

ECONOMIC FINDING

The Impact of the CARES Act on Economic Welfare

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The CARES Act mitigated economic welfare losses by around 20% on average without increasing fatalities. It redistributed economic gains heavily toward low-income households, while middle-income households gained little from the stimulus package.

How has government stimulus affected economic welfare? The Coronavirus Aid, Relief, and Economic Security (CARES) Act is a \$2.2 trillion economic stimulus bill enacted in the spring of 2020 to support American families, workers and businesses. The authors find that programs under the CARES Act succeeded in mitigating economic welfare losses by around 20% on average, while leaving the cumulative death count effectively unchanged.

The model focused on the four most important components of the CARES Act for household welfare:

- Economic Impact Payments (EIP);
- Expanded Unemployment Insurance (UI);
- The Paycheck Protection Program (PPP); and
- Waiving of tax penalties for retirement account withdrawals.

Figure 1 presents a range of policy options that can be quantitatively compared. The mean with fiscal support from the CARES Act shifts the Pandemic Possibility Frontier forward in the United States, allowing for the same number of fatalities with lower economic costs. In comparison, with the laissez-faire approach, fatalities are highest and the average economic costs of the pandemic are around two months of income because

Figure 1 - Using the Pandemic Possibility Frontier to Measure Health and Economic Outcomes

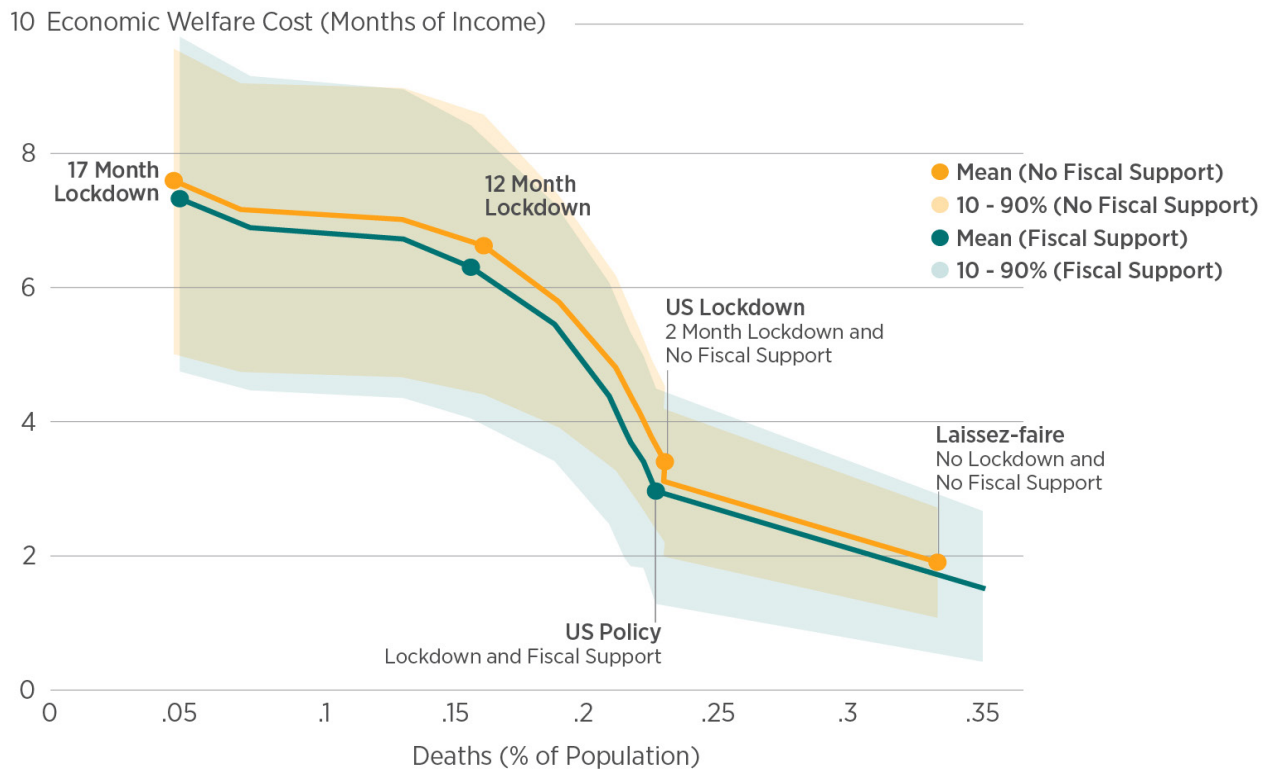
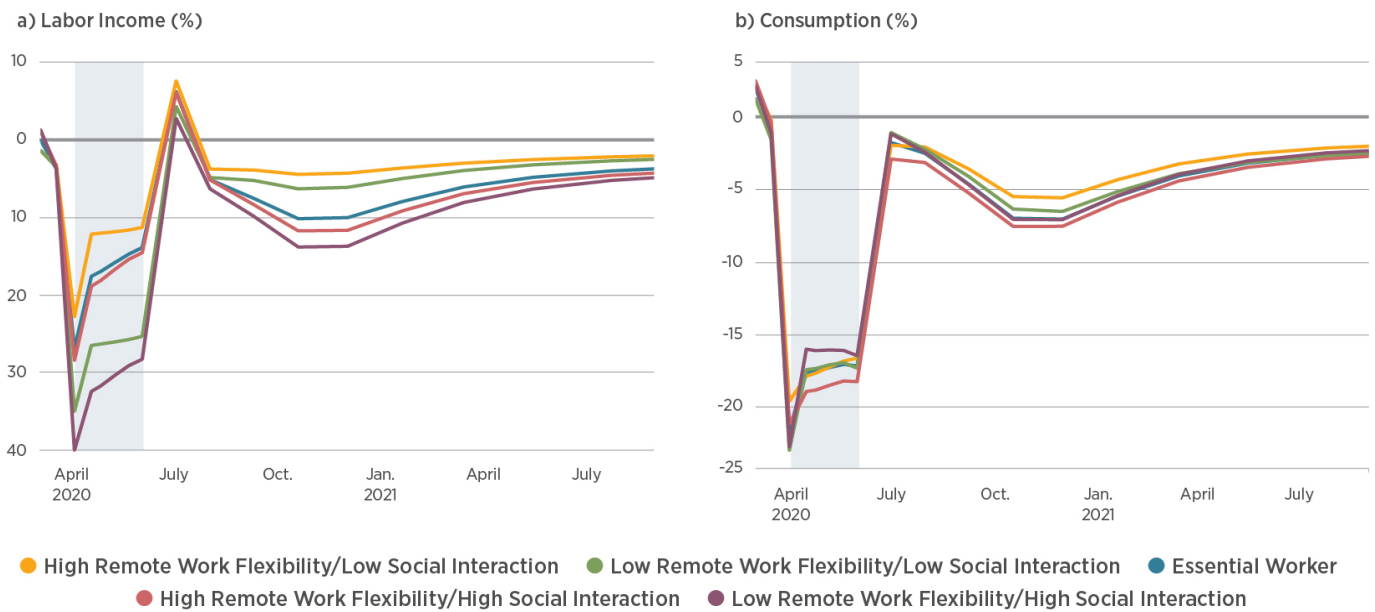


Figure 2 • Labor Income and Consumption Across Different Occupations



individuals react to rising infections by reducing both social consumption and supply of workplace hours.

The impact of the stimulus package on economic aggregates is substantial. Both the transfer programs (EIP, UI) and PPP boost aggregate consumption by around 6 percentage points, with about 4 points coming from PPP and the remainder from UI and EIP.

However, the stimulus package made the economic consequences of the pandemic more unequal. The stimulus package redistributed heavily toward low-income households, while middle-income households gained little from the stimulus package but will face a higher future tax burden. In the model, labor incomes fall most for the lowest quartile of the pre-pandemic income distribution and remain persistently low. The drop in labor earnings for workers at the bottom of the income distribution was at least 10 percentage points deeper than those at the top of the income distribution.

Oddly, while labor incomes have fallen more for poor households than for rich ones, and have remained persistently low, consumption expenditures of the poor

initially fell by the most but then recovered more quickly than those of the rich. Many households at the bottom of the income distribution with liquidity constraints actually experienced large increases in their total incomes. For many in the bottom distribution, UI benefits exceeded their incomes (with replacement rates over 100%), and recipients of stimulus checks living hand-to-mouth spent their benefits in the first weeks after receipt. As a result, households with lower earnings, greater income drops, and lower levels of liquidity displayed stronger spending responses.

A consequence of the CARES Act is a large increase in government debt. The model shows that after eighteen months, the debt-to-GDP ratio increases by about 12% above its pre-pandemic level, compared with an increase of 3% without the stimulus package.