COVID-19
Fiscal Relief: Down Payment Made...
More on the Way

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COVID-19 Case Study

Confirmed cases by country:

- Total cases: 1,595,350
- Total deaths: 95,455

COVID Global Spread

https://vlab.stern.nyu.edu/covid19

84,246 new Confirmed cases on April 9, 2020
Supply and Demand Shocks...

...drive the policy responses

- **Supply shocks**
  - Lockdowns and quarantines create sudden stop
  - Loss of employment = loss of income
  - Spillovers through global supply chains
  - Provision of essential services threatened

- **Demand shocks**
  - Lost income, focus on necessities
  - Access to credit fraught
  - Uncertainty and risk aversion
  - Global amplification
Vulnerabilities and Amplifiers..

...exposed by the COVID shock

• *Economic vulnerabilities*: frail economic safety nets, global slowdown, oil price war, ongoing trade war impact, uncoordinated emergency response.

• *Financial amplifiers*: high corporate leverage and weak credit quality; procyclicality in funding markets; and changes in financial market structure that limit liquidity.
How Solvent Is Your State’s Unemployment Insurance Trust Fund?

Solvency Levels of Unemployment Insurance Trust Funds, 2020

Note: If solvency level is 1 or greater, the state is deemed to have adequate unemployment insurance funding to weather a recession.

D.C.’s rank does not affect states’ ranks, but the figure in parentheses indicates where it would rank if included.

Source: U.S. Department of Labor, Office of Unemployment Insurance

TAX FOUNDATION
Corporate Leverage and Defaults

Source: Federal Reserve, Edward Altman, Haver Analytics
Policy Goals

• Balance fighting the virus vs limiting economic damage with data-driven assessment of benefits and costs.

• Build confidence in health outcomes and preserve essential services
  – Provide massive resources for public health to flatten the spread and buy time for vaccine
  – Provide critical Federal aid to state and local governments for essential services and equipment with wartime powers as appropriate.

• While fighting virus, help people stay at home by
  – Funding sick leave, replacing lost income, and deferring obligations to pay bills
  – Providing loans and grants to support affected people and businesses
  – Helping the Fed to support market functioning, provide liquidity and support the flow of credit to a wide variety of borrowers.
  – Preserving and strengthening economic infrastructure for recovery
Phased Fiscal Relief

• Phase 1
  – $8.3 B, enacted March 3, for vaccine development, state and local government assistance, foreign aid, help for telemedical services.

• Phase 2
  – $100 B, enacted March 18, for tax credits for employers offering paid sick leave, and increases to unemployment benefits and food assistance.

• Phase 3
  – $2.2 T, enacted March 27, Coronavirus Aid, Relief, and Economic Security (CARES) Act.

• Phase 4, 5… coming
CARES: Unpacking the $2 T in Outlays

- Individuals: $560 B (est.)
- Public Health: $153.5 B
- State and Local governments: $339.8 B
- Safety Net: $26 B
- Small businesses: $377 B
- Big Corporations: $500 B
- Education/other: $43.7 B (est.)

Note: $2.2 T = $2 T outlays plus $221 B in tax relief
Source: Estimates based on bill text, committee and administration numbers. Credit: Audrey Carlsen/NPR
Do Actions Meet These Goals?

• Relief, not stimulus
  – Only a down payment for health providers, S&L gov’ts, income support
  – Need amplified by structural holes in the social safety net
  – Reaching low-income people challenging
  – Official resources overwhelmed; will slow payments

• More relief on the way
  – $250 B for small business loans
  – Additional aid for hospitals, S&L governments

• Stimulus and structural change needed for recovery
Monetary-Fiscal Policy Coordination

• Direct coordination:
  – $50 B in Treasury ESF funding to back Fed SPV facilities
  – $454 B CARES funding can leverage to $4.5 Trillion of Fed lending

• Additional facilities will involve Treasury backstops/approval
  – Fed minutes mention Term Auction Facility
  – Facilities for mortgage servicers? GSEs? Insurance companies?
  – Expand range of financial counterparties in existing or new facilities

• Indirect coordination: Macro Pru and Regulatory relief, e.g.
  – Encourage banks to draw down capital and liquidity buffers
  – Delay accounting for Current Expected Credit Losses (CECL)
  – Loan modifications related to COVID-19 do not have to be categorized as Troubled Debt Restructurings (TDRs)
  – Temporary relief on Supplementary Leverage Ratio

• Fed and debt management policies: unlike the GFC
Appendix

• Charts: Supply and Demand Shocks
• CARES act details
• Stimulus and structural change needed
Key link in global value chains
China is a major supplier of intermediate goods to the rest of the world.

(imports of intermediate goods from China in manufacturing, percent of value added)

Source: IMF staff calculations using 2014 World Input-Output Database.
Note: Taiwan, PoC = Taiwan, Province of China.
Global Uncertainty Around Pandemics
As the coronavirus goes global, the World Pandemics Uncertainty Index surges to a record high in the first quarter of 2020.
(World Pandemics Uncertainty Index—WPUI, simple average)

Note: The WPUI is the number of times that a word out of 100,000 in a given EIU country report mentions the word uncertainty near a word related to pandemics or epidemics. A higher number means higher global uncertainty around pandemics/epidemics and vice-versa. The numbers for 2020Q1 are based on the reports for March or the latest available. The WPUI is a sub-index of the World Uncertainty Index (https://worlduncertaintyindex.com/).
Public Health

• **Providers:**
  – $100 B for hospitals responding to the coronavirus (10% of revenue)
  – $1.32 B additional funding for community centers that provide health care services for roughly 28 million people.
  – $20 B for Veterans' health care

• **Equipment, diagnostics, drugs:**
  – $16 B for Strategic National Stockpile to increase availability of equipment, plus hiring for vital health care jobs and faster development of a vaccine, treatments and faster diagnostic.
  – $11 B for diagnostics, treatments and vaccines and $80 million for the Food and Drug Administration to prioritize and expedite approval of new drugs.
  – $4.3 B for Centers for Disease Control and Prevention

• **Telehealth:** Reauthorizes critical telehealth program
Individuals

- **$300 B in one-time cash payments** for low income workers
  - $1200 per person, plus $500 per child; a family of four earning less than $150,000 can expect $3,400.
  - Phased to zero for singles/couples making more than $99,000/$198,000.

- **$260 B in extra unemployment benefits**: $600/week on top of state UE for four months; gig workers receive half state UE and $600/week through the end of 2020

- The first equals **10 days of wages & salaries**; UE covers 27M workers

- **Delay tax filing** and payments until July 15

- **Student Loans**: Employers can provide up to $5,250 in tax-free student loan repayment benefits.

- **Insurance**: requires all private insurance plans to cover COVID-19 treatments and vaccine and makes all coronavirus tests free.
Small Businesses

- **Loans and grants:** $350 B in Small Business Administration (SBA) loans up to $10 million per business (PPP). Forgiven if used to pay workers, rent, mortgage and existing debt, and if workers stay employed through the end of June.
  - Eligible lenders: Any insured deposit institution, many fintech lenders
  - Scale: 15 X what the SBA's flagship "7(a)" loan program did in FY19.
  - $10 B in grants up to $10,000 for immediate operating costs.
  - $17 B to cover six months of payments on existing SBA loans.

- **Taxes (applies to all businesses) $221 B:**
  - Fully refundable tax credit to help keep workers on payroll.
  - 50% of the first $10,000 of compensation, incl. health benefits.
  - For employers with more than 100 full-time employees, covers wages paid to employees not providing services because of the coronavirus. Employers with 100 or fewer full-time employees can use the credit even if open.
Big Businesses

- **Loans and grants:** $454 B in loans and $50 B in grants.
  - Eligibility: No stock buybacks allowed for the term of the loan plus one year; Disclosure: All loans, terms, any investments or other assistance; Oversight: Inspector general (SIGPR), special committee; Excluded: Executive and Congress and families.
  - Funding could be leveraged to $4.5 T in Fed programs

- **Aviation:** $29 billion in loans and loan guarantees; $32 billion in payroll protection grants; and federal excise tax relief.

- **Taxes (applies to all businesses, cont.):**
  - Reinstates the carryback period to five years for net operating losses sustained in 2018, 2019, or 2020.
  - Business interest deductions limited in 2017 now increased from 30% to 50% of taxable income for 2019 and 2020.
  - Deferral of payroll taxes and DB pension plan contributions
State and Local Governments/Other

- $274 B toward specific COVID-19 response efforts
- $150 B in direct aid for governments most affected.
- The Family First Coronavirus Aid Package increased the federal share of Medicaid payments through the emergency period by 6.2 percentage points and reimbursed states for expanding certain public assistance programs.
- $5 B for Community Development Block Grants
- $13 B for K-12 schools and $14 billion for higher ed
- $5.3 B for families, including assistance to child care centers.
- **Liquidity support** from the Fed’s programs:
  - CPFF and MMLF: Entities with existing muni CP or other short-term notes can issue three-month paper to the CPFF.
  - Fed is lending to banks that purchase short-term debt or variable-rate demand notes from tax-exempt money market mutual funds.
Safety Net

- $15.5 B for Supplemental Nutrition Assistance Program (SNAP, formerly food stamps). Covers expected cost of new applications to the program as a result of the coronavirus.
- $8.8 B to give schools more flexibility to provide meals for students.
- $450 million for food banks and other community food distribution programs.
- American Indian reservations, Puerto Rico, Northern Mariana Islands and American Samoa all get additional funds and access to federal nutrition programs.
Do Actions Meet These Goals?

• Stimulus and structural change needed for recovery
  – Invest in infrastructure and resilience; stress testing and risk assessment needed
  – Fix the safety net; e.g. health care: Universal coverage and Medicaid expansion
  – Rethink state and local finance