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INSIGHT

The COVID-19-Related Fiscal Response: Recent Actions and Future Options

August 31, 2021

The federal response to the Coronavirus Disease 2019 (COVID-19) pandemic has included programs providing economic relief to individuals, businesses, and state and local governments. Expiration or exhaustion of several of these programs has generated congressional discussions on the effect extending some of these programs could have on the U.S. economy's short- and long-term performance. This Insight briefly summarizes the fiscal policy response to COVID-19, highlights some programs that are near expiration or exhaustion of funding, and discusses underlying economic issues. For a full list of expiring provisions, see CRS Report R46704, *Pandemic-Related Provisions Expiring in the 117th Congress*.

State of the Economy

The COVID-19 pandemic generated a sudden and severe decline in economic activity. The national unemployment rate rose from 3.5% in February 2020 to 14.7% in April 2020, the highest monthly rate ever recorded (dating back to 1948). Real GDP declined at an annual rate of 31.2% in the second quarter of 2020, which was larger than any single quarterly change in real GDP (dating back to 1947).

General economic conditions have improved since the early months of the pandemic. In the second quarter of 2021, real GDP surpassed its pre-pandemic fourth quarter 2019 level, and the unemployment rate, while still elevated, has decreased substantially from April 2020 and stood at 5.4% in July 2021. The strength of the recovery moving forward is uncertain. The Delta variant still poses a public health risk, the economy has experienced several months of moderately high inflation, and the labor force participation rate remains below pre-pandemic levels.

Fiscal Policy Response

Fiscal stimulus is short-term spending increases or tax decreases designed to increase short-run economic output. According to theory and historical evidence, fiscal stimulus can reduce the decline in output and employment associated with recessions and guide the economy back to the full-employment level of

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IN11734

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 stimulus spending for economic relief in 2020 and 2021, summarized in **Table 1**. In total, the legislative changes are projected to increase FY2020-FY2031 deficits by $5.12 trillion. Of that effect, $4.0 trillion (about 80% of the budget window total) was estimated to occur in the fiscal year in which each law was enacted.

Table 1. Projected Deficit Increases from Major Pandemic-Related Legislation

Pandemic-Related Bill	Date of Enactment	Total Budget Window Deficit Increase	First Year Increase	First Year Increase As a % of GDP
The Coronavirus Preparedness and Response Supplemental Appropriations Act (P.L. 116-123)	March 6, 2020	$8 billion (FY2020-FY2030)	$8 billion (FY2020)	<0.1%
The Families First Coronavirus Response Act (P.L. 116-127)	March 18, 2020	$192 billion (FY2020-FY2030)	$135 billion (FY2020)	0.7%
The CARES Act (P.L. 116-136)	March 27, 2020	$1,721 billion (FY2020-FY2030)	$1,606 billion (FY2020)	7.8%
The Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139)	April 24, 2020	$483 billion (FY2020-FY2030)	$434 billion (FY2020)	2.1%
The Consolidated Appropriations Act, 2021 (P.L. 116-260) (COVID-related provisions)	December 27, 2020	$868 billion (FY2021-FY2030)	$737 billion (FY2021)	3.3%
The American Rescue Plan Act of 2021 (P.L. 117-2; ARPA)	March 6, 2021	$1,844 billion (FY2021-FY2031)	$1,164 billion (FY2021)	5.2%

Source: CBO cost estimates and July 2021 economic forecast.

Note: Table only includes deficit effects of Divisions M and N of P.L. 116-260, which were the portions identified by CBO as related to the COVID response.

Many of the largest stimulus programs are near—or have already reached—expiration or exhaustion:

- The Payroll Protection Program (PPP), which provided up to a total of $814 billion in forgivable loans to eligible small businesses and nonprofits, expired on May 31, 2021;
- The federal moratorium on evictions expired on July 31, 2021, and the Supreme Court rejected a new moratorium from the Centers for Disease Control and Prevention on August 26, 2021;
- The temporary increase of $600 per week in unemployment benefits expired on July 31, 2021, and was replaced with a $300 per week supplement, which is set to expire nationally on September 6, 2021 (although half of U.S. states ended this benefit early);

- Direct payments (i.e., "stimulus checks") to most households included in the CARES Act, P.L. 116-260, and ARPA, estimated by CBO to make combine payments of $867 billion, have generally all been issued;
- Payments from $150 billion in CARES Act allocations to state and local governments through the Coronavirus Relief Fund must be disbursed by December 31, 2021, though ARPA (P.L. 117-2) provided an additional $362 billion in general-assistance state and local government payments that mostly do not require costs to be incurred until December 31, 2024.

Future Considerations

No consensus exists in the economic or policy community regarding how long or how much stimulus is appropriate as it relates to recessions generally or COVID-19 specifically. As the economy continues to recover, the general need for economic relief wanes, though certain populations and industries that have felt the impacts of the COVID-19 pandemic more keenly than others may benefit from continued fiscal stimulus.

The extent to which extending certain provisions or creating new targeted policy would benefit the economy overall is not certain, even if it would help certain affected groups of individuals or businesses. For example, some economists are concerned about the growing and historically large debt-to-GDP ratio. However, many also believe that stimulus should not be withdrawn until the economy has returned to normal. Another concern raised about stimulus is inflation. Inflation has been relatively high since March 2021. Some have pointed to certain pandemic-related stimulus as one cause of high inflation and believe that extending or adding new stimulus would fuel further price increases. That being said, as of June 2021, the Federal Reserve projected that inflation will be elevated in 2021 but decrease to 2.1% in 2022, roughly matching the Federal Reserve's stated long-run inflation target of 2%.

Author Information

Grant A. Driessen
Specialist in Public Finance

Lida R. Weinstock
Analyst in Macroeconomic Policy

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