PAYCHECK SECURITY: ECONOMIC PERSPECTIVES ON ALTERNATIVE APPROACHES TO PROTECTING WORKERS’ PAY DURING COVID-19

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PAYCHECK SECURITY: ECONOMIC PERSPECTIVES ON ALTERNATIVE APPROACHES TO PROTECTING WORKERS' PAY DURING COVID-19

Tuesday, July 7, 2020

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT AND MONETARY POLICY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:08 p.m., via Webex, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.


Ex officio present: Representative McHenry.

Chairman CLEAVER. The Subcommittee on National Security, International Development and Monetary Policy will come to order.

First, I want to thank you, Clem. I appreciate all of the work that you and Petrina have done to make this hearing and many other hearings possible. We couldn't do it without both of you.

The subcommittee is now in order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Members are reminded to keep their video function on at all times, even when they are not being recognized by the Chair. Members are also reminded that they are responsible for muting and unmuting themselves, and to mute themselves after they are finished speaking.

Consistent with the regulations accompanying H. Res. 965, staff will only mute Members and witnesses as appropriate when not being recognized by the Chair to avoid inadvertent background noise. Members are reminded that all rules relating to order and decorum apply to this remote hearing.

Today's hearing is entitled, "Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers' Pay During COVID-19."

I now recognize myself for 4 minutes for an opening statement.
In February, before a pandemic was declared and the economic livelihood of Americans was placed in peril, I sent a letter, asking the White House, the Treasury Department, and the Federal Reserve how they planned to prevent a crisis from occurring due to COVID-19. I asked them what their strategy was to help protect American’s health and the national economy.

It would be months until that letter that I wrote with Chairmen Meeks, Green, and Clay would receive a response. Unfortunately, by that time it was clear, at least to me, that there was no plan. Because we did not plan, we have become a part of the virus’ plan.

Congress was forced to take unprecedented steps to rescue our economy and provide emergency assistance to American families and front-line workers through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We provided nearly every American money to feed their families. We rushed resources for COVID-19 testing and personal protective equipment (PPE) to hospitals. We created the Paycheck Protection Program (PPP) as a short-term lifeline to keep small businesses alive and their employees on the payroll.

Just last week, we heard from Fed Chairman Powell that the CARES Act was able to, “provide direct help to people, businesses, and communities,” and “made a critical difference.” It prevented the kind of mass layoffs and evictions that threatened millions and millions of Americans.

Despite that significant bill, it has become profoundly clear that our initial response will not be enough and was not administered the way we intended. The U.S. has suffered the largest increase in unemployment of any major economy on the planet.

The unemployment rate was over 13 percent in May, more than 16 percent after accounting for various measurement issues, and closer to 20 percent when workers with reduced hours are included.

Additionally, the clock is ticking on the expiration of many provisions of the CARES Act, as economists and public health experts are telling us that the outlook is getting worse. This week, a report written by Moody’s Chief Economist Mark Zandi highlighted that the prospects are high that we will suffer what may well be considered an economic depression.

His analysis leverages Federal Reserve and Congressional Budget Office’s research that initially assumed that COVID-19 would be tapering off and double-digit unemployment would persist into next year. However, with a resurgence of COVID-19 around the United States, in Florida, Texas, Georgia, and my home State of Missouri, businesses are being forced to shutter again, driving a possible second round of economic catastrophe.

Throughout the course of this crisis, both the economic and health consequences of COVID-19 have fallen disproportionately on low- and middle-income families and communities of color. The Inspector General for the Small Business Administration (SBA) highlighted that the CARES Act required rural minority- and women-owned businesses to be prioritized for PPP loans, but based on their analysis, they were not. By mid-April, 440,000 Black business owners had shuttered their company for good, a 41 percent plunge. By comparison, 17 percent of White-owned businesses closed during that same period.
The New York Times successfully sued the CDC to release the COVID-19 information, based on ethnicity and race, and learned last week that Blacks and Latinos were 3 times more likely to be infected with COVID-19 and twice as likely to die.

When you combine these facts with data from the Brookings Institution, that low-income communities of color are more likely to serve as essential front-line workers with higher rates of exposure, this second dangerous wave could be cataclysmic for the working poor in our country.

The remedy that Mark Zandi prescribed in his report, which is echoed by the Federal Reserve Chairman, many of our witnesses today, and even by President Trump, is simple: There is a need for more congressional action that places employees first.

The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, which passed the House in May and is waiting in the Senate, would go a long way in preventing the kind of catastrophe that leading economists are predicting.

Further, a bill sponsored by my friend, Congresswoman Jayapal, the Paycheck Recovery Act of 2020, would go a long way in aiding those who need it most. Congresswoman Jayapal has offered a statement, which I would like to enter into the record.

Without objection, it is so ordered.

I will now recognize the ranking member of the full Financial Services Committee, Ranking Member McHenry, for 5 minutes.

Mr. McHENRY. Thank you for the recognition. My understanding was, it would be for a shorter period of time, but I will thank you for yielding. And first, let me say thank you for yielding, and thank you for being a good leader of this subcommittee.

The frustrating part is to listen to the opening statement, and to recognize that this serves as a legislative hearing on a bill that represents what is absolutely wrong with this Congress and some of my Democrat colleagues’ responses to COVID-19. They want to be hyper-partisan rather than trying to remake the bipartisan success of the CARES Act. Rather than coordinate between the House and the Senate and the White House, what they want to do is just up the ante because they view it as good politics.

And I have to tell you, responding to the American people’s concerns is the best way for us to be good stewards of the taxpayers and also good stewards of our constituents. Through the bipartisan success of the CARES Act, we have deployed rapid support to our fellow Americans. The Administration has done a great job of implementing it, and we have portions of America that are reopening. We still have enormous challenges ahead, and that is the reason why we should continue our bipartisan work.

Instead, we are here today considering a partisan COVID-response bill by a far-left progressive Member that seeks to hold American workers and employees hostage unless they consent to a laundry list of unpopular social mandates from the far-left wing.

The bill that this hearing is about was so far to the left that it wasn’t even part of that left-wing package called the HEROES Act that a couple of Democrats weren’t even willing to go along with that partisan approach.

This bill is nothing more than protecting Democrats’ left flanks, and instead, we should get serious about crafting legislation that
will get the American people back to work and grow our economy, not codify a partisan wish list.

So, it is quite frustrating, as a policymaker, that we are wasting this subcommittee’s time by having a hearing like this, when we should be crafting and working through the things that will have a very good impact and get people back to work, and keep people safe and healthy. I think that should be our focus, rather than really a laundry list of left-wing ideas that this bill—that this hearing is about.

Let’s stay focused on getting the American people back to work. Let’s not focus on social mandates and extraneous partisan measures, and let’s get back to the work that the American people want us focused on. With that, I yield back.

Chairman CLEAVER. Thank you, Mr. McHenry. I did yield you too much time, not that you used it all. So, I apologize that we didn’t present you with less time. But nonetheless, we will now go to the ranking member of the subcommittee, Mr. Hill.

Mr. HILL. Thank you, Chairman Cleaver. I appreciate you convening this virtual hearing, and I appreciate this distinguished list of witnesses for their expertise. Today, we are discussing the paycheck security topic with a specific focus on H.R. 6918, the Paycheck Recovery Act of 2020, sponsored by Representative Jayapal, which would require the Treasury Secretary to provide grants to small businesses that have been impacted by COVID-19.

Before making my comments on the legislation, I, too, want to make some procedural comments. This legislation should not be moving through this committee, let alone this subcommittee. The essence of this bill is to create a grant Paycheck Protection Program for small businesses, which implies that the Small Business Committee should be managing this effort.

I understand the bill was referred to our committee because it involves the Treasury. However, we are using our very limited subcommittee time to discuss a bipartisan bill, sponsored by a Member who is not on this committee. It is just disappointing that there are plenty of bipartisan bills that we should notice and have influence over our direct work in international institutions, sanctions, and monetary policy.

Now, let me turn my attention to the topic of the hearing at hand. The Federal Government responded to COVID-19 by authorizing nearly $2 trillion of direct spending, 65 percent of what we spend in a full year, including $454 billion to the Treasury’s Exchange Stabilization Fund, which can be leveraged up to 10 times. Therefore, we have nearly $7 trillion, Mr. Chairman, of resources available to help get our economy back to full capacity, as we fight this virus, almost 35 percent of GDP.

All that said, the money is still flowing, and before we start creating new programs, we ought to assess the current programs that we have and the amount of money that we have gotten out into the economy.

H.R. 6918 would create a program at Treasury to provide grants to small businesses. As a former Treasury official, I have long opposed Treasury becoming just another program agency in the Cabinet. And if we have learned anything about the CARES Act that we passed, it is that the Government is not always well-equipped
to carry out programs on a broad-based scale. Look at the PPP program, how it is operated, versus the Economic Injury Disaster Loan Program.

Using the banks, the PPP program, while not perfect, got over $500 billion of assistance out to our small businesses, preserving millions of jobs in just a month, whereas the Economic Disaster Loan Program still suffers from a bureaucratic approach that is limited in its effectiveness.

The PPP program, Mr. Chairman, has $134 billion of available funding. Let’s focus on improving that program to help our small businesses over the weeks to come, and let’s fix the idle program in the right way.

Further, I would like to mention the role that State and local governments play. Our State of Arkansas used CARES Act funding to set up its own program for small businesses, the Arkansas Ready for Business Grant Program. It received over 2,300 applicants within 1 hour, and helped over 200,000 Arkansas employees across the State stay at work. Ninety-four percent of those businesses had 50 employees or less, and a quarter were minority-owned and women-owned.

So, Mr. Chairman, I think we have the solutions here to help our small businesses and provide guidance to our State and local governments, and let’s fix the idle program and the PPP program so that more small businesses can be helped as we continue to fight this terrible virus across our country. Thank you for the time, and I yield back the balance of my time.

Chairman CLEAVER. Thank you, Mr. Hill.

And I want to apologize again for the mismanagement of the time early on with you and Mr. McHenry.

Today, we welcome the testimony of Ms. Lisa Cook, Ms. Lily Eskelsen Garcia, Mr. Joseph Stiglitz, and Mr. Diego Zuluaga.

First, Ms. Cook is a professor of economics and international relations at Michigan State University, and is a member of the American Economic Association’s executive committee.

Previously, she served as a Senior Economist on the Obama Administration’s Council of Economic Advisers. As an authority on international economics, she has also advised policymakers from the Nigerian and Rwandan governments. Thank you for appearing before this committee.

Second, Ms. Eskelsen Garcia is the president of the National Education Association (NEA), the largest union in the United States. Prior to holding this position, she served as the NEA’s secretary treasurer and vice president. A life-long educator and advocate, Ms. Garcia served as a member of the Clinton Administration’s White House strategy session on improving Hispanic education, and was named a member of the President’s Advisory Commission on Educational Excellence for Hispanics. Thank you for appearing before the committee.

Third, Mr. Stiglitz is an economist and professor at Columbia University. He was the chief economist of the World Bank, and Chair of President Clinton’s Council on Economic Advisers. He is the founder of the Initiative for Policy Dialogue, a think tank on international development, and he is a recipient of the Nobel Me-
morial Prize in Economic Sciences, and the prestigious John Bates Clark Medal. Thank you for appearing.

And finally, Mr. Zuluaga is the associate director of financial regulation studies at the Cato Institute’s Center for Monetary and Financial Alternatives. Prior to holding this position, he was the head of financial services and tech policy at the Institute of Economic Affairs in London.

He has written on a variety of financial regulatory topics, and his work has been featured in a number of reputable media publications. Thank you for appearing before this committee.

Witnesses are reminded that your oral testimony will be limited to 5 minutes. A chime will go off at the end of your time, and I would ask that you respect the Members’ and other witnesses’ time by wrapping up your oral testimony as quickly as possible. And without objection, your written statements will be made a part of the record.

Ms. Cook, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF LISA D. COOK, PROFESSOR, DEPARTMENT OF ECONOMICS, JAMES MADISON COLLEGE, MICHIGAN STATE UNIVERSITY

Ms. Cook. Thank you, Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee on National Security, International Development and Monetary Policy. The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at breakneck speed. Nonetheless, the rent and bills of Americans were and are still due.

The quick action of Congress has gone a considerable way to lessen or postpone the pain associated with this pandemic-induced recession, specifically, these measures: adding $600 per week to unemployment checks; providing assistance to small businesses through the PPP; and giving Americans a direct payment of $1,200.

With an unemployment rate of 11 percent, we have now entered the history books with the second highest unemployment rate than at any other time since 1940. The unemployment rate for African Americans is 15.4 percent, and for Hispanic Americans, it is 14.5 percent.

These data are especially disturbing because Black and Hispanic wealth fell significantly during the Great Recession, making it more difficult to weather the COVID recession. By early June, 44 percent of adult Latino renters and 41 percent of Black renters, compared to 21 percent of White renters, reported not being able to pay their rent. Twenty percent of rental households face eviction by September 30th.

A wave of bankruptcies could ensue if small businesses cannot stay afloat, renters cannot pay their rent, and landlords cannot pay their mortgages. Early evidence shows that the direct Federal payments of up to $1,200 per adult and $500 per child are a critical, first lifeline for many households in the U.S. economy, allowing them to purchase food and pay their bills.

To minimize the likelihood that a liquidity crisis for these households becomes a bankruptcy crisis for them and for the economy,
Congress should authorize another round of direct payments along with extended unemployment benefits.

By mid-June, of the businesses that were listed on Yelp, 140,000 of those closing since March 1st were closed by mid-June. Thirty-five percent of shopping and retail businesses listed had closed their doors permanently. Fifty-three percent of restaurants listed had closed their doors permanently. Forty-one percent of African-American businesses report being closed, compared to 35 percent overall.

In the only survey providing demographic data on PPP loan recipients, a report by Color of Change indicates that 45 percent of Black and Latino businesses will close by the end of the year, without more relief.

Prior to reopening, States that recovered, that received more PPP loans and with more generous unemployment benefits had less severe declines and faster recoveries.

Macroeconomists are expecting a slower recovery. Given that consumer spending is 70 percent of GDP, it is clear that more and extended help to the American people and small businesses will be urgently needed.

I agree with the economic security project and colleagues who signed their letter, that regular, lasting, direct stimulus payment would be a critical part of ensuring that the economic recovery does not grind to a halt.

In addition, more aid to State and local governments is desperately needed now, to continue to fight the pandemic and to prepare for job losses stemming from impending austerity budgets being adopted by State and local governments.

This relief should be directed at healthcare providers, community colleges, universities, mental health, and other social services, universal broadband, and the arts.

Any and all relief to the American people should be authorized and disbursed with all deliberate speed. Thank you.

[The prepared statement of Ms. Cook can be found on page 38 of the appendix.]

Chairman CLEAVER. Thank you very much.

Ms. Garcia, you are now recognized for 5 minutes.

STATEMENT OF LILY ESKELSEN GARCIA, PRESIDENT, NATIONAL EDUCATION ASSOCIATION (NEA)

Ms. ESKELSEN GARCIA. Thank you, Chairman Cleaver, Ranking Member Hill, and members of the subcommittee. This is an important opportunity, and I really appreciate your time.

My name is Lily Eskelsen Garcia. I am a 6th grade teacher from Utah, and I am the current president of the National Education Association (NEA).

And as NEA’s president, I am honored to represent more than 3 million educators, teachers, education support professionals, specialized instructional staff, K–12 schools, preschool to graduate school, including university and college campuses.

NEA also represents educators in the Department of Defense schools, college students who are planning to become educators, those student teachers, retired educators, and public employees in local and State Government.
I am so proud, but I am not the least bit surprised by how NEA members have risen to this moment, and demonstrated resilience, creativity, and team work, as we have tried to cultivate in our students those same characteristics. We have been called on to organize car caravans through student neighborhoods to deliver a message: Even though our school building is closed, we are still learning, and we are still here for you.

We have helped parents who, overnight, had to become their kids’ substitute teachers, and I have had more than one of my members who has cried with me over how worried they are about their students, because school was the only stable place in their lives.

And as we speak today, governors and mayors are taking note of very steep budget cuts that are going to harm our students. This is the result of the pandemic, not someone who didn’t plan for something no one even knew would come.

Without Federal assistance, we are going to see massive educator layoffs, and that is going to be incredibly harsh, especially for those who struggle the most to make ends meet, even during normal times, such as our wonderful, amazingly devoted, education-support professionals. These are the lunch ladies, the school bus drivers, the maintenance staff. Many of these workers stayed on the job, putting themselves in harm’s way to deliver meals to students and families, to drop off work packets to students, and to keep our schools sanitized and safe.

According to the Bureau of Labor Statistics, nearly 900,000 public education jobs have already been lost because of budget cuts. By comparison, more than 350,000 education jobs were lost due to the Great Recession. In other words, COVID-19 has done more damage in 3 months than a recession that lasted for a year-and-a-half did.

If this damage goes unchecked, nearly 2 million educators could lose their jobs over the next few years. According to NEA’s analysis—and we studied the same numbers that school boards are receiving all over the country—this could represent one-fifth of the entire workforce that powers public schools and higher education institutions.

The COVID-19 recession could be 6 times worse for education than the 2008 financial crisis. Our nation now has 1.4 million more K–12 students than we had in 2008, but we have 135,000 fewer educators than we had 12 years ago. These layoffs could stem from pandemic-related budget cuts.

It is just going to worsen an already dire situation. No community is going to go unaffected. But the schools in wealthy communities are more likely to weather the storm, while schools in poorer communities, that are already struggling, might not.

Job losses in these schools would profoundly affect low-income students whose schools rely on Title I funding to reduce class size, hire specialists, and offer a rich curriculum.

We know that we are going to need more, and we thank the House for taking the bold action to pass the HEROES Act. We call on Mitch McConnell in the Senate to please abandon the wait-and-see, till-we-get-around-to-it approach. The Senate needs to hit the panic button.
I thank you for your time, and I am happy to answer any questions.
[The prepared statement of Ms. Eskelsen Garcia can be found on page 42 of the appendix.]
Chairman CLEAVER. Thank you, Ms. Eskelsen Garcia.
I now recognize Mr. Stiglitz for 5 minutes.

STATEMENT OF JOSEPH STIGLITZ, PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY

Mr. STIGLITZ. Thank you very much. Sad to say, the U.S. response to COVID-19 has been disappointing. We have done a much poorer job than other countries, both in maintaining the health of our country and that of our economy. And the two are related. There will not be a strong recovery until the pandemic is brought under control.

Congress responded to the pandemic with a massive amount of assistance. It succeeded in preventing much suffering that would have otherwise occurred, but in many ways the programs were badly designed and badly implemented, with much of the money not going to where it was most needed, and with the unemployment rate soaring far higher than elsewhere. This put strains on our unemployment insurance system, resulting in many of the unemployed not receiving money for weeks and weeks.

The increase in unemployment is especially inopportune in the United States, because so many depend on employer-provided health insurance. Losing health coverage in the midst of a pandemic is a calamity.

The program of assistance was predicated on there being a short shutdown, in other words, a V-shaped recovery. Such beliefs appear now to be utter fantasy. With the pandemic continuing the pace, no one thinks that we will be back to normal by the end of the month.

There are a few principles and priorities that should guide the next package of assistance. First, because we cannot have a healthy economy without a healthy population, health should be given priority. While some of your earlier programs did this, there were important lacunae.

It was, for instance, foolish, shortsided, and unconscionable not to have ensured that everyone was provided with paid sick leave. We don’t want people with the disease going to work and spreading the disease, but with so many Americans living paycheck-to-paycheck, it was inevitable that that would happen without paid sick leave.

As another example, there are likely to be large increases in demand for Medicaid. And the States will be suffering large losses in tax revenue, as was just pointed out. With States having balanced-budget frameworks, only the Federal Government can help them meet these needs.

Second, hysteresis effects are enormous. Bankrupt firms don’t become unbankrupt when the pandemic is over. Balance sheets of households and firms often take a long time to recover. That is why you did the right thing in responding quickly and massively. But all of these investments in our future will be for naught if assist-
ance is not continued so long as the pandemic and its economic aftermath persists.

There is a third powerful force that will depress the economy: precautionary behavior. As long as there is uncertainty, both about the course of the disease and the economy, there will be a reluctance to spend, either by firms or households.

In the previous downturns like that of 2008, we provided assurances to workers that there would be extended unemployment insurance so long as the unemployment rate remained elevated. We need to do that now, and we have to provide similar assistance assurances for all of the other critical assistance that we provided.

We also need to provide income-contingent loans, where repayment and the duration of the loan automatically adjust to the circumstance of the economy and the firm, providing an automatic stabilizer to the economy. Thus, there must be a commitment, in the famous words of Mario Draghi, to do, “whatever it takes.”

But at the same time, we must spend our money well, which is why the design of the program is so important. As I wrote in my Roosevelt Institute Policy Brief in April, even before the passage of the CARES Act, the alternative approach of direct payments to employers to retain workers seemed more likely to be more effective than the disparate programs included in that bill.

The evidence over the last few weeks seems consistent with those expectations, and the evidence since then, both in those countries around the world that adopted these programs—and let me emphasize, these are not left-wing countries that adopted programs similar to H.R. 6918, the bipartisan Paycheck Recovery Act—and the United States, which took an alternative course, strongly reinforce the conclusion I had reached at that time.

Both the forecast that additional funding would be needed, and that the PPP program would not be as effective as had been hoped have unfortunately been more than fully realized.

I went on to argue that the Paycheck Recovery Program represents a significant improvement over the existing PPP. It is simpler to administer, with more of the money going to where it is needed, and considerably less costly and more effective.

Some will say, yes, we should have adopted the Paycheck Guarantee Program, but that is water over the dam. It is now too late. That argument might have had some validity if, as thought at the time these measures were adopted, the pandemic had been of short duration. But since then, it has flared up, and there is a good chance that it will be with us for a long time.

As I have already said, we will need to maintain some kind of support, and this program is the best way forward. Among the virtues of the program I cited is its transparency, its administrability, its comprehensiveness, its power to get the money where it is needed, in prescribing important links between workers and employers, its ability to deliver money in a timely way, and its role as an automatic stabilizer.

I want to conclude with two more general comments. First, our assistance to the economy has to be far more comprehensive. There were some important sectors that did not receive the assistance they needed.
One sector is States and localities. I already referred to the severe budgetary constraints that they faced. These authorities are responsible for many of the services on which so many of our citizens depend, including education—which has been discussed—and health and welfare.

But cutbacks in spending will greatly weaken our economy, in that the law has multiplier effects. It is austerity from below. In previous downturns, we have seen the devastating macroeconomic effects. Already, layoffs of government workers are among the large sources of increasing unemployment. We will not have a robust recovery without adequate support for this vital sector of our economy. One of the virtues of the Paycheck Recovery Act is that it allows States and localities to access grants.

Second, our aspirations to not be in recovery in which some time, some say in 2022, when we get back to where we were in late 2019, we simply pick up where we left off. Never has government played such a role in economy, not even in the Great—

Chairman CLEAVER. Mr. Stiglitz?

Mr. STIGLITZ. —Recession. Citizens have the right—

Chairman CLEAVER. Your time has expired Mr. Stiglitz, thank you. Thank you very kindly. I appreciate it.

[The prepared statement of Mr. Stiglitz can be found on page 46 of the appendix.]

Chairman CLEAVER. Mr. Zuluaga, you are now recognized for 5 minutes.

STATEMENT OF DIEGO ZULUAGA, ASSOCIATE DIRECTOR OF FINANCIAL REGULATION STUDIES, CATO INSTITUTE

Mr. ZULUAGA. Chairman Cleaver, Ranking Member Hill, and members of the subcommittee, thank you for the opportunity to testify before you today. My name is Diego Zuluaga, and I am the associate director of financial regulation studies at the Cato Institute. America’s 30.7 million small businesses have taken a very severe hit from the COVID-19 pandemic. The share of small businesses reporting that the health emergency has had a large negative effect on them was 37.7 percent in late June, down just 14 percentage points from 8 weeks earlier.

Another survey found in April that 1.8 percent of small businesses have permanently closed because of the pandemic which, if true, would mean that more than 550,000 firms are gone forever.

Yet economic activity and employment are so far recovering faster than many expected. Early action to support small businesses through the Paycheck Protection Program has helped. According to my estimates, around 77 percent of small businesses with employees had gotten a PPP loan by June 30th.

And while the proportion of employing small businesses with a PPP loan varies considerably across States, nowhere is it below 60 percent. By allowing millions of small businesses to keep paying their workers, as well as utility and rent bills, the Paycheck Protection Program has prevented a greater destruction of livelihoods and valuable business relationships than has actually happened.

It doesn’t follow, however, that a program of grants, based on lost revenue, will assist the recovery. I believe, on the contrary,
that it will hinder the recovery by delaying businesses’ necessary adaptation to changing consumer demand.

The pandemic has not just caused all sorts of businesses to suffer losses. It has also led to permanent changes in economic activity, mainly because production processes and consumer preferences have shifted in response to new health risks.

Restaurants are cooking more meals for take-away and outdoor consumption. More retail activity is moving online, as are larger transactions such as home purchases. These changes are unavoidable and permanent.

Any recession involves the reallocation of workers across firms and industries. But because of the pandemic’s wide-ranging consequences, recovery from the present recession will likely involve a larger redeployment of workers and capital than previous downturns.

Attempting to freeze America’s productive structure in its pre-COVID-19 state will, therefore, only delay the return to full employment and steady growth. The bounce-back will be swifter, on the other hand, the more quickly businesses adapt to the new conditions.

I don’t at all mean to suggest that government policy can’t play any additional valuable role, but it can best do so by removing barriers to geographic mobility and business investment.

Instead of rigid support programs that impede mobility and risk prolonging financial insecurity, workers need flexible support in the face of uncertain economic conditions. A program of direct grants to cash-strapped households, whether or not their members are employed, would address paycheck insecurity while preserving the incentive to adapt to the post-pandemic economy.

A conditional grant program, on the other hand, would tie up capital and labor in firms whose long-term viability is far from assured.

Besides delaying adaptation, conditional grant programs are costly to administer, as officials must verify applicants’ declarations and monitor the use of funds.

These programs also raise fairness concerns. Why should laid-off employees, who find new work, not be entitled to a reward, whereas those lucky enough to keep their job, get a bonus? Why should taxpayers support businesses while the national unemployment rate remains above the threshold but not thereafter?

The macroeconomic arguments about supporting demand are unpersuasive since direct, unconditional cash grants would have at least the same effect on demand, for two reasons. First, a larger share of available funds would go to recipients instead of program administrators.

And second, because grant funds would go to the least well-off, regardless of employment status, and the least will have consumed more of their disposable income, the immediate impact on aggregate demand might be greater.

Congressional action, to support the solvency of small businesses in the most dire weeks of the pandemic, has enabled a speedier recovery than many expected. Now, the goal should be to encourage adaptation so American workers and businesses can resume productive activity.
Achieving this goal will require their ingenuity, on which we can count, but also flexible, change-friendly support from policymakers. Thank you. I will be happy to answer your questions.

[The prepared statement of Mr Zuluaga can be found on page 51 of the appendix.]

Chairman CLEAVER. Thank you very much. I will now recognize myself for 5 minutes for questions.

This morning, I woke up to the news that Mexico is now closing some of its borders to the United States because we are losing this battle with COVID-19, and apparently we are losing worse than anybody else. If we believe we are losing and it is okay, then we will never win.

But I am troubled by what I am seeing and reading, and it is probably a little embarrassing—it should be to the whole country—but The New York Times headlines yesterday read, “European Workers Draw Paychecks and American Workers Scrounge for Food.”

Dr. Stiglitz, you are a renowned economist and former chief economist, and you have had some outspoken comments on this whole issue of COVID-19 and the crisis that it has created for the United States, and comparing them to others.

Do you believe that Mark Zandi’s report assessment that the prospects are higher that we may suffer from an economic depression? What is your analysis of his analysis?

Mr. STIGLITZ. Yes. I am very concerned. The fact, as I said in my testimony, is that we are not getting a V-shaped recovery. And even moderate economists, like the Chairman of the Federal Reserve, do not think we are going to be back to where we were at the end of 2019, until sometime in 2022, if we do everything right.

And if we don’t do things right, if we follow Herbert Hoover and don’t provide the assistance the economy needs, then we are setting ourselves up for another depression, for a severe economic downturn.

Chairman CLEAVER. Thank you. Somebody said that, now I guess Mexico will build a wall to protect itself from us, so I guess something good can come out of something bad.

But I would like to know, Ms. Eskelsen Garcia, what is going on with educators? How are they faring in this COVID-19 world? What kind of difficulties are they experiencing and what are the prospects of opening schools in September in the current atmosphere?

Ms. ESKELSEN GARCIA. You can’t see the back of our head. We have been pulling our hair out for, like, 4 months now, and we are so frustrated. We love our students. I am a 6th grade teacher. I had 39 kids in my room—39—12-year-olds one year. That was not healthy on the best day of the year, but we have millions now facing overcrowded classrooms, trying to figure out how do you make that work coming back in the fall.

When they told us to leave the building, it was like someone pulled the fire alarm. Everybody grabbed what they could, and ran out, and the next day, we were trying to figure out how we could deliver—to 52 million public school students—reading, writing, and arithmetic online. It has been incredibly challenging.
Under the best of circumstances, it is frustrating. That is when you have Wi-Fi in the home, and mom and dad have a laptop or a tablet, and it is just kind of annoying. But it can be alarming when you get into communities of poverty, where the only technology in some homes was mom's telephone, and she took it with her to work, because she stocked shelves in a grocery store, and the kids didn't even have adult supervision in their home.

And so our members, these are America's educators, have said, we raced out and had to make up things and do the best we could to have a meaningful, educational experience for our students.

But now they are alarmed because they see politicians—I know I am talking to some politicians here—but they see people who are making decisions to race back into that school without the proper plan to distance, to disinfect, to have the PPE, to have the health checks and the COVID testing. And it is like, no, no, no, we have to warehouse those kids, put those 39 kids back into my classroom and don't worry, don't worry that somehow they will be at risk, or put their own families at risk, put their teachers and the lunch lady and the janitor at risk. And so—

Chairman CLEAVER. Thank you.

Ms. ESKELESEN GARCIA. —we are scared. We are scared.

Chairman CLEAVER. Yes, understandably so. Thank you very much.

The Chair now recognizes the ranking member of the sub-committee, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. I appreciate it. This is a very interesting discussion.

Mr. Zuluaga, would you tell me what you think, having watched the PPP program put out $500 billion into the economy, helping millions of people stay employed—here in Arkansas, it was $3 billion—three and a half billion dollars for about 40,000 businesses. We have $134 billion left in that program.

With work in the House and work in the Senate, we extended that date now to August 8th, which I want to thank Marco Rubio for his leadership, and thank my friends in the House for not blocking that earlier in the week, last week.

What should we change in that program to make it more helpful to people who are still fighting various shutdown issues in some States, while others are doing better? What should we change in that program?

Mr. ZULUAGA. I think additional flexibility, in terms of the timing within which the funds can be spent would be quite helpful, as would probably adjusting the percentages that may be allocated to the different types of expenses authorized.

Increasingly, it seems that it is going to take longer for the pandemic to get resolved, and maybe the timing is different in different States, and as a result of that, it would be useful to give funds that, for example, help businesses change their premises to become safer for what is to come over the next few months, at least before we have a vaccine.

In addition to that, I would say that what is left of the PPP is about proportional to the share of employing small businesses that haven't gotten a PPP loan just yet. There is still funding available, and I think that program has worked well so far.
Mr. Hill. If a business was still significantly down because they are in a hotspot and in trouble, and say revenues are still down 50 percent, or something off, would you allow a business to go back and get a second PPP loan?

Mr. Zuluaga. I would. Because I think the key distinction here is between a supply shop, something that makes a business that is otherwise perfectly viable and has the same customer base as it did before, from being able to be in business as a result of a new outbreak, or because the second wave or something like that, distinguish that from a demand shop, which is, the longer this goes on, and the more people change for it, the more people decide to move from cities to the suburbs or to other parts of the country, the more the changes in demand and industrial patterns become permanent. And in that case, sustaining existing industrial structure is counterproductive because you don't get the adaptation that needs to happen.

Mr. Hill. And the issue of the $600 of unemployment compensation that is on top of the States' existing unemployment compensation benefits, Members are really looking at how should that be extended or modified before the end of the month? This is an important component of the next legislative effort that we collectively make, hopefully on a bipartisan basis. What are your thoughts about the unemployment compensation, the pandemic piece, the $600 extra per week?

Mr. Zuluaga. I think it is still unclear as to whether there is a disincentive effect in raising the unemployment benefit in, for example, making the PPP work. Because in some places and for some businesses, it became more attractive for workers to earn unemployment benefits than to remain and work, particularly given the insecurity of going to work in the midst of a pandemic.

So, I think even though it may be well-intentioned to boost those incomes, it is probably more helpful to have a direct support that is regardless of your employment status, because in that case, you don't get those incentive effects.

And from the analysis I have done of the PPP program so far, it seems to be the case that in some States, taking of PPP was less, and there was a relationship with those posted unemployment benefits.

Mr. Hill. Yes. Thank you for that.

Ms. Eskelsen Garcia. I want to thank you for your leadership at the NEA. I spent a lot of time talking to my teachers, and there is nothing more fun than 6th graders. I don't want to thank you for leading the NEA this year and helping be a constructive voice to try to find bipartisan support for what our teachers need to go back to the classroom.

Would you agree, though, that we really need to get kids back in school, and that it is better in so many ways? Do you agree with that?

Ms. Eskelsen Garcia. There is no parent, no Republican parent, no Democratic parent, who wants their kid in an unsafe situation. And so here is the good news—we don't have to do it in an unsafe way.

People keep asking me the question, they will say, okay, overcrowded classrooms, we need hand sanitizers, and we need PPE,
and we need all of these things while we are talking about maybe laying off almost 2 million educators. That is unimaginable.

But they said, obviously, we have to talk about whether we should close that unsafe school or open that unsafe school. Wrong choices. We need to make those schools safe. We need—

Mr. HILL. Thank you.

Ms. ESKELSEN GARCIA. —to make sure we have everything that teacher needs and that the parents want to keep those kids safe.

Mr. HILL. Thank you so much. I yield back.

Chairman C LEAVER. Actually, Mr. Hill, if you would like to proceed with another question, please feel free to do so. We went a bit longer earlier, so you are welcome to go ahead with another question if you have one.

Mr. HILL. I yield back, Mr. Chairman.

Chairman CLEAVER. Okay, thank you.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

Mr. Perlmutter, you are now recognized for 5 minutes.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And to Mr. Zuluaga, I think you were saying two things, and I kind of agreed with both of them, even though they are opposite of one another. You said the PPP has generally been pretty good, and I would agree, and that it ought to be extended and some people ought to get a second loan, and maybe I agree with that.

And I should just let you know that I practiced bankruptcy law, business bankruptcy law, for 25 years before I got elected to Congress. And what I am worried about is, you say, well, it is the demand shock.

Now, economists have the advantage of hindsight as to what the demand shock is. We are seeing unavoidable, permanent changes, but you really don’t know it for a while.

So, I am worried that we are going to continue to throw good money after bad with respect to a lot of businesses that aren’t going to make it, no matter what we do.

I agree with some of your statements, and I appreciate the desire to tap into ingenuity and improvisation and innovation. That is all right, but we are in an emergency situation right now.

We came through 3 months of hell, and we still have some ahead of us. Mr. Stiglitz, you didn’t get to finish your statement. I want to hear your closing remarks, and then I have some questions for Ms. Garcia and Ms. Cook.

Mr. STIGLITZ. Thank you very much for giving me this chance to finish. What I wanted to say is that we need to have a vision of what kind of economy we want coming out, and agreeing with what has been said, there are going to be structural changes. We are going to be worried about another pandemic. Those are some of the examples. The aviation sector is going to be weaker.

But as we think about providing money, we ought to be thinking about, how do we move the economy to the future economy? Part of that is, we want to have more of a knowledge sector. Our comparative advantage as an economy is our technology. It is really what makes it strong.

And one of the very disturbing aspects of what has happened is, we haven’t given support to our knowledge sector, to education. We heard from Ms. Eskelsen Garcia about how the number of teachers
has gone down. Our universities are being devastated. All of the
sources of the revenues are going down.

The decision yesterday of ICE to make it more difficult for for-
eign students to come to the United States—one of the things that
has made us strong is having the most talented people come to the
United States and often stay to study and to start up a lot of our
new enterprises. We are making that extraordinarily difficult. ICE
has just made a policy statement to encourage them to stay here
on their visas.

So what I wanted to urge is, as you think about spending money,
have a comprehensive view, making sure that no sector is dev-
astated, and that we have a vision of what kind of economy that
we want emerging in 2022.

Mr. Perlmutter. Okay. Thank you very much. Ms. Eskelsen
Garcia, Ms. Cook, my wife is an NEA lifetime retiree, and she has
been called back 3 times, and she is making a list of things that
she thinks, as a math teacher in high school, need to be done for
her to be able to teach and deal with the potential hazards of the
virus. But she also knows tax revenue is way down—State, local,
and school districts.

I will start with Ms. Cook. You were talking about a number of
things to try to avoid a wave of bankruptcies. I think they are com-
ing anyway. But I feel like we really have to support our State,
local, and school districts, or we are going to hit a wall by the end
of this summer. How would you react to that?

And you need to unmute. I still can't hear you, Ms. Cook. I am
not sure what is going on with your audio.

Chairman Cleaver. Ms. Cook?

Mr. Perlmutter. We can talk about it offline.

I am just worried we are going to hit a brick wall at the end of
this month. To all of our economists, and to the head of the NEA,
when the unemployment runs out, when State and local school dis-
tricts are broke, we will have problems and huge layoffs, and we
are going to have to deal with it. And I will yield back to the Chair.

Chairman Cleaver. Mr. Perlmutter, we had a technical problem.
Ms. Cook, if you would like to respond to Mr. Perlmutter's ques-
tion, please proceed. I am doing this a little bit lax because we are
still experimenting with things. So, Ms. Cook, please?

Chairman Cleaver. Ms. Cook, if you can hear me—

Ms. Cook. I absolutely agree with you. We want to avoid the
problems that we saw in the Great Recession—the fiscal cliff that
led to so much pain, so much suffering, and so much unemploy-
ment because State and local governments laid off so many people,
because we didn't come to help, because Congress didn't come to
help, because there wasn't enough aid.

And all of the problems that we are talking about, from the
schools, to the universities, to community colleges, to the arts, and
certainly healthcare workers—all of these support the economy.
This is 70 percent of GDP. It is consumer spending.

All of them need support. And I think it would be foolhardy to
think that they are adopting austerity budgets, the State and local
governments that are adopting austerity budgets, that they won’t follow through. They have a hard budget constraint.

So, I think that aid has to be quick, it has to be now, and this is from learning the lessons of 2008 and 2009. Thank you.

Mr. PERLMUTTER. Thank you very much.

I yield back, Mr. Chairman.

Chairman CLEAVER. Thank you. The Chair now recognizes Mr. Williams for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman. I appreciate your bringing everybody together today, and thanks to all of the witnesses.

We saw some promising economic data come out last week, with over 4.8 million jobs being added to the economy during this month of June. We still have a long way to go before we are back to the pre-pandemic levels, but from the data, it looks like the economy is bouncing back sooner than many people had predicted.

Unfortunately, the legislation that is attached to this hearing today, the Paycheck Recovery Act by Congresswoman Jayapal, is not a realistic path forward that would help continue this growth trend. The bill contains such a radical proposal that they were not even, as we have heard, included in the $3 trillion partisan HEROES Act that was passed in May.

So, Mr. Zuluaga, do you think that drastic new government interventions would be the best way to get our economy to recover quickly?

Mr. ZULUAGA. I don’t think it would help. The thing, I think, that we need the most right now is flexibility. We have seen from the start of the pandemic that relaxing regulation—how about, for example, educational licensing, or the practice of telemedicine, or where one can purchase different types of food and drink, that all of those things are helpful in terms of getting the economy moving even in the context of a lot of uncertainty about the future.

And, to the extent that you are introducing new rigidities by tying support to one’s pre-pandemic employment status, I think that can make recovery more difficult, and it can make people’s financial position more precarious rather than more assured.

Mr. WILLIAMS. Okay. We have heard everyone talking about the need for another aid package—that is constantly what we hear—to come through Congress before August. However, Congress, as we have said, has already allocated $2.2 trillion from the CARES Act and other bills that we have passed relating to the coronavirus, but the Paycheck Protection Plan Program, as we know, still has over $130 billion that is currently untapped.

So, again, Mr. Zuluaga, how would or how should Congress be looking at the economy to make sure that the industries in most need of assistance receive it, while the other money we have already injected in the economy makes its way into the system?

Mr. ZULUAGA. I would pay attention to where the need is, particularly in terms of local shutdowns of activity or places where the pandemic has had a resurgence at the State level. I think it is useful because that is an indicator that that activity has stopped because of health emergency rather than because of the response, the medium-term and longer-term responses to the health emergency.
As you indicated, there is still funding left over in the PPP, and I mentioned earlier how additional flexibility in terms of how one can spend amounts and so forth could be helpful.

Mr. WILLIAMS. Okay. Small business owners, of which I am one—I have been a small business owner, still am, for 50 years—are the engines of job growth of our economy. Unfortunately, I have heard from many businesses across Texas that they are concerned that they are going to be sued if they attempt to reopen and some individuals get the coronavirus, even if they follow all of the State and local and Federal safety guidelines.

We need to pass liability protections in the next coronavirus relief bill so that this economic recovery will not be hijacked by trial lawyers. I believe this is the major thing we have to do as we move forward.

So, again, Mr. Zuluaga, how important is passing liability protections to protect businesses who are trying to open safely, to getting our economy back on track?

Mr. ZULUAGA. Congressman, thank you for the question, but I am not a lawyer, so I cannot respond with expertise. I would say that, as with other areas, having flexibility here for employers, particularly those operating in good faith, is essential to speeding up the recovery.

Mr. WILLIAMS. I think our economy can and will get going. I am one of those who thinks we could see growth in the fourth quarter, and actually, into next year, even better. But I will say that liability protection is important regardless of what the business is, because if employers are going to get back to hiring people and getting the income going, Main Street America deserves that liability protection. So, I think it is very, very important.

With that in mind, Mr. Chairman, I yield back.

Chairman CLEAVER. Thank you, Mr. Williams.

The Chair now recognizes Mr. Himes for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman, and thank you to our witnesses today. This is a very interesting and important conversation, given the ongoing difficulties in the economy.

I was a little sad to hear my Republican colleague say that Ms. Jayapal’s proposal is somehow way out there on the fringe. It simply gives money to employers that have suffered 10 percent declines in revenue, to pay their employees. It looks a lot to me like the PPP program that we are all praising right now.

And, by the way, my understanding is that it has been employed with some success in countries like Australia and New Zealand, maybe in Israel, hardly left-wing places.

But I have a different concern about the program, which has been a larger concern I have had with the efforts we have made across-the-board with the PPP, and with many of the efforts on the part of the Federal Reserve, including the primary and secondary purchases that they are making.

Other than the unemployment insurance and the direct branch to individuals, this has been a very business-oriented recovery. And I understand the attraction of trying to help small businesses, but the reality is, as Mr. Perlmutter said, an awful lot of businesses are going under anyway, already have, and certainly will.
And that is not a happy thing, but there is a process of bankruptcy that often will keep a business operating and people employed while a company reiggers its capital structure.

So my question is—and let me start with Professor Stiglitz on this, and, if I have time, I would like to maybe hear from Dr. Cook and Mr. Zuluaga, but why should we not be focused on delivering money directly to the individuals who need it? In other words, if you are unemployed, you get money. If you never had a job, you would get money. When you go business-focused PPP, an awful lot of people will have paid their lease payments, will have paid for insurance. God only knows a lot of the efforts of the Federal Reserve are there to make bondholders whole.

Professor Stiglitz, let me start with you. Why should we not reorient around what is clearly, to me, an obligation to the government, which is to keep American citizens—not businesses, large or small—directly whole as efficiently as we can?

Mr. STIGLITZ. I agree very much with your overall sentiment, and I think congressional response has to have a balance, but let me explain why I think the Paycheck Recovery Program is a good way of helping, because maintaining the link between workers and their firms is important for the recovery. We know that when that link gets broken, the recovery will be impaired.

We also know that our unemployment insurance system has not been able to manage well this constant surge of newly unemployed. People have had to wait weeks and weeks to get the money.

We also know, as I mentioned in my talk, that in America, more than in these other countries, workers depend on employer-provided health insurance, and, if they get disconnected from their firm, they then go on Medicaid or on very expensive Cobra provisions. And so, this is actually an efficient way of delivering money to a lot of lower-income individuals. Remember, the way the program is set up, it only goes to people whose income is less than a certain amount, and you could obviously jigger that amount.

So, it is actually directing money via an efficient, you might say, administrating process, to low-income and middle-income workers who need it. It actually uses the existing set of relationships to disperse money. That is the way to think about it.

Mr. HIMES. Thank you, Professor. I appreciate it.

Mr. Zuluaga, I only have 30 seconds, but you caught my attention, and because you were sort of arguing in favor of direct aid to individuals. How do you respond to Professor Stiglitz’s value placed on maintaining the employer-employee connection for purposes of health insurance, training, et cetera?

Mr. ZULUAGA. I think, in specific circumstances, it is very important, particularly when you have short-term disruptions and you have very few other changes to the underlying structure of the economy, because then that intangible capital doesn’t get destroyed by whatever is happening around it.

But increasingly, as time goes on and as people start making decisions about their future lives on the basis of the experience, those relationships become no longer sustainable, regardless of what you do with funding.

Mr. HIMES. Okay. Thank you, Mr. Chairman. I yield back.
Chairman CLEAVER. Mr. Gonzalez, you are now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Chairman Cleaver. And thank you, everybody, for your testimony today on this important topic.

I want to start by commenting—I don’t know if this was intentional. I think I have heard a couple of times that maybe we shouldn’t be so focused on business bankruptcies, and I just fundamentally disagree with that. I think we need to be focused on bankruptcies, period, whether it is in the household sector, in the business sector, or the government sector. And having bankruptcies in any of those sectors and on a massive scale, I would argue, is net negative for the recovery and just in general.

But I want to start, Mr. Stiglitz, with a question to you. In your written testimony, you have a comment here, “We need to provide income-contingent loans where repayments and the duration of the loan automatically adjust to the circumstances of the economy and the firm.”

I think that is an interesting concept. It is different from H.R. 6918. I am just curious, could you flesh that out a little bit for me? What do you mean specifically there? How would you see that administered? Just kind of drill down on that for me if you could.

Mr. STIGLITZ. Good. Thank you very much for the question. The point I have tried to emphasize is that no one knows the course of this pandemic, as we have seen. We thought in the beginning, it would be very short. We are now going through a very difficult time in certain States. We don’t know whether, back in New York, we will have another wave. So, there’s a lot of uncertainty.

And we want homes and households to begin to spend as the economy recovers, but one of the things that dampen that spending is they don’t know what is going to happen. So what I am proposing is that there be a lending program, a program that says, look, if there is a second wave or a third wave, fourth wave, a perpetual wave, we will suspend your payment conditional on the state of the pandemic, and it could be made very State-specific, national specific.

But it builds in an automatic stabilizer, gives them some certainty. Some of the things that we are talking about, restructuring in response to the need to social distance, some of the investments that were needed. This would encourage them to do it, and then, if it turns out they have to shut down anyway, they will say, okay, you don’t have to make a repayment until the economy starts going again. It really gives the flexibility that we need.

Mr. GONZALEZ OF OHIO. Thank you.

And then, Ms. Eskelsen Garcia, a question for you. I share the goal of needing to support, first off, our State and local governments, but also, in particular, our schools, so that we can get our children back in the classroom safely.

In your proposal, you talk about $170 billion in the education stabilization fund, $56 billion for PPE. Can you just walk me through kind of where those numbers came from, because I am somebody who believes, if we don’t get our kids back, the economy is going to suffer, but, boy, there are some massive long-term rami-
fications there, and—but we need to do it safely, so just expand on that if you could?

Ms. ESKELENSENGARCIA. And thank you for that, because, finally, I heard someone say we have to open schools safely, and it will cost money.

We have 4 million, more or less, folks who work inside those schools, and that is the teachers, the paraprofessionals, the school principals, the counselors, and, if you are lucky enough to have one, a school nurse.

So, we have looked at that. We have looked at the cost of what it costs for a hospital to buy the protective gear that you need.

I will tell you it is probably a low ball, because we also need—I used to ask parents if they would donate Kleenex, toilet paper, and soap. We have always run out of soap for the kids in the bathrooms. Now, we are going to need something much more sophisticated to disinfect and sanitize. There is no budget for that.

And the most expensive part is going to be—we have thought of some very, very creative ways that you can distance kids, but it means that you have to creatively use the space—the library, the gym—or you have to look at split sessions, and that means you might have to run the school buses twice a day instead of just that one round trip.

So, we have put all of that into the calculation of what we are going to need just to maintain what we have right now. And, like I said, it is probably on the low side.

Mr. GONZALEZ OF OHIO. Great. Thank you. I yield back.

Chairman CLEAVER. Thank you.

The Chair now recognizes Mr. Sherman for 5 minutes.

Mr. SHERMAN. Thank you. And, Mr. Chairman, thank you for your opening comment about how apparently, by mishandling COVID, we might be able to persuade Mexico to build the wall. While we are talking about spending money and getting the economy going, I want to put in a strong pitch for the $5 billion in the HEROES Act for doing the research necessary to ameliorate this disease.

As it happens, our professional medical researchers are at home because all of the non-COVID research projects have been suspended. And, every time I ask a medical researcher or medical expert about this disease, how is it transmitted, et cetera, the answer is always, well, we need to research this, we need to research that. There is no better way to fight the economic effects of COVID than to actually defeat the disease.

Part of that would also be to make sure that everybody has enough sick days. It is very easy to tell people, "Stay home if you have a fever," and we provided funding for smaller employers to have sick days, but everybody needs sick days, and some people used up their sick days on other illnesses.

Professor Stiglitz, when I first got to Congress, the focus was on the enormous Federal budget deficit, that deficits cause inflation, that they cause high interest rates, and, yet, the inflation is running lower than we want it to. Interest rates are so low that savers are very frustrated. And we can avoid future interest on the debt if we monetize the debt, that is to say, we have the Fed own the debt instead of issuing it to the public.
The world seems to have an insatiable desire for U.S. dollars. Is our thinking now emoted on deficits? Can we spend trillions of dollars, monetize the debt—that is to say, have the Fed own it instead of selling it out to those who would expect interest payments—and get through this crisis?

Mr. STIGLITZ. I am not worried about the deficit. The interest rates are very low. Servicing the debt costs essentially nothing. And, as you said, history shows that the enormous increase in the balance sheet of the Fed after 2008 did not cause any inflation.

When you go to war, you don’t ask the question: Can we afford it? We are at war with this virus, and we have to win this war, and we don’t want our economy destroyed as we are fighting the virus. So, I don’t think you really have any choice.

At the same time, you want to spend the money well, and that is why I think the Paycheck Recovery Act is really a good bill, because it actually targets the money very effectively. It doesn’t spend billions of dollars in paying the banks to administer the program and administer it in a way that the money goes to those who are well-connected. It does it in a—the recovery program doesn’t—can disperse money very very quickly.

So, to me, I do always worry about spending money well, and one of the things I like about this particular bill is that it seems to actually have been very thoughtful about getting money where we need it and get a big bang for the buck.

Mr. SHERMAN. Ms. Eskelsen Garcia, I think you have done a good job of illustrating why we need more funds for our schools to be able to reopen safely. I point out also that many schools, particularly here in Los Angeles, will not open in August, and they need technology for home learning. And, while that is happening, you need a lot of money to reopen, you need a lot of money for distance learning. While you have those increased costs, we have a tremendous decline in revenue for State and local governments.

I would like to ask whether the $90 billion State fiscal stabilization fund grants to support State funds of education in the HEROES Act is helpful, and to what degrees it is—

Ms. ESKELSEN GARCIA. We have asked for $175 billion for—an extra $4 billion for technology and the E-rate. And so, to answer your question, we need everything we can get, and the thought of not getting any help at all—if you just gave us what you gave Shake Shack, that would be a giving. That is what I am thinking, is this is no different. We are talking about massive layoffs. We are talking about your public schools facing, are we able to open with any plan? And we can’t do it without extra resources. We just can’t.

Chairman CLEAVER. Thank you. Thank you, Ms. Eskelsen Garcia.

The Chair now recognizes Mr. Timmons for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman. I appreciate you holding this hearing, and it is good to see you all, even if it is on video conference.

I was going to end my remarks talking about debt, but, given the previous questions, I would like to also begin with it.

The cost of our debt last year was $593 billion. Next year, I would imagine that we are going to spend more on our interest payment on our debt than on the entire Department of Defense
That said, it is not the time to pinch pennies. We need to get help to the people who need it, we need to get help to businesses, and we need to get the help to individuals who have lost their jobs. Those two endeavors are not mutually exclusive.

As the owner of multiple small businesses—I have a gym, a Yoga studio, and a real estate development—I am very fortunate that we had a good year, last year. Between our cash reserves and the PPP loan that we got, we are likely going to make it. I say, “likely,” because, if this goes past April, May, if we don’t have a vaccine before then, we probably won’t make it.

I have a number of small business owners who have reached out, and they have said, if we re-close the economy, they will just file bankruptcy. They have to close up shop, and it is a reality that a large percentage of small businesses will not survive this.

And it is not right that the government has shut everyone down. I realize that we had to flatten the curve, slow the spread, but we need to get help to the businesses that have been affected by this, and we need to get help to individuals who have lost their jobs. Those two things are not mutually exclusive. And I look forward to the conversations around the phase 4 legislation.

Obviously, there does have to be a component of business liability protections. If you tell a business they can reopen, and then you tell them they are going to get sued because they reopened, even though they are following best practices, that is not consistent. So we need to reopen, but we have to do it safely.

Mr. Zuluaga, I would like to hear your thoughts on phase 4 legislation and what you think is the most effective way to get that relief to those who need it most?

Mr. Zuluaga. Sure. Thank you for the question. I think focusing the business support on the areas that are shut down or have experienced a second wave is very important, because that is where the supply shop is happening and where the help is going to be most useful.

Besides that, I would focus on incentivizing reentry into employment. I think some of the protections you mentioned to businesses that are getting back into business and want to do so safely and want to buy the protective equipment and so forth is important so that there is no legal uncertainty.

But, in addition to that, I would say, if there is going to be spending on supporting demand generally, it should be unrestricted. It shouldn’t be conditional on business regulations and on businesses taking on new regulatory burdens that didn’t exist before. I think that is the wrong approach, because, right now, we face a little bit of uncertainty in businesses, particularly because of all the uncertainty in the future, and they need that flexibility.

Mr. Timmons. So you would agree that the additional $600 of unemployment insurance benefits that those who lost their jobs have received, that perhaps we need to have a more surgical method to facilitate workforce reentry to encourage workforce reentry?

Mr. Zuluaga. I would indeed focus on incomes. I would look at how much people are earning and, below a cutoff, I would suggest some financial support regardless of their employment status rath-
er than boost unemployment benefits, because I think there can be a disincentive to work, and it can cause people to become more and more removed from the labor market, which we don't want.

Mr. Timmons. Okay. Just to be clear, I want to help these people, but we have to get back to work, and we need to do it in a strategic and surgical way. I think the CARES Act overall was great, but there were a lot of shortcomings that we could have modified the approach, and it would have had a better impact, and it would have helped people, and it would have helped businesses.

And, again, I think that is the whole point of phase 4 legislation. We have to be very intentional about helping those who need it without casting a larger net.

And, like I said, I am going to end the way I began—$7 trillion is what we probably have spent thus far. We are going to have $30 trillion in debt by the middle of next year, if not shortly after that. We can't keep spending money that isn't ours. It is our children's, and it is our grandchildren's money. Now is not the time to pinch pennies, but now is also not the time to spend recklessly.

So we need to make sure that our dollars have the effect that we want, we need to get people back to work, and we have to do it safely, and I am just praying for a vaccine in November or December as opposed to April.

With that, Mr. Chairman, thank you for holding this hearing, and I yield back.

Chairman Cleaver. Thank you.

The Chair now recognizes Mr. Vargas for 5 minutes.

Mr. Vargas. Thank you very much, Mr. Chairman, for holding this hearing, and I thank the ranking member, as well. I appreciate it very much.

When I first came to Congress, I sat on the Agriculture Committee, and the Farm Bill was up that year, and they wanted to make deep cuts to the Supplemental Nutrition Assistance Program (SNAP). Of course, I was very much against that and argued against that. That is the old food stamp program.

And I happened to quote the Bible by Matthew 25:33-46, where it says, "for I was hungry, and you gave me something to eat," and went on and on. But, anyway, a colleague of mine from Tennessee took issue with that, and I think he quoted 2nd Thessalonians, saying: "If a man will not work, he shall not eat."

But what I didn't know in that conversation was that my friend from Tennessee had received $3.6 million from the Federal Government for his farm and his family's farm. The New York Times pointed that out the next day, and I went and had a conversation with him. I said, "I find it somewhat hypocritical that you don't want us to feed hungry people, and, yet, you put $3.6 million of government money in your pocket. How do you balance that?"

He said, "Well, we are a business, and they are just people."

I said, "Oh, okay. I understand."

That is his view, and that is fine.

Now, I am on this committee, and I have heard people pontificate lots of times about the Troubled Asset Relief Program (TARP), saying, "Oh, no, no. Let the businesses sink. We should never subsidize them. If they can't make it, let them sink." Yet, that view
has changed somewhat now, for some of my colleagues, and I think that is good.

But it seems to be the same thing. You don’t mind putting money in the hands of the businesses, but when it comes to putting that money in the hands of the people who need it, the employees, there is a problem.

I think that is what this bill basically does. It says, “These people are unemployed. We have to help them.”

Professor Stiglitz, am I wrong on that? The ideology says, well, because this is socialism, and we are against socialism. I have been to New Zealand. I have been to Australia. They didn’t seem very socialist to me, but maybe I am wrong about that. Could you comment?

Mr. STIGLITZ. No. You are absolutely right. I have talked to government officials in many of these countries, and these are not radical countries. This is not Venezuela or anything like that. These are middle-of-the-road, center-left, center-right governments, by the way, in which there is across-the-board support for these programs. And it is that across-the-board support that has created a kind of solidarity that allows the disease to be curbed, because they respect each other, trusting government.

And, as a result of curbing the disease, the economy is back, and that really echoes what Ms. Eskelsen Garcia said: If you have a safe environment, people can go back to work, and you can go back to school.

Mr. VARGAS. Thank you. I agree. I did want to ask Ms. Eskelsen Garcia, though—I have to tell you that I am very much in favor of reopening the schools when it is safe. The reality is that not only do children get educated in the schools, but it would also help the parents with childcare, to be frank. A lot of people can’t work if their kids can’t go to school.

That is what I hear from my educators here in San Diego and from school board members. They want to open the schools, but they only want to do it safely. And yet, they are constrained because they get money from the State Government, and, if the State doesn’t have the money, they can’t help out the schools.

Could you comment on that?

Ms. ESKELSEN GARCIA. It is not rocket science. It is basic adding and subtracting. School boards are hitting the panic button. They are being told all over the country, “Do not expect what you thought you were going to have next year. Start cutting your budgets.”

We already have people who are getting pink slips at a time when we need all hands on deck. There is no other funding source than the Federal Government. We cannot hold a bake sale and hire people back. If it was bad for business to have to have massive layoffs, how can it not be even worse to have massive layoffs of the only people who can open the schools safely?

There are some folks who don’t see how that connects, that you can’t open schools safely if you don’t have enough people and you don’t have the supplies that you are going to need to do it.

Let’s do it safely. We can do it.

Mr. VARGAS. I agree. Thank you very much.

Thank you, Mr. Chairman.
Chairman CLEAVER. Thank you.

The Chair now recognizes Mr. Taylor for 5 minutes.

Mr. TAYLOR. Thank you, Mr. Chairman. I really appreciate this hearing. Thank you, everybody, for being here.

I just want to kind of take us back a little bit and think about the economic step that we as a Federal Government took toward our economy. We basically put our economy in a coma, basically went to a shelter-in-place strategy really across the country, and then took a series of steps to try to—when we put the economy in a coma, what do we need to do? One of the things we did is we did the PPP program. We increased unemployment benefits. We created a series of different programs that were absolutely massive, in the trillions of dollars across-the-board.

One of the things that we did that I think is really important is we forbeared on mortgages, and we did that basically in two ways. One was going to Fannie Mae and Freddie Mac by statute and telling them, “You need to forbear people's home mortgage payments. Obviously, if people aren't working, they are not earning revenue, and they can't make their mortgage payments.”

And the second way we did that is by going to the banks through the Office of the Comptroller of the Currency (OCC) and creating guidance for them that said, “Hey, you guys can forbear on your mortgages, right?”

So those two steps were really massive and really allowed about a little over $30 trillion of debt in this country to forbear.

A place where we have not seen forbearance is in the real estate space, and particularly the collateralized mortgage-backed security market, they don't really—they have not been given guidance from on high. The Federal Government hasn't passed legislation. They haven't really taken a step to allow or encourage them to forbear. I think that they feel some market pressure to do that, some public pressure to do that, but we are not really seeing that.

A group of 105 Members—and many of you who are in this hearing right now were part of this—signed the letter to the Treasury and to the Fed encouraging them to come up with some kind of facility, probably using their Section 13(3) authority, to encourage forbearance on commercial real estate loans so that those properties are not foreclosed.

And, just so everybody is clear on what we are about to see, I think we are about to see a wave of foreclosures starting this fall going into next year that some analysts estimate will be 2 or 3 times worse than anything we have ever seen before. So, it is very serious. It is coming at us at a relatively quick pace. In other words, it is going to happen so fast that, by the time we are here to pass—we pass a lot a day—it would be very difficult for it to be implemented fast enough to forbear on all of the different pieces of foreclosures that are coming up.

So my question, Mr. Zuluaga, is: Do you think that getting mortgages in a place where they are forbearing while we are putting the economy in a coma makes sense in order to try to keep things going for the other side—we get to the other side of this from an epidemiological point of view?

Mr. ZULUAGA. I think it can work. There is a risk that you will get delinquencies accumulating at the end of the period, and this
is something that we are still uncertain about with regard to Fannie and Freddie, for example.

They have had forbearance for a long time. And, actually, the forbearance rates, even though the take-up was high, the actual mortgages in forbearance are much less than most of us expected, which is good news.

Mr. Taylor. Right.

Mr. Zuluaga. I think forbearance can help, but, so long as we don’t have much certainty around when the recovery is going to take place, we are really then hiding delinquencies as forbearances and potentially defaults, and, eventually, when foreclosures are again allowed, that may happen again.

Mr. Taylor. Sure. And I guess, as part of this conversation, it is important that, being from Dallas, Texas, we remember the Resolution Trust Corporation (RTC) days, when the RTC, through the FDIC, went in and programatically foreclosed every property that was in default and then just liquidated it, and it really collapsed values within that market. It was a very brutal experience for everybody involved and really harmed a lot of jobs.

I think the important thing here is that, particularly in the hospitality space, of the first 24 million Americans who lost their jobs, 6 million were working in hospitality.

And so, that industry has been really, really injured, very harmed. It is going to be a while until it recovers, and so, if we could give them a liquidity bridge to get to the other side so they can start paying their mortgage, so—we lend them money to pay their mortgage.

I was talking to one hotel operator yesterday who was looking at the legislation that we are working on. I have a member of this committee working on filing that bill later this week. And he is saying, “Look, without this bill, I am probably going to lose every single property I own. With this bill, I probably can keep every property that I own.”

What is important about that is it means they can pay the money back and that those jobs will be saved.

Mr. Chairman, I yield back.

Chairman Cleaver. The gentleman yields back.

The Chair now recognizes Mr. San Nicolas for 5 minutes.

Mr. San Nicolas. Thank you, Mr. Chairman, and thank you for holding this very important hearing.

For me, I sat back, and I observed the discussions, and I listened to the ideas, and I looked at the recommended policy provisions that were being put forward, and I think that one of the first things we need to reconcile is somewhat of the undertone of our witness testimony here today, and that is the question of whether or not we really view this current set of circumstances as something that requires permanent adaptation, or are we looking at a white squall event that we just need to get through in order to return to a place of normalcy in our economy and in our daily lives?

And, Mr. Zuluaga, you mentioned that a lot of the necessary adaptation—that was a phrase you repeated over and over again, that businesses need to adapt, and I am a little concerned about that, because, right now, the adaptations that we are seeing, for example, are 50 percent occupancies in restaurants.
We are seeing lines being drawn on sidewalks leading into businesses, keeping people apart. And I am worried that, if we adapt in a way that results in permanent changes, we are going to actually hinder our ability to recover.

And so I wanted to enter into my comments with that context, because, as we all know, our economy in this country is predominantly consumer-driven.

What the consumer needs in order for them to be able to have the confidence to drive our economy with their own spending is they need certainty. Any kind of uncertainty paralyzes them, and, right now, while we have done a good job as a Congress putting forward stopgap measures, it hasn’t done a lot to ameliorate the uncertainty of our consumers when they look out 3 months, 6 months, or 1 year ahead.

On July 25th, our eviction moratoriums are going to expire. On July 31st, the extra $600 in Federal Pandemic Unemployment Compensation (FPUC) is going to go away. On August 8th, the PPP is no longer going to be available. And so, when we have all of this uncertainty out there, it is going to make our consumers afraid of spending the money that we are even providing now.

And so, I appreciate my colleague’s bill that we are kind of discussing here today, because it kind of helps us provide a sense of certainty for our consumer.

But I think one of the biggest things on the horizon for all of our consumers is, how are they going to pay for their housing? And I wanted to thank my colleagues for moving H.R. 7301 recently to try and address the housing concern.

Dr. Cook, I really appreciated your testimony. You came at us with a lot of hard data and information that was very concrete. I would like to focus in more on what you mentioned earlier about the 20 percent evictions that we are looking at having to deal with on September 30th.

If you can elaborate more on that, and potentially what that might do in terms of a domino effect, spilling over into our housing, a second housing crisis that we have already just—we have been through in 2008?

Ms. Cook. Thank you for your question.

So, yes, this is something that I am certainly concerned about. Twenty percent of rental households face eviction by September 30th, and, as you know, there are moratoria everywhere, but these are coming to a close now. And this is happening in the fourth largest city in America, in Houston, and these courts are working through these cases.

So, I think this is certainly something that has to be taken quite seriously, and what we know is, from the surveys of homeowners, of renters and of homeowners, 44 percent of Latino renters and 41 percent of African Americans won’t be able to pay their rent.

That is somebody’s mortgage that is not going to get paid, and a multifamily home, for example, a multifamily mortgage that won’t be paid. So, 40 percent of those mortgages are Fannie and Freddie mortgages, but there are a lot that aren’t. And, even with these being covered by Fannie and Freddie, there is a problem of enforcement. The individuals have to figure out whether these mortgages are Fannie and Freddie mortgages.
So, there is a lot of danger, I think, ahead if this isn’t straightened out now.

Mr. San Nicolas. Thank you, Dr. Cook.

And, quickly, Dr. Stiglitz, we saw that the housing crisis was created back in 2008 from a bottom-up problem—I am sorry—a top-down problem in the debt. Is it possible we are going to have a similar bottom-up problem with these renters not being able to pay?

Mr. Stiglitz. Oh, very much. Whenever you have a major crisis like this, it spreads throughout the economy, and even good loans turn out to be bad, and you can wind up with a problem in the financial system, which is why—

Mr. Hill. Time, Mr. Chairman.

Chairman Cleaver. Thank you, Dr. Stiglitz.

The Chair now recognizes Ms. Wexton for 5 minutes.

Ms. Wexton, you need to unmute your—we will proceed with Mr. Garcia, and we will come back to you, Ms. Wexton, if we can.

Mr. Garcia, you are now recognized for 5 minutes.

Mr. Garcia of Illinois. Thank you, Chairman Cleaver and Ranking Member Hill, for convening this hearing, and a bipartisan proposal—I am referring to the Payroll Recovery Act, as it has support from across the aisle in both the House and the Senate, and this discussion about protecting workers’ paychecks is urgent and badly needed for my constituents here in Chicago and for working-class communities like mine across the country.

From what our panelists have shared today—and thank you for joining us today—it sounds like we haven’t done enough in Congress to help ordinary people during this crisis and to prevent a deeper collapse. Unfortunately, I am not surprised, because many people in my community are getting more and more worried.

Wall Street got the guarantees they needed, but my neighbors are in a very precarious situation. The additional unemployment benefits provided by the CARES Act expire this month, and so does the bill’s protections against eviction.

Many businesses in my district that were supposed to close temporarily are now announcing permanent closures. I have lived in my neighborhood for 50 years, and I was stunned by the scale of suffering and loss that my community faced during the great financial crisis of 2008–2009. We had barely started to recover from that crisis when COVID-19 hit.

Ms. Eskelsen Garcia, you mentioned a looming crisis facing our public sector workers. Many of my constituents are public sector employees, and even more rely on teachers and social workers, nurses, and librarians every day. Cuts in public services fall disproportionately on communities like mine.

Can you talk about the cuts that you are hearing about at the bargaining table and how those cuts will disproportionately affect poor and Black and Brown communities across the country?

Ms. Eskelsen Garcia. I have heard from people from Hawai‘i to Wyoming to New York to Florida. Everybody is alarmed by either school districts saying, we have four 3rd grade classes of 32 kids. We are going to not replace the 3rd grade teacher who is retiring, and so we will redistribute those kids, and we will end up with 40 kids or more in a classroom. Or they are saying, we are going to
lay off the band teacher. We are going to lay off the foreign language teacher. We are going to lay off counselors.

At a time where we need every single person to help us open those schools safely, they are facing budget cuts that will mean massive layoffs in every community. This will ripple through the economy and have the double effect of saying—something that people say is essential to getting people back to work, a healthy public school open, will be almost impossible to accomplish, and, in some areas, completely impossible to accomplish.

Mr. GARCIA OF ILLINOIS. Thank you.

For Mr. Stiglitz, the COVID-19 pandemic demonstrated how connected the world is, but also how disconnected the response to the virus has been in different countries. Unfortunately, I think the virus could expand the gap between richer countries and poorer countries, and the burden of additional debt put on countries in Latin America, for example, could slow down our global economic recovery.

In April, I introduced the Systemic Risk Mitigation Act to support an International Monetary Fund (IMF) issuance of special drawing rights, better known as SDRs, to help countries' access the currency they need during this crisis. I was glad to see that Senator Durbin introduced a similar bill in the Senate last week.

Professor, do you worry that our global economic downturn will get worse without some form of international stimulus, and do you think special drawing rights would help?

Mr. STIGLITZ. Yes. We live in a very interconnected world, and a downturn in the rest of the world will inevitably affect us a great deal. And right now, Latin America is one of the hotspots, and so the downturn there will have a big effect on us.

I have been advocating very strongly for a special issuance of SDRs. If the United States supported it, they can issue $500 billion, and it wouldn't cost American taxpayers a thing, but it would be of enormous benefit to American citizens, because it would be a boost to our economy as it helps the rest of the world, and it would help us in our diplomacy enormously.

Mr. GARCIA OF ILLINOIS. Thank you.

I yield back, Mr. Chairman.

Chairman CLEAVER. Thank you.

Ms. Wexton, are you able to get on now? Ms. Wexton, you are recognized for 5 minutes. We still can't hear you.

Mr. GARCIA OF ILLINOIS. Mr. Chairman, I have one more question if—

Chairman CLEAVER. Ms. Porter, you are now recognized for 5 minutes.

Ms. PORTER. Thank you so much.

Mr. Stiglitz, in an April 2020 Roosevelt Institute report, you identified four design problems with the PPP, and I would like to talk about those, because one of the most common questions I get is, why support a paycheck guarantee approach if we have already done the PPP? So, I would like to spend our time kind of trying to answer that question.

First, in your Roosevelt Institute report, you mentioned the randomness of who was going to get helped, and we certainly saw that. Some industries got help while others were left behind. Industries
like construction and professional firms that weren't very impacted got PPP loans while other industries, that are really suffering, were left behind.

Second, you mentioned that those who were best-connected, most likely to know about the program, were more likely to get relief. That certainly happened. Congress went back and tried to adjust the PPP loan by setting aside money for some of our community lenders to try to address that.

I want to pick up on the third thing that you identified as a problem with the PPP, that the Paycheck Recovery Act would take a distinctly different approach. You flagged the introduction and the use of banks as intermediaries in the PPP as a problem. What is the problem with having lenders be intermediaries, and how is the Paycheck Recovery Act different?

Mr. STIGLITZ. That is a great question.

The point is that having the banks as the intermediaries meant that those who were most connected with the banks got first in line. And I saw this very vividly. Small business owners, but very small, called up their bank, and they couldn't get an answer.

And there were others who were very well-connected, and it wasn't just random. Some sectors that were very badly affected didn't get as much money as some sectors that were not very badly affected.

I also pointed out that we were paying the banks an awful lot of money to administer it. So, in fact, our taxpayers' money wasn't going to where we—small businesses. It was going to the banks.

Ms. PORTER. Yes. As I look at it, we paid the banks an average fee of around 1 percent. It is something in the neighborhood of $6 billion, taxpayer dollars, that went to these banks for a loan program in which they took on no credit risk and did no assessment of the applications. So, it just seems like that $6 billion could be buying a lot of actual help for American families right now.

You also raised concerns with the PPP's lack of clarity and transparency, and I have been pushing hard with regard to making more data about the PPP transparent.

Can you tell me why you think the Paycheck Recovery Act would be more clear and would be more transparent and could avoid some of the problems and abuses that we have seen with the PPP?

Mr. STIGLITZ. The basic idea of the Paycheck Recovery Program is it is defined by clear rules of who can get access. You just apply, and, if you are eligible, there is a set of eligibility criteria. You know exactly what the formula is.

And so, it is available to everybody; not first-come, first-served. It is available to everybody who meets certain criteria, so we know that whether or not you are a minority, you get it.

On the other hand, when you go through the banks, it depends on who has the connections with the banks. I have been very disturbed that it took a lawsuit under the Freedom of Information Act to get the information about where the money was going.

We, as citizens, should have the basic right to get that kind of information without having to sue.

Ms. PORTER. Yes, and I think one of the things I want to highlight for everyone who is listening is, for my colleagues, that the small businesses across the country agree with these concerns
about the PPP and recognize that a Paycheck Recovery Act remains a necessary step to helping make sure that we are keeping people on payroll.

When I talk to constituents, they don't want to be on unemployment. They don't want to be applying for these programs. They want a paycheck. They want to be able to continue to make ends meet for their families. They want to know they are going to have a job to go back to.

That is the help that they are looking for. They are looking for help in continuing to get that paycheck and to have that dignity and provide for their families.

Mr. Chairman, I would like to submit for the record an April 29th letter from over 30 national, State, and regional small business organizations calling for the passage of the Paycheck Recovery Act, as well as an op-ed written by Mark Zandi.

Chairman CLEAVER. Without objection, it is so ordered.

Ms. PORTER. Thank you, and I yield back.

Chairman CLEAVER. Thank you.

Ms. Wexton, you are now recognized for 5 minutes, I hope.

Ms. WEXTON. I hope that I am now unmuted.

Chairman CLEAVER. Yes.

Ms. WEXTON. Great. Thank you very much, Mr. Chairman. And thank you to the witnesses for coming before us today. I want to touch on the issue of expanded unemployment benefits a little bit more. As has been noted, they are set to expire on July 31st.

And, in my home State of Virginia, the weekly unemployment benefit is only $378, so it is not the lowest in the country, but it is not enough for a family to live on, so the additional $600 a week provided by the CARES Act has been a huge benefit to people just to be able to pay their rent and their car payments and things like that. But many are claiming that this benefit is way too generous.

Larry Kudlow, one of the President's economic advisors, says we are paying people not to work, and that we are disincentivizing people to not return to work. That is a lot of double negatives there, but I think he is saying that it is too much money for people, that they are living large on $600 a week.

And we are hearing from various talking heads that employees are refusing to come back to work, and that employers are struggling to bring people back to work because of this extra $600 a week.

Now, we had Federal Reserve Chairman Jerome Powell before us a couple of weeks ago, and I asked him this very question. I asked him if he was seeing anything in the data or business activity surveys that supported this claim, and he said that he did not see anything like that, and he opined that more likely what is happening is that people in the service economy jobs are more reluctant to go back to work because they don't feel safe, because they are likely going to come in contact with a lot of people, and a lot of them are not going to be wearing masks because that is not mandated in a lot of places, and a lot of employers are not requiring that they do so.

That is pretty consistent with what I am hearing, as well as people who are having trouble accessing childcare. Many childcare centers have closed, and they don't have those options anymore.
And it is not just in the service economy that the jobs are lost. From April to May in Virginia, we have seen thousands of jobs lost across the sectors, including 1,300 manufacturing jobs, nearly 2,600 healthcare and education jobs, 5,900 State Government jobs, and 15,000 local government jobs.

Ms. Eskelsen Garcia, you mentioned the 900,000 public education jobs already lost nationwide because of local budget cuts. Those people don’t have the option of returning to work even if they wanted to. So, Professor Cook, do you think that now is the time to pull back on this enhanced unemployment support?

Ms. COOK. Absolutely not. If we are learning the lessons of 2008–2009, now is the time to augment that support, not to withdraw it, because we will be looking at even higher unemployment numbers. There are still 19 million people receiving unemployment benefits. This is unprecedented for the modern era, for the post-1940 era. The unemployment rate is 11 percent. So, this is not the time to withdraw support from State and local governments, especially given the health crisis.

The health crisis is not over, and all of these hospitals, the healthcare providers, they need the support. We are going to need a lot of mental health support once this is all over for people to be able to go back to work. I think that has been underrated and has been underestimated. People are going to need a lot of support to be able to go back to work whenever that happens, whenever it is safe to do so.

Ms. WEXTON. Professor Stiglitz, do you agree that it is not the time to pull back on that support? It would be wonderful if we could maintain that employer-employee relationship, but many people are not going to have that option, so what is your position on these enhanced unemployment benefits, whether we should let them expire?

Mr. STIGLITZ. I agree very much with Professor Cook. I don’t believe that we should allow those to expire. The fact is that, with a high probability, we will have significantly elevated unemployment levels for a long time. And in many, many States, the basic levels of unemployment insurance are among the poorest in the western world, and the coverage doesn’t cover a lot of people.

And that is one of the things that you did in the CARES Act, is extend the coverage. So, both in terms of amount and the coverage, both of those were deficient, and you addressed that in the CARES Act.

Ms. WEXTON. Thank you. And you guys are in good company, because one of the things that Chairman Powell indicated was that he thought that resetting that to zero would have an extremely detrimental effect not only on the economy as a whole, but on our recovery, so thank you very much.

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

Chairman CLEAVER. Thank you. We apologize for the technical problem, whatever it was.

I now recognize the gentlewoman from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and thank you for allowing me to join you in this very important hearing.
I have been listening, and it just reminds me of some of the debates we had at the beginning of all this where we were trying to figure out where do we start, what do we do, and we focused on making sure that we address the health pandemic, because, no matter what, we still have to address the health issues, make sure our hospitals are ready, the frontliners, they are working at the hospitals and providing the care, and the research that is necessary to find the treatment.

And then, we decided to make sure that we put money in people's pockets, like Mr. Himes said earlier, and to make sure that they were able to buy the things that they needed, which is why we had to support businesses.

So, I think you can't do one without the other. They are so connected that I want to focus on the need for the Paycheck Recovery Act, because I know that, in my own family, it took my brother maybe 3 weeks of calling and online applications, et cetera, to even get on unemployment insurance, and then he loses benefits, he loses his longevity pay, he loses so much.

I think there is still a need for us to take a serious look at the Paycheck Recovery Act, and I wanted to start with Ms. Eskelsen Garcia. Every time I heard you being addressed, I looked up, because I thought it was me.

But you signed onto a letter, Mr. Chairman, and I do want to ask unanimous consent that it be submitted for the record, a letter supporting the Paycheck Recovery Act.

And that clearly said that, we know there have been three packages, but there are still layoffs. The economy is still in a freefall. Working families are still hurting. They are worried about putting food on the table. They are worried about their rent. They need a paycheck. They need a job, as my colleague, Representative—Chairman Cleaver. Without objection, it is so ordered.

Ms. Garcia of Texas. Thank you.

Do you continue to believe that the relief packages passed by Congress so far are insufficient given the scale of this public health and economic crisis?

Ms. Eskelsen Garcia. Is this for me?

Ms. Garcia of Texas. Yes, ma'am. From one Garcia to another.

Ms. Eskelsen Garcia. Gracias. I kept thinking, too, there are a couple of Garcias on here. Great name.

But I don't want to say that it is enough, give us this, and life will be rosy. This is a beginning, and we know we can't do what we have to do with less, and we are facing our funding falling off a cliff.

So, this is something that can at least stop the bleeding, and we are willing to be incredibly creative about what we can do, but we will not be able to open schools in so many districts in a safe way without some significant help, and, as was said, we have already lost, since this pandemic began, almost a million support staff.

This might be the bus drivers, the paraprofessionals who aren't delivering instruction with a Zoom call the way a teacher is. They have just been told, "You don't have a job," like everyone else who has been told, "You don't have a job."

Ms. Garcia of Texas. We may not get them back, but if they would have stayed on payroll, as the Paycheck Recovery Act would
do, that would be most helpful. So, you feel like workers still need the Payroll Recovery Act?

Ms. ESKELSEN GARCIA. Yes, I do. And part of it too is, yes, the workers that I represent but their family members, and by the way, our students, and their parents who are out of a job. Anything that impacts a community impacts that child and that school, so this is more than just the teacher or the bus driver. These are the parents of our students who are just trying to put food on the table.

Ms. GARCIA OF TEXAS. Yes. Thank you. Now, I have a question for Mr. Stiglitz. What are your thoughts on the Paycheck Recovery Act? Do you think there is a need for that today, as States are still struggling? I know my State of Texas is reaching a crisis point, my City of Houston. Do we still need a Paycheck Recovery Act?

Mr. STIGLITZ. Is that for me?

Ms. GARCIA OF TEXAS. Yes.

Mr. STIGLITZ. Yes, very much so. One of the things that I emphasized is that the previous CARES Act wasn’t comprehensive enough, didn’t provide enough support to the State and localities. And it was so clear that the revenues of the States and localities would plummet, and with the balanced-budget frameworks, they were going to be strangled.

And they provided essential services—education, health, welfare—and the suffering that would result, and the macroeconomic effects, I call it in my testimony, “austerity from below,” which would have large, multiplier effects, and it would mean that we would not have a robust recovery.

So it is, in my mind, absolutely essential for not just businesses, but also the States and local communities, educational institutions, the research foundations. It is not just businesses that are having a hard time now.

Ms. GARCIA OF TEXAS. I agree.

Chairman CLEAVER. Thank you.

Ms. GARCIA OF TEXAS. And Mr. Chairman, I would like unanimous consent to submit for the record an April 29th letter to Speaker Pelosi from 100 economists supporting the Paycheck Recovery Act.

Chairman CLEAVER. Without objection, it is so ordered.

Ms. GARCIA OF TEXAS. Thank you, sir. I yield back.

Chairman CLEAVER. Thank you. And I would like to thank the witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is adjourned. Thank you, everybody.

[Whereupon, at 2:13 p.m., the hearing was adjourned.]
A P P E N D I X

July 7, 2020
Testimony of Lisa D. Cook
Professor of Economics and International Relations
Michigan State University

“Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers’ Pay During COVID-19”
Hearing of the Subcommittee on National Security, International Development, and Monetary Policy
Committee on Financial Services
U.S. House of Representatives

July 7, 2020

The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at break-neck speed. Nonetheless, the rent and bills of Americans were and are still due.

The quick action of Congress has gone a considerable way to lessen or postpone the pain associated with this pandemic-induced recession. Specifically, adding $600 per week to unemployment checks, providing assistance to small businesses through the Paycheck Protection Program (PPP), and giving Americans a direct payment of $1200.

With an unemployment rate of 11.1 percent in June, we have now entered the history books with the second-highest unemployment rate than at any other time since 1940. But the burden of unemployment is not evenly shared across racial and ethnic groups. The unemployment rate for African Americans is 15.4 percent, and, for Hispanic Americans, it is 14.5 percent. These data are particularly disturbing, because Black and Hispanic households were eviscerated by the Great Recession due to their disproportionate losses in wealth relative to whites stemming from their disproportionate investment in housing. This means that they are even less prepared than other Americans to withstand this sudden stop in the economy brought on by the novel coronavirus pandemic.

Despite a lower unemployment rate in June than in May, 19 million people were still receiving unemployment benefits in June. The employment situation deepens the health-related crisis American families face. And their crisis is one that could and is beginning to spread to other parts of the economy.

By early June, 44 percent of adult Latino renters and 41 percent of Black renters, compared to 21 percent of white renters, reported not being able to pay their rent.1 Twenty percent of rental households face eviction by September 30.2 A wave of bankruptcies could ensue if small businesses cannot stay afloat, renters cannot pay their rent, and landlords cannot pay their mortgages.

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1 Census Household Pulse Survey.
The direct federal payments of up to $1,200 per adult and $500 per child are a critical first lifeline for many households and the U.S. economy, allowing them to purchase food and pay their bills.\(^3\) To minimize the likelihood that an illiquidity crisis for these households becomes a bankruptcy crisis for them in the coming weeks and months, Congress should authorize another round of direct payments, along with extended unemployment benefits.

By early May, it is estimated that 100,000 small businesses, or two percent of small businesses, had already closed.\(^4\) By mid-June, of the businesses that are listed on Yelp, 140,000 of those closing since March 1 were still closed by mid-June. Thirty-five percent of shopping and retail businesses listed have closed their doors temporarily, 53 percent of restaurants listed have closed their doors permanently.\(^5\) The burden of business closures is also unevenly distributed. Forty-one percent of African American businesses reporting being closed, compared to 35 percent overall (Fairlie 2020). Over a third of small businesses reported paying reduced rent or deferred rent payments.\(^6\)

Prior to reopening, states that received more PPP loans and with more generous unemployment benefits had less severe declines and faster recoveries (Bartik, Bertrand, Lin, Rothstein, and Unrath 2020). The results from early-reopening states suggest that many small businesses, such as restaurants and bars, will need to close again. Data from Open Table had begun to show a slow, steady recovery from early May. However, this trend started reversing itself in early July. In Texas, this meant that seated dining business went from a fall of 60 percent relative to a year earlier at the end of June to a fall of 75 percent relative to a year earlier in early July.\(^7\)

In Five-Thirty-Eight’s most recent survey, the majority macroeconomists believe that there will be a partial rebound in economic activity and a slow recovery, rather than a V-shaped, sharp recovery.\(^8\) Given that consumer spending is 70 percent of GDP, it is clear that more and extended help to the American people and small businesses will be urgently needed.

In addition, more aid to state and local governments is desperately needed now to continue to fight the pandemic and to prepare for job losses stemming from impending austerity budgets being adopted by state and local governments. This relief should be directed at health care providers, community colleges, universities, mental health and other social services, universal broadband, and the arts.

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\(^3\) Baker, et al. (2020)
\(^4\) Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020)
\(^5\) Grossman (2020).
\(^6\) Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020)
\(^7\) Guzman (2020).
\(^8\) Paine and Thomson-DeVeaux (2020)
Any and all relief to the American people should be authorized and disbursed with all deliberate speed.⁹

⁹ See Cook (2020) for a detailed proposal to use mobile money to get direct federal payments to Americans quickly.
References


Merle, Renae, “Evictions are likely to skyrocket this summer as jobs remain scarce. Black renters will be hard hit,” *Washington Post*, July 6, 2020.


Written Statement of Lily Eskelsen García  
President, National Education Association

Before the Committee on Financial Services  
United States House of Representatives  
Subcommittee on National Security, International Development, and Monetary Policy  
Virtual Hearing:  
Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting  
Workers' Pay During COVID-19  
Tuesday, July 7, 2020

Thank you Chairman Cleaver, Ranking Member Hill, and members of the Committee for this opportunity to provide testimony for today’s hearing. My name is Lily Eskelsen García and I am a sixth grade teacher from Utah, and president of the National Education Association, NEA.

As NEA’s president, I am honored to represent more than 3 million teachers, education support professionals, and specialized instructional support professionals in K-12 public schools and on public college campuses. NEA also represents educators in Department of Defense schools, college students who plan to become educators, retired educators, and public employees in local and state government. All are essential to preparing students to contribute to their communities and build successful lives for themselves, and therefore, all are essential to the future of our nation.

I’m in constant contact with a wide range of educators—from those in rural towns, to educators in densely populated urban areas and the suburbs and exurbs that border them. I am so proud that NEA members have risen to this moment and demonstrated the resilience, creativity, and teamwork that we strive to cultivate in our students. Educators have organized car caravans through students’ neighborhoods to deliver a crucial message in this uncertain time: Even though our school building is closed, I am still here for you. They have helped parents who overnight had to take on one of the hardest jobs in the world: teacher. And they have cried with me more times than I can count because they worry about the many students for whom school was the only stable place in their lives.

I believe this pandemic has actually intensified our commitment to students. While we are a very diverse group, we share the belief that students in our public schools—no matter where they live or their race or ethnicity or family income—should have an education that prepares them for the responsibilities of citizenship and to succeed in a diverse and interdependent world. This our fight, and it is a privilege to wage it.

The COVID-19 pandemic has made this fight much more urgent, and much more difficult. It has deepened disparities that have always existed and separated the students lucky enough to attend public schools in well-off communities from those who attend schools in poor communities. In recent months, this cavernous gap has been well illustrated by the Digital Divide—the disparity between students who have access to the internet and devices at home, and those who do not.

As we speak today, governors and mayors, with state income and sales tax revenues falling off a cliff, are making steep budget cuts that will exacerbate these disparities and devastate students in
public schools. Nothing will be off limits as school districts look to slash spending, leading to program cuts, ballooning class sizes, and more. Without federal assistance, we will continue to see educator layoffs that will be particularly harsh for those who struggle to make ends meet even during normal times, such as our wonderful, amazingly devoted education support professionals: for instance, the lunch ladies, like I once was, the school bus drivers, and the maintenance and repair staff. These are the people who have been on the job since this pandemic began, often working without the personal protective equipment they needed. They were putting themselves in harm’s way to get meals to students and families, drop off school work to students, and keep our schools healthy and safe.

According to the Bureau of Labor Statistics, nearly 900,000 public education jobs have already been lost because of budget cuts. By comparison, more than 350,000 education jobs were lost due to the Great Recession. In other words, COVID-19 has done more damage in three months than a recession that lasted for a year and a half. If this damage goes unchecked, nearly 2 million educators could lose their jobs over the next three years, according to NEA’s analysis. This would represent one-fifth of the workforce that powers public schools and higher education institutions. The “COVID-19” recession could be six times worse for education than the 2008 financial crisis.

Our nation has about 1.4 million more K-12 students than we had in 2008. Yet, now we have 135,000 fewer educators than we had 12 years ago. The layoffs that could stem from pandemic-related budget cuts would worsen what is already a dire situation.

The economists on this panel will speak to what the data and unemployment numbers mean for our nation’s economy and long-term fiscal outlook. But I can tell you what these factors mean for the public schools that educate 50 million students. They mean that many educators may soon be out of jobs that they love, jobs that allow them to nurture, mentor, and support students. This tremendous loss will of course affect individual educators and their families, threatening their ability to keep up with bills, put their kids through college, buy groceries, and support the businesses in their communities. But the impact will be especially severe for students.

No community would go unaffected. As was the case during the Great Recession, the schools in wealthy communities are more likely to weather this storm reasonably well. But schools in poorer communities, those that were already struggling with too few staff to meet students’ needs, will barely stay afloat. Job losses in these schools would profoundly affect low-income students whose schools rely on Title I funding to reduce class sizes, hire specialists, and offer a rich curriculum. These job losses will also profoundly affect our students with special needs because the federal government has yet to fulfill its commitment under IDEA to pay 40 percent of the average per student cost for every special education student. This creates shortfalls that school districts must cover and it denies full opportunity to students with disabilities—even during better economic times.

Because it appears this pandemic will be with us for the foreseeable future, our schools must adapt in a variety of ways to the new reality. We must have enough teachers to assess where students are and to meet them where they are, given the loss of learning many will have experienced. We must have enough school counselors, school social workers, and other specialized instructional support personnel to deal with the emotional burdens and trauma many
students will be carrying with them when they return to school. Before our students can learn, they must heal, and we need to provide enough educators at all levels to help them through that process.

And when it comes to reopening, let me make clear that educators, more than anyone, want our students back in classrooms for the 2020-21 academic year. We yearn to look into their eyes and reassure them and give them the dedicated time and attention they need. But the safety of students and educators cannot be compromised. We know we will need to provide PPE for students and educators; modify classrooms, cafeterias, gyms, auditoriums, playgrounds, and school buses for social distancing; provide disinfecting materials and sanitizing stations; intensify instruction and support for students traumatized by the impact of the coronavirus on their families and communities; and much, much more. All of this demands more educators in our schools, not fewer. More resources, not less.

NEA recently released guidance on reopening public schools called All Hands on Deck because we know that bringing students and educators back together is not only best for students, it is best for our nation, too. We cannot fully reopen our economy unless and until public schools reopen. Closed schools mean parents and guardians cannot go back to work, which means working people will not have the money to pay their bills, much less spend money on goods and services in their communities. Keep in mind that aside from their centrality to local economic activity, public schools are hubs of activity in many places, where people gather, meet, vote, and access important support services. Therefore, it is imperative that they reopen, and that they be fully staffed when they do.

We thank the House for taking bold action to pass the HEROES Act, and we call on Mitch McConnell and the Senate to abandon their wait-and-see approach and act quickly. Schools are already planning for the upcoming school year and all of the new dilemmas—COVID-related and beyond—that it will bring. We know that even at the start of a typical school year, schools across the country must scramble to fill thousands of positions. This year, layoffs will worsen the shortage of teachers, specialized instructional support professionals, and education support professionals. We must act now to provide school districts with a measure of financial certainty as they continue planning for a school year that will be, just like 2019-2020, a year like none other.

To stave off the elimination of thousands of critical educator positions, NEA urges Congress to provide at least $175 billion more for the Education Stabilization Fund. In addition, we are calling for at least $56 million in directed funding for protective equipment, and at least $4 billion to create a special fund, administered by the successful E-Rate program, to equip students with hot spots and devices to help close the homework gap. Even when schools do open, they will very likely need to incorporate online learning.

NEA members also support Representative Jayapal’s Paycheck Recovery Act as a means of avoiding mass layoffs and enabling workers, including those in the public sector, to keep employer-provided benefits such as healthcare coverage, which is crucial during a global pandemic. The Paycheck Recovery Act would cover 100 percent of wages for workers earning salaries up to $90,000, ensuring that these individuals are kept on the job and off the
unemployment rolls, which grow longer by the day. We thank Representative Jayapal for introducing this bill and recognizing that mass unemployment does not have to be a consequence of the pandemic. We can, and we should, make much better choices for working people.

The week ending last Friday marked the 15th consecutive week that unemployment filings exceeded 1 million. We have to ask ourselves: How much more of this can families, communities, and our nation withstand before we are so damaged that it will take not mere budget cycles, but decades, before we recover? We risk the kind of harm that could last for a generation, or longer. At a time when so many working people are suffering, immediate action is needed—not next month or six months down the line, but right now.

I will end by telling you that even now, members of the NEA have not lost hope that we can come out of this time as a stronger nation, able to surround students with the dedicated educators they need, and able to provide the opportunities that every student deserves. The members of the National Education Association stand ready to work with this committee to toward this goal.

Thank you for your time. I am happy to answer any questions.
Testimony of Joseph E. Stiglitz

House of Representatives

Hearings of the Subcommittee on National Security, International Development, and Monetary Policy

Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers’ Pay During COVID-19

Sad to say, the US response to Covid-19 has been disappointing. We’ve done a much poorer job than other countries, both in maintaining the health of our people and that of our economy. And the two are related: There will not be a strong recovery until the pandemic is brought under control. There is now empirical evidence that it was more the fear of the virus that brought the economy down rather than the lockdown.

Congress responded to the pandemic with a massive amount of assistance. By all accounts, it succeeded in preventing much suffering that would otherwise have occurred. But in many ways, the programs were badly designed and badly implemented, with much of the money not going to where it was most needed, with the unemployment rate soaring far higher than elsewhere. This put strains on our unemployment insurance system, resulting in many of the unemployed not receiving money for weeks and weeks. The increase in unemployment is especially inopportune in the US, because so many depend on employer-provided health insurance. Losing health coverage in the midst of a pandemic is a calamity.

The program of assistance was predicated on there being a short shutdown; with enough love and care, and enough assistance, the nation, and the economy, would emerge in ten weeks or so, healthy and ready to get back to work. In short, it was predicated on a V-shaped recovery. Such beliefs appear now to be utter fantasy. With the pandemic continuing apace, no one thinks we will be back to normal by the end of this month.

The reality is that we need to plan for the pandemic to be around for an extended period of time. We could be lucky; we could discover effective therapeutics or vaccines, or the virus could mutate. But we shouldn’t plan on it. Indeed, there is some evidence of a mutation making Covid-19 more contagious. It would be the height of irresponsibility not to plan for the pandemic being with us for an extended period of time. Even were we to get it better under control, with good testing, social distancing practices, and testing, it will continue to affect our economy. So too, the global slowdown that we are already in will affect us.

There are a few principles and priorities that should guide the next package of assistance. First, because we cannot have a healthy economy without a healthy population, health should be given priority. While some of the earlier programs did this, there are important lacunae. It was foolish, short-sighted, and unconscionable not to have ensured that everyone was provided with paid sick leave. We don’t want

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1 University Professor, Columbia University. A more extended version of some of the ideas presented here is available in “Four Priorities for Pandemic Relief Efforts,” Roosevelt Institute Working Paper, 30 April 2020, https://rooseveltinstitute.org/four-priorities-for-covid19-pandemic-relief-efforts/
people with the disease going to work and spreading the disease; but with so many Americans living paycheck to paycheck, it was inevitable that that would happen without paid sick leave. It was foolish, short-sighted and unconscionable for employers not to have provided face masks and protective gear to workers in exposed jobs; and if employers didn’t do so voluntarily, OSHA should have required it. There are likely to be large increases in demand for Medicaid, and the states will be suffering large losses in tax revenue. With states having balanced-budget frameworks, only the Federal government can help them meet these needs.

Secondly, hysteresis effects are enormous: bankrupt firms don’t become unbankrupt when the pandemic is over. Balance sheets of households and firms often take a long time to recover. That’s why you did the right thing in responding quickly and massively. But all these investments in our future will be for naught if assistance is not continued so long as the pandemic and its economic aftermath persists.

There is a third powerful force that will depress the economy: precautionary behavior. As long as there is uncertainty, both about the course of the disease and the economy, there will be a reluctance to spend, either by firms or households. In previous downturns, like that of 2008, we provided assurances to workers that there would be extended UI so long as the unemployment rate remained elevated. We need to do that now. And we have to provide similar assurances to businesses. We need to provide income-contingent loans, where repayments and the duration of the loan automatically adjust to the circumstances of the economy and the firm, providing an automatic stabilizer to the economy.

Thus, there must be a commitment, in the famous words of Mario Draghi, “to do what it takes.” But at the same time, we must spend our money well, which is why the design of the programs is so important.

As I wrote in my Roosevelt Institute Policy Brief in late April:

Even before the passage of the CARES Act, the alternative approach of direct payments to employers to retain workers seemed to some more likely to be more effective than the disparate programs included in that bill. The evidence over the last few weeks seems consistent with those expectations.

The evidence since then, both in the United States, which took an alternative course, and in those countries around the world that adopted programs similar to the H.R. 6918, the bipartisan Paycheck Recovery Act, strongly reinforces the conclusions I had reached at the time. I went on to describe the idea and explain its advantages.²

The federal government, both through the IRS and the Social Security Administration, has a direct link, in most cases electronically, with every employer in the US, so it should be easy to transfer money directly from the government to these employers based on employer retention. A paycheck guarantee program, such as the one proposed by Rep. Pramila Jayapal (D-WA), or the Paycheck Security Act, ... [as well as] Sens. Bernie Sanders (I-VT), Mark Warner (D-VA), Doug Jones (D-AL), and Richard Blumenthal (D-CT), give examples of what such a program

might look like. Provided that the employer retained employees, the government would make up for the shortfall in revenues experienced by any firm, based on a simple formula.

For example, a certain percent of the payroll for wages and salaries—possibly 100%—of up to, say, $90,000—augmented by amounts representing “fringe benefits” and “overhead.”

...Several studies have estimated the costs of this kind of program, which obviously depend on the precise parameters. Variants range from $115 billion to $150 billion a month during the shutdown. Costs associated with partial shutdowns would be proportionally smaller.

These costs, however, are largely gross estimates, not net; the net costs are likely to be substantially smaller. The government would otherwise have to face additional costs in unemployment insurance and Medicaid. The program (could), moreover, replace the costly Paycheck Protection Program (PPP), which if the pandemic lasts much longer, could require a further injection of funds even beyond the “phase 3.5” monies authorized in late April.

Both the forecast that additional funding would be needed and that the PPP program would not be as effective as had been hoped have, unfortunately, been more than fully realized. I went on to argue that

The program might be made even more effective by providing supplementary support for training, so that workers who are not fully engaged in production could be more productive when the economy emerges from the pandemic. In the US, on-the-job training is far less common than in many other high-wage-high-productivity economies, such as Denmark (OECD 2018). This would not only be a more productive use of their time but would almost surely contribute to a more general sense of well-being.

This program represents a significant improvement over the existing PPP; it is simpler to administer, with more of the money going where it is needed, and considerably less costly and more effective.

Some will say, “Yes, we should have adopted the Paycheck Guarantee program. But that’s water over the dam. It’s now too late.” That argument might have had some validity if, as thought at the time these measures were adopted, the pandemic had been of short duration. But since then it has flared up, and there is a good chance it will be with us for a long time. As I’ve already said, we will need to maintain some kind of support, and this program is the best way forward. As I said then, and is so much clearer now:

...there is a compelling case for moving to a new program: Still more money will be required. ...More money will be spent, and it is important that it be spent well. The fixed costs of establishing a new program are small compared to the variable costs of running the existing program. The flaws in the PPP are inherent; there are no “easy fixes” that will enable it to do what it is supposed to—be an efficient, transparent way of getting money to those who most need it. It was not designed for transparency, so that Americans could know the most vulnerable were being protected.
It would be far easier to make a new program—along the lines of paycheck guarantee proposals—more transparent, with lower overheads and greater targeting of money where it's needed. Such a program would be more comprehensive and successful than the PPP in preserving links between employers and workers, which will prevent our unemployment and Medicaid systems from becoming overwhelmed and quicken our recovery.

I want to conclude with two more general comments. First, our assistance to the economy has to be far more comprehensive. There were some important sectors that did not receive the assistance that they needed. One sector is states and localities. I already referred to the severe budgetary constraints that they faced. These authorities are responsible for many of the services on which so many of our citizens depend, including education, health, and welfare. But cutbacks in spending will greatly weaken our economy, with large multiplier effects. It is austerity from below. In previous downturns we have seen the devastating macroeconomic effects. Already, layoffs of government workers are among the large sources of increasing unemployment. We will not have a robust recovery without adequate support for this vital sector of our economy. (One of the virtues of the Paycheck Recovery Act is that it allows states and localities to access grants.)

Secondly, our aspiration should not be a recovery in which sometime, say, in 2022 when we get back to where we were in late 2019, we simply pick up where we left off. Never has government played such a role in the economy—not even in the Great Depression or in the Great Recession. Citizens have the right to expect that the economy that emerges will be a better economy, serving the interests of all citizens. The pandemic has exposed the inequalities that were rife in our system. We need to move from an economy based on fossil fuels to one that allows us to live within our planetary boundaries. If we are to compete in the 21st century global economy, we must be more of a knowledge economy.

Yet one sector that has received far too little assistance and is likely to be ravaged by the pandemic is education and research, which by its very nature entails individuals working in close quarters with each other. It is this sector that has been the source of the country's comparative advantage; it is advances in science and technology that explain why our living standards are so much higher than they were 250 years ago. Yet this sector is being largely neglected.

In short, our spending must be cost-effective, timely, comprehensive, with a vision of the kind of economy that we want to emerge from the pandemic. When the country was first struck by the pandemic, Congress rose to the occasion by providing massive spending in the CARES Act. Congress now must rise to the occasion by a commitment to sustaining those efforts and redesigning our programs for the hard and potentially long struggle ahead. We need a program
with flexibility—that responds automatically to the changing dimensions of this pandemic and its economic consequences. We’ve already seen the consequences of the vicissitudes of the disease, with so many states and localities having to reverse re-opening.

We need a program along the design of the Paycheck Recovery Act of 2020.
Testimony
Before the U.S. House of Representatives Committee on Financial Services
Subcommittee on National Security, International Development, and Monetary Policy
Virtual Hearing on “Paycheck Security: Economic Perspectives on Alternative Approaches
to Protecting Workers’ Pay During COVID-19”

Diego Zuluaga
Associate Director, Financial Regulation Studies, Cato Institute

July 7, 2020

Chairman Cleaver, Ranking Member Hill, Members of the Subcommittee, thank you for the
opportunity to testify before you today.

My name is Diego Zuluaga and I am the Associate Director of Financial Regulation Studies at the
Cato Institute.

America’s 30.7 million small businesses have taken a very severe hit from the COVID-19 pandemic.
The share of small businesses reporting that the health emergency has had a large negative effect on
them was 37.7% in late June, down just 14 percentage points from eight weeks earlier. Yet another
survey found in April that 18% of small businesses had permanently closed because of the
pandemic, which if true would mean 553,000 firms are gone forever.1

Yet economic activity and employment are so far recovering faster than many expected. Early action
to support small businesses through the Paycheck Protection Program has helped: According to my
estimates, around 77% of small businesses with employees had gotten a PPP loan by June 30.2 And
while the proportion of employing small businesses with a PPP loan varies considerably across
states, nowhere is it below 60%. By allowing millions of small businesses to keep paying their
workers, as well as utility and rent bills, the Paycheck Protection Program has prevented a greater
destruction of livelihoods and valuable business relationships than has actually happened.

It doesn’t follow, however, that a program of grants based on lost revenue will assist the recovery. I
believe, on the contrary, that it will hinder the recovery by delaying businesses’ necessary adaptation
to changing consumer demand. The pandemic has not just caused all sorts of businesses to suffer
losses. It has also led to permanent changes in economic activity, mainly because production
processes and consumer preferences have shifted in response to new health risks. Restaurants are

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2 Alexander W. Barnik, Manarose Bertrand, Yool B. Gillen, Edward L. Glaser, Michael Luca, Christopher T. Stanton,
updated my numbers to reflect the most recent PPP loan data from the Small Business Administration.
cooking more meals for takeaway and outdoor consumption. More retail activity is moving online, as are larger transactions, such as home purchases. These changes are unavoidable.

Any recession involves the reallocation of workers across firms and industries. But because of the pandemic's wide-ranging consequences, recovery from the present recession will likely involve a larger redeployment of workers and capital than previous downturns. Attempting to freeze America's productive structure in its pre-COVID-19 state will therefore only delay the return to full employment and steady growth. The bounce-back will be swifter, on the other hand, the more quickly businesses adapt to the new conditions.

I don't at all mean to suggest that government policy can't play any additional, valuable role. But it can best do so by removing barriers to geographic mobility and business investment. Instead of rigid support programs that impede mobility and risk prolonging financial insecurity, workers need flexible support in the face of uncertain economic conditions. A program of direct grants to cash-strapped households, whether or not their members are employed, would address paycheck insecurity while preserving the incentive to adapt to the post-pandemic economy. A conditional grant program, on the other hand, would tie up capital and labor in firms whose long-term viability is far from assured.

Besides delaying adaptation, conditional grant programs are costly to administer, as officials must verify applicants' declarations and monitor the use of funds. These programs also raise fairness concerns: Why should laid-off employees who find new work not be entitled to a reward, whereas those lucky enough to keep their job get a bonus? Why should taxpayers support businesses while the national unemployment rate remains above a threshold, but not thereafter? Macroeconomic arguments about supporting demand are unpersuasive, since direct, unconditional cash grants would have at least the same effect on demand, for two reasons: First, a larger share of available funds would go to recipients instead of program administrators. Second, because grant funds would go to the least well-off regardless of employment status, and the least well-off consume more of their disposable income, the immediate impact on aggregate demand might be greater.

Congressional action to support the solvency of small businesses in the direst weeks of the pandemic has enabled a speedier recovery than many expected. Now the goal should be to encourage adaptation so American workers and businesses can resume productive activity. Achieving this goal will require their ingenuity, on which we can count, but also flexible, change-friendly support from policymakers.

Thank you. I will be happy to answer your questions.
Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee on National Security, International Development, and Monetary Policy:

Thank you for holding this important hearing today on “Paycheck Security: Economic Perspectives on Alternative Approaches to Protecting Workers Pay During COVID-19.” Since the outbreak of COVID-19, U.S. workers have experienced historically high levels of unemployment with over one million people filing for unemployment for 15 consecutive weeks.\(^1\) Over 45.7 million people have filed for unemployment during the COVID-19 pandemic—equivalent to more than the total population of 23 states.\(^2\) We cannot allow ourselves to be fooled or distracted by June unemployment data showing that the unemployment rate decreased by 2.2 percentage points to 11.1 percent in June.\(^3\) The data represent a snapshot from mid-June and do not account for 12 states that paused re-openings due to the sharp rise in COVID-19 cases.\(^4\) Moreover, the U.S. jobless rate remains unacceptably high—7.6 points higher than it was in February.\(^5\) As we continue to see re-openings stall with fluctuations in cases of COVID-19, Congress must take action to ensure paychecks and job retention for U.S. workers, while easing the economic pressures on workers and businesses to re-open too quickly against public health guidance which will only prolong the dual economic and public health crises we face.

My bill, the bipartisan Paycheck Recovery Act (H.R. 6918), is a solution that would meet the scale of this crisis. The Paycheck Recovery Act would end mass unemployment, return millions of workers who have been laid off or furloughed since March 1 to payroll, and keep workers connected to their paychecks and employee-sponsored benefits, including health care. In addition, it would prevent employers of all sizes from being forced to close permanently and provide employers the flexibility necessary to navigate changing re-opening policies.

The Paycheck Recovery Act would provide grants via the Internal Revenue Service (IRS) to employers of all sizes that have experienced or anticipate at least a 10 percent revenue loss. The grant would cover full wages of workers earning salaries up to $90,000 and an additional 25

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2 Lance Lambert, 45.7 million have filed for unemployment during the pandemic—greater than the combined populations of 23 states, FORTUNE (Jun 18, 2020) https://fortune.com/2020/06/18/45-7-million-have-filed-unemployment-during-the-pandemic-greater-than-the-combined-population-of-23-states.
5 Dept of Labor (2020).
percent of the total payroll amount to help employers cover operation costs like rent and utilities. This would ensure that employers can rehire people laid-off or furloughed since March 1.

The Paycheck Recovery Act is cost effective. According to estimates conducted by Mark Zandi, chief economist at Moody’s Analytics, the Paycheck Recovery Act would benefit more than 36.4 million workers, with over two-thirds of the program benefitting workers at the bottom half of the wage distribution. Mr. Zandi estimates that the cost of the program would be $652.3 billion for six months after accounting for tax revenue generated by the bill and savings produced by lower spending on safety net programs like unemployment insurance, Medicaid, and other government support as the bill would encourage job retention and pull people off unemployment. In addition, other measures the House passed in the Heroes Act, such as COBRA payments or other assistance, would not be necessary or could be targeted to a much smaller population bringing the cost down even further.

Amidst surges in COVID-19 cases and states choosing to pause or scale back re-openings, it is clear that any solution must be flexible to address the changing situation. This flexibility is a key component of the Paycheck Recovery Act, which scales the grant amount based on anticipated or actual revenue loss, and prepares the economy for the reality of a virus that is here to stay and the need for businesses to be ready for openings and closures to protect the health of all. But the bottom line is that the bill would guarantee paychecks, ensuring that workers can safely stay home to help prevent the spread of the virus while maintaining their ability to pay for housing, keep food on the table, and retain health care. The bill also benefits employers as it allows them to retain their workforce to ease the re-opening process. Re-hiring and re-training employees are expensive and time consuming. This is exacerbated as we continue to see repeated closures and re-openings in response to changes in COVID-19 cases. Employers that must start from scratch to re-hire and re-train their workforce may think twice before re-opening as we see frequent starts and stops in the re-opening process. In contrast, an employer that is able to retain their workforce throughout the pandemic will be able to respond more nimbly. This would help our economy recover more quickly.

Further, the Paycheck Recovery Act would eliminate many of the equity problems that have existed in other forms of relief. The bill would deliver grants directly from the IRS to employers, with no third parties involved. This is critical for Black, Indigenous, and people of color-owned businesses that have largely been shut out of access to forms of relief like the Paycheck Protection Program (PPP). According to the Center for Responsible Lending, small businesses, in particular those owned by people of color, are less likely to qualify for PPP due to structural limitations that were built into the program. For instance, many businesses owned by people of color are less likely to have existing bank relationships that were shown to be key for businesses that accessed PPP. Moreover, businesses owned by people of color are likely to

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6 Mark Zandi, Paycheck Protection in the COVID Crisis (May 2020).
7 Center for Responsible Lending, “The Paycheck Protection Program Continues to be Disadvantageous to Smaller Businesses, Especially Businesses Owned by People of Color and the Self-Employed,” (May 27, 2020) https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/art-cares-act-2-smallbusiness-
ppt2020.pdf?_xfid=njvhrnf8x6cetu6985316.
8 See, e.g., Brian Thompson, Getting Help For Minority-Owned Businesses Shut Out Of PPP Loan Relief, Forbes (May 12, 2020) https://www.forbes.com/sites/brianthompson1/2020/05/12/getting-help-for-minority-owned-businesses-shut-out-of-ppp-loan-relief/?sh=7ca28c38b66f; Ben Popken, Why are so many black-owned small
employ fewer people and have less revenue than white-owned businesses, which would qualify them for lower loan amounts. This makes them less of a priority to lenders as these businesses would generate comparatively lower lender fees.

Without further action, we will continue to witness the decimation of Black, Indigenous, and people of color-owned businesses. From February to April 2020, the number of Black business owners plunged from 1.1 million to 640,000—a 41 percent loss in Black business owners. Other business owners of color have also experienced disproportionate losses, with the number of Latinx and Asian business owners falling by 32 and 23 percent, respectively. In comparison, the overall loss in business owners nationwide was 22 percent over the same time period. As these same communities have struggled disproportionately with the economic, health, and social impacts of COVID-19, it is unconscionable to continue to stand by without providing solutions that would ensure fair and equitable access to all employers regardless of race.

Finally, it is important to note that countries around the world have adopted programs similar to the Paycheck Recovery Act to great success. Countries including Germany, Singapore, and South Korea have chosen to guarantee paychecks. In April while the United States experienced a record 20.5 million job losses and an unemployment rate of 14.7 percent, Germany’s unemployment rate remained steady at 3.5 percent; similarly, South Korea’s unemployment rate remained at 3.8 percent. Other countries have chosen differently, and we must do the same.

Ultimately, we cannot solve historic unemployment with half steps or by only helping half the country. Mass unemployment is a policy choice. This bill—supported by over 100 bipartisan members of Congress, as well as economists, labor leaders, and business owners—is a solution that matches the scale of this crisis. It will deliver certainty and direct relief to workers, employers of all sizes, and the economy. As re-openings across the country grind to a halt, the certainty of a paycheck and the flexible relief provided by the Paycheck Guarantee Act is needed now, more than ever.

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1. CenterFor Responsible Lending(2020)
House Committee on Financial Services  
2120 Rayburn House Office Building  
Washington, D.C. 20515  

July 7, 2020  

Submitted by e-mail  

Re: Support for Paycheck Recovery Act, H.R. 6918  

Dear Chairwoman Waters and Members of the Committee:  

The National Women’s Law Center (the Center) writes in support of the Paycheck Recovery Act (PRA), an important piece of legislation that would help to stem spiraling unemployment and economic precarity resulting from the COVID-19 crisis, which has been particularly devastating for women and communities of color.  

Since 1972, the Center has worked to protect and advance the progress of women and their families in core aspects of their lives, including income security, employment, education, and reproductive rights and health, with an emphasis on the needs of women with low incomes and women of color and others who face multiple and intersecting forms of discrimination.  

Women and communities of color have been disproportionately harmed by COVID-19. Women are overrepresented in the front-line workforce, making up the majority of workers risking their lives to provide health care, child care, and other essential services—yet women are also more likely than men to be losing their jobs. Black, Latinx, and Native American people are also disproportionately facing unemployment, and are contracting and dying from COVID-19 at higher rates than white people due to structural inequities in access to health care and economic security. Asian communities are facing a new wave of discrimination, and in some places are experiencing disproportionately high rates of infection as well. And for Black women, Latinas, Native American women, Asian American/Pacific Islander women, and other women of color, intersecting marginalized identities heighten their risk of facing economic distress, unemployment, and poor health outcomes. While the virus doesn’t discriminate, its impacts reflect and amplify centuries of discrimination.  

Women have disproportionately suffered pandemic-related job losses: since February 2020, women have lost over 8 million net jobs, accounting for 55% of overall net job loss since the start of the pandemic. As highlighted in the attached fact sheet, the most recent Bureau of Labor Statistics (BLS) monthly jobs report shows that the economy continued to inch back between May and June 2020, gaining 4.8 million jobs. However, this means that only 1 in 3 (34%) of the 22.2 million jobs lost in March and April due to the COVID-19 crisis have returned. Nearly 6 in 10 (59%) of the jobs that returned in June are in leisure and hospitality (which includes businesses like bars and restaurants) and retail trade. These numbers reflect the state of the economy in early June, before some states re-imposed restrictions in response to surging coronavirus cases. Now that many businesses are being forced to close, the jobs that came back last month are at risk of being lost again. June's “recovery” is particularly fragile for women, who accounted

1 National Women’s Law Center, June Brings 2.8 Million Women’s Jobs Back, Many of Which Are At Risk of Being Lost Again (July 2, 2020). https://nwlc.org/resources/june-jobs-report/
for 6 in 10 of the jobs gained last month, and gained the majority of jobs in leisure and hospitality and in retail trade.

Even after June’s gains, Black women and Latinas continue to be hardest hit by the economic crisis: While the overall unemployment rate dropped to 11.1% in June, approximately 1 in 7 Black women (14.0%) and Latinas (15.3%) remained unemployed. By comparison, June’s unemployment rate for white men was 9.0%, making them one of the only demographic groups to reach single digit unemployment last month.

With COVID-19 cases surging across the United States, we are likely facing new waves of shutdowns, and with it, job loss. The PRA will prevent mass unemployment and keep workers connected to their jobs and their paychecks—including by restoring to payroll millions of workers who have been laid off or furloughed since the pandemic hit—and prevent employers of all sizes from being forced to close permanently. It will alleviate the pressure on overburdened unemployment insurance systems, allowing the critically important relief established by the CARES Act to more quickly and efficiently to reach any individuals who remain unemployed. And it will particularly benefit women and people of color, who are more likely to work in lower-paid, tipped, and part-time jobs that can make unemployment insurance more difficult to access—and who, as business owners, have faced structural barriers to the banking relationships and other resources necessary to benefit from the Paycheck Protection Program.

Providing direct federal support to employers—including self-employed individuals, nonprofits, and state and local governments—allows equitable access to government funds for employers of all sizes, including microbusinesses unable to access funds through other means. The PRA will stabilize the economy, protect public health by ensuring that workers and business owners are not forced to go back to work before it is safe to do so, and make it easier for employers to resume operations with their workforces intact at the appropriate time.

We urge the Committee to support the Paycheck Recovery Act to ensure that millions more women and their families are not impoverished by the COVID-19 crisis.

Sincerely,

Emily Martin
National Women’s Law Center
Vice President for Education and Workplace Justice
June Brings 2.9 Million Women’s Jobs Back, Many of Which Are At Risk of Being Lost Again

BY CLAIRE EWING-NELSON

The most recent Bureau of Labor Statistics (BLS) monthly jobs report shows that the economy continued to inch back between May and June 2020, gaining 4.8 million jobs. This means that only 1 in 3 (33%) of the 22.2 million jobs lost in March and April due to the COVID-19 crisis have returned. Nearly 6 in 10 (59%) of the jobs that returned in June are in leisure and hospitality (which includes businesses like bars and restaurants) and retail trade. These numbers reflect the state of the economy in early June, before some states reimposed restrictions in response to surging coronavirus cases. Now that many businesses are being forced to close, the jobs that came back last month are at risk of being lost again. June’s “recovery” is particularly fragile for women, who accounted for 9 in 10 of the jobs gained last month, and gained the majority of jobs in leisure and hospitality and in retail trade. Even after June’s gains, Black women and Latinas continue to be hardest hit by the economic crisis. While the overall unemployment rate dropped to 11.1% in June, apron in only 1 in 7 Black women (14.6%) and Latinas (15.9%) remained unemployed.

Only 1 in 3 of the 12.1 million women’s jobs lost between February and April have returned.

1. Women accounted for 65% of June’s job gains, while making up 50% of the workforce.
2. Women have disproportionately suffered pandemic-related job losses: since February 2020, women have lost over 8 million net jobs, accounting for 55% of overall net job loss since the start of the pandemic.
3. Women ages 20 and over were more likely than adult men ages 20 and over to be unemployed, with an unemployment rate of 11.2% compared to men’s 10.2%. The unemployment rate for women in June was still 1.3 times higher than the highest unemployment rate for women during the Great Recession and subsequent recovery (9.4%).
The overall unemployment rate masks higher unemployment rates for women of color and other demographic groups

- Nearly 1 in 7 Black women (14.0%) ages 20 and over were unemployed in June. Black women’s unemployment rate is down from 16.5% in May, but still nearly 3 times higher than their pre-pandemic unemployment rate (4.8% in February).  
- Similarly, more than 1 in 7 (15.3%) Latinas ages 20 and over were unemployed in June, down from 19.0% in May, but over three times higher than their unemployment rate in February (4.9%).
- By comparison, June’s unemployment rate for white men was 9.0%, making them one of the only demographic groups to reach single digit unemployment last month.
- In June, nearly one in five (18.4%) women with disabilities were unemployed – an increase of 11 percentage points from February.
- Pandemic-related job losses continue to hit younger women particularly hard, with more than 1 in 5 (20.6%) women between the ages of 20 and 24 unemployed in June. And rates for young Black women between ages 20 and 24 (26.6%) and young Latinas between ages 20 and 24 (23.4%) were even higher.

![Women's Unemployment Rates (June 2020)](image)

Source: BLS calculations based on historical data for BLS Employment Situation Summary, Tables A5, A7, A9, A10, A16, and A19. Unemployment rates for women overall, Latinas, and Black women are seasonally adjusted and are for women 20 years and over. The unemployment rate for women ages 20-24 is also seasonally adjusted. The unemployment rate for women with a disability is not seasonally adjusted and is for women ages 16 to 64.
Most of the jobs women gained in May and June are in the industry sectors most likely to be affected by another round of shutdowns due to COVID-19.

- Since the economy started to rebound in May, women have gained over 4 million jobs. Of those, nearly half (47%) are in the leisure and hospitality sector, which includes businesses such as restaurants and bars. The leisure and hospitality sector was among the first to suffer massive job losses when the COVID-19 crisis began, so many of the jobs gained back in that sector are likely to be at risk when businesses are forced to close again.

- Retail trade was another sector that suffered heavy losses at the start of the COVID-19 crisis. Over May and June, more than 1 in 7 (15%) of the jobs women gained were in retail trade. This means that leisure and hospitality and retail trade combined accounted for more than 6 in 10 (62%) of all the jobs women gained over the past two months.

While some jobs have returned, many women are not working the hours they want or need.

- In June, 1 in 4 (25%) women working part-time wanted full-time work, but were unable to obtain it for economic reasons, such as their employer not giving them full-time hours. In February, only 11% of women working part-time were doing so for economic reasons.

- Rates of involuntary part-time work were higher for women of color: 32% of Black women, 32% of Asian women, and 36% of Latinas working part-time in June were doing so for economic reasons.
The Honorable Nancy Pelosi  
Speaker of the House  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Charles E. Schumer  
Democratic Leader  
U.S. Senate  
Washington, DC 20510

Dear Speaker Pelosi and Leader Schumer:

We write in strong support of the Paycheck Guarantee Act proposed by Congresswoman Pramila Jayapal and to request its inclusion in the upcoming CARES 2 package.

More than 4 million businesses have attempted to access the Paycheck Protection Program and Economic Injury Disaster Loans, but many small businesses — especially minority- and women-owned small businesses — have been unable to access the support they desperately need through these programs. PPP could have been designed and implemented to keep our small businesses economy intact and workers connected to their employers. However, in just the last three weeks, more than 16.8 million Americans have filed for unemployment insurance. A Federal Reserve official warned that unemployment may rise as high as 30% in the coming months — more than 5% higher than during the peak of the Great Depression.¹

Thanks to your leadership, workers who lose their jobs have access to generous and critically needed unemployment insurance benefits. But workers would be better off if they never lose their jobs in the first place — and small businesses would have the support and certainty they need to be able to weather this storm. Instead, most small businesses are having to weigh whether they will need to close their doors for good. Our economy will continue to suffer enormously as a result. Mass unemployment will inevitably slow down economic recovery by forcing businesses that were able to survive to take on the additional cost of rehiring and retraining workers.

The Paycheck Guarantee Act would create a simple, administrable system to prevent mass layoffs and keep businesses solvent until they can safely reopen. Under this program, the federal government will provide direct grants to cover up to 100% of base payroll costs for businesses for three months (up to an equivalent of an annual salary for $100,000 per worker). Companies would maintain 100% of base payroll and benefits and would be further incentivized to rehire workers who were laid off or furloughed during the pandemic. Keeping workers attached to their jobs will speed recovery while protecting healthcare benefits for the nearly 160 million Americans who receive health insurance coverage through an employer.² To help businesses that are in trouble, the Paycheck Guarantee Act also includes immediate grants to businesses to cover other necessary fixed costs, like rent, utilities, and maintenance.

A paycheck guarantee is already working to stop mass layoffs in other nations, including Denmark, the United Kingdom, France, Germany, and Australia. In Germany, for example, hundreds of thousands of

employers have claimed payroll benefits from the government. As a result, in Germany, unemployment is expected to rise somewhere between just 0.2 to 0.5 percentage points — peaking at 5.9 percent before declining again. The program is widely credited for the country’s swift recovery from the 2008 financial crisis.

The decimation of our small business economy and resulting mass unemployment is a choice that we don’t have to make. We urge you to quickly advance a paycheck guarantee program to keep businesses afloat and people employed during this pandemic.

Sincerely,

National Small Business Organizations

- African American Health Alliance
- Americans for Financial Reform
- American Independent Business Alliance
- American Family Voices
- Center for Disability Rights
- Institute for Local Self-Reliance
- Main Street Alliance
- National Association of Real Estate Brokers (NAREB)
- Opportunity Fund
- Small Business Majority
- The Black upStart

State & Regional

- Business for a Better Portland
- California Reinvestment Coalition
- Cambridge Local First
- Dane Buy Local
- Earth Odyssey
- Empire Justice Center
- Hampton Roads Business OutReach
- Local First Utah
- Louisville Independent Business Alliance
- Lowcountry Local First
- Main Street Alliance of Oregon
- Main Street Alliance of Vermont
- Main Street Alliance of Washington
- Main Street Alliance of New Jersey
- Main Street Alliance of Minnesota

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6 id.
Portland Buy Local
Richmond LGBTQ Chamber
StayLocal
The Local Crowd Monmouth
ThinkLocal First DC
Letter urging Congress to pass the Paycheck Guarantee Act

Statement • April 29, 2020

The Honorable Nancy Pelosi
Speaker of the House
Washington, DC 20515

Dear Speaker Pelosi:

In just five weeks, 26 million Americans filed for unemployment benefits as a result of the novel coronavirus outbreak. The CBO recently forecast an 11.4 percent average unemployment rate for 2020 and a 10.1 percent average unemployment rate for 2021. The policy choices we make now will impact how many people lose their jobs or remain jobless in the coming months. And without a viable vaccine in the immediate future, the federal government can enact programs that encourage people to stay home by allowing them to continue to receive a paycheck while providing assistance to keep businesses intact so that they are ready to open when social distancing protocols are eased. For this reason, we, the undersigned, urge Congress to pass the Paycheck Guarantee Act.

The Paycheck Guarantee Act, proposed by Congresswoman Pramila Jayapal, would provide grants to businesses to cover up to 90 percent of payroll for employee wage replacement up to $100,000 for three months. The grants would be retroactive to the beginning of the pandemic to allow businesses to rehire employees who had been laid off. Importantly, workers would keep their employer-provided benefits, including health care. States and cities as well as independent contractors and gig workers would be eligible for the grants. The grants would also cover business expenses like rent and utilities to ensure that they can re-open when conditions improve. The grants would be delivered through existing payroll infrastructure to get the funds out of the door and to employers and working people quickly and efficiently. The grants would continue every three months until the Bureau of Economic Analysis’ nominal personal consumption expenditures (PCE) estimates register two consecutive months that are at least 95% as high as the three-month average level between December 2019 and February 2020. In addition to Representative Jayapal’s proposal, Senators Sanders, Warner, Jones, and Blumenthal proposed similar legislation last week.

The CARES Act did provide needed relief, but as a policy response, it does not meet the scale of the COVID-19 crisis. The interim package passed on April 23 provides additional funding for the PPP small business loan program, but this too fails to adequately address the fallout from the pandemic. The Paycheck Guarantee Act does much more to prevent mass layoffs, keep businesses intact and facilitate a faster recovery. Congress should move swiftly to pass the Paycheck Guarantee Act.
Sincerely,

Randy Albelda, Professor of Economics, University of Massachusetts Boston
Larry Allen, Professor of Economics, Lamar University
Eileen Appelbaum, Co-Director, Center for Economic and Policy Research
Peter Arno, Senior Fellow and Director of Health Policy Research, Political Economy Research Institute, UMASS, Amherst
Michael Ash, Professor of Economics & Public Policy, University of Massachusetts Amherst
M.V. Lee Badgett, Professor of Economics, University of Massachusetts Amherst
Ron Baiman, Associate Professor of Economics, Benedictine University
Dean Baker, Senior Economist and Co-Founder, Center for Economic and Policy Research
Erdogan Bakir, Associate Professor of Economics, Bucknell University
Radhika Balakrishnan, Professor, Rutgers University
Eric Beinhocker, Executive Director, Institute for New Economic Thinking, University of Oxford
Lourdes Beneria, Professor Emerita, Cornell University
Cyrus Bina, Distinguished Research Professor of Economics, University of Minnesota (Morris Campus)
Josh Bivens, Research Director, Economic Policy Institute
Sandra E. Black, Professor of Economics and International Affairs, Columbia University
Robert A. Blecker, Professor of Economics, American University
Howard Botwinick, Associate Professor of Economics Emeritus, SUNY Cortland
Scott Carter, Professor of Economics, The University of Tulsa
Kimberly Christensen, Economics Professor, Sarah Lawrence College
Nathan Cline, Associate Professor, University of Redlands
George De Martino, Professor of Economics, University of Denver
Arindrajit Dube, Professor of Economics, University of Massachusetts, Amherst
Richard Da Boff, Wexler Professor Emeritus of Economics, Bryn Mawr College
Amitava Krishna Dutt, Professor of Economics and Political Science, University of Notre Dame
Nina Eichacker, Professor, University of Rhode Island
Gerald Epstein, Professor of Economics, University of Massachusetts Amherst
Anders Fremstad, Assistant Professor of Economics, Colorado State University
John Gallup, Associate Professor, Portland State University
Don Goldstein, Emeritus, Professor of Economics, Allegheny College
Neva Goodwin, Co-Director, Global Development and Environment Institute, Tufts University
Joshua Greenstein, Assistant Professor of Economics, Hobart and William Smith Colleges
Robert Guttman, Augustus B Weller Professor of Economics, Hofstra University
Greg Hannsgen, Independent Economist, Greg Hannsgen's Economics Blog
Denise Hare, Professor of Economics, Reed College
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To save the US economy, we need to save jobs. This program could do that.

Editor's Note: Mark Zandi is chief economist of Moody's Analytics. Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, was chief economist to Vice President Joe Biden. Antonio Weiss, a research fellow at Harvard Kennedy School's Mossavar-Rahmani Center for Business and Government, was counselor to the secretary of the US Treasury in the Obama administration. The opinions expressed in this commentary are their own.
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To save the US economy we need to save jobs. This program could do that (opinion) - CNN

Nearly one-third of American workers have taken direct financial hits from the Covid-19 pandemic through lost jobs, lost hours or pay cuts. And the resurgence of infections is causing businesses to shut down again in many parts of the country. It seems likely the job losses will resume, unless Congress and the administration act quickly to provide substantially more financial support to businesses and households.

Lawmakers must rethink how they provide this help to address a critical element missing from the policy response thus far: restoring and preserving jobs.

Fortunately, there have been several proposals from both Democrats and Republicans that could do just that. These employee retention policies would provide hard-pressed businesses with funds to retain and keep workers on their payrolls. They would also shift a portion of operating costs, so businesses are ready to snap back into action once demand for their goods and services revives. A very limited version of this type of policy, the Employee Retention Tax Credit, was part of the CARES Act, the largest of the fiscal rescue packages passed so far.

We know such policies preserve jobs because they have done so in other countries. Indeed, the United States has the ignominious distinction of suffering the largest increase in unemployment of any major economy. Countries such as Germany and Australia that have implemented employee retention programs have suffered increases in unemployment that are about half that of the United States. Only here in the US is policy not geared to keeping workers out of joblessness — and all the disruption and financial stress that entails.

Enabling firms to pay their employees allows working families to efficiently receive the financial support they need. This would reduce pressure on the nation’s already unemployment insurance system and allow workers to remain on or return to their employer-sponsored health plans. Unlike the current Payroll Protection Program, which allows companies to obtain forgivable loans to pay for their payrolls, an employee retention program would not rely on banks to provide the funds and risk excluding the smallest businesses that lack the necessary banking relationships.

Keeping workers connected to their employers facilitates a smoother and stronger recovery. Many employers have furloughed workers, but the longer the crisis lasts, the more the recovery will turn into layoffs and break the relationship between employers and workers. Moreover, without support, business bankruptcies and failures could be widespread enough to impede the economic recovery, which happened during the financial crisis. Many workers who think they will return to their employer won’t have an employer to go back to.

Critically, employee retention policies provide the flexible support workers and businesses will need if the virus continues to intensify or a second wave hits later this year. Financial pressures have left many businesses with little choice but to reopen as soon as lockdowns lift and...
employees to return to work as quickly as possible. The consequences of such pressures are now evident. As reopenings stall or reverse due to the spread of the virus, it's likely that workers that returned are being laid off a second time and will once again have to obtain unemployment insurance. If employee retention policies were in place, businesses could continue to pay workers while they implement the gradual re-openings that health officials have called for.

Critics argue that employee retention policies can become counterproductive if they remain in place too long. The pandemic will result in significant changes to how businesses operate and households live and work, and this adjustment could be delayed by supporting businesses that are no longer viable and preventing workers from shifting to more productive firms. This could reduce economic growth and ultimately increase unemployment. No argument there. But the scale and unpredictability of the pandemic argue in favor of pursuing a variety of treatments for the broad economic pain. Besides, these concerns can be addressed by linking the support to the economy's performance. As business sales pick up and unemployment declines, the benefits available under these policies wind down.

Another potential concern is that, unlike many other countries that implemented these programs early in the crisis, the United States is starting with an already high double-digit unemployment rate. It is untested as to whether and how quickly new employee retention policies will incentivize businesses to retain workers. For this reason, providing support for businesses to pay wages should be viewed as a valuable complement to existing programs, including enhanced unemployment insurance, food assistance, state and local fiscal support and Medicaid. All are needed until the labor market heals.

Employee retention policies could be costly, but the costs of relying on other government programs to support the economy would cost even more. Even more expensive in such a circumstance would be for policymakers not to respond at all.

Covid-19 infections have reigned as businesses reopened too quickly in many parts of the country. A strong V-shaped recovery is unlikely. The risk now is the economy will backslide, suffering long-lasting double-digit unemployment. Whether it depends on the decisions Congress and the administration make in the next few
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weeks. Adopting employee retention policies, which have advocates on both the left and the right, would ensure that it doesn’t.