

# COVID-19: Economic Implications and Policy Response

January 5<sup>th</sup>, 2021  
 Rotary Club of Newton, MA  
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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 are intended to reflect the consensus of the economics profession.



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## 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



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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

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

- 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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## Meeting the four-way test



### THE FOUR-WAY TEST

of the things we think, say or do

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOODWILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?



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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](http://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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# Where are we now?

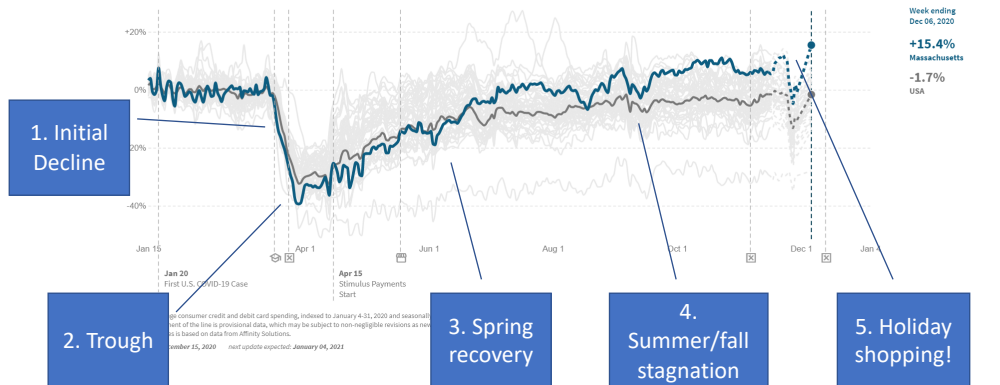
## Executive Summary

- Household spending on goods is largely recovered (+), but spending on services remains far below pre-pandemic levels (-)
- Cash injections from go
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls have remained significantly elevated (-)
- Many Americans – especially women - have left the labor force (-)

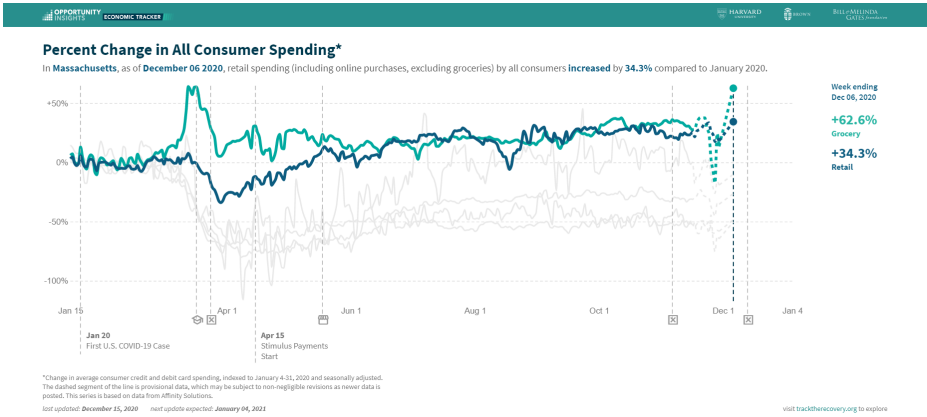
# Spending Patterns Since First US Case

## Percent Change in All Consumer Spending\*

In Massachusetts, as of December 06 2020, total spending by all consumers increased by 15.4% compared to January 2020.

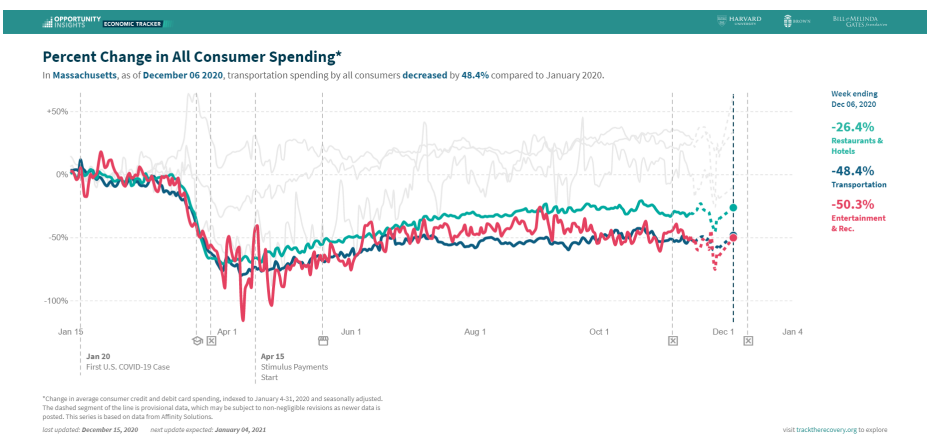


# Spending Patterns Since First US Case



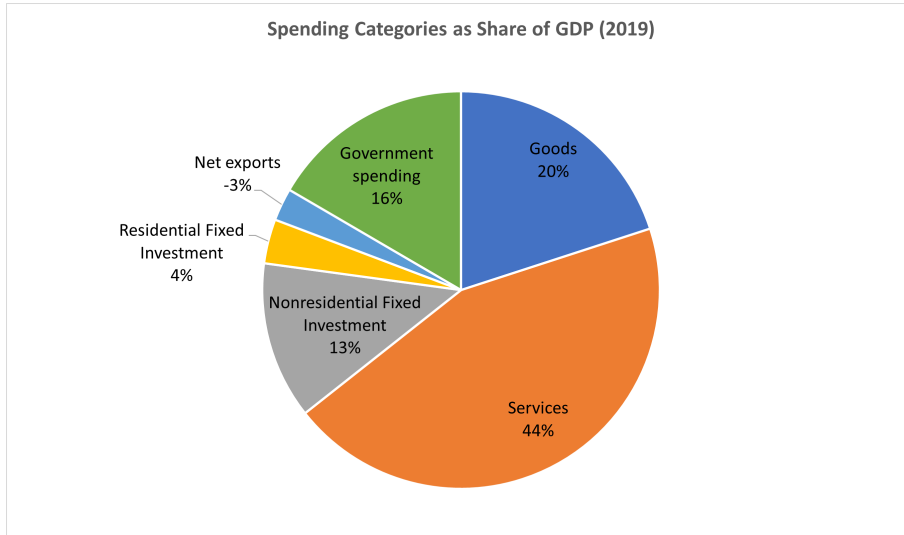
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# Spending Patterns Since First US Case



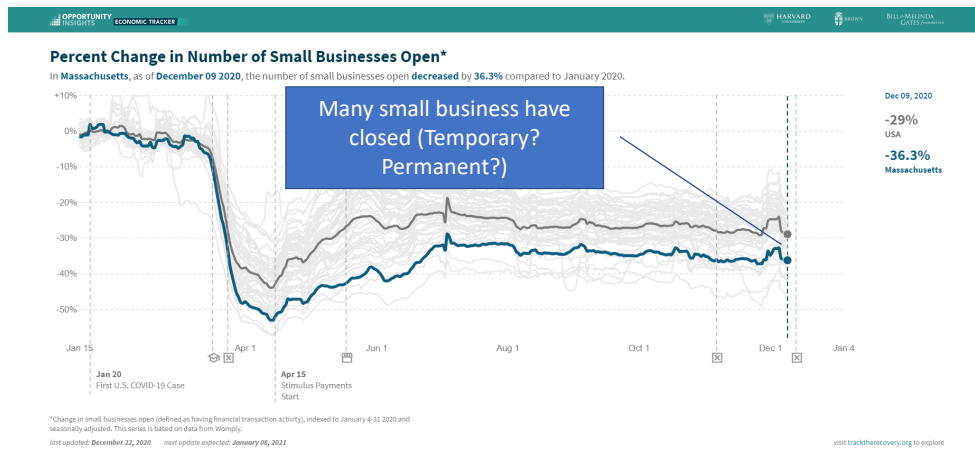
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# Why does spending matter?



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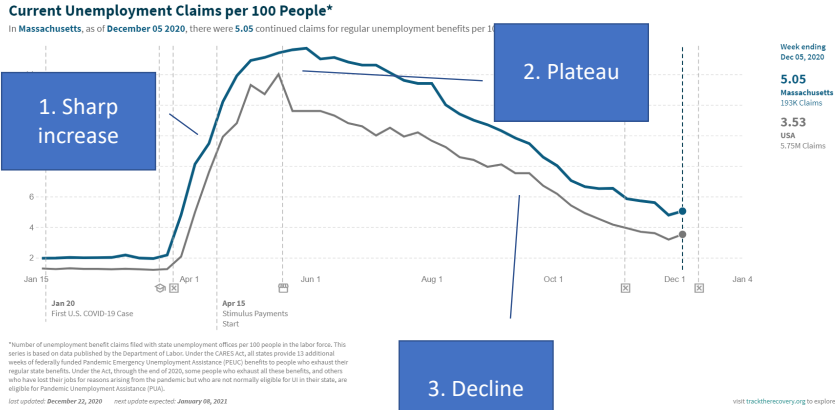
# Implications of Reduced Spending



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# Implications of Reduced Spending: Continued Claims (Regular state program)

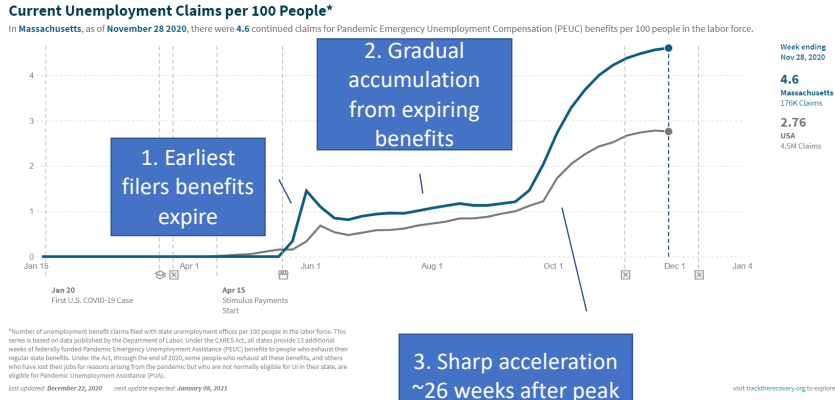
OPPORTUNITY ECONOMIC TRACKER HARVARD BOSTON FEDERAL RESERVE



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# Implications of Reduced Spending: Continued Claims (Federal PEUC)

OPPORTUNITY ECONOMIC TRACKER HARVARD BOSTON FEDERAL RESERVE



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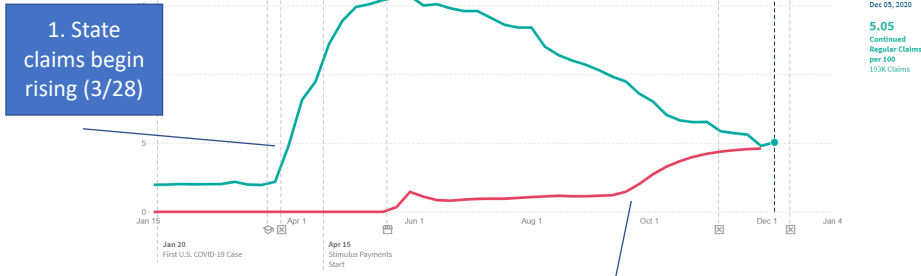


# Implications of Reduced Spending: Regular and PEUC claims

OPPORTUNITY ECONOMIC TRACKERS HARVARD BELL & HOWELL

## Current Unemployment Claims per 100 People\*

In Massachusetts, as of December 05 2020, there were 5.05 continued claims for regular unemployment benefits per 100 people in the labor force.



1. State claims begin rising (3/28)

2. PEUC claims begin rising (9/26)

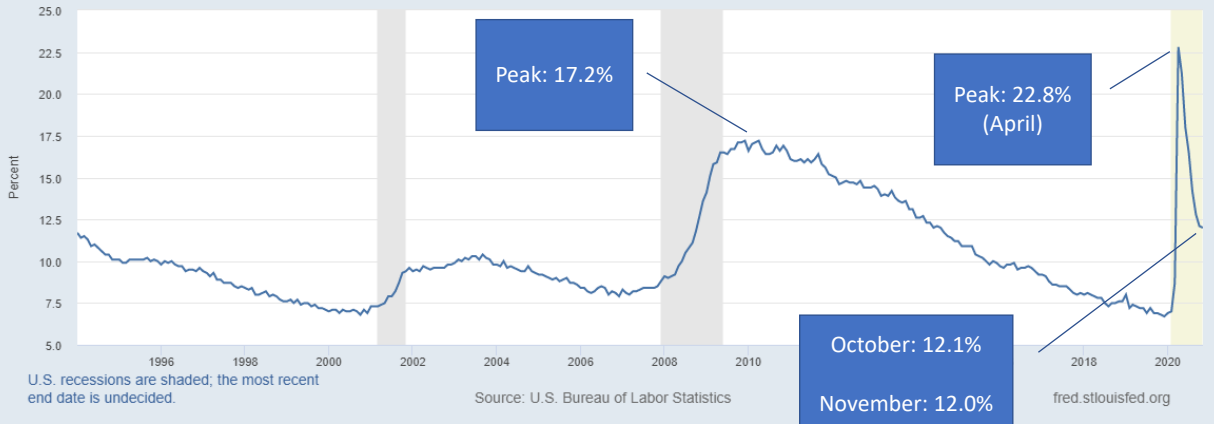
\*Number of unemployment benefits claims filed with state unemployment offices per 100 people in the labor force. This series is based on data published by the Department of Labor. Under the CARES Act, all states provide 13 additional weeks of Federally Funded Pandemic Emergency Unemployment Assistance (PEUC) benefits to people who exhaust their regular state benefits. Under the Act, through the end of 2020, some people who exhaust all these benefits, and others who have lost their jobs for reasons arising from the pandemic but who are not normally eligible for UI in their state, are eligible for Pandemic Unemployment Assistance (PUA).  
 last updated: December 22, 2020 next update expected: January 09, 2021

visit tracktheconomy.org to explore

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# Implications of Reduced Spending: Elevated Unemployment Rates

FRED — Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6)



Peak: 17.2%

Peak: 22.8% (April)

October: 12.1%  
November: 12.0%

U.S. recessions are shaded; the most recent end date is undecided.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

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# What's been done? Did it work?

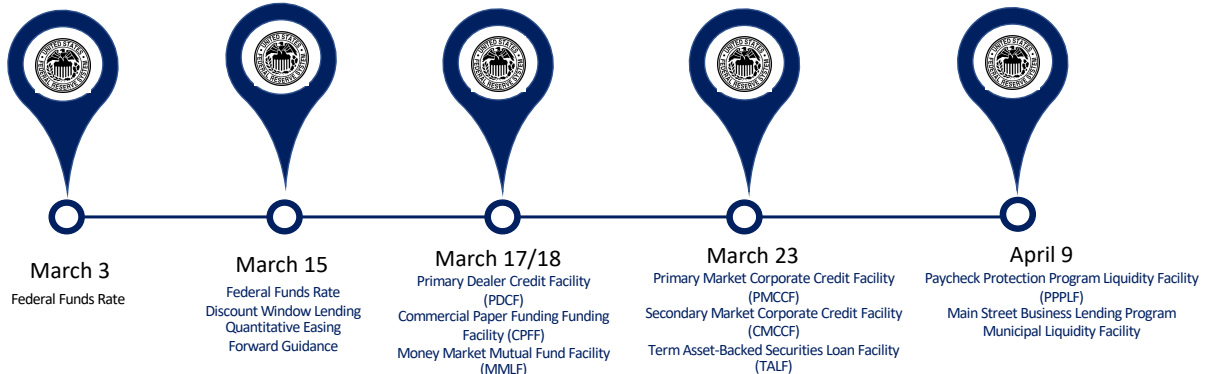
## Executive Summary:

- The Federal Reserve made credit cheap and provided liquidity to ensure credit markets continued functioning
- Congress/White House sent checks to households, expanded unemployment benefits, and created paycheck protection program for businesses
  - Checks and UB were massively effective in boosting both saving and spending
  - Expanded UB did not have disincentive effect (on average)
  - PPP worked but had a very low ROI
- Round 2 signed into law last week

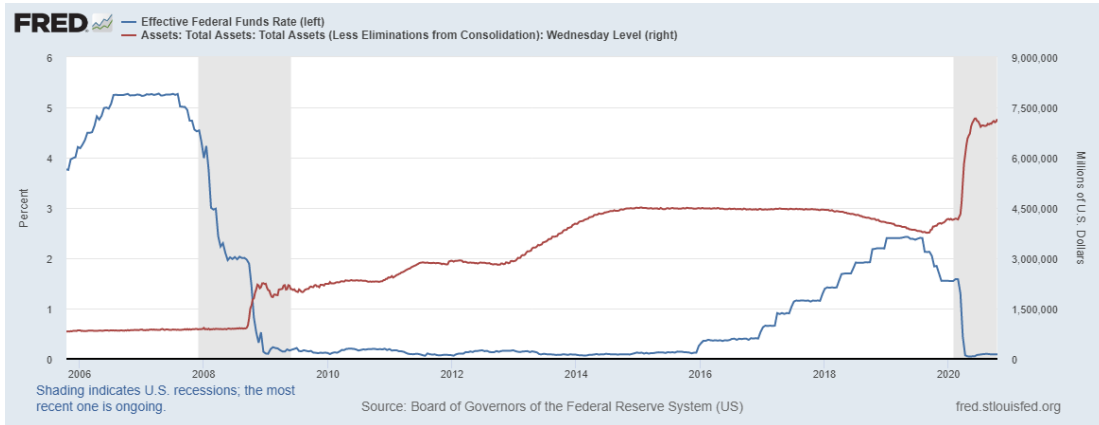
# Monetary Policy – Federal Reserve

## Primary objectives:

- Stabilize the economy
- Maintain liquidity of the system



## Federal Funds Rate and Balance Sheet



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## 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 quality savings vehicles → 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

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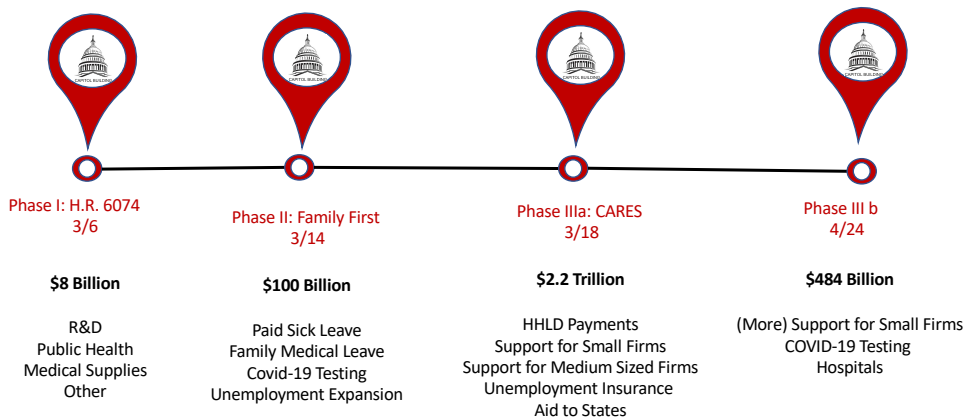
# Fiscal and Monetary Policy Responses

- The Federal Reserve acted quickly to prevent a financial market meltdown and keep credit flowing.
  - But the Fed lends and does not spend

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# Fiscal Policy – Congress and the White House

**Primary objectives:**  
- To do what is “best”



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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

## Did \$1200 checks and \$600 PUC induce spending?

### Key Takeaways:

1. \$1200 checks + \$600 PUC allowed all households to spend similar to pre-COVID level
2. Expiration of \$600 PUC caused sharp decline in spending for unemployed relative to employed

Weekly Spending

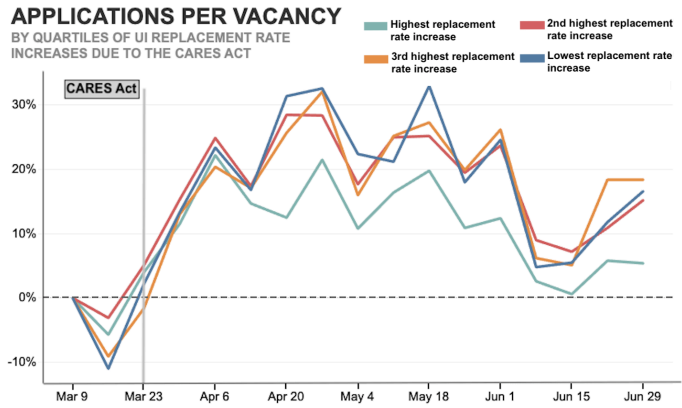


Source: Diana Farrell, Peter Ganong, Fiona Greig, Max Liebeskind, Pascal Noel, Daniel Sullivan, Joseph Vavra, JPMorgan Chase Institute

# Was there a disincentive effect from \$600?

## Key Takeaways:

1. Applications per job posting increased for all replacement rates
  - no effect *on average*
2. Smaller increase for highest replacement rates
  - some effect *on margin*



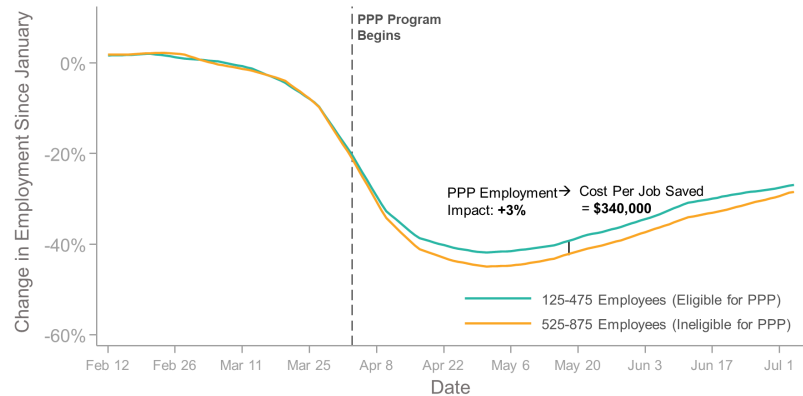
Source: Glassdoor (2020), and author's calculations. EconoFact econofact.org

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# Did PPP Mitigate Job Losses?

## Key Takeaway:

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



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## Fiscal and Monetary Policy Responses

- **Fiscal policy acted quickly to provide support for individuals and businesses**
  - Direct transfers to households have improved balance sheets
  - Grants to businesses have preserved (some) jobs
- **Second round of stimulus should help too**

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## What are the risks to recovery?

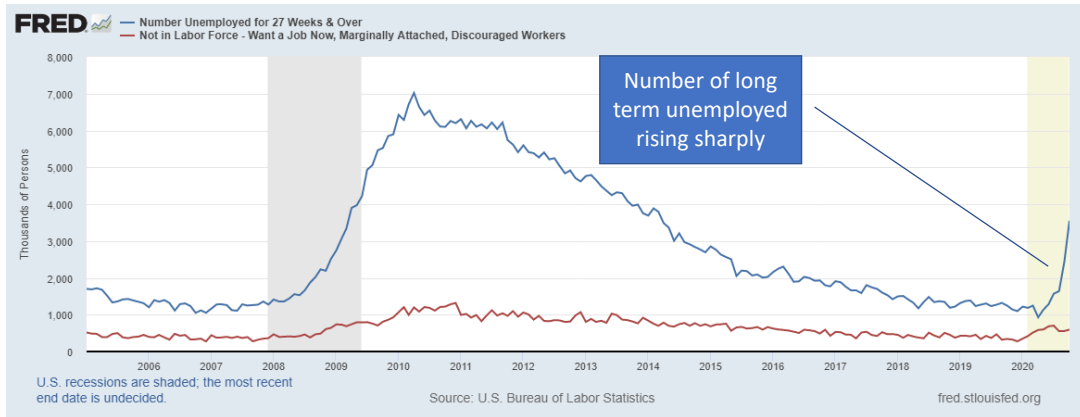
1. Continuation of the virus (remember 1918?)
2. Lack of additional fiscal support to prevent debt default, evictions, and business failures (remember 1929?)
3. Damage to State and Local Budgets leading to cuts in job and discretionary spending (remember 2009?)

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

**Key Risk #2: *An inequitable recovery***

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## Long term unemployment



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## 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 disproportionately exiting labor force
- Food insecurity at an all time high

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# Employment Rates by Income

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

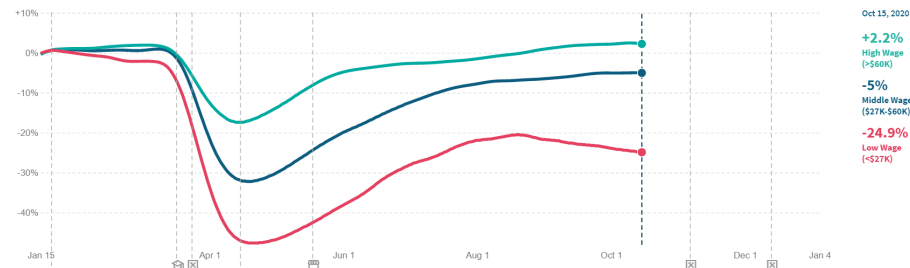
HARVARD

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## Percent Change in Employment\*

In Massachusetts, as of October 15 2020, employment rates among workers in the middle wage quartiles decreased by 5% compared to January 2020 (not seasonally adjusted).



\*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earm, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

last updated: December 14, 2020 next update expected: January 06, 2021

visit [tracktherecovery.org](https://tracktherecovery.org/) to explore



Source: <https://tracktherecovery.org/>

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# Employment Rates by Sector

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

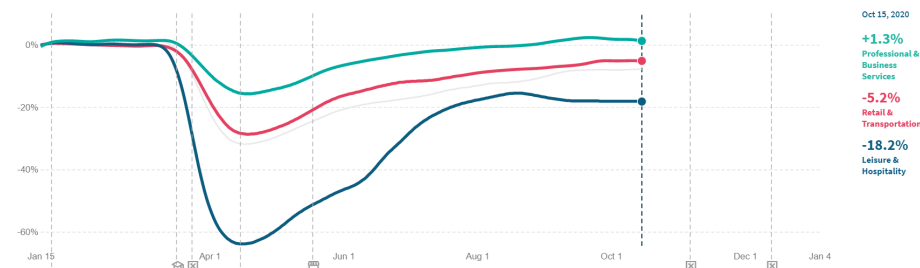
HARVARD

FINANCE

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## Percent Change in Employment\*

In Massachusetts, as of October 15 2020, employment rates in leisure and hospitality decreased by 18.2% compared to January 2020 (not seasonally adjusted).



\*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earm, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

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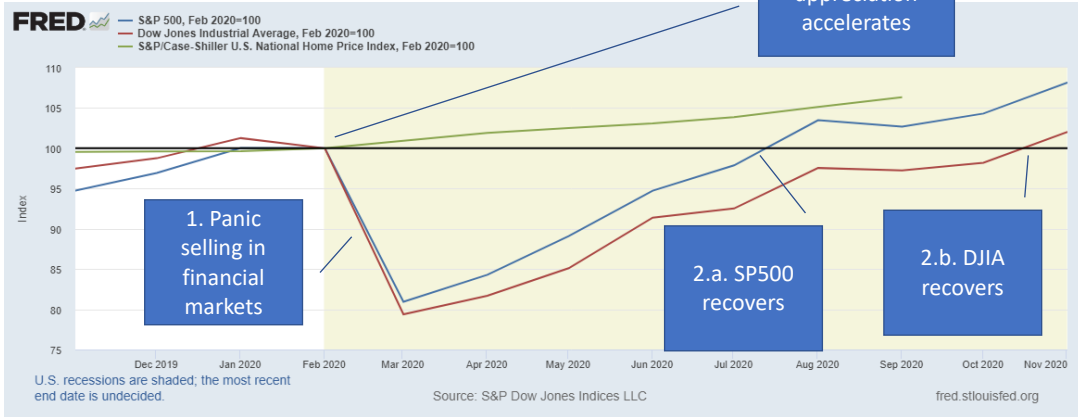
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Source: <https://tracktherecovery.org/>

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# Recovery in Stock/Housing Market



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# Gains by American Billionaires

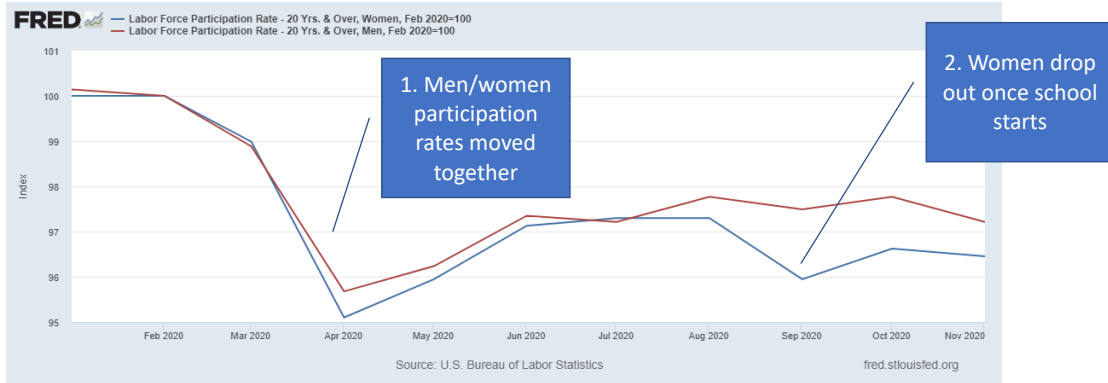
**WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS**  
March 18, 2020 - December 7, 2020

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	\$88.0	\$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%	\$82.5	\$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%	\$60.8	\$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	\$24.8	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	\$36.0	\$59.8	\$23.8	66.2%	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
<b>SUBTOTAL</b>	<b>\$846.1</b>	<b>\$1,322.8</b>	<b>\$476.7</b>	<b>56.3%</b>	<b>\$821.1</b>	<b>\$501.7</b>	<b>61.1%</b>	
<b>ALL OTHERS</b>	<b>\$2,101.4</b>	<b>\$2,689.0</b>	<b>\$587.6</b>	<b>28.0%</b>	<b>\$2,289.9</b>	<b>\$399.1</b>	<b>17.43%</b>	
<b>TOTAL</b>	<b>\$2,947.5</b>	<b>\$4,011.8</b>	<b>\$1,064.3</b>	<b>36.1%</b>	<b>\$3,111.0</b>	<b>\$900.8</b>	<b>29.0%</b>	

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 Wealth and Legacies as of Dec. 7, 2020," Feb. 8, 2020 data: Forbes, "2019 World's Billionaires."

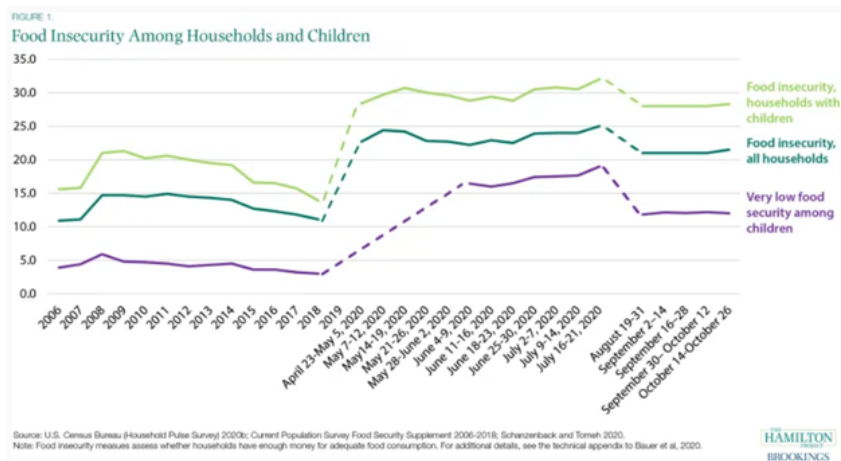
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# Labor Force Participation Rates by Sex



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# Food Insecurity is Elevated



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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 round of stimulus will help
  - Aggregate household balance sheets in good position
- **Vaccine rollout should alleviate pressure on service industry**



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## 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 face deep budget shortfalls**
  - Often the largest employers within a state
- **Eviction/foreclosure moratoria are shifting burdens to future**



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# Let's chat!

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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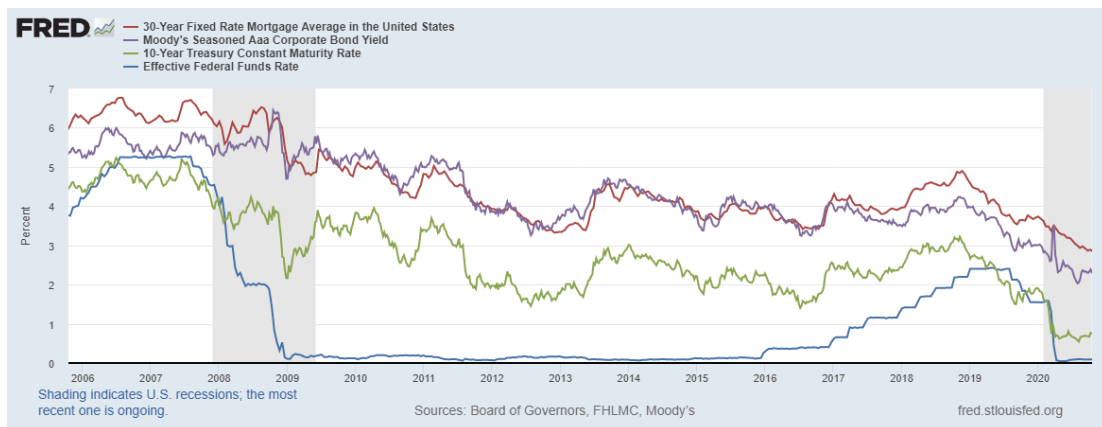
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Submit a testimonial: [www.NEEDelegation.org/testimonials.php](http://www.NEEDelegation.org/testimonials.php)

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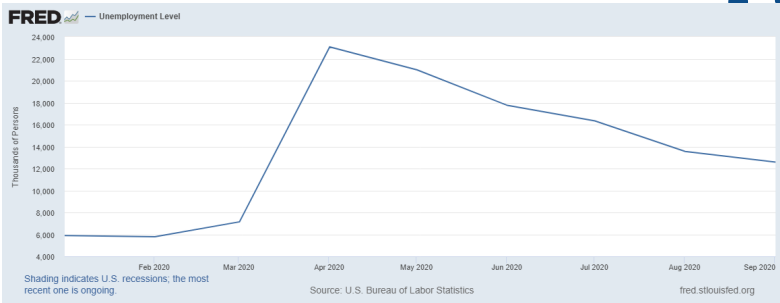
# Impact on Borrowing Rates



# Characterizing Unemployment

Important Definitions:

- A person is **employed** if they worked for pay or were temporarily absent in the last week
- A person is **unemployed** if they were (1) not employed, (2) were available for work, and (3) actively sought work in the previous 4-weeks
- A person is **not in the labor force** if they are neither employed nor unemployed



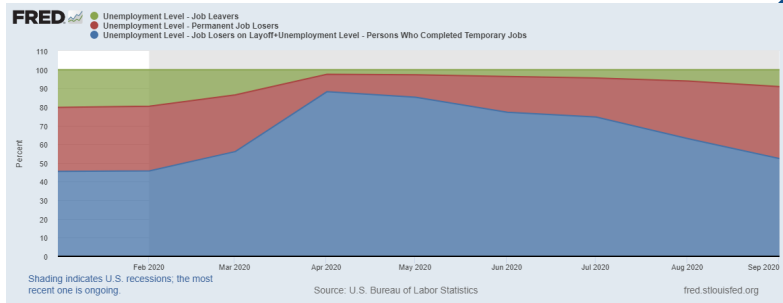
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# Characterizing Unemployment

Survey respondents are asked to indicate the “reason for unemployment”:

1. On temporary layoff or completed temp jobs (blue)
2. Involuntary and permanent job loss (red)
3. Quits, reentrants, and new entrants (green)



**Key takeaway:** Permanent job losers are increasing share of unemployment pool



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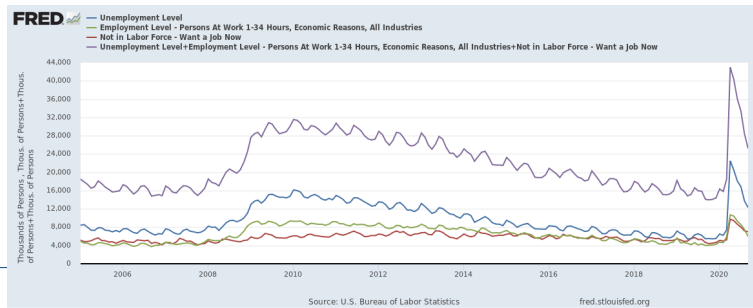
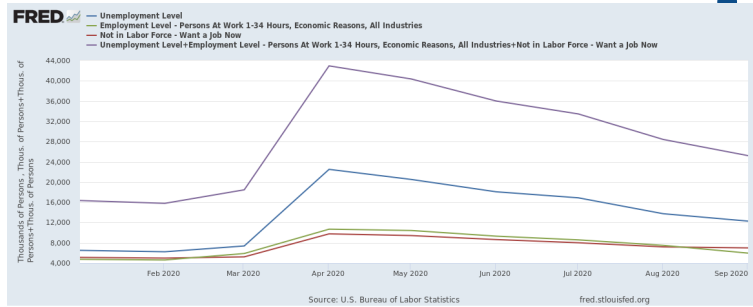
# Characterizing Unemployment

Groups not classified as unemployed:

1. Not employed, not actively seeking *but want a job now* (red)
2. Employed part time *but want full-time work* (green)

**Key Takeaways:**

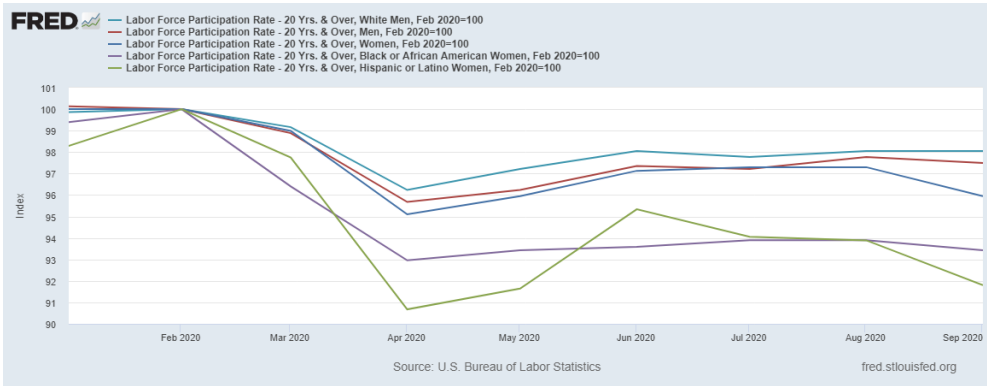
1. These groups *always exist*
2. Levels are *countercyclical*
3. Currently +8m compared to pre-pandemic



# Business Inventory



# Recovery/recession for whom?

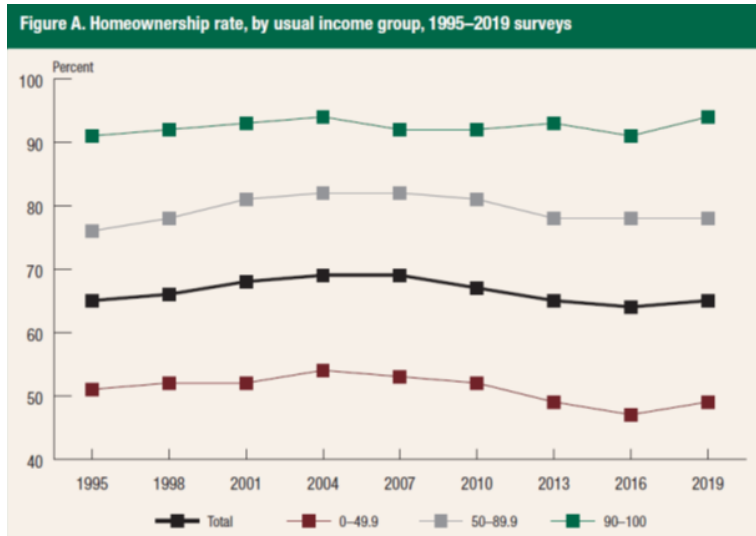


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# Recovery/recession for whom?

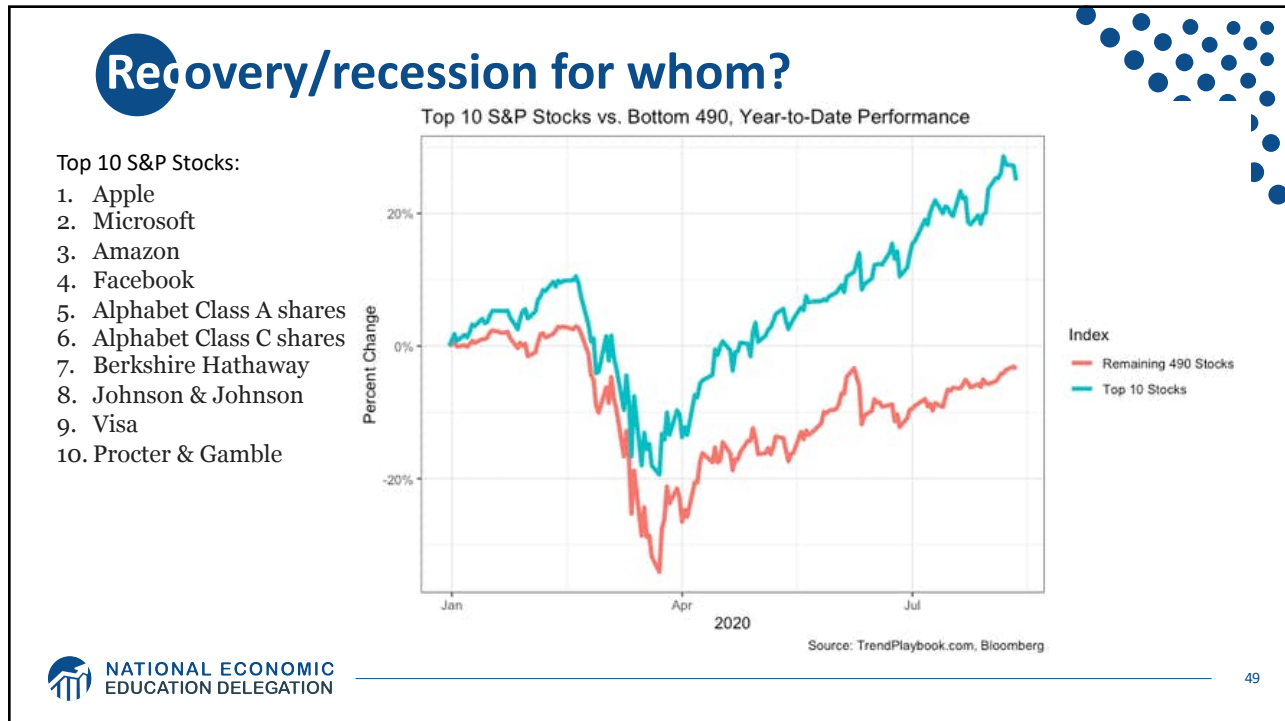
The bottom 60% of income earners hold just 5.8% of the value of equities/mutual funds...

... and around 65% of people own their home

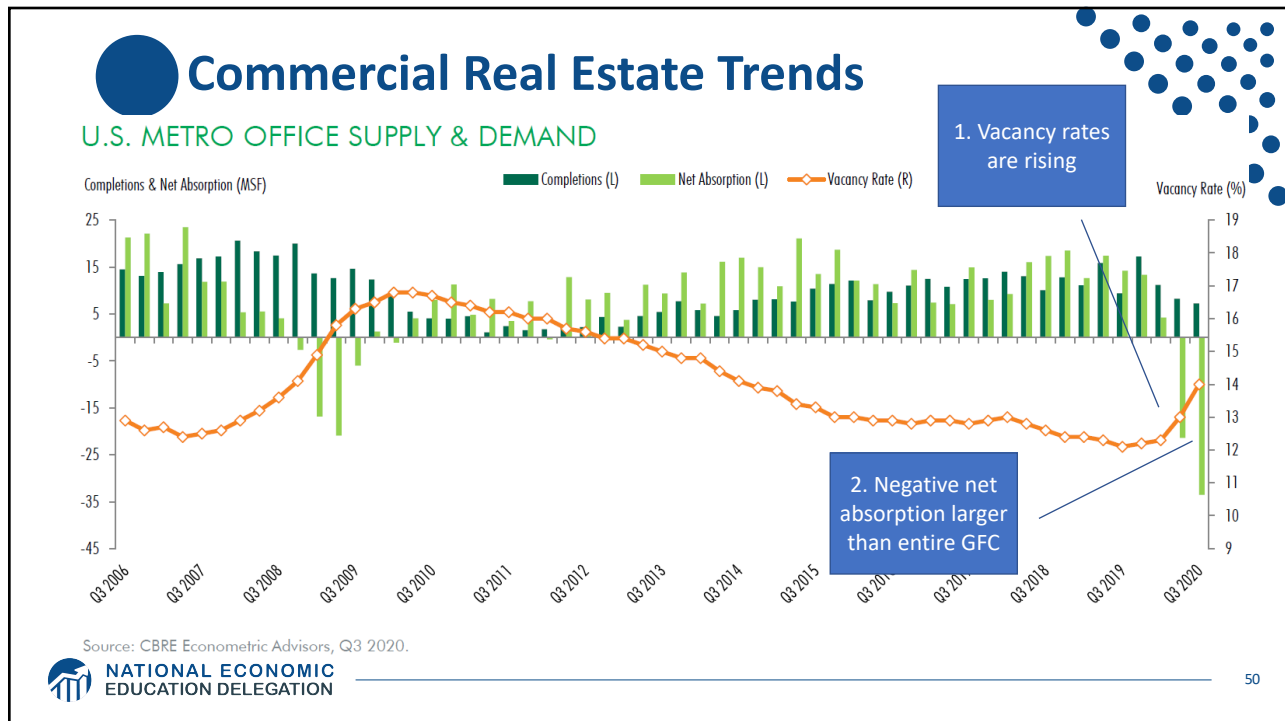


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# How did \$600 PUC affect household income?

**Key Takeaway:**  
Income replacement rates  $\geq 100\%$   
for workers with income  $\leq \$55k/yr$

