

# COVID-19: Economic Implications and Policy Response

Dec 3, 2020  
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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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- **This slide deck was reviewed by:**
  - Jon Haveman
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# Outline

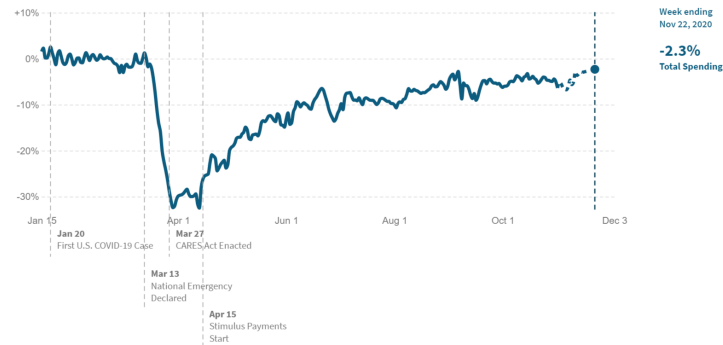
- Where is the recovery now?
- How has policy affected the recovery?
- What are the risks to a continued recovery?

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# Spending Collapsed in March

**Percent Change in All Consumer Spending\***

In the United States, as of November 22 2020, total spending by all consumers **decreased** by 2.3% compared to January 2020.

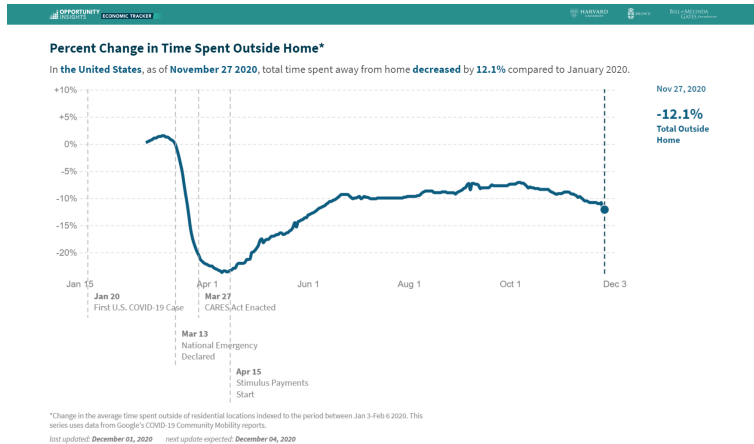


\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
last updated: December 03, 2020 next update expected: December 06, 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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## Is the GDP Glass Half Full, or Empty?

### Headlines on 10/29

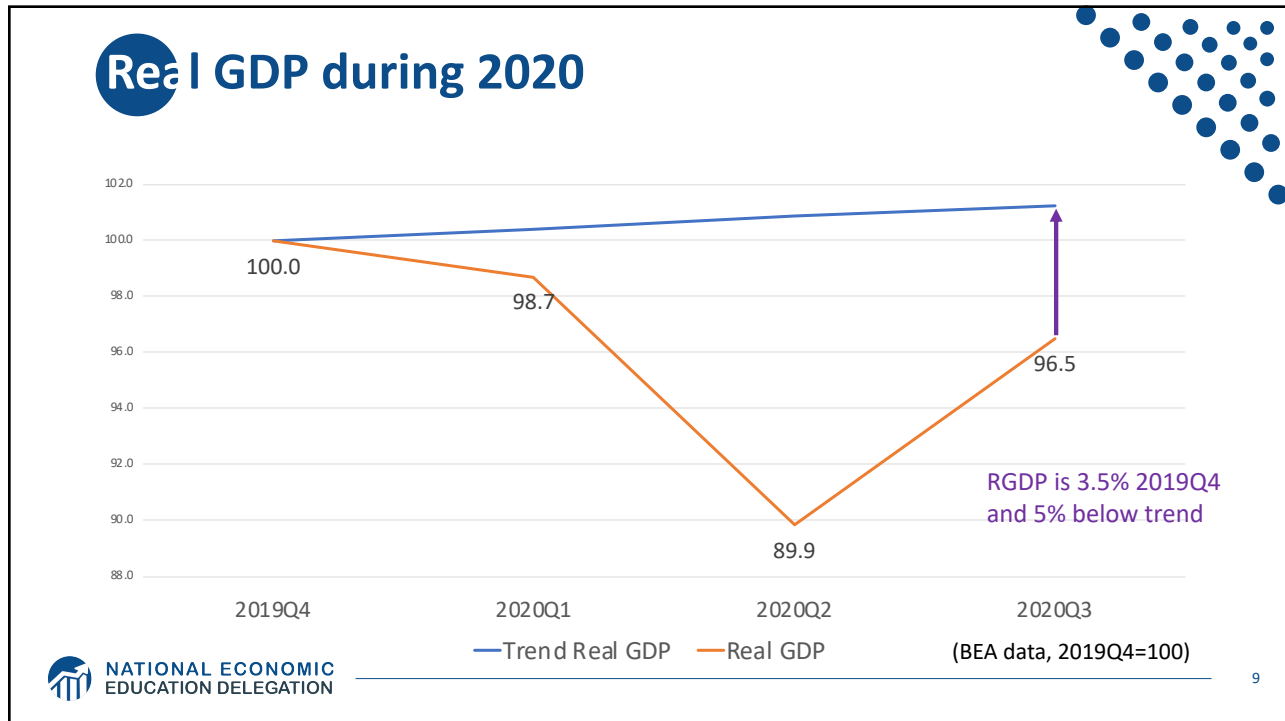
- GDP roared back at record 33.1 percent in third quarter, *Washington Times*.
- Economy's Big Rebound Leaves a Shortfall as Progress Slows, *NYTimes*.

### Keys to Understanding:

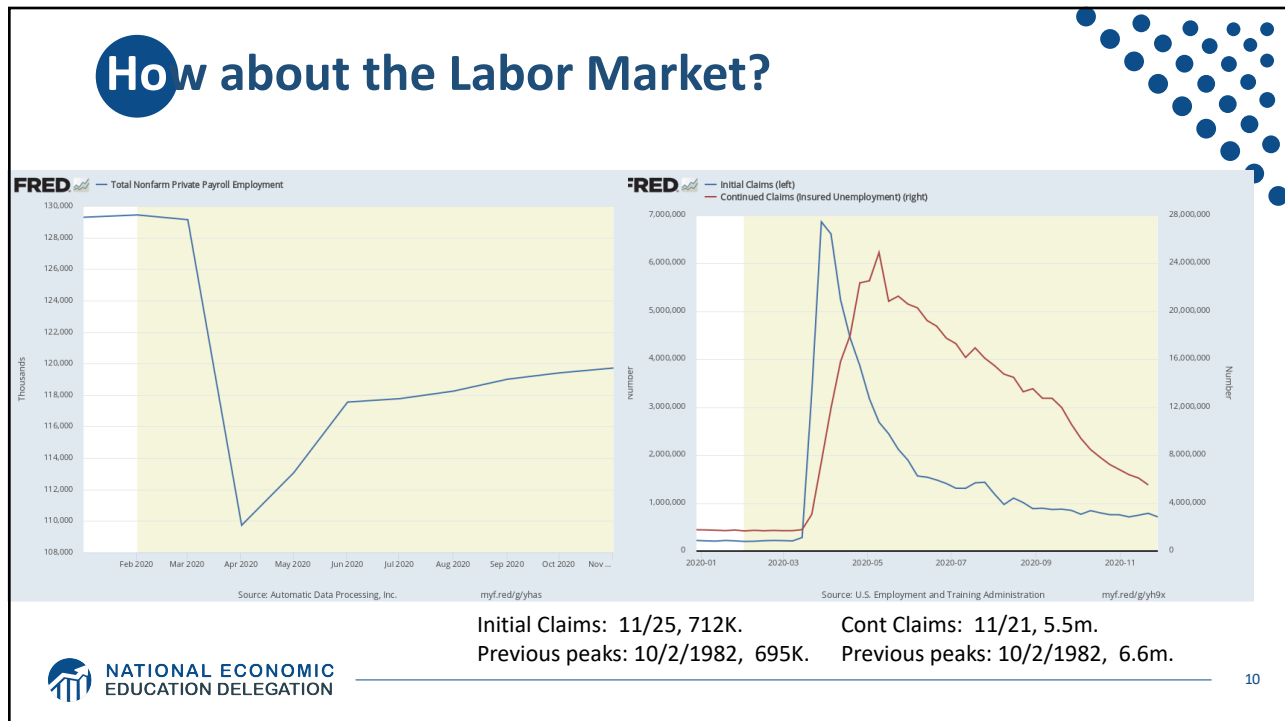
1. 33.1% is at an *annual* rate (which makes sense in normal times).
2. Growth in the second quarter was -31%, also a record.

**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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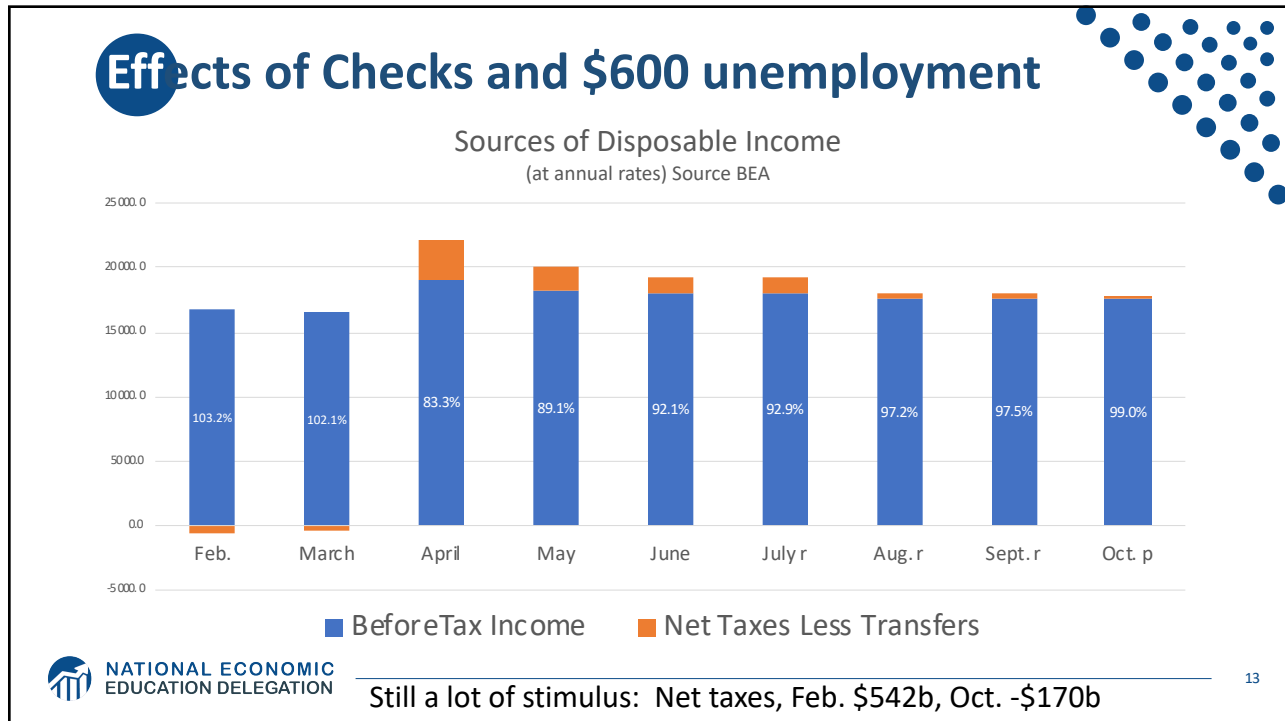
## What Have Been Policy Effects

- 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)

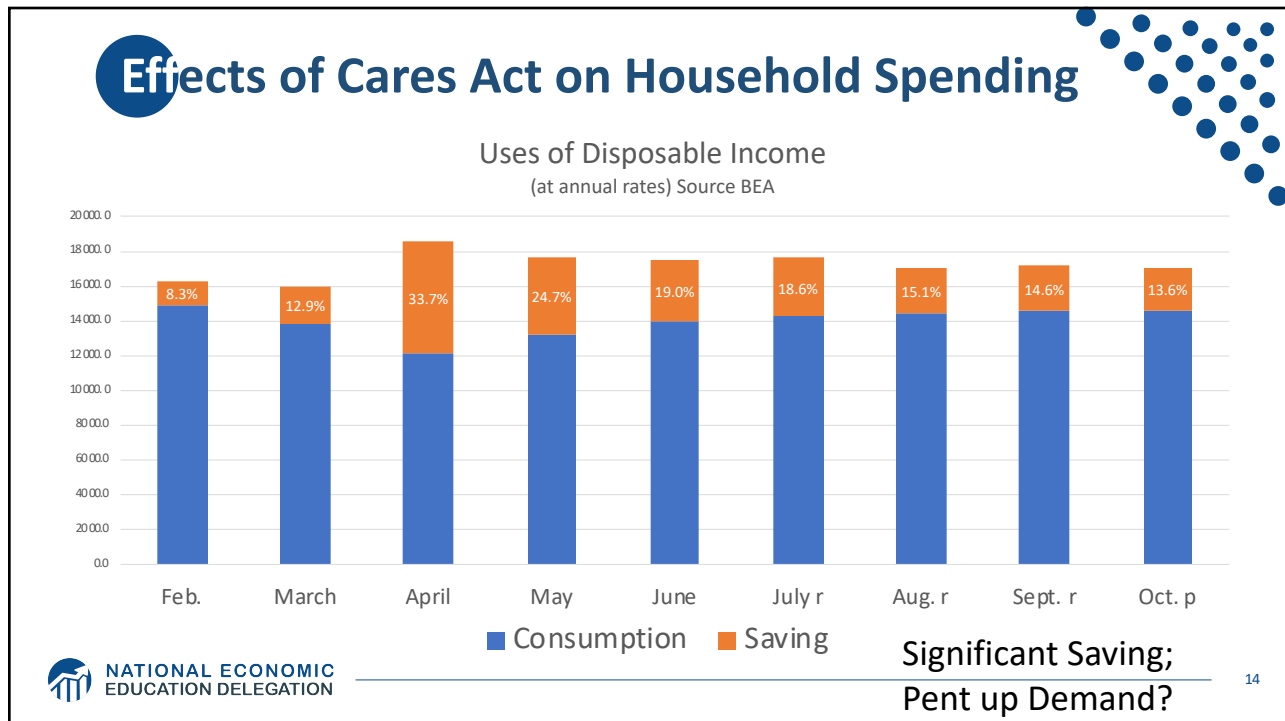
**Big Caveat: Much of the Fiscal Stimulus ended in July**



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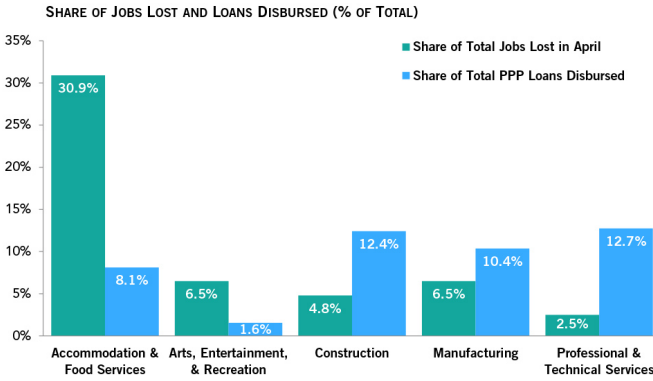


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# PPP, Not so Good: Didn't Go to the Right Firms



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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PGPF.ORG

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

Could a new PPP be better administered?



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# How Did This Happen; Can it Continue?



## Percent Change in All Consumer Spending\*

In the United States, as of November 22 2020, total spending by middle-income consumers decreased by 1.8% compared to January 2020.



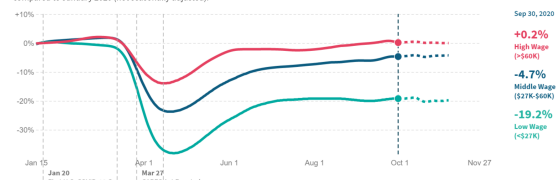
\*Change in average consumer credit and debit card spending, indexed to January 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be revised to conform to the release of more data in periods. This series is based on data from retail sales.

last updated: December 01, 2020 next update expected: December 08, 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 2020. This series is based on panel data from Payscale and Intell, worker level data on employment and earnings from Earnings, and Unleashed data from Proton. The dashed line in the low wage series is a prediction of employment rates based on Proton data.

last updated: December 01, 2020 next update expected: December 01, 2020

## Prolonged Job Losses?



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# Delaware County Real Time Data

## Percent Change in All Consumer Spending\*

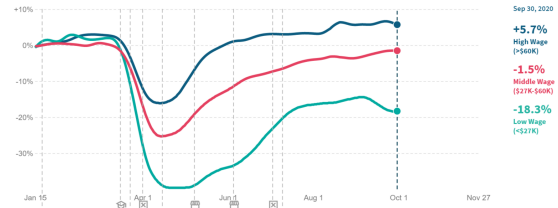
In Delaware, as of **November 22 2020**, total spending by all consumers increased by **9.3%** compared to January 2020.



\*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 Effigy Solutions.  
last updated: December 01, 2020 next update expected: December 08, 2020

## Percent Change in Employment\*

In Delaware, as of **September 30 2020**, employment rates among workers in the top wage quartile increased by **5.7%** 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 InMail, worker level data on employment and earnings from Eavis, and Employer data from Kronos. The dashed line in the low wage series is a prediction of employment rates based on Kronos data.  
last updated: November 28, 2020 next update expected: December 01, 2020

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# 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.**

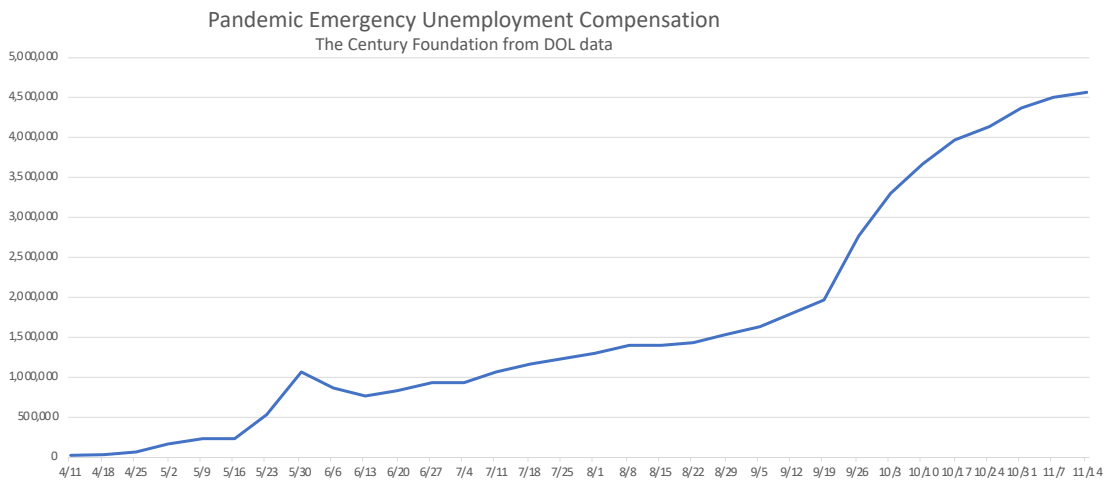
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# Fiscal Cliff

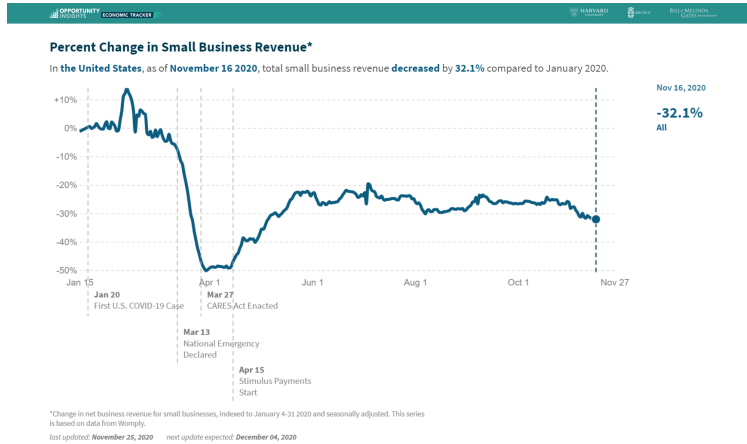
- In addition to the regular unemployment insurance programs there are two other pandemic programs. As reported this AM:
  1. Pandemic Unemployment Assistance (Self employed), 8.7 million.
  2. Pandemic Emergency Unemployment Compensation (more than 26 weeks), 4.6 million.
- New Century Foundation: 12 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



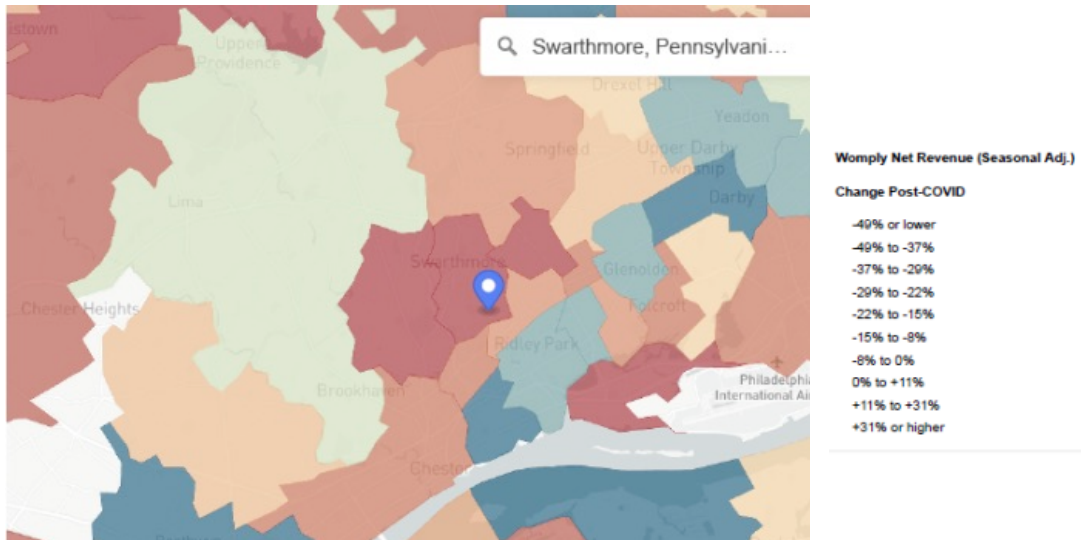
# Small Firms (over 40% of all jobs)



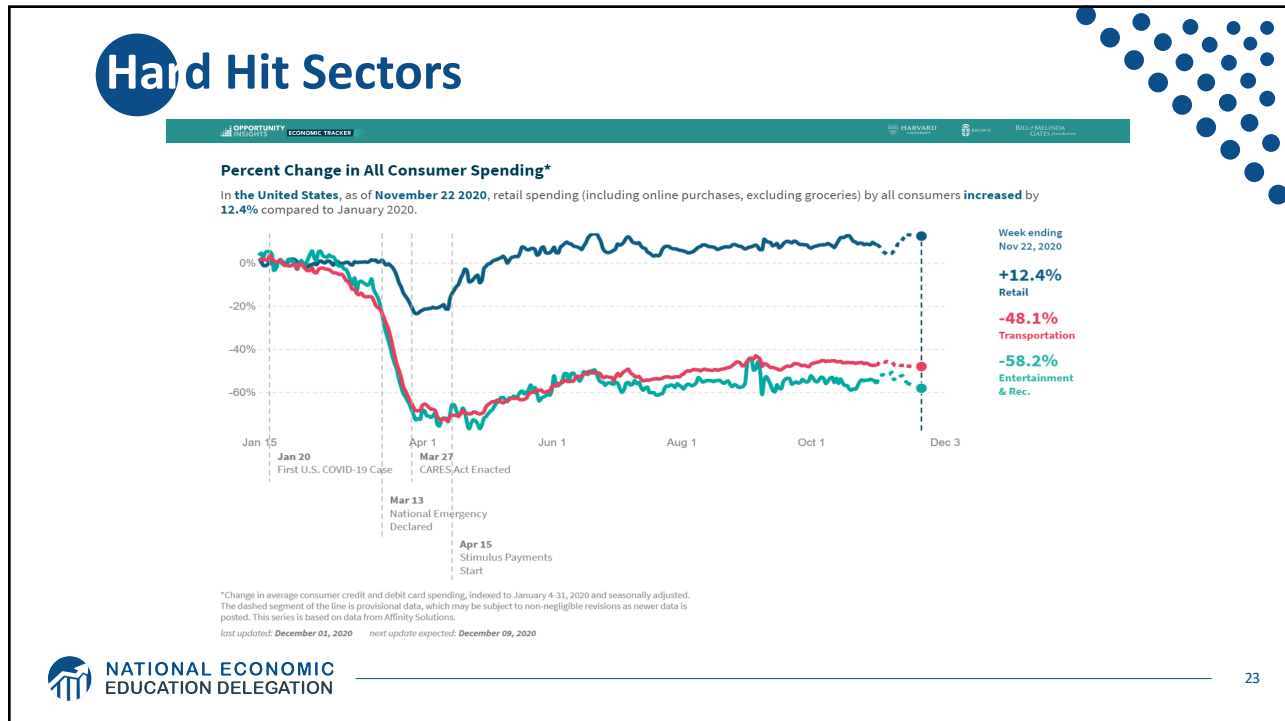
Business Failures?

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# Real Time Data by Zip Code



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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



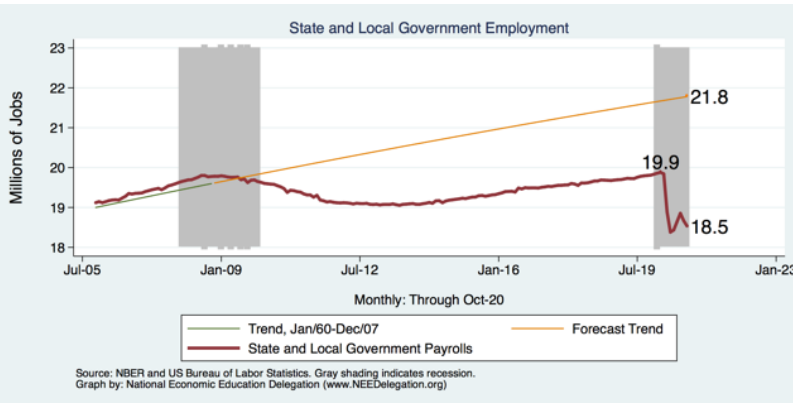
\* Estimated based on CBPP calculations  
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

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



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?**

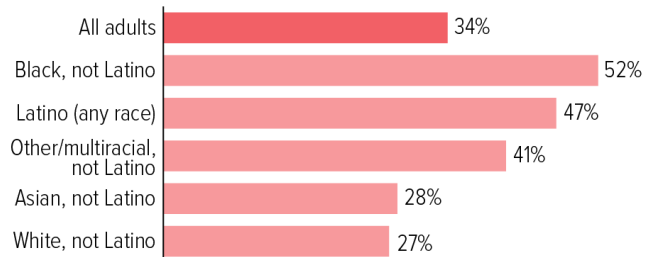
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## The Outlook: My View

**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 Q4; 4% 2021.
- Phil. Fed Survey of Professional Economists, mid Nov.: 4% growth Q4; 3.6% 2021.
- Conference Board, 11/13: 2.2% growth Q4; 3.4% 2021.

- **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.**



## 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.**



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

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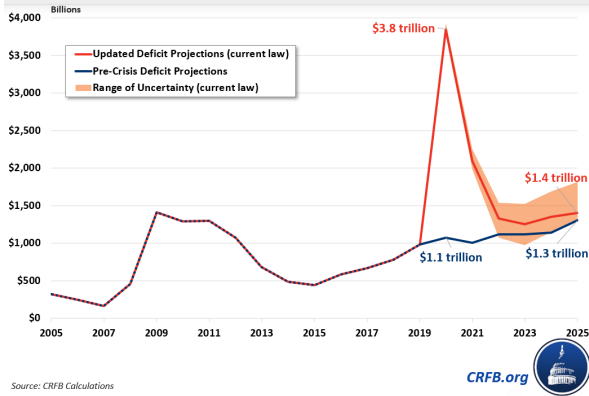


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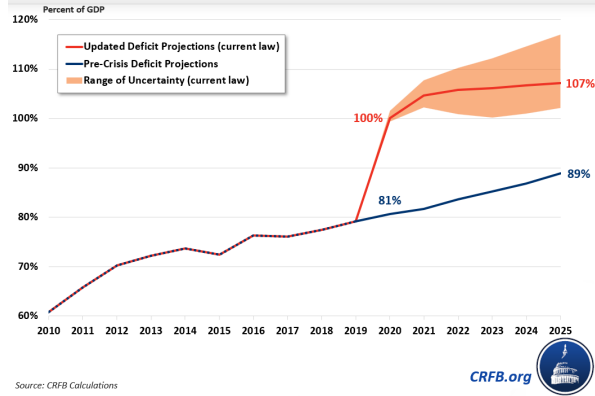


# How Do We Pay for This?

## 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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