Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

April 13, 2020

Labor Market Conditions Should Determine Duration, Size of COVID-19 Relief Measures

By Chad Stone and Sharon Parrott

The public health measures needed to manage the COVID-19 pandemic have produced a sharp contraction in economic activity and rise in unemployment, the breadth and duration of which remain to be seen. Because of the great uncertainty about how severe the downturn will be and how long workers will have difficulty finding jobs, policymakers should tie the duration and size of key relief measures — such as expanded unemployment benefits and fiscal relief to state and local governments — to economic conditions, not an arbitrary calendar date.

The bipartisan Families First Coronavirus Response Act and Coronavirus Aid, Relief, and Economic Security (CARES) Act contain significant measures to address pandemic-related hardship and economic disruption. None of these measures extend beyond the end of 2020, however, and some end sooner — long before the economy will likely have recovered substantially and the labor market will be healthy again. If Congress doesn't address this issue, there is serious risk that key measures will expire prematurely, making the economic downturn longer and more severe and increasing the hardship facing tens of millions of households.

Accordingly, in the next relief package, policymakers should tie relief measures to economic conditions rather than an arbitrary calendar date, using "triggers" based on job market conditions to determine when assistance would phase up or phase out. A national trigger would ensure that relief measures continue nationwide as long as they are needed, but no longer. Since the recovery from the pandemic may occur at different rates in different parts of the country, additional state-specific triggers could provide longer-lasting help in states facing greater challenges after nationwide relief has triggered off.

The Great Recession and its aftermath offer a disconcerting lesson on the problems that can result from *not* tying relief measures to economic conditions — and allowing them to expire too early. Although unemployment remained high in the years immediately following the Great Recession, Congress was unable to pass legislation to keep various relief measures in place. That slowed the recovery and increased hardship. To avoid repeating this mistake, policymakers should link measures such as state fiscal relief, expanded jobless benefits, and increased SNAP benefits to labor market indicators so that they will remain in place as long as they are needed to boost the economy and aid families — in other words, so that the measures neither end prematurely nor last too long.

Economic Downturn Expected to Be Deep and Long-Lasting

Following an unprecedented surge in initial claims for unemployment insurance in the last two weeks of March, both the Congressional Budget Office (CBO) and Goldman Sachs (GS) released estimates that unemployment will peak this year but remain high in 2021.[1] But each acknowledges significant uncertainty. GS projects that the unemployment rate will average 7.1 percent in 2021 even with the CARES Act measures *and* a GS assumption of several hundred billion dollars more from a subsequent round of relief and stimulus. CBO's estimate, produced for the Families First Act, has sharper declines in economic activity and higher unemployment rates than Goldman Sachs', with the unemployment rate still 9 percent at the end of 2021. CBO's forecast, however, did not account for the measures in the subsequently enacted CARES Act that would moderate that unemployment-rate forecast somewhat but still leave unemployment very high.

Moreover, CBO warned that the decline in economic activity "could be much larger." While not offering a projection of when the economy will turn around, CBO stated that "Information about economic conditions and the spread of the novel coronavirus is changing rapidly. . . . *[S]ocial-distancing measures could be in place for a shorter, longer, or much longer time than described above, with major consequences for the economy and the nation*" (emphasis added).

The severity of the drop in economic activity and rise in joblessness now taking place will not show up fully in standard economic indicators like the unemployment rate and growth in gross domestic product (GDP) for some time. Employers shed 701,000 jobs in March and the unemployment rate rose from 3.5 to 4.4 percent as employers were beginning to lay off workers, but these figures are based on data collected prior to the surge in new claims for unemployment insurance.[2] Over the four weeks ending April 4, new claims averaged 4.3 million per week, compared with 212,000 in a comparable period last year, and the average for the four weeks ending April 11 will be higher still (claims in the first three weeks of that period averaged 5.6 million per week). Similarly, the preliminary report on first-quarter GDP that will be released later this month will not reflect a full accounting of the decline in March because the preliminary GDP report is based on incomplete data.

Measures Taken So Far Are Scheduled to End Prematurely

Most of the measures in the CARES Act and the Families First Coronavirus Response Act will remain in effect through the end of the year at the latest, and they include no provisions for extending them if economic conditions remain weak.[3] For example, the CARES Act's broad eligibility expansions for unemployment benefits expire December 31, and its unemployment benefit increase expires July 31, only a little more than 100 days from now. Similarly, states can only use the

[1] See "Updating CBO's Economic Forecast to Account for the Pandemic," Congressional Budget Office, April 2, 2020, https://www.cbo.gov/publication/56314, and "The Sudden Stop: A Deeper Trough, A Bigger Rebound," Goldman Sachs US Economic Analyst, March 31, 2020.

[2] "The Employment Situation — March 2020," Bureau of Labor Statistics, U.S. Department of Labor, News Release, April 3, 2020, https://www.bls.gov/news.release/pdf/empsit.pdf.

[3] Sharon Parrott *et al.,* "CARES Act Includes Essential Measures to Respond to Public Health, Economic Crises, But More Will Be Needed," Center on Budget and Policy Priorities, March 27, 2020, https://www.cbpp.org/research/economy/cares-act-includes-essential-measures-to-respond-to-public-health-economic-crises.

Coronavirus Relief Fund for state spending through December 31, while the Families First Act's increase in the federal share of state Medicaid costs ends when the public health emergency ends. Neither continues or increases if the economy remains weak or worsens.

The next response package should tie relief measures automatically to the economy. This would ensure that economic stimulus measures do not end prematurely, as they did with the Great Recession, but do "turn off" when a solid recovery has taken hold and unemployment is returning to pre-crisis levels. Protracted high unemployment and underemployment after the Great Recession officially ended in June 2009 continued to generate hardship and hurt long-term growth, and various stimulus measures — which had arbitrary end dates rather than being tied to improvements in workers' ability to find jobs — ended too soon, leaving people without help and slowing the recovery.[4]

In this crisis, if Congress does *not* tie relief measures to economic conditions, there is a substantial risk that it will be unable to summon the votes necessary to extend the provisions repeatedly. If that occurs, relief measures that are critical to individuals, families, and states won't be in place when they are still badly needed, worsening hardship and impeding the recovery.

Putting in place automatic measures that last as long as the economy is weak will be important to keeping aid to states, families, and the economy flowing as long as needed without requiring Congress to vote repeatedly on relief packages. Tying relief provisions to economic conditions also can assure the public, policymakers, and financial markets that spending will return to normal levels when a robust economic and labor market recovery is underway.

Using Triggers to Tie Relief and Stimulus to Economic Conditions

One option to ensure that necessary measures remain in place while needed but *only* while needed is to employ triggers based on economic conditions to guide how and when they phase up or phase out. For example, the duration of various relief policies — such as expanded unemployment benefits, state fiscal relief through a higher federal share of Medicaid costs, increased SNAP benefits, and additional relief measures that were not included in the CARES Act but are necessary for forestalling serious hardship — should be tied to appropriate indicators of economic conditions, such as whether unemployment is falling and nearing pre-crisis levels, both nationally and (where appropriate) in the state.

Currently, with economic activity severely depressed and unemployment soaring, the legislation could designate the country to have entered a "high-unemployment period." Measures designed to reduce hardship and stimulate a recovery once businesses can safely reopen and people can return to work should remain in place until there is clear evidence that the economy and labor market are improving and should soon return to normal. Such measures could include expansions of unemployment benefits, an increase in SNAP benefits to provide more food assistance to struggling households, and increases in the federal share of Medicaid costs.

The trigger for *exiting* a "high-unemployment period" and thus *turning off* various relief measures could require that unemployment is clearly falling (e.g., the unemployment rate averaged over the

[4] Alan S. Blinder and Mark Zandi, "The Financial Crisis: Lessons for the Next One," Center on Budget and Policy Priorities, October 15, 2015, https://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one.

most recent three months has fallen for two straight months) and is close to (e.g., less than 1.5 percentage points higher than) where it was before the crisis. The average unemployment rate in December through February was 3.5 percent. Thus, with the trigger described above, the high-unemployment period would end when the unemployment rate, after rising in the recession, falls back below 5 percent.

Note that if the national economy has entered a solid recovery but some states still have high unemployment rates, various relief provisions (such as expanded unemployment benefits) could remain "on" in those states where the recovery is lagging.

In some cases, the amount of assistance provided can be tied to state labor market conditions. For example, under the Take Responsibility for Workers and Families Act (H.R. 6379) — introduced in the House during the negotiations leading to enactment of the CARES Act — the size of the bill's increase in the federal share of a state's Medicaid costs would depend on how much the state's unemployment rate exceeds a threshold based on the state's past unemployment rates. Such a provision would provide more fiscal relief to states with sharper increases in unemployment, as the 2009 Recovery Act did, although with a different design.

Similarly, the number of additional weeks of unemployment benefits that workers can receive also can be tied to a state's unemployment rate, with workers in states with higher unemployment rates eligible for more additional weeks of jobless benefits. There is precedent for such a structure. The temporary Emergency Unemployment Compensation (EUC) program in the Great Recession and its aftermath tied the number of additional weeks of unemployment benefits available to workers in a state to the state's unemployment rate; while all states received some additional weeks of benefits, harder-hit states got more.

Unfortunately, during the Great Recession, Congress created EUC with a set expiration date, and when the labor market improved more slowly than expected, lawmakers had to repeatedly pass legislation to extend the program. Ultimately, Congress let EUC expire despite continued labor market weakness, leaving workers in the lurch and slowing the recovery.

Opportunities to Strengthen Automatic Stabilizers

Although any of a broad set of events can cause a recession, a single core set of relief measures will always be appropriate to mitigate the human hardship and economic damage from a long, deep recession and slow recovery. As policymakers craft the federal government's next response to the pandemic, they have an opportunity not just to incorporate appropriate triggers into the pandemic response, but to make them permanent "automatic stabilizers" that trigger on early in a future recession to make it as short and shallow as possible and remain on until a strong recovery is underway.

Unemployment insurance and SNAP already serve as automatic stabilizers because the number of people eligible for and receiving benefits — who will spend them quickly to meet basic expenses — grows automatically when the economy weakens, cushioning the decline in aggregate demand for goods and services. But these programs can be made more effective as automatic stabilizers. In every recession since the 1970s, policymakers have enacted temporary, emergency measures to address the inadequate coverage and responsiveness of the permanent unemployment insurance system to a downturn.[5] Improvements such as expanded eligibility criteria, higher weekly benefits, and a tiered set of additional weeks of benefits tied to state unemployment rates should be part of *permanent* unemployment insurance law. With such changes, the program would provide more help to those out of work and a bigger boost to the flagging economy when a recession hits.

Similarly, policymakers temporarily raised SNAP benefits during the Great Recession, recognizing that the program's low benefits are particularly problematic when the labor market is weak, households have lost income, and it takes longer to find a job. A permanent provision increasing the maximum SNAP benefit during a high-unemployment period would automatically relieve hardship and support demand for goods and services in a recession.

States' balanced budget requirements are automatic *destabilizers*: in a downturn, state revenues fall and the need for state services rises, but states must raise taxes and cut spending to keep their budgets in balance, even if they have prudently saved in a rainy day fund. This reduces aggregate demand in an already weakening economy. In the sluggish recovery from the 2001 recession and in the Great Recession, policymakers enacted state fiscal relief to help states address their fiscal problems and reduce the drag on the economy from the measures necessary to meet their balanced budget requirements. If fiscal relief measures — including enhanced federal Medicaid matching funds — were established in permanent law to "turn on" when the economy faltered, states would automatically receive help that would reduce their need to cut services, lay off staff (including teachers), and raise taxes, steps that increase hardship and further weaken the economy.

Unemployment insurance, SNAP, and state fiscal relief do not exhaust the set of measures that relieve hardship and support economic activity in a recession, but these are at the top of the list as automatic stabilizers on the spending side of the budget.[6]

Ideally, Congress would enact permanent automatic stabilizer provisions now, so they are in effect during this crisis and in future recessions. Failing that, Congress should tie the relief measures responding to the current situation to economic conditions rather than letting them end arbitrarily, then come back after the crisis to put these provisions into permanent law so the federal response to the next downturn is more robust and timely than under current law.

Conclusion

The legislation enacted so far in this health and economic crisis contains significant measures to address hardship and economic disruption, but they all end on arbitrary dates, and almost certainly too soon, rather than remaining in place until labor market conditions recover. Given the considerable uncertainty about how severe and long-lasting the drop in economic activity and high unemployment will be, policymakers should design the measures they enact to relieve hardship in the pandemic and promote a strong recovery by tying them to labor market indicators and thereby ensuring that they remain in place until the labor market improves substantially.

---

[5] Due to restrictive eligibility rules and limited weeks of benefits in some states, fewer than 3 in 10 unemployed workers received unemployment insurance in the last decade, U.S. Department of Labor data show. See https://oui.doleta.gov/unemploy/large_carousel.asp?slide=0.

[6] See "Automatic Stabilizers in the Federal Budget: 2020-2030," Congressional Budget Office, February 2020, https://www.cbo.gov/system/files/2020-02/56095-CBO-automatic-stabilizers.pdf.