

Osher Lifelong Learning Institute, Summer 2021

Contemporary Economic Policy

Summer, 2021, San Francisco State University

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: 590+ members**

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

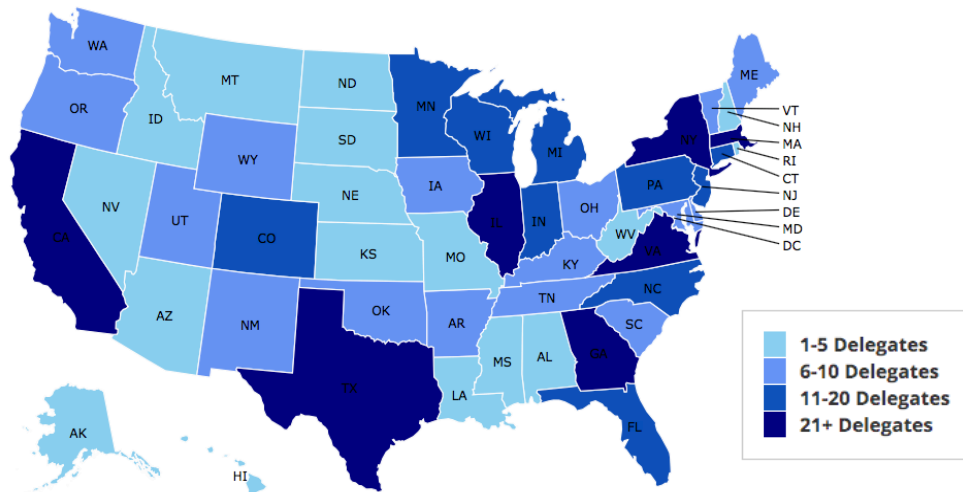
- **Global Partners: 44 Ph.D. Economists**

- 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
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



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Course Outline

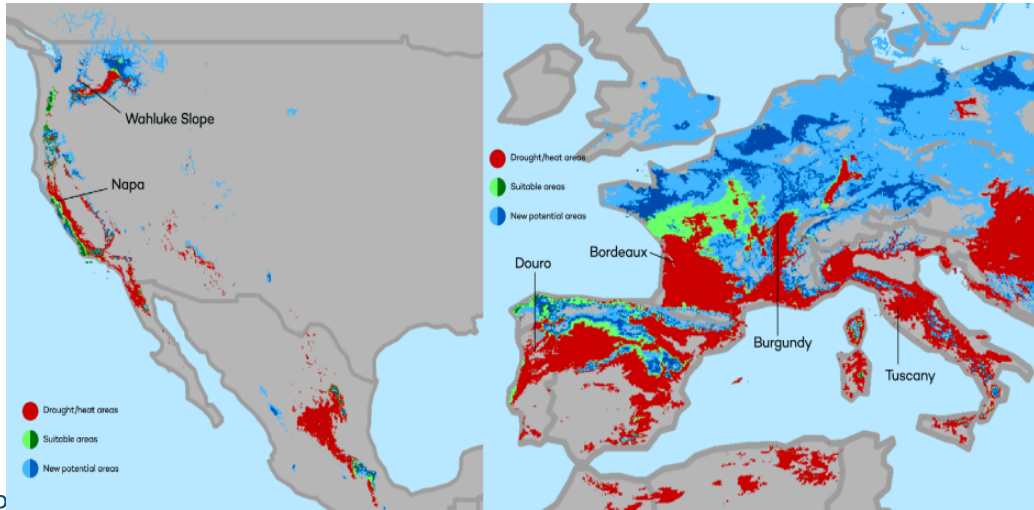
- **Contemporary Economic Policy**
 - **Week 1 (6/8): US Economy & Coronavirus Economics**
 - Week 2 (6/15): Climate Change Economics (Jennifer Alix-Garcia, Oregon St.)
 - Week 3 (6/22): Health Economics (Veronika Dolar, SUNY)
 - Week 4 (6/29): Economic Inequality
 - Week 5 (7/6): The Black-White Wealth Gap
 - Week 6 (7/13): Autonomous Vehicles



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Climate Change Economics

The changing map of the world's wine-growing regions.



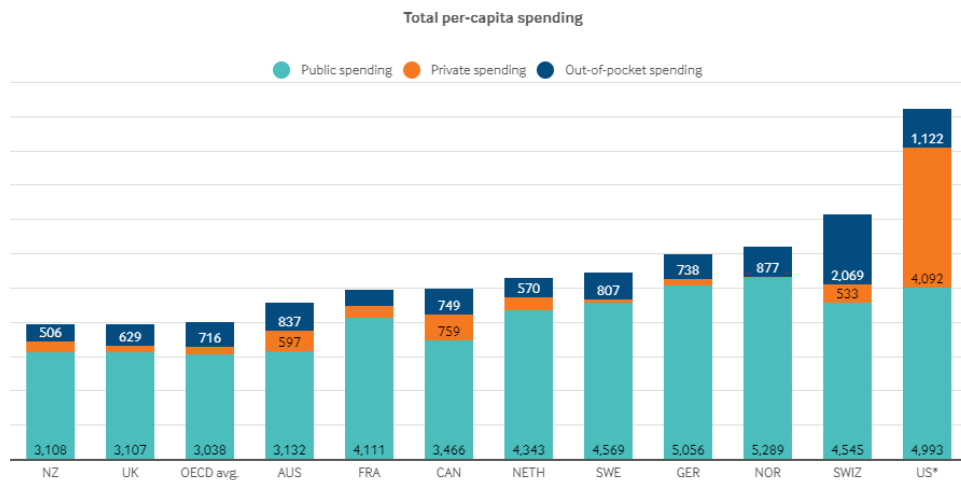
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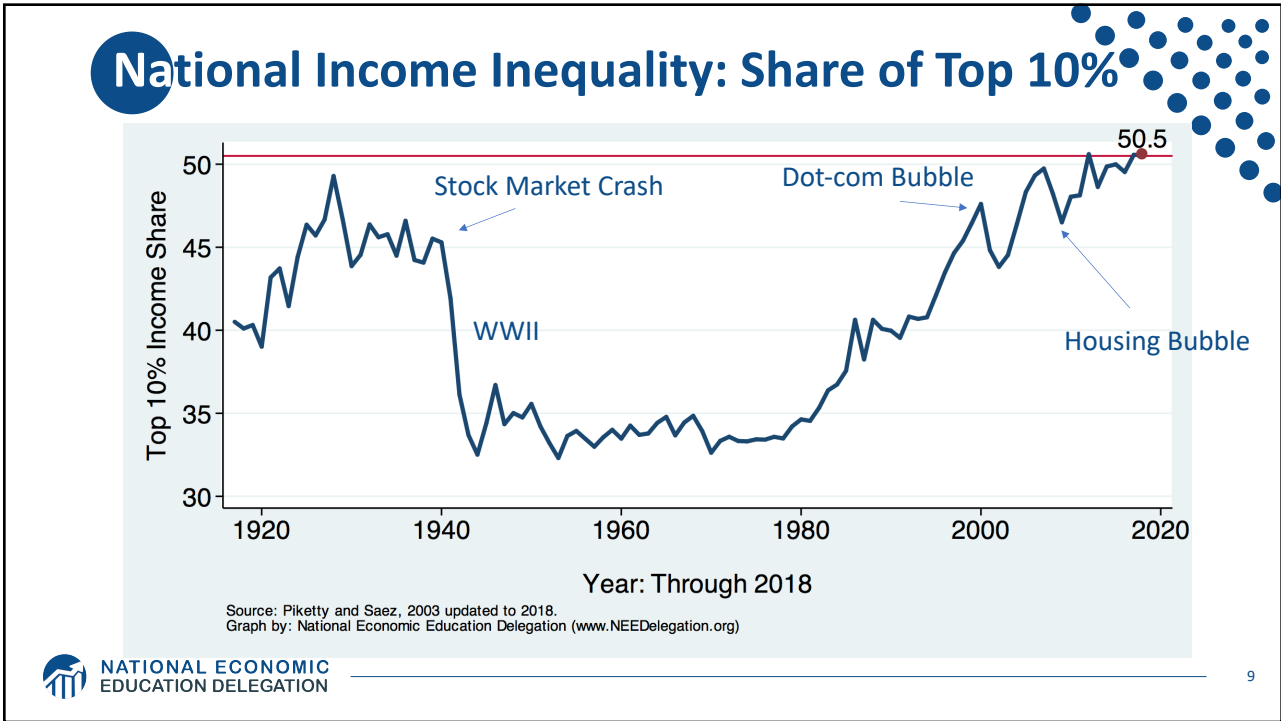
International Comparison: Health Spending

Dollars (US\$), adjusted for differences in cost of living

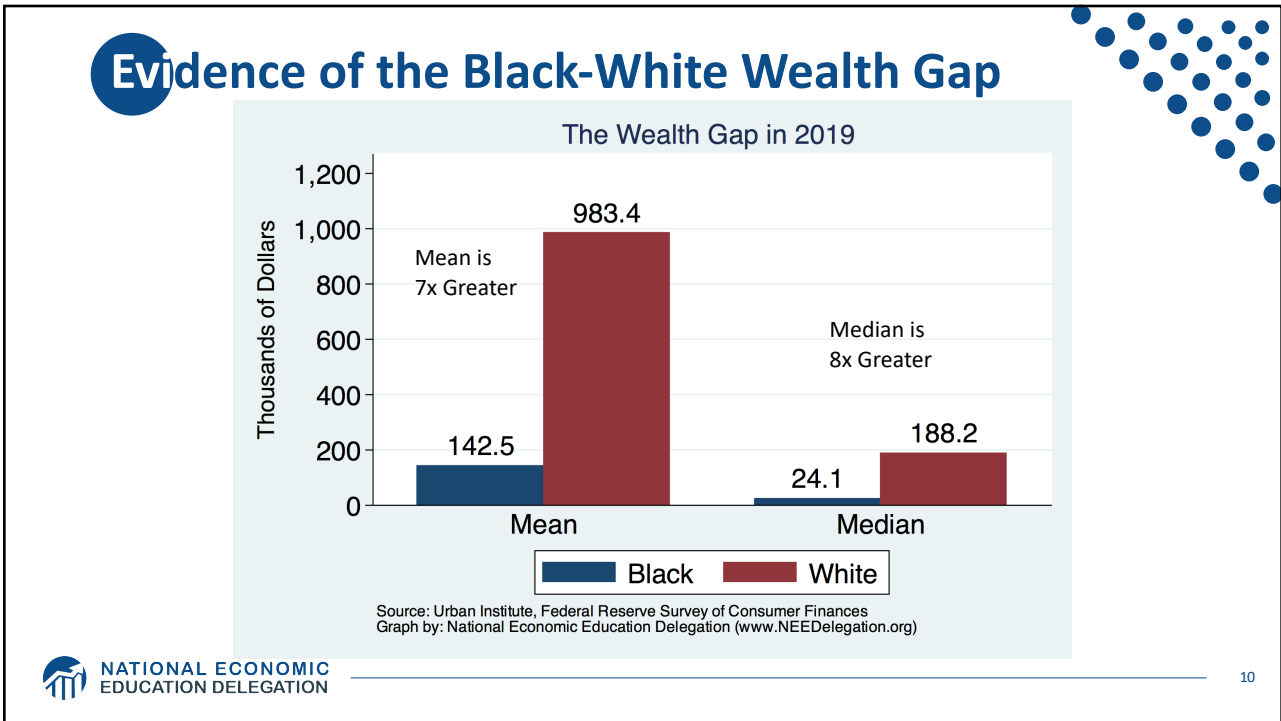


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Autonomous Vehicles



COVID-19: Economic Implications and Policy Response



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
- Doris Geide-Stevenson, Weber State

- **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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Some Basic Statistics

Statistic:	Value
Population	331.1 Million
Labor Force	160.9 Million
Employment	144.9 Million
Gross Domestic Product (GDP)	22.1 Trillion
Ave. Hourly Earnings	\$30.33

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U.S. Economy in Global Perspective

U.S. Real GDP:

\$19.3 trillion in 2019-Q4

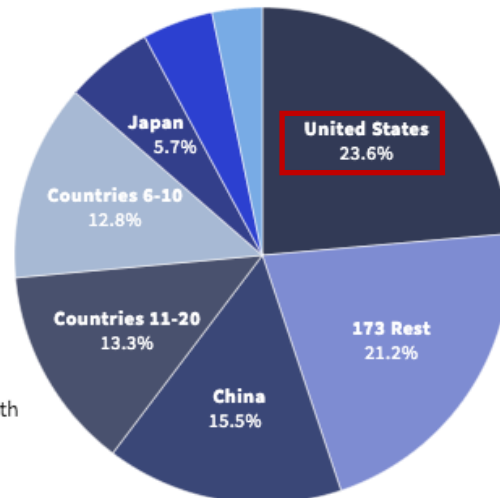
\$19.1 trillion in 2021-Q1

\$17.3 trillion in 2020-Q2

% Share of the Global Economy

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

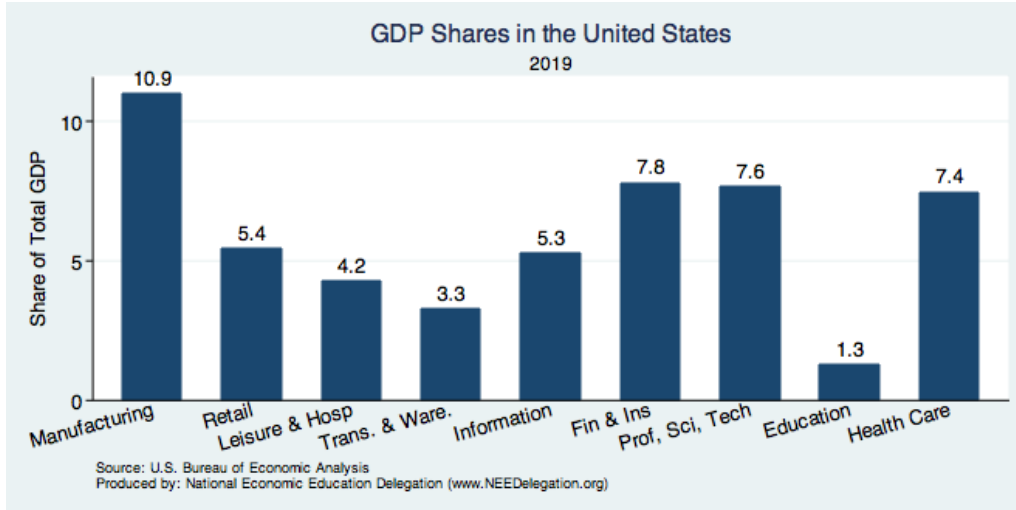
United States 173 Rest China Countries 11-20
Countries 6-10 Japan Germany United Kingdom



Source: IMF

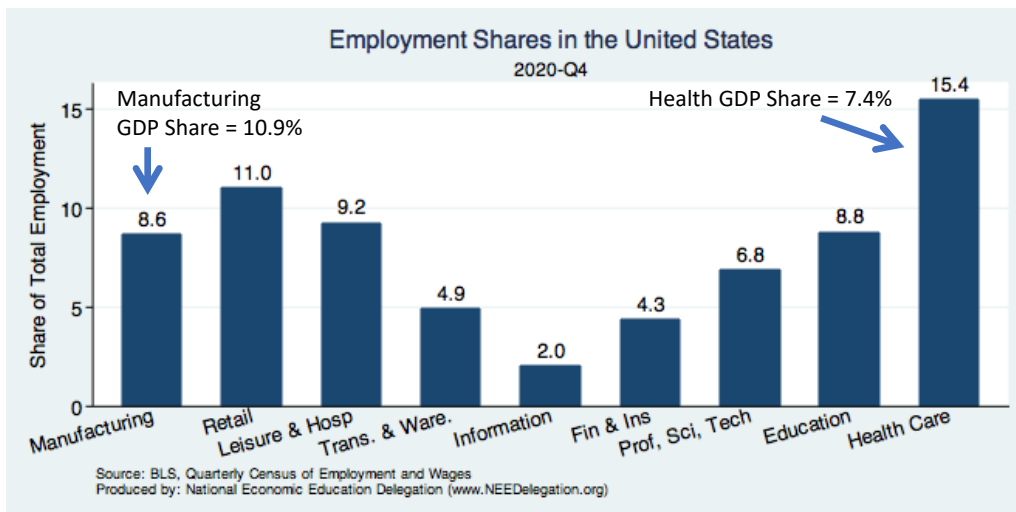
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Composition of the U.S. Economy: GDP



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Composition of the U.S. Economy: Employment



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COVID

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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 corollaries in this crisis.

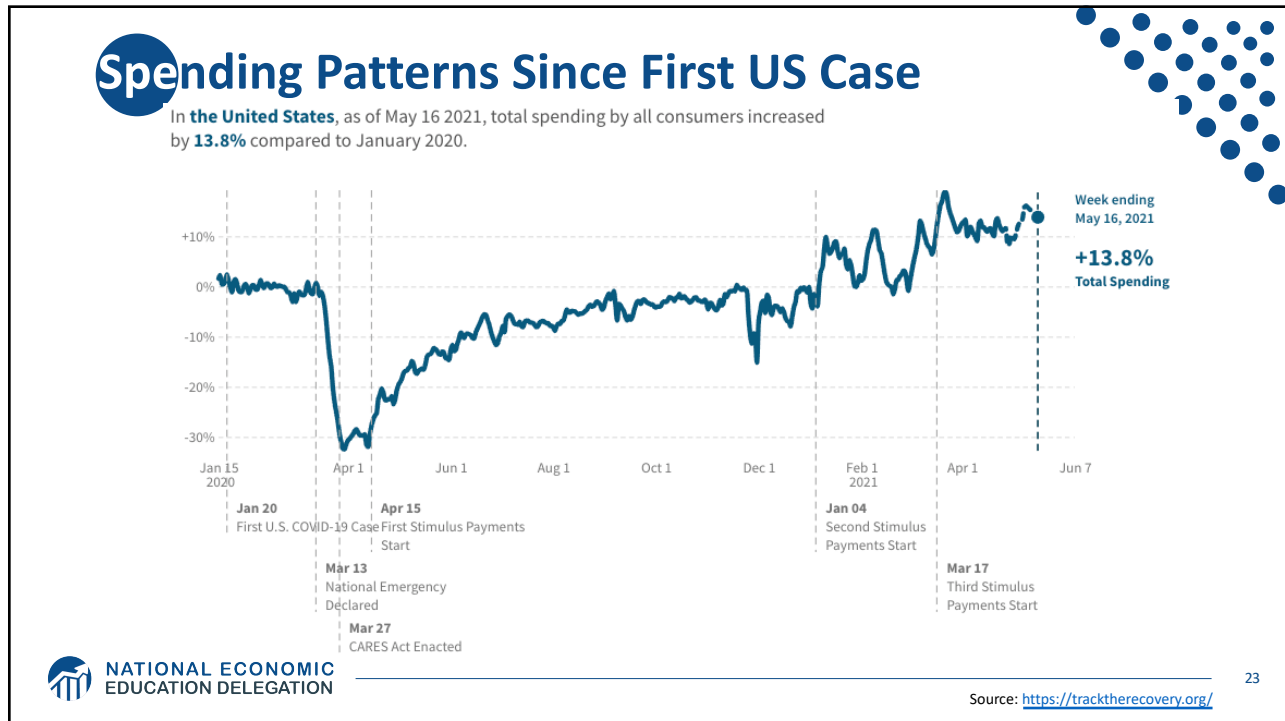


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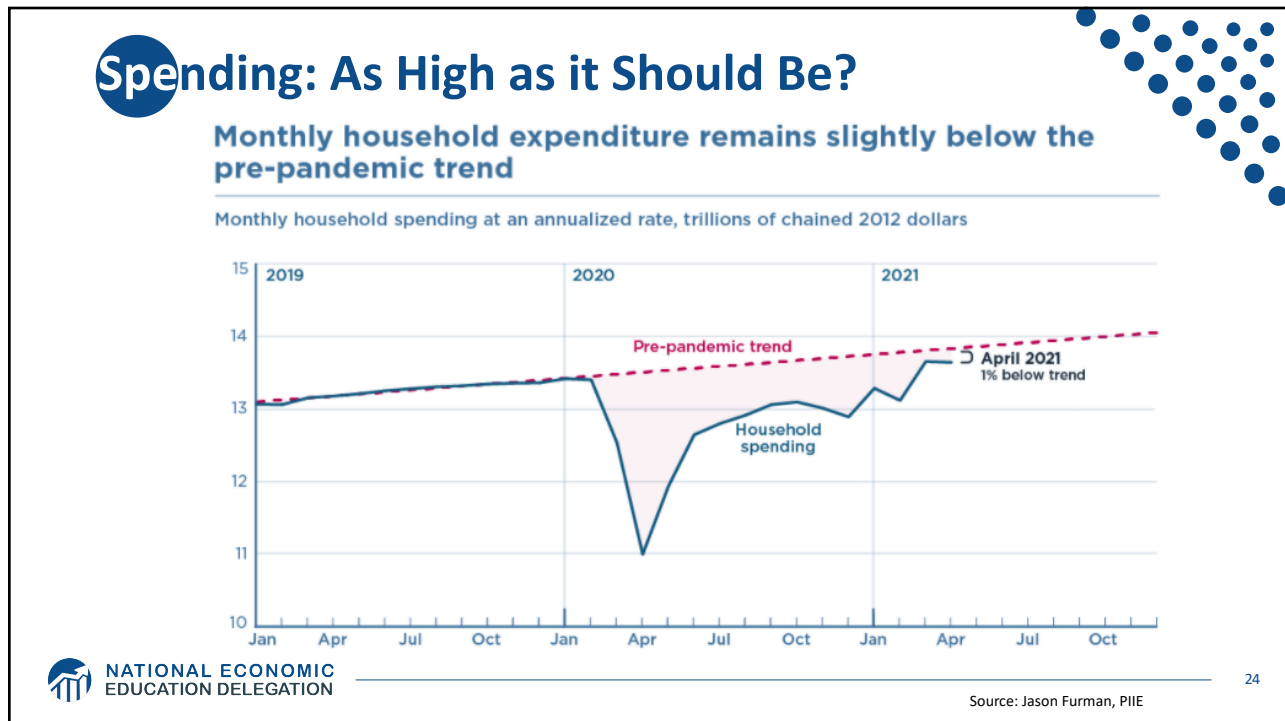
Evidence of Impact



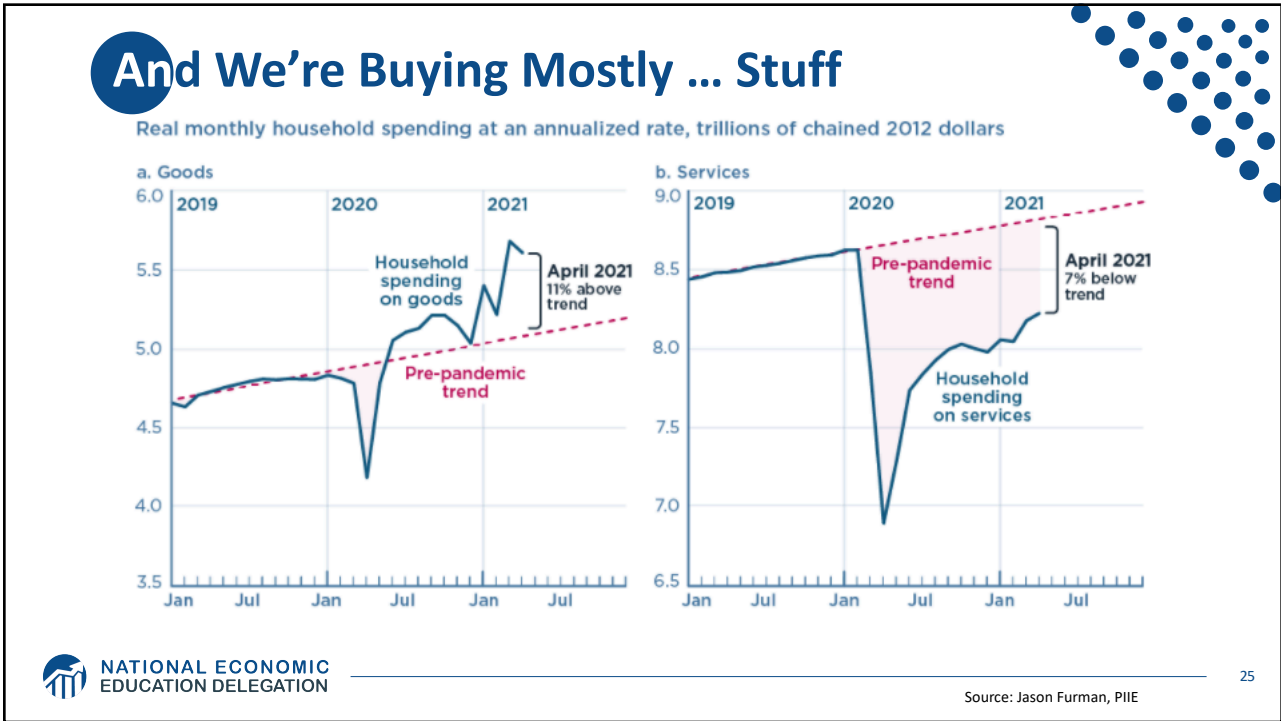
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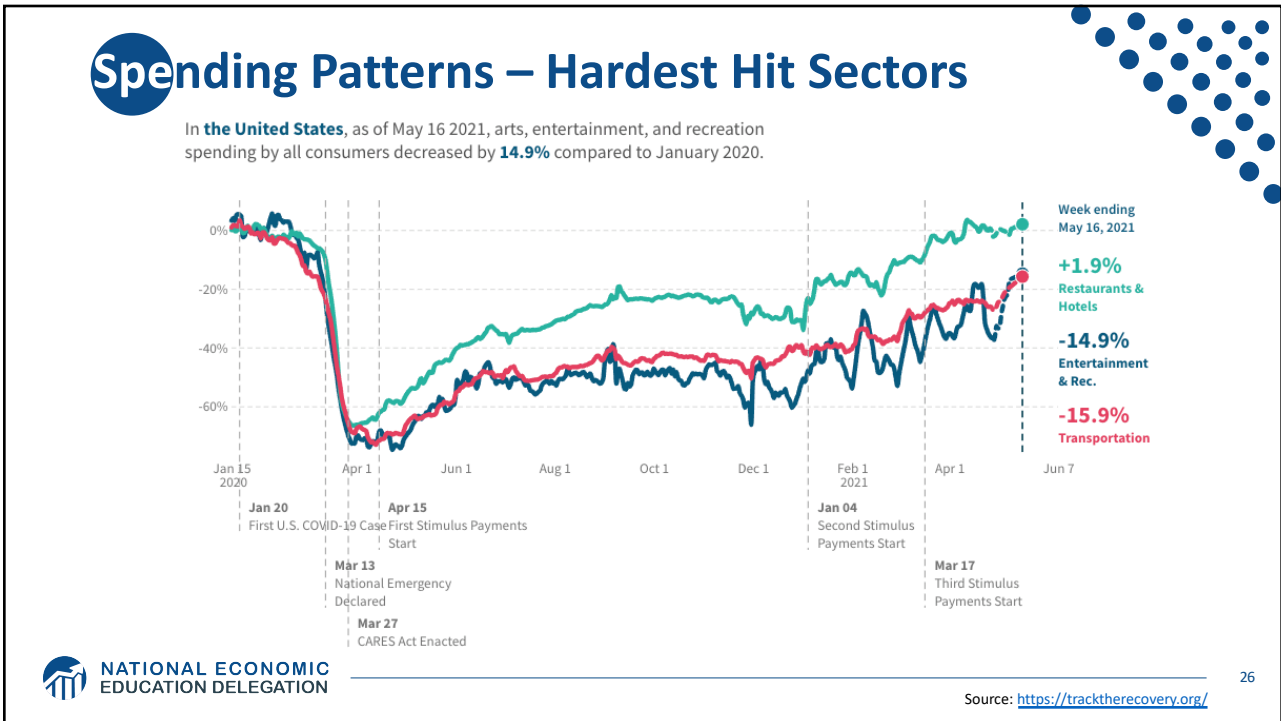
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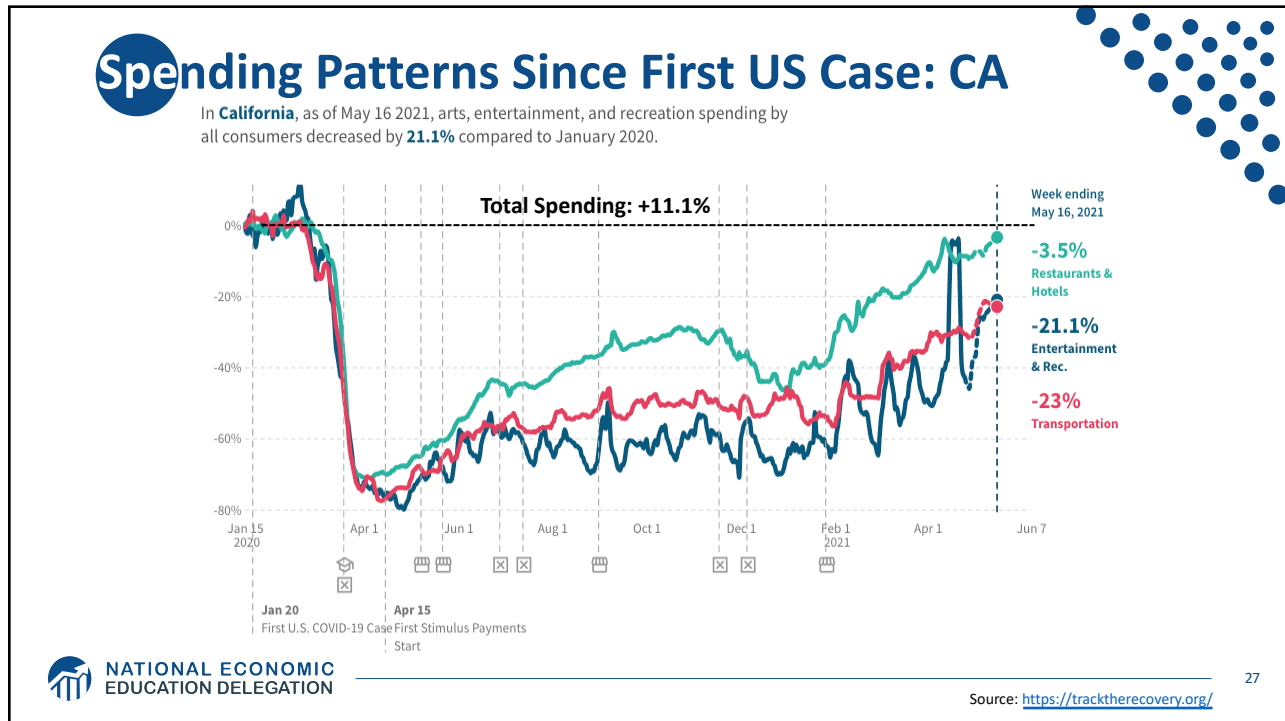
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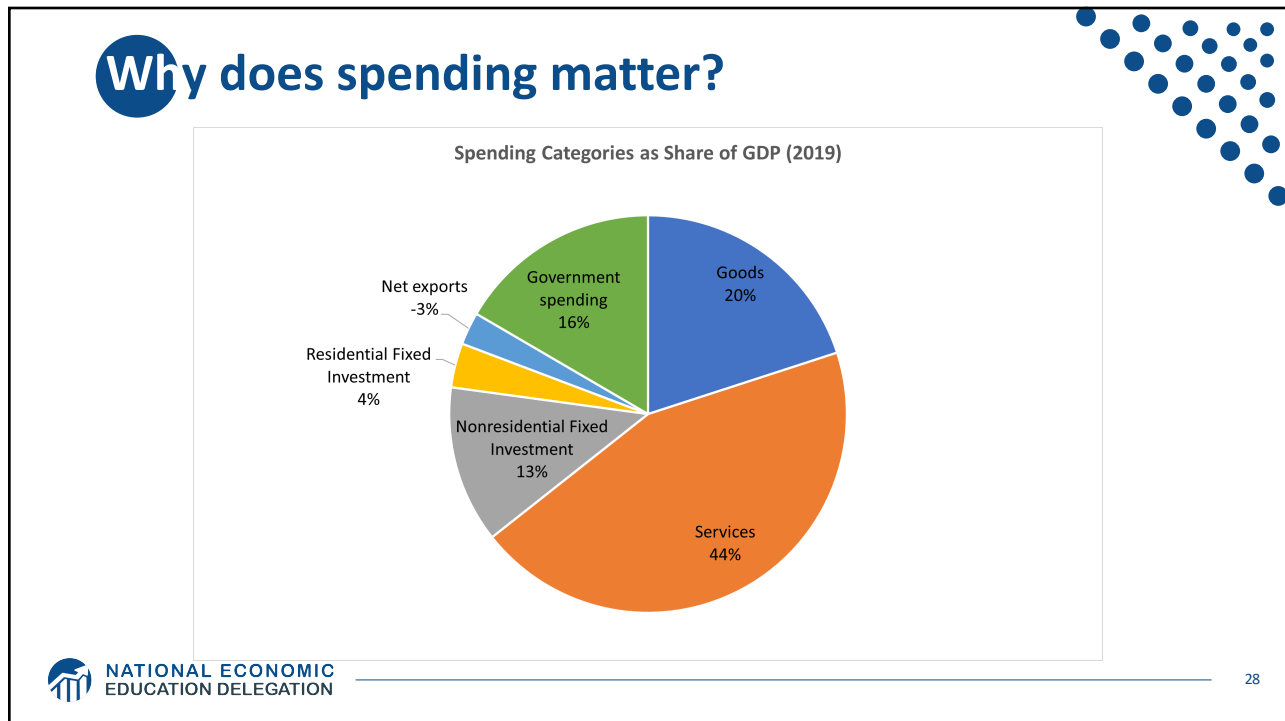
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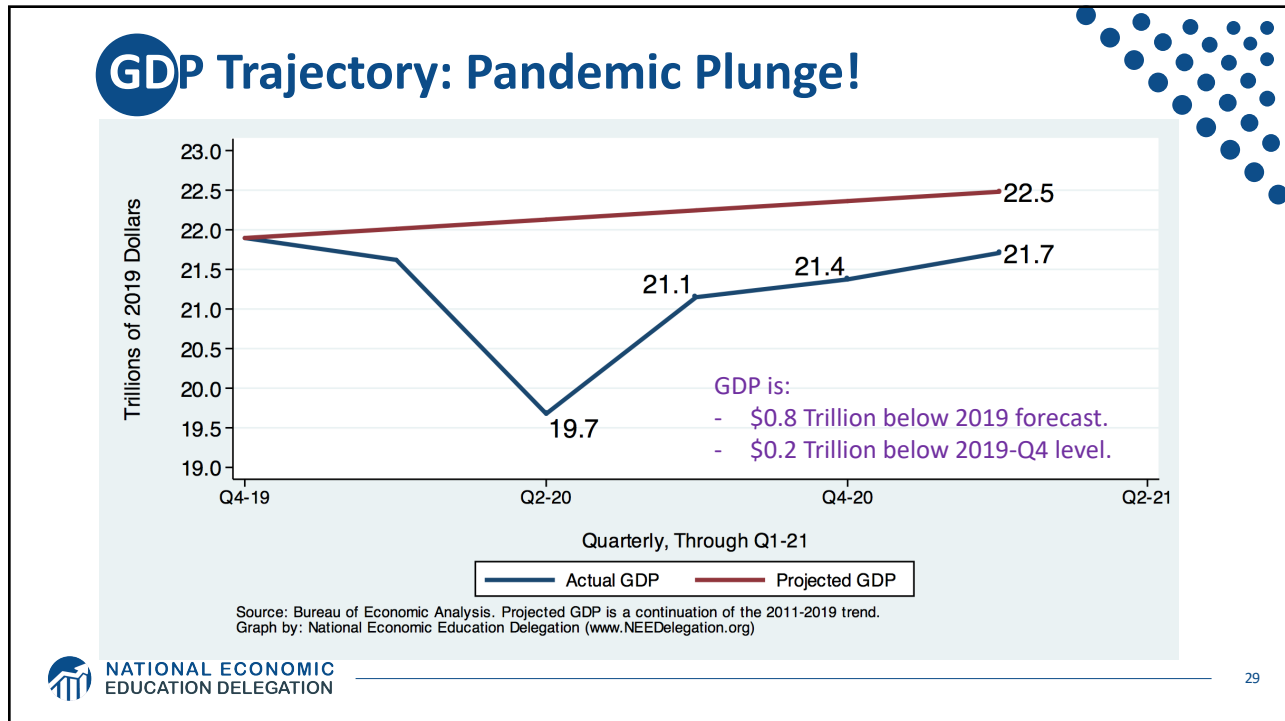
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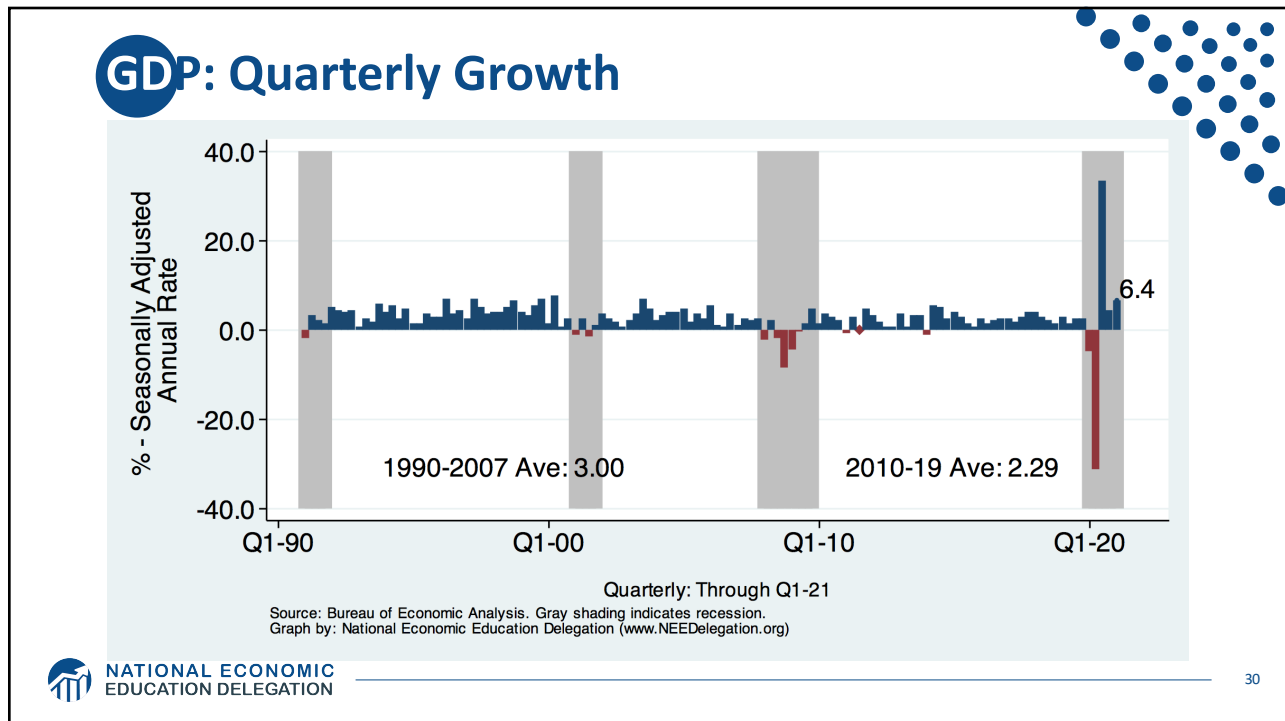
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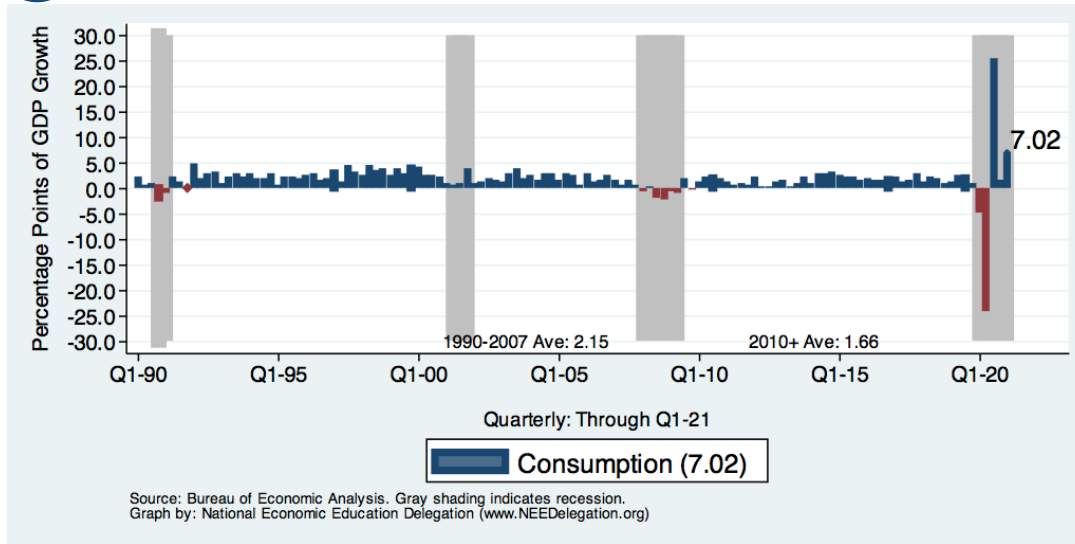


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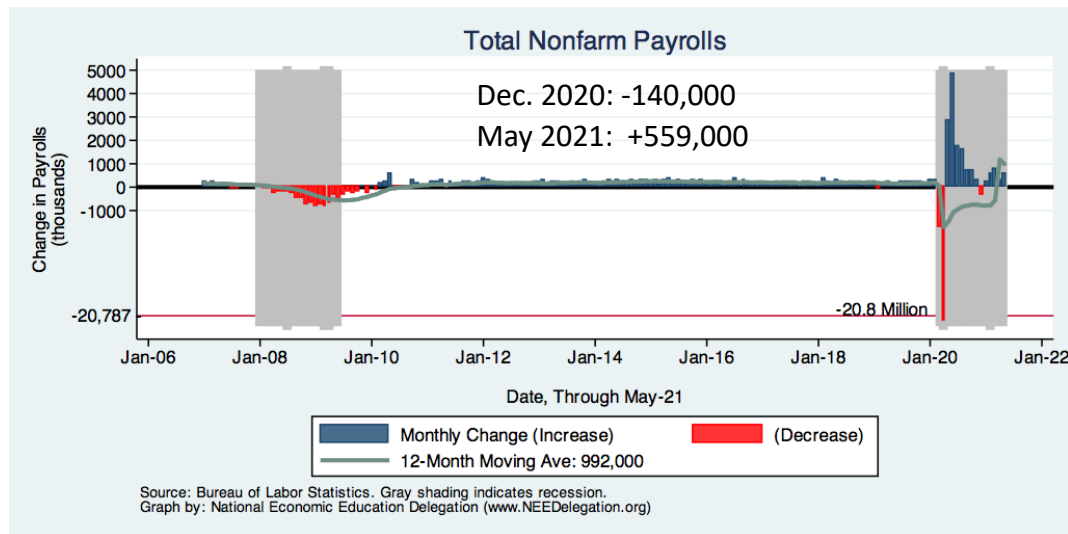
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Consumption: Quarterly Growth



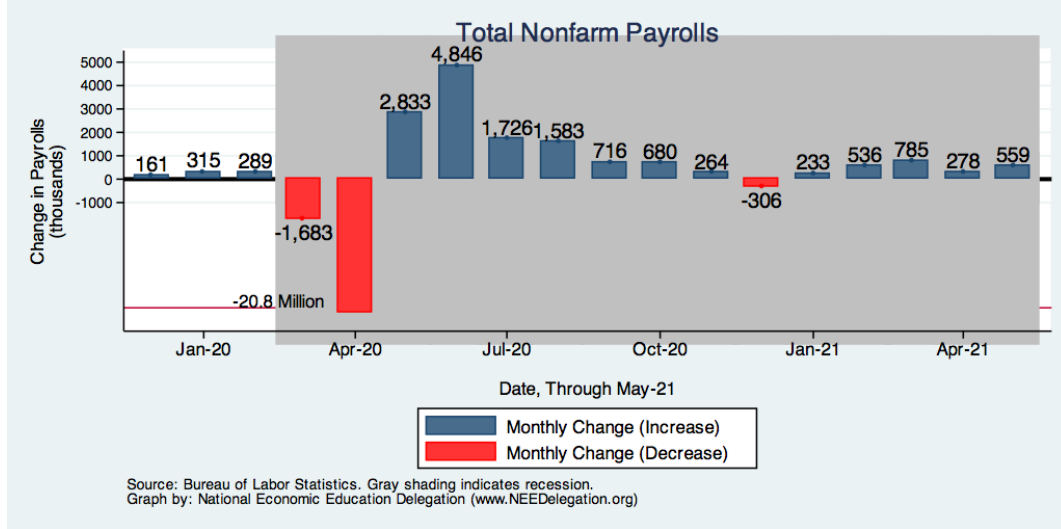
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Monthly Changes in Nonfarm Employment



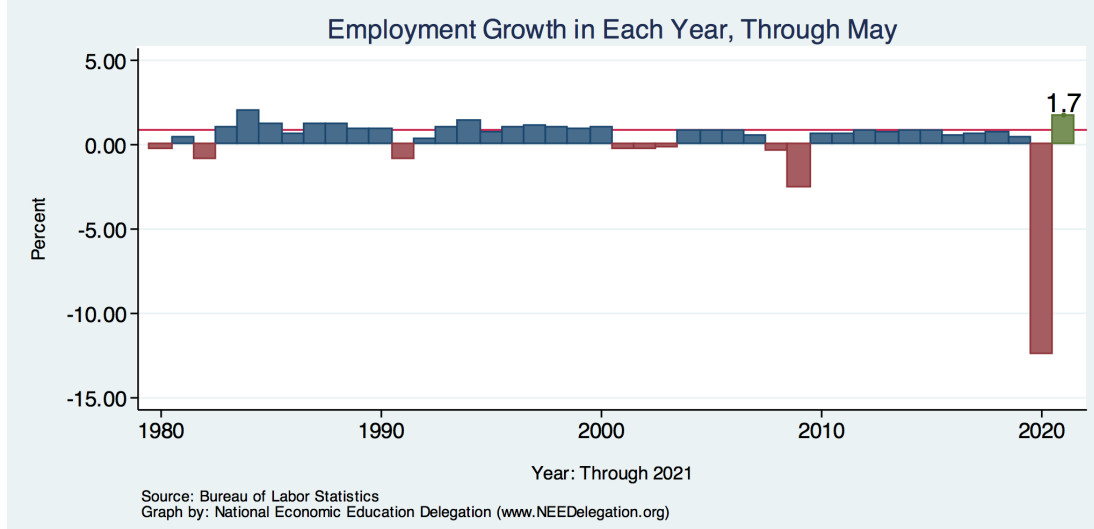
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Monthly Changes in Nonfarm Employment



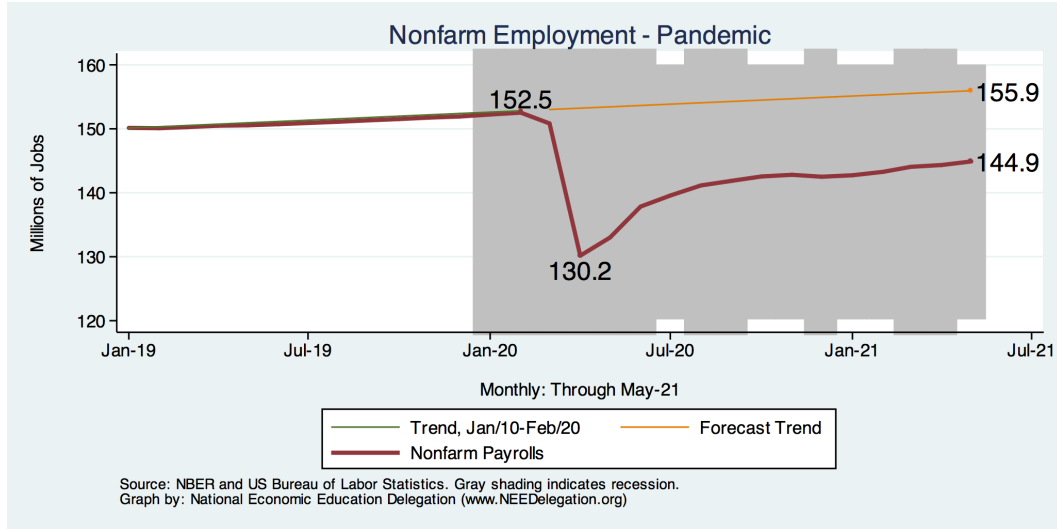
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Annual Changes in Nonfarm Employment



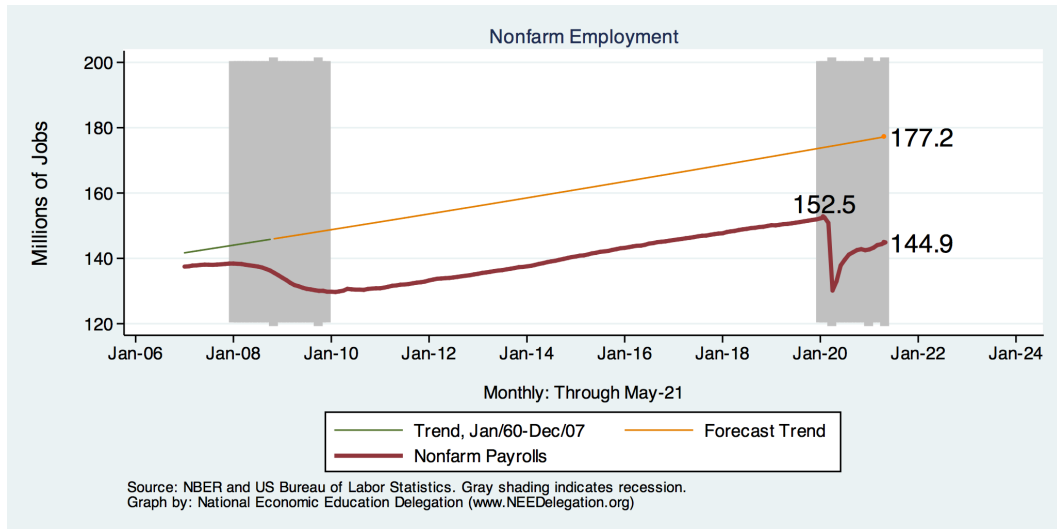
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Employment Gap



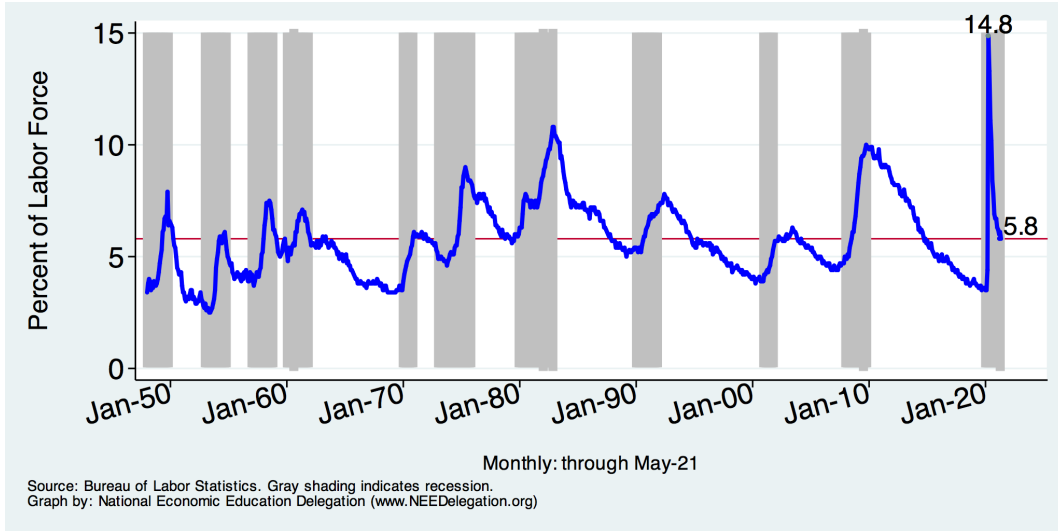
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Employment Gap



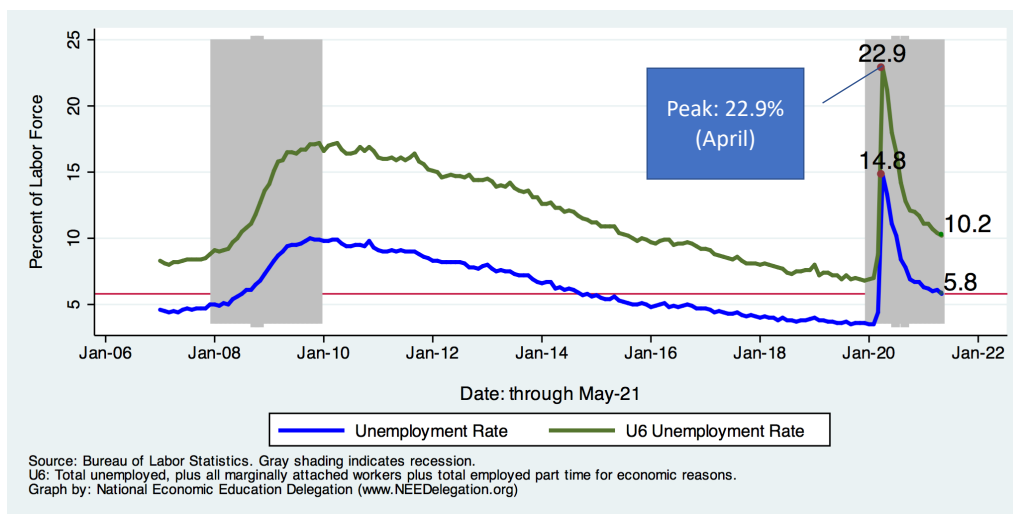
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Unemployment Rate



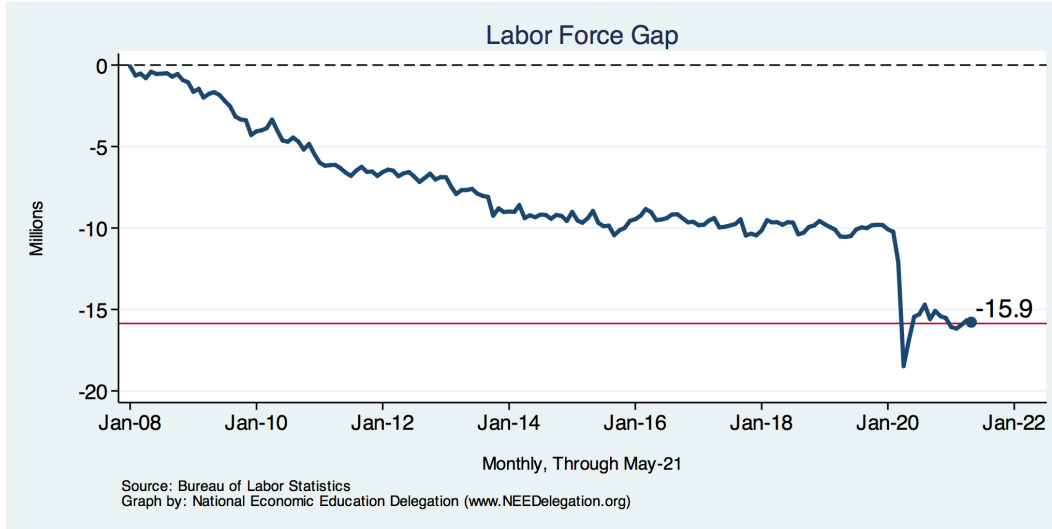
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Reduced Spending: Unemployment

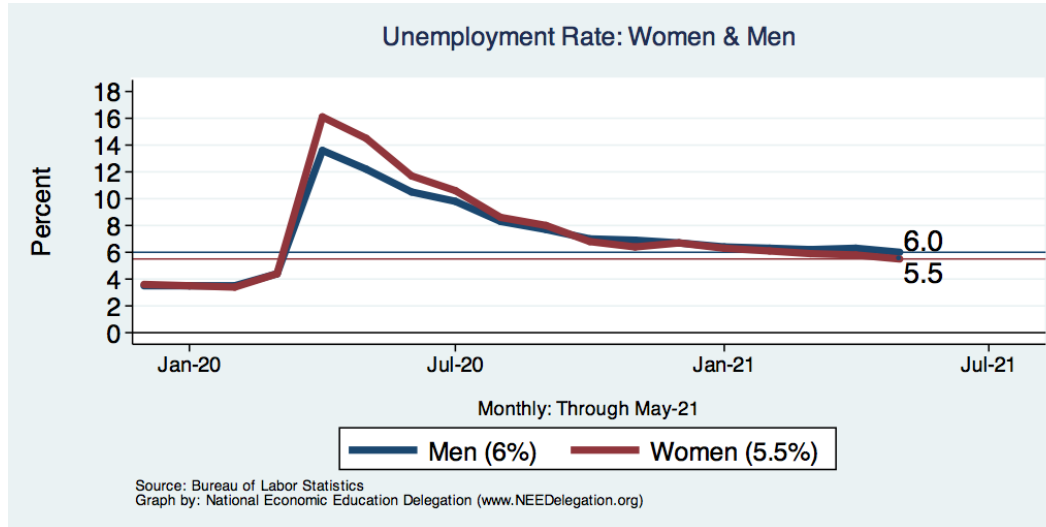


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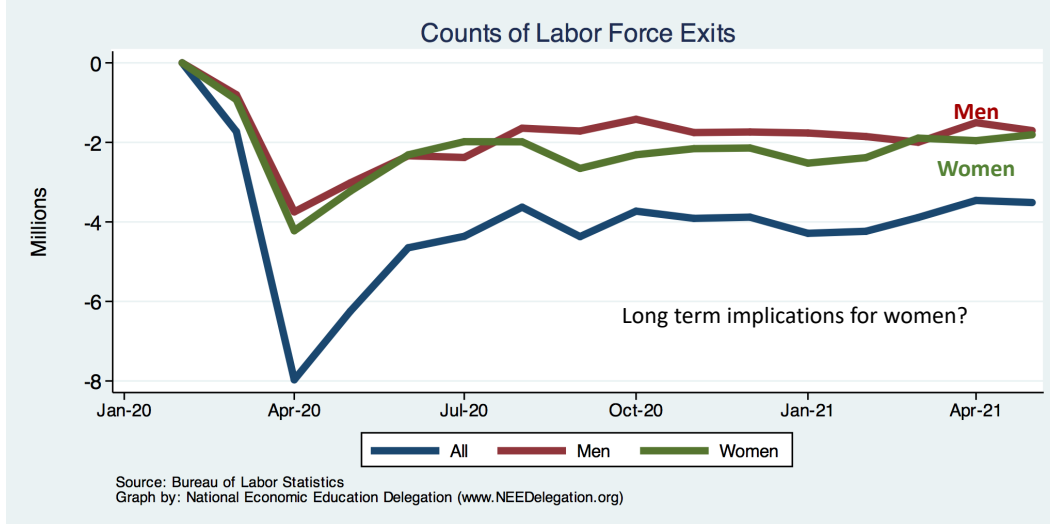
Labor Force is Shrinking – Drives Down UR



Affected Women More Than Men



Affected Women More Than Men



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Why Women More Than Men?

- **Women are disproportionately represented in low-wage and face-to-face jobs.**
- **Our childcare and school systems don't meet the needs of working mothers.**
- **COVID-19 has upended the labor market, with disastrous consequences for working women and their families.**
 - Many women continued working in high risk jobs.
- **The difference in impact is waning.**

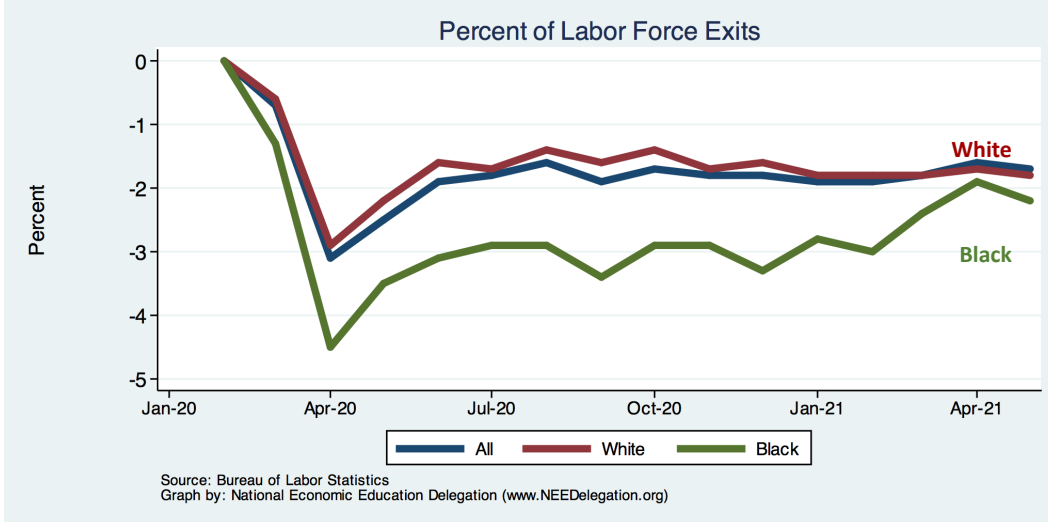


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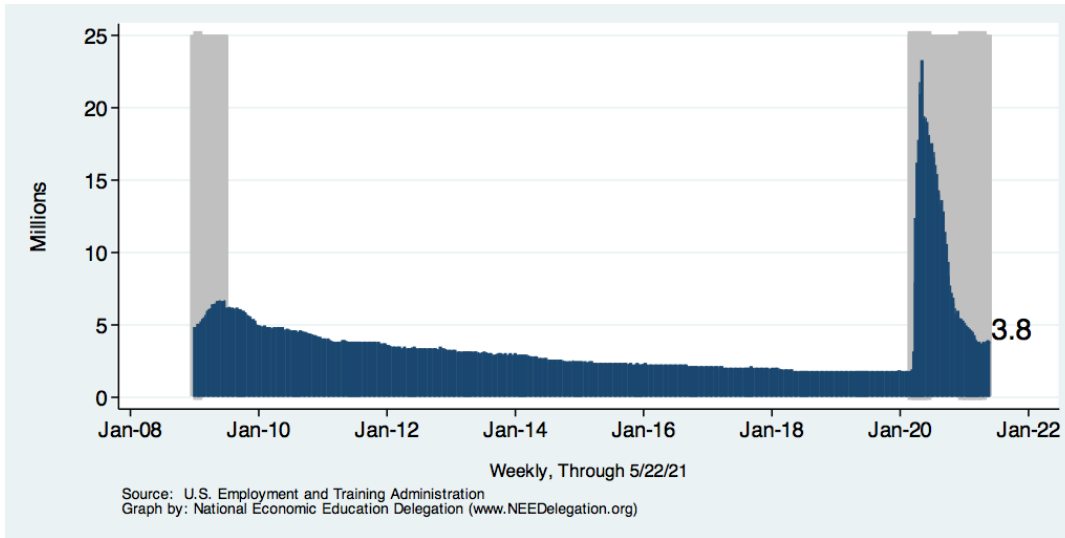
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Affecting Black Workers More than White



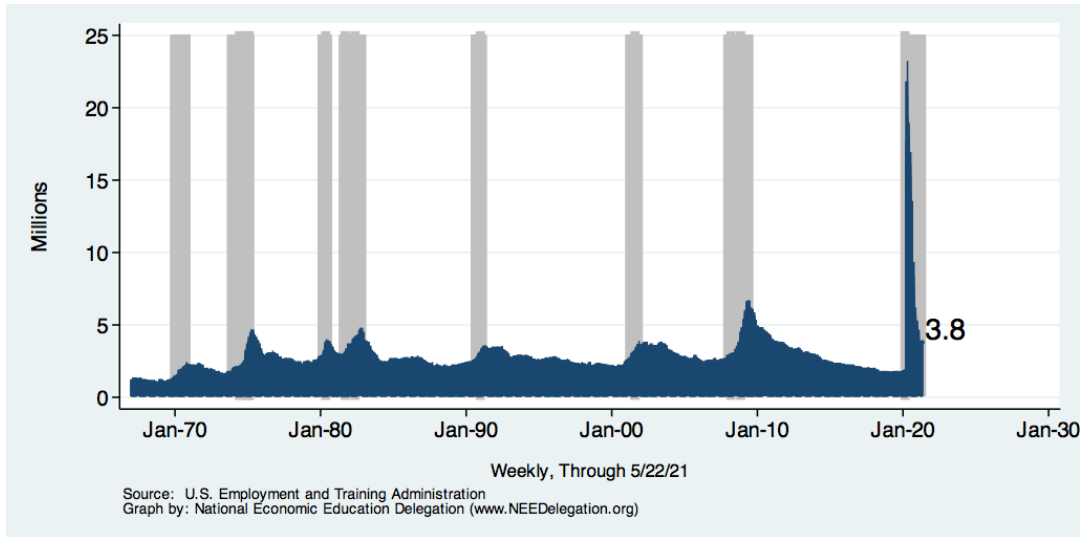
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Continuing Unemployment Claims



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Continuing Unemployment Claims



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Why Slow Employment Growth?

- **Economists had expected more than 1 million jobs in April.**
 - Why didn't we get them?
- **It is not: the generous unemployment checks.**
 - Low wage sectors were the only ones to see solid employment growth.
 - Leisure and hospitality: +328k (April) +292 (May)
 - Professional services: -81k (April) +35 (May)
 - Lack of wage growth.
- **It might be:**
 - Continued fear of the virus.
 - Microchip shortages.
 - Geographic mismatch and an unwillingness to relocate...yet.
 - Child care – lack of availability.
 - ???

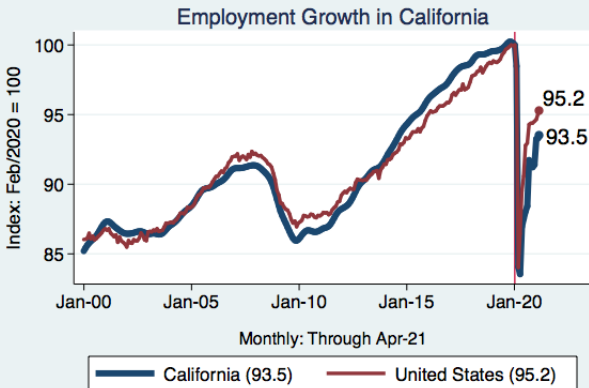


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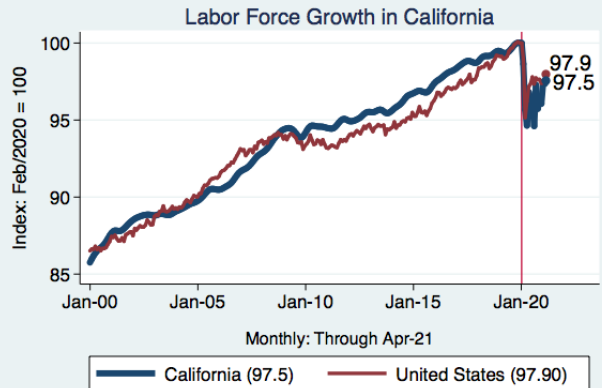
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Employment in California



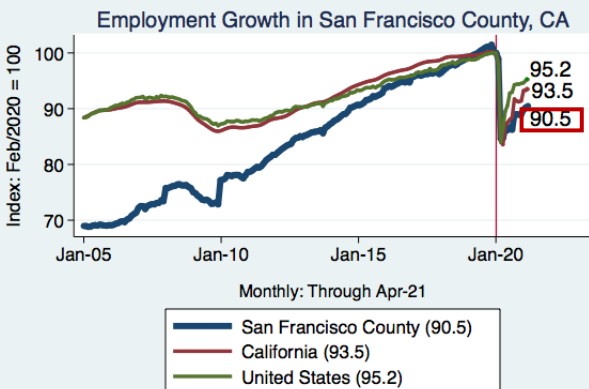
Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)



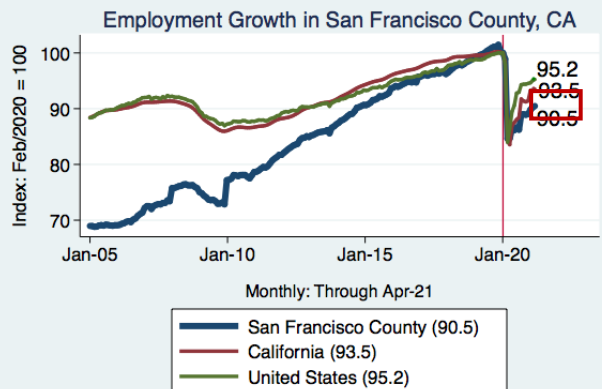
Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
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Employment in San Francisco

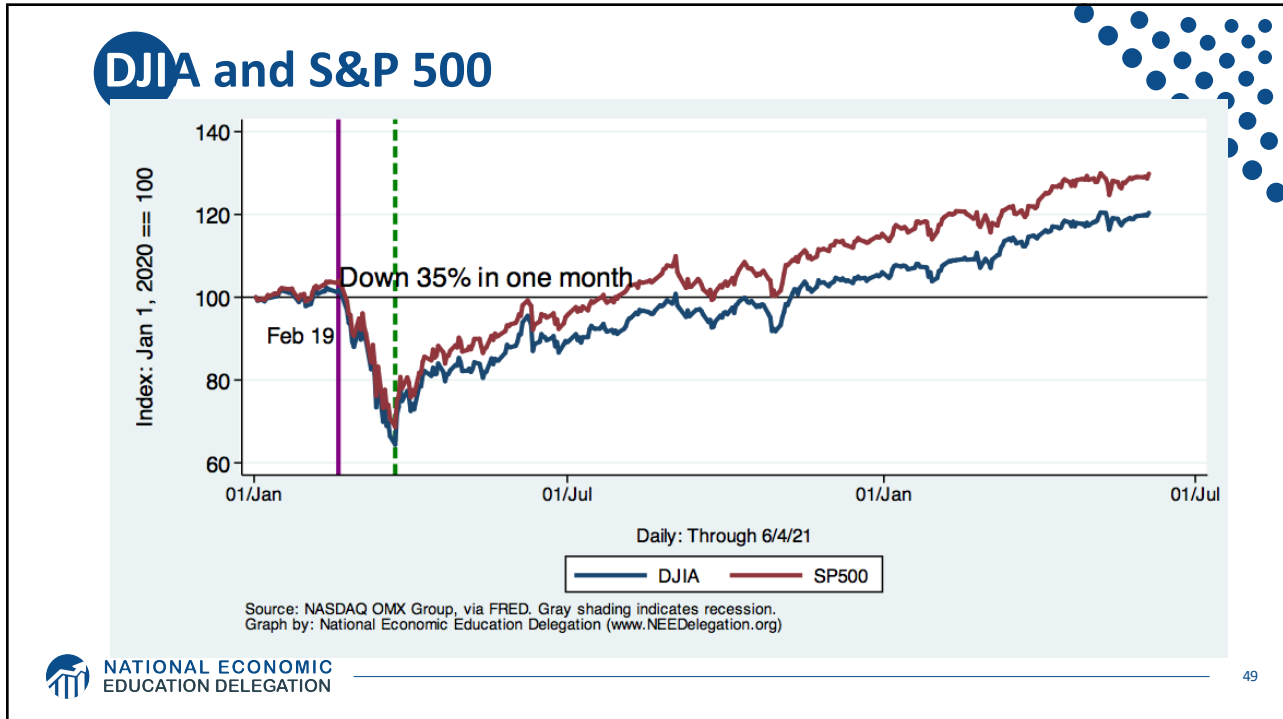


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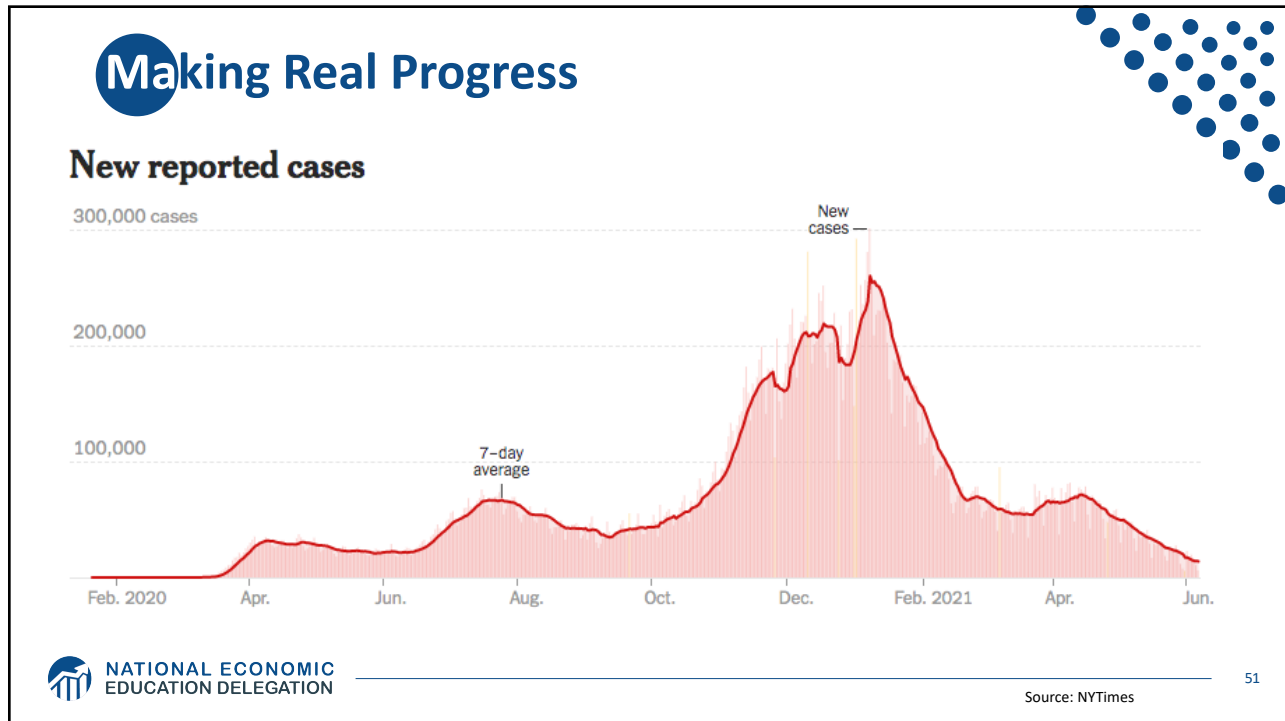
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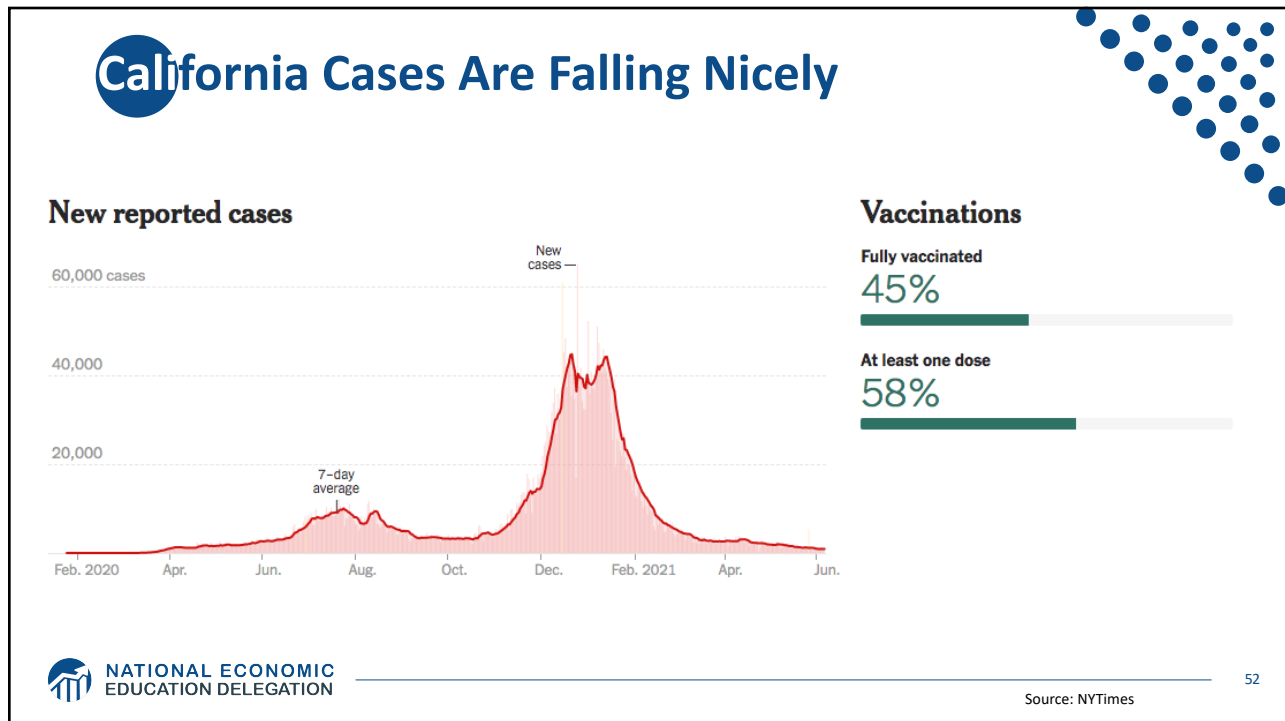
State of the Pandemic

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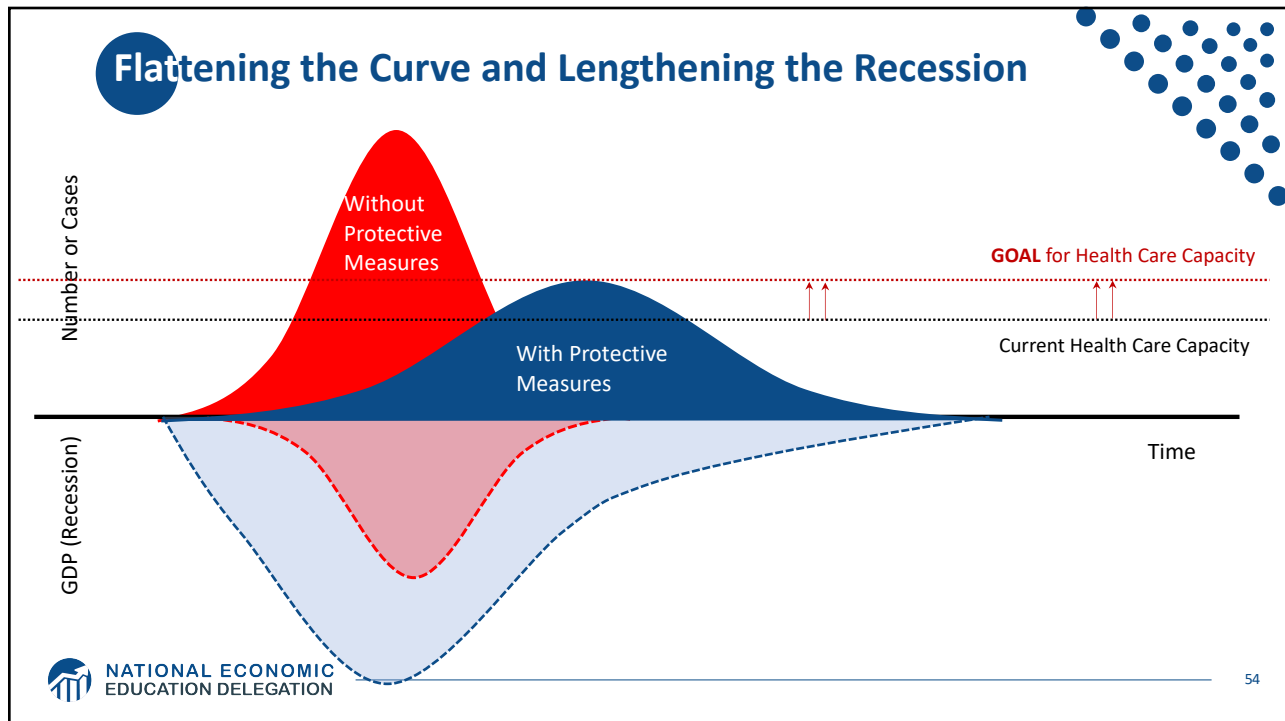
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A Tale of Three Policies Efforts

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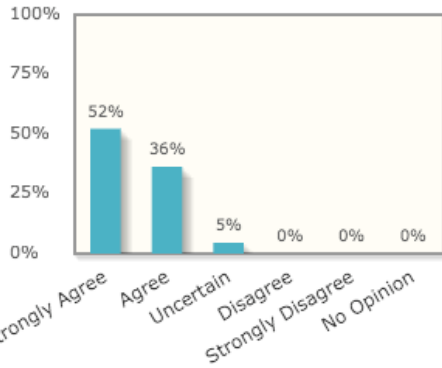
<https://twitter.com/BetseyStevenson/status/1242180499566669828>

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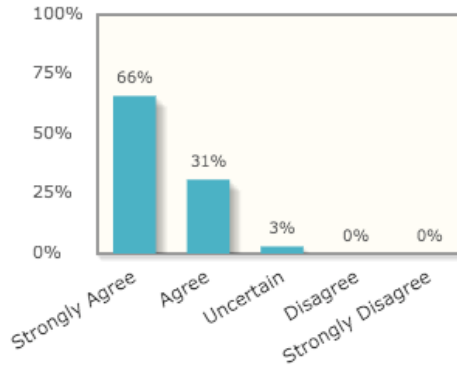
University of Chicago – Experts Poll

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

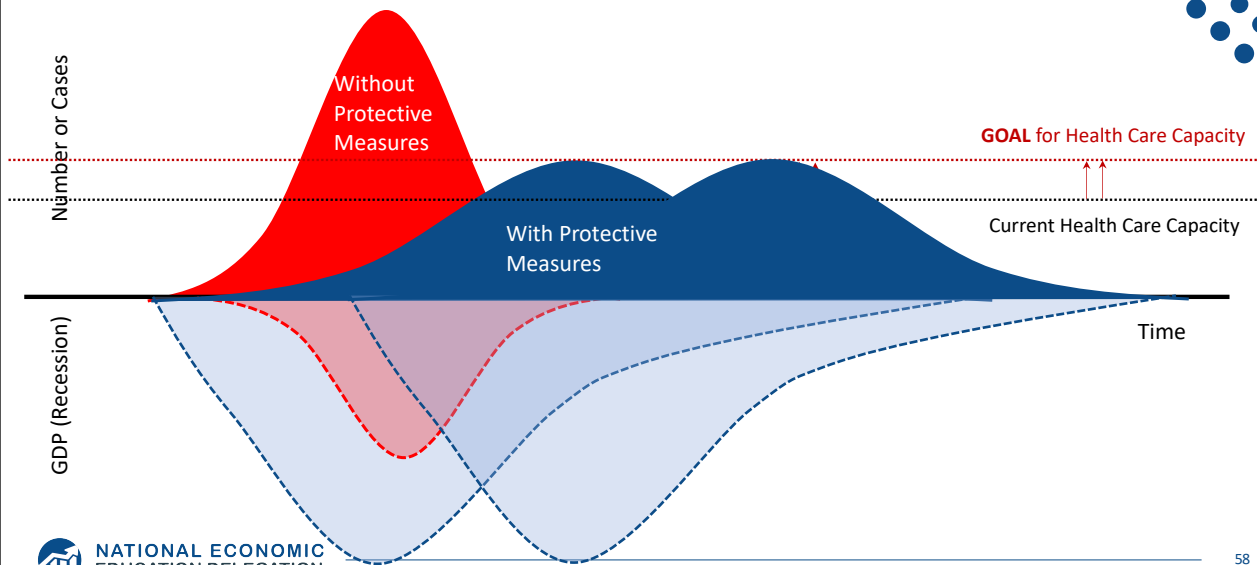


Responses weighted by each expert's confidence



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Flattening the Curve – Again and Again...is Problematic



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Reopening, It's Not This Simple



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What Have Been Policy Effects

- **Monetary Policy (Fed) 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 (Congress) acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

Last two packages: \$2.8 Trillion

Why?

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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**

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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.

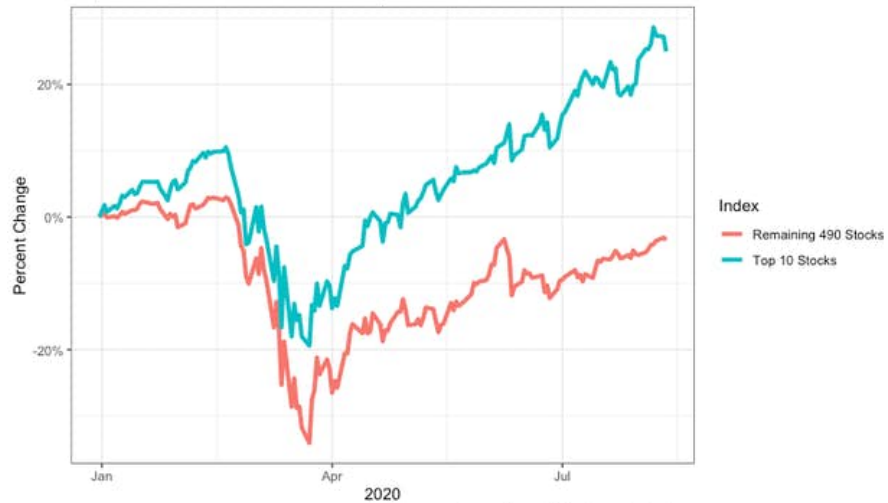
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Recovery/Recession for Whom?

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



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Coronavirus and Inequality

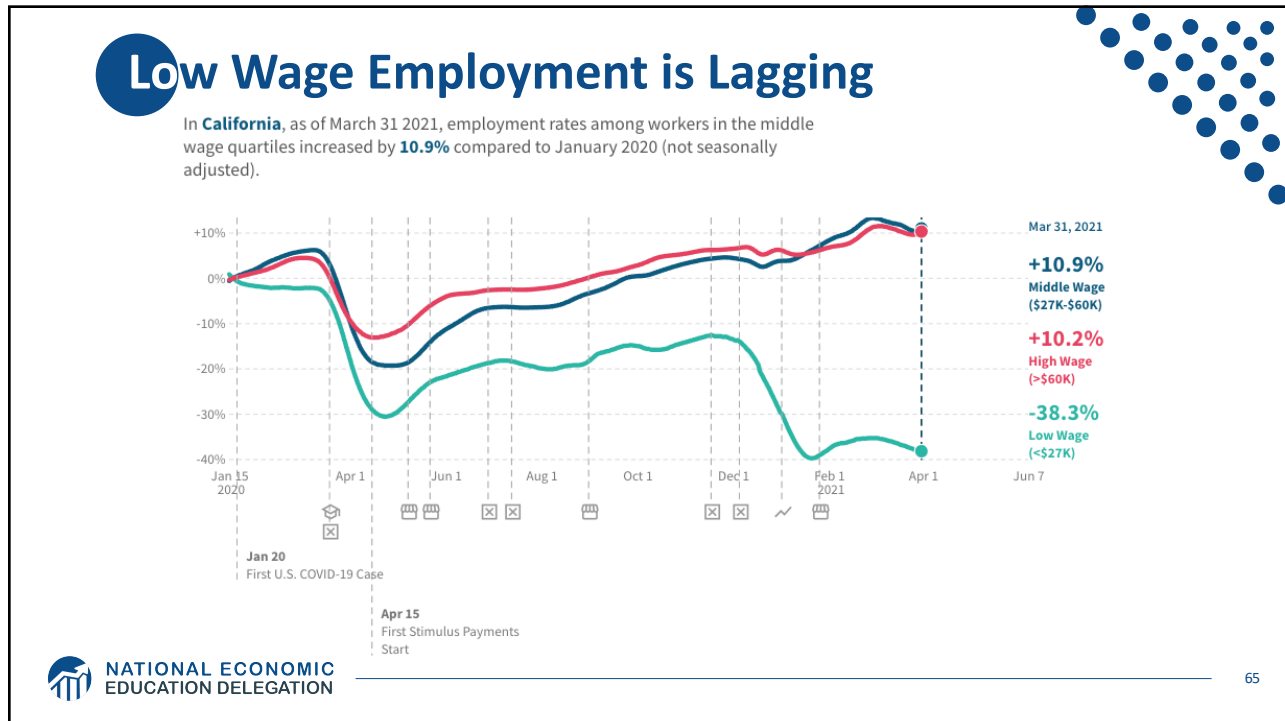
- Resources to weather the storm.
- Racial inequities.
- Educational inequities
- Telecommuting
- Low wage jobs are at risk.



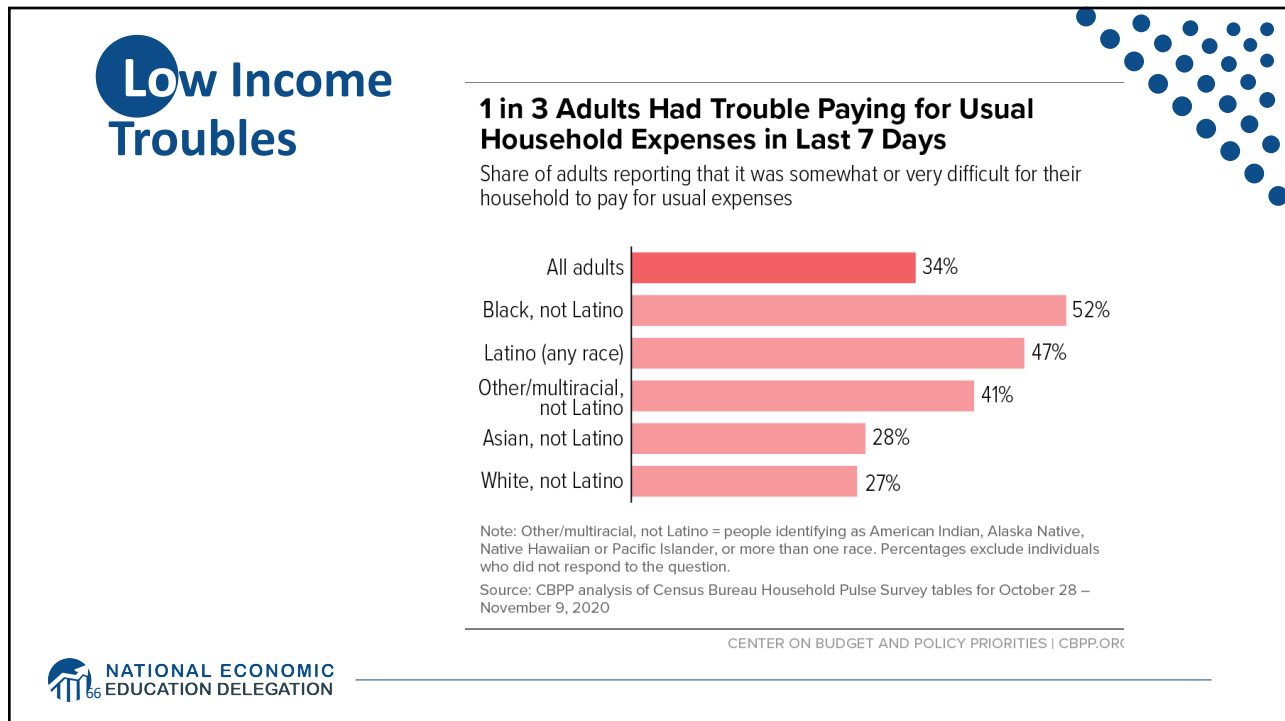
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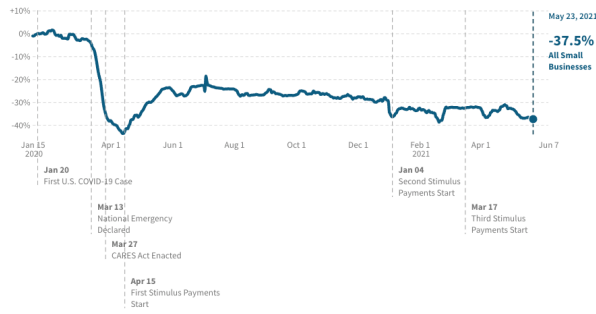


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Another Hard-Hit Sector: Small Business

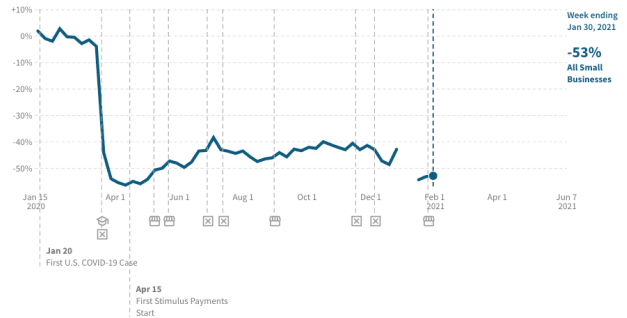
Small Biz Closures in the United States

In the United States, as of May 23 2021, the number of small businesses open decreased by **37.5%** compared to January 2020.



Small Biz Closures in San Francisco

In San Francisco, as of January 30 2021, the number of small businesses open decreased by **53%** compared to January 2020.



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Small Businesses: They Didn't Get Enough PPP

Small Business Owners Turn to Their Own Funds

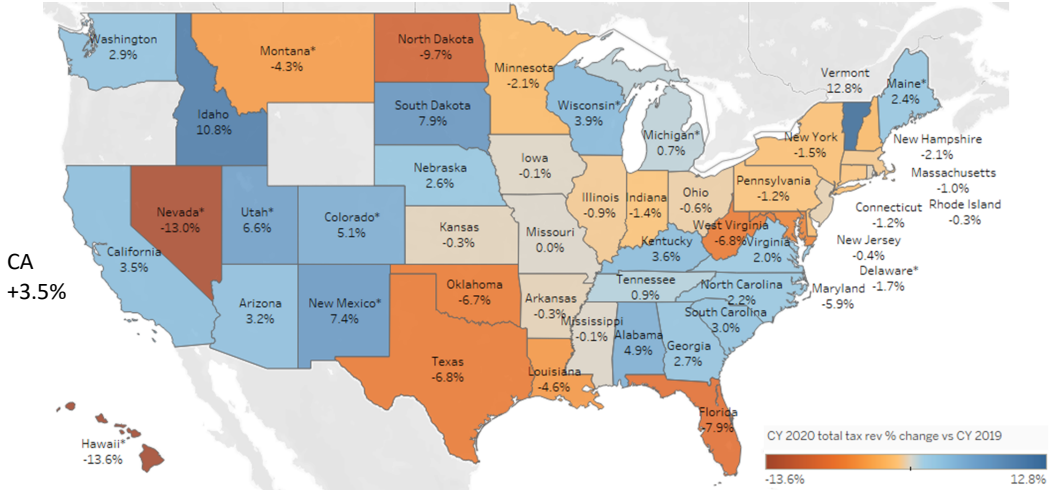
In total, 70% of respondents were using at least one form of financial support to get their business through the pandemic.



CreditCards.com
Respondents could choose more than one option.

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2020 State Tax Receipts Relative to 2019



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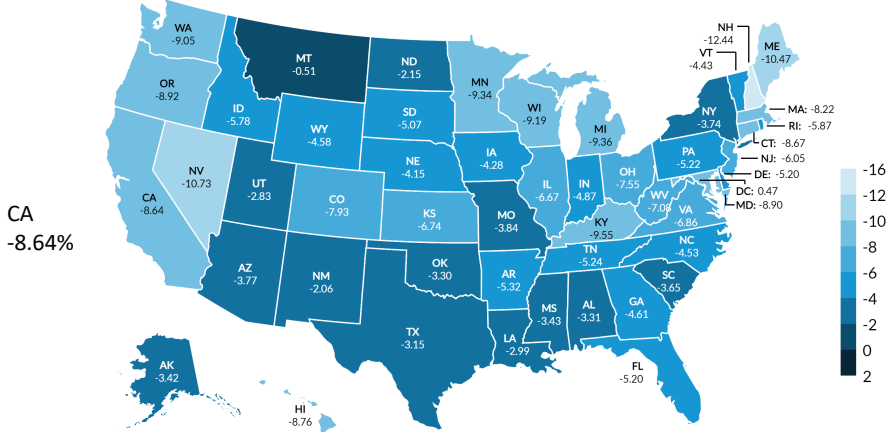
<https://markets.jpmorgan.com/research/email/9oirrqa/JA-9jthJ33avl4Z96Lz3vA/GPS-3630418-0>

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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

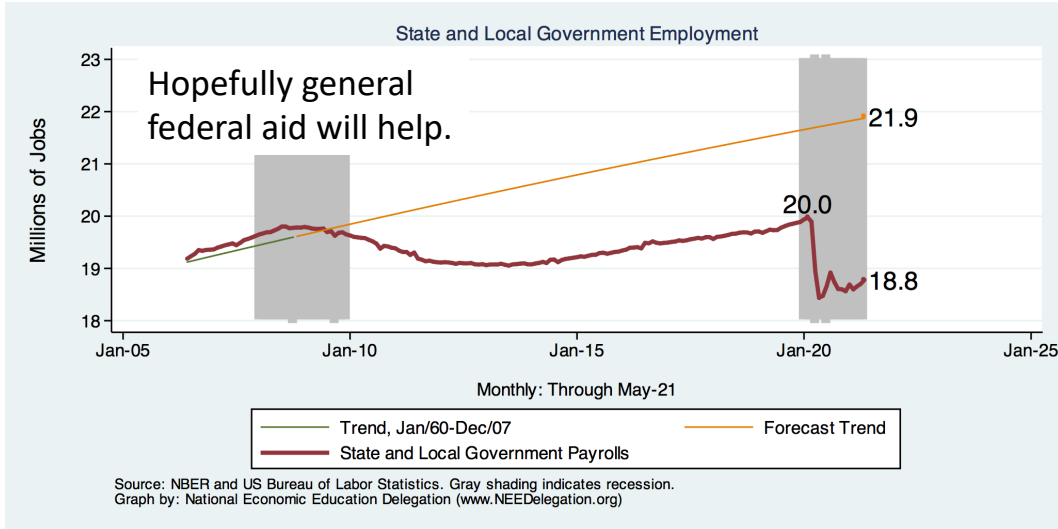
URBAN INSTITUTE

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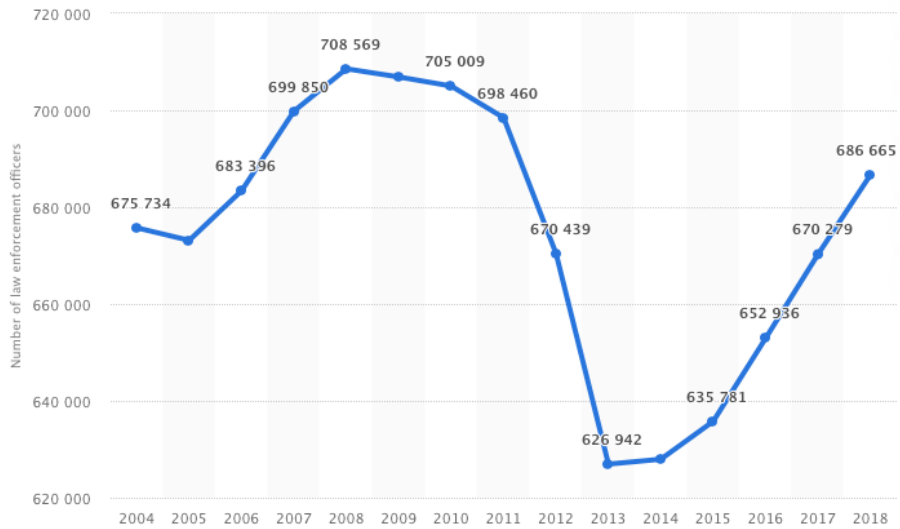
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State and Local Employment



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of Law Enforcement Officers: 2004-2018



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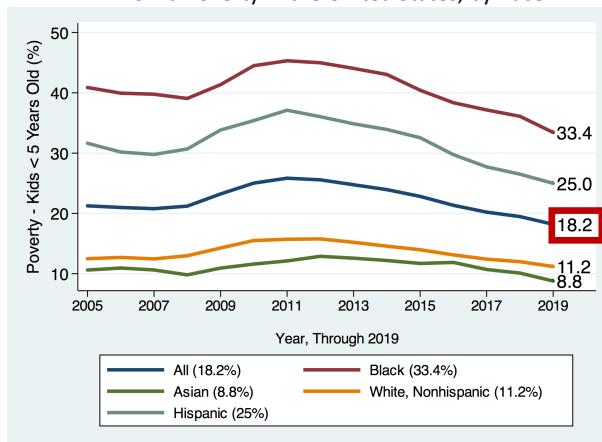
So, The President Went Big!

	American Rescue
Direct Payments	\$465 billions
Aid to State and Local Governments	\$350
Pandemic Unemployment	\$350
School Reopening	\$170
Vaccines	\$160
Expand Child Tax Credit	\$120
Rent and Landlord Support	\$30
Child Care Providers	\$25
Other	~\$200
Total	\$1,870

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\$1.9 Trillion Plan – Includes Other Initiatives

Child Poverty in the United States, by Race



- Child poverty alleviation
- Pension fund support
- Benefits for veterans
- Gender-based violence protections
- SNAP and TANF increases
- Other...

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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.

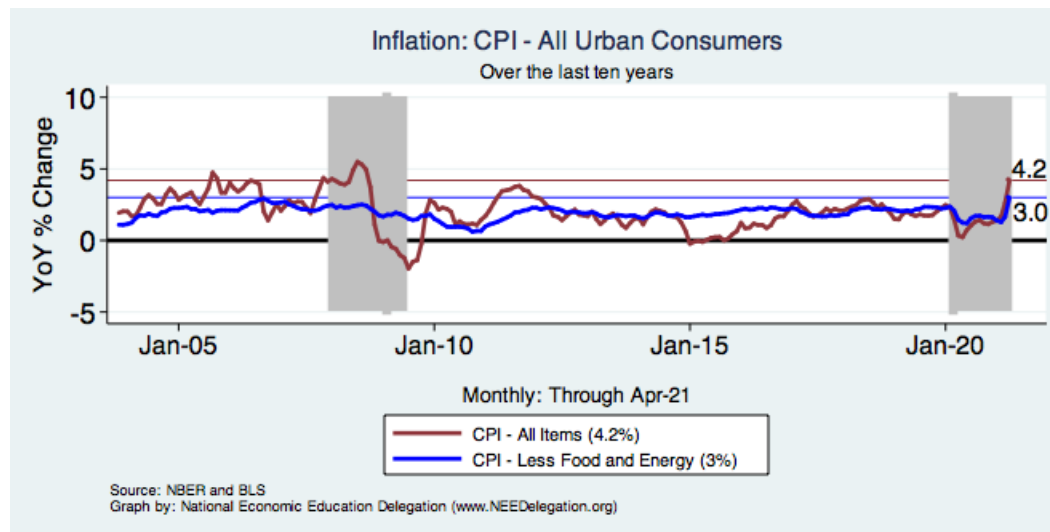
• Too Small (Paul Krugman)

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.



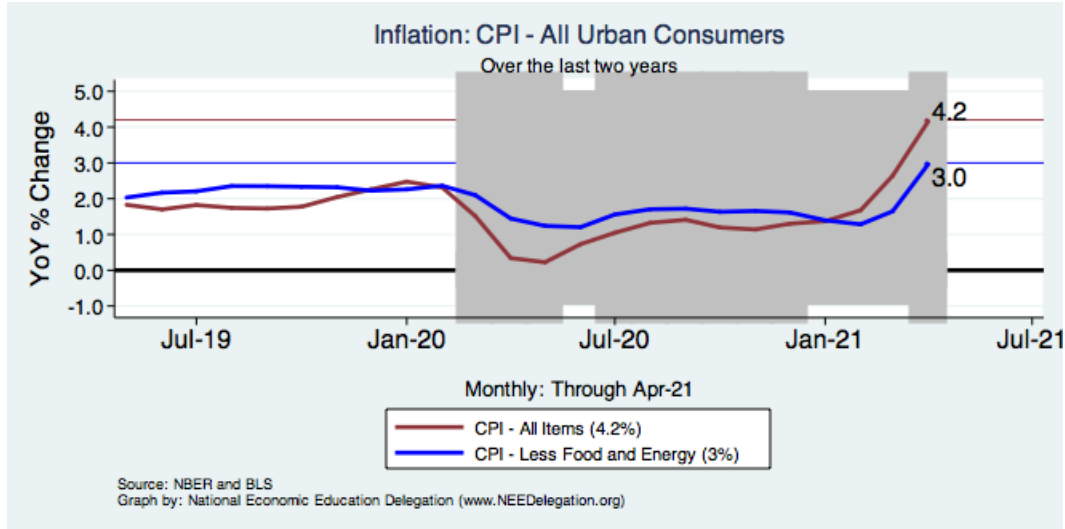
75

Inflation – Recent Stability



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Inflation – Trending Upward?

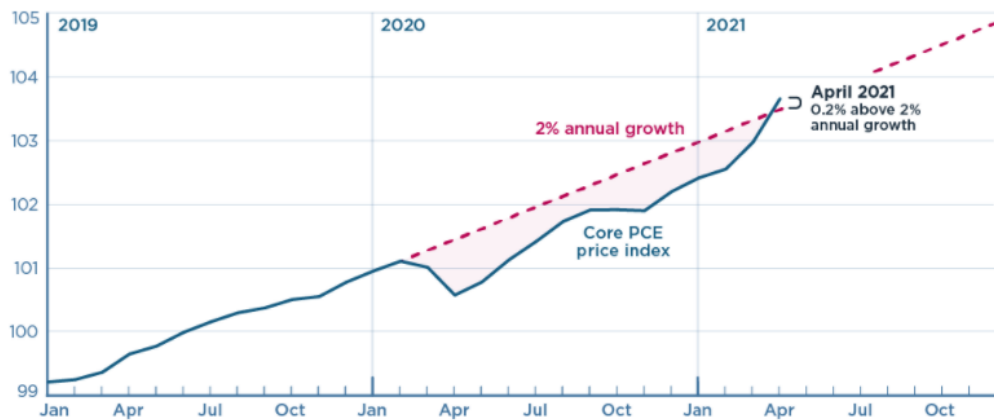


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Prices Overall Had Fallen...Catching Up!

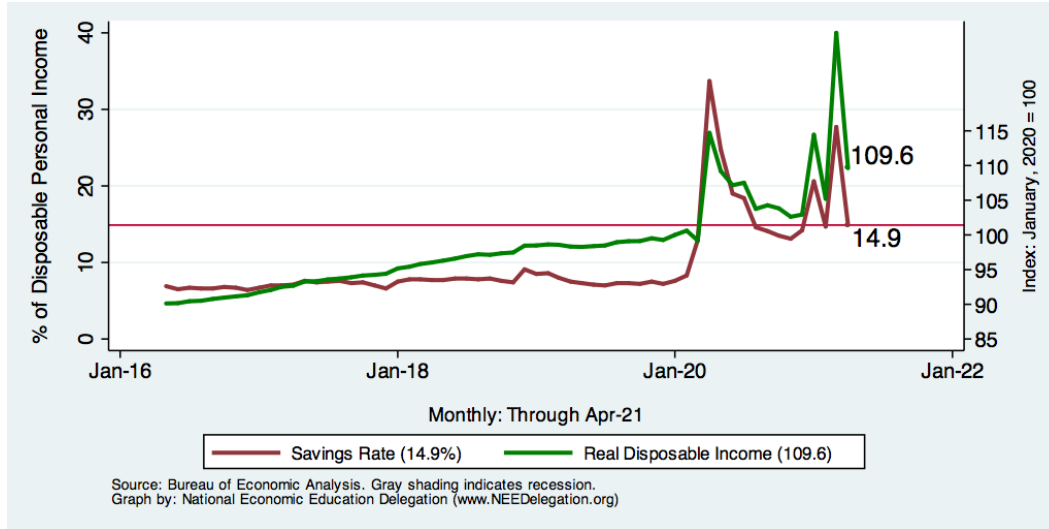
The pandemic shortfall in prices has now completely closed

Core personal consumption expenditures (PCE) price index (index, 2019 average=100)



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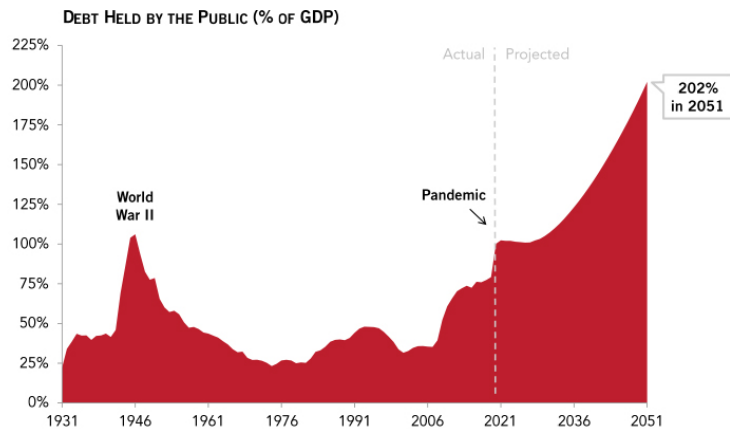
Source of Optimism About Recovery?



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.
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PGPF.ORG

Aggregate Data Looks Encouraging

- Recovery has been *unexpectedly* rapid, albeit incomplete, but has started to pick up again.
- 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.
 3. Adapting to structural changes.



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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 expiring.**
- **Structural Changes.**



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Structural Changes?

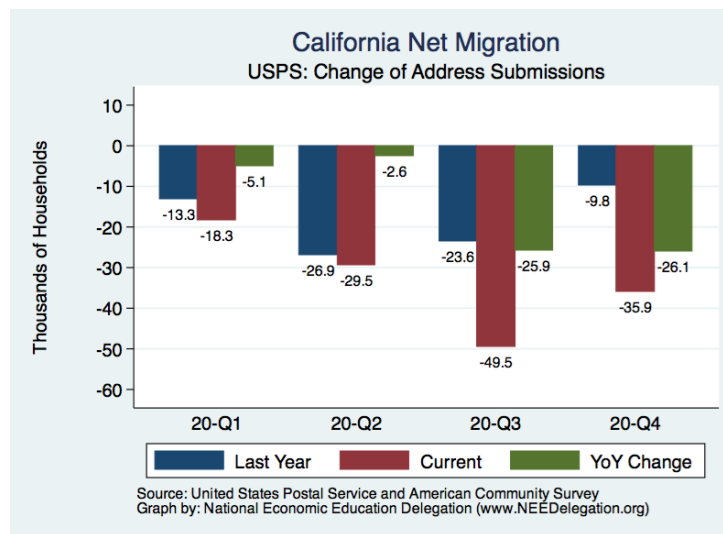
- **Pandemic has been an accelerant.**
 - Not a change agent.

- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**

- **Wealth concentration**
- **Industry concentration**
- **Automation**
- **NFL Scoring**

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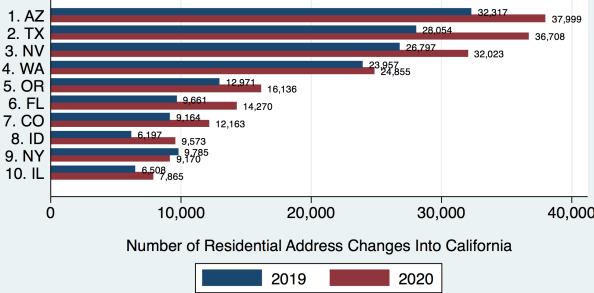
Population Change: California



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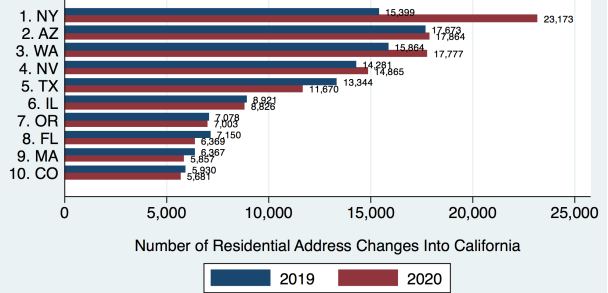
Which Way Did They Go?

Top 10 Migration DESTINATION States
California
Rank in 2020



Source: United States Postal Service and American Community Survey
Data include April-December of each year to capture the pandemic effect.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

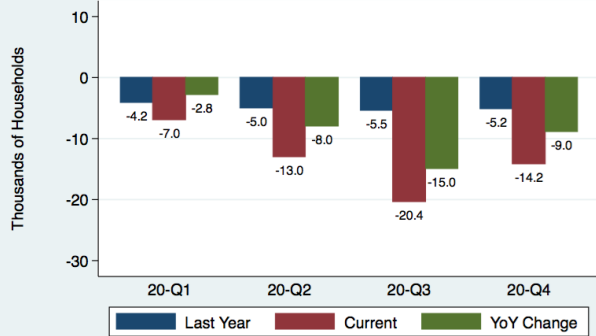
Top 10 Migration SOURCE States
California
Rank in 2020



Source: United States Postal Service and American Community Survey
Data include April-December of each year to capture the pandemic effect.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

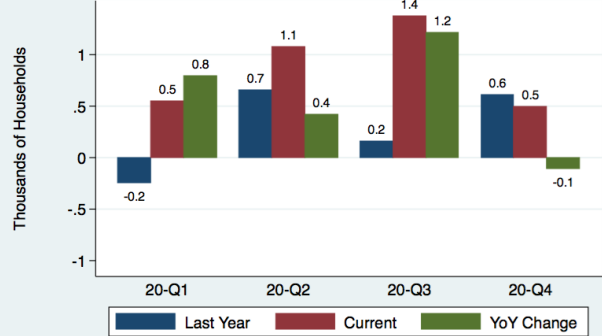
Population Change: San Francisco & San Mateo

San Francisco County, CA Net Migration
USPS: Change of Address Submissions



Source: United States Postal Service and American Community Survey
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Contra Costa County, CA Net Migration
USPS: Change of Address Submissions



Source: United States Postal Service and American Community Survey
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

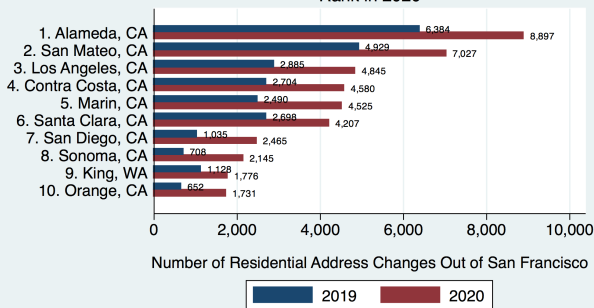
Why so Kean on Telecommuting?

- **Productivity at home appears to be really high during pandemic.**
 - Nothing else to do.
 - Short term – corporate culture and new hires – visibility to the boss – camaraderie.
- **CEOs are salivating over reduced Comm RE costs.**

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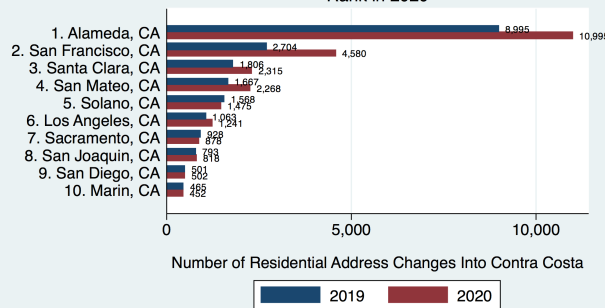
Which Way Did They Go? SF & CC

Top 10 Migration DESTINATION Counties
San Francisco County, CA
Rank in 2020



Source: United States Postal Service and American Community Survey
Data include April-December of each year to capture the pandemic effect.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Top 10 Migration SOURCE Counties
Contra Costa County, CA
Rank in 2020



Source: United States Postal Service and American Community Survey
Data include April-December of each year to capture the pandemic effect.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

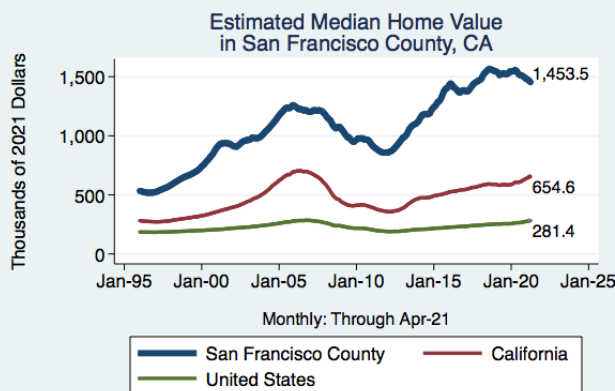
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Telecommuting – Will it Stick?

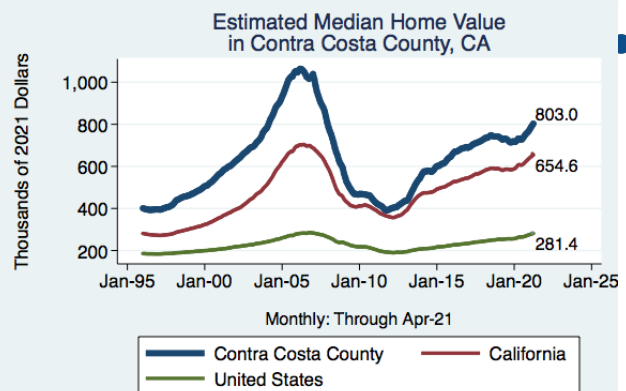
- Working from home is ALWAYS less productive than working in the office.
 - But the gap has shrunk because of technology.
- In the interest of workplace productivity, employers are likely to allow more working from home.
 - Increased in-office moral and hence productivity.
 - But not 100%. How much?
- Has important implications for real estate.



RE Experiences Differ!



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
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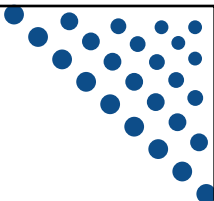


Summary

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Primary Topics Covered

- **GDP**
 - Recovered MOST of the decline.
 - Won't recover previous forecast until late 2022.
- **Employment**
 - Still down 11 million jobs relative to forecast. (\$7.5 million relative to Feb/20).
- **Inflation**
 - Going to be high for a little while, but transitory.
- **Telecommuting**
 - Going to be high for a little while, but transitory.

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My Advice for Joe – Had He Asked

- **First, priority should be to control the pandemic.**
- **Second priority is to protect the vulnerable.**
 - Target spending to **rescue**:
 - Poor Households.
 - State and Local governments (maybe not \$350b).
 - Small Firms (e.g., restaurants).
- **Third priority is stimulus.**
 - Pursue needed infrastructure investment.
- **Fourth priority is long term stability.**
 - Develop a politically feasible plan to raise revenues and lower spending over the longer term.
- **Listen to Janet Yellen.**



Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **Significant structural changes – accelerant.**
- **GDP will likely expand between 4.0 and 5.0 percent this year.**
- **Policy gap created enormous hardship.**
 - Hunger, evictions, foreclosures, additional deaths.
 - Loss of GDP: 4-5% Unemployment: up 4-5 pts.
- **Physical health determines economic health for the economy.**
 - Well on our way to recovery, both health and economic.



Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman

Jon@NEEDelegation.org

Contact NEED: info@NEEDelegation.org

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