

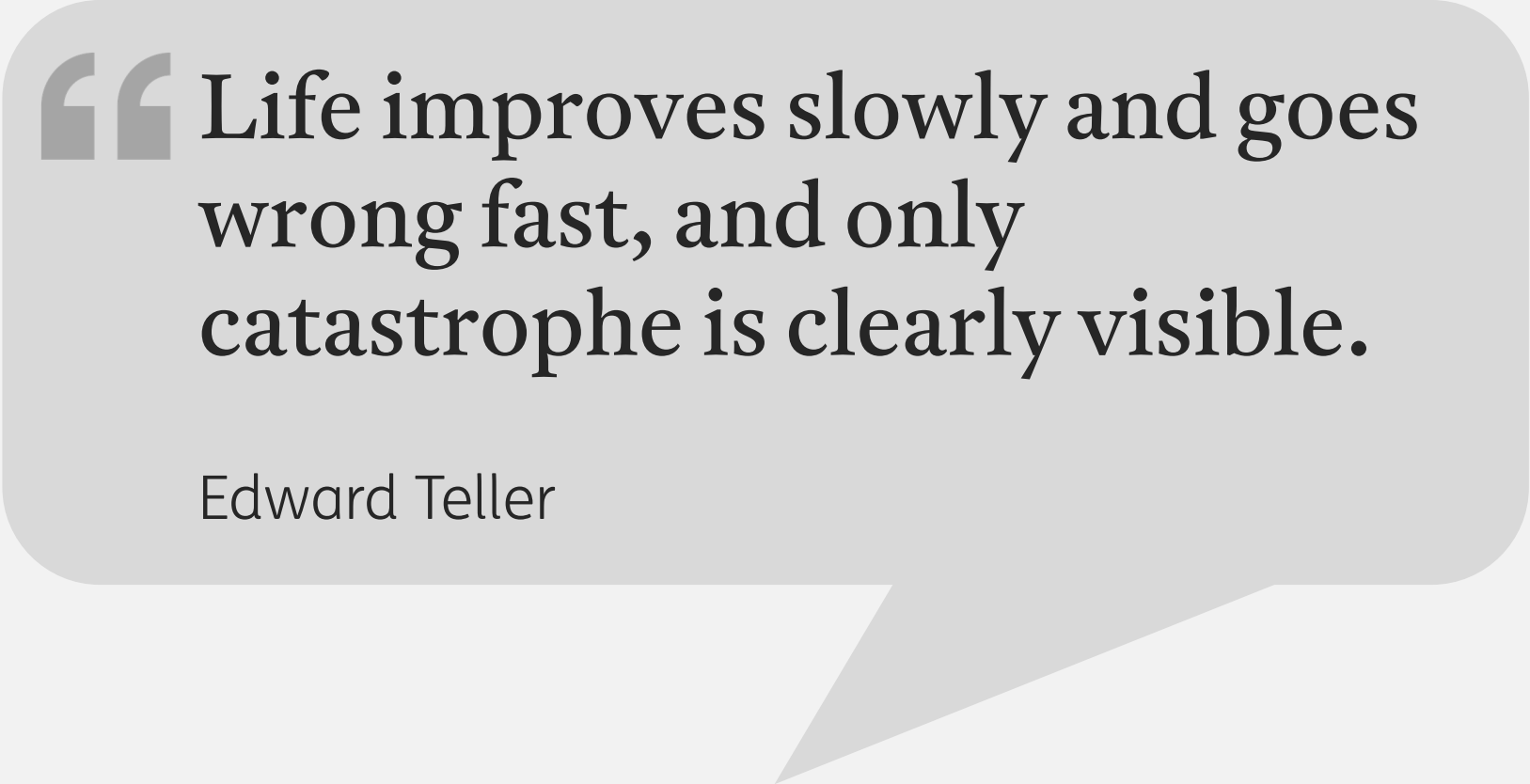
EVERCORE ISI

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# Labor Markets and Public Policy in the Great Lockdown

Ernie Tedeschi  
May 18, 2020



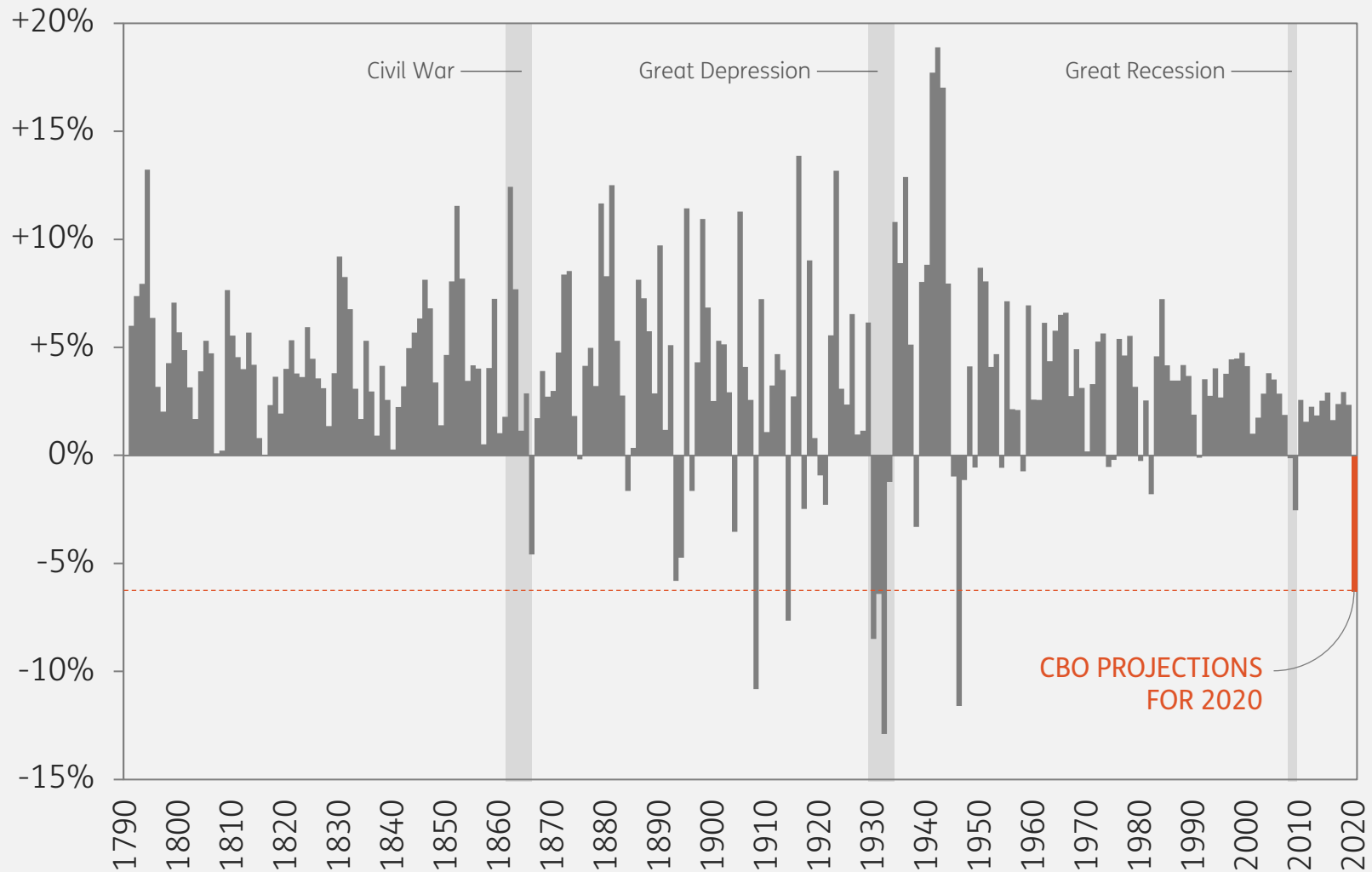
““ Life improves slowly and goes  
wrong fast, and only  
catastrophe is clearly visible.

Edward Teller



# This will be one of the ten worst growth years in US history.

Percent annual real GDP growth since 1790



Source: MeasuringWorth, CBO, author.

# Roadmap

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Labor Market Data



Fiscal Response Thus Far



Future Policy Challenges & Priorities

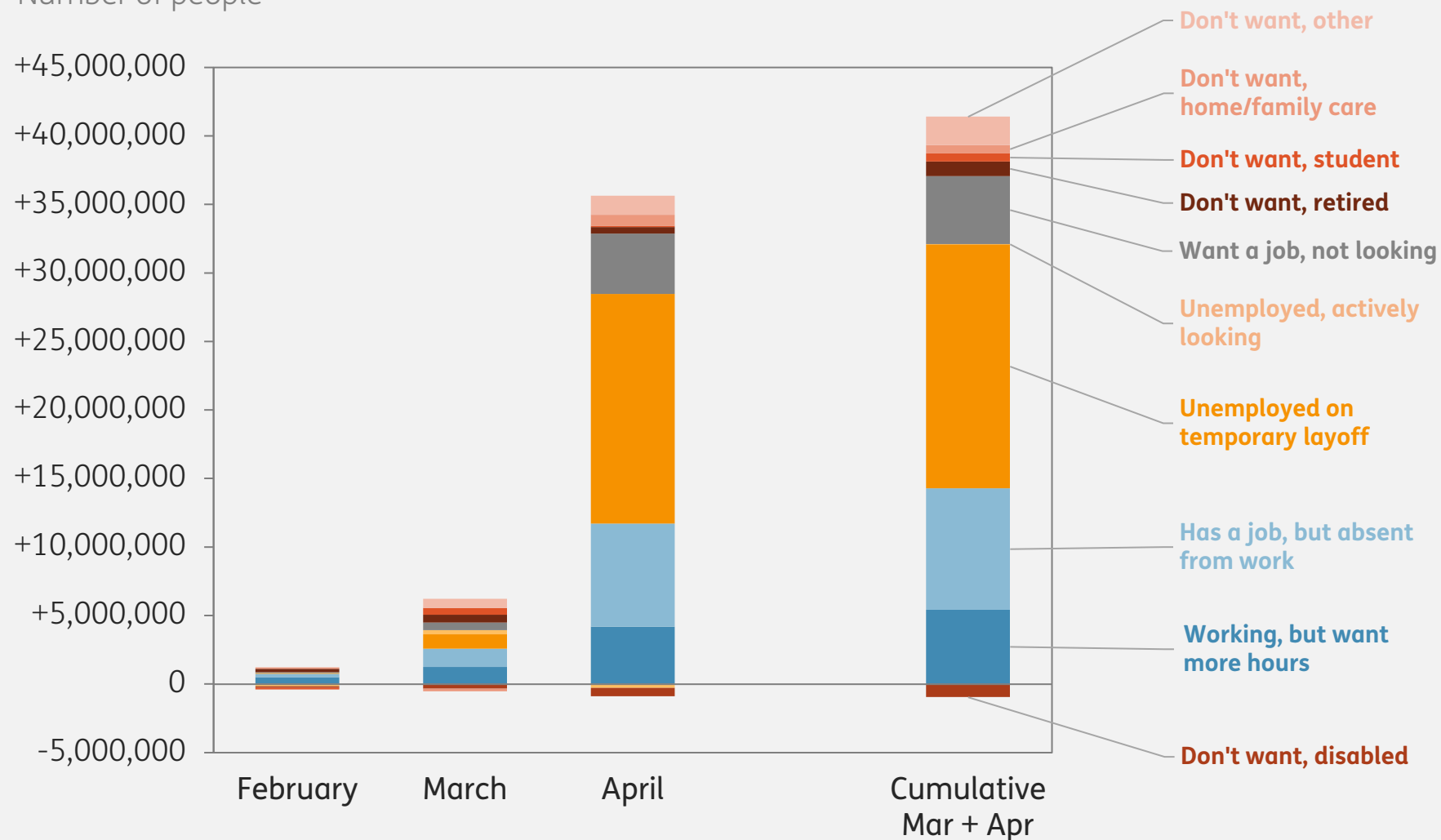


# Labor Market Data



# The disruption is more than just the unemployed.

Month-to-month change in labor market status, 2020  
Number of people



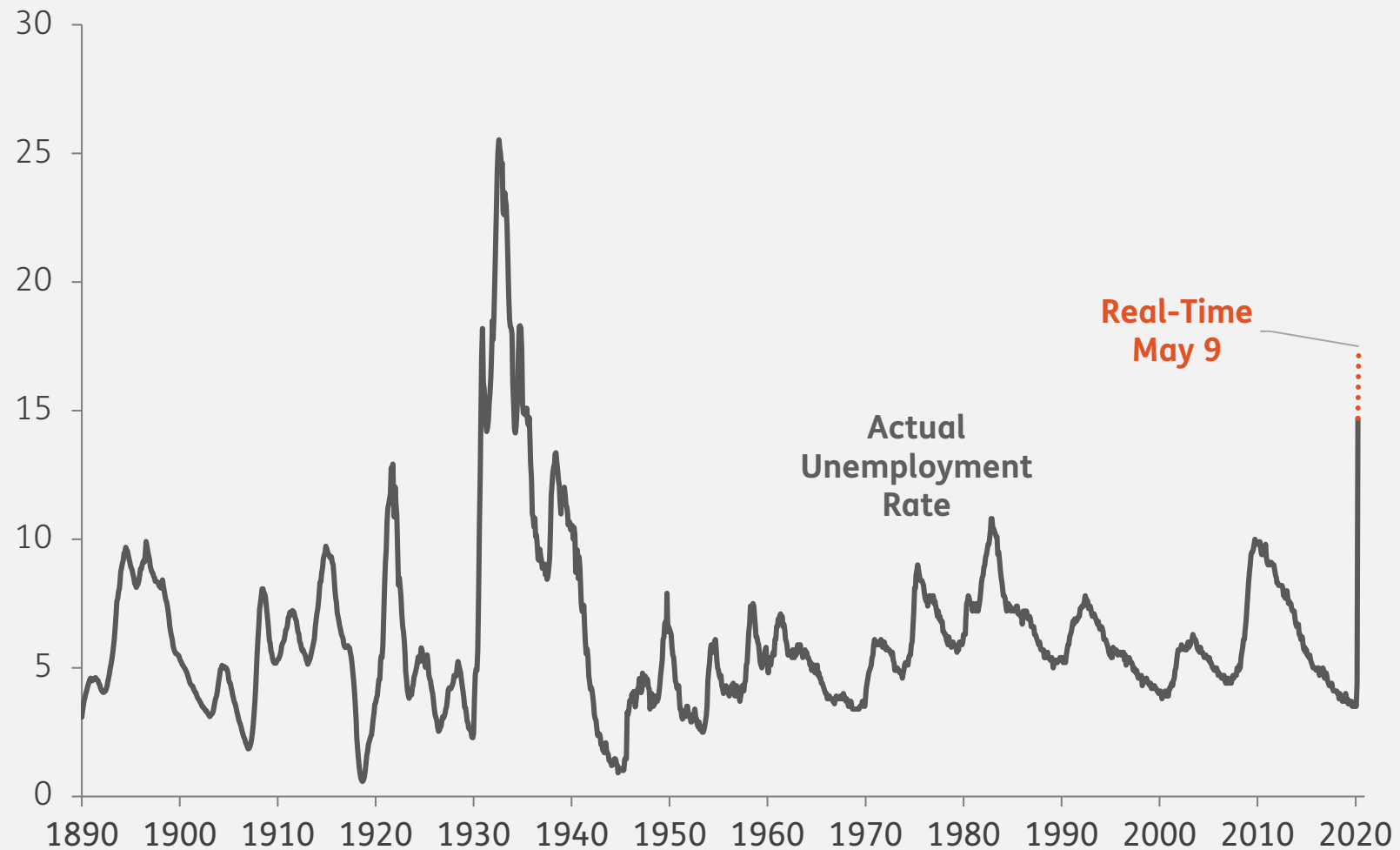
Note: seasonally-adjusted by author.

Source: Current Population Survey, author.



## Claims are consistent with 17.5% unemployment.

Unemployment rate  
Percent of labor force

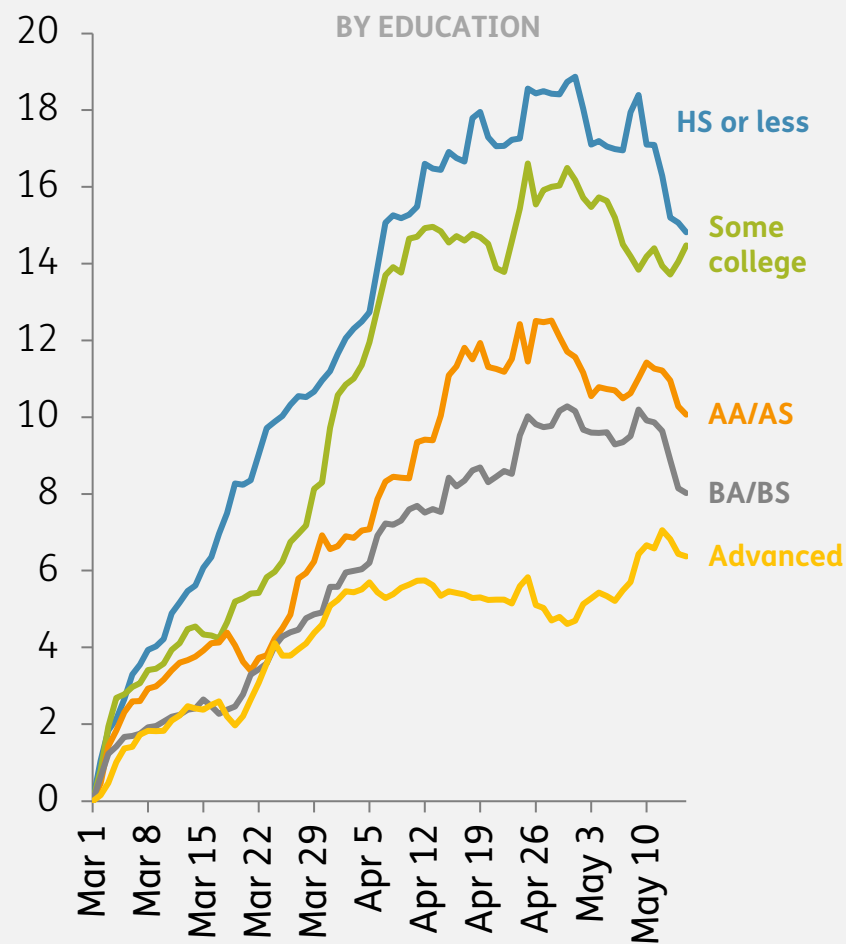
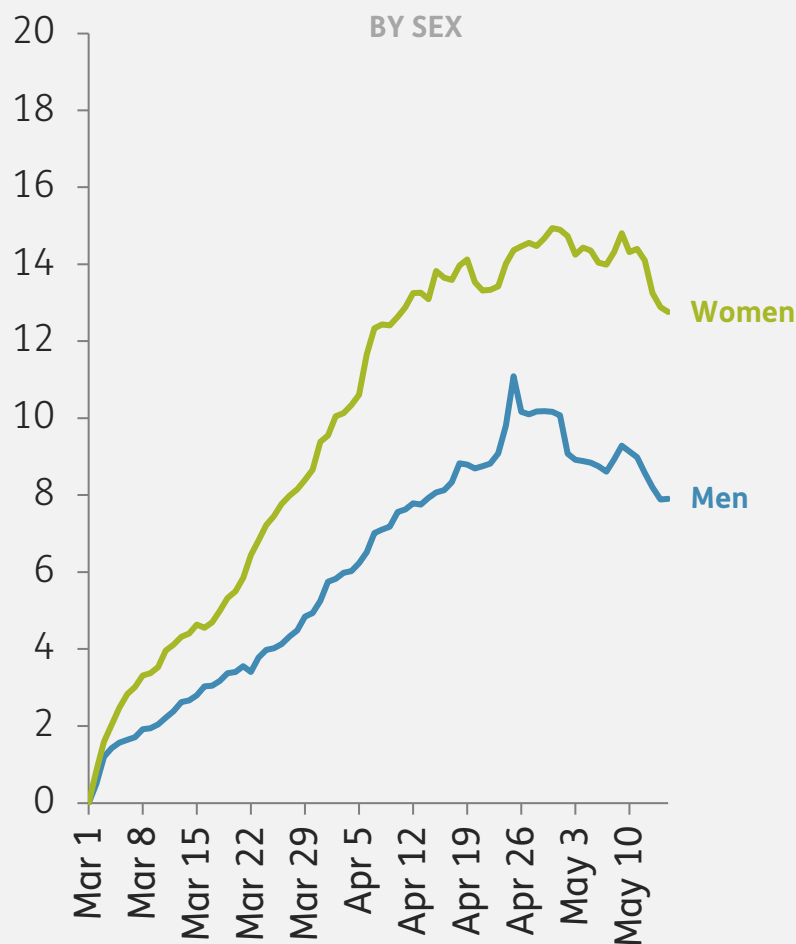


Source: Petrosky-Nadeau & Zhang (2020) using Weir (1992) definition, author.



# Job losses may be plateauing, but there are still disparities.

Percent of 18-64 workers losing a job since March 1, 2020



Source: New York Times, Civis Analytics, author.



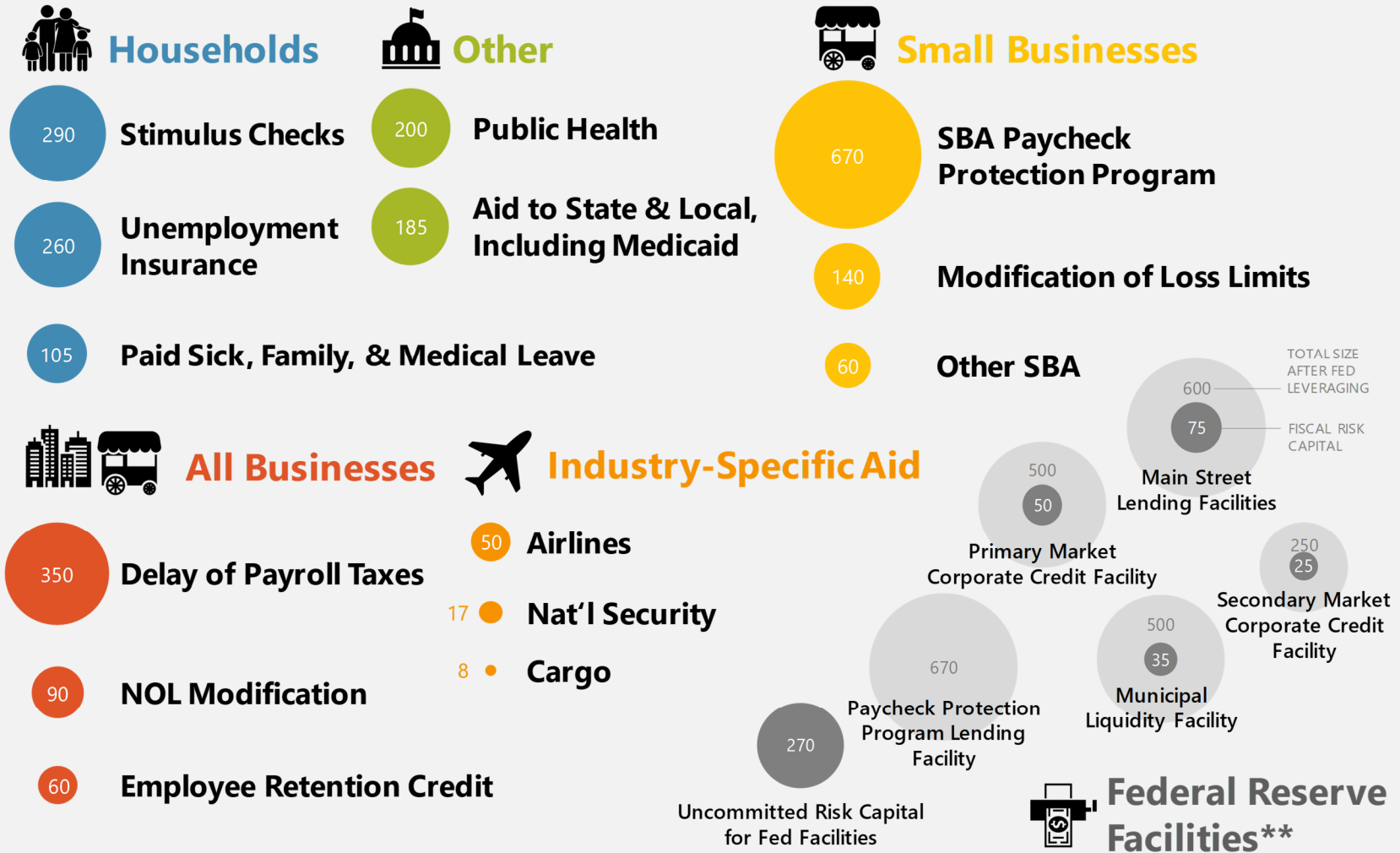


# Fiscal Response So Far



# The US fiscal response has been broad...

Impact in fiscal years 2020 & 2021 of four US fiscal packages\*, \$billions



\* Across first three US fiscal packages plus HR 266. Outlay amounts for discretionary provisions.

\*\* CARES Act 13(3) facilities. Does not include TALF, a \$100 billion facility backstopped by \$10 billion in Treasury ESF capital outside of the CARES Act.

Source: CBO, JCT, Evercore ISI.

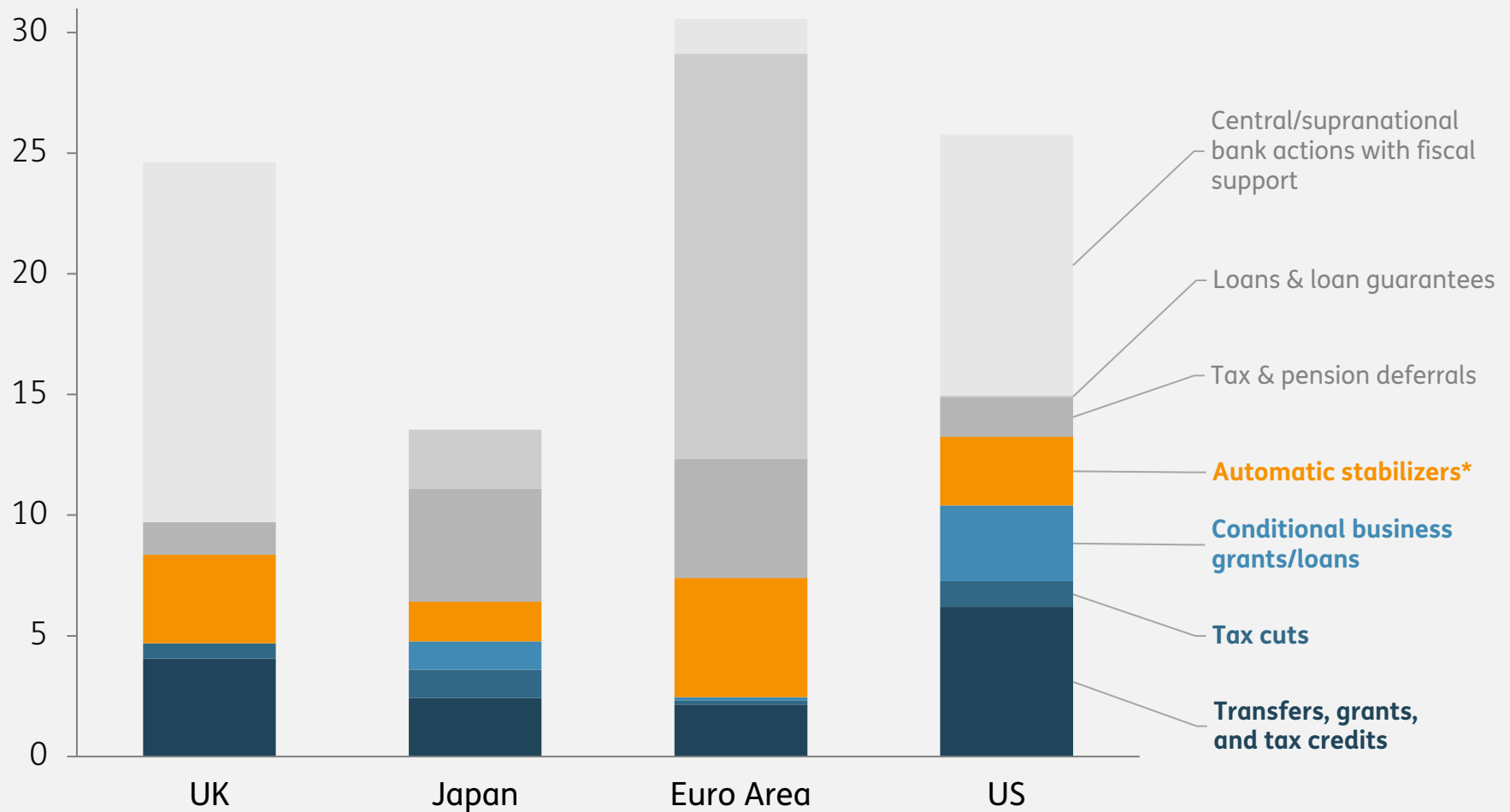


## ...and relatively large among advanced economies.

As of May 4

Not including central bank actions without fiscal support

Percent of 2019 GDP



\* Based on Fatas & Mihov (2016) post-1990 country-level estimates, calibrated to IMF-forecast shocks to growth in 2020/21.

Source: IMF, Yale, CBO, OBR, Bruegel, Bloomberg, Evercore ISI.



# The US payroll strategy: a four-bladed razor.

## Payroll Protection Program

\$670 billion in loans to small businesses, convertible to grants.

## Employee Retention Tax Credit

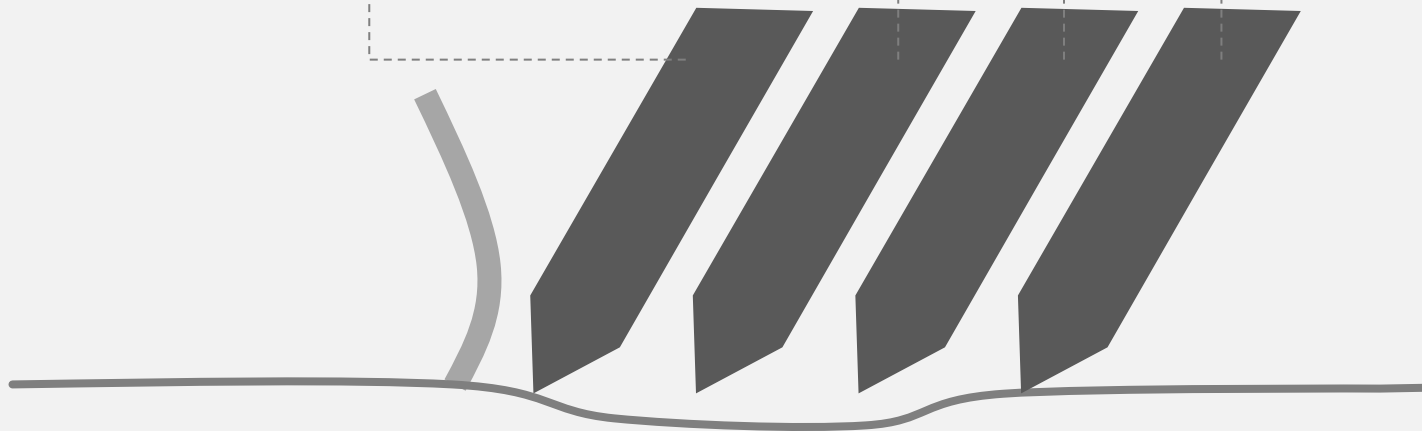
\$90 billion, encourages furloughs over layoffs for businesses

## Pandemic UI Measures

\$260 billion in expanded UI eligibility and emergency top-up payment of \$600/week through July 31

## Stimulus checks

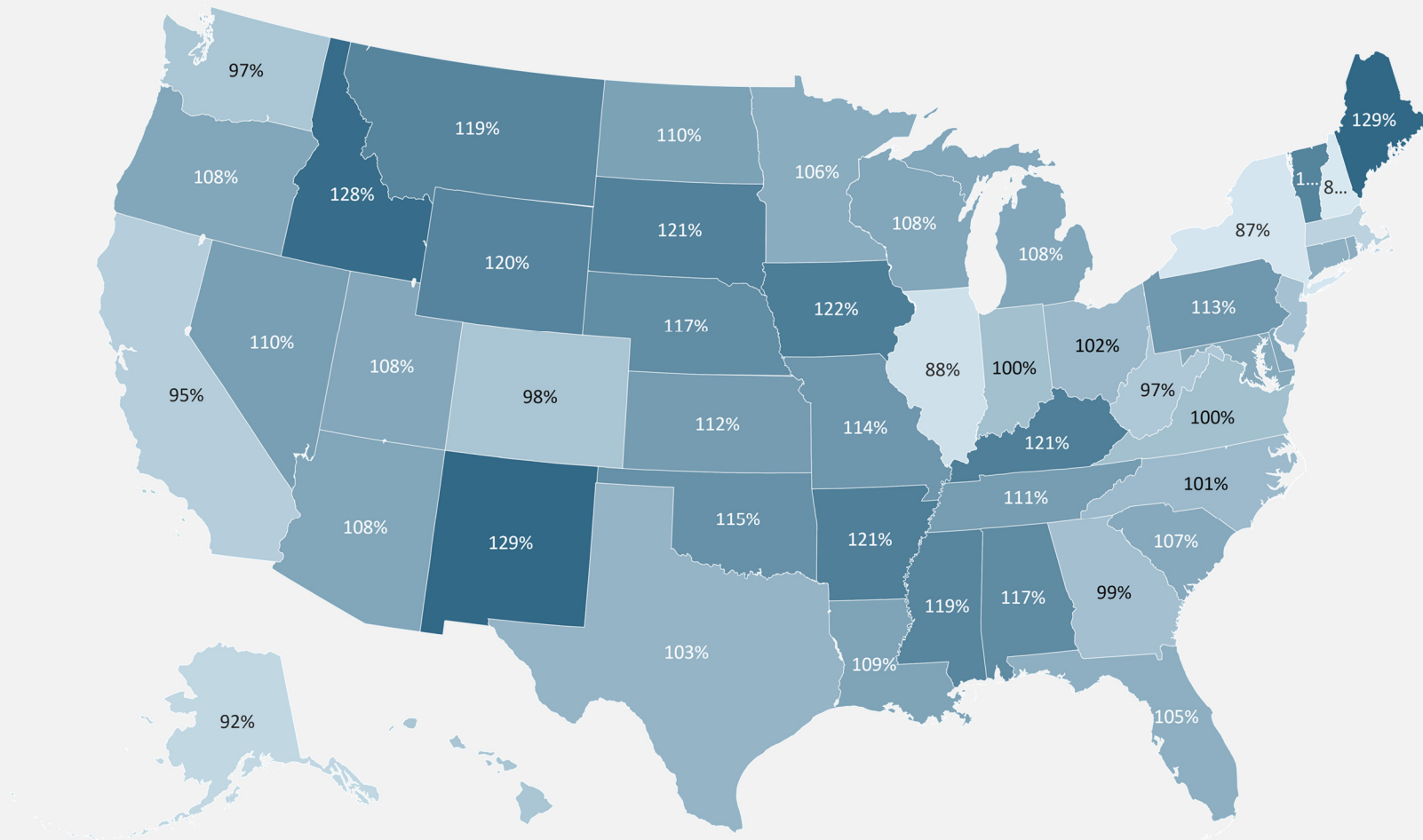
\$290 billion in one-time payments to low- and middle-income tax units, max \$1,200 per adult and \$500 per child





# Emergency UI is designed to keep workers whole.

Weighted average unemployment insurance wage replacement rates by state  
2019 Q4 average + \$600



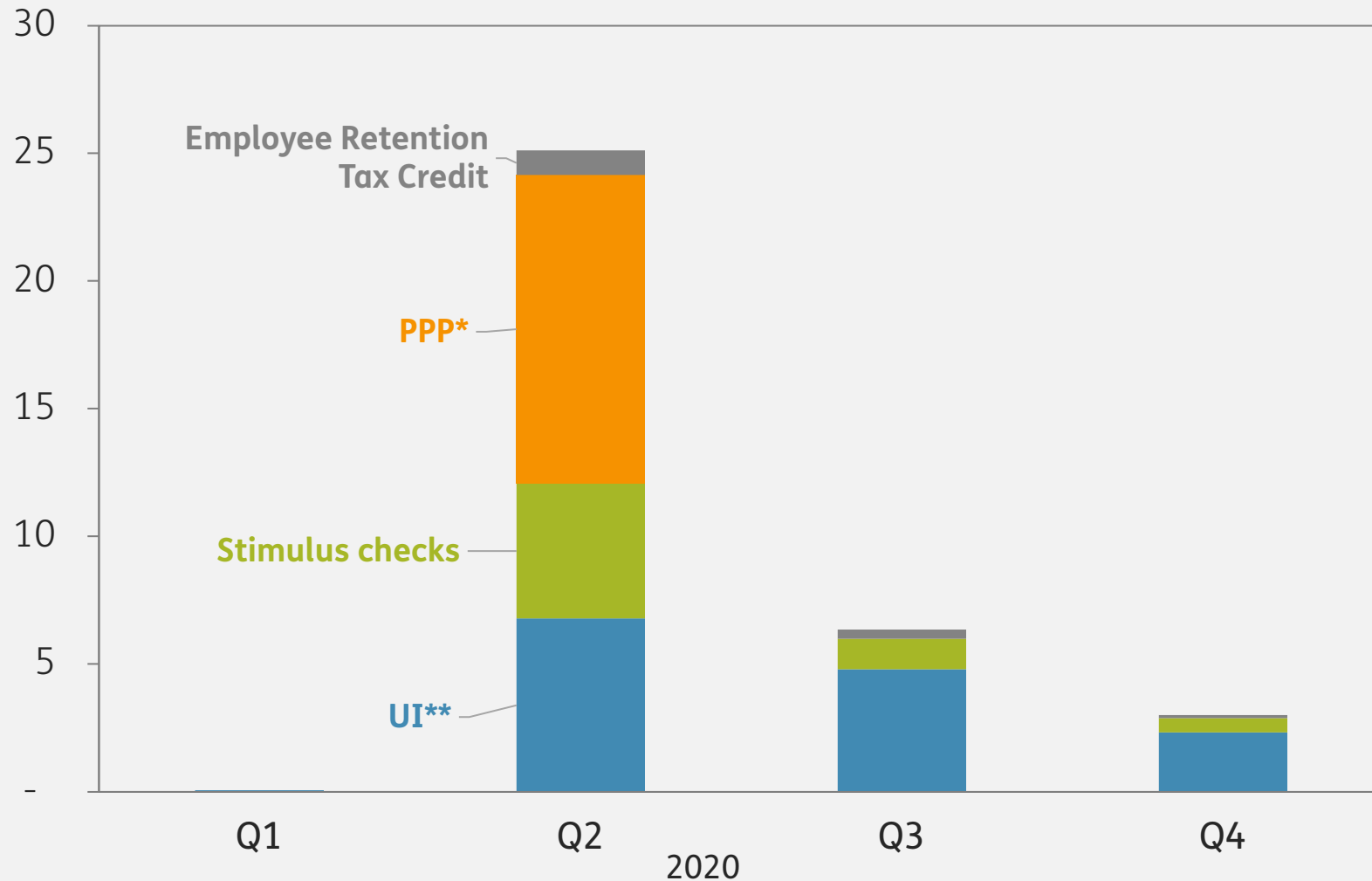
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Source: DOL, Evercore ISI.



# The payroll programs are concentrated in Q2.

Percent of 2019 Q4 disposable personal income



\* Assumes 75% of \$670 billion in PPP appropriations goes to payroll expenses.

\*\* Both regular and emergency measures, less pre-pandemic trend.

Source: DOL, CBO, JCT, Evercore ISI.



# Future Policy Challenges & Priorities

# Five Broad Policy Priorities

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## **Public health policies**

Testing, mitigation, treatment, R&D



## **Extension and modification of unemployment insurance**

Extend emergency UI payments where needed, put job-finding incentives in place, options for families/parents, ease borrowing burden on states.



## **Extension of small business aid**

Cover more weeks of expenses for small businesses, possibly modify PPP parameters



## **State and local assistance**

Broad, flexible aid to help states & localities avoid cuts



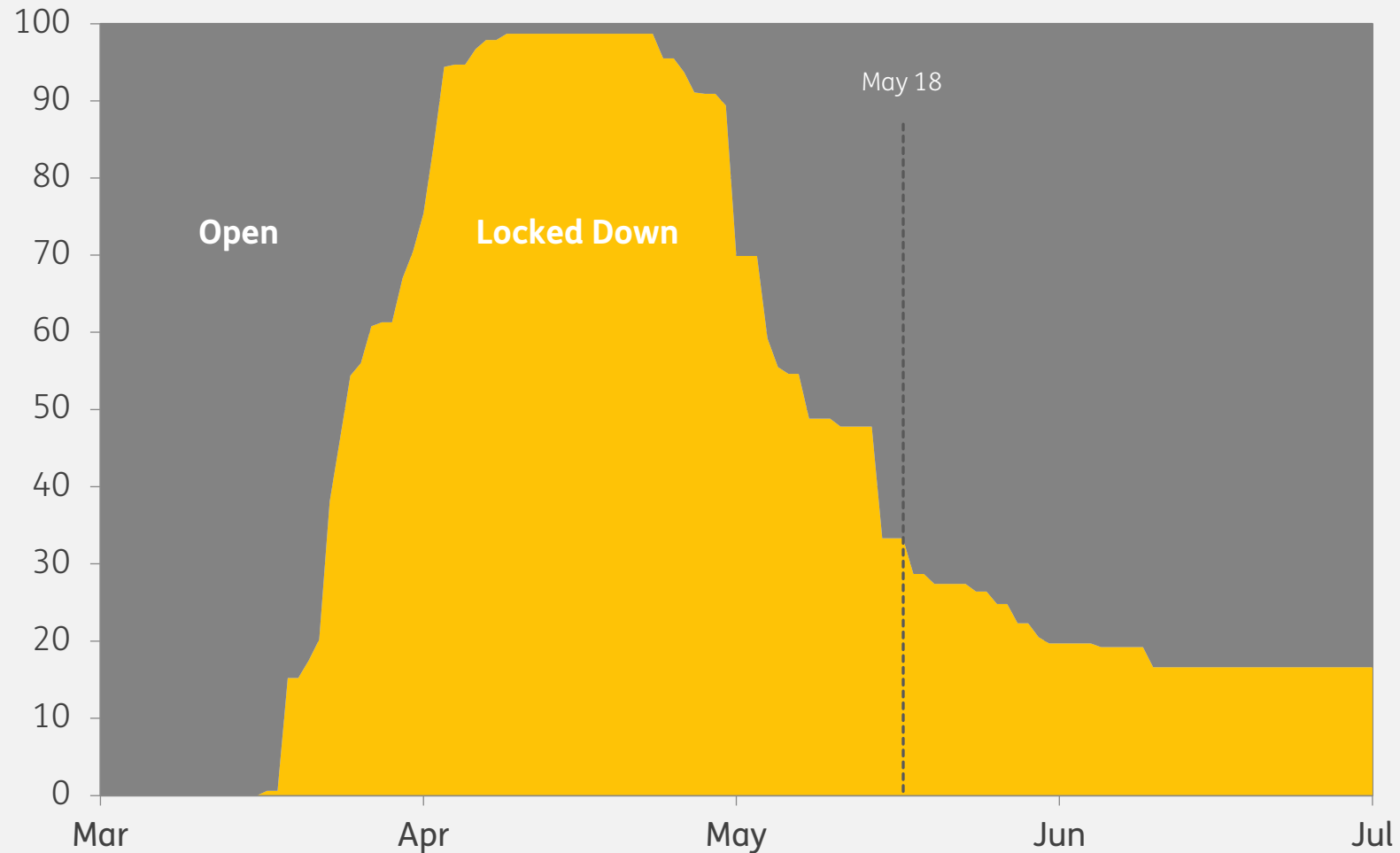
## **Macro stimulus targeted at 2020 H2 & 2021**

Aim to make recovery steeper, protect against other policy failures



# States comprising 1/3 of GDP remain locked down.

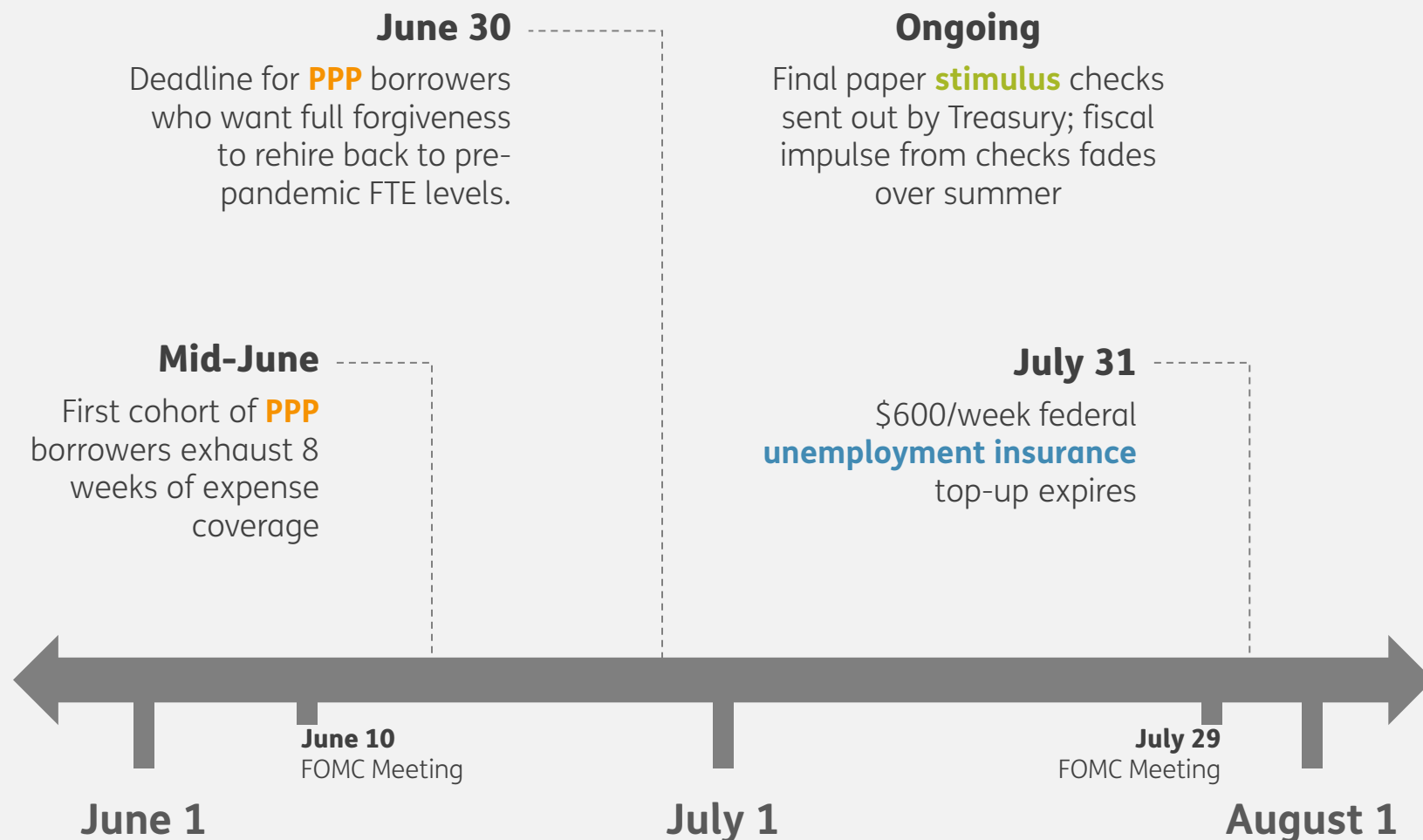
US states by scheduled lockdown status  
% of 2019 Q4 US GDP



Future lockdown status based on announced expiration dates as of May 8.

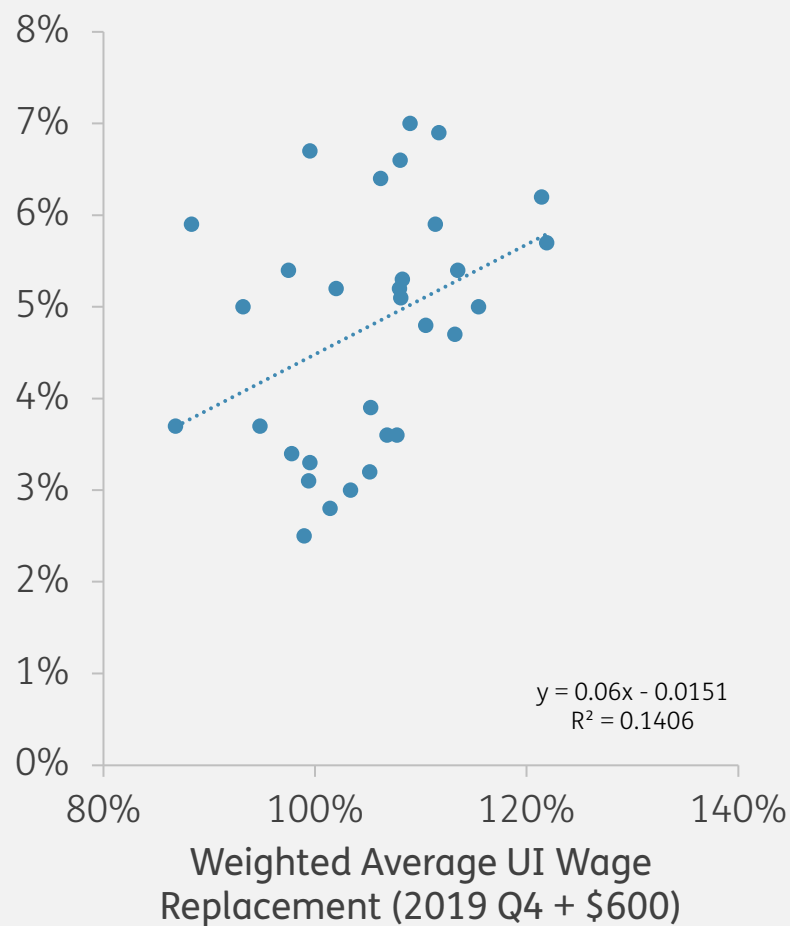
Source: BEA, Evercore ISI.

## Summer brings several fiscal and labor mini-cliffs.

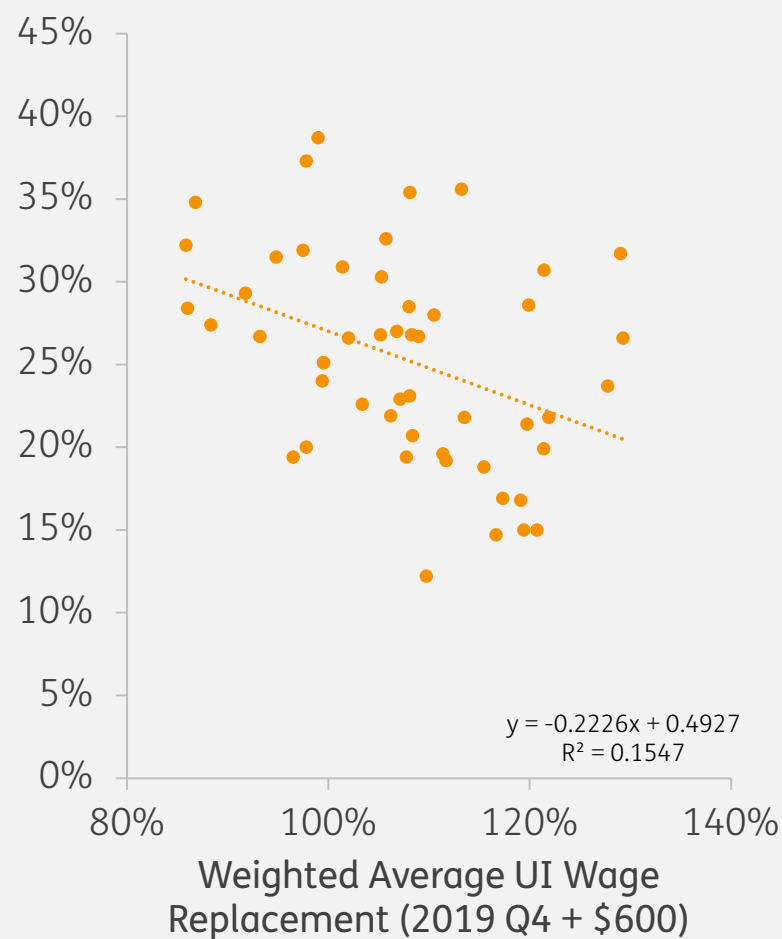


## No signs yet that expanded UI is a drag on hiring.

State share of small businesses reporting **increase** in paid employees Apr 26–May 2



State share of small businesses reporting **decrease** in paid employees Apr 26–May 2

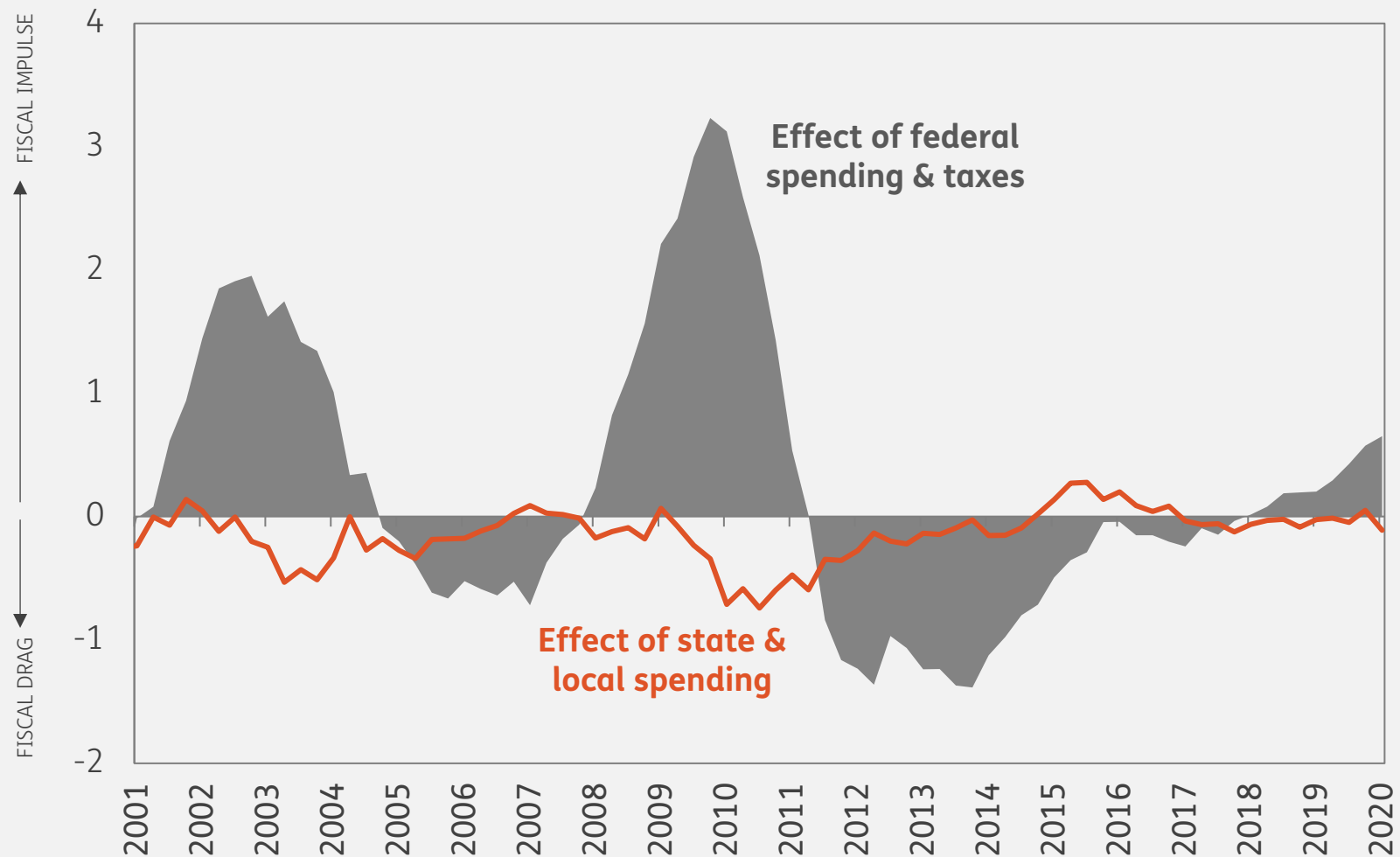


Source: DOL, Census (Small Business Pulse Survey), author.



## State & local cuts can drag down growth.

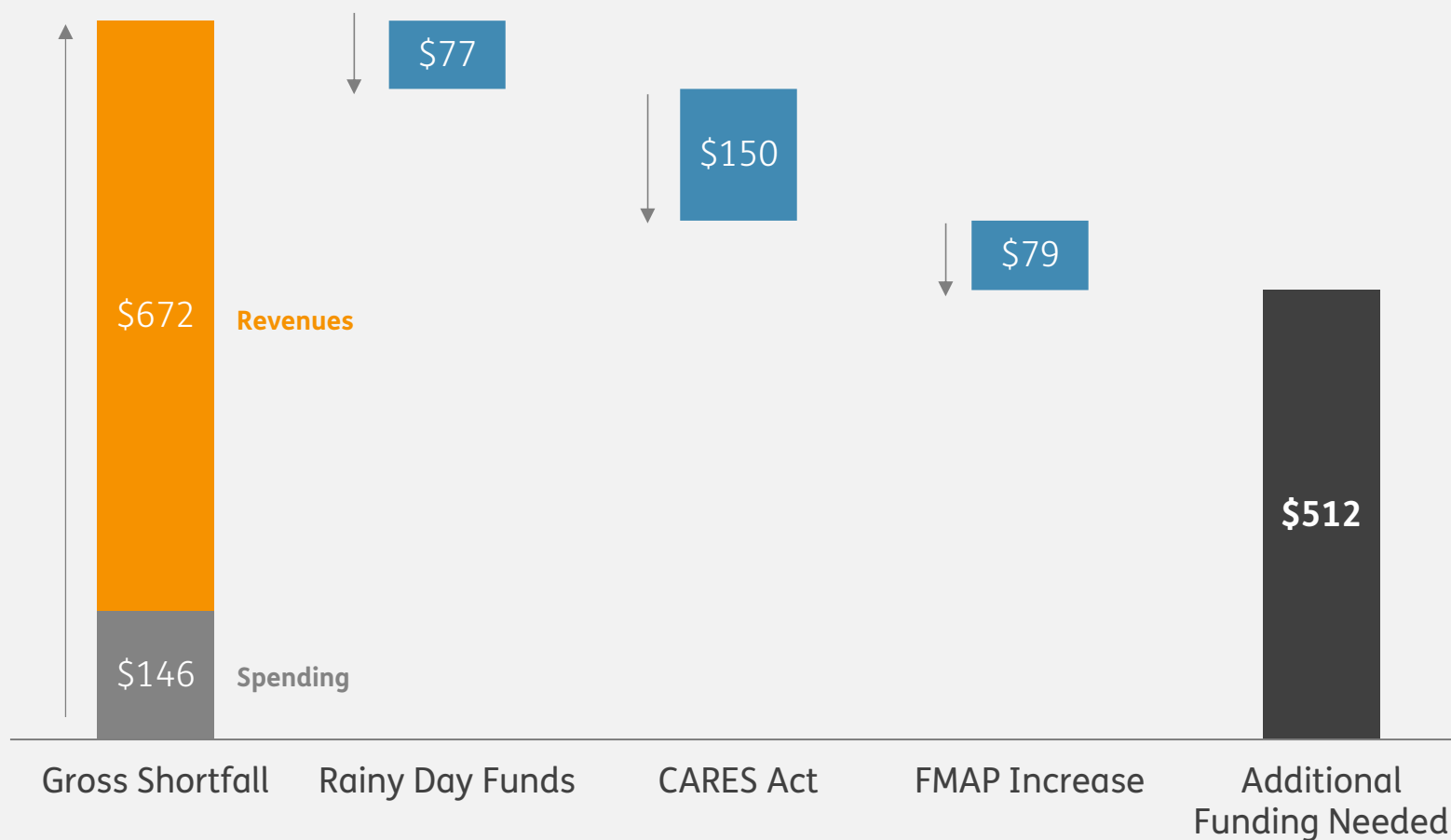
Impact of fiscal policy on real GDP growth  
Percentage points, 4-quarter moving average



Source: Brookings.

# States & localities are facing massive shortfalls.

State and local fiscal shortfalls in CYs 2020 & 2021  
\$billions



Note: Does not include the effects of unemployment insurance.

Source: Progressive Policy Institute.

# Next year is just as big a priority as this year.

## CBO's Economic Projections for 2020 and 2021

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
Real GDP (Percentage change from preceding quarter) <sup>a</sup>	-0.9	-11.8	5.4	2.5	n.a.	n.a.
Real GDP (Percentage change, annual rate) <sup>a</sup>	-3.5	-39.6	23.5	10.5	-5.6 <sup>b</sup>	2.8 <sup>b</sup>
GDP (Trillions of dollars)	21.6	19.1	20.1	20.7	20.4	21.3
Unemployment Rate (Percent)	3.8	14.0	16.0	11.7	11.4	10.1
Interest Rate on Three-Month Treasury Bills (Percent)	1.1	0.1	0.1	0.1	0.4	0.1
Interest Rate on Ten-Year Treasury Notes (Percent)	1.4	0.6	0.7	0.7	0.8	0.7

GDP = gross domestic product; n.a. = not applicable.

a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.

b. Data are shown on a fourth-quarter-to-fourth-quarter basis.

Source: Congressional Budget Office.

