



## *Osher Lifelong Learning Institute, Spring 2021* **Contemporary Economic Policy**

Spring, 2021, Sonoma 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: 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

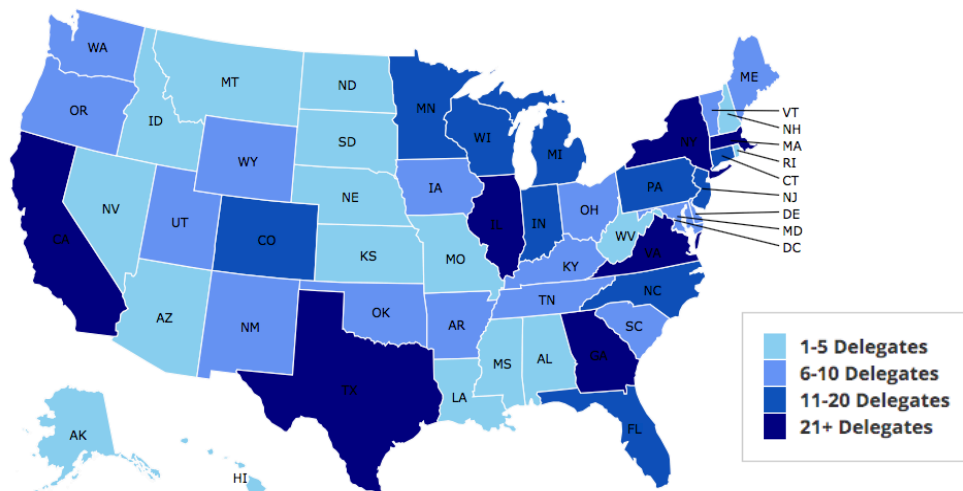


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## Where Are We?



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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
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

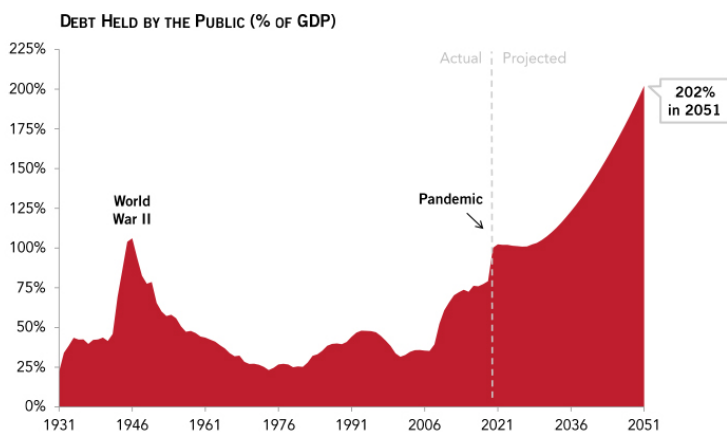
## Course Outline

- **Contemporary Economic Policy**
  - **Week 1 (4/14): US Economy & Coronavirus Economics**
  - Week 2 (4/21): Federal Debt (Geoffrey Woglom, Amherst College)
  - Week 3 (4/28): Trade and Globalization (Alan Deardorff, University of Mich.)
  - Week 4 (5/5): Health Economics (Veronika Dolar, SUNY)
  - Week 5 (5/12): Economic Inequality (Mina Kim, Johns Hopkins Univ.)
  - Week 6 (5/19): Climate Change Economics (Jennifer Alix-Garcia, Oregon St.)

# Relative Debt since 1940 and Projections



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



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Source: CBO

# Trade and Globalization

Global trade recovers to pre-pandemic levels

Index (2010 = 100)



Source: Netherlands Bureau for Economic Policy Analysis

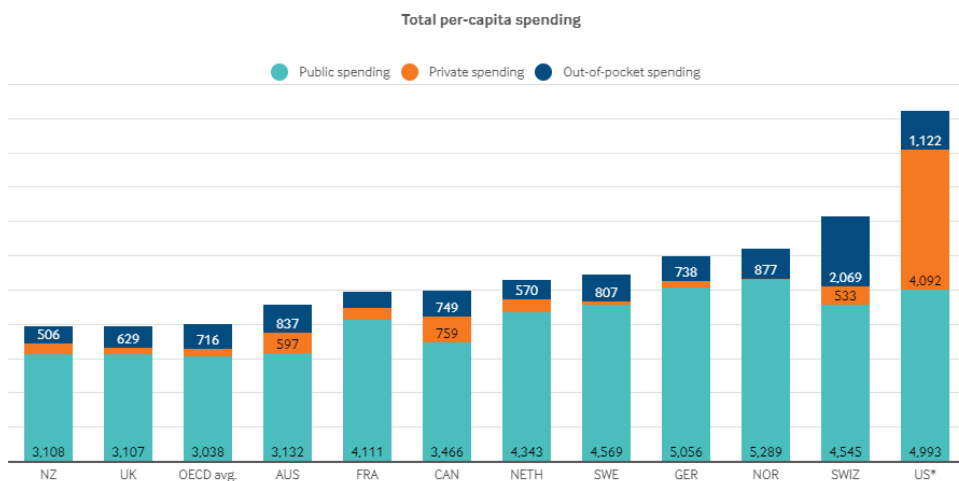
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# International Comparison

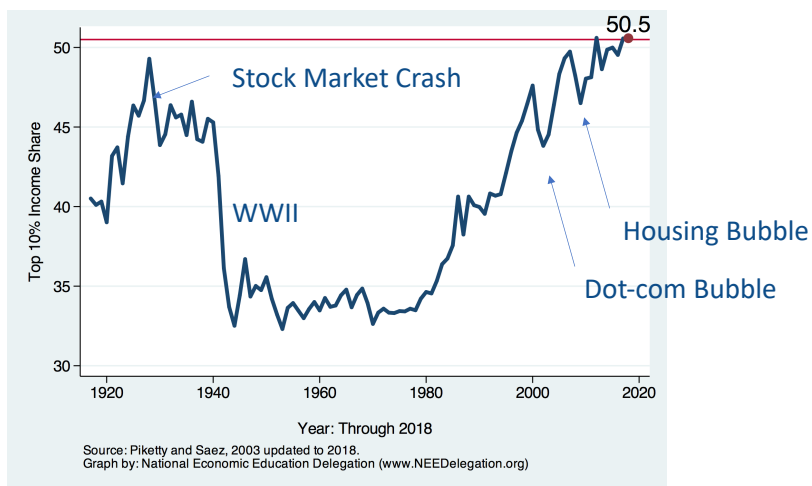
Dollars (US\$), adjusted for differences in cost of living



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# National Income Inequality: Share of Top 10%



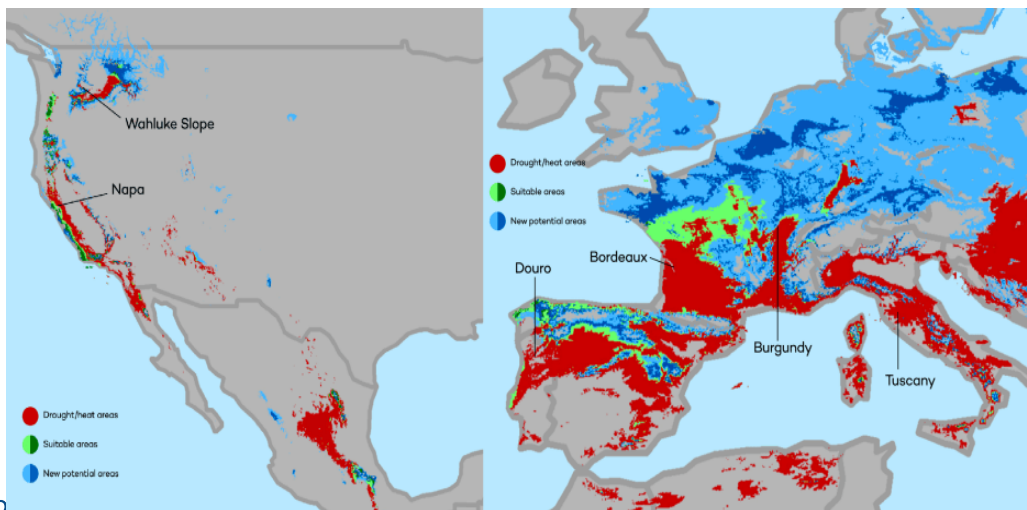
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# Climate Change Economics

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



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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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## Some Basic Statistics

Statistic:	Value
Population	328.2 Million
Labor Force	160.6 Million
Employment	144.0 Million
GDP	21.5 Trillion
Ave. Hourly Earnings	\$29.96



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## U.S. Economy in Global Perspective

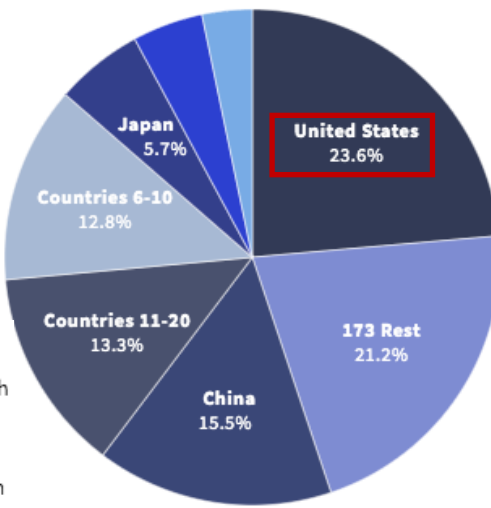
**U.S. Real GDP:**

**\$19.253 trillion in 2019-Q4**  
**\$18.794 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



Country/Region	Share (%)
United States	23.6%
173 Rest	21.2%
China	15.5%
Countries 11-20	13.3%
Countries 6-10	12.8%
Japan	5.7%
Germany	~1.5%
United Kingdom	~1.5%



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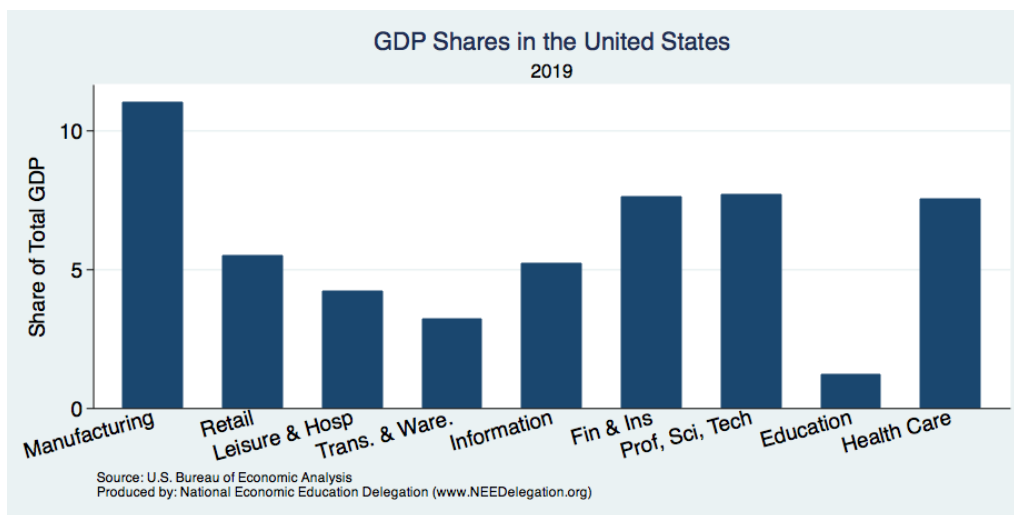
Source: IMF

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## Composition of the U.S. Economy: GDP

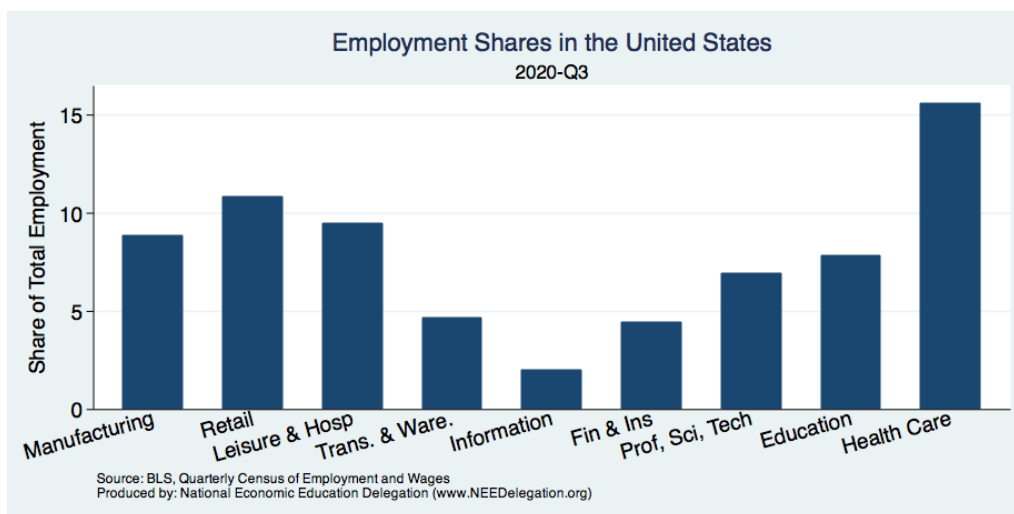


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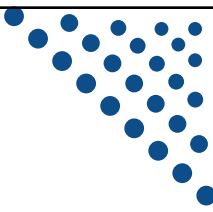
## Composition of the U.S. Economy: Employment




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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

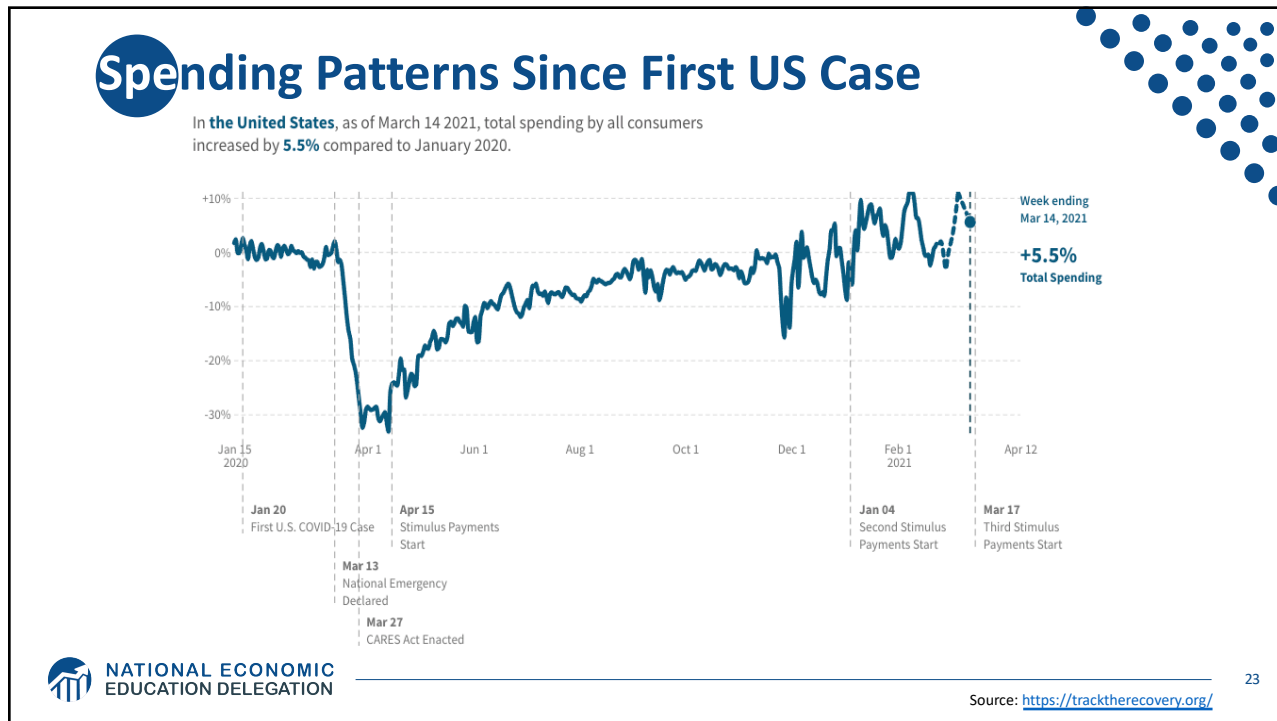
- **Mitigation of effects**
  - Social Policy
- **Tend to the vulnerable**
  - Fiscal Policy
- **Shore up structures**
  - Fiscal and Monetary
- **Rebuild**
  - Stimulus

There are corollaries in this crisis.

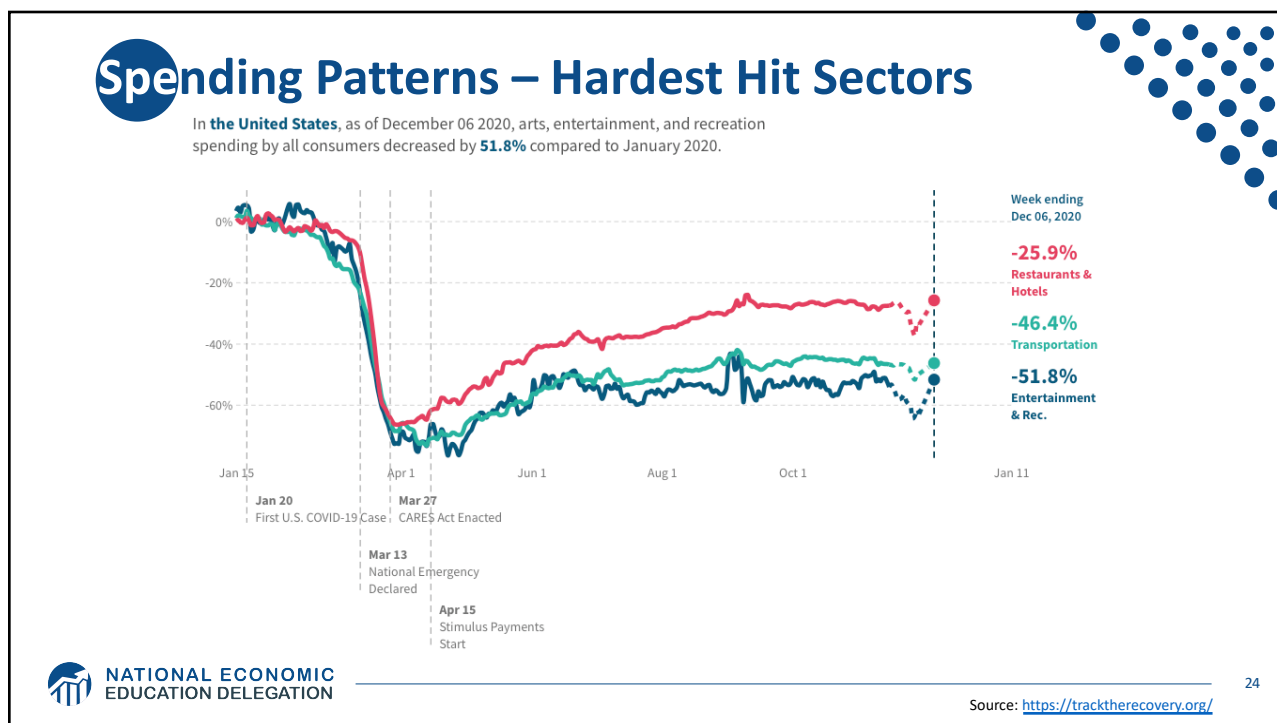
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## Evidence of Impact

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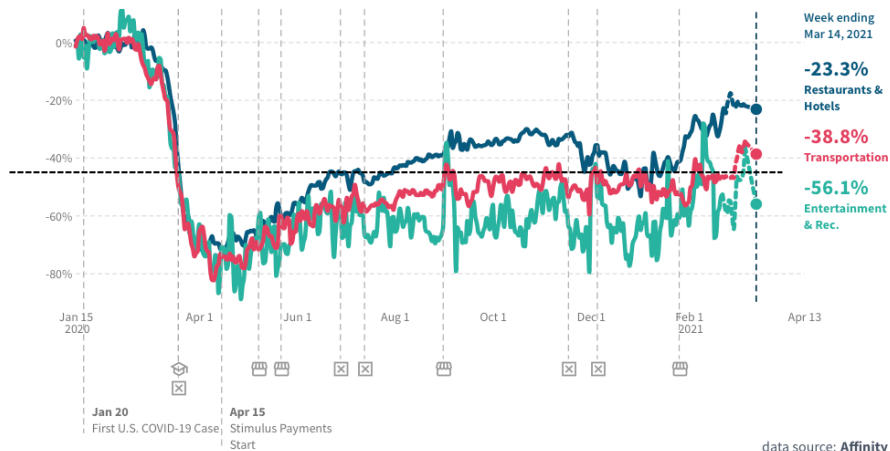
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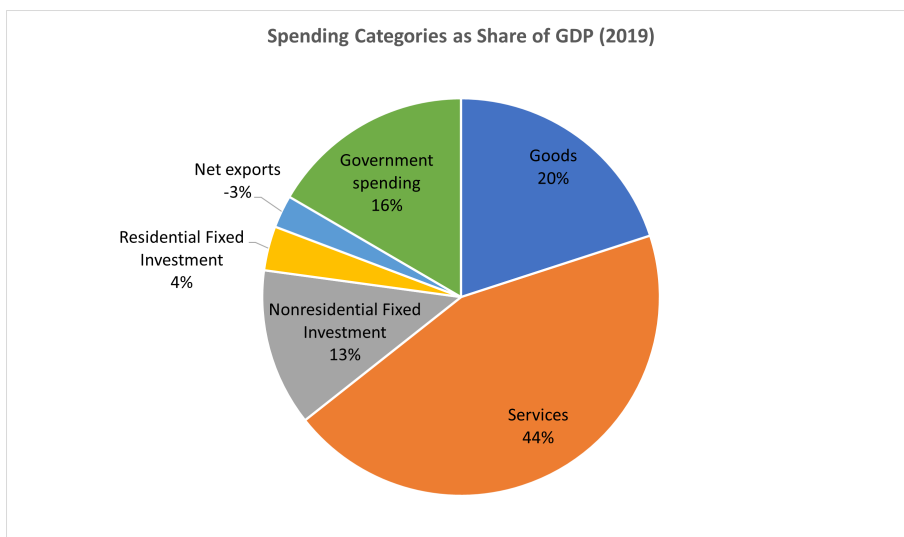
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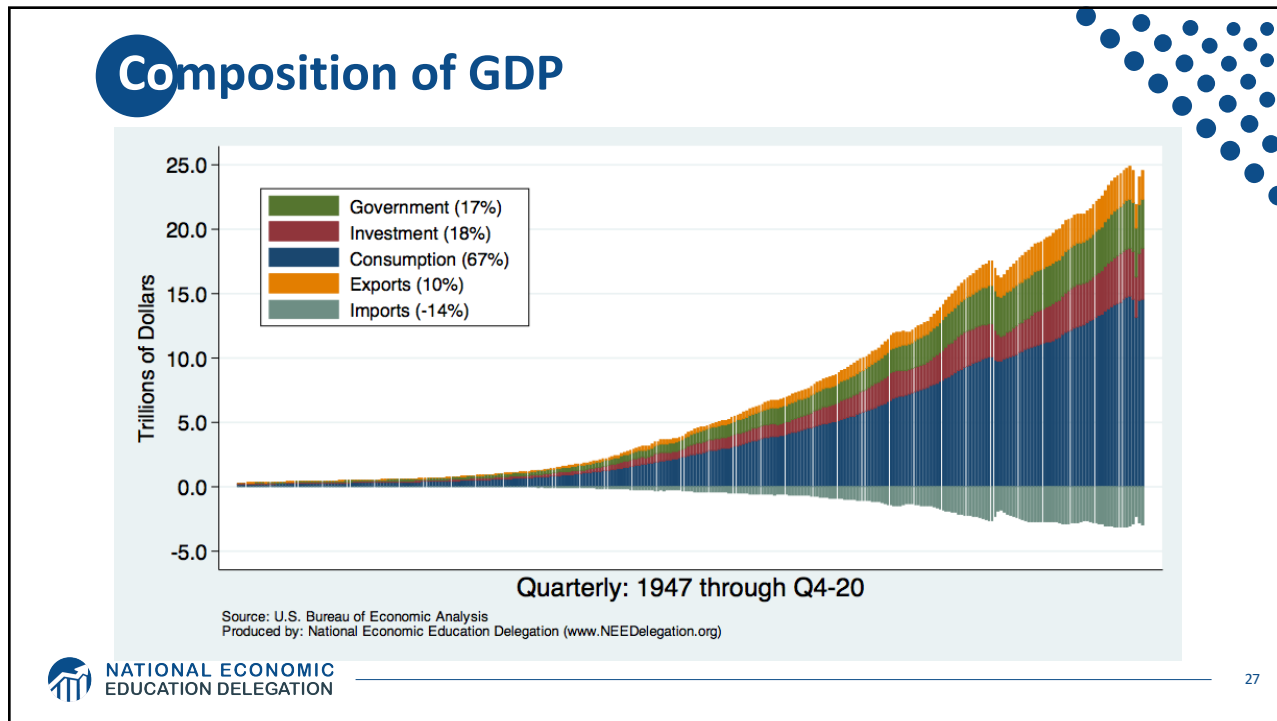
# Spending Patterns Since First US Case: CA

In California, as of March 14, 2021, restaurant and hotel spending by all consumers decreased by **23.3%** compared to January 2020.

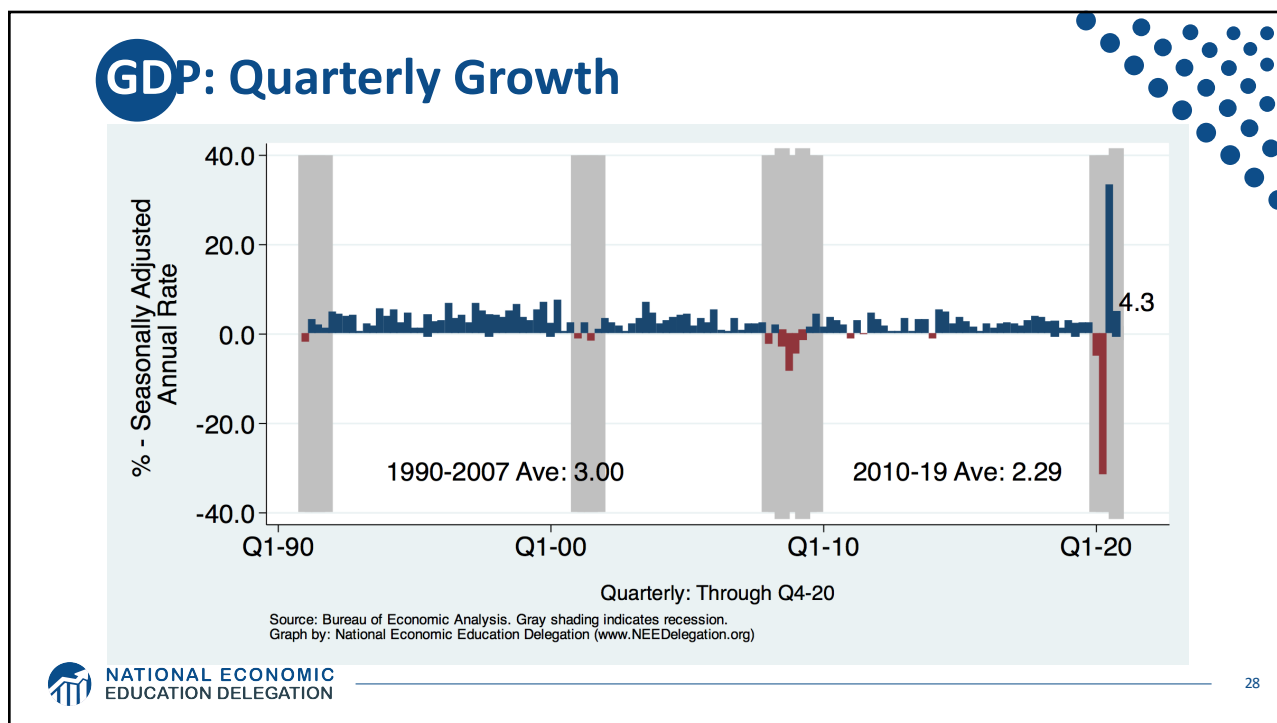


# Why does spending matter?

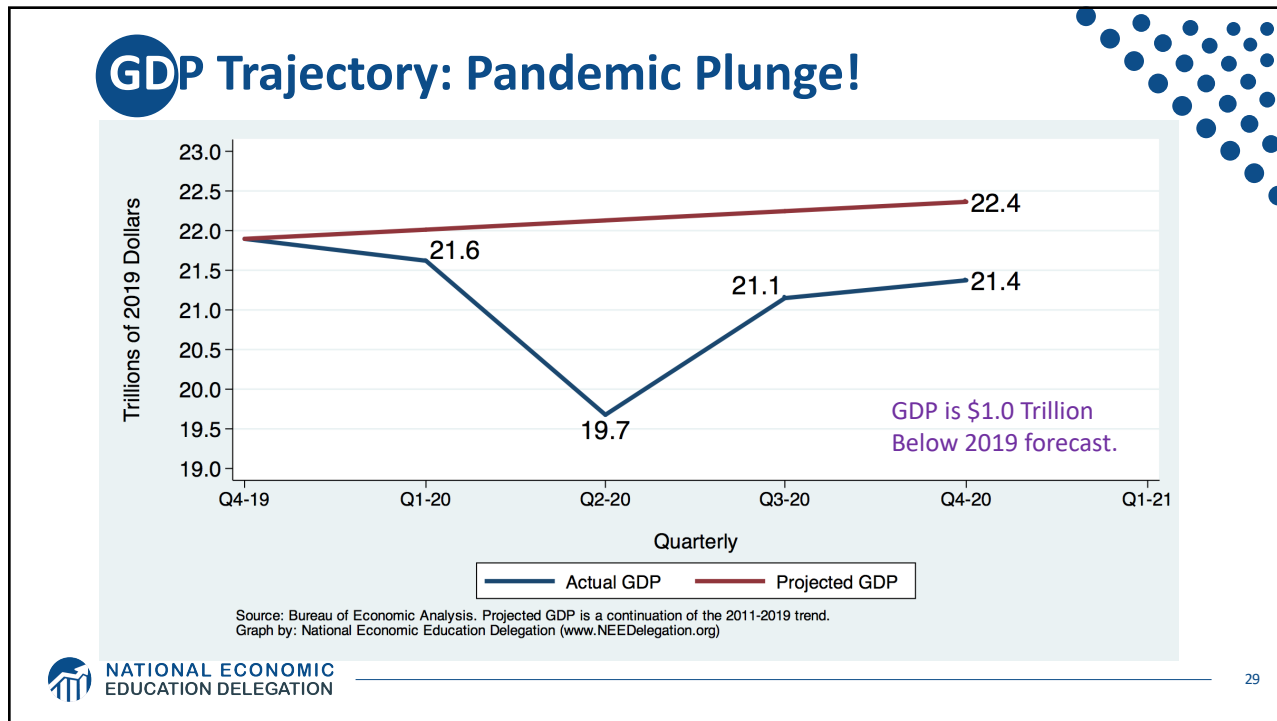




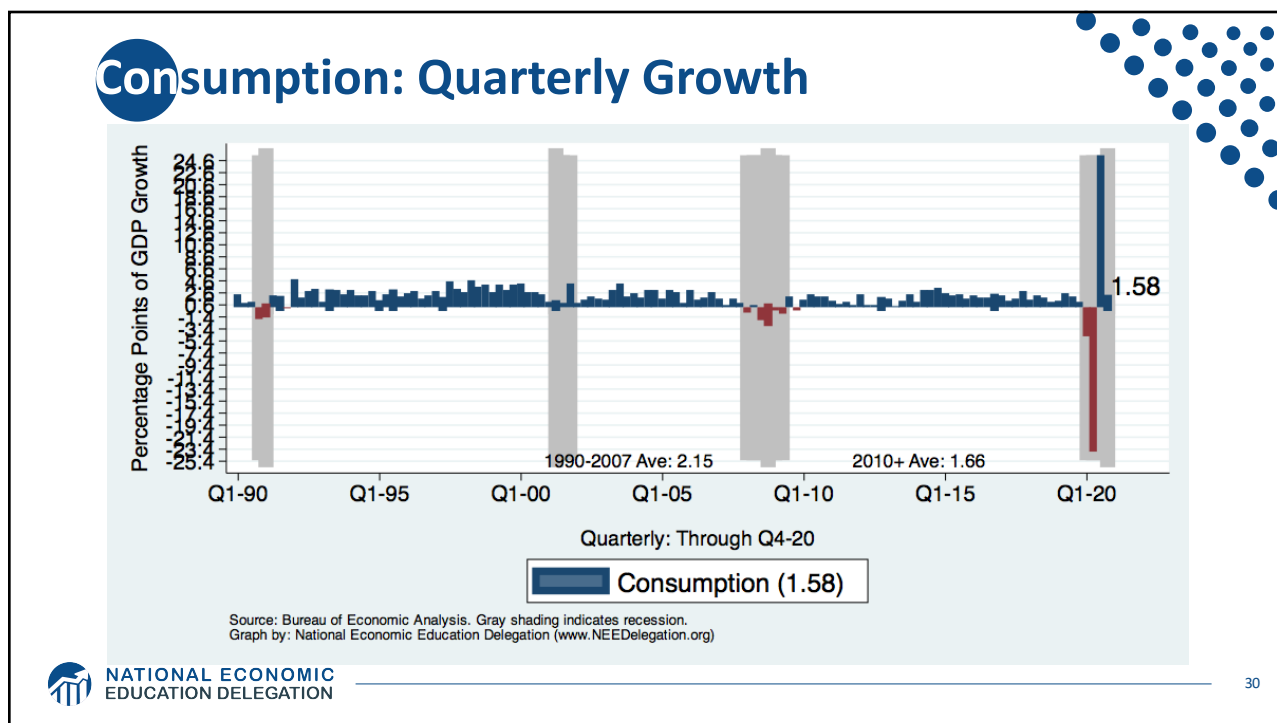
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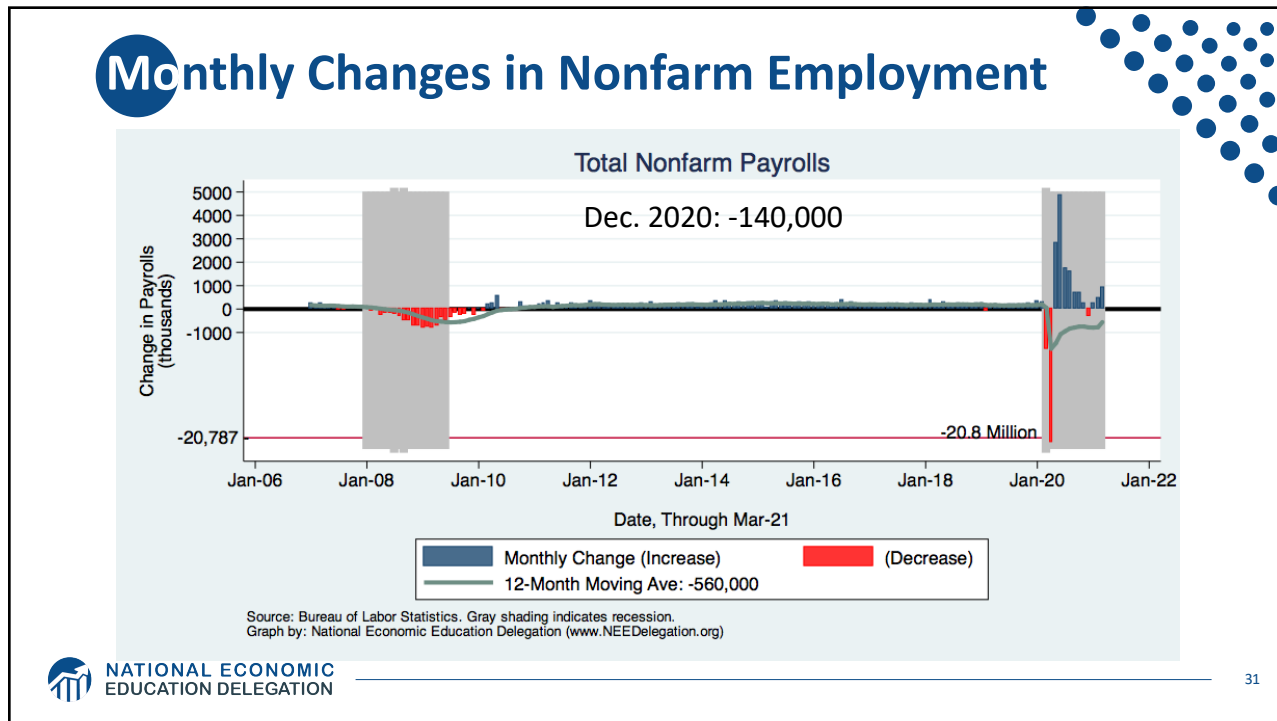
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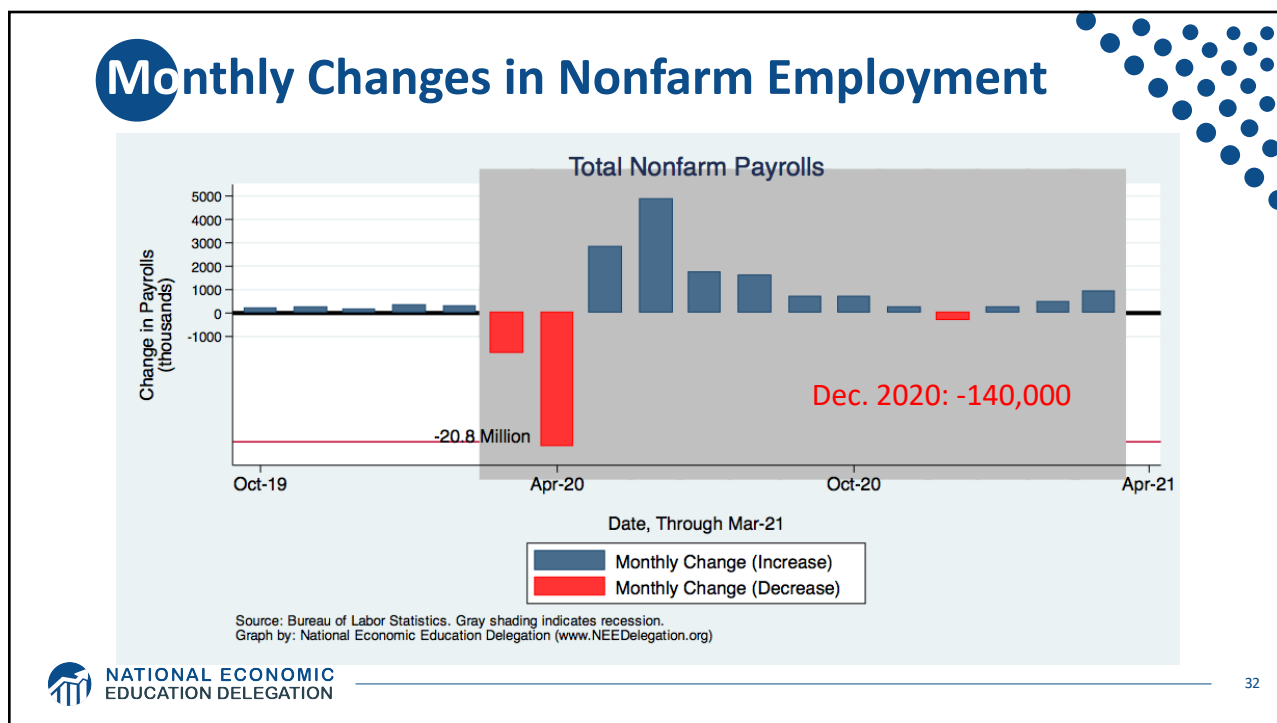
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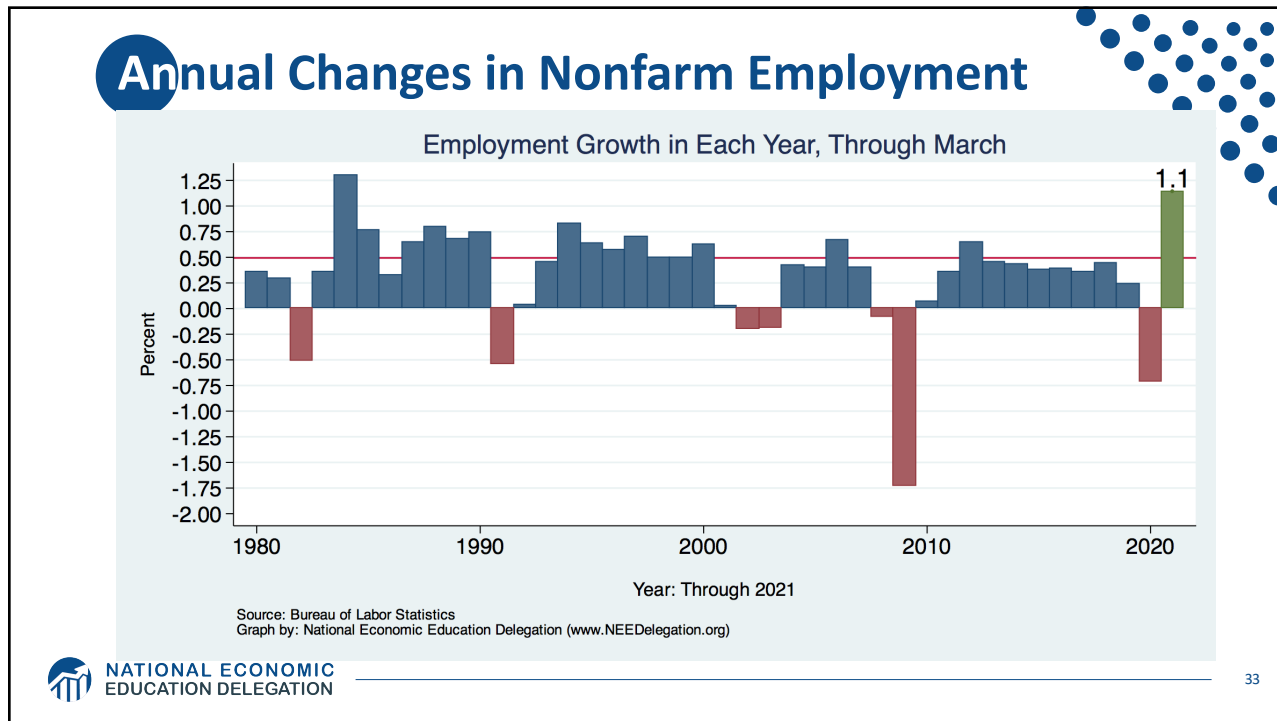


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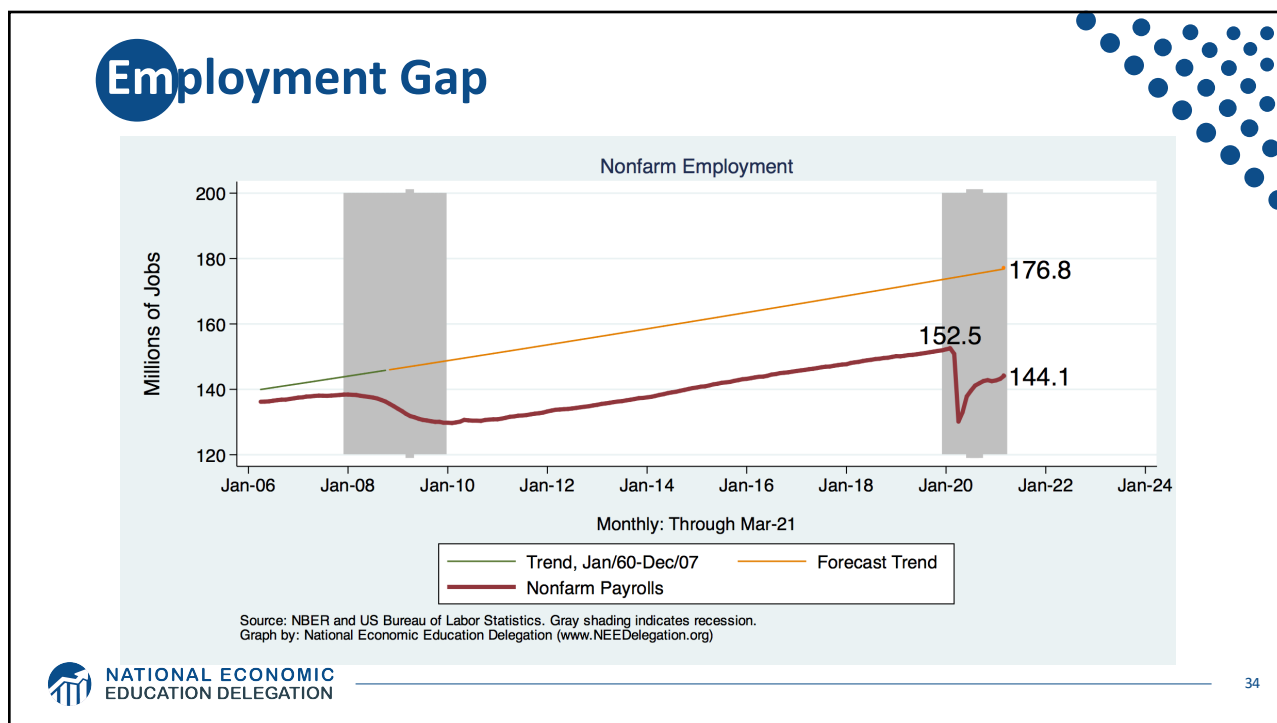


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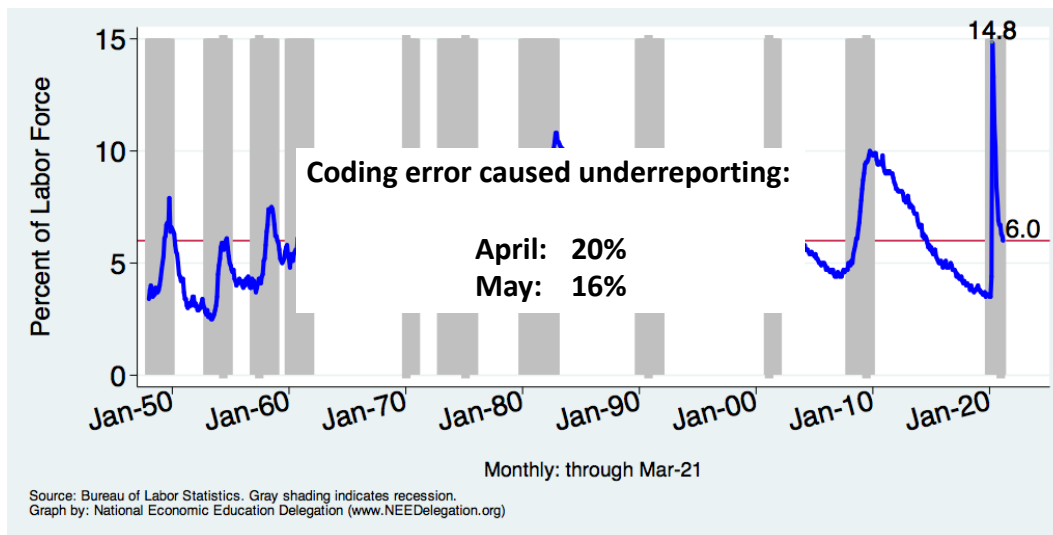


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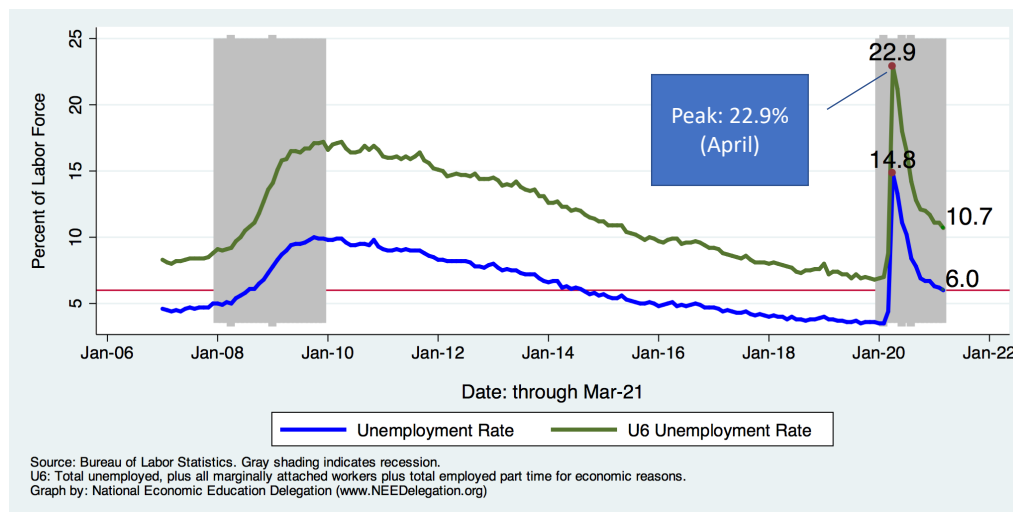
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# Unemployment Rate



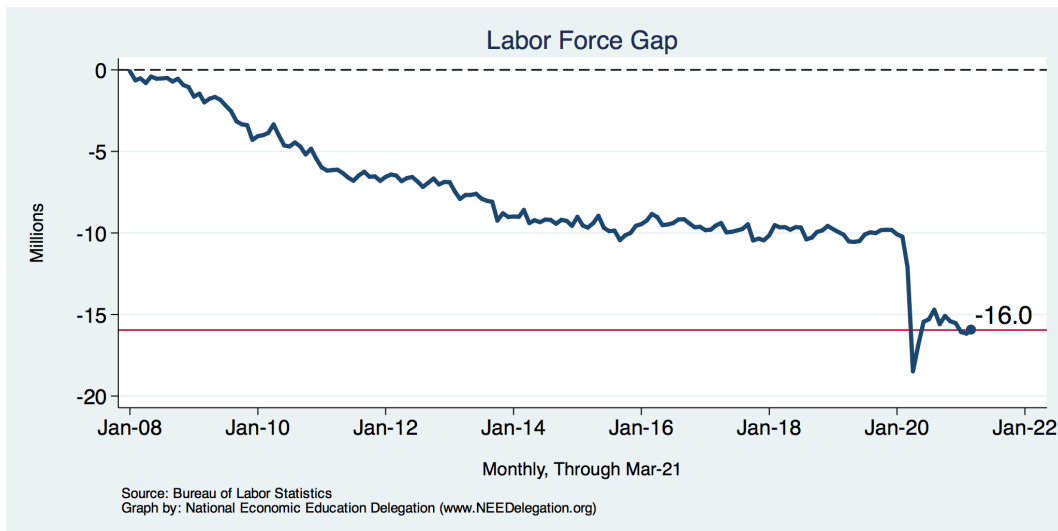
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# Reduced Spending: Unemployment



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## Labor Force is Shrinking – Drives Down UR

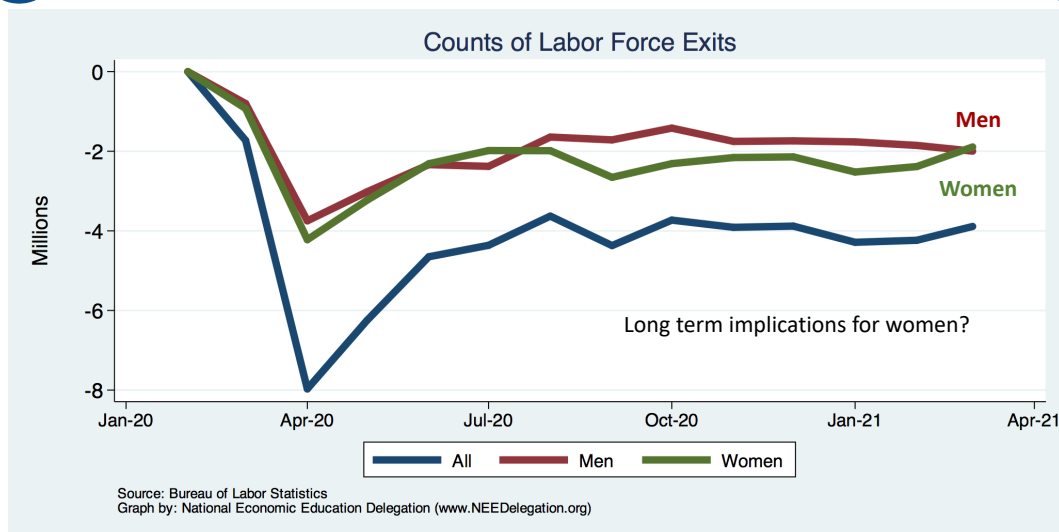


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## Affecting Women More Than Men

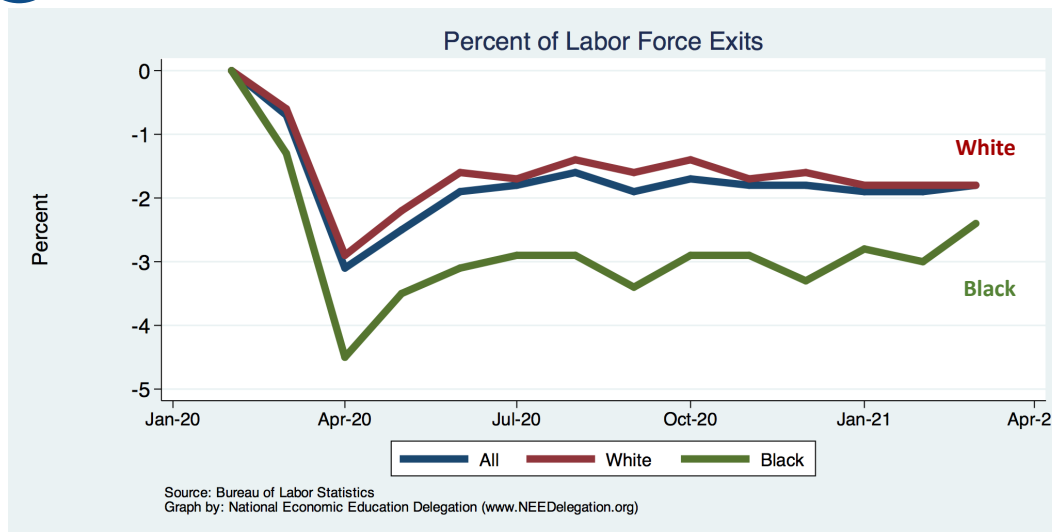


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## Affecting Black Workers More than White

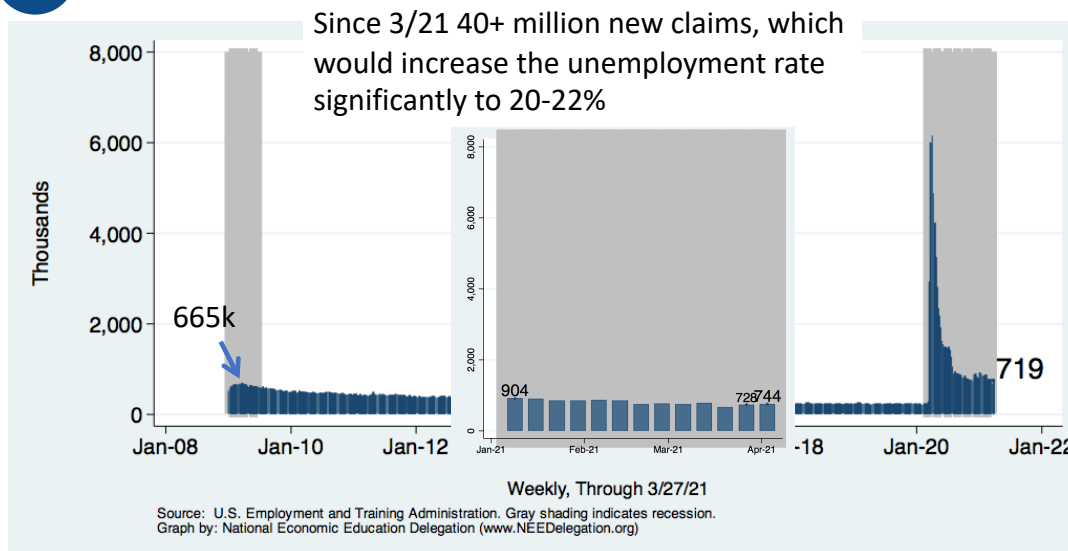


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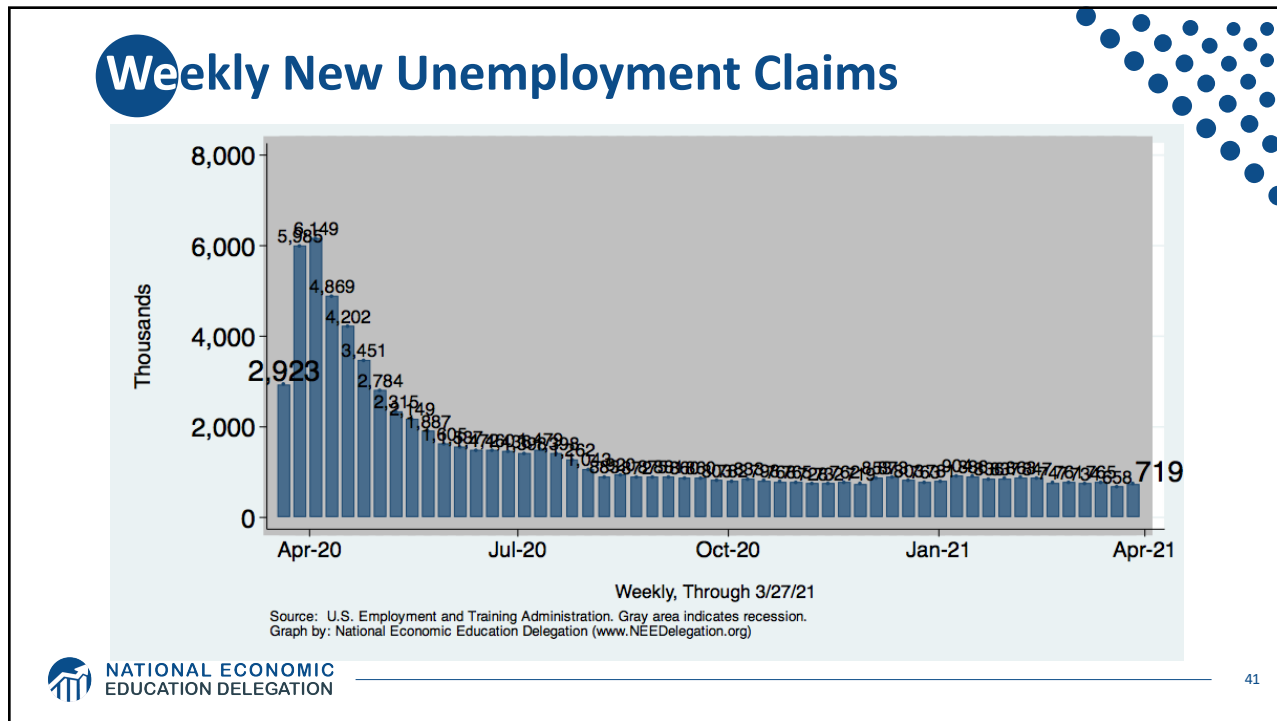
## Weekly New Unemployment Claims



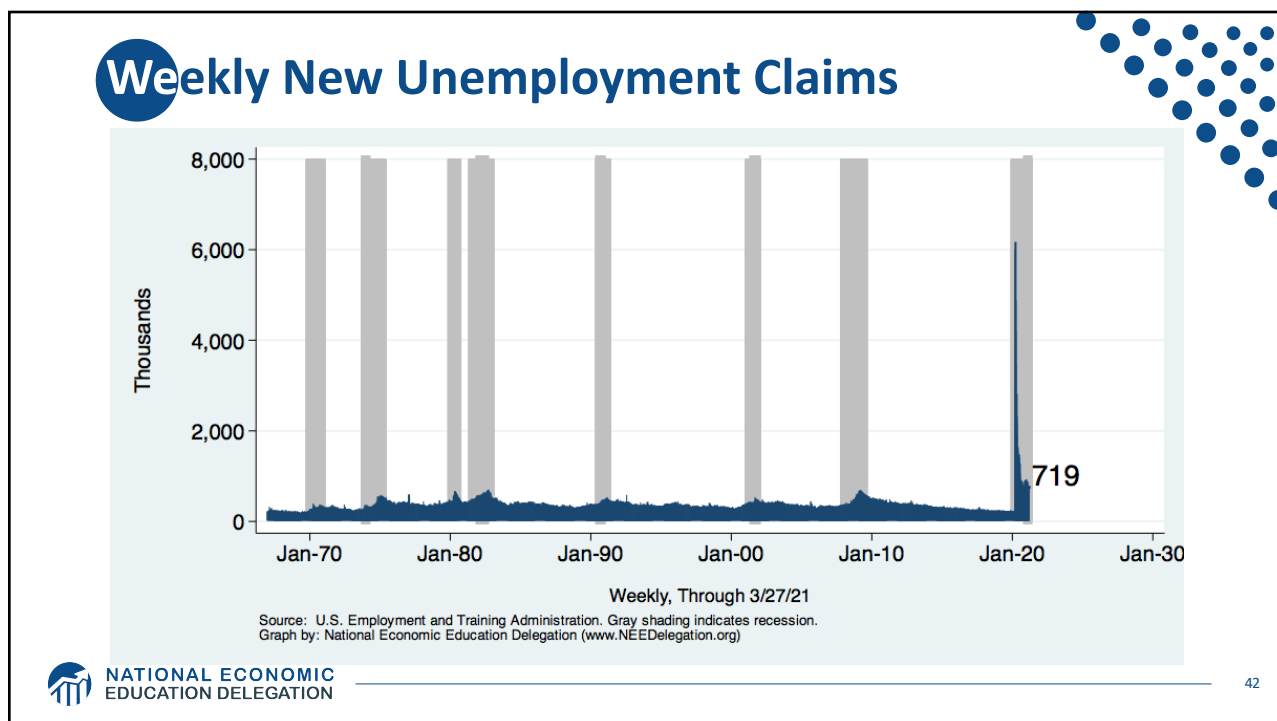
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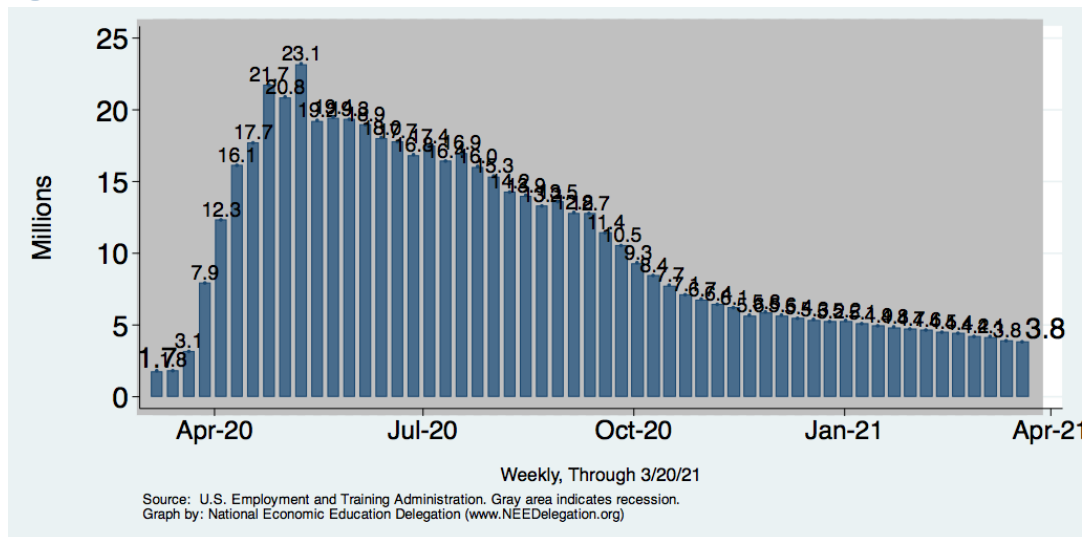


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## Continuing Unemployment Claims

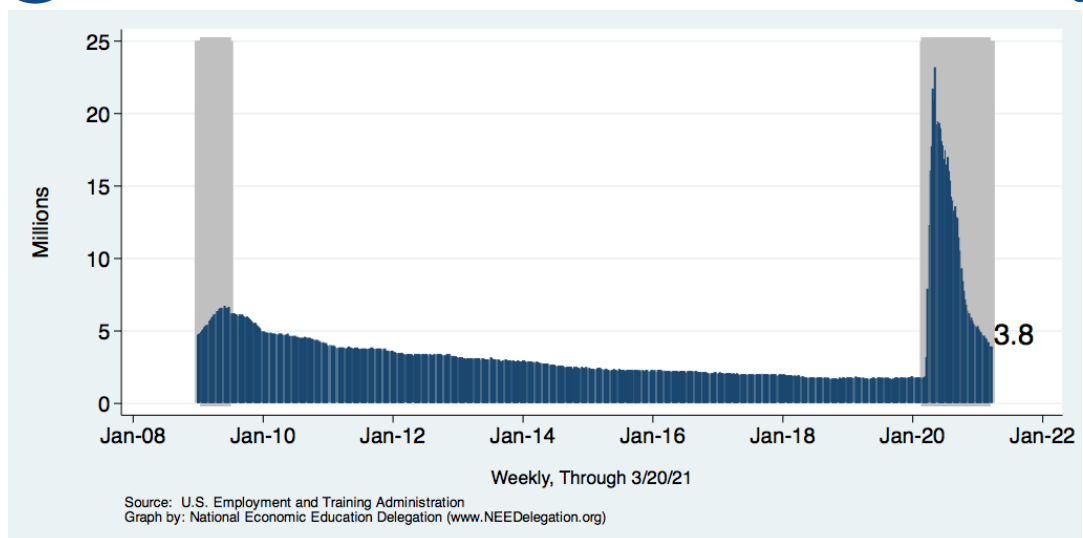


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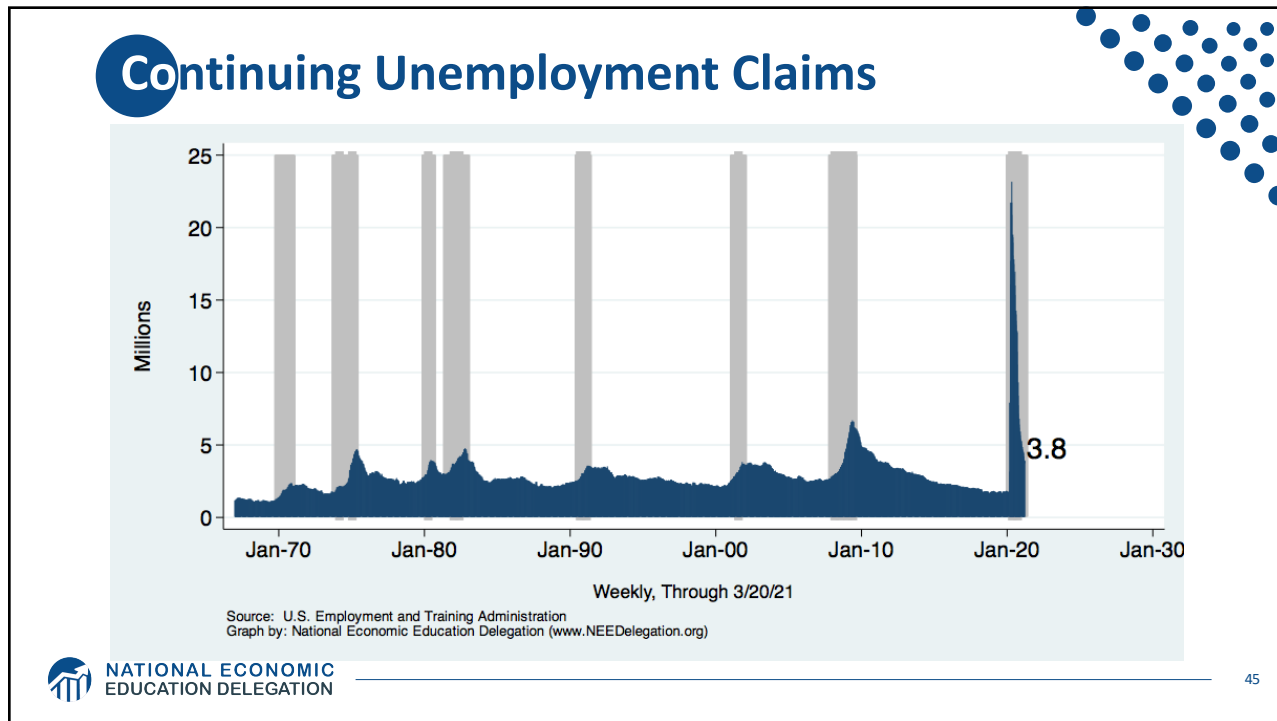
## Continuing Unemployment Claims



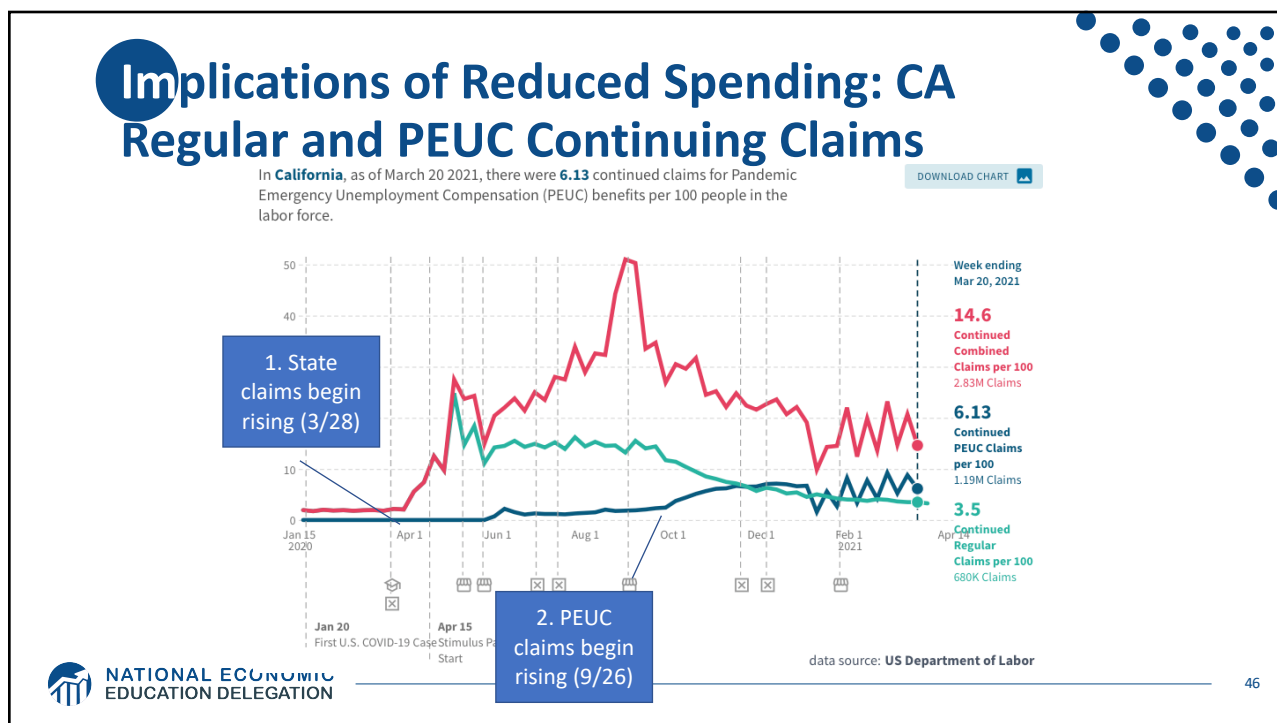
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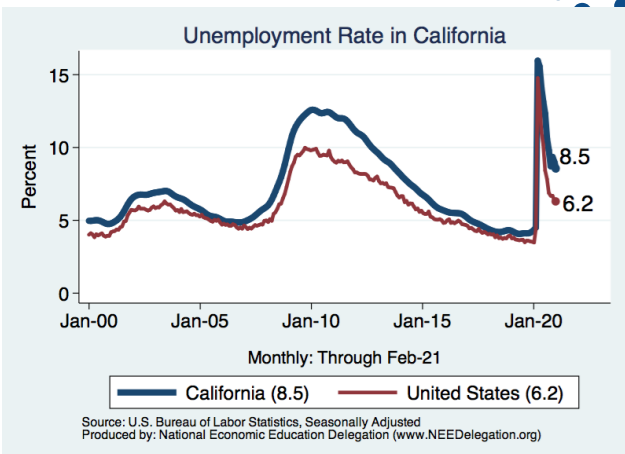
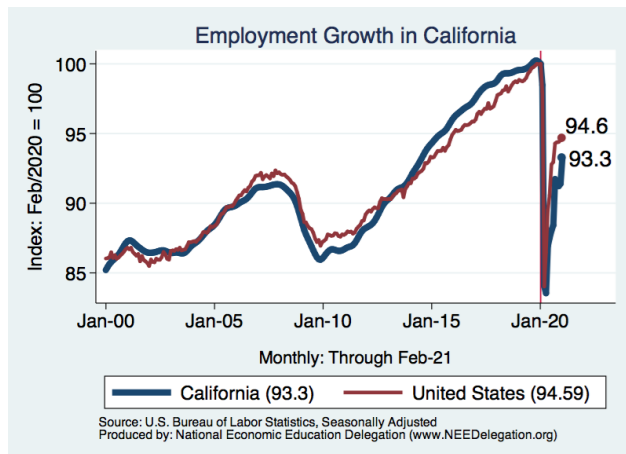


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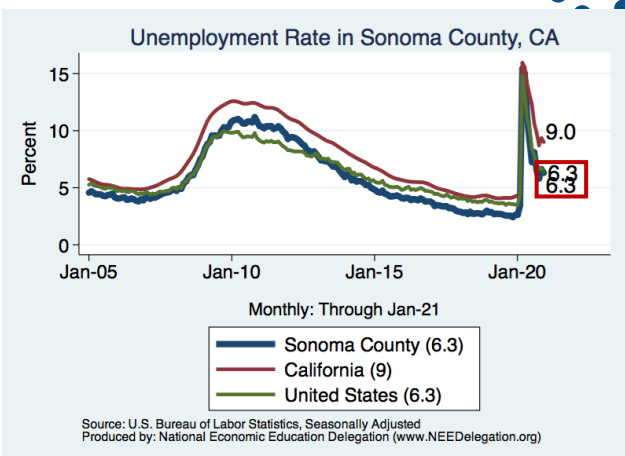
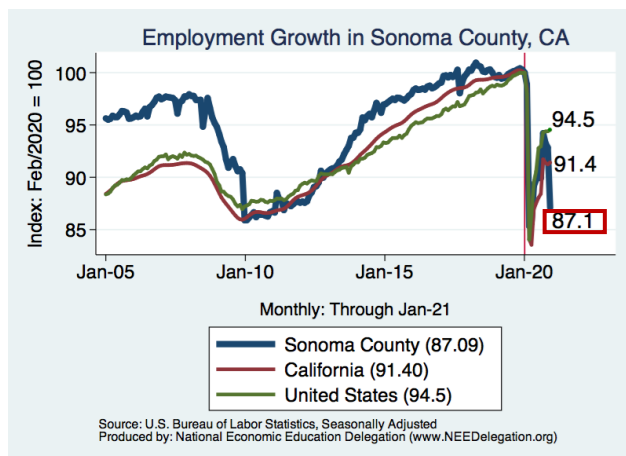


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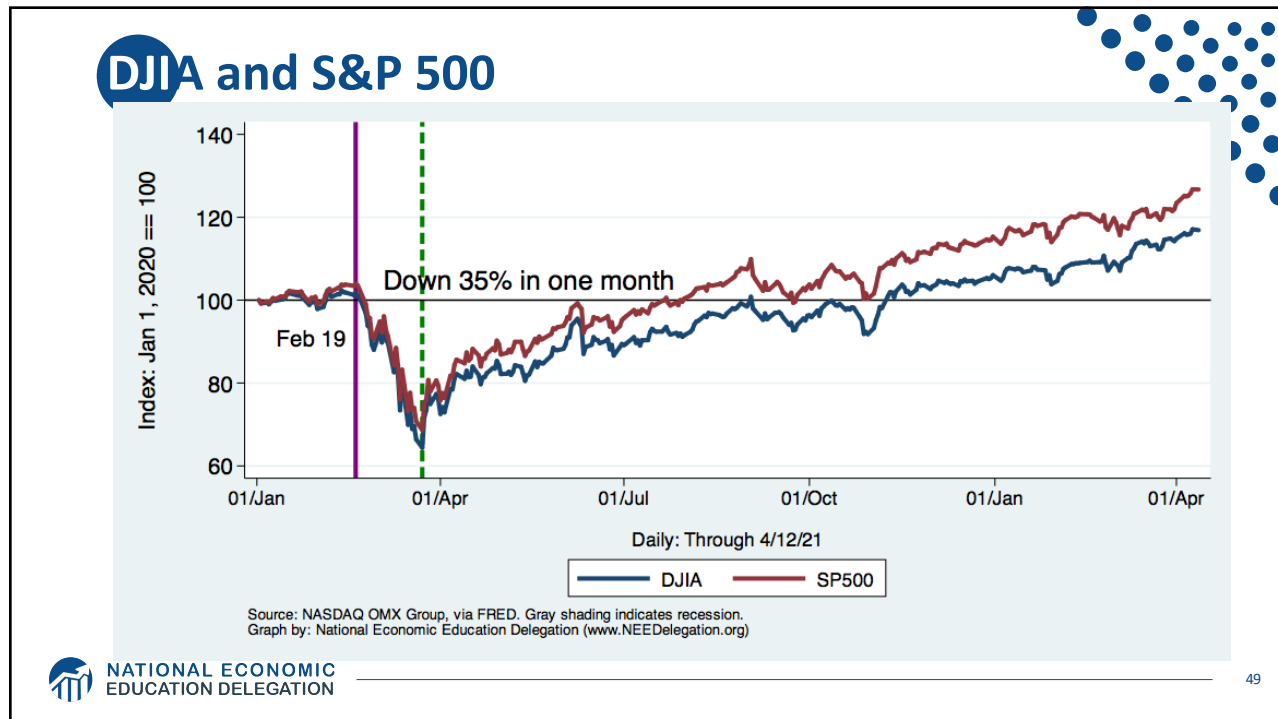
# Employment in California



# Employment in Sonoma County







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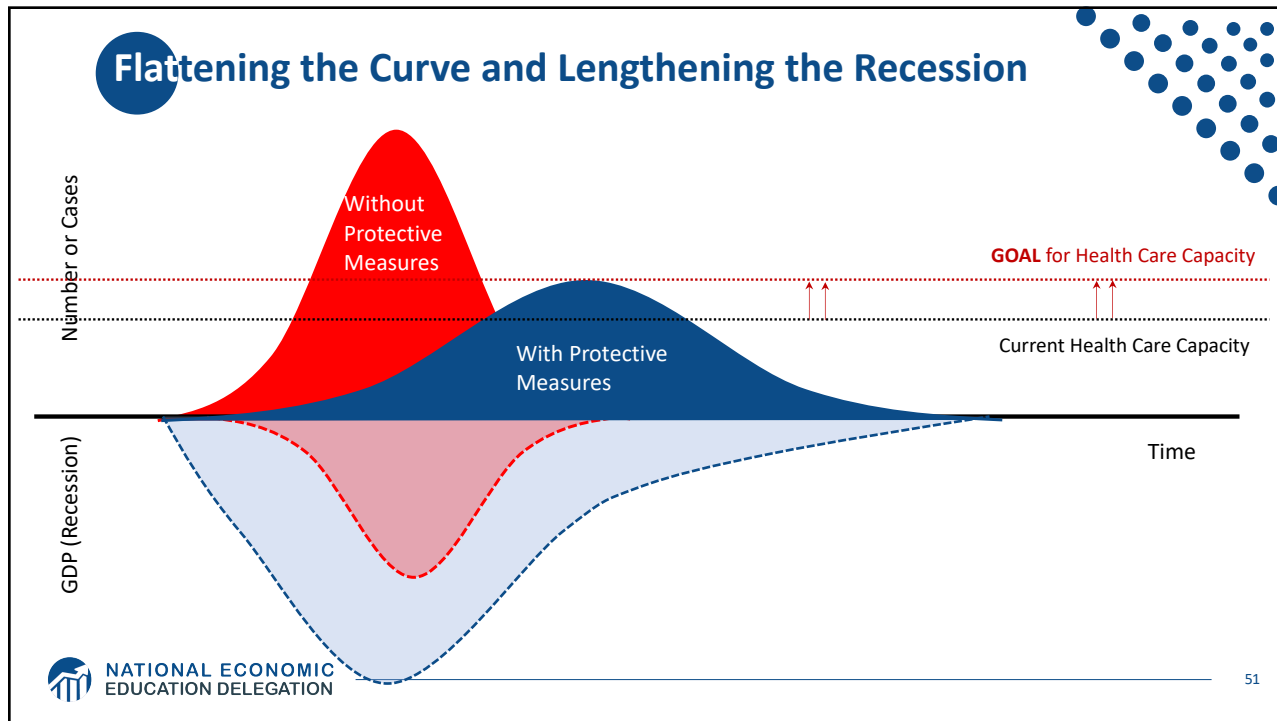
## A Tale of Three Policies Efforts

- **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

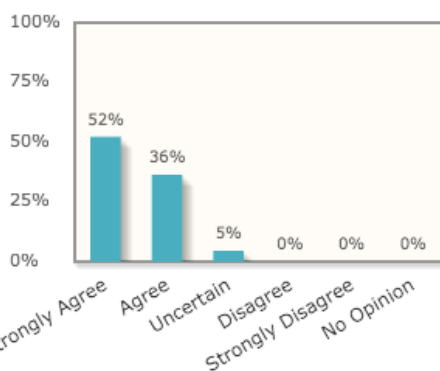
- **BENEFITS of social distancing:**
  - \$7 million/life and 600,000 lives saved (\$4.2 trillion)
  - Long term health issues avoided: 2 million at \$500,000 (\$1 trillion)
  - **Total Benefit of Social Distancing: \$5.2 Trillion**
- **COSTS of “Shelter in Place” or “Lockdown”**
  - There are about 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**

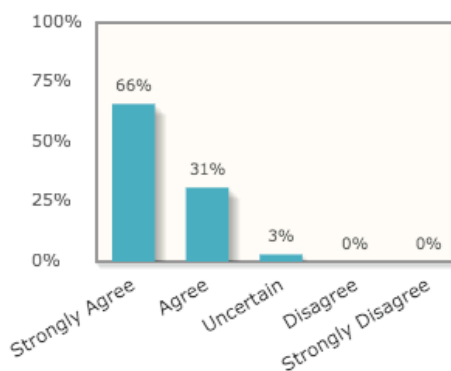
# University of Chicago – Experts Poll

**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**

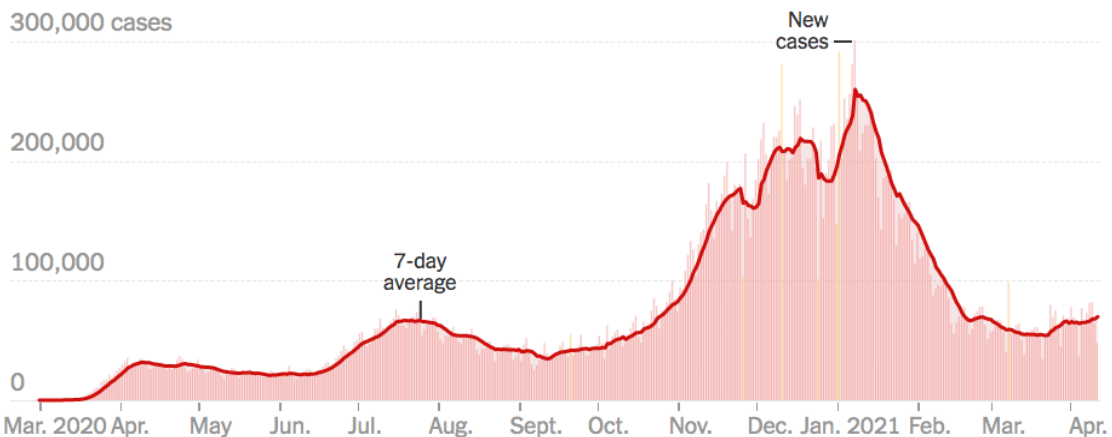


**Responses weighted by each expert's confidence**



## Concern: Here we go again?

### New reported cases by day



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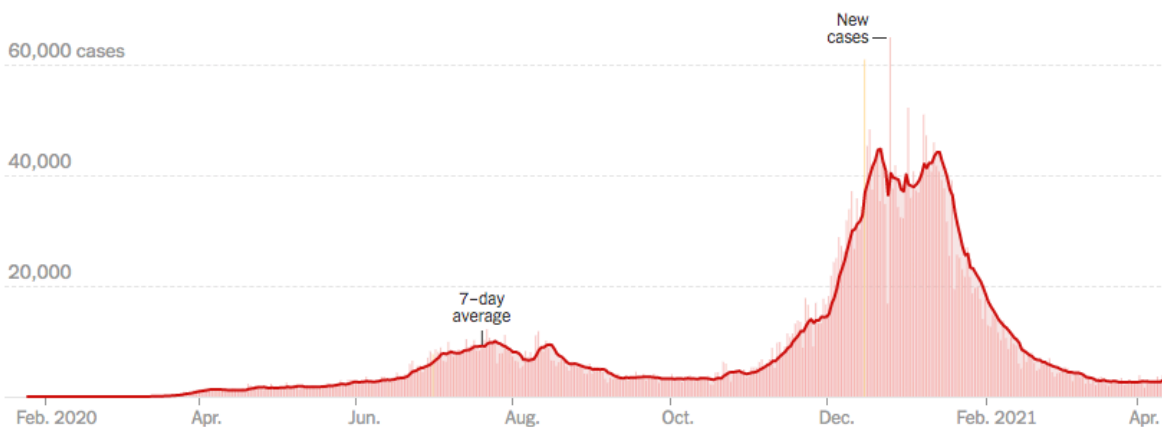
Source: NYTimes

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## California Cases Are Not Still Falling....

### New reported cases

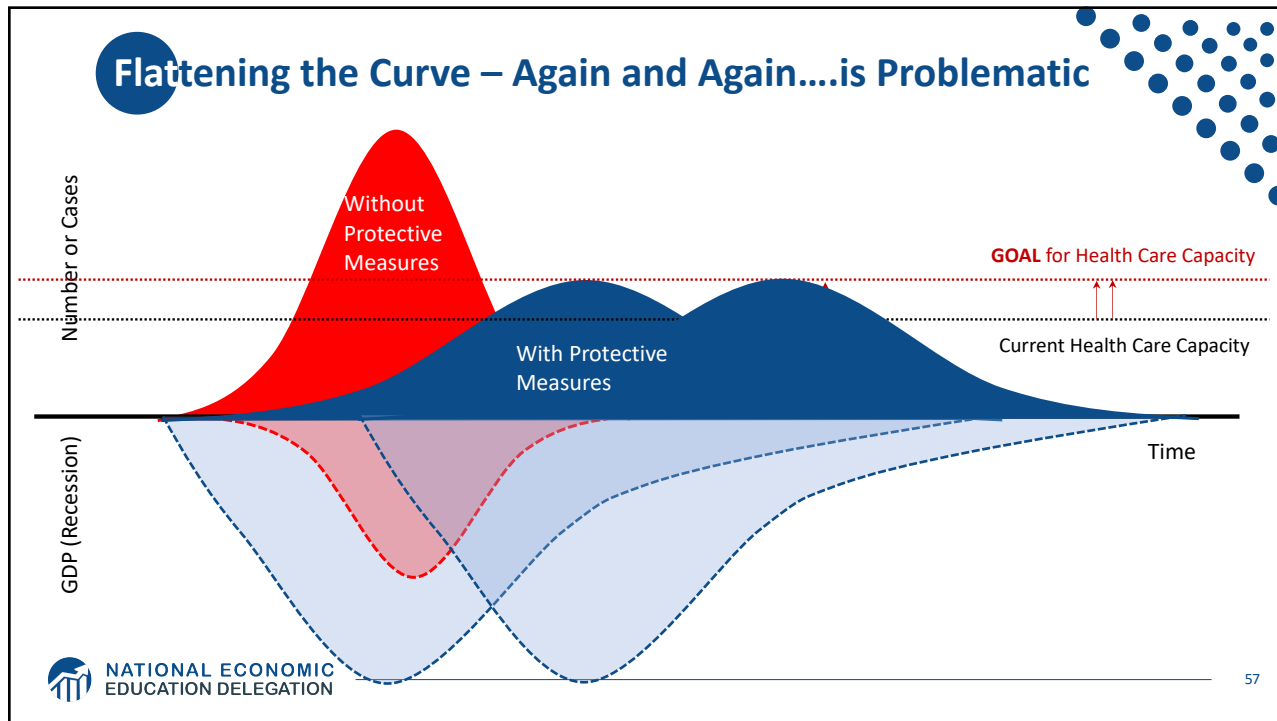


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Source: NYTimes

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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 couple of months: \$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

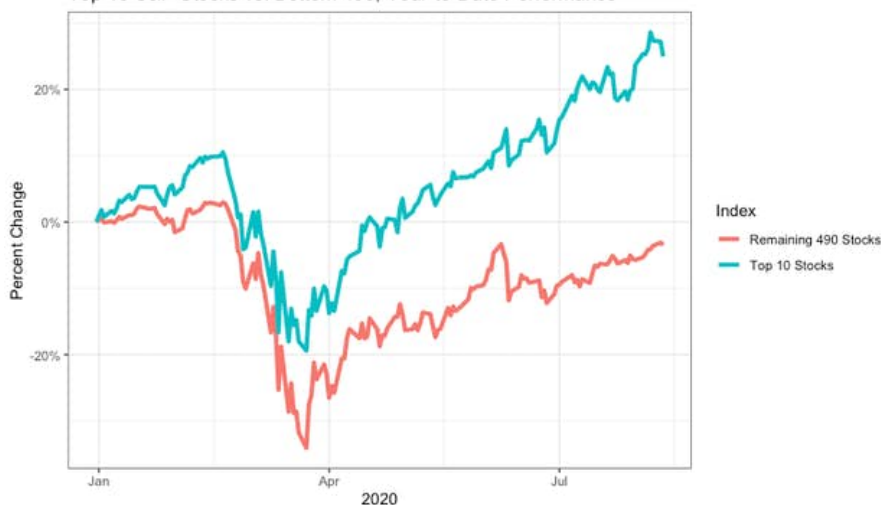
- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
  - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity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

# 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



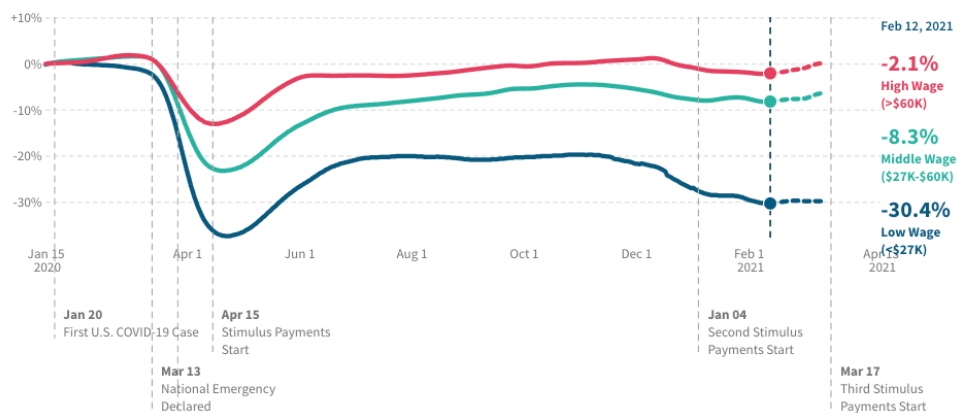
Source: TrendPlaybook.com, Bloomberg

# Coronavirus and Inequality

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

# Low Wage Employment is Lagging

In the United States, as of February 12, 2021, employment rates among workers in the bottom wage quartile decreased by **30.4%** compared to January 2020 (not seasonally adjusted).

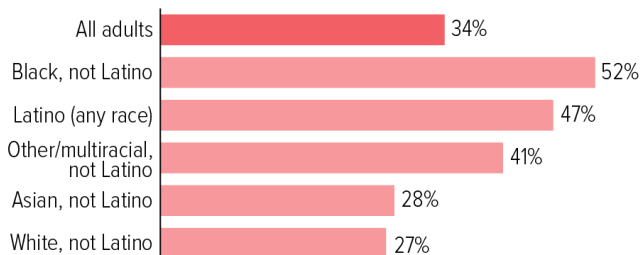




# Low Income Troubles

## 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

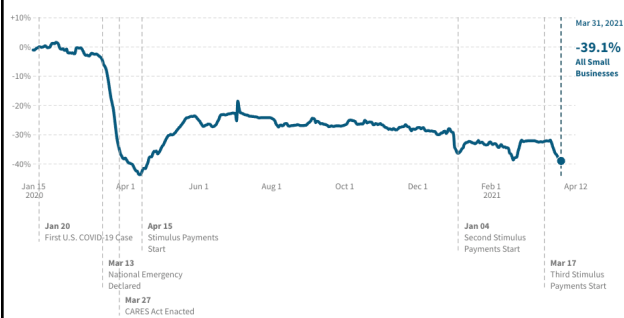
CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



# Another Hard-Hit Sector: Small Business

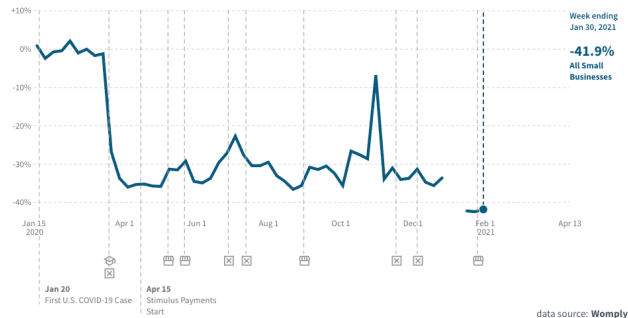
## Small Biz Closures in the United States

In the United States, as of March 31, 2021, the number of small businesses open decreased by **39.1%** compared to January 2020.



## Small Biz Closures in Sonoma County

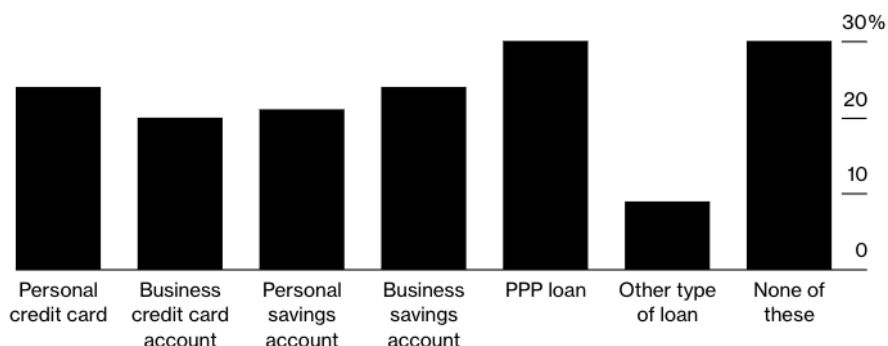
In Sonoma, as of January 30, 2021, the number of small businesses open decreased by **41.9%** compared to January 2020.



# 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.

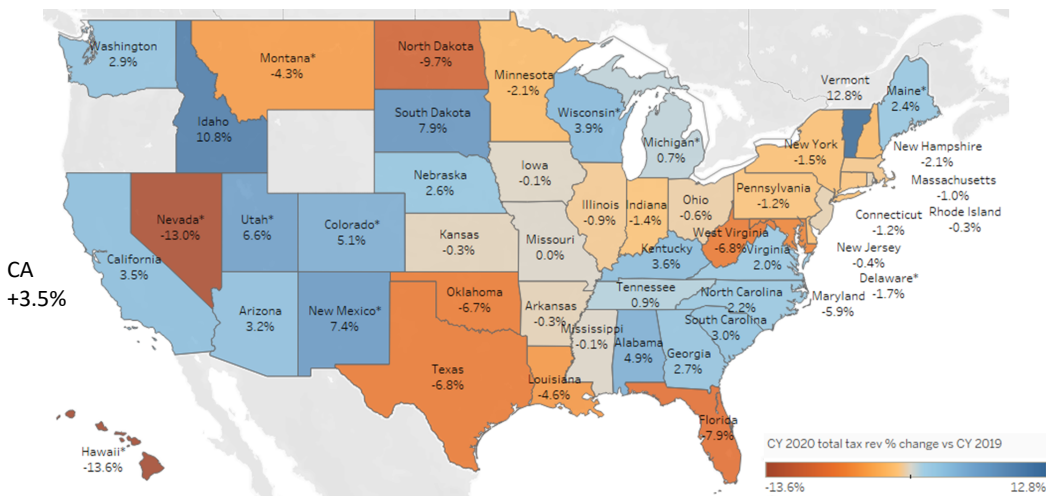


CreditCards.com  
 Respondents could choose more than one option.



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# 2020 State Tax Receipts Relative to 2019

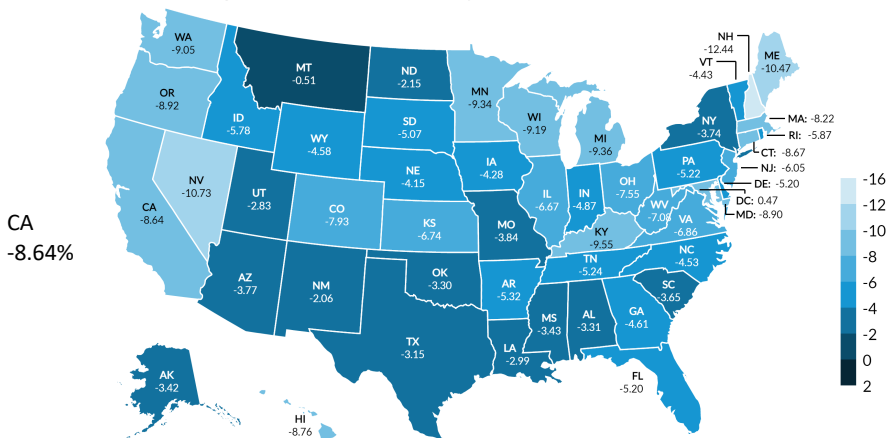


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<https://markets.jpmorgan.com/research/email/9oirrqa/jA-9jthJ33avL4Z96Lz3vA/GPS-3630418-0>

# Employment Losses Don't Match Revenue

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



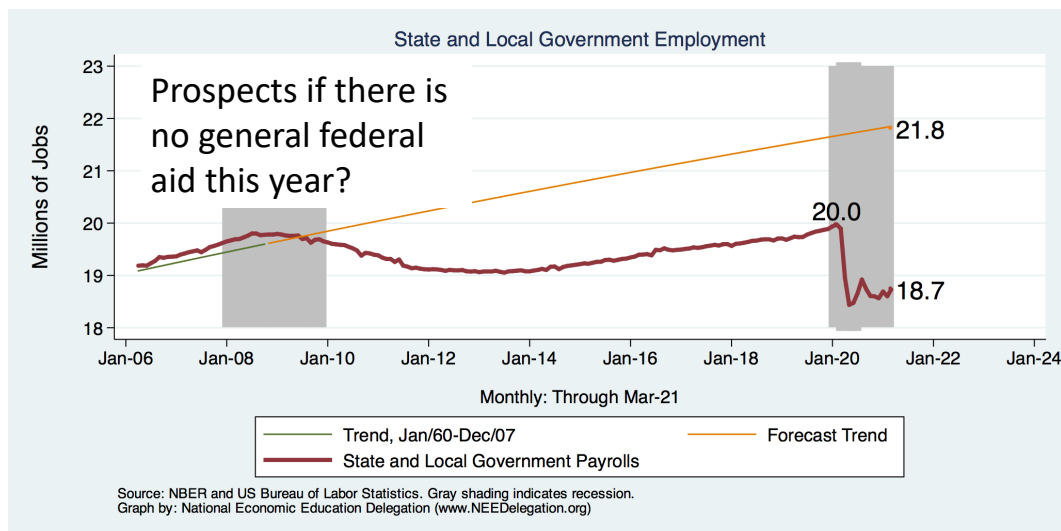
Source: Bureau of Labor Statistics via the State Economic Monitor

URBAN INSTITUTE



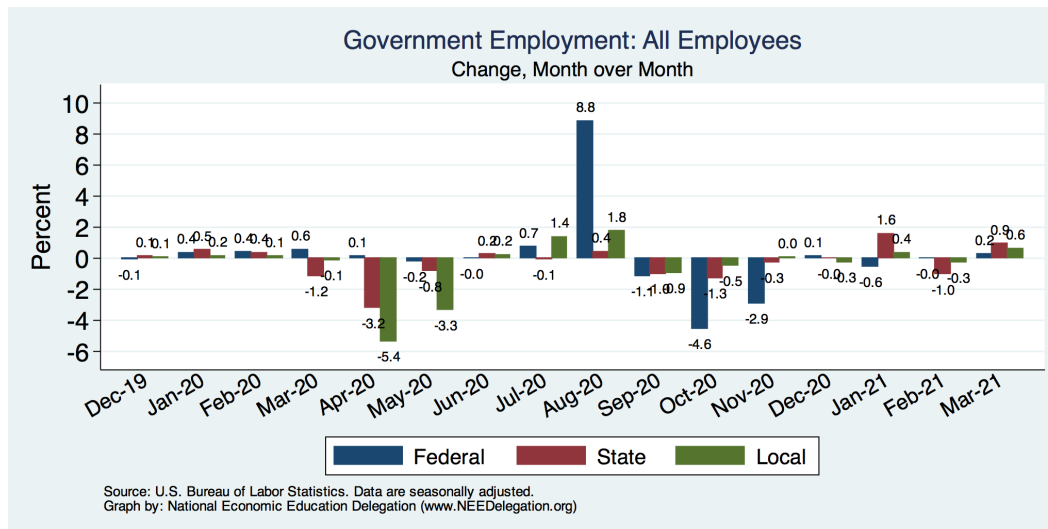
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# State and Local Employment



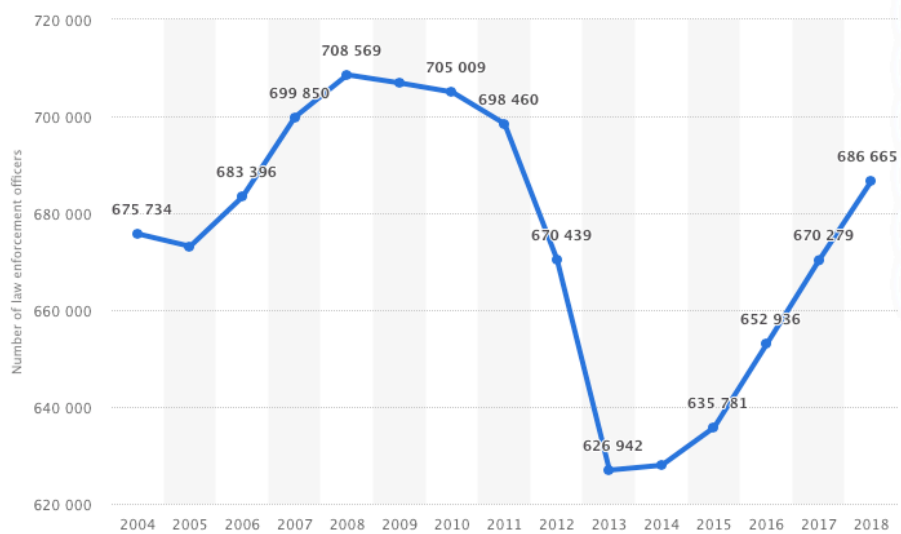
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## State & Local Gov'ts Are Tightening



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## # of Law Enforcement Officers: 2004-2018



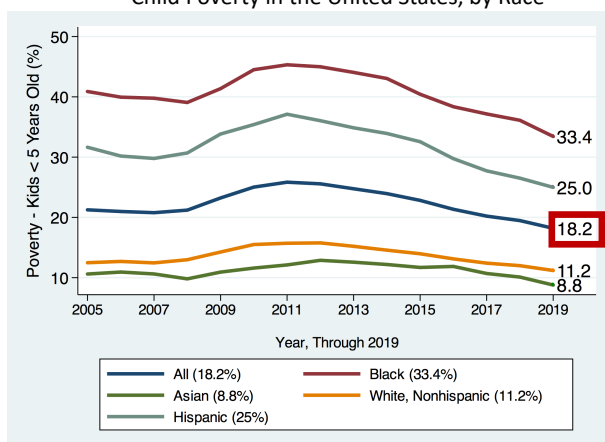
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## So, The President Went Big!

	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
<b>Total</b>	<b>\$1,870</b>

## \$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...

## Balancing Act

### • Too Big (Larry Summers)

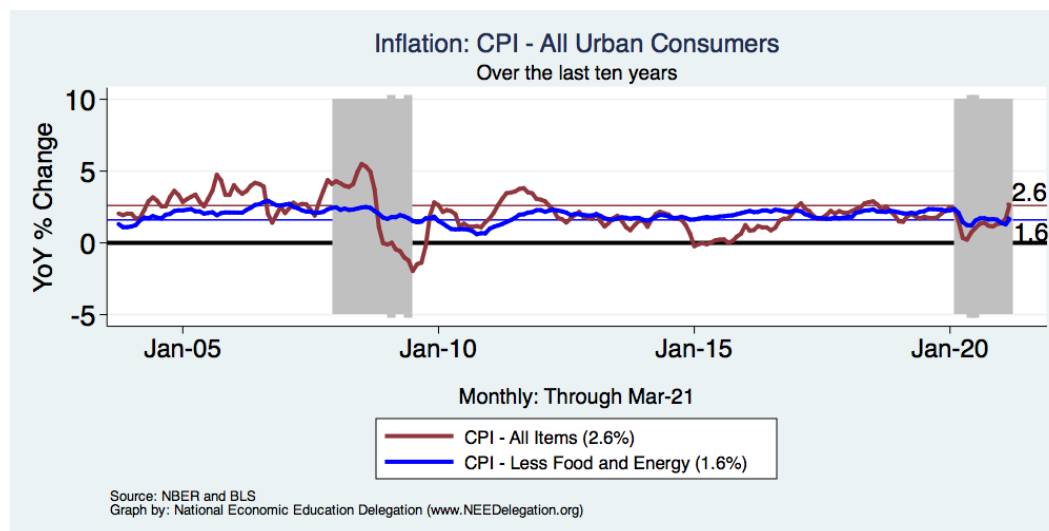
1. There already is about \$1.5 trillion in personal saving waiting to be spent.
2. Needlessly adding to our debt and deficit problems.
3. Reignite **inflation**.
4. Because of 1 & 2 less room for needed public infrastructure investment.

### • Too Small (Paul Krugman)

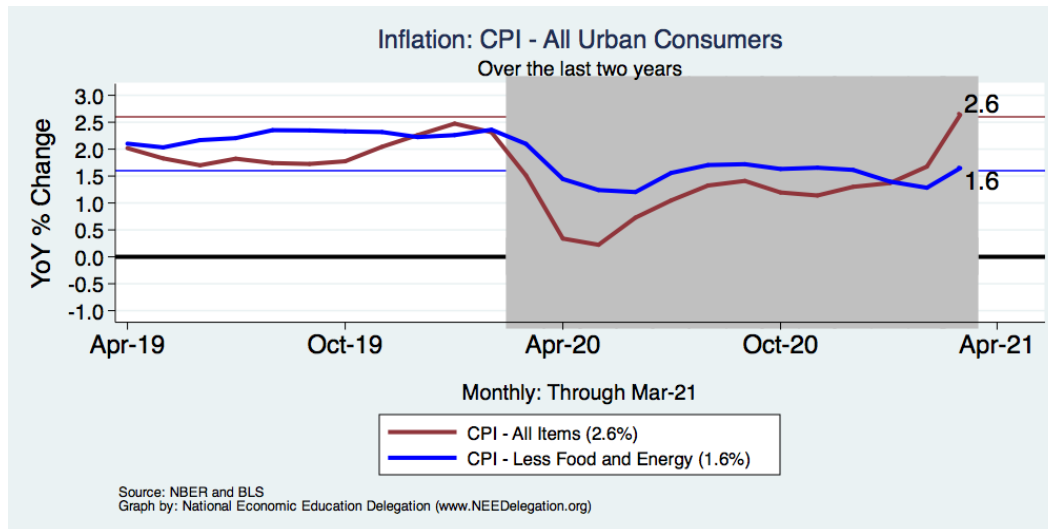
1. Double Dip.
2. You only get one bite at the apple: take care of yourself Senator Leahy!
3. Prolonged economic scarring.
4. People in true need are left out.



## Inflation – Recent Stability



## Inflation – Trending Upward?

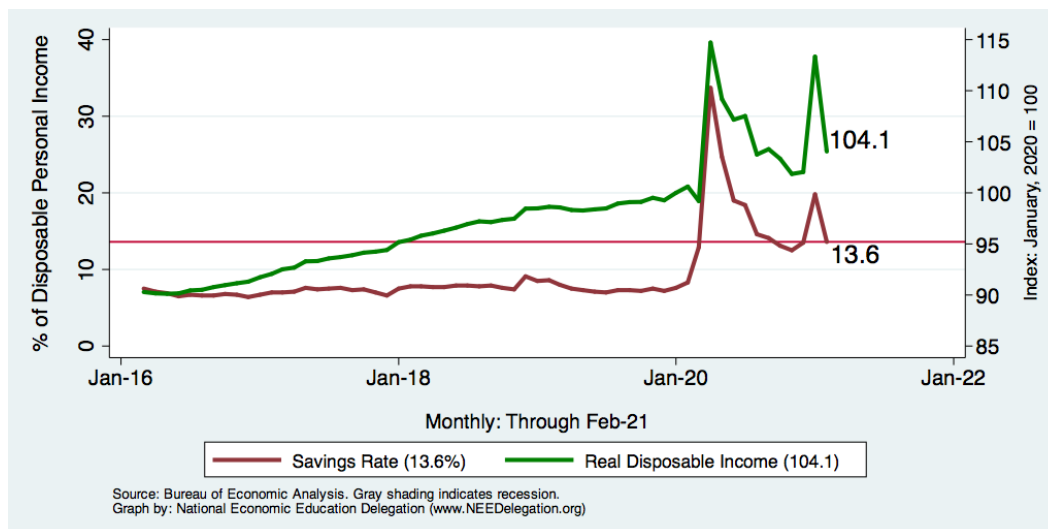


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## Source of Optimism About Recovery?



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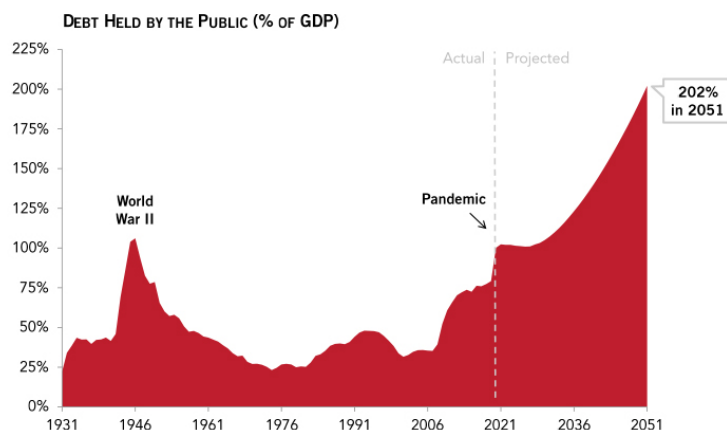
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## A Problem Exacerbated....Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.  
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## 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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## 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

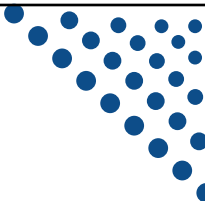
- **Survey of Professional Forecasters Q1 2021**
- **IMF: GDP Growth after inflation**
- **+5.1% in 2021**
- **+2.5% in 2022**
- **CBO: GDP Growth after inflation**
- **+4.6% in 2021**
- **+2.9% in 2022**
- **+2.3% in 2023**



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Source: Federal Reserve

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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.**
- **Structural Changes.**



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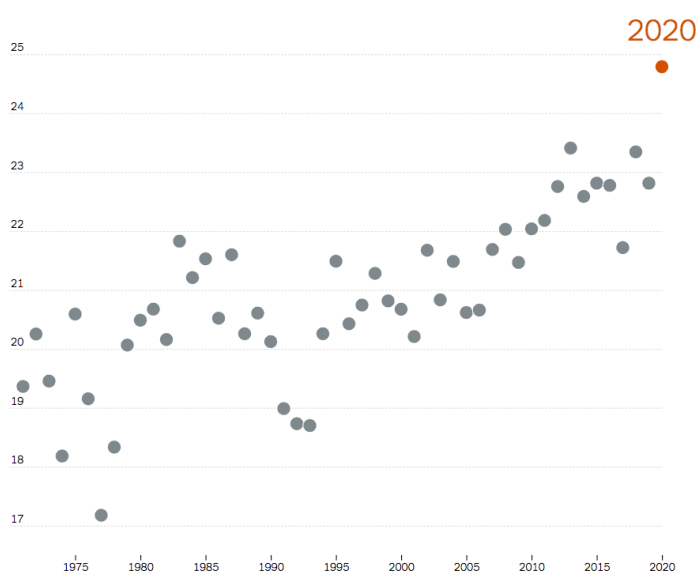
## Structural Changes?

- **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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## NFL Scoring

Average points per team, per game



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## My Advice for Joe

- **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.**



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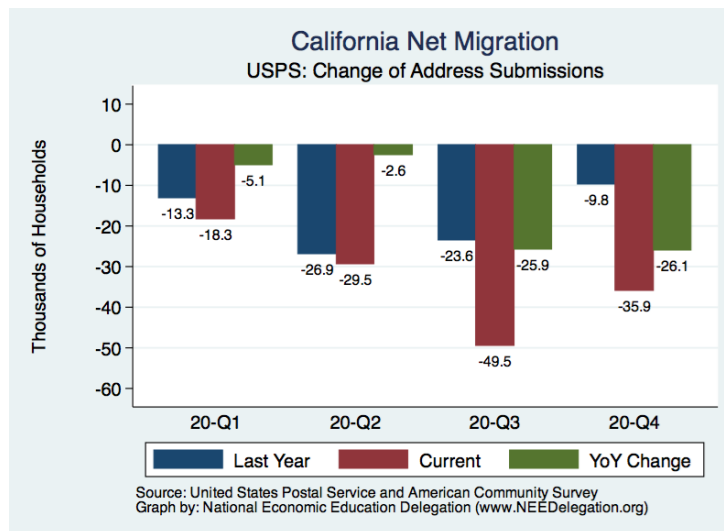
## Conclusion

- **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 has 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.**

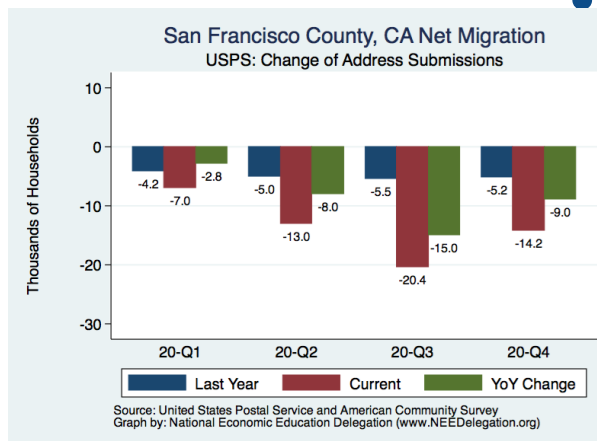
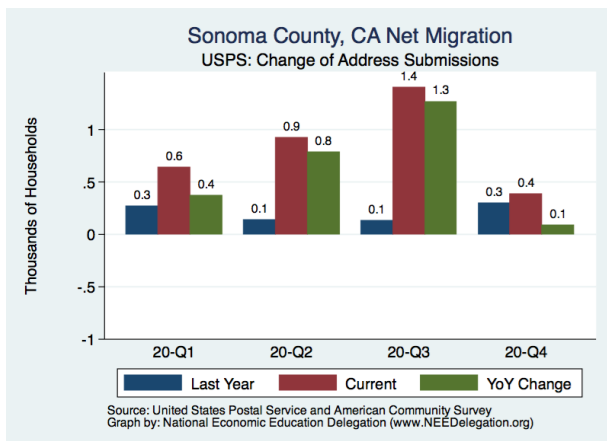


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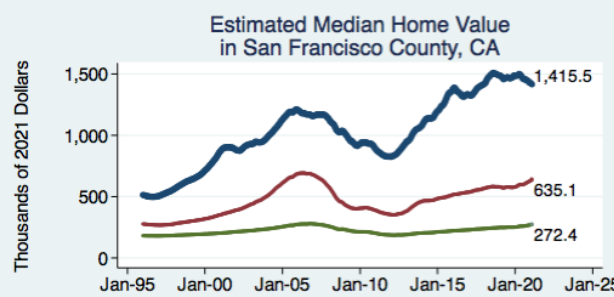
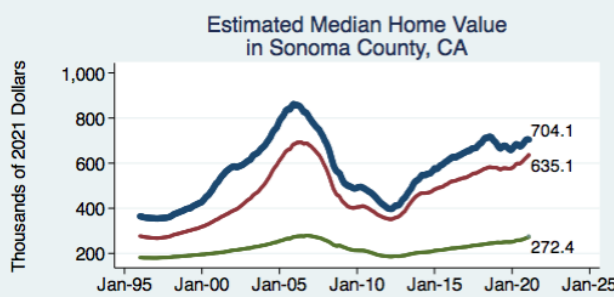
# Population Change: California



# Population Change: Sonoma & San Francisco



# Home Values in Sonoma and SF Counties



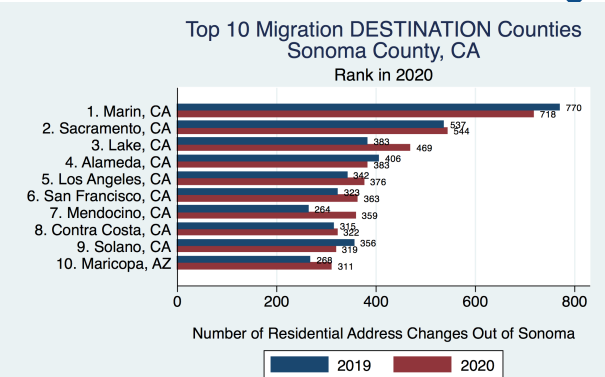
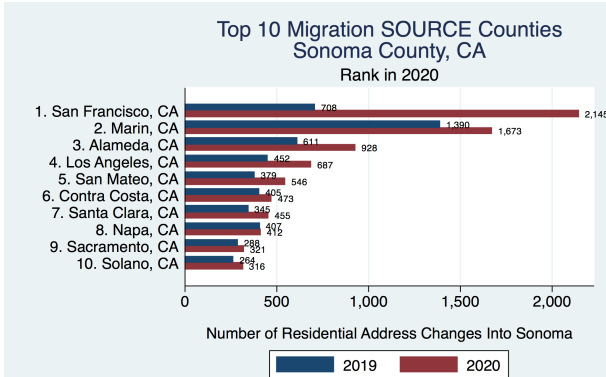
Source: Zillow Housing Data, <https://www.zillow.com/research/data/>  
 Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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 Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))



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# Population Change: Origins and Destinations



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](http://www.NEEDelegation.org))

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 Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))



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**Thank you!**

## Any Questions?

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