Bill Dupor, Assistant Vice President at the St. Louis Fed, and M. Saif Mehkari, Associate Professor of Economics, have written a number of academic research papers to study the effects of fiscal policy interventions, including multiple papers on the effects of the last big stimulus bill (i.e. the American Recovery & Reinvestment Act which was passed in 2009 to dampen the negative economic effects of the Great Recession).

**CARES Act**

by Bill Dupor & M. Saif Mehkari

The government recently passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This bill is estimated to cost over $2 trillion, making it one of the largest countercyclical interventions by the U.S. Government. On a per capita basis, this translates to roughly $6,000 per person. In comparison, the American Recovery & Reinvestment Act during the Great Recession cost roughly $3,500 per person in 2020 dollars, while Roosevelt’s Great Depression era New Deal is estimated to have cost roughly $6,250 per person in 2020 dollars.

The CARES Act has two main goals. The first is to provide funding and support for the fight against COVID-19. The second, and more expensive goal, is to provide financial stability to both households and firms as social distancing measures slow down economic activity. There are a lot of provisions in the over 800-page bill, all aimed at achieving these goals. For this short note, we will mainly focus on how this bill aims to provide households with financial stability.

With soaring unemployment rates, one of the main aims of the CARES Act is to ensure that U.S. households remain financially liquid. As such the bill provides two key direct benefits to households: The first is a direct tax rebate of $1200 per adult and $500 per child for all but the 10% of richest households. The second is a massive expansion of unemployment benefits. The Act both increases the unemployment benefits period to 39 weeks (from 26 weeks) and supplements the state-level benefits with an additional $600 in federal benefits per person per week. The hope is that these two provisions, at a cost of over $500 billion, will serve to provide enough liquidity for households to continue paying their bills and for household demand to not dry up.

In conjunction with the direct benefits to the household, the CARES Act also has a number of provisions to encourage businesses to continue employing workers. These provisions include a direct Employee Retention tax credit to help businesses that are

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1 The views expressed are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
experiencing economic hardship to continue to keep employees on their payroll. At a maximum this benefit is a generous 50% of eligible wages paid. There is also a Paycheck Protection Program, under which small businesses are eligible for loans that are forgivable if used to maintain payroll for the next 8 weeks. This is of course all in addition to the over $500 billion that the Act allocates to help business stay afloat.

With regards to social assistance for households, the act contains funding for a number of food assistance programs such as $15 billion more for the Supplemental Nutrition Assistance Program (i.e. Food Stamps), $450 million more for the Commodity Assistance Program (i.e. Food Banks), and $8.8 billion for Child Nutrition Programs (i.e. School Lunch Programs, etc.). It also contains, over $150 billion to help the healthcare sector, mainly to support the fight against COVID-19, but also for general healthcare.

In short, the CARES Act represents a massive infusion of money by the government to help stabilize the economy during this unprecedented time where the fight against COVID-19 has basically halted a large portion of business activity.

To end, here is a fun fact: In addition to relaxing a number of rules as they related to student loans and grants, the CARES Act explicitly allows Universities to continue paying Federal Work-Study students who are unable to work due to the COVID-19!