COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Testimony of Maya MacGuineas

Hearing Before the U.S. Senate Homeland Security and Governmental Affairs Committee:
"Oversight of COVID-19 Financial Relief Packages"
July 28, 2020

Chairman Johnson, Ranking Member Peters, Members of the Committee, thank you for inviting me to discuss the federal response to the coronavirus pandemic and the related economic downturn, and thank you for holding this hearing.

I am Maya MacGuineas, president of the Committee for a Responsible Federal Budget. The Committee is a nonpartisan nonprofit organization dedicated to educating the public and working with policymakers on fiscal issues. Our co-chairs are Purdue University President and former OMB Director Mitch Daniels, former Secretary of Defense and former OMB Director Leon Panetta, and former Congressman Tim Penny. Our board includes past directors and chairs of the Office of Management and Budget, the Congressional Budget Office, the Federal Reserve System, and the Budget Committees.

Today, I would like to focus on three main areas:

1. What we have spent thus far in fighting the pandemic and the recession, and how we have spent it;
2. How we should think about a future package(s); and
3. What further oversight would be useful.

An Unprecedented Crisis Met with Unprecedented Support

Let me start by saying what an overall success I think the initial packages have been. A massive amount of support was provided swiftly, in a bipartisan manner, and it was well-designed overall.

So far, policymakers have authorized up to $3.6 trillion in fiscal support through legislation, of which over $2 trillion has been committed or disbursed, with a net deficit impact of $2.4 trillion. This support comes in a variety of ways, including tax breaks, direct payments, loans, and grants.

Summary of Federal Response to COVID, as of July 23

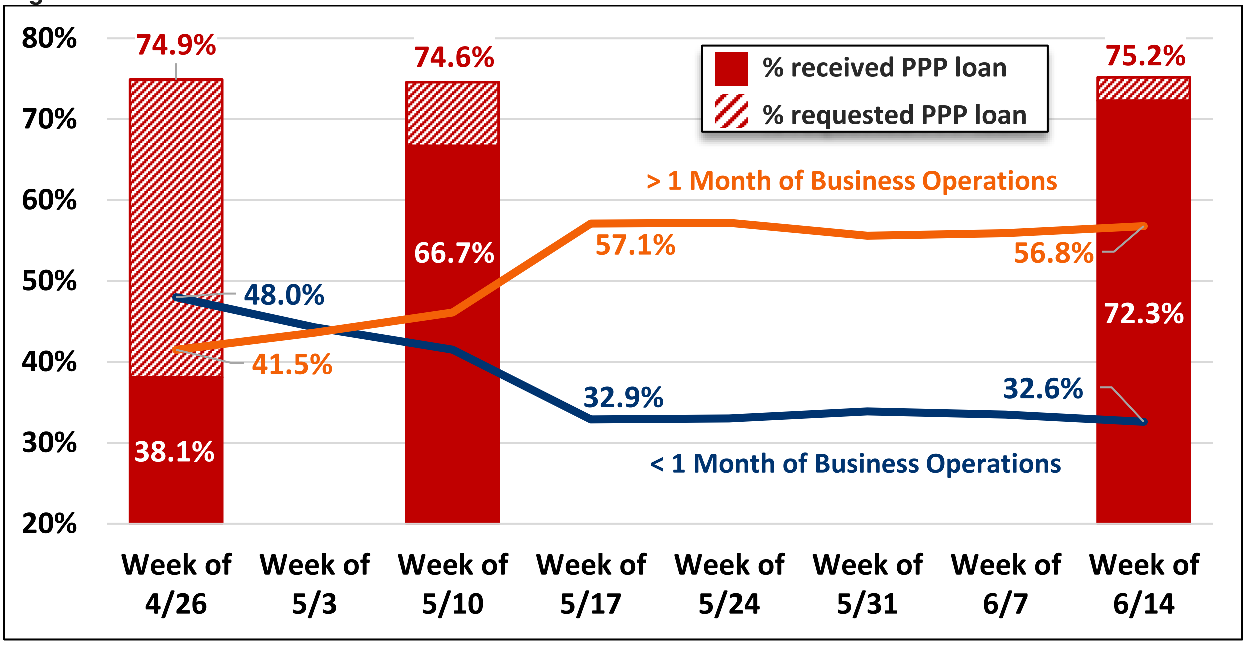
Response	Allowed	Disbursed/ Committed	Deficit Impact
Legislative Actions	**$3.6 trillion**	**$2.1 trillion**	**$2.4 trillion**
Coronavirus Preparedness & Response Supplemental Appropriations Act	$8 billion	~$3 billion	$8 billion
Families First Coronavirus Response Act	$192 billion	~$78 billion	$192 billion
CARES Act	$2.7 trillion	$1.6 trillion	$1.7 trillion
Paycheck Protection Program and Health Care Enhancement Act	$733 billion	$381 billion	$483 billion
Student Veteran Coronavirus Response Act of 2020	Unknown	Unknown	Unknown
Paycheck Protection Program Flexibility Act	^	^	^
Paycheck Protection Program extension	$0	-$2 billion	$0
Emergency Aid for Returning Americans Affected by Coronavirus Act	$9 million	Unknown	$9 million
Administrative Actions	**~$380 billion**	**~$307 billion**	**~$80 billion**
Declare national emergency	~$50 billion	Unknown	~$50 billion
Delay tax filing deadline to July 15	~$300 billion	~$300 billion°	$0
Other executive actions	~$30 billion	$7 billion	~$30 billion
Federal Reserve Actions	**>$5.8 trillion**	**$2.2 trillion**	**N/A**
Interest rate changes	N/A	N/A	N/A
Asset purchases	$2.1 trillion*	$2.0 trillion	N/A
Liquidity measures	>$1.7 trillion	$155 billion	N/A
Emergency lending programs and facilities	>$2.0 trillion	$104 billion	N/A

Source: CRFB estimates, compiled from dozens of different agencies' public disclosures. Deficit impact is from 2020-2030.
^This legislation would increase usage of the PPP program and the cost of the payroll tax delay. However, previous CBO estimates already assumed the PPP program would be fully subscribed so we assume this legislation's additional cost has already been incorporated in previous estimates.
*Represents amount disbursed plus the scheduled monthly pace of purchases, currently $80 billion for Treasuries and $40 billion for mortgage-backed securities.
°Most of these funds have now been returned, since the passage of the delayed July 15 tax deadline.

With more time and information, we would have of course done many things differently, but the swift action was truly impressive and it helped the nation avoid much worse hardship, suffering, and economic loss.

The support has been particularly successful in boosting small business cash on hand and personal income over the course of the crisis. The Paycheck Protection Program (PPP) has made a big difference in small business liquidity. According to extensive data from the Census Bureau's Small Business Pulse Survey, around three-quarters of small businesses applied for a PPP loan. Only about half of applicants had received the forgivable loan by the end of April, but over 90 percent had received funds by the week ending May 16, increasing to 96 percent as of mid-June. The increase in PPP loan receipts coincided with an increase in reported cash on hand, with the percentage of businesses claiming to have greater than one month's cash on hand rising from nearly 42 percent in late-April to 57 percent by mid-May, remaining relatively steady since then.

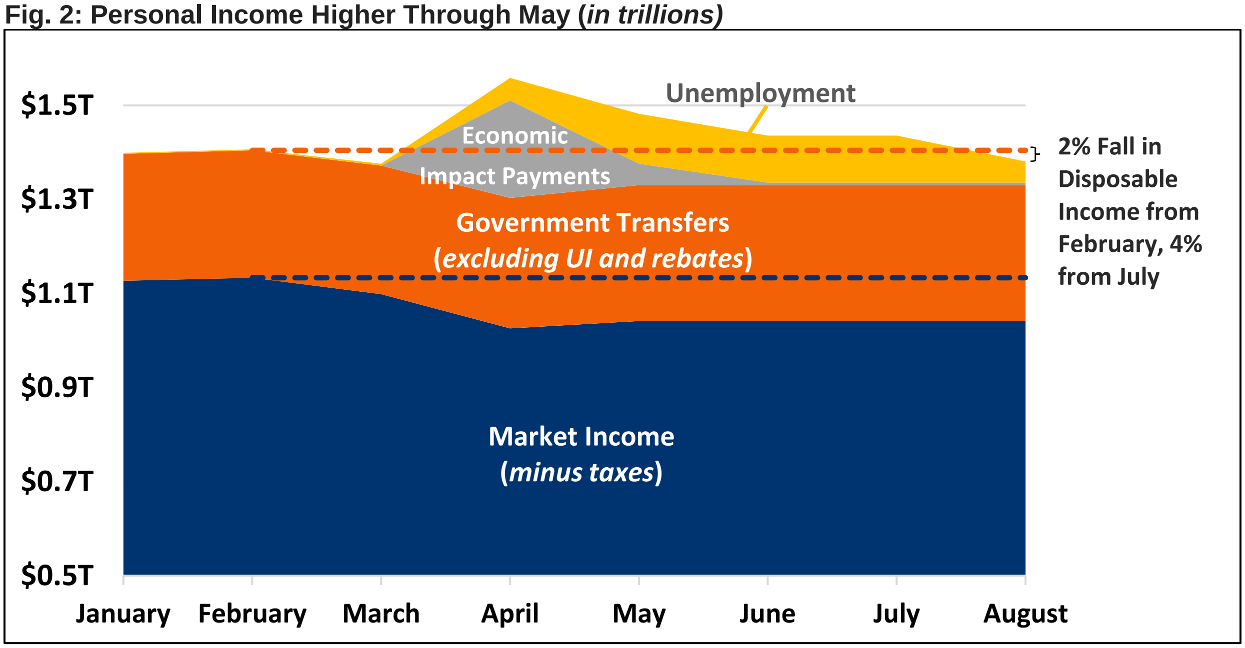
Fig. 1: Small Business Cash on Hand



Source: U.S. Census Bureau.

Despite the economic contraction, personal income has actually *grown* since start of the crisis. This is largely due to the augmented federal unemployment insurance payments and one-off Economic Impact Payments provided under the CARES Act. Depending on how you measure it, personal income rose by 5 to 7 percent from February through May, despite net market income falling by 8 percent. That being said, income is projected to fall substantially in August if no further relief is enacted.

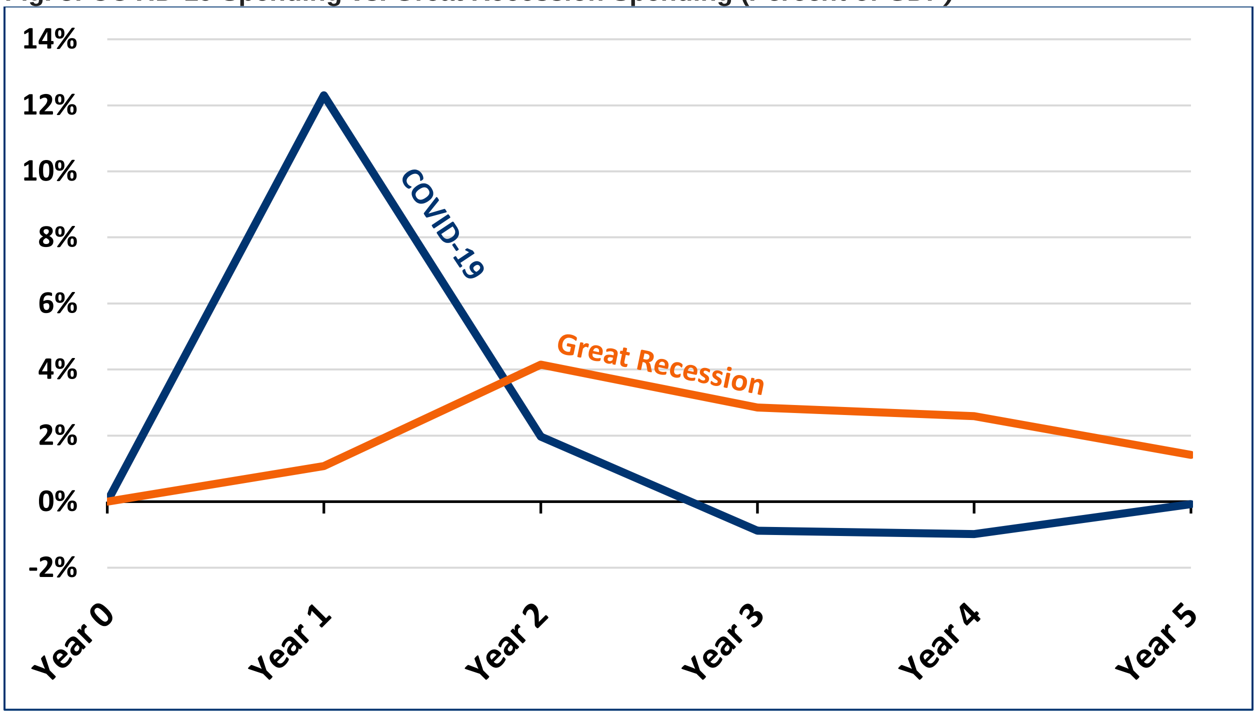
Fig. 2: Personal Income Higher Through May (*in trillions*)



Source: Bureau of Economic Analysis through May, U.S. Treasury, CRFB calculations.

Other programs have provided important financial support, even at a lower cost. Economic Injury Disaster Loans and grants have provided short-term liquidity to struggling companies. The Federal Reserve's Main Street Lending Program has barely started operations, but provides an important psychological backstop. The same effect can be seen in the Fed's corporate credit and bond buying facilities — announcing the facility was enough to stabilize prices. The fact that these facilities are underutilized does not necessarily mean they have not had a major impact. There is over $250 billion in Treasury funding for Fed facilities not yet committed. And although there is little data available about the utilization of tax deferments and credits, the payroll tax deferment for employers provides substantial short-term stimulus with little long-term fiscal cost.

Fig. 3: COVID-19 Spending vs. Great Recession Spending (*Percent of GDP*)



Source: Congressional Budget Office, CRFB calculations.

Passing the legislation was only the beginning of the process. The Committee for a Responsible Federal Budget has launched COVIDMoneyTracker.org to monitor all significant financial actions taken to address the current crisis, whether by legislation, administrative action, or the Federal Reserve. The initiative is following the dollars, and will do so over time, to provide valuable information on how much has been disbursed, who is receiving it, and how much is paid back. We will also be doing research and deeper dives into a number of related areas such as how these actions impact jobs and the economy, what sectors get the most and least support, and what this all means for our long-term fiscal outlook. We did a similar project to follow the stimulus money passed to help the recover from the 2008-09 crisis, and I believe it proved to be immensely useful to lawmakers, experts, the media, and the public, and it was one of the most popular resources we have developed.

Aid Has Been Swift, There is Still More to Come, But Cliffs Ahead

As policymakers consider another round of COVID relief, they should consider how much has been spent and how much more there still is to come, the size of timing of the upcoming income cliff as well as the projected economic output gap, public health and societal needs, the direct cost of any new legislation, and the opportunity cost of the choices they make.

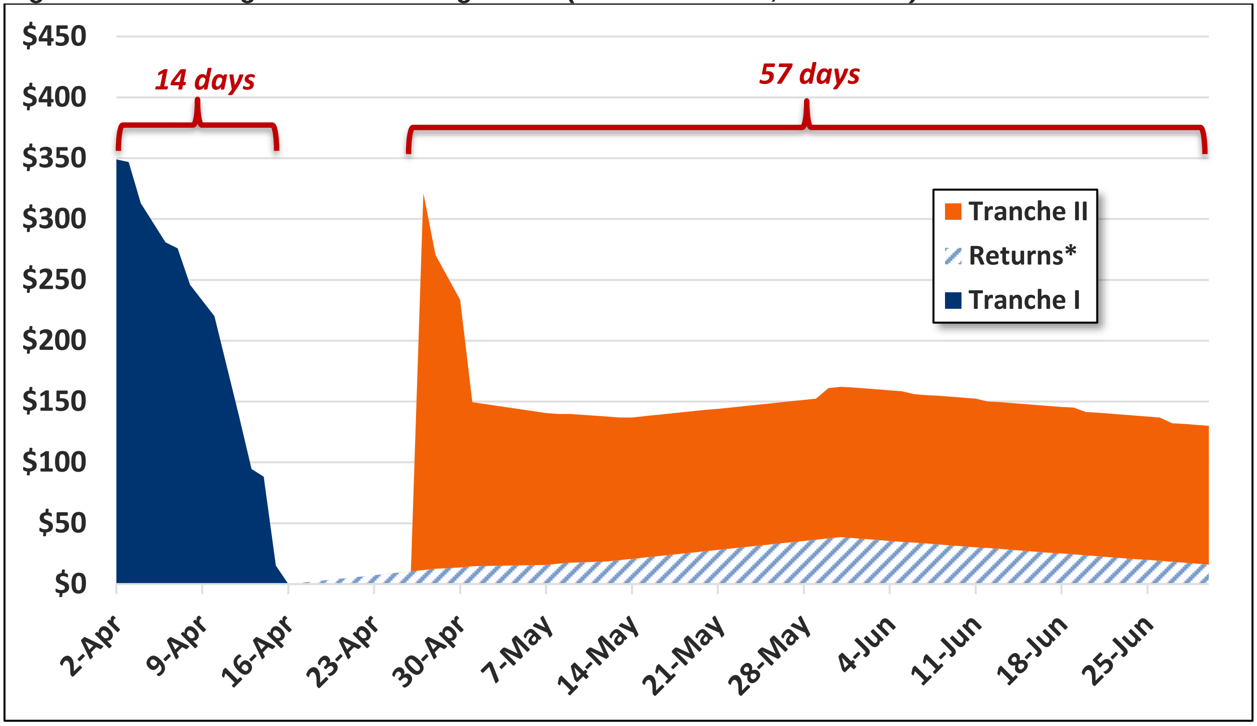
There are several categories of money that have not yet been spent. First, some money has not been requested or allocated, such as about $130 billion of PPP funds or the more than $250 billion of Treasury funds for Federal Reserve facilities. Second, some money is intended to be spent over time, such as the payroll tax delay for employers and expanded unemployment eligibility that will continue through the end of 2020. Finally, there is little information about other disbursals, especially business tax refunds. It is not immediately clear how many businesses have received tax breaks or whether they have been impacted by processing delays at the IRS.

At the same time, both aid to businesses and individual assistance are facing a steep drop-off. The weekly $600 federal unemployment insurance payment expired at the end of last week and any additional Paycheck Protection Program loans must be approved by August 8.

To prevent personal income from falling to below February levels, market and government transfer income would need to rise by a combined $25 billion in August – the equivalent of $300 billion a year. For context, the current $600 unemployment federal unemployment insurance benefit provides roughly $50 billion per month in income, so a partial extension of this program could be sufficient to close the gap. Support would need to be somewhat larger than $25 billion ($300 per week) to compensate for inflation and maintain personal income close to July levels.

According to a recent Goldman Sachs survey of over 1,500 small businesses, 84 percent of PPP loan recipients will deplete their funding by the first week of August, and only 16 percent of recipients reported feeling very confident that they could continue to maintain payroll without additional government assistance. Around $130 billion in existing PPP funds remain.

Fig. 4: PPP Funding Available through June (*Available funds, in billions*)



*Net returns
Source: Small Business Administration, CRFB calculations.

Almost all states' fiscal years ended on June 30. Many states are now facing difficult decisions, as reduced tax revenues and balanced budget requirements are forcing spending cuts, layoffs, and potential tax hikes that are likely have a negative impact on the economic recovery. A large portion of the aid that states received under the CARES Act was offered under the condition that they do not use the aid to cover preexisting budget shortfalls. While bailouts should not be given to paper over previously mismanaged state finances, this crisis is an unprecedented situation that requires federal action to ensure that state and local budget cuts don't harm the overall economic recovery.

Macroeconomic conditions also make it clear we are not anywhere close to being out of the woods. The coronavirus outbreak and subsequent economic lockdowns continue to have a severe and potentially-long lasting impact on the economy. According to the Bureau of Labor Statistics (BLS), the official unemployment rate rose from a pre-crisis rate of 3.5 percent in February to a record-high of 14.7 percent in April. Although the unemployment rate has since fallen somewhat to 11.1 percent in June, it is still higher than during the peak of the Great Recession.

The latest July projections by the Congressional Budget Office (CBO) show real Gross Domestic Product (GDP) falling by 11.2 percent between the fourth quarter of 2019 and second quarter of 2020, then recovering about half of those losses by the end of the year. CBO also projects that the economy will not return back to its pre-crisis potential GDP until 2028. Using CBO's data, we estimate the output gap will total roughly $750 billion over the next six months and $2 trillion over the next two years.

Fig. 5: Estimated Size of the Output Gap (*in billions)*

Source: Congressional Budget Office, CRFB calculations.

Further packages should be designed from the top down to get a sense for the right size *and* from the bottom up targeted to the needs of people, industries, and the economy.

Based on current law economic projections from the Congressional Budget Office we estimate the difference in expected and potential economic output will total $750 billion over the six-month period between August 1, 2020 and February 1, 2021. The additional funds needed to close an output gap of $750 billion for six months will depend on the fiscal multiplier of the specific policies. Taking into consideration the $2.1 trillion in legislative support disbursed or committed so far, the needed amount could be anywhere from $300 billion of highly-targeted funds to $3 trillion with a lower fiscal multiplier.

When thinking about particular components of the package, it makes sense to think about immediate needs, such as: avoiding economic cliffs, helping schools and businesses adapt to the current crisis, filling in state and local budget gaps, and making sure we have what we need to mitigate, contain, and reduce the risks associated with COVID-19. As we think about longer term recovery issues, we will also need to contemplate shifts or permanent changes. Online learning, tele-health, supply chains dependencies, and building a more resilient economy all come to mind.

Oversight and Transparency Are Key

Passing the legislation is one thing; overseeing it is another. The CARES Act was drafted and enacted quickly to address an urgent economic situation. Putting together such a massive piece of legislation that fast, there were bound to be imperfections, but lawmakers did a good job of getting money out the door in a timely manner. That being said, it is imperative that we ensure there is proper oversight over where and how trillions in taxpayer money is being spent. Our COVID Money Tracker project will track COVID-related spending in real time, but in order to do so, we need the federal government to provide comprehensive, reliable, and accurate data.

This month, the Small Business Administration and Treasury released a trove of data on the millions of Paycheck Protection Program recipients. While it should be commended that the Administration decided to release detailed Paycheck Protection Program (PPP) data, it is clear there are obvious holes affecting thousands of records. These issues include:

- Mislabeled congressional districts
- Incorrect NAICS codes for certain businesses
- Negative jobs reported in some instances
- A number of industries where the amount of jobs retained is more than the total amount of reported jobs in those industries last year
- Companies listed with an impossible number of jobs saved (8 jobs saved with a loan of $46)

The information included in the PPP data, while detailed, should also be improved. Some suggestions for future reports and studies on the effectiveness on the program include:

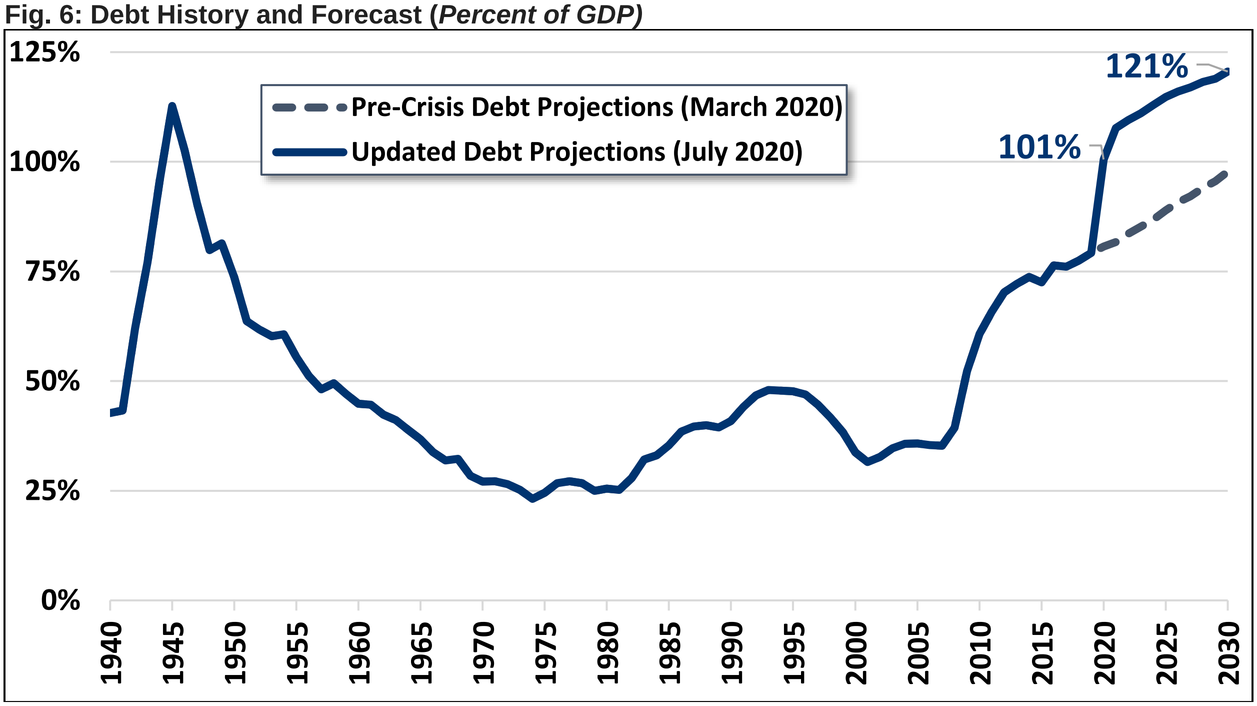
- Commissioning a study on the amount of jobs saved. The reported "Jobs Retained" number in the existing report is not especially useful because it does not show actual jobs saved, rather the amount reported on the company loan application. A more thorough examination and reporting on the actual number of jobs saved is necessary to determine whether the program succeeded in preserving employees on payrolls, as intended.
- Providing exact loan amounts for loans over $150,000. Currently, the report does not show exact loan amounts for companies receiving over $150,000, just loan ranges. This makes it difficult to calculate exactly how much money has been approved.
- Providing bank fee detail. There is also no detail on the amount of bank fees paid out so far. We estimate banks will likely receive somewhere in the range of $10 billion to $20 billion in fees as a result of processing PPP loans, and taxpayers deserve to know where this money goes.
- Getting additional detail on the actual amount forgiven. The loan amounts given thus far may be partially repaid. They are not yet all an expenditure of taxpayer dollars.
- Correcting some of the errors in the existing data when more loan detail is released about loans issued after June 30.

There is still around $130 billion in PPP funds available, and more funding for the program could be offered, perhaps with better targeting to needy employers. Hopefully Treasury and SBA can refine their monitoring of how these funds are ultimately used and how many jobs are saved, while ensuring adequate safeguards to protect against waste, fraud, and abuse.

Despite important data issues, the Paycheck Protection Program is actually relatively transparent compared to what we know about other aid. Economic Injury Disaster Loan and Loan Advance recipients are only being reported by state. These programs combined provide over $300 billion in support, and more detail on recipients would shine a light on these programs and ensure funds are distributed as intended. We should also not forget the other forms of aid, including business-related tax provisions. The Internal Revenue Service understandably has many privacy protections in place, but it means that data on the billions in support provided in tax relief and tax credits is severely lacking.

Finally, all this needed borrowing will obviously have a profound consequence on the national debt. In the short run, borrowing is exactly what we need to be doing; in the longer-run, the debt accumulation will have to be dealt with. Unfortunately, we entered the current crisis already facing trillion-dollar deficits during a period of strong economic growth. That was reckless. Now the long-term fiscal outlook is even worse. Under current law, debt will grow from 79 percent of GDP pre-crisis to 101 percent by the end of Fiscal Year 2020 (about two months from now), and we will surpass the national record set right after WWII next year.

Fig. 6: Debt History and Forecast (*Percent of GDP)*



Source: Congressional Budget Office, CRFB calculations.

Given the alarming long-term fiscal outlook, the next round of fiscal relief must be appropriately sized and well-targeted to get aid where it's most needed. Unnecessary borrowing will just make it that much more difficult to get the national debt under control and stabilize our fiscal and economic future once this crisis has passed. Including political pet projects will undermine the credibility of a package and make it harder to pass further legislation, which is likely to be needed.

Conclusion

This pandemic has created an unprecedentedly sharp health and economic crisis. Congress acted appropriately in passing quick aid in the CARES Act, though the speed of that legislation means oversight will be key. Much of that aid is ending and there have been four months to appropriately design the next package. Congress should ensure that aid remains targeted to the greatest needs, provided on a timely basis, and appropriately phased out when the economy has recovered. And the best oversight possible will be key in analyzing what worked, what didn't, and how to think about economic packages in the future.

Thank you for holding this important hearing today.