Frayed Protection: The U.S. Safety Net and Pandemic Emergency Measures During COVID-19

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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?