

A Payroll Tax Cut Won't Work. Send Big Checks Now.

A pandemic requires a different kind of stimulus: The government needs to get money to consumers, bolster unemployment insurance and provide loans.

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The United States economy is in uncharted waters.

It has almost certainly slipped into a recession, one engineered by public health officials seeking to contain a global pandemic. A recession set off by a pandemic differs from the usual downturn, and calls for a different fiscal playbook.

In a typical recession, the goal of fiscal stimulus is to get consumers back into restaurants and stores. But that wouldn't be appropriate today, when the government has closed millions of stores to help prevent the transmission of the coronavirus.

Rather, the government needs to make sure the hardest-hit families have enough income to keep food on their tables. The goal now is not the typical get-spending-going stimulus of past recessions but rather social insurance — that is, cash payments — to buffer family budgets when many people lose their jobs or are required to work fewer hours.

Both households and businesses need to keep paying their bills, even in the face of a sharp, temporary fall in income. A cash crunch could lead to a wave of ruined credit scores, home foreclosures and bankruptcies. Solving this liquidity problem now is essential if business as usual is to resume when the virus recedes.

The [key proposals](#) circulating among policymakers involve around \$850 billion in new government aid, an amount roughly similar to the package that was passed in the wake of the last financial crisis. But it's worth remembering how slowly the economy recovered then.

Congress must remain open to the possibility that several future packages — each on the order of a few hundred billion dollars — may yet be required. Doing too little will surely be more costly than doing too much. And in a rapidly unfolding crisis, the type of aid that's offered may matter at least as much as the quantity.

Send checks, make them big, and do it now.

Many workers trying to manage on reduced incomes will struggle to pay for essentials, or to pay their other bills.

President Trump has suggested a [payroll tax cut](#), which would effectively add 6.2 percent to the take-home pay of those who were still working. But this gives the biggest breaks to those with the biggest paychecks, and delivers nothing to those who have lost their pay. And it's a slow infusion of cash, dripping out paycheck by paycheck.

Far better to follow the proposal of Senator Mitt Romney, the Utah Republican, and simply send each adult a \$1,000 monthly check as long as the pandemic continues.

While neither proposal would deliver much direct stimulus — fiscal policy can't change the reality that much of the economy remains shut down — Mr. Romney's temporary universal basic income measure would deliver more to those who needed help paying for essentials. That would help bolster households so they would be able to more rapidly resume their old spending patterns when businesses reopened.

Adapt the social safety net in a pandemic.

But even Mr. Romney's proposed checks would not be enough for those who will be hardest hit.

Paid leave provides workers with valuable insurance against potential income loss. But it's important to get the details right. Paid leave funded by employers simply transfers the pain from workers to their bosses. In ordinary times, when just a small fraction of a company's work force is out sick, that's not much of a burden. But when a pandemic forces the whole staff out, this obligation could easily push a business into mass layoffs or even closure.

That's why, in a pandemic, the federal government ought to be responsible, either by providing direct funding for paid leave or by offering tax credits to employers who do so.

The government can also help mitigate income loss by expanding eligibility for unemployment insurance, which currently covers fewer than half of all workers. Independent contractors are completely shut out of the system, along with recent graduates looking for their first jobs and other workers with scant work histories.

While unemployment insurance is provided by the states, the federal government can offer states extra funding if they cover more workers.

Senator Jack Reed, a Rhode Island Democrat, has also written a bill that would encourage work sharing rather than layoffs.

His bill would provide opportunities for workers to receive unemployment insurance for the income they lost if their hours were cut. It would effectively encourage employers to share the burden of cutbacks, perhaps reducing payroll by cutting the hours of all workers a bit, rather than consigning an unlucky few to unemployment. Maintaining this continuity between workers and their jobs would help ease the transition to normality when the pandemic passes.

Businesses need loans, not handouts.

Businesses also need help, but it's important that government aid doesn't just line the pockets of shareholders. A more appropriate goal — ensuring that businesses can survive longer than the coronavirus saps cash flow — can be achieved by providing loans.

While the size of some loans will be eye popping, they don't impose a real cost to taxpayers unless businesses default, and government loans would lessen that risk. The public benefit is that once the virus passes, these businesses would be ready to resume hiring.

The 2008 auto bailouts provide a useful analogy: The government disbursed \$80 billion, and has since recovered \$71 billion.

The need for liquidity may be even more pervasive this time. The government needs to make loans widely available so small businesses and those in less politically savvy industries can get the funding they need.

But powerful industries are already lining up for handouts. The airlines, for instance, have asked for \$25 billion in grants and \$25 billion in loans or loan guarantees. The latter would help solve their liquidity problems. The former is simply corporate welfare.

If Congress does provide grants, its priority should be helping businesses keep their work forces intact and paid.

Households need help, too.

Households will be better able to stay afloat if they can delay making loan payments until the pandemic is over. While the White House has said it will [waive interest on student loans](#), the real problem that many borrowers face is making their next few payments. Allowing up to, say, three months of missed payments — not only on student loans but also on mortgages and credit card debt — would give households breathing room, while ensuring banks that they would eventually be repaid.

Congressional action on this front could prevent countless bankruptcies, forced home sales and defaults, potentially averting the vicious cycle of financial disruption, reduced incomes and lower spending that made the 2008 recession so brutal.

None of this is your usual stimulus, but that's because this is not your usual recession.

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