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EMPLOYMENT RESEARCH

Special Issue on the Coronavirus Pandemic's Economic Effects

This special digital-only issue features four proposals from Upjohn research staff that focus on some of the sobering impacts of the COVID-19 pandemic on the U.S. economy. Some parts of these proposals were incorporated into the already-enacted CARES Act. Others merit inclusion in ensuing emergency legislation. Also included are summaries of and links to additional proposals aimed at alleviating a variety of related difficulties facing workers and their families at this time.

Coronavirus and the Economy

Repurposing Production, Helping the Needy, Saving Businesses, and Encouraging Job Preservation

Timothy J. Bartik and Brad J. Hershbein

The current coronavirus pandemic is likely not only to cause many deaths and acute health problems, but also to seriously limit the ability of many people to work and make ends meet. What can be done to help alleviate this damage?

We are economists, not public health experts, so we focus on what we can do to mobilize the economy to deal with this crisis, and leave the needed public health measures to others. But let's outline a few economic responses that are needed.

1) Mobilize the economy to produce more health system capacity. On an emergency basis, the capacity of our health systems must be expanded to treat more patients. We need to ask public health experts what is needed, and use emergency, wartime-equivalent powers to get factories to produce what is needed. Many public health experts, for example, suggest we will need more ventilators to help treat severe cases of coronavirus. What factories could be quickly repurposed to produce more ventilators? The federal government needs to order this to be done, and pay for it, just as the government mobilized Detroit to produce planes during World War II. Do we need more hospital capacity? The Army helped set up Civilian Conservation Corps camps quite quickly during the Great Depression; we will likely need some tent hospitals, drive-through testing, and possibly even quick conversions of vacant buildings. Military and VA health care workers may be needed to staff these additional facilities.

2) Compensate the unemployed without conditions. We need to pay unemployment benefits to all the unemployed, even those who aren't normally eligible for unemployment insurance. Our colleagues Chris O'Leary and Steve Wandner have put together a proposal on how this could be done, including how to reach independent contractors, self-employed workers, and others not covered by unemployment insurance. We should also inform and encourage employers to adopt short-time compensation, as suggested by our colleagues Katharine Abraham and Susan Houseman, allowing businesses to reduce workers' hours without laying them off, while workers could still collect partial unemployment benefits. We have a flexible unemployment benefits system; let's use it to full effect.

We need to use emergency, wartime-equivalent powers to get factories to produce what is needed.

3) Bail out businesses for losses from the pandemic, but impose more stringent conditions on larger businesses. Emmanuel Saez and Gabriel Zucman have proposed government grants to pay for the maintenance costs of businesses—from payroll to rent to interest on debt—that are effectively shut down from the pandemic. We

prefer open lines of credit—at the government's long-term borrowing rate, roughly 1 percent—to businesses with fewer than 500 employees. These smaller businesses, encompassing about 60 percent of workers, are the ones most likely to suffer cash flow problems and be at greater risk of liquidation without support. Any loans from these lines of credit should have repayments deferred for 2 years, and another 20 years over which to repay

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the loans. For larger businesses, lines of credit could also be an option, but any additional measures, such as the flat-out bailouts sought by airlines, should come with conditions on maintaining payroll and rehiring, and possibly a government equity stake, as was done with the auto industry bailout during the Great Recession. For large businesses, we need to send a signal that government's implicit guarantees come with some cost.

4) Basic income payments to all immediately, as a way of alleviating economic distress and setting the stage for a recovery. Jason Furman and Claudia Sahm have proposed immediate cash payments of at least $1,000 or more per household. This would help alleviate economic distress: people could pay their rent or buy food. Yes, sending a check to everyone makes for poor targeting, giving money to many who don't (yet) need it. But it's simple and fast. To better target funds to those most likely to need them, the U.S. Treasury could send checks to tax filers with adjusted gross incomes below some amount, say $50,000, as well as those who did not file a tax return. Such monies would help people avoid eviction, repossession of a car, or forgoing food and medicine. Depending on how bad economic conditions get, these payments could be repeated, based on automatic unemployment rate triggers.

5) Incentivize job preservation and job creation. Beginning immediately, and at least through 2021, provide a 15 percent payroll tax credit on FTE employees above 90 percent of the business's precrisis FTE employment level. This credit would go to any employer with employees: for-profit, nonprofit, and state and local governments. The goal: encourage employers to "go first" in hiring, and take a risk. Will some of this money go to hospitals likely to expand during the crisis anyway? Yes—and they'll need it to pay for additional equipment and overtime for staff. For most other businesses, the incentives may help retain—and rehire—workers. We want to make the recovery from this recession rapid rather than gradual, and part of that involves encouraging employment expansion.

6) Federal aid to hard-hit state and local governments through revenue sharing. During a recession, state and local tax revenue decline while the need for state and local public spending rises. These fiscal pressures will be particularly acute in areas with heavy concentration in industries already affected by the current crisis. Such areas include those that depend greatly on tourism, travel, or energy. These areas, despite being at risk of suffering the greatest economic consequences, will be the least able to adequately respond. Because state and local governments must balance their budgets, fiscal pressures will likely lead to cutbacks in spending, making any recession worse. The federal government should help by providing revenue to state and local governments. During the Great Recession, for example, such assistance peaked at over $100 billion. A variety of options exist for providing aid, including adjusting Medicaid reimbursement rates or increasing block grants. The flow of aid should be structured to increase if the recession gets worse, and it should be targeted toward the most affected areas.

Is this all that is needed? Probably not! We will need to adjust policies as public health and economic conditions change. Now is the time for the government to be bold and quick on its feet. We must all be open to new ideas as events unfold.

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An Unemployment Insurance COVID-19 Crisis Response

Stephen A. Wandner and Christopher J. O'Leary

The COVID-19 virus is likely to cause major disruptions in U.S. labor markets for at least 18 months—until a vaccine is developed and widely administered. Any program to help affected workers and stimulate the U.S. economy should be carefully targeted to workers who are most in need of income support and most likely to quickly spend these funds in the local economy.

Four groups of workers will most likely suffer severe problems during the COVID-19 crisis:

- Sick individuals whose jobs do not provide sick leave or sufficient sick leave.
- Unemployed workers who are covered by unemployment insurance (UI) but are deemed ineligible because they do not satisfy the requirements for being able to, being available for, and actively seeking work, among other eligibility requirements.
- Unemployed workers who receive UI benefits but have exhausted their regular UI benefits.
- Workers not covered by the UI program, including the self-employed, contract employees, and, more generally, "gig workers."

These groups may all suffer earnings losses because of illness, public health requirements for social distancing from coworkers or customers during the crisis, and declines in economic demand for the products and services they provide. They may lose labor income, be ineligible for UI, or exhaust their benefits. Unless they have substantial savings, they will be unable to pay for basic needs—food, rent, medical care, car payments—for themselves and their families. Their decreased spending will also harm their local economies.

Proposal

We propose changes to UI programs to provide income to covered unemployed workers, to workers still technically employed but without sick leave, and to those unemployed but not covered by UI. Specifically, two packages of UI initiatives should be undertaken, with each limited to an 18-month time frame.

COVID-19 Unemployment Insurance Program Refinements

- Access to benefits: States should simplify the UI application process and provide telephone support to UI applicants who have difficulty applying for benefits.
- Able and available: Workers suffering from COVID-19 or in a required recovery quarantine should have the "able and available" work requirements to receive UI waived.
- Actively seeking work: Unemployed workers from jobs that do not permit sufficient social distancing from coworkers and customers should have UI's work search requirements lifted. Workers allowed to telecommute must continue to work.
- Benefit standards: All states should be required to offer benefits for a potential duration of at least 26 weeks, and the maximum weekly benefit amount should be two-thirds of the average weekly wage among UI-covered workers in that state.
- Administration: The federal government should substantially increase grants to states to pay for the administration of state UI programs, as well as a new COVID-19 Special Unemployment Assistance program (see below).
- Temporary emergency compensation: A temporary emergency compensation program extending the duration of benefits for 26 weeks should be made available to all UI recipients, in all states, regardless of the unemployment rate. It should be enacted by Congress and paid for from federal general revenue.
- Permanent extended benefits: Extended benefits should be federalized and paid from federal general revenue. This would provide up to 13 weeks of additional UI benefits when the state total unemployment rate is above 5 percent in the preceding month.

COVID-19 Special Unemployment Assistance

During the severe 1974–1975 recession, Congress enacted a Special Unemployment Assistance (SUA) program that paid benefits to workers not covered by the regular UI program. The program was temporary and paid with federal general revenue. A similar temporary program could be created to pay unemployment assistance to workers who become sick from COVID-19 or have been laid off because they were employed in jobs that prevent social distancing and either 1) don't have or have exhausted their sick leave or 2) who become

An Unemployment Insurance COVID-19 Crisis Response

unemployed and work in uncovered employment. SUA benefits would

- be payable to self-employed, contract, and gig economy workers;
- be payable for up to 52 weeks;
- be paid using state benefit formulas but with crisis enhancements to amounts and durations listed above;
- determine monetary eligibility by payroll or tax filing records;
- waive "able, available, and actively seeking work" requirements as described above;
- ensure benefit access by having state UI staff assist with the SUA application, whether this be a new process or adapted from the Disaster Unemployment Assistance program.

The temporary UI program refinements and COVID-19 SUA program would together provide income support to the great majority of workers adversely affected by the COVID-19 economic shock. State UI programs across the country are uniquely suited to enroll new participants in income transfer payment programs, process weekly or biweekly cash payments, and rapidly establish programs in times of emergencies. State UI agencies have experience with Disaster Unemployment Assistance, the 9/11 airline unemployment assistance program, and temporary emergency compensation programs during recessions.

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Disaster Unemployment Assistance Would Help Gig, Contract, Self-Employed Workers Affected by COVID-19

Stephen A. Woodbury

Many, perhaps most, workers who have lost their jobs as a result of the COVID-19 pandemic will be eligible to receive regular state unemployment insurance (UI) benefits for up to 26 weeks. But many other job losers who have a strong attachment to the labor force and depend on their earnings—self-employed workers, contract workers, gig workers, and others—are ineligible for UI because they have not been on the payroll of an employer who has paid UI taxes on their earnings.

Disaster Unemployment Assistance (DUA) would make these self-employed workers, contract workers, and gig workers eligible to receive UI benefits. It is almost certainly the most effective fiscal policy tool available to the federal government to quickly blunt the economic damage resulting from the COVID-19 pandemic.

DUA is normally paid to workers who lose their jobs, but do not qualify for regular UI benefits, following natural disasters such as hurricanes, floods, tornadoes, and geological disasters like earthquakes and volcanic eruptions. The program is initiated by a presidential disaster declaration and administered by the state UI agencies, which in turn are overseen by the U.S. Department of Labor.

DUA requires no new congressional legislation—it is authorized by the Stafford Act of 1988—and the administrative structure needed to make it run already exists. Because DUA is funded by the Federal Emergency Management Agency, it side-steps the eligibility problem faced by self-employed workers under the regular state UI program.

The advantage of DUA over other modifications to UI being considered, such as extended benefits, is that it assists workers who would otherwise not receive benefits, and it does so quickly—typically within two to three weeks of job loss. As a result, it is targeted to individuals whose work and incomes have been interrupted and who will likely require income for basics such as rent and utilities, car payments, and groceries.

In short, DUA would target federal financial assistance to a large group of workers whose work and pay have ended as a result of the COVID-19 pandemic, but who are ineligible for UI benefits because of their self-employment status. The legislative authority exists, and the apparatus to run the program is ready to go. Only a presidential disaster declaration is needed to start what could now be the most beneficial single fiscal policy action available to the federal government.

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Stephen A. Woodbury is a senior economist at the Upjohn Institute.

What Is the Likely Impact of Proposed COVID-19 Stimulus Payments?

Marta Lachowska

On March 17, 2020, the Trump administration announced plans to send a payment of at least $1,000 to each household in the United States, with the goal of alleviating the negative economic effects of the COVID-19 pandemic.

What does research have to say about the likely impact of such payments? Previous administrations have used similar economic stimulus payments—also referred to as tax rebates—to counteract falling consumer demand. These tax rebates have been extensively evaluated by researchers.

In 2008, the Bush administration implemented one-time tax rebates averaging about $1,000 per household to about 130 million low- and middle-income families. A similar but less generous program was implemented in 2001. In both cases, the rebates were disbursed using a close-to-random schedule, so it is possible to isolate their causal effects on outcomes.

What were these effects? Studies have shown that both the 2001 and 2008 rebates had a positive impact on household spending. In 2001, households spent two-thirds of their rebates in the quarter of payment and the quarter following payment, and in 2008, households spent up to 90 percent of their rebates in the quarter of payment and the following quarter. Moreover, the 2008 rebates increased personal consumption expenditures by up to 2.3 percent in the quarter of payment, and by up to 1 percent in the following quarter. These are large effects.

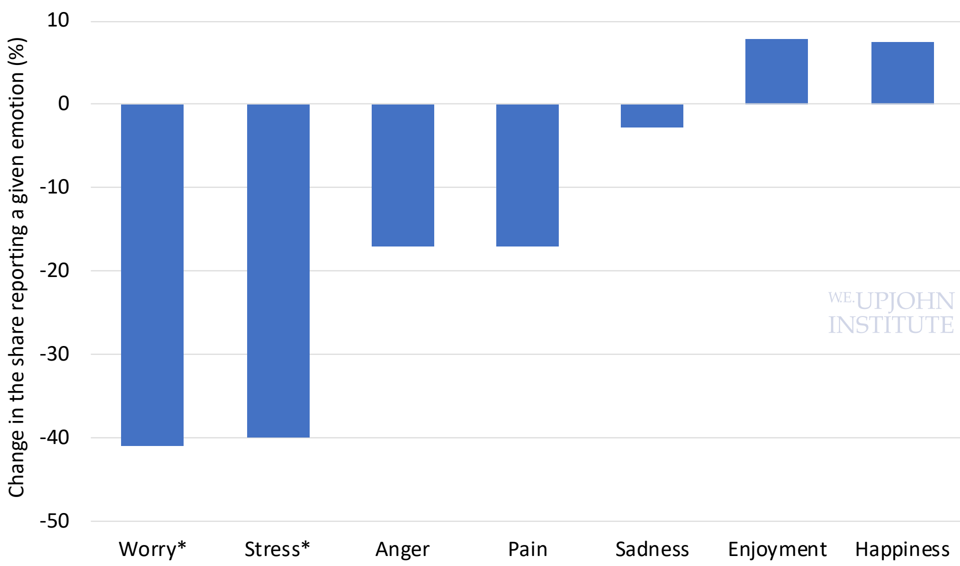
Are similar effects to be expected now? That depends in part on whether and how households are able to spend their payments. With people practicing social distancing and shops and restaurants closed, consumers might be constrained in their ability to spend, particularly on services, resulting in a different composition of spending, and possibly a lower level, than in either 2001 or 2008.

But even if the proposed rebates were not spent, as were the 2001 and 2008 rebates, research suggests they might buy people some peace of mind. My research (here, here, and here) showed that the 2008 stimulus payments had a large effect on reducing feelings of worry and stress. The figure below illustrates the magnitude of these effects. And as consumer confidence plunges, measures to boost consumers' emotional well-being may benefit economic activity in the longer run.

Finally, it is important to ask whether a rebate that is dispersed to all households is the most effective way to spend on the order of $100 billion. Small service-oriented businesses face severe hardship due to the COVID-19 outbreak, so a stimulus targeted to provide liquidity to these businesses might be more effective. And for households facing job loss due to the pandemic, a one-time payment would be less effective than a program providing ongoing liquidity. One possibility is to activate the Disaster Unemployment Assistance program, which would expand the availability of unemployment insurance to self-employed and other workers who otherwise would be ineligible for benefits.

Marta Lachowska is a senior economist at the Upjohn Institute.

Figure 1 The Effect of Receiving Payment on Various Emotions



SOURCE: Lachowska (2017).
NOTE: The estimates come from the last two columns of Table 5 in Lachowska (2015). * denotes that the change in the share reporting a given emotion is statistically significant at a 5 percent level.

Additional Proposals

Shared-Work Programs Can Ease the Coronavirus's Economic Impact

Katharine Abraham and Susan N. Houseman

The COVID-19 outbreak is causing massive disruption to the U.S. economy, with one-fifth of workers already reporting losing hours or work because of the pandemic. In such situations, layoffs are often seen as inevitable. But, unless a business has been forced to close, there's a way to keep workers on the payroll and ease the pain of a downturn. It's called "work-sharing," and 26 states covering about 70 percent of the U.S. workforce offer a work-sharing option in their unemployment insurance system. The authors detail what states and the federal government should do now to ensure that employers can and will implement work-sharing in a *Politico* opinion piece, "The Smart Way to Save Jobs in the Time of Coronavirus."

Preserving Jobs Despite the Coronavirus: Encouraging "Labor Hoarding"

Timothy J. Bartik

The coronavirus will inevitably have negative effects on economic output and jobs in the short run. But due to reduced consumer confidence and business confidence, this pandemic could also lead to a long and severe recession. The loss of jobs for some individuals could seriously damage their long-run economic prospects.

Bartik proposes providing government assistance to encourage "labor hoarding" by employers—maintaining payrolls even with decreased demand—to reduce the long-run damage from what may be a serious recession. This, a revised version of a 2009 proposal with John Bishop for a Job Creation Tax Credit, is meant to be a complement for other proposals to boost the economy, such as cash payments, reforming unemployment insurance, and work sharing. Read more.

Stimulus Steps the U.S. Should Take to Reduce Regional Economic Damages from the COVID-19 Recession

Timothy J. Bartik, Brad Hershbein, Mark Muro, and Bryan A. Stuart

In addition to responding to the public health needs, policymakers are debating how they can respond with creative new economic policies, which are now urgently needed. One strategy they should consider is to leverage a sizable surge of federal aid to state and local governments (now conspicuously absent from federal stimulus packages) to help counter the pandemic's coming negative impacts on the hardest-hit regional economies. To help these places, the authors suggest three federal actions. Read more.

Housing Policy Is Crucial to Stem the Coronavirus Fallout

Lee Adams, Brian Asquith, and Evan Mast

Many laid-off workers are in danger of becoming delinquent on rents or mortgages, putting them at risk for foreclosure and eviction. Helping people maintain housing stability is even more important than normal, as public health officials urge the public to stay at home in order to quash transmission of the coronavirus. The authors highlight five areas where policymakers should quickly act in order to address both current and future problems in the housing market. The proposed policies are relatively simple to implement but could have wide and immediate economic and public health benefits. Read more.

Food Stamps and Unemployment Compensation in the COVID-19 Crisis

Christopher J. O'Leary

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) significantly increased access and benefits for Unemployment Insurance (UI) and the Supplemental Nutrition Assistance Program (SNAP), previously known as food stamps. These two programs responded quickly during the Great Recession to become the most important strands in the social safety net. Many adults received benefits from one or both programs during the crisis. However, features of the massive federal fiscal stimulus in the CARES Act suggest the patterns of SNAP and UI program use might differ from the Great Recession. Read more.

Fiscal Freefall for State and Local Governments: The Crisis We Are Not (Yet) Addressing

Timothy Bartik, Michelle Miller-Adams, and John Austin

The authors call on Congress to provide substantial state and local aid—at least $250 billion for states alone—in order to mitigate the long-term consequences of the current COVID-19-induced economic crisis. Furthermore, they describe the importance of that aid being targeted at the hardest-hit regions. Read more.

Congress CARES But Private Student Loan Debt Remains Blind Spot in the COVID-19 Relief Package

Daniel A. Collier, Chris Marsicano, and Dan Fitzpatrick

The CARES Act provides federal student loan debt relief but has a blind spot for borrowers with private student loans. Low-income, racial minority, and first-generation students disproportionately borrow from private lenders. The complete lack of private student loan debt relief in the CARES

Act works against its great intentions—to support Americans in need as COVID-19 pushes the country into economic crisis. The authors believe that Congress should take up private student loan relief, treating privately funded student loan debt the same as federally funded student loan debt. [Read more.]

As this crisis unfolds, Upjohn staff will continue posting new policy proposals to address COVID-19-related issues and responding to the latest data provided by the Department of Labor. Keep up by visiting our website or by following us on Twitter (see links in the blue box below).

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