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## The Great Recession vs The Covid-19 Pandemic: Unemployment and Implications for Public Policy

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**The Great Recession vs. The Covid-19 Pandemic: Unemployment and Implications for  
Public Policy**

Thesis Submitted to Levy Economics Institute of Bard College

by Giuliana Scanni

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College**

## **PLAGARISM STATEMENT**

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## **ABSTRACT**

The Great Recession lasted from December 2007 until June 2009 and was one of the most severe recessions since the post-war period. It took about two years from the time of the unraveling of the U.S. housing market and mortgages, until the collapse of Lehman Brothers—as the crisis spread to the rest of the financial sector of the economy.

The Covid-19 Pandemic erupted from a public health crisis at the end of January 2020 and unlike the Great Recession, employment collapsed sharply in a matter of weeks, leaving millions without work by April 2020. The Covid-19 Pandemic has demonstrated an extraordinary example of how the response to the crisis produced a negative impact on the economy, regardless of social class. However, the negative impact has been disproportionately spread in the economy, with some communities devoid of any assistance from the government. This thesis seeks to answer the question of how to reorient public policy in the face of a recession. Namely, the question about how to generate the relief that households need to undertake the virus and flatten the curve, while also combatting the employment problem at the same time. Due to the tangible feeling of insecurity across households at all levels of income, Covid-19 has created a rare policy window to execute an unconventional policy to mitigate the record employment losses, especially in sectors of the economy that were affected the most, such as leisure and hospitality. It also opens a policy window to rethink the ways in which to go about Pandemics and Recessions in the future. This thesis concludes with the policy solution that to address the mass employment losses in all sectors, it is viable to combine counter-cyclical, short-term targeted cash transfers to households. This policy should be followed by job creation, with the goal of a sustainable and “green recovery” as another national priority.

**Keywords:** Covid-19, Great Recession, Employment, Social Safety Net, automatic stabilizers

**JEL Classifications:** E32, H53, I3, I38, J65, J78

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## INTRODUCTION

The Great Recession started in December of 2007 and ended in June 2009. It was said to be the worst recession since the Great Depression. In 2011, the U.S. Financial Crisis Inquiry Commission reported that the crisis was avoidable. It was due to widespread failures in financial regulation, such as the Federal Reserve's failure to stem the tide of toxic mortgages, too many firms taking on too much risk, excessive borrowing and risk by households, and systemic infringement of accountability at all levels (Financial Crisis Inquiry Commission). Nevertheless, it took several years for the output and employment level to recover to pre-crisis levels. This extremely slow recovery was due in large part to a lack of government spending, following fiscal stimulus efforts after the collapse of the housing bubble and the subprime mortgage crisis (Bernanke 2012). In the United States, The Covid-19 Pandemic started in January 2020 and at the time of writing this thesis, is still ongoing. Like that of the Great Recession, it too produced a severe recession. However, in difference from the Great Recession, deeply rooted in economic turmoil, the Covid-19 Pandemic erupted from a public health crisis. Unemployment evolved over about two years after the Great Recession, while unemployment peaked rapidly in a matter of a few weeks during the Covid-19 Pandemic. There are three facets that all recessions have in common. First, recessions are costly, meaning that households may lose jobs and income. Second, fiscal policy is an effective response by the government. More specifically, expansionary fiscal policy can increase output and the utilization of output. In addition, monetary policy could reduce interest rates to near zero, which may shift the economy upwards. Third, there is an automatic nature of fiscal policy, which may lead to a shorter recession. There are certain programs that act as automatic stabilizers and make up the fundamental basis for the social safety net in the United States (Boushey and Shambaugh 2019). This thesis provides a comparative analysis of unemployment policy responses of the Great Recession compared to the Covid-19 Pandemic. Both recessions caused mass unemployment and an extreme slowdown of the growth rate of the United States economy. Therefore, the goal is to evaluate whether the current policy that it is "better to do more" is an improvement over the response to the previous crisis.

The recovery from the Great Recession consisted of various forms of government spending and tax cuts. More specifically, Keynesian approaches to combating the Great Recession such as government borrowing and spending to boost aggregate demand were put into

place. However, there is debate up until this day whether these policy responses were effective enough to bring the economy back to pre-crisis levels. Since unemployment remained high, long after the Great Recession's end, will the same tactics work this time around? More than 12 years after the Great Recession of 2008, conditions impose a reevaluation of the role of fiscal policy as an effective policy response to the current pandemic that has rapidly devastated the economy in such a short period of time. During past recessions, Keynesian policy for fiscal stimulus has been essential to increasing aggregate demand, getting the economy back on track, and has proven to be a viable tool in combating past recessions. Fiscal stimulus constitutes an increase in government spending and borrowing, even if it means an increase in government debt. These types of policies were evident during the recovery periods of the Great Recession. The Great Recession witnessed a plunge in formal employment, forcing the government to respond with fiscal stimulus. Yet, unemployment remained at high levels for years after the recovery. The Covid-19 Pandemic, although more sudden than the Great Recession has also caused mass unemployment in magnitude like that of the 2007-2009 crisis. However, because this is a public health crisis, the priority is to protect the health of people first. For this reason, the policy response must be different. The problem is how to bridge the gap from controlling the actual pandemic and getting people to find employment. The proposal of job creation programs as a way for individuals to find employment has been popular throughout the past several years. This policy would have been viable and applicable if this were just another recession. However, this is not an ordinary recession and there must be another solution for the present crisis.

This paper seeks to explore whether the policy response of the current crisis should be like that of the Great Recession, or different. The discussion is split up into three chapters. The first chapter analyses relevant literature on the two crises, their causes, and policy responses to combat the high rates of unemployment. It also proposes an alternative potential policy of a Universal Basic Income that policymakers can implement to address the loss of employment and output that has emerged in the current Covid-19 Crisis. The second chapter compares the policy responses and political inclinations of these policy responses for both crises and evaluates both propositions side-by-side using data from the Bureau of Labor Statistics (BLS). The data looks closely at the different industries that were most affected during the two crises. The third chapter investigates and proposes a solution to the problem of coming up with an appropriate response to the unemployment rates of the Covid-19 Crisis. This section goes into depth on why it is better to

do more rather than to do less when it comes to mitigating the unemployment and inequality across all social classes. This section will also explain the fiscal relief package the Biden Administration proposed in Spring of 2021. It concludes with remarks regarding both recessions and the importance of reforming the social safety net, given that automatic stabilizers and fiscal stimulus enacted by Congress will not be effective during every downturn. The overall goal is to assess whether policymakers should implement similar fiscal policies as they did during the Great Recession to the current crisis or respond in a different manner. It will be observed that although a long-term Universal Basic Income may not be feasible at this time, the United States should reevaluate the social safety net to respond more efficiently to cyclical shocks like that of the Great Recession and the Covid-19 Pandemic. Although cash transfers supplemented with job creation and a “green recovery” will be introduced in the Spring of 2021, policymakers should rethink the way that the social safety net responds for the next downturn to provide a more efficient recovery.

## CHAPTER 1

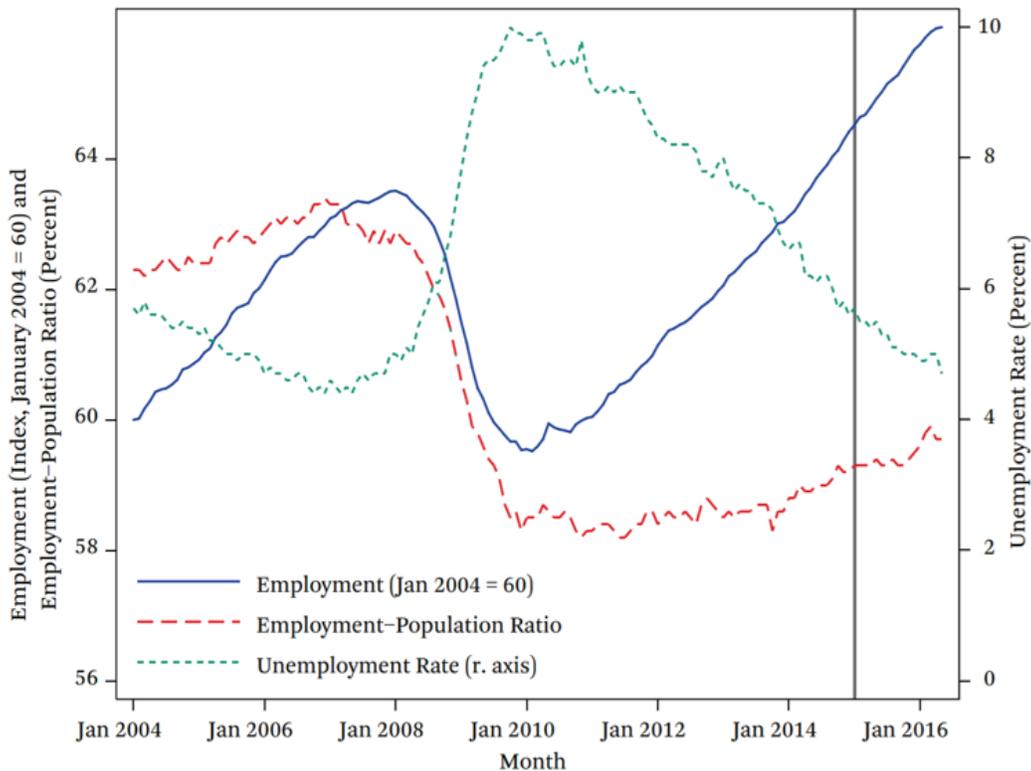
### *The Great Recession Recovery*

What started out as an isolated disturbance in the subprime housing sector, transformed itself into a full-blown recession by the end of 2008. The recovery from the Great Recession was one of the longest in history. Although sustained, it was extremely uneven, leaving many workers disconnected from the labor market, households facing unmanageable debt levels, with evictions reflected in permanent losses Gross Domestic Product (GDP) in the United States (Boushey et al. 2019). The Great Recession took about two years from the time of the unraveling of the housing market and mortgages, until the United States saw the collapse of the Lehman brothers. From there, it is safe to say that things got much worse. The Great Recession of 2007-09 brought a threat to the survival of the financial industry along with mass unemployment. In response, the Federal Reserve employed exceptional support measures and when these proved to be insufficient, required the government to introduce strong countercyclical fiscal stimulus including greater government spending and borrowing to support aggregate demand. (Seidman 2012). According to Seidman, In January of 2009, the unemployment rate in the United States was 7.8 percent and in January 2010, unemployment had risen to 9.7 percent even after a stimulus package was enacted. These bold stabilization actions allowed GDP to continue to grow in the third quarter of 2009 and rise even higher in the fourth quarter. Economists estimate that by 2011, real GDP was 16 percent higher, and unemployment was almost seven percentage points lower than they would have been had such actions not been put into place (Blinder and Zandi 2015). Yet, it is still the case that the unemployment rate remained high well after the recession was over. Five years after the Great Recession was declared over, the unemployment rate remained higher than it was in 2007, before the recession even began (McMorkell and Hinkley 2019). For most recessions, the main lesson to learn is the importance of fiscal policy in promoting recovery. However, it is also important to understand that poor fiscal policy could prolong the road to recovery. In 2012, the 14<sup>th</sup> Chair of the Federal Reserve, Ben Bernanke gave a speech on the disappointingly slow pace of economic recovery three years after the end of the Great Recession. He explained the challenges that needed to be faced to put the economy on a sustainable path in the long term while avoiding actions that would potentially endanger the economy in the near term. In his speech, Bernanke (2012) states that since the recession trough in mid-2009, growth in real GDP had only averaged about 2 percent per year. Similarly, the job

market had followed a steady, but a slow generation of employment. Nevertheless, high levels of long-term unemployment, high levels of part-time workers, and the decline of labor force participation have also been prevalent features in 2012.

Rothstein (2017) argues that low-skilled workers’ outcomes have always been sensitive to the business cycle. This is because after some time, their human capital gradually decreases, and they become disconnected from the labor market. Nevertheless, technological advancements tend to favor high-skilled workers, making it difficult to reach a “new normal”. Furthermore, Rothstein (2017) explores the unevenness of the recovery and employment by industry, noting that the industries hardest hit by the Great Recession were in construction and durable goods manufacturing. Both examples present the need to expand social welfare programs for those who remain unemployed. Figure 1 shows the path of employment from January 2004 until January 2016 with the vertical line representing the end of 2014.

Figure 1. Employment, Employment-Population Ratio, and Unemployment Rate, 2004-2016



Source: Bureau of Labor Statistics, Current Population Survey and Current Employment Statistics  
 Notes: Series are seasonally adjusted. Vertical line marks the end of 2014.

From this table as cited in Rothstein (2017), it is evident that the biggest decline in employment occurred in late 2008 and early 2009. Starting in 2010, employment gradually increased while remaining at relatively low levels compared to the pre-recession period. An alternative measure of labor force utilization is the employment-to-population ratio, the share of the working-age population currently working, regardless of whether they are actively searching for work (as is required to be counted as unemployed in the official measures of the unemployment rate). This measure fell nearly five percentage points during the recession, barely recovered through early 2014, but has been gradually creeping back up since then (Figure 1). The recovery has been much slower than for the unemployment rate, however. Even in 2019, the employment-to-population ratio remains well below its pre-recession level. Fiscal stimulus can be enacted in two ways—increased government expenditures or reduced taxation. Government spending may be directed toward industries most affected, such as the construction and manufacturing industries. This type of government expenditure would increase demand for construction and associated industries and for their workers, who in turn spend the money in the economy further stimulating demand for other goods and services (Rothstein 2017). Another form of fiscal stimulus could take the form of transfer payments or tax cuts to put money in the hands of the consumers (Medlin 2015). Nevertheless, despite the fiscal stimulus, the recovery from the Great Recession was one of the slowest on record. Much of the slow return to pre-recession levels can be traced to the length and severity of the Great Recession itself. The joblessness was very persistent during an historically slow recovery, and the decline in output. The trough of the Great Recession was greater than in any postwar business cycle (McNichol 2016). Government spending did not rise fast enough to spark recovery, which explains why the economy had only partially recovered several years after the Great Recession ended. Yet, GDP and output would have been much worse without financial stabilization and fiscal stimulus policies. In addition, the Great Recession was not caused solely by an unexpected shock to the financial sector, but an imbalanced growth path of the past 20 years (Godley 1999). Gennaro Zezza (2010) speculates that during the recovery years after the Great Recession, strong policy action by the government and a persistent high government deficit would have been needed to produce a reduction in the unemployment rate. Nevertheless, fiscal policy and government spending to increase aggregate demand were crucial.

Most recessions affect lower skilled, low-income earners. Policies such as Unemployment Insurance (UI), Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF) constitute a big part of the social safety net. Unemployment Insurance is more likely to target middle-income families, while SNAP and TANF are more likely to target lower-income households (Boushey and Shambaugh 2019). Bitler and Hoynes (2016a) found that during the Great Recession, although UI responses were in excess of previous recessions, this program mainly affected households somewhat higher up the income distribution. Although UI is the most responsive between SNAP and TANF, all these programs proved to be countercyclical. In a policy book titled “Recession Ready: Fiscal Policies to Stabilize the American Economy”, Heather Boushey et al. (2019) explains why and how to use fiscal policy during economic downturns using Keynes’s theory of the business cycle based on the role of aggregate demand.

Because one person’s spending is another’s income, if there is too little spending relative to production, firms’ sales decline, they cut back production, and employment falls, depressing demand. If individuals and financial institutions become more risk averse and if there is an abrupt shift toward saving or away from lending for investment, this can push the economy into a recession. Recessions can have many root causes—including falls in asset prices, shifts in risk tolerance, spikes in commodity prices, interest rate increases by the central bank, and global shocks—but they consistently involve a decline in the demand for goods and services in the economy (Boushey et al. 2019).

Responses to address the low levels of aggregate demand due to decreased spending and increased unemployment were taken in the form of stimulus during the Great Recession. However, some fiscal measures were not fully implemented until well after the start of the recession, which may have played a role in the slow recovery. For example, after the 2008 stimulus payments at the end of the Bush administration, there was a considerable lag before fiscal stimulus took effect. The American Recovery and Reinvestment act (ARRA) itself was enacted on February 17, 2009, fully 14 months after the beginning of the recession. ARRA was, in retrospect, too small with the phaseout occurring too quickly (Boushey et al. 2019). Furthermore, it only had a small job creation component, which was targeted to the highly skilled and educated only (Tcherneva 2012). Although timeliness and duration of policies is crucial to combat recessions, it could be difficult to adopt and implement amid a crisis. Therefore, it is important that policymakers begin to think of the case in which there is more stimulus enacted rather than less, and the positive effects it could have if more people received

benefits rather than less. This implies that a more rapid, vigorous response is needed for the recessions in the future. Claudia Sahm (2019) proposes the need for direct stimulus payments to individuals to become part of our system of economic stabilizers. She speculates that additional income translates quickly into additional spending. This was seen during the Great Recession and has been supported by research on the efficacy of various tools to introduce during severe recessions and can boost spending in the near-term. A key finding is that larger one-time payments lead to more spending, more quickly, than payments that are smaller and dispersed over time. Furthermore, households with lower income levels tend to spend and consume more than households with ample liquidity and income. Nevertheless, although the stimulus is not large enough to make up for job loss, it could act as a way that households build up extra savings, especially during the severity of recessions. Sahm (2019) states three reasons why direct payments should be made into an automatic stabilizer. First, these payments would provide a “policy precommitment” to boosting aggregate demand during downturns. Second, size, structure, and funding of stimulus payments would be done before the recession even occurs rather than at the actual time of the recession. Third, automatic stimulus payments would commit policymakers to maintain support, especially if the recession is drawn out like it was during 2007-09.

Although economists believe that discretionary fiscal stimulus is crucial in combating recessions, some argue that what is required is fiscal policy that deals with the unemployment problem in a rigorous manner, rather than just focusing on the output gap. Tcherneva (2012) argues that policymakers need to reorient fiscal policy after the Great Recession to address the employment gap that remained well after the recession. She refers to Keynes’ target unemployment rate for recovery in the UK economy after the Second World War of 1 percent to argue in favor of additional direct employment and targeted public investment for post-war reconstruction, rather than the government continuing to increase deficit spending (Keynes 1980: 303). During the recession, the government was focused more on unconventional fiscal measures that provided direct assistance to the financial sector through The Troubled Asset Relief Programs I and II along with other transfers such as unemployment insurance, Temporary Assistance for Needy Families (TANF), social security, tax credits, direct subsidies, contracts to firms, among many others. It is argued that if it were not for these aggressive policy responses, the economy would have fallen much further. However, Tcherneva (2012) argues that in addition

to fiscal policy that deals with the output gap, what was needed was a comprehensive job growth program to keep up with the overall unemployment, the discouraged workers, and that considers the ones who are ready and willing to work. The job growth program, also known as the Job Guarantee Program, would deal with structural and regional unemployment directly, offer a stable floor to demand, offer a job at a base wage for people who cannot find employment in the private sector, and focus on a more work-oriented buffer stock to prevent further job loss. The Job Guarantee Program offers two main objectives of generating productive employment and ensuring adequate income. Unemployment in our economy today is inevitable. Changes in the nature of the economy such as advances in technology, recessions leading to a demand deficient economy, and discrimination all play a major role in unemployment. Nevertheless, prolonged unemployment can lead to many social and personal costs that far exceed just the loss of income. This includes a loss of current national output and income, social exclusion and the loss of freedom, skill loss, psychological harm, ill health and reduced life expectancy, loss of motivation, the undermining of human relations and family life, racial and gender inequality, and loss of social values and responsibility. Furthermore, much like the automatic stabilizers mentioned by Boushey et al. (2019), a Job Guarantee Program would be integrated with traditional fiscal policy since it acts as an automatic stabilizer. It would expand in terms of the number of positions provided during periods in which there is a downturn, and contract in an upturn. In other words, when the economy is in a downturn, government spending automatically increases, providing economic stimulus through public employment. As the economy improves, and private sector employment expands, then the government will hire individuals away from the Job Guarantee Program, reducing government deficit spending (Tcherneva 2007).

What was needed during the Great Recession was automatic stimulus and stabilizers that were rapid in response to the rapidity of the decline in activity. The fiscal stimulus enacted during the Great Recession took far too long to implement, which explains why the employment recovery took longer than it should have. Policymakers should take this experience as an example and create policies that reach people automatically and stimulate the economy as quickly as possible.

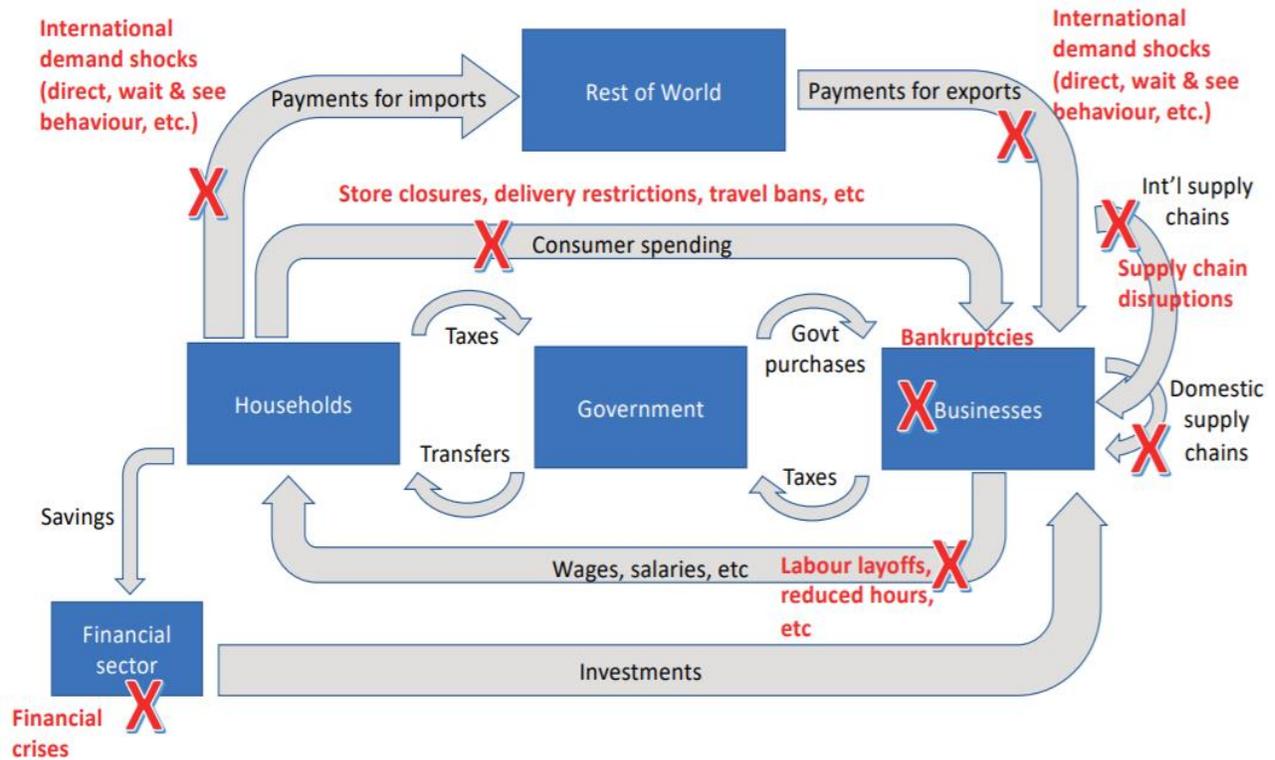
## *The Covid-19 Pandemic*

The experience of the employment loss of the current Covid-19 Pandemic provides a comparison with the experience of the Great Recession. It appears that different governments around the world believed Covid-19 to be someone else's problem. However, what was widely viewed as a series of geographically separate epidemics: the "Chinese problem" and then an "Italian Problem" which soon became a pandemic and a global problem. On January 21, 2020, the Centers for Disease Control and Prevention (CDC) announced the first confirmed case of Covid-19 in the United States. Ever since then, there has been an exponential jump in Covid-19 cases and deaths worldwide, forcing the World Health Organization (WHO) to declare a worldwide public health emergency. The response to the Covid-19 Pandemic has generated a recession comparable to the Great Recession. However, it is not like any recession seen before. As a result of the measures introduced in March of 2020 to manage the spread of the Covid virus, the economy collapsed sharply, with mass unemployment, job layoffs, restrictions, and overall uncertainty and financial instability occurring in a short period of time. Like the Great Recession of 2007-2009, consumers and firms alike are in a "wait-and-see mode" (Baldwin and Weder di Mauro 2020: 10). Harvard University Professor and former chair of Obama's council of economics, Jason Furman speculates that "the synchronized shutdown in the first half of 2020 was the largest, fastest, and most comprehensive reduction in economic activity ever witnessed in the modern world. It affected both supply and demand and was costliest for less advantaged households, whose members were the most likely to lose their jobs" (Furman 2020). To limit the spread and severity of the virus, officials around the globe have turned to certain restrictive measures and non-pharmaceutical interventions (NPIs) such as closing schools, mandating stay at home orders around the nation, and banning international travel (Baek et al. 2020). Nevertheless, the highly contagious nature of the virus also called for strict social distancing protocols to limit person-to-person contact. Although working from home is a viable option, this short-term disruption to work and school has led to a disruption in overall productivity. Furthermore, some have suggested that these social distancing measures have kept people who have lost their jobs to refrain from finding a new one. Nevertheless, this effort to flatten the curve of the virus has inevitably led to economic hardship, especially in the United States, since lockdown measures have changed consumer behavior drastically, with many limiting their spending to essential products and services only. For this reason, it is crucial that the U.S.

economy do whatever it takes to “keep the lights on” until the recession is over while also flattening the curve of Covid-19 cases.

In a chapter in, “Mitigating the Covid Economic Crisis: Act Fast and do Whatever it Takes”, two professors of International Economics at the Graduate Institute of Geneva, Richard Baldwin, and Beatrice Weder di Mauro (2020) state that the pandemic brings about three crucial shocks to the economy. First, there are purely medical shocks—the individuals that are sick and in the hospital are not contributing to the economy’s GDP. Second, there are economic impacts of the containment measures put in place to control the spread of the virus. Third, there are the expectation shocks (Baldwin and Weder di Mauro 2020: 10). In the chapter by Pierre-Oliver Gourincha (2020) titled, *Flattening the pandemic and recession curves*, he states that “a modern economy is a complex web of interconnected parties: firms, suppliers, consumers, banks, and financial intermediaries. Everyone is someone else’s employee, customer, lender, etc.” Gourinchas (2020) speculates that containment measures are negatively correlated to macroeconomic activity, and not by coincidence, measures that help fight the spread of the virus, such as stay-at-home orders, make the economic situation worse. “The sudden and extreme supply shock made previous methods of production impossible in many cases and dramatically changed consumption patterns, triggered by the virus and associated restrictions, leading to a collapse of revenues for many companies, thereby creating substantial losses and urgent and continuous liquidity needs to ensure business continuity” (G30, 2020: 9). Figure 2 shows the generic circular flow of money of all sectors of the economy. A modern economy is composed of a web of specific groups—employees, firms, suppliers, consumers, banks, and financial intermediaries. As shown in this figure, if one of the links is negatively affected by the containment policies, then all the other links will be affected as well due to the interrelatedness of all these sectors of the economy.

Figure 2. Covid-19's multiple strikes in the circular flow of income



Source: Based on Baldwin (2020b).

As Baldwin and Weder di Mauro (2020) put it, “a flow disruption anywhere causes a slowdown everywhere.” The red crosses signify what happens when one of the sectors is going through a shock. Starting with the household sector, if they are not getting paid by their employer, they experience financial distress, thus slowing down their spending. As shown on the right, when there is a restriction on trade, domestic demand shocks hit the nation’s imports and thus the flow of money to foreigners. In turn, this will affect foreign purchases on exports. As shown by the two red crosses on the right, the demand shocks can lead to a disruption in domestic and international and domestic supply chains. This then leads to a further reduction in output, especially in the manufacturing sector as shown in the “Business” section of Figure 2. This is largely due to the “wait-and-see” behavior of people and firms due to the uncertainty arising from the Covid Crisis. Nevertheless, bankruptcies in other businesses are common due to certain containment measures and reductions in cash flow. Furthermore, the containment policies lead to labor layoffs and it is common that workers who are laid off spend less (Baldwin and Weder di Mauro 2020).

A policy response calls for ambitious and multifaceted measures that ensure that this crisis will not be long-lasting. In the United States, there has been a historic decline in economic activity and employment. Although there is debate about the conditions of the economy prior to the crisis, Covid-19 had been preceded by several years of steady employment gains, averaging about 2000,000 a month before the crisis. When the crisis hit in March of 2020, the United States lost about 1.4 million jobs and in April, the U.S. lost almost 21 million jobs. In comparison, the total job loss of the Great Recession in total was about 8.7 million (Fazzari 2020). Clearly, the effects of the Covid-19 Pandemic have been rapid and deep. Because the Great Recession and the Covid-19 Pandemic both arose from different conditions, the most efficient policy response may not be similar to the one taken during the 2007-2009 period. Nevertheless, the Covid-19 Pandemic was more sudden in nature than the Great Recession and proved that Americans were not used to and unprepared for the magnitude of the current crisis, often being compared to a natural disaster. Although not the worst recession since the end of World War II due to early assistance, it is certainly in the top three or four with the unemployment rate hovering at about 8 percent (Furman 2020), proving that there needs to be a rapid solution to bring the economy back to the pre-Covid level.

With the sudden shock to supply that arose from the pandemic, consumer behavior changed drastically, presenting an immediate threat to many jobs. Workers have been mandated to stay away from work, consumers have reduced consumption drastically, and Americans in general were reluctant to spend money—especially in sectors that were not essential. The sectors more negatively affected by the pandemic include leisure and hospitality, retail, and airlines with many job losses being permanent. It is inevitable that certain measures to prevent deaths will lead to mass unemployment. Luckily, economic policy can act in ways in which to respond to the challenges to public health and minimize the economic damage. Amid the Covid-19 Pandemic, the priority is to keep humans as safe as possible. One of the proposals during the Great Recession to decrease unemployment is a direct jobs creation program, or the Job Guarantee Program. This response is viable in the long run. However, this program is impractical in present circumstances, considering the social distancing measures and containment policies put in place. Furthermore, policy proposals must trigger investment and behavioral changes that will reduce the likelihood of future demand shocks and boost confidence of consumers when these shocks occur. This point, along with the fact that consumers have fewer opportunities to spend and

uncertainty of future economic outcomes, there needs to be emergency assistance that is long lasting, not just for firms and households, but for individuals at the lower end of the income spectrum as well. Furthermore, a universal program goes against beliefs that social aid should be based on “deservingness” and the concept that support is conditional on social action that makes him or her “earn” the right to support (Wispelaere and Yemtsov 2020:184). In short, a rapid, vigorous response in the form of direct payments to individuals is appropriate to help limit the employment losses and make the recovery much quicker.

### *Universal Basic Income*

A recent policy proposal has been one of the Universal Basic Income (“UBI”). Throughout the Covid-19 Pandemic, there have been limited-term handouts. A true UBI seeks to delink income and labor, which is the reason why many are against an unconventional policy of this kind. Nonetheless, the three key features such as it being in cash, no conditions, and no targeting, challenge current policies to varying degrees (Gentilini et al. 2020). Whenever there is a drastic increase in unemployment and income insecurity in such a short period of time, a UBI would be a sufficient policy option for our economy and for the future. A progressive response as such must have a universality component to ensure that the most in need to meet their vulnerabilities and necessities (Gentilini et al. 2020). In a unique circumstance such as the Covid-19 Pandemic, this policy would be the simplest, fastest, and most uniform way to help everyone during the pandemic.

The simplest definition of UBI is that it is a regular cash income paid to all without a means test or work requirement. This policy holds the three core facets of being universal unconditional, and in cash (Gentilini et al. 2020). This definition includes two central characteristics of the UBI idea—it needs to be universal and independent of a person’s income or work ability. Secondly, it is unconditional. There are no demands required for the individuals that receive it. There are many versions of the guaranteed income policy. Perhaps, the best version of a guaranteed income in the face of the Covid-19 Pandemic would be one in which there is a flat tax on all other sources of income with the basic income grant included. Winderquist (2001) uses the example that if there is a monthly basic income of \$8,000 per adult and \$2,000 per child, there will be a flat tax of 36 percent on all income. However, this is just one example of how a basic income program could work. Something that all basic income

program proposals have in common is that there is a floor below which no one's income can fall (Winderquist 2001). To eliminate some of the financial burden that has come about during the present Covid-19 Pandemic, there must be some sort of unconditional component or there will be some individuals left out as we have seen during the present crisis with the passing of the CARES Act, the Families First Coronavirus Response Act, and the Coronavirus Preparedness and Response Supplemental Appropriations Act back in March of 2020. The Covid-19 Pandemic has caused a supply shock and as the virus intensified, it brought tens of thousands of people to become ill, which was when the economy decided to shut down. For example, starting in March 2020, consumer spending on food increased, while decreasing sales at restaurants, fast-food chains, and casual dining locations. With physical distancing associated with the lockdowns, many people chose to forgo public venues and stock up on groceries instead, boosting sales for the month of April by 29 percent over the prior year (Redman 2020). As the government discouraged and then prohibited people going to work, the virus has caused a sudden contraction of the labor supply. In turn, this has then caused a loss of confidence that resulted in a demand shock, too, but it is a spillover—an indirect effect due to a fundamental contraction in our ability to produce goods and services (Johns Hopkins 2020). The Covid-19 Pandemic has caused uncertainty, which has led to high rates of saving rather than spending. Therefore, a guaranteed source of revenue will generate a safety net that will allow households to buy certain necessities such as toilet paper, canned goods, and flour.

Covid-19 is both an economic and public health crisis. Immediate implementation of a basic income with a job guarantee close behind would help address the current economic circumstances going on in the United States today. This section will show a brief, empirical analysis of the Universal Basic Income, what it entails, previous experiments, and how this could be a possible short-term policy response to the mass unemployment of Covid-19. Critics have argued that a UBI would reduce incentives to spend time in paid employment and weaken people's participation in work. However, this sort of policy would in fact free up time to consider work that is unpaid and that may be valuable to the individual, such as taking care of a loved one in need. "In the case of domestic and care work, still disproportionately carried out by women and girls, advocates argue that a UBI could support its redistribution between the sexes" (Bastagli 2020: 101). A Universal Basic Income in the short-term would set the economy up for a long-term Job Guarantee program. During recessions, safety nets play a critical role in for

families and, especially the ones who are the most vulnerable. Often, the key question that policymakers wish to answer is the design of certain social welfare policies—whether the policy should be targeted or universal. Unemployment Insurance (UI) is one of the most widely used income support programs during recessions. During the Great Recession, the benefits of Unemployment Insurance were generous, spanning from 6 months for the state program to 99 weeks of federally funded benefits (Bitler 2019). These generous expansions beyond regular state benefits were funded fully by the federal government through the Emergency Unemployment Compensation program from 2008 until its expiration in 2014 (Bitler 2019). UI is not means tested, and eligibility and benefit levels are a function of earnings history. For this reason, the support provided by UI tends to reach further up the income distribution, which leaves a rare, new policy window during the present crisis, in which everyone is tangibly feeling the economic insecurity, but especially the ones on the lower end of our economy. During the Covid-19 Pandemic, Congress extended the benefits of UI by providing any worker who qualified for state UI benefits an additional \$600 per week funded by the federal government. As the average state weekly benefit amount is around \$300, this tripled weekly UI income for the typical unemployed worker (Moffitt and Ziliak 2020). Furthermore, Ganong, Noel, and Vavra (2020) speculate that income under the expanded UI program raised incomes over pre-Covid earnings for two-thirds of UI recipients. However, this program expired in July 2020, and there was a failure to follow up with a similar program despite the high number of unemployed.

There have been a few legislative policy responses as an effect of the employment collapse of the Covid-19 Pandemic and the need for relief of families coming from all classes of the economy. Income support is the typical example of welfare which raises the question of whether income should be provided to people who fall below a certain threshold, be it from unemployment, illness, or inability to work. The problem that policymakers must solve is if basic income support should be targeted to certain groups such as the elderly or single-parent households with children, and families that fall under a certain threshold. Or should the U.S. have a system which guarantees a certain basic income for all. In March of 2020, three legislative acts have been passed in the United States. The first is the Coronavirus Relief and Economic Security (CARES) Act. This act provided relief primarily through four broad channels: (i) Direct cash payments to Americans below specified income thresholds, (ii) Expanded unemployment benefits, (iii) The provision of loans to small businesses to pay

workers, rent, and other expenses as their revenues collapsed and (iv). Targeted industry stabilization for sectors principally affected by Coronavirus pandemic. The act also includes a variety of other emergency appropriations, including funds to purchase medical care equipment and increase hospital infrastructure investment (McCroy and Messer). Individuals who qualified for the CARES Act received stimulus checks of \$1,200. Married couples received \$2,400, and those with children received an additional \$500 per child. Furthermore, those who filed for unemployment received an additional \$600 per week from the government. Although short-lived, the passing of this relief package lifted 18 million people out of poverty. It was also able to “unfreeze” the economy and get goods and services flowing again for a short period of time. Nevertheless, the distribution of the one-time stimulus checks expired by the end of July. Consequently, the poverty rate in August, September, and October of 2020 was even higher than it was in April and May with many needs remaining to be unmet (*Frontline* 2020).

The second legislative act was the Families First Coronavirus Response Act bill, which increased funding to numerous government departments in preparation for increased demand for government services during the pandemic. Third, there was the Coronavirus Preparedness and Response supplemental appropriations act. This act provided money mainly for the domestic health response with an additional provision for small business loans. Most funding is available through September 2022 (McCroy and Messer 2020). Also provided funding to the CDC and FDA as well. Although helpful for the short-term, these three legislative responses to the Covid-19 Pandemic were temporary, limited-term handouts and were not enough. Nevertheless, the aspect that these pieces of legislation have in common is that they are targeted toward working families meeting specific qualifications, and still exclude many in need of support. Although beneficial in the short-term, these acts have proved to be insufficient in helping to lift families out of the economic turmoil and uncertainty caused by the crisis.

President Biden’s mission this year as he takes office is to control the spread of the Covid-19 Pandemic, hasten the recovery, provide relief to households, and provide economic growth and security. The security aspect was part of the CARES Act which Congress passed in March 2020—a “well-timed piece of bipartisan legislature that, in its initial months, provided an astounding 30 percent of GDP in fiscal support”. Despite the positive effect of this act, policymakers failed to follow up with this same concept after the act’s expiration nearly four

months later. Part of Biden's policy response to the current economic situation is what he terms "building back better", which not only responds to the present economic circumstances but puts the United States in a position to better respond to future crises (Furman 2020). Nevertheless, it includes fixing the structural problems and the systemic weaknesses that this crisis has rapidly brought to light, namely that of the United States' social safety net. Part of this is implementing policy that will be long-lasting since it is unknown when the economy will recover.

In a chapter, "Protecting the people now, helping the economy later" in the eBook *Mitigating the Covid Economic Crisis: Act Fast and do Whatever it Takes*, Furman (2020) notes that it is better to do too much than too little. One of implications to a necessary policy response should be diversification and not fearing duplication. Furman argues that given the uncertainty about the economic situation, it is worth diversifying the response. Due to the severity of the crisis and it being something that the United States is not used to experiencing, there will need to be some experimentation with policies. Some policies will work, others will not. However, this experimentation is worth it, even if it means that money will be given to households or businesses that do not need it. As Furman puts it, "the risk of duplication is much smaller than the risk of over-targeting that leaves many out". The damage is uncertain, and it is unclear when the crisis will be over. For this reason, it is also important to ensure that the policy response is dynamic and persistent meaning that it should be something that could expand or decrease in certain places as needed. In the face of the virus, it is better to do too much rather than too little.

The idea of a Universal Basic Income has been around since Thomas Paine proposed a version of it in the 1700's (Winderquist 2001). Nevertheless, the idea can be traced back to ancient Athens. With a policy like this, there are features that may attract people from all political spectrums as it provides an element of sustainable wealth. However, suspicion remains and there is still room for debate. The UBI is most definitely uncharted territory. There are only limited experiments and outcomes of such a policy. However, in recent months, there has been growing interest in the Universal Basic Income. Guy Standing is a British professor of Development Studies at the University of London and co-founder of the Basic Income Earth Network (BIEN). He argues that there is a "grotesque" level of wealth inequality worldwide (Standing 2019). In a new report presented in May of 2019, Dr. Guy Standing sets out how Basic Income could become a reality for the United Kingdom. As a world authority on the subject of

Universal Basic Income along with evidence of previous Pilots, Guy Standing speculates that people who have basic security tend to have an improvement in their “mental bandwidth”—They have an improvement in their mental health which in turn feeds through to their physical health. If you give people basic security their health improves. Nevertheless, this has feedback effects for the demand of health service. It could reduce the cost imposed on our national health service and lead to long-term savings (Standing 2019).

In the present day, policymakers are in a position to plan a more equitable recovery. Data has been strong in showing that the impact of the pandemic in the United States has increased inequality. The lockdowns and control measures have proven that this virus has negatively affected everyone of all income classes, but especially those who are on the lower end of the economy. This time, not only do we have an economic recession, but we also have a health pandemic. The goal of the recovery is to build the economy back to a level of sustainability as fast as possible. Nevertheless, stimulus checks, and Unemployment Insurance are only short-term relief for many individuals. Furthermore, these policies do not target everyone who needs support. Nevertheless, with the case of the Covid-19 Pandemic, it is not something that occurs, reaches its peak, and then subsides. In fact, it is not clear when the peak happened as cases are still surging across the United States as of April 2021. Many individuals may ask why UBI? Why now? To answer this question, it is important to note that along with economic sustainability, social sustainability is another pillar that must be kept in mind moving forward. UBI might be one of the elements of the policy package that will be required to contest Covid-19.

### ***Previous experiments with Universal Basic Income***

Much of the contemporary research on a Universal Basic Income program has been carried out in developing countries. However, Pilot schemes of Basic Income are also underway in countries such as the Netherlands, Finland, and the United Kingdom. These examples will show that an ambitious policy like this can be necessary in developed countries as well. The following section does not provide prescriptions for or against the idea of a UBI. Instead, it gives examples on previous experiments and how it could potentially be an attractive policy as a short-term response to the Covid-19 Pandemic. Several projects in the past have tested the idea of a Universal Basic Income. More specifically, these projects test the idea of giving out funds that

people can use however they want. There has been debate as to whether a Universal Basic Income will hinder work productivity and decrease labor force participation. However, some studies and experiments show that the UBI may even lead to increased labor force participation by alleviating different “policy traps” that limit participation (Stahl and MacEachen 2020). Nevertheless, there has been increased talk and debate about a UBI scheme in the United States amid the Covid-19 Pandemic. A Universal Basic Income would boost confidence in families and individuals who are the most financially affected by this pandemic. Below are a few experiments done on this type of policy.

### *Manitoba, Canada*

One of the most widely known experiments of a UBI program took place in the province of Manitoba, Canada from 1974 to 1978. Known as the “Mincome Program”, Canadian officials sought to address the issue of poverty and public health during the post-war period. Based on their income levels, many residents from small towns received monthly checks and were free to decide for themselves how the money should be spent. The overall goal of this experiment was to eliminate inconsistencies such as the “welfare trap” that created a disincentive to work in the form of extremely high tax rates. Furthermore, it would rid the economy of “overlap” and “gaps” that allowed families to qualify for under two or more social safety programs while others fell just short or in between programs (Forget 2011). Researchers tracked changes in the proportion of people working full- and part-time, as well as in nutrition, education, and basic health outcomes. But before the trial could be analyzed, waning funds and political change scrapped the idea, and all the data were packed in more than 1,800 boxes and stored in a warehouse. They sat there until economist Evelyn Forget at the University of Manitoba in Winnipeg brushed off layers of dust and opened the boxes and realized how successful the project had been. The skepticism for this type of unconditional security had to do with the fact that people’s incentive to work would decrease or be eliminated. However, the documents Forget uncovered revealed that teenage children in “Mincome” families completed an extra year of schooling compared with teens in similar small Manitoba towns. Hospitalizations decreased by 8.5%, with the largest drops in admissions for accidents and injuries and mental-health diagnoses. Furthermore, hospitalization costs in 1978 were around \$7.5 billion while in 2010, they were \$55 billion. Although we use hospitals much different today, there is a correlation between the guaranteed basic income and better health. Lastly, economists worried that the program might encourage

people to quit their jobs. However, Forget found that employment rates stayed the same throughout the trial (Forget 2011).

### *Finland*

Members of the research team at Kela along with the VATT Institute of Economic Research, Olli Kangas et al., (2019) conducted a two-year experiment in Sipilä's government of Finland from January 1, 2017 until December 31, 2018 to test basic income. Through random sampling, a partial basic income was granted to two thousand people aged 25-58 who received an unemployment benefit in November 2016 from Kela—the Social Insurance Institution of Finland. The goal of this experiment was to reform the issues of Finland's social security system and to see if it would promote greater participation and a stronger incentive to work compared to the present system. In this experiment, several people were provided with unemployment benefits with no obligation to seek employment and no reduction in their benefit if they found work. Although the Finnish government had chosen a partial basic income, this experiment showed higher life satisfaction, better mental health, and increased trust in authorities compared to the control group. The overall wellbeing of the basic income group was far better than the control group. However, the preliminary analysis of the experiment showed that there were no adverse effects on employment outcomes (Kangas et al., 2019). Although this was the case, those in the basic income group were more confident in their employment prospects than those in the control group. This experiment also showed that among the basic income recipients, there was heightened trust in the legal system such as the defense forces and the police. Furthermore, the basic income group noted that it gave them a heightened sense of creativity, is empowering, and diminishes financial insecurity. Nevertheless, basic income has increased confidence not only in institutions, but also in themselves and their own futures.

Lastly, a Build Back Better proposal in the UK proposes the creation of a Minimum Income Guarantee (MIG) in the United Kingdom which is built from already existing social security schemes. Every working age adult would be entitled to apply for a weekly payment worth £227 per week. A two-person household would be worth double this amount. The goal of this scheme is to provide a safety net and the pandemic "to catch people falling through existing job and

income support schemes” (New Economics Foundation). The universal payments could be scaled up in areas that need it more and scaled down in areas that do not.

### *Transitioning to the Creation of Jobs*

There is limited implementation of UBI schemes to date, which means that there is limited evidence of the implications that a UBI can bring for the outcomes of interest. Furthermore, some Pilots may still have elements of targeting. However, with the above experiments mentioned, the main similarity among these experiments is that although there is little discussion on the income or financial aspect of them, they deliver exceptional social and behavioral outcomes. There is hardly any evidence that such a policy would decrease work ethic and motivation. Rather, they have shown to increase confidence, well-being, and provide a sense of security that a job creation program may not provide, especially during a pandemic. Nonetheless, transfers may even have positive impacts on labor market outcomes when recipients use these transfers to invest in family livelihoods or in their children’s human capital (Gentilini et al. 2020). This pandemic has demonstrated how rapidly and unpredictably the situations of many, if not all Americans can change. Thus, it was more necessary to implement a Universal Basic Income, especially in the beginning of the pandemic. Although it will be universal, the idea has gained traction as a possible policy response to the Covid-19 Pandemic despite past debate and criticisms. It is common to believe that a Universal Basic Income would not suffice, since it is given to individuals who do not need it, such as the wealthy. There is also skepticism as to whether it will decrease people’s incentives to work and the cost of such an ambitious policy. However, many individuals think of it as something that reduces stress and anxiety, since it provides universal security. Concerns of the national debt will be paid for, just not right now. Such a policy is effective, especially when people’s life situations are subject to rapid change. This will be a way in which individuals can receive the support that they need during this time of economic insecurity and uncertainty. As Furman (2020) notes, even when the virus is under control, there will still be a large unemployment gap and reduced purchasing power. The number of individuals who were laid off decreased substantially from 18 million in April 2020, to 3 million in October. However, the number of people who are permanently laid off has increased by almost 3 million over the same period. Therefore, the assistance should be a function of the employment rate, meaning that “aid would scale up or down automatically with economic

conditions and provide hard-hit areas with comparatively more assistance” (Furman 2020). As of this writing in early 2021, a new Covid-19 relief bill is in the works as part of Present Biden’s fiscal relief plan for the United States.

Basic income and other forms of assistance such as unemployment insurance and state aid are all ways to boost demand quickly and efficiently. However, once there is stability and the gap is bridged between flattening the curve and getting people to find employment, then policymakers can start to shift toward more of a job-based policy. A UBI may be deemed too radical for the long-term since it completely de-links income and labor. Shifting towards a job-based approach in the near-term will connect people to jobs and get businesses to reopen. This tactic will target unemployment in the long-term and make for a “re-allocation of jobs”, rather than relying solely on basic income support. The U.S. needs a plan that gives unemployed workers an opportunity to support themselves after the necessary short-term basic relief that is imposed. At some point along the path to recovery, there needs to be a direct or indirect creation of jobs, ones that take anyone who is ready and willing to work, regardless of skill or experience, and ones where there is an infinitely elastic demand for labor created by the government. Investment to create more than a million new jobs in the next 18 months is crucial for recovery, especially jobs centered around Green New Deal projects and infrastructure. The universal public service of Green Infrastructure is a core component of a thriving society and exactly what the nation needs to address the destruction of the pandemic. This is crucial, even if it means spending more than a trillion dollars on projects such as roads and bridges, increasing energy efficiency, expanding clean energy, and hardening the economy against natural disasters. “Such spending was warranted even before the Covid-19 crisis, but the pandemic has made it even more important” (Furman 2020). Nevertheless, these new projects mean new jobs for the millions of unemployed. President Biden has a plan for launching the country’s recovery after the pandemic up until 2024, labeled by the expression “Build Back Better” (Newsroom). This campaign seeks to not just build the economy to where it was pre-Covid in which there were inequalities and structural weaknesses present in the system, but to build an economy where every American enjoys a fair return for their work and an equal chance to get ahead.

The plan to build back better also involves the “green transition” which means that infrastructure from the building of bridges, roads, and schools need to meet some sort of sustainability criteria to target an economy based on clean energy and environmental justice (Newsroom). Furthermore, this type of public investment is a direct contribution to economic activity and will provide valuable service to households and individuals in the near-term. The creation of infrastructure projects is important for the ones who are unemployed in the areas such as hospitality and leisure since it may be difficult for these individuals to reallocate themselves to different parts of the economy due to skill mismatch. As Biden quotes, “For communities of color and for young people entering the workforce, getting to full employment as fast as possible is critical to their futures and all of America’s future”. To accomplish this goal, a huge part of the Build Back Better movement is to build a stronger industrial and innovation base, a more sustainable infrastructure and clean energy future, a stronger caring economy, and advance racial equity across the country.

## CHAPTER 2

### *Previous Policy Responses*

Recessions are inevitable. As a result of the aftermath of the Great Recession and in the current Covid-19 Pandemic, the U.S. has learned that solely relying on Federal Reserve policy will be detrimental to the economy. The Great Recession had one of the slowest recoveries of the post-war period. Nevertheless, Grusky et al. (2011) speculate that the Great Recession was transformative. It was the longest post-war recession with labor market dislocations that have been particularly severe. It also differs from other post-war recessions due to the large housing component, which also led to consequences within the labor market. This section demonstrates that during the Great Recession it would have been better for policymakers to do more rather than less, and the same thing is true for the Covid-19 Pandemic. To reach this conclusion, it is appropriate to compare the responses of both crises to better address the high employment rates of the current Covid-19 Pandemic. During the Great Recession, different groups of workers were affected. However, the ones most affected came from the financial services and manufacturing sectors. Increases in public spending or tax cuts that stimulate the economy can mitigate the economic damage during a recession and hasten recovery. However, these types of fiscal stimulus often require approval from Congress and the President, which means that aid is uncertain and can be delayed by the political process or expire when support is still needed. Automatic stabilizers are implemented and then taper off as the business cycle and GDP improve. They can provide a way to inject timely stimulus and remove the uncertainty that is inherent in a political process. When paired with discretionary or direct action from policymakers, these stabilizers can be an important part of fighting recessions and cushioning their impact on families and the economy.

The Hamilton Project seeks to propose appropriate policies to promote broad-based, strong, and sustainable public growth in the long-term (THP 2021). The Project is made up of an Advisory Council of academics, business leaders, and former public policy members and produces evidence-based policy proposals that will contribute to growth and benefit more Americans in the future. More specifically, The Hamilton Project calculates America's job gaps, or the number of jobs that America needs to create to get back to pre-recession levels, while accounting for population (Hershbein and Kearney 2015). In their article, "Nine facts about the

Great Recession and tools for fighting the next downturn”, Diane Schanzenbach et al. (2016) analyze the ways in which every segment of the economy was affected by the Recession. They use data from the Bureau of Labor Statistics (BLS) and the Congressional Budget Office (CBO) to analyze how the employment losses were unevenly distributed among different groups. Fiscal stimulus was implemented with some stimulus happening automatically within preexisting programs. These stabilizers happen immediately without requiring action from Congress. Examples of automatic stabilizers used are Unemployment Insurance (UI), which supports consumption of eligible workers who lose their jobs, the Supplemental Nutrition Assistance Program (SNAP), which is formally the Food Stamp Program, and Medicaid. These programs expand as incomes decrease in the hopes of stimulating demand in the economy. Schanzenbach et al. (2016) speculate that these automatic stabilizers amounted to about 2 percentage points of GDP during the depths of the Great Recession. These lump-sum payments have proven to be an effective fiscal tool. However, how big were these fiscal responses and what groups of people did these policies reach? Which policies were more useful and reached the greatest amount of people? Although not as prevalent as fiscal policy, another tool used to foster recovery was monetary policy in which policymakers decreased the interest rate to near zero percent. The aim of such a policy is to lower borrowing costs for individuals and businesses, which was meant to encourage both immediate consumption and investment. Schanzenbach et al. (2016) also argue that the American Recovery and Reinvestment Act of 2009 (ARRA) was a major vehicle to alleviating unemployment by authorizing spending on infrastructure, health care, education, expanding automatic stabilizers, and making various tax cuts. According to the Congressional Budget Office, the ARRA bill caused GDP to be 0.4 to 2.3 percent higher in 2011 than it otherwise would have been (CBO 2015). Although unemployment recovered to a level close to pre-recession levels, there is a fraction of unemployment that remained elevated. In general, the labor market during the end of the Great Recession took longer to recover than previous downturns and in May 2016, the labor market remained weaker than the pre-recession period. This is highly due to structural changes as well as cyclical factors of the labor market.

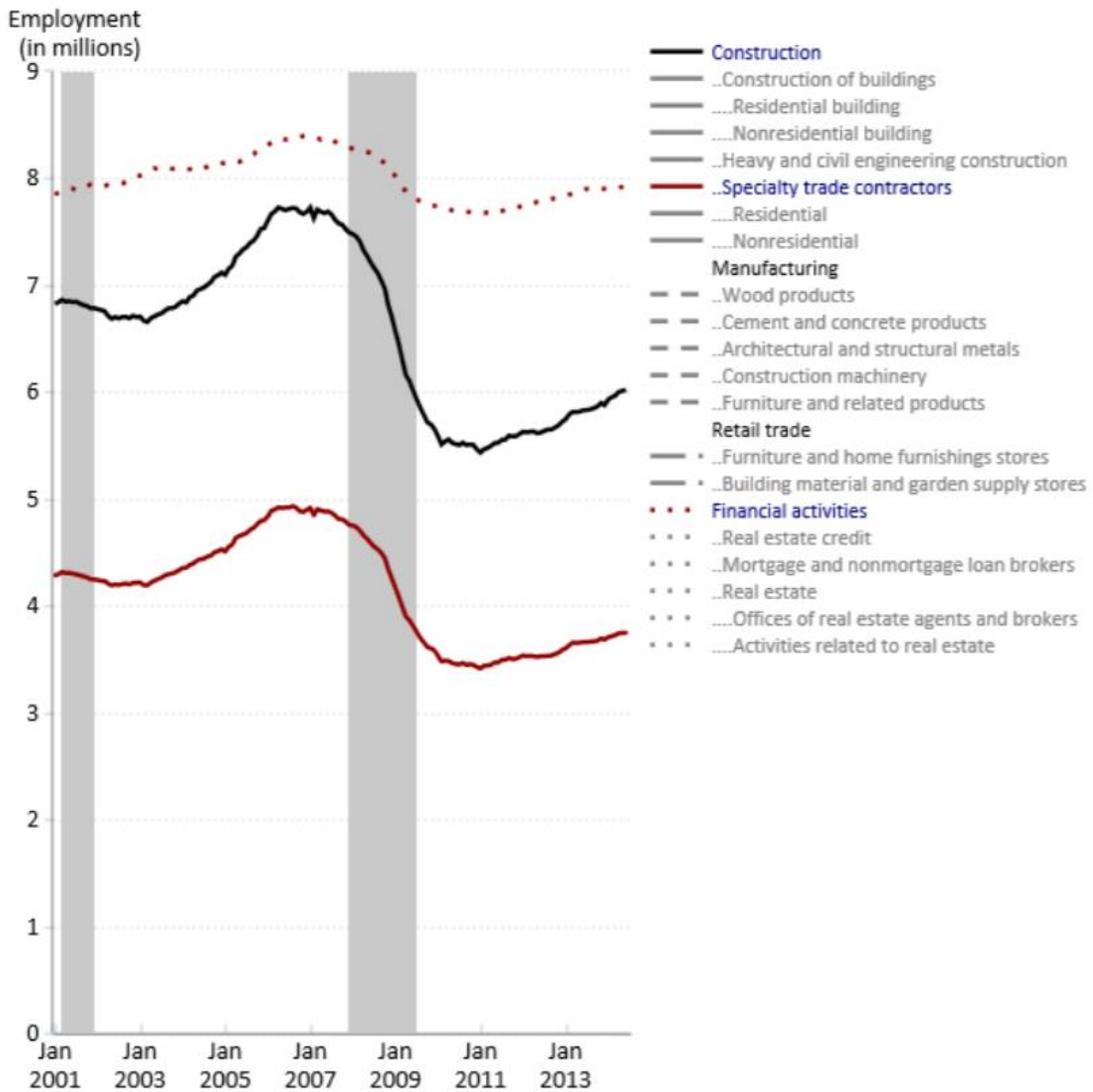
The Bureau of Labor Statistics collects and disseminates a range of economic and employment data. It produces national and regional numbers of employment, labor force participation, productivity, and wages. Data from the BLS is used in this section of the thesis, but

it is important to note that the unemployment rate measured by this agency is not completely accurate. It defines unemployment arbitrarily and only uses the U-3 measure, which is solely the official unemployment rate. It does not consider other factors such as individuals who are willing to work and actively seeking employment or discouraged workers. Furthermore, the BLS does not count individuals who use the internet as part of their job search and combines those who are part-time and full-time workers into one. In 2011, a third of those who were not considered to be in the labor force or unemployed used the internet to search for work (Faberman and Kudlyak 2016). When taking these factors into account, there are other measures of potential employment. The more appropriate route when measuring unemployment is by finding out what job-market-related activities that people were doing as a more objective way of collecting one's employment information (Komlos 2021). At the same time however, things like survey error and response bias can take place when conducting interviews on the circumstances of one's unemployment. For example, when surveying the exact market activities, the answers given could be given by social concerns. An unemployed person may claim to be "actively looking" for a job, just so they can qualify for unemployment benefits. It is reasons like this that may make the unemployment measure inaccurate. A more accurate measure also includes U-6, which adds all people marginally attached to the labor force as well as those looking for part-time employment for economic reasons.

"People marginally attached to the labor force are those who are not in the labor force, want and are available for a job, and have looked for work sometime in the past 12 months (or since the end of their last job if they held one within the past 12 months), but who are not currently looking for a job. Discouraged workers—a subset of the marginally attached—are those not currently looking for work because they believe that (1) no work is available in their line of work or area, (2) they could not find any work, (3) they lack the necessary school, training, skills, or experience, (4) employers think they are too young or too old, or (5) they would encounter hiring discrimination" (BLS).

During both recessions, unemployment affected different industries, so it is important to analyze this certain aspect when comparing the two recessions to gauge the ways in which we can go about the policy response during the present crisis. Employment in construction and financial activities were affected the most during the Great Recession. Figure 3 presents the nonfarm payroll employment of the construction, manufacturing, and financial activities sectors of the economy.

Figure 3. Nonfarm payroll employment, selected industries, seasonally adjusted, January 2001-June 2014



Source: Bureau of Labor Statistics

Note: Shaded areas denote recessions as determined by the National Bureau of Economic Research

Job losses in these sectors of the economy have led to the slowdown of the rate of growth in many ways. For example, severe job losses in the housing industries have led to a mismatch between jobs available, the skills required, and the location of the jobs. Secondly, the long-term, unemployment may have led to a loss of skills and a loss of labor force attachment. Lastly, the pace of productivity gains has decreased as a result of the crisis, as business investment declined sharply coupled with overall uncertainty (Bernanke 2012). Bernanke (2012) also states that

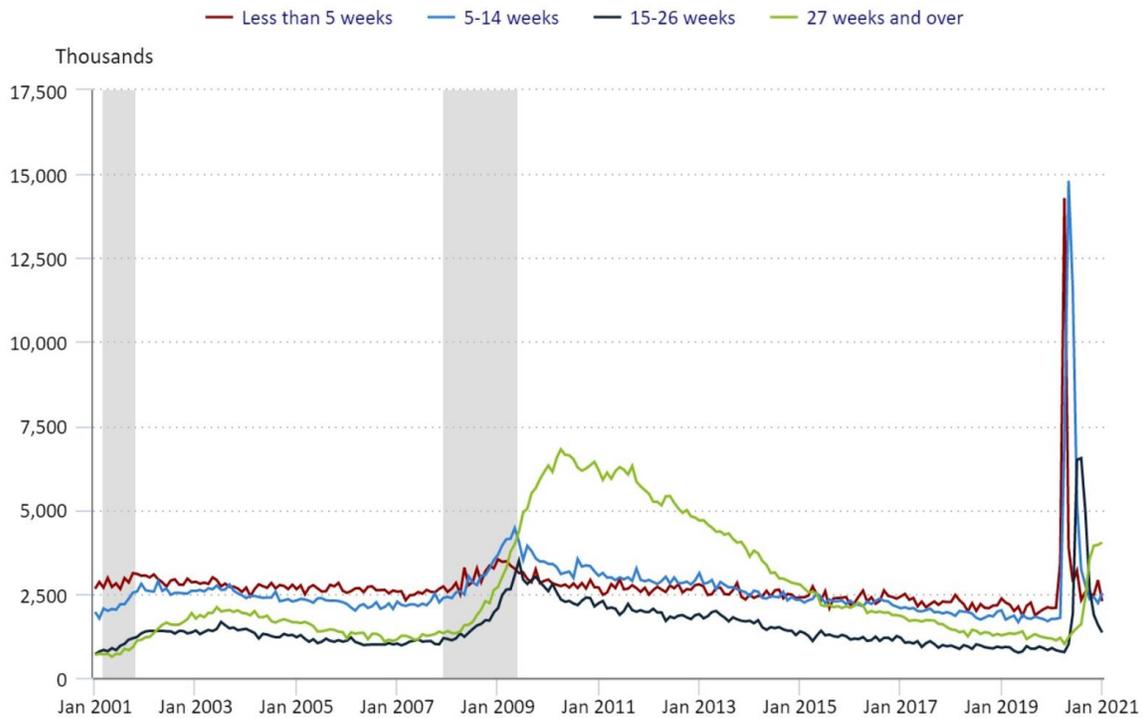
although fiscal policy was highly expansionary during the recession and early in the recovery, the support provided by fiscal actions was eventually offset by the adverse effects of tight budget conditions for state and local governments. Along with this was the phasing out of earlier stimulus programs which started to restrain GDP. Republican policymakers could have supported measures to finance long-run infrastructure finance, but they were unwilling to do so. To prevent these two issues, it was necessary to increase the federal debt limit to avoid the possibility of the default on debt. Elizabeth C. McNichol (2016) specializes in state and fiscal issues along with the economy's budget and tax system. She speculates that many states cut taxes and offered corporate subsidies in a misguided approach, rather than making infrastructure investments to boost economic growth. Nevertheless, infrastructure investments would have provided immediate job opportunities.

Safety Net Programs also play a role in the unemployment rate, especially during recessions. Although safety net programs can automatically expand during downturns and give certain people greater eligibility to receive benefits, some of the responsiveness to safety net programs were not as great as they should have been. For example, Schanzenbach et al. (2016) speculates that the Transfer Assistance for Needy Families (TANF) expanded slightly and reached only a few families, leaving many behind. Furthermore, although Unemployment Insurance (UI) responded in a more effective manner, it too left many workers ineligible to receive its benefits. The reason why so many people are eligible for UI while others are left behind is largely due to the occupational definition as well as their income. In 2010, just after the Great Recession, Boushey et al. (2019) collected data on recipients' income levels to determine which households were reached by each program. They found that UI recipients have an average family income of nearly \$60,000, whereas families with an annual income of \$20,000 or below qualify for cash welfare programs such as SNAP and Medicaid. However, these types of programs still tend to leave out some families. Nevertheless, getting money in the hands of the ones who need it most would have been ideal during the Great Recession, and should be a main priority during the current recession. During this period, UI was much more likely than the other programs to be granted to white non-Hispanics and were disproportionately granted to men over women (63 percent of recipients were male). SNAP was taken up more by women than men (85

percent were female). Nevertheless, these individuals were qualified by virtue of being custodial parents (Boushey et al. 2019).

Figure 4 represents the duration of unemployment from 2001-2021. Although long term unemployment has been declining starting from 2012, the median duration of unemployment did not return to pre-recession levels until 2017. 2010 marked the lowest point of civilian employment. During this period, layoffs declined, but job openings and hiring had not begun recovering. Those jobless for 27 weeks had overreached 6.8 million in April 2010. In 2015, the number of unemployed persons 27 weeks and over was about 2,700. According to Hershbein and Kearney (2015), the unemployment rate was 5.5 percent, which is only 0.7 percentage points higher than the day before the Great Recession started. However, there were still 8.7 million unemployed Americans with 2.7 Americans considered to be long-term unemployed.

Figure 4. Unemployed people, by duration of unemployment, seasonally adjusted



Source: U.S. Bureau of Labor Statistics.  
 Note: Shaded areas represent recessions

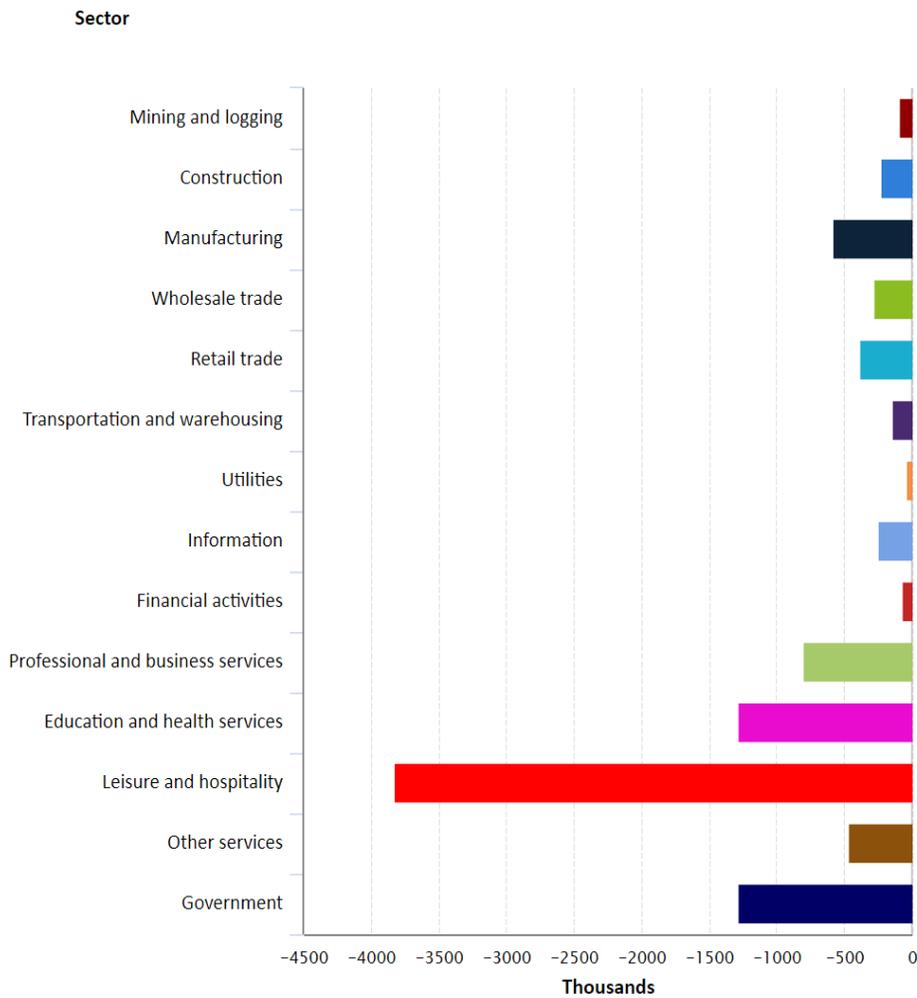
Job losses due to the Covid-19 Pandemic did not follow the same patterns as that of the Great Recession. Businesses that were deemed nonessential were ordered to pause or reduce

operations. Businesses that were essential were ordered to operate in a restricted manner. With these orders put in place to contain the spread of the virus, “the US economy contracted, and unemployment soared” (Holder et al. 2021: 105). During the present Covid-19 Crisis, unemployment has been disproportionately concentrated among lower wage and younger workers. These groups mainly work in the leisure, hospitality, and retail sectors. The kinds of systemic failures are different than that of the Great Recession. This was not a systemic failure that came about from the financial system collapse, but a systemic failure that came from the breakdown of the public health system. During the present crisis, certain types of people had to stop working and certain types of measures needed to be put into place to control the spread of the virus. The Current Population Survey (CPS) provides monthly data of about 60,000 households conducted by the Census Bureau on behalf of the Bureau of Labor Statistics (BLS). This data has shown that the Covid-19 Pandemic is considered the most unequal in modern U.S history. A report by Heather Long et al. (2020) which uses data from the CPS between February and April of 2020, shows that 10 percent of Americans ages 25 to 54 lost their jobs. People aged 25 to 54 are used in the report because this is “prime” working age. By August 2020, employment had recovered to the same levels as in November of 2011, just about two years after the Great Recession where the economy was still suffering from “economic malaise”. About half of the employment lost between February and April of 2020 has been recovered. Yet, this recovery is very uneven. Overall, the U.S. economy has regained almost half of the jobs lost since the start of the pandemic. Moreover, there are a few demographics that show how some groups have recovered more slowly than others. White Americans have recovered more than half of their jobs lost between April and February, while Black Americans have recovered just over a third of employment lost in the pandemic with the pandemic taking the worst toll on younger individuals. Those aged 20 to 24 lost employment in the early months of the pandemic. Those aged 25 to 34 have recovered only 43 percent of lost employment.

Most recessions, including the Great Recession have seen the construction and manufacturing sectors most affected. However, as of February 2021, leisure and hospitality, education, health services, and professional and business have the greatest decrease in the number of employed people since the start of the pandemic as shown in Table 5. The leisure and hospitality industry consists of jobs in restaurants, hotels, and entertainment venues, jobs that disproportionately employ women, minorities, and lower-income workers such as college-age

people. Particularly, the Covid-19 Pandemic has had more intense ramifications for Black women who are employed disproportionately in jobs in hotels, restaurants, healthcare, retail, and social services industry. These jobs are also ones that offer lower wages (Holder et al. 2021). Furthermore, these are also the jobs in which person-to-person contact is necessary but had to be delayed or reduced for some time due to containment and social distancing measures.

Figure 5. Employment change by industry, February 2021, seasonally adjusted, 12-month net change



Source: U.S. Bureau of Labor Statistics

The pandemic had affected all social classes, especially the lower- and middle-class families. However, by the end of the summer of 2020, the pandemic was largely over for the wealthy in that white-collar jobs had mostly rebounded, and many, specifically people with

bachelor's degrees or higher, were able to work from home. Jobs in these sectors were almost back to where they were pre-Covid in quarters three and four of 2020. According to a Federal Reserve survey, 63 percent of workers with college degrees could perform their jobs entirely from home, while only 20 percent of workers with high school diplomas or less could work from home. In addition, 27 percent of people who completed some college, or an associate degree were also able to work from home (Federal Reserve). Because of this disparity, there must be targeted cash transfers that are tailored to the populations that are at a disadvantage. It is evident that recessions increase unemployment more for individuals with lower educational attainments, and this is a common feature of U.S. business cycles (Hoynes et al. 2012). Racial and ethnic minorities were more likely to lose their jobs during the pandemic as they are more likely to be employed in leisure and hospitality occupations. Nevertheless, these groups of people were less likely to be able to work from home as well (*Frontline* 2020). Through this pandemic, while everyone sees that they are all being impacted, it is evident that some communities are being harmed disproportionately, and those communities were the ones that were left out of any assistance from the federal level, which means that there must be a more sufficient policy put in place for future downturns. Furthermore, individuals who work in the leisure and hospitality sector like restaurants, bars, movie theaters, and hotels most likely live paycheck to paycheck. While most sectors are not operating at pre-recession levels, the service sectors are well below pre-recession levels of output and employment and are limited in recovery due to containment measures and policy restrictions. This in turn affects both production and consumption. What seems like the only way that these sectors could be helped is to wait for Covid to completely go away so that these parts of the economy could reopen. For this reason, it is reasonable to implement cash transfers that are better targeted.

## CHAPTER 3

### *Crafting a Policy Response to Covid-19*

Although the Great Recession made for a slow recovery, this is expected in recessions tied by financial crises. Nevertheless, it is the case that without the fiscal stimulus enacted, the recovery would have lasted even longer. However, after the recession's trough in 2009, employment and the pace of job growth took about 51 months to reach its pre-recession peak, which is longer than the three recessions before this one (Bivens 2016). However, with the mass employment lost, it would have been adequate if part of the recovery focused on the creation of jobs to boost aggregate demand. This would have gotten individuals the employment that they lost, rather than certain fiscal stimulus that phased out too quickly. Thus, Democrats during the Great Recession felt as though they did too little. During the Covid-19 Pandemic, they have decided that they want to do too much. The nature of this crisis has proven to be significantly different than that of the Great Recession being that it has hit companies and jobs first, rather than the financial sector. The appropriate measure must tailor to the situations of different firms and households alike who are experiencing unemployment in the quickest way possible. The idea of a Universal Basic Income was once a fringe idea but has evidently made its way into mainstream conversation due to the Covid-19 Pandemic. If the United States is in the lockdown, it is not adequate to push for an Employer of Last Resort Program, or other types of direct job creation.

A Universal Basic Income is a proposal for a type of cash transfer program. However, the benefits it brings such as increased confidence and overall financial security will not hold if such a program is short-term. Secondly, a UBI is universal, general, and must be a permanent program. In the beginning of the pandemic, the economy was suspended due to containment measures and stay-at-home orders. This caused many to lose their jobs, which called for a certain solution since direct job creation was not the most pragmatic option, since jobs were not available. The United States economy simply needed something to bridge the gap between flattening the curve of the virus and getting people to find employment. Universal Basic Income seemed like an attractive policy, especially in the beginning of the pandemic to bridge this gap. However, having a universal program is not the most appropriate to solve the problem because the United States needed a short-term fix for the supply chain disruptions and unemployment

across many sectors, especially leisure, hospitality, and retail. Another reason why a universal program is not a viable option is that due to supply side problems and changed behavior that the pandemic has caused, universal payments to households will most likely only cause saving rather than spending. The United States needs a more efficient policy rather than universally supplying cash to every household. Third, if individuals start receiving universal payments that automatically stop at some point, they might wind up in the same position of financial insecurity that they were in before the universal payments began. Finally, although simple in theory, a UBI could prove to be more challenging in practice because a UBI must be compared to the existing system considering certain metrics.

“These metrics are coverage, level of progressivity, adequacy of transfers, household incentives and behavioral responses, costs, financing options, political economy, and delivery. No program would score optimally on all dimensions, nor utterly low on all of them. Clearly, societies may place a particular weight on some metrics as opposed to others; for example, some may favor coverage, others progressivity. Therefore, the art of decision making would hinge on an understanding of the trade-offs across the overall collection of implications that span between a UBI and the counterfactual (the existing system)” (Gentilini et al. 2020)

A better policy response, instead, includes contractual payments as a viable option when the economy is suspended from production and people are out of work. Because the United States is entering a period of recovery due to the virus subsiding, there will be a transition to a “green recovery”, with a Job Guarantee, or an Employer of Last Resort Program also being a targeted program. Therefore, given the current conditions of the economy, especially in the beginning of the pandemic, it would have been best for households to receive cash transfers that were better targeted overall to the groups that need it the most, conducted in an ex-ante manner. Looking back at what happened during the Great Recession in the years of 2008 and 2009, there was evidence of targeted transfers that were executed inefficiently. For example, The Economic Stimulus Act of 2008 and American Recovery and Reinvestment Act of 2009 granted tax rebates and income to households that only reached a certain threshold. Similarly, during the present crisis, there were also problems with targeting of the cash transfers.

Thus far, there is no current program to adequately deal with the negative effects of the Covid-19 Pandemic such as widespread economic disruption, mass illness, and death. However, as of this writing in the beginning of 2021, there is a fiscal relief plan in the works for families

and children. This pandemic has shown the shortcomings of the United States social safety net and the need for it to be expanded. The Covid-19 Pandemic has been met with the need for an extraordinary policy response. The current social safety net has transformed towards a more work-conditioned safety net, with chances to increase incomes where lost, but offers little out-of-work assistance (Bitler et al. 2020). Recessions largely consist of automatic increase in Unemployment Insurance and Supplemental Nutrition Assistance Program. Although UI and SNAP were the two main income stabilizers in the first few months of the pandemic, this was an inadequate response due to the magnitude and mass unemployment. Furthermore, they were not implemented as rapidly as they should have been. From the beginning of the pandemic, jobs were rare, unemployment was high, and social distancing measures were put into place, such as stay-at-home orders. Therefore, this would have been a viable period for a cyclical policy put into place. As seen in the previous chapter, the unemployment collapse was the heaviest in the leisure and hospitality sector along with the educational services sector. More specifically, the sectors that gained the greatest brunt of the pandemic include restaurants and retailers. Conversely, during the Great Recession, unemployment was the highest in the construction and manufacturing sectors. Due to the nature of fiscal policy and the speed at which it is implemented, there must be programs that are better targeted.

Compared to the Great Recession, the economic activities unfolded rapidly during the Covid Crisis. This tells policymakers that the policy response must be ambitious and long-lasting in that each day brings about more news about the unfolding of the global health crisis. Jason Furman (2020) states that there are three constraints to crafting a policy response to the pandemic. The first is uncertainty, given that we do not know the duration of the pandemic as of this writing, the duration of the measures used to contain propagation of the virus, or how both factors will affect the economy in the long run. The second is time.

“The change in economic activity has been larger and more abrupt than anything anyone has ever experienced on a global basis. The US housing bubble peaked in 2006, European financial institutions started to have problems in the summer of 2007, economic activity slowed over the course of 2007 in the United States, Bear Stearns needed to be rescued in March 2008, and Lehman Brothers collapsed in September 2008. At times events went quickly, but for the most part the economic situation unfolded slowly. In contrast, each day brings more news about the pandemic and more news about economic closures. Policies that are operational as quickly as possible are necessary” (Furman 2020).

The third is capacity. “During the financial crisis, government employees showed up at their jobs; now many are teleworking and likely all will be soon. Many are scared and distracted by the spread of the virus. Some will get sick and die, or if they do not will care for and grieve for others who do. All of this applies to the people developing policies in places like legislatures, finance ministries and central banks. It also applies to the people implementing the policies. At the best of times, it is hard to implement administratively complex new policies. And these are not the best of times” (Furman 2020: 193). The pandemic has demonstrated how fast the economy and employment could unravel in a matter of just a few months. During this crucial time, it is important to craft a policy response that is persistent, bold, and will not leave anyone out, even if the policy reaches the same people and businesses twice, “the risk of duplication is much smaller than the risk of over-targeting that leaves many out” (Furman 2020: 194). Based on the previous section of this thesis, the appropriate policy response is one that does more rather than less, even if it benefits the ones that do not need it. Based on the duration of unemployment of all the sectors of the economy, it is crucial that a policy be implemented that, due to the inherent systemic shortcomings social security programs, do not leave anyone out, especially the ones most in need. Nevertheless, the ones that do need it the most will likely spend whatever money is given to them, thus boosting economic activity and demand.

The cost of substantial transfers could possibly mean a reduction in existing social protection spending, a reduction in regressive subsidies, and increased taxes (Gentilini et al. 2020). However, the cost of a program such as basic income can always be paid for by a sovereign currency nation. As Tcherneva (2007) puts it, “in a modern market economy, unemployment is always and everywhere a monetary phenomenon that can be effectively addressed with a proper application of sovereign finance”. Although this is the case, the government still needs to be careful in what programs they need to finance to maintain the value of the currency. Cash transfers play a prominent role during recessions. In the United States, cash transfers such as the Coronavirus Aid, Relief, and Economic Securities (CARES) Act, the Families First Coronavirus Response Act, and the Transfer Assistance for Needy Families (TANF) Act were some of the programs that were implemented in the beginning of the pandemic. However, these transfers were short-lived, were likely to leave out ones who were more vulnerable to the pandemic and were simply not enough to sustain households throughout its long duration. Furthermore, TANF are non-entitlement programs that are rationed, have fixed

budgets, and usually only cover individuals with long histories of earnings or significant levels of current earnings (Moffitt and Ziliak 2020). The issue lies in being able to identify the individuals who most need this support and how to implement this support before there is unemployment and loss of income. There simply needs to be the development of macroeconomic triggers that provide additional guidance during downturns that could scale up and increase coverage during hard times. During non-emergency situations, the United States can rely on Unemployment Insurance and other social insurance programs that deal with cyclical movements of the business cycle. However, in the context of the current crisis, these approaches may be inappropriate as they require significant amounts of time and resources. Unemployment Insurance is a program that is narrowly targeted and is a state benefit whose benefits vary across states, making it less responsive to recessions than other countries (Moffitt and Ziliak 2020). Furthermore, it is targeted to assist the involuntary unemployed “who meet requirements to past earnings in a UI-eligible job, who are paid a benefit which is a fraction of past wages for a certain maximum duration, and who must meet certain job search requirements” (Moffitt and Ziliak 2020). The Covid-19 Pandemic affected all states across the country. For this reason, crafting a national policy requires a coordinated program among all fifty states. Secondly, the policy must be correlated to addressing the health response across the nation, allowing targeted transfers that are implemented before the destruction.

Certain occupations in the leisure and hospitality sectors include the informal economy, making them more susceptible to the destruction of Covid-19 since they rely solely on their daily incomes for subsistence (Canedo et al. 2020). What the United States social safety net needs is a “Pandemic” response, one that has a strong countercyclical response to deal with negative business cycle shocks like that of Covid-19. A pragmatic option is a government response that understands the risks for the health sector and recognizes that these health sector risks lead to economic risks. The United States needs a policy that could be implemented quickly, implement a targeted structure of expenditures that allow for basic survival in times of a health and economic crisis. For example, policy would be automatically triggered by increases in the unemployment rate and shutting off when recovery takes place. This will resolve the current issue that occurred with the current system, such as delays in the receipt of payments that were authorized, modest benefit levels, and holes in coverage. Due to the onset of the pandemic, there was a substantial delay in payments to households. Furthermore, some of these holes in coverage

include people who are self-employed, not eligible to work legally, or those who do not meet work history requirements, such as unauthorized immigrants. Although UI serves the majority of the unemployed, Bitler et.al (2020) speculate that this program is far from universal and is slow to reach many of the unemployed such as those that have low levels of education. The UI system should be redesigned for recessions to reach a larger share of disadvantaged unemployed workers during recessions. For example, the pandemic expansions to UI should permanently extend coverage to self-employed and gig workers and to those with limited work histories (Bitler et al. 2020).

In short, a possible reform for future recessions and pandemics should include automatic triggers to Unemployment Insurance (UI), Supplemental Nutrition Assistance Program (SNAP), and Transfer Assistance to Needy Families (TANF). These programs must be redesigned to respond to future economic and health crises like that of the Covid-19 Pandemic. Although there is a \$1.9 Trillion Relief Bill in the works as of Spring 2021, the destruction and mass unemployment due to the pandemic would have been much less if ad hoc legislation would have been put in place starting from the onset of the pandemic in early 2020. Along with automatic triggers, social safety net policy reform should also expand the generosity and populations that do not receive as much coverage during negative business cycle shocks and even through recovery periods. However, it is the case that some states have IT systems that are more efficient than other states which caused major delays in processing applications. A solution to this is to have federal subsidies granted to the states that do not have a strong IT system to ensure that coverage is extended to groups like gig workers, part-time workers, and the self-employed (Moffitt and Ziliak 2020). The response in the beginning of the crisis should have been a more efficient use of targeted cash transfers. Nevertheless, The United States must be prepared for the possibility that new pandemics will emerge and act on ways in which to make the response more cyclical to the recession that it causes, so that transfers and assistance arrives sooner rather than later.

Throughout 2020 and into 2021, Covid-19 has evolved. A return to a normal existence is in sight and many aspects of social and economic life can continue again without fear of the virus. In turn, it is necessary to transition to an economy centered on the creation of jobs, infrastructure projects, and Green New Deal projects. A Job Guarantee Program focusing on

these types of aspects will act as a buffer stock of labor, creates stability of the wage, and creates confidence in the labor force, especially to those who have lost their job as an effect of Covid-19. Therefore, employment should be available to the individuals that were employed in sectors that were negatively affected such as the leisure and hospitality sectors so that in the future, they could be reintegrated into the labor market. As of 2021, President Biden has a \$1.9 trillion Stimulus Plan for recovery. Part of this plan to alleviate the economic toll consists of adding jobs that help fight the pandemic itself such as enlisting people through a Public Health Jobs Corps (Newsroom). These types of jobs may spur the need for specific skill sets which means that investments need to be made for workforce training and education, so that people will maintain their skills if there is a recession. Specifically, this is essential for women and people of color who have been disproportionately impacted by layoffs. Nevertheless, women and people of color represent the ones who partake in low-wage leisure and hospitality roles where they may not have the skills yet to move between companies and sectors. It is for this reason that along with better targeted programs, there needs to be an Employer of Last resort Program that can attune to the changes of the labor force and tailor to those sectors of the economy that were the most affected. A jobs creation program would also serve as a benefit to returning veterans and individuals who were formerly incarcerated, groups who are also subject to discriminatory exclusion in the labor market. Another part of his plan is to add jobs that bolster the caregiving and education workforce, which will help to ease the burden of care for working parents, especially women.

## CONCLUSION

The Great Recession resulted from financial imbalances, starting from the housing sector. Employment collapsed mainly in the financial services and manufacturing sector. At times events went quickly, but for the most part the economic situation unfolded slowly from the time of the unraveling of the U.S. housing market and mortgages, until the collapse of the Lehman Brothers in 2008—and then from there, things got much worse. The employment loss during the Great Recession was about 8.7 million in total. Contrarily, the Covid-19 Crisis of 2020 resulted from an external factor. It is attributable to a public health crisis, not the standard business cycle. During the current crisis, the United States lost 1.4 million in March 2020 alone and another 21 million in April 2020 (Fazzari 2020). This thesis considers the issue of a policy response that accommodates structural changes triggered by the current Covid-19 Pandemic. It addresses the problem of inadequate targeting of support and how to go about creating a more efficient method of cash transfers that respond in an ad-hoc, counter-cyclical manner for future recessions and pandemics of similar magnitude. For the present crisis, the second objective is to rebuild the economy back stronger than it was prior to the pandemic through job creation and a “green recovery”, which is designed to reacquaint those who have lost their job and have been long-term unemployed. The end goal was to encourage long-term resilience and economic sustainability despite the economic destruction that the pandemic has caused.

Public spending, tax cuts, and automatic stabilizers are often used during recessionary times and these were the measures that were enacted during the Great Recession. However, unemployment in many sectors remained well after the recession was over. By 2018, however, there were more job openings than there were jobseekers, proving that the recession and the problem of unemployment had officially ended. Certain transfer payments such as the Supplemental Nutrition Assistance Program (SNAP) and Unemployment Insurance (UI) provided a much-needed safety net to many households. Both policies acted as a counterforce to the economic shock due to their ability to increase government spending and offer expanded income support. However, with these specific transfer programs, there are specific eligibility requirements such as income thresholds needed to receive and be deserving of such transfers during recessions, leaving many households out, especially the ones on the bottom of the income distribution. Furthermore, the American Recovery and Reinvestment Act of 2009 proved to be too small and too short-lived, justifying the need for a bigger policy, one that “would

automatically deliver fiscal relief to state governments that is calibrated to the magnitude and persistence of weakness in state economies” (Fiedler et al. 2019).

The rise of the Covid-19 Pandemic has forced policymakers and the government to rethink the responsiveness of the safety net during the mass unemployment and recessionary nature of the current downturn. Within a matter of weeks, this pandemic brought about a rapid decrease in employment in the retail, leisure, and hospitality sectors of the economy, sectors where the individuals who are most employed include minorities, women, and young workers. Nevertheless, the response has inadequate targeting of support, which failed to tailor the response to situations of different firms and individuals of certain income levels. This thesis sought to highlight the structural changes that the Covid-19 Pandemic has brought about and provide a guide to policymakers on how to best alter their responses based on the previous recession. A better safety net would have automatic triggers prompting expansions in times of need without requiring local, state, or federal interventions, such as universal relief to households and businesses for the abrupt losses of income in a targeted manner. If these automatic triggers were implemented at an earlier time of the pandemic, there is a chance that the United States would have recovered much sooner from the destruction and unemployment. Long-term recovery would make room for the “greening” of the economy through infrastructure projects and job creation for those who have been unemployed for some time to safeguard economic prosperity for the long-term.

The Covid-19 Pandemic has shown us the need to create more dynamic and responsive safety nets to prepare for future crises and to respond in a way that grants an adequate safety net in the event of rapid employment loss, tailored to populations who are likely to be more affected. Governments can respond more quickly and effectively during emergencies if they prioritize building flexible administration and data-management systems to scale programs up and down as needed. Some of the current programs in place tend to leave many out. The United States often places emphasis on work incentives. Employment incentives are useful in that they act as a buffer stock for labor, stabilize the wage, and act as a stable floor to demand with many other benefits. However, in times of health crises that evolve into economic crises, there needs to be a stronger safety net. There needs to be a safety net that delivers more insurance in the form of cash transfers that are targeted more sufficiently than the system already put in place, as the

current system is ill suited to protect against high unemployment. Even before the pandemic, many called for the adoption of social protection systems that are less dependent on formal employment. Possible reforms for future recessions and pandemics should take the form of automatic programs that respond to negative business cycle shocks like that of the Covid-19 Pandemic. This in turn could then evolve into a transition to an economy in which direct job creation as a viable option for groups that were the most affected by negative economic shocks.

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