ADDRESSING THE ECONOMIC IMPACTS OF COVID–19: VIEWS FROM TWO FORMER CBO DIRECTORS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

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ADDRESSING THE ECONOMIC IMPACTS OF COVID–19: VIEWS FROM TWO FORMER CBO DIRECTORS

WEDNESDAY, JUNE 3, 2020

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 1:07 p.m., via video teleconference, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Higgins, Boyle, Doggett, Price, Schakowsky, Kildee, Panetta, Morelle, Horsford, Scott, Jackson Lee, Lee, Jayapal, Sires, Peters, Khanna; Womack, Woodall, Johnson, Smith, Flores, Hern, Crenshaw, and Burchett.

Chairman YARMUTH. This hearing will come to order. Good afternoon, and welcome to the Budget Committee's hearing on Addressing the Economic Impacts of COVID–19, Views from Two Former CBO Directors. I want to welcome our witnesses here with us today.

At the outset, due to the new virtual hearing world that we are in, I ask unanimous consent that the Chair be authorized to declare a recess at any time to address technical difficulties that may arise with such remote proceedings.

Without objection, so ordered.

Before I start our proceedings this morning, I want to pause and reflect for a moment. This is a very difficult time for our country, but it is critical that Congress continue its work. Our hearing is on the economic impacts of the coronavirus, and we will discuss to some extent the inequities that have led so many Americans to take to the streets in protest.

I know everyone on this Committee wants the best for our constituents and the American people. How we reach that point, particularly when it comes to their economic future, is where the hard work comes into play. I hope to take that up further today and in upcoming hearings.

And before we start our proceedings, I have a few matters to take care of.

We are holding this hearing virtually, in compliance with the regulations for committee proceedings pursuant to House Resolution 965.

First, consistent with regulations, the Chair or staff designated by the Chair may mute participants' microphones when they are not under recognition, for the purposes of eliminating inadvertent background noise. Members are responsible for muting/unmuting themselves when they seek recognition, or when they are recognized for their five minutes. We are not permitted to unmute Members unless they explicitly request assistance. If I notice that you have not unmuted yourself, I will ask you if you would like the staff to unmute you. If you indicate approval by nodding, staff will mute your microphone. They will not unmute you under any other conditions.

Thank you for your patience as we navigate this new technology and platform.

Now I will introduce our witnesses. This morning—or this afternoon—we will be hearing from Dr. Douglas Elmendorf, dean of Harvard Kennedy School, and Dr. Douglas Holtz-Eakin, president of the American Action Forum. Both of them have been with us many times, and we welcome them back today.

I will now yield myself five minutes for an opening statement.

Today, in America, if you look out your window or turn on the news you will see a nation in pain. We are mourning the loss of more than 100,000 Americans to the coronavirus. We are mourning—we are again mourning the deaths of Black Americans and victims of ugly and violent manifestations of racism as poisonous to our society as COVID–19.

The American people are facing unprecedented and deeply challenging times. This once-in-a-generation pandemic has exposed weaknesses in our public health system and upended our economy. The unemployment rate has spiked to levels not seen since the Great Depression, and one in four members of the American work force have filed for unemployment. Working parents are trying to fill the roles of teacher, provider, and employee, all while striving to make ends meet. And while the American people are resilient, it is our responsibility, as their representatives in Congress, to not only ensure our nation has the resources and opportunity to heal from the trauma that has rocked our nation, but to also enact proactive policies that will mitigate the damage, bolster our recovery efforts, and bring our nation together in strength.

Today, the House Budget Committee is joined by two expert witnesses, Dr. Douglas Elmendorf and Dr. Douglas Holtz-Eakin, who have a combined decade of experience leading the Congressional Budget Office. They will help us examine how, on a broader scale, the COVID–19 pandemic has impacted our economy, and what Congress must do to lessen the fallout.

While the support Congress has provided to date has helped to alleviate hardship for millions of Americans and avert an even worse economic collapse, there is still much more that needs to be done. COVID–19 still poses a severe risk to workers, communities, and our economy. There is no definitive treatment, no vaccine, and the United States is still considered the global hotspot.

The White House is continually derelict in its duty to lead or implement a national strategy on the PPE supply chain, and now on testing and tracing. The economic impact has been brutal, and it has discriminated against our most vulnerable communities.

Nearly 40 percent of households earning less than $40,000 a year experienced a job loss in March, compared to 13 percent of households earning more than $100,000. One-third of America's parents expressed concern that their children would be forced to go to bed hungry if they exhausted their food supply before they could afford to buy more.

The number of working Black business owners has fallen by 40 percent, nearly double the national decline. Coronavirus has caused a lot of uncertainty, but this much is clear: Congress must develop a plan so Americans are never forced to choose between paying their rent or putting food on the table, filling their child's prescription or paying their utility bill, exposing their loved ones to a deadly virus, or losing their job. And contrary to what some of my Republican colleagues might say, there is no time to "wait and see."

At the end of this month, small businesses across America will lose PPP coverage, which could lead to permanent closures that will shutter Main Streets and decimate local communities. At the end of July, more than 40 million unemployed Americans will lose emergency benefits that have kept them afloat. State and local governments will continue to shed jobs and cut critical resources as they strain to balance their budgets. Absent further action, CBO estimates that unemployment would average 9 percent next year, and would not fall below 6 percent until 2026.

Over the next decade, we will face a nearly $16 trillion cumulative loss in nominal GDP. The United States cannot afford to wait for this Administration or Leader McConnell to grasp the severity of this crisis. The American people need us to push the recovery along and keep support flowing.

And we are well positioned to provide this necessary aid. We have the fiscal space to implement an aggressive and sustained fiscal response that prioritizes the urgent needs of our constituents and protects the economy in both the near and long term. We can, as Fed Chair Jay Powell says, make people "whole."

In fact, many experts caution that failing to support our economy and promoting a strong recovery poses a greater threat to our economic and budget outlook than deficits today. Mitigating real pain and suffering in the economy and in homes and communities across America should not be a partisan issue. Abandoning the American people is not an option. Congress must see this recovery through.

I look forward to hearing from our witnesses and my colleagues on this critical and urgent effort.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John A. Yarmuth
Hearing on Addressing the Economic Impacts of COVID-19: Views from Two Former CBO Directors
Opening Statement
June 3, 2020

Today in America, if you look out your window or turn on the news, you will see a nation in pain. We are mourning the loss of more than 100,000 Americans to the coronavirus. We are again mourning the deaths of black Americans and victims of ugly and violent manifestations of racism as poisonous to our society as COVID-19.

The American people are facing unprecedented and deeply challenging times: this once in a generation pandemic has exposed weaknesses in our public health system and upended our economy. The unemployment rate has spiked to levels not seen since the Great Depression, and 1 in 4 members of the American work force has filed for unemployment. Working parents are trying to fill the roles of teacher, provider, and employee, all while striving to make ends meet.

And while the American people are resilient, it is our responsibility, as their representatives in Congress to not only ensure our nation has the resources and opportunity to heal from the trauma that has rocked our nation, but to also enact proactive policies that will mitigate the damage, bolster our recovery efforts, and bring our nation together in strength.

Today, the House Budget Committee is joined by two expert witnesses, Dr. Douglas Elmendorf and Dr. Douglas Holtz-Eakin, who have a combined decade of experience leading the Congressional Budget Office. They will help us examine how, on a broader scale, the COVID-19 pandemic has impacted our economy and what Congress must do to lessen the fallout.

While the support Congress has provided to date has helped to alleviate hardship for millions of Americans and avert an even worse economic collapse, there is still much more that needs to be done. COVID-19 *still poses a severe risk* to workers, communities, and our economy – there is no definitive treatment, no vaccine, and the United States is still considered the global hot spot. The White House is continually derelict in its duty to lead or implement a national strategy on the PPE supply chain, and now on testing and tracing.

And the economic impact has been brutal, and it has discriminated against our most vulnerable communities. Nearly 40 percent of households earning less than $40,000 a year experienced a job loss in March, compared to 13 percent of households earning more than $100,000. One-third of America's parents expressed concern that their children would be forced to go to bed hungry because they exhausted their food supply before they could afford to buy more. The number of working black business owners has fallen by 40 percent – nearly double the national decline.

Coronavirus has caused a lot of uncertainty but this much is clear: Congress must develop a plan so Americans are never forced to choose between paying their rent or putting food on the table; filling their child's prescription or paying their utility bill; exposing their loved ones to a deadly virus or losing their job. And, contrary to what some of my Republican colleagues might say, there is no time to "wait and see."

At the end of *this* month, small businesses across America will lose PPP coverage, which could lead to permanent closures that will shutter Main Streets and decimate local communities. At the end of July, more than 40 million unemployed Americans will lose emergency benefits that have kept them afloat. State and local governments will continue to shed jobs and cut critical resources as they strain to balance their budgets. Absent further action, CBO estimates that unemployment would average nine percent next year and would not fall below six percent until *2026*. Over the next decade, we will face a nearly $16 trillion cumulative loss in nominal GDP. The United States cannot afford to wait for this Administration or Leader McConnell to grasp the severity of this crisis. The American people need us to push the recovery along and keep support flowing.

And we are well-positioned to provide this necessary aid. We have the fiscal space to implement an aggressive and sustained fiscal response that prioritizes the urgent needs of our constituents *and* protects our economy in both the near- and long-term. We can, as Fed Chair Jay Powell says, make people "whole." In fact, experts caution that failing to support our economy and promote a strong recovery poses a *greater threat* to our economic and budget outlook than deficits today.

Mitigating real pain and suffering in the economy – and in homes and communities across America – should not be a partisan issue. Abandoning the American people is not an option. Congress must see this recovery through. I look forward to hearing from our witnesses and my colleagues on this critical and urgent effort.

Chairman YARMUTH. With that I yield five minutes to the Ranking Member, Mr. Womack, for his opening statement.

Mr. WOMACK. I thank the Chairman for holding the hearing. And thank you, Dr. Holtz-Eakin and Dr. Elmendorf, for being with us today.

Obviously, these are unprecedented times in our nation, as evidenced by the fact that we are conducting this hearing from various parts of our country. The coronavirus is the worst public health crisis Americans have experienced in decades. It has led to challenges at all levels, including a sharp deterioration in our economy. The unemployment rate, for example, has quadrupled since February. But as Americans, I have no doubt we will not only defeat the virus, but we will return our economy to the boom we were experiencing earlier this year.

Everyone here agrees that when a crisis occurs the federal government has to act. And the federal government has acted. Since the pandemic attacked our nation, Congress has enacted a staggering $2.4 trillion in coronavirus relief funding. The Federal Reserve has protected the financial system and lowered rates. The Administration is rolling back burdensome regulations that impede efforts to combat the coronavirus.

Today we are here to discuss the economic impacts of the pandemic, and the steps we must take to ensure our nation is fiscally solvent. There are several things going through my mind on how to move forward.

First, how do we make sure that the policies we enact are doing everything possible to defeat the virus, to boost the economy, and to get Americans back to work?

Second, how do we make sure that we avoid adopting policies that do more harm than good? For example, although well intentioned, I have heard firsthand small businesses—about how additional unemployment benefits have kept people home, instead of on the payroll. As we work to reopen the economy, we should re-analyze policies with these types of unintended consequences in mind.

Third, how do we balance the responsible use of taxpayer dollars with addressing the challenges we face? The $2.4 trillion in financial relief is not free money. These are taxpayer dollars that will, at the end of the day, ultimately need to be paid back to the U.S. Treasury. Future generations will bear that burden.

What is particularly frustrating to me is that during normal times we fail to do our job. We fail to put a—to pass a budget, to put our country on a fiscally sustainable path, or even do a budget at all. That is right. We, as the Budget Committee, didn't do our job before the pandemic. We will—will we rise to the occasion and make the tough, critical choices that our constituents send us to Washington to make? I believe now is the time for us to actually do our work.

After incorporating the effects of the coronavirus and associated legislation, CBO is now projecting a deficit of $3.7 trillion for Fiscal Year 2020, which would be, by far, the highest deficit recorded in U.S. history. It is imperative that policymakers establish and enforce policies guiding fiscal responsibility as subsequent COVID–19 relief bills are considered.

If we had been doing our job all along, funding the crisis would not have been as daunting to our fiscal future. We cannot keep getting away from doing our job, especially when we are in normal times.

Today, I look forward to hearing from both of our esteemed witnesses. Tomorrow, I look forward to beginning the task at hand as we, as Members of the Budget Committee, address the deficit and debt faced by our nation.

[The prepared statement of Steve Womack follows:]

BUDGET | HOUSE BUDGET REPUBLICANS

Rep. Steve Womack
Ranking Member

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing Entitled: "Addressing the Economic Impacts of COVID-19: Views from Two Former CBO Directors"

Remarks as prepared for delivery:

Thank you, Chairman Yarmuth, for holding this hearing, and thank you, Dr. Holtz-Eakin and Dr. Elmendorf, for being here today.

We are facing unprecedented times in our nation. The coronavirus is the worst public health crisis Americans have experienced in decades. It has led to challenges on all levels, including a sharp deterioration in the economy. The unemployment rate, for example, has quadrupled since February. But as Americans, I have no doubt that we will not only defeat the virus, but also return our economy to the boom we were experiencing earlier this year.

Everyone here agrees that when a crisis occurs, the federal government must act. And it has. Since the pandemic attacked our nation, Congress has enacted a staggering $2.4 trillion in coronavirus relief funding. The Federal Reserve has protected the financial system and lowered interest rates. The Administration is rolling back burdensome regulations that impede efforts to combat the coronavirus.

Today, we are here to discuss the economic impacts of the pandemic, and the steps we must take to ensure that our nation is fiscally solvent.

There are several things going through my mind on how to move forward:

> First – how do we make sure that the policies we enact are doing everything possible to defeat the virus, boost the economy, and get Americans back to work?
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What's particularly frustrating to me is that, during normal times, we failed to do our job. We failed to put the budget on a fiscally sustainable path – or even do a budget at all. That's right, we as the Budget Committee did not do our job before the pandemic.

Will we rise to the occasion and make the tough, critical choices that our constituents sent us to Washington to make? Now is the time for us to actually do our work.

After incorporating the effects of the coronavirus and associated legislation, CBO is now projecting a deficit of $3.7 trillion for fiscal year

2020 alone, which would be by far the highest deficit recorded in U.S. history. It is imperative that policymakers establish and enforce policies guiding fiscal responsibility as subsequent COVID-19 relief bills are considered.

If we had been doing our job all along, funding the crisis would not have been as daunting to our fiscal future. We cannot keep getting away with not doing our job, especially when we are in normal times.

Today, I look forward to hearing from both of our esteemed witnesses. Tomorrow, I look forward to beginning that task at hand as we – as members of the Budget Committee – address the deficit and debt faced by our nation.

Thank you, Mr. Chairman. I yield back the balance of my time.

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Mr. WOMACK. Thank you, Mr. Chairman, and I am glad to yield back the balance of my time.

Chairman YARMUTH. I thank the Ranking Member for his opening statement. And if any other Members have opening statements, you may submit those statements electronically to the Clerk for the record.

Before I introduce our witnesses, I ask unanimous consent that—to insert a letter from the National Association of Counties into the record.

Without objection, so ordered.

[The NACo letter follows:]

NATIONAL ASSOCIATION of COUNTIES NACo

June 3, 2020

Chairman John Yarmuth
Committee on the Budget
United States House of Representatives
204-E Cannon House Office Building
Washington, D.C. 20515

Ranking Member Steve Womack
Committee on the Budget
United States House of Representatives
507 Cannon House Office Building
Washington, D.C. 20515

Submission for the Record – Addressing the Economic Impact of COVID-19: Views from Two Former CBO Directors

Dear Chairman Yarmuth and Ranking Member Womack:

On behalf of the National Association of Counties (NACo) and the 3,069 counties we represent, thank you for holding today's hearing, "Addressing the Economic Impact of COVID-19: Views from Two Former CBO Directors." We appreciate your efforts to assess the full scale of the economic impacts of the pandemic across the nation and, most importantly, for your leadership on previous COVID-19 relief packages that helped local governments better respond to the pandemic in our communities.

Our nation's counties are truly on the frontlines of the COVID-19 pandemic. Counties operate and support over 1,900 local public health departments, nearly 1,000 public hospitals and critical access clinics, and make investments in key federal programs and services used to address the current crisis. County governments are also responsible for emergency operations centers and public safety, housing and homelessness services, court and jail management, protective services for children, seniors and veterans, and serve as the "last of the first responders" with coroners and medical examiners.

As counties continue our efforts to address the pandemic locally, we face growing budgetary and economic challenges. New NACo research indicates that **counties nationwide can expect a combined $144 billion impact on our budgets through FY 2021,** including $114 billion in lost revenue and another $30 billion in additional pandemic-related expenditures. According to a NACo analysis of U.S. Census Bureau research on individual governments, an additional $54 billion in property tax revenue is at risk in states where counties have not yet collected any or all property tax revenue. These estimates do not account for revenue loss or delay from property tax disruptions, nor do they consider funding and revenue share cuts from state sources, like state-collected sales, income or gasoline taxes.

To compound this situation, counties are limited in our ability to raise additional revenue, even when additional expenditures make it imperative to balance budgets. **For example, in 35 of the 45 states with county property tax authority, counties retain less than 30 percent of the property tax collected state-wide. When it comes other revenue sources such as sales tax, only 29 states authorize counties to collect sales tax.** Out of these 29 states, 26 impose a sales tax limit.

As counties marshal budgetary resources to respond to increased local needs, the fiscal strain has forced many counties to furlough or lay off workers. According to NACo survey data from more than 100 counties, more than 10,000 county employees have lost their jobs in those counties alone. Nearly half (51) of these counties have furloughed or laid off 10 percent or more of their employees, with some counties furloughing or laying off up to half (50 percent). Nationwide, the results are seen in the latest jobs report from the Bureau of Labor Statistics (BLS), which shows a loss of more than 800,000 jobs in the local government sector, 332,000 of which were non-education related jobs ranging from law enforcement officers to health care practitioners, social workers, maintenance crews, construction workers, administrative support and more. These workers are vital to the nation's COVID-19 response and recovery.

Counties are working to mitigate job losses, using reduced hours and pay cuts to keep employees working amid fiscal challenges. In Monroe County, Fla., for instance, county leaders announced they would partially furlough or lay off between 30 to 100 workers for at least 16 weeks as a result of the massive budgetary impacts to the tourism-rich county, which is home to the Florida Keys. Washington County, Pa., meanwhile, called for 50 voluntary furloughs from its workforce and made those volunteers eligible to apply for unemployment and other benefits. However, despite innovative strategies to avoid layoffs, many counties have already been forced to make difficult staffing decisions, and more layoffs and furloughs are inevitable as county reserves and revenues are further depleted.

County staffing shortages will cause real delays to local governments' COVID-19 response activities, especially as we attempt to meet increased demand for services across different county agencies. A recent study indicates that the nation's economic output (real GDP) **will decline five percent each month during the partial economic shutdown and has already cost the U.S. economy $2.14 trillion in just two months.**

As federal, state and local governments consider next steps in reopening, America's response to COVID-19 and our eventual recovery from this crisis will depend in significant part on the ability of local governments and county employees to protect our residents and safely restart our local economies. **To help ensure counties' ability to reopen, we respectfully urge your bipartisan support and cooperation for a new round of direct, flexible aid for local governments of all sizes.**

We thank you again for this hearing and for your efforts to assess the scale of this historic crisis and ask you to come together to provide critically needed resources to help counties respond.

Sincerely,

Matthew D. Chase
Executive Director/CEO
National Association of Counties

Chairman YARMUTH. Once again I would like to thank our witnesses for being here this morning. The Committee has received your written testimony, and they will be made part of the formal hearing record. You will each have five minutes to give your oral remarks.

And as a reminder, please unmute your microphone before speaking.

Dr. Elmendorf, please unmute your microphone. You may begin when you are ready.

STATEMENT OF DOUGLAS W. ELMENDORF, PH.D., DEAN, HARVARD KENNEDY SCHOOL; AND DOUGLAS HOLTZ-EAKIN, PH.D., PRESIDENT, AMERICAN ACTION FORUM

STATEMENT OF DOUGLAS W. ELMENDORF, PH.D.

Dr. ELMENDORF. Thank you, Mr. Chairman. I am pleased to be back with the Budget Committee and with my friend, Doug Holtz-Eakin.

I offer my deepest sympathy to all who are suffering from the pandemic, and my deepest gratitude to everyone who is helping others through this crisis and keeping our society going.

I also want to offer my heartfelt condolences to the family of George Floyd and to all who suffer from the scourge of racism. We can and must create a more just society.

In my testimony today I would like to make four points.

First, although the country is beginning to reopen following widespread shutdowns, a great deal of economic suffering still lies ahead of us. The number of people with jobs relative to the total number of adults is now the lowest since at least the 1940's. This unprecedented loss of jobs cannot be reversed simply by declarations that people are allowed to go back to work and commerce. Instead, people need to become confident that they can go back while remaining mostly safe from COVID–19. This will take time, money, and hard work. CBO projects that, of all the jobs lost so far, only 30 percent will be restored by the fourth quarter of this year, and only 60 percent by the fourth quarter of next year.

Second, although more economic suffering will inevitably occur, and the extent of that suffering is not preordained, but depends crucially on economic policies, a premature tightening of federal fiscal policy in 2011 was a significant mistake of economic policy. I hope that policymakers do not make the same mistake again. The economy has fallen so far in the past few months that we might see exceptionally rapid growth during the third and fourth quarters. But even rapid growth will still leave the number of unemployed Americans unacceptably high, and the American economy operating way below its productive capacity.

Fiscal policy cannot fully offset people's hesitation to come into close contact with each other, but it can sustain household incomes and business operations until health conditions improve, which will not only improve people's well-being in the short run, but increase the pace of economic recovery and put us in a better position in the long run.

Third, more than $1 trillion of additional fiscal support is warranted, with a focus on supporting unemployed households, business operations, and state and local government budgets. Economic policymakers have responded aggressively to the pandemic, to your credit. But given the scale of the shock we are experiencing, more fiscal support for the economy is warranted until at least 2022.

The expansion of unemployment insurance benefits in the CARES Act should be continued beyond the scheduled expiration at the end of July. Allowing those expanded benefits to expire would hurt families who cannot find jobs. However, I recommend that the extra weekly payment be reduced from the current $600, and that expanded benefits remain in place until the unemployment rate falls below 6 percent.

State and local governments are being hit by two large financial shocks. They need to spend more to provide health care, testing, contact tracing, and so on, and they are losing tax revenue because of the recession. These shocks will soon force state and local governments to cut workers and public services, which would endanger health and further weaken the economy. Instead, the federal government should provide substantial grants to states based on population, COVID–19 hospitalizations, or other factors.

Businesses also need more support to sustain their operations. Keeping businesses afloat during this period, when potential customers are unable or unwilling to turn up is crucial, both for reducing suffering today and for enabling a more rapid economic recovery when health conditions improve.

Fourth, despite the very large amount of outstanding treasury debt, the U.S. Government has sufficient fiscal capacity to provide trillions of dollars of further stimulus. Interest rates on Treasury debt are now exceptionally low, not just because of the pandemic and recession, but because of shifts in private saving and investment that have unfolded over decades. With much lower interest rates, outstanding debt can be much larger, and interest payments will still be manageable. And with lower interest rates, the optimal amount of outstanding debt is larger. The federal government should borrow more than it would otherwise.

We will ultimately need to raise taxes and reduce spending substantially. But we can and should wait to do that until we have rebuilt a vibrant economy with full employment.

Thank you very much.

[The prepared statement of Douglas W. Elmendorf follows:]

Fiscal Policy Should Do Much More in Response to the Pandemic
Douglas W. Elmendorf
Harvard Kennedy School

Testimony to the House Budget Committee
June 3, 2020

Thank you for the opportunity to testify. I am pleased to be back with the Budget Committee, and I am pleased that the Committee is taking up the crucial topic of the economic impact of the Covid-19 pandemic.

The pandemic is bringing complications to the lives of nearly everyone in the world, acute challenges to many people, and tragedies in some cases. I offer my deepest sympathy to all who have suffered and will suffer from the direct health effects of Covid-19 and from its terrible social and economic consequences. I also offer my deepest gratitude to all of the health care professionals, first responders, public servants, essential workers, and everyone who is helping others through this crisis and keeping our societies going.

In addition, I want to offer my heartfelt condolences to the family of George Floyd and to all who suffer from the scourge of racism in this country. We can and must create a more just society, and we can and must start now.

In my testimony today, I would like to make four principal points.

First, although the country is beginning to re-open following widespread shutdowns, a great deal of economic suffering still lies ahead of us, because bringing people back to work will take much longer than pushing them out of work. Second, although more economic suffering will inevitably occur, the extent of that suffering is not pre-ordained but depends crucially on the economic policies that are adopted. Third, more than a trillion dollars of additional fiscal support is warranted, with a focus on sustaining unemployed households, business operations, and state and local government budgets. And fourth, despite the very large amount of outstanding Treasury debt, the U.S. government has sufficient fiscal capacity to provide trillions of dollars of further stimulus if needed.

Let me elaborate on those points.

First, although the country is beginning to re-open following widespread shutdowns, a great deal of economic suffering still lies ahead of us. The U.S. unemployment rate was 3½ percent in February, 4½ percent in March, almost 15 percent in April, and perhaps around 20 percent in May, although we will not know the official number until this Friday. That shocking runup actually understates the true problem, because the loss of jobs has caused many people to leave the labor force and thus not be counted in the unemployment figures. The labor force participation rate was above 63 percent in February, dropped to just above 60 percent by April, and almost certainly fell further in May. To capture both the people who have left the labor force and those who have remained in the labor force but cannot find a job, we can look at the number of people with jobs relative to the total number of adults. That employment-population ratio plunged from 61 percent in February to 51 percent in April, by far the lowest reading since at least the 1940s.

This dramatic and unprecedented loss of jobs cannot be reversed simply by declarations from public officials that people are allowed to go back to work and commerce. Such declarations can help, but only to the extent that people become confident they can go back to those activities while remaining mostly protected from Covid-19.

Gaining that confidence will require substantially more testing and contact tracing than we are currently doing, and it will require that areas that resume work and commerce do not end up with a renewed surge in Covid-19 cases, hospitalizations, and deaths. This will take time, money, and hard work by public officials and health care professionals, and it will take widespread public adherence to mask wearing, social distancing, and other protective measures. We are not at the end of the Covid-19 health crisis; we are only, to quote Winston Churchill during a different sort of war, "at the end of the beginning."

Therefore, a return to traditional levels of work, production, and spending will take years. The Congressional Budget Office projects that, under current law, the unemployment rate will still be in double-digits at the end of this year. CBO also projects that, of all the jobs that have been lost so far, only 30 percent will be restored by the fourth quarter of this year and only 60 percent will be restored by the fourth quarter of 2021.

Second, although more economic suffering will inevitably occur, the extent of that suffering is not pre-ordained but depends crucially on the economic policies that are adopted. Economic policies usually have significant effects on the course of recessions and recoveries, and this cycle is no exception.

During the Great Recession of a dozen years ago, federal fiscal stimulus provided a vitally important boost to economic activity in 2008 through 2010 while the aftermath of the housing and financial excesses of the preceding years was dragging the economy down. A survey of leading economists showed near-unanimity that the Recovery Act of 2009 reduced job losses and output losses relative to what would have occurred otherwise. Unfortunately, however, fiscal stimulus turned into fiscal restraint in 2011 and later, which significantly slowed the economic recovery and kept more people unemployed for longer than would have been the case if fiscal stimulus had continued. That premature tightening of federal fiscal policy was one of the most significant mistakes of economic policy in the past half-century.

I hope that policymakers do not make the same mistake again. The economic data that will be released this summer and fall will probably show substantial growth in output and employment from their troughs this spring. Indeed, the economy has fallen so far in the past few months that we might see exceptionally rapid growth during the third and fourth quarters. But we should not be fooled by rapid growth rates into believing that the economy has healed or that people's suffering is over. Even rapid growth in the second half of this year will still leave the number of unemployed Americans unacceptably high and the American economy operating way below its productive capacity.

Fiscal policy cannot fully offset people's unwillingness to come into close contact with each other, but it can sustain household incomes and business operations until health conditions improve and economic activity returns to previous levels. Sustaining households and businesses during this difficult period would not only improve people's well-being now but would increase the pace of economic recovery and put us in a better position in the long run.

Therefore, policymakers should maintain supportive policies until the unemployment rate is down close to where it was when the pandemic hit, which was below 4 percent. According to CBO's forecast, though, the unemployment rate will still be more than 8 percent at the end of <u>next</u> year under current policies. Therefore, we will need more fiscal stimulus to address the impacts of the Covid-19 pandemic until at least 2022.

<u>Third, more than a trillion dollars of additional fiscal support is warranted, with a focus on sustaining unemployed households, business operations, and state and local government budgets.</u> To their credit, economic policymakers have responded aggressively to the pandemic. The Federal Reserve System has eased the cost of credit and provided liquidity to businesses and financial-market participants. Without those actions, we might have experienced a catastrophic collapse of the financial system, and we certainly would have a much weaker economy with more Americans out of work. The Congress has enacted roughly $3 trillion of spending increases and tax cuts, and much, but not all, of that enacted amount has been distributed in the economy. Without that fiscal stimulus, Americans would have suffered much more already, and the prospects for economic recovery would be much darker.

But notwithstanding the very large amount of fiscal stimulus provided already, we should not declare "mission accomplished" for fiscal policy. Given the scale of the economic shock we are experiencing, much more fiscal support for the economy is warranted.

The expansion of unemployment insurance benefits in the CARES Act should be continued beyond the scheduled expiration at the end of July. Allowing those expanded benefits to expire would hurt families who cannot find jobs and are dependent on those benefits. However, I recommend that the extra weekly payment be reduced considerably from the current $600—to, say, $300. As the economy improves and some people find opportunities to return to work, we do not want high unemployment benefits to discourage such returns. I also recommend that you legislate now that expanded benefits will remain in place until the unemployment rate falls below 6 percent. By writing a trigger of that sort into law, you do not need to pick an end date based on uncertain economic forecasts, and you will enhance confidence that fiscal support will not be withdrawn prematurely. An even better version would leave expanded benefits in place in each state until that state's unemployment rate fell below 6 percent.

State and local governments are being hit by two large, negative financial shocks. Those governments need to spend significantly more money to provide health care to people who are sick from Covid-19 and to provide testing, contact tracing, and other public health measures. The governments are also losing significant amounts of tax revenue because of the recession and, especially, the drop in consumer spending, which lowers sales tax receipts. Because state governments operate under balanced-budget rules of various forms, this combination of greater spending needs and reduced revenue will soon force state and local governments to cut workers and to cut the provision of public services. The cuts in jobs would have negative spillover effects on local businesses and thereby further weaken the economy; the cuts in services would endanger people's health, education, and more. To avoid these serious problems, the federal government should provide substantial grants to states that are based on population, Covid-19 hospitalizations, or perhaps other factors. By calibrating aid to such external measures, the federal government would not be rewarding or penalizing states for their individual budgetary decisions.

Businesses also need substantially more support to sustain their operations. Keeping businesses afloat during this period when potential customers are unable or unwilling to turn up is crucial both for reducing suffering today and for enabling a more rapid economic recovery when health conditions improve. Therefore, as a complement to the Paycheck Protection Program and the Federal Reserve's Main Street Lending Program, I recommend that you enact direct wage subsidies for small- and medium-sized firms. With direct subsidies, firms could attest that their revenues are falling short of typical revenues and receive payments from the federal government to continue paying their workers; those attestations would be reconciled with actual revenues during the tax-filing process next year. Many businesses need grants, not just loans, because they will never make up the revenue they are losing now, they hope only to resume normal activity in the future. Such direct subsidies would preserve jobs and businesses, helping workers today and in the future.

The total amount of fiscal support that would be needed to help households, businesses, and state and local governments in the ways I have described is not clear to me. I hope you are asking the Congressional Budget Office to estimate the costs of various policies. But given the scale of the economic shock we are experiencing, the appropriate amount of additional fiscal support is certainly more than a trillion dollars.

Fourth, despite the very large amount of outstanding Treasury debt, the U.S. government has sufficient fiscal capacity to provide trillions of dollars of further stimulus if needed. Outstanding

Treasury debt will reach 100 percent of GDP by the fall—a higher reading than at any point in the nation's history except for a few years at the end of the Second World War. A decade ago, many economists would have predicted that letting government debt become so large relative to the size of the economy would sharply push up interest rates and significantly increase the risk of a fiscal crisis, in which investors would be unwilling to hold Treasury debt at any reasonable interest rate.

But that is not what has happened. In fact, interest rates on Treasury debt are now exceptionally low—under 1 percent for the 10-year Treasury note and under 1½ percent for the 30-year Treasury bond. These low rates are not just a result of the pandemic and current recession, but of shifts in private saving and investment that have unfolded over decades. Interest rates on Treasury debt have been declining for 30 years, and previous predictions that the downward trend would reverse—including some predictions for which I bear considerable responsibility—have proven wrong. Moreover, the downtrend in rates is not unique to the United States. Interest rates on government debt have fallen in many countries over the past few decades, notwithstanding large increases in the amount of debt that would be expected to raise rates. Among the advanced economies, 90 percent of government debt now trades at interest rates below 1 percent.

The dramatic decline in the cost of government borrowing is a sea change for fiscal policy. With much lower interest rates, outstanding debt can be much larger and interest payments will still be manageable. And with lower interest rates, the optimal amount of outstanding debt is larger—the federal government should borrow more than it would otherwise. The intuition for this research finding is the following: The economic cost of high debt that generally attracts the most attention is that the government's demand for funds crowds out private borrowers who would have used those funds for capital investment that would boost future growth. But low interest rates show that loanable funds are not very scarce and that private investments with even modest returns can be readily funded—so the government's use of borrowed funds is not very costly to society.

To be clear, I am not suggesting that debt can rise indefinitely relative to GDP, which is what would happen under current law. We will ultimately need to raise taxes and reduce spending substantially. But we can wait to do that until we have rebuilt a vibrant economy with full employment.

Thank you.

Chairman YARMUTH. Thank you, Dr. Elmendorf, for your statement. I now yield five minutes to Dr. Holtz-Eakin.

You may unmute and begin when you are ready.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PH.D.

Dr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Ranking Member Womack, and Members of the Committee it is a pleasure to be in front of you once again.

Let me associate myself with the remarks of Doug Elmendorf about the search for justice in the United States. And to prove that all Dougs really are alike, I have four points to make.

Point number one, while we hear about how bad that it is out there, it is often hard to put in perspective the magnitude of what has happened to the U.S. economy. We entered 2020 growing solidly, and in January and February we did quite well. We had record low unemployment, rising wages among the least skilled and lowest income workers. Labor markets were strong. And when the pandemic hit in the middle of March, households became so frightened that, in the course of two weeks, the first quarter turned into negative growth at an annual rate of 5 percent, the—contracted by 1.25 percent. We had a record decline in household confidence. We had a record decline in retail sales. Two out of the 5-percentage points declined in GDP were accounted for by reduced use of health services. People simply stopped going out and going to the doctor. And we began a succession of numbers that staggered the mind.

We saw six million individuals apply for unemployment insurance in one week, 10 times larger than any previous week in history. We saw 20 million jobs lost in April—again, 10 times larger than any previous monthly loss that came with the demobilization after World War II. We saw the unemployment rate climb by more than 10 percentage points—again, 10 times larger than anything we have seen before. And then, once again this morning, we saw in the ADP report a loss of 2.7 million jobs. We usually talk about hundreds of thousands of jobs. We are talking about millions of jobs, 10 times the scale of normal events.

The CBO estimates that, in the second quarter alone, the U.S. economy will contract by 11 percent. In the worst entire year of the Great Depression, 1932, the economy contracted by 12 percent. We are experiencing this enormous downdraft in the U.S. economy.

To their credit, policymakers—yourselves included—have moved quickly and dramatically to counter this downfall. The Federal Reserve quickly cut rates to zero. It pledged open-ended, unlimited amounts of liquidity, cash in the financial markets to stabilize them. It set up special lending facilities to primary dealers in commercial paper and others, money markets, and it did a tremendous job in keeping a real crisis in the economy from migrating into a financial sector crisis like we saw in 2008. They deserve tremendous credit for insulating financial markets, which have continued to work remarkably well.

The Congress passed the CARES Act, along with the Family First Act, and the Paycheck Protection Increase Act, all of which were valuable steps in supporting the economy.

The combination of checks sent to households and Pandemic Unemployment Insurance has supported households dramatically. In last week's information we got on personal income and outlays, personal disposable income grew at an annual rate of 2.1 percent in April. That is a remarkable thing, but only because government transfers increased at an annual rate of $3 trillion, and households saved a third of what they got. So Congress has done a great job of insulating the household sector from the downdraft. And for the moment they remain in pretty good shape.

The Paycheck Protection Program has received a lot of complaints about its design, about the execution. But all of those flaws notwithstanding, in the worst month in the history of the U.S. economy, in April, it got over $500 billion into the hands of small businesses to preserve their function and to keep their employees at work. I think it is a tremendous accomplishment.

In fact, the missing link in the CARES Act is the half-a-trillion dollars that Congress gave the Treasury to support lending to states and localities through a municipal liquidity facility, and to mid-size and larger businesses through the Main Street lending program. To this date, not a single dollar has flowed out of those facilities. That is something that needs to be rectified quickly, and that would be a tremendous assistance. That $500 billion could turn into $3, $4, $5 trillion in additional support the U.S. economy. It is a major part of what Congress should do.

So, as a big downturn, it necessitated a very big response, and we have seen, as a result, large increases in the deficit. I want to just emphasize that they were necessary, they were appropriate, and that, going forward, more may yet be needed.

The third point is that we are not done. We now have to find a way to operate this economy in the presence of a virus that remains active, for which there is no vaccine, for which we are searching for adequate therapeutics and where contact testing and contact tracing is not yet sufficient. So we have a challenge in operating the economy, going forward. That is the main challenge facing Congress right now. That is a very different challenge than what it faced in the past.

The last thing—and I know I am out of time—there is now a large amount of debt. And the minimum thing that a country has to do is to stabilize its debt relative to GDP. This country has not done that in the 21st century. It now is faced with doing that in the aftermath of this crisis with a much higher level of debt. I encourage the Members to focus on that task in the years to come.

[The prepared statement of Douglas Holtz-Eakin follows:]

Testimony on:
Addressing the Economic Impacts of COVID-19

United States House of Representatives
Committee on the Budget

Douglas Holtz-Eakin, President*
American Action Forum

June 3, 2020

*The views expressed here are my own and not those of the American Action Forum. I thank Gordon Gray and Thomas Wade for their insight and assistance.

Chairman Yarmuth, Ranking Member Womack, and members of the Committee, thank you for the privilege of appearing today to share my views on the economic and budgetary impact of the COVID-19 pandemic and the policy response to its impact. I wish to make three main points:

- The economic fallout of the pandemic is staggering and unprecedented in our lifetimes;

- The policy response has been, of necessity, correspondingly large and well-targeted to address the economic problem; and

- Looking forward, Congress faces the challenge of maintaining a disciplined response while shifting strategies to support growth and economic progress in the presence of the coronavirus.

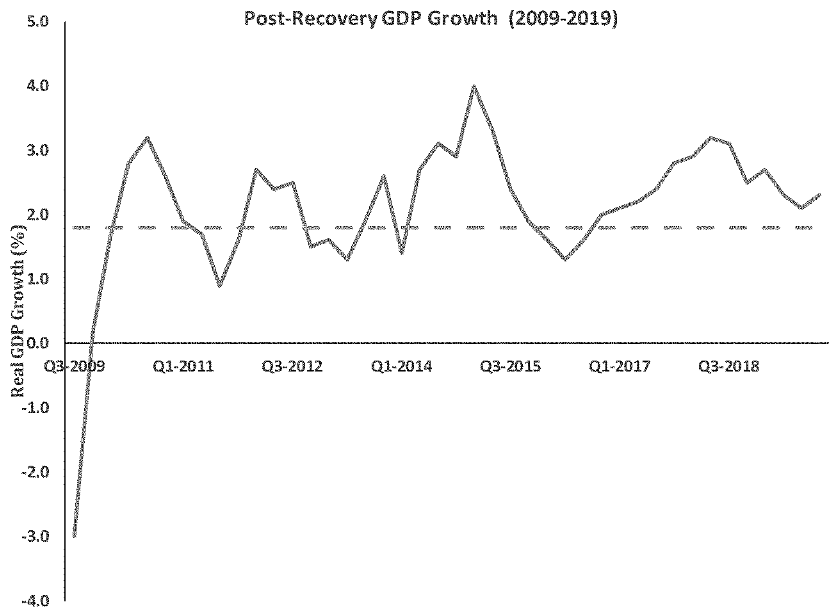
Let me discuss these in turn.

The Impact of the COVID-19 Pandemic on 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.

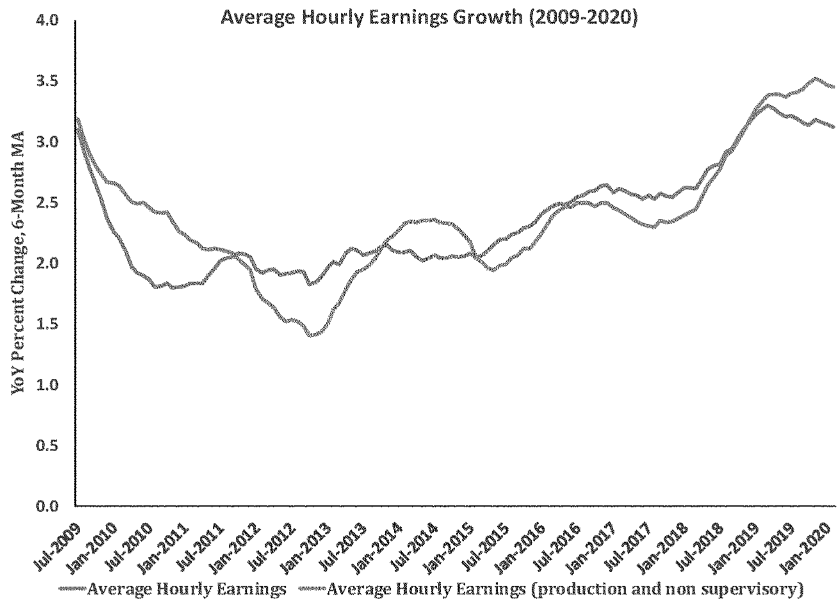
Recent Economic Trends

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 2106 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 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 accelerated. Wage growth improved for all workers, 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.



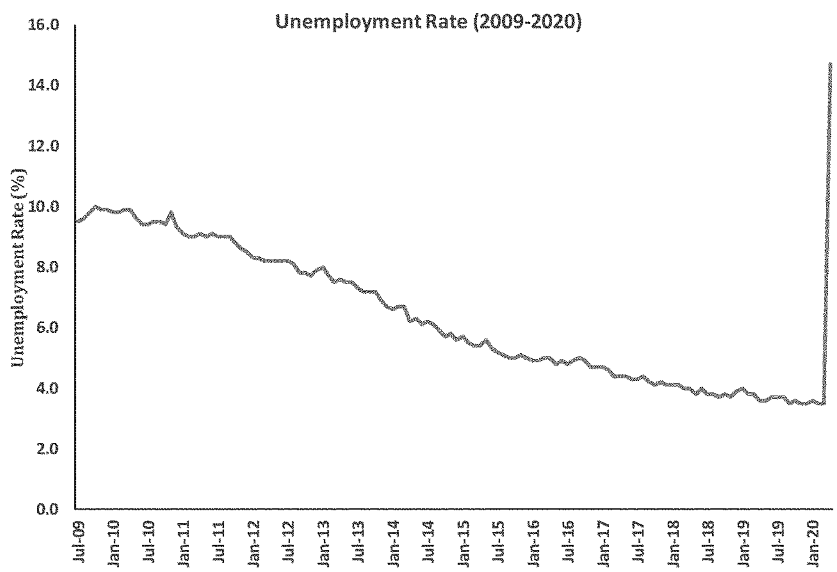
The economic story of the recent past is the realization of years of modest growth finally beginning to accrue to individuals and families, broadly raising the standard of living. Recent accelerations in that growth punctuated a return to prosperity. That all came apart in March of 2020.

The Economic Impact of the COVID-19 Pandemic

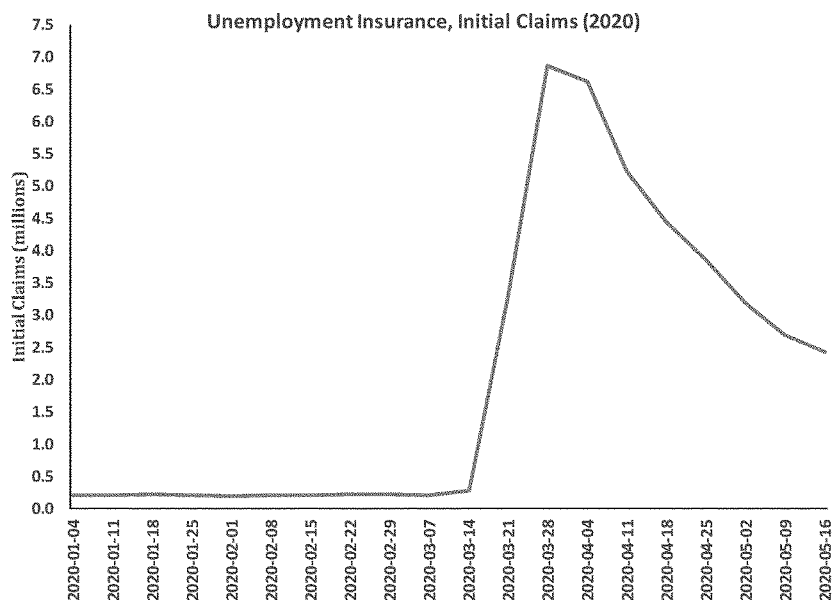
The COVID-19 pandemic precipitated a historic shuttering of the economy in March, guaranteeing that the broadest measure of economic wellbeing – real quarterly GDP growth – would reflect some of the devastation in the first quarter. Indeed, the Bureau of Economic Analysis's (BEA) estimate for the decline in first 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 reflects only the leading edge of the economic devastation.

Higher frequency data reveal a historically devasted economy. Payrolls in April fell by 20.5 million, with private sector payrolls shedding 19.5 million jobs. The service sector lost over 17 million jobs. The leisure and hospitality industry was particularly devastated, losing over 7.6 million jobs. Goods-producing industries saw a decline of over 2 million. Government shed 980,000 jobs. No industry saw net positive hiring.

The unemployment rate jumped to 14.7 percent, which exceeds the highest level since the Great Depression. As BLS 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.



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.



In short, April job losses are 10 times larger than any previous month's job losses. The April rise in the unemployment rate is 10 times larger than the previous one month increase. The 6 million new claims for unemployment insurance in one week is 10 times larger than the previous one-week increase. The outlook for the 2nd *quarter* of 2020 is that GDP will decline by 11 percent; in the worst *year* (1932) of the Great Depression, the decline was 12 percent. The U.S. economy is enveloped in an economic downdraft of unprecedented magnitude.

The Policy Response

In light of the size of the problem, it is appropriate that the policy response has been unprecedentedly large as well. In addition, the mechanism of the downturn differs significantly from earlier episodes such as the Great Recession or Great Depresssion; this dictates a different character to the policy response.

At the onset, the U.S. economy suffered from massive, cascading cash-flow crunches. With the arrival of the virus, large swaths of the economy – airlines, hotels, entertainment, restaurants, and so forth – overnight lost their customers and revenue. Businesses and households started selling everything they could to raise cash and hang on. The mass selloff buffeted financial markets. The Federal Reserve (Fed) has done a sterling job of minimizing the turbulence. It reduced its policy rate to zero and announced an open-ended, unlimited buying spree. As the Fed put it, "The Federal Open Market Committee (FOMC) will purchase Treasury securities and agency mortgage-backed securities *in the amounts needed* to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy" (emphasis added).

The Fed revived two programs from the financial crisis and created two new facilities to extend credit to large employers via the purchase of corporate debt (see Table 1). It also revived an emergency lending vehicle last used in the 2007-08 crisis to support small businesses and consumers by encouraging investors to buy securitized student debt, auto debt, and credit-card debt.

These actions were effective in restoring normal function to financial markets and prevented an economic crisis in the real, Main Street economy from transforming into a financial crisis as well. As part of this effort, the Fed set up a variety of emergency lending facilities for financial market participants. Banks, in particular, and financial markets, in general, continue to perform effectively.

Table 1 – Federal Reserve Emergency Lending Facilities

Announcement Date	*Operational Date or Proposed*	*Facility*	*Funded by CARES?*	*Acronym*
March 17	April 14	Commercial Paper Funding Facility	No	CPFF
	March 20	Primary Dealer Credit Facility	No	PDCF
March 18	March 23	Money Market Mutual Fun Liquidity Facility	No	MMLF
March 23	"Early May"	Primary Market Corporate Credit Facility	$50 Billion	PMCCF
	May 12	Secondary Market Corporate Credit Facility	$25 Billion	SMCCF
	"June 17"	Term Asset-Backed Securities Loan Facility	$10 Billion	TALF
April 9	April 16	Paycheck Protection Program Liquidity Facility	No	PPPLF
	"Late May"	Main Street Business Lending Program	$75 Billion	
	"Late May"	Municipal Liquidity Facility	$35 Billion	

Source: The American Action Forum

But not everyone could raise enough cash selling assets. Instead, businesses laid off workers and cut off suppliers. This effectively shifted the cash-flow crunch onto other firms or U.S. households.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided a crucial offset to the household and business cash-flow crisis. It provided businesses with grants or loans on the condition that they not lay anybody off. The grants and loans would keep the businesses intact; the continued payroll would keep workers and their families intact. The basic economic task is to use the enormous borrowing power enabled by the U.S. taxpayer to raise trillions of dollars and then pour this cash into a variety of "funnels" leading to firms and households. This is simply bridge financing of otherwise economically sound businesses.

Of course, there has already been a lot of damage – and that damage continues to rise – that government support for America's small and large businesses could not avert. As a result CARES (along with the Families First Act) contained an aggressive effort to help those who are unemployed, sick, or forced to stay away from work to care for others in the form of cash, unemployment insurance, and paid sick leave.

This response appears to be highly successful. In the report on Personal Income and Outlays from the Bureau of Economic Analysis, disposable personal income rose by $2.1 trillion (at an annual rate) or 12.9 percent, largely because government social benefits rose by $3.0 trillion. Moreover, personal saving rose by $4.0 trillion, indiciated the capacity to sustain standards of living over subsequent months.

Another success is the Paycheck Protection Program (PPP) as administered by the Small Business Administration (SBA) with the assistance of Treasury. The SBA has supported over $500 billion in lending to small businesses impacted by the pandemic. The PPP has proven so enormously popular and necessary as to require available funding to be increased after the CARES Act was signed into law. The program has justifiably come under some criticism, and in particular many questions remain outstanding as to the format and nature of loan forgiveness. Despite these flaws, I have stated that the PPP is the best part of the CARES Act. The SBA has facilitated the largest single support for the economy for the month of April. That such enormous sums were distributed to businesses in need at all, let alone so quickly, remains extraordinary.

The jury remains out on the effectivenes of the CARES Act lending to larger businesses. The Act provides for $500 billion in financial assistance to eligible businesses, states, municipalities, and tribes as emergency relief for losses related to the ongoing coronavirus pandemic. Only $1.8 billion, however, has been spent as of the date of this testimony, two months after the CARES Act passed into law.

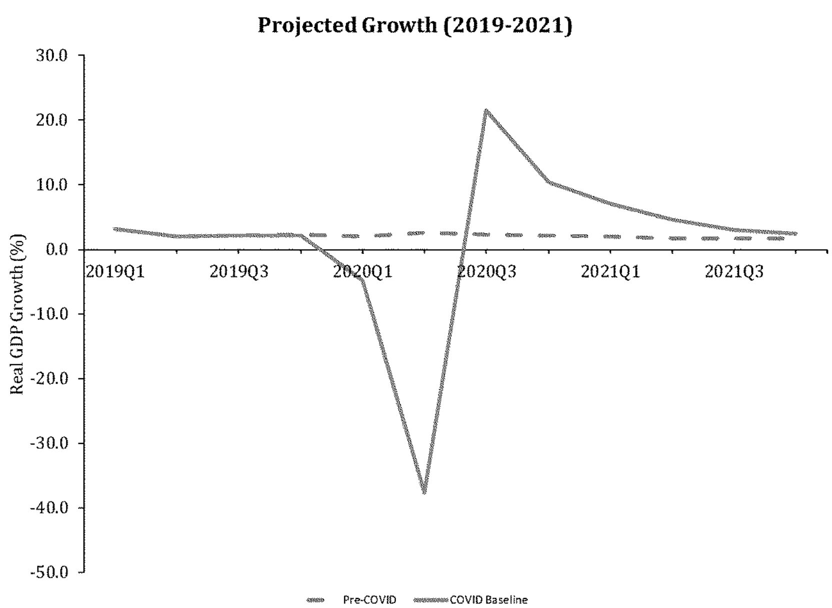
Of the five emergency programs nominally backed by CARES funding (see Table 1), only one program is operational as of the date of this testimony, the Secondary Market Corporate Credit Facility, which alongside the Primary Market Corporate Credit Facility is designed to support the credit markets by providing liquidity for outstanding corporate bonds.

Going forward, this position will of course change. The proposed Main Street Lending Program will facilitate bank lending as much as $600 billion to businesses with under 15,000 employees or with 2019 annual revenues of up to $5 billion. Likewise, the Municipal Liquidity Facility will support as much as $500 billion in lending to state and local governments. Both programs, due to be operational very shortly, will in addition to the other Fed programs support trillions of dollars of liquidity. Both programs, however, while designed to be key elements of the Fed's emergency lending, will have at best only *begun* to operate two months after the enactment of the CARES Act.

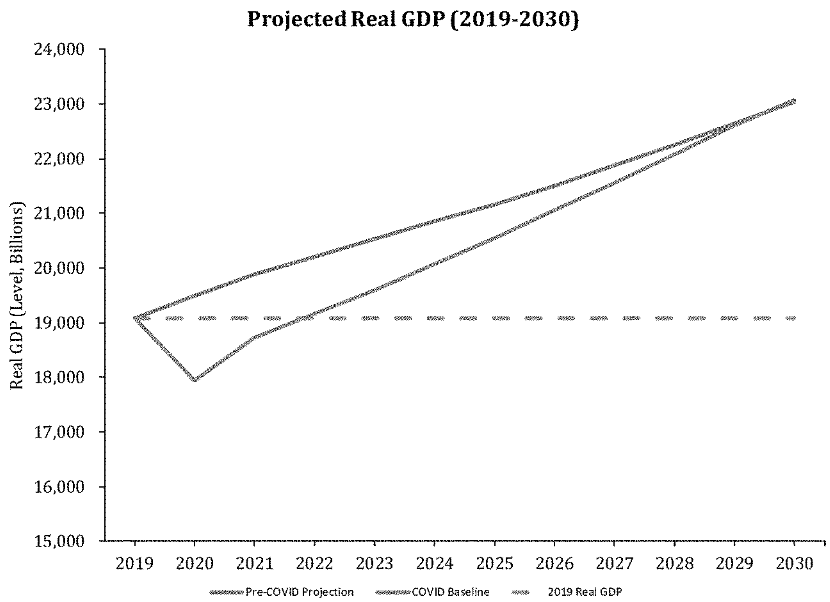
The Economic Outlook

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 fairly mainstream forecast for the year, but to perform accurate cost-estimating CBO had to essentially update their forecast on the fly, and it is to their credit that they did so.

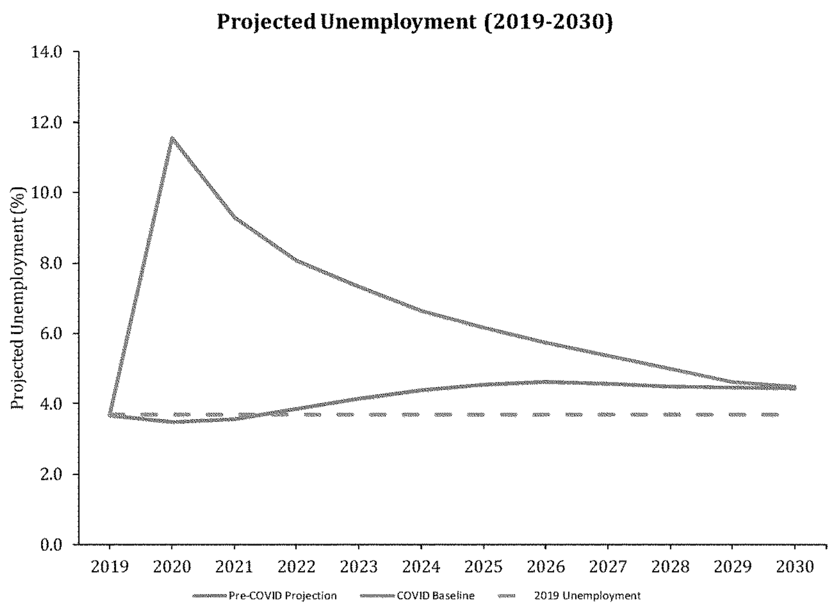
The new economic forecast reflects a similar outlook to other major post-COVID-19 analyses – a sharp uptick in economic activity in the third quarter of 2020 that only partially restores the economic gains of the past several years. GDP is expected to fall 11 percent in the 2nd quarter, or 38 percent at an annual rate.



For the entire year 2020, GDP will be down 5.6 percent as every component of spending declined except federal government purchases. By contrast, in 2021 every component will rebound except for federal purchases. The CBO sees growth at a rate of 4.2 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 2022.



The unemployment rate will top out at 15.8 percent in the 3rd quarter of 2020 but remain an elevated 8.6 percent as far out as the 4th quarter of 2021. Because CBO projected gradual increases in unemployment, under CBO's forecast, unemployment never returns to the historic lows witnessed prior to the outbreak of the pandemic.



The implications of the current and projected losses associated with the COVID-19 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 policy makers should tailor policies accordingly.

Implications for Fiscal Policy

The theory undergirding the case for a v-shaped recovery from the COVID-19-induced downturn is pretty simple. It assumes that firms, either from their own sources or via the vast amount of federal support, have enough liquidity to stay in business until the economy re-opens. At that point, a commerce-starved public steps up to start buying, labor-starved businesses quickly hire, and Americans happily head back to their jobs. The various programs in the CARES Act were designed to address the cash-flow needs for this evolution of the economy.

A key part of this logic is that it simply involves recovery – restarting what was there before – and not restructuring. That almost certainly will not be the case. United Airlines, for example, has announced it plans to furlough roughly 40 percent of its pilots. More generally, one suspects that the airlines will not be profitable with their current costs and will begin to restructure.

The phenomenon applies more broadly. Transportation services, hotels and other accommodations, performing arts, amusements and gambling, and eating and drinking places account for about 5 percent of GDP and 11 percent of employment (at the end of 2019). In these industries the 2020 problem (and perhaps beyond) is not liquidity; their business models, in many cases, are no longer viable. There will be firms in these industries that will transform from illiquid to simply insolvent. This is among the factors that will slow the pace of the recovery and prevent an immediate rebound to levels of activity present in January and February.

The changing economic landscape also means that the policy design should change as well. It does not make sense to put taxpayer dollars into companies that market forces may eliminate. Over the next few months, the emphasis should shift from speedy, indiscriminate lending and grants to targeted lending programs where needed. Policy should also shift its emphasis away from keeping workers attached to their firms and toward supporting shifts in the demand for workers as some industries shrink and others expand. Strong policy support will be an important element of recovering from the COVID-19 recession. But it will have to be more nimble than simply repeating CARES.

In addition, policy should anticipate the need to support supply-side issues. The virus itself may continue to generate headwinds, regional lockdowns, and other supply disruptions. And the need to modify workplaces to ensure safe operation in the presence of the coronavirus will raise the cost of doing business and slow the pace of recovery.

Implications for Federal Debt

Prior to the arrival of the pandemic, the federal budget was unsustainable, with debt (relativel to GDP) rising steadily and uncontrollably. Put differently, the *minimum* that one can ask of a nation is that it be able to stabilize its debt relative to GDP, and the United States had steadily failed to do so.

In the aftermath of the policy response, the ratio of debt to GDP has risen sharply (and is likely to exceed 100 percent), while the underlying mismatch of spending and revenues remains unchanged. This suggests that it is essential that any additional policy response remain disciplined and devoted solely to the problem of responding to the pandemic crisis so that the jump in debt is only what is necessary. And the reality is that a future Congress will still face the apparently unpalatable task of slowing the growth of spending and raising the growth of receipts enough to stabilize the federal debt.

Thank you. I look forward to answering your questions.

Chairman YARMUTH. Thank you, Dr. Holtz-Eakin, for your testimony. And we will now begin our question-and-answer period.

As a reminder, Members can submit written questions to be answered later in writing. Those questions and the witnesses' answers will be made part of the formal hearing record.

Any Members who wish to submit questions for the record may do so by sending them to the Clerk electronically within seven days.

As is our custom, the Ranking Member and I will defer our questions until the end.

So I now recognize the gentleman from Massachusetts, Mr. Moulton, for five minutes.

Mr. MOULTON. Thank you, Mr. Chairman. And thank you both for coming here to testify before us today.

I want to start, as everyone has started so far, by acknowledging everyone who is suffering from the direct or indirect effects of the coronavirus. Also, by expressing my sympathies for George Floyd, his family, and all the people in America who face the scourge of continued racism today, and also to offer my praise and support for those great, patriotic Americans who today march in peaceful protest, engaging in that historically American practice of free speech and dissent in order to uphold our founding principles, our American values, and our sacred Constitution.

Dr. Holtz-Eakin, I would like to start with you. Early on, the coronavirus pandemic was characterized as the great equalizer by some, and I think many of us are disturbed by just how wrong that has become. Others were not surprised to learn that the same communities, communities of color and low-income communities that face discrimination in access to opportunity, from education to employment to health care, are the same communities most greatly impacted by the coronavirus. All those workers that we once thought were expendable are now the ones who are essential, and they are on the front lines of this, and suffering the effects.

You testified before the Committee on Ways and Means recently about the disproportionate impact of COVID–19. Can you share some recommendations for how we should address that, and specifically how we should think about it here on the Budget Committee?

Dr. HOLTZ-EAKIN. Well, certainly the impacts have been highly disproportionate. We have seen rising unemployment, but much larger increases among Asians, Hispanics than among whites. Among African-Americans, the rise hasn't been that much greater, largely because they have stayed at work in the front lines across the economy.

Going forward, I would emphasize something that Doug Elmendorf said. If we get a good recovery with very good policies, when you reach the end of 2021 there will be a large number of Americans—8 percent, 9 percent—who will still be unemployed, and will have been unemployed for a long time. My expectation is that will be disproportionately borne by these same minorities. There needs to be not just a hope, but a strategy and an effort to provide them the skills and opportunities to get back to work as quickly as possible, because it is simply—historically, has not happened fast if left up to its own devices. And at this moment, the suffering is too great to sit idly by.

Mr. MOULTON. Thank you very much.

Dr. Elmendorf, good to see you, as always. I want to first say how much I agree with my friend, the Ranking Member from Arkansas, who said that we failed to do our job to balance the budget when we could in order to prepare for a moment like this.

Now, in 2017 President Trump, with help from Republicans in Congress, added $1.9 trillion to the debt with a massive tax cut for wealthy and—the wealthy and large corporations while the economy was booming, and we could have reduced the debt. The CARES Act had a similar cost, coming in at $1.8 trillion over 10 years, with benefits to working Americans in this time of significant need.

Dr. Elmendorf, which was the moment for reining in the deficit? Between 2017 and 2020, when we had a strong and expanding economy, or today, when we face a pandemic and the most severe economic conditions since the Great Depression?

Dr. ELMENDORF. It makes much more sense, Congressman, as you know, to reduce budget deficits when the economy is strong than when the economy is weak. Doug Holtz-Eakin and I have agreed this is not the time to do that. It was appropriate for the Congress to provide very substantial fiscal support. And, as I said in my testimony, I encourage you to provide more, because our people and our economy need it.

Mr. MOULTON. So if we spend and do too little this time, what risks does this present for long-term growth, interest rates, and the actual cost of our debt payments in the long run?

Dr. ELMENDORF. If businesses fold and their workers are laid off, then the recovery will be much more retractive, much more painful for people. And the tax revenue that the federal government takes in will be lessened. Whereas, if we can build a strong recovery that will be good for individuals and households, it will be good for the economy, and it will be good for federal revenue.

Mr. MOULTON. Nobody looks back at the Great Depression and says that the problem was that Congress did too much.

Dr. ELMENDORF. Well, in fact——

Mr. MOULTON. Thank you both. I appreciate your testimony. I yield back.

Dr. ELMENDORF. President Roosevelt pushed to tighten the budget in the late 1930's, and that caused a further setback in the U.S. economy at a time when it was otherwise growing.

Mr. MOULTON. Right. Thank you both very much.

Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from Georgia, Mr. Woodall, for five minutes.

Mr. WOODALL. Thank you, Mr. Chairman. I want to pick up where Mr. Moulton left off. No one did accuse Congress of doing too much, but they did accuse some policymakers in trade sections of doing too much.

We want to do a lot. And my concern is we—is whether we are going to borrow it all, or whether we are going to collect it in tax revenues, we can only spend each dollar once.

You all have both expressed a desire that we move quickly. You have both expressed a desire that we move forcefully. What I want to understand is the disconnect between moving quickly and moving efficiently. We pushed those dollars out as fast as we could in March, but no one would say we put every dollar in the right place. Help me to understand the risks and the benefits of moving too quickly and putting dollars in places where they are not fully utilized, or moving too slowly and making opportunities to use those dollars more—later.

Dr. HOLTZ-EAKIN. Who would you like to answer, sir?

Mr. WOODALL. I need the correct answer. Which one of you has it?

Dr. HOLTZ-EAKIN. Let me start, and then I will yield to Doug Elmendorf.

I think, looking back, the—in the sort of types of mistakes you want to make (sic), the emphasis should have been on speed in getting money out the door, and less emphasis on targeting and worrying about who, “deserved it.” The character of the crisis was different than anything we had before. It was a rolling cascade of cash-flow crises in the economy. Customers disappeared. People had no cash. They stopped paying their suppliers. They sold everything they owned in the stock market. And so getting cash out there into the business world to maintain the contact with their employees was at a premium.

It will be different, going forward. I think, going forward, you should think hard about ways in which you can allow workers and businesses to conduct their trades in the presence of the virus.

This reminds me of the period after September 11, 2001, where we had to learn how to operate the economy in the threat of terrorism, and we had to do things differently. We had to inspect a cargo container. We set up the TSA.

We are going to have to find a way to have people be confident they can go to work safely, confident they can go to a business safely. We are going to have to physically change some workplaces. Most businesses are not going to spend their initial time back worrying about expanding. They are going to worry about how can we operate safely. And there should be a premium on making sure that can be done: testing therapies, vaccines, but also workplace modifications that allow everyone to feel safe in the conduct of their enterprise. That will allow us to recover more quickly to the extent we can. That is an efficiency.

Dr. Elmendorf, I saw heads nodding there. Any disagreement there, or anything to add?

Dr. ELMENDORF. So I agree with what Doug said, but let me add. I think there is still considerable urgency around certain aspects of fiscal interventions.

One trigger very important is the expiration of expanded unemployment insurance benefits at the end of next month. It would be a terrible thing with an unemployment rate that, at that point, will probably be between 15 and 20 percent, the highest we have seen in this country since the Depression—and to let these expanded benefits expire would do terrible harm to people and hinder our ability to recover.

I am also quite concerned about businesses that have not been able to access support. As Doug Holtz-Eakin said, there has been—for all the concerns about the Paycheck Protection Program, a lot has actually happened. There are businesses that have not been able to access funds because of their size, or because of the amount of debt they had outstanding. And I think this is a problem we should be very concerned about.

It is much, much easier to rebuild an economy when people are still employed at the businesses they were employed at before—with some exceptions. There will be some structural changes in the economy, but for the most part people can be at the places they were at three or four months ago. And if we can keep them there while the health conditions improve, then we are set for a much stronger recovery than if they lose those jobs and are out in the economy trying to find new employers to go to work for.

Dr. HOLTZ-EAKIN. Can I offer——

Mr. WOODALL. I thank you——

Dr. HOLTZ-EAKIN [continuing]. to that?

Mr. WOODALL. Please, Dr. Holtz-Eakin.

Dr. HOLTZ-EAKIN. I think the failure of the Treasury and the Fed to get the money out to these lending facilities, the Main Street program, and the—is a huge policy error, and looks like—exact thing you don't want to do: be careful with the money at the expense of the economy. So I am worried about that.

In the design we left out an important piece, not-for-profits who have more than 500 employees. They are eligible for nothing. And there are a lot of people out there who work in just that setting. I would think about it.

Mr. WOODALL. Yes, I thank you both very much for being here. Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from New York, Mr. Higgins, for five minutes. Unmute, please.

Mr. Higgins, please unmute.

Well, we may have technical difficulties with Mr. Higgins, so now—I now recognize the gentleman from Ohio, Mr. Johnson, for five minutes.

Please unmute, Mr. Johnson.

Mr. JOHNSON. Thank you——

Mr. HIGGINS. John, I am actually here.

Chairman YARMUTH. Mr. Higgins, then.

Sorry, Mr. Johnson.

Mr. Higgins?

Mr. HIGGINS. OK.

Chairman YARMUTH. You are recognized for five minutes.

Mr. HIGGINS. Mr. Johnson, I apologize.

Mr. JOHNSON. No problem.

Mr. HIGGINS. Technical difficulty here.

Mr. Chairman, thank you very, very much. And I just want to emphasize, first and foremost, obviously, our nation was not prepared for this.

You know, the coronavirus has been with us for 20 years, starting with SARS, MERS. And we should have been investing in a vaccine and treatments that—what this crisis has done is revealed the fragility of the American health care system. The best thing that we can do for those who are stuck with COVID–19 is to provide support care. The best treatment we can give them right now is Tylenol to help them break a fever. This is the richest country in the history of the world, and we spend more on health care, and we have nothing to provide relief to the people who are afflicted with this coronavirus today.

Unfortunately, we don't even have the luxury of being in an economic rebuilding mode because we are still in an economic health care disaster relief mode. But when we do get to that period when we can rebuild the economy with government spending—I want to recall the New Deal, which was done over a 6-year period, from 1933 to 1939. It was done in three iterations: $41 billion and $675 billion in today's dollars. In 1934 that government spending produced an economy that grew by 11 percent. In 1935 that government spending produced an economy that grew by 9 percent. That government spending in 1936 produced an economy that grew by 13 percent. And then the President and Congress began to raise concerns about the deficit, and they pulled back in 1937, and the economy contracted by nearly 3.5 percent.

I think what we have to be focused on, post-disaster, is an economic program that is strong and robust. The American economy, despite having grown before February for 10 consecutive years, hasn't exceeded 3 percent economic growth since 2005. And it is important that we remember that, if we need the kind of growth in a $22 trillion—$22.5 trillion economy, it is 70 percent consumption. So you can open up the economy all you want, but if people don't have confidence that there is a health care system that can, either through a vaccine, keep them from getting COVID–19 or COVID–20, whatever it may be later on, they are not going to go out and spend.

So, Dr. Elmendorf, I just would ask you just to reiterate the importance of that government spending sustained over a long period of time before we get through this.

Dr. ELMENDORF. Thank you, Congressman. I think you hit a number of important issues. One of them is that when economies are suffering from a lack of demand for goods and services, government spending and tax reductions can spur economic activity and keep people at work and put people back to work. That is the lesson that was forgotten in 1937. As you said, it was forgotten in 2011. It is crucially important that Congress not forget it now.

You also highlighted the value of certain forms of government spending in building economic growth over long periods of time. The federal government can now borrow at interest rates that are around 1 percent or less in nominal terms. When adjusted for inflation, these are negative "real interest rates." Economists say this is an ideal time to be doing investments in our economy. And some investments, of course, have begun in the private sector. And maintaining strong demand in the economy will encourage private businesses to invest.

But some very important investments need to occur in the public sector, and some of those investments will enhance the efficiency of the economy, more research and development spending, more infrastructure spending. But also, some of those investments will spread the benefits of a growing economy across our population, will lead to more coming together rather than being pushed apart. Those investments in education, but also in certain forms of infrastructure that can help build a stronger society.

So for both the short term and the long term, government spending can play an absolutely critical role.

Mr. HIGGINS. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman yields back. And now, once again, coming live from the actual hearing room of the Budget Committee, I think our only resident there today, Mr. Johnson now is recognized for five minutes.

Mr. JOHNSON. Well, thank you, Mr. Chairman. And it is good to see all of my colleagues here today, all of you. And I trust all of you are staying safe and healthy.

You know, without question, these are indeed difficult and challenging times. But our history tells us that it is through great challenges that America's exceptionalism shines the brightest. I have no doubts that our great nation will do what we have done every time we have faced seemingly insurmountable odds, and that is to emerge stronger and more united in our commitment to our values than ever before. We are problem solvers; we will get through this.

So I appreciate, Mr. Chairman, you convening this hearing to discuss the economic impacts of COVID–19. I hope it is one of many discussions yet to come.

There is no question that COVID–19 has negatively impacted our constituents, businesses, schools, communities, and our economy since the outbreak was declared a national emergency on March 13. In February our economy was strong, and our national unemployment rate was at 3.5 percent, a 50-year low. And in April, as a result of COVID–19 and the efforts to stop the spread of the disease, the national unemployment rate rose to 14.7 percent.

The economic impacts of COVID–19 have been especially difficult for Ohioans and my constituents in eastern and southeastern Ohio, who largely depend on work from small businesses. In April 823,700 Ohioans lost their jobs, and the unemployment rate, which was 4.1 percent last year, rose to 16.8 percent. People are hurting, and businesses are suffering. It is time to reopen America, and get Americans back to work, and bring our economy back to the pre-COVID–19 levels.

Congress has an important role in helping our communities and our economy recover from this pandemic as quickly as possible. And we must act responsibly to address the fiscal problems facing our nation. This is not the time to play politics. We cannot let this pandemic be a justification for massive government spending and policies that will continue to drive up our national debt and deficits.

We cannot and must not let the pandemic be an argument for Medicare for All. We have a responsibility to strengthen and preserve vital safety net programs like Medicare, Medicaid, and Social Security. And more importantly, we have a responsibility to reform them, to make them better for everyone.

Congress must act to remove barriers to employment and economic activity, increase access to rural broadband, review regulations that have been waived or modified during the COVID–19 pandemic, and consider if these regulatory changes should be made permanent. And, of course, Congress must address the unsustainable growth of our federal spending and its impact on our national debt.

You know, at the end of April, the trustees of the Social Security and Medicare trust funds issued their 2020 annual reports, which did not reflect the effects of the COVID–19 pandemic. I am very concerned as to what the pandemic and the resulting economic contraction will do to the finances of Social Security and Medicare.

So, Dr. Holtz-Eakin, given the possibility that the Medicare Hospital Insurance Trust Fund and the Social Security Disability Insurance Trust Fund could be facing depletion within the next Presidential term, do you believe Congress should make it a priority to reform these programs?

Dr. HOLTZ-EAKIN. I believe Congress is past due making it a priority to reform these programs. I have been saying for years that it is embarrassing that our approach to a retirement program is to promise to cut retirees' benefits 25 percent across the board in retirement. That is a national disgrace. That is the current plan for Social Security. Congress should move quickly to remove that uncertainty. A program that is supposed to alleviate income uncertainty should not be such a great source of income uncertainty for our seniors. So, please, that would be an outstanding priority for the Congress, moving forward.

Mr. JOHNSON. OK. Well, over the past few months, federal, state, and local governments have waived or reformed many regulatory rules during the COVID–19 pandemic, including the easing of tele-health restrictions. Patients and healthcare providers in my district have told me that expanded tele-health has improved access to care, especially for those in under-served areas.

So very quickly—and I know I am out of time—Dr. Holtz-Eakin, in your view, how beneficial have these de-regulatory actions been?

And do you think there are additional de-regulatory actions that Congress should consider?

Dr. HOLTZ-EAKIN. I think there have been some very important emergency waivers that HHS has provided. Tele-health, in particular, stands out, the things that they did to make that accessible. Going forward, however, that will not be something the Administration can do. It will require legislation. So that should be on your list.

Mr. JOHNSON. OK, thank you.

I yield back, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Pennsylvania, Mr. Boyle, for five minutes.

Mr. BOYLE. Thank you, Mr. Chairman, and I am glad that we can—if not in person, we can still conduct the important work we have using modern technology. Even with all of its stumbles and having to log in several times, it is certainly better than not being able to do this work at all.

I want to thank both witnesses. I want to especially thank Dr. Elmendorf.

It is good to see you again, as dean of my alma mater, and I have an—as an alum from the MPP program, an opportunity to put the degree to some use.

Coming in to state legislative office right in the midst of the Great Recession, as I did in 2008, beginning in January 2009, my whole experience as a state legislator was attempting to deal with always passing a budget on time and with no debt spending, while at the same time recognizing that our tax revenues had fallen off a cliff, and were very slow to return. I never thought that so early I would have the unfortunate opportunity to apply those lessons learned to a similar—indeed, actually worse—situation.

You have already covered—and a few other people have covered—some of the, I think, lessons learned.

Number one, go big and go robust early. You saw that with the $787 billion stimulus in the spring of 2009.

A number-two lesson is, beginning in 2011, federal government made a great mistake. Congressionally mandated deficit cutting and debt—if not debt reduction, debt containment—was a real mistake. And while it didn't end the recovery, it certainly slowed it. And while it is good that we can look back that we had the longest economic expansion in American history coming out of that great recession, we all know now—and I think economists across the board, regardless of ideology, are in agreement—that it could have been more robust on an annual growth basis than it ended up being because of that focus. And I urge all of my colleagues and all of us to apply those lessons, and while we do need to focus eventually on deficit and debt, to make sure we don't do so prematurely.

So exploring this idea in terms of when the appropriate moment would be to pivot, I am curious for either of you what your thoughts would be in terms of benchmarks. Would it be an unemployment rate sub 5 percent?

Would it be an annual growth rate of at least, you know, 2½ or 2¾ percent?

What would be the sort of benchmark or benchmarks that we could point toward now to give people confidence, yes, we will focus on deficit and debt, but when it is appropriate, and not prematurely, like we did in 2011, when the unemployment rate was still 7.5 percent at that time?

Dr. ELMENDORF. So thank you, Congressman. I would—one is the unemployment rate would have to be back down close to where it was before we entered this severe recession. I said in my remarks we could think about extending unemployment insurance benefits, the expanded benefits,—the unemployment rate was back below 6 percent. There is no magic to that particular number, but it is a long way down from where we are now.

Mr. BOYLE. Right.

Dr. ELMENDORF. A place that CBO does not expect us to get to for quite a while under current policies. And so, at least there should be that level of robust demand for workers in our economy.

I think another important indicator might be whether the Federal Reserve has been able to bring interest rates back up off the zero floor, where they sit today. In normal times the Federal Reserve moves the interest rates around in the short term to try to ensure the economy is at full employment, and also inflation is close to the target. When that rate is down to zero, it hampers the Fed's ability to react. And so it would be good to have the interest—the federal funds rate back above zero again, before the federal—before the government tightened fiscal policy, because you want to start slowing the economy—the fiscal tightening—before the Federal Reserve can respond.

Mr. BOYLE. Let me just—since I have 22 seconds here, quickly reclaiming my time for my last question—could you talk about what the consequences would be if the federal government did not provide some sort of aid or further aid to state governments, what the consequences would be if suddenly you had a ton of state government workers laid off in the midst of an economy with an unemployment rate of almost 20 percent?

Dr. ELMENDORF. That would accentuate a downward cycle, Congressman, rather than helping to put us—keep us on an upward trajectory. It would be very bad for the economy and for the workers directly involved, and also for all of restauranteurs and shop owners who would be serving those people if they had income to spend.

Mr. BOYLE. Thank you.

Chairman YARMUTH. Exercising the prerogative of the Chair, Dr. Holtz-Eakin, would you like to respond to the first part of that question about benchmarks that we might use?

Dr. HOLTZ-EAKIN. Let me say three things.

First, I would hope that this Congress and future congresses would not make a particular error that past congresses did, and focus exclusively on discretionary spending, which is now a tiny part of the budget. It is inevitable and essential that the mandatories be addressed as part of this effort. As a result, point two, you can legislate now to implement the slowing in the growth of those mandatories well in the future. And you do want the actual slowdown in growth to occur past any economic distress, but that you don't need to wait until then to do it. In fact, it is undesirable to wait. You want to give people lead time for changes to Social Security, lead time for changes in Medicare. So think about that as part of it. I think that is very important.

Chairman YARMUTH. Great. Thank you very much. I now recognize the gentleman from Missouri, Mr. Smith, for five minutes.

Please unmute.

Mr. SMITH. Can you hear me now?

Chairman YARMUTH. We can hear you.

Mr. SMITH. All right. Thank you, Mr. Chairman.

You know, that—I wish that we were all in the committee room with one another and in person, and we should be. The U.S. Senate, in fact, has been doing in-person hearings for nearly a month. And if you look at the average age of the U.S. Senate compared to the average age of the U.S. House of Representatives, we are a much younger chamber.

And I think that the American people—you see local cities, counties, and states beyond the beginning stages of reopening their governments. You see Americans trying to get back to normal. And I think that the U.S. House should help lead that way to make sure that we get back to normal. And the best way to do that is to have in-person hearings, instead of these virtual hearings, and definitely no proxy voting, which is unconstitutional.

We were able to operate in the House of Representatives during the yellow fever pandemic. We were able to operate in the House of Representatives during the War of 1812, during the Civil War, during the burning of the United States Capitol. We can operate in in-person hearings in Washington, DC. during the coronavirus. So I hope that we will be doing there (sic).

It is unfortunate that this is even our first virtual committee hearing that we have had, or any type of hearing that we have had since March 11th, nearly three months.

But guess what has happened during that time? It has been over 49 days, 49 days since we passed the deadline to pass a budget. We never passed a budget last year. Actually, a budget was never presented by the House Democrats this year or last year. Spending numbers is not a budget. And some of you will say that spending numbers is a budget. We need to pass a budget resolution. It is one of the few responsibilities of this Committee. I think we could do that. And I hope that we decide to actually try to work in doing that.

There is essential workers all over the country working, whether it is the health care industry, whether it is the truck drivers, whether it is the folks that—stocking the shelves at the grocery stores. I think that the House of Representatives should be essential, as well. I believe it is. But unfortunately, the House Democrats do not, because we are not in person working, trying to pass a budget, trying to pass a budget resolution. And our country is facing a lot of different issues at this time.

Our spending is clearly out of hand, and uncontrollable deficits puts the liability on taxpayers and future generations to pay the bill. I know we are all well aware of this problem, because we have held hearings on it. It is time for this Committee to act, rather than just talk about our nation's budget problems. This Committee's consistent failure to put together a budget has put us behind the eight ball. As we reopen the country and get the economy back up and running, we must keep in mind the budgetary effects of such policies.

Going forward, we need to utilize pro-growth policies like those that delivered record low unemployment and got folks back to work. We should not be considering costly policies designed to keep Americans on government assistance. This Committee needs to do its job, get to work, and set our country and future generations up for success. And that starts with a budget resolution.

This Committee must come together and take a hard look at our spending habits and set our country on a successful path for the future. As states across the country begin to safely reopen and Americans return to work, Members of Congress should do the same so we can confront the problem head on.

The Speaker has said before that Members of Congress, "are the captains of this ship. We are the last to leave." What she failed to mention is that she thinks we should be the last ones to come back. These are difficult times for our nation. Now, more than ever, we cannot turn our backs on the job we were elected to do. It is time for Congress to lead by example and get back to work for the American people.

I yield back, Mr. Chairman.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from North Carolina, Mr. Price, for five minutes.

Please unmute.

Mr. PRICE. Am I unmuted? Alright.

Chairman YARMUTH. Yes, you are.

Mr. PRICE. Thank you, Mr. Chairman. And I, for one, want to express my gratitude to you for scheduling this hearing, and in whatever way we can hold it. We are going to have some mix of in-person and remote hearings over the next weeks. We are going to make good use of that. We could use the flexibility, and I appreciate, for one, the ability to do this, even though we are not physically this week in Washington.

I appreciate our witnesses, and want to—I want to pose a general question, but I want to get to the particulars pretty quickly. I am—it seems to me a consensus that in 2011 we missed a bet in terms of stopping too soon with the economic recovery. I would be interested in not just the aggregate amount of money that we appropriated at that time, but also the way it was distributed, and the targets of that aid, and whether that also should be rethought, and I am revealing my bias that it should. I am the Transportation Housing Appropriations Subcommittee Chairman, and I do think the lowballing of infrastructure, both transportation and housing infrastructure, is a notable feature of that Recovery Act, and one that probably missed a bet in terms of economic impact.

But let me ask about housing insecurity in particular, and ask our panelists to comment on this. We are told that 25 percent of adults either missed last month's rent or mortgage payments, or are likely to miss this month's. It is a substantial portion of the rental and the homeowner market. In the CARES Act we addressed this with regard to government-connected housing. Both tenant-based and project-based Section 8 got around $3 billion, which can be used to backfill rental payments missed. It is flexible money. It goes out basically on a formula basis, but some also for hardship situations. As you know, in the Heroes Act, we have much more generous assistance, both for renters and for homeowners, and it is not solely related to some kind of governmental connection. It is more broadly available.

But I would like to ask you to comment on housing insecurity as a—as an important part of the challenge we are facing, and what are the optimal ways for addressing it.

Dr. ELMENDORF. So Congressman, it is very good to see you again.

Mr. PRICE. Yes, thank you.

Dr. ELMENDORF. I share your concern about housing and security. A huge number of Americans have been able to accumulate very little financial buffer, and so they are dependent for their rent, or their food, for clothing, and other basics, on their current income. And when a quarter of the work force is out of work, that poses a tremendous challenge, challenges that you and your colleagues have met in some ways, partly by providing payments to households, partly trying to keep people at work, partly through the specific provisions you mentioned. Nonetheless, I think that financial stresses are building, and will build much further in the coming months, as this return to work happens slowly. So I share your concern.

But I confess, Congressman, I have not studied particular ways for you to be helpful in housing. Perhaps the other Doug on the call has more specific help to offer.

Dr. HOLTZ-EAKIN. I think the first priority is, in fact, to maintain the spending capability of the American household on whatever, and the CARES Act did that quite successfully in the near term, monitoring that I think is the next step on the path.

I want to agree with Doug Elmendorf, that the $600 federal bonus has been an important part of that support. I want to disagree with him in one way, in that it cannot be maintained in its current form.

Our estimates are that 63 percent of workers would make more on unemployment insurance than going back to their previous job. If you want to maintain that income support, don't tie it to being out of work. Allow there to be some work incentive associated with the programs, going forward. That is the most important thing. But the first thing is to maintain the purchasing power of these households. Then, as you find targeted areas where they are not able to make rent and mortgage, I think some assistance is important.

I think it is better to provide cash assistance than forbearance. One of the unfortunate things that I am worried about is that, between restaurants and other retailers, commercial real eState mortgages are going to be deep trouble soon. A lot of the mortgage servicers are not receiving payments, but are obligated to make their payments. They are facing stresses. And if we let the banking and financial sector get in trouble because we didn't take care of the rental and mortgage problems, that will be a big misstep. And we have avoided that so far, but that is worth watching, going forward.

Mr. PRICE. Thank you.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Flores, for five minutes.

Mr. FLORES. Thank you, Chairman. I want to echo what Mr. Smith said a few minutes ago about meeting in person, and it seems to me like we in Congress should consider ourselves essential workers. I think the American people would.

I want to start my comments also by expressing my condolences to the family of George Floyd.

Our country is suffering three big setbacks right now: one is the death of George Floyd and others like him because of their skin color; we are also dealing with the SARS-CoV–2 virus; and then also the attempts of some to try to take advantage of Mr. Floyd's death for anarchal purposes versus peaceful protest to try to make a positive change.

We have got some options we could look at, in terms of things to do to continue trying to get the economy back on track, to get people back to work, and to start a robust recovery. And I would like each of our witnesses to comment on those. One of those is to modify the current expanded unemployment benefits so that they are not a disincentive to work. Right now I am hearing many complaints from small businesses that they can't give their employees back to work, and they would love to have them back on their payrolls. So that is depressing our economic activity. If you hurt those small businesses, you are hurting our economic activity.

The second one is a payroll tax rollback until the economy improves. When I talk about payroll tax rollback, that would be both Social Security and Medicare taxes rollback to zero on both the employee and employer until the economy is better.

And then also an infrastructure bill to actually do what we talked about doing, which is something that could be done on a bipartisan basis.

So, Dr. Holtz-Eakin, let's start with you. Talk about the, you know, the impact and efficiency of each of those three options. And if you can do that in about a minute and a half, then we will ask Dr. Elmendorf to do the same.

Dr. HOLTZ-EAKIN. Yes. So I think there will be a place for near-term fiscal—conventional fiscal stimulus of the type of writing checks or other things. But it would be a big mistake to think that is the solution. You know, I think we face a deep supply challenge. We have to make workers to feel safe to go back to work.

Mr. FLORES. Right.

Dr. HOLTZ-EAKIN. Businesses should be confident they can open their business. And we are going to face supply disruptions from the virus itself, going forward. It still will be present. We will still be getting headwinds from it. So bolstering the supply side, not just in the near term, but over the long term, is very important. And infrastructure can be part of that. Don't pretend you are going to rush it out in 2020. Do it right. Have it help the economy in 2021, 2022, and beyond.

I am less enthusiastic about the payroll tax cut for that reason. It is a temporary policy. Temporary policies inevitably are not as powerful as permanent ones. I prefer to see something that took on the challenge of taking that 8 percent unemployment in 2021 and making it lower, and something durable over the long term. And so I would focus on those things.

If we do what we did in, you know, 2002, 2003, 2005, 2008, which is rely on fiscal stimulus to get the economy to grow—if you look back, it didn't. It is because we had supply problems that we didn't address.

Mr. FLORES. Right.

Dr. HOLTZ-EAKIN. That is where I think we can do better.

Mr. FLORES. Dr. Elmendorf?

Dr. ELMENDORF. Thank you, Congressman. So, actually on unemployment insurance benefits, I am not sure that the other Doug and I disagree. I say in my written testimony and tried to say quickly in my oral remarks that I actually would cut the $600 figure going forward, but I wouldn't cut it to zero. But I would reduce it, because I am concerned that as people—as jobs reopen, we want people to receive a reward for going back to work, not a monetary penalty.

Dr. HOLTZ-EAKIN. I agree.

Dr. ELMENDORF. I think, very importantly——

Dr. HOLTZ-EAKIN [continuing]. for example, said that if you make less than $300 a week, when you go back to work you get to keep getting your UI. That is my point, so that you get the income support, but you don't get the work disincentive.

Mr. FLORES. Thank you.

Dr. ELMENDORF. So I am—and I would be OK with that.

But I think extending benefits in a way that does not discourage people going back to work is crucially important because of the fact that the second half of the year into next year there are still going to be millions and millions of people who can't find jobs, and they need and deserve support for their own sake and for the sake of the economy.

I am a little bigger than Doug Holtz-Eakin is, I think, on temporary fiscal support. It is not a substitute for the very important things he is highlighting about trying to build an economy that works with the coronavirus out there. But I do think that now, relative to where we were, say, after the real eState housing bust of a dozen years ago, we don't need as much structural change now. We need some structural changes. But we have not overbuilt an entire sector of the economy in a way that proves so hard to recover from.

On infrastructure I think that is a wonderful, wonderful approach, and I agree with Doug this is something we should view mostly as a long-term building strategy, not as something that can be—that can really be shovel-ready on the sorts of—on the scale that one would need.

Mr. FLORES. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentlelady from Illinois, Ms. Schakowsky, for five minutes.

Ms. SCHAKOWSKY. Thank you. Thank you, Mr. Chairman. Thank you, Ranking Member. It is really important that we have hearings like this, even at this really difficult and painful moment in our country. So I thank you for that, and I thank our witnesses.

I think it has become clear at this point that no single policy is going to get us out of this crisis. And we need to provide a broad array of relief programs.

Last week some of us had the opportunity to be at a briefing with Claudia Sahm about how direct cash payments to households can help stimulate the economy during this recession. And I wanted to ask you, Dr. Elmendorf, what is the role for direct cash payments to households in this recovery, especially given that we have all these other programs that we have that aren't reaching everybody? Cash payments.

Dr. ELMENDORF. Thank you, Congresswoman. I think cash payments can play an important role. My own view is that it is best to focus them, at least a little bit. So I prefer payments to people who have lost jobs through unemployment insurance.

I think, one—I think it was useful for the Congress to enact the payments that went out to many, many households through the CARES Act. But looking ahead, I would focus more of the energy on the households that have lost jobs and have particular shortfalls in income. And I would also work, of course, to try to make sure people don't lose so many jobs, and stay at work. So I think cash payments are a piece of the puzzle, but not by any means the only piece, or even the most important piece, looking forward.

Ms. SCHAKOWSKY. So let me ask you this, Dr. Elmendorf. You know, you have seen and talked about the unemployment insurance, the Paycheck Protection Program, and noted that they are all set to expire. Are you thinking that we need to extend these programs?

Are there different programs that we need to do?

Is there some other remedy that we should be thinking about as we move forward?

Dr. ELMENDORF. So I would extend the expanded unemployment insurance benefits, although, as I mentioned, I would cut back that $600 figure, because I think it is high enough that, as jobs return in the economy, it would hinder some return to work by people. So I would extend, I think it is very, very important, but I would do it with a somewhat smaller number.

I think it is also important to provide support for our state and local governments. The Federal Reserve facility that is being set up that will improve the functioning of the bond market for state and local governments is important, but it is not enough. These governments don't have huge capacity to repay those debts. They are suffering from very large hits, and need to spend more to preserve our health and the reduction in tax revenues. I think it is entirely appropriate and very useful for strengthening the economic recovery for the Congress to provide support, direct grants to state and local governments.

And then also, I would do more for businesses, for those that have not been able to receive support through the Paycheck Protection Program, and through other facilities that have been set up by the Federal Reserve.

Ms. SCHAKOWSKY. Thank you. I am sure that every one of my colleagues has heard from local municipalities, as well as from their states, because it is loss of revenue. It is not just the cost. And, you know, the money we have given them so far is limited to the COVID virus, and not useful in a broad way. So I hope we do that.

Let me ask you one more thing. There is this impetus to open, open, open, open. And I want you—you keep talking about moving the economy forward, but also addressing the health of the nation. Is there a way to really separate that now? Because I am seeing people who are tired of waiting, they are going out, they are mingling, they are having parties. What do you think?

Dr. ELMENDORF. Congresswoman, the most important part of economic policy now is health policy. And I have heard that again and again in presentations by economists trying to offer advice and forecasts for our path ahead. The most important thing we can do for a strong economic recovery is to find ways to corral the health risks from COVID–19, and that is testing and contact tracing, quarantining procedures. That is what we need to be—to have to make people comfortable going back out of their houses and engaging with others more widely.

There are some people who—everybody wants to get back out. Some people are doing it anyway, but they are going to encounter bigger health risks. And to get everybody back out, including especially older people and others who are particularly vulnerable, we have to improve the ability to stop transmission of this disease.

Ms. SCHAKOWSKY. Thank you so much. I yield back.

Chairman YARMUTH. The gentlelady yields back. I now recognize the gentleman from Oklahoma, Mr. Hern, for five minutes.

Please unmute.

Mr. HERN. Thanks. Thank you, Mr. Chairman, it is really good to see everyone. And Ranking Member Womack, thanks to both of you for holding this important hearing today. And I would also like to thank our witnesses for being with us, as they have been so many times before.

I, too, would like to also acknowledge the stress that our citizens are experiencing brought on by the COVID–19 outbreak, and also to recognize those who are peacefully exercising their First Amendment rights as they express their frustrations with the George Floyd incident. And I think we will all agree on that, as well.

You know, even during these difficult times I am glad that we can all sit here and discuss these issues. And we have heard a lot. You know, being down the dais in questioning, you get to hear a lot of dittos. And I want to associate my words and thoughts with that. But I think it is important that we continue to state this, that we had a growing economy that was incredible prior to the COVID–19 outbreak, and we talked about—you know, there has been a lot of talk about the Tax Cut and Jobs Act, and money that has gone back out, but we have also seen record GDP, and then 50-year unemployment.

So, you know, we can talk about not associating with that, and there is some kind of parallel past, but I think that putting money back in the economy and creating jobs has helped in getting Americans to work, and it has really helped in doing some amazing things that we have never seen in the history of our country.

You know, as we look at what is going on, and we continue to see how quickly our economy can be changed just in the short 12 weeks now—and we saw it really happen and accelerate in an 8-week period—we saw, you know, unemployment skyrocket to almost 15 percent, as has been talked about. Many people in my home state are receiving unemployment for the very first time in their lives, didn't think they would ever see it, based on what happened just earlier in the year. And it has been very tough. And I am very proud of our Oklahomans and the way they have been wanting to go to work. But unfortunately, there is just—the jobs right now are—have been set aside.

And, you know, being a person who, prior to coming to Congress myself, spent 35 years in a restaurant business and in the banking business, so I am seeing this kind of from both fronts. And I think what Treasury did in allowing our community bankers to be the points—the tips of the spear to get businesses saved and Americans kept in their jobs was—was a great feat. And we still have—it was clunky. We have pushed, you know, over $2 trillion out into the economy, and we are seeing—you know, trying to hang on for dear lives.

Mr. Holtz-Eakin, Dr. Holtz-Eakin, I would like to ask you, you know, something I don't think has been asked yet. But we are right now—this will be the eighth week of PPP. So the money, the proverbial money, has run out on those early appliers and funded businesses. If demand has not been picked back up for their particular widget that they are producing, what do you see happening now with unemployment?

It has been talked about that PPP has, you know, protected about 50—upwards of 50 million jobs in America, while we have got 40 million on unemployment. Now that we start rolling off the PPP money, I don't think that there is any question that it has been—you know, business has been reluctant to hire anybody, keep people in work. Now that it is gone, what do you think is going to happen with unemployment?

Dr. HOLTZ-EAKIN. I would expect that we will continue to lose some small businesses, and we will see increases in the ranks of the unemployed. On net we may see, you know, employment growth turnaround to be positive in June—July, most likely. But that will reflect the difference between what is going on in the larger companies who have been traditionally able to manage a temporary layoff, bring their people back. Of the 20 million, for example, in April, they—18 were ostensibly temporary layoffs. That is largely associated with bigger companies.

I am very worried about our small to mid-sized businesses in the United States, between the failure of the Treasury to get any money out through the Fed and the PPP's design flaws. Despite the fact they got a lot of money out, it really could have been designed better. I think there is going to be some real distress in that area, and we should continue to find ways to support it.

Mr. HERN. If I may, Dr. Holtz-Eakin, in the last 39 seconds we have here, what do you think the most immediate priority should be to ensure that we don't see those layoffs now that PPP is starting to roll off, and we are not going to be in Congress for another 30 days? So what do you think we should be doing immediately?

Dr. HOLTZ-EAKIN. I think you have done something very important in passing some flexibility down to 60 percent required for payroll, 24 weeks. That is—those are important. And there is still money. So, you know, that program can run for a couple of weeks.

But when you come back it is worth checking in to see if additional flexibilities—particularly on the lender side, to get them to participate more fully. Especially with smaller businesses, less typically served businesses, I think there is some real liability issues that the Treasury has never fully addressed that are holding the program back. And those are reforms that you might want to consider to make.

Mr. HERN. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Michigan, Mr. Kildee, for five minutes.

Mr. KILDEE. Thank you. Thank you, Mr. Chairman. And it is good to see everybody. I look forward to the time when we can get back into our committee room and be in the same space together. And it is good to have both of our witnesses back in front of us.

I know we have spent a bit of time already talking about this issue of unemployment. I would just like to maybe get your reaction to a couple of my thoughts.

First, I do think it is important that we not let anecdote be some sort of a substitute for data. I am really afraid that this narrative that people are willing to sit at home and collect unemployment is some sort of choice they are making because they don't want to work, they would rather do that than work. The people I talk to who are unemployed, sitting at home, are grateful that they are able to make the decision to protect themselves and protect their family from this virus by staying at home.

And most of the anxiety that I hear from people about whether they should stay on unemployment or go back to work has to do with fear of being exposed to the virus, not some sort of calculation that if they stay on unemployment for the additional 13 weeks until July 31 they would be willing to risk the job that they could have for years in exchange for that return.

Now I get it that, for those people—small numbers so far—who are having to make the choice about accepting a call back to work or remain on unemployment, there may be some small percentage of them that would make the decision to stay in unemployment because of the financial incentives involved. I think that problem is being overblown, relative to the more central issue, and that is that people are afraid to go back if they don't believe they are going to be protected in the workplace.

Having said that, I support extension of the unemployment benefit for two reasons, two really important reasons.

One, it puts money in demand in the economy in a really robust way. I think that is critical.

Second, we are going to hit a cliff for a lot of these people at the end of July if we don't do something to extend it.

Now, I guess I intended to ask your support, but I can get each of you just to opine more specifically on what modifications you think makes sense—because I heard each of you say that we need to do more, and each of you express concern about us hitting this cliff. But it is one thing to say that, in the abstract, we ought to make some modification. It is something else to say, "What do we think we should actually do?"

For example, should we allow people to keep some of their benefit if they return to work? If we step down to, say, like, a $450 benefit, is that enough? What I don't want to do is just throw the baby out with the bath water.

You each have a minute to try to respond. Thank you.

Dr. HOLTZ-EAKIN. Really, really fast, point one, safety in the workplace has to be taken care of independently for everybody. That shouldn't be a concern. That is a different issue.

Step two—here is your menu. It is a temporary policy.

When do you want it to end? If not July, December. Pick a date.

Step two, do you like cliffs? Probably not. So phase it out to the date when we want to get rid of it.

Step three, how big do you want it to be when you jump off? Six hundred, four-fifty, whatever.

Step four, what do you want the work incentives to be? Do you get it whether you go to work or not? Do you get it only if you go to work? Or do you get it only if you don't go to work?

That is—those are all different than the purchasing power that it provides. That is the work incentivepiece.

So you have got a menu of things you can do. And at the end of the menu you say, "How do I target it? Everybody, or low-income workers, low-wage workers?"

So, you know, some—the only thing not to do is to extend what we have right now. That is the mistake. It needs to get fixed.

Mr. KILDEE. Mr. Elmendorf?

Dr. ELMENDORF. So, Congressman, I do agree with what you said. I will offer a few thoughts of my own. I said in my written testimony two specific things.

One is that I would reduce the $600 figure to—maybe $300 would be a reasonable number. I don't think this is the principal reason people have not gone back to work yet, but I do think it can become an issue as the economy recovers and more jobs become available.

The second thing I said in my testimony, written testimony, is I would not pick a date, actually. I would pick a triggering level of the unemployment rate. I think it can restore—can give people confidence that the benefits will be there as long as they are needed.

The third thing I would add, which actually is a point that Doug Holtz-Eakin has mentioned, is that I would provide some reward for people who return to work. That can be in the form of a few weeks of unemployment insurance benefits after you are off unemployment. Are there other ways to structure that? I think that would be a useful part of an extension, as well.

I think the worst thing you could do is to let these benefits expire at the end of next month.

Mr. KILDEE. Great. I thank you all very much. Thank you both, the witnesses, and I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, the bestselling author, Mr. Crenshaw, for five minutes.

Mr. CRENSHAW. Thank you, Mr. Chairman. And listen, I want to start off by saying that this is a good hearing to have, and I appreciate you having it, Mr. Chairman. I appreciate our witnesses for being here.

I feel a degree of shame for not being there in person. I hope we all do. This isn't Democrat or Republican. This is a leadership issue. Congress needs to be there. The country is in crisis. It is going through a pandemic. There are cities burning. We should be there, and we should feel horrible about this.

And we can change that. We can all collectively say, "We want to be there and show the American people that we, Members of Congress, are willing to take a minimal amount of risk—and it is a minimal amount of risk, let's just all be honest—and go and do our jobs."

This is a leadership issue. We have to show the American people that—I am sure we are all very happy that Capitol Police are there guarding our offices right now. They are at work. I am sure we are all very happy that we can order takeout right now because people are willing to cook that. I am sure we are all very happy that we can go grocery store shopping right now, because people are willing to do that.

I disagree with this notion that Americans are so scared to go back to work. That is not what I am seeing anywhere in the country. Americans are very happy to go back to work, and they are very quick to understand that they are in control of their lives and they can choose how to mitigate risk. It is amazing what we can do when we just trust the American people.

This is a really important committee hearing, and we have to make difficult decisions about how—to make sure that our economy recovers. But we also have to agree on something really important. When we look back on what we have done as a horizontal lockdown, basically choosing the costliest possible option for a—for some hoped benefit, we chose the wrong one. And we know that in hindsight.

Again, this isn't blaming anybody, this is a human race problem. The entire human race did this. We said early on that we would lock down in order to save our hospital systems. Well, we saved our hospital systems. They weren't even close to being overwhelmed. We wrongfully thought what was happening in New York City could happen across the country. We engaged in a lack of critical thinking, unable to differentiate between the population density of New York City, the high international travel throughput of New York City and Italy, and we applied that to the entire country and told people they couldn't leave their homes.

Again, a lot of this is in hindsight. You know, it is. It is hindsight. I just hope that if a second wave hits, like we all agree might happen, what we have learned—these lessons, that we do not choose the most costliest possible option to keep our people safe, there are other ways to do it. We know who this virus hits the worst. We know how to engage in micro interactions to keep ourselves safe. We can trust people to do that.

I am watching businesses all over the country open their doors back up and establish common-sense policy. You know who hasn't established a lot of common-sense policy? A lot of our local and state leaders across the country, telling people that they should be arrested because they are walking alone on the beach. This is not based on science, this is based on nonsense and fear. And as Members of Congress, we should be there to demonstrate to the American people that we are not fearful, that we are willing to engage in the minimal amount of risk just to show the American people that we are leaders.

Mr.—Dr. Elmendorf, good to see you again. You have actually already answered this question from your last comments, but I really want to talk to you about the unemployment insurance issues we face.

I disagree with my colleague who just spoke, saying that it is only anecdotes that people don't want to go back to work. That is nonsense. It is true across the country that people are not going back to work because they are faced with a very difficult financial situation. Why on earth would they make an irrational decision to go back to work when they are making more money off of work?

I proposed something called the Jumpstart Act, which allows—which basically says what you just said, allows workers to keep that weekly extra benefit, even if they go back to work, give states the options to do that through July 31st. It sounds like you agree with something like that, is that correct?

Dr. ELMENDORF. I haven't read the details, Congressman. But as you have described it, yes, I agree with that.

Mr. CRENSHAW. I appreciate that.

And Dr. Holtz-Eakin, I have heard this notion that it seems that just because some extra spending was appropriate—and we all agree that it was—that more must be appropriate. And I have heard this supposed economic consensus that in 2011—that the Budget Control Act was a terrible idea.

So do you agree with this notion that, since some extra spending was appropriate, that more must always be better?

What is our limit? How do we ascertain that correctly?

Dr. HOLTZ-EAKIN. I am—as I have said, I hope quite clearly, think that Congress acted appropriately against a large problem with a large response. But it should in the future do only what is necessary. You cannot lose focus and start doing everything under the sun under the guise of—to the pandemic. We simply don't have that luxury because there is going to be a moment when we have to begin to stabilize the debt. And that is going to be a difficult thing to do. There is no reason to make that unnecessarily hard. It is already hard enough.

Mr. CRENSHAW. Thank you. I am out of time.

I yield back, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from California, Mr. Panetta, for five minutes.

Mr. PANETTA. Thank you, Mr. Chairman, I appreciate having this hearing. I also appreciate these two objective witnesses, Mr. Holtz-Eakin and—I usually see you in the Ways and Means Committee—and Mr. Elmendorf. Good to see you again. I—once again, I really appreciate your straightforwardness and your objectiveness when you come to such a—to talk about and have testimony about such an important and serious issue like this. So thank you very much.

Look, I too would love to see you there in person, be in the committee room. I think all of us, every single person on this call wants to be in that committee room in—interacting face to face and doing our job. We understand that. But we also understand certain limitations that need to be put in place, as well.

And also, I got to admit, I am looking out my window right here, and I get to enjoy the beauty of where I live on the central coast of California. So that is nice, too.

But that being said, there is an issue in the sense that there are a lot of people who come here to the central coast of California in normal times to experience this beauty, a lot of tourism, a lot of hospitality. Unfortunately, that is not happening. Unfortunately, our local counties, our local cities that rely on that hospitality are taking a big hit right now because people aren't coming. And unfortunately, in regards to the CARES Act, there wasn't the direct funding for the small towns and counties like we have here on the central coast to provide them the relief that is necessary, at least directly, like I said.

Now, obviously, we changed that in the Heroes Act, and we put a certain formula in to take into account those small cities, those small counties. But there are still—we haven't agreed to that at this point. Hopefully it comes back, and hopefully we prioritize direct funding to state and local counties, especially smaller ones, when it comes to any sort of a next stimulus package for—the relief package for this pandemic.

Now, Dr. Elmendorf, obviously, you know a lot about the great recession and the Recovery Act, and in regards to the funding for state and local governments. Do you have any sort of insight as to why it was important to provide that type of funding to state and local governments?

Dr. ELMENDORF. I think there are two crucial reasons, Congressman. One is about the provision of public services, and the other is about maintaining and building a strong economic recovery.

So we know the state and local governments are restrained in many ways by balanced budget provisions when they face the sort of need to spend more and a sharp drop in revenue they are experiencing now. They will have to come back and reduce the services they provide. That is dangerous for our health and risky for education and so on.

But also, laying off governmental workers means more people who can't go out and buy the things from small businesses, not people who can go out and buy things from small businesses. And so we want to keep people at work in state and local governments, as well as the businesses now, so that, as the health conditions improve, we can have people spending money to create a strong recovery.

Mr. PANETTA. Are there any other efficient—any other effective ways that we can provide that type of funding to states and localities?

Dr. ELMENDORF. Well, there are ways to maintain the working of the municipal bond market. And this is a facility that the Federal Reserve is establishing that helps maintain the ability of state and local governments to borrow. My concern is that that is not enough, because they are not just suffering from a temporary shortfall that we made up somehow next year. They are losing a lot of money that is not going to be made up in the future. I think we need some direct aid along with the—along with this work to keep the financial markets—our state and local governments functioning well.

Mr. PANETTA. Great, OK, thank you.

Moving on to another topic, Dr. Holtz-Eakin, talk to me. Give me your opinion about tying economic relief to economic indicators by using automatic stabilizers, if you could.

Dr. HOLTZ-EAKIN. This is one where I am less enthusiastic than Doug Elmendorf. We actually had a hearing on this in the Budget Committee, and it is one of the—I think—the notable cases where we disagree.

I have a great faith in the capacity of you to do your job. And you will do your job when you respond to the needs of your constituencies. That is the indicator you should care about. You go town halls and find out how people are doing, what they are concerned about. When you can go to a town hall and people's first question isn't, "Where is a job going to come from," and "How the heck am I going to pay my rent," you will now have the luxury to say, "OK, how should we be planning to bring the national debt into line with the growth in GDP so that we are not a future threat to the children of this generation?" That will be the moment. And that is when you start doing it.

Mr. PANETTA. OK. Dr. Elmendorf, in 16 seconds, your rebuttal.

Dr. HOLTZ-EAKIN. You are muted, Doug.

Dr. ELMENDORF. Thank you, Doug.

I don't want it said that I lack confidence in you and your colleagues' ability to do the right thing.

[Laughter.]

Dr. ELMENDORF. Your colleagues have a lot of things to do, and I think there is a great, great efficiency, and the ability to enhance confidence if you set in place now a set of policies to last as long as unemployment remains high.

Mr. PANETTA. Thanks to both you.

Mr. Chairman, I yield back and thank you again.

Chairman YARMUTH. Thank—the gentleman's time has expired. I now recognize the gentleman from Tennessee, Mr. Burchett, for five minutes.

Mr. BURCHETT. Thank you.

Chairman YARMUTH. Please unmute.

Mr. BURCHETT. Am I muted? Can you hear me?

Chairman YARMUTH. You are.

Mr. BURCHETT. Great. I don't even have my 12-year-old daughter here, and I did it myself. I am impressed.

It is good seeing you, Mr. Chairman, Ranking Member, and all the other Members. And I echo all the accolades everybody is throwing out, and the disgust, too. So I will just leave all that off. But it is a pleasure being here with you all.

I recently introduced some legislation dealing with liability of small businesses, and we know that getting our businesses back open is going to be vital for our economy. It is called the Coronavirus Public Safety and Economic Recovery Act. And it—of course, it protects businesses to—that follow public health guidance from—upon reopening from some lawsuits. And it is sort of a hand-in-glove kind of thing.

I come from local government, as the Ranking Member knows, and some of you all do. And I was in the state legislature. And it allows for all those to kind of work together, instead of us cramming stuff down, which we tend to do at the federal level sometimes. And I thank Representative Cole for his recent support of the bill, actually.

And I want to ask Mr. Holtz-Eakin a question. How can we use legislation like this that is—with—in conjunction with employment benefit reform to get the American people back to work?

Dr. HOLTZ-EAKIN. I think the most important thing is the safety issue. There—you know, Americans will reopen the economy more and more as they feel confident to do so. It has never been fully shut, and we suffered a lot of loss, even with what we have had operating. So people want to do more. They need to feel confident in doing it. People differ in their confidence, and so some people require a lot more effort to sort of be confident in doing it.

But on the employee side, I think we are going to have to have aggressive use of testing, tracing, therapeutics, vaccines, PPE, reconfiguring the workplace. There will be a set of things that businesses, along with their workers, are going to have to do on that front. And on the business side, I think there is a sensible piece of rifle shot liability protection that you can provide businesses when their workers come back.

You know, I think about this a lot. I have 23 employees. I want them on this floor. I don't know what is being asked of me to do that safely. And I—and, as a result, I don't know if someone—we came back and someone got sick, what my exposure is. I think resolving that uncertainty would be a real benefit for the economy.

Mr. BURCHETT. All right. That is the only question I have. It is always good seeing my buddy, Jimmy Panetta, right down there, looking like he is going for a fraternity rush. He has got khakis and boat docker shoes on.

But I too issue my disgust with the murder of Mr. Floyd. That made me, literally, physically sick, all the videos of that, and, of course, in the destruction and violence that has followed. But I am very proud of the Americans that are out protesting peacefully. I think that is a wonderful, wonderful thing that we only share, probably like that, in this great country of ours.

So, Mr. Chairman, I yield back the remainder of my time. And I miss seeing you in public, brother.

Chairman YARMUTH. Thank you very much. I miss you, too.

The gentlemen has yielded back. I now recognize the gentleman from New York, Mr. Morelle, for five minutes.

Mr. MORELLE. Thank you, Mr. Chairman. Thank you all for all my colleagues (sic). And thank you to the two witnesses.

I want to echo what my colleague, Mr. Panetta, said. I mean, it is great to have these two people, gentlemen, testify. And I think it is a great value to us. And I, frankly, am very pleased that the Committee is conducting this hearing. I know that there are challenges of getting people to Washington, and being safe, and being thoughtful about how we do it. But continuing to conduct the people's business is very, very important.

I also want to express, too, my condolences to the Floyd family and what this country is going through. I was 11 years old when Martin Luther King and Bobby Kennedy were both murdered, and we were in the middle of protests around the Vietnam War, and I remember how frightening it was as a child. So I can only imagine the trauma that we are inflicting on young people and children across the country. And I am grateful for those members of law enforcement who have allowed peaceful protests to go on, and in some cases have joined with them. So I am, obviously, like everyone else, very, very concerned about that, and against the backdrop of the virus.

I wanted to go back, if I could, to both witnesses, and circle back a little bit on state government issues. I, like my colleagues, many of whom have served in the state legislature, I served in the New York State Assembly for the better part of three decades. I served on the Ways and Means Committee, which is the Budget Committee in our state, and served as majority leader for six years. So I am very, very invested in state government.

About two-thirds of New York's budget goes back to not only local governments, but what we call local assistance to not-for-profit organizations, to those who care for the developmentally disabled. I note that—I saw Senator Rick Scott from Florida saying yesterday that, while he would support funds going to state governments, that he thought they ought to only go to those states that were impacted and had expenses directly related to the COVID virus.

It seems to me that revenue declines are a direct consequence of the COVID virus. And I would just like for our two guests to just comment on revenue loss, specifically the impacts that that will have, and whether or not you can balance that against the Congress not doing anything to help shore up those revenue deficits.

Dr. HOLTZ-EAKIN. Well, Congressman, if I could, there are really three issues.

Issue number one is one I think both—all parties agree, that there are states that have structural budget problems that have nothing to do with the pandemic, and those are the state's or locality's responsibility. That is off the table.

There are also a lot of additional expenditures that states and localities have undertaken to combat the virus and the effects of the pandemic. That is in the national interest, and I think it is appropriate that the taxpayer pick up that tab in whole or in part. So, you know, that is—Senator Scott is worried about those. I think that is important.

The third piece is the one you have identified, which is the fact that when the customers went away and the businesses' revenues went away, so did the sales taxes. And when the layoffs started, the income taxes and payroll taxes. And so there is no question there has been a big decline in the revenues.

And the issue I think that is presented to you is do you think of states and localities as like big businesses, in which case the response in the CARES Act was, "Go borrow the money at the Federal Reserve?" And I just want to stipulate I don't think that is working well. But that was the answer in the CARES Act. Or do you think they are like small businesses, in which case the answer in the CARES Act was, "We are going to give you a disguised grant called a PPP loan, which we will forgive," and that will be the equivalent of a direct appropriation.

So they are going to need a bridge. There is no question about it. The only issue is what is the mix of municipal liquidity usage versus direct appropriations by the Congress. And that is what it comes down to.

Mr. MORELLE. And if I can, before we go to Doug No. 2, because I would like to ask him to respond to it, as well—and I only have 45 seconds—but some of that—I mean, obviously, the decline in revenue cannot be made up. It is not as though you have this built-up or pent-up demand for services, and in the interim many local not-for-profits and agencies will suffer. If we could just—I just want to make that observation. If we can, go to the other panelist, Dr. Elmendorf?

Dr. ELMENDORF. So, Congressman, I agree with the concerns that you have posed, and the importance of the Congress taking action to address those concerns.

Mr. MORELLE. Very good. Thank you, Mr. Chairman, I yield back.

Chairman YARMUTH. Thank you. I now recognize the gentlelady from Texas, Ms. Jackson Lee, for five minutes.

Ms. Jackson Lee. Thank you very much, Mr. Chairman, and thank you for the kind words of the Chairman, and Ranking Member, and all the Members on the terrible tragedy and horror that we are now going through in this nation, along with, of course, COVID–19.

I just want to hold up Houston's paper; 60,000 people came out peacefully yesterday to honor George Floyd's family. And so, not only are we dealing with the disparate impact of COVID–19 on communities of color, specifically African-Americans, but it is compounded by the crisis that we face here on the questions of justice and peace.

Let me go to Dr. Elmendorf and focus my questions. If I am able to have enough time, I will ask Dr. Holtz-Eakin. And I thank you both for being here.

Dr. Elmendorf, I just want you to think about these constitutional issues right now. I am not asking you to answer them. If we have time, I will ask you to do that. But I want you to think about the question of impoundment in terms of the kind of notification that is statutorily required before the executive branch can withhold appropriated funds. I think that is crucial in the midst of COVID–19.

And then the question of the power of the purse, what the framers were concerned about more, the Congress giving up its power of the purse or the president taking it.

But my questions that I want you to answer now is Chairman Powell said we needed to go big. The Heroes Act was about three trillion plus. Forty million people are unemployed. What are your thoughts about the extending of the cash disbursement, which is included in the Heroes Act?

And as well, the extending of unemployment beyond the 13 weeks? If you are taking notes, I would appreciate it.

And my big question is that, when the nation sneezes, the African-American community gets pneumonia. It is said that we will lose a third of our businesses, approximately, in terms of small businesses. We never had inherited wealth, and so our community is devastated with not only the disparate impact of the COVID virus, but the economic impact.

I would appreciate your response to that, and any thoughts about the tax cut, and ensuring that we can really increase that corporate tax amount that we did not have in the tax cut.

I am looking at the clock, two minutes and 30 seconds. I would appreciate it. I know you can do it, if I can get little, small answers on all of that. Thank you.

Dr. ELMENDORF. Thank you, Congresswoman. You raise a lot of issues.

It is very, very important to provide income to households that have lost their jobs. And more will lose their jobs, and many will have difficulty finding jobs again. We are in for a long, hard period——

Ms. Jackson Lee. Yes.

Dr. ELMENDORF [continuing]. and if we make progress on the health front.

I think that you are right in your concern for households. My own preference would be to focus on those who have lost jobs as we go forward, and who are out of work——

Ms. Jackson Lee. Yes.

Dr. ELMENDORF [continuing]. rather than the population more broadly.

On the question about the power——

Ms. Jackson Lee. Never——

Dr. ELMENDORF [continuing]. purse, I can't—I am not a lawyer, I can't speak to that.

On the question about the African-American community in this country, yes, it is almost always the case that in economic downturns those who are hurting most before the downturn then take the biggest further hurt. In the current downturn, because many African-American workers have jobs in which they continue to go to work, income losses have not been as dramatic relative to the incomes of white workers in this country. But some of the health consequences have been particularly dramatic.

And so there are different—it is very important, if we are going to regain ground, not just the economy as a whole, but for particular groups——

Ms. Jackson Lee. Small business——

Dr. ELMENDORF [continuing]. go back to work.

Ms. Jackson Lee. Can you speak to the small business loss? That is going to be devastating.

Dr. ELMENDORF. Yes——

Ms. Jackson Lee. And some of these workers will lose their jobs.

Dr. ELMENDORF. Yes——

Ms. Jackson Lee. Yes.

Dr. ELMENDORF. So the more that we—the more support we can provide for businesses to keep their employees on the payrolls, the better that is now, and the faster we will have a recovery in the months ahead.

Ms. Jackson Lee. Thank you. And I support the—Pramila Jayapal's payroll protection act guarantee bill that can help us.

The—any point on the corporate tax being raised in this last huge tax bill being modified to go up?

Dr. ELMENDORF. I think, as the Congress looks for ways to put revenue and spending on sustainable paths in the future, that we should take another hard look at raising corporate taxes. I think that is not the crucial issue of the day, which is to try to get this economy down a strong recovery path.

Ms. Jackson Lee. Thank you very much. Thank you very much, Mr. Chair. Thank you, Dr. Elmendorf.

Chairman YARMUTH. The gentlelady's time has expired. The gentlelady from Washington, Ms. Jayapal, for five minutes.

Ms. JAYAPAL. Thank you so much, Mr. Chairman, and thank you to both of our witnesses today.

The first coronavirus infection was actually diagnosed here in Washington state on January 21st. And thanks to quick action and strong physical distancing requirements, we have done a pretty good job on bringing down COVID infections and deaths, overall.

But the economic pressures are enormous, with some people going on four and five months without a paycheck, too many people of all incomes that are reliant on food banks, too many people facing imminent eviction and homelessness, and Black workers experiencing record job losses and a massive wage and wealth gap. And then the businesses, small and medium-sized businesses, that are considering shuttering permanently at alarming rates. And as both of you know, the unemployment rate is continuing to rise now at almost 41 million people, with one in four working Americans without jobs.

So I do believe that it is in our collective interest to protect, as you both have said, as many jobs as possible, keep people with the certainty of paychecks, and give businesses the support that they need to stay open, at least until they can make decisions about what comes next, to adjust to a new economy. And then we can target our safety net systems and our cash benefits to those who need it the most and can't benefit from a paycheck program.

So, Professor Elmendorf, let me start with you. Today's ADP data for May shows that small companies of less than 500 employees experienced job loss similar to larger companies, even though our intent with the PPP program was to provide a cushion for businesses to keep people in their jobs. But the data is not suggestive of a significant impact on jobs. Do you think that the PPP program is sufficient to mitigate job loss, and keep workers with paychecks and in jobs?

And how important do you think it is that we utilize tactics like direct wage subsidies to keep paychecks coming and businesses in operation?

Dr. ELMENDORF. So thank you, Congresswoman. I had not seen that aspect of the ADP report. But if it is as you describe, I would still view it as a victory for your policies, because big businesses generally have some buffers to—bigger buffers to work with than small businesses do. And so I think the concern going—a couple months ago was that small businesses would be disproportionately hurt. And if they have not been disproportionately hurt, that may be, in part, because of paycheck protection programs.

But I don't think that program is enough. It doesn't cover businesses above a certain size, doesn't cover businesses that have—with nothing in place to cover businesses with—that already have large amounts of debt. And so I think more is needed. And it is very important that you and your colleagues keep working to help businesses keep their employees at work until the business—until the demand from customers comes back—important, both for the people and for the economy.

Ms. JAYAPAL. Thank you. Thank you so much.

I have introduced a bipartisan bill, as my colleague, Ms. Jackson Lee, referenced. It is H.R. 6918, the Paycheck Recovery Act. And the basic premise of this is actually what other countries in Germany, South Korea, Singapore, many others have done to stem unemployment. It would put money directly into the workers of—pockets of workers by guaranteeing paychecks for salaries up to 90,000, businesses by giving them some overhead, and it would be applicable to businesses, non-profits, and local and state governments of all sizes that suffered revenue losses and face layoffs.

We reached back in the legislation to March 1st, to try to pull people back into jobs who were already laid off or furloughed. And we have incorporated a re-hire bonus, as we have been talking about during this hearing, for those earning less than 40,000, so that we can account for the PUA that we included in the CARES Act.

Do you think that this kind of a program would be effective to stave off an even deeper recession that we are looking at? Either one of you can respond to that.

Maybe Dr. Elmendorf, maybe we can start with you. I have another question for Dr. Holtz-Eakin.

Dr. ELMENDORF. So I would say that, as you have described it, Congresswoman, that sounds like a very, very valuable policy. But, of course, I have not looked at the specifics, and those can be important. But I think the direction that you have described is very important.

Ms. JAYAPAL. Thank you so much.

Dr. Holtz-Eakin, you explained something very important to me before the hearing started about how CBO scores bills with a program like the Paycheck Recovery Act that has, you know—it would dramatically reduce or zero out, in some cases, some of the other provisions like UI or Medicaid and COBRA. Could you just explain for the whole committee how that works, and how we ensure that those savings are accounted for if we were to include something like this?

Dr. HOLTZ-EAKIN. So, briefly, CBO is very careful about keeping track of interactions between provisions in policies and bills, in particular. And so it will account for interactions as your bill would produce. It also takes care of those interactions in a very systematic fashion, so that it always does them the same for every bill.

So, for example, if you first have your bill, and then you have a COBRA provision, your bill already takes care of the COBRA, so the COBRA would score zero. If, however, you do the COBRA first, it will cost money. And then your bill with the other action would save. And so that gives very different appearances. The bottom line is the same.

They try to be very clear to the Congress, and always do it in the same order, so that they are conveying the information clearly.

Ms. JAYAPAL. That is so helpful. And I want to thank you for that. That is, like, my best piece of information for the day.

Thank you both so much, and I look forward to talking to you more as we go forward.

Chairman YARMUTH. Great. The gentlelady's time has expired. Now I recognize the gentleman from New Jersey, Mr. Sires, for five minutes.

Mr. SIRES. Can you hear me, John?

Chairman YARMUTH. We hear you.

Mr. SIRES. OK. Nice to see you. Thank you very much for being here, both of you. These are difficult times, and you guys are great.

I have a couple of ideas. You know, I am from New Jersey. We have a big issue with pension funds. I was just wondering, what do you think of the idea of the federal government having a pot of money where states who have problems contributing to their pension plans borrow on a low percentage from this pot of money to make a contribution to the pension system?

Because, obviously, if people don't have their pensions, you know, it has a trickled effect, just like you were talking about before in the real eState market. People who don't meet their mortgages, the mortgage company can't pay the municipalities the taxes that they owe, because most people go through their mortgage companies to pay the taxes.

So I was just wondering if you thought that there is something to that, where a fund states could reach and borrow. The government doesn't have to give it to them, just borrow on a very low percentage to meet at least the first and second year of this, supposedly, comeback that we have been trying to do.

Dr. ELMENDORF. So, Congressman, I will offer some thoughts. And Doug Holtz-Eakin might want to add, as well.

Mr. SIRES. I can't hear you.

Dr. ELMENDORF. I am sorry, Congressman. Can you hear me now?

Mr. SIRES. I can hear you now.

Dr. ELMENDORF. I will offer some thoughts, and Doug Holtz-Eakin may want to add.

The challenge that most pension plans face is not an immediate cash-flow challenge. It is a problem that they made promises that will last for many decades, and don't have the funds to meet those promises. And that problem can only be addressed, really, by reducing benefits or putting more real money into the fund. Money doesn't have to be paid back to some other entity in the future.

So the borrowing just helps people get through a temporary problem, in a sense. It can be very important if your problem is a temporary one. But the pension fund problem is not temporary, it is an enduring problem.

Mr. SIRES. Yes, but the problem that we have is really temporary now, in trying to deal with the contribution that these states have to make.

I understand. Look, I was speaker, I understand—I did six years of budgets. I understand a little bit about the process, especially in New Jersey. But I am looking to—you know, looking to alleviate this immediate problem that we have now. And down the line they can address the bigger issue.

The other thing is this. Municipalities and states can do revenue bonds. Can the federal government do revenue bonds for states?

Either one of you. I don't know, I don't know the answer to that.

Dr. HOLTZ-EAKIN. I do not think there can be a treasury security issued with the funds earmarked to go to a state. Treasury securities provide funds to the U.S. treasury. You would need a second policy to send those moneys to the state.

Mr. SIRES. What do you mean, a second policy? Another vehicle?

Dr. HOLTZ-EAKIN. A law that says this much money needs to go to the state of New Jersey for this purpose. You can't direct it out of the treasury, you know, to meet the needs of funding federal programs. If the money ultimately needs to go to a particular state, you need a federal program that would appropriate or provide mandatory spending to that state.

Mr. SIRES. And quite frankly, I do think that we have to do something with the unemployment. The complaints that I get is that people—three, four, five weeks, six weeks without getting an unemployment check. And we try to speed it up.

You know, I had a woman the other day come to me, she said to me, "Look, you know, I need this check because I am trying to keep the Internet." I know Internet is a luxury, but she was saying to me, "I can't educate my child because my child is being educated now through the Internet, and I can't pay for it." So, I mean, these are real problems.

Dr. ELMENDORF. So, yes, Congressman, our unemployment insurance systems are not remotely capable of dealing with the volume that they have had to face. And that is partly because this volume is truly unprecedented, but also because we have not made the investments in those systems over the past years that we should have. And we ought to take that as a key lesson from this downturn, and build more robust systems for the future.

Dr. HOLTZ-EAKIN. And a small point on broadband and Internet in general. There is a lot of concern about rural broadband, access to broadband. We have done a lot of work over the years that suggested it is not price that is the problem. Many people didn't see the point of having it. And one of things I am very interested in is whether they will think very differently about it next year than they did at the beginning of this year, given the needs to educate students and conduct their lives online.

Mr. SIRES. I could guarantee you they are going to look at it differently from now on.

[Laughter.]

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

Chairman YARMUTH. Time has expired, the gentleman's time has expired. I now recognize the gentleman from California, Mr. Peters, for five minutes.

Mr. PETERS. Thank you. This has been a fascinating hearing. I want to thank the witnesses for being here.

I wanted to acknowledge both witnesses warning that, when we get out of this, not sooner, we will have to work to get our debt on a sustainable path in comparison to the economy. Representative Jodey Arrington and I have sent a bipartisan letter—we have got 30 Members on each side of the aisle—that would demand that we do just that without getting in the way of the near-term need to continue to borrow to support our efforts to fight the virus and to support the economic recovery.

And Mr. Chairman, I would ask that a copy of that letter be added to the record of today's hearing.

Chairman YARMUTH. Without objection, so ordered.

[The information referred to follows:]

United States Congress
Washington DC, 20510

June 1, 2020

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Speaker Pelosi and Leader McCarthy:

We, a bipartisan group of representatives, remain committed to fighting the pandemic and the economic downturn to help the American people through this hardship. The unemployment rate is nearly 15%, and GDP could fall as much as 30%. We must confront the economic fallout from this crisis head on. As the crisis recedes and our nation recovers, we cannot ignore the pressing issue of the national debt, which could do irreparable damage to our country.

According to the Congressional Budget Office, the debt held by the public is likely to exceed 100 percent of GDP in just a few months, and it will hit record levels in a few years. In addition, trust funds for some of our most critical programs will face exhaustion far sooner than we expected as a result of the current crisis. Trust fund insolvency threatens serious hardship for those who depend on the programs.

We, therefore, respectfully request that further pandemic-response legislation include provisions for future budget reforms to ensure we confront these issues when the economy is strong enough. These reforms should have broad, bipartisan support. They should not stand in the way of our making the necessary decisions to deal with the crisis at hand. They should ensure that, in addition to addressing health and economic needs, we lay the foundation for a sustainable fiscal future by building on reforms with established bipartisan support.

First, we must have common ground on the facts and keep this issue in our deliberations. The Fiscal State of the Nation resolution would increase the *transparency* of our fiscal situation by requiring GAO to present an annual report to Congress and the country detailing the fiscal health of the nation.

Second, we must create mechanisms to help Congress demonstrate greater *accountability* in navigating the decisions to restore our fiscal health and sustainability. Trust funds for Social Security, Disability Insurance, Medicare Hospital Insurance, and Highway programs face insolvency, now possibly all within a decade. Enacting a consensus process like the Time to Rescue United States Trusts (TRUST) Act would create special bipartisan, bicameral rescue committees to give these programs the priority and urgency they deserve. Other commission structures, such as those from the Sustainable Budget Act or the Budget Control Act's joint select committee, provide models for a comprehensive fiscal agreement.

Third, the federal debt is growing at an alarming pace. Though emergency borrowing is necessary now, we must have a credible plan for *responsibility* to bring the debt burden to sustainable levels as the pandemic recedes and the economy recovers. We support a process for establishing overall budgetary goals—such as debt-to-GDP targets—that would reduce debt-limit brinkmanship as long as the budget remains on a responsible path.

Including budget reforms like these with any further pandemic-response legislation would put in place a plan to make sure that as we address our nation's health and economic concerns, we will deal with our debt challenges at the appropriate time as well.

As the first branch of government, Congress can and must address current needs while planning for tomorrow. These bipartisan options can help us come together—as Americans—to build a brighter, more resilient future. We urge you to include them in the next pandemic response legislation. We stand ready and willing to work with you.

Sincerely,

Scott H. Peters Member of Congress	Jodey Arrington Member of Congress

Additional signers include:

Ben McAdams	Jim Banks
Dean Phillips	Tom Reed
Ed Case	Bill Huizenga
Stephanie Murphy	Mike Johnson
Kathleen M. Rice	Lloyd Smucker
Kurt Schrader	Dan Crenshaw
Derek Kilmer	Vicky Hartzler
Jimmy Panetta	Dan Newhouse
Cindy Axne	Cathy McMorris Rodgers
Tom O'Halleran	Mike Gallagher
Anthony Brindisi	Rob Woodall
Ron Kind	Warren Davidson
Kendra S. Horn	Brad Wenstrup, D.P.M.
Abigail D. Spanberger	Darin LaHood

Jim Cooper	Tom Rice
Jim Costa	George Holding
Henry Cuellar	Drew Ferguson
Xochitl Torres Small	Ralph Norman
Daniel W. Lipinski	David Schweikert
Collin C. Peterson	Ron Estes
Joe Cunningham	Mark Walker
Harley Rouda	Jason Smith
Ann McLane Kuster	Roger Marshall, M.D.
Colin Allred	Debbie Lesko
J. Luis Correa	Bruce Westerman
Chrissy Houlahan	Adrian Smith
Terri A. Sewell	Jack Bergman
Sharice L. Davids	Mike Kelly
Gilbert R. Cisneros, Jr.	Roger Williams

Mr. PETERS. And I did hear the back-and-forth about automatic stabilizers, and I wanted to address that a little bit further in response to Mr. Panetta. I think both gentlemen expressed different views. I just wanted to note that the New Dems have been calling for automatic stabilizers for unemployment insurance, FMAP, which is Medicaid support, and SNAP for the reasons mentioned by Dr. Elmendorf. That would ensure that these moneys would continue to flow without serial votes of Congress until the economy recovered. Then they would taper off or shut off automatically when they are no longer needed.

We believe that provides certainty to consumers and to investors that they don't have to worry that Congress will take vote after vote during a pandemic in a Presidential election year. It is very difficult for us to physically get together. We know that in the last recovery—I think there were as many as 10 different votes to authorize money. We shouldn't put the economy through the uncertainty that that entails. And that is why I agree very much with the New Dems and with Dr. Elmendorf.

I want to ask Dr. Elmendorf, with regard to that, about a dynamic scoring with respect to this. I think one of the things that scared folks off from a bigger package and from automatic stabilizers was that all the numbers were counted in this year.

Do you think a dynamic score for enhancing core automatic stabilizer programs could be helpful to lawmakers? And how would that work? And what do you think the right way to analyze the cost of that would be?

Dr. ELMENDORF. Thank you, Congressman. I think dynamic scoring is very useful for Members of Congress when they are considering large changes in economic policy that can have important macroeconomic effects. And it does take more work by the Congressional Budget Office, and thus more time to do dynamic estimates, so it is simply not practical for the vast majority of bills that CBO evaluates—proposals for bills that CBO evaluates for the—for you and your colleagues.

But for large changes in policy that would have macroeconomic effects, I think you should ask CBO to analyze those macroeconomic effects, and to include those estimates in their overall budget estimates when your time and their time allow.

Mr. PETERS. Did you have some experience with this, and—with respect to the Recovery Act that shed some light on this?

Dr. ELMENDORF. So, in a way, yes. As a director, when we analyzed the Recovery Act, we did not include dynamic macroeconomic effects in the cost estimates, although we did macroeconomic estimates on the side. I later was—when I was—later on we did an analysis of large-scale immigration reform bills, and for those bills we analyzed the macroeconomic effects and built those effects in to——

Mr. PETERS. Right.

Dr. ELMENDORF [continuing]. the estimates, which Doug Holtz-Eakin perhaps—or other directors—had done previously.

Mr. PETERS. Yes.

Dr. ELMENDORF. So this can work for select pieces of legislation for which it is especially——

Mr. PETERS. Can we ask Dr. Holtz-Eakin to comment on that, as well?

Dr. HOLTZ-EAKIN. I did the very first dynamic score at the Congressional Budget Office during my tenure. It was the 2003 analysis of the President's budget. We looked at the macroeconomic impacts.

And I want to just endorse everything Doug Elmendorf just said. It can be a very valuable tool for Congress, when looking at large, consequential pieces of legislation. It is not something that you should deploy every single day. There are a couple moments for these big things where it will matter, and where that is basically the point.

You know, the point of the CARES Act is to change the trajectory of the economy. And so you might want to know how it does.

Mr. PETERS. Right. Thank you very much. And I want to just thank the Chairman and the Ranking Member for having the hearing.

We are working. The notion that we are not working is incorrect. We are doing legislation. We are actually conducting a hearing in the way that we have asked other people to conduct their business if they don't have to go to a place to go to work. You know, in Congress we don't have to go to a hospital to work. We don't have to conduct deliveries. We don't have to go to a grocery store. Those people all have to go to those places. Unlike other people, we have figured out a way to do this remotely. It is a little bit clumsy, but it is completely effective, and I think entirely appropriate in the context of this pandemic that we not put ourselves and other people in the way of risk that we can avoid. That is what we have asked other people to do. We should live by the same rules.

And I yield back.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from Nevada, Mr. Horsford, for five minutes.

Mr. HORSFORD. Thank you.

Chairman YARMUTH. Please unmute. There you go.

Mr. HORSFORD. Thank you, Mr. Chairman, for holding this hearing, and to our Ranking Member.

Thank you also to our esteemed panel of former Congressional Budget Office directors from both the Obama and Bush Administrations. Your expertise and insights have been invaluable today's discussion.

As many of you may be aware, Nevada, my home state, is among the hardest-hit states, economically, in our nation, and has the worst unemployment rate, 28.2 percent, as a result of the coronavirus pandemic. Our economy relies heavily on tourism, travel, and the service sector, and we are more dependent on tourism than almost any economy in—is on any single industry. We are more dependent on tourism than Detroit is on automakers—sorry, Mr. Kildee—or Seattle is on aerospace—sorry, Ms. Jayapal—or Nashville is on music and entertainment.

As our economy and society reopen, many workers will not be called back immediately to work in our—with our major large employers or restaurants any time soon. So that means Nevada will have a longer path to recovery than almost any other state. And what I have been hearing from my constituents is they don't want to just go back to normal because, for them, normal wasn't all that great to begin with. They want to have leadership that is going to put us on a new path that addresses income inequalities, social disparities, health outcomes, and job and economic opportunity.

So, Mr. Elmendorf, one of the starkest contrasts we have seen in this health and economic crisis is the disproportionate impact on low-income families, and especially communities of color. That is extremely apparent in my home state. So what do you think the long-term consequences of this crisis will be on income inequality and racial income gaps?

And how would that impact our economic outlook?

Dr. ELMENDORF. Thank you, Congressman. And my heart goes out to the people in Nevada who are struggling under these conditions.

The loss of jobs and loss of income can have very long-term effects on people. People lose jobs. It is—even when an economy is generally strong, it can be hard to find jobs again. And when an economy is suffering from almost unprecedentedly high unemployment, that will be particularly difficult. So a moment of job loss can lead to a lack of jobs for a long time. And income loss can force families to take children out of school, to disrupt their lives in other ways, to be unable to support businesses, and so on.

And so, what makes it so crucial that you and your colleagues have already responded and that you continue to respond to this crisis is that a problem today can become a problem that lasts for a very long time. That will be particularly true for people who come into this cycle with less buffer against the vicissitudes of our very dynamic economy, and those people in particular—depending on you and your colleagues—to find ways through health policies, through macroeconomic policies, through more targeted policies, to sustain them, the places they work, get the health issues straightened out until we can get back on a stronger path again.

Mr. HORSFORD. So we need a comprehensive approach. And one of the things that was included in the Heroes Act that was passed by the House just a couple of weeks ago would make the Child Tax Credit fully refundable for 2020, which would help ensure that all low-income families with qualifying children receive the increased benefit of $3,600 for children under six, and $3,000 for children older than six.

So my question, Dr. Elmendorf, would making the CTC, which heavily targets benefits to low-income families, fully refundable lead to a greater boost in consumer spending than other tax benefits, like a capital gains tax cut, or a payroll tax cut?

How would a greater boost in consumer spending help address our economic crisis? And in 30 seconds or less.

Dr. ELMENDORF. So yes, Congressman. Making the Child Tax Credit fully refundable would have a bigger effect on spending than the other two policies that you described. That stronger spending would be a benefit, of course, to those families, but it would also have positive macroeconomic effects because they spend the money at some business, and that business can then pay its workers and its rent, and so on.

Mr. HORSFORD. Thank you. Mr. Chairman, I would like to just enter into the record an article from The Washington Post dated

May 25th, 2020, entitled "Black Minority Business Owners on Coronavirus," without objection.

Chairman YARMUTH. Without objection, so ordered.

[The information referred to follows:]

Number of working black business owners falls 40 percent, far more than other groups amid coronavirus

By
Hannah Knowles

May 25, 2020 at 8:00 a.m. EDT

The number of working African American business owners in the United States plummeted more than 40 percent as the coronavirus shut down much of the economy — a far steeper drop than other racial groups experienced, according to an analysis confirming fears the pandemic would deepen inequalities in the business world.

Closures and social distancing to slow the virus's spread have taken a disastrous toll across racial groups, with the total number of active business owners dropping 22 percent from February to April, based on granular data from the federal government's employment surveys that was made available last week. But minority-owned businesses have suffered disproportionately in a crisis that's also killing nonwhite Americans at higher rates and eliminating more of their jobs.

Experts have voiced concerns that wealth gaps, trouble accessing government aid and concentrations in reeling industries have left these companies and the families they support more vulnerable to the pandemic's fallout. But they're still working to understand and measure the colliding hardships making the future of minority-owned businesses especially precarious. The new data on ownership by racial group is "devastating," said Robert Fairlie, an economics professor at the University of California at Santa Cruz, who plans to post a working paper on his findings.

"We already have disparities. African Americans have the lowest business-ownership rate in the population. ... And so here we're creating a situation of closures that's hitting the groups with the lowest rates even harder," he said.

Minority-owned companies often create jobs for people from the owner's ethnic or racial group, he said, and their success radiates out in the community. Research links business ownership to long-term wealth.

"We're just going to see further increases in inequality that has been so hard to change," Fairlie said.

As of April, the country lost nearly 450,000 active African American business owners as the pandemic intensified, he found. But the disparities extended into every minority group. The number of working Latino business owners dropped 32 percent from February to April, while the number of Asian business owners decreased by about a quarter.

Immigrant business owners were also deeply affected, with their numbers shrinking by 36 percent, according to the data from monthly nationally representative surveys by the Census Bureau and the Bureau of Labor Statistics.

One reason for the uneven toll, according to Fairlie's analysis: Minority-owned businesses tend to occupy parts of the economy most shaken by the coronavirus and the shutdown orders states have embraced to combat it. High shares of African American-owned ventures, for example, are in industries such as beauty salons, taxi services and day-care centers that have had to close or have faced precipitous drops in demand.

However, industries appear to account for only some of the inequalities, Fairlie said, adding he suspects many other factors that are difficult to quantify right now.

Minority owners may be struggling because they're in areas that have been more affected by and more fearful of the virus, something tough to draw nationwide conclusions about, he said. At the same time, they may have thinner financial cushions, as a result of long-standing differences in average wealth: 58 percent of black and Latino households in the United States "do not have enough income to cover three months of expenses without income," compared with 29 percent of white households, according to the NAACP and minority financial groups.

They may have struggled to benefit from the federal government's multibillion-dollar loan program for small businesses, which has drawn criticism for favoring bigger companies with banking relationships. The government has not released data about recipients' race, despite some lawmakers' urging.
The Center for Responsible Lending, a nonprofit research and policy group, sounded alarms in April about the Paycheck Protection Program, estimating 95 percent of black-owned businesses and 91 percent of Latino-owned businesses were tiny companies with slim chances of receiving a loan in the initial round. Most of those companies are the owner's primary source of income, according to its report.

The Treasury Department has said it is working with the Small Business Administration to prioritize minority-owned businesses and the community financial institutions that often support them, while some state and local governments and philanthropists have created programs targeted at these groups. But many still see gaps.

"God forbid there's another round of stimulus and we're still doing the same thing," said Eda Henries, the chief financial officer of a soul-food company who has organized fellow black professionals to help small businesses navigate aid programs during the pandemic.

Questions remain for experts who are wondering exactly how long it will take shops, restaurants and services that are just reopening to recover. Fairlie's simulations suggest industry distribution isn't a driving factor in the loss of 1.1 million immigrant-owned active businesses — leaving him puzzling over the causes.

The significant dips in the number of working business owners are layered on top of other emerging disparities in the pandemic's economic impact. According to a Washington Post-Ipsos poll released earlier this month, 20 percent of Hispanic adults and 16 percent of blacks reported being laid off or furloughed since the coronavirus hit the United States, compared with 11 percent of whites.

"All recessions exacerbate existing inequalities by race and ethnicity — and always hit black and Hispanic workers harder — but this one will be worse," Heidi Shierholz, policy director at the Economic Policy Institute, told The Washington Post at the time. "It will be an absolute nightmare."

Mr. HORSFORD. Thank you. I just wanted to mention 40 percent of active African-American business owners have been affected. That is 450,000 Black businesses. Thirty-two percent of Latinx business owners have been closed, 25 percent of Asian-American business owners. So, in addition to addressing tax credits for children and families, helping workers, we also need to make sure that we help all small businesses, particularly our minority, women, and veteran-owned businesses. And I hope that my colleagues will work with me to address that legislation as we move forward.

Thank you, Mr. Chairman, and I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Scott, for five minutes.

Mr. SCOTT. Mr. Chairman, I am having trouble getting my video on, if I could delay for a minute.

Chairman YARMUTH. Absolutely. We can recognize the Ranking Member, Mr. Womack, for 10 minutes.

Mr. WOMACK. Thanks.

Chairman YARMUTH. And we will get Mr. Scott afterwards.

Mr. WOMACK. Thank you, and—thank you, Mr. Chairman, for the hearing today, and for all the Members that have taken time out of their schedules to participate. And my friend, Bill Johnson, who is in—all by himself in that big room, there in Washington. Bill, thank you for driving down and at least warming a chair there in the Budget hearing room.

I am not going to take all of my time up, but to the——

Mr. JOHNSON. I am not even sitting in the Chairman's seat. I am sitting where I am supposed to.

Mr. WOMACK. There you go. There you go. Keep it warm.

To the two Dougs, thank you for your testimony here today. It is always great to hear your points of view.

When COVID–19 broke out, the one thing that we did not have an advantage of was time. We didn't have time to sit back and think about what is this going to do, so we had to kind of rush to the finish line to get money out the door, and we did it in different tranches. But the big one, of course, was the CARES Act.

So, let me—Doug Holtz-Eakin and then Elmendorf, in that order, what did we do well? What did we miss in our rush to get money out the door?

Dr. HOLTZ-EAKIN. I think Congress did very well. The basic notion behind the CARES Act was that, by and large, we could flood the economy with cash, deal with the liquidity crunch, allow businesses to remain intact, pay their employees, and emerge from the other side of the peak of the pandemic with the chance to restart. So it really was a let's hide from the virus, swaddle the economy in cash, wait-it-out strategy.

And, in terms of that strategy, you know, the lending provisions, the PPP, you know, I think could have been done better, but I don't really want to criticize too much, because it was done quickly, and it was the right strategy, and it was the right size. On the people who had already been badly hurt, UI, you know, checks to the household, I think that was exactly the right thing. So I don't have a lot of criticisms about the basic design.

The important thing is to not believe that we can do it again and it will be fine. We tried that. We now have it—as I have said several times, we need to somehow figure out how to work and have commerce in the presence of the virus. That is a very different challenge from hiding from it, and will require very different policies.

Mr. WOMACK. Dr. Elmendorf, criticisms?

Dr. ELMENDORF. So I agree with Doug Holtz-Eakin's assessment of the CARES Act as, actually, a good piece of legislation that you all should be pleased that you put through so quickly.

As I look ahead, I see a few things. I think part of what wasn't in that Act was a recognition in the sense of how long this episode will go on for. I don't blame you for it at the time, but I do think it is a reason why things like unemployment insurance need to be revisited now. This is not just a 3-month crisis. This is a multi-year event.

I think a second aspect that wasn't covered very much, I think, in the CARES Act and the other acts you have passed so far is support for state and local governments. And I think that actually is essential, both for economic purposes—those are important employers of people, and employers that don't have recourse in general to large amounts of borrowing because of their balanced budget rules. And so, supporting them, I think, is in many ways analogous to supporting businesses.

Also, the important point is that those state and local governments are crucial for some of the testing and the tracing, the development of protocols that Doug and I have both been discussing.

Mr. WOMACK. I want to—Dr. Elmendorf, I want to pick up on that for just a minute, because I—you know, I was a mayor for 12 years, a strong mayor form of government, full-time job.

So the problem that I see—and I have been outspoken on our conference calls about this with the members of my party—is that we—you know, we picked a 500,000 population threshold, and we kicked a lot of money out the door for political subdivisions of 500,000 and greater, whether it is a city, or a county, or a parish. But for those states—and Arkansas is one of them—that doesn't have a population center of 500,000 or more—we just pushed $1,250,000,000 to the state of Arkansas, and it landed in the Governor's lap. And that money has resided there every—ever since. The problem is that Treasury opined you could not use that money to do replacement revenue. Instead, the money had to be used for COVID-related expense.

Now, let's just be honest. The COVID-related expense is one item, one number, and it is pretty easy to quantify: PPE, extra security, and so on and so forth. The number that is hard to quantify that is a much bigger number is how much money have you seen leave your coffers because we shut the government—shut the economy down. And in a state like Arkansas, which is sales tax dependent, retail sales has taken a hit in many areas. But we haven't seen the full effect of it yet, because we haven't seen a full month of—because it runs about two months behind. So the most recent collections information we have is from sales that took place in March.

Do you think that we should expect the Treasury to kind of revisit the issue of replacement revenue? Because it is, indeed, a COVID–19-related expense, in my opinion.

Dr. ELMENDORF. So, Congressman, my answer is that it would be useful to give Governors flexibility. But I can't speak to the specifics of how this legislation was written, and what you can expect Treasury to do, versus what you might have to do again yourselves. I just don't know.

Mr. WOMACK. Mr. Holtz-Eakin?

Dr. HOLTZ-EAKIN. I would encourage you to legislate this and not leave it in the hands of the Treasury. Both in that instance and in the design of the municipal liquidity facility, they kept taking the smaller towns and counties off the table, there is no guarantee they are going to get access to funds raised from either source, and that doesn't make a lot of sense from the point of view of the economics of the problem.

Mr. WOMACK. All right. Now I am going to look ahead. Assuming there is a resurgence of COVID–19, or a mutation thereof, and that sometime this fall we go back to revisit the issue, I think having some experience in it now is probably to our advantage. We know now how to mobilize, and how to do certain things, how to socially distance. And maybe we have been able to increase our stockpiles of PPE, which seemed to be a big problem on the front end of this thing.

So I would assume that, based on our experience, that we could mitigate the damage of a future—of a resurgence of this particular virus. So is that an accurate assumption? Or are there some more lessons that we still have yet to learn on this?

Doug Elmendorf first.

Dr. ELMENDORF. I think, Congressman, that we have seriously under-invested in public health measures in this country. And if you talk to—even before this crisis, if you talked to people who worry about the health of Americans, they generally say that what we need is not so much more doctors, or even more nurses. The first place they would start is trying to improve Americans' health. And the public health teams of states and localities are very important for that, and we have not put enough energy into that. And some of that is equipment, but a lot of that is just expertise.

As we try to stand up tracing mechanisms now in various states—Massachusetts has been very active in this—we don't have the infrastructure, really, in the state government as it exists to do this. This is not the last virus, as you understand.

Mr. WOMACK. Yes, exactly.

Dr. ELMENDORF. And so we need to build our public health capacity, which is both a matter of what is physically, you know, stockpiled, but also what we—who we have working on these issues on a day-to-day basis.

Mr. WOMACK. Doug Holtz-Eakin, you would agree, I am sure.

Dr. HOLTZ-EAKIN. And the biggest lesson is, you know, the CARES Act was fantastic, but think how much better it would have been if it had been enacted in February, if we had actually gotten even further ahead.

What you are saying is we have a chance to get ahead. And there is a lot of focus on testing, and that is important. And there is a lot of wishing for a vaccine. But there are also therapeutics. If you can test and not get it, you feel safe. If you get it and it can be treated quickly and easily, you feel safe. Or, if you can't get it from a vaccine—all three of those things to push hard on right now, so that you can have a much greater health mitigation come the next time, and economically put in place, you know, the capacity to target better.

We missed large non-profits. We missed the state and local governments. You know, don't miss things the next time.

Mr. WOMACK. All right, now this segues to my last question. And it is related to appropriations because, as you know, I am an appropriator, as well.

I have been concerned for a long time about the pressure that entitlement spending is having on discretionary spending, and that is not going to get better. In fact, it is going to get worse under the situation that we are in right now.

And as you both know, it is not that Congress does not want to add to the stockpiles, or have a really good system in place for pandemics of this nature. It comes down to can you pass an appropriation bill—and in this case, a Labor, Health and Human Services appropriation bill, which you both know is problematic in any Congress.

So we still have, I think, a tremendous amount of work to do to—and Scott Peters talked about it a minute ago—a budget process reform, which I championed in 2018, just getting our—and John Yarmuth was with me on that. So, in order to be able to get our house in order, we are going to have to get these systems in place, the processes in place that actually will work for the American people.

Again, I want to thank both of you for your insights here today.

Chairman, thanks again for your leadership, and for the opportunity to join you on this call today. Thank you so much. I yield back.

Chairman YARMUTH. Absolutely. The gentleman's time has expired.

Does Mr. Scott want to proceed with audio only, or——

Mr. SCOTT. I think—can you see me now?

Chairman YARMUTH. Now we can see you. Go—you are recognized for five minutes.

Mr. SCOTT. I couldn't get it straight, so I just signed in on another computer. So I think I am in twice. So thank you, Mr. Chairman, for your—I had to join another meeting, and I appreciate your working with me.

Chairman YARMUTH. Absolutely.

Mr. SCOTT. I do want to join in the condolences to the George Floyd family, but also I want to remind people that we have an obligation to do something about the problem.

I want to start by thanking Dr. Holtz-Eakin for putting the numbers into context, because we see all these big numbers, and they are just big numbers. But when he said 40 million in the last 10 weeks, it is over 4 million a week. And the previous record was 600,000. I think it is important that we put those kinds of numbers into perspective to know what kind of problem we are dealing with.

We have talked about the unemployment compensation and extending it. In the past it has been kind of haphazard. Can either of the Dougs say something about the need to make this predictable, so people will know what they are going to get, and when they are going to get it?

Dr. ELMENDORF. So my own view, Congressman, is that it is useful, very useful, for your colleagues to extend the expanded benefits with some changes until a point at which unemployment falls below some level. And you might even do that on a state level, rather than on a national level, because different states can have very different experiences, and often do.

I think there is value in that, in terms of the limited time that the Congress can spend on any given issue. Other things will arise, and can crowd out attention. And I also think it is useful for people to have the confidence those benefits will be there.

Mr. SCOTT. Well, you have—both of you have mentioned a reduction. How does that work if people are losing their jobs, they are losing their health insurance? The $600, to a lot of people, is just the insurance premium under COBRA. What do you think about the proposal to subsidize COBRA payments for those who have lost their jobs and have—and want to maintain their insurance?

Dr. ELMENDORF. So, Congressman, I worry—I think it is very appropriate to help people who have lost their jobs. But I am concerned that, as the economy starts to recover and some jobs become available, that we need to be sure that people are not losing money when they go back to work. And so——

Mr. SCOTT. Well, what——

Dr. ELMENDORF [continuing]. add benefits when you are not working, we need to do something, I think, to then provide the right sort of incentive for people to return to work.

Mr. SCOTT. If you have COBRA payments, you are just subsidizing the health insurance. So there is no cash advantage for not working. What are you—people are losing their insurance. You got to have the COBRA subsidies.

Dr. HOLTZ-EAKIN. So I think it is important to make sure that we keep track of that potential loss of insurance.

That is a big number now, and I endorse your attention on this problem. I don't think there has been enough attention.

I would like to make sure that, when the opportunity arises to take a new job, people don't feel obligated to go back to their old employer.

You know, we talk a lot about recovery as if this economy is going to look the same in 2021 as it did in January of this year. It is not. In no recovery do we avoid restructuring. Some industries expand, some contract. I have my suspicions in this case. And so it may be better to subsidize their insurance, but not do it through COBRA, do it through some other way. But it is a very important issue.

Mr. SCOTT. We talked about what is going to happen when people aren't going back to their same jobs. Can you talk about the job training strategy where people could have the opportunity, since they are not going back to their old job, to get job training? And could education and training count as job search for the purpose of—so they can continue—so they can continue and complete their course?

Dr. HOLTZ-EAKIN. I think the right way to think about this question is to imagine you are standing in November 2021. And at that point I hope we don't think unemployment insurance is the right way to be taking care of people who are still out of work, that we instead will have a much more aggressive training, education, job placement strategy that will help them get back to work much more quickly.

So I don't think it should be framed in terms of UI. It should be framed in terms of a very aggressive and perhaps new and creative way to deal with this problem. It is not something we have traditionally done very well.

Mr. SCOTT. That is going to take some investment and some resources.

Dr. HOLTZ-EAKIN. Yes.

Mr. SCOTT. Can you say a word about the crushing debt that student loans are having over people, and whether or not relief is appropriate there? They are not buying cars, they are not buying houses, they are not contributing to the economy because of the crushing debt.

Dr. HOLTZ-EAKIN. I will just provide a polite dissent. I don't think that was a fair characterization prior to the pandemic. All bets are off in the pandemic, so I don't want to speculate. I haven't seen the latest data. But I do think, going forward, we have to come up with a more rational way to finance higher education. This doesn't seem like a successful strategy to me.

Mr. SCOTT. And thank you.

Thank you, Mr. Chairman, for accommodating me going back and forth to meetings. Thank you very much.

Chairman YARMUTH. That is OK. We definitely wanted to get you involved. And now your—your committee has that responsibility, our job training. You can provide the answers for that, or some of them.

Mr. SCOTT. I have a plan for that.

[Laughter.]

Chairman YARMUTH. The gentleman's time has expired, and I now yield myself 10 minutes for questioning.

First of all, let me thank you both for being so generous with your time, and being so forthright with your responses. I will say that I now am on my fourth CBO director, having served on the Committee—two of them being you two. And I have always had a great deal of respect for not just the directors of the CBO, but also the work that is being done.

And so, to the extent that you were responsible for building the expertise that is in that organization right now, I totally appreciate that. And it has never been more important than it is right now, as we face multiple challenges and unprecedented challenges. And I am sure that their modeling is being—is the source of great agony right now, trying to figure out how to make sense of what is going on.

One of the things that I think is clear—and most of the things I wanted to talk about have been discussed—but we clearly, when we passed the CARES Act, thought that this was something that most likely would abate in some way over two or three months, that there was going to be a demonstrated treatment and—or some kind of a way to control the disease much more quickly than it has.

And that is why the PPP was eight weeks of payroll, that is why the UI was, you know, a few months.

Clearly, that is not going to be adequate now, and we talked a little bit about—we have talked a lot about the unemployment insurance side of that. But PPP, eight weeks of payroll, is going to—turns out to be very inadequate. We tried to make an adjustment now, we passed that legislation last week to make—to allow that to be used in 24 weeks, as opposed to eight weeks, because some people borrowed the money and their business couldn't even open in the eight weeks that they were supposed to initially spend it.

So—and we have talked about paycheck—government assuming paychecks, Ms. Jayapal's legislation. What do you think the best way to do this is, the best way to support our small businesses now as they face six, seven, maybe more months of depressed activity?

Mr.—Dr. Elmendorf first, and then Dr. Holtz-Eakin?

Dr. ELMENDORF. So thank you, Mr. Chairman. I think there are a number of things that are important.

One of them is the point that Doug Holtz-Eakin keeps emphasizing, is that we have to work on ways for people to feel comfortable going back out into the world, into the economy. And so it is testing and contact tracing. It is intensive efforts to find vaccines, and then to make them available, to develop better treatments. So health policy is the most important thing you can do for every person and business, and for the economy.

I think, second, making the changes that you have—that you voted for, and others in the House have voted for, that extend and create some flexibility in the Paycheck Protection Program, I think that is very important.

I think, beyond that, you should be trying to reach other businesses that have not been eligible yet. And there is a lot of money that was in the CARES Act that has not gone out the door. Part of that is waiting for the Federal Reserve to establish facilities. But what they can do depends on the Treasury's interpretation of the implementation of the CARES Act.

And I think it is important that that the Treasury be willing to lose money, essentially. That is what you voted this amount in the CARES Act for, not to just give out money to everyone with no chance of ever getting it back, but to recognize that to really support the businesses, money needs to be lent to some businesses that will turn out at the end to not be able to pay it back.

And so I think that that is—what I understand has happened so far is the Treasury has not really been willing to recognize the level of loss that might be needed. And that will hinder the Federal Reserve's abilities to lend to businesses that we all want to keep afloat for a longer period of time.

Chairman YARMUTH. Dr. Holtz-Eakin?

Dr. HOLTZ-EAKIN. I agree with all of what Doug has said about the Federal Reserve Treasury facilities. I had some testimony on that. I think that is an important place where the CARES Act is simply just missing in action. There is a lot of potential there.

Going forward, I think the strategy has to change. I—you know, the strategy in the CARES Act was to be quite indiscriminate. Just shovel the money out the door indiscriminately because time and speed are of the essence. Going forward, I think greater targeting is appropriate, targeting to those business that really do need it and don't have the wherewithal to go forward. Having people be able to demonstrate that they have a business plan that is going to be successful going forward, and we are not propping up something that really doesn't have a great future, you know, that—those are traditional elements of program design that I think will come back into importance as we go forward.

And we just—and we need to make sure that we are thinking also about how to get people into business. The reality is we will have lost a great many businesses. You know, most businesses have one to two months' cash on hand. It is two months, and we haven't gotten there, and that is a reality I think about every day. But those are individuals who know how to run a business, who like to run a business, that chose to run a business. What are we going to have in terms of "Let's start a business," because we are going to need them. How are we going to support that? I think that is worth thinking about.

Chairman YARMUTH. That is exactly what my next question was. We are going to be losing tens of thousands of businesses, if not more.

Dr. HOLTZ-EAKIN. Yes.

Chairman YARMUTH. Yes, and people did nothing wrong. I have a number of businesses that were very solid businesses going forward. They are probably not going to survive. What kind of an obligation do we have to them, as federal government? Do we have an obligation? Or is this just luck of the draw?

Dr. HOLTZ-EAKIN. I think we have an opportunity. You know, among the things that has concerned me most about the U.S. economy over the past decade has been the sort of indicators of diminishing dynamism and a growing concentration. And, you know, the way you solve that is you get a new business in that provides a good service, and competition, and gives people greater choices, and that has a benefit.

So I don't think of it as just an obligation to those individuals. I think of it as an opportunity to benefit this economy greatly. And it should be viewed that way.

Chairman YARMUTH. One final question, and this is probably—this is a big, big subject. And—but clearly, there is going to be some kind of restructuring of the economy. And—as we come out of this there are industries that are going to be forever changed, and many things are going to change.

What—considering the challenges or opportunities, what do you think that our best opportunity or our biggest challenge is going to be with an economy that is going to be restructuring?

And can we shape it as we move forward?

Dr. Elmendorf?

Dr. ELMENDORF. I think you are right, Mr. Chairman, to be concerned about this issue. In almost every business cycle there are certain sorts of restructurings that occur. As I mentioned before, I think that was particularly acute in the last recession because of overbuilding in housing. But it is true now today, as well.

And we are—that is part of the dynamic economy, is that we change over time. And so one doesn't wish to stop it, exactly, but one does wish to provide the best means for people to get through that transition. And I think some of this is this matter of job training that we have not been good at, as a country. We just haven't shown a lot of success in doing this.

But that is what is important. There are a lot of people who want to work who will find that the thing they used to do isn't actually needed in the post-coronavirus—in the new world. And so they need to be helped into some other line of work. And that is training, often in the middle of a career. It is job matching. And there are some examples of places in the country where we have found ways to do this successfully. I think we need to find those—work on those examples, and scale them up in a way that helps people make the changes that they want to make, and that we need them to make.

Chairman YARMUTH. Thank you.

Dr. HOLTZ-EAKIN. I think that is the right answer. The economy will restructure. And I don't know what that structure is going to look like, and the other Doug doesn't know what that structure is going to look like. And the most important thing is to let the people who want it to look different, or entrepreneurs and aggressive efforts to meet what people value—let them do that.

And our—the role of the federal government is to support the workers in the process of that restructuring, make sure we don't lose track of the people. The businesses will take care of that restructure. They know how to do that, and they have done it historically very well. It is the people that you need to focus on.

Chairman YARMUTH. Right. Well, once again, I want to thank both of you for being so generous with your time. We will call on you again, I am sure. And we thank you for helping us on our maiden voyage hearing through this interesting time.

So, with no further business, this hearing is adjourned.

[Whereupon, at 3:43 p.m., the Committee was adjourned.]

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Washington, DC 20515

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

STATEMENT
HEARING:
"ADDRESSING ECONOMIC IMPACTS OF COVID-19"

COMMITTEE ON THE BUDGET
210 CANNON
JUNE 3, 2020
1:00 P.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this hearing for the purpose of hearing from two former CBO directors on what Congress can do to further mitigate the economic fallout from COVID-19 and support a strong and equitable recovery.

- Let me welcome our witnesses:

  Former CBO Director Doug Elmendorf, Ph.D.
  Dean and Professor of Public Policy
  Harvard Kennedy School

  Former CBO Director Doug Holtz-Eakin, Ph.D.
  Executive Director
  American Action Forum

- Over the last three months, nearly 1.8 million Americans have been infected with COVID-19 and more than 100,000 have died.

- At the same time, the pandemic and the social distancing measures needed to contain it have led to the most abrupt and severe recession in recent history, with unemployment rising to levels not seen since the Great Depression.

- Mr. Chairman, Congress has already taken significant action to address the public health and economic crisis represented by COVID-19, passing the CARES Act, the Paycheck Protection Program Act, and the HEROES Act, but much more can and needs to be done because COVID-19 remains a severe public health risk that will continue to weigh on families and the economy in the months ahead.

- Failure to provide sustained support would aggravate suffering, exacerbate already stark health and income racial disparities, and all but guarantee a slow and painful recovery.

- According to CBO projections, absent further action, unemployment will average more than 9 percent next year and would not fall below 6 percent until 2026.

- Mr. Chairman, this is time for bold action; it is not a time to "wait and see" what happens.

- State and local governments have already begun shedding jobs and cutting spending, small businesses will lose PPP coverage at the end of the month, and the unemployed will lose emergency benefits at the end of next month.

- Congress must act immediately to ensure support is not withdrawn prematurely.

- The challenge facing the economy is COVID-19 – not generous unemployment benefits.

- Millions are unable to return to work because their workplaces are not yet open; they are caring for children or sick family members; or because they worry that it is not yet safe to do so.

- Millions more will not have a job waiting for them and will struggle to find new work as businesses cut back.

- Congress must address these underlying constraints that may keep Americans out of work, rather than rush to eliminate crucial benefits without a plan to ensure families will have the income they need to survive.

- Experts agree that failure to support the economy and promote a strong recovery pose more severe risks to our economic and budget outlooks than the deficits we must run to do so.

- There is simply no evidence that rising deficits are overheating the economy, fueling a debt crisis, or exhausting our fiscal space and claims to the contrary are rooted in partisan politics, not economic reality.

- Our friends across the aisle have shown time and again that they only care about reducing *spending* that helps workers and families, *not reducing deficits*.

- Republicans are calling for fiscal restraint when 1-in-4 Americans have filed for unemployment.

- But it is hard to take seriously their expressed concern for fiscal restraint after watching them add $2 trillion to the debt with their 2017 tax law – when unemployment was 4 percent.

- The $2.4 trillion in fiscal relief Congress has provided to date has been critical for mitigating the pandemic's damage and forestalling worse economic and budgetary outcomes down the line.

- As CBO notes, the four laws enacted since March "will partially mitigate the deterioration in economic conditions" and lead "real GDP and employment to be higher over the next few years than they would be otherwise."

- According to one analysis, the CARES Act alone will lower the unemployment rate by a percentage point in the third quarter of this year and increase GDP by more than $800 billion over the next two years.

- Overall, as another study suggests, every $1 spent so far is likely to boost GDP by at least $1, and potentially by as much as $1.50.

- Nevertheless, as CBO's forecast underscores, the economy will need much more support because without it, unemployment would still average more than 9 percent next year – levels we saw at the height of the Great Recession – and not fall below 6 percent until 2026.

- Mr. Chairman, we need action and more action now.

- Thank you, I yield back my time.

Questions for the Record

Congressman George Holding (NC-02)
Addressing the Economic Impacts of COVID-19: Views from Two Former CBO Directors
June 3, 2020

"Dr. Holtz-Eakin, over the past few months, business closures and layoffs have had tremendous effects on Americans' retirement plans. Millions have suffered large losses in their retirement account balances and those who have lost their jobs have also lost their ability to make retirement contributions.

What do you think about the measures we have already taken and what future measures can we take to help retirement savers recover from these disastrous economic conditions? Is there more that we can do to help individuals keep their money longer in tax-deferred accounts without mandating withdrawals? What can we do to enhance Americans' ability to save for retirement as businesses reopen?"

Congressman Morelle

QUESTION for Hearing (For Both Witnesses): House Budget Committee on Economic Impacts of COVID-19 – June 3 - 1:00 PM – The House Budget Committee

During the past several months, with the onset of COVID-19, we have witnessed a confluence of factors – to create the "perfect storm" which appears to be putting America's retirement security at great risk – especially for those closest to retirement whose retirement prospects have been put in a precarious position – that could not have been anticipated or planned for.

We have recognized the harm that has come to many retirement savers because of the economic impacts from the pandemic and we have taken steps in the recently enacted CARES Act where we included measures to provide flexibility to workers and retirees whose retirement savings may have been hit hard by the economic impact of the pandemic.

We passed measures to waive minimum required distribution for this year to give those individuals more time to recover losses from retirement accounts and authorized penalty free limited early withdrawals and higher loan amounts from retirement accounts to ease financial pressures posed by workers who have lost jobs, contract the virus or must stay at home to care for loved ones afflicted by the virus.

And in the HEROES Act, we also passed measures to further extend relief on the RMD.

But, today, for most Americans -- the outlook for retirement – is worse than it was just a couple of months ago. Tens of millions have lost their jobs and along with that an ability to make retirement contributions – and many – especially those closest to retirement – due to the market disruptions – have lost large amounts of their retirement account balances – which will take years to recoup – potentially causing them to work even longer to recover – postponing their retirement – in order to have sufficient funds to enjoy a secure and dignified retirement.

What do you think about the measures we have already taken and what would you recommend we do as we begin to look ahead towards rebuilding our nation's economy to help retirement savers recover from the economic consequences the pandemic has had on the ability of millions of American to save for their retirement so that their retirement security does not become another casualty of the pandemic?

Is there more that we can do to help those saving for their retirement to keep their money longer in tax-deferred accounts without mandating withdrawals? And is there more that we can do to offer individuals to enhance their ability to save for retirement now as businesses reopen, and workers return to work?

Americans Are Contributing Less to Their Accounts Than Before the Pandemic[1]

- Nearly ***1 in 5*** are ***contributing less to their retirement account*** now than before the crisis.
- **18%** have ***reduced retirement contributions*** since the coronavirus crisis started.
- **31%** of those who are recently unemployed are contributing less to their retirement
- About **16%** of ***Baby Boomers*** are contributing less to their retirement.
- Almost **18%** of ***Generation X*** are contributing less to retirement savings.
- Around **15%** of ***Millennials*** are contributing less to their retirement savings.
- About **27%** of ***Generation Z*** are contributing less to their retirement savings.

The Downturn in The Market During the Pandemic Caused Average Retirement Account Balances to Decline[2]

- The average ***401(k)*** balance ***decreased 19%*** in Q1 2020.
- The average ***IRA*** balance ***dropped 14%*** in Q1 2020.
- The average ***403(b)*** balance ***declined 19%*** in Q1 2020.

Americans Are Tapping Their Retirement Accounts to Offset Lost Income[3]

- More than ***27%*** of those working or recently unemployed ***have already taken a withdrawal from their retirement savings accounts***, such as a 401(k) or IRA, or plan to use them as a source of income.
- ***62%*** of those ***tapping retirement accounts*** cite loss of income as the main reason.

[1] Bankrate survey, May 13-15, 2020 (https://www.bankrate.com/surveys/coronavirus-withdrawing-from-retirement-savings)
[2] Fidelity® Q1 2020 Retirement Analysis, April 24, 2020 (https://newsroom.fidelity.com/press-releases/news-details/2020/Fidelity-Q1-2020-Retirement-Analysis-Retirement-Savers-Stayed-the-Course-Despite-Economic-Crisis/default.aspx)
[3] Bankrate survey, May 13-15, 2020 (https://www.bankrate.com/surveys/coronavirus-withdrawing-from-retirement-savings)

<u>Question for the Record</u>
Congressman Jason Smith (MO-08)
Budget Committee Hearing, "Addressing the Economic Impacts of COVID-19: Views from Two Former CBO Directors"

1) During the past several months with the onset of the coronavirus and the resulting economic impacts, American's retirement security has taken a hit and has put those closest to retirement at the greatest risk. As a result, Congress took steps in the CARES Act to provide more flexibility to workers and retirees by waiving the required minimum distribution for 2020 to allow individuals more time to recover losses, as well as allow for limited penalty free early withdrawals from retirement savings accounts. But while these policy changes provide temporary relief, there remains concern as to how the coronavirus has impacted American's outlook for retirement. What do you think about the measures that have been taken, and what policy ideas would you recommend Congress consider as we move to re-open our economy to ensure that retirement security does not become a casualty of the pandemic? Additionally, is there more that can be done to enhance an individual's ability to save as businesses re-open and workers return to work?

QFR submitted by Congresswoman Barbara Lee for 6/3 Budget Hearing

These questions are for both Dr. Elmendorf and Dr. Holtz- Eakin

1. What would the economic impact be of authorizing a second economic stimulus check of $1200?
2. Heroes Act, passed by the House of Representatives, would make the child tax credit (CTC) fully refundable for 2020, which would ensure that all low income families with qualifying children receive the increased benefit of $3,600 for children under 6 and $3,000 for children older than 6. Would making the CTC, which heavily targets benefits to low-income families, fully refundable lead to a greater boost in consumer spending than other tax benefits like a capital gains tax cut or a payroll tax cut? How would a greater boost in consumer spending help address our economic crisis?
3. The number of working African American business owners has fallen by nearly 450,000 since the pandemic – a decline of more than 40 percent, or nearly double the decline in the number of working business owners overall. How do we best target support for these business owners in future legislation?
4. Given the extremely disproportionate health and economic impacts of the pandemic on communities of color, racial income and wealth gaps are undoubtedly widening as we speak. Which elements of our fiscal response to date have been most effective at alleviating some of these inequities? What kinds of policies would be most effective going forward to ensure that we're fostering a strong and inclusive economic recovery?

Response to Member Questions for the Record

Addressing the Economic Impacts of COVID-19: Views from Two Former CBO Directors
June 3, 2020

Congressman George Holding (NC-02)

"Dr. Holtz-Eakin, over the past few months, business closures and layoffs have had tremendous effects on Americans' retirement plans. Millions have suffered large losses in their retirement account balances and those who have lost their jobs have also lost their ability to make retirement contributions.

What do you think about the measures we have already taken and what future measures can we take to help retirement savers recover from these disastrous economic conditions? Is there more that we can do to help individuals keep their money longer in tax-deferred accounts without mandating withdrawals? What can we do to enhance Americans' ability to save for retirement as businesses reopen?"

The Congress is to be commended for the scope, scale, and timeliness of the fiscal response to the COVID pandemic. A virtue of the COVID response legislation, particularly the CARES Act was tailoring assistance to a diverse set of economic challenges. Congress enacted three new laws in response to the COVID-19 pandemic that provide myriad means of assistance for individuals. Some provisions are cash transfers, while others offer forbearance for missing payments or limit penalties for withdrawing money from existing accounts. The effect is to ensure that individuals have access to more cash, receive adequate nutrition, and that they can receive testing for COVID-19. Tailoring assistance to specific needs – household liquidity, unemployment, and other challenges – provided more effective assistance than any single individual program.

Going forward, we should evaluate the retirement policy landscape with a mind to enhancing access to retirement plans, and I would encourage the Congress to consider the bipartisan efforts in this space, while mitigating risks for current and future retirees. Key federal priorities should also include addressing the structural challenges confronting the Social Security system, and the pending collapse of the multiemployer pension system.

Congressman Joe Morelle (NY -25)

"During the past several months, with the onset of COVID-19, we have witnessed a confluence of factors – to create the "perfect storm" which appears to be putting America's retirement security at great risk – especially for those closest to retirement whose retirement prospects have been put in a precarious position – that could not have been anticipated or planned for.

We have recognized the harm that has come to many retirement savers because of the economic impacts from the pandemic and we have taken steps in the recently enacted

CARES Act where we included measures to provide flexibility to workers and retirees whose retirement savings may have been hit hard by the economic impact of the pandemic.

We passed measures to waive minimum required distribution for this year to give those individuals more time to recover losses from retirement accounts and authorized penalty free limited early withdrawals and higher loan amounts from retirement accounts to ease financial pressures posed by workers who have lost jobs, contract the virus or must stay at home to care for loved ones afflicted by the virus.

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But, today, for most Americans -- the outlook for retirement – is worse than it was just a couple of months ago. Tens of millions have lost their jobs and along with that an ability to make retirement contributions – and many – especially those closest to retirement – due to the market disruptions – have lost large amounts of their retirement account balances – which will take years to recoup – potentially causing them to work even longer to recover – postponing their retirement – in order to have sufficient funds to enjoy a secure and dignified retirement.

What do you think about the measures we have already taken and what would you recommend we do as we begin to look ahead towards rebuilding our nation's economy to help retirement savers recover from the economic consequences the pandemic has had on the ability of millions of American to save for their retirement so that their retirement security does not become another casualty of the pandemic?

Is there more that we can do to help those saving for their retirement to keep their money longer in tax-deferred accounts without mandating withdrawals? And is there more that we can do to offer individuals to enhance their ability to save for retirement now as businesses reopen, and workers return to work?"

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Congressman Jason Smith (MO-08)

"During the past several months with the onset of the coronavirus and the resulting economic impacts, American's retirement security has taken a hit and has put those closest to retirement at the greatest risk. As a result, Congress took steps in the CARES Act to provide more flexibility to workers and retirees by waiving the required minimum distribution for 2020 to allow individuals more time to recover losses, as well as allow for limited penalty free early withdrawals from retirement savings accounts. But while these policy changes provide temporary relief, there remains concern as to how the coronavirus has impacted American's outlook for retirement. What do you think about the measures that have been taken, and what policy ideas would you recommend Congress consider as we move to re-open our economy to ensure that retirement security does not become a casualty of the pandemic? Additionally, is there more that can be done to enhance an individual's ability to save as businesses re-open and workers return to work?"

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Going forward, we should evaluate the retirement policy landscape with a mind to enhancing access to retirement plans, and I would encourage the Congress to consider the bipartisan efforts in this space, while mitigating risks for current and future retirees. Key federal priorities should also include addressing the structural challenges confronting the Social Security system, and the pending collapse of the multiemployer pension system.

QFR submitted by Congresswoman Barbara Lee for 6/3 Budget Hearing

1.) What would the economic impact be of authorizing a second economic stimulus check of $1200?

The policy rationale for a number of the elements in the CARES Act was to provide bridge-financing for households and firms until public health and economic conditions would facilitate an economic recovery. To that end, the CARES Act provided Economic Impact Payments to eligible households to provide financial support as the market economy essentially shuttered. According to Treasury, $267 billion in support was provided to 159 million Americans through this program. Recent personal income data suggest that these and other relief programs to a large extent kept households whole over the preceding months and families are well-positioned to spend and support demand. As the economy recovers and the labor market accommodates more job seekers, the tenor of the federal response needs to adapt accordingly and the rationale for continuing this policy would decrease.

2.) Heroes Act, passed by the House of Representatives, would make the child tax credit (CTC) fully refundable for 2020, which would ensure that all low-income families with qualifying children receive the increased benefit of $3,600 for children under 6 and $3,000 for children older than 6. Would making the CTC, which heavily targets benefits to low-income families, fully refundable lead to a greater boost in consumer spending than other tax benefits like a capital gains tax cut or a payroll tax cut? How would a greater boost in consumer spending help address our economic crisis?

Congress undertook comprehensive tax reform in 2017, the result of which is the Tax Cuts and Jobs Act (TCJA). The TCJA included an expansion of the CTC, and additional changes have been debated in Congress. Indeed, the Ways and Means Committee passed essentially these provisions last summer. While couched as temporary, one can easily envision these becoming a new annual "tax extender," and essentially becoming a permanent fixture of the tax code – and with a cost upwards of $1 trillion over 10 years.

At the same time, the most recent research indicates that it is the declining spending of high-income households that led to the sharp downturn. Making the CTC refundable would do little to reverse this decline.

3.) The number of working African American business owners has fallen by nearly 450,000 since the pandemic –a decline of more than 40 percent, or nearly double the decline in the number of working business owners overall. How do we best target support for these business owners in future legislation?

As noted in my testimony to the Senate Banking Committee and elsewhere, the Paycheck Protection Program (PPP) has been to my mind the single most effective aspect of the CARES legislative package and was singlehandedly the largest support for the economy for the month of April. Getting over $500 billion to businesses in need in a matter of weeks is an enormous credit to Congress, Treasury, the Small Business Administration (SBA) and our nation's banking system. This does not mean that the program was without flaws, and the structural nature of these flaws may have disproportionately impacted people of color. The PPP necessarily placed our nation's banks at the center of the effort. The fee structure as mandated by CARES incentivized banks to pursue the largest possible loans; likewise, the risks implicit in the program, and the requirements to perform anti-money laundering diligence, dictated that banks would pursue current account holders capable of requesting the largest loans over new and smaller applicants. Further, the paperwork requirements of the program, in addition to an ongoing lack of clarity as to the nature of loan forgiveness, may have naturally penalized business owners without access to *lawyers, accountants, or financial advisers. If future legislation is necessary, Congress may choose to look at some of these shortcomings in an otherwise extremely successful program.*

4.) Given the extremely disproportionate health and economic impacts of the pandemic on communities of color, racial income and wealth gaps are undoubtedly widening as we speak. Which elements of our fiscal response to date have been most effective at alleviating some of these inequities? What kinds of policies would be most effective going forward to ensure that we're fostering a strong and inclusive economic recovery?

The numerous pieces of legislation that Congress has passed to date, with tailored assistance to address specific needs– household liquidity, unemployment, and other challenges, provided significant support that was well-targeted to those most in need. Going forward, as the public health and economic situations change, so too will the needs of individuals. Congress's ability to again respond quickly and specifically to those needs will be important. In preparation, Congress should start working to assess what those needs will be in the future, and how current needs might change.

The American Action Forum has previously documented many of the ways racial and ethnic minorities are being disparately impacted by the Coronavirus and ensuing economic downturn. But while the evidence of the existence of disparities existed and plausible connections could be made to explain at least some of those differences, it has been difficult to know exactly what is causing them. A recent study from MIT appears to provide important insights: According to the study, much of the difference is accounted for by differences in the reliance on public transportation and the types of jobs held—which largely influence a person's exposure to other individuals, as well as differences in underlying health conditions, primarily diabetes. These findings indicate that efforts to decrease exposure to other individuals will be critical. This means taking new measures to reduce exposure risk on public transit, which will certainly be expensive and difficult, and transferring any costs to riders—who tend to be lower-income—will be highly infeasible (let alone, politically unacceptable). Further, employers must undertake new measures to improve workplace safety: enabling workers to keep greater distance from one another and customers; more frequent cleaning, particularly of high-traffic areas; ensuring mask wearing, etc. To the extent that the jobs more likely to be held by minority individuals before the pandemic do not return, such individuals may experience longer unemployment and may require new training or skills acquisition. Further, campaigns to continue educating individuals about the ongoing risk and mitigation efforts people should be taking targeted in areas with a high prevalence of diabetes may be worthwhile.

Otherwise, minorities will need assistance in similar ways as others, though possibly on a greater scale. These needs include paying for housing, food, and childcare. Since minority families are more likely to suffer from food insecurity and live in food desserts, they may have greater needs than usual as a result of the disruptions to our food supply chains and recent decreases in donations to food pantries. Given that minority individuals are less likely to be able to work from home, they may be in greater need of childcare support. Children in minority families will continue to need support accessing the internet and acquiring technology needed to do schoolwork from home if schools do not reopen in the fall. In fact, minority children likely need greater assistance over the summer, regardless of whether schools will reopen in the fall, because they have likely already faced greater setbacks in the Spring, relative to their peers as a result of the disparity in resources.

Responses to Questions for the Record
Doug Elmendorf
July 1, 2020

To Congressman Smith:

With tens of millions of Americans suddenly out of work, allowing people to access their retirement accounts more easily, as provided in the CARES Act, makes good sense. However, I share your concern that many Americans have not saved enough for retirement.

The most fundamental step that policymakers should take to improve Americans' retirement security is to provide support for households and business during this pandemic. Tax reductions, government spending increases, and loan subsidies cannot fully offset people's unwillingness to come into close contact with each other, but they can sustain household incomes and business operations until health conditions improve. Sustaining households and businesses during this difficult period would not only improve people's well-being now but would enable them, in some cases, to save more for the future.

Moreover, I encourage policymakers to increase households' access to simple and inexpensive retirement savings options. In particular, requiring firms that do not offer retirement savings plans in the workplace to help their employees establish individual retirement accounts (IRAs) would be very useful. To cover the costs of those firms' efforts, the government could provide firms with a modest subsidy—on the order of a few hundred dollars per employee.

To Congressman Morelle:

SAME ANSWER AS TO CONGRESSMAN SMITH

To Congresswoman Lee:

Question #1: Providing households with a second round of $1200 stimulus checks would improve those households' well-being and would increase total output and employment.

Question #2: Yes, making the child tax credit fully refundable would provide a greater boost to consumer spending than would cutting taxes on capital gains or cutting payroll taxes—because households that receive the child tax credit generally spend a larger share of their income than other households. A greater boost to consumer spending would increase total output and employment more than would a small increase in consumer spending.

Question #3: Increasing the availability of financing, and lowering the cost of that financing, is essential to sustaining African-American business owners—and other business owners as well. Keeping businesses afloat during this period when potential customers are unable or unwilling to turn up is crucial both for reducing suffering today and for enabling a more rapid economic recovery when health conditions improve. To stay afloat through the coming months, many business need loans, and many other businesses need grants rather than loans because they will never make up the revenue they are losing now. Therefore, policymakers should ensure that the Paycheck Protection Program and the Federal Reserve's Main Street Lending Program are implemented as effectively as possible, with a focus on providing funding for struggling businesses rather than on ensuring that the federal government is fully or even mostly repaid.

Question #4: To minimize the widening of racial income and wealth gaps, several aspects of fiscal policy are especially important: One is funding for public health measures. Many African-Americans work in essential occupations where they have been required to keep reporting to work, or had limited income and wealth before the pandemic and have needed to continue to work to support themselves and their families. Because these workers have therefore been exposed to the coronavirus more than other workers, reducing the spread of the virus is especially important to them. Another key aspect of fiscal policy has been the additional payment through unemployment insurance. Again, because many African-Americans had limited income and wealth before the pandemic, unemployment insurance benefits are especially important for supporting them and their families when they lose their jobs. Policymakers should extend additional benefits beyond the scheduled July 31st expiration date.