

COVID-19: Economic Implications and Policy Response

Feb 11, 2021
Napa Sunrise Rotary
Geoffrey Woglom
Professor of Economics (Emeritus)
Amherst College



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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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- **This slide deck was authored by:**
 - Jon D. Haveman, NEED
 - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
 - Jon Haveman
- **Disclaimer**
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 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



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Outline

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



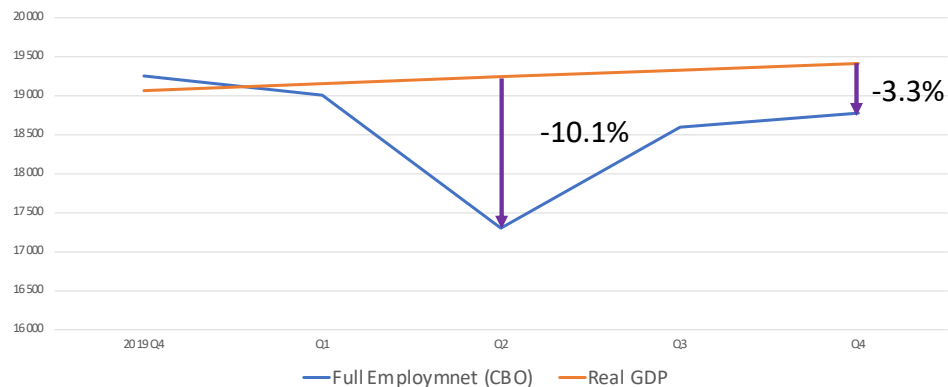
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Real GDP during 2020

GDP during the Pandemic



(BEA data, 2019Q4=100)

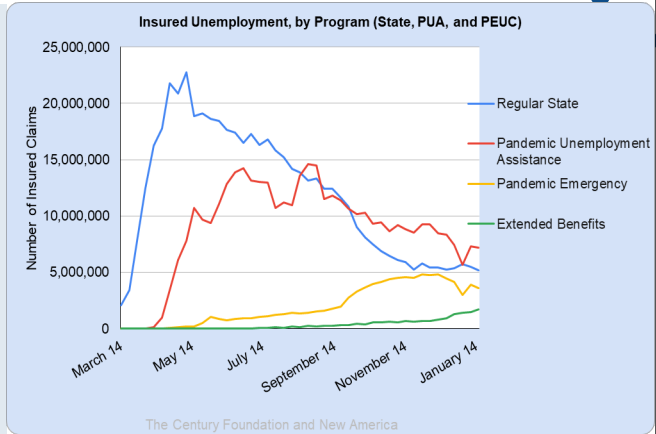
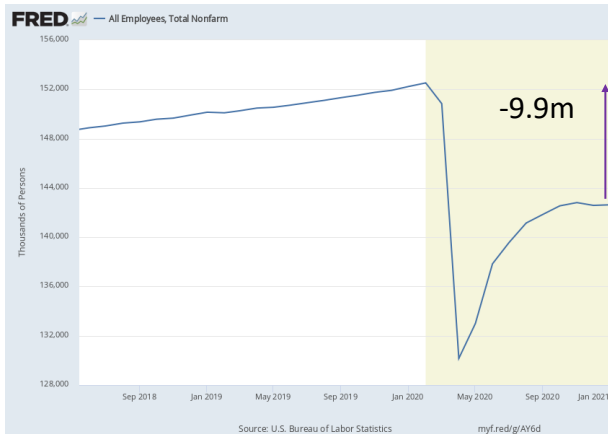


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How about the Labor Market?



Initial Claims: 1/30, 779K. Previous peaks: 10/2/1982, 695K.
PUA Initial Claims: 349K

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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

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What Have Been Policy Effects

- **Monetary Policy** 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** acted quickly, but inevitably made some mistakes.
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C+ (\$525b)

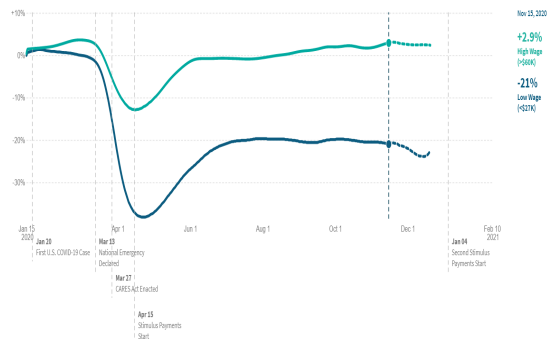
December Package another \$900b with more to come

Why?

K-Shaped Recovery

Percent Change in Employment*

In the United States, as of November 15 2020, employment rates among workers in the bottom wage quartile decreased by 21% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), relative to January 4, 2020. This series is based on payroll data from the Bureau of Economic Analysis and the Bureau of Labor Statistics. The series is based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics. The series is based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics.

Last updated: February 08, 2021. Not update expected: February 08, 2021.

visit tradeanddevelopment.org to explore

Percent Change in All Consumer Spending*

In the United States, as of January 24 2021, total spending by high-income consumers decreased by 2.2% compared to January 2020.



*Change in average consumer credit and debit card spending, relative to January 4, 2020 and seasonally adjusted. The data represent the three personal data, which are subject to some degree of revision as more data is added. This series is based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics.

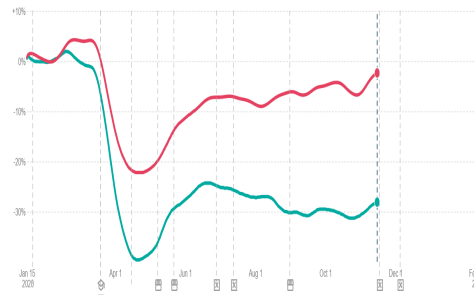
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Conditions Closer to Home

Percent Change in Employment*

In Sacramento, as of November 15 2020, employment rates among workers in the bottom wage-quartile decreased by 28.1% compared to January 2020 (not seasonally adjusted).



*Change in employment rates (not seasonally adjusted), indexed to January 4-11, 2020. This series is based on payroll data from the Bureau of Economic Analysis and is subject to revision. The series is based on data from the Bureau of Economic Analysis and is subject to revision. The series is based on data from the Bureau of Economic Analysis and is subject to revision.

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Percent Change in All Consumer Spending*

In Sacramento, as of January 24 2021, total spending by all consumers decreased by 4.1% compared to January 2020.



*Change in average consumer credit and debit card spending, indexed to January 4-11, 2020 and seasonally adjusted. The latest segment of the line represents data, which may be subject to non-negligible revisions as more data is added. The series is based on data from the Bureau of Economic Analysis and is subject to revision.

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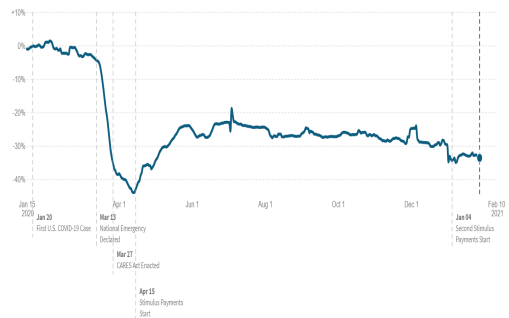
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Another Hard-Hit Sector: Small Business

Percent Change in Number of Small Businesses Open*

In the United States, as of January 27 2021, the number of small businesses open decreased by 33.6% compared to January 2020.

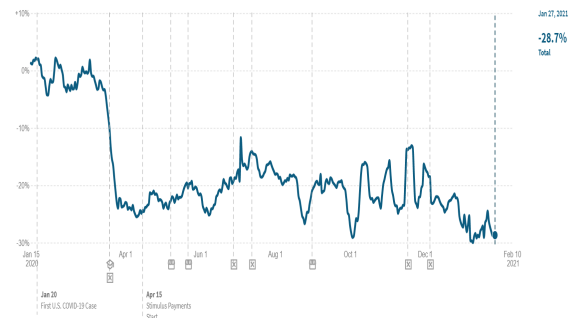


*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-11, 2020 and seasonally adjusted. This series is based on data from the Bureau of Economic Analysis and is subject to revision.

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Percent Change in Number of Small Businesses Open*

In Napa, as of January 27 2021, the number of small businesses open decreased by 28.7% compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-11, 2020 and seasonally adjusted. This series is based on data from the Bureau of Economic Analysis and is subject to revision.

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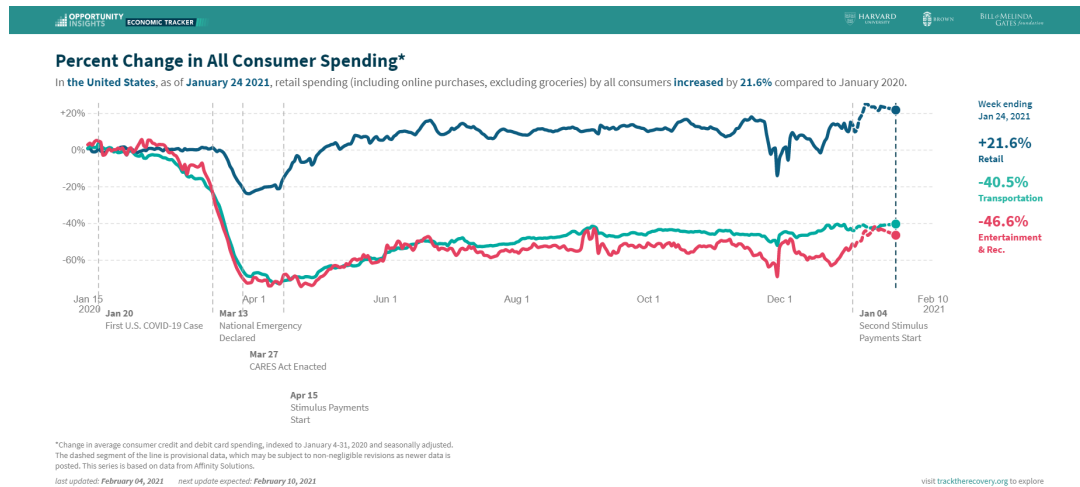
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40% of all jobs are at small firms

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Other Hard-Hit Sectors



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Evidence of Damage: Corporate Bankruptcies?

- According to Edward Altman, leading expert on bankruptcy and professor emeritus at [NYU](https://www.nyu.edu)'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.**

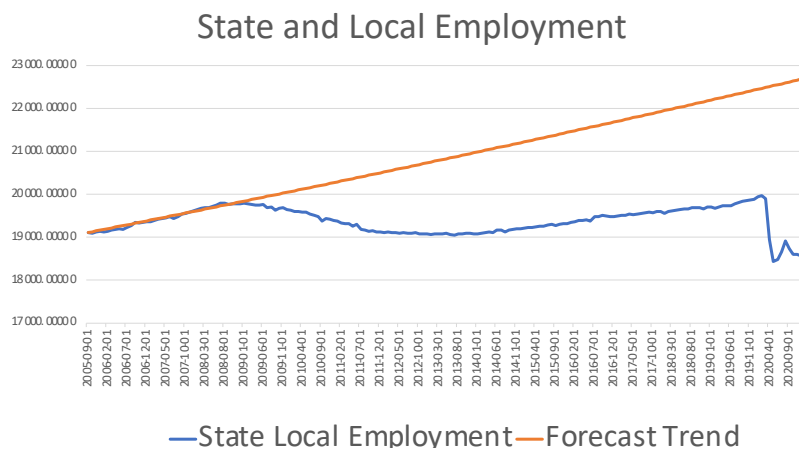
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State and Local Budgets

- “Setting aside the lost investments and looking only at these more fundamental fiscal effects, we estimate that states, localities, tribal nations, and U.S. territories currently face total shortfalls of about \$300 billion through fiscal year 2022, after subtracting federal aid provided to date. If states fully spend the roughly \$75 billion in reserves they held heading into the pandemic, that estimate drops to \$225 billion.” (1/21)

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State and Local Employment



Since February a net loss of 1.3m jobs (from a low base).

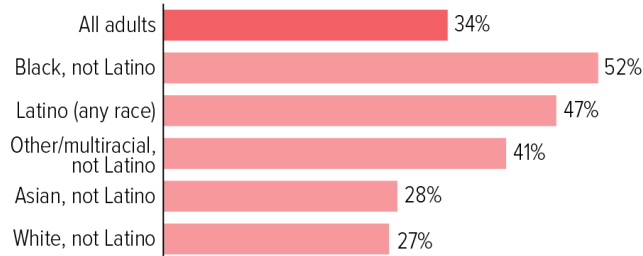
Prospects if there is no general federal aid this year?

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And, People are Really Hurting

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020



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CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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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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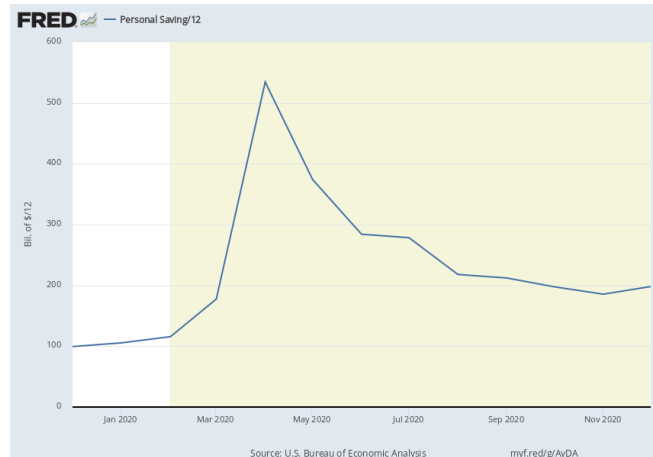
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Much of the March Stimulus Was Saved

Estimates that personal saving increased by up to \$1.56 trillion between March and November, *Why Markets Boomed in a Year of Human Misery*, NYT, 1/1/21

\$2,400 was sent to joint filers with AGI of \$150,000 (Median Household Income is about \$70,000).

Compare this to enhanced unemployment benefits, which are **targeted** at households in distress



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Balancing Act

• Too Big

1. Needlessly adding to our debt and deficit problems.
2. Reignite inflation (and there is evidence that expectations of future inflation have increased).
3. Because of 1 & 2 less room for needed public infrastructure investment.

• Too Small

1. Double Dip.
2. You only get one bite at the apple: take care of yourself Senator Leahy!
3. Prolonged economic scarring.



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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.
 - Small Firms (e.g., restaurants).
- Infrastructure Investment should be pursued if it makes economic sense.
- 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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Thank you!

Any Questions?

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Geoffrey Woglom

grwoglom@amherst.edu

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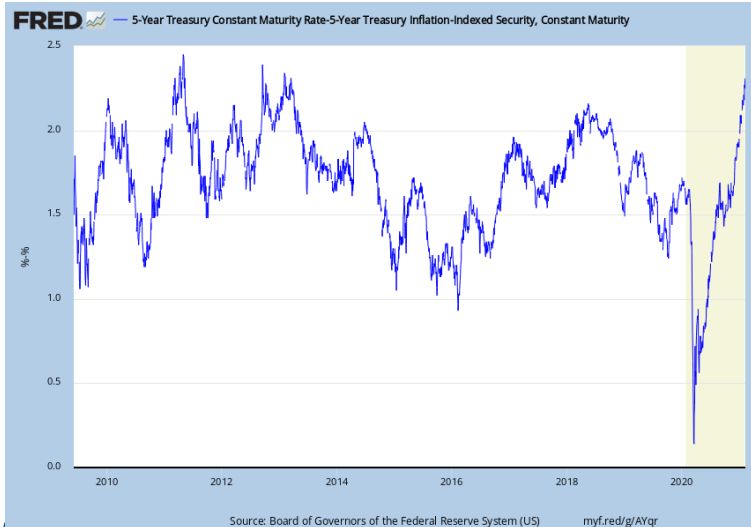


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Inflation Dragon Stirring?



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UI Replacement rates and Expanded Benefits

Unemployment Insurance Benefits				
Income Quartile:	Weekly Earnings	Regular Benefits	Expanded (\$300)	Expanded (\$400)
25%	\$445	\$231 (52%)	\$531 (119%)	\$631 (1.42%)
50%	\$668	\$346 (50%)	\$646 (97%)	\$746 (1.12%)
75%	\$1,207	\$456 (38%)	\$756 (63%)	\$856 (71%)
P. Ganong, P. Noel, and J. Varva, "US Unemployment Insurance Replacement Rates During the Pandemic, Working Paper 202-62, BFI Institute				



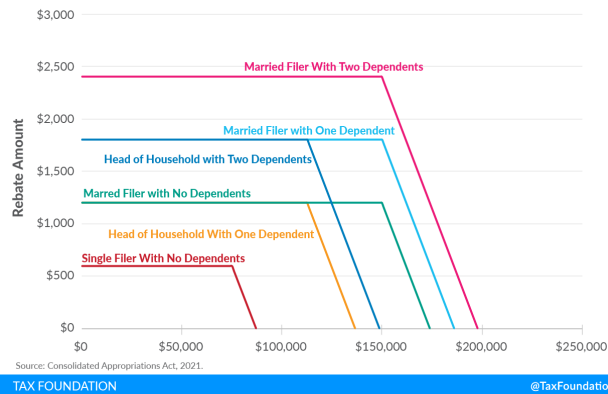
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The Problem with Stimulus Checks

Relief Rebates in the New Coronavirus Relief Package, Dec. 2020
Individual Economic Relief Rebate by Filing Status

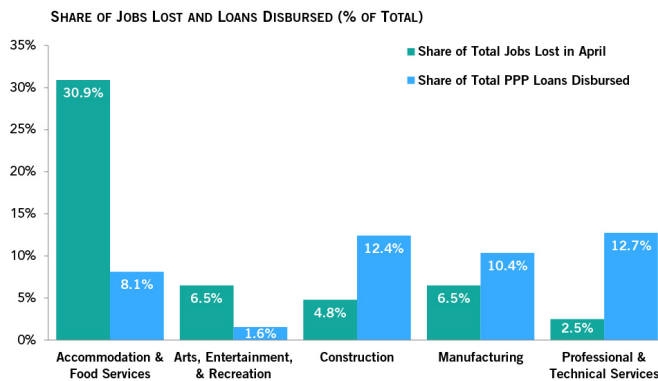


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PPP, Not so Good: Didn't Go to the Right Firms



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.

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

Could a new PPP be better administered?

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