



# COVID-19: Economic Implications and Policy Response

## CA Maritime Affairs & Navigation Conf.

January 27, 2021  
Jon Haveman, Ph.D.  
Executive Director, NEED



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: 53 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: 585+ 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: 44 Ph.D. Economists**

- Aid in slide deck development



NATIONAL ECONOMIC  
EDUCATION DELEGATION

3

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**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**



NATIONAL ECONOMIC  
EDUCATION DELEGATION

4

4

## Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- 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).



5

## Outline

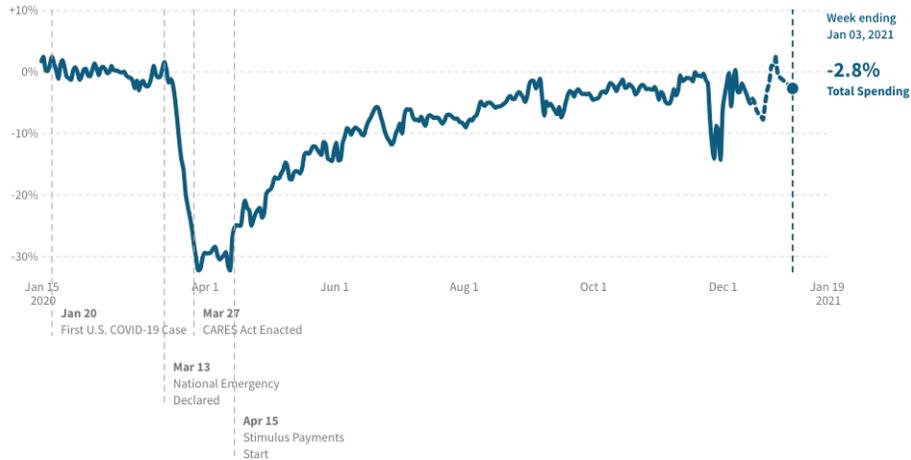
- **Evidence of Impact**
- **Government Policy**
- **Nature of the Recovery**



6

# Spending Patterns Since First US Case

In the United States, as of January 03, 2021, total spending by all consumers decreased by 2.8% compared to January 2020.

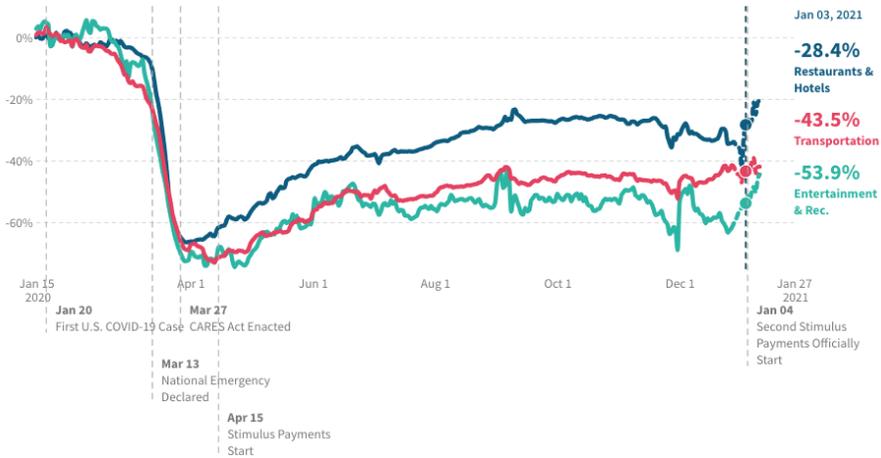


Source: <https://tracktherecovery.org/>

7

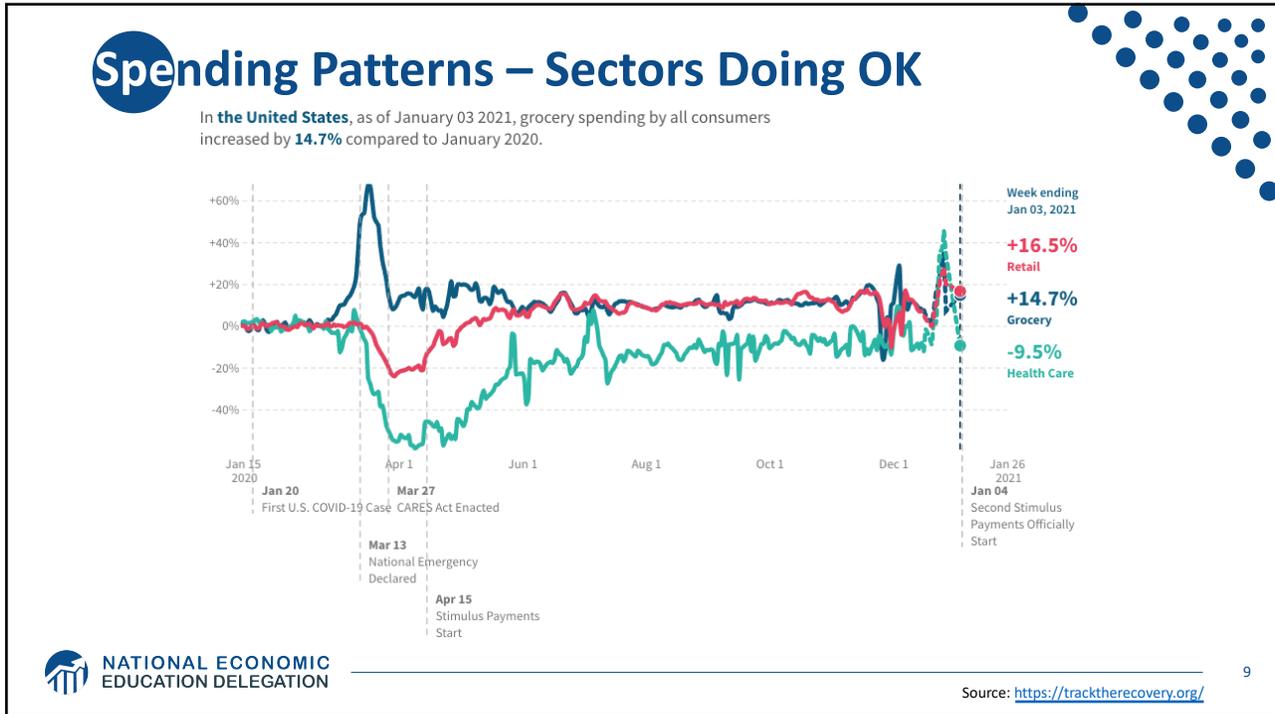
# Spending Patterns – Hardest Hit Sectors

In the United States, as of January 03, 2021, restaurant and hotel spending by all consumers decreased by 28.4% compared to January 2020.

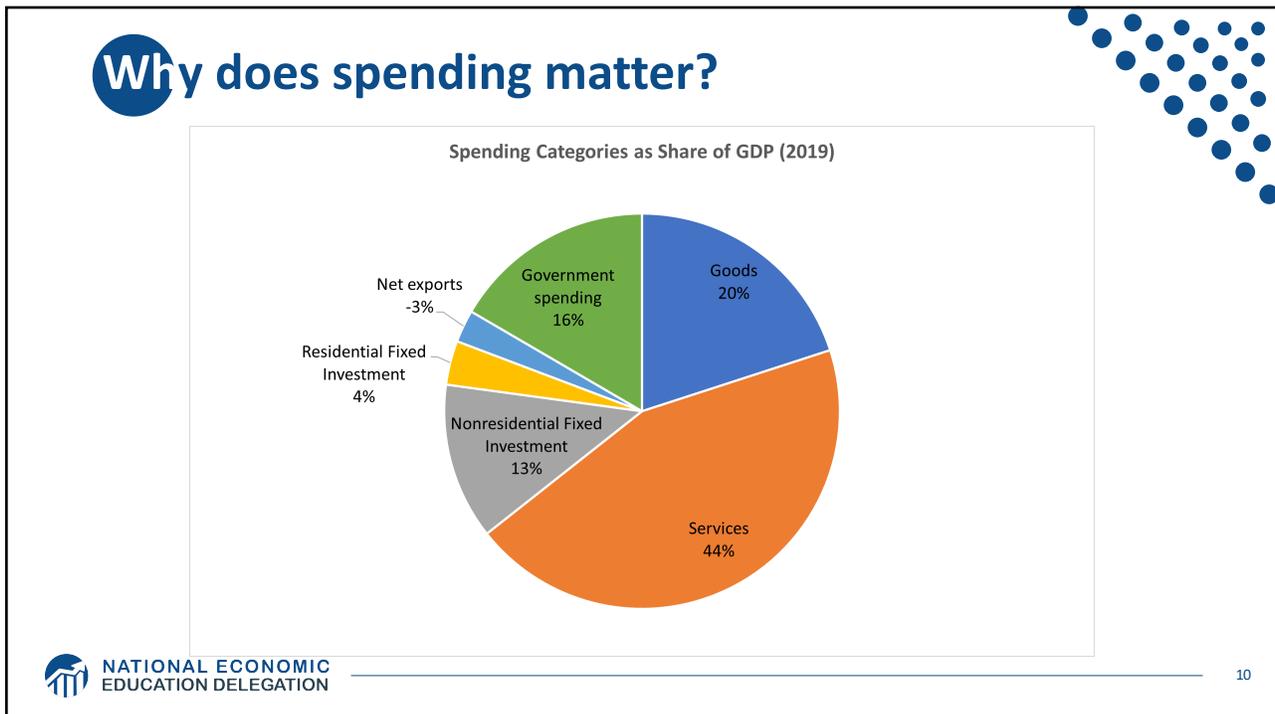


Source: <https://tracktherecovery.org/>

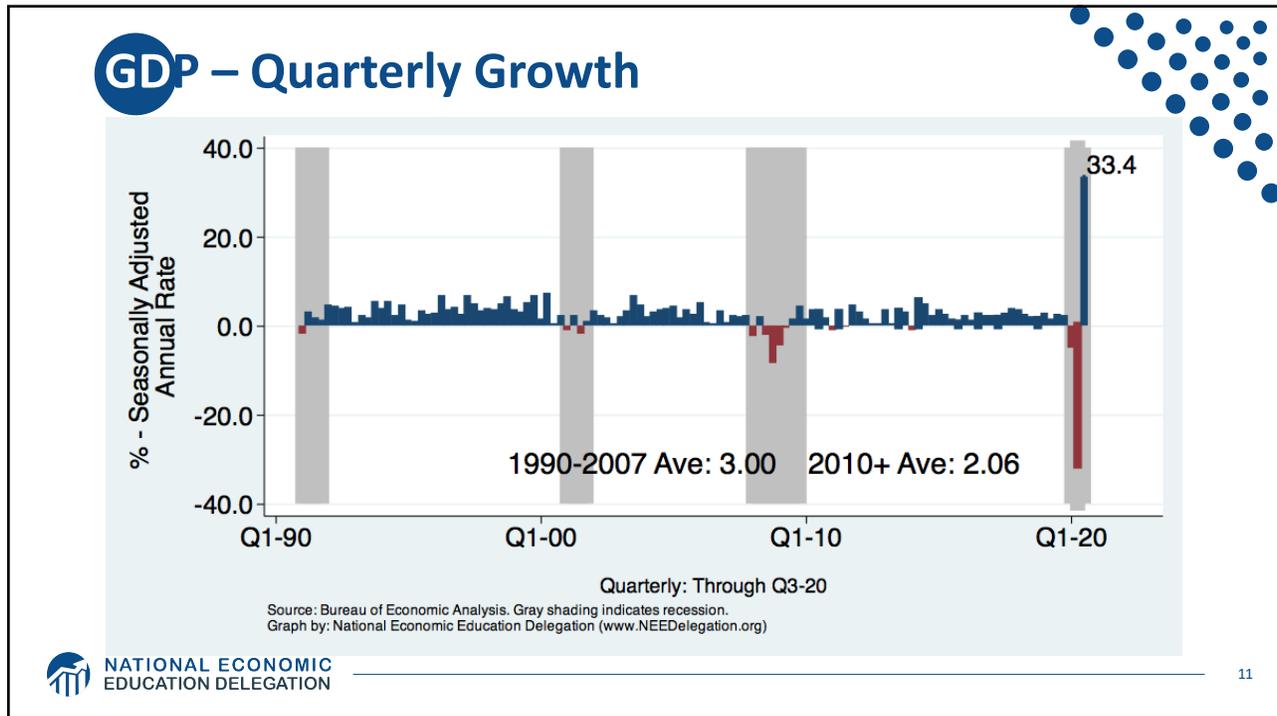
8



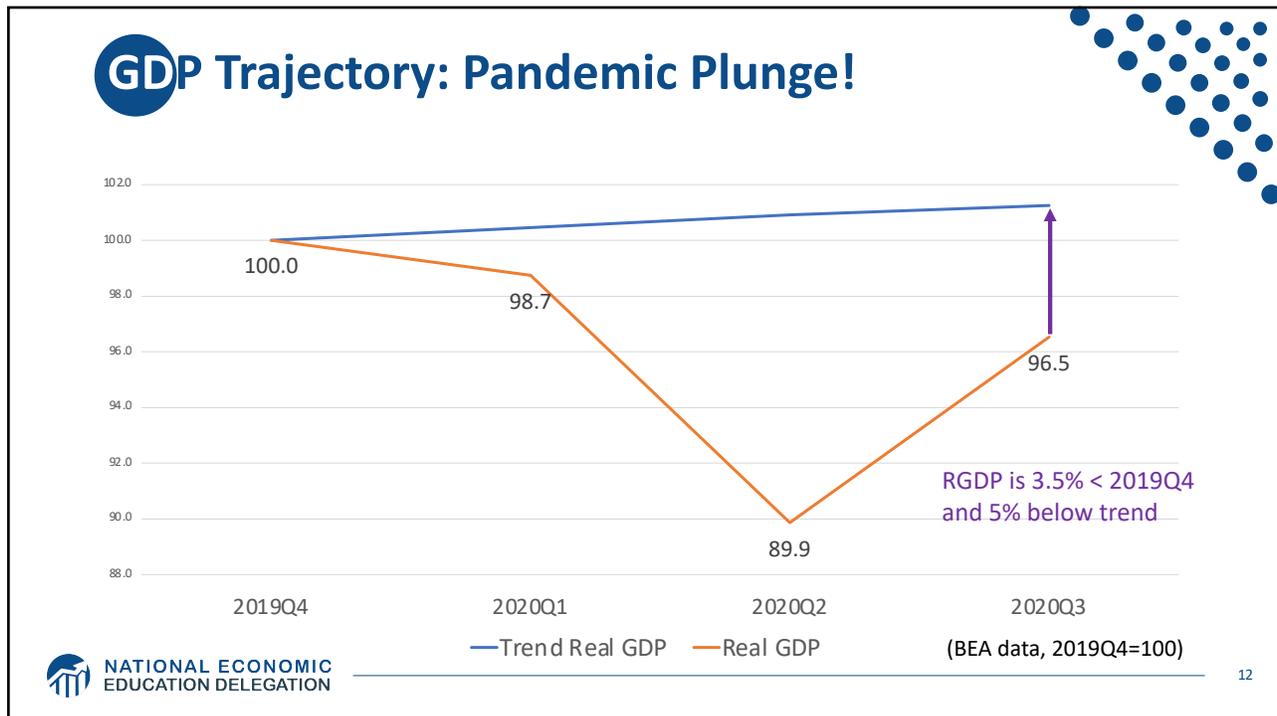
9



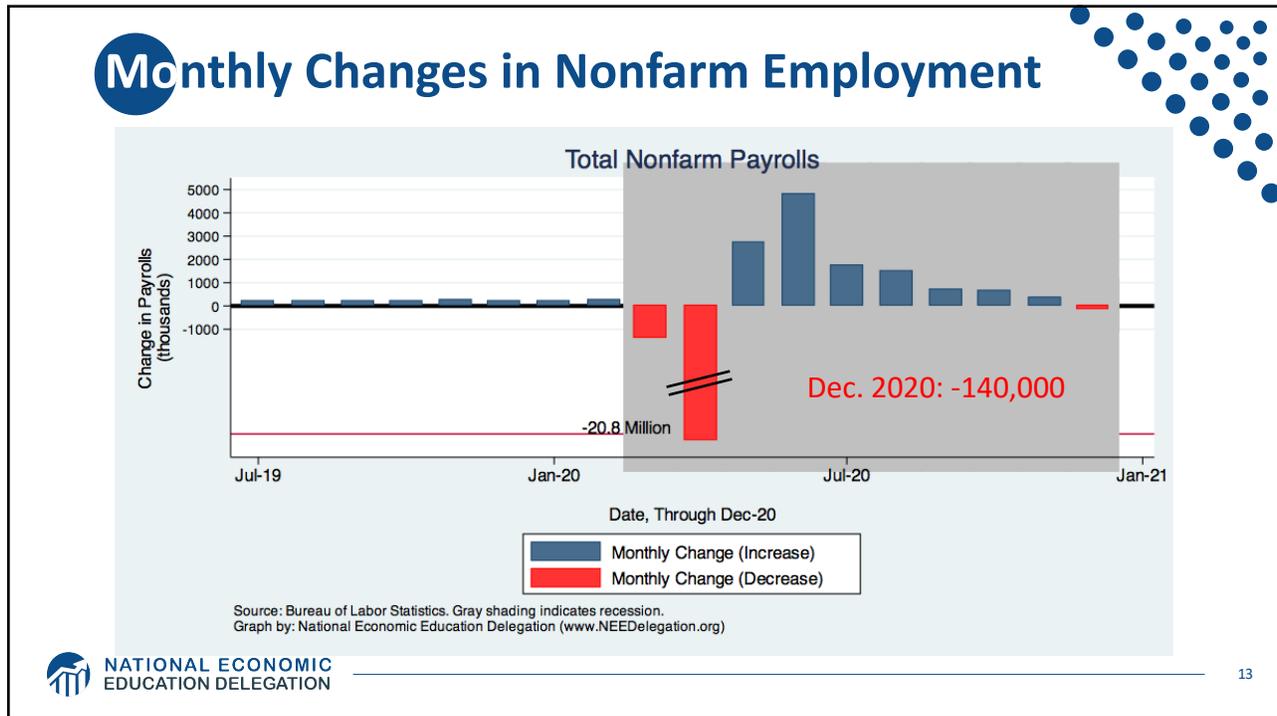
10



11



12

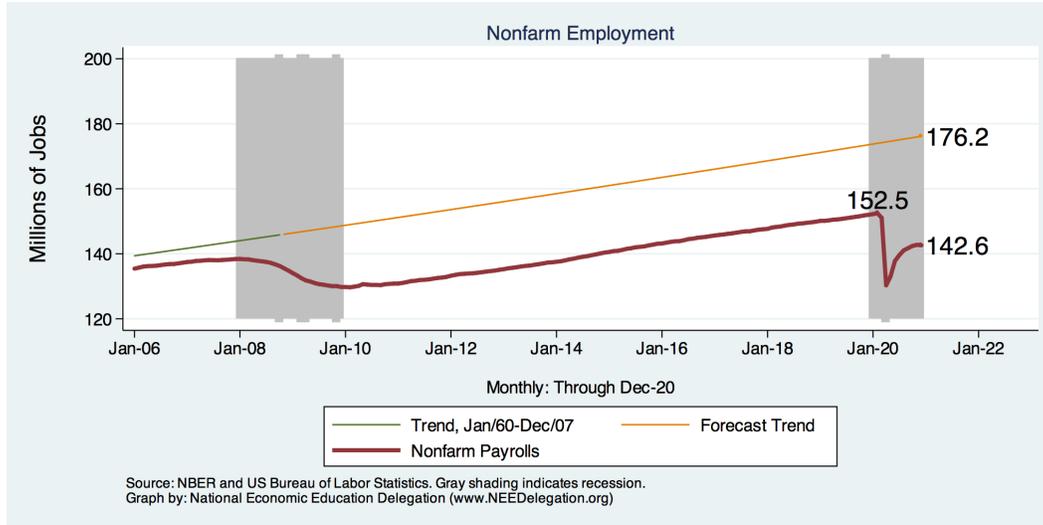


13



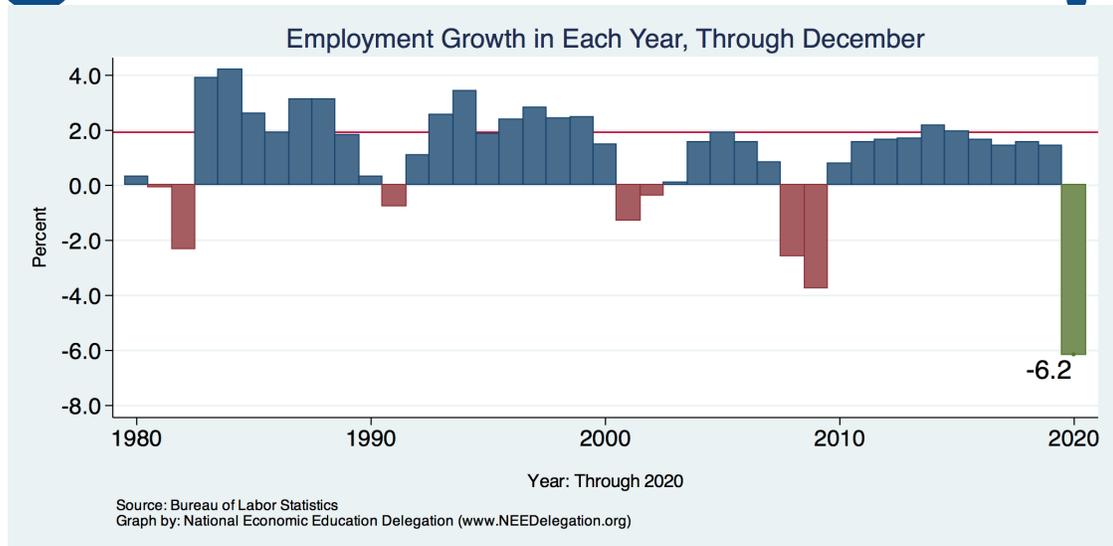
14

# Employment Gap



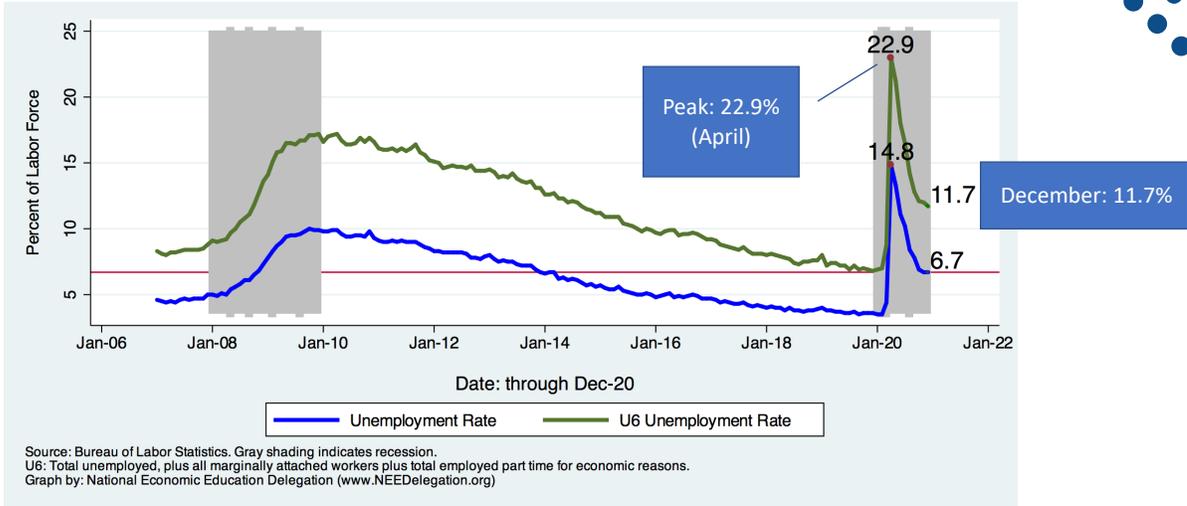
15

# Annual Changes in Nonfarm Employment



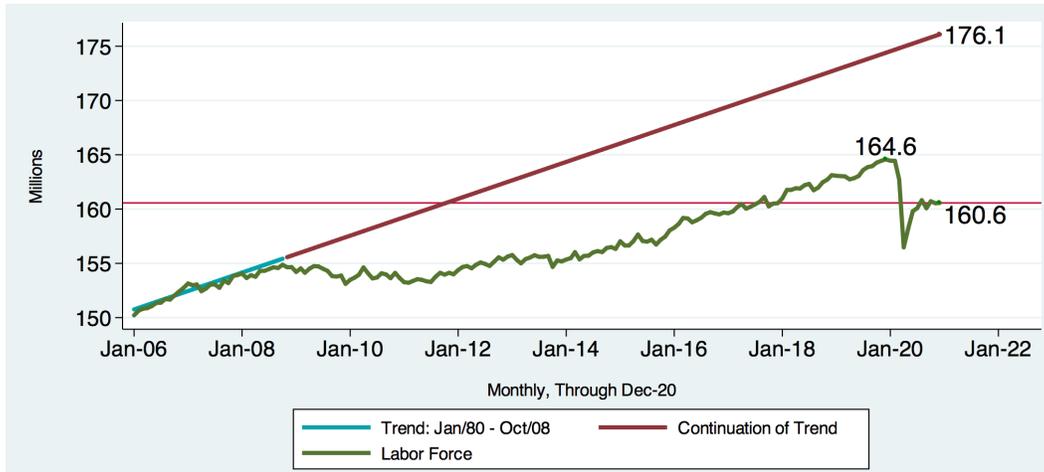
16

## Reduced Spending: Unemployment



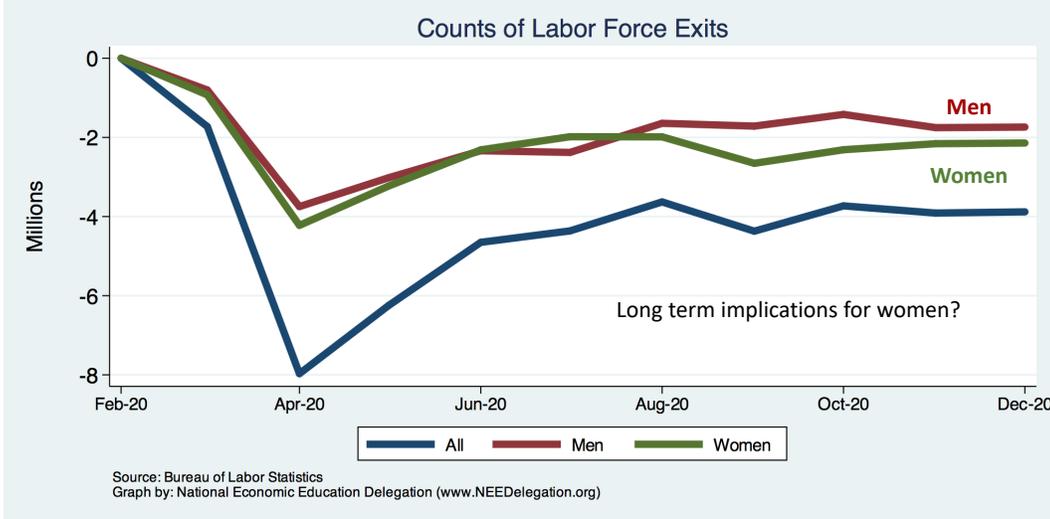
17

## Labor Force is Shrinking – Drives Down UR



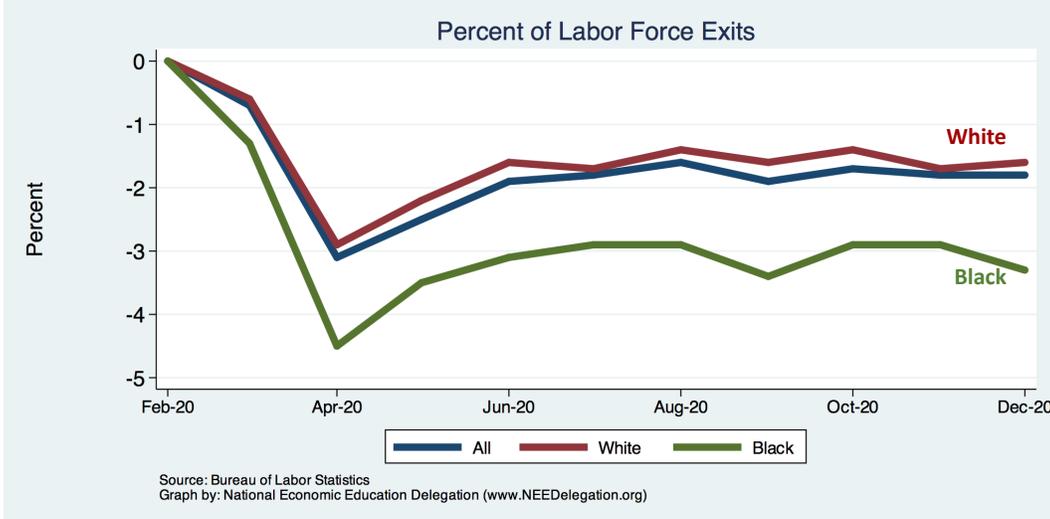
18

## Affecting Women More Than Men

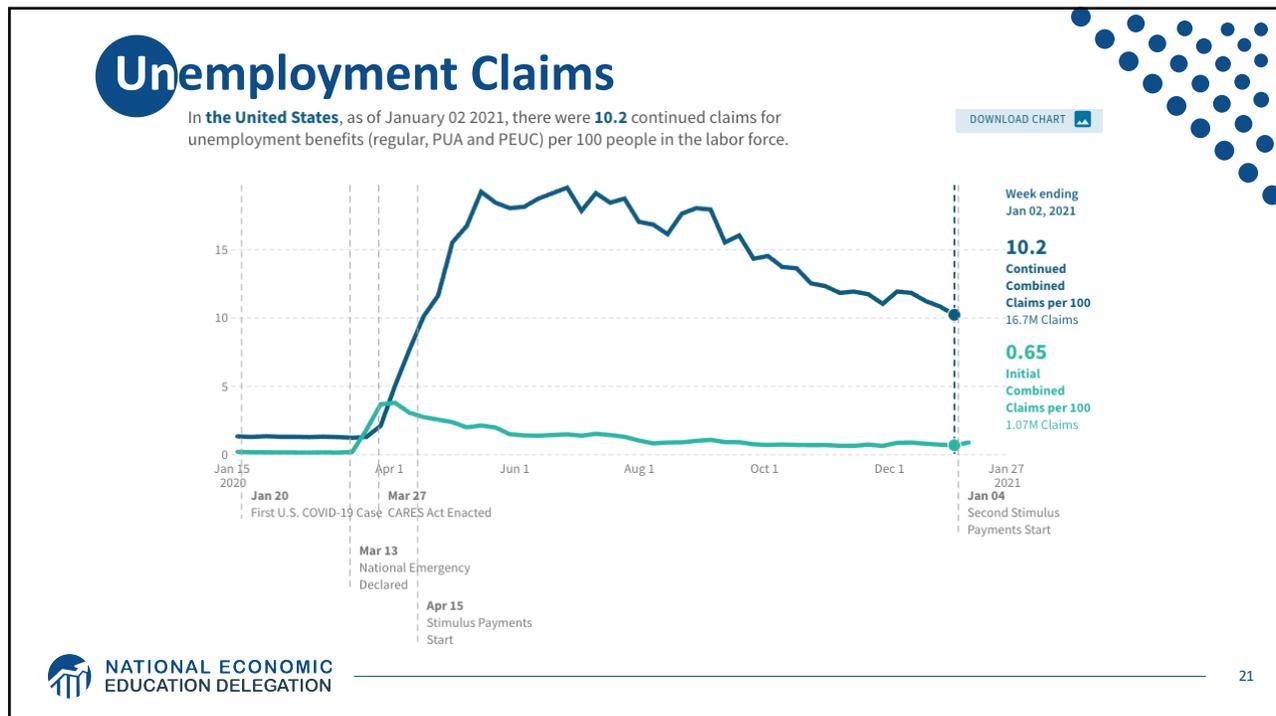


19

## Affecting Black Workers More than White



20



21

## Where are we now?

- 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 (+)
- Interest rates are at historic lows (+/-)
- About 1/3 of small businesses have stopped operations (-)
- Unemployment rolls remain significantly elevated (-)
- Many Americans – especially women - have left the labor force (-)

22

# A Tale of Three Policies Efforts

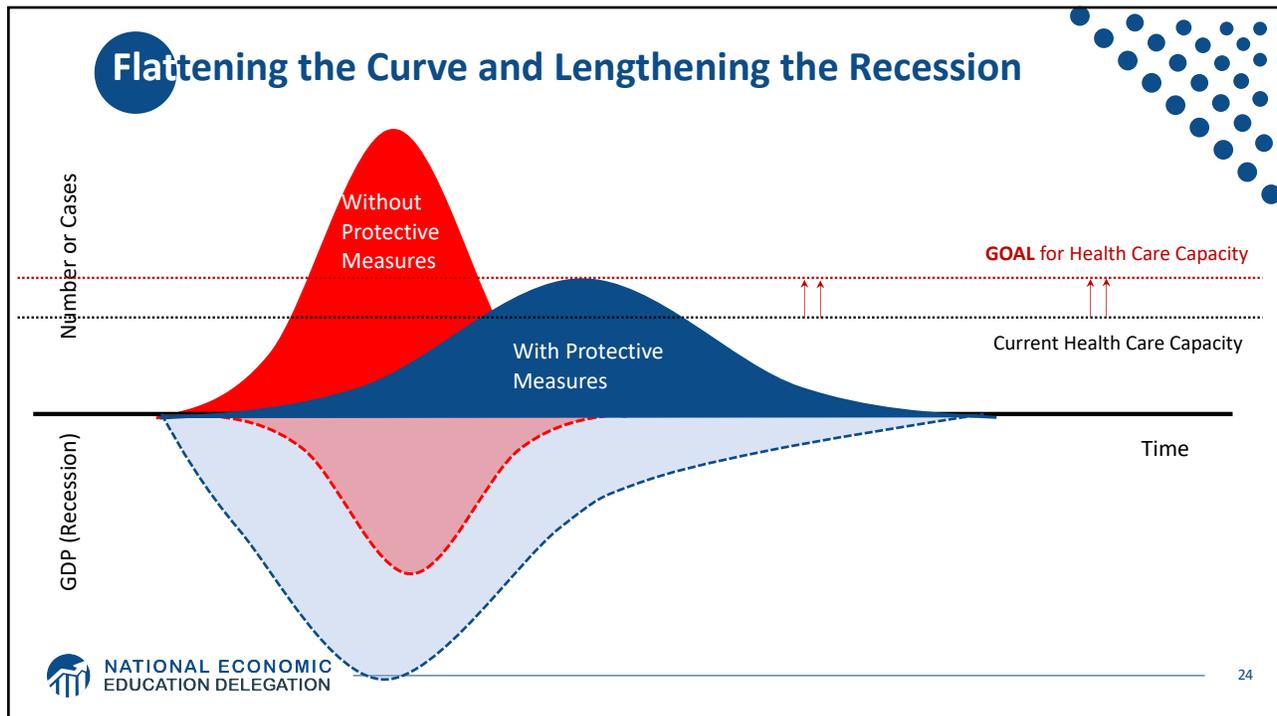
- Social policy: Social Distancing
- Fiscal Policy
- Monetary Policy



NATIONAL ECONOMIC EDUCATION DELEGATION

23

23



24

## Concern: Opening Too Soon

### New reported cases by day



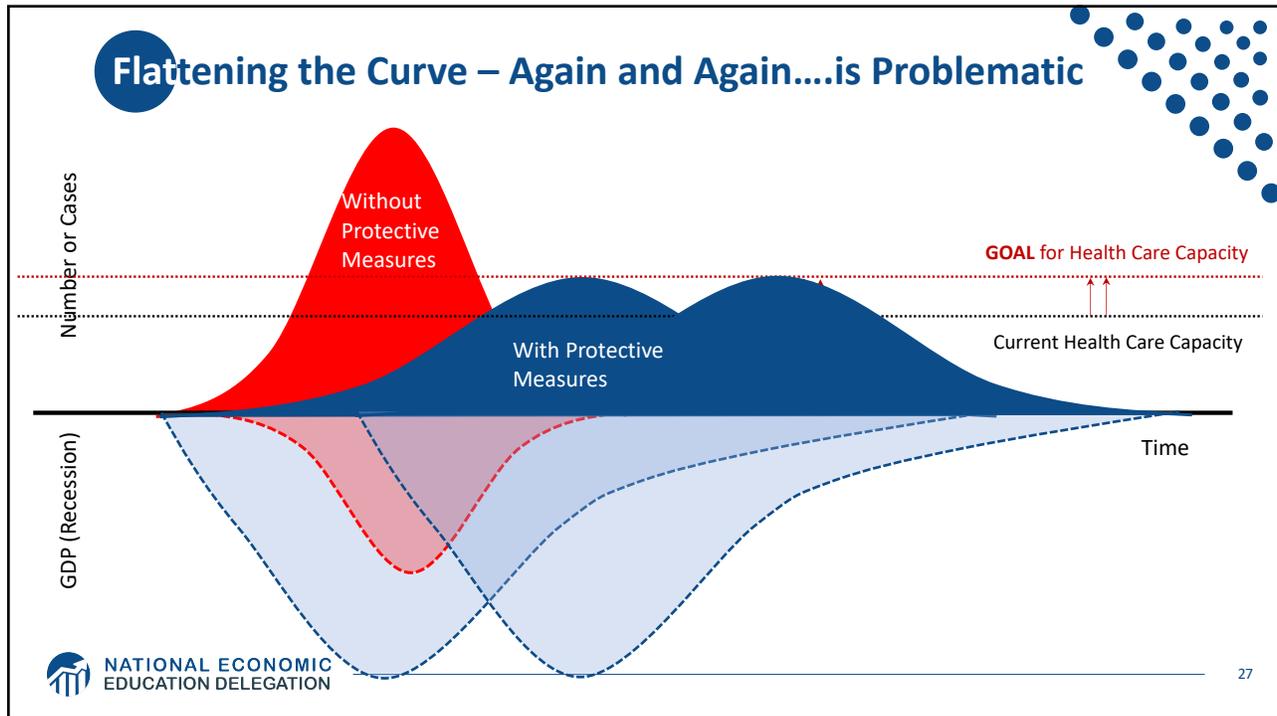
25

## Repeated Reopenings...Record #s of Deaths

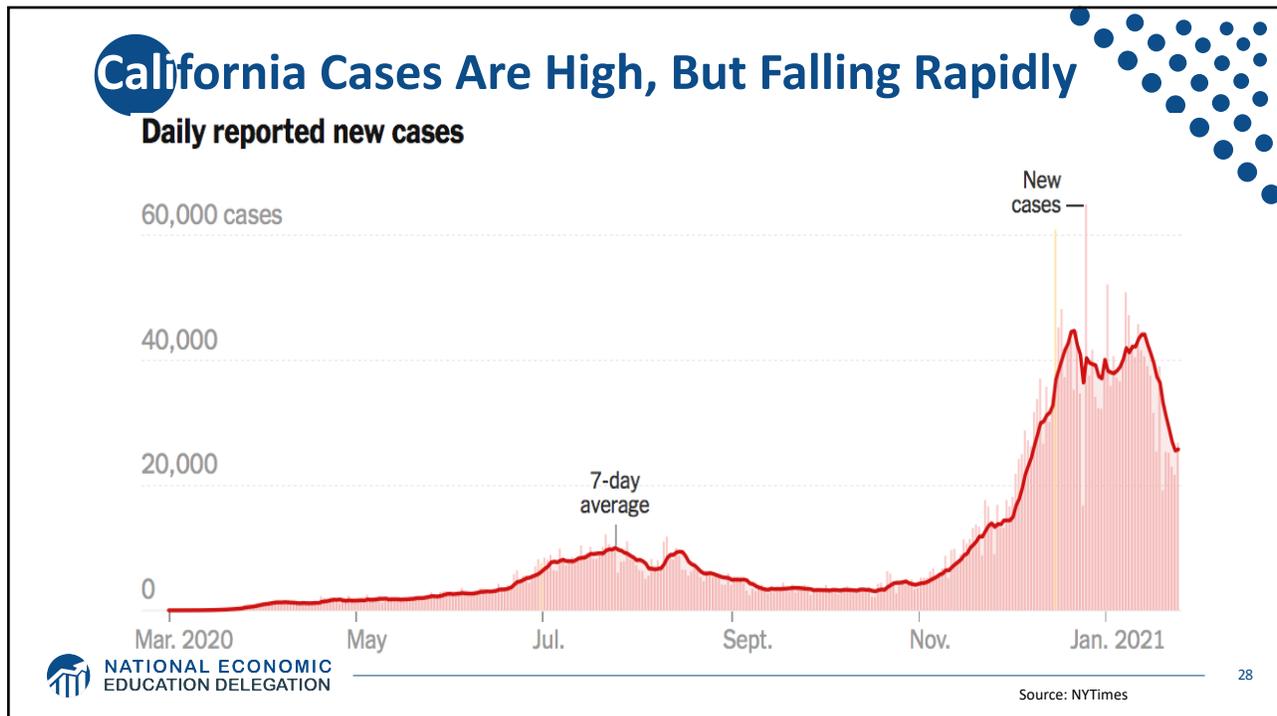
### Daily reported deaths



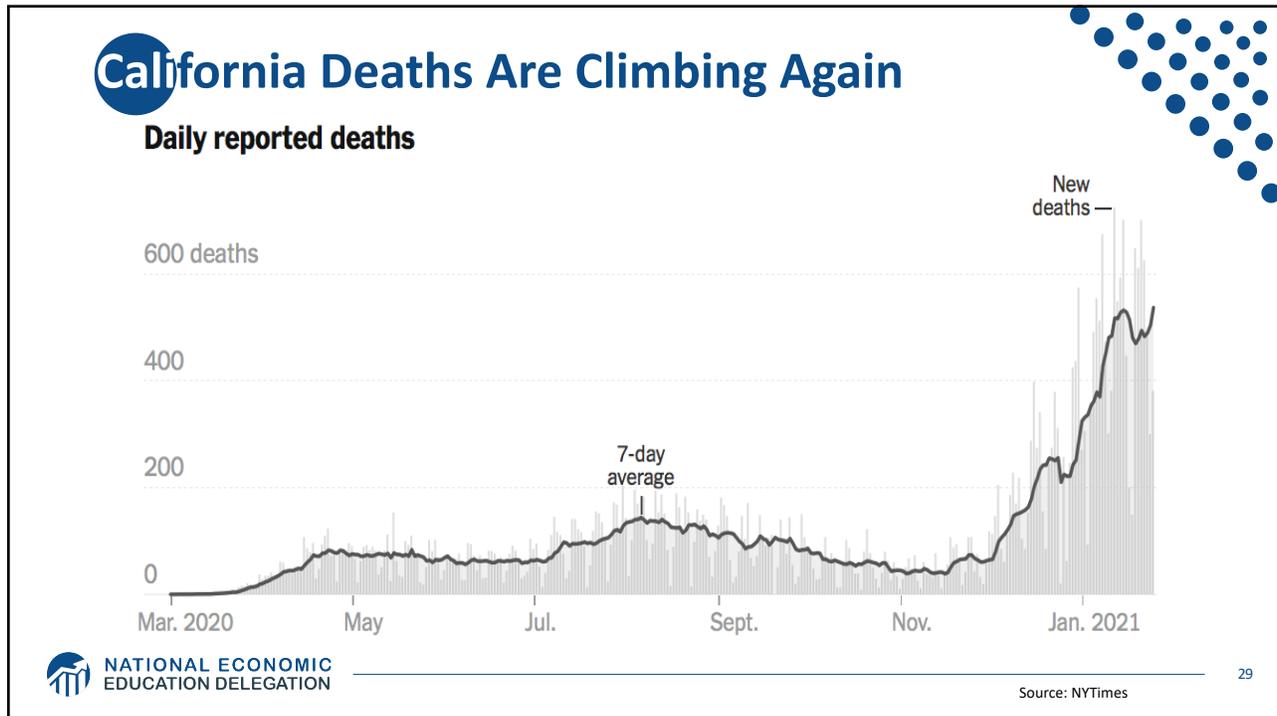
26



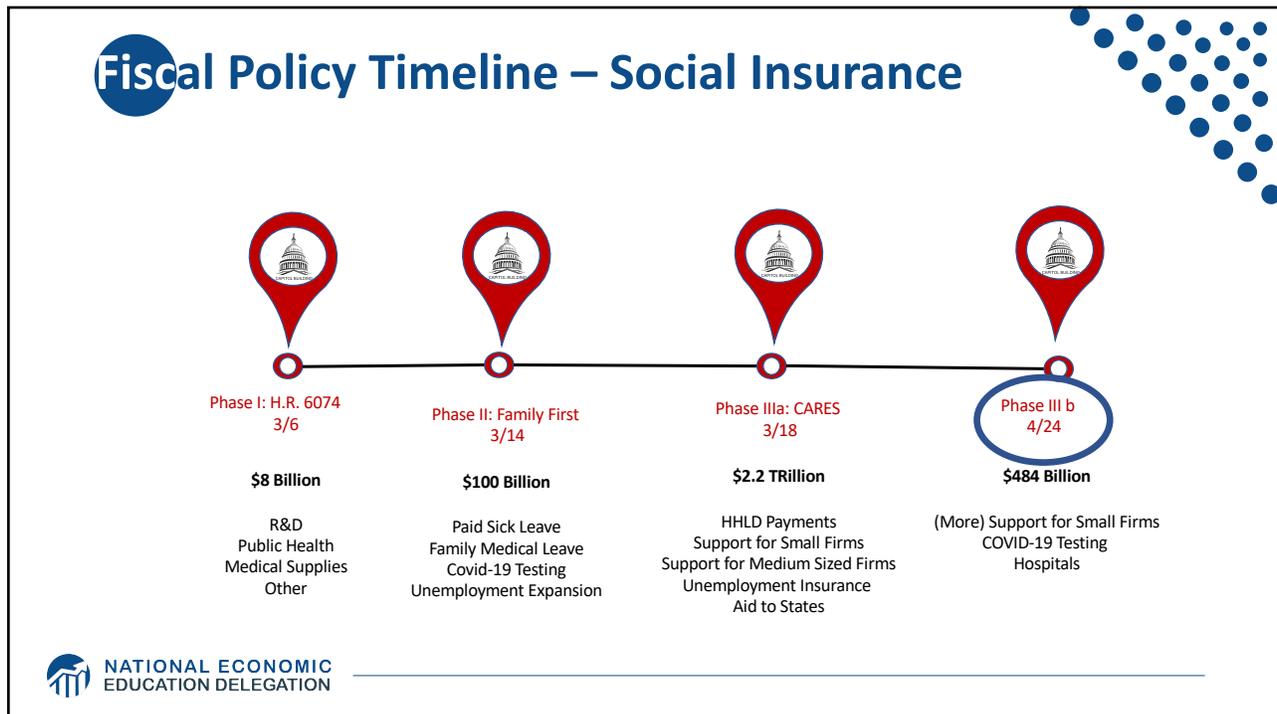
27



28



29



30

## There was/is an Enormous Fiscal Policy Gap

- **The last time Congress acted was April 24.**
- Unemployment payments are not sufficient.
- Low wage workers are in trouble.
- Small businesses are struggling.
- Renters can't pay rent.
- Lines at food banks are very long.
- States and local governments are slashing employment.



31

## Last Fiscal Package (Dec.): What's in it?

- \$600 (may soon be \$2,000) checks to individuals
- \$300 additional unemployment benefits (through March)
- \$284 billion for paycheck protection program
- \$82 billion for schools and universities
- \$68 billion for vaccine distribution
- \$25 billion for rental assistance
- \$93 billion in other support



32

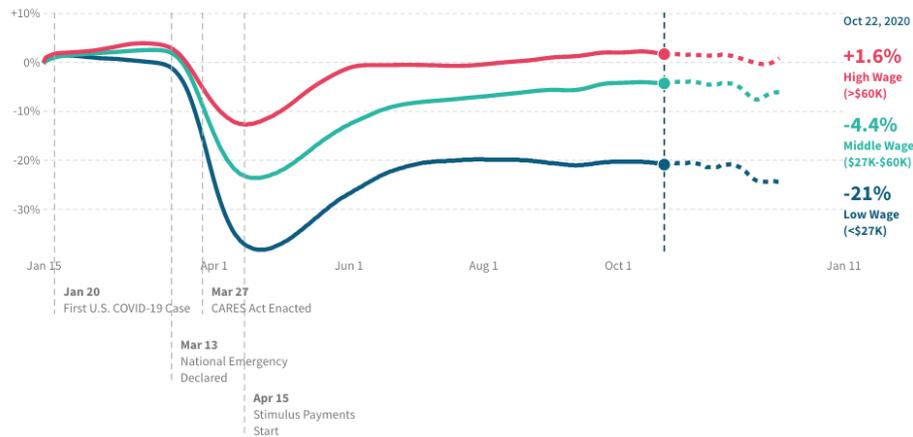
# What's Missing?

- **Real help to households**
  - \$600 just isn't enough.
- **State and local support**
- **Real support for renters**
  - Down possibly as much as \$70B.
- **Targeted small business support**
- **Many other things...**

33

# Low Wage Employment is Lagging

In the **United States**, as of October 22, 2020, employment rates among workers in the bottom wage quartile decreased by **21%** compared to January 2020 (not seasonally adjusted).

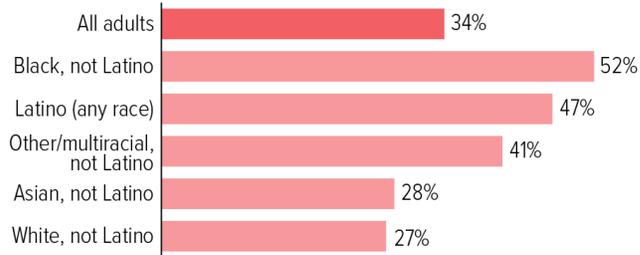


34

# Low Income Troubles

## 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



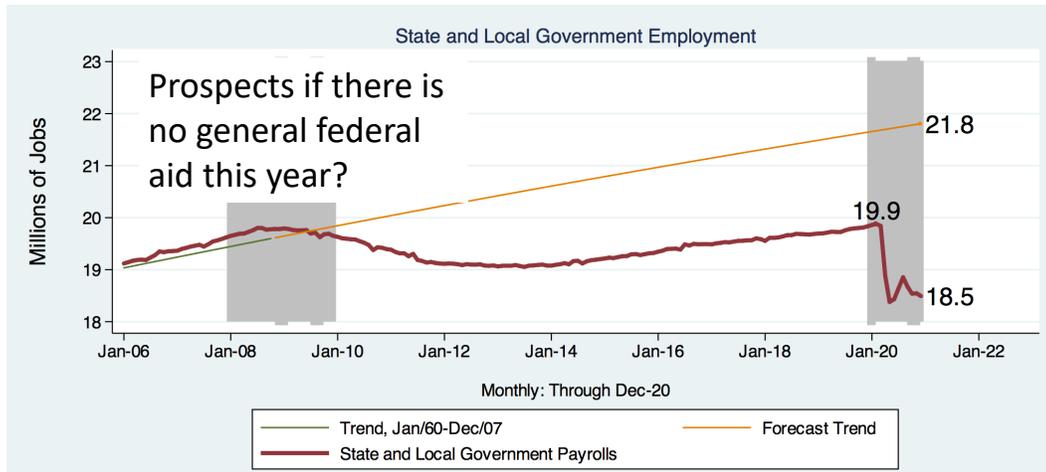
Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

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

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

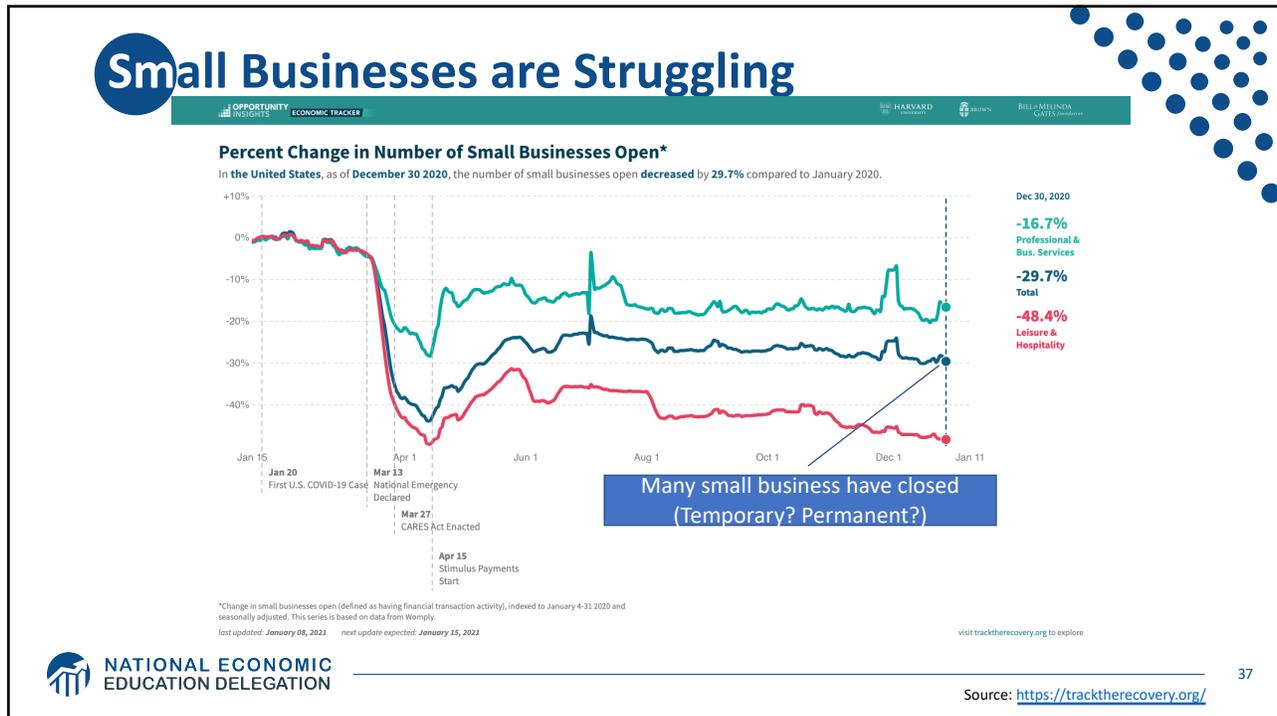


# State and Local Employment



Source: NBER and US Bureau of Labor Statistics. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDelegation.org)





37

## Biden Recovery Package \$1.9T: What is in it?

- **\$1,400 checks to individuals (and \$600 for eligible dependents).**
- **\$400 additional unemployment benefits (through the crisis)**
- **Expand child tax credit (lower income families)**
- **Increase the minimum wage to \$15/ hour**
- **\$350 billion to state and local governments**
- **\$30 billion in rental assistance**
  - extend the eviction ban through September
- **\$20 billion for vaccine program**
- **\$15 billion for small businesses**
- **Provide funds to reopen schools**
- **Renew paid leave provisions**

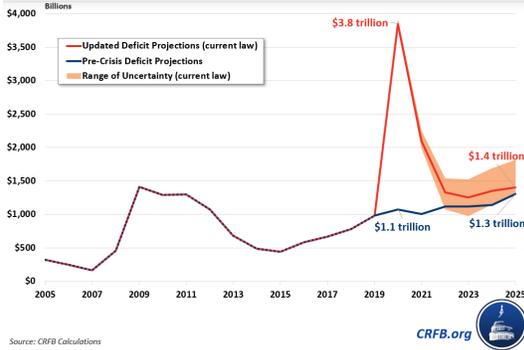
**NATIONAL ECONOMIC EDUCATION DELEGATION**

38

38

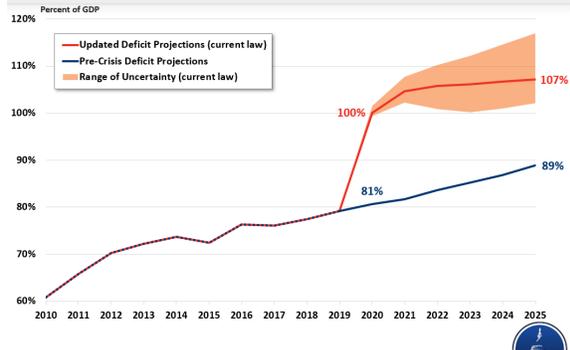
# Looking Forward: Federal Budget Implications

## Federal Deficit Will Reach Record Levels



Deficit may be nearly 20% of GDP

## Debt Will Equal Size of Economy This Year



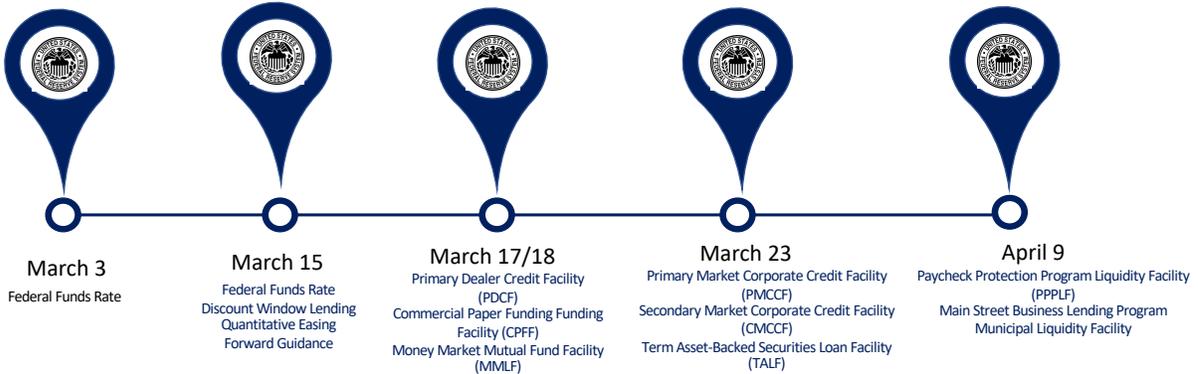
Debt will likely equal GDP this year

39

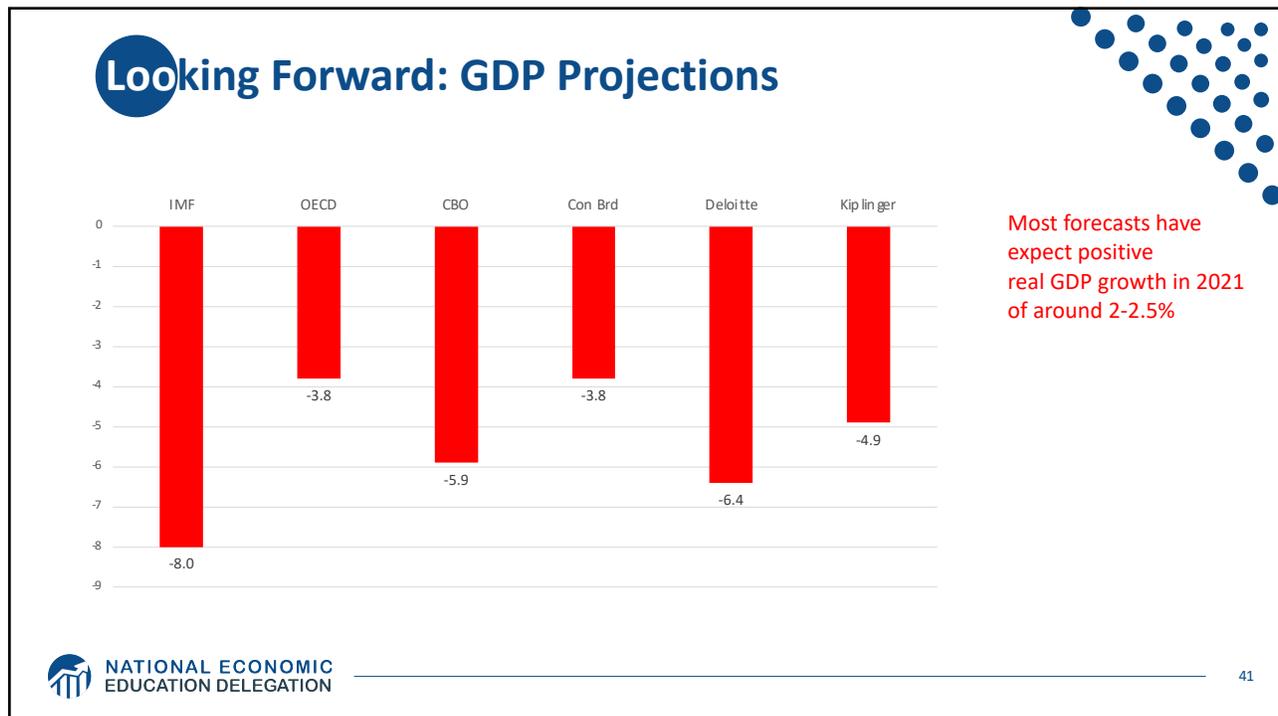
# Monetary Policy – Federal Reserve

### Primary objectives:

- Stabilize the economy
- Maintain liquidity of the system



40



41

## A "K-shaped" recovery?

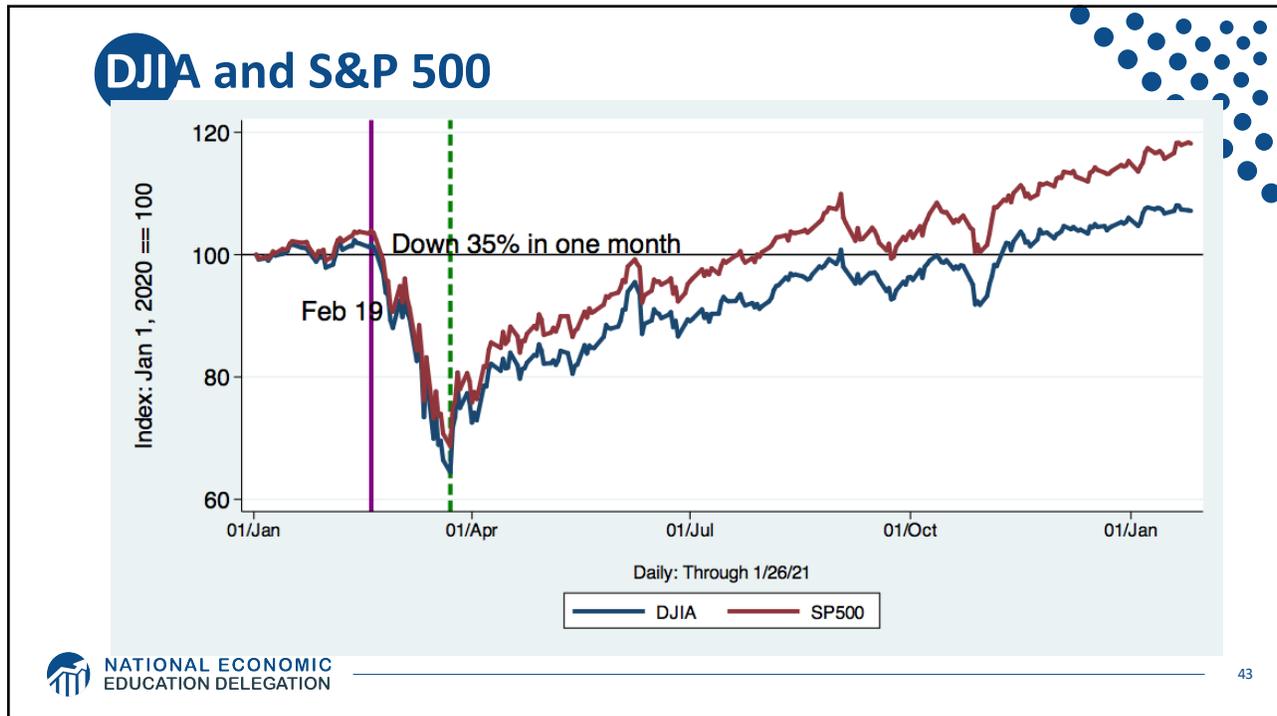
### Executive Summary

- 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 is very high.

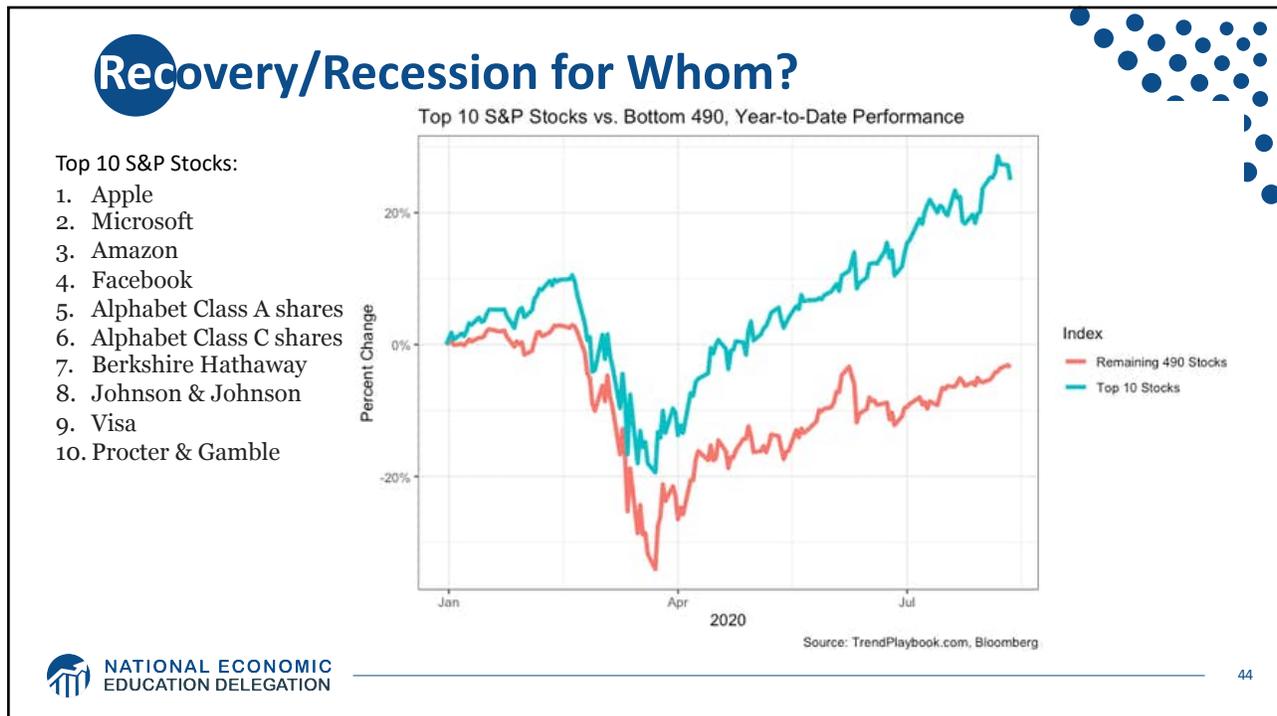
NATIONAL ECONOMIC EDUCATION DELEGATION

42

42



43



44

## Structural Changes?

- **Pandemic has been an accelerant.**
  - Not a change agent.
- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel**
- **Wealth concentration**
- **Industry concentration**
- **Automation**



## 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 (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
- **Savings are off the charts!**



## What are the Risks to Recovery

1. Continuation of the virus (like 1918)
2. Lack of additional 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)
4. Mass evictions/foreclosures (like 2009)

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

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



NATIONAL ECONOMIC  
EDUCATION DELEGATION

47

47

## 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.**



NATIONAL ECONOMIC  
EDUCATION DELEGATION

48

48

## Conclusion

- **COVID-19 is health crisis that has macroeconomic implications.**
  - With enormous built-in inequities.
- **Significant structural changes – accelerant.**
- **GDP will likely contract between 3.0 and 5.0 percent this year.**
  - Positive growth will likely return in 2021.
- **Gov't spending induced growth in Q3.**
  - Spending stopped in Q4.
- **Policy gap has created enormous hardship.**
- **Physical health determines economic health.**



Thank you!

## Any Questions?

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

Jon D. Haveman

Jon@NEEDelegation.org

Contact NEED: [info@NEEDelegation.org](mailto:info@NEEDelegation.org)

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

Become a Friend of NEED: [www.NEEDelegation.org/friend.php](http://www.NEEDelegation.org/friend.php)



## Resources

- **Schedules of Major Economic Releases**

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

- **DIY Real Time Data:**

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

- **Data Visualization and Coverage**

- Some examples at [Tableau](https://www.tableau.com)

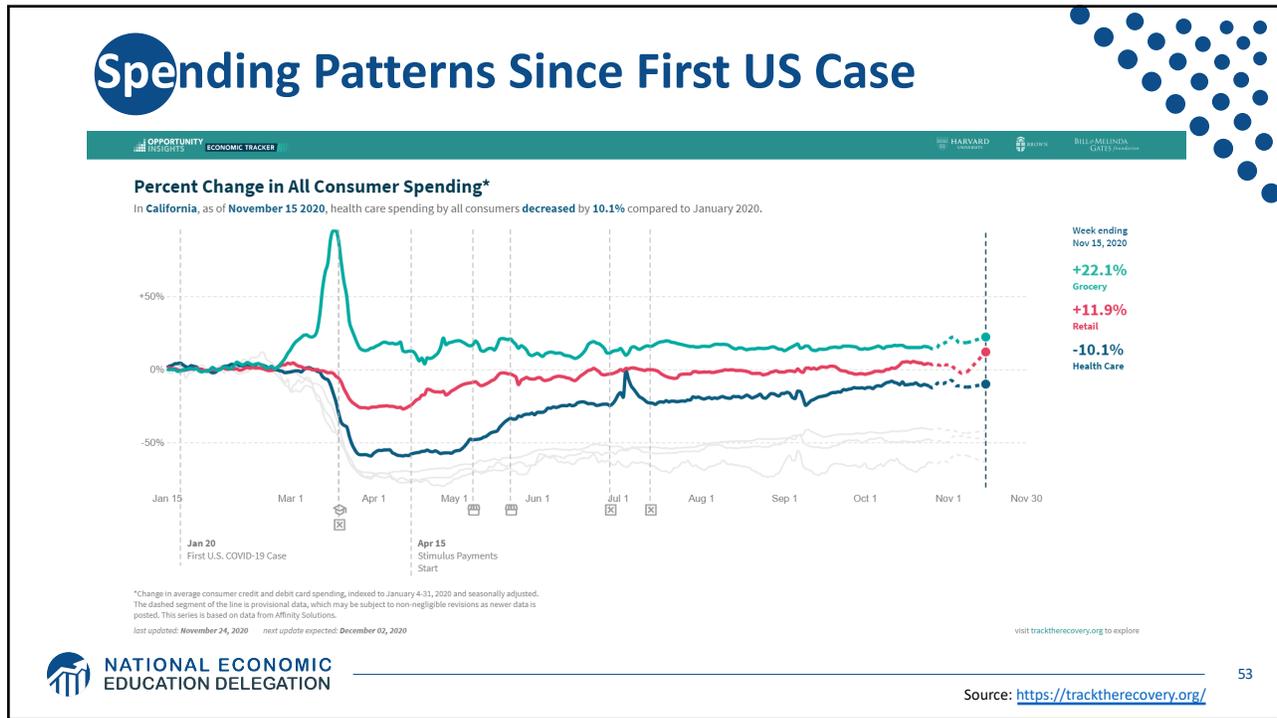


51

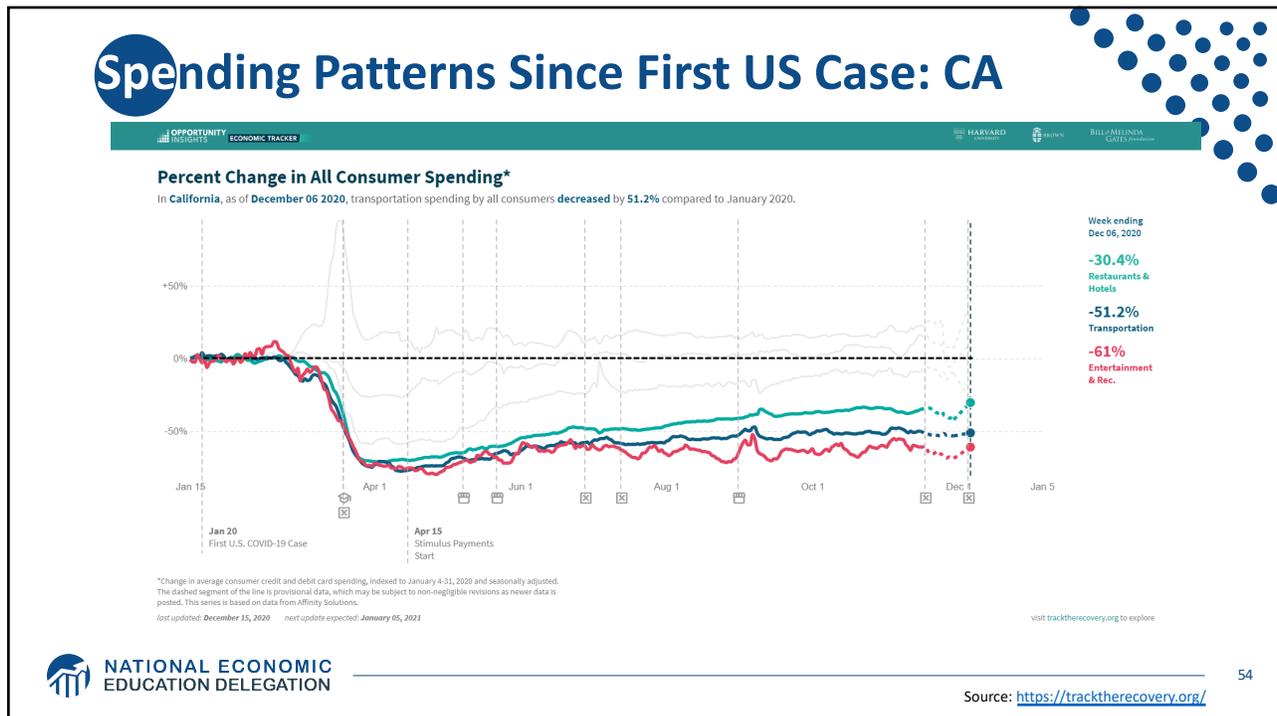
## Bonus Slides



52

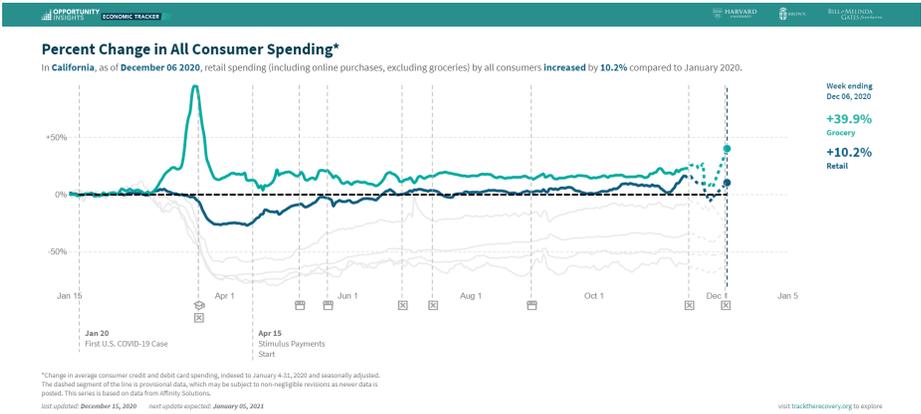


53



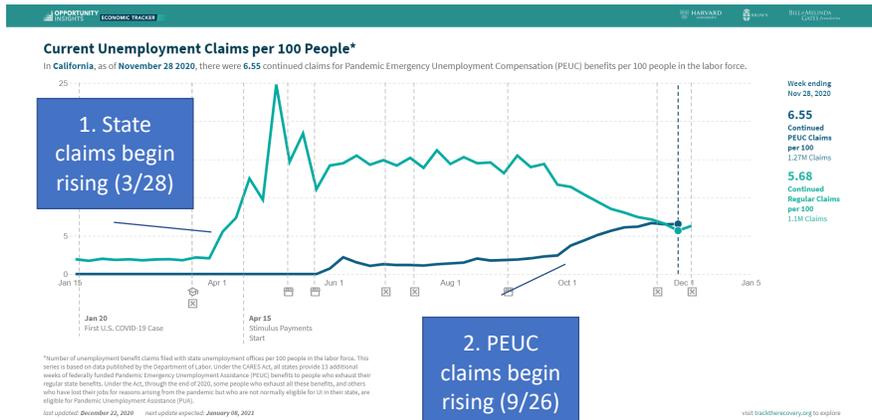
54

# Spending Patterns Since First US Case



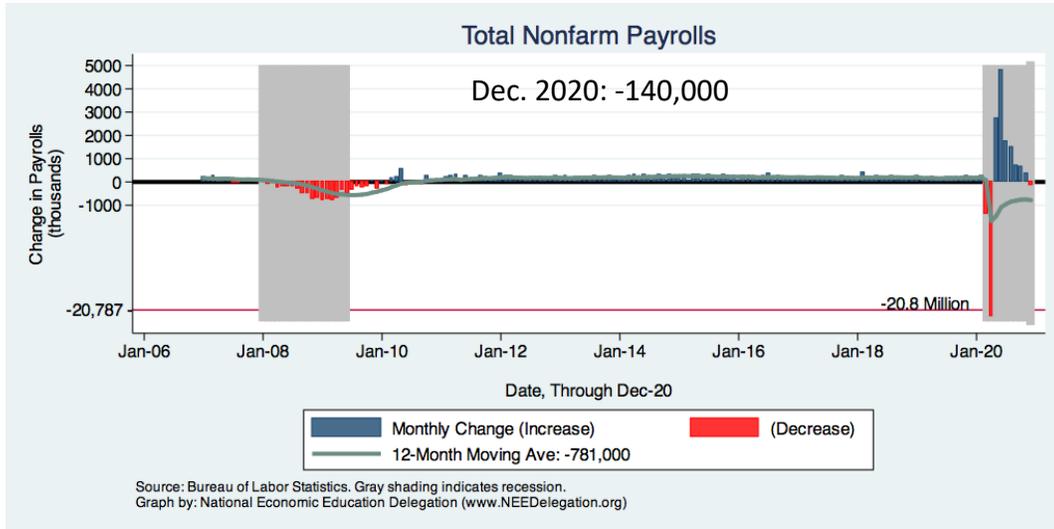
55

# Implications of Reduced Spending: Regular and PEUC claims



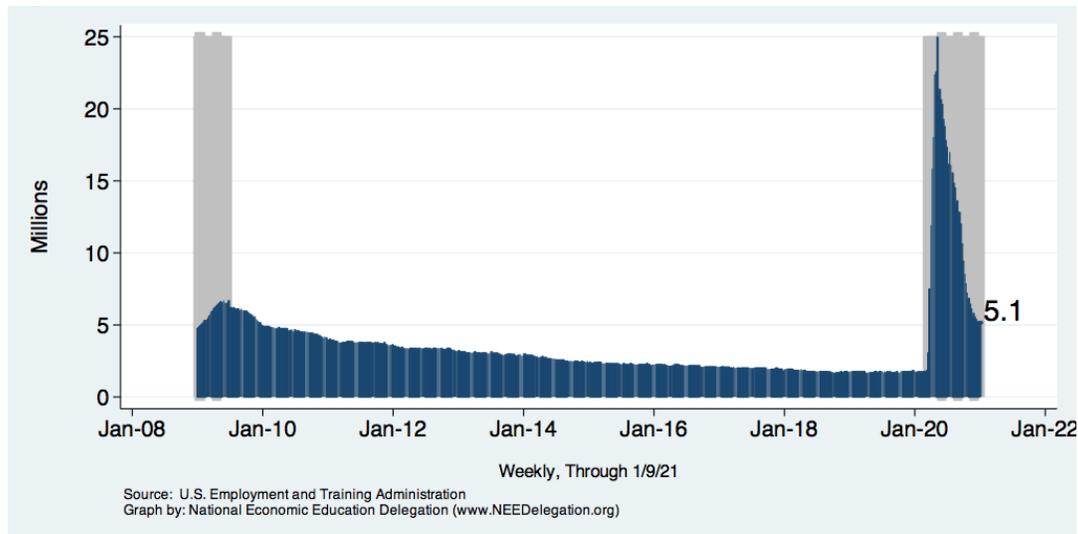
56

# Monthly Changes in Nonfarm Employment

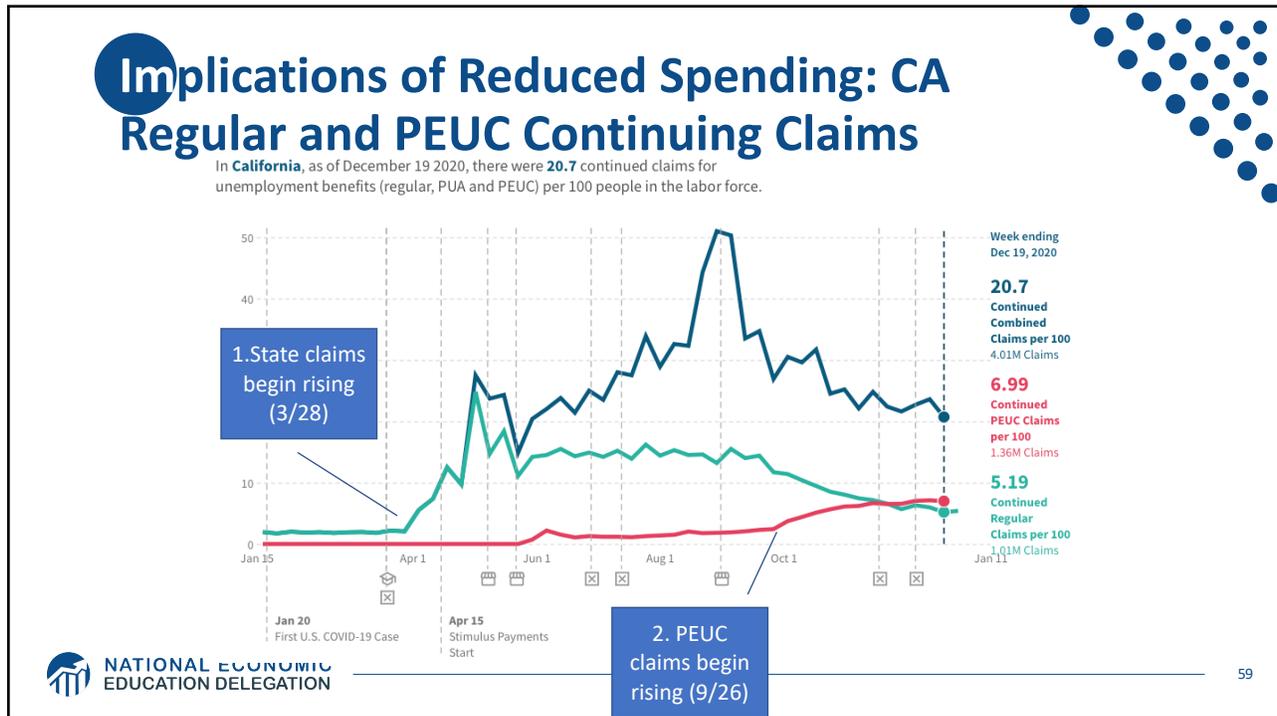


57

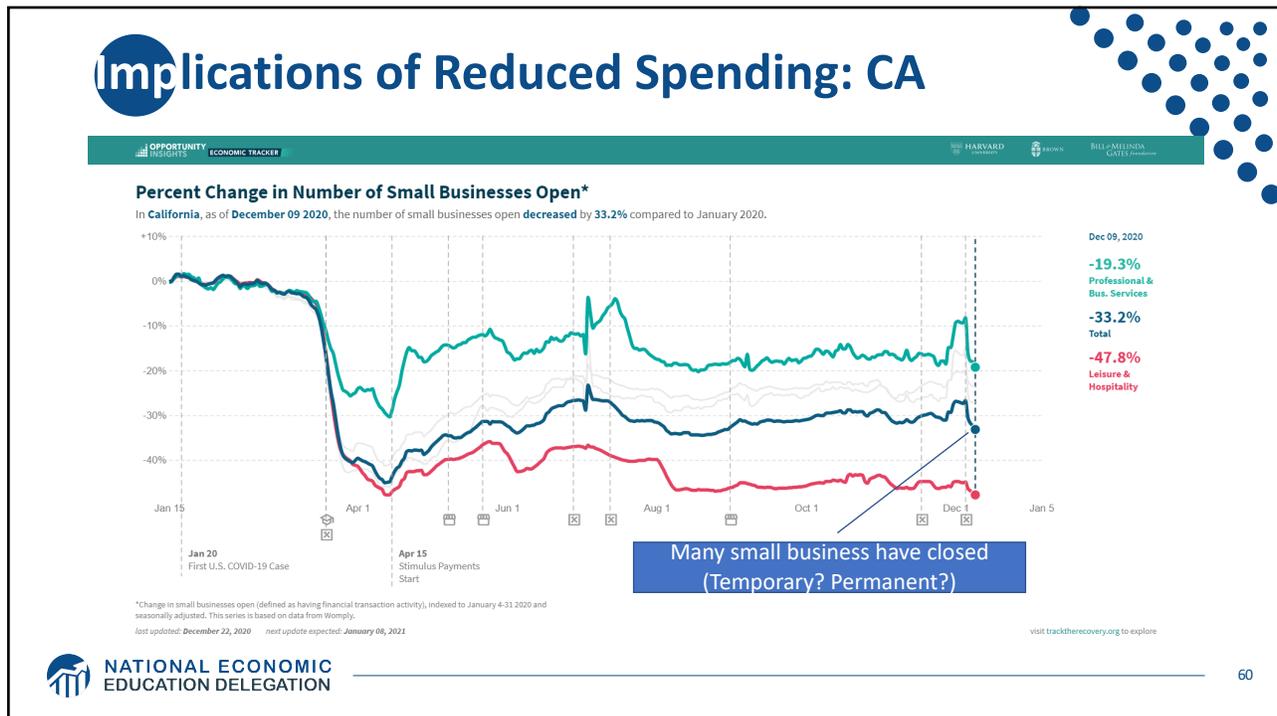
# Continuing Unemployment Claims



58

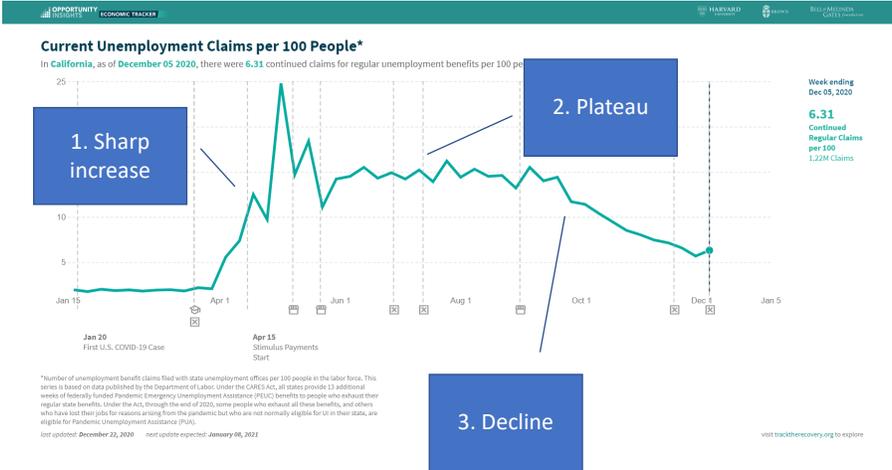


59



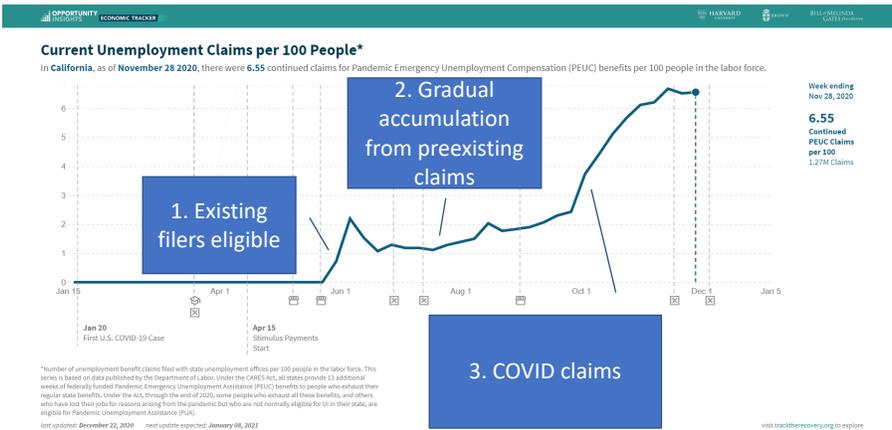
60

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

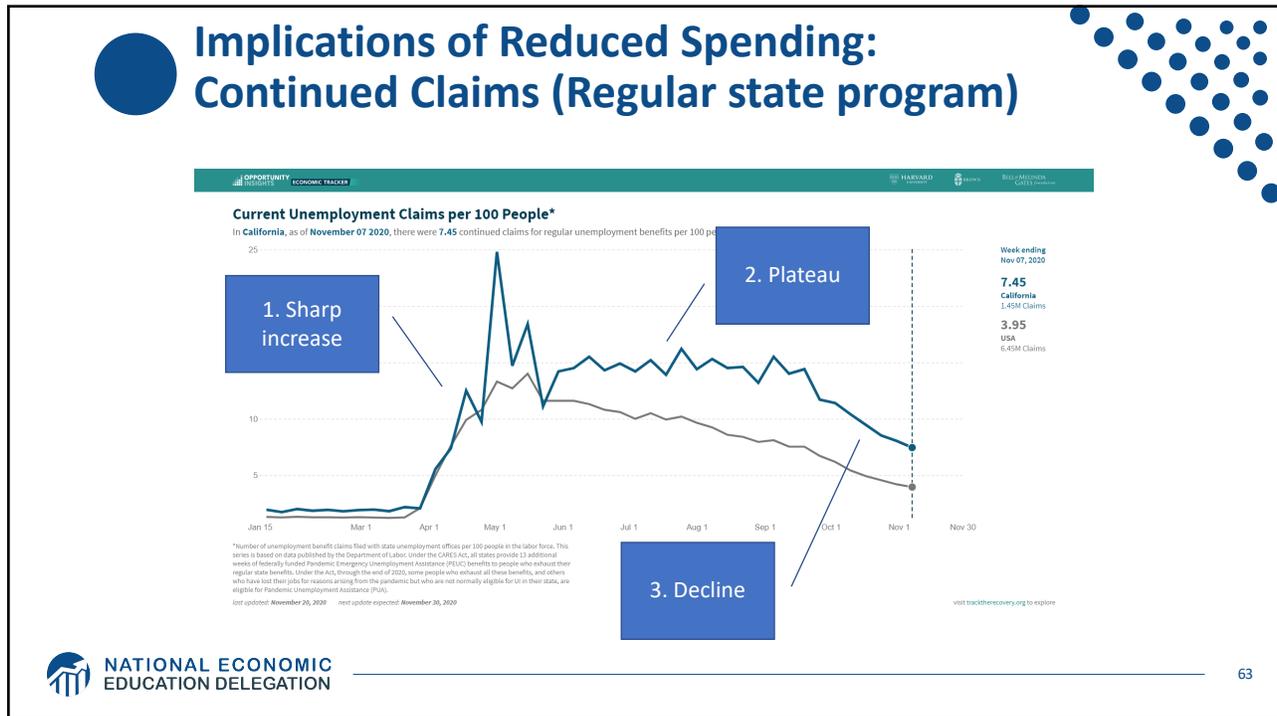


61

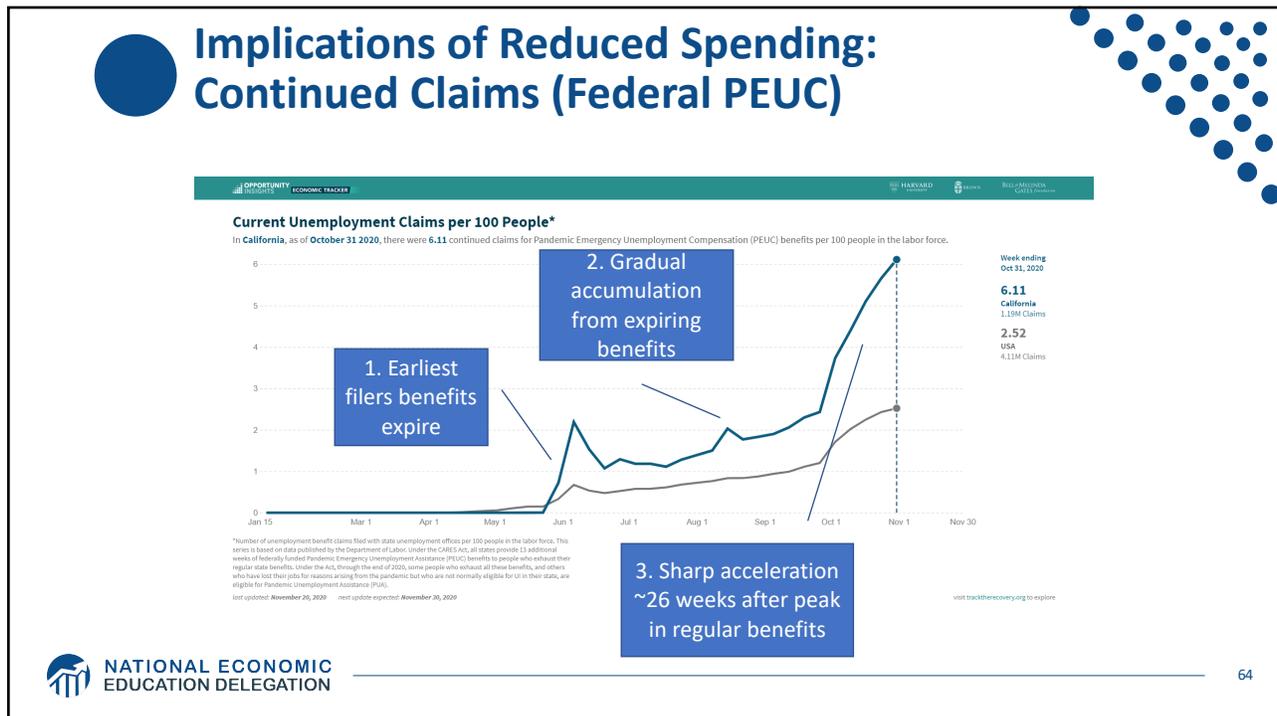
# Implications of Reduced Spending: Continued Claims (Federal PEUC)



62



63



64

# Deficit Impact

## Estimated Deficit Impact of Major COVID Relief Legislation (billions)

	Families First	CARES	PPPHCE	Response & Relief	Total
Small Business Support <sup>^</sup>	-	\$375	\$225	\$325	\$960
Unemployment Benefits	\$5	\$460	-	\$120	\$585
Recovery Rebates	-	\$290	-	\$165	\$460
Health Care Spending	\$90	\$160	\$100	\$70	\$420
State and Local Aid <sup>*</sup>	\$85	\$175	-	\$80	\$340
Tax Relief	\$25	\$265	-	\$40	\$330
Other Spending	\$20	\$170	-	\$135	\$325
<b>Total COVID Relief (Net Cost)</b>	<b>\$225</b>	<b>\$1,900</b>	<b>\$355</b>	<b>\$935</b>	<b>\$3,415</b>

Rounded to nearest \$5 billion.  
 Source: Committee for a Responsible Federal Budget based on CBO, JCT, and other sources.  
<sup>^</sup>We assume the PPP from the CARES Act cost based on its initial score and allocate all returned or unused funds to the PPPHCE  
<sup>\*</sup>Includes Coronavirus Relief Fund money and funding for public schools, transit, and existing Medicaid costs.

65

# Small Businesses: They Didn't Get Enough PPP

## Small Business Owners Turn to Their Own Funds

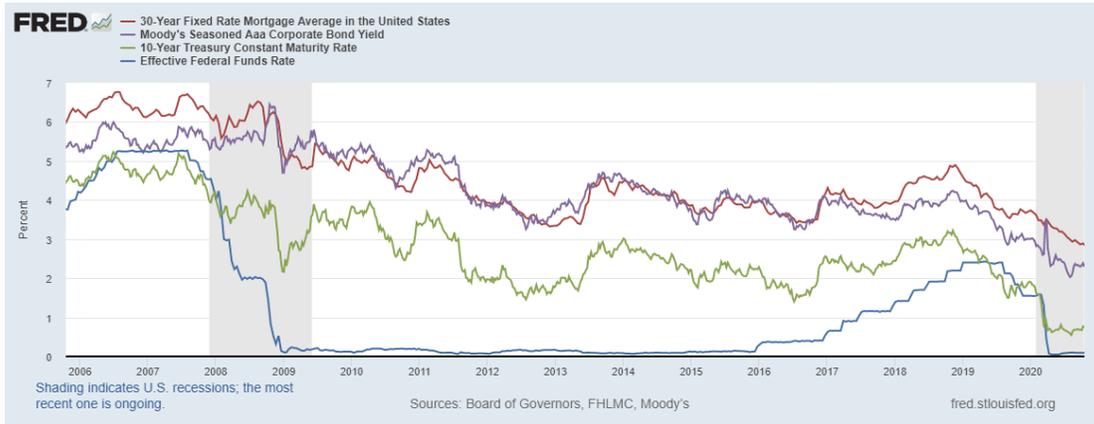
In total, 70% of respondents were using at least one form of financial support to get their business through the pandemic.



CreditCards.com  
 Respondents could choose more than one option.

66

# Impact on Borrowing Rates

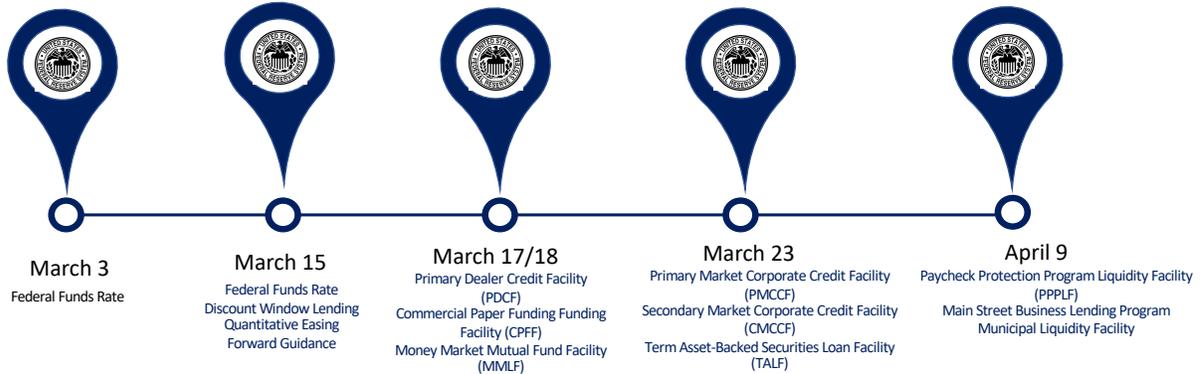


67

# Monetary Policy – Federal Reserve

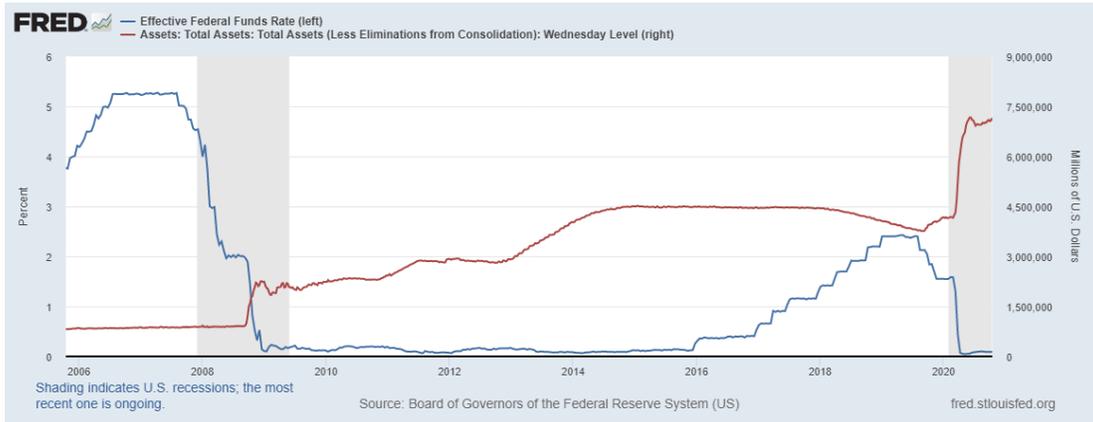
**Primary objectives:**

- Stabilize the economy
- Maintain liquidity of the system



68

## Federal Funds Rate and Balance Sheet



69

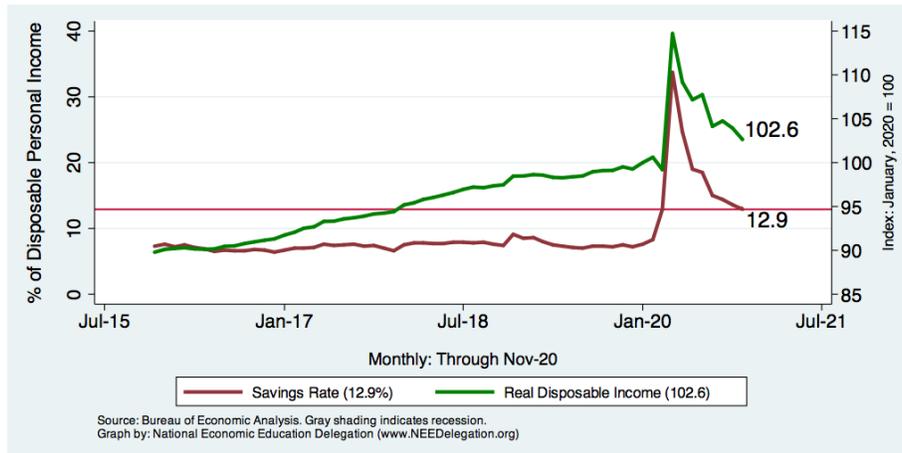
## Monetary Policy – Current State and Impact

- **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.

70

# Source of Optimism About Recovery?

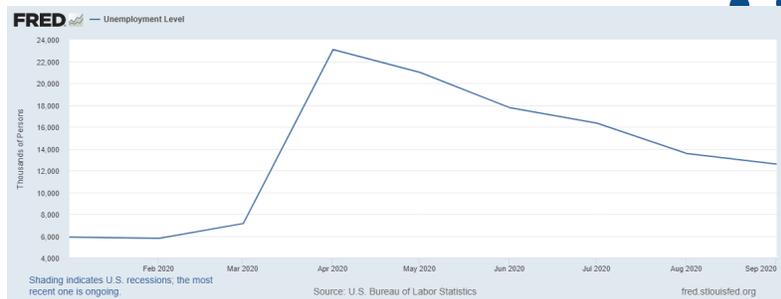


71

# 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

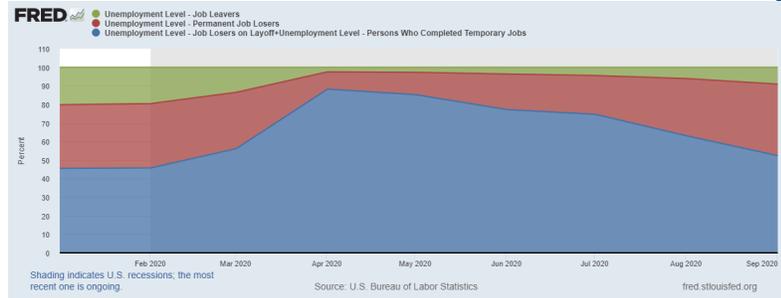


72

# 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

73

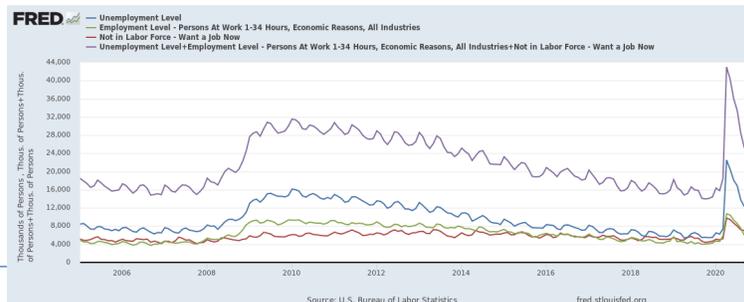
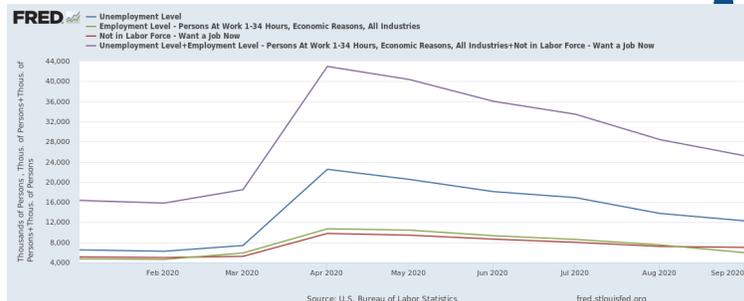
# Characterizing Unemployment

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)

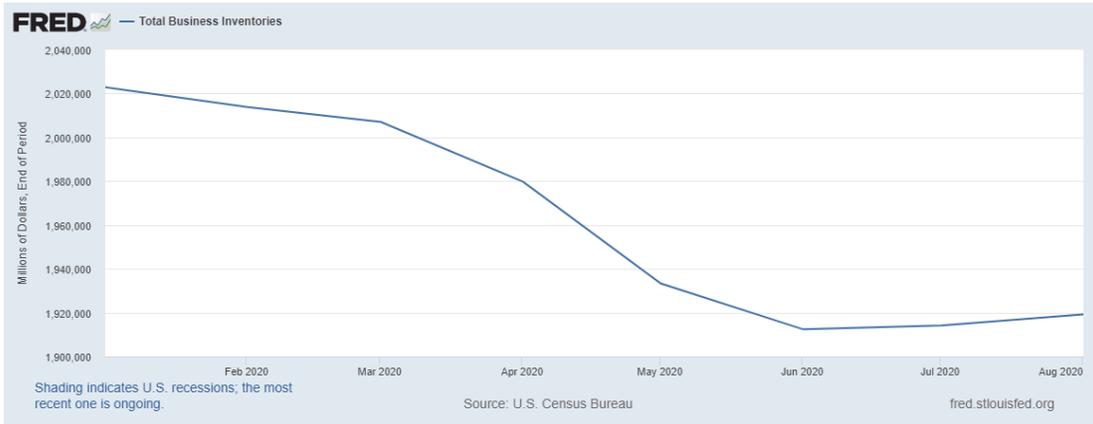
**Key Takeaways:**

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



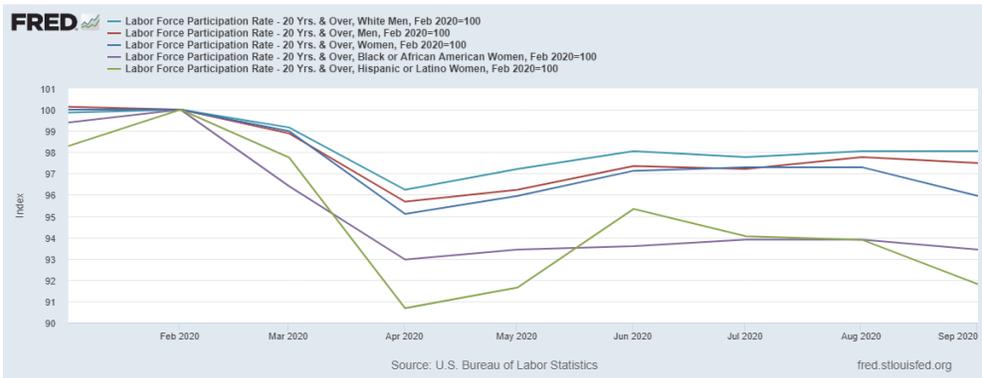
74

# Business Inventory



75

# Recovery/recession for whom?

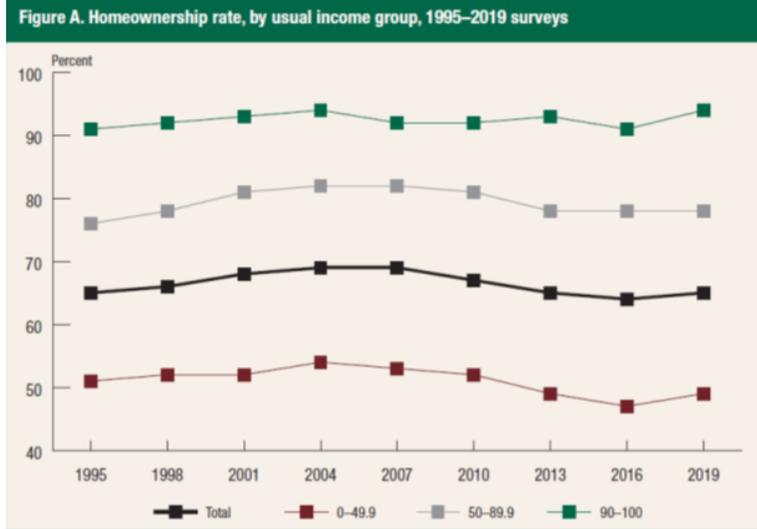


76

# 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



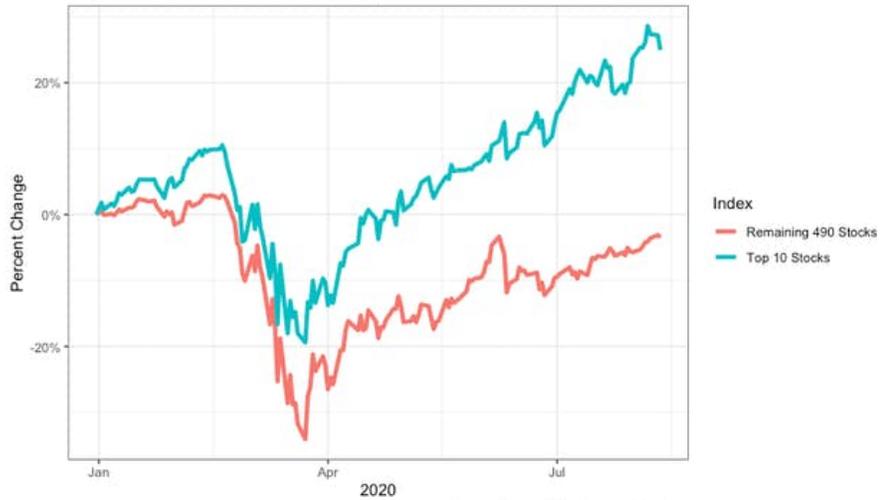
77

# Recovery/recession for whom?

Top 10 S&P Stocks:

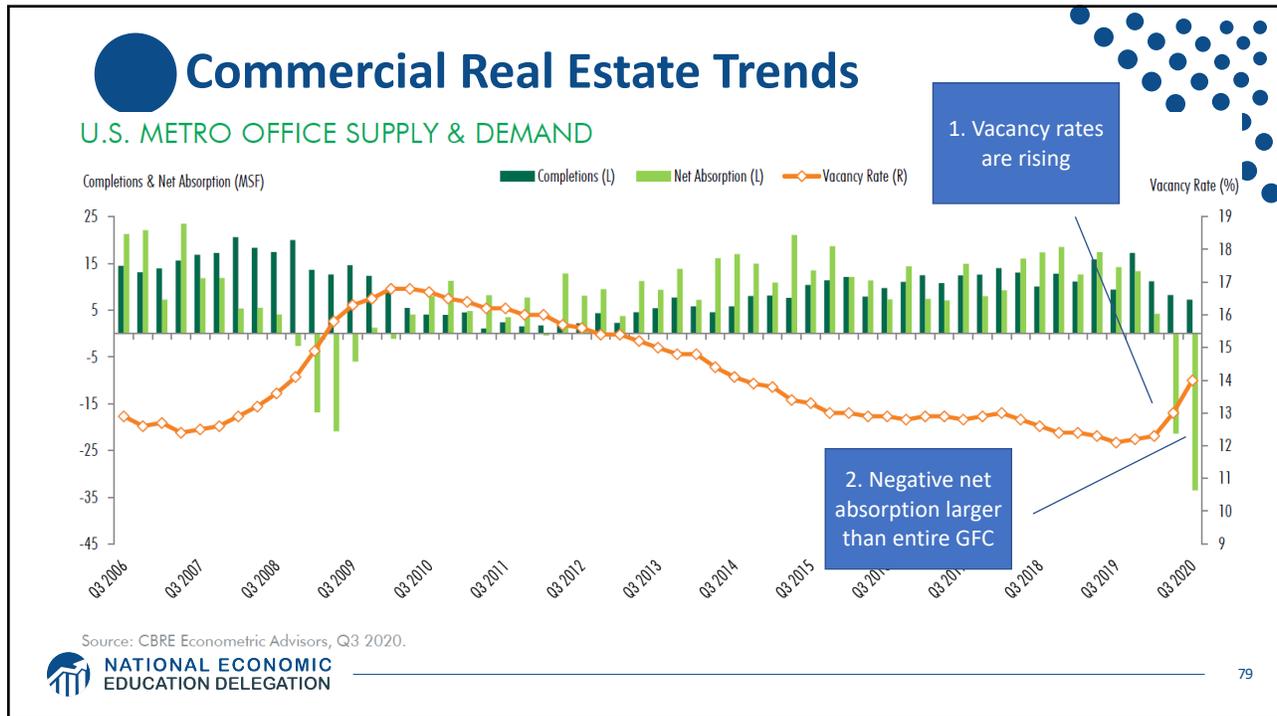
1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

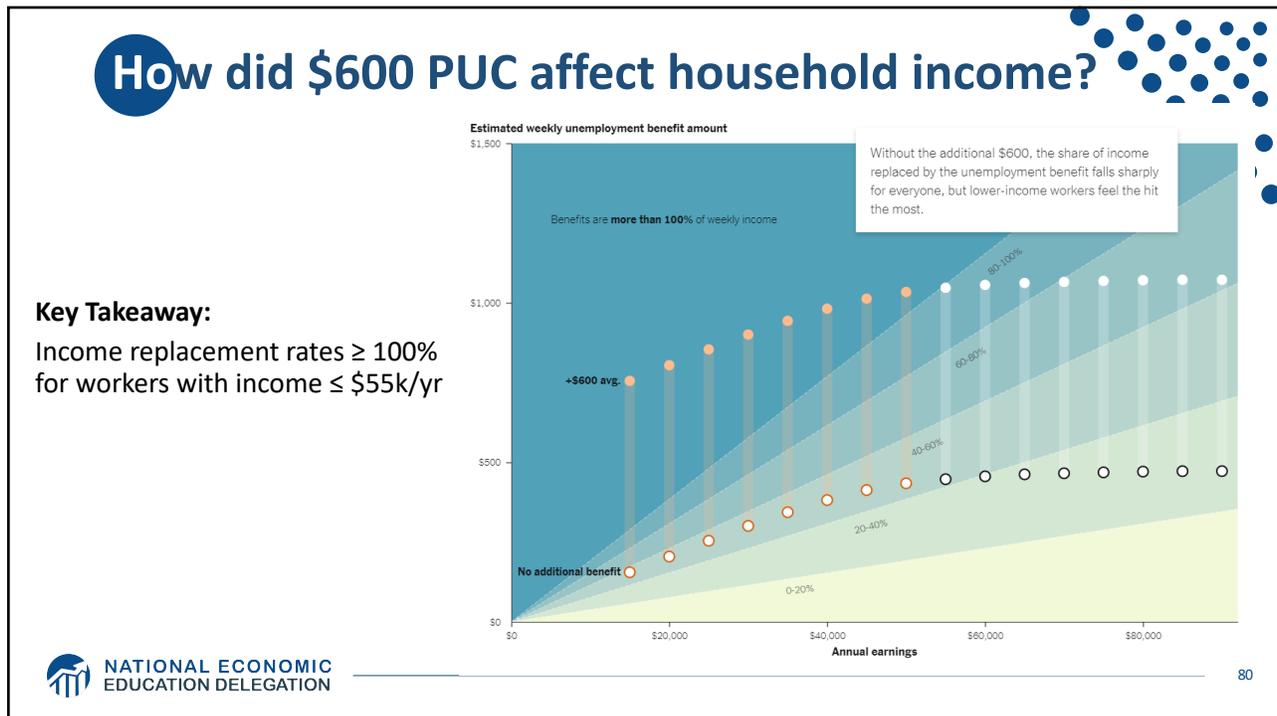


Source: TrendPlaybook.com, Bloomberg

78



79



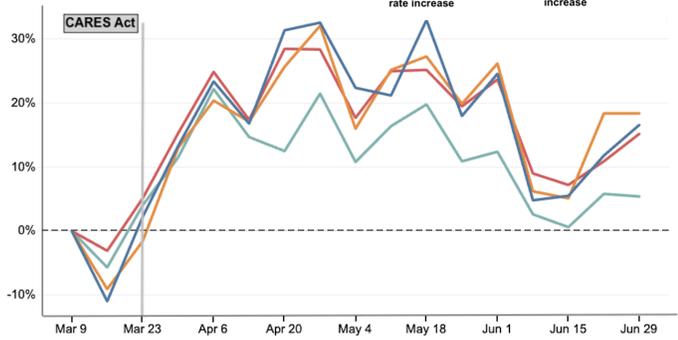
80

# 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*

**APPLICATIONS PER VACANCY**  
BY QUANTILES OF UI REPLACEMENT RATE INCREASES DUE TO THE CARES ACT

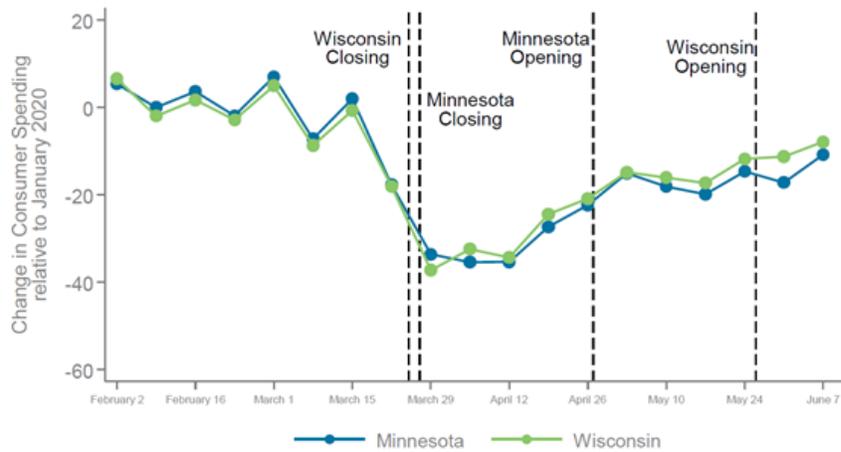


Source: Glassdoor (2020), and author's calculations EconoFact econofact.org

81

# How impactful is government?

**Causal Effects of Re-Openings on Economic Activity: Event Studies**  
Case Study on Business Re-Openings: Minnesota vs Wisconsin



82