



COVID-19: Economic Implications and Policy Response

Kiwanis Club of Palo Alto

April 30, 2020
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Executive Director, NEED



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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: 48 members**

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

- **Delegates: 500+ members**

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

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



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Available NEED Topics Include:

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



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Credits and Disclaimer

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

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- **Disclaimer**

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



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Outline

- **What is this?**
- **Evidence of Impact**
- **Government Policy**
- **What to expect going forward**



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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 with enormous economic implications.**
 - A perfect storm of economic difficulty
 - Supply side
 - Demand side
 - Financial
 - Without a culprit



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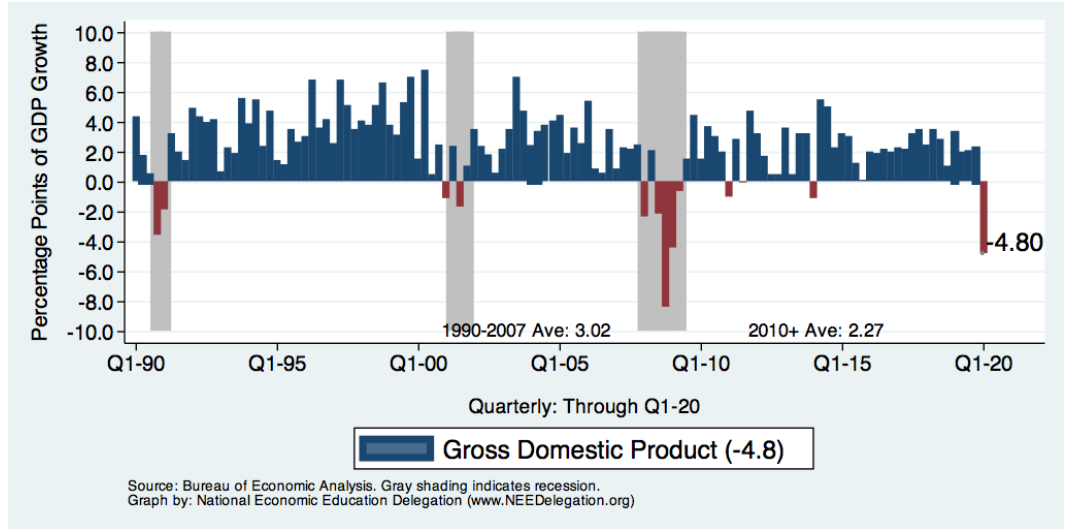
Economic Impact

- **Mechanisms of impact:**
 - Consumer spending
 - Government spending
 - Business investment
- **Where does it show up?**
 - GDP
 - Stock markets
 - Unemployment

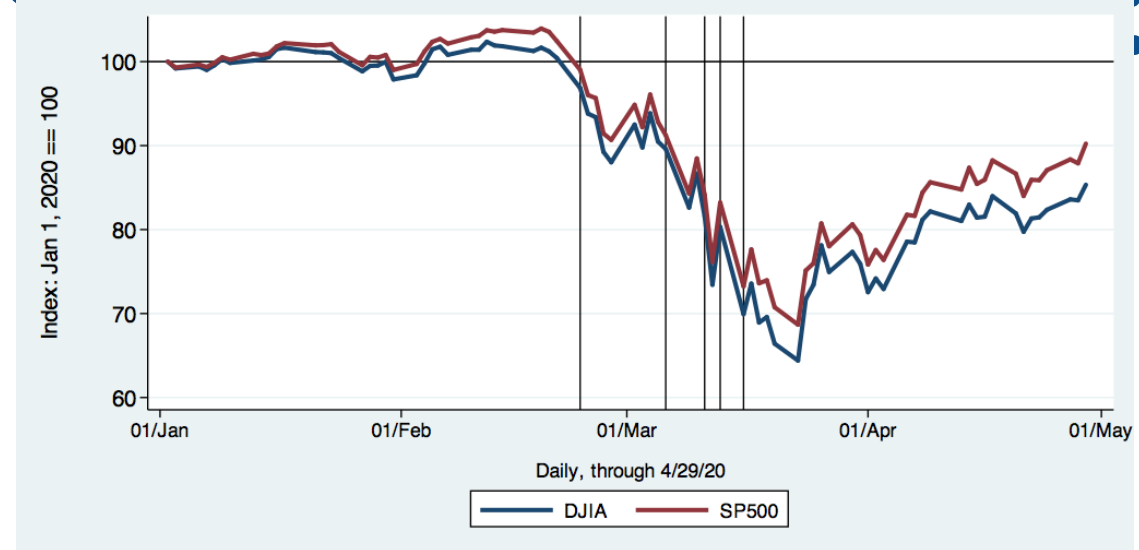


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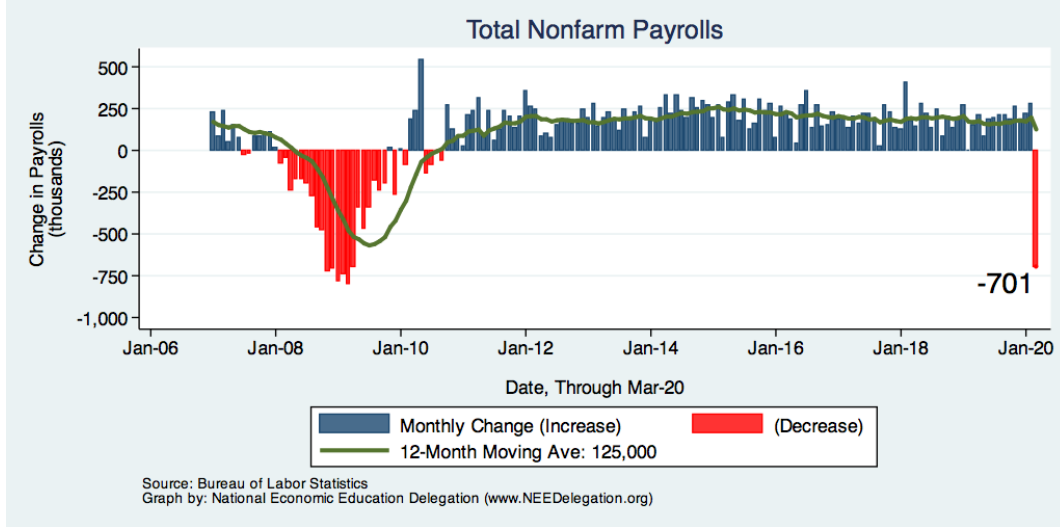
Gross Domestic Product



DJIA and S&P 500

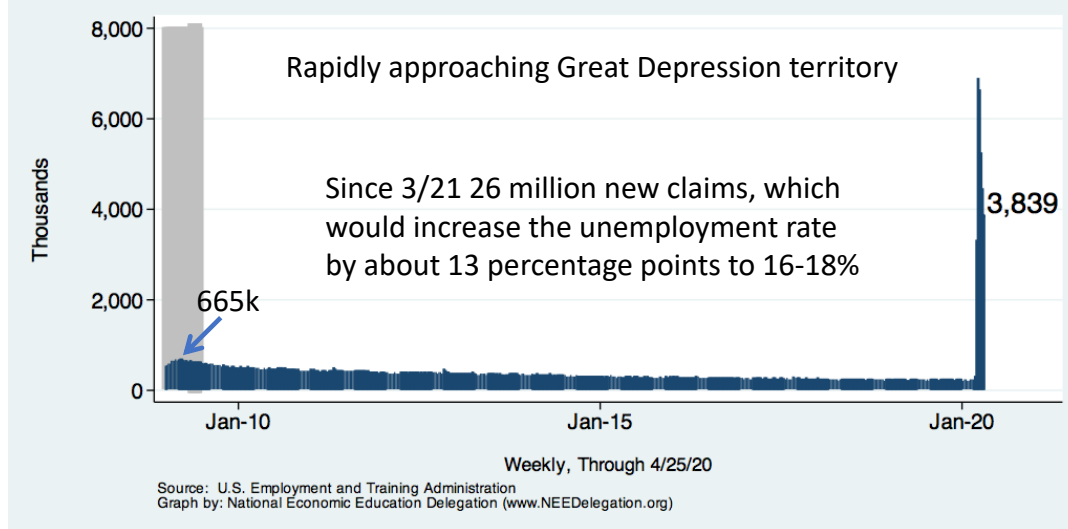


Monthly Changes in Nonfarm Employment

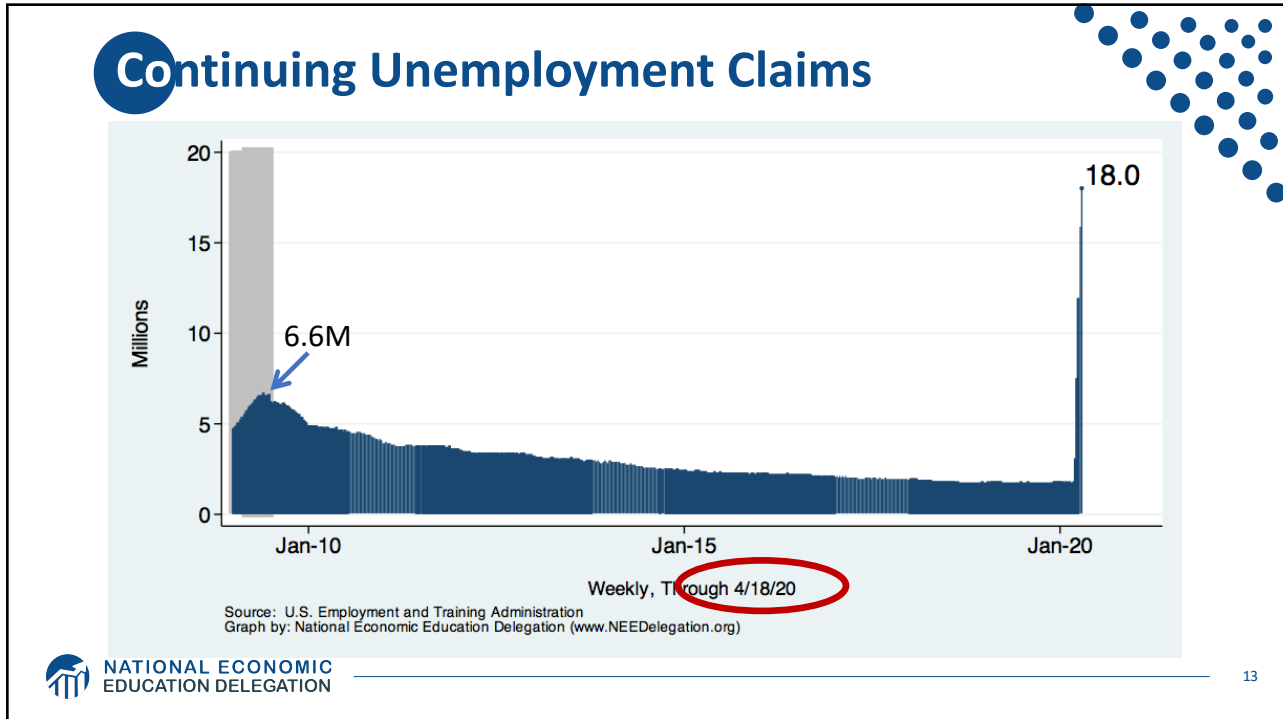


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Weekly New Unemployment Claims



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Policy Response

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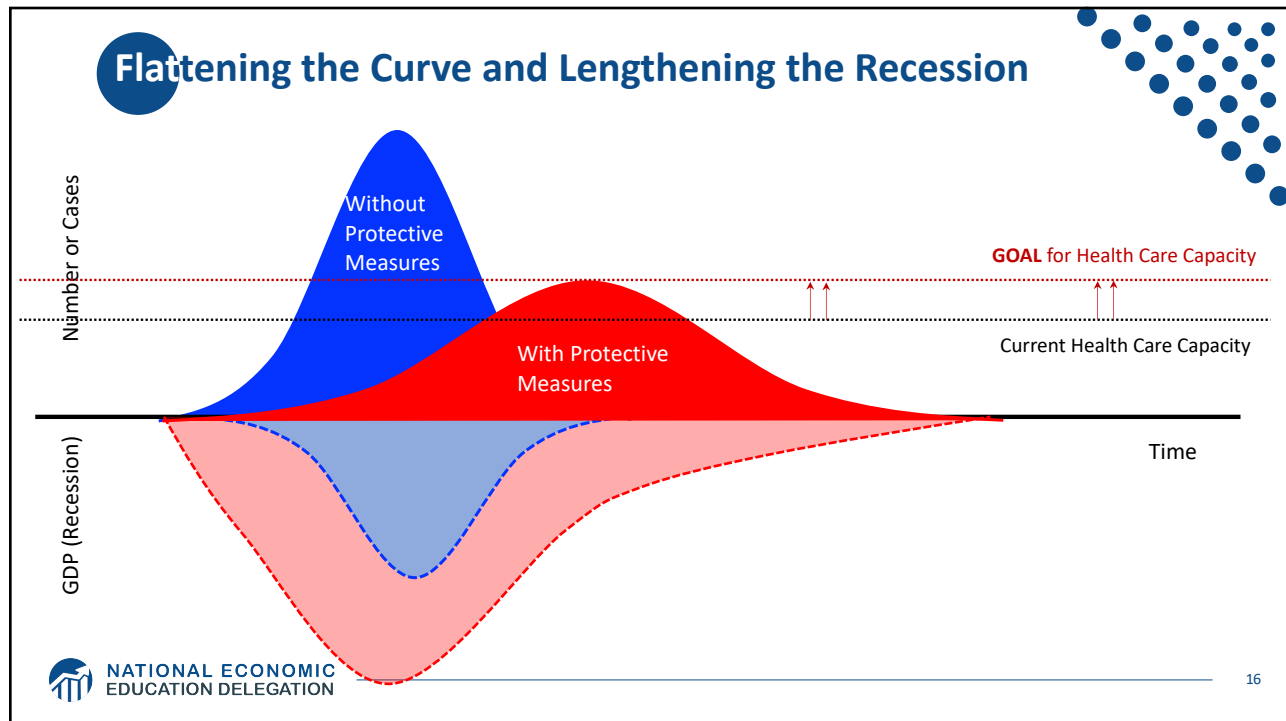
A Tale of Three Policies Efforts

- **Social policy: Social Distancing**
 - Shutdowns on some industries versus others.
 - Furloughs and lay-offs result.
 - Vulnerable populations now more vulnerable .
- **Fiscal Policy**
 - Business and taxpayer support.
 - Health care system support.
- **Monetary Policy**
 - Back to Zero interest rates.
 - Managing markets and inflation is out with the bath water.



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Flattening the Curve and Lengthening the Recession



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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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Priorities for Government Policy

- **Policies to protect public health**

- Long run benefits for the economy.
- Though there may well be short run pain.

- **Policies to protect the economically vulnerable**

- **Policies to maintain structure of the economy**

- Help firms stay in business, maintain ties with workers.

- **Policies to stimulate aggregate demand (rebuild)**

- Long run – once the economic switch is turned back on.




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Fiscal Policy - Congress

- **Phase 1**
 - \$8 billion – to mitigate the crisis
- **Phase 2**
 - \$100 Billion – get people to stay at home, safety net
- **Phase 3**
 - \$2.2 Trillion – support individuals and businesses
 - \$484 Billion – more of the same
- **Phase 4**
 - ???



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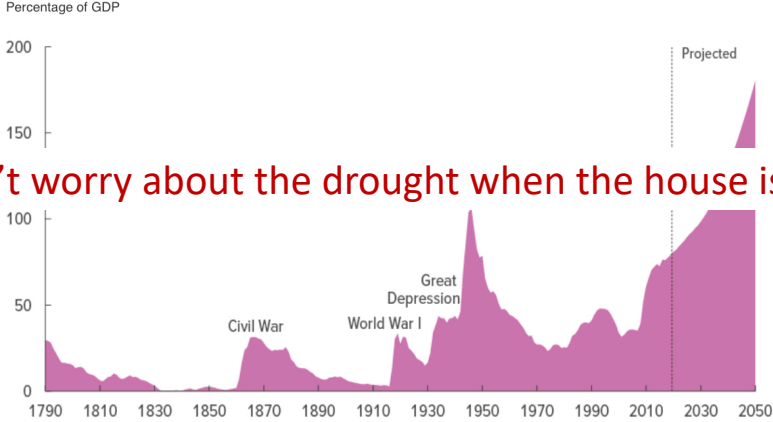
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How Do We Pay for This?

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

Percentage of GDP



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



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CBO, "The Budget and Economic Outlook: 2020-2030," 1/2020

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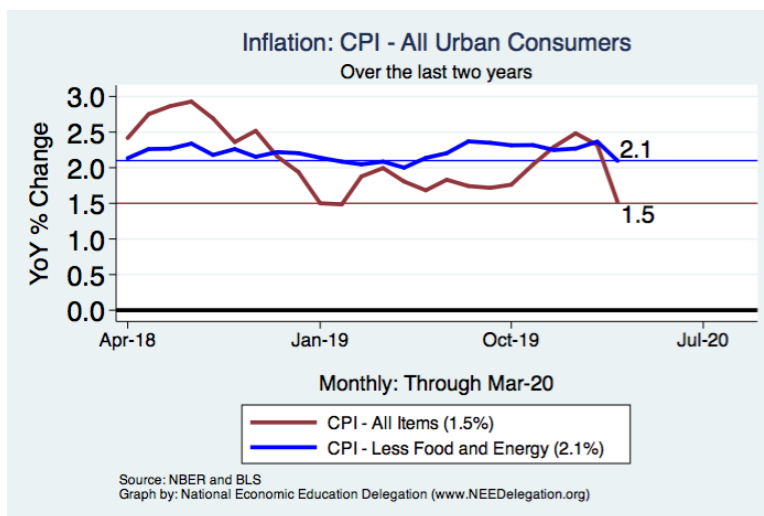
Monetary Policy – Federal Reserve

- **Two primary objectives**
 - Stabilize the economy
 - Maintain liquidity of the system

- **Actions in three forms:**
 - Inject cash into the system
 - Traditional interest rate stimulus
 - Shore up existing debt and structures

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Inflation – Deflation is More Likely



If it shows up:

It's not one of our top 2 problems.

- 1) Illness/Deaths
- 2) Employment

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Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
 - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic!**
- **Fiscal policy grade: Emergency Pass**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Right strategy to maintain employee-employer ties?
 - Enough for medical care?
 - The amount spent fighting the virus is relatively small.



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Coronavirus and Inequality

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



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What does the future bring?

- We won't need "shades" for quite some time.
- Depends on ties between employers and employees.
- Further government policy
 - Aid to state and local governments.
 - Ultimately stimulus – but not soon.
- Structural changes to the economy?
 - More telecommuting.
 - More rapid adoption of technology.
 - The way we buy things.

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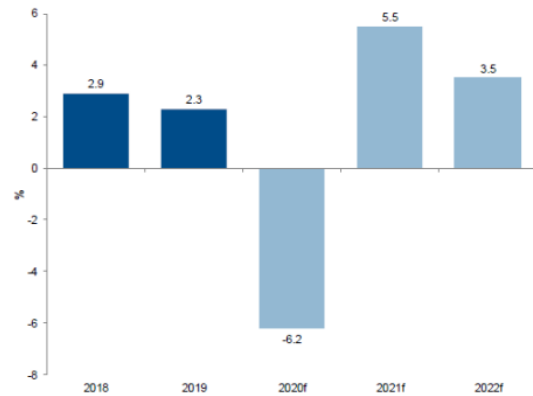
Goldman Forecast

1. GIR: US Real GDP Annualized Quarterly Growth Forecast



* Includes cutbacks to consumption categories requiring face-to-face interaction
 ** Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.
 *** Includes cutbacks to structures investment, homebuilding, and home sales.

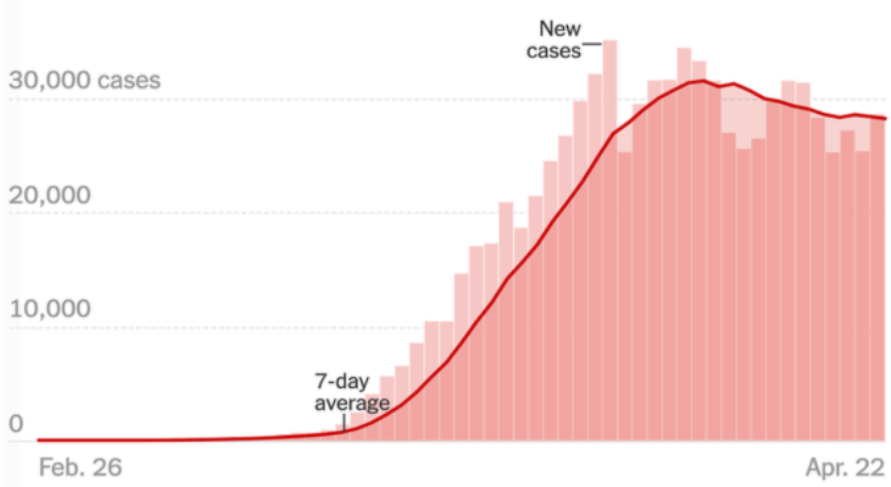
2. GIR: US Real GDP Annual Growth Forecast



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Additional Concern: Reopening to Soon

New reported cases by day in the United States



Thank you!

Any Questions?

www.NEEDelegation.org

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Contact NEED: info@NEEDelegation.org

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

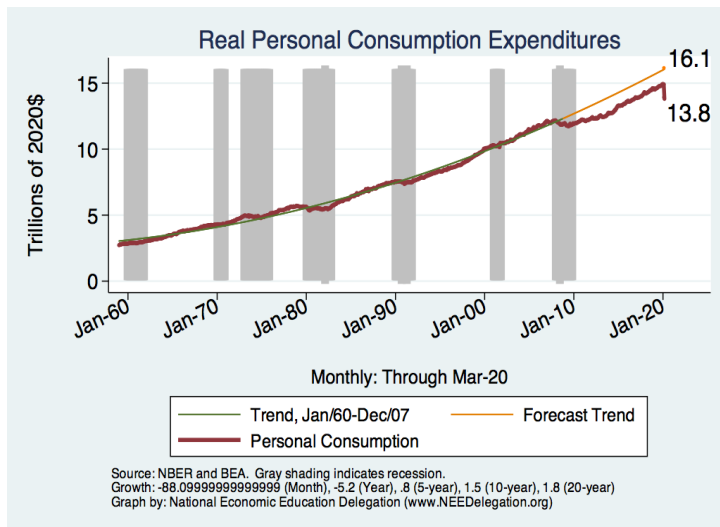
Become a Friend of NEED: www.NEEDelegation.org/friend.php

Some Big Concerns

- P. Krugman, “Right now the economy is in the equivalent of a medically induced coma...” (NYTimes, 4/16).
- We are trying to keep the patient alive, but damage is being done;
 - How many personal and business bankruptcies?
 - What is the future of companies that bring many people together?
 - Cruise Lines.
 - Theaters.
 - Sports.
 - Malls.
 - Looming State and Local Fiscal Crisis

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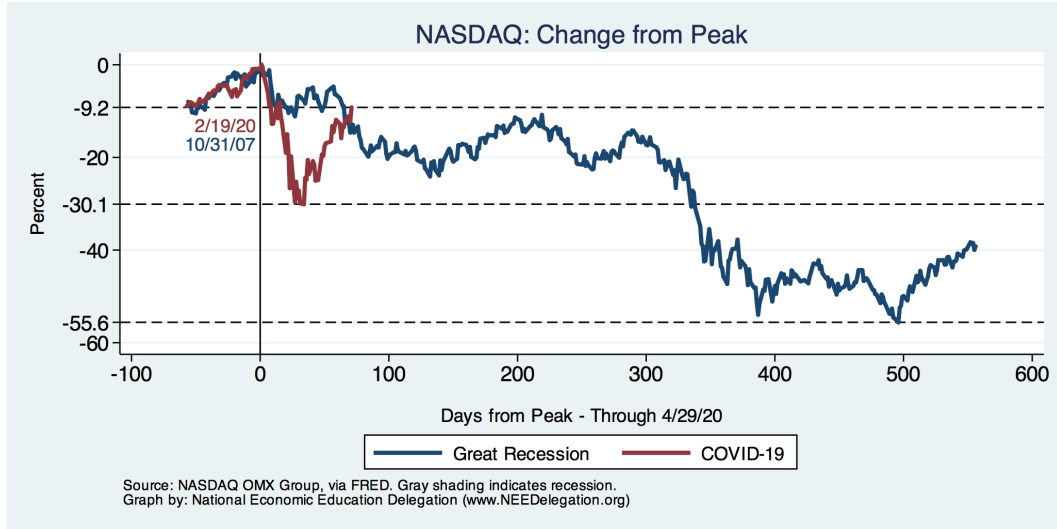
Personal Consumption Expenditures



Down 7.5%

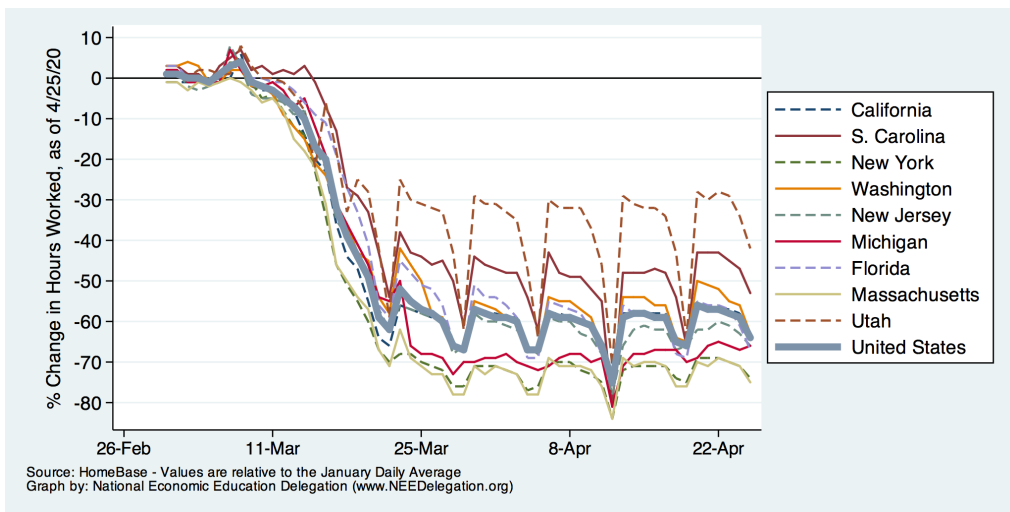
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NASDAQ: Then (Great Recession) and Now



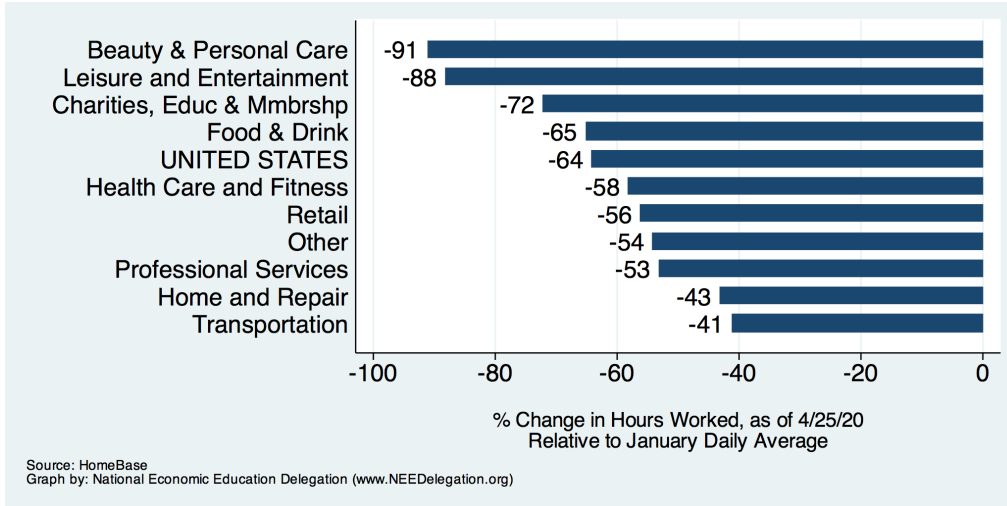
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Change in Hours Worked



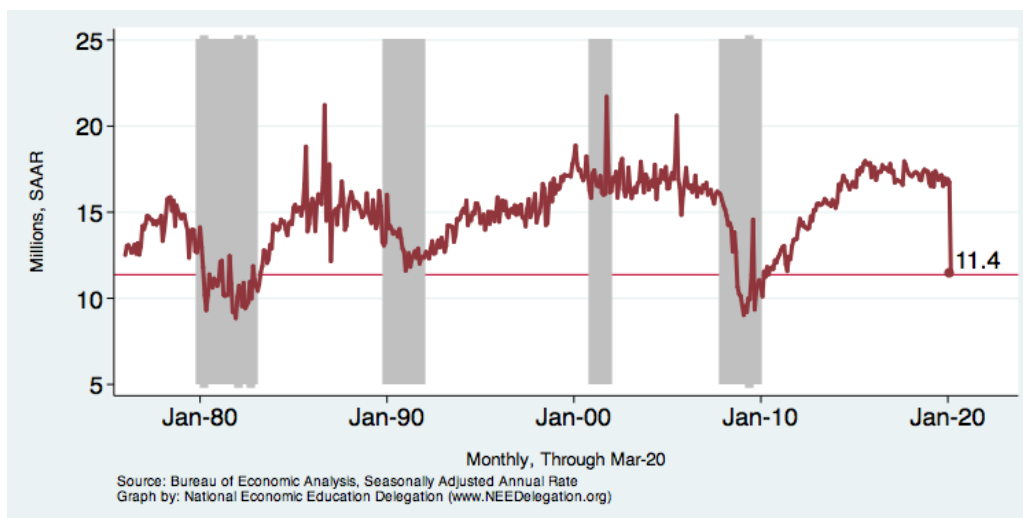
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Change in Hours Worked



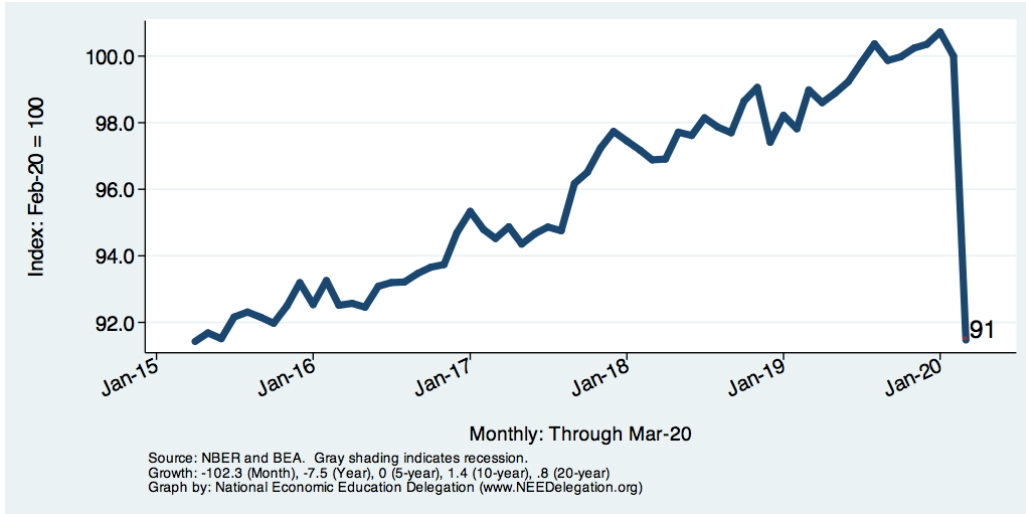
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Automobile and Light Truck Sales



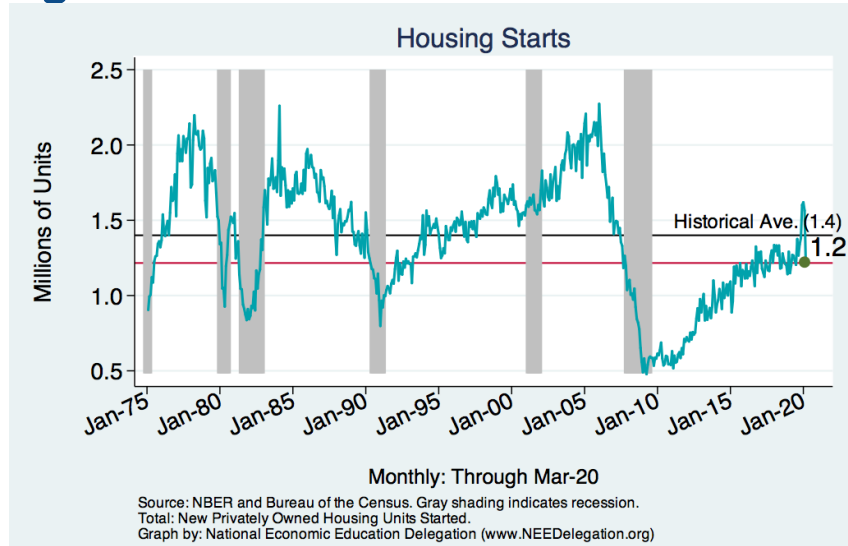
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Retail Sales

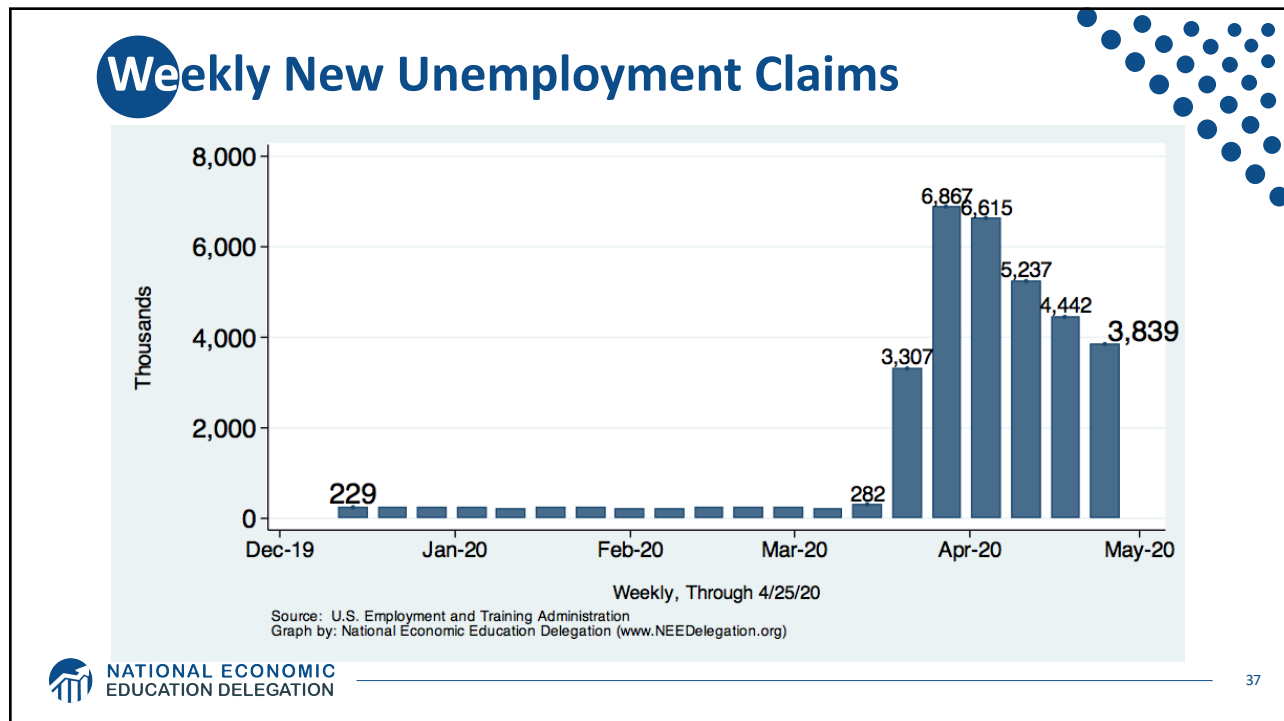


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Housing Starts Plummet: Down 25% in March



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What Economic Policy Can't Do in this Crisis

- Typically, Monetary and Fiscal policies fight recessions by increasing aggregate demand (total spending)
 - Fiscal:
 1. Tax cuts
 2. Increased spending
 - Monetary
 1. Reduce short-term interest rates
 2. Reduce long-term interest rates using (Q)uantitative (E)asing

But, if people can't leave their homes changing these policies won't work – Go on a cruise because of tax cut or lower interest rate?

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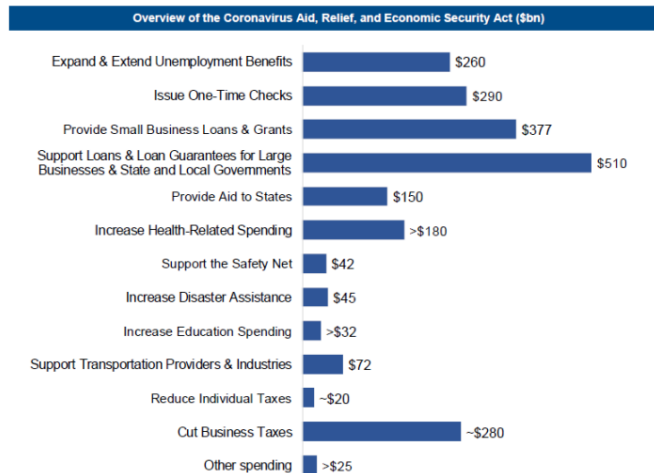
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Fiscal Policy Timeline

Phase	Amount (\$ bn)	Action
Phase 1 March 6	\$8	Emergency response, health care, vaccine development, prevention
Phase 2 March 18	\$100	Paid sick leave, unemployment insurance, free virus testing
Phase 3 Pending	\$250	Direct cash payments to families with income cap; \$1,200 per adult, \$500 per child
	\$250	Enhanced unemployment benefits
	\$350	Small business loans up to 250% of monthly payroll
	\$100	Corporate tax changes
	\$17	Community lending
	\$500	Loans & loan guarantees for businesses, incl. airlines
	\$180	State and local governments & Education
	\$100	Hospitals
TOTAL	\$1.5-2.5 Trillion	7-12% of GDP

The Cares ACT



Aid to Households

Payments to Individuals		
\$269bn (1.3% of GDP)		
Eligibility	Program	Terms & Process
<ul style="list-style-type: none"> - Taxpayers with incomes up to \$99,000 (or \$198,000 joint) based on 2019 tax return (2018 if not available) 	<ul style="list-style-type: none"> - Tax rebate of \$1,200 (or \$2,400 for a joint tax return) - Additional \$500 rebate per child 	<ul style="list-style-type: none"> - Rebate phases out gradually for incomes greater than \$75,000 (\$150,000 joint) - Rebates sent "as rapidly as possible" targeted for early April
Increased Unemployment Insurance		
\$250bn (1.2% of GDP)		
Eligibility	Program	Terms & Process
<ul style="list-style-type: none"> - Individuals qualifying for standard unemployment compensation - Individuals not previously qualifying for unemployment compensation, such as contractors and the self-employed 	<ul style="list-style-type: none"> - Provides standard unemployment compensation (roughly 50%) for 39 weeks, vs standard 26 weeks - Additional \$600 pay per week through July 31 (4 months), even if unemployment compensation exceeds previous wage level 	<ul style="list-style-type: none"> - Pay is immediate, vs. standard one-week waiting period



Aid to Small Businesses

Small Business Loans & Payroll Subsidies		
\$377bn (1.8% of GDP)		
Eligibility	Program	Terms & Process
<ul style="list-style-type: none"> - Small businesses < 500 employees (< 500 per physical location for accomm. and food services sector) - Sole proprietors, contractors, self-employed individuals - Businesses operational, with employees on payroll, on Feb. 15 	<ul style="list-style-type: none"> - Small business obtains loan for 2.5x monthly payroll, up to \$10 million - Loan forgiven when used for employee pay, rent or mortgage interest, and utility payments 	<ul style="list-style-type: none"> - Business eligible if operational and having employees on Feb 15 (repayment ability not considered) - Amount forgiven prorated to account for layoffs and pay decreases - Government guarantee at 100% rate (vs. 75% for traditional SBA loans) - Banks earn fee up to 5% for originating loan - Payments deferred up to 1 year - Banks hold loans on balance sheet with zero risk rating



Aid to Airlines

Relief for Specific Distressed Sectors		
\$46bn (0.2% of GDP)		
Eligibility	Program	Terms & Process
- Airlines, air cargo, and national security/aerospace sectors	<ul style="list-style-type: none"> - Direct lending: airlines (\$25bn), air cargo (\$4bn), and national security/aerospace (\$17bn) - Grants to pay wages, salaries and benefits: airlines (\$25bn), air cargo (\$4bn), airline contractors (\$3bn) 	<ul style="list-style-type: none"> - Alternative financing not available - Short loan duration, < 5 years - Stock buybacks and dividend payments prohibited until 1 year after date of loan repayment - Exec comp restrictions - Must retain 90% of employment level as of March 24 - Majority of employees must be based in US

Aid to Business

Tax Deferral and Tax Cuts		
\$668bn (3.2% of GDP) in 2020; \$286bn (1.4% of GDP) over 10 yrs		
Policy	Description	Amount
NOL carryback	Carry back losses 5 years to offset profits from prior years	\$89bn (0.4% of GDP)
Modify pass-through loss limitation	Eases the limitation on pass-through loss, so they can use excess losses to generate refunds	\$140bn (0.7% of GDP)
Employee retention credit	Payroll tax credit equal to 50% of wages paid by employers through Dec. 31, 2020, whose businesses were shut down or revenues declined by 50% vs. the same quarter the prior year.	\$55bn (0.3% of GDP)
Payroll tax delay	Delays payment of 2020 payroll taxes, with half due by 12/31/2021 and half due 12/31/2022	\$350bn (1.7% of GDP) benefit in 2020, repaid in 2021/2022
Interest deductibility	Increase deductibility of interest from 30% to 50% of EBITDA for 2020	\$13bn (0.06% of GDP)

ESF & Federal Reserve Corporate and Municipal Credit Facility		
\$454bn (2.2% of GDP)		
Eligibility	Program	Terms & Process
<ul style="list-style-type: none"> - Corporate sector - State / municipal sector 	<ul style="list-style-type: none"> - Lend directly or purchase debt from issuer - Purchase debt in the secondary market - Treasury endeavors to implement 13(3) facility targeted at nonprofits and businesses between 500-10k employees. 	<ul style="list-style-type: none"> - Requires loan collateralization, taxpayer protection, borrower solvency - Buybacks, dividends, executive compensation restricted for the life of the loan and one year following; - Treasury may waive these requirements if necessary - Congressional oversight

Aid to States

Federal Spending & Aid to States			
\$490bn (2.3% of GDP)			
Expenditure	Description	Amount (\$bn)	% of GDP
Aid to States	To offset declining revenues; Allocated by population with minimum \$1.25bn	\$150bn	0.7
Hospitals & medical	Reimbursement to providers and other health expenses	\$130bn	0.6
FEMA	For disaster relief fund to aid states and localities and other operations	\$45bn	0.2
Transportation	Grants to transportation systems and airports	\$35bn	0.2



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Many Policy Alternatives

- **Denmark: Pay (discounted) salaries**
 - Keeps employees “on the job”.
- **Temporary UBI**
 - \$2k/adult for 6 months - \$3.6T
 - Grant if can prove need, otherwise a loan. Grants = \$240B
- **Payroll Tax Cut**
 - No. Designed to get people back to work. Not yet.
- **Excess revenue tax**
 - 10% or more above normal, taxed at high rate. (Amazon, Zoom)
- **Many others...**



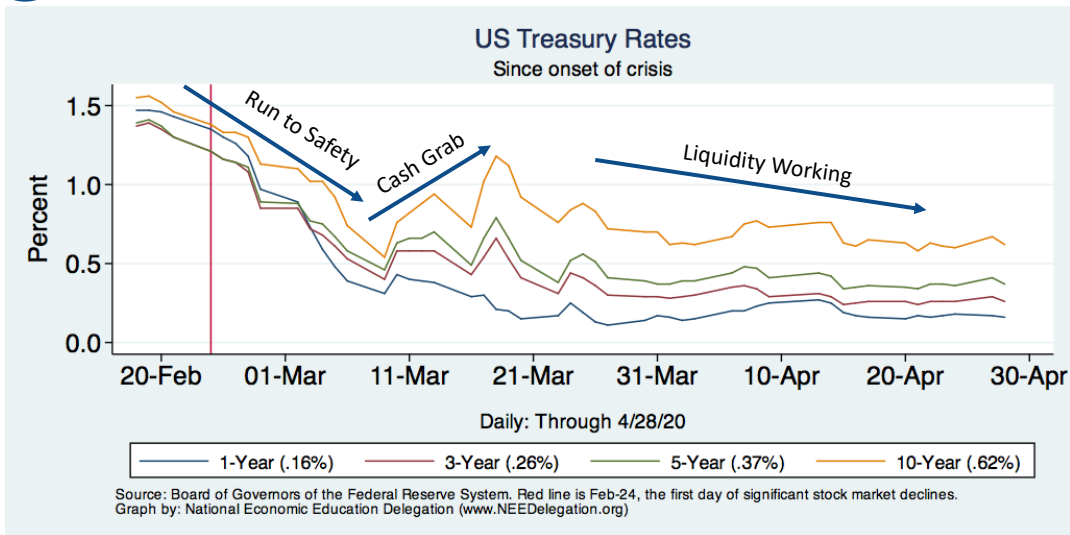
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Monetary Policy Timeline

	Date	Action
Stabilization	March 3	Fed Funds Rate Lowered 1.75-1.5 to 1.25-1
	March 15	Fed Funds Rate Lowered to 0.25-0 Announced QE of \$700 billion
Liquidity	March 17	Commercial Paper Funding Facility Primary Dealer Credit Facility
	March 18	Money Market Mutual Fund Liquidity Facility
	March 23	Primary Market Corporate Credit Facility Secondary Market Corporate Credit Facility Term Asset-Backed Securities Loan Facility Unlimited QE
		TBA

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US Treasury Rates: A Safe Haven?



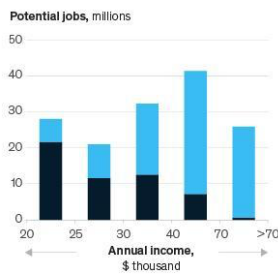
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Financial Insecurity Before Coronavirus

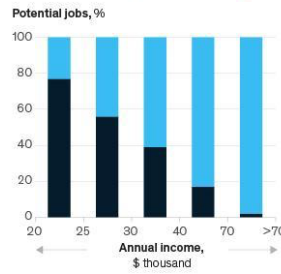
- 40% of Americans don't have the cash to pay for a \$400 emergency expense
- 25% have no retirement or pension savings
- Less than 60% can answer at least three basic financial literacy questions correctly.
- 1 in 5 of adults knows someone impacted by the opioid crisis.
- About 25% of borrowers who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

Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

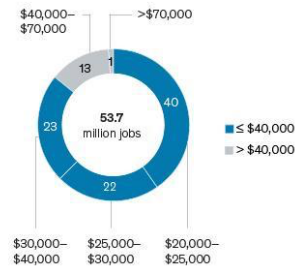
Level of job vulnerability,¹ by income band



Potential Jobs, %



Vulnerable jobs by annual income band¹ %



Note: Data may not sum to 100, because of rounding.
¹Vulnerable* jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis

Home Schooling - Access to the Internet

