



**NYU | STERN**

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

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# COVID Global Spread

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

## COVID-19 Case Study

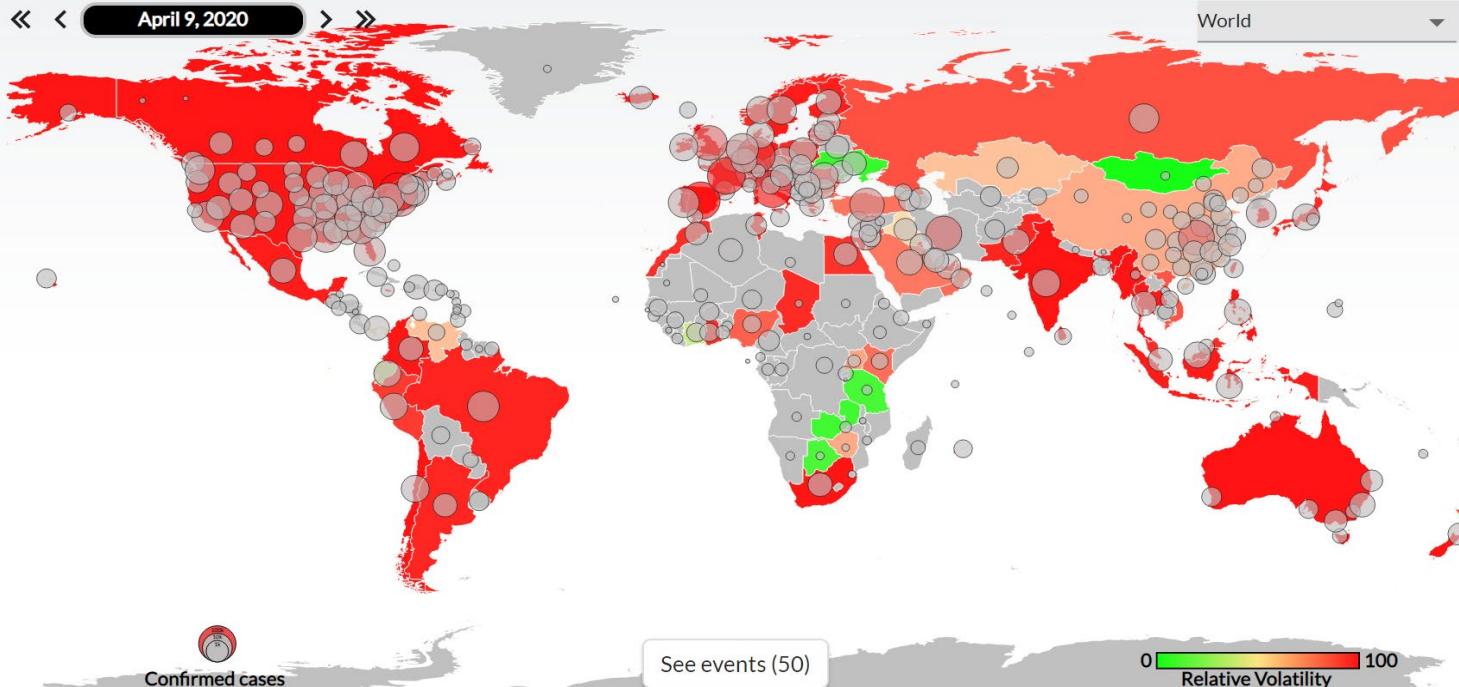
WHAT'S ON THIS PAGE?



Confirmed cases ▾ by country

Total cases: 1,595,350

Total deaths: 95,455



### Countries

- United States X
- Spain X
- Italy X
- France X
- Germany X
- China X
- Iran, Islamic Rep. X
- United Kingdom X
- Turkey X
- Belgium X

TOP 10

CLEAR ALL

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

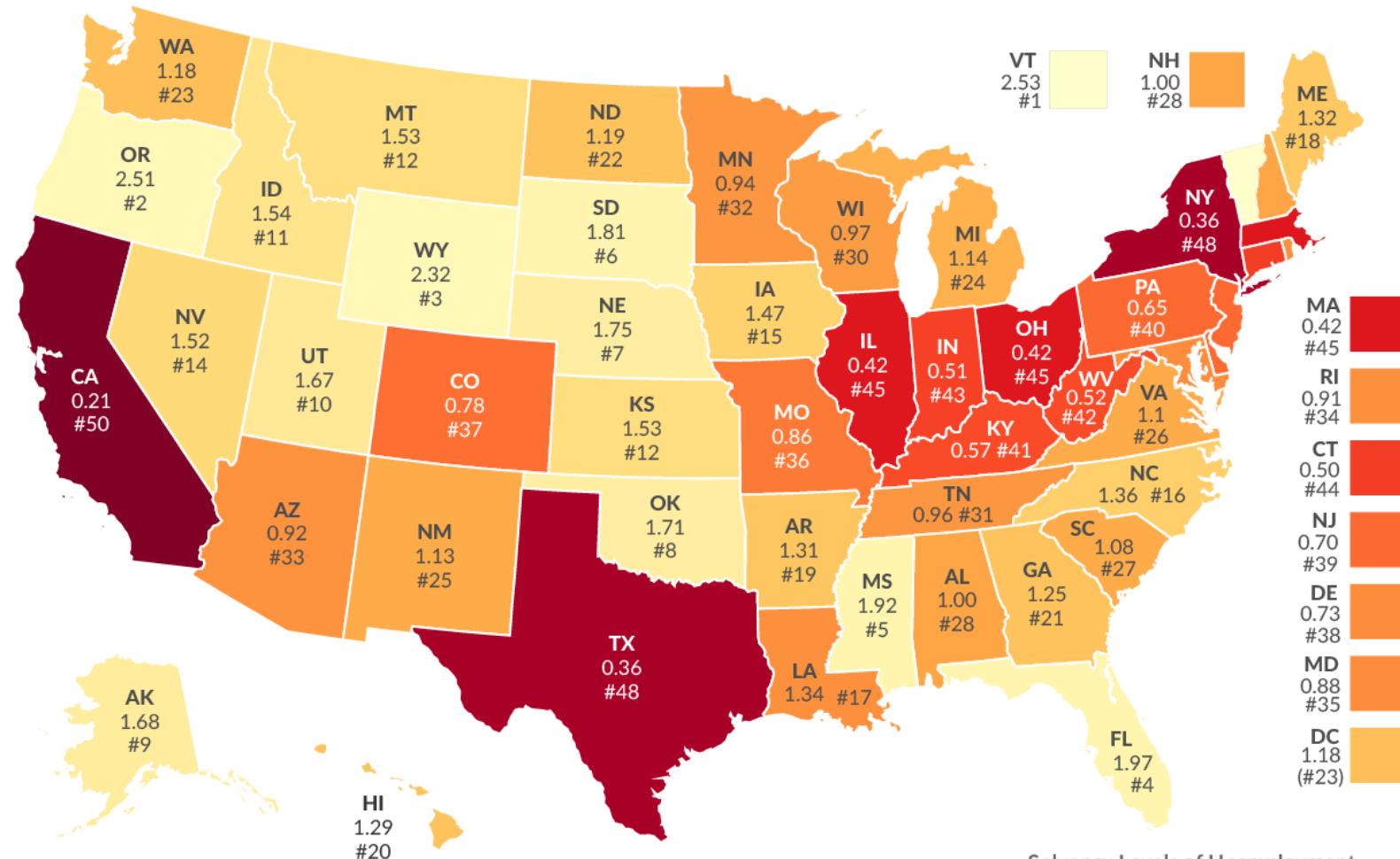
# Vulnerabilities and Amplifiers..

...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.

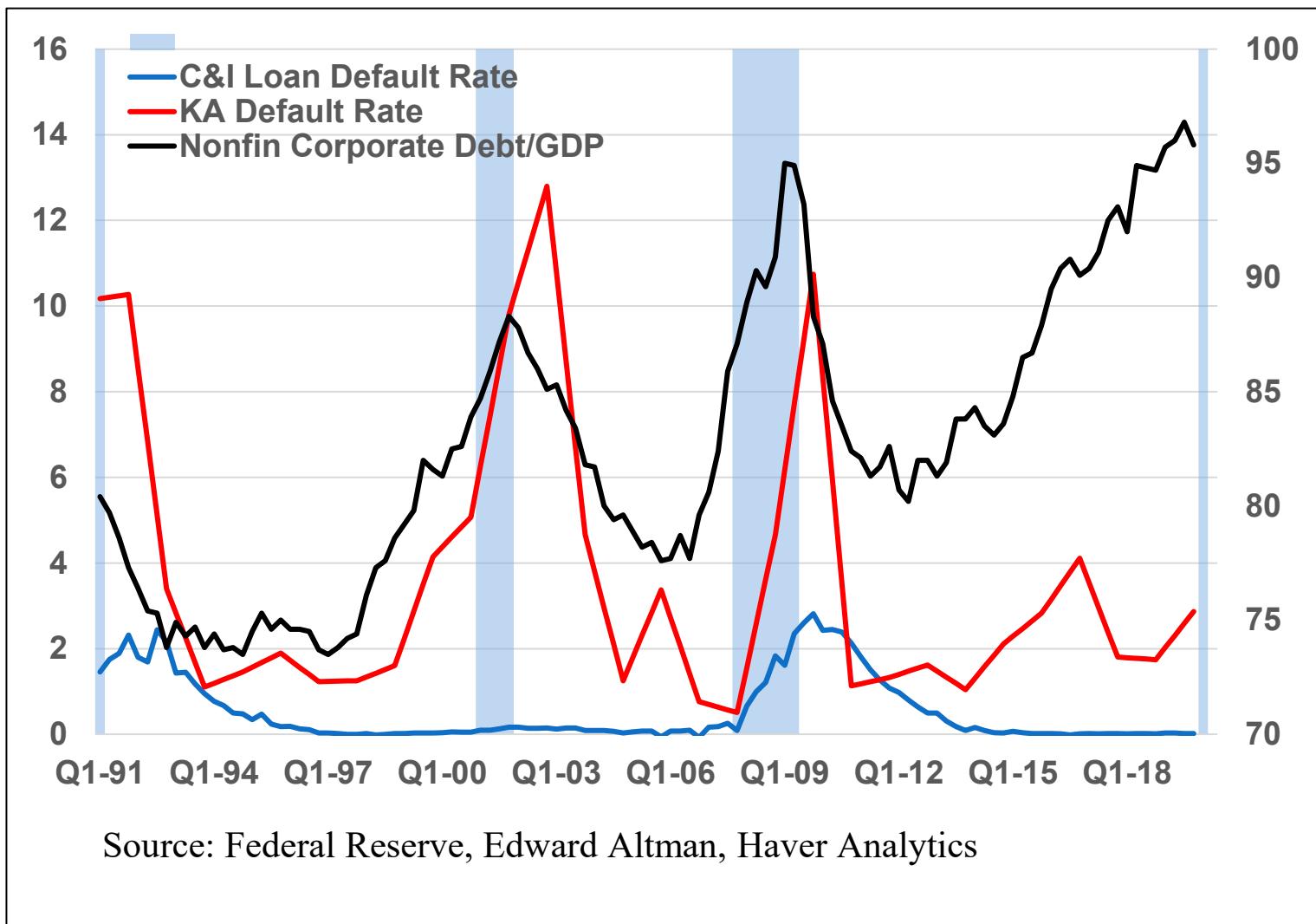
D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

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

Solvency Levels of Unemployment  
Insurance Trust Funds, 2020



# Corporate Leverage and Defaults



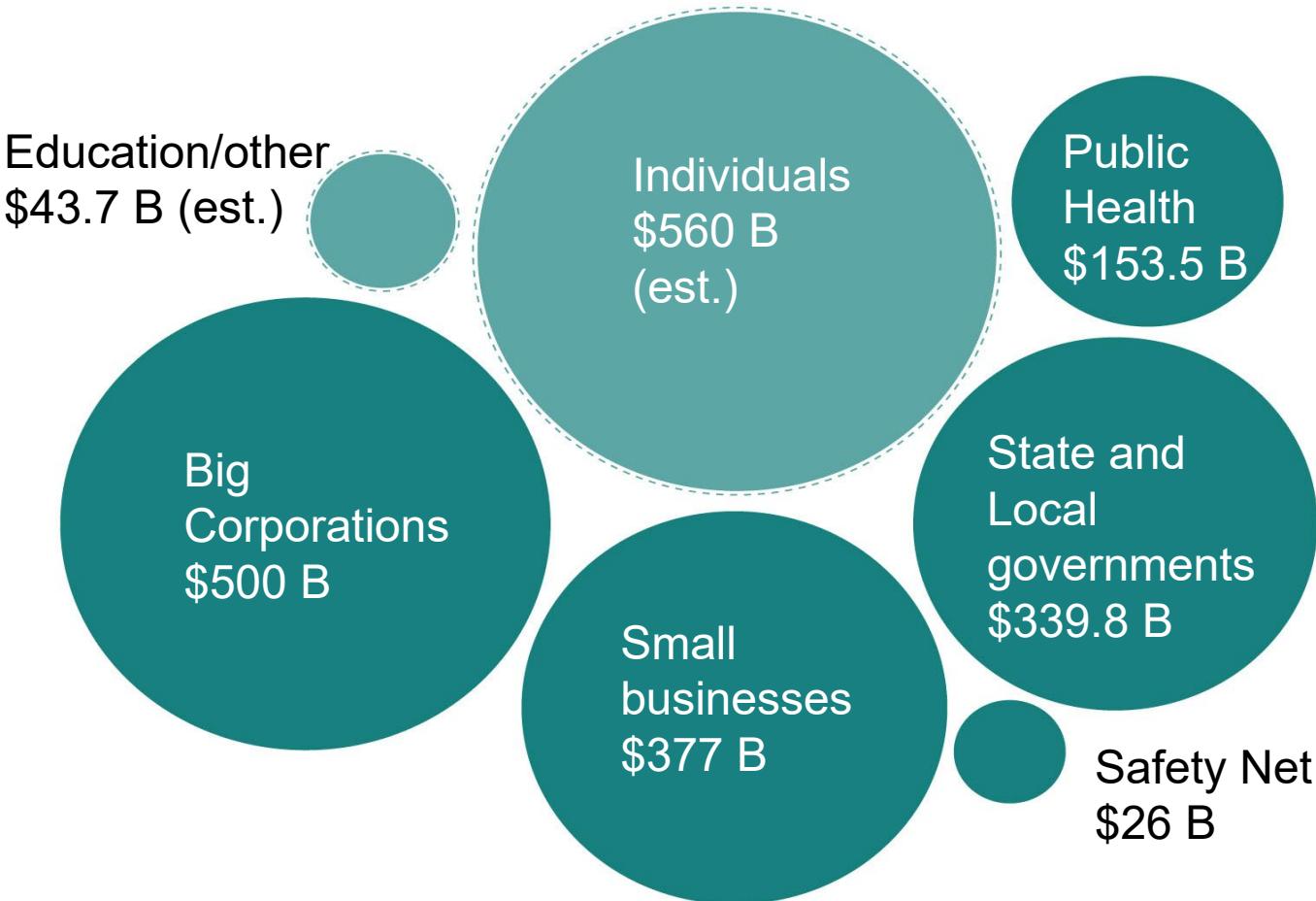
# Policy Goals

- *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



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

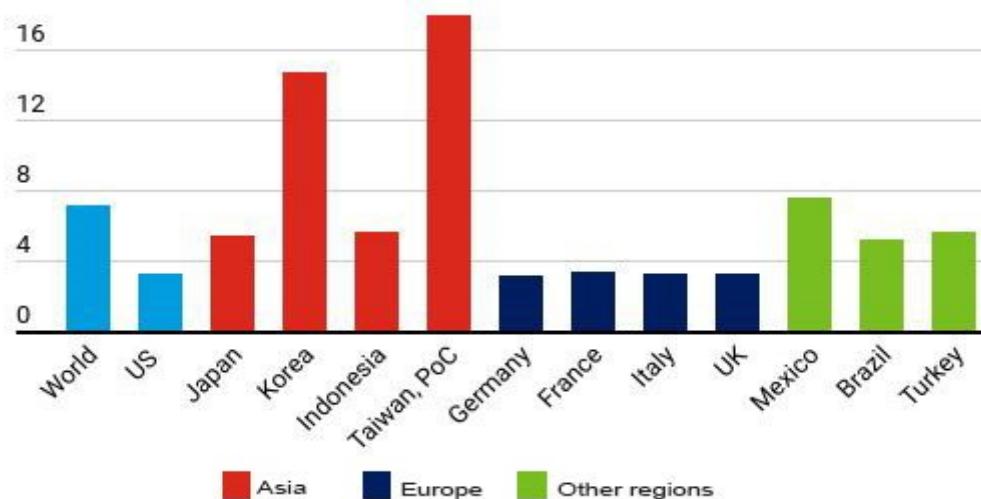
- Charts: Supply and Demand Shocks
- CARES act details
- Stimulus and structural change needed

# Shocks to Supply Chains

## 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.

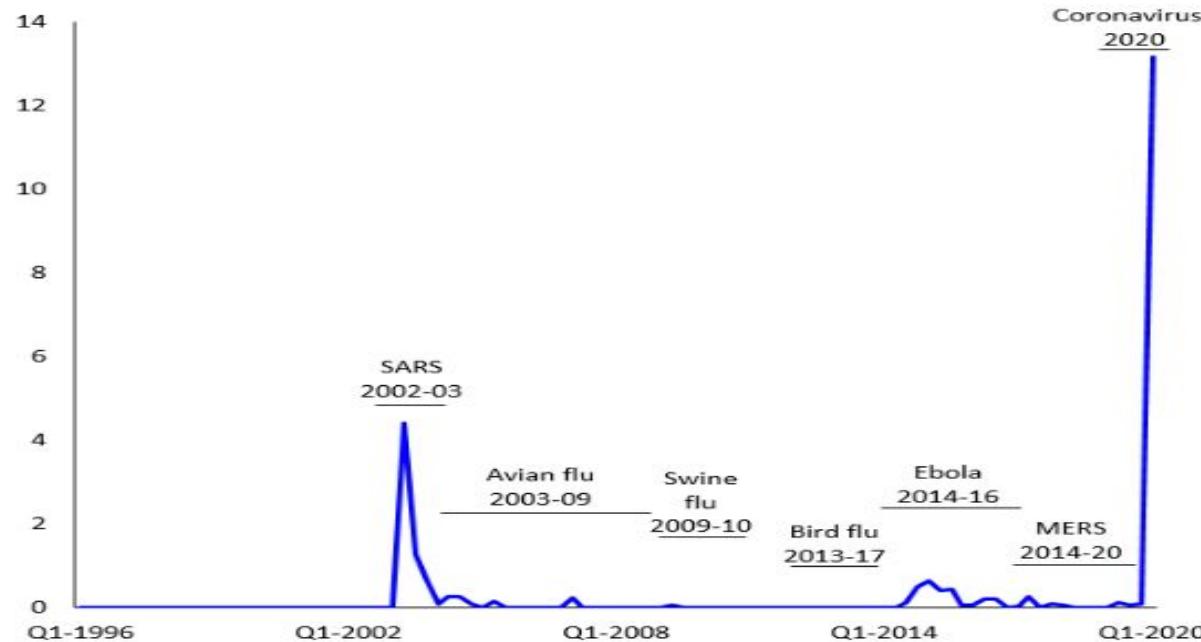
Note: Taiwan, PoC = Taiwan, Province of China.

# Shocks to Confidence

## 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)



Source: Ahir, Bloom, and Furceri (2018).

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