Stimulus and Equities, Working in Government, Detecting Bullshit
What Happens Next – 8.8.2021
Robin Greenwood QA

Larry Bernstein:

Thanks, Robin. The purpose of these checks was to help people get through a very challenging period. As a public policy matter, how do you feel about it when they use this cash and use it for speculation, whether it be a lottery tickets or AMC stock?

Robin Greenwood:

Sure, or gun sales or fireworks or things like that, which we also have some evidence on. I would say the good news is that there were a trillion dollars of checks, roughly, and our best estimate is that somewhere between $60 billion and $100 billion ended up in the stock market. And that's also just an estimate. But if you think about that, that means that more than 90% of those checks ended up back in the economy, which is what you wanted. Because both, it helps support the economy and small businesses, and also presumably meant that it was helping those households. And of course, if you look at data from Chetty and his coauthors, you could see that in the lowest income zip codes, the spending, even on things like groceries, dramatically jumps when these checks are deposited. I think as the glass is half full here. But with a trillion dollars being spent, there are going to be some pretty significant unintended consequences. And here, we think that magnitude is about $100 billion.

Larry Bernstein:

It's funny when in introductory macroeconomic classes, we're taught about Keynesian multipliers and how giving money to the poor, it's the biggest bang for the buck as it runs through the economy. Does this change your mind about that in any way? It's just not immediate that sometimes that some households or families choose to put the stock market first and then spend the money later. How do you think about this whole context of spending versus savings and investment?

Robin Greenwood:

It's a wonderful question, and actually one we haven't dug into as much as I would like. Let me give you just a back of the envelope way of thinking about it. I think it's one of magnitudes. If you look at the low-income households, it is true that, by and large, when they get the checks, they pump it back into the economy. If you look at the high-income households, they, by and large, save it, meaning it either shows up in a checking or savings account or it ends up in the stock market. Now, $100 billion, the question is, what's the multiplier on that on the overall market? And actually, it's not something that we can really answer directly using our evidence, but I can give you a sense. People talk about the overall elasticity of the stock market being five to 10. What does that mean? If you put up $100 billion into the market, it raises the overall value of the stock market by, say, 500 billion to a trillion. Now, you might say, "Geez, that's a

lot. That's a much higher multiplier than I expected." On the other hand, in percentage terms of the value of the stock market, whether it's 30 trillion or at 40 trillion or 50 trillion, it's not particularly large. It's just a few percentage points. I would say this doesn't change my mind dramatically about the overall multiplier, but it's a provocative question that we should surely investigate

Bruce Tuckman:

Yeah, just a quick question for Robin. People who've investing in stocks with their stimulus checks, a lot of momentum in the market or whatever you call it over the last time, do you have an idea about whether the people that have gotten stimulus checks are putting more into the stock market than other people have and making that comparison?

Robin Greenwood:

I would say that's the primary weakness of our study is that we can't measure directly who's putting the money in. We can measure things like the retail order flow. We can use the zip code level data to get a sense of who's saving the money and who is spending it, but we don't have that detailed, household level data. And maybe one day we will get it and that will help us to answer your question properly. I think that part of our study is indirect. Having said that, triangulating between a whole bunch of different sources, we do have the sense that roughly about 100 billion of the trillion is ending up into the stock market.

Larry Bernstein:

A different angle. One of the great things about the stock market is it lets the business and investment community know where to invest money. If crypto is going crazy, that means we should mine more crypto. If IT is going crazy, we probably should start a new venture capital fund in that area. Even normal firms should do that. What's weird about these, as you called it, Robinhood-y names, is there's a sense that although the stock market is surging in price, let's say, AMC Theaters, most businessmen would not go out and build a new movie theater in COVID times, or even if COVID ends. How should we think about speculative excess caused by stimulus as a motivation for new investment?

Robin Greenwood:

Let me say two things on that. First, there's some amazing work by Tomas Philippon at NYU with some co-authors trying to really dig in over-time on the information value of the stock market, and trying to do, on a historical basis, answer your question. They did that work prior to this most recent, crazy period of excess, but I think it would be worth revisiting those findings. Second point is there are two types of investment. One is real capital investment, building movie theaters, as you say. The other is more of a form of arbitrage, which is AMC issuing more stock and essentially doing an arbitrage on its own securities. And we see historically, when valuations go crazy, we see a lot of arbitrages and we see a little bit of investment, which says that it's probably more benign than we might think, because it just means it's a transfer from essentially the smart corporations and ETF providers and money

managers who are figuring a way to profit off of the overpriced asset than it is misplaced dollars, for example, you know, building new movie theaters in New York City.

Larry Bernstein:

In my intro remarks, I talked about these spending bills, but the spending bills are really different than a stimulus check. And its distinguishing feature is, here's some money, versus, we're going to create some jobs which will pay you money which you can then spend on whatever you want. And there's a delay as it gets its employment dollars into the stock market. But that being said, these are the two main ways to use Keynesian stimulus methods to kickstart the economy. How do you think about the proposed bill? The trillion-dollar infrastructure bill, and there's also talk of a $3.5 trillion additional spending bill. How will that work its way through the economy and into the stock market? And if so, how will that affect different parts of the stock market? Will that mean that in the long run, this will be very helpful for the most speculative names? How do you think about this massive new increase in spending?

Robin Greenwood:

I think on the trillion-dollar package, my understanding is it is going to take place over a very long period of time. And it's quite large, but it is not nearly as large as the dollars that we've seen over the past two or three years. Now, again, maybe that's just putting things in perspective. Second thing I would say is I think what one would like to do is to figure out where the returns are going to end up, whether they're going to be returns on capital or whether they're going to be primarily returns on labor. If they are returns on capital, that will largely ended up in the stock market or certainly reflected in the stock market. If it ends up, for example, being largely construction dollars, then we're going to see it'll end up bidding up wages in particular segments of the economy. And there'll be a Keynesian multiplier associated with that. But then under the presumption that the Fed can get its act together and respond to any potential overheating, I think that at least has the potential to be neutral. But it's not an issue that I've studied in detail or thought about other than this question, which, as I said, is a really good one.

Larry Bernstein:

As a public policy matter, the ideas were to help our most distressed workers, our most distressed population and not help the wealthiest Americans. And yet what you described in the stock versus flow argument of cash movement is that what it results is this infusion into the stock market, which results in a five times multiplier on other stocks and increases valuation, effectively increases the wealth of the wealthiest Americans. Is there anything we can do about that so that we can help the poor, but not help the wealthy by a factor of five more than it was supposed to? How do you think about that as a public policy matter?

Robin Greenwood:

I think in the first round of stimulus checks, you're trying to get dollars into people's hands as quickly as you can, and you are okay with a bunch of slippage. I'll just give you an example.

There was a huge controversy around this time that was all over the BD about stimulus checks going to dead people or people getting two checks and some people not getting them and so on. And I think you just have to treat that as a cost of doing business. Otherwise, how do you get the dollars out there quickly in that moment? I think once we're in March of this year, I think where we're sending out the third round of $400 billion, my personal opinion on it is that it wasn't particularly well-targeted and we should be much more careful in how we target these kinds of programs. Otherwise, we are going to be subject to exactly the critique that you just made.

Larry Bernstein:

It's interesting that these payment ideas came from originally the most progressive in America. Yang was recommending this when he ran for president. But it seems that it's been adopted only in very peculiar times in order to get money out as a rush. But if we had more into this reverse income tax situation, where we were in the business of giving checks to our poorest Americans as a general ongoing matter, what have you learned that would either improve it or give you pause for such a program?

Robin Greenwood:

I think we've learned tons of things, not related to this particular work that I've told you about, but we've learned for example, that all of the state unemployment systems are not connected with the same IT system, so getting checks out is difficult. I think we have learned that if you give checks to the wealthiest Americans, they do end up in savings of some form. Last thing I would say is this period is quite different. In fact, I'll admit to just being spectacularly wrong in my thinking on this early in the pandemic, because what I had not anticipated was how united COVID would be for the Democrats and the Republicans, certainly on the issue of spending. The flood gates were opened very quickly. And even now, the most recent stimulus package, frankly, there was much less Republican opposition to this package than, for example, during the financial crisis, when it was very hard to get dollars into the economy. If you think about just the early months of Obama, it was just such a different climate and perspective on releasing these dollars.

Larry Bernstein:

Do you think the difference was, if you remember the debate about TARP, for example, what seemed to upset the Republicans was this was handouts to banks who made poor lending decisions. And what distinguished this time was the checks were going not to corporations, but directly to individuals who lost their jobs most likely related to COVID, which was not their fault.

Robin Greenwood:

That's exactly what I mean. I think that was what that was uniting. It was through no fault of anyone's that these households and small businesses got in this situation. By the way, just as a side note, I would say even the most recent round of these checks has been very poorly targeted. For example, there's this program called the restaurant revitalization fund, and it turns out the formula for how they sent send money to restaurants... This was only over the

past couple of months, is that it is the 2019 revenues minus any dollars that were sent to that restaurant through these programs last year. So essentially, they're reimbursing these restaurants and making them whole on all revenues, even though they had less costs, the landlords often cut them a break on rent and so on. You could probably pick examples where that made sense, but in general, as a public policy matter, that just seems like a very poorly designed and poorly targeted program.

Larry Bernstein:

Robin. we had you on a show in April 20210 about streamlining the bankruptcy process. And there was an expectation throughout the community that we were going to have a lot of bankruptcies, but it doesn't appear that we had many. Why were there so few bankruptcies and what can we learn from that?

Robin Greenwood:

I think we still need to do a full accounting of what happened. I think two main forces, one is that there was an incredible stimulus program that we've been talking about today, and that saved a lot of these businesses. The second is that you made note of this actually in your introductory remarks today, businesses are much more fluid. They start and stop all the time. I think what I was surprised by was that the businesses were able to start, stop, and then essentially restart in exactly the same form. I think that was quite different from the ordinary, let's call it the ordinary flow of capitalism, where businesses go through hard times, then they shut down and then a better business restarts in its place. This was fairly surprising to me. The exact magnitude of these different forces still to be worked out, but there's tremendous learning. And maybe there's even a third force, which is that we've learned how creative and resilient American businesses can be in face of these challenges.

Larry Bernstein:

And I would add the incredible resilience in the labor markets as well.

John Petrocelli:

Growing up and my entire life, I've heard people from outside of the United States, Europeans, people all over the world, say that they work to live. But they often get the impression that Americans live to work. And I've never been so sure about that. Do you think that the stimulus package and the variations and people going back to work or not going back to work, speak at all to that belief in any way?

Robin Greenwood:

John, thank you for the question. I thought about this issue, about whether our overall social contract in the United States is being rethought. And perhaps because of the shock of COVID, perhaps indirectly because of COVID, because of what is done to the labor market, particularly on the low end of the wage spectrum. I don't know the answer to that. I think it's certainly

possible that it has changed that. I worry a bit about over-interpreting based on what's happened on the high end of the income distribution. If you speak to people of tremendous means and income or wealth, they will say things like "I'm going to rethink the way that I live my life, the way that I commute, all of these things." And I don't know how far down that translates down the wage spectrum. I suspect much less, but I'm not sure. It's a very interesting conjecture and it'll take the next couple of years for us to figure that out.

Larry Bernstein:

Okay, Robin, thank you.