



The Daily Dish

# Considering Cost in the Next Round of COVID Legislation

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## Eakinomics: Considering Cost in the Next Round of COVID Legislation

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As Congress lumbers its way toward divining the mix of your money to sprinkle across a stricken economy, this week has predictably given way to the usual posturing, speculation, and contretemps that are the modern substitute for legislating. While we are likely a week or more away from the denouement that that will be CARES II (or whatever), we already know that cost is of greater concern at this stage in the federal response than was the case in March. Whereas legislators collectively swallowed a notional \$2 trillion price tag for CARES, there is a somewhat diminished appetite for the same level of fiscal support in this round of legislation.

Given this constraint and the substantial costs attached to a number of the policies reportedly in the mix, there's only so much that can be accommodated – with one possible wrinkle.

Recall that the CARES Act came in [under the headline \\$2 trillion price tag](#), primarily because the Congressional Budget Office (CBO) [estimated](#) that a substantial slug of the funding provided in CARES – \$454 billion to support lending by the Federal Reserve – would end up being repaid in full. Also recall that, as CBO was careful to note, terms for the lending had not been fully specified, and CBO had not fully analyzed the Federal Reserve's lending facilities. Indeed, it would be *months* before the funds were tapped for lending. CBO also estimated that an additional \$46 billion in credit support to air carriers and other key elements of the nation's aviation industry, would on net, cost the taxpayer only \$1 billion.

These estimates were performed in April, however, and in the immortal words of [Stanley Goodspeed](#), “Well...gosh, kind of a lot has happened since then.” The Main Street Lending Program funded by Treasury's equity stake has started to lend, and, just this month, most major U.S. air carriers came to terms with Treasury to tap the dedicated credit program.

Here's the thing: The terms may be such that the credit risk varies from what CBO assumed in April, which means the costs related to these programs may be somewhat different as well. This is hardly a unique phenomenon in cost estimating, particularly with [credit programs](#). As programs operate subsequent to their enactment, changes in costs are recognized in CBO's ongoing stewardship of the budget baseline – which is essentially the best estimate of the status quo of federal spending and taxing. Congress, by way of CBO, measures the cost of legislation against this baseline. Thus, when the baseline evolves, so too does the basis for assessing the costs of changing an existing program.

This matters if Congress wants to rejigger the lending programs that it already established and funded in CARES. CBO will assess these programs against a baseline that reflects the operation of the program as it presently stands – not against CBO's April cost estimates. Thus, whereas CBO estimated in April that the lending programs were effectively costless, that will not necessarily hold true anymore. Depending on the current outlook on these programs and what Congress may want to do with these programs (if anything), the

budgetary effects could appear as a net cost or a net savings.