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INSIGHT

COVID-19: Federal Economic Development Tools and Potential Responses

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The current coronavirus disease (COVID-19) outbreak has led to tens of thousands of cases and thousands of deaths worldwide. In addition to the disease's mortality and public health effects, it may have potentially significant economic implications, including productivity losses, supply chain disruptions, labor dislocation, and potential financial pressure on businesses and households. Relatively few federal programs are available to provide timely economic relief to affected businesses. This Insight considers the outbreak's economic development implications and policy considerations for Members of Congress who have shown interest in addressing the economic dimensions of this public health issue.

COVID-19 Economic Development Implications

COVID-19 is a newly designated disease caused by a previously undetected coronavirus. Most cases have been reported in China, with additional cases on every inhabited continent. Clusters of illness have occurred in South Korea, Japan, Singapore, Italy, and Iran. For more information on the health and epidemiological aspects of COVID-19, see CRS products R46219 and IF11421.

The COVID-19 outbreak is foremost a public health issue. However, the epidemic itself and containment measures in China and elsewhere could have significant economic implications for the United States and globally. In the short-term, the COVID-19 outbreak is primarily a threat to businesses dependent on supply chains in China, or for exports there. However, many economists have warned that a more prolonged crisis may see broader economic disruptions if workplaces and schools are closed to contain the outbreak, and medical and food supplies dwindle due to disrupted supply and increased demand.

In China, mass containment measures have disrupted global supply chains and capital markets. In the near term, the outbreak's effects on the U.S. economy could be limited to localized disruptions for businesses and workers—particularly in communities dependent on technology manufacturing and tourism. In certain cases, supply chain issues may stall production, prevent companies from fulfilling orders, and potentially impact firm revenues.

In a prolonged or wider epidemic, supply chain issues may further compound. Growth could slow further, and affected companies may be forced to furlough or lay off workers, and others may slow hiring. As demonstrated in China and elsewhere, social distancing measures can effectively stop local economic activity, which may impact localized labor markets, household finances, and governmental tax revenues and service delivery. Additional considerations include potential shortages of medical supplies and foodstuffs, other ancillary health effects, and the U.S. medical and public health system's ability to cope with a significant outbreak.

Considerations for Congress

Many Members of Congress have heard concerns from constituents affected by supply chain-, exports-, and tourism-related disruptions from the outbreak. Relatively few federal programs exist to provide timely relief to businesses for outbreak-related disruptions. Some programs include

- The Small Business Administration (SBA) administers disaster and non-disaster loans for small businesses and organizations, and supports an extensive network of SBA-affiliated resource partners who provide management and technical assistance to small businesses;
- The Department of the Treasury's Community Development Financial Institution Fund supports organizations that provide loans to businesses, homebuyers, community developers, and investors in distressed areas; and
- The Department of Agriculture's (USDA) Rural Development program offers limited services to support rural businesses to create or retain jobs.

In the event that disruptions continue and grow, public and non-profit organizations may consider tapping various federal economic development resources, including

- The Department of Housing and Urban Development's Community Development Block Grant (CDBG) program may be used for technical assistance, community assets, and workforce development;
- The Department of Commerce's Economic Development Administration programs may be used to diversify local economic bases;
- USDA programs can provide technical assistance and infrastructure support; and
- Federal regional commissions and authorities support economic diversification, workforce development, and technical assistance in their service areas.

Federal economic development programs are generally not equipped to provide rapid support to firms or communities affected by public health emergencies, though unemployment compensation programs have the ability to rapidly respond and provide immediate income support. In response to a COVID-19 outbreak, Congress may consider measures used in past disasters or economic crises:

- CDBG authorities for disaster recovery (CDBG-DR) could be utilized to address the outbreak's economic impact. Previous CDBG-DR uses included loans and grants to small and medium-sized enterprises (SMEs), workforce development, and community stabilization.

- Public health-related disruption eligibility for SBA's Economic Injury Disaster Loans (EIDLs) could be made explicit. EIDLs provide up to $2 million to small businesses that suffer economic injury following disasters such as hurricanes. EIDLs may be awarded if the President issues a disaster or emergency declaration, or a disaster declaration by the SBA administrator upon request from a state governor.
- In response to the 2007-2009 recession, federal measures included direct interventions to stabilize industries and markets. A similar effort could support affected industries or supply chains, and/or federal loan guarantees to assist affected SMEs.
- In the recession, Unemployment Compensation benefits were temporarily augmented and extended, with some costs temporarily assumed by the federal government. Disaster Unemployment Assistance, which provides federally funded unemployment benefits to those unable to work as a result of a federally declared disaster and otherwise ineligible for regular benefits, could be a model for responding to public health emergencies.
- Following a federally declared disaster, the Internal Revenue Service (IRS) can provide tax relief to affected individuals. The IRS could provide such allowances to affected individuals and SMEs affected by a public health emergency.

Other federal emergency authorities could be utilized in more severe scenarios for individual and public assistance. In such cases, localities with major revenue shortfalls from federally declared disasters—such as those highly dependent on a dislocated industry, such as tourism—could utilize Community Disaster Loans, which provide up to $5 million in liquidity and are potentially forgivable. The President may also call upon the Defense Production Act (DPA) to mobilize key segments of the economy in response to the outbreak. In major national emergencies, DPA authorities may be used to rebalance disrupted critical supply chains, and to allocate and procure emergency supplies.

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