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Moody's Mark Zandi says the U.S. needs to spend big and fast to avoid falling back into recession

By Mark Zandi
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The Trump administration and Congress are in deep negotiations over the next fiscal rescue package to shore up the economy as it struggles with the COVID-19 crisis. The debate isn't whether there should be another round of support, but how many trillions of dollars it should be, and where those dollars should be used.

Lawmakers need to go big. They've responded aggressively to the pandemic so far, spending a massive \$2.4 trillion, 10% of the nation's pre-pandemic GDP, to help out the economy. But this money has all but run out, as the more than 30 million workers on unemployment insurance will discover next week when their benefits will be significantly cut back. And the pandemic is still raging and the economy still sputtering.

The economy received a temporary lift when businesses reopened earlier this summer, but they reopened too quickly, and when combined with the federal government's chaotic management of the health-care crisis, the pandemic was reignited. Infections, hospitalizations and deaths are quickly rising in much of the country, and it appears that they are set to get much worse. About half the states have either rolled back or paused their reopenings.

The economic damage is clear. Most telling is that claims for unemployment insurance by those losing their jobs have been stuck at a disconcerting two million-plus a week since early June, including claims by gig workers and others not eligible for regular unemployment benefits. In a good economy, claims are closer to 200,000 a week. With hiring now slowing as businesses are required to close again, or at least impose tighter social distancing, it is increasingly likely that the layoffs will overwhelm the hiring, and there will be more job losses. Unemployment, already in depression-like double digits, is set to go higher.

House Democrats have already passed legislation that provides an additional \$3.4 trillion in fiscal support. Senate Republicans are close on a roughly \$1 trillion package. Given the deteriorating economy, the final agreement needs to end up closer to the House proposal than the Senate's.

The pandemic and resulting economic fallout could be less serious than feared, but given the extraordinary uncertainty over how this will all play out, lawmakers should err on the side of a rescue package that is bigger than may ultimately be needed. This is particularly so, as this may be the only window they will have to pass legislation to support the economy again until after the presidential inauguration in January. That's a very long time while engulfed in a crisis.

The appropriate size of the fiscal rescue package also depends on the efficacy of the provisions that are included. If lawmakers don't include provisions with big economic bangs for the buck, then the price tag will need to be even larger. Most important, they must agree to help hard-pressed state and local governments; extend the enhanced unemployment insurance benefits, at least in part; and provide additional income support, such as food and housing assistance. Without help, state and local governments will have no choice but to slash programs and millions of middle-income jobs, including teachers, fire, police and other emergency responders. And the unemployed will have to stop paying bills and curtail what spending they are doing.

Worries in some quarters regarding the nation's massive budget deficit and quickly mounting debt load are complicating the discussions. The federal government's publicly traded debt-to-GDP ratio, which was close to 80% before the pandemic, is headed to more than 100%, and is sure to ultimately break through the record 106% briefly experienced after World War II. But unlike back then, when the U.S. enjoyed a long period of strong economic growth that brought the debt load back down, prospects are for stunted economic growth after this pandemic.

This is disconcerting, but it is not an argument for pressing on the fiscal brakes now while the pandemic is still raging. Doing so would only undermine the economy and exacerbate the nation's fiscal problems. When it comes to the nation's finances, lawmakers have a Hobson's choice. There is no good option, but the least bad one is to continue to provide strong fiscal support at least until we are on the other side of the pandemic and the economy has a clear path to returning to full employment. Besides, with interest rates pinned close to zero by the Federal Reserve and likely to remain there for the foreseeable future, and with inflation if anything too low, there is no pressing reason for lawmakers to pull back now.

Given that the election is just a few months away and the political pressure to do something is intensifying, it is hard to fathom that lawmakers won't come to terms and sign legislation on another fiscal rescue package. Not doing so would doom the economy and any hope of being reelected. But they need to go big and go quickly.

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