

Fiscal Policy in a Pandemic

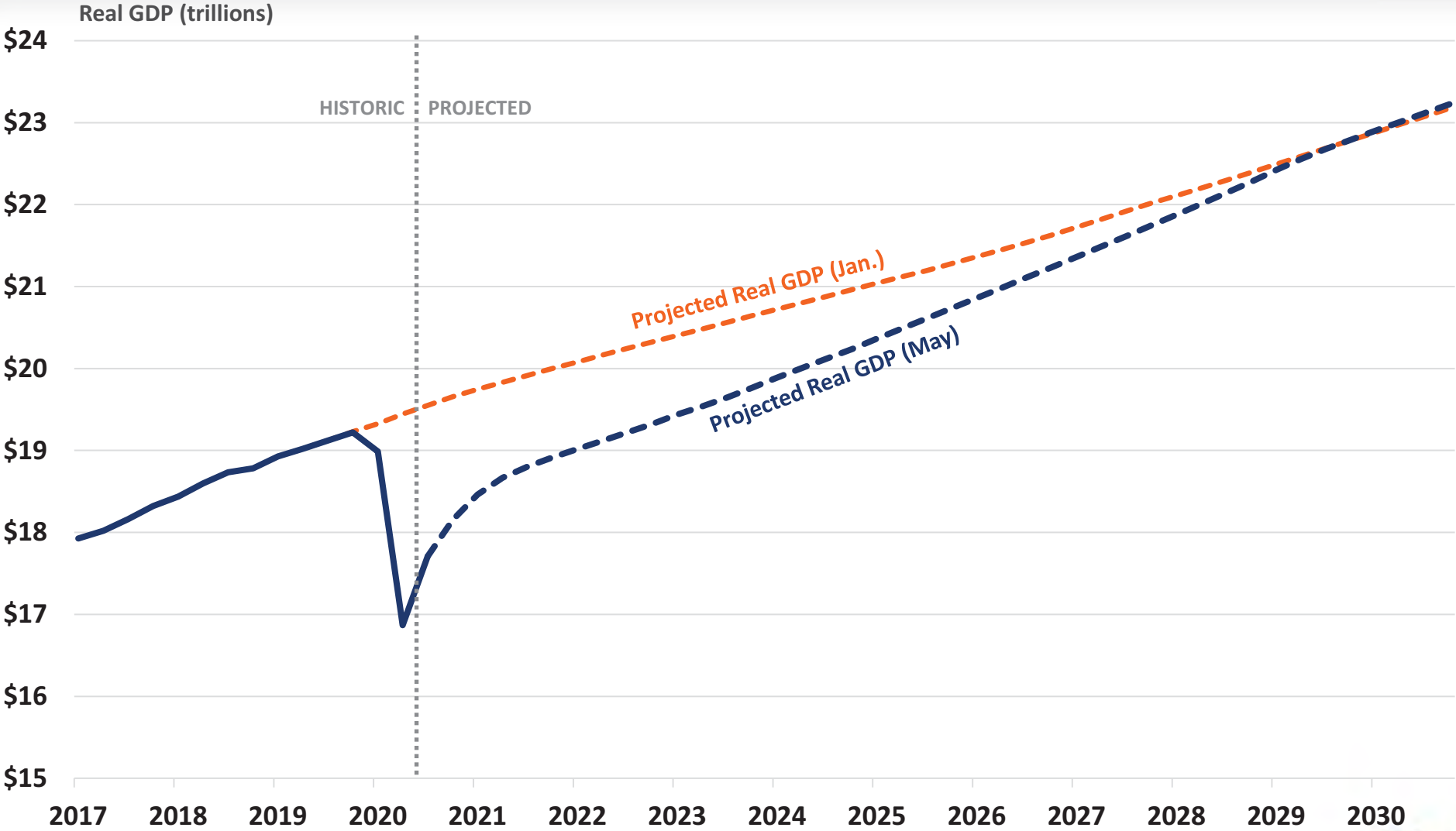
December 2020



**COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET**

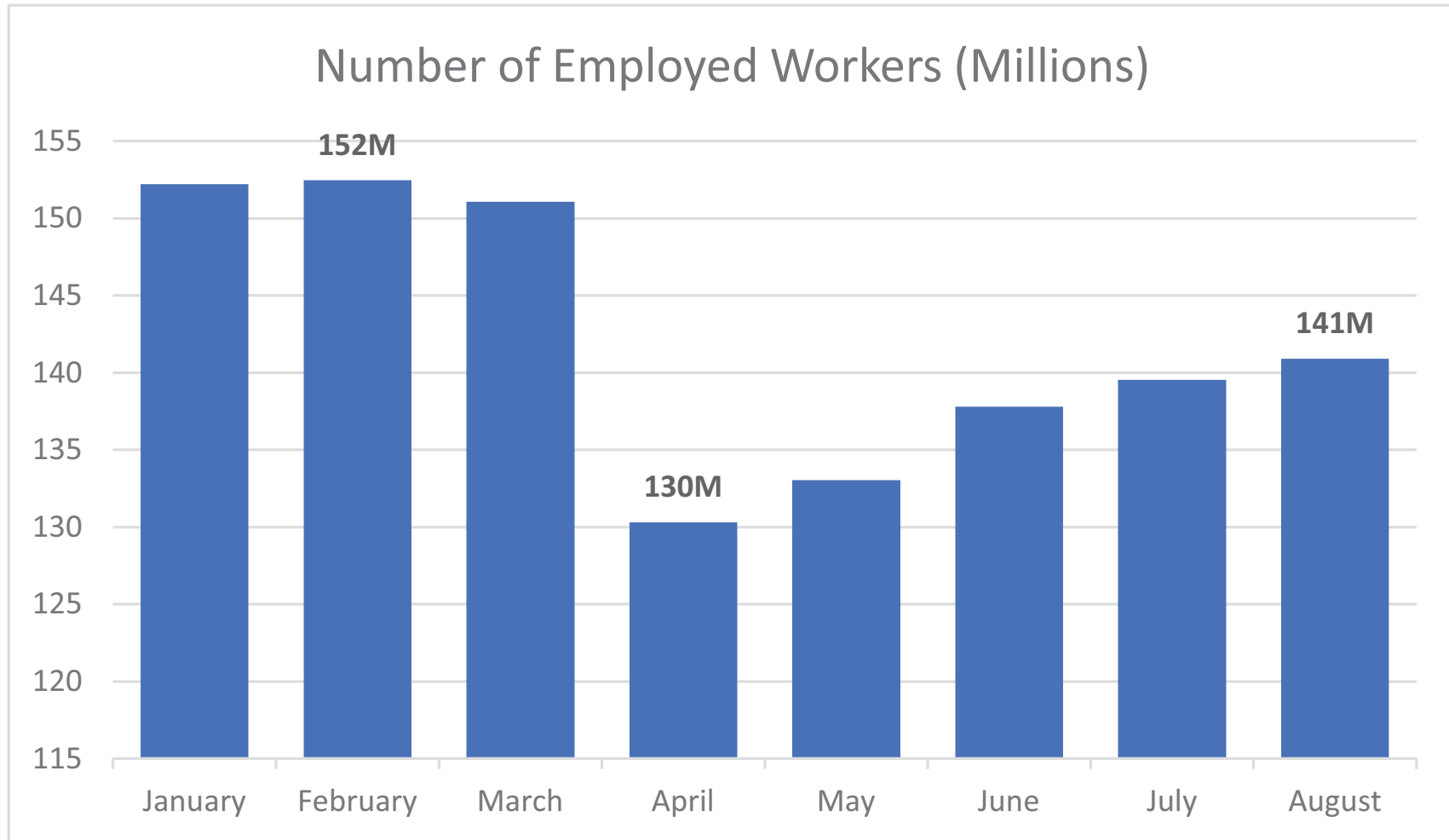
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The Pandemic Was Economically Devastating

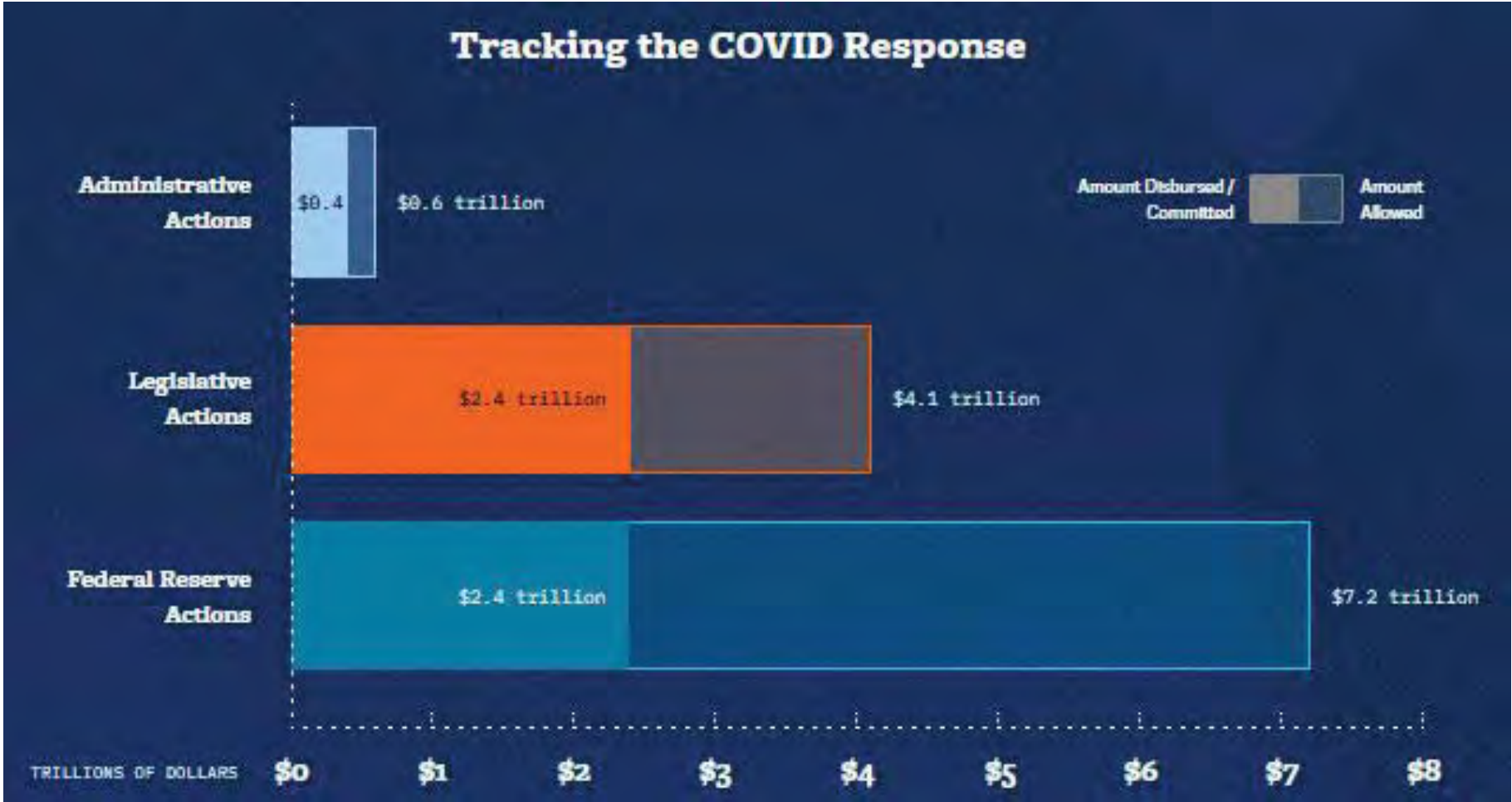


Source: Congressional Budget Office

And At Least 22 Million Americans Lost their Jobs



But Policymakers Responded Aggressively



Legislators Have Committed \$4 Trillion to the Crisis



At a Cost of \$2.7 Trillion Over a Decade



The Response Was Similar in Size to the Great Recession



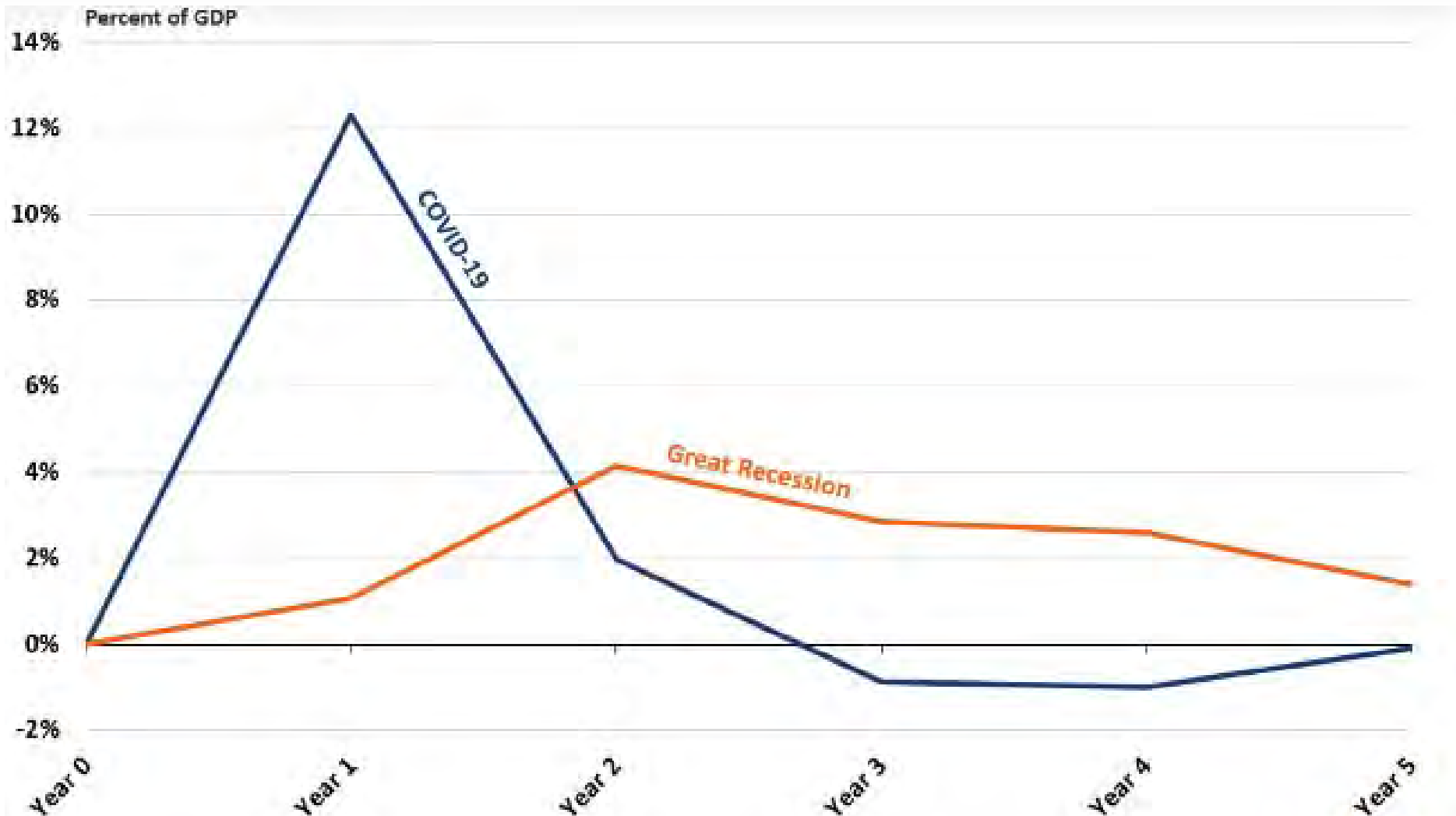
Note: Figures reflect 5-year cost estimates

Source: CBO, CRFB Calculations

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But Packed Into 6 Months, Not 6 Years

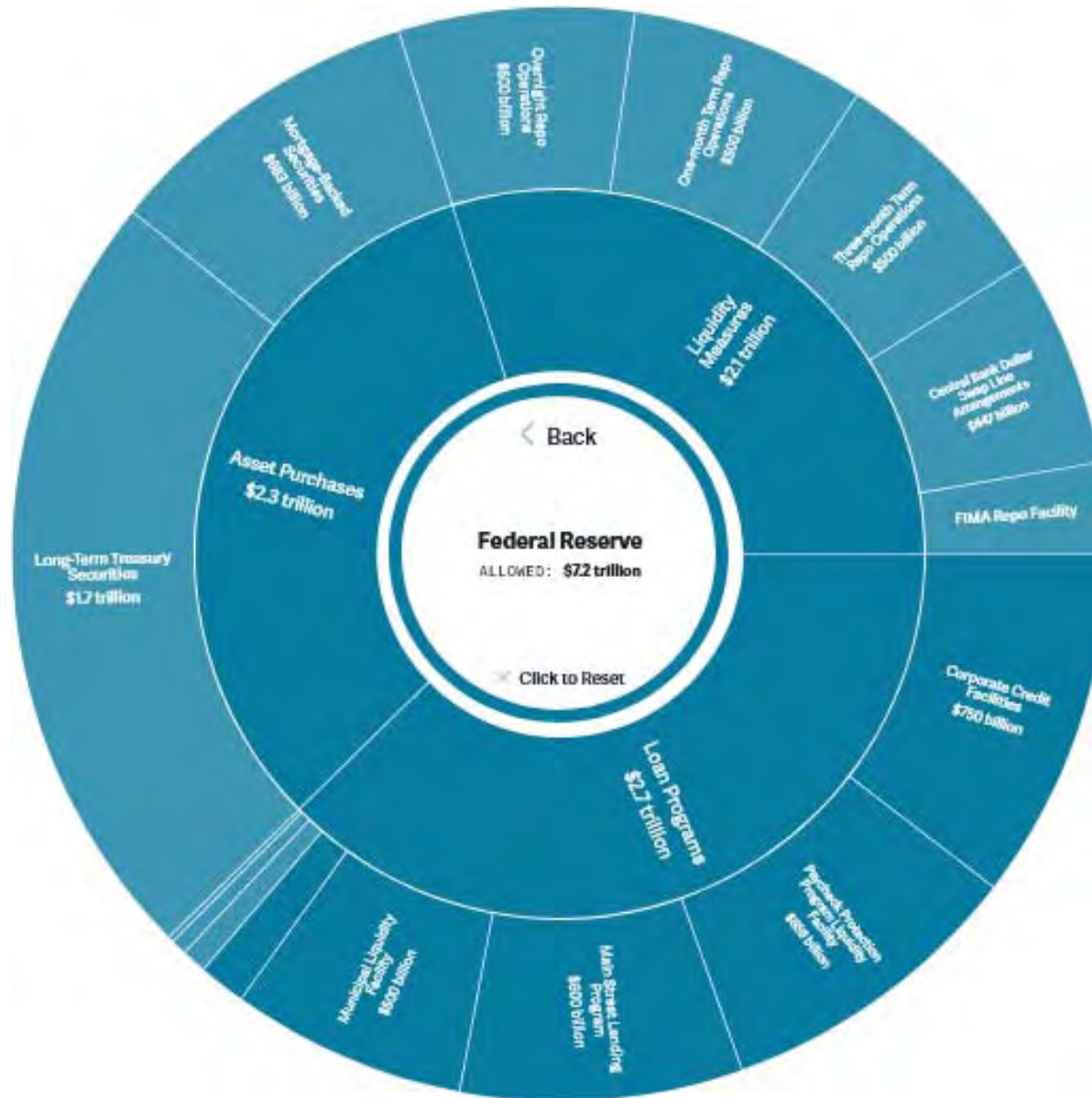


Source: CBO, CRFB Calculations

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The Federal Reserve Has Announced up to \$7.2 Trillion in Economic Support

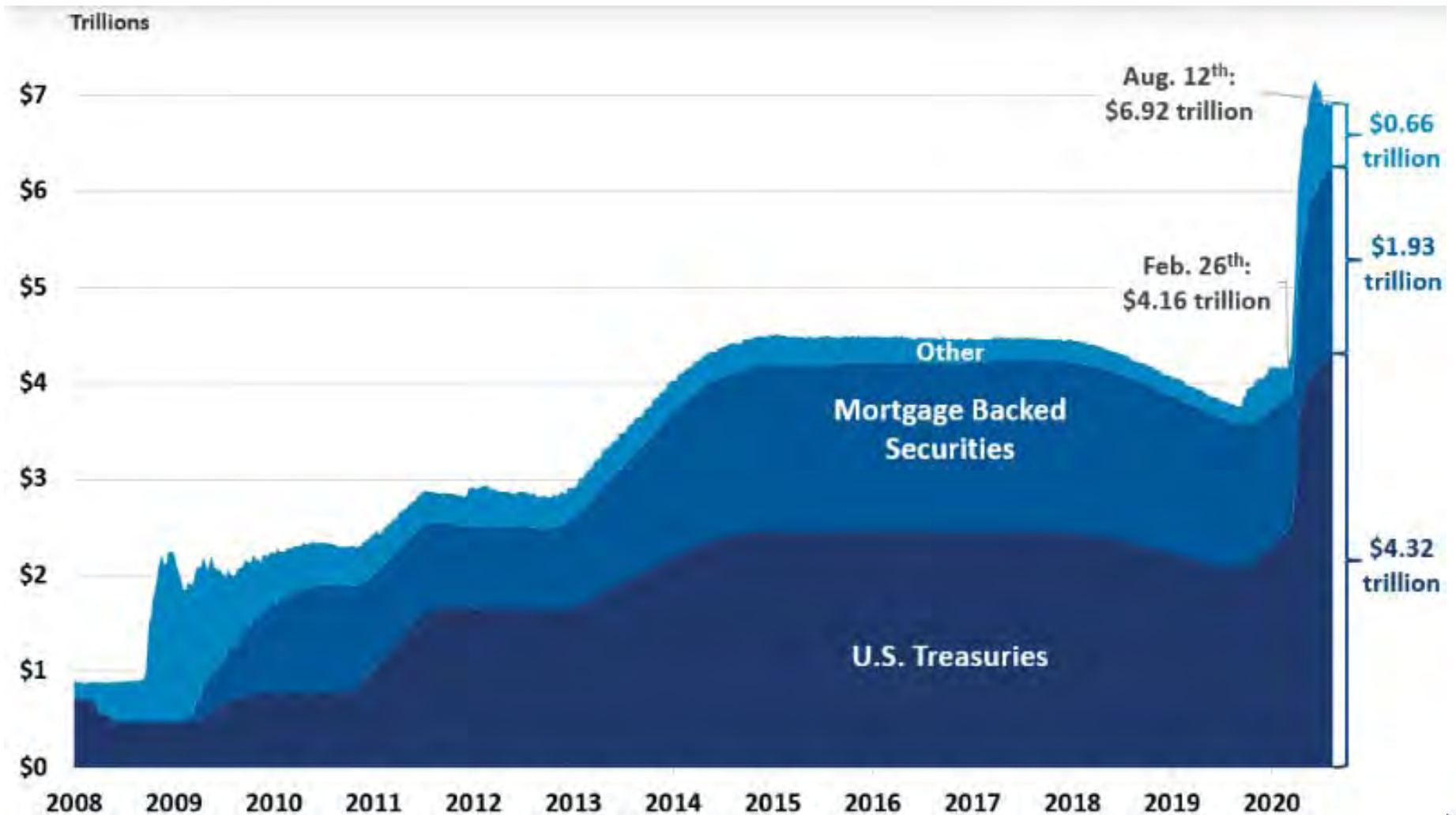


And Disbursed \$2.3 Trillion So Far

COVID RESPONSE		ALLOWED	COMMITTED/DISBURSED	DEFICIT IMPACT
<u>Federal Reserve</u>	⊖	\$719 trillion	\$2.37 trillion	N/A
<u>Loan Programs</u>	⊖	\$2.71 trillion	\$97.3 billion	N/A
<u>Corporate Credit Facilities</u>	⊕	\$750 billion	\$13.4 billion	N/A
<u>Paycheck Protection Program Liquidity Facility</u>	⊕	\$659 billion	\$69.0 billion	N/A
<u>Main Street Lending Program</u>	⊕	\$600 billion	\$4.23 billion	N/A
<u>Municipal Liquidity Facility</u>	⊕	\$500 billion	\$1.65 billion	N/A
<u>Term Asset-Backed Securities Loan Facility</u>	⊕	\$100 billion	\$3.24 billion	N/A
<u>Money Market Mutual Fund Liquidity Facility</u>		\$53.2 billion	\$5.50 billion	N/A
<u>Primary Dealer Credit Facility</u>		\$33.4 billion	\$263 million	N/A
<u>Commercial Paper Funding Facility</u>		\$12.8 billion	\$0	N/A
<u>Asset Purchases</u>	⊖	\$2.34 trillion	\$2.27 trillion	N/A
<u>Long-Term Treasury Securities</u>		\$1.66 trillion	\$1.65 trillion	N/A
<u>Mortgage-Backed Securities</u>		\$683 billion	\$621 billion	N/A
<u>Liquidity Measures</u>	⊕	\$2.14 trillion	\$7.25 billion	N/A



Expanding Its Balance Sheet Dramatically



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



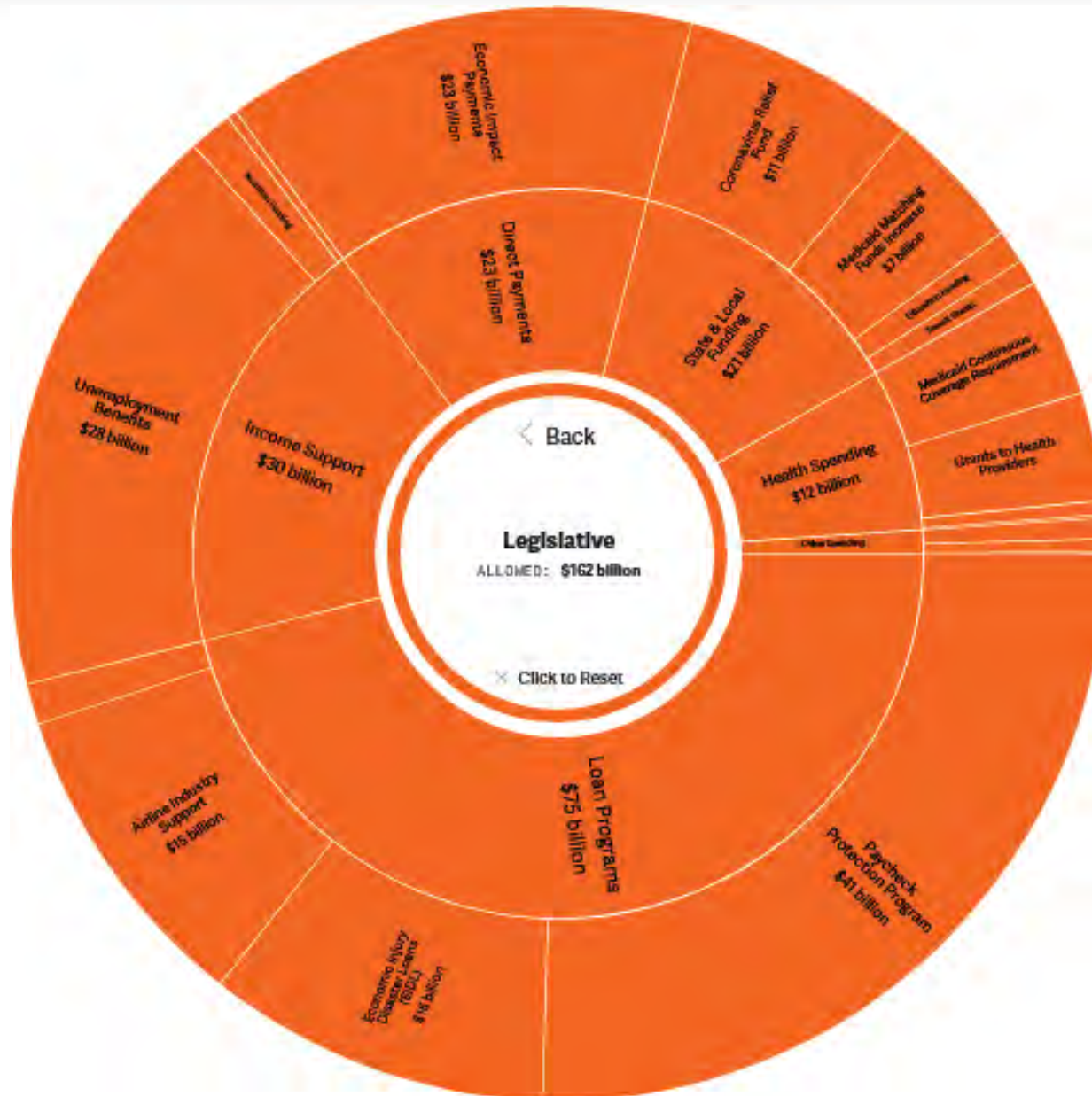
COVID Money Tracker Follows All The Money

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

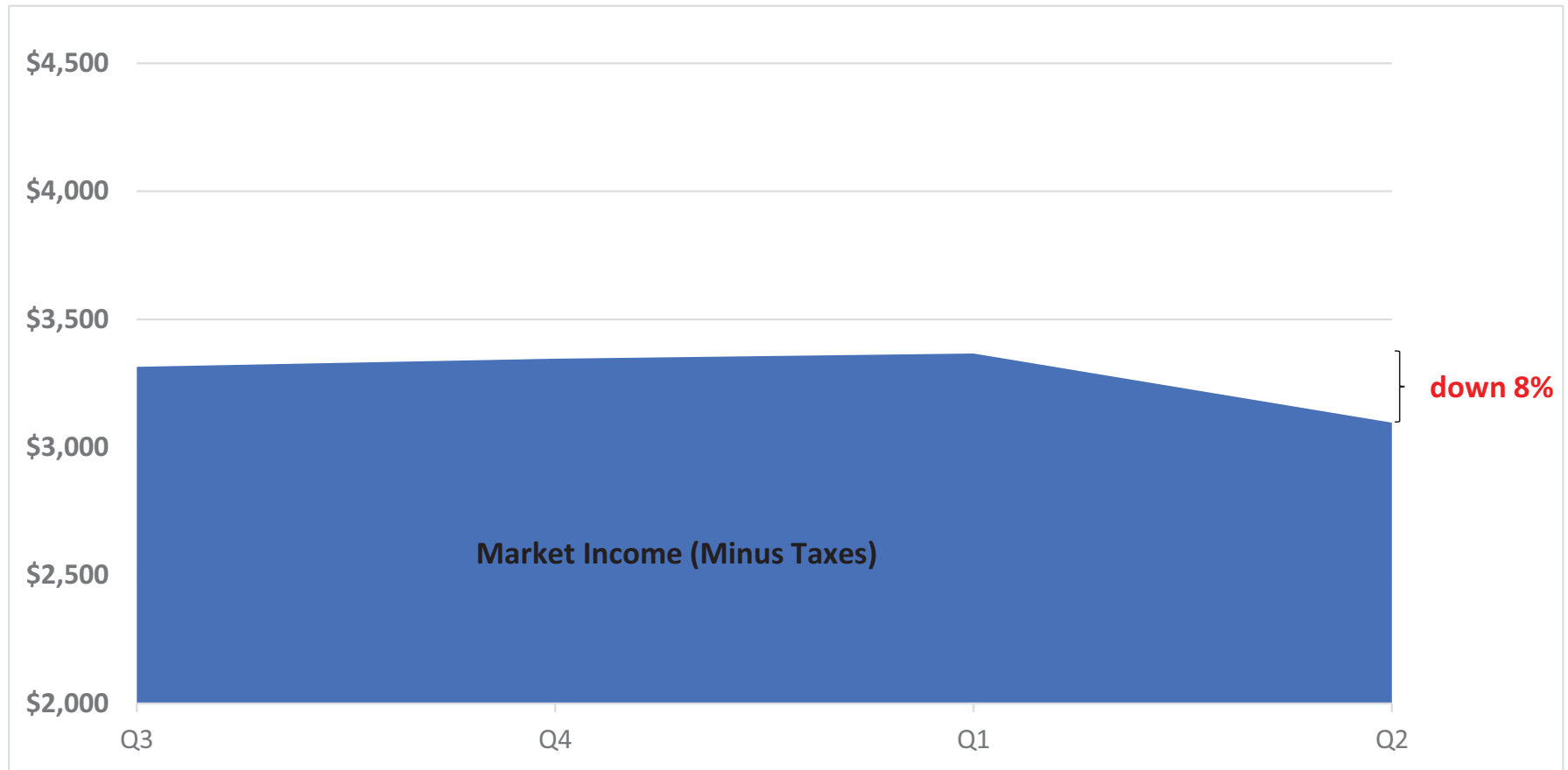
Over \$170 Billion Will Go to Texans



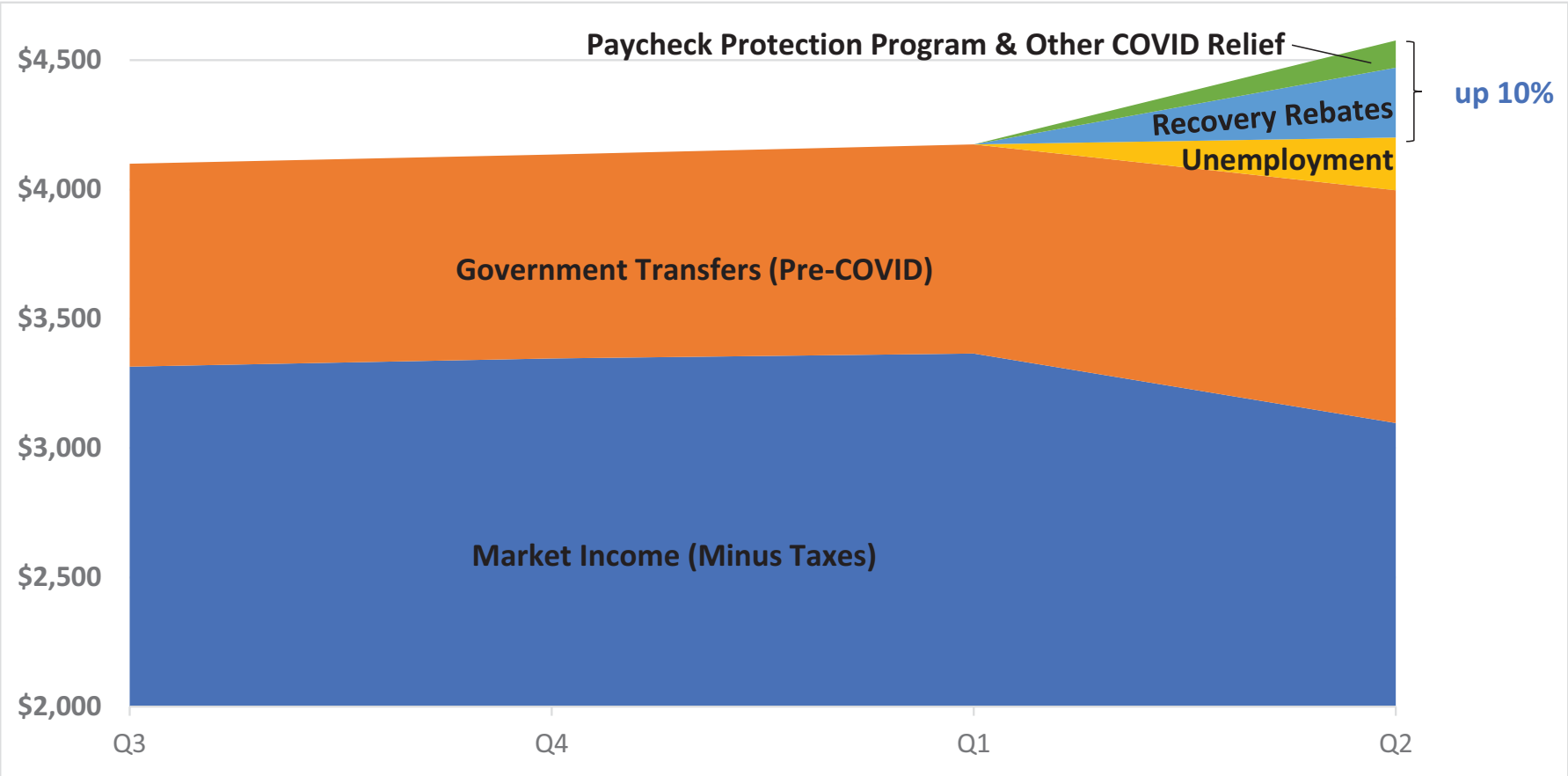
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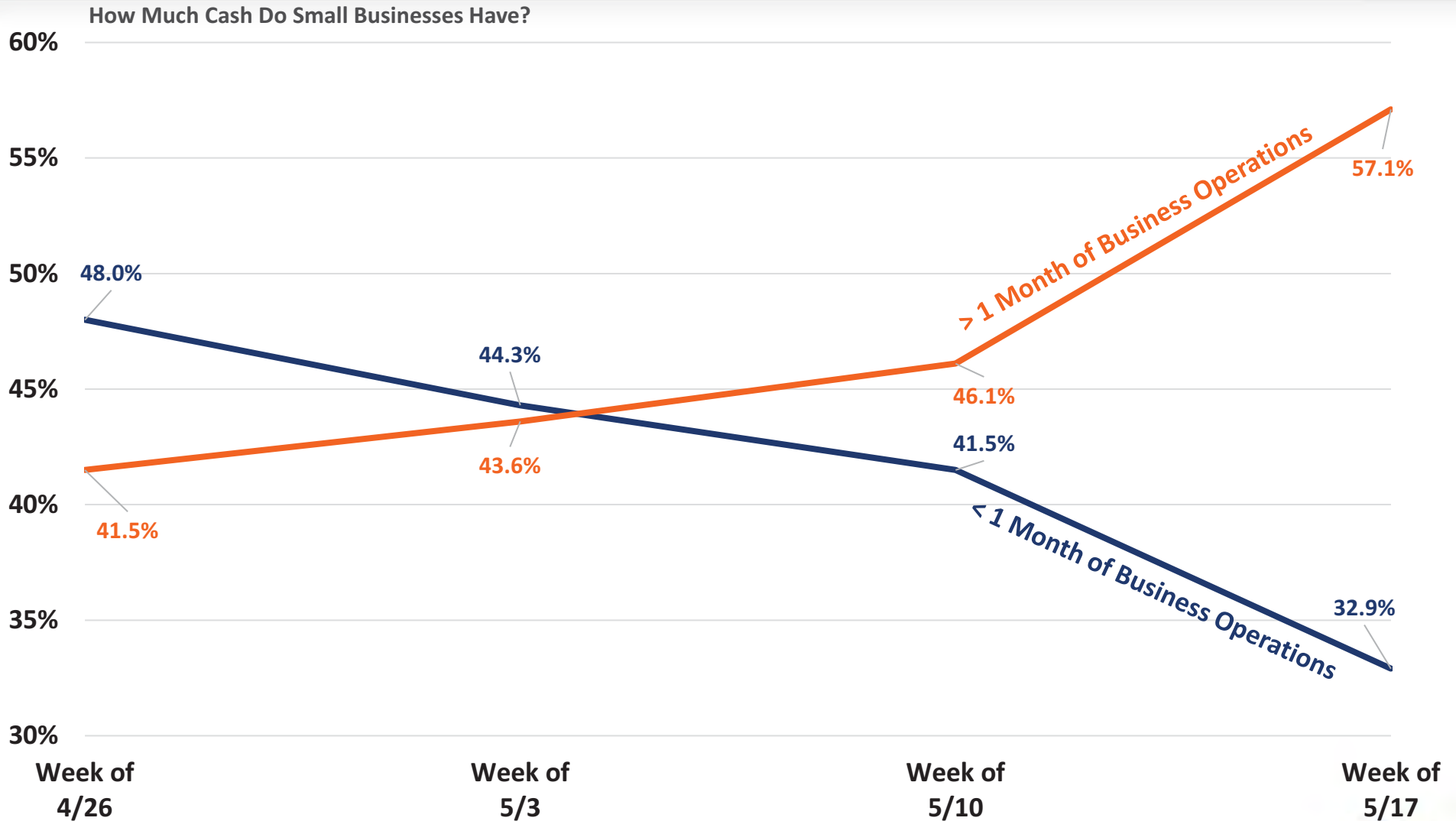
The Response Prevented Income Losses



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Helped to Support Small Businesses



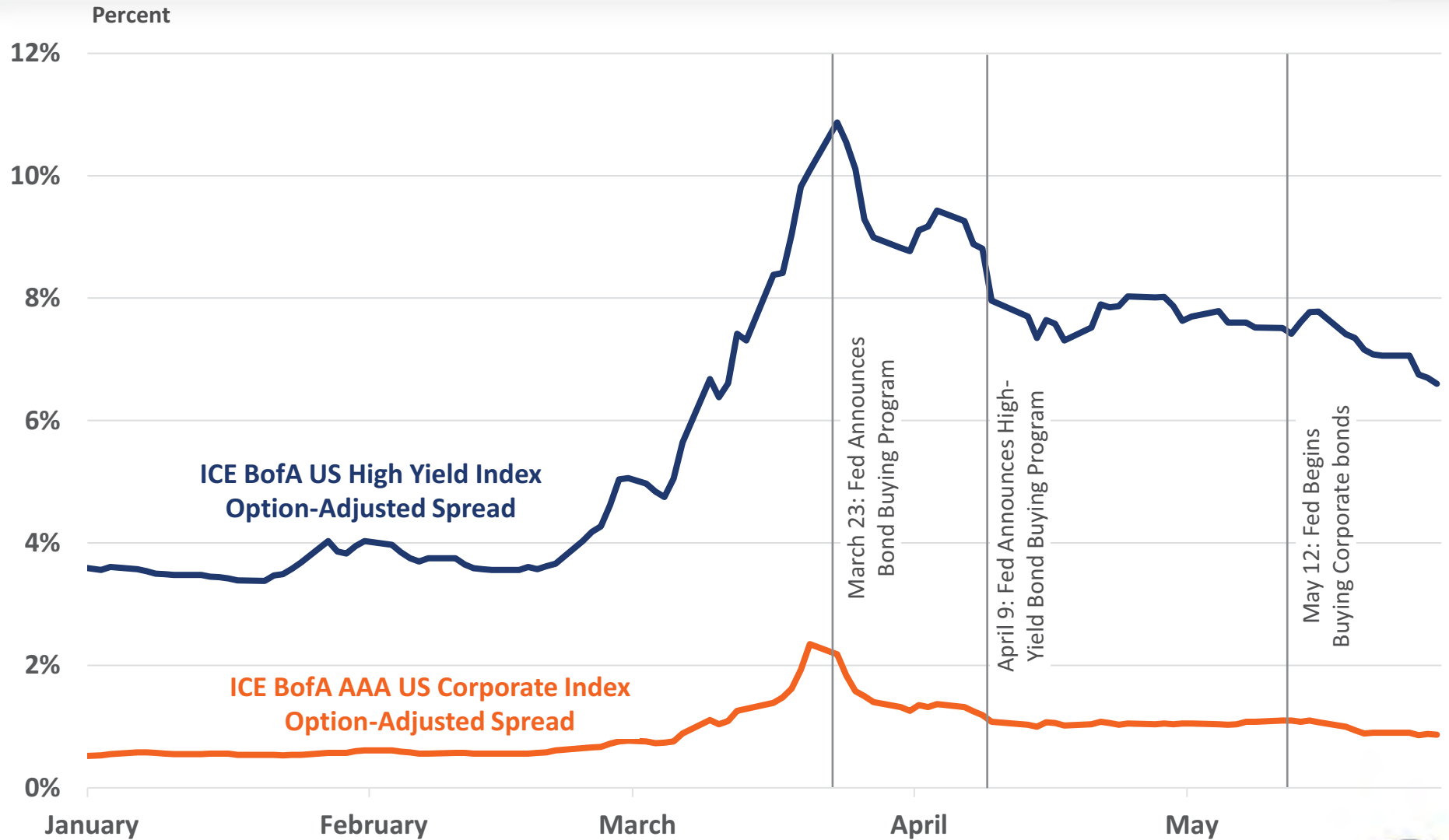
Note: Excludes "Don't Know" responses.

Source: U.S. Census Bureau.

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Stabilized Bond Markets




Source: Yahoo! Finance

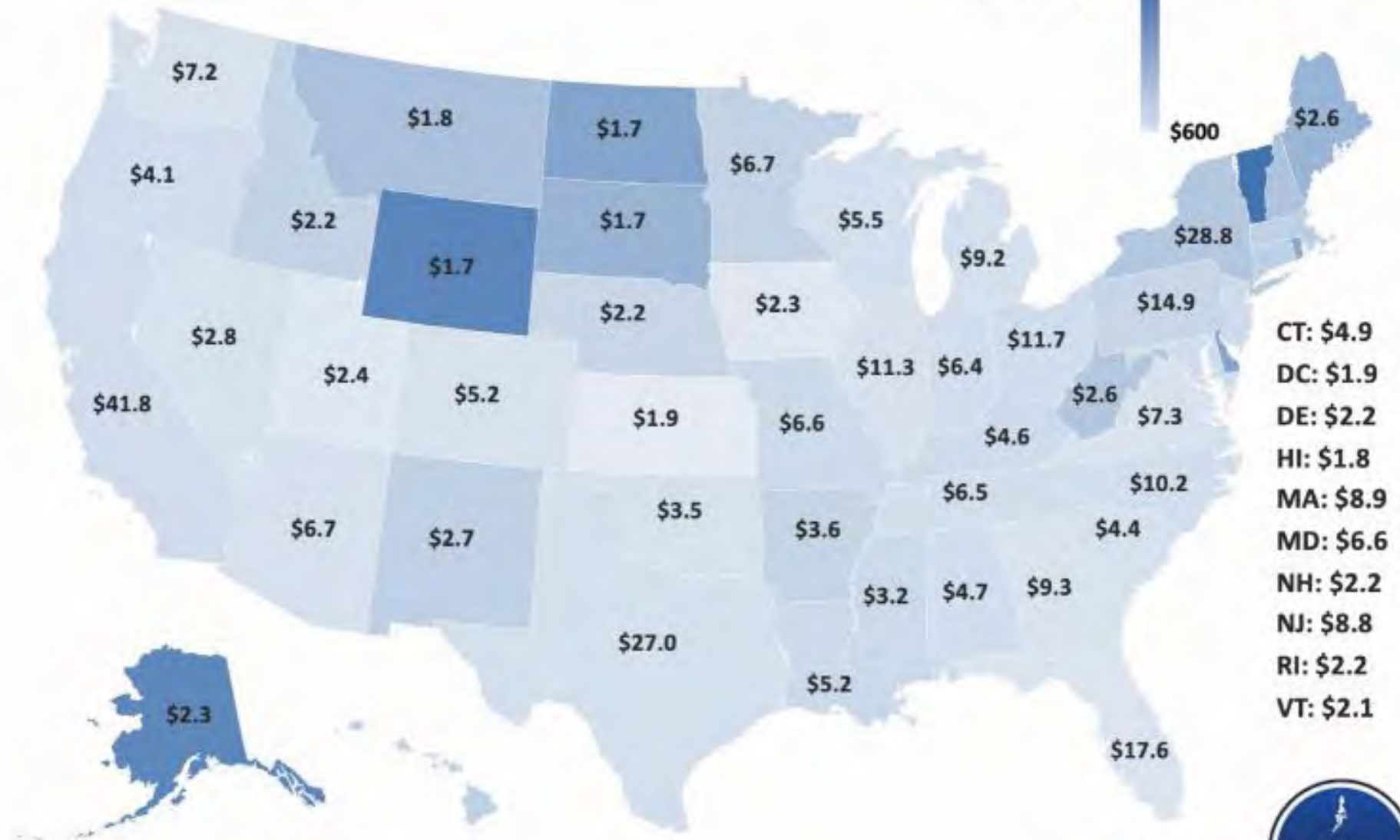
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Provided Some Support to States and Localities

in billions

Aid Per Capita  \$3,339

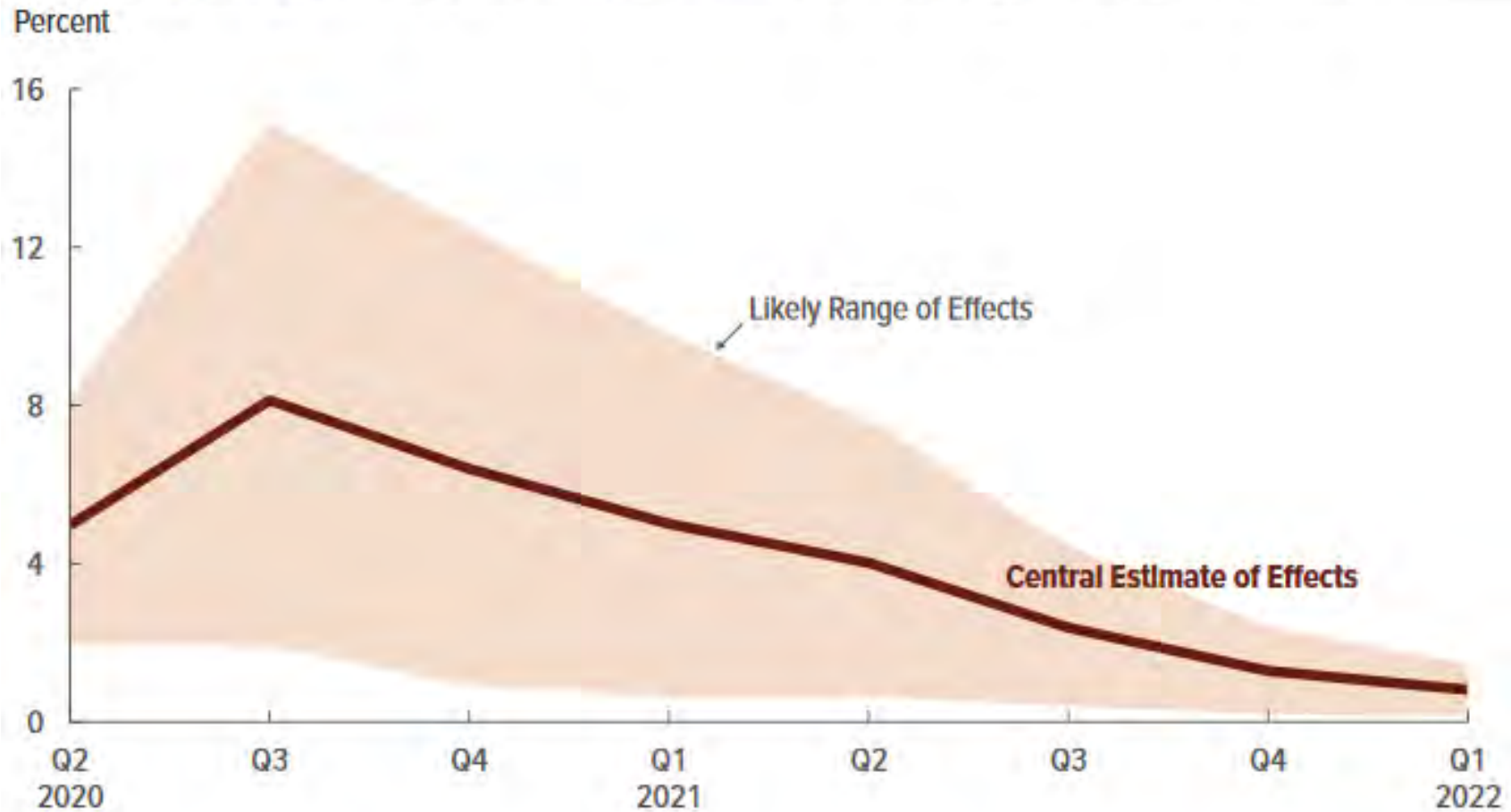


Note: Shading reflects aid per capita.



And Prevented A Potential Depression

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



Source: Congressional Budget Office.

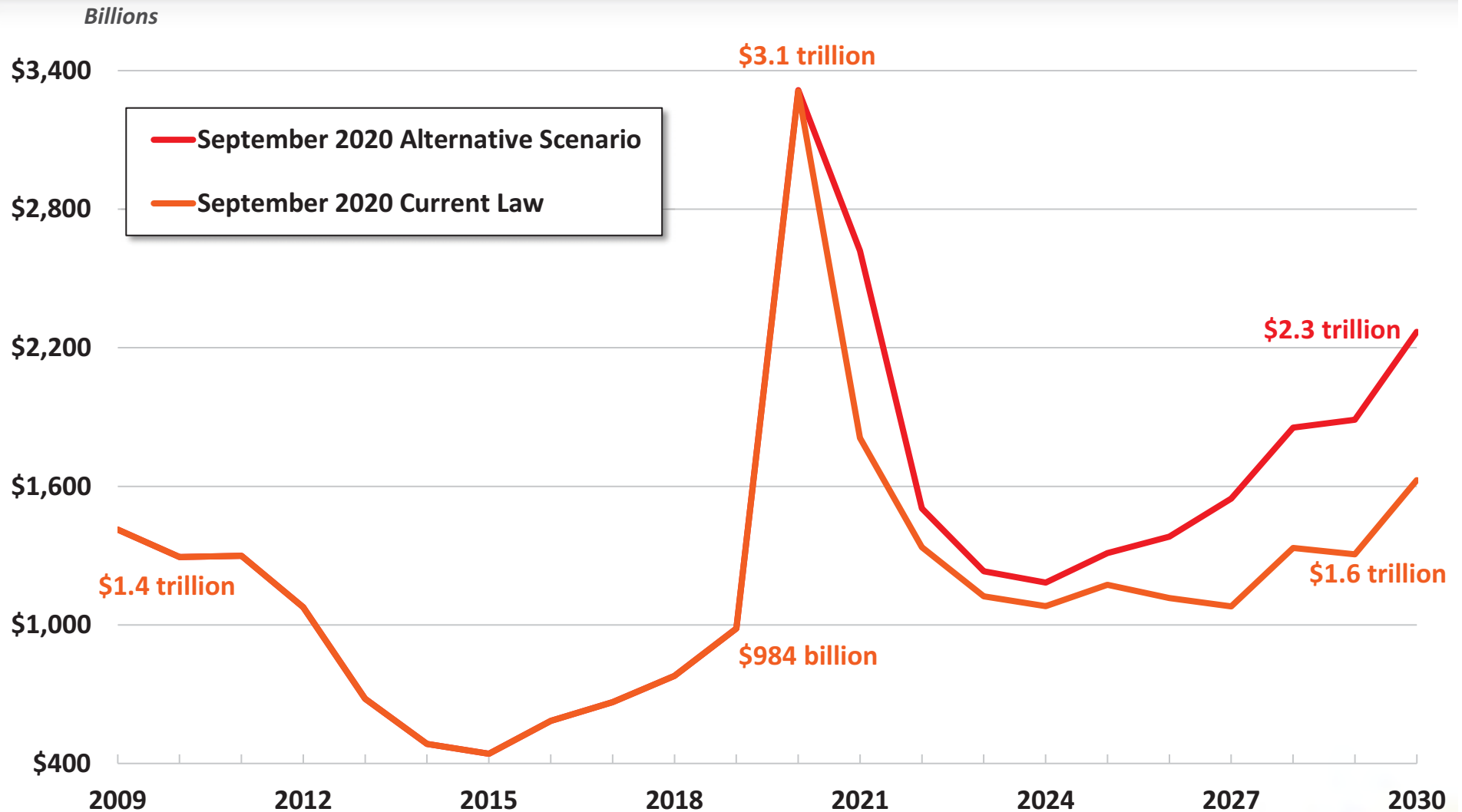


But The Economy is Far From the Path to Recovery

- 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

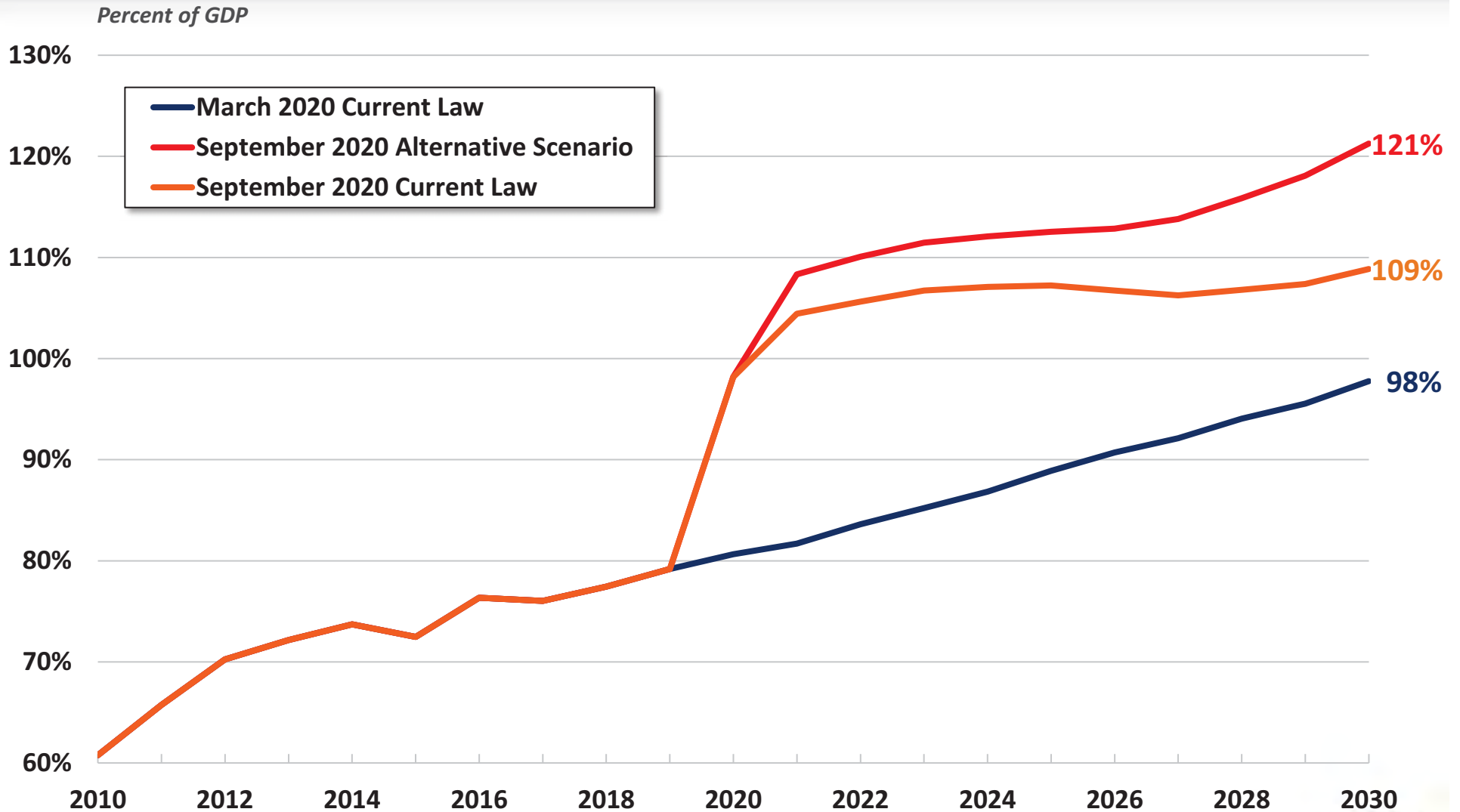


Source: Congressional Budget Office.

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Leading to Record Debt Levels



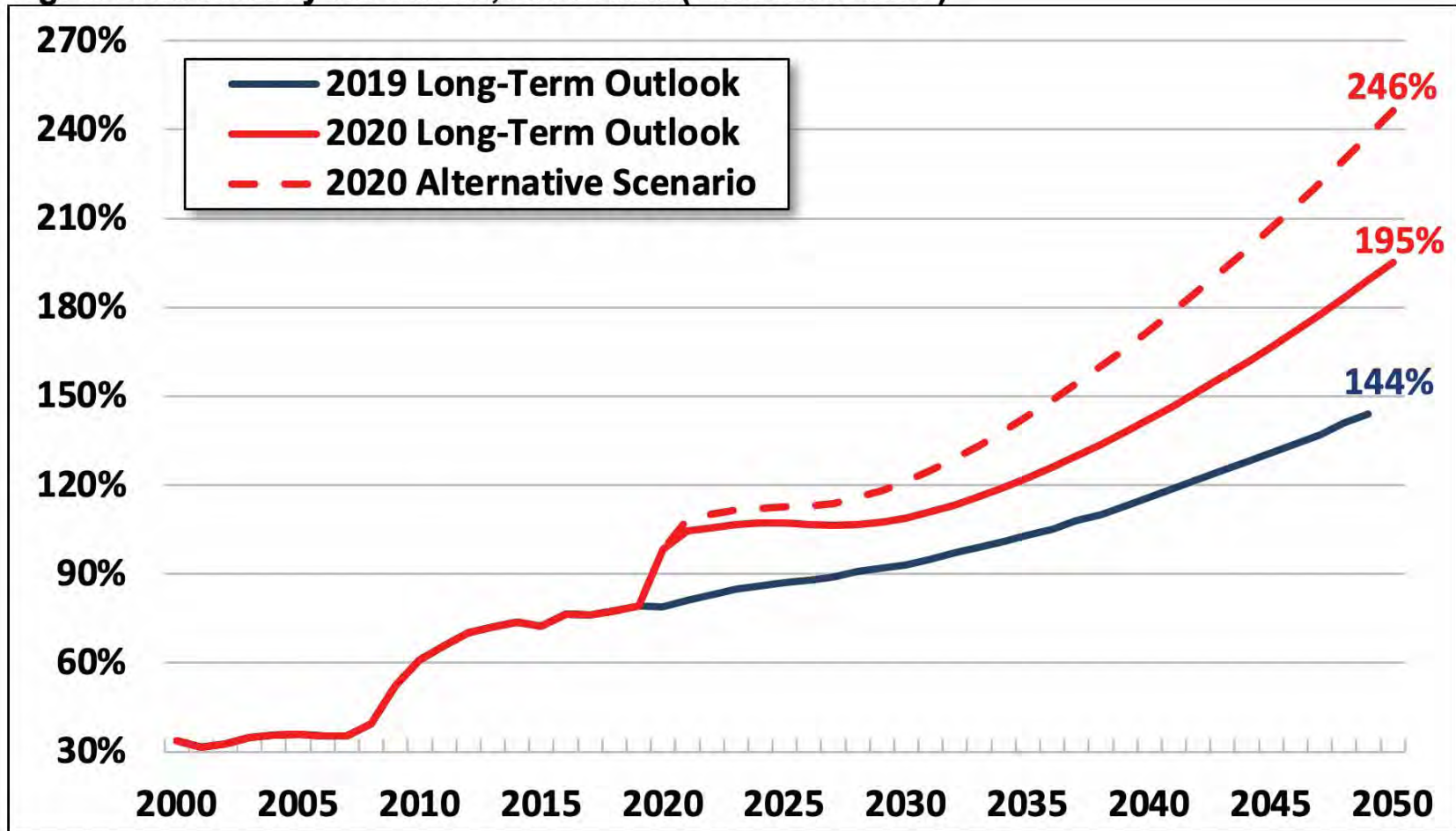
Source: Congressional Budget Office.

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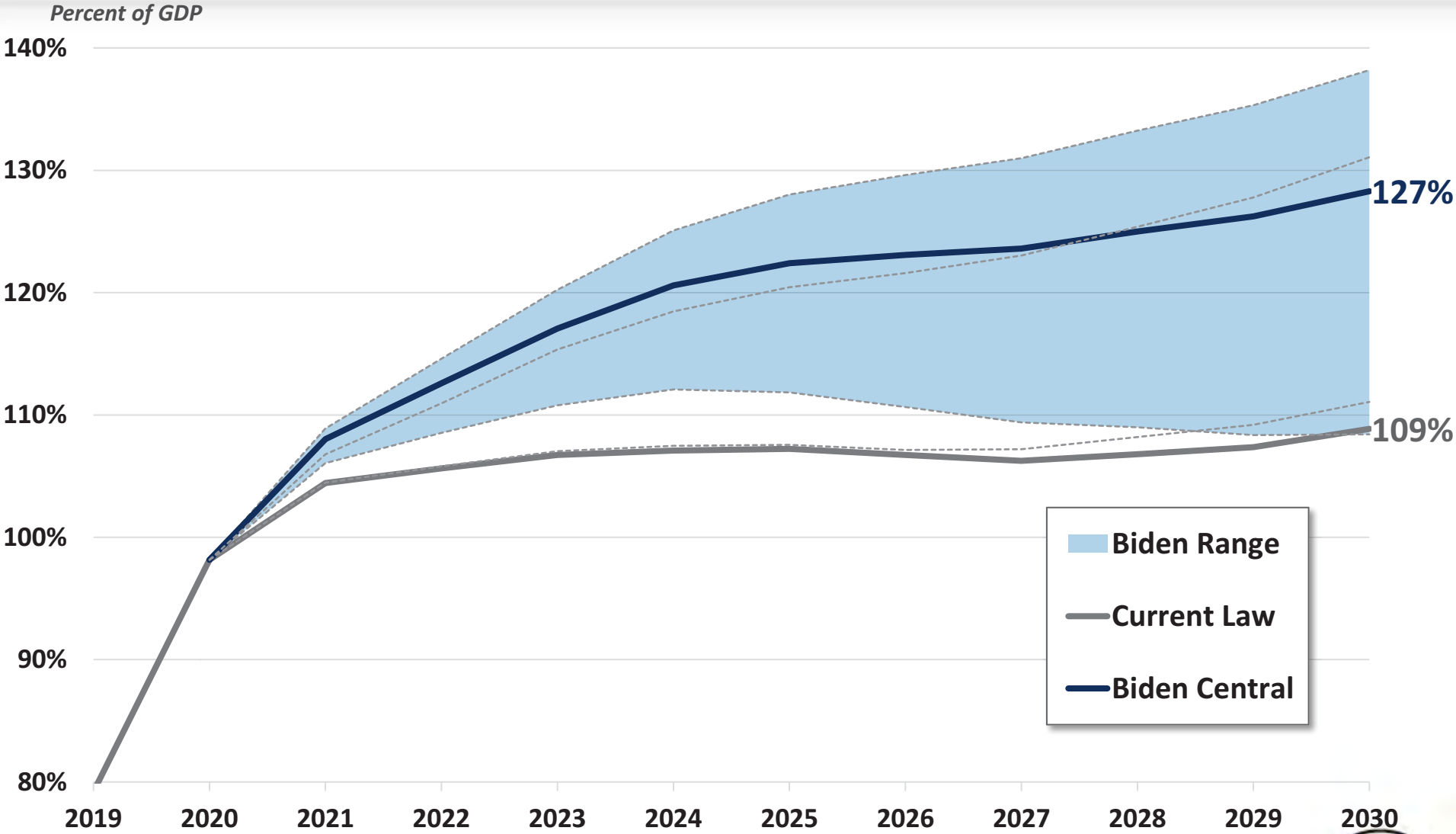
Especially Over the Long-Run

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

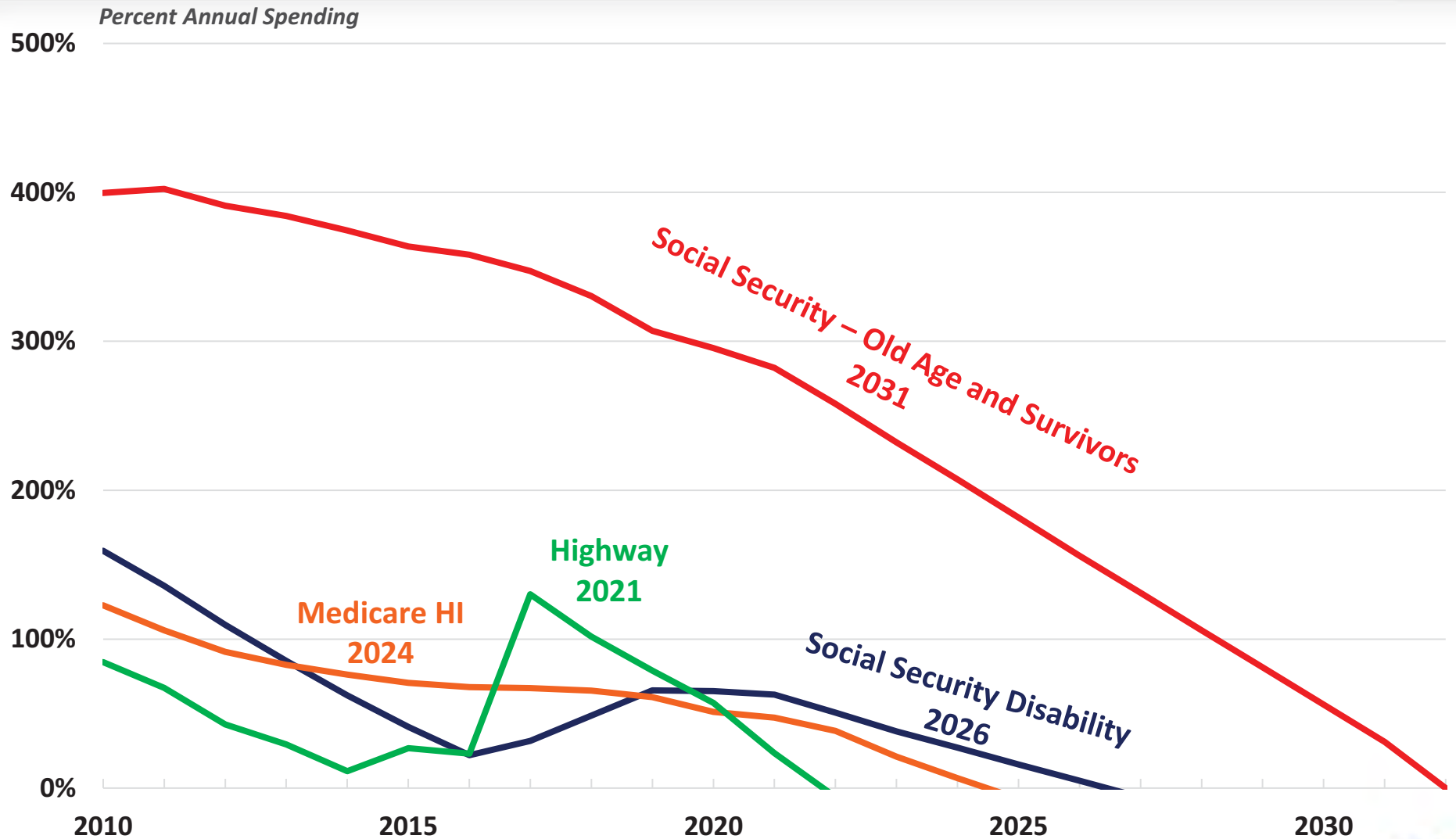


Source: Congressional Budget Office and CRFB calculations.

Which President-Elect Biden Could Make Worse



Meanwhile, Insolvency Looms for Major Trust Funds



Source: Congressional Budget Office.

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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?)

Source: Congressional Budget Office.



Support The Economic Recovery

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

Policy	Estimated Multiplier
COVID Relief (2020)	
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
American Recovery and Reinvestment Act (2015)	
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
Effects of Policy Options (2010)	
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 [*]		
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 [^]
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 ⁺		
Reduce physician reimbursement for Medicare Part B drugs	\$3 billion ^{**}		\$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 [^]	\$20 billion
Require consistent valuation of estate and inferences	\$2 billion [*]	<\$1 billion
Strengthen s-corp reasonable compensation rules	\$15 billion ⁺	\$33 billion
Repeal like kind exchange real estate loophole	~\$10 billion [*]	~\$10 billion
Reform treatment of derivatives	\$16 billion ⁺	\$15 billion

Source: Congressional Budget Office.

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