MECEP

Coronavirus: Federal Response

Policy priorities for addressing the economic fallout from COVID-19

by James Myall, Policy Analyst | March 26, 2020

As the federal government continues to respond to the unfolding outbreak of coronavirus in the United States, policymakers are also coming to terms with the economic fallout from the pandemic. As of this writing, Congressional leadership is closing in on a deal for a relief bill that would contain as much as $2 trillion in support.[1]

However, it's clear that even this historically large spending package will not be enough to contain the economic fallout from the coronavirus pandemic. More federal measures will be needed, especially if it takes a long time for the outbreak to be contained.

Public health experts are clear that measures such as social distancing, closure of businesses, and stay-at-home orders are essential to contain the pandemic and save lives. These measures will severely slow economic activity, and inevitably send the US economy into a recession.

While policymakers must immediately boost the ability of our health care system to handle the surge in demand for testing and treatment, this report is focused on the economic response necessary to address the economic shocks from coronavirus. Without decisive intervention by the federal government, the slowdown will cause a new economic crisis, with households unable to afford basic necessities, or access health care. Strong federal action, however, can mitigate these effects and ensure that as many Mainers as possible can weather the coming storm relatively intact.

Federal policymakers can limit the recession's harm on Mainers and their families. They should prioritize the following policy goals as they continue to craft economic relief efforts.

Protect Americans' health and income

Summary:

- Strengthen existing income support programs, including but not limited to Unemployment Insurance and food assistance
- Provide paid leave to empower workers to take care of themselves, their families, and their communities
- Ensure workers who use leave benefits are not punished by their employers
- Pause debt collections, student loan payments, and evictions

Public health officials are rightly recommending that Americans stay home as much as possible during the coronavirus outbreak, especially if they are feeling ill.

Congress has already authorized some limited paid sick time and emergency leave for workers, and expanded access to unemployment benefits. Those programs — and other income supports such as food assistance through SNAP and cash assistance through TANF — are tools the federal government can and should strengthen during this crisis.

These are good steps, but they are likely not enough to ensure families can meet their basic needs for the duration of the public health emergency.

For example, the federal government is increasing funding for state unemployment programs to handle the record-breaking increase in filings.[2] But in Maine, unemployment benefits replace only 59 percent of a worker's usual wages. For the lowest-earning Mainers, that may not be enough to cover the cost of housing, food, utilities, and other necessities for the length of the crisis.

In addition to protecting workers' incomes, federal leaders should also protect workers' jobs. All Americans must be able to make the necessary decisions to protect their families, regardless of how they earn a living or where they work.

Employers should not be allowed to create unnecessary barriers to prevent workers from using available leave programs, and workers who choose to use leave shouldn't have to face disciplinary action from their employers that could jeopardize their jobs or their income.

Policymakers also must take appropriate action to protect those workers for whom remote work is impossible — including those who make it possible for others to stay at home, such as workers in grocery stores, medical facilities, pharmacies, gas stations, and more. Workers whose jobs require them to continue interacting with the public deserve additional workplace safety and worker protection regulations for the length of this public health emergency.

Both businesses and families would benefit from a federally mandated end to debt collections, student loan payments, and evictions during this extraordinary time. People who are already on tight budgets will be most affected by the virus and the economic slowdown. This pause will ensure Americans can prioritize essential spending, regardless of how tight their usual monthly budgets are.

Business relief should prioritize small firms and be tied to worker protections

Summary:

- Focus federal aid on the small businesses that need it most
- Ensure relief funds are used to prevent layoffs and meet payroll
- Prohibit corporate bailouts from being used to enrich stockholders and executives at the expense of workers' jobs and incomes

The typical small business only has 27 days' cash on hand[3] to see it through an emergency, and without intervention, many will be forced to close their doors permanently, which will only deepen the recession.

Congress and the White House should ensure small businesses are able to weather the drop off in sales as a result of strict social distancing requirements, so that they can re-open as soon as it is safe to do so.

Some steps have been taken to address the needs of small businesses. Any Maine business can apply for a low-interest economic impact disaster loan through the US Small Business Administration. Many Maine banks and credit unions are also offering zero-interest loans for self-employed Mainers who don't qualify for UI benefits.

The same mortgage, rent, and eviction freeze for families should be accessible to small business owners, to ensure they can open their doors again when the immediate public health crisis is over.

The point of business relief funds is to help companies meet payroll and avoid layoffs. However, Republicans in Congress have already floated relief packages that offer no-strings-attached bailouts to large corporations, with little transparency or accountability. Those proposals should be rejected at each turn.

Future aid to corporations should prioritize the smallest firms, which need it most and are most likely to use federal funding to maintain prior operations and staffing.

Any aid disbursed to assist large corporations should be stipulated on recipients using those funds to maintain employment levels, not to fund stock buybacks, bonuses for corporate executives, or other similar uses.

Buffer state and local budgets facing steep revenue losses

Summary:

- Increase funding for Medicaid
- Safeguard, not slash, federal funding for state and local services

State and local governments rely on federal funds. Federal dollars are slated to fund 36 percent of Maine's total state budget in fiscal year 2021.[4] After including direct payments to individuals, such as Social Security checks, and awards to contractors, the federal government spent $12.8 billion in Maine in the last 12 months.[5]

With state revenues facing a sharp decline as the economy slows down, federal funds will become even more important to maintaining critical services such as health care, education, and public assistance programs.

In particular, Medicaid occupies a large portion of state budgets. Maine's Medicaid program, MaineCare, comprises just under one fifth of state spending.[6] The federal government currently covers a little less than two-thirds[7] of the cost of care for most Medicaid patients in Maine.

As the economic downturn worsens, more Mainers will become eligible for MaineCare because they have reduced incomes. This is a crucial support for Mainers, who must be able to keep accessing health care, especially during a public health emergency. But the increased need at a time of collapsing revenue will strain state budgets without a considerable funding increase from the federal government.

Federal spending also accounts for large portions of Maine's state budget in other areas, including transportation and education.

There will, inevitably, be ill-conceived calls for the federal government to cut spending in a recession, but cuts would only make it harder for states and municipalities to provide economy-boosting services. Just as it did in the last recession, the federal government can and should play a starring role in filling in some of the gaps created by declining state revenues.

Protecting Americans requires bold policy solutions

The outbreak of coronavirus and the public health measures necessary to limit its spread have shocked our economy.

Evidence suggests we are headed for a recession. But Congress and the executive branch can protect Mainers and all Americans from the recession's worst effects. An ongoing, strong, and bold policy response will help move the country more quickly move from crisis to recovery.

About MECEP

The Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

About the author

James Myall is MECEP's lead on labor and workforce issues and education and health care policy. He conducts research and impact analyses, writes educational materials, and collaborates with partners. James is skilled in data collection, research, and statistical and policy analysis. He has a master's degree in public policy and management from the University of Southern Maine and a master's degree in ancient history and archaeology from the University of St. Andrews in Scotland.

Endnotes

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