

Welfare Policies in the U.S. During the COVID-19 Pandemic

Introduction

The COVID-19 pandemic and the resulting health policy measures have brought a severe contraction in economic activity in the United States. In order to provide a safety net, the federal and local governments have undertaken several unprecedented measures of support. Despite very aggressive actions to prop up the income of U.S. workers and businesses, some groups remain more vulnerable than others, and shortages of essential goods and services persist. In this note, we first describe the economic effects of the pandemic and consider the extent and financing of government intervention; then, we analyze the specific features of three measures of income support introduced since March 2020; next, we examine the effect of the pandemic and the resulting government intervention on the consumption of essential goods and services; finally, we discuss the adequacy of the current measures.

The Economic Effects of the Pandemic and the Policy Response

The COVID-19 outbreak brought supply and demand shocks that led to a rapid contraction in production and employment. Disruptions of the value chain and social distancing measures shrunk the productive capacity of the economy. Uncertainty and consumers' and businesses' pessimism contracted the demand for goods and services. Government regulations further reduced consumer spending by limiting activities (travel, leisure, restaurants, culture) that are typically not affected during recessions.

To provide relief and avoid permanent damage, the federal and local governments embarked on unprecedented spending programs. By the end of April 2020, the federal government enacted the appropriation of \$4 trillion—18% of GDP—in government spending, transfers and tax cuts. One important portion of the federal appropriation was directed to fund and support states and other local governments as they face tighter balanced budget requirements. As a result of these extraordinary interventions, the federal budget and the overall government debt have swiftly increased. The Federal Reserve adopted an accommodating monetary policy that has maintained interest rates low and has contained the increase in the government debt in the hands of the public, easing—so far—concerns of fiscal sustainability.

Income Support Programs

Among the policies introduced since March 2020, the most significant measures of income support are the Economic Impact Payments, the Pandemic Unemployment Assistance, and the Paycheck Protection Program.

The Economic Impact Payments (EIP) are one-off direct disbursements that depend on the level of income and the number of people in the family. The goal of these payments is to provide relief and stimulate aggregate consumption. Despite significant implementation lags and

difficulties in reaching the most vulnerable, EIP seem to have been successful. Preliminary research (Baker et al. 2020 and Chetty et al. 2020) shows that EIP recipients quickly increased their consumption and directed their spending on food and other necessary goods rather than less essential durable goods. In addition, because individuals with lower income and liquidity seem to respond more than others to income transfers, targeting those in greater need appears to have a greater effect on aggregate consumption.

The Pandemic Unemployment Assistance (PUA) program has played a crucial role in the policy response to COVID-19. Through this program (scheduled to end in July 2020), the federal government has provided an unemployment benefit boost of \$600 per week to each unemployed individual, regardless of the income earned while employed and any existing unemployment benefit received from the state or a union. The goal of PUA is to limit the income drop associated with job losses, which typically cause a deterioration in human capital during recessions. Notably, PUA also benefits independent contractors, self-employed, and gig workers—categories that were previously ineligible for unemployment benefits—but continues to exclude undocumented workers. The unemployment benefit received under PUA is sizable for many individuals: about 50% of the PUA recipients receive more than what they earned while working (Ganong et al. 2020). While PUA lessens the increase in poverty associated with unemployment and represents a unique redistribution of income, it is not a well targeted program. Moreover, because PUA provides perverse incentives to the workforce, it should be phased out as soon as the economy recovers.

The Paycheck Protection Program (PPP) aims at supporting small businesses, employment, and wages through income transfers to firms. In practice, PPP consists of loans that are forgiven if the business maintains its workers on the payroll above a certain wage. The PPP program has been somewhat controversial because of the initial lack of transparency on the beneficiaries, the role played by disbursing banks, and the marginalization of minorities. The evidence on the effects of PPP is so far inconclusive. While there is some indication that PPP has assisted employment (Autor et al. 2020), other studies have found no significant effects (Chetty et al. 2020 and Granja et al. 2020); also, PPP funds appear to have failed to benefit the geographical areas that needed them the most.

The aggregate effect of these government relief measures has been substantial. Because of these policies, despite the drop in GDP, the aggregate monthly income available to households in April and May was higher than it was before the COVID-19 outbreak. However, because the EIP was disbursed only once and the UAP is expected to expire at the end of July, the income available to families will rapidly drop if no additional measures of relief are taken. Importantly, the increase in aggregate income hides inequality in individual outcomes. Women and minorities appear to have suffered a greater drop in employment and business ownership

compared to others (Fairlie 2020). The new policy measures have failed to target the most vulnerable.

Consumption of Essential Goods and Services

In assessing individual welfare, it is important to study income dynamics, but also to investigate household consumption. In particular, it is noteworthy to understand the impact of the pandemic on consumption of essential goods and services and analyze the government response.

The affordability of healthcare has worsened during the pandemic. Because most Americans receive health insurance through their job, the vast increase in unemployment brought a drop in overall health coverage. This, in turn, discouraged testing and restricted access to treatment for the virus. In response, the U.S. government has made insurance companies cover the cost of testing and has granted income transfers to hospitals that (i) provide Covid-19 treatment for free to the uninsured and (ii) eliminate out-of-network surprise bills to the insured (King 2020). An additional measure that has been proposed to extend insurance coverage for the unemployed is to offer a grace period on the payments of premiums until the health emergency is over (King 2020).

During the early stages of the pandemic, the U.S. economy faced significant shortages of personal protection equipment and medical devices as the global nature of the pandemic made it difficult to import these essential goods from abroad. This sudden scarcity has revealed the importance of building up stockpiles of strategic equipment during good times: an adequate stock of essential goods reduces the risk of having to command manufacturers to produce essential devices during bad times. In addition, this scarcity has underscored the government's need to establish new methods for allocating these essential goods during emergencies, given that a market mechanism may cause excessive price increases.

Food security is an important policy objective both per se and because it tightly relates to health outcomes (Gundersen and Ziliak 2015). During the pandemic, food security in low-income households has been in peril because of drops in income and surges in food prices due to the disruption in the supply chain. Families with children were the most impacted because the closing of schools interrupted the provision of free breakfast and free lunch to those in need. The U.S. government somewhat increased the provision of food stamps to compensate for the school closings, but excluded children of undocumented parents who depend on school meals but do not qualify for food stamps (Dunn et al. 2020).

Covid-19 has worsened the shortage of affordable housing in the U.S., especially among lower-income renters. Moreover, because of the difficulty of social distancing, unhoused individuals

have been more exposed to the pandemic and have incurred greater losses. To alleviate the effect of the pandemic on housing, a number of states have offered a moratorium on rent payments (which are expected to be entirely repaid in the future) and have suspended evictions. The federal government has also introduced temporary reductions in mortgage payments for those who experience hardship because of the pandemic.

The social distancing measures introduced in the spring resulted in school closings and in a switch to remote online learning. Economists have observed that lower socioeconomic conditions reduce both the demand for online resources by families and the supply of online material by schools. Thus, pre-existing socioeconomic and achievement gaps are expected to further increase (Bacher-Hicks et al., 2020).

Conclusions

In this note, we have described the economic effects of the COVID-19 pandemic and have reviewed the main relief policies that the U.S. government has introduced since March. Given the circumstances, aggressive measures of support were necessary, but their implementation has presented a number of weaknesses. First, some of the income support measures have lacked a targeting strategy as they have failed to reach the most vulnerable and created some perverse incentives. Second, despite the interventions, shortages in essential goods and services remain. As long as the health emergency carries on, the government needs to continue to provide relief in a cost effective and well-targeted way. While fiscal sustainability considerations require phasing out the emergency policies, the timing of the retrenchment cannot precede the end of the health and economic emergency. Cutting back relief programs too early would create more damage and could lead to social unrest.

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