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Is $1 Trillion Enough for a New Economic Relief Package?

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Negotiations between the White House and congressional Democrats over an economic relief package have stalled. White House Chief of Staff Mark Meadows has insisted that the package cost no more than $1 trillion,[1] roughly the cost of the Senate Republican plan, while Democratic leaders have said they could come down from the $3.4 trillion cost of the House-passed Heroes Act to about $2 trillion, but no lower.[2]

The Senate Republican plan that the White House initially embraced — the HEALS Act — would cost an estimated $1.1 trillion, according to the Committee for a Responsible Federal Budget. But that plan leaves out several key measures that President Trump, various Republican senators and governors, or both have indicated they support — including some further fiscal relief for states and localities that face huge budget shortfalls due to COVID-19 and its economic fallout as well as rental and food assistance. And, it includes substantially less in supplemental unemployment benefits than the President endorsed in the executive actions he announced on August 8.

The Senate Republican plan and these additional provisions would cost close to $2 trillion. To be sure, some provisions in HEALS may not be in a final agreement, though there is bipartisan support for such HEALS provisions as stimulus payments for individuals and help for certain businesses. At the same time, there are also important provisions in the Heroes Act that may be included in a negotiated package that are not part of the close-to-$2 trillion figure cited above, such as additional funds for COVID-19 testing and contact tracing. Negotiators will need to hammer out the final package but, as this illustrative exercise shows, there is no pathway to a robust package that meets these well-understood needs and garners bipartisan support and that costs just $1 trillion.

Reaching a bipartisan agreement soon is essential. The President's recent executive actions cannot come close to accomplishing what's needed to combat the virus, strengthen a reeling economy, and address the serious and growing hardships that tens of millions of people face.[3] Setting aside important legal and implementation questions, the executive actions at best provide only enough funding for about *five or six weeks* of supplemental unemployment benefits for jobless workers, no help for families struggling to buy food or pay rent (the executive actions neither provide any rental assistance nor extend the expired federal evictions moratorium), and nothing to alleviate the escalating state and local budget crisis.[4]

The HEALS Act, the Heroes Act, and the Need

While the Congressional Budget Office (CBO) has not provided a cost estimate of the HEALS Act, the Committee for a Responsible Federal Budget estimates that it would cost about $1.1 trillion.[5] Its largest cost items are: a second round of stimulus payments ($300 billion); an extension of the Paycheck Protection Program ($158 billion); employer-related tax credits ($200 billion); a continuation of enhanced unemployment benefits ($110 billion) at $200 per week through September (before a complicated formula kicks in that would provide varying levels of enhanced benefits based on workers' prior earnings but that many states say would take a long time to implement); education aid, mainly for schools that reopen ($105 billion); and funding for health-related programs (roughly $100 billion).

That leaves out the following areas that have some bipartisan support and where the case for additional resources is very strong.

Fiscal Relief for States and Localities

States and localities are facing a steep drop in tax revenues because people are shopping less and otherwise restricting their economic activities due to the virus, many businesses are closed, and many people are unemployed, even as the need and cost of many public services are rising. States face an estimated $555 billion in revenue shortfalls through 2022, of which state reserves and flexible fiscal relief from the CARES Act can cover less than one-third. And these figures are for *state* shortfalls only. Local governments face shortfalls as well that are generally estimated at about half the size of the state shortfalls.[6] Tribal governments and U.S. territories face shortfalls, too.

The HEALS Act provides some funding for elementary and secondary schools and colleges and universities for pandemic-related costs, with much of the school aid conditioned on their reopening irrespective of local health conditions.[7] But the funds wouldn't even cover all pandemic-related school costs, and HEALS provides no other funding to help states or localities cope with their sharply reduced revenues and the rising costs for Medicaid and other services. Without federal fiscal relief, states and localities — virtually all of which face balanced-budget requirements — will have to lay off substantial numbers of workers and cut a range of public services such as health, transportation, education, and assistance for struggling families.

The President has portrayed fiscal relief as a partisan issue. But governors of both parties face large budget gaps that will necessitate deep cuts and some public sector job layoffs, and governors of both parties have called for substantial fiscal relief.[8] The bipartisan National Governors Association has called for $500 billion in federal aid to states, as well as additional funding for Medicaid to help address rising Medicaid enrollment and other COVID-related expenses.[9]

Some Republican senators have called for fiscal relief as well; Senators Bill Cassidy, Cindy Hyde-Smith, and Susan Collins have proposed bipartisan legislation with several Democratic senators that would provide $500 billion in fiscal relief to states and localities.

Fiscal relief is effective stimulus for the economy. Both Mark Zandi, chief economist for Moody's Analytics, and CBO rate fiscal relief to states as highly effective economic stimulus during a recession, because these funds limit the cuts and layoffs that states otherwise must make to meet balanced-budget requirements. These cuts and layoffs create an additional drag on the economy, increasing the number of people without jobs and reducing consumer demand.[10] Mary Daly, president of the San Francisco Federal Reserve, stated on August 12 that additional fiscal relief to state and local governments is essential to prevent lay-offs and service cutbacks, adding, "This is not a situation where states misspent or misallocated. It's a pandemic. It's a shock not of their making."[11]

Unemployment Benefits

The HEALS Act includes a smaller federal supplement to jobless workers' benefits than the President proposed in his executive action.[12] Announcing his action on August 8, the President indicated that he intended to provide a $400-per-week supplement to regular jobless benefits — less than the $600 per week that the CARES Act provided until the end of July but *twice* what the HEALS Act would provide.[13]

The President's executive action raises a number of issues. First, whether the President can lawfully use funds from the Federal Emergency Management Agency to finance an unemployment benefit supplement, as outlined in his presidential memorandum and subsequent Administration guidance, is highly questionable. In addition, the $400 weekly benefit that the President announced was premised on states paying $100 of the cost; when states objected that they could not afford to kick in these funds amidst a fiscal crisis, the Administration effectively removed the matching requirement and reduced the payment to $300 per week.[14]

Assuming, nevertheless, that the President prefers the $400-a-week level that he promised workers in his announcement, that would cost about $100 billion more than what the HEALS Act contains.

Also of note, the HEALS Act provides its weekly unemployment benefit supplement only through December. The Heroes Act's benefit supplement would run through January, and Heroes also extends through January certain other CARES Act unemployment policies that expand eligibility for jobless benefits and increase the number of weeks that unemployed workers can receive benefits.[15] By extending the benefit increase and other policies at least through January, the White House and Congress wouldn't need to revisit these policies during a post-election lame-duck congressional session that follows a hotly contested election, which could make bipartisan cooperation on legislation even harder to muster. Doing so would also add to the HEALS Act's costs.

Homelessness Funding and Rental Assistance

The President's executive order (EO) on housing is essentially toothless; it neither extends the eviction moratorium nor provides any funds for rental or mortgage assistance. It merely directs federal agencies to consider whether measures to halt evictions are needed, whether the Administration can legally implement them without congressional action, and whether there are any funds the Administration might use to provide rent relief (which implies that when the President issued these directives, the Administration was unable to identify such funds).[16]

In both his EO and his remarks announcing it, the President described the need to help struggling renters pay rent and avoid eviction. "Those who are dislocated from their homes may be unable to shelter in place and may have more difficulty maintaining a routine of social distancing," his EO explains. "They will have to find alternative living arrangements, which may include a homeless shelter or a crowded family home and may also require traveling to other States." The President thus identified a need, but neither the EO nor the HEALS Act meets it.

HEALS would provide only $3.3 billion for housing assistance, a small fraction of what's needed. Moreover, those funds would be dedicated solely to helping housing authorities make up for reductions in the rental payments they receive from people already living in public housing or privately subsidized housing, since when those households' incomes fall, their rent is adjusted downward. The $3.3 billion would do nothing to expand the number of people getting help paying rent beyond those currently assisted.

The HEALS Act also provides no funds for eviction prevention or homelessness services.[17] The homeless services system needs an estimated $11.5 billion to make shelters safe during the pandemic and provide non-congregate shelter for as many people as possible, research indicates.[18]

With the CARES Act eviction moratorium now expired, the number of households facing eviction may soon begin to surge as many who accumulated large rental debt during the moratorium find themselves unable to pay the back rent unless they receive rental assistance. In addition, the expired moratorium protected only a minority of renters to begin with, and many others may face eviction as well.

Protecting renters from eviction entails *both* extending the moratorium *and* adequately funding rental assistance so that people can afford to pay the rent and don't build up large arrearages that they can't pay off and that will likely result in evictions once a moratorium expires. Policymakers need to make a significant federal investment to meet the goals that the President himself outlined in unveiling his executive order.

Food Assistance

Census data show an increase in the number of people reporting that their household isn't getting enough to eat. In the most recent data, nearly 30 million adults reported that their household sometimes or often didn't get enough to eat for the week ending July 21.[19] Households with children are facing particular difficulty affording food, the data show — some 9 to 17 million children live in a household where the children weren't eating enough because the household couldn't afford it.[20]

The Heroes Act includes a 15 percent increase in SNAP (food stamp) benefits, some smaller SNAP improvements (including a suspension of rules that end food assistance for those who cannot find 20 hours per week of work), and an extension of the Pandemic-EBT (P-EBT) program that provides replacement benefits to children who miss out on free or reduced-price school meals because their schools are closed. In recent weeks, more Republican senators have expressed support for a SNAP benefit increase, including Pat Roberts, Chuck Grassley, John Boozman, Cory Gardner, Joni Ernst, Deb Fischer, and John Hoeven. And, Treasury Secretary Steven Mnuchin told reporters that the White House had reached agreement with congressional leaders on a SNAP increase (though he said they haven't worked out all of the details).[21]

The Heroes Act's SNAP and P-EBT provisions cost about $40 billion according to CBO.[22] The HEALS Act includes no SNAP increase and no P-EBT program extension.

Adding Up the Numbers

As this discussion demonstrates, the White House and Congress will find it exceedingly difficult to craft an adequate relief package that combats the virus, addresses the needs of unemployed workers, reduces serious hardship, and provides critical aid to states and localities at a cost that does not exceed $1 trillion.

Starting with HEALS and providing an unemployment benefit supplement at the President's preferred level of $400 a week (which is well below the Heroes level), offering fiscal relief on the order of what Republican and Democratic governors advocate (also below the Heroes level), and meeting critical food and housing needs would raise the cost to close to $2 trillion even before consideration of other measures, such as more funds for virus testing and contact tracing beyond those in HEALS and fiscal relief for local governments.

To be sure, policymakers may not include all of the HEALS provisions in a final package, and they likely will consider additional measures in Heroes in their negotiations. But given broad support for stimulus payments, aid to certain businesses, and the measures discussed above, they will not be able to fit a responsible and bipartisan package within a $1 trillion cost.

If the nation's leaders do not reach an agreement, the consequences will be serious. The CARES Act's relief measures helped maintain the consumption of many low- and moderate-income households[23] (even as substantial hardship remains), but much of that relief has run its course: the stimulus payments were paid on a one-time basis, the $600 weekly supplement to unemployment benefits expired at the end of July, and the federal evictions moratorium has ended.

The President's executive actions, meanwhile, fall dramatically short. The most significant one of them — which addresses benefits for jobless workers — would provide a maximum of $44 billion in new federal funds that would finance about five or six weeks of a $300-per-week supplemental benefit, if the states can implement it. Few economists believe that the payroll-tax deferral will provide significant support to the economy. Beyond that, the executive actions provide essentially no other help for jobless workers, no eviction ban, no rental assistance, no additional food assistance, and no help for states and localities that have been holding off from implementing severe job and service cuts in hopes that policymakers would soon reach bipartisan agreement on a package that provides relief.

Rather than craft a strong package, many policymakers placed their faith in an aggressive reopening of the economy. But COVID-19's resurgence this summer highlights the dangers of that approach, and it's now clear that it doesn't provide a viable alternative. Policymakers should return to the negotiating table, build on the bipartisan CARES Act's success, and address the extraordinary health and economic challenges that the nation continues to face.[24]

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[13] The HEALS Act calls for states to shift after September from the $200-per-week benefit to a formula that brings the total supplement, plus the worker's regular state unemployment insurance (UI) benefit, to 70 percent of the worker's prior weekly earnings (the supplement would be capped at $500 a week for high-earning workers). That would likely produce a total weekly benefit significantly *below* $200 for low-paid workers and significantly *above* $200 for higher-paid workers. A number of states with both Republican and Democratic governors have indicated that their antiquated unemployment systems likely won't be able to implement this change in a timely manner.

[14] Technically the state match requirement remains in place but under recent guidance, states apparently will be able to satisfy the match requirement based on current state expenditures in their UI systems.

[15] The HEROES Act lets workers with weeks of regular UI remaining on January 31, 2020 continue to receive the $600 supplement for any remaining weeks through March 31, 2021, and it lets workers with weeks remaining on January 31, 2020 under either PUA or the CARES Act's additional weeks of federal benefits continue to receive any remaining weeks through March 31, 2021.

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