

Pre-existing Inequality, Covid-19, and Equitable Recovery

with Raj Chetty

TRACKING COVID-19'S ECONOMIC IMPACT IN REAL TIME

In the months since the novel coronavirus arrived in the US, a confused and contentious public health response has given us a slow, fragile, incomplete and **profoundly unequal** recovery.

The [Opportunity Insights Economic Tracker](#), a free, interactive website that helps researchers and policy makers use big data to track economic activity in real time at the national, state, county, and metro level, offers some key insights into the drivers of recovery and inequality. The tracker allows users to disaggregate data by income and region all the way down to ZIP codes.

The economic and public health issues that every city is facing are intertwined. We will not see a full economic recovery until public health efforts are effective enough to restore consumer confidence.

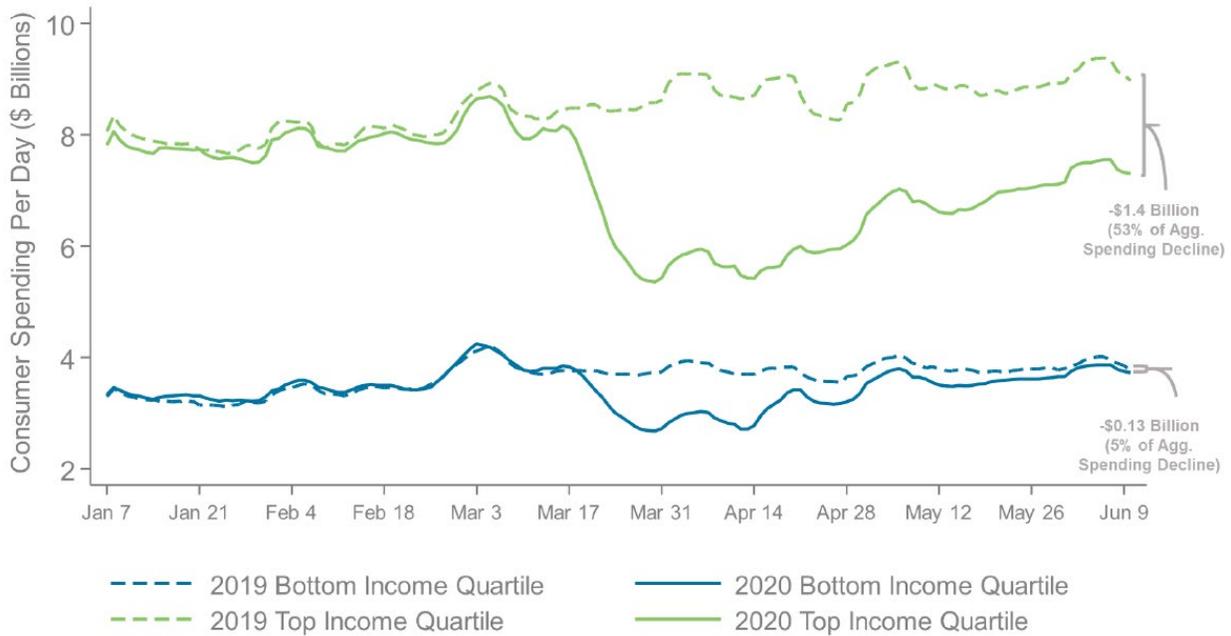
In the meantime, the tracker can be a resource to you in diagnosing your local the economy and figuring out which policy interventions are most useful.

KEY FINDINGS

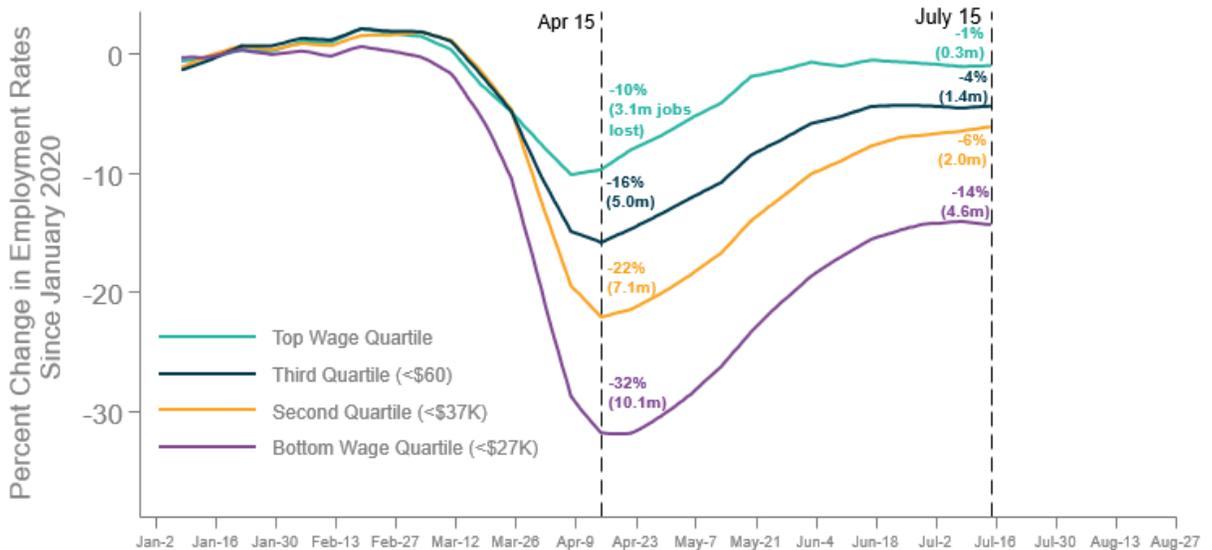
FINDING 1: Reduced spending by those with disposable income is the key driver of revenue and job losses. In the country's most affluent neighborhoods, main street businesses lost over 70 percent of their pre-COVID revenue and laid off 70 percent of the low-wage workers who kept local shops, salons, and restaurants up and running. Low-income neighborhoods, in contrast, saw only 30 percent of low-wage service workers laid off. This drop in spending creates a domino effect.

- 1. High-income households accounted for most of the reduction in spending.** Two-thirds of total spending reduction comes from households in the top 25 percent of income distribution. The steepest drop in spending was on in-person services
- 2. Small business revenues declined most in affluent areas.** ZIP codes with concentrations of high-income households saw the steepest drop in revenues.
- 3. Job losses at small businesses have been largest in affluent areas.** Businesses in affluent neighborhoods not only laid off 70 percent of their low wage workers but have also been slower to hire new workers.

Consumer Spending Changes During COVID-19 Crisis by Income Group



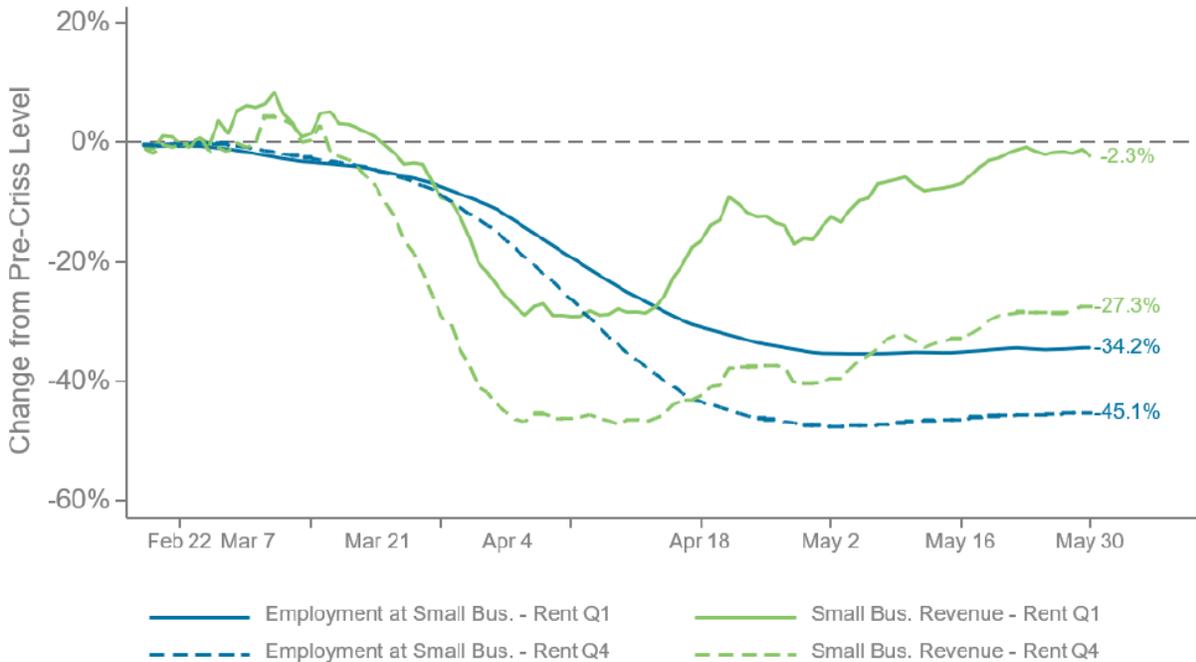
Employment Changes by Wage Quartile



State and federal policy responses so far have had only modest effects. Major policy efforts to date—stimulus payments to households and Paycheck Protection Program loans to small businesses—have not led to a rebound in spending at the businesses that have lost the most revenue. As a result, they have had a limited impact on the employment rates of low-income workers

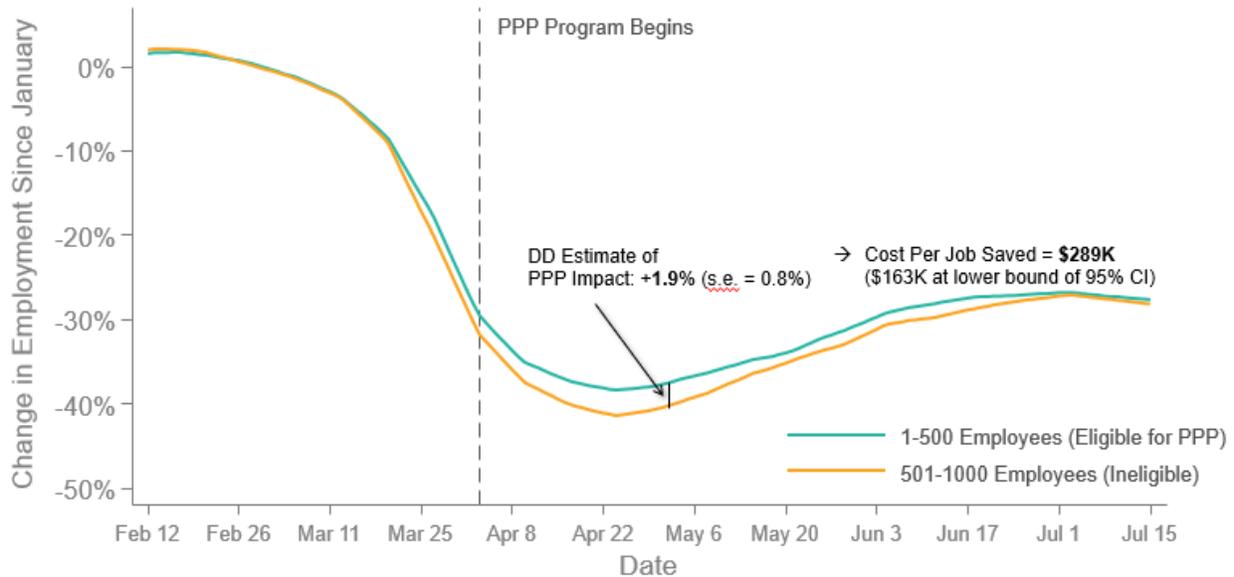
- 1. State-ordered re-openings of economies had small effects on economic activities.** The timing of re-opening in different states had little effect on consumer spending or employment rates. The virus, not policymakers, dictates consumer behavior.
- 2. Stimulus payments increased spending, especially among low-income households, but had minimal effects on employment or businesses suffering greatest impact.** Most new spending after the stimulus went to goods that could be acquired without in-person contact, and as a result, employment growth has lagged spending. There was a 20 percent jump in spending on durable goods, but only a 7 percent increase in spending on in-person transactions. (In previous recessions, spending on services has stayed flat while spending on “durable goods” like cars and appliances dropped.) Online retail has gone up 11 percent since the start of the pandemic, while low-wage employment remains down 18 percent. This is bad sign for US workers. Not all of these jobs will likely come back.

Impact of Stimulus Payments on Business Revenue and Employment



- 3. PPP loans have had little impact on employment rates.** There was no significant difference between PPP eligible firms and PPP ineligible firms in terms of reduction of payroll or employee hours, suggesting that most PPP money went to firms that were not going to lay people off to begin with.

Impact of Paycheck Protection Program Loans on Low-Wage Employment



POLICY IMPLICATIONS

Traditional economic tools have limited capacity to restore consumer spending during the pandemic. Since the primary driver of economic pain during the COVID-19 crisis has been the reluctance of high-income households to assume the health risks associated with patronizing businesses in person, a full recovery will likely require that these consumers' confidence in the safety of in-person transactions be fully restored. But, with the pandemic exacerbating existing inequities, even that is far from guaranteed.

Policymakers should prioritize public health and safety efforts that focus on containing and controlling the virus itself as a means to recovery.

In the meantime, it may be most fruitful to use economic policy to limit hardship among low-income workers who have lost their jobs. This might include

- Extending unemployment benefits and the social safety net
- Sectoral training programs and place-based policies targeting hardest hit areas (e.g., low-income workers in affluent counties)
- Efforts to mitigate long-term impacts on children, e.g. in decisions on when to re-open schools vs. businesses

In general, policies that address structural disparities—reducing segregation, place-based investments to increase upward mobility, and improving access to higher education—will help mitigate the potential long-term effects of this economic and public-health crisis.