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Coronavirus Response Should Include Urgent Fiscal Policy Measures to Address Financial Hardship, Stave Off a Severe Recession

By Chye-Ching Huang and Chad Stone

The COVID-19 pandemic demands an aggressive direct public health response to contain and treat the virus and strengthen health system capacity. Once policymakers enact legislation that House leaders are now negotiating with the Administration, Congress should move quickly to take further bold steps to achieve the dual and related aims of lessening the threat of a major recession and cushioning the financial blow for millions of Americans, including measures to shore up consumer purchasing power by addressing the loss of income that millions of workers likely will face in the period ahead.

With events involving large numbers of people being canceled and people increasingly avoiding travel, hotels, restaurants, and much more — and with the stock market's rapid descent — recession looks extremely likely. Indeed, some economists have said that we likely are entering into recession now, and that substantial layoffs and business closures lie ahead. This makes it essential that policymakers act rapidly to take strong fiscal measures to lessen the damage, both to millions of Americans and to the overall economy.[1]

The fiscal policy response should be both aggressive and quick-acting. Since even the fastest-acting fiscal stimulus can still take some time to work its way into the economy, policymakers should act very swiftly. There is far more danger in doing too little, too late than too much, too soon.

Among the key sets of measures to institute are measures that can get resources into the hands of tens of millions of low and middle-income households, many of whom will be hit financially by the economic fallout of the pandemic. Doing that is one of the most effective and efficient ways to bolster the economy, as these households spend virtually all income they receive. But it's only one of a number of steps that should be taken.

[1] For example, Moody's Analytics Chief Economist Mark Zandi notes, "A global recession is more likely than not." See Heather Long *et al.*, "Coronavirus panic, stunning market declines fan fears," *Washington Post,* March 10, 2020, https://www.washingtonpost.com/business/2020/03/09/coronavirus-panic-stunning-market-declines-fan-recession-fears/.

Pandemic Poses Serious Risk of Recession

The risk of a severe, prolonged recession is upon us in part because workers and families that take a financial hit from the economic impacts of the virus will have less income to spend on a wide range of goods and services. A major decline in consumption that would then generate more widespread layoffs and likely lead to a number of business failures appears increasingly likely.

- Workers who lose earnings because they are sick, quarantined, caring for family members, or laid off (or have their hours reduced) will have less income to buy goods and services.
- Likewise, workers in industries such as travel, hospitality, and restaurants who have their hours cut, receive fewer tips, or are laid off will have less money to spend on goods and services.
- The pandemic also is disrupting supply chains, such as the import of parts for manufacturing cars and other goods. Such supply disruptions can lead to more widespread reductions in demand: production workers who get laid off or have their hours cut due to a shortage of parts, for example, will spend less than they did before the layoff.

The number of people who experience hardship and cut back their consumption could build very quickly as the virus spreads and the public health response ramps up. Such effects are already starting. The cancellation or postponement of high-profile events like basketball and hockey games, concerts, and Broadway performances will result in direct job losses for workers at those venues. And as the *Washington Post* has noted, the damage won't stop there; the *Post* reports that the "the pain is now translating into layoffs in a wider circle of industries."[2]

Fiscal Steps to Take Now

To both help workers and families that are experiencing or soon will experience virus-induced job losses, and to shore up demand for goods and services to avoid escalating business cutbacks or closures that deepen a recession, policymakers should look (among other things) to fiscal measures that rapidly deliver resources to those who will quickly spend virtually all of those resources.[3] This will be especially true for households that largely live paycheck to paycheck, have little financial cushion to weather difficult times or unexpected crises, and are most likely to cut back on their spending to weather unanticipated income losses such as from a layoff or time off sick.

And while the unique disruptions caused by COVID-19 mean that people may not be able to buy certain types of goods and services such as tickets for events with large numbers of people, putting resources in the hands of cash-strapped people still will help them to make ends meet and pay their bills — and will shore up demand for a wide range of goods and services.

[2] Abha Bhattarai, Heather Long, and Rachel Siegel, "The first U.S. layoffs from the coronavirus are here," *Washington Post,* March 11, 2020, https://www.washingtonpost.com/business/2020/03/11/layoffs-coronavirus/.

[3] The Federal Reserve Bank of New York's recent actions are important for stabilizing financial markets, but they are not directly aimed at stimulating demand to shore up economic activity. See Michael S. Derby, "Demand for Fed Liquidity Rises, New York Fed Injects Nearly $100 Billion," *Wall Street Journal*, January 7, 2020, https://www.wsj.com/articles/demand-for-fed-liquidity-rises-new-york-fed-injects-nearly-100-billion-11578409629.

Once lawmakers enact the immediate legislation now being negotiated on Capitol Hill, they should quickly move to further bold steps. As we noted in a post earlier this week,[4] such policies should include sending rebate or "stimulus" checks to most Americans to put more money into peoples' hands quickly. Other critical measures include providing additional federal financial support to state Medicaid programs to prevent states from cutting back on health care services, raising taxes, or cutting other programs in order to meet balanced budget requirements at a time when their revenues are slowing or contracting. State budget cutbacks or tax increases would further drain demand from the economy and further weaken it. Essential measures also include significantly strengthening the unemployment insurance (UI) program; making emergency unemployment assistance available to various categories of laid-off workers who may not be eligible for regular UI; expanding nutrition assistance; extending paid sick leave; providing resources and taking steps to bolster hospital capacity; and taking action to stem evictions and ensure that those without homes are not at heightened health risk by being in crowded shelters or on the streets.

The legislation now being negotiated on Capitol Hill includes initial measures in several of these areas, but much more is needed given the magnitude of the economic and health care threats. For example, the increase in federal funding for state Medicaid programs likely to be included in the package now being negotiated on Capitol Hill — while very helpful — will likely not be sufficient and should be followed with additional Medicaid funding increases, as we have explained.[5]

Rapid action on these fronts is imperative. Policymakers should not delay enacting such measures, for several reasons:

- **People are already experiencing financial hardship, and the economy is already taking a hit that is getting larger with every passing day.** Even if the United States is not yet *officially* in a recession (recessions aren't officially declared until well after they have begun), workers and families — and the economy — need help now. Former Federal Reserve Vice Chairman Alan Blinder said this week, "I wouldn't be one bit surprised if when we look back at the data, it is decided ... that the recession started in March."[6] Moody's Analytics Chief Economist Mark Zandi has said "[a] global recession is more likely than not,"[7] a view various other economic forecasters share.[8] Acting now can help limit the extent of the damage.
- **The costs of doing too little, too late to contain a recession are high**. The human and economic costs of a long, severe recession would be serious. Prolonged unemployment harms

[4] Chye-Ching Huang, "Far Better Ways Than Payroll Tax Cut to Contain Virus's Economic Damage," CBPP, March 10, 2020, https://www.cbpp.org/blog/far-better-ways-than-payroll-tax-cut-to-contain-viruss-economic-damage.

[5] Jennifer Sullivan, "Medicaid Funding Boost for States Can't Wait," CBPP, March 12, 2020, https://www.cbpp.org/blog/medicaid-funding-boost-for-states-cant-wait.

[6] Jeff Cox, "Economist Alan Blinder says the US in probably already in recession," CNBC, March 11, 2020, https://www.cnbc.com/2020/03/11/economist-alan-blinder-says-the-us-is-probably-already-in-recession.html?&qsearchterm=alan%20blinder.

[7] Long *et al.*, *op. cit.*

[8] Also see Zandi, above. JP Morgan Chase also on March 12 forecast that the economy will fall into recession in the first half of this year. See Josh Mitchell and Joshua Zumbrun, "Economists See Rising Risks of Recession World-Wide," *Wall Street Journal*, March 12, 2020, https://www.wsj.com/articles/economists-see-rising-risks-of-recession-world-wide-11584037877.

not only the health and well-being of workers and their families, but also workers' future job prospects and lifetime earnings. As the International Monetary Fund found:

> The human and social costs of unemployment are more far-reaching than the immediate temporary loss of income. They include loss of lifetime earnings, loss of human capital, worker discouragement, adverse health outcomes, and loss of social cohesion. Moreover, parents' unemployment can even affect the health and education outcomes of their children. The costs can be particularly high for certain groups, such as youth and the long-term unemployed.[9]

Workers without a college degree and workers of color are the most vulnerable to these adverse effects. In the United States, racial disparities are particularly glaring. Black and Latino unemployment rates have fallen to historically low levels in the current expansion, but they remain considerably higher than the white unemployment rate. Historically, black unemployment in the best of times has been little better than white unemployment in the worst of times. And recessions can erode job skills among unemployed workers and reduce business investment in ways that depress the economy's productive capacity long past the end of the recession.

- **Meanwhile, the costs of doing too much, too soon are far lower**. The United States faces a long-term budget challenge, but not a crisis.[10] The benefits of the extra borrowing needed to fight a recession are larger than the costs of letting a recession become deep and prolonged, especially when federal borrowing costs are extremely low, as they are now.
- **Even some of the fastest-acting measures require some time to implement**. For example, direct stimulus checks (which are a much faster and more efficient way to get money to people who need it than a payroll tax cut[11]) cannot be delivered instantaneously. The last time such payments were made — the "recovery rebates" that President Bush and a Democratic Congress enacted in February 2008 — it took several months for them to reach households. Given this lag between enactment and receipt of the payments, policymakers should immediately prioritize the enactment of legislation providing direct stimulus payments that can get out the door as quickly as possible and that go to low- and middle-income households, including both employed and unemployed individuals, as well as people without earnings such as those receiving Social Security, Supplemental Security Income, veterans', or other such benefits.

Lawmakers need to enact such measures now — before the financial and economic damage from COVID-19 becomes severe — so the measures can take effect as swiftly as possible and in time both to alleviate human suffering and to shore up a threatened economy.

[9] Mao Dao and Prakash Loungani, "The Human Cost of Recessions: Assessing It, Reducing It," International Monetary Fund, November 11, 2010, https://www.imf.org/en/Publications/IMF-Staff-Position-Notes/Issues/2016/12/31/The-Human-Cost-of-Recessions-Assessing-It-Reducing-It-24221.

[10] Chad Stone, "In a Recession, Put Deficit Concerns Aside," CBPP, September 23, 2019, https://www.cbpp.org/blog/in-a-recession-put-deficit-concerns-aside.

[11] Huang, *op. cit.*