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March 19, 2020

Commentary: Deficit and Debt Shouldn't Factor Into Coronavirus Recession Response

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COVID-19 represents both a public health emergency and an economic crisis. While federal, state, and local governments must take strong steps to stem the spread of the virus — from continuing to close schools, restaurants, and workplaces and limit the size of gatherings, to ensuring that everyone has access to health care and can be tested and treated — federal policymakers must respond just as aggressively to the economic crisis. The risks of doing too little to support families and the economy far outweigh the risks of doing too much.

With so much economic activity now at risk, a recession looms, and this one could rival or even exceed the Great Recession of 2008-2009.

To be sure, the Great Recession was deep and its impact was harsh, but Americans who remained employed continued to spend money at fairly normal levels. Today, spending is falling off the table, even among those who have not lost their jobs, as people are asked to stay at home, events are canceled, and establishments close. With consumer spending dropping sharply and pandemic-related closures spreading rapidly, businesses must cut back; layoffs are inevitable.

Meanwhile, many states and localities will face budget shortfalls as shrinking economic activity erodes their tax revenues and prompts them to consider budget cuts. (More than a quarter of state budgets come from sales taxes.) This, in turn, will slow the economy further and make the hardship more severe. As a result, the impending economic downturn will likely come faster than in 2008 and could be deeper unless the federal government acts swiftly and decisively to cushion the blow.

Given the magnitude of the crisis, now is not the time for policymakers to worry about raising deficits and debt as they consider what steps to take. Even Harvard's Greg Mankiw, who chaired President George W. Bush's Council of Economic Advisers and who normally worries about rising deficits and debt, has said, "There are times to worry about growing government debt. This is not one of them." Indeed, policymakers of both parties should set aside those concerns and not let them impede the vigorous response that we need.

That's true for several reasons.

First, swift and bold action that mitigates the severity of the coming recession will pay off over the long run. Quick action now will reduce the damage to the economy from this quickly escalating health crisis. Every dollar spent quickly now reduces the severity of the coming economic crisis, which means we will be on the road to recovery that much sooner.

Prolonged periods of high unemployment do serious and persistent damage to the economy, something that economists call "hysteresis," which is a kind of permanent economic scarring that can occur if policymakers don't address recessions adequately. As we learned from the Great Recession, the economic and human costs of a deep downturn are long-lasting — those who lose their jobs can find it harder to secure a job and decent pay even years later.

Second, doing too little or acting too slowly is far riskier than doing too much. There won't be data on the magnitude of the economic slowdown until a few months from now, and yet we can see the writing on the wall. Fortunately, there are options available.

Policymakers must craft fiscal policy responses that are bold and will remain in place until economic conditions improve and trigger an end to those measures. Around the world, other countries already are providing fiscal relief to their citizens.

Third, the financial markets evidently believe that deficits and debt aren't hurting the economy now and don't require immediate corrective action. In inflation-adjusted terms, long-term interest rates are near zero or even negative. That is, the markets are in effect willing to pay the federal government to borrow money and impose little or no fiscal cost. That's one more reason why deficit and debt concerns should not stand in the way of bold action.

We face a once-in-a-generation — hopefully once-in-a-lifetime — crisis, with the risk of tens of millions of infections and mounting numbers of deaths, an overwhelmed hospital system that can't respond adequately, large numbers of businesses closing or cutting back, millions of workers losing their jobs or having their hours slashed, and serious hardship all across our land.

Deficits and debt pose no comparable risk. Policymakers should set aside their concerns about red ink and deliver the response the crisis demands.