Consumer Response to the Coronavirus Stimulus Programs

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Research Question

• Did families use rebates differently in 2020 than in 2008?
  • Stay-at-home orders and temporary shutdowns in 2020.
  • Larger, more rapid surge in layoffs and loss of income in 2020.

• Were rebates an effective tool to stabilize the economy?
  • Did spending out of rebates support demand?
  • Did it provide relief to those hardest hit in this crisis?
  • Should Congress enact more relief?
Key findings from research on prior rebates

• 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).

• Rebates were more effective than other policies to broadly support families in Great Recession.
  Sahm, Shapiro, Slemrod (2011, 2016).
Our research design

• **Survey of households**, a 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 has affected them.
Covid-19 recession different from past recessions
Swings in unemployment larger and faster in 2020

Income and job loss widespread due to Covid crisis

- 25% lost jobs; 40% lost income.
- Income losses at all levels of past income.
- Rapid shift makes targeting by income less effective.

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—1.6% of GDP — distributed to families, starting mid April and nearly all paid out by end of May.

Larger, Faster, and Wider Eligibility in 2020 than 2008
Rebates arrived in 2020 during peak unemployment.

Rebates were first relief to get out to families

- Rebates out faster than benefits.
- Rebates one time, broadly.
- Jobless benefits weekly, targeted.

Source: Bureau of Economic Analysis.
Use of rebates relative to 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?
Percent “mostly spend” same in 2020 and 2008

Implies marginal propensity consume = 0.4 to 0.6

Source: University of Michigan Survey of Consumers from May and June in 2020 and 2008. Note: Authors’ weighted tabulation.
Families who spent their rebates did so quickly

Supported demand in late spring and summer 2020
Types of spending differed in 2020 and 2008

Differences reflect pandemic and staying at home
Percent “mostly save” higher in 2020 and 2008

Source: University of Michigan Survey of Consumers from May and June in 2020 and 2008. Note: Authors' weighted tabulation.
Higher the income last year more increase in saving

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2008</th>
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<tbody>
<tr>
<td><strong>Spend</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under $35,000</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>$35,000 to $75,000</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>$75,000 and over</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td><strong>Save</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under $35,000</td>
<td>27</td>
<td>22</td>
</tr>
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<td>$35,000 to $75,000</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>$75,000 and over</td>
<td>44</td>
<td>31</td>
</tr>
<tr>
<td><strong>Pay Off Debt</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under $35,000</td>
<td>60</td>
<td>59</td>
</tr>
<tr>
<td>$35,000 to $75,000</td>
<td>46</td>
<td>53</td>
</tr>
<tr>
<td>$75,000 and over</td>
<td>38</td>
<td>50</td>
</tr>
</tbody>
</table>

- More demand for cash on hand.
- Less mortgage debt to pay down.
- Mortgage forbearance.
Use of rebates differs by setbacks this year

<table>
<thead>
<tr>
<th></th>
<th>Spend</th>
<th>Save</th>
<th>Pay Off Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lost Income</strong></td>
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</tr>
<tr>
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<td>14</td>
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<tr>
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<tr>
<td><strong>Lost Job</strong></td>
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<tr>
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<td>14</td>
<td>25</td>
<td>61</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
<td>43</td>
<td>38</td>
</tr>
<tr>
<td><strong>Fallen Behind on Bills</strong></td>
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<tr>
<td>Yes</td>
<td>7</td>
<td>13</td>
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</tr>
<tr>
<td>No</td>
<td>19</td>
<td>41</td>
<td>44</td>
</tr>
</tbody>
</table>

- Hit hardest spend less.
- Those who can save more do.
- Paying off debt by hardest hit.
Implications for economic policy

• Rebates and other relief programs were effective in 2020. Supported demand early in recession and created financial buffers.

• Rebates out the door and most other relief expired. More relief needed. Better to use automatic stabilizers in future.

• Faster recovery, less permanent damage. Should do more deficit spending especially since monetary policy less effective now.
Thank You

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