

COVID-19: Economic Implications and Policy Responses

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Claremont Kiwanis Club

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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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Credits and Disclaimer

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

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- **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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Resources

- **Schedules of Major Economic Releases**

- Economic Calendars at
 - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)

- **DIY Real Time Data:**

- [Track the Recovery](http://tracktherecovery.org): (tracktherecovery.org)
- [Federal Reserve Economic Database \(FRED\)](http://fred.stlouisfed.org): (fred.stlouisfed.org)

- **Data Visualization and Coverage**

- Some examples at Tableau

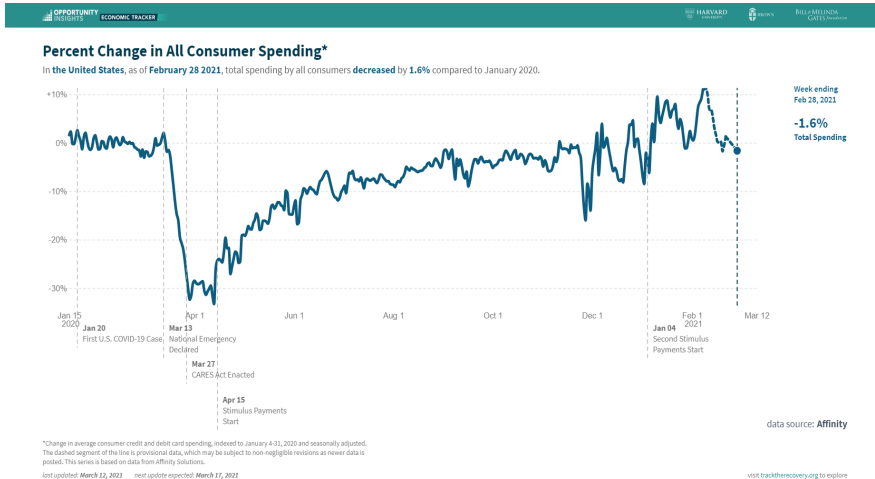
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Outline

- What is the current state of “the economy”?
- What have been the effects of policy?
- What are the risks to recovery?
- Is progress equitable?

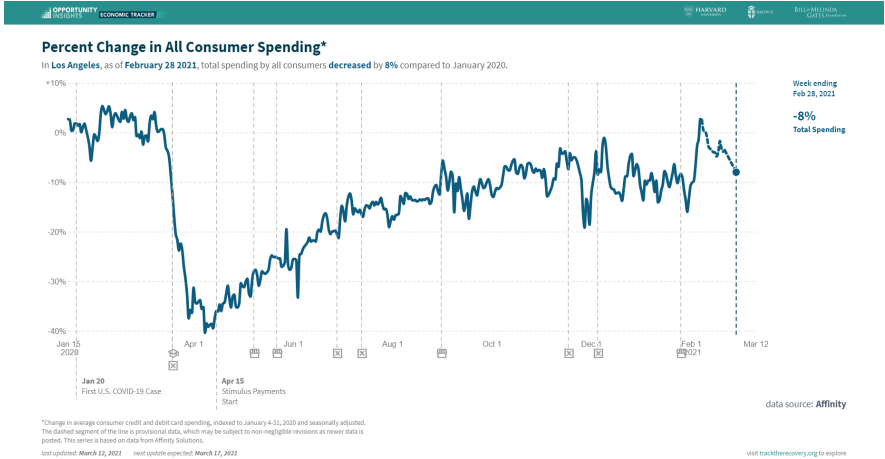
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Spending Collapsed in March 2020



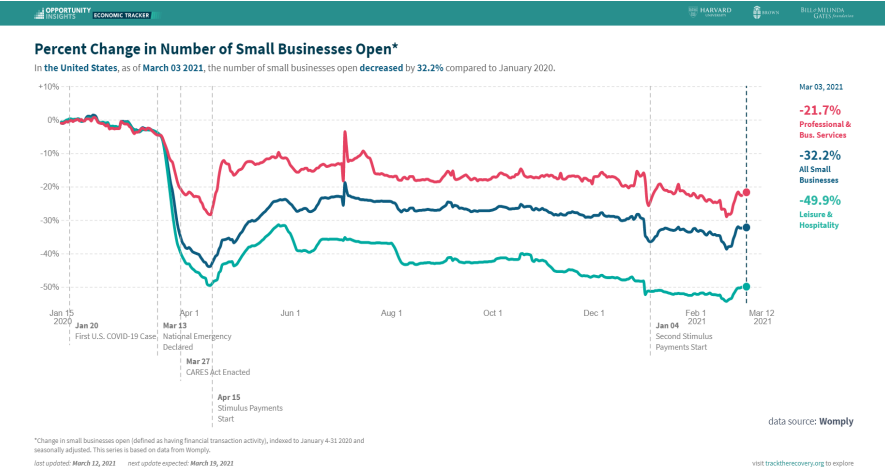
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The Situation in Los Angeles County



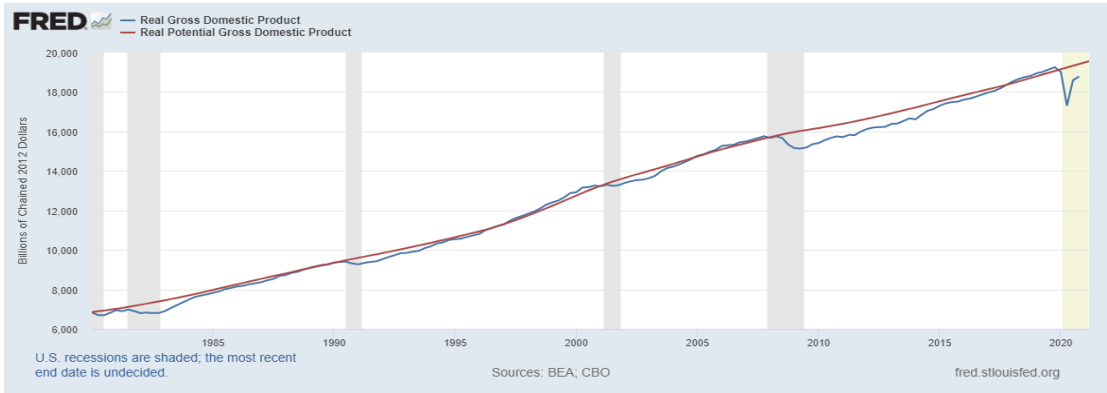
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Implications of Reduced Spending



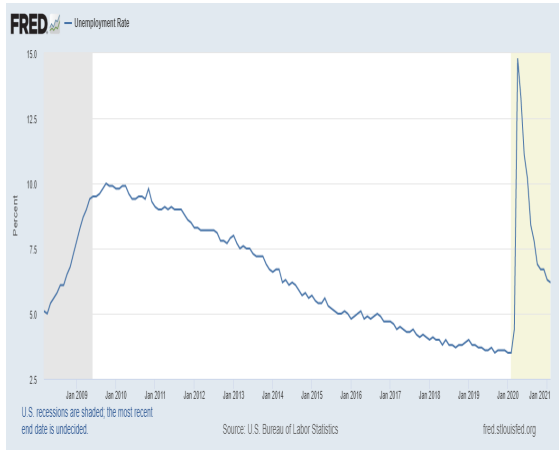
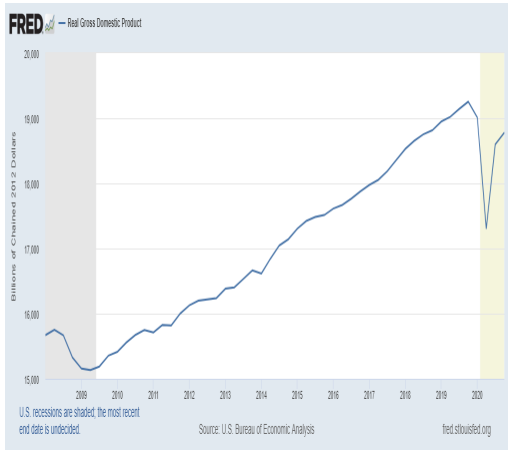
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Where are We ?

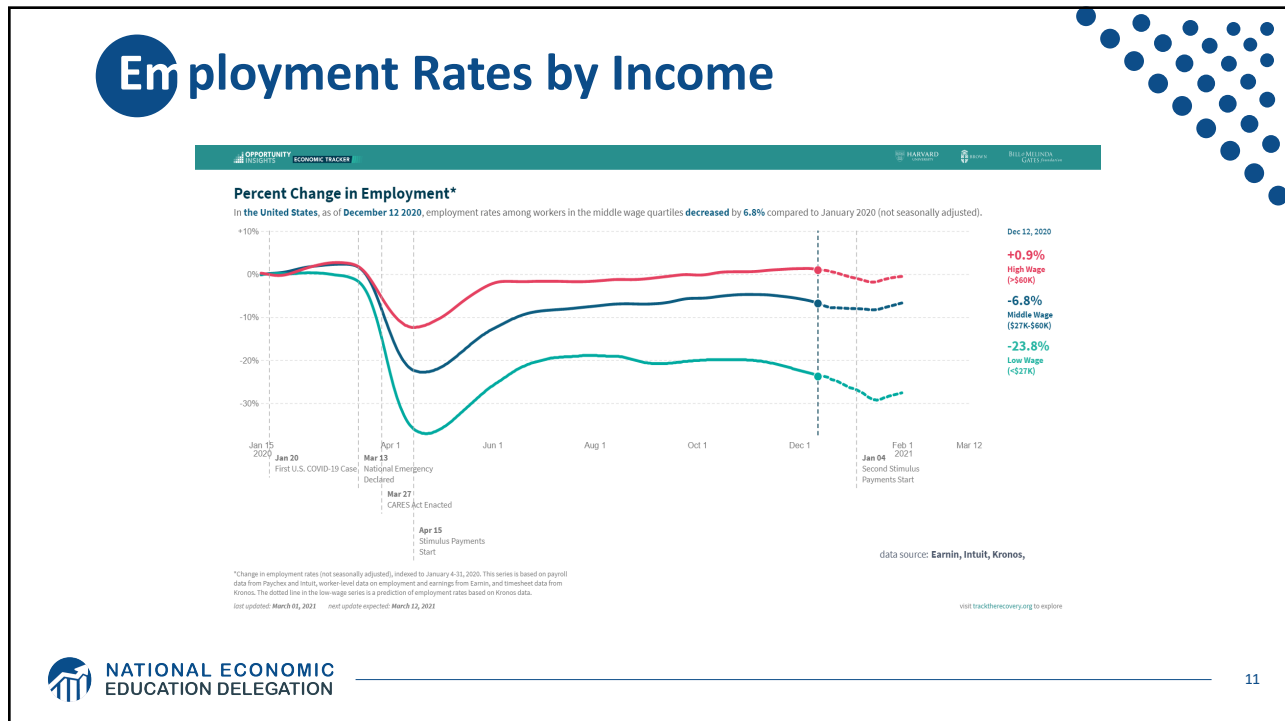


Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

Where are we? What kind of a recovery?



Extreme volatility in economic data. Q2:2020 unprecedented negative economic growth.



Where are we now?

Executive Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Cash injections from government have increased household personal income (+), but also savings.
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many individuals – both men and women - have left the labor force (Men 69.3% to 67.5% and Women 57.8 to 55.7%, 2.5m women versus 1.8m men) (-)

A Tale of Three Policy Efforts

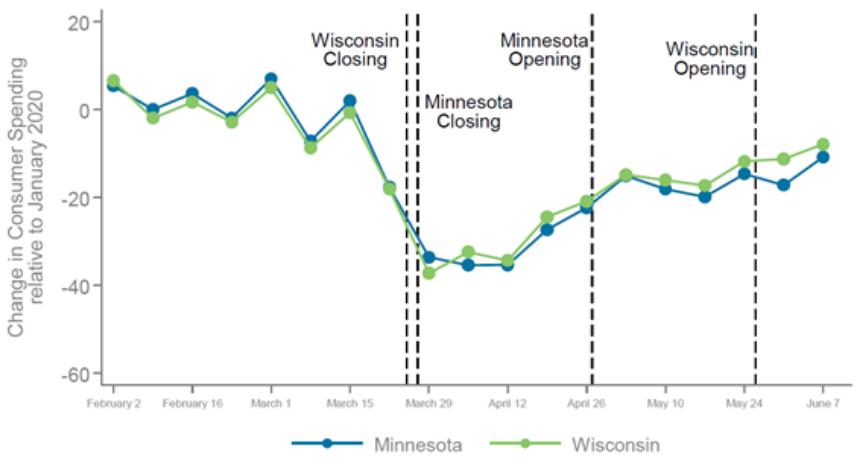
- Social policy: Social Distancing
- Monetary Policy
- Fiscal Policy

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How impactful is government? – Social Policy

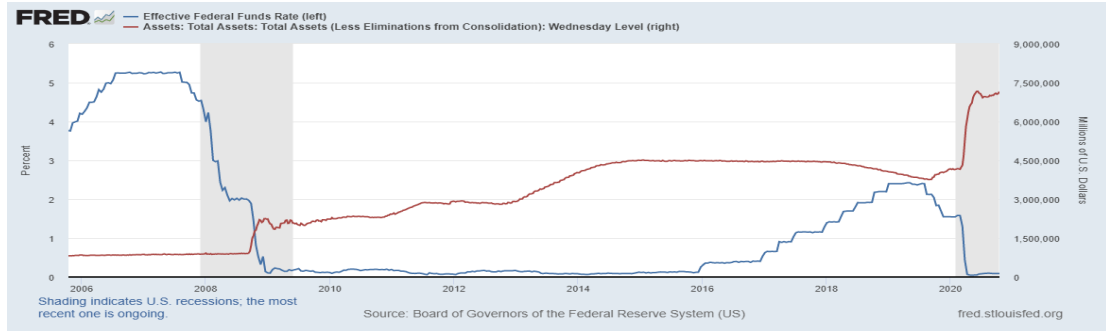
Causal Effects of Re-Openings on Economic Activity: Event Studies

Case Study on Business Re-Openings: Minnesota vs Wisconsin



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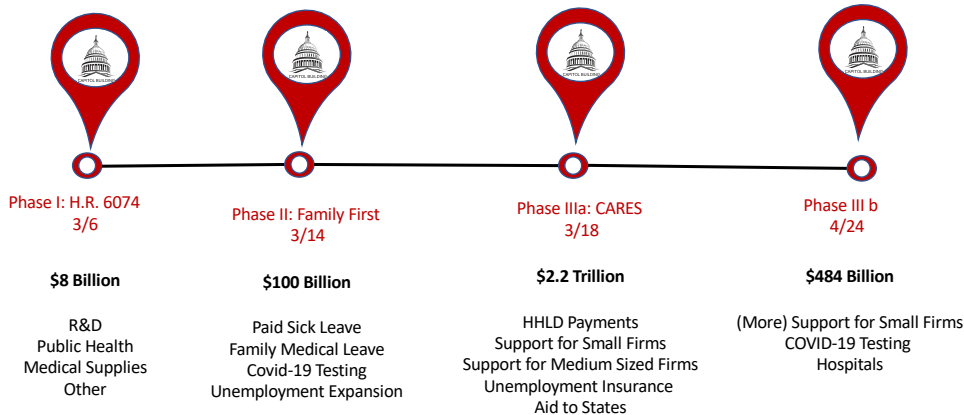
Federal Funds Rate and Balance Sheet



Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

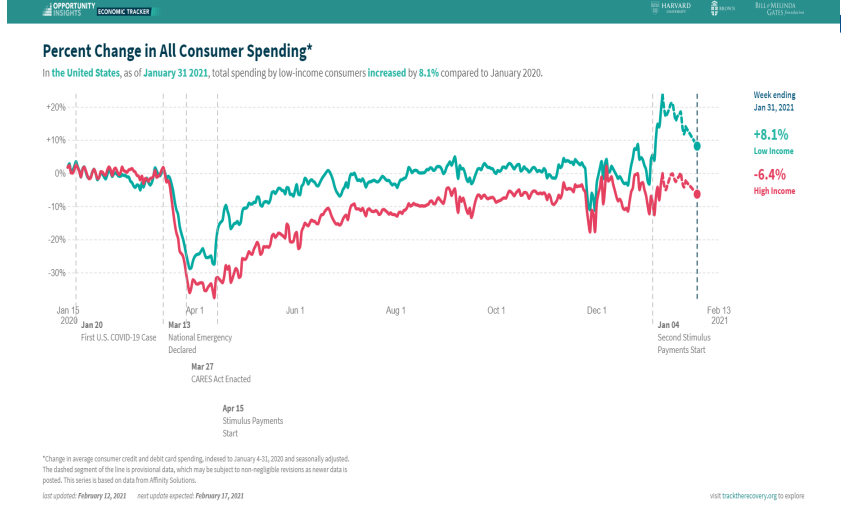


Fiscal Policy Timeline – First Round

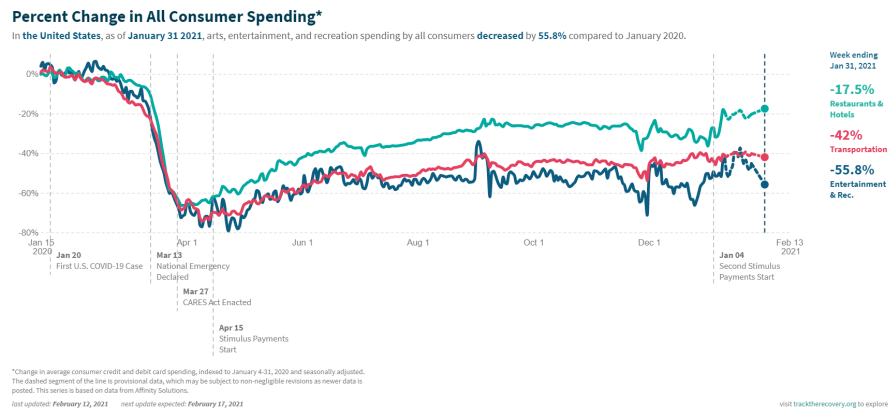


Yes but was it the Checks and \$600?

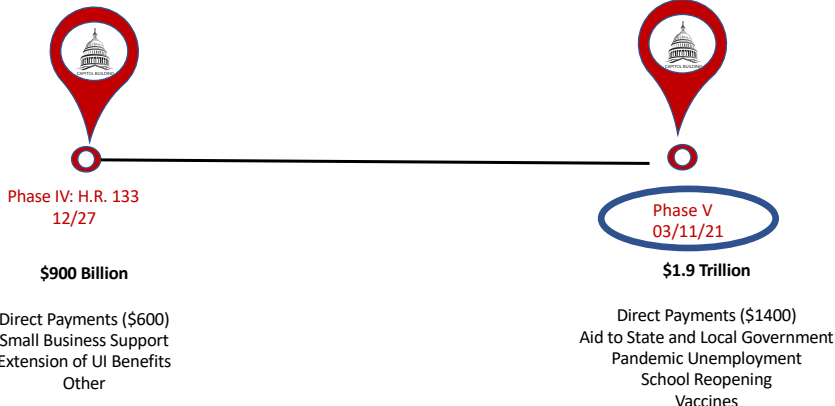
Low Income Households were able to increase spending in response to the stimulus programs. High income households chose not to spend as much as before the lockdown.



Hard Hit Sectors – uneven recovery among industries

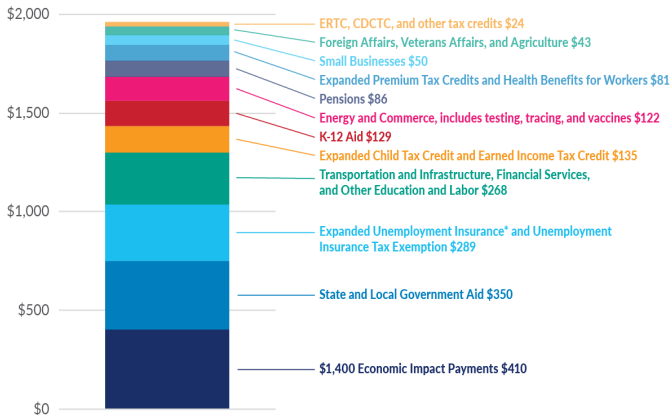


Fiscal Policy Timeline – Second and Third Round



What's in the \$1.9 Trillion American Rescue Plan Act?

Topline summary of relief in Billions of Dollars



Note: *Subject to change pending estimate of Senate version of unemployment insurance expansion. Source: Joint Committee on Taxation and Committee for a Responsible Federal Budget

Expected impact of the stimulus bill

- Updated expectations for U.S. economic growth: 5.95% - 7% Q42020 through Q42021 (WSJ survey/Oxford Economics)
- Updated expectations for global economic growth: +1% because of vaccination roll-out and US fiscal stimulus (OECD forecast)
- Increase in national debt/GDP ratio to WWII levels (additional debt financed at negative real interest rates).
- Substantial reduction of child poverty as most benefits from the current bill go to households with incomes below \$90,000.



Questions about the stimulus bill

- **Is the bill too big and will it cause inflation?**
 - Maybe, but unlikely since income subsidies (about \$1tn) are temporary, consumers are likely to spend only about 50% and save 50%. This will not be enough to close the existing negative output gap.
- **Does the bill contain ‘pork’ that is not directly targeting Covid relief?**
 - Yes, but about 85% of the total spending is pandemic-related (if state and school aid is included).
- **Should the bill have prioritized other types of programs?**
 - Instead of direct payments to persons unaffected by the pandemic more infrastructure spending would have created more future economic growth.

<https://www.usatoday.com/story/news/factcheck/2021/03/02/fact-check-breaking-down-spending-covid-19-relief-bill/6887487002>

Zhao, Chen, Inflation risk from Biden’s stimulus plan is exaggerated, Financial Times, March 9, 2021

Wolf, Martin, Joe Biden’s \$1.9tn package is a risky experiment, Financial Times, Feb. 23, 2021



A K-shaped recovery?

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation
- High income earners (>60k/yr) have largely kept their jobs; middle and low income earners have depressed employment rates
- Women are (slightly) disproportionately exiting labor force
- Food insecurity is at an all time high
- Specific industries (vaccine reliant) are hit particularly hard
- The American Rescue Plan addresses the risks to an economic recovery after the pandemic



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Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **GDP contracted 2.5% in 2020, much less than anticipated.**
 - Positive growth will return in 2021, buoyed by vaccine roll-out and American Rescue Plan (forecast at 5% – 7%)
- **Significant structural changes.**
 - Telecommuting, telehealth, retail decline, other business failures. Increased concentration of market power.
- **Policy gap and economic reallocations have created hardship.**
 - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects:** Educational opportunities, labor force participation changes, reallocations that require retraining, increasing inequality.

Wide agreement that the 'American Rescue Plan' is needed, but debate over the size of additional fiscal stimulus to 'building back better'.



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Thank you!

Any Questions?

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