THE BROOKINGS INSTITUTION

BROOKINGS CAFETERIA PODCAST

Economic issues in the 2020 election, and beyond

Washington, D.C.

Friday, October 16, 2020

PARTICIPANTS:

Host:

FRED DEWS
Managing Editor, Podcasts and Digital Projects
The Brookings Institution

Guest:

DAVID WESSEL
Senior Fellow, Economic Studies
Director, Hutchins Center on Fiscal and Monetary Policy
The Brookings Institution

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews.

In 1992, Bill Clinton campaign adviser James Carville introduced the mantra, "It's the economy, stupid," into our political lexicon. But does the saying hold true in the 2020 election amidst the economic shocks wrought by the coronavirus pandemic as well as nationwide, even global, protests for racial justice? To find out more about how economic issues are playing out in the presidential election this year, and will continue to evolve in the future, I invited Senior Fellow David Wessel onto the show. Wessel is the director of the Hutchins Center on Fiscal and Monetary Policy at Brookings and a frequent contributor to this program in his regular Wessel's Economic Update pieces, which you can find on our SoundCloud channel.

You can follow the Brookings podcast network on Twitter @policypodcasts and get information about and links to all our shows, including Dollar & Sense: The Brookings Trade Podcast, The Current, and Our Events podcast. And now here's my interview with David Wessel.

David, welcome back to the Brookings cafeteria.

WESSEL: Good to be with you, Fred.

DEWS: Let's dive right into the topic of economic issues in the 2020 election to start off. Is it fair or accurate to say that not only is the state of the economy an issue in the 2020 election, but it is the top issue?

WESSEL: Actually, I don't think so. I think the top issue is COVID-19 and that the outcome of the election may very well turn on whether the public thinks that President Trump did a decent job managing the pandemic. But, of course, one reason that the economy is an issue is because of COVID-19. The economy was doing pretty well until the beginning of 2020 when the COVID crisis hit. And so the effects of COVID on the economy are being felt not only in people's health and their fear about going out to movies and stuff, but also in real economic pain.

DEWS: Let me pivot on that point. You said the economy was doing pretty well before COVID-19, which is to suppose that had the pandemic not hit. President Trump might be on his way to a pretty big reelection victory.

WESSEL: I think that's right. I mean, in general, history tells us that when the economy is doing well, the president who's in office has a pretty good chance of being reelected. And I think that would have favorite Trump. But we'll never know because the pandemic hit and we had the worst recession we've had in generations.

DEWS: So when you say the economy is doing well, when economists say the economy is doing well, what are the kind of major indicators that you're looking at to make that assessment?

WESSEL: Unemployment was remarkably low, below 4 percent at the beginning of this year. Lower than many economists and some people at the Fed thought was, in their words, safe because they were afraid it would generate inflation and the economy was growing at a pretty good pace. It's not that we didn't have problems, but things seem to be getting better. Wages were starting to inch up a little bit. The income of the average family was pumping up. We had lots of problems. We had lots of inequality. The growth of productivity was distressingly slow. Wages hadn't risen very much. But all in all, the picture in January 2020 looked pretty good.

DEWS: So thinking about this, I know it's not macroeconomics so much, but the macro issues like inequality and productivity, those are kind of economy wide issues, along with issues like GDP and the overall unemployment rate. But what are the bread and butter economic issues that voters care most about? Are they really looking and responding to those big issues or is it really just what's happening in their home and their neighborhood?

WESSEL: My view has always been that all these numbers that we write about in the press reports are background noise. What people really care about is what happening to their prospects. So, I think people worried about wages and why they weren't growing up faster. I think they worried about the widening gap between winners and losers in our economy, particularly if they or their kids were among the losers. I think they worry about the price of their house, which was doing pretty well and continues to do pretty well. And I think they worry a lot about health care costs, not in the macro sense, like the percentage of GDP that goes to health is of no interest to the ordinary American. But whether they feel like their premiums are going up, whether they discover that a bigger bill when they get a prescription or visit a doctor, they anticipated or God forbid, they have one of these surprise bills where they didn't realize they were coming out of network for an ambulance ride. And I think one indication of how important that health care costs thing is, is that that's what the Democrats are harping on and that must reflect their polling and focus groups.

DEWS: And then what about economic issues at a global scale, especially global trade? We hear a lot about trade with China, trade wars, tariffs. Do voters really care about that kind of stuff?

WESSEL: I think they care about that kind of stuff if they think it affects them. And so one of the things that has happened is that if you happen to work in an industry that is changing a lot and your wages aren't going up or they're having layoffs, it may have to do with foreign trade. It may have to do with China. It may have to do with the fact that technology has made it possible for your company to produce with fewer workers. But as a rule, people seem to want to blame some foreign power. So I don't think that people were worried about trade per say, I think they were worried about their economic livelihood and their prospects. And if they were disappointed with them, trade and sometimes immigration got the blame.

DEWS: Another issue that we hear all the time, especially from President Trump, is the stock market--stock market performance. The president, as I guess most presidents, might tout the stock market when it's doing well and they kind of remain silent on it when it is not doing so well. Can you help listeners understand how the stock market performance is or is it relevant to the economy?

WESSEL: Sure. So in the Clinton era, the Treasury secretary, Bob Rubin, lectured the president and said don't take credit when the stock market goes up because its stock market is going to go down. And if you take credit, you're going to get the blame. Obviously, Bob Rubin, who's a former CEO of Goldman Sachs, has not been talking to Donald Trump.

So the stock market matters. It matters for a couple of reasons. One is when the stock market goes up, businesses and people who have stocks feel better about the economy and they're more likely to spend and invest and hire. Secondly, when the stock market goes up, some people get richer and they will spend that money. Now, that's great if you happen to be a Jaguar salesman. It's not too good if you're a McDonald's worker.

The issue, though, is that the stock market seems increasingly disconnected from what's going on in the real economy. And so if you're most Americans, their wealth, if they have any, is in their house, not in the stock market. A lot of us have 401K retirement plans, and to that extent, people are affected by what happens in the stock market. But the typical American family doesn't have enough stock to really be a winner when the stock market goes up.

So actually, the reason I think the stock market matters so much today is because it seems to matter to Donald Trump. When the stock market fell one day, suddenly he was interested in getting more fiscal stimulus out of Congress and the stock market went up and he lost interest. So he clearly looks at it as a barometer of how the economy's doing. But most people I know don't.

DEWS: Changing subjects again. Just last week, Federal Reserve Chairman Jay Powell gave a speech in which he called the economic shock of a pandemic, quote, "essentially a case of natural disaster hitting a healthy economy," unquote. And then he offered his views on how government should respond. Can you talk about the ways in which the economy has recovered since the pandemic's onset back in February, March, April?

WESSEL: Sure, there's a joke that we've used the word unprecedented, and we should have saved it for times like these. So first we have the coronavirus shock. Then we have a government mandated essential shutdown of the economy. Some people talk about it as we put the economy into a medically induced coma. So, of course, that meant there was less economic activity. When you're home and not going out, you're not spending as much money when the factory is shut. You're not making stuff.

Then what happened, which was fortunate and extraordinary, was even though we beat up on Washington for never being able to do anything quickly, there was a huge response both from the Federal Reserve, which rapidly cut interest rates and pumped a lot of money into the economy in various ways, and from the Congress, which in March passed that CARES Act that sent checks to a lot of households, extended unemployment benefits, created a somewhat messy but still important small business loan program and stuff like that.

And what seems to have happened is that that dose of fiscal and monetary steroids did their job. So the economy is actually, after a very steep decline in the second quarter, has come back stronger in the third quarter than most forecasters expected. Now, that's not to say it's good. It's one thing to say the economy has gotten better and it's doing better than the economists projected. But that's far from saying it's good. The unemployment rate is still very high. The number of people who dropped out of the job market is uncomfortably high. So, what's happened is we got this dose of fiscal and monetary medicine and that rescued the economy from what threatened to be really a repeat of the Great Depression.

So one other thing happened. People who had money, that is people whose paychecks kept coming like yours and mine, Fred, or people who had unemployment checks coming and they were juiced up by 600 dollars a week for a while, it turns out a lot of them, particularly the people in the top half of the income distribution, saved that money. So what's happened now is that it's a very unusual recession. People were forced not to spend money even though they had some income. So it seems like that accumulated savings is helping to keep the economy from falling into the abyss right now. The concern, of course, is that with Congress paralyzed, all these fiscal steroids are wearing off and private demand has not yet returned to the pre-pandemic levels. And the prospect that the shutdown--a lot of companies are saying they're not going to put people back in the offices until July, which means that, sure, the people will get paid, but the restaurant around the corner from your off because we don't have any business and so forth. People are worried that after this really faster than anticipated bounce back in the third quarter, the fourth quarter--October, November and December--will be flat. And that means that we won't get any closer to the pre-pandemic path until we get more fiscal stimulus.

And I think what the Federal Reserve is saying is basically, help. We've done everything we can think of and then some. We really can't do very much more. We need help from Congress. And that plea has so far been unanswered.

DEWS: Yeah. Chairman Powell called for more economic stimulus on the fiscal side. I mean, is it unusual for the Fed chairman to make recommendations outside of its monetary focus?

WESSEL: Well, from time to time, Fed chairmen assumed the role of the economic wise person in the economy. And members of Congress always want them to say, what should we do as long as what the Fed chair says agrees with what the member of Congress wants to do in the first place. So in the past, you usually had Fed chairs--Alan Greenspan, Paul Volcker--lecturing Congress on how they needed to cut the budget deficit. Alan Greenspan supported Bill Clinton when he raised taxes in 1993 to shrink the budget deficit. And Alan Greenspan endorsed George Bush's tax cuts in the early 2000s when we were running a budget surplus. And in the post-great financial crisis, Ben Bernanke sort of obliquely suggested to Congress that it wasn't helpful to the economy, that they were cutting spending because of what was known as the sequester, the across the board spending cuts.

So, I think the short answer is Fed chairmen are usually reluctant to talk about fiscal policy. They do it when they think it's really important. They do it in very oblique, in generalities. And what made Powell different was A, a he was pretty strong and blunt, and B, he was clearly trying to make a near-term move on fiscal policy. He was trying to tell Congress, I need your help. I can't do this alone. And so that was unusual.

And also, Jay Powell is unusual as a Fed chairman because English is his first language. Most Fed chairmen, economics is their first language. And then they try to translate that into English, which makes it hard for headline writers and ordinary people to understand. Jay Powell speaks very plainly. And so that made the message somewhat stronger and easier to take.

DEWS: Looking ahead to a time when treatments and maybe even a vaccine allow people to start to resume more normal economic activity. What are the kind of economic indicators that you'll be looking at to suggest that we're getting back to some semblance of a healthy economy?

WESSEL: That's a good question. So one of the problems with the government indicators is there's a long lag. Some indicators come pretty quickly, like the number of people who are filing for unemployment insurance. That's kind of an early warning thing. If that starts to fall, there's--some debate about how good those numbers are since they come from each of the states--that would be an important sign. I kind of like some of these private sector things, like the number of people who are making reservations on Open Table or the Google mobility data that shows you how much people are moving around. That would tell us a lot about how people are responding to the lockdown recommendations in orders. But fundamentally, the most important economic indicators now involve the virus itself. If the rate of positive tests falls, if the rate of hospitalization falls, that will be a really welcome indicator that we can begin to reopen the economy. And if it rises, it'll just go the opposite.

Stepping back a minute for the indicators we get with a little bit of lag, I think what's really interesting to watch is what's happening to what's known as labor force participation. That's the fraction of people who tell the government survey takers that they're either working or looking for work, actively looking for work. And what's happened is that a lot of people were laid off and have fallen out of the labor market. That is, they tell the survey takers they're not actively looking for work. And that's kind of dangerous because we know that when people stop looking for work, they tend not to find jobs. And the longer that goes on, the more likely are to never work again and will end up with a really big economic problem.

And so one of the reasons that so many of us wish that Congress would get on with it and do some fiscal stimulus is we're worried about the long term, what economists call scarring effects, of this, if it goes on for too long. People who are pushed off the sidelines of the job market, some of them new entrants, young workers, and they may never come back or they won't come back for a decade or more. And that would be bad for them and bad for economic growth.

DEWS: Also, one economic indicator that we won't have before the election, and you're mentioning labor force participation rate makes me think of this, is we won't have the Bureau of Labor Statistics unemployment reports, as that comes out, I think, what, the first Friday of a month, which will fall after the election.

WESSEL: Pretty much what we know about the economy before the election, we already know and any ways, any last minute jiggles probably don't make that much difference to the voters. I think what would make a difference to the voters is, A, does Congress do something, because I think that would shore up public confidence, both consumers and businesses that, OK, the adults are in charge now. So that would be good even if the money doesn't flow. And frankly, in this case, I do think the stock market makes a difference. If the stock market took a sudden plunge, which I have no reason to anticipate, I think that would rattle people and they'd think that we're off track.

But mostly to the extent that the economy is going to affect the election, it's the economy that we see today, what people are feeling. And, you know, it's hard to be optimistic if your kids are home from school and they may not go back for the rest of the year or your restaurant or the ballpark where you work is not bringing people back. It's hard for those people to be optimistic and even worse, there are some industries, airlines for instance, where for a while they were holding on to workers because of federal support. Now they're laying them off by the tens of thousands.

DEWS: Well, let's wrap this up kind of in a very Brookings way, and that's looking farther into the future. The Brookings Institution is embarking on a new project to look at how to rebuild the economy in a more inclusive way. I mean, we know that the economic shock and the economic recovery is felt unevenly, depending on who you are or what your job is. What are some specific policy changes that you would recommend that we adopt in the future to achieve some of those goals around inclusivity?

WESSEL: So, I think one thing we need to reexamine with more intensity is both the strength and the design of the safety net, by which I mean, there are a lot of people who were excluded from the unemployment insurance system before because of the nature of their work, like they weren't Uber driver or they had worked enough powers or something. And we expanded the unemployment insurance system to take care of them, but temporarily. And we also learned that the unemployment system, which is a great way to pump money into the economy and give money to people who aren't working, is run by computers that seem to be older than I am. And I'm 66 years old. So we need to fix that system. We need to be able to make it much more inclusive so it reaches everybody in the economy where not everybody has a regular paycheck and B, that it's much more agile.

Second, I think one of the lessons we've learned is that low wage workers are often disrespected, but they're essential. So we should think much more about raising the minimum wage and thinking about how do we provide for better family leave policies so that when people get sick or need to stay home to take care of a sick kid, they're not forced to choose between going to work and not having any income because it's both bad for their families, but also leads people who are at the bottom of the income distribution to go to work when they're sick. And that's really a bad thing.

And then third, I would say we learned a lot about the shortcomings of our public health system, and I hope we fix it before the next pandemic. Because you're absolutely right, the pandemic has not hit people the same. People at the top like me are working at home. I have plenty of internet, using Instacart to get my food delivered. I got lots of masks--my wife seems to like making masks. I live in a house that was originally big enough for my wife and me and our two kids. But the kids are grown, so we have plenty of room to spread out. We have a nice deck, so when people come over, we can entertain them outside without running afoul of the good practices. But for a lot of people, that's not the case. They live in crowded housing. They don't have the option of not interacting with people. They may be caretakers for the elderly and stuff like that. And our inability to manage this pandemic as well as some other advanced economies has really put them at great risk. And I'm talking about essential workers. And these risks are concentrated among people, black and brown people and low wage workers, and we're rich enough to have a public health system that can deal with pandemics and that can cushion the blow to those people. And it's an outrage that we haven't, and I really hope that in the next presidential term, whether it's Trump or Biden, there's a really good 9/11 style commission that comes up with firm recommendations about what we ought to do. If I were in charge, I'd put Bill Gates as the chair.

DEWS: I guess we'll leave it at that then. David Wessel, thanks, as always, for sharing with us your time and your expertise.

WESSEL: Great. Nice to talk to you, Fred. Take care.

DEWS: The Brookings Cafeteria podcast is made possible with the help of an amazing team of colleagues. My thanks go out to: audio engineer Gaston Reboredo; Bill Finan, director of the Brookings Institution Press, who does the book interviews; Marie Wilken, Adrianna Pita, and Chris McKenna for their collaboration; and Camilo Ramirez and Emily Horne for their guidance and support.

The Brookings Cafeteria is brought to you by the Brookings Podcast Network, which also produces Dollars & Sense, The Current, and our events podcasts.

E-mail your questions or comments to me at bcp@Brookings.edu. If you have a question for a scholar, include an audio file and I'll play it and the answer on the air. Follow us on Twitter @policypodcasts. You can listen to the Brookings Cafeteria in all the usual places. Visit us online at Brookings.edu.

Until next time. I'm Fred Dews.