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THE CURRENT: What's in the Senate's $2 trillion economic package?

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PITA: You're listening to The Current, part of the Brookings Podcast Network. I'm your host, Adrianna Pita.

At 1:00 a.m. Tuesday night, the Senate and the White House announced after many days of contentious negotiations, they'd reached agreement on a $2 trillion stimulus package which is being described as a historic effort to bolster the economy against the effects of the coronavirus pandemic.

With us to discuss the bill is Jay Shambaugh, senior fellow in Economic Studies and director the Hamilton Project here at Brookings. Jay, thanks for talking to us today.

SHAMBAUGH: Thanks for having me.

PITA: I understand we're still waiting for some of the full details, or they're just rolling out, but broadly, can you tell us what's included in the $2 trillion bill? How does it break out for individuals, smaller businesses, larger industries, and so on?

SHAMBAUGH: Well, the first thing to say is there's a lot in it, which in some sense is obvious, given the price tag somewhere in the neighborhood of $2 trillion. One thing I will say broadly when you look at it, is, it often is getting described as a stimulus package, including by the people writing it, but I think we shouldn't think of it purely as stimulus as much as economic support. You're trying to cushion a downturn and set conditions for a recovery. We're not trying to make the economy go super-fast today. First of all, I don't think we could, but second of all, while you've got all the restrictions in place on the health side, you couldn't really do that. So we're really just trying to cushion the really, really deep downturn we're going to face and make it as short as possible.

So, in terms of what's in here, there's some things in here I don't think we knew were going to be in here until last night that are really important. I would say the fact that they're putting about $150 billion into the health system is hugely important. At least the way I look at it, you need to get both the health response right and the economic response right for the economy to do well. Just doing the economics isn't sufficient if you don't get the health care right, you're still going to have a problem in the economy.

The other thing I was honestly thrilled to see, because it hadn't been in earlier versions that Senator McConnell had released, was $150 billion to state and local governments. That's just hugely important. The states are the front lines of the response to this pandemic. They know already their budgets are going to be tight. When the unemployment rate goes up, which it's going to, state budgets really take a hit. They take a hit because they lose in places that have income tax, they lose that, but they lose all the consumption tax revenues from sales tax and things like that. So, helping the states to make sure they don't cut back in the midst of both a health crisis or an economic downturn was terrific. So, those two things were great.

In terms then of – you mentioned businesses and individuals – honestly, there's a lot for both. So, there is about $350 billion or maybe a little bit more aimed at small businesses, which I think they're labeling as 500 employees or less. A lot of that money is designed to be loaned, but loans that can be convert into grants depending on some set of conditions, typically around, did you face a big revenue loss because of the outbreak, and did you ty to keep at least most of your employees on board. Those are really important because one thing we want to do is if this is going to be a sharp, short downturn, is you want to keep those businesses alive so that people have jobs to go back to, either by keeping the employment relationships connected, having them stay on payrolls, or at the very least making sure there are jobs to go back to if they re-hire people who have been let go.

There's about $500 billion for big businesses, and this is the part you may have heard had a bit of controversy around – whether there would be any guardrails around it, who's making the decisions around it. My understanding is the way they've structured this now is the bulk of that money – well over $400 billion – is really set up as loss-absorbing capacity for the Federal Reserve, so the Federal Reserve would be the one making the key loans here. I think a lot of people saw that as a way to take that out of the political process. They have put some guardrails on that: you can't use the money for buy-backs of shares, I believe there's some restraints around bonuses as well. And then there's a smaller portion of money that's reserved for the Treasury, and they have put a new inspector general and board around that as well. So those are kind of the provisions for firms.

For individuals, there's quite a bit. There's two core pieces. One that people have probably heard about is we're going to send checks to everybody. That's the goal. So, $1200 per individual, $500 per child. It phases out at higher income levels. Crucially, it does not phase in from zero. There were early bills had this, if you were very low income or didn't have any taxable income last year, you didn't get the money, and I think that was something that many people, myself included, was not a good idea to do it that way. Fortunately, what's come out of the negotiation is everybody below some threshold will get some check, and that's really important. The reason – I think it's sometimes useful for people to know why do you want everybody to get a check – is that while we've got other provisions that I'll talk about in a second that help people that have lost jobs and things like that, millions of people are losing income to some degree. They're losing tips, they're losing second job income, they're having their hours reduced. So a lot of people are in positions that they're not qualifying for the safety net on the one hand, but they're losing money. This is just intended as a way to give people some money to help cushion the downturn, help get them through. And in some sense, it's the only piece that's really stimulus in that way, which is it's also trying to give people some more purchasing power – not for today so much as when the restrictions are lifted, people have some money they can spend and help the economy pick up.

But I would say the most important addition over the last few days has been a real strong emphasis on the unemployment insurance system. They put in a number of pieces here. Probably the most important to a lot of people is that there's now a $600 bonus payment weekly on top of the benefits you were already getting. That's intended to basically take the typical worker up to now getting 100% of the salary they were getting before they were laid off. That's temporary – it's for 4 months – so it's not that people can stay on unemployment at no cost forever, but the idea is, right now, people who are losing jobs, there's no jobs to go to. They're not staying unemployed by choice. So there's this bonus payment to try to cushion the blow for as many households as possible.

They've also done some creative things. They're trying to get more people who don't usually qualify for unemployment insurance to be qualified: self-employed people, gig workers now have more of a route to qualify for unemployment insurance. There's also something I'm really a fan of: they're allowing people who are furloughed, so they're technically still employed, but they're losing all their hours, can now go onto unemployment insurance, still maintain their relationship with their firm, including I believe, if it made it through the legislative text, they can stay on the benefits of their firm. They're just not getting any salary, so they can go on unemployment insurance to get that salary. So you could have a restaurant that just closes; everybody stays employed technically, they're just not getting paid; they get paid by the unemployment insurance system, and then when the restaurant re-opens, they're just right back to their jobs. So I think that's a really important way to try to make it both cushion people but also make it so they can go back to work quickly. I know that's a lot, but those are the big picture pieces that are in there.

PITA: After the 2008 recession, with the economic recovery that happened after that, there was often a lot of resentment that it seemed like Wall Street, auto companies, that all these big corporations got bailed out, but independent businesses and workers didn't. It sounds like from what you're saying that the balance in this package is somewhat better. Can you tell us about your take on that balance, and was there anything you would've really liked to have seen included that wasn't?

SHAMBAUGH: So I would say there is a fair bit of balance here. I think sometimes when people looked at the Recovery Act back in 2009, they conflated it with TARP; so there were these two bills and they didn't know where they were getting helped. With TARP, certainly a lot of money went to the large banks. But the other thing was, there were tax cuts in the Recovery Act that went to people, but just in very small increments over time. People got actually a fair bit of money, but didn't know it, and I think one of the lessons people have learned from the research, there's actually something useful in just giving people the money up front in a visible way so they know they got it. It makes them feel a lot better, there's something very useful in doing the cash disbursement as opposed to coming off taxes because if you've lost your job, or lost hours, or lost income, you still get the money. I think that's something that's great that it's there. The unemployment insurance piece is just hugely important given we're seeing already – the data will come out tomorrow, but the news reports suggest that unemployment insurance claims, or new claims for it, will set a record we've never seen in a week before. In fact, by multiples of what we've ever seen. So, we know people are losing their jobs and we're hoping it's temporary, but we really need to do something to help people in between. So, there's a lot there.

But then also, you're right, the small business piece is a crucial thing. There were lots of small pieces for small businesses in prior Recovery Act-type measures, but here it's more front-and-center. And I think the logic is that normally, one way we can help small businesses is by helping demand in the economy by stimulating the economy, trying to make sure that people are out shopping, consuming, and eating in restaurants. But we can't do that right now. We've in fact told them not to do those things. And so that means you really do need a special channel to help the small businesses get over this shutdown period and into a recovery period.

PITA: Maybe you can give us a bead on what comes next after this. If we assume that the House likely to without too much delay or adjustment, what is the timeline of how this rolls out? You've also about the need for a broad and sustained economic policy response. If this is the emergency response, then what needs to come next?

SHAMBAUGH: That's a great question. On that second one first, what I would love to see – and probably the thing that I'm a big fan of that's not in here – is putting in more money that goes off triggers, where you say if a certain set of conditions is holding in the economy, this much more money goes out automatically. Senators Bennett, Brown, and Booker, I believe, proposed a larger cash benefits, but also one that, 3 months later if the unemployment rate is quite high, you'd send out more. And three months after that, if the unemployment rate is still high, you'd send out more. Or things along those lines. I would love to see them turn around and immediately pass some of that. Where, maybe everything's great. Maybe we solve the health crisis and what they've passed already is sufficient, and three or six months from now the economy is in pretty good shape, in which case that next bill that you passed doesn't do anything. You wouldn't hit the triggers; you wouldn't spend the money. But if you need to, the money goes out. We're already seeing multiple members of the House and at least one senator diagnosed with the disease. There could be delays in their ability to meet and get things done. I think it would be very reassuring for both people and the market to know that that there's a backstop if the economy really goes south. So that would be one thing they could do next.

I think there are some pieces that worry me that are missing. At one point in the legislation there was money to increase the maximum benefit for SNAP, what used to be called food stamps, and my understanding is that didn't survive the bill. And that's really too bad. A colleague of mine at the Hamilton Project, Lauren Bauer, has done a lot of work on this and about why this is a really good way to cushion people in a downturn and help the economy. So that's something they could try to add later.

When you asked about the timing, one thing that may surprise people is that the federal government doesn't actually have a button it can push that everybody gets money right away. It's one of the things that some of us advocated they should build in as an automatic thing that would happen, mostly so that you got the systems ready to push that button if you need to. But what that means is it's going to take a few weeks at minimum for people to get those checks, the $1200 I mentioned. And it's also going to depend on what the government knows about you. So, if you filed taxes last year and you got a refund and you took that refund as direct deposit, then the government knows how to get you money very quickly. So there'll be some people who get money more quickly. What many of us worry about is, very low-income households often don't make enough money where they're required to file federal taxes. So, if the IRS doesn't know where you are, it can get a lot more complicated. My understanding of what they're saying is people are actually going to have to file a tax return where they don't owe money to then get the check, and we know in 2008 when they did that that not everyone did it. So some people are going to miss the money. One thing that some of us advocated is if you're on SNAP, you have this electronic debit card that they put your SNAP or what used to be called food stamp money on. Those cards can also hold cash that's not restricted the way SNAP funds are, so you could've just put money on everybody's SNAP card, and that would've gotten, say $500 to every very low-income household, and those are typically the most vulnerable households.

The timing is going to be a little clunky once it's signed – hopefully it'll be signed quickly. I think the unemployment insurance provisions will kick in pretty fast. The big business loans, the Fed is really ramping up to be ready. The small business loan aspect of this I admit – it's a new program, and new programs are hard – I think there'll be a lot of businesses unsure about what they qualify for, will it be a grant, will it be a loan, what's the best route for them to walk down. That hopefully they can smooth through quickly, but that honestly may be a bit of a challenge.

PITA: Gotcha. All right well, we'll wait and see and hopefully things will get moving pretty quickly. Jay, thanks so much for talking to us and explaining this today.

SHAMBAUGH: Thanks for having me.