end of July) supported low income workers.
2. But, it doesn't look good everywhere. Bottom part of K
 1. Employment of Low-Income workers.
 2. Small firms.
 3. Hard-hit Sectors: Restaurants, entertainment and transportations.
 4. State and Local Governments

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Evidence of Damage: Workers?

Pandemic Emergency Unemployment Compensation
Source: The Century Foundation from DOL data



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Small Firms (over 40% of all jobs)

Percent Change in Small Business Revenue*

In the United States, as of September 29 2020, total small business revenue decreased by 23.2% compared to January 2020.



Business Failures?

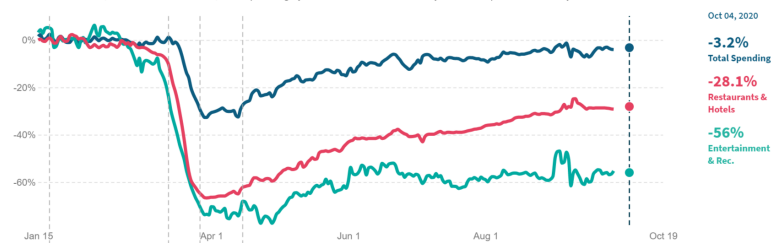
*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Bimply.
 last updated: October 06, 2020 next update expected: October 23, 2020

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Hard Hit Sectors

Percent Change in All Consumer Spending*

In the United States, as of October 04 2020, total spending by all consumers decreased by 3.2% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data until the most recent week of data posted, and the weekly average for the most recent week. This series is based on data from Affinity Solutions.
 last updated: October 16, 2020 next update expected: October 20, 2020

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Evidence of Damage: Corporate Bankruptcies?

- “More than 30 American companies with liabilities exceeding \$1 billion have already filed for Chapter 11 since the start of January, and that number is likely to top 60 by year-end after businesses piled on debt during the pandemic, according to Edward Altman, creator of the Z-score and professor emeritus at NYU’s Stern School of Business.” Bloomberg, 7/15
- **Notable Bankruptcies 2020**
 - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chuck E. Cheese, Brooks Brothers, Ann Taylor, Lane Bryant, et. al.
- **Many, Many Small firms.**



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

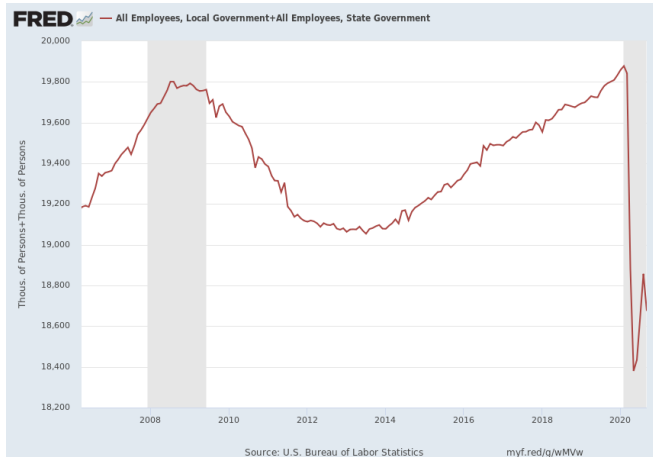


* Estimated based on CBPP calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



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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Stumbling Blocks to Stimulus Package

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



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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, 10/22; 10/29
 - Monthly,
 - 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

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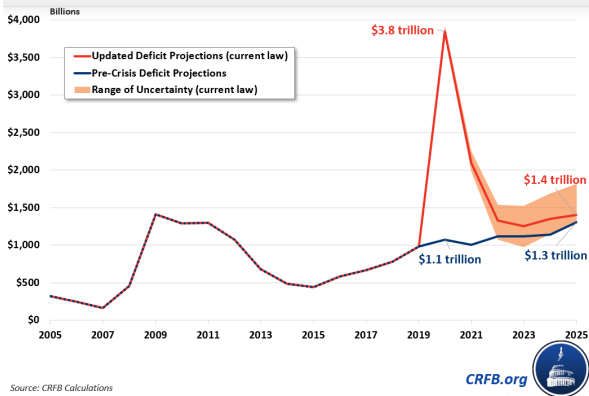
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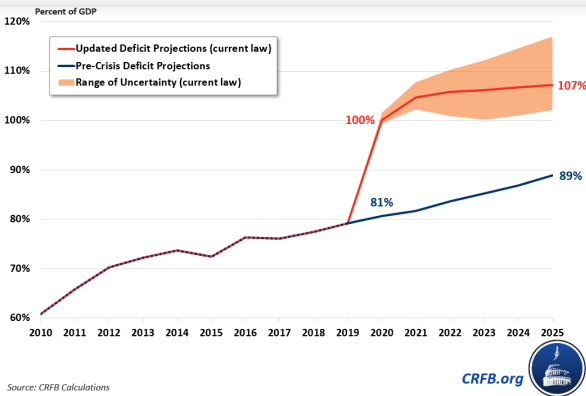
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How Do We Pay for This?

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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