LUNCH & LEARN DISCUSSION SERIES

The Economic Policy Response to COVID-19

11:30 am - 11:35 am
Welcome and Introductions
Michael Greenstone, Milton Friedman Distinguished Service Professor in Economics and Director of BFI

11:35 am - 11:50 am
Did the Paycheck Protection Program Hit the Target?
Eric Zwick, Associate Professor of Finance and Fama Faculty Fellow, University of Chicago Booth School of Business

US Unemployment Insurance Replacement Rates During the Pandemic
Joseph S. Vavra, Associate Professor of Economics, University of Chicago Booth School of Business

11:50 am - 12:20 pm
Moderated Conversation
Rebecca Jarvis (Moderator), Chief Business, Technology & Economics Correspondent, ABC News
Joseph S. Vavra
Eric Zwick

12:20 pm - 12:30 pm
Audience Q&A

Q&A
Submit questions by using the Q&A box below

Related Research
Dive deeper into the research on today’s topic by going to the research section

Tech support
If you experience technical issues during the discussion, please click “?” for help

@BeckerFriedman  #EngageBFI
Did the Paycheck Protection Program Hit the Target?

Eric Zwick
Associate Professor of Finance and Fama Faculty Fellow, University of Chicago Booth School of Business

CO-AUTHORS
Joao Granja, Christos Makridis, Constantine Yannelis

JOIN THE CONVERSATION: @BeckerFriedman #EngageBFI
Did the Paycheck Protection Program Hit the Target?

Data

1. **SBA**: PPP loans by lender, by state, by congressional district
2. **Bank public data**: Pre-policy small business lending, geographic footprint
3. **Other**: Hours worked, firm shutdowns, COVID cases, social distancing data

Early look: Geographic distribution across states and congressional districts

1. We do not find that funds flowed to areas that were more adversely affected by the economic effects of the pandemic, as measured by declines in hours worked or business shutdowns.
   - If anything, evidence suggests that funds flowed to areas less hard hit.

2. The fraction of establishments receiving PPP loans is greater in areas with better employment outcomes, fewer COVID-19 related infections and deaths, and less social distancing.
PPP Allocations by Employment: Decline in Hours Worked

Decline in Hours Worked

30% Businesses Receiving PPP

MOST AFFECTED DISTRICTS  5  10  15  LEAST AFFECTED DISTRICTS
The Role of the Banking System

**Question**: Given the PPP used the banking system as a channel to reach firms, what role did the banks play in affecting policy targeting?

1. Differences in lender size and type (or lender heterogeneity) contribute to the weak relationship between economic declines and PPP lending.

2. Underperforming banks—whose participation in the PPP underperformed their share of the small business lending market—account for two-thirds of the small business lending market but only twenty percent of total PPP disbursements.

3. Regions with a larger footprint from underperforming banks received disproportionately smaller allocations of PPP loans.
The top-4 banks alone account for 36% of the total number of small business loans but disbursed less than 3% of all PPP loans.

<table>
<thead>
<tr>
<th>Financial Institution Name</th>
<th>(2) Share of total vol. PPP</th>
<th>(3) Share of SBL Market</th>
<th>(5) Share of loans in PPP</th>
<th>(6) Share of loans in SBL Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMorgan Chase Bank, National Association</td>
<td>3.9%</td>
<td>6.5%</td>
<td>1.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Bank of America, National Association</td>
<td>1.2%</td>
<td>9.5%</td>
<td>.56%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Wells Fargo Bank, National Association</td>
<td>.04%</td>
<td>6.5%</td>
<td>.07%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Citibank, N.A.</td>
<td>.33%</td>
<td>2.1%</td>
<td>.44%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>
Economic Impacts of the PPP (In Progress)

**Question:** Did employment and business shutdown outcomes improve in areas with better access to PPP funding?

**Strategy:** Compare regions with high PPP exposure versus low PPP exposure
  - Use bank performance to measure geographic exposure

**Preliminary Results (First round + 2 weeks of second round)**

1. No apparent effect on hours worked or shutdown outcomes
2. No apparent effect in terms of reduced UI claims

Evidence suggests the PPP functioned less as social insurance to support the hardest hit areas and more as liquidity support for all firms.
Next Steps in Our Research

As data becomes available, we will study employment and establishment responses to the program and the impact of PPP support on the economic recovery.
US Unemployment Insurance Replacement Rates During the Pandemic

Joseph S. Vavra @JoeVavra
Associate Professor of Economics,
University of Chicago Booth School of Business

CO-AUTHORS
Peter Ganong, Pascal Noel

JOIN THE CONVERSATION: @BeckerFriedman #EngageBFI
Unemployment Insurance (UI) During the Pandemic

- Typical unemployment benefits replace a fraction of lost earnings (~30% - 50%)

- In response to pandemic/shutdowns, UI benefits increased by $600/week until July 31
  - $600 does not depend on lost earnings (administrative constraints)
  - $600 + regular state benefits roughly replace average wage

- Using micro data, look at distribution of benefits?
  - Two-thirds eligible for benefits which exceed lost wages
  - Median replacement rate of 134%

  - Note: Study only regular UI benefits/wages, CARES Act also expanded UI to many traditionally ineligible
Very progressive, lowest wage workers get biggest boost:

- $600 does not depend on lost earnings (administrative constraints)
• Creates fairness issues:
  o Unemployed school janitor making more than janitor in hospital facing increased risk

• Creates labor supply issues:
  o Harder to staff new essential jobs (e.g. home health aids for elderly)
Current Policy and Extension Options

- $600 supplement expires July 31, will need a replacement

- $600 very beneficial for providing liquidity and very progressive, but too blunt

- Other policies to consider:
  - Proportional supplement (could be phased in over time due to IT constraints)
  - Benefit levels which depend on state unemployment

- More discussion in op-ed: thehill.com/opinion/finance/501074-dont-end-expanded-unemployment-insurance-improve-it
Moderated Discussion

Rebecca Jarvis (Moderator) @RebeccaJarvis
Joseph S. Vavra @JoeVavra
Eric Zwick

You may submit questions for the audience Q&A portion of the event by using the Q&A box below

JOIN THE CONVERSATION: @BeckerFriedman #EngageBFI
Audience Q&A
For more information visit bfi.uchicago.edu