Joe Mahon

Additional unemployment benefits a major boon; new tool to aid state and local governments

A Minnesota-in-the-post-pandemic-world interview

June 26, 2020

Click HERE to see and hear the complete Zoom recording of Minneapolis Federal Reserve Bank Regional Outreach Director Joe Mahon#s June 26, 2020, interview with the Civic Caucus. You might need the following password: 1q+4k$2+

Present

Tom Abeles, John Adams, Helen Baer, Janis Clay (chair), Paul Gilje, Randy Johnson, Joe Mahon, Lee Munnich, Paul Ostrow, Dana Schroeder (associate director), Clarence Shallbetter, T Williams. (All by Zoom.)

Biography

Joe Mahon (pronounced "man") is a regional outreach director at the Federal Reserve Bank of Minneapolis. Prior to that, he served as a regional economist and as a staff writer and analyst for Minneapolis Fed publications *The Region* and *fedgazette*. Mahon's primary responsibilities involve tracking several sectors of the Ninth District economy-an area that covers Minnesota, North and South Dakota, Montana and portions of Wisconsin and Michigan-for the Fed. Sectors he follows closely include agriculture, manufacturing, energy and mining. He holds degrees in economics and journalism from the University of Minnesota.

Background

Federal Reserve Regional Outreach Director Joe Mahon makes a point of saying that any opinions offered in this interview are his and not those of the Federal Reserve Bank (the Fed). He says the Fed is not a government agency, but a nonpartisan, independent, nonprofit corporation that stays out of politics and is independent of the political process.

Mahon explains that the Fed is America's central bank and has several key roles: (1) serves as a bankers' bank, including as a lender of last resort in times of emergency, as well as banker to the U.S. government; (2) maintains the nation's supply of coin and currency, its distribution and maintenance, as well as electronic payment systems; and (3) determines monetary policy, which is one of two key levers of macroeconomics. The other key lever is fiscal policy, but the Fed is not in charge of that. The Fed, he says, is also a regulatory agency.

The Fed is decentralized and is required to monitor economic conditions in each of its 12 districts around the country. Federal legislation in the 1970s set two goals for the Fed: Full employment and price stability. So the Fed pays a lot of attention to prices and labor-market indicators.

Summary

In his June 26, 2020, Zoom interview with the Civic Caucus, the Minneapolis Fed's Joe Mahon says the federal government might want to consider extending the current additional emergency unemployment benefits. And he notes that the Fed and the U.S. Treasury Department have a temporary tool for helping offset the decline in state and local government revenues caused by the pandemic.

Mahon presents a seriesof **helpful charts and graphs here .**

Mahon offers the following perspectives in the interview

Consider extending current emergency unemployment benefits. One of the most important policies to aid in the recovery might be for the federal government to extend the current additional emergency unemployment benefits beyond their expiration date in July. These additional benefits been very helpful at the lowest-income level.

The biggest long-term concerns for Minnesota: (1) Disparities, including the racial achievement gap in education, which is one of the worst in the country; (2) Maintaining one of the best public education systems in the country-both K-12 and postsecondary; (3) The urban/rural divide, especially in the availability of both rural broadband access and rural health care; (4) difficulties in the housing market.

Decline in revenue for state and local governments. The Fed is involved in monitoring the impact of the pandemic on state and local government fiscal conditions and has found a big decline in revenues to those governments.

A new, temporary liquidity facilityto aid state and local governments. The Fed and the U. S. Treasury Department are partners in the new facility, as approved by Congress through the 2020 CARES Act , which the Fed played a significant role in developing. The Municipal Liquidity Facility is just getting started now. Through the facility, the Treasury Department and the Fed, in times of financial emergency-like that caused now by COVID-19, can support the purchase of short-term notes of state and local governments to make up for their revenue shortfalls. There is a financial limit to the facility, but that can be changed by Congress.

Economic conditions and data. It's a challenge to try to gauge the impact of COVID-19 on the economy. Traditional data sources are not generating information fast enough to track the rapidly-moving economic impacts of the pandemic, so the Fed is using surveys to collect data more than it usually does. In general, economic conditions now are very poor, although it's less bad in some sectors and places. Workforce effects are not evenly distributed.

Economic forecasting. We don't know how quickly we'll go back to where we were. We need to know what's happening right now and into the future. Economic forecasting is an art, as well as a science, but it's most reliable in normal times. We can't forecast shocks like COVID-19.

Large portions of states are showing sales and revenue drops. Every sector of the economy is affected by the pandemic, with the food and restaurant industry the most impacted sector in revenues. The pandemic has had the least impact on banking, although some branches have closed.

COVID-19 has had the biggest impact on small businesses-those with fewer than 10 employees and sole proprietorships. Surveys show that a larger portion of businesses owned by women, minorities and veterans, on average, have experienced larger losses in revenues than business owners as a whole and fewer of them were able to access help through the CARES Act.

Unemployment. Before the pandemic, unemployment was at close to record lows, but unemployment rates have risen quickly, because of the impact of the pandemic on the economy.

Surveys show that the majority of businesses were laying off workers, although a surprising share were not. When asked in April and May how long firms were expecting to stay in business, a majority said three months or longer. The vast majority of larger firms expected to stay in business for six months or longer.

Paycheck Protection Program (PPP). The PPP, authorized by the CARES Act, offers loans to businesses. These loans are convertible to grants if the businesses don't lay off their employees. An analysis of where PPP loans have gone shows a huge number in North Dakota, which has a state-owned bank-the Bank of North Dakota-that was able to roll out the program quickly.

State-owned banks. Even though the state-owned bank in North Dakota had greater administrative capacity to get out the PPP funds more quickly, it's not clear whether the bank has made a very big difference in the state's pandemic impacts and its recovery. The Fed has no position on state-owned banks, because it considers it more of a political question.

Individual decisions and behavior. The impact of the pandemic on the economy is driven by individual decisions and behavior, not necessarily by government actions. The recovery is very much determined by the virus and by people's assessment of how safe they feel.

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