1. Introduction

The COVID-19 pandemic imposed unexpected and unprecedented losses to the U.S. economy. How well did the U.S. safety net, including the major new emergency measures put in place, perform? Was the response targeted and effective? This project is intended to answer that question, paying particular attention to cash supports for households through programs like Unemployment Insurance (UI), TANF and Economic Impact Payments, and SNAP, and business supports through the Paycheck Protection Program (PPP).

In April 2020, the crisis was at a peak level in terms of its health impact, with caseloads and deaths rising, the demand for PPE and other medical equipment growing, and hospitals facing severe capacity constraints. Efforts to control the pandemic were producing major strains on the economy. That is because the rapid spread of the virus could only be contained by locking down businesses, restaurants and retail stores, by closing schools, and imposing other restrictions on economic activity. Millions of workers and their families lost most or all of their earnings. The three relief bills together worth over $3 trillion passed by Congress, in March and later, provided some assistance to families. Other relief bills over $2 trillion are being debated today.

Despite the massive size of this spending, we know very little about the actual impact of this cash on the economy. Some of this is a consequence of the nature of the pandemic safety net which was continually subject to uncertainty. For instance, the expanded benefits from UI and PPP were available for only short durations, the economic impact payments were one-time payments, and their extensions were subject to political uncertainty. For several months in the summer and fall of 2020, no relief was forthcoming as Congress could not agree on a deal, with Republicans and Democrats holding widely divergent views on what to do. Some of this was exacerbated due to election year politics. As a result, the pandemic safety net had giant holes with relief provided in fits and starts.

The continually changing shape of the pandemic safety net raises at least two questions, dealing with effectiveness and targeting. One, what effect did this type of spending have on workers and their families? Could we have done better by designing a more reliable safety net less subject to political uncertainty? Two, did spending target families most in need? How can we improve?

The broad research agenda is to study what we have learned, and what should we learn from the COVID-19 crisis, about appropriate safety net policy for our nation?

II. The U.S. Social Safety Net During and Pre-Pandemic
In normal times, the safety net comprises of several different types of social insurance programs aimed at the elderly or the disabled, as well as means-tested programs aimed at those with low incomes. These cover a wide range, from programs focused on health insurance such as Medicaid and Medicare, retirement programs like Social Security, programs for workers experiencing temporary job loss such as the Unemployment Insurance program, as well as programs that are targeted at those who are needy, such as SNAP (food stamps), TANF (cash welfare) and Social Security Disability Insurance, to name a few.

Even in non-crisis times, there are issues of access associated with the safety net, with workers and families routinely falling through the cracks. In a crisis, these fractures become wider. It became clear very early on in the pandemic that the safety net was frayed, that it had limited capacity to deal with the enormity of the problem at hand, and that there was a huge risk that millions of workers would slip through the safety net if more was not done quickly.

In response, additional emergency measures aimed at dealing with the crisis were adopted as well. Some of these involved expansions of the existing safety net to either provide larger benefits to eligible populations and/or expand the pool of eligible beneficiaries, such as expanded UI and SNAP benefits. Others were new, such as economic impact payments to families, the Paycheck Protection Program that provided businesses with emergency loans that would not need to be repaid if employees were kept on rather than being laid off, and emergency paid sick and medical leave.

The debate on the effectiveness of this expanded safety net continues. Early on in the pandemic, there was a rush to provide cash relief to households and businesses through the $2.2 trillion CARES Act. But while a lot was done, it is less than clear whether the relief was well-targeted and effective at helping families and businesses weather the crisis. It appears, as I discuss below, that many of the provisions were not well thought out perhaps due to the speed at which they were rushed out, faced administrative and implementation issues impacting their effectiveness, and did not immediately reach the constituents that needed them the most. Even the economic impact payments appear to have provided only short-term relief to households, with many poor people spending the money on groceries and utilities right away and many others simply saving the money, providing only a modest uptick in consumer spending and economic activity.

Politics has played a role as well in the deliberations on the size and components of the relief bill. A few months after the passage of CARES, as the labor market started showing signs of recovery and businesses started to reopen, it was harder for policymakers in Congress to come together to decide on the size of the next relief bill. Negotiations between Republicans and Democrats failed repeatedly through the summer months with the two parties unable to agree on the details of how much aid should be provided, how much should go to state and local governments, and what the size of the UI benefit supplement should be. All this while the unemployment rate stood at 10.2 percent in July (higher than at any point during the Great Recession), the enhanced unemployment benefits lapsed at the end of July, the application for PPP loans for small businesses came to a close, and the moratorium on evictions came to an end. In December, Congress finally passed a $900 billion relief bill that extended the UI supplement, albeit at a lower top up of $300, funded a second round of PPP loans, and an additional $600 in direct checks, among other measures. Now
talks are ongoing on a Democratic relief bill of $1.9 trillion that seems unlikely to pass with bipartisan support, not only because it is orders of magnitude higher than the Republican proposal of $600 billion, but because it embodies proposals that go beyond more than just the response to a pandemic, such as a higher minimum wage and tax hikes.

One lesson that is immediately clear from the Congressional response to the COVID crisis is that when legislation on relief bills or the expanded safety net is passed during the chaos of a crisis, it is often less well-thought, less well targeted and more likely to be subject to political whims and desires. So how should we think of designing and expanding the safety net during pandemic times as opposed to normal times? How do we assess the success of the safety net and emergency measures adopted during the COVID crisis? Can we build in certain economic triggers so that relief is guaranteed and the safety net and emergency measures invoked automatically, in response to dire economic circumstances, rather than waiting for Congress to act? Finally, as the debate continues on future relief efforts, how should we think of the size of that response and the composition of that response? Now that the economic recovery is strengthening, do we still need trillions of dollars in aid, with the risk of triggering inflation, or do we need to taper down the response? I propose to study these issues in depth over the course of the year. Below I discuss issues with some of the expanded safety net programs that have come to the forefront during the COVID-19 crisis in order of priority of the program.

Unemployment Insurance

Given the devastating employment losses in March and April, one of the most critical pillars of the support provided to families was the expansion of the state unemployment insurance system with funding provided by the federal government. Unemployment insurance allows previously employed workers to get some cash support as they search for new jobs. Recent data show that even prior to the pandemic, only about 27 percent of unemployed workers qualified for the benefits. And during the pandemic millions were left out of UI relief because of funding and other issues associated with the implementation of the expanded program.

There were several aspects to UI expansion in the pandemic. The first was the $600 supplement provided to any UI recipient on top of their regular UI benefit, which typically averaged about 45% of their prior earnings (approximately $200). The second was the expansion of UI benefits to workers who were ineligible earlier, such as self-employed people, gig economy workers, people with childcare responsibilities and people who not only lost jobs but who faced cuts in hours worked. The third aspect was the extension of UI benefits for longer than the 26 weeks that is typical of these programs. Many of these expanded benefits, especially the $600 supplement, were available for a temporary period till July, 2020. The expansion of UI helped boost family incomes, albeit temporarily, especially for lower wage workers. But it also raised several questions.

Analysis shows that the wage replacement rate for workers in industries like retail trade and leisure and hospitality reached 132 percent as a result of the supplement. In other words, workers could make more on UI than they could on their jobs. Did such a generous UI benefit affect incentives to return to work or search for work among workers, thus delaying the labor market recovery? While work disincentives likely mattered little during the worst of the pandemic months since businesses were closed and consumer demand was down, the question of how long to continue
these benefits has become more relevant over time. Now that businesses are reopening and the economic recovery is taking shape, would the work disincentive effect of an expanded UI supplement start to impede the recovery?

Second, how long should benefits continue? If workers know that not only are they eligible for the usual 26 weeks of benefits, but additional extensions that can run for over a year, does this affect their incentive to search for work? In response to the crisis, many states had suspended search requirements which might also have had an effect on this decision. In other words, while expanding the UI safety net makes sense at the start of a crisis, the question of how long to continue the extended benefits remains unanswered. Some studies suggest that similar extensions of UI during the Great Recession may have contributed to an increase in the share of workers who were long-term unemployed.

Some of these debates were the reason that the UI supplement of $600 was not extended beyond July 2020. While Republicans wanted the supplement to be lower or phased out gradually, Democrats wanted to continue it at the same level. Finally, in December, another relief bill extended the supplement at $300, till March 2021. But economics might dictate a different outcome. Perhaps extended benefits can be made conditional on economic conditions rather than be decided by political will? Perhaps we should have a formula or a metric based on national statistics on unemployment rates and levels, or maybe local conditions can play a role as well? But if extensions are conditional on local conditions, does this make the trigger endogenous i.e. high unemployment leads to higher UI which further leads to high unemployment as workers choose to not go back to jobs. There don’t seem to be obvious answers to these questions, and it would be interesting to explore this issue further and develop a metric that is both responsive to local unemployment conditions and yet not completely endogenous to it.

Another problem with the UI expansion was administrative issues, the ability of states to handle the massive increase in caseloads. State UI systems are not designed to process millions of applications at a time, and this resulted in significant delays in rolling out the expanded benefits across states. Fraud and duplicative reporting in initial claims across the regular State program and the Pandemic Unemployment Assistance program were found to be common across states, leading to problems with reported UI claims. A second issue was how to offer the expanded benefit. While some policymakers were keen to change the wage replacement rate i.e. change the percent of a worker’s income that would be replaced under UI, states were in favor of a handing out a flat amount over and above what the regular UI program would pay out because of the way programs were set up in their state and because of technological issues. Since UI systems are such an important part of the safety net during crises, I would like to spend some of my research time trying to document the problems state agencies face when there is a rapid increase in claims during a crisis and how to improve these systems.

Economic Impact Payments and TANF

It is interesting that when COVID struck, one of the immediate responses was to send families checks to tide them over for a few weeks, maybe a month or more, to help meet expenses. EIP is not a typical feature of the safety net, though it has been used before during the Great Recession, and it was adopted because it seemed to be the simplest and fastest way to help families with cash
assistance. This is likely because it is well understood that the usual safety net program, cash welfare provided through TANF, has been ineffective as an automatic stabilizer during recessions. One reason for this is that TANF allocations to states are typically underfunded, have not kept pace with inflation, and fall well short of need, as happened during COVID. While applications for TANF surged at the start of COVID, states did not have the money to meet these demands. While there are proposals to expand funding for TANF during COVID, these have not yet materialized. In addition, eligibility for TANF is often based on meeting certain work requirements and states’ ensuring that more than 50 percent of families meet these requirements. Even prior to COVID, in 2018, research shows that only about 22 percent of eligible families received any cash assistance through TANF. It is clear that TANF has been a failure as a key component of the safety net for a long time. The COVID-19 crisis has magnified its weakness, and I would like to understand the various ways in which the program can be improved and made more responsive not just during a pandemic but in normal times as well. Perhaps payments to states can be automatically enhanced based on poverty and unemployment conditions in states, rather than wait to be legislated upon by Congress during a crisis?

There were also issues with the EIP payments. The initial round of payments was not targeted very well to those in need. Payments went out to those who were relatively better off, single filers earning less than $100,000 and married filers earning less than $150,000. In addition, since payments were based on tax returns filed in 2018 or 2019 and required a direct deposit in the filer’s bank, this created issues of access for the lowest income households who may not have filed a tax return or may not have a bank account. Checks to them were significantly delayed. Even by August 2020, 6 percent of the money allocated had not been sent out. Over $260 billion was sent out in this manner, yet recent research shows that while the checks may have provided a modest temporary boost to spending, a lot of the money was saved by relatively better off households, leading to little or no stimulus impact for the economy. Now as another round of payments is being debated, questions about targeting continue to arise.

*Paycheck Protection Program*

In addition to direct support for households and families through UI and cash payments, Congress also authorized a new program, called the Paycheck Protection Program, as a support to businesses to enable them to survive the crisis and possibly hold on to their workers till economic conditions improved. As long as employers spent over 60 percent (initially 75 percent) of the funds that were provided to them through the PPP program, on salaries and wages, the loans would be forgiven. While the first round of loans provided via the program had a high take up rate, the second round of loans was not exhausted. As of the time of this writing, over $130 billion remain unused, and a new round of PPP loans is being disbursed to the smallest businesses, that seem to have been left out of the initial rounds of loan disbursement. As part of my research, I would like to understand how well the program worked in terms of supporting businesses and employees, and where the shortcomings were. Would a better designed program have worked better? Can this be a model program to implement in future crises? How did this relief program compare with those of other countries (for instance, the workssharing program in Germany) and what other business support measures can we adopt to prepare for the next crisis?
The graph below from the US Census Bureau shows the percentage of small businesses with 1 – 499 employees and over $1,000 in receipts who requested and received PPP assistance from April 2020 through January 2021. However, it is unclear whether businesses who requested and received PPP loans were the ones that needed the money the most. Data from Homebase and Yelp shows large declines in small business survival and employment in the early months of the pandemic despite the availability of the PPP program.

Source: US Census Bureau Small Business Pulse Survey

SNAP

Other pieces of the safety net were expanded as well during the crisis, such as SNAP or food stamps. But as weekly surveys from the Census Bureau’s Pulse Survey show, it is unclear what effect these expansions had. Food insecurity remained elevated throughout 2020, only dipping somewhat as a result of the economic assistance payments. But as the payments dried out towards the end of 2020, food insecurity continued and will continue to be a relevant indicator of economic distress to track. The question remains whether these programs can be made to work better for households in need, not just during crisis times but in non-crisis times. As several researchers have documented, and my own work has looked into, households face several challenges when accessing programs like SNAP and TANF. Whether relating to work requirements or the non-cash nature of SNAP benefits, or the limited level of the benefit program across states, and the administrative hurdles, there are aspects of both these programs that can certainly be improved upon.

Emergency Paid Sick and Medical Leave
The Families First Coronavirus Relief Bill provided families with the option to take paid time off if they were sick or had caregiving responsibilities related to COVID, by mandating that businesses provide the leave. The program was structured so that businesses would be reimbursed for the cost of leave through employer tax credits. However, discussions with employers and workers months later showed that information regarding this provision was not diffused widely and there were uncertainties amongst employers and workers about the exact regulation, about how businesses would cover the costs, and the fact that the leave did not cover businesses with more than 500 employees left many employees uncovered by the provision. In future research, I plan to study the impact of this legislation on the course of the crisis. It is also worth questioning whether some form of a paid family and medical leave policy should be a part of the regular safety net, an area that I have extensively researched. Even beyond the pandemic, this policy has the potential to help working families who are unable to take time off around the birth of a child or to meet caregiving needs of their family members, affecting their ability to stay employed, earn an income and support their families.

Other interesting questions relate to the size of the fiscal package under consideration. What is too big? What do we compare it to? Some say that we need to compare the relief package to the size of the gap between actual and potential GDP. But potential GDP itself is continuously revised downward in response to actual GDP and changing economic outlook. Others say that too much relief will result in inflation, yet inflation has not been a concern over the last several decades despite high levels of spending. So what metric do we use to define how the size of the package should change as we progress through the crisis and subsequent recovery? What are the risks of overshooting as well as undershooting when there is tremendous uncertainty about the long-run?

Finally, an important question is whether transfers to individuals are aimed as “stimulus” or “relief”? And does that change over the course of the crisis and the recovery? In the initial phases of the crisis, the money sent to individuals and businesses was simply aimed at enabling them to survive the crisis, rather than to stimulate the economy. In fact, the goal was to reduce economic activity in response to the virus. But money spent nearly a year later, may have a greater proportion of stimulus expectation attached to it. In that case, does how we spend the money change? And what does that stimulus look like?

III. Utilization of Safety Net During the Pandemic

The charts below show how different programs were utilized during the pandemic using data from the Household Pulse Survey of the Census Bureau.

**Economic Impact payments:** As the chart below shows, the economic impact payments (two rounds) went to people earning well above $150,000. 25% of people in the income group $200,000 and above reported receiving the checks and nearly 14 percent reported spending the money. At the very bottom of the income spectrum, nearly 10% of people reported not receiving any of the checks that were sent out.
SOURCE: United States Census Bureau, Household Pulse Survey Data

Unemployment Insurance: Chart below shows that the lowest income households (below $25000) had the lowest share of UI beneficiaries (as share of applicants) at 65% versus higher income households that had a share of 80% of applicants being beneficiaries.

SOURCE: United States Census Bureau, Household Pulse Survey Data
The SNAP program is relatively well-targeted and shows that the largest share of beneficiaries are the lowest income households. However, the share of recipients averaged below 40% for the entire duration of the pandemic for this group. Similarly, the next chart shows that while those earning below $25,000 are the largest beneficiaries of the Medicaid program, the share of recipients has remained relatively steady at 45% all through the pandemic.

SOURCE: United States Census Bureau, Household Pulse Survey Data
The temporarily expanded and refundable Child Tax Credit has mainly gone to households who are relatively well-off rather than the lowest income households.

IV. Utilization of Safety Net pre-Pandemic

Given the relatively low utilization of the safety net during the pandemic, a relevant question is whether utilization changed during the pandemic relative to prior years. The chart below uses data from the Survey of Income and Program Participation for the year 2019. It shows the fraction of the population receiving benefits from different programs as well as the share receiving benefits from multiple programs simultaneously. If we look at the overall population, the most utilized program is SNAP among people who use only one program. However, it is also interesting that only a small fraction of people report receiving multiple benefits, 11% in the broader population and 38% among those below less than 130% of the federal poverty line.
The chart below looks more specifically at the TANF program. Utilization of the program has been declining continuously since welfare reform in 1993. Currently only about 20% of the population reports receiving any TANF benefit, and the average benefit is about $700 per month for a family of six.

SOURCE: United States Census Bureau, 2019 Survey of Income and Program Participation (SIPP)
V. Why is Usage of Safety Net Programs So Low?

There are several possible explanations for why the usage of Social Safety Net Programs is low. Some of it is due to stigma and the burdensome eligibility requirements associated with different programs. More specifically, programs require recipients to meet a variety of complex and varied requirements, including drug testing, engaging in work-related activities, confusing filing processes, meetings with caseworkers, etc.) that require hours of time. This so-called “time tax” is often too burdensome of a requirement for vulnerable populations most in need of assistance. Moreover, the design and outcomes of programs like TANF disincentivize usage. For instance, missing a routine visit to a caseworker or improperly filling out paperwork could cause you to lose your benefits. Additionally, according to analysis done by the Urban Institute, states with higher poverty rates and higher populations of minorities have less generous TANF benefits and more restrictions in place. For example, in Mississippi, where Black people make up nearly 40% of the population, the maximum TANF benefit for a family of 3 is $170 per month. However, in New Hampshire, where Black people make up 2% of the population, the maximum TANF benefit for a family of 3 is $1,039 per month.

Eligibility Rules are Complicated

Each program has different requirements for eligibility based on income and assets. Some social safety net programs have standard requirements that are consistent across all 50 states whereas others vary by state.

SNAP
SNAP has relatively standard income eligibility requirements as income must be at or below 130% of the poverty line except for Alaska and Hawaii, which have higher eligibility levels. Income includes earned and unearned income, such as cash assistance, social security, unemployment insurance, and child support. Asset eligibility requirements are different depending on whether someone in the household has an elderly member or someone with a disability. If a household does not have an elderly member or someone with a disability, they can have less than $2,500 in assets and qualify for the program. If a household does have an elderly member or someone with a disability, they can have less than $3,750 and still qualify for the program.

TANF

TANF has complex income and asset eligibility requirements that vary greatly by state. Different states have different income limits. For example, the highest maximum income you can earn and still be eligible for TANF is in Hawaii, with a monthly income limit of $1,740. The lowest maximum income limit is in Alabama, which has a monthly income limit of $269. Certain states like Wisconsin have exceptions, where you cannot receive cash assistance if you have any income. Over half of states have monthly income limits between $510 and $967, and 12 states have monthly income limits between $1,000 and $2,000. There is also major variance in asset limits across states, ranging from $1,000 to $10,000. Eight states have no asset limits.

Unemployment Insurance

In order to receive Unemployment Insurance, one must be “unemployed through no fault of your own.” Generally, someone must have worked for at least four out of the last five quarters. There is no asset limit to receive unemployment insurance.

Medicaid

To test income eligibility, the program uses Modified Adjusted Gross Income (MAGI) except for those who are eligible through blindness, disability, or age. There is some variety by state, however, if you earn less than 100% to 200% of the federal poverty level (FPL) and are pregnant, elderly, disabled, a parent/caretaker or a child, you will likely qualify for some program. If you make less than 133% of the FPL, you may qualify if your state expanded Medicaid under Obamacare (not required after SCOTUS struck it down). There are no asset eligibility limits.

Housing Vouchers (Section 8)

Income is based on the locality in which one is located. A family’s income may not exceed 50% of the median income for the county in which the family lives. Public Housing Agency must provide 75% of the vouchers to families whose income does not exceed 30% of their area. There is no asset limit, but the Department of Housing and Urban Development counts income earned from assets when determining eligibility.

Supplemental Security Income (SSI)

SSI is only available to people who are 65 or older, blind, or disabled. If an individual falls into one of the previous categories and has limited income, they are eligible to apply for SSI.
income includes money you earn from work, free food or shelter, and money from other sources (unemployment insurance, worker’s compensation, friends, Department of Veteran’s Affairs, etc). There is also a limit for assets, referred to as countable resources, which includes land, cash, bank accounts, vehicles, etc. The limit is $2,000 for an individual and $3,000 for a couple.

Child Tax Credit (CTC)

The full amount of the expanded CTC is available for all families with children ages 17 and under with 2018 or 2019 income below $75,000 for single parents and under $150,000 for married couples. However, as income increases, the amount of the CTC fades out. The first fadeout to $2,000 per child: Single parents have an income between $75,000 and $112,500. Married parents can have an income between $150,000 to $400,000. The income eligibility requirements enable the CTC to reach approximately 88% of American children. There are no asset limits for the CTC.