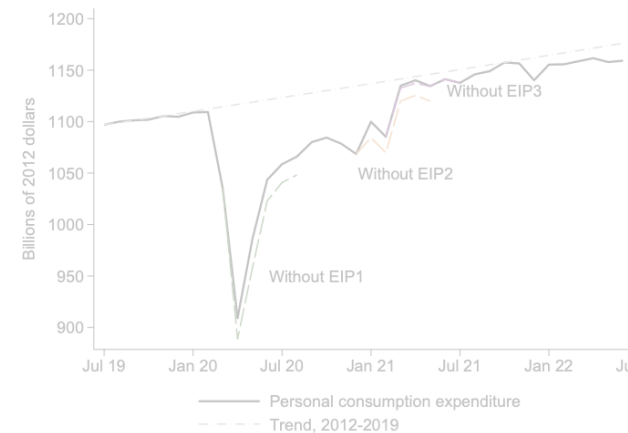


Discussion of
“Economic Impact
Payments and
Household
Spending During
the Pandemic”

by Parker, Schild,
Erhard, and Johnson



Karen Dynan
Harvard University

Brookings Papers on Economic Activity
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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

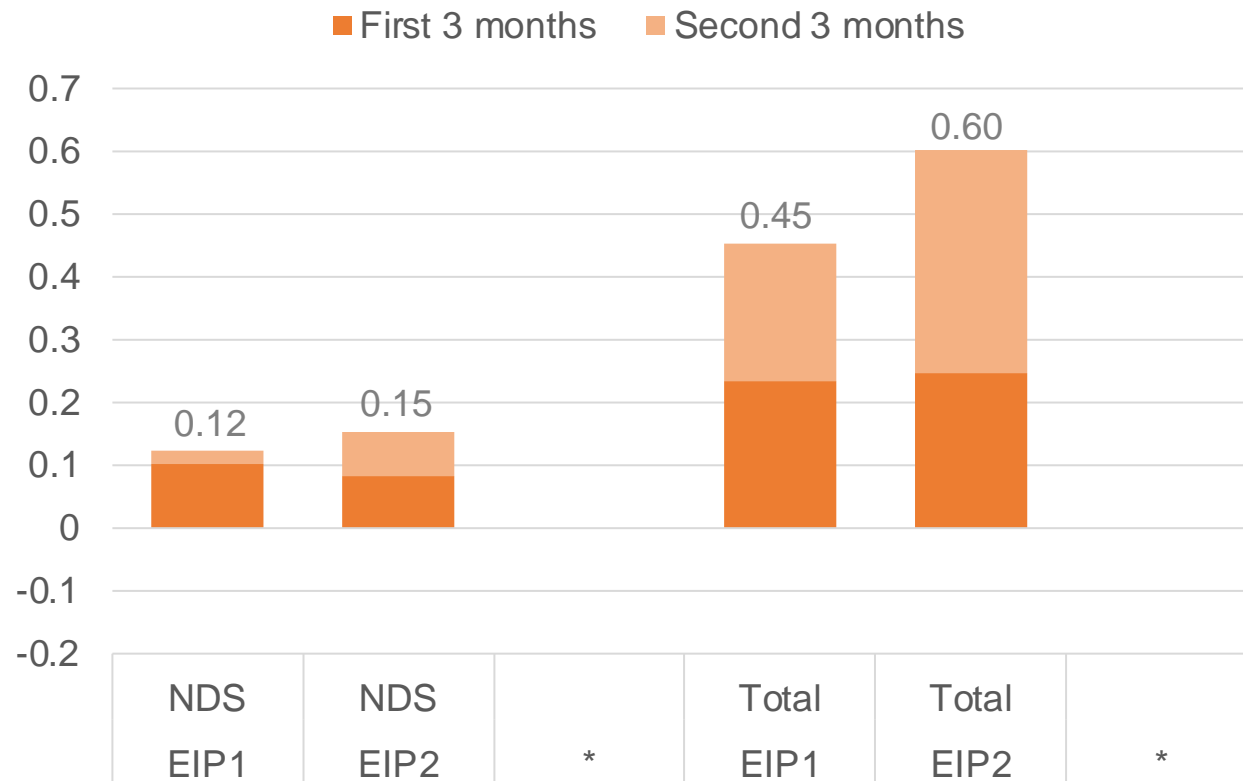
A “relatively low spending response”?

The EIP3 mystery

Stimulus versus social insurance

A “relatively low spending response”?

PSEJ (2022) Cumulative MPCs

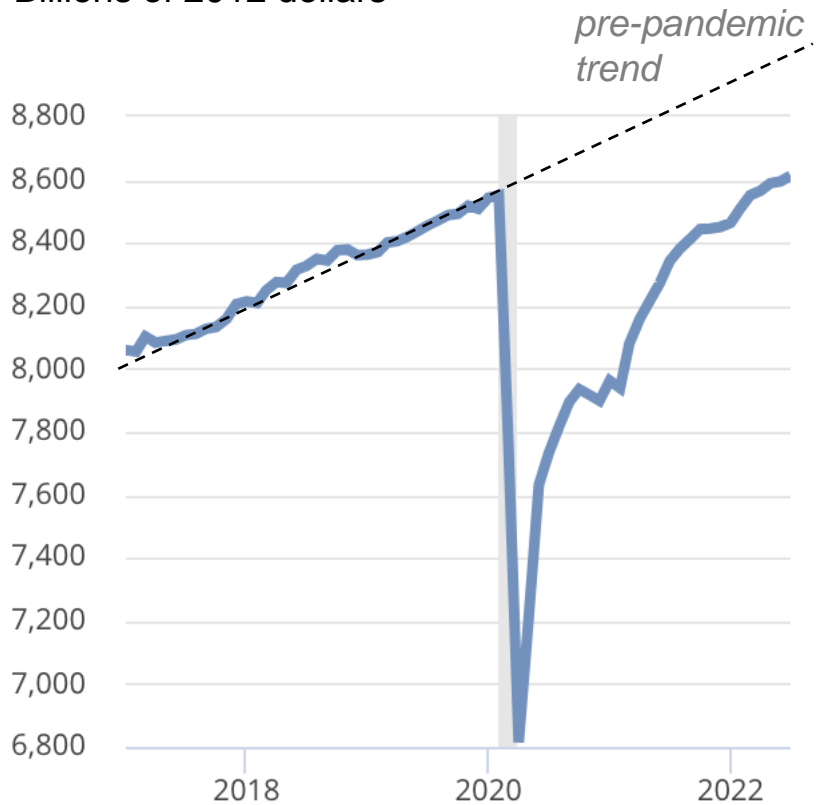


For EIP1 and EIP2, the response of nondurables and services (NDS) spending is low, but the response of **total consumption** is much higher and not all that out of line with earlier work or other pandemic literature (particularly considering much of the other pandemic literature focusses on lower-income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

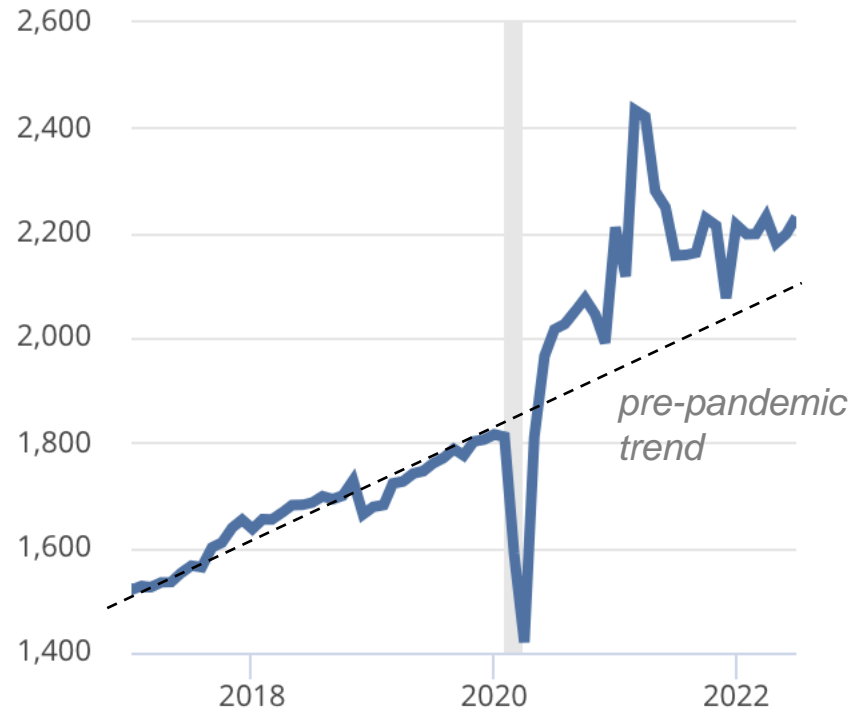
Data from Table V of PSEJ (2022)

A “relatively low spending response”?

Consumer Spending on Services
Billions of 2012 dollars



Consumer Spending on Durables
Billions of 2012 dollars



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:

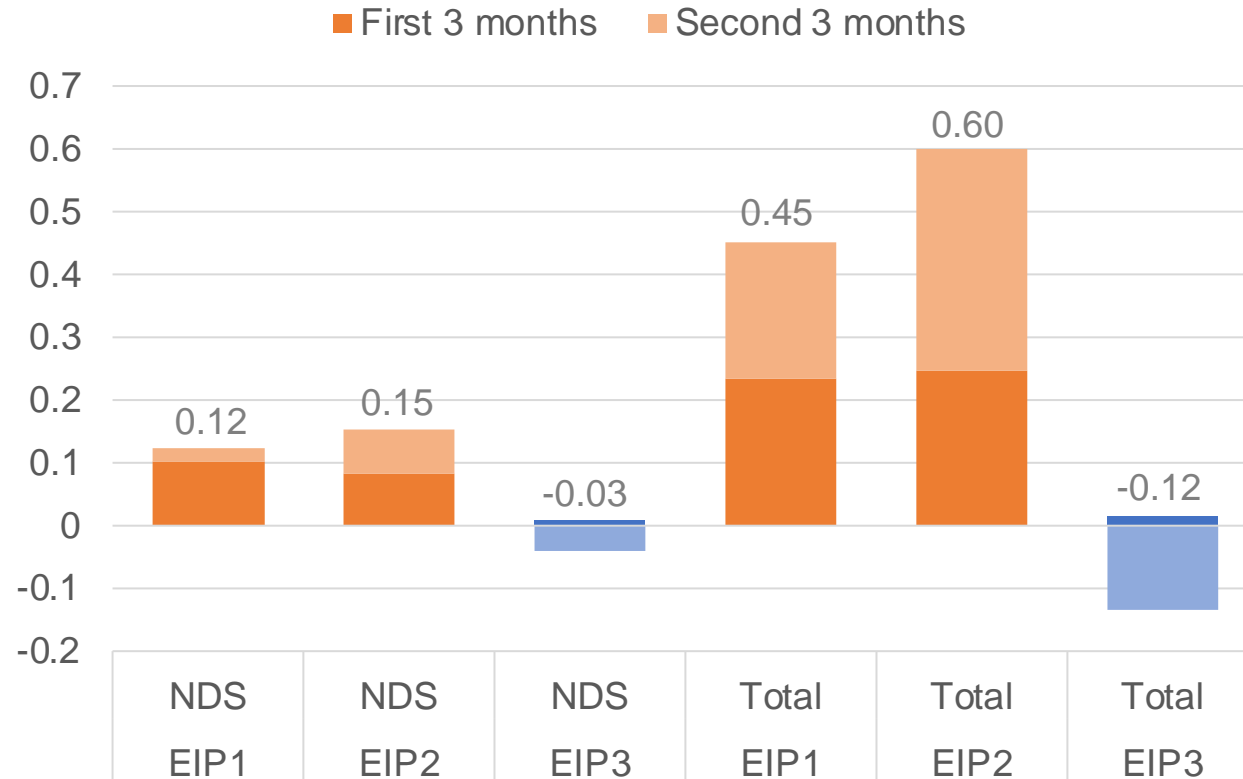
MPCs by age (lower response for older households?)

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

PSEJ (2022) Cumulative MPCs



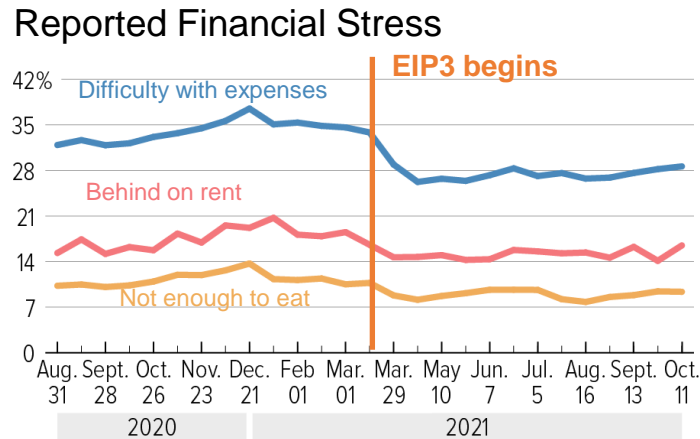
In contrast to the estimated responses to EIP1 and EIP2, **the estimated response to EIP3 is very low**—even for total consumption

Data from Table V of PSEJ (2022)

The EIP3 mystery

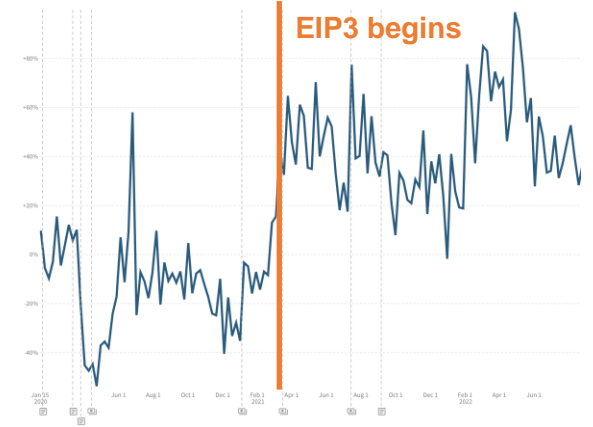
Is this plausible? The data do not tell a particularly strong story about Americans being "less needy" when EIP3 was issued

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



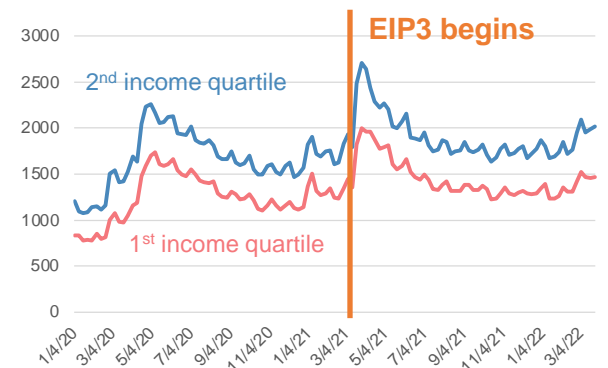
UI benefits had ended; job postings were just starting to pick up

Job Postings Requiring Minimal Education Relative to January 2020



Checking account balances were about at their average during the pandemic

Median Checking Account Balances



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:

$\widetilde{EIP1}_{i,t-s}$ and $\widetilde{EIP2}_{i,t-s}$ 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

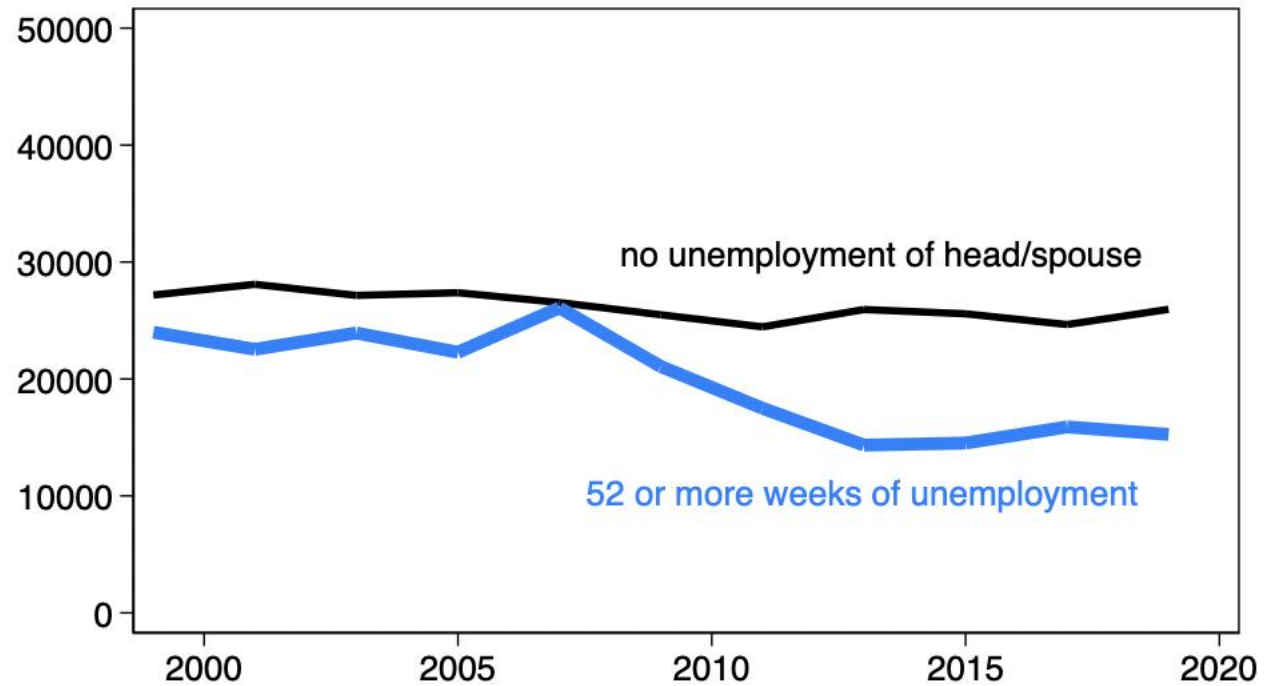
The **authors are right to emphasize preventing potential hardship as an important alternative goal** (see also [Romer and Romer, 2021](#))

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

Real Median Nonhousing Consumption
Head age 50-59



Nonhousing consumption includes food, out-of-pocket medical, utilities, vehicle lease and loan, vehicle downpayments, other vehicle expenses, gasoline, parking, other transportation, education, and childcare.

Source: PSID

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