Discussion of “Economic Impact Payments and Household Spending During the Pandemic” by Parker, Schild, Erhard, and Johnson

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Parker, Schild, Erhard, Johnson—overview

The paper is a thoughtful analysis of the response of consumer spending to the three waves of Economic Impact Payments issued in 2020-2021.

Interesting cuts on household wealth, work-from-home potential.

The use of Consumer Expenditure Survey (CE) data makes it a nice complement to other research using administrative financial records to explore households’ response to the EIPs.

CE allows for a more comprehensive measure of consumption.

CE allows for a more representative sample.

CE has a richer set of potential covariates to explore.
My discussion will highlight 3 issues

A “relatively low spending response”?

The EIP3 mystery

Stimulus versus social insurance
A “relatively low spending response”? For EIP1 and EIP2, the response of nondurables and services (NDS) spending is low, but the response of total consumption is much higher and not all that out of line with earlier work or other pandemic literature (particularly considering much of the other pandemic literature focusses on lower-income households)

Data from Table V of PSEJ (2022)
A “relatively low spending response”?

The results imply a shift to durable goods, which is unsurprising given what we saw in aggregate data.

Data from BEA via FRED (here and here)
A “relatively low spending response”?  

For the design of future stimulus, it might be useful to know how much of the low nondurables and services response was a special pandemic story  

Possibly explore by looking at:  

- MPCs by age (lower response for older households?)  
- MPCs by red state / blue state (lower response in blue states?)  
- MPCs by whether spending is “socially distant sensitive” as in Cooper and Olivei (2022)
The EIP3 mystery

In contrast to the estimated responses to EIP1 and EIP2, the estimated response to EIP3 is very low—even for total consumption.

Data from Table V of PSEJ (2022)
The EIP3 mystery

Is this plausible? The data do not tell a particularly strong story about Americans being “less needy” when EIP3 was issued.

Reported financial stress in line with reading for much of the pandemic

UI benefits had ended; job postings were just starting to pick up

Checking account balances were about at their average during the pandemic

Reported Financial Stress

Median Checking Account Balances

EIP3 begins

EIP3 begins

Screenshot from CBPP; screenshot from tracktherecovery.org; data from JPMC Institute
The EIP3 mystery

Do the low estimates reflect a problem with the data/methodology?

PSEJ point to the seemingly high share of households saying they did not receive EIP3 (although not higher than for EIP2)

Might also want to think about whether there is systematic measurement error in the estimates of previous EIPs included as controls:

\[ \widetilde{EIP1}_{i,t-s} \text{ and } \widetilde{EIP2}_{i,t-s} \text{ are added as controls} \]

PSEJ are using a different income measure than used by the government to determine EIP amounts; might over-estimates of EIP1 and EIP2 be biasing the estimated coefficient on EIP3 down?
The EIP3 mystery

PSEJ downplay the EIP3 results—an appropriate response given concerns about their accuracy

But the issue merits more thinking because of important role EIP3 has been speculated to have played sparking the rise in inflation

That narrative typically focusses on EIP3 creating excessive consumer demand—at face value, not consistent with very low MPCs

A different twist: Did EIP3 fuel inflation by funding spells out of the labor force, exacerbating the worker shortage? That would be interesting to explore with these or other data
Stimulus versus social insurance

Many papers in this literature emphasize stimulus as a goal of direct payments to households

The debate at the time recognized stimulus would be odd when supply was pandemic-constrained, although saw some value in promoting firm confidence that demand would be strong when the economy re-opened

The authors are right to emphasize preventing potential hardship as an important alternative goal (see also Romer and Romer, 2021)

Not just insuring against current hardship but, by bolstering savings, preventing future hardship associated with potential future job loss
Stimulus versus social insurance

Indeed, Great Recession results suggest that hardship can leave very lasting scars.
Stimulus versus social insurance

To more fully assess the benefits of the EIPs:

- Explore the impact of the EIPs on consumption over the longer run (not possible with this data set)
- Explore the impact of the EIPs on savings and balance sheets more directly
Lessons for future policymakers

Direct payments to households can be an important part of countercyclical policy both for stimulus reasons and for social insurance reasons.

But:

Consideration should be given to how to best target.

Consideration should be given to whether supply has the capacity to increase to meet demand.

Monetary policy needs to be ready to respond if inflation looks like it is taking off.