

Osher Lifelong Learning Institute, Winter 2021

Contemporary Economic Policy

Jon Haveman, Ph.D.
National Economic Education Delegation



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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.



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Who Are We?

- **Honorary Board: 54 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: 585+ 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: 44 Ph.D. Economists**

- Aid in slide deck development

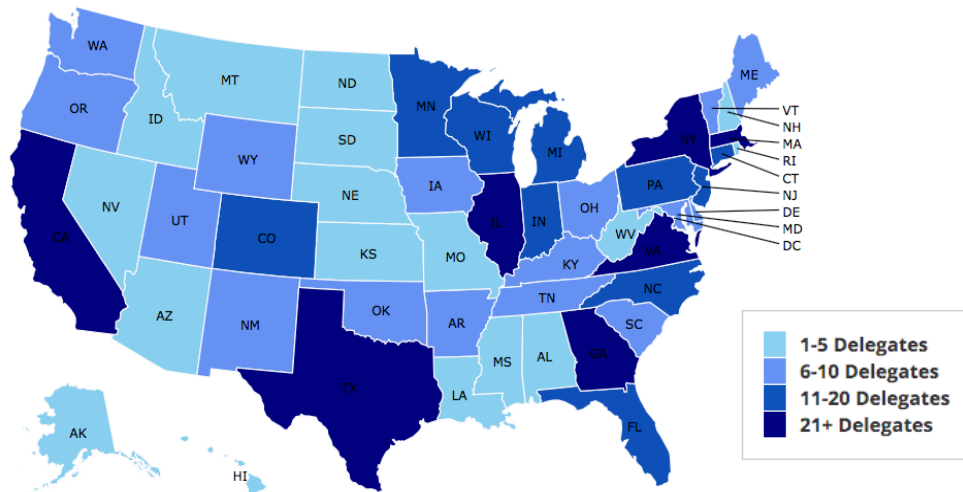


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Where Are We?



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Available NEED Topics Include:

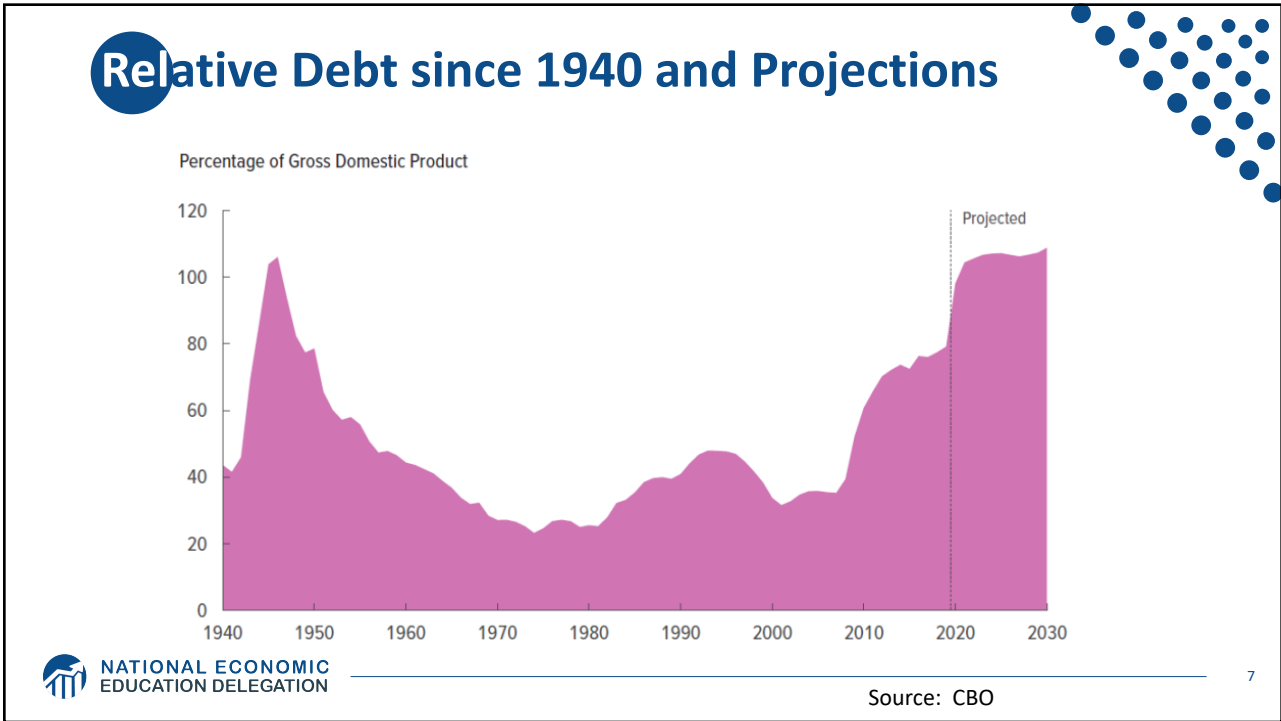
- Coronavirus Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles
- US Social Policy



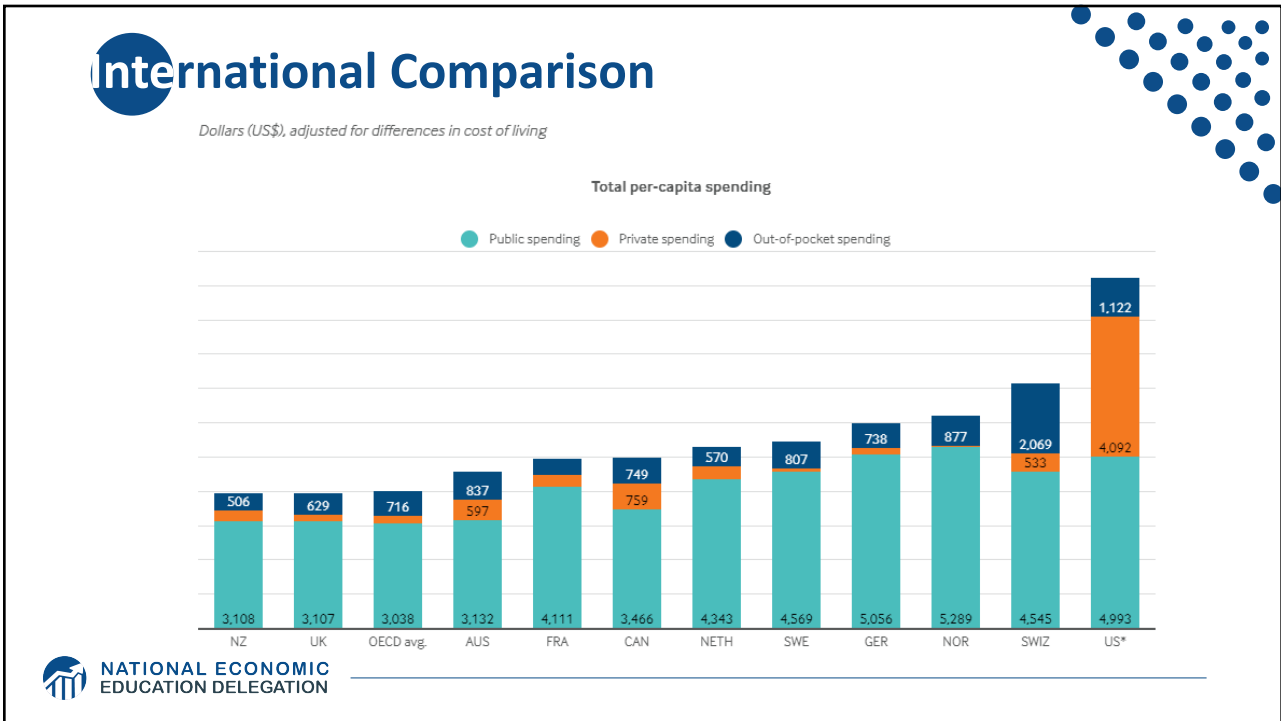
Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (1/13): US Economy & Coronavirus Economics**
 - Week 2 (1/20): Federal Debt (Geoffrey Woglom, Amherst College)
 - Week 3 (1/27): Healthcare Economics (Veronika Dolar, SUNY)
 - Week 4 (2/3): Infrastructure Economics
 - Week 5 (2/10): Racial Discrimination in U.S. Policy, A History
 - Week 6 (2/17): The Black-White Wealth Gap



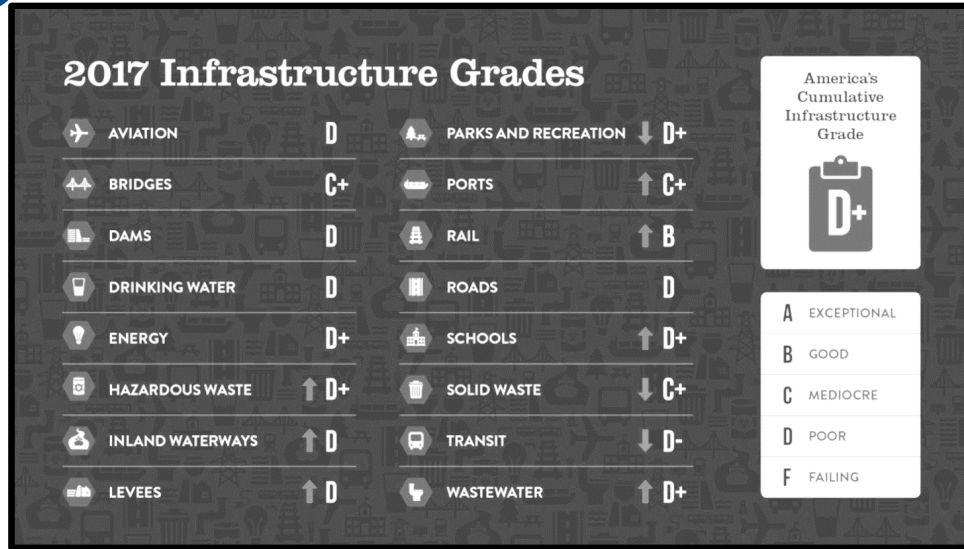


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Current State of Infrastructure in the US



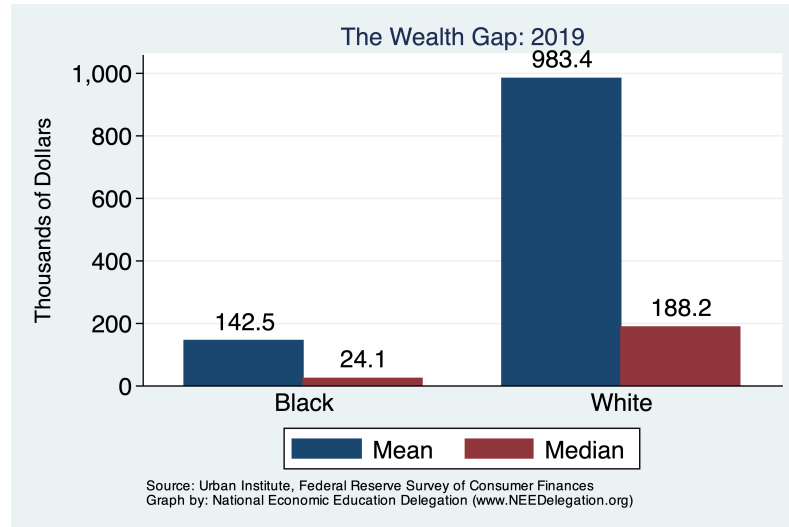
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Policies with Direct Racial Implications

- **Slave trade**
 - The first deprivation
- **Slavery**
- **40 acres (and a mule)**
 - The second deprivation
- **Freedmen's Bank**
 - Lax oversight and dissolution.
- **Jim Crow Laws**
- **Homestead Act**
 - Discriminatory distribution of land.
- **Land theft and destruction**
 - E.g., Black Wall Street – Tulsa, 1921
- **GI Bill**
 - Discriminatory access – Levittown
- **Federal Housing Authority**
 - Redlining
- **And many more.**

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Enormous Black-White Wealth Differences



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COVID-19: Economic Implications and Policy Response



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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).



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Outline

- **The U.S. Economy**
- **What is this?**
- **Evidence of Impact**
- **Government Policy**
- **What to expect going forward**



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U.S. Economy in Global Perspective

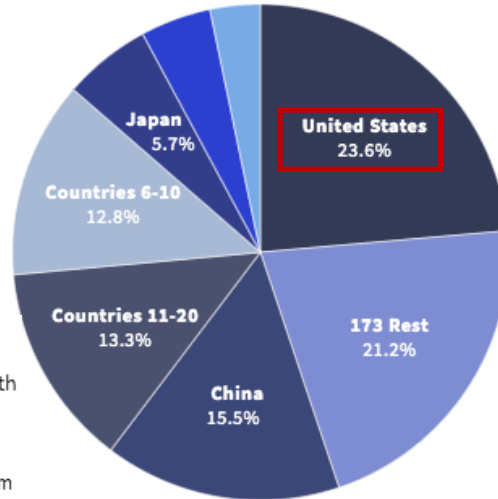
U.S. Nominal GDP:

\$21.747 trillion in 2019-Q4
\$21.158 trillion in 2020-Q3

% Share of the Global Economy

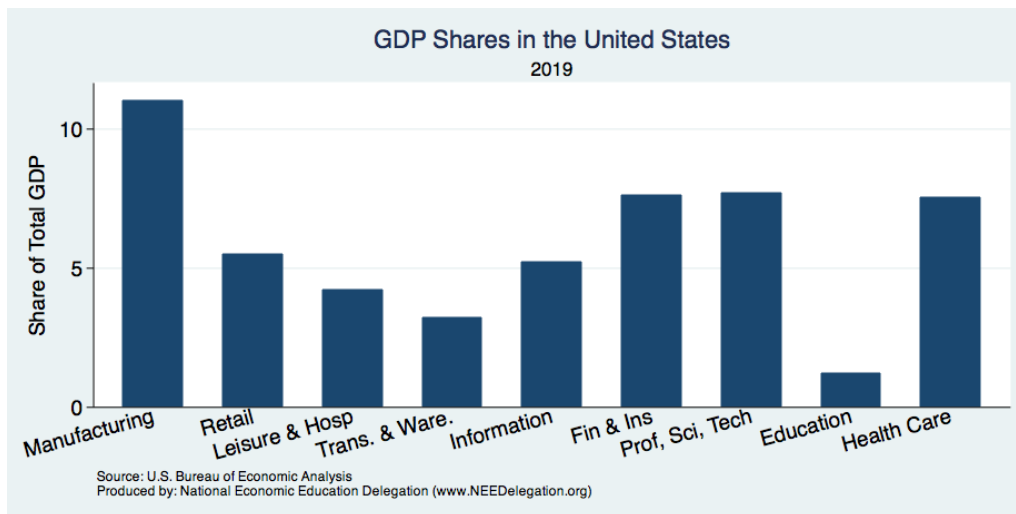
The 173 countries outside the top 20 make up less than a fourth of the total global economy.

- United States
- 173 Rest
- China
- Countries 11-20
- Countries 6-10
- Japan
- Germany
- United Kingdom



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Composition of the U.S. Economy: 2019



Source: U.S. Bureau of Economic Analysis
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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What is this?

- **A natural disaster – with important twists:**
 - Global
 - Duration is unpredictable
 - Economic toll is enormous and potentially durable
- **A health crisis that spilled over onto the economy.**
 - A perfect storm of economic difficulty
 - Supply side
 - Demand side
 - Financial
 - Without a culprit



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Process for Dealing with a Natural Disaster

- **Mitigation of effects**
 - Social Policy
- **Tend to the vulnerable**
 - Fiscal Policy
- **Shore up structures**
 - Fiscal and Monetary
- **Rebuild**
 - Stimulus

There are corrolaries in this crisis.



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Evidence of Impact

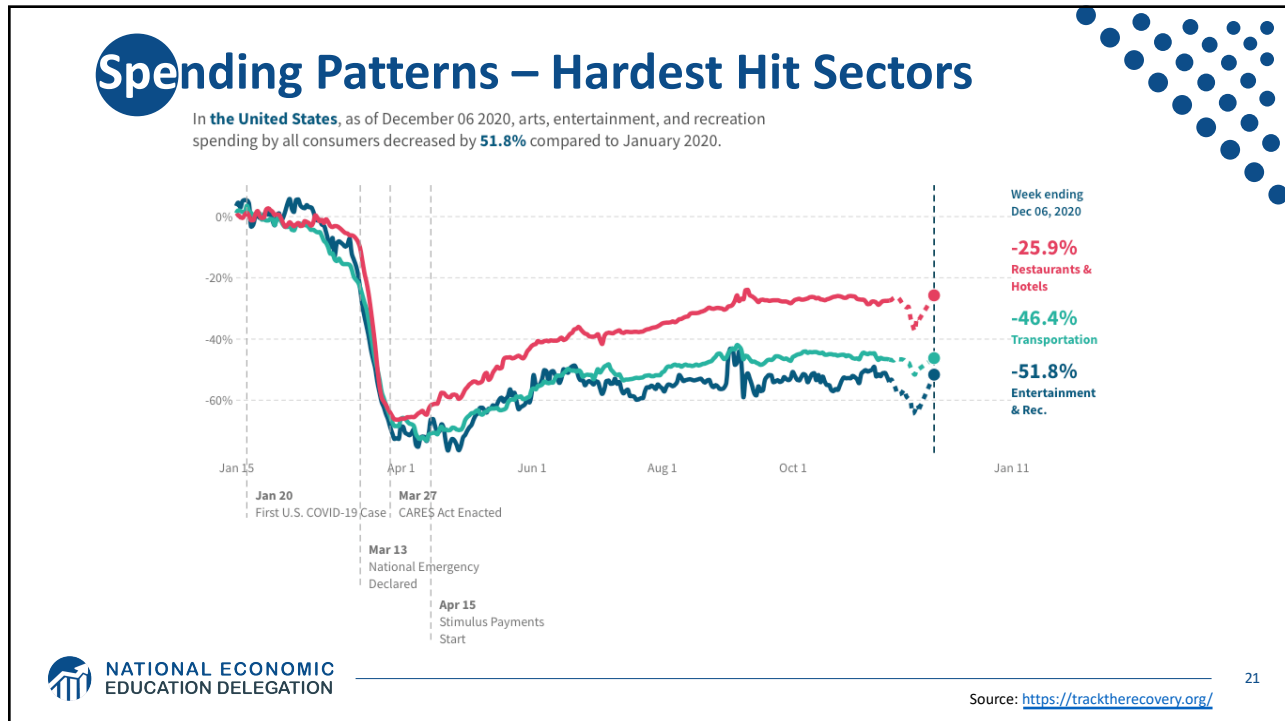
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Spending Patterns Since First US Case

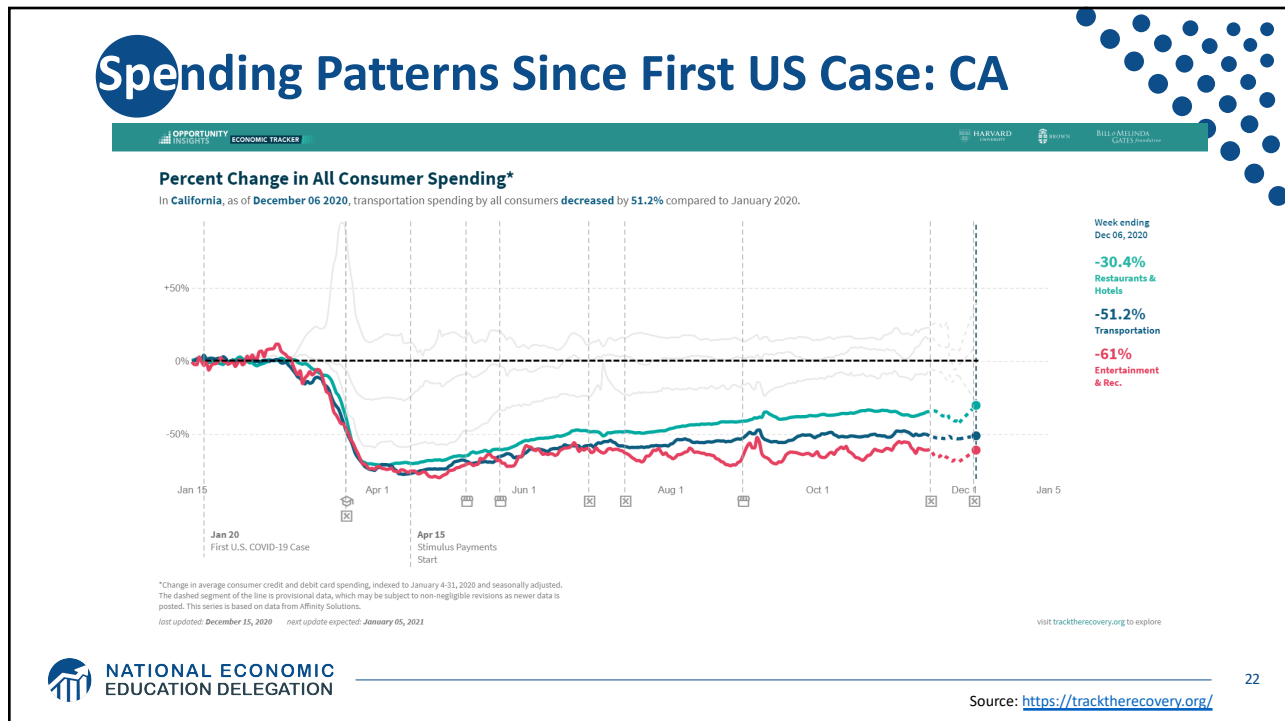
In the United States, as of December 06 2020, total spending by all consumers decreased by **1.7%** compared to January 2020.



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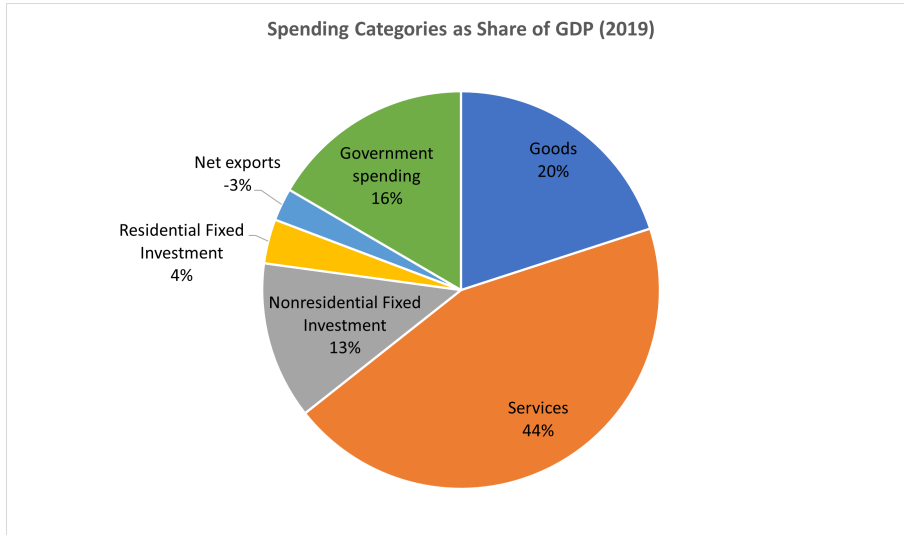


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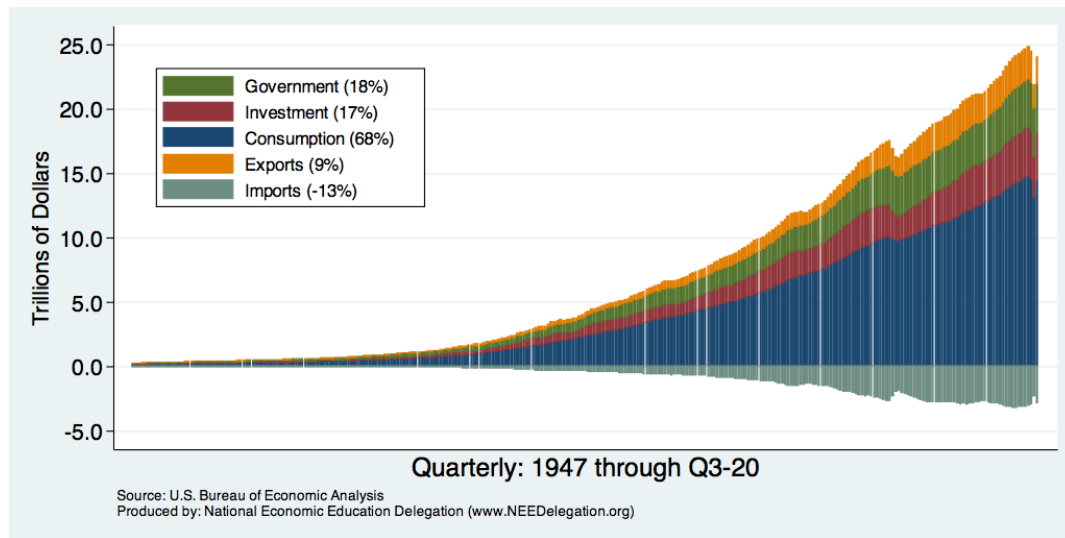
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Why does spending matter?



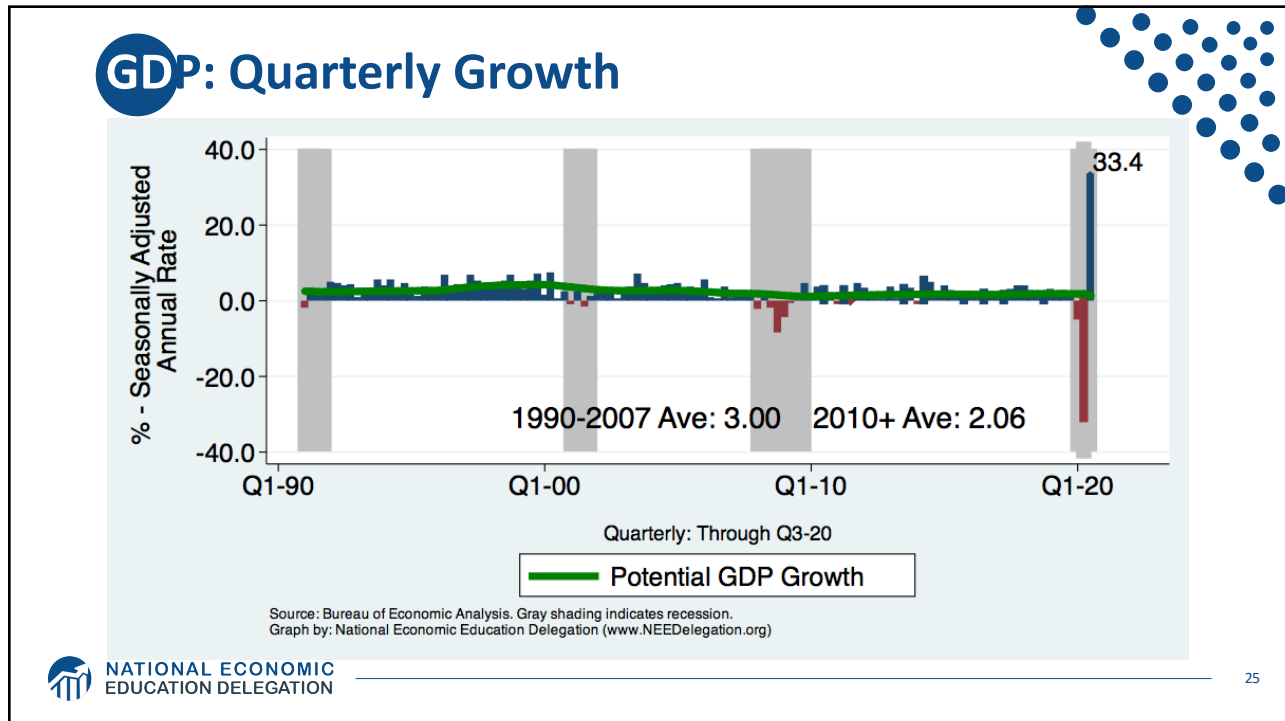
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Composition of GDP

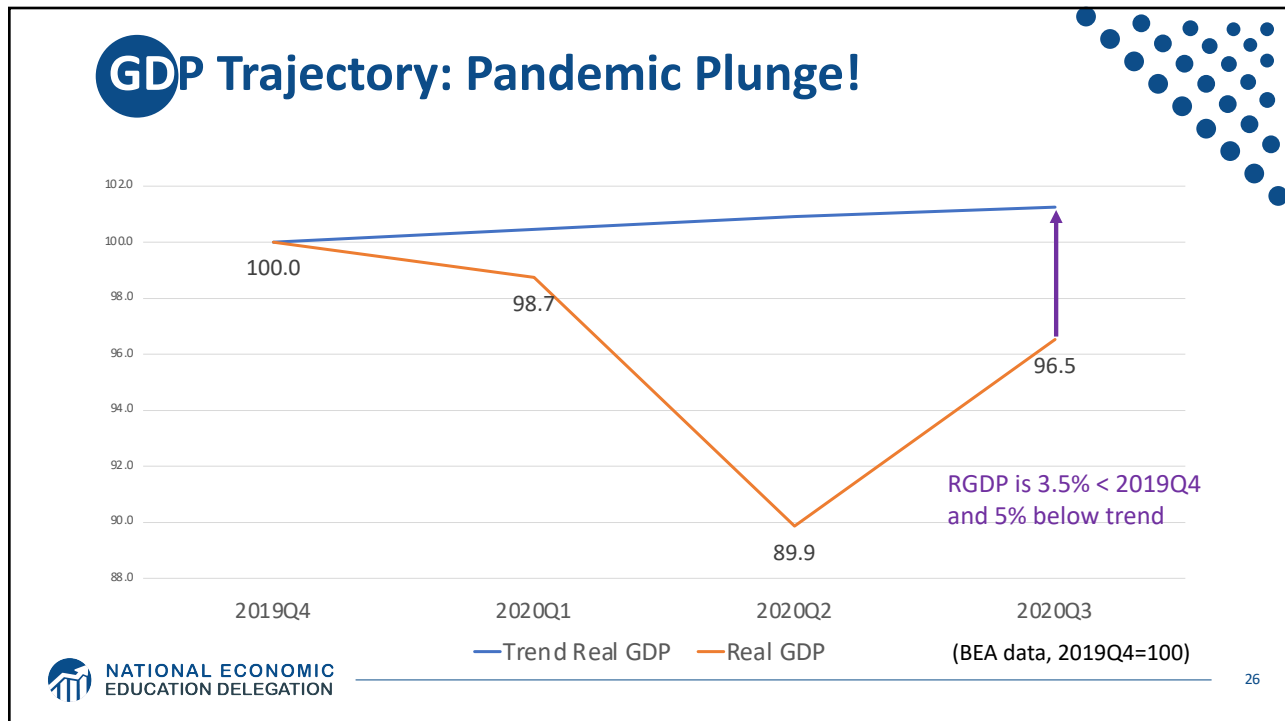


Source: U.S. Bureau of Economic Analysis
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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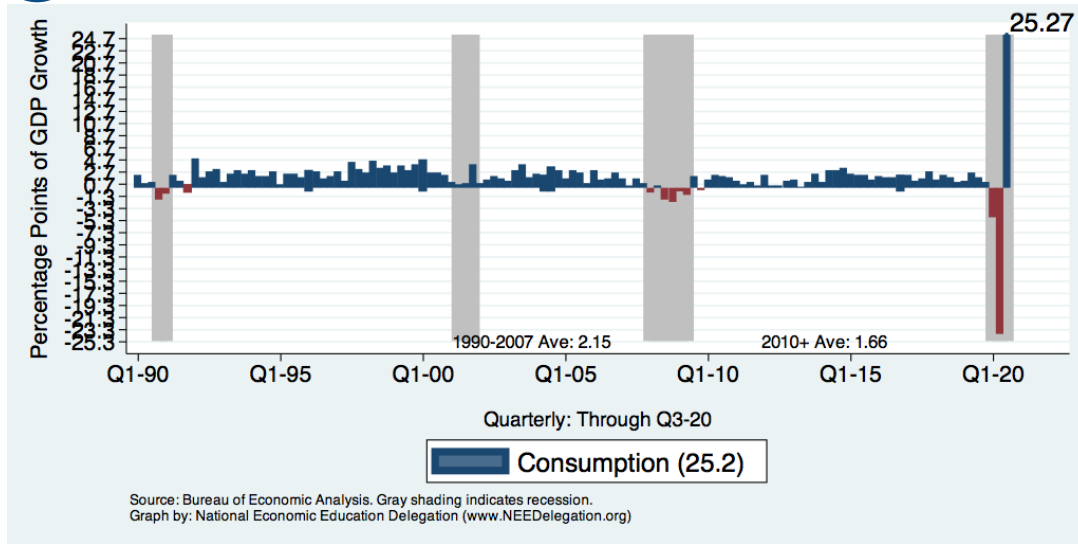


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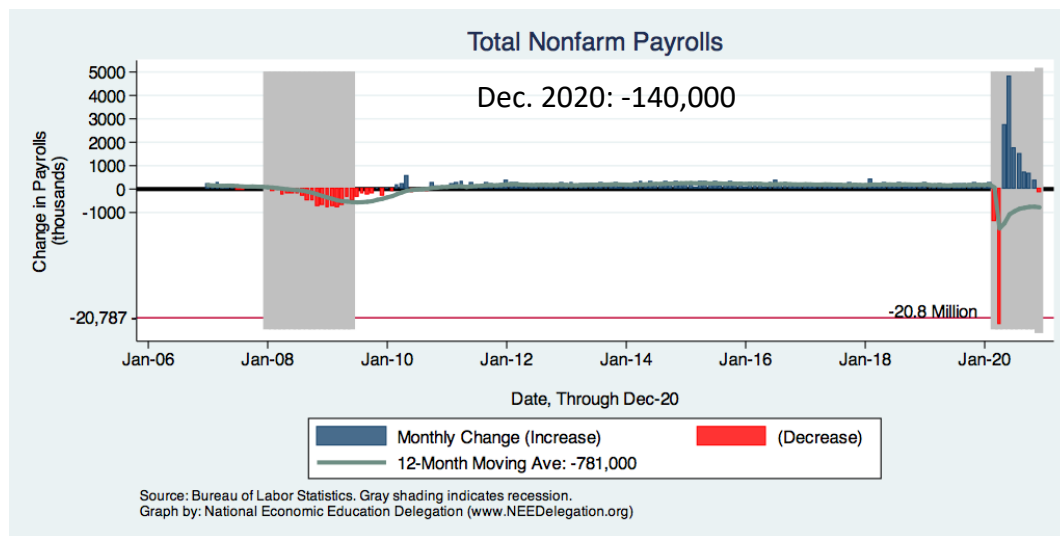
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Consumption: Quarterly Growth

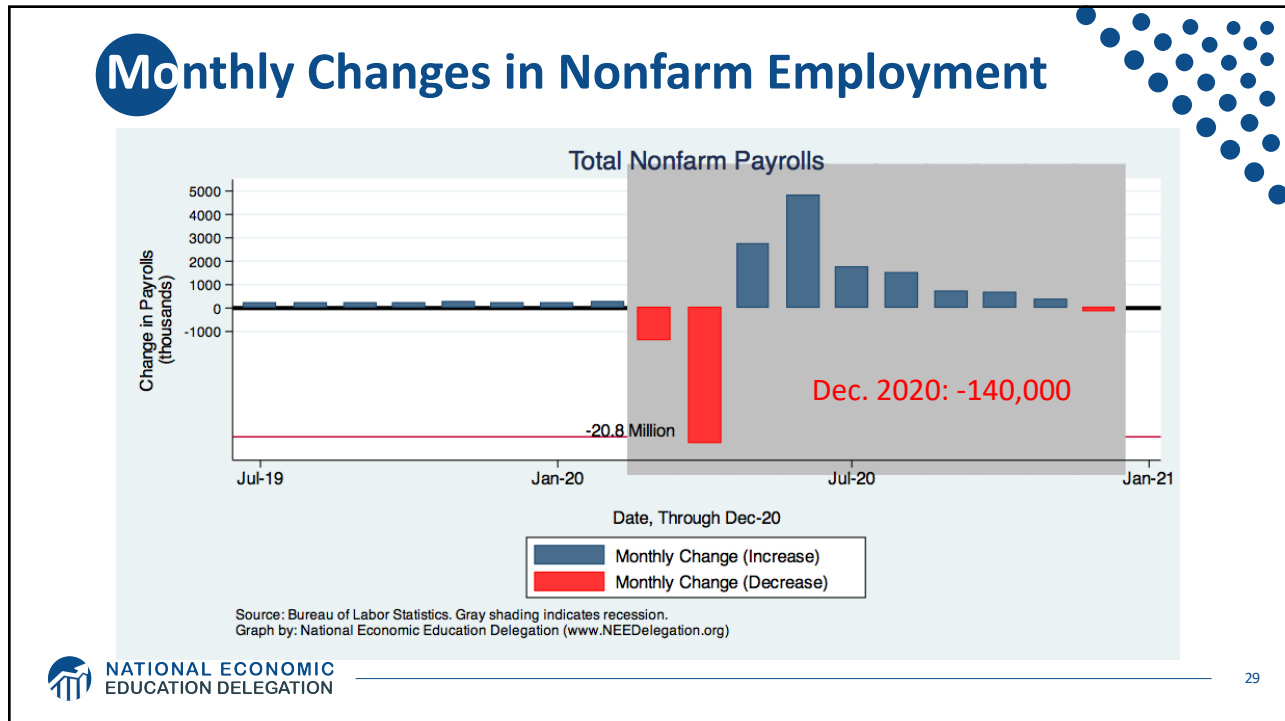


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Monthly Changes in Nonfarm Employment



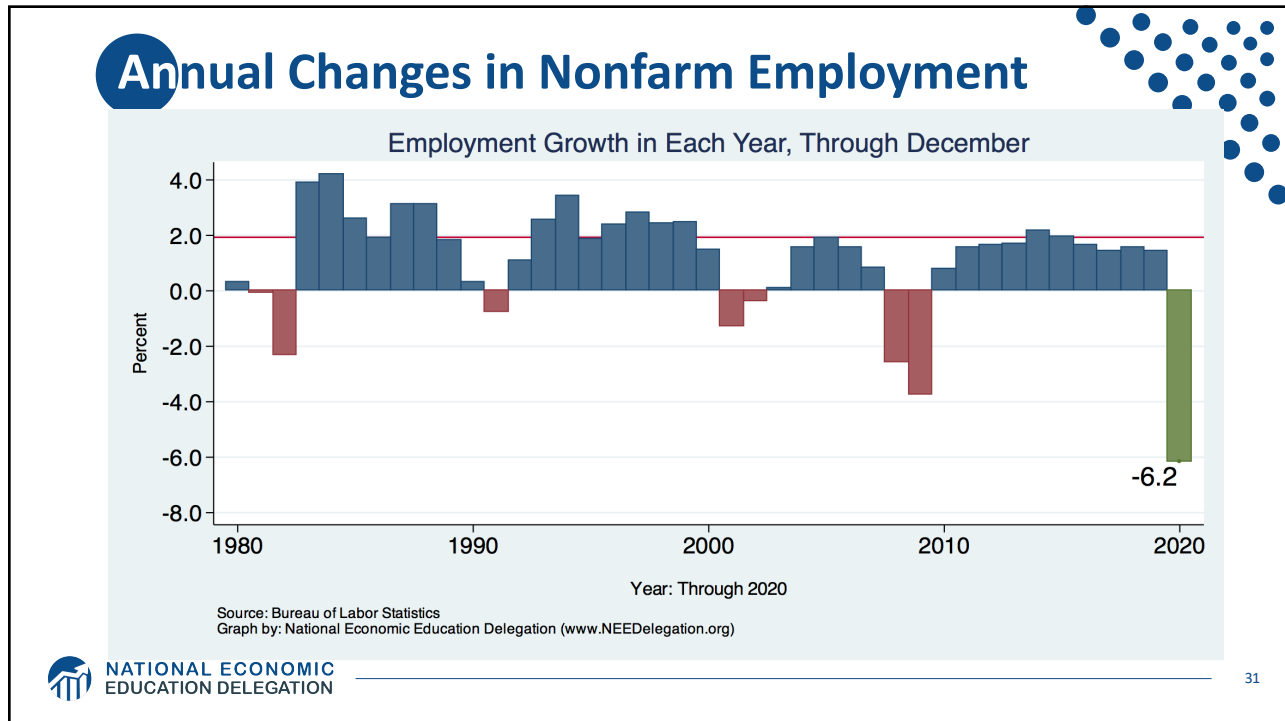
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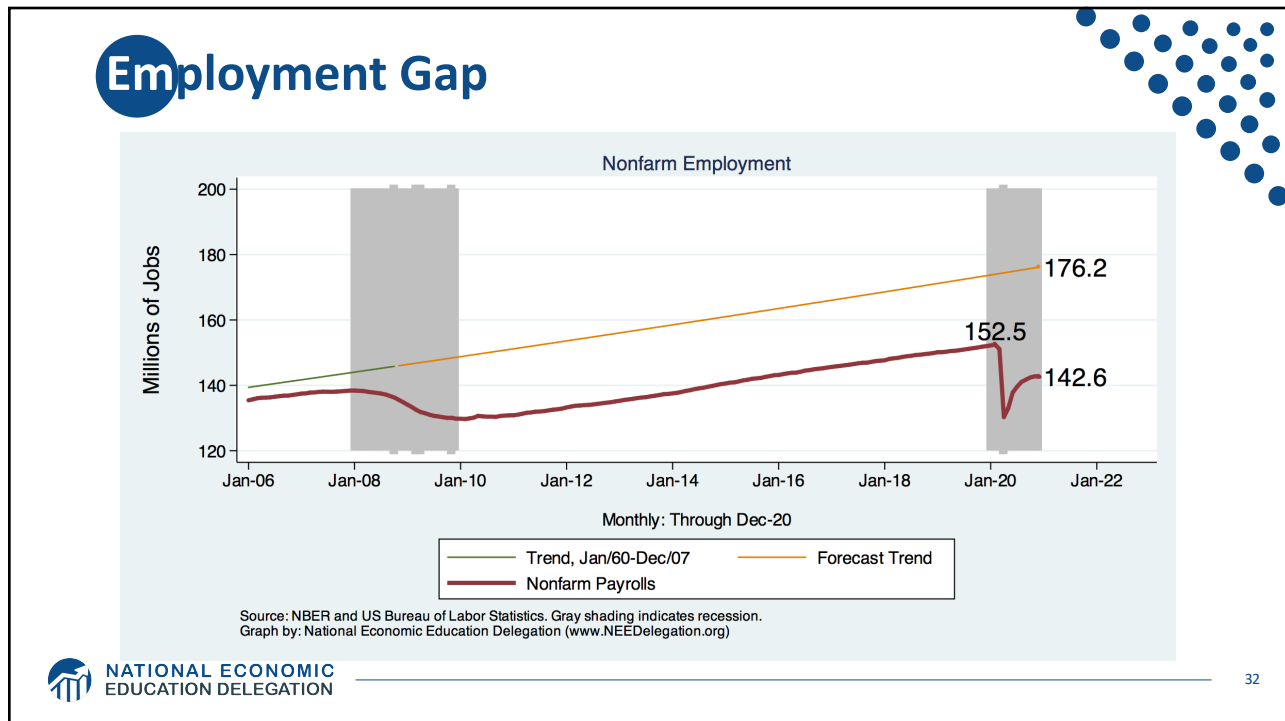
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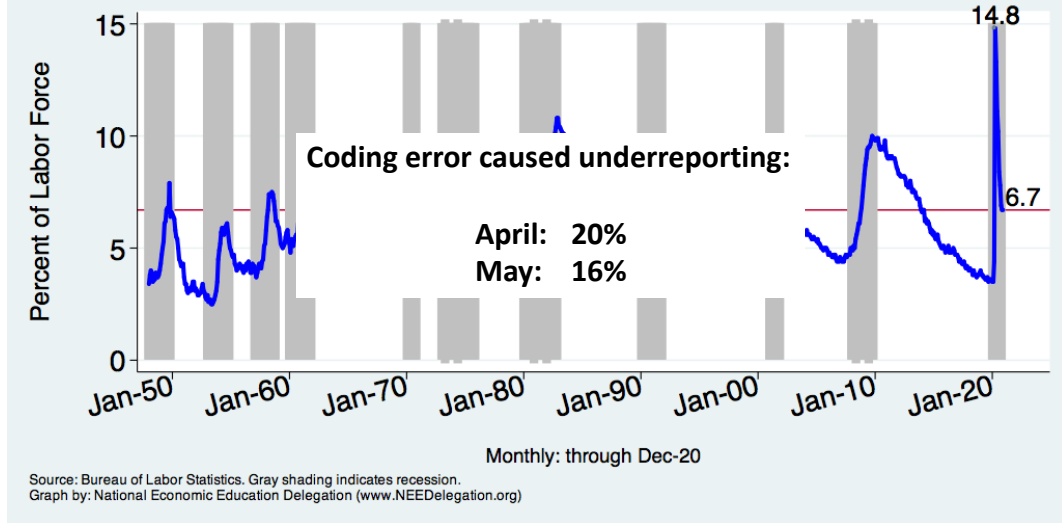


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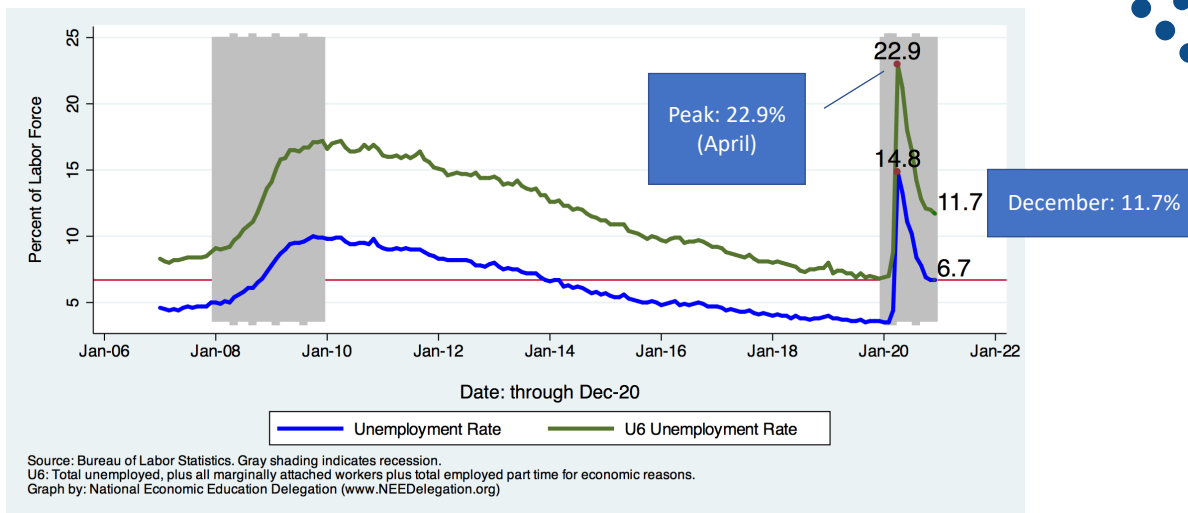
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Unemployment Rate



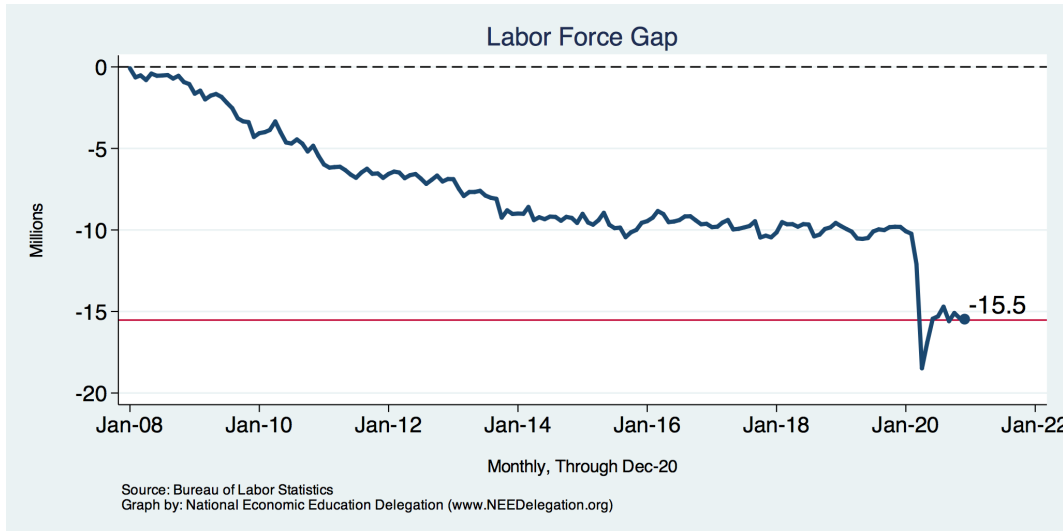
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Reduced Spending: Unemployment



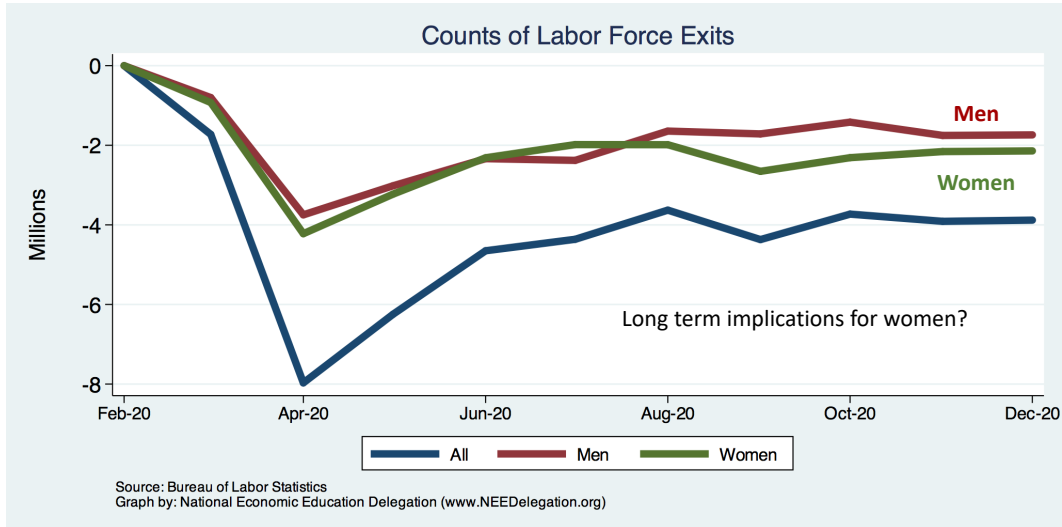
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Labor Force is Shrinking – Drives Down UR



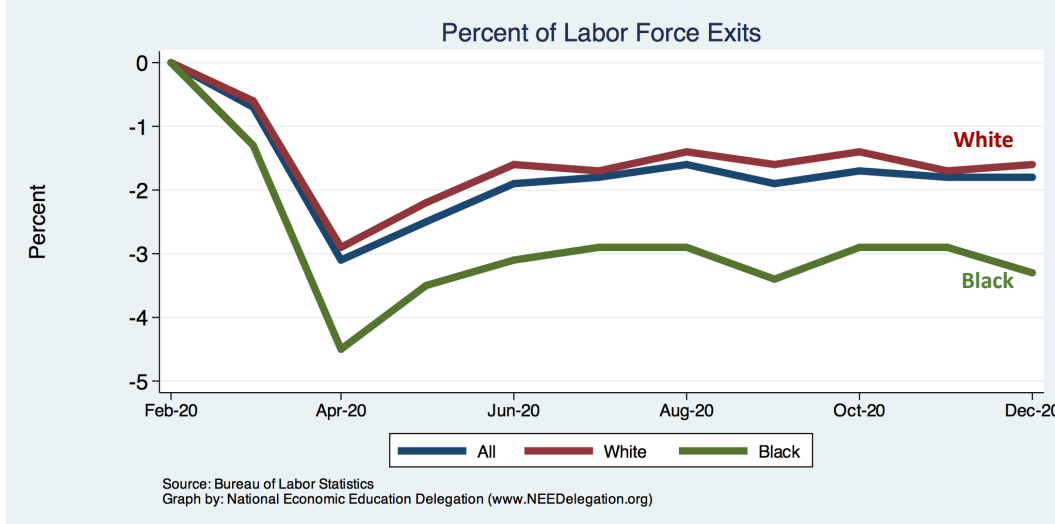
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Affecting Women More Than Men



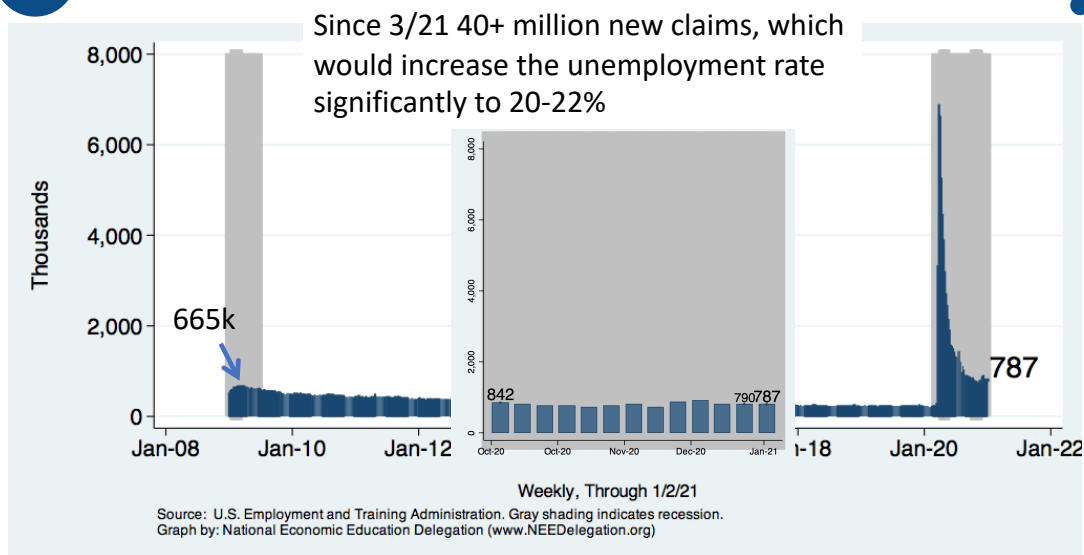
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Affecting Black Workers More than White



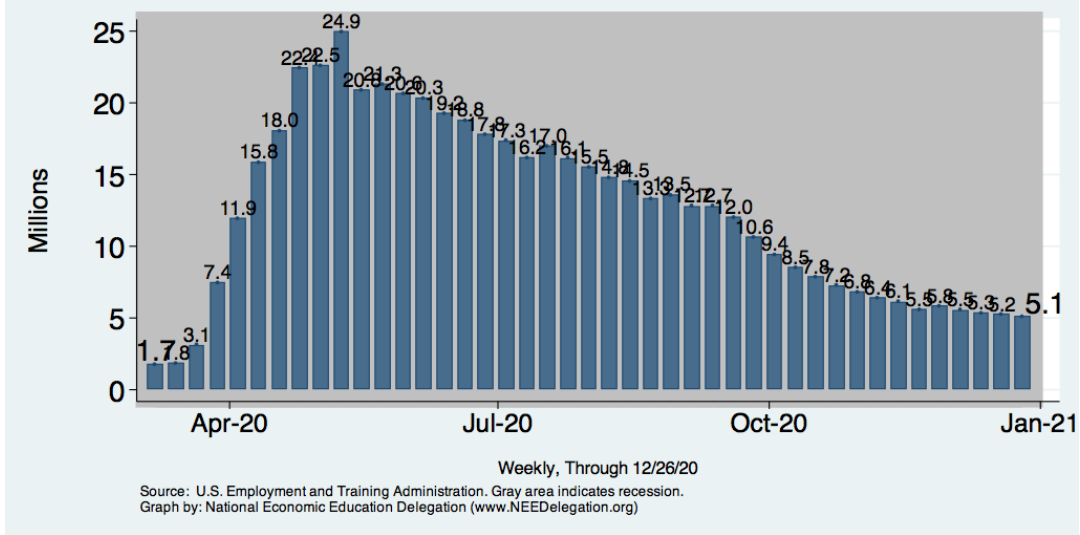
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Weekly New Unemployment Claims

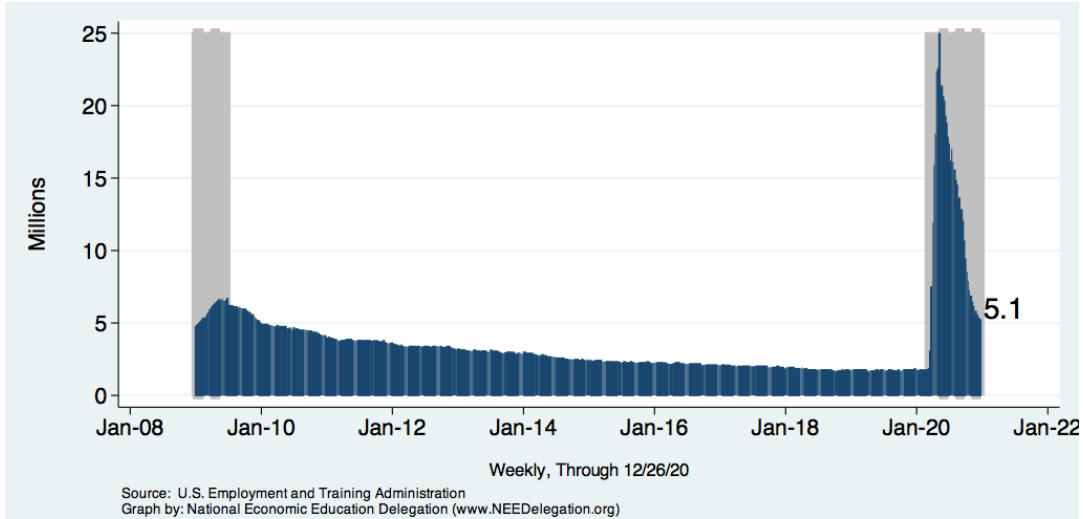


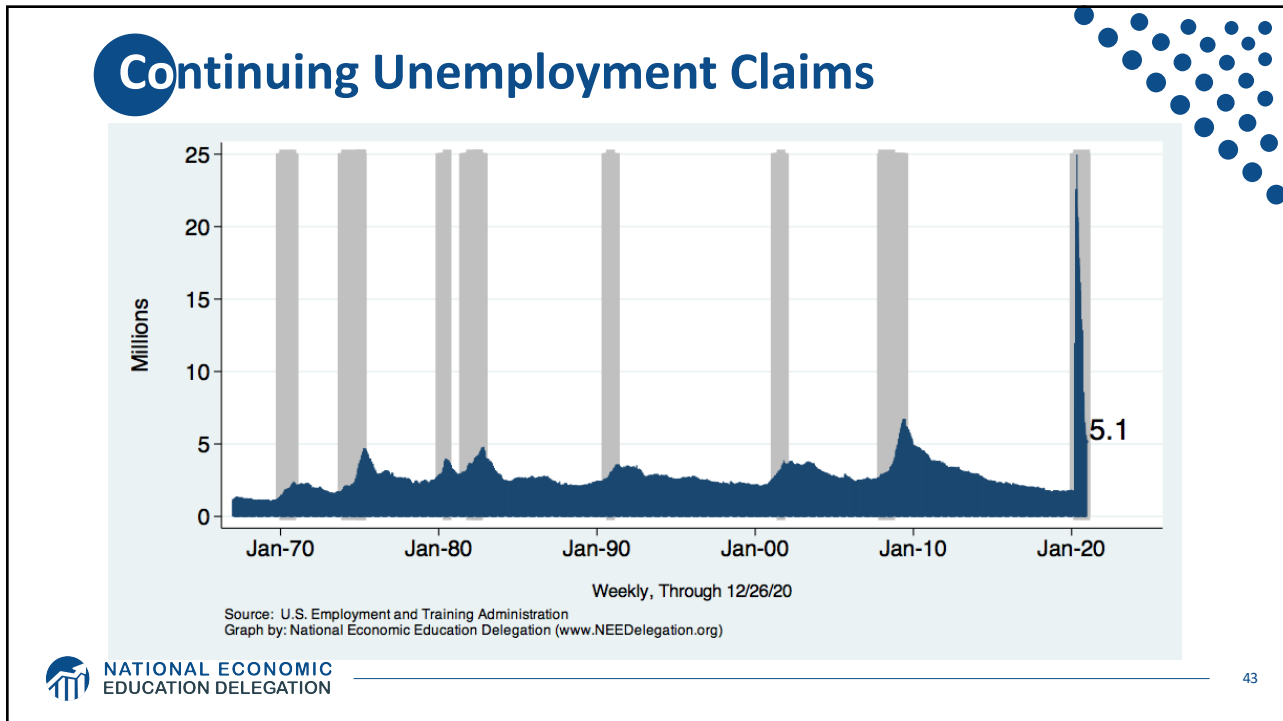
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Continuing Unemployment Claims

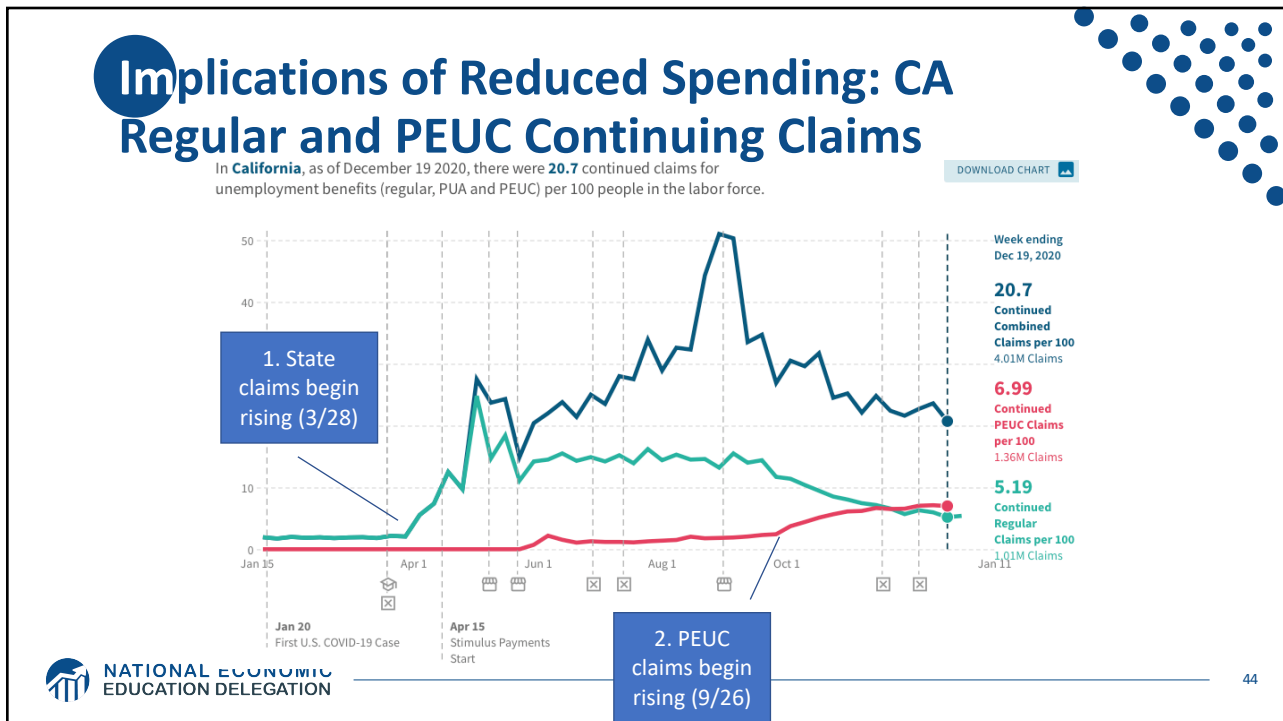


Continuing Unemployment Claims



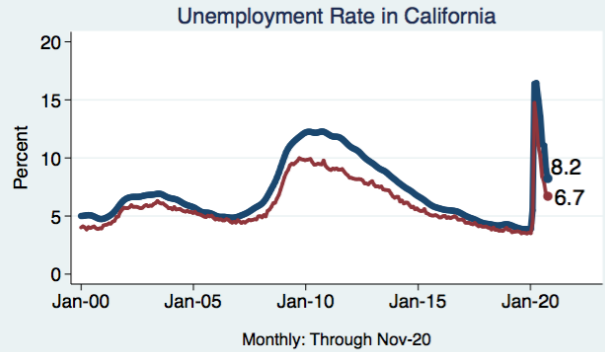


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Employment in California

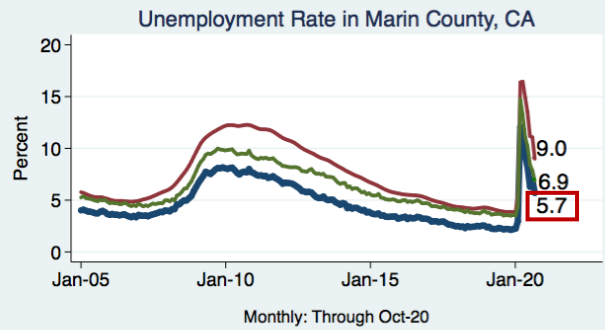
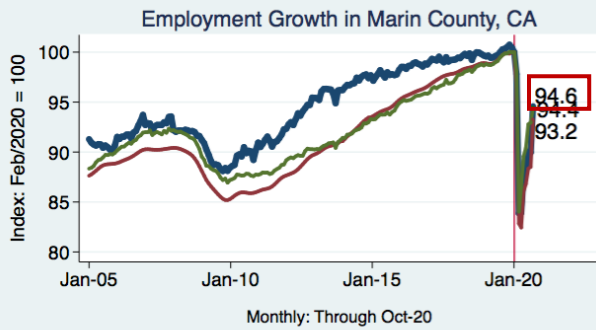


Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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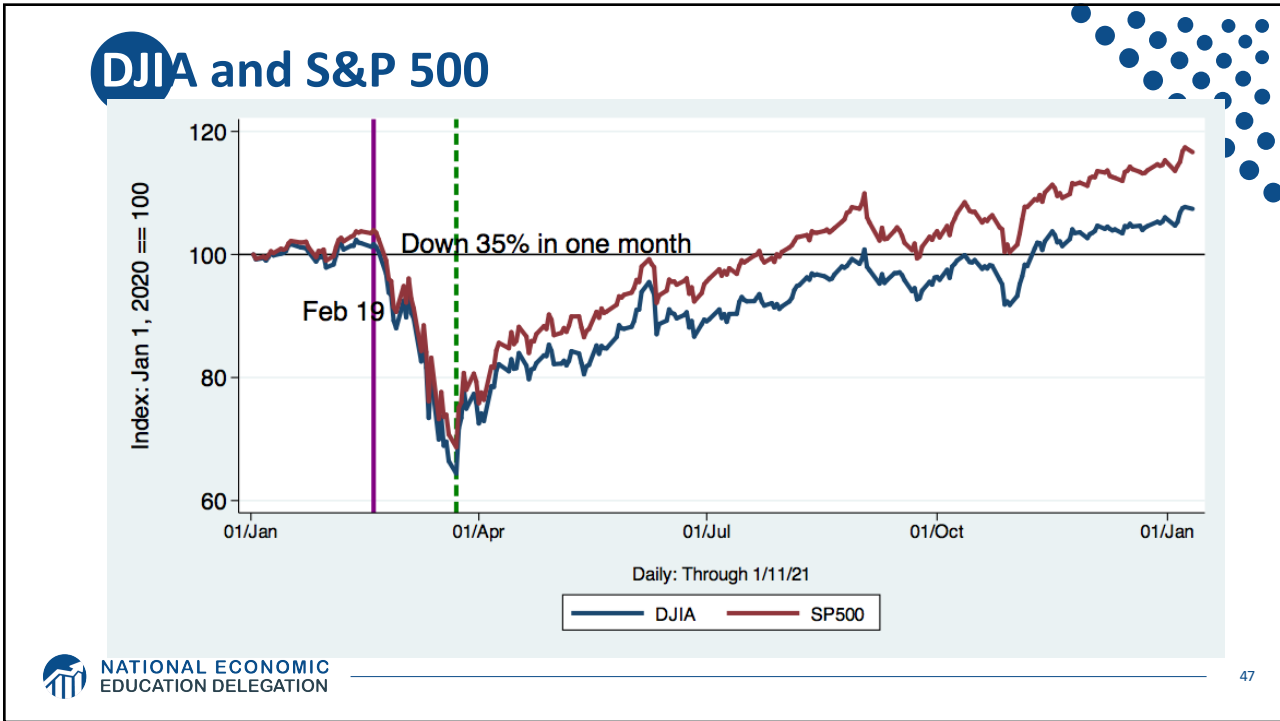
Employment in Marin County



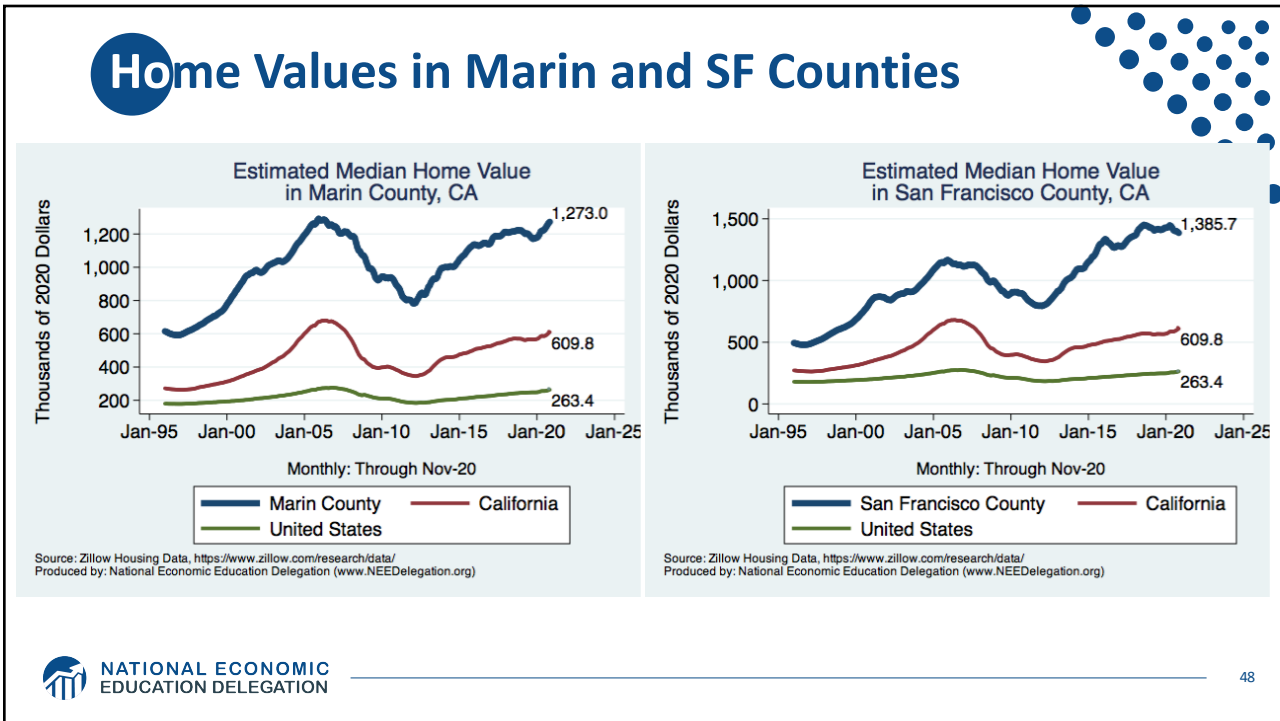
Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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A Tale of Three Policies Efforts

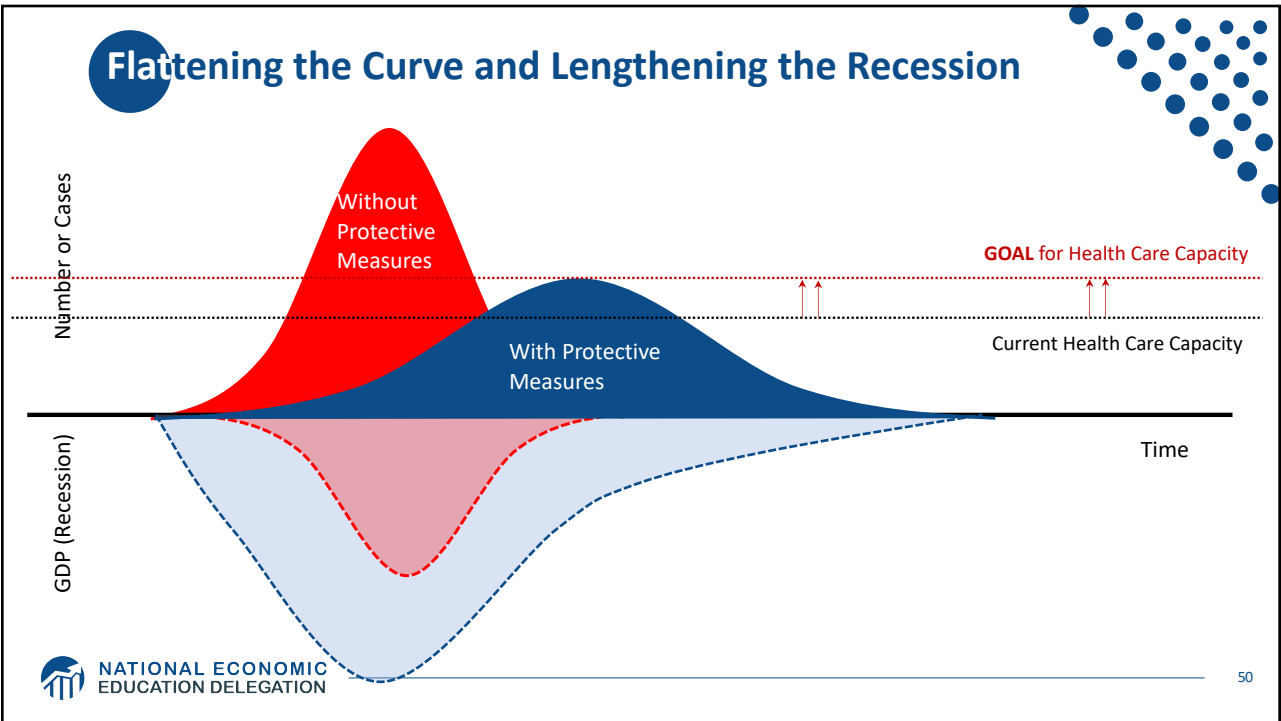
- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy



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Cost Benefit Analysis: Tradeoffs

• **No containment policies**

- Reduced economic activity
- **More** coronavirus deaths
- Non-coronavirus deaths

• **Stringent containment policies**

- **Dramatically** reduced economic activity
- **Fewer** coronavirus deaths
- Non-coronavirus deaths(?)

???

Analysis of Containment Policies

Reduced economic activity < value of additional deaths

Complicated equation – both numerically and philosophically

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BOTE Cost Benefit Analysis

BOTE: Back Of The Envelope

- **BENEFITS of social distancing:**
 - \$7 million/life and 600,000 lives saved (\$4.2 trillion)
 - Long term health issues avoided: 2 million at \$500,000 (\$1 trillion)
 - **Total Benefit of Social Distancing: \$5.2 Trillion**
- **COSTS of “Shelter in Place” or “Lockdown”**
 - There are about 70+ workdays in a quarter (plus March).
 - **The cost of a “lockdown” is roughly \$1.3 Trillion**

Benefit: \$5.2 trillion > Cost: \$1.3 trillion

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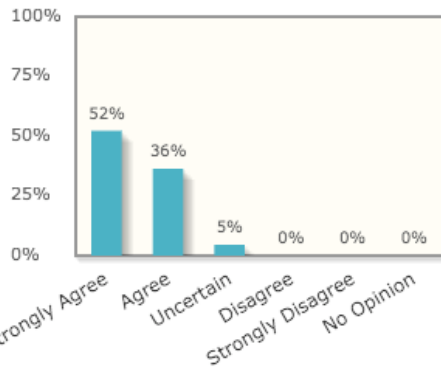
<https://twitter.com/BetseyStevenson/status/1242180499566669828>

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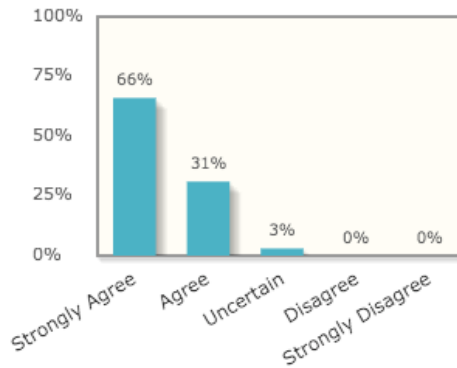
University of Chicago – Experts Poll

Question A: A comprehensive policy response to the coronavirus will involve tolerating a very large contraction in economic activity until the spread of infections has dropped significantly.

Responses

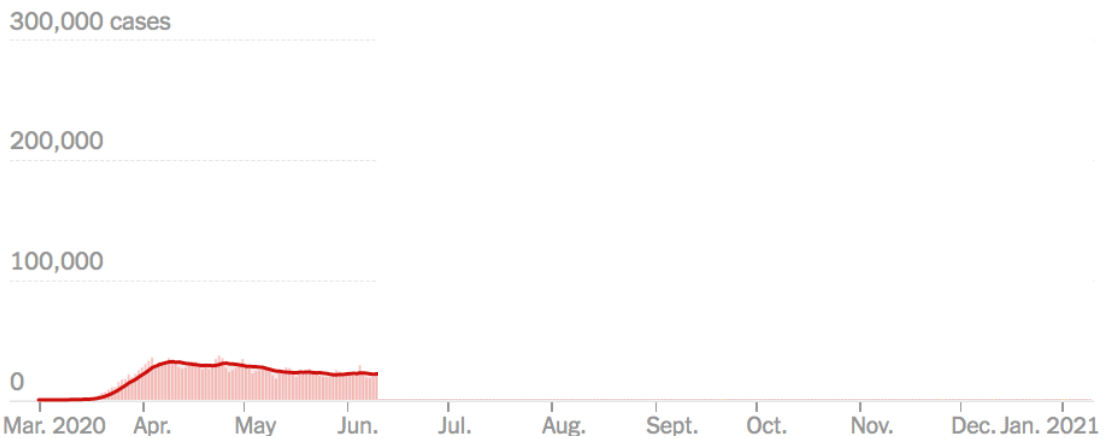


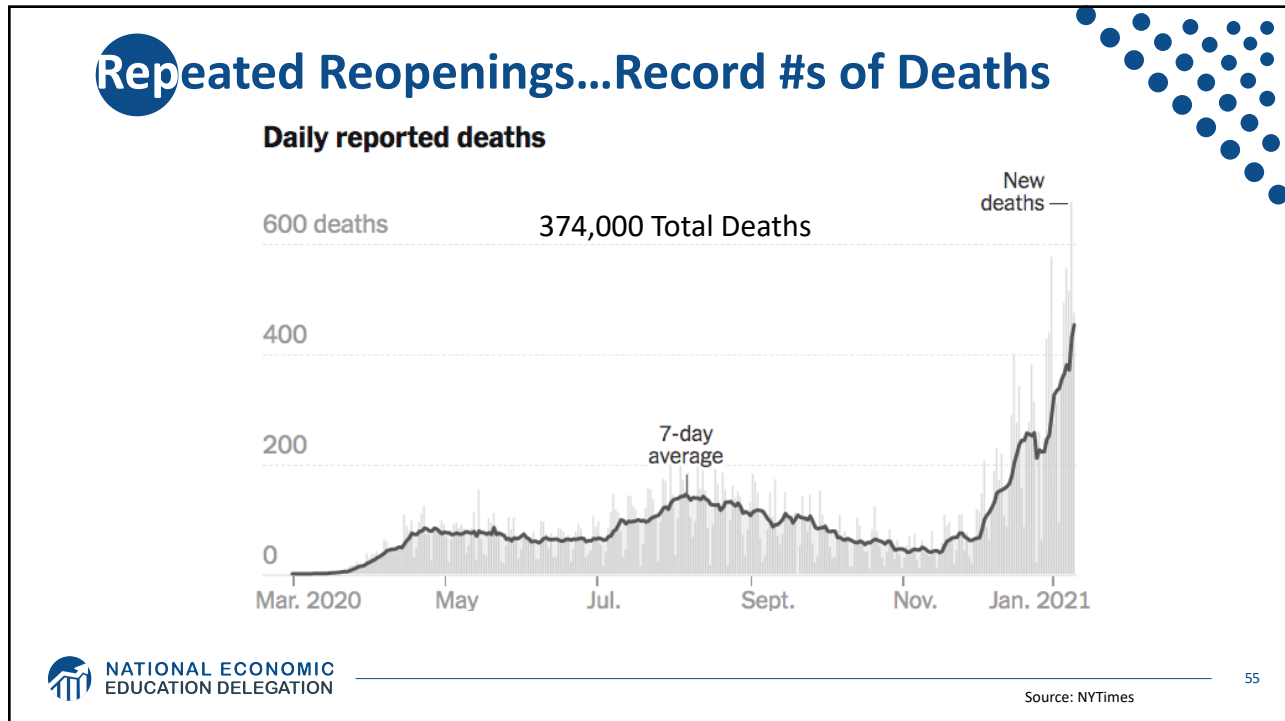
Responses weighted by each expert's confidence



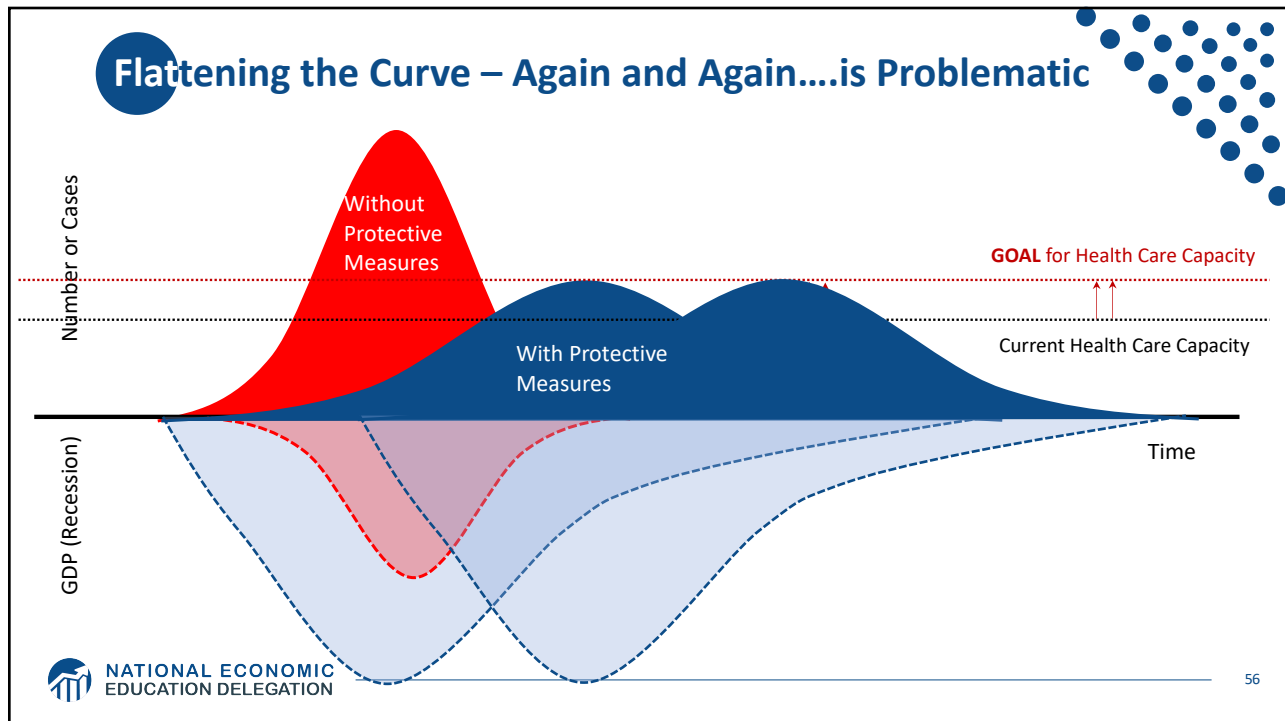
Concern: Opening Too Soon

New reported cases by day





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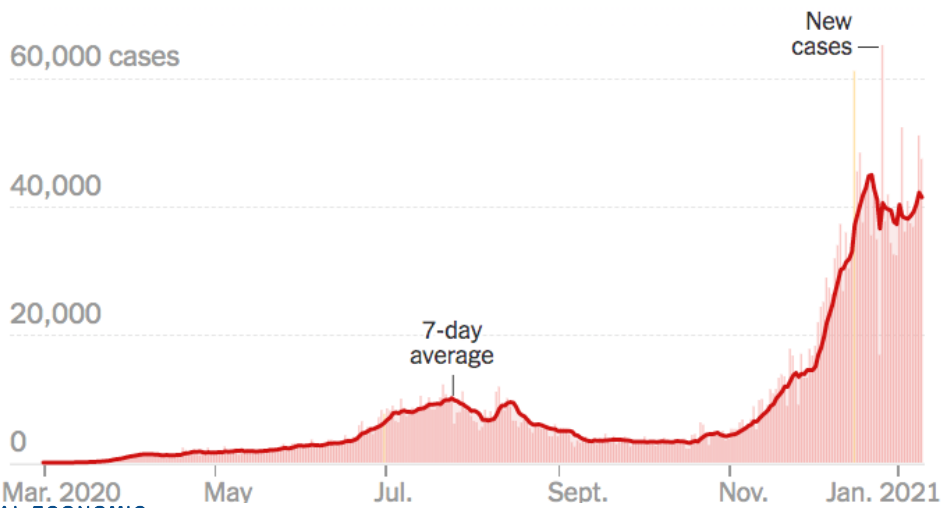
Reopening, It's Not This Simple



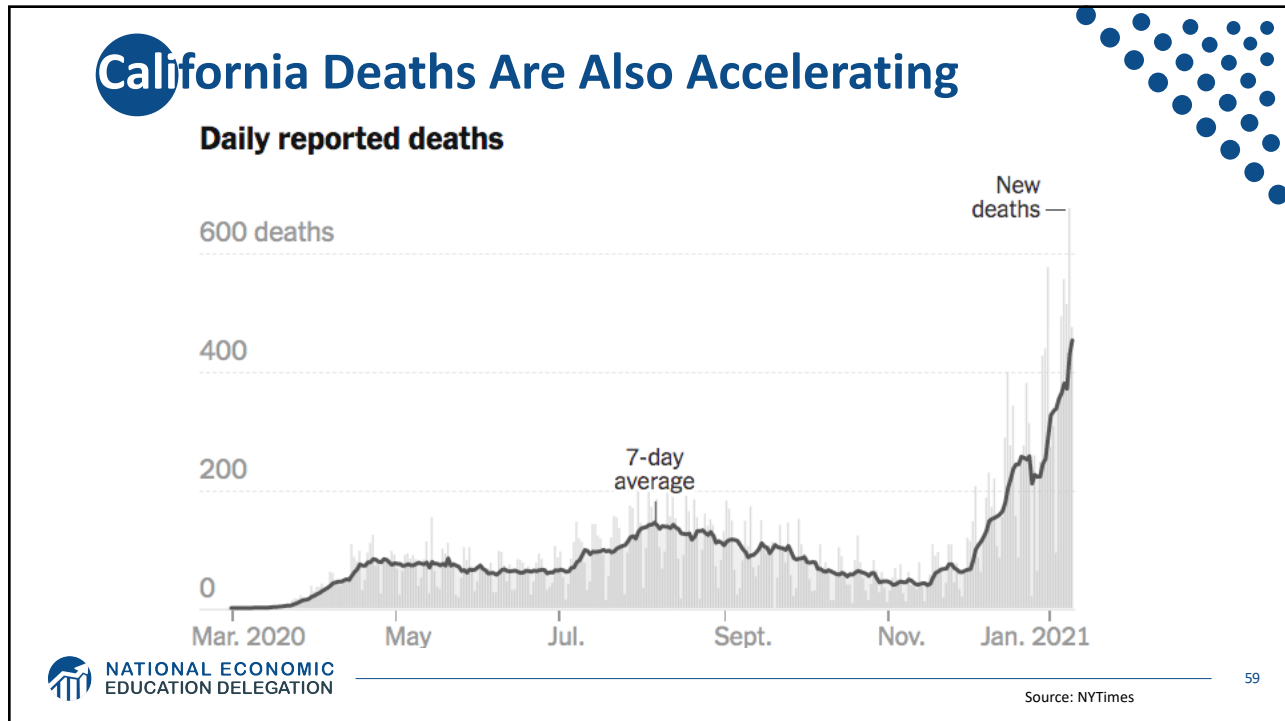
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California Cases Are High

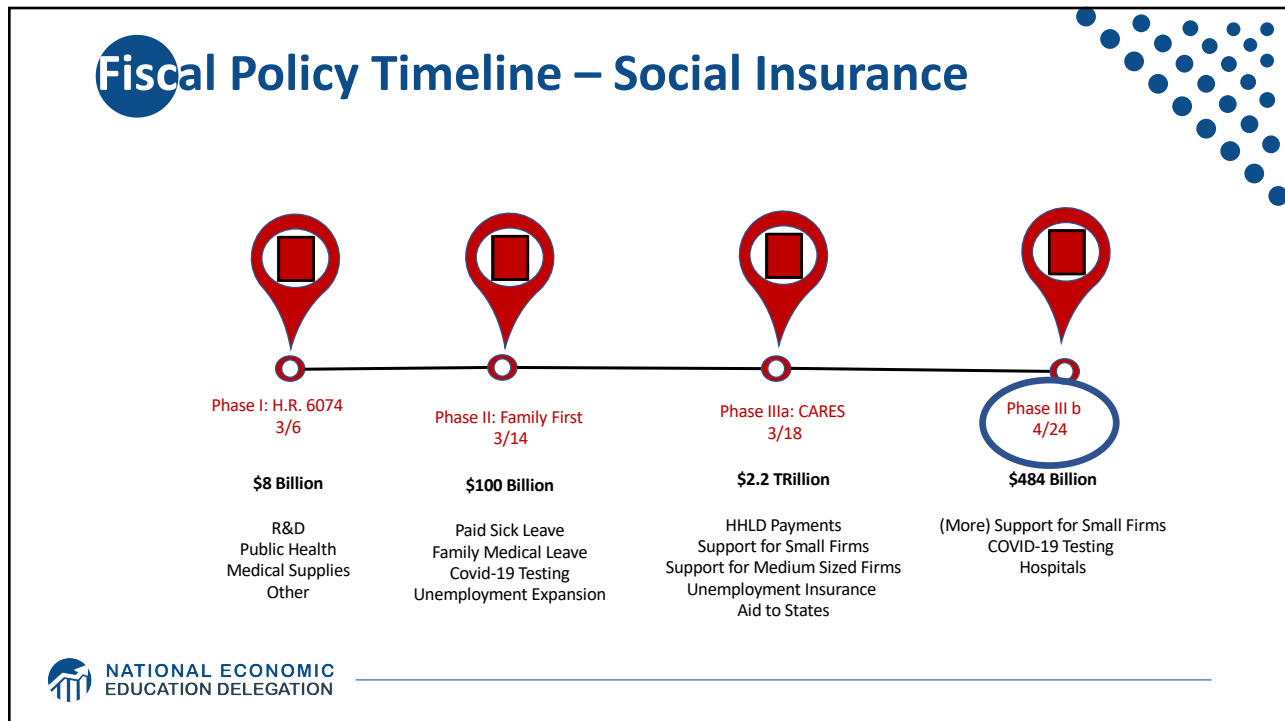
Daily reported new cases



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There was/is an Enormous Fiscal Policy Gap

- The last time Congress acted was April 24.
- Unemployment payments are not sufficient.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing employment.



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New Fiscal Package: What is in it?

- \$600 (may soon be \$2,000) checks to individuals
- \$300 additional unemployment benefits (through March)
- \$284 billion for paycheck protection program
- \$82 billion for schools and universities
- \$68 billion for vaccine distribution
- \$25 billion for rental assistance
- \$93 billion in other support



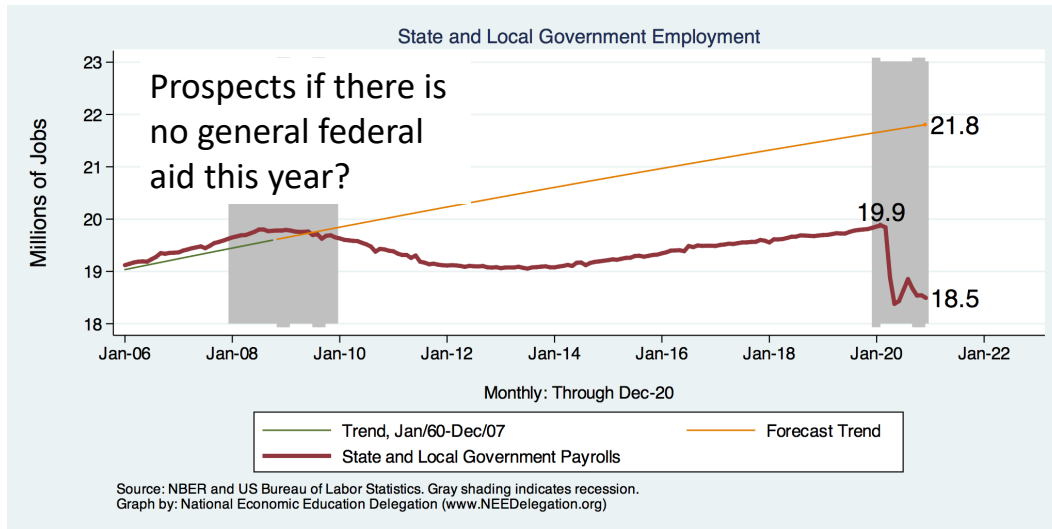
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What's Missing?

- **Real help to households**
 - \$600 just isn't enough.
- **State and local support**
- **Real support for renters**
 - Down possibly as much as \$70B.
- **Targeted small business support**
- **Independent contractors**

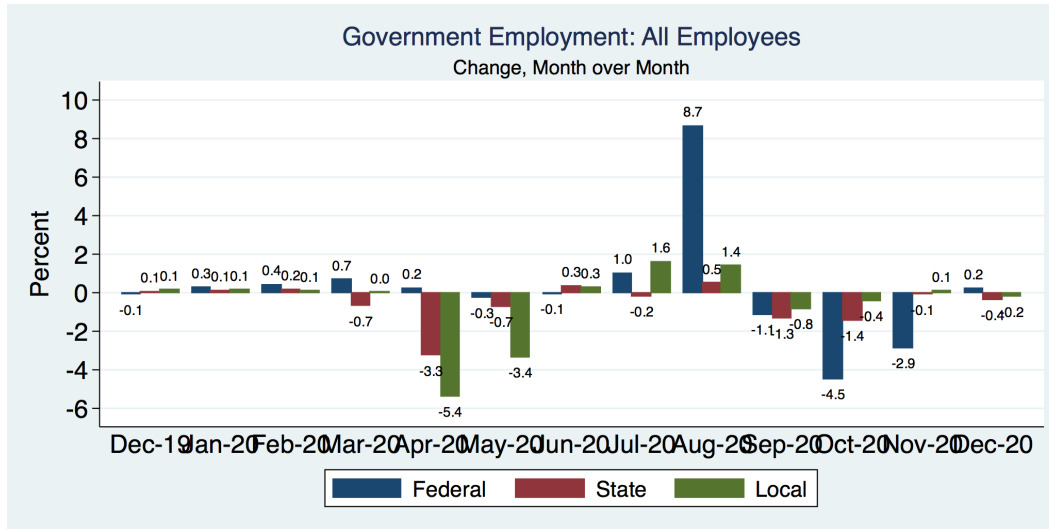
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State and Local Employment



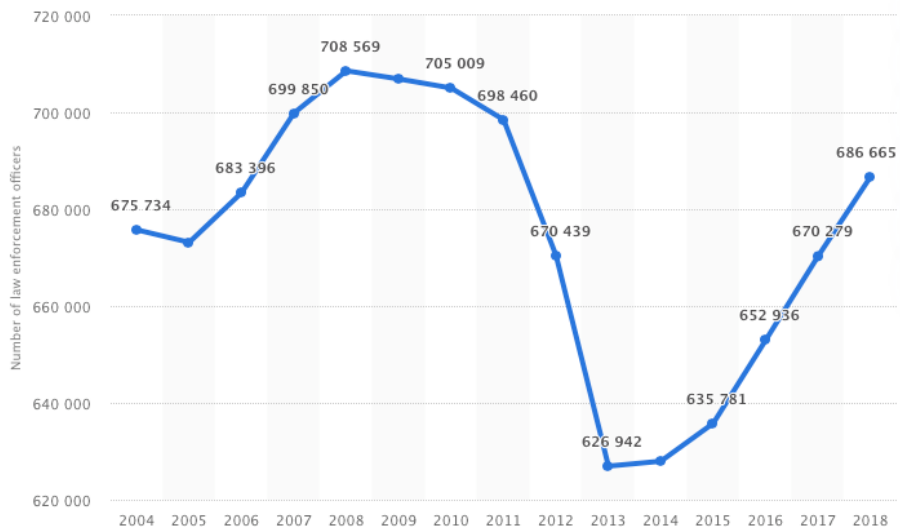
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State & Local Gov'ts Are Tightening

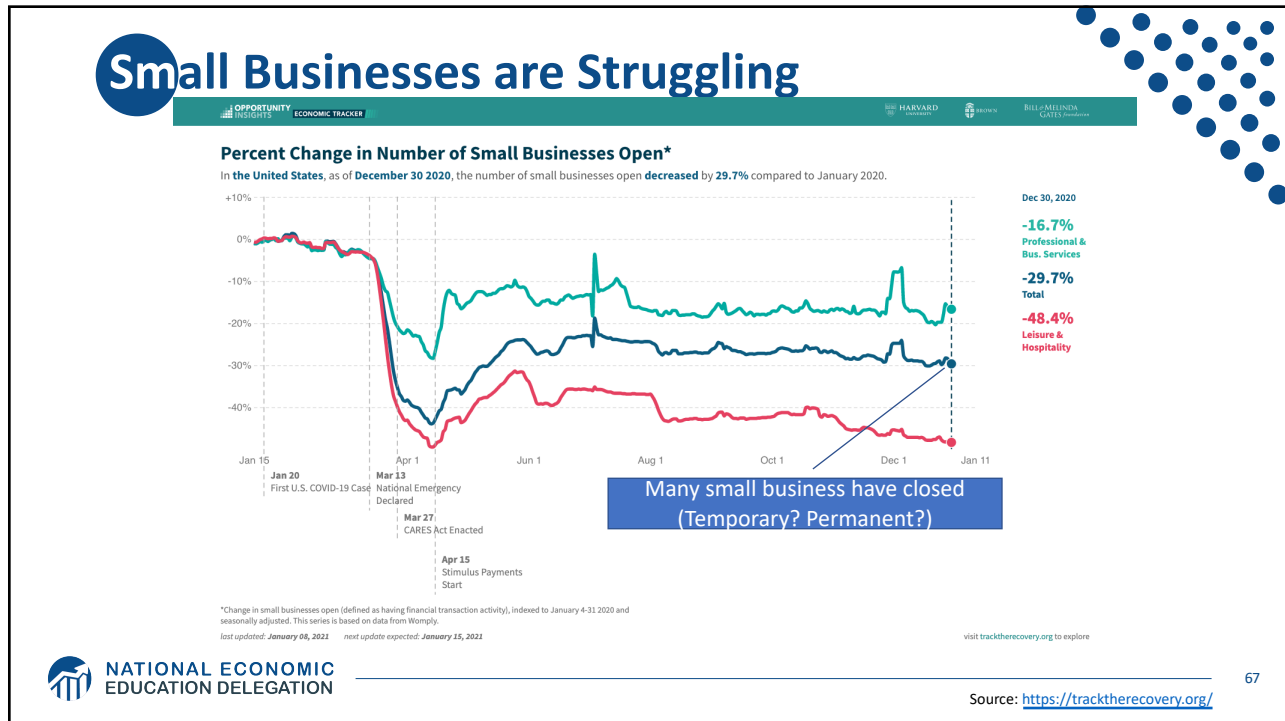


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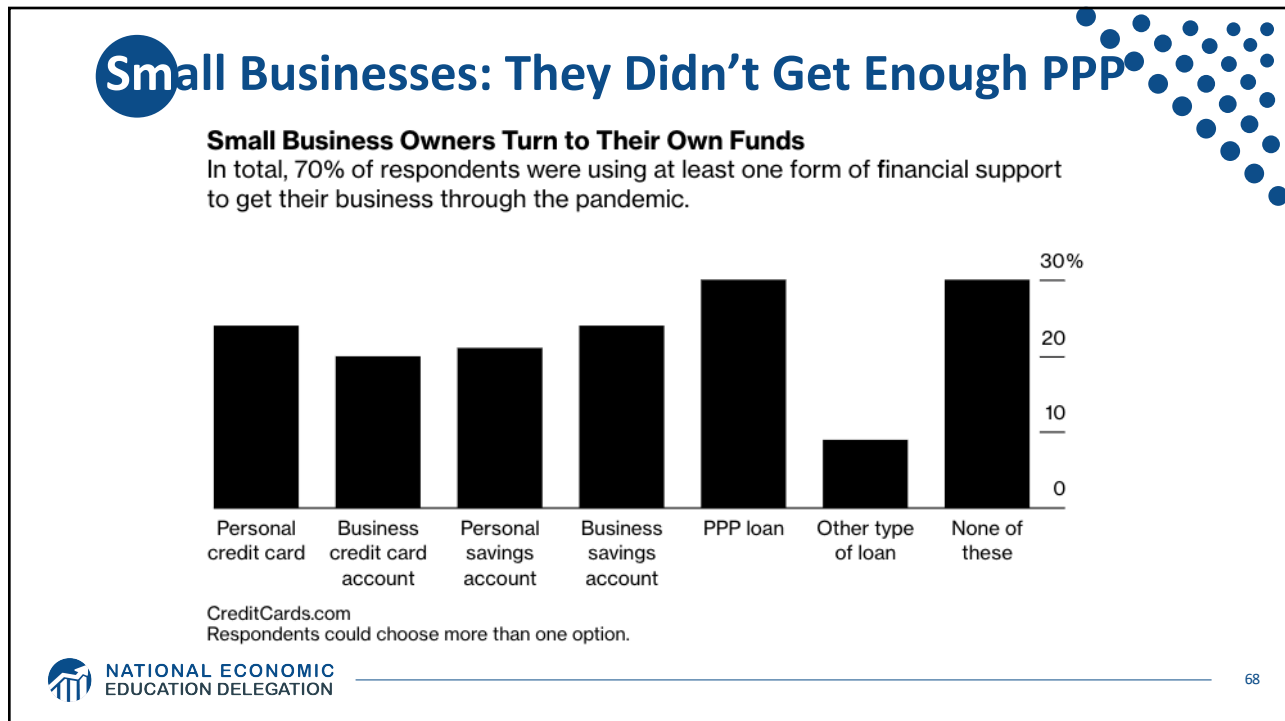
of Law Enforcement Officers: 2004-2018



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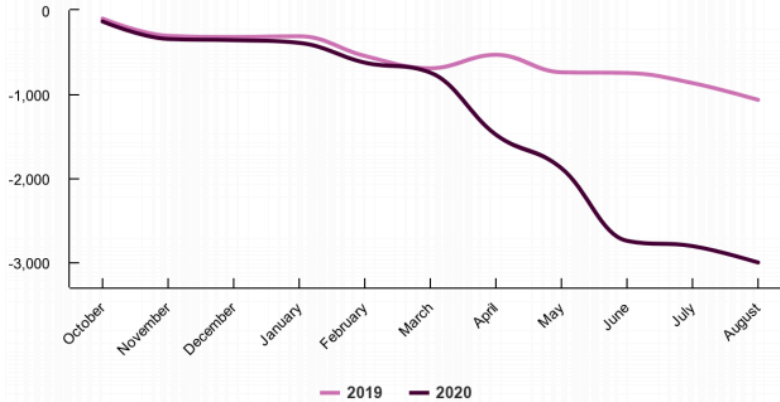


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Rapidly Growing Deficit!

Monthly Cumulative Deficits Fiscal Years 2019 and 2020

Billions of Dollars



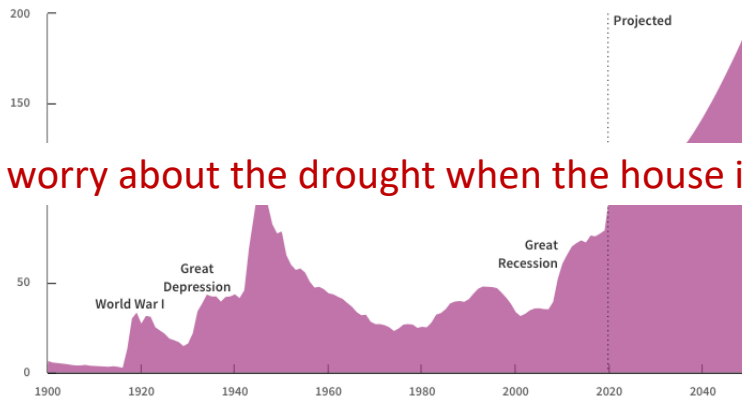
Sources: Congressional Budget Office; Department of the Treasury.
The value shown for August 2020 is CBO's estimate.

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How Do We Pay for This?

- Good News: Treasury Interest Rates are Near Zero
- Bad News: The Long-term Budget Outlook was already a Mess

Percentage of Gross Domestic Product

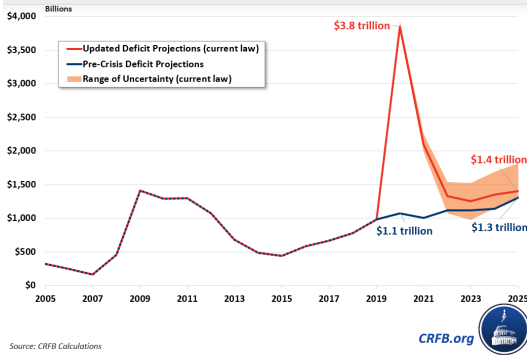


Don't worry about the drought when the house is on fire!

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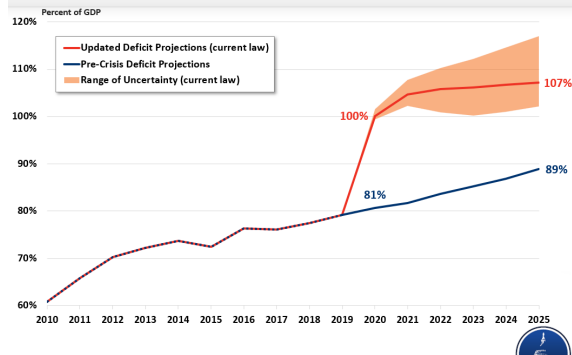
Looking Forward: Federal Budget Implications

Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

Debt Will Equal Size of Economy This Year



Debt will likely equal GDP this year

Source: CRFB Calculations

CRFB.org

Is it a V or a K shaped recovery?

1. Aggregate data look good because 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
3. Nike swoosh

A “K-shaped” recovery?

Executive Summary

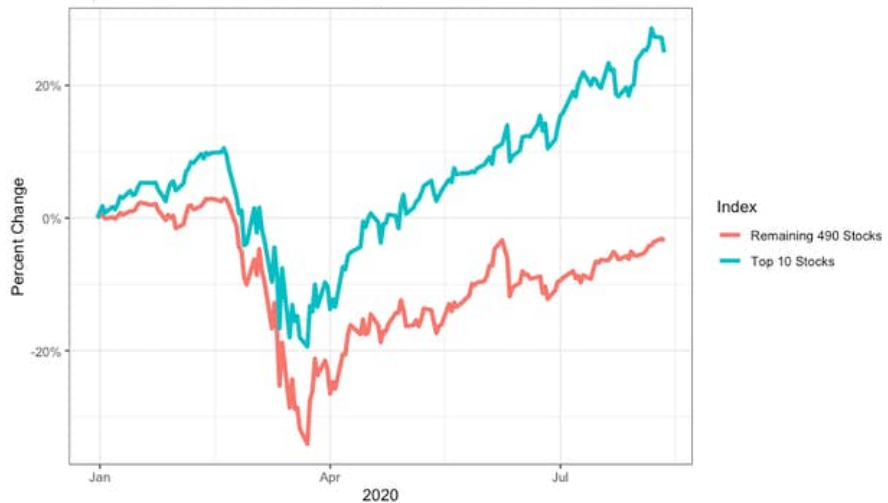
- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
 - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity is very high.

Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance



Source: TrendPlaybook.com, Bloomberg

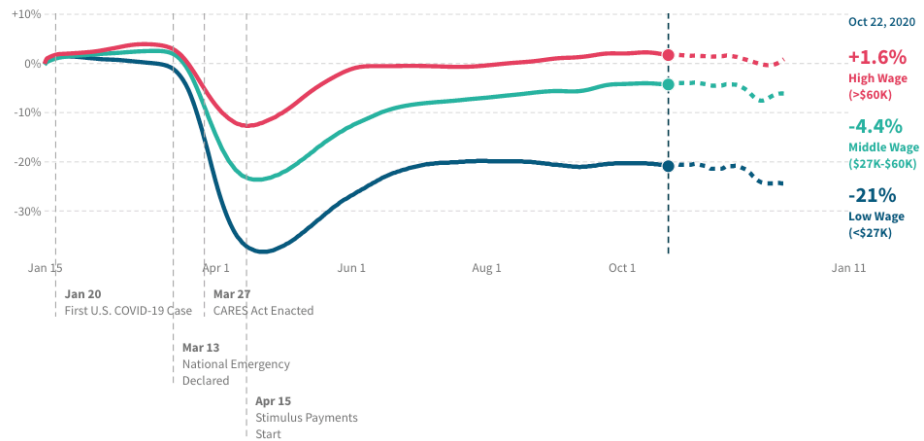
Coronavirus and Inequality

- Resources to weather the storm.
- Racial inequities.
- Educational inequities
- Telecommuting
- Low wage jobs are at risk.

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Low Wage Employment is Lagging

In the United States, as of October 22, 2020, employment rates among workers in the bottom wage quartile decreased by **21%** compared to January 2020 (not seasonally adjusted).

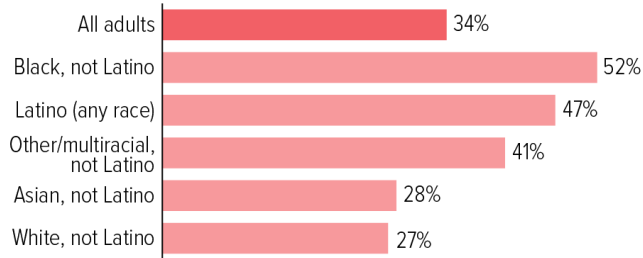


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Low Income Troubles

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



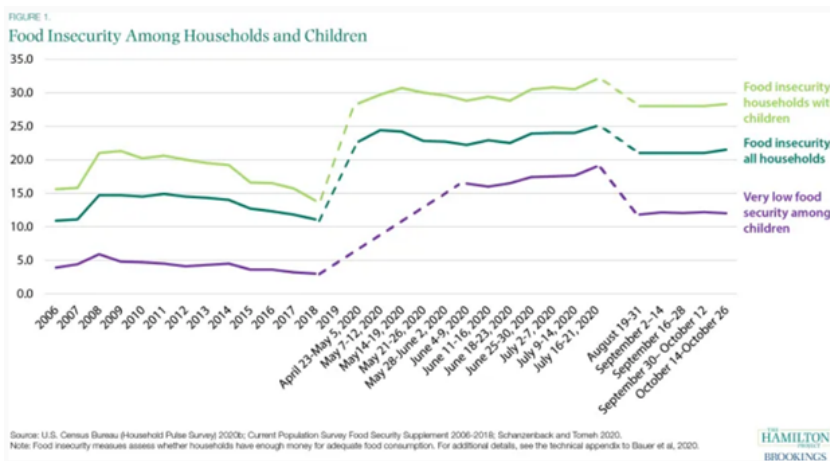
Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

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

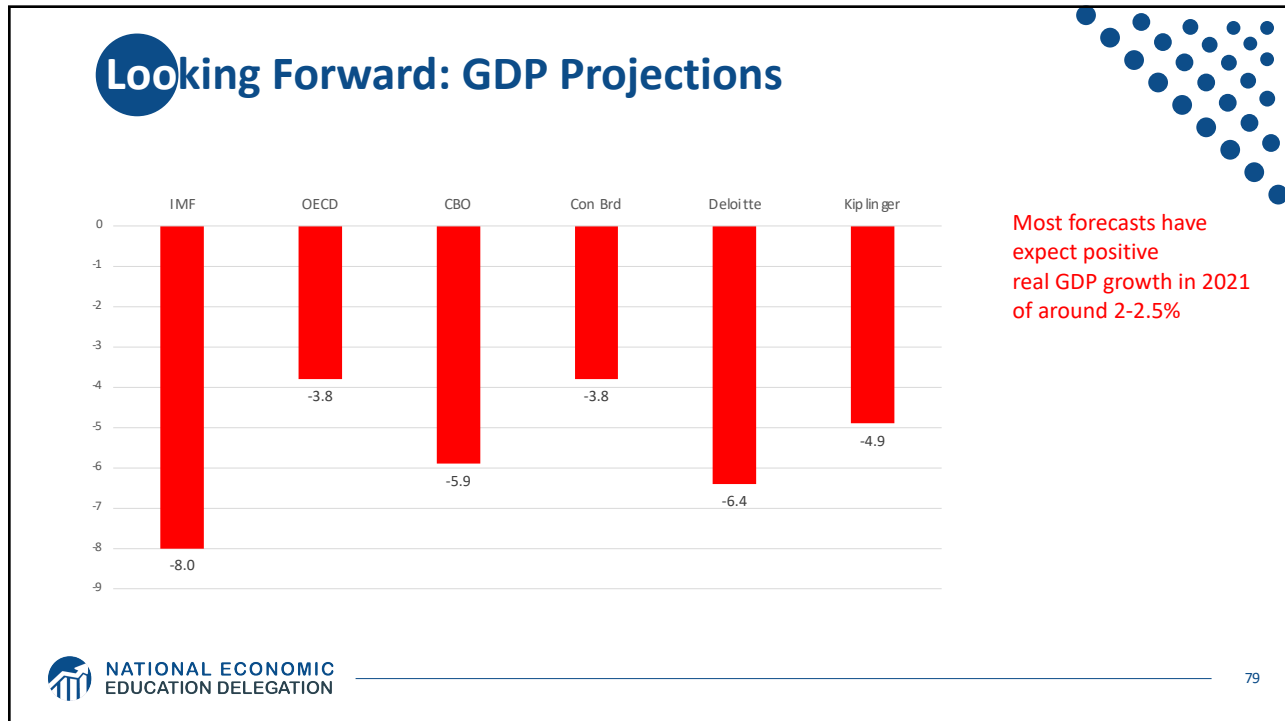
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



Food Insecurity is Elevated



Source: <https://tracktherecovery.org/>



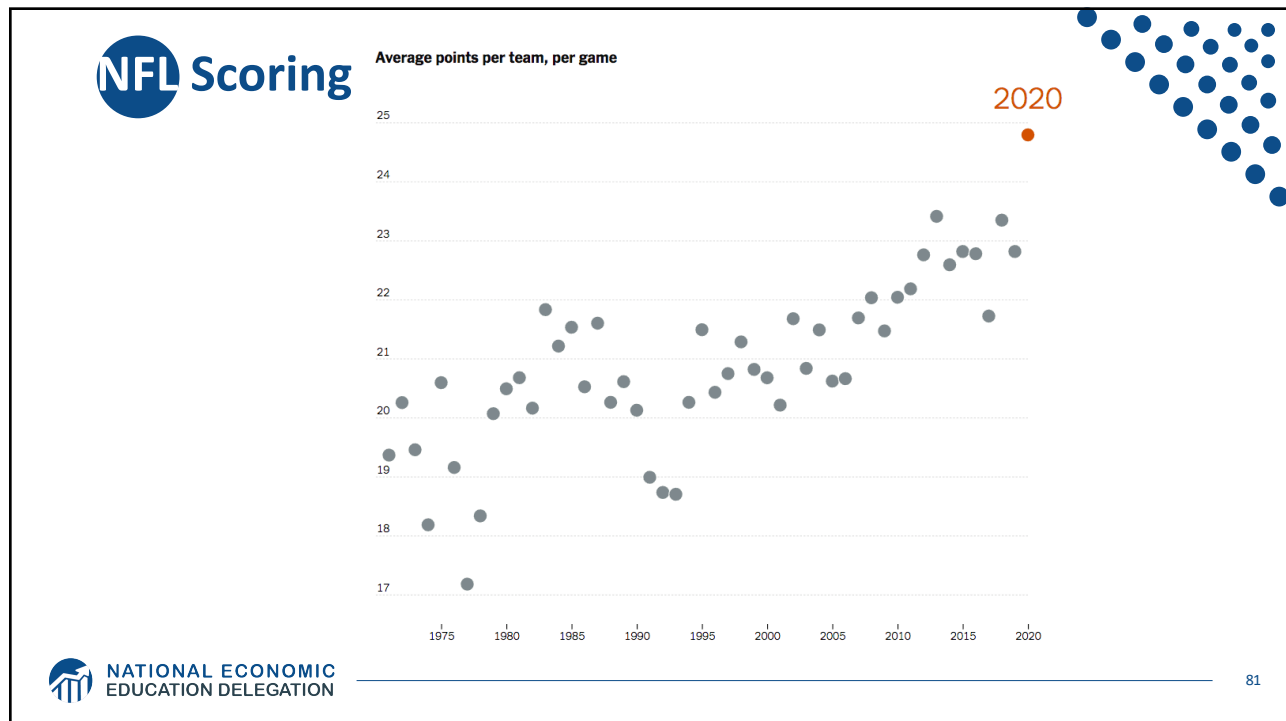
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Structural Changes?

- **Pandemic has been an accelerant.**
 - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**
- **Wealth concentration**
- **Industry concentration**
- **Automation**
- **NFL Scoring**

NATIONAL ECONOMIC EDUCATION DELEGATION

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The Good News (Sort of)

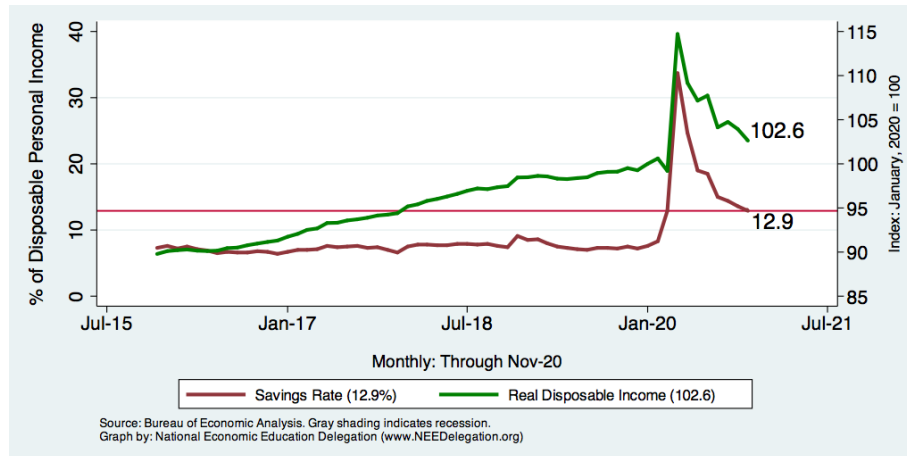
- **There were no short-run macro problems at the start of the crisis.**
 - The only obstacle to a quick recovery is damage that is being done while the pandemic continues (and the pandemic itself)
 - Main concern: temporary disruptions turning into permanent ones
- **Things are not as bad as they could be.**
 - Federal Reserve prevented collapse in financial markets
 - Congress + White House prevented complete collapse in labor/productive markets
- **Savings are off the charts!**

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Source of Optimism About Recovery?



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Causes for Concern

- **Economic inequality is worsening**
 - Elevated/persistent unemployment + rising asset prices.
 - Does not show up in aggregate data (problem of “averages”).
- **State/local governments face deep budget shortfalls**
 - Often the largest employers within a state.
- **Eviction/foreclosure moratoria are shifting burdens to future.**

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Bonus Slides

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Deficit Impact

Estimated Deficit Impact of Major COVID Relief Legislation (billions)

	Families First	CARES	PPPHCE	Response & Relief	Total
Small Business Support [^]	-	\$375	\$225	\$325	\$960
Unemployment Benefits	\$5	\$460	-	\$120	\$585
Recovery Rebates	-	\$290	-	\$165	\$460
Health Care Spending	\$90	\$160	\$100	\$70	\$420
State and Local Aid [*]	\$85	\$175	-	\$80	\$340
Tax Relief	\$25	\$265	-	\$40	\$330
Other Spending	\$20	\$170	-	\$135	\$325
Total COVID Relief (Net Cost)	\$225	\$1,900	\$355	\$935	\$3,415

Rounded to nearest \$5 billion.

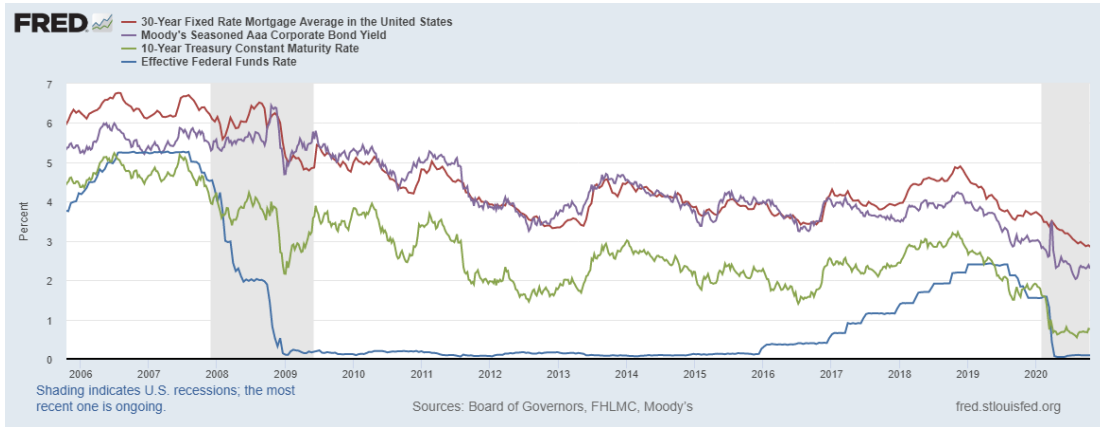
Source: Committee for a Responsible Federal Budget based on CBO, JCT, and other sources.

[^]We assume the PPP from the CARES Act cost based on its initial score and allocate all returned or unused funds to the PPPHCE

^{*}Includes Coronavirus Relief Fund money and funding for public schools, transit, and existing Medicaid costs.

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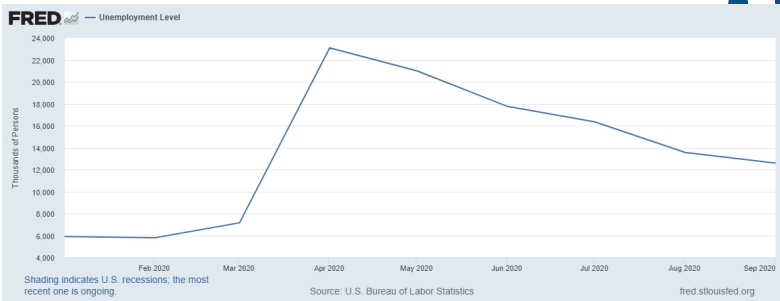
Impact on Borrowing Rates



Characterizing Unemployment

Important Definitions:

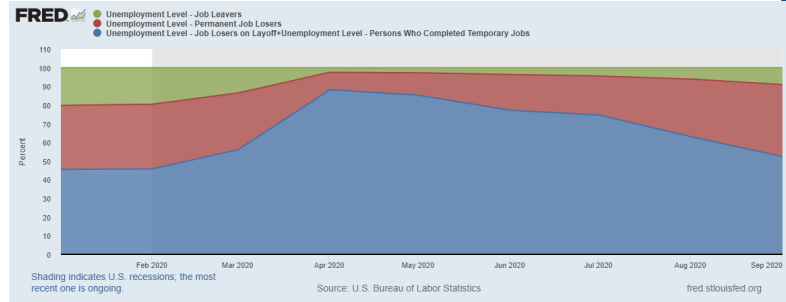
- A person is **employed** if they worked for pay or were temporarily absent in the last week
- A person is **unemployed** if they were (1) not employed, (2) were available for work, and (3) actively sought work in the previous 4-weeks
- A person is **not in the labor force** if they are neither employed nor unemployed



Characterizing Unemployment

Survey respondents are asked to indicate the “reason for unemployment”:

1. On temporary layoff or completed temp jobs (blue)
2. Involuntary and permanent job loss (red)
3. Quits, reentrants, and new entrants (green)



Key takeaway: Permanent job losers are increasing share of unemployment pool

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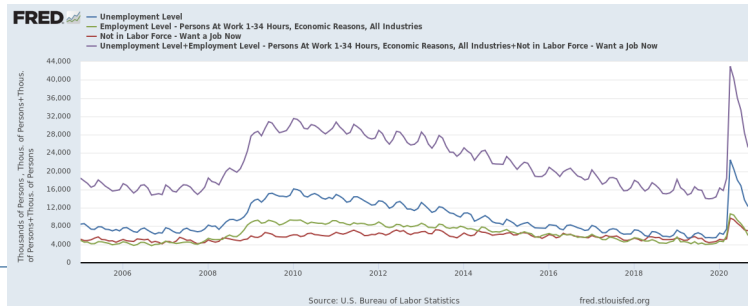
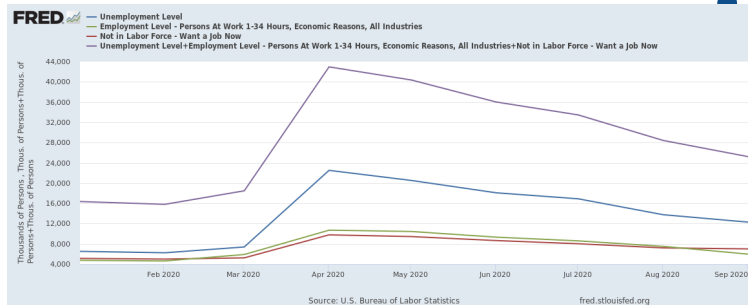
Characterizing Unemployment

Groups not classified as unemployed:

1. Not employed, not actively seeking *but want a job now* (red)
2. Employed part time *but want full-time work* (green)

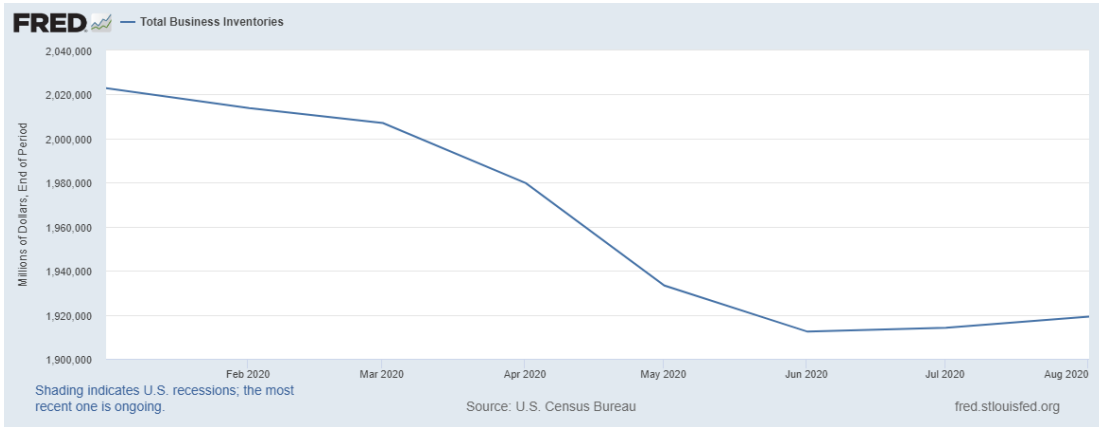
Key Takeaways:

1. These groups *always exist*
2. Levels are *countercyclical*
3. Currently +8m compared to pre-pandemic

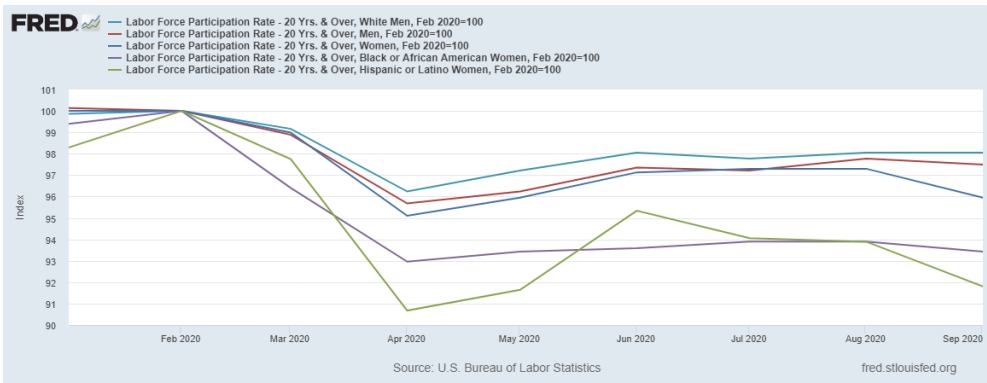


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Business Inventory



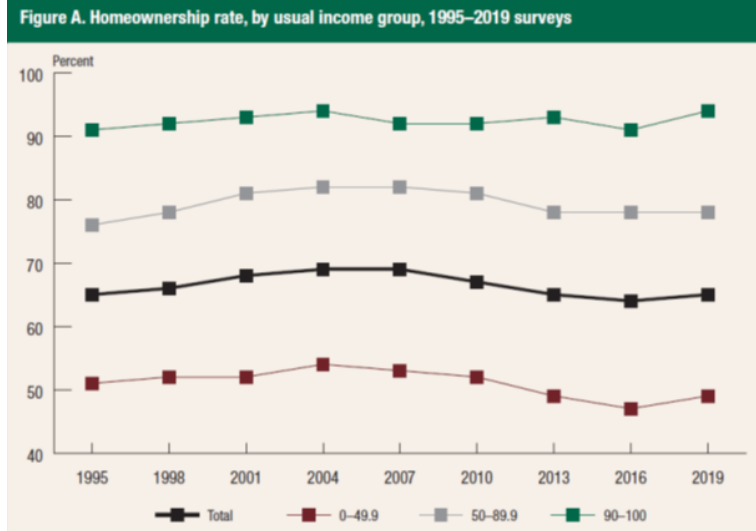
Recovery/recession for whom?



Recovery/recession for whom?

The bottom **60%** of income earners hold just **5.8%** of the value of equities/mutual funds...

... and around **65%** of people own their home



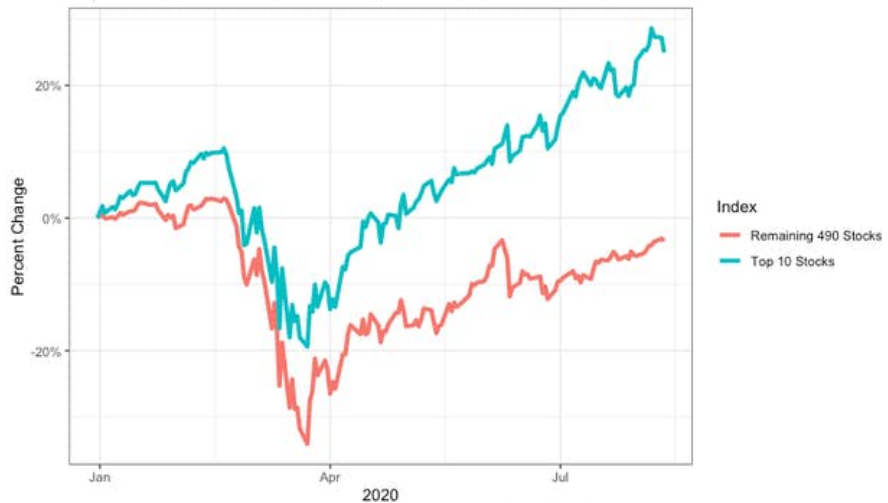
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Recovery/recession for whom?

Top 10 S&P Stocks:

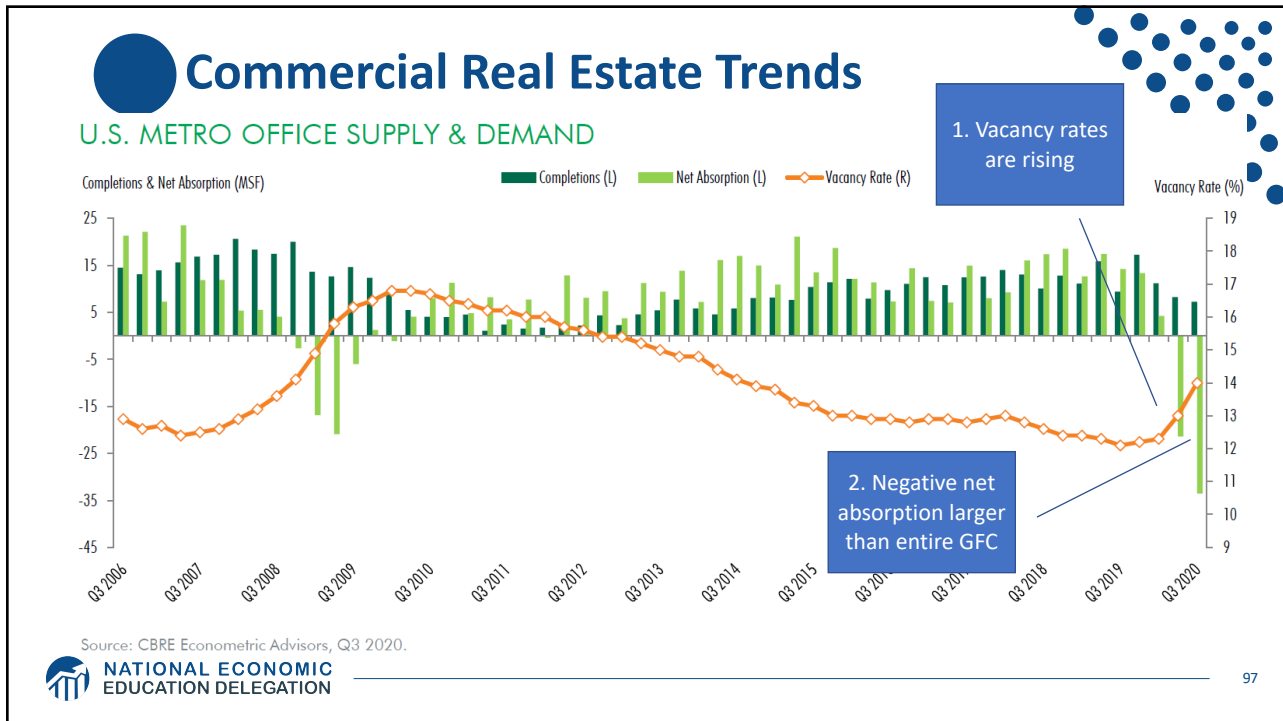
1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

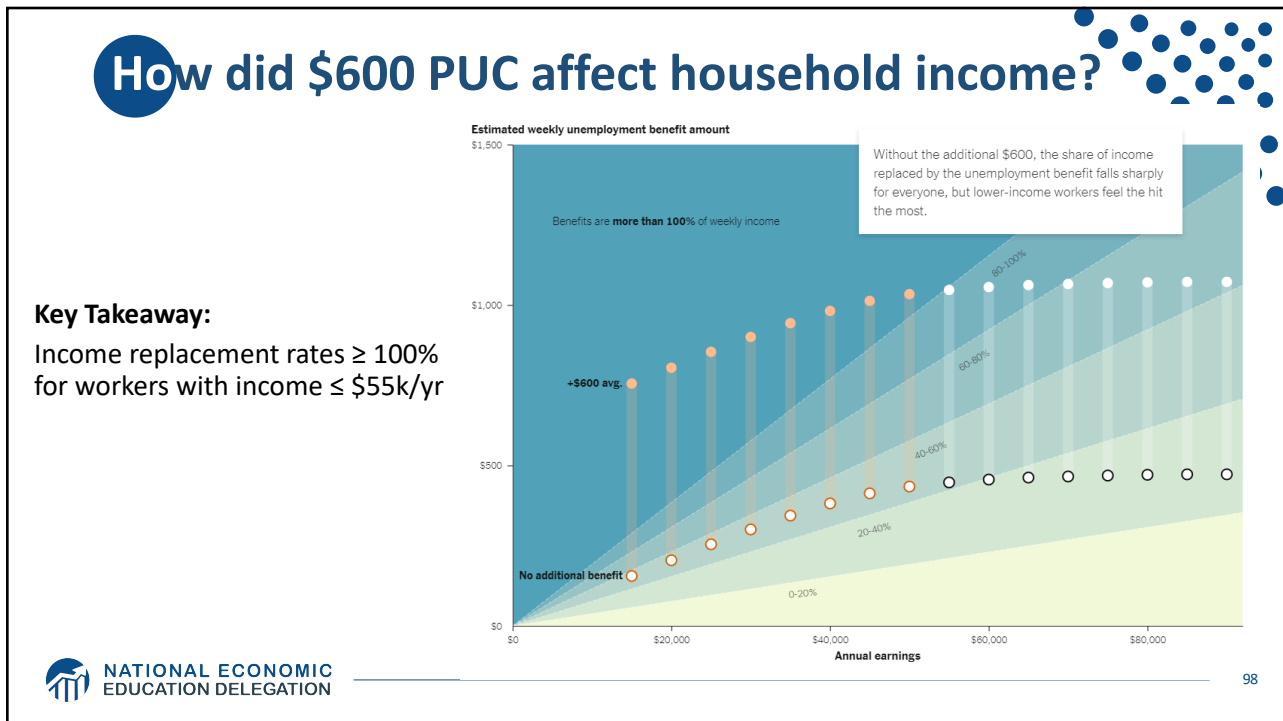


Source: TrendPlaybook.com, Bloomberg

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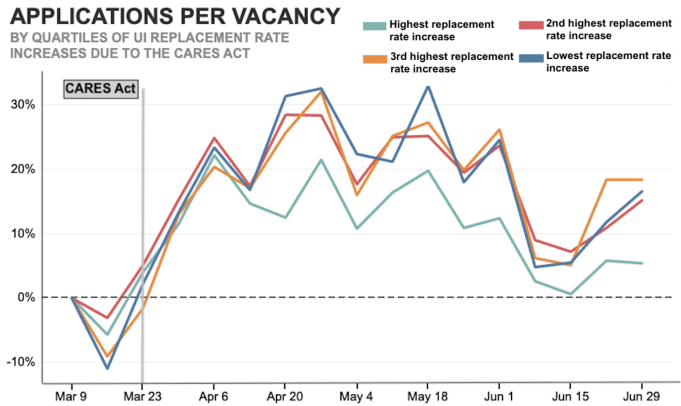


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Was there a disincentive effect from \$600?

Key Takeaways:

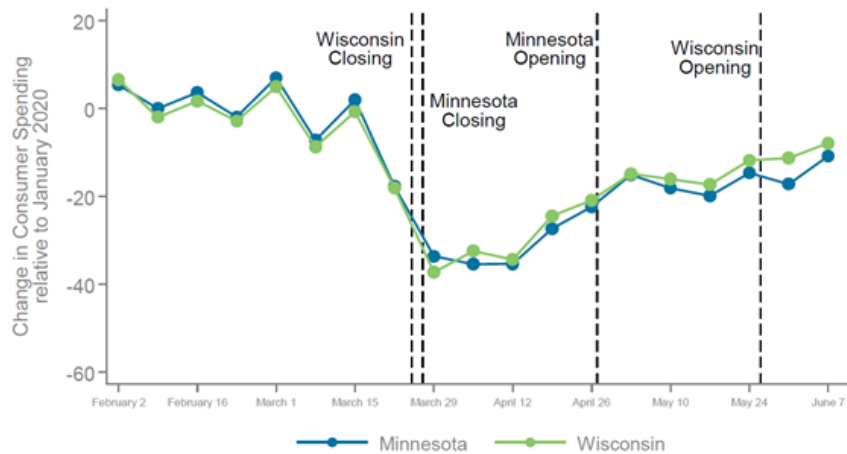
1. Applications per job posting increased for all replacement rates
 - no effect *on average*
2. Smaller increase for highest replacement rates
 - some effect *on margin*



Source: Glassdoor (2020), and author's calculations EconoFact econofact.org

How impactful is government?

Causal Effects of Re-Openings on Economic Activity: Event Studies Case Study on Business Re-Openings: Minnesota vs Wisconsin



Financial Insecurity Before Coronavirus

- 40% of Americans don't have the cash to pay for a \$400 emergency expense
- 25% have no retirement or pension savings
- Less than 60% can answer at least three basic financial literacy questions correctly.
- 1 in 5 of adults knows someone impacted by the opioid crisis.
- About 25% of borrowers who attended a for-profit college are behind on student loan payments compared with about 10% who attended a public or private college

Home Schooling - Access to the Internet

