The US Senate has passed the largest recovery package in history with a headline volume of $2.2 trillion or 10% of GDP. That is more than twice the size of the original $850 bn package that the US administration had proposed just one week ago. Yet, this package may need to be supplemented after the envisaged ten-week duration, and Congress is already discussing a new fourth installment for fighting this crisis. China and Germany are also planning massive recovery programs with infrastructure and corporate stabilization funds that could add up to 20% of their respective GDP.

What is included in this massive recovery package?
How does this compare to other stimulus programs?
What is the expected economic impact?

Massive $2.2 trillion package with five categories

> First, $400 bn of this package focus on health and medical needs. The majority will be grants to support hospitals and local health centers, plus low-interest loans to hospitals. Emergency aid for state and local governments and grants to FEMA are estimated at $220 bn.

> Second, $550 bn of this package provide stimulus and enhance the social safety net. Every individual with income up to $75,000 will receive a stimulus check in the amount of $1,200, including retirees and the unemployed. Additional unemployment benefits of $600 per week are provided for four months, including to new entrants and self-employed affected by the crisis, with estimates of 27 million unemployed.

> Third, $500 bn of this package offer loans, equity stakes and grants to larger corporations through the Treasury Department with enhanced oversight and limits on executive pay and prohibition of stock buybacks and exclusion of companies owned by government leaders. The airline industry also receives $25 bn in grants.

> Fourth, $380 bn of this package offer zero-interest loans and grants to small businesses through the SBA, with minimum conditionality and incentives to maintain employment levels. Loans are capped at $10 million or 2.5 months of revenues.

> Finally, $370 bn of this package are composed of additional tax cuts and deferrals of business taxes as well as $31 bn to support schools and colleges, $25 bn to support transit systems, and $25 billion for food stamps, plus a six-months suspension on student loan interest payments.

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Massive corporate lobbying

Corporations have been racing to secure grants and loans from the Treasury Department and many argue that government policies have caused their losses that now need to be compensated. Airlines have been grounded, cruises are mostly suspended, the tourism and restaurant industry have been uprooted, the automobile industry has shut down major plants, retailers and malls and respective commercial real-estate firms are feeling the pressure. However, some corporations were already overleveraged and performed poorly prior to the crisis so that the Treasury Department has successfully received some discretion in handing out assistance, but it also increases anxiety and lobbying efforts across the board. Initially, corporations can receive loans for up to three months of revenues that can be used both for operating costs and for serving or restructuring their debt. Airlines also successfully lobbied for $25 bn in grants and $25 bn in loans. Stock prices of four corporations illustrate the massive upside from government intervention:

Boeing Co has been recognized as essential for national security in this package and secured $17 bn in government aid. It had spent $43 bn in stock buybacks since 2013, having retired a quarter of its stock, while its debt soared to $41 bn or 37 times its EBITDA and its credit rating was cut to BBB. Its stock price has doubled this week but still remains 50% below its 2019 high.

American Airlines has been heavily leveraged with $34 bn of gross debt or ten times EBITDA and had been engaged in large stock buybacks. Its CDS had widened to over 10% and signaled distress, but its stock price has rallied by 60% this week.

Ford Motors is carrying $160 bn of debt, the second largest US corporate debt, or 64 times EBITDA. Growth and earnings have been disappointing prior to the crisis but Ford is now helping to produce ventilators to assist the government. Ford has suspended its dividends but its stock price has rallied by 24% this week.

General Electric has undergone major restructurings and is carrying $112 bn of debt or ten times EBITDA. Growth and earnings had declined prior to the crisis and GE had to stop engine productions due to problems at Boeing. GE has spent $54 bn on stock buybacks over the past decade. Its stock rallied by 22% this week.

International comparison

Central Banks across the globe are adding unprecedented support and stimulus, including the Federal Reserve, the European Central Bank, and the Bank of Japan, which all are exceeding their arsenal that was deployed during the 2008 crisis. Governments initially were more cautious and announced stimulus programs in the range of 2% to 3% of their respective GDP. Subsequently, most G7 governments have added substantial stabilization and loan programs at unprecedented levels: Germany has agreed a federal support package of $810 bn ($150 bn supplemental budget and a $660 bn stabilization fund), adding up to 20% of its GDP. France and the United Kingdom each committed additional support of 15% of GDP mostly through state aid or loans, while Canada's initial stimulus package of $82 bn equals about 5% of its GDP. At the European Union level, a controversial effort is already underway to create Eurobonds or Coronabonds to support the most heavily impacted economies in Southern Europe, which would exceed the national recovery programs.

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Yet all these programs may pale when compared to the envisaged stimulus in China that implemented an infrastructure and recovery program of about 14% of GDP after the 2008 crisis. China's current situation looks enviable compared to those in Europe and in the United States, but it still is in a worse situation than after the crisis in 2008. China's new recovery initiatives could well exceed the latest US recovery program, possibly with less glamour but stronger results.

Economic impact

A global consensus has quickly emerged to provide maximum monetary and fiscal stimulus at unprecedented levels, which is based on the perceived threat of a looming depression. Policymakers may still be underestimating three risks:

> Monetary policy is not nearly as effective as previously because the monetary policy tools had been largely depleted prior to this crisis. While monetary policy can ensure liquidity and functioning of the banking system, it cannot eliminate credit risks that had previously been built. Given this late credit cycle, defaults are inevitable in over-leveraged corporations and in vulnerable commercial real estate.

> Government loans have historically not been very effective, especially if they include zombie firms and a short-term horizon. Airlines won't be fine in three months. Car sales won't bounce back this year. Mall operators and tourism industries won't make up lost revenues. SBA loans have a less than efficient track record.

> Fiscal stimulus may not provide the intended multiplier effect at this time. Timing for stimulus measures is critical: currently, many households likely save their stimulus money, whereas they would spend it after they get back to work with a more optimistic outlook. Even larger stimulus measures may be needed later this fall.

The majority of economists do not believe that it is remotely possible to get back to normal by Easter. The consensus view is for a deep recession through the summer with a possible recovery in the fall, unless a second virus wave hits before a vaccine has been approved. With respect for the former Fed chair, this does not look like a snowstorm, but rather like the worst postwar recession that is now being addressed by unprecedented recovery programs in the United States and globally. Having added 3.3 million US unemployed just last week looks ten times worse than a snowstorm.

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