Household Issues in the COVID Era

HARVARD Kennedy School

Karen Dynan

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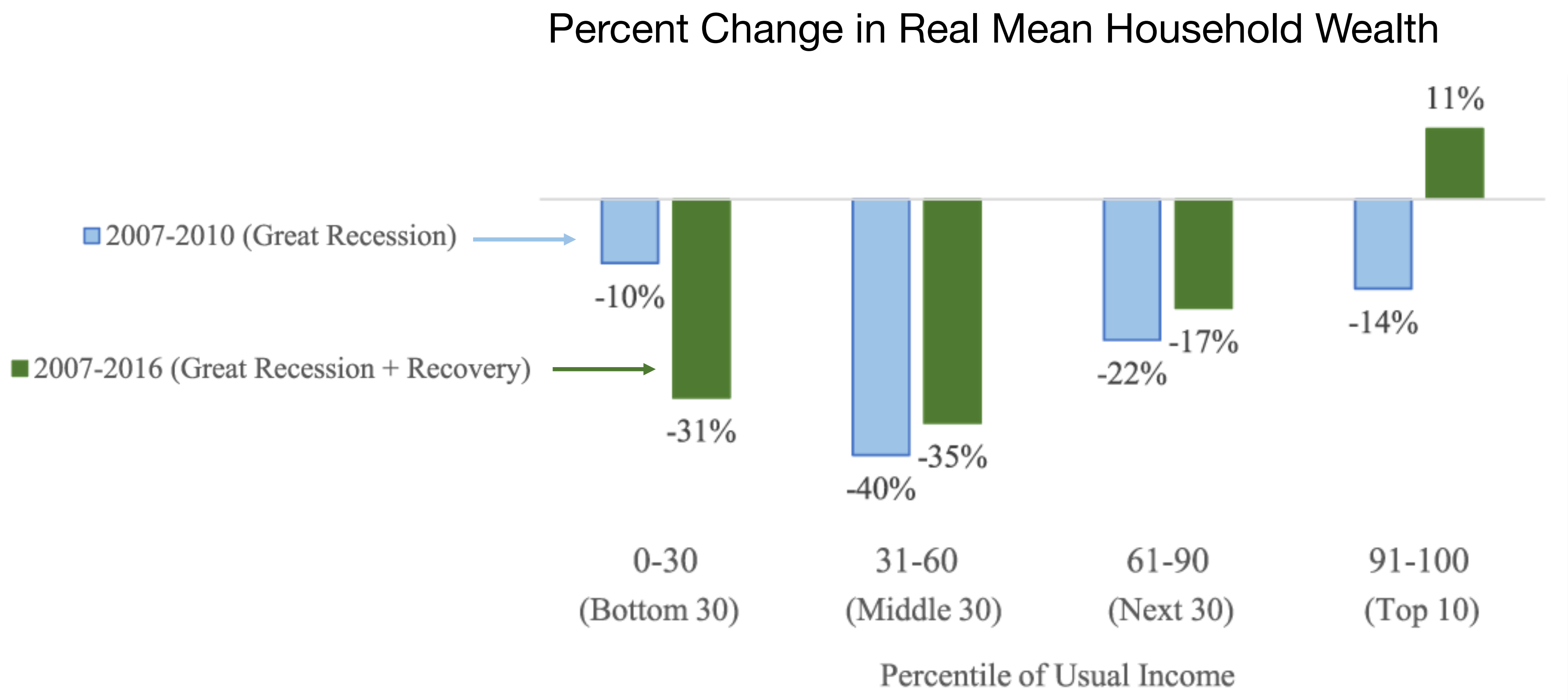
Important context: the Great Recession experience

Significant negative impact on households:

- Massive **loss of wealth** from the plunges in home prices and stock prices
- **Unemployment** rose to 10 percent and receded very slowly; long-term unemployment rose to its highest level in the post-WWII era
- Fiscal **support cut off** when the economy was still very weak

The episode left economic scars on households that resulted in prolonged hardship, delayed macroeconomic recovery, and political and social dysfunction

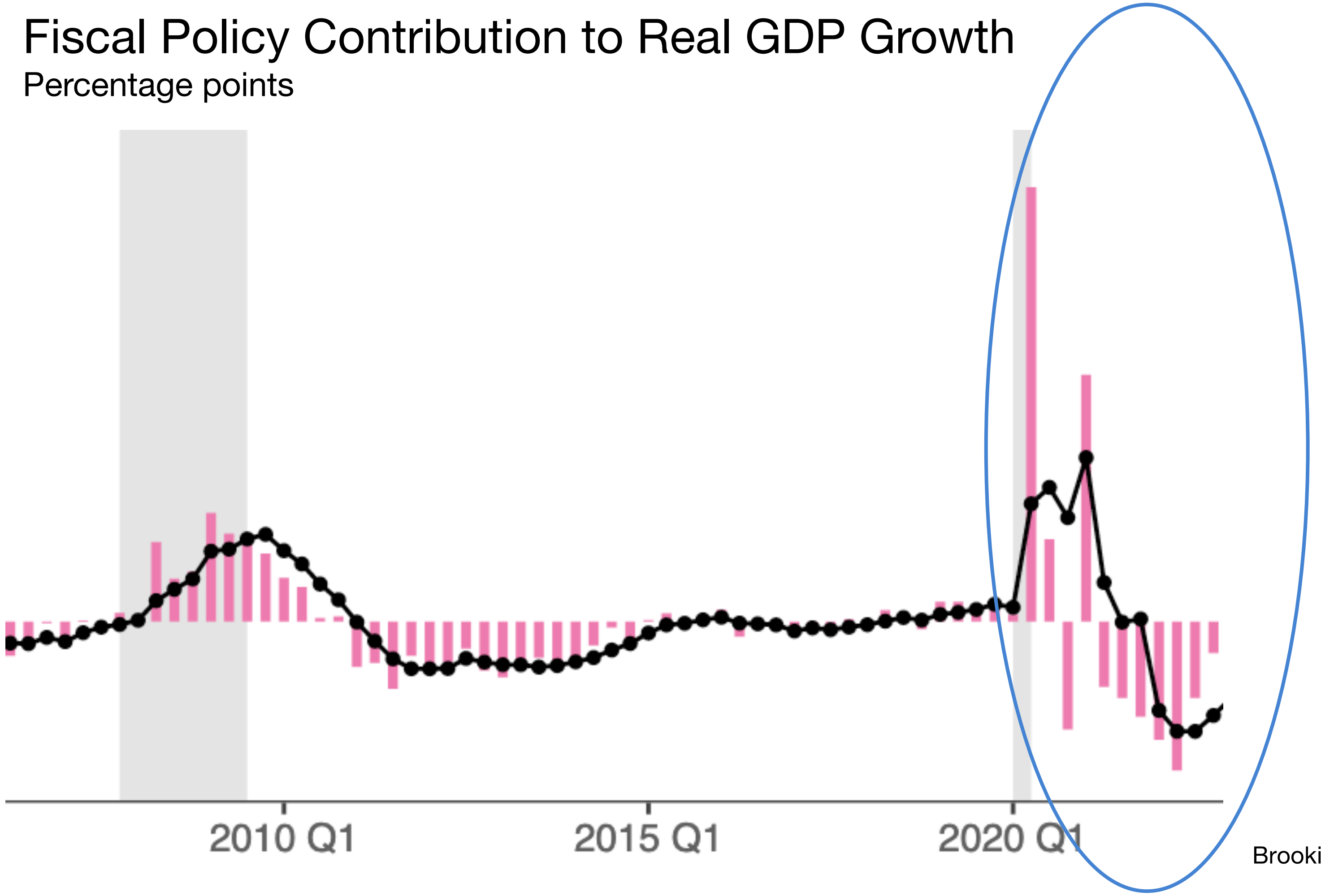
Years into the Great Recession recovery, many were still feeling the scars



Screenshot from Dettling et al (2018); numbers are for working-age households

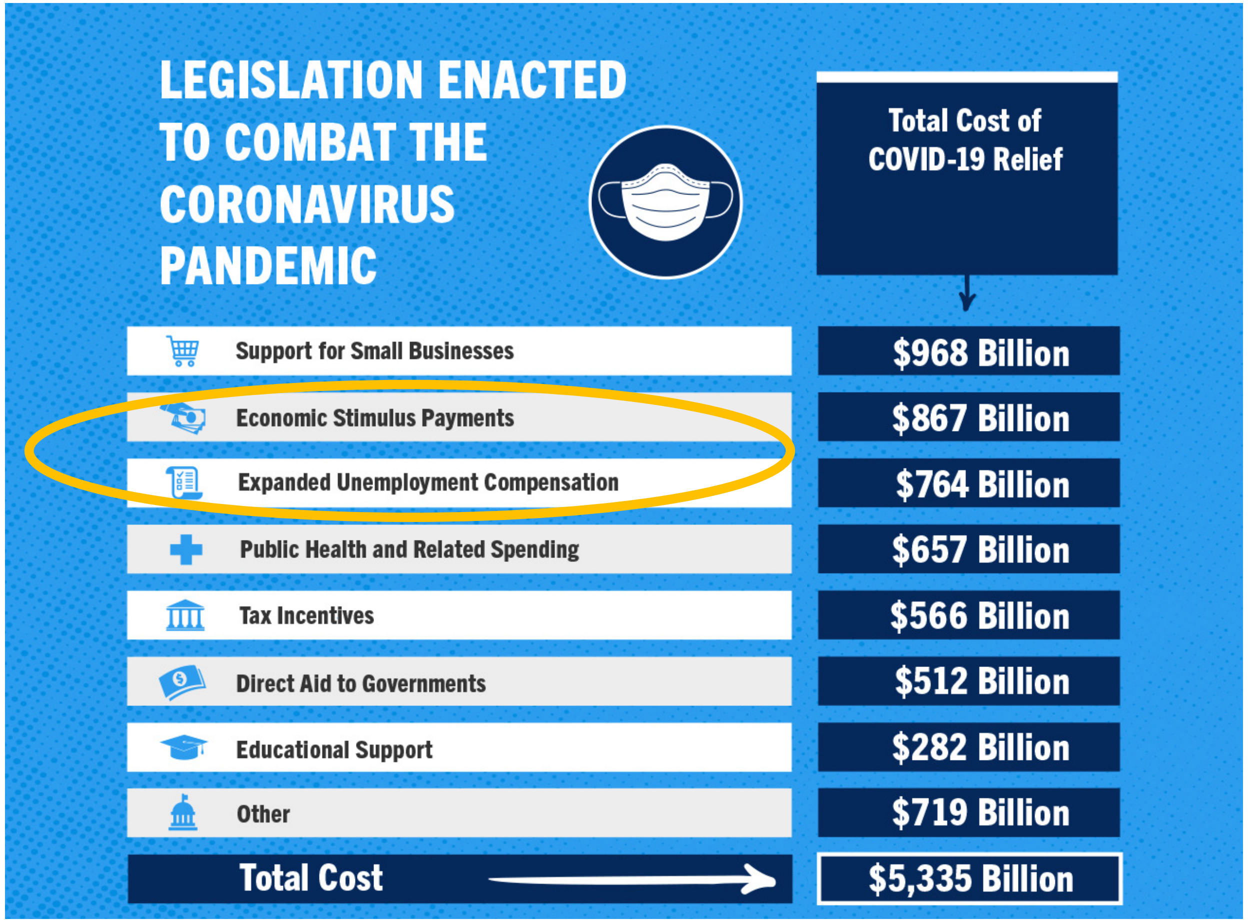
The US fiscal response to the onset of the COVID recession was much more aggressive

Fiscal Policy Contribution to Real GDP Growth
Percentage points



Brookings Hutchins Center [Fiscal Impact Measure]

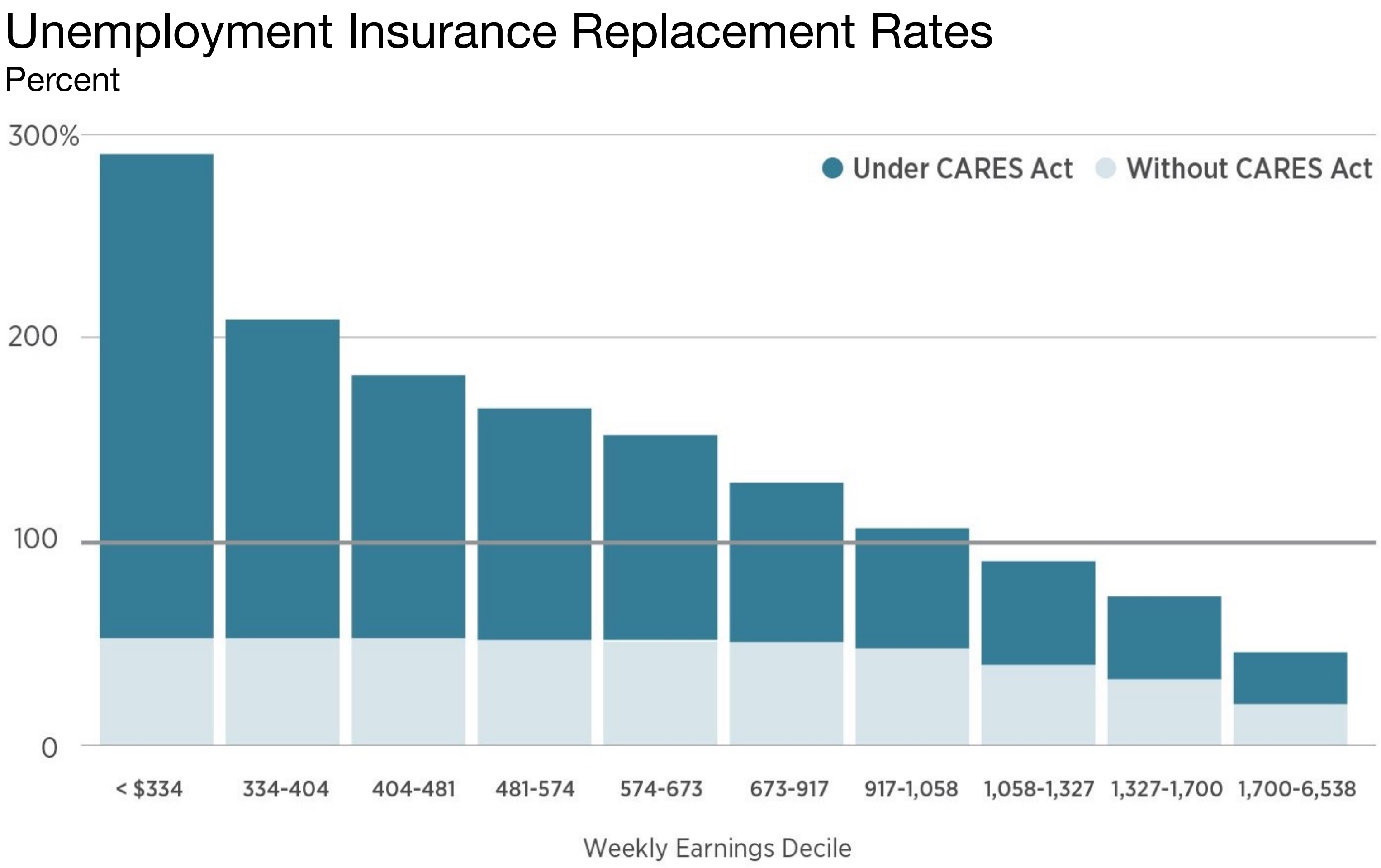
Significant components of the fiscal response were aimed directly at households



Other components like small business support and aid to governments supported households indirectly by reducing job loss

Screenshot from Peter G. Peterson Foundation

The fiscal measures made a huge difference for some of the most vulnerable households

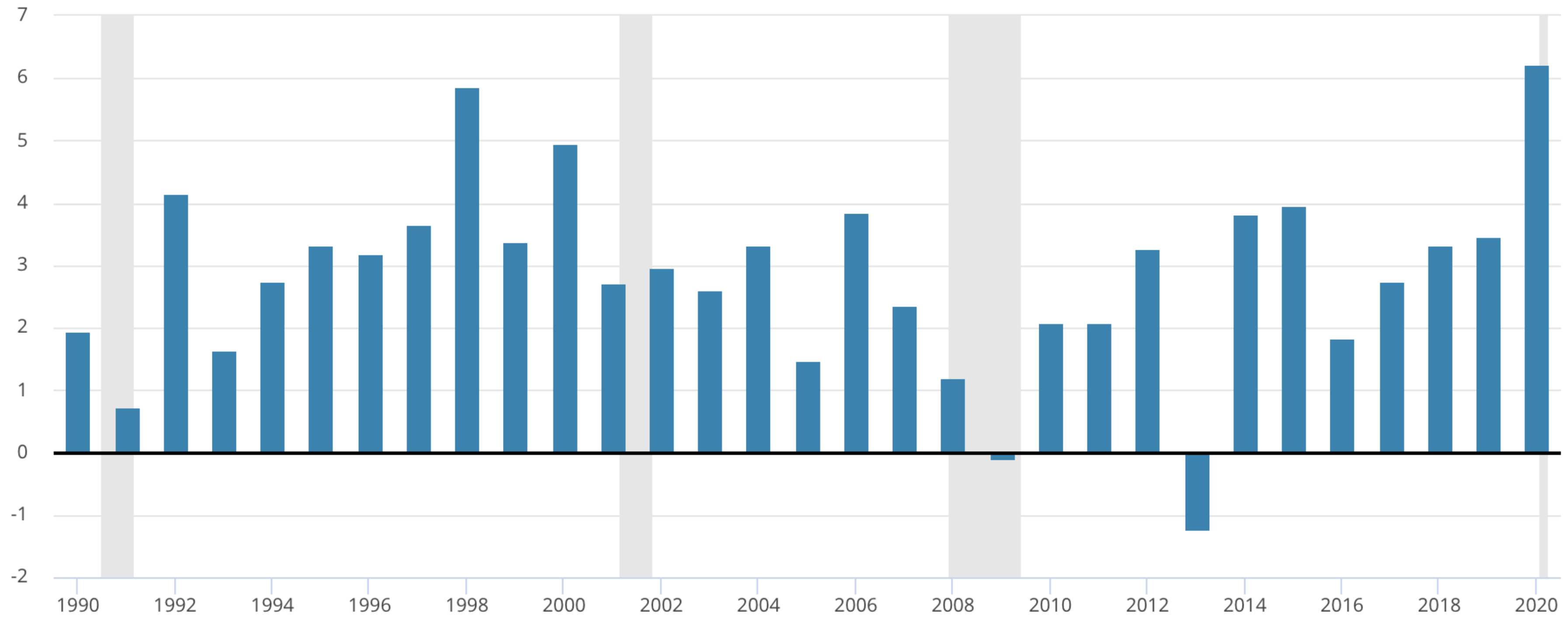


Screenshot from [Ganong, Noel, and Vavra](#) (2021)

The support contributed to very different outcomes than normally seen in a recession (1)

Real Disposable Income Growth

Percent change from previous year

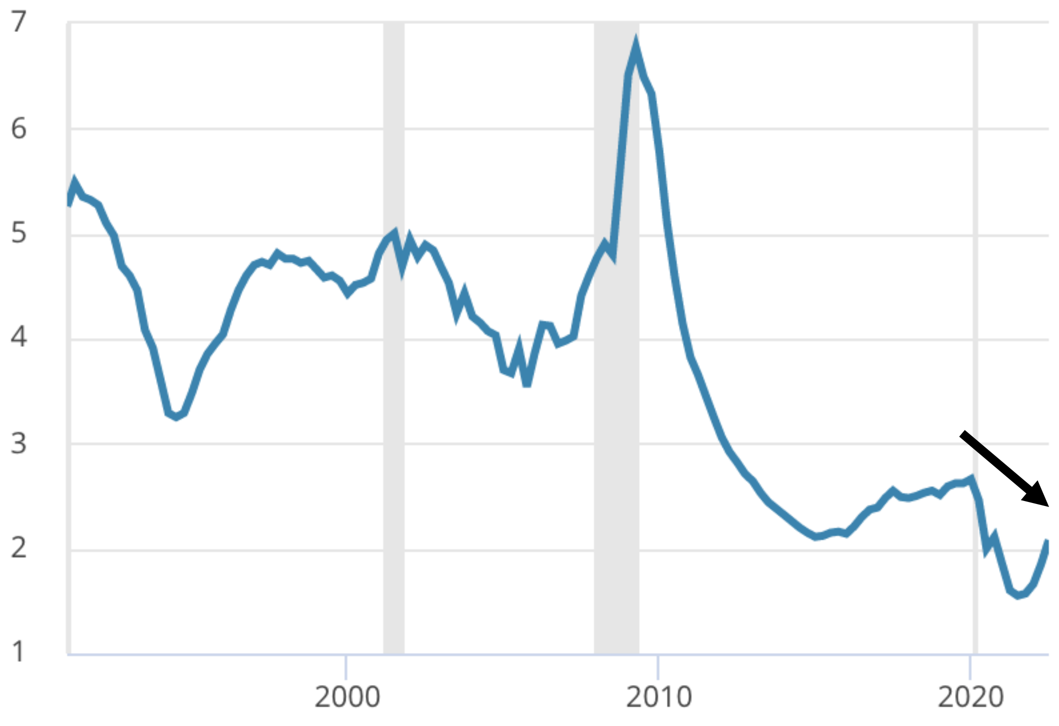


Rapid 2020 income growth even though unemployment averaged more than 8 percent

Bureau of Economic Analysis via [FRED]

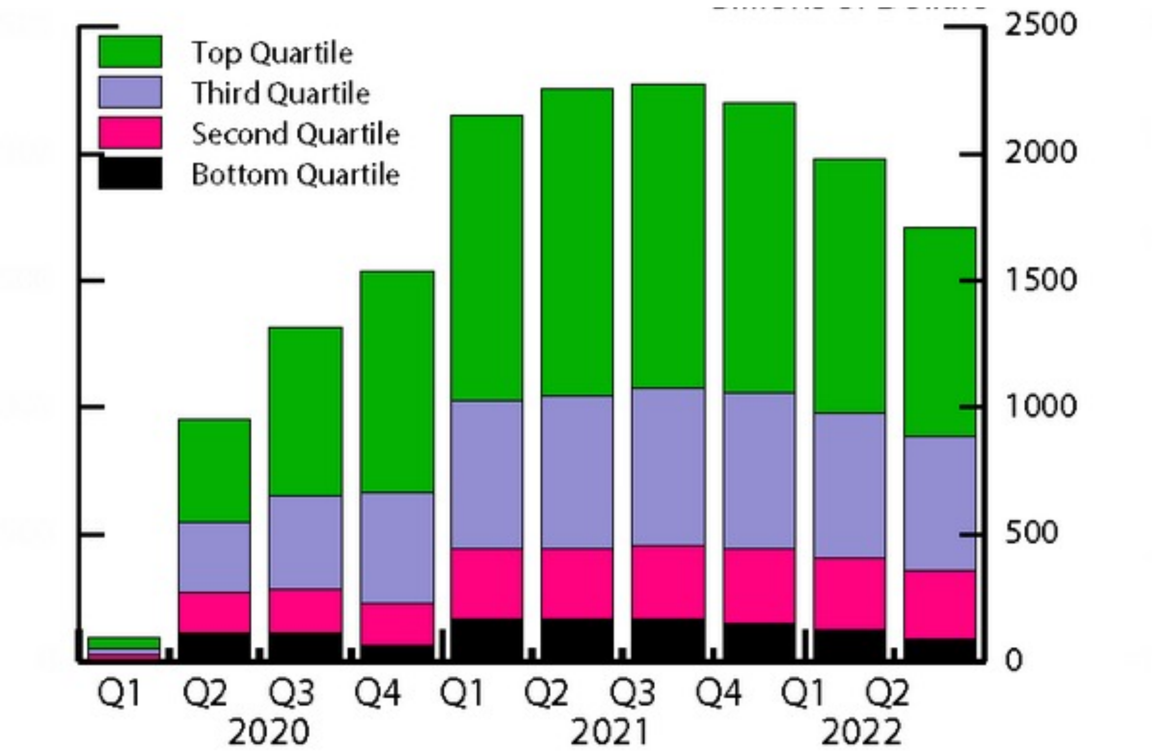
The support contributed to very different outcomes than normally seen in a recession (2)

Credit Card Delinquency Rate
Percent



Federal Reserve Board via [FRED]

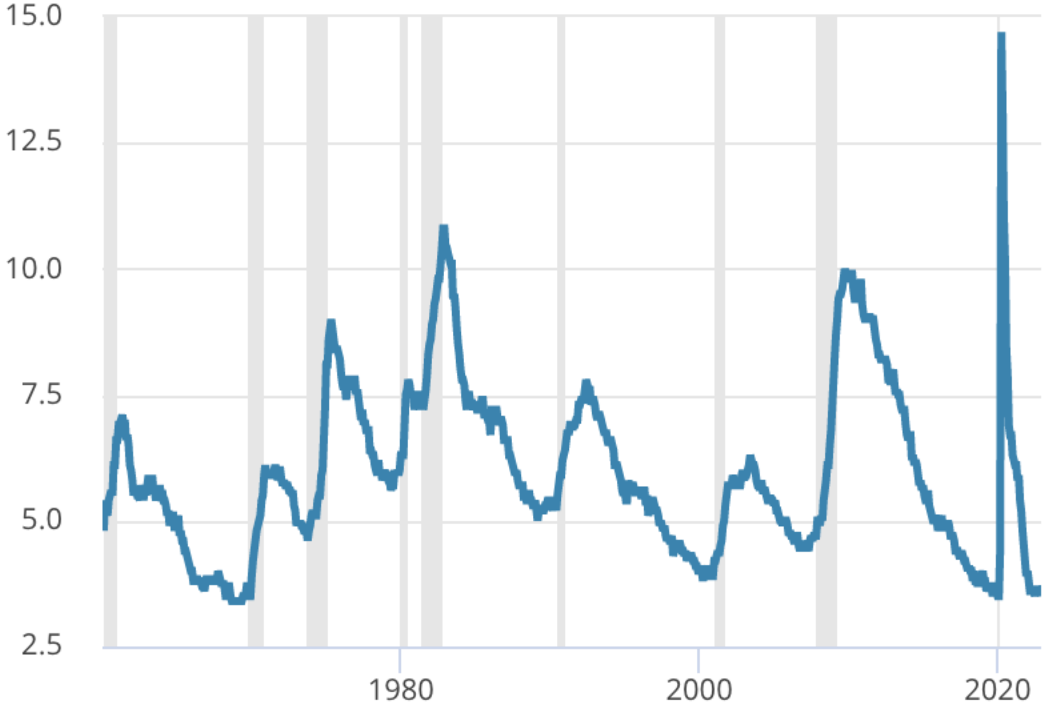
Stock of "Excess" Saving by Income Quartile
Billions of dollars



Screenshot from [Aladangady et al] (2022)

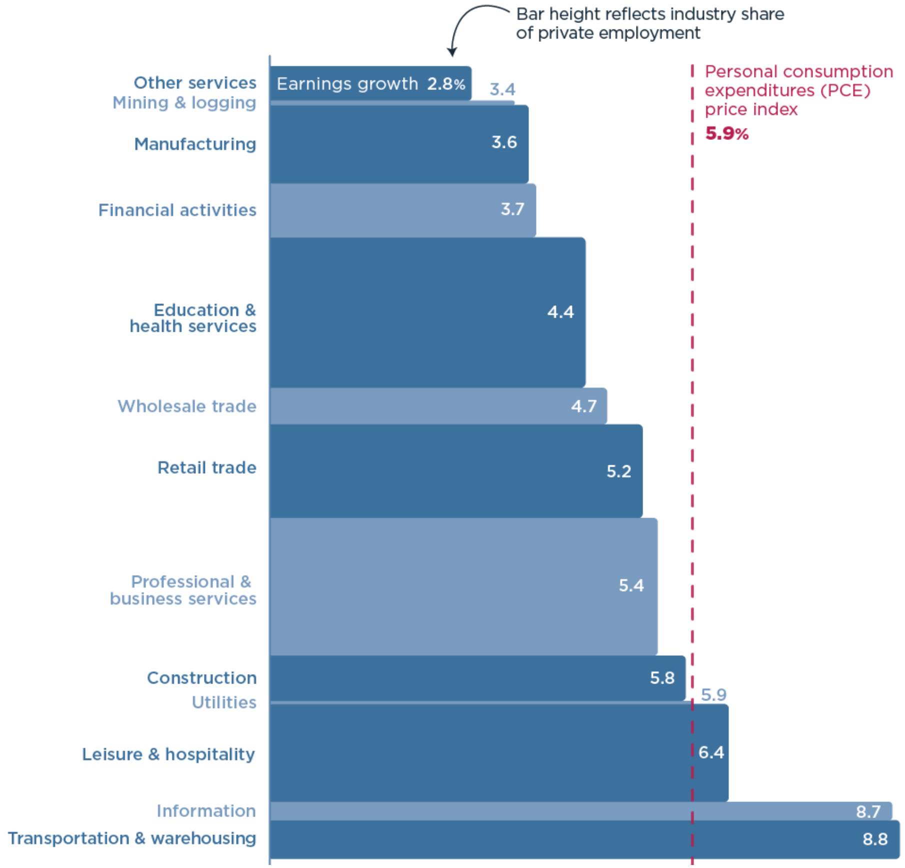
A robust pickup in labor demand is yielding (some) benefits to households

Unemployment Rate
Percent



Bureau of Labor Statistics via [FRED]

Wage Growth
Percent change from previous year



Screenshot from [Dynan and Powell]; based on average hourly earnings as of November 2022

Going forward, the forces bearing on households are mixed

Negatives—lower asset prices and generally tighter financial conditions, inflation eroding earnings, drag from normalization of fiscal policy, rising job loss (probably)

Positives—still-strong labor market conditions, still-strong balance sheets, considerable remaining excess saving

High interest rates and low affordability have already pulled down housing demand; broader consumer demand is maybe slowing

Lessons

Bad recessions can leave scars on households that lead to prolonged hardship and weak recoveries

Countercyclical fiscal policy has an important role to play mitigating the likelihood of scars

But countercyclical fiscal policy also provides stimulus and, particularly given the unexpected surge in inflation, **need to carefully consider appropriate magnitude and targeting**, as well as whether supply actually the capacity to rise to meet demand

Outstanding household questions (1)

What have we learned about **marginal propensities to consume** out of fiscal support? There has been a burst of literature, but …

- It's been mostly focused on **the initial waves of COVID checks**
- It's been mostly focused on **the short-term response**—to tie to inflation, need more evidence about longer term effect on demand
- **Estimated responses vary** fairly widely—more reconciliation needed
- More work is needed **on heterogeneity**—important for future targeting
- More thought is needed on **what findings generalize**

Outstanding household questions (2)

What more can we say about **lasting damage on household finances from recessions** and how policy can help avoid that? (Not just traditional fiscal measures but also eviction moratoria, mortgage forbearance, student loans pause, etc …)

How did countercyclical measures affect **labor supply**? (Did people "consume" leisure as opposed to conventional spending?)

What was the role of **monetary policy versus fiscal policy** in fueling the excess demand that has contributed to inflation? (Was the 2021 ARP really the issue or would we have been okay if the Fed had simply tightened earlier?)