INSIGHT

Economic Activity and the Expiration of COVID-19 Relief Provisions

July 30, 2020

The federal response to the Coronavirus Disease 2019 (COVID-19) crisis has included programs providing economic relief to individuals, businesses, and state and local governments. The recent or looming expiration or exhaustion of several of these programs has generated congressional discussions on the effect that this could have on the U.S. economy's short- and long-term performance. This Insight briefly summarizes the current economic recession and fiscal policy response, highlights some programs that are near expiration or exhaustion of funding, and discusses underlying economic issues.

Recession Characteristics

The COVID-19 crisis generated a sudden and severe decline in economic activity. The national unemployment rate rose from 3.5% in February 2020, the last month before the declaration of a national emergency under the Stafford Act, to 14.7% in April 2020, the highest monthly rate recorded by the Bureau of Labor Statistics (dating back to 1948). The advance estimate from the Bureau of Economic Analysis (BEA) estimated that real GDP declined at an annual rate of 32.9% in the second quarter of 2020, which is larger than any single quarterly change in real GDP measured by the BEA (dating back to 1947).

Both supply-side and demand-side issues are contributing to the current economic decline. Social distancing measures have resulted in many businesses not being able to supply goods and services at the same level or in the same manner as prior to the pandemic. Fears about the virus and uncertainty about future economic conditions have also led to high savings rates and low consumption and investment. That this decline is rooted in a public health crisis has generated much uncertainty in predicting the path of the recession and subsequent recovery. An eventual arrival of a vaccine and easing of public health concerns may lead to a quick recovery relative to the experience in other recessions. The size of the economic decline, however, indicates that even a relatively brief decline may have lasting financial effects on households and businesses.

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Fiscal Policy Response

Conventional macroeconomic theory generally supports the use of fiscal stimulus—short-term spending increases or tax decreases designed to increase short-run economic output—in moderate to severe recessions. According to this theory, fiscal stimulus can reduce the severity of economy-wide output and employment gaps and guide the economy back to the full-employment level of output more quickly than would otherwise occur. Fiscal stimulus programs are generally most effective when they can deliver benefits relatively quickly and support recipients earlier in the economic downturn.

In response to the COVID-19 pandemic, the federal government enacted several laws providing fiscal relief, summarized in **Table 1**. In total, the legislation made changes projected to increase FY2020-FY2030 deficits by $2.4 trillion. Of that effect, $2.2 trillion (about 90% of the 11-year total) was estimated to occur in FY2020.

Table 1. Projected Deficit Increases from Pandemic-Related Legislation

Pandemic-Related Bill	Date of Enactment	Combined FY2020-FY2030 Increase	FY2020 Increase	As a % of FY2020 GDP
The Coronavirus Preparedness and Response Supplemental Appropriations Act (P.L. 116-123)	March 6, 2020	$8 billion	$8 billion	0.0%
The Families First Coronavirus Response Act (P.L. 116-127)	March 18, 2020	$192 billion	$135 billion	0.7%
The CARES Act (P.L. 116-136)	March 27, 2020	$1,721 billion	$1,606 billion	7.8%
The Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139)	April 24, 2020	$483 billion	$434 billion	2.1%
Total		**$2,404 billion**	**$2,183 billion**	**10.6%**

Source: CBO cost estimates and July 2020 economic forecast.

Many of the largest stimulus programs are near or have reached expiration or exhaustion. The economic impact payments providing direct payments to households, estimated to increase deficits by $270 billion in FY2020, were largely distributed by May. The Payroll Protection Program (PPP), which provided up to a total of $659 billion in forgivable loans to eligible small businesses and nonprofits, had made $519 billion in approved loans as of July 23. The federal moratorium on evictions expired on July 24, and the temporary increase of $600 per week in unemployment benefits is set to expire on July 31. Finally, the Coronavirus Relief Fund, which provided up to $150 billion in direct assistance to state, local, and tribal governments, had made $149.5 billion in payments as of July 23, 2020.

Future Considerations

As fiscal stimulus programs expire or are exhausted, the federal government may (1) allow the programs to expire as scheduled; (2) extend or add capacity to some or all of the programs; or (3) modify an existing program or create new stimulus programs. Should the federal government allow these programs to expire with no additional legislation, there will likely be a greater immediate decline in aggregate demand (total spending), and therefore GDP, in the short term as more Americans lose disposable income and, potentially, housing. Longer-term effects, such as the effect on the labor supply, are difficult to predict. There is a great deal of uncertainty surrounding how quickly the economy will recover (although there are some indications that the recovery slowed in July).

CBO analysis of extending the temporary increase in unemployment benefits through January 31, 2021, concluded that the extension would result in greater output in the second half of 2020 but lower output in calendar year 2021 and lower employment in both the second half of 2020 and calendar year 2021. CBO estimates that the overall boost to demand that the extension could provide would be offset by a reduced labor supply. The effects to the aggregate economy will not always mirror effects within specific population groups. Approximately five out of six recipients receive benefits that exceed their normal paycheck, indicating that low-wage workers are currently unemployed at higher rates than other groups. Therefore, low-wage workers are likely to be disproportionately affected by expirations, extensions, or changes to this provision.

Active legislation that would modify, extend, or create new stimulus programs includes The Heroes Act (H.R. 6800), which passed the House on May 15, 2020, and the American Workers, Families, and Employers Assistance Act (S. 4318), which was introduced in the Senate on July 27, 2020.

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