

We are sleepwalking toward economic catastrophe

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“The cliff is totally visible in front of us”: The future is grim if Congress doesn’t act on the economy.

- By Emily Stewart
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A man walks past the New York Stock Exchange on April 30. Due to the coronavirus pandemic, millions of people in the US have lost their jobs and businesses have closed across the country, leading to nationwide economic distress.

Johannes Eisele/AFP/Getty Images

The country is ambling toward a cliff, putting millions of Americans’ lives and livelihoods in danger and all but ensuring prolonged economic distress nationwide. It didn’t have to be this way. Yet here we are, unable to shake out of it.

The Covid-19 pandemic tossed much of the US economy into disarray earlier this year. Millions of Americans lost their jobs, and businesses across the country closed their doors as part of a planned shutdown. In March, Congress passed the CARES Act, an

ambitious \$2 trillion stimulus package to try to stop the bleeding. The plan was to buy the country time to get the virus under control and begin to safely reopen to get the economy on track to recovery

But things have not gone according to plan. Amid reopenings, coronavirus cases are spiking across the country, and many states and cities are reversing course. There are signs the recovery that was happening is dissipating. And now many of the measures that kept so many American households afloat in recent months are about to come to an abrupt end. It's not clear what, if much of anything, Congress and the White House plan to do about it.

“It could be cataclysmic,” said Angela Hanks, deputy executive director of the progressive group Groundwork Collaborative. “I don’t think there’s any way to overestimate what happens when you have a pandemic worsening, not improving, when we have an economic crisis that’s intensifying, and frankly, there’s no response.”

At the end of the month, the extra \$600 per week of unemployment insurance benefits put in place under the CARES Act is set to expire, which could affect some 33 million workers. In the coming weeks and months, eviction moratoriums and mortgage and student loan forbearance programs will wind down. Small businesses continue to struggle to stay afloat, and many of those that got loans have used them up already. State and local governments are still in dire need of financial assistance. These issues aren’t ones that only plague the parties that are directly affected; they also have knock-on effects across the economy. Not being able to pay rent isn’t just a problem for the tenant — it’s also a problem for the landlord.

It’s an urgent situation, but many people in government aren’t treating it that way. We’re sleepwalking toward catastrophe.

“The cliff is totally visible in front of us, and yet we’re not ready,” said Paul Krugman, a Nobel Prize-winning economist and New York Times columnist. “It’s probably already too late to avoid enormous hardship.”

“We designed an economic response that was predicated on a public health response that did not materialize”

The Coronavirus Aid, Relief, and Economic Stability Act, or CARES Act, signed into law by President Trump in March, was an unprecedented act of fiscal policy by the US government. It entailed measures that would have once seemed unthinkable, including an extra \$600 in unemployment benefits, \$1,200 stimulus checks to most Americans, and billions of dollars in forgivable loans to small businesses. As Vox’s Dylan Matthews recently laid out, the Covid-19 response was larger than the stimulus policies put in place in response to the Great Recession and, from a fiscal standpoint, bigger than the New Deal.

It made a difference. Personal incomes actually went up in April thanks in large part to unemployment insurance and stimulus checks. Poverty rates didn’t increase

“We’ve basically kept income growth where it was before,” said George Pearkes, a global macro strategist at Bespoke Investment Group. “If you take the market income and unemployment insurance, then income from households looks about stable.”

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The stimulus bill was far from perfect. Many unemployed people struggled to get the money they deserved, and some issues, such as state and local budget shortfalls, were not addressed. But in aggregate, the social safety net worked

“When incomes get destroyed, people still have certain kinds of liabilities and expenses to pay off,” said Skanda Amarnath, director of research and analysis at the think tank Employ America. “This was exactly where we needed different types of fiscal policy measures to replace the lost income.”

The stimulus bill had with it an underlying assumption that the economy would improve by the summer, and that was predicated on the country getting its outbreak under control. But the country didn’t — a series of public policy and leadership failures at the federal, state, and local levels have allowed the virus to thrive.

“We designed an economic response that was predicated on a public health response that did not materialize,” said Trevon Logan, an economist at Ohio State University and research associate at the National Bureau of Economic Research.

States such as TexasFloridaArizona, and California have begun to close down parts of their economies again as coronavirus cases rise, and other states have paused some reopening plans. And even where lawmakers are ignoring the problem, consumers, workers, and businesses can’t.

According to data from Glassdoor, job openings are falling, and JPMorgan’s consumer spending tracker has flattened. Data from the team management software provider Homebase shows states that have seen an increase in Covid-19 cases have seen a reversal in hours worked at small businesses. While it appeared jobs lost in May and June were beginning to come back, that’s started to stall.

“Just across the board, there’s a litany of indicators that progress has slowed, and that’s going to have bad impacts on labor markets,” Pearkes said.

What’s at stake

The US hasn’t fixed the coronavirus problem, so the question now is whether the government tries to prop up the economy while it (hopefully) tries to do that, or whether it leaves the economic problem as unaddressed as the public health one.

One of the most pressing points of concern is the extra weekly money to the unemployed, which is set to expire at the end of the month. As Vox's Li Zhou recently laid out, if the program is allowed to expire, some 33 million people who have been kept afloat by those benefits will take an enormous hit. Congress is still haggling about it, and the outcome remains uncertain.

"The loss in payments that we're looking at here is going to be about twice as big as a share of GDP as the Obama stimulus was at its peak," Krugman said. "We're talking about a really big fiscal contraction about to hit an economy that is nowhere near recovered."

This would leave millions of workers staring down a dark tunnel. Many would be forced to go back to work in risky situations, putting not only their own health at risk but also their families'. And it's not clear that there are enough jobs for them to return to.

"There's going to be a disruption in a significant amount of income for many households," said Damon Jones, an economist at the University of Chicago. "People are going to be unnecessarily suffering."

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The issue stretches far beyond unemployment. Much of the money given out through the Paycheck Protection Program to keep workers paid has been spent, and many small businesses were locked out of those loans altogether. There is evidence people are already hurting. An estimated one in three people in the US missed their housing payments in June, and while we've seen a recovery in the aggregate unemployment rate, for Black workers, that progress hasn't been shared

"We already know that family food insecurity has increased dramatically with the pandemic and is racially disproportionate. Missed mortgages and rent payments, even with the CARES Act, are substantial," Logan said. "If there's no additional support, we will see a significant number of household balance sheets go to immediate insolvency."

The longer the pandemic goes on, the worse the economic fallout gets. Some companies that hoped to weather the storm for a few months are deciding they have no more time to spare. Both United Airlines and American Airlines have signaled they may lay off thousands of workers in the fall. And as compared to the restaurant and retail jobs temporarily lost at the outset of the pandemic, many of the job losses happening now are permanent.

"Those companies don't have a real plan to bring you back," said Betsey Stevenson, an economist at the University of Michigan and former Obama administration official. "It's thoughtful, these layoffs. And I'm not trying to say they're good, I'm saying they're not a rushed decision. They are crunching the numbers, they're looking forward, they're doing their best to forecast for the next six months, and then they're saying they can't sustain this level of payroll."

It's not just what Congress needs to do again but also what it hasn't done yet. State and local governments are facing enormous shortfalls that still haven't been addressed. There is still no broad plan on what to do about kids and schools, and child care is an economic problem. Even if it doesn't affect everyone personally, all the moving parts create a broader drag on the economy that makes the recovery harder and longer. And all these crises are mounting on top of longstanding systems of racial and economic inequality in the country.

"There are things we can do now to stem the bleeding, but fundamentally, it's exposed that our economy isn't prepared for a shock of any kind, let alone the scale of economic crisis that we're seeing now," Hanks said.

You can't pretend your way out of a pandemic

This is not the version of 2020 anyone wanted, including the White House and Congress. But this is the reality we are in: A pandemic has set off an economic calamity, and neither front is under control. The disease is still spreading, and much of the country is struggling to stay above water.

The urgency of the situation feels almost undeniable, and yet in some quarters, it's being denied. The president's strategy seems to be hoping that if you ignore the pandemic, it will just go away, and whenever anyone asks about the economy, just point to the stock market, which has become completely disjointed from reality. Many Republican governors are opting to take the same route, as are many Republicans in Congress. Senate Majority Leader Mitch McConnell wants companies to get liability protections if their workers get sick through 2024.

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"It's been wishful thinking all the way that Trump wanted to preside over a roaring economy spurred on by tax cuts and has simply refused to accept that we have a crisis that requires, at least for the time being, more government, not less," Krugman said. "You can't really have a roaring economy when people are afraid to go out."

Hanks made a starker assessment: "In a moment where we are about to see millions of people go broke and have no recourse, among Leader McConnell's proposals is a corporate liability shield that lasts until 2024 and a capital gains tax holiday. I don't know anyone who would be helped by any of those things, but I do know a lot of people who would be hurt by losing unemployment insurance."

There are certainly ideas and proposals out there to continue to support the economy and get people the help they need during the pandemic. House Democrats passed the HEROES Act as an ambitious follow-up to the CARES Act, but so far, it's been untouched in the Senate. And some believe the bill isn't enough. More recently, a group of progressive organizations including Color of Change and the Sunrise Movement sent

a [letter](#) to House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer pushing them to incorporate [paycheck guarantees](#) and anti-monopoly measures in legislation.

The clock is ticking, and the hard truth is that on some fronts, it might be too late. It took states a long time to ramp up their unemployment insurance systems to meet the CARES Act's expansion; ramping down and then up again is going to cost precious time. It's not enough to just pass legislation — it also has to grind through the administrative system to be put into place.

At the outset of the pandemic, Congress rushed to react with three separate pieces of legislation. Lawmakers had time to craft a follow-up bill since then, but Senate Republicans, at least, largely haven't used it. Congress has procrastinated into another urgent situation very much of its own making.

"They've had a lot of time to figure this out, and they're just waiting," Stevenson said.

It's a failure of astounding magnitude. The US has been incapable of getting the pandemic under control, and now the government is resistant to addressing the resulting economic reality. There were so many ways to not end up here.

"If this is as bad as it feels like to everyone, how is it possible that our representatives can move forward comfortably?" Jones said. "What does it say about how well-functioning our democracy is?"

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