Final Research Paper:

The Economic Efficacy of the

COVID-19 Policy Response

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Abstract

When a crisis arises, citizens look to their governments for answers, authoritative guidance, hope, and sometimes, material assistance. In the case of COVID-19 in 2020, many local governments mandated a temporary closure of the economy to prevent the virus from spreading. The United States Congress responded promptly with one of the largest emergency spending packages in the history of the country. This $2.59 trillion-dollar package attempted to provide individuals and businesses with enough loans, grants, and direct payments to help them withstand the economic turmoil of the shutdown. It has been two years since then, and the economy has still not recovered. This serves as further evidence that intervention and regulation of the free market inhibit prosperity. With every deficit expense and cumbersome regulation imposed upon businesses, economic freedom and prosperity are further eroded. The best way to help struggling citizens and the economy as a whole is to remove barriers to employment, trade, and voluntary association and to provide a secure economic environment in which these transactions can occur. Faced with pressure to do something tangible in emergency situations, however, this is rarely the way politicians respond. This research puts forth the evidence to show the inefficacy of government intervention through the lens of the COVID economic response and how it fails to align with Christian ethics.

Keywords: *government intervention, COVID-19, deficit spending, regulatory restrictions, stimulus package, welfare benefits*

The Economic Efficacy of the COVID-19 Policy Response

I. Introduction

At the beginning of 2020, government leaders all over the world were faced with critical decisions about how to handle a new and unknown virus. In the United States, local governments mandated lockdowns that put the economy on pause for weeks or more, and the federal government issued trillions in relief for businesses and individuals struggling to stay afloat under the new COVID restrictions. This paper will explain the main economic legislation enacted by Congress in the first year of the pandemic to help American businesses and families survive. It will use basic economic concepts to measure the effectiveness of the government's COVID response, offering alternative solutions aligned with free-market principles when applicable. It will also use the Bastiat Test to determine whether the government was authorized to carry out such actions in the first place. Finally, it will offer biblical support to conclude whether or not the actions of government leaders were aligned with Christian ethics.

II. Coronavirus Aid, Relief, and Economic Security (CARES) Act

In response to the soaring unemployment and business closures of March 2020, the federal government passed a new piece of legislation intended to artificially stimulate the economy and provide financial support to individuals through the economic shutdown. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was a far-reaching policy, as it impacted every household in the United States. Central to this legislation was the designation of $1,200 per adult and $500 per child for one-time stimulus checks as well as the expansion of federal unemployment benefits to $600 per week (Senate Finance Committee, 2020).

Legislators hoped the stimulus checks would be spent in struggling areas of the economy to provide a cash infusion, but findings concluded that most people used their stimulus money to pay bills, rent, and cover grocery and utility expenses due to uncertainty about the economy and the trajectory of the pandemic (Baker, 2020). Roughly 75% of all households used their stimulus on household needs with the other 14% saving their checks and 11% paying off debt (Siles, n.d.). This implies that the stimulus checks did not have their intended impact on the industries hit hardest by COVID, including food services, retail, recreational services, and travel (Baker, 2020). It was expected that people would spend money at suffering mom-and-pop shops to bolster the economy, but many of these small businesses never got to benefit from the stimulus because they were deemed nonessential and had to remain closed.

More importantly, however, the one-time payment of $1,200 could not replace the lost wages for millions of newly unemployed Americans, and for those whose jobs were never impacted, the checks were not needed and may even be considered wasteful (Michel, 2020). Officials boasted that the payments increased consumer spending, saving, and personal income, but according to the Congressional Budget Office, the CARES stimulus checks only increased economic output by 0.6% ("How Did Americans Spend Their Stimulus Checks," 2021). The Great Recession proved over a decade ago that government handouts rarely have the effects legislators hope for; stimulus checks in 2008 and 2009 did not increase consumption or strengthen the economy, so there was no reason to believe it would do so in this circumstance (Michel, 2020).

By the summer of 2020, the $600 weekly employment benefit payouts comprised 15% of the national wages (Gogoi, 2020). Those in favor of continuing these benefits argued that it fueled the economy by empowering the unemployed to spend more than they did before the pandemic (Gogoi, 2020). Unfortunately, however, business owners were beginning to have a difficult time competing with the unemployment office, as some people were making more income from unemployment than they did in the jobs they previously held (Gogoi, 2020). Individuals may have temporarily been better off under the CARES Act, but it proved to be less effective for the health of the economy as a whole. A possible remedy could have been to increase the number of eligibility requirements for unemployment benefits and to cap the insurance amount at the pay rate of the individual's previous wages to prevent reliance on the system and incentivize people to seek work for higher wages (Greszler, 2020). Additionally, policymakers could have removed the barriers to work during the pandemic instead of forcing business closures and attempting to make up for lost earnings. Business owners have a naturally strong incentive to decrease the risk of infection at the site of their business for the sake of their reputation, and they do not need government restrictions to do so (Leeson & Rouanet, 2021). Officials should have allowed individuals to exercise their own judgment in weighing the risks and rewards of working during a pandemic so they could earn their own money without relying on the government (Viscusi, 2021).

Based on basic economic principles, one of the major flaws of the CARES Act lies in the economic fact that welfare can often outpay work and trap low-income families in poverty. According to the CEO of the JPMorgan Chase Institute, households receiving unemployment insurance spent 10% more during the pandemic than they did before due to the fact that they were earning more money than they were in their previous employment; many of these households now rely on unemployment insurance for survival (Gogoi, 2020). The expanded welfare benefits greatly disincentivized people to work at a time when production and economic growth were critical.

Another reason the CARES Act failed to stabilize the economy in the long term is that it only targeted unemployment while ignoring the fact that business restrictions were hurting the economy equally, if not more. From July to September 2020, 16.5% of essential businesses were mandated to close by the government while 31.5% of nonessential businesses were forced to shut down ("Comparing the Experiences," 2020). Ludwig von Mises wisely stated that "When the government interferes with the market, it is more and more driven towards socialism" (Mises, 1989). Instead of forcing businesses to close and offering stimulus checks and unemployment benefits as consolation, a socialist tactic, the government should have instead eased restrictions on businesses, allowing them to resume business as normal so people could go back to work and the economy could grow and recover. Supporters of the 2020 business closures have said that, without the closures, the human cost of the virus would have exceeded the cost of the business shutdowns (Walmsley et al., 2020). However, this hypothetical assumption disregards individual choice and the self-determination granted by God to His children. Additionally, running a budget deficit and adding to the national debt has never led to prosperity but has historically spurred inflation and other long-term financial hardships for the sake of short-term economic growth and political popularity (Michel, 2020).

III. The Paycheck Protection Program (PPP)

The Paycheck Protection Program (PPP) was one of the first pieces of pandemic legislation passed under the CARES Act. The purpose of the PPP was to provide small businesses of 500 employees or less with enough funding to keep their people on payroll while the economy was on pause. While loans typically entail borrowed money to be paid back with interest, this particular loan could be forgiven as long as the receiving company used the majority of the funds to keep people employed. Businesses that qualified would apply for funding with a private lender, and the Small Business Administration (SBA) would then approve or deny the loan. If approved, the lender would immediately disburse the funds ("Paycheck Protection Program," 2022).

The efficacy of the PPP is still a subject of debate nearly two years later (Horsley, 2021). One of the major flaws of the program was that it lacked a fair selection mechanism. Rather than requiring companies to prove their lack of liquidity before approving the loan, the government merely asked each applicant to promise they needed it. This led to large, wealthy, and powerful companies taking advantage of the program, laying claim to free money without the legitimate need (Horsley, 2021). Even if the government later discovered a company did not need the loan, there were no requirements for paying back the money. The public was rightfully outraged when the Los Angeles Lakers basketball team and the ubiquitous chain restaurant, Shake Shack, received funding while smaller, less-well-connected businesses were overlooked (Horsley, 2021). Thus, there are legitimate concerns about whether the funding really kept people employed or merely provided unnecessary subsidies for companies that could have survived without it (Horsley, 2021).

Perhaps, then, the efficacy of the PPP can be evaluated on the basis of whether it prevented layoffs for businesses located in places that were hit the hardest by the pandemic and were, therefore, more likely to experience closures and require economic assistance. According to research by MIT, most organizations that received PPP loans were located in regions with low COVID infection and death rates and better employment outcomes — and were, therefore, less likely to need the money (Granja et al., 2021). They discovered that 30% of businesses in the least-affected areas of the United States received PPP loans while only 15% of businesses in the most-impacted regions received the funding (Granja et al., 2021). While layoffs were less common among companies that received this federal assistance, the Federal Reserve conducted a survey in 2021 to measure employment outcomes of the PPP and found that almost half of all businesses that received PPP loans still had to reduce their staff size (Federal Reserve, n.d.). Raj Chetty, an economist and Harvard professor, concluded in his research on the economic impact of COVID that the PPP ultimately had minimal effect on business payrolls; this, he said, was because a great many of the loans went to companies that could have kept employees on payroll without the loans because they did not do business in person and were already experienced with working remotely (Chetty et al., 2020).

Politicians seem to measure the success of the PPP differently. Michael Fulkender, President Trump's Assistant Treasury Secretary for Economic Policy, feels that the program was successful when considering how much worse the economy may have faired without it (Horsley, 2021). He contends that the program spared millions of people from ending up in the overwhelmed unemployment system, and even though layoffs were a common occurrence, the PPP loans enabled employers to later rehire the people they had to lay off (Horsley, 2021).

It is clear that the PPP was helpful in some ways (and was a far better solution than defaulting to unemployment and welfare benefits), but it was rolled out too hastily and largely failed to achieve its target goal. Things may have been different if legislators determined loan forgiveness amounts by requiring businesses to prove their revenue losses before approving them for funding (Greszler, 2020). Tying this back to basic economic principles, this is evidence that, when problems arise, the political process is not the right device for devising a sound economic solution (Gwartney et al., 2016). When the COVID crisis emerged, the government was pressured to do something as soon as possible to provide immediate relief without regard to the long-term efficacy of the solution. In politics, what matters most is not economic practicality but maintaining a proactive appearance for the sake of reelection, which appears to have been a primary function of the PPP (Sowell, 2009). This tendency for elected officials to force immediate legislation for its visible effects regardless of the future costs is referred to as the shortsightedness effect, and it rarely ends in success (Gwartney et al., 2016). Unconstrained by Constitutional guidelines, legislators also tend to spend excessively, and they usually lack the economic knowledge needed to allocate resources efficiently (Gwartney et al., 2016). Legislators have distinct incentives; unlike buyers in the free market who use price as a guiding factor in the allocation of their resources, politicians tend to distribute scarce resources to interest groups they favor (Gwartney et al., 2016). In this case, the government spent billions of dollars for the purpose of keeping vulnerable small business employees on a payroll but still failed to protect the most vulnerable from losing their jobs, giving preference to well-connected companies — some of which had connections to high-ranking politicians (Horsley, 2021).

IV. COVID Economic Policy and the Bastiat Test

Claude-Frédéric Bastiat, a writer, French economist, and strong advocate of the free market, wrote a pamphlet called *The Law* in 1850. In this work, he expressed a view that all authority comes from God who then gives authority to individuals rather than institutions. Those individuals come together to form governments to protect their God-given rights. Thus, if a man can only do what God authorizes him to do, the government has even less authority and may only do what free individuals authorize it to do. Bastiat had a test for determining whether the government has a right to take certain actions. First, people must ask whether an individual today would be prosecuted for doing what the government is attempting to do. If not, its action is illegitimate. Second, people must also ask whether the government *may* take an action (whether it is authorized), whether it *can* take an action(whether it has the ability), and whether it *should* take the action (whether the action is the best among other options). If the action of the government is something it may, can, and should do, it is legitimate (Acres, n.d.).

Applying Bastiat's logic to the PPP, an individual would not be punished for providing funds that help people keep their jobs. As representatives of the people in Congress, the federal government passed the legislation and was authorized to enact it. However, the PPP was unwise to implement given the state of the national debt two years ago, which sat at nearly $23 trillion, and was not the best course of action when businesses could have gone unrestricted by government intervention. Therefore, the PPP does not pass the "can" or "should" questions of the Bastiat test. The same goes for the CARES Act as a whole; the government did not have the resources to replace the incomes of displaced employees, but it attempted to do so when the better option was simply to release its grip on the necks of businesses operating in a free-market society.

V. COVID Economic Policy and Christian Ethics

Federal intervention can sometimes be justified in the case of market failure. However, this particular instance was not a correction of market failure but a government fear tactic rooted in the goal of market control (Boettke Powell, 2021). Such a tactic is inherently unChristian, as "... God has not given us a spirit of fear, but of power and of love and of instruction" (2 Timothy 1:7).

Ultimately, the policies enacted during the pandemic were interventionist in nature and sought to throw money at the problems created by intervention in the first place. Whenever the state prevents the market from operating freely in this manner, socialism takes root. While there is no explicit endorsement of free markets in the Bible, it contains many chapters regarding property, wealth, work, and freedom. The Bible supports hard work and preparation, a limited government, uncoerced generosity, and personal responsibility — none of which are found in the tenets of socialism. For example, in Psalm 128:2, man is promised that he will be rewarded for his efforts and will find happiness in work: “For thou shalt eat the labour of thine hands: happy shalt thou be, and it shall be well with thee.” Likewise, the New Testament explains that the government should focus on upholding law and order and punishing good and evil rather than providing goods or services, as in Romans 13 and 1 Peter. The scriptures also talk frequently of the evils of stealing, which affirms the right to own and maintain private property that socialist governments do not permit: “Let him that stole steal no more: but rather let him labour, working with his hands the thing which is good, that he may have to give to him that needeth” (Ephesians 4:28, KJV).

Supporters of government handouts may argue that it is charitable and Christlike for a government to care for its people through wealth redistribution, but the government is not the best — or the intended — institution for helping the poor. Rather, it is the job of willing Christian individuals in society to care for one another as families, churches, and charitable organizations.

VI. Conclusion

The long-term success and efficacy of the 2020 CARES Act legislation is questionable. The stimulus checks, business loans, and unemployment benefits may have prevented layoffs and kept paychecks coming for a short while, but in the long run, the restrictions that justified these payouts stifled economic growth. Although COVID-19 created uncertain and unprecedented circumstances, intervention in the free market was not and almost never is the answer. The economy is better off when individuals are free to work and weigh risks, benefits, and incentives, allocating resources in ways they see fit. If this had been permitted to happen throughout 2020 in place of the deficit spending, perhaps there would not be inflation or shortages today.

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