

# Fiscal Policy in a Pandemic

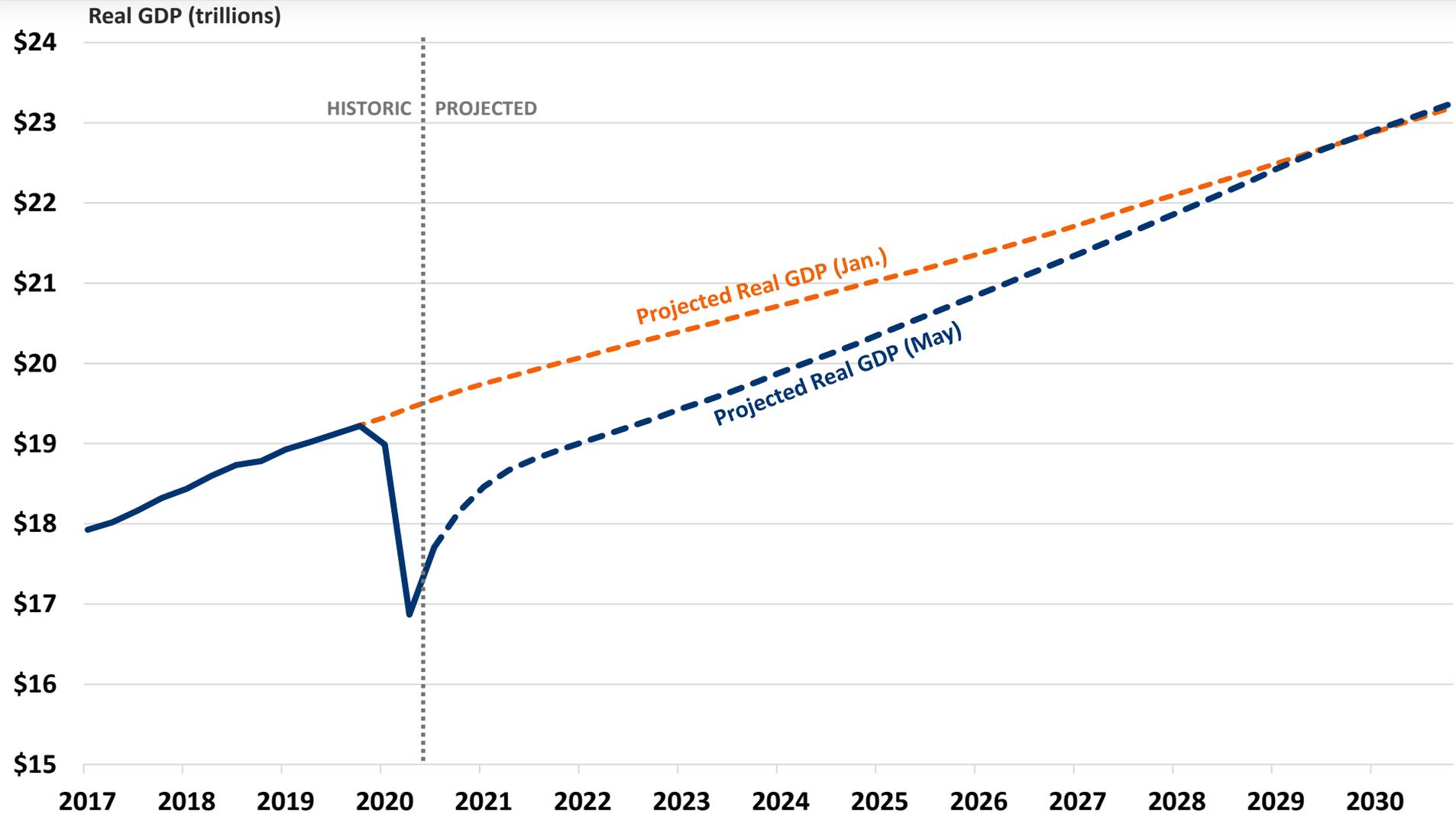
November 2020



**COMMITTEE FOR A  
RESPONSIBLE FEDERAL BUDGET**

*CRFB.org*

# The Pandemic Was Economically Devastating

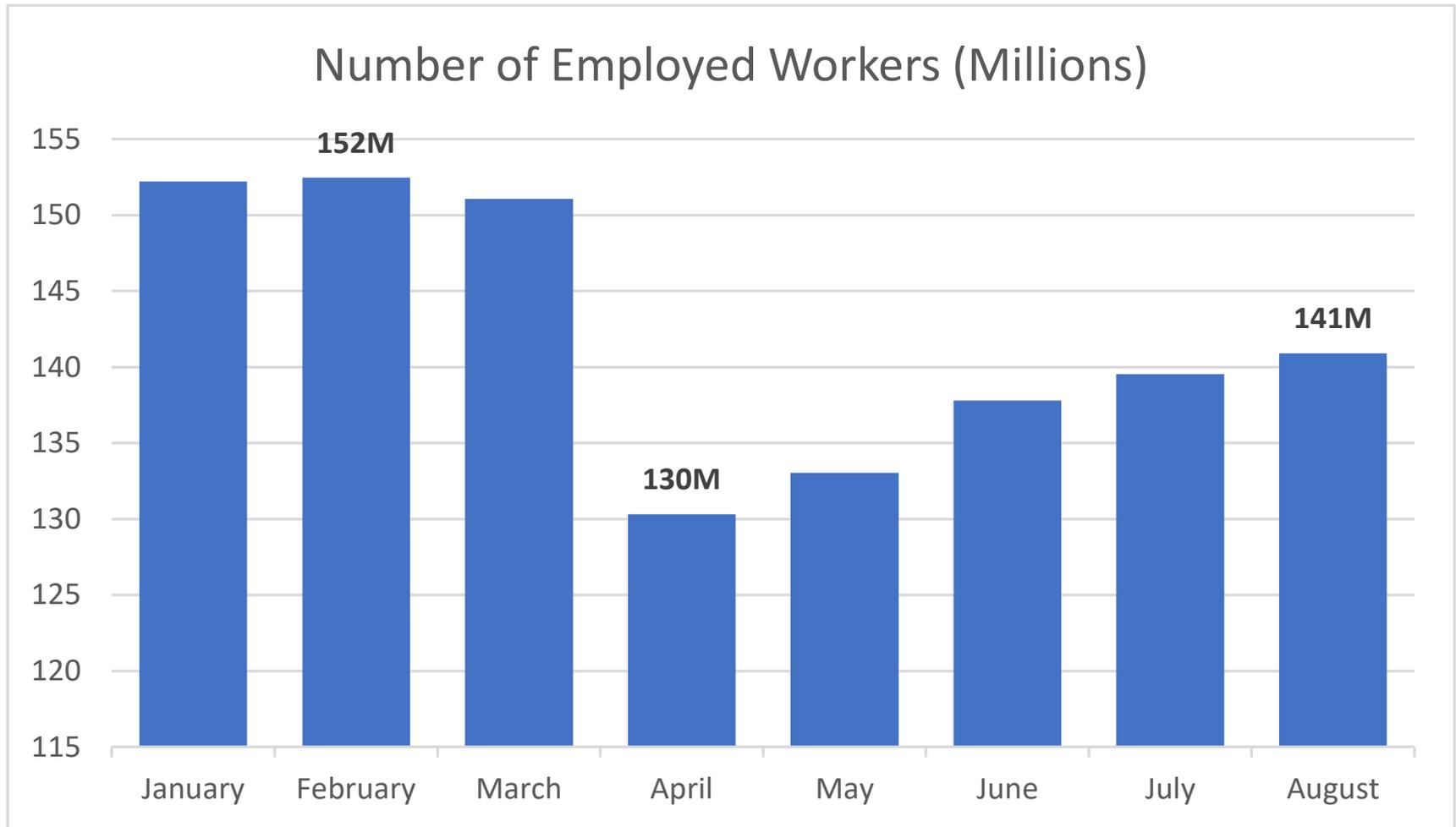


Source: Congressional Budget Office

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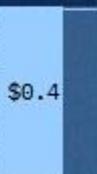
# And At Least 22 Million Americans Lost their Jobs



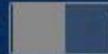
# But Policymakers Responded Aggressively

## Tracking the COVID Response

**Administrative  
Actions**



Amount Disbursed /  
Committed



Amount  
Allowed

**Legislative  
Actions**



**Federal Reserve  
Actions**



TRILLIONS OF DOLLARS

\$0 \$1 \$2 \$3 \$4 \$5 \$6 \$7



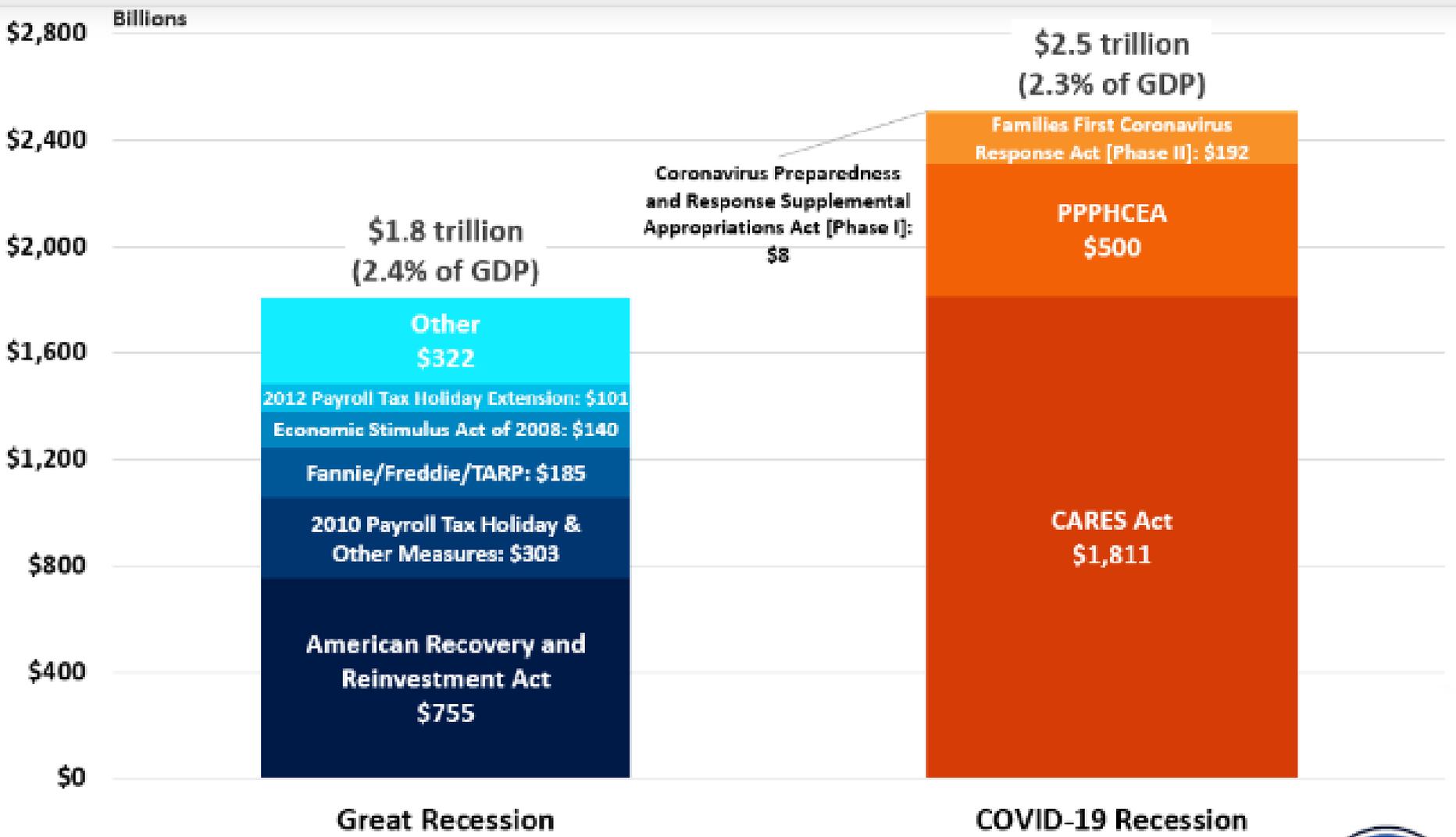
# Legislators Have Committed \$4 Trillion to the Crisis



# At a Cost of \$2.6 Trillion Over a Decade



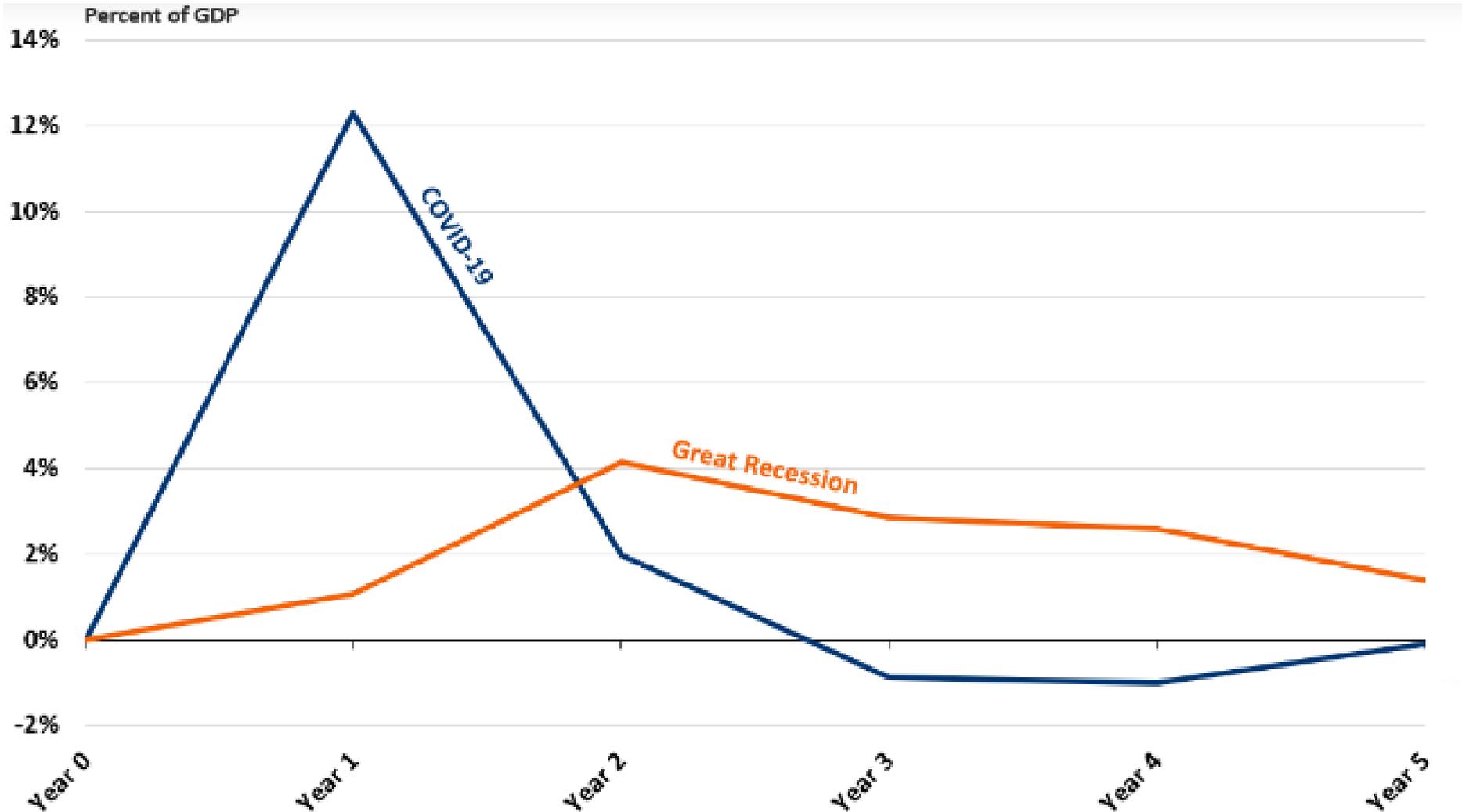
# The Response Was Similar in Size to the Great Recession



Note: Figures reflect 5-year cost estimates

Source: CBO, CRFB Calculations

# But Packed Into 6 Months, Not 6 Years



Source: CBO, CRFB Calculations

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# The Federal Reserve Has Announced up to \$7 Trillion in Economic Support

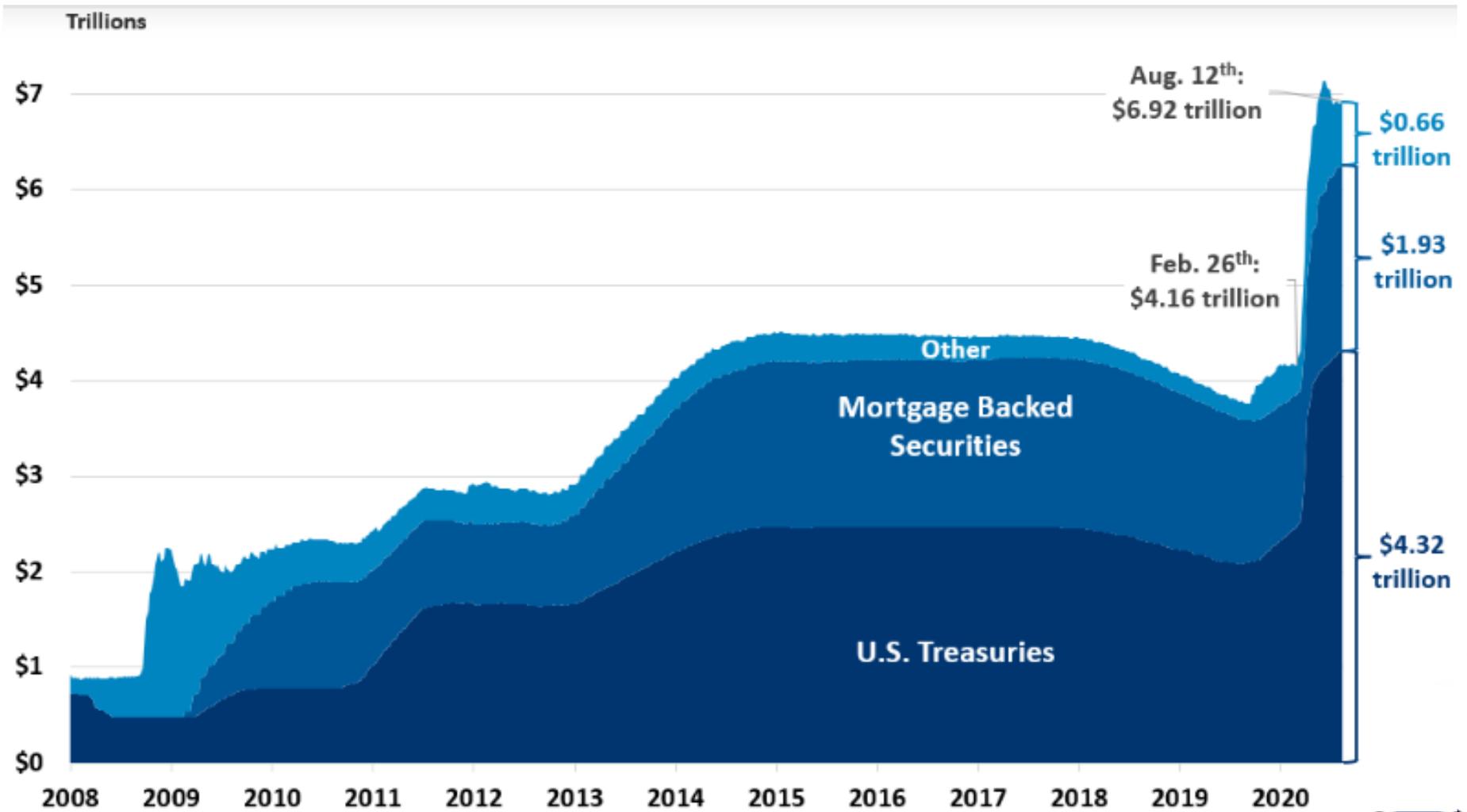


# And Disbursed \$2.3 Trillion So Far

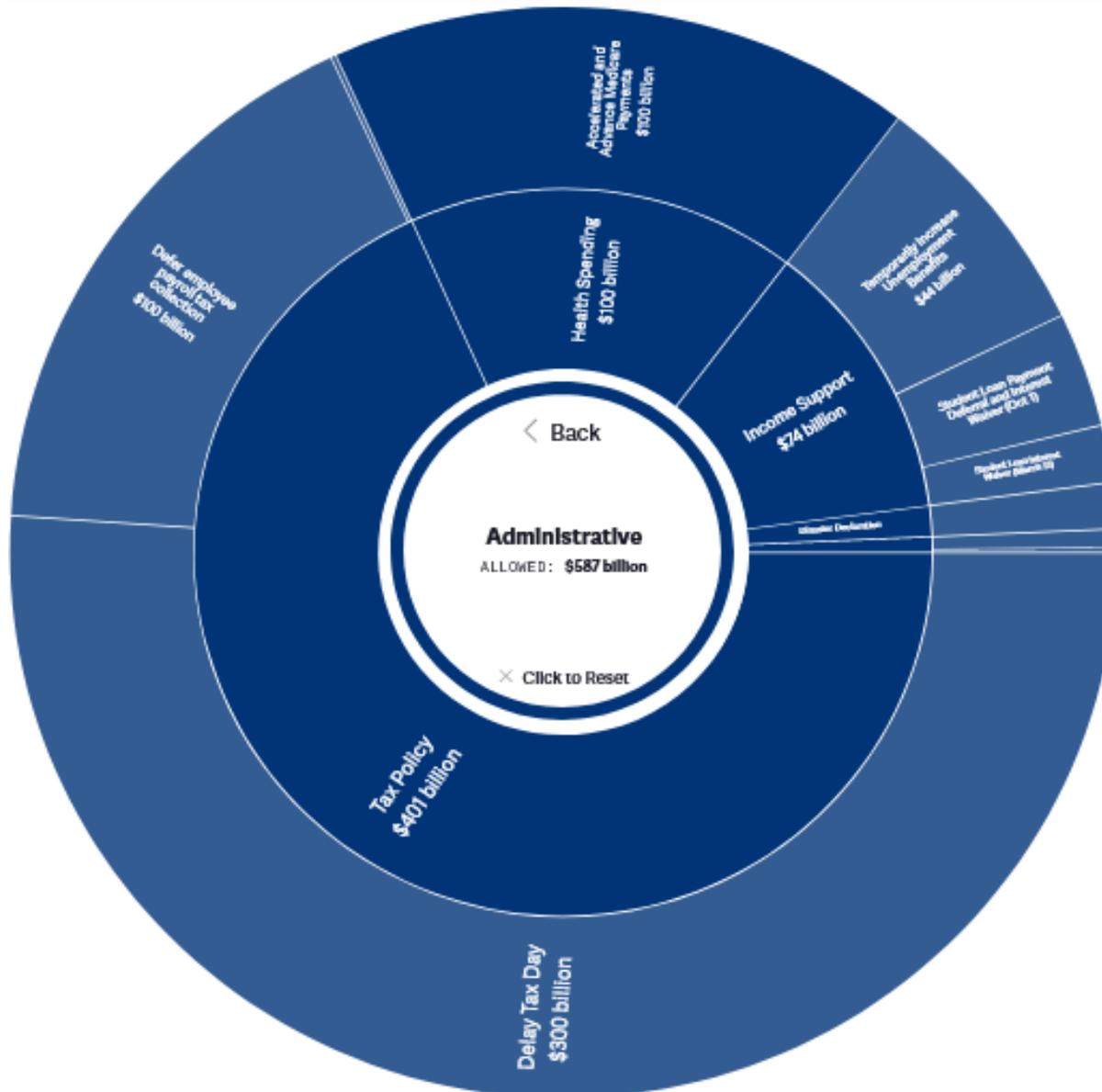
| COVID RESPONSE  |   | ALLOWED ▼        | COMMITTED/DISBURSED |
|---|---|------------------|---------------------|
| <u>Federal Reserve</u>                                | ⊖ | \$7 trillion     | \$2.3 trillion      |
| <u>Loan Programs</u>                                  | ⊖ | \$2.7 trillion   | \$95.7 billion      |
| <u>Corporate Credit Facilities</u>                    | ⊕ | \$750 billion    | \$12.7 billion ⓘ    |
| <u>Paycheck Protection Program Liquidity Facility</u> | ⊕ | \$659 billion ⓘ  | \$69.5 billion ⓘ    |
| <u>Main Street Lending Program</u>                    | ⊕ | \$600 billion    | \$1.4 billion ⓘ     |
| <u>Municipal Liquidity Facility</u>                   | ⊕ | \$500 billion    | \$1.7 billion ⓘ     |
| <u>Term Asset-Backed Securities Loan Facility</u>     | ⊕ | \$100 billion    | \$2.6 billion ⓘ     |
| <u>Money Market Mutual Fund Liquidity Facility</u>    |   | \$53.2 billion ⓘ | \$7.4 billion ⓘ     |
| <u>Primary Dealer Credit Facility</u>                 |   | \$33.4 billion ⓘ | \$258 million       |
| <u>Commercial Paper Funding Facility</u>              |   | \$12.8 billion ⓘ | \$30 million        |
| <u>Asset Purchases</u>                                | ⊕ | \$2.2 trillion   | \$2.1 trillion ⓘ    |
| <u>Liquidity Measures</u>                             | ⊕ | \$2.1 trillion   | \$67.2 billion      |



# Expanding Its Balance Sheet Dramatically



# The Administration Has Provided Almost \$600 Billion – Mostly in Deferrals that Have or Will be Repaid



# COVID Money Tracker Follows All The Money

<https://www.covidmoneytracker.org/>

# About \$170 Billion Will Go to Texas

## Current Filters:

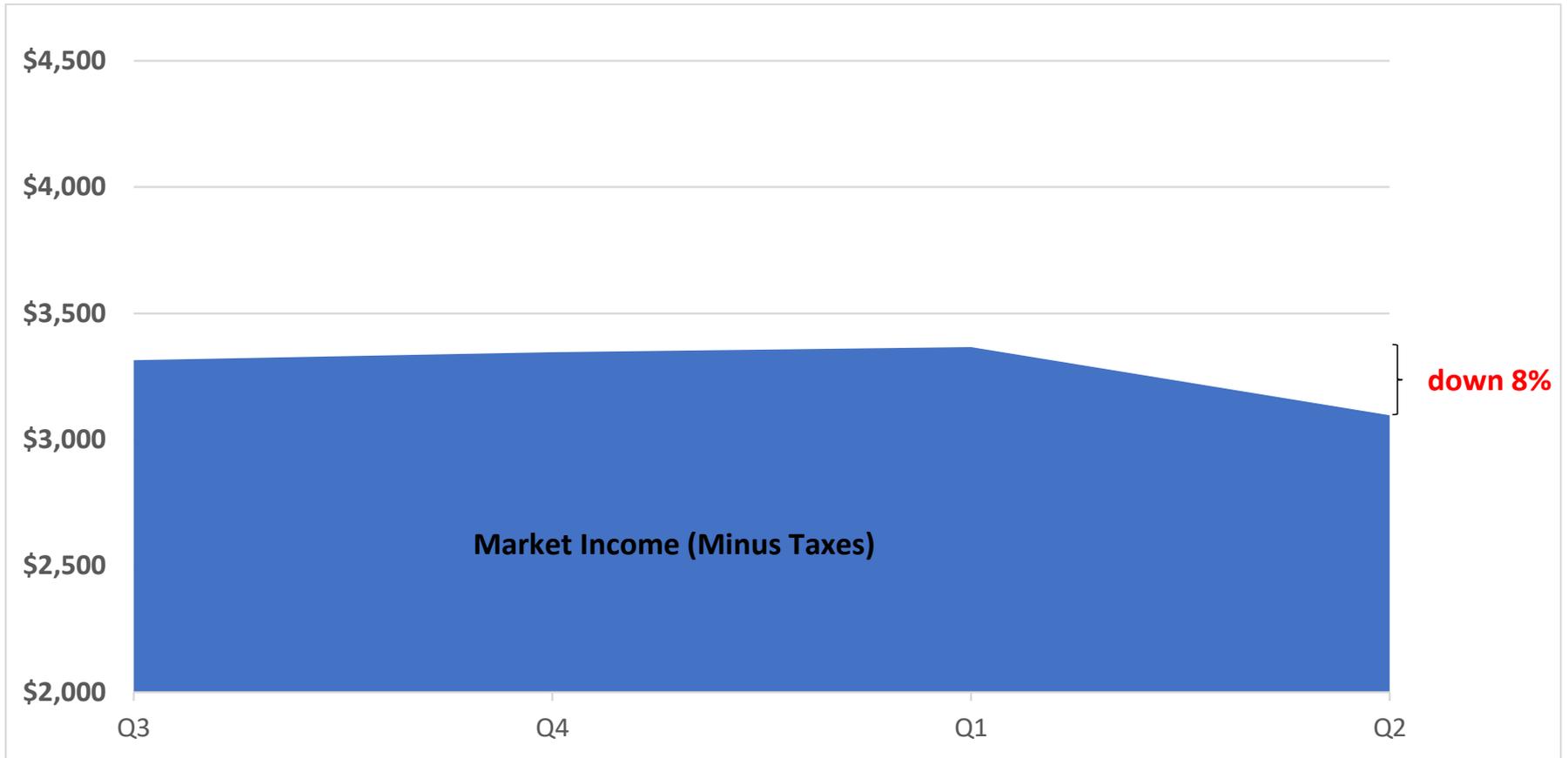
- State/Territory: Texas



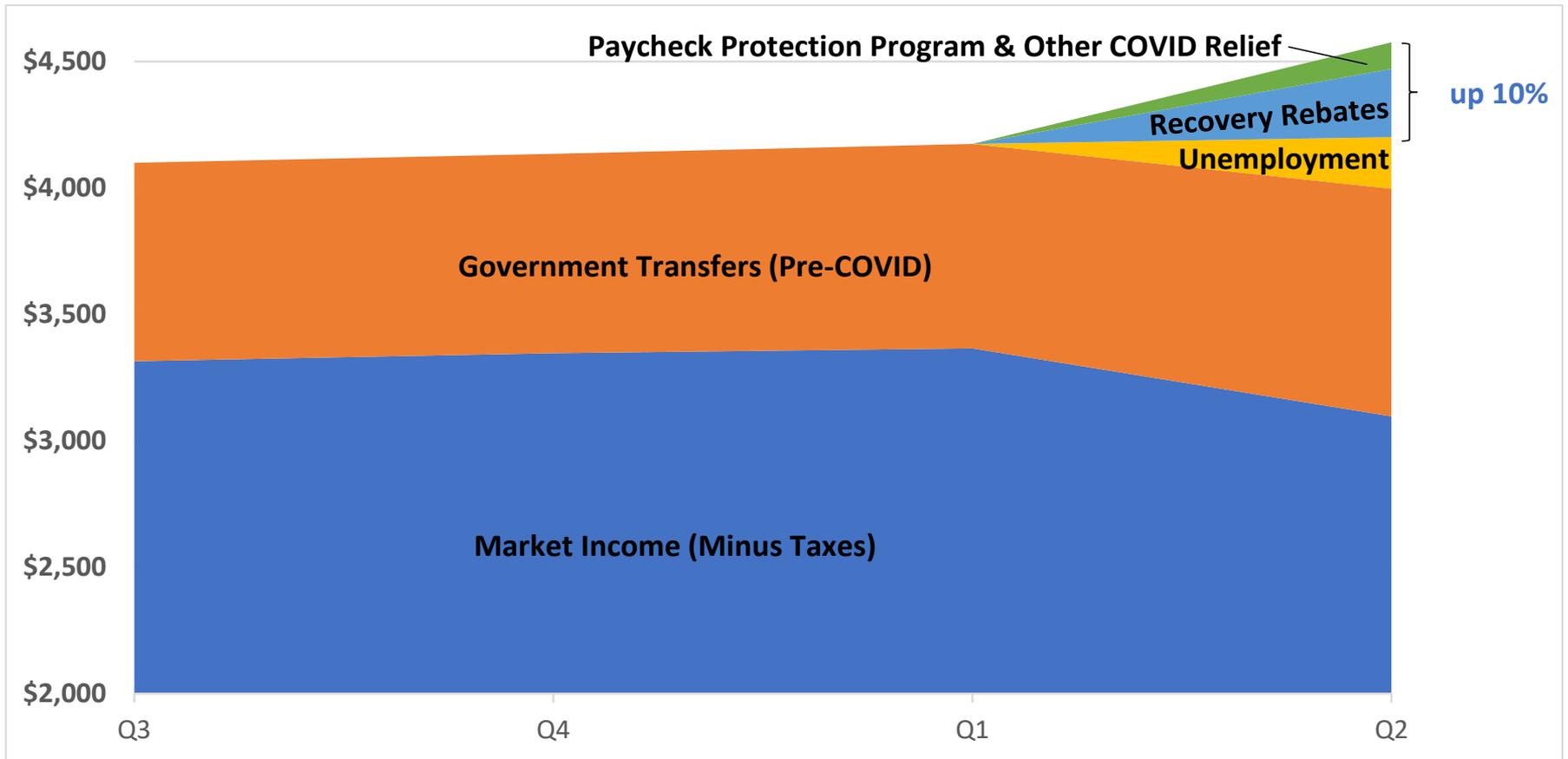
# About \$170 Billion Will Go to Texas



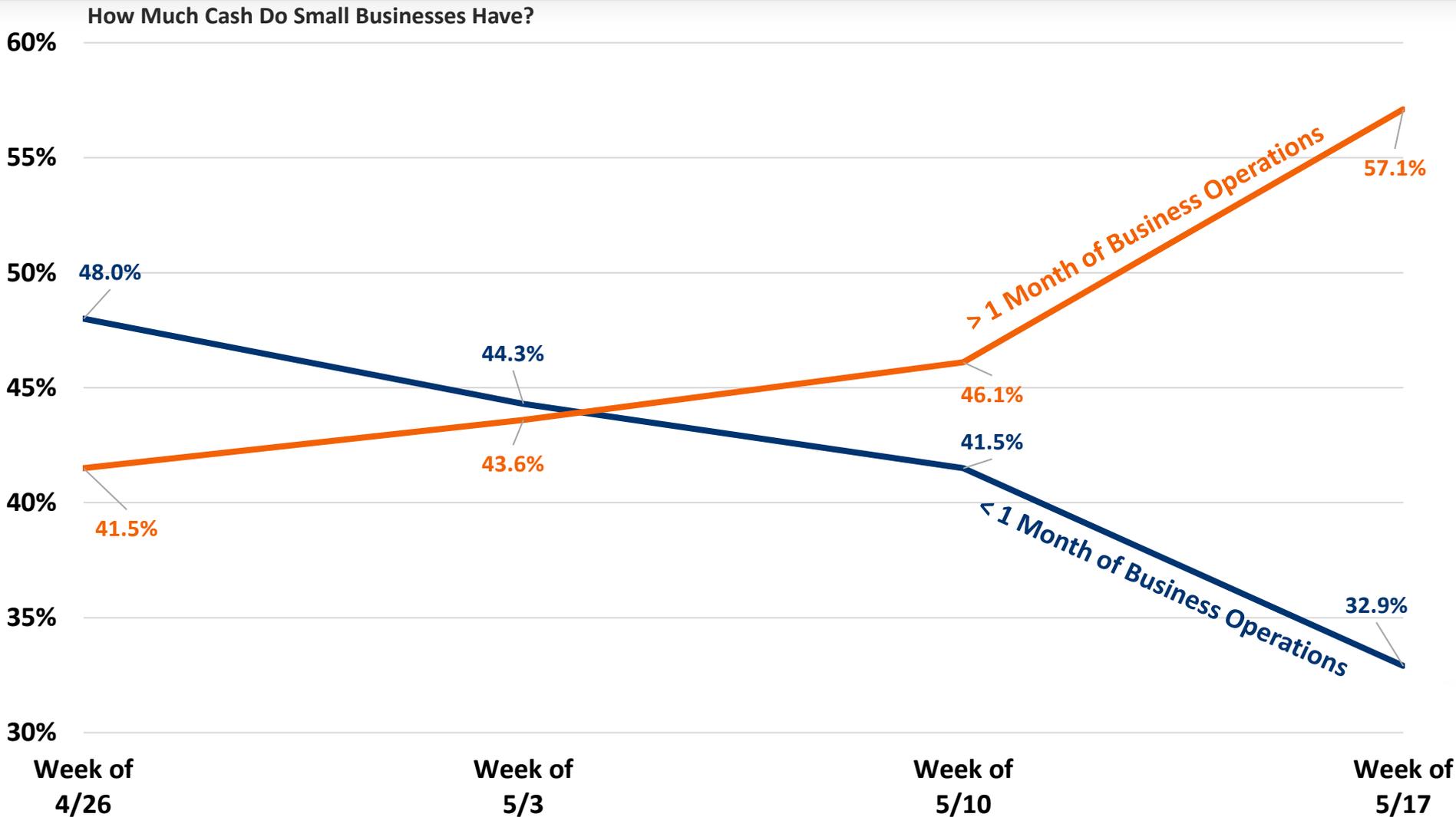
# The Response Prevented Income Losses



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# Helped to Support Small Businesses



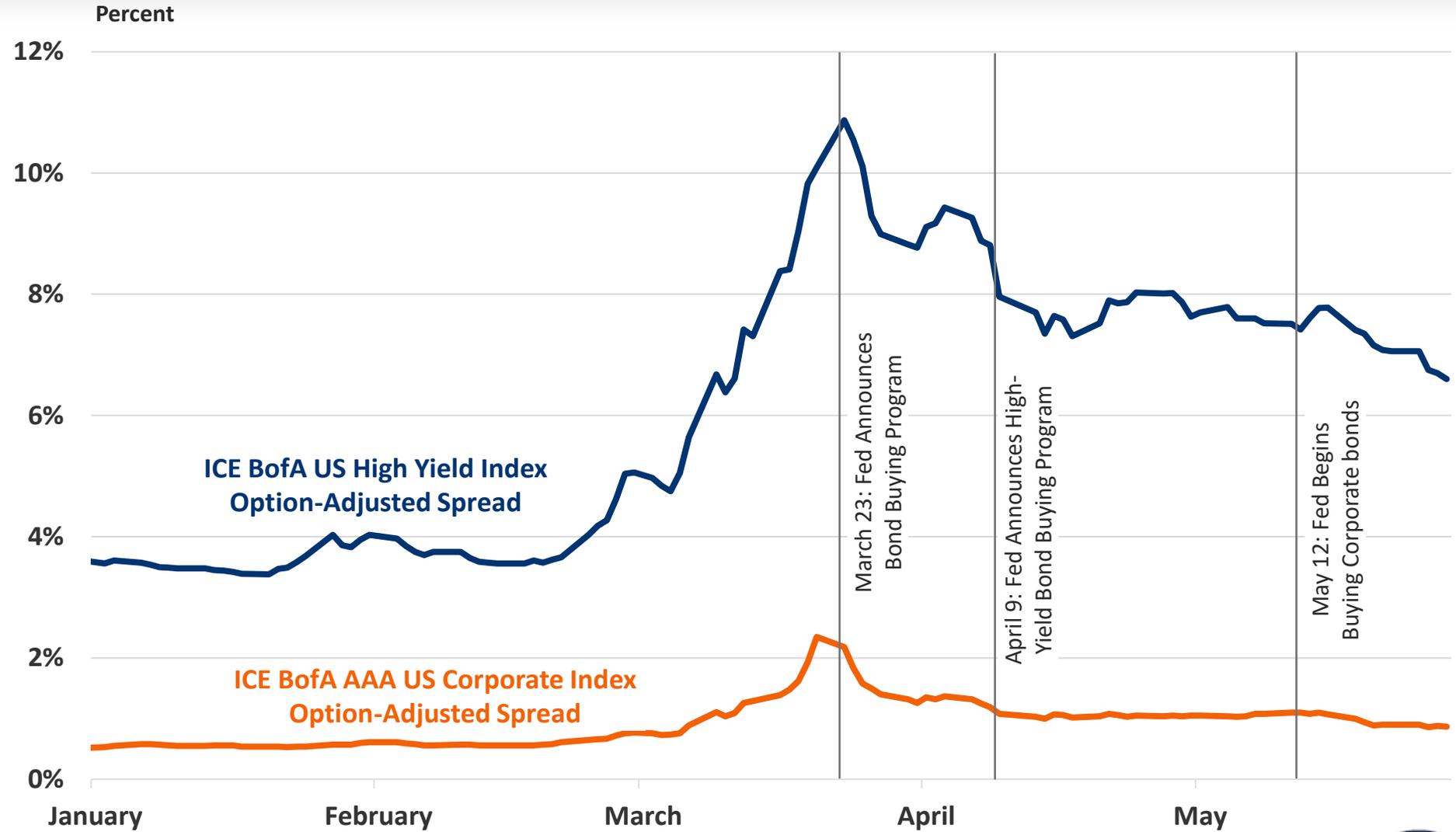
Note: Excludes "Don't Know" responses.

Source: U.S. Census Bureau.

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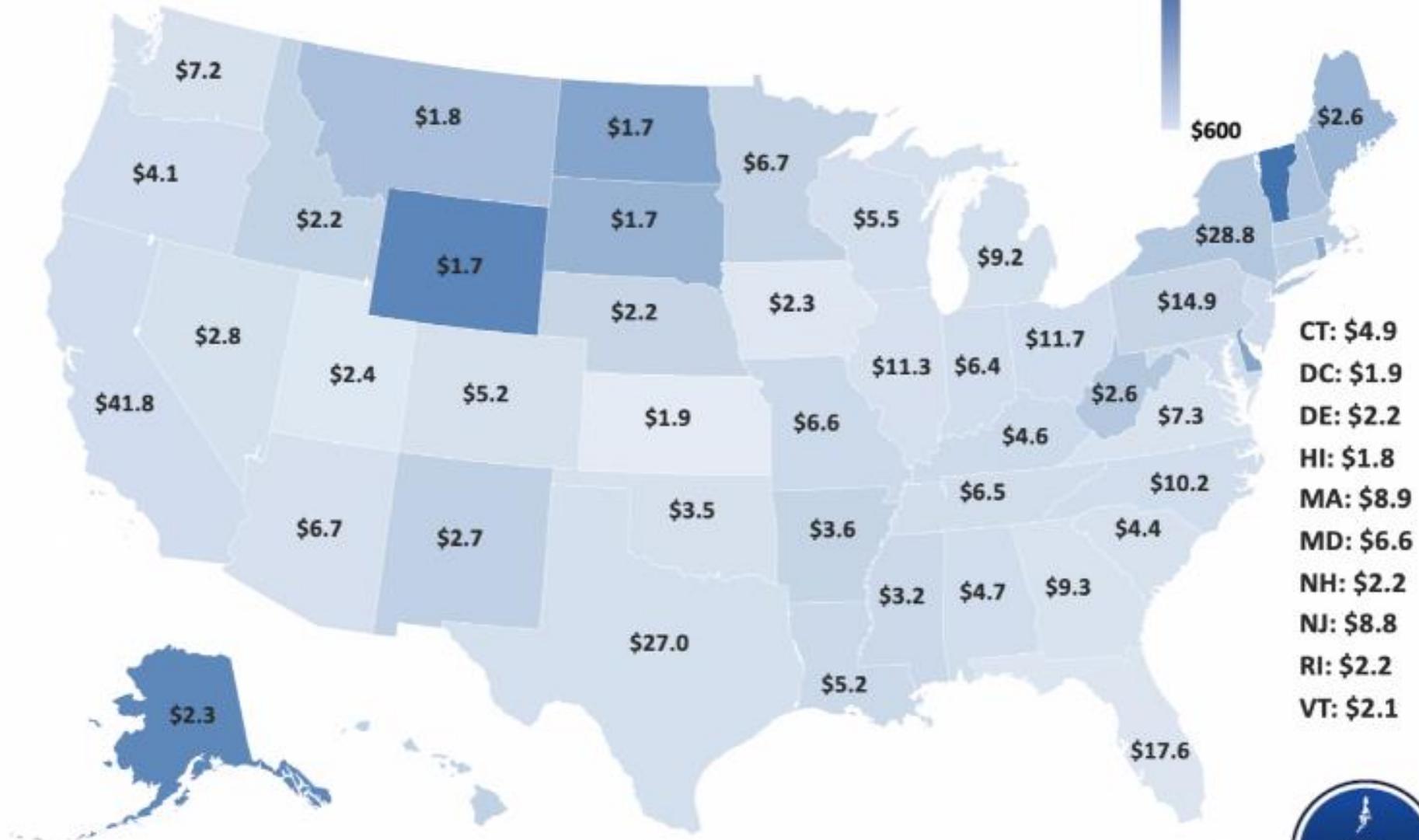
# Stabilized Bond Markets



# Provided Some Support to States and Localities

*in billions*

Aid Per Capita  \$3,339



Note: Shading reflects aid per capita.

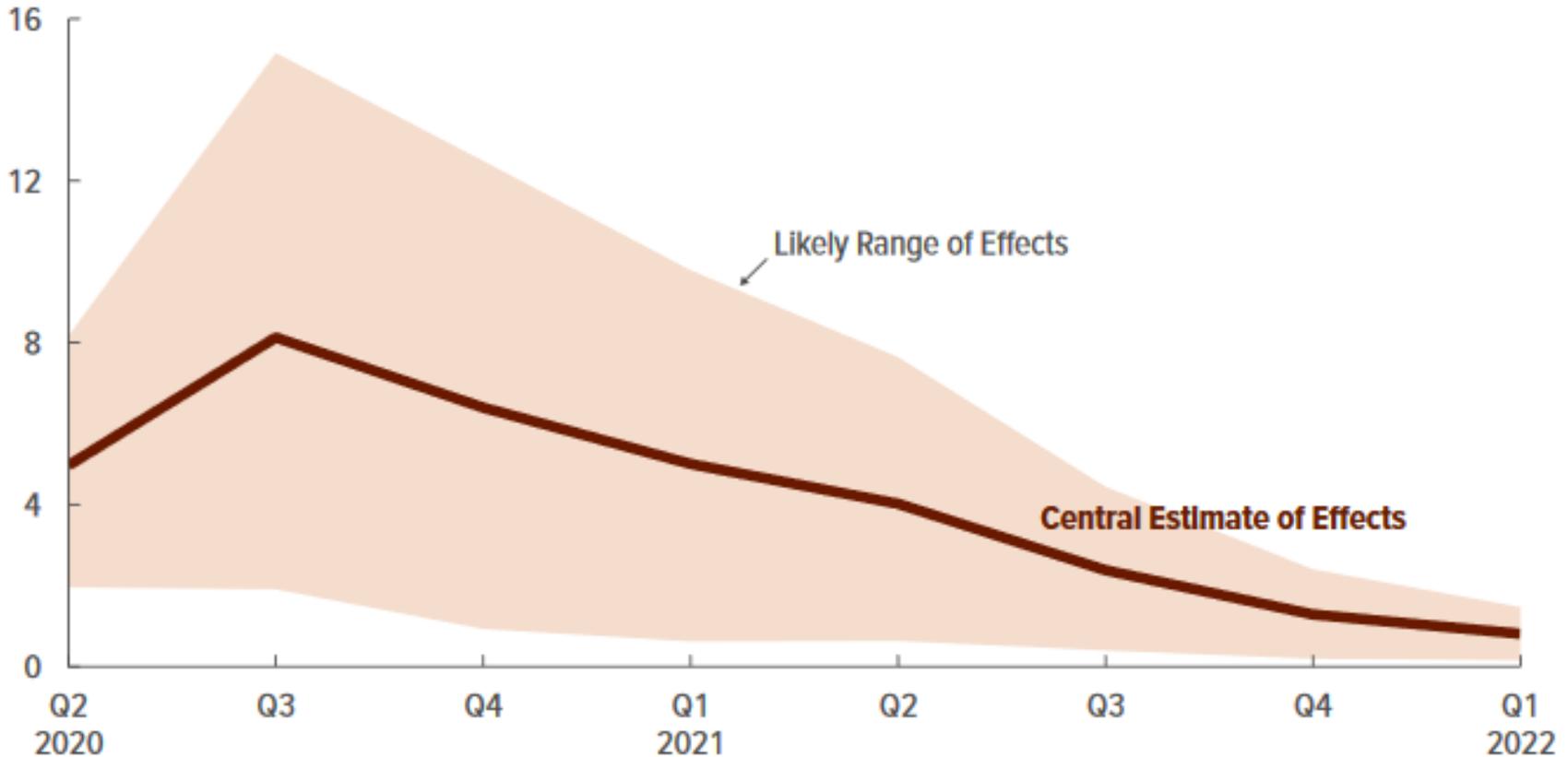
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# And Prevented A Potential Depression

## The Likely Range of the Effects of Pandemic-Related Legislation on Real GDP

Percent

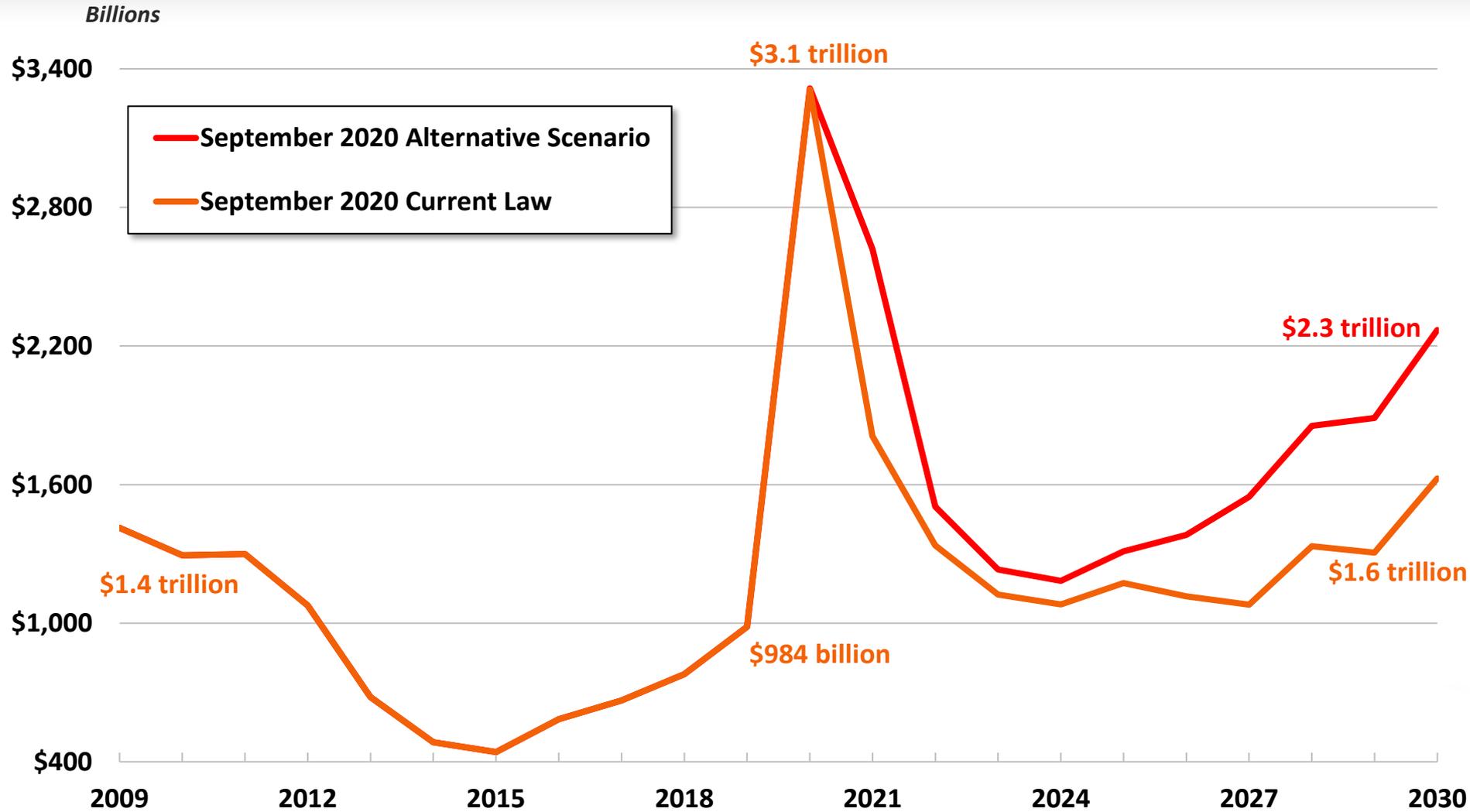


Source: Congressional Budget Office.

# But The Economy is Far From the Path to Recovery

- Most federal aid has ended
- Joblessness remains very high
- Small businesses, especially in the restaurant and travel industries, face huge challenges and many will go out of business
- States and localities are considering layoffs and furloughs
- The virus is spiking
- Winter is coming

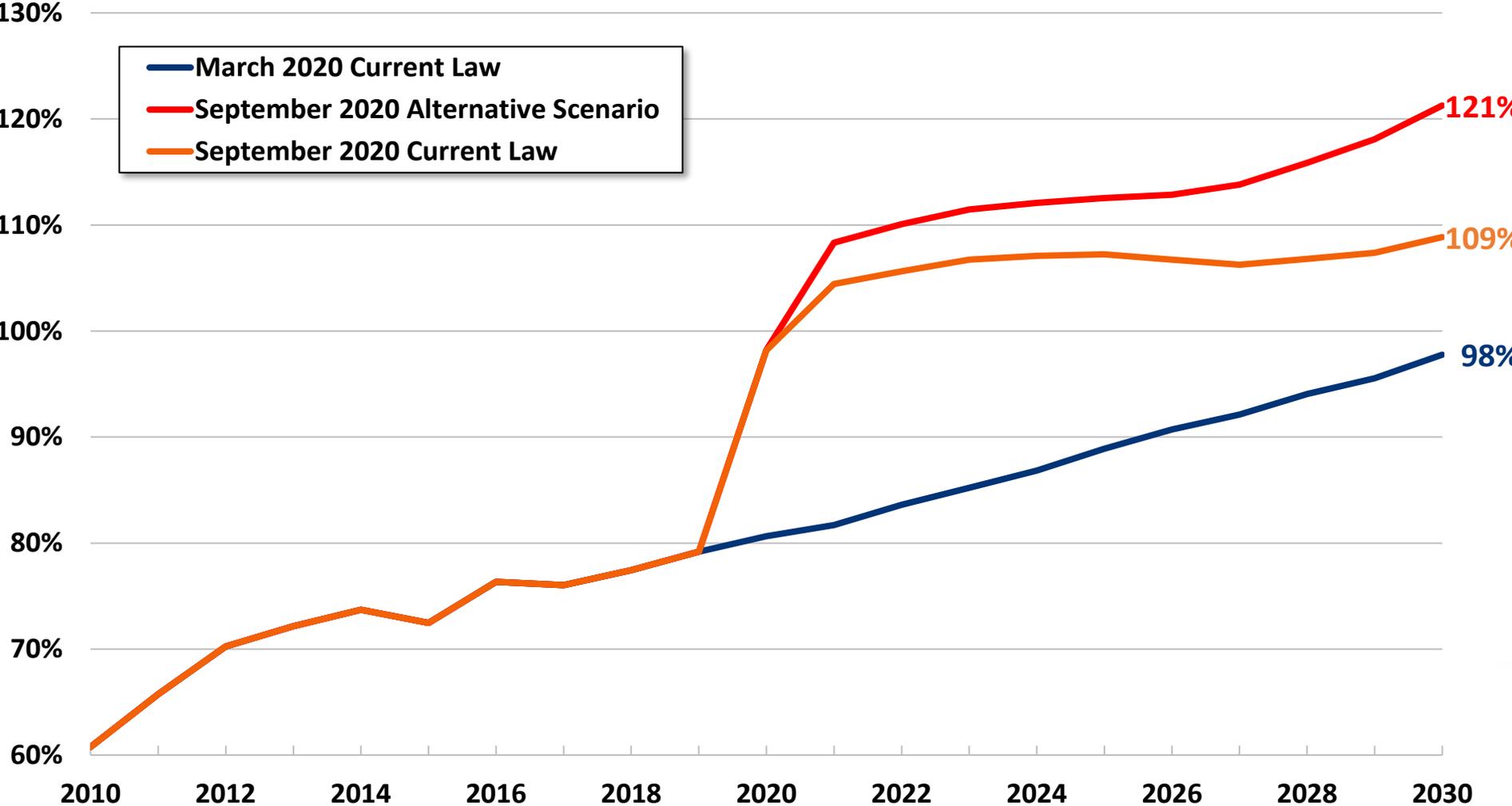
# And the Deficit Has Exploded



# Leading to Record Debt Levels

Percent of GDP

- March 2020 Current Law
- September 2020 Alternative Scenario
- September 2020 Current Law

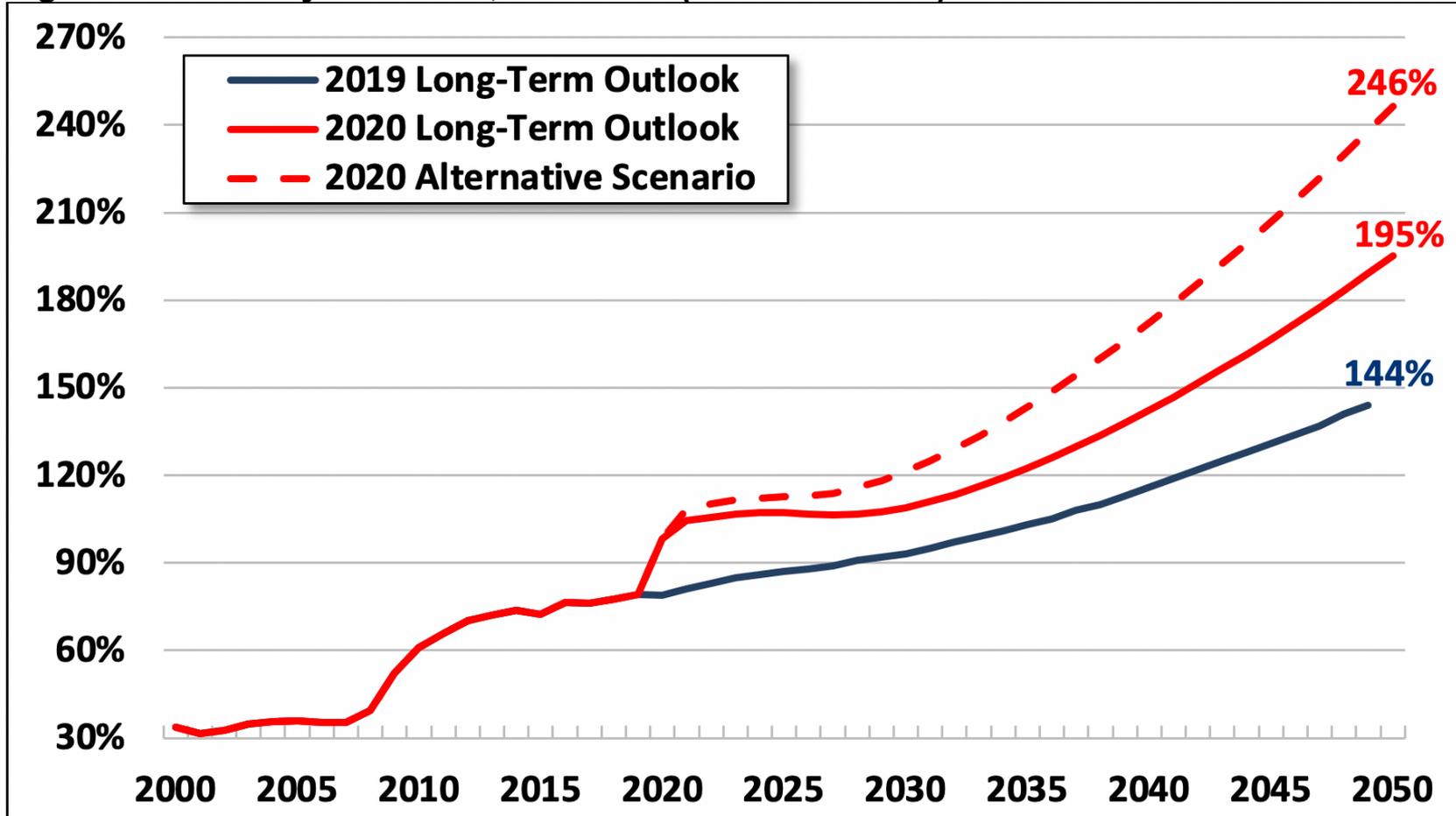


Source: Congressional Budget Office.



# Especially Over the Long-Run

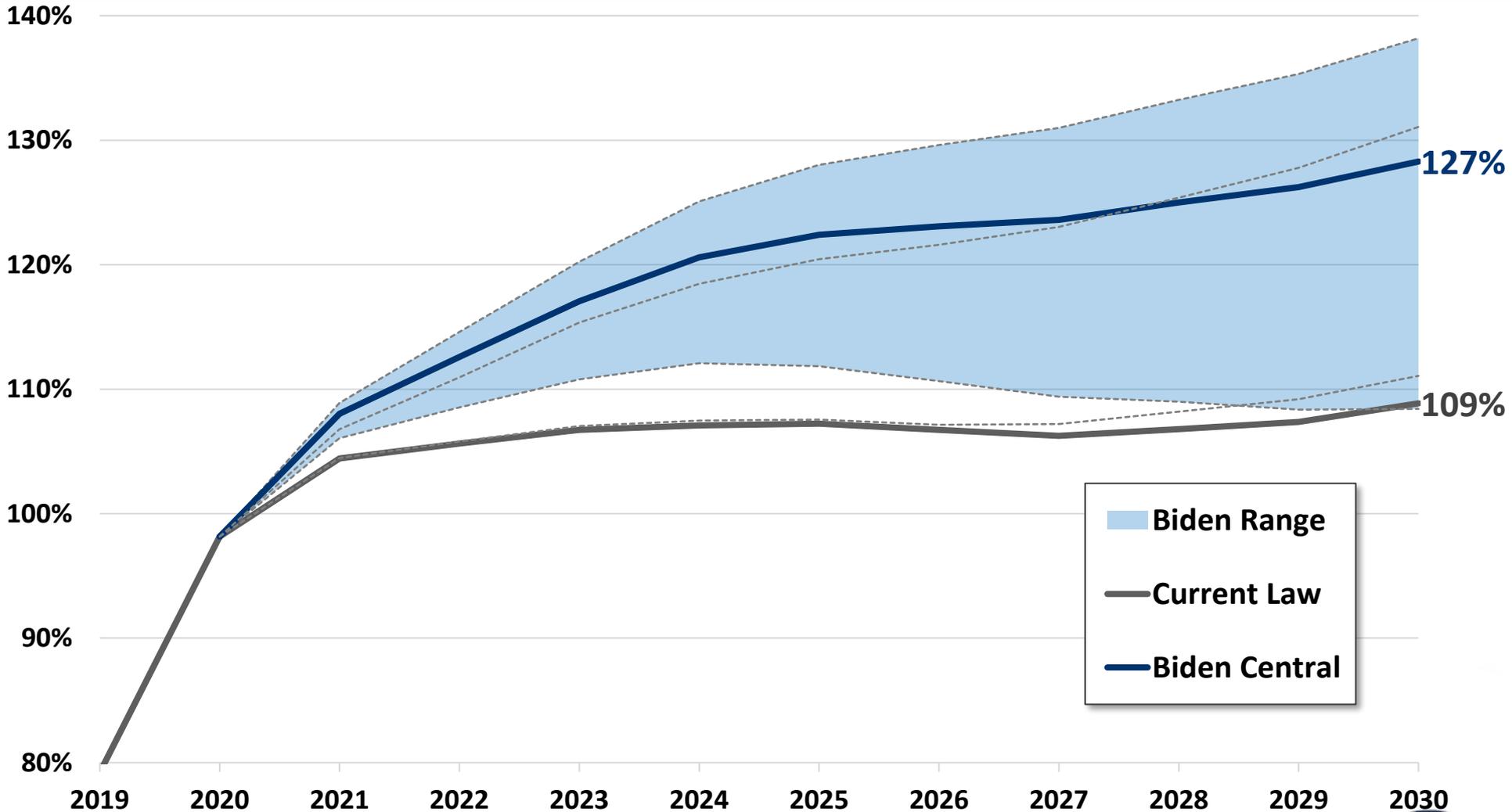
Fig. 1: Debt Held by the Public, 2000-2050 (Percent of GDP)



Source: Congressional Budget Office and CRFB calculations.

# Which Biden Could Make Worse

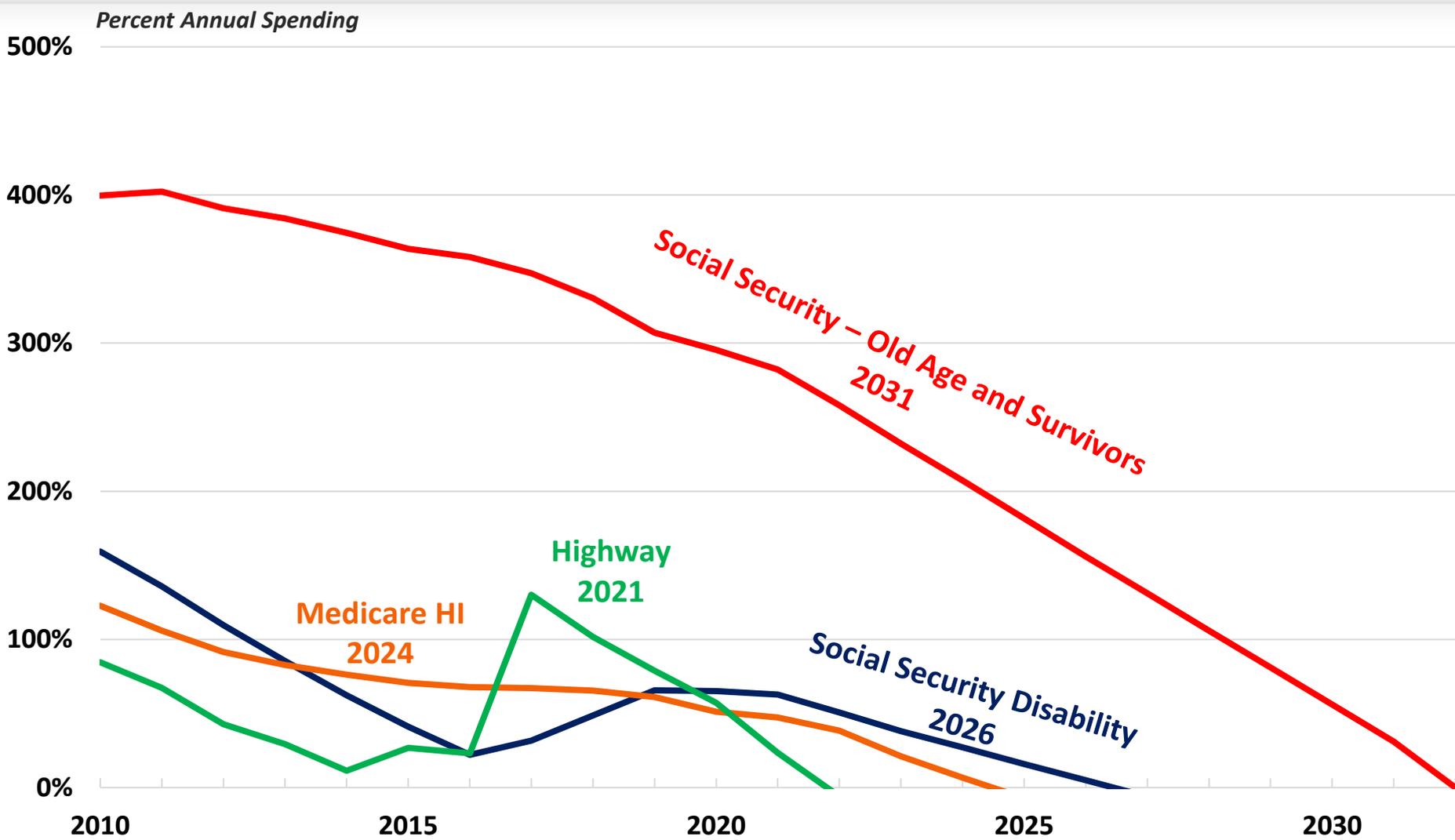
Percent of GDP



**Biden Range**  
**Current Law**  
**Biden Central**



# Meanwhile, Insolvency Looms for Major Trust Funds



Source: Congressional Budget Office.

# But There is Room for Bipartisan Solutions

Both Parties Support:

- Supporting the Economic Recovery
- Lowering Health Care Costs
- Improving Tax Enforcement
- Fixing the Broken Budget Process
- Strengthening Trust Funds (TRUST Act?)

# Support The Economic Recovery

**Fig. 4: Table of Fiscal Multipliers, As Estimated by CBO**

| Policy   | Estimated Multiplier |
|--|----------------------|
| <b>COVID Relief (2020)</b>                                   |                      |
| Paycheck Protection Program and Related Provisions           | 0.36x                |
| Enhanced Unemployment Compensation                           | 0.67x                |
| Recovery Rebates for Individuals                             | 0.60x                |
| Direct Assistance for State and Local Governments            | 0.88x                |
| Other Spending Provisions                                    | 0.78x                |
| Other Revenue Provisions                                     | 0.37x                |
| <b>American Recovery and Reinvestment Act (2015)</b>         |                      |
| Payments to State & Local Governments for Infrastructure     | 0.4x to 2.2x         |
| Payments to State & Local Governments for Other Purposes     | 0.4x to 1.8x         |
| Transfer Payments to Individuals                             | 0.4x to 2.1x         |
| One-Time Payments to Retirees                                | 0.2x to 1.0x         |
| Two-Year Tax Cuts for Lower- and Middle-Income People        | 0.3x to 1.5x         |
| One-Year Tax Cut for Higher-Income People                    | 0.1x to 0.6x         |
| Extension of First-Time Homebuyer Credit                     | 0.2x to 0.8x         |
| Corporate Tax Provisions Primarily Affecting Cash Flow       | 0.0x to 0.4x         |
| <b>Effects of Policy Options (2010)</b>                      |                      |
| Increasing Aid to the Unemployed                             | 0.7x to 1.9x         |
| Employer Payroll Tax Cut                                     | 0.4x to 1.2x         |
| Employer Payroll Tax Cut for Firms that Increase Payroll     | 0.4x to 1.3x         |
| Employee Payroll Taxes Cut                                   | 0.3x to 0.9x         |
| One-Time Social Security Bonus Payment                       | 0.3x to 0.9x         |
| Full or Partial Expensing of Investment Costs                | 0.2x to 1.0x         |
| Infrastructure Spending                                      | 0.5x to 1.2x         |
| Aid to States  | 0.4x to 1.1x         |
| Refundable Tax Credits for Low- and Middle-Income Households | 0.3x to 0.9x         |
| Broad Individual Income Tax Cuts                             | 0.1x to 0.4x         |

Note: Estimates refer to GDP boost over different lengths of time.



# Some Deficit Reduction Options

## Bipartisan Options to Lower Health Care Costs

|  | Trump/GOP                          |  | Obama/Dem                 |
|--|------------------------------------|--|---------------------------|
| Limit surprise billing   | \$25 to \$30 billion <sup>*</sup>  |  |                           |
| Reduce Medicare post-acute care payments   | \$79 billion                       |  | \$80 billion              |
| Pay hospitals and doctors' offices the same rate for the same services (site-neutral payments)     | \$146 billion                      |  | \$15 billion <sup>^</sup> |
| Reduce Medicare payments for bad debt  | \$37 billion                       |  | \$34 billion              |
| Reduce and reform Graduate Medical Education funding   | \$90 billion                       |  | \$12 billion              |
| Reform Medicare hospice payments   | \$4 billion                        |  | \$8 billion               |
| Reform Medicare drug benefit design, cap drug price growth at inflation, and promote generic drugs | \$95 to \$129 billion <sup>+</sup> |  |                           |
| Reduce physician reimbursement for Medicare Part B drugs   | \$3 billion <sup>**</sup>          |  | \$7 billion               |

## Bipartisan Options to Improve Tax Compliance

|   | Trump/GOP                  | Obama/Dem     |
|---|----------------------------|---------------|
| Better fund IRS tax enforcement                       | \$56 billion               | \$39 billion  |
| Clarify worker classification rules                   | \$1 billion                | \$11 billion  |
| Enact other tax enforcement measures                  | <\$1 billion               | \$3 billion   |
| Close carried interest loophole                       | \$10 billion <sup>^</sup>  | \$20 billion  |
| Require consistent valuation of estate and inferences | \$2 billion <sup>*</sup>   | <\$1 billion  |
| Strengthen s-corp reasonable compensation rules       | \$15 billion <sup>*</sup>  | \$33 billion  |
| Repeal like kind exchange real estate loophole        | ~\$10 billion <sup>*</sup> | ~\$10 billion |
| Reform treatment of derivatives                       | \$16 billion <sup>*</sup>  | \$15 billion  |

