

## US Daily: The US Fiscal Response to COVID-19: One Year and \$5 Trillion Later (Taylor)

- With last month's enactment of the American Rescue Plan Act (ARP), Congress has likely passed its last emergency coronavirus relief bill. Over the course of a year, Congress enacted six laws that provided over \$5 trillion in pandemic-related funding. We estimate \$4 trillion of this has or will be spent by the end of 2021, reflecting the front-loaded nature of many of the provisions like stimulus checks, jobless aid, and grants for small and distressed businesses.
- The remaining funds will likely take years to spend. Congress set aside hundreds of billions of dollars for state governments, schools, and other non-emergency programs where spending will occur more gradually. As a result, the slowdown in coronavirus-related spending will likely be sharp this year even if Congress renews certain provisions like jobless aid and the expanded child tax credit, which our forecast assumes. This slowdown likely adds pressure on congressional Democrats to enact additional fiscal measures later this year beyond infrastructure spending, which we think will take some time to ramp up once passed.

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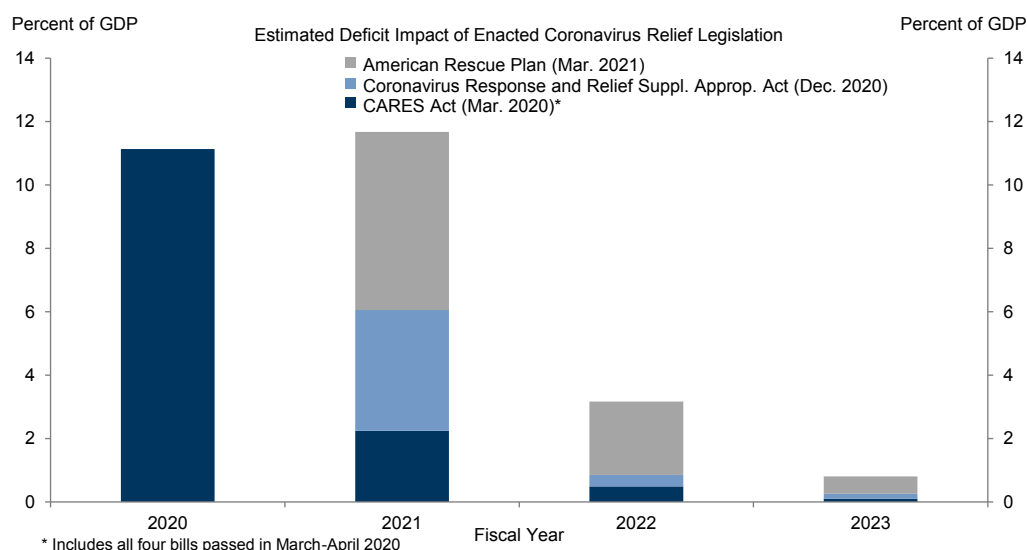
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## The US Fiscal Response to COVID-19: One Year and \$5 Trillion Later

Over the past year Congress has authorized over \$5 trillion in new spending and tax relief measures through six coronavirus relief laws. The overwhelming majority of the deficit impact is front-loaded, largely reflecting the one-off and temporary nature of some of the payments (Exhibit 1).

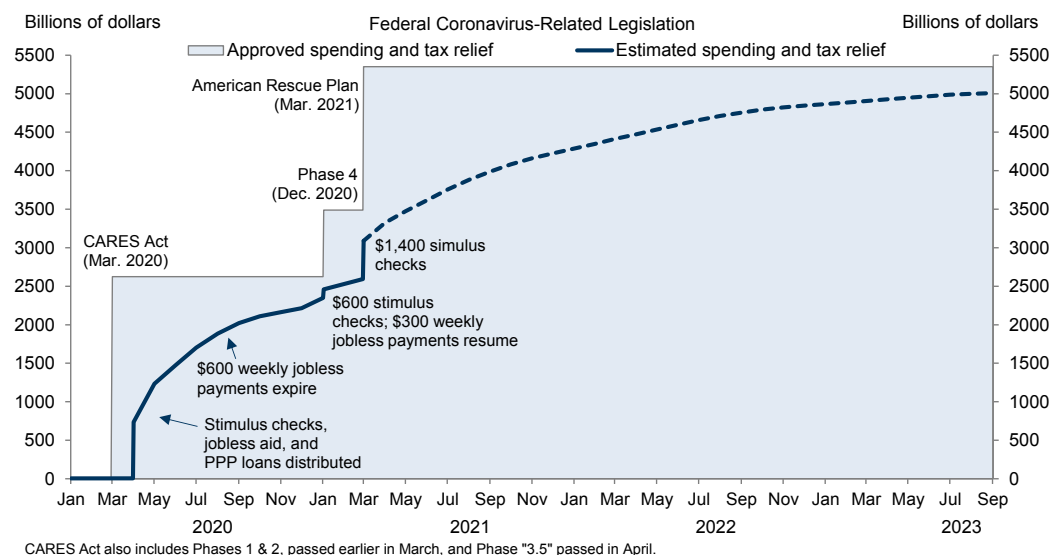
**Exhibit 1: Coronavirus Relief Measures Are Heavily Front-Loaded**



Source: Congressional Budget Office, Treasury, Goldman Sachs Global Investment Research

Congress passed the CARES Act and three smaller bills in March and April 2020, approving over \$2 trillion of pandemic-related spending and tax relief in a matter of weeks. Much of this spending occurred fairly quickly, as the first round of stimulus checks, forgivable loans to small businesses, grants to firms in distressed industries, and jobless benefits all reached households and businesses in large sums beginning in April (Exhibit 2).

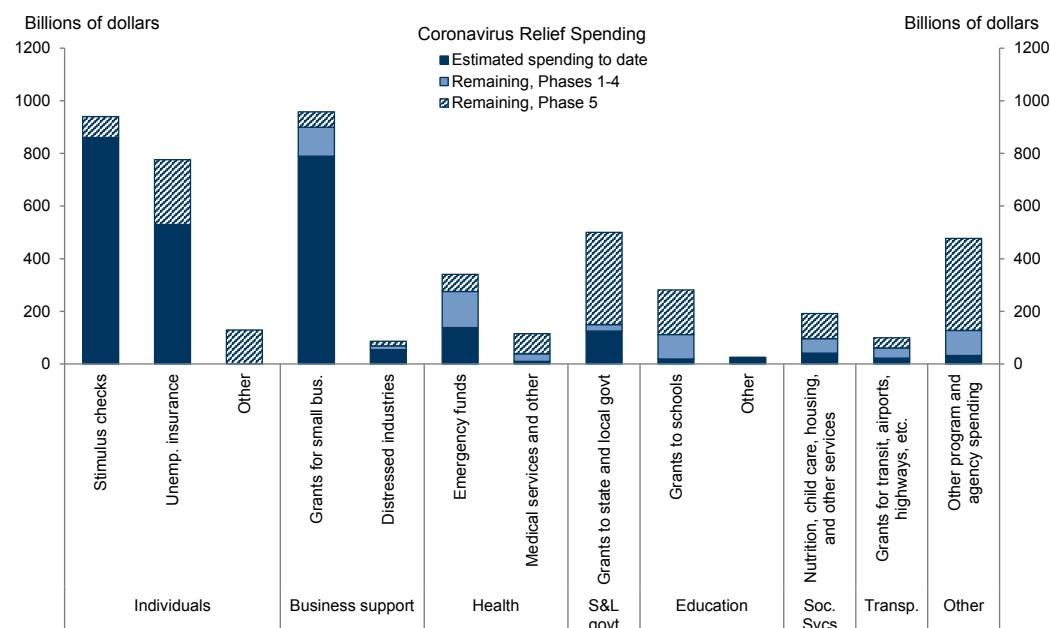
## Exhibit 2: The Amount of Approved Fiscal Measures Doubled in the Past Three Months, but Remaining Funds Will Take Several Years to Spend



Source: Treasury, Data compiled by Goldman Sachs Global Investment Research

By the end of 2020, a very large share of the virus-related appropriations to date had already been spent. By the time Congress enacted the Phase 4 appropriations bill in December 2020, we estimate about \$2.2 trillion of the \$2.6 trillion Congress had approved had been spent or distributed. In the first three months of 2021, we estimate that an additional \$800 billion has moved out the door, reflecting two more rounds of stimulus payments, the resumption of the \$300 per week jobless benefit, and another round of forgivable loans to small businesses.

Roughly \$2 trillion in approved spending remains, but these funds will likely take years to spend. As shown below in Exhibit 3, some of the remaining spending authority is in categories where spending is likely to occur over the next few months, such as additional unemployment benefits and grants to restaurants and other distressed businesses. But most remaining spending will likely occur very gradually, including the several hundred billion dollars for grants to state and local governments, additional funding for schools, and other agency funding.

**Exhibit 3: Most Remaining Spending Will Likely Occur Over Several Years**

Source: Treasury, Data compiled by Goldman Sachs Global Investment Research

It could take state and local governments several years to spend their allocated funds for a few reasons.<sup>1</sup> First, unlike the \$150bn allocation for the CARES Act Coronavirus Relief Fund, states do not face a near-term deadline to spend the \$350bn in additional funds included in the American Rescue Plan. The law restricts how state and local governments that receive relief in excess of their revenue shortfall may spend the funds. Infrastructure is one eligible use, but if Congress passes an infrastructure law in coming months, state and local governments may face fewer options for spending their funds quickly.

The slower rate of coronavirus relief spending after 2021 on its own should deliver a negative fiscal impulse to growth by the end of this year, even if Congress renews some expiring provisions later this year like the expanded child tax credit and the maximum duration of unemployment benefits, as our forecast assumes.

If Congress enacts an infrastructure law similar to the one President Biden recently proposed, spending from such a plan would likely take a few years to ramp up, and tax increases taking effect earlier could weigh on the fiscal impulse further. As a result, congressional Democrats could face pressure to pass additional fiscal measures to take effect in the short term.

**Blake Taylor**

<sup>1</sup> The Congressional Budget Office allocates the entire effect of state and local government aid on the deficit in 2021. However, this accounting only reflects when the federal government transfers funds to states and localities, not when they spend the funds. The Treasury must make at least half of the \$350bn in payments by May, but states are likely to take much longer to spend the funds.

# Disclosure Appendix

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