



COVID-19: Economic Implications and Policy Response

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

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Real GDP during 2020

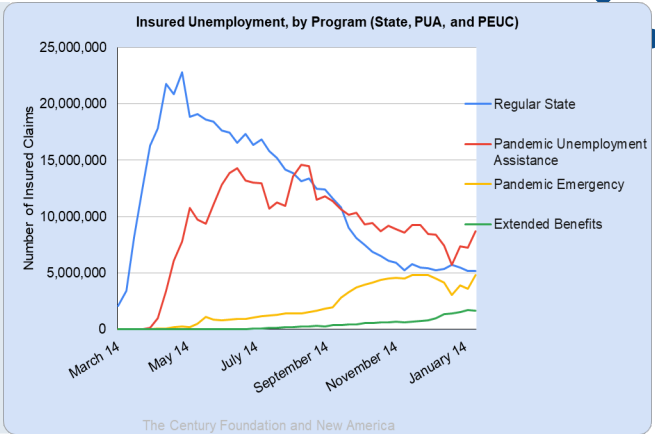
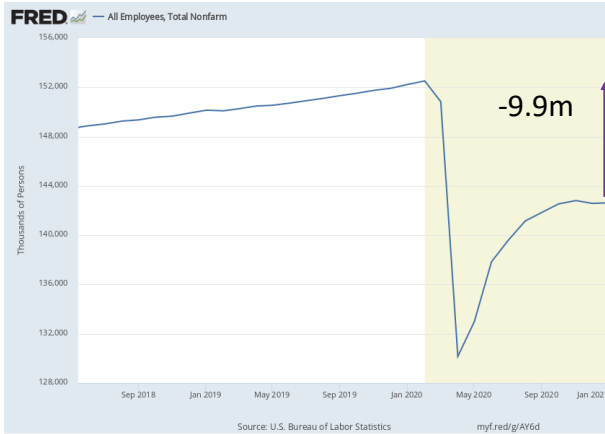
GDP during the Pandemic



(BEA data, 2019Q4=100)

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How about the Labor Market?



ADP private employment increased by 117K in Feb.

Initial Claims: 2/20, 710K. Previous peaks: 10/2/1982, 695K.
PUA Initial Claims: 451K

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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

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What Have Been Policy Effects

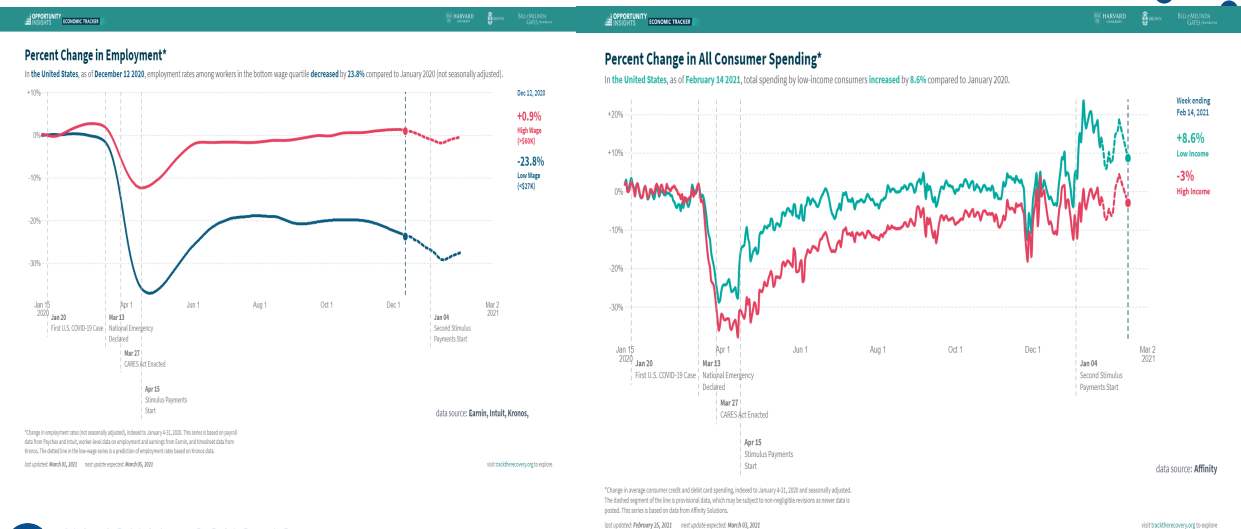
- **Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck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

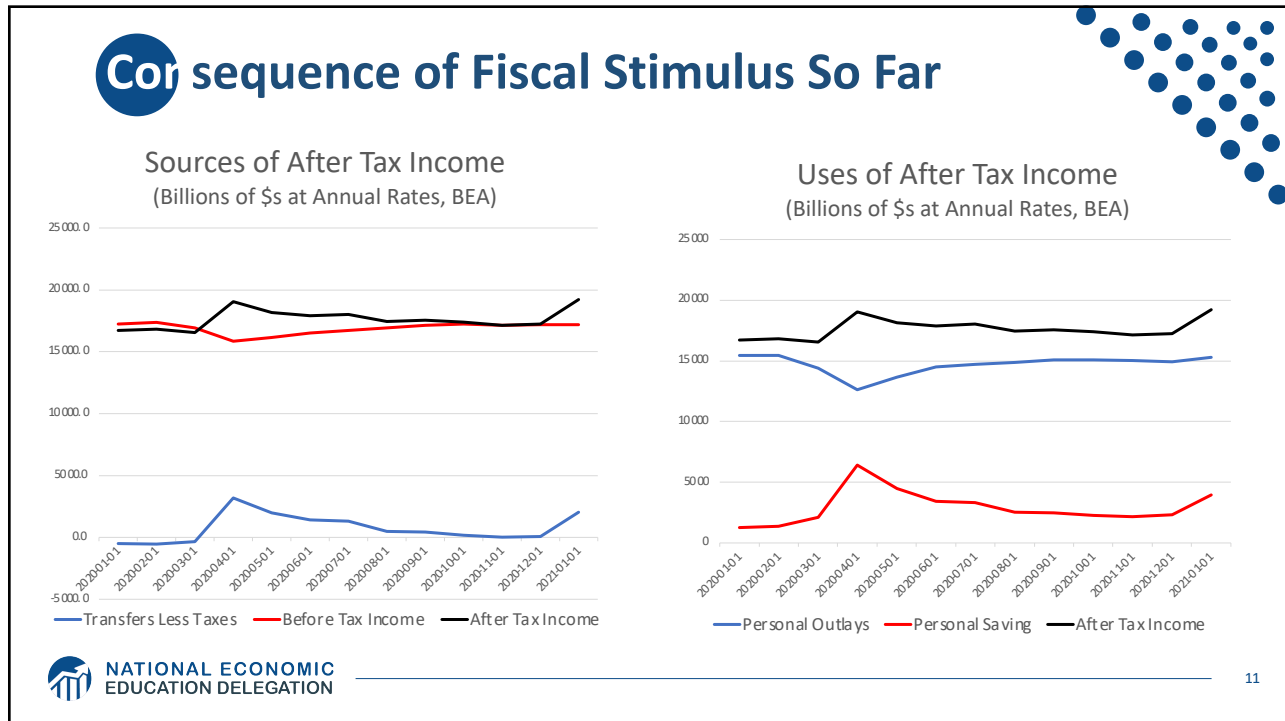
December Package another \$900b with more to come

Why?

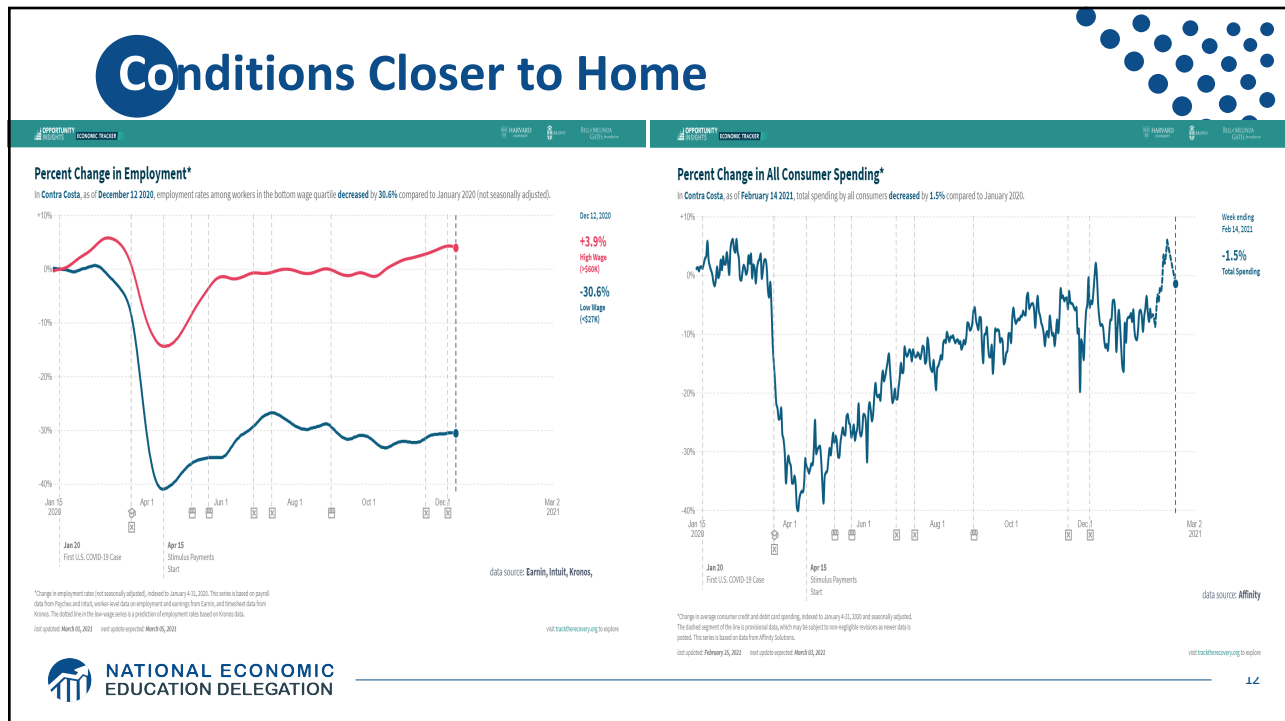


K-Shaped Recovery

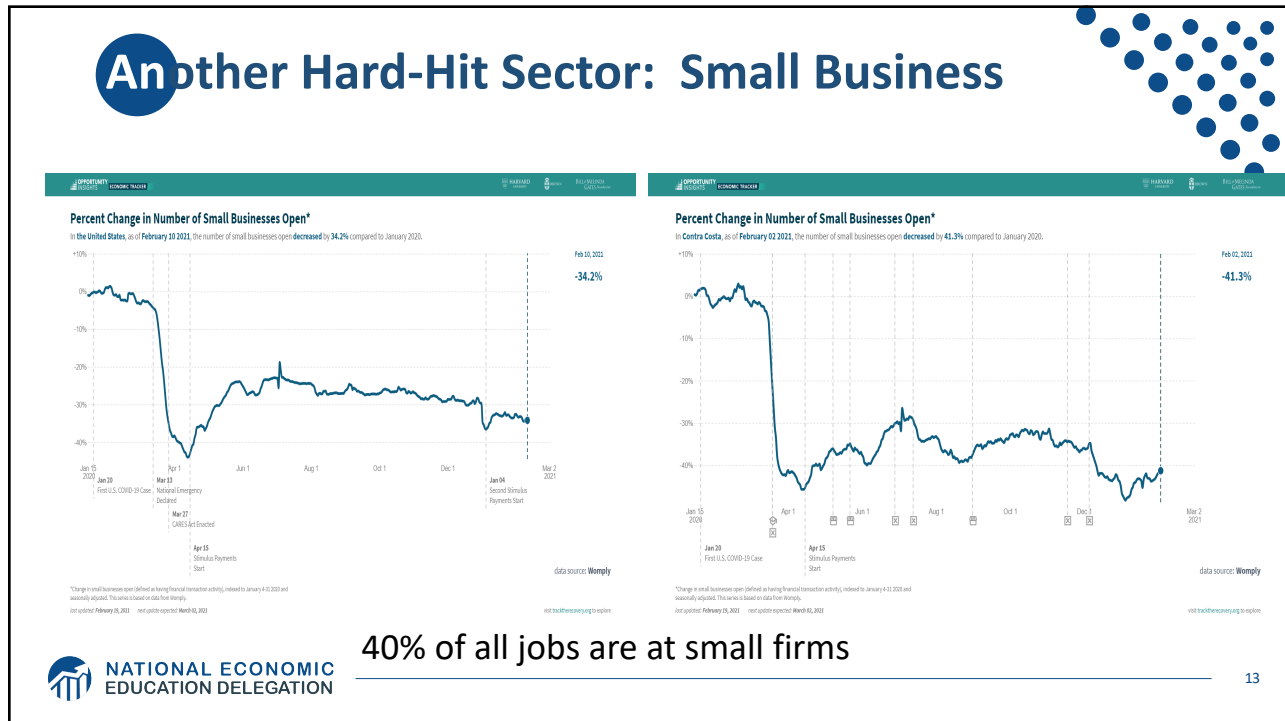




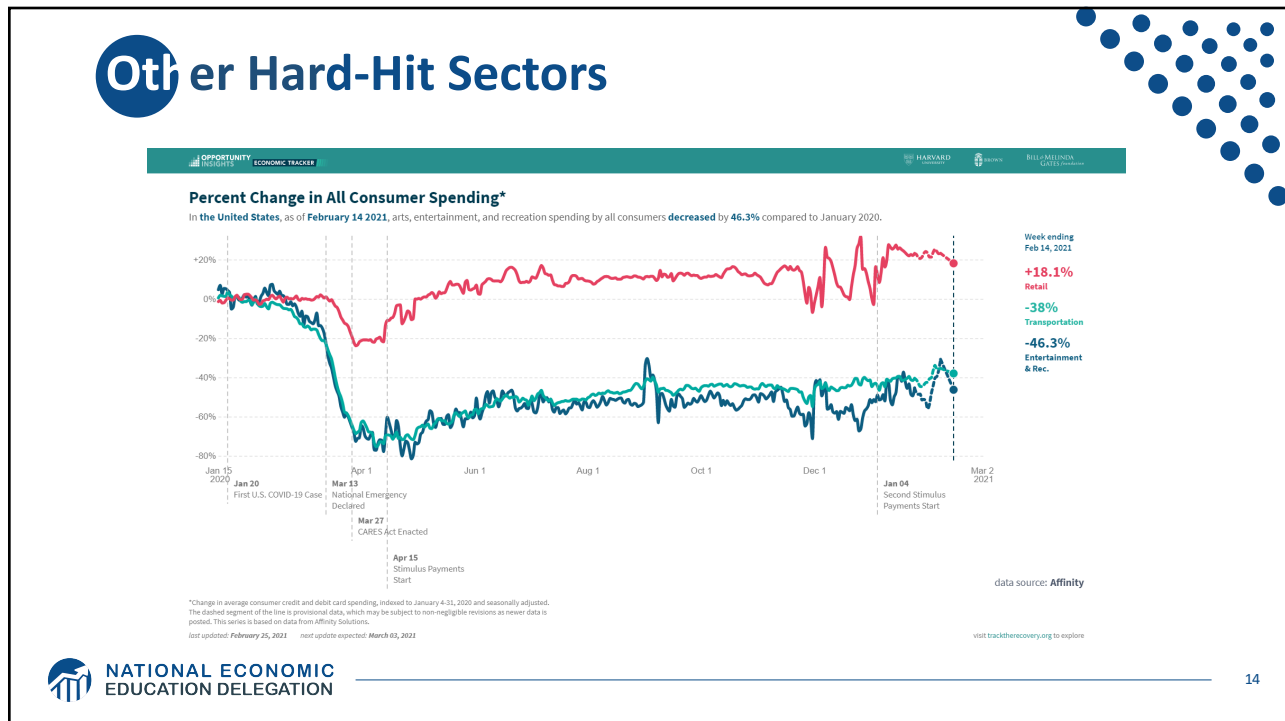
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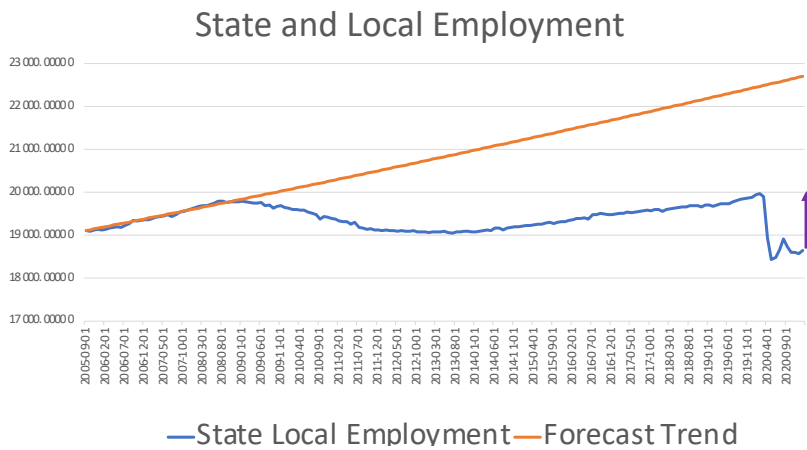
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Evidence of Damage: Corporate Bankruptcies?

- 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.**

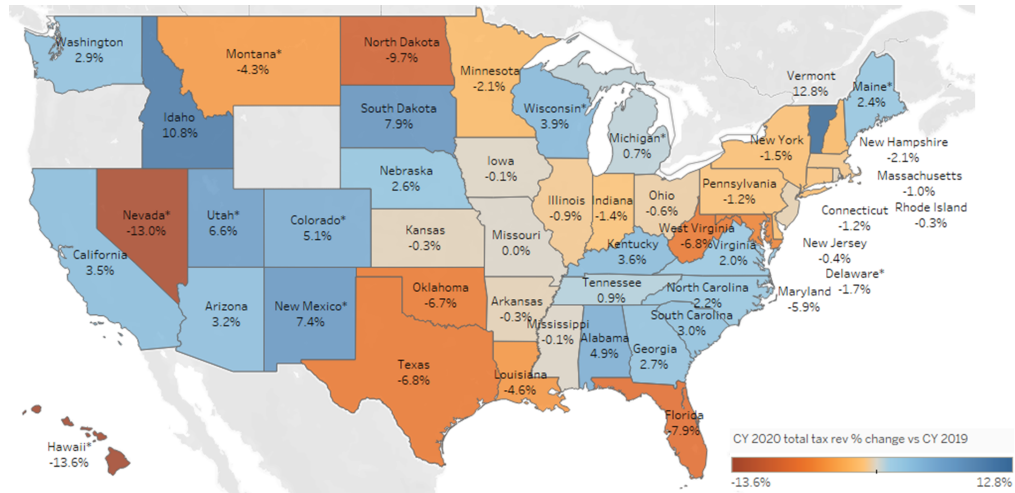
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State and Local Employment



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2020 State Tax Receipts Relative to 2019



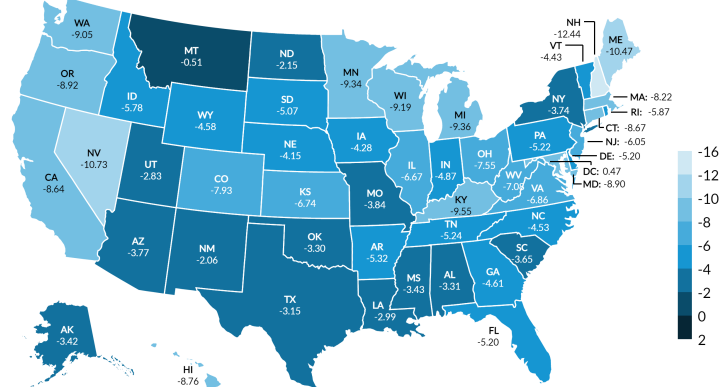
<https://markets.jpmorgan.com/research/email/9oirrqa/jA-9jthJ33avL4Z96Lz3vA/GPS-3630418-0>

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Employment Losses Don't Match Revenue

PUBLIC
State and local public employment, December 2020
(percent change year over year, seasonally adjusted)



Source: Bureau of Labor Statistics via the State Economic Monitor

URBAN INSTITUTE



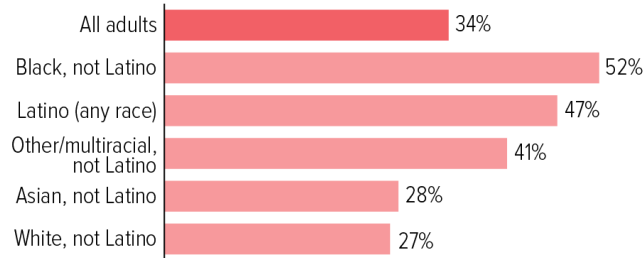
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And, People are Really Hurting

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



CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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



Balancing Act

- **Too Big**

1. There already is about \$1.5 trillion in personal saving waiting to be spent.
2. Needlessly adding to our debt and deficit problems.
3. Reignite inflation.
4. Because of 1 & 2 less room for needed public infrastructure investment.

- **Too Small**

1. 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 are left out.

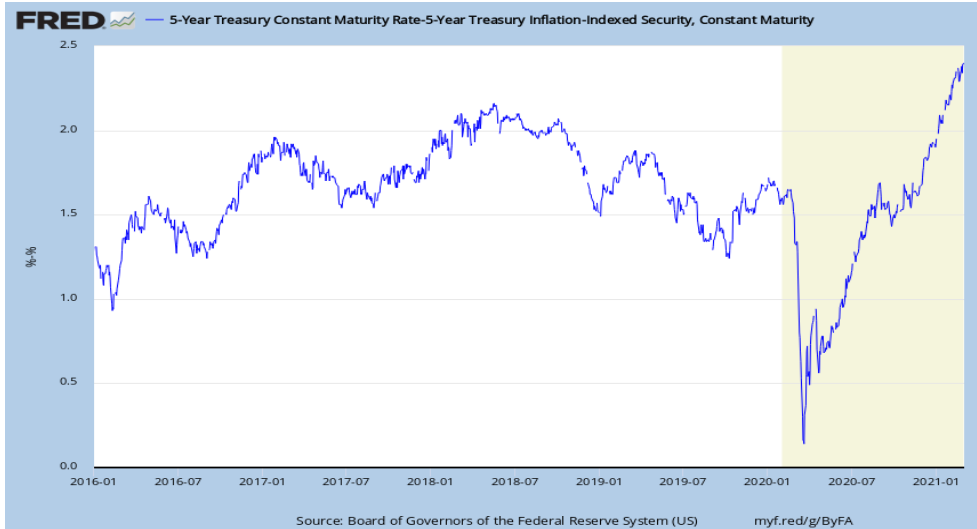


My Advice for Joe

- **Priority should be to control the pandemic**
- **General stimulus is not needed(at the moment); Target spending to rescue:**
 - Poor Households.
 - State and Local governments (maybe not \$350b).
 - Small Firms (e.g., restaurants).
- **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!**



Inflation Dragon Stirring?



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Thank you!

Any Questions?

www.NEEDelegation.org

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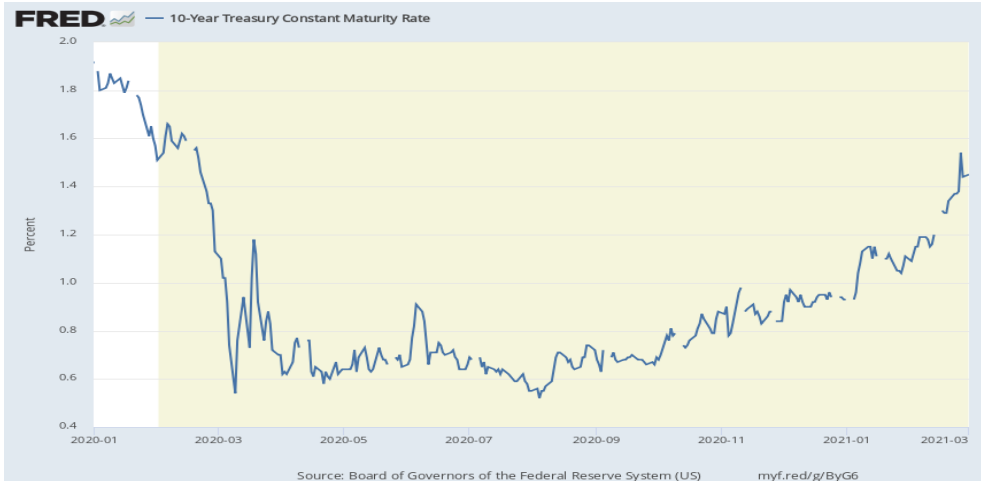
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Financial Markets See A Recovery



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UI Replacement rates and Expanded Benefits

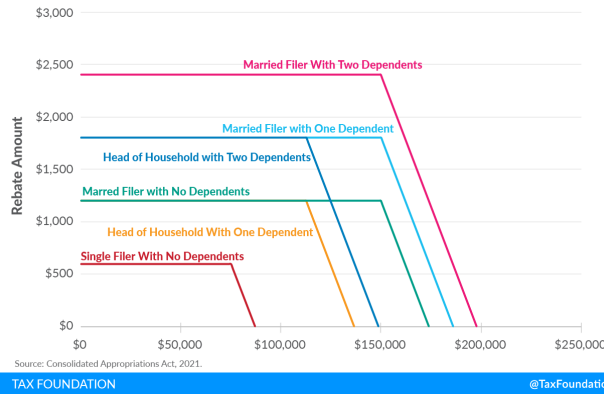
Unemployment Insurance Benefits				
Income Quartile:	Weekly Earnings	Regular Benefits	Expanded (\$300)	Expanded (\$400)
25%	\$445	\$231 (52%)	\$531 (119%)	\$631 (142%)
50%	\$668	\$346 (50%)	\$646 (97%)	\$746 (112%)
75%	\$1,207	\$456 (38%)	\$756 (63%)	\$856 (71%)

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

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The Problem with Stimulus Checks

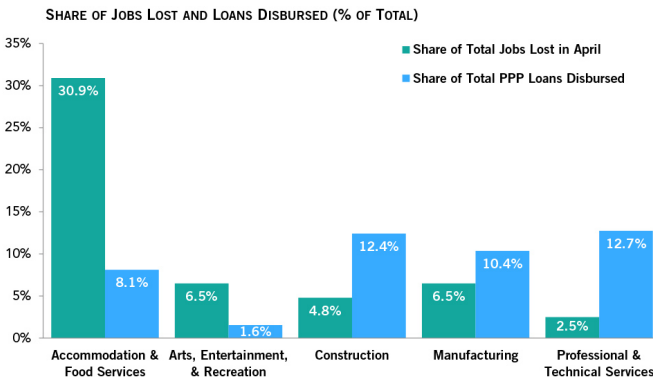
Relief Rebates in the New Coronavirus Relief Package, Dec. 2020
Individual Economic Relief Rebate by Filing Status



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

PETER G. PETERSON FOUNDATION 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

Could a new PPP be better administered?

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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