



COVID-19: Economic Implications and Policy Response

Sons in Retirement #2

October 1, 2020
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1

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.

2

Who Are We?

- **Honorary Board: 52 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: 520+ 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

3

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**
- **2017 Tax Law**
- **Autonomous Vehicles**
- **US Social Policy**

4

Credits and Disclaimer

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

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- Geoffrey Woglom, Amherst College (Emeritus)

- **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).



5

Outline

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



6

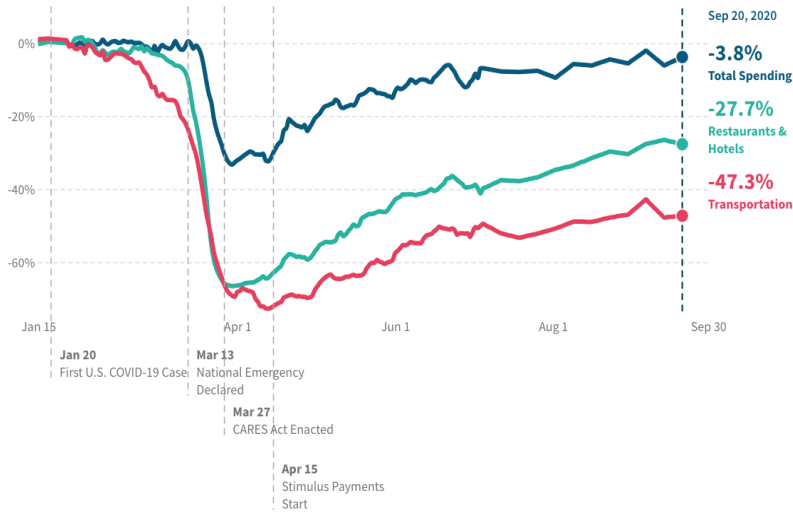
What is this?

- **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
 - o Supply side
 - o Demand side
 - o Financial
 - Without a culprit

7

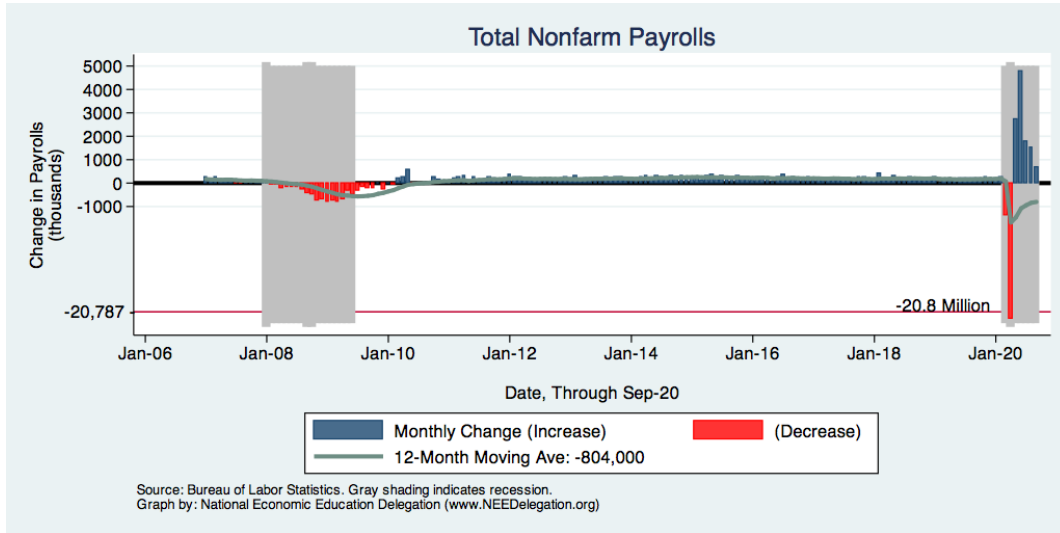
Spending is (was?) on the Rise

In the United States, as of September 20, 2020, total spending by all consumers decreased by 3.8% compared to January 2020.



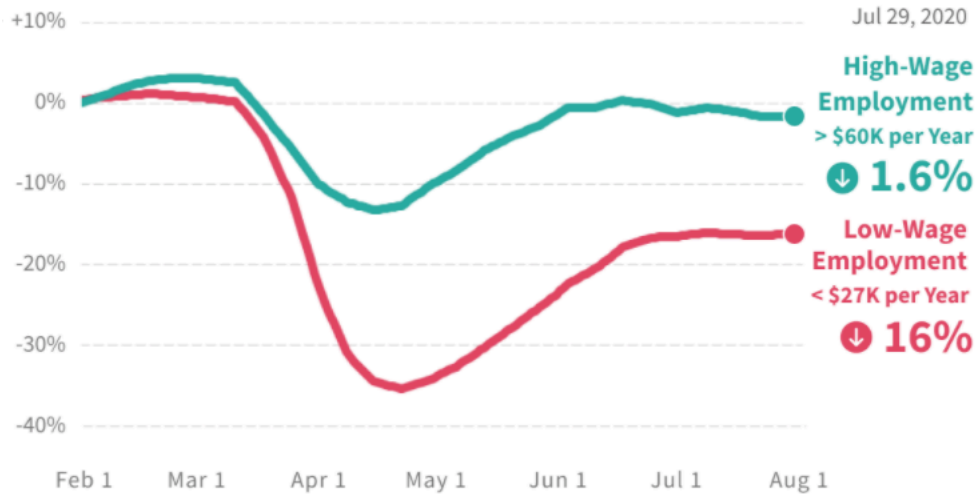
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Monthly Changes in Nonfarm Employment

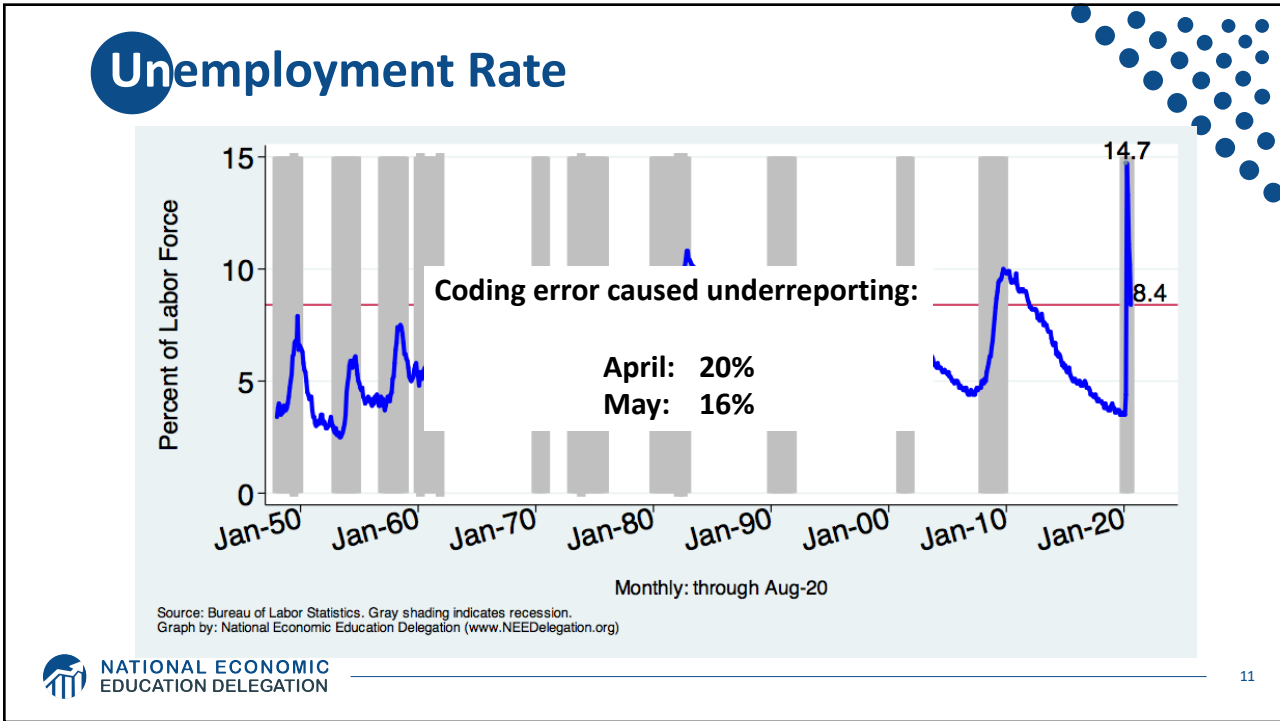


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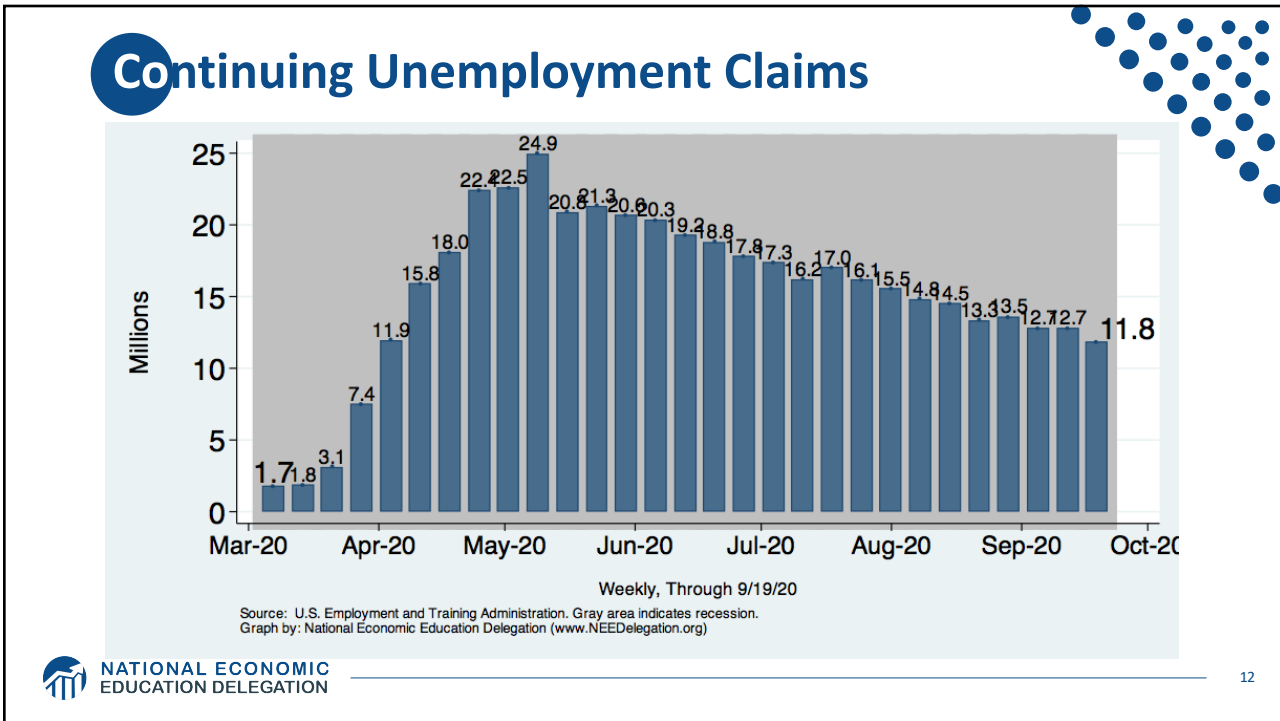
Low Wage Employment is Lagging



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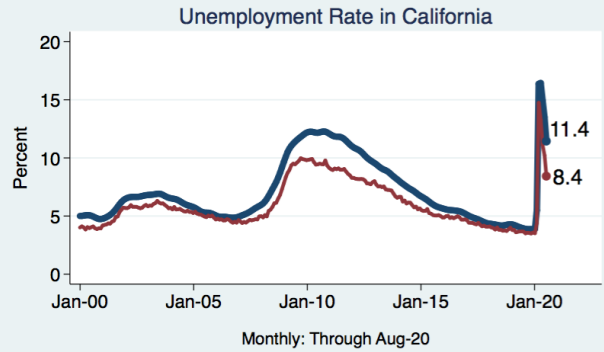


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12

Employment in California

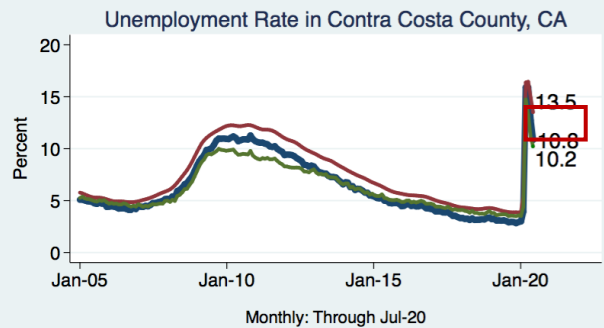
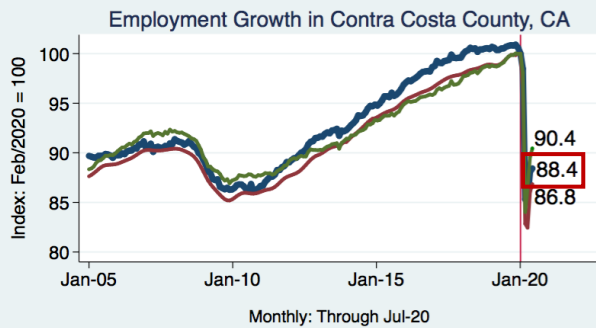


Source: U.S. Bureau of Labor Statistics, Seasonally Adjusted
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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

13

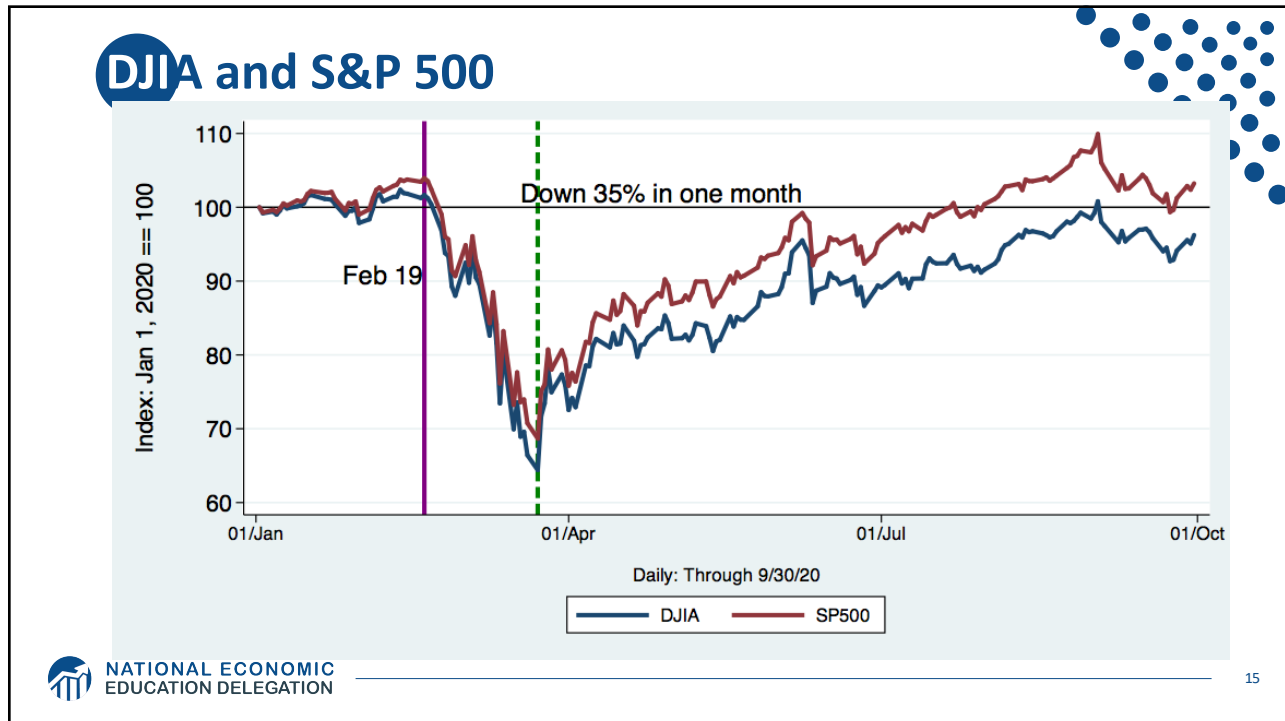
Employment in Contra Costa County



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

14



15

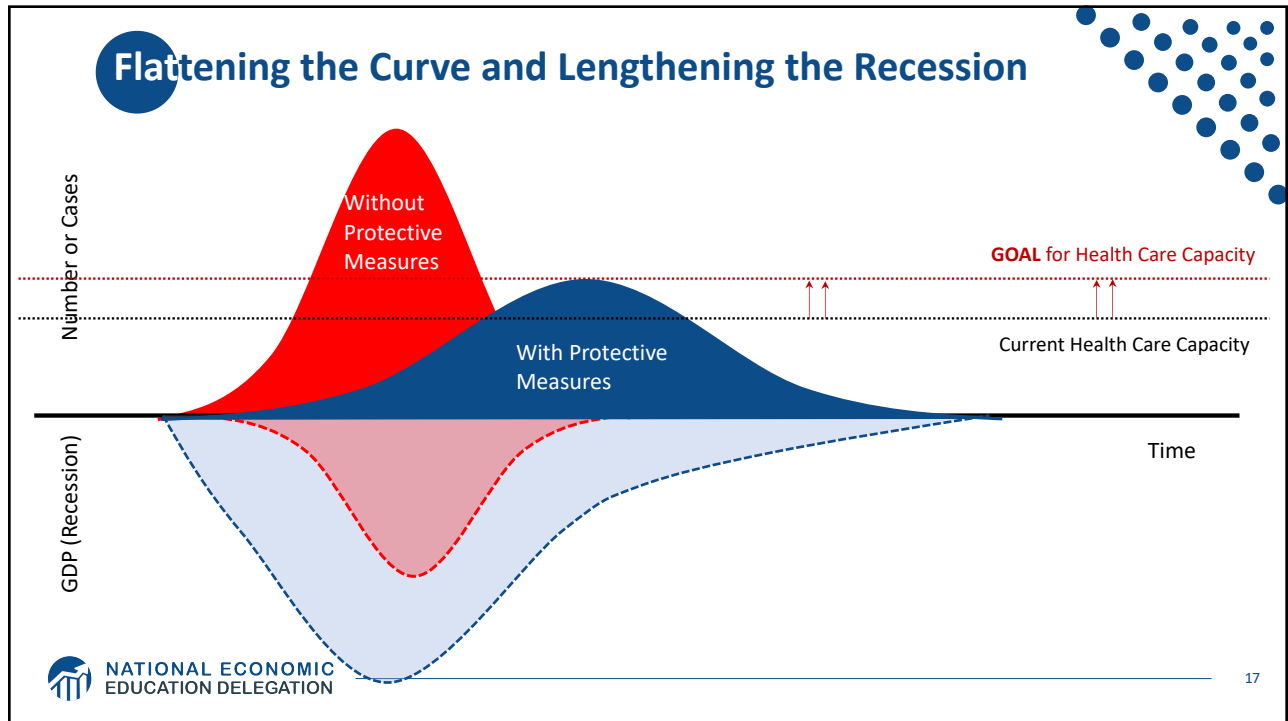
A Tale of Three Policies Efforts

- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy

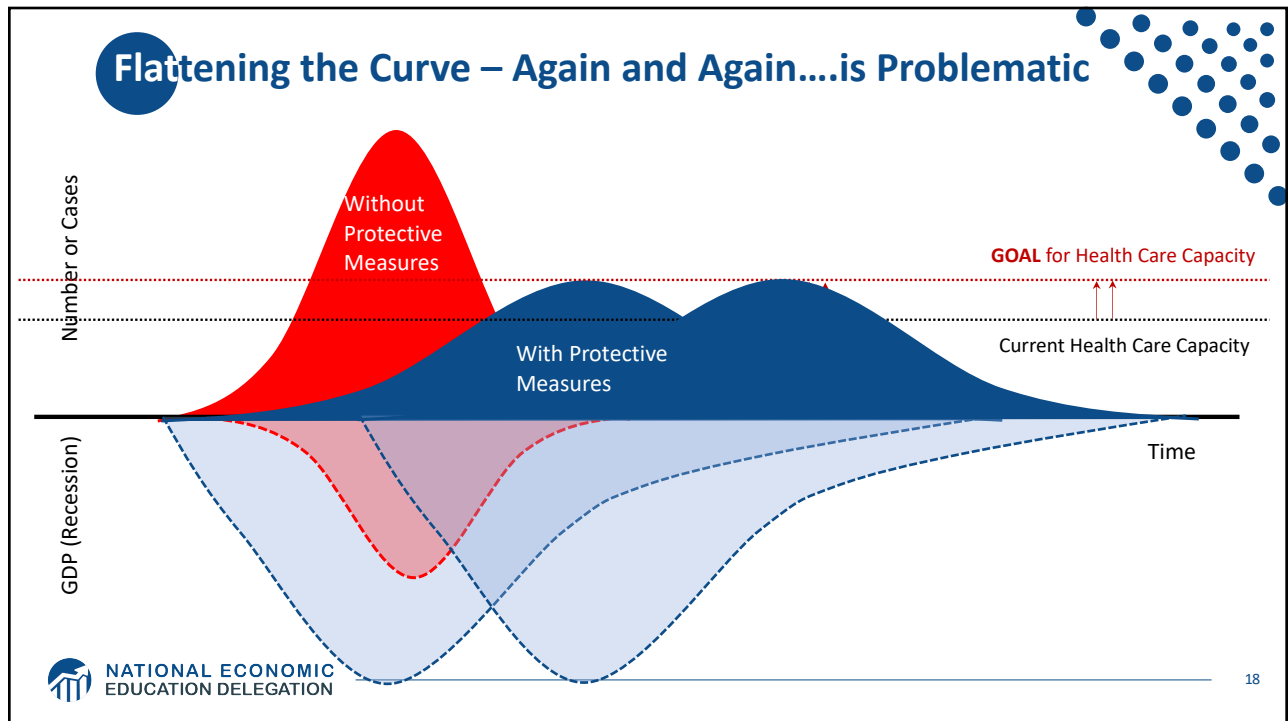
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16

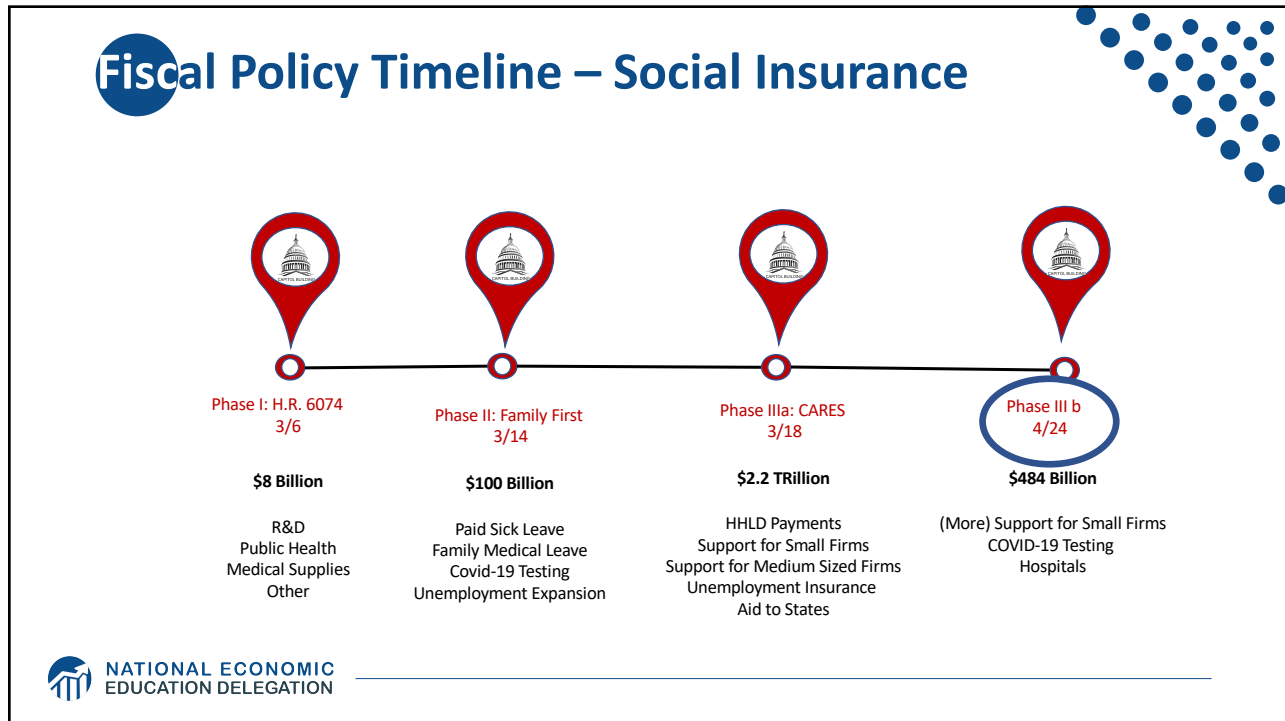
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18



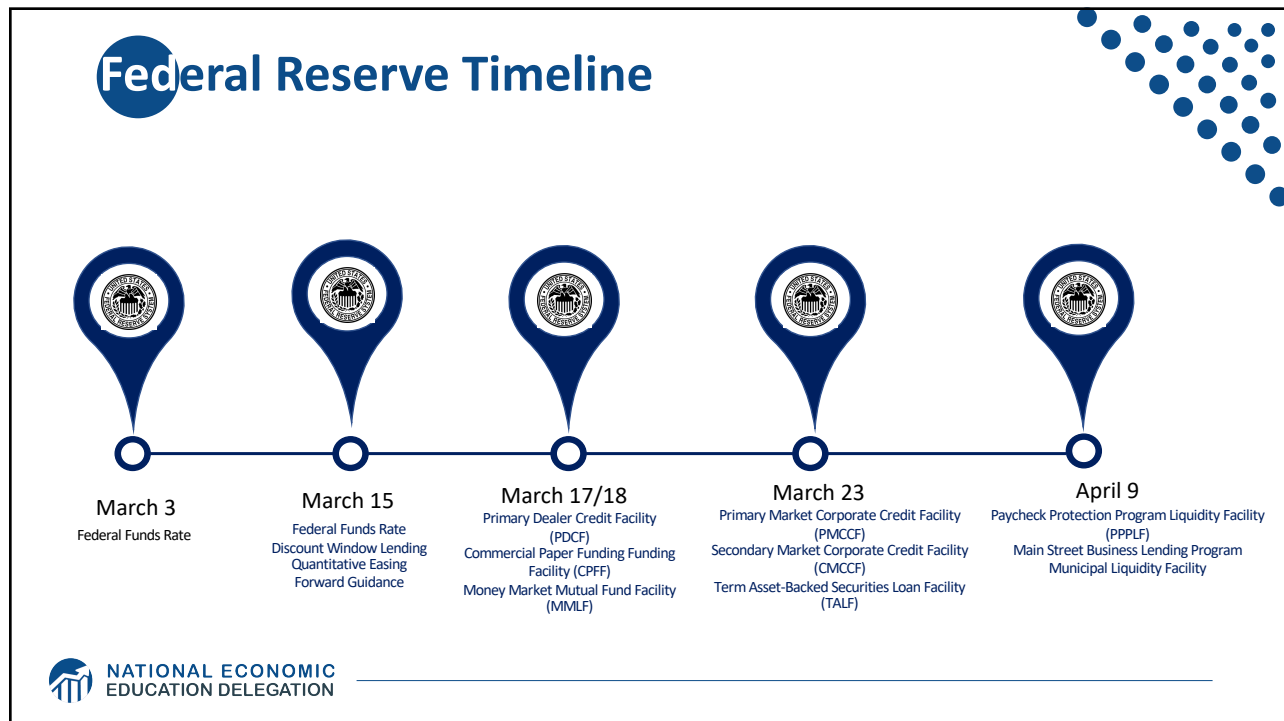
19

Monetary Policy – Federal Reserve

- **Two primary objectives**
 - Stabilize the economy
 - Maintain liquidity of the system
- **Actions in three forms:**
 - Traditional interest rate stimulus
 - Inject cash into the system
 - Shore up existing debt and structures

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20



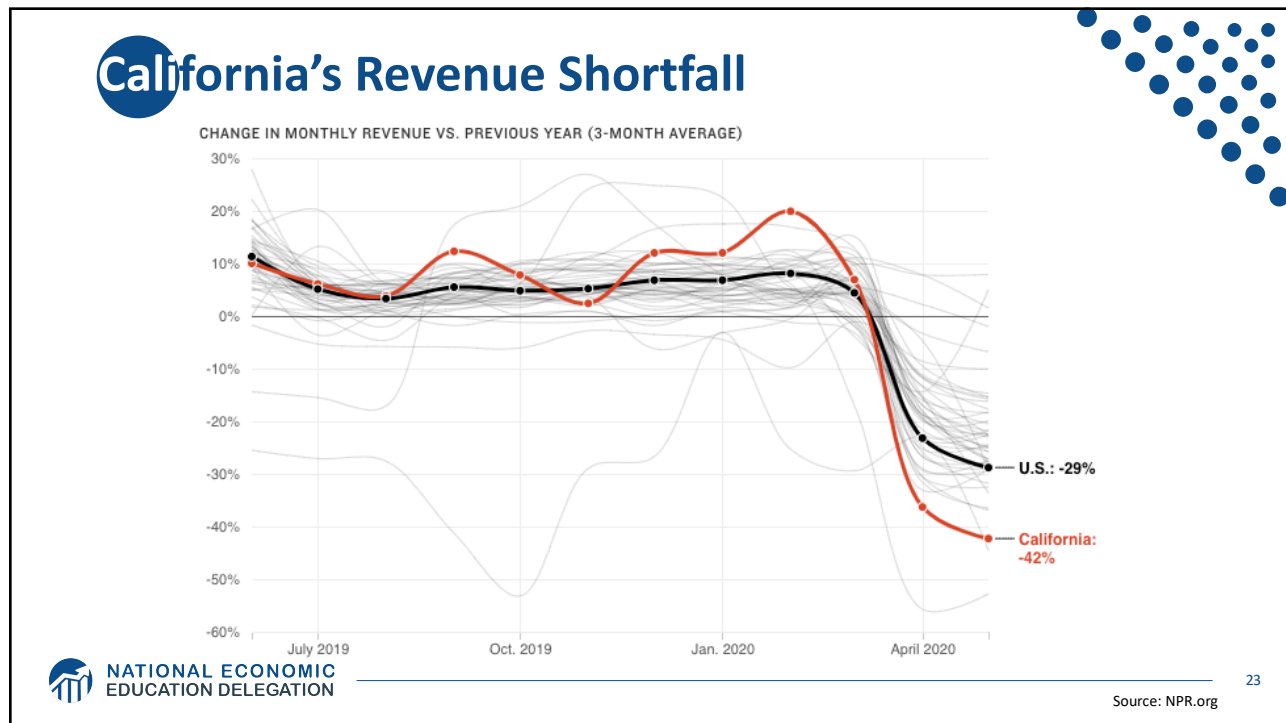
21

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! A+**
- **Fiscal policy grade: Emergency Pass**
 - Direct cash payments
 - Are they really getting into the hands of those most in need?
 - Corporate or otherwise?
 - Right strategy to maintain employee-employer ties?
 - What about states and local governments?

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22



23

Skinny Republican Stimulus (~\$500b)

Major Spending Provisions:

- Continue Expanded Unemployment, but at \$300 extra per week
- \$105b for education, 2/3rd for K-12
- \$45b for testing, tracing and vaccine production
- Extend PPP at least for the \$285b and perhaps more

Sweeteners:

- **Business Liability Protection:** cannot be sued unless 'gross negligence' or 'willful misconduct' can be proved
- **Post Office Funding:** \$10b loan turned into a grant.

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24

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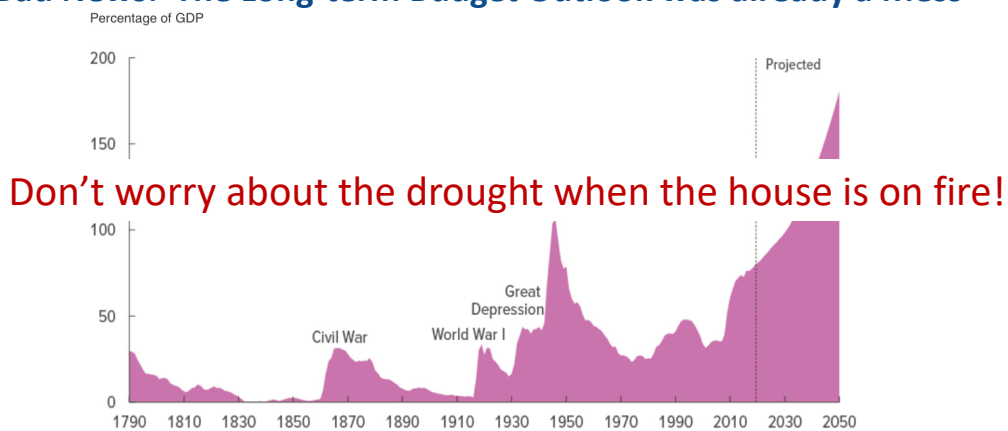
What is Missing?

1. Second Round \$1200 payments, \$435b
2. Reducing \$600 per week to \$300 per week, \$180b.
3. Flexible aid to State and Local Governments, \$1t
4. Housing and Rental Assistance, \$200b

25

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



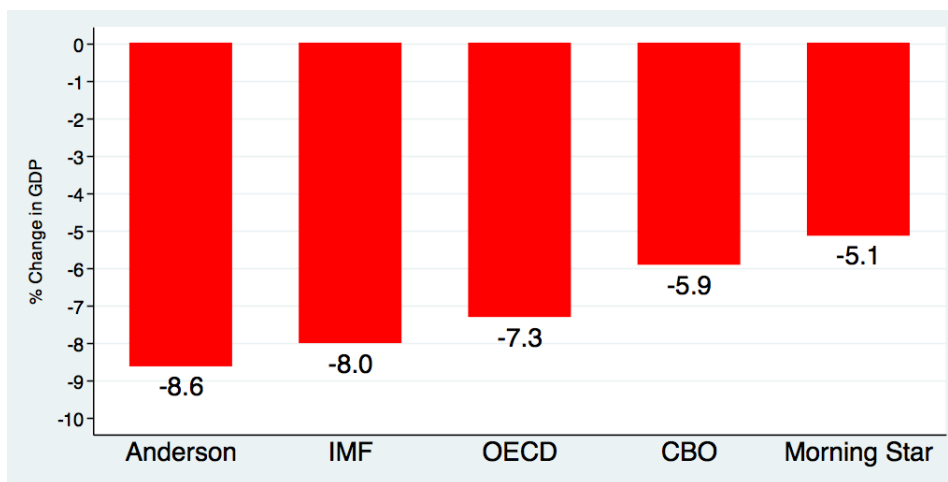
26

What does the future bring?

- **Depends on:**
 - Our ability to harness the virus.
- **Further government policy**
 - More aid to the vulnerable.
 - Aid to state and local governments.
 - Ultimately stimulus – but when?
- **Structural changes to the economy?**
 - More tele-commuting, tele-health, & tele-education.
 - The way we buy things.

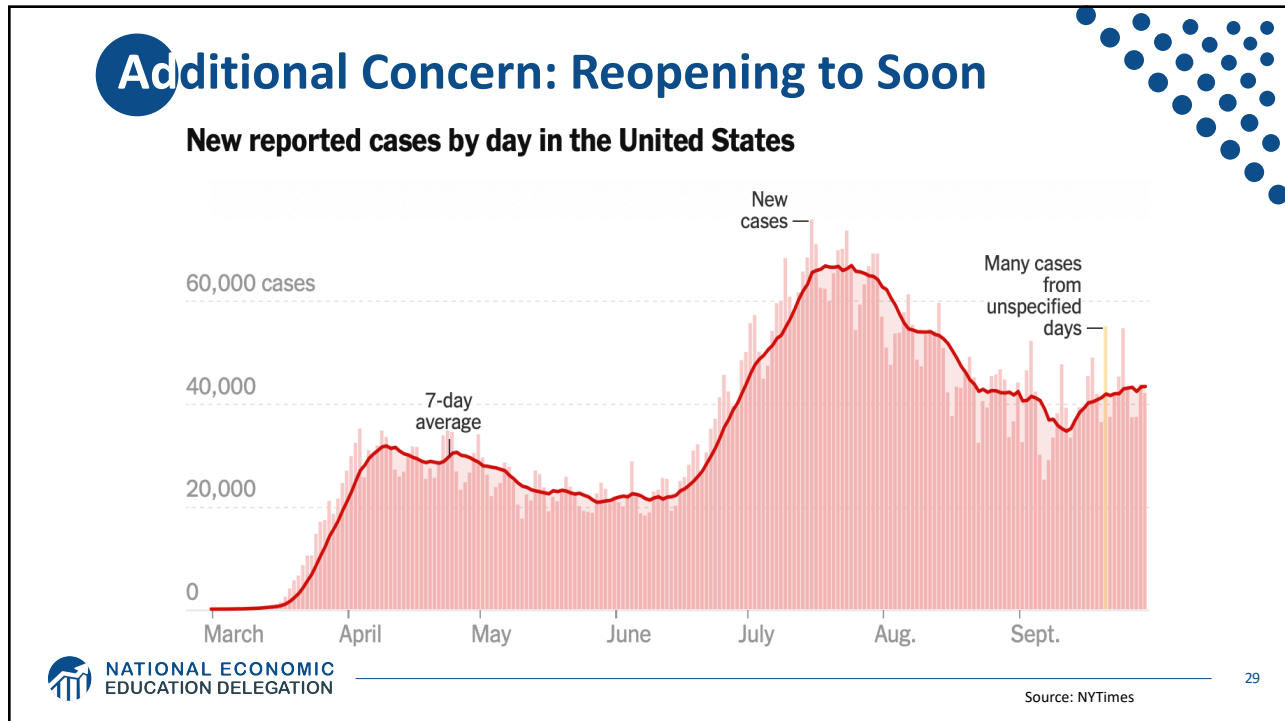
27

GDP Growth Projections for 2020

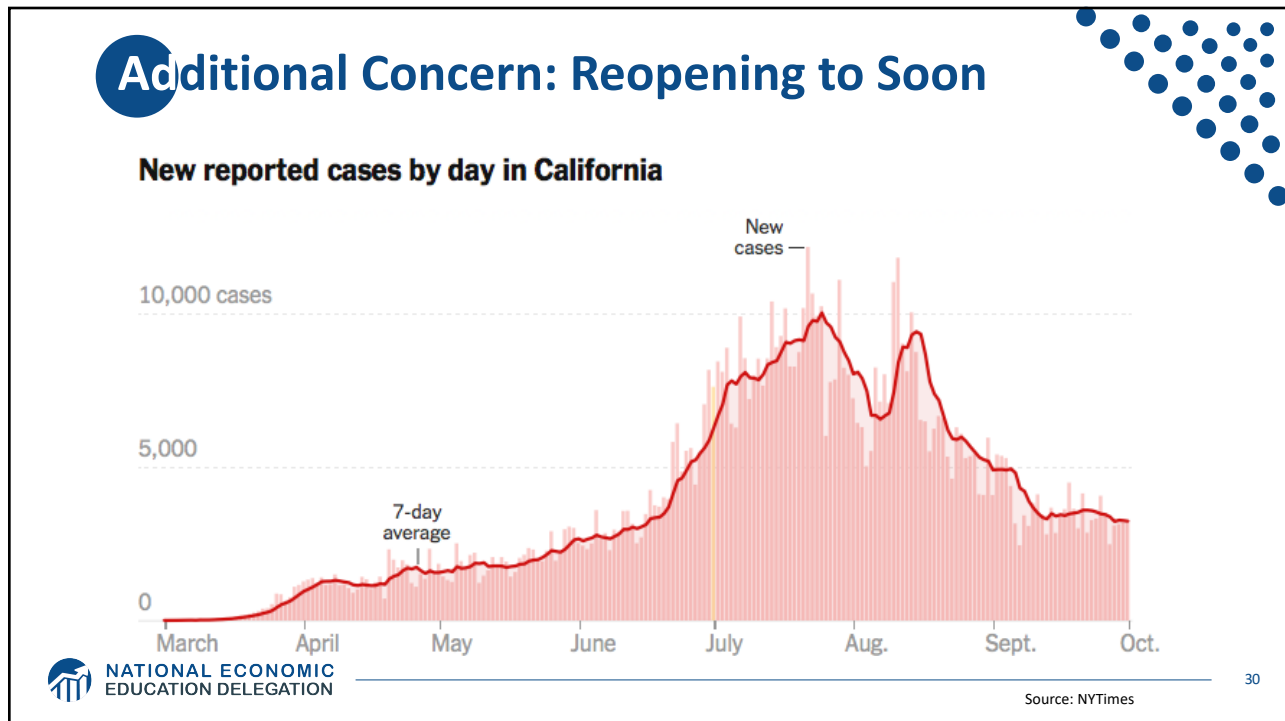


Most forecasts predict GDP growth will be between 4.0% to 5.0% In 2021

28



29



30

It's Not This Simple



31

Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **GDP will likely contract between 6.0 and 9.0 percent this year.**
 - Positive growth will likely return in 2021
- **Policy gap will create enormous hardship.**
 - Hunger, evictions, foreclosures, additional deaths.
 - Loss of GDP: 4-5% Unemployment: up 4-5 pts.
- **It might just be time to shut down again.**
 - For both our health and the economy.



32

Thank you!

Any Questions?

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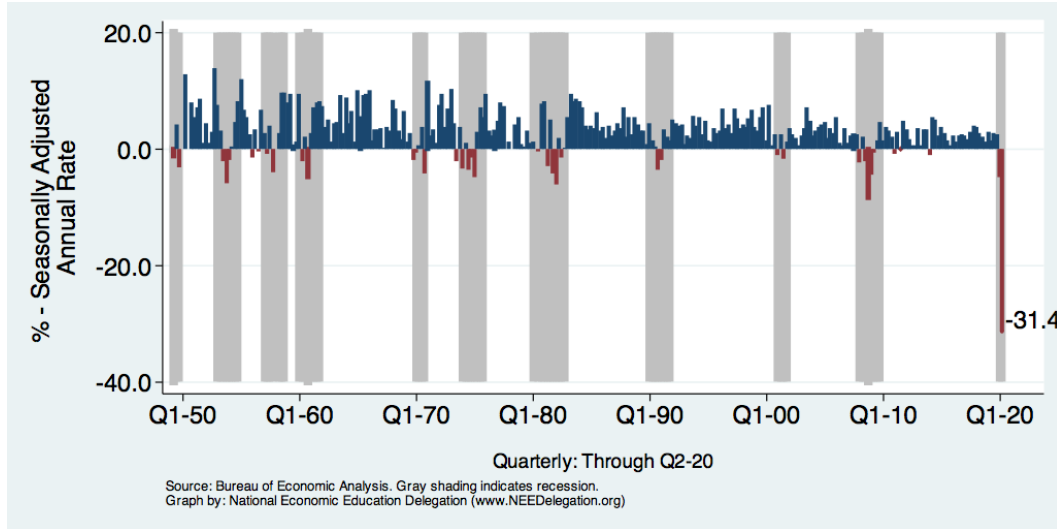
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33

Bonus Slides

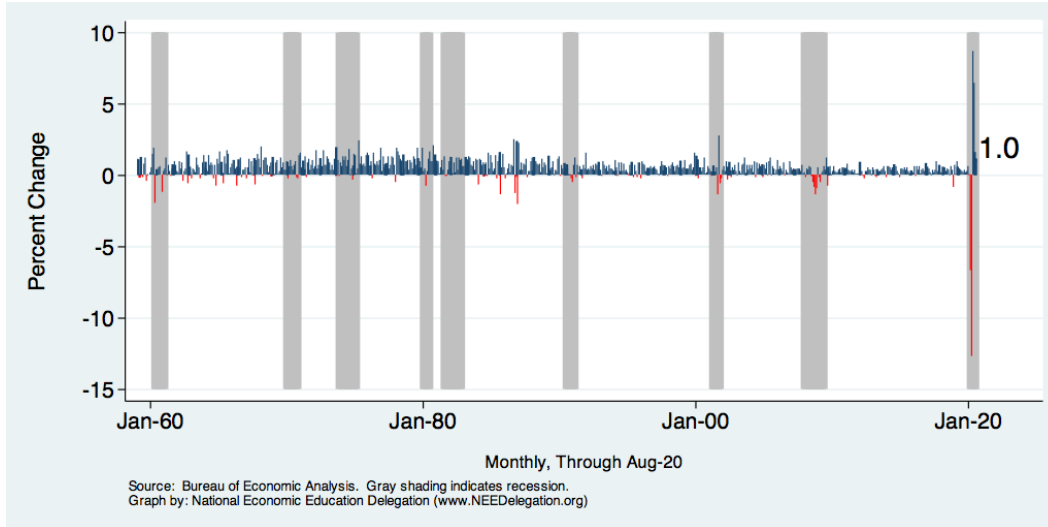
34

Gross Domestic Product



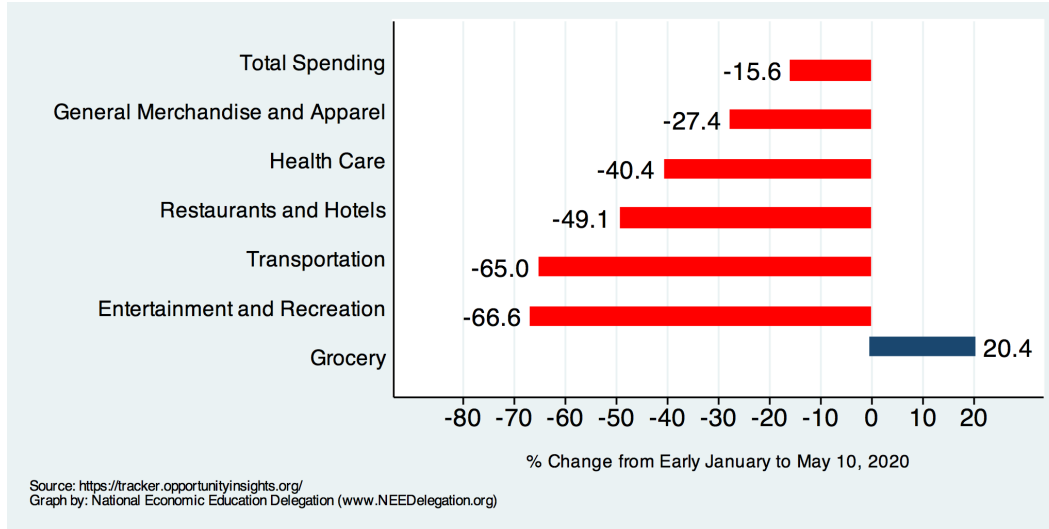
35

Personal Consumption Expenditures



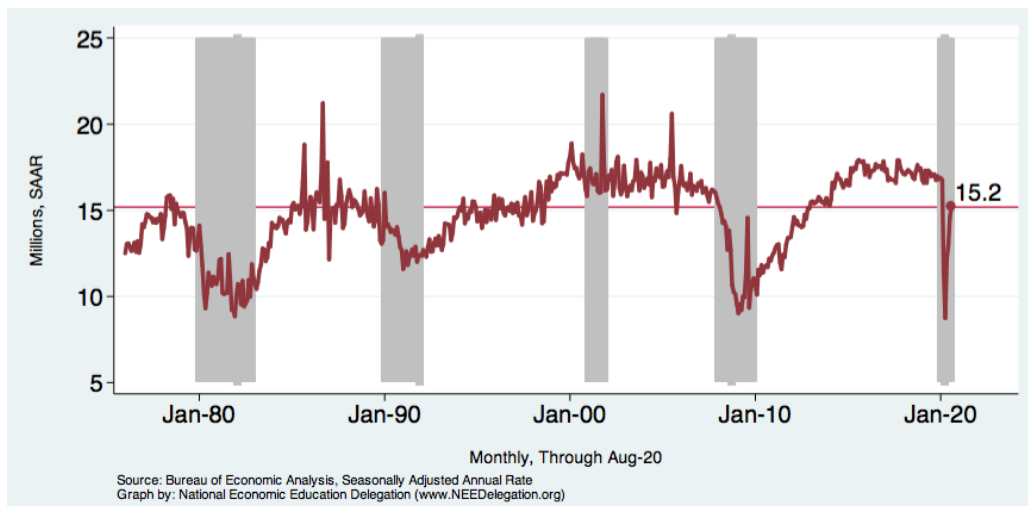
36

Plunge in Consumer Spending



37

Automobile and Light Truck Sales



38

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

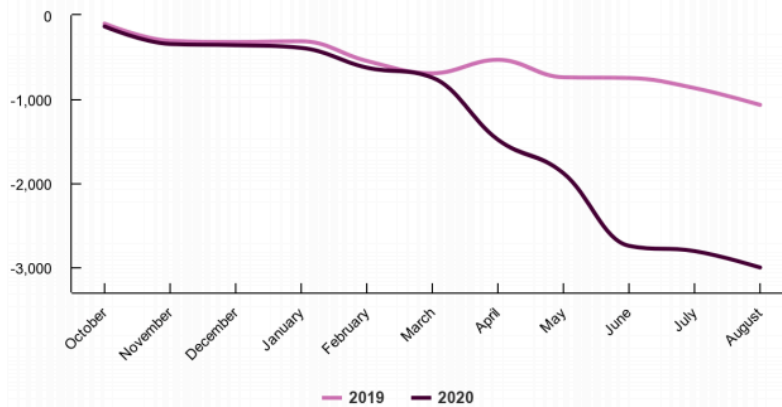
There are corrolaries in this crisis.

39

Rapidly Growing Deficit!

Monthly Cumulative Deficits
Fiscal Years 2019 and 2020

Billions of Dollars

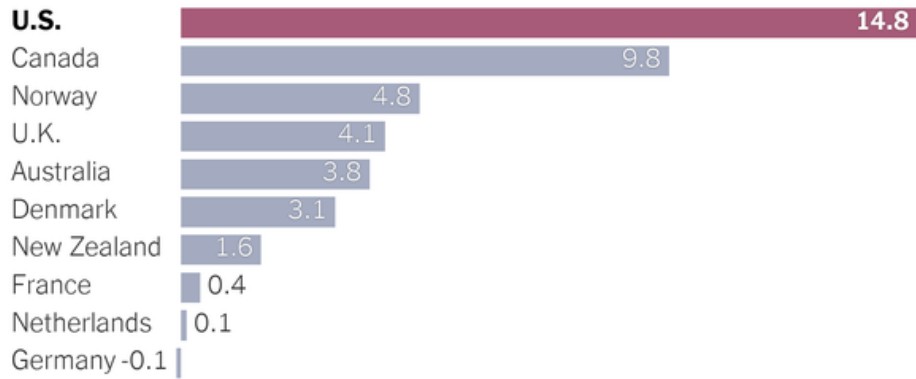


Sources: Congressional Budget Office; Department of the Treasury.
The value shown for August 2020 is CBO's estimate.

40

Other Countries Are Doing it Better

Unemployment claims as share of the labor force

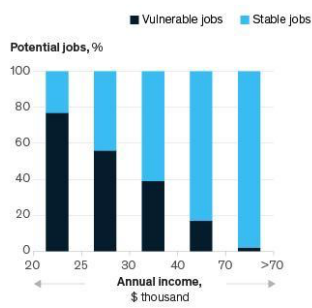
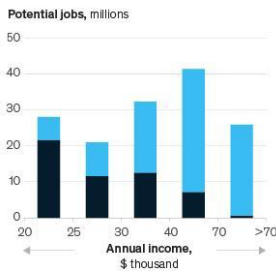


By The New York Times | Source: Brookings

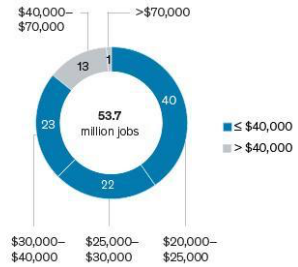
41

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

Level of job vulnerability, by income band

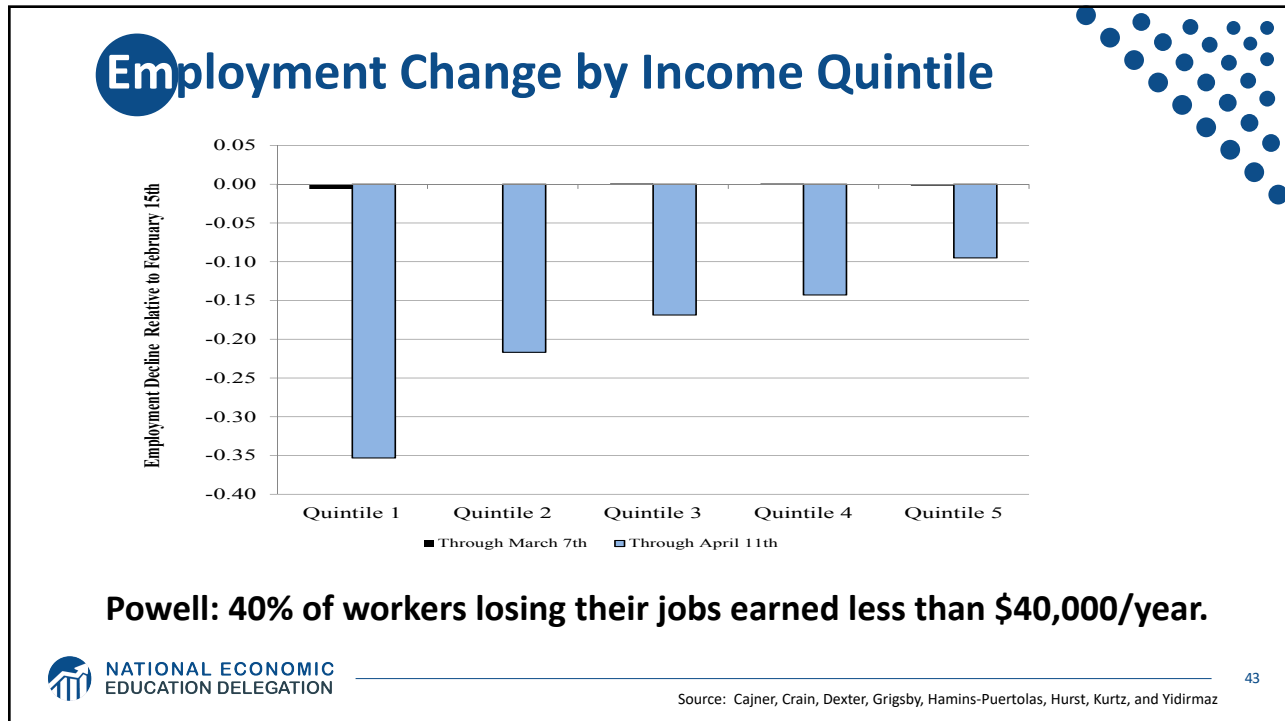


Vulnerable jobs by annual income band¹ %

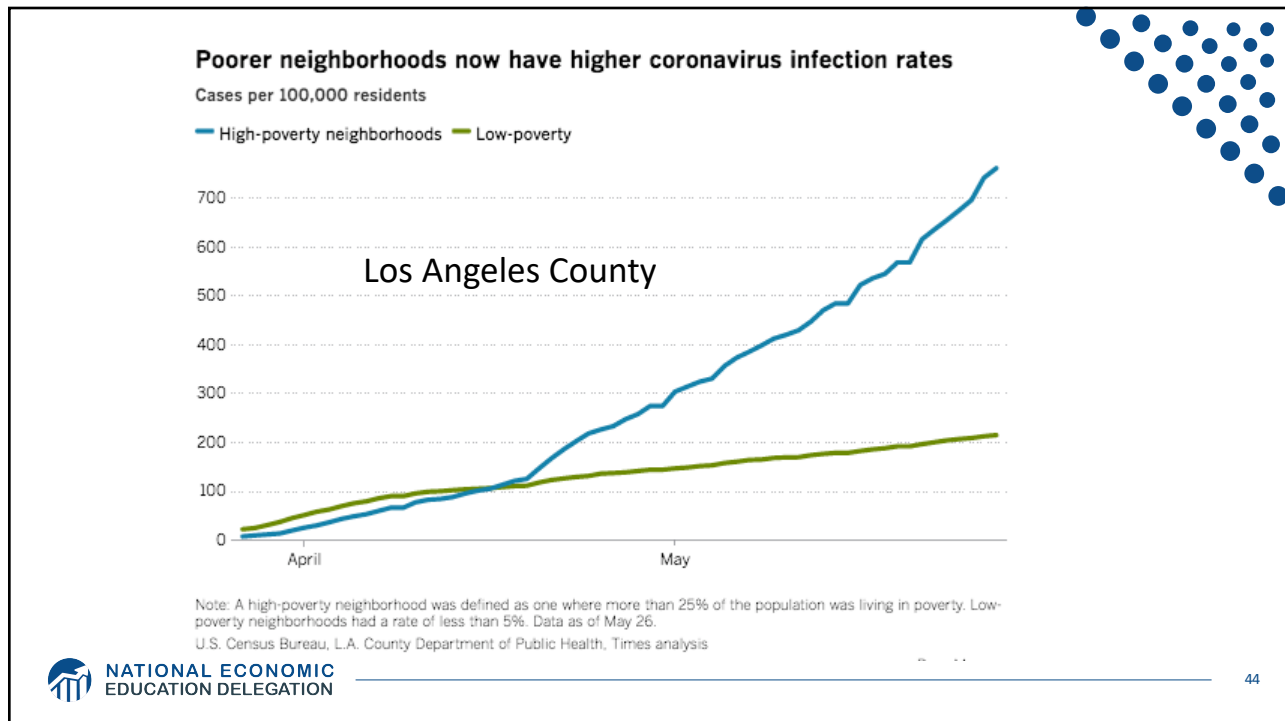


Note: Data may not sum to 100, because of rounding.
¹Vulnerable jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis

42

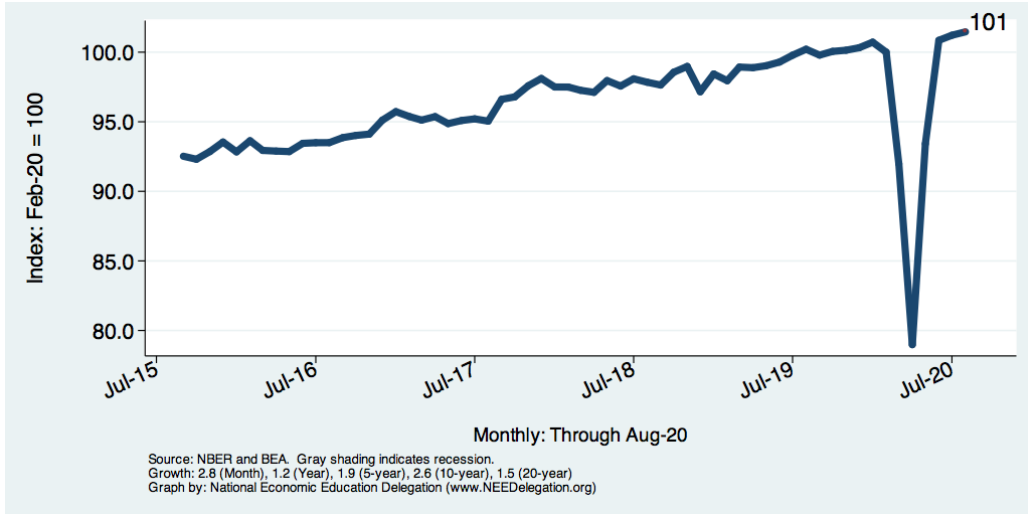


43



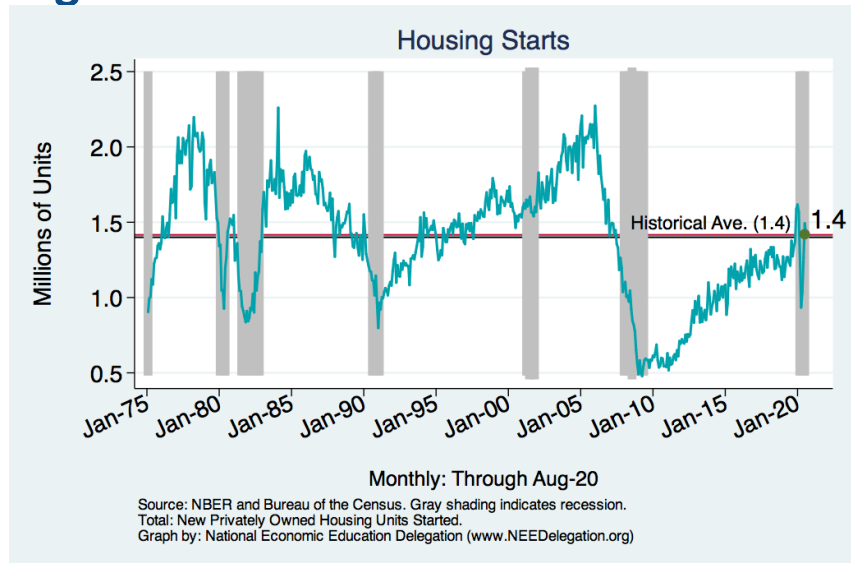
44

Retail Sales



45

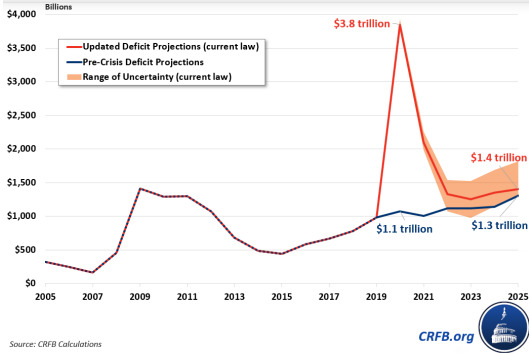
Housing Starts Plummet: Down 25%



46

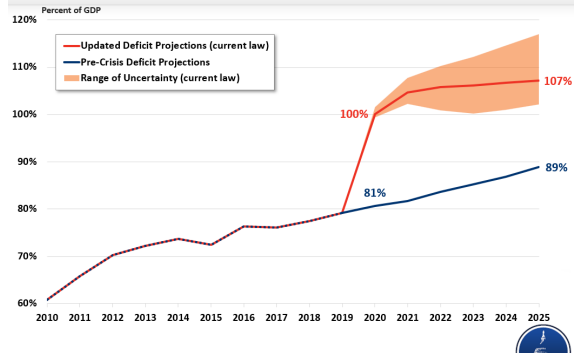
Federal Budget Implications

Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

Debt Will Equal Size of Economy This Year



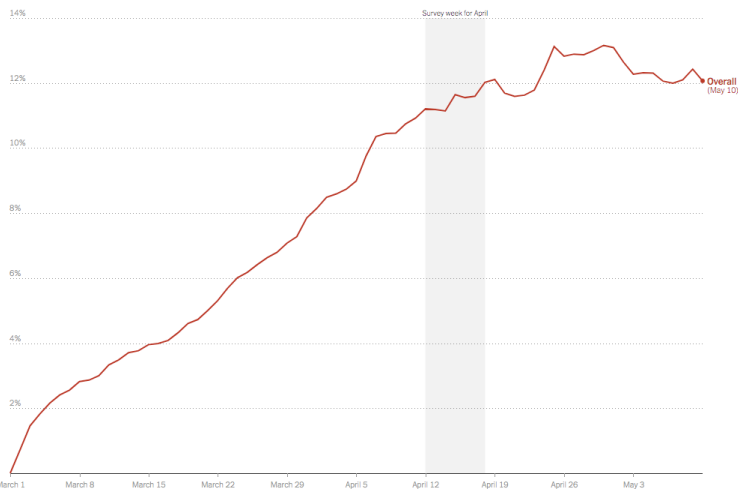
Debt will likely equal GDP this year

47

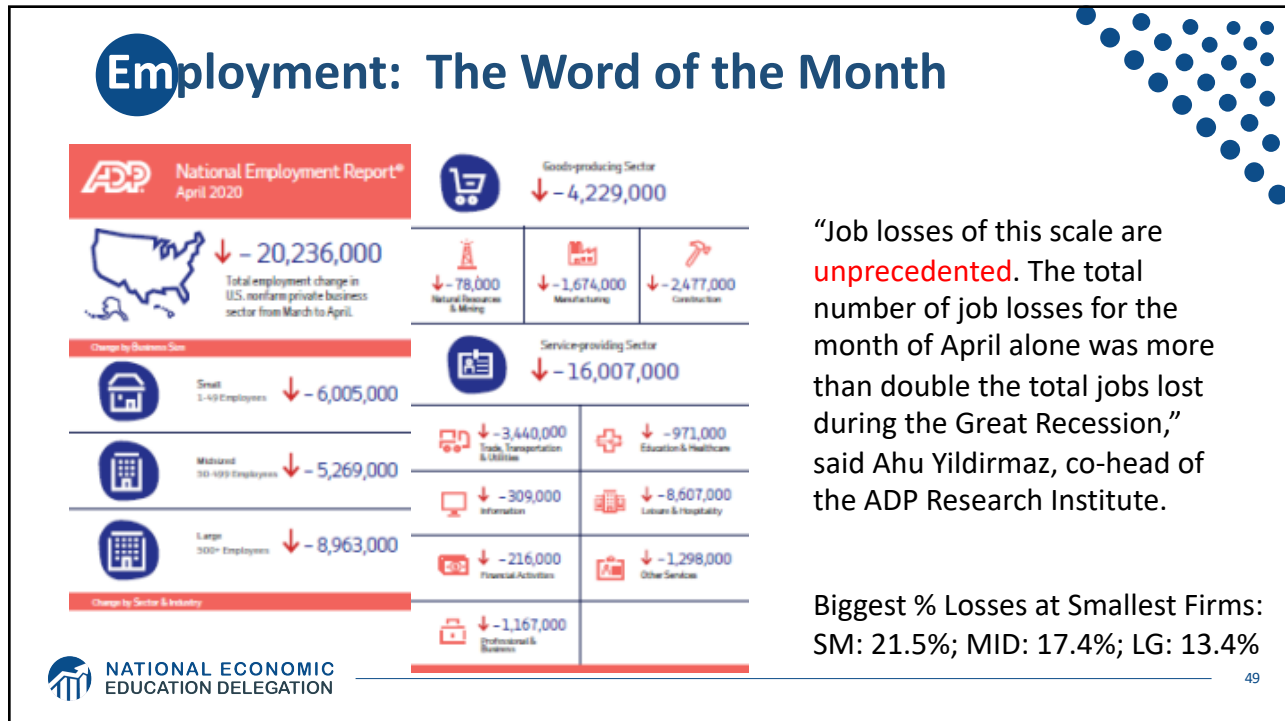
Job Losses Appear to be Slowing

March and April were devastating, but May seems to be flattening

Percent of workers newly nonemployed since March 1, 14-day rolling average

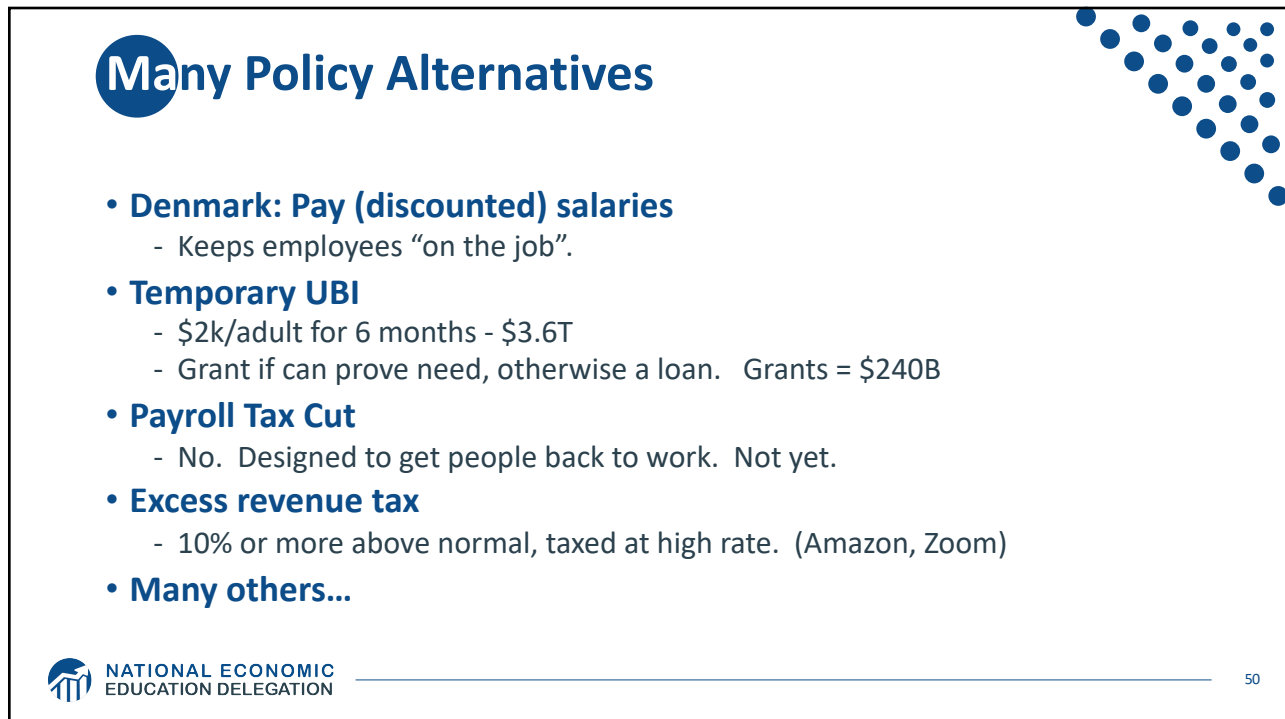


48

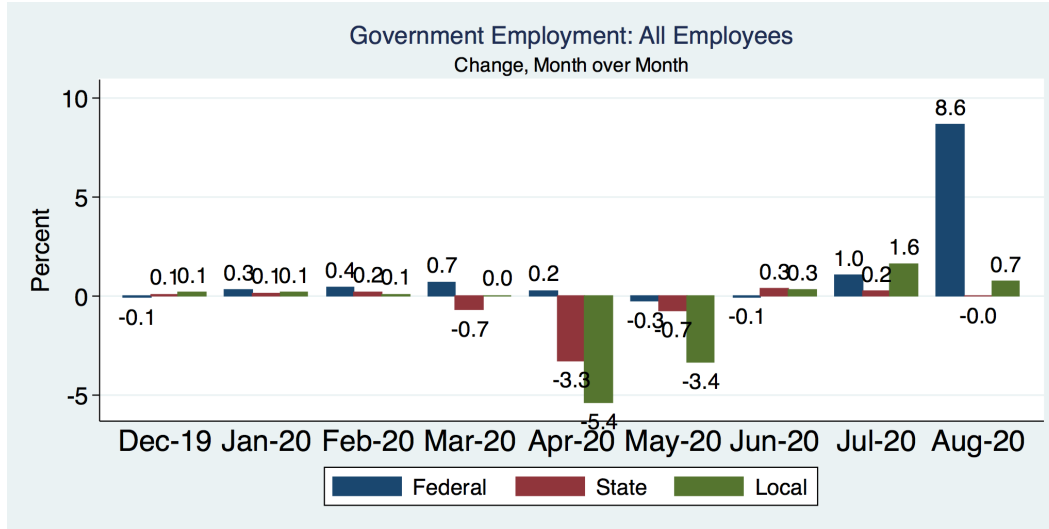


“Job losses of this scale are **unprecedented**. The total number of job losses for the month of April alone was more than double the total jobs lost during the Great Recession,” said Ahu Yildirmaz, co-head of the ADP Research Institute.

Biggest % Losses at Smallest Firms:
SM: 21.5%; MID: 17.4%; LG: 13.4%

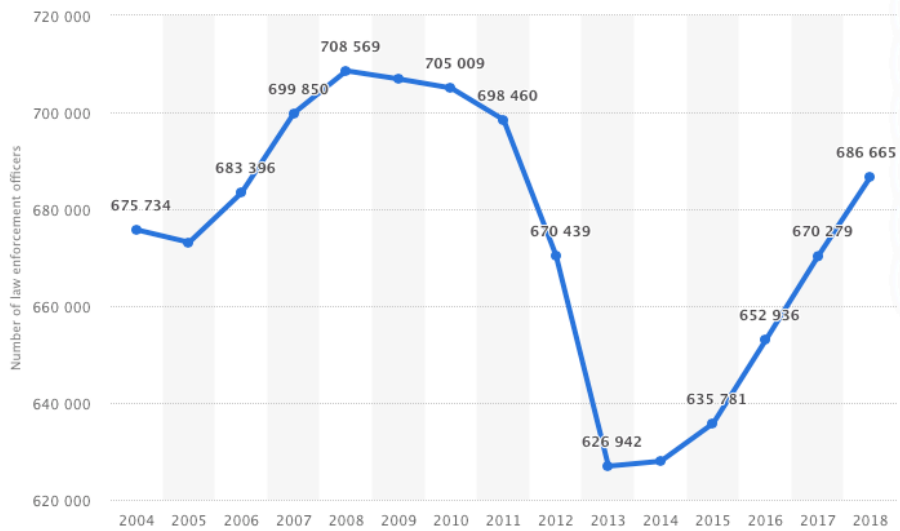


State & Local Gov'ts Are Tightening



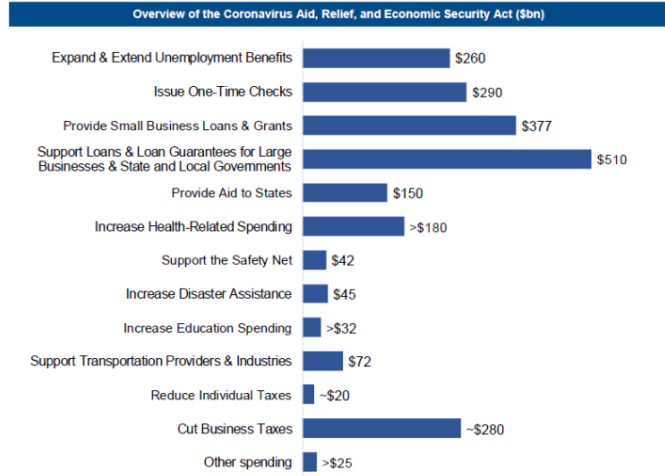
51

of Law Enforcement Officers: 2004-2018



52

The Cares ACT



Source: Investment Strategy Group, Committee for a Responsible Federal Budget, Bill Text.

53

Aid to Households

| Payments to Individuals | | |
|---|--|---|
| \$269bn (1.3% of GDP) | | |
| Eligibility | Program | Terms & Process |
| - Taxpayers with incomes up to \$99,000 (or \$198,000 joint) based on 2019 tax return (2018 if not available) | - Tax rebate of \$1,200 (or \$2,400 for a joint tax return) - Additional \$500 rebate per child | - 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 |
| - Individuals qualifying for standard unemployment compensation - Individuals not previously qualifying for unemployment compensation, such as contractors and the self-employed | - 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 | - Pay is immediate, vs. standard one-week waiting period |



54

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 |

55

Aid to Airlines

| Relief for Specific Distressed Sectors | | |
|--|---|--|
| \$46bn (0.2% of GDP) | | |
| Eligibility | Program | Terms & Process |
| <ul style="list-style-type: none"> - 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 |

56

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 |

57

PPP Loan Major Recipients By Industry

| Industry | Amount (Billions) | Percent of Loans |
|--|-------------------|------------------|
| Construction | \$44.9 | 13.1 |
| Professional, Technical and Scientific, Services | \$43.3 | 12.7 |
| Manufacturing | \$40.9 | 12.0 |
| Health Care and Social Assistance | \$39.9 | 11.7 |
| Accommodation and Food Service | \$30.5 | 8.9 |
| Retail Trade | \$29.4 | 8.6 |
| Wholesale Trade | \$19.5 | 5.7 |

These seven (7) industries account for nearly 75% of the PPP loans

58

SBA Distribution

| Distribution of PPP Eligible Firms | | | |
|------------------------------------|------------------|-----------------------|---------------------|
| Firm Size | Percent of Firms | Percent of Employment | PPP Loan Size (est) |
| under 5 | 61.9% | 9.8% | \$16,985 |
| 5 to 9 | 16.9% | 11.0% | \$57,239 |
| 10 to 19 | 10.6% | 14.0% | \$121,470 |
| 20 to 99 | 9.1% | 35.3% | \$387,137 |
| 100 to 499 | 1.5% | 29.9% | \$2,248,253 |

But Is It Enough? Loans: are for 8 weeks

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 |

Federal Reserve: Standard Operations

- **Federal Funds Rate:** The Federal Reserve lowered the targeted Federal funds rate on March 3 and again on March 15 moving the targeted Federal Funds rate to zero.
- **Discount Window Lending:** Lowered the interest rate it charges banks to borrow from 1.75% to 0.25%.
- **Reserve Requirement:** Lowered the reserve requirement to zero.
- **Forward Guidance:** Honed during the Great Recession the Fed tries to set market expectations on the time path of interest rates over time.



61

Federal Reserve: Ensure Financial Market Stability

- **In mid-March, Treasury and Mortgage Backed Securities markets began behaving irregularly as the demand for liquidity increased.**
 - **Securities Purchases (Quantitative Easing):** Fed Response: purchase treasuries and mortgage backed securities (3/15).
 - Re-launched the **Primary Dealer Credit Facility (PDCF)** in order “smooth market functioning and facilitate the availability of credit to businesses and households (3/17).
 - Re-instituted the **Money Market Mutual Fund Liquidity Facility (MMLF)** to “assist money market mutual funds in meeting demands for redemptions by households and investors enhancing overall market function and credit provision to the *broader economy*.”
 - Increased liquidity in the **repo market**. The repo market is where firms borrow and lend cash and short-term securities. The Fed was offering \$100 billion in overnight loans and \$20 billion in two-week loans.
 - o The Fed increased the offerings to \$1 trillion (from \$100 bn) in overnight repos, and
 - o \$500 billion in one month **and** three-month repos (from \$20bn 2/wks).



62

Federal Reserve: Support Corporations and Business

- Created the **Primary Market Corporate Credit Facility (PMCF)** allows the Fed to lend directly to corporations by buying new bond issuances and providing loans (3/17).
- Instituted the **Commercial Paper Funding Facility (CPFF)** the Fed can purchase commercial paper from firms at a given interest rate – effectively, the Fed is lending directly to firms. (3/17)
- **Main Street (Expanded) Loan Facility:** Through the CARES Act these two programs offer four-year loans to US businesses with up to 10,000 employees or revenues less than \$2.5 billion. (4/9)
- **Paycheck Protection Program Facility:** Facilitates loans under the Small Business Administration Paycheck Protection Program

63

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

64

Home Schooling – The Digital Divide Issue

