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CBPP and Niskanen Center: Joint Recommendations to Strengthen Senate Republican COVID-19 Economic Response Proposal

By Robert Greenstein and Samuel Hammond[1]

The Senate GOP package includes some important proposals to help address the current public health and economic crisis, but falls well short in a number of areas:

1. Millions of people are likely to miss out on the "Recovery Rebates" even though the new proposal technically makes them eligible. That's because the proposal would require people who aren't Social Security beneficiaries to file a tax return to receive the payment. Those who would fail to receive the payments unless they file a tax return include millions of seniors, people with disabilities, veterans, and low-income individuals and families. In some cases those who would be required to file participate in federally-administered programs like veterans benefit programs and the Supplemental Security Income program and the federal government already has the information it needs to determine eligibility, screen out duplicate payments, and provide the payment. (The only non-filers who would automatically receive a payment are those who receive Social Security retirement and disability benefits.)

A new filing requirement during a pandemic is particularly problematic because, with businesses shuttered, many people will have more difficulty accessing tax preparation help (and families are "social distancing" so family members may not be able to help either). People without internet access will be especially unlikely to receive the payments.

The requirement thus will unnecessarily erect obstacles to millions of people getting a payment. Fortunately, a better approach is available. The federal government can use data-matching to identify SSI and veterans' program beneficiaries who don't receive a payment based on having filed an income tax return or receiving Social Security benefits and automatically provide payments to them. (Former federal officials confirm that the federal government readily has the technical capacity to do this.) The experience of 2008, when many intended beneficiaries missed out on stimulus payments, is instructive. Individuals who were eligible for the stimulus payments provided that year but hadn't filed an income tax return were required to file new paperwork to receive it. Many never did and missed out on the payments.

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This seemingly technical issue will determine whether large numbers of low-income veterans, people with disabilities, and seniors receive the stimulus payments. These are among the people who struggle the most to make ends meet and thus among the likeliest to spend every additional dollar they receive, providing the greatest potential boost to the economy. Ensuring they get these payments will both blunt the worst impacts of the current crisis for a very needy group and ensure that the payments have the largest possible stimulative effect.

Unfortunately, even with this change, many low-income individuals and families will still have to file a tax return to secure the benefit. This will be challenging and require significant outreach efforts. VITA (federally-funded free tax assistance) can be an important part of that effort and needs additional resources to ensure that most of those who newly need to file get the paperwork done.

2. The package needs to include more fiscal relief for states. New claims for unemployment are already exploding, a sure sign that state budgets will face severe strain. Goldman Sachs projects an increase from 281,000 new claims the week of March 8 to 2,250,000 the week of March 15, and initial reports from various states are consistent with massive increases.

Some forecasters now project that unemployment will quickly reach 9 percent this year, a more than 5 percentage point increase from before the crisis. In a typical recession, *each percentage point increase in the unemployment rate translates into a roughly $40 billion aggregate budget shortfall for states*. And this recession may generate even deeper-than-normal drops in state sales tax revenues, and is the result of a public health emergency that is leading to large new direct costs for states. Consistent with this, states are already forecasting severe shortfalls. Some states will also face additional, immediate budget pressures because the federal government's decision to delay the tax filing deadline will also delay state revenue collections.

In response, states are already beginning to drastically cut their revenue forecasts for the coming fiscal year, which begins July 1 in most states, and to revise their budgets for the *current* year. Sales taxes make up 32 percent of state revenues, and sales are plummeting as restaurants and stores across the country close their doors and lay off their workers. Data are not yet available on the full scope of this collapse, but there is little doubt it is drastic, even unprecedented. Another third of state revenues come from income taxes, and those revenues will also fall sharply, especially as mass layoffs spread. Plus, the stock market's collapse means that many wealthy people will soon begin reporting big capital losses on their quarterly tax returns, further reducing state revenue.

Despite the rapid deterioration in the economy and state budgets, the package includes much too little in state fiscal relief. It does not include any increase in the federal share of state Medicaid costs beyond that in the Families First Coronavirus Response Act; this is an efficient mechanism for getting relief to states and ensuring that Medicaid remains strong during both the public health crisis and the economic downturn. In addition, the package's other direct funding to states is too modest. The package does include a $20 billion education stabilization fund (and some smaller funding, like an additional $3 billion for child care), but far less than needed to keep states from laying off workers, making other significant budget cuts, or raising taxes — actions that will make the downturn worse. Absent immediate relief, there is also a serious risk that cash-strapped states will shortchange some measures needed as part of the public health response. Policymakers should provide substantially more fiscal relief up front. The state fiscal relief should also be designed to continue beyond a first tranche if economic conditions warrant.

3. The package should include an increase in SNAP benefits to help for families struggling to make ends meet. While the Recovery Rebates will help low-income families (at least those who are able to access them), the downturn will put even more pressure on low-income families' budgets.

To avert an increase in food insecurity and to help families struggling to pay rent and put food on the table, we recommend that the basic SNAP benefit level be increased. SNAP benefits are modest. During downturns, when many people see their incomes drop and their periods of joblessness are longer, the low benefit is particularly problematic. Temporarily increasing SNAP benefits was very effective during the last recession, not only in reducing poverty and preventing a sharp increase in food insecurity but also in stimulating overall demand in the economy. Both Moody's Analytics and CBO rank an increase in SNAP benefits as highly effective stimulus during downturns.

4. The package needs to do more to expand health care coverage. The package should include provisions to make Marketplace coverage more affordable so those who see their earnings drop can more easily access coverage. It also should encourage more states to expand Medicaid to low-income adults and should make Medicaid coverage more accessible during the public health crisis, including to people in immigrant families. Similarly, more should be done to cover COVID-19 treatment for those who remain uninsured, which is especially important in ensuring that people at risk of infection access needed care.