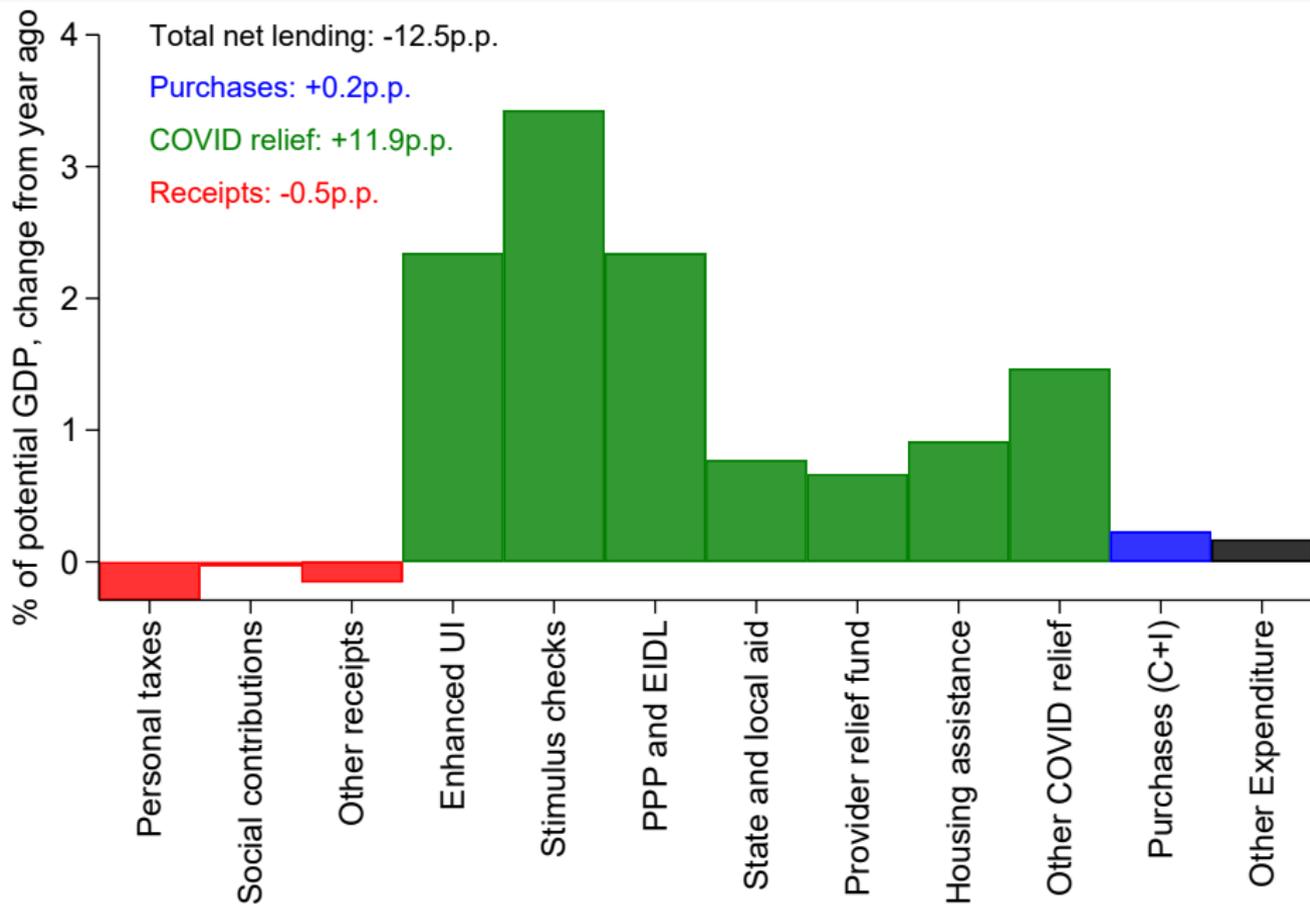


DISCUSSION:
FISCAL MULTIPLIERS IN THE COVID19 RECESSION
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AEPC
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FEDERAL BUDGET 2020Q2-2021Q1



SUMMARY OF AGMM

- ① Goal: estimate spending multipliers in April 2020 by lockdown status.
- ② Extend earlier work using DoD contracts.
- ③ No good instrument, but trust the t-statistic on the interaction.
- ④ Evidence that multipliers are larger in no-lockdown areas.
- ⑤ Not due to consumption responses.
- ⑥ Triple interaction and asymmetric response evidence of slack channel.

Lessons for the future

In order to make future recovery swift, Congress should:

1. **Invest money** to make this work stoppage as short as possible, neither sparing resources nor shying away from taking risky investments **in the development and production of testing, vaccines and new treatments...**
2. **Provide the necessary support for small and medium businesses** that do not have the ability to handle this shock on their own, **to allow them to make their normal credit, rent, and maintenance payments** and meet other fixed obligations... **Continuity of employment is critical** for ensuring that firms and employees can immediately start contributing to rebuilding our economy, once it is safe to suspend the restrictions.
3. **Provide the necessary support for individuals** whose incomes are affected by work stoppage orders to allow them to make their normal mortgage, credit, and rent payments and meet other inflexible obligations. That means paying their normal wages to keep them attached to their jobs, providing direct transfers to affected workers, **supporting the unemployment insurance system, acting to delay mortgage, credit, tax and rent payments, and strengthening state and local governments'** ability to support other forms of safety net.
4. **Assist financial markets** in maintaining the productive capacity of large businesses.

Source: Economists' Statement on Support for Jobs and Businesses in Response to the Coronavirus Pandemic (3/23/2021).

A social insurance perspective is more appropriate for designing and evaluating pandemic fiscal policy than simple aggregate-demand-based models. Conventional Keynesian models of fiscal policy suggest that the way to deal with a recession is to increase aggregate demand quickly, and by enough to return output to its normal or potential level. And in this framework, it is not necessary for fiscal policy to closely target the workers or industries most affected by the recession. Raising aggregate demand anywhere will raise incomes and spending throughout the economy, and so help will eventually flow to those most affected. These models and policy prescriptions don't hold in a pandemic recession. The social insurance framework can show which types of government fiscal actions best approximate what a well-functioning insurance market would provide.

Source: Romer and Romer (JEP, forthcoming).

SO WHAT DO WE LEARN?

- Not that response should have concentrated more in direct purchases.
- Rather, good environment to learn about non-linearities.
- Evidence:
 - ▶ Positive multipliers only in areas without SAH orders.
 - ▶ Within these areas, larger multipliers if low pre-existing unemployment.
 - ▶ Larger multipliers if spending reduction.
 - ▶ But limited power.
- Question: who is no-lockdown group?
 - ▶ Only CBSA in top 20 in absolute or per-worker spending is Burlington IA-IL.
 - ▶ Multiplier changes quite a bit moving from 0.5 week to 1 week cutoff.
- Suggestion: signature of slack channel is no wage pressure.

Econometric and measurement challenge

Transaction Information

Award Type:	Definitive Contract	Prepared Date:	11/26/2019 17:09:28	Prepared User:	SANDRA.GWYNN.N00019@NAVY.MIL
Award Status:	Final	Last Modified Date:	11/26/2019 17:09:34	Last Modified User:	SANDRA.GWYNN.N00019@NAVY.MIL
Closed Status:	No	Closed Status Date:		Closed By:	
		Approved Date:	11/26/2019 17:09:34	Approved By:	SANDRA.GWYNN.N00019@NAVY.MIL

Document Information

	Agency	Procurement Identifier	Modification No	Trans No
Award ID:	9700	N0001917C0001	P00024	16
Referenced IDV ID:				
Reason For Modification:	OTHER ADMINISTRATIVE ACTION			
Solicitation ID:	N0001917R0001			
Treasury Account Symbol:	17	1506		Select One

Dates

	Dates	Amounts												
Date Signed (mm/dd/yyyy) :	11/26/2019													
Period of Performance Start Date (mm/dd/yyyy) :	11/17/2017													
Completion Date (mm/dd/yyyy) :	03/31/2023													
Est. Ultimate Completion Date (mm/dd/yyyy) :	03/31/2023													
Solicitation Date (mm/dd/yyyy) :														
		<table border="1"> <thead> <tr> <th></th> <th>Current</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Action Obligation:</td> <td>\$16,597,954,142.00</td> <td>\$34,849,474,578.00</td> </tr> <tr> <td>Base And Exercised Options Value:</td> <td>\$9,965,400,971.00</td> <td>\$35,382,546,670.26</td> </tr> <tr> <td>Base and All Options Value (Total Contract Value):</td> <td>\$10,039,378,160.00</td> <td>\$35,408,208,237.26</td> </tr> </tbody> </table>		Current	Total	Action Obligation:	\$16,597,954,142.00	\$34,849,474,578.00	Base And Exercised Options Value:	\$9,965,400,971.00	\$35,382,546,670.26	Base and All Options Value (Total Contract Value):	\$10,039,378,160.00	\$35,408,208,237.26
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Base and All Options Value (Total Contract Value):	\$10,039,378,160.00	\$35,408,208,237.26												
		Fee Paid for Use of IDV: \$0.00												

Purchaser Information

Contracting Office Agency ID:	1700	Contracting Office Agency Name:	DEPT OF THE NAVY
Contracting Office ID:	N00019	Contracting Office Name:	NAVAL AIR SYSTEMS COMMAND
Funding Agency ID:	1700	Funding Agency Name:	DEPT OF THE NAVY
Funding Office ID:	N00019	Funding Office Name:	NAVAL AIR SYSTEMS COMMAND
Foreign Funding:	Foreign Funds non-FMS		

Entity Information

SAM Exception:		Remove Exception	
Unique Entity ID (DUNS):	008016958	Street:	1 LOCKHEED BLVD
Unique Entity ID (SAM):	G4KDGE4JFFK7	Street2:	
Legal Business Name:	LOCKHEED MARTIN CORPORATION	City:	FORT WORTH
DBAN:		State:	TX Zip: 761083619
CAGE Code:	81755	Country:	UNITED STATES
		Phone:	(817) 763-6775
		Fax No:	(817) 763-6781

TYPICAL DISCUSSION OF TRANSFER MULTIPLIERS

- AGM and AGMM distinguish wealth transfer from production.
- Important for relating cross-sectional local multiplier to aggregate:
 - ▶ DoD spending in Ft. Worth financed by national taxes \Rightarrow wealth transfer to Ft. Worth.
 - ▶ Cross-sectional multiplier = [Local deficit-financed production multiplier] + [Transfer multiplier] (to first order).
 - ▶ Response to transfer very different from response to future taxes: positive short-run effects (sticky prices), negative long-run effects (wealth effects).
 - ▶ Chodorow-Reich (AEJ:Policy 2019): Transfer multiplier is small, so not a big issue in practice \Rightarrow cross-sectional multiplier rough lower bound for national, deficit-financed, no-monetary-response multiplier.

TRANSFER COMPONENT IN AGMM

- AGMM instead consider wealth transfer on *cash* net of *accrual* basis:

the [wealth transfer] component of the overall change in government contract spending in a location is that component that does not convey news about the level of contract spending-induced production in the area, but just the timing of outlays (AGM, p. 213).

- Better phrased as news (fiscal foresight) effect: agents may respond to anticipated contract before the contract is signed.
- May operate through wealth transfer or through production.
- Contrast with the disbursement effect: cash hits bank account.
- When do production and hiring respond? It depends (production smoothing motive and inventory accumulation).
- When does consumption respond? It depends (PIH versus HTM).
- Testable in panel (“pre-trends”).
- Aggregate defense build-up and Bartik doesn’t solve the problem if defense build-up also anticipated (Ramey, QJE 2011).

MORE ON TIMING

- Closely related but distinct issue is attenuation bias.
- When is work actually performed? Not specified in contract.
- For “intent-to-treat” this is fine (average contract multiplier).
- For “treatment-on-treated” attenuation bias from mis-measurement of timing of actual work.
- Does not bias interaction if independent of SAH/slack.

CONCLUSION

- Great paper to read on fiscal multipliers during COVID.
- I love the case studies.
- Takeaway not that U.S. should have done more direct purchases.
- Rather about mechanisms.