The Economy after COVID-19

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The 95\textsuperscript{th} percentile continues to pull away from middle- and low-wage workers

Cumulative change in real hourly wages of workers, by wage percentile, 1979-2019

Shaded areas denote recessions. The x-th percentile wage is the wage at which x\% of wage earners earn less and (100-x\%) earn more. \textit{Source: Elise Gould, 2020}
Skilled-biased technological change is the single most important reason for the rise in inequality.
Returns to a year of college – United States

Research by former UW-Madison Economics Professor Claudia Goldin (now at Harvard)
Decline in Labor’s Share of GDP


Note: Labor share is defined as the sum of employee and proprietor labor compensation, divided by gross value-added output. Shaded bars indicate recessions.
The Rise of the Superstar

- Technology enables superstar performers to expand in scope.
- Superstar individuals use technology to leverage their talents on a global scale.
- Superstar companies leveraged their organizational capital to sell their products. They are frugal in their use of labor.
- Increase in top 1% income, wealth concentrations.
- Big firms get bigger.
Economy Before COVID-19

- Strong Economy – labor market, stock market
- Here are some trends

unemployment rate

S&P 500

FRED
COVID-19 strikes. Induces a “services recession”

Employment change from a year ago

- Service
- Manufacturing
- Construction

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FRED
Job loss during pandemic recession

Payroll Job Losses During COVID-19 Recession compared to Post-WWII Recessions

Percent difference in number of jobs since peak

Months since employment peak

Source: Groshen (2020)
Consumer spending drops and recovery uneven

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Opportunity Insights Team
Small business revenue takes large hit

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The same holds in COVID-19 as low-wage workers have lower employment rates.
Learning during school closures

- Millions of kids study at home as schools close.
- Learning and development have been interrupted with large effects on future educational attainment and earnings.
- Negative effects especially severe for those with parents with low educational attainment and low assets.
- Differential access to devices and broadband exacerbates inequality.
Policy responses to COVID-19

- Responses from the government and the Fed has been swift and decisive.

- Direct transfer, expanded unemployment benefits, and PPP uphold consumer demand and help firms survive.

- While largely successful, inefficient allocation of funds.
  - non-targeting of $1200 transfer
  - PPP going to businesses with connections to banks
  - equity-holders of large corporations get bailed out

- Insufficient allocation of funds to testing and contact-tracing.
Note: “GDP Loss” is the *cumulative* loss in GDP since the start of 2020 and is annualized. For example, a value of 6 means that the loss since the start of 2020 is as if the economy lost six percent of its annual GDP.
Trade-off between Economy and Lives?

- California
  - [lucky? Too tight?]?

- New York City
  - Lombardy
  - United Kingdom
  - Madrid
  - [unlucky? Bad policy?]?

- Germany, Norway
- Japan, S. Korea
- China, Taiwan
- Kentucky, Montana
  - [lucky? Good policy?]?

- Sweden
  - [unlucky? Too loose?]?

GDP LOSS vs. COVID DEATHS

Fernandez-Villaverde and Jones, 2020

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Federal Reserve Actions

- Fed’s balance sheet rose from $4+ Trillion to $7 Trillion.
- Fed issued overnight government debt held by banks as reserves – held by us as bank deposits.
- Shortens maturity structure of government debt outstanding.
- Most of the Fed liabilities are short-term reserves. If short term interest rates rise, we immediately face higher interest costs.
Federal debt is projected to be 2.5 times of GDP by 2050

In CBO’s projections, federal debt held by the public surpasses its historical high of 106 percent of GDP in 2023 and continues to climb in most years thereafter. In 2050, debt as a percentage of GDP is nearly 2.5 times what it was at the end of last year.

• Congressional Budget Office, September 2020
Equilibrium Long Term Real Rates?

- Lack of productive investment opportunities - prospects for growth
- Increase in global savings
- Rise in uncertainty
- What do US and global demographics tell us?
Bond buyers versus bond sellers ratio
(based on investing/drawdown behaviors of top U.S. income quintile, ~80% of U.S. household financial assets)

In 10 years, demographics should be about as bond-friendly as they are today

Bond “buyers” (60-74 cohort) versus “sellers” (80+ cohort): U.S. (left axis)
Bond “buyers” (60-74 cohort) versus “sellers” (80+ cohort): global (right axis)

Source: Haver Analytics (UN World Population Prospects) as of October 2015.
Global ratio includes North America, EU, China, Japan, South Korea, India, Brazil, Mexico, Australia, Russia and Indonesia, each weighted by current U.S. dollar GDP.
Excessive government debt and secular stagnation

- High government debt – how do we repay these in the future?

- Even lower interest rates - reduce Fed’s ability to stimulate the economy in future recessions.

- Accelerate the entering of “debt trap” and secular stagnation with high inequality.

- If the pandemic lasts longer than initially thought, some of the money may be supporting businesses that will bankrupt/disappear in near future.
Short-Run Policies

- Get help to individuals! Extend unemployment benefits. Find a way to target to those in need.

- Control the pandemic. Spend way way more on expanding testing, contact tracing etc.

- Aid to local and state governments. Perhaps structure as block grants that cannot be used to offset other expenses, lower taxes or bailout pension funds.
Implications for Growth

- Further slowdown in longer-term growth - Global deployment of resources to fight COVID-19 will take away from other productive uses.

- The largest effect – negative shock to human capital. Online learning not the same.

- Decline in resources devoted to innovation.
Improving Economic Opportunity

- The fading American Dream
  - % of children earning more than their parents

<table>
<thead>
<tr>
<th>Year of birth</th>
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<tr>
<td>1960</td>
<td>60</td>
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<tr>
<td>1980</td>
<td>50</td>
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Chetty et. al

- Investments in Human Capital
  - Early Childhood Education
  - Targeting resources to high performing institutions

- Creating more connected communities
  - Perhaps have Federal Reserve play a larger role

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Thank you!