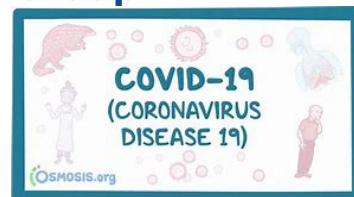




COVID-19: Economic Implications and Policy Response

Santa Clara County City Managers Group

March 10, 2021
Jon Haveman, Ph.D.
Executive Director, NEED



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.

Who Are We?

- **Honorary Board: 53 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**
- **Trade Wars**
- **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:**

- 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).



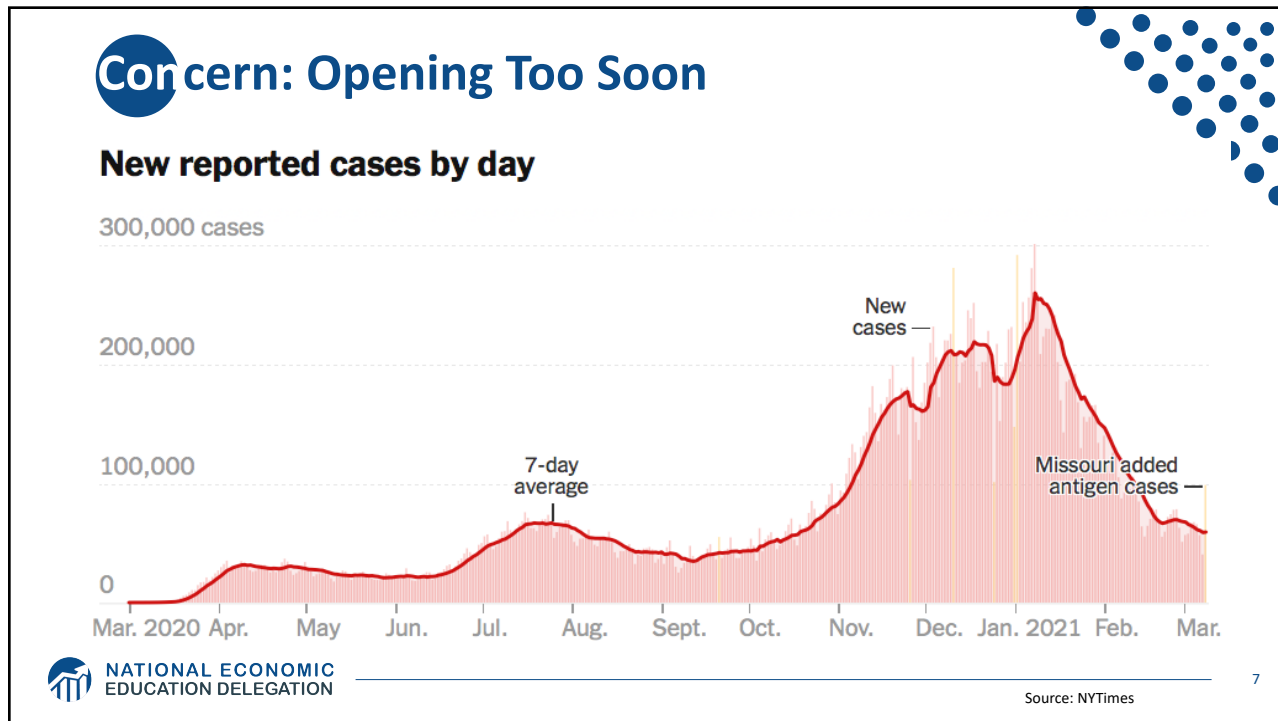
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Outline

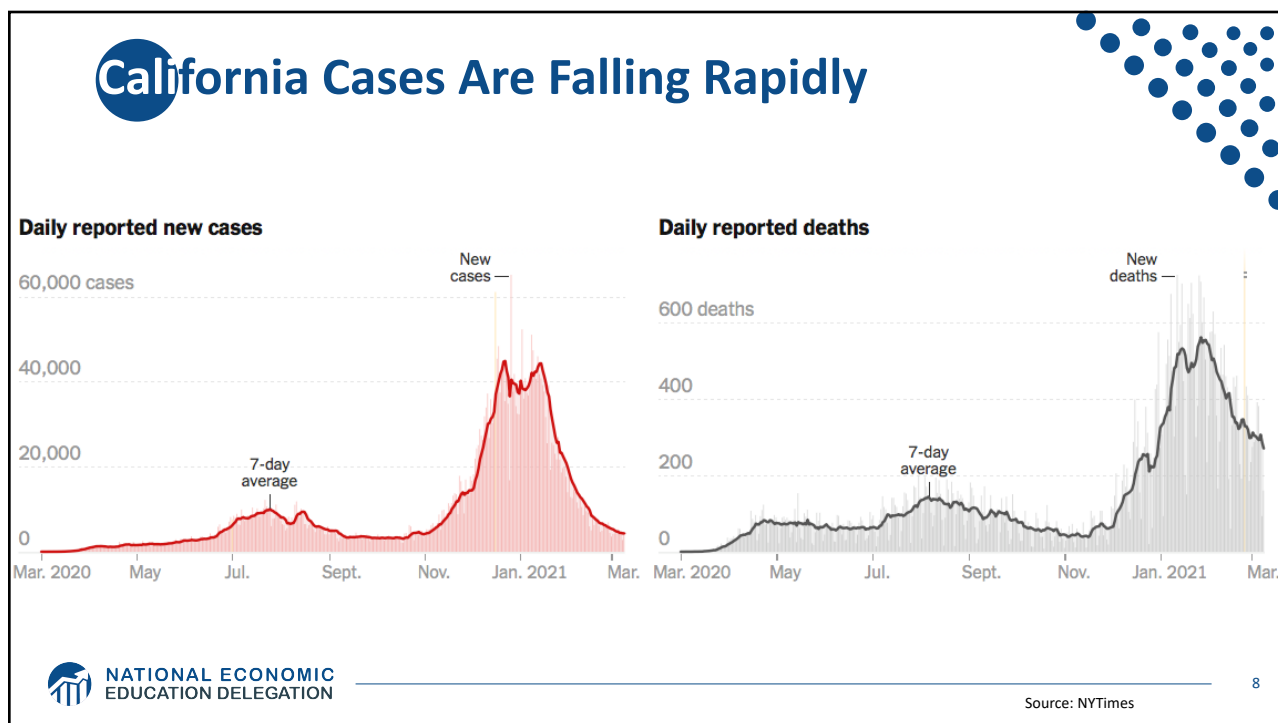
- **State of the pandemic**
- **Where is the recovery now?**
- **How has policy affected the recovery?**
- **How big should the next package be?**



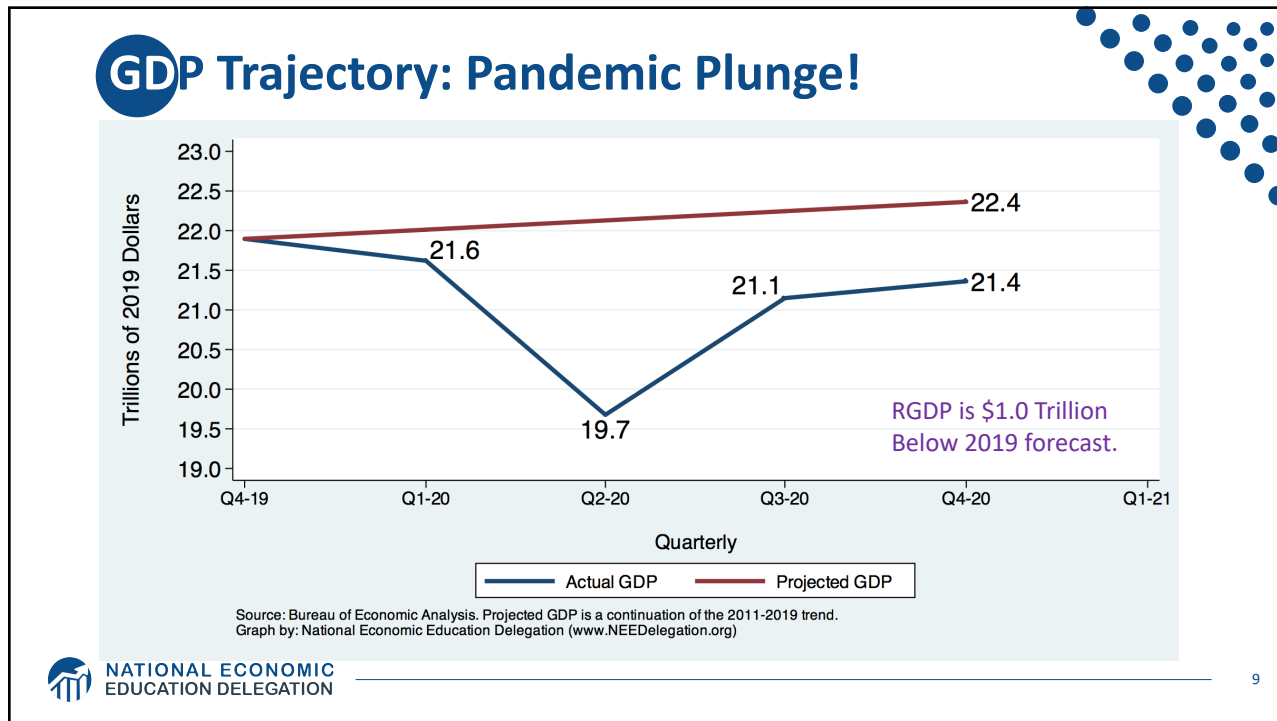
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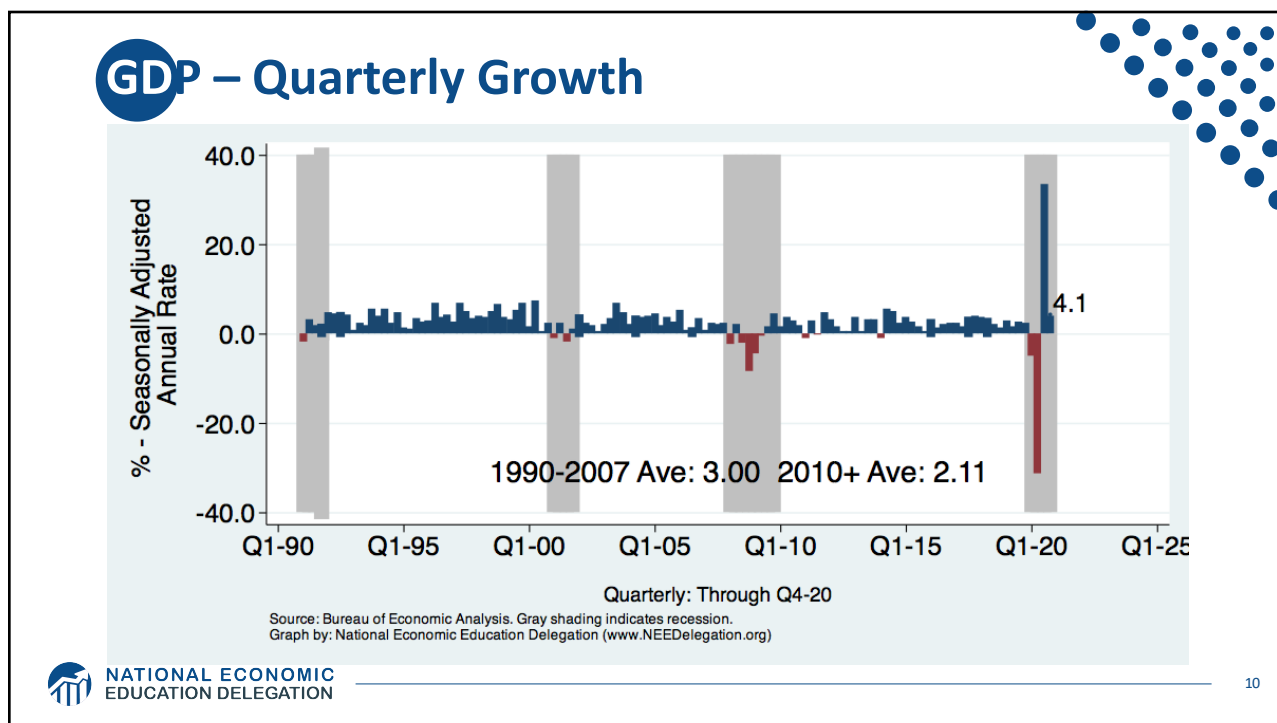
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Philadelphia Federal Reserve

	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

NATIONAL ECONOMIC EDUCATION DELEGATION Source: Federal Reserve

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Spending Patterns Since First US Case

In the United States, as of February 14 2021, total spending by all consumers increased by **1.7%** compared to January 2020.

NATIONAL ECONOMIC EDUCATION DELEGATION Source: <https://tracktherecovery.org/>

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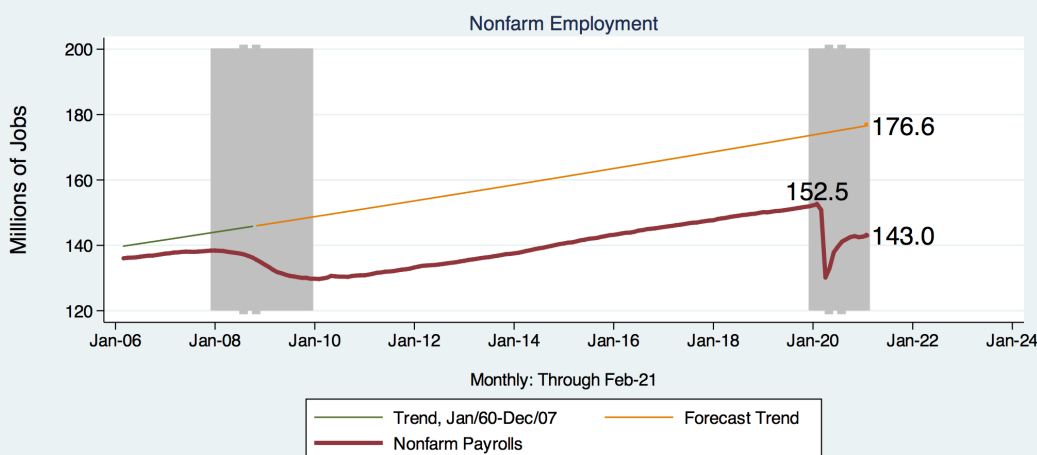
Spending Patterns – Hardest Hit Sectors

In the United States, as of February 14 2021, restaurant and hotel spending by all consumers decreased by **22.3%** compared to January 2020.



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Employment Gap



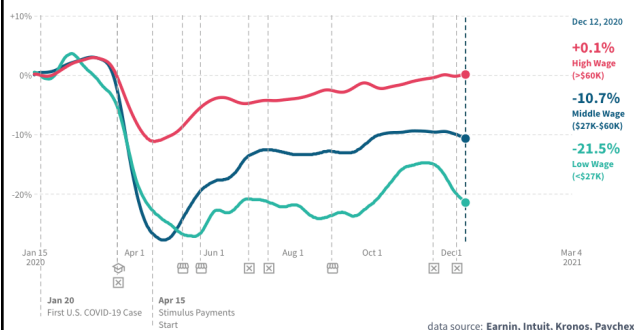
Source: NBER and US Bureau of Labor Statistics. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Conditions Closer to Home

Employment in Santa Clara County

In **Santa Clara**, as of December 12, 2020, employment rates among workers in the middle wage quartiles decreased by **10.7%** compared to January 2020 (not seasonally adjusted).



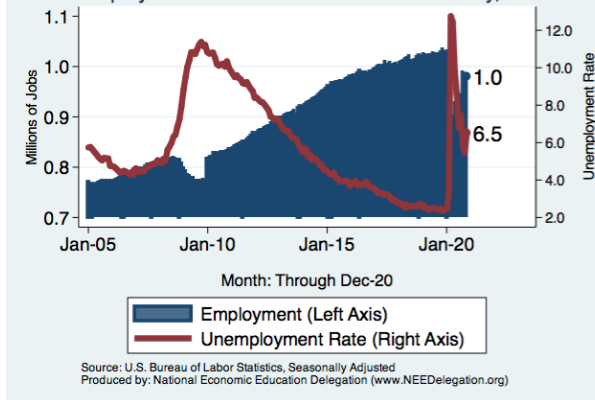
Consumer Spending in Santa Clara County

In **Santa Clara**, as of February 14, 2021, total spending by all consumers decreased by **3.7%** compared to January 2020.

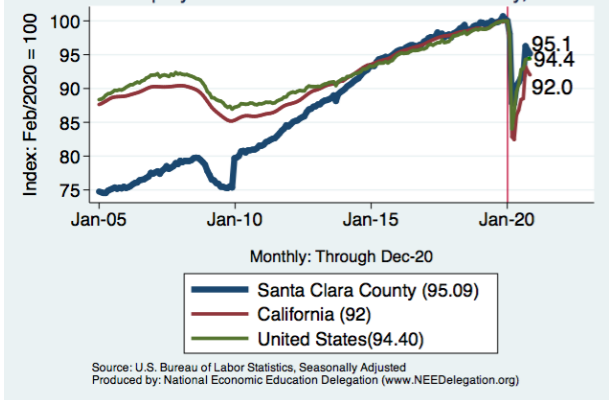


Employment Situation: Santa Clara County

Employment Situation in Santa Clara County, CA



Employment Growth in Santa Clara County, CA



Aggregate Data Looks Encouraging

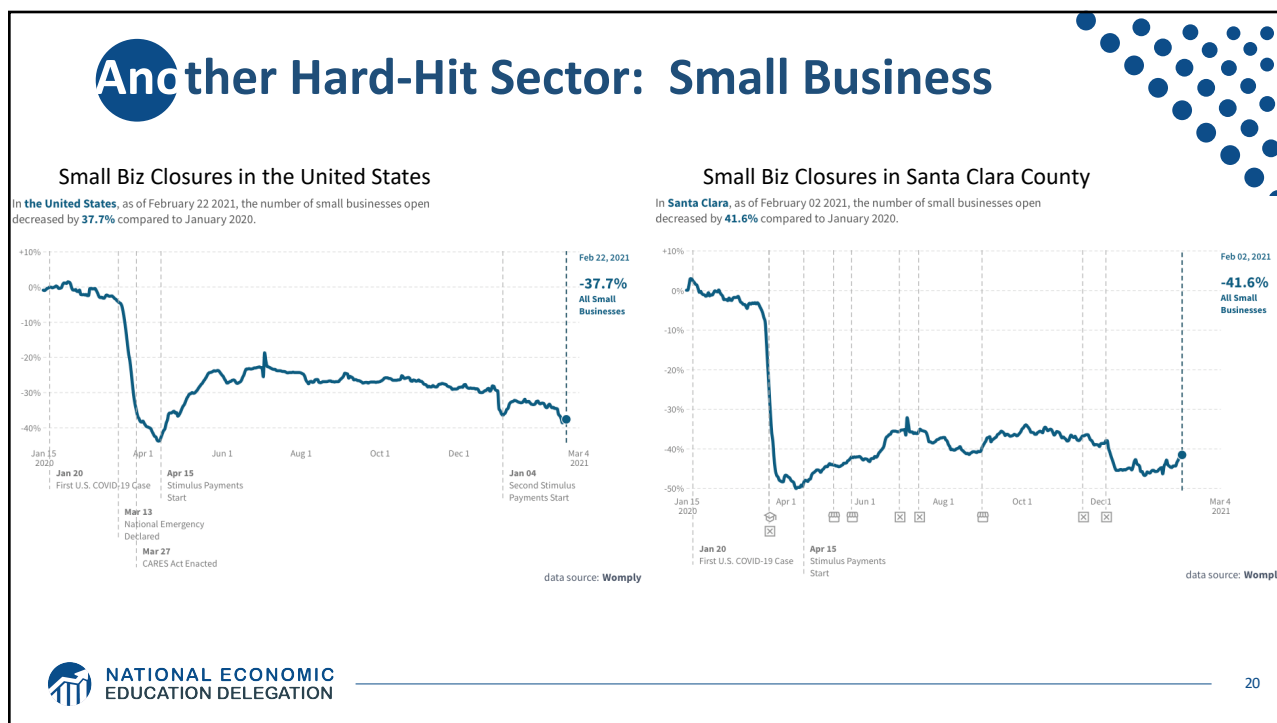
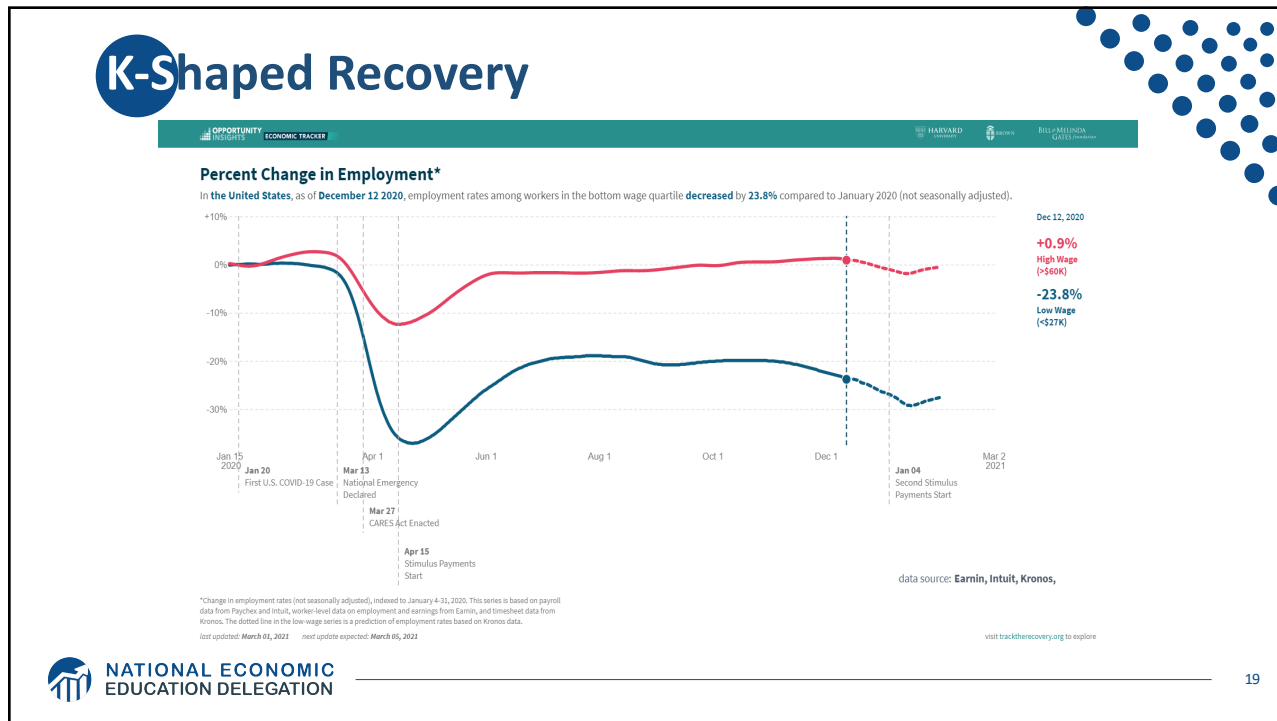
- Recovery has been *unexpectedly* rapid, albeit incomplete, and has recently slowed.
- Why so rapid: There were no **short-run** macro problems at the start of the crisis.
- The only obstacle to a continued recovery:
 1. Resurgence of the virus.
 2. Economic damage due to prolonged job losses and business failures in specific sectors.

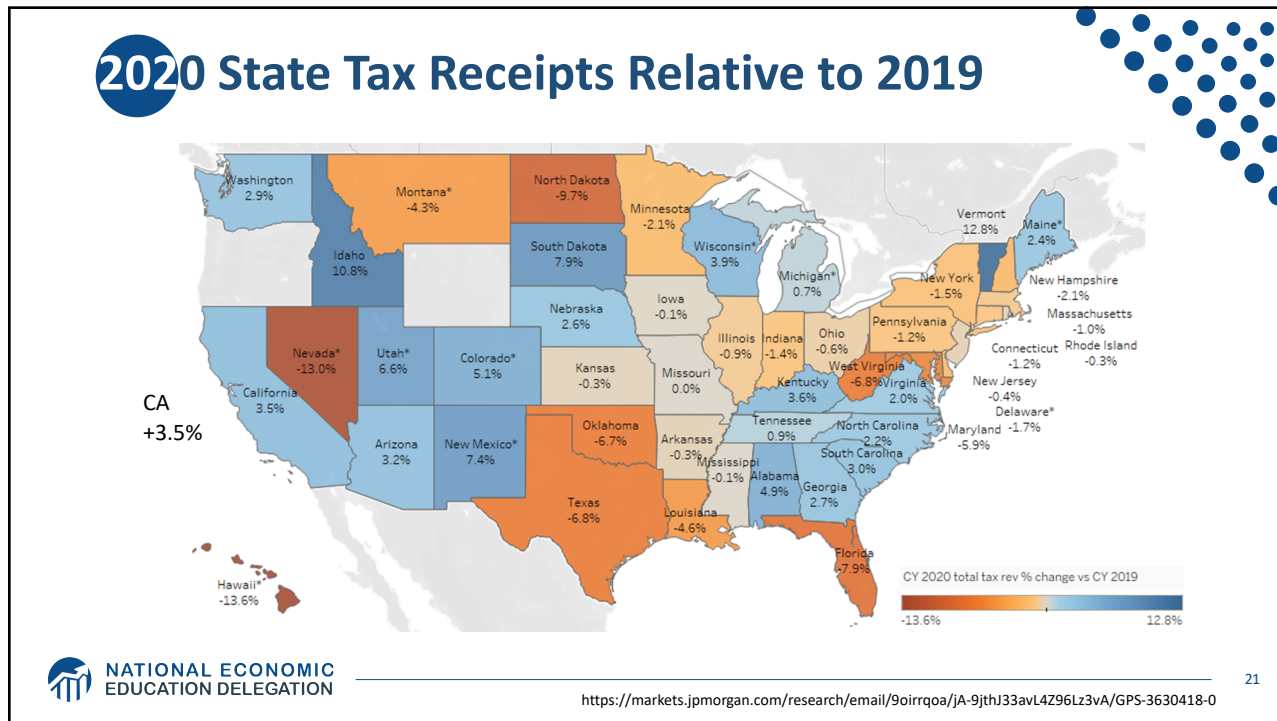
What Have Been Policy Effects

- 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)

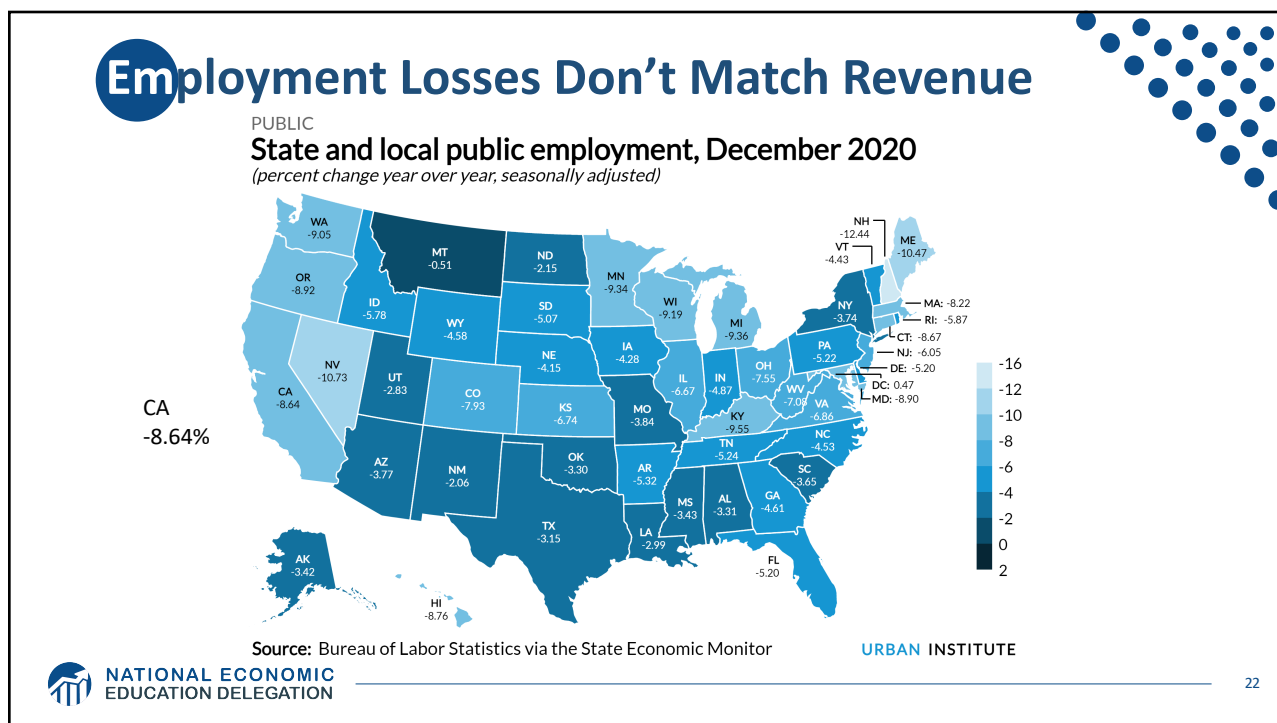
December Package - another \$900b with more to come.

Why?

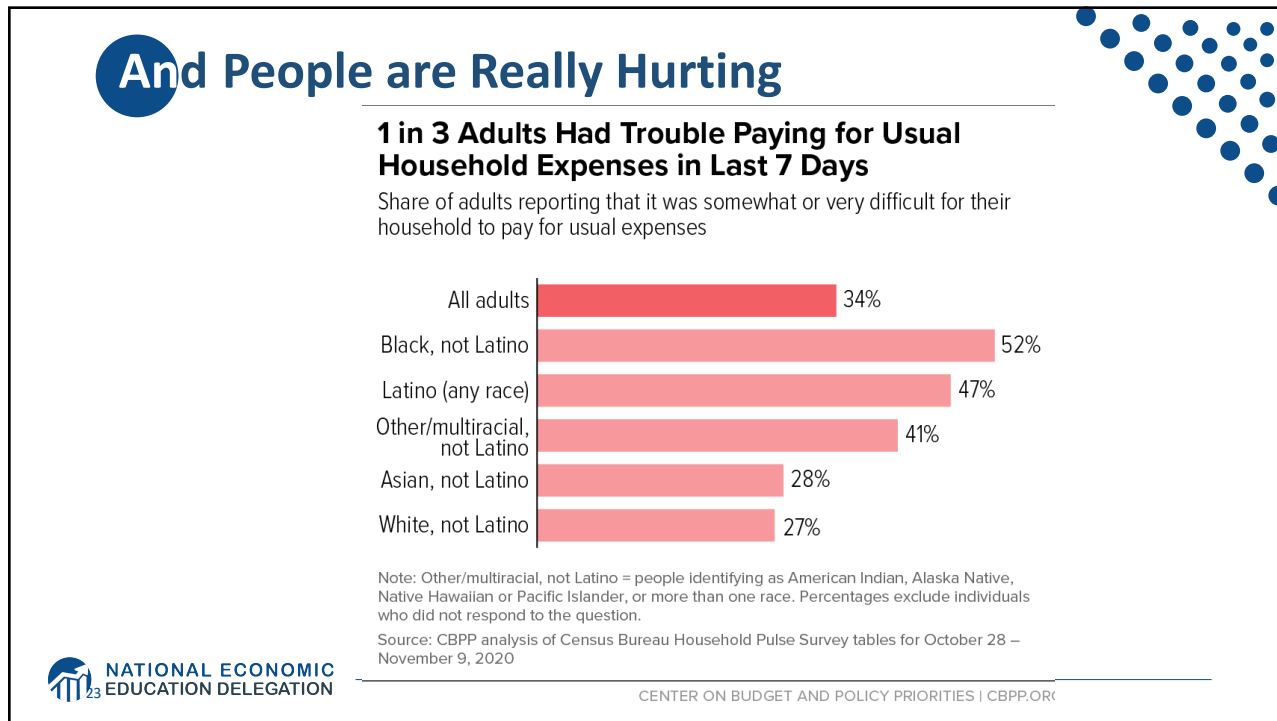




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So, What's The Problem: Go Big!

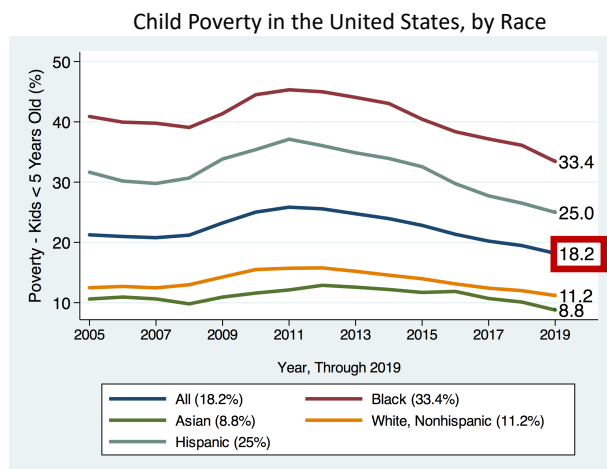
Comparing Two Rescue Plans

	American Rescue	Republican Plan	Difference
Direct Payments	\$465 billions	\$220	\$245
Aid to State and Local Governments	\$350	0	\$350
Pandemic Unemployment	\$350	\$130	\$220
School Reopening	\$170	\$20	\$150
Vaccines	\$160	\$160	0
Expand Child Tax Credit	\$120	0	\$120
Rent and Landlord Support	\$30	0	\$30
Child Care Providers	\$25	\$20	\$5
Other	~\$200	\$68	\$132
Total	\$1,870	\$618	\$1,252

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\$1.9 Trillion Plan – Includes Other Initiatives



- 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.



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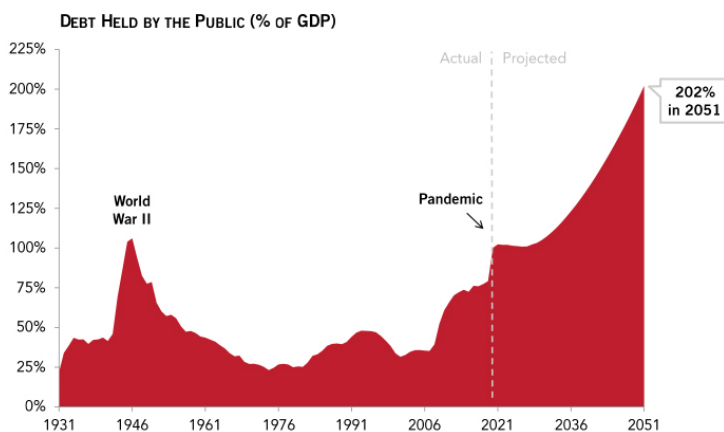
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A Problem Exacerbated....Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
© 2021 Peter G. Peterson Foundation

PGPF.ORG



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My Advice for Joe

- **Priority should be to control the pandemic.**
- **General stimulus is not needed (at the moment).**
 - Target spending to **rescue**:
 - Poor Households.
 - State and Local governments (maybe not \$350b).
 - Small Firms (e.g., restaurants).
- **Pursue needed infrastructure investment.**
- **Develop a politically feasible plan to raise revenues and lower spending over the longer term.**
- **Listen to Janet Yellen.**
- **And, most of all: Lots of Luck!**

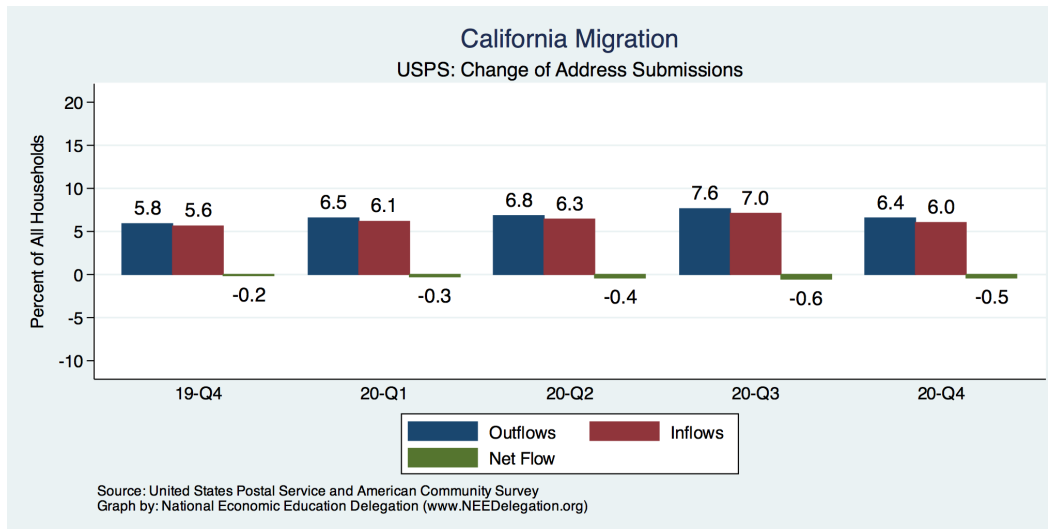


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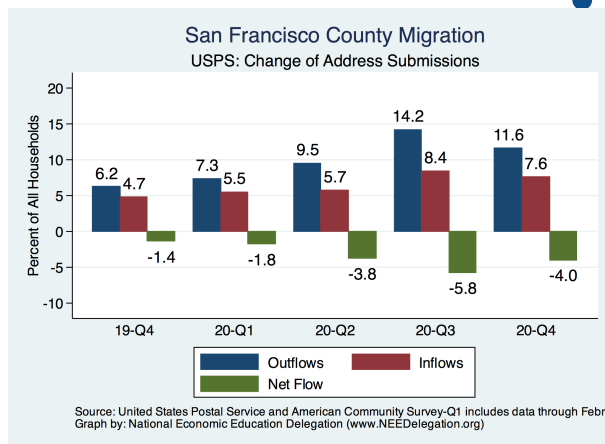
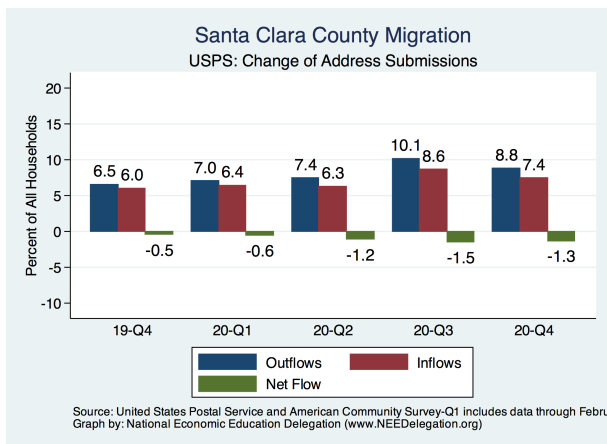
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Population Change: California



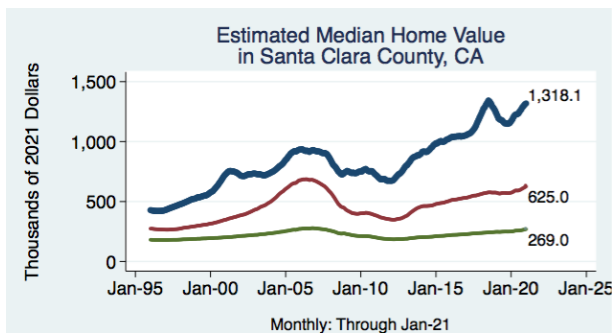
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Population Change: Santa Clara & San Francisco

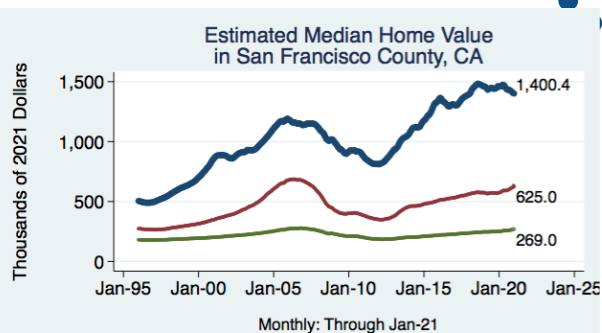


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Another Gauge: Real Estate



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/>
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

More Santa Clara County Graphs Here:

- <https://needelegation.org/LocalGraphs>
- Click through "Counties", "CA" and "Santa Clara"

Thank you!

Any Questions?

www.NEEDelegation.org

Jon Haveman

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

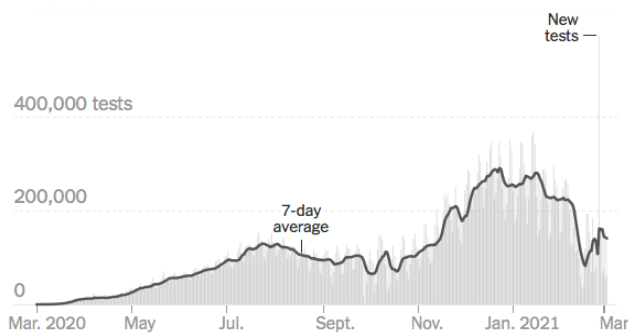
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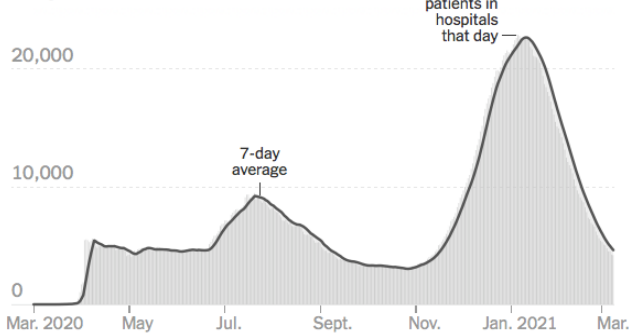


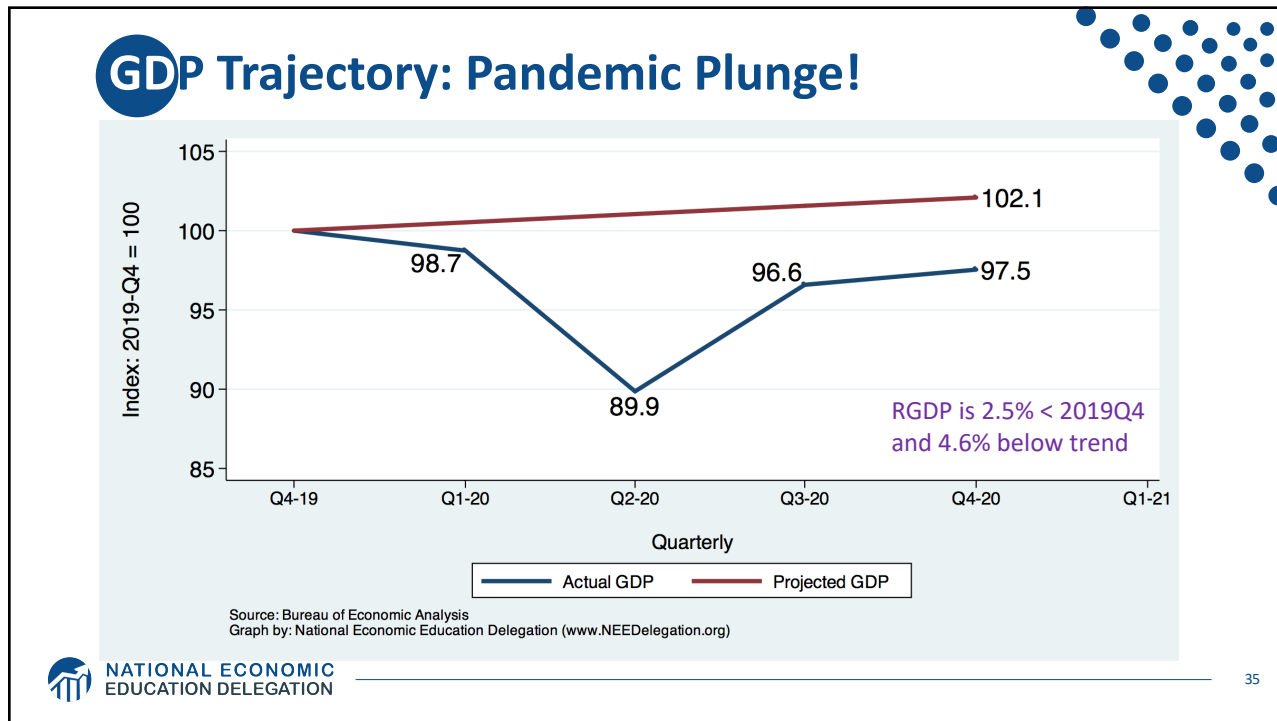
California: As Are Hospitalizations

Daily reported tests

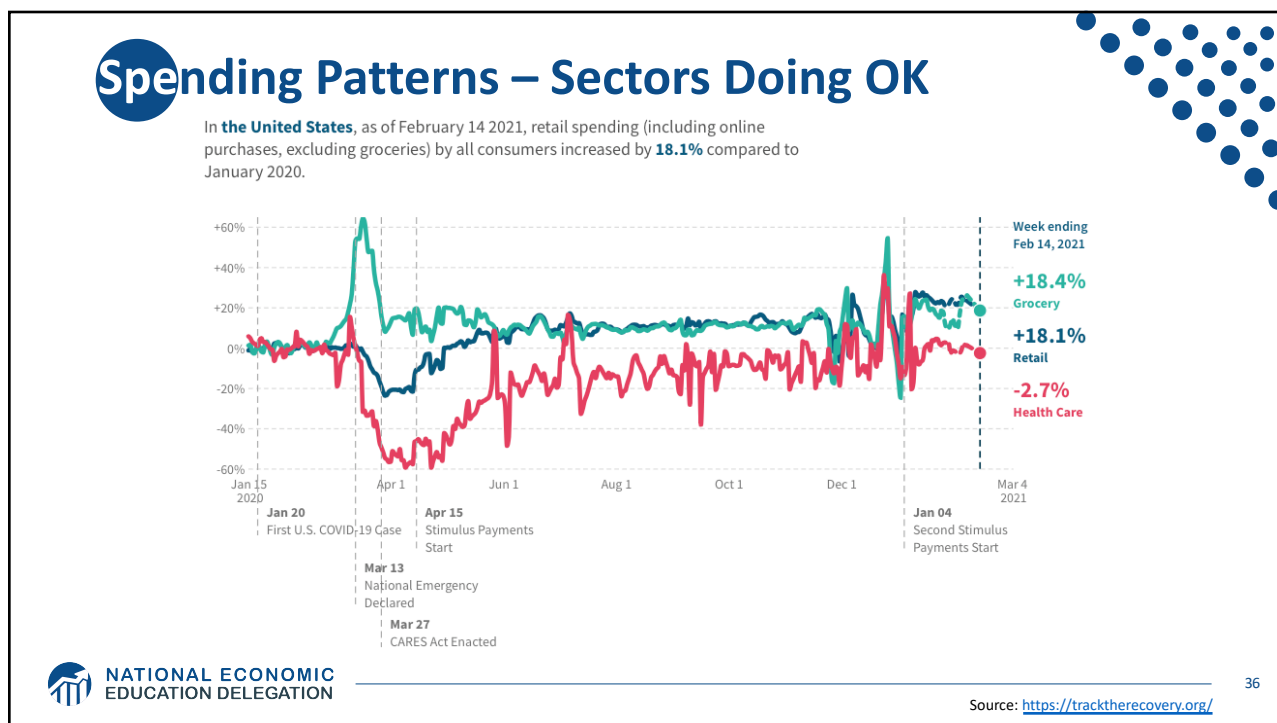


Hospitalizations

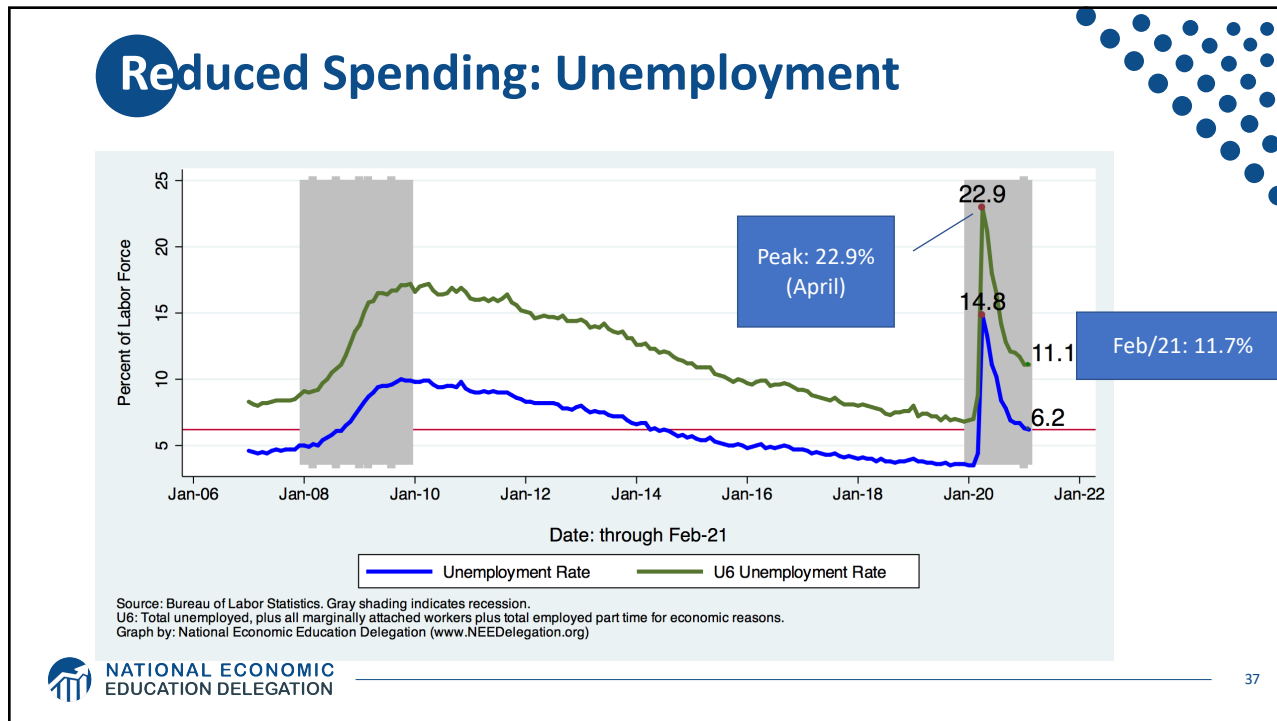




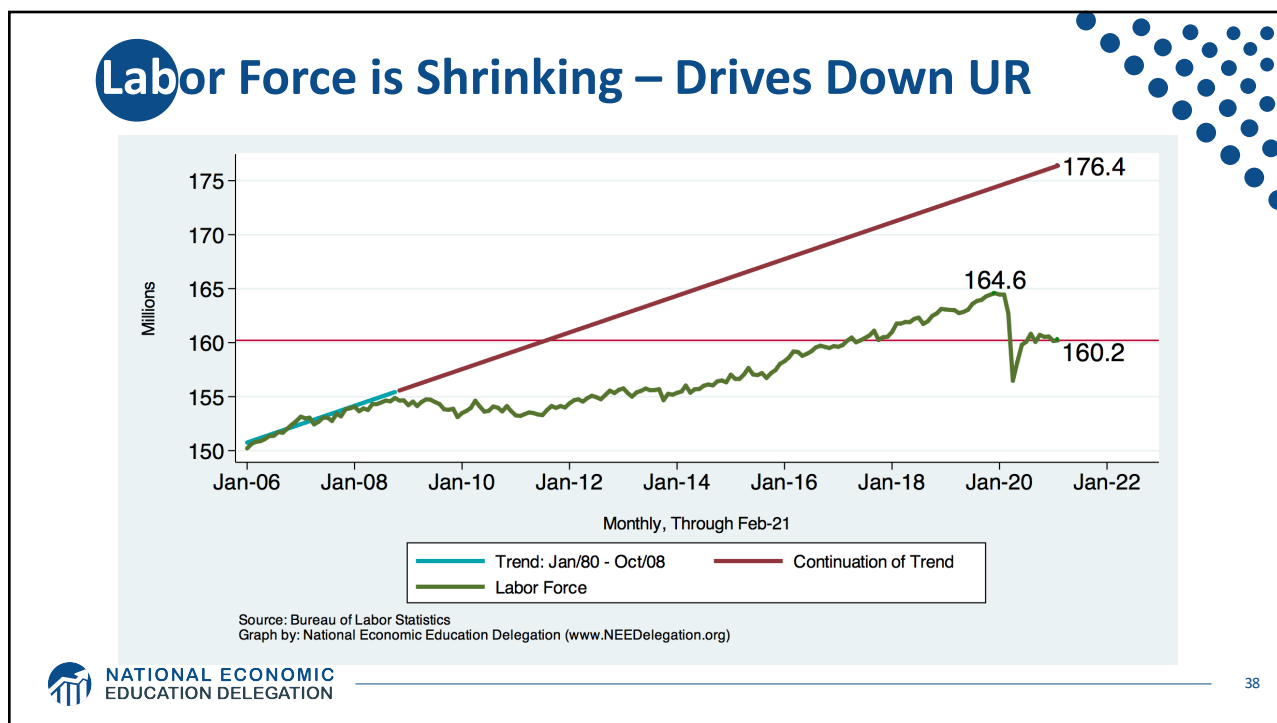
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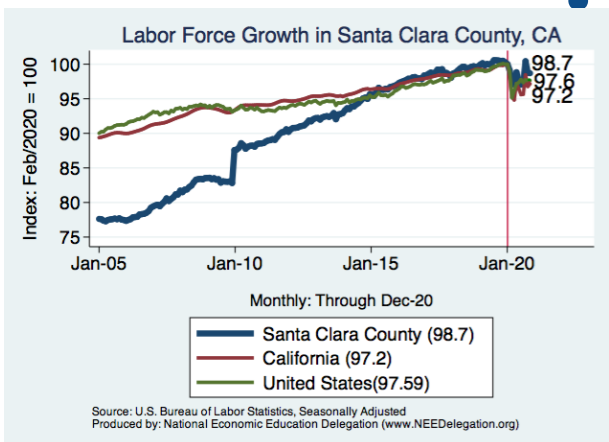
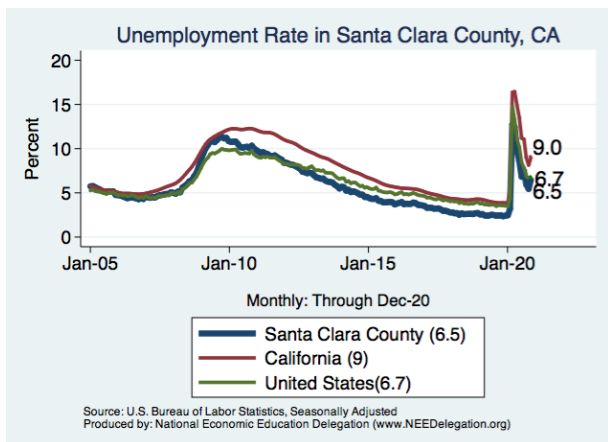


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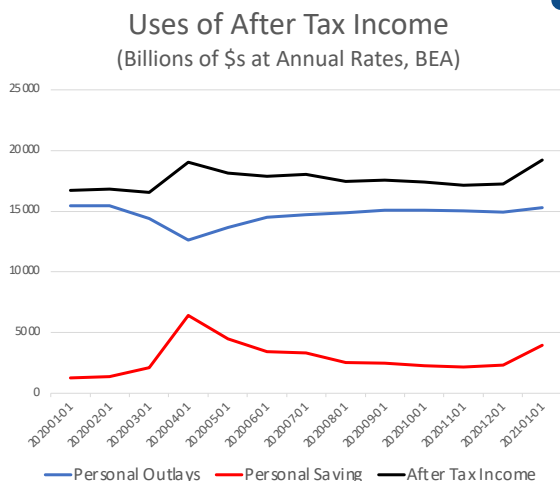
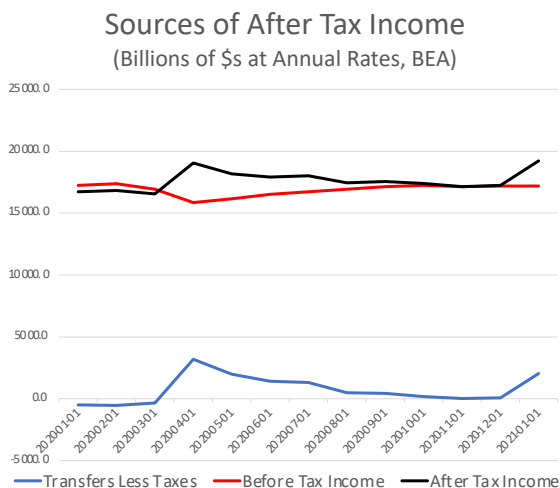


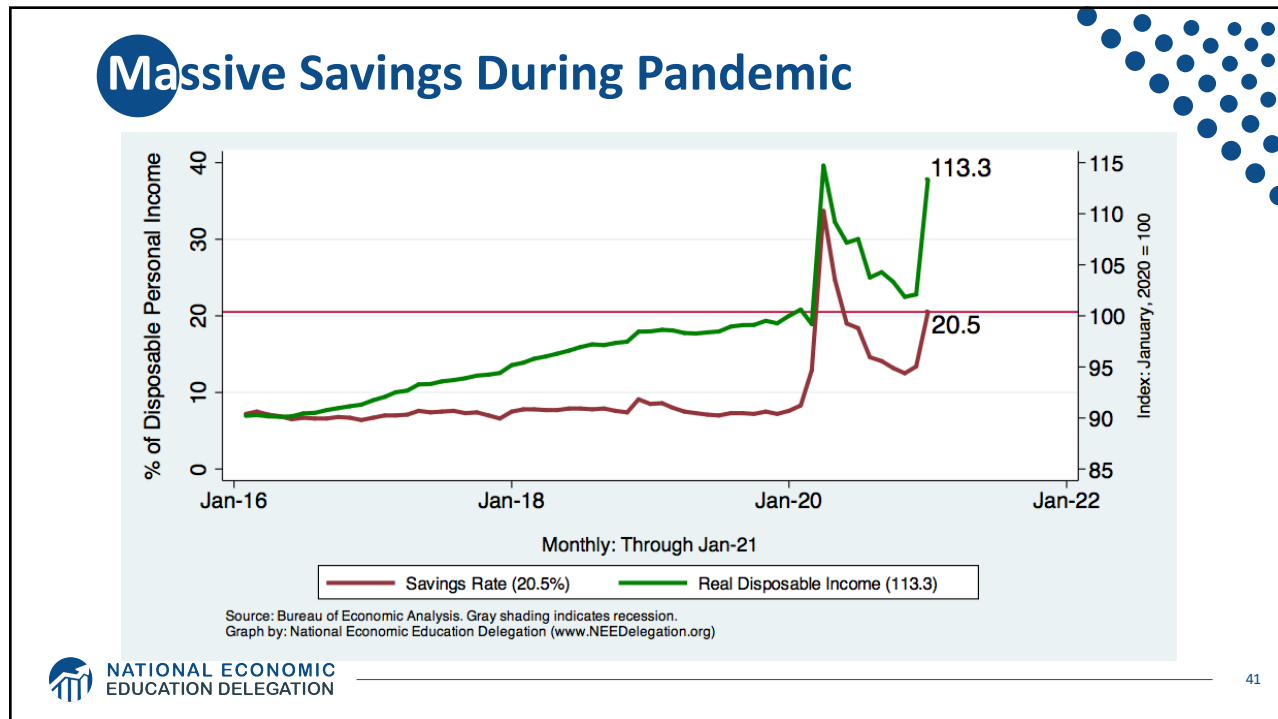
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Unemployment and Labor Force Participation



Consequence of Fiscal Stimulus So Far





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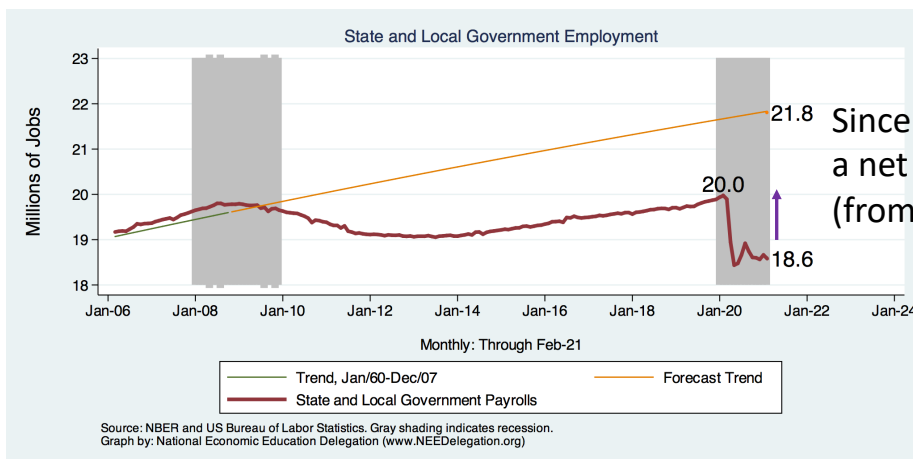
Evidence of Damage: Corporate Bankruptcies?

- According to Edward Altman, leading expert on bankruptcy and professor emeritus at [NYU's Stern School of Business](#), there are liable to be 60 corporate failures with liabilities over \$1b Bloomberg, 7/15
- **Notable Bankruptcies 2020**
 - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chesapeake Energy, Chuck E. Cheese, Brooks Brothers, Ann Taylor, Lane Bryant, et. al.
- **Many, Many Small firms just close their doors.**

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State and Local Employment



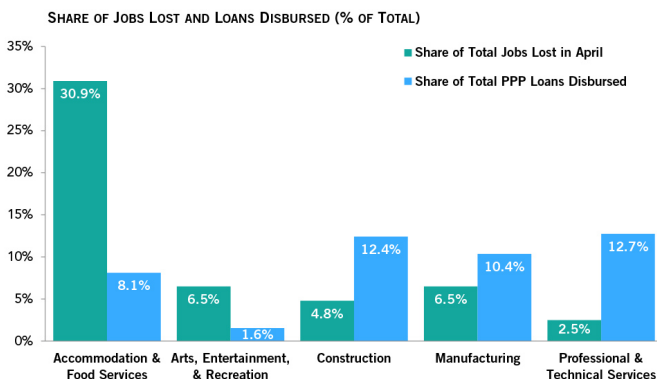
Since February 2020, a net loss of 1.4m jobs (from a low base).

Prospects if there is no general federal aid this year?

PPP, Not so Good: Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



In addition, first round loans went disproportionately to predominantly white Congressional Districts
Bloomberg, 7/30

Could a new PPP be better administered?

SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.