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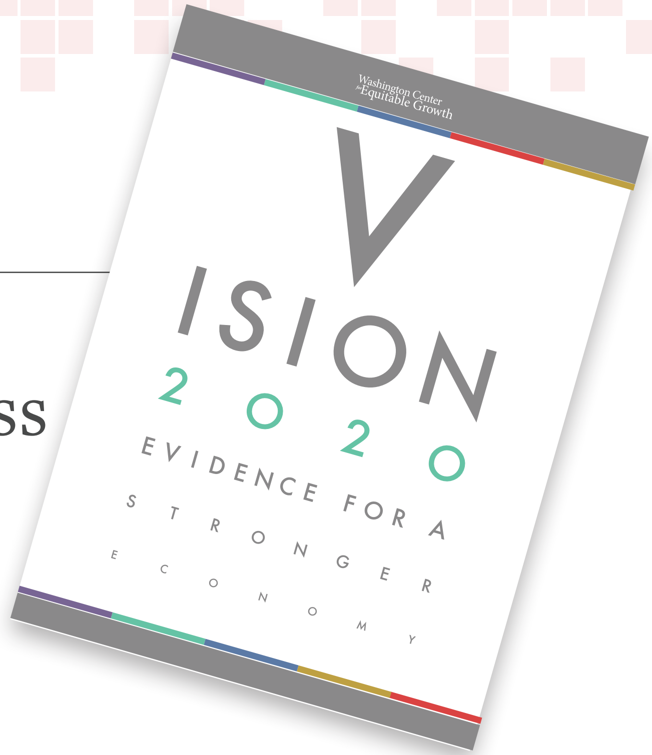
Evidence for a stronger economy



Revamping U.S. small business rescue programs amid the coronavirus recession

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The coronavirus economic rescue programs enacted by Congress this past spring failed to prevent layoffs and firm bankruptcies among the smallest employers in the United States. Existing resources, such as the Paycheck Protection Program, helped firms that needed a marginal boost to get through the worst of the shutdowns caused by the coronavirus pandemic. But the hardest-hit areas or businesses did not receive the help they needed because of the structure, timing, and delivery mechanisms of rescue aid.

What's worse is that little data are available to evaluate whether rescue efforts have been equitable for Black and Latinx small business owners. Meanwhile, policy interventions through the Federal Reserve have efficiently saved the largest and most well-resourced companies. As a result of these imbalances, the U.S. economy may become increasingly lopsided, concentrated, and less dynamic, harming prospects for broad-based and stable growth and racial equity moving forward.

Heading into 2021, policymakers should prioritize restructuring business aid so that small firms can be rescued with the same speed as large firms. The Paycheck Protection Program should be altered to help firms in high-rent areas, firms that are smaller and less well-connected to the banking system, and firms owned by Black and Latinx entrepreneurs. Longer term, policymakers should build public financial systems to make our economy resilient for the next downturn, including:

- Increasing the capacity of the Small Business Administration
- Building a faster payment system
- Ensuring universal access to the banking system
- Creating established alternatives to ad hoc business rescue programs via the Federal Reserve

Emergency financial rescue has been primarily a subject handled by the U.S. Congress, the Federal Reserve, and the U.S. Department of the Treasury, through the Small Business Administration. The key resources below provide solutions that policymakers can deploy to strengthen small businesses and provide for more equitable economic growth.

Key resources

"**Broken plumbing: How systems for delivering economic relief in response to the coronavirus recession failed the U.S. economy**," by **Amanda Fischer** and **Alix Gould-Werth**

Well-functioning economic delivery systems, like plumbing systems, are essential to stopping the cycle of economic contraction. In this piece, Fischer and Gould-Werth outline how policymakers must invest in our economic infrastructure if our economy is to emerge from the coronavirus recession more resilient. This includes an examination of U.S. small and large business rescue aid programs, as well as Unemployment Insurance systems and U.S. paid leave policies.

"**Did the paycheck protection program work for businesses across the United States?**," by **Amanda Fischer**

As policymakers consider how to keep the U.S. economy stable while efforts to control the public health crisis continue, it is useful to evaluate the early research on the efficacy of the Paycheck Protection Program—most notably, whether the money went to the hardest-hit areas, encouraged firms to keep employees on payroll, and kept small businesses from going bankrupt. It is unlikely that any businesses—and particularly, small businesses—will be able to return to normal anytime soon, and the early evidence suggests that the Paycheck Protection Program is struggling to meet its intended goals. Examining what we know about the program can provide a roadmap on how to deploy aid to American small businesses moving forward, and this piece offers up several short-term fixes, as well as needed structural changes.

"**Enhanced U.S. social insurance will be necessary until the coronavirus recession recedes**," by **Liz Hipple** and **Amanda Fischer**

Research from former Equitable Growth Steering Committee member Raj Chetty and the Opportunity Insights team finds that U.S. consumer spending fell dramatically over the spring and summer of 2020, driven by public health and safety concerns due to the novel coronavirus and COVID-19, the disease caused by the virus. These concerns keep people, especially those in high-income households, from purchasing in-person services. This indicates that until people feel safe engaging again in in-person services, such as dining out or getting haircuts, consumer spending on services will not meaningfully rebound. If policymakers want to fix the U.S. economy, then they must first fix the U.S. public health crisis. In the meantime, Chetty and his co-authors find that investing in social insurance programs—such as the expanded unemployment benefits enacted by Congress in the Coronavirus Aid, Relief, and Economic Security, or CARES, Act—is the best way to mitigate economic suffering during the recession, rather than stimulus measures targeted toward businesses or the rich.

Top experts

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