



COVID-19: Economic Implications and Policy Response

South Bay
Estate Planning Council

May 13, 2021
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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: 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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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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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).



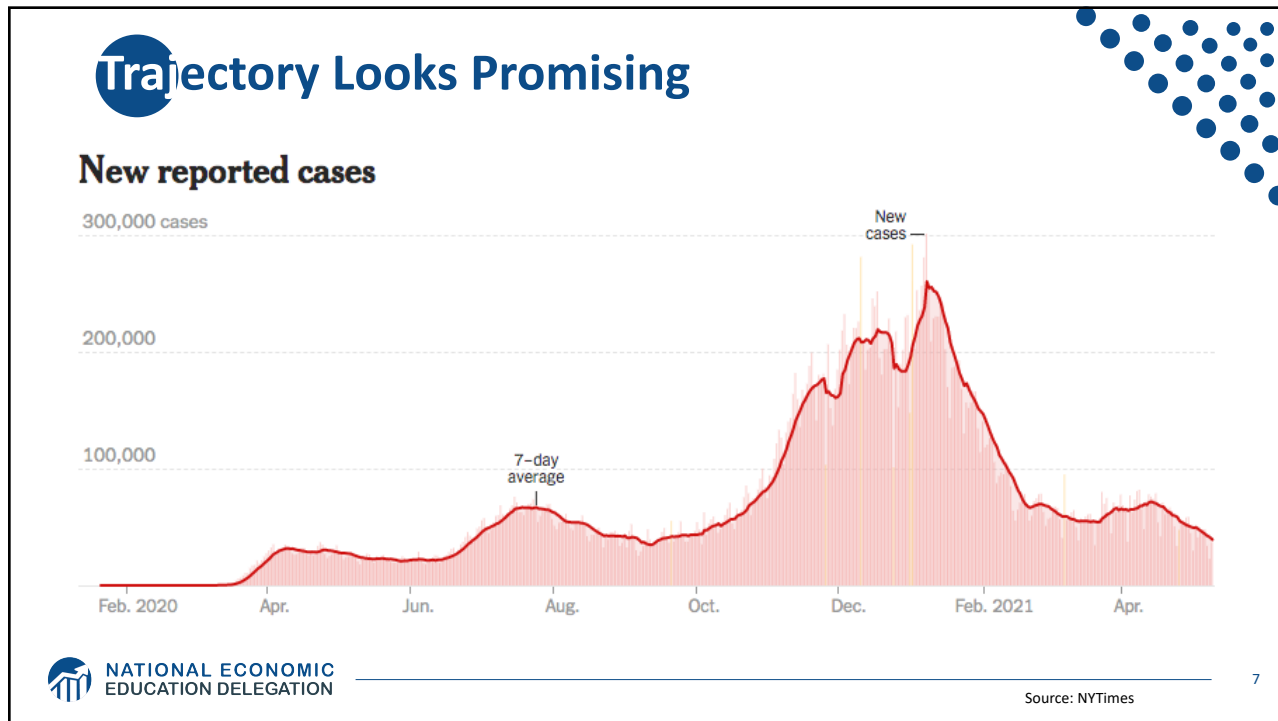
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Outline

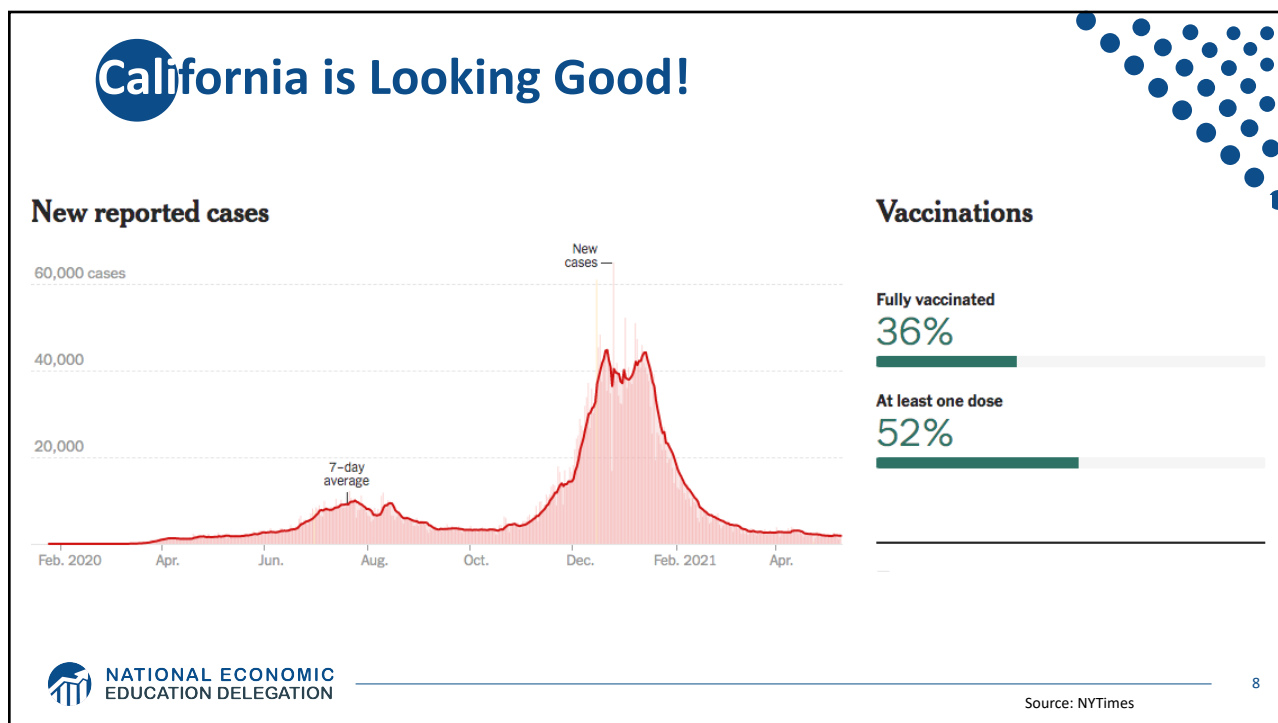
- **State of the pandemic**
- **Where is the recovery now?**
- **How has policy affected the recovery?**
- **The most recent COVID package**
- **Inflation and the debt**
- **Bonus slides:**
 - California, SF, and Marin
 - Real estate and migration



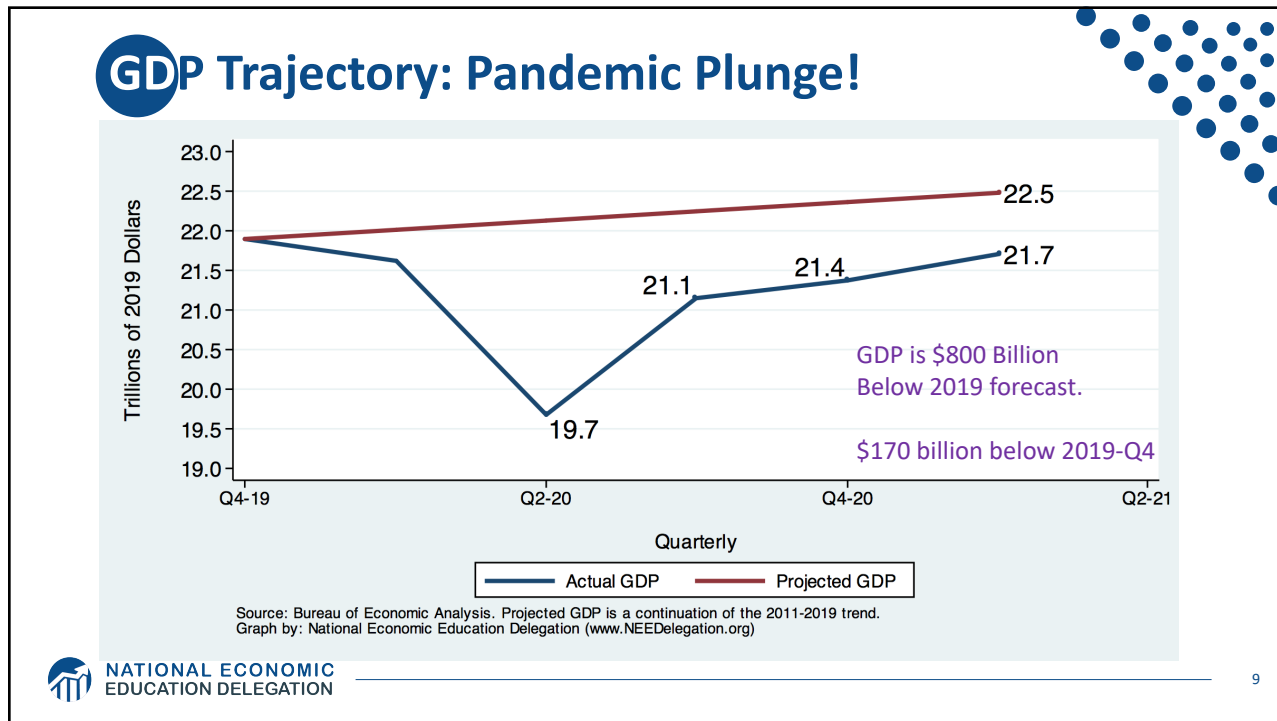
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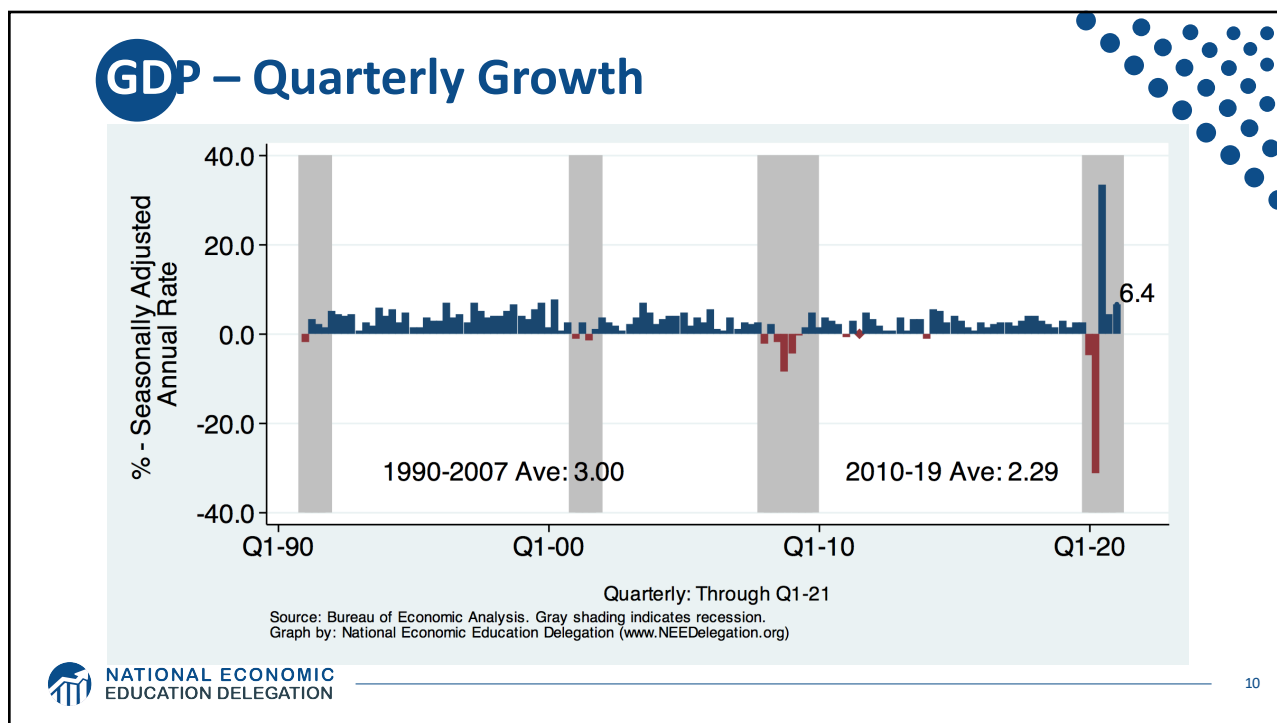
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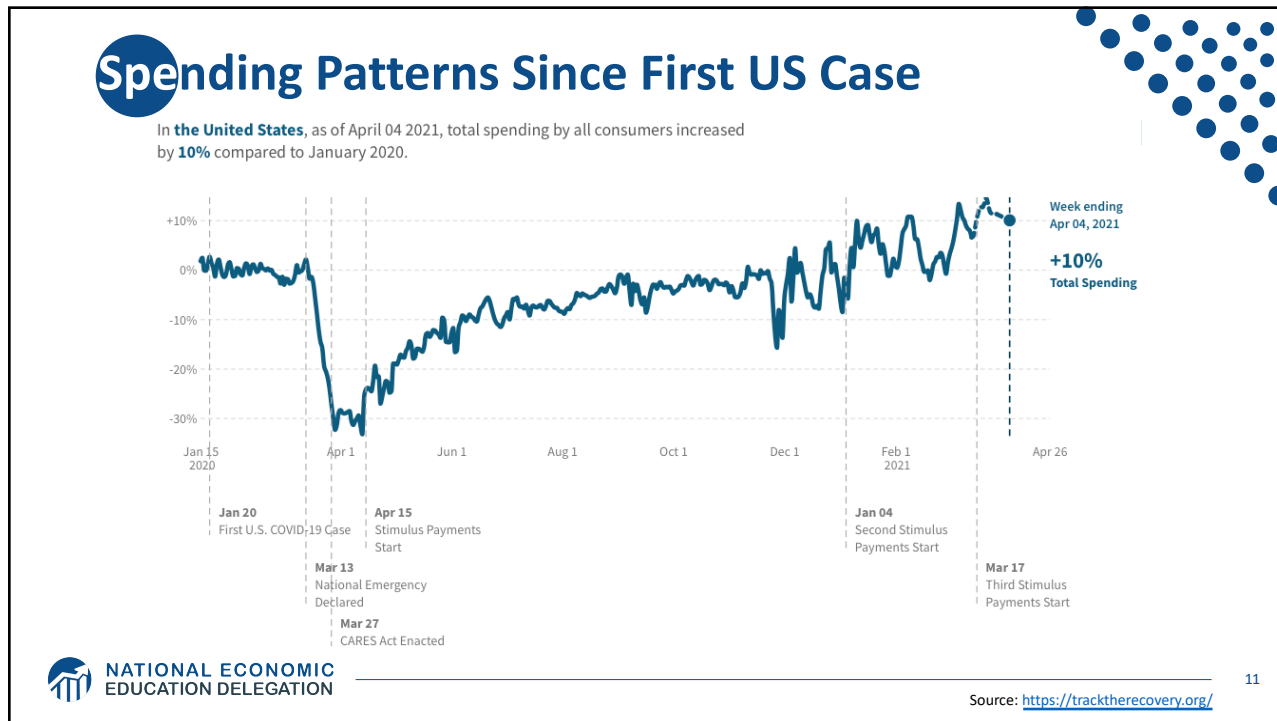
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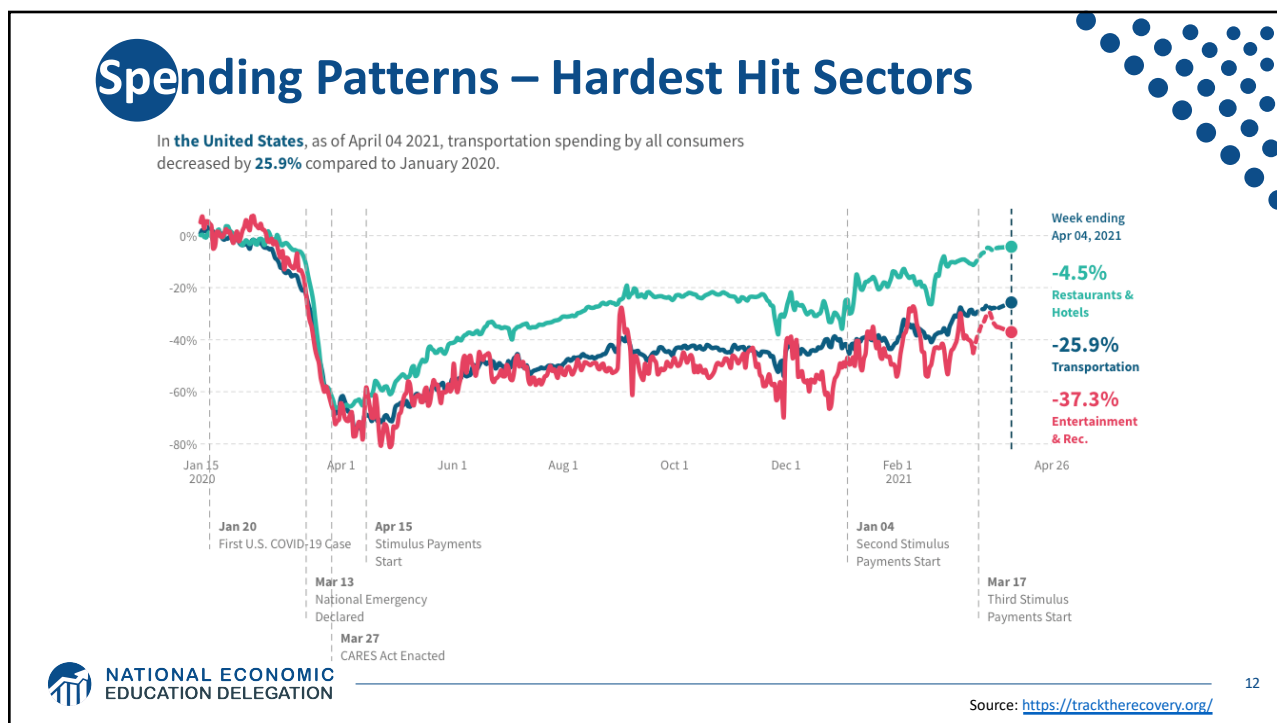
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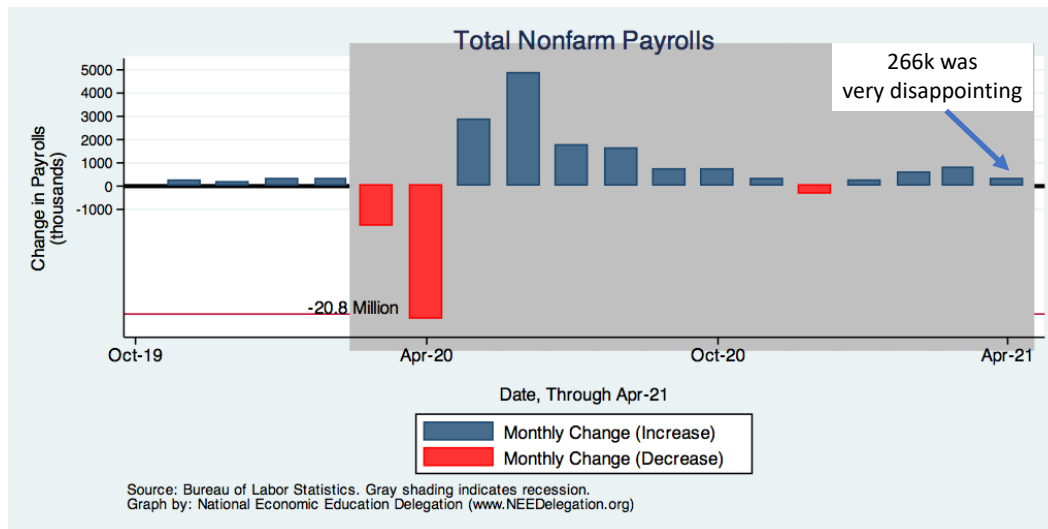


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Slow April Employment Growth



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Why Slow Employment Growth?

- **Nobody yet knows...could be an anomaly. Just one month.**
- **It is not: the generous unemployment checks.**
 - Low wage sectors were the only ones to see solid employment growth.
 - Leisure and hospitality: +331k
 - Professional services: -111k
- **It might be:**
 - Continued fear of the virus
 - Microchip shortages
 - Geographic mismatch and an unwillingness to relocate...yet.
 - Child care – lack of availability.
 - ???

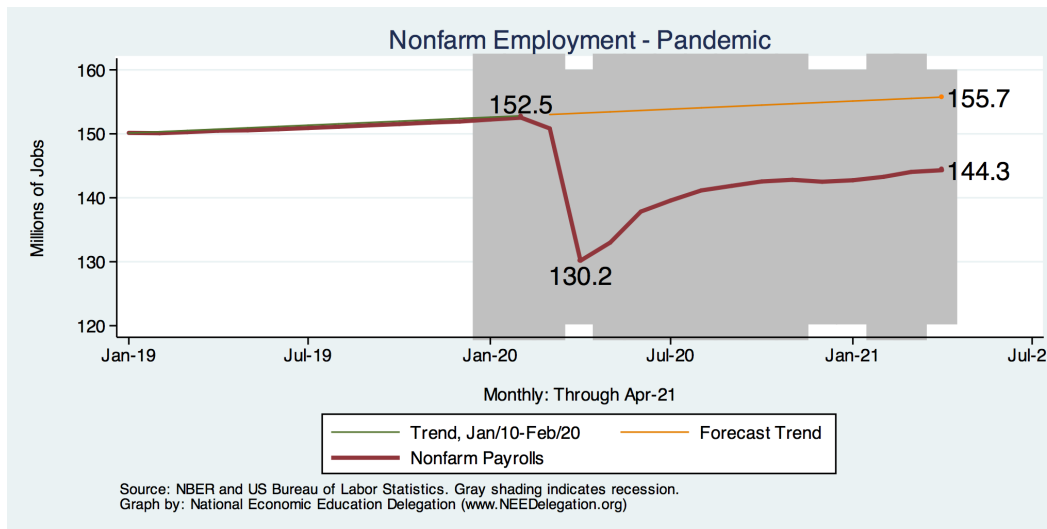


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Employment Gap

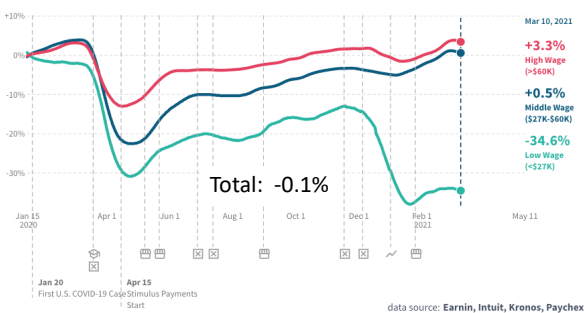


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Conditions Closer to Home

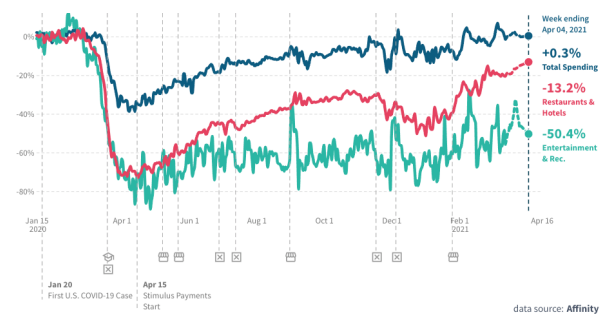
Employment in California

In California, as of March 10 2021, employment rates among workers in the middle wage quartiles increased by **0.5%** compared to January 2020 (not seasonally adjusted).



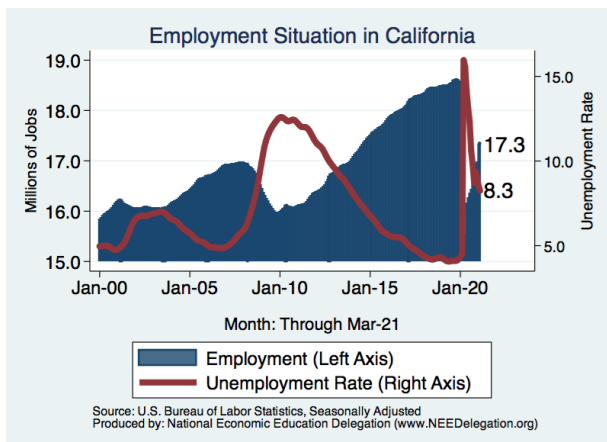
Consumer Spending in California

In California, as of April 04 2021, total spending by all consumers increased by **0.3%** compared to January 2020.

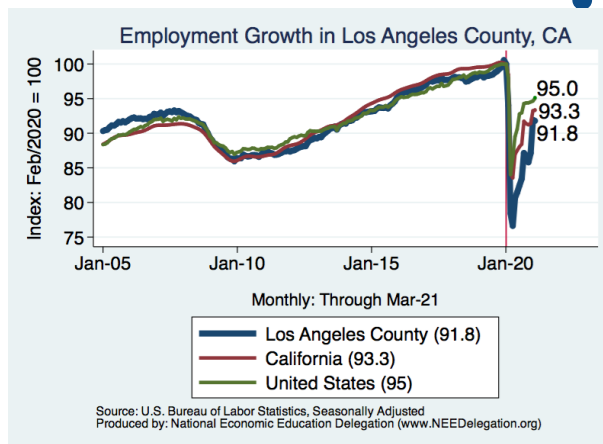
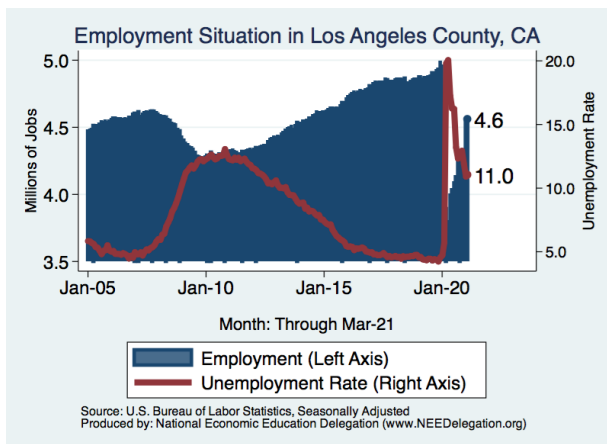


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Employment Situation: California



Employment Situation: Los Angeles County



What Have Been Policy Effects

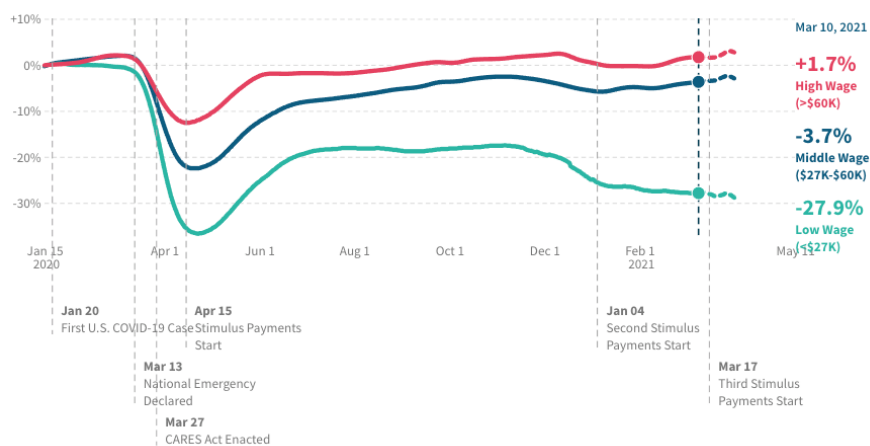
- **Monetary Policy (Fed) acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.**
- **Fiscal policy (Congress) acted quickly, but inevitably made some mistakes.**
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

Last couple of months: \$2.8 Trillion

Why?

K-Shaped Recovery

In the United States, as of March 10 2021, employment rates among workers in the middle wage quartiles decreased by **3.7%** compared to January 2020 (not seasonally adjusted).

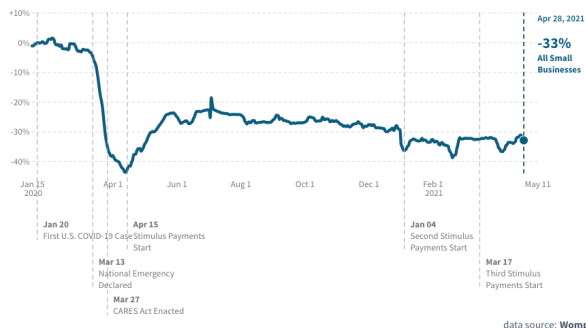


data source: Earnin, Intuit, Kronos, Paychex

Another Hard-Hit Sector: Small Business

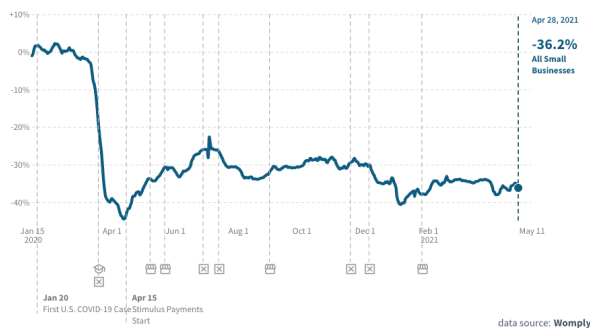
Small Biz Closures in the United States

In **the United States**, as of April 28, 2021, the number of small businesses open decreased by **33%** compared to January 2020.



Small Biz Closures in California

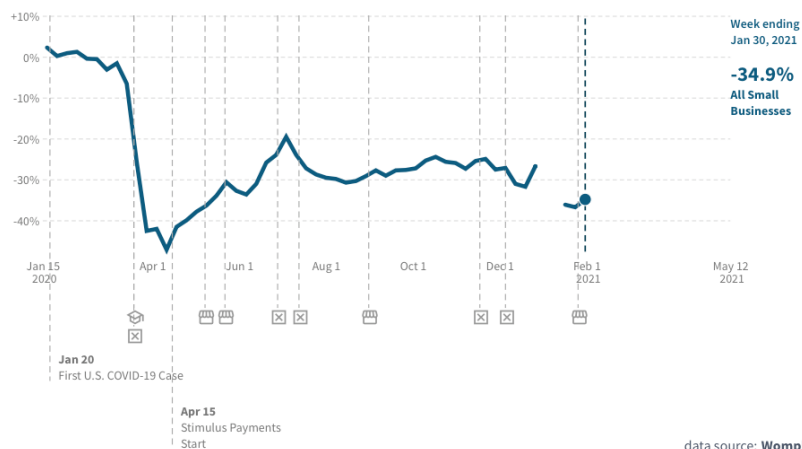
In **California**, as of April 28, 2021, the number of small businesses open decreased by **36.2%** compared to January 2020.

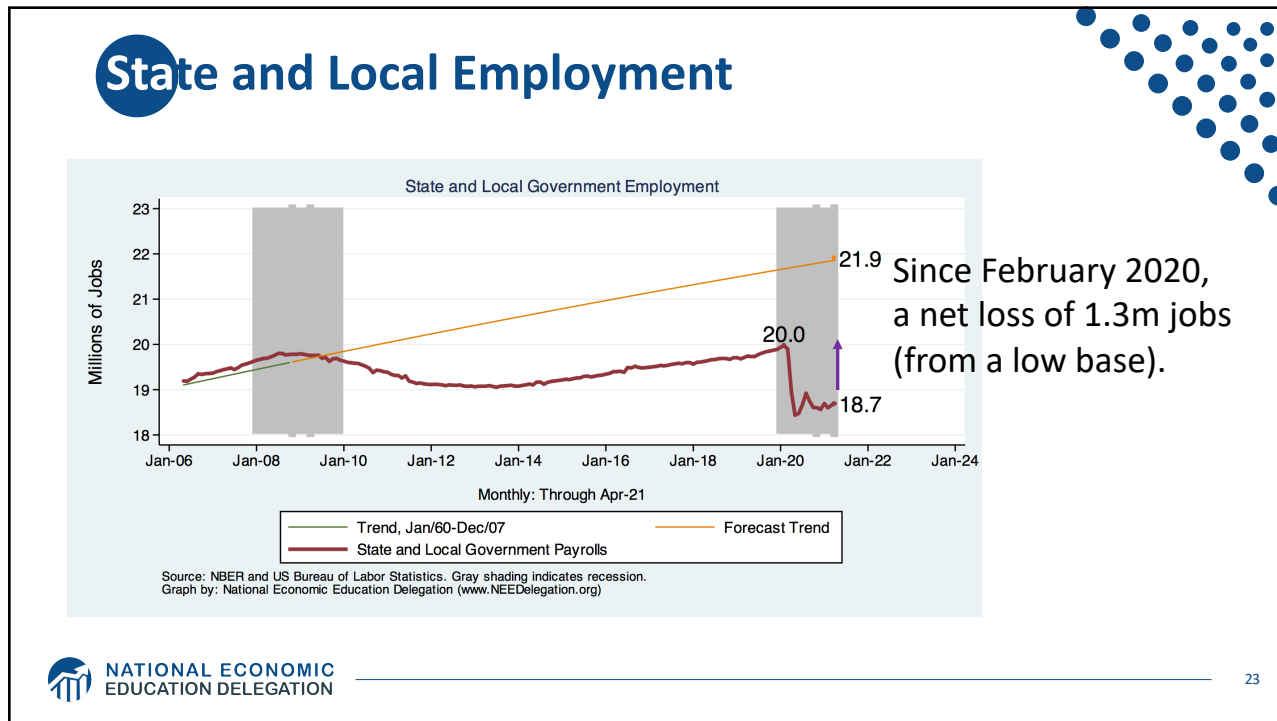


Another Hard-Hit Sector: Small Business

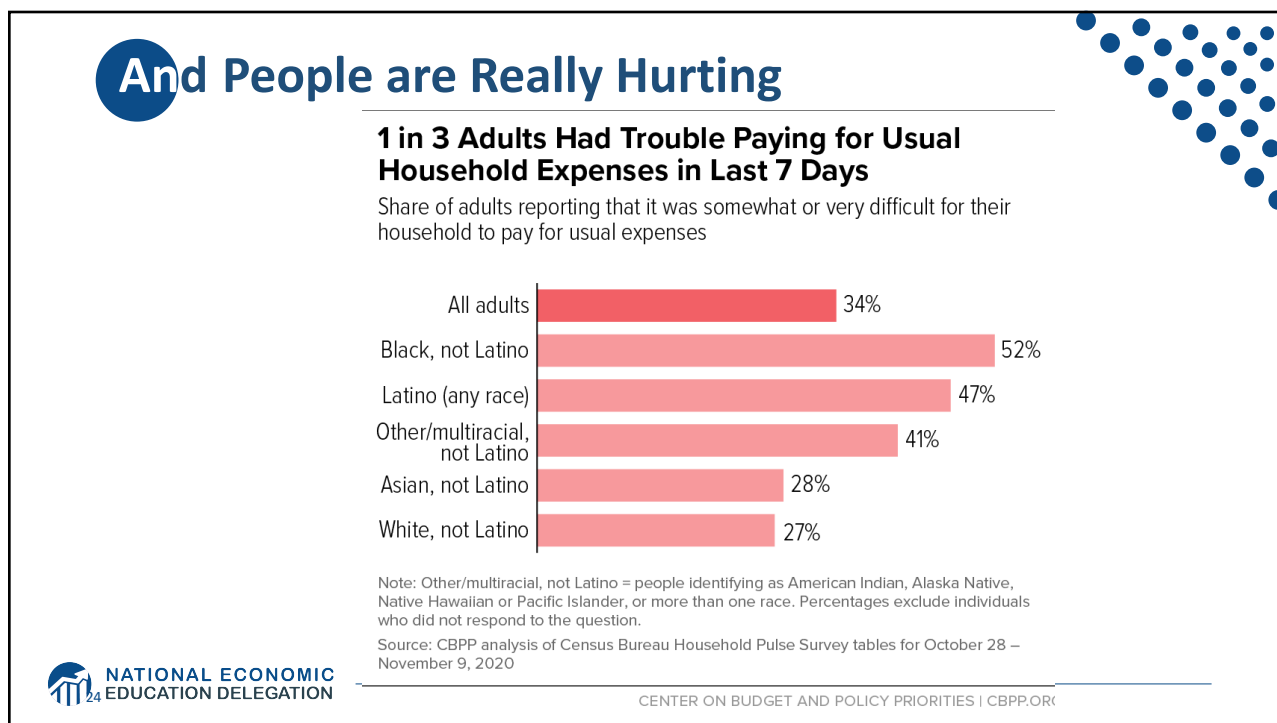
Small Biz Closures in Los Angeles

In **Los Angeles**, as of January 30, 2021, the number of small businesses open decreased by **34.9%** compared to January 2020.





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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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Balancing Act

• Too Big (Larry Summers)

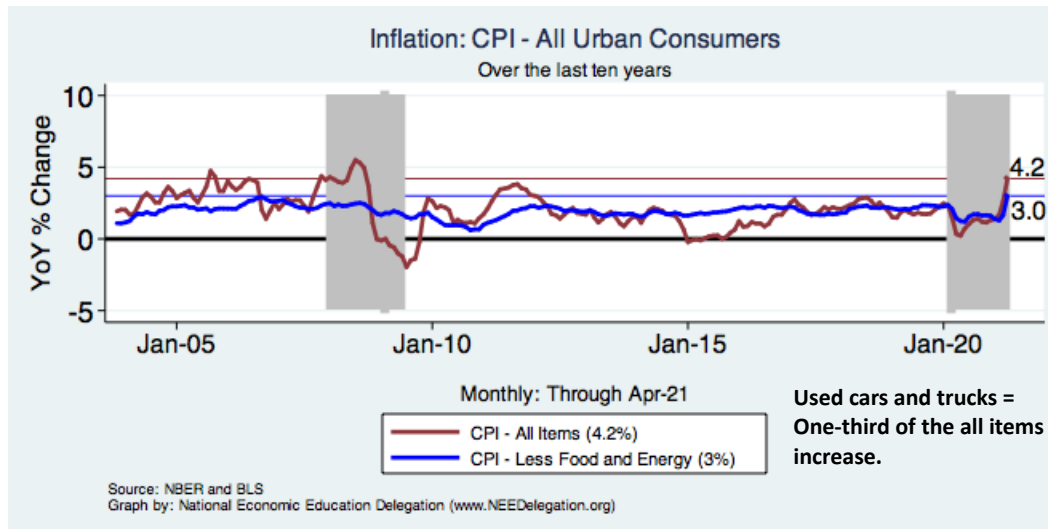
1. There already is about \$1.5 trillion in personal saving waiting to be spent.
2. Needlessly adding to our debt and deficit problems.
3. Reignite **inflation**.
4. Because of 1 & 2 less room for needed public infrastructure investment.

• Too Small (Paul Krugman)

1. Double Dip.
2. Your only get one bite at the apple.
3. Prolonged economic scarring.
4. People in true need are left out.

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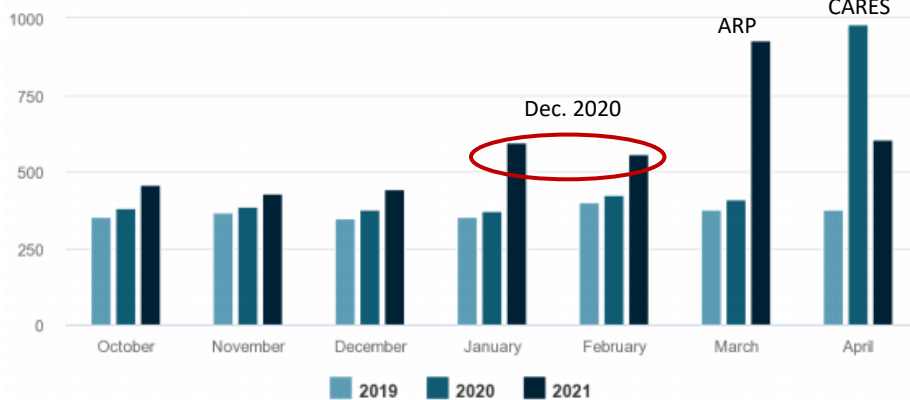
Inflation – Recent Stability



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Pandemic Spending

Monthly Outlays
Fiscal Years 2019, 2020, 2021
Billions of Dollars



Data sources: Congressional Budget Office; Department of the Treasury.
The value shown for April 2021 is CBO's estimate.

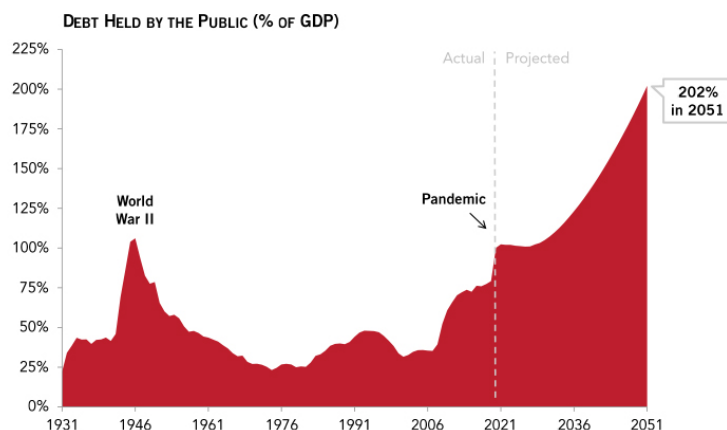


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A Problem Exacerbated....Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.
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The Fear is a Fiscal Crisis

Foreigners lose confidence in the dollar and sell Treasuries in exchange for assets denominated in their own currency,

1. Sale of Treasuries raises interest rates, worsening or fiscal outlook.
2. Trading of Foreign for US assets lowers US exchange rate.
 - a. Raising the price of imports thereby increasing inflation.
 - b. Lowering the foreign currency returns on all US assets, exacerbating 1.

Could the Fed Bail us Out?

1. It could buy Treasuries and prevent the rise in interest rates.



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Bottom Line: Keep an eye on the Debt

- Interest rates may not stay this low forever.
- A fiscal crisis should be avoided at all costs.
- The good news is we may be able to stabilize the relative debt without running a surplus.
 - So long as gov't revenues grow faster than interest rates.

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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.

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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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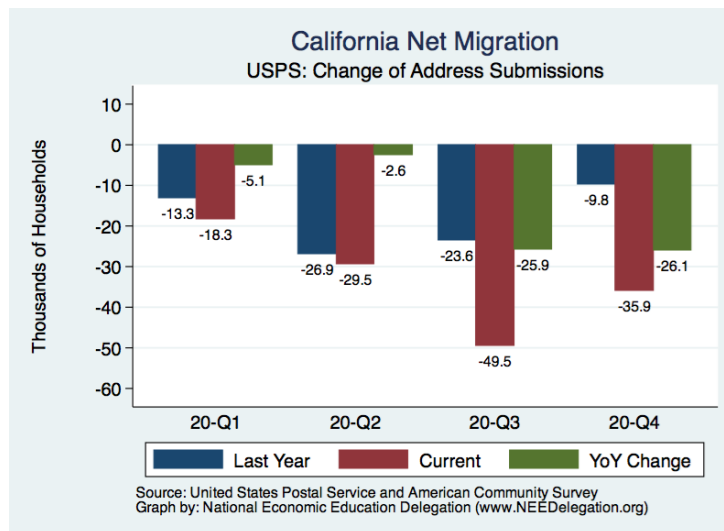
Structural Changes?

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



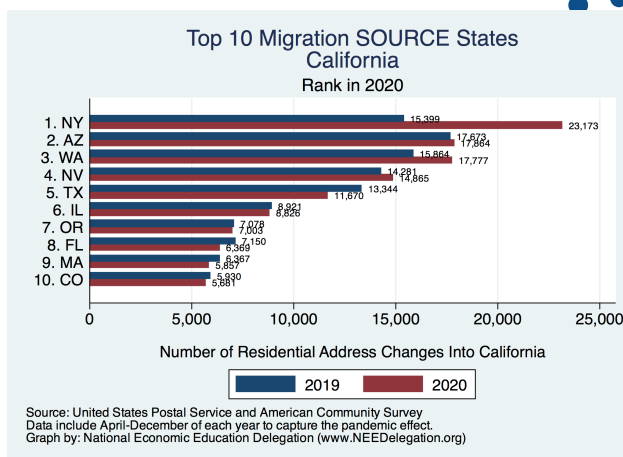
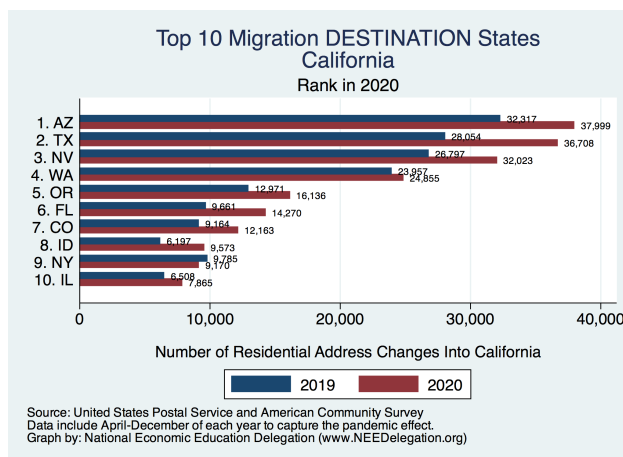
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Population Change: California



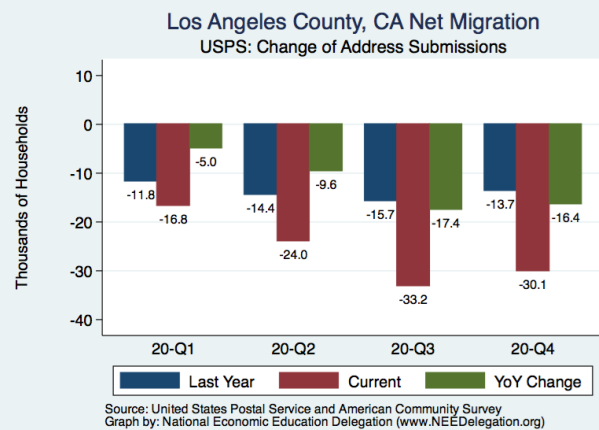
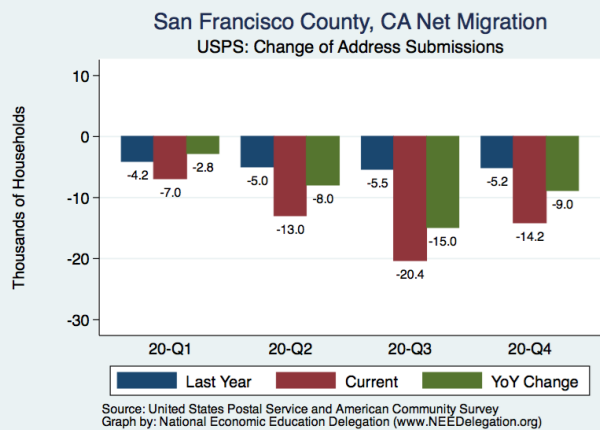
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Which Way Did They Go?



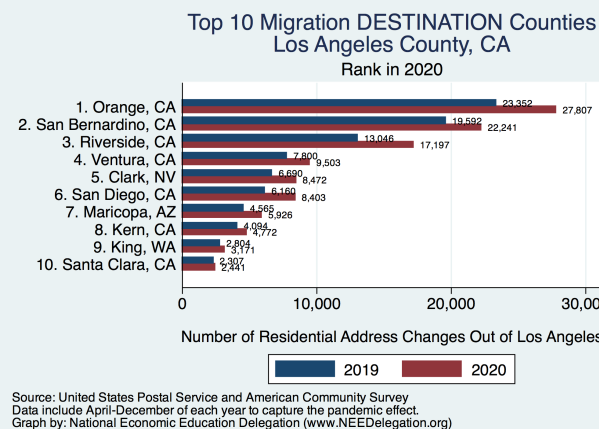
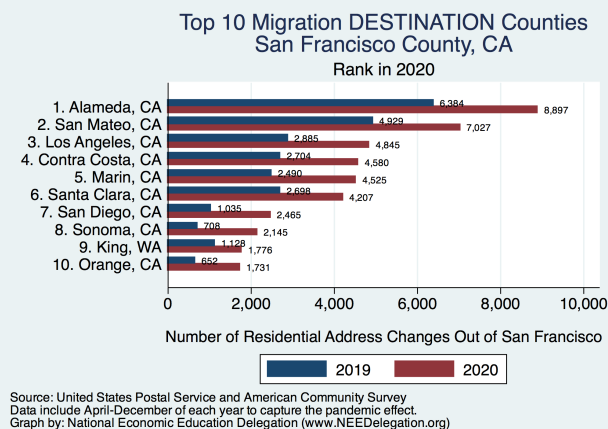
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Population Change: San Francisco & Los Angeles



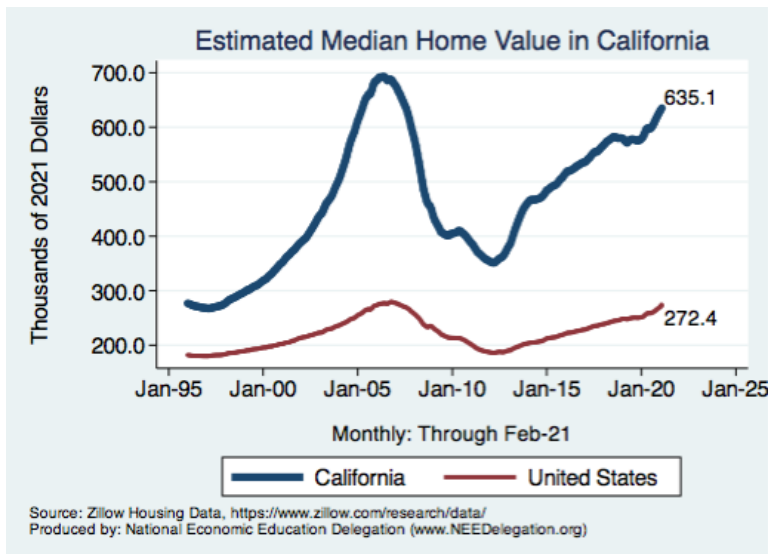
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Which Way Did They Go? SF & LA



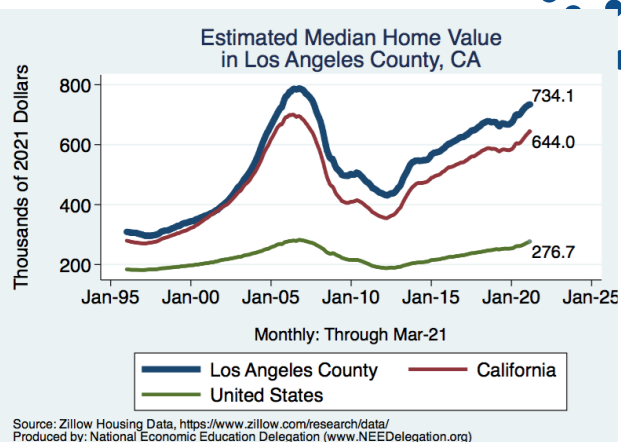
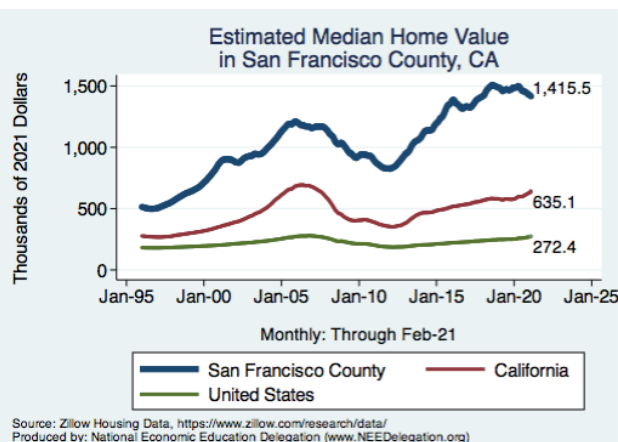
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Real Estate Prices



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RE Experiences Differ!



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Summary

- **U.S. economy poised for a solid recovery.**
 - Small businesses may struggle for a while yet.
 - GDP likely to recover fully end of 2021, early 2022.
 - Employment may take a little longer.
- **California is lagging behind the rest of the United States.**
 - Tourism is going to be slow in recovering...until it isn't!
- **Debt and inflation are the primary concerns at this point.**
 - Sec. Yellen is not concerned about inflation.
 - Economists are not (yet) concerned about the debt.

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Thank you!

Any Questions?

www.NEEDelegation.org

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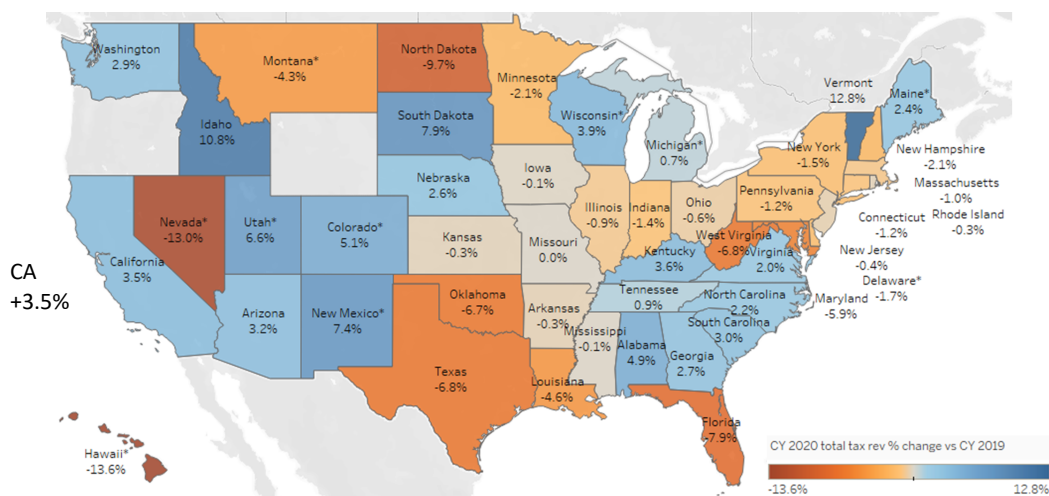
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2020 State Tax Receipts Relative to 2019



Employment Losses Don't Match Revenue

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

