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REDUCING UNCERTAINTY AND RESTORING CONFIDENCE DURING THE CORONAVIRUS RECESSION

VIRTUAL HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
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ONE HUNDRED SIXTEENTH CONGRESS

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REDUCING UNCERTAINTY AND RESTORING CONFIDENCE DURING THE CORONAVIRUS RECESSION

THURSDAY, JULY 30, 2020

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The WebEx virtual hearing commenced, pursuant to notice, at 3:00 p.m., in Room G–01, Dirksen Senate Office Building, Hon. Donald S. Beyer Jr., Vice Chair, presiding.

Representatives present: Beyer, Heck, Schweikert, Trone, and Herrera Beutler.

Senators present: Lee, Hassan, and Klobuchar.

Staff present: Andrés Arguello, Robert Bellafiore, Carly Eckstrom, Harry Gural, Colleen J. Healy, Christina King, Hope Sheils, Nita Somasundaram, Kyle Treasure, Jackie Varas, Emily Volk, Jim Whitney, and Scott Winship.

OPENING STATEMENT OF HON. DONALD BEYER JR., VICE CHAIR, A U.S. REPRESENTATIVE FROM VIRGINIA

Vice Chairman Beyer. We are live, I believe. So, Chairman Lee, our distinguished Committee Members and witnesses, welcome to everyone.

Our country faces two crises: a virus that has already killed 154,000 Americans; and the worst economy since the Great Depression. Our tragic failure to contain the coronavirus has led directly to this economic meltdown.

The President's ill-advised push to "liberate the states" and abandon strict social distancing measures has led to an explosion of new cases and new deaths, and is likely to prolong the deep economic downturn.

The President's economic policy is his coronavirus policy, which tragically is first to put his head in the sand and then throw his hands in the air and blame others. That is the number one reason that there are more than 65,000 new cases a day, or why there are more than 30 million Americans on unemployment.

We have had the privilege of talking to many prominent economists who all tell us the same thing: To restore the economy, first we must get the virus under control. It is not essential only to control or contain the virus, we must also give Americans a high degree of confidence that the virus is contained. They must know that they are safe before they will go back to work, or before they will return to stores.

Fed Chairman Powell said quote: "Until the public is confident that the disease is contained, a full recovery is unlikely." And the best that we in Congress can do is to give Americans confidence that will help them stay afloat while the virus rages.

The economic damage is staggering. For 19 straight weeks, more than 1 million Americans have filed new unemployment insurance claims. We lost a net 15 million jobs since February, and the unemployment rate is the highest it has been in 80 years.

The labor market recovery has stalled. According to the Census Pulse Survey, the number of Americans employed fell by 4 million in a recent week. For the fourth straight week, the number of Americans with a job has declined. And CBO estimates that unemployment will remain above 10 percent for the rest of the year.

As a result, nearly one in five American households could not make the rent or mortgage payments in July. Millions stand in line at food banks. Forty percent of Americans report serious anxiety or stress.

In March, Congress passed emergency Enhanced Unemployment Benefits to help Americans survive the coronavirus recession, enough to live on. Thirty million Americans received those benefits.

The Democratic House voted two months ago to extend them, but Mitch McConnell refused even to consider the Heroes Act, knowing that millions of Americans who relied on those benefits live in uncertainty and fear. And tomorrow, thanks to McConnell, those unemployment benefits expire. And this will have ripple effects throughout the economy. Without benefits, jobless workers will reduce spending, miss rent payments, fall behind on mortgage payments, and even face eviction or foreclosure and more businesses will close.

The Economic Policy Institute estimates that reducing the weekly federal benefits from $600 to $200, as some Republicans proposed, would reduce GDP by 2½ percent, and cost the economy 3.4 million jobs over the next year. That is more than the total economic growth in 2019.

But there is a simple solution to this damaging brinkmanship. Let us just take politics out of it. Our Democratic witnesses, Heather Boushey and Jared Bernstein, as well as other of the nation's top economists, support the use of automatic stabilizers that tie federal spending to economic conditions. They critically provide help when the economy heads into a recession.

If unemployment is elevated, unemployment insurance, along with SNAP, Medicaid, and other key supports should continue until the economy recovers. We should not have to vote 13 times, as we did during the Great Recession, to extend unemployment benefits. This should be automatic. And it should only last as long as it is needed, and no longer.

I believe this approach would appeal to fiscal conservatives. Yesterday, I introduced legislation to tie unemployment benefits to the unemployment rate in each state. If the bill were to become law, we would not be witnessing this damaging political showdown today.

None of us can predict how long the recession will last, so let us not try to guess. It is very likely that whatever agreement Congress eventually agrees upon will not include my bill, and that is

because the political power of some Members of Congress depends on holding Americans hostage. But we have to reach an agreement to extend and enhance unemployment benefits at some level. This is a moral imperative.

I'll fight to make sure there is enough for unemployed Americans to weather the recession, and I will continue to fight to make sure that in the future such help is automatic.

I look forward to the testimony from our witnesses, and I am happy to yield to the Chairman of our Joint Economic Committee, Senator Lee.

[The prepared statement of Vice Chair Beyer appears in the Submissions for the Record on page 34.]

OPENING STATEMENT OF HON. MIKE LEE, CHAIRMAN, A U.S. SENATOR FROM UTAH

Chairman Lee. Thank you very much, Vice Chair Beyer, and I thank you for presiding today for the first time as Vice Chair over this timely hearing.

[Apparently the sound is lost here.]

Vice Chairman Beyer. Senator Lee? Are you still there? I believe Senator Lee has disappeared for the moment. Is there anyone else here?

[No response.]

Okay, why do we not come back to Senator Lee. And while he is struggling with broadband in Washington, D.C., let me introduce our four distinguished witnesses, and we will defer back to our chairman as soon as he arrives.

So we start with Heather Boushey, the President and CEO and the Co-Founder of the Washington Center for Equitable Growth. Her research focuses on the intersection between economic inequality growth and public policy. Dr. Boushey is the author of "Unbound: How Inequality Constricts our Economy and What We Can Do About It." She co-edited "Recession Ready: Fiscal Policies To Stabilize The American Economy," published jointly by The Washington Center for Equitable Growth and The Hamilton Project.

Previously Dr. Boushey worked as an economist at several organizations, including The Center for American Progress, The Economic Policy Institute, and the Joint Economic Committee. She earned her Ph.D. in Economics from The New School for Social Research.

Jared Bernstein—let me yield back to Senator Lee.

Chairman Lee. Thank you. Thank you, very much. Sorry I lost my internet connection somehow.

This pandemic and the havoc that it has wreaked on American lives and on the American economy is unlike anything we have seen certainly in recent memory. In response to the pandemic, Congress has taken unprecedented action, action that, along with Federal Reserve initiatives, helped to stabilize the economy and helped to make sure that it did not hit us too hard too quickly.

Beyond the legislative changes that we enacted, existing features of the Tax Code and traditional safety net programs like unemployment insurance are helping families that lose income and jobs to the pandemic—the pandemic ravages in our communities. Known as "automatic stabilizers," these policy provisions operate automati-

cally and simultaneously with other actions taken by states and by local governments, and by Congress.

But it concerns me that many want to extend the economic automatic stabilizers, as that would override the deliberation that the American people have come to expect of their Representatives, their elected officials who are in place to make law. And that, in turn, could hinder the economic recovery, in addition to weakening our Constitutional framework of our limited government system.

Mandating more spending in the form of automatic stabilizers—stabilizers that turn on and off based on macroeconomic conditions in real time as they arise—contributes to one of the main problems of federal spending: that federal spending is overly automated, causing legislators to actively manage less and less of the budget, less and less of the federal outlays, as time moves on.

Reducing legislative discretion—taking the discretionary authority and the decision-making power away from Congress, increases costs, and it reduces our ability to control the national debt. It also diminishes policymakers' ability to tailor responses to the specific conditions of any future crises that might happen.

These things tend, inevitably, ultimately to diminish accountability of government to the American people. The extraordinary measures we enacted initially were warranted, but they are not strategies that we should necessarily continue to pursue now—certainly not without some hesitation, and certainly not without asking some questions about their advisability. These are unsustainable over the indefinite course of the current pandemic. And today I think we have to pivot to helping communities reopen safely.

So our focus moving forward should be on policies that pave the way for an American recovery, and to allow businesses to adapt and reopen safely and—safely, and as quickly as possible, while at the same time giving their employees and their customers and other members of the public confidence in the procedures that are in place.

There are a number of actions that Congress could take to strengthen the U.S. economy while we are going through this. And in the process of doing so, hasten our economic recovery.

We should examine, and I think we ought to remove the regulations currently in place that are holding back businesses and workers from responding more dynamically to challenging the ever-changing economic circumstances. And we should consider how Congress can encourage Americans to save more so that they can be better prepared for future crises. Just as this is not the first crisis our country has faced, it is also not going to be the last. And the healthier we are economically and in every other way, the better prepared we can be to handle the next crisis as it arises.

Our efforts should include leveraging charitable giving by reforming our tax laws, and specifically reforming the inequitable treatment given to charitable contributions in our existing Tax Code. This is a reform that could bolster our COVID–19 response, as we discussed in our last hearing. We have to remember that our safety net consists of three levels. We have got families. You have got charitable organizations. And you have got governments.

Charitable organizations are in the middle of those two. They are very important. And in a global pandemic like this one, you see them stretched thin at both ends. Just as the demand for their services is higher than ever during something like a global pandemic, you have also got people less inclined and less able to donate in such a time—especially from people in the middle and lower ends of the economic scale.

A reference should also include sun-setting all federal regulations that were waived during the pandemic. In a letter to the recently confirmed Director of the Office of Management and Budget, Russ Vought, several of my Senate colleagues and I asked that these waived regulations go through the regulatory review process. That is, before they can be put in again, we ought to review them to figure out whether they still make sense. This process would determine whether we need to maintain these regulations, whether we need to modify them, or whether we need to rescind them. Now we noted in our letter the absence of the waived regulations—the absence of these waive regulations being implemented—it actually improved our COVID–19 response. And it also allowed doctors to practice medicine across state lines and to provide telehealth services for Medicare patients.

This resulted in better patient outcomes. It resulted in cost savings. And it resulted in a suppression of activities that would otherwise have likely led to more COVID–19 exposure. So all those things are good. We have to consider them for the longer term.

Now also seems like a particularly good time to pass the Working Families Flexibility Act, which would allow more employers to offer their own workers a choice between overtime pay on the one hand, and time off, paid time off on the other hand.

This could help workers take time off if they become ill, or if they need to care for loved ones, while also giving employers yet another tool to help weather these nasty disruptive effects associated with the pandemic on payrolls and on workers' schedules.

But look, whatever actions we might take, we need to not lose faith in our ability as a deliberative body, both in the Senate and the House of Representatives, to represent our respective constituents and to consider and evaluate, debate, and improve various policy solutions tailored to the crisis that our country faces at this moment and in future moments. And we have to remember that policies should support the resiliency of the American people in the face of adversity, rather than making them more dependent on government.

So thanks again, Vice Chair Beyer, for calling this important hearing. And thanks to the witnesses for being here today. I look forward to your testimony and to a worthwhile discussion.

[The prepared statement of Chairman Lee appears in the Submissions for the Record on page 35.]

Vice Chairman Beyer. Thank you, Chairman Lee, very much. And I look forward to working with you together on the charitable deduction issue.

Let me continue with the introductions. Jared Bernstein is a Senior Fellow at The Center on Budget and Policy Priorities. He was Chief Economist and Economic Adviser to Vice President Joe Biden from 2009 to 2011. And before joining the Obama adminis-

tration, he was a senior economist and Director of the Living Standards Program at The Economic Policy Institute. Dr. Bernstein is the author and co-author of numerous books that are popular with economic and academic audiences, including "Getting Back To Full Employment: A Better Bargain For Working People." He holds a Ph.D. in Social Welfare from Columbia University.

Dr. Douglas Holtz-Eakin is the President of The American Action Forum, which he founded in 2009. Previously he served as Director of the nonpartisan Congressional Budget Office, and as Chief Economist for the Council of Economic Advisers.

Dr. Holtz-Eakin has spent more than a decade at Syracuse University where he was Trustee Professor of Economics at The Maxwell School, and he holds a Ph.D. in Economics from Princeton University.

And finally, Rachel Greszler is a Research Fellow in Economics, Budget, and Entitlements at The Heritage Foundation. Her work focuses on policies that promote economic growth, individual freedom, and well-being. Mrs. Greszler's writing and research includes analysis of Social Security and Disability Insurance Program, public and private sector pensions, and labor market policies such as the minimum wage and paid family leave.

Before joining Heritage in 2013, Mrs. Greszler was a Senior Economist on the staff of the Joint Economic Committee. She holds Masters Degrees in Economics and Public Policy from Georgetown University; and a Bachelor's Degree in Economics from the University of Mary Washington, one of my favorite Virginia universities.

So welcome all of you today. We are thrilled to have you, and we will begin with Dr. Boushey. The floor is yours.

STATEMENT OF DR. HEATHER BOUSHEY, PRESIDENT AND CEO AND CO-FOUNDER, WASHINGTON CENTER FOR EQUITABLE GROWTH, WASHINGTON, DC

Dr. Boushey. Wonderful. Thank you, Vice Chair Beyer and Chairman Lee, for inviting me to speak with you all today. It is a real honor to be here.

My name is Heather Boushey, and I am President and CEO of The Washington Center For Equitable Growth. We seek to advance evidence-backed ideas and policies that promote strong, stable, and broad-based economic growth.

Our research shows that economic inequality systemically obstructs and subverts the pathways to growth, creating distortions in both investment and consumption. The economic uncertainty facing your constituents and our Nation is "when will the Administration and Congress address the COVID–19 pandemic?"

Addressing the Administration's failure to contain the virus is the only way to restore confidence and put us on the path to economic recovery. The United States is experiencing the most uncontrolled and deadly outbreak of any high-income country in the world. Compared to the European Union, we now record 10 times as many daily COVID diagnoses and deaths.

This failure is the result of a series of decisions made by the Administration. It is also the result of decisions made over the past 50 years that have created underlying fragilities in our economy and society. These decisions have made our economy less effective

in good times, and less resilient to shocks. We have put ideology over evidence. We have chosen tax cuts and deregulation over investment to paid family leave, robust social insurance, and public institutions.

We have put our faith in the idea that markets can do the work of governing. Our neglected unemployment insurance system has been unable to handle the millions of Americans losing their jobs. Millions have waited weeks or months as decades-old computer systems struggled to process claims.

Now, the emergency unemployment has effectively expired because for months the Senate has refused to act. We have no nationwide system to contract trace confirmed COVID cases. Months into the pandemic, COVID tests for the general population can take a week or more to process, and access too often varies by race.

What is uncertain is whether the Senate will renew the $600 increase in the unemployment benefits that have been allowed to effectively expire. Over 11 percent of the workforce is unemployed. The unemployment rate for Black Americans is over 15 percent, and over 14 percent for Latinos.

We risk a cascade of potentially uncontainable economic damage if we do not immediately act to extend high unemployment benefits. Families need this money. Their landlords need this money. They need them to pay their rent. Their local business owners need them to keep ordering take-out, and popping by for socially distanced shopping.

Like the virus out of control, high unemployment spreads economic pain throughout the entire community. Unemployment benefits accounted for 14.6 percent of all wage and salary income. Failure to extend the $600 boost will contract GDP by 2.5 percent in the second half of this year. More than the economy grew in 2019. That would devastate local economies.

It is states where unemployment benefits replace a greater percent of workers' wages that have had the strongest recovery as of early June. Enhanced benefits should only end when objective conditions show they are no longer needed.

An unemployment-rate based trigger that turns off when a stable recovery is underway would allow this program to wind down automatically. The Vice Chair has a bill to do just that.

The second priority to create certainty is to support states and localities with around the $900 billion in the HEROES Act. They are bearing the brunt of responding to this virus. They are losing tax revenue and, as a result, have shed 1.5 million jobs so far, even as their services are more necessary than ever.

Other priorities include food assistance, rental assistance, extension of the eviction moratorium, direct payments, investments in communities of color hit so hard by the virus, funding to ensure safe and secure elections in early November, and premium pay for essential workers.

You should also implement the data tools to show how the recovery is distributed up and down the ladder. The GDP 2.0 measure, which we have discussed here before, will tell us which families are recovering from the crisis, and which need more help.

And I urge you, do not support a bill with enhanced liability protections for big corporations facing lawsuits where they put their workers at risk. Markets cannot perform the work of government.

Americans need public institutions that can protect them from threats to their lives and livelihoods, and provide leadership in times of crisis.

Thank you. I look forward to your questions.

[The prepared statement of Dr. Heather Boushey appears in the Submissions for the Record on page 37.]

Vice Chairman Beyer. Dr. Boushey, thank you very much, and we appreciate it.

We will move on to Dr. Bernstein.

STATEMENT OF DR. JARED BERNSTEIN, SENIOR FELLOW, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC

Dr. Bernstein. Thank you, Vice Chair Beyer, and Chairman Lee, for the opportunity to testify before you today.

The U.S. economy is a precarious place. We learned this morning that the GDP contracted at the fastest rate on record in the last quarter, a 33 percent annualized rate. Investments in homes and businesses fell by half. These nightmarish numbers need context, however.

They reflect the economy falling off a cliff in April, partially reviving in May and June as local economies across America began to reopen. It is clear, however, that these reopenings came too soon, with far too little attention paid to controlling the coronavirus.

Today, because of the ongoing failure to control the spread of the virus, tens of millions of Americans continue to experience severe disruptions to their lives and their living standards. New evidence, which is more recent than last quarter, shows that many now risk hunger and eviction.

Over 30 million people, about a fifth of the current labor force, claimed unemployment benefits in recent weeks. And as members of this committee well know, they all face a potentially huge negative shock to their income should their enhanced benefits expire tomorrow.

In this regard, one of the key points of my testimony today is that, while we can and should have a good debate about their levels, allowing these enhanced benefits to expire represents a failure on top of a failure. Leadership has failed to control the spread of the virus, and after initially strong fiscal actions—for which I give Congress credit—is now failing to help economically vulnerable Americans cope with the fallout from the failure to control the virus.

Congressional majorities appear to agree with the need to expand enhanced benefits. The bad news is, the debate over the issue started too late to avoid expiration. It is also of grave concern that the Republicans' proposal in the new HEROES Act, cutting the $600 weekly plus-up to $200, and then requiring states to hit a 70 percent replacement rate, represents a large benefit cut, something like 25 million jobless persons and their families, at a time when the economy and job market are clearly weakening.

On average, this cut, $600 to $200, would lower weekly benefits by over 40 percent. In Utah, Chairman Lee, average benefits would fall 42 percent. In Virginia, Vice Chair Beyer, they would fall 47 percent.

Small businesses are closing at an accelerated rate. Business bankruptcies are up 26 percent from a year ago, and a whopping—this is my first figure, actually—a whopping 80 percent of the U.S. population lives in places where economic activity is once again retrenching due to the spread of the coronavirus.

Up-to-the-minute labor market indicators suggest there is a fair chance that after strong job growth in May and June, payrolls in July may have contracted on net. These unsettling trends are shaking the confidence of American businesses and households while leading to great uncertainty about what the future holds.

Furloughed employees worry about transitioning to the ranks of the permanently unemployed. Working parents with young children are fraught with uncertainty about schools restarting in the fall, wondering what sort of child care arrangements they will need if schools remain even partially shut down.

Businesses large and small are unable to reliably forecast revenues, invest in the future, or even know if they can make it for another month. State and local governments are facing their largest shortfall in years, leading to job losses and great uncertainty regarding their outlook.

Whatever burdens Americans face on average, they are far more significant for persons of color, who have disproportionately been hit by both the virus and its economic impact.

Congress must do all it can to reduce this uncertainly and give the American people reasons to believe that the Federal Government is their reliable partner. They need to see that members of this body will work together with the requisite urgency to help them and their families and their businesses make it through the other side of this crisis.

We can, we should, discuss and debate the most helpful way to get there. I understand and respect that others are going to have different ideas, but what is not debatable is that the American people and the economy once again needs your help. And there is no plausible reason for such help to be delayed. In fact, to do so unnecessarily boosts uncertainty, reduces confidence by consumers and businesses, while prolonging the pandemic, the downturn, and avoidable human suffering.

Thank you.

[The prepared statement of Dr. Jared Bernstein appears in the Submissions for the Record on page 48.]

Vice Chairman Beyer. Dr. Bernstein, thank you very much.

We now move to the testimony from Dr. Holtz-Eakin.

STATEMENT OF DR. DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM, WASHINGTON, DC

Dr. Holtz-Eakin. Vice Chair Beyer, Chairman Lee, thank you for the privilege of being here today. Let me make four points briefly, and then I look forward to the chance to answer your questions.

Point number one is that the U.S. economy entered 2020 growing strongly, and with a labor market that was displaying remarkable

resiliency, creating many more jobs than I at least thought possible this late in the recovery. It was drawing into work those who had been marginally attached to the labor force, those with the least skills, least experience, and it was that part of the labor market that was achieving the greatest wage gains. This was an enormous help to communities of color, and to others who had been isolated economically.

That economy got hit with a downdraft of enormous historic proportions. As has been noted before, we saw the second quarter GDP fall by nearly 10 percent, a nearly 40 percent annual rate. This has been accompanied by other statistics that are simply outside the bounds of normal experience. Sustained high claims for unemployment insurance. Twenty million jobs lost in the month of April alone, ten times more than any other single month of job loss in U.S. history.

And to the credit of Congress and the Federal Reserve, the response has been correspondingly large. When the Federal Reserve identified massive cash flow shortages in the economy and disruptions in financial markets, we've flooded those markets with liquidity, expanded its balance sheet by trillions of dollars, and we have seen remarkably good functioning of financial markets through the pandemic recession thus far.

Congress, with the Family First and the CARES Act, undertook an enormous fiscal expansion, nearly 10 percent of GDP, that provided assistance to households, provided assistance to small businesses, especially if they remained attached to their workers, provided assistance to key industries, and in my view successfully executed a strategy that said we will provide enough liquidity through Federal Reserve and Congressional actions to wrap the economy in that liquidities tied from the virus, two-and-a-half months, and then resume operations.

Going forward, it is clear that we can no longer simply hide from the virus. We will have to be able to operate an economy in the presence of the virus for the foreseeable future. And figuring out the right fiscal policies in those settings I think requires looking at the roots of the downturn.

And the key issue in the downturn is that households, without any loss in income, stopped spending. In particular, in the second quarter two-thirds of the decline was diminished spending on services, and fully a third of the list was reduced spending on health care services.

Households, especially affluent households, stopped going to restaurants, traveling, going to hotels, they stopped doing anything that involved personal interaction and the delivery of services.

To have a successful strategy going forward, we cannot simply rely on income replacement in the form of checks or unemployment insurance. We in fact have done a remarkable job of that already. In the second quarter, the economy contracted by 10 percent. Disposable personal income rose by 10 percent. And the saving rate exceeded 25 percent.

To be successful, we have to somehow address the safety issues that are the Achilles heel of this economy. It has to be the case that workers are willing to go to work, businesses are willing to open their workplaces, customers feel safe conducting commerce.

Those kind of supply side considerations, the workers and the businesses, should be the focus of what Congress does.

I am a big fan, for example, of tax credits for subsidizing the purchase of PPE, the provision of testing, the modification of workplaces so as to be able to conduct business in the presence of the virus. That is a strategy that has to be an essential part of anything that will be successful going forward.

That strategy does not include, in my view, automatic triggers on unemployment insurance, or other such expansions of mandatory spending. From a budgetary perspective, mandatory spending is the original sin of federal budgeting. Prior to the existence of mandatory spending, we balanced the budget on average. Since it was widely adopted in the mid-1960s, we rarely balanced the budget, and indeed in the 21st Century we have never stabilized our debt relative to GDP.

So we should only have additional mandatory spending programs if they are absolutely necessary. We have seen the broad discretionary response. I see no compelling case that says Congress cannot respond effectively. We do have existing automatic stabilizers, as Chairman Lee pointed out. There is no reason to suspect they are failing.

And the entire exercise of putting the automatic triggers presupposes that this Congress has better information, has better judgment about the policies than a future Congress, which might be in a much better position to make those same decisions.

So I do not think you can make the case to give up our current system in favor of that mandatory system at this point in time.

So I thank you for the chance to be here today, and I look forward to answering your questions.

[The prepared statement of Dr. Douglas Holtz-Eakin appears in the Submissions for the Record on page 59.]

Vice Chairman Beyer. Thank you, Dr. Holtz-Eakin, very much. And now we go to Mrs. Greszler.

Welcome.

STATEMENT OF MRS. RACHEL GRESZLER, RESEARCH FELLOW IN ECONOMICS, BUDGET AND ENTITLEMENTS, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mrs. Greszler. Thank you so much for the opportunity to be here today. Along with Ms. Boushey, it is a pleasure to be back at a JEC hearing.

As we talk about the shared goals of reducing uncertainty and increasing confidence, it is important to recognize that we can help Americans who are suffering economic hardships without delaying a recovery or further driving America toward fiscal collapse, potentially then leaving us unable to respond to the next crisis.

One-size-fits-all government interventions come with tradeoffs, especially in light of our $26 trillion debt. So it may seem, amid high unemployment, struggling businesses, and general uncertainty the government programs could help, but that is often when considering only what people can get and not what they have to give up.

So even some of our most basic programs are not without consequence. Food stamps reduce hunger, but they restrict what items

families can buy, and where they buy them. Workers often wait a year to receive disability insurance benefits, and another two to receive Medicare.

Some workers are still waiting to receive the unemployment benefits from the CARES Act, and some businesses have thrown up their hands in confusion and frustration and returned PPP loans.

Automatic adjustments are logical, but they cannot always account for individual circumstances. When friends of mine suffered an income loss, their food stamps automatically increased from $700 to almost $1,000 per month. But they did not need more food. They needed a home and a second job.

When the government decides who receives what, when they receive it, and how much they receive, people have less control over their circumstances. People save less if they believe the government programs will provide for them. And they have less to spend if the government takes more in taxes to finance those programs.

And already Americans pay more in taxes than they do on food, housing, and clothing combined. It may seem like everyone would end up equally well off, paying taxes in and getting benefits out, but government programs are not like savings accounts that households can access when they want based on what is best for them.

Recent stimulus checks and increased unemployment benefits were not helpful to the worker who had an empty bank account and lost his job when his car broke down last year. And Social Security seems like a sham to someone like my colleague who died last week at age 62 and cannot pass on the hundreds of thousands of dollars he paid into the system to support his wife and his children who will soon be starting college.

So it is just really hard for one-size-fits-all programs to meet the needs of 129 million very different households. I do think that those government programs can provide short-term Band-aids, but lasting security and prosperity comes from households having options instead of feeling trapped.

People need opportunities to earn a living. They need to achieve rising incomes, and to be able to save for their future needs and desires. And responsible budgeting and planning ahead are key, but the Federal Government sets a terrible example here.

We are told that we should have three to six months' worth of expenses set aside for a rainy day. And yet, despite nearly a decade of economic growth, the Federal Government has zero savings, and instead 62 months worth of debt going into COVID–19.

We are very fortunate that we have been able to borrow to combat the pandemic, but there is a fast-approaching limit to our seemingly inconsequential debt. And the danger is, we do not know the limit. Fiscal crises are often sudden and severe, leaving no room for a gradual retreat.

So as calls for more aggressive federal programs intensify, Congress should instead work towards a stronger economic recovery by first replacing the $600 unemployment benefit with one that better aligns to workers' previous earnings, to help unemployed workers without delaying the recovery.

Second is opening doors to work. With limited jobs available, people need options, and that could include nontraditional work such as freelancing. Last year, 76 percent of people said that they would

consider freelancing if there were a recession. And 46 percent of people who do freelance say it is their only option because of their own health condition or a family situation.

Policymakers should also support workplace flexibility. The Working Family's Flexibility Act would allow low-wage workers to accumulate paid time off. And rolling back the overtime threshold would provide more stable incomes and more remote work options for lower income workers.

And finally, policymakers should enact universal savings accounts so that everyone can save in a single, simple and flexible account to use for any purpose, and without penalties. These accounts have been particularly helpful to lower and moderate income households in Canada and the UK. Most households would prefer to have a savings account available when they need it to spend on what they want than to have the government specify what they can get and when they can get it.

Thank you, and I look forward to your questions.

[The prepared statement of Mrs. Rachel Greszler appears in the Submissions for the Record on page 74.]

Vice Chairman Beyer. Mrs. Greszler, thank you very much. And thank you to all of our panelists.

I will now begin our first round of questions.

Dr. Boushey, is there any evidence whatsoever that the supplemental unemployment insurance benefit, the $600, has acted as a work disincentive? I keep reading again and again that because indeed many people are making more with the benefit than they did before, that they do not want to go back to work.

Dr. Boushey. So there is not evidence of that as of yet. I am actually looking in my written testimony. I have a fantastic chart, which I am going to hold up on the screen, if I can do this in videoland here, but there is a chart—it is not in color because I do not have a color printer at home. It shows that 70 percent of the unemployment insurance recipients who returned to work in June actually earned more on unemployment than they did in their prior job.

So this is from late-breaking data from a number of scholars, a number of economists, and there is a bunch of other evidence. There are a number of studies also cited in Jared's research, that indicate that really what is hampering people from getting back to work is the uncertainty around the coronavirus, the uncertainty about whether or not the job is available and open.

I mean, remember that the bulk of the job losses have been in those face-to-face industries. So if you are trained as a chef, or you are trained as a waiter, and your restaurant just is not open yet, it is very difficult to go back to work still. So we have to sort of bear that in mind. But what we do know from the emerging evidence is that, as jobs come back online, people are jumping back into work. And I think it is in no small part because most people understand that work is the path to maintaining their income, and that is also the way that most people get their health insurance.

So we have created a really strong incentive for people to focus on getting back to work, and the evidence so far is not that the $600 is the key thing that is preventing people. And I just want to stress that it really is the key thing that is keeping spending going. And if you want to be creating more jobs, you have to sus-

tain that consumer demand. You have to keep people paying their rent. You have to keep them spending in their communities until we contain the virus.

Vice Chairman Beyer. Thank you, very much.

Dr. Bernstein, one of the current Senate Republican plans is to cut the $600 to $200 for an interim period, and then move it back up to a replacement of 70 percent of the worker's past wages.

Georgia Labor Commissioner Mark Butler, who is a Republican, called the 70 percent wage replacement model, which would put strains of already overwhelmed state unemployment offices, quote, "the dumbest idea ever."

Do you agree? What do you think of the 70 percent replacement model?

Dr. Bernstein. Well, the dumbest idea ever is a really high bar. I think probably more to the point is, it is unimplementable within two months. I say that with great confidence because I spent some time in court in my role as Chair of the Board of National Employment Law Project, that is extremely close grain on our information on this; that because we have 50 different state unemployment insurance systems, and some of them are demonstrably quite creaky, which is why we had to do the $600 plus-up in the first place, they simply do not have the administrative capacity to achieve this. Which means that the $200 would likely get locked in.

So what we should be worrying about is the impact on the macro- and microeconomy from this cut. I agree with a lot of what Doug said about the importance of this spending to supporting the economy through this very difficult period. What would have been a deep recession would have been a deep depression without it.

If we were to go from $600 to $200, Mark Zandi, I have in my testimony, the economist estimates that this would be a loss of a million jobs, and it would raise the unemployment rate by more than half a percent. Now the unemployment rate is already 11 percent, which is higher than its peak in what we used to call "The Great Recession." That would mean an unemployment rate of probably north of 11½ percent.

So this is terrible micro, leading to, in my view, cascading hunger and evictions, and it is terrible macro pushing exactly the wrong way on an economy which is very clearly in a stall right now.

Vice Chairman Beyer. Dr. Bernstein, thank you very much.

Let me now recognize our Chairman, Senator Lee, for your questions.

Chairman Lee. Thank you very much, Mr. Chairman.

Mrs. Greszler, you have highlighted a number of reforms that could improve employment opportunities, and flexibility for workers beyond the pandemic once this thing is over.

This includes allowing workers to choose between paid time off and overtime pay, as the Working Family's Flexibility Act would accomplish. How would those kinds of policies improve economic resilience as compared to an extension or expansion of automatic stabilizers?

Mrs. Greszler. So families need to feel like they are in control, and to be able to act quickly based on what is best for them. Now under the Working Family's Flexibility Act, a lower wage worker

could have accumulated a week, six weeks, however much amount of paid time off, that they can cash in whenever they want.

The problem is, when you have a government program that is in charge of those things—you know, Washington State has a new paid family leave program, and yet people were told they cannot apply for the program. They are overwhelmed. They were waiting a month before they could even apply, and then months more before they could get benefits.

And so you end up seeing how you do not actually have control when it is the government program. And I agree with everything happening on the UI Fund, but the problem there is that the programs cannot handle what we want it to do, which was to replace the hundred percent of people's incomes. And so it was that failure of a government program to do the right policy, that we instead ended up with this flat benefit of $600 that might be $200.

So we need to have more flexibility. You know, having the options like independent work where you can just pick up a job and go out and do it, instead of having governments like California that are trying to outlaw those types of work.

Chairman Lee. Okay, thank you. That is helpful.

This next question will go to you, Mrs. Greszler, and also to Dr. Holtz-Eakin after you answer.

You know, there is bipartisan agreement around the need to reform the budget process, and the budget itself in order to address what has become a really unsustainable debt trajectory. And we certainly need to do that once the economy is on more solid ground.

This agreement was recently underscored by a letter calling for budget reform that was signed by 60 Members of the House of Representatives. I sincerely hope there is political will for that, as we failed to implement important budget reforms after recovering from the Great Recession.

So again, Mrs. Greszler first to you, and then Dr. Holtz-Eakin. In your opinion, would expanding automatic stabilizers worsen our current special debt trajectory?

Mrs. Greszler. Yes, and that is the problem: facing the situation where we are basically putting everything on the credit card. You know, we would not tell households, every time you hit a bump in the road, your car breaks down, you lose your job, put it on the credit card and do not ever pay it off again in the future. And that is effectively what we are talking about here. And so there needs to be changes to those processes, particularly addressing the mandatory spending side.

Chairman Lee. Dr. Holtz-Eakin, do you agree?

Dr. Holtz-Eakin. Yeah. As I mentioned in my opening remarks, mandatory spending is a key part of our long-term budget difficulties. The reality is that prior to the pandemic, the federal budget was on an unsustainable trajectory. We are going to emerge at some point back at full employment on an unsustainable trajectory, jumping off a much higher level of national debt.

And all I am asking is that Congress at some point stabilize that relative to GDP. That is the minimum that a nation should be capable of doing. We have not done that in the 21st Century largely because of our existing mandatory spending programs. Adding new ones is unwise at this point, in my view.

Chairman Lee. So expanding automatic stabilizers would increase the federal budget's mandatory spending. And so that in turn would leave less room for discretionary spending. It seems to circumvent the legislative process, and it is something that seems to mean that legislators are better equipped to be able to escape their responsibilities as elected officials.

Dr. Holtz-Eakin, does expanding automatic stabilizers make members of Congress less accountable to their constituents? Are policymakers better able to respond to a crisis using real-time information, rather than just putting everything on auto pilot?

Dr. Holtz-Eakin. It was a clear attempt to tie the hands of a future Congress to circumvent their sole responsibility to respond to events. And it cements an existing budget problem that has nothing to do with the gap between the revenues and the spending.

The fact is that we had spent too little on basic research, infrastructure, education, and national security. Those were discretionary categories because they are getting crowded out of the budget by large mandatory spending programs.

So if we are going to get back to investing in the future security and growth of our country, we are going to have to free up discretionary choices of Congress. This goes in the wrong direction.

Chairman Lee. Well said. What makes life easier for Members of Congress does not necessarily make for better policy or better accountability for the American people.

Thank you, Mr. Chair.

Vice Chairman Beyer. I now recognize Congressman Denny Heck from the State of Washington.

[Pause.]

Denny, you are still muted.

Representative Heck. Are you sure? Can you hear me?

Vice Chairman Beyer. We can hear you now, yes.

Representative Heck. Before I ask my question of Dr. Bernstein, I have to respond quickly to three or four head-slapping assertions that have been made here I find stunning.

The idea that we should recalibrate unemployment compensation to a percentage of income? My State Department of Employment Security tells me that it would take a minimum of 10 to 12 weeks, during which time enormous amounts of human suffering will occur.

Secondly, perhaps most stunningly, the idea that Social Security is a, quote, "sham." Social Security is unarguably the single most effective poverty reduction program for the elderly in the history of the world. It is not a sham.

And thirdly, this idea about automatic stabilizers taking decisionmaking away from the Congress who is better equipped to do it on their own. Oh, yeah? We have a net negative approval rating of 58 percent right now. And no small part of that is because we are failing to step up and act and respond to the pain and misery out there.

I have two images I cannot get out of my head. One is a Herbert Hoover imitation going on right now after the onset of the Great Depression, a suggestion that the free market is just going to take care of this.

Wake up! The free market is not taking care of this. And a second image is of Thelma and Louise in the final scene, where Louise slams the pedal to the metal and they grasp hands and they go out over the cliff as we shoot past the unemployment enhancement benefit, as we shoot past eviction protection.

I am not holding hands with anybody and going over the cliff while Americans suffer.

Dr. Bernstein, I am shocked and disappointed, Jared. You did not mention rental relief. The last month for which we have data, 30 percent of Americans could not pay all their rent; 20 percent could not pay any. Day after tomorrow, the rent is due. We have people exposed beyond belief. The next step for those states where eviction protection is not put in place is they are going to be evicted. There are going to be more homeless. They are going to be sleeping under bridges, and any other issue in their life, is it going to be taken care of, whether mental health, or unemployment, or substance abuse. Or they are going to move in with other people where they create a petri dish for the expansion of COVID–19.

So 160 co-sponsors of the House-passed version; 950 national and local organizations supporting rent relief. Jared, tell me, please, as you have written and said before, this is a critical part of what we must do to respond to this problem going forward.

Dr. Bernstein. I certainly agree with you, and very much emphasize my written testimony. In my spoken testimony I mentioned the threat of cascading evictions, and I could not concur more with everything you just said.

By the way, including this debate about discretion and mandatory. I would love to get back to that, because I really want to argue with my colleagues on the other side about that. I think they are conflating entitlements with counter cyclical policies in a way that is really bad economics.

Look, here is the thing that I want to underscore. I know you know, Representative Heck, but this is something people do not appreciate enough.

Even when you have an eviction moratorium, it does not mean that you do not have to pay rent. It means that your rental payments often accumulate to the other side of the moratorium. So when the moratorium ends, there you are stuck with a bill that you cannot possibly make if you are a low-wage, low-income person who is facing joblessness in this labor market.

In this regard, enhanced unemployment benefits have been a lifeline. And as it fades, it is going to cascade down the chain to landlords, to banks, to investors. This is a problem on every level of our economy.

What I appreciate most about the plan you are talking about is it is fiscal relief. It does not just tell people, here is a few months where you do not have to pay your rent that is going to come crashing in on you after those months are over. It actually relieves you of those rental payments. And I know you have significant resources devoted to this in the HEROES Act. And I deeply, deeply urge the Senate, if they want to avoid a cascading homelessness problem, to put that in the next relief bill.

Representative Heck. Thank you Jared. And a reminder to everybody that more than 50 percent of rental units are owned by

moms and pops. These are not national corporations. These are people who chose to build for their retirement security, not through the accumulation of a 401K, but my buying one or two or three rental homes or duplexes.

This is a whole housing ecosystem that we must rescue for this period of time if we are to avert disaster.

Thank you, Mr. Chairman.

Vice Chairman Beyer. Thank you, Congressman Heck. By the way, recent numbers from Fannie Mae and Freddie Mac suggest that 80 percent of the multi-family mortgages that are in forbearance are those moms and pops, those 50 percent that are the C class.

Let me now recognize the Congressman from Arizona, David Schweikert for his questions.

Representative Schweikert. Thank you, Mr. Vice Chairman.

Instead of spouting off on some of the things where I wish—you know, I think we were having a little bit of a partisan interplay on some of our facts—I want to actually try to see if we can find an overarching holistic vision.

So, Mr. Holtz-Eakin, if I turn to you and right now said, instead of speechifying, I turned to you and said: Give me a playbook that you would see for the next six months that brings as much stability and opportunity for the populations that have been just crushed, what would that six month plan look like?

Dr. Holtz-Eakin. So my thinking on this is heavily influenced by the experience of the U.S. after the terrorist attacks in 2001 where it became clear we had a threat to the U.S. population, and the top priority was to deal with the threat.

But it was also necessary to operate the economy in the presence of that threat. And we spent a lot of national effort and time doing that. It involved enormous amounts of regulation in the interests of national security—not all of which I think was a good economic idea.

We set up the TSA so people would feel safe on planes. We inspected every cargo container coming into the U.S. at enormous expense. And in general we raised the cost of doing business enormously. And the economy did not perform very well.

And there was fiscal stimulus in 2002 and 2003 and 2005, and then again in 2008, and none of it was terribly successful because we were not taking care of the supply side conditions.

We are in the same position now. We do need to get workers back into workplaces safely. That is going to require some modifications of workplaces, some PPE in the near term. A much better testing strategy than we have at the moment. Those are all costly endeavors. I think helping out that adjustment is important.

We are going to need to provide owners with some security that they are not at risk of lawsuits. If they take reasonable precautions, they should have some liability protection.

But we are going to have to make sure that we do not over-use the federal bonus to do two things: (a) provide income supplement; but (b) provide a barrier to re-employment. That is the problem. The higher the income supplement, the bigger the barrier to re-employment.

So it is too high. It needs to be lower. I will leave it to Congress to decide where the appropriate compromise is, and then look at the rest of the package to make sure that you have adequate income support so that you do not actually have a demand failure in the second half of this year.

But if you do all of the demand things with nothing on the supply side, I really fear we will be very frustrated and unsuccessful in getting people back to work. And in the end, it is going to be a long, hard thing to get people back to work. And past the next six months, we will have to worry about genuine movements of people from one sector to another as the economy reconfigures, as it always does in the aftermath of a recession, but will even more so in this instance.

So for six months I think you have got to have some supply side elements. Make sure you do not absolutely cut off all the demand. But that is not where the key problem is.

Representative Schweikert. Okay, so thank you. You actually brought up two things that have been bothering me, and I have been trying to figure out. So you do what is necessary in many ways to keep demand stable, or at least active.

How do you then build the incentive to support demand stimulus while providing the incentive for every individual to be able to go back to work in a safe manner. Do you provide a stimulus, or a bonus, or a demand-side scheme to actually go back to work?

Dr. Holtz-Eakin. You could put in a re-employment bonus. I think it would be enough to lower the barrier by, you know, taking the $600 where two-thirds of people have a replacement rate over 100 percent, and then get it down to something more close to traditional levels. And there is a lot of evidence that high replacement rates extend unemployment, extend benefits, extend spells of unemployment. We just need not overdo that and damage our capacity to respond.

So do that, and do that well. We really do need to fix the testing kit. I can go on for longer than I want to right now, but the bottom line is these clinical level tests, the BRC tests that are so expensive and take so long, are not necessary to identify infectious individuals. A one dollar test, and three of them approved by the FDA, can identify an infectious individual. Everyone should get up every day, take a test, and if you flunk, do not go to work, do not go to school.

That is what we need. And we can do that right now. Instead, we are putting clinical tests at the heart of this. That is a mistake.

Representative Schweikert. We are actually—we just introduced a piece of legislation to actually provide a credit on your—on actually your payroll side. So you get the credit almost immediately. We do not have time for it right now, but we have also been working on the impact of not having robust daycare, or not having schools, those other things.

And the long-term impact that would mean, particularly for female workers. We were finally seeing that remarkable movement in income, and it has now been crushed. I have an intense concern, and I think this applies to Republicans and Democrats. We need to get this policy going again so the separation of income differen-

tial that has happened in the last six months, we all need to start working on finding a way to have the path opened again.

And with that, Mr. Vice Chairman, I yield back.

Vice Chairman Beyer. Okay, Congressman Schweikert. We will now recognize Congressman David Trone from Maryland for his questions.

Representative Trone. There we go. Thank you, Mr. Chairman.

Dr. Bernstein, the National Bureau of Economic Research tells us that 41 percent of Black-owned businesses, 32 percent of Latino-owned businesses, 36 overall immigrant-owned businesses, have permanently closed.

Last week I helped to introduce a Jobs and Neighborhood Investment Act with my colleague, Greg Meeks of New York. This legislation would make about $18 billion available for investments for low-income and minority communities that have been hit hard by COVID. They will give you community development for financial institutions and minority deposit institutions capital, liquidity, and the operational capacity to expand the flow of credit into the underserved communities.

What effects do you expect to see from expanding the credit access to these minority-owned businesses? And also what else should we be doing to shore up these impacted businesses?

Dr. Bernstein. It is an excellent idea, but an idea that should have bipartisan support. It is widely understood that credit markets fail in massive terms when it comes to providing access to capital for the very folks you are targeting with your bill.

We know this from PPP statistics, that if you essentially could not call up your banker and get at the front of the line for a loan, oftentimes you went without it. And if you look at the results with the PPP, you see precisely that kind of disproportionate racial injustice that you described.

So that is a critically important piece of this puzzle.

I think the point that I would make is that we have seen throughout this crisis that when we provide businesses with low-cost credit, some of them will take it, and some of them will not.

And one of the reasons we know that those who will not do not take it, is because of the uncertainty. That in fact is the theme of this—of this hearing today. They just do not know when revenue is going to start flowing again.

So in this regard, to the extent that grants can take the place of loans, I think they could be even more helpful for some of the kind of businesses we are talking about.

Representative Trone. Well I think that makes a lot of sense. The aversion to take on debt is something these small businesses are really going to feel to be part of their business.

Okay, Dr. Boushey, this week the Center for Economic Growth put out a report describing home ownership rates have declined the most since the Great Depression. And now these declines are concentrated on the bottom half of the income distribution among Black and Hispanic families.

So housing is clearly the most important source of wealth for most U.S. families, and thus it is a wealth equalizer. And as we debate near-term approaches for stabilizing the economy, and

American families, what actions do you recommend we take to reverse this trend to help all families be able to buy their home?

Dr. Boushey. Well I think it is a great question, and it is so important right now with so many families who are struggling to be able to afford rent, and to be able to continue to pay their mortgage.

I think that the key thing right now for so many families is being able to have that income. And so a lot of it does come back down to continuing to extend those additional unemployment benefits so those families who are out of work and do not have the means to pay their mortgages.

I know in my family we have folks who are unemployed, and that is the most important thing; those benefits are making a difference between being able to pay that mortgage and not.

I think as we look a little bit over the longer time horizon, one of the things that came out in this study is how home ownership is declining for younger cohorts of families. And those are families who have not saved enough. These are people that graduated into the Great Recession that we know have seen lower lifetime, lower incomes because of what happened over the past decade.

So a lot of it I think is really focusing on ensuring that we are doing everything we can to stabilize that labor market, especially for young people, is one of the best investments we can make to allow them to build up that capital and to buy homes in the future.

Representative Trone. That makes sense.

Dr. Boushey, you have written about the negative impacts on home—on income inequality among the average American worker, and now that inequality harms our country's long-term economic prospects. And you have advocated for investments in early childhood education programs—quality government-funded child care; crucial to building ladders of opportunity for economic growth and stability.

These are policies we should be thinking about today to stabilize the economy and get people back to work. But it is expensive. How would you reconcile the costs against the outcomes, which we will not know for sure for many years?

Dr. Boushey. Well one of the things——

Vice Chairman Beyer. Dr. Boushey, if I can interrupt?

Dr. Boushey. Yes.

Vice Chairman Beyer. If we can—if you can hold your answer to that for the second round, which hopefully we will get to in about 10 minutes.

Dr. Boushey. Will do.

Vice Chairman Beyer. Thank you. So thank you, Congressman Trone.

I now recognize Congresswoman Herrera Beutler from the State of Washington.

Representative Herrera Beutler. Hi, there. I do not know if this part has been talked about yet, but I serve on Appropriations in the House, and obviously 70 percent of spending is mandatory, and interest payments leaving Congress with about 30 percent.

I think it is concerning that expanding economic stabilizers to create more mandatory spending I think is going to worsen the issue. What changes do you—and this is open to the panel—do you

think can be made to existing stabilizers to make sure that they are more effective, rather than creating new ones? I think I will end it at that.

Dr. Bernstein. I can jump in. You do not have to have the programs automatically turn on. I would like them to do so, but we can have an honest difference there. What you do not want them to do is to turn off too soon.

And I have got to say, I mean I hope you would agree that exhibit A for this problem is that as we speak, enhanced unemployment benefits are expiring tomorrow. And I think, at least on a bipartisan basis, as far as I can tell, that is something that nobody wants to happen.

I mean Doug was very clear about this a few minutes ago, and I appreciate his candor. So one potential solution is to make sure that the triggers that we are talking about disallow programs from shutting off too soon.

Mrs. Greszler. And I would just add here, when we talk about expanding more programs, or adding additional components to existing automatic stabilizers, there is a big difference between treating that like saving a head, and putting it on a credit card. And so anything that we are talking about doing in the future, if that is the decision that is made, that needs to be funded in advance.

But I also would encourage policymakers to look more to state and local levels, especially during this pandemic. There is a lot of uncertainty, and a lot of that is not, you know, equal across the U.S. Schools are making decisions. Parents do not know if they are going to be able to work or not in the fall, and that is going to affect unemployment rates. You are going to have more people out of work.

And so that is more a local decision. I know that in my particular county we have special grants to small businesses, especially including child care. New York City has made that decision that they are going to subsidize child care. These are things that need to be tailored to those state and local governments in a better way.

Dr. Boushey. I am happy to weigh in on this, as well. When you think about the unemployment insurance system, it does have long-standing local triggers that are supposed to trigger on the extended benefits with high unemployment.

What we know about them is that they typically have not worked out as we would like them to. They do not trigger on fast enough. And so there has been a lot of work, especially in the past decade given what we learned during the Great Recession, to study how we can make these triggers more effective.

I think Jared's point, because we do not want these benefits to trigger off, but we also want to make sure that when the unemployment rate spikes because of a shock to our system like we saw during COVID, that you immediately get—you make sure that those benefits go out to people.

We have advocated for a long time at Equitable Growth that these are things that we should be focusing on in good times so that the system is ready for the next recession. Given that we are here to make sure that any steps that we take also shore up unemployment insurance for the long haul, so that we are acknowledging that people need these benefits, and we do need to acknowl-

edge that we need to shore up the systems so that we upgrade the computer systems and all that for next time. Because it will happen again.

One thing I want to remind us of, is that when we put in place the unemployment insurance system as a part of the Social Security Act in the 1930s, the wage base for Social Security and the Unemployment Insurance Systems was about the same.

Over time, the wage base for Social Security has grown with inflation. It is now over $120,000 a year. But that was not what happened with the Unemployment Insurance System. We have allowed the tax base for that to atrophy, and that is also a place that we can focus on. If we had allowed that to keep pace, then we would have more revenues going into the system and we would not be here talking about deficits right now. Because it does have a functional pay-as-you-go system.

Dr. Holtz-Eakin. So these are fine discussions in the abstract, and they always sound wonderful. As a practical reality, what it would do right now is lock in the $600 benefit that everyone agrees is too large, and that has to be dealt with it in some way, and doing this on an automatic fashion coming out of the Great Recession, we would have arrived at the beginning of 2012 with the unemployment rate still at 18 percent, at which point we begin go phase out extended benefits from 2012 to 2013, and when it was finally done in 2014, by the end of the year unemployment went down to 5.6 percent.

To do what they are suggesting, is to lock in high unemployment. That's a bad idea.

Vice Chairman Beyer. With that, thank you Congresswoman Herrera Beutler. We will now hear from the Senator from the Granite State, Senator Hassan.

Senator Hassan. Well thank you, Vice Chair Beyer, and Chairman Lee, for holding the hearing today. And thank you to all of our witnesses for participating.

I have a question first for Dr. Bernstein and Dr. Boushey. The majority of Americans live in states that have paused or reversed their reopening plans because of spikes in COVID–19. It is clear that we cannot recover economically unless we first contain the COVID–19 virus.

So could you each comment on two things. One, on the importance of virus containment for successfully reopening the economy. And, contrast our economic outlook in the United States, compared to other countries that have taken a different approach to virus containment.

And why do we not start with you, Dr. Bernstein.

Dr. Bernstein. Thank you. Let me start with your second question because I think it is such a dramatic difference. It is actually Figure 1 in my written testimony, if anyone has that handy by. I just posted something like six graphs of cases in the United States compared to Germany, South Korea, France, Italy—where of course they had an awful problem with the virus initially—and they did two things much better than we did.

They controlled the virus through testing, tracing, and quarantining. And they also helped people stay connected to work more. They focused more on making sure that when the economy could

ramp up, people would be connected to their workplace. And that has been shown to give a recovery more just kind of economic lift-off because it is much easier to kind of dial things up when the workforce is still in place. So that was tremendously important.

On your first question, it is just as everybody is quoting these days, the Chair of the Federal Reserve on this, because he is a very important guy in this area, but also he said it so plainly. Essentially—I am paraphrasing—there's not going to be an economic recovery without virus control. It is that simple.

Senator Hassan. And Dr. Boushey—and be relatively quick, just because I want to get onto another topic.

Dr. Boushey. Exactly. A hundred percent I agree with Dr. Bernstein. One of the best things that we can do is ensure that we have this short-time compensation; that we allow people to extend their UI and be able to maintain their connections to their employer.

We have seen that work in other places. That is one of the most important things we can do. And there is legislation on the Hill that can do that.

But I think that the other thing is, it is testing. It is contact tracing. And it is protective gear. And I think one of the most—two of the most important things that we could be doing is the Administration needs OSHA to give very clear guidelines, with accountability, to make us feel safe as workers and consumers. And we need to make sure that firms are being held accountable for that.

So we do not need to do the—getting rid of liability protection for them. So I think those are also things that are going to help us make sure that we open up safely.

Senator Hassan. Thank you very much.

Dr. Bernstein, I want to turn to another critical issue. The CARES Act provided vital emergency assistance to state and local governments that my State of New Hampshire has used to support small businesses, nonprofits, hospitals, and child care.

However, as pointed out by your colleagues at the Center on Budget and Policy Priorities, state budget shortfalls due to COVID–19 could ultimately be the largest on record.

Can you comment, please, on the economic importance of additional aid to state and local governments during the crisis? And how would it harm the economic recovery if Congress failed to provide additional assistance?

Dr. Bernstein. A really important question. Without additional assistance, the recovery is going to be much slower and take much longer to gain traction. We know that even in May and June when the labor market was adding millions of jobs, that state and local governments were hemorrhaging blood. I suspect they were the only major sectors to do so. They shed 1.5 million jobs over that period. Just a terrible outcome, and it is inevitable that we are going to see more of the same without more fiscal relief.

In the last recession, when I was working for the Administration—the Obama administration, state and local fiscal relief was one of our most important programs, particularly through enhanced FMAP matches, which is the most efficient and effective way to do this, in my view. And it has an extremely high economic multiplier. That money gets spent, and it reverberates through the whole economy.

Senator Hassan. Well thank you very much. And thank you, Congressman Beyer, for holding this hearing, and thank you to all our witnesses. I yield back.

Vice Chairman Beyer. And I apologize for not pronouncing Hassan right.

Senator Hassan. It is alright. It happens all the time. Thank you.

Vice Chairman Beyer. We would love to do a second round, for anyone who is willing to stay. And let me kick it off by first pointing out to my friend, Congresswoman Herrera Beutler, that the best way to deal with mandatory spending in the long run is to fix Medicare and fix Medicaid, with evolving health care. And to make sure that we fix Social Security. John Larson's Social Security 2100 pays it all ahead so that we do not have to think about it as mandatory spending, drawing down money that has been set aside, as Social Security Insurance says it is.

I also want to reiterate, I think it was Dr. Boushey's point about the base. The base in Virginia is $8,000 for Unemployment Insurance. I pay it for our occasional housekeeper. It is one-tenth of one percent on $8,000. So for I think $8 a year, I can afford her. It is not much of a contribution to the State Unemployment Insurance Fund.

Dr. Boushey, I had the opportunity to be on the BEA call this morning at 8:35 on GDP, the 32.9 percent. And taking it apart, of that 33 percent rounded, 25 percent was decreases in consumption; 4 percent was decreases in inventories, mostly car dealer inventories. So it was overwhelmingly decreases in personal consumption, but it was not goods. People bought just as much food as they did before, just as much gas. They spent just as much on housing and utilities.

Where the decline was, was in the health care, in recreation services, and food services, and in accommodations. Basically all discretionary income. So when we think about that $600, that unemployment insurance, I'm interested in how they flow through to economic growth and job creation. Doesn't it follow right from the numbers that all of that $600 was spent on things that those people needed to survive?

Dr. Boushey. That is certainly what the evidence points to. Let me talk about some research. Economists have been able to analyze all of this just-in-time data that has been coming out.

One of the most interesting studies has shown that actually in especially sort of middle and lower income communities, because of the additional money flowing to them from Congress, you have actually seen spending stabilize. And that has actually been able to support those local small businesses in those communities. Because most of what they are buying are things that they need.

What we are seeing in higher income communities is that, because there is more discretionary spending, and because people are not going out to eat, they are not buying fancy shoes and the like, many of those small businesses are struggling because that discretionary spending is falling down.

So I wanted to start with that example to make that connection between the $600 that is going out to families, and what it is doing to local economies. And those families that need it, who are liv-

ing—you know, the majority of Americans who are living hand-to-mouth, who do not have a ton of money in the bank, who are being laid off or having their hours cut, means that they do not have a lot to rely on, they are spending that on things they need.

And so we need to make sure that that money gets out to them. And on the other hand, in those higher income communities where they have more discretionary spending, they are also cutting back. And that is harming those businesses.

So with all of this said, today's GDP numbers really do just underscore the importance of what you all did in the CARES Act just a few months ago.

Vice Chairman Beyer. Thank you, very much. By the way, that same notion of the people at the bottom need every penny to spend just to survive, the annualized savings rate in the second quarter was 22 percent, the highest in the history of the Republic. And it was not those people that were getting unemployment benefits.

Dr. Bernstein, all through the post-Great Recession we kept hearing that certainty was phenomenally important for businesses to make investments, to open new stores, to hire people. How much will all this uncertainty play in the lives of the people that lost their jobs in the last three months? Not knowing whether the unemployment benefit was going to be extended for the 30 million people without a job?

Dr. Bernstein. I think that the problem of uncertainty, which by the way has been of great interest to economists going back to Keynes, if you actually read Keynes' analysis of fundamental problems in the economy, uncertainty is at its core. And he is very clear to connect this to when markets fail, and that there is a role for government to dampen this uncertainty.

If you listen to the Federal Reserve today, they will tell you the same thing. And they very much emphasize this notion of forward guidance, telegraphing to markets what they are going to do to tap the economic benefits that produce uncertainty.

So people—and I go through this in my written testimony—people will simply not plan to take a vacation, so they will not book a home; they will not plan to invest in their house, so they will not hire a construction firm. And it just ripples through. The members of that firm have less income, and then they do less spending.

So this is a really problematic economic infection right now. And this is something Congress can actually really do something about, by getting together, as Congress did in the initial part of the pandemic, and act with the kind of urgency that they acted on back then. The virus is rearing just as badly as it did then, but Congressional urgency has diminished in an extremely troubling way.

Vice Chairman Beyer. Okay, thank you, Dr. Bernstein, very much.

I now recognize Chairman Lee for a second round of questions.

Chairman Lee. Thanks so much, Mr. Chairman.

Okay, let us pick back with Mrs. Greszler and Dr. Holtz-Eakin, following up on some of the things we covered in the last round.

The CARES Act relaxed a number of restrictions that are associated with savings accounts like IRAs and health savings accounts so that Americans could more easily reach into and tap the resources that they have. A recent Social Capital Project report that

was produced through the Joint Economic Committee staff suggest that policymakers could ensure that Americans have access to future savings by creating universal savings accounts.

These accounts have significantly increased savings among account holders in both the United Kingdom and in Canada. So I would like to know, what do you think of universal savings accounts as an option to help improve Americans' future financial stability? And what other policies could help Americans become more prepared for future crises?

Dr. Holtz-Eakin. Well, Chairman Lee, I do want to say at the outset that, you know, we've kept track of the COVID-related relaxations of regulations in the aggregate at the American Action Forum, and there were well over 800 instances of using emergency authorities to waive regulations. That is prima facie evidence that we have too little flexibility in the system, and that we ought to think very hard about making many of these waivers permanent as you suggested at the outset.

Telehealth is the leading example. Telehealth has been an enormous boon in the midst of these physical restrictions, and it is due to the waiver of restrictions out of HHS that you can now do this.

So I think that should be on everyone's radar screen. And I want to embrace having the option for a universal savings account. We know that too few Americans have access to the traditional three-legged stool with a private pension, personal savings and social security, and are largely focusing on only having Social Security. We need to rehabilitate the private sector's contribution to savings and having the flexibility during their life cycle to meet emergencies. So that would be a good way to do that.

Chairman Lee. Mrs. Greszler, how about you?

Mrs. Greszler. Yeah, and I will just add on the savings side. The reason that a lot of lower income people do not have savings accounts, at least in part, is because it is often difficult to save. You do not know which account you are going to save in, and what limits are going to be put on it, or are you going to be charged a fee if you take money out early. But if you have one simple account that everybody can use for whatever purpose they want, at whatever time they want, then we know that people are going to save more.

In Canada and the UK, as you noted, 50 percent of the accounts that were opened under universal savings accounts were low and moderate income savers. And they actually put a higher percentage of their income into those accounts than did the higher income group.

So we know that this is an opportunity out there, and in this current pandemic, you know, if the UI benefit did not come in time, they would have had that account to at least hold them over.

Chairman Lee. Mrs. Greszler, when we look at automatic stabilizers, one of the things that I think can be helpful is to look at existing automatic stabilizers to see what impact they have had on the economy. And the current pandemic reminds us of the fact that the economic stabilizers can have a significant effect on the economy, not always for the benefit.

For example, since March 21st of this year, nearly 50 million Americans have applied for unemployment insurance. This is a

rate 14 times higher than that found during the same period of time just last year. And at the same time, due to delays in the overall ineffectiveness of the unemployment insurance program, many Americans were left waiting for the relief that they needed and still need.

So in light of that, should policymakers consider improving the automatic stabilizers we already have? For instance, by addressing the delays plaguing the unemployment insurance system to make them better. And if so, what are some ways that policymakers can do that?

Mrs. Greszler. Well I think we should expect the same from government that government expects from private individuals and businesses. And whereas they can change tax laws, and payroll provisions, and other things on a dime and expect the businesses to be able to adjust, we should expect the government should be able to adjust these programs. And the fact is that they are not able to. They are so antiquated that they cannot adjust to provide a match at 100 percent of somebody's income when their benefit is already based on income? It is a little bit incomprehensible that they cannot do this.

And so it just draws to the fact that you can establish all these automatic stabilizers and new government programs, but the reality is they might not be there for you when you need them.

But I would say, you know, whenever there is a stabilizer, it should be funded ahead of time, and make sure that you are stress-testing these things. Will they be able to benefit people when needed?

Chairman Lee. Thank you. Thanks, Mr. Chairman.

Vice Chairman Beyer. Yes, thank you, Chairman Lee.

I now recognize the Congressman from Washington, the champion of the rent-payer, Congressman Heck.

Representative Heck. Thank you, Mr. Vice Chairman. I actually want to stay on the subject of housing. It seems to me that we have got a confluence of factors and known facts here that might suggest a path forward that we ought to take.

For example, we know we have a serious housing shortage in this country. We know that we have an even greater shortage of affordable housing. We know that as occupancies go up, rents go up, and people become more rent burdened and there are a higher number that are rent burdened today than ever before. But we also know that construction of housing units has, until the last recession, helped lead us out of every recession in modern history.

And it seems to me this suggests that we ought to be pursuing this. I obviously have my own idea, the Fulfilling the Housing Trust Fund, which would convert the 10 basis point G Fee adopted by Congress 10 years ago to pay for the payroll tax during the last Great Recession, to the purpose of building affordable housing as a means of helping people with housing as a means of helping accelerate economic growth and all the job creation associated therewith.

So for Jared and Heather, I would ask your reaction to that particular idea, briefly. But more importantly, what other kinds of things, given the fact pattern, should we be pursuing? And this

time let us start with Heather, if for no other good reason than she is a proud native of my home state.

Dr. Boushey. That I am, a proud Washingtonian. I happen to see two Washingtonians on this call today.

So I am not familiar with your legislation, so I do not feel competent and I do not want to comment on that specifically. I mean I think what I can say, though, is that this idea that in previous recessions housing has been—has pulled us out. It is a really important point to be thinking about in the current crisis, and how we are going to build towards recovery.

So I think for the most part, today's conversation has been about relief. We are in this crisis right now, and we are thinking about how we get immediate relief. You're asking us to think about what's the next step? How are we going to pull—we are going to have this long term lag from the crisis—how are we going to pull ourselves out?

And I would say two things. One is that, unlike some prior recessions, because of the nature of this, because of the sharp loss—because of COVID requiring everyone to go home, and the sharp drop in employment, it is different than say the Great Recession or other prior recessions that were caused by different kinds of shocks, or caused by what was happening in the last recession in the housing market.

So the first thing is you do not have that overhang in housing like you had last time. But that does I think bode well for the idea that we should be thinking about the place for investment. I think we should—and I do not want to take the focus off of housing because I know that you are elevating that as really important for family economic security—but I think we also need to be thinking more broadly about the other kinds of public investments that we need to be making in communities.

So when you say "housing," I am also thinking about how we can make sure that we are thinking about the energy needs, that we are thinking about the type of main investments that we need to make, and that the housing plan is consistent with addressing climate change over the long term.

I am thinking about the transportation networks that we need to have, and making sure that those are environmentally sustainable, that are consistent with the housing plan that you are talking about. And I am thinking about access to good schools and care. We know that there is this massive crisis in access to child care, and how are we connecting those dots to where people live, because the commutes to those jobs and care has become a critical issue.

So I think I would like us to put the housing issue within the context of a broader investment strategy that the United States should be thinking about in the coming months and years. But as soon as we get out of this immediate crisis, and making sure that people have their unemployment benefits.

Representative Heck. Jared.

Dr. Bernstein. I have endorsed the idea of seeding the Housing Trust Fund with precisely the funding mechanisms you have talked about. And if Congress does it in a timely manner, which would be soon, it would be similar. That is, a stream of resources would go

from one program where it is not needed to another program where it is needed.

So that is an efficient and important idea. The only other thing I will say, I suspect we are in a time constraint here, is that the other thing I would do in this space is make sure that the Housing Voucher Program is fully funded. The share of eligible people for rental vouchers who gets them is tiny. I do not have it off the top of my head, but it is something like 1 in 6, or something. It is really a terribly under-served program.

So we could house a lot more people a lot more securely by fully funding the Housing Choice Voucher Program.

Representative Heck. Thank you, Mr. Chairman.

Vice Chairman Beyer. And thank you, Congressman Heck. I now recognize Congressman Schweikert.

Representative Schweikert. Thank you, Mr. Vice Chairman.

Look, I love the conversation about "should we be building plans to do counter-cyclical automatic mechanisms," but in some ways we are actually living some of that right now with what we have already done policywise.

And to Mrs. Greszler, or Holtz-Eakin, I have seen stories that there is $2 trillion that have actually moved to bank accounts. They did not actually move to velocity in the economy. Is that an argument that the way we are delivering this is not actually creating the stabilization or stimulus in our society that we wanted, but in many ways is shoring up savings and bank balance sheets? And what would the economy look like right now if that $2 trillion, or even a substantial fraction of it, was actually circulating instead of shoring up bank accounts? Am I seeing something that is worth understanding—that this became the actual reaction of some of the stimulus we have pumped into society by the Federal Government—excuse me, the Federal Reserve pumped it.

Rachel, go ahead.

Mrs. Greszler. You know, this highlights the unique nature of the crisis that we are facing now, and so certain sectors of the economy have been hurt far more than others. There are a few sectors that are actually booming, and we do not know exactly what all this additional savings—who is it going to, for sure. You know, the savings figure was 32 percent in April, 23 percent in May. So we do know that a lot of households have savings sitting there that they are not spending. And if we send additional money out, just blanket checks to everybody, it may not be very effective.

And so I think this argues for really targeted assistance to the people who do not have job opportunities right now, to be focusing on those and not just sending out, you know, widespread more money, pumping it out there, if it is not actually going to do any good and is actually going to tip us towards instability in terms of our debt in the future.

Representative Schweikert. And, Rachel, sort of directly to the point you are making, I think I actually even saw something that credit card balances were also being paid down, too. So it was more than just savings rates going up. Some of the debt carried forward.

So it is really interesting both for the Keynesians in us, and the supply siders in us, some of it is not working the way we would have conceptualized.

Mrs. Greszler. Exactly. You cannot force people to go to restaurants, and hotels, and travel when they do not feel safe doing so.

Representative Schweikert. Doug, should I see this as the fragility of some of the discussions we are having today of "we should have all these types of automatic shock absorbers"? And from what we are seeing right now, it has basically shored up people's bank accounts and debt loads? And is there something that we should do right now policywise to get that money—or to incentivize that money—to circulate in our society?

Dr. Holtz-Eakin. I think it is a reminder of the fact that there are severe supply constraints on the economy, and that they have returned recently with rises in outbreaks in the South and West. And in those circumstances, you can give people checks, but if they do not have any place to spend them, they are going to end up in the bank.

We transferred at an annual rate $3 trillion in April to the household sector, and $2 trillion in May. That is an enormous amount of cash flow, and $2 trillion it ended up in bank accounts that was not in there in February. Unless we deal with the supply shortages, demand approaches alone will not solve this problem. That is one of the major lessons I think we have learned so far.

Representative Schweikert. Okay. So we are sort of in the classic, almost a classic, demand versus supply squeeze?

Dr. Holtz-Eakin. So I think—I want to be careful about this, because I am not advocating for throwing away any interest in maintaining the level of income and demand support going forward. That would be a really big mistake. But I do not think it alone will be sufficient.

We need to deal with the supply problems. Here is the issue in a nutshell: Heather described the microdata very well. In high affluent zip codes, spending dropped by about 20 percent. It did not in other places. That 20 percent was largely spending at small businesses that employed low-income individuals. You will not get low-income individuals back to work unless we deal with that shortfall.

Sending checks out to lower income Americans will not deal with that shortfall. UI will not deal with that shortfall. You have to have another strategy. And that is what——

Representative Schweikert. Okay, so you nailed the point much better than I could. What is the strategy?

Dr. Holtz-Eakin. We do not have one right now. I am encouraging you to make places safe to conduct commerce so that those individuals will return to their ways.

Representative Schweikert. Alright, thank you, Doug.

Thank you, Mr. Vice Chairman.

Vice Chairman Beyer. Thank you all very much. And I think, Doug, you did point out what the strategy is, and we all have different thoughts, is to make it safe to go back to the restaurant.

Rachel said it very well. You cannot force people to travel, or to go shopping, or eat at a restaurant. We have to invest in the health care, the science, to make that possible.

Well I want to thank all of you. You guys were wonderful. Our testifying economists outlasted the Members of Congress. Four to three. So you win. Good work.

And I want to thank all of you for a very lively discussion. It was very good to hear the ying and the yang on the automatic stabilizers, and the important points about tying future Congress' hands versus making Congress react.

I am continually embarrassed that I went from being a car dealer with a 15 percent approval rating down to a member of Congress with an 11. And I wish people thought better of our abilities to handle all these different things. You know, we really are upset with how much we squandered in the early months. Jared's comments about is it more than an order of magnitude higher rates of infection and death than we have. I read in the Pantheon Report they do not expect the death rate to peak until the middle of August.

And then Dr. Fauci was on a fascinating call this morning and said as long as this is rearing up anywhere in the world, think India, think Brazil, it is going to come back and bite us again until we actually have the vaccine and the treatments necessary.

So thank all of you. It is Congress' responsibility to somehow take care of the folks who do not have jobs to go back to and help them to get through. So let us take politics out of it. I will continue to argue for a data-driven approach that ties assistance to the level of economic conditions. I will also continue to worry about the deaths. And we will want to reduce uncertainty and restore confidence in our economy and our government, and even in our Congress.

So thank all of those participating today. I believe the record automatically stays open for three days, if someone fact checks you and you want to correct the record. And I really am grateful to all of you for being a part of this. We hope you will come back often.

Goodnight, have a great weekend. Thank you.

[Whereupon, at 4:41 p.m., the hearing was concluded.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DONALD BEYER JR., VICE CHAIR, JOINT ECONOMIC COMMITTEE

Chairman Lee, our distinguished committee members and witnesses, welcome everyone.

Our country faces two crises—a virus that already has killed 150,000 Americans . . . and the worst economy since the traumatic recession of just over a decade ago.

They are intertwined. The tragic failure to contain the coronavirus led directly to the economic meltdown.

The President's ill-advised push to "liberate the states" and abandon strict social distancing measures has led to an explosion of new cases and deaths . . . and likely will prolong the deep economic downturn.

The President's economic policy is his coronavirus policy—which tragically, is first to put his head in the sand, then throw his hands in the air, then blame others.

This is the number one reason there are more than 65,000 new cases a day, and why more than 30 million Americans are on unemployment.

CONFIDENCE

I have had the privilege of talking to many prominent economists, and they universally tell me the same thing.

To resuscitate the economy, we must get the coronavirus under control.

But it's essential not only to contain the virus—but to give Americans a high degree of confidence that the virus is contained.

They must know that they are safe before they will go back to work in large numbers. They must know they are safe before they will return to stores.

As Federal Reserve Chairman Jerome Powell said, [quote] "Until the public is confident that the disease is contained, a full recovery is unlikely."[1]

The best that we, as Members of Congress can do, is give Americans confidence that we will help them stay afloat while the virus rages and the economy is weak.

UNEMPLOYMENT

The economic damage from the Administration's failure to limit the spread of the virus is staggering.

- For 19 straight weeks, more than one million Americans have filed new unemployment insurance claims.
- We've lost a net 15 million jobs since February.
- And the unemployment rate is the highest it's been in over 80 years.

After gains in employment in May and June, the labor market recovery has stalled.

According to the Census' Household Pulse Survey, the number of employed Americans fell by 4 million in a recent week, and the survey has shown a decline in the number of people with a job for four consecutive weeks.

CBO estimates that the unemployment rate will remain above 10 percent in the fourth quarter of this year.

PEOPLE ARE HURTING

As a result, nearly one in five American households could not make any portion of their rent or mortgage payments on time in July.

Millions stand in line at food banks.

Over 40% of Americans report serious anxiety or stress, according to a recent Census survey.

McConnell has pushed us to the precipice.

In March, Congress passed emergency, enhanced unemployment benefits to help Americans survive the coronavirus recession. It was designed to be enough to live on.

More than 25 million Americans receive those benefits.

The Democratic House voted two months ago to extend them.

Mitch McConnell, stalled—knowing that millions of Americans who rely on those benefits live in uncertainty and fear.

He refused even to consider the House bill.

Mitch McConnell is a master of political brinksmanship, holding Americans economic hostage in order to gain negotiating leverage. It is a cruel tactic.

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[1] *https://www.wsj.com/articles/powell-says-despite-signs-of-stabilization-risks-of-long-term-economic-damage-are- significant-11592316029*

Tomorrow, thanks to McConnell and his caucus, those unemployment benefits expire.

THE COSTS OF LETTING BENEFITS LAPSE

Letting unemployment benefits lapse even if they are later restored causes people unnecessary pain. And recipients will face a gap in benefits of 2–4 weeks, according to the Economic Policy Institute.

The sharp decline in income for unemployed Americans has ripple effects throughout the economy. Without benefits, jobless workers will reduce spending, miss rent payments, fall behind on mortgage payments and even face eviction or foreclosure. More businesses will be forced to shutter.

Substantially reducing the benefit would also harm the economy.

EPI estimates that reducing the weekly federal benefit from $600 to $200, as Republicans have proposed, would reduce GDP by 2.5 percent and cost the economy 3.4 million jobs over the next year.

We must learn from the past

Here is a simple solution to this damaging brinksmanship—take politics out of it.

Our Democratic witnesses Heather Boushey and Jared Bernstein—as well as other top economists—support the use of "automatic stabilizers" that tie spending, e.g. on unemployment benefits, to economic conditions.

They quickly provide help when the economy heads into recession, lessening its severity.

If unemployment is elevated, unemployment insurance along with SNAP, Medicaid and other key supports should continue until the economy recovers.

We shouldn't have to vote 13 times—as during the Great Recession—to extend unemployment benefits.

NEW UI TRIGGERS BILL

In a weak economy, increased help—like unemployment benefits—should be automatic.

It should continue as long as it's needed—and no longer.

I am a fiscal conservative. I've always believed this approach would appeal to fiscal conservatives.

Yesterday, I introduced legislation, the Worker Relief and Security Act, to tie enhanced emergency unemployment benefits to the unemployment rate in each state.

The legislation would provide businesses, families, workers and estate and local governments with the certainty that they will get the support they need for as long the crisis lasts.

If the bill were to become law, we wouldn't be witnessing this damaging political showdown.

None of us can predict how long the recession will last. So, let's not try to guess. Let's increase the help when it's needed, and decrease it as the need recedes.

UNCERTAINTY IS A DANGEROUS FOE MAKING RECOVERY MORE DIFFICULT

I believe we will reach an agreement to extend enhanced unemployment benefits at some level.

I will fight to make sure that it's enough for unemployed Americans to weather the recession.

And I will continue to fight to make sure that in the future such help is automatic.

I will fight to help give Americans confidence that the Federal Government will provide adequate help when it's most needed.

I look forward to the testimony from our witnesses.

PREPARED STATEMENT OF HON. MIKE LEE, CHAIRMAN, JOINT ECONOMIC COMMITTEE

Thank you, Vice Chair Beyer, and thank you for presiding for the first time as Vice Chair over this very timely hearing.

The pandemic and the havoc it wreaked on American lives and the economy is unlike anything in recent memory. In response, Congress took unprecedented action that, along with Federal Reserve initiatives, helped stabilize the economy.

Beyond the legislative changes that we enacted, existing features of the tax code and traditional safety net programs like unemployment insurance are helping families that lose income and jobs as the pandemic ravages our communities. Known as "automatic stabilizers," these policy provisions operate simultaneously with other actions taken by state and local governments and Congress.

But it concerns me that many want to extend automatic stabilizers, as that would override the deliberation that Americans expect of their elected representatives and could hinder the economic recovery.

Mandating more spending in the form of expanded automatic stabilizers—ones that turn on and off based on macroeconomic conditions—contributes to one of the main problems of Federal spending: that it is overly automated, causing legislators to actively manage less and less of the budget as time goes on.

Reducing legislative discretion increases costs, reduces our ability to control the national debt, and diminishes policymakers' ability to tailor responses to the specifics of a future crisis.

The extraordinary measures we enacted initially were warranted but are not strategies we should continue to pursue now. They are unsustainable over the indefinite course of the pandemic. Today we must pivot to helping our communities reopen safely.

Our focus going forward should be on policies that pave the way for American recovery and allow businesses to adapt and reopen as safely and quickly as possible, while giving their employees and the customers they serve confidence in the procedures that are in place.

There are multiple actions Congress could take to strengthen the U.S. economy and hasten the recovery. We should examine and remove the regulations currently in place that are holding back businesses and workers from responding more dynamically to changing economic conditions, and we should consider how Congress can encourage Americans to save more so they can be better prepared for future crises.

Our efforts should include leveraging charitable giving by reforming its inequitable treatment in the tax code. This reform could bolster our COVID–19 response, as we discussed in our last hearing.

Our efforts should also include sun-setting all Federal regulations that were waived during the pandemic. In a letter to the recently confirmed Director of the Office of Management and Budget, Russell Vought, several of my Senate colleagues and I asked that these waived regulations go through the regulatory review process. This process would determine whether these regulations should be maintained, modified, or repealed. We noted that the absence of the waived regulations improved COVID–19 response efforts, and allowed doctors to practice medicine across state lines and provide telehealth services for Medicare patients.

Now also seems like a particularly good time to pass the Working Families Flexibility Act, which would allow more employers to offer workers a choice between overtime pay and paid time off. This could help workers take time off if they become ill or need to care for loved ones, while also giving employers another tool to help weather the disruptive effects of the pandemic on payrolls and schedules.

Whatever actions we take, we must not lose faith in our ability as a deliberative body to represent our constituents and to consider and create policy solutions tailored to the crises our country faces. And we must remember that policies should support the resiliency of the American people in the face of adversity rather than make them more dependent upon government.

Thank you again, Vice Chair Beyer, for calling this important hearing, and thanks to the witnesses for being here today. I look forward to your testimony and a worthwhile discussion.

Heather Boushey
Washington Center for Equitable Growth
Testimony before the Joint Economic Committee,
Hearing on "Reducing Uncertainty and Restoring Confidence During the Coronavirus Recession"
July 28, 2020

Thank you, Vice Chair Beyer and Chairman Lee, for inviting me to speak today. It's an honor to be here.

My name is Heather Boushey, and I am president and CEO of the Washington Center for Equitable Growth. We launched in November 2013 with the goal of advancing evidence-backed ideas and policies in pursuit of strong, stable, and broad-based economic growth. We do this through a unique institutional strategy: We fund academics to investigate whether and how economic inequality—in all its forms—affects economic growth and stability. We have an open and competitive academic grants program that now, in our seventh cycle, has given away about $6.5 million to more than 250 scholars nationwide.

What the research now shows is that there are many ways that inequality hurts both families and the long-term trajectory of our economy. These long-term trends are inimically tied up in the current coronavirus pandemic and resulting recession.

The most important economic uncertainty facing your constituents and our nation is: When will the administration and Congress address the public health crisis caused by the coronavirus pandemic?

Addressing the administration's failure to contain the coronavirus and COVID-19, the disease caused by the virus, is the only way to fully restore confidence and put us on the path to economic recovery. The United States is experiencing the most uncontrolled and deadly outbreak of any high-income country in the world. Compared to the European Union, we now record 10 times as many daily coronavirus cases and COVID-19 deaths.

Until the virus is contained, however, there are key actions that can bolster economic confidence and rein in uncertainty. Specifically:

- Immediately renew the $600 Pandemic Unemployment Compensation payments
- Pass generous aid for states and localities, which have already shed 1.5 million jobs and are bearing the brunt of responding to the pandemic, on the order of the $900 billion in the HEROES Act
- Set economic assistance programs, such as Unemployment Insurance, to continue automatically until objective economic conditions improve
- Build the data tools to know how this crisis and recovery are affecting families up and down the income ladder by enacting GDP 2.0 measures

- Enact other policies to stabilize demand and help those most affected by the crisis, including:
    - Food assistance
    - Rental assistance and the extension of the eviction moratorium
    - Direct payments to a broad swathe of low- and moderate-income Americans
    - Investments in communities of color hit so hard by the coronavirus
    - Funding to ensure safe and secure elections in November
    - Help for small businesses
    - Premium pay to our essential workers
    - Fixes to the long-term fragilities detailed below that have made us so susceptible to this shock

The HEROES Act, which was passed by the House more than 2 months ago, contains many of these priorities. The Senate should immediately consider passing this bill or a similar bill that includes a recently introduced bill from Sens. Schumer and Wyden to peg expanded unemployment benefits to the economic conditions in each state. This would allow aid to automatically adjust based on objective criteria. Vice Chair Beyer has authored a similar proposal.

The coronavirus pandemic abruptly ended of the longest economic recovery in U.S. history. But before we get to the current situation, we need to acknowledge that even in those good years, the gains from that economic growth weren't shared. This created systemic fragilities that left us less economically resilient and set us up for the multiple failures we are now experiencing.

The Roots of this Failure

This immediate failure is the result of a series of decisions made by this administration. But it also is the result of decisions made over the past 50 years that have created underlying fragilities in our economy and society. These decisions have made our economy less effective in good times and less resilient to shocks.

Even as the topline economic markers signaled to policymakers that our economy was growing last year—indicators such as a historically low unemployment rate and annual Gross Domestic Product growth of around 2 percent—wages were not growing commensurate with a tight labor market or at a pace to close our country's unconscionable longstanding racial income and wealth divides.

The fruits of our economic growth, in terms of both income and wealth, were diverging sharply.

The Federal Reserve Board's new Distributional Financial Accounts and the latest research by University of California, Berkeley economists Emmanuel Saez and Gabriel Zucman document that income inequality remained historically high, and wealth inequality was outpacing it.

Inequality hurts economic growth and mobility. Growth has slowed since 1980, and average people no longer share in the growth we do have. The bottom 50 percent of the population has the same inflation-adjusted pretax income that they did in 1980, and lower absolute mobility means that people born in 1980 now have only a 50 percent chance of surpassing their parents' income.

As I summarize in *Unbound: How Inequality Constricts our Economy and What We Can Do About It*, at Equitable Growth, in our now 7 years of looking at the best economic research, we see that inequality constricts growth by:

- **Obstructing the supply of people and ideas** into our economy and limiting opportunity for those not already at the top, which slows productivity growth over time
- **Subverting the institutions that manage the market**, making our political system ineffective and our labor markets dysfunctional
- **Distorting demand** through its effects on consumption and investment, which both drags down and destabilizes short- and long-term growth in economic output

As a country, we have put ideology over evidence. We have chosen tax cuts and deregulation over investments such as paid family leave, robust social insurance programs, and public institutions. We have put our faith in the idea that markets can do the work of governing.

Instead, we should put our economy—and society—on a path where growth is strong, stable, and broadly shared. To do that, we need to enact policies that constrain inequality at the top, not allowing it to spiral out of control, and giving the beneficiaries of that inequality the power to subvert our markets, politics, or economy. And we need to provide counterweights to concentrated economic power. As we consider the economy we had at the onset of the pandemic, we can see clearly how failures to ensure workers and families, especially Black, Latinx, and Native American workers and families, have access to the tools to be healthy and safe—policies such as paid sick time, access to affordable healthcare, and well-enforced workplace safety standards—made our nation less resilient to this shock.

There are six key factors that made the United States and the U.S. economy particularly susceptible to the coronavirus pandemic and COVID-19. Each of them have contributed to the current crisis. And if they are not corrected, the United States is likely to experience a slow and inequitable economic recovery.

1. **Too many people lack the basic protections that would have slowed the spread of the coronavirus**

The gaps in our social insurance systems exacerbated the spread of the coronavirus. The United States is behind its peer nations in labor market regulations to protect workers and families, including on paid leave, stable schedules, and access to child care. Compounding the problem is

the lack of health insurance and fear of high medical bills, both of which kept—and are still keeping—those who feel sick from seeing a doctor, placing a serious burden on these individuals as well as raising rates of transmission.

Research is already showing the significant economic and psychological toll this pandemic is taking on workers. These stresses are heightened for people of color and immigrants, who face institutional discrimination and are often forced by their already precarious economic straits to succumb to workplace abuses at the hands of their employers.

2. **Workers lack the power to share in the gains of the economic expansion that would have given them protections and security**

Civic institutions—especially labor unions, which once served as voices for many wage-earning workers (though never representing all workers)—have suffered a long decline. Now, only 1 out of every 16 private-sector workers belongs to a union. On top of this, labor laws and policies have failed to reflect the growing role of the fissured workplace in our modern-day economy, where firms subcontract pieces of their work so they can avoid responsibility for workers and working conditions.

These two debilitating trends in our labor market mean that corporations that are ultimately in charge of labor practices and that make the largest profits are not liable for maintaining 21st century workplace standards. The coronavirus pandemic exposed the failure of these labor market inequalities and the need for workers to manage health crises and family care, as well as protect workers against layoffs and the loss of these key health and family benefits.

3. **Decades of stagnant wages and meager workplace benefits leave many families without enough savings to weather the coronavirus recession**

At the onset of the coronavirus pandemic in the United States, millions of people across the country were one paycheck away from financial catastrophe, even after a decade of economic expansion and historically low unemployment. Case in point: Four in 10 adults in the United States said that if they had a $400 emergency expense, they would have to borrow, sell something, or would not be able to pay it.

As the coronavirus recession continues, more and more workers and their families are robbed of buying power, which will undermine one of the key drivers of economic growth—the stable incomes that drive consumer spending.

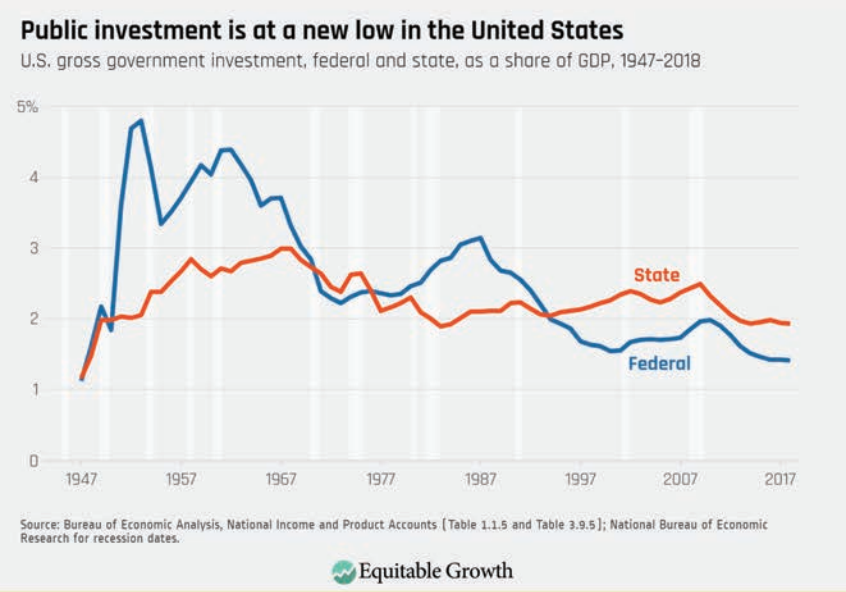
4. **Policymakers starve public goods of investments that would have enabled better protections from the coronavirus pandemic and ensuing recession**

Decades of tax cuts, culminating in the sharply regressive Tax Cuts and Jobs Act of 2017, have fueled a long-term decline in federal revenue that has starved resources that can be used to fund

critical public investments and basic governmental functions, including in public health. High concentrations of income and wealth hamstring our political system because the wealthy dictate the legislative agenda and shape news headlines.

Yet these same wealthy elites don't prioritize investments in public health infrastructure or other public goods. Early in this crisis, our neglected Unemployment Insurance system was unable to handle millions of Americans losing their jobs. Millions have waited weeks or months as decades-old computer systems struggled to process their claims. This dearth of investment is a systemic problem in the United States. (See Figure 1.)

Figure 1



5. States and localities don't have the resources to deal with a pandemic or a recession

State and local governments are experiencing sharp drops in their capacity to provide the services needed to cope with the coronavirus recession. Already, state and local governments have shed 1.5 million jobs. A continuing recession will induce further cuts to health and education and exacerbate the ongoing weaknesses. Austerity in state governments likewise disproportionately harms people of color, as public-sector jobs form the basis of a strong middle class for Black and Latinx workers.

6. **Business concentration across markets increases consumer and small business vulnerabilities just when those threats are most dire**

Wealthy and powerful corporations use their status to maintain dominance in the marketplace. Large businesses and monopolies muscle competitors out of business, suppress wages, and hobble innovation. These companies are also precisely the ones that will thrive after the coronavirus pandemic passes. Strong cash reserves combined with political influence allow entrenched businesses to swoop in when asset prices are low and reshape rules of entire markets in the aftermath. The collapse of small businesses will disproportionately hurt people of color for whom business ownership is an especially important route to wealth creation and to closing the racial wealth gap.

The failure to prevent coronavirus infections and deaths and the ensuing recession

President Donald Trump's focus is and always has been on the stock market rather than conceiving of and effectively implementing a comprehensive and fully thought-out federal plan to address the coronavirus pandemic and its economic effects. Case in point: Though the administration knew about the threat of the coronavirus in early January and took an early effort to limit the transmission into the United States by halting travel from China, where the coronavirus first emerged, it did not use that time to prepare sufficient stockpiles of medical and protective supplies.

Despite the months that have passed, the administration also has not set up a nationwide system to contact trace confirmed COVID-19 cases or given states the resources to do it themselves. And tests for the general population still can take a week or more to process and access too often varies by race.

Addressing the Immediate Economic Uncertainty

Unemployment Insurance

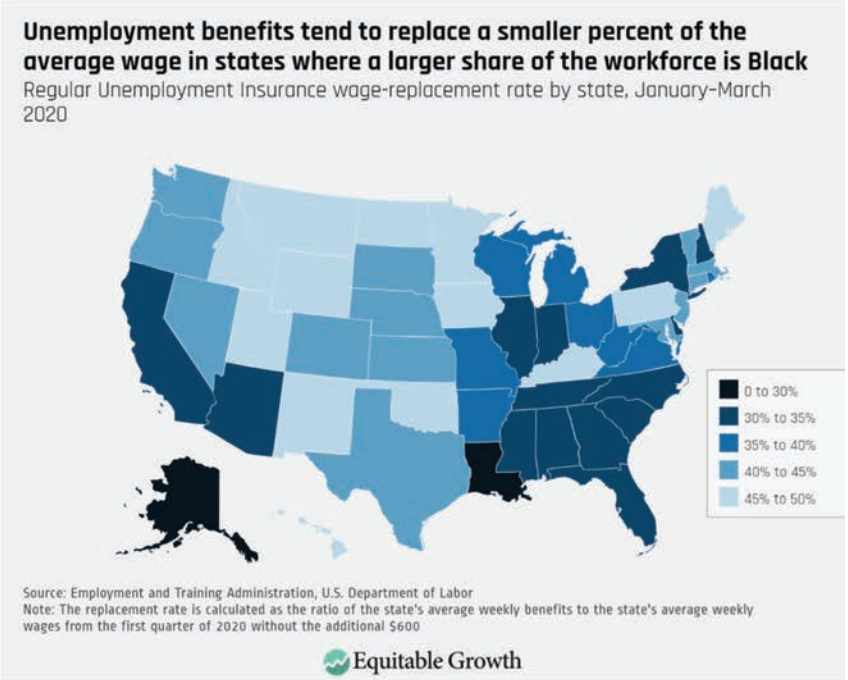
The largest economic uncertainty facing the United States is whether the Senate will renew the $600 increase in weekly unemployment benefits, known as Pandemic Unemployment Compensation, or PUC. The Senate majority has refused for months to act to renew this critical lifeline despite dire circumstances in the labor market.

In June, more than 11 percent of the workforce was unemployed, while the unemployment rate for Black workers was higher than 15 percent and more than 14 percent for Latinx workers. And conditions appear to have worsened in July as COVID-19 cases have resurged and states have been forced to re-enter various stages of lockdown. Unemployment claims numbers are rising

once more, and a new survey from the U.S. Census Bureau shows that a staggering 6.7 million jobs have been lost since June.

There is a racial component to the Senate's refusal to renew the $600 PUC benefit. States with a higher share of Black workers tend to have less generous jobless benefits. For Black workers, an estimate shows, the average maximum weekly benefit is $40 short of that received by White workers. (See Figure 2.)

Figure 2



We risk a cascade of economic damage that could be uncontainable if Congress does not act immediately to extend the $600 unemployment benefit boost. Families need this benefit to sustain them. Their landlords need them to pay their rent, and their local small business owners desperately need them to keep ordering take-out and popping by for socially distanced shopping.

Like a virus out of control, high unemployment spreads economic pain throughout the entire community.

Unemployment benefits accounted for 14.6 percent of all wage and salary income in May. Failure to extend the $600 boost alone would contract GDP by a rate of 2.5 percent in the second half of this year, per an analysis by Harvard University's Jason Furman. As a percentage, that is more than the economy grew in 2019.

Allowing the $600 boost to remain expired would devastate local economies.

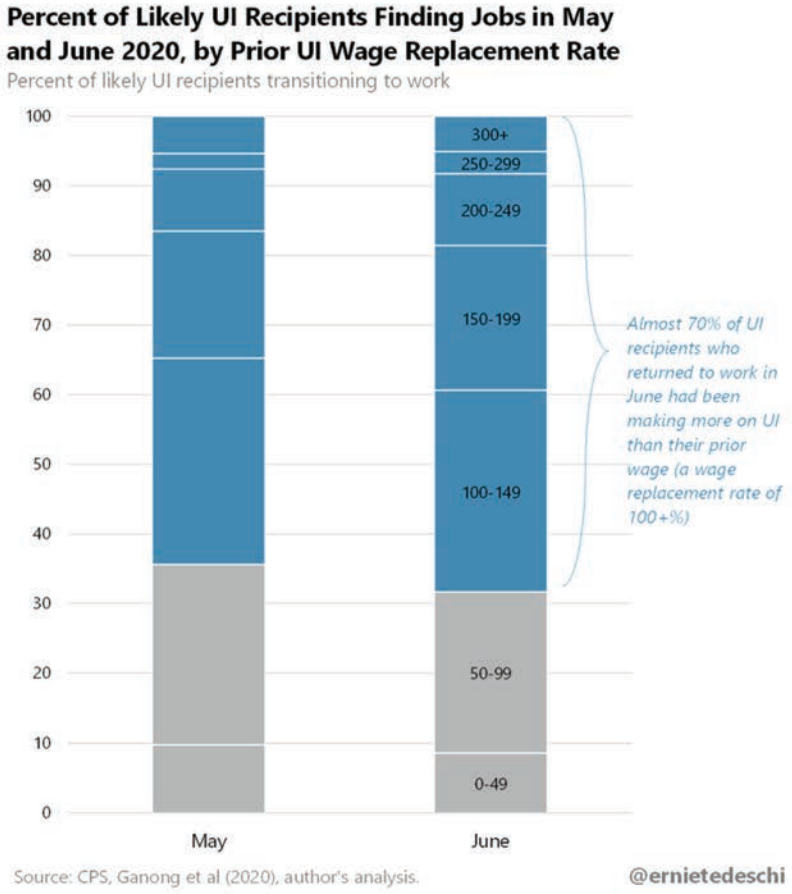
Our communities rely on the temporarily unemployed being able to continue spending. States where unemployment benefits replace a greater percent of workers' wages experienced the smallest drop in work hours in March—and, as of early June, had the strongest recovery.

There have been unfounded concerns that the $600 boost might be a meaningful disincentive to work during this crisis, perversely causing the very economic ailment is it meant to alleviate. This is not the case. The ongoing failure to be able to get back to business-as-usual due to the out-of-control pandemic, the absence of safe working conditions, a sharp drop in consumer spending, and lack of support for parents and caregivers are preventing millions from working, not Unemployment Insurance payments.

People are eager to get back to work when they have the opportunity, but there are not enough jobs in our labor market. The Job Openings and Labor Turnover survey shows that there were four unemployed people for every job opening in May. Lack of opportunities to work, not a lack of eagerness to work, are keeping unemployment elevated.

We can also see this in the population of people who returned to work in May and June after being laid off in April. Nearly 70 percent of those who returned to work in May and June did so despite the fact that they were making more from Unemployment Insurance than at their job, according to analysis by Ernie Tedeschi, an economist at Evercore ISI and former Treasury economist. (See Figure 3.)

Figure 3



In short, Americans want to work, and they know that a permanent job is more valuable than a temporary Unemployment Insurance check. This is one reason why employers are filling their scarce open positions faster than at any point since February 2012, as shown in the U.S. job vacancy yield.

Automatic Stabilizers

Nobody knows for sure how long the coronavirus recession will last or exactly how severe it will be. The uncertainty that would exist when confronting any recession is compounded by the uncertainty about the nature and consequences of the coronavirus itself, including the number of people who will die from COVID-19 now and in the future, the short- and long-term health impacts of the virus on those who recover, the pace at which treatments and vaccines will be developed, and the quality of the public health response.

Enhanced unemployment benefits should end when objective conditions show they are no longer needed. An unemployment-rate-based "trigger" that only turns off when a stable recovery is underway would allow this program to wind down automatically.

Sens. Schumer and Wyden have introduced a bill that would extend the $600 increase in weekly UI benefits beyond July 31, 2020 until a state's 3-month average total unemployment rate falls below 11 percent. The benefit amount then reduces by $100 for every percentage point decrease in the state's unemployment rate, until the rate falls below 6 percent. Vice Chair Beyer has sponsored a similar bill in the House. These bills follow the best evidence in research-driven policy design, inspired by research on automatic stabilizers from Equitable Growth and the Hamilton Project's book *Recession Ready*.

State and Local Government Aid

The next priority, if Congress wants to create economic certainty, is to pass fiscal relief for states and localities with around $900 billion in aid in the HEROES Act.

States and localities are bearing the brunt of responding to this virus in light of federal inaction. They are losing tax revenue and, as a result, have shed 1.5 million jobs so far—even as their services are more necessary than ever. These job losses make up a significant portion of the overall 12 million jobs permanently lost since February.

With state and local general fund revenues in freefall due to needed increases in spending on healthcare and related spending amid plummeting tax revenue, these governments' budgets are on the precipice. State budget shortfalls could total more than $550 billion over the next 3 years, nearly double what it was estimated states missed out on in the entire decade following the Great Recession more than a decade ago. Fiscal requirements that states balance their budgets are already forcing governors to propose cuts in spending that will harm already struggling communities. Local governments are, if anything, in an even more challenging economic situation.

During the previous recession, these budget cuts proved seriously harmful to the economy. Shrinking state and local government budgets during the Great Recession reduced Gross Domestic Product by more than three times the size of the cuts themselves, according to estimates.

Other Crucial Policies

Other policy priorities include food assistance, rental assistance and extension of the eviction moratorium, investments in communities of color hit hard by the virus, funding to ensure safe and secure elections in November, help for small businesses, and premium pay to our essential workers. And I urge you not to support enhanced liability protections for big corporations facing lawsuits if they put their workers at risk. Federal policymakers need to provide evidence-based guidance so firms open safely, not shift risks onto workers.

Finally, Congress should also implement new data tools to measure how the recession and recovery will affect people differently up and down the income and wealth ladders. The GDP 2.0 measure Equitable Growth has proposed, and which I have previously discussed before this Committee, will tell us whether families are recovering from the crisis and which need more help. We can lay the groundwork now to make sure we understand who benefits from a future recovery and what other action is needed.

We can see clearly that markets cannot perform the work of government. Americans need public institutions that can protect them from threats to their lives and livelihoods, and provide leadership in times of crisis. Our economy and society have a long way to go to get back to full health. We have even further to go to implement fixes for our long-running systemic fragilities. I thank you for the chance to submit this testimony on how you can do just that.

Reducing Uncertainty and Restoring Confidence During the Coronavirus Recession

Jared Bernstein[1]

7/28/2020

Thank you, Vice Chair Beyer and Chairman Lee, for the opportunity to testify before you today.

The U.S. economy is in a precarious place. More specifically, because of the pandemic-induced recession and the ongoing failure to control the spread of the coronavirus, tens of millions of Americans continue to experience severe disruptions to their lives and their living standards. New evidence shows that many risk hunger and eviction. Over 30 million people—almost 20 percent of the current labor force—claimed unemployment benefits in recent weeks, and as members of this committee well know, they all potentially face a huge, negative shock to their incomes should their enhanced benefits expire a few days from now.

Small businesses are closing at an accelerated rate, business bankruptcies are up 26 percent from a year ago, and a whopping 80 percent of the U.S. population live in places where economic activity is once again retrenching due the spread of the coronavirus. High frequency indicators of face-to-face commerce such as personal mobility, visits to restaurants, and travel—the type of activities most at risk in the age of the virus—are now showing sharp reversals from earlier progress. Up-to-the-minute labor market indicators ("real-time" data) suggest there is a fair chance that after strong job growth in May and June, payrolls in July may have contracted, on net.

These unsettling trends are shaking the confidence of American businesses and households, while leading to great uncertainty about what the future holds. Furloughed employees worry about transitioning to the ranks of the permanently unemployed. Working parents with young children are fraught with uncertainty about school restarting in the fall, wondering what sort of childcare arrangement they'll need if schools remain even partially shut down. Businesses large and small are unable to reliably forecast revenues, invest in the future, or even know if they can make it for another month. State and local governments are facing their largest shortfalls in years, leading to job losses and great uncertainty regarding their outlook. And whatever burdens Americans face on average, they are far more significant for persons of color, who have been disproportionately hit by both the virus and its economic impact.

The single message of my testimony is that Congress must do all it can to reduce this uncertainty and give the American people reason to believe that the federal government is their reliable partner. They need to see that members of this body will work together with the requisite urgency to help them and their families and their businesses make it through to the other side of this crisis. I discuss the policies I believe would be most helpful to get there, policies chosen to both be responsive to the diagnosis offered below, and policies that have a positive track record. I understand and respect that others will have different ideas.

But what is not debatable is that the American people and the economy once again need your help and there is no plausible reason for such help to be delayed. In fact, to do so unnecessarily boosts

[1] I am a senior fellow at the Center on Budget and Policy Priorities. The views herein are my own.

uncertainty, reduces consumer and business confidence, while prolonging the pandemic, the downturn, and avoidable human suffering.

The Economic Outlook

I begin with a set of figures showing the failure of virus control and its correlate, the challenging economic outlook. The data reveal both near-term economic weakness, as commerce recedes in the face of spiking virus cases, and longer-term weakness, as expectations are that the economy will remain weak for numerous years to come:

--The first set of figures—total confirmed coronavirus cases in the U.S. and other advanced economies—shows the extent to which the U.S. is an outlier in terms of the sharply rising trend of new cases. Because they've more effectively controlled the virus, the downturn was often far less negative in these other countries. In Germany, for example, the most recent unemployment rate was 6.2 percent in May, when the U.S. jobless rate was more than twice that level, at 13.3 percent (the German jobless rate was also held by policy that kept workers connected to jobs, even at much reduced hours, an idea I endorse below).

--The next figure shows why the U.S. economy has stalled in recent weeks, and why indicators that were improving are now flattening or reversing. The figure shows that as of the second half of this month, states containing 80 percent of the U.S. population were either holding off on opening up commerce of reversing earlier re-openings. This is a sharp reversal from a month ago.

--The next figure presents a set of bullet points based on "high-frequency" indicators, to provide the committee with some of the most up-to-date data points on the stalling economy:

- Last week's unemployment insurance (UI) claims report showed that for the first time in 15 weeks, initial claims (people applying for UI) went up, in this case by about 100,000.
- Over 30 million people are claiming UI benefits, many orders of magnitude above the historical average.
- Analysts believe there's a 50/50 chance that the jobs report, out on August 7th, will show that the number of jobs declined in July.
- The number of small businesses open in mid-July compared to January fell 16 percent in New York and California, and 18 percent in Texas.
- In mid-July, 33 percent of renters (46 percent for Blacks and Latinos) indicated concern over ability to pay their rent at the same time many eviction moratoriums are expiring.

The final two figures are intended to provide a longer-term view of the economic outlook, using CBO's most up-to-date forecast. The unemployment rate figure, on the left, shows the jobless rate to be elevated for years to come, and not expected to fall below 5 percent until 2027. The figure on the right shows the real GDP output gap: the difference between CBO's forecast of real GDP and its estimate of GDP at full capacity. This year, the gap amounts to $1.4 trillion, or over $11,000 per household. Of course, these costs are not distributed on a per capita basis, and instead fall disproportionately on these least able to bear them: low-income families with no savings to fall back on, low-wage, displaced workers, and persons of color.

The Policy Response

There are three distinct but related policy reactions that must continue to be taken during this crisis: the ***health care response***, the ***monetary response***, and the ***fiscal response***. Given the urgency of the next relief package, currently under debate in the Congress, my testimony will largely focus on the latter.

As an economist, I will say little about the virus-control policies required by the health response. That said, I consider effective virus control far and away the most essential missing factor in the current and near-term-future economy. Mayors, governors, and even presidents can urge people to "get out there and spend," but if majorities don't believe they can safely engage in commerce at pre-crisis levels, evidence shows that official admonitions will not change their minds.

Simply put, no virus control, no economic recovery. Federal Reserve Chair Jerome Powell got this sequencing right when he recently said: "The virus is going to dictate the timetable here. The first order of business will be to get the spread of the virus under control, and then resume economic activity."

Speaking of the Fed, monetary policy is of course another essential line of defense and the central bank has done a good job thus far of providing support to credit markets and making sure the benchmark interest rate they control stays low. Some of the Fed's lending facilities, especially those in the Main St. Lending Program, have provided less support to businesses than I expected and hoped for. But even here, part of the purpose of these programs was to maintain low-cost credit to the full range of borrowers, from individuals to small businesses to corporations to municipalities, and based on diminished spreads of the relevant interest rates, that goal largely appears to be met thus far.

One of the goals of the Fed's monetary policy creates a useful bridge to my main discussion about fiscal policy: the reduction of uncertainty in financial markets, something the Fed tries to achieve through "forward guidance" (telegraphing their thinking and plans to market participants). As this issue of uncertainty is the topic of this hearing, I will spend a few moments reviewing its relevance to economic outcomes.

It has long been recognized that people's expectations about the future have a significant impact on their economic activity. A firm that foresees strong future demand for its product or service is far more likely to invest in expanded productive capacity than a firm that perceives declining demand. A breadwinner who is uncertain whether she'll still have her job next month is less likely to make an investment or plan a vacation than a person with strong job security. A parent who doesn't know whether her child will be in school or daycare a few weeks hence will worry about her ability to meet the demands of her job.

In a particularly timely example, a low-income, unemployed renter who doesn't know how much she'll receive in unemployment insurance next week may be uncertain about making her August rent. This, in turn, leads to chain of downstream uncertainties. Her landlord may be unable to make her mortgage payment and this, in turn, would be a stressor for the landlord's lender.

In other words, uncertainties don't just generate personal insecurities. They generate negative economic multipliers and policy should thus do all it can to diminish them. I've already emphasized the importance of Congressional support for measures to reduce the spread of the virus, but it is also the case that the delay in the next relief package is another, totally avoidable source of uncertainty.

Expiring Pandemic Unemployment Compensation: Bad Micro, Bad Macro

A striking example of ramping up of unnecessary uncertainty, one with significant economic costs, is the high likelihood that enhanced unemployment benefits—the $600 plus-up from the CARES Act, called Pandemic Unemployment Compensation (PUC)—will very likely expire at the end of this month, as legislated in the CARES Act. Though economists and policy makers have different views about what the next extension should be, few believe that full expiration is warranted, either on a micro or macro level.

The good news is that Congressional majorities appear to agree with the need to extend enhanced benefits. The bad news is that the debate over the issue started too late to avoid expiration. It is also of great concern that the Republican proposal in their new HEALS Act—cutting the $600 weekly plus-up to $200 and then requiring states to hit a 70 percent replacement rate[2]—represent a large benefit cut to 25 million jobless persons and their families at a time when the economy and job market are clearly weakening. On average, the $600 to $200 cut would lower weekly benefits by 43 percent, according to UI expert Andrew Stettner. In Utah, Chairman Lee, average benefits would fall 42 percent; in Virginia, Vice-chair Beyer, they'd fall 47 percent.

From a micro-perspective, unemployed families, especially those with low incomes, will risk significant hardship due to these losses. The 11 percent jobless rate and the fact that, as noted above, employment growth appears to be slowing, means that job seekers are in an unforgiving game of musical chairs, with far more players than seats. It is also the case that those in the bottom half of the income scale, disproportionately persons of color, have virtually no savings to fall back on. When they lose their paychecks, they face hunger and eviction.

Evidence from Farrell et al show how important enhanced UI benefits have been to recipients, as reflected by their spending. They find that "Households that receive benefits soon after job loss show no relative decline in spending, while households that wait two months to receive benefits due to processing delays have large spending declines." They also found that compared to still employed workers, job losers experience spending declines averaging 20 percent before they received UI benefits. "This suggests," they wrote, "that delays have imposed substantial hardship on benefit recipients."

This last finding, regarding the hardship, and, I would add, the uncertainty invoked by delays in benefit receipt, should be at the top of mind of policy makers as the enhanced PUC benefits expire at the end of this month. As analysts from the Center of Budget and Policy Priorities recently documented, the weakening economy is contribution to growing hardships among vulnerable families, disproportionately families of color. According to surveys on data from earlier this month, "About 26 million adults — 10.8 percent of all adults in the country — reported that their household sometimes or often didn't have enough to eat in the last seven days…The rates were more than twice as high for Black and Latino respondents (20 and 19 percent, respectively) as for white respondents (7 percent)…An estimated 13.1 million adults who live in rental housing — 1 in 5 adult renters — were behind on rent for the week ending July 7. Here, too, the rates were much higher for Black (30 percent) and Latino (23 percent) renters than white (13 percent) renters." These figures are significantly higher for families with children.

[2] UI experts are highly skeptical that state UI offices can pull off this change in two months.

As discussed below, these hardships underscore the need for measures to both expand nutritional support (SNAP) and rental support, both of which were in the House-passed HEROES Act. But they also elevate the risk factors invoked by allowing enhanced benefits to expire.

Because PUC takes the UI replacement rate to above 100 percent for most recipients—the median replacement rate is 134 percent—some critics of PUC have argued that it is creating a disincentive to work. While there is, of course, logic to this claim, it is an empirical question which must be evaluated given the starkly over-supplied condition of the U.S. labor market. Work disincentives are a lot less biting when there's not enough work.

In fact, various empirical facts challenge the disincentive story, all of which are more consistent with a labor market characterized by weak demand. For example, if current employers were competing with UI benefits, we would expect to see wage pressure among low-wage workers, as they have the highest PUC-induced replacement rates. But, controlling for distortionary composition effects, researchers at Goldman Sachs find low-wage trends doing slightly worse than higher-wage trends. Similarly, they find that workers who were temporarily laid off and then rehired have smaller wage gains relative to those who weren't laid off, again, the opposite prediction of the crowd-out theory. They conclude that there is "little evidence that either generous unemployment benefits or hazard pay have raised overall wages meaningfully."

Economist Ernie Tedeschi asked a related question: do we observe diminished transitions from UI to work in places where replacement rates are highest? He does so using micro-data on labor market transitions in May and June, finding "no evidence of any effect on labor market flows from more generous UI." That is, the correlation between the replacement rate and the likelihood of transition to work was statistically insignificant (and, in some of his analysis, had the "wrong" sign, i.e., positive). Tedeschi also found that among those who left the UI rolls for work in June, almost 70 percent were making more on UI than in the prior job. Bartik et al engage in a related analysis and find "no evidence to support the view that the temporary $600 supplement, which meant many workers received benefits higher than their wages, drove job losses or slowed rehiring substantially."

Weak labor demand is, as noted, a key factor in these findings, but so are UI rules that recipients must accept a "suitable job" if one is offered. Both these facts imply that PUC-induced work disincentives could become more evident if our virus control policies improve, allowing for increased commerce. That speaks to the need for a dynamic, or "triggering" UI policy, where replacement rates fall as unemployment improves. Such a policy is especially notable in the context of this hearing, as it would reduce the uncertainty faced by tens of millions of Americans about the fate of this critical source of income. In this regard, making fiscal policy conditional on economic conditions is analogous to the "forward guidance" provided by the Federal Reserve, wherein they telegraph, to the extent practicable, their policy intentions to financial market participants. Such guidance has been found to be a powerful tool in meeting the Fed's mandate by setting expectations and, key to our discussion today: reducing uncertainty.

Triggering legislation has been proposed by, among others, Vice Chair Beyer, and it has been challenged by those who argue that conditioning replacement rates on unemployment rates will just keep unemployment high as those with high replacement rates will refuse to seek work. However, UI rules and some of the proposals are designed to obviate this concern. First, as noted above, recipients must accept suitable job offers or lose benefits. Second, some proposals gradually reduce enhanced benefits

when virus control takes holds and the national emergency is declared over, at which point UI search requirements will also likely be reinstated.

Bottom line, unemployment will fall when labor demand returns in earnest, post virus-control or vaccine. Until then, we should be mindful of potential work disincentives, but should definitely not assume their presence without empirical evidence.

From a macro perspective, an expiration or even significant reduction of PUC would constitute a large, negative shock to an economy that is, as shown above, already operating far below capacity. On an annualized basis—meaning if these benefits were in effect for a year—the Bureau of Economic Analysis found that PUC amounted to about $840 billion (almost 4 percent of GDP), or $70 billion per month in May. Relative to maintaining the program for the rest of this year, allowing PUC to expire would be likely to lower real GDP by over 1 percent, cost more than a million jobs, and push up the unemployment rate by a bit less than 1 percentage point. In their July forecast, the CBO predicted the unemployment rate would be 10.5 percent in the last quarter of this year. These estimates suggest if PUC expires, the rate could be above 11 percent, probably comparable to its current level of 11.1 percent.

As noted, Senate Republicans have suggested reducing PUC from $600 per week to $200. The following table, prepared by economist Mark Zandi, shows the extent of real GDP and job losses, and the increase in the unemployment rate throughout the rest of the year based on incremental reductions from the $600 plus-up. For example, Zandi finds that taking the PUC down from $600 to $200 (see circled section in figure), is expected to reduce real GDP by 1 percent, jobs by about 1 million, and raise the unemployment rate by about 0.6 of a percentage point. Full expiration, should it lastingly occur, would lead to even larger losses, as shown in the figure. The bottom line is simple: such losses can and should be avoided.

Most Effective Measures for the Next Relief Package

The above analysis serves as a diagnosis of current conditions and suggests measures Congress should take as they design the next relief package. As the economy stalls due to inadequate virus control, concerns about hardships faced by vulnerable families loom large and must be foremost in considering specific policy interventions. Key areas include:

Evictions: As state and local eviction moratoria expire, policy measures to prevent renters' evictions and foreclosures for homeowners. As noted, there is increasing insecurity in this area. Also, while Congress is reportedly considering a new eviction moratorium in the next relief bill, my understanding is that this measure would require beneficiaries to pay back accumulated rent once the moratorium is over. This not only implies a large, future demand on the incomes of vulnerable households; it also could undermine any positive economic impact of the moratorium, as renters are forced to save more and consume less than is good for their families or for the broader. To avoid this possibility, fiscal relief in this space is necessary such as the House's HEROES included fulsome anti-eviction proposals, including "$100 billion in emergency rental assistance through the "Emergency Rental Assistance Act and Rental Market Stabilization Act."

Nutritional support: The HEROES Act also included a much-needed 15 percent temporary increase in SNAP benefits. Economists have consistently found SNAP benefits to have a relatively large economic

multiplier, as benefits are a) quickly spent, creating more demand in the economy's food sector and b) are fungible, helping to free up other spending for low-income families.

Restore PUC enhanced UI benefits: As discussed in detail above, extending the weekly expansion at $600 per week is highly warranted and would not, based on evidence thus far, generate significant work disincentives. However, this disincentive would become more important as the job market improved, which motivates proposals to reduce the enhanced benefits as state labor market indicators improve.

State and local fiscal support: From what I glean from newspaper accounts, the next package may omit new fiscal relief for state and local governments, instead providing more flexibility on how states can spend previously legislated funds. This would be an egregious omission. As members know, these sub-national entities, which have recently shed 1.5 million jobs even while other sectors were adding employment, cannot run budget deficits. Their budgets are severely impaired, far more so than in the last downturn. In that recession, fiscal support through expanded FMAP was a highly useful tool for reducing layoffs of public workers and another policy that was found to have high multiplier effects.

Support for vulnerable businesses with difficulty accessing credit: The sharp and sudden losses in revenues to many American businesses has been a huge source of stress, especially to smaller firms without ready access to credit. Even various government and Federal Reserve lending programs have mostly required businesses to go through banks to get the funds they need to survive, and for un- and underbanked businesses, particularly minority-owned firms, this barrier has been insurmountable. While the Paycheck Protection Program has had some success, I urge members of the committee to consider other proposals that seek to keep workers connected jobs—employee retention programs—in some cases through credits or grants to employers. As myself and co-authors I recently wrote in a review of these proposals, "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." That is, research shows downturns where otherwise solvent companies were helped to survive the recession were followed by stronger recoveries. As noted above, Germany has long and effectively applied policies that kept workers connected to their firms, even at reduced hours. Such a policy, called "work-sharing," exists in the U.S. context as part of our UI program, but while its use has grown considerably in the current downturn, it is still a tiny part of our support system. Administratively, to the extent that retention programs can deliver government grants versus bank loans, they will both be much more accessible and useful to vulnerable, small businesses.

Public Debt

Before concluding, I wanted to suggest that members of the committee not undercut the urgency of this moment due to concerns about the fiscal position of the federal government. There is little question that our public deficits and debt are headed for record territory as a share of GDP, with the latter—debt held by the public as a share of GDP—likely surpassing the record peak set in 1946 of 106 percent. Back then, we were fighting fascism; now, we're fighting a deadly, highly contagious microbe, and both call for whatever temporary measures are necessary to protect our citizens and get to the other side of the crisis.

We are fortunate, in this regard, that interest rates on government debt are, and are expected to remain, very low in historical terms. Since 1990, the average yield on a 5-year Treasury has been about 4

percent (the average Treasury debt maturity is about 5 years). As of this writing, that yield is 0.3 percent, meaning that debt service as a share of GDP is also historically low. Indeed, compelling research shows that in weak economies like ours today, not taking actions to pull forward the next expansion can be more damaging to our fiscal accounts than engaging robust measures of the type discussed herein. Simply put, the correct question about the current deficit is not "is it too big?" but "is it big enough to fully offset the demand contraction?"

Of course, none of this should be taken to imply that deficits do not matter. I have often testified before Congress stressing that as economies close in on full capacity, fiscal consolidation should occur, as private sector growth generates enough revenues to help chip away at the primary deficit. In this regard, our most pressing, recent fiscal problem is not that our deficits are growing now, as they should. It's that the were growing before the pandemic induced recession, as the economy was closing in on full employment. As I have argued before, this troubling imbalance was far more a function of wasteful, regressive tax cuts than it was of extra spending.

Conclusion

As we meet today, the absence of effective virus control is causing a reversal of reopenings in economies across the country, particularly in areas where the virus is spiking. It is unclear whether schools will open in the fall, and many businesses, including travel, tourism, entertainment, restaurants, and other face-to-face services remain highly stressed by the pandemic-induced collapse in demand. State and local government facing huge budget shortfalls have shed 1.5 million workers since February. Insecurity regarding hunger and evictions appears to be rising. Adding to all this uncertainty is the high likelihood that even while the July 31st expiration date for the $600 per week PUC plus-up was known to every member of Congress, this essential income source for unemployed persons and their families could expire in days.

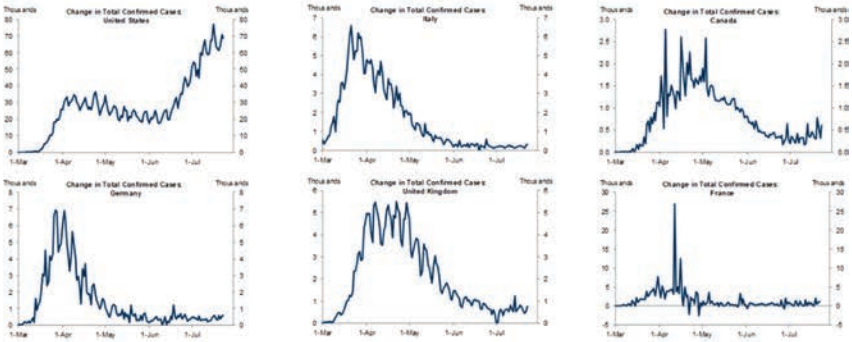
And while most Americans are experiencing some extent of these problems, they are particularly acute for persons and communities of color.

By working together to quickly implement significant fiscal relief in these and other areas, Congress can once again throw struggling people, places, and businesses the lifeline they need to make it to other side of this crisis. I've argued for, along with uninterrupted enhanced UI benefits, increased nutritional support, state and local fiscal relief, and help for smaller, more vulnerable businesses. Shortchanging such temporary fiscal relief due to deficit concerns would be, I have argued, highly misguided.

Finally, while I have tried to mostly stay in my economic lane, I have also stressed in the strongest terms that there will be no economic recovery until the virus is under control. This does not imply waiting for a vaccine. As I've shown, other advanced economies have implemented far more effective virus controls, and are therefore much better perched to restart at least some degree of commerce, schooling, and other critical aspects of life-before-Covid.

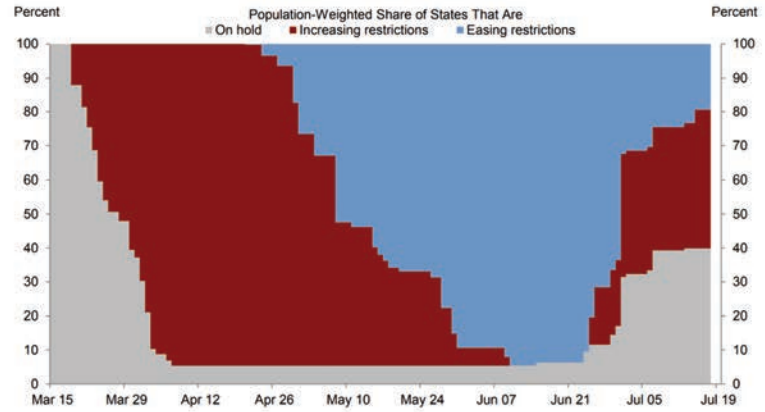
By forcefully taking charge of the public health aspects of the crisis and by ensuring that fiscal relief will be there as long and as deeply as people need it, Congress can help reduce the American people's uncertainty and economic insecurity. I strongly urge you to do so and will be happy to help in any way I can.

Change in Total Confirmed Coronavirus Case, US and Europe



Sources: JHU CSSE, Goldman Sachs Global Investment Research

The virus dictates the pace of recovery: states with 80 percent of US population on-hold or reducing commerce

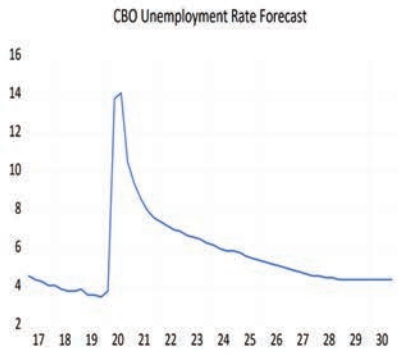


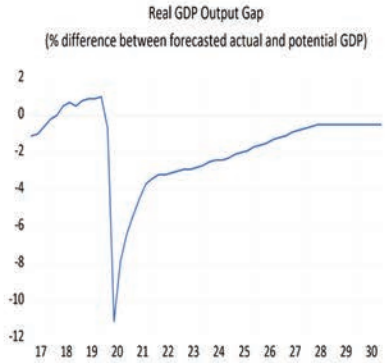
Source: Goldman Sachs Global Investment Research

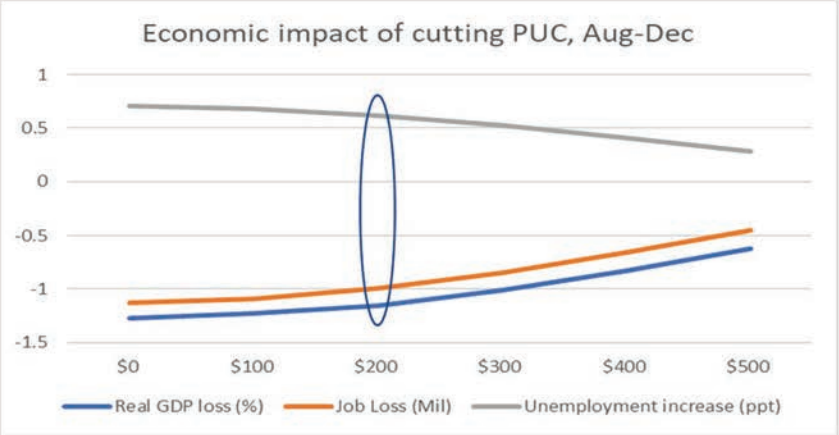
Worrisome "high-frequency" indicators

- Last week's unemployment insurance (UI) claims report showed that for the first time in 15 weeks, initial claims (people applying for UI) went up, in this case by about 100,000.
- Over 30 million people are claiming UI benefits, many orders of magnitude above the historical average.
- Analysts believe there's a 50/50 chance that the jobs report, out on August 7th, will show that the number of jobs declined in July.
- The number of small businesses open in mid-July compared to January fell 16 percent in New York and California, and 18 percent in Texas.
- In mid-July, 33 percent of renters (46 percent for Blacks and Latinos) indicated concern over ability to pay their rent at the same time many eviction moratoriums are expiring.

CBO's most recent forecasts







Source: Mark Zandi, Moodys.com

Testimony on
Reducing Uncertainty and Restoring Confidence during the Coronavirus Recession

Douglas Holtz-Eakin, President*
American Action Forum

July 30, 2020

*The views expressed here are my own and do not represent the position of the American Action Forum. I am indebted to my colleague Gordon Gray for many valuable conversations.

Chairman Lee, Vice Chairman Beyer, and Members of the Subcommittee, thank you for the privilege of participating in this hearing on addressing the nation's economic crisis. In this short testimony, I want to make four main points:

- The economy and, especially, the labor market entered 2020 in good condition, but have been buffeted by an economic downdraft of unprecedented scale and unique origins;
- The policy response thus far by the Federal Reserve and Congress has been correspondingly of unprecedented scale and has prevented an enormous amount of distress and economic damage;
- Examining the data from the onset of the recession highlights the importance of supply conditions and policies that assist businesses and their customers to operate in the presence of the virus; and
- There does not appear to be a strong case for "automatic stabilizers" in the form of expanded mandatory spending programs.

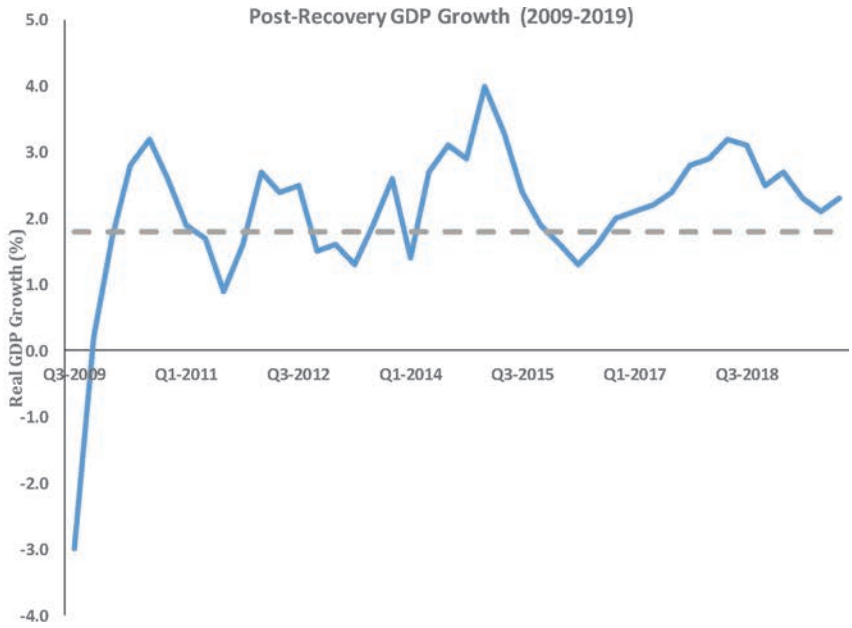
Let me discuss these in turn.

COVID-19 and the Economy

The macroeconomic impact of the COVID-19 pandemic far exceeds any experience in our lifetimes. Essentially all the major leading economic indicators have seen historic declines, wiping out the hard-won gains from the longest recovery in U.S. history.

Recent Economic Trends

Prior to the pandemic, there had been a meaningful improvement in the persistence of healthy economic growth over the past three years. Gross domestic product (GDP) growth, measured as the growth from the same quarter in the previous year, accelerated steadily from a low of 1.3 percent in the 2nd quarter of 2016 to a recent peak of 3.2 percent in the 2nd quarter of 2018. Of note, throughout this period, GDP growth remained above the 1.8 percent growth rate that prevailed throughout the balance of the recovery.



In June of 2009, the United States began the economic recovery from the Great Recession. What followed was nearly 11 years – the longest expansion in U.S. history – of steady if modest economic growth. Over that period, nearly 22 million jobs were created. Remarkably, the pace of job creation accelerated over the course of the recovery. Over the first half of the recovery, monthly job creation averaged 138,000; this number increased to 198,000 new jobs created per month over the latter half of the recovery.

With higher growth and tighter labor markets, unemployment continued to fall as payroll and wage growth have accelerated. Wage growth has improved overall, including for non-supervisory workers. Indeed, from December 2018 onward, growth in hourly earnings (on a yearly moving average) for production and nonsupervisory workers outpaced that of workers overall every month.

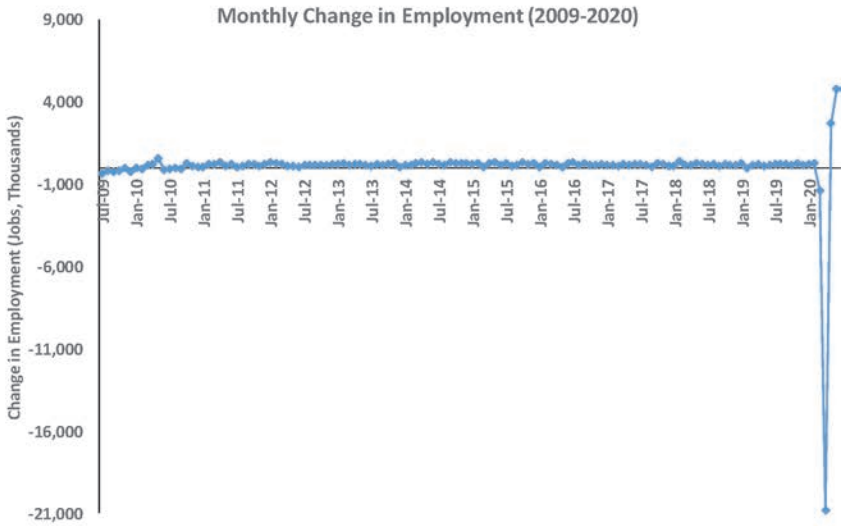
The economic story of the recent past is the realization of years of modest growth finally beginning to accrue to individuals and families, broadly raising the standard of living. Recent accelerations in that growth punctuated a return to prosperity. That all came apart in March of 2020.

The Economic Impact of COVID-19

The COVID-19 pandemic precipitated a historic shuttering of the economy in March, guaranteeing that the broadest measure of economic wellbeing – real quarterly GDP growth – would reflect some of the devastation in the 1st quarter. Indeed, the Bureau of Economic Analysis's (BEA) estimate for the decline in 1st quarter GDP is 5.0 percent on an annualized basis. This is the single largest drop in real GDP since 2008. While any contraction, particularly one on the order of magnitude with those observed during the Great Recession, is troubling, in this instance the contraction reflected only the leading edge of the economic devastation.

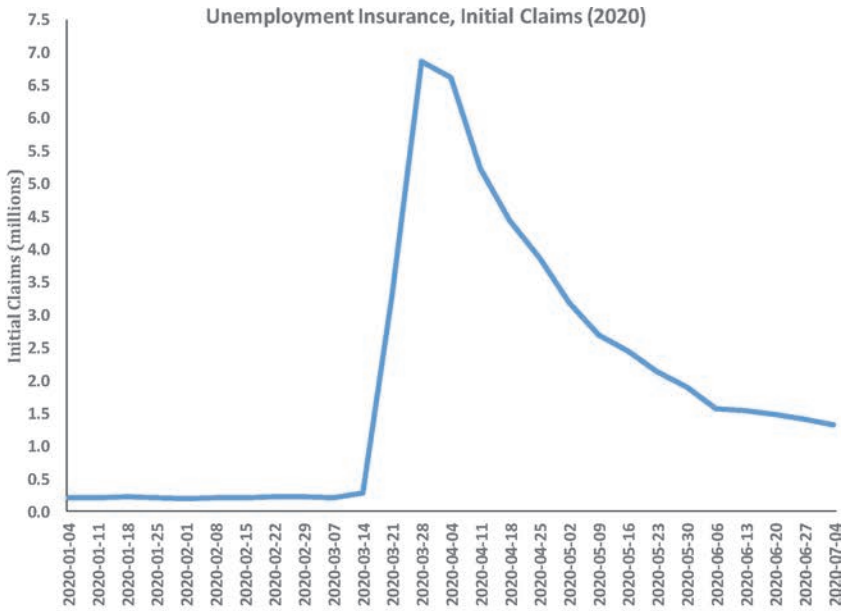
Higher frequency data reveal a historically devasted economy. Payrolls in April fell by 20.8 million, with private sector payrolls shedding 19.8 million jobs. The service sector lost over 18.3 million jobs. The leisure and hospitality industries were particularly devastated, losing over 7.5 million jobs. Goods-producing industries

saw a decline of over 2.3 million. Government shed 952,000 jobs. No industry saw net positive hiring. To be sure, the last two months have seen a return to positive job growth, with 7.5 million jobs added to American payrolls.



The unemployment rate jumped to 14.7 percent in April, which exceeds the highest level since the Great Depression. As the Bureau of Labor Statistics notes, were it not for the classification of some workers as employed but "Absent for other reasons," this number would be on the order of 5 percentage points higher. With the positive job growth in May and June, the unemployment rate has come down somewhat, though at 11.1 it remains more than a percentage point above the levels of unemployment seen during the Great Recession.

More frequent data still – weekly unemployment insurance (UI) claims – tell a similar story. Before March of this year, the single highest weekly initial claims report was 695,000 in 1982. No week in recorded U.S. history saw millions of Americans claiming unemployment insurance benefits. In the present environment, new UI claimants can *only* be measured in the millions.



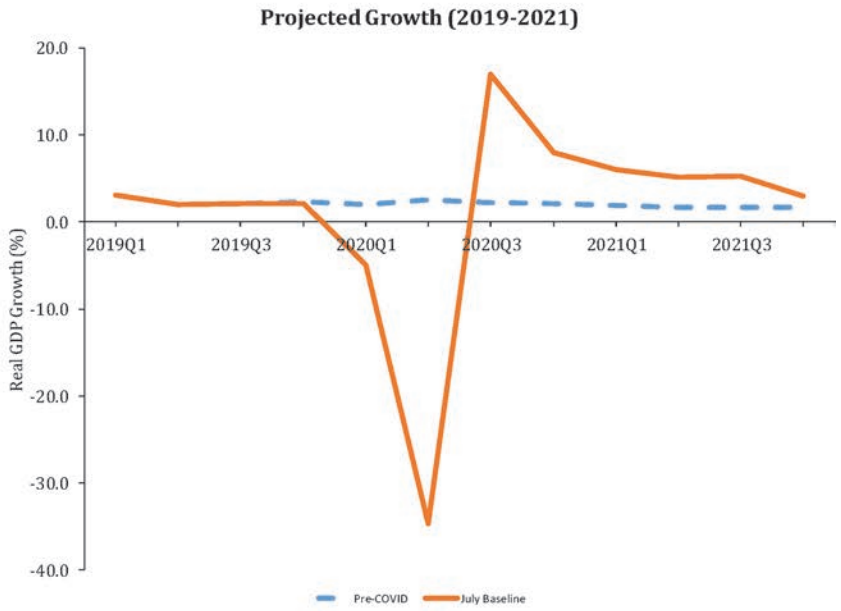
The upshot of the most deliberate and comprehensive down to the most noisy and imperfect indicators is economic devastation of a singularly historic nature, and though a recovery is underway, it will not return the U.S. economy to "normal" for some time.

The Outlook

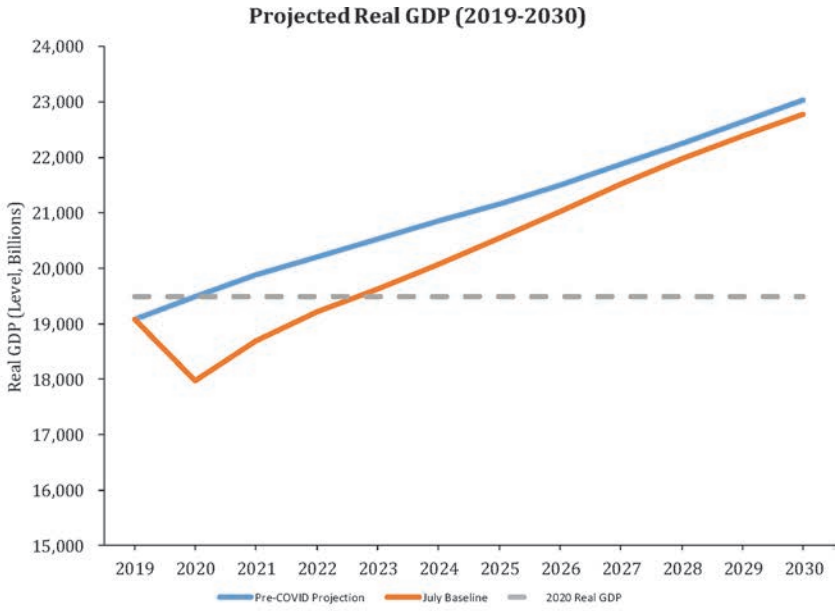
The Congressional Budget Office (CBO) typically updates its economic forecast twice yearly – once in January and once in August. Before the pandemic, CBO's baseline was keyed off of an economic forecast entirely abstracted from the effects of the pandemic, built on an assumption of real GDP growth in 2020 of 2.2 percent, an unemployment rate of 3.5 percent, and slowly rising interest rates. This was a mainstream forecast for the year, but to perform accurate cost-estimating during congressional consideration of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, CBO had to essentially update its forecast on the fly, and it is to its credit that it did so. CBO has since completed a complete 10-year forecast.

The new forecast reflects a similar outlook to other major post-COVID analyses – a sharp uptick in economic activity in the third quarter of 2020 that only partially restores the economic gains of the past several years. GDP is expected to fall 10

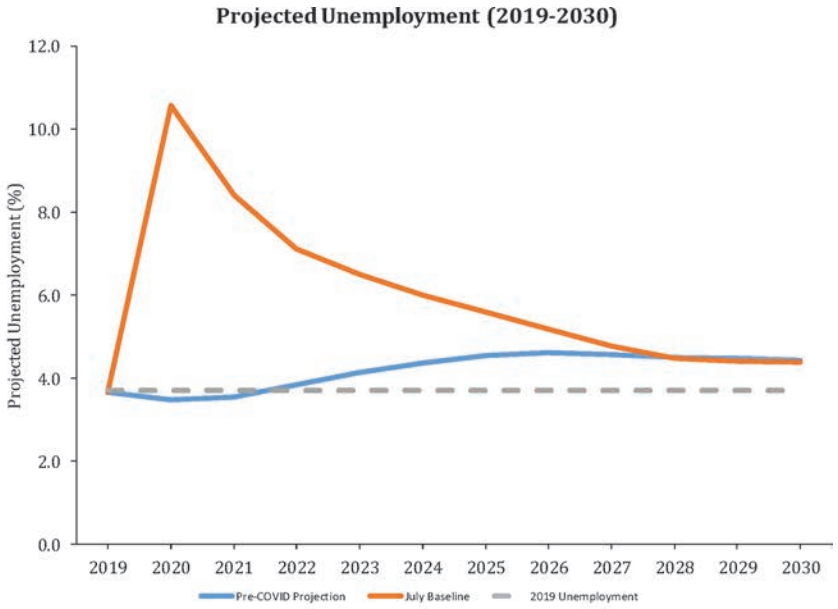
percent in the 2nd quarter, or 35 percent at an annual rate. (For perspective, in 1932, the worst year of the Great Depression, GDP fell 12 percent.)



For the entire year 2020, GDP will be down 5.1 percent as every component of spending is expected to decline except federal government purchases. By contrast, in 2021 every component should be positive. The CBO sees growth at a rate of 4.0 percent in 2021. What this means is that despite a sharp, expected return to growth in Q3 of 2020, the scale of the prior contraction is such that CBO does not forecast the level of real GDP returning to pre-crisis levels until 2023.



By 2028, CBO projects unemployment will trend down to 4.5 percent, at which point CBO's pre- and post-COVID forecasts converge. As noted, however, CBO does not estimate that unemployment will return to pre-COVID levels.



The implications of the current and projected losses associated with the COVID pandemic are highly consequential for federal policy. The CARES Act stands as the single largest fiscal intervention in U.S. history, an appropriate response to an historic challenge. Continual monitoring of the economic indicators – weekly, monthly, quarterly, annually – will continue to inform Congress on the direction and tenor of the recovery, and policymakers should tailor policies accordingly.

Next Steps for Fiscal Policy

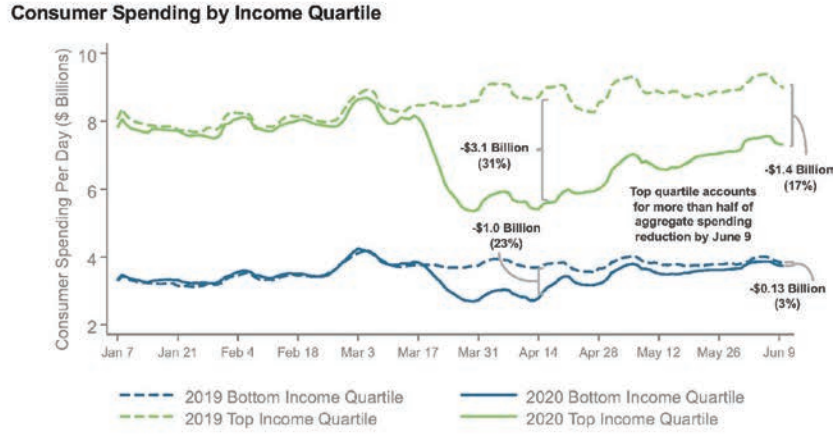
The policy strategy thus far has been to use large amounts of Federal Reserve liquidity provision and taxpayer dollars to insulate to the degree possible the household and business sectors from the effects of extreme social distancing and quarantine. As successful as this approach has been, it has come at considerable economic cost and appears unsustainable.

Going forward, it will be necessary to find a better way to operate the economy in the presence of the virus. In light of this, it is useful to review two charts from Chetty, et. al. The first, below, shows real-time data on consumer spending by quartile and carries three major lessons. First, the onset of the recession was driven by a sharp drop in spending, even though there had not been any decline in income.

This is a very different mechanism than was common in 20th century business cycles (which were income-driven) and 21st century business cycles (which thus far have been driven by financial bubbles).

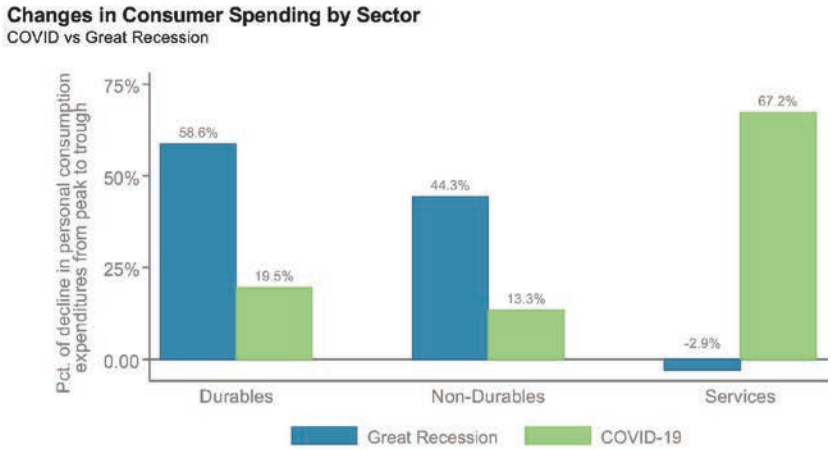
The second lesson is that the sharp pullback in spending was largely due to high-income households. As the chart shows, spending in the top quartile fell much more sharply (31 percent compared to a year earlier) in late March than in the bottom quartile (23 percent). The COVID-19 recession emanated from more affluent Americans; responding to it should reflect this fact.

The final lesson is that federal transfers – checks to individuals and children, pandemic unemployment insurance – shored up the finances of lower-income consumers to such a degree that by early June their spending was down by only 3 percent compared to 2019. (Indeed, overall household sector finances were sufficiently fortified that the saving rate was 33 percent in April and 23 percent in May, putting roughly $2 trillion more in household checking and savings accounts compared to February.) But the spending by higher-income households remains depressed.



Why? Unlike the previous recession, the big cutbacks were not in big-ticket durable items or other non-durable goods. Instead, the diminished purchases of services

was responsible for two-thirds of the decline. People stopped flying (transportation services), staying at hotels (housing services), attending concerts and movies (entertainment services), and so forth. Indeed, a stunning 2 percentage points of the 5 percentage point decline in GDP in the first quarter was due to reduced use of health care services.



The issue was the fear of individuals to participate in anything that involved personal contact. This fear produced the downturn, which was exacerbated by the lockdowns that occurred later.

A slightly more detailed examination of the data reveals that spending fell primarily among high-income households for in-person services (e.g. restaurants) and that these services were produced by low-income workers in small business in these high-income areas.

Traditional "stimulus" targeted at lower-income households will permit those households to spend more, but it will not restore the jobs of those workers in the affected small businesses because of the ongoing health concerns. Government-ordered re-openings will have little impact on local employment, because people will still avoid those same businesses.

Thus, the speed and scale of economic recovery will be proportional to the speed and scale of modifying workplaces to operate safely in the presence of the virus. Without that, workers will be reluctant to return to, and customers will continue to avoid, previously perfectly viable businesses. To the extent that public policy can play a supportive role in the economy, this problem strikes me as a perfect place for action.

One could easily design, for example, a tax credit equal to a fraction of the cost of protecting employees and reconfiguring workplaces. The former would consist of employee COVID-19 testing, deep cleaning and disinfectants, and personal protection equipment for employees. The latter would include expenses for reconfiguring places regularly used by customers or employees to bring them up to standards. The spending would have to occur in calendar year 2020 (and after the declaration of an emergency on March 13).

Since many firms will have no income tax liability in 2020, it makes sense for this policy to be a credit against payroll taxes and refundable. Since most employers remit their payroll taxes frequently, this could be implemented by simply reducing the amount of payroll taxes sent in, which would give the firms much-needed cash flow to do the renovations. Finally, one could put a limit on the total amount of the credit, either in absolute terms or per employee.

This is one example of focusing on the supply-side of the economy and using policy to offset an expensive shock imposed by the pandemic. A second supply-side focus should be continued assistance to small businesses – either existing survivors or new entrants replacing those that have folded – who will be the key employers as the economy seeks to regain full employment.

The final example is the future of the $600 per week federal supplement to state unemployment insurance benefits. This supplement made perfect sense when the objective was to make sure people quarantined and did not spread the coronavirus by going to work. In short, the $600 was designed to be lucrative enough to be better than working.

That is now a real problem as the policy objective shifts to encouraging more economic activity. More important, it is not a small problem. Research by the America Action Forum's Isabel Soto indicates that up to 63 percent of the nation's workers would make more on the maximum unemployment benefit than their pay at the previous job. Moreover, the fraction differs by state and could be as high as 75 percent. The bonus speaks highly of the taxpayers' generosity, but it flunks any test of economic logic.

This problem extends beyond the private sector. The latest from Soto indicates that "At least 62 percent of all state and local [government] workers could make more on the enhanced unemployment benefit of $600 a week than at work." In short,

Congress could fill the coffers of states and localities, jobs would still exist at full pay, and nearly two-thirds of workers would be financially better off on unemployment insurance.

To summarize, the strategy of using trillions of dollars to keep the economy in suspended animation and outwait the coronavirus is over. A traditional playbook of Keynesian stimulus – checks to low-income households and grants to states and localities – does not match the dynamics of the economic downturn. Instead, we need an aggressive strategy that is targeted at the problems facing the economy.

Automatic Stabilizers

Automatic stabilizers are provisions in law that generate greater aggregate demand as the economy slows or declines. For example, a progressive tax system acts as an automatic stabilizer because as incomes fall households move into lower tax brackets and have a greater fraction of their earnings available to spend. Similarly, the UI system serves as an automatic stabilizer by providing income to the unemployed.

Obviously, the United States already has in place automatic stabilizers. There has been interest, evidenced by this hearing, in augmenting the system of automatic stabilizers. For example, in a recent *Wall Street Journal* opinion piece, former Council of Economic Advisers Chairman Jason Furman argued, "Congress should pass a law immediately that would automatically trigger stimulus if the labor market deteriorates, with unemployment rising rapidly. The package should include not only tax cuts but also relief for states, as well as extra help for people most hurt by recessions. The legislation should be permanent, the measures lasting as long as needed in the next downturn and set to trigger in future ones as well."

At an abstract level, the argument is appealing. But I have reservations about the idea at this juncture. First, the United States already has automatic stabilizers (as noted above) and there has been no compelling case made that they are somehow insufficient. Indeed, "how big" is a difficult question to answer. It is far from obvious (to me at least) how to appropriately scale the kinds of provisions that are suggested.

The alternative to automatic stabilizers is discretionary actions by Congress in the event of a downturn. Congress can (and has) cut taxes, enhanced unemployment insurance, provided assistance to states, augmented the Supplemental Nutrition Assistance Program (SNAP), and so on.

Thinking about the alternatives raises two additional concerns. First, from a budgetary perspective, automatic stabilizers are mandatory spending, while discretionary policy is (literally) discretionary spending. Other things being equal, it would be unwise to create additional mandatory spending programs – mandatory spending is the long-run budget problem.

The second additional concern is that it seems most likely that the outcome will be both automatic and discretionary responses. I consider it extremely unlikely that faced with a significant downturn, Congress and the administration will choose to do nothing and explain to the American people that their predecessors had taken care of this problem. Instead, regardless of the robustness of the automatic stabilizers that are in place, Congress and the administration will enact further discretionary policies. The result will be budgetary excess and unsound fiscal policy.

Thank you and I look forward to your questions.

Notes

The Heritage Foundation

CONGRESSIONAL TESTIMONY

"Reducing Uncertainty and Restoring Confidence During the Coronavirus Recession"

Testimony before the

Joint Economic Committee

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Rachel Greszler
Research Fellow in Economics, Budgets, and Entitlements
The Heritage Foundation

My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to: discuss uncertainty and how governments and households can prepare for it, evaluate the benefits and consequences of using government programs to attempt to reduce uncertainty, consider the destabilizing impacts of deficit-financed automatic stabilizers, and propose steps that policymakers can take to help individuals and families better prepare for uncertainties without restricting their freedoms, incomes, and opportunities in the process.

Uncertainty is an unchangeable fact of life. As the COVID-19 pandemic has shown us, no amount of federal spending can take away the uncertainties or hardships of a global health pandemic. Government actions can and should confront the public health crisis and help address the resulting economic consequences. Reducing uncertainty and increasing confidence in the wake of COVID-19 and beyond are shared goals, and policymakers should evaluate both temporary and permanent policy changes with a holistic view of the short- and long-term benefits and consequences. Actions that take away Americans' ability to prepare for their own futures and steps that push the U.S. closer to the brink of fiscal disaster will reduce stability and confidence. But opening doors to work and savings opportunities for individuals and families, along with stabilizing and reducing the national debt, will help prepare Americans and America for known and unknown future challenges.

Uncertainty Is Inevitable, Preparation is Key

Individuals and governments can plan for and reduce the consequences of uncertainties, but cannot eliminate them. For example, as individuals, we know there is a high probability that we will live to an age at which we will no longer want to work and will need money to survive. That is why we should save for retirement. We also know that there is a low-probability but high-cost chance we will die young, leaving behind a family in need of our lost income. That is why many people purchase life insurance.

Budgeting Is Essential. Just as families should budget for both temporary fluctuations in income and unexpected expenses (setting aside three to six months' worth of expenses) and for long-term expenses (buying a home, sending children to college, retiring), governments should also budget for business-cycle fluctuations and long-term costs.

No one expected, nor should they have anticipated, a global health crisis on the magnitude of COVID-19 (though we could have been better prepared). When low-probability, high-cost events such as these hit, it is ideal that governments have funds set aside to address the crisis. If not extra rainy day funds, then at least not high levels of debt that could restrict their ability to borrow at reasonable costs. The U.S. is fortunate that, despite an enormous debt that is beyond the conventional "tipping point" of 90 percent of GDP, the world remains willing and eager to purchase U.S. debt even at low interest rates. We cannot count on this continuing.

Had the federal government reduced, instead of increased, its spending and deficits during the nearly decade-long economic expansion leading up to the coronavirus, it would have been in a better position to spend the additional money needed to combat the health pandemic and the resulting economic consequences.

Had states set aside three to six months' worth of annual revenues (25 percent to 50 percent) in their rainy day funds, they would have been able to cushion the projected 3 percent to 5 percent declines in revenues for 2020 and 2021 and would still have money left over to protect their communities' health and to help individuals and businesses recover financially.

And had individuals and families had three to six months' worth of savings set aside, many would have been able to withstand job losses, school closures, and other consequences of COVID-19 with fewer disruptions and hardships.

Government Limits Americans' Savings. Most Americans do not have three to six months' worth of savings, as recommended by financial advisors. Accumulating such savings can be very hard, especially for individuals who do not yet make enough money to save. Taxes also make it harder to save.

At $5.42 trillion in 2018, Americans spent more on taxes than they did on food, clothing, and housing combined.[1] Sadly, these taxes cover only a fraction of actual spending as the federal deficit in just the first nine months of fiscal year 2020 equaled $2.7 trillion.[2]

Saving is hardest for lower-income families, and the tax and transfer system can makes it even harder to save. If a low-income parent who earns a poverty-level wage gets a 50 percent raise, she will lose at least 27 percent, and potentially over

[1]Rachel Greszler, "Today. You Pay Your Federal Taxes. Tomorrow Is the Real Tax Freedom Day," Daily Signal, April 15, 2019, https://www.dailysignal.com/2019/04/15/today-you-pay-your-federal-taxes-tomorrow-is-the-real-tax-freedom-day/.

[2]Congressional Budget Office, "Monthly Budget Review for June 2020," https://www.cbo.gov/publication/56458 (accessed July 22, 2020).

100 percent, of that raise to taxes and benefit reductions (depending on her state of residency).[3]

And while the Tax Cuts and Jobs Act provided significant tax relief to businesses, the average small business still had only a 27-day cash buffer prior to COVID-19. Low-wage and labor-intensive businesses had even lower cash buffers. Red tape, taxes, and administrative compliance makes it harder for businesses to gain stability and to grow.

One such example is the 2015 National Labor Relations Board ruling in Browning-Ferris Industries, which overturned 30 years of precedent and deemed companies that exercised only indirect control over workers as joint employers. This decision is estimated to have cost franchise businesses as much as $33.3 billion annually, reduced employment by 376,000 jobs, and caused a 93 percent spike in lawsuits against franchises.[4] Fortunately, a recent Department of Labor rule that went into effect on April 27, 2020, should provide welcome relief to franchise businesses that have been hit hard by COVID-19.[5]

Government Stabilizers and Potential Expansions

Government stabilizers are policies that seek to smooth economic ups and downs by reducing government spending and increasing taxes during upturns and increasing government spending and reducing taxes during downturns and abnormal events such as wars and pandemics. If followed correctly, by actually saving resources during good times, such stabilizers can have significant benefits.

The welfare and tax systems include built-in stabilizers through income-based eligibility requirements for welfare programs and percentage-based taxes whereby people pay more in taxes as they earn more and spend more. The progressive income tax structure doubles-up as an automatic stabilizer—people pay additional taxes on their increased earnings, and the rate they pay on those higher earnings rises as well.

In addition to income-based welfare programs, another key automatic stabilizer is state unemployment insurance whereby employers contribute taxes on behalf of their employees, who are then eligible to claim unemployment benefits if they lose their job through no fault of their own. Unemployment benefits help workers get by, financially, during temporary job losses.

Government Stabilizers Are Not Free. The benefits provided by government stabilizers are not without cost. They are effectively a socialized substitute for individuals' and families' savings. Instead of families setting aside a portion of their additional earnings, and using it in the future if their earnings decline or if they face an unexpected event, the government takes a portion of everyone's earnings and redistributes it to individuals and households based on who the government determines should receive benefits and based on

[3] Elaine Maag, C. Eugene Steuerle, Ritadhi Chakravarti, and Caleb Quakenbush, "How Marginal Tax Rates Affect Families at Various Levels of Poverty," *National Tax Journal*, Vol. 65, no. 4 (December 2012), pp. 759–782, https://www.urban.org/sites/default/files/alfresco/publication-pdfs/412722-How-Marginal-Tax-Rates-Affect-Families-at-Various-Levels-of-Poverty.PDF (accessed July 22, 2020).

[4] Ben Gitis, "The Joint Employer Standard and the Supply Chain," American Action Forum, November 26, 2018, https://www.americanactionforum.org/research/joint employer-standard-and-supply-chain/ (accessed July 24, 2020).

[5] U.S. Department of Labor, "Wage and Hour Division—Final Rule: Joint Employer Part 791," January 12, 2020, https://www.dol.gov/agencies/whd/flsa/2020-joint-employment (accessed July 22, 2020).

what the government determines those individuals and households should receive.

If paid for out of general revenues, government stabilizers redistribute resources from higher-income and working households to lower-income and non-working households.

If paid for through increased deficits (discussed below), government stabilizers redistribute money from younger generations to older ones.

And if financed through designated programs, such as states' unemployment insurance systems, they are essentially forced savings programs. Like private insurance, unemployment insurance programs are "experience rated," meaning that if an employer lays off workers who then claim unemployment insurance benefits, that employer's unemployment tax rates will increase. Because employers shift employment tax costs onto workers through lower compensation, the benefits are generally worker-financed.

Part of the rationale for forced savings programs is that once a government (federal, state, or local level) has committed to providing certain welfare benefits, it is in their interest to minimize who collects those welfare benefits by establishing a worker-financed support system that serves as the first line of defense against temporary income losses.

In considering potential expansions to government stabilizers, I would like to focus on unemployment insurance (UI)—a policy I am most familiar with—and briefly consider other proposals to add or expand other programs.

Expanding UI to the Self-Employed. Prior to COVID-19, unemployment insurance benefits were not available to the self-employed, who, as full-time workers represent about 10 percent of the workforce. (Self-employed includes individuals who own their own businesses, contractors, gig-workers, freelancers, and temp workers). The rationale for not including self-employed workers is presumably that these individuals work for themselves and therefore cannot be laid off by someone else.

Some policymakers and researchers advocate for extending unemployment benefits to the self-employed. This is already something that workers could potentially purchase in the private market, but the fact that they do not suggests that private savings is a more efficient way for the self-employed to insure against income losses.

This is the case because under an experience-rated system, an individual who claims unemployment would face extremely high tax increases in the future to compensate for their claim. With taxes paid roughly equaling benefits received, the system would not vary all that much from personal savings and borrowing, but workers would have to pay a premium for administration of the system and they would lose some control over when they could access their savings and how much they could spend.

If self-employed unemployment insurance were more socialized and everyone paid the same rate, there could be significant misuse and abuse of the system. For example, workers could use unemployment benefits during seasonal declines in income or to take long-term vacations. There may be ways to limit potential abuse, but it would be harder with certifications coming directly from the individuals claiming the benefits.

Expanding UI Benefits Levels and Durations? Logically, it makes sense to extend the number of weeks during which individuals can receive unemployment benefits during economic downturns when fewer work options exist. There is value in helping to prevent more significant hardships such as foreclosures. But there are also consequences to extending unemployment benefits and policymakers must consider both the benefits and consequences.

Unemployment extensions lead to longer durations of unemployment and reduced economic output. In part, this is because individuals are less likely to accept job offers—especially subpar ones—when their benefits are not about to expire. Researchers at the New York Federal Reserve [6] estimated that the unprecedented expansion in the duration of unemployment benefits (up to 99 weeks) during the Great Recession reduced employment by 4.6 million jobs in 2010 and by 3.3 million in 2011.[7]

Increasing Unemployment Benefit Amounts. Unemployment benefits typically replace about 40 percent to 50 percent of workers' wages. Prior to COVID-19, the federal government had never increased the level of unemployment benefits. But the short-term nature of COVID-19 shutdowns and forced closures led policymakers to provide larger unemployment benefits to help bridge what was expected to be a short-term gap. Higher unemployment benefits have certainly alleviated individual and family hardships and prevented a deeper and more prolonged downturn, but they have also almost certainly contributed to higher unemployment levels and increased unemployment durations. Evidence from other countries that have altered unemployment benefit levels find that higher benefits lead to more unemployment claims[8] and longer durations of unemployment.[9] These studies suggest that the $600 bonus benefit could increase the number of initial unemployment claims by 69 percent to 117 percent and increase the average duration of benefits by 97.5 percent, from 21.3 weeks to 42.1 weeks.[10]

While higher unemployment benefits made sense due to the unique nature of COVID-19, they arguably do not make sense in ordinary times. Not only would higher benefits result in lower employment, as verified by the Congressional Budget Office (CBO) in a recent analysis of extending the $600 additional unemployment benefit, but higher benefits would require higher taxes and cause workers to save less to prepare for a potential job loss.

Higher benefit levels made sense for COVID-19, but they do not make sense as permanent policy. In the short term, Congress should replace the $600 bonus benefit with a partial federal match, adding 40 percent on top of what states provide for unemployment benefits. Ideally, benefits would equal a percentage of workers' wages, but given alleged constraints in states' systems to tie benefits to wages, a

[6]Marcus Hagedorn et al., "Unemployment Benefits and Unemployment in the Great Recession: The Role of Equilibrium Effects," The Federal Reserve Bank of New York *Staff Report* No. 646, revised September 2019, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr646.pdf (accessed April 13, 2020).

[7]Author's calculations based on unemployment and labor force data from 2010 and 2011. See Bureau of Labor Statistics, "Databases, Tables & Calculators by Subject," https://www.bls.gov/data/ (accessed April 13, 2020).

[8]Patricia M. Anderson and Bruce D. Meyer, "Unemployment Insurance Benefits and Takeup Rates," National Bureau of Economic Research *Working Paper* No. 4787, June 1994, https://www.nber.org/papers/w4787.pdf (accessed April 16, 2020). This study also provides a review of other studies which, using slightly different methods and data, find elasticities ranging between about 0.2 and 0.6.

[9]David Card et al., "The Impact of Unemployment Benefits on the Duration of Unemployment Insurance Receipt: New Evidence from a Regression Kink Design in Missouri, 2003–2013," National Bureau of Economic Research *Working Paper* No. 20869, January 2015, https://www.nber.org/papers/w20869.pdf (accessed April 23, 2020).

[10]Drew Gonshorowski and Rachel Greszler, "The Impact of Additional Unemployment Insurance Benefits on Employment and Economic Recovery: How the $600-per-Week Bonus Could Backfire," Heritage Foundation *Center for Data Analysis Backgrounder* No. 3490, April 29, 2020, https://www.heritage.org/sites/default/files/2020-04/BG3490_0.pdf.

partial federal match should be simple to implement.

Automatic Stimulus Payments. To help alleviate downturns as they begin, some have proposed having the government send out direct payments when the unemployment rate rises rapidly. This would provide a short-term boost, but the impact could be muted by the fact that individuals will not necessarily spend the money, especially if they have not lost jobs or incomes. Even in the least economically damaging scenario in which such payments would be pre-funded (forced savings) as opposed to extracting from future incomes and economic growth, they would nonetheless not be optimal for many households because the forced savings would prevent some households from making the choices that were best for them in their own time. (Perhaps the breadwinner lost his or her job a year before the downturn and needed the money last year, but not now.)

Increase the Federal Match Rate for Medicaid and CHIP During Downturns. Shifting costs from state governments to the federal government during downturns would exacerbate federal government debts (which already increase during downturns). It would also have the consequence of discouraging states from maintaining healthy rainy day funds, because they would not need to save for increased health care costs. Consequently, states could be less prepared to address future downturns and unexpected crises.

If Congress wants to help states pay for these programs, it should start by giving states flexibility to manage their Medicaid enrollment. States should not be forced to enroll individuals who have employer-sponsored insurance.[11]

Countercyclical TANF and SNAP Benefits. Most welfare benefits like Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP) are already based on income, so when people lose jobs or have reduced incomes, they are more likely to qualify for these benefits. While a new work requirement was set to go into place in April for fewer than 2 percent of SNAP beneficiaries—those who are able-bodied individuals between ages 18 and 49, and who do not have dependents—that requirement was effectively put on hold during the public health emergency.[12] Moreover, SNAP benefits are already sensitive to economic conditions such that the work requirements only apply if the state unemployment rate is below 6 percent, on average, over the previous 24-month period.[13]

Government Stabilizers Reduce Work, Savings, Personal Choices, and Opportunities

When the government establishes programs that guarantee individuals specified benefits under prescribed circumstances, individuals naturally save less because they have fewer reasons to save.

When the government taxes people to pay for such programs, they have less money available to save.

When taxes reduce the fruits of individuals' labor, they work less.[14]

[11]Leslie Ford, "Expansion of Safety-Net Programs During the COVID-19 Crisis," Heritage Foundation *Backgrounder* No. 3509, July 16, 2020, https://www.heritage.org/sites/default/files/2020-07/BG3509.pdf.
[12]Ibid.
[13]Ibid.

[14]People working less in response to higher taxes assumes the substitution effect dominates. If individuals face tight budget constraints, the income effect may dominate and they may work more in order to have enough income to cover their necessities or desired choices.

And when one-size-fits-all government programs determine who can receive what benefits and under which circumstances, individuals and families have less control over their future and fewer opportunities to pursue what is best for them.

In this regard, "stabilizers" or mandatory insurance programs can lead to less work, lower savings, a smaller economy, and fewer personal choices.

Social Security as a Prime Example. Social Security was first established to prevent individuals who were too old to work from outliving their savings. It came about as a result of a major crisis in U.S. history—the Great Depression—in which many individuals lost their entire life savings. As we are discussing today, the goal was to prevent future uncertainty.

Individuals would exchange a small portion of their earnings—only 2 percent initially—for the certainty that they would receive a small stipend if they lived longer than the average person. Social Security was not supposed to significantly burden individuals and it was not supposed to replace retirement savings. It was supposed to insure against what was at the time a less-than-50-percent likelihood that individuals would live to age 65, and an even lower likelihood that they would outlive their savings.

Fast forward eight decades and Social Security now consumes six times as much—12.4 percent—of workers' paychecks. The median worker pays far more in Social Security taxes than they do in taxes to finance every other function of the federal government.[15]

This heavy tax burden—$6,200 per year for someone who earns $50,000—makes it difficult for individuals to save for all sorts of planned and unplanned life events.

Instead of households being able to set money aside and use it in ways that are best for them—like purchasing a home that will grow in value over time, being able to take time off from work to stay home with a new child, saving for that child's education, starting a new business, or helping support a family member in need—all of that money is locked up in Social Security. Many individuals who die before they reach Social Security's retirement age lose tens or hundreds of thousands of dollars that they paid into the system and that otherwise could have helped provide for their families.

Even workers who receive Social Security benefits for decades will receive far less than they could have if they had saved on their own because Social Security does not actually save workers' contributions. Rather, every dollar that goes into the system today goes immediately out the door to current retirees. Around 2034, Social Security will no longer have any trust fund IOUs to cash in, and will only be able to pay about 75 percent of scheduled benefits.

This means that my scheduled benefits are dependent on Congress's willingness to raise taxes on my children and future grandchildren to support my benefits. And despite the notion that workers are "entitled" to their benefits, they have no legal claim on them and Congress can change or take away Social Security benefits at any time.[16]

[15]A single individual who earns the median wage of $971 per week or $50,500 per year pays $4,421 in federal income taxes and $6,261 in Social Security taxes, including both the employer and employee portion.

[16]In 1960, in the case of *Flemming vs. Nestor*, the Supreme Court ruled that entitlement to Social Security benefits is not a contractual right. See Social Security Administration, "Supreme Court Case: Flemming vs. Nestor,"

It also means that all workers are being stripped of the opportunity to earn a positive return on their "savings" over time. If you know anything about the power of compound interest, you know that it produces enormous returns over time.

I recently demonstrated this effect to my children by showing them their college accounts, which we established between 2008 and 2018. Over 50 percent of the value of their accounts is from investment returns. That means that if we had just put our money in a safe, we would have about half as much available to pay for our children's college education.

My colleagues and I at the Heritage Foundation analyzed the impact of these lost potential investments for current workers and found that, across the income spectrum, workers would have far more money in retirement if they were able to save their Social Security taxes in their own personal accounts.[17]

A low-income worker earning about $20,000 per year could receive $360 more per month (40 percent more than Social Security provides) by saving and purchasing a lifetime annuity at retirement.[18] Alternatively, she could use her $355,000 in accumulated savings as she pleased, including passing some of it on to her heirs.

A middle-income worker earning about $60,000 per year could receive nearly $4,000 more per month (about 180 percent more than Social Security provides) by saving and purchasing a lifetime annuity at retirement. Alternatively, he could use his $1.56 million in accumulated savings as he pleased.[19]

Instead of using all those savings for retirement, those workers could have spent some of their savings throughout their working years, based on what was best for them and their families. Individuals know better than government officials that they have never met what decisions are best for them and their families.

In short, the trade-off between government stabilizers and personal savings is receiving a guaranteed benefit under prescribed circumstances, but losing control over who receives those dollars, when they receive them, how much they receive, and sometimes on what they can spend them.

Deficit-Financed "Stabilizers" Will Destabilize America's Financial Future

There is another key way in which government stabilizers or insurance programs differ from personal or private ones; that is the federal government's fiscal situation. Discussions about adding new government programs to "reduce uncertainty" or about spending more money to "restore confidence" in the recovery, must first recognize the federal government's $26 trillion in debt and unsustainable fiscal trajectory.

If the federal government were an average household, it would spend $75,000 per year, despite an income of $63,000 per year, which

https://www.ssa.gov/history/nestor.html (accessed July 24, 2020).

[17]Kevin Dayaratna, Rachel Greszler, and Patrick Tyrrell, "Is Social Security Worth Its Cost?" Heritage Foundation *Backgrounder* No. 3324, July 10, 2018, https://www.heritage.org/budget-and-spending/report/social-security-worth-its-cost?_ga=2.113762831.948898437.1595443597-1304564289.1587117732.

[18]Rachel Greszler and Julia Howe, "3 Examples of How Social Security Robs Americans of Greater Income Before, During Retirement," Daily Signal, August 24, 2018, https://www.dailysignal.com/2018/08/24/3-examples-of-how-social-security-robs-americans-of-greater-income-before-during-retirement/.

[19]Ibid.

means it would have to put $12,000 on the credit card, despite already being $450,000 in debt.[20]

That means that any additional spending to reduce uncertainty or stimulate the economy today results in greater uncertainty and a smaller economy in the future.

If policymakers do not recommend that families consistently spend more than they make and that they repeatedly take out new lines of credit each time an unplanned expense occurs, they should not create government programs that do the same.

While creditors will stop lending to individuals at some point, and debt collectors will come knocking, it seems like the U.S. government can borrow forever without consequence.

The fact that interest rates are exceptionally low even as the U.S. debt has reached record highs makes borrowing seem all the more beneficial. But government debts will come due, and at some point, creditors will lose confidence in the U.S.'s ability to repay its debts and will begin to demand higher and higher interest rates. According to the International Monetary Fund's 2019 projections, the U.S. is an outlier in its unsustainable fiscal trajectory. Not only was the U.S. one of only four out of 25 countries with its debt projected to rise over the next five years, but its projected 11 percent increase was magnitudes above Italy, Japan, and Korea's projected increases.

Just as it is unknown which proverbial straw will break the camel's back, we do not know which dollar of additional debt will tip the U.S. into a fiscal crisis, but each dollar pushes us closer. Once a fiscal crisis hits, more often than not, it hits hard and fast, meaning slow retreat is not an option.[21]

When a fiscal crisis hits and a country can no longer borrow at reasonable rates, tax increases that were previously considered outrageous and spending cuts previously deemed reprehensible would all be on the line.

Exchanging the temporary coronavirus crisis for a long-term fiscal crisis is not desirable. While it is tempting to increase government debt in ways that would help the economy in the short term and appear to increase stability going forward, doing so would likely reduce stability by pushing America closer to the brink of fiscal disaster.

But expanding the size of government and increasing the debt are not the only option. There are lots of other ways that policymakers can help reduce uncertainty, restore confidence, and increase opportunities and incomes for all Americans.

Solutions Instead of Band-Aids: Boosting Opportunities, Incomes, and Flexibility for All Americans

In the short term, targeted government responses to the global health pandemic can help alleviate uncertainties and financial hardships caused by COVID-19, but those policies are not long-term solutions to increase incomes, opportunities, and freedoms for all Americans.

Instead, policies that promote work opportunities, support increased productivity (incomes only rise if people become more productive), help people save more, and allow

[20]See "U.S. Budget vs. Family Budget," in *Federal Budget in Pictures*, The Heritage Foundation, https://www.federalbudgetinpictures.com/us-budget-vs-family-budget/ (accessed July 28, 2020).

[21]There are instances in which high levels of debt have been sustained for long periods of time without a unique crisis turning point, such as in Japan, but that debt has contributed to an exceptionally low or no economic growth for decades.

individuals to pursue what is best for them are needed.

To that end, policymakers should:

Help Bridge COVID-19 Unemployment Gaps with a Partial Federal Match. Although more people have found employment in the past two months than in 46 months during the Great Recession, unemployment remains high and certain sectors of the economy have experienced permanent job losses and will take time to recover or transform. Since most job losses are direct results of COVID-19 as opposed to structural weakness or permanent shifts, it makes sense to provide some short-term federal support. Congress should replace the flawed $600 additional unemployment benefit that will expire on July 31 with a partial match to state benefits. This match, which I recommend to provide 40 percent of what states pay, should also apply to partial-benefit programs that allow workers who have regained jobs but with reduced hours and incomes to still receive partial unemployment benefits.[22] Such benefits would be particularly helpful as many businesses have reopened, but will not fully regain their previous revenues for some time.

The match could start at 40 percent in August and decline 10 percent each month thereafter, ending in December. For a worker who currently receives a state benefit equal to 50 percent of his previous earnings, the federal match would bring that benefit to 70 percent.

A partial benefit should be easy for states to implement. All they would need to do is multiply the benefit they already calculate by a factor of 1.4 (and by a smaller factor over time).

Instead of a one-size-fits-all specific dollar amount, a partial federal match would give states more autonomy to meet the unique needs of their populations as they see fit.

Enact Universal Savings Accounts (USAs). If Americans could set aside savings in a single, simple, and flexible account to use on what they want when they want and without penalty or double-taxation, they would save more and be better prepared for the future.[23] USAs would be especially helpful for low- and moderate- income households. Both Canada and the U.K. have USAs and low-income and moderate-income savers represent over 50 percent of account holders, and they contribute the highest percentages of their incomes.[24]

Provide a Safe Harbor Liability Protection for Businesses, Schools, and Workers that Follow CDC Guidance in Good Faith. A safe harbor would provide much-needed confidence and stability that encourages business owners to reopen and re-employ workers and for schools to reopen and provide fundamental education and other supports to children and families.

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[22]Rachel Greszler, "Tackling COVID-19 Unemployment: Work Opportunities and Targeted Support Beat Windfall Bonuses," Heritage Foundation *Backgrounder* No. 3506, July 1, 2020, https://www.heritage.org/jobs-and-labor/report/tackling-covid-19-unemployment-work-opportunities-and-targeted-support-beat (accessed July 24, 2020).

[23]Adam Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings

[24]Organization for Economic Cooperation and Development, "Encouraging Savings Through Tax-Preferred Accounts," OECD Tax Policy Study No. 15, 2007, https://www.oecd-ilibrary.org/taxation/encouraging-savings-through-tax-preferred-accounts_9789264031364-en (accessed July 24, 2020).

Clarify and Harmonize the Government's Multiple Definitions of "Employee" Versus Contractor. Different tests and rules to determine who is, and is not, an employee of a company make it needlessly difficult for employers and workers to differentiate between employees and contractors. This increases costs and decreases work flexibility for the growing number of independent workers. Policymakers should consistently apply the "common law" test, based on how much control an employer exerts over a worker, throughout tax and employment law.

Codify the Direct-Control Definition of a Joint Employer. [25] Uncertainty over the future classification of nearly 8 million employees could threaten the future of the 750,000 individual franchise operations in which they work. Without certainty that a future Administration will not revert to the previous standard that was estimated to have cost franchise businesses as much as $33.3 billion annually, reduced employment by 376,000 jobs, and caused a 93 percent spike in lawsuits against franchises, the franchise model will be less likely to survive or expand in the future.[26]

Repeal Work Restrictions, such as California's AB5 Law. By changing the definition of an employee versus a contractor to effectively outlaw most freelancing, contracting, and gig-economy jobs, AB5 has taken away many individuals' and families' livelihoods and autonomy to be their own bosses. More than ever before, COVID-19 has increased the need for flexibility and income opportunities. Even before this health pandemic, 46 percent of workers who freelance said they were unable to work for a traditional employer because of personal circumstances, such as health conditions and family situations. [27] And 76 percent of workers who do not freelance said that they would consider freelancing in a recession.[28]

Do Not Drive Up the Cost of Employment. With small businesses and lower-wage workers already among the hardest hit by the economic impacts of COVID-19, setting artificially high minimum wages could drive more companies out of business and disproportionately eliminate jobs for less-advantaged workers.

Give Workers the Choice to Join a Union. With the high cost of union dues—about $600 per year for someone making $50,000,[29] and equal to what the average household spends on food in a month[30]—Congress should give all workers the freedom to choose to pay union dues or not, and simultaneously free unions from having to represent workers who do not pay union dues.

Make Full Expensing Permanent. Starting in 2020, businesses will no longer be able to fully deduct investments in equipment, tools, and structures, which will reduce valuable investments that make workers more productive and increase incomes.

Enact a "Physical Presence" Standard. Small businesses selling online are now subject to the more than 10,000

[25] U.S. Department of Labor, "Wage and Hour Division—Final Rule: Joint Employer Part 791," January 12, 2020, https://www.dol.gov/agencies/whd/flsa/2020-joint-employment (accessed May 12, 2020).

[26] Ben Gitis, "The Joint Employer Standard and the Supply Chain," American Action Forum, November 26, 2018, https://www.americanactionforum.org/research/jointemployer-standard-and-supply-chain/ (accessed May 12, 2020).

[27] UpWork, "Freelancing in America, 2019," https://www.upwork.com/i/freelancing-in-america/ (accessed June 11, 2020).

[28] Ibid.

[29] Typical union dues equal two work hours per month. At $50,000 per year, or about $25 per hour, this amounts to $600 in annual union dues.

[30] Trent Hamm, "Lessons from the Average American's Food Expense," The Simple Dollar, April 13, 2020, https://www.thesimpledollar.com/save-money/lessons-from-the-average-americans-food-expense/ (accessed May 18, 2020).

different taxing jurisdictions, each with their own tax rates and rules. A physical presence standard would provide tax relief and eliminate burdensome administrative costs for small businesses, many of which are struggling to survive.

Repeal the Davis–Bacon Act. The Davis–Bacon Act artificially drives up the cost of construction projects that receive federal funds by applying a deeply flawed wage calculation. Not only should this act be repealed to save taxpayers up to $1.4 billion annually (according to the CBO), but it should not apply to any additional federal funds as proposed in the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act for contract tracers and other workers receiving funding under the act.

Roll Back the Recent Increases in the Overtime Rule Threshold. Economists widely agree that employers will pass cost increases from overtime rules back to workers through lower pay or lower benefits—which is especially true now as businesses face more narrow margins. The overtime threshold also causes employers to more closely monitor employees' work, including taking away flexibility and remote work that have been crucial in the wake of COVID-19. Rolling back the recently enacted higher threshold will give employers and workers the flexibility they need to keep more people employed.[31]

Allow Hourly Workers to Choose Paid Time Off. The coronavirus health crisis and many of the containment measures—children home from school and day care, and temporary shutdowns and slowdowns—have highlighted the value of paid time off, yet private employers are prohibited from allowing their workers to choose "comp time" instead of overtime pay. The Working Families Flexibility Act would eliminate this prohibition so that, both during and beyond this health pandemic, lower-wage hourly workers would have the same right as state and local workers to choose between paid time off and cash pay.[32]

In addition to these steps that Congress can take, state and local lawmakers should eliminate burdensome licensing requirements; end "Certificate of Need" laws; reduce barriers to accessible and affordable childcare; treat pandemic-caused remote work as office work for tax purposes; and remove barriers to home-based businesses.

Summary

There is a role for government to provide a safety net, and to respond to crises such as COVID-19, but the federal government should not protect against any and all planned and unplanned life events. Often times, state and local governments are better positioned to more effectively meet the needs of their communities.

Although government programs can reduce uncertainty, they typically come with only one option, can be difficult to qualify for, and are often inadequate upon receipt. Consequently, many families have lower incomes and fewer choices.

By replacing personal savings with deficit-financed spending, additional government stabilizers would redistribute income from younger generations to older ones, reduce

[31]Rachel Greszler, "3 Ways Obama's New Overtime Rule Will Hurt Employees," The Daily Signal, August 26, 2016, https://www.dailysignal.com/2016/08/26/3-ways-obamas-new-overtime-rule-will-hurt-employees/.
[32]Rachel Greszler, "A Simple Way to Help Workers and Employers Hurt by Coronavirus," Heritage Foundation *Commentary*, March 15, 2020, https://www.heritage.org/jobs-and-labor/commentary/simple-way-help-workers-and-employers-hurt-coronavirus.

investment, and result in a smaller economy and lower incomes in the future.

Instead of looking to new ways for government to spend taxpayers' money and drive future generations deeper into debt or fiscal catastrophe, policymakers should look to ways to help workers and families be able to achieve their own desires and potential—whatever those may be.

Some of the key components of certainty and confidence are having ample opportunities to work, earn a living, and save for the future. Policymakers can reduce barriers to employment in the short and long term by allowing safe reopenings of society, providing limiting liability for workers and businesses that follow CDC guidance, respecting individuals' right to work, repealing wage restrictions that reduce jobs, and ending restrictions that limit workplace flexibility. Moreover, removing red tape and reducing the most harmful taxes (such as on investment) will lead to increased productivity and income gains.

These are the types of policies that led to a 50-year record low-unemployment rate and strong income growth with the largest gains for the lowest-income earners prior to COVID-19. Along with a serious commitment to reducing the federal government's spending and debt, these are the same types of policies that will help reduce uncertainty, restore confidence, and help Americans flourish.

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RESPONSE FROM DR. BOUSHEY TO QUESTION FOR THE RECORD SUBMITTED BY REPRESENTATIVE TRONE

You've written about the negative impact of income inequality on the average American worker, and about how this inequality harms our country's long-term economic prospects. You advocate for investments in early childhood education programs and quality, government-funded child care programs as crucial to building ladders of opportunity to economic growth and stability. These sound like policies we should be considering NOW to help stabilize our economy and get people back to work. How can we reconcile the costs for such programs against outcomes, when we won't actually know their outcomes until years from now?

Thank you Congressman Trone, for the opportunity to respond to this question on the record. As an organization, The Washington Center for Equitable Growth has been investing in gathering the data to answer questions like yours for nearly 7 years. The data tell a clear story: investments in early childhood education pay for themselves many times over. This payoff is not even far off.

For example, in one of our early reports, Robert Lynch, Everett E. Nuttle Professor of Economics at Washington College, and Kavya Vaghul, now Senior Manager for Wages & Workers at Just Capital, estimated that a high-quality, voluntary pre-kindergarten program would generate $8.90 in economic benefit for every $1 invested, less than 40 years after its launch. This 8.9-to-1 economic benefit is derived from three sources: immediate changes to parents' labor market participation, longer-term improvements in children's quality of life, and both long- and short-term changes to government balance sheets. These benefits would accumulate over time, but government at all levels would see more benefits than costs after only 16 years.

When parents can rely on pre-kindergarten to provide a safe environment for their children during the workday, they work and earn more, which also leads to higher tax revenues and lower expenditure on income support programs. When children are exposed to a nurturing learning environment during the pre-kindergarten years (which are critical years for brain development), they have greater achievement and success at school: less grade retention, less need for special education, and higher graduation rates. These benefits last into adulthood, when former pre-kindergarten participants have greater attachment to the workforce, higher earnings, improved health, and are less likely to be involved in the criminal justice system. Each of these benefits at the individual level is mirrored by improvements to the Federal balance sheet: more revenue from income taxes, and fewer expenditures on health care and the criminal justice system.

Evidence shows that investing in early childhood education is one of the best ways to grow our economy over the long term.

RESPONSE FROM DR. BERNSTEIN TO QUESTION FOR THE RECORD SUBMITTED BY REPRESENTATIVE TRONE

You wrote last month that "structural racism has amplified the health and economic consequences of the current crisis on persons of color, but all those pressures predate the virus." And you advocate for a race-conscious, responsible fiscal policy to address these issues and provide ongoing support wherever it is needed, regardless of the state of the national economy. You've called for an "anti-racist policy agenda"—can you provide more details or specifics on what that might consist of? The article mentioned a labor market focus, as well as housing, education, voting rights, and criminal justice reforms.

A race-conscious policy agenda would of necessity attack the problem of systemic racism from many angles. The reason relates to what we mean by "systemic." That is, the phrase does not invoke occasional or even frequent racist acts or expressions by individuals. It refers to the extent to which racism is deeply entrenched in almost every aspect of our society, politics, and institutions.

A good example is housing segregation. The extent of redlining and racist housing covenants has been exhaustively documented and the impact a legacy of substandard, segregated housing in neighborhoods that lack the public goods and investments of neighborhoods where whites reside. Thus, housing policy must be crafted to offset this systemic segregation. An example would be fully funding "neighborhood choice vouchers" and ensuring affordable capital access through CDFIs and MDIs. "Moving to opportunity" policies can also help. [I can provide links and references on all of the policy ideas in this note.]

The same approach must be taken in every case. In education, access to college must be affordable for persons of color and any needed remediation services to offset

systemic unequal quality of K–12 education must be provided. In labor markets, minimum wages must be brought closer to living wages, and refundable credits must make work pay for lower-paid workers who are disproportionately workers of color. Also, in labor markets, it must be recognized that even in strong economies, there are often Black and Brown neighborhoods where jobs are insufficient in terms of quantity and quality. Direct job creation programs must be considered in these cases.

Of course, criminal justice is another example of an institution rife with systemic racism, including incarceration policies and policing. As an economist, policy reforms here are outside my scope but I can easily provide you with such information if it would be useful.

National Coronavirus Recovery Commission
Reducing Uncertainty and Restoring Confidence during the Coronavirus Recession

This pandemic is best analyzed as a collection of separate but related geographic epidemics. Therefore, indiscriminate "lockdowns" (especially those not supported by high fidelity evidence) neither qualify as inherently good public health policy, nor adequately reflect the diversity of disease exposure within states, regions, even zip codes, that therefore demand more measured and nuanced responses. These blunt tools have devastating repercussions for society and economic activity. Governments should employ a more informed, data-driven, precise approach to the virus, and focus protective efforts on those most at risk and vulnerable.

The federal government and states should also trust and equip medical providers, individuals, families, businesses, schools, and churches to make common-sense, rational decisions when armed with information provided by the government, epidemiologists and doctors, and other organizations. The natural impulse of Americans is to respond to crisis with solidarity—to go out of their way to protect each other and impose their own informal rules that are best for the community. This quality should be celebrated and encouraged. The burden of proof should be on the government to explain why certain activities cannot take place or should be curtailed.

The following abbreviated policy reforms proposed by the National Coronavirus Recovery Commission would go a long ways to help Americans confidently navigate recovery. For full recommendation descriptions, please see the Commission's final report, *Saving Lives and Livelihoods: Recommendations for Recovery*, and website for additional research at www.coronaviruscommission.com/research.

Reducing Uncertainty and Restoring Confidence in Education

Reopening schools is essential to keeping the doors of educational opportunity open to children, especially for those with few economic means and whose parents are not able to work remotely and therefore with the fewest options for alternative educational avenues.

State and local governments make decisions based on data for the local district, and even the specific school, not the entire state. If the cases in a single school that is not geographically connected to another school or schools rise beyond the number deemed appropriate by health professionals, in-person operations in an entire state or district need not be suspended. Decisions about whether to keep schools closed should be medically determined by zip code, tied to districts. Districts that have low incident rates should remain open, and all school districts should have emergency response plans (including quick transitions to online learning) if they are forced to close. School administrators might also find it helpful to develop parental advisory committees in order to gain additional expertise and input into contemplated changes. Parental advisory committees can also help encourage student body cooperation.

State and local governments should selectively quarantine any students, faculty, or staff who show COVID-like symptoms by sending them home. The school should continue to provide online instruction for students who are sent home. For parents who choose to keep their children at home, schools should continue to offer online instruction while enabling students to demonstrate proficiency in mandatory subjects.

State and local governments should consider suspending in-person operations school-wide only if a school's COVID-19 cases increase beyond an acceptable number as determined by health professionals. Safely remaining open to serve students and allow parents to continue to work is a top priority; however, schools should be prepared with a plan for temporary closure if deemed necessary by public health officials to contain an outbreak.

States should make existing education funding student-centered and portable. States should immediately restructure per-pupil K–12 education funding to provide education savings accounts (ESAs) to families, enabling them to access their child's share of state per-pupil funding to pay for online courses, online tutors, curriculum, and textbooks so that their children can continue learning. Parents would receive a portion of their child's per-pupil public school funding in a restricted-use account that they could then use to pay for any education-related service, product, or provider of choice.

Congress should allow states to use all of their existing federal education dollars for any lawful purpose under state law. Federal lawmakers should extend the waivers and spending flexibility provided through the CARES Act, which allowed schools, among other things, to carry forward unused Title I spending and repurpose existing professional development spending for online instruction. Federal and state lawmakers should allow such flexible spending to continue and give schools more discretion to devote resources to areas of need.

Congress should expand access to 529 savings accounts for homeschooling expenses. Currently, 529 saving plans can pay for a broad range of education-related costs, such as college expenses and private elementary or secondary school tuition in certain states. Yet homeschooling expenses are excluded from the eligible uses of 529 savings accounts.

States with online schools should lift any barriers to access, including caps, enrollment restrictions, or grade prohibitions for students in grades K–12. Every parent should have equal access to online education regardless of zip code or district boundary, and all students—regardless of academic need or socioeconomic circumstance—should have access to online education options.

Universities and colleges, in partnership with the Departments of Homeland Security and State, should remain flexible in maintaining the ability of foreign students, teachers, and scholars to continue their studies. Where appropriate, visas should be extended for a limited period of time for students, teachers, and scholars when virus conditions in their home countries make it safer for them to remain in the U.S.

Reducing Uncertainty and Restoring Confidence for Businesses

Many small and medium-size businesses are currently experiencing a major liquidity shortfall and at some point will have no choice but to close permanently. At a time of great economic dislocation, policymakers must eliminate barriers to new jobs. Entrepreneurs will drive the post-pandemic recovery by reopening existing businesses and taking new risks on ideas to fill new needs in the post-crisis world. Congress should focus on fostering the recovery that is already underway and resist the temptation to rush toward another massive stimulus package. Coupling employment opportunities and flexibility with temporary and targeted unemployment supports can help get Americans back to work and limit widespread economic damage. Further, temporary waivers and emergency exceptions to certain regulations, fees, licenses, and other requirements have opened up critical resources and enabled people to solve problems expeditiously across the economy. Removing such barriers is critical now, and transitioning them to durable policy reform will be foundational to sustaining recovery and empowering Americans to make confident decisions about the future.

Reforms to the CARES Act

Congress should cap the $600 added federal benefit for unemployment insurance so that workers do not receive more than 100 percent of their previous earnings for becoming unemployed. Skewed financial incentives discourage productivity and are causing shortages in areas needed for safe recovery.

Congress should remove or convert the paid sick and family leave mandate into an option and apply it equally across businesses. Congress should not have put a new mandate exclusively on small businesses to provide paid sick and family leave. Rather, it should provide an optional advance credit for both small and large employers to utilize. Workers who do not otherwise have access to paid sick or family leave could access the $600-per-week federal pandemic unemployment insurance benefit.

Congress should create a good-faith shield for small businesses participating in the CARES Act programs. Companies should not fear federal enforcement for good-faith mistakes in completing forms and making business representations. Congress could employ the policy of non-enforcement across all agencies for up to five years from the receipt of funds or filing of forms. This would also help to ensure that banks lend more readily to small businesses that are trying to participate in the relief programs.

Congress should liberalize future Paycheck Protection Program to broaden eligible expenditures, extend the relevant period, and limit the loans to businesses that were hit hard. Businesses that were forced to shut down must rehire and retrain employees, secure inventory, reestablish vendor relationships, and settle balances. Congress should broaden what can be paid for and forgiven with new PPP loans for businesses that suffered a substantial decline in gross revenues because of the coronavirus.

Congress should provide additional relief for small and medium-size businesses in the form of grants in order to provide necessary liquidity. Because government orders forced companies to close, Congress should provide targeted grants to help these businesses with actual shortfalls.

Congress should clarify the definition of employee for programs created by the CARES Act. Congress should use the common-law test for counting employees as part of CARES Act programs to avoid double-dipping of benefits and to establish clear eligibility for programs, such as the PPP.

Regulatory and Tax Reforms

The President should direct agencies not to enforce a range of regulations against small businesses. Agencies should exercise enforcement discretion to help businesses get back up and running.

Congress should expand liability protections with a safe harbor for businesses and workers that follow CDC guidance in good faith. A safe harbor by Congress would provide much-needed confidence and stability that encourages business owners to reopen.

Congress, states, and local governments should defer payment of or forgive a wide range of taxes and licensing or permitting fees. Small businesses face grave resource restraints, and this would free up substantial resources to devote to reopening operations and hiring workers.

States and localities must coordinate permitting requirements across jurisdictions. These should generally not be required or should be as minimally burdensome as possible. Governments must simplify the pathway back into the labor force.

Congress should reduce small-business tax liability with a "physical presence" standard. Small businesses selling online are now subject to the more than 10,000 different taxing, each with their own tax rates and rules. Congress should protect retailers by codifying a physical presence test for tax collection.

Congress and the SEC should make legislative and regulatory changes to expand access to capital for small businesses. Congress and the Securities and Exchange Commission should remove barriers for small businesses to access peer-to-peer lending, credit unions, and investment finders. By simplifying exemptions and disclosure frameworks, small public companies will find it easier to recover and grow.

Congress should incentivize investments in new equipment, tools, and structures with permanent full expensing. Starting in 2022, these expenses will no longer will be fully deductible. Measures to make full expensing permanent and expand accelerated write-offs would reduce uncertainty and remove current disincentives for American businesses looking to repatriate foreign manufacturing and supply chains.

Congress should expand liability protections with a safe harbor for businesses and workers that follow CDC guidance in good faith. A safe harbor by Congress would provide much-needed confidence and stability that encourages business owners to reopen.

The President should review all federal regulations that have been waived or modified in response to COVID-19 and consider permanent changes. Such a clear statement would provide more long-term confidence and stability for businesses by ensuring regulatory regimes work in good times and bad.

States and localities should treat remote work as office work for tax purposes. With widespread office closures and stay-at-home orders, remote work arrangements could ensnare taxpayers in new tax obligations. States should issue guidance to treat pandemic-related remote work as in-office work and make long-term protections for out-of-state workers by raising the threshold for paying income taxes.

States should continue to streamline or eliminate regulatory requirements on essential services. For example, states should repeal unreasonable day-care licensing requirements that make care costly for parents and limit their options to return to work.

States should remove occupational licensing requirements. Eliminating or significantly reducing occupational licensing requirements can help to get people back to work and empowers entrepreneurs.

Additional Reforms

Congress should allow workers to opt out of Social Security's earnings test. Congress should allow individuals who collect Social Security benefits and also earn income to opt out of the earnings test so that they can choose to keep more of their earnings today, or receive higher benefits in the future.

Congress should assert its preemption authority to streamline 5G deployment. Municipalities are slowing deployment of the 5G network by squeezing broadband service providers for cash and other perks in exchange for access to public infrastructure and permits for siting antennae. Congress should assert its preemption authority and require that municipalities process 5G network upgrades as "non-substantial." Congress should also prohibit municipalities from imposing permit fees that exceed cost.

States should ensure that residents can buy an association health plan. These plans enable small firms to band together to purchase affordable, better health insurance coverage for their employees.

The Department of Labor should roll back recent increases in the overtime rule threshold. Employers will pass potential cost increases back to workers in the form of lower base pay and likely reduce flexibility in work schedules and arrangements. Removing this requirement will give employers and workers the flexibility they need to keep more people employed.

Insurance companies should honor and enforce contractual insurance obligations. The virus has caused extensive property damage, and many businesses are not getting the business interruption coverage for which they contracted. Insurance coverage should be honored to the fullest extent agreed in contracts, which should be enforced fully by the courts if necessary or resolved through legal arbitration.

Reducing Uncertainty and Restoring Confidence for Minority Communities

While all Americans benefit from reminders to avoid exposure to the coronavirus and to seek care if necessary, the data shows that minority communities are especially at risk of a disproportionate impact from the coronavirus. Regardless of their race or color, Americans must be vigilant in adhering to mitigation efforts if they must leave their homes each day to go to work. If minority communities are not participating in recommended risk avoidance, they risk a slower return to normal.

Building the Science and Reaching Communities

The federal government should partner with churches, grassroots organizations, NGOs, and local governments to increase wellness education, including education on nutrition, fitness, and risk avoidance, among minority communities. Some lower-income urban and rural communities struggled with poor nutrition, insufficient access to medical care, chronic illnesses, and inadequate health education before the pandemic and therefore may be at higher risk to COVID-19.

Private centers of medical research, universities, and federal health agencies should build scientific understanding of the underlying causes of COVID-19's disproportionate impact on minority and other communities. Policymakers should rely on these findings when preparing for future pandemics.

Civil society leaders should give particular care to communities living in multigenerational households. Leaders should be especially engaged with young people - some evidence suggests that they are the least likely to understand how their actions affect those at risk, like their parents and grandparents.

Local governments and public health officials should reexamine the triage grid of health services and protect the vulnerable. There should be no discrimination against vulnerable populations in the triage process. Local governments should collaborate with churches, the local medical community, and local civic groups to increase access to primary medical and preventative care, hospital care, psychological counseling, nutrition and health information.

Local governments must help protect the civil rights of vulnerable populations, including those with disabilities and those with limited English proficiency. Local governments should work with healthcare entities to ensure they are fully compliant with federal civil rights laws and consistent with the Administration's Civil Rights Bulletin issued in March 2020.

Religious organizations should be treated equally with secular organizations. Faith-based aid organizations have always been on the front lines of humanitarian crises in America. They should not be discriminated against by state or local authorities in reopening or meeting community needs.

Creating Better Opportunity for Minority Communities to Rebound

The Small Business Administration should partner with historically black colleges and universities (HBCUs) to disseminate information about financial resources to minority-owned businesses, including online courses aimed at mitigating the economic consequences of the pandemic.

Congress should make federal funding portable for children from low-income families and children with special needs. Congress should immediately make funding authorized under the Individuals with Disabilities Education Act (IDEA) student-centered and portable.

States should improve with access to K–12 education by making existing education funding student-centered and portable. States should immediately restructure education funding to provide education savings accounts to families, enabling them to access their child's share of state per-pupil funding to pay for online courses, online tutors, curriculum, and textbooks.

Congress should empower Americans to bolster their own savings with Universal Savings Accounts. These all-purpose savings accounts reduce taxes on savings for all Americans and help families build financial security to better weather the risks of a future economic or health crisis.

States should continue to streamline or eliminate regulatory requirements on essential services. For example, states should repeal unreasonable day-care licensing requirements that make care very costly for parents and limit their options to return to work.

States should remove occupational licensing requirements. Eliminating or significantly reducing occupational licensing requirements can help to get people back to work and empowers entrepreneurs.

The President should direct agencies not to enforce a range of regulations against small businesses. Agencies should exercise enforcement discretion to help businesses get back up and running.

Congress, states, and local governments should defer payment of or forgive a wide range of taxes and licensing or permitting fees. Small businesses face grave resource restraints, and this would free up substantial resources to devote to reopening operations and hiring workers.

REDUCING UNCERTAINTY AND RESTORING CONFIDENCE: VACCINE DEPLOYMENT

While Americans have embraced methods to "flatten the curve" in an effort to provide space and time for innovation, the fact remains that the novel coronavirus is best tackled by a preventive vaccine or effective therapies. Important work is being done in an unprecedented time window. Streamlining regulations will better enable innovation for rapid development and use of new drugs where regulatory "silos" have frustrated innovation and bureaucratic processes have slowed it. The private sector and academia are working hard to develop these tools. Government should both facilitate their development and use the time now to prepare for their deployment, as well as create a friendlier environment for medical supply and pharmaceutical companies, researchers, and investment to return to the U.S.

Supporting R&D for Vaccines, Therapeutics, and Disinfectants

The FDA, CDC, and EPA should fast-track regulatory approvals for vaccines, therapeutics, and disinfectants outside traditional regulatory silos. The President should require agencies to provide clear, actionable, and comprehensive reports no later than 30 days detailing how they will do this in the current crisis and in the future.

Congress should codify existing pandemic-related regulatory relief at the FDA, CDC, and EPA and any additional regulatory relief identified by agencies.

Congress should create a new process to designate drugs approved in other countries with similar safety standards as automatically available to U.S. patients. A process of mutual recognition and reliance should remain in effect for the duration of the current emergency at a minimum.

Federal officials should not discourage physicians from prescribing therapeutics that show promise in off-label uses for COVID-19 treatment.

Congress should reform tax policies for all research and development, investments in new equipment and tools, and investments in new structures. Measures for full expensing permanent and expand accelerated write-offs beyond 2022 would reduce uncertainty and remove current disincentives for American businesses looking to repatriate foreign manufacturing and supply chains.

Congress should establish a regulatory pathway that temporarily redeploys research laboratories to support and augment clinical testing. Research laboratories are not subject to current regulatory regimes because they do not conduct testing for clinical purposes. Research laboratories could be mobilized for surge capacity in a pandemic.

The U.S. Trade Representative should initiate with allies to commit to zero tariffs and zero export controls on medical supplies and pharmaceuticals.

Deploying Vaccines, Therapeutics, and Disinfectants

The President should promote the expansion of manufacturing capacity by exercising the authority to purchase promising therapeutics and vaccines prior to their receiving FDA approval. The Department of Homeland Security and the Department of Health and Human Services should use authority under the Project BioShield Act of 2004 to make bulk purchases of issue promising drugs and vaccines under development.

Federal public health agencies should develop and publicize risk-stratified criteria for prioritizing the populations that should get a vaccine. Priority should be given to front-line medical professionals and health care workers, and those in high risk age and health categories.

Every state should allow pharmacists to administer a new COVID-19 vaccine when it becomes available. Roughly nine out of 10 Americans reside within five miles of a local pharmacy.

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