

Consumer Response to the Coronavirus Stimulus Programs

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Research Question

- **Are rebates an effective tool to stabilize the economy?**
 - Prior research finds large fraction spent quickly.
 - Field new survey to assess affects of 2020 rebates.
- **Are rebates less effective in pandemic-led recession?**
 - Stay-at-home orders and social distance restrict ability to buy.
 - Mass layoffs and income losses collapse in demand.

Key findings from prior research

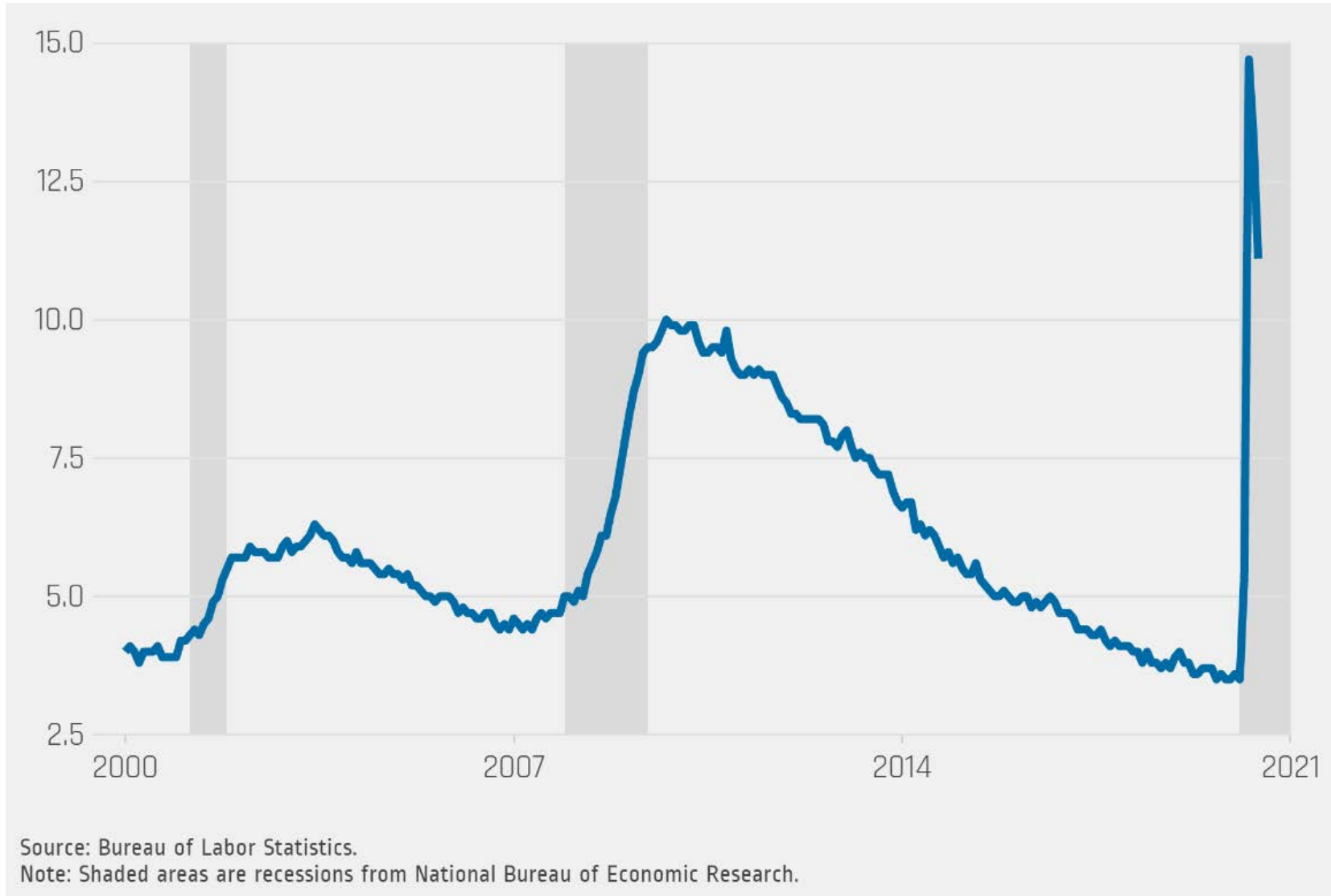
- Numerous studies from 2001 and 2008 rebates show **high fraction spent** out of rebates **rapidly**—supporting demand.
Johnson, Parker, Souleles (2006); Shapiro, Slemrod (2003, 2009); Agarwal, Liu, Souleles (2007); Parker, Souleles, Johnson, McClelland (2013); Broda, Parker (2014)
- Families with **less money easily accessible (low liquidity)** increase spending more and more rapidly
Parker, Souleles, Johnson, McClelland (2013); Misra, Surico (2014); Broda and Parker (2014)
- One-time payments are **more effective than other policies** to broadly support families in Great Recession.
Sahm, Shapiro, Slemrod (2011, 2016)

Research design

- **Survey of households**, nationally representative sample.
- **Design module** for Surveys of Consumers, University of Michigan in May and June; Google Survey weekly April to June.
- **Ask households directly** how they will use the rebate and how Covid-19 crisis is affecting them.
- **Compare use to 2020 rebate with 2008 rebate.** Prior survey response comparable with spending data. Parker, Souleles (2019)

**Covid-19 recession different
from past recessions**

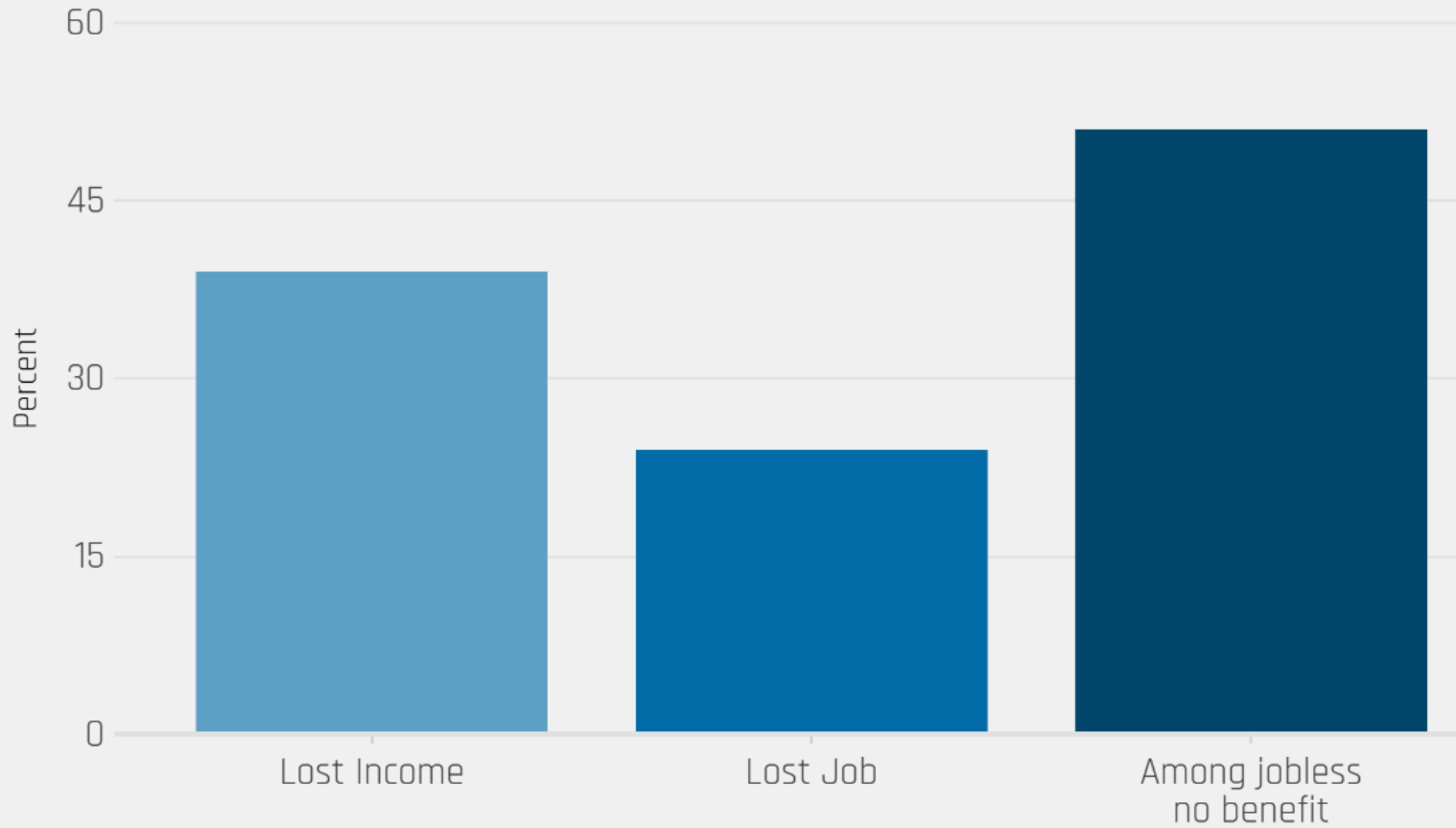
Unemployment much higher and rebates out faster



- Highest unemployment since 1930s.
- 3 months above 10%, scarring.
- Layoffs going temp to permanent.

Covid-19 crisis is damaging economic security

Percent of families by status in June 2020



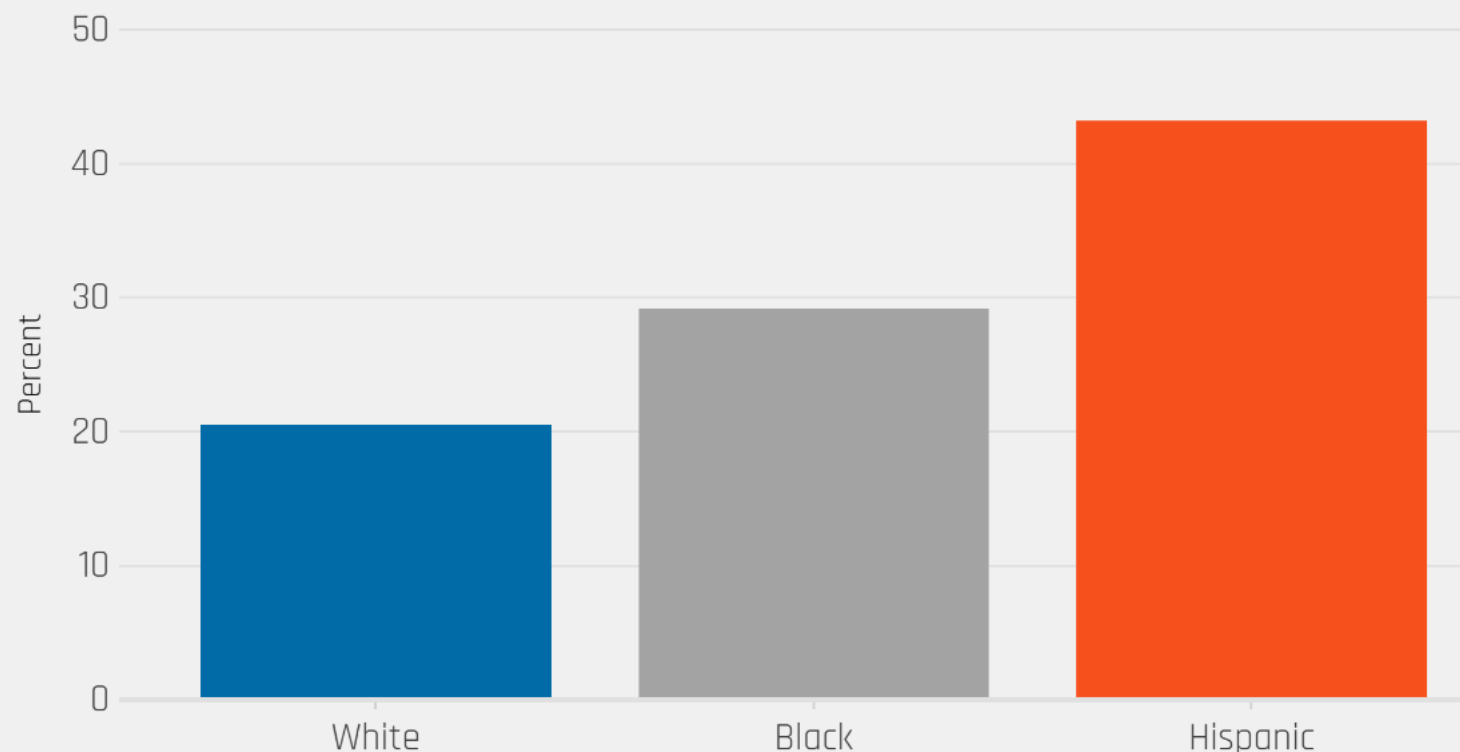
Source: Michigan Survey, June 2020.

- 2 in 5 families with less income.
- 1 in 5 families lost a paycheck.
- Many jobless have no gotten benefits.

Distress differs across families by race: lost job

Black and Hispanic families more likely lost a paycheck

Percent lost job by race



- 1 in 5 White families
- 1 in 3 Black families
- 4 in 10 Hispanic families

Source: Michigan Survey, May and June 2020.

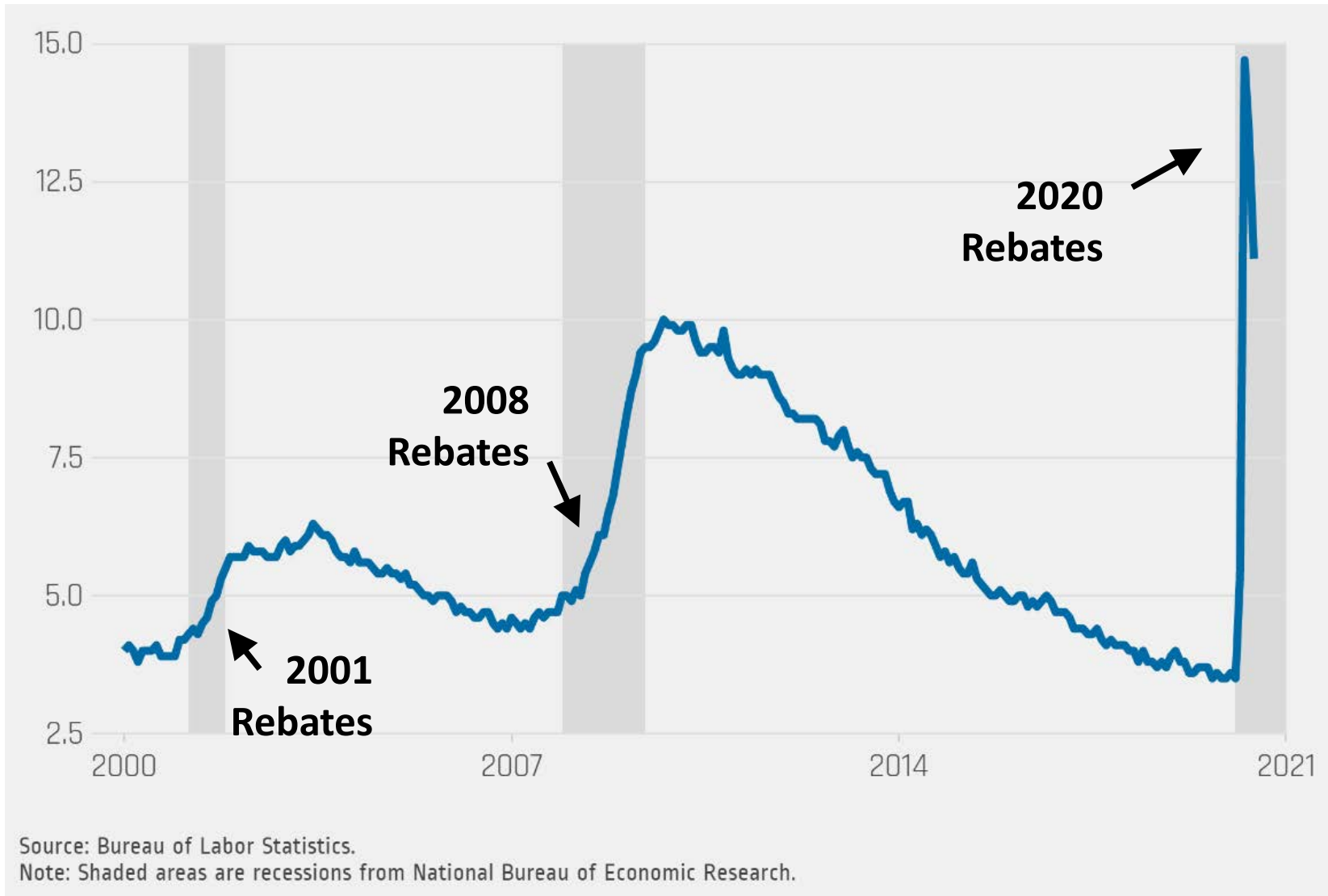
**Rebates are different from
past recessions**

2020 Recovery rebates in Covid-19 crisis

- **Congress enacted rebates** as part of \$2.2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act on March 27th.
- One-time payment of **\$1,200 per adult and \$500 per dependent child**; anyone with Social Security Number but not high income.
- Total rebates of **\$300 billion** distributed to families, starting mid April and nearly all paid out by end of May.

Did families use rebates in 2020 as in the past?

Unemployment much higher and rebates out faster

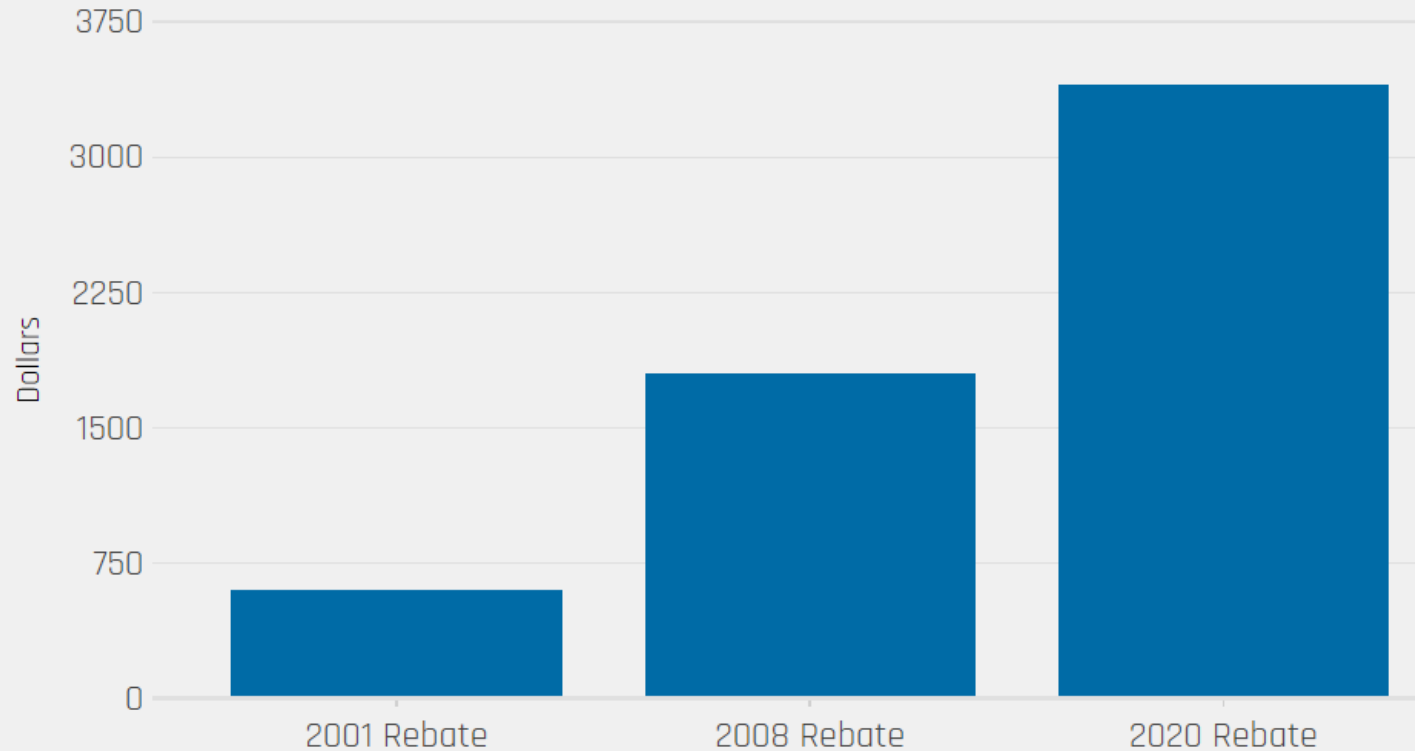


- Most job losses since 1930s.
- 2020 rebates to families quickly .
- High economic uncertainty.

2020 rebates **different** from past rebates

Dollar amount of rebates is largest in 2020

Rebate for couple with two children by year



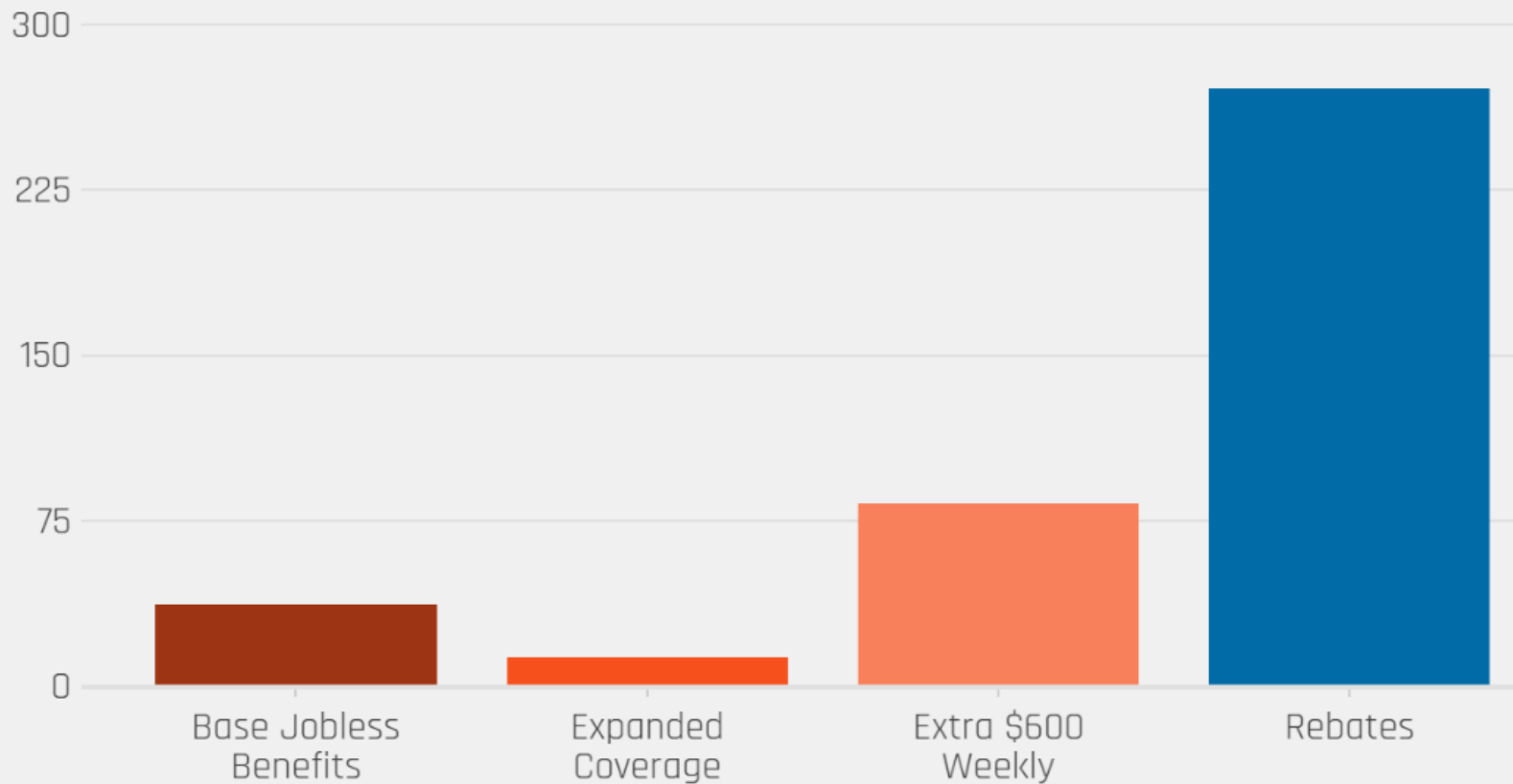
- Larger rebate
- Faster delivery
- Wider eligibility

\$300 billion to families within 3 months of recession start

Rebates got a lot of money out fast

Rebates twice as much income into economy as jobless benefits

Total billion dollars by relief program in April and May



Source: Bureau of Economic Analysis

- Rebates within weeks to families.
- Jobless benefits ramp up slowly.
- Rebates: most families, not jobless benefits.

**Use of rebates are different
from past recessions**

Main Survey Question

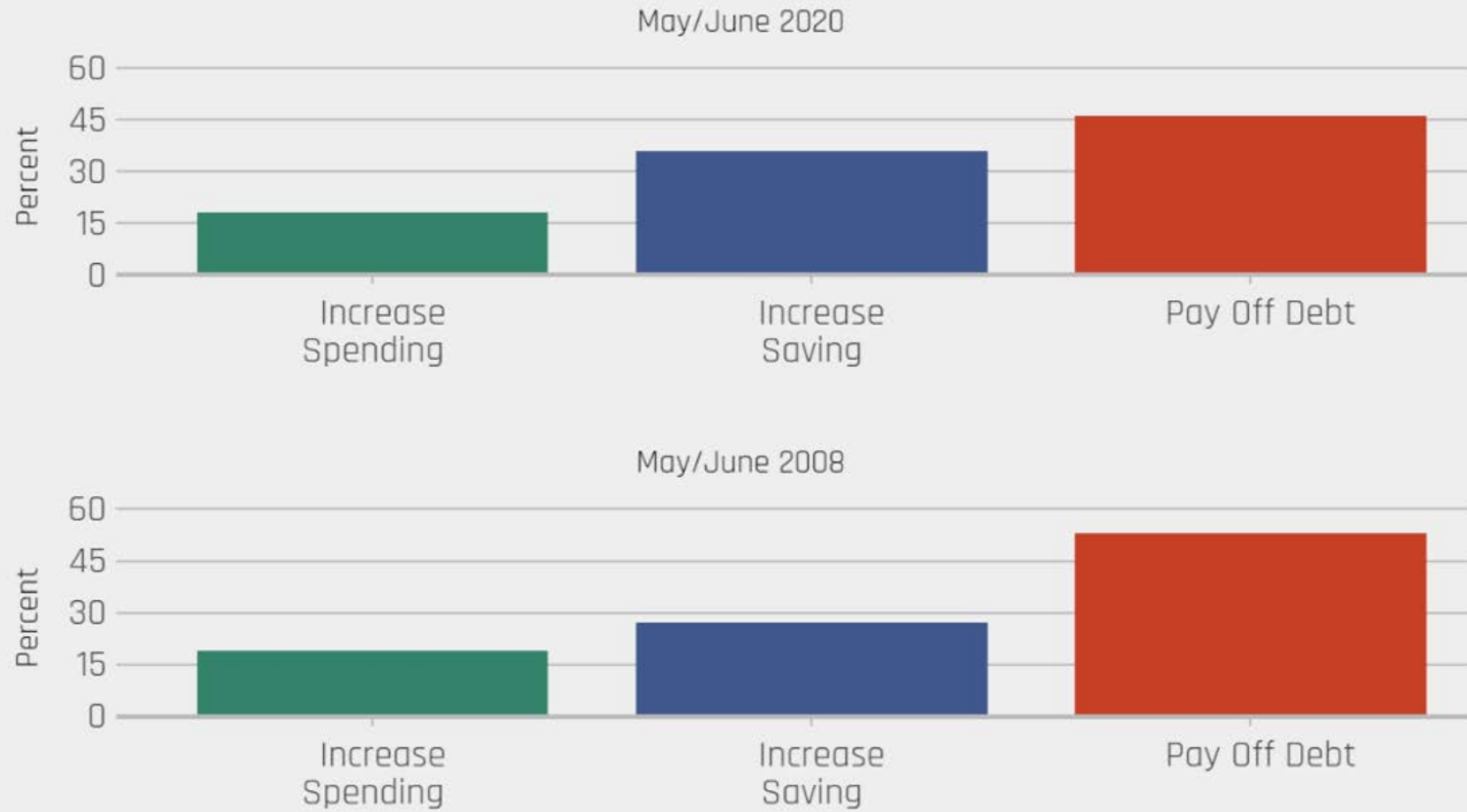
We want to understand **how the rebate will change decisions** you would have made without the additional money.

Thinking about your (family's) financial situation this year, will the rebate lead you mostly to **increase spending**, mostly to **increase saving**, or mostly to **pay off debt**?

Saving more common in 2020 than past recessions

Spending out of rebates similar in 2020 and 2008

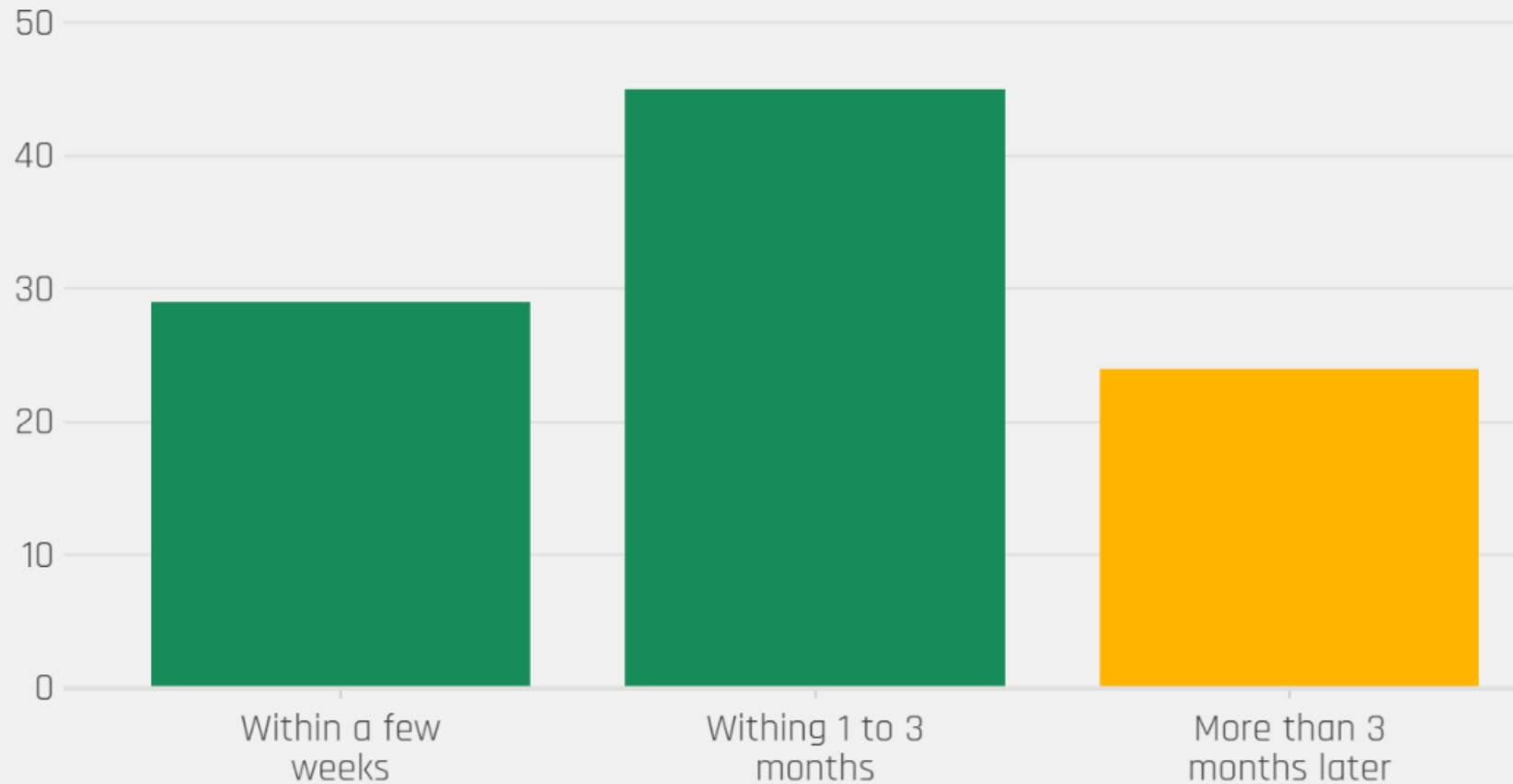
Percent of families by "mostly use" of rebate



Rebates got to families fast and they spent rapidly

Families who plan to mostly spend rebate will do so quickly

Percent of "mostly spend" families by time horizon for spending

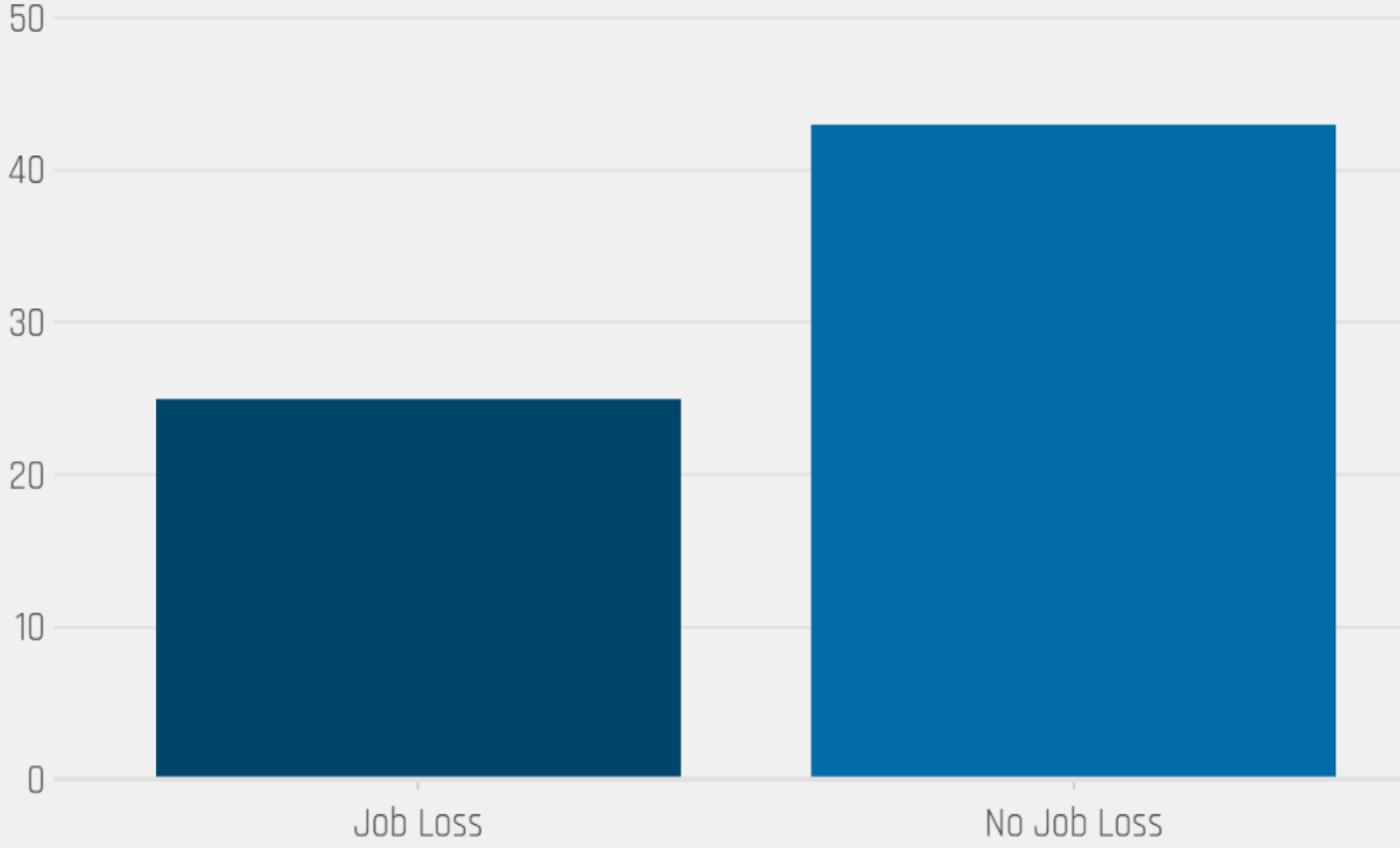


Source: Michigan Survey, May and June 2020.

Families hit hardest in recession less likely to save

Families with a job loss much less likely to save their rebate

Percent of "mostly save" families by job status

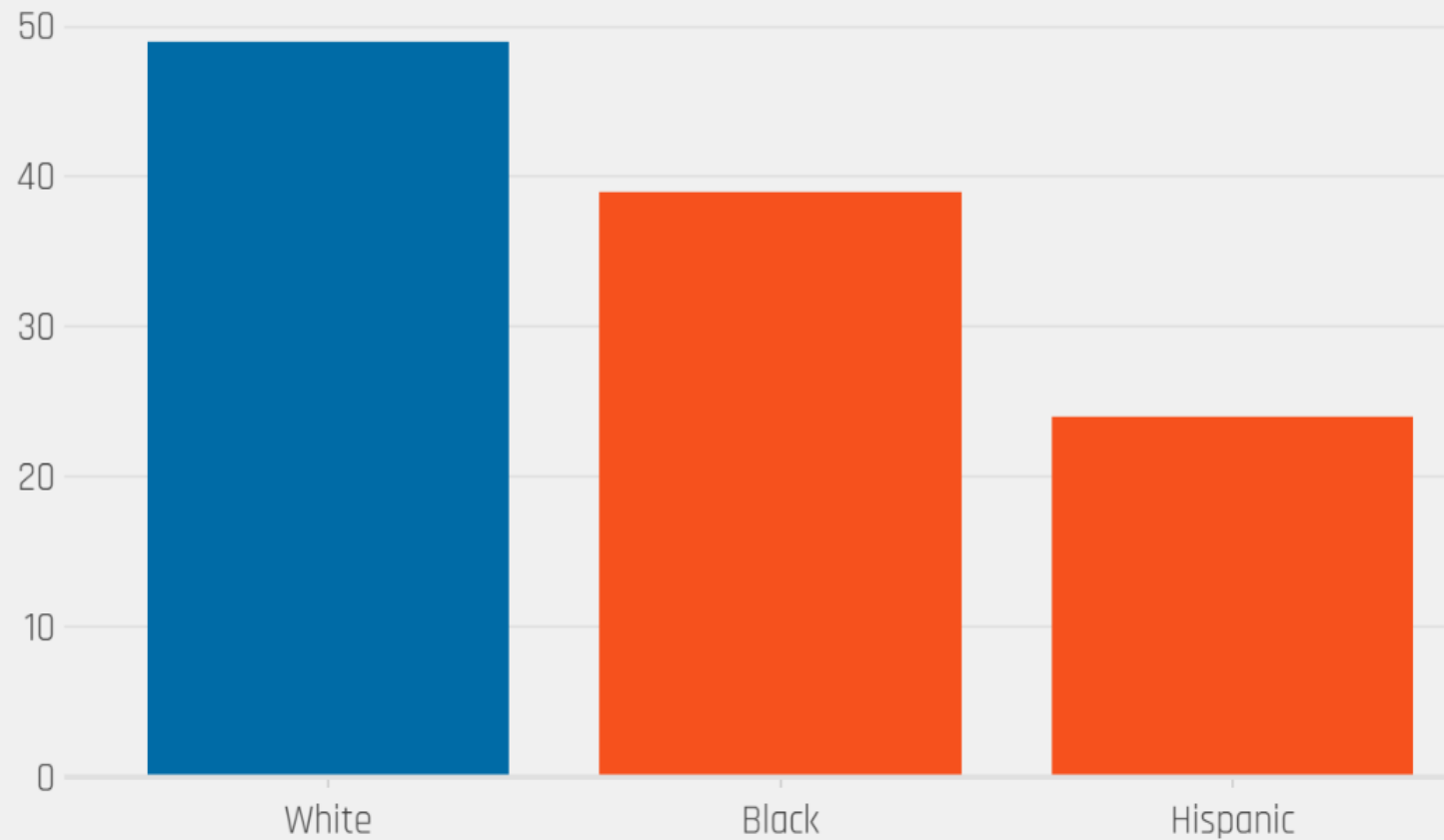


Source: Michigan Survey, May and June 2020.

Ability to save not same across all families

Black and Hispanic families much less likely to save their rebates

Percent of "mostly save" families by race and Ethnicity



Source: Michigan Survey, May and June

Implications for **future** **policies** from Congress

We know what works and how to do it

- Countless researchers have **studied our economy from Great Depression to Great Recession**. Volumes have been written.
- *Recession Ready* from Equitable Growth and Hamilton Project offers **many ideas for today, using evidence and research**.
- None of the lessons from the past matter, if policymakers do not apply them today. **Actions and money matter**.

What should Congress do next?

- **Pass legislation to continue relief**—better jobless benefits, more food stamps, and money to state and local governments.
- Do not pass relief for six months or a year. **Use automatic stabilizers** tie to unemployment rate.
- **Continue relief until unemployment is back to 5%**, even if debt to GDP becomes much larger.

How to get back on track in the coming years?

- Everything Congress and the Federal Reserve is doing for the economy is **about helping families get back on their feet.**
- Damage from a recession lasts generations unless policymakers actively fight back. **Policymakers must fight for everyone.**
- Congress must get **more relief out immediately.** And they must **commit to continue all the relief until we win.**