

Research Briefing | US

Congress to deliver an essential \$2tn coronavirus lifeline

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- Congress appears set to pass a record \$2tn stimulus package, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This third piece of legislation passed in as many weeks provides fiscal stimulus, loans, and loan guarantees amounting to 9% of GDP.
- With partial lockdowns across the country leading to a sudden stop in economic activity, the US will experience the largest economic contraction on record with the most severe surge in unemployment ever. The latest stimulus measures will reduce the risk of an even deeper depression in activity and employment and support a post-virus rebound in activity — but it won't prevent the ongoing recession.
- The three-pronged CARES Act will support households via direct checks to low- and middle-income families along with an expansion of unemployment benefits. It will support large and small businesses via nearly \$1tn of loans, loan guarantees, and bailout funds. And it will provide new funding for hospitals, state and local governments and a myriad of federal agencies.
- Given the lack of details and foresight surrounding the take-up from lending programs, it's not possible yet to quantify the net budget impact of the CARES Act. However, since nearly half of the funding is toward lending facilities, the budget shortfall will be much less than 9% of GDP.
- We caution against the misguided notion that the program can be leveraged to provide a \$6tn stimulus to the economy. The size of the leverage is a function of credit-loss provisions so that the program acts more as a floor preventing an economic collapse rather than providing a pure boost to activity.

Figure 1: What's in the CARES Act

CARES Act delivers \$2tn in fiscal stimulus



The CARES Act delivers:

- \$540bn directly to individuals.
- \$1tn in loans to businesses and state and local governments
- \$340bn funding for health care, federal agencies and state and local governments

Source : Oxford Economics/House Ways and Means Committee

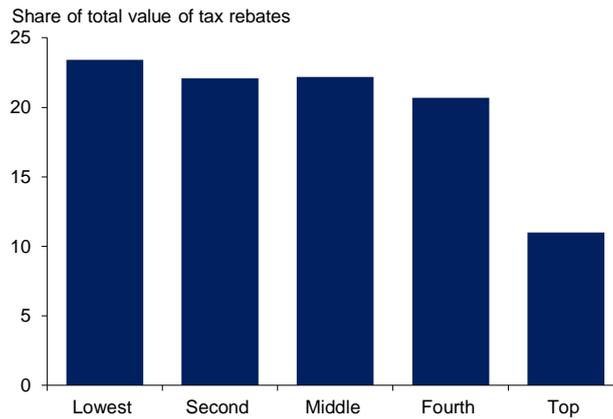
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Direct assistances to households

The CARES Act provides \$290bn (1.3% of GDP) in direct payments to individuals. Tax rebates start at \$1,200 per adult and \$500 per child but begin phasing out at incomes above \$75,000 for individuals and \$150,000 for married couples. Unlike the original Senate GOP proposal, the CARES Act doesn't provide smaller payments for the lowest-income households. Some upper-income households will get the payments, and they're more likely to save rather than spend a portion of the extra cash. The Tax Policy Center estimates that about a third of the payments will go to households in the top two income quintiles.

Figure 2

US: Distribution of stimulus payments by income



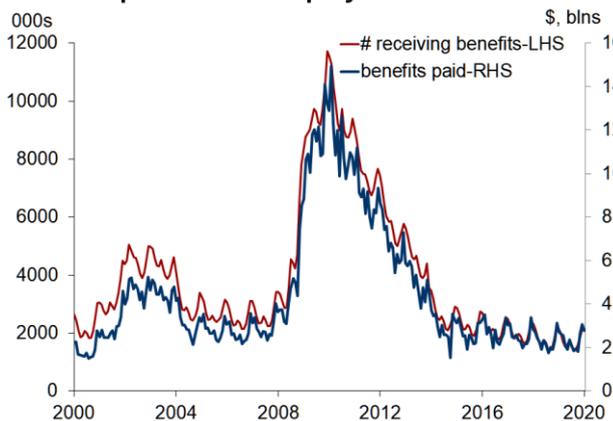
More than two-thirds of the cash payments in the stimulus bill go to households in the bottom three income quintiles.

The legislation allocates \$250bn (1.1% of GDP) for enhanced unemployment insurance benefits. It increases traditional benefits by \$600 per week for four months. It creates a new program, Pandemic Unemployment Assistance, for self-employed and contract workers who are typically ineligible for UI. In addition, the Emergency Unemployment Compensation program provides 13 additional weeks on top of states' standard – thereby raising the total benefit period in most states from 26 weeks to 39 weeks. States with work-sharing programs (i.e., compensating for reduced hours worked) or those setting up new programs, will receive federal assistance to cover those costs.

The funding for jobless benefits is essential for states. In 2010, unemployment insurance benefits totalled \$145bn, with 10 million Americans collecting benefits monthly (Figure 2). Prior to the coronavirus outbreak, 2.1mn individuals were collecting benefits, but that number will skyrocket in the weeks ahead.

Figure 2: A new peak for jobless benefits is coming

US: Recipients of unemployment benefits



We expect to surpass Great Recession peaks for the number of individuals receiving unemployment insurance benefits.

The stimulus bill supports lending of more than \$800bn

Loans for businesses, large and small

The law provides close to \$1tn in loans to large corporations and small businesses. This includes \$350bn (1.6% of GDP) of small-business loans. These would be made through the Small Business Administration and would be available to firms with fewer than 500 employees through year-end. The loans can be used to cover payrolls (including paid medical leave), salaries, mortgage payments, insurance premiums, and other debt obligations. Importantly, these loans will be forgiven for rent, utility, payrolls, and interest payments for an eight-week period, but the amount of forgiveness will be reduced if workers are laid off. While an exception was added for employees rehired by April 1, we doubt small businesses would take up loans to rehire employees in the current context.

The legislation directs up to \$500bn (2.3% of GDP) in loans and other assistance to hard-hit industries. Of the total, \$50bn is earmarked for loans and grants to airlines, while \$8bn would go to cargo air carriers. Roughly \$17bn would go to firms considered critical to maintaining national security.

The bulk of this amount, \$425bn, is dedicated to supporting up to \$4tn in lending by the [Federal Reserve](#) to businesses and state and local governments. This piece of the spending bill was the largest stumbling block in negotiations. Democrats objected that the original draft gave the Treasury Secretary too much discretion to decide what companies would get these loans. The final legislation created an inspector general and oversight board to monitor the program. The loans also come with some strings attached, placing limits on loan recipients' stock buybacks and pay raises for executives earning more than \$425,000 (we discuss the specific terms of this lending facility [here](#)).

Business tax relief is also included

The CARES Act includes several corporate tax breaks totalling \$232 bn (1.1% of GDP). The bill allows corporations to apply losses from 2018-2020 to profits from the last five years, remedies an error in the Tax Cuts and Jobs Act that has prevented certain businesses from immediately deducting renovation expenses, and lets employers defer their share of payroll taxes owed for the rest of this year until the end of 2021.

Supplemental assistance for healthcare & states and municipalities

The legislation incorporates a \$340 billion (1.5% of GDP) fiscal 2020 supplemental emergency spending bill, with funding for most major government agencies. About \$150bn of the total will go to hospitals, the CDC, procurement of medical supplies, and the development of vaccines. The balance covers measures that run the gamut, including spending related to education, transportation, nutrition assistance, and election security.

According to the Senate Appropriations Committee, \$274 billion of the \$340 billion will be directed to state and local governments. States received about \$30 billion in Medicaid assistance in [the legislation passed last week](#). While welcome, the federal funding received to date won't be enough to plug the huge holes that will open in state budgets as a result of the coronavirus crisis. State budgets are being squeezed on the spending side by rising health care costs, and a steep recession will deal a severe blow to the revenue side of the ledger. States are required to run balanced budgets, so these pressures could cause budget cutbacks at the worst possible time, exacerbating the downturn. And we think more aid to states will probably be part of subsequent stimulus legislation.

The Senate was scheduled to vote on the CARES Act Wednesday evening, although some objections from a few GOP senators on unemployment provisions have

The CARES Act includes \$340 billion in spending that touches most government agencies

created a bit of a speed bump. Assuming the Senate eventually passes the bill, passage in the House may take a day or two since the House currently is not in session.

Despite these last-minute hiccups, we think the CARES Act is likely to get passed by the end of the week and quickly signed into law. Both political parties know the US economy and health care system desperately need the relief this legislation provides. While it doesn't amount to \$6 trillion in stimulus as the Administration has touted, it contains some well-targeted measures that will ease the downturn, if only a bit.

Figure 4

Key Provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act		
Provision	How much	For what
Cash payments to individuals	\$290 billion	\$1,200 per adult, \$500 per child. Payments start to phase-out for incomes above \$75,000
Increased unemployment benefits	\$250 billion	Expanded eligibility, increased benefits, additional emergency benefits after state benefits exhausted
Assistance for small businesses	\$350 billion	Loans forgiven if used to maintain payrolls, benefits; pay rent, utilities
Aid to hard-hit industries	\$500 billion	\$75 billion for airlines, industries related to national security; balance used to leverage up to \$4 trillion in Fed lending
FY 2020 Supplemental	\$340 billion	About \$150 bln of the total will go to hospitals; 80% of funds funneled through state and local governments. Most agencies get extra funding.
Corporate tax relief	\$232 billion	2020 payroll taxes deferred until end of 2021; fixes errors in the TCJA.

Source: Oxford Economics