

COVID-19: Economic Implications and Policy Responses

March 16, 2021
Stoneridge Creek Retirement Community
Pleasanton, California

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Who Are We?

- **Honorary Board: 47 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



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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Resources

- **Schedules of Major Economic Releases**

- Economic Calendars at
 - o [Marketwatch](http://marketwatch.com/economy-politics/calendar) (marketwatch.com/economy-politics/calendar)
 - o [FRBNY](http://newyorkfed.org/research/calendars/nationalecon_cal) (newyorkfed.org/research/calendars/nationalecon_cal)

- **DIY Real Time Data:**

- [Track the Recovery](http://tracktherecovery.org): (tracktherecovery.org)
- [Federal Reserve Economic Database \(FRED\)](http://fred.stlouisfed.org): (fred.stlouisfed.org)

- **Data Visualization and Coverage**

- Some examples at Tableau

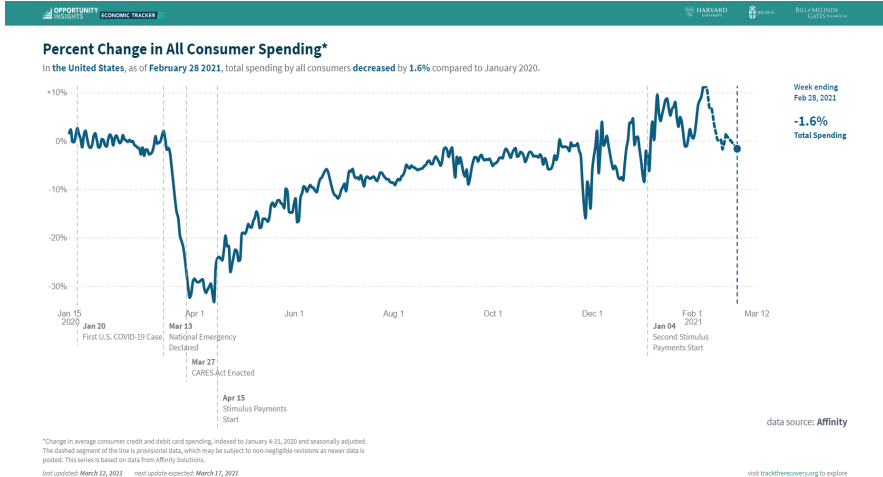
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Outline

- What is the current state of “the economy”?
- What have been the effects of policy?
- What are the risks to recovery?
- Is progress equitable?

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Spending Collapsed in March 2020



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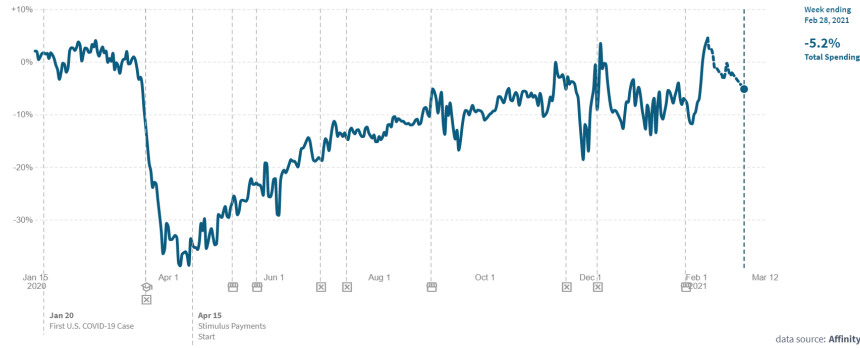
The Situation in California

OPPORTUNITY ECONOMIC TRACKER

HARVARD BILLY MELINDA GILL

Percent Change in All Consumer Spending*

In California, as of February 28 2021, total spending by all consumers decreased by 5.2% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.
last updated: March 12, 2021 next update expected: March 17, 2021

visit tracktherecovery.org to explore



<https://tracktherecovery.org>

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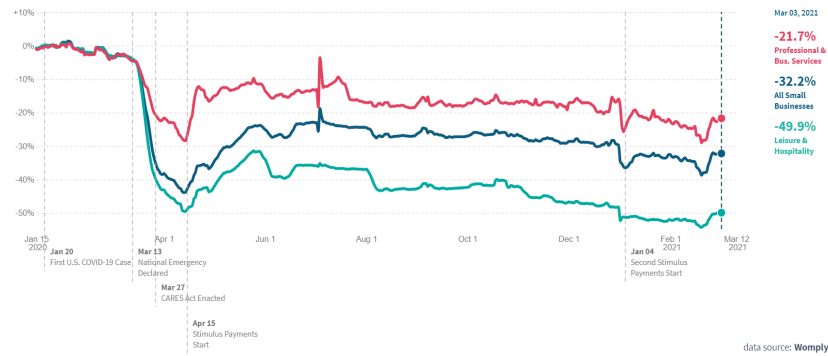
Implications of Reduced Spending

OPPORTUNITY ECONOMIC TRACKER

HARVARD BILLY MELINDA GILL

Percent Change in Number of Small Businesses Open*

In the United States, as of March 03 2021, the number of small businesses open decreased by 32.2% compared to January 2020.



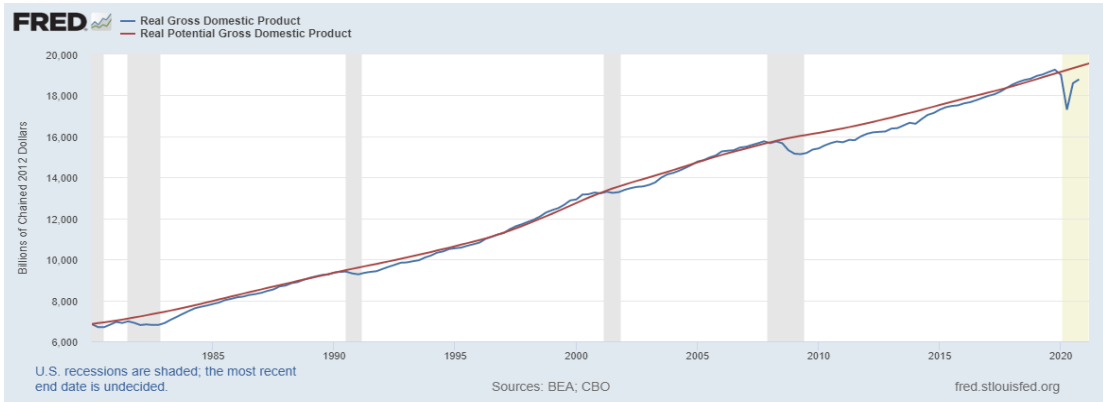
*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.
last updated: March 12, 2021 next update expected: March 15, 2021

visit tracktherecovery.org to explore



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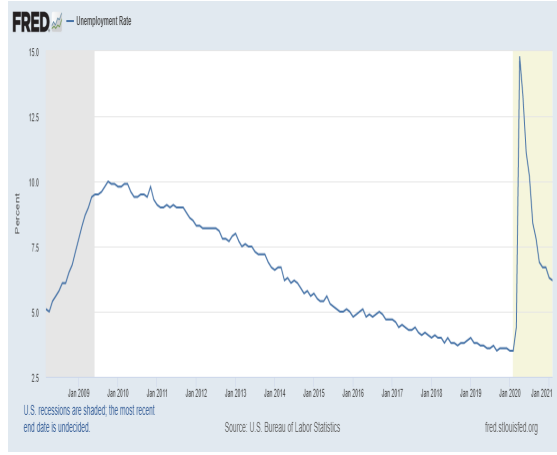
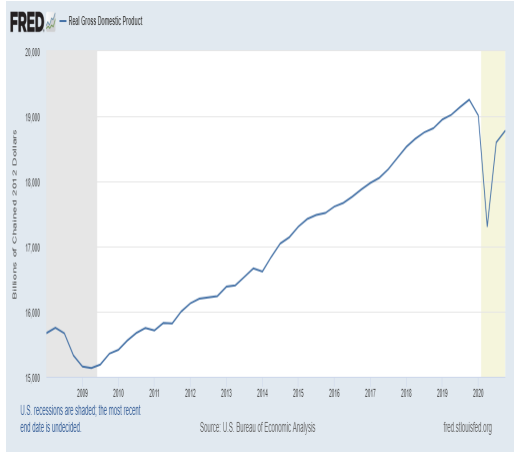
Where are We ?



Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

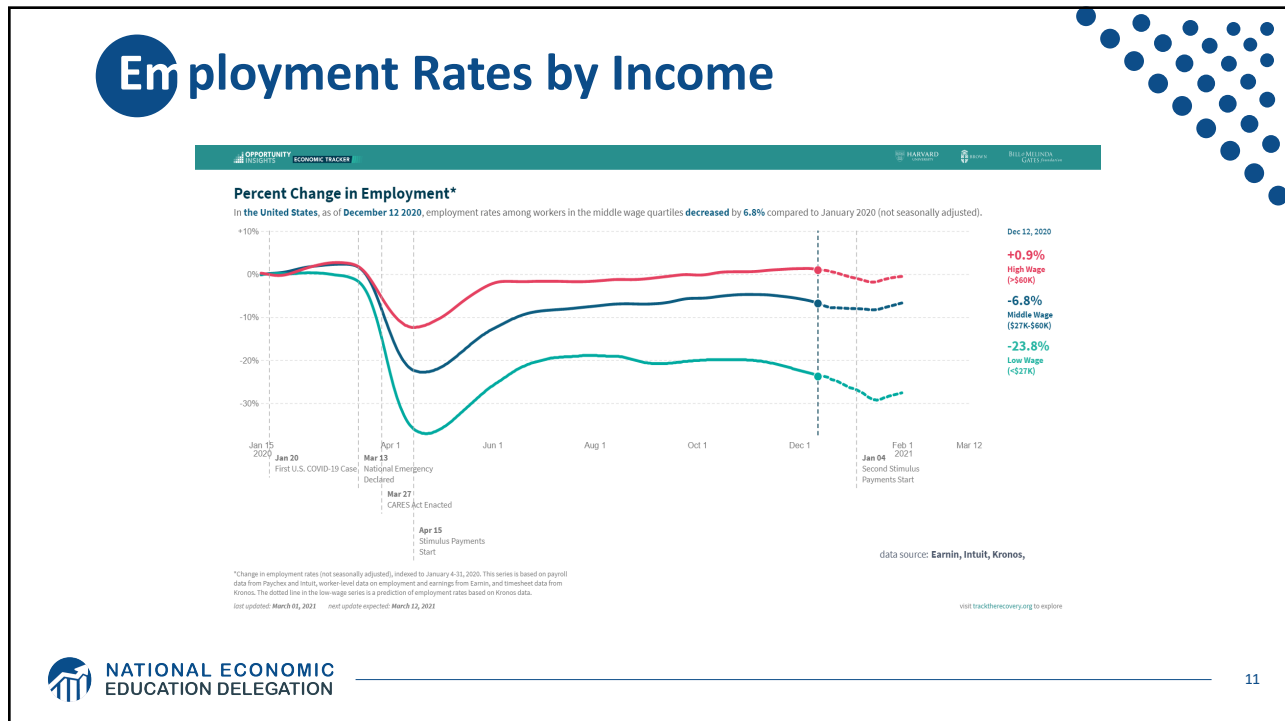
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Where are we? What kind of a recovery?



Extreme volatility in economic data. Q2:2020 unprecedented negative economic growth.

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Where are we now?

Executive Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Cash injections from government have increased household personal income (+), but also savings.
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many individuals – both men and women - have left the labor force (Men 69.3% to 67.5% and Women 57.8 to 55.7%, 2.5m women versus 1.8m men) (-)

A Tale of Three Policy Efforts

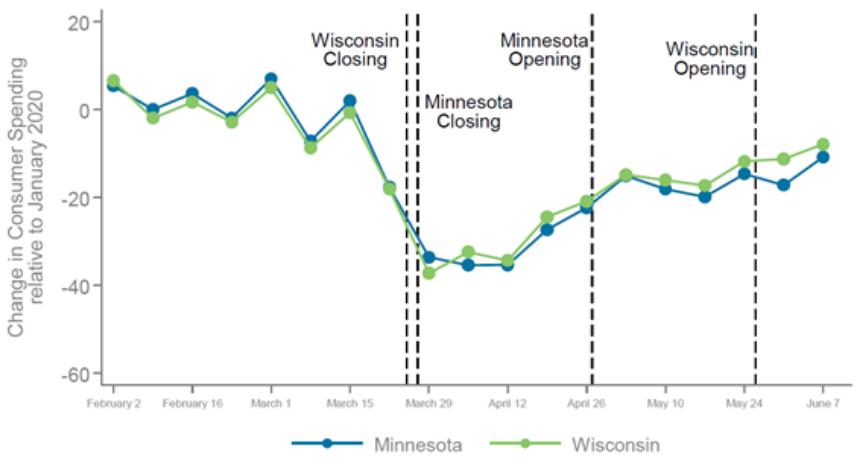
- Social policy: Social Distancing
- Monetary Policy
- Fiscal Policy

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How impactful is government? – Social Policy

Causal Effects of Re-Openings on Economic Activity: Event Studies

Case Study on Business Re-Openings: Minnesota vs Wisconsin



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Monetary Policy – Federal Reserve

Primary objectives:

- Stabilize the economy
- Maintain liquidity of the system

Date	Actions
March 3	Federal Funds Rate
March 15	Federal Funds Rate, Discount Window Lending, Quantitative Easing, Forward Guidance
March 17/18	Primary Dealer Credit Facility (PDCF), Commercial Paper Funding Facility (CPFF), Money Market Mutual Fund Facility (MMLF)
March 23	Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Term Asset-Backed Securities Loan Facility (TALF)
April 9	Paycheck Protection Program Liquidity Facility (PPPLF), Main Street Business Lending Program, Municipal Liquidity Facility

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Federal Funds Rate and Balance Sheet

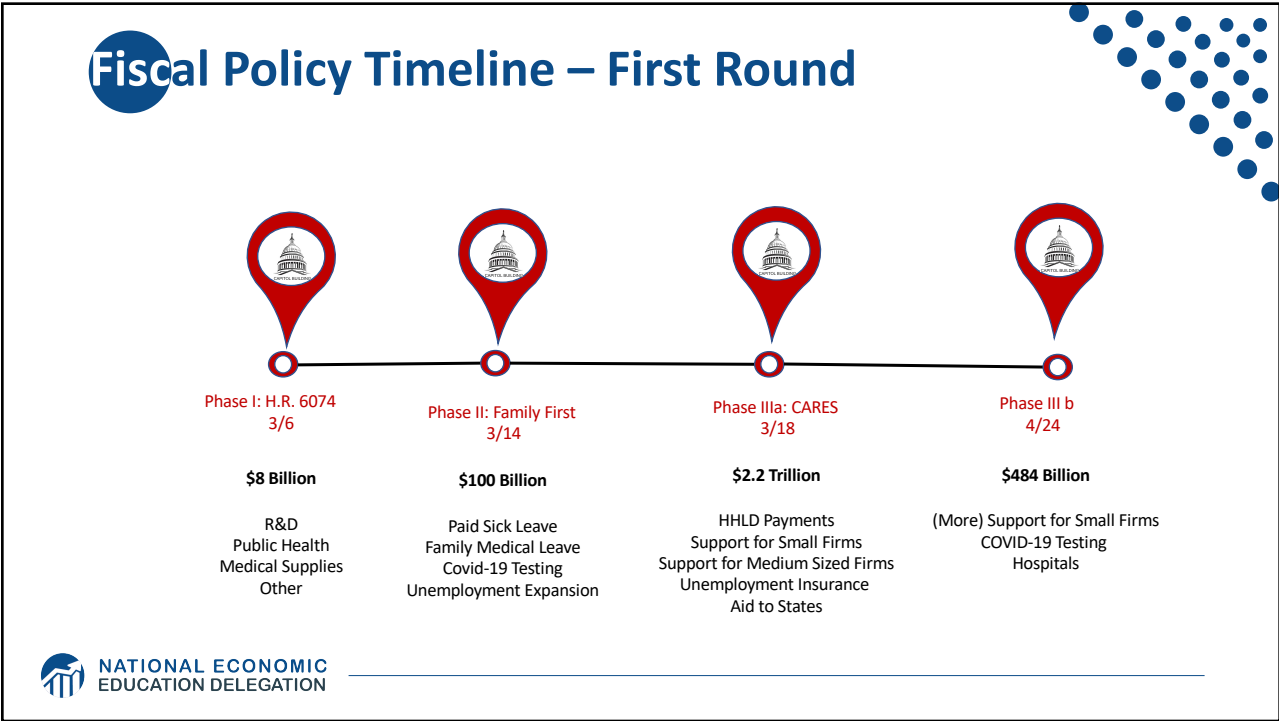
The chart displays two metrics over time from 2006 to 2020. The left Y-axis represents the Effective Federal Funds Rate in Percent (0-6%), and the right Y-axis represents Total Assets in Trillion US Dollars (0-9,000,000). The blue line shows the rate, which peaked at ~5.25% in 2006, fell to 0% in 2008, and rose to 2.25% in 2018 before dropping to 0% in 2020. The red line shows total assets, which remained low until 2008, then grew steadily to ~4.5 trillion by 2018, and spiked to ~7.5 trillion in 2020. Shaded areas indicate U.S. recessions in 2008 and 2020.

Source: Board of Governors of the Federal Reserve System (US) fred.stlouisfed.org

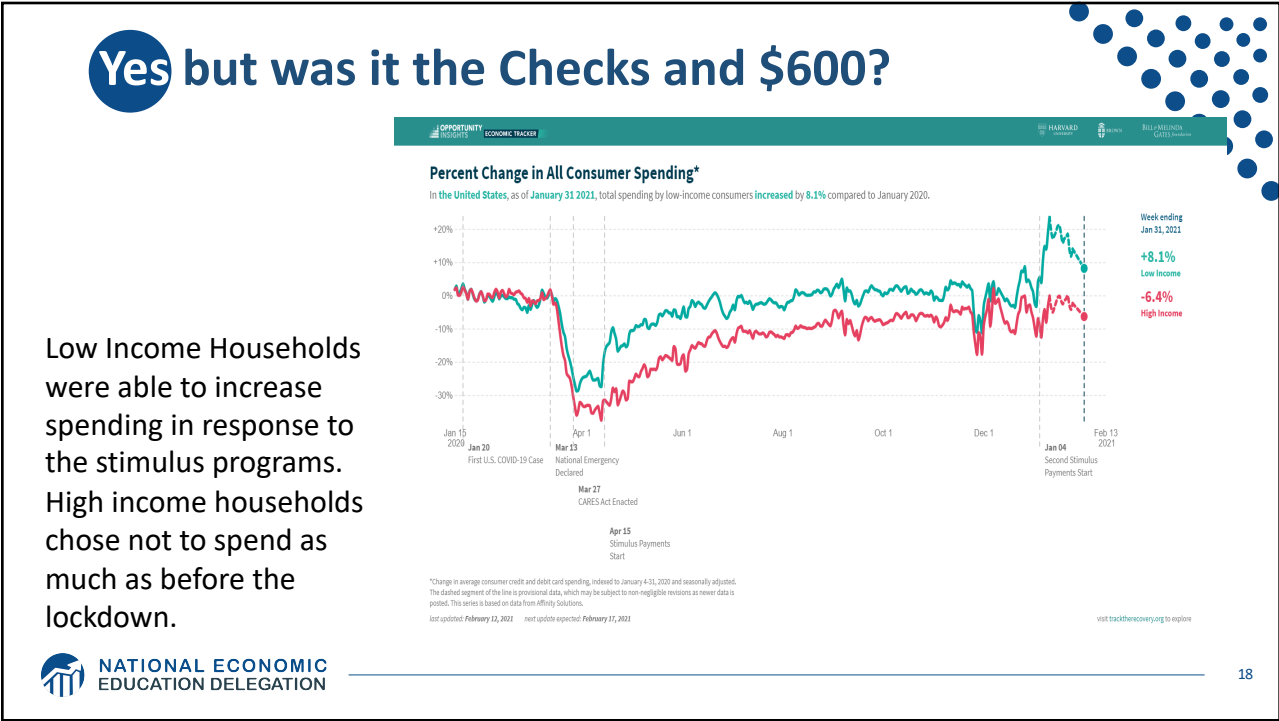
Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

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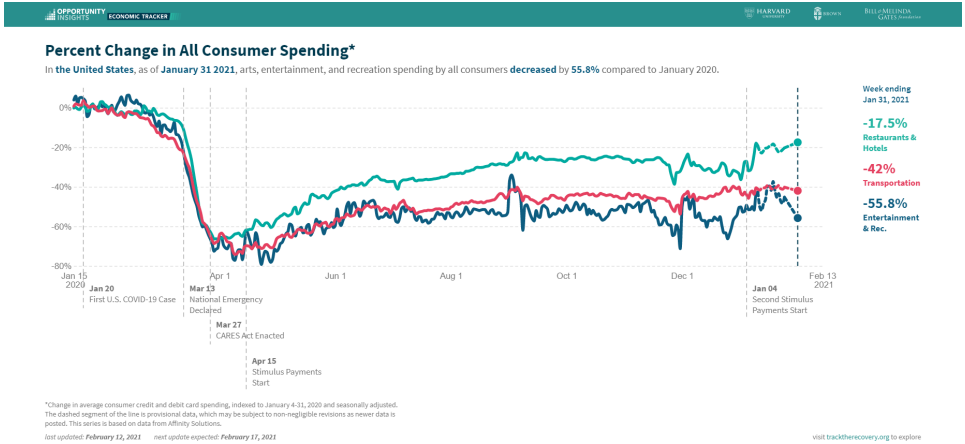


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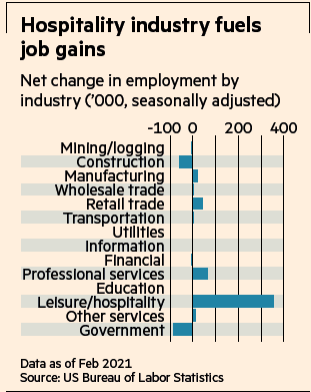
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Hard Hit Sectors – uneven recovery among industries

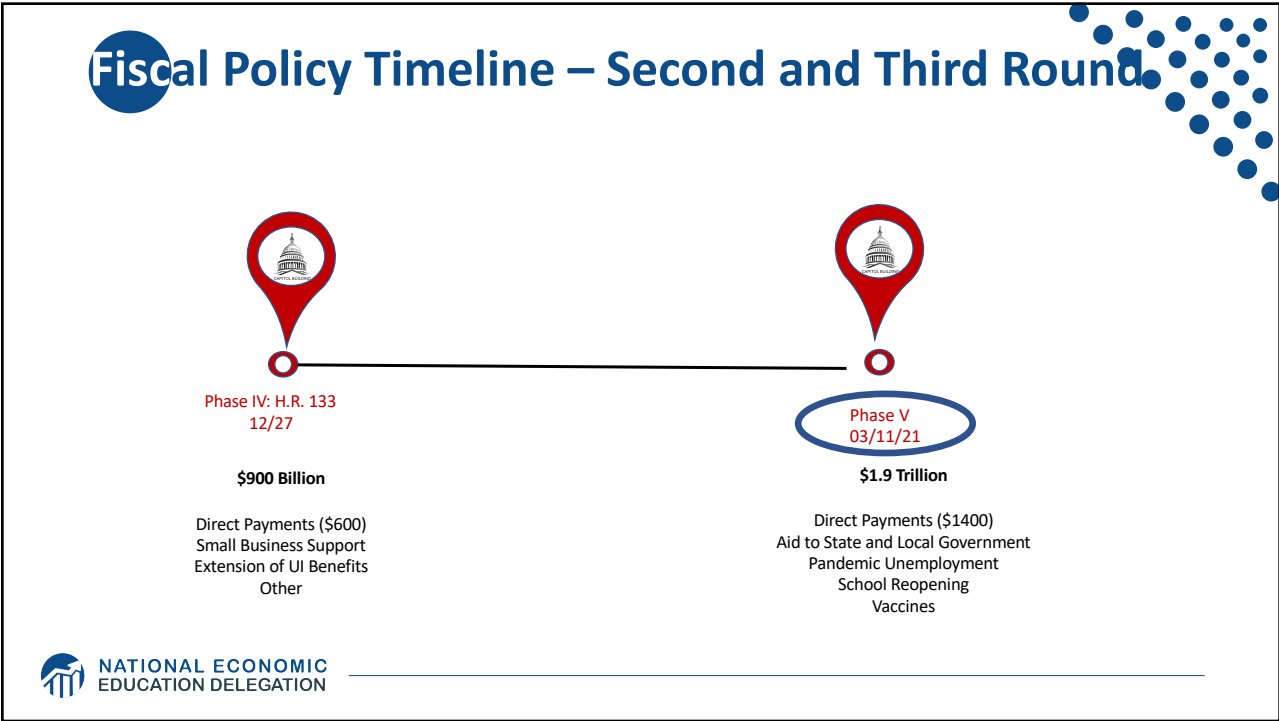


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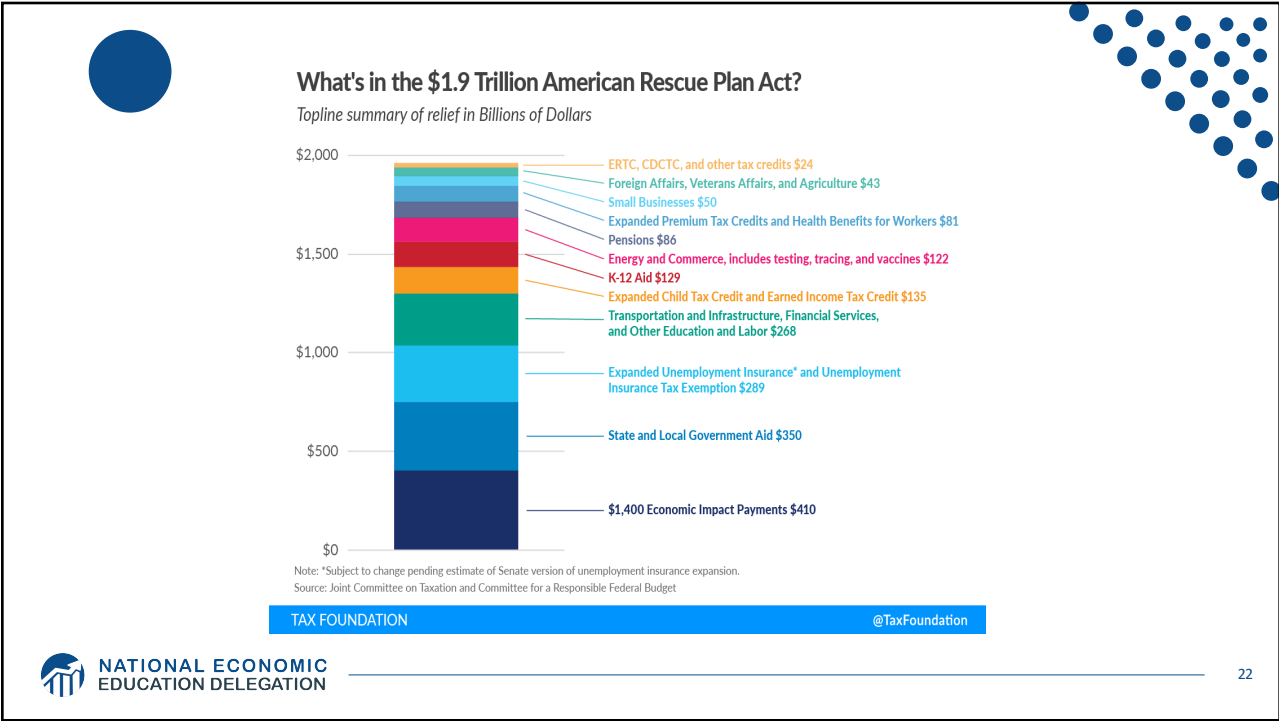
Signs of hope – Feb. 2021



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Expected impact of the stimulus bill

- Updated expectations for U.S. economic growth: 5.95% - 7% Q42020 through Q42021 (WSJ survey/Oxford Economics)
- Updated expectations for global economic growth: +1% because of vaccination roll-out and US fiscal stimulus (OECD forecast)
- Increase in national debt/GDP ratio to WWII levels (additional debt financed at negative real interest rates).
- Substantial reduction of child poverty as most benefits from the current bill go to households with incomes below \$90,000.



Questions about the stimulus bill

- **Is the bill too big and will it cause inflation?**
 - Maybe, but unlikely since income subsidies (about \$1tn) are temporary, consumers are likely to spend only about 50% and save 50%. This will not be enough to close the existing negative output gap.
- **Does the bill contain ‘pork’ that is not directly targeting Covid relief?**
 - Yes, but about 85% of the total spending is pandemic-related (if state and school aid is included).
- **Should the bill have prioritized other types of programs?**
 - Instead of direct payments to persons unaffected by the pandemic more infrastructure spending would have created more future economic growth.

<https://www.usatoday.com/story/news/factcheck/2021/03/02/fact-check-breaking-down-spending-covid-19-relief-bill/6887487002>

Zhao, Chen, Inflation risk from Biden’s stimulus plan is exaggerated, Financial Times, March 9, 2021

Wolf, Martin, Joe Biden’s \$1.9tn package is a risky experiment, Financial Times, Feb. 23, 2021



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 (slightly) disproportionately exiting labor force
- Food insecurity is at an all time high
- Specific industries (vaccine reliant) are hit particularly hard



What are the risks to recovery?

1. Continuation of the virus with mutations and insufficient vaccine roll-out (like 1918)
2. Lack of additional and appropriately targeted fiscal support to prevent debt default, evictions, and business failures (like 1929)
3. Damage to State and Local Budgets leading to cuts in job and discretionary spending (like 2009)

Key Risk #1: *Temporary* economic downturn becoming *permanent*

Key Risk #2: An inequitable recovery

Both risks are directly addressed with the American Rescue Plan.



Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
 - With enormous built-in inequities.
- **GDP contracted 2.5% in 2020, much less than anticipated.**
 - Positive growth will return in 2021, buoyed by vaccine roll-out and American Rescue Plan (forecast at 5% – 7%)
- **Significant structural changes.**
 - Telecommuting, telehealth, retail decline, other business failures. Increased concentration of market power.
- **Policy gap and economic reallocations have created hardship.**
 - Hunger, evictions, foreclosures, additional deaths.
- **Long-term effects:** Educational opportunities, labor force participation changes, reallocations that require retraining, increasing inequality.

Wide agreement that the ‘American Rescue Plan’ is needed, but debate over the size of additional fiscal stimulus to ‘building back better’.



Thank you!

Any Questions?

www.NEEDelegation.org

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Causes for Optimism

- **There were no short-run macro problems at the start of the crisis**
 - The only obstacle to a quick recovery is damage that is being done while the pandemic continues (and the pandemic itself)
 - Main concern: temporary disruptions turning into permanent ones
- **Things are not as bad as they could be**
 - Federal Reserve prevented collapse in financial markets
 - Congress + White House prevented complete collapse in labor/productive markets; second and third rounds of stimulus will help
 - Aggregate household balance sheets in good position
- **Vaccine rollout should alleviate pressure on service industry**

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 may face deep budget shortfalls (13% of employment)**

<https://www.brookings.edu/events/the-covid-19-pandemic-and-state-local-budgets-past-present-and-future/>

 - Often the largest employers within a state
- **Eviction/foreclosure moratoria are shifting burdens to future as well as a drop in bankruptcies during the current recession**

Highlights of the Covid-19 Stimulus Bill

Major 'buckets'	Spending in billions
Unemployment Benefits	\$350
Direct Payments – Stimulus Checks	\$422
Expanded refundable Child Tax Credit	\$120
Aid to state and local governments	\$350
Direct Pandemic response	\$100 - \$160
Housing Assistance	\$30
School Support	\$130
Aid for multi-employer pension plans	\$86
Other	About \$200
	About 1.9 Trillion total

<https://www.washingtonpost.com/us-policy/2021/03/05/stimulus-explainer-basics-checks-unemployment-taxes-spending>



Fiscal Policy: This Shock is Different

- **Classical response: Stimulate the economy!**
- **This economic shock is different: “health shock”**
 - with large macroeconomic consequences.
- **Response should be:**
 - target the cause of the problem
 - provide targeted financial support for individuals, firms and states
- **When the health crisis is under control -> classical stimulus if needed.**

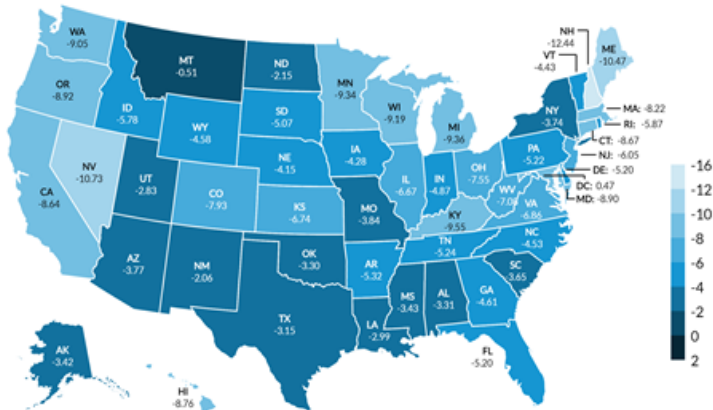


Thoughts on Policies to Date

- **Costs are enormous, but we were doing the right things!**
- **Health/Social Policies to address the Pandemic: F grade**
- **Monetary policy: A grade**
- **Fiscal policy grade: C+ grade**
 - Direct cash payments
 - o Are they really getting into the hands of those most in need?
 - Corporate or otherwise?
 - Right strategy to maintain employee-employer ties? (Europe – ‘Kurzarbeit’)
 - What about states and local governments?

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

Gains by American Billionaires

WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS
March 18, 2020 - December 7, 2020

First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020	Source
Jeff Bezos	\$113.0	\$184.4	\$71.4	63.2%	\$131.0	\$53.4	40.8%	Amazon
Elon Musk	\$24.6	\$143.1	\$118.5	481.7%	\$22.3	\$120.8	541.7%	Tesla, SpaceX
Bill Gates	\$98.0	\$118.7	\$20.7	21.1%	\$96.5	\$22.2	23.0%	Microsoft
Mark Zuckerberg	\$54.7	\$104.8	\$50.1	91.7%	\$62.3	\$42.5	68.3%	Facebook
Warren Buffett	\$67.5	\$86.5	\$19.0	28.1%	\$62.5	\$4.0	4.8%	Berkshire Hathaway
Larry Ellison	\$59.0	\$82.0	\$23.0	38.9%	\$62.5	\$19.5	31.1%	Oracle
Larry Page	\$50.9	\$79.8	\$28.9	56.9%	\$50.8	\$29.0	57.2%	Google
Sergey Brin	\$49.1	\$77.6	\$28.5	58.0%	\$49.8	\$27.8	55.8%	Google
Steve Ballmer	\$52.7	\$72.9	\$20.2	38.4%	\$41.2	\$31.7	77.0%	Microsoft
Alice Walton	\$54.4	\$69.0	\$14.6	26.8%	\$44.4	\$24.6	55.4%	Walmart
Jim Walton	\$54.6	\$68.8	\$14.2	25.9%	\$44.6	\$24.2	54.2%	Walmart
Rob Walton	\$54.1	\$68.4	\$14.3	26.5%	\$44.3	\$24.1	54.5%	Walmart
MacKenzie Scott	\$38.0	\$59.8	\$23.8	68.2%	N/A	N/A	N/A	Amazon
Michael Bloomberg	\$48.0	\$54.9	\$6.9	14.4%	\$55.5	-\$0.6	-1.1%	Bloomberg LP
Phil Knight	\$29.5	\$52.1	\$22.6	76.5%	\$33.4	\$18.7	55.9%	Nike
SUBTOTAL	\$846.1	\$1,322.8	\$476.7	56.3%	\$821.1	\$501.7	61.1%	
ALL OTHERS	\$2,101.4	\$2,689.0	\$587.6	28.0%	\$2,289.9	\$399.1	17.43%	
TOTAL	\$2,947.5	\$4,011.8	\$1,064.3	36.1%	\$3,111.0	\$900.8	29.0%	

Sources: All data in table is from Forbes and available here. March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires"; March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Winners and Losers" (revised Dec. 9, 2020); Feb. 9, 2019 data: *Forbes 2019 Market*

Public Health versus the Economy? Lives versus Livelihood?

Necessary precautions

United States, 1918 flu mortality and the growth in manufacturing employment
By city and intervention*



Source: "Pandemics depress the economy, public health interventions do not: evidence from the 1918 flu" by S. Correia, S. Luck and E. Verner, 2020

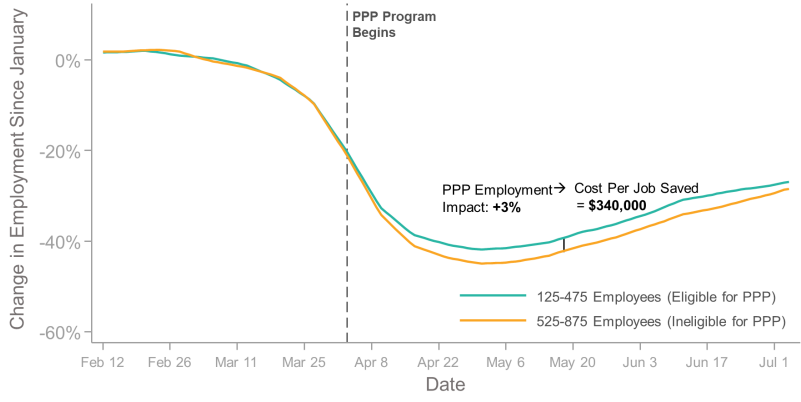
*Non-pharmaceutical measures, e.g. social distancing, closing schools and churches, mandatory face masks

The Economist

Did PPP Mitigate Job Losses?

Key Takeaway:

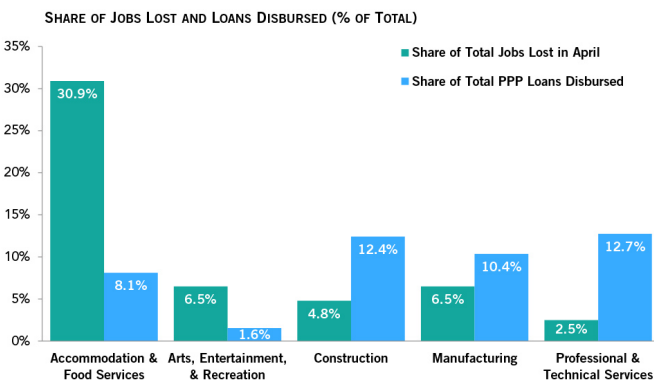
PPP had a relatively small impact on small business payroll (but it did help!)



PPP Loans Didn't Go to the Right Firms



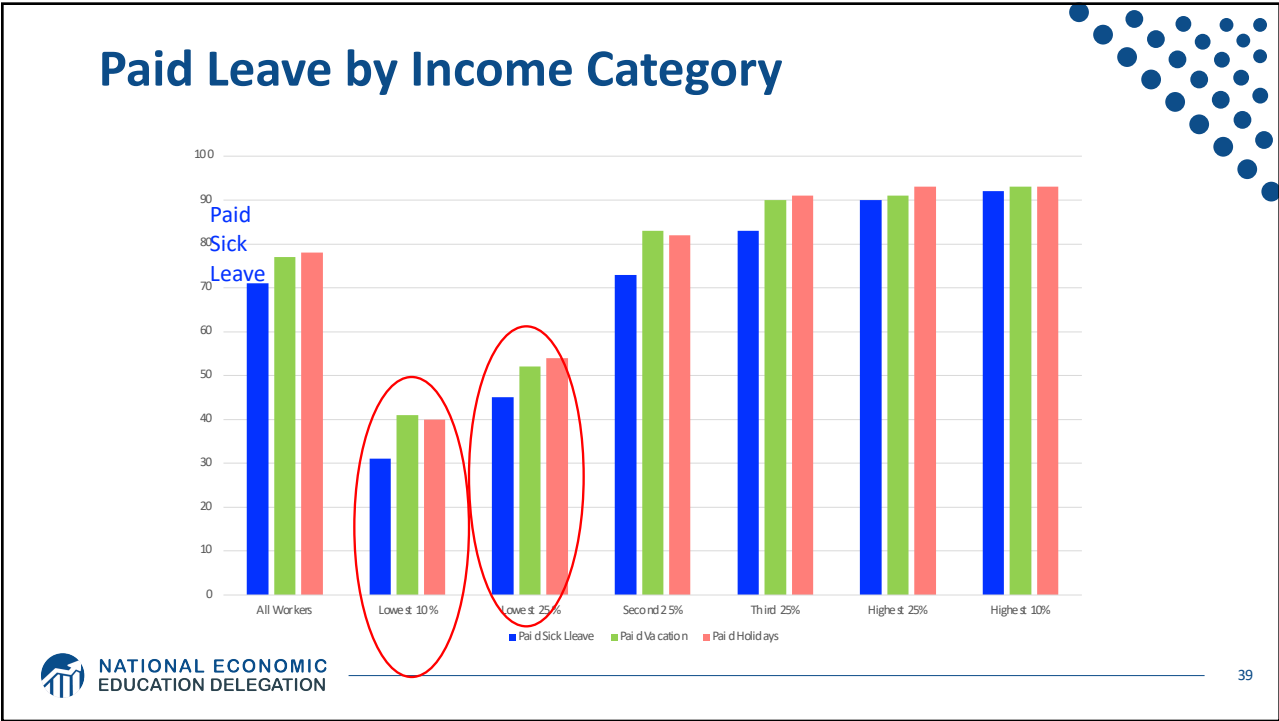
The distribution of PPP loans has not matched levels of unemployment



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. © 2020 Peter G. Peterson Foundation PGPF.ORG

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

Improvements to the program in the second stimulus bill



Monetary Policy – Current State and Impact

- **Fed Funds Rate at 0%** → newly issued debt very cheap
 - Good for borrowers
- **Balance Sheet grew from \$4T to \$7T**
 - Large volume of liquidity + few high yield, high quality savings vehicles → risky asset price bubbles
- **Forward Guidance: Keep FFR at ZLB until PCE inflation “at least 2%”**
 - High inflation + low nominal rates → negative real returns
 - Difficult period for fixed-income households

Monetary Policy acted quickly and effectively to prevent a financial market meltdown and keep credit flowing. But the Fed lends and does not spend; so there is a limited impact on spending.

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Did \$1200 checks and \$600 PUC create buffer?

Change in Median Checking Account Balance From January



Note: End of month balances. The analysis only includes the unemployed who received unemployment insurance benefits through direct deposit. Households with multiple checking accounts are added together. Source: JPMorgan Chase Institute

Key Takeaways:

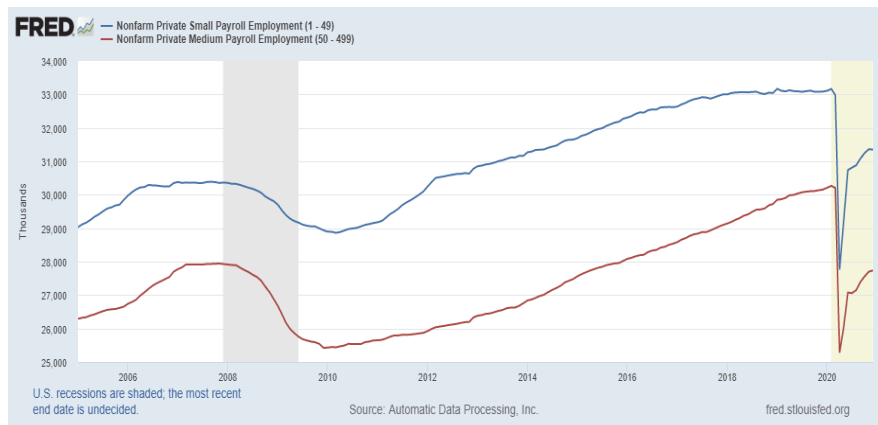
1. \$1200 checks + \$600 PUC allowed households to build cash buffer
2. Expiration of \$600 PUC caused sharp decline in balances of unemployed relative to employed



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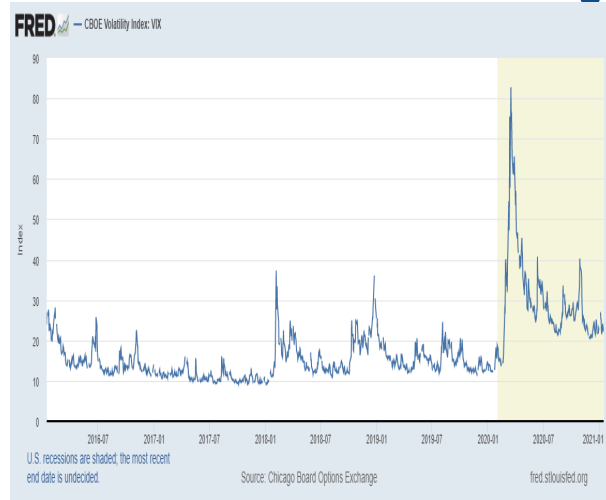
Employment at Small Firms (40% of total jobs)

Between February and April 2020, net loss of 10.4m losses, by Dec. 2020 'only' 4.4m jobs lost.



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Stock Market Impact



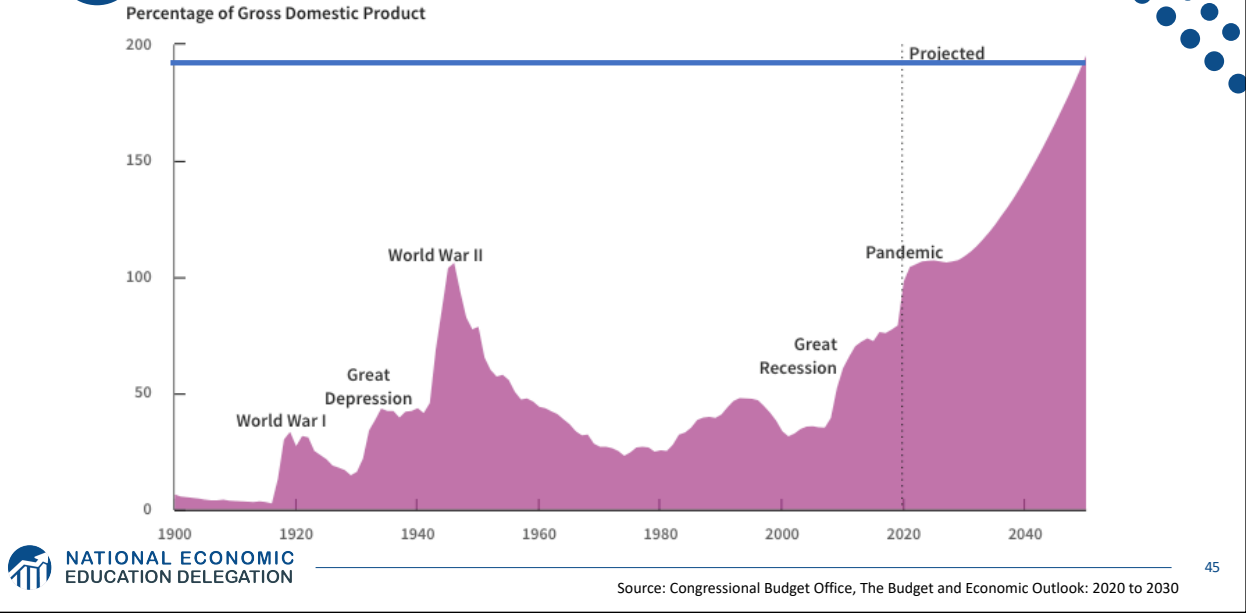
Three Measures of Unemployment?

- **None is a perfect measure:**

- Insured Unemployment
 - o Most accurate number because it is a numerical count.
 - o Administrative delays in processing claims and not all unemployed are eligible to collect
- Household Survey: 60,000 households
 - o Disruptions to survey
 - o Ambiguity of some of the classifications
 - o Survey are done mid-month
- Establishment Survey: 145,000 businesses about 700,000 employees
 - o Response rate fluctuated recently
 - o Survey done mid-month



Record Levels of Debt are Forecast



From a Republican Deficit Hawk

- “I’m a fiscal hawk from way back, and all of my heebie-jeebies are going off when I see these numbers,” said Douglas Holtz-Eakin, a Republican who used to head the Congressional Budget Office and is president of American Action Forum. “But then I look at the scale of the problem, and I think, yeah, that’s that. Gotta do it.” *Politico*, 4/29

Real Disposable Income – Income after taxes and transfers (impact of Fiscal Policy)

