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Economic Impact of COVID-19

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COVID-19: The Fiscal Policy Response

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The necessary steps the United States has taken in response to the COVID-19 pandemic are impacting Americans in new and often challenging ways. For most citizens, "stay-at-home" orders and "social distancing" were relatively foreign concepts two months ago. Now those words have become a part of everyday life, and the effect on the economy is becoming all too apparent.

At the same time, Congress and the federal government are attempting to stem the outbreak by shutting down nonessential sectors of the economy; they are taking significant steps to respond to the forced slowdown of the U.S. economy. Those steps have been in three distinct phases of legislation, each more dramatic than the one previous, responding to the growth of the outbreak and the economic reaction. This fiscal policy response is aimed at supporting the immediate health care responses to the pandemic and at helping businesses and workers adapt and survive the economic downturn. As the number of cases continues to grow domestically and internationally, it remains to be seen whether the amount of spending will be adequate to fully respond to the unfolding public health and economic crises.

Phase 1

On Feb. 24, 2020, the Trump administration submitted to Congress an emergency supplemental funding request of $2.5 billion, of which $1.25 billion was new spending and $1.25 billion would come from the authority to transfer and reprogram funds from other federal agencies for combating COVID-19.

Believing that the administration would require additional resources to combat the escalating outbreak, Congress passed what would be known as the Phase 1 response, H.R. 6074, *Coronavirus Preparedness and Response Supplemental Appropriations Act.* As a first step, this widely supported bill provided $8.3 billion in emergency funding and was fairly narrowly targeted for the immediate needs of key health care and disease response agencies. The bill included $2.2 billion for the Centers for Disease Control and Prevention, $3 billion to develop and procure a vaccine and other treatments for the novel coronavirus, and $1 billion for community health centers to prepare for a possible surge in patients. In anticipation of the president declaring a national emergency under the Stafford Act, the bill provided $1 billion for small business disaster loans.

Phase 2

The second phase of the response, which legislators began developing almost immediately following passage of the Phase 1 bill, focused on relieving the national disruption to employment. The central pieces of H.R. 6201, the *Families First Coronavirus Response Act,* are 14 days of emergency paid family and medical leave and emergency paid sick leave for any worker impacted by COVID-19; emergency funding for the unemployment insurance system; an expansion of nutrition assistance programs; and a number of health provisions aimed at ensuring coverage for COVID-19 testing. The costs of the emergency paid leave provisions are fully reimbursable to businesses through tax credits, and reimbursement for covered family leave (up to 10 weeks) is capped at two-thirds of an employee's salary. Altogether, this package is anticipated to cost up to $192 billion.[1] The package was overwhelmingly approved by both houses of Congress.

Phase 3

Almost immediately upon passing the Phase 2 spending package, the Senate began working on their Phase 3 proposals. The bill that ultimately emerged from cross-party negotiations was H.R. 748, *Coronavirus Aid, Relief, and Economic Security* (CARES) Act, which provided an estimated $2 trillion in targeted relief for individuals, businesses, and state governments; assistance for health care providers; and emergency spending for federal agencies. This spending package is the largest such economic stimulus and support package in U.S. history, representing roughly 9.5 percent of GDP; it is more than twice the size of the $831 billion 2009 Recovery Act. While described as a stimulus package, in reality the measures in this bill are intended to provide immediate economic relief for losses in income and revenue due to the national public health response.

The cornerstone economic provisions in this package included:

- $377 billion to support small businesses, including $349 billion in forgivable, low-interest loans to pay wages and other necessities;
- Direct tax rebates of $1,200 per adult and $500 per child, with an upper-income limitation;
- Expanded unemployment insurance support aimed at almost 100 percent wage replacement for displaced workers, along with extending eligibility for the first time to sole proprietors, independent contractors, and others not traditionally eligible;
- $500 billion for loans and guarantees for distressed sectors of the economy, including both private and public sector organizations. This provision included $29 billion in loans for the airline sector, $32 billion in grants for payroll support, $17 billion for critical national security related businesses, and $454 billion to backstop lending and investment facilities through the Federal Reserve, as well as multiple layers of administrative and congressional oversight;
- $150 billion in fiscal aid to states and large municipalities;
- $340 billion in emergency agency funding, of which $130 billion will go to hospitals and providers.

Despite tense negotiations, this package passed the Senate unanimously and then passed the House on an unrecorded voice vote.

Gaps in the Response and Possible Next Steps

Over the course of March 2020, Congress appropriated well over $2 trillion in direct and indirect aid intended to stabilize the economy and provide a bridge to help Americans get through the immediate COVID-19 downturn. These were not, however, perfect bills, and there are some gaps that may need to be filled by future legislation.

States and municipalities, especially those with large infected populations, are already issuing warnings that the $150 billion in direct aid will not be enough. The Phase 3 provision allocates money based on state population but sets a floor for funding at $1.25 billion so that smaller states are not cut out of the funding completely. The District of Columbia, which generally is considered for funding alongside states, is included with territories for a $3 billion allocation. There are only rough estimates for how much the response could impact state and local tax revenue, and a prolonged slowdown will affect those jurisdictions' abilities to provide critical public services without outside aid.

The federal response to the needs of the health care system also has gaps, some more complicated than you might expect. Due to both governmental orders and the growth in COVID-19 cases, many hospitals are having to limit or suspend lucrative elective procedures, removing a critical revenue stream during this period of increasing demand for care. Congress did provide substantial aid to hospitals in the CARES Act, but an extended pandemic may require additional support.

There have been widespread reports of shortages of critical medical and safety equipment, such as ventilators and personal protective equipment. While the federal government and individual states are working to use response funds to obtain this necessary equipment, they are often competing for the same supply of goods. This problem is compounded by the fact that much of this equipment has been produced in heavily infected areas and supply chains have been disrupted. Many nations are also starting to restrict the export of medical equipment and testing tools. Further legislation or executive action may be needed to direct a national strategy to get these tools to providers and to limit shortages in the future.

In all three phases of its response, Congress gave more flexibility and funding to telehealth in an effort to reserve in-person care for the highest-need patients. However, some rural and low- and moderate-income areas lack access to reliable internet service. Within the Fifth District alone, it is estimated that over 2.6 million households don't have access to the internet, making those people unable to take advantage of any type of telehealth alternative to in-person care.[2] Already, members of Congress are discussing including additional broadband funding in a future stimulus package, but that will not immediately address this gap in health care access.

Though the small-business provisions in Phase 3 are, essentially, low-interest loans that can be transformed into grants, if businesses of any size are unable to retain their workforce in line with the loan terms, the loans become additional debt. Coupled with an environment of declining revenue and declining customer confidence, the possibility that these loans may become an additional burden could cause businesses to think twice and decide that they may be better off allowing their employees to apply for enhanced unemployment benefits while shuttering their doors completely.

Despite these potential concerns, demand for the loans has already been very high. Initial anecdotal reports indicated that smaller lenders have concerns about accessing the program, while larger institutions that were better equipped to handle initial applications have been overrun with interest and are having to prioritize existing lending customers. In addition, the program is expected to run out of funding earlier than expected. Because it is first-come, first-serve, this may leave some businesses without the funds they need to stay afloat. In addition to providing more money, legislators may see some need to provide statutory fixes of the program if there are sectoral or regional gaps in who is able to access the lending program.

All in all, there are two outstanding questions. First, is the legislation enough to bridge the gap for workers and companies during an economic downturn of unprecedented scale? Second, are the additional health care resources enough to help providers and public health officials lower the curve of infection? The latter question will be critical in restoring confidence to consumers that it will be safe to return to normal life and normal economic activity once the pandemic begins to subside.

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[1] *Congressional Budget Office, "Preliminary Estimate of the Effects of H.R. 6201, the Families First Coronavirus Response Act," April 2, 2020.*

[2] *"Connecting Rural Households to Broadband: Barriers and Models for Public Intervention," Federal Reserve Bank of Richmond 5th District Spotlight no. 1, 2019.*

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