MORNINGSTAR

Don't Know How Much Stimulus Is Needed? Put it on Autopilot, Some Say

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One of the trickiest questions facing Congress when it takes up the debate on new stimulus later this month is just how much help the economy needs to recover from the Covid-19 pandemic.

If it is already recovering rapidly, the government may spend and borrow more than needed, pushing the national debt higher. If the recession drags on, multiple rounds of economic relief may be necessary, a process fraught with political hurdles.

Some economists and lawmakers say they have the solution: put stimulus on autopilot, so that aid to households automatically becomes more or less generous as economic triggers are hit. They say enhanced unemployment benefits could be authorized to continue until the unemployment rate falls below a preset threshold, avoiding the political fights that can slow stimulus efforts.

"There were 13 votes in the wake of the [2007-09] recession to extend unemployment benefits," said Rep. Don Beyer (D., Va.), the vice chairman of Congress' Joint Economic Committee. "That's a lot of political back and forth. Any time you have to go through a tough negotiation, there are political costs to both sides, so why not take it away from that?"

A few features of current law already act as automatic stabilizers: When the economy weakens, more people qualify for food stamps and unemployment insurance, and the Treasury collects less tax revenue. When the economy strengthens, that goes into reverse, thus automatically "stabilizing" the business cycle.

The U.S.' automatic stabilizers are weaker than in some other advanced countries. Tying these programs to economic conditions would be one way to make them more powerful, at a time when the Federal Reserve has less room to cushion the economy since interest rates are already close to zero.

At the end of March, Congress expanded those programs by adding $600 a week to regular unemployment benefits, which ranged from 31% to 54% of weekly pay in 2019, widening eligibility to contract workers, such as delivery drivers or freelance writers and extending the duration of benefits.

Senate Minority Leader Chuck Schumer (D, N.Y.) and Sen. Ron Wyden (D., Ore.) introduced a measure on July 1 that would extend the extra $600 until a state's average unemployment rate over three months is below 11%, then gradually shrink the bonus as the rate drops further. It would also extend the duration of regular benefits from 39 to up to 78 weeks, as long as a state's unemployment is above 5.5%.

House Speaker Nancy Pelosi (D., Calif.) has endorsed the idea of using triggers for enhanced aid, though she didn't include them in the latest coronavirus relief package the House approved in May. That bill would extend enhanced benefits through the end of 2021 at a cost of $432 billion, pushing the cost of the overall bill to $3.4 trillion, according to the Congressional Budget Office.

The unemployment rate, which stood at 11.1% in June, is expected to fall to 10.5% by year-end and to 7.6% by the end of 2021, still well above the 3.5% recorded in February before the virus spread throughout the U.S., according to the CBO.

Tying benefits to economic triggers would cost even more depending on how the proposal is structured, said Claudia Sahm, macroeconomic policy director at the Washington Center for Equitable Growth, a left-leaning think tank, who advised House leaders on the measure. But if the economy recovers rapidly, automating the enhanced benefits means they would quickly phase out, leaving minimal impact on the debt.

Triggers could be especially useful during this recovery, whose pace depends on the virus. Strong economic data in May prompted calls from Republicans that another big aid package might not be necessary. Just weeks later, a resurgence of cases appears to have slowed growth.

While the current proposal for triggers revolves around unemployment insurance, in theory tax cuts, higher benefits for food stamps and stimulus checks could be similarly linked to the state of the economy.

The proposal is unlikely to make headway so long as Republicans control the Senate. Critics say enhanced benefits discourage workers from returning to the labor force. There is some evidence that extended benefits have that effect: A 2015 study by economists Marcus Hagedorn, Iourii Manovskii and Kurt Mitman found an abrupt stop in extended benefits in the U.S. at the end of 2013 led to higher employment the following year.

"There is a vicious cycle here that the unemployment rate won't fall if the government keeps the benefit so high," said Chris Edwards, an economist at the libertarian Cato Institute, who also warned such fiscal policy rules could add trillions to federal debt.

"I don't see what the advantage is in trying to make decisions for the future now," he said.

Mr. Beyer, who introduced a House bill similar to Messrs. Schumer and Wyden's plan, said the triggers proposal might not make it into the next fiscal package Congress expects to pass by the end of the month, but he is optimistic. After the House passed its bill, Mr. Beyer said Mrs. Pelosi told a group of lawmakers from relevant committees to continue to explore the idea.

And if Democrats win control of the White House and Senate in November, "It wouldn't surprise me if we do it in January," he said.

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