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Emergency Economics: Fighting a Recession in 2020 and Beyond

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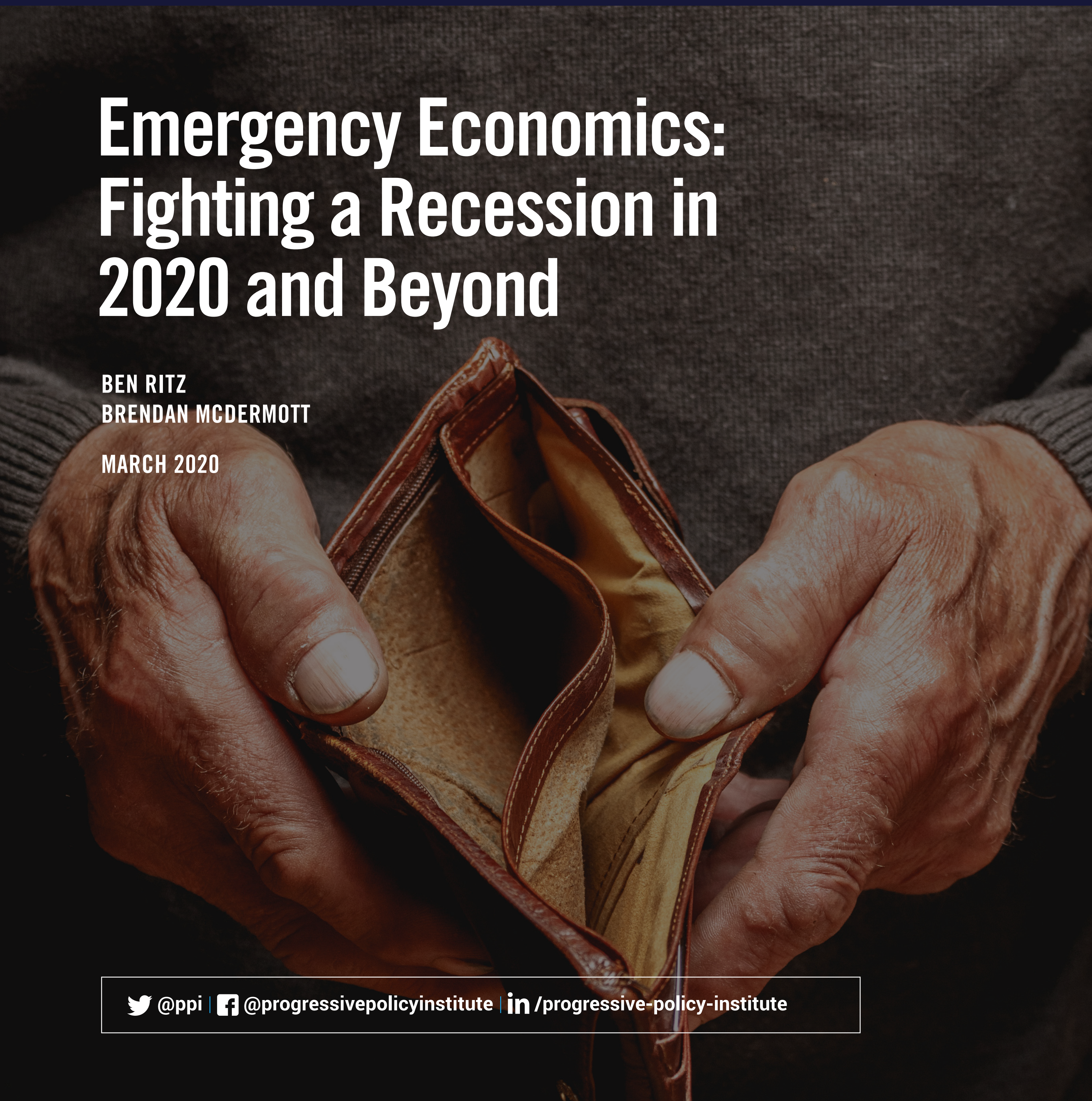

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INTRODUCTION

The outbreak of COVID-19, caused by the novel coronavirus, has created a global market downturn and put the United States on track for its first recession since the 2008 financial crisis. Quarantines, social distancing, and other proactive measures that are necessary to contain the pandemic are already limiting commerce and disrupting global supply chains, essentially ensuring that the U.S. economy will contract for at least some period of time in 2020.[1] Policymakers must adopt a combination of thoughtful public health and macroeconomic policy measures that will limit the damage caused by both this and future recessions.

Congress has already taken two strong first steps. On March 6th, President Trump signed legislation that provided $8.3 billion in emergency funding for public health agencies and coronavirus vaccine research.[2] Now the U.S. Senate is debating the Families First Coronavirus Response Act: a far more expansive bill carefully crafted by House Democrats to further bolster public health agencies and provide economic support to the people and businesses most likely to be harmed by the disease.[3] This bill temporarily increases federal Medicaid and food-security spending, makes coronavirus testing available to patients free of charge, expands unemployment insurance benefits, mandates employees afflicted with the virus be given 14 days of paid sick leave, and creates a refundable tax credit to provide them with up to 12 weeks of additional paid medical leave, among many other things.[4]

Although these measures were a great start, much more will be needed. For example, the sick-leave mandate – which is essential for discouraging potentially infected employees from spreading the disease to their coworkers – covered just one fifth of workers after concessions were made to win Republican support.[5] Many otherwise financially healthy businesses face the threat of going bankrupt as the crisis chokes off their cash flows, further increasing unemployment and perpetuating a vicious cycle of weakening demand.[6] Millions of Americans may be unable to make their rent or mortgage payments, causing both homelessness and instability in the financial sector.

The Federal Reserve's target interest rate has been reduced to zero percent, meaning it has already used its most potent tool for fighting a serious recession.[7] But fortunately, low interest rates also make it cheaper than ever for Congress to borrow money to provide needed economic stimulus. Importantly, the current crisis is somewhat different than previous recessions in that most consumer spending will be constrained by limits on opportunities for commerce rather than a lack of money in their bank accounts. It is therefore more important than ever that stimulus money be targeted towards those who are most in need and most likely to spend. At the same time, a stimulus package must be aggressive enough to prevent an economic contagion that spirals into another financial crisis, or worse, a second great depression.

The best way to accomplish this goal is through the expansion of "automatic stabilizers" – policies that cause spending to rise or taxes to fall automatically when the economy contracts. These policies are more responsive to real economic needs because they are unconstrained by the political processes that often slow the passage of discretionary stimulus. Moreover, as the economy recovers, well-designed automatic stabilizers will actually reduce federal budget deficits and help pay back the debt that was used to finance stimulus.[8] This proven structure prevents stimulus from being prematurely shut off (as it was following the 2008 financial crisis) and removes fiscal concerns as a political impediment to essential borrowing.[9]

This report provides a framework for new automatic stabilizers and other measures that will both combat the coronavirus recession and better prepare the United States for others that come after it. The Progressive Policy Institute recommends that policymakers prioritize giving relief to people who either lose their job or are already low-income, since both groups have a higher propensity to spend any money they receive than those who are economically secure. People and businesses should be given increased financial flexibility to inject liquidity into the market and prevent unnecessary bankruptcies during the crisis. The federal government should provide relief to cash-strapped state governments so that they are not forced to cut back their own spending and counteract federal stimulus. Finally, policymakers at all levels of government should cut taxes that discourage consumption, particularly those applied to industries hardest hit by the crisis.

Summary of Policy Options in PPI's Emergency Economics Framework

Expand Unemployment Insurance (PP. 6-7)

- Permanently increase the number of weeks that states may pay out extended benefits during the most severe recessions.
- Increase the share of lost income replaced by UI benefits during recessions.
- Expand work-share programs, which compensate workers for reduced wages when their employers choose to cut back hours instead of laying off employees.

Support Vulnerable Americans (PP. 7-8)

- Automatically relax SNAP and TANF work requirements and increase funding during recessions.
- Increase funding for programs that serve disadvantaged communities, such as AmeriCorps.
- Send direct cash aid to all Americans when key indicators show the economy entering a recession.
- Structure direct cash aid as a refundable tax credit so it can be reclaimed from high-income households and/or those that experience no significant income loss.
- Increase the progressivity of federal income taxes.
- Enhance the Earned Income Tax Credit.

Provide Liquidity to Cash-Strapped People and Businesses (PP. 8-9)

- Offer low- or no-interest loans that enable otherwise financially healthy businesses to continue meeting their obligations for the duration of the crisis.
- Allow borrowers to delay payment on federal student loans and federally insured or guaranteed mortgages for six months without accruing additional interest costs.
- Encourage forbearance for residential rent and rent owed by small- and medium-sized businesses.
- Allow businesses and individuals to claim stimulus-related tax incentives on their 2019 tax returns.
- Delay the 2019 tax filing deadline and the collection of both employer-side payroll taxes and quarterly tax payments until the coronavirus outbreak has been contained.
- Allow workers who qualified for refundable tax credits such as the EITC in 2019 to receive an advance rebate on their 2020 benefit.

Relieve Pressure on State and Local Governments (PP. 9)

- Automatically increase the federal share of Medicaid and other matching grants when a state enters a recession.
- Create permanent accountability standards that enable states to better prepare for reporting requirements that created heavy compliance burdens during previous recessions.

Make Long-Term Investments in Recovery (PP. 9-10)

- Take advantage of low borrowing costs to invest in long-lasting public investments that would already be needed whether or not the economy is in recession.
- Fund green infrastructure and energy research to help tackle climate change.
- Automatically increase federal matching rates on infrastructure grants to states, particularly for maintenance and repair projects, when the state's economy contracts.
- Establish state-managed lists of "shovel-ready" projects and fund them through reforms to the existing BUILD Program.

Cut Taxes on Consumption, Not Payrolls (PP. 10-12)

- Promote commerce by encouraging state and local government to temporarily cut or eliminate sales taxes, having the federal government replace lost revenue.
- Allow states that don't have sales taxes to create refundable tax credits for purchases made during the crisis, also funded by the federal government.
- Suspend additional consumption taxes applied to industries most affected by the coronavirus, including airline ticket fees, hotel taxes, and taxes on prepared meals.
- Reduce tariffs, which are consumption taxes on imported goods primarily consumed by low-income people.
- Reject temporary payroll tax cuts, unless limited to the first $15,000 of a worker's earnings or the earnings of workers whose production capabilities have been idled by the coronavirus.
- Permanently replace payroll taxes with a dynamic value-added tax that has a rate which automatically falls during recessions and rises during expansions.

Embrace Fiscally Responsible Borrowing (PP. 12-13)

- Fund all interventions that experts reasonably conclude would materially help contain the coronavirus or its economic damage, no matter the cost.
- Strengthen automatic stabilizers that provide needed stimulus in recessions and reduce budget deficits during expansions without being influenced by politics.
- Implement structural fiscal reforms, such as those proposed in PPI's *Progressive Budget for Equitable Growth,* to reduce long-term budget deficits after the economy has fully recovered.

EXPAND UNEMPLOYMENT INSURANCE

Stimulus dollars are most effective when they go to people who will spend them and least effective when they go to people who will not.[10] One program that is particularly well-targeted is unemployment insurance (UI), a joint federal-state run program that partially replaces the incomes of workers who have lost their job through no fault of their own. In normal economic times, unemployed workers can collect benefits for up to 26 weeks as long as they are actively seeking a new job. UI functions as an automatic stabilizer because more people draw from it when unemployment rises during a recession and also because there is an "extended benefits" program that allows states going through high unemployment to extend benefits for another 13 to 20 weeks.[11] These extended benefits provide an additional boost to demand during recessions and help stabilize local economies.[12]

The Families First Coronavirus Response Act gave states federal funds to process and pay out their existing UI obligations and covered the entire cost of extended benefits, giving states important financial relief.[13] But more support may still be needed, as normal extended benefits were insufficient to grapple with the scale of job losses following the 2008 financial crisis: the number of unemployed people per job opening nearly quadrupled from 1.7 in December 2007 to 6.4 just after the recession ended in July 2009.[14] The percentage of unemployed people who had been unemployed for at least 27 weeks rose from 17 percent to 34 percent in the same time period, and rose as high as 46 percent by April 2010.[15]

In response to this growing need, Congress relaxed the requirements for states to qualify for extended benefits and extended UI eligibility for up to 99 weeks in states with particularly high unemployment.[16] Nearly twice as many UI beneficiaries would have fallen into poverty during the ensuing recession had they not received any UI benefits in 2009, and the Department of Labor estimated that GDP was $82 billion larger in the third quarter of 2009 than it would have been without extended benefits and the other benefit extensions that Congress passed.[17,18]

Despite these outcomes, as well as appeals from Senate Democrats and President Obama, Republicans in the House of Representatives allowed the benefit extensions to expire at the end of 2013.[19] At that time, 37 percent of unemployed people had been unemployed for at least 26 weeks – a greater share than there was at the end of the 2008 recession itself.[20] Cutting off these benefits did not make many people find a job, but it did compel a small number of job seekers to quit looking altogether as they no longer needed to seek a job to qualify for the benefits.[21]

To ensure that benefit expansions are sufficient to address the needs of a recession, and to prevent that support from being cut off prematurely, Congress should permanently expand the number of weeks that states may pay out extended benefits during the most severe recessions.[22] It should also consider increasing the share of lost income replaced by UI benefits and/or expanding work-share programs, which compensate workers for reduced wages when their employers choose to cut back hours instead of laying off employees. This approach, which other countries such as Denmark and Canada have adopted in the current crisis, keeps workers from falling into unemployment and ensures businesses do not lose employees permanently due to temporary economic problems such as the coronavirus.[23,24] Seventeen states used work-share programs to fight the 2008 recession with federal support, which Moody's Analytics estimates created $1.64 in economic activity for every $1 of government spending.[25,26]

SUPPORT VULNERABLE AMERICANS

The government can also stimulate the economy by putting money into the hands of low-income Americans who need to spend it. For example, Moody's Analytics estimates that an expansion of the Supplemental Nutrition Assistance Program (SNAP, also known as food stamps) included in the 2009 stimulus produced $1.71 in economic activity for each $1 it cost the federal government.[27] The Families First Coronavirus Relief Act boosted funding for SNAP and allows states to provide benefits to families with children who will miss free or reduced-price meals as schools close to contain the outbreak.[28]

The bill also eliminates work requirements for SNAP during the crisis.[29] Normally, able-bodied adults between ages 18-49 with no dependents can only receive SNAP for three months out of every three years if they do not meet certain work requirements. Although states could previously waive these requirements in areas facing high unemployment, the Trump administration has tried to prohibit such waivers and kick 700,000 people off SNAP.[30] This policy is especially counterproductive during a recession, particularly one caused by a contagious disease that shuts down normal economic activity.[31,32] Permanently reversing Trump's policy change and automatically relaxing work requirements during recessions would make SNAP an even more effective automatic stabilizer.[33]

Similar enhancements should also be made to other programs that support low-income Americans. Like SNAP, the Temporary Assistance for Needy Families (TANF) program includes work requirements. But TANF has a number of other restrictions, including a lifetime maximum of 60 months collecting benefits and a block-grant funding structure that hasn't been adjusted in nominal terms since its creation in 1996. Automatically increasing funding and relaxing benefit restrictions during recessions would enable the program to act as another automatic stabilizer.[34] Policymakers could provide additional assistance by increasing funding for programs such as AmeriCorps, which would both create jobs and serve these communities when they are most in need.[35]

More broadly, the federal government should immediately put money in consumers' pockets through direct cash payments. Ideally, these would be targeted to low-income Americans in particularly hard-hit areas to maximize efficiency and effectiveness.[36] However, a more administratively simple approach (particularly in the midst of an already-escalating crisis) would be to send every American a check or direct deposit for the same amount of money and structure the benefit as an advanced refundable tax credit that phases out with income so that it can be reclaimed from higher-income people in the subsequent year's tax return. Alternatively, the credit's value could be reduced by the amount a person's non-investment income increases between 2019 and 2020, which would reclaim the benefit from most people who experience no significant income loss as a result of the recession. The savings achieved from adopting one or both of these benefit limitations could then be used to increase the value of payments for the remaining population that has a greater need and propensity to spend.[37]

Because similar broad-based payment initiatives in the past have taken up to three months to fully pay out benefits, administrators should prioritize sending payments first to people on government benefits and those who reported low incomes in the prior year's tax return.[38] Policymakers should also set future payments to be triggered automatically by changes in key economic indicators, such as increases in the regional or national unemployment rate, to create a new automatic stabilizer.[39]

In the long term, policymakers should make it a goal to improve the automatic stabilizers in the tax code. None is stronger than our progressive income tax system, which claims a larger percentage of each additional dollar someone earns as their total income rises. When reduced hours or wages cause a person's income to fall, a greater proportion of that income is taxed at a lower rate, thereby reducing their effective tax burden. Because people pay taxes on income as they earn it, there is no lag between when the economy begins to contract and when people receive a benefit, making our tax code a powerful automatic stabilizer. Other provisions such as the Earned Income Tax Credit also provide additional benefits to low-income workers that are particularly beneficial in a recession. Policymakers should adopt the recommendations in PPI's *Progressive Budget for Equitable Growth* to enhance these policies and increase the overall progressivity of America's tax code.[40]

PROVIDE LIQUIDITY TO CASH-STRAPPED PEOPLE AND BUSINESSES

The biggest problem for many people and businesses is the disruption of their cashflows during a prolonged shutdown rather than weaknesses in their underlying finances.[41] Providing a temporary cash infusion, not unlike what Federal Reserve has already begun doing for financial institutions, could help everyone from small businesses to workers to landlords to lenders continue making payments to each other at little long-term cost.[42] Doing so would avoid unnecessary defaults that destroy otherwise productive financial arrangements and create economic hardships that linger well after the pandemic has been contained.

Some action has already been taken on this front: the Small Business Administration has begun lending Economic Injury Disaster Loans worth up to $2 million to small businesses impacted by the virus.[43] But nations around the world are taking more dramatic action, with Germany promising "unlimited credit" for businesses.[44] U.S. policymakers should explore all available options to provide low- or no-interest loans that enable otherwise financially healthy businesses to continue meeting their obligations for the duration of the crisis.

Senate Minority Leader Chuck Schumer has proposed allowing people to delay payment on federal student loans and federally insured or guaranteed mortgages for six months without accruing additional interest costs, as well as emergency rental and mortgage assistance for those who still struggle financially at the end of this forbearance.[45] This act would effectively enable the federal government to pass on the savings it gets from near-zero interest rate loans to ordinary Americans who borrow from it. Although these policies were ultimately not included in the Families First Coronavirus Response Act, Congress should strongly consider adopting them in subsequent legislation.[46] A universal forbearance on some other debts, particularly residential rent and rent owed by small- and medium-sized businesses, would also give financial relief to people and businesses struggling to make ends meet.[47]

Policymakers could allow businesses and individuals to claim stimulus-related tax incentives on their 2019 tax returns, which millions of Americans will file within the next 30 days.[48] The Treasury Department could also effectively provide taxpayers an interest-free loan by delaying this deadline and the collection of both employer-side payroll taxes and quarterly tax payments until the coronavirus outbreak has been contained.[49] Even more aggressively, workers who qualified for refundable tax credits such as the EITC in 2019 could be given the option of filing for an advance rebate on their 2020 benefit. In the long term, restructuring the EITC as a Living Wage Tax Credit (another policy PPI proposed in its budget blueprint last year) would make it an even more powerful income-support tool and automatic stabilizer.[50]

RELIEVE PRESSURE ON STATE AND LOCAL GOVERNMENTS

Most states and localities have balanced budget requirements that prohibit their governments from deliberately running a deficit even in tough economic times, which compels them to raise taxes or cut spending during recessions when ideally they should be doing the opposite.[51] The Families First Coronavirus Relief Act took the smart step of providing financial relief to state governments by increasing the matching rate for Medicaid payments to states, a technique that the federal government also used during the 2008 recession.[52]

Funding Medicaid is particularly important for bolstering public health during the coronavirus outbreak, especially in vulnerable communities. Moreover, increasing the federal share of Medicaid can allow states to redirect their own revenues from the program to maintain other essential services that would otherwise be cut due to budget shortfalls.[53] In addition to Medicaid spending, Congress also helped states weather the 2008 recession by spending more on K-12 education and funding transportation infrastructure projects, which Moody's Analytics estimates created $1.34 in economic activity for every $1 of spending.[54]

Because the federal government largely funds these priorities through matching grants, automatically increasing the federal match during recessions (and decreasing it following recoveries) would be an efficient way to give states fast fiscal relief through already-established programs. States are also more likely to direct federal money efficiently if they have "skin in the game" of their own.[55] For these and other projects funded by federal money, federal and state governments should agree to permanent accountability standards that enable states to better prepare for reporting requirements that created heavy compliance burdens during the 2008 recession.[56] Developing these and other mechanisms to provide automatic support for state and local governments during recessions should be a top priority.

MAKE LONG-TERM INVESTMENTS IN RECOVERY

Physical infrastructure presents a unique opportunity for the federal government to support states through a recession while also making the economy stronger in the long term. Infrastructure spending is an effective stimulus: every dollar of federal infrastructure spending during the 2008 recession produced an estimated $1.44 of economic activity (though it is unlikely that the fiscal multiplier on federal spending would be quite that high unless the unemployment rate returns to the level it was in 2009).[57]

Infrastructure spending strengthens the economy in the long run as well by creating the physical ecosystem for transporting people and goods. As PPI documented in a recent report, *Ending America's Public Investment Drought,* federal investments in infrastructure are at their lowest level since WWII.[58] Independent estimates by the American Society of Civil Engineers (ASCE) and McKinsey both found that the United States should spend roughly $1.4 trillion more on infrastructure than it is currently projected to over the next decade. ASCE also estimated that the United States will lose roughly $4 trillion in economic activity over that period if the government does not make that investment.[59] The U.S. economy also stands to lose several trillion dollars in the coming decades if we fail to make the necessary investments in infrastructure and scientific research required to tackle climate change.[60]

There is never a better time to rebuild our crumbling infrastructure than during an economic downturn. Construction is a particularly cyclical industry, meaning that without intervention it will suffer more than other industries will during a recession.[61] Investing in infrastructure as part of a stimulus package counteracts this effect while still realizing the long-term economic benefits that smart infrastructure spending creates. Since the federal government already partners with states for much of its infrastructure investment through matching funding, the federal government can quickly disburse funds through existing channels.[62] And with interest rates now at record-low levels, the cost to the federal government to deficit finance pro-growth infrastructure investments is exceptionally low.

PPI has proposed to have the federal government automatically increase its matching rate for infrastructure grants to states when that state's economy contracts, particularly for maintenance and repair projects.[63] Doing so would discourage state and local governments from pulling the plug on projects with national significance solely because of downturns. An added benefit of prioritizing maintenance and repair is that such projects can be implemented quickly and are thus more "shovel-ready" for fast-acting stimulus than the development of new structures.[64,65]

A recent compendium of automatic stabilizer proposals prepared by the Hamilton Project and the Washington Center on Equitable Growth also included a recommendation to establish state-managed lists of "shovel-ready" projects and fund them through the existing Better Utilizing Investments to Leverage Development (BUILD) Program. Under this proposal, the federal government would increase BUILD's funding level when the economy performs poorly, with the additional funds going to state projects with high benefit-cost ratios that can spend at least 50 percent of their funds within one year. When the economy recovers, the fund would make up for its elevated expenditures by reducing baseline spending for a few years.[66]

CUT TAXES ON CONSUMPTION, NOT PAYROLLS

Policymakers at all levels of government should encourage commerce and put more money in the pockets of both businesses and consumers by temporarily cutting or eliminating taxes on consumption. Forty-five states currently have a sales tax, as do many local governments.[67] Cutting these taxes would be particularly stimulative because 100 percent of the subsidy goes to encourage buying and selling. Sales tax cuts ease the tax's regressive impact on lower-income people who spend a higher proportion of their earnings than their high-income counterparts. In addition, policymakers could cut a number of specialized consumption taxes that apply specifically to the industries most impacted by the coronavirus crisis, such as airline ticket fees, hotel taxes, and taxes on prepared meals.[68,69]

Although most of these actions would need to be taken at the state and local level, the federal government should incentivize them to do so by giving grants that replace the revenue lost by cutting or suspending consumption taxes. States that do not have consumption taxes to cut could instead offer refundable tax credits to residents for purchases they make during the crisis, the cost of which would be reimbursed by the U.S. Treasury.[70] The federal government should also reduce tariffs, which function as a consumption tax on imported goods primarily consumed by low-income people.[71]

All of these policies would be far superior to the Trump administration's proposal to cut or suspend Social Security and Medicare payroll taxes.[72] The former is a 12.4 percent tax levied on the first $132,900 a worker earns, while the latter is a 2.9 percent tax applied to all earnings. Half of these taxes are paid by the employee and the other half is paid by the employer (self-employed workers pay both halves of the tax).[73] Full suspension of these taxes until the end of 2020 would cost roughly $840 billion.[74]

There are several reasons why cutting or suspending payroll taxes would be a poor form of stimulus. First, it would provide the greatest assistance to those that need it least. Workers who are laid off or otherwise unable to earn a paycheck would receive no benefit from a payroll tax cut, while someone earning six figures would receive a tax cut more than double the size of what a median-wage earner would receive.[75,76]

Many workers are already more likely to save than spend these tax-cut savings due to the nature of the coronavirus, and this problem would be even more applicable to wealthier individuals.

If policymakers nevertheless choose to cut or suspend payroll taxes, these reductions should only apply to the first $15,000 of a worker's earnings or the earnings of workers whose production capabilities have been idled by the coronavirus. PPI proposes that after the current coronavirus crisis has ended, policymakers should use the opportunity to move away from the outdated payroll-tax regime as part of a sweeping overhaul of the federal tax code. Although the Social Security and Medicare payroll taxes initially served an important political purpose by establishing that these were earned-benefit programs, the link between program contributions and benefits has become increasingly tenuous (as reflected by the fact that dedicated revenues are insufficient to fund promised benefits).[77]

A better alternative for funding federal programs would be to adopt a broad-based value-added tax, which functions similarly to a national sales tax. The VAT would be more progressive than the payroll tax it replaces because there is no "taxable maximum" on a VAT that slashes the effective rate paid by high earners.[78] A VAT is also neutral to the treatment of capital and labor, which means employers will be making hiring and investment decisions based on economic benefits rather than favorable tax treatment. Economists prefer consumption taxes over income taxes because consumption taxes encourage people to build wealth and reward consumers for saving money rather than spending it, which makes money available to invest in growing the economy.

A dynamic VAT, as proposed by PPI in our *Progressive Budget for Equitable Growth* last year, could also serve as a strong automatic stabilizer in future recessions.[79] This VAT rate could be set to adjust automatically to the state of the economy, much in the same way that emergency unemployment insurance benefits are triggered by a rise in the unemployment rate. Cutting the VAT rate during recessions would have the same effect as cutting sales taxes today, temporarily reducing prices across the board and encouraging spending in a way cutting taxes on payrolls would not. Such a policy could be particularly beneficial in an environment where the Federal Reserve's ability to manipulate price levels is constrained by low interest rates.[80] As the economy recovers, the VAT rate would return to a higher level that helps reduce long-term budget deficits. Other tax changes, as recommended in PPI's budget, would ensure that the switch from taxing payrolls to taxing consumption increases the overall progressivity of our tax code across the income distribution.[81]

EMBRACE FISCALLY RESPONSIBLE BORROWING

It's unfortunate that President Trump and his allies in Congress chose to exacerbate rather than reduce America's fiscal imbalance in the height of our longest economic expansion in history. Thanks to his policies, the federal government was already on track to spend $1 trillion more than it raised in revenue this year before the coronavirus struck.[82] The aggressive stimulus measures proposed in this report, combined with the inevitable effects of the recession they are designed to fight, could potentially double or even triple that figure.

But despite the discomfort that such a high price tag may cause some American taxpayers and their elected officials faced with trillion-dollar deficits as far as the eye can see, there is a fundamental difference between temporary borrowing to solve a national emergency and the long-term structural imbalance between federal revenues and old-age benefit programs.[83] The time to fix a broken roof is when the sun is shining, and right now America is in the middle of a hurricane.

The potential consequences of failing to respond with sufficient force to the unprecedented coronavirus crisis could be catastrophic. If the necessary recession caused by public health efforts to contain the virus are allowed to spiral into a second Great Depression, the long-term fiscal costs will far exceed those of even the most overzealous stimulus measures. This is especially true now that the federal government is able to sell 30-year bonds at a 1-percent interest rate – far below the already-low rate of inflation. Shorter-term bonds have effectively no borrowing cost.[84] In this environment, any action that experts reasonably conclude would materially help contain the virus or its economic damage should be undertaken no matter the price.

Of course, there are still some (far more benign) risks of enacting a stimulus package that ends up being too big. Should the recession be smaller than anticipated, excessive stimulus could overheat the economy, leading to inflation and higher borrowing costs for both the public and private sector.[85] Additionally, the national debt incurred to finance today's stimulus will eventually mature and be replaced by new debt that may be issued at a higher interest rate.[86] It is therefore critical that policymakers be prepared to swiftly bring revenues in line with spending after the economy has fully recovered to prevent rising interest costs from crowding out other important public investments or hamstringing a response to the next crisis.[87]

The automatic stabilizers detailed in this report, combined with the structural reforms in PPI's *Progressive Budget for Equitable Growth,* are the perfect tools for balancing these risks. If the economic damage caused by the coronavirus continues to deepen beyond expectations, these policies will respond by injecting much-needed stimulus into the economy without being hamstrung by the political process. Strengthening automatic stabilizers will help avoid the mistakes policymakers made following the 2008 financial crisis, when a misguided focus by Congressional Republicans on immediate rather than long-term deficit reduction undercut the recovery.[88] When the crisis ends and it comes time to get budget deficits back under control, these same policies will drain any excess stimulus from our economy and use it to pay down our elevated debts. America is about to be tested like never before, but this framework will position us to beat the recession in 2020 and all those that come after it.

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ABOUT THE CENTER FOR FUNDING AMERICA'S FUTURE

The PPI Center for Funding America's Future works to promote a fiscally responsible public investment agenda that fosters robust and inclusive economic growth. In 2019, the Center published a comprehensive budget blueprint containing more than 50 ambitious but practical proposals for strengthening public investments in the foundation of our economy, modernizing federal health and retirement programs to reflect an aging society, and transforming our tax code to reward work over wealth – all while putting the national debt on a downward trajectory. This Progressive Budget for Equitable Growth can be found online at bit.ly/PPIBudget.

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