Protecting Workers and Businesses in the COVID Crisis

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BY JARED BERNSTEIN, ANTONIO WEISS AND MARK ZANDI

A staggering nearly one-third of American workers have taken a direct financial hit from the COVID-19 pandemic, either through a lost job, lost hours, or a pay cut. With the resurgence of infections causing businesses to shut down again in many parts of the country, and paralyzing others due to the uncertainty over how bad the infections will get, it is not far-fetched to think there will be more job losses in coming months. Even if not, both the Federal Reserve Board and the Congressional Budget Office expect that the economy will continue to struggle with near double-digit unemployment into next year.

Lawmakers are thus appropriately considering another round of fiscal support for the economy. A critical question is whether this additional help should be provided through the same mechanisms used to date. For households this would largely mean extending unemployment insurance benefits and perhaps another stimulus check. For small businesses, this would mean more loans and grants to offset some of their payroll and operating expenses. However, several lawmakers are working on an alternative approach that would combine these supports through employee retention programs. Hard-pressed businesses would temporarily receive funds to keep workers on their payrolls and to defray some of their operating expenses.

There is widespread support by the American people for another economic package that includes such help to businesses and workers. A recent poll conducted by the PEW Research Center found that a majority of Democrats and Republicans favor such a package, and almost 90% of respondents think an employee retention program should be part of it. Only proposals to prevent foreclosure and evictions are equally as important to people.

A limited version of this alternative approach, the Employee Retention Tax Credit, was part of the CARES Act, the largest of the fiscal rescue packages passed so far. The ERTC in the CARES Act is a fully refundable tax credit to partially offset the payroll costs of businesses and tax-exempt organizations whose operations have been severely disrupted by the virus. But the credit has seen limited take-up due to several design features. It offsets only 50% of payroll costs, is limited to $5,000 in wages per employee, and businesses must experience a 50% year-over-year quarterly decline in their gross receipts to qualify, which only the hardest-hit businesses in the airline, entertainment, mining, restaurant, retail and travel industries have suffered, at least so far (see Table 1). Moreover, employers with more than 100 employees can only claim the credit for the wages of their furloughed employees.

Lawmakers have come forward with several proposals to significantly expand or replace the ERTC. An expanded ERTC proposed by Democratic Representatives Murphy, DelBene and Pappas and Republican Representatives Katko and Fitzpatrick was included in the HEROES Act recently passed by the House. A much more expansive proposal has been made by Democratic Congresswoman Jayapal in the Paycheck Recovery Act. There is also support in the Senate, with Democratic Senators Warner, Sanders, Jones and Blumenthal's Paycheck Security Act, and Senators Van Hollen, Merkley and Murphy's Rebuilding Main Street Act. There is bipartisan support for this approach, with Republican Senators Hawley and Gardner's Rehire America Act (see Table 2).

In this paper, we outline the potential benefits of an expanded employee retention program.We use the term "employee retention" to refer to programs that provide incentives to firms to maintain their payrolls, as distinguished from the narrower reference to the "employee retention tax credit." By keeping workers on the job—or enabling employers to rehire them—an employee retention program would provide effective and cost-efficient support to workers and businesses. It would also help to facilitate the economy's full recovery. The proposed policies all expand the support that would be provided though how they do this, to what degree, and their budgetary costs differ. Regardless, all would be effective to varying degrees in supporting businesses and workers and shoring up the economy through the pandemic.

Table 1: The Pandemic Has Hit These Industries the Hardest

Business-to-business spending, May 2020

3-digit NAICS		Employment ths	B2B spending % change yr ago
	All industries	150,935	-12.1
512	Motion Picture and Sound Recording Industries	443	-72.0
712	Museums; Historical Sites; and Similar Institutions	173	-70.9
213	Support Activities for Mining	343	-69.9
711	Performing Arts; Spectator Sports; and Related Industries	517	-69.5
721	Accommodation	2,077	-68.4
448	Clothing and Clothing Accessories Stores	1,299	-67.0
336	Transportation Equipment Manufacturing	1,734	-63.9
487	Scenic and Sightseeing Transportation	36	-60.7
316	Leather and Allied Product Manufacturing	27	-53.5
481	Air Transportation	503	-50.2
114	Fishing; Hunting and Trapping	8	-48.5
713	Amusement; Gambling; and Recreation Industries	1,745	-47.4
451	Sporting Goods; Hobby; Musical Instrument; and Book Stores	550	-47.2
212	Mining (except Oil and Gas)	191	-44.3
486	Pipeline Transportation	51	-43.5
211	Oil and Gas Extraction	99	-41.5
722	Food Services and Drinking Places	12,069	-41.5
315	Apparel Manufacturing	110	-41.4
483	Water Transportation	66	-38.4
236	Construction of Buildings	1,660	-38.0
531	Real Estate	1,718	-35.2
622	Hospitals	5,198	-32.0
332	Fabricated Metal Product Manufacturing	1,491	-31.4
337	Furniture and Related Product Manufacturing	388	-30.7
333	Machinery Manufacturing	1,126	-30.0
511	Publishing Industries (except Internet)	760	-29.7
525	Funds; Trusts; and Other Financial Vehicles	16	-29.3
812	Personal and Laundry Services	1,525	-29.1
485	Transit and Ground Passenger Transportation	499	-28.3
331	Primary Metal Manufacturing	385	-28.3
323	Printing and Related Support Activities	425	-27.4
324	Petroleum and Coal Products Manufacturing	114	-27.2
482	Rail Transportation	175	-26.5
326	Plastics and Rubber Products Manufacturing	737	-26.0
515	Broadcasting (except Internet)	266	-25.8
447	Gasoline Stations	945	-25.2
453	Miscellaneous Store Retailers	834	-24.3
335	Electrical Equipment; Appliance; and Component Manufacturing	405	-22.9
313	Textile Mills	109	-20.0

Sources: Cortera, Moody's Analytics

Benefits of employee retention

The worker retention programs have several advantages over the current policies.

First, they will financially support workers by allowing businesses harmed by the pandemic to avoid layoffs, rehire workers, and maintain their payrolls. While economic activity has begun to revive, many businesses continue to operate at limited capacity and face the risk of future disruptions if the current re-intensification continues or there a serious second wave of the virus in coming months. As a result, unemployment is expected to remain high for the next several years, creating significant financial strain and uncertainty for millions of working families.

Countries that have implemented employee retention policies have demonstrated their potential to directly support workers and reduce layoffs and unemployment (see Table 3). Indeed, the U.S. has the ignominious distinction of suffering the largest increase in unemployment of any major economy (see Chart 1). The U.S. unemployment rate surged to nearly 15% in April and closer to 20% after

Table 2: Proposed Enhanced Employee Retention Tax Credit Programs

Program	Who is eligible	Revenue decline threshold	Company size	Payroll benefit	Health benefits	Operating expense benefit	Period	Static budgetary cost: $ bil	Static budgetary cost: $ per employee	Employees mil
Current ERTC	Businesses, nonprofits	50%	All businesses, with limits on businesses with over 100 employees	50% of wages up to $10,000 per qtr	No	No	Mar 12, 2020 to Jan 1, 2021	55	7,166	7.7
Paycheck Guarantee Act	Businesses, nonprofits, S&L govt	10%	All businesses	100% of wages up to $22,500 per qtr $90,000 annual limit	Yes	25% of wages	Mar 2020 to 7% unemployment rate	1174	32,255	36.4
Paycheck Security Act	Businesses, nonprofits	Phase in from 15% to 20%	Businesses with less than $1 billion in gross receipts in 2019 and with cash equivalents of less than 150% of wages	100% of wages up to $22,500 per qtr $90,000 annual limit	Yes	5% of gross receipts for firms with less than $41.5 million in gross receipts	Through Jan 1, 2021	520	20,501	25.4
Expanded ERTC in HEROES Act	Businesses, nonprofits, S&L govt	Phase in from 10% to 50%	All businesses, with limits on businesses with over 1,500 employees or $41.5 million in gross receipts	80% of wages up to $15,000 per qtr $45,000 annual limit	Yes	25% of wages $50,000 limit	Mar 12, 2020 to Jan 1, 2021	194	11,659	16.6
Rehire America Act	Businesses	20%	All businesses	120% of wages up to $50,000 for rehired workers 80% of wages up to $50,000 for existing workers	NA	Yes	Through Jan 1, 2021	NA	NA	NA
Rebuilding Main Street Act	Businesses, nonprofits	Phase in from 20% to 50%	All businesses	Work-share unemployment insurance ERTC for wages not covered by work-share	Yes	Yes	Through Jan 1, 2021	NA	NA	NA

Source: Moody's Analytics

Chart 1: Virus Hits U.S. Job Market Hardest

Unemployment rate, %

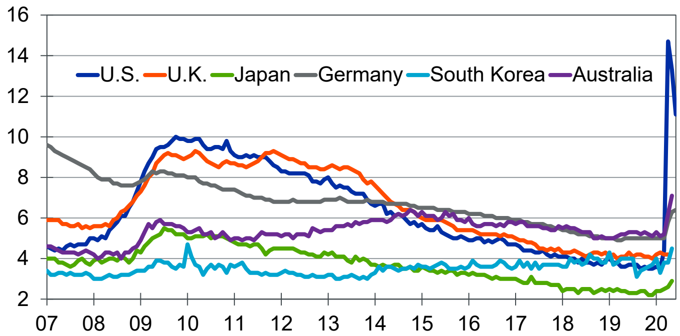
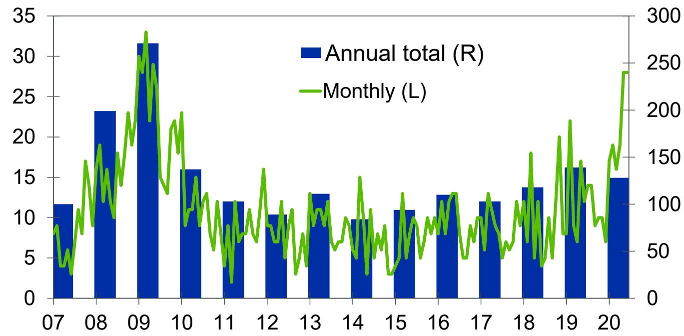


Chart 2: Business Bankruptcies Surge

Chapter 7 & 11 filings, businesses with liabilities >$50 mil



Sources: Bloomberg, Moody's Analytics

accounting for various measurement issues. Next closest is Canada—which was slow to implement its wage subsidy program and as a result has had reduced take-up. On the other hand, Germany, which expanded its existing work-sharing program, and Australia, which acted quickly to implement new policies, have unemployment rates close to 6%, and Japan's unemployment rate is still near 3%. There are many factors contributing to these differences, including the severity of the pandemic and the effectiveness of managing the pandemic in these countries as well as variations in existing labor market structures and worker protections, but whether and how quickly employment retention policies have been implemented go a long way to explaining them.

Second, by helping businesses retain and rehire workers, employee retention programs utilize existing payroll systems to provide uninterupted financial support to workers. This will reduce pressure on the nation's unemployment insurance system, which is creaky at best and demonstrably struggling to meet the demands it faces. Some states are still trying to catch up with the overwhelming number of unemployment insurance claims they received early in the crisis. There are anecdotes of unemployed workers who have filed for UI going back to their jobs even before receiving any benefits. Getting workers back on payroll, particularly with policies to make sure their employers can pay them at least as much as they would receive under the current expanded UI benefits, would also eliminate the concern that UI can create disincentives for the unemployed to get back on the job. Employee retention programs also have the benefit that workers continue earning credits for Social Security, Medicare, disability insurance, etc. Workers on UI, even if generous, miss out on these benefits.

Moreover, keeping workers on payrolls will allow them to remain on or return to their employer-sponsored health plans. While the unemployed can use COBRA or Medicaid (public coverage for low-income households), this can be costly for hard-pressed households (in the case of COBRA) and federal and state governments (in the case of Medicaid) while creating unnecessary stress and disruption.

Third, these policies can create stronger connections between workers and employers that will help facilitate the economic recovery. Many employers have initially furloughed workers rather than laying them off, but in most cases these employees are not receiving any pay or benefits and they have no guarantee of being brought back. Though most employers say they intend to eventually rehire furloughed or laid-off workers—the share of unemployed workers on temporary layoff is at record highs—the longer the crisis lasts, the more the employer-worker relationship becomes attenuated and difficult to re-establish. Expanded unemployment insurance has provided vital support to hard-pressed workers who have lost their jobs, but it would be unrealistic to expect millions of laid-off workers to seamlessly transition off UI into new jobs when economic activity resumes. By keeping workers connected to their jobs, employee retention policies allow a smoother and stronger recovery as reopening progresses.

Fourth, the principal beneficiaries of employee retention programs are lower income Americans hit hardest by the pandemic. Approximately just over one-third of the benefit of the programs considered in this paper would go to workers in the bottom quartile of the wage distribution, another one-third to the second quartile, one-fourth to the third quartile, and not quite one-tenth to the top quartile.

Finally, the employee retention programs will help businesses avoid failure or bankruptcy while ensuring that most of the benefits ultimately flow to workers. In addition to subsidizing the cost of wages, some proposals include partial subsidies for operating expenses such as rent, utilities and debt payments, and others provide tax credits to ease the cost of investments needed to restart their business. Without support, business bankruptcies and failures, which are already on the rise, could be significant enough to impede the economic recovery (see Chart 2). Many workers now believing they will return to work at these businesses will be disappointed. Research based on the experience of the financial crisis supports the view that spikes in bankruptcies contribute to a slower economic recovery.

Moreover, the support provided to businesses would allow them additional flexibility to open gradually and avoid re-igniting the virus. Given the financial pressures that businesses and their workers are under, many feel they have little choice but to go back to work quickly and risk getting sick. This is undesirable for these businesses, their

Table 3: Employee Retention Programs Have Been Widely Adopted With Significant Success

	Scheme	Eligibility	Entitlements	Maximum duration	Latest estimate of workers registered	% of workforce	Estimated cost
Germany	Kurzarbeit	Employees who have lost at least 10% of their pay	60% of net wages in first four months; 70% from fifth to seventh month (77%); 80% after seventh month (87%)	21 mo	10.1 mil as of Apr 30	22.2	EUR70 bil
France	Chômage Partiel	Fixed-contract employees who cannot work or have had hours cut below national minimum	70% of gross hourly wages (84% of net wages), 100% for those on minimum wage, capped at 4.5x minimum wage	1,000 hrs per yr per employee (from Mar 1)	11.7 mil as of May 4	37.1	EUR58 bil
Italy	Cassa Integrazione Guadagni	Firms with more than five employees forced to suspend or reduce work hours. All those employed on Feb 23, 2020.	Up to 80% of wages	12 mo	7.7 mil as of May 21	34.8	EUR15 bil
Spain	Expediente de Regulación Temporal de Empleo (ERTE)	Firms forced to suspend or reduce work hours due to force majeure. All employees eligible, including those on temporary contract.	Up to 70% of wages	No maximum	3.3 mil as of May 5	15.5	EUR18 bil
U.K.	Job Retention Scheme	Any type of contract, but firms must furlough employees for more than 21 days (reduced hours not allowed)	80% of wages, up to GBP2,500 per mo	4 mo (from Mar 1)	8 mil as of May 19	24.2	GBP42 bil
Denmark	Tripartite agreement on temporary wage compensation	Firms that must furlough at least 30% of staff	75% of wages up to EUR4,000	3 mo (from Mar to Jul)	160 ths as of Apr 28	5.46	DKK3.8 bil (USD570 mil)
Canada	Canada Emergency Wage Subsidy	SMEs facing a reduction in revenues from 15% to 30% (depending on benefits period)	75% of wages	3 mo (from Mar 15 to Aug 29)	2.8 mil as of May 18	13.87	CAD10 bil (USD7.5 bil)
Australia	Jobkeeper Payment	SMEs with a 30% fall in turnover, and larger businesses with a 50% fall	AUD1,500 biweekly	6 mo	3.5 mil as of May 25	25.80	AUD60 bil (USD85 bil)
New Zealand	Wage Subsidy and Extension Scheme	Firms facing a 30% decline in revenue	NZD585.80 per wk for full-time workers, NZD350 per wk for part-time workers	12 wks, with possible extension for another 8 wks	1.4 mil as of May 15	50.97	NZD12 bil (USD18.2 bil)
South Korea	Employment Maintenance Subsidies	Maintaining current employees while implementing reduced working hours or paid leave	up to 75% of the labor cost; daily limit of KRW 66,000 per employee; up to 90% in Apr/May	180 days			
Singapore	Jobs Support Scheme	All employers	25% to 75% of the first S$4,600 of gross monthly wages. 75% for all sectors in April/May	10 mo			S$20 bil
Malaysia	Wage Subsidy Programme	Workers earning less than RM4,000 per month; companies experiencing 50% revenue decline if more than 75 empoloyees	RM600-1200 per month to every employee; up to 200 workers per company	6 mo	2.4 mil as of Jun 19		MYR 4.89 bil

Source: Moody's Analytics

employees, and the nation's overall health and financial well-being. Policies that allow businesses to pay employees even if not on the job or working reduced hours can facilitate the type of gradual reopening that health officials have called for.

The proposed employee retention programs complement the Paycheck Protection Program, which was also part of the CARES Act, by either picking up where PPP money leaves off or by providing an alternative for firms unable to claim the PPP benefit.

The PPP was successful in getting money out quickly, but only small businesses with fewer than 500 employees are eligible to participate. Moreover, the PPP funds have not been well targeted to help those areas of the country hit hardest by the virus or very small businesses that do not have the banking relationships necessary to avail themselves of the program. The financial support provided to businesses via these programs may also help make the Federal Reserve direct credit programs more viable, including the Main Street Lending Program that is meant to support medium-sized businesses. Banks providing the loans will view businesses receiving the employee retention support as less serious credit risks, allowing them access to the additional liquidity they need to make it through the crisis.

Potential considerations

While the benefits of employee retention programs could be significant, there are several design challenges that need to be considered.

Unlike many other countries that implemented these programs early in the crisis, the U.S. is starting from a position of high unemployment. It is untested as to whether and how quickly new employee retention policies will push businesses to rehire workers. For this reason, providing support for businesses to pay wages must not be viewed as a replacement for expanded UI. Both will be needed in some form until the labor market heals. In addition, tying a benefit to rehiring—which has been done in some proposals—may help to produce a more rapid decline in unemployment.

To encourage employers to rehire workers, it will also be critical to ensure that they are able to obtain the funds quickly and efficiently. While these programs generally use the payroll tax system and allow employers to reduce their payroll tax payments by the amount of the credit, in many cases the benefit will be greater than the amount they pay in payroll taxes. Under the existing ERTC program, these businesses need to file Form 7200 with the IRS to have this excess credit refunded, but without additional resources, this process may be overwhelmed as these programs are scaled up. The IRS will likely need additional resources to improve its systems, and strong direction from the Treasury to execute on ensuring these programs work efficiently.

An additional design consideration is how long employee retention policies should be in place and how to end them. Most countries have put in place programs that end on a fixed date but in many cases have already had to extend these dates. Given the uncertain evolution of economic and health conditions, setting an end date in advance risks establishing a program that runs too long (and provides excessive benefits) or expires while businesses and workers are still dependent upon it. If the program ends suddenly while the economy is still weak, it may create a cliff effect with a sudden increase in unemployment.

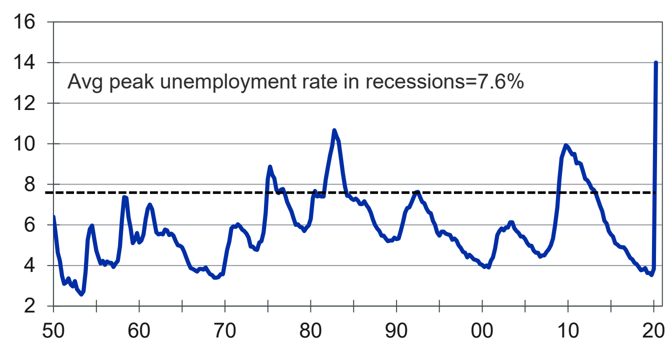
Broad eligibility criteria, particularly for operating cost subsidies that do not flow directly to workers, runs the risk of providing government support to companies that do not truly need it. Companies only modestly affected by the crisis should not be made more than whole by providing them full access to employee retention support. Safeguards such as eligibility criteria tied to revenue losses and rigorous audits could be put in place to guard against overly generous benefits to businesses, although this must be balanced against making the program overly complex. Moreover, as has been seen since the onset of the crisis, even companies with significant financial resources will lay off workers absent financial support, though it is beneficial to the economy and workers that they not do so.

A related concern is the potential budgetary cost of these programs. The costs vary and depend on a number of assumptions, including the eligibility requirements, the benefits, the period over which the programs are implemented, and the outlook for business reopenings and future business disruptions. These programs could be expensive, especially if there is a serious second wave of the virus and businesses are significantly disrupted again. However, the expense is significantly lower after considering the reduced take-up and costs of programs that would otherwise be needed to support businesses and workers—unemployment insurance, Medicaid and the PPP, to name a few.

Finally, employee retention policies can become counterproductive if they remain in place too long. The support could delay inevitable economic adjustments by supporting businesses that are no longer viable and prevent workers from shifting to more productive firms. Delaying the economy's adjustment for too long will diminish its growth, cost jobs, and ultimately result in higher unemployment for longer. The greater the longer-term structural economic changes caused by the pandemic, the more serious a problem this could be. If the crisis turns out to be nothing more than a short-term blow to the economy, with activity quickly reverting to the way it was before the crisis, then there is little risk that an employee retention plan would delay the necessary economic adjustments. However, if the crisis

Chart 3: Descending an Atypical Peak

Unemployment rate, %



Sources: BLS, Moody's Analytics

causes fundamental structural changes in the economy, then the risk is greater that such a plan would go on for too long and impede needed economic adjustments. This pandemic appears to be more than a short-term blow, particularly to the industries most likely to avail themselves of these programs. A well-designed employee retention plan must account for this, for example, by being of limited duration. This concern would also be addressed if the plan is structured to allow new hires to qualify and for businesses to claim a credit for time spent retraining workers for COVID related re-openings or acquiring new skills.

In the discussion that follows, we consider each of the proposed employee retention programs, from most to least expansive, estimate their budgetary cost, and consider their advantages and disadvantages. The underlying assumption in this analysis is that these programs are implemented beginning in August, that most businesses (aside from those that involve large gatherings of people) are largely reopened by Labor Day, and that there are no future significant business shutdowns or self-quarantining of businesses and households.

Paycheck Recovery Act

The Paycheck Recovery Act is the most expansive of the proposed employee retention programs. It provides grants to all businesses, nonprofits and public entities, regardless of size, that have suffered significant financial stress due to the COVID-19 crisis. The grants would go to help pay for payroll and fixed operating costs. The program would remain in place until the national unemployment rate consistently falls below 7%, which is approximately twice the jobless rate prior to the pandemic and close to the typical peak unemployment rate in past recessions (see Chart 3).

To be eligible for financial support, an entity must:

» Have suffered more than a 10% decline in gross receipts in a month compared with the same month in 2019 (as of May, almost half of the nation's jobs are in industries that have experienced declines in gross receipts of this magnitude);

» Attest that the decline in gross receipts is due to the impact of COVID-19; and

» Not have a PPP loan or an Economic Injury Disaster Loan, unless they have exhausted these loans or use this program to replace the loans not used and return unused funds.

An eligible entity will receive an initial grant equal to three months of its payroll cost, including the wages, salaries, and retirement and healthcare benefits of workers, prorated for entities that are partially open based on their level of revenue decline. The payroll used to determine the grant will be based on those paid in the second and third quarters of 2019 and capped at $22,500 per employee per quarter or $90,000 per annum. To help facilitate rehiring workers, it provides rehiring bonus checks to lower-income workers who would otherwise receive more from the expanded UI benefit. The grant will also include an additional 25% of the entity's payroll cost to pay for its fixed operating costs such as rent and mortgage payments, insurance, and utilities. The grants would be renewed monthly for eligible entities, are taxable, and is subject to audit by the IRS and penalties in case of fraud.

The Paycheck Recovery Act is estimated to benefit 36.4 million workers at a cost of $1.17 trillion over the 10-year budget horizon. However, this would be partially offset by lower costs for unemployment insurance, Medicaid, and other government support as fewer workers would be unemployed. The program will also generate additional tax revenue, and there would be less take-up of the PPP. After accounting for these savings, the cost of the Paycheck Recovery Act declines to $654 billion. The net cost would be even lower if it offsets other forms of fiscal support that lawmakers ultimately agree to in a future relief package, such as aid to state and local governments and rental assistance. The credits in the Paycheck Recovery Act that are available to public entities are estimated to provide $146 billion of support to state and local governments.

Paycheck Security Act

The Paycheck Security Act provides grants to most businesses and nonprofits that have suffered significant economic stress due to the COVID-19 crisis and helps cover payroll and fixed operating costs. The program would be in place through the end of 2020, and the IRS would be instructed to give priority to applications from entities with fewer than 100 employees.

To be eligible for financial support, an entity must:

» Have suffered more than a 15% decline in gross receipts in a quarter in 2020 compared with the same quarter in 2019. Businesses with more than a 20% decline in receipts will receive 100% of the grant; for businesses with a 15% to 20% decline, the grant will be phased in by 20 percentage points per 1-percentage point of lost revenue. (As of May, just over one-third of the nation's jobs were in industries that have suffered more than a 15% decline in gross receipts.);

» Have had less than $1 billion in gross receipts in 2019 and had cash and cash equivalents on March 1, 2020 of less than 150% of wages paid by the entity in 2019; and

» Attest that the decline in gross receipts is due to the impact of COVID-19 and not have a PPP loan or an Economic Injury Disaster Loan, unless they have exhausted these loans or use this program to replace the loans not used and return unused funds.

An eligible entity will receive a fully refundable tax credit to cover the cost of payroll, including wages, salaries, and retirement and healthcare benefits of workers who are laid off and furloughed, and workers with reduced hours, up to a cap of $22,500 per employee per quarter or $90,000 per annum. To ensure that workers would be paid at least as much as they would otherwise receive under expanded UI benefits, the credit would be at least $600 per week for all eligible employees. The employer also would receive the tax credit in advance for workers not already on their payroll.

An eligible entity with less than $41.5 million in gross receipts in 2019 would also be eligible for a credit of 5% of 2019 gross receipts to pay for fixed operating costs, including expenses such as rent and mortgage payments, utilities, and debt service. Sole proprietors with less than $1 million in gross receipts in 2019 would be eligible for an income credit of 30% of 2019 gross receipts, up to $75,000.

Entities that receive funds through this program are not permitted to buy back stock or pay out dividends to shareholders. They must protect collective bargaining agreements, remain neutral in union organizing efforts, and cap CEO compensation at 50 times the median wage of their workforce.

The Paycheck Security Act would benefit an estimated 25.4 million workers. The benefit of the program across the wage distribution is similar to that of the Paycheck Recovery Act, with two-thirds of the benefit going to those in the bottom half of the wage distribution. The program is estimated to cost $520 billion, or $293 billion after accounting for offsetting budget savings.

ERTC in the HEROES Act

The expanded ERTC program in the recently passed House fiscal rescue package, the HEROES Act, would make a number of changes to the existing ERTC program, extending the program through the end of this year, significantly expanding its eligibility, and providing more financial support to eligible institutions. These include:

- Increasing the limit on the refundable tax credit to $12,000 per employee per quarter and $45,000 for the year;
- Changing the threshold for treatment as a large employer from employers having more than 100 employees to employers having more than 1,500 employees or more than $41.5 million in gross receipts in 2019. Large employers can only claim the credit for the wages of their employees for the time they are not working;
- Making more employers eligible for the credit by including a phase-in, in which employers experiencing a decline in gross receipts between 10% and 50% can claim a portion of the credit (as of May, approximately half of the nation's jobs are in industries that have suffered more than a 20% decline in gross receipts);
- Clarifying that health benefits are included in wages and that employers who continue providing such benefits to their employees qualify for the ERTC even if they do not continue paying other wages;
- Allowing state, territory and tribal governmental employers (and any political subdivision, agency or instrumentality of these entities) to claim the credit if these employers retain employees notwithstanding the closure of their operations;
- Allowing employers to be eligible for both the ERTC and the PPP; and
- Providing a 50% refundable credit for fixed costs, including rent, mortgage obligations and utility payments for employers with no more than 1,500 full-time equivalent employees or $41.5 million in gross receipts in 2019. Fixed costs eligible for this credit are limited to 25% of wages or 6.25% of 2019 gross receipts per quarter, with a maximum of $50,000.

The CBO has scored the expanded ERTC program in the HEROES Act to cost $194 billion over the 10-year budget horizon. We estimate that 16.6 million employees would benefit from the expanded ERTC program.

Rehire America

The Rehire America Act appears similar to the other proposed employee retention programs, providing financial support for businesses of all sizes that suffer a more than 20% decline in gross receipts due to the pandemic. The support would include 120% of the wages of workers that businesses rehire and 80% of the wages of their existing workers. There would be a $50,000 per worker cap. The proposal also provides grants to businesses to help pay for their fixed costs, and an investment tax credit to defray the costs these businesses will have adjusting to the social distancing rules and developing new business models. There is not enough information at this time to reliably assess the employment impact and budgetary cost of this proposal.

Rebuilding Main Street Act

The Rebuilding Main Street Act calls for a significant expansion of short-time compensation, or work sharing, in the unemployment insurance system to foster employee retention. Under work sharing plans, in periods of weak labor demand, instead of laying people off, firms maintain their payrolls by reducing workers' hours, with UI offsetting part of their lost compensation. The offset is prorated to the usual UI benefit—a worker whose hours are cut by half gets half of their regular UI benefit—and under the CARES Act the work-share benefits also are increased by the $600 expanded UI weekly benefit, though this is set to expire at the end of July.

Though work sharing programs exist in numerous states and the CARES Act provided full federal funding for their benefits through 2020, their take-up to date has been minimal. According to the Department of Labor, as of late May, nearly 30 million people were collecting UI benefits, but only 214,000 were doing so through work sharing, about half a percent of all claims. The Rebuilding Main Street Act increases the federal limit on hours reduction that may be done through work sharing from 60% to 80% through the end of this year. It also significantly increases the administrative funding in the CARES Act to establish, improve and promote work sharing programs. For states without existing work sharing programs, it would allow governors to establish provisional programs and provide full federal funding.

The Rebuilding Main Street Act also provides grants to businesses and nonprofits with significant losses due to the pandemic to help with their operating costs and investments needed to meet new safety standards, including retrofitting spaces. For businesses suffering a decline in gross receipts of more than 50% over the past year, grants would be equal to 50% of eligible costs, up to a maximum of $300,000 per employer, with payments made quarterly. The benefit would decline by 2 percentage points for every 1-percentage point less decline in gross receipts, so that the benefit would be phased out when the business' gross receipts have fallen by 25% or less. As of May, just under one-fourth of the nation's jobs were in industries that have suffered more than a 25% decline in gross receipts. Rebuilding Main Street Act grants would be provided to all eligible employers through the Treasury.

The Rebuilding Main Street Act keeps workers connected to their precrisis jobs by paying much of the cost of maintaining payrolls through its work sharing feature. But this support gradually declines as workers' hours gradually return to what they were prior to the pandemic. Similarly, the proposal reduces the operating expense grant as gross receipts improve. The proposal thus gradually moves labor and operating expenses from the government back to employers as economic conditions improve.

Comparing programs

The employee retention programs considered in this paper are similar. They help employers cover their workers' wages and benefits so they maintain their payrolls and help cover their operating expenses so they stay in business. Most utilize the ERTC to quickly deliver funds to employers of all sizes, while the PRA requires the Treasury to make direct payments to businesses. The Rebuilding Main Street Act allow employers to use the existing ERTC to offset the cost of paying their portion of wages for employees participating in work sharing.

The programs differ primarily over eligibility and the benefits received by those employers that qualify. The Paycheck Recovery Act is the most expansive, allowing businesses, nonprofits, and state and local government entities to avail themselves of the program if the reduction in their gross receipts due to the pandemic is greater than 10%. Just about half of the nation's jobs are in entities that have suffered more than a 10% decline in gross receipts. The current ERTC is the least expansive program, requiring eligible businesses and nonprofits to have a decline in gross receipts of more than 50%. The other programs have eligibility thresholds centered around a 20% decline in gross receipts, which would include employers with just over one-fourth of the nation's jobs.

The Paycheck Security Act imposes the greatest restrictions on larger companies, not allowing businesses with over $1 billion in 2019 revenue and cash and equivalents of more than 150% of their wages to participate in the program. The intent is to ensure that companies that are in a good financial position or have access to private capital do not use the program, even if they are highly disrupted by the pandemic. The current and expanded ERTC programs do not provide operating expense support to larger companies.

The Paycheck Recovery Act and the Paycheck Security Act provide the most generous benefits to eligible employers, covering 100% of the wages of workers, up to $90,000 per annum. However, the Paycheck Security Act is limited to furloughed employees, whereas the Paycheck Recovery Act covers all employees at eligible companies. The other programs cover up to 80% of wages, with varying annual limits. Not covering 100% of a worker's wages may help ensure that employers are not holding on to workers they will likely quickly let go once the program expires, but lower levels of support may not be sufficient to encourage employers operating at limited capacity to bring back workers who are still furloughed. All but the existing ERTC cover about the same amount of employers' operating expenses, either as a percent of wages or as a percent of gross receipts.

An attractive benefit of these programs is that the funds are advanceable. That is, hard-pressed employers are able to get funds immediately to make payroll and pay for operating expenses. This is especially important for very small businesses that have few financial resources.

The programs are set to expire at the end of this year, except for the Paycheck Recovery Act, which would continue until the nation's unemployment rate falls below 7%. Setting an expiration date ensures that the programs do not impede the necessary adjustment of the economy, and future lawmakers could extend the programs if the economy was still struggling with the pandemic. The Paycheck Recovery Act takes the position that if unemployment is still above 7%—the peak unemployment rate in the typical recession since World War II—then the economy is still in a crisis situation and not in a position to begin the necessary adjustments. The Paycheck Recovery Act will also be able to help immediately if there is a serious second wave of the virus.

Conclusion

Economic activity has picked up this summer as businesses reopened across the country. But any recovery may be stillborn given the rising number of infections, and will be incomplete until there is a vaccine or effective therapy for the virus that is widely distributed and adopted.

While the labor market remains weak, a variety of policy tools will be needed to provide financial support to American families and businesses. The adoption of employee retention policies similar to those considered in this paper would be an important addition to existing programs, including enhanced unemployment insurance, SNAP food assistance and local government, fiscal support, and Medicaid. These programs have among the highest multipliers, or bang for the buck, of any policies used to support the economy in times of stress, like now.

We would propose an expanded version of the current ERTC that incorporates many of the components highlighted in the programs considered in this paper. It should be available through the end of this year to businesses and nonprofits of all sizes that suffer at least a 15% decline in gross receipts due to the pandemic. It would cover 100% of workers' pre-pandemic wages and benefits if they were furloughed or had their hours reduced, and the cost of re-training workers as businesses may need to change the way they operate as they reopen.

Our proposed ERTC would also incorporate support for hard-hit businesses to pay operating expenses, such as the proposal in the Paycheck Security Act in which entities with less than $41.5 million in 2019 gross receipts receive up to 5% of those receipts quarterly. To ensure that operating expense benefits are targeted to the businesses in most need, the full benefit would be reserved for businesses with revenue declines of 50% or more, with a scaled-down benefit for businesses suffering less severe declines. It is critical that all funds in the program be advanceable so that liquidity-constrained businesses are able to utilize the program.

Our proposal would also expand work share as in the Rebuilding Main Street Act. This wouldn't be necessary for businesses using our expanded ERTC, but would be for other businesses that may not be eligible for our program or decide not to avail themselves of it.

The budgetary cost of this proposal would be nearly $744 billion, or $419 billion after accounting for offsetting savings. Close to 32 million people would benefit from the proposal.

The COVID-19 pandemic is ongoing, and the economy remains at significant risk. How well the economy navigates through this period critically depends on the decisions Congress and the Trump administration make in the next few weeks.

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