The Daily Dish

CBO and CARES

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Eakinomics: CBO and CARES

On April 16, the Congressional Budget Office (CBO) released its preliminary analysis of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Although widely touted as costing over $2 trillion, CBO concluded that "the act will increase federal deficits by about $1.8 trillion over the 2020-2030 period." That surprise is unraveled by AAF's Gordon Gray, who points out "the difference lies with whether businesses ultimately pay back $454 billion in loans provided in the CARES Act."

When Congress provides loans or loan guarantees, CBO is required to follow what are known as the Federal Credit Reform Act (FCRA) rules, the focus of which is the net present value of difference between outflows and inflows over the course of the loan. As Gray writes, "Under the CARES Act, the Treasury provided $454 billion in funds for lending under the new and evolving credit regime established by the Federal Reserve. The lending is designed to broadly support businesses, states, and municipalities in addition to other relief provided in the Act. The CARES Act required that CBO estimate the cost associated with this program under FCRA and CBO determined that on a present-value basis, the program would break-even." This conclusion was informed by consultations with the Federal Reserve.

From a budget perspective, this might seem like good news, but from the larger issue of avoiding economic catastrophe it is a problem. The way to make sure the loans break even is to avoid the riskiest borrowers, charge up-front processing fees, and impose higher interest rates. But in the midst of the crisis, getting money to those in the worst shape is the economic imperative. Charging fees and higher interest rates deters those on the edge of trouble from applying. A break-even program is less effective at the primary objective of CARES – getting cash into businesses to keep workers on the job and the infrastructure of the economy intact. As Glenn Hubbard and Hal Scott put it in a recent op-ed in *The Wall Street Journal*, "Congress should determine how much money the country is prepared to lose. This is a fiscal-policy decision that shouldn't be left to coordinated policy of the Treasury and the Fed. But once that spending decision has been made—as here, to the tune of $454 billion—Treasury should be prepared to spend, and lose, this money to help small business and in turn the economy."

CARES was a swift and bold policy action by Congress and the president. Now the job is to get it right.