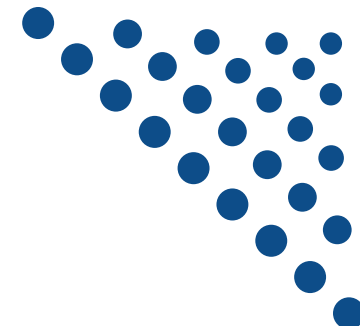


COVID-19: Economic Implications and Policy Response

Mission San Jose Rotary Club

March 5, 2021
Jon Haveman, Ph.D.
Executive Director, NEED





National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

Who Are We?

- **Honorary Board: 53 members**

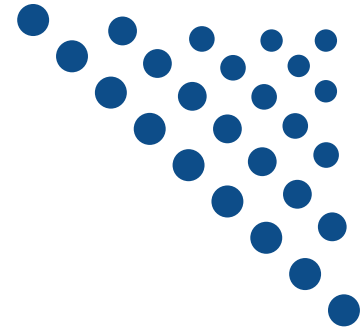
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - Akerlof, Smith, Maskin

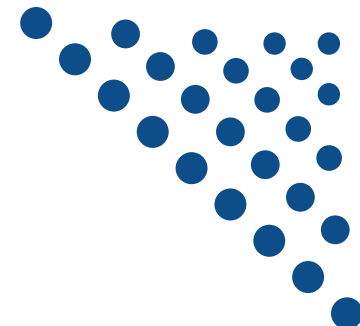
- **Delegates: 585+ members**

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

- **Global Partners: 44 Ph.D. Economists**

- Aid in slide deck development

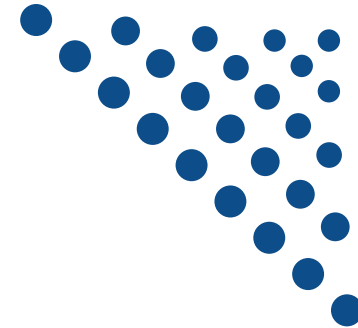




Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Trade Wars**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**

Credits and Disclaimer



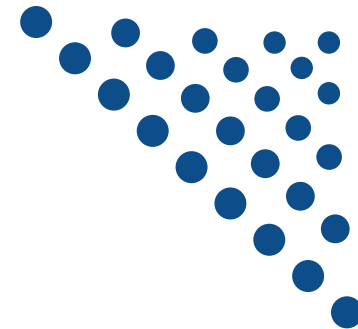
- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College

- **Disclaimer**

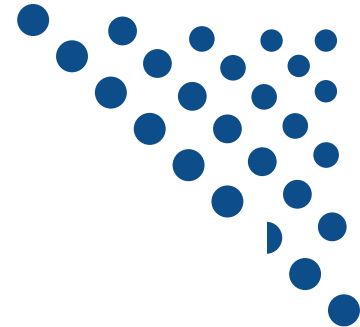
- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

Outline

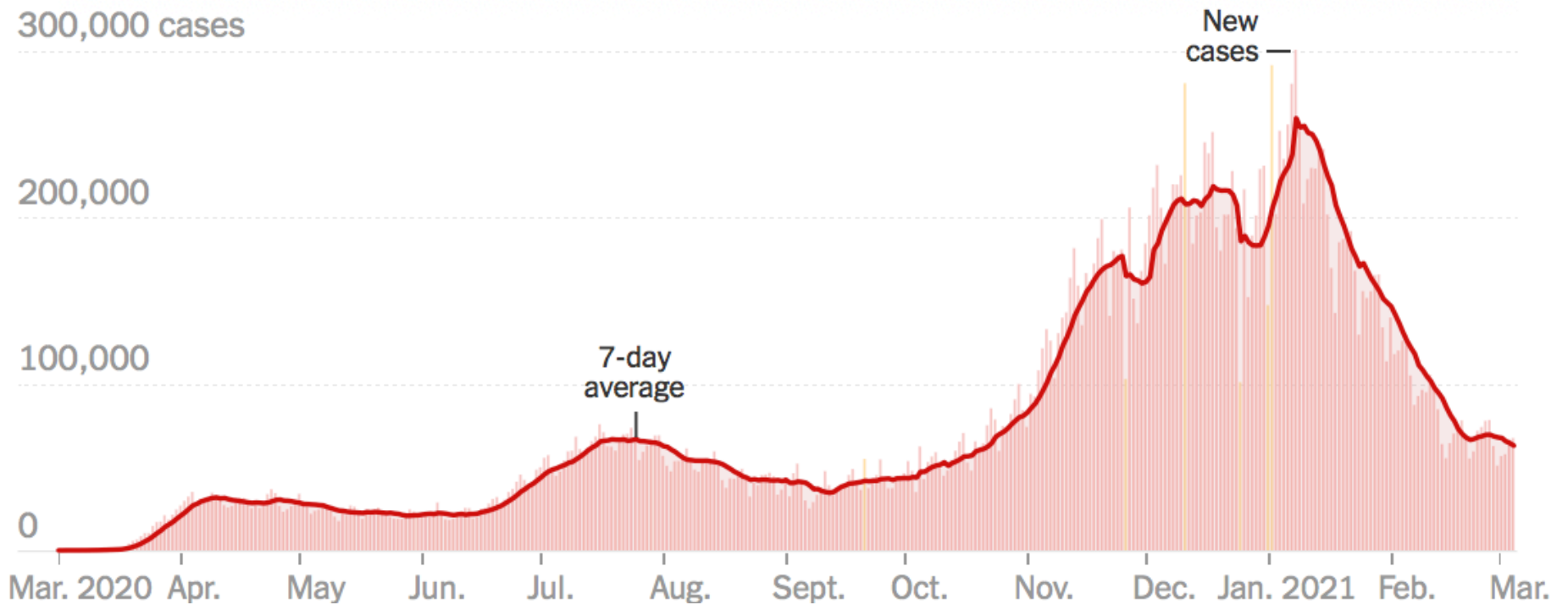


- **State of the pandemic**
- **Where is the recovery now?**
- **How has policy affected the recovery?**
- **How big should the next package be?**

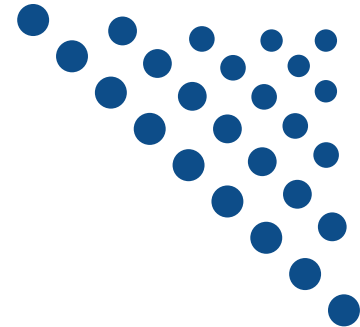
Concern: Opening Too Soon



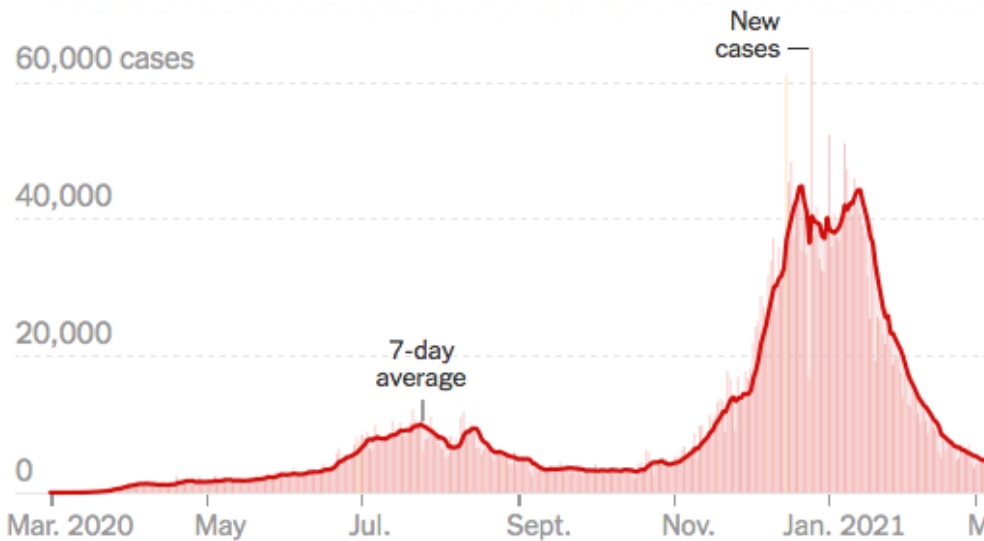
New reported cases by day



California Cases Are Falling Rapidly



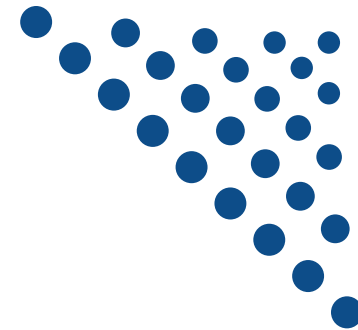
Daily reported new cases



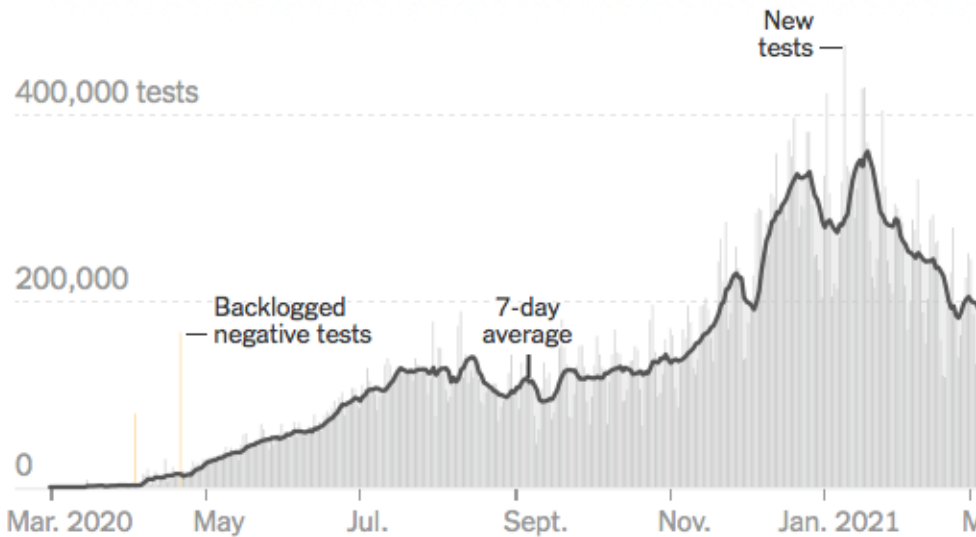
Daily reported deaths



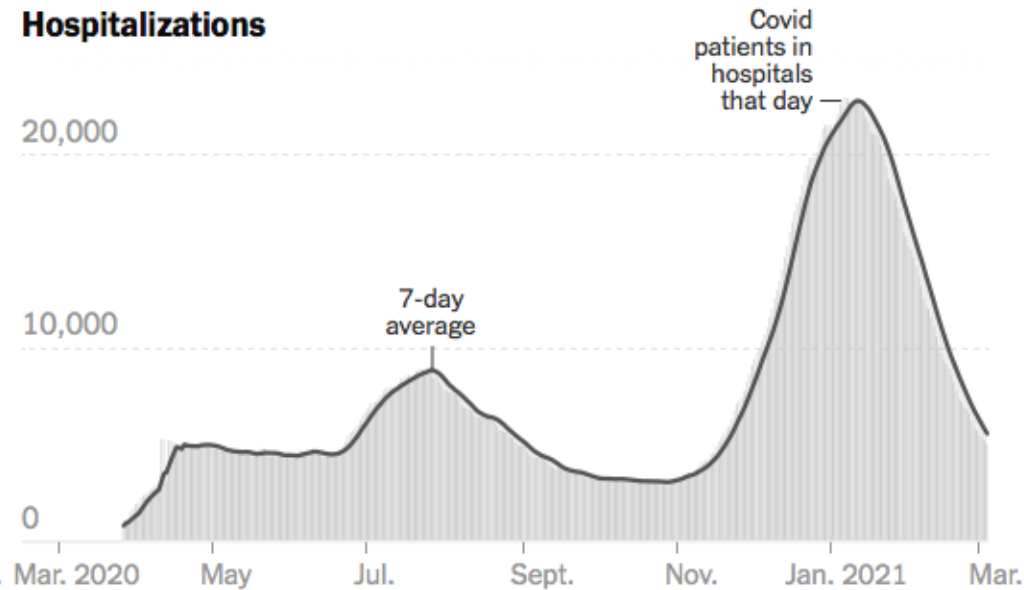
California: As Are Hospitalizations



Daily reported specimens tested

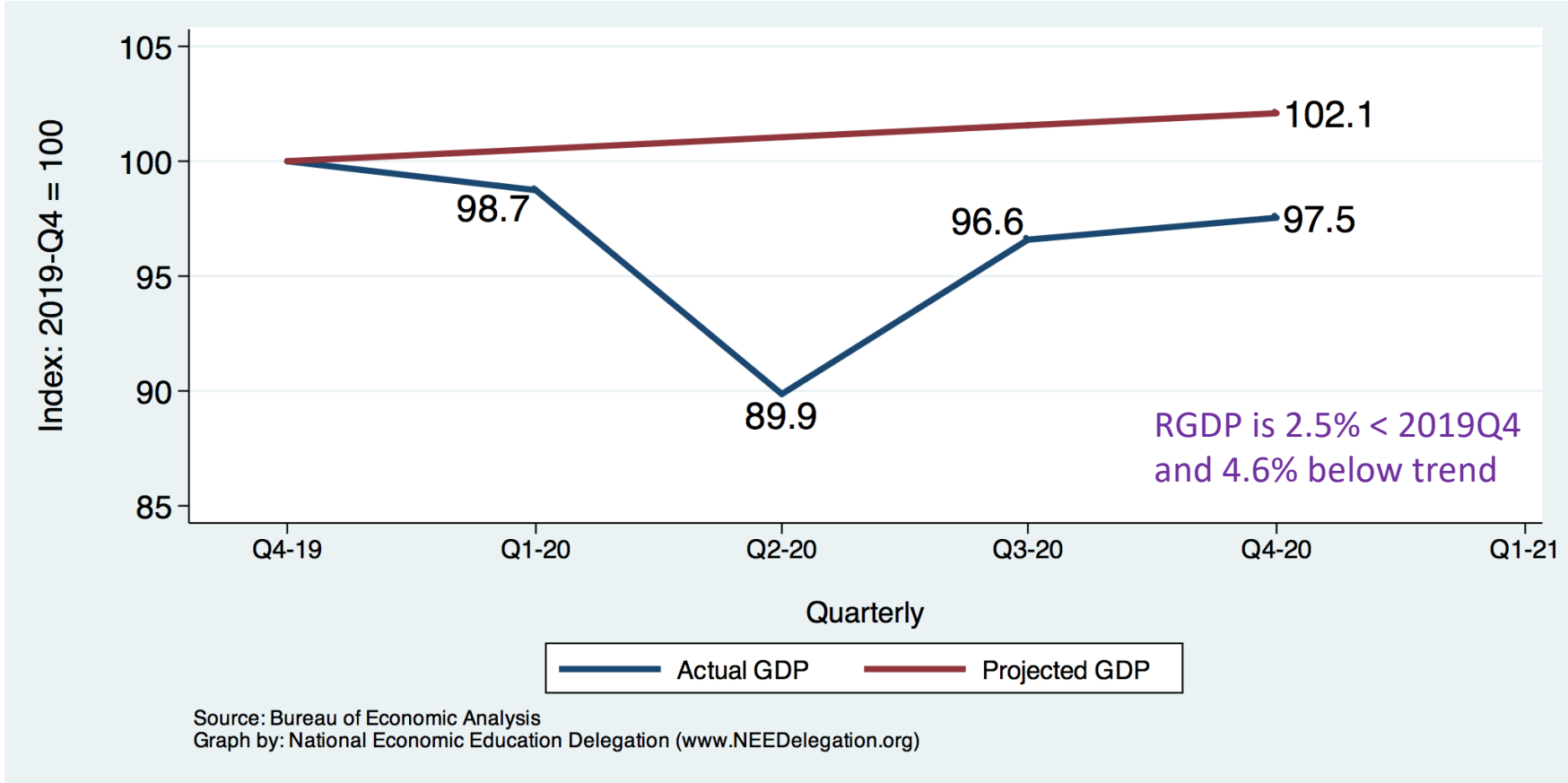


Hospitalizations



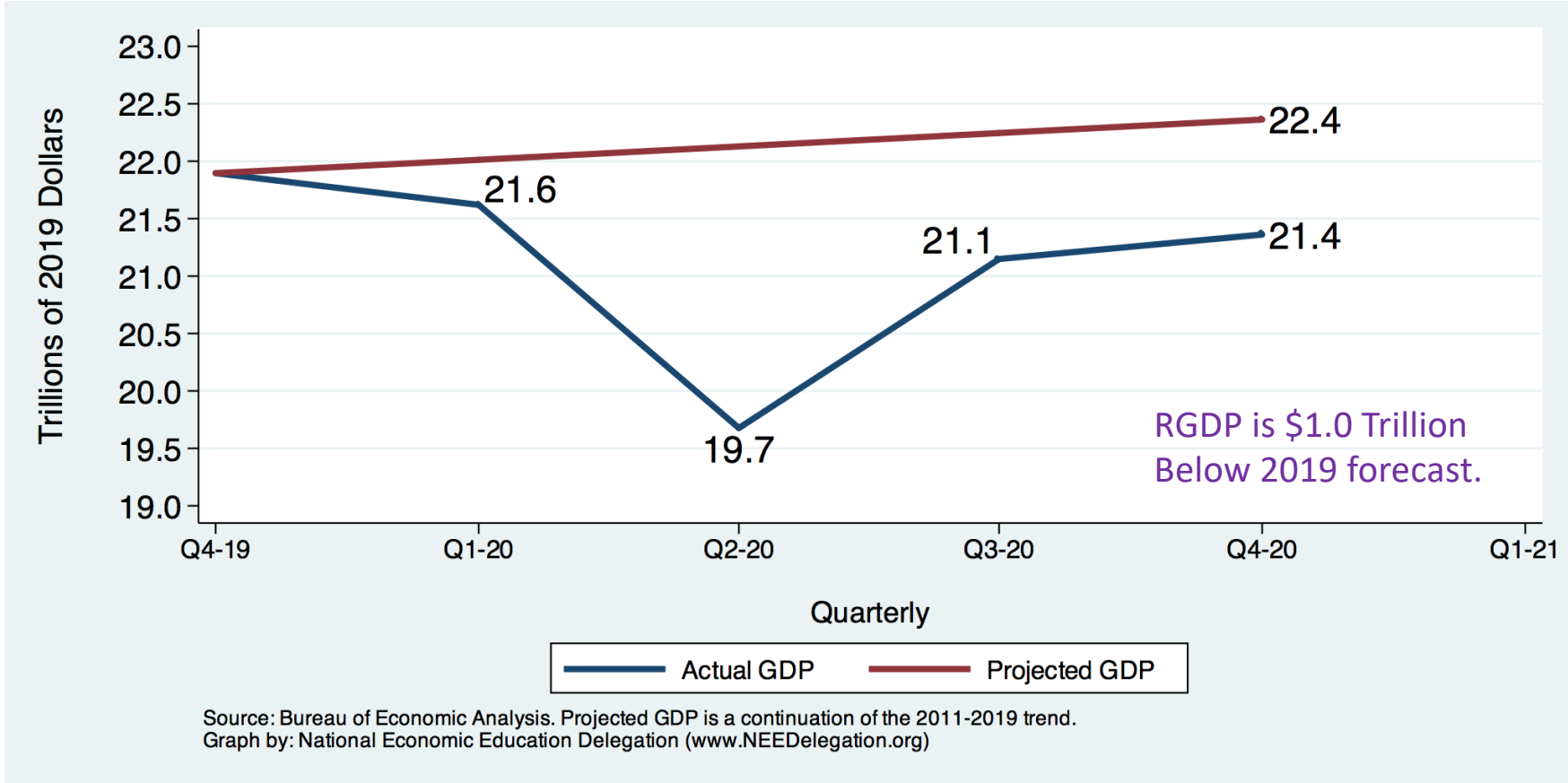


GDP Trajectory: Pandemic Plunge!

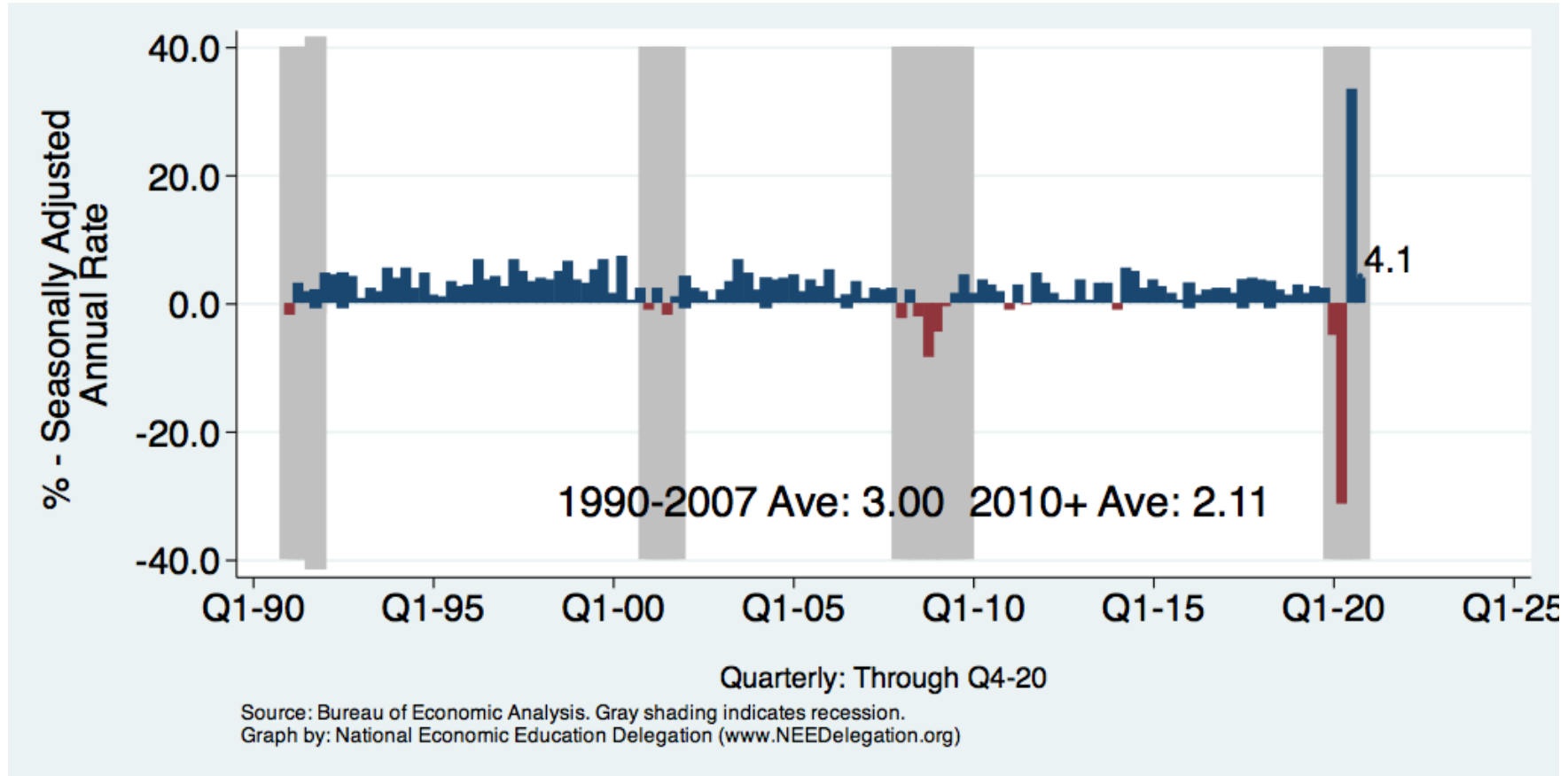




GDP Trajectory: Pandemic Plunge! Values

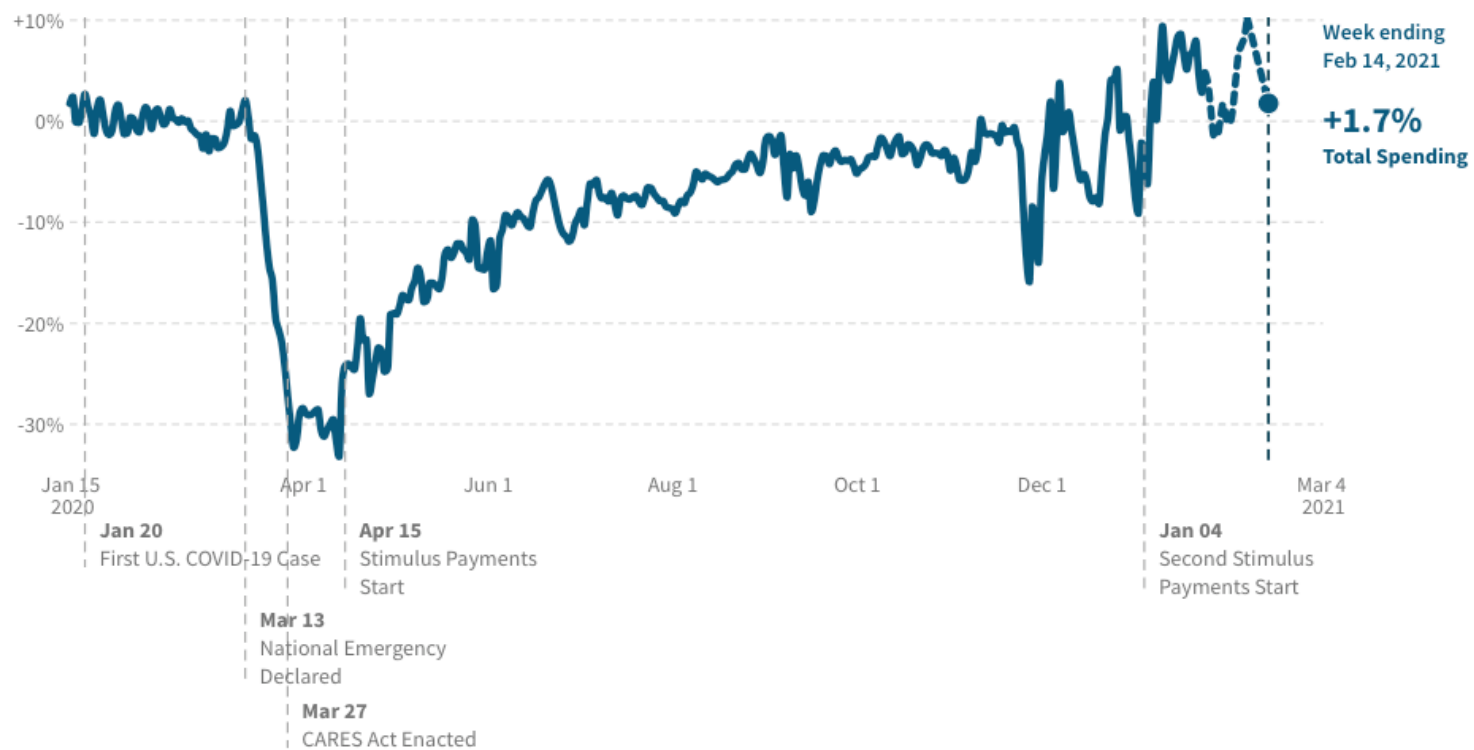


GDP – Quarterly Growth



Spending Patterns Since First US Case

In **the United States**, as of February 14, 2021, total spending by all consumers increased by **1.7%** compared to January 2020.



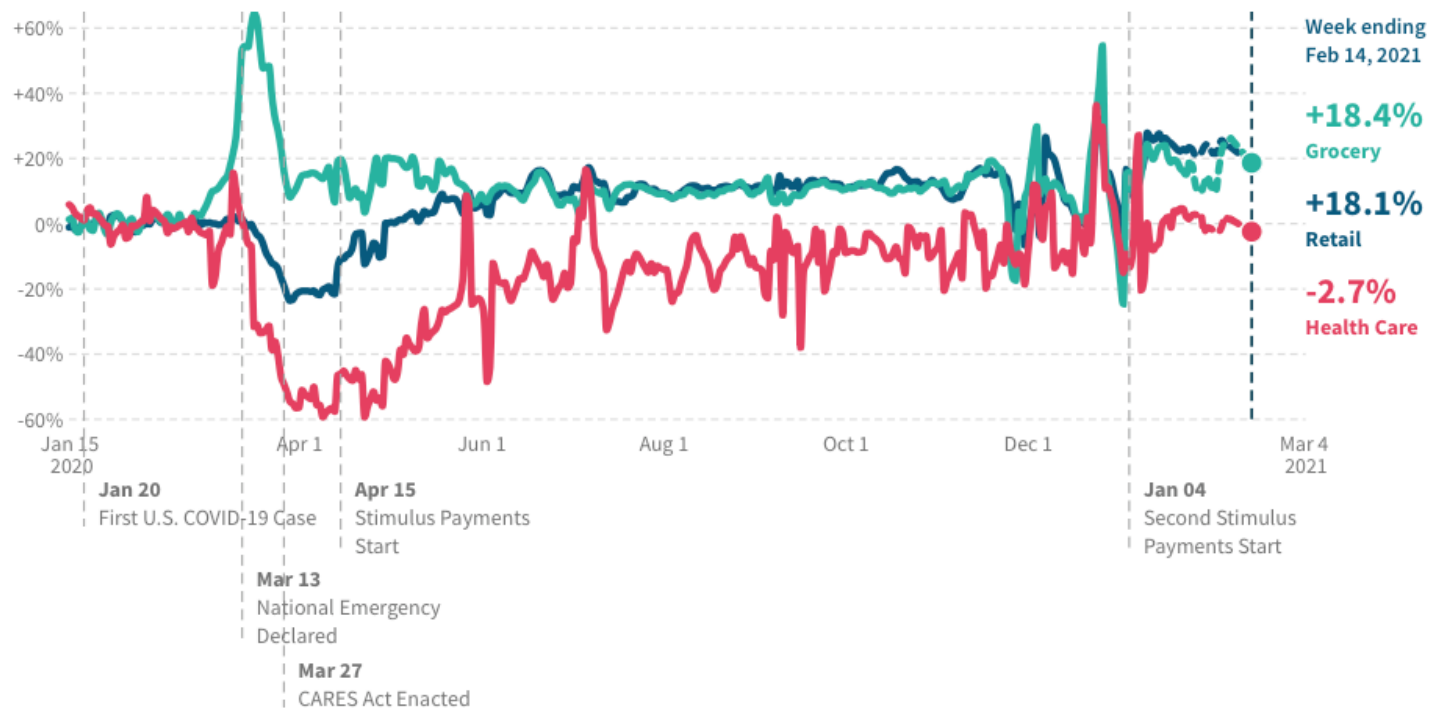
Spending Patterns – Hardest Hit Sectors

In **the United States**, as of February 14, 2021, restaurant and hotel spending by all consumers decreased by **22.3%** compared to January 2020.

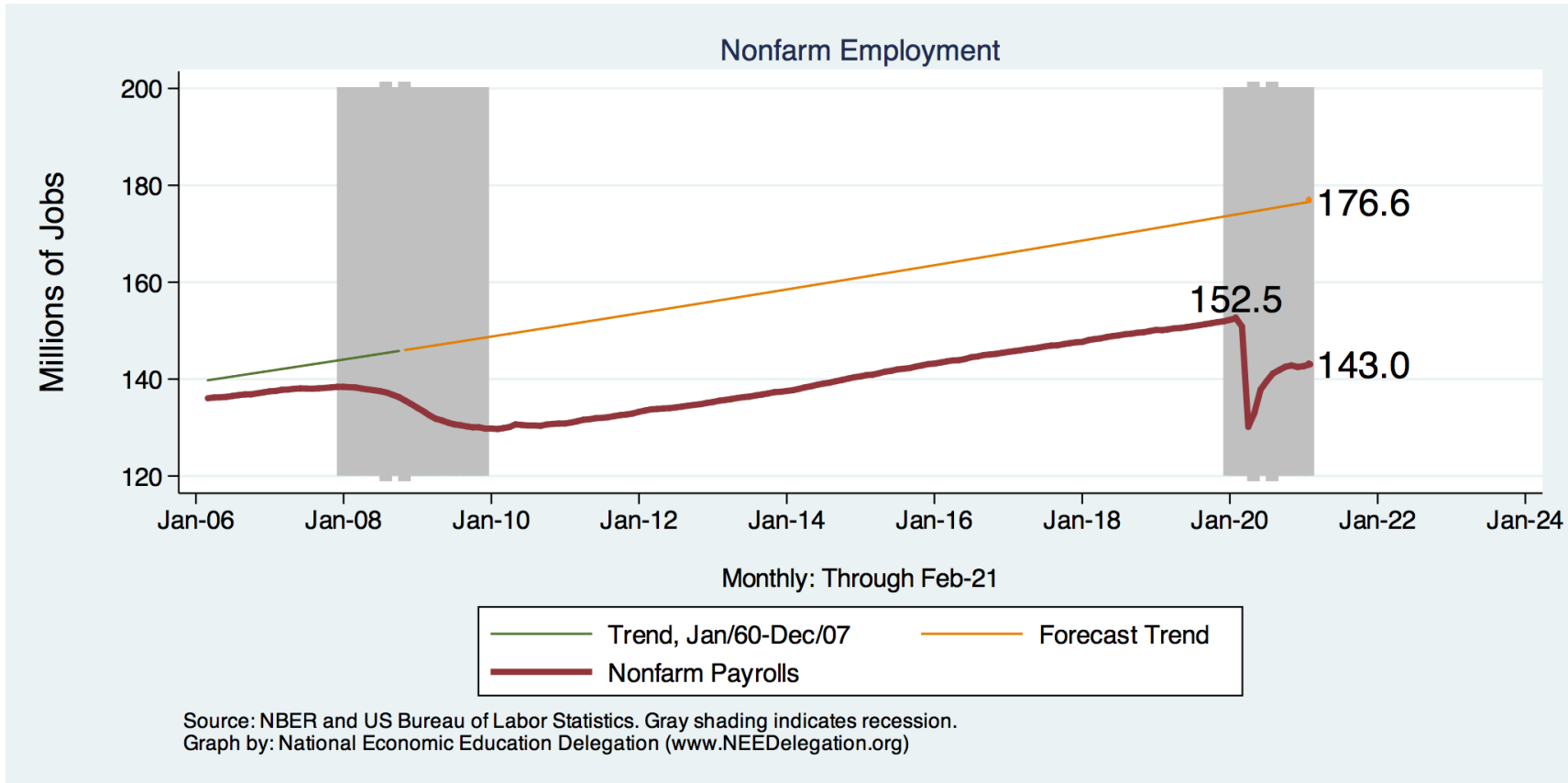


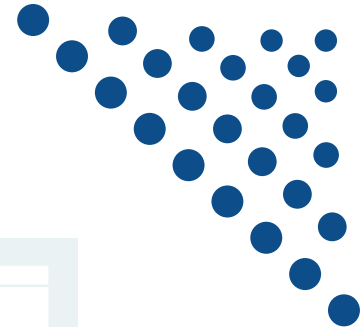
Spending Patterns – Sectors Doing OK

In the **United States**, as of February 14 2021, retail spending (including online purchases, excluding groceries) by all consumers increased by **18.1%** compared to January 2020.

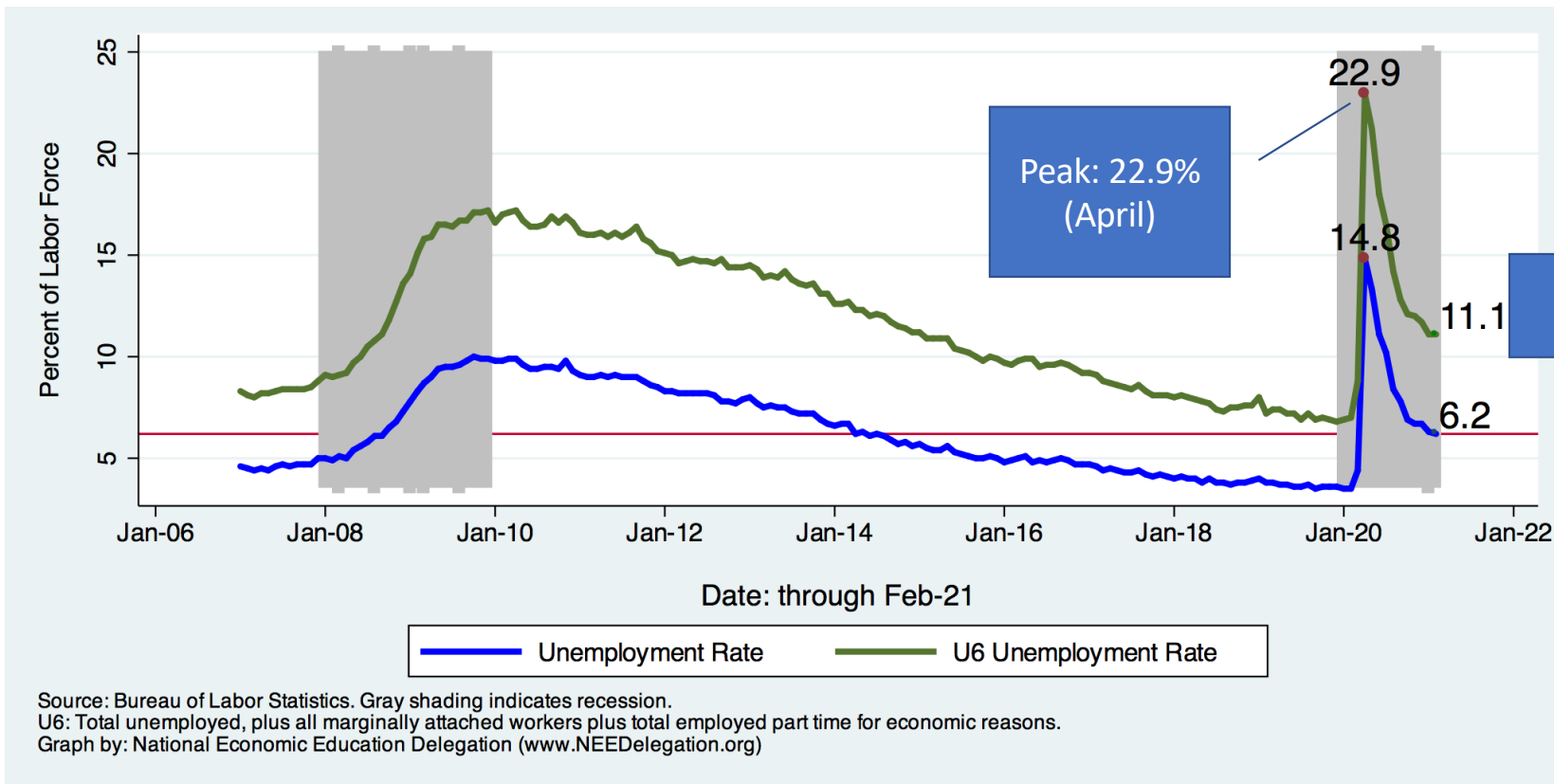


Employment Gap

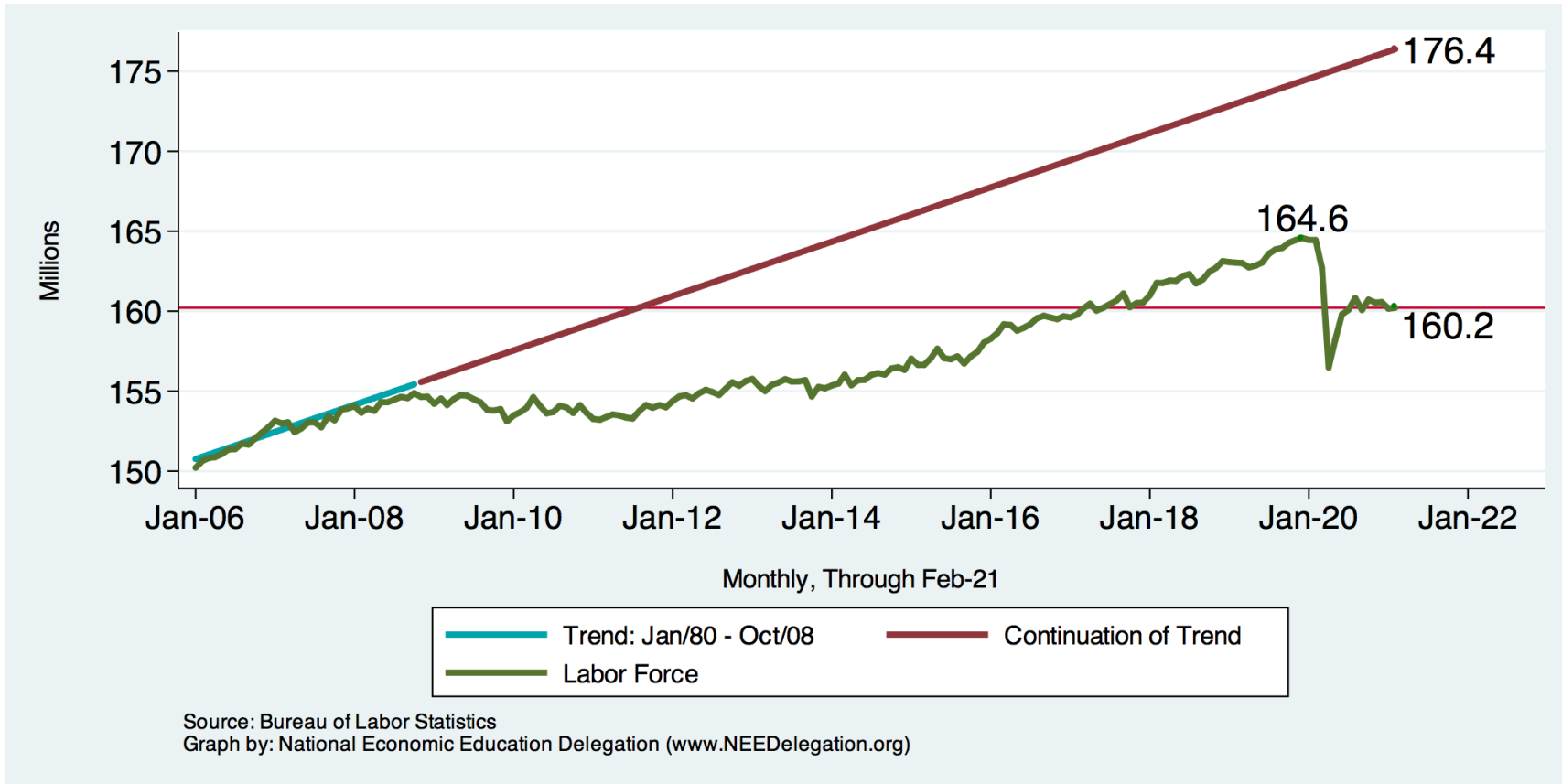
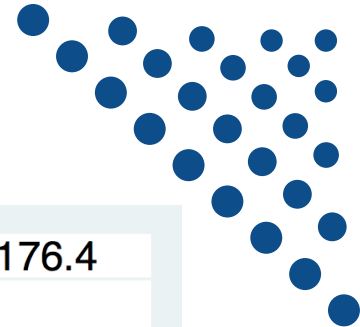




Reduced Spending: Unemployment



Labor Force is Shrinking – Drives Down UR

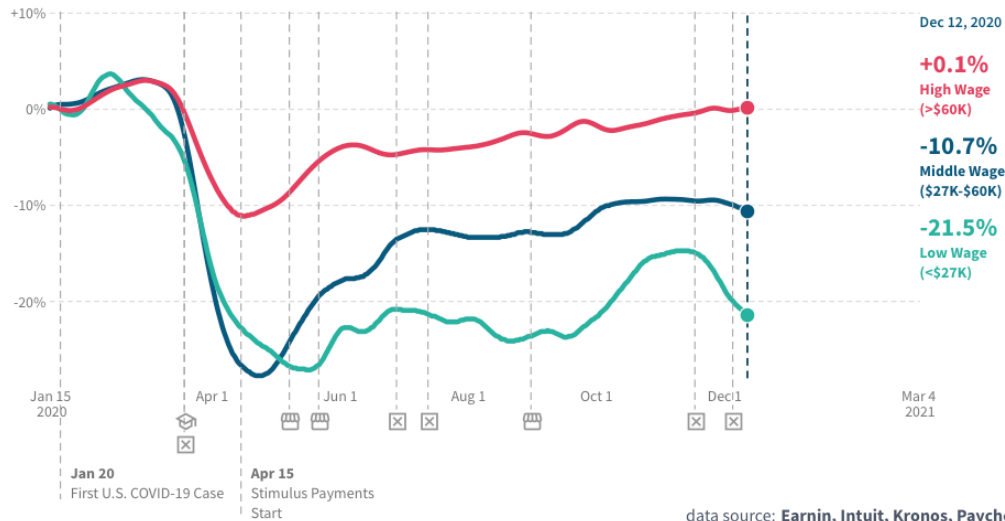


Conditions Closer to Home



Employment in Santa Clara County

In **Santa Clara**, as of December 12, 2020, employment rates among workers in the middle wage quartiles decreased by **10.7%** compared to January 2020 (not seasonally adjusted).



data source: Earnin, Intuit, Kronos, Paychex

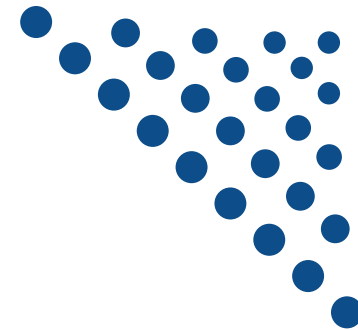
Consumer Spending in Santa Clara County

In **Santa Clara**, as of February 14, 2021, total spending by all consumers decreased by **3.7%** compared to January 2020.



data source: Affinity

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 Package - another \$900b with more to come.

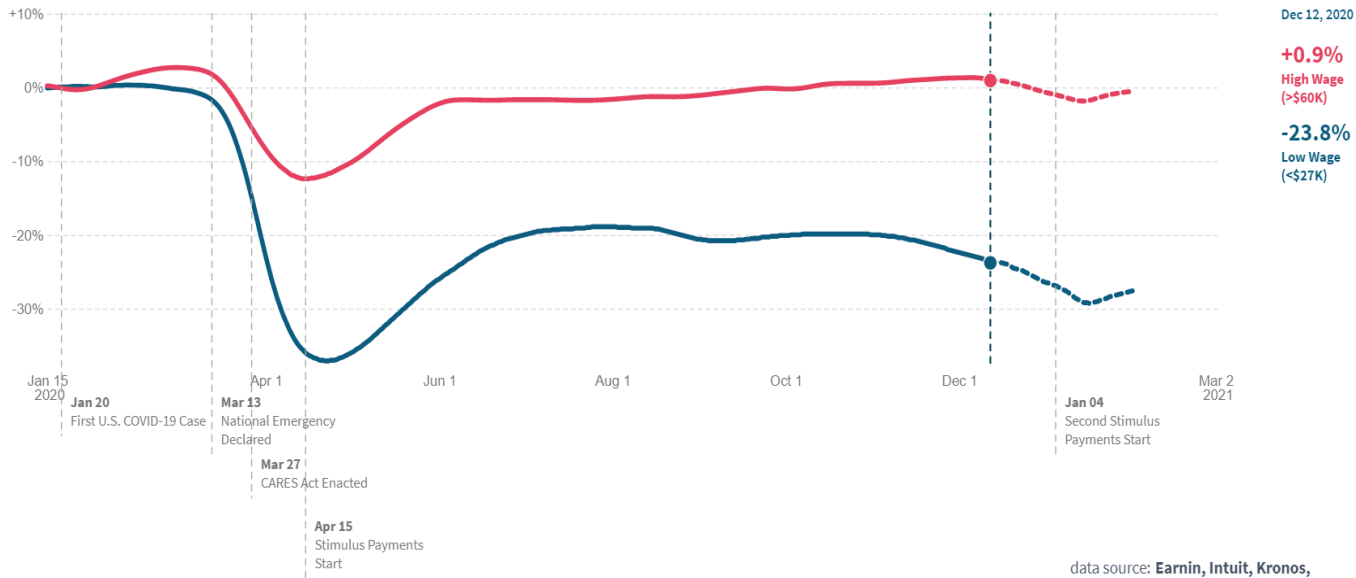
Why?



K-Shaped Recovery

Percent Change in Employment*

In the United States, as of December 12 2020, employment rates among workers in the bottom wage quartile decreased by 23.8% 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 Earnings, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

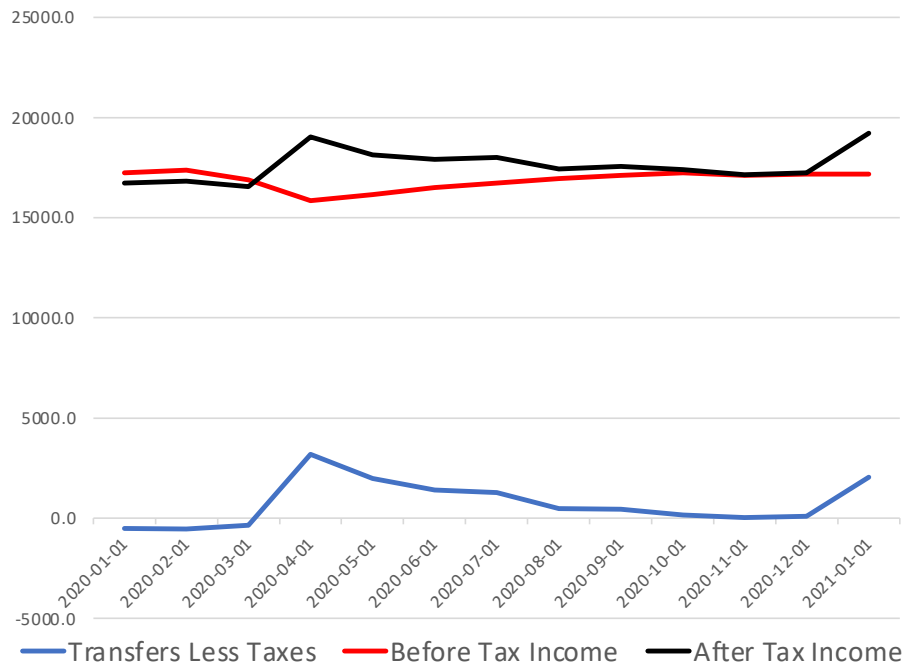
last updated: March 01, 2021 next update expected: March 05, 2021

visit tracktherecovery.org to explore

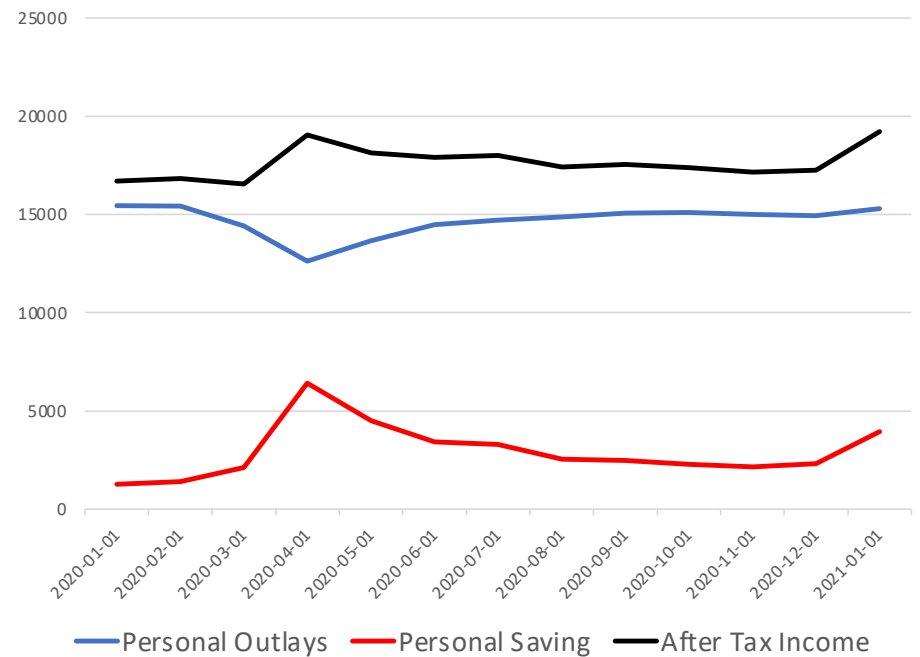
Consequence of Fiscal Stimulus So Far

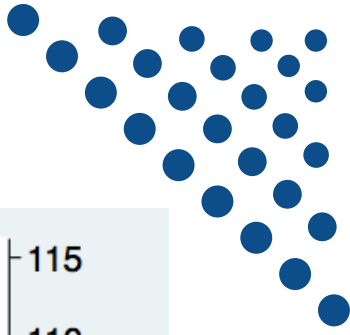


Sources of After Tax Income
(Billions of \$s at Annual Rates, BEA)

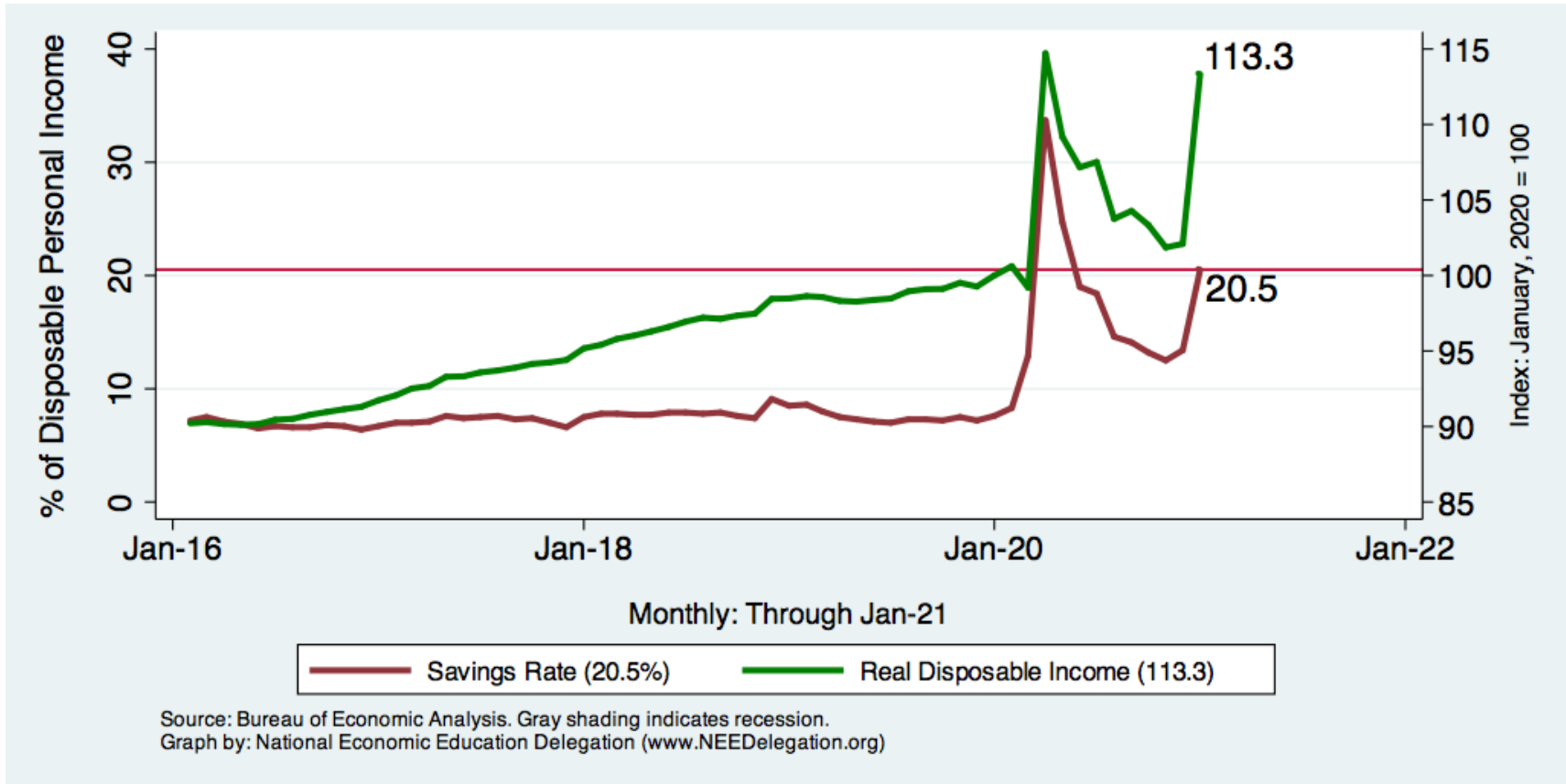


Uses of After Tax Income
(Billions of \$s at Annual Rates, BEA)

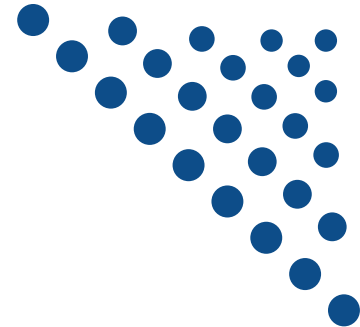




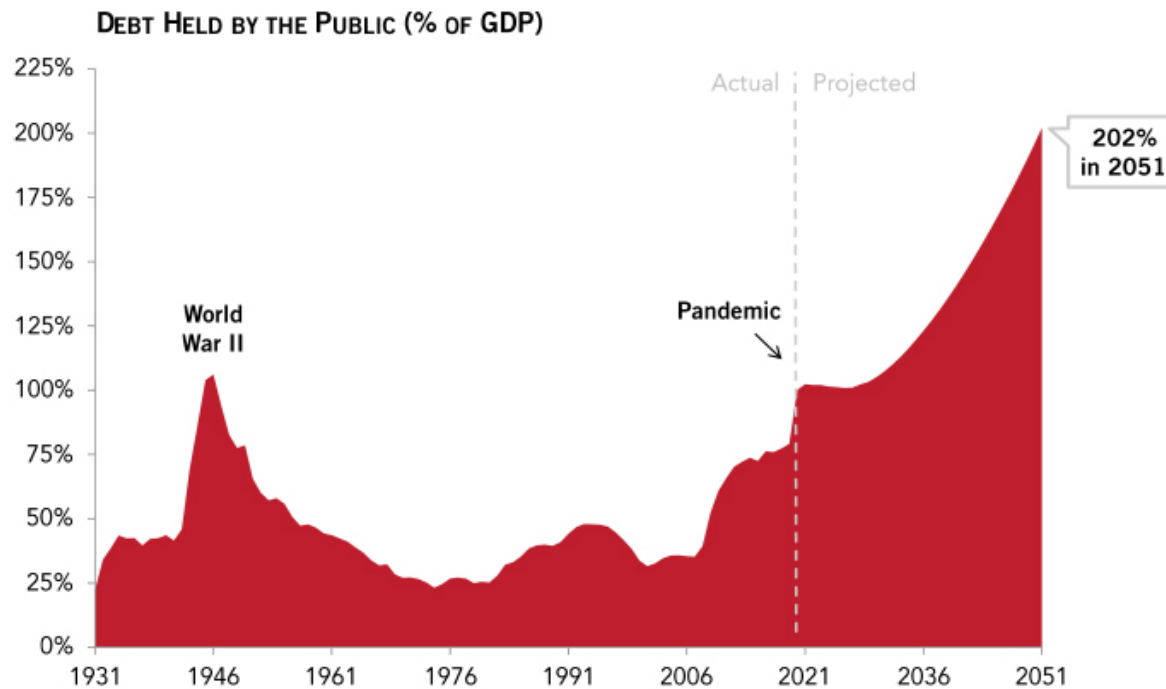
Massive Savings During Pandemic



A Problem Exacerbated...Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.
© 2021 Peter G. Peterson Foundation

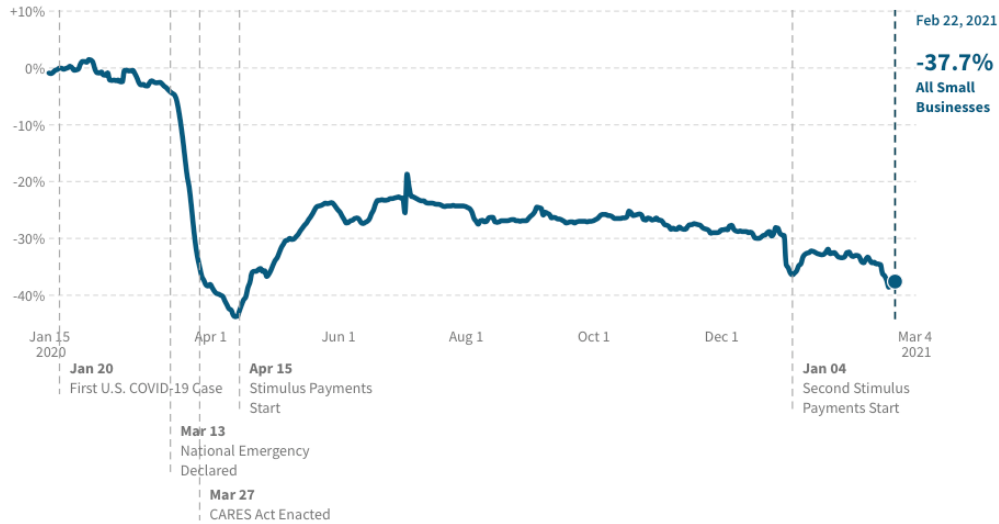
PGPF.ORG

Another Hard-Hit Sector: Small Business



Small Biz Closures in the United States

In **the United States**, as of February 22, 2021, the number of small businesses open decreased by **37.7%** compared to January 2020.



data source: **Womply**

Small Biz Closures in Santa Clara County

In **Santa Clara**, as of February 02, 2021, the number of small businesses open decreased by **41.6%** compared to January 2020.



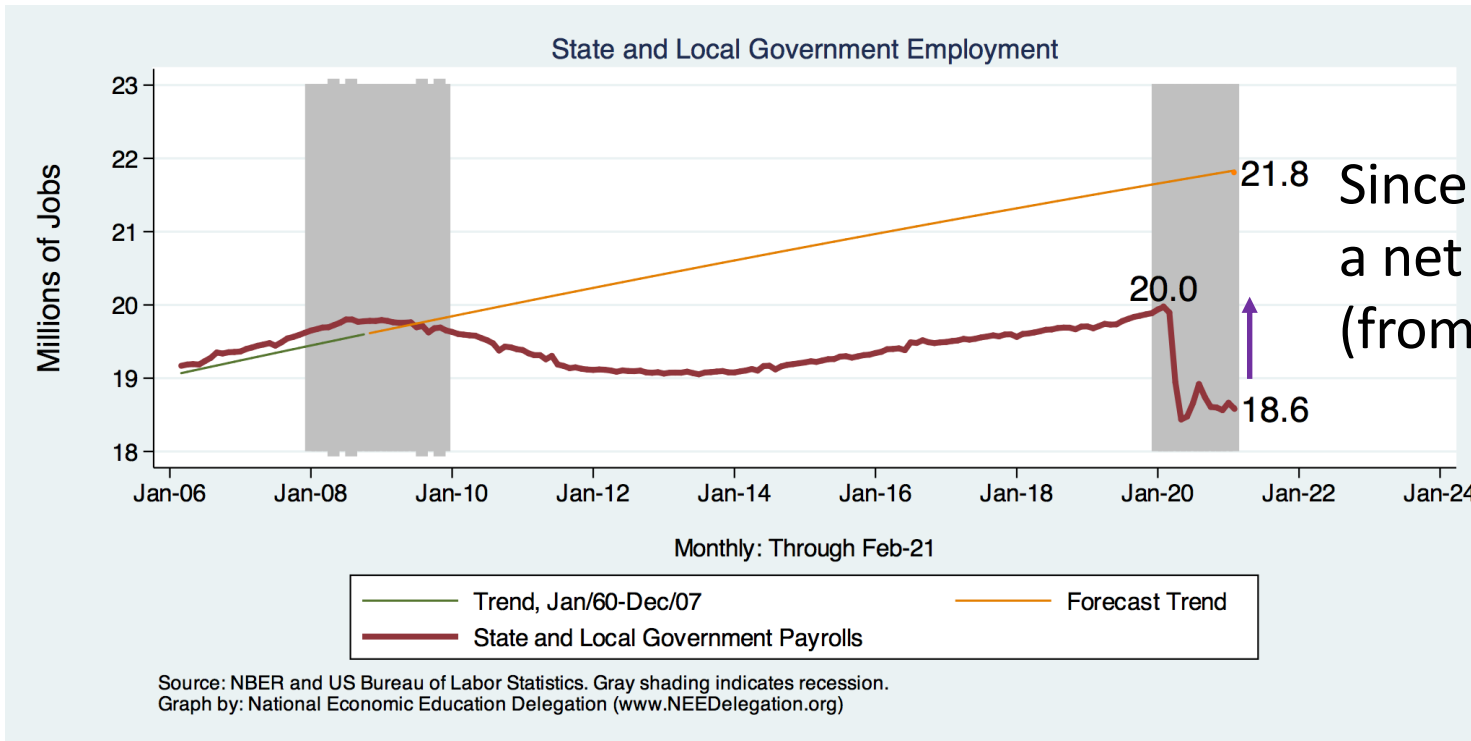
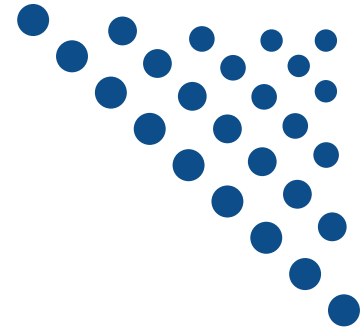
data source: **Womply**

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.**

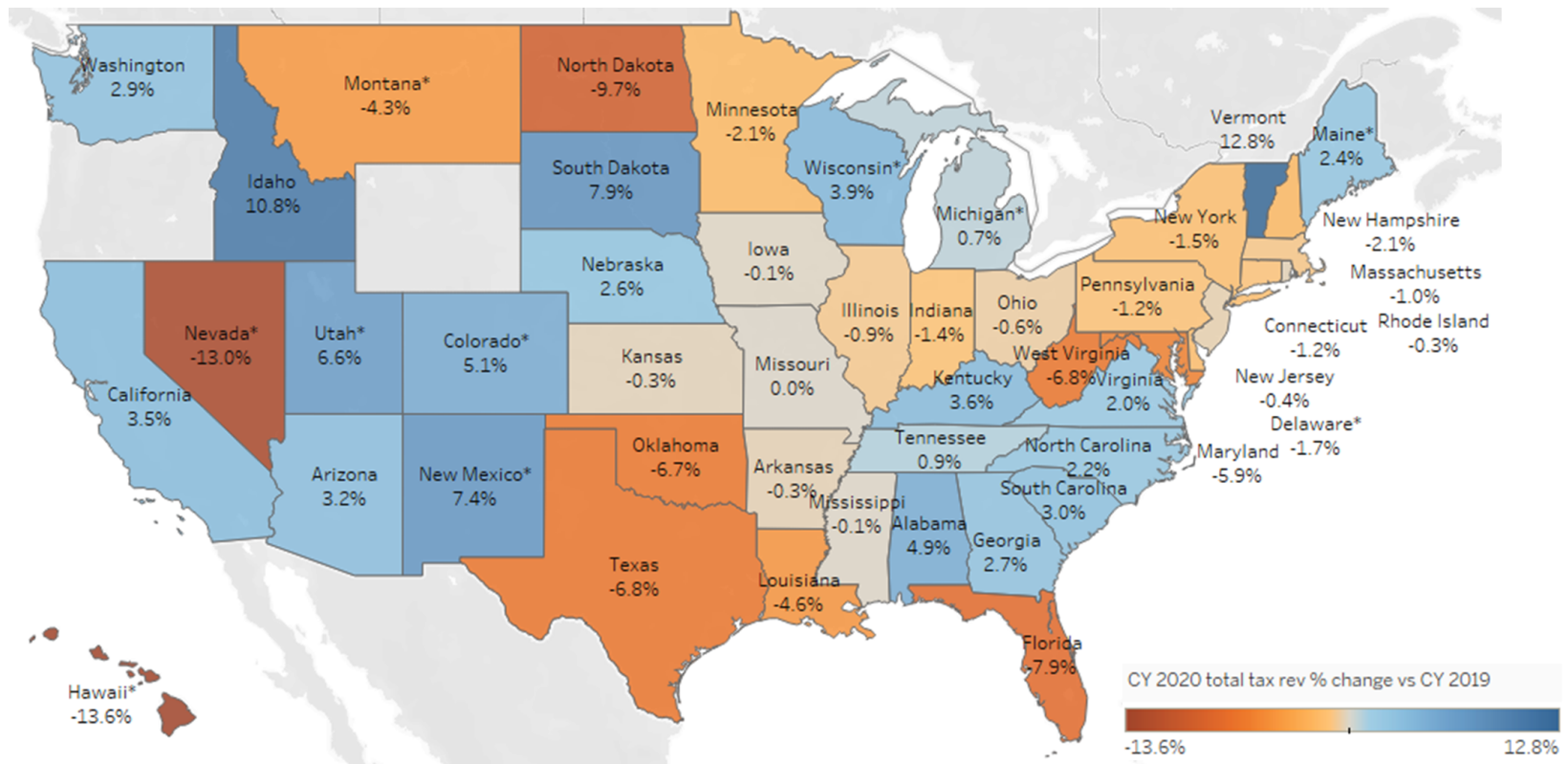
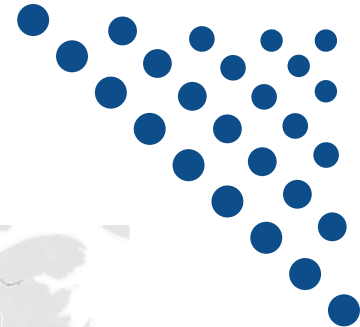
State and Local Employment



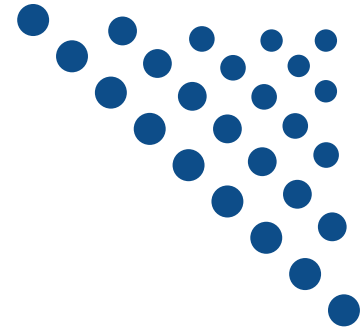
Since February 2020, a net loss of 1.4m jobs (from a low base).

Prospects if there is no general federal aid this year?

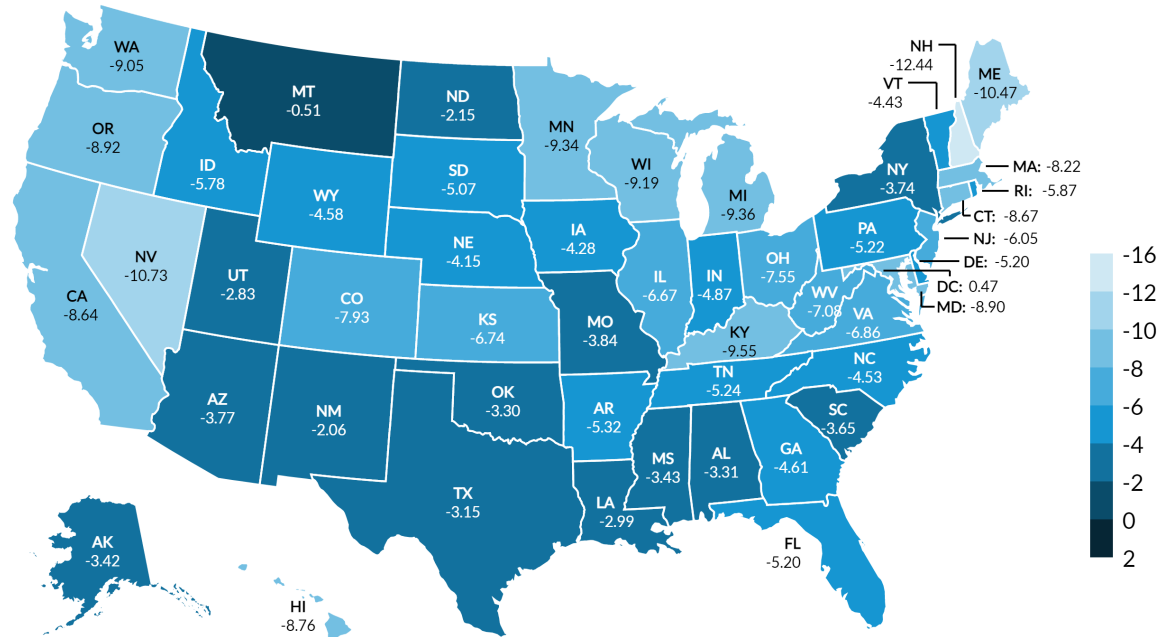
2020 State Tax Receipts Relative to 2019



Employment Losses Don't Match Revenue

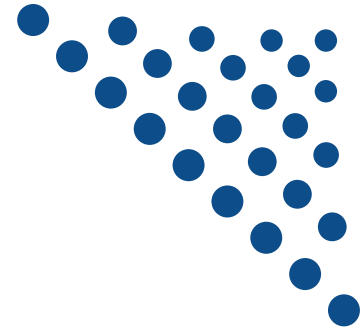


PUBLIC
State and local public employment, December 2020
(percent change year over year, seasonally adjusted)



Source: Bureau of Labor Statistics via the State Economic Monitor

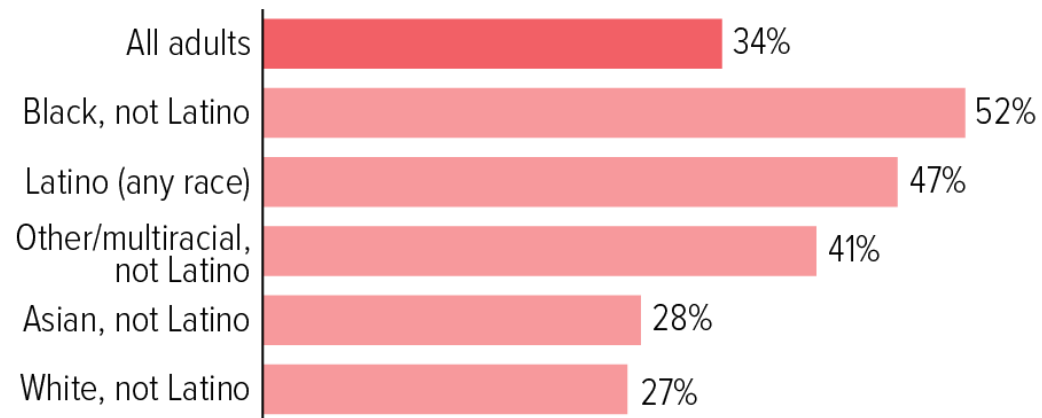
URBAN INSTITUTE



And People are Really Hurting

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

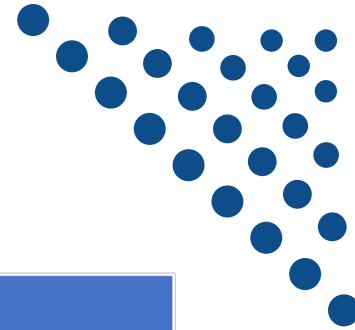
Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



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.

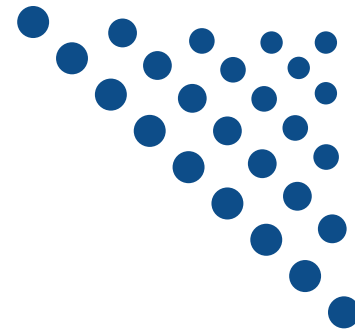
Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

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



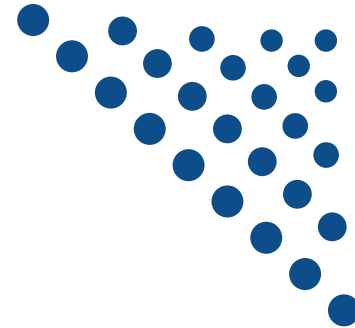
- **Too Big (Larry Summers)**

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.

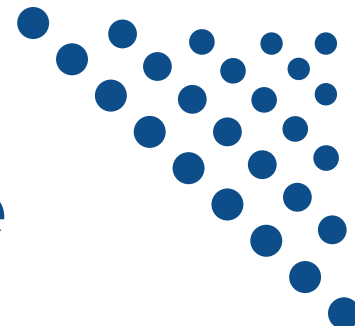
- **Too Small (Paul Krugman)**

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!**



Philadelphia Federal Reserve

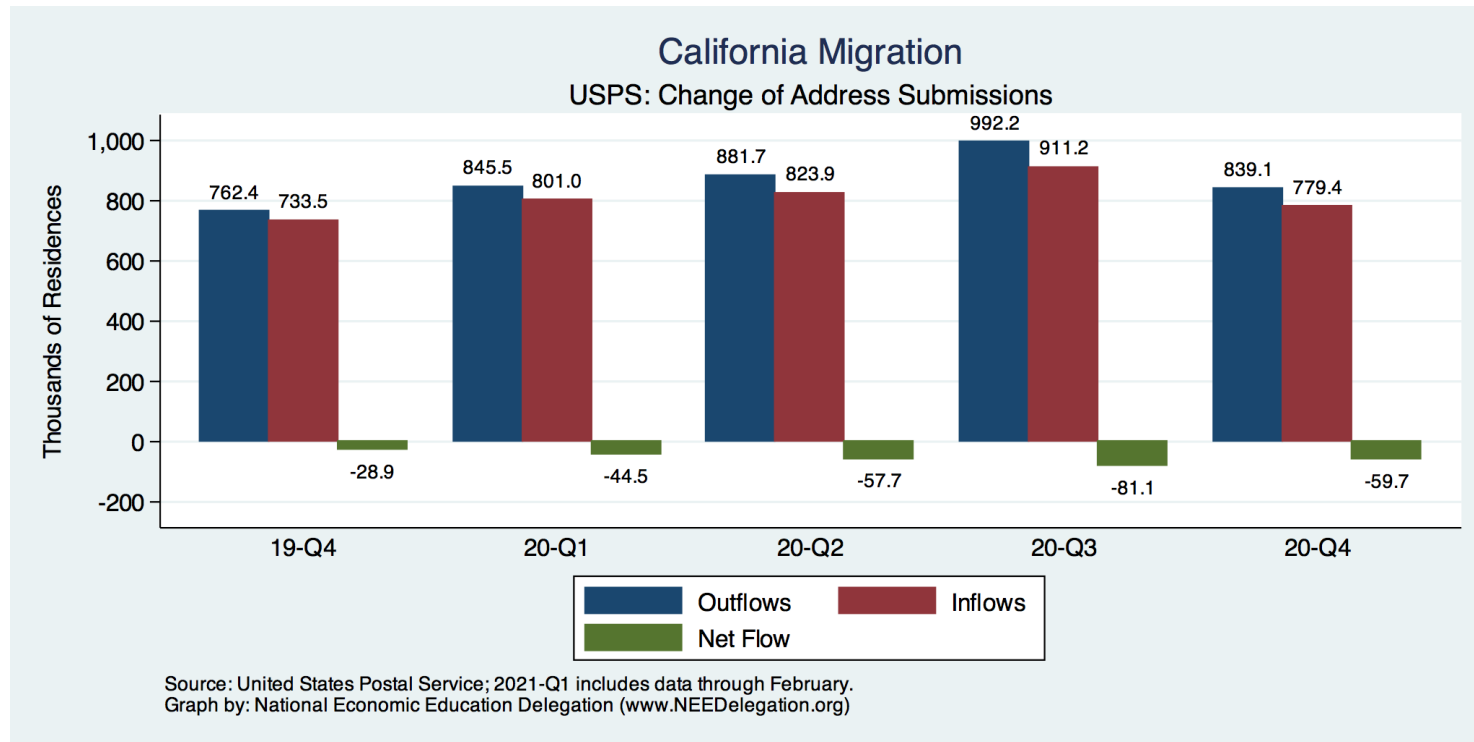
	Real GDP (%)		Unemployment Rate (%)	
	Previous	New	Previous	New
Quarterly				
2021:Q1	3.2	3.2	6.7	6.3
2021:Q2	3.5	5.0	6.5	6.1
2021:Q3	3.5	5.3	6.1	5.7
2021:Q4	3.3	4.0	5.8	5.4
2022:Q1	N.A.	3.7	N.A.	5.1

Annual data (projections based on annual averages):

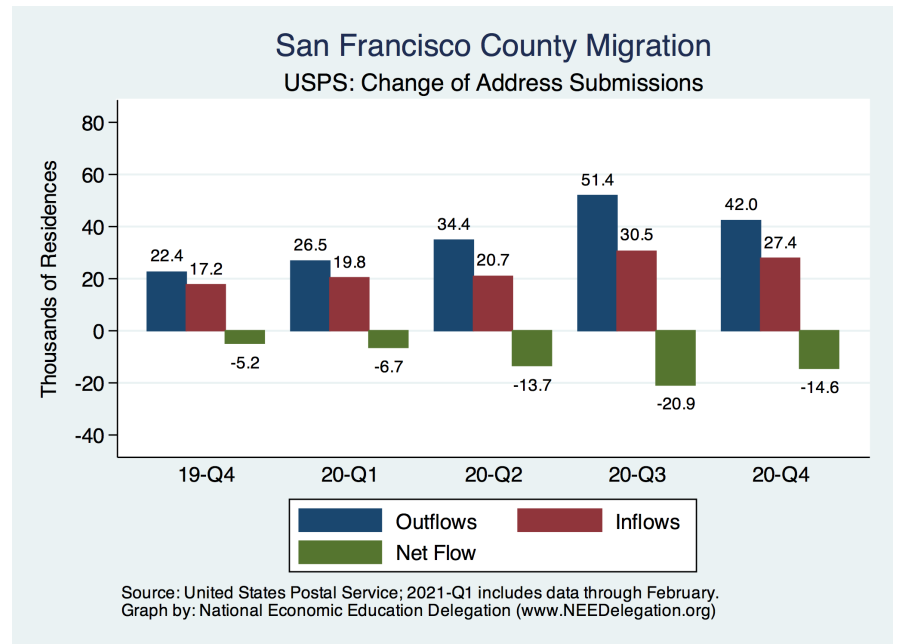
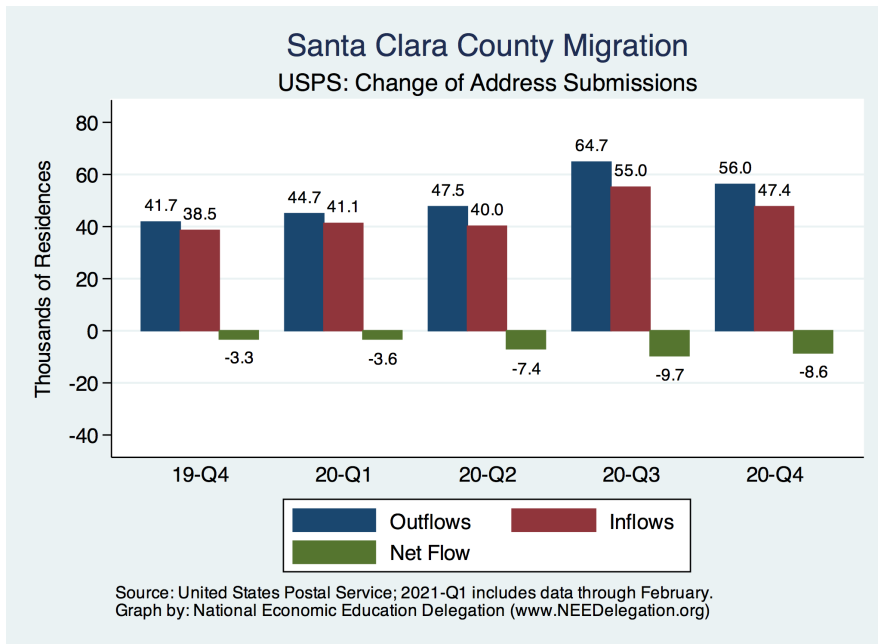
2021	4.0	4.5	6.3	5.9
2022	3.0	3.7	5.2	4.8
2023	2.1	3.1	4.6	4.2
2024	N.A.	2.5	N.A.	4.0

- **Survey of Professional Forecasters Q1 2021**
- **IMF: GDP Growth after inflation**
- **+5.1% in 2021**
- **+2.5% in 2022**
- **CBO: GDP Growth after inflation**
- **+4.6% in 2021**
- **+2.9% in 2022**
- **+2.3% in 2023**

Population Change: California

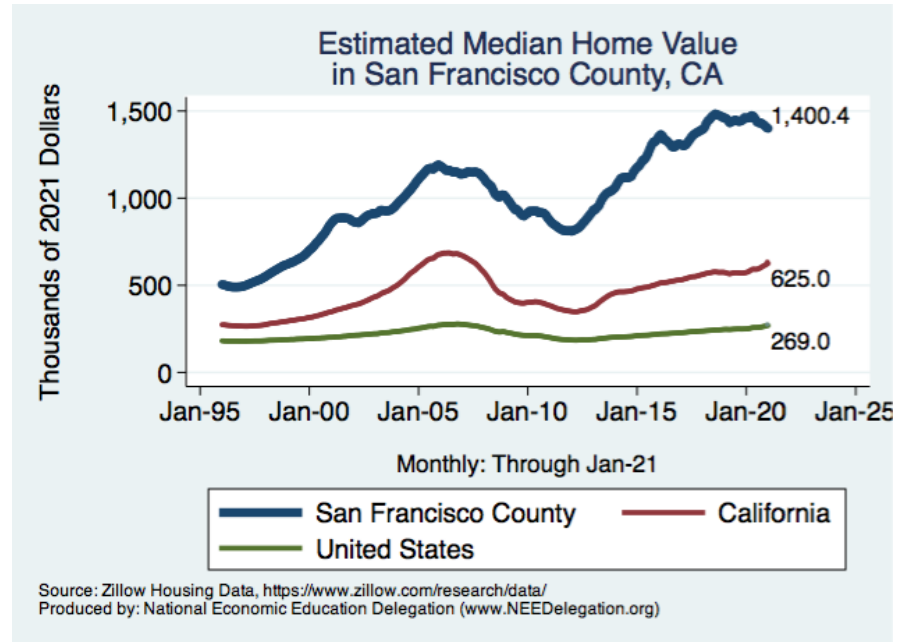
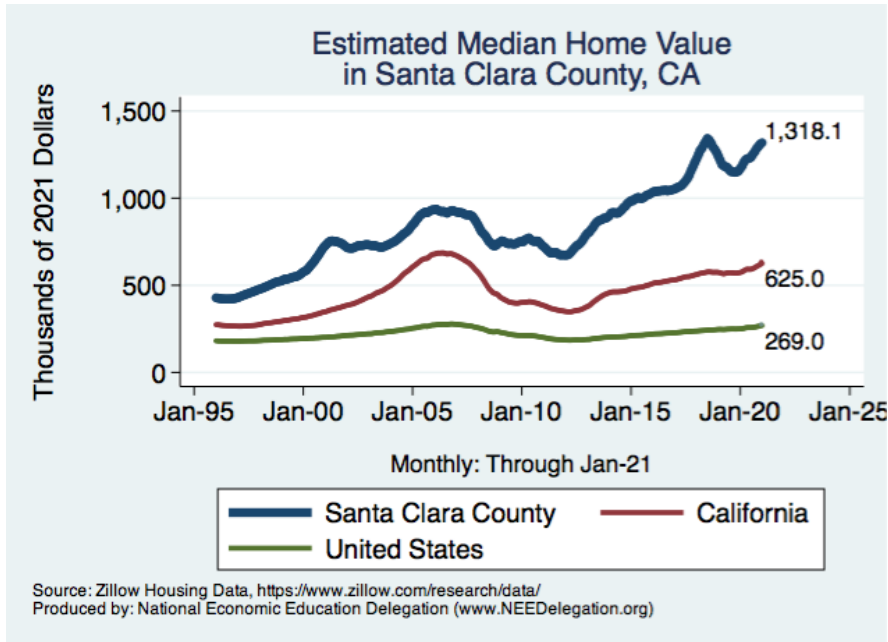


Population Change: Santa Clara & San Francisco



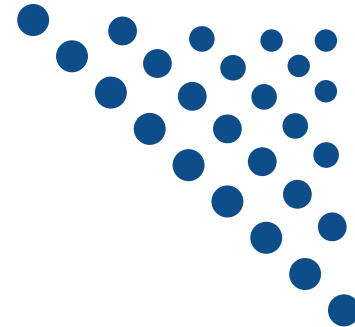


Another Gauge: Real Estate



Thank you!

Any Questions?



www.NEEDelegation.org

Jon Haveman

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

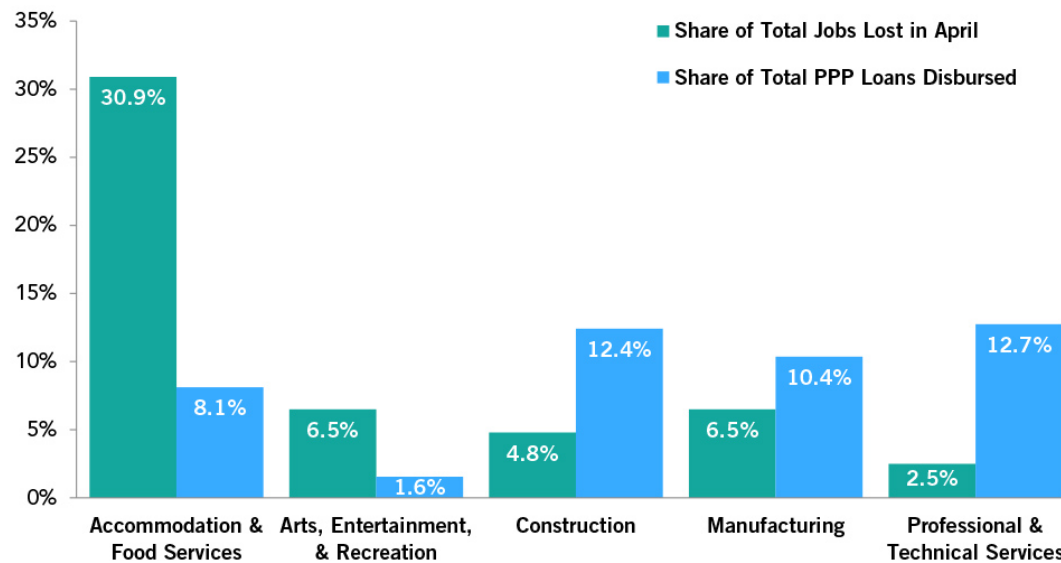
Become a Friend of NEED: www.NEEDelegation.org/friend.php

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)



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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