BACKGROUNDER
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Potential Long-Term Economic Consequences of the Federal Response to the COVID-19 Lockdowns

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KEY TAKEAWAYS

Widespread COVID-19 lockdowns prompted the federal government to adopt risky fiscal and monetary policies to mitigate historic economic damage.

Current deficits and debt are insufficient measures of government financial sustainability, but pre-virus fiscal and monetary conditions were already problematic.

For a stronger recovery, policymakers should reconsider widespread lockdowns, curb new borrowing, normalize monetary policy, and reform entitlement programs.

The discovery that the novel coronavirus—SARS-CoV-2, which causes the disease COVID-19—could be spread by human transmission set off a cascade of government interventions that may have long-term consequences for Americans' living standards. A number of studies have addressed the contours of the pandemic itself, offering various assessments of the transmissibility, lethality, and prevalence of the virus.[1] Others have examined the utility of the stay-at-home orders and other "lockdown" policies while assessing the effects on the economy.[2] This *Backgrounder* examines the potential long-term consequences of fiscal and monetary policies undertaken to mitigate the economic effects of government lockdowns.

Federal policymakers are acutely aware that lockdowns are causing profound economic dislocations. As a result, Congress, with the support of the

Administration, has so far enacted four coronavirus bills that will increase the federal deficit by $2.1 trillion during fiscal year (FY) 2020.[3] Combined with the economic and fiscal effects of the lockdown, the Congressional Budget Office (CBO) currently projects that the FY 2020 deficit will increase to $3.7 trillion.[4] On May 15, the House passed an additional bill that is estimated to necessitate an additional $3 trillion in federal borrowing.[5]

This borrowing, in turn, has put the federal government in fiscal circumstances that neither the U.S., nor most other highly developed countries, has ever experienced during peacetime. Much of this debt is being absorbed by the Federal Reserve, swelling its balance sheet to unprecedented levels and blurring the distinction between fiscal policy and monetary policy.

The current deficit and levels of debt are instructive, but insufficient measures, of whether a government's finances are sustainable. Rather, determining the sustainability of a government's fiscal position is based on future growth in spending and revenues.

This means that even with no, or relatively low, levels of debt as a share of the economy, the budget can be unsustainable. At the same time, a budget could be sustainable even with high levels of debt. The implication with regards to the current situation is that public health measures aimed at combating the novel coronavirus or short-term fiscal stimulus may add to the debt without changing the federal government's fiscal sustainability.

The U.S. government is in the unfortunate position of having to borrow substantial sums of money to ameliorate the economic effects of lockdown orders in addition to a large and growing debt load. Entitlement spending—especially on health care entitlements—has contributed to systemic fiscal imbalances. The rate of spending on these entitlements will continue to grow into the future, absent structural reform.

As with fiscal policy, monetary policy has followed a pattern that does not track the economic cycles of recession and recovery. After the Great Recession ended in 2009, the Federal Reserve decided against normalizing monetary policy. The Fed maintained its abnormally large balance sheet and kept its crisis-era operating framework in place, thus failing to end its credit-allocation policies and outsized involvement in financial markets. Using this new framework, one that separates the Fed's monetary policy stance from the amount of assets it buys, the Fed has abruptly enlarged its balance sheet by nearly $3 trillion—an increase of more than 70 percent in the space of three months—as part of the government's efforts to offset the economic consequences of the lockdown orders. These operations erode the lines between fiscal and monetary policy, and invite political pressure for the Fed to fund elected officials' favored projects directly.

This *Backgrounder* distinguishes between federal debt that is incurred as a one-time response to economic exigencies, and a debt load that is attributable to more permanent factors, such as entitlement spending. It frames recent congressional actions that have abruptly increased federal debt in their historical context. It further examines the Federal Reserve's response to the lockdown orders, places them in their historical context, and discusses the potential problems with this approach.

It concludes with a series of recommendations, calling on policymakers to re-examine the use of widespread and long-standing lockdown orders, urging Congress to examine the effects of COVID-19-related legislation it already has passed before requiring the federal government to take on more debt, recommending that the Federal Reserve normalize monetary policy, and recommending that Congress address federal indebtedness in a systematic way by reforming federal entitlement programs, especially health care entitlement programs.

The Federal Debt

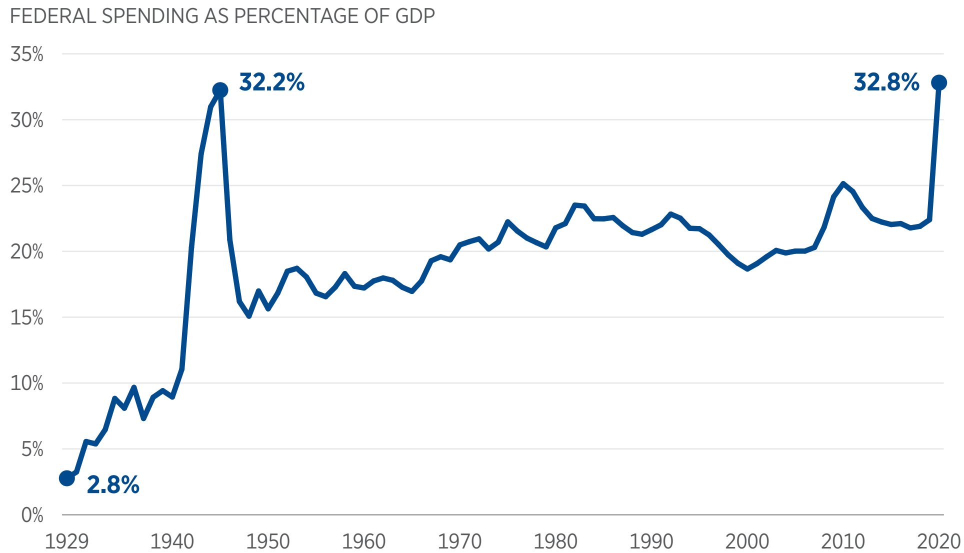
One-Time-Borrowing Increases Related to COVID-19 Lockdowns. In all but five of the past 50 years, the budget of the United States has been in cash deficit.[6] For example, in 2019, the federal government ran a cash deficit of $984 billion—after collecting $3,463 billion in revenues and spending $4,447 billion.[7] The continuous level of deficit spending has increased public debt, which, during the same period, rose from 32 percent to 79 percent of gross domestic product (GDP).[8]

Prior to the onset of the 2019 novel coronavirus in the United States, the CBO estimated that the 2020 budget deficit would be $1,073 billion.[9] Over the past 12 weeks, the federal response to the virus has been robust. At the urging of federal public health officials, most states and jurisdictions have imposed some form of social distancing and stay-at-home orders, with potentially devastating economic consequences.[10]

Congress has enacted four bills that seek to mitigate these consequences.[11] The House of Representatives has passed a fifth bill and is expected eventually to reach an agreement with the Senate on new legislation.[12] On March 13, the President declared a COVID-19-related national emergency, which provided access to $50 billion in federal financial assistance for states, localities, and territories.[13] Finally, federal and state safety-net program spending has increased as people have lost income by becoming unemployed or having their hours significantly reduced in response to the dramatic reduction in economic activity associated with efforts to combat the coronavirus.[14]

CHART 1

Federal Spending at Highest Level Since 1929



SOURCES: Bureau of Economic Analysis, "National Income and Product Accounts," Tables 1.1.5 and 3.2, https://apps.bea.gov/iTable/index_nipa.cfm (accessed May 28, 2020) and authors' calculations. See Appendix Table 1 for details.

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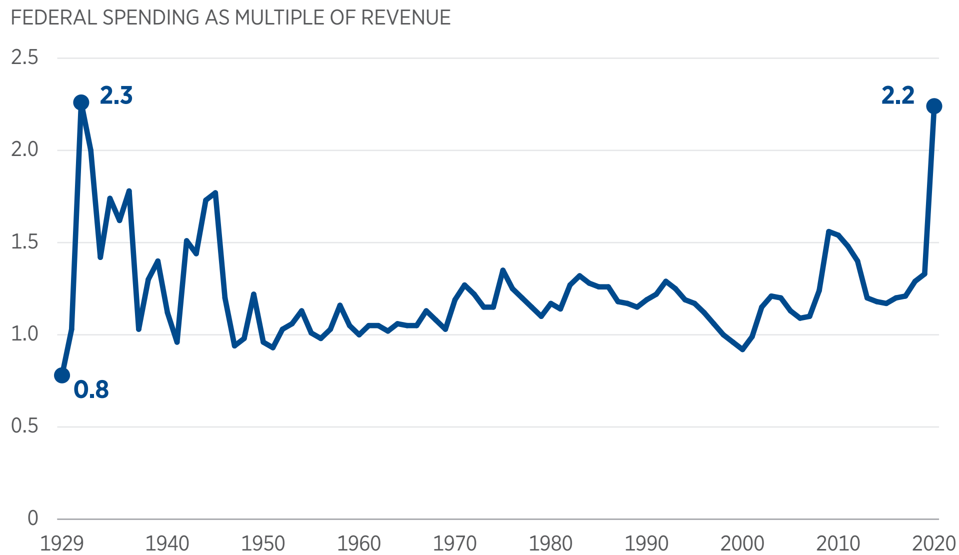
The CBO now expects that the federal budget deficit in 2020 will be $3.7 trillion, based on the policy actions already taken and the downward revisions to the economic outlook.[15] If no other legislative actions occur, debt held by the public is projected to exceed 100 percent of the economy by September—an increase of more than 20 percentage points relative to previous projections.[16] The most recent House-passed bill could add another $3 trillion to the 10-year budget deficit.[17]

The fifth coronavirus bill will not necessarily be the last one that Congress enacts on this subject. The pandemic is tracing an uncertain course and government stay-at-home orders may persist into the summer in some areas, particularly in densely populated places. Economic dislocations may continue in the third quarter of 2020, putting pressure on Congress to provide additional funding to distressed businesses and to the tens of millions of workers who have been added to the unemployment rolls. Congress already has added funding for a special loan program for small businesses after the one it created in late March was quickly depleted. That fund may again be tapped out soon. And it is certainly possible that Congress will

CHART 2

Government Expenditure-to-Revenue Ratio Highest Since 1932



SOURCES: Bureau of Economic Analysis, "National Income and Product Accounts," https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2# (accessed May 28, 2020), and Bureau of Economic Analysis, "National Income and Product Accounts," Table 3.2, https://apps.bea.gov/iTable/index_nipa.cfm (accessed May 28, 2020) and authors' calculations. See Appendix Table 1 for details.

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continue the temporary $600 increase in weekly unemployment benefits beyond its scheduled July 31 expiration.[18]

Unlike with previous stimulus legislation, Congress is following an iterative process in increasing government borrowing and spending, where it ratchets up both in a step-wise fashion as the crisis unfolds. That process has already contributed to more than tripling the projected 2020 deficit. The cumulative effects of that spending are illustrated in Charts 1 to 5.

Chart 1 shows that federal spending has risen to 32.84 percent of GDP, eclipsing the previous record of 32.24 percent, set in 1945. It is the highest level recorded over the past 90 years.

Chart 2 shows another way of placing the uptick in spending in its historical context. It shows that federal spending will be 224 percent of revenue this year. This is the first time since 1932 that the government has spent more than twice what it collects in taxes. The government exceeded this year's ratio only once in the past nine decades—in 1931, when it reached 226 percent of revenue.

Unlike the current increase, which is driven largely by a surge in federal spending, the sharp increase in spending as a percentage of revenue during the Great Depression was primarily driven by a reduction in revenue. Between 1930 and 1932, total revenue fell by 53 percent, while the global reduction in the demand for goods contributed to the reduction in customs revenue by 44 percent. Many of the New Deal programs that increased spending during the period were also relatively short lived. That said, the legacy of spending created by these programs became the new normal for federal involvement in the economy; matters formerly handled by the states would be established as federal responsibilities by the end of World War II.[19]

Congress's spending in response to economic shutdowns is thus far greater than previous peaks during the 20th century. The magnitude of this spending should serve as a signal to lawmakers that they may have wandered off course.

Debt Snapshots an Insufficient Measure of Future Borrowing Capacity. While the size, abruptness and open-ended nature of the borrowing is without precedent, current levels of deficits and debt are insufficient measures of whether a government will spend beyond its means in the future. Whether a government's future fiscal path is sustainable is contingent on future growth in spending and revenues—not on current debt, although the size of that debt is hardly irrelevant. Even with no debt, a government's budget can be unsustainable; likewise, a budget could be sustainable even if the debt is immense.[20] Furthermore, short-term deficits based on short-term policy changes, such as spending on public health measures aimed at combating the novel coronavirus or fiscal stimulus, may add to the debt without necessarily changing a government's fiscal sustainability.[21]

It is also the case that short-term deficits in the U.S. appear to have become habit-forming in recent decades. The federal government began the new millennium with an annual budget surplus. 9/11 followed by a recession led to deficits in excess of 3 percent of GDP in 2003 and 2004. The financial meltdown caused the deficit to increase to nearly 10 percent of GDP in 2009. Despite a sustained recovery, the deficit never shrank lower than 2.4 percent of GDP and reached nearly 4.6 percent in 2019, even with continued recovery, historically low unemployment rates, and buoyant equity markets. The CBO currently projects this year's deficit to be 18 percent of GDP, nearly twice the level it reached during the Great Recession. The combination of pandemic, "social distancing," and congressional efforts to ameliorate the economic fallout may take it deeper still. It is not possible to say what the government's fiscal posture will look like once this crisis is over.

Debt has been an important part of the federal government's response to previous crises. Prior to the expansion of the permanent federal income tax in the 1930s, debt was, arguably, an even more significant means of financing short-term shortfalls in cash flow. For instance, spending as a percentage of revenues was an average of 485 percent during the Civil War (with a peak of 913 percent in 1861). Spending was also 134 percent of revenues during the recession that preceded the Civil War, 237 percent during the War of 1812, 163 percent during the Mexican American War, and 228 percent during World War II.[22] However, after each of these crises the stock of debt fell as measured as a share of the economy.

Fiscal and Monetary Policy in the 21st Century

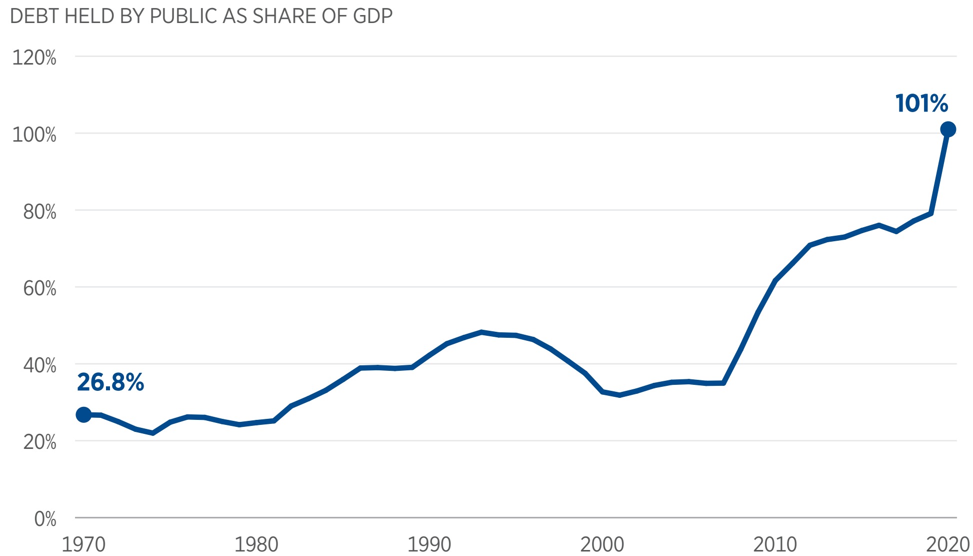
Returning to fiscal normalcy after spikes in the federal debt has not been the experience of the U.S. in the 21st century. As Chart 3 shows, debt held by the public stood at 31.4 percent of GDP in 2001 and climbed steadily as the economy recovered from a recession, reaching 34.8 percent in 2007. Since then, it has taken a steeper upward ascent through bad times and good, more than doubling to 78.4 percent in 2019. It may fall from the CBO's current 2020 projection of 101 percent, but it seems unlikely to drop to levels that prevailed during the 45-year period between 1963 and 2008, where it rarely exceeded 40 percent of GDP and never reached 48 percent.[23] As Chart 3 shows, federal debt held by the public (as a percentage of GDP) has risen steadily during the 21st century, especially since 2008. The CBO expects federal debt held by the public to eclipse 100 percent of GDP in 2020.

Monetary policy—discussed below—has followed a similar pattern that does not necessarily track the economic cycles of recession and recovery. As Brookings Institution political scientist Sarah Binder has noted, the Federal Reserve succumbed to "a whole range of political pressures" during the 1960s and 1970s that resulted in an overly accommodative policy stance.[24] After the stagflation of the 1970s, the Fed developed inflation-fighting credibility during the 1980s. However, evidence suggests that the Fed engaged in overly accommodative policy again in the early 2000s by keeping their federal-funds-rate target below the natural federal-funds rate.[25] That policy stance likely contributed to the housing boom of the early 2000s, and the Fed became embroiled in even more controversy—centering on bailouts and large-scale asset purchases—after the housing market imploded in the late 2000s.[26]

As Chart 4 shows, the Fed never fully normalized its monetary policy after the 2008 Great Recession, implementing a new operating framework that

CHART 3

Debt Held by Public to Eclipse 100 Percent of GDP in 2020



SOURCES: Federal Reserve Bank of St. Louis, "Federal Debt Held by the Public as Percent of Gross Domestic Product," https://fred.stlouisfed.org/series/FYGFGDQ188S (accessed May 28, 2020), and Congressional Budget Office, Phill Swagel, "CBO's Current Projection of Output, Employment and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," April 24, 2020, https://www.cbo.gov/publication/56335 (accessed May 28, 2020).

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divorced its policy stance from the size of its balance sheet, and maintaining a relatively large balance sheet. The primary cause of this abnormally large balance sheet is the Federal Reserve's policy of quantitative easing (QE), a supposedly temporary intervention (consisting of large-scale asset purchases) that began in 2008 and has become a seemingly permanent state of affairs.[27] The Fed embarked on three rounds of QE during the Great Recession, each time announcing its intention to eventually unwind the policy. It did not. Instead, it has now launched a new round of QE, increasing assets on its balance sheet from the $4.2 trillion, where it stood after the third round of asset purchases, to nearly $7.1 trillion as of May 27.[28]

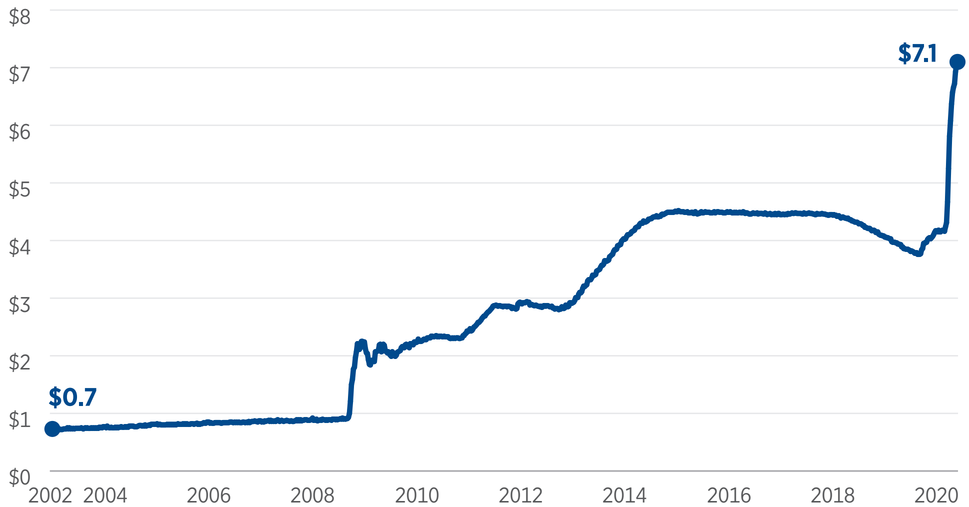
As Chart 5 shows, Treasury securities make up the lion's share of assets on the Fed's balance sheet. As of May 27, those holdings exceeded $4.1 trillion, representing more than 21 percent of federal debt held by the public.[29]

Novel changes in fiscal and monetary policy have thus been normalized over the past two decades. Actions begun as one-off, emergency responses

CHART 4

Total Assets on Federal Reserve Balance Sheet Increasing Dramatically

TOTAL ASSETS ON FEDERAL RESERVE BALANCE SHEET, IN TRILLIONS OF DOLLARS



NOTE: Figures as of May 27, 2020.
SOURCES: Federal Reserve Bank of St. Louis, "Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level," May 27, 2020. https://fred.stlouisfed.org/series/WALCL (accessed May 28, 2020).

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in times of economic stress—like rising debt and accommodative monetary policies—have lingered long after crises have passed and have become a new normal from which federal policy does not retreat.

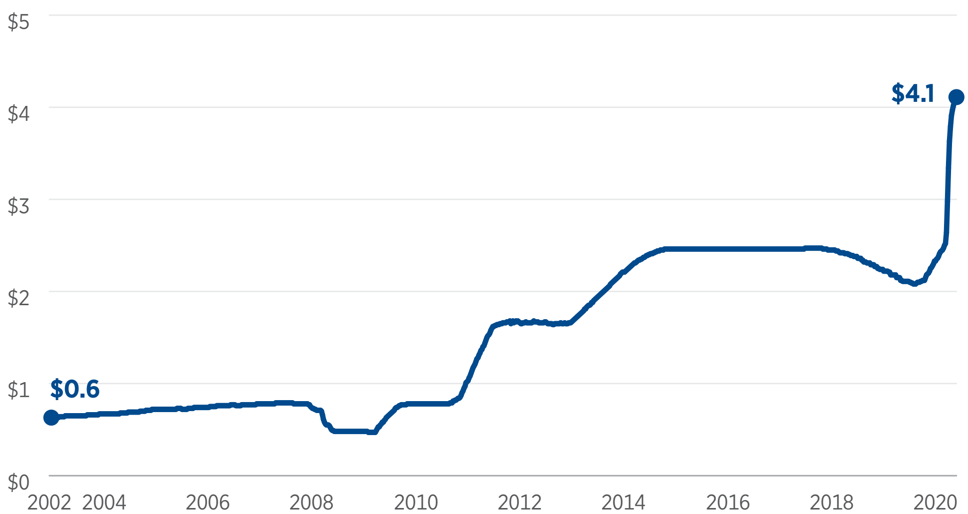
Measuring and Forecasting Debt Sustainability

Though they may be insufficient, measures of deficit and debt are far from meaningless, especially when the government establishes a pattern of increasing deficits and debt regardless of economic cycle, rather than one-time increases. The conventions of federal budgeting adopted by the Office of Management and Budget (OMB) and the CBO require the government's financial position to reflect the standards of cash accounting. Expenditures are recorded when money is paid, and revenues are recorded as money comes into the U.S. Treasury. Measures of spending, revenues, deficit, and debt provide a snapshot of the government's current and past fiscal position. Although they do not provide a definitive measure of the

CHART 5

Treasury Securities Represent Bulk of Federal Reserve Balance Sheet

TREASURY SECURITIES ON FEDERAL RESERVE BALANCE SHEET, IN TRILLIONS OF DOLLARS



NOTE: Figures as of May 27, 2020.
SOURCE: Federal Reserve Bank of St. Louis, "Assets: Securities Held Outright: U.S. Treasury Securities: All: Wednesday Level," https://fred.stlouisfed.org/series/TREAST (accessed May 28, 2020).

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government's future financial position, a pattern of increasing deficits and debt from which the government does not deviate over a period of years despite improved economic conditions sends ominous warnings that policymakers should not overlook.

Determining whether the federal budget is sustainable presents a number of challenges. Economic historians can tell somewhat accurate stories of the past, but predicting the future is another matter altogether. Foresight—let alone foresight into the distant future—is not easy. That said, tools are available to provide some insight into a governments' financial sustainability. For instance, methods of accrual budgeting convert projections of future cash flows into measures of fiscal sustainability.[30] The long-run fiscal gap between spending and revenues is quantifiable as a net present value.[31] Recent estimates of the U.S. federal government's sustainability measured as future obligations minus revenues are around 10 percent of the net present value of GDP over an infinite time horizon.[32]

However, these methods have their disadvantages. First, they take present projections of cash budgeting at face value. There are reasons to believe that certain expenditure projections by the CBO, such as spending on health care programs, are underestimated. Second, they are heavily dependent on discount rates that can result in differences of tens of trillions of dollars, depending on the assumptions. Finally, these methods provide an estimate of the size of the problem, but rarely point to the cause.

In the real world, policy choices are relevant to the sustainability of the system. Not all revenue increases or spending reductions are equal. At the same time, measures to restrain climbing deficits do not equally affect economic activity.[33] Furthermore, as The Heritage Foundation's Paul Winfree, one of the authors of this *Backgrounder*, has previously examined, all revenue increases, and almost all spending reductions, are insufficient to meaningfully change the long-term fiscal sustainability of the federal government.[34]

Sources of Unsustainability. The sources and underlying causes of the unsustainability are fairly contained within the U.S. budget. Winfree examined which budget accounts contributed to the underlying unsustainability.[35] In an update to that paper, we have concluded that less than 2 percent of nearly 1,800 spending accounts that fund all government activities drive the long-run unsustainability.[36] But while the problem is contained, it is large, as spending from those accounts is equivalent to 60 percent of gross spending over the next 10 years, with spending on government-funded health care programs contributing the largest component to fiscal unsustainability. This fact is particularly concerning given that the growth in spending on public health care programs is unlikely to slow down to a sustainable rate without structural reforms.[37]

Governments have a number of options for dealing with short-term increases in debt. For instance, when the real interest rate (the price of debt) is less than the rate of economic growth, it is possible to issue new debt to pay the interest on existing debt. In essence, the federal government can continue to roll over debt for some period of time without significantly increasing welfare costs associated with debt accumulation.[38] This is especially true in the current environment where real rates on debt are negative, meaning that the federal government can borrow today while paying back less than it borrowed (in real terms) in 10 years or 30 years. This is also not a particularly new circumstance. Debt rollover has been a normal strategy used in the management of federal debt since the 1790s.[39] At some point, however, even this strategy falls apart as the existing stock of debt becomes so large that it cannot be rolled over.[40]

The point at which the federal debt becomes too large to roll over is associated with whether the fiscal policy of a country (that is, the spending and revenue programs) is sustainable.[41] As of today, two things are relatively clear: (1) the debt associated with combating the novel coronavirus crisis is theoretically sustainable as long as it does not increase the spending growth over the long run and, (2) there are a number of federal programs (represented in 34 budget accounts to be exact) that were unsustainable prior to the crisis. What is not clear is whether the coronavirus will meaningfully change the growth in spending for programs that were either sustainable or those that were unsustainable prior to the crisis. However, there is a significant chance that the budget will become even more unsustainable if the crisis increases long-run health costs. The chance for this greatly increases if policymakers fail to do what is necessary to combat the pandemic in a more effective way, and if prolonged social distancing produces a deep and long-lasting recession.

Meanwhile, it seems that interest rates will fall even further in the wake of the current coronavirus crisis, as the demand for investment falls along with the reduction in labor and savings increases.[42] This has consequences for any additional fiscal stimulus that Congress might want to pursue. For instance, changes in tax policy will not have a particularly significant effect. Business investment was weak even before the crisis, despite the enactment of the Tax Cuts and Jobs Act (TCJA) of 2017, thus signaling that there may be something much more going on with the economy than simply being burdened by high taxation.[43] However, stimulating demand might also be muted as people continue to respond to both the government-imposed restrictions on the economy as well as the tremendous amount of uncertainty surrounding the future of, and the fallout from, the crisis. This also suggests that, perhaps, one of the best things that can be done right now from the perspective of public policy is to encourage innovation more directly.

Consequently, there are two options for dealing with the underlying fiscal unsustainability: Governments can either reduce the long-run growth in public expenditures, or they can devalue their currencies. However, if many large economies face the same fiscal outlook and are tempted down the latter road, the effectiveness of monetary policy will be significantly muted. Furthermore, unless the growth in spending is reduced, currency devaluation is only a short-term option—a fact that further emphasizes structural reforms to the minority of programs that drive the underlying unsustainability as the most viable method of addressing fiscal sustainability.

Monetary Policy Cannot Fix Poor Fiscal Policy

In late 2007, the Federal Reserve began various emergency lending programs, such as the Term Auction Facility, which increased reserves in the banking system. In 2008, the Fed implemented the first of several QE programs, purchasing large quantities of long-term Treasuries and mortgage-backed securities, operations which also increased reserves in the banking system. These operations eventually expanded the Fed's balance sheet to $4.5 trillion, more than five times the amount of securities it had before 2008, ultimately pushing the Fed to create a new operating framework to implement monetary policy.[44]

This new system has at least as far-reaching implications as the QE programs themselves, because it divorces the Fed's monetary policy stance from the size of its balance sheet. Moreover, it requires the Fed to pay interest to private financial institutions to maintain its policy stance, a problem that will worsen if interest rates rise. Put differently, the framework is designed to allow the Fed to purchase as many assets as it would like, all while paying firms to hold on to the excess cash that these purchases create. The new policy structure is a dramatic shift from the past that makes it difficult for the Fed to adequately regulate the overall availability of credit in private markets without allocating credit to specific groups.[45] The framework can all too easily allow the Fed to become a pawn of the Treasury (or Congress), enabling the government to run larger deficits for a period of time. It also opens new opportunities for political groups to pressure the Fed for direct funding, a problem heightened by the new lending facilities the Fed has created in response to the COVID-19 crisis.[46]

Between March 3 and April 9, the Fed undertook a massive effort to keep the economy afloat. It cut its interest-rate targets to near zero, removed banks' reserve requirements, dropped its primary credit rate to near zero, injected trillions of dollars into short-term credit markets, announced a new $700 billion QE program (the Fed will purchase $500 billion in Treasuries and $200 billion in mortgage-backed securities), and created 11 new lending facilities.[47] The Fed will be lending *directly* to commercial firms through one of these new programs and, through at least two other lending facilities, supplying funds for banks to lend hundreds of billions of dollars to small and medium-sized businesses.

The Fed will buy newly issued corporate bonds directly from commercial companies through the Primary Market Corporate Credit Facility, and the Fed will use the Paycheck Protection Program Liquidity Facility to provide loans to banks that make loans to small companies (those with no more than 500 employees) under the Small Business Administration's Paycheck Protection Program (PPP).[48] Separately, the Fed will use the Main Street New Loan Facility (MSNLF) and the Main Street Expanded Loan Facility (MSELF) to supply up to $600 billion to private banks that make loans to medium-sized businesses (those with no more than 10,000 employees or $2.5 billion in 2019 annual revenues).[49] The Fed has also created a Municipal Liquidity Facility, one that allows any district Federal Reserve Bank to buy state and municipal bonds (up to an aggregate total of $500 billion).

It is currently impossible to know precisely in how much lending the Fed will engage through all of its new facilities, or how large its balance sheet will grow. According to *The Wall Street Journal*, "Economists project the central bank's portfolio of bonds, loans and new programs will swell to between $8 trillion and $11 trillion from less than $4 trillion last year. In that range, the portfolio would be twice the size reached after the 2007–09 financial crisis and nearly half the value of U.S. annual economic output."[50] Calls will continue to mount for the Fed to create even more lending facilities, because such loans appear to derive from a source of unlimited funding,[51] but these operations obscure the true nature of the risks and the fact that Congress has abandoned its constitutional responsibilities with regard to its power of the purse.

The Fed has created the expectation that it has committed to underwriting virtually all emergency spending, and the Fed cannot disappoint that expectation without disrupting markets. The Fed is thus increasingly at the mercy of markets and the markets are increasingly at the mercy of the Fed. Moreover, the Fed's credit facilities lend directly to private businesses, thus displacing the nation's private banks. This framework is little more than government banking. The U.S. Treasury's so-called equity investment in most of these lending facilities illustrates how Congress has circumvented its constitutional responsibilities.

The Fed currently intends, for instance, to lend up to $600 billion through its Main Street Lending program. Yet, the U.S. Treasury made a $75 billion contribution to the program after those funds were appropriated to the Exchange Stabilization Fund via the CARES Act. If the program should lose $75 billion, then the Fed loses an amount of money that Congress was willing to risk when it appropriated those funds. If, however, the Fed's lending program loses more than $75 billion, then the Fed would lose more than Congress was willing to risk. In this manner, these operations blur the lines between fiscal and monetary policy in a way that serves to undermine confidence in both.

If these programs incur losses, they will come with enormous political pressure to forgive the amounts owed, making it very difficult for the Fed to maintain any semblance of policy independence.[52] While it is true that a central bank can technically handle losses, operating with zero (or even negative) equity, it can do so only because it has the power to create all the base money that it needs.[53] That process, of course, cannot continue indefinitely without harming the central bank's ability to hit its inflation target. These risks—both operational and political—increase with the dollar amounts of these quasi-fiscal programs and the length of time the Fed engages in them.

Overall, this quasi-fiscal arrangement clearly conflicts with the underlying structure of the U.S. government, because the Constitution gives the power of the purse to the elected Members of Congress, not to unelected officials of a federal agency. If Congress wants to provide emergency funds to businesses or local governments, or to appropriate more funds for entitlement programs, it can do so transparently without the aid of the Federal Reserve.

Conclusion and Recommendations

Government lockdown orders in response to the COVID-19 pandemic have caused an economic downturn that is more abrupt than any the U.S. has experienced. Although those orders did not take effect in most states until March, advance estimates show a 4.8 percent decline in the economy in the quarter that ended March 31.[54] Nearly 41 million workers filed unemployment claims between the middle of March, when lockdown orders were put in place throughout most of the country, and May 23.[55] The unemployment rate rose from 3.5 percent in February to 14.7 percent in April.[56] Most observers expect a deeper economic contraction in the second quarter despite the fact that some governors have partially rolled back the restrictions.

The scope and duration of the contraction remain unknown. They both depend in large part on the trajectory of the pandemic and on the willingness of policymakers to modify their response to it. If lockdowns remain widespread and persist into the summer, the economic damage will be large and likely will take years to repair.[57]

If, as we have recommended elsewhere, policymakers adapt their strategies to new information about COVID-19, the economic downturn could be less severe.[58] In most communities, schools and businesses can be re-opened. In places with high incidence of infection, lockdown orders may have to be retained, but should be coupled with more traditional public health interventions like isolation, contact tracing, and, in some instances, travel restrictions.[59]

While the implementation of more targeted strategies could soften the economic blow of lockdown orders, economic dislocations would likely continue. Congress has tried to mitigate the damage through an aggressive spurt of borrowing and spending. Some of this spending has been better targeted than others, but none of it has been subject to evaluation or review.[60] Congress should review the effects of the spending it has already authorized before binging again.

Congress should also consider the effects of this one-time spike in the debt on the federal government's borrowing capacity over the longer term. The federal government has, in the past, recovered from high debt loads, most dramatically in the post–World War II era. There are, nevertheless, troubling aspects of this latest surge in debt that warrant the attention of Congress. So far in the 21st century, federal debt has risen in ways that do not track the business cycle. That debt is largely driven by entitlement spending, especially health entitlement spending, which has put the federal government in a difficult fiscal position. Entitlement reform is the key to putting federal finances on more solid footing.

Separately, the Federal Reserve should also reform several of its practices. For more than a decade, the Fed has pursued highly unconventional policies. The policies it has adopted since the COVID-19 outbreak have put it squarely in the political arena, jeopardizing its policy independence and capacity to respond effectively to future downturns.

To better ensure the sustainability of future debt, the Administration, Congress, and the Federal Reserve should consider the following recommendations:

1. **Continue to rescind the widespread use of lockdown orders.** Lockdown orders have caused economic dislocations that have prompted Congress and the Federal Reserve to adopt unprecedented fiscal and monetary policies.[61] Public health officials advocated lockdown orders early in the pandemic, when little was known about the disease.[62] It is now known that the infection is not evenly distributed across the U.S.; that 80 percent of the deaths are among people over age 65 and only 8 percent among people under 55; that 89 percent of deaths are among people with comorbidities; that as many as half the deaths are nursing-home-related and consequently unaffected by lockdown orders; and that more targeted public health interventions are more likely to be successful at addressing the pandemic in hot

spots.[63] Adapting public policy to this new information would facilitate a return to economic normalcy in most areas of the country, reducing the demand for massive new spending programs.

2. **Pause before authorizing more COVID-19 spending.** Lockdown orders and actions already taken by Congress have raised federal spending to more than twice revenue, increased deficits to historical high rates, and at least temporarily raised debt held by the public to more than 100 percent of GDP. Despite an unprecedented flurry of legislating and borrowing, Congress has devoted too little attention to the question of whether these programs have had their intended effect and whether some should be modified or repealed. Before embarking on a new round of spending and borrowing, Congress should ensure that existing funds are producing their intended outcome. Congress should not assume that spending more will automatically produce beneficial results.

3. **Normalize monetary policy.** The Fed has pursued unprecedented monetary policy for more than a decade. Its most recent actions threaten to turn the Fed into a pawn of the Treasury (or Congress) and open new opportunities for political groups to pressure the Fed for direct funding. The Fed should move with all deliberate speed to restore its intended role and protect its integrity and independence. After this crisis passes, the Fed should shrink its balance sheet and revert to an operating system that allows it to maintain a minimal footprint in credit markets. The Fed should reject all attempts by Congress or the Treasury to use the central bank as a means of avoiding the congressional appropriations process.

4. **Address systemic debt by undertaking entitlement reform.** While one-time spikes in federal borrowing are not worrisome by themselves, high growth in federal debt unrelated to business cycles does raise substantial concerns. Entitlement spending is the principal source of this rising debt and, if left unchecked, will continue to necessitate massive new borrowings well into the future. Health care entitlements are the principal cause of this debt. To dampen the effects of the current wave of borrowing and to prepare for future economic downturns and unforeseen emergencies, lawmakers must reform health care entitlements.

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APPENDIX TABLE 1

Estimates of FY 2020 Outlays, Revenue and Deficit

	Outlays	Mandatory	Discretionary	Revenue	Deficit	GDP
March 6 Baseline	$4,706	$3,293	$1,413	$3,632	–$1,073	$22,111
Corona 1 (HR 6074)	$4.3	$0.1	$4.2	$0	–$4.3	—
Corona 2 (HR 6201)	$54.1	$53.3	$0.8	–$80.4	–$134.5	—
Corona 3 (HR 748)	$1,037	$938	$99	–$568	–$1,606	—
Corona 4 (HR 266)	$321.4	$321.3	$0.1	$0	–$321.4	—
Additional Deficit Spending	$570	—	—	$0	–$570	—
Subtotal	$6,692.8	$4,605.7	$1,517.1	$2,983.6	–$3,709.2	$20,400
Percent of GDP	32.8%	—	—	14.6%	–18.2%	—
COVID-19 Legislation Deficit Effect	—	$1,312.7	$104.1	$648.4	–$2,066.2	—

SOURCES:
- CBO March 6 baseline: Congressional Budget Office, "Baseline Budget Projections as of March 6, 2020," https://www.cbo.gov/system/files/2020-03/56268-CBO-baseline-budget-projections.pdf (accessed May 28, 2020).
- CBO analysis of HR 6074: Congressional Budget Office, "Discretionary Spending Under Division A, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020," https://www.cbo.gov/system/files/2020-03/hr6074.pdf (accessed May 28, 2020).
- CBO analysis of HR 6201: Congressional Budget Office, "Preliminary Estimate of the Effects of H.R. 6201, the Families First Coronavirus Response Act," April 1, 2020, https://www.cbo.gov/system/files/2020-04/HR6201.pdf (accessed May 28, 2020).
- CBO analysis of HR 748: Congressional Budget Office, "Preliminary Estimate of the Effects of H.R. 748, the CARES Act, Public Law 116-136, Revised, With Corrections to the Revenue Effect of the Employee Retention Credit and to the Modification of a Limitation on Losses for Taxpayers Other Than Corporations," April 27, 2020, https://www.cbo.gov/system/files/2020-04/hr748.pdf (accessed May 28, 2020).
- CBO analysis of HR 266: Congressional Budget Office, "Changes in Direct Spending Under Division A, Small Business Programs," https://www.cbo.gov/system/files/2020-04/hr266.pdf (accessed May 28, 2020).
- Additional Deficit Spending*: Committee for a Responsible Federal Budget, "Budget Projections: Debt Will Exceed the Size of the Economy This Year," April 13, 2020, http://www.crfb.org/blogs/budget-projections-debt-will-exceed-size-economy-year (accessed May 28, 2020).
- CBO revised GDP estimate and CBO revised deficit as percent GDP (17.9%): Congressional Budget Office, "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," April 24, 2020, https://www.cbo.gov/publication/56335 (accessed May 28, 2020).
- Gross federal debt**: Federal Reserve Bank of St. Louis, "Gross Federal Debt," https://fred.stlouisfed.org/series/FYGFD (accessed May 28, 2020).

* The table at this site contains the $570 billion figure. The text above explains that estimate as follows: "Finally, we estimate nearly $600 billion in additional deficit spending as a result of feedback effects from lower economic output, slower inflation, higher unemployment, and lower interest rates."

** Derived by adding the FRED 2019 gross federal debt ($22.7 trillion) to the CBO estimated 2020 deficit ($3.7 trillion).

Endnotes

1. See, for example, Kevin D. Dayaratna and Norbert J. Michel, "The Challenges of Forecasting the Spread and Mortality of COVID-19," Heritage Foundation *Backgrounder* No. 3486, April 15, 2020, https://www.heritage.org/public-health/report/the-challenges-forecasting-the-spread-and-mortality-covid-19. See also Kevin Dayaratna, "Failures of an Influential COVID-19 Model Used to Justify Lockdowns," Heritage Foundation *Commentary*, May 18, 2020, https://www.heritage.org/public-health/commentary/failures-influential-covid-19-model-used-justify-lockdowns.
2. Norbert J. Michel and David R. Burton, "The Cost of Coronavirus Shutdown Orders," Heritage Foundation *Backgrounder* No. 3489, April 20, 2020, https://www.heritage.org/sites/default/files/2020-04/BG3489.pdf. Also see Robert S. Pindyck, "COVID-19 and the Welfare Effects of Reducing Contagion," NBER *Working Paper* No. 27121, May 2020, https://www.nber.org/papers/w27099, https://www.nber.org/papers/w27121 (accessed May 15, 2020); Olivier Coibion, Yuriy Gorodnichenko, and Michael Weber, "The Cost of the Covid-19 Crisis: Lockdowns, Macroeconomic Expectations, and Consumer Spending," NBER *Working Paper* No. 27141, May 2020, https://www.nber.org/papers/w27141 (accessed May 15, 2020); Martin S. Eichenbaum, Sergio Rebelo, and Mathias Trabandt, "The Macroeconomics of Testing and Quarantining," NBER *Working Paper* No. 27104, May 2020, https://www.nber.org/papers/w27104 (accessed May 15, 2020); and, Jose Maria Barrero, Nicholas Bloom, and Steven J. Davis, "COVID-19 Is Also a Reallocation Shock," NBER *Working Paper* No. 27137, May 2020, https://www.nber.org/papers/w27137 (accessed May 15, 2020).
3. Congressional Budget Office estimates of H.R. 6074, https://www.cbo.gov/system/files/2020-03/hr6074.pdf (accessed May 15, 2020); H.R. 6201, https://www.cbo.gov/system/files/2020-04/HR6201.pdf (accessed May 15, 2020); H.R. 748, https://www.cbo.gov/system/files/2020-04/hr748.pdf (accessed May 15, 2020); and H.R. 266, https://www.cbo.gov/system/files/2020-04/hr266.pdf (accessed May 15, 2020).
4. Phill Swagel, "CBO's Current Projections of Output, Employment and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021," Congressional Budget Office, April 24, 2020, https://www.cbo.gov/publication/56335 (accessed May 15, 2020).
5. H.R. 6800, The Health and Economic Recovery Omnibus Emergency Solutions Act, https://www.congress.gov/bill/116th-congress/house-bill/6800/text (accessed May 15, 2020).
6. Congressional Budget Office, "Historical Budget Data Supplement to CBO's April 2018 Report Updated Budget Projections: 2020 to 2030," https://www.cbo.gov/about/products/budget_economic_data (accessed April 29, 2020).
7. All references to years are fiscal years.
8. Publicly held debt is one way to measure government's indebtedness. Another is to look at gross federal debt, which includes money that one government entity owes another. Gross federal debt was 105.8 percent of GDP in 2019. Bureau of Economic Analysis, "Federal Government Current Receipts and Expenditures" and "Gross Domestic Product," Tables 3.2 and 1.1.5., respectively, https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey (accessed May 29, 2020). While some may dismiss intergovernmental debt as an accounting entry, it is important to note that Treasury's biggest government creditor is the Social Security Trust Fund. The debt issuances the Trust Fund holds has first call on the Treasury. Unless the federal government runs an "on-budget" surplus, Treasury must borrow money from the public to fulfill its obligations. For example, in 2019, Treasury made $80.8 billion in interest payments on the $2.9 trillion it owes the OASDI trust funds, all of which the Treasury had to borrow from the public. According to the Social Security Trustees, these interest payments and payroll taxes alone will be insufficient to pay benefits to current retirees, beginning in 2021. Over the 10-year period (2020–2029), the trustees forecast that the Trust Fund will have to draw down roughly $1 trillion in reserves, reducing its holdings to $1.8 trillion by the end of 2029. Treasury will have to borrow that entire amount from the public. The OASI trust funds will be depleted in 2034. Thus, the intergovernmental debt actually represents a government pension obligation that the Treasury can only meet with further borrowing. The distinction between this debt and publicly held debt is thus a fuzzy one. The *2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, The Board of Trustees, Federal Old-Age and Survivors Insurance Trust Funds, pp. 2 and 3 and Table VI.A.3, pp. 162 and 163, https://www.ssa.gov/oact/tr/2020/tr2020.pdf (accessed May 15, 2020).
9. Congressional Budget Office, "Historical Budget Data Supplement to CBO's April 2018 Report Updated Budget Projections: 2020 to 2030," https://www.cbo.gov/about/products/budget_economic_data (accessed April 29, 2020).
10. Michel and Burton, "The Cost of Coronavirus Shutdown Orders."
11. On March 6, 2020, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020, appropriating $8.3 billion to address the needs of public health officials for additional resources. Congress also passed the Families First Coronavirus Response Act (FFCRA), increasing spending and reducing revenues by more than $100 billion. On March 27, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act that is estimated to increase the deficit (as measured by scorekeeping rules) by $1.7 trillion over the next 10 years. On April 24, the President signed the Paycheck Protection Program and Health Care Enhancement Act into law, expanding the deficit by an estimated $484 billion.
12. The House passed H.R. 6800, the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, on May 15, 2020.
13. President Donald J. Trump, "Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak," The White House, March 13, 2020, https://www.whitehouse.gov/presidential-actions/proclamation-declaring-national-emergency-concerning-novel-coronavirus-disease-covid-19-outbreak/ (accessed March 17, 2020). See also 50 U.S. Code 1621–1622, and Andrew Restuccia et al., "Trump Declares National Emergency to Confront Coronavirus," *The Wall Street Journal*, March 13, 2020, https://www.wsj.com/articles/coronavirus-strikes-key-figures-in-politics-sports-as-infections-spread-globally-11584093470 (accessed March 17, 2020).

14. The Committee for a Responsible Federal Budget estimates that increased deficit spending associated with various countercyclical programs will increase outlays by $570 billion in FY 2020. Committee for a Responsible Federal Budget, "Budget Projections: Debt Will Exceed the Size of the Economy This Year," April 13, 2020, http://www.crfb.org/blogs/budget-projections-debt-will-exceed-size-economy-year (accessed May 31, 2020).
15. Swagel, "CBO's Current Projections of Output, Employment and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021." On May 19, the CBO revised its economic forecast. It now forecasts that real GDP will decline by 5.6 percent in 2020, including a 37.7 percent contraction during the second quarter, on an annualized basis. Although it has not revised its fiscal forecast, the revised economic forecast will likely result in a higher debt-to-GDP ratio, since the denominator will be smaller than the CBO previously estimated. See Congressional Budget Office, "Interim Economic Projections for 2020 and 2021," May 19, 2020, https://www.cbo.gov/publication/56368 (accessed May 29, 2020).
16. Gross federal debt would rise to 129 percent of GDP.
17. Romina Boccia et al., "5 Key Provisions in the Democrats' COVID-19 Bill That Will Hurt Our Economy," Heritage Foundation *Commentary*, May 13, 2020, https://www.heritage.org/budget-and-spending/commentary/5-key-provisions-democrats-covid-19-bill-will-hurt-our-economy.
18. The House-passed bill extends these enhanced benefits through January 2021.
19. Paul Winfree, *A History (and Future) of the Budget Process in the United States: Budget by Fire* (New York: Palgrave Macmillan, 2019).
20. There is a point in time when a high level of debt is associated with slower growth, and this point is different for each country. Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review*, Vol. 100, No. 2 (May 2010), pp. 573–578.
21. Debt-service payments for public debt are a large and growing portion of the U.S. federal budget. There may come a point, perhaps with a quick onset, at which debt-service payments will become increasingly more difficult to pay without crowding out other resources. This *Backgrounder* is interested in the underlying drivers of fiscal sustainability rather than only the legacy costs to high amounts of previous debt issuance. However, debt-service payments likely also contribute to long-run fiscal sustainability, but are very much dependent on the underlying drivers of spending and revenues.
22. Authors' calculations based on detailed financial records for the federal government from 1792 until today using data from the Department of Treasury and the Office of Management and Budget. For additional information on data sources see Winfree, *A History (and Future) of the Budget Process in the United States*, Appendix, p. 217.
23. Federal Reserve Bank of St. Louis Economic Data, "Gross Federal Debt Held by the Public as Percent of Gross Domestic Product," https://fred.stlouisfed.org/series/FYPUGDA188S (accessed May 15, 2020).
24. Greg Ip, "Green New Deal Won't Enjoy a Free Lunch at the Fed," *The Wall Street Journal*, February 20, 2019, https://www.wsj.com/articles/green-new-deal-wont-enjoy-a-free-lunch-at-the-fed-11550658601 (accessed May 7, 2020).
25. Norbert J. Michel, "Monetary Policy Reforms for Main Street," Heritage Foundation *Backgrounder* No. 3237, July 27, 2017, https://www.heritage.org/sites/default/files/2017-07/BG3237_0.pdf.
26. See Norbert J. Michel, "Dodd–Frank's Title XI Does Not End Federal Reserve Bailouts," Heritage Foundation *Backgrounder* No. 3060, September 29, 2015, http://thf_media.s3.amazonaws.com/2015/pdf/BG3060.pdf, and Norbert J. Michel and Stephen Moore, "Quantitative Easing, The Fed's Balance Sheet, and Central Bank Insolvency," Heritage Foundation *Backgrounder* No. 2938, August 14, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2938.pdf.
27. Norbert J. Michel "The Crisis Is Over: It Is Time to End Experimental Monetary Policy," Heritage Foundation *Backgrounder* No. 3265, November 9, 2017, https://www.heritage.org/sites/default/files/2017-11/BG3265.pdf.
28. "Total Assets (Less Eliminations from Consolidation): Wednesday Level," FRED Economic Data, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/WALCL (accessed May 29, 2020).
29. The Fed's balance sheet included $4.06 trillion in Treasury securities on May 13, 2020. "Securities Held Outright: U.S. Treasury Securities: All: Wednesday Level," FRED Economic Data, Federal Reserve Bank of St. Louis, May 13, 2020, https://fred.stlouisfed.org/series/TREAST (accessed May 18, 2020). Federal debt held by the public totaled $19.261 trillion on that date. "The Debt to the Penny and Who Holds It," Treasury Direct, U.S. Department of the Treasury, https://treasurydirect.gov/govt/reports/pd/pd_debttothepenny.htm (accessed May 18, 2020). The Fed thus holds 21 percent of all "publicly" held debt, making it the federal government's largest creditor. This debt monetization supports the price of Treasury debt, relieving the Treasury of the obligation to sell all of its debt to domestic and foreign purchasers. Moreover, the Federal Reserve returns the interest payments it receives from the Treasury on the debt, essentially making that federal borrowing interest-free. The question of whether debt monetization has enabled and encouraged federal borrowing is beyond the scope of this *Backgrounder*. In addition, the Fed has taken private debt onto its balance sheet, including everything from mortgage-backed securities to unsecured debt, such as student loans and credit card debt.
30. Donald B. Marron, "Measuring and Managing Federal Financial Risk: A View From the Hill," in *Measuring and Managing Federal Financial Risk* (Chicago: University of Chicago Press, 2010).
31. One criticism of accrual accounting as a measure of long-run sustainability is that it ignores the government's power to collect more revenue. However, the same can be said for the government's power to reduce spending. The government always has the power to change current law. What the government does not have the power to do is generate revenues faster than the economy over a sustainable period of time as this *Backgrounder* demonstrates. That power, in fact, is governed by a higher law. Jón R. Blöndal, "Issues in Accrual Budgeting," *OECD Journal on Budgeting*, Vol. 4, No. 1 (2004).
32. Jeffrey Miron, "U.S. Fiscal Imbalance Over Time: This Time Is Different," Cato Institute *White Paper*, p. 24, https://www.cato.org/publications/white-paper/us-fiscal-imbalance-over-time-time-different (accessed June 1, 2020).

33. Alberto Alesina, Carlo Favero, and Francesco Giavazzi, *Austerity: When it Works and When it Doesn't* (Princeton, NJ: Princeton University Press, 2019).
34. Paul Winfree, "Causes of the Federal Government's Unsustainable Spending," Heritage Foundation *Backgrounder* No. 3133, July 7, 2016, https://www.heritage.org/budget-and-spending/report/causes-the-federal-governments-unsustainable-spending.
35. Ibid.
36. For a methodology, see ibid.
37. Ibid.
38. Olivier Blanchard, "Public Debt and Low Interest Rates," *American Economic Review*, Vol. 109, No. 4 (2019), pp. 1197–1229. This, of course, is the presumption that every insolvent government has made at one point or other, to its own detriment. Welfare costs refer to the total well-being of society.
39. Winfree, *A History (and Future) of the Budget Process in the United States*.
40. Andrew B. Able, "Can the Government Roll Over Its Debt Forever?" Federal Reserve Bank of Philadelphia *Business Review* (November/December 1992), https://www.philadelphiafed.org/-/media/research-and-data/publications/business-review/1992/brnd92aa.pdf (accessed May 28, 2020).
41. Henning Bohn, "Fiscal Policy and the Mehra-Prescott Puzzle: On the Welfare Implications of Budget Deficits When Real Interest Rates are Low," *Journal of Money, Credit and Banking*, Vol. 31, No. 1 (1999), pp. 1–13.
42. Òscar Jordà, Sanjay R. Singh, and Alan M. Taylor, "Longer-Run Economic Consequences of Pandemics," Federal Reserve Bank of San Francisco *Working Paper* No. 2020-09, 2020, https://doi.org/10.24148/wp2020-09 (accessed May 28, 2020).
43. News release, "Federal Reserve Issues FOMC Statement," Board of Governors of the Federal Reserve System, October 30, 2019, https://www.federalreserve.gov/newsevents/pressreleases/monetary20191030a.htm (accessed May 28, 2020).
44. Michel, "The Crisis Is Over."
45. While it is beyond the scope of this *Backgrounder*, the new framework replaces market forces with bureaucratically administered rates, so it prevents private markets from allocating credit without (potentially massive) ongoing government interference. This arrangement distorts prices and jeopardizes the Fed's ability to regulate the economy's overall liquidity so that it can meet its broader economic goals with respect to the general course of spending, prices, and employment (maintaining monetary control). See Michel, "The Crisis Is Over."
46. For instance, House Financial Services Chairwoman Maxine Waters (D–CA) released a statement calling for the Fed to provide more than liquidity: "Unfortunately, the Fed appears to be using its old playbook in trying to calm funding markets by flooding them with liquidity. During this time of economic turbulence, it is critical that the Fed go beyond these steps and provide much-needed support to those who are on the front lines of this pandemic." Waters Statement on Federal Reserve Response to Coronavirus, Washington DC, March 16, 2020, https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406435 (accessed May 11, 2020).
47. For a complete list of policy actions, see Norbert J. Michel, "The Federal Reserve Should Not Help Congress Duck Its Responsibilities," Forbes.com, March 23, 2020, https://www.forbes.com/sites/norbertmichel/2020/03/23/the-federal-reserve-should-not-help-congress-duck-its-responsibilities/#5b143d17610c (accessed April 27, 2020), and Norbert J. Michel, "The Federal Reserve Should Not Help Congress Duck Its Responsibilities: Part 2," Forbes.com, April 27, 2020, https://www.forbes.com/sites/norbertmichel/2020/04/27/the-federal-reserve-should-not-help-congress-duck-its-responsibilities-part-2/#662d4b1ec5a3 (accessed April 27, 2020).
48. Businesses with more than 500 employees can be eligible for these loans provided that they meet the existing statutory and regulatory definition of a "small business concern" under section 3 of the Small Business Act, 15 U.S. Code 632. See U.S. Treasury, "Paycheck Protection Program Loans Frequently Asked Questions (FAQs)," May 27, 2020, https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf (accessed May 29, 2020).
49. Ibid.
50. Nick Timiraos and Jon Hilsenrath, "The Federal Reserve Is Changing What it Means to Be a Central Bank," *The Wall Street Journal*, April 27, 2020, https://www.wsj.com/articles/fate-and-history-the-fed-tosses-the-rules-to-fight-coronavirus-downturn-11587999986 (accessed May 7, 2020).
51. Senator Ted Cruz (R–TX), for instance, has already called on the Fed to "provide emergency liquidity for small- and-medium sized businesses that work directly or indirectly with the oil and gas industry." News release, "Sen. Cruz Urges Treasury and Federal Reserve to Ensure Critical Access to Capital for America's Energy Producers," Senator Ted Cruz, April 24, 2020, https://www.cruz.senate.gov/?p=press_release&id=5076 (accessed May 11, 2020). Similarly, Bharat Ramamurti, a Member of the congressional oversight commission charged with overseeing the federal coronavirus relief efforts, has criticized the Fed's Municipal Liquidity Facility because it excludes "certain cities and counties with strong credit ratings and great need—including the 35 cities in America with the highest percentage of black residents, such as Atlanta, Detroit, and Baltimore." Victoria Guida, "Pressure Mounts as Fed Chief Shepherds Massive Economic Rescue," *Politico*, April 20, 2020, https://www.politico.com/news/2020/04/20/jerome-powell-donald-trump-coronavirus-193377 (accessed May 29, 2020).
52. For much of its existence, the Fed resisted making direct loans to commercial firms and local governments for this very reason. See George Selgin, "Friday Flashback: The Courage to Refuse," Alt-M.org, May 1, 2020, https://www.alt-m.org/2020/05/01/friday-flashback-the-courage-to-refuse-2/ (accessed May 11, 2020).

53. In a higher interest rate environment, a central bank that pays interest on reserves could also reduce its losses by decreasing the rate it pays on reserves. This move, however, is also inflationary. See George Selgin, *The Menace of Fiscal QE* (Washington, DC: Cato Institute, 2020), pp. 62–67.
54. Bureau of Economic Analysis, "GDP, First Quarter 2020 (Advance Estimate)," April 29, 2020, https://www.bea.gov/news/2020/gross-domestic-product-1st-quarter-2020-advance-estimate (accessed May 28, 2020).
55. U.S. Department of Labor, "Unemployment Weekly Claims," May 28, 2020, https://www.dol.gov/ui/data.pdf (accessed May 28, 2020).
56. Bureau of Labor Statistics, "The Employment Situation–April 2020," May 8, 2020, https://www.bls.gov/news.release/pdf/empsit.pdf (accessed May 28, 2020).
57. Michel and Burton, "The Cost of Coronavirus Shutdown Orders."
58. Norbert J. Michel and Doug Badger, "Policymakers Should Adapt COVID-19 Responses to the Evidence," Heritage Foundation *Backgrounder* No. 3496, May 23, 2020, https://www.heritage.org/public-health/report/policymakers-should-adapt-covid-19-responses-the-evidence.
59. Ibid. See also Doug Badger and Norbert J. Michel, "Coronavirus: Policymakers Should Augment Hospital Capacity Where Needed, Not Mandate Permanent Excess Capacity," Heritage Foundation *Backgrounder* No. 3487, April 16, 2020, https://www.heritage.org/public-health/report/coronavirus-policymakers-should-augment-hospital-capacity-where-needed-not.
60. Boccia et al., "5 Key Provisions in the Democrats' COVID-19 Bill That Will Hurt Our Economy."
61. Michel and Burton, "The Cost of Coronavirus Shutdown Orders."
62. Michel and Badger, "Policymakers Should Adapt COVID-19 Responses to the Evidence."
63. Ibid.