

Guarantee All U.S. Paychecks Now to Prevent a Depression

Eric Beinhocker*
University of Oxford

The CARES Act is an important step towards mitigating the economic shocks of the COVID-19 crisis. However, further actions are urgently required to minimize a catastrophic collapse in employment. Specifically, the CARES' "Paycheck Protection Loans" program for small businesses should be expanded to become an "American Paycheck Guarantee" covering *all* jobs in the economy whether for small or large businesses and non-profits. Other major economies have enacted such programs to minimize the number of people moving into unemployment and thus helping minimize the barriers to a rapid recovery once public health restrictions are lifted. It is vital that Americans be able to "shelter in job" as long as they are required to "shelter in place."

It is clear that a major collapse in U.S. employment is underway. In the final two weeks of March, almost 10 million jobless claims were filed, exceeding the 8.7 million claims filed during the peak six months of the Great Recession. Without urgent intervention this wave of unemployment will certainly accelerate as more of the country goes into lock-down and the period in lock-down extends. Unemployment levels could rapidly reach 20-30%, 2 to 3 times the levels of the Great Recession, and potentially even greater than those reached in the Great Depression.

Once such high unemployment levels are established it will be very difficult for the economy to recover once restrictions are lifted for three reasons: 1) there are frictions in re-hiring workers after they have been laid-off, 2) even with good unemployment support, workers who have lost their jobs face uncertainty about future employment and will restrict their spending, depressing demand in the economy, and 3) high headline unemployment figures will dramatically reduce business confidence to re-hire and invest, as well as depress spending by consumers even if they still have jobs. There is a significant risk that the shock of extraordinarily high unemployment will create a "doom loop" of collapsing demand, production, investment, jobs, and confidence, that could take years, or even decades, to reverse.

The key to breaking this "doom loop" is to minimize the number of workers laid-off in the first place. Even with the increased unemployment support of the CARES Act, once people are laid-off it is too late. The best chance for reviving the economy once restrictions are lifted is if as many people as possible are "sheltering in job", even if temporarily idled, and ready to go back to work immediately when the health crisis has passed.

*Professor, Blavatnik School of Government, University of Oxford, Executive Director, Institute for New Economic Thinking at the Oxford Martin School, and External Professor, Santa Fe Institute, eric.beinhocker@inet.ox.ac.uk. This briefing paper updates and replaces my March 22, 2020 version.

While the resources potentially available under the CARES Act are of the right scale, the design of the programs is more appropriate to a typical recession rather than the extraordinary circumstances we are facing. Businesses may use CARES support and Fed programs to preserve solvency during the shutdown, but still lay-off much of their workforce. Likewise, while the increased unemployment benefits and cash payments under CARES are entirely necessary for workers who have been laid-off, they do nothing to prevent lay-offs in the first place. These business solvency and unemployment assistance programs are necessary, but *we also need a program that directly targets assistance at keeping workers in employment.*

We need an “American Paycheck Guarantee” now

The key element of the CARES Act that does seek to directly minimize unemployment is the “Paycheck Protection Loans” program (Title I, Sec. 1102) for small businesses with under 500 employees. Loans under this program will be forgiven if a recipient business can later show the loans were used for the purpose of meeting payroll and retaining workers. This program, or a new version of it, should be immediately expanded to include *all* workers, whether they work for large, small, for-profit, or not-for-profit organizations. Only an immediate, economy wide “American Paycheck Guarantee” where the U.S. government pledges to back *all* payrolls in the economy, can restore confidence and stop the collapse in employment.

Other major economies show that such an economy wide paycheck guarantee is possible. The Conservative UK government announced just such a program on March 20th. Under its “Coronavirus Job Retention Scheme” *any* employer can get an immediate grant from the UK Treasury to cover up to 80 percent of the salary of all retained workers, up to £2,500 (\$2,900) per worker per month, a level just above UK median income. The UK program will backdate payments to March 1st and will be available for at least 3 months and extended if necessary. The UK’s Chancellor placed no limit on the scheme and said, “We will pay grants to support as many jobs as necessary.”

Other countries have announced similar programs: France (70% gross wages up to €6,927 per mos., 100% for min. wage workers), Denmark (75-90% of wages), Netherlands (90% of wages for any company suffering a 20% revenue decline), Australia (AUS\$ 130 billion in “job keeper” payments), and Germany’s “Kurzarbeit” program (guaranteed 60% of pay for reduced hours or temporary furlough). While it is too early to assess the impact of these programs on the COVID crisis, there is evidence that the “Kurzarbeit” program was highly effective during the Great Recession as German unemployment *fell* from 7.9 to 7 percent during mid-2009 to mid-2010, a period when OECD average unemployment rose 3 by percent.

Such a major expansion of the CARES Paycheck Protection scheme into an American Paycheck Guarantee raises a number of questions:

How much would it cost? Can we afford it? Are there cheaper ways to meet these objectives?

The OMB/CBO could provide a quick costing, but my very rough estimate is \$95 billion per month or \$285 billion for 3 months. This would be for a UK style program that covered 80% of wages up to \$3,400 per worker per month (approx. median wage), and assuming a third of workers were covered under the program.[†] In the context of the \$2 trillion CARES Act and massive Federal Reserve support during the crisis, this would appear manageable.

Furthermore, funds spent under an American Paycheck Guarantee would directly offset spending required on unemployment insurance. Supporting payrolls to keep people employed reduces the number of unemployed requiring benefits, thus it is likely that implementing a Paycheck Guarantee would not require a net increase in total fiscal support beyond what has already been committed. And by keeping people in employment and enabling a faster, stronger restart of the economy, it is likely an American Payroll Guarantee would significantly reduce the overall fiscal costs of the crisis in the medium to longer term.

If the Paycheck Guarantee was expanded, wouldn't big companies who don't need the money benefit?

While it was appropriate for CARES to target small businesses and non-profits who urgently need help, small businesses (under 500 employees) employ only 60 million of the nation's 152 million workers. Large businesses and non-profits are also shedding workers at a rapid rate and the existing CARES and Federal Reserve programs to support them work too indirectly to stop this collapse. Only a direct and immediate government guarantee of payrolls can stop this.

An American Paycheck Guarantee would be aimed at *all* businesses and non-profits who are suffering cash flow problems from the crisis and require government assistance to meet payroll and prevent layoffs. Measures can be put in place to ensure the funds are used for that objective without a lengthy approval process that would defeat the purpose of the program. The CARES small business "Paycheck Protection Loan" program simply requires an eligible company to certify that a) the funds are needed due to the crisis, b) will be used to retain workers and maintain payrolls, and c) the company does not have other sources of funding available. If the business then later shows it met those conditions, loans that were used to retain employees are forgiven.

Larger employers could be required to make similar certifications but face tougher penalties if they abuse the program. For example, if retrospective audits after the crisis found the certifications not to be true, senior executives and directors could be held accountable for making false statements to the government, and the company liable for repayment of the

[†] Assumes UK style package of 80% guarantee up to \$3,400/mos. (median 2019 individual income = \$3,341), \$793B US monthly total wages (Feb 2020), 152 million workers (Feb 2020), 12.6% total income share of bottom 50% of earners (WID database, 2014 latest), thus 76 million workers and \$100B of wages fully eligible, 76 million workers subject to cap, so 76 million x \$3,400 = \$258B eligible capped wages, \$100B+\$258B=\$358B x 80% guarantee x 33% uptake = \$94.5B per mos.

assistance plus interest and penalties. This would help ensure that only large employers who truly need the assistance to retain employees utilize the program.

Would it be fast enough? Would the administrative burdens be too great?

This is a critical question as the entire point of the program is to minimize a rapid deterioration of employment and incomes. The CARES “Paycheck Protection Program” charges the SBA with setting up and administering that program. Expanding the program to cover medium and larger organizations would require additional infrastructure and likely be administered by another government department or agency. But as all medium and larger company payroll systems are automated and already linked to IRS systems, it is likely that a system to administer such a program could be stood-up quickly, and if application and approval followed the simple certification process modelled by the SBA program, vital funds could begin flowing almost immediately and could be back-dated to the beginning of the crisis.

Isn't it better to give the funds directly to workers through increased/extended unemployment benefits rather than channelling funds through companies?

The government funding under an American Paycheck Guarantee would flow to workers, but via their paychecks rather than through unemployment checks. Again, this “sheltering in job” is better for both workers and the economy versus allowing workers to be laid-off and then having to support them through unemployment insurance—almost all workers would prefer a paycheck to an unemployment check. Of course, any worker who is nonetheless laid-off would still be eligible for unemployment benefits, but any company who takes Paycheck Guarantee funds and still lays-off employees would have to repay the funds for their laid-off workers with interest. Again, the more successful the Paycheck Guarantee is, the less unemployment insurance and other benefits will be required.

An American Paycheck Guarantee has the best chance of minimizing layoffs and enabling workers and firms to go into “sleep mode” during the public health crisis and wake-up as intact as possible when it is over. Other advanced economies show it is both possible and likely to be effective. An expansion of CARES to include such a program is an urgent and necessary step in the fight to defeat the virus, save jobs, and rebuild the economy.