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CBPP STATEMENT

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Greenstein: Pelosi Package Would Provide Essential Support for Economy, Relief to Households

Speaker Pelosi's new COVID-19 proposal seeks to address the unprecedented health and economic crises our nation faces with measures substantial enough both to provide strong support for the economy — and thereby lessen the severity and duration of the deep recession — and to ease hardship significantly for tens of millions of Americans, many of whom are in increasingly desperate straits. In the absence of such a package, important relief provisions enacted since March will expire much too soon, with one key provision for unemployed workers ending in less than 80 days. And state and local governments — which face huge revenue shortfalls in their new fiscal years, which start July 1 in most states — will be compelled to institute massive budget cuts or tax increases and lay off large numbers of teachers and other employees, making the downturn substantially worse than it already is.

People in large numbers are losing jobs and health coverage and facing hunger, the threat of eviction, and other serious hardships. States are contemplating deep cuts in education, health care, and other crucial services. Growing numbers of businesses are facing collapse due to the plummeting of consumer and business spending. The severity and scope of the crisis require a robust response that matches the challenge. The Pelosi package, while not perfect as explained below, steps up to the plate and provides the type of response the nation needs.

The package contains strong state and local fiscal relief. States, which are required to balance their budgets every year, face collapsing sales and income tax revenue, which will produce budget gaps totaling an estimated $650 billion, of which state reserves and the federal relief provided to date will fill only a modest portion. In the absence of strong further federal support, many states will institute painful budget cuts in areas such as education and health care — which account for the lion's share of state budgets — and lay off teachers and other staff and terminate various contracts with businesses. That would materially worsen the recession, delay recovery, and deepen the harm that families and communities are already experiencing. Moreover, state health care cuts could undercut the public health response efforts. The Pelosi package includes assistance to states, through both flexible grant aid and strengthening and extending the Families First Act's temporary increase in the federal share of Medicaid costs, a particularly effective and efficient form of aid that alleviates state budget pressures and protects health coverage.

The new package also includes a temporary increase in the maximum SNAP (food stamp) benefit through September 30, 2021 to help address growing hunger across the nation. SNAP is one of the most effective mechanisms available both as stimulus (because virtually all of the benefits it provides are spent quickly, injecting stimulus into the economy) and as a way to lessen spikes in poverty, food insecurity, and hardship.

Similarly, the package aims at helping avert evictions, homelessness, doubling up, and reliance on mass shelters, which are problematic enough in normal times but can literally be deadly in a pandemic. The package provides important funding for low-income housing assistance, including resources for rental vouchers, the single most effective policy to reduce homelessness and ensure people are safely housed.

In addition, to keep extremely poor families from falling through the cracks and spiraling downward, the package includes a modest but important increase of $9.6 billion in Social Services Block Grant funding to provide resources to states, localities, and community-based organizations for emergency aid and services.

Also of vital importance, the package extends the key unemployment benefit provisions of the CARES Act, one of which (an increase in benefit levels, which otherwise are often quite low) is currently slated to expire in just 80 days, at the end of July. It would have been better, however, if the package extended the unemployment provisions and certain other measures in the package until economic indicators like the unemployment rate show that the job market has recovered significantly and the economy no longer requires the stimulus these measures provide. Under the package, the unemployment provisions extend only until January 31, 2021. The Congressional Budget Office projects that the unemployment rate will average 10.1 percent in 2021 and still be at 9.5 percent in 2021's final months.

The package also contains other important measures to boost consumer purchasing power and thereby both help families make ends meet *and* help businesses keep operating and ultimately hire more people back. These measures include a second round of stimulus payments later this year, at increased levels for most families with children. Importantly, both rounds of payments would go to two groups originally left out of the first round: immigrant families, many of whom are working on the front lines in the pandemic, providing health care, delivering food, or caring for vulnerable elderly people; and tax dependents over age 16, including older children who are dependents such as 17- or 18-year-olds and adult children with disabilities.

The package also follows up the stimulus payments with a temporary increase for tax year 2020 in the Child Tax Credit and Earned Income Tax Credit, which tax filers would receive next winter and early spring after they file their 2020 tax returns. These temporary expansions would be well-timed; as noted, CBO predicts unemployment will still be at double-digit levels then. Moreover, elements of the Child Tax Credit and EITC proposals would be especially well targeted to help avert a poverty spike, as they would extend the Child Tax Credit to children in families with low or no earnings and expand the now tiny EITC for poor workers who aren't raising children at home.

The package does fall short in several areas, where it could be improved. First, it's important for key relief measures neither to expire too soon (a mistake made in responding to the Great Recession) nor to last too long. Accordingly, it would be best to tie the unemployment provisions, state fiscal relief, and SNAP measures to economic indicators so they remain in effect until the labor market is considerably healthier.

Second, the package contains a measure weakening, for one state, the Families First Act's Medicaid maintenance-of-effort (MOE) protections. The MOE provision in question is essential to ensure that states don't respond to budget gaps by cutting Medicaid coverage or eligibility, which would be particularly problematic amidst the health crisis. We recommend this weakening provision be removed.

Finally, the package contains a poorly targeted, temporary repeal of the $10,000 cap on the state and local tax deduction, which was enacted in 2017. This measure has little to do with addressing the health or economic crisis we face and shouldn't be in the bill. Tax Policy Center analysis shows that repealing this cap would be extremely regressive. The richest 5 percent of households — a group unlikely to spend much of a new tax cut — would receive more than 80 percent of the benefits from repeal, while the *bottom* 80 percent of households would get only 4 percent of the benefits. And 97 percent of the households in the middle of the income spectrum (i.e., those in the middle fifth of the income distribution) would get nothing at all. Moreover, repeal wouldn't produce new dollars now for states, which desperately need immediate relief.

The package's shortcomings pale in comparison, however, to its virtues. It would provide badly needed relief to families and individuals, strengthen consumer purchasing power, and go a long way toward shoring up state and local budgets — all of which would provide vital support for the staggering economy. The package reflects the very tenuous position the nation is now in and recognizes that the risk of an inadequate response far exceeds the risk of doing too much. The costs of doing too little include severe hardship for millions of families and a considerably deeper and longer recession, with far more in the way of lost jobs, lost wages, and lost work experience, particularly for people who already faced significant barriers to economic opportunity. Yes, the package is large and costly. But as Harvard economist Greg Mankiw, who chaired President George W. Bush's Council of Economic Advisers, noted recently, "There are times to worry about the growing government debt. This is not one of them."

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