

COVID-19: Economic Implications and Policy Response

Sep 10, 2020
 San Diego Rotary Club
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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



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Available NEED Topics Include:

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



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Credits and Disclaimer

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- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
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Outline

- Where is the Economy today?
- What have been the effects of policy?
- What are the risks to a rapid recovery?

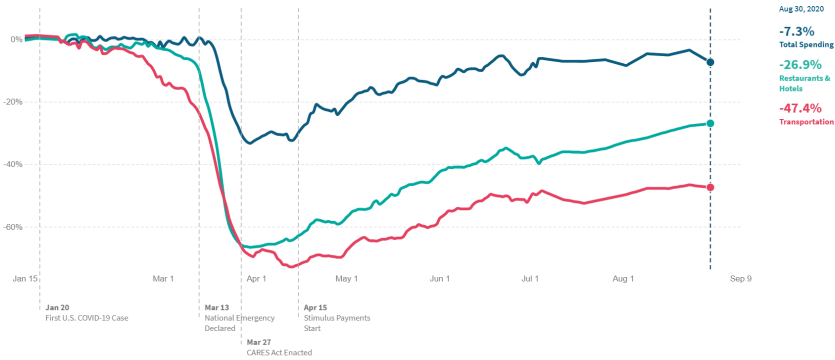
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Spending Has Collapsed



Percent Change in All Consumer Spending*

In the United States, as of August 30 2020, total spending by all consumers decreased by 7.3% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. This series reflects daily data through July 25, 2020 and weekly data after July 25, 2020. This series is based on data from Affinity Solutions.
 Last updated: September 08, 2020 next update expected: September 15, 2020

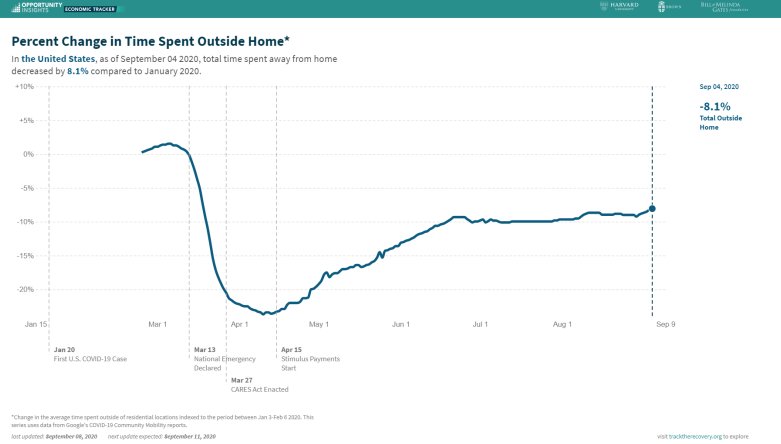
visit tracktherecovery.org to explore

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Why Did Spending Collapse?

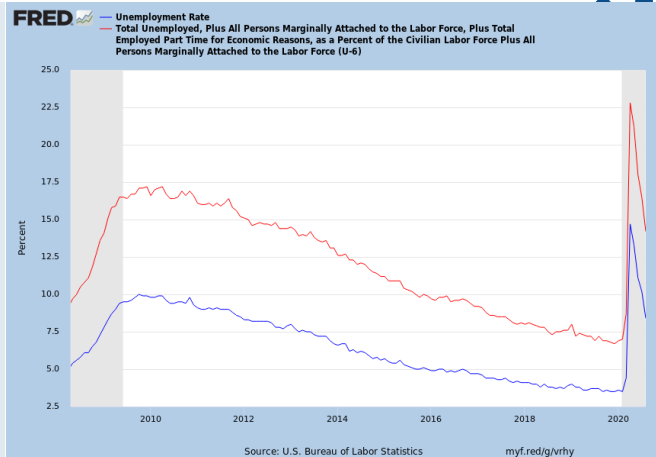
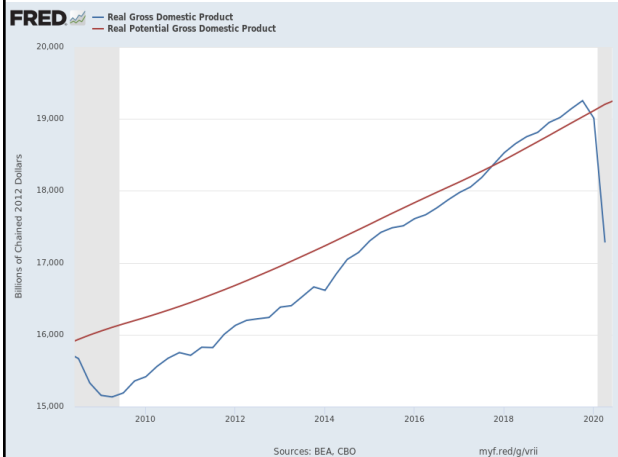
At least initially, spending collapse is due to public health restrictions and nervous households.

Over time, loss of income also plays a role



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Where are we?



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The Good News (Sort of)

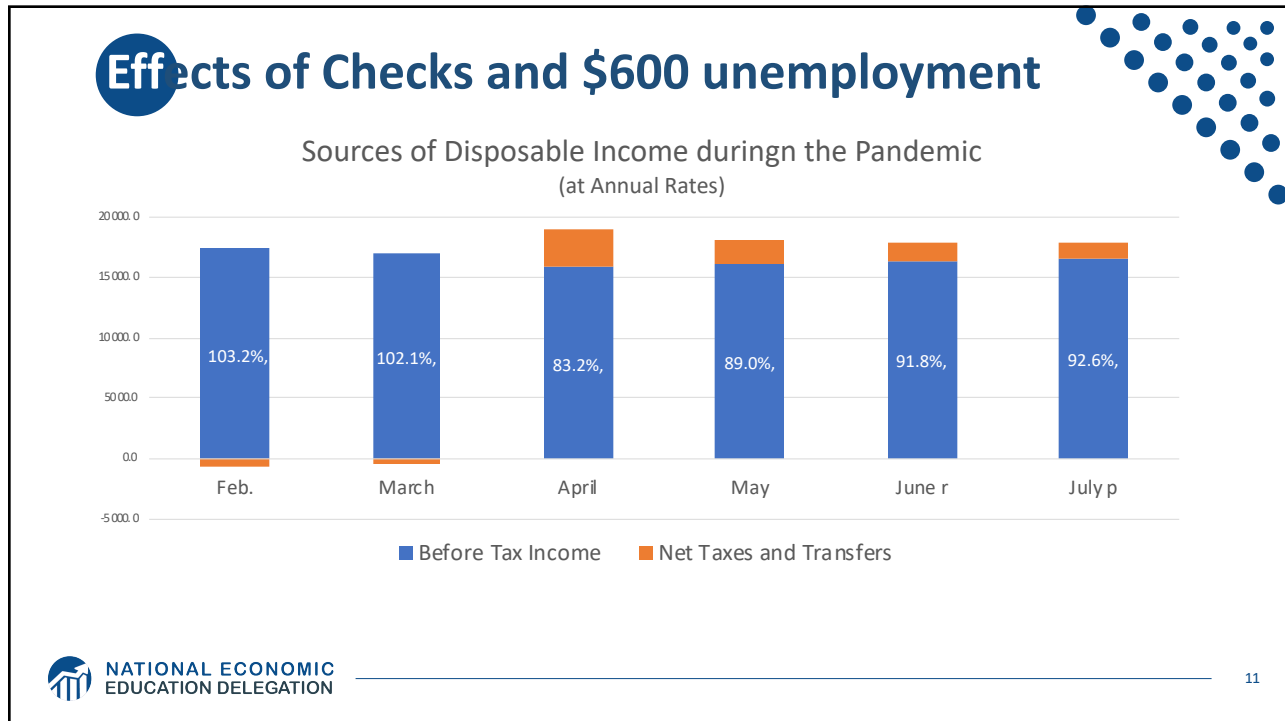
- There were no **short-run** macro problems at the start of the crisis
- The only obstacle to a quick recovery is damage that is being done while the pandemic continues
- Possible damage: economic disruptions due to prolonged job losses and business failures

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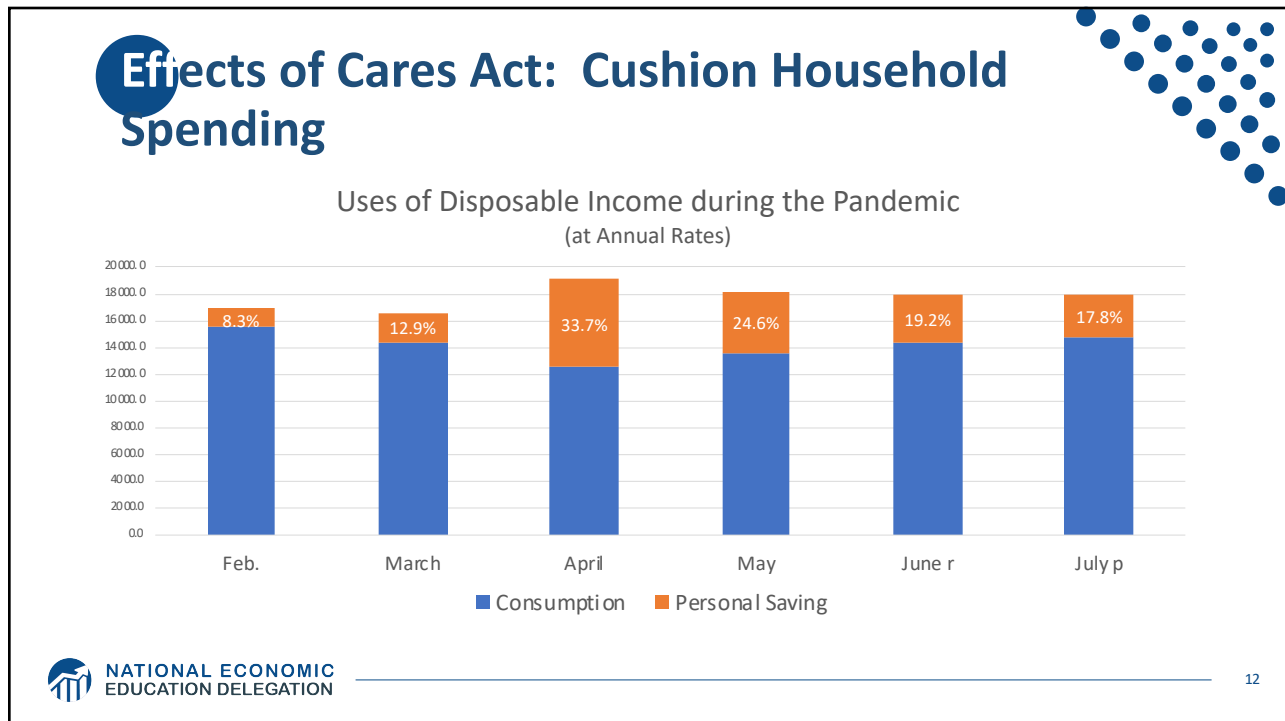
What Have Been Policy Effects

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

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Rebound in Consumption Faster than Expected

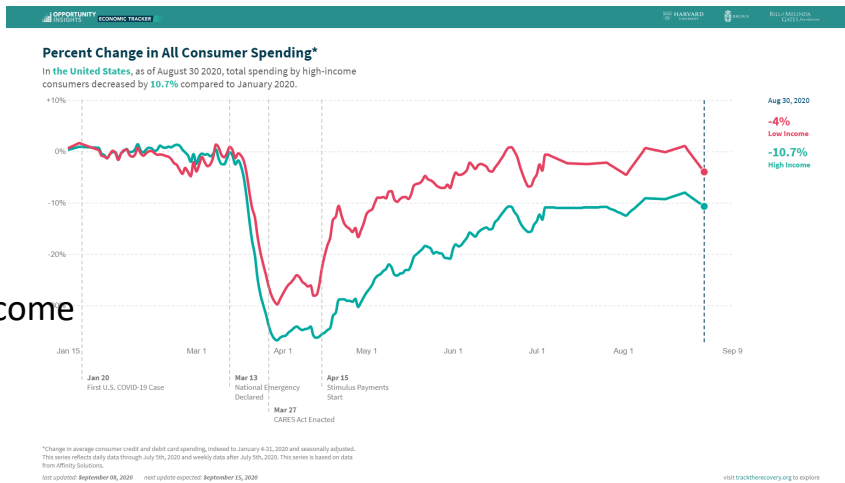
- As Consumption goes so goes the economy (C is 2/3 of GDP)
- Monthly and Quarterly data are expressed at annual rates
- 2020Q2: C = \$11,820t; 2020 July: C = \$14,694t; 24 percent increase.
- So, if consumption stayed at this level in August and stays the same in September, two-thirds of GDP will be rising at a 24% annual rate.
- This would leave GDP 6% below what it was at the end of 2019

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Yes but was it the Checks and \$600?

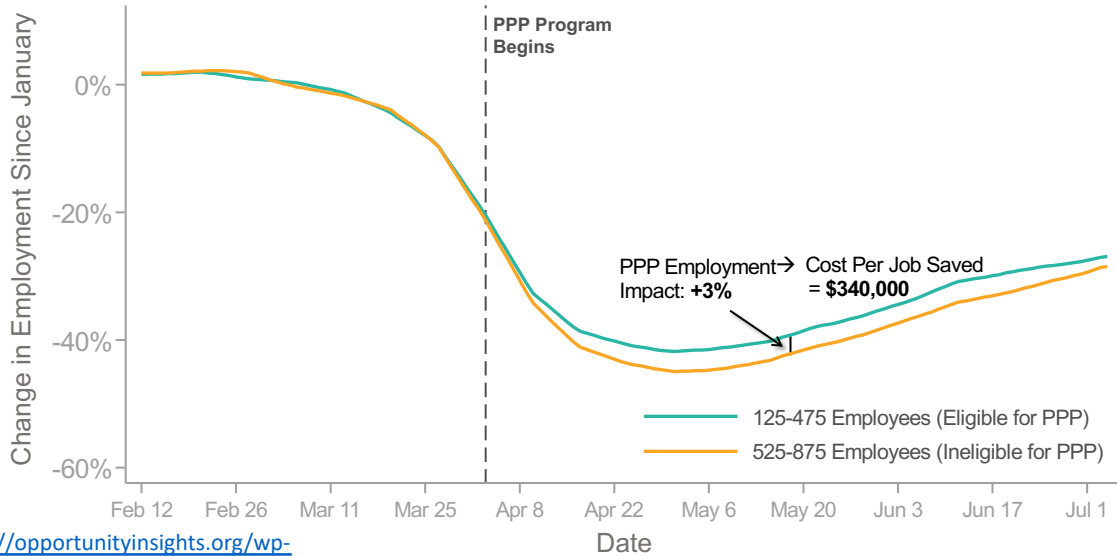
The Treasure Trove of “Real Time Data”

Low Income Households Spending is Income Constrained



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Impact of Paycheck Protection Program on Low-Income Employment

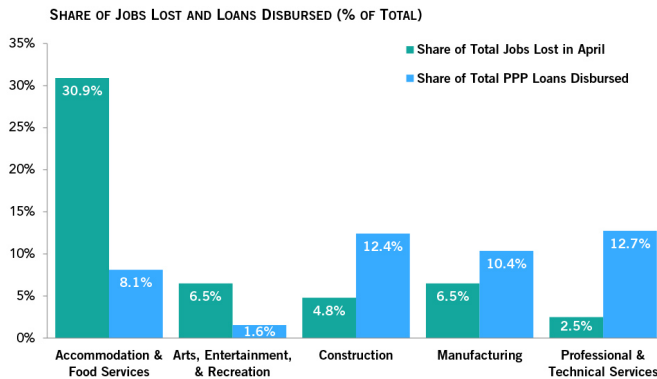


<https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf>

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Loans Didn't Go to the Right Firms

PETER G. PETERSON FOUNDATION 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

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.
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Major Risks Going Forward

1. Resurgence of the virus
2. Inability to pass a sufficient stimulus bill
3. Business failures, particularly among smaller firms
4. Damage to State and Local Budgets leading to job cuts



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2. 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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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



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3. Business Failures

- **Large Firms (e.g. Brooks Bro. Cirque de Soleil, Hertz, Lord & Taylor):**
Ch11 (restructuring) filings are up by 30% through July.
- **Small firms (30 million, 47% of all jobs)**
 - Bankruptcy Numbers Can Be Misleading: Just close the door and turn off the lights.
 - Real Data to the rescue!

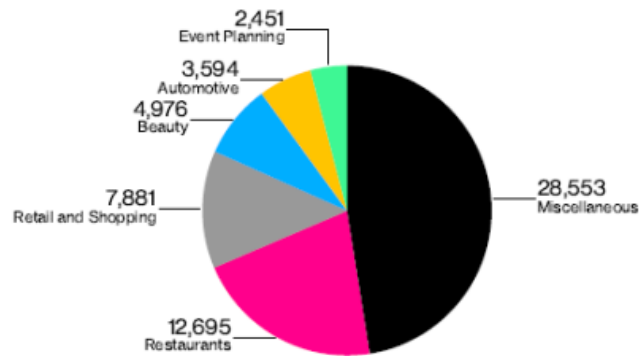


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Yelp's Breakdown of Permanent Closures

Business Busts
Restaurant industry leads with most local business closures

Failures particularly hard among Black owned firms. 19% closed; 4 times the rate of white owned firms. *Bloomberg, 8/18*

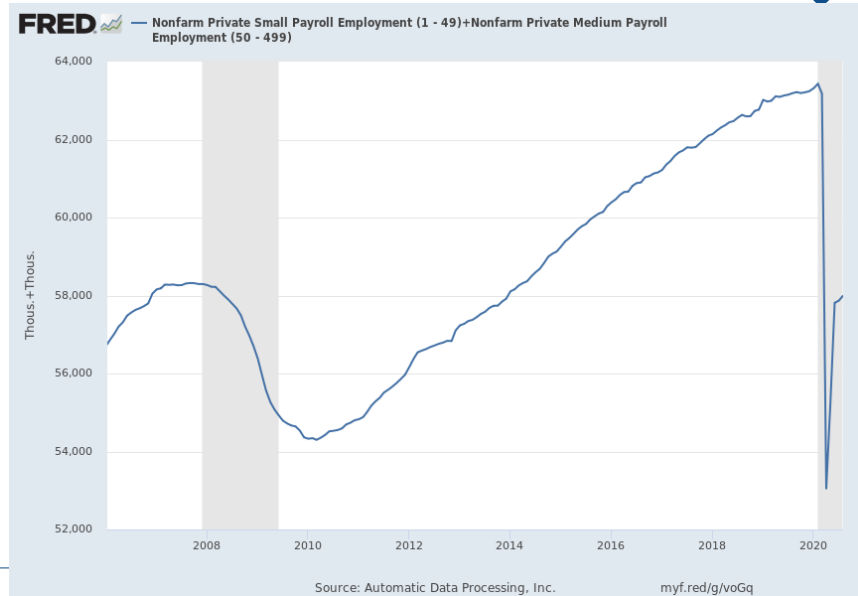


Yelp Inc.
Data from March 1 to July 25



Employment at Small Firms

Between February and July, net loss of 5.4m



4. State and Local Budgets

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars

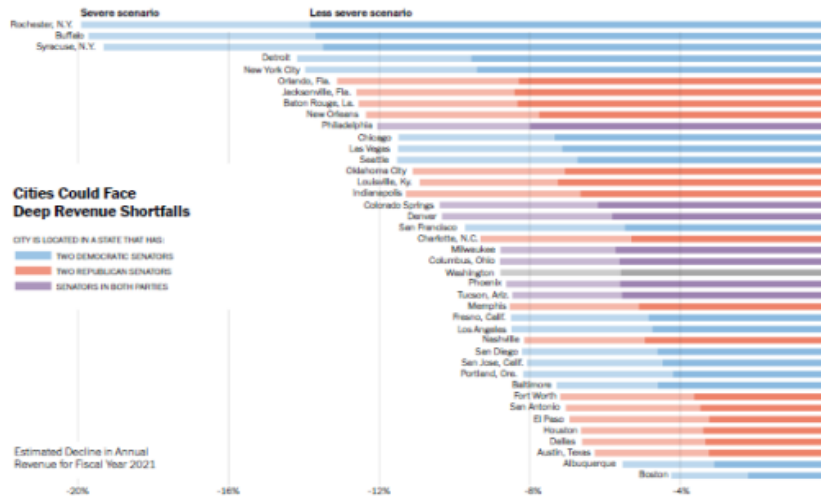


* Estimated based on CBPP calculations
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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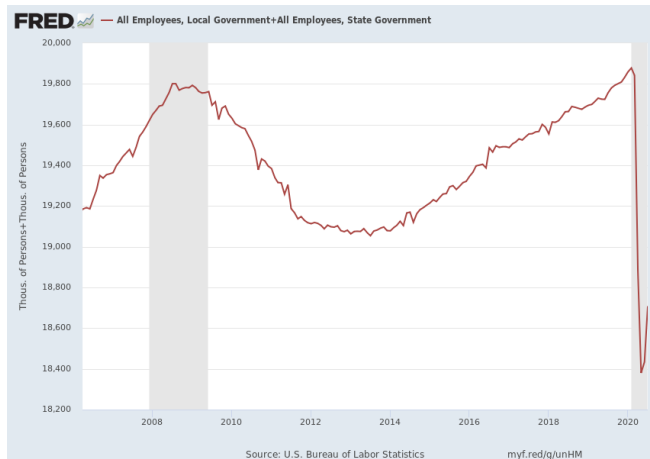
Projected Municipal Revenue Shortfalls



Note: Each city is a Fiscally Standardized City, covering municipal budgets but also revenues to other government entities providing city services like school or sewer districts. Source: Estimates from The Fiscal Effects of The Covid-19 Pandemic on Cities: An Initial Assessment, National Tax Journal by Howard Chernick, David Copeland and Andrew Reschovsky

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State and Local Employment



Between March and July net loss of 1.1m jobs.

Prospects if there is no general federal aid this year?

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Tracking the Recovery

- **Major Economic releases between now and November 3 (all at 8:30 AM)**
 - Weekly, Unemployment Insurance Weekly Claims, Thursdays (DOL)
 - Monthly
 - Personal Income and Outlays for August, Thursday, 10/1 (BEA)
 - The Employment Situation for September, Friday, 10/2 (BLS)
 - First Estimate of GDP for 2020, third quarter, 10/29 (BEA)
 - Personal Income and Outlays for September, Thursday, 10/30 (BEA)
- **Real Time Data: Track the Recovery: <https://tracktherecovery.org/>**

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Thank you!

Any Questions?

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